Company Name: HSBC
Company Ticker: HSBA LN
Date: 2018-05-04
Event Description: Q1 2018 Earnings Call

Market Cap: 140,569.05
Current PX: 699.60
YTD Change($): -67.30
YTD Change(%): -8.776

Bloomberg Estimates - EPS
Current Quarter: 0.205
Current Year: 0.721
Bloomberg Estimates - Sales
Current Quarter: 13924.500
Current Year: 54672.000

Q1 2018 Earnings Call

Company Participants

- John Flint, Chief Executive Officer
- Iain Mackay, Group Finance Director

Other Participants

- Manus Costello, Analyst
- Jason Napier, Analyst
- Raul Sinha, Analyst
- Joseph Dickerson, Analyst
- Magdalena Stoklosa, Analyst
- Ronit Ghose, Analyst
- Chris Manners, Analyst
- Alastair Ryan, Analyst
- David Lock, Analyst
- Tom Rayner, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Investor and Analyst Conference Call for HSBC Holdings PLC's Earnings Release for First Quarter 2018. For your information, this conference is being recorded. At this time, I will hand the call over to your host, Mr. John Flint, Group Chief Executive.

John Flint, Chief Executive Officer

Thank you, and good morning from London, good afternoon to everyone in Hong Kong, and welcome to our first quarter results call. I'll pass you over to Iain shortly, but let me begin by saying that we've had a promising start to the year.

Our global businesses have maintained their momentum winning new business and continuing to benefit from interest rate rises, and economic growth, particularly in Asia. We see plenty of opportunities to grow the business in the year ahead and we're investing to capture that growth. We continue to manage the business to achieve full year positive jaws.

And with that, I'll hand over to Iain to take the rest of the call before we go into the Q&A.

Iain Mackay, Group Finance Director

Thanks, John. Adjusted revenue of $13.9 billion was up 3% on last year's first quarter. Retail Banking and Wealth Management and Commercial Banking had very good quarters with both benefiting from wider deposit spreads and increased balances. Global Banking and Markets adjusted revenue was stable as growth in transaction banking and equities balanced the impact of reduced client activity in our fixed income businesses. Global Private Banking revenue was up from last year's first quarter due to increased client activity and the impact of wider spreads. We continue to grow lending in the quarter, particularly in Commercial Banking in Hong Kong and the UK, and in UK mortgages.

Our adjusted costs were 8% higher than last year's first quarter as we invested to capture and support market share growth in our home markets and across our network, and to improve our technology platforms and digitization programs. As a consequence, adjusted profit before tax of $6 billion was down by 3%. But as John said, we are committed to achieving positive jaws for the full year.

Our common equity tier 1 ratio was unchanged from the year-end at 14.5%. And we have this morning announced that we intend to initiate a share buyback of up to $2 billion, which we expect to commence shortly. In light of the growth opportunities that we currently see, we expect this to be the only share buyback that we announced in 2018.

Looking quickly at some key metrics for the first quarter. The reported return on average ordinary shareholders' equity was 7.5%. The reported return on average tangible equity was 8.4%, and we had a tangible net asset value per ordinary share of $7.29, up $0.21 on last year's first quarter.

Slide three provides detail on the items that take us from reported to adjusted, the major significant items for legal provisions related to US mortgage securitization. You'll find more details of these adjustments in the appendix. And the remainder of the presentation focuses on adjusted numbers.

Slide four breaks down adjusted profit before tax by global business and geography. Profits rose in three out of four global businesses and three out of five regions.

Asia profit before tax continued to grow strongly driven by excellent performances from Retail Banking and Wealth Management and Commercial Banking. The fall in Europe profit before tax was caused by a combination of reduced revenue in Global Banking and Markets and higher investment cost in Retail Banking and Wealth Management.

Slide five shows the positive revenue trends in our global businesses. First quarter revenue from our four global businesses was $854 million or 6% higher than last year's first quarter. I'll go through each business in more detail over the next few slides.

Slide six looks at Retail Banking and Wealth Management revenue, which grew by $456 million or 9% compared with the same period last year. Higher balances and higher interest rates drove a $347 million increase in deposit revenues, particularly in Hong Kong, the US and Mexico. Income from investment distribution increased by $223 million reflecting higher sales of retail securities and mutual funds, mainly in Hong Kong. We continue to grow both loans and deposits quarter-on-quarter and year-on-year. Customer lending rose by 8% and customer trends increased by 4% compared with the same period last year.

As slide seven shows, Commercial Banking revenue grew by $347 million or 10%. Global Liquidity and Cash Management had another outstanding quarter, winning new business mandates and further growing balances. This and the impact of wider spreads in Hong Kong and Mainland China helped Global Liquidity and Cash Management grow revenue by 17%. Credits and lending revenue grew by 4% due to balance sheet growth in the UK and Hong Kong. Commercial Banking grew lending by 3% since the year-end and by 8% compared with the same period last year, mainly in Hong Kong and the UK.

Global Banking and Markets revenue were stable compared with last year's strong first quarter. We saw a positive momentum in the majority of business lines, including double-digit percentage revenue growth in both Global Liquidity and Cash Management and Security Services. Global Banking revenue also grew by 6% driven by higher lending and higher recoveries and restructured facilities.

Within Global Markets, Foreign Exchange and Equities performed well, capitalizing on increased market volatility in the quarter. Rates and Credits were impacted by lower client activity and a difficult trading environment, particularly in Europe. The drop in net revenue in these business lines was also relative to a strong first quarter of 2017.

Global Private Banking revenue grew by $45 million or 10% compared with last year's first quarter. We grew client assets in Global Private Banking for the 5th consecutive quarter (Technical Difficulty) and attracted positive inflows of

$5.3 billion in our target markets.

