HSBC

Transcript

Q1 Results
Analyst and Investor Call

30 April 2024, 7.45am BST

MARK TUCKER, GROUP CHAIRMAN: Good morning to those of you in London, and good afternoon to those of you in Hong Kong. I'm joining you today from London and have alongside me Noel and Georges. I'll be making some short opening remarks before handing over to Noel.

As you may have already seen, we have announced today that Noel has informed the Board of his intention to retire from the bank after nearly five years in the role. The Board and I would like to pay tribute to Noel's exceptional leadership during that time. As Group Chief Executive, he drove both our transformation strategy as well as creating a simpler, more focused business through the disposal of assets in the US, France and Canada. This has enabled us to deliver an improved performance, achieving record profits last year, and create a platform for future growth and development. Noel, who you'll hear from in a second, has decided it's the right time to step back and find a better balance between his personal and business commitments.

As you would expect, the Board keeps succession planning under constant review. We already have started a robust and rigorous process to find our next Group Chief Executive. This process will look at both internal and external candidates. I'm very pleased that Noel has agreed to remain in his role while this process takes place, ensuring a smooth and orderly transition, and, on a personal note, I'd like to thank Noel for his unwavering commitment and dedication to HSBC, which he joined 37 years ago. Noel, it has been a pleasure and privilege to work with and alongside you.

NOEL QUINN, GROUP CHIEF EXECUTIVE: Thank you, Mark. I'm very grateful for your support, guidance, friendship and partnership. I'm proud of what my HSBC colleagues and I have achieved together over the past five years. Over that period, we have hit some significant milestones – record profits last year, the strongest returns in a decade, and the highest dividend since 2008. As Mark mentioned, we have created a more focused business, and I believe we have built a strong platform for the bank's next phase of development and growth. That's why I feel this is the right time to step back, to find a better balance between my personal and business commitments, with the intention, going forward, after a break, of pursuing a portfolio career.

When I reflect back on the last 37 years, I have held intensive leadership roles, particularly since I took over the UK Commercial Bank in October 2008. After 16 years of intensive leadership, I'm ready for a change, but it's also a natural inflection point for the bank as it comes to the end of the current transformation phase. It's an ideal time to bring in new leadership. The Board has now started a process to find my successor, and I'm very happy to continue in my role as that process takes place. Rest assured, I will be working hard to ensure a smooth and orderly transition for my successor and to keep the momentum going in this business as you have seen in Q1. Until then, it's business as usual, so let's now turn to our Q1 results, which have showed continued progress.

We had a good first quarter. Reported profit before tax was $12.7 billion. Excluding notable items, profit before tax was $9 billion. Our return on tangible equity was 16.4% excluding notable items. I'm also pleased with the further capital distributions of $8.8 billion, which brings the total amount of distributed capital by way of dividends and buybacks over the last 15 months to almost $28 billion, and we are on track to meet all of our previously communicated guidance for 2024. I will now hand over to Georges to take you through the numbers.

GEORGES ELHEDERY, GROUP CHIEF FINANCIAL OFFICER: Thank you, Noel. I'd like to open by paying tribute to the enormous contribution Noel has made to the bank. I've greatly enjoyed working alongside him, and I know everyone at the bank has appreciated his strong and effective leadership. I'm also grateful for the support he has shown me personally since my appointment as CFO 15 months ago. The Board has announced a process to find a successor, and I know Noel and I will continue to remain very focused on the job at hand until that process has been completed. Turning now to the numbers.

Reported profit before tax of $12.7 billion was down $0.3 billion on the first quarter of 2023 on a constant currency basis. Excluding notable items, profit before tax was $9 billion, down $0.4 billion on last year's first quarter. On an annualised basis, we delivered a return on tangible equity of 26.1% or 16.4% excluding notable items. We completed the $2 billion share buyback announced in February in two months. This means that, since the end of 2022, we have bought back 6% of our outstanding shares, and the trend of strong shareholder distributions continues this quarter. We have announced, as Noel said, a further $8.8 billion of distributions consisting of first interim dividend for 2024 of 10 cents per share, the special dividend of 21 cents per share from the Canada sale proceeds, and a new share buyback of up to $3 billion, which we plan to begin right after the AGM and complete within three months. Finally, we are reconfirming all of our 2024 guidance, including a mid-teens return on tangible equity excluding notable items and our commitment to limit cost growth to around 5% on a target basis.

