HSBC

Transcript

IFRS 17 Investor and Analyst Seminar

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RICHARD O'CONNOR, GLOBAL HEAD OF INVESTOR RELATIONS: Good morning and good afternoon, everyone. Welcome to the HSBC Insurance and IFRS 17 event. There'll be around a 30-minute presentation with slides shown on screen, then, hopefully, plenty of time for Q&A. As you can see, we have a live audience here in London and also in Hong Kong, and currently about 45 participants on Zoom. So with that, I'll hand over to Greg Hingston in Hong Kong to start the presentation.

GREG HINGSTON, CEO, GLOBAL INSURANCE AND PARTNERSHIPS: Excellent. Thank you. Good afternoon, good morning and welcome to the IFRS 17 teach-in. I'm Greg Hingston, CEO for HSBC Global Insurance and Partnerships, and I'm joined by Alistair Chamberlain, Chief Financial Officer for Global Wealth and Insurance, and members of our senior leadership from HSBC Life. The purpose of this session is primarily to provide you with an understanding of what the IFRS 17 accounting change means for our business and to answer any questions you may have in this regard.

But before we go there, I'd like to provide a brief overview of HSBC Life and our strategic focus. So who are we? So HSBC Life manufactures life and health insurance products in 10 markets. Our core market participation is Hong Kong, where we operate two entities; Macau, mainland China, Singapore and India, where we participate as a 26% shareholder in a joint venture; and the UK and Mexico.

Our participation in Asia is focused on Hong Kong and Singapore, as they represent the leading Asia financial centres and offshore hubs, and mainland China and India representing the largest domestic growth opportunities, large protection gaps, low insurance penetration and fast-growing middle-class populations. Beyond Asia, the UK and Mexico are HSBC's scale markets, with 11 million retail customers across HSBC Bank and first direct in the UK, and over five million retail customers in Mexico, with both businesses also having large corporate banking bases.

In our manufacturing markets, we serve mass retail right the way through to private bank, and, on the corporate side, business banking through to large corporate clients. And we distribute through a mix of HSBC channels and platforms and external channels. In markets where we don't manufacture, we partner with life and general insurers, and we have distribution partnerships in 30 markets. Most recently, you probably will have seen, in 2022, we extended our partnership with Allianz in six Asian markets for 15 years.

Life insurance plays an important role in our total wealth management philosophy. It's an integral part of our Wealth strategy and our focus on growing fee income contribution. As you can see from the slide, HSBC Life is a meaningful contributor to Wealth and Personal Banking and a consistently strong payer of dividends up to the Group.

Life insurance plays a key role across the universe of customer needs. As an integrated financial services provider, life insurance is a very natural conduit for us for deepening long-term and intergenerational customer relationships, both at the individual and the family-unit level. And the fundamental demand for life insurance solutions is also being shaped by broad emerging trends that we are observing – so ageing populations and the associated longevity risk; inflation and rising healthcare costs widening the potential protection gap; growing awareness amongst customers of healthier living; the need for protection and the crossover to wealth; and, unsurprisingly, the growing use of digital to both access insurance information and to consume services.

Our strategic focus is bringing holistic health and wealth wellbeing solutions to our customers when we combine our capabilities as both a bank and a life insurer, and we strongly believe that, as a bank and an insurer model, we benefit from a number of key attributes – so access

to the bank's installed retail and corporate customer bases; a higher frequency and quality of engagement with customers through that integrated model; the richness of data that we have across both the bank and the insurance business that we can apply, for example in things like pre-underwriting; the use of data to support customer lifecycle management and propensities; the application of integrated customer loyalty and rewards programmes; the ability to create integrated customer journeys and embed product adjacencies; and internalisation of value through things like product innovation, where we can leverage HSBC cross-line-of-business solutions.

Our health and wealth model goes beyond just the preventative, physical healthcare focus that you often see from insurers, to something that really encompasses overall physical and financial wellbeing. This is something that we have led on in Hong Kong, with our Well+ and Benefits+ propositions, and these are capabilities that we are taking to other main businesses.

We also believe HSBC Life can be an effective distribution channel in its own right, so where we can scale new-to-health and wealth and, ultimately, new-to-bank customers – so for example, in our Pinnacle model in mainland China, our tied agency in Singapore, our employee benefits platform solution.

Life insurance has been a high-growth business for HSBC, and our future strategy is focused on further optimising our integrated health and wealth platform advantages and further diversifying our geographic, product and distribution mix – so doubling down on growth in our core Asian markets and scale market positions in the UK and Mexico; increasing penetration of the bank's installed customer base across segments in those key markets; expanding our distribution capabilities, including scaling up our mobile wealth advisory channel – Pinnacle in China and our tied agency in Singapore; and expanding our health and wellbeing platforms and further scaling our digital and data analytics capabilities to grow the mix of high-margin health and protection products in our portfolio.

We have a highly productive, market-leading business in Hong Kong, where we have made consistent market share gains and significant progress in evolving our integrated health and wealth platform. Our business proved incredibly resilient through the pandemic period, demonstrated by the fact that our value of new business in 2022 was 10% higher than pre-pandemic levels, and that period was when the border with mainland China was always open. We have improved our capital efficiency and we'll continue to enhance this, and we foresee significant, ongoing growth potential in Hong Kong, Macau and the rest of the Greater Bay Area.

