HSBC

Transcript

Investor and Analyst Call
Q3 2020 Results

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NOEL QUINN, GROUP CHIEF EXECUTIVE: Thank you and good morning in London, good afternoon in Hong Kong, and thank you all for joining us. Let me start by saying that I'm pleased with our third quarter performance and the way that our business and our people have continued to respond to a challenging environment. We're doing all we can to support our customers, communities and colleagues through the ebb and flow of COVID restrictions and are committed to helping them manage the uncertainty that remains.

As far as our business is concerned, we are more optimistic than when we last spoke in July. Economic forecasts are looking brighter, particularly in Asia. As you can see from our Q3 results, expected credit losses have now stabilised and we've got a clear plan to accelerate growth and adapt the business to the ultra-low interest rate environment. Looking further ahead, we are also committed to helping our clients make the transition to a low-carbon economy. You'll have seen our announcement two weeks ago that we're aiming to align our financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. The COVID-19 pandemic has been a huge wake up call for us all and a climate crisis has the potential to be much more drastic in its consequences and longevity. We're therefore stepping up support for our clients in a material way as we work together to build a thriving, low-carbon economy and focusing every part of our business on helping achieve that goal.

Turning to our third quarter performance, these were promising results set against the continuing economic impact of COVID-19, with significantly smaller expected credit losses, good strategic progress, a growing capital ratio, good customer retention and an improved economic outlook. Our Asia businesses continue to show good resilience, contributing $3.2 billion of reported pre-tax profit, and Global Markets grew adjusted revenue by 16% versus last year's third quarter. Our capital markets revenue is up 21% year-to-date on the back of strong collaboration across Commercial Banking and Global Banking and Markets, and our Global Markets revenues are up 31% year-to-date, largely in the areas we have targeted for continued investment.

Our profitability was challenged by the impact of interest rate reductions earlier in the year on our deposit franchises across all our global businesses. As a result, reported pre-tax profits of $3.1 billion were down 36% and adjusted profits were down 21% on last year's third quarter. ECLs of $785 million were down significantly on the previous two quarters and broadly stable versus the same period last year. We maintained a firm grip on costs, down 3% on last year's third quarter, with an ambition to go further than previously promised.

Deposits of $1.6 trillion were 12% higher than last year's third quarter. We strengthened our capital ratio further to 15.6% and, despite headwinds, we made good progress in reducing risk-weighted assets in low-returning areas and reducing our cost base in a sustainable way.

Turning to slide 3, the revenue impact of lower for longer interest rates is going to continue over coming quarters as the impact of interest rate cuts unwinds through the P&L. In response, we are accelerating all areas of our strategy with a particular focus on boosting sustainable non-interest income and going further on costs. The three main levers for this are going to be: an acceleration and an increase in our investment in and across Asia; faster digitisation through higher levels of technology investment; and the extensive restructuring of the businesses we talked about in February.

Starting with Asia, as you can see from slide 4 Asia is rebounding strongly, much more than the rest of the world. Given our ability to connect the world to Asia and support growth in the region, our Asian opportunity is growing and we are stepping up investment to capture it. Previously, just under half of our growth investment was aimed at Asia. Now a large majority of our future growth investment will go to growing our Asia wealth, wholesale and sustainability franchises, as well as reinforcing our position in Hong Kong and extending our position across the Greater Bay Area and South Asia. In the last 12 months, Asia's share of Group risk-weighted assets increased by three percentage points to 44% and that number will keep growing as we reallocate additional capital to the region as a whole. Our recent investments have helped launch new initiatives aimed at supporting both our clients and business growth. These include: VisionGo, a platform connecting SME service providers and customers in Hong Kong, which has onboarded more than 8,000 members since its launch in April; Pinnacle, supported by its new fintech subsidiary, which is a first for a foreign financial institution in China; and in South East Asia a new capability to onboard SMEs to multiple markets simultaneously as well as a new multicurrency digital wallet for international SMEs piloted by our GLCM business in Singapore. Our Asian franchise saw more good growth in the quarter with higher deposits and stable lending, supported by strong credit quality. But we can go much further and we're backing up our ambition with investment to match.

Turning to slide 5, our technology investment is critical, not just to provide new capabilities to our customers but also to boost efficiency and reduce long-term costs. For that reason, we'll maintain technology investment throughout the cycle, even as we reduce spending elsewhere. HSBC is already a substantially digital bank. A large proportion of our global payments already flow through digital channels and downloads of HSBCnet are up 155% for the first nine months of the year. But we have further opportunities to meet growing market need for sophisticated, robust, rapid payment solutions and to lead our industry in applying digital solutions to analogue services like trade. Despite the current economic environment we are forecast to spend more in 2020 on technology than ever before, including investments to further digitise our key retail and wealth platforms, enhance transaction banking for high-net-worth clients in Asia, build a new trade services operating model fit for a digital future, build and expand HSBC Kinetic, a UK mobile SME bank that uses cloud to deliver a faster same-day service for customers, and launch an enhanced HSBC Evolve, a new FX execution platform enabling greater collaboration and better digital solutions for large and small corporate clients. This investment is helping to redesign our cost base while building the future of HSBC and we won't sacrifice it for short-term gain.

