

Investor and Analyst Call Interim Results

3 August 2020, 7.30am BST

NOEL QUINN, GROUP CHIEF EXECUTIVE OFFICER: Good morning in London and good afternoon in Hong Kong, and thank you for joining us. I've got Ewen with me today and he'll present the numbers in detail before we then go to Q&A. Let me start by saying that it's been another difficult quarter for our customers, colleagues and communities but I have been pleased with how HSBC has responded. This is still a hugely unpredictable environment. We are conscious of that on both a human and a financial level, and we are doing all we can to support our customers and colleagues through this very difficult period. Against that backdrop, we are satisfied with our first half performance. Our Asia business held up well, and our fixed income businesses delivered strong revenue growth. This compensated for challenges in parts of the world that have been harder hit by the impact of Covid-19. The businesses that perform less well are those we are already changing. We will be accelerating our transformation in the second half of the year, and making other necessary changes in light of the new circumstances since February.

There's still a lot of uncertainty around, not least from the ebb and flow of Covid-19, and the steps needed to contain it. Our improved capital position and excellent funding and liquidity are the hallmarks of our strength and resilience, helping us to be there for our customers, while also building the future of the firm. Our focus remains on helping our customers through this immediate period, while making the changes necessary to serve them better over the long term. The current geopolitical environment is clearly complex. Tensions between China and the US inevitably create challenging situations for an organisation with our footprint, but our businesses in Asia have shown good resilience and we will face any political challenges that arise with the focus on the long-term needs of our customers and the best interests of our investors.

Turning to our second quarter performance. Our Asia businesses continue to show good resilience, contributed \$3.6 billion of reported pre-tax profit, and Global Markets grew adjusted revenue by 55%. Our profitability was most challenged in the businesses at the centre of our transformation: Europe, the US and the non-ring-fenced bank, which were severely impacted by high expected credit losses. Overall, pre-tax profits of \$1.1 billion were down 82% and adjusted profits were down 57% on last year's second quarter. ECLs of \$3.8 billion were up on the first quarter, reflecting updated forward economic guidance in the UK in particular. We've updated our 2020 range for ECLs, which Ewen will talk about later. The interest rate cuts made earlier in the year began to impact our revenue from March onwards. We responded by pulling the cost levers available to us, reducing operating expenses by 7% compared with last year's second quarter. We continued to attract significant deposits in the quarter. I'm pleased to say that our capital ratio increased to 15%, providing a strong and resilient platform from which to serve our customers and manage the economic environment.

Turning to slide three, the resilience of our Asia franchise continues to underpin our financial performance. This was due to the quality and strength of our business and client list, and to the speed and decisiveness of the Covid response, which allowed many economies to restart sooner than others. The activity underpinning our Asia performance remains robust. We've increased our trade finance market share. Client FX volumes are lower but relatively resilient, and retail card transaction volumes recovered in Jun following a dip during the pandemic. Adjusted revenues in individual markets have been broadly stable, despite the economic slowdown, and Asia lending is up 1% and deposits up 7% in the last 12 months. First half expected credit losses were \$1.8 billion in Asia, including a large single name provision in Singapore in the first quarter. Looking to the second half, parts of Asia, and Hong Kong in particular, have tightened Covid restrictions in recent days. This is something that we're all

getting used to as cases rise and fall, and we are hopeful that the quick response of the authorities will contain any new outbreak and minimise the impact.

Looking at slide four, we remain focused on helping our customers, colleagues and communities through the pandemic, with high operational resilience in the face of unprecedented volumes and customer interaction. Around 94% of our branches are currently open, and all our customer contact centres have been fully operational throughout. We have now granted around \$30 billion of debt relief for our personal lending customers through more than 700,000 payment holidays on loans, credit cards and mortgages. More than 172,000 wholesale customers have received more than \$52 billion of lending support, \$33 billion of that through government schemes and \$19 billion through HSBC-backed lending. We arranged more than \$1.1 trillion of loan, debt and equity financing for wholesale customers in the first half, including more than \$48 billion of social and Covid bonds. We also retained our number one ranking for sustainable finance bonds in a rapidly expanding market.

