HSBC

Transcript

Q3 Results
Analyst and Investor Call

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GEORGES ELHEDERY, GROUP CHIEF EXECUTIVE: I'm here with Jon Bingham, our Group Financial Controller, who's acting as Interim Group Chief Financial Officer. We delivered another good quarter, which shows that our strategy is working and we have a strong platform for growth. I am committed to building on that. Before Jon takes you through the third-quarter numbers, I'd like to make a few comments.

We made several announcements last week. First, Pam Kaur will take over as Group Chief Financial Officer with effect from 1 January. Pam is an exceptional leader who joined HSBC in 2013 as Group Head of Audit and is currently our Group Chief Risk and Compliance Officer. With almost 40 years' experience in the financial sector, she brings a global perspective to the strategic challenges and opportunities we face today. I look forward to partnering with her for the next stage of the bank's growth and development. I would also like to thank Jon for his outstanding support during the interim period.

Second, we announce a reorganisation to simplify and streamline the group. We are currently organised around three businesses and five regions. From 1 January, we will operate through four businesses: Hong Kong and UK, serving personal banking and commercial banking customers in our two home markets; Corporate and Institutional Banking; International Wealth and Premier Banking. We will also streamline our geographic governance structures, reducing them from five regions to two, further enhancing our ability to serve our customers' needs throughout our global network. Our current Group Executive Committee of 18 members will be replaced by a new Group Operating Committee with 12 members. The analysis we've done so far demonstrates that the reorganisation will result in net cost savings with a relatively short payback period on any upfront costs. We will share these details with you at our full-year results in February as part of a wider business update.

Third, turning to the external environment, I welcome the clarity provided by the UK government on its prudential rules. The PRA's second near-final policy statement and rules on the implementation of Basel 3.1 bring an end to years of uncertainty and will help the banking sector to support growth in the UK. Similarly, I am encouraged by the recent policy measures in mainland China and Hong Kong. I am confident that the monetary stimulus announced last month and potential further fiscal and other measures will help to stabilise key sectors and strengthen mainland China's economy. Meanwhile, Hong Kong's easing of macroprudential constraints is proportionate and timely, and we expect these measures to have a positive impact on the Hong Kong economy.

With that, Jon will take you through the Q3 numbers.

JON BINGHAM, INTERIM GROUP CHIEF FINANCIAL OFFICER: Thanks, Georges. In summary, we had another good quarter. Profit before tax of $8.5 billion was up $0.9 billion or 11% on the third quarter of last year on a constant-currency basis. This brings our annualised return on tangible equity for the first nine months of the year to 19.3%, or 16.7% excluding notable items. Revenue of $17 billion was up $1.1 billion on last year's third quarter and up $0.3 billion on the second quarter this year, underlying the good momentum within the business.

We've announced today a further $4.8 billion of distributions, consisting of a third interim dividend of 10 cents per share and a new share buyback of up to $3 billion. We intend to complete this buyback during the four-month period before our full-year results announcement in February. Last week, we also completed the share buyback announced at the half-year results in July. We've now repurchased 9% of our share count since the start of last year.

As you can see on the next slide, strategic transactions, principally the disposal of Canada in the first quarter, were a small impact on the year-on-year revenue and profit growth. Excluding the impact of these transactions, profit before tax excluding notable items was up 13% on the third quarter of last year. Revenue of $17 billion was up $1.1 billion on the third quarter of last year, driven by a $1.6 billion increase in fee and other income. This included a $0.7 billion increase in Wholesale Transaction Banking and Wealth. The remaining $1 billion increase primarily reflected strong performance in Equities and Global Debt Markets within Global Banking and Markets, and adverse items in the third quarter of last year that did not repeat, including $0.3 billion of treasury disposal losses and other notable items.

Banking NII of $10.6 billion was down $0.3 billion on the second quarter on a reported FX basis, primarily due to a loss arising from the early redemption of legacy securities. Excluding this, the banking NII run rate was stable on the previous quarter.