The opportunity for us in our other scale markets of the UK and Mexico is to further develop propositions to meet the demands from the sociodemographic trends that we're seeing, whilst also extending those capabilities I talked about earlier to fundamentally improve our penetration rates.

In our other key markets, we continue to grow and scale our businesses. In Singapore, we completed the acquisition of AXA, taking our market position from number 10 to currently number seven on life insurance and number four in health insurance. In mainland China, we increased our ownership of HSBC Life China from 50% to 100%. We've expanded our presence to 10 cities and we've recently acquired a distribution broker to support further acceleration of our geographic expansion. The joint venture in India has shown a significant value of new business growth over the past few years, and India continues to represent a burgeoning market opportunity, given the acceleration of wealth creation and the unpenetrated scale of our JV partner customer base.

So just to reiterate, HSBC Life is a business that continues to create value, so sustained embedded value growth up $2.3 billion over just the past two years. In the same period, our VNB grew 31% CAGR, both a factor of the underlying momentum that we've created in the business and margin improvements, so VNB margin uplift from 38% in 2021 to 56% in '22. And we have been and will continue to fund our own growth. We're cash-generative and a consistently strong payer of dividends up to the Group.

So in summary, we have a clear strategy, we're investing for growth and we're very focused on extending our track record of shareholder value creation. With that, I'll hand over to Alistair, our CFO, who will take you through the IFRS accounting change update.

ALISTAIR CHAMBERLAIN, CFO, GLOBAL WEALTH AND INSURANCE: Thank you, Greg. We included the key impacts of IFRS 17 on our opening balance sheet, together with H1 2022

comparative numbers during the Group's year-end results announcement. Let me take you through the detail in the following slides.

IFRS 17 is an accounting standard. It does not change the economics of our insurance business. Group RoTE will be more stable, as the market impact volatility that we reported in our IFRS 4 income statement is almost fully absorbed by the contractual service margin under IFRS 17. There is no expected impact on our regulatory capital, our solvency, cash, dividend generation, or in the total profit we report over the life of the contracts that we sell.

When applying IFRS 17 in H1 2022, the HSBC Group PBT reduces by $0.4 billion, with revenue down by $0.7 billion, offset by $0.3 billion of lower costs. Based on actual investment conditions, reported PBT of our insurance manufacturing business reduces by around 50% from $0.6 billion under IFRS 4 to $0.3 billion on an IFRS 17 basis.

IFRS 17 impacts HSBC Insurance more than you might see for other insurers, due to the legacy IFRS 4 PVIF accounting model, which applies to UK banking groups with insurance operations, in conjunction with our strong new business growth. On transition, our Group total equity reduces by $10.5 billion, and our Group tangible equity reduces by $2.4 billion. The reduction in equity is mainly due to the elimination of the PVIF asset and the creation of the CSM liability. Insurance equity plus CSM amounts to $14.7 billion and represents a measure of the net asset value plus the future earnings from our in-force business. We'll update you on the impact to the Group targets and guidance later in this presentation.

On the next slide, let me recap on what I explained during our Q3 2021 announcement on why IFRS 17 is such a significant change for HSBC and what the implications of that are when it comes to things like predictability and volatility of our earnings. We adopt IFRS 17 in 2023, with a requirement for one year of comparatives, so 1 January 2022 is our opening balance sheet date. The main changes that affect our equity at that date are the elimination of the PVIF intangible asset and the establishment of the CSM liability in respect of our in-force business. From the graph on the right, you can see that the profits over the life of the contract will be the same, albeit, under IFRS 17, the profits will emerge later than under IFRS 4.

Under IFRS 17, revenue is no longer booked upfront but is recognised as services are provided to customers. This is different from our PVIF accounting model under IFRS 4, where our revenues were predominantly recognised at the point of sale. This significant conceptual change will make our insurance earnings more predictable, as revenues in a given year will be predominantly generated by the amortisation of the CSM from the in-force business.

IFRS 17 will also lead to a different way of reporting our expenses, with attributable expenses included in the CSM and, therefore, recognised within the insurance service result revenue line. Non-attributable expenses will continue to be reported in the operating expense line. Importantly, our earnings will be less volatile. This is because more than 90% of our business will be accounted under the variable fee approach, which I will cover in the next slide.

I will briefly cover the conceptual foundations of IFRS 17 and what those mean to HSBC. The measurement of insurance contract liabilities under IFRS 17 is done through a so-called building block approach. This approach is based on best-estimate cashflows using assumptions at the reporting date that best reflect our assessment of the future.

The chart on the left shows the different components of the building block approach. The future cashflows are the best estimates of all future cashflows expected over the life of the contract, including the attributable expenses.

We discount all those cashflows to reflect the time value of money. We do this at an IFRS 17 discount rate that reflects the risks and liquidity profile of those cashflows, but not all asset spreads such as equity or credit risk premiums. Therefore, the realisation of those asset spreads over time is an additional source of earnings.

Building block three is the risk adjustment to address the risk of uncertainty in our best-estimate cashflows. If the amount and timing of the discounted cashflows occur in line with our best estimate, the risk margin will be released into profit over time.

