HSBC

Transcript

Investor and Analyst Call
Q4 2020 and Full-Year 2020/21 Results

23 February 2021, 07.30 GMT

NOEL QUINN, GROUP CHIEF EXECUTIVE: Good morning to everybody in London and good afternoon to everybody in Hong Kong. We have two objectives today. The first is to take you through our Q4 and full-year results for 2020, and the second is to update you on progress against the change agenda we shared with you last February and the additional actions we are taking to deliver returns above the cost of capital. I'll start with a few reflections on the year just gone. Ewen will then take you through our full-year and fourth quarter results. Then myself, Peter Wong, Nuno Matos and John Hinshaw will share key details of our future plan. Ewen will then return to cover the financial implications of that plan.

Let me start with 2020. First and most importantly, our people provided amazing support to our customers and the communities we serve throughout the world. We provided more than $52 billion of wholesale lending support through government schemes and moratoria, more than $26 billion of additional relief for personal customers and more than $1.9 trillion of loan, debt and equity support for our wholesale customers. However, the numbers don't do justice to the efforts and energies that went into delivering them. My colleagues acted with great purpose on a global scale. They broke down silos; they innovated; and they delivered repeatedly in the toughest of circumstances. They were customer-centric in the truest sense of the term, and our customer scores in the UK, Hong Kong, the US, the Middle East and Mexico bear this out.

Second, the economic impact of COVID-19 hit our profitability, but we still delivered $12.1 billion of adjusted pre-tax profits and $8.8 billion of reported profit before tax. We also finished the year with a strong capital base of 15.9% and increased our liquidity by around $170 billion. This proves two things. This is an incredibly strong and resilient business, particularly in Asia, which delivered $13 billion of adjusted profit before tax, but, also, opportunity exists even in a difficult year. We increased mortgage lending in the UK and Hong Kong; we grew our share of trade in Asia despite the fall in volumes; we grew our wealth balances in our target markets; and we made $1 billion of PBT in our India business, which will be hugely important in the years to come.

Third, it was incredibly important to us to resume dividend payments, and we have declared a dividend of 15 cents per share. We are also resetting our dividend policy in the future to strike a balance between providing good income and supporting future growth. In future, we're aiming to deliver sustainable cash dividends while transitioning towards a payout ratio of 40% to 55% from 2022. We're no longer going to offer a scrip dividend and will consider share buy-backs beyond the near term where no immediate opportunity for capital redeployment exists. This is a measured policy that gives us the flexibility to invest and grow the business in future.

Clearly, 2020 fundamentally challenged many businesses, so we also embarked on a major exercise to refresh our core purpose as an organisation. We consulted widely on this over a number of months, speaking to thousands of colleagues and customers, looking deeply into our history but also assessing the world of the future, and we kept coming back to the same themes. HSBC has always focused on helping customers pursue the opportunities around them, whether it is individuals, families or businesses. Our renewed purpose, opening up the world of opportunity, both captures this aim and sets a challenge. Opportunity never stands still. It changes and evolves with the world around us. It is our job to keep adapting with it and to find and capture opportunities with the same spirit of entrepreneurialism and innovation that I feel represents HSBC at its very best.

We also saw in 2020 the power of an organisation that can respond positively and at pace to radical change on a global scale. Hence you will see a new behaviour within our values statement: we get it done. It is deliberately expressed in uncomplicated language. We can talk about what we want to achieve forever, but execution is everything. Last February, I promised that we would deliver our plans with pace and conviction, which is exactly what we've done. We've taken more than $1 billion of costs out of the business and expect to exceed our $4.5 billion cost-saving target ahead of schedule. And, despite the pause in our redundancy programme following the COVID-19 outbreak, we've reduced our FTE and contractor headcount by around 11,000. In achieving those headcounts and cost savings, we created a combined wholesale banking back office function, serving both Commercial Banking and Global Banking and Markets. We merged Wealth and Personal Banking. We reduced our senior management population by 17%. We appointed new people to just under 50% of the top 200 senior positions. We reduced our US branch footprint by more than 30% and cut our US adjusted cost base by 8%. We reduced FTEs in our European non-ring-fenced bank by 6%, and we achieved $52 billion of gross RWA savings in 2020, taking us more than halfway towards our three-year gross risk-weighted asset reduction target in just a single year.

However, given the impact of low interest rates and COVID, we no longer expect to reach our targeted level of returns by 2022. That said, we recognised the fundamental shifts in our environment in 2020 and reacted to them quickly. The plans we are announcing today will build on this work and enable us to target a return on tangible equity at or above 10% over the medium term, and that’s with the assumption that base interest rates remain at today’s ultra-low levels.

Ewen will now take you through our results.

EWEN STEVENSON, GROUP CHIEF FINANCIAL OFFICER: Thanks, Noel. Good morning or afternoon, all – a few quick words on the full-year 2020 results. The combined impact of COVID-19 and ultra-low interest rates significantly impacted our reported profit before tax, down 34% from the prior year to $8.8 billion. On the positive side, our Asian business held up well, with $13 billion of adjusted pre-tax profits. This included the second year running of $1 billion of pre-tax profits from our Indian franchise and further market-share gains in our trade franchise in the region. We did a good job of controlling operating costs, down $1.1 billion or 3%, well ahead of what we promised we’d achieve a year ago. We achieved exceptional growth in our deposit franchise, up $173 billion in the year or some 12%, and we strengthened our core capital base, with our common equity tier 1 ratio up 120 basis points to 15.9%. As we move into 2021, it’s the interest-rate environment that is most negatively impacting our returns outlook, and that’s why we’re shifting our revenue mix towards non-interest income, accelerating our capital allocation in people and investment towards Asia and investing in a multi-year technology plan to significantly improve productivity.

Turning to slide 8, on the fourth quarter, it was a solid set of results, with reported pre-tax profits of $1.4 billion. Adjusted revenues were down 14% on last year’s fourth quarter, mainly driven by the progressive impact of ultra-low interest rates. Expected credit losses were 44 basis points or $1.2 billion in the quarter. This compares to 26 basis points or just under $700 million in the fourth quarter of last year. Total ECLs for the full year were $8.8 billion, at the lower end of our targeted $8-13 billion full-year range, while operating costs were up Q4 on Q4 by 1% ex the bank levy. This was mainly driven by the decision to increase the variable pay pool accrual in the quarter. This was down 17% year on year. And tangible net asset value per share increased by 20 cents in the quarter to $7.75. As you model 2021, please note that the weakening of the US dollar towards the end of 2020 will materially impact both costs and revenues. If you adjusted our 2020 results to average January 2021 exchange rates, it would have added $1.6 billion to our revenues and $1.1 billion to our operating costs.

Turning to slide 9 and looking at fourth-quarter adjusted revenues across the three global businesses, in Wealth and Personal Banking revenues were down 18% on a year ago with retail banking revenues falling by just under $1 billion. This was due largely to the impact of falling interest rates on deposit margins. Wealth Management revenues were down $91 million due to a combination of lower insurance sales and the impact of lower interest rates on Private Banking deposits. Commercial Banking revenues were 15% lower due mainly to the impact of lower margins on global liquidity and cash management. In Global Banking and Markets, revenues were down 7%, and that’s despite another good quarter for Global Markets, which saw revenues up 13% even as we kept value at risk broadly stable.

On slide 10, net interest income was $6.6 billion. That's up 3% against the third quarter. The net interest margin was 122 basis points, up two basis points on the third quarter, reflecting improved liability margins, particularly in the US and Europe. As we look forward, while we expect a soft start for net interest income due to the lower short-term HIBOR rates and fewer days this quarter, we expect NIM stabilisation and lending volume growth to progressively support net interest income over the remainder of the year.

On the next slide, two core trends to discuss – firstly, on fee income, we saw greater stability in the fourth quarter, notably in Commercial Banking and Global Banking and Markets, with a small reduction in fees in Wealth and Personal Banking, reflecting lower insurance sales and unsecured lending volumes. Secondly, other non-interest income was down $800 million. This reflected a combination of lower interest earned on securities held in the trading book, a reduction in the value of new business written in insurance and lower credit and funding valuation adjustments in Global Banking and Markets. For 2021, we expect customer activity and fee income to recover as economic activity recovers, and we've seen a good start to the year in Hong Kong. But with the impact of new COVID-19 variants, this recovery may be slower than we foresaw a few months ago in areas such as consumer credit. We also expect Global Markets to have trading activity lower than we experienced last year.