Moving to slide 6, we're making good progress in restructuring our US and European businesses, achieving $41 billion of RWA saves, largely through actions in Global Banking and Markets, and around $600 million of cost programme savings so far this year. In the US, Michael Roberts and the team have already reduced RWAs by 8% year-on-year, adjusted costs by 7%, FTEs by 11% and branches by more than 30%. I am pleased with this progress so far, but, given the current economic climate, we are looking at options to accelerate. We'll provide an update on this at our full-year results in February. In our non-ringfenced bank in the UK and Europe, Nuno Matos and the team have delivered more than $18 billion of gross RWA saves, reduced FTEs and contractors by 7% and initiated plans to reduce Global Banking and Markets FTEs in our European hub in France by 38%. The strategic review of our French retail operations is ongoing but nearing completion. We will announce the outcome by our full-year results in February. In the meantime, we have announced the acquisition of the minority interest in HSBC Germany, enabling us to fully integrate the largest and most export-orientated European market into our strategy and business model. The combination of our current progress and increased ambition means that we now expect to exceed our $100 billion RWA gross reduction target in 2022, with around $50 billion of that total expected by the end of 2020.

In summary, then, our 2020 to 2022 transformation plan is fully on track and we'll go further and faster wherever we can. We are pushing harder on costs and now expect to beat our target to reduce Group costs to $31 billion or lower in 2022. We expect to achieve around $50 billion of low-performing RWA gross reductions by the end of 2020 and to exceed our $100 billion target by the end of 2022. We will provide an update on our plans for our France and US businesses by our full-year results and we will provide an update on our dividend policy in February. We are working hard to get back to being able to pay dividends and we seek to pay a conservative dividend, if circumstances allow, with respect to the 2020 financial year. The Board's decision on whether to pay a dividend will depend on economic conditions in early 2021 and be subject to regulatory consultation.

With that, I'll pass over to Ewen to go through the numbers.

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks, Noel, and good morning or afternoon, all. Against the continuing economic impact of COVID-19, these were a decent set of results, which, coupled with further good progress against our strategic objectives, additional strength in our common equity tier 1 ratio and tail risks in aggregate having diminished over recent months, have Noel and I in a more optimistic mood than last time we spoke at our second quarter results. Post-tax profits of $2 billion, while down 46% versus the third quarter last year, were up materially on a weak second quarter. Adjusted revenues were down 10%, mainly reflecting the impact of interest rate reductions, which impacted all of our global businesses and particularly our deposit franchises. Near-zero interest rates will be a persistent revenue shock to our business over the next few years. We're actively adjusting our business model to address this, building sources of non-interest income, implementing asset-side re-pricing where we can, adjusting the revenue model for some product and customer segments, and materially reducing our cost structure through digitisation and automation.

ECLs were significantly lower than the second quarter at $785 million, or 30 basis points of gross loans, with stage one and stage two allowances broadly unchanged. With ECLs at $7.6 billion for the first nine months, we're now guiding to the lower end of our previously announced $8-13 billion range for the full year. We're continuing to take action on costs. Our adjusted operating costs fell by 3% against the third quarter of last year and down 4% year-to-date. Our balance sheet metrics continue to improve. Our common equity tier 1 ratio was up a further 60 basis points to 15.6% in the quarter, and customer deposits and lending were broadly stable from the second quarter with deposits up 12% or $164 billion year-on-year. Our tangible net asset value per share of $7.55 was up 21 cents on the second quarter due to both retained profits and currency movements.

Turning to slide 10 and looking across the three global businesses, in Wealth and Personal Banking revenues were down 13%, with Retail Banking revenues falling by just under $1 billion, due largely to the impact of falling interest rates on deposit margins. At a headline level, Wealth Management revenues grew by $177 million, but, excluding positive market impacts in insurance manufacturing, were down 8%, due mainly to lower insurance new business volumes. Commercial Banking revenues were 17% lower, due mainly to the impact of lower margins on Global Liquidity and Cash Management. In Global Banking and Markets, revenues were up 3% despite the impact of lower interest rates. Global Markets grew by 16%, reflecting continued good performance in credit and FX. Equities revenues also increased by 39%.

Looking forward, assuming economies continue to rebound from COVID-19 lows, we would expect some increase in corporate investment and loan growth from the low level seen in second and third quarters this year. We also expect Global Markets revenues to now normalise as volatility reduces and corporates complete their bond and equity fundraisings. Also, don't forget the fourth quarter is normally a seasonally weaker quarter for revenues for us in both Global Markets and Wealth.

