HSBC

Transcript

Q2 Results
Analyst and Investor Call

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NOEL QUINN, GROUP CHIEF EXECUTIVE: Good morning to everyone in London and good afternoon to those joining from Hong Kong. Today is my last results announcement before Georges takes over in September. I'm delighted to be handing the stewardship of the bank over to him. Georges is an exceptional leader who understands what makes HSBC special. I'd like to thank my colleagues around the world for everything they've done over the last five years, and I wish Georges every success for the future.

I have always been immensely proud of the heritage of this bank and the strategic role it plays in the world, but when I took this job on five years ago we didn't have the financial performance to match our standing. My aim was to change that. I believe we've done so, and created a strong platform for future growth. This was evidenced by the record profit performance last year and by the strong first-half performance this year.

Revenue of $37.3 billion was up 1%. Profit before tax of $21.6 billion was stable on the same period last year. This performance enabled continued strong capital generation. Our return on tangible equity was 17%, excluding notable items. We've announced $4.8 billion of further capital distributions today; this takes the total capital we have distributed by way of dividends and buybacks in respect of the last 18 months to $34.4 billion.

Finally, we've updated our guidance to reflect our increased confidence about the future. We're providing new guidance of a mid-teens return on tangible equity in 2025, in addition to the 2024 guidance we already had. We're upgrading our 2024 banking NII guidance from 'at least $41 billion' to 'around $43 billion'. We're revising our 2024 ECL guidance to be back within our normal medium-term planning range of 30 to 40 basis points, and we're reconfirming our 2024 cost guidance of around 5% growth on a target basis. That's despite growth of 7% in the first half, which – as Georges will explain – is mainly due to timing differences compared to last year.

The benefits of our strategy execution over the last five years are evident in our performance. Before getting into detail on further progress made over the last six months, please allow me to share some reflections on our five-year journey. When we set out, there were two key strategies to delivering higher returns. The first thing we had to do was to reshape our portfolio. Building on the work of my predecessors who initiated important structural changes, we've continued to exit businesses and client portfolios that were non-strategic, subscale and unprofitable. First, via organic portfolio reductions, which delivered RWA savings of around $128 billion, and then via inorganic means through disposals.

The second and very important strategy, which we commenced at the same time, was to build alternative sources of revenue growth. Within this, we've invested to grow fee income, particularly in areas where we have significant strengths, such as Wholesale Transaction Banking and Wealth. We've also continued to invest in our differentiated international propositions; we've significantly lowered our sensitivity to interest rates from approximately $7 billion of banking NII for a 100 basis points down-shock in interest rates at 30 June 2022, to around $3.4 billion at the end of 2023, and now down to around $2.7 billion today.

All of this had to be underpinned by a culture of cost discipline, which we have instilled across the group. These savings enabled us to invest in the areas I've spoken about, and this transformation has helped to improve our financial performance. As you know, we delivered a record profit in 2023, and a mid-teens return on tangible equity in 2023 and in the first half of 2024. It has been over 15 years since the group was generating returns at current levels, and we now expect to sustain it this year and in 2025.

The other tangible measure of success is capital distributions to our shareholders. I'm really pleased that we delivered around $54 billion by way of dividends and buybacks to our shareholders over the last five years, including the distributions announced today. I'm especially pleased to have paid the special dividend of 21 cents per share earlier this year, following the sale of HSBC Canada. I see this payment not just as a financial return, but as a return for the loyalty that our shareholders have shown us over the recent years.

Let me now summarise the further progress evidence in the first half. First, Wealth has been a key component of revenue diversification strategy. It's delivered two very good quarters, growing revenue by 12% in total. In transaction banking, Fee and other income in Global Payments Solutions grew by 4%, and in Global Trade Solutions by 1%, in a very difficult environment for trade. Revenue for HSBC Innovation Banking was up 4% quarter on quarter as our new global proposition continues to gain traction.

Second, our scale markets in Hong Kong and the UK enabled us to grow profits each year as we captured new opportunities in both the corporate and retail businesses. As you can see, we also have positive growth in other markets, including India, which was up 4% in the first half, and Singapore, which was up 2%.

Third, we continue to grow multi-jurisdictional client revenue in both wholesale and retail. Fourth, we saw good growth in both customer lending and deposits in the second quarter, despite what is still a relatively sluggish environment. Finally, we've continued to grow the size and duration of the structural hedge to reduce our sensitivity to interest rate movements. Georges has new disclosures on the expected benefits in his section. All of this progress underlines why we expect to deliver a mid-teens return on tangible equity this year and in 2025 as well.

Let me get into some more detail. The steps we've taken to change our retail business model and our continued investment in people and digitisation have made Wealth the key driver of revenue growth. Wealth revenue was up 12% in the first half to $4.3 billion, and that growth is broad-based. As you can see in the boxes on the right side of the slide, Wealth Fee and other income was up 14%. Private Banking revenue was up 16%. We attracted $32 billion of net new invested assets, and new business insurance CSM was up 77%.

Moving to the next topic, transaction banking revenue was stable in the first half. There was good growth in payments, which was up 3%. This included growth in Fee and other income of 4%. This is a result of the investment we've made to grow and digitise that business, which helped to improve our ranking from a top four bank in 2022 to number two today. Foreign Exchange was down 8% compared to a strong performance last year, when there was very high volatility. While trade was slightly down in the half, the pace of decline slowed to the point that it was broadly flat in the second quarter, but we still grew our trade volumes, despite global trade volumes remaining subdued. We also increased our market share in trade in Hong Kong to more than 26%.