On the next slide, ECLs were $1.2 billion or 44 basis points of gross loans in the quarter. Relative to the third quarter, this mainly reflects higher stage 3 charges and the fact that the third quarter benefited from additional releases. The stage 1 and 2 P&L charge for 2020 was around $4.5 billion, including around $300 million incurred in the fourth quarter. We now have stage 1 and stage 2 provision balances of $7.9 billion. That's up $3.9 billion in 2020. While we remain cautious on the outlook for credit in 2021, we expect the 2021 ECL charge to be lower than 2020, and we've no update at this point to the guidance we gave you at third quarter: effectively a range of approximately 40-60 basis points this year. By 2022, we expect ECLs to have materially reduced from the 81 basis-point charge in 2020 towards or even below the lower end of our 30-40 basis point normalised range.

Turning to slide 13, fourth-quarter adjusted operating costs, ex the bank levy, were $780 million higher than the third quarter. This was driven by targeted technology investment and marketing spend, together with the decision to increase the variable pay pool. For the year as a whole, operating costs were down $1.1 billion or 3%. This included a number of offsetting items. The variable pay pool was down by more than $500 million. COVID-19 impacted cost items like travel & entertainment and marketing were down $600 million, and our combined cost programmes over 2019 and 2020 delivered in-year savings of $1.4 billion. Offsetting this were various items including increased technology investment, up £377 million or 7% on 2019. For 2021, we expect the bank levy to fall to around $300 million. That's some $500 million lower than 2020. For operating costs ex the bank levy, we're seeking to keep them broadly flat after adjusting for the impact of dollar weakness, with significant cost savings from our ongoing restructuring programme offset by a combination of certain costs increasing from COVID-19 loans together with planned higher investment and growth spend.

On slide 14, in the first year of our three-year programme we achieved $52 billion of gross risk-weighted asset saves. We're more than halfway to our $100 billion gross reduction target of low-returning risk-weighted assets. This included a $10 billion reduction in the fourth quarter. We expect to make around a further $30 billion of gross RWA saves in 2021.

On slide 15, our common equity tier 1 ratio at the end of the fourth quarter was 15.9%. That's up 30 basis points in the quarter. This was driven by a combination of RWA reductions on a constant-currency basis, profit generation, FX translation differences and 21 basis points of software intangible benefit. On the latter, we expect software intangibles to be reversed out of our common equity tier 1 over the next 12-18 months. Excluding FX movements, risk-weighted assets fell by $20 billion in the fourth quarter primarily as a result of reduced lending balances. The planned 2020 interim dividend of 15 cents resulted in a reduction of 40 basis points to our common equity tier 1 ratio at the end of 2020.

And, with that, Back to Noel.

NOEL QUINN: Thanks, Ewen. Last February we announced a series of actions to make HSBC fit for the future, and we remain committed to delivering them, but there were three fundamental shifts in 2020 that we must reflect in our plans for the future.

Firstly, the interest rate environment changed dramatically. We lost around $5.3 billion of net interest income or more than two percentage points of RoTE, and we don't expect rates to rebound any time soon. We reacted to this in two ways: by accelerating our shift towards non-interest income, including earned fee income, and cutting our costs further and faster to compensate for lost revenue. Second, the shift to digital was accelerated by the impact of lockdown. As the pandemic took hold, our customers' digital engagement increased dramatically. We were already investing heavily in digital and technology, but we responded by rapidly accelerating the digitisation of our business. Third, COVID-19 has made everyone aware of how fragile the global economy is to an external event, and as a consequence environmental issues have taken on a renewed importance. Thankfully, we were already working on the next phase of our successful journey with respect to sustainability, and we announced an ambitious new climate plan in October of last year. The low-carbon transition is the most transformative trend of our time, and it presents an unmissable commercial opportunity for a bank of our size, geography and profile.

So these three trends and the decisive action we took to meet them form the basis of much of what you're going to hear over the next 30 minutes. We have a plan that we think can deliver at least 10% return on tangible equity over the medium term. It will transfer material amounts of capital from low-return markets to higher-return markets. That capital will be deployed into businesses in Asia where we already have a strong track record of growth and profitability, and we will also invest in technology to transform our costs. It's a plan capable of delivering returns above the cost of capital and supporting both sustainable dividends and future growth. It is built on the four pillars you see here on slide 19, and I'll take you through each one in turn.

Slide 20 looks at the first pillar of our plan: driving growth by focusing on our strengths. We're going to stop being everything to everyone. We want to do the things that capitalise on the advantages we have and to do them brilliantly. In Wealth and Personal Banking, we will continue to invest in our scale markets in the UK and Hong Kong, but the new story here is Asia Wealth. Nuno will talk about this in more detail, but we're going to invest more than $3.5 billion in wealth in Asia in the next five years to achieve three things. We want to serve high net worth and ultra-high net worth clients in Hong Kong, mainland China, Singapore and south-east Asia globally. We want to build out our insurance and asset management capabilities across Asia, with organic and inorganic options firmly on the table, and we want to do more with clients who already bank with us, bringing wealth opportunities to our customers in Commercial Banking and Global Banking and Markets.

In Commercial Banking, we will continue to be unashamedly and uniquely global. We want to lead the world in cross-border trade and in serving mid-market corporates globally. There are many things that are changing with respect to our strategy and our execution, but this one will remain unchanged. We'll invest around $2 billion to drive customer acquisition, to become a digital leader in our scale markets and to support the three critical product platforms: Global Liquidity and Cash Management, Global Trade and Receivables Finance, and Foreign Exchange.

Global Banking and Markets will retain the capacity to serve clients globally, but we'll invest in the markets that set us apart whilst also moving the heart of the business to Asia, including leadership. We will use our global network to connect our Global Banking and Markets clients to opportunities in Asia, the UK and the Middle East, where we can add the greatest value. We'll spend around $800 million in GBM in Asia to build better digital market platforms to support our wealth strategy, to build better market access and execution capabilities for our wholesale clients, and to expand our investment banking coverage across Asia. Peter will talk about this in a few minutes.

Slide 21 shows where our US and European businesses fit in. Michael Roberts and the US team did a great job in 2020 repositioning the business: closing branches, driving down costs and reducing capital. For the next stage, we will focus the vast majority of our resources into our international corporate and institutional franchise in the US. We'll continue to connect our US wholesale clients into our international network, driving revenue growth in other regions. We'll also defend our strength in US dollar clearing, trade and foreign exchange, and continue to reposition US markets and securities services to provide access in a way that uses less capital. In US retail, our focus will be on building an international wealth platform that connects

WPB clients across our global network to US wealth opportunities, and we continue to explore organic and inorganic options for our US retail banking franchise.

For Europe, the story is similar. Nuno and the team laid solid foundations in 2020, removing RWAs and reducing FTEs by 6%. Our strategy remains focused on connecting inbound and outbound international wholesale customers into our network and a wealth business focused on our global booking centres in mainland Europe. We'll keep investing in our transaction banking franchises to better connect issuers and investors in Europe to Asia and continue to reduce or exit sub-scale retail banking and SME portfolios. We are continuing with the strategic review of our retail banking operations in France and are in negotiations in relation to a potential sale, although no decision has yet been taken. If any sale is implemented, given the underlying performance of the French retail business, a loss on sale is expected.

Slide 22 looks at the second pillar of our plan, and this is incredibly important. We see our digital agenda as presenting opportunities for both revenue growth and cost efficiency. In the last year, we spent around $5.5 billion on digital and technology. The impact of this is coming through our digital engagement and ratings, in our revenue, in our cost base and in our ability to operate a global business in the middle of COVID. We wouldn't have achieved what we have already done without that historical investment.

John will go into more detail about the future investment programme, but I want to take a minute or two to talk about how we'll pay for it. We think we need to grow investment by between 7% and 10% on a compound annual basis between 2019 and 2022. To pay for that, we need to reduce the cost of running HSBC by 4-5% over the same period. We intend to save $1 billion more on cost than we said last February on a constant-currency basis. We'll make our cost programmes work harder to deliver between $5 billion and $5.5 billion of savings, and we'll spend around $7 billion to achieve those savings, with at least half of that falling in 2021. We also intend to keep our headline costs broadly stable from 2022 onwards, enabling us to reinvest further savings into the business.