The last of the four building blocks is the CSM – the contractual service margin. This is the estimated future profit of contracts that we sell and is the net amount of building blocks one, two and three. If the sum of those parts is negative, the total expected loss will be recognised

in full in profit and loss immediately. I'll talk about our CSM numbers a bit later in this presentation.

On the right-hand side, you can see an illustration of the types of products that fall under each of our two measurement models. The main difference between VFA and GMM is that, under VFA, all market volatility, whether it's positive or negative, will be absorbed in the CSM, while, for GMM, this will be reported in our income statement as it happens.

With 90% of our business falling into the VFA category, the volatility in our earnings year on year will be significantly reduced compared to IFRS 4. The difference between the two measurement models is not one of choice. Under IFRS 17, when you fulfil the requirements for VFA, then the use of the VFA model is mandatory.

On transition, insurance manufacturing total equity reduces by $10.1 billion, and insurance manufacturing tangible equity reduces by $2.3 billion. HSBC Group tangible equity reduces by $2.4 billion, which is 1.5%. The first change is the removal of the PVIF asset, which is eliminated under IFRS 17. You only see this change in total equity, as PVIF is not part of tangible equity. Approximately $60 billion of financial assets were remeasured from amortised cost to fair value through P&L on transition. As a consequence, you will see there is a resulting reduction in net interest income of $1.1 billion in the Group P&L at H1 2022. The change in the fair value of the redesignated assets, along with the corresponding liability movement, is presented in the other income line under IFRS 17.

The overall impact of remeasuring our insurance and reinsurance assets and liabilities leads to an increase in equity of $6.8 billion. The amount of CSM that is calculated on transition is $9.6 billion for insurance manufacturing and $10 billion at HSBC Group level. This amount represents expected future profit of business in force at the transition date, which is yet to be recognised in our income statement.

The additional $0.4 billion of CSM at Group level recognises the additional CSM from distribution activities as we apply IFRS 17 to the entire value chain for all insurance policies across the Group. This includes the effect of eliminating intragroup fees between insurance manufacturing and other Group entities. On transition, we have equity plus CSM net of tax of $14.7 billion, representing the net asset value plus the estimated future earnings from the in-force business.

Value of new business is an important new business growth metric that is part of our IFRS 4 reporting, but, under IFRS 17, will no longer be recognised as revenue on day one. Conceptually, new business CSM can be thought of as the IFRS 17 equivalent of VNB and represents the expected future profit on new business written in the reporting period. At H1 '22, we have added new-business CSM of $0.6 billion to the total CSM balance.

The technical difference between new business CSM and VNB is principally driven by two components. To make new business CSM more similar to VNB, we deduct the non-attributable costs. Secondly, the long-term asset spreads are not part of our new-business CSM but are part of VNB calculations. Therefore, we add expected future investment spreads to impute a number that is more similar to VNB, with a corresponding change to the discount rate.

Both new-business CSM and the IFRS 17-derived VNB will play an important role in our business performance management and decision-making going forward. We will, therefore, provide both of these metrics in our reporting and investor communications going forward, starting from H1 2023.

The second key IFRS 17 performance metric is the CSM balance. From our opening CSM on 1 January 2022 of $9.6 billion, the main movements are the effect of writing new business in H1 2022. Secondly, the effect of market and non-economic movements. Under IFRS 17, the CSM acts as a buffer that will reduce income statement volatility. Thirdly, we add in the CSM for our inorganic acquisition of AXA Singapore that occurred in H1 2022. And lastly, the CSM recognised in the P&L is the amount of CSM that is amortised to the income statement as revenue to reflect the services provided in that reporting period.

There are two points I would like to highlight here. Firstly, the amount of new business CSM in the period is around 1.5 times larger than the amount of CSM amortised to the income statement. That means that, market volatility aside, we're growing the amount of CSM as we continue to grow our business. Secondly, you can see here an example of when the market

volatility is absorbed in the CSM rather than coming directly through the P&L, which was the case under IFRS 4, with H1 2022 being a clear example.

On the next slide, let me now turn to the income statement. I mentioned earlier that the H1 2022 PBT of insurance manufacturing dropped from about $0.6 billion to around $0.3 billion. The numbers that you see on this page illustrate the main drivers of our IFRS 4 and IFRS 17 PBT. Our H1 IFRS 4 numbers contain a large number in respect of market impacts. This amount gets largely absorbed by the CSM under IFRS 17. Our H1 IFRS 4 revenue numbers included a $0.3 billion gain following a pricing update. This is also absorbed within the CSM under IFRS 17 and will be recognised as earnings over time.

IFRS 4 PBT, after adjusting for these two, separately disclosed items, is around $1 billion. Compared to this number, the drop to our IFRS 17 PBT is around the two-thirds range, consistent with the impact that we first indicated back in Q3 2021. Under IFRS 17, the most significant is the CSM unwind of $0.4 billion. On an annualised basis, this translates to around 8% of opening CSM. For H1 2022, we reported some onerous contracts, largely caused by the effect of market movements on a number of cohorts where the CSM turned negative, and the net loss has been accounted for in the H1 2022 income statement.

The net investment revenue relates to products accounted for under the GMM model and assets-backing shareholder equity. IFRS 17 requires attributed costs to be recognised in the CSM. You can see that this causes reported operating expenses to reduce by $0.2 billion compared to IFRS 4. Outside of insurance manufacturing, there is an adjustment to eliminate intragroup items that leads to a $0.1 billion reduction in the Group's PBT. Lastly, we illustrate here that, based on a continuing strong new business growth rate of around 20%, we would return to current IFRS 4 profit levels by 2027 to 2030.