Our 2024 banking NII guidance is unchanged at around $43 billion. Our guidance includes the impact of the $0.3 billion early redemption loss taken this quarter. It also assumes a $1 billion contribution from Argentina this year, which is what we reported in 2023. Argentina has contributed $1.2 billion to banking NII in the year to date, but the volatility created by hyperinflation accounting makes that number very difficult to forecast from quarter to quarter. Accordingly, I would encourage you to think about our guidance as being around $42 billion excluding Argentina.

Turning to fee and other income, Wholesale Transaction Banking was up 7% on last year’s third quarter. The key driver was Global Foreign Exchange, which grew 12%, benefiting from increased client activity. Higher volumes also contributed to growth in both Global Trade Solutions and Global Payments Solutions. Wealth was up 32% on the third quarter last year. It was our third consecutive quarter of double-digit growth in Wealth, as our continued investments in this business and the importance of Hong Kong as a global wealth hub have enabled us to capitalise on a favourable operating environment.

There is double-digit growth in all Wealth products, but life insurance was the biggest driver. About half of the growth in life insurance was from the non-repetition of a charge we took in Q3 last year. Excluding that, life insurance still grew well into double digits, mainly because a higher CSM balance drove an increase in CSM release. The CSM balance is a store of value. All else remaining equal, growth in the balance means growth in future earnings, and our CSM balance has continued to grow. In the first three quarters of this year, we have generated more than $2 billion of new business CSM. This has driven our CSM balance to $13.2 billion, a 22% increase since last year’s third quarter, creating a foundation for future revenue growth.

Hong Kong continued to benefit from inflows of international customers. There were 243,000 new-to-bank customers in the third quarter versus an average of just over 170,000 per quarter in the first half. Net new invested assets were $26 billion, $11 billion of which were in Asia.

On credit, you’ll recall that our second quarter had a low ECL charge due to recoveries and other items. The third quarter ECL charge was $1 billion or 40 basis points of average loans. The wholesale ECL charge was $0.6 billion, driven by $0.4 billion in Hong Kong, of which $0.1 billion related to Hong Kong commercial real estate, whilst the personal charge was $0.4 billion. This brings our annualised ECL charge to 28 basis points of average loans for the year to date, which is broadly in line with our 30 to 40 basis point guidance for the full year.

Next, on costs, costs were up 6% in the first nine months of the year on a target basis, which was 1% lower than for the first half. As we explained in the previous quarter, the phasing of performance-related pay and the additional levies from the end of last year will give us a tailwind heading into the fourth quarter. We’re on track to meet our target of around 5% cost growth for 2024 on a target basis and remain committed to cost discipline.

On lending and deposits, loan balances were stable in the third quarter. Deposits were up 1%, driven by a $16 billion increase in Hong Kong WPB. This reflected short-term flows between invested assets and deposits, and I would caution you against annualising that number. Term deposits were 39% of total Hong Kong deposits, unchanged since the second quarter.

Next, our CET1 ratio is 15.2%, up 20 basis points on the second quarter, as strong organic capital generation was partly offset by distributions. CET1 grew $3.1 billion during the quarter on a constant-currency basis. This growth included $2.9 billion of other movements, mainly gains in the market value of securities classified as held to collect and sell, which are fair-valued through other comprehensive income.

RWAs grew by $14 billion on a constant-currency basis, mainly due to broader balance sheet growth.

Finally, I'd like to point out a number of upcoming events which will help you with your modelling. First, we expect the buyback we announced today to have an impact of around 0.4 percentage points on our CET1 ratio in the fourth quarter. It remains our intention to return excess capital to shareholders through a rolling series of share buybacks.

Secondly, we expect to complete the sale of HSBC Argentina in the fourth quarter. As a reminder, around $5.1 billion of historical foreign exchange translation and other reserve losses will be recycled to the income statement on completion. This has already been recognised in capital and there will be no incremental impact on CET1, TNAV or distributions. These losses will also be excluded from our dividend calculation. We expect the completion of the sale to reduce RWAs by around $8 billion, equivalent to around 0.1 percentage points of CET1.

Third, we intend to begin to actively market our $8 billion legacy French home loan portfolio during the fourth quarter. We expect to reclassify this portfolio as held to collect and sell in the first quarter next year, leading to a recognition of an estimated $1 billion pre-tax loss, equivalent to around 0.1 percentage points of CET1.

