

## **Q2 Results**

### **Analyst and Investor Call**

**30 July 2025, 7.45am BST**

GEORGES ELHEDERY, GROUP CHIEF EXECUTIVE: Welcome, all, to today's call. I'm joined by Pam. Before Pam takes you through the second quarter numbers, I will cover three items: our first half performance, the external environment and the progress we're making against the targets we set out.

Turning to our performance, the momentum we saw in the first quarter continued into the second quarter. Our half-year performance was strong. Excluding notable items, revenue in the first half grew 6% to \$35.4 billion. Profit before tax was 5% higher at \$18.9 billion. On the same basis, annualised return on tangible equity was 18.2%, up 1.2% year-on-year.

Our four businesses sustained momentum in their earnings. In our Hong Kong home market business, we attracted 100,000 new-to-bank customers every month this year on average, reflecting strong customer growth and solid deposit inflows. In our UK home market business, our loan book grew by \$6 billion over the quarter on a constant currency basis. We were particularly encouraged by signs of recovery in lending, growth and Commercial Banking, with loans growing by \$3.5 billion on the same basis. We grew Fee and other income in both Wealth and Wholesale Transaction Banking. For the second quarter, we announced a \$0.10 dividend per share alongside a share buy-back of up to \$3 billion. This brings total shareholder distributions in respect of the half-year to \$9.5 billion.

Turning to the external environment, we enter this period of uncertainty from a position of strength. In this complex environment, customers are looking for a trusted financial partner. Our differentiated strengths are clear. First, our hallmark financial strength, underpinned by a strong balance sheet and high-quality credit portfolio, has helped us deepen our customer relationships and grow deposits by \$83 billion from the same period last year. This is after adding back balances held for sale. Our \$1.7 trillion deposit base drives the lion's share of our banking NII. Despite HIBOR headwinds, other tailwinds have allowed us to reiterate our full-year banking NII guidance of around \$42 billion. In Hong Kong commercial real estate, while some short-term challenges remain, we are confident in the overall credit quality of the book.

Second, our long-standing experience of facilitating financial flows globally and our international network, especially across the world's fastest-growing trade and investment routes. We delivered 5% growth in Wholesale Transaction Banking Fee and other income in the second quarter. Our Trade Fee and other income grew by 4%, reflecting our leading position across fast-growing intra-regional trade corridors, as well as our continued investments in the services trade sector. We have 5,000 trade specialists in more than 50 markets operating on both sides of trade flows. They bring significant expertise and real-time insight to our customers.

Third, we are seeing continued momentum in our Wealth business. We are ideally placed to capture the increasing number of affluent and high-net-worth customers in the fastest-growing wealth markets in Asia and the Middle East, where we are investing at scale.

Turning next to the progress we are making against our organisational simplification targets, as set out in February, this initiative is meant to make the group simple and more agile. Cost efficiency is one of the benefits. We are on track to deliver the circa \$1.5 billion of simplification saves by the end of 2026. To remind you, these are primarily through the de-duplication of roles and will have no meaningful impact on revenue. The saves will be taken straight to the bottom line, \$0.4 billion of which will be in the P&L in 2025, revised upwards from \$0.3 billion, and the full \$1.5 billion will be fully realised in 2027. Pam will go into more details.

Turning to the progress we're making in our exit of non-strategic activities, we are progressing at pace. We have rigorously reviewed our portfolio against our strategic priorities. Since the first quarter results, we have announced the sale of our business in Uruguay, UK life insurance subsidiary, German custody business, and German fund administration business, our stake in Grupo Galicia, and our French portfolio of home and other loans retained following the disposal of our retail operations in France.

While Asia is at the heart of our growth strategy, we want to provide clarity on our footprint in Asia. Earlier this year, we commenced a targeted strategic review of our retail business in four markets in Asia. Three of these reviews – Australia, Indonesia and Sri Lanka – are ongoing, and no decisions have been made yet. The fourth in Bangladesh has completed, and we will start to wind down the retail business there in the second half of this year. To be clear, our Corporate Institutional Banking business is unaffected by these reviews, and all four markets remain critical to our international network for CIB customers. Costs released from the exits of our non-strategic activities will be invested in our priority growth areas. These are areas where we have clear competitive advantage and can generate accretive returns. Let's turn to them now.

We are investing with intent. In our home markets, we said we would expand the number of wealth centres and enhance our wealth capabilities. In Hong Kong, which is set to become the world's leading cross-border wealth hub, we have opened one new state-of-the-art wealth centre, with two more opening in the coming month. In the UK, we have opened our first wealth centre in London and reduced the threshold for Wealth investments. We have also relaunched our Premier wealth brand targeting mass affluent customers. In the UK also, our improved coverage model for SME banking is bringing our relationship managers closer to customers. This is reflected in our Trustpilot score, which has improved to a four-star ranking.

In CIB, we launched HSBC TradePay for Import Duties. It targeted financing solutions for our US customers, which simplifies the payment of import duties whilst helping them optimise working capital. We have also launched HSBC tokenised deposit services in Hong Kong and Singapore, with the UK and Luxembourg expected to launch in September, and the US, UAE and other markets in 2026. These next-generation programmable cross-border payments move money in real time, always on, across our network. They are a step towards our ambition of delivering global instant cross-border payments. We have also enhanced our payment tracking solution, which now provides a global view of payment status, improving our client experience.

