

Investor & Analyst Call Q3 2022 Results

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NOEL QUINN, GROUP CHIEF EXECUTIVE: Thank you, and good morning in London; good afternoon in Hong Kong. Thank you for joining our third quarter results call. Ewen's going to lead the financial presentation, but I want to start by first talking about the leadership changes we've also announced.

We've now spent nearly three years transforming HSBC, and while there's still work to do, we are now in a much better place to accelerate our financial performance and deliver stronger returns. As we approach the end of our three-year transformation programme, myself and the board have taken the opportunity to review the composition of the GEC, with an eye to long-term succession planning. As a result, we have today announced that Georges Elhedery will take over as Group Chief Financial Officer on 1 January 2023, and Greg Guyett will take on the role of CEO of GBM permanently, effective immediately. Ewen will therefore step down as group CFO on 31 December and will leave the bank in April 2023.

I want to put on record my thanks to Ewen for everything he's done during his time with us. He played a key part in creating and executing our transformation and growth agenda over the last four years. He helped steer HSBC through the Covid pandemic. He's been fundamental in reshaping our portfolio globally, improving our capital efficiency, and embedding disciplined cost management across the organisation. He has also driven the transformation agenda within the Finance function, reshaping its strategic direction, encouraging innovation, and building the team's engagement levels. He's been a great professional, has contributed much to the bank, and I wish him the very best for his future career.

I want to emphasise we remain absolutely committed to delivering our strategy and the 2023 targets we announced with our Q2 results. There is no change to my commitment as a consequence of these people moves.

Going into Q3, I am pleased with our third-quarter performance. All regions performed well, with particularly good performances in the UK, the Middle East, and south-east Asia. We delivered a double-digit return on tangible equity for the nine-month period, excluding significant items, and we remain on track to achieve our financial targets in 2022 and 2023. We've also kept a tight grip on costs and are driving greater efficiencies across the organisation. Clearly, this is important in an unpredictable and challenging external environment, but it's also a sign that our digitisation strategy is working.

Our work to structurally reposition the business and invest in areas of growth continues to gain traction. We are in a much better position at the start of the new interest rate cycle, as a result of the actions we have taken on capital efficiency, portfolio rationalisation, organic revenue generation and cost control. We can also see in Wealth, for example, that we're building a strong earnings platform for the future. Over the last 12 months, we attracted \$91 billion of net new invested assets, with \$32 billion in the third quarter alone. Clearly, I expect you to ask about M&A activity when we get to the Q&A section of today's call. As a result, we've given some more information about our Canada business in the appendix.

I'll now hand over to Ewen to take you through the details.

EWEN STEVENSON, CHIEF FINANCIAL OFFICER: Thanks, Noel, and good morning or afternoon, all. As Noel said, these are a good set of results – reported pre-tax profits in the quarter of \$3.1 billion. While down on last year's third quarter, this was due to the \$2.4 billion revenue impairment associated with the disposal of our French retail bank. Adjusted pre-tax profits in the quarter increased by \$1 billion, or 18% to \$6.5 billion, reflecting a strong net

interest income performance of \$8.6 billion. That's up \$2 billion on last year's third quarter. We had higher ECL first quarter – \$1.1 billion, or 43 basis points. This primarily reflects increased economic uncertainty in the UK, together with further provisioning for our China commercial real estate portfolio.

Operating expenses are up 1% year to date against the same period last year, and up 5% on last year's third quarter due to higher technology investment and different timings for our variable pay accrual. We remain on track to deliver broadly stable costs this year. Our common equity tier 1 ratio was down 20 basis points to 13.4%, including an around 30-basis-point impact from the loss on the French retail bank disposal. We continue to expect to be at the bottom end of our 14% to 14.5% target common equity tier 1 range during the first half of 2023.

At our second-quarter results, Noel and I said our current strategy is the best and safest way to improve returns, with strong revenue growth driven by rising rates and volumes and tight cost discipline. With these results, our strategy remains firmly on track – good underlying growth across all of our businesses, with operating costs remaining broadly stable year to date, and an annualised reported return on tangible equity of 9.2%. Adjusted revenue was up \$3.1 billion, or 28%, as the positive impact of rate rises were reflected in our strong net interest income performance; and non-interest income of \$5.7 billion was up \$600 million or 13% on last year's third quarter, despite a \$400 million insurance market impact charge in the quarter. ECLs were at \$1.1 billion net charge compared to a net release of \$600 million in last year's third quarter. We now expect an ECL charge of around 30 basis points for this year.

Lending was down 2% on the second quarter and deposits down 1%, but excluding the impact of the reclassification of the French retail bank as held for sale, lending and deposits were both up \$5 billion. Our tangible net asset value per share of \$7.13 was down 35 cents on the second quarter, due to negative FX and adverse fair value movements.