Corporate center revenue fell by $515 million compared with the first quarter of 2017. This was mainly due to $262 million reduction in Balance Sheet Management revenue reflecting repositioning in 2017 in anticipation of higher policy rates, lower investment yields and lower portfolio gains, and $176 million loss arising from swap mark-to-market movements on a bond reclassification.

Slide 7 (sic) shows net interest margin. Net interest income of $7.5 billion was $369 million higher than last year's first quarter and broadly unchanged from the fourth quarter. Our net interest margin for the first quarter was 1.67%, 4 basis points higher than for 2017. The yield in total interest earning assets rose by 18 basis points while the cost of interest bearing liabilities rose by 14 basis points. Competition for good quality lending remains strong, balanced by high yields and surplus liquidity. There is more detailed information on net interest margin in the appendix.

Slide 12 looks at expected credit losses and loan impairment charges. The credit environment remains stable in retail and wholesale sectors across the network. Adjusted expected credit losses of $170 million related mainly to unsecured lending in Retail Banking and Wealth Management. IFRS 9 is obviously a new standard that the industry is adapting to and we expect some more -- we expect more volatility between quarters than we have seen in the past. Our expected credit losses in the first quarter were unusually low, so it shouldn't be taken as an indicator for the rest of the year.

Slide 13 looks at operating expenses, which were $624 million or 8% higher than the same period last year. You'll recall that we spent $3 billion in our Coststoachieve program last year, which were included in our reported results as a significant item. Around $900 million of these costs occurred in the first last quarter -- last year's first quarter. That program ended last December.

We are continuing to invest to support growth, which is reflected in progress on revenues. In the first quarter, this meant investing to capture and support market share growth in our home markets and across our network, and to improve prove our technology platforms and further advance our digitization programs. Investment in tech programs and digital programs focused on improving customer experience, while also improving business efficiency.

In Retail Banking and Wealth Management, we are investing to grow market share in the UK mortgages by expanding our intermediary channel to more than 30 brokers covering 75% of the market. We are also investing in our cards businesses in Mainland China and in the United States.

In Global Banking and Markets, we've made a number of strategic hires in our securities joint venture in Mainland China and across our businesses in Global Markets. In Commercial Banking, we are hiring more Relationship Managers to win new business in Hong Kong and in Mainland China and updating HSBCnet Trade Transaction Tracker and our WeChat platform to improve the customer experience.

While our CTA program has ended, we continue to see the benefit for additional savings, which totaled around $400 million in the quarter. We expect full-year operating expenses, excluding the bank levy to be broadly in line with our 1Q annualized costs, subject to achieving full year positive jaws.

Turning to capital. The Group's common equity tier 1 ratio on 31st March was unchanged from year-end at 14.5%. Our common equity tier 1 capital increased by $3.5 billion in the quarter, which included $1.9 billion of favorable foreign currency translation differences and $1.2 billion related to the day one impact of IFRS 9.

Slide 15 shows our Group return metrics. The return on average ordinary shareholders' equity was 7.5% and the return on tangible shareholders' equity was 8.4%. Our return on tangible equity, excluding significant items on the bank levy was 11.6%. Our four main global businesses, each achieved returns on tangible equity, well above the Group's cost of equity.

I'll now hand back to John.

John Flint, Chief Executive Officer

Iain, thank you. So in summary, we've had a promising start to the year. Our strong capital and liquidity and robust balance sheet continued to support strong revenue growth in retail and corporate customers across our network. They've also enabled us to announce a further share buyback of up to $2 billion. We are investing to grow revenue further and improve our digital capabilities while maintaining our cost discipline. We continue to focus on improving the returns of the Group and our commitment to positive jaws for the full year remains unchanged. We will update you on our strategy either at or before our half year results in August.

And we should now take questions. The operator will explain the procedure and introduce the first question. Operator?

Questions And Answers

Operator

Thank you, Mr.Flint. (Operator Instructions) We will now take our first question today from Manus Costello of Autonomous. Please go ahead.

Manus Costello, Analyst

Morning everybody. Thank you very much. I had a question -- a couple questions about IFRS 9 please. Thank you for the disclosure you've given out here based on your fully loaded Core Tier 1 ratio and all the detail on the stage of the assets that you've got, not all your peers have been quite as forthcoming on all of that.

But my questions are, if I look at your coverage ratios on your Stage 3 assets, they are actually like they've come down during the quarter, this quarter. I wondered if you could comment on what was going on there please, because it seems unusual to see such a low provision charge when coverage is coming down like that, and what drove that? And secondly, more strategically, it's becoming very -- it's going to become very difficult for us to forecast provision under IFRS 9, it would seem, so does that impact your thinking about capital buffers for the next couple of years please?

Iain Mackay, Group Finance Director

Manus, thanks for those questions. So, I think as it relates to Stage 3, I think this is going to be an overall comment about how we learn our way through the adoption of IFRS 9, there is really nothing of particular note within the overall coverage ratios as it relates to Stage 3. But I think the one thing that I would point to is really one of the aspects of prudent underwriting within HSBC, which is the overall value of collateral that we hold against those exposures being at fairly elevated levels, but I think --

Manus Costello, Analyst

Rates actually went up, didn't they?

Iain Mackay, Group Finance Director

Yeah, beyond -- frankly just the adoption of IFRS 9 and working through what models do, this again, this is a largely model-driven approach to generating expected credit loss data that has really nothing of particular note coming through from an IFRS 9 perspective in the quarter.