So, on the next slide, reported profit before tax of $12.7 billion included a $4.8 billion gain on the sale of Canada, partly offset by the $1.1 billion impairment on the classification of Argentina as held for sale. Excluding notable items, profit before tax was $9 billion, with revenue growth offset primarily by higher costs and ECLs. Revenue of $20.8 billion was up $0.5 billion on the first quarter of last year. Excluding notable items, revenue was $17 billion, which was up $0.5 billion on the first quarter of last year with growth in Banking NII partly offset by lower Fee and other income. Within that, we saw high single-digit growth in multi-jurisdictional revenue in the first quarter, which underlines the value of our global network. Banking NII of $11.3 billion was up $0.6 billion on the fourth quarter on a reported FX basis, mainly driven by Argentina Banking NII as well as the non-recurrence of the cashflow hedge reclassification in the last quarter.

Looking ahead to the rest of the year, a few things to keep in mind. First, our Q1 Banking NII included $0.3 billion from Canada, which will not repeat in future quarters due to the completion of the sale in March this year. Second, first-quarter Banking NII also included $0.5 billion from Argentina. This contribution will continue to be highly volatile until the sale is completed, which we expect to be within the next 12 months. Please, therefore, do not extrapolate the $0.5 billion run-rate for the remainder of the year. Our Banking NII guidance assumes the contribution of around $1 billion in full year 2024 for Argentina, which is in line with full year 2023. Third, the Banking NII outlook has improved in several respects since we announced our full-year results in February. The Hong Kong time deposit mix remains stable as a percentage of customer deposits in the quarter, and markets are now pricing in more modest cuts to interest rates. However, it is still early in the year, and these things can change, so we are maintaining our 2024 Banking NII guidance of at least $41 billion.

Turning to fee and other income. Wholesale Transaction Banking was down by 9%, primarily due to the normalisation of FX revenues compared to a very strong Foreign Exchange performance in the first quarter of last year, which benefitted from higher market volatility. Fees from Global Payments Solutions had another good quarter, up by 6%. Wealth is another growth area that had a very good quarter, up by 14% on the same period last year as our investment continued to drive improved results. Private Banking was a standout performer, mainly driven by increased customer activity in brokerage and trading in Asia, but growth in Wealth has been broad-based. To illustrate this, we acquired around 135,000 new-to-bank retail Wealth customers in Hong Kong in the quarter. Approximately 60% of these were non-residents attracted by our service and product capabilities in Hong Kong.

Building on previous quarters, we attracted $27 billion of net new invested assets, of which $19 billion were in Asia, and our insurance new business CSM was $0.8 billion, up from $0.4 billion in the first quarter of last year.

On credit, expected credit losses were $0.7 billion in the quarter, equivalent to 30 basis points of average loans. These were primarily stage three charges across Retail and Wholesale.

There was a $54 million charge related to our mainland China commercial real estate portfolio. While challenges remain within the sector, we expect a more benign ECL contribution from it than last year. We remain comfortable with our current level of provisions and continue monitoring developments closely, and we are reconfirming our 2024 ECL guidance of around 40 basis points of average loans, recognising the overall uncertainty from the flowthrough effect of high interest rates on the economy.

Next, we're on track to meet our target of limiting 2024 cost growth to around 5% on a target basis. This quarter's year-on-year cost growth was impacted by three items. First, we chose to phase the accrual of our performance-related pay more evenly this year than we did last year. This accounted for two percentage points of cost growth this quarter. We do not currently expect the total amount of performance-related pay for 2024 to be significantly different to 2023, so the accrual will be lower over the next three quarters than it was in the same period last year.

Second, HSBC Innovation Banking contributed to one percentage point of cost growth this quarter, as we only acquired SVB UK in the middle of March last year. We intend to provide you with a fuller update on that business at the half year, but I'm pleased that it has good momentum. In the UK, we onboarded 183 new-to-bank Innovation Banking client groups in the quarter, the best quarter since acquisition.

Finally, another percentage point of the cost growth in the quarter was due to the Bank of England Levy and the incremental FDIC special assessment. We remain committed to cost discipline, and we are reconfirming our guidance of limiting 2024 cost growth to circa 5% on a target basis inclusive of all the above items.