Slide 23 is about energising HSBC for growth, so the culture, the composition and the future skills we need. This is about creating a dynamic, inclusive and entrepreneurial organisation. We've already infused the top of the firm with new people and new skills. More than three quarters of my senior leadership team have been in post for around a year or less, and of the layer below just under half of the top 200 took up their current roles in 2020. We've also reduced senior management numbers by 17%, removing layers and increasing accountability. I'm passionate about creating an inclusive organisation that unlocks opportunity for all and fosters the diversity of thought and experience that every business needs. The diversity of our top team is improving, but we want to go further both in terms of gender and ethnicity.

We also made good progress improving employee advocacy, but there are gaps amongst some employee groups that we must bridge. We also need to build skills and capabilities in areas that are different to what we've needed historically, particularly in digital, analytics and sustainability. We can bring some of those in from outside, as we have done over the last 12 months, but we also need to train within, which we're doing through the newly expanded HSBC University, for which I was the executive sponsor before I became Group CEO.

Slide 24 looks at one of our biggest opportunities and one of our biggest drivers for change, the transition to net zero. We're already a global leader in sustainability, and we want to stay there as the market expands exponentially. In 2020, we were the biggest underwriter of green, social, sustainability and sustainability-linked bonds for the second year running, doubling the volume we underwrote in 2019. We've already set out some uniquely ambitious plans for a bank of our scale and footprint to reduce emissions in our operations and supply chain to net zero by 2030 and to align our portfolio of financed emissions to net zero by 2050 or sooner. In May we intend to file a resolution to our AGM requesting investor approval for a clear science-based route to a net-zero-aligned portfolio. It will commit the bank to ending the financing of coal-fired power; it will align our financed emissions to net zero; and it will commit us to evidencing this through very specific milestones and reporting. Let me be clear: we intend and plan to work with all our clients in every sector to map and finance their low-carbon transition. We are aligning every part of our business behind that aim both to achieve our net zero ambition and to capture the commercial opportunity.

So, taking all of this in aggregate, what does tomorrow's HSBC look like? We're effectively undertaking three pivots: to Asia, to wealth and to fee income. We'll also continue to grow our global capability in wholesale banking and further leverage our unique capability to service mid-market corporates globally. These are our highest-return, highest-growth opportunities. We expect to move around 8 percentage points of Group tangible equity to Asia over the medium to long term, and we're linking this to compensation for the first time. It will explicitly be part of my and Ewen's scorecards.

We also expect to move around 10 percentage points of tangible equity to Wealth and Personal Banking over the same period, with a broadly equivalent reduction in Global Banking and Markets. A focused investment in wealth, combined with our investment in technology, aims to deliver compound annual revenue growth in the mid single digits from 2022. That should accelerate the growth of fee income and insurance income from 29% to around 35% of Group revenue over the medium to long term. This is an ambitious plan, but a deliverable plan, and we're going to move with pace and determination and belief in our ability to get it done.

I'll now hand over to Peter to talk about our Asia opportunity, Nuno to talk about our pivot to wealth and John to talk about the technology that underpins everything we want to achieve.

PETER WONG, DEPUTY CHAIRMAN AND CHIEF EXECUTIVE, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED: Thank you, Noel. I want to start by saying I'm very excited about Asia's growth, and HSBC is uniquely positioned to capitalise on the opportunities. Economically, Asia is outperforming the rest of the world. It contributed 71% of global growth in 2019 and is expected to account for almost half of global GDP by 2025. The key story is Asia is rapid wealth creation. By 2030, two thirds of the world's middle class will be in Asia, up from just over 50% today, driving strong growth in consumer spending, and this will promote trade. PwC forecasts that trade flows in Asia will grow 25% faster than the rest of the world over the next five years. For HSBC, the opportunities lie not just in helping sustainable growth, supporting trade and managing wealth within the region, but also in using our unique global footprint to connect the rest of the world to Asia and vice versa.

We are already a leader in Asia. We operate in 19 markets across the region, covering 98% of Asia's GDP. For the majority of our markets, our history goes back 140 to 150 years. Therefore, we know the customers, the culture; we know the regulators and we know the business flows. So when it comes to global connectivity, our international competitors lack our footprint and deep connection to Asia, and our Asian competitors lack our international network. Within Asia, Hong Kong, mainland China, south-east Asia and India will drive our growth. These markets will benefit from an expected doubling of assets under management in Asia to $30 trillion over the next five years.

To expand our businesses, we will continue to strengthen our position in Hong Kong, our market-leading digital products in particular, and leverage our strengths to capitalise on the opportunities in the Greater Bay Area, a region with a population of 73 million and GDP of $1.7 trillion. We will hire more than 3,000 wealth managers in China, where we expect the middle-class population to double from the current 300 million to 600 million by 2028.

In Singapore, in our Wealth and Personal Banking business, we will increase resources to build on the momentum created by last year's double-digit AUM growth across Premier and Jade and establish regional wealth management hubs for ASEAN and south Asia. Our Global Banking and Markets and Commercial Banking businesses will capitalise on the more than 4,200 multinational corporations that have regional headquarters in Singapore. We already bank some 750 of these, and we will build on this progress by scaling up our coverage teams and product capabilities, including cash, liquidity and risk management to increase our market share in this space.

In India, we will build on our longstanding national and international relationships to accelerate the growth momentum we have already established. Offshore banking revenue grew by 20% per annum in the last two years, and we also aim to leverage our unrivalled network to win a larger share of the 18 million non-resident Indian wealth management business across the world.

So how are we going to do this? We will invest an additional $6 billion in the region over the next five years, with half of it in south and south-east Asia. The investment is mainly in new talent in our wealth management and wholesale banking businesses and in improving our technology. Externally, we will enhance our digital capabilities across all markets to deliver a tailored end-to-end customer experience enabling our 14 million clients to use our network to move or invest their capital globally and seamlessly. Internally, we will invest in areas including data and analytics, powered by artificial intelligence and machine learning, to anticipate the needs of our customers more effectively and capture a greater share of wallet across retail, commercial and global banking.

We'll continue to maximise the revenue-generating potential of our global footprint and product range. Already 55% of our global revenue is driven by cross-border businesses. In the last 12 months, we have won awards for Best Global Trade Finance Bank, Best Digital Bank and Best Regional Private Bank, among many others. We will continue to invest to capitalise on the huge and growing opportunities in Asia's wealth market and work towards becoming Asia's leading international wholesale bank. Overall, these actions will increase market share and boost our revenue streams, which will generate double-digit PBT growth in Asia over the medium to long term, allowing the region to continue to deliver significant contributions to HSBC's Group dividends. This is really an exciting time to be in Asia and really an exciting time to be in HSBC. With that, I'll hand over to Nuno. Thank you.

NUNO MATOS, CHIEF EXECUTIVE, WEALTH AND PERSONAL BANKING: Thank you, Peter. Last year, we created Wealth and Personal Banking and we brought together our mass affluent, asset management, insurance and private banking businesses into one integrated business, allowing for a significant acceleration of our wealth strategy. Last year, this business generated close to $8 billion in highly-accretive wealth revenues, with more than 50% being fee revenue. Our wealth expansion is well underway. We've made the necessary structural changes; the plans are well defined; we have bold but achievable ambitions; and we are in full execution mode, particularly in Asia but also in our global wealth hubs. And that's what I would like to talk about today.

We believe that wealth management is one of the most compelling opportunities for growth in financial services today. The affluent and high net worth expansion, low rates for longer and the capital-light profile of this business make it very attractive. And, while the opportunity is global, Asia is no doubt the fastest growing region for wealth assets. In this context, HSBC is perfectly placed to capture this opportunity. We have a compelling starting point with 4 million customers and $1.6 trillion of wealth balances, making us a leading international wealth manager. The lion's share is in Asia, accounting for more than 65% of our wealth revenues. We are the second-largest wealth manager in Asia, leveraging the strength of our brand, which is built on a 155-year heritage of serving customers and the full capabilities of a universal bank. Last year, we grew our global wealth balances by more than $160 billion at double-digit growth.

Second, as the wealth opportunity becomes truly global, our international network gives us the ability to deliver transactional banking and wealth management services in the most relevant markets to our international-orientated affluent and high net worth customers. We have a strong presence in the world's top eight cross-border wealth hubs.