On your topic -- your point on forecasting, I think overall the topic [ph] of forecasting under an expected credit loss outlook is going to require a degree of sophistication, which perhaps goes beyond that the industry presently holds, particularly when we start seeing particularly adverse developments in particular sectors of the economy or areas in the network from a credit performance perspective.

In terms of, does it really influence what we think about capital, that I think will be informed by our regulators, respond in terms of their thinking about capital. Now, clearly one of the things that the Prudential Regulation Authority is doing this year within the stress test is a stress scenario, very, very similar to that of last year, but obviously incorporating IFRS 9 with the intention to immunize IFRS 9 in the results of that. So I think that may give us some indication at least as to how the Prudential Regulation Authority is thinking about this, but as you know, there is a piece of work affluent [ph] with the Basel Committee and not advancing at any particular pace at this point in time.

In terms of thinking not just about the transition to IFRS 9 at the point of transition, and you obviously see the effect of those transition mechanisms on our numbers this quarter, but also from a quarter-to-quarter perspective, as we see changes in the credit cycle, how one manages that volatility. But look, it's -- we sit with a very strong common equity tier 1 position and it's -- when you look at how we respond to stress test as a whole, the business remains very resilient through what are, in most instances, pretty severe stresses that are set for us by the regulators. But look, this is an area, which we're going to remain very focused on, but I wish I could, but I don't think we can give you much more than other than diligence and attention to this and continuing to work with our regulators as we go through learning about how IFRS 9 impacts the numbers.

Manus Costello, Analyst

Thank you very much.

Iain Mackay, Group Finance Director

Thank you.

Operator

Our next question today comes from the line of Jason Napier from UBS. Please ask your question.

Jason Napier, Analyst

Good morning. If I may I ask three simple ones. The first is, the cost guidance of sort of equal run rates for what remains, plus levy looks like around 5% consistent FX growth and positive jaws, whether that's 1% or 2% maybe of some interest. But I'm just interested -- perhaps, it's a question for John, whether you see the cost inflation for this year is including an unusually high level of investment or whether that's sort of organic cost growth that one ought to expect from the business?

Secondly, the margin, it's good to see it expanding in the first quarter and loan growth looks solid. I just wonder whether you might give us a comment on the extent to which margins in Hong Kong might continue to expand? We're seeing reports of more aggression in the deposit market in particular, if you could give us some color on that?

And then thirdly GB&M and the six base, I appreciate the base, it was fairly strong and that it's up quarter-on-quarter. I just wonder, is there anything to flag in Q1, which was sort of overtly negative, if you like, which might have gotten better in the second quarter, is there anything unusually weak that you think you might do better on as the year goes by? Just thinking about whether the implication of positive jaws is that you effectively need flat revenues for the next three quarters, whether GB&M can contribute to that in a positive sense? Thank you.

Iain Mackay, Group Finance Director

Thanks, Jason. If I cover net interest margin and your question on fixed income in Global Banking and Markets, and John can follow-up on your question around cost and positive jaws.

In terms of net interest margin, obviously, we're encouraged by the progress that we saw in the first quarter. Interestingly, the characteristics that we saw in the first quarter are broadly informed by what we -- how we guided at the end of the year where we saw a continued improvement in terms of liability, revenue generation of the liability based on the firm, if you like, in terms of how rates are impacting that side of the balance sheet. We continue to see a pretty competitive environment for asset pricing across the network. There may be some early signals in Hong Kong that some of that competition is beginning to ease a little bit, and if that proves to be the case over the coming quarters, that would certainly be very encouraging to see some expansion, both from an asset and liability perspective.

And then the third feature, which again I think will be very consistent with the guidance we provided at the full year is just some slightly higher costs coming through from issuances of regulatory instruments, namely MREL and/or TLAC. So I think overall in terms of NIM, and the guidance that we provided at the full year probably holds pretty good. I think it would be very encouraging, it's in fact we actually did see slightly less robust competition for asset pricing in the Asian market, it would be great if we saw it everywhere actually, but it's that our green shoots in Asia will take that.

From a Global Banking and Markets perspective, you'll recall we did have a very strong first quarter in 2017. But looking at Global Banking and Markets as a whole, it generated return on tangible equity in the first quarter 11.9% and underpinning that notwithstanding some weakness in fixed income, we saw a good progress in foreign exchange where revenues advanced 13% over the same period last year, equities we saw good progress, Global Banking overall, we saw good progress with advances in debt capital markets and equity capital markets as well as good progress in Global Liquidity and Cash Management and Security Services.

So you look at this business over the longer-term, you see a diversified range of revenue streams very much focused on supporting customers activity and fairly low volatility. I think what you see in fixed income is not unusual in terms of what you see in fixed income in HSBC when you have the sort of trading conditions that we experienced in February and March. But overall, we're pretty happy with where Global Banking and Markets came at for the first quarter. John?

John Flint, Chief Executive Officer

Iain, thanks. And Jason, thanks for the question on cost, and I've just -- probably two comments to make. When we were operating in an environment of low or no revenue growth, we used the CTA program to generate the capacity to invest in the business. So last year we spent $3 billion that was in the reported numbers and $900 million in the first quarter, and those numbers for this year will be zero because that CTA program has gone.

We're reasonably comfortable this year that we can generate the capacity to grow the business and to make the investments we need to improve either from a cost or a revenue perspective of the business within a positive jaws constraint. Now that we've got a rising rate environment and rates are a tailwind as opposed to a headwind, our outlook suggest that we can generate the capacity from within, which is what we intend to do. So I think the -- for the rest of this year, just keep that back construct in mind, revenue outlook, as long as that remains good, our capacity to sustain this cost -- this cost of investment I think remains pretty solid. Whether we think about changing our targets, that's something that's part of a strategy review that we'll come to later in the year. But for now, positive jaws, because the revenue outlooks change, I think it's the right discipline for us.