On lending and deposits, there was good loan growth in the UK, the Middle East, Mexico and Asia excluding Hong Kong. Loan demand in Hong Kong remained subdued, largely due to the high interest rate differential with mainland China. Overall, we continue to expect mid-single-digit loan growth over the medium-to-long term, but we expect demand to remain subdued in the near term. Deposits were down 2%. This was due to a range of factors including seasonality, the switch from time deposits to wealth products in Hong Kong and our deliberate choice to forsake some highly price-sensitive deposits.

Next, our CET1 ratio was 15.2%, up 40 basis points on the fourth quarter. Organic capital generation and the gain from the sale of the Canadian business enabled us to announce $8.8 billion of capital distributions this quarter. This includes a share buyback of up to $3 billion, which is expected to have an impact of around 40 basis points on our CET1 ratio in the second quarter. For modelling purposes, please note that the $5.8 billion of dividends announced today, as well as the $5.9 billion in respect of the ordinary dividend announced at the full-year results in February will both be reflected in TNAV in the second quarter.

At closing of the sale of HSBC Argentina, which is expected within 12 months, we will also recognise $4.9 billion of foreign exchange reserve recycling losses, subject to any movement in this reserve up until completion. These losses have already been accumulated in capital over the previous years. Therefore, recognition in the P&L will have no impact on CET1, nor on TNAV.

Finally, looking forward to the rest of the year, our good first quarter puts us on track, and we are reconfirming all of our 2024 guidance – a mid-teens return on tangible equity excluding notable items, a Banking NII of at least $41 billion, ECLs of around 40 basis points, cost growth limited to around 5% on a target basis, and a 50% dividend payout ratio.

With that, Louise, can we please go to Q&A?

JOSEPH DICKERSON, JEFFERIES: Good morning. Thank you for taking my questions, congratulations Noel on a great tenure at the bank, and well done for the ROE and the capital return. Just in terms of my question, the TD migration in Hong Kong, if you go back to the way you were computing it previously, it actually looks like it improved quarter on quarter, and certainly under the new definition has stabilised. Is that a little bit better than where your expectations were a few months ago? I know when I was in Hong Kong recently it sounded like things were starting to stabilise, but is that better than where you were thinking a few months ago?

Secondly, on the buybacks, is the $3 billion number due more to the calendar effect or are you looking to boost the run rate there from the $2 billion a quarter?

GEORGES ELHEDERY: Thank you, Joseph. So first, on the time deposit reclassification, we have actually reclassified some Private Bank term deposits to time deposits. This is due to the observation of their behaviour and the recognition that they're better classified as time deposits. This rebases the number, but, as you could see from the two charts we have, it does not affect the trend, so therefore the trend that we've seen under both classifications is the same and we've seen the first quarter stable, quarter on quarter. It's too early to call it a peak, but we've always expected migration this year to be slower than what we've seen last year, and this just confirms the trend change from what we've seen in full-year 2023.

As regards your buyback question, so the short answer is yes, this is indeed due to calendar effects. We just completed a $2 billion buyback in two months. That's about a billion a month. That is the fastest run-rate we've done in terms of share buybacks ever. We are now announcing a $3 billion buyback which we intend to do over the next three months, starting after AGM. We will see how it goes with the $1 billion run rate. We will see how it will go.

As regards any future amount of buyback or whether we're doing a buyback, one, it remains our intention to return excess capital to our shareholders through a rolling series of share buyback, and second, we will decide on a quarter-by-quarter basis based on our capital outlook, the loan growth outlook and other parameters as and when every quarter.

RAUL SINHA, JP MORGAN: Thanks very much for taking my questions, maybe two from me as well. Just staying, Georges, on this point on distributions and looking at the moving parts for capital, one of the interesting things in this quarter was the move up in RWAs. I was wondering if you could give us a little bit more colour on the growth in RWAs, the $7 billion of increase driven by asset quality trends. I think you're calling out that it's predominantly in Asia. What should we think about the outlook for RWA growth from here, even if loan growth is muted, just to get a sense of the amount of capital that you will have in quantum terms for distributions?