On slide 11, net interest income was $6.5 billion. That's down 6% against the second quarter. The net interest margin was 120 basis points, down 13% on the second quarter – 13 basis points, sorry – reflecting the continuing impact of near-zero interest rates, with our Asian franchise in particular seeing material deposit spread compression. The UK ring-fenced bank NIM was stable quarter-on-quarter, excluding significant items. As we look forward, and assuming interest rates remain unchanged, we expect further modest net interest income headwinds in the fourth quarter, with some quarter-on-quarter stabilisation from there. We still expect approximately $3 billion lower net interest income in 2020 versus 2019.

On the next slide, given the forward outlook for net interest income, we are focused on building our non-interest income revenues. We've already substantial fee income businesses to invest in, particularly in Wealth and Private Banking. We're also one of the global leaders in FX and are increasingly building out our strength into Asia for Global Markets and Global Banking. We're also looking at new revenue models in other areas, such as Global Liquidity and Cash Management and Retail Banking, that have previously relied on deposit spreads to drive economic returns. Fee income showed some recovery in the third quarter from the COVID-related lows seen earlier in the year, up 4% versus the second quarter.

Turning to slide 13, adjusted operating costs were 3% lower than the third quarter in 2019 and down 4% for the first nine months. This continues to reflect the impact of our cost reduction actions and lower spending on discretionary cost line items as a result of COVID-19. Relative to the plan we announced in February, we now plan to exceed our cost targets set for 2022, with gross cost savings exceeding our previously announced $4.5 billion in that year, while still sustaining investment in technology spending in areas of focus. In part, this reflects changed customer and employee behaviour as a result of COVID-19, namely substantially increased digital engagement from our customers and using the benefits of technology to adopt a hybrid working model for most of our employees, with materially lower internal travel requirements going forward. These customer and employee trends are also consistent with our sustainability goals, opening up further opportunities to materially reduce our own carbon footprint in line with our commitment to be net zero operationally by 2030. To help achieve these additional cost savings, we now plan to spend more than the $6 billion in costs to achieve by 2022, with around $1.6 billion of the total expected to be spent in 2020. We'll provide a more detailed and quantified plan in February when we announce our full-year results.

On the next slide, ECLs were much lower than first-half trends, some $785 million or 30 basis points of gross loans. This reflects a more stable economic outlook and a significant reserve build in the first half, while overall ECL allowances remain broadly unchanged. The stage one and stage two P&L charge for the year-to-date is around $4.2 billion, of which just $300 million was incurred in the third quarter. The stage three charge for the quarter was around $500 million, relating primarily to a small number of wholesale exposures across various sectors and a stable level of retail defaults. This was partially offset by $300 million of releases relating to pre-COVID-19 cases. The $785 million ECL charge we believe is unusually low at this point in the economic cycle, benefiting from releases, so I would discourage you from using this as a new baseline. While ECLs have started to stabilise, we do still expect them to remain higher than normalised levels over the coming quarters. With ECLs at $7.6 billion for the first nine months, for 2020 as a whole we now expect to be towards the lower end of the $8-13 billion range, although uncertainties remain around COVID-19 and Brexit in particular.

On slide 15, our common equity tier 1 ratio at the end of the third quarter was 15.6%, up 60 basis points in the quarter. This was driven by RWA reductions on a constant currency basis, profit generation and FX translation differences. Excluding FX movements, RWAs fell by $11.8 billion, primarily as a result of our risk-weighted asset reduction programme. As previously signalled at the second quarter, and relative to guidance that we gave in February, we've made good progress this year in reducing portfolios of higher stress and enhancing capital levels at the holding company. As such, we now expect to be able to target a 14 to 14.5% common equity tier 1 ratio when we can begin to normalise our common equity tier 1 position again.

On slide 16, we're making good progress against our $100 billion gross reduction target of low-returning risk-weighted assets by the end of 2022. For the first nine months, we've achieved $41.5 billion and expect to have achieved approximately half of the $100 billion target by yearend. As a result, we now expect to exceed this target and to do so without exceeding our $1.2 billion spend target that we announced in February.

So, in summary, against the backdrop of COVID-19, this was a decent quarter for us. Another resilient Asian performance and a decent quarter for fixed income, a more optimistic credit outlook and further progress on cost reduction and common equity tier 1 build. As we look out, without discounting the continuing high levels of uncertainty, we think the combination of tail risks has diminished relative to the last quarter and therefore we are now more confident on the outlook. We recognise we still have a tough period ahead of us, given the very material impact of near-zero interest rates over the next few years, coupled with a gradual recovery in customer activity in some segments from COVID-19 lows. But we think the building blocks are now being put in place for substantially enhanced returns in the coming years, a change of revenue model that will be less reliant on deposit spreads, a normalisation of credit costs from 2020 highs, lower operating costs using the benefits of digitalisation and automation, and increased confidence in being able to operate the bank at reduced capital levels once the economic environment stabilises.

Noel and I are very focused on the path back to paying dividends. With a common equity tier 1 ratio of 15.6% relative to a target of 14 to 14.5%, we are now accruing meaningful capital buffers. However, I would caution about getting ahead of yourselves on distributions. When we start, we'll start conservatively and look to build sustainably from there.