We've set out in this slide the basis of the insurance cash and capital consolidation into the Group's capital basis. If you read through the logic, you can see that there is no change due to IFRS 17, as, although the insurance equity is changing, it's all above a deduction limit. Therefore, there is no impact on either the cash generation of the insurance business, which is largely driven by regulatory and economic capital considerations, or on the bank's capital.

On the right-hand side of the page, we've illustrated how much dividend our insurance manufacturing entities have paid to their parent companies in prior years. We expect that our insurance business will continue to pay meaningful dividends to the Group. The CET1 injections that you can see in 2021 and 2022 are mainly related to supporting our investment in Pinnacle in China. For the avoidance of doubt, the capital flows presented here do not include the inorganic strategic investments into China or Singapore.

This page shows the comparison between IFRS 4 and IFRS 17 in our Group income statement. The main visible difference is in our net interest income. This results from the reclassification of $60 billion of debt securities from amortised cost to fair value through P&L. We've done this to align the measurement of these assets to the corresponding liabilities under IFRS 17.

Under IFRS 4, the NII from the debt securities which backed policyholder liabilities was offset by a corresponding liability movement in the insurance claims line within other income. Under IFRS 17, the change in the fair value of these assets, along with the corresponding change in the measurement of the insurance contract liabilities, will both be reported in the other income lines. The remaining $0.2 billion of NII represents return from shareholder assets.

Our fee income increases by $0.2 billion under IFRS 17, as we defer some fee expense into the CSM. Within the other income lines, IFRS 4 revenue such as net insurance premium, net insurance claims, benefits paid, movement in liabilities to policyholders and PVIF movements will disappear. Instead, new IFRS 17 lines are added, such as the release of CSM, the effect of onerous contracts and other IFRS 17 revenue. As mentioned earlier, the total operating expense line reduces as the attributable expenses are no longer reported on this line.

Overall, Group PBT reduces by $0.4 billion, and then, factoring in $0.1 billion of tax credit, you get a profit attributable to ordinary shareholders impact of negative $0.3 billion. We'll provide more detailed disclosures when we publish the transition document around the time of the Q1 2023 results announcement.

I'd like to conclude this section by reemphasising the following: the change to IFRS 17 is an accounting change that does not impact the fundamental economics of our business and, as

covered by Greg, HSBC's Insurance business is an integral part of our Wealth offering, especially in the context of the Group's Asia Wealth ambitions.

Lastly, our upcoming communications on IFRS 17. Our Q1 2023 reporting period will be the first where we will report the performance of our insurance business on the basis of IFRS 17. This will include the relevant comparatives for 2022. Together with our Q1 2023 reporting, we plan to issue a transition document with more detail on IFRS 17, as well as the full-year 2022 IFRS 17 comparatives.

Before we go into Q&A, let me hand over to Georges for a few final comments on the impact of IFRS 17 on the Group financial targets and guidance.

GEORGES ELHEDERY, GROUP CHIEF FINANCIAL OFFICER: Thank you, Alistair and thank you, Greg, and good morning and afternoon, everyone. So a summary on the implications for the Group and the Group targets that we communicated earlier. So there are four points to note. Number one, on revenue, specifically on net interest income, as Alistair was saying, the impact of IFRS 17 implementation will have a circa $2.3 billion negative impact on net interest income. So the portfolio of financial assets was remeasured from amortised cost to fair value, which is driving this change, so $2.3 billion of net interest income in relation to those bonds will no longer be reported within our NII line. Through the annual fair value changes this will in effect become part of the other income line.

The second point to highlight, again, as Alistair was mentioning, the presentation of how we report on costs changes for the insurance business. The expenses that are directly attributable are included now in the CSM or will be included in the CSM, and recognised within revenue as contra revenue. The non-attributable costs will continue to be reported in operating expenses as incurred. Given this change, our 2022 cost is expected to be around $0.6 billion lower on an IFRS 17 basis. We will continue to guide on cost growth of circa 3% like for like.

The third point is that IFRS 17 impacts both our profit and our equity, so when we look at the impact on our return on tangible equity for the Group we expect, therefore, that impact to neutralise and become minimal, given the direction and relative magnitude of the changes, therefore we're not changing our RoTE targets. We do not expect any material change to RoTE.

The last point to highlight is that the Group dividend payout ratio as we communicated for 2023 and 2024 at 50% will also not be impacted by IFRS 17. We will continue applying 50% on the earnings. We'll be giving more updates at the Q1 results as relevant, but in the meanwhile myself, Greg, Alistair and the IR team here are happy to take questions.

ALASTAIR RYAN, BANK OF AMERICA: I appreciate it's on page 336 on your annual report, so you've explained it to us there, but the net interest income loss is one of the least intuitive things of this IFRS 17 because insurance was an incomprehensible revenue line, but in the non-interest income lines. I'm just struggling a bit to get to – is that $2.3 billion a recurrent loss or it's a this-year loss? Do you get any of it back this year in non-interest income, or do you get none of it back but you would do if other things weren't happening? I'm just trying to reset, because if it's 2030 until you get that $1 billion of earnings back it's an awful long time to wait.