The second question is to Noel: a question for your broader thoughts, Noel. The five years preceding have been pretty extraordinary, not just for HSBC but I guess for a lot of people in your markets, given the pandemic. But when we look at where HSBC is now, you exited Canada, you announced Argentina. You're in the process of exiting quite a few smaller markets. The return on tangible equity is already in the mid-teens. You're buying back stock at $3 billion a quarter. You've got a special dividend as well. I guess what I'm really interested in is from here onwards, what do you think is left to do for the group to progress?

GEORGES ELHEDERY: I'll start with your first question, Raul. First, on RWA outlook, of the RWA growth we called on a quarter-on-quarter basis $24 billion. First, about 40% of it relate to lending and other asset growth, and as you can see from our lending book, we've grown our lending book by $5 billion. There are a number of areas of growth that contributed to around 40% of it, $9 billion. Then we've had a $5 billion market risk RWA growth; this is due to a pickup in MSS activity against a subdued Q4, and it's more in line with their activity levels in the first three quarters of the year, if you want. This is the normalisation of Markets activity.

And then there is $7 billion which we classified broadly as asset quality. Now, asset quality, first, it is a continuous exercise. We do this portfolio monitoring review on a regular basis. We have recognised, across a number of geographies and a number of sectors, certain names which we've decided to downgrade on the basis that the interest rate pressure on their cash flows has been more severe. You will not see an equivalent of that downgrade in ECL, and that's mainly because for many of these customers their balance sheet remains strong, so we're comfortable with their balance sheet and therefore there is no ECL implication from this downgrade. But just closing the loop on this RWA downgrade, you will see some of it materialised in our stage three loans, where we increased our stage three loans by about $2 billion, and that's exactly the mapping of some of this asset quality.

With regards how we look forward, we're very comfortable where we are today. Our credit metrics remain solid. As I say, the balance sheets of our customers remain strong for a number of them, for at least the exposure that is collateralised. We're very comfortable with the level of collateralisation and the LTV, and therefore we do not foresee at this stage today any additional action we should be taking. We will obviously monitor the book on a regular basis as we always do. Noel?

NOEL QUINN: Thank you. It has certainly been an extraordinary five years, as you say, not just for HSBC but for the world. I'm really pleased and grateful. I want to pay tribute to the team for the way they've collectively navigated that, and during that whole process the external environment executed on a complex but absolutely critical transformation plan over the past five years. The outcome of that hard work is evident in the financial performance last year and the financial performance in Q1.

I also want to say thanks to Mark. With such volatility in an external environment any CEO needs the support of their Chair, their advice, their guidance, and I've had that all the way through. I've had the support from the Board all the way through in navigating what has been a very complex external environment, but the team, the Board, Mark, collectively, we've done a good job of navigating it.

Now, if I look forward I'm not going to give a to-do list to my successor, because that is not the fair thing to do to anyone, but I will give you some thoughts about what we as a team are very much focused on and I'm focused on for as long as I'm still CEO, and that is continuing the momentum. You don't work as hard as we've worked for the past five years and then take the eye off the ball at this moment in time, so I'm very focused on a smooth, orderly transition. I'm very focused on continued execution of the strategy.

I want to clarify our thinking on one element of the strategy. We have exited a lot of businesses, a lot of RWAs over the past five years. The one thing we've protected whilst doing that is the international core of HSBC. The countries we remain in and the businesses we remain in are fundamentally now focused on the international nature and essence of HSBC, and we will continue to do that. Our key requirement is to continue to deliver good returns that are sustainable and repeatable, whilst also taking advantage of the growth opportunities as they emerge in a world that becomes more stable and that are inherent in our customer franchise. Therefore, we're very focused on continuing the development of wealth, our transaction banking capabilities, our global wholesale banking capabilities, and then being ready for when corporate loan demand picks up we can take advantage of that to couple good returns with sustainable growth. I think you've seen evidence of that in these results.

Hong Kong is subdued at the moment, but we understand why, with the rate differential in China. But, if you look at the rest of the world – as Georges said – there's balance sheet growth in wholesale banking, in the rest of Asia, in the Middle East, in UK, in Europe. We're seeing good growth elsewhere, so it's about focus, momentum, continuing to couple good returns with good growth.

JEREMY HOU, CICC: Good morning. Thank you for taking my questions. The first question is on deposits. We're glad to see that the CASA migration in Hong Kong is slowing down, but it's not stabilised at this level. But on the other hand, I think the bank has seen some deposit outflow in Q1, while your Hong Kong local peers still see some deposit growth. So I'm wondering if there is a strategic trade-off between the deposit growth and CASA for you at this stage, and how do you see that trend in the rest of the year?

