

**Q2 Results**  
**Fixed Income Call**  
**30 July 2025, 1.00pm GMT**

FAISAL YOUSAF, GROUP TREASURER: Hello, everyone, and thank you for joining our Fixed Income investor call. I'm Fas Yousaf, Group Treasurer, and I'm joined by Greg Case, Head of Debt Investor Relations. We appreciate your time and interest in our half-year results, and this call will focus on areas most relevant to Fixed Income investors.

In my opening remarks, I will cover three items. I'll begin with a brief summary of our financial results. Second, strategic progress and key elements of business performance, including net interest income and asset quality, and finally, our balance sheet, including capital liquidity and funding. As I speak, we'll display a few selected slides from our H1 Fixed Income investor deck to support the key points, and this is available on our Investor Relations website. Once I've finished, we'll move straight into Q&A.

Starting with results, our first-half results were strong. Excluding notable items, revenue in the first half grew 6% year-on-year to \$35.4 billion, and profit before tax was \$18.9 billion, 5% higher year-on-year. The half-year annualised return on tangible equity was 18.2%, excluding notable items. These notable items totalled \$3.1 billion this half. Of these, \$2.1 billion related to the dilution and impairment losses for our stake in the Bank of Communications. This was following completion of their share issuance earlier in the year. We have confirmed our target of a return on tangible equity in the mid-teens for 2025, 2026 and 2027, excluding notable items.

Moving on to my second item, strategic progress and key elements of business performance, we are navigating the current period of uncertainty from a position of strength. Our strong balance sheet and deep customer relationships have supported deposit growth. In our Hong Kong business, we attracted 600,000 new-to-bank customers this year. Our deposit base stands at over \$1.7 trillion, \$83 billion from the same period last year on a constant currency basis, including balances classified as held for sale. In our UK business, our loan book grew by 4%, or \$13 billion, from the same period last year on a constant currency basis, driven by growth in Retail Banking and Wealth of \$7 billion and Commercial Banking of \$6 billion. Higher client activity in Wealth and Wholesale Transaction Banking has led to growth in fees and other income.

We've also made progress on our commitment to deliver \$1.5 billion of annualised savings to be taken to the bottom line in 2027. Actions taken in the first half will contribute over \$0.7 billion to these cost saves, \$0.4 billion of which will be realised in 2025. These saves will be generated primarily through the deduplication of roles, and will have no meaningful impact on revenue. More broadly, we continue to take a disciplined approach to cost management and are on track to achieve our target of around 3% cost growth in 25 compared to 24 on a target basis.

We are also simplifying our business at pace. We've announced a number of exits already this year, with expected completion over the course of the next few years. Moving away from these non-strategic areas will generate incremental investment capacity for our priority growth areas of the future.

Turning to Banking NII, we continue to guide to \$42 billion for 2025. This considers the expected path of interest rates, including HIBOR and US dollar depreciation. On HIBOR, by way of a reminder, under the linked exchange rate system the Hong Kong dollar is maintained within a trading band. This is managed via the HKMA's commitment to buy or sell Hong Kong dollars if the exchange rate hits either side of the band.

During the second quarter, we saw market-driven interventions after the Hong Kong dollar appreciated to the strong side, which added liquidity to the market and led to a notable drop in HIBOR rates to below 1%. Market-implied rates suggest that one-month HIBOR will rise back above 2% during the third quarter. Our structural hedge will support earnings as interest rates fall. It now stands at \$578 billion, up \$25 billion in the first half, net of FX moves. The average life of the hedge is now 3.1 years, and we will reinvest around \$55 billion of assets in the second half. These assets have an average yield of approximately 2.8%, and slides in the appendix of the deck provide more detail on this and also on our sensitivity.

Now, with respect to asset quality, our ECL charge for the first half was \$1.9 billion, or 40 basis points as a cost of risk. The charge was 43 basis points in the second quarter, including \$0.4 billion for Hong Kong Commercial Real Estate, and within which \$0.1 billion related to model adjustments. For full-year 2025, we now expect the charge to be around 40 basis points, reflecting conditions in the Hong Kong commercial real estate market. Stage three balances were 2.4% of customer loans, remaining stable in the first half.