Jason Napier, Analyst

Thanks very much.

Operator

Our next question today comes from the line of Raul Sinha from JPMorgan. Your line is open.

Raul Sinha, Analyst

Hi, morning everybody. If I can follow-up on the costs and then just another one on the buyback. John, if I can just perhaps draw a little further in terms of the costs, and ask you, how much of the sort of increase in cost is actually directly linked to revenue initiatives across the bank? And related to that, I was just wondering what your thoughts are on operating leverage and the need to deliver operating leverage at HSBC? Because if I take a look at the shape of the growth in revenues against costs, that implies that even if you do deliver a positive operating leverage of, let's say, 1% in terms of jaws, you would be exposed to a pick up in impairment, which would -- from these very low levels, which would obviously offset a lot of the hard work that you're doing in terms of growing revenues. So I guess the question really is, should we think about the investment as sort of linked to the fact that your impairment outlook is quite benign and that is allowing you to invest in us, let's say, the impairment in outlook terms, you would actually look to reduce some of the cost investment that you're putting in?

Iain Mackay, Group Finance Director

Yeah, Raul, thanks very much for that question, because we -- as we look at jaws, first of all, expected credit losses and impairments, just simply don't figure as part of that calculation. And our focus is in terms of making those investments, as John said, help us grow revenue or improve the overall productivity and efficiency through the cost base at the firm. And the guidance absolutely is to generate a positive jaws for the full year 2018.

In terms of where we look at that from a revenue opportunity perspective, notwithstanding the tailwinds that we've seen from interest rate policy adjustment, we're also seeing improving volumes coming through, you can see that in terms of balance sheet growth, which again looking at it simply quarter -- from the fourth quarter to the first quarter, it was good progress across our businesses, typified really by strength coming through Hong Kong and Asia as well as from the United Kingdom, just because there were the big numbers that coming through. But also that's being done in a highly consistent underwriting and risk appetite.

So there are not adjustments being made to risk appetite that pushes further up the risk curve either as it relates to mortgages or unsecured retail banking credits, for example or within the wholesale sector. So this is really very much about looking at the revenue outlook, continuing to build on the investments that we've done over the last couple of years, to improve the interaction with the customer, the efficiency and effectiveness and stability of the technology platforms, improving digitization capabilities and with a particular focus in that area in Retail Banking, Wealth Management, Commercial Banking, but also in some of the platforms within Global Banking and Markets.

And to John's point, as the revenue environment supports that, governed absolutely by a commitment to positive jaws for the full year 2018, we'll continue to make the investments necessary to support the growth in the firm for the long term.

Raul Sinha, Analyst

Okay. And then just secondly on the buyback, I was just wondering if you could share any thoughts on sort of the magnitude and the decision making kind of what led you to think that -- is it the take up of the scrip, which was obviously quite low this time around, did that influence your thinking around the buyback size?

Iain Mackay, Group Finance Director

Not really, Raul. The thinking around this is, it goes back to what we've talked about, how we deploy our capital. Over the course of many quarters, our focus is on growing the business for the long-term and supporting that organic growth through the strength of the capital base and the capital generation quarter-over-quarter. We generated strong capital gain in the first quarter, we equally supported organic growth over the first quarter, and that informed by also a strong common equity tier 1 ratio as we exited the quarter, informed the buyback. The scale of the buyback is informed up by the scale of the opportunity to continue to grow the business organically.

And as we've always said, our focus is on the organic growth of the business and deploying our capital to do so, and when the opportunity was either less attractive or unavailable to us that we will then consider buyback. What we are seeing in the outlook for us at the moment encourage our view that one, we can support the growth through the capital base, but we can also support some degree of buyback in 2018 and that's really what we're signaling you today as we announce that 2 billion buyback.

Raul Sinha, Analyst

Okay, thanks very much.

Iain Mackay, Group Finance Director

Thank you, Raul.

Operator

Our next question today comes from the line of Joseph Dickerson from Jefferies. Please go ahead.

Joseph Dickerson, Analyst

Hi, good morning. Most of my questions around cost have been answered. But I guess the key question I have is really, to what degree is your cost base flexible? Because it seems to me like if you're going to deliver an ROE, certainly you reported RoTE that has one in front of it and it's double-digits, you'll need to do better than 1% to 2% cost jaws in some year in the next three years. So, what degree of flexibility is there, or is the opportunity on the revenue side, because it seems at the moment that a lot of your investments actually aren't discretionary because you have to do it to generate the balance sheet growth and the revenue growth. So if you can elaborate on that, it would be incredibly helpful. Thank you.

Iain Mackay, Group Finance Director

The way we look broadly at the cost basis is we break it down into two -- two or three high level components. One is we call run the bank, which is basically showing up, switching on the lights and getting to work in the morning, and the second is, change the bank, which is about investing for the future, whether it's in product development, the overall capabilities of our colleagues that are working in the firm or the technology platforms that we're all facing on. And within that cost base this quarter compared to last quarter, for example, our run the bank cost are actually marginally lower. So we continue to focus on the cost discipline overall in terms of managing costs within run the bank and generating productivity within that cost base. Part of that productivity obviously comes from some of the investment we make in people and technology, but it also just comes from that basic discipline around managing the cost base.

Where we've seen increase in cost coming through this quarter has been within the change the bank environment, which has been orientated around investments and continuing to grow the market presence that we've got in Pearl River Delta in Mainland China with a particular focus in Retail Banking and Wealth Management and Commercial Banking. We continue to invest in the development of the Qianhai Securities Venture, our majority owned securities venture in Mainland China.