The second question is on the structural hedge. I'm wondering if this quarter you could share with us some breakdown of our structural hedge and how much did we benefit from the reinvestment of the structural hedge, and if there is any run rate that we can refer to?

GEORGES ELHEDERY: Thank you, Jeremy. So on your first question about deposits in Hong Kong, if you remember at Q4 our deposits in Hong Kong have increased by about $14 billion. What we've seen in Q1 this year is a decrease of about $16 billion, therefore you can see seasonality playing across the two quarters and therefore is broadly stable across the two quarters. What happened, though, is some of these deposit inflows in Q4 related to some deposit campaigns we were driving to drive some of our deposits into wealth. When you look at Q1, while you see the deposit outflows you also can see that $19 billion of our net new invested assets were in Asia. Therefore, a chunk of these outflows has manifested or translated into wealth inflows for us, which was the purpose of the campaign in Q4 and explains, if you want, the seasonality of these deposits.

Second, we have a powerful deposit franchise. We have a very cherished and enviable franchise. We continue globally being a very attractive deposit proposition for both our retail and wholesale customers. We cherish this. We continue investing in our deposit capabilities. Throughout the last six quarters you've seen how our deposit base has been very stable, with our deposit costs being relatively benign compared to some of our peers, therefore I won't comment on month-to-month movements between ourselves and our peers.

If I move on to your second question about the structural hedge, first you would have noticed that we increased this quarter the structural hedge by about $10 billion, taking it to $487 billion, with the weighted average life broadly unchanged at just shy of three years. Second, we commit at this stage to continue our structural hedging activity. Obviously this will remain subject to market conditions, but we will continue the trend that we put in Q1 based on current market outlook. This activity of additional structural hedging will contribute to a mild headwind toward Banking NII, and this is due to the fact that the rate curves are inverted, as you know, and you can do the maths.

But equally, we also are reinvesting maturing structural hedges at higher rates, and this reinvestment of maturing of structural hedges at higher rates is a tailwind into Banking NII. Between the two of those effects the structural hedge activity for the full-year 2024 would remain a net tailwind to our Banking NII. We have not yet quantified to the market that tailwind. We're looking at enhancing our disclosure in this space, but that tailwind has been factored into our guidance of 'at least $41 billion Banking NII', and obviously factored into our return on tangible equity mid-teens guidance.

JASON NAPIER, UBS: First of all, just to echo the best wishes, Noel, for the next chapter of your career and private life; I think a well-earned rebalancing. Georges, I just wondered whether you'd talk a little bit within the context of 'higher for longer'. You've referenced subdued loan demand in Hong Kong due to the differentials in interest rates, and I just wonder whether – one of your peers has spoken at some length about looking forward to a change in asset mix as loan demand comes back as a way to defend margins and revenue, so I wonder whether you might talk a little bit about whether that's a material part of the plan and what you think that means for revenue evolution in the next few quarters? I think I certainly was somewhat surprised that we didn't see an upgrade to Banking NII guidance this quarter. I know you don't rebalance every quarter, but I just wonder whether you might talk to the role that 'higher for longer' has on asset mix and then on credit demand.

And then secondly, Wealth was phenomenal in Q1. I know there's a part of the business that's quite closely linked to what goes on with the Hang Seng Index, which is now up 20% in a short space of time, but I just wonder whether you could talk to the sustainability of those run rates. Is that the strategy delivering the net new money flows, or is there an element of market volatility in there that we should be a little bit careful about?

GEORGES ELHEDERY: Thank you, Jason. So first on Banking NII, we recognise there are a couple of encouraging developments. The first one is the 'higher for longer' on the rate side that will look more favourable than when we discussed last in February, and the second one we just touched on, which is the balance sheet mix, specifically in Hong Kong, where we've seen term deposit remain stable for this quarter. So we recognise these tailwinds to our Banking NII, but we also recognise it's quite early in the year and these factors can still change. This is why we didn't change our guidance. As you said, Jason, I don't think you should expect us to update our guidance every quarter. We will reconsider this every quarter, but for this quarter we're just sticking with our at least $41 billion.