On to the final item today. That is our balance sheet. Turning first to capital, our CET1 ratio of 14.6% remains above our target operating range of 14-14.5%, and you should expect us to bring it down into the range over time. Note that the aforementioned impairment and dilution loss taken following the capital raise by BoCom has no material impact on the HSBC Group CET1 ratio, as it is offset by threshold deductions. At the midpoint of our target operating range, we will have around 300 basis points of headroom above our MDA hurdle requirements.

HSBC continues to be strongly capital generative, with profits delivering 1.8 percentage points of CET1 in the first half. Our dividend payout ratio policy remains 50% of earnings, excluding material notable items and related impacts. We've announced a total of \$0.20 per share dividend for the first half. Alongside our first quarter results, we announced a \$3 billion buyback, which completed last week, and today we have confirmed up to a further \$3 billion to commence in the coming days. This brings our total shareholder distributions in respect of the first half of the year to \$9.5 billion. Our MREL ratio was 32.6%, broadly flat in the first half of the year, and 4.8 percentage points above our requirements, which is equivalent to around \$43 billion.

Moving on to liquidity, the Group retains a large and well-diversified deposit base, with strong levels of liquidity. We maintain a conservative loan-to-deposit ratio of 57%, supported by our \$1.7 trillion deposit base. Across our two home markets, our deposits continue to skew significantly more towards current and savings accounts than we see across the broader market. We hold \$0.8 trillion in high-quality liquid assets, and the Group LCR was 140%. The Group primarily manages liquidity at each individual legal entity, and has a conservative approach to calculating a group LCR. You'll notice that our major subsidiaries all operate with LCRs that are significantly higher than the Group ratio, highlighting the conservatism in our approach.

Finally, on to issuance. We chose to accelerate our issuance plan in the first half, given the balance of risks and opportunities presented to us in the market. We have now largely completed our funding plan for 2025, with a focus likely to be on non-G3 currencies in HoldCo senior in the second half of the year. Given the acceleration of our plan, we expect to be a significantly net negative issuer in the second half, with nearly \$9 billion of senior HoldCo and Tier 2 due for call or maturity over the period.

Two-thirds of our HoldCo senior issuance has been in US dollars so far this year, and we are particularly pleased with the reception we continue to receive in Asia Pacific currencies. We will continue to look for opportunities to diversify the currency of our issuance to fit with our footprint and franchise.

In summary, our first half results demonstrate the financial strength of our business. We are on track to deliver against the targets we have set for costs and simplification saves, and we are progressing at pace with our exit of non-strategic activities and deploying to growth areas. We navigate the uncertain macroeconomic environment from a position of strength, and we are well-positioned to support our customers. On that note, let's open this call up for Q&A, Faizan.

FAIZAN: Thanks, Fas. We will now be taking questions over Zoom. Please use the 'raise hand' function to indicate that you would like to ask a question. I will then announce you and you will be able to ask your question. Please ensure you unmute your line. You may also submit your question via the Q&A function.

GREG CASE, HEAD OF DEBT INVESTOR RELATIONS: Thanks, Faizan, and just while people are looking to signal for a question, we have some submitted questions from Lee Street from Citi, who's unfortunately unable to dial in. Lee asks five questions. Lee, I'm only going to take the first two, but we'll see if we've got time to get to the other ones. First, starting with the first one, 'Under what scenario might you revisit your 14-14.5% CET1 target range?'

FAISAL YOUSAF: Okay, thank you, Greg. Sorry, did you say he asked five questions?

GREG CASE: He did ask five questions, yes.

FAISAL YOUSAF: Wow, okay. So first of all, perhaps taking a step back, so 14-14.5% is our target operating range for CET1, as I said in my prepared script. We're currently at 14.6%. That target range of 14-14.5% has been there for a little while. There are a number of factors that we consider when setting such ranges. I guess in no particular order, I'd call out – we think about our operating entities as well as the Group, so that is one of the factors certainly in our mind. We look very carefully at how our positions might perform under stress as well as under BAU. Really, our target operating ranges is calibrated to accommodate all scenarios. We obviously think about investor expectations, peer comparisons. The rating agencies as well is another factor that comes into mind. At this point, we don't have any intention to change the 14-14.5%, but it's one of those things that we keep under review and discuss periodically within the organisation. Obviously, it would be something we would discuss with our regulators as well.