On the next topic, our businesses in Hong Kong and the UK both continue to perform well in the first half. Profit before tax in Hong Kong was up 1% on a constant currency basis. While the Hong Kong corporate loan market remains subdued, it was resilient in the second quarter. It's too early to call it a trend, but deposits and investment activity increased, which underlines that the rate differential works in both directions. We attracted 345,000 new-to-bank customers in the half, as we continue to capitalise on significant inflows into Hong Kong from customers seeking opportunities for investment. Profit before tax in the UK business grew by 11%, excluding the gain on SVB UK last year. Customer lending was also up 2%, but our UK business is differentiated by its connectivity with the rest of the group. In the first half we grew the number of UK international customers by 8% to 2.7 million customers.

We have a strong international franchise. We evidenced this through our multi-jurisdictional revenue disclosures in February, and in the first half we grew wholesale multi-jurisdictional client revenue by 4% to $9.7 billion. As I said earlier, this isn't just a wholesale story. We're doing more with our International Retail and Wealth customers as well; we now have seven million International Wealth and Personal Banking customers, with revenue from these customers up 6% to $5.4 billion.

These are the levers that have put us on track to deliver a mid-teens return on tangible equity this year, and why we expect to deliver a mid-teens return on tangible equity in 2025. With that, I'll hand over to Georges. Thank you.

GEORGES ELHEDERY, GROUP CHIEF FINANCIAL OFFICER: Thank you, Noel, and hello everyone. Before I get to the Q2 numbers I'd like to comment briefly on the recent announcement. I'm deeply honoured by the trust placed in me to lead this great institution into the future. Many of you may have questions about the future strategy and direction of the group. Although I don't take over as Group Chief Executive until 2 September from Noel, I'm ready to share a few high-level thoughts.

Under Noel's leadership we have delivered financial performance and built a strong platform for growth. The strategy of the group is working, and I'm committed to building on this. The shape of the group is broadly where we want it to be, with the bulk of our capital and other resources deployed in our four scale activities, that's Hong Kong, the UK, our international wholesale bank underpinned by our leading transaction banking capabilities, and our wealth proposition, particularly in Asia. This puts us in a very strong position.

In each of these activities we have scaled and sustainable competitive advantages, and our strengths are aligned to the needs of our customers. They account for the vast majority of the economic profit we generate today, and present some of our most exciting opportunities to grow over the next five to ten years. Together they are capable of delivering above cost of capital returns sustainably through the cycle. We've made good progress, and we are now in a position to accelerate the pace of execution of the strategy with focus and intensity, to continue to grow revenue on a sustainable trajectory, to improve operating leverage while maintaining strong cost discipline and prudent risk management, and to continue to improve client service and experience.

You'll also have seen that we have announced this morning that Jon Bingham has been appointed Interim Group CFO from 2 September. Jon's currently our Financial Controller, and has outstanding technical accounting and regulatory knowledge and expertise. The process to identify the next permanent Group CFO is underway, and I will update you further in due course.

Turning to Q2 in summary, profit before tax of $8.9 billion was up $0.4 billion on the second quarter of 2023 on a constant currency basis. In terms of the drivers, the banking NII run rate was stable on the first quarter. There was another strong Wealth performance, while Wholesale Transaction Banking was stable on last year's second quarter. Despite cost growth of 7% in the first half on the target basis, we remain on track to meet our 2024 guidance of around 5% cost growth, and there was growth in both loans and deposits in the quarter.

On the next slide, HSBC Canada contributed around $0.5 billion of revenue and around $0.2 billion of profit before tax in the quarter before the sale completed in March. To make like-for-like comparisons easier, these contributions and some other impacts have been excluded from some of the commentary. Excluding notable items and the impact of strategic transactions, profit before tax was up 7% to $9.1 billion. Revenue of $16.5 billion was up $0.3 billion on the second quarter of last year. Excluding notable items and the impact of strategic transactions, revenue was up $0.8 billion – or 5% – on the second quarter of last year.

Banking NII of $10.9 billion was down $0.4 billion on the first quarter on a reported FX basis, primarily because of a $0.3 billion reduction from the Canada sale. Excluding this, the banking NII run rate was stable. We're now in a position to upgrade our 2024 banking NII guidance to 'around $43 billion'. This assumes a $1 billion contribution from Argentina, which was its reported NII in 2023, although we note that it remains volatile and difficult to predict.

We're also providing new details to help you understand the expected benefits from the structural hedge. Around $55 billion of assets are due to mature in the second half of 2024 with an average yield of 2.8%, and around $105 billion of assets will mature in 2025 with an average yield of 2.8% as well.

Turning to Fee and other income, Wholesale Transaction Banking was stable on the second quarter of last year, or up 2% excluding the impact of strategic transactions. Within this, Global Payments Solutions had another good quarter, up 2%, as did Securities Services, which was up 3%. Foreign Exchange delivered broadly stable revenue compared to a strong quarter last year. Wealth had another very good quarter, underlying that our investment is continuing to drive improved results. Wealth Fee and other income was up by 13% compared to last year's second quarter. Private Banking was a standout performer, mainly driven by increased customer activity in brokerage and trading in Asia.

Growth in Wealth remained broad-based. Customer growth and improved wealth penetration, primarily in Asia, helped drive growth in investment distribution. Invested assets were up 2% to $1.3 trillion, including $6 billion of net new invested assets in the quarter. Our new insurance business, CSM, was $0.6 billion, up $0.2 billion on the second quarter of last year.

On credit, expected credit losses were $0.3 billion in the quarter, equivalent to 15 basis points of average loans. This included $0.4 billion of recoveries and other items mentioned on the slide. Excluding these, ECLs were broadly in line with our normal medium-term planning range of 30 to 40 basis points. Stage three balances were 2.4% of customer loans, up $1.4 billion compared to the first quarter. This was driven by the Hong Kong commercial real estate book, but there was a limited impact on ECL charge because of the high level of collateralisation. We are revising our 2024 ECL guidance to our normal medium-term planning range of 30 to 40 basis points of average loans.