In terms of the Wealth performance, so recognise mid-teens percentage growth in Wealth, 34% for our Private Bank, I would say a couple of things. The first one is, yes, this is an area that we've already said it's a focus strategic area. We are investing in this area. A big part of our investments goes towards this area, and we're very pleased to see the results of our investments generate revenue fairly quickly. You can see that through net new invested assets growth. You can see that through our CSM, with new business CSM growth in insurance, as well as in the actual revenue performance.

This being said, I would just caution you not to annualise the numbers you're seeing, because Q1 2023 had somewhat a subdued January in it, when mainland China and Hong Kong were still closed, so therefore you've seen more pickup in activity in the Q1 2023 at the back end of it, whereas we had a full proper Q1 2024, so there is an element of not annualising the performance, but expecting that performance to continue growing.

I just realised I didn't touch on your asset mix question. Look, we do not foresee a material change in our asset mix. We had seen for the last few quarters of last year the main growth take place in mortgages, and recognising mortgages have seen very competitive levels both in the UK and Hong Kong and the margins have been quite tight, as we start seeing pick up in wholesale demand, as we start seeing pick up in unsecured lending, we are more hopeful that those will drive higher margins than what we've seen in mortgages. Our numbers in Q1 did show that this pick up definitely is there in areas of Asia, south-east Asia, India, the Middle East, the UK, etc. The next in line for that pick up will be Hong Kong, which we expect at some stage later in the year as we see dollar rates ease.

PERLIE MONG, KBW: Thank you for taking my question. Can I just dig a little bit further into Jason's question just now on 'higher for longer'? I know you probably don't like to comment on longer-term NII, but in a higher-for-longer rate environment how are you thinking about the trajectory going from here? It sounds to me that deposit migration has probably stabilised a lot, and I would have thought any lower pricing that hasn't already come through will come through in the next few months. In a higher-for-longer rate environment you can probably build more hedges at better rates as well, etc, and there's obviously a tailwind, as you mentioned, this year already. How does that inform your thinking on your medium-term ROTE? That's the first question.

The second question, again, on broader activity level, maybe not just on credit. I guess just noting your point that Hong Kong might be the next in line to pick up, but I guess overall the Emerging Markets are probably not benefitting in terms of activity levels and in terms of capital inflows from the higher US rates. How does that impact trading activities, capital flows, etc? How are you thinking about the flip side of 'higher for longer'?

GEORGES ELHEDERY: Thank you, Perlie. First, yes, we recognise 'higher for longer' is definitely a tailwind or a reduction of a headwind we've forecast in our Banking NII. And as I said, there have been a number of manifestations of tailwinds now compared to when we last spoke in February, but equally it is early in the year, and, as you've seen, these things do change. We therefore want to bake in some sense of uncertainty due to the changing parameters. We will update longer than what we're updating, but not at this quarter, Perlie. Do expect us coming in the future quarters and give you further outlook for the future. I would say the one parameter just to keep in mind as you start planning for 2025 is to take Argentina out, because obviously subject to the sale completing – which we expect to complete in the next 12 months – that potential $1 billion contribution from Argentina will go away from our Banking NII. That's the most predictable parameter where we stand today as you look into 2025.

In terms of the broader activity level, first, if you look at the Wealth performance just demonstrates how Wealth remains very resilient, and that's particularly true in Hong Kong, but very much so across Asia. Second, when you look at our Transaction Banking activities – apart from Foreign Exchange, which has an idiosyncrasy related to Q1 2023 with a very high volatility – has performed across the various areas of its fee-earning activities.

And then our activity is very much benefitting from cross-border trends; if you look at some of the investments or foreign direct investments or trade flows taking place intra-region in Asia between China and ASEAN, between India and ASEAN, between India and the west, etc, all of those trends are growing. I mean, the numbers are staggering in some cases. These are the activities that our business is operating on, so therefore we – while recognising that there will be some interest rate challenges for borrowers at these levels, there is still a very strong underlying network activity which is benefiting our overall businesses, particularly in Wholesale Transaction Banking and Wealth.

PERLIE MONG: On that, I've also noticed that China exports and volumes have been going up but value has been coming down. That is in part because of various things; FX is a big part of it, but also government subsidies. How does that affect your profitability in the region? Your volume is going up but the value is going down.