That plays into the next piece: how is that not dilutive to your RoTE? Clearly your RoTE target is 12%. The Group is trading well ahead of that, so I appreciate the target doesn't change, but the RoTE's got to change if you're $2.3 billion short of net interest income and you're not getting that back elsewhere.

GREG HINGSTON: Alistair, do you want to pick that one up? I think there's two elements to that question. One is the NII explanation, and the other one around the impact around overall profitability and the relationship with equity.

ALISTAIR CHAMBERLAIN: You're right. I think you described our insurance as – did you say incomprehensible? What you probably didn't see before is that the income on those assets which were previously held at amortised cost was coming through the NII line. The corresponding change in the policyholder liability was coming through the other income line. So although those assets are now being reclassed, the flowthrough to the bottom line is relatively minimal, and the impact on PBT is the impact I just described in the presentation. That's why the impact on PBT is lower than the optical reduction in the NII line.

ALASTAIR RYAN: Just for the avoidance of confusion then, you've given us the $2.3 billion hit to NII but you haven't made a comment on noninterest income. Is that effectively a comment that non-interest income will, other things being equal, go up by a part of the $2.3 billion?

ALISTAIR CHAMBERLAIN: It will go up by part of it, but it's still offset by a change in policyholder liabilities that was always there. And then the reason why the impact on RoTE is what it is is that that change in NII wasn't directly flowing through to the bottom line, so that's why the change on profit and the change in equity are pretty similar to each other, and therefore the minimal impact on RoTE.

OMAR KEENAN, CREDIT SUISSE: Could I ask a question on the KPIs of the business? As you move onto an IFRS 17 basis, what key performance indicators will you continue to present going forward that that you think is important for us to focus on? Obviously we have had the value of new business, but that would be good to know.

Secondly, I appreciate this is completely an accounting change rather than anything that's economic, but does it affect your steering of the business in any way at all that is economically relevant?

ALISTAIR CHAMBERLAIN: For KPIs going forward, obviously we'll be presenting the full P&L on an IFRS 17 basis. We'll be giving the clarity on new business CSM added that I talked about. We'll also be giving that IFRS 17 derived value of new business measure that I talked about, and I explained the two adjustments that will apply to new business CSM in order to get that VNB measure. We'll disclose that separately, at least for an initial period, as everyone transitions to IFRS 17. There'll be a full set of IFRS 17 disclosures, and then it will also include that information that I showed on the walk on the CSM so that you can see how we're building up the CSM over time through writing high-quality new business.

GREG HINGSTON: In terms of 'does it change our overall strategy?', no. It is an accounting change, so everything that we talked about earlier in terms of our strategic focus remains absolutely valid. What it does do is obviously it does create greater transparency. It takes volatility out of our business, but ultimately it won't change the areas that we're focused on from a strategic perspective.

ALISTAIR CHAMBERLAIN: I beg your pardon, I should have added just one more comment. The equity plus CSM that we disclosed, $14.7 billion, you can use that as an IFRS 17 measure of the total value of the business.

RICHARD O'CONNOR: I'll just add two things. Firstly, you can obviously see the growth of the equity and CSM. Over time there'll obviously be dividends paid out, and therefore you'll be able to impute a RoTE of the business as well when you look at the earnings of it, and obviously track that over time and track the margins of the business, as you can now. We give you that disclosure now. To Alistair's point, it's 2027 to 2030, and when we give that type of guidance you would expect us to be conservative, given that range.

ANDREW COOMBS, CITI: I guess just staying on the point about strategic implications, across the Group the past decade has been predominantly about divestments, but your business area is probably an exception to that, either through organic initiatives like Pinnacle, or inorganic like the AXA Singapore acquisition. On that inorganic point, where do you think there are still a) key gaps in your franchise, but b) post-IFRS 17 does that change the financial KPIs you're considering when you do an acquisition, given that it takes that much longer to recognise the profits?

GREG HINGSTON: Let me start with saying or reiterating the focus of the markets that we're already in. The four key Asian markets, those represent 65% of total Asia ex-Japan, so very meaningful. That's the reason why we did do the bolt-on acquisition in Singapore. We are looking to continue to grow that business. We've expanded the distribution model in China, as you've referenced earlier as well, to continue to grow there, and we will look at opportunities to extend our position within the joint venture in India over time. The focus of our business is probably not going to change very much in that regard. If we do identify opportunistic options to look at bolt-ons, we will. We continue to look at strategic partnerships as well with fintechs and the like, so we are growing our business through different models.

In terms of the KPIs, as Alistair has just mentioned, actually, what was an embedded value is a measure that we can look at from an IFRS 17 basis. It's constructed in a different way, but the way that we look at the value of businesses doesn't ultimately change. The intrinsic value

of a life company stays pretty much constant in that regard, and I suspect when we do look at opportunities, embedded value is the same measure that we will look at going forward. I don't know, Alistair, if there's anything you want to supplement?

ALISTAIR CHAMBERLAIN: Maybe just one. Obviously although IFRS 17 was new on 1 January we've known about it for some time. We've also had other metrics. For example, on the capital slide I referenced our internal economic capital basis, which we've had in place for quite a number of years. When we've been assessing things like Pinnacle and the inorganic acquisition in Singapore that was already assessed with an IFRS 17 lens. It's been a long time in the works.