Finally, the PRA recently published near-final rules on Basel 3.1. These are incrementally better than we previously expected. We continue to expect them to have an immaterial impact on our CET1 ratio upon implementation.

To conclude, our guidance remains unchanged, namely a mid-teens return on tangible equity, excluding notable items for 2024 and 2025; banking NII of around $43 billion in 2024; ECLs for a full year within our normal medium-term planning range of 30-40 basis points; cost growth of around 5% for 2024 on a target basis; and mid-single digit loan growth over the medium term.

With that, Louise, can we hand over to Q&A?

ANDREW COOMBS, CITIGROUP: Good morning, and good afternoon for those in Hong Kong. Two questions, please. One, firstly, just on the reorg and strategy – a very simple question. Given the new structure, where does that leave Mexico? Any thoughts on Mexico would be appreciated.

Secondly, on the financials themselves, on that non-NII strength, where fee and other income is up 32% year on year – and you've highlighted you've now had three consecutive quarters of double-digit growth. Previously, if I go back to your investor day in 2023, you talked about high single-digit growth for Asian Wealth specifically. You're clearly running well ahead of that and consistently running well ahead of that, so to what extent do you think we can extrapolate that double-digit growth into future quarters in the next year? Thank you.

GEORGES ELHEDERY: Thank you, Andrew. We have a good market position in Mexico. We have good performance in Mexico. Our wholesale business in Mexico is a particular strength in our global network of connectivity. It's very strongly connected with our North American business. It's equally very strongly connected with our Asia-Pacific business and therefore is a key strategic anchor stone for our customers.

Our retail business in Mexico will form part of the new business segment of International Wealth and Premier Banking. As you know, all our personal banking businesses outside Hong Kong and the UK, our two home markets, will be part of the International Wealth and Premier Banking business, which will be focused on growing the affluent segment in the market and creating a strategic differentiation for us in the market where we operate in the personal banking space outside home markets.

JON BINGHAM: Andrew, as you know, we've been investing in our Wealth capabilities for some time. Wealth was up 32% year on year in the third quarter and 20% year on year for the nine months. That growth was particularly driven in Asia, where we see a favourable operating environment, but we are seeing broad-based growth across the main segments. That's supported by strong customer growth and growth in net new invested assets. So we have guided previously to high single-digit growth. I think it's fair that we may well outperform that in the short term.

AMAN RAKKAR, BARCLAYS: Good morning and good afternoon. Thanks very much for the presentation and the questions. One on restructuring and one on net interest income, please. I'm just trying to scope the degree of ambition that you might have around restructuring. It looks like efforts to restructure the business are focused on delivering net cost saves. You're clearly doing very well on revenues at the moment, particularly with the three businesses that are presumably a source of near-term upside to market expectations, but I think the outlook is volatile. A lot of these things are outside of your area of control. So what is the scale of the ambition around what you'd be looking to achieve on things like cost and RWAs, as you try and future-proof the medium-term return on tangible equity outlook?

And then I had a second question on net interest income, so I think I'm taking the banking NII guide at face value and trying to nix out Argentina. I think it's implying an annualised run rate of around $41.5 billion at the fourth quarter as a jumping off point into 2025. It may be a bit of a low-value question, but I'm interested if you were able to, at this stage, comment on banking net interest income as per consensus in 2025. I think the street is at around $41 billion versus that $41.5 billion, not looking for too much attrition from here – it would be great to get, if you're not willing to put a number on it, how you see the moving parts are out there, please. Thank you very much.

GEORGES ELHEDERY: Thank you, Aman. So the primary reason for the reorganisation is to create a simpler, more dynamic, more agile, leaner bank. It's really to allow us to empower our frontline staff and make it faster to make decisions and ultimately serve our customers better. That's the primary reason.

Now, as a result of a simpler, leaner, more efficient bank, there will be cost saves. The cost take-out will be essentially in the form of severance or related costs. It will be affecting senior roles that will be de-duplicated, or the reduction of the number of senior roles will drive this. We will be giving you those details about the figures about the upfront costs as well as the benefits realisation in the full-year results in February.