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

RAUL SINHA, JP MORGAN: Good morning, everybody. Good morning, Ewen – or afternoon. A couple of questions from my side, I guess, starting off just on the NIM and NII trajectory. A couple of points related to that: one, if you could talk a little bit about the HBAP NIM outlook. It obviously had quite a big fall in the quarter. And then, related to that, if you could elaborate a little bit in terms of what you expect within your planning assumptions for HIBOR. Are you expecting HIBOR to stabilise around these levels, or are you still thinking that we're going to converge towards US dollar LIBOR, which is obviously some way below where HIBOR is?

And the second one, I guess, a little bit broader, in terms of the areas where you're tweaking your transformation programme, you've obviously talked about that a little bit. I was particularly interested in Wealth Management and insurance, in terms of what are the growth initiatives you can focus to make a meaningful contribution, given where your plan was when you announced it and where we are today. You've obviously got a big gap in terms of rate-sensitive revenues, so any commentary on Wealth Management and insurance material growth options would be really helpful. Thank you.

NOEL QUINN: Okay. I'll take the second question, but I'll ask Ewen to answer the first part of the question, if that's okay.

EWEN STEVENSON: Sure. On NIM, Raul, a few things: as you know, the HBAP book is relatively short-dated, so we did see a material contraction in HIBOR. I think it was down over 60 basis points quarter on quarter and, as a result, that translates very quickly within quarter into the net interest margin. I've been here for seven or eight quarters now trying to predict the path of HIBOR. It's always been difficult, but we do think that we're seeing for the time being a bottoming. It's been a bit higher so far in October. Again, that will translate to a stabilisation, I think, in Hong Kong and possibly a recovery, but if we translate all of that into an outlook for 2021 at an aggregate level, I think we're broadly, as we sit today, comfortable with where consensus is, or a range around consensus.

NOEL QUINN: Okay. And with respect to Wealth Management in Asia, we started our journey of more rapid expansion actually before we announced the results in February or the update in February. Now, we've been growing our market share in insurance in Hong Kong throughout 2019 and have continued that journey in 2020, and intend to continue to invest in that business. And we're seeing very good results from that activity. We've reclaimed a lot of market share on our insurance business in Hong Kong. We'll continue to invest in that business. We're looking to expand our insurance proposition beyond Hong Kong into other markets: Singapore, India and in China.

With respect to the broader Wealth agenda, we again started a programme of expansion of our Private Banking in Asia, increasing the number of Relationship Managers we have on the ground, the product capability in Hong Kong. We want to take that further across into South Asia and into China. And then, more recently, we've talked about the investment we've made in Pinnacle, which is a Wealth Management platform in China, which is a combination of around about an extra 2,000 to 3,000 salespeople based in China serving the Wealth Management needs of the China population. We expect to put those people on the ground over the next two to three years, but we're also building a technology platform to provide those salespeople with the product capability to serve the market as well. So we see that as an area of growth and further investment. It will be: protect Hong Kong and continue to take market share in Hong Kong, penetrate into China and expand across south Asia.

RAUL SINHA: Given the amount of capital you've built, would you consider inorganic opportunities as well in this area?

NOEL QUINN: I think we always look at both organic and inorganic. You should always base the strategy on an organic plan first, which is what we're doing, but we're open-minded as to where the right opportunities for growth will come.

RAUL SINHA: Thank you.

MARTIN LEITGEB. GOLDMAN SACHS: Yes, good morning. My first question is in terms of how should we think about capital progression from here, so obviously the very strong in terms of a 15.6 or 15.4, excluding transitional impacts. And your comments on dividend being conservative from here. Should that mean that over the near to medium term we should expect HSBC to run over and above the 14 to 14.5 threshold, or do you see opportunities either way, either to deploy more for growth or deploy more for returns as and when the economic outlook normalises? And the second question – I was just wondering if you could give us a feel how broad the strategic reviews you're currently undertaking. The strategy laid out back in February obviously was before the pandemic unfolded. How broad a strategic review are you currently undertaking, both in terms of potentially lower-returning areas, but also with regards to future areas of growth for the group? Thank you.

NOEL QUINN: Okay. I'll take the second question and ask Ewen to cover the first.

EWEN STEVENSON: On capital and how we think about, Martin, I guess a few things. Firstly, in terms of today's ratio, just to put a couple of qualifiers around it, firstly, in Q4, as you know, we would typically expect the common equity tier one ratio to fall in the fourth quarter for a couple of reasons. Firstly, the earnings are obviously impacted in the fourth quarter by the UK bank levy, by seasonally lower Global Markets and Wealth revenues. And we signalled I think as part of my comments earlier that we expect to have a higher CTA charge – cost to achieve restructuring cost charge in the fourth quarter relative to what we saw as the run rate in the first three quarters. And we also do still expect some RWA pressure coming from ratings migration, albeit we've been continuously surprised this year about the degree of ratings migration, which has been less than we might have anticipated.