Turning to slide 4, we're seeing good organic growth across all of our global businesses, as well as the benefit of rising rates. Wealth and Personal Banking revenue was up 25%, with a good Personal Banking performance. Personal Banking revenues were up \$1.4 billion on the third quarter last year due to higher rates and balance sheet growth. There was a good underlying performance in Wealth due to the strong Insurance and Private Banking performance. While revenue was down 9%, or \$200 million, due to adverse market impacts in insurance of \$400 million, we remain very confident in the growth of our Wealth franchise. We had \$91 billion of net new invested assets in the last 12 months, including almost \$32 billion in this quarter, so our investment is building a strong future earnings platform. Commercial Banking revenue was up 40%, with Global Payment Solutions, formerly known as GLCM, benefitting from higher rates, together with continued strong underlying growth. Global Banking and Markets revenue was up 16%; Markets and Securities Services revenue was up 20% due to market volatility; and Global Payment Solutions in Global Banking was up 100%, partly offset by lower Capital Markets & Advisory activity.

On slide 5, net interest income was \$8.6 billion, up \$2 billion versus last year's third quarter. This was primarily driven by higher rates and was strong across all regions and businesses. On rates, the net interest margin was 157 basis points, up 22 basis points on the second quarter, putting us back at pre-pandemic levels. We now expect net interest income of around \$32 billion for this year, and at least \$36 billion in 2023 compared to the previous \$37 billion guidance.

Relative to the second quarter, we are upgrading our assumptions on a like-for-like 2023 revenues by around \$1.5 billion on a constant currency basis, including \$1.2 billion for FX movements, and at least \$1.3 billion of planned higher costs of funding for the trading book, with this benefit being reflected in higher trading income in non-interest income, and is dollar for dollar with lower net interest income. In addition, given the unprecedented speed of interest rate rises we've been seeing this year, we believe we're being cautious on our planning assumptions across deposit betas, deposit migration and asset margins from here.

The FX movements have a similar impact on costs, with 2021 adjusted operating costs of \$32 billion translating to around \$30 billion using year-to-date average FX rates, and around \$29 billion if you were to use September average rates. Given the flow of growth we now foresee, we now expect low-single-digit lending growth in both 2022 and 2023, before returning to previous expectations of mid-single-digit growth from 2024 onwards.

On the next slide, non-interest income was \$5.7 billion, up 13% against last year's third quarter. Net fee income was down 11%. The decline in fees was largely due to lower Capital Markets & Advisory levels in Global Banking and Markets, and lower equity market activity in Hong Kong in Wealth and Personal Banking. Flow fees in Global Payment Solutions were up 18% in Commercial Banking, and up 8% in Global Banking and Markets. Other income was up 49%, including another strong FX performance in the quarter.

On the next slide, we've reported a net charge of \$1.1 billion, or 43% of ECLs in the quarter. This included \$600 million of modelled stage 1 and 2 provisions and overlays, \$400 million of stage 3 loans, and \$100 million of write-offs. There was a \$300 million charge in the UK, including \$200 million of additional allowances for heightened economic uncertainty. \$400 million also relates to the mainland China commercial real estate market, around two-thirds of which are stage 1 and 2 provisions, and the remaining third are stage 3. The overall quality of our loan book remains good. Stage 3 loans as a percentage of total customer loans are stable, at 1.8%. In terms of outlook, we expect an ECL charge of around 30 basis points for this year, and for 2023 we now expect ECLs to be at the higher end of our 30-to-40-basis-point planning range, but with a higher degree of volatility around this guidance given the uncertain market outlook.

Turning to slide 8, we've had three quarters now of relatively stable costs year to date, and we continue to expect costs to be broadly stable on last year. Within that, third quarter adjusted operating costs were 5% up on the same period last year, driven by continued investment in technology and timing differences in the variable pay accrual versus the third quarter of 2021. We made a further \$600 million of cost programme savings during the third quarter, with cost to achieve spend of around \$700 million.

The formal three-year programme ends this year. We now expect to spend between \$6.5 billion and \$7 billion, slightly lower than our original \$7 billion CTA target, but the expected cost savings from the programme remain unchanged, at around \$5.5 billion, by the end of this year, rising to around \$6.5 billion of cost savings by the end of 2023. We continue to target around 2% adjusted cost growth for 2023, with an ongoing focus on active cost management to mitigate inflationary pressures.

Turning to capital, on slide 9, our common equity tier 1 ratio was 13.4%, down 20 basis points on the second quarter. This includes the sale of our French retail banking operations, which had an impact of around 30 basis points, and further negative reserve movements through other comprehensive income due to higher rates. Reported risk-weighted assets were down \$23 billion on the second quarter, principally to FX movements. We've now achieved our year-end ambition of at least \$120 billion of cumulative RWA saves, with modest further saves still expected in the fourth quarter. We expect common equity tier 1 to now recover strongly in the fourth quarter, back towards 14%. This reflects a number of factors, including the formulaic impact of how our dividend is accrued during the year. We accrue at the top end of our pay-out range, so have already accrued 28 cents year to date, and additional capital management actions we've been taking to offset the negative OCI movements.