What I can say is, number one, the benefits will exceed the upfront costs, and the payback is going to happen in a short time frame thereafter, and then the second point to share with you is that we remain fully committed to cost discipline. I've been sharing this in my days as Group CFO. I carry on this mission of being fully committed to cost discipline, and this is now embedded in the firm, as you have seen from our Q3 results. For 2024, we remain on track to deliver on our cost target. We are committed to it, and we're confident we will be able to achieve it.

JON BINGHAM: So, on banking NII – thanks for the question, Aman. If I might be forgiven for giving you a longer answer to this, if we start on 2024, we've reiterated our guidance on 2024 of banking NII of around $43 billion, but encourage you to think about that as $42 billion ex-Argentina. In total, we've printed $31.6 billion for the nine months to date, and we think the Q3 run rate of $10.6 billion is a pretty clean run rate for you to think about modelling 2025.

We don't provide guidance at this stage on 2025 banking NII guidance, but if you take that clean run rate of the $10.6 billion, which I agree is about $42 billion – we'll have disposed of Argentina – so therefore we then think of the building blocks for you to model this along four factors. Firstly, rates – the reduction in rates implied in the markets will be clearly a headwind. The cuts during the third quarter – given the timing of them, they had a relatively modest impact on the third quarter's results, but we'd encourage you to use our banking NII sensitivity against market implied rates to generate that component.

We then have the structural hedge that will provide a tailwind. We've got the reinvestment of maturing positions that will enable us to reinvest them at higher rates. We've signalled that, for 2025, we've got $115 billion maturing at an average yield of about 2.9%, so think about those maturing and being replaced at something along the lines of five-year bond rates.

We've then got volume growth. Whilst volume growth has been relatively subdued in 2024, we do hope that, with interest rates coming off and economic activity picking up, we will see more loan growth. We continue to guide to mid-single digits in the medium-to-long term. The timing of getting there will be unpredictable.

And then, lastly, we keep an eye on time deposit migration. That has been relatively stable, particularly in Hong Kong, at 39% over the last couple of quarters, but the impact on that as rates come off will be variable. It depends on competitive pressures and customer behaviour.

So all of those factors are how we have thought about it and modelled it and included that within our mid-teens RoTE guidance for 2025. Thanks, Aman.

AMAN RAKKAR: Could I just have one follow-up? Thanks very much for that really detailed answer. In relation to the mid-teens RoTE aspiration next year, does that include or exclude any potential upfront costs as part of any restructuring?

JON BINGHAM: So the mid-teens RoTE guidance is excluding notable items. We will come back to you in February with full details of the benefits and costs of the reorganisation.

JAMES INVINE, REDBURN ATLANTIC: Hi. Good morning to you both, or good evening. I’ve got two, please. The first is on the Wealth business. So, clearly, there’s some really good revenue numbers. I was just wondering if you could explain the slight disconnect with the net new invested asset number in Asia, which certainly was positive, but probably not quite as positive as I might have expected given how good the revenue line was.

And then, second, could you just share your thoughts about the outlook for corporate loan growth across Asia, or in fact, loan growth more generally across Asia? So I think, in the second quarter, we saw both Hong Kong and ex-Hong Kong fall slightly, but I think three months ago Noel was sounding a bit more positive, at least on Hong Kong. Also, we’ve had the announcements in China about a month ago, so just where do we go from here on the Asia loan volumes?

GEORGES ELHEDERY: Thank you, James. I’m going to share some thoughts on your two questions, and then I’ll ask Jon to go into more details about both of them. First, our Wealth business, as you’ve seen in this quarter, has exhibited double-digit returns. This is the third quarter in a row with similar-type returns. The Wealth business, as you know, is generated from four segments, one of which has performed quite well, which is the trading activities of our customers, and that manifests both in the private bank as well as in our invested assets. They have been very strong, and they’ve been even stronger following the measures we’ve seen in China.

On the outlook for corporate loan growth in Asia, as I shared earlier, we are very encouraged by the policy measures that have taken place both in mainland China as well as in Hong Kong. We see these measures, combined with the outlook on rates coming down, as supportive of future growth, specifically in our Hong Kong book. Outside Hong Kong, the rest of Asia remains resilient. Southeast Asia and South Asia have remained quite strong in terms of loan growth, although of course a different size in our books than Hong Kong.