We also get in our ratios some benefit from COVID-19 regulatory relief currently. That's around 20 basis points, but I think the regulators are always going out to back out of their numbers when they look at our capital ratios and think about excess that we've got. And I think going into '21, we're always going to want to have a buffer for contingency, given 2021 will continue to be relatively uncertain as we sit today.

I do think that if you went back to the start of the year and you think about what we're managing to in our capital basis, it's really two things. One is the degree of stress that we're running as a bank and we do think the restructuring plan that we've announced and the areas that it's targeting is going after some of the highest risk portfolios we have in the bank. So over the next few years we think the aggregate level of stress you'll see from us getting reported in the annual stress testing cycle will reduce. And secondly, as I think you're aware, we've been holding excess capital in some of our subsidiaries, for example in the US, and as we continue to restructure, I think we'll be able to get more of that capital back to the group.

As a result, we think that we can manage the bank in the medium term to 14 and 14.5. I think we should aspire to do better than that, but that aspiration, I think, has to be very much premised over the medium term, with us making serious inroads into reducing the gross level of stress that exists in the bank. I'm confident we can get there, but I wouldn't bake it into your numbers today.

NOEL QUINN: And on the second part of your question, we recognise that the lower interest rate environment is a very material drag on revenue and that it will be a hard road to recover that lost revenue. I also fully recognise there's no one silver bullet to addressing that gap. It has to be a combination of growth from new areas of investment, particularly fee income-generating activities, such as I talked about earlier, Wealth in Asia across a broad range – mass affluent, Private Banking, Asset Management, insurance – growth from our transaction banking business and the fee income generation from that in foreign exchange trade and payments and cash management and growth of our balance sheet, particularly in Asia, where I do believe there's still growth potential over the medium term for the asset side of the book. But we're also going to be looking at pricing – pricing of our asset book and pricing of our fee income.

I think it's going to be a combination of those activities coupled with a continued focus on prudent cost management with an expectation, as Ewen said, to exceed our 2022 target of

$31 billion. So it will be a combination of those things and if I think back to the GFC, there was no one single solution to rebooting revenue post the GFC. It was a combination of things and we've got to be very much focused on those same activities this time round.

MANUS COSTELLO, AUTONOMOUS: Hi, everybody. I just wanted to ask about the balance sheet and cash. Your cash position has grown again this quarter. You're up $130 billion since the end of last year. I just wondered what can you do to help manage that cash position to help boost the NIM or offset the pressure on the NIM or should we assume you're just going to run with structurally very high levels of cash in your liquidity management in the future?

NOEL QUINN: I'll give a quick instinctive reaction to that, Manus. I'm a strong believer in a strong balance sheet and a very liquid balance sheet, so I understand that at the moment that liquidity is not earning NIM, but in the middle of quite a severe economic crisis it's good to have a very strong liquidity position, and that's been a cornerstone of HSBC for many years. And it then allows us to have the strength to continue to invest in growth of the asset side of the balance sheet as that growth re-emerges in the economy and be cognisant of the fact that Asia seems to be coming out of the COVID crisis faster than the rest of the world. Therefore, I expect growth opportunities to re-emerge in Asia.

So that – although that liquidity is not earning money in its own right, it has the potential to earn money for us on the asset side of the balance sheet and it gives us the comfort to continue to make investment decisions, in that we have a strong balance sheet, both liquidity and capital. But, Ewen, do you want to comment more?

EWEN STEVENSON: I think, Manus, customer behaviour has been exactly what you would have expected it to be so far during the crisis, which – both on the retail side and the corporate side, a desire to retain liquidity at the moment, given all these uncertainties that exist. Yeah, so over the last year we've built deposits by I think it's 12% – over $160 billion. That's not a natural year-on-year growth in our deposit base and reflects very much, I think, customer behaviour. So yeah, as people get more comfortable with the trajectory out of COVID-19, I think you'll begin to see that reverse.

On the corporate side, we've already seen relative to the first quarter when a lot of corporates drew down substantially on secured lines they had with us – start to repay those loans. So I think as both consumers and corporates get more confidence back, you'll see those cash balances reducing.

MANUS COSTELLO: So it's more about your customers' behaviour rather than any treasury approach that you might take.

EWEN STEVENSON: Yes.

NOEL QUINN: Correct.

MANUS COSTELLO: Got it. Thank you.

AMAN RAKKAR, BARCLAYS: Morning, gents. Just a couple please. Just coming back on NII, so thanks very much for that comment around consensus next year. I guess the implied Q4 exit level probably suggests an annualised number below $25 billion next year, so to get to where the street is it looks like you're going to be looking to do 3%, 4% loan growth – is probably my best estimate for now. Given that you're probably just going to be deleveraging in the US and Europe, I'm interested in what kind of growth you're targeting in terms of loan growth to Asia to deliver those numbers. I note that balances were reasonably robust in Q3.