Please remember that this is not guidance of our full-year 2022 dividend intentions. The dividend accrual is purely a formulaic calculation that will true-up at the full year, based upon the results and outlook at the time. We continue to expect to move back to the bottom end of our 14% to 14.5% target common equity tier 1 range during the first half of 2023, and to consider buy-backs from the second half of 2023 onwards. In summary, these were a good set of results, good earnings diversity across the group, growth in all of our business lines, and continued strong control on operating costs.

Despite a weakening credit outlook, our credit quality remains strong. For 2023, we are upgrading like-for-like revenue assumptions. We continue to target adjusted cost growth of around 2%, and we expect to be at the bottom end of our target common equity tier 1 range in the first half of 2023.

Finally, after another quarter of good progress, we remain confident of delivering our targeted 12%-plus return on tangible equity in 2023 and beyond. We expect a 50% dividend pay-out ratio for both 2023 and 2024, supplemented by active capital management for surplus capital beyond this. We've included a slide on Canada in the appendix so you can see the shape of the business and the tangible equity within it. We've also included slides on mainland China commercial real estate on the Hong Kong loan book.

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

OMAR KEENAN, CREDIT SUISSE: Good morning. Thank you very much for taking the questions, and best of luck for the future, Ewen. Can I please ask a question on capital planning and on the provision scenarios? So just on capital planning, could you give an update on where HSBC is on the tactical RWA measures that are meant to get the common equity tier 1 ratio up to above 14%? It would just be good to have an idea of that.

Just given the focus on real estate prices in the UK and Hong Kong and mainland China, would it be possible to give a sensitivity in terms of RWA migration to lower real estate prices? In 2023, for example, what a 10% to 15% across-the-board reduction in real estate prices would mean for RWAs?

My other question is on asset quality. Could you give a little bit more colour on the guidance for the year '23? I guess there's a lot of moving parts between stage 3 and moving toward a downside, or downside 2 scenario. When you're thinking about the FY23 guidance being at essentially 40 basis points, what sort of assumptions are in that? Thank you.

EWEN STEVENSON: On capital planning, I guess, various parts to that. Firstly, I touched on, when I spoke about the technical nature of how we accrue dividends during the year. We've accrued 28 cents so far this year, so there will be very limited drag in Q4 from dividend accrual. Secondly, we've largely completed the \$120 billion RWA saves programme that we committed to. I think there'll be a bit of a carry-through into Q4 of a few billion dollars. And on top of that, going back to Q1, we did implement a series of other tactical measures to support the common equity tier 1, given the movements we were seeing driven by the OCI losses and the impact that was having on capital.

We're already seeing some of that benefit come through the Q3 results, and they'll be incremental benefits in Q4, but I would say that you should see material improvement in the common equity tier 1 ratio in the fourth quarter, and then we'll be back at the bottom end of the common equity tier 1 range by the middle of next year, which also then supports the buyback comments for the second half of 2023 because, at that point, with a 12%-plus return on tangible equity and a 50% pay-out ratio, we've signalled that we expect low-single-digit loan growth next year. That means the business at that point is very capital accumulative.

On the second question, on the real estate crisis, I don't have to hand what a 15% impact would be on a ratings migration across the book, but perhaps I can get you a follow-up with the IR team afterwards. There is quite a bit of detail in the Pillar 3 documents that I think they can help you step through to try and estimate what that impact may be.

Then on asset quality for 2023, firstly, I think we do expect, on the China commercial real estate book, to continue to see some losses coming through that portfolio through 2023. It still feels like we've got some ways to go before we're going to get stability and improvement in the China property markets. For the UK, probably the market with the biggest delta around it for us at the moment is the UK. We have already, in some way, front-end-loaded potential stage 3 losses for 2023, with forward economic guidance adjustments that we've made during the third quarter. And above and beyond that, I think we're just being reasonably prudent with the guidance at the moment. We didn't say 40 basis points. We said to the higher end of 30 to 40 basis points. I think when we look at consensus, it's sitting at slightly higher than 40 basis points at the moment, but we're not really trying to change that guidance.

But when you think about the world next year, I think it's also important to recognise that places like Hong Kong and China are likely to have better economic performances in 2023 than in 2022. For us, when you think about our business mix, we have got a blend of some parts of the world seeing improved economic performance next year.

NOEL QUINN: I would just reiterate the fact that, despite the guidance to stay at the top end of the 30 to 40 basis points, we still committed to the delivering 12%-plus RoTE. It's affordable within the RoTE guidance we've given you, and we are building stage 1 and stage 2 provisions now in anticipation of potential losses turning into stage 3 losses in 2023. We've taken a prudent position on balance sheet positioning as well.

ROBERT NOBLE, DEUTSCHE BANK: I was wondering if we could just walk through the NII guidance? You're saying the \$37 billion had gone down \$1.2 billion for FX. My understanding of the trading book funding cost is that was already within your previous NII sensitivity. So rates have gone up, and I would have assumed that your NII should have gone up by more

than what you're guiding to. So the \$36 billion looks quite low to me. I was wondering if you could walk us through your thoughts on that one, please?