We've invested heavily in technology, driving digital transformation to connect more customers remotely, and increase digital engagement during lockdown. Downloads of our HSBCnet mobile app for business were up 157% on last year's first half. The value of mobile payments in the second quarter was up more than 200% on the same period last year, and digital Wealth sales rose significantly year on year, up 44% in Singapore, 38% in Hong Kong and 29% in mainland China. The strength of our Covid response contributed to a sharp increase in customer satisfaction, with double-digit increases in several retail markets, record satisfaction scores in Global Trade and Receivables Finance, and Global Liquidity and Cash Management, and Global Banking and Markets being voted number one standout FX dealer for global corporates in the recent Greenwich buy-side study. Throughout all this we maintained exceptional balance sheet strength and strong funding and liquidity, with a CET1 ratio of 15% and \$133 billion of first half deposit growth.

Turning to our transformation programme, while we slowed progress in some areas in response to the pandemic, we laid good groundwork for the rest of the year, and will be accelerating our plans in the second half. We lifted the pause on redundancies in June, and we'll be moving forward for those plans thoughtfully but purposefully. We've already seen around \$300 million of cost savings in the first half, with a further \$500 million estimated in the second half from our transformation activities. This is slightly below the \$1 billion of transformation savings we promised for this year because of the pause on redundancies, but we expect to make up the difference in 2021. In the meantime, we've taken additional action on discretionary costs, and we expect to make many of those savings permanent. On the rest of our transformation, we've completed the combination of RBWM and Global Private Banking, and we're making strong progress in the back office integration of Commercial Banking and Global Banking. As you've seen, the areas of weakness in the second quarter were the areas that we're already committed to changing. We're confident that the actions we've identified in February are the right actions to take, but we're obviously looking at what more we need to do given the changed economic and monetary environments. We've created the structures to reduce RWAs in Global Banking and Markets, and made a gross RWA reduction of \$21 billion in GB&M in the first half of the year. In the US, lower interest rates pose a challenge to our US retail strategy, and that's something we're looking at, but the US business has already closed 80 branches, and we're on track to reduce US Global Markets RWAs by around 45% by the year end. In Europe, we simplified our management structure and have a new team in place to push through the transformation. We remain committed to the Europe RWA reduction targets we announced in February, and will execute those plans in earnest as the economy starts to recover.

I want to finish by talking about one of the most exciting growth businesses, and that's Wealth. In 2018 we set out a plan to capture the growing global wealth opportunities centred on Asia, and we've been investing to grow that business ever since. In the last 12 months we've grown our Jade and Premier customer numbers by 6% and our Wealth balances by 3%, with around half of this growth coming in Asia. In our asset management business, we've grown assets under management by 5%, and private bank client assets by 4% over the same period. In June, we launched Pinnacle, which is a new platform to significantly step up our Wealth business in mainland China. This allows customers to access a full suite of Wealth services, including insurance, in one place, which is unique for any Chinese wealth platform. We're investing to bring our wealth capability to new customers in China, and we intend to grow the number of wealth planners in phases over the next four years. The Greater Bay Area Wealth Management Connect Programme, which was announced in June, only enhances the wealth

opportunity, and we're excited at the chance this gives us to serve more people in the region. With that, I'll pass over to Ewen to go through the numbers.

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks, Noel, and good morning or afternoon, all. Given the impact of Covid-19, our second quarter was tough. We had an 82% fall in reported profit before tax, and a 57% drop in adjusted profit before tax. There were a couple of bright spots. Fixed income in Global Markets was a standout, together with a resilient performance by Hong Kong and other parts of our Asian franchise. Overall, our results were heavily impacted by lower revenues from subdued customer activity in many parts of our business, and the building effect of ultra-low interest rates, the second quarter in the row of very high ECLs and a \$1.2 billion software intangible write-off, largely as a result of the weak return outlook for our non-ring-fenced bank. Adjusted revenue was down 4%. This included a \$507 million benefit from volatile items, which in part reversed some of the negative impacts we saw from mark-to-market movements in the first quarter. ECLs were up on the first quarter at \$3.8 billion, or 148 basis points of gross loans, with the largest impacts in the UK and Commercial Banking. We've continued to take action on costs to adjust for the weakened revenue environment. Our adjusted operating costs fell by 7% against the second quarter of last year. Despite the weak macro environment, our balance sheet metrics continue to improve. Our common equity tier 1 ratio was up 40 basis points to 15% in the quarter, and customer deposits grew by \$85 billion. Our first half return on tangible equity was 3.8%. That's down from 11.2% for the same period last year. And our tangible net asset value per share of \$7.44 was down \$0.10 on the first quarter due to movements in own credit adjustments.