JON BINGHAM: Just to amplify your comments on Wealth, we’re seeing good growth in Wealth. We see the net new investor assets; we’re very pleased with that. In Asia, they’ve grown by $11 billion in the quarter and $49 billion over the nine months. You will see some movements as we grow our Wealth franchise. We also had $16 billion of deposits, which Georges talked about. We’ll see also deposits increase. They will ultimately feed into the Wealth share of wallet that we’re growing, so continue to be encouraged.

KUNPENG MA, CHINA SECURITIES: Good morning, Georges. Good morning, Jon. Thank you for taking my question. I’ve got one question on transaction banking because we’ve seen a slight recovery in transaction banking income in the third quarter, but I think that’s maybe driven by FX volatility, but maybe we can see more rate cuts going forward and maybe we’re going to see continued FX volatility going forward, so could you please give me a little bit more colour on the future outlook of transaction banking income? If you could comment on both NII and non-NII, that would be quite appreciated. Thank you.

GEORGES ELHEDERY: Thank you, Kunpeng. I’ll ask Jon to comment on this area, where, as you’ve heard us saying, an area of strategic differentiation for us, for our wholesale customers, and where we keep investing and do expect continued growth in this space, given our investments and our leadership in this space.

JON BINGHAM: We’ve been pleased by the growth in Wholesale Transaction Banking in the quarter, up 7%. As you say, an element of that is client-driven activity around FX and rates volatility, but within there, we continue to invest in Global Trade Solutions and Global Payments Solutions. On Global Trade Solutions, we continue to grow our market share in both Hong Kong and the UK, and so, as that market comes back, there is the opportunity for that to be a platform for our growth. Similarly, you'll see us continue to invest in Global Payments Solutions, and we see a very optimistic path for the payment markets going forward.

AMIT GOEL, MEDIOBANCA: Thank you. Two questions from me. One, just going back on the simplification programme, I'm just curious – I guess, in the past, the group hasn't opted to combine Commercial Banking and GBM, so I'm just curious what's seen as different now which makes this more feasible and easier to execute with less revenue attrition or other considerations.

Secondly, just on the ECL charges, those were a little bit higher than I anticipated. It looks like a bit of that's from Hong Kong wholesale and in the UK ringfenced bank, so I'm just curious if there's any additional colour you can provide on that, and how are you thinking about the 40bps in the context of the guidance into next year? Thank you.

GEORGES ELHEDERY: Thank you, Amit. Let me address your first question and Jon can address the ECL charges question. The primary reason for this reorganisation is to simplify the bank, as we shared, but we've been on a multi-year journey to simplify the activities we do in the bank. We've been exiting activities that were non-strategic. We've been reshaping our portfolio. We've exited markets or activities; currently, we're on track to complete the sale of our Argentina business and our Armenia business, and announced two additional exits in September, including South Africa as well as the private bank in Germany.

That activity was addressing the 'what' in terms of what we do as a strategy. The reorganisation we announced last week is basically addressing the 'how' we execute our strategy. It's not changing the 'what'; it's changing the 'how'. The reason we could effectively execute the 'how we change our strategy' – as in be simpler and more agile – is because of the work we have done over the past few years in simplifying what we do. It is the right time now to address how we operate and how we execute our strategy, because we've simplified what we do. We've clarified our core strategic areas for us where we have competitive strength and where we have leadership and opportunities to grow. The timing, therefore, is a natural conclusion of the various activities that we have been taking through the transformation over the last five years.

I want to say that, outside out the UK and Hong Kong, where we're merging all our Commercial Banking activities with Global Banking and Markets activities to form Corporate and Institutional Banking, it will comprise our core products, including our balance sheet related products, credit and lending and deposits, our transaction banking products, as well as our other products such as Investment Banking or Markets. This should give our customers a more seamless way to deal with HSBC across all this product spectrum that we offer them. Jon?

JON BINGHAM: Thanks, Amit. I'll give you a bit more colour on the ECL charge. There's a $1 billion charge in Q3, which is 40 basis points of average loans. That's actually a more normal charge, because Q2 benefitted from releases and recoveries. If you then dissect the Q3 charge, there's three things within there.