GREG CASE: Thanks, Fas. Lee's second question is, 'Given current spread levels, is it fair to assume a significant amount of 2026 pre-financing for the remainder of this year?'

FAISAL YOUSAF: Okay, thank you. Well, look, let me start by taking a little bit of a step back. We laid out in February our funding plan for 2025. Very pleased to say we've made significant progress against that. We front-loaded it, largely because, as I said in my notes, we were cognisant of the uncertainty in the market environment, and the credit environment was conducive to doing those trades early. We are – if I go one by one, if we look at senior HoldCo, we communicated a range of \$16-18 billion, in terms of our appetite for the year. We've done 17.5. We've got a little bit more room there to do something. If we do, I think our focus will be on non-G3 currencies really for the senior HoldCo.

Then if I go onto Tier 2, in terms of Tier 2, we communicated a range of \$2-3 billion, and so far, we're in the middle of that. We've done 2.5, so there's maybe a little room there, but we'll see. Then on AT1, we are complete. We communicated \$3-4 billion, and we printed \$4.1 billion.

The idea of accelerating the plan over this year has been really about recognising the uncertainty and a favourable credit environment, not because we wanted to do more, particularly within the second half of the year. Our plan was our plan. The intention, then, is really we'll be a net-negative issuer in the second half of the year. In terms of pre-financing, to Lee's question, I would say we would not rule that out, but I think the way it was framed, if I heard you correctly, Greg, was would we do a significant amount. I don't expect that and I think we'll look at any opportunities, if the market is right, probably towards the later half of the year, if we're going to do some.

GREG CASE: The next question is from Rob Thomas of T. Rowe Price. Rob, your line is now open. Please unmute yourself and ask your question.

ROB THOMAS, T. ROWE PRICE: Great, I'm assuming I've unmuted myself.

FAISAL YOUSAF: Yes, we can hear you.

ROB THOMAS: Can you confirm?

FAISAL YOUSAF: Yes.

ROB THOMAS: Great, so obviously another question on issuance, more just clarifying a point you made. You've been focusing on non-US currencies and you've been pleased to see the support there. How should we think about that in terms of a go-forward split of your issuance. You said that two-thirds was in dollars this year. Is that something that we should expect as a normal cadence or are you seeing some potential to diversify further away from the US market into other currencies? I've got a second question, but let's just go with that one first.

FAISAL YOUSAF: Okay, I'll take that one first and then come back to you. So, yeah, I did say around two-thirds this year so far, and if I look back to 2024 as well we've done around about the same. I think two-thirds of our MREL was in US dollars. On a go-forward basis, I think I've said a few times now that it's our intention to diversify our currency mix, and I think generally US dollars – it's the biggest liquidity pool in the world. It will be a natural source for us to go to. A lot of our RWAs are in US dollars and our functional currency is US dollars, and I think that will stay, Rob, to be honest.

I think overall in terms of the issuance it will probably be somewhere in the range of two-thirds to three-quarters in terms of what we do in dollars, but also very conscious of the franchise and very happy with what we've been able to do in Asia-Pacific currencies, and I think that will be another area that we tap into, so that's the way we're thinking about it at the moment.

ROB THOMAS: Yeah, that's helpful, and certainly I think the cadence of your issuance in dollars was obviously supported and seemed to be well balanced, so appreciate that.

I guess the second question is a bit more of a strategy question, so I'm not sure this is the right call to do it, but I thought I'd put it out there. Maybe, Greg, you could come back to me later, but the BoCom investment – can you remind me what the strategic rationale behind this investment was? I know it's a long-term investment, but I'm just trying to understand, in the context of all the restructuring and simplification of the business that's been going on over the last few years, it just stand out there as something that's a bit of an irritant rather than anything meaningfully positive. I just wonder if you had any thoughts on that or any direction.