Turning to slide nine, looking across the three global businesses, in Wealth and Personal Banking revenues were down 12%, with Retail Banking revenues falling by \$809 million, due largely to the impact of falling interest rates on liability spreads. At a headline level, Wealth Management revenues were broadly stable, but, excluding positive market impacts in insurance manufacturing, down 17% due to lower sales volumes. Commercial Banking revenues were 14% lower, due mainly to the impact of lower margins in Global Liquidity and Cash Management, and lower volumes in Global Trade and Receivables Finance. In Global Banking and Markets, revenues were up 24%, Global Markets grew by \$755 million, which we achieved while keeping traded value at risk broadly stable. This included an excellent performance in our fixed income franchises, up 79%. Principal Investments revenue grew by \$185 million, primarily due to a material reversal of the mark-to-market losses we saw in the first quarter. In Corporate Centre, revenues were \$90 million lower, with \$157 million of adverse movements and valuation differences on our long-term debt and associated swaps. Just to remind you all that the second half usually sees lower revenues from non-interest income, and Global Banking and Markets and Wealth, and given the buoyant Global Markets revenues in the first half, we expect that seasonality to be more pronounced this year.

On slide 10, net interest income was \$6.9 billion, down 9% against the first quarter. The net interest margin was 133 basis points, down 21 basis points on the first quarter, of which 20 basis points came from the fall in interest rates. While we're beginning to see some modest asset re-pricing, we still expect recent interest rates cuts to have a negative impact of more than \$3 billion for 2020, with a further significant negative impact expected in 2021.

Turning to slide 11, adjusted operating costs were 7% lower than the second quarter in 2019, and down 5% in the first half relative to the first half of 2019. As a result of the operational impact of Covid-19, we're spending less on certain discretionary cost line items. We expect this to lead to some permanent benefits in our cost structure relative to previous planning assumptions. We're being disciplined on variable pay accrual, in line with lower expected profits this year, and we've restarted the cost reduction programme that we announced in February. At the end of June, headcount, including contractors, was down 8,300 in the last 12 months, and down 3,800 since the start of the year. As we signalled at our first quarter results, we're now planning for full year 2020 costs to be below 2019 run rate. As you do your modelling on operating costs for the second half, please don't use the first half run rate as a guide. Second quarter costs were low due to Covid-19, and we expect both a step up in investment, and technology spending and a high UK bank levy due to strong growth in our deposit base.

On the next slide, we saw a further substantial ECL charge in the second quarter, some \$3.8 billion or 148 basis points of gross loans, \$2.3 billion of which was stage one and stage two charges. This reflected extra forward economic outlook charges across all global businesses and regions, particularly in respect of the UK and Commercial Banking. UK

expected credit losses were \$1.1 billion higher than in the first quarter, reflecting the worsening economic outlook, of which \$900 million related to our UK ring-fenced bank. Stage three ECL charges were broadly stable, at around \$1.5 billion in both the first and second quarters, although the first quarter did include a significant charge on a single name corporate exposure in Singapore. Recognising the deterioration in the economic outlook in the second quarter, we've updated our range for full-year Group expected credit losses to \$8-13 billion. Given the first half ECL charge of \$6.9 billion, adding the current run rate of stage three losses for the second half gives a full year ECL charge of around \$10 billion. The range either side of this broadly reflects our disclosed economic sensitivities. The lower end reflects a path closer to our consensus central economic scenario, reflecting a strong economic rebound in 2021, with some unwinding of the economic adjustments taken to date. The higher end of the range reflects a path closer to our downside economic scenario, with a much more muted economic rebound in 2021, leading to further negative ECL adjustments for forward economic guidance in the second half. I would caution that there remains a wide range of potential outcomes, including the risk that the upper end of the range may need to increase further, and in that respect I would encourage you to read our expected credit loss sensitivities in the interim report.

On slide 13, our common equity tier 1 ratio at the end of the second quarter was 15%. That's up 40 basis points in the quarter. Common equity tier 1 capital increased by \$3.2 billion. This reflected lower regulatory deductions for expected losses, FX movements, fair value gains through other comprehensive income and a reduced prudent valuation adjustment.

On the next slide, risk-weighted assets rose by \$11.2 billion in the first half, or \$33.2 billion excluding FX movements. This was mainly due to a \$23.3 billion asset side movement, mostly relating to first quarter lending growth, and also a \$16.8 billion increase from changes in asset quality due to credit rating migration. Our \$100 billion gross risk-weighted asset reduction programme is underway, with \$12 billion of additional savings from Global Banking and Markets in the second quarter. We continue to expect credit migration to cause RWA inflation in the second half, partially offset by progress against our gross RWA reduction programme.