Next, costs grew by 7% in the first half on a target basis, but we remain on track to meet our guidance of 2024 cost growth of around 5%. Two percentage points of cost growth in the first half came from higher performance-related pay accrual and levies. As we explained at the first quarter, we have phased the accrual of our performance-related pay more evenly this year than last year. We do not expect the total amount of performance-related pay for 2024 to be materially different to 2023, so the accrual in the second half is expected to be lower year on year. In addition, the second half of last year included $0.3 billion of levies that we do not expect to repeat this year. We are therefore reconfirming our guidance of around 5% cost growth for 2024 on a target basis, and we remain committed to cost discipline.

On lending and deposits, there was positive loan growth in the quarter in both the UK and Asia, while Hong Kong was broadly stable. Overall, there were promising signs in the first half. Deposits were up 2%, with the majority of this in Hong Kong. There was also growth in the UK, Europe and the US, and the rest of Asia, but it also included the benefits of seasonality in Commercial Banking, and a large one-off in Global Banking and Markets, so I would encourage you not to annualise the 2% figure.

Next, our CET1 ratio was 15%, down 20 basis points on the first quarter, as strong organic capital generation was offset by distributions in the form of dividends and share buybacks. We have announced a new share buyback of up to $3 billion, which we expect to complete within three months and to have an impact of around 0.4 percentage points on our CET1 ratio in the third quarter.

Finally, to recap, our strong first half performance and our confidence about the bank's position enable us to provide new guidance of a mid-teens return on tangible equity, excluding notable items, for 2025, in addition to our existing mid-teens guidance for 2024; upgrade our 2024 banking NII guidance from 'at least $41 billion' to 'around $43 billion'; revise our 2024 ECL guidance to within our normal medium-term planning range of 30 to 40 basis points; and reconfirm our guidance for 2024 cost growth of around 5% on a target basis and a mid single-digit loan growth over the medium term.

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

ANDREW COOMBS, CITIGROUP: Good morning. Thank you both for the comments. I have a couple of questions from my side – one big picture, one into the numbers. First the big picture question. Noel, you highlighted all the things you can be proud of during your tenure, but perhaps with the benefit of hindsight, I would be interested in any thoughts you had on anything you might have done differently. And then linked to that as well, Georges, I think you were on the tape this morning talking about accelerating the existing execution, so any tangible examples you can provide on that would be helpful as well.

Then in terms of the numbers question, thank you for the additional disclosure around the structural hedge. I think you talked about $55 billion maturing in the second half at a 2.8% yield. Is it fair to assume that the new position that you're putting on is probably about 1% higher than that, given where the forward curve is? Prior to any offset from adding to the existing structural hedge, notional it's about $0.5 billion of NII uplift. Is that fair?

NOEL QUINN: Andrew, thanks for your questions. I'll take the first one. I've got no regrets, Andrew. Performing this role is an absolute privilege. You never finish with an institution like this, and that is why Georges is right to comment that you always want to do more. There are always things you want to improve; there's always investment you can do to grow more revenue, to improve customer experience, improve systems and processes. So, there's never a notion of finishing; it should always be a notion of continuous improvement and continuous ambition.

I think that's probably the bridge from me to Georges, because I have no regrets about the last five years. I think we've done a lot of good things, and I thank my colleagues for everything they've done, but equally you should never be complacent and think the job is finished. The job of running an organisation as large as ours and with so much opportunity before us to further improve is never finished, and that's the bridge over to Georges now to take it on to the next level and to continue to execute the strategy. So, Georges, I hand over to you on both of the next two questions, please.

GEORGES ELHEDERY: Thanks, Noel. Yes, Andrew. Just echoing Noel and building on that, we've called out some of the key areas of our strategy. I've called out Hong Kong, the UK, the international wholesale bank, which is underpinned by leading transaction banking capabilities, as well as Wealth, all of which have demonstrated very strong momentum, certainly over the last few years but definitely over the first half of this year. We're confident about the momentum. We're confident in our ability to continue investing in them, and we're confident also we have ample capital to support additional growth. So, it's just about getting continued pace in the execution of this strategy that has proved its results.

On your question about the structural hedge, Andrew, $55 billion are expected to mature over the course of the second half at an average yield of 2.8%. If I try to reverse-engineer your maths, and if you assume the reinvestment happens at around 3.8% with a 1% uplift, then you get $500 million, but remember this is maturities that are happening over the course of the half. Therefore, I think you have to average the number, and therefore you have to assume half the number as an in-year 2024 benefit from that structural hedge reinvestment, so say the half of your $0.5 billion you quoted.

Also, bear in mind that we are increasing the structural hedge, subject to market conditions. We have done about $25 billion the first half. It's a good estimate of the run rate for the second half, and that is a mild headwind because we're increasing the hedge from higher short-term rates into lower longer-term rates due to the inversion of the curve, so you have to take all of this into consideration when factoring in the impact for 2024 banking NII.

AMIT GOEL, MEDIOBANCA: Thank you for taking my questions. I have three. First, I was a bit surprised to get the 2025 profitability target, which does seem to be a little bit above consensus. I think consensus is about 14%, so I guess a bit of variation on mid-teens, but if that's 15, 16, 17%, I'm just curious where you see a bit more upside. Is that mainly on the revenues or can you see a bit more cost control?

And then linked to that, Georges, I think in your comments as well you talked about growing revenues on a sustainable basis – just curious again how you're thinking about that, potentially with some NII headwinds.

And then, lastly, Noel, I think you used the term 'sluggish' or 'subdued' a few times when talking about the environment – just curious when you think that will potentially turn and we can see a more constructive environment for some of those markets. Thank you.