The second is on ECL. Can I just check - is around a circa $1 billion charge the best guess of an underlying ECL for you guys in Q3 and, if that's case, does that potentially imply a number next year that's perhaps closer to $4 billion than the $6 billion that consensus has in next year? Does that not look full to you, or is it – is there just too much uncertainty for now? Thank you.

EWEN STEVENSON: Well, firstly on your NII maths, we don't disagree with the maths at an aggregate level, i.e. we do anticipate that there'll be low-to-mid-single-digit loan growth next year, to underpin the comments I made about consensus and NII for next year. The part of your commentary that Europe and US is deleveraging, I think, is only partly correct. I think a lot of the deleveraging that we saw, happened in the second quarter. There is the ongoing restructuring that we're doing in the run-down of the RWA books. Not all of that is in lending assets and we do expect UK, Europe, US economies to recover in '21 and we are seeing consensus forecasts for Asia ex-Japan – GDP forecasts are sitting above 5% for both '21 and '22. So we do think Asia growth, again, will outperform western growth.

On ECLs, consensus, I think, is sitting at about $6.1 billion for '21. When we've previously guided on loan loss provisioning pre-COVID through the cycle we talked about 30 to 40 basis points. At 40 basis points at the top end of that you get to just over $4 billion. That feels to me intuitively, as we look out, a bit low at the moment. Equally, $6 billion feels a bit high, so somewhere between those two numbers, but there is still significant uncertainty out there around 2021 and I would also caveat my comments on ECLs generally around Brexit. I think our comments about towards the lower end of the $8-13 billion range are very much premised on a trade agreement happening. If a trade agreement didn't happen, then I think we would have to adjust up our ECL estimate. You could easily see $0.5 to $1 billion of additional ECLs in the fourth quarter if in the next few weeks we didn't have a trade agreement.

AMAN RAKKAR: Perfect. Thank you.

JASON NAPIER, UBS: Good morning.

EWEN STEVENSON: Hi, Jason.

JASON NAPIER: Thank you for taking my questions. So the first one on loan losses. The performance of your loan book has been quite frankly stellar, if you look at the stage data, with only 6% of retail loans in stage two even and a little over 1% in stage three. I wondered, did you have any stats that you might be able to share on the extent of any distortion that your customers are seeing as a consequence of the support that's around furlough schemes and moratoria and so on, or is that really just conversational in nature and really your book is strong at this stage of the downturn?

And then the second question – and I appreciate this is an extraordinarily sensitive area – the Hong Kong Autonomy Act – I wondered whether you could share what it is, in your view, that HSBC needs to do to avoid sanction under that Act? It appears that there's some leeway around significant transactions as regards the sanctioned individuals. What do you see as your responsibilities on that Act, please? Thank you.

NOEL QUINN: Okay. Jason, thank you. Let me – I'll add a couple of comments on the quality of the loan book and then hand to Ewen if he wants to add some comments, and then I'll pick up on the Hong Kong Autonomy Act. Firstly, particularly in our consumer banking business, we have a high quality secured book at the heart of what we do, so we're primarily a secured book rather than an unsecured. Clearly, we do some unsecured lending, but proportionally we have a much higher percentage of secured lending, for example, here in the UK than the rest of the market and that's why I think you see a particularly strong performance in our retail book relative to other banks. That would also be true in Hong Kong.

What we've also seen – some of the government schemes have unwound and payment holidays have unwound. We are seeing a better performance on that unwind of government schemes than we had previously modelled or expected. People are reverting to normal payment patterns at a higher percentage than we had originally modelled. They're just some general comments.

EWEN STEVENSON: I'd like to add a couple more things on that. We've obviously got a global portfolio of government support schemes and I think, as we've seen some of them roll off, particularly on the retail side, our experience so far, Jason, has been – I would describe it as marginally better than what we had modelled, so there's been encouraging signs that the credit assumptions that we've got are holding up.

And secondly, I think that government support that we've seen for the corporate sector has bought time for the corporate sector to restructure. It has bought time for the corporate sector to go and raise debt and equity. So sitting here six months ago we were far more concerned about downside tail risk than we would be today, in part because the government support has just allowed people time to restructure their businesses and be better prepared.

NOEL QUINN: And on your second point, Jason we're confident in our ability to navigate the increasingly complex regulatory environment. We're committed to complying with the laws and regulations in every market we operate in. We fully acknowledge that there is a level of complexity there today, given the geopolitics, but we're confident of our ability to navigate that situation and I think that's what I'd say to you in regard to the second part of the question.

JASON NAPIER: Thank you.

EDWARD FIRTH, KBW: Good morning everybody.

EWEN STEVENSON: Morning.

NOEL QUINN: Morning, Edward.

EDWARD FIRTH: Just two questions. Apologies, it's back to net interest income, but I was more interested really in the longer-term outlook for net interest income rather than this year, next year, and I guess there were two questions I had. One, if I look back to sensitivities you've provided us in the past, there's a broadly – if you look out five years it's about double the one-year impact. Is that still the way we should think about it, or are there things that you can do or have done that can effectively mitigate that, so that the bulk of any – the interest rate impact we should see is broadly – plus or minus 10 basis points – is broadly in there?