RICHARD O'CONNOR: Let me just add, from a Group perspective when we assessed these acquisitions obviously we were aware that, they're relatively modest, but that they were dilutive to EPS, at least in the short term. Obviously if we achieve our goals of very fast growth, certainly in the outer years from a lower base, but that's one of the reasons why we've been flagging share buybacks as obviously highly accretive in the short term, so you have to balance it out at the Group level. And then obviously we discussed buybacks just a few weeks ago, so we don't need to revisit that, but we do consider this at the Group level as well.

MICHELLE MA, CITI: I understand the on implementation of IFRS 17 actually the cash flow and also the business value doesn't change because of this transition. Accounting-wise our earnings do decrease, and the dividend paid actually decrease, even if we want to keep our payout ratio. Given solvency and other things, cash flow doesn't change. Should we actually increase the dividend payout a bit to maintain the original level in dollar amount?

GEORGES ELHEDERY: I'll take this one. That's a big question. So we're maintaining the 50% dividend payout ratio under IFRS 17. If you look at 2022 we're talking about a PAOS reduction of about full year 600, if you annualise the 0.3 in the presentation, so that's an impact of three cents on the dividend. It will have a similar impact if you project forward with a similar level of reduction in PAOS.

TOM RAYNER, NUMIS: Just on slide 14, where you set out the impact on the first half of 2022, can I just check that that is – there's going to be no major differences on the impact on the second half of 2022? When I look at the targets on slide 16 it does seem to suggest that doubling the first half impact is a pretty good proxy for the full-year impact. Can I just check there's nothing unusual when we're thinking about maybe looking at the pro forma 2022 on a full-year basis?

ALISTAIR CHAMBERLAIN: I did highlight a number of times in my voiceover that we are expecting the P&L, as we go forward, to be more stable than we've seen in the past. Obviously it's not totally identical; there is still some investment income coming through the P&L, which I mentioned in the voiceover, but you should expect it to be more consistent H on H going forwards.

CLAIRE BAIRD, CFO, HSBC UK AND GLOBAL WPB: Probably the biggest difference was the timing of the market impacts. The market impact hit in the half and was about $650 million, and then it was about $950 million or so for the full year. That's already in our disclosed results.

TOM RAYNER: Thank you. I wasn't thinking about for the forecasting, I was thinking more getting the actual full-year 2022, pro-forma right, if you like, as a base, rather than the volatility going forward, if that makes sense.

ALVARO SERRANO, MORGAN STANLEY: Just a follow-up – I'm sure you've touched on it, but it's a new topic. You've mentioned that the volatility is lower. What should we be looking out for? I realise the accounting has changed, but there's still a lot of assumptions. You've talked about the illiquidity premium and there's a risk adjustment that you're going to – if nothing happens, if the risk doesn't fulfil, it flows back to P&L. What should we be looking out for that moves those risk adjustments? If I look at the volatility we've seen in the last couple of years, how much of a difference does that make and what should we be looking out for?

One other one about the general business and the growth outlook. You've said it's recovered by 2027 and 2030, assuming a 20% CAGR in new business, which for any other business would be huge growth. Maybe you can talk about that 20% on new business to tell why you're so confident to put a 20% CAGR five years out, and that sounding conservative. Thank you.

GREG HINGSTON: Alistair, do you want to take the first part and then I'll pick up on the second?

ALISTAIR CHAMBERLAIN: Sure. I don't expect the risk adjustment itself to be especially volatile. It's calibrated to a 75% one-year confidence level, and it's a relatively small part of the overall P&L, so I don't expect that to be a particularly big source of volatility going forward.

GREG HINGSTON: I'll probably just give some confidence around the VNB growth piece. If you look at the historic, even through a period where actually there's been relatively muted growth in a number of markets, we've grown considerably: 25% growth in VNB in the last 12 months, and a higher trajectory over the previous period. With Hong Kong now opening up – the border has obviously reopened – we do foresee significant upside growth as a result of that. China is obviously recovering significantly as well, and the fact that we are building a business that's growing there too.

India, as I mentioned earlier, represents a significant opportunity. We will participate in that as part of a joint venture, and obviously as we consolidate business in Singapore we're seeing some good growth there as well. We've got a business in Mexico that's been growing VNB at 40% as well. If you look at our core businesses actually we've got a track record of significant value of new business growth, and we are confident we will be able to maintain that going forward, given the initiatives that we're focused on.

ALISTAIR CHAMBERLAIN: I did mention the 8% per annum CSM amortisation, so if you want to impute how sensitive that growth trajectory is to that new business growth you can roughly do the maths. You know our opening CSM. You know how much CSM we're adding through writing new business in H1 2022. You can relatively easily do a sensitivity to it, and our total earnings are less sensitive to new business now than they were in the past.

MANUS COSTELLO, AUTONOMOUS: A couple of questions from me, please. Can you tell us how much of the business is attributable to Hang Seng? Because when I look at slide 14, I'm trying to do the maths on the – presumably there's an impact on the minority which we have to deduct out as well, because you're showing us most of these impacts pre that.

Secondly, a more strategic question. I just wondered what you think the benefit is of owning a manufacturing business these days. Doesn't a lot of the value of the insurance business for the Group reside in the distribution rather than the manufacturing? If you'd explain why it's worth holding on to a manufacturing business going forward, that would be interesting.