Third, we have unique access to prospective customers through our leading CMB and GBM businesses and their extensive client base. In 2020, more than 60% of net new money for asset management and private banking came from our wholesale relationships.

Over the next three to five years, we will invest more than $3.5 billion to leverage these advantages and accelerate the development of our wealth business, particularly in Asia. Our investment will be focused on two areas: firstly, developing new products, technology and platforms to deliver a leading client experience. We will build digitally enabled financial planning platforms across the client continuum and scale up our insurance, health and wellness platforms. We will integrate our wealth management capabilities with a mobile-first approach and create a single core banking platform for private banking across Asia and EMEA. We will differentiate our asset management business with a focus on higher-value, higher-margin products, and we'll deliver high-conviction products in areas like alternatives, ESG and equities. We'll deliver bespoke wealth products to our Jade and private banking customers in partnership with Global Banking and Markets, and we'll grow and deepen ultra-high net worth clients through a dedicated client coverage model focusing on Asia and the Middle East and on products which make best use of the Group's capabilities.

In parallel, two thirds of our investments will aim to significantly expand our distribution capabilities. These efforts will focus on hiring more than 5,000 customer-facing wealth planners equipped with remote video capabilities, particularly for our flagship Pinnacle expansion in mainland China and high net worth coverage in Singapore; and significantly growing our private banking reach in mainland China to 10 cities; and more than doubling our Jade customer base in mainland China and Singapore; and, finally, expanding our asset management footprint in emerging Asia, particularly in India and Malaysia. These investments will enable us to grow our AUM in Asia faster than the market and grow revenues by more than 10% CAGR, significantly increasing the contribution of wealth to our total WPB revenues.

We have strong credentials to deliver on this ambition. Our leadership position in Hong Kong is well known, having delivered strong growth over the last five years and consolidated our number one wealth market share. Our UK integrated digital wealth capabilities are now very credible, with recent roll-outs of FlexInvest, Wealth Plus and Benefits Plus. Today, more than 60% of our customers' equity trading in Hong Kong is now done on mobile. We will be leveraging these capabilities to differentiate our wealth proposition in the rest of Asia.

In mainland China we are the largest foreign bank, and despite the challenges of the pandemic we have launched Pinnacle in four cities and obtained the first ever foreign fintech licence in mainland China. Our hiring plans are well underway. In six months, we have hired approximately 200 wealth planners, and we will scale up to 3,000 by 2025. And, by the way, we are also exceeding our financial targets. Our roll-out of leading advice-led private banking in mainland China will also benefit from our private bank in Hong Kong, which was recently voted number one for the sixth consecutive year. And in asset management we will aim to take a majority stake in Jintrust following a change in the regulation, and we will execute to become a top-10 international asset manager in mainland China.

Finally, our global footprint is unique and particularly important in the wealth space, as our clients' needs incredibly are global with material expansion in many wealth corridors. We will invest in our booking centres in Singapore, Switzerland, the UK, the Channel Islands and the US as key wealth hubs. In India, we will target being the number one foreign bank for Non-Resident Indians and, having already the leading market share among the overseas Chinese diaspora, as Asian wealth expands across borders, we are well positioned to grow with it.

I have great confidence in the prospects of our wealth business. The combination of our unique competitive position, our integrated business structure and our investment in people and platforms will deliver solid growth. With our global dimensions and position, WPB is well placed and organised to accelerate our wealth growth and deliver at pace, and I look forward to updating you on our progress. I will now hand over to John.

JOHN HINSHAW, GROUP CHIEF OPERATING OFFICER: Thanks, Nuno. I want to expand on what you've heard today and describe how technology will be a differentiator for the Group. Our focus is to shift away from costs across the bank that aren't adding value to customers and to make investments that drive revenue growth and a better customer experience.

But, first, let me explain Digital Business Services. You probably knew it as HOST in the past, which stood for HSBC Operations, Services and Technology. It's my view that this was a fragmented approach to our task at hand, which is digitising our business end to end. Thus we are digital; we are focusing on improving our business results; and we are a services-based organisation – Digital Business Services.

The first slide explains our approach. You probably won't be surprised that we spent more on technology, especially given increased customer demand due to COVID, but more important than the amount we're spending is that we're developing technology in a fundamentally different way. Our approach to building technology platforms has shifted from building bespoke local solutions to leveraging our scale. We will build once and deploy globally.

We're also laser-focused on reducing the bank's cost by digitising end-to-end processes and eliminating manual work. To do this, we're dissolving the boundaries between the front, middle and back offices, so work is processed with limited or ideally no manual touch points. In 2020, for example, we processed 7.6 billion payments as a bank, and they were worth $563 trillion. We increased our no-touch rate on those transactions to 96%. But we can do even better. Our aim is to get above 99% no-touch rate in the next several years, and to get those last few percentage points we're going to need to digitise the most complex payment processes. Reducing the number of people involved in manual work means they can be redeployed into revenue-generating roles and savings can be reinvested back into technology, creating a virtuous circle of digitisation that unlocks customer growth.

We're also doubling down on our partnerships with big tech firms like Google, Amazon, Apple, Microsoft and Alibaba as well as many small fintech firms across the globe. For example, we believe HSBC is one of Google Cloud's largest and most engaged financial services clients, and we're working with them on intelligence-led financial crime detection, which will ultimately help protect our revenues.

The next slide contains three examples of how we're using our scale to improve the customer experience and drive revenue growth. We've invested over $1 billion over the last few years on our MobileX platform, which is now a bank in your pocket, and it standardises our core digital platform across all key markets. But one of the most interesting things about this new platform is the way it's driving personalised interactions. We marketed it extensively in Hong Kong last year and saw record credit card spending, as customers liked the improved experience. We've also received app store ratings in many markets that are 4.7 or higher, which is up significantly from prior ratings. We now have 3 million Hong Kong digital customers, which represents 40% of the population, and over 90% of all retail transactions in Hong Kong are done digitally.

Our Global Money Account platform is a great example of how we are taking something developed in one country, in this case the US, and deploying it elsewhere. The internationally mobile population requires access to funds in different countries and currencies. I'm personally a great example of that, having just recently moved from the US to the UK, and our product does just that. It enables instant global transfers with our multi-currency card using real-time FX rates. Built on a common platform, it's now being rolled out worldwide. It went live in the US in August, with planned launches this year in the UK for expats, in the Middle East and Singapore, and shortly the rest of the world will follow.

And then finally, Kinetic, which is a cloud-based mobile app for our corporate customers that we rolled out in the UK, and we're using the insights gained so far to see how we can apply the capabilities in Asia and other parts of the world.

Finally, let's get into the details on the opportunities to drive operational efficiencies. Clearly, COVID has transformed the way we've all worked over the past year, and we now have an opportunity to create a lower sustained cost base in both corporate real estate and reduced business travel. We've analysed our worldwide real estate footprint and anticipate a reduction in the order of 40% over the next several years while also ensuring our remaining real estate has a lower environmental footprint on the journey to having our operations at net zero by 2030. There are also opportunities to further reduce our workforce performing non-customer-facing functions. Overall, our workforce numbers are down 11,000 year on year despite the fact that we paused redundancies last year while we assessed the impact of the pandemic on our customers and our people.

But over the next few years, through digitisation, we expect the Finance function to be reduced by about third, and we will change the nature of the work that Finance teams perform. We will do this by migrating our analytics and reporting capability to an agile cloud platform. Our technology headcount will be optimised to focus on agile development, and we will reskill our colleagues with the technology skills needed for the future. There's also an opportunity to materially shrink the number of manual processes, which will result in less need for the vast Operations function in our bank today, which currently spans 74,000 resources. Many of these resources will be reskilled for higher-value customer-engaged opportunities, including data and analytic skills that are in high demand.

Our commitment throughout HSBC is to attract the best and brightest and most diverse colleagues for our journey ahead. Few, if any, other organisations across the world can offer the same breadth of opportunities that HSBC does to apply cutting-edge technology to solve real-life problems and improve people's lives. We're doubling down on creating a diverse and inclusive workforce. I have an entirely new senior management team that is half promoted from within, half recruited externally and has three quarters female executives. We will continue to do more to improve gender balance and diversity across the broader team.

Thanks for listening. Let me hand back over to Ewen now.