NOEL QUINN: I'll ask Georges to answer the first one – I think he's probably best – on the mid-teens and the definition on the mid-teens, and then also maybe sustainable revenue, and then I'll cover the third.

GEORGES ELHEDERY: Very good. Thank you, Amit. If you adjust consensus for 2025 for the impact of the loss from the sale of Argentina, which, by the way, as we communicated, now we expect by the end of the year, therefore it's more reasonable to assume that the recycling of the foreign exchange loss of $5 billion, which has no impact on capital or on distribution – it's fair to assume that impact will happen in 2024, but if you adjust the consensus in 2025, you get to around 14%. Our definition of mid-teens is broadly around 14% to 16%, so without commenting on the consensus, our mid-teens definition is broadly that 14% to 16% range.

On the growing revenue on a sustainable basis, let me point you to three major indicators that are going to be important in the way we look at the future. The first one is related to banking NII. Banking NII, firstly, has been stabilised partly with the reduction of banking NII sensitivity. If you recall, two years ago we called out $7 billion to be the impact on banking NII or on our revenue for a 100-basis-point drop in interest rates. That number at the year-end was $3.4 billion, and that number as we reported it now is $2.7 billion, so therefore, through activities of structural hedging, but also through other methodology improvements and balance sheet composition, we have reduced the dependency of our earnings and of our banking NII to the impact of lower rates.

The second component, again relating to banking NII, is that, while for a few quarters we have seen subdued loan growth, in particular in the UK and Hong Kong wholesale markets, we have now seen stabilisation. It's early to call it a trend, but we are encouraged by the stabilisation we have observed, and importantly we will be more encouraged to, when we see rates coming off in the support they can have for loan growth, in particular in these two areas that historically have been a little bit more sluggish – other parts of our activity remained resilient. Loan growth in south and southeast Asia remained very strong. Loan growth in the mortgage businesses in the UK and Hong Kong remained very strong, so there is a volume component to banking NII, which we supported, and as you can see from our capital, we have ample capacity to support loan growth.

The third component I would call out is the non-banking NII part of our earnings, Fees and other income, in particular Wholesale Transaction Banking and Wealth. You've seen the momentum in these businesses. You've seen the continued investment we've put in these businesses. We believe these momentums are sustainable. There's an underlying sustainable trend supporting Wealth, in particular in Asia, and there's an additional support through our own investments, both technology and people relationship management-related, to support growth in this area, and we believe the momentum is sustainable.

Those are the broadly three components that we believe will sustain our earnings as we look into the future.

NOEL QUINN: Amit, just to come to a little bit more elaboration on the 'sluggish' and 'subdued', I'm not surprised that the corporate loan market is a bit subdued at the moment. I think it's right for that to be the case because, in the higher interest-rate environment, not many corporates out there want to borrow at today's interest rates, and actually they've still got a lot of cash sitting on their balance sheet. They don't need to borrow, which is a good position to be in, but as you see interest rates come down, I would expect there to be a pick-up in activity.

Like Georges just said, we're starting to see the very early signs of that starting to emerge. It's very early. It's too early to call it a trend, but I was pleased that the rate of decline in the corporate lending book in Hong Kong in Q1 reduced dramatically. It had been declining through 2023, and it actually plateaued in the Q2, and that's in Hong Kong. Then in the rest of Asia, we saw a growth in Q1 and Q2, and in the rest of the world we saw growth in Q1 and Q2. Q1 was the first time we saw net growth in corporate lending. Q2 we saw net growth as well, so I think it's encouraging early signs as interest rates come off. I see that happening.

The other thing is you've also got to remember there's another side to the Hong Kong market. The deposit market and the investment market is very strong, as you saw in our Wealth businesses. The net new invested assets going into the business in the first half of this year was about $34 billion, if I remember correctly, and as rates come off, cash moves into invested assets, and I think we're a beneficiary of that, particularly in Hong Kong, where rate differentials are playing strongly into the investment market, whereas the rate differentials are subduing the demand for loans in the Hong Kong market. But the rate differential is working in the opposite direction on investments.

JOSEPH DICKERSON, JEFFERIES: Thank you for taking my question. Just a couple of quick things – so on the ROTE guidance, if you look, in the first half of the year you've done an underlying number of 17%, you've had a few credit headwinds, but generally benign. If you think about things like cash moving into invested assets, which should be higher ROE, your Wealth and Personal Banking ROE is around 31% at the moment; you're doing about a 22% UK ROE. What would hold you back from maintaining that level in 2025 and 2026, not withstanding some rate cuts? Because it seems like there's a lot more flex in your business model. I know you need to be conservative, but is it rates that would hold you back – lack of activity?

NOEL QUINN: It's a fair observation, and we're not being conservative for the sake of being conservative. I think it is too early to call a return to volume growth in the corporate loan market in substantial proportions. I think we all expect the rates to come off and cash to move from cash to invested assets. I think it's still a bit early in the cycle. There's a lot of uncertainty still out there, and given our guidance of mid-teens, which is somewhere between 14% and 16%, is fair at this point in time. I think that the most important thing we've tried to do over the past few years is deliver each quarter and let each quarter be the base for the future, so it's better to set reasonable and sensible guidance and then we continue to evidence progress against that as quarter by quarter goes. I don't think we're in the mould, as an institution, of being overly bullish one way or the other, particularly when there's still quite a bit of uncertainty out there. Georges, is there anything you want to add?

GEORGES ELHEDERY: Just one parameter also to add is: remember to remove the impact of Argentina, with the expected sale taking place at the end of this year, in your 2025 assessments.