And then the second question is related to that. One of your big advantages of HSBC probably for the last 100 years has been a loan-to-deposit ratio of around 70% and I guess it's a bit lower now, but it has been a bit higher. But that's probably where you stuck it. And I guess in this environment that means, what, 30% of your deposits are either making you no money or are actually loss-making. Is there anything that you think over a two, three, four-year plan that you can do to address that? Could we see that moving up to 80%, 90% – that sort of level – or is your preference to remain liquid, likely to keep that roughly where that is?

NOEL QUINN: Let me take the second part. The AD ratio, yes, at the moment is showing a significant surplus. At different points in the economic cycle that moves around and if you were to go back a couple of years, you started to see quite significant loan growth with slightly slower deposit growth, so you started to see that AD ratio narrow to a degree.

As Ewen said earlier, we've had an influx of deposits as customers have borrowed less, spent less and accumulated cash, so you could expect over time that AD ratio to change, but I think we've always as a bank had a history of having a strong liquidity position, so I don't see us really operating at a 90% AD ratio in the future, even in great times, because we operate in markets around the world that are inherently more volatile and, therefore, we believe strongly in having a strong liquidity position to manage through that volatility in difficult times. So you get some movement in the AD ratio going forward, but I don't think you're going to get us operating at a level of 90% on a consistent basis or at any point, given the inherent nature of our book of business.

EWEN STEVENSON: Ed, I think your first question I think was around the NII sensitivity tables five years out. They do assume a static balance sheet. They do assume no management action, so I think you should assume that over a five-year period we would have some capacity to mitigate some of the risk that you see in that interest rate sensitivity table.

NOEL QUINN: And just going back to that point I made, if you were going to say – it depends how you look at that surplus and is it earning money or not. You remember that high liquidity or low AD ratio is giving you access to an inherently higher return market in Asia and the Middle East, so you don't necessarily deploy all the liquidity to get every last ounce of earnings out of it, but having that liquidity there allows you to access an inherently higher return market – Asia, Middle East, the emerging markets – that gives you a higher level of compensation for the amount of lending that you're doing. So you earn in it in a different way than full deployment into low volatility, low return markets. You're getting the earnings in a different way from HSBC.

EDWARD FIRTH: Okay. So it's not a strategic priority for you to find assets to try to bulk up that balance sheet?

NOEL QUINN: I'd rather find growth – good sustainable revenue growth – rather than just buying books of assets for the sake of buying books of assets to use up liquidity. Sustainable revenue growth is what we're motivated to do.

EWEN STEVENSON: You would know that 20 years ago we tried something like that and it didn't work out so well.

EDWARD FIRTH: I just wanted to see if you wanted to do the same again.

NOEL QUINN: No.

EDWARD FIRR: Thanks very much.

EWEN STEVENSON: Hi, Tom.

TOM RAYNER, NUMIS: Hi there. Good morning. I just wanted to ask broad strategic questions really and you might pick me up and say, 'Wait until the full year', but in terms of what you've said today on the restructuring plan, you're flagging additional cost savings, you're flagging additional RWA reduction. I'm just trying to think in terms of the potential impact that that might have on future revenue growth and how important is it for you to be seen, for HSBC to be seen as still having growth potential – almost still being a bank that's in higher growth markets. You want the market to view you as a potential growth stock. How does that sit with a focus on continuing to look for more cost savings and more RWA reductions? And obviously, that comment alluding to Household International is quite interesting, because obviously you get too desperate for growth and you buy a bad asset. That's a disaster.

So that was my first question and then the second strategic issue, again from what you're saying, is all of the investment is being pivoted now by the sounds of it towards Asia. If this continues is there a risk at some point the whole question of domicile and where it makes most sense for HSBC to be domiciled? Is that going to re-emerge, or is that something that's been talked about, discussed and decided and we're not going to be back there any time soon? Thanks.

NOEL QUINN: A couple of comments on that. Let me first of all say I don't think pursuing a more efficient organisation necessarily means you cannot produce growth or pursue growth. I think the cost reductions we're going for are good, sensible cost reduction ambitions, reducing bureaucracy, simplifying processes, increasing automation, improving customer experience. All of those things are supportive of a growth agenda as well.

And what we've clearly said in this statement is that we are going to continue to invest in technology to further digitise the bank and out of that digitisation will come a lower cost base, a better customer experience and growth opportunities as you tap more market opportunities. So I don't they're incompatible and, certainly, we don't want to be a costs-only transformation story. We must also be a growth story and, particularly with the footprint that we have as an Asian bank and an international Asian bank, that would be part of our agenda.

And on domicile, we've said on many occasions we're not revisiting the domicile decision. We believe there's a power in being a global international bank with a strong focus on Asia, a strong focus on the Middle East, a strong business in the UK. We're an international bank bridging east and west and we're not revisiting the domicile decision.