FAISAL YOUSAF: Thank you. I'll give you some of my comments and then, if Greg wants to add, he's obviously welcome to.

The relationship with Bank of Communications, BoCom, has been a longstanding one for HSBC. We've had this relationship for around 20 years, and it's representative, I think, of our deep and long commitment to mainland China from a strategic perspective. The nature of that relationship hasn't changed at all. We really view that market and that environment as providing excellent medium to long-term growth opportunities for HSBC.

So really we're happy with the relationship – no plans to change whatsoever – and the impairments that we have reported this quarter have been mechanical in nature. We undertake what's known as a VIU calculation, a value in use calculation, and that is just the formal mechanism that we use to account for our holding, but it doesn't change whatsoever our strategic relationship with BoCom.

ROB THOMAS: And so maybe just a follow-up, then. I may have missed this; you may have put a press note out on it. What was the reasoning behind not maintaining your share investment? You let it dilute with their capital raise.

FAISAL YOUSAF: Yeah, it was the case that when BoCom announced that they were doing a capital issuance – it was a private capital issuance, so we weren't entitled to participate. Our shareholding therefore diluted from 19.03% to 16%. The injection was done by China's Ministry of Finance, so it was a private issuance.

ROB THOMAS: Got it. That's helpful. I didn't know that. Thanks very much.

GREG CASE: The next question comes from Ivan Zubo at UBS. Ivan, your line is now open. Please ask your question.

IVAN ZUBO, UBS: Thank you. Can you guys hear me okay?

FAISAL YOUSAF: Yes, we can. Hi, Ivan.

IVAN ZUBO: Perfect. Good afternoon and congrats on the results. I just had a quick one about legacy capital. Obviously, there isn't really that much left anymore, but it was about this time last year that you called the dollar 10.176% and, of course, there's still the sterling 5.844%. Any thoughts on your plans for this going forward?

FAISAL YOUSAF: Yeah, absolutely. So thank you for the question. So just by way of context for others who are perhaps not as familiar with this, yes, as you say, we had two instruments that lost their capital value for us at the end of '21 and became eligible for calling at that point in time. We chose to call the Holdings issuance, which was a dollar issuance, in Q3/Q4 of last year but were not in the position at the time to call the other instrument, which is a sterling instrument, the 5.844%.

We did look at that instrument at the time, and there are various factors that we take into account when making our decision. For example, the economics are important for us. We look at the funding benefit that those securities provide to us, and it is a balance. I think it's fair to say that the reason we didn't call it at the time is the economics just really didn't make sense to us, but at the same time we were very conscious that we've got a number of our core investors that have holdings in this security, so it is something that we'll continue to review as we move forward, but nothing really to report at the moment in terms of timescale for you.

IVAN ZUBO: Thanks so much. I appreciate it.

FAISAL YOUSAF: Thank you, Ivan. Thanks a lot.

GREG CASE: The next question is from Rob Smalley of Verition. Rob, your line is now open. Please unmute yourself and ask your question.

ROB SMALLEY, VERITION: Hi, thanks for taking my questions. You dealt a lot with BoCom and Hong Kong CRE in the other call. I want to ask about two things. One, on the UK, it looks like revenues on a constant dollar basis were pretty stable. What's the plan going forward there, one, around continued organic growth and potentially benefit from loosening of the ring-fence and inorganic growth, as we continue to see competitors pick up books and pieces of other companies?

And then secondly, on a different topic, since I've asked a number of others, could you talk about your exposure to non-depository financial institutions, specifically alternative asset managers, BDCs, etc? While they move into Asia, what's your plan around that, coexistence, gaining new clients, etc? Thank you.

FAISAL YOUSAF: Okay, thank you, Rob. Good to hear from you. So I'm going to take probably your first question on the UK, and then I will ask Greg whether he's got anything on question 2.