In IWPB, we have opened 13 dedicated wealth centres, including in mainland China, Singapore and Malaysia. We have also refreshed our Premier banking proposition, which will launch in the UAE, India, Malaysia and the US in the second half of this year. In the UAE, which is home to more than 200 nationalities, we have simplified our onboarding process for certain customers to open a bank account before they relocate into the UAE. Each of these will drive customer acquisition, deepen wealth penetration, grow our share of mandates and enable us to capture greater share of corridor flows.

Finally, we are modernising the bank through AI, GenAI and automation. We are improving our technology productivity with coding assistance. Today, more than 20,000 engineers are 15% more efficient in coding because of our new tools. GenAI is being used across five CIB markets to bring process efficiency to our credit analysis write-ups. We are also focused on improving customer service through AI-supported mobile apps and strengthened contact centre capabilities. The key message is we have continued ramping up investments in these areas. Further momentum will build as our exits complete, releasing investment capacity to redeploy into our priority growth areas in line with our disciplined cost and capital allocation framework.

In summary, we enter this uncertain macroeconomic environment from a position of distinctive strength, underpinned by our hallmark financial strength, our global connectivity and our expertise. We remain well positioned to support our customers as their trusted financial partner. We have strong momentum in our business and are well positioned for growth. We are investing for growth, and we are delivering growth, and we are executing our strategy with discipline and at pace. The positive progress we're making gives us confidence in our ability to deliver our targets. We reaffirm our mid-teens return on tangible equity guidance, excluding notable items, for each of 2025, 2026 and 2027. Let me now hand over to Pam. Thank you.

PAM KAUR, GROUP CHIEF FINANCIAL OFFICER: Thank you, Georges. Thank you everyone for joining. At full-year, I said we would focus on three things: discipline, in the way we prioritise and maintain strong cost control while ensuring investment rigour for growth; performance, in

the way we gear our financial strategy towards achieving our mid-teens returns target; delivery, in the way we enhance operating leverage and support our customers. The second quarter numbers show discipline, performance and delivery across the bank. Let's turn to the details.

First, the income statement. I'll be excluding notable items of \$2.8 billion this quarter from my performance commentary. Of the \$2.8 billion, \$2.1 billion are related to Bank of Communications. \$1.1 billion of this results from its share issuance, which diluted our interest to 16%. It is booked in Other operating income, as flagged in the first quarter. The balance, a \$1 billion impairment, is booked in Associates. A separate \$0.7 billion relates to restructuring and other charges, which are in the cost line. Slide 22 sets these figures out.

Annualised return on tangible equity, ROTE, was 17.7% in the second quarter. Revenue grew 5% year on year to \$17.7 billion. This was driven by Fee and other income. Profit before tax was \$9.2 billion, stable year on year. We have revised our full-year ECL guidance to around 40 basis points from 30 to 40 basis points. The increase in the second quarter ECL partly relates to Hong Kong commercial real estate, which I will discuss further. We remain on track to achieve our target of around 3% cost growth in 2025 compared to 2024 on a target basis.

Looking at capital and distributions, our CET1 capital ratio was 14.6%. We have announced a second interim dividend of 10 cents per share alongside a new share buyback of up to \$3 billion. We have now reduced our share count by 13% since the first quarter of 2023. As always, a decision on future share buybacks will be made on a quarterly basis and depends on organic capital generation and the capital needs of the business. The 50% dividend payout is at the top of our capital use hierarchy. We look to grow the business where we see significant opportunities over time. We then absorb other capital demands that emerge. The buyback is the flexible, residual means of capital distribution.

Let's now turn to our business segment performance. Our four businesses performed strongly with revenue growing in each. Each one is making mid-teens ROTE or better. In Hong Kong, we attracted a further 300,000 new-to-bank customers in the second quarter, representing 600,000 for the first half. We also grew deposits by 9% over the last 12 months on a constant currency basis. In our UK business, our loan book grew by 4% year on year on the same basis, with mortgages and commercial lending standing out. Since we relaunched our UK Premier proposition earlier this year, we have seen our average weekly customer acquisition more than double.

In IWPB, Fee and other income grew 21% year on year. Across our Wealth businesses, Fee and other income grew in the second quarter by 22%. Across these Wealth businesses, we attracted net new invested assets of \$22 billion in the quarter, with \$11 billion booked in Asia. For the last 12 months, net new invested assets were \$75 billion. In Wholesale Transaction Banking, we grew Fee and other income by 5% on a constant currency basis year on year, given market volatility.

Moving to the group revenue story, revenue grew 5% year on year to \$17.7 billion. This was driven by Fee and other income, which I will discuss further in a moment. Banking NII remained broadly stable on the first quarter, reflecting lower interest rates partly offset by the repricing of the structural hedge. Our structural hedge, now \$578 billion, has reduced the sensitivity of our revenues to interest rate cuts.