We continue to invest in digital programs, again largely focused in the Hong Kong, PRD and the UK market to improve the interface and efficiency of the relationship with the customer and significant investment around developing and further improving interface with our Commercial Banking customers through HSBCnet. You absolutely could view those investments as discretionary where in a revenue environment that was less supportive, the discipline that we would apply to really anything from an investment perspective that we view this discretionary would be different, and frankly that's really the commitment to positive jaws. If the revenue environment continues to support the level of investment that we see, then we will continue to invest. If the revenue environment were to suggest something different emerging in the future, then we would adjust our cost disciplines accordingly.

Joseph Dickerson, Analyst

But Iain, sorry, with all due respect, don't you need to make those investments to keep up with a lot of the competitors in the Mainland market?

Iain Mackay, Group Finance Director

Yes, but through prioritization. This is not opening up the jar and spending peanut butter everywhere, this is very much by prioritization of where we see the most attractive competitive opportunity for HSBC.

John Flint, Chief Executive Officer

And Joseph, you're confused [ph] I don't know. Coming back to your question around flexibility and then how do we get towards the 10%, I think for us to get to a 10% ROE, we're going to have to grow the business. I think it's very difficult to get that just by shrinking the cost base, and if we were to do that, if we -- we're effectively back into a CTA type environment where we're going to have to come to investors to say, we need to invest again to take more of the cost base out.

The outlook we've got, what we can see in front of us in terms of the opportunities, and certainly a slightly different rate environment, we've got the opportunity to get HSBC growing again, and it's worth remembering, the balance sheet is roughly the same size now that it was 10 years ago. The customer base is actually a lot smaller than it was 10 years ago. For all the reasons that everybody understands, I do think we've got -- we've got an opportunity now, we see an opportunity to try and get part of the Group certainly growing again and the revenue environment as we see it, gives us the capacity to invest in it. But to come back to your original point, the flexibility of the cost base, there are limits to it. There are certainly limits to it, which is why we want to invest in the capacity to grow now, so that we don't miss these opportunities.

Joseph Dickerson, Analyst

Thank you. All sensible, yeah.

John Flint, Chief Executive Officer

Right, thanks, Joseph.

Operator

Our next question today comes from the line of Magdalena Stoklosa from Morgan Stanley. Your line is open.

Magdalena Stoklosa, Analyst

Thank you very much. I've got two questions. One is still on the NIM evolution and another one on the Commercial Banking. So, let me start with the NIM, it's broadly on deposits. And could you run us through your outlook of the deposit evolution kind of from here across the network, I suppose in Asia in particular, and what do you expect in terms of growth in pricing, particularly for 2018? And I think that what would interest me also a lot is how do you perceive the balance of the impact of the higher rates versus the competitive pricing or competitive pricing pressures? And I suppose that would be both on deposits and on loans. And I'm very curious about your commentary on the slide 7 of the presentation on the Commercial Banking, because I think that for the first time in a long time, you're actually commenting on two things, so wider spreads in the global, kind of liquidity management, but also higher fees in global trade as well for years to be talked about, we talked about pricing pressures in broadly both of those businesses. Of course, volume growth, but still pricing pressures, and I was just wondering whether you see some of those trends turning? Thank you.

Iain Mackay, Group Finance Director

On trade, specifically we've certainly seen stabilization in those trends in margin over the course of the last two or three quarters. I think it would be a slight overstatement to see that we see significant expansion in margins in global trade volumes. Volumes are improving and really overall pricing in global trade is very much a function of the pricing of those volumes as opposed to the volumes themselves. But overall I think we would describe what we see in global trade and receivables financing in the round as stable. For structured products, pricing tends to more attractive and we are certainly shaping more of the business to be orientated towards structured products with respect to inventory financing for example, in that particular area. But overall, I think the outlook is certainly more positive now than it has been both in terms of increasing volumes and slightly improving pricing across that space, which is reflected in margin.

From a net interest margin perspective overall, I'm not sure, those are great deal more that we could add. I mean, one of the things that is very recent news is HSBC in Hong Kong was yesterday, the first bank in probably the better part of 8 years to increase the savings rate offered to our customers and we increased it by 10 basis points. That means that the rate that you could get on savings in Hong Kong now has gone from 0.0001% to 0.1%, and it probably still isn't a massive change, but I think it's a broad signaling of the fact that, one, in terms of doing exactly the right thing for our customer in terms of sharing [ph] some of that interest rate -- improvement in interest rate environment, then I think we need to lead the way in that regard, but also recognition that it is a competitive environment for deposits that we operated not only in Hong Kong, but across a number of markets.

But overall, we continue to sit with a very strong liquidity position in Hong Kong and across the Asian network and the wider network as a whole. I think in terms of asset pricing, it remains a very competitive environment, but there are certainly early signals that perhaps things maybe becoming a little bit more interesting for us in that regard in Asia. In terms of overall liquidity balances, I would not expect to see significant change over the course of the year, notwithstanding the fact that we continue to put more of that to work with our customers as has been evidenced both in the first quarter of last year and the second half of last year.

Magdalena Stoklosa, Analyst

Thank you.

Iain Mackay, Group Finance Director

Thank you.

Operator

Our next question today comes from the line of Ronit Ghose of Citigroup. Please ask your question.

Ronit Ghose, Analyst

Great, thank you. It's Ronit from Citi. I just have a few follow-up questions on the cost side, please. First of all, can you -- I mean, in previous earnings results, you've given us some quantification of how big you think jaws can be. You're talking about positive jaws now, are you willing to give any quantification of 1% to 1.5% or less or more for this year and for future years? That's my first question.