RAUL SINHA, JP MORGAN: Good morning. Thank you for taking my questions. I was just trying to dig into some of your commentary around the hedge. I've got two questions. The first one is: I'm just trying to understand how the notional size of the hedge is changing in the UK versus the rest of the world. My understanding was that the structural hedging in the UK was quite a mature book, so I wouldn't have expected that to increase in size going forward. When we think about the rest of the world, it looks like your structural hedging was more recent so there's probably scope to increase that, but maybe the refinancing yield is a bit higher. Is that the right understanding, first question?

The second question is just coming to the Hong Kong CRE book and some of the disclosure you've called out there. I think $36 billion of total exposure. 40% of that is unsecured. I was just wondering if you could give us a little bit more additional colour around the unsecured part of Hong Kong CRE. I think you said it's very good quality, but how you look to manage the risks, given the unsecured nature of this CRE book. Thank you.

GEORGES ELHEDERY: So, Raul, on the hedge size, we haven't given the specific currency split to balance sheet split, but, yes, you should assume that the sterling component is one of the largest components in terms of the hedge size, and the UK, therefore the sterling component, is one of the most mature by way of size of hedge, but there is obviously still our previous hedges struck at lower yields maturing, and we're able to benefit from the reinvestment of maturing hedges at higher yields. That was still a component in the UK bank's NIM, which has been broadly stable, and we expect to remain broadly stable, and the structural hedge reinvestment is playing a role in that.

With regards to the rest of the world, it's a story of two tales. There's the reinvestment of old structural hedges at higher yields, and that is a tailwind in our banking NII. There is also additional hedges we're doing, where we can, and these additional hedges are suffering from – this is a partial offset as a headwind because they're suffering from the fact that curves are inverted, but it's still the right thing to do for the management of our banking NII sensitivity.

And then obviously always keep in mind that the Hong Kong dollar exposure we have remains largely under-hedged, and that's due to the fact that the structure of the market does not give us enough insurance to be able to invest in the long term to support hedging. So, the Hong Kong dollar will remain structurally under-hedged in that sense.

With regards to the Hong Kong CRE question, so 40% of the book, of the $36 billion you mentioned, is unsecured. It is typically exposure to large conglomerates with a diversified revenue stream, including revenue streams from activities not related to real estate. 90% of that book today is rated strong and good, and literally 0% is in the impaired category. We're very comfortable over the exposure we have in that book, and we continue, obviously, supporting our customers through the cycle in this space.

JEREMY HOU, CICC: Good morning, Noel. Good morning, Georges. My first question is on non-interest income. If my maths is correct, my calculation shows that our adjusted non-interest income is $5.8 billion this quarter compared to $5.3 billion a year ago, and we had $200 million growth on loans. Transaction banking is relatively stable, so it seems GBM contributed a lot this quarter. So, I understand that this business has seasonality and is volatile, but do you expect that momentum to continue going forward or do you think the second half of last year is a relatively weak comparison?

The second question is a broader one because I realised now you speak less about focusing on Asia these days than you used to and emphasising more on the global network. Yes, sometimes in some ways they do intersect, but I'm wondering do you still focus on exploring some growth opportunities in Asia and Wealth business in the future and do you have a capital distribution hierarchy and preference among dividends, buy-backs and growth? Thank you.

NOEL QUINN: Okay, Georges, do you want to take the first one? I'll give a few comments on the second one and you take the third one on capital distribution.

GEORGES ELHEDERY: Very good. Jeremy, so without giving you quarter-by–quarter specifics in the development of our fees and other income component, the growth that you've observed year on year in Q2 were mainly driven by two areas. The first one is Wealth, which is obviously a very strategic area where we continue to invest and exhibited growth. The other one was from markets, in particular from some of the equity business in markets. This is coming on the basis of two components: one, a subdued Q2 last year – so there was a base effect which benefited the outlook for Q2 this year; and then the second one is the fact that we've seen more activity and more vigorousness, if you want, in the Asian stock markets, in particular the Hong Kong stock market. We're encourage by this, and, if the trend continues, this will bode well for additional activity in this space.

Let me jump to the third question and then I'll hand over to Noel to conclude on the second one. Capital distribution hierarchy – first, we've committed to 50% dividend payout ratio for this year, which means half our earnings will be earmarked for the foreseeable dividends. Part of it will be distributed through our interim dividends; the rest will be meted out at the end of the year. After that we obviously will use capital to support the organic growth of our business. Loan growth, as we said earlier, started to pick up in certain areas. We are encouraged – or we have ample capital to support the loan growth, the appetite we have. We will look at bolt-on acquisitions or areas that are dead-on strategy but supportive of acceleration of the strategy. That will be part of the utilisation of excess capital, and any excess beyond that we will distribute back to shareholders through a rolling series of share buy-backs.

If you look at our CET1 ratio today, at 15%, and you look at our capital accretion – we remain capital generative in the business based on the guidance we've given for this year and next year – we're confident we will have capacity to deliver on the three. I will say the buy-backs – we'll continue looking at it on a quarter-by-quarter basis with the ambition to have a rolling series of share buy-backs.

NOEL QUINN: Thanks, Jeremy, and on your second question, is it an Asian strategy? Is it an international strategy? I think they're interchangeable. I don't think they're mutually exclusive because, if you look at what we do, at the core of what we've done for 158 years, or more is we've connected entrepreneurs and businesses who want to trade with the world. That's what we've done from day one of HSBC being founded. So, we're essentially about helping businesses and individuals trade internationally, invest internationally.

Now, why are they one and the same? Well, a huge amount of the entrepreneurs that we have as clients are based in Asia; they're based in the Middle East. They're based in the East, and they trade with the West, and the West trades with the East. Asia and the Middle East are high growth markets. So, I don't think it's an either/or. I think for us it's very simple: we're internationally driven, and Asia is a hugely connected international part of the world and will remain so going forward. The nature of trade will change, as it has done for 158 years.