Regarding HIBOR, as a reminder, under the Linked Exchange Rate System, the Hong Kong dollar is maintained within a trading band via the HKMA's commitment to buy or sell Hong Kong dollars when the exchange rate hits either the strong side or weak 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. Forward market indicators suggest that the one-month HIBOR is expected to rise gradually back above 2% during the third quarter. We remain confident in the prospects for our business and in the outlook for Hong Kong. Slide 24 in the appendix sets out more detail around Hong Kong dollar sensitivity. We still expect banking NII of around \$42 billion in 2025. Within this, lower HIBOR is a headwind. A weaker dollar is a tailwind. There are many other moving parts.

Moving to Fee and other income, as I mentioned, Wholesale Transaction Banking grew 5% year on year. This reflects how closely we have been working with our customers to adapt to a changing operating environment. We are pleased this translated into strong revenue. Growth was driven by a strong FX performance, up 7%, capturing elevated client activity due to market volatility and geopolitical events. Global Trade Solutions increased 4%, driven by guarantees, as we supported customers to build out infrastructure and expand production facilities.

Securities Services was up 3% due to higher asset balances as a result of improved valuations and new customer mandates, particularly in Asia and the Middle East. Global Payments Solutions increased 1%, including higher volumes in cross-border and real-time payments.

In Wealth, Fee and other income increased 22% year on year with growth across all products. This represents our sixth consecutive quarter of double-digit fee growth as the strong momentum from the first quarter continued in the second quarter. We also benefited from higher customer activity levels in Asia, particularly in Hong Kong, where the stronger stock market drove greater customer activity.

The investments we are making in our Wealth business are translating into results: \$22 billion of net new invested assets, \$11 billion of which were in Asia. \$13.5 billion CSM balance – a new record. Wealth invested assets are now \$1.4 trillion, up 12% year on year. Our \$75 billion of net new invested assets over the last 12 months show that, while an element of our second quarter performance was transactional, there are many positive drivers of our business.

On credit, our second quarter ECL charge was \$1.1 billion. This includes some corporate impairments in the UK and US, Mexico retail and an ECL charge for Hong Kong commercial real estate. A part of this quarter's Hong Kong ECL reflects commercial real estate model updates and adjustments. The balance reflects what is still a weak commercial real estate market. Office rents are still declining somewhat; office and retail values are softening.

Slide 25 in the appendix provides more detail on the portfolio. Challenges are concentrated in the secured portfolio, particularly with retail and office property collateral. Credit migration in the first half was predominantly in this book. We are now guiding to a group ECL charge of around 40 basis points for the full-year 2025. This new guidance includes our updated outlook on Hong Kong commercial real estate.

On costs, we are taking a disciplined approach to cost management and are on track to achieve our target of around 3% cost growth in 2025 compared to 2024 on a target basis. We are also on track to deliver \$0.4 billion of simplification savings into the P&L in 2025. This is an improvement compared to our previous expectation of \$0.3 billion.

Overall, in the first half, we have taken actions that deliver \$0.7 billion of future cost saves. In 2025, we expect to have taken actions that will result in saves of \$1 billion. In 2027, the full \$1.5 billion of cost saves will be in the P&L. As Georges highlighted, we are also making positive progress in our reallocation efforts. We have announced seven exits since the first quarter. As we exit non-strategic activities, we will be accelerating investment into our four businesses. Georges set out earlier the progress we are already making.

On loans and deposits, the loan book was broadly stable with growth in the UK. Deposits, a structural source of strength for us, were up 5% or \$83 billion over the last 12 months, adjusting for the balances we have reclassified to held for sale, notably relating to our custody business in Germany in the second quarter. When combined with the \$75 billion of net new invested assets over the same period, these show potential drivers of future income.

Turning to capital, our CET1 ratio was 14.6%. Overall, we have delivered a good capital number this quarter, even with the capital consumption. We have accrued 39 cents of dividends per share in the first half against the 20 cents per share announced year to date. We expect the \$3 billion buyback we announced today to have an impact of around 0.4 percentage points.

In summary, our second quarter results show discipline, performance and delivery. Discipline in the way we are applying strong cost control – we are on track to achieve our target of around 3% cost growth in 2025 compared to 2024 on a target basis. Our simplification saves are ahead of our previous expectation. We are also progressing at pace with our exit of non-strategic activities and are redeploying into priority growth areas. Performance in our earnings – each of our four businesses is growing revenue, and each one is making mid-teens ROTE or better. Delivery – these second quarter results show the way in which we are supporting our customers. Our 5% revenue growth and 17.7% ROTE show we are delivering against the targets we set out to you. Louise, can we go to Q&A, please?

**BENJAMIN TOMS, RBC CAPITAL MARKETS:** The first one's on your banking NII guidance of \$42 billion. You also provided some useful guidance on one-month HIBOR sensitivity at 1%. Can you just give some more colour on the assumption that you've made within your banking NII guidance in relation to the time it will take HIBOR to return to normalised levels?

And then, secondly, on cost of risk, the guidance range is 30 to 40 basis points, and you've been at the top end of that range now for a couple of years. Is it a sensible assumption really to think that you'll remain in the top half of this range for at least FY26? Thank you.