My second question is, if I look at the cost evolution in normal years, and as has been alluded to in earlier questions, normally you get a drift in the second quarter up to the fourth quarter in underlying costs. And I just wondering, you've run through in great detail what you're spending the extra money on in the deck and on this call, is there any element of that that is particularly front-loaded that you can call out now to give us comfort that the normal seasonality could be offset as we go through the year?

And the third question is more conceptual on costs and maybe one for John. I understand the discipline and the importance around jaws, but given the growth opportunities you've got in Asia and given particularly in retail, in the PRD and Hong Kong, both the combination of growth, but also competition and transformative competition, is it still relevant do you think for your Hong Kong, your PRD business to talk about positive jaws or should you say we need positive jaws in the developed markets, and in Asia, we've got a couple of years where we just need to invest and go for growth?

Iain Mackay, Group Finance Director

In terms of quarterly trend, I think I revert to the response I gave earlier around, how we view the cost base in terms of running the bank and change the bank investing for growth. And there is a very, very strong discipline around managing that run the bank costs to generate some cost productivity year in, year out, and then focusing on the change the bank around prioritized investment against the opportunity for each investment to contribute towards improved returns within the Group.

So the guidance that we're giving you today is that based on what we see and how we faced investments, we would expect the cost profile for the firm over the remaining three quarters of the year to be broadly consistent with what we see in the first quarter. We're obviously targeting a delivery of positive jaws, ideally we would target that to be around the 1% mark, but positive jaws is what we're focused on, and I think that again builds very much on John's comments here around, taking the opportunity to invest on a prioritized basis against those areas where we see the most attractive growth.

John Flint, Chief Executive Officer

Yeah. And just to build on the spirit of your question, Ronit, which I completely agree with, and the question around Hong Kong and PRD, would the positive jaws constraint prevent us from taking advantage of the opportunities, well, we're specifically trying not to allow it to be a constraint. Positive jaws is at the Group level, the aggregate numbers, but within that we are absolutely deploying resources into the opportunities that we see in front of us.

The PRD is absolutely negative jaws and has been since we started the investment. Hong Kong through periods, and for certain initiatives and activities, just the same. So it's -- your question kind of comes back to the challenges, if you're going to pick a metric or you're going to pick a discipline, you're going to convey it to the Street, positive jaws, a CR [ph] target, and absolutely cost target, if you pick one, there's always going to be some circumstances in which it doesn't quite fit every circumstance or every environment. The spirit of your question, I completely agree with. We're going to try really hard not to stop ourselves from missing opportunities, but at the Group level, given that we've got a favorable revenue environment and favorable outlook, we're going to -- the discipline, I think is really important for us to maintain positive jaws, faster revenue growth and cost growth on a full-year basis.

Ronit Ghose, Analyst

Great, thanks. Thanks for that. Thanks for that guys. But can I just go back again to my first question, I mean, I hear you, we don't have to get too tied down to decimal places, but if we're going for around 1%, let's just say, plus or minus, but around 1%, if I go back six months ago, I think you were more confident about bigger jaws, and obviously some of us from the sell-side were even more optimistic, and you've guided us down on that. But I'm just wondering over the last six months, what do you think has particularly changed over six to nine months, in terms of why have the jaws become smaller and smaller because the underlying revenues have been strong. So you're growing your Group almost in line with some of the Asian bank revenue numbers, I can see out of Singapore, for example, or even Hong Kong, so the underlying revenues are actually quite impressive. But I'm just wondering where is this -- how much of this incremental cost growth is just something that we're going to have to live with for the next three years, so kind of 6%, 7%, maybe 7%, 8% underlying cost growth is a kind of new normal for you now?

Iain Mackay, Group Finance Director

No, not at all. I think we're going to -- I think, it goes back to John's comments, we do not want to starve opportunities for growth through not investing in those opportunities for growth, but we've also -- John said, a very clear discipline around generating positive jaws for the firm and that positive jaws for the firm progressively over time will continue to improve the overall cost efficiency of the firm and that is really the focus that we've got. To the extent that you observe any narrowing in the guidance around positive jaws, it's informed by exactly what John described, to see opportunity to invest on a prioritized basis areas the represent attractive growth for us at the moment, not just in terms of revenue, but in terms of what that means for the returns overall against the equity that we deployed into these businesses.

Ronit Ghose, Analyst

Thank you.

Iain Mackay, Group Finance Director

Thanks, Ronit.

Operator

Our next question today comes from the line of Chris Manners from Barclays. Your line is open.

Chris Manners, Analyst

Good morning everyone. It's Chris from Barclays here. Just a couple of questions, if I may, both of them on the UK actually. So the first one was just about your mortgage volume growth, you're sort of been growing about 2 billion a quarter over the last couple of quarters, seems to slowdown in Q1. Could you maybe just give us a little bit update there on how you think about pricing discipline in that market and about your growth rate? We've had some competitors stressing to us, you've been pretty aggressive on pricing, and just wondering how sustainable that is?

And a second question was just on deposit base [ph]. So fair enough, it looks like we're not going to get a rate hike in the UK in May, but seeing the curve is still pricing something over the next sort of year or two. And given how much liquidity you've got trapped in your ring-fenced bank, how much do you think you would be passing through to customers if we do get a rate hike? And is that going to be a source of NIM expansion for you, if that come through, or are you going to sort of move with the bank? Thanks. I don't think, why unnecessarily [ph] want to predict how we're going to respond to any changes that we see in the Bank of England rate over the coming quarters, certainly not until we get much more proximate to that and what sort of market conditions exist in that environment. I think the competition in the UK both for assets and deposits is pretty halt at the moment. I think you can see that in some of the pricing across the market in both sides of the balance sheet.