EWEN STEVENSON: On going further on RWA reduction, Tom, you can see in the dispersion of returns in our data pack that we've got a lot of capital that's not earning appropriate returns – earning well below cost of capital returns and I think you and everyone else on the call should welcome the fact that we're trying to accelerate that and take more of those assets off our balance sheet, get more capital back as a result of that and if we can invest that in growth, particularly in Asia, we're happy to invest it and if we can't, we'll find a way of returning it to shareholders.

TOM RAYNER: Okay. Lovely. Thanks a lot.

GUY STEBBINGS, EXANE BNP PARIBAS: Good morning. Good afternoon, everyone. Thanks for taking the questions.

EWEN STEVENSON: Good morning, Guy.

GUY STEBBINGS: Morning. I just want to come back firstly to capital and specifically to try to try and size some the headwinds coming in the fourth quarter. You've called out the typical seasonal impact from the levy and global markets being a bit lower, plus the higher CTA becomes, so perhaps earnings themselves might be a small headwind to capital, plus it looks like you're guiding to around about 30 basis points headwind from RWA movements. So just taking that into consideration, the CET1 position could drop maybe towards 15%, but I think you previously guided to a software intangible benefit of around about 20 basis points. So is it reasonable to think you should still be some way above 15% before any possible any dividend announcement alongside full-year results?

And then the second question was just on CP1420 and the introduction of a mortgage floor in the UK, which is perhaps quite pertinent for HSBC, given your lower starting risk rate density. I appreciate you were already expecting the risk rate to move up, given some of the other regulatory changes and I think you guided to 7% or 8% previously, but given this further move, does it change your view at all on UK mortgage book growth in the future? I guess perversely it could actually incentivise you to tilt the book to higher margin, higher risk business over time. Thanks.

EWEN STEVENSON: Yeah, so we've previously guided I think to RWA growth for the full year of mid-single digits. If you look today, that would imply relatively material RWA growth in the final quarter. That looks to me, as I said today, at the top end in the range of what we would expect and you would have to see a degree of RWA migration that is substantially higher than we've seen recently. So we could well see a common equity tier one ratio at the end of the year above 15 per cent I think.

On your comment on UK mortgages, even with those higher risk rates, we still think that we make sensible economic returns on the mortgage lending we do in the UK. The other thing I would say is that the UK is one of those businesses that in the outer years of the plan would have been impacted by output floors, so in some ways this is just an acceleration of that impact of future capital buffers we would have had to build anyway into the UK business.

GUY STEBBINGS: Okay. Thanks. Very clear.

JOSEPH DICKERSON, JEFFERIES: Hi. Good morning. Just a couple of quick ones please. Just on the trajectory of getting down to your targeted CET1 range, I guess how do you think about buy-backs in that context, particularly in the near term, given the various capital treatments of buy-backs? You've done buy-backs before. So any thoughts there would be helpful.

And then as you seek to move towards more sustainable sources of non-interest income and deemphasise the spot deposits spread businesses, you've mentioned that you're reviewing the US business. That obviously – the last review is already noted on this call – happened when rates were higher. I guess, is everything on the table as regards the US business, notable the retail business, which has I believe off the top of my head a 50% or lower loan to deposit ratio? Thanks.

NOEL QUINN: Ewen will take the first part of that question on CET1 and I'll pick up on the US.

EWEN STEVENSON: On buy-backs, as you've said, we're certainly not averse to doing buy-backs. I think you should assume what we want to do first is re-establish the dividend, set a sensible and sustainable dividend policy for '21 and beyond, and then to the extent that there is excess capital on top of that, think about buy-backs as part of that. I would caution though that for '21 in particular there continues to be meaningful levels of uncertainty around the economic outlook for 2021, so don't expect us to try to seek to rapidly normalise our capital structure during 2021 until we see genuine, sustained and concrete recovery in the global economy and we're through COVID-19 in a very meaningful way.

NOEL QUINN: With respect to the US, I just want to reiterate Michael and the team in the US, together with Greg and Georges running Global Banking and Markets, have really made very strong progress in the first nine months of this year. I reiterate, RWA is well down, adjusted costs down, FTE is down 11%, branches reduced by 30%, so they've made great progress, but they're also very cognisant of the fact that the circumstances are more challenging today than they were in February and, therefore, they're looking at ways to accelerate the road to improved returns. But I won't go into any more detail on that at the moment. We'll do that with our Q4 results, but I'm pleased with what they've achieved so far.

JOSEPH DICKERSON: Thank you.

NOEL QUINN: I just wanted to say thank you to all of you for dialling in today, for your interest in HSBC and your questions. I'd summarise by saying that we are making good progress on our transformation agenda. We are investing in new growth opportunities, particularly across Asia. I'm pleased that we were able produce $3.1 billion of reported profit in Q3 and we were able to finish the quarter with a CET1 ratio of 15.6%. I look forward to speaking to you again at the full-year results in February. Thank you.