PAM KAUR: The \$42 billion guidance includes market expectations of HIBOR implied above 2% in third quarter. So we've already said that HIBOR at a 1% impacts us by \$100 million per month, so if you look overall, our HIBOR expectations as well as the impact of the \$100 million – all these are included when you look at our overall confidence in the BNII guidance for the year.

The BNII guidance is not just based on the forward curves. As we know, in Q2, very low HIBOR impacted us for around six to seven weeks. We have given more detail of it in the appendix, but a couple of things have moved around. The time deposits are now four points lower, and you look at those factors, and as we look for the rest of the year, there will be some upside and downside in terms of the timing of when the HIBOR shifts happen, as well as the dollar depreciation, how long it continues. In Q2, it was a tailwind for us.

In terms of ECLs, so from an ECL perspective, we only give you the 2025 number. It's fair to say that we have always in the last few years stayed between the 30 to 40 basis points, sometimes a bit to the upper end, so we're not giving any guidance beyond 2025 at this stage.

KIAN ABOUHOSSEIN, JP MORGAN: Two questions: the first one is related to tariffs. You gave guidance of 5% impact on revenues and I just wanted to see how we should think about that going forward, as you don't see anything in the numbers today.

And the second question is related to stage 1 and stage 2 movements. Clearly, your stage 2 has deteriorated. You discuss PDs, which have been adjusted, and I'm trying to understand a little bit more detail around your movements, in particular in the corporate and commercial bank, in terms of potential realised losses, but also model adjustments versus environment.

GEORGES ELHEDERY: On tariffs, first, tariffs have never been a new feature of global trade. They have always been there, although we have seen recently a more significant shift in the US tariff policy. That's created more uncertainty but, at the same time now, we're encouraged to see that more agreements are being concluded, and this is giving us ideally more certainty as we look into the future.

There are important things to call out. One, as you did see from our Q2 results, our trade Fee and other income has grown by 4%, and the reasons are multiple. First, we are positioned across some of the fastest growing trade corridors on the planet, specifically the ones in Asia or between Asia and the Middle East and various parts of the world where trade continues to grow significantly higher trends than some of the more traditional trade corridors and we have a leadership position across these intra-Asia, Asia-Middle East corridors.

Second is we kept investing at pace in our services trade sector and now we have capabilities there and we're able to capture much faster growth in the services trade sector than what has been the growth exhibited in the goods trade sector and that's another area of strength for HBSC. Third, even in trade so far that the US is involved in, imports into the US, some of the unique propositions we've put forward such as TradePay have given unique support to US importers in helping them manage their working capital facilities and helping them meet the duties they are due to pay for tariffs in a way that allowed us to continue growing our business and gaining share.

You put all of this together – you put the expertise we have with more than 5,000 trade specialists across more than 50 markets where we operate – and you can see the resilience of our business to uncertainty. Actually, it is a period where we can differentiate, continue gaining market share, deepening customer relationships, acquiring more customers and this is what we envisage for the expertise we have and the strength we have in our trade business. With regards to scenarios, I would like Pam to take you through it, but remember some of these scenarios are including extreme market movements such as interest rates at 1% which have material impact beyond the pure trade impact on our business.

PAM KAUR: Firstly, in terms of our scenarios, we continue to update them on a quarterly basis. I just want to reiterate: we are still comfortable that the impact on revenue that we highlighted in the first quarter of low single digit from tariffs is still the same. When you look at scenarios more broadly and you look at the lower interest rates then, whether you're a trade bank or not,

it would affect us like any other bank if interest rates go well below 2%, in the 1% territory. That's the broader piece in terms of the downside scenarios.

I also want to share with you that, when we look at our customers and our portfolios, so far the customers who are impacted by tariffs, from a credit perspective, they are holding up well. We are seeing no early warning signs or triggers of either lower deposits or additional drawdowns.

Coming on to the ECLs in terms of the model update, the model update was looking at PDs in a more calibrated way across our portfolio and, in Hong Kong, it increased the allowance number going to stage 2, but, on the other hand, in the UK there was a release. Models, when the calibration happens, some markets go up, some down. I just wanted to share that with you overall. The vast majority of the model changes were due to PD migration and then you can imagine how it varies from market to market.

KUNPENG MA, CHINA SECURITIES: I have two questions on impairments. The first one is related to the BoCom impairment, especially that one with the VIU test. It seems that you conduct a VIU test every quarter, but you don't charge impairments every quarter. It seems that the impairment charges always come together with other bad news. When you first charge the VIU impairment in the fourth quarter of 2023, you got French disposal loss, you got a slight miss on the cost control, so you charged the first time and, in this quarter, you got the BoCom dilution impairment.

I also cover Chinese banks. Their fundamentals are weak, but there were no sudden drops in fundamentals in the second quarter. It seems that VIU impairment charges always come together with other bad news. Can you share with us a little bit more colour on the factors triggering that kind of VIU impairment charge?

The second question is: can you share with us some views a little bit longer term on the Hong Kong CRE outlook? You increased the credit cost assumption going forward due to the Hong Kong CRE pressure. Is there any chance that the Hong Kong CRE pressure will further increase your ECL assumptions going forward? I have those two questions. Thank you.