EWEN STEVENSON: On the NII guidance, the technical side to the guidance is on the walk from the second quarter. Firstly, as you've noted, we've had adverse FX movements of \$1.2 billion, and our planning assumption is that rate moves will increase the cost of funding in the trading book by at least \$1.3 billion. The cost of funding will be a drag on net interest income but will have a dollar-for-dollar improvement in trading income in non-interest income. Relative to the second quarter, we think we're guiding like-for-like revenue guidance up by at least \$1.5 billion, even though the net interest income guidance is down by \$1 billion.

On the non-technical side, we think our net interest income assumptions at the moment are cautious. I think, increasingly, the interest rate sensitivity tables that we show you are less helpful because they are based on a 50% deposit beta. Given the relatively unprecedented speed in rate rises that we've seen relative to recent history, I think we are being deliberately cautious in key assumptions. We're assuming in that guidance very high deposit betas, elevated levels of migration out of non-interest-bearing current accounts and contraction of asset margins in some areas. We'll obviously see how this plays out in the coming quarters, but I would say, at the moment, we are trying to be deliberately cautious in that guidance, and I would note that, like for like, we have increased the guidance by \$1.5 billion.

NOEL QUINN: And, just for clarity, the cost of funding the trading book was inherent in the Q2 numbers, but that cost has increased by \$1.3 billion. So we said, 'increase on the Q2', and it's an offset between NII and non-NII. So, although the cost on NII is higher by \$1.3 billion, the benefit re-emerges in the non-NII. That \$1.3 billion re-emerges.

EWEN STEVENSON: And the other thing is just also to note – which was in my comments, but, if people missed it – was that FX impact will also have a corresponding impact on operating expenses. The 2021 costs were \$32 billion. That translates to \$30 billion on average FX rates year to date and \$29 billion if we were to use September averages. So I do think where consensus is sitting at the moment looks too high relative to those numbers.

ROBERT NOBLE: Thank you. Just to follow up on the NII bit, so the trading book funding costs gone up, but you've effectively assumed that the banking book doesn't benefit at all from the incremental rate rises that you've assumed in Q4. Is that right?

EWEN STEVENSON: Yes. And implicitly in those assumptions, I think that's broadly correct. But, as I say, I think within our planning assumptions at the moment are very cautious assumptions across deposit betas, deposit migration and asset margins. And I think, again, that answer is more nuanced if you go to the individual legal entity level. I think probably in Hong Kong we are getting towards peak NIM during the fourth quarter, I think. In some of the other markets, I still think there's further expansion of NIM.

ROBERT NOBLE: Alright, thank you very much.

JOSEPH DICKERSON, JEFFERIES: Good morning. Thank you for taking my question. Ewen, you cited a weakening credit outlook. Could you just discuss for us – help us dimension a little bit a couple of things in terms of, for instance, how a strengthening dollar plays on credit cost in your Asia footprint?

And then, relatedly, if I look, the Hong Kong interbank liquidity is down to about HKD100 billion, and the HKMA has been active in defending the peg. It's not a zero chance that the peg could break. What would be the consequences for the bank in that event, particularly from a credit standpoint? If you could help us think through those two dimensions, it would be helpful. Many thanks.

NOEL QUINN: I think let me take the second question first, if I can, and then, Ewen, you take the first. We do not believe there is any risk to the peg at all. We believe the peg – the HKMA have sufficient capabilities to defend the peg and that's not a scenario that we envisage.

EWEN STEVENSON: No, on the first part of the question, Joe, we don't think, when we look across the portfolio in Asia, there's any meaningful impact from stronger US dollar, apart from potentially in smaller markets – for example, in Sri Lanka – but that's not all dollar-related. But at a big, macro level, we don't think the strength in the dollar has a material impact on us as we look out on credit quality across the region.

JOSEPH DICKERSON: That's very helpful on both points, thank you.

FAHED KUNWAR, REDBURN: Thanks for taking my questions, and good luck, Ewen, with your future career.

Just a couple of questions from me. The first one was just back on impairment. I'm sure it's probably my understanding, but, when you look at the \$300 million CRE overlay and the \$200 million UK overlay, if I look at your overall coverage ratio on your loans to customers, it's pretty much flat at 1.1%, which is about the same as 2Q and FY21. I would have expected that to go up if a lot of the provisions you are taking are just reserves rather than treating underlying delinquencies. So why hasn't that coverage ratio stepped up? Are there other moving parts – obviously, the write-offs and underlying delinquencies. That would be my first question.

And my second question is just following on from an earlier question. When you talk about your greater than 14% guidance on CET1 from first half 2023, have you factored in potential risk migration from higher loan losses, falling CRE within that, or, if we saw increased migration, would that be a risk to that greater than 14% CET1 guidance from 1H 2023? Thank you.

EWEN STEVENSON: On the second question –we've clearly factored in a view on what the economic outlook is and what the impact on ratings migration would be as a result of that. And you can see what our assumptions are on the macro outlook from our first nine scenarios. So clearly, within that, in some markets, there is an element of ratings migration that we build into our RWA forecasts and capital forecasts.