So, in summary, a difficult quarter overall, a few bright spots, Asia resilience and a strong quarter for fixed income, but, overall, many parts of the business were hit by very high ECLs and significant revenue pressures. As we look out to the second half there remains considerable uncertainty: the continuing impact of Covid-19, the ongoing Brexit negotiations and US/China tensions and any impact this has on the Hong Kong franchise. As such, it's too early to discuss distribution policy or medium-term return targets, and we don't expect to do so until our full year 2020 results in February. However, we're pleased that we face into this uncertainty with a strengthened common equity tier 1 ratio of 15%, an extra \$85 billion in customer deposits, continued vigour in managing our cost base and the benefit of a diversified portfolio of franchises globally. Noel and I remain very committed to the plan we announced in February, namely a material reduction in RWAs, particularly focused on the US, the non-ring-fenced bank and Global Banking and Markets, with a reallocation of capital towards our strongly performing Asian franchise, a significant reduction in the operating cost base of the bank and a material reduction in the operating complexity of the bank.

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

MARTIN LEITGEB, GOLDMAN SACHS: Good morning, and thank you very much for the presentation and the remarks. My first question, I was just wondering in terms of the tougher revenue outlook you're pointing out. I'm just wondering what could the potential offset to this be? If they're different now, how you think about the prospect of some of the smaller retail franchises that you have, and I think you mentioned the revisiting of the US strategy there, or could there be other offsets in terms of volume growth, or more pronounced volume growth like in UK mortgages or maybe changes in the way you charge for accounts, whether that's current accounts or corporate deposits, in order to try to mitigate some of those revenue headwinds. The second question, just on capital, in terms of common equity tier 1 trajectory from here, I'm just wondering should most of the credit migration you're guiding for, sort of mid- to high-single digit RWA inflation this year, should most of the credit migration occur this year, or could this also go well in 2021? I'm just trying to look at the numbers here and the guidance here, because I feel, given your impairment guidance, that you're likely to remain well within the mid- to upper-range of your common equity tier 1 target range. Thank you.

NOEL QUINN: Okay, Martin, thank you. Let me deal with some of the revenue offsets first, and then ask Ewen to come in on that and the capital position. With respect to our US business, they actually had a very strong Q2 in the US business. Their revenue in Q2 of this year was the highest quarterly revenue since Q4 of 2017. I'm also pleased with the way that Michael and the team have started to execute on the transformation plan. They've already closed around 80 retail branches on the east coast of America, which is around about a 50% reduction, and they've been successful in retaining about 85% of the deposit base, even though they've gone through that reduction programme, and they're well on track on their cost reduction plans as well, where they've already completed 50% of the planned 2020 staff exits and are on track to meet or exceed the goal we set them back in February of this year. So progress on the transformation. We clearly need to understand the full economic impact of the lower interest rate environment, but we're committed to transforming that business and improving the returns.

On a broader basis on revenue, we're clearly looking at what other options we have to mitigate some of the revenue shortfall from lower interest rates, and we see Wealth and growth in our Wealth business as an opportunity for that, and I'll ask Ewen to comment more on that in detail, but we're exploring all options to look at revenue mitigation. Ewen, do you want to pick up on that and the capital comment?

EWEN STEVENSON: Martin, so on net interest income I think we are beginning to see some asset side re-pricing, particularly in Asia. It's relatively modest at this point, but we do think there is an opportunity. Secondly, we are seeing, particularly in Hong Kong, a changing mix back towards current accounts and away from term deposits, which again I think is not unexpected given the rate environment, but will help alleviate some of the pressure on liability margins.

On non-interest income, what we're seeing at the moment is very subdued customer activity, which we attribute predominantly to the impacts of Covid. Coming into 2021, you will and should expect to see some recovery in that customer activity. Where, in some of the government-related-lending activity, for example in the UK, we've been taking more than natural market share – we've taken about a 15% share in the Bounce Back Loans, a 20% share in some of the other lending schemes, which is well above our natural market share in Commercial Banking. In terms of the UK mortgage opportunity, we will be relatively cautious given the outlook for the UK economy, until we get a better sense of direction on travel on Brexit.

The other area where we can help offset revenue loss is by doing a better job at costs. You saw, this quarter, some progress on that. It was an unusual quarter because of Covid and the fact that no one was flying; a lot of our head offices were largely shut down. But we do think, coming out of Covid, there will be an opportunity to make permanent some of those shifts in business operations that we're beginning to see.

On RWAs, similar to ECLs, they should peak this year and, therefore, you should begin to get a reversal in ratings migration into 2021 and into 2022, I would think, although it will lag trends on ECLs. But we definitely see a predominant theme in the second half of this year as being additional ratings migration pressure, which is why we're still sticking with our RWA guidance of mid-to-high single-digit growth in RWAs this year.