NOEL QUINN: Perlie, if I can just give you an indication, what we are seeing at the moment is a very strong level of activity of China corporates expanding across the rest of Asia. Our outbound activity from mainland China to the rest of the world is seeing a significant increase in activity over the past 12 months. We've seen that trend continue in the first quarter of this year. A lot of people talk about inward investment into China slowing down, but what I would say is outward investment from China to the rest of the world is actually picking up at quite a pace, a very significant pace. We're very well placed to capture that outflow, and we are capturing that outflow.

Our business in mainland China performed well last year. It's performing well again in the first quarter of this year, and its outbound activity is performing extremely well. We'll give more updates on that at the half year, but we are capturing that. That is why, actually, I think the rest of Asia is performing well on balance sheet, because a lot of it is being fed by good intra-Asia activity and outbound from mainland China.

KATHERINE LEI, JP MORGAN: I have three questions. The first one is on non-interest income. I look at the breakdown on non-interest income. It seems like Wealth is doing quite well, but on Transaction Banking there is some weakness. I think it's down 9% worldwide. Can we know what is the reason? Should we triangulate this to the full year? What are the drivers to that? This is the first one.

The second one is on Hong Kong. With Hong Kong relaxing LTV ratios, I think basically – not only LTV, but they relaxed the purchase requirements and the stamp duty requirements on residential properties, so I think there is a significant jump in transactions. I was thinking that this should be positive to mortgages at least, and then we are big mortgage providers in Hong Kong. Would that have any impact on our outlook in terms of growth, particularly related to Hong Kong? That's the second one.

And then the last one, I think, is on cost. If I look at the first quarter I think cost is up 8%, including levy. How should I look at this? Are we on track to the 5% cost growth this year?

GEORGES ELHEDERY: Thank you, Katherine. I'll take questions one and three, and I'll hand over to Noel to address your second question about the outlook for Hong Kong. First, on non-NII, Wealth has performed well. Transaction Banking weakness is specifically due to Foreign Exchange. That's driving the whole weakness. The reason, as I called it out earlier, the reasons that Foreign Exchange had a very strong and a record strong Q1 2023 is on the back of heightened market anxiety and volatility back then due to the banking crisis, so therefore we're doing a comparison to a record quarter and it will show that drop, but if you look at the number itself, at the revenue itself for Foreign Exchange, it is back to normalised levels, so there is nothing to worry about here. It's, on the contrary, back to normalised levels.

We continue to expect some cyclicality in that space while we continue expecting growth in the other areas of Transaction Banking, so I wouldn't read more than that into it. We remain very confident that the investment we're putting both in Wealth and in Transaction Banking and in the technology supporting our transaction banking activities do remain a strategic focus and are bearing results as we look into future quarters and years.

On your third question about costs, first, I just want to reiterate it is a clear priority for us to maintain cost discipline. We're very confident we will limit cost growth to circa 5% on a target basis. We're confident about it, and we're actually on track to do so. The reason why we're on track to do so yet we showed a 7% Q1 growth on a target basis is because of a few idiosyncratic items related to the quarter which are not repeated in future quarters, or some of them will reverse in future quarters. I'll just call the three of them out that matter.

First, there was a 2% accrual of the performance related pay, where we decided to phase that accrual more evenly throughout the year than we did last year. This will manifest in a higher performance-related pay accrual in Q1, hence the 2% contribution towards the 7%, but it will contribute to lower accrual in future quarters because on a full-year basis we are not accruing to a significantly different number than the full-year 2023 performance-related pay.

Second, there was 1% contribution from HSBC Innovation Banking this quarter, because last year's first quarter we only acquired SVB in the middle of March, which means we practically didn't have it in the first quarter last year, and that's a base effect.

Third, we had the one-offs or the expected non-recurrence of the FDIC special assessment additional charge this quarter, as well as the Bank of England Levy, a new charge which used to be an interest expense in NII, and now it's moved to operational expense, as in costs. Between the two of them they contributed to 1%. So if you adjust for those and you bake them in, we still remain confident to meet our 5% cost target on a full year, or circa 5% on a full-year basis. On your second question I'll hand over to Noel about Hong Kong.