On your question on impairments, I guess it's hard to answer the question on a macro level. On the commercial real estate portfolio in China, we have definitely increased the level of overall provisioning against that portfolio. And then, on the UK, again, I'm sort of struggling to get my head around the take-off of the provisions we had at the beginning of the year because of Covid and the putting back on provisions that we're now putting back on. I think net we've put more on in the UK than we took off at the start of the year. But I'll get the IR team to follow up with you on the specifics, but I think, on the two portfolios that we're most focused on at the moment, provisioning levels are higher than where they were at the beginning of the year.

NOEL QUINN: And I think there are some currency impacts on the balance sheet as well, but the IR team can follow up on that.

YAFEI TIAN, CITI: Hi. Morning, Ewen. All the best to your future career, and I have two questions. The first one is just to follow up on that revenue and cost guidance, making sure I heard it correctly. So, assuming constant currency revenue is \$1.5 billion higher, and I guess cost guidance hasn't really moved 2% inflation, does that imply, on a pre-provision basis, you're guiding for \$1.5 billion higher PPOP? So that is the first one.

And then second question is around the exit of Canada business. Compared to many other markets that HSBC is exiting, Canada is actually quite a profitable market with mid-teens RoE. So I just want to understand what is the rationale for that exit and, strategically, as you look at the footprint of HSBC, are there any further markets you're reviewing at the moment? Thank you.

EWEN STEVENSON: Thanks. You've got our guidance exactly spot on. On a constant currency basis, revenue's up \$1.5 billion no change in the cost guidance, so, on a pre-provision level, there should be a \$1.5 billion increase, and, if you think about the guidance that we've given today on ECLs – that, even after ECLs, there should still be a net improvement on our guidance on a pre-tax basis.

NOEL QUINN: And, on Canada, let me explain some of the rationale as to why we're considering alternative options on Canada. Firstly, you're absolutely correct; the business has performed well and is performing well with a return on capital above our cost to capital and a very strong recovery post-Covid. The team has done an extremely good job.

The rationale for considering alternative options is as follows. First, our market share in Canada is around about 3%. And, second, it's largely a domestic business. The international connectivity between our Canadian business, particularly in wholesale banking and supply chain finance, is less internationally connected than many other markets that we operate in.

And then, thirdly, we've had strong interest in our business from the point of view of other banks looking to buy it. We clearly have to consider on behalf of all shareholders if the value that they would attribute to that business is significantly greater than the value of holding our profit stream in HSBC, and we're testing that at this point in time by looking at the strategic options. Our assessment is there is a reasonable probability that the value will be significantly accreted and, therefore, it's right that we consider that option, particularly as strategically, as I said, our market share is in the 2% category, and the international connectivity of that business is relatively low. So that's why we've given serious thought to an alternative strategy for Canada. But I re-emphasise the management team in Canada has done an excellent job.

When you asked me the question on 'Do I consider that same evaluation for other markets?' and, clearly, we always look, as a management team, at the performance of our businesses, the value in our hands relative to the value in others, and also the strategic importance. So we do do that, but at the moment we're only looking at commencing a process on Canada.

And I can probably anticipate your second question, so let me deal with that now on Mexico. And, if I do the same analysis on Mexico, I start with a market share analysis where, depending on the product line or customer segment, we have somewhere between a 7% and 10% market share of the business in Mexico, so a much stronger market share position. We have strong growth being achieved in our Mexican business at the moment with significant upside potential, and I think that's particularly true as we believe that, as an international bank in Mexico, relative to other competitors, our position as an international bank is being enhanced.

Thirdly, we believe that the supply chain interconnectivity between Mexico, the rest of the world and the US will actually increase in volume of business and business opportunity because it is an important manufacturing base into the US, and that's at the core of what we do, and we have a very strong market share position in retail banking in Mexico with strong interconnectivity between retail and corporate banking in Mexico as a result of the payroll services.

And we also believe that we've got strong shareholder value accretion potential by holding that business in Mexico, so we're not going through a similar process on Mexico. We think we have good opportunities to continue to grow that business. It's starting from a stronger position and it's not my intention to sell Mexico.

So hopefully that was a reasonably comprehensive answer. As and when we make a final decision on Canada, we will update you on the outcome of that process. Thank you.

YAFEI TIAN: Thank you.

TOM RAYNER, NUMIS: Hi there. Could I just ask on the cost target for next year please, the 2% in 2023 – because I think everyone appreciates it's a pretty tough target given the inflationary environment. Ewen, I think you said in your chat at the start that it's going to need active cost savings to deliver. Noel, you pointed out Ewen was fairly key in terms of the cost transformation and installing disciplined cost management. I guess my question is, now that the CFO is leaving, is there a risk that hitting the target may become more dependent on paring back investment rather than finding additional cost savings? Thank you.

NOEL QUINN: I can respond to that very categorically. There will be no easing at all in our cost discipline. I am absolutely committed to that cost target. Ewen has done a tremendous job on driving cost discipline in the bank, but I share that agenda and I am committed to that agenda.