GEORGES ELHEDERY: With Hong Kong CRE, the first thing, as you may expect, is we know this market very well. We've been in Hong Kong for 160 years, involved in the sector, and we're comfortable with the position in this market. That's very important to call out. Specifically, as regards residential development, this has stabilised. This has stabilised and we're encouraged by that. It's stabilised mostly because of policy support measures that have been taken, as well as because of a robust rental market more recently but, when we look wider in the CRE space, specifically around the office CRE space in Hong Kong, we're still struggling because of some oversupply in this space.

We are encouraged by some additional government action taken to restrict land sales and office CRE and this should work its way into the medium term by restricting supply and supporting the recovery of pricing in this space, but there will be some short-term pressure. Of the exposure we have on Hong Kong CRE, we basically called out less than 5% of it – around \$1.5 billion of that exposure – where we continue to look with focus and attention. That \$1.5 billion is to the weak borrowers that are either sub-standard or credit impaired, where the long-term value of the collateral is above 70%.

Against this \$1.5 billion, we have a \$0.5 billion ECL. It gives you a quantum of what a worst case scenario in this space can be and that is the segment we're looking at. Across the wider spectrum on Hong Kong CRE, what I can say is our mission is obviously to continue to support our customers as they work through some of the short-term challenges they're going through but, in the medium to long term, we remain confident in the supply/demand dynamic in Hong Kong and the appeal of Hong Kong real estate at large and, therefore, remain constructive and optimistic about the medium to long term.

The comment I want to make on BoCom is it's purely coincidental. There is no correlation whatsoever between an accounting process related to the VIU process versus any other information, but remember the BoCom impairments have no CET 1 impact. They have no CET 1 ratio impact. They have, therefore, also no distribution impact in terms of dividend or share buyback, so I really encourage you to look at it as a pure accounting but no actual economic impact to the bank.

PAM KAUR: On Hong Kong CRE, our book is down \$1 billion to \$32 billion and it's mainly because of repayments done at the unsecured end of the book, where the exposure is mainly

to very strong, diverse conglomerates, which are nearly 95% rated Strong or Good and have had very little impairment. That's 42% of our limits.

The increase that we have seen in the impaired book, you're right. \$600 million is largely to the secured side of the portfolio and the ECL stage 2 allowance increase is entirely due to models. Out of that, the charge we've taken of \$400 million in the quarter, \$100 million is due to the modelling charges. As Georges has said, the area we are most focused on is the sub-standard and the credit impaired side of the book, where the exposure is \$1.4 billion. There is already an existing ECL charge of \$500 million, so you can see further down what it means from an outlook perspective.

Overall, when we have refreshed our ECL guidance, we obviously stress it with upside, downside and some fairly stringent requirements and we continuously monitor our book and we think that overall guidance that we have given in terms of around 40 basis points captures the entirety of the risk in the Hong Kong CRE book as we look at it now.

On BoCom – and, as Georges said, of course we do not link impairment timing to anything else. It's a routine quarterly accounting process. Again, we use our models. It's a value-in-use model. It is very sensitive to input factors, so even a small shift in basis points can make it move up or down and, when we make an impairment, it's because the fair value from the model is below the carrying value. We have already given you details on the model's sensitivity to the various inputs in our annual report and nothing has changed in that process.

Just to reiterate: we don't expect any impact on CET 1 from any further impairments. We also have no impact of this on our distribution or dividend policy and the model will do what the model does. Every quarter, we look at it and make changes accordingly.

AMAN RAKKAR, BARCLAYS: I had a couple of questions, please – one on net interest income and one on costs. It's a two-part question on NII. At face value, your banking NII guidance is circa \$42 billion for the year. Given that you're annualising at \$43 billion at H1, that does actually imply a pretty marked step off in net interest income in H2. I just want to query whether you really mean that or not?

There's obviously lots of moving parts at play here, but it implies a run rate for net interest income in H2, which I guess people will carry over into 2026. Is there an element of conservatism in that \$42 billion? Is there just too much uncertainty around HIBOR? The second part of that first question, if I may, is: can you help me understand the levers that you're pulling and are able to continue pulling from here to offset this HIBOR decline? I'm specifically thinking about deposit passthroughs.

The second question is around costs, please. I'm just interested in how hard you are pushing the organisation right now to realise the cost savings because, outside in, I think you're leading a bit of a quiet revolution across the firm, to the extent that you can, and I'm hopeful that you can realise additional cost savings over time.

Georges, I'm really interested in your reflections. Are you running at maximum capacity now, in terms of what you're trying to do? And just a modelling point. To me, next year – I think it should be flattish costs next year. I don't think consensus has got that, but a 3.5% inflation rate on costs and the \$1.1 billion of gross saves tells me it should be flat next year. If you can comment on that as well, that would be great. Thank you so much.

GEORGES ELHEDERY: First, cost discipline is ingrained in the firm quarter after quarter, year after year. It's a commitment we have to this discipline. It's our confidence in our ability to meet the commitments we have and it's the fact that we are on track on all the cost items, be it our underlying cost or the cost saves. That one doesn't change. In terms of the cost takeout, the cost takeout that's taking place now that we're calling out is a cost takeout related to organisation simplification.