NOEL QUINN: Katherine, I was in Hong Kong recently and spoke to a number of the market participants there and the developers. Firstly, I think the change – the stamp duty arrangements in Hong Kong in March in the budget – was very well received, and it's had a positive impact on the activity levels of sales in the Hong Kong market residential sales. It was an extremely significant inflow of activity in the first month; that will be very beneficial to the liquidity positions of many of those developers. We have to wait and see how that stabilises, because undoubtedly there was an element of catch up in that first month because people were anticipating some change, therefore there was low activity in the preceding months. I think we've got to see how that stabilises, but I think that is a very positive move. It will enhance liquidity within the market, it will enhance activity in the mortgage market, but I think it's too early to call it a trend at the moment. I think we need to see how Q2 stabilises following those changes, but a very helpful intervention.

ANDREW COOMBS, CITI: Firstly, just to commend Noel as well on his five years as CEO, but also to acknowledge your long stint at HSBC beforehand too. Two questions, please. Firstly, on the UK NIM, you've seen an improvement for a second consecutive quarter, another six basis points, so outperforming some of the domestic peers. I can see your loans and deposit balances look fairly flat in that entity. Perhaps you could just comment on what you're seeing in terms of deposit migration, mortgage re-fi, and what's driving that NIM improvement and how sustainable you think that improvement is going forward as well?

The second one is just a clarification on Argentina. You booked $0.5 billion in Q1, guiding to $1 billion for the full year based on last year's experience. Presumably what you're therefore saying is a step down to $0.2 billion per quarter for the remainder of the year, given that you don't expect the transaction to necessarily close until 12 months' time?

GEORGES ELHEDERY: Thank you, Andrew. The UK NIM was up six basis points indeed. It essentially benefitted from some idiosyncrasies of structural hedges and timing of structural hedge maturities and reinvestments. So if you consider broadly flat to be broadly a range of plus or minus 10 basis points, I would say UK NIM has been broadly flat for the last couple of quarters, and we foresee it to remain broadly flat in the next quarter. You will therefore add to that broadly flat some structural hedge idiosyncrasies, which will drive you within this plus or minus 10 basis point range.

Yes, our loans and deposits have been stable. Again, the UK economy has been resilient. We're very optimistic about the outlook for the UK, specifically around inflation and employment. It remains a very important customer franchise for us, it remains a very important market for us, and we continue gaining market share. I mean, we continue gaining market share in mortgages, with a 10% new business market share. Our back book market share has moved from – or our overall portfolio market share has moved from 7% to 8%. We are 25% market share in SME lending, and obviously we continue investing in this business. You can look at the ring-fenced bank cost growth and how much we can support cost and investment growth for the ring-fenced bank within our overall circa 5% cost growth. All this demonstrates the confidence we have in our business in the UK, our clients activity in the UK and the outlook for the UK.

If I move to Argentina, I wish I could give you a trend for Argentina. The way it works is the numbers balloon with hyperinflation and then they shrink with devaluation. It depends how they manifest themselves over month over month. Q4 last year has seen hyperinflation to some level, but they have seen a massive devaluation; if you recall, in December we've seen more than 50% currency devaluation. That's contributed to a disinflation of the amount that Banking NII in Argentina brought to Q4, and then this quarter is exactly the opposite. We've seen 6% only, but we've seen 54% inflation, and that will just inflate the numbers. It will be volatile quarter on quarter, and our best estimate for the full year is that it may average out to what it averaged out over last year, which is around $1 billion.

Now, just looking at the overall Argentina, if you take in the non-banking NII and you take in the cost base, etc, last year's Argentina contribution to our PBT was $0.2 billion. Just to put it in perspective, this is about one cent earnings per share or half a cent dividend per share. Therefore, I think as you look at the full-year 2024 that's the quantum that Argentina volatility will create, so it should not distract you from the way you're forecasting the bank's outcomes.

ANDREW COOMBS: I guess just to follow up on this, in a scenario whereby you didn't have any devaluation of peso and inflation was a more moderate, normal amount, what would the NII contribution be under that more BAU scenario a quarter for Argentina?

GEORGES ELHEDERY: Again, it's a difficult one to say, but if you just do the arithmetic of our $1 billion expected for the full year, of which already $0.5 billion has manifested in the first quarter, a smoothed-out outcome would be the other $0.5 billion phased out evenly over three quarters, but that's a highly volatile number so I wouldn't use it as a forecast.

ANDREW COOMBS: Understood. Thank you, both.