As we've said in the past, we've got a headline target of 2%, around 2%. We know that that's challenging in a high-inflation environment, but we also know we've got cost savings coming through next year from the transformation programme we've already embarked on, and that's the equivalent of 3%. It's about \$1 billion of flow-through savings. We also know we're identifying additional cost savings opportunities through further simplification, further digitisation and further organisational change. That can add to the 5% underlying capacity to pay.

So I'm not going to pretend in a high-inflation environment that 2% is easy, but I'm also going to remain absolutely committed to delivering that. I thank Ewen for all the great work he's

done on instilling those disciplines in the bank, but I will make sure those disciplines remain and are committed to for the future, so there's no weakening in that target.

TOM RAYNER: Thank you, and best wishes, Ewen, for whatever you do next.

EWEN STEVENSON: Thanks, Tom.

MANUS COSTELLO, AUTONOMOUS: Morning, guys. I actually just had a couple. Just to triple-clarify on the cost targets for next year, the base off which the 0% to 2% growth comes from is the \$29 billion FX-adjusted, not the \$30 billion that you have as a year-to-date FX average range. Is that correct?

EWEN STEVENSON: Yes, the only caution I would put around that, Manus, is that exchange rate is bouncing around. That was true as of the end of September; whether it remains true by the end of the year we will see, but the thesis is correct: we are not trying to play games with FX in setting that target.

MANUS COSTELLO: It just wasn't entirely clear from the release this morning, given the way you've given the \$30 billion number, that the \$29 billion is the current starting point.

My second question is about the commercial real estate outlook in China. When I look at your disclosures, you're taking much higher impairment on your Hong Kong-booked exposures than your mainland-booked exposures. Are the additional \$400 million of impairment you've taken this quarter mostly related to Hong Kong-booked? And why is Hong Kong so much worse? Is there a risk that that Hong Kong book could really accelerate away from you? You've taken about 8% or 9% of the book so far as impairment. Could this be materially higher if there's some kind of structural problem with your lending agreements in Hong Kong?

EWEN STEVENSON: It's booked in Hong Kong; it's the offshore component of the China commercial real estate portfolio, Manus. We've got just under \$20 billion of exposure. Over \$7 billion of that is onshore and just over \$12 billion of it is offshore. The offshore book is definitely weaker than the onshore book.

If you look at the sub-standard – we've provided disclosure on sub-standard and impaired, which is about 35% from memory at mid-year on the offshore book and about 3% on the onshore book, so you can see in that very, very different asset quality considerations. A lot of the policy support that's going through in China is definitely providing a lot of support for the onshore portfolio, providing a lot of liquidity support for the onshore portfolio, and in some cases it's a question of whether that liquidity, for regulatory reasons, can be used to support the offshore book.

So we do expect there to be further provisioning against the offshore book, but, to keep that in context, \$12 billion is on a \$1 trillion loan portfolio, so it is just over 1% of the total exposure we have as a bank. But, Noel, I don't know if you've got other comments.

NOEL QUINN: I think it's a fair assessment. The offshore book has a different risk profile to the onshore. But our clients – and our onshore portfolio is a relatively high-quality tier 1/tier 2 city-orientated book. But what we have to work out is how the policy measures benefit not just the onshore business but the offshore, and that's still an evolving picture, and therefore we've got to keep that under close review.

MANUS COSTELLO: Should we consider the offshore book at this point to be essentially unsecured, then, if they're not able to get access to any of the liquidity measures and there are questions over collateral? Is it effectively an unsecured book that you've got offshore now?

NOEL QUINN: Relative to the onshore book it is less secure, so that is a fair assessment, but is it fair to say that the onshore policy measures will not benefit the offshore book? No, that's not a fair statement. I think we have to see, on a client-by-client basis, how much of the onshore liquidity support can then support that company's ability to service the offshore book. So I wouldn't have a complete separation between on and offshore. It will be client-by-client dependent.

EWEN STEVENSON: I wouldn't describe it as unsecured. The onshore book is typically secured against specific properties. The offshore book has less specific security but there is

security underpinning that portfolio. It's not secured and it's definitely not unsecured. It sits somewhere between those two.

MANUS COSTELLO: Got it. Thank you very much, guys.

MARTIN LEITGEB, GOLDMAN SACHS: Morning. Let me echo, first of all, earlier comments and thank Ewen for a good collaboration over the years and all your patience with our questions.

If I could just have two, one on pass-throughs and one on asset quality, I was just wondering, in terms of pass-throughs, earlier comments were on pass-throughs being more begin compared to assumptions you have made earlier in the year. I was just wondering have you seen any meaningful signs of attrition in your core markets, Hong Kong and UK ring-fenced bank in terms of current accounts into higher yielding accounts? Is it something that has started to trend higher and could imply higher pass-throughs going forward?

And, secondly, on asset quality, I was just wondering what are the main ramifications you think higher mortgage rates in the UK will have? I think most recently mortgage rates' headline had increased to a level of around 6%. I was just wondering, from your UK business perspective, what are the main implications of mortgage rates at such a level?