In terms of what that means for capital, in the second half of this year, on the profitability side, we don't expect Global Markets to repeat their first-half performance of just over \$4 billion. They made \$2.6 billion in the second half of last year and also we've got the UK bank levy. We do think, given the strength of deposit growth that we've seen, that bank levy may trend up rather than down for us this year. So we do think that the balance of that and some additional RWA inflation will mean that common equity tier 1 should come down between here and the end of the year. Previously we'd guided, pre-Covid, for the full-year results, a range of 14% to 15% for our capital, and wanting to be at the higher end of that range during 2020 to 2021. Today, if we were to repeat that, we would be comfortable at a 14% to 14.5% range, rather than up towards 15%.

TOM RAYNER, NUMIS: Good morning, everyone. Can I just ask you a bit more colour on the net interest income guidance? It's sort of greater than \$3 billion. Looking at the disclosure on page 87, the sensitivity analysis, there's been quite a big increase in rate sensitivity, both in year-one and year-two impacts. Obviously rates have moved down pretty much across the

board, so has there been any change within that greater than \$3 billion, maybe just a bit greater to significantly greater? Just looking into 2021, how confident can you be now that that will be the trough year for net interest income? That's a little bit hard, I know, to look at for 2022, but would you be confident that some recovery in volume and asset repricing should start to offset the other negative impact from rates? Thank you.

EWEN STEVENSON: There's no change in terms of net interest income guidance for this year. You do have to adjust for the shift in dollar FX movements. The main caution around that is obviously HIBOR has come down a bit further in July, relative to the end of Q2. That interest rate sensitivity is the interest rate sensitivity from here, with lower interest rates, so it has gone up because of the flooring effect on some of the liability products. That's an interest rate shift-down from here. You will, in some books, obviously see a cumulative effect, as you can see in those interest rate sensitivity tables, so we do think there'll be another meaningful net interest income hit in 2021, as we currently see it.

As you look out to 2022, when I checked a few days ago, consensus views on policy rates, they were broadly going to stay at current levels, 2021-22, and begin to rise in 2023. I would hope, by the time we get on to 2022, unless you were a complete bear, that you would be seeing sustained economic recovery, which means back to growing loan books again, asset-side repricing coming through more powerfully and, therefore, the start of a recovery in net interest income.

TOM RAYNER: Okay, thank you. Just a quick second question: could you give us any size of the scale of the capital benefits that you've flagged, which are coming through in the second half, I think from the software and SME changes, how material they may be?

EWEN STEVENSON: There's a whole bunch of things going on in the second half. We're expecting core asset growth to be relatively muted. You've got some benefit from the RWA rundown programme, which is continuing; probably some modest net benefit from regulatory changes, although we have got some offset going the other way, like TRIM in Europe. The dominant theme, I think, will be ratings migration, but all of that is captured in the guidance of mid-to-high single-digit RWA growth. The software intangible is probably no more than 20-basis-points benefit to common equity tier 1.

ED FIRTH, KBW: Morning, everybody. I just have two quick questions. One was on this NII thing, just to get absolutely clear what you're saying. If I look at the implied second half, from your current run rate, it looks like your second half is annualising at around \$25 billion. When you say further pressure into 2021, is that further pressure from the second-half run rate, or is that effectively factoring in that pressure you're seeing? Are we expected to see further pressure from here or are we at that rate now, and it's just the annualising effect as we go into next year that you're looking to highlight? I guess that was question number one.

Then the second question is: could you talk a little bit more about all the US-China pressure at the moment, in particular how you expect to be able to implement the sanctions? Have you had any chats about it? What's the sort of feedback you're getting from Chinese authorities, etc? You seem to be in a very invidious position – through no fault of your own, I might add – but it would be very helpful to get some sense of how you're thinking about that and how that might play out, over the rest of the year? Thanks so much.

NOEL QUINN: Ewen, do you want to take the first one and then I'll take the second one?

EWEN STEVENSON: Yes, you can get there various ways but, if you annualise the second half, as you set out, I think you're broadly in the ball park of where you need to be.

NOEL QUINN: On the US-China pressures, as you'll see from the first-half results, we've had a very strong performance in our Asia business and we've had a particularly strong performance in China in the second quarter. I think our profit in China, in the second quarter, was up around 29%. We've seen strong deposit growth in our Asia business. Ewen, the deposit growth in Asia in Q2 was...?