So, I think we use the words 'Asia' and 'international' probably interchangeably and sometimes it gets people confused. We're investing where there is growth and where we have differentiation. There is growth; there is international connectivity; there is differentiation in Asia and there is in the Middle East, and we have the same here in the UK. Fundamentally, at the core, we're an international bank.

AMAN RAKKAR, BARCLAYS: Good morning, gents, Noel I just wanted to start off and congratulate you on your excellent tenure at HSBC.

NOEL QUINN: Thank you.

AMAN RAKKAR: I just wanted to wish you the very best going forward with whatever it is you decide to do. And Georges, on a similar theme, I just want to extend my congratulations around your appointment as CEO.

I had two questions, please, both on net interest income. So, a point of clarification – I guess your banking NII guide this year of circa $43 billion at face value does imply a material step-off in net interest income in H2. I just wanted to check – you're guiding for Argentina being $1 billion this year, and I think it was the best part of $900 million in H1. So, is it literally just Argentina dropping out of net interest income in H2 that's driving that? And what would really, really help is the momentum of NII in H2 and the extent to which that carries over into 2025.

I'm not necessarily looking for an updated guide here, but, if I just take again your banking NII disclosure at face value, it's implying a $42 billion annualised run rate in H2, ex-Argentina. What do you think the puts and takes are on that, if we were to look a bit further afield beyond this year?

And then the second question was if I could just get you to update your thoughts around deposit pass-throughs. You're obviously noting you've hedged more of your balance sheet now, and what if actually pass-throughs were to be, say, 10% lower than what you're modelling in your updated banking and NII sensitivity? That would be really helpful. Thank you very much.

GEORGES ELHEDERY: Aman, thank you. So, on your first question, look, around $43 billion banking NII for this year is a reasonable expectation, and we're more confident about it because we're already seven months into the year, and somewhat the forward rate outlook has become a bit less volatile than we've experienced over the last few months.

Argentina, we have worked with a planning assumption of $1 billion, so within our around $43 billion we've factored in around $1 billion contribution from Argentina. It is a very difficult-to-predict number; it is a very volatile number; and therefore, the best estimate – you can use around $42 billion and add whatever other expectations you may have for Argentina, but we're sticking with this $1 billion estimate in the uncertainty. Just for reference, $1 billion was the banking NII contribution of Argentina in 2023, and this is how we're building the assumption for planning for this year.

Now, if you look forward for H2, headwinds and tailwinds facing the banking NII – the first one to call out is the rates outlook. We're using the mid-July curves, which comprise broadly between one and two rate cuts across all the major currencies in the second half. This is the working assumption. The second one is on the structural hedge so, as we called out earlier, you should expect a benefit from the $55 billion maturing assets in 2H at 2.8% yields which will be reinvested at higher yields, at the prevailing yields in H2, which will be higher. You can take a five-year rate as a good benchmark for what rates will be invested at. But this is partly offset by the additional structural hedging we are likely to do on an inverted curve. Again, here your best guide is what we've done in H1. $25 billion of additional structural hedging is a reasonable run rate to expect for H2, but it will depend on market conditions in H2.

The other components that are playing as headwinds and tailwinds are the balance sheet growth. Balance sheet growth – we continue to see strong growth in South and Southeast Asia. We continue to see resilience in the mortgage books in the UK and Hong Kong, but we are now encouraged to see stability in the Hong Kong wholesale book, which has been on a decline for a few quarters. It's early to call it a trend, but it is definitely green shoots when we look forward, and it will be supported with rate reductions, the balance sheet growth in this space. And then the last one to call out is deposit migration. That's particularly true in Hong Kong. Again Q1, Q2 we've seen migration at 0% and 1% respectively, which is 1% overall on the half. Just to put it in perspective, this is after full-year 2023 where we've seen 12%. So, again, the trend here is much more encouraging. We're very unlikely to see anywhere near the trend of last year, but it remains a difficult one to predict.

Now, as you look forward into the full year 2025, we're not guiding on banking NII, but a few points for you to bear in mind. The first one is please remove Argentina's contribution – again, working assumption $1 billion. This is following the planned sale of Argentina to take place before the end of the year. Second, remove the one-quarter contribution from Canada, $0.3 billion, in your NII. Then we've shared that there will be $105 billion of existing structural hedge assets which will mature in 2025 with an average yield of 2.8%, so those will provide some tailwind as we reinvest them at higher yield. So, beyond that you can apply your own interest rate assumptions on the banking NII sensitivity we provided. $2.7 billion is the sensitivity we provided across all currencies for a 100-basis point drop, and you can apply your balance sheet growth assumption and, again, we believe lower rates will be more supportive of a growth in balance sheet when you look into 2025, but basically all of that is factored into our guidance for return on tangible equity for 2025 at mid-teens.

AMAN RAKKAR: Thank you very much. That colour is excellent. Just around pass-throughs, I think earlier this year you talked about 10% lower betas adding something like $600 million.

GEORGES ELHEDERY: So the banking NII sensitivity to a 10% change in pass-through rates remains around $600 million, and this is based off an assumption of around $600 billion of IBCAs. So, we can work out the maths, if you want, offline. That number is broadly stable. We're still working on an assumption of a 50% pass-through in our banking NII sensitivity.

Second, if you look at the cumulative pass-throughs, we're broadly around 50% from the start of the rate hikes in late 2022 all the way to now, broadly around 50%. The earlier part was much lower than 50%; the latter part was much higher than 50%. It is difficult to predict how pass-throughs will work out on the rate-cut scenario, and this is why I think 50% remains a good estimate of what it could look like, noting that we don't have a recent history of that.

I would point you to one thing to be mindful of: in the UK and a number of other geographies we will have to provide customer notice of at least 60 days before we pass through rate cuts, so there will be a delay in pass-throughs on the way down, and that's 60 to 90 days on average, for instance, in the UK. Thank you.