EWEN STEVENSON: Thanks, John. On slide 40, our refresh plan seeks to build returns to at or above the cost of capital and to do so in an environment where rates broadly stay at today's levels, providing leveraged upside as higher rates return in the coming years. In order to do this, there are broadly three buckets of return upside.

Firstly, things that we just expect to happen irrespective of management intervention. In this bucket, I'd put two things: the normalisation of ECL charges that I talked about earlier, and the lowering of the bank levy from this year onwards. Together, these should add around 300 basis points of RoTE over the next few years. Secondly, the actions we talked about across revenues, costs and capital, together we think these plans can drive an incremental 400 basis points of return on tangible equity over the coming years. On revenues, a few things that contribute to this. Firstly, the achievement of a better mix of higher returning lending relationships. This was a core part of what we announced in February last year, the shifting of capital from certain lower returning Western clients to the East. We made very good progress on the shift out of the West in 2020 with material gross risk-weighted asset reductions in our US and non-ring-fenced bank franchises. But COVID-19 did slow the reallocation of capital to the East relative to what we expected to do last year. However, as Peter has just set out, we continue to be massive bulls on the high growth and return potential across our Asian franchises. Over the medium term we've an ambition to have Asia represent around 50% of our tangible equity – that's up from 42% today – with much of the remaining 50% of our capital linked to Asia.

And secondly on revenues is our planned growth in in non-interest income. You've heard from Peter and Nuno our raised aspirations in this respect. We see significant growth opportunities in both Asia wealth and Asia wholesale, and we're committing further material capital, people, technology and investment resources to underpin this.

On operating costs, you've heard today an increased ambition from us. We've raised our 2022 cost reduction target by a further $1 billion, but more importantly we've got growing confidence in a multi-year cost opportunity beyond us, and an aspiration to keep costs broadly flat while continuing to achieve healthy revenue growth and jaws. John just talk about this, using technology to transform the whole of our organisation, lower front office distribution costs through increased digital delivery and higher relationship manager productivity, lower commercial real estate costs as we return to work in a very different way, and using technology to transform the Operations and functional support model, delivering much better customer and control outcomes at a dramatically lower cost.

And on capital we've got a whole bunch of initiatives underway, stripping back the capital allocation to our US and non-ring-fenced bank franchises, including trapped capital currently sitting in the US, improving the optimising of capital in various subsidiaries elsewhere and investing in our stress testing capabilities to drive down the aggregate level of stress across the Group. That's why we're now guiding to a 14-14.5% common equity tier 1 ratio, rather than the previous 14-15%.

And the last building blocks for our return on tangible equity is an improved rates environment. To be clear, we're not baking this into our base plans. We want to have a business that can generate cost of equity returns assuming this rate environment, but I would note that a 100 basis point parallel shift upwards in rates would improve our returns by around 300 basis points within two years.

So on slide 41, and to conclude before handing back to Noel, we're resetting our operating cost target for 2022, $1 billion lower than previously guided, and post-2022 an ambition to keep costs broadly stable while achieving material revenue growth. Our gross risk-weighted asset target by the end of 2022 remains unchanged – at least $100 billion – but with over $50 billion achieved in 2020 and a further $30 billion target in 2021 we've high confidence in delivery. Our common equity tier 1 ratio of 14% or more, with confidence in being able to manage to a 14-14.5% range over the medium term. A new dividend policy, all cash going forward with no scrip alternative, a dividend of 15 cents for 2020, and the transitioning in 2021 towards a payout ratio of 40-55% from 2022 onwards. This allows for a powerful combination of both sustainable growth and sustainable dividends. Where we have excess capital in any given year we will look to buy back to augment dividends, but please don't model buybacks into your 2021 numbers.

And a return on tangible equity of at least 10% over the medium term, a return that can be delivered in the current rates environment, with material leveraged upside if rates improve, and a return that can be delivered with a set of actions that sit firmly as self-help measures within this management team's control. And with that, thanks and over to Noel to conclude.

NOEL QUINN: Thanks, Ewen. So to wrap up, we will significantly increase the Group's capital resource allocation to faster growing, higher-return markets. We will capitalise on the opportunity offered by our network and our franchise to drive growth from fee generating products in wealth and platform businesses in wholesale banking. We will leverage technology to transform our cost position, offering significantly higher operating leverage and freeing up resources for investment. And we expect all this to deliver returns above the cost of capital, while driving revenue growth, principally from Asia. Through our new dividend policy we aim to deliver both sustainable dividends and sustainable growth. And as a final comment, in 2020 we executed against our promises, and in 2021 we will do the same. We will get it done. With that, we'd be happy to take your questions.

MARTIN LEITGEB, GOLDMAN SACHS: Yes, good morning and thank you very much for the presentation. The first question is on capital. I'm trying to understand the moving parts in terms of capital progression from here, because on one hand the very strong capital print this quarter, so 15.9, and the guidance in terms of capital headwinds, so Basel III and software intangibles, so that still implies – if we were just to park aside Basel III for now – around $10-15 billion excess capital above your 14-14.5 target range. I'm just trying to square that up with your mid-single digit asset growth ambitions, your investment spend, which is over a five-year period, I understand, and the dividend payout guidance not capturing 2021. Is it right with significant headroom here in terms of capital, whether that could mean either faster growth, whether that's organically or inorganically, or is there anything I'm missing in terms of the potential headwinds? And the second question, I was wondering on rate sensitivity, and thank you for the disclosure on slide 69, to the parallel shift in yield curve. Could you help us quantify the impact of – from purely arising from a steepening of the yield curve as you've seen obviously over the last couple of weeks, months in US dollar but also in sterling. Is there fairly limited impact arising from this steepening of the yield curve given limited hedges, in particular in Hong Kong, or is there any more meaningful impact coming? Thank you.

EWEN STEVENSON: Okay. Well, look, I'll start off with the first question, Martin. Maybe to deal with it through risk-weighted assets. We finished the year at just over $850 billion of risk-weighted assets. We are telegraphing an expectation of loan growth in mid-single digits over the next few years. I think for this year it's probably going to be back-end weighted as various economies recover from COVID. We have around $10 billion of regulatory pressure this year, and in total about $40-50 billion if you go through 2022, 2023, including the impact of Basel. We've got an RWA run down programme that's still got $50 billion to go that largely offsets that, $30 billion this year and another $20 billion next year.

And then on top of that, which has surprised us, we've had meaningful credit rating migration during 2020. There was about $30 billion of credit migration. We're anticipating that to be less in 2021. It could be materially less, depending on how economies recover, and then a decent amount of that reverse out in 2022 onwards. When you put all that together we are anticipating risk-weighted asset growth on distributions. We do expect to be above the 40-55% payout ratio in 2021, and then migrating within that payout ratio thereafter. As I said, no buybacks this year, but it's certainly something that we've used in the past. As you know, we do see them as a legitimate means of capital management and if we have excess capital in 2022 and beyond it's certainly something we'll consider.

Then on rates sensitivity, the steepening in the yield curve in the US dollar provides some support but not material support. We're far more sensitive to the near end of the curve.

ADRIAN CIGHI, CREDIT SUISSE: Hi there. Thank you very much for taking my questions. I have two questions. One follow up on capital and one on net interest income. On capital, just to understand, you've very helpfully outlined the risk-weighted asset bridge, but is there, in your capital target, any part of that surplus capital, as it were, earmarked for potential opportunities, and could you maybe outline how much you're thinking and over what period of time? And then on net interest income, you've had a NIM contribution of 5 basis points from the liability side. Can you give us any insight how much of that is recurring and how much more you could do from either change in liability mix or repricing going forwards? Then on loan volumes you've shown a decline on a quarter on quarter basis, despite a weaker US dollar, yet you expect mid-single digits going forward. Where do you expect this to come from? Thank you very much.

EWEN STEVENSON: On capital, we're not allocating or precisely allocating any amount to inorganic, but within that dividend policy of the 40-55% payout ratio we are giving ourselves some flexibility to do bolt-on acquisitions. I use the word 'bolt-on' quite carefully, so don't expect us going out and doing material M&A any time soon, but if we see things that we can bolt on that accelerate our strategy in some of the areas we talked about today we'll certainly consider it.