EWEN STEVENSON: On the pass-through levels, Martin, they have been below expectations so far, but I think they have been rising. As I said, in our guidance we've made some reasonably conservative assumptions and cautious assumptions on where deposit betas go to from here, but implied in that comment is materially higher than 50% to what we've seen to date, and hence why I would caution on using our interest rate sensitivity tables at this point, because they're based on a 50% deposit beta, which are becoming increasingly less relevant as we get to higher rates.

We haven't seen any material attrition. We are seeing migration out of non-interest-bearing current accounts into saving accounts. We're starting to see that trend now in Hong Kong pick up a bit, given where rates are. Again, just as a reminder, if you looked in previous cycles, our extent of deposit migration out of non-interest-bearing current accounts has been well below sector averages in Hong Kong.

On asset quality, again, the book in the UK is typically a mix of two-year and five-year fixed. So the impact of those higher rates will take time to roll through the book. They are typically stressed when we put them on to rates of up to 7%. And you can look at our IFRS 9 modelling and look at the downside 1 and 2 scenarios, if you want to look at the potential sensitivity we have to higher provisioning levels, if you want to take some more adverse scenarios on the outlook for the UK. We think, as we sit today, we're not complacent about it, but we think for most of our customers those higher rates are affordable, given the stress analysis we put on when those loans were put on.

MARTIN LEITGEB: Thank you very much.

RAUL SINHA, JP MORGAN: Good afternoon, everybody. Thank you so much for taking my questions, and my best wishes to Ewen as well. Noel, if I can start with a follow-up on your commentary around Canada and Mexico. I'm just trying to understand your reaction function to any incoming capital proceeds that you might generate from M&A. How would you think about capital deployment, if you were to reach a position in excess? Would you consider further acquisitions? I think that's one of the comments you've made publicly. Or should we expect that the majority of capital that is generated from these disposals should be returned to shareholders? The reason I ask this is because historically I think HSBC has linked various share buy-backs to specific disposals, and so I was just wondering whether you might be willing to link any subsequent disposal-generated capital proceeds to a direct share buy-back.

And I guess the second question I have is remaining on Wealth Management. I was just wondering – obviously, we have been expecting a recovery in Wealth in Asia for a while and things are obviously still challenging on the ground. I was wondering if you could update us in terms of your thoughts around how the business is positioned going forward and whether or not you see any structural challenges arising from recent developments in terms of Wealth growth.

NOEL QUINN: Thank you. Thanks, Raul. Let me deal with the Canada item first. It's still very early in the process on Canada, so I don't want to be too definitive on use of proceeds. But,

clearly, there would be an expectation that a significant element of the proceeds – I don't want to hang on to excess capital, so as we get back into our target range of 14% to 14.5%, which we're going to do without the benefit of Canada, and if we were to load a Canada disposal in on top of that, you would clearly have excess capital sitting at the group.

Now, it would be reasonable to assume that we may retain some of our capital to fund further growth that would emerge in 2024 and beyond, but a good proportion of that capital would be available for distribution. I don't want to give too much guidance on that at this stage – let us get through the process on Canada – but I have no intention to hang on to excess capital over and above our target range unless we see good opportunities for profitable growth. So I think it would be a reasonable expectation to expect some distribution of that capital back to shareholders in some form.

On Wealth Management, I think on Asia we are seeing the Hong Kong market reopening. Activity levels domestically are increasing. We are seeing the Hong Kong market reopen internationally. So I think the prospects are far better for 2023 than they have been throughout 2022. I would expect activity levels to increase, but what you will also hopefully see is more stabilisation in the equity markets. The investment environment has not been very supportive, particularly in Asia, at the same time as the activity levels have been suppressed. If we start to see a stabilisation of the markets, I think there'd be an increased appetite to use alternative investment products.

And what I referenced in my opening comments is we're building the platform for future earnings growth from Wealth by continuing to accumulate net new assets. And, as we talked about, in the last 12 months, we've accumulated \$91 billion of net new assets. That \$91 billion, given the suppressed market situation and investment appetite at the moment, is not yet producing good earnings, but it will do in the future. That is a platform for future Wealth earnings that we're continuing to accumulate.

And I'd liken it to what we did in the deposit book. We've still accumulated deposits from good operating accounts, particularly in wholesale banking and retail banking non-interest bearing operating accounts, and we did that during the times when they weren't earning a revenue stream, and now we're getting the benefit of that, and that's exactly what we're doing on Wealth. We're continuing to expand customer acquisition, asset acquisition, in order to build a platform for future Wealth revenue growth. Thank you.

AMAN RAKKAR, BARCLAYS: Good morning, gents. Ewen, I just wanted to say congratulations – look forward to hearing what you do next. Can I just squeeze in two questions, please? Sorry to come back to net interest income, but the guide for next year I am really struggling to make sense of. I do appreciate there's a 'greater than' symbol that's sitting in front of that guidance, but, if I was just to mechanically take your \$32 billion guide this year, the Q4 exit NIM run rate or NII run rate annualises at around \$36 billion for next year. You're basically assuming absolutely no incremental rate benefit in your next year. The assumptions that must sit behind that must be extremely conservative. I appreciate you're talking about betas above 50%. Please can you just help us understand a bit more exactly if there's something we're missing and the extent to which those numbers are conservative.