AMAN RAKKAR: Thank you so much.

ED FIRTH, KBW: Thanks very much. Again, good morning, everybody. I'd just echo Aman's comments and thank you, particularly to you, Noel, because it's been a pretty turbulent period where you've been CEO. I think there were a number of times when if somebody had said you'd be making mid-teens returns I would have thought that that was delusional so thank you very much for that –

NOEL QUINN: Thank you; thank you.

ED FIRTH: Because it benefits us all. My two questions were – the first one was could you tell me – you've probably disclosed it somewhere and I've missed it, but performance-related pay – I see you're assuming that's going to be flat this year. Is it possible to tell us what the total quantum of that is? Because I guess there must be some potential that that may have to go up, particularly given the revenue performance. So that would be my first question.

And then the second one was, to me, if I look at these results, I guess the standout to me was the performance in Q2 of the Wealth and Private Banking business. If I look in the past, it's generally been quite seasonal in Q2, but it seems that actually it's held up pretty flat. So, should we expect that – is that a new base level of run rate? Is that something that should continue into the second half now and then grow on from there or was there something about Q2 which held it up better than we might have expected? Thanks very much.

NOEL QUINN: Well, firstly, thank you for your comments. And on your second point on Wealth – I'll give a very personal comment – you normally expect Q1 to be the seasonal high and then it to be a bit lower in Q2 and a bit lower. So actually, Q2 did exceed expectations in terms of seasonality. It was a strong quarter. At the moment I – again, we tend to be a bit on the conservative side and say, 'Don't base a trend on a quarter or two', but I think your assessment that actually Q2 was a strong performance is exactly where we are. It was stronger than probably one would have expected through normal seasonality.

I think it is – if I talk to the team, they were confident of a good performance. They'd seen good lead indicators. We've taken in in excess of $250 billion of net new invested assets just over the last two and a half years, and we haven't seen this period where 'How will cash move from cash to invested assets as interest rates come off?' And therefore, I think it is difficult to predict a trend. I think we've just got to see it go quarter by quarter, but the lead indicators are good; we've invested in the business over the last few years to put us in this position.

It was all about getting ready for lower interest rates and being in a position to take advantage of it. We invested heavily in the product line-up for our clients to make sure that, if they were going to move into invested assets, they could do so with us rather than another bank. We invested in distribution. We had good distribution in Hong Kong, but we didn't have as good a distribution in other markets, so we built out distribution in mainland China, in Singapore, in India and in the rest of the world. So, I think it's put us in a good position to take advantage of it, but it's too early to call it a trend. But your observation is a fair observation for Q2. It was good, and it's nice to be able to report that.

On performance-related pay and costs, I'll let Georges cover that, but we're absolutely committed to the 5%.

GEORGES ELHEDERY: So, we paid $3.8 billion through full year 2023 on performance-related pay. This is disclosed in our annual reports and accounts, but, if you look at how we accrued for that number through the year in 2023, we actually under-accrued in the first quarter 2023 and then we topped it up at the fourth quarter to get to that total number. When you look at full year 2024, we are accruing towards a broadly similar number for the full year than for the full year 2023.

Any decision on performance-related pay will take place in January with the Remuneration Committee after the full year's performance has been delivered, but we are accruing broadly to the same number. The difference is that we're accruing more evenly. So this is why you'll see a higher accrual, on a year-on-year basis, in the first half and you will be seeing a lower accrual in the second half on that trajectory. All of this is factored in our cost guidance of limiting cost growth to around 5%. We're absolutely committed to our circa 5% cost-growth guidance. We're confident we can deliver it, and we are on track to deliver it.

KATHERINE LEI, JP MORGAN: Hi, good morning. Thanks for answering my questions. I have two, both related to capital. On the capital side, we saw there is $6.4 billion of additions to RWAs. May I know what is that related to? I think in the notes it's something related to modelling so I would like to know what assumption changes leads to this $6.4 billion and is that a one-off or should we see this as an ongoing addition to the RWA?

Number two, we noticed some deterioration in asset quality on the Hong Kong CRE book. According to the disclosures, the deterioration seems quite significant as well. Can you explain to us what is the impact on capital? Because we understand that there is limited impact on ECL charges but mainly reflected on capital. So, what is the drag on capital?

And then also, going forward, what is your view on Hong Kong CRE, in particular for the loans which are already in the stage 3 categories? Are you expecting that there will be a recovery of loans through disposal of collateral or are you expecting that the borrowers will eventually make up for the loans? Thank you.

GEORGES ELHEDERY: Thanks. Katherine, on capital, we've indicated a $6.4 billion increase in RWAs due to modelling adjustment. To be specific, we've adjusted the probability of default models for banks globally, and the reason we adjusted this probability of default model for banks is because we wanted to factor in some of the observations and learnings from the March 2023 crisis in the way governments have supported a bank resolution. That's specifically true for the US and Switzerland. We've taken those learnings; we've baked them in our modelling; and this resulted in this additional RWA.

In so far that bank models for probability of default, etc, are concerned, we consider this to be done. If you ask me, while we continuously look at our models in a general fashion, the next big model update is going to be Basel 3.1, as and when Basel 3.1 becomes live in the various geographies or jurisdictions where we operate. We have not indicated the impact, which we do not expect to be material. We're waiting to see some of the final rules that are still missing in a number of jurisdictions before we can call out the exact impact to the market, but we don't expect it to be material.

In terms of Hong Kong CRE, we've spoken earlier about the 40% that is unsecured, with which we remain very comfortable, so your question probably relates to the other 60%, which is the secured portfolio of our $36 billion exposure. So of this about $3.2 billion are credit impaired. What's happening basically is a few of our customers basically are facing some short-term cash flow pressure challenges, and this is partly due to high rates, but the balance sheet remains strong, and our level of collateralisation remains strong. Typically for this impaired $3.2 billion portfolio the level of collateralisation on average is 55% loan to value. So, this is why there is a material, if any, ECL impact from the designation to stage 3.