Going to UK mortgages specifically, Chris, we have grown our market share in terms of looking at the stock of market share. Our share of market at the end of 2016 was 5.9%, our share of market at the end of 2017 was 6.1% and at the end of 1Q, it's 6.2%. We are growing into this market in a very measured way, I think. Our risk appetite remains very consistent. The underwriting standards reflect absolutely the pricing that is in the marketplace. So where those very attractively priced products are right there, they tend to be very closely related to fairly robust collateral requirements and booking fee requirements and affordability requirements of the customers that are able to access those offers. It is a competitive market.

I think the most significant feature in terms of HSBC position is how we've expanded our access through the intermediaries. If you went back three years, we really were not in that space at all. At the end of last year, we had about 23 brokers that gave us access to about 65% of intermediary market and over the first few months of the year, we've added about another seven in the intermediary space that probably now gives us a view to about 75% of the intermediary market. So we are seeing more of the market and more of the market that fits our underwriting appetite. So we've not moved down or up the risk curve, if you like, in terms of how we grow market share. But as you also observed from the data that I shared with you, we're growing into this space in a very measured fashion.

John Flint, Chief Executive Officer

And I if I could just add one thing, just a reminder, Chris, when it comes to rates going back up and the kind of the competitive market and whether or not we choose to respond. One of the advantages we have in many of the balance sheet is because our A/D ratio is so low, we got pricing power effectively and we can choose, I mean, if we think it's the right thing to lag the market. The ring-fence bank, when it's created, we'll have a very significant funding surface, that partly involves the mortgage strategy, but it also means that we have a better latitude perhaps more than some others when it comes to how we respond to rates going up on deposit pricing.

Iain Mackay, Group Finance Director

Thanks, Chris.

Chris Manners, Analyst

Thank you. That's very clear.

Operator

Our next question today comes from the line of Alastair Ryan from Bank of America. Please ask your question.

Alastair Ryan, Analyst

Thank you. Good morning. Three short ones please. First, given you -- the sequencing you described on the cost and the revenues, can we assume that you've got better than average visibility on revenues into the back end of the year because of balance sheet growth then just margin expansion and sort of annuity income streams being the driver?

Second, on the buyback, when does that start and how quickly does it move, so does it run right to the end of the year or to the full-year results next year or just until it's done? And third, the Tier 2 buybacks, it's quite earnings accretive given the very high coupons on that, and is there any more of those that you could do, and I think people have turned its focus on the cost of the AT1 issuance, which has been substantial, clearly, this has got material move back in the right direction. Thank you.

Iain Mackay, Group Finance Director

Yeah, thanks, Alastair. Let me do those in reverse order. So on the Tier 1 buyback, this is really just part of ongoing improving the overall efficiency around balance sheet optimization as you quite rightly point out. These convertibles were issued back in 2008, I think it was with a pretty healthy coupon on it. Notwithstanding the higher cost of Tier 1s, alternative Tier 1s that we put out there, this buyback represents a fairly significant economy for the -- for HSBC over the course of the next few quarters. So really nothing, nothing more than just taking the opportunity to do a bit of sensible refinancing that lowers the overall cost of the capital structure of the firm in that regard.

We are continuously looking across both Tier 1s and Tier 2s, really the overall capital structure as well as debt structure, and where it makes sense. From an economic net present value perspective, considering also the capital impact of some of those capital instruments, then we will from time to time contemplate liability management exercise, but for the moment, this is it.

In terms of the share buyback that we announced today, we'd expect to start it early next week, as long as nothing kind of interesting or particular unusual happens between now and Tuesday of next week, and we would expect to run it until it is complete, and the sooner we can complete it, the better. Realistically, based on the last study that we've done, We would expect this to probably take us through to probably the end of August, beginning of September depending on traded volume. So that's broadly the timeline, but it's basically to get it done as soon as we can, but volume is traded and the criteria that we've set with the bank that's executing this for us, based on experience would probably take us through August and perhaps entirely September.

Cost and revenue visibility, I think the fact that we've got an investment in cost profile, which is broadly consistent with the first quarter, I think hints at the fact that we feel that we've got a bit of tailwind, not only from rates, but also from balance sheet growth and volumes that we see coming through Retail Bank and Wealth Management across a number of the -- well, certainly the home markets, but also some of the network markets and equally what we see in terms of confidence within the wholesale space through Commercial Banking and Global Banking and Markets. And that has been predominantly, not uniquely, but predominantly within Asia with a particular focus on the strength of the Hong Kong balance sheet and the surpluses that we have in US dollars, Hong Kong dollars and renminbi, in particular on that balance sheet.

I think the only comment I would tamper that with is, where we can see an adverse swing in revenues then, I think we would fairly quickly respond equally from a cost actions perspective, but really that would just be around the reprioritization of certain investments.

Alastair Ryan, Analyst

Thanks very much.

Iain Mackay, Group Finance Director

Thank you, Alastair.

Operator

Our next question today comes from the line of David Lock from Deutsche Bank. Your line is open.

David Lock, Analyst

Good morning, everyone. I've got one on the corporate center, please, so I think appreciate there is obviously a lot of volatility in here and there is a lot of moving items. But clearly that weighed on the revenue line and actually the revenue line would have been significantly better than I was forecasting if we had adjusted to some of those items. I'm just conscious that the second quarter that was particularly strong last year, 650 million, I wonder if you can give any color on particular lines within the Treasury and the corporate center? Could you maybe help us try to understand what the run rate expectation is for here, and particularly, what you are using as a planning assumption when you're thinking about your cost jaws, and when you're thinking about the firm two or three years out? Thank you.