Firstly, the UK is a $200 million charge. Again, that benefitted from releases in Q2. It's a more normal charge; there's nothing more going on in there. In Hong Kong in total, we incurred a $500 million charge. As you say, that was mainly a $400 million charge in wholesale, which included $100 million of mainland China CRE and $100 million of Hong Kong CRE. The rest of it was across a number of sectors – again, nothing of particular note.

Relative to Q3 last year, we did have an increase in our Mexico retail charge, so that went up to a $200 million charge. That's actually been relatively normal through the quarters of 2024, but relative to Q3 2023 is a little higher. We're confident as we see this that we will be in our 30 to 40 basis points planning range over the medium term and certainly there for 2024.

GURPREET SINGH SAHI, GOLDMAN SACHS: Thank you for taking my question, and congratulations on a good set of numbers. I have two, and mostly follow-ups. The first is on Wealth, and then we'll move to Hong Kong CRE. On Wealth, can I check with the so-called 'policy rescue' in China? It's only a month old, and for this reporting quarter, maybe only a week. Have we seen from August, as we transitioned into September, good wealth management income traction better than what we're reporting in Q3, and then, in October, that continued, maybe even accelerated? Some colour there would be helpful.

And then, on Hong Kong CRE specifically – not talking about Hong Kong in general – can we get numbers on the NPL ratio within the overall global CRE book and also the Hong Kong CRE book, as at the half-year, we were at 9% stage three loans in both? Thank you very much.

GEORGES ELHEDERY: Thank you, Gurpreet. Let me just briefly address Wealth, and I'll ask Jon to complement it and address your Hong Kong CRE question. There are two trends in Wealth. There is the underlying trend, which is a continued growth in our Wealth business, which has been there quarter after quarter. It's a result of our increased investment in the space. It's a result of us winning market share, given our brand and franchise. It's also a result of the underlying market growing. As you've seen, Hong Kong is now expected to become the largest private wealth hub in the world by the end of the decade, so that is definitely a trend, and we're privileged with our position in Hong Kong to be able to benefit from it and benefit our customers from it. That is the first component, which is an underlying continued investment and growth trend.

If you add to that the additional activity we've seen following the measures that have been taken in China, this has created additional activity, which has been, as you said, for a week or so in Q3. We do see this activity continuing and obviously normalising, but we do see these measures that have been taken to be supportive measures, certainly of the economy at large, but in particular supportive measures of the financial markets and the revival of some of the financial market sluggishness that we've seen in both in mainland China and Hong Kong over the last few quarters.

JON BINGHAM: If I pick up your second point on Hong Kong CRE it's actually a very similar picture to that we described at Q2. A few customers continue to face cashflow pressures. Some of that is rates resultant, and as rates come off, we would hope that begins to abate some of those cashflow pressures. If you look at the Asia wholesale stage threes, they were up $1.1 billion in the quarter. Some of that relates to Hong Kong CRE. That also drove a modest amount of additional RWAs.

For the ECLs on that, we've referred to the fact that there was a $100 million charge on ECLs. That was both across stage one and stage two. The stage three ratio is slightly up quarter on quarter, but we continue to see good collateral across that portfolio, so we don't see this as a material ECL driver going forward. Our focus is really on supporting our customers through this period, and as there's pressures we should see start to reduce as rates recede.

GEORGES ELHEDERY: As we said, Gurpreet, we are confident about the outlook of the Hong Kong economy at large and the Hong Kong commercial real estate sector in particular, partly because of the rates receding, as Jon was just mentioning, but also partly due to the policy measures and the countercyclical measures that have been taken this month to support the sector. We see these as having positive developments for the outlook of the market. Thank you very much, Gurpreet.

JEREMY HOU, CICC: Good morning, Georges. Good morning, Jon. My first question is on the structural hedge. Georges, you mentioned that $25 billion is a good run rate for you to build up the structural hedge in the second half, but in Q3 that increased by $27 billion, and maybe most of that comes from FX impact. Do you still stick to a $25 billion run rate, or would you like to accelerate it?

The second question is I'd like to hear your thoughts on what areas HSBC can further make investments, because it seems like over the years our strategy always emphasised that the bank had to make excellent good cost discipline, and we did it. We made some investments, but mostly small ones. If you look forward, do you see any opportunities that may help to further drive growth and take market share, or do you think it's better to stay cautious as we are still facing some top-line pressures? Thank you.