EWEN STEVENSON: \$27 billion.

NOEL QUINN: So we're not seeing any material impact of any sort on our business performance in the second quarter or the first half, from US-China pressures. Looking forward, we're still committed, principally, to supporting our customers in all the geographies that they operate in. We believe there is still a strong role for an international bank in meeting the needs of our clients as they look to trade internationally or expand internationally, and we're very focused on that. It's not right or proper for me to speculate on what might or might not happen, with regard to sanctions. But I'd come back to this: we've seen a very, very strong performance in the first half of this year from our business in Asia.

GUY STEBBINGS, EXANE BNP PARIBAS: Hi there. Thanks for taking the questions. Firstly, can I just ask on Wealth – it was quite a good quarter that included the insurance manufacturing so, if we adjust for that, I think it was down around 10% in the second quarter. I was just trying to think how we should be thinking about that line, going forward. Presumably there's quite a lot of disruption in that business, but I was hoping that maybe it was improving versus the first quarter.

NOEL QUINN: I'll give you a first response on that. Clearly, new business activity will be down from normal levels, so you'll have seen a rebound in the financial performance, because the manufacturing part of the business had a clawback in some of the mark-to-market adjustments that were experienced in Q1. But new business activity of selling Wealth products would have been impacted in April and May, but we started to see a pickup in that activity in June. I think that that's what you would have expected to have seen, given the impact of Covid.

EWEN STEVENSON: We've seen some shifts, supported by the regulators, to be able to shift some of that face-to-face business to the ability to sell Wealth products by digital channels. 2020 should be a trough year for Wealth, if you believe in an economic recovery into 2021. Then other things to watch for are things like the reopening of the mainland China border with Hong Kong, which will obviously help as well.

GUY STEBBINGS: Brilliant, thank you. The second question was just on costs, in the context of the NII headwinds, which we've already talked through. Obviously a very good quarter, down 7%, which suggests the run rate could be quite a lot more than the targeted 3% plus. You called out that investment numbers were a bit lower in Q2. I think Q2 2019 was particularly elevated, so I'm just trying to gauge how much we should be tempering our enthusiasm, relative to the 7% we saw in the second quarter. Thank you.

EWEN STEVENSON: Second quarter, effectively, most of our workforce – roughly 200,000 out of the 235,000 employees – were working from home. No one was travelling. Central office costs were very low, so I would just be cautious at using that as a guidance. In addition, marketing spend was materially down too, because we took a very conscious decision to market less in the second quarter. Offsetting that, as I said, we're planning to step up investment spend a bit in the second half. We think the bank levy is probably going to go up rather than down, this year. Probably 3% to 4% down for the full year feels better than what you saw in the second quarter.

MANUS COSTELLO, AUTONOMOUS: Hi. I just had a question about the Retail business. Your big improvement in NPS is very impressive. I wonder to what extent it's the flip side of weaker returns for shareholders. Customers obviously feel like they're getting a good deal. You mentioned this, Noel, but I wonder if you could give a bit more detail; how might you think about redressing that balance between customers and shareholders, in the Retail business going forward, such that you can boost shareholder returns and maybe spend some of that NPS improvement?

NOEL QUINN: Manus, thank you. I'm really pleased with the NPS performance in both Retail and the bank as a whole. We look at that very much as a positive. I attribute it to two things, and they are the quality of the support our colleagues provided to customers, in the first and second quarters of this year. They really responded amazingly well, with lots of outreach to our clients to make sure they understood where they stood, and responded to their concerns. Plus, we put in place some new digital support programmes to make sure that we had regular dialogue with them, and they were able to transact, despite the fact that we couldn't serve them face to face.

I'd also point to the fact that we provided our customers, particularly in Retail, with c.\$30 billion of payment holiday support, and our wholesale customers with around \$52 billion of credit support, in response to Covid. I think those were the right things to do and, I believe, supporting clients at a time of stress is a good thing for any bank to do.

In terms of translating that into higher returns for the future, we're clearly looking to extend the use of digital and lower the cost to serve. We're looking to increase further our penetration of the Wealth market, particularly in Asia, and to diversify our revenue stream away from pure net interest income and into fee sources of revenue. We believe that our opportunity to grow Wealth in China is strong, and Wealth in the rest of Asia is strong, and that can lead to higher returns. We're also looking to improve the returns in our Retail business by taking down our cost base.