So on the first question in terms of the UK, where we are – we're very pleased with the revenue and the position in the UK at the moment. The UK economy is continuing to show resilience through the first half of 2025 despite the global uncertain environment. We've had two rate cuts in May and June, taking the base rate to 4.25, and probably another two cuts are expected by the market in H2. Growth for us there remains measured, but I would say there are encouraging signs in the macroeconomy, and that's becoming more supportive. Real wages are really recovering and expectations of rate cuts, from what we can see, are beginning to lift consumer and business confidence.

In terms of our own strategy for that market, we're continuing to look at organic growth and growing our market share, particularly in the SME segment. We've revamped our SME proposition, enhancing coverage and increasing proximity to our customers. In terms of inorganic growth, obviously, we see what's happening in the marketplace. When we look at that, the bar for us in terms of inorganic growth is set reasonably high. We need to be confident that it will add to the franchise and is consistent with our strategy, but also we recognise that any inorganic growth has a burden of integrating within an organisation and can be costly and distracting. So there are various factors that we think when deciding about whether there are inorganic opportunities that we want to pursue.

Then I believe you asked about ring-fencing as well. I'd comment very briefly on that that we were pleased to see the announcements made in Mansion House around revisiting the ring-fencing regime. That is something we absolutely welcome. The government has called in that for the industry to offer solutions to improve growth. That's something we're very much wanting to support within the UK. The ring-fencing, as I think you well know, was established after the financial crisis, and we think the environment is quite different now and has significantly improved from those years directly after the crisis. One example I'd give is that the Independent Commission for Banking had discussed previously a loss-absorbency rate of between 17% and 20%. We sit today at over 30% in terms of RWAs, so the ring-fencing regime – I think it's the right opportunity to revisit that and look at it again with a view to growth opportunities and making sure that the UK does not find itself as an outlier in terms of other jurisdictions. So that's probably what I'd say on your UK point.

Perhaps, Greg, on the second point –

ROB SMALLEY: Before we go over to Greg, if I could just follow up quickly on the inorganic side, when we've seen these opportunities come up over the last 18 to 24 months, have you looked and these just didn't make sense for you either economically or from an integration basis, or have you not been evaluating these things as they come up because you've been focused on your bread and butter?

FAISAL YOUSAF: Yeah, look, we have looked at them. Any opportunity that comes up we would look at, but it really didn't make sense for us at the time.

ROB SMALLEY: Okay, thank you.

GREG CASE: Hi, Rob. It's Greg.

ROB SMALLEY: Hi, Greg.

GREG CASE: Thanks for the question. So on NBFIs, in terms of the total loan book, \$90 billion out of the total of just under \$1 trillion of the loan book was to NBFIs. I think it reflects a number of things. It is an area of focus for us in the CIB business. I think we do see some growth opportunities there, but it also reflects as well the well-rated business that we are and the transaction services that we have. Particularly within securities services, these are core client relationships that we have. I think it's quite difficult from the disclosure that we have for me to disaggregate within that NBFI the various different strata, but we're very comfortable with the exposure, and it is a core business for us.

ROB SMALLEY: Great, thank you. Thanks for the detail on all my questions.

GREG CASE: No problem.

FAISAL YOUSAF: Thank you, Rob.

GREG CASE: Thanks for the questions. Just to step in, so we've got a couple of submitted questions. I'll read them out in full. They're both relatively similar, but, just for transparency, firstly, Anne Caris at Pictet asks, 'When do you expect provisions in Hong Kong real estate to peak and what will be the key drivers? Any other regions or sectors where you see some asset quality deterioration due to the current macro uncertainty?' and, separately, Paul Fenner from SocGen also asks, 'How do you interpret Hong Kong CRE risk? You've got \$5 billion of impaired but only 1.5 billion is greater than 70%. What's the LTV? What's the LTV on the balance? What's the worst-case scenario here? What's the base case or glide path of impairments?'

FAISAL YOUSAF: Okay, thank you. So I'll try and tackle all of those. Let me start by just refreshing where we are in terms of overall ECL charge for the half year, so that charge at the moment stands at \$1.9 billion, which represents a cost of risk of 40 basis points. We've updated our guidance to around 40 basis points cost of risk for 2025, and that's reflecting the risks that we see in the book.