ALISTAIR CHAMBERLAIN: I can take the first one and tell you where to look. We've disclosed the VNB by region, so Hong Kong we've disclosed in totality. In terms of the split between HSBC insurance and Hang Seng, the market statistics from Hong Kong will give you a split between those two businesses. I think you can impute the Hang Seng contribution.

RICHARD O'CONNOR: The minority benefit didn't quite round up to 0.1, but there is a benefit. Greg, do you want to take the manufacturing piece, and then Georges wants to say a couple of words.

GREG HINGSTON: Okay. On the manufacturing piece, yes, obviously distribution income to the bank is important. It's an important fee line, but for the manufacturing business what I've demonstrated is that in markets where we have actually created that depth of integration it does create some exponential value for us, depth of customer relationships that we're able to maintain. There is a lot of inherent value that we've created within the business that you will see come through that CSM line going forward as well.

The reason that we're not going significantly broad from a geographic perspective is because we want to create the value in conjunction with the bank, as I mentioned earlier, so where we see that model work particularly well, we see exponential value. We do see it not just in insurance, but in other parts of the business as well. We've got good examples where, either through product or actually through platforms that we're developing now, we're creating business within insurance and in other parts of business as well, so there's an effect that insurance creates for other parts of the Group.

We've got a good example in Hong Kong currently where we're engaging with clients through those platforms I mentioned earlier, where we've increased our value of new business through there, through engagement on insurance, but actually we're also engaging clients in opening investment accounts, increasing the total relationship balances. In fact, even credit cards are

being sold as a result of that as well, so there's a reinforcing effect that we are seeing, and that is capability that we will be taking to other markets.

GEORGES ELHEDERY: First, I want to just correct myself and then ask a question myself. When I said three cents, actually three cents to earnings. The impact of IFRS 17 is three cents to earnings per share, which is less than two cents, one-and-a-half cents on the 50%. In general we don't see this as a material impact to the Group if we're talking one-and-a-half cents impact on dividends, but the question – which is something I can take offline with some of you – is how best do you think we should represent this business under this new accounting so that it's appropriately valued? Obviously if you're trying to value this insurance business under IFRS 17 the way we try to value a bank, then it will come about as lower intrinsic value than we think it is, or than the standalone insurance is. We'll take advice from you in how best to represent it so that you have the tools to be able to evaluate it appropriately.

AMAN RAKKAR, BARCLAYS: Two questions, please. I think you're telling us that the impacts of the accounting change on the CET1 of the businesses is unchanged, but also the cap generation of it. Can I just ask you in relation to the earnings that you're reporting on slide 14, how much of the eight billion post-tax profit is contributing towards CET1 capital? If you were modelling the impact on CET1 cap generation from the insurance contribution under IFRS 17, how would you go about doing it?

ALISTAIR CHAMBERLAIN: The CET1 cash generation from the insurance business is – as I set out on that capital and cash slide, essentially it comes down to cash in and cash out of the insurance business. It's not directly related to the Group's consolidated IFRS 17 earnings. When you look at the way the insurance companies generate cash for the Group, that comes from the regulatory capital, which isn't changing. It comes from our internal economic capital, which isn't changing. It comes from the local statutory earnings, not the Group's IFRS 17 earnings.

Now, some of the local statutory earnings are also moving to IFRS 17, but they're moving from their local statutory earnings basis to IFRS 17. That's why the impact on the dividend that the insurance entities are paying, we don't expect a material impact. It's not the same impact that we're seeing on the Group reporting, which is what this presentation's about. In terms of the CET1 contribution from insurance to the Group, we don't foresee any change. It's not directly linked to the flowthrough of the Group's tangible earnings.

AMAN RAKKAR: But basically you've been deducting the insurance contribution and adding back the dividend that gets paid by the business?

RICHARD O'CONNOR: That's not a shareable method, Aman, but obviously we can run through it when we do our one on ones with you, and Mark can obviously take you through it as well.

AMAN RAKKAR: Can I ask you a second question then to Greg? How is the business operating year to date? One of your competitors suggested that there might be a return to pre-Covid run rate in activity from Q2. I'm interested in whether you share that view.

GREG HINGSTON: I suppose you're referencing this part of the world as well with that question. We have seen a positive start to the year with the border reopening in Hong Kong. It was a relatively muted start to begin with, because, if you recall, there were quotas in place and PCR tests still required. That was then removed, and we have seen a fairly significant pickup from there. In the early phases you were looking at about a 10,000 flow per day across border. That's now significantly higher than that, however it's probably still around about a third of what it used to be pre-Covid.

Nonetheless, we have seen a fairly significant pickup in the business. I think Ed was showing me a stat just a little bit earlier where we've effectively done more business in the last 30 days than we did in the last three years from the NRCs, just to give you a sense of how quickly that has picked up. It has picked up quickly, but we do expect Q2 to be a bigger quarter than Q1, because we expect more normalisation of activity through that quarter, but it's been a positive start.

BENJAMIN TOMS, RBC: Thank you for taking my question. Just in relation to the wealth sales, management have guided before on a call that a bit less than 40% of insurance sales pre-Covid were through mainland China into Hong Kong. Now that the border's opened up, you can back into that previous guidance and get to a number of about one billion of revenues

being lost from the border being closed that could now come back. Is that the right way to think about it, and does management have any view on what proportion of those revenues found other conduits during the border being closed?