EWEN STEVENSON: Manus, I wouldn't think the two are inconsistent in the slightest. Where we have the highest NPSs, they typically correlate with digital distribution. Digital distribution, as you know, is lower cost to serve than physical distribution so, actually, I've viewed that improvement in NPS as excellent, and reflects a lot of work that Charlie Nunn and his team have been putting in to improving the quality of the digital offering that we've got. You saw in the slide that Noel put up earlier that one of the outcomes of Covid has been a very rapid acceleration – in some cases, by several years – in terms of digital engagement by our customer base. That's both good for NPS, but it also should be good, over the medium term, for how we can adjust and accelerate our cost structure.

MANUS COSTELLO: So it'll be more a question of, as you say, the cost structure, rather than thinking about changing fee structures or anything to help improve the top line.

NOEL QUINN: It's a combination. It's adjusting for the new revenue realities of today's world, plus our continued focus on cost and continued focus on providing good-quality service. It's a combination of those three things together.

EWEN STEVENSON: The thing that we are going to have to think about on revenue, Manus, is, in an environment of ultra-low interest rates, where you're not earning a return on your liability product, do we need to think about adjusting to a more fee-based structure. We're early into that thinking.

MANUS COSTELLO: Yes, that's what I was driving at. Okay, I look forward to hearing more. Thank you.

FAHED KUNWAR, REDBURN: Morning. Thanks for taking my questions, just a couple of questions. The first one: just back then, I think I heard you say the first-half 2020 run rates, if you annualise that, that feels broadly correct. Can I just understand why that's the case, because HIBOR looks like it's down about 100 basis points, first half, versus where it is right now? How does 2H20 NII hold up so well in the face of HIBOR coming down to that extent?

The second question I had was just on the US-China situation. I appreciate it's quite a difficult question to answer, but could you give us a sense of how you think profitability might be impacted and where your biggest concerns are when you think about the political noise coming out between China and the US? Looking at your numbers – I appreciate you said deposit growth is strong – looking forward, where do you see the potential risks to your profitability from that kind of spat between the two countries? Thanks.

EWEN STEVENSON: On NII, we had always assumed that HIBOR was going to normalise towards dollar interest rates, in the second half. That might be the disconnect in your modelling. I don't have the benefit of your model, but I think what we said was broadly true, in terms of the previous answer to the other question.

FAHED KUNWAR: As a follow-up on that, I think your sensitivities are about a 30% increase, in terms of the year-two impact on NII, versus the year-one impact. Is that a decent way to think about the cumulative hit to year-two NII or is there anything to mitigate that size of increase?

EWEN STEVENSON: As you think about that interest rate sensitivity, it's interest rate sensitivity from here – i.e. we've already had the first-half impact on rates. It's not a clean

read-across, so be careful about how you interpret that interest rate sensitivity, because it's from here, rather than where it was at the start of the year.

NOEL QUINN: On your second point, I'm not going to get into speculating on what actions may or may not be taken between respective governments. It's not my role to do that. At the end of the day, I'm a banker, not an economist or a politician. But clearly there are potential impacts on general economic confidence from any form of trade sanctions, and that will have an impact on all financial institutions. Clearly, there is the potential for change in supply chains. Over our 155 years, we've seen many changes to supply chain activity over that time, and we'll continue to respond to anything that comes our way, going forward.

We absolutely believe strongly in the strength of the peg, so we do not see that as a viable risk. We believe the peg is strong and is well supported, and see no risk to that. Clearly, there is the potential for sanctions against individuals or entities but, again, I'm not going to speculate whether they will or won't happen or, if they do, what impact it may have. It's not my place to do so.

To be honest, I return back to the first six months' performance. It's been mainly impacted by Covid. It has not been significantly or materially impacted by political tensions or geopolitics. Most of the impact in the first six months is Covid-related.

ROB NOBLE, DEUTSCHE BANK: Morning, all. Just a clarification: do you have any more excess expected loss? Is any expected loss deducted in capital anymore? Is that all gone? Do you have to rebuild that, as we go forward into 2022, 2023 – whatever it is? Thanks.

EWEN STEVENSON: We've got some disclosure, I think, at the back of the slide pack, on that. Sorry; I'm just trying to find it, but it is in our slide pack. If not, I can get IR to follow up with you.

JOE DICKERSON, JEFFERIES: Hi. Just a quick one: you've taken this extra provision charge in the UK and noted the downside risks to the economy. I think you made some similar comments at Q1 about the relative weakness in the UK. Can you just help me square the circle? If I look at your mortgage balances, they're up 6% year on year in the ring-fenced bank, which is like 2X the industry growth. Can you help me square the circle between the two views, and whether or not you feel like you're being appropriately paid for this risk, given the caution around the UK? Thanks.