I would say that the loan book as a whole is strong and the tariffs have been well managed by our clients so far. In retail, approximately 90% of our exposures are fully secured and have really strong collateral, and in wholesale we have a diversified book with around 60% of borrowers having an IG-equivalent rating. Really where the tension has come has been in the Hong Kong commercial real estate sector, and we've been looking at that and focused on that in some detail. As you expect and I think as Georges said during the call this morning, this is a market we know very well. We've been in Hong Kong for 160 years, and so it's something we're well placed to look at and assess.

The Hong Kong CRE market can be split into segments. If I try and do that a little bit, the resi market, if I start there, has really stabilised and there are encouraging signs in there because of the policy support that's been given, and rental incomes remain strong there. If we then look at office and retail, we can see parts in office and retail that are still challenged and still struggling a little. However, there is government support in terms of addressing the oversupply and restricting land sales. Overall, if we look at our commercial real estate book, it has reduced by around \$1 billion to \$31.9 billion at the end of H1. Now, of that, the bit we're most focused on is the portion that's in substandard and credit-impaired, and there's a slide within our pack that starts to lay this out and is quite clear, in the appendix of the deck, that shows you the numbers that I'm talking to at the moment, but that substandard and credit-impaired component – of that, we look at the bit that has an LTV above 70%, and that's around \$1.5 billion, and that's the bit that we've taken an ECL charge for in Q2 of \$0.5 billion.

Overall, look, I think we're very comfortable with where we are, what we've provisioned. Our mission here is really to support our customers and we believe these challenges that I've talked about are really in the short term, and there's a lot of signs of positivity for the medium and long term. Hong Kong is incredibly resilient. There are a number of new growth areas there. We've seen a significant surge in IPO listings, buoyant capital markets as well in H1, and Hong Kong is very much building stronger links across ASEAN and the Middle East. I think we said before as well that it's a strong and trusted financial hub, and over the next decade is well positioned to become probably the world's leading cross-border wealth hub. There are a lot of signs to look at Hong Kong and think that this tension is going to be short term.

GREG CASE: Thanks, Fas. Our last question – because we don't have any more submitted, unless anyone wants to put their hand up in the dying hours – one final question from Paul Fenner at Soc Gen. He also asks, 'Can you give us an idea of the currency mix in funding you might look at for the remainder of the year, and to the extent that might be dollars?'

FAISAL YOUSAF: Thank you, Paul. As I said previously, we're largely complete in terms of our AT1. Maybe there's a bit of room on senior HoldCo and Tier 2. On the senior side, probably non-G3 currencies is where we would look. That's really the position at this point. Greg, did you want to add anything?

GREG CASE: No, I was just going to say that Lee's just reminded me that we did have one further question from him that we've not covered, which is on the Tier 2 securities. You might remember the New York law Tier 2 securities that we exchanged on back in 2022. Lee asks, 'Now several years have passed, is it now time to address these again, given the loss of capital treatment earlier in the year?'

FAISAL YOUSAF: Yes, this is part of our legacy stack. As I've said previously, we do continue to look at our legacy stack and have dialogue with our regulators on this. Any actions we take – using the language that the regulators have used – really need to be appropriate and proportionate. We did a liability management exercise in 2022, as your question states, Lee. That allowed us to reduce these Tier 2 instruments to around \$4.3 billion from around \$6.7 billion, I think, if my memory serves me correctly.

It was about a 35% take-up, which might on the face of it sound a little lower than one would normally expect, but in doing that what we realised was that, first of all, we were very pleased that a number of our core bondholders took part in that exercise, but there were also some holders of securities that were really hold to collect; they're keeping the positions and holding for whatever reason. What we do when we look at those again is we need to assess whether the economics are right, and whether there's genuine interest in that. That's probably all. No more questions, Greg?

GREG CASE: No, no more questions.

FAISAL YOUSAF: Okay, so then perhaps we'll wrap up for the day. It leaves me to say thank you, everyone, for joining. Thank you for the questions as well; we really appreciate those. I hope it was useful. If you have any further questions, please do pick up with Greg and the IR team, who'll be happy to help. Thank you.