On net interest income, NIM generally, I think Q4 there was the repayment of the Ant IPO in Hong Kong, which I think had a material impact on lending volumes together with a traditional cramming down of corporate borrowings towards year-end, so I wouldn't read too much into Q4 of last year. On net interest income for this year, we do expect, on the positive side, some asset growth, with a bias to the second half. I think the news flow out of the UK yesterday was very positive. The vaccination programme's now started in Hong Kong. You'll have your own forecasts for China, but we see significant growth opportunity, I think, in Asia coming out of COVID, and continue to see a significant opportunity here in the UK in mortgages, for example, where we've been consistently running at about a 10% market share during the year last year.

On both the liability side and the asset side we see some repricing opportunity. Dollar weakness should add about $800 million to non-interest income this year. And offsetting that, obviously when you look at our roll forward interest tables we're going to have some headwinds from the lower interest rates from last year and we've currently got a very weak HIBOR, and you know that we're very, very sensitive to one and three-month HIBOR.

NOEL QUINN: Adrian, I'd also add on loan volumes I think what we saw towards the end of last year, particularly in Asia, was a lot of customers, wholesale customers, positioning themselves with facilities available to fund future growth, but not yet drawing down on those facilities. I think they're ready with their balance sheets to take advantage of an upturn, and they're waiting to see that upturn come as we start to see the world come out of the COVID crisis, hopefully on the back of the vaccination programme. But there was certainly a lot of activity towards the end of last year on getting ready for that upturn.

ADRIAN CIGHI: That's very helpful. Thank you very much.

TOM RAYNER, NUMIS: Yes, good morning, everybody. A couple, please. The first one on the impairment guidance for 2022, either at the bottom end or below the 30-40 basis point range. Can I ask if you're factoring in anything significant in terms of releases from the stage one and two reserves, or whether that 2022 number is going to be representative of a through-the-cycle rate? And I've got a second question, please, just on distributions. You mentioned, obviously, share buybacks are a possibility, but in the medium term. I just noticed that the medium term you define as three to four years, so just wondering whether you're effectively ruling out buybacks for both this year and next year, or whether that's reading too much into the terminology. And I'm assuming over and above the maximum dividend payout it'll be the 14-14.5% target range on Tier 1 that sort of calibrates your maximum distribution potential. Thank you.

EWEN STEVENSON: Thanks, Tom, for picking me up on the use of the term 'medium', so I'll be more careful going forwards. No, we've only ruled out buybacks in 2021. I wasn't intending to also put a block on us participating in buybacks in 2022. On impairment guidance, we've talked in the past about a normalised range of 30 to 40 basis points through the cycle. We were obviously more than double the top end of that in 2020. Included in that was a very significant build-up of stage one and stage two. If you back that out we were running probably the low 40s in 2020. Yeah, as we think about 2022 there may well be some reserve releases in that guidance, but I do think if the world is recovering out of COVID we should be able to operate at or below 30 basis points for 2022 onwards for a few years until the cycle turns again.

TOM RAYNER: Okay, thank you. And just on the other question, thanks for the clarification on the 2022. The total distributions, I know you're leaving room for some bolt-on acquisitions, you said, in your 55% maximum payout. I'm just thinking if there aren't any acquisition opportunities at all would you be prepared to distribute everything else that kept you within the 14-14.5% target range on your Tier 1.

NOEL QUINN: Tom, the important thing is the first call on any excess capital will be to try and use it to drive growth, but profitable growth in our strategically important markets in a focused way. And then if we can't – if we don't see opportunity for growth then we do reserve the option of buybacks, but I think it's too early to make that call at this point in time. I think we'll clearly look to use the capital in profitable growth in the focused areas and resort to buybacks if we don't have a realistic opportunity for profitable deployment.

EWEN STEVENSON: And also remember, Tom, what I was talking about in one of the previous questions is there will still some decent amount of RWA inflation in both 2022 and 2023 coming from regulatory change.

NOEL QUINN: I think the important change we've made with this dividend policy is to provide an opportunity to both generate strong return and strong growth for the bank, and that's what we try to position with the dividend policy going forward.

AMAN RAKKAR, BARCLAYS: Morning, gents. Thanks for the questions. Just a couple, please. Could I just confirm quickly on the cost targets that you've given in 2022? Does it include anything for French Retail and the North American Retail business that's currently under review, or should we be looking to kind of adjust those targets incrementally for anything that may or may not get announced in due course?

NOEL QUINN: That's not included within our targets. Any actions on those two areas would be incremental. To start with, there'd be a loss of revenue as well so you'd need to take both of those into account.

AMAN RAKKAR: Okay, cool. Can I just ask then on cost management more broadly, then? How are we thinking about managing that cost base? Are you looking to target jaws? As well as given the absolute cost target, if the revenue environment doesn't come through are you looking to manage it on a jaws basis should we book looking at cost income ratios? How are you thinking about cost flex if the revenues don't come through?

NOEL QUINN: I'll give you a couple of comments first, and then I'll ask Ewen to go into more detail, but we're targeting an absolute cost number in the medium term and on a constant currency basis that is now $30 billion. When we talked a year ago we talked about $31 billion in 2022. We're now talking $30 billion on a constant currency basis in the medium term. But that is also having taken into account a willingness to invest. So that $30 billion is post investment, and clearly we're investing in the business because we see growth opportunities, and we believe that it's right for the bank to invest in those growth opportunities. Clearly, that's a dynamic we have to keep under watch as to how much growth is starting to return into the economy, and how much growth we should be investing in. But that target absolute number we've given you is on the assumption of growth and on the assumption of investing in growth, and in total around about $6 billion over the next five years in Asia. But, Ewen, do you want to add any more?

EWEN STEVENSON: I think we've done a pretty good job on costs over the last couple of years. Remember in 2018 we grew our cost base by about 5.5% in the year, last year we shrank it by 3%. That's an 8.5% delta in the cost run rate. As Noel said, we're not targeting either jaws or – what we're targeting is to get returns up materially and in order to do that we need to control costs well. John talked about it earlier, growing confidence internally about a very material productivity uplift that we can get from the investment in technology, and that gets you on a very virtuous circle. The more productivity you drive the more affordability you have to invest. But, also, I think over the last couple of years what you've also seen is we've been flexible. If we've seen growth come down, revenue projections come down we've adjusted our cost trajectory. We think we have got decent amount of growth ahead of us, so we think the cost plans that we set out are realistic for that revenue trajectory, but if things change we'll change our cost plan.

NOEL QUINN: The other important thing is when you look at the slide you'll notice that although the number in absolute terms remains the same from 2022 onwards at about $30 billion on a constant currency basis, $31 billion on an FX adjusted basis, the nature of that cost changes. So you're seeing a higher proportion of that cost base going into investment and technology. That's the red part of that bar chart. And you're seeing the BAU run costs, the operating costs, become a smaller percentage of that total cost base. And that, for me, is where we then start to get the pay back in terms of return on capital because we're deploying more of our investment into taking out 'bad' costs, investing in the 'good' costs that can drive revenue and drive enhanced customer experience, and that's the balancing act that we're trying to achieve.

AMAN RAKKAR: Thank you very much.

RICHARD O'CONNOR, GLOBAL HEAD OF INVESTOR RELATIONS: We've got a couple of questions from Ronit Ghose from Citigroup. The first one is on the wealth business. 'The wealth business in Hong Kong has not been looking very strong. Why do you think your wealth business in Asia excluding Hong Kong has been less strong?' And what should we do incrementally about it?

NOEL QUINN: I think it's a great question and, to be honest, I don't think we've invested enough outside of Hong Kong and outside of China in the past, and that's why, over the next three to five years we're embarking upon a material investment programme, 50% of which will be deployed outside of Hong Kong and China, so that's an important aspect of why we think we can succeed. The other thing I'd say on success is we're investing on a platform that is already very, very successful in Hong Kong, so we're taking the learnings from there and taking them elsewhere, and we're taking the clients that we fostered in Asia in our Commercial Banking and Global Banking businesses, and we're taking those clients into our wealth business. So we're investing on an already successful platform.

Just to give you some statistics from 2020, 60% of the Private Banking net new money that came into the Private Bank last year came from our wholesale banking relationships, Commercial Banking and Global Banking. And 75% of the net new money from our Asset Management business last year came from those same sources, Commercial Banking and Global Banking. Now, across Asia, including South and Southeast Asia, we have a very successful Commercial and Global Banking business, which we're also investing in, and we see that as a source of growth for our wealth business as we put resources on the ground, and as we enhance our product capability in wealth, in Asset Management and Insurance. So that's why I think we can drive growth at a faster rate than we have done historically.