EWEN STEVENSON: Where we're concerned about credit in the UK, it's more in the Commercial side than the Retail side. The mortgage book, if you look at the average LTV of new lending, you look at where the book is overall in terms of the average LTV. You look at the returns that we're still generating out of that business. I think we're getting more than adequately compensated for downside risks and mortgages. Consumer debt and credit card spending has declined markedly over the last few months, as a result of Covid. I think folk have been using things like mortgage relief to pay down consumer debt, so consumer balances have fallen, as a result, and therefore less risk to ECLs. It's really on the Commercial side that I think we've got more sensitivity. You can see that in the overall level of Commercial provisions. Commercial ECLs are over \$2 billion in the quarter, relative to Retail. I don't think the two views are inconsistent at all. Our sweet spot in mortgage lending is typically prime mortgage lending, where we think we are running relatively low risk and getting adequately compensated.

The other thing I'd say is you can look at the stress characteristics of our portfolio in the Bank of England ACS results. What you see there is relatively strong outperformance in Retail and still outperforming in Wholesale, versus UK peers.

JOE DICKERSON: That's very helpful; thank you.

AMAN RAKKAR, BARCLAYS: Morning, gents. This is a couple that have been addressed, so two follow-up questions. I note the comment on the dividend. Could I ask, if you came in at the top end of your ECL guidance, there is a chance that you make very, very little profits this year, you could even dip into being loss-making, I'm interested in your best guess, at the moment, as to whether that may preclude you from resuming a dividend in February, if you were indeed loss-making? Or do you think strong capital wins out?

Secondly, on restructuring, is it the right read from the tone of everything today that you're clearly faced with a much weaker revenue environment than you thought in February, and it sounds like you are doing the work on some additional restructuring? You've obviously not provided new targets, in terms of cost saves or RWAs, but is it right to assume that the work is happening in the background and we're perhaps not ready to announce something? Or do you think I'm just getting a little ahead of myself? Thank you.

NOEL QUINN: Let me deal with the second one first. We're clearly committed to delivering on the cost reduction programme that we identified in February. We also need to reflect the fact or respond to the fact that revenue is softer now than it was in February, in looking at what additional measures we need to take. You're right to say that we're looking at what other additional actions we can take on revenue or costs or capital to improve the returns, but we've got no details to talk through on that, at this point in time. We have to see how Covid develops over the next quarter or two quarters to determine how enduring this revenue position and cost position is going to be. But we're committed to delivering that which we said in February and looking at additional actions, as required. Ewen, on the first point?

EWEN STEVENSON: Maybe just a couple of other things: Covid clearly does open up, I think, some opportunity. Time will tell how permanent some of this is, but we talked earlier about the fact that we've seen a substantial acceleration in digital engagement from our customers. That will allow us to think more carefully, over the medium term, about some of our assumptions around the mix between physical and digital distribution, and also how we work and seek to go back to work as a workforce, what that means for our commercial real estate portfolio and what that means for previous assumptions on travelling, etc. Over the medium term, Covid has opened up a unique opportunity for us to rethink how we engage and work, as a workforce. But, as Noel says, it's too early to model that for you, at the moment. I suspect, by the time we get to full-year results, we'll be able to be more fulsome in what we can say around that.

On dividend, those two ends of the ECL range signal different things. The high end of the range means that you're facing into, probably, other line items being severely impacted, because you've got a more meaningful economic recession going on, and a much more muted recovery into 2021. You're also going to see much greater levels of RWA inflation, so it's not just the impact on profitability; it's also the impact on RWAs, which means your common equity tier 1 is going to be under a lot more pressure. At the other end of the range, you're facing a much more benign, stronger recovery into 2021. RWA migration will be a lot less and you've got a lot more confidence, I think, about the outlook for 2021 and 2022, at that point.

So it's sort of speculative at the moment. We don't know. We think we're going to learn a lot in the next six months, on Covid, both in terms of the impact of second and third waves on various economies around the world and the likelihood of an effective vaccine in 2021. We'll know where we are in relation to Brexit. We'll have had another six months of geopolitics and will have a much better-grounded view of what, if any, impact that's having on our business, particularly in Hong Kong. That's why we've pushed the discussion on dividends to full-year results, but we clearly understand the importance of it to the equity story. We clearly want to return to making distributions again, as soon as we can, but we don't want to come out with definitive statements until we've got more clarity on the economic outlook we're facing.

NOEL QUINN: Thank you so much for joining us today. It was good talking to you.