GEORGES ELHEDERY: Thank you, Jeremy. Let me address your second question on investments and then Jon can address your structural hedge question. First, as you said, cost discipline. I've taken it from my days in my CFO role with me as CEO. It is embedded in the organisation, and we will maintain cost discipline. You should expect this to be ingrained in the way we think, in spending wisely and in the right places. In terms of strategy, in the reorganisation we announced last week we are basically organising ourselves alongside our strategic pillars. This creates clarity and this also creates simplicity in the way we can execute our strategy.

We have two whole markets where we have scale, a leading market position, great growth opportunities, and certainly a very strong competitive edge. In our Corporate and Institutional Banking business we have a global connectivity capability and a transaction banking capability that is second to none. That is leading and providing excellent services to our customers. Our positioning is very cherished and very valued by our customers. We then have International Wealth and Premier Banking, which is really the proposition aimed at the affluent segment for investment needs in particular across our network, in particular in Asia and the Middle East. Any opportunity we have to accelerate this strategy, be it organic or inorganic, is an opportunity we will go after. These areas all exhibit fantastic growth opportunities. We have a real competitive edge, and we will continuously invest in them both organically and inorganically if the opportunities arise. What I should say there is we do have the capital to support our needs. We have the capital to support our dividend distribution, to support organic growth and to support inorganic opportunities, should we find some that can accelerate our strategy and allow us to gain market share.

JON BINGHAM: Jeremy, if I pick up your question on structural hedge, as you rightly say we have increased our structural hedge during the period from $504 billion at 30 June to $531 billion at 30 September, but that was mostly FX driven. The duration of that remains 2.8 years. We would continue to expect to increase our structural hedge, but that will depend on market conditions that we have. I would say that the big increases of our structural hedge are probably behind us, so further increases from here will only have a modest impact on our banking NII sensitivity.

KATHERINE LEI, JP MORGAN: Thanks, Georges, and thanks, Jon. My questions will be two. The first one I would like to ask is about NII. The confusing thing here is that the headline NII actually slightly misses expectation, but if we work out the banking NII there's a moderate beat, and also we try to calculate what is the banking net interest margin. It seems it's by and large stable. Just starting in Q3 HIBOR actually went down on average 50 basis points. May I ask what is driving that stable net interest margin? Will it be from the liabilities management side? Just now Jon gave us some colour in terms of deposit migration, but is it possible to give me some numbers to work around? What is the CASA ratio in Hong Kong and how has the trend changed? This will be my first question.

My second question is that, when I look at the RWA migration, on the numerator I saw that in the migration side there is a $2 billion addition to CET1 capital due to movement in reserves. Can we get a bit of colour on that one? Will we be seeing a similar type of movement in the coming quarters?

Actually, I have one additional question on the loss that we were talking about, the legacy securities. Can you give us a bit of colour on this one. I understand that management put this into notable items, so supposedly to be one off, but is it really one off in nature? Will we have other securities and perpetual bonds that we would like to redeem in the future? For example, do we have another 10% type of perpetual bond currency in our book that we may be looking to redeem when opportunities arise? Thank you.

GEORGES ELHEDERY: Thank you, Katherine. I'm going to let Jon answer the three questions, but allow me one comment on the legacy securities. We have said that we will look at our legacy securities continuously, but we will take actions that are accretive or neutral. We will not take action on legacy securities that are detrimental to our investors and our shareholders. In this case we've taken an action on a legacy security that has a more than 10% coupon that could be naturally and easily replaced with much lower rates, and therefore there is a positive impact on the net present value basis of the actions we've taken. We will always look at these actions where there is value in it.

JON BINGHAM: Thanks, Katherine. Three questions there. If I start on your net interest margin, we give some detail on the net interest margin on page 17 of the slide deck, but effectively the net interest margin has moved from 162 bps to 146 bps. There's three things driving that. One, the loss on the early redemption of legacy securities, as you've mentioned. Two, some Argentina volatility, and then the remaining is on – we've allocated more funding to the trading book, and as you know that will be a drag on net interest income but also an equal and opposite benefit on non-net-interest income. Our preferred measure and the way that we think about it is through the banking NII lens. There you'll see that our clean run rate ex Argentina and ex the notables has been relatively stable period on period, reflecting the fact that the Q3 rate cuts, given their timing, had a modest impact on Q3.