RICHARD O'CONNOR: The second question is more a technical question, again from Ronit from Citi. 'Given your strong capital position, why are you not paying quarterly dividends this year, please?'

NOEL QUINN: Ewen, do you want to pick up that?

EWEN STEVENSON: I think a couple of reasons. Firstly, on our side just caution. I would that we're coming out of a one in a 100 year recessionary event and we're not out of it yet, so we're pretty pleased with how we managed our capital resources last year but we do see value in having strong capital ratios at the moment as we recover out of COVID. I think secondly, also, just from a regulatory perspective you would all know that the Annual Cyclical Scenario didn't get run by the Bank of England at the back end of last year. We're sort of in the middle of running that stress test at the moment. And I think the news coming out of the UK overnight was pretty positive around COVID, so we're not expecting any surprises out of that but I think we'll pay one interim dividend this year in the middle of the year if we can, and then we'll revisit the approach to quarterly versus semi-annual dividends next year.

EDWARD FIRTH, KBW: Morning, everybody, thanks very much. I just had a quick question on the targets. In particular, I can't remember the exact words you used, but you said that if we were to redo our forecasts for the current exchange rate we should add about $1 billion of costs for 2021. Does the same go for revenue? I'm thinking obviously about consensus, but obviously the revenue you mentioned was about $1.6 billion higher, would have been if you'd had it at the current exchange rate, so should we be thinking about that when we're looking at our forecasts for 2021 as well? Thanks.

EWEN STEVENSON: When we looked at consensus it was obviously hard for us to know whether or not a weakening dollar had been picked up. We thought it probably hadn't in most people's forecasts that were published a few weeks ago. But, as I said, if you were to use average January exchange rates, for last year revenues would've been $1.6 billion higher and costs would have been $1.1 billion higher. As you work your numbers I think you definitely have to think about the impact of the weak dollar. It also impacts why we're sticking with a $31 billion cost target for 2022, which we think is $1 billion harder than it was previously. And amongst that $1.6 billion of revenue uplift, it's roughly half and half across non-interest income and net interest income.

EDWARD FIRTH: Okay, thanks very much.

MANUS COSTELLO, AUTONOMOUS: Hi, everyone. I wanted to ask a couple of questions on the Commercial Bank, please. If I look at this year it only delivered 1% RoTE, and if I normalise for provisions, maybe you get that up to 7-8%, but it's the biggest consumer of RWAs in the Group divisionally, and it'll be the biggest consumer of tangible equity, so what's constraining the Commercial Bank in terms of its RoTE and how are you planning to focus on that specifically? Then also specifically on the Commercial Bank, are you still planning to recycle the RWAs out of US GBM and into US Commercial, and if so why? Would it not be better to think about a restructuring of that US Commercial business and maybe adding that to your capital return plan? Thank you.

NOEL QUINN: Manus, thank you. Firstly, the Commercial Banking RoTE in 2020 was impacted by two things. Firstly the IFRS 9 provisions, which you've drawn attention to and you would need to normalise for that. Secondly, the impact of lower interest rates on what is a very liquid balance sheet in Commercial Banking. It had a material impact on the revenue of Commercial Banking in 2020. Now, we're looking to reposition that aspect of the revenue decline by a greater focus on fee income, a greater focus on repricing some of the asset book and driving greater collaboration with some of the GBM fee income product range, which we've had a very successful track record of doing, particularly in 2020, cross-selling more capital market opportunities to CMB clients, more trade-generated fee income products to CMB clients, and more M&A activity as well. We were particularly successful in the UK and in Asia, but it's still early days on that transition into a low interest rate environment and rebooting other sources of revenue and fee income for Commercial Banking.

With respect to the Commercial Bank in the US, actually pre-COVID that was generating good returns, both within the US and when you add in the cross-border referrals to other parts of the world. The inherent return from our Commercial Banking clients in the US was strong, so I don't think strategically that is an underperforming business in the way that we have an underperforming business in Retail Banking in the US, and it's one that we think can continue to generate good returns going forward as the economies normalise after COVID.

EWEN STEVENSON: Manus, one other thing, as you model it, I think customer activity was pretty muted in a number of areas so you'll see in some of the fee income lines they were pretty depressed last year, and again we would expect those to recover as activity recovers.

RAUL SINHA, JP MORGAN: Good morning, everyone. Thanks very much for taking my questions. Perhaps if I can start on the tangible equity allocation slide again. I'm just trying to understand this two percentage point shift per year that you're talking about to get to about 50% Asia over time long term. What are the constraints to going faster than that? Do you think that's the sort of addressable market Obviously, your franchise in Asia is very strong, so is that the fastest you can go within the investable market in Asia, or are there other constraints that we can't really think of right now which might be weighing or maybe some conservatism in there? Also, does that assume the US is sold in terms of your target mix of the businesses? I've got a second one on NIM if that's okay.

NOEL QUINN: Let me just clarify a couple of comments on the reallocation of tangible equity. What we talked about was a reallocation of around about 800 basis points, essentially from West to East. We also said there was a reallocation of tangible equity by business line as well, and that's about 1000 basis points or a 10 percentage point shift out of Global Banking and Markets, utilising that equity, into other business lines such as wealth and Commercial Banking. And those two things obviously overlap to a degree. It's coming from the West, principally out of Global Banking and Markets in the US and Continental Europe, which are low return markets for us relative to the return opportunity in Asia. So we're in the process, as we said, running down part of our book in the US and Europe, and re-investing those saved RWAs into Asia. And that's got to be done in an orderly manner – and we've made good progress on that. 50% gross RWA savings in the first year alone. I think you should view it as we are pulling the RWAs out of a lower return business, Global Banking and Markets, in lower return geographies, Europe and the US, and redeploying into Asia, in wealth and Commercial Banking, and in Global Banking in Asia.

RAUL SINHA: Got it. Thank you. The second one I guess was more on NIM, and I wonder if Ewen wants to have a stab as this one. I was just wondering if you think HBAP NIM has now stabilised. It was only down 2 basis points in the last quarter.

EWEN STEVENSON: As you know, Rahul, HBAP NIM is very short-dated in both the asset and liability side, so both sides effectively reprice either on a one or a three-month basis, and it's highly dependent on the path of near-term HIBOR which continues to be very volatile. I would be hesitant to say that we've reached the bottom. Certainly so far this year HIBOR's been very, very weak. I think we're more optimistic that there is some upside during the year, but I'm not going to predict the path of HIBOR and say that there's no further weakness in NIM as a result in HBAP.

RAHUL SINHA: Got it, Ewen. But if I look at slide 45, where you've got your HIBOR assumptions laid out I think you've got 43 basis points on HIBOR from 12 basis points and then rising up.

EWEN STEVENSON: But I'd note it's also been 13 basis points so far in Q1.

RAHUL SINHA: Right. I was just wondering whether other factors, apart from HIBOR, might be more at play here but it sounds like HIBOR is the main driver.

EWEN STEVENSON: No, HIBOR's still – we've repriced most of the liabilities at this point. There's probably some modest – but the biggest driver of that NIM will be the trajectory of HIBOR this year.

RICHARD O'CONNOR: I've got a couple of written questions which I'll read out. Raul, just – the tangible equity reallocation is organic. A couple of questions. One from Winson Fong of Manulife in Hong Kong: 'How do we measure the success of your digital investments in terms of increased revenues, costs or risk management? What are the metrics we should measure the success of your digital investments, please?'

NOEL QUINN: I think it's a great question. I think we need to do more on disclosure on the return we're getting on those digital investments. We measure that internally. We have every project tracked. Understanding the digital penetration rates, the automation that's taken place, but I think we should share more of that information with you as we go forward. John, is there anything you'd like to add?

JOHN HINSHAW: Yeah, a couple of things. One, we have a technology strategy that spans the bank, that is aligned with every single business objective both on the revenue side, and the cost side and the risk management side – I think your question asked about all three. And there was a very extensive process and an ongoing process to tick and tie all of those. When you hear Peter talk about growth in Asia there's technology that underpins that. When you hear Nuno talk about the wealth programme, that's all connected to the technology objectives. When you hear our cost targets there are specific technology objectives to take those costs out. And we are investing a lot in operational resilience as well from a risk management perspective. As Noel says, we've got all that internally. Happy to share that as appropriate in more detail.