Remember it is an intention to simplify the organisation, make us simple and agile, but there's obviously an ancillary benefit, which is a cost reduction from de-duplication of roles with limited impact on our revenue generation capabilities. That one is moving at pace, and we just revised upwards the saves we can achieve this year towards the target of \$1.5 billion which we will take to the bottom line and we expect to achieve by the full-year 2026.

There's another cost takeout, which is exiting of non-strategic activities. We announced seven exits since the Q1 results. These in total will add up to about \$1.5 billion of cost takeout. About

a third has already been announced. A third is being worked on and we intend, once these cost saves are achieved, to reinvest this into our core revenue growth areas, strategic areas where we have competitive advantage and can generate accretive returns, but these are not the only levers we have on costs. We continue working on our operating leveraging cost.

As you know, efficiency and productivity drives including through GenAI, automation and other modernisation of our capabilities will continue as a matter of regular course of business and these improvements will continue helping us manage our costs. I'm not going to comment on 2026 – we have not guided to it – just given the amount of saves we expect to achieve from the simplification in 2026.

On banking NII, the one comment I'd like to make is that we continue growing our deposit base and continue being extremely liquid to support growth in loan as and when our customers start investing again. We called out \$83 billion growth in our deposits over the last 12 months. That's a 5% growth in our deposit base and our deposits drive the lion's share of our banking NII and that's a very important lever in the growth potential we can achieve in banking NII in terms of volume growth.

PAM KAUR: Cost discipline will very much continue, not just into 2026, but further on as well and we also said earlier we will continue to invest in ways of increasing our productivity and that will be something which will be a priority for us. That's something we can control and we have shown you a good track record in the first few quarters. We continue to focus on that.

Coming down to banking NII - you're right - around \$42 billion. You may deem it to be conservative, if you just do the simple arithmetic, in terms of what the run rate takes us to and this quarter we had obviously the headwind from HIBOR, but it was offset to some extent by a weaker US dollar. The timing of how long the US dollar depreciation continues and on HIBOR also is important. We are assuming that there will be a sharp normalisation of HIBOR within this quarter to around the 2% mark. Obviously, any delay, even this delay of the month of July costs \$100 million at a 1% HIBOR.

What we will have as a benefit still coming in the rest of the year is the structural hedge, which is a tailwind. We've got a reinvestment of \$55 billion in the second half at 2.8%. We have to reinvest and there's an improvement of 2% on that in terms of the reinvestment rates as they stand, so that obviously is a tailwind. The balance sheet growth has been a real positive and it's mainly driven by deposits. Our Hong Kong time deposit migration in a lower interest rate was four points into Q2, but obviously this can move up or down.

In terms of levers to offset the HIBOR pressures, the Hong Kong time deposits were repriced. We also saw some balance sheet growth happening, because part of the weakness of the HIBOR was because of the strong Southbound connecting flows into Hong Kong and that immediately gave us the benefit to our deposit line. We have been also active in Markets Treasury. The benefit of that goes into Fee and other income. All in all, there are a number of areas in which we can pull levers to be very confident on our around \$42 billion guidance for banking NII but, as always, we will be conservative, realistic, and if we out-perform, we out-perform.

KENDRA YAN, CICC: I have two questions. The first is about the non-interest income. I've seen that HSBC delivered quite strong non-interest income in both quarter one and quarter two, primarily driven by the wealth management FX and the capital markets-related business. I wonder how you see the sustainability of this momentum going forward.

The second question is about the stablecoin, because there are several countries and areas that have introduced stablecoin-related regulations. How does HSBC view the cryptocurrency area? Do you have some reservations in this area, or will you maintain a cautious approach in this area?

GEORGES ELHEDERY: On digitised means of payment, we have launched tokenised deposit services for our wholesale customers. It's live in Hong Kong and Singapore. It will be live in September in the UK and in the Eurozone and then early in 2026, it'll be live in a number of other countries, including the US, the UAE and others.

This will allow our wholesale customers – and is already allowing our wholesale customers – to do cross-border transactions with their suppliers or the other counterparties on a real-time basis and on an 'always on', as in 24/7, basis. That service is live and is developing and we



continue investing in it. It's programmable and it basically leverages the blockchain technology. We're very pleased with this development.

Beyond what we already offer in terms of tokenised deposits, we are watching very closely the regulatory developments around stablecoin. We are very encouraged about Hong Kong, indeed, issuing regulation there. Obviously, the US, with the GENIUS bill, is publishing regulation there. What we will monitor, one, is that the regulation addresses all our regulatory-related concerns, such as financial crime, prudential and other risks.

We will also monitor the issuers of stablecoin and their compliance with these regulations and then, subject to those, we will evaluate all potential banking services we can do with them or customers involved with these issuers. We expect to move at pace. With regards to other crypto, at this stage, we have no appetite to be involved in other kind of algorithmic or other non-pegged cryptocurrencies. As an asset class, we still do not have risk appetite to be involved in that space.