EDWARD MONCREIFFE, CEO, HSBC LIFE HONG KONG: It's not an unreasonable view to take. To the last part, did some of those customers find other conduits? Yes, including to Macau, where the border was largely open with the mainland throughout. We have, as Greg mentioned, an operation in Macau that benefitted from that. Before the pandemic 40% of our new business value came from mainlanders, and I would be surprised if we saw a number lower than that this year going forward. There is clear evidence that pent-up demand and insurance-led tourism is coming back, and coming back pretty fast.

GARY GREENWOOD, SHORE CAPITAL: Thanks for taking my question. Mine's just a simple double-entry question, really. Under IFRS 4 my very basic understanding is that when you write new business you credit the P&L revenue and debit the PVIF and you recognise the profit upfront, and then – I'm just trying to compare that to IFRS 17, where you're recognising the profit over time, but obviously you're creating this liability at the start so presumably there's sort of an offsetting leg through the balance sheet to neutralise that, so I'm just trying to understand where that is.

ALISTAIR CHAMBERLAIN: Your description, Gary, of how the P&L works under IFRS 4 and IFRS 17 was correct. The point on the balance sheet – I'm not sure I totally follow your question, actually.

GARY GREENWOOD: Well, you're crediting the CSM liability on the balance sheet, so there must be a debit somewhere, so where's the debit?

ALISTAIR CHAMBERLAIN: When you write a new policy, there's a debit. You spend money to write the policy so there's a debit in net assets and then there's a credit in CSM liability, and then the sum of those two is the net gain on day one. Now, under IFRS 17 the net gain on day one is pretty much zero because that gain is recognised as services are provided over the life of the contract, whereas under IFRS 4 that gain was quite a material part of the total revenue.

GARY GREENWOOD: So you're crediting the CSM liability so there must be a neutralising debit.

JONATHAN BINGHAM, GLOBAL FINANCIAL CONTROLLER: The debit is cash because you're getting the policy income and deferring it. I think the difference with the PVIF is you are creating future value, whereas here the debit is just cash broadly, but you get the policy income in. Let's just be simple and assume it's an investment of cash and largely defer it through the CSM, whereas I think what you were finding with PVIF was you were not only getting the cash in but then also recognising the additional future value.

ALISTAIR CHAMBERLAIN: Okay, but the day one impact is pretty much zero, Gary. Because of the way the CSM is calculated and created, the day one impact is pretty much zero.

RICHARD O'CONNOR: Thanks, Gary. I think we're coming to a close. Mark, just check, any other questions from Hong Kong before we wrap up…?

MARK PHIN, HEAD OF INVESTOR RELATIONS ASIA-PACIFC: We've got a last question here.

MICHELLE MA: Thank you. I think it's very clear that NRC business is coming back. On top of the NRC business, I would like to check more on Insure Connect because, if that happens, then mainlanders – they don't need to physically come to Hong Kong and I think there will be no regulatory barrier because that's a closed-loop design and there is no capital flow concerned. We have dramatic edge over competitors because we have such a more established onshore presence than competitors. So any progress on Insure Connect? Will we lobby for selling more savings-type products? Because currently the plan is just for some protection products, but savings products are our edge.

GREG HINGSTON: I'll start, and then I'll ask Ed to supplement a little bit. So Insure Connect, as I think you probably know, is focused very much as a servicing model effectively, so servicing centres in mainland effectively helping consumers there. At this stage, I think it's not moving that quickly, if I'm being completely honest, and we don't expect too many changes in the foreseeable future.

As you quite rightly say, though, one of the obvious extensions would be into something that's more focused on savings and investment. In fact, you could probably argue that Wealth Connect could be the model for that, given where Wealth Connect is, and if you took something like investment-linked savings you could then add something there, but this is all supposition. I think Ed has been engaged with the regulators here and in conjunction with the regulators in China to determine how this might go forward, so do you want to give a little bit more colour?

EDWARD MONCREIFFE: For a connect or for the connect to happen, for it to be politically and economically palatable, the inherent northbound demand has to equal or be equivalent to the inherent southbound demand, and, for many of the reasons you've just said, that is a long way from being the case any time soon. So whilst that demand flow is so unbalanced it's highly unlikely you'll see a connect that involves new business flowing in either direction.

So the current expectation is that it will be focused on servicing centres, and it will be focused on servicing mainland policies that have been purchased in Hong Kong, so subsequent years' renewals and everything else, and we are working with the Insurance Authority here, with AMCM in Macau and with the CBIRC in Guangdong and actively lobbying for what that structure looks like. So in the short-to-medium term I don't see this as being an impact to this company or this market.

GREG HINGSTON: And there are inherent differences in terms of what a consumer can access, obviously, in Hong Kong versus mainland. So as long as that exists, that demand will continue to be the case.

MICHELLE MA: I'm really looking forward to that because we'll have a huge advantage once it happens.

RICHARD O'CONNOR: Any further ones from London? Okay, look, thank you very much to everyone for attending. It's very much appreciated, and, obviously, the IR team are around to do follow-ups and obviously help with capital and other modelling as per normal. Thanks, everyone.