You'd also asked about deposit migration. We've again got some detail in that on slide 17, but that has remained relatively stable at 39% for the Hong Kong deposits.

If I move on to your CET1 question and then particularly the change in other adjustments for CET1 capital, that is around the fair value movements of our securities that are classified as fair value through OCI. We've generated a gain on those, which has given us also a capital benefit on that. I think on legacy securities Georges has covered most of the questions on that, but we're not signalling anything at this stage around further legacy securities redemptions. Thank you, Katherine.

ED FIRTH, KBW: Morning, everybody. Thanks for taking the questions. I just have two questions. One was just a clarification. Just to be clear, the $1.1 billion increase in stage three loans in Hong Kong, is that all CRE, just to be clear on that? That was the first question.

The second one is we've obviously got a US election coming up in the next couple of weeks, and I just wondered if you could give us some thoughts from your perspective in terms of the possible risks and opportunities that you see that could come out of that with the two realistic options. Just related to that, there was a lot of press comment that your reorganisation was driven by splitting up the Asian and the UK or developed markets businesses. Is that actually right, or is that just idle speculation from journalists?

GEORGES ELHEDERY: Let me take your second and third questions and Jon can address the stage three question. Look, this is a matter for the US electorate to choose their president. I'm not going to speculate or comment. We will see the outcomes on 5 November, but what is important for us is that we serve our customers. We have been serving our customers through an evolving set of rules and regulations on the global scale. We serve them for their needs, especially for their cross-border needs, where we're unique at being able to do so. We obviously comply with all rules and regulations. We will make sure that our customers are able to comply with all rules and regulations, insofar that their financial needs are concerned. Any new rules and regulations which may come with any new administration are things that we will obviously comply with and support our customers to comply with. What I can say, though, is it remains a distinctive skill that we have in supporting our customers' cross-border needs. This is one of our unique areas of competitive edge and this remains unchanged. Our customer needs remain broad-based and global, and we will continue supporting them on that mission.

With regards to the reorganisation, this is categorically not either an intent or a preparation – as has been speculated by some – of splitting the Asia business, etc. Absolutely not. This is a simplification of the bank where we today govern ourselves through five regions, and we're bringing this regional setup down to two. That is part of the simplification. It is also meant to help us speed up the build-out of what is a very promising corridor between the Middle East and Asia. We're seeing material growth in this corridor over the last few years. Our customers across both the Middle East and Asia are looking for opportunities of trade and investments between them, and we've been – we have a unique position to be able to help our customers across this corridor. That simplification should also help speed up the build of that corridor.

I remind you in our western geographies now we're essentially a wholesale bank. We have sold our retail banking activities in France. We've sold the mass retail activities in the US. We've sold the bank in Canada. We've sold the bank in Greece. We are in the process of selling the bank in Argentina, and with that we'll be left with what is essentially a Corporate and Institutional Banking business that also brings some simplification aspects to the way we govern ourselves in this region. These are the reasons why we did the simplification of reorganisation we announced last week.

JON BINGHAM: On your CRE question, Ed, of the $1.1 billion increase in Asia wholesale stage threes, most of that was Hong Kong CRE. The picture is very similar to how we described it at Q2. We could see more migrations into stage three until interest rates begin to ease the cash flow pressures in those businesses, but given the collateral levels that we have against that portfolio we don't see that as a major driver of ECL risk going forward. We're focused on supporting our customers through this transition period. Thanks, Ed.

GEORGES ELHEDERY: Thank you, everyone, for your questions today. To recap, we delivered another good quarter, which shows that our strategy is working. We have reconfirmed all of our guidance, including a mid-teens return on tangible equity for 2024 and for 2025, excluding notable items. I'm committed to building on this, which our organisation will enable us to do by simplifying and streamlining the group. We will share more details at our full-year results in February as part of a wider business update. Neil and the team are available to answer any questions, and I look forward to speaking with you again very soon. Please enjoy the rest of the day wherever you are and thank you again.