With regards our non-NII, there are a few comments I want to make and I'll hand over to Pam. It's a very important area for us. It's a very important investment area for us. Let me talk about first transaction banking. We have a leadership position. We're a top two player in global transaction banking. In payments and FX and trade – we're the trade bank – for seven or eight consecutive years, the largest trade bank. It's an area of unique strength, unique expertise.

It's an area of continued investment, both in digital capabilities and customer servicing, and we continue to see this area as resiliently growing, as demonstrated by 5% growth in Q2, of which 4% growth was within trade itself. That resilient underlying growth is due to the fact that we continue deepening customer relationships, gaining market share and acquiring new customers through all our expertise and our investment.

The second one I want to talk to is wealth – six consecutive quarters of double-digit growth. Our target there is to grow in the medium term at double-digit rates, but that could be volatile a quarter to quarter, based on market conditions. This is also an area of active investment with intent. Our footprint, our brand, our heritage in Asia and the Middle East in particular give us unique strength to be able to accelerate this growth and continue gaining market share, benefitting from the underlying growth in the market.

We've demonstrated a number of initiatives that we've already rolled out, be it in Wealth Centres, relationship managers or technology capabilities, digital capabilities we've been rolling out to our customers. Last, but not least, Capital Markets and Advisory, our debt and equity trading – all of whom have benefited also from our focused investment and our capabilities to be more meaningful and relevant for our customers and deliver growth as we did also in Q2.

PAM KAUR: We have been focusing on growing our Fee and other income. As Georges has said, it's been a focus area and we've seen strong performance, albeit, in the last two quarters, there has been the tailwind of market conditions and it's hard to predict when these transactional tailwinds will fade away. Nevertheless, if you look at the various parts that build up to this Fee and other income, FX was up 7% - a very strong position in FX. There's a baseline that will always be a growth engine.

Investment Distribution was up 24%. Private Banking was up 12%, and there are also other annuity revenues, which are like our net new invested assets, which are up \$75 billion over the last four quarters, so not really helped just by tailwinds, and also, the insurance CSM balance is at record levels, and that'll just drip into the P&L over time, so that's also like an annuity.

Now, there's just one or two items which I would call one-offs or specifically volatile beyond the transactional tailwinds. One is the Argentina hyperinflation, which was the \$200 million impact in Q2 of 2024. Obviously, it was not a repeat in Q2 of 2025, but with Argentina gone, that is not going to be again coming into the comparison. And the other was the \$100 million related to Markets Treasury activity, and that will be volatile. It will change from quarter to quarter. So overall very comfortable with the core of the growth, with some moves from quarter to quarter.

JOSEPH DICKERSON, JEFFERIES: Just a simple follow-up on the Hong Kong CRE, which I think you've done a pretty good job of addressing. I guess what drove the timing of this charge, because some of the dynamics that you point out in the interim report you could have easily argued were there in Q4, so I guess what drove the timing of today versus Q4? And then, is there any way to gauge what you think the appropriate coverage level is because, clearly, I

think you also had about 20 bps of credit risk migration in last year's CET1 from this. I'm just trying to walk through the moving parts to dimension any further charges. Thanks.

GEORGES ELHEDERY: I'm going to make a couple of comments but ask Pam to address your question. The first one is to reiterate the fact that we are comfortable with our position on Hong Kong CRE. We've explained the area of specific focus, and we've captured the outlook for 2025 in our revised ECL target.

PAM KAUR: So firstly, part of the charge, you said, is a model change, and the model changes happen periodically, and that's only \$100 million. The key thing that we look at every quarter and we looked at the last year-end as well, is valuations. Now, valuations is an ongoing process. You see the valuations in terms of orderly valuations, but the valuations also get impacted even on the performing book when you see some distressed valuations. And already, we had started considering distressed valuations as part of our ECL charge for the year-end by giving some probability for those distressed valuations, and this lag on a performing book, because the book is still performing on the valuations as it comes as part of our credit processes – we do a read-across to the book.

Now, generally, the LTVs have remained strong, so just to say the LTVs which have gone higher than 70% is still a very small portion of the book, but while we are focused on this, we are, as in every quarter, looking at the rest of the book. The real challenge continues with the over-supply in the office space. Now, it's not across everywhere the same. It depends upon the location of the office space; it depends upon the quality of the building. Has it been new, refurbished, or otherwise? So that's the piece that we also then bear in mind when we look at the valuation shift, to say, 'Is there any greater calibration or divergence from the kind of property, the use of property?' And the overall liquidity in the market, in terms of actual transactions, has been relatively low.

GURPREET SINGH SAHI, GOLDMAN SACHS: I have two, please. The first is on FX. It's good to see strong growth all across non-banking NII, but on FX, you called out good growth, but I wonder, we've seen some unusual currency volatility in the quarter; did that not lead us to generate above normal FX growth, and at 7%, would you call it above normal? So what were clients' feedback? Were they churning portfolios more, hedging, etc, during the quarter, on FX? Because I see, Q on Q, also, it's down.

And then, on loan growth, we see some pick-up in the UK book, but then, in Hong Kong, China region, with the lower interest rates, are we seeing client demand come back in for loan growth, and how do we see the outlook there? Thank you.