In terms of the capital impact, depending on which models we're using and what form of lending it is, some of the impact may manifest in RWAs, and we've seen a little bit of that in last quarter. Some of it will manifest in EEL, excess expected loss, which will go straight into our CET1. We publish these numbers, but by and large these are immaterial numbers and, again, it's all supported by the fact that we have a very strong level of collateralisation against the exposure.

As we look forward, first, these customers, the specifically credit impaired customers, are current, remain current. We expect some of the pressure they're facing to ease as rates reduce and as economic activity in Hong Kong picks up. In terms of the medium-to-long-term outlook for the sector, we are actually positive. We are confident, first, in the Hong Kong economy in general to rebound, but in particular for the sector. We expect the sector's pressure will ease in the medium-to-long term, and we remain confident and positive about the sector.

GURPREET SINGH SAHI, GOLDMAN SACHS: Good morning. First of all, Georges, congrats, and, Noel, congratulations for a new path, wherever you choose to be.

Thank you for the helpful disclosures on the hedge, etc. I have two questions, which are pretty much linked, regarding falling rates and how does the management see it. First of all, the Wealth income – it's an odd cycle with Wealth income and AUM growth rates being elevated as interest rates are high. So, when they do fall, do we have any precedent as to whether there will be an impact on the Wealth income from falling rates or we don't get that much benefit from income? We see right now that a lot of the mainland Chinese money is also coming out and parking in Hong Kong. So that's the first part of the question.

The second is lending growth. We have targets for mid-single digits, but, when we think about modelling banking NII, we have to look at average interest-earning assets. So, I'm wondering – we have lots of liquidity on the balance sheet. If rates do fall and then some of these depositors don't feel incentivised, do we get overall deposit growth not so strong, which in turn leads to average interest-earning assets not growing, and hence we should not be modelling average interest-earning assets growth at mid-single digits? So help us to think of that. Thank you so much.

GEORGES ELHEDERY: So, first, Wealth income – the way we report it essentially is Fees and other income. So the slide I have there for Wealth – that's particularly the fees part, which is fees earned on asset under management or for insurance in particular related to new business CSM.

So the impact, if you want, on rates is more about the transition of customers from deposits into AUMs. So this has been happening. We're seeing some of our deposits move into net new invested assets and transferring, if you want, to AUMs in our Wealth proposition. It is likely, on a trend basis, that when rates come down and the earnings you can make on deposits reduces, that customers may shift some of it into AUMs – it will be visible now in our net new invested assets proposition, and then we will be able to service them in the fee space. So, yes, there is a component where we do expect more Wealth activity to take place as we see deposits being less remunerative, but this is more on a broad trend basis, not a direct linkage.

We are also benefiting from the structural growth of Wealth, in particular in Asia, where we believe the underlying market is growing at very-high-single digit if not double-digit percentages over the next five years, and on top of that underlying growth, which we're benefiting from. We are taking market share because of our additional investment in this space. So, this is definitely a platform that can benefit from a number of trends that will support the momentum.

On your second point, it's a very good point because we talk about balance sheet growth and loan growth, but we have also a strong dependence for our banking NII to deposit growth, which constitutes the underlying for our average interest-earning assets. So we've seen this quarter deposits growing 2%. I caution you not to annualise the 2% because some of it is seasonal; some of it is one-off. But we have a fantastic deposit franchise. You know us. Everywhere we operate, we have a very strong balance sheet that's very appealing, and we have a very strong proposition in deposits and transaction banking for both wholesale and retail, which means that we will continuously look to capture deposits. We continue winning Global Payments Solutions mandates in the wholesale space; we continue being attractive for retail customers; and we just shared – Noel shared 345,000 new customers joining our Hong Kong business alone. In the UK in 2023 we added 1 million new customers. So therefore, we do continue seeing a good underlying momentum to grow our deposits with this very attractive deposit franchise of ours.

NOEL QUINN: And I think I'd reinforce that and add another comment. The trick for us in the past – we were very good as a retail bank; we were very good as a corporate bank; but, when customers, whether they were retail customers or corporate customers, wanted to invest in alternative asset classes other than cash, they tended to go to other banks because our product range and our distribution wasn't strong enough. We deliberately set out to invest in our products and distribution capability for Wealth so that that cash – if it did move, it moved within the bank not outside the bank, and one of the byproduct benefits is, if you've got a good Wealth proposition, you also attract the cash. You keep the cash in the bank as well. They go hand in hand.

And so I think – look, I think we're in a very different position today in offering Wealth propositions to clients, and what we've done is deliberately try to diversify the revenue stream so it's less dependent on purely corporate banking and retail banking and there is a continuum from retail and corporate banking into banking the individuals and the entrepreneurs in their personal capacity and doing their wealth management in their personal capacity, and that's, I think, the exciting trend for the future, and I think that's why we believe that we're well positioned to deliver mid-teens ROTE next year: because we have that diversity and that continuum of offering. So I just want to say that's not a by-chance strategy. That was a very deliberate strategy to keep both the cash in the bank and the invested assets in the bank.

Thank you, everyone, for joining us today. Before we close, I'd like to thank you for your questions and for all the discussions we've had over the last five years. I've always enjoyed representing my colleagues when we announce our results, and I'm really pleased that the strong first-half numbers announced today demonstrate the improved financial performance that our strategy and execution has driven. It's been over 15 years since the group has generated returns at the current levels, and our new guidance underlines that we expect to be able to sustain it through this year and in 2025. I wish Georges, the team and all of you the very best, and enjoy the rest of the day. Thank you.