EWEN STEVENSON: If I look at what we're doing in Finance as an example, it really depends on the project and the metrics. We're putting all of our reporting onto the cloud and creating a single data set as part of that over the next few years. We've done liquidity reporting over the last year or so. We're just starting on risk-weighted assets in one of the markets at the moment. We're processing 18 times more data eight times faster, so 150 times improvement. We've taken out a whole bunch of manual intervention, so the control environment's materially improved. And we think when we finish that project we'll be able to take costs down in Finance by a third, but the main benefits are going to be much, much better MI, much better reporting and a much better control environment, together with the significant uplift in productivity. So we're tracking all of the above on that project.

NOEL QUINN: Let me give you a couple of facts just quickly, but these are the sort of things we should probably share more regularly with you. 90% of our Personal Banking transactions globally are on a digital platform. We had 1.28 billion logins to our Personal Banking mobile apps in 2020, and we had over 10.5 million chat conversations with our Personal Banking customers last year online. We had nearly 120,000 downloads of the HSBCnet Corporate Treasury mobile app which we recently developed and upgraded in 2020. That represented around about 150% improvement year-on-year on its utilisation rates. They're the sort of things that we're tracking on how digital investment is transforming the way we'll do business, but we'll come back to you and share more information in future updates.

EWEN STEVENSON: I think that the only thing to add to that, the other side of it is also a very meaningful shift that obviously got accelerated last year in a reduction in traditional banking. So cash transactions across the ATMs and branches were down 25% last year. Contact centre volumes and what we describe as traditional contact centre conversations were down 11%. So one thing COVID has done I think is dramatically shift away from some of the old economy stuff towards digital.

MODERATOR: Second question from the written questions from Yafei Tian from Citigroup in Hong Kong: 'Can you size a bit better for us the opportunity in the Pinnacle and wealth investments, particularly in the Greater Bay Area? Are we talking about hundreds of millions of dollars, billions of dollars? Can you give us a bit of quantification there, please?'

NOEL QUINN: Nuno, do you want to pick up some of your thoughts? It's still early days on Pinnacle, but do you want to share some of the early results and what you're seeing?

NUNO MATOS: Sure. So in mainland China as we know we launched the Pinnacle wealth venture. We started with the first foreign fintech licence in mainland China, by the way. In the first six months we hired 200 wealth planners. They are very well equipped and trained. They are performing above expectations at this moment, both in terms of value of new business and ticket size. We expect to scale up by 3,000 by 2025 and cover 10 cities, and by the way this year we expect to scale up that number by another 600. We believe we can do it. What I would like to call the attention is that this is not just an insurance strategy; this is a wealth strategy. That is the way we are actually growing in south-east Asia and mainland China. It's a non-mass market, non-branch-based strategy. It's a digital-enabled strategy with personal wealth planners.

NOEL QUINN: Peter, is there anything that you can share with us on what you see as the opportunity for Wealth in China for HSBC, particularly in the Greater Bay Area?

PETER WONG: In February there is an MOU signed between PBOC, the CBIRC, between them and also with Hong Kong and Macau. What the MOU is about is about mutual investment between the Greater Bay Area and Hong Kong, and that will have substantial potential for us. The Pinnacle project that we are doing right now is actually also getting ready for that, because when the mutual investment is pushed between the two – is pushed between Greater Bay Area and Hong Kong, we're the leading bank in Hong Kong with the quality products and we're also the leading foreign bank in China, and so Pinnacle will work very well with the strategy because we'll be selling wealth planning in the Greater Bay Area.

GUY STEBBINGS, EXANE BNP PARIBAS: Good morning. Afternoon. Thanks for taking the questions. The first one was building on some of your previous comments, the first part being on interest earning assets. If we take the Q4 position, adjust the FX then reflect some loan growth as you suggested for later this year, would it fair to assume interest earning assets should be up quite meaningfully versus the Q4 position, at least in dollar terms, perhaps mid-single digit? Then on the NIM, obviously grew in Q4 but you pointed to some headwinds from HIBOR etc. If one was to assume a mid-single digit reduction in NIM from here, given that interest earning asset balance growth it would seem to point to 3-4% uplift to consensus NII in 2021. I'm just trying to get a sense as to whether that sounds reasonable or whether I'm being a bit too optimistic given where HIBOR is and the sort of back-end nature of the loan growth this year.

Then just a quick follow-up on RWAs. Thank you very much for the disclosure on the $40-50 billion regulatory headwinds. I'm just wondering whether you might be able to break that down at all between FRTB, Basel III components and other regulatory changes. Is there anything beyond 2023 we should be factoring in? Obviously, there's the output floor, but I just want to check anything residual beyond that 5% you would expect to be much less in magnitude. Thank you.

EWEN STEVENSON: So on output floors, yes, that will have an impact on us under current modelling in about 2027/28, but it's a long time away and we would expect to have done work on how would we mitigate some of that impact. So I think I've given you all of the inputs out to 2023. I'm not going to comment on the individual breakdown of all of that into its sub-component parts. But on net interest income, relative to consensus I guess two things I'd note. One is I don't think consensus, as it was modelled, or as we disclosed included the impact of dollar weakness, which we think would've added about $800 million. I don't know where that was in your numbers. I think we are more optimistic, as you would expect us to be, but probably more optimistic than consensus which had quite low loan growth this year. But some of the other headwinds I think would act as a partial counterweight to some of that.

GUY STEBBINGS: Okay, thank you.

FAHED KUNWAR, REDBURN: Thanks for taking my question and thanks for all the detail today. Just two quick ones, one tangentially on NIM. The first one is your rate sensitivity on a 12-month basis has gone up. It looks like it's pretty much all in the UK. I'd like to understand what's really driven that and why you don't think your US rate sensitivity would have gone up as well, and in Hong Kong as well, of course. And my second question was just an earlier answer you gave on the commercial business was talking about asset repricing as being one of the pillars of revenue growth. Normally when we see excess liquidity we've seen the opposite in the sense that actually composition brings margins down. Can I just understand what are you seeing on the ground underlying asset margin composition given, I guess, very high liquidity across the board from all your peers both global and local?

NOEL QUINN: We are seeing some early signs of asset repricing taking place, particularly in Asia. I don't want to over-promise on the quantum of that, but we are seeing some early signs of that in second half of last year. We do believe that is a viable option for mitigating some of the overall pressures on NIM from lower interest rates. And Ewen?

EWEN STEVENSON: In the UK, again, in the mortgage market we've seen better spreads and our share of new business has gone up. We are actually seeing improved asset-side margins in a number of parts of the business at the moment. On the interest rate sensitivity in the UK, I think it was mainly driven by higher short-term asset and liabilities balances, particularly on the liability side which has gone up materially. If you look at the liquidity in the UK it's very, very strong at the moment.

FAHED KUMAR: Thank you. Can I follow up? How do you reconcile, I guess looking ahead, the high liquidity you're talking about in the UK and obviously in Asia, with sustainable asset repricing? What do you think's different this time for us to think, 'Okay, repricing can hold and stay there with that much liquidity around'? Thanks.

NOEL QUINN: I went through the GFC and life after the GFC and we saw asset repricing taking place there as well. I think, Peter, your track record in Asia of dealing with low interest rate environments post-GFC, do you just want to share some of your thoughts about how you've handled that in the past?

PETER WONG: Yeah, we remember back in – after the Lehman crisis the interest rate scenario was extremely low. However, we were able to – between 2010 and 2019 our total income went up, on a compounded basis, by 6%. If we look at 2016 to 2019, it would be 9%. So we're accustomed to dealing with low interest rate environments and we're able to reprice our asset portfolio, and also change the mix of our deposit portfolio.

NOEL QUINN: Well, thank you very much for your questions and for taking the time to be with us. I just want to remind you of some of the key messages we shared with you earlier in the morning. First, we have executed our promises in 2020 and, second, we will do the same again in 2021. We're pleased that we've been able to reactivate dividends and we've tried to position the new dividend policy to be able to support both good yield and good growth. And for that growth, we're willing to invest in the businesses. We're confident in our ability to drive growth, even in a low interest rate environment, and we're willing to invest to make it happen. And that investment programme is material and is different from what we've done in the past. We look forward to discussing our plans with you and our progress over the coming weeks and months. Richard and the team are available to you if you have any further questions, but in the meantime stay safe and have a good day or good evening wherever you are. Thank you very much.