GEORGES ELHEDERY: Yes, FX has benefited from increased customer activity due to higher volatility. This is something that is difficult to forecast, but what is important to note is that it remains one of our core capabilities in transaction banking, and we remain one of the top players, I would say top two global players, in this space, and therefore, we do have a leadership market share in this space and capture client activity. It's difficult to forecast what kind of volatility we may see going forward in Foreign Exchange, but we will continue being one of the main counterparties to support our customers' hedging activities.

On loan growth, I was actually particularly encouraged with the UK Commercial banking corporate loan growth. It's early to call it a trend, \$3.5 billion growth, but it is definitely a green shoot in this space where it has been subdued for many quarters now. So we have seen the UK credit book remain very resilient through the last few years, but we haven't seen it grow, and hopefully, with more clarity about the UK and the tariffs related to the UK, we can see more investments taking through.

The additional comment I would like to make about the UK specifically and then hand over to Pam is that we're very encouraged by the UK having also moved at pace in their trade negotiations with trade agreements now concluded with the US, with the EU, since Brexit, and then more recently with India, which is a historic trade deal where we have a very vibrant business corridor going on between the UK and India. And we're frankly very, very excited about supporting our customers along this corridor to realise the benefits in their businesses.

PAM KAUR: So, just to make a comment on FX, of course there's a transactional nature to FX, but we are very engaged with our customers, and we have been capturing flows well, and at the back of that, we are accelerating our investment in this business to grow medium term so that we can be best positioned to support our customers.

From a loan growth perspective, so in Q1, we saw growth in Asia, ex Hong Kong, China. And that's been stable, but it's moving along, and obviously, Q2, given some of the tariffs news, people were slower in terms of making their decisions. In the UK, our growth was good, but also, our focus was very much across sectors which were growing, so whether it's in the infrastructure space and so on. So we were very focused, and that held up well. We are doing the same engagement level on our customers across the globe, and from a growth perspective, at the back of the interest rates coming down, the other factor which is very important, and we've called it out before, is macro uncertainty. So, when this macro uncertainty continues, the capex decisions are delayed. However, from a working capital, we see some early engagement where people are looking at how they shift and change some of their business models, and so on.

What I do want to say is that, overall, where we have good benefits still coming through from our NII line is our deposit base, which is, as I've called out, up \$83 billion year on year, so that stays a very strong component, as part of our NII business. And I would say, from an FX perspective, the other thing to bear in mind is we're seeing strong flows into Hong Kong through the depressed HIBOR, so that is another factor to balance overall in our outlook.

KATHERINE LEI, JP MORGAN: I have three questions. The first is that I would want to ask about what are the outstanding parts of the threshold deduction related to the BoCom, if there is further impairment on BoCom? If there's further impairment on BoCom, what would the amount be in order for that future impairment to have an impact on your CET1 ratios and share buyback and EPS, and so forth?

Number two is related to the \$0.6 billion of restructuring-related costs. What portion of it is in the material notable items, i.e. what I mean is what portion of the \$0.6 billion has no impact on DPS, and what portion of it may have an impact on DPS?

And then, the last question is for Georges - on tokenised deposits. So may I know, for this tokenised deposit, is it only for HSBC clients or also available for HSBC's clients' clients? Is that on public chains, i.e. can clients basically use this tokenised deposit to transact crypto assets? So say, for example, if they want to trade Bitcoin or other crypto assets, can they use this tokenised deposit to facilitate that? Thank you.

GEORGES ELHEDERY: Let me then answer your third question; I'll ask Pam to address the first two. So, today, this is available to HSBC's clients and any whitelisted clients' clients, or clients' counterparties, but ultimately, they need to go through the HSBC standards for know your client, financial crime checks, among other kinds of checks. So the capabilities will be extended, but will be expanded in a way where we remain very comfortable with the KYC considerations to be able to onboard them as clients or future clients.

We are looking, obviously, at stablecoin developments. We believe it is still early to understand how some of these stablecoin issuers are able to KYC the wider client base. Some of them are, but obviously, the regulations are going to dictate, for those who will be effectively whitelisted, what these requirements are, and we will evaluate accordingly over the next few weeks and months as this develops.

Your first question is related to BoCom, and your second question is related to the restructuring-related costs and whether they will be treated as notable or materially notable. Pam will address both, but let me say one thing about BoCom is we have ample room for any potential future impairments, whether they happen or not, before this even comes near affecting CET1 or CET1 ratio or our distribution capabilities.

PAM KAUR: We have \$14 billion of threshold deductions - that's slide 33 of the deck. And on slide 28, we give you more details on BoCom, including the market value in the footnote, which is at \$13 billion. So, as Georges says, even if there was an impairment to market value, it will have no material impact on CET1. And in terms of restructuring costs, they are a notable item, but they're not a material notable item for the dividend.

GEORGES ELHEDERY: Thank you, everyone. I really want to take this opportunity to thank you for your questions. Alastair and the Investor Relations teams are available for any follow-up questions. Meanwhile, Pam and I look forward to speaking with you again soon. Please enjoy the rest of the day. Thank you very much.