And then secondly I wondered if you had an update for us on the impact of IFRS 17 on your P&L. I'm mindful that actually we're some two months away from the implementation of it. You've given us some guidance before. Could you help us understand the impact on NII, fees and costs? The reason I'm asking is because your fee income performance, your non-interest income performance in Q3, is actually quite robust. If I add back in the \$600 million of mark-to-market negatives that you had, you're actually annualising at quite a healthy clip. I need to understand how much I should be taking off that for IFRS 17 to work out if consensus next year is in the right place. Anything you can help us with there would be really appreciated.

EWEN STEVENSON: Well, look, to start with IFRS 17, I appreciate that we're in an awkward phase at the minute with some of you modelling IFRS 17 numbers in terms of your forecasts and some of you still on IFRS 4. We're not able to – and we're giving our guidance at the moment based on IFRS 4 rather than IFRS 17. I think we are going to be in that unsatisfactory position for a few quarters as we work to give you a IFRS 17-adjusted view of the world in the coming quarters.

But, just to repeat what we said a couple of quarters ago, we expect reported earnings to be down by around two-thirds. I think, as part of that, you need to adjust out the impact of MCU,

and we expect TNAV to be down around \$3 billion and that the net impact on RoTE as a result of that to be relatively de minimis. I think the latest internal numbers we're looking at is around 10 basis points of impact on 2023 RoTE, but those numbers are still being worked on.

So, look, I appreciate it's an unsatisfactory position for all of you. We are working as hard as we can to get to a position where we can provide you clarity, or better clarity, and when we can, we'll update the market.

Just on the comments on the maths of 4 times 9 to get to 36, I think you do need to add the \$1.3 billion on top of that for the switch into trading income. That is an uplift in the guidance that we're giving and in addition to that annualised rate of \$36 billion. I think we would say \$37.3 billion plays \$36 billion in your maths and then revert to the conservatism or caution on other assumptions we're making. The reason for that is just we genuinely think we are facing a relatively unprecedented period, given the sharpness of rate rises that we've seen, and we are generally trying to be cautious on giving you guidance over the next couple of quarters. But if we find, going into Q4, that our assumptions can be upgraded, I'm sure Georges and Noel will be talking to you about that at full-year results.

AMAN RAKKAR: Thank you so much. Would you be tempted to guide for your expectations for non-interest income next year, based on your current understanding of the momentum?

EWEN STEVENSON: At some point, I think we'll be accused of providing a profit forecast¹ when we're giving you guidance on net interest income, non-income interest and costs. We will probably allow you to at least model on one of those items. Joking aside, if you think about the trends in non-interest income this year, I think you do need to add back about \$1 billion like-for-like on insurance MCU. I think some of the other line items, when you go through it, some have clearly benefited this year. Some have significantly underperformed. When you go through the Global Banking and Markets P&L, there's a lot of pluses and minuses in performance this year. I think we've talked about Wealth and the depressed conditions for Wealth this year, but even just on a pure technical basis, I think you need to add \$1 billion back for the insurance MCU.

NOEL QUINN: I think, if you look underlying fee growth or non-NII, we've seen very strong Global Markets performance in the volatile markets. We've seen suppressed event-based fees because of the low activity in M&A and Capital Markets. We can each have a view as to whether some of that event activity will come back next year, but there's a probability that there's an element of that going to be coming back next year. And you're going to have a continuation of good fee growth in Global Payment Solutions, in both CMB and GB&M. I don't see that trend declining. I see that trend continuing of good fee generation there. And as I said earlier, my expectation is there'd be an opportunity for some growth in our fees around Wealth Management as both activities and markets start to pick up, and investment starts to flow back into alternative asset classes. But it's unpredictable at this stage. We'll have to see how next year goes. But I think there are some elements of our fee performance that are going to be enduring.

AMAN RAKKAR: Thank you so much.

NOEL QUINN: With that, if I can just share some closing remarks, I'd appreciate it. Firstly, thank you very much for joining the call today and your questions. To close, just a few summary comments. We had another good quarter, with underlying growth in all businesses, a positive impact of rate rises and continued tight cost control. We remain on track to hit all of our financial targets, including a RoTE of at least 12% from 2023 onwards. I want to reassure you there will be no change in our strategy or our commitment to cost discipline as a consequence of the people changes we've announced today.

I want to reiterate my thanks to Ewen for all that he's done for the bank over the past four years and the support he's given to both myself personally, as I entered the CEO role, and the advice and guidance he gave me, and also the support he's given to the wider team in HSBC. I welcome Georges into the new role on 1 January and ask for your support and assistance in Georges taking on that new role, and I wish him all the best in that regard.

Thank you. I'll speak to you again with our full-year 2022 results, if not before. Have a good morning or afternoon.

¹ Corrected