Iain Mackay, Group Finance Director

Yeah, thanks, David. There were two specific features within corporate center from a revenue perspective in the first quarter. There was a significant item sitting within corporate center within the US from a cost perspective and that related to the provisions that we made for a civil suit that we are in settlement discussion with the Department of Justice on and a civil suit that we are in settlement discussions, or actually largely completed settlement discussions with a former customer of the US finance company, also related to residential mortgage-backed securities.

So going back to revenue line, from a balance sheet management perspective, so our corporate treasury managing the liquidity surpluses that we've got, in the second half of last year, our team did repositioning as a reflection of where we saw rates moving, and as a consequence of that repositioning, did some derisking in the book and as a consequence of that within Balance Sheet Management we see somewhat lower revenues in the first quarter. I think that is really the adjustment effect that we see, so we would expect to see a fairly stable view from Balance Sheet Management over the remainder of the year, and guidance for Balance Sheet Management would remain broadly consistent with that which we provided at the end of the year, so sort of in the range of 2.3 to 2.5-ish billion overall for the year in Balance Sheet Management.

The other feature that we referenced is, we reclassified certain bonds that sit within the holding company capital structure in the first week of the year in response to the requirement to reclassify assets and liabilities in line with IFRS 9 guidance, and on that reclassification, had a mark-to-market on the swap in the bonds or the bonds and the swap associated with those bonds in the first month of the year of $177 million, which again is a one-time feature.

So I think that hopefully gives you a little bit more visibility in terms of what else was sitting within the corporate center. Slightly higher cost on MREL in terms of issuance that we did in the first quarter, and again that issuance is in line with meeting the regulator requirements for 2019. And we are largely there from a 2019 perspective. But again, the guidance that we provided around the higher MREL costs for 2018 remain absolutely consistent with that, which we provided at the end of the year.

David Lock, Analyst

Okay, thank you very much.

Iain Mackay, Group Finance Director

Thanks, David.

Operator

We will take our last question today from the line of Tom Rayner from Exane. Please go ahead.

Tom Rayner, Analyst

Good morning, chaps. I'm making a habit of being last, I was last on Lloyds as well. Someone say, they save the best for last.

Iain Mackay, Group Finance Director

Or you may just have [ph] got up early in the morning, Tom, who knows.

Tom Rayner, Analyst

I just wanted to ask you Iain, what your guidance today means for sort of consensus for the full year, because obviously we can annualize the cost number and get bigger [ph] around 33.7 billion, which I think as someone else, pointed out, is 5% growth, underlying. If I look at the FX adjusted revenue for last year, I get 53.2, so if I assume zero jaws, which is obviously the worst case outcome, that gets me pre-provision profit of 22 billion, which is bang in line with current consensus. If my math is right, every 1% jaws you do on top of that adds to 3% to that number, and obviously, this is against an impairment number in Q1, which is 170 million versus I think consensus for the full year is 2.6 billion. So again, if you could comment on that and maybe talk about that Q1 impairment number as well because I know there was seasonality in Q1 and what have you, but it's such a low number, I just wonder, if there is anything else you can add on that? Thank you.

Iain Mackay, Group Finance Director

Thanks, Tom. Trying to break that down, I think going back to my comments earlier around impairments in the first quarter, I mean, we obviously -- and this has got very little to do with IFRS 9 in terms of what we saw within the portfolios from a credit performance perspective, it was a low charge. It was certainly lower possibly than we expected. In terms of what influenced that was again to the extent there is any IFRS 9 influences, it's possibly around how forward economic guidance as required by the standard is applied to overall provisioning for expected credit losses.

But I think, as we said a little bit earlier, we would encourage you not to annualize the first quarter numbers, and I'm not sure whether we would necessarily encourage you to change what you've got from a consensus perspective for expected credit losses at all for the year, I think it would be fair to say that we haven't.

In terms of sort of looking at the topline and the bottom line, by providing the guidance that we've today around what we see as being the quarterly run rate for costs and the fact that we've guided to positive jaws for the year, I think that probably gives you a pretty good roadmap as to how you would read across to how we see revenues developing for the year at this point of time, Tom. I think that's probably the best I can do for you right now.

Tom Rayner, Analyst

Okay. Thank you. I mean, it's -- I mean, I'll leave the revenue and cost thing. Just on the impairment now, I mean, from 1.70 [ph] in Q1 to consensus 2.6, not changing that, that's -- there is a lot of things going on, isn't it in the rest of the year?

Iain Mackay, Group Finance Director

Tom, I mean, when you look at what we've gone through for the last couple years on this line, I can't say, we've given up predicting it because we haven't. What we talked about at the end of the year was, we said, look, if you took just out the significant recoveries that we realized principally in the US business on the back of some improvement around restructuring and performance of some of our oil and gas credits in North America, last year's normalized cost of credit against average outstanding balances would have been about 25 basis points. And when we think about what logically against our underwriting appetite and how we have built the book, we would expect to see a credit cost of around sort of 25 to 30, 35 basis points, and that's informed by looking at a long time series of how that's developed through a number of cycles. We are in a particularly stable benign stage of the cycle at the moment. I think we should all reasonably expect to see some turn in that across markets over some period of time. The devil that we're all trying to deal with is, what is that period of time.

Tom Rayner, Analyst

Sure. Lovely. Thanks a lot.

Iain Mackay, Group Finance Director

Thanks, Tom.

John Flint, Chief Executive Officer

Tom, thank you very much. Ladies and gentlemen, thank you very much for joining us. And that concludes today's call. Thank you.

Iain Mackay, Group Finance Director

Thank you.

Operator

Thank you, ladies and gentlemen. That concludes the call for the HSBC Holdings PLC earnings release for first quarter 2018. You may now disconnect.