

Q1 Post-Results Analyst Meeting

12 May 2026, 10.00am BST

ALASTAIR RYAN, GLOBAL HEAD OF INVESTOR RELATIONS: Good morning and good afternoon. Thank you for joining us. We've an hour. We are joined by Pam today. Also, Group Treasurer, Fas Yousaf, is with us in the room. Jack Yang, our Asia CFO is joining us as well. We'll start questions here in the room, but we'll alternate with people online, if you put your hand up. We'll also invite people in the room in Hong Kong to ask questions.

BENJAMIN TOMS, RBC EQUITIES EUROPE: Two questions on the UK, please. Thanks for taking my questions. Firstly, on margin, I know you might want to talk quantitatively about the margin in the UK, but it was a little bit weaker than maybe some of your peers. Maybe you can talk qualitatively about what the drivers were in the quarter and whether you'd expect them to persist for the rest of the year.

And then, secondly, on the UK. As a group, your fee growth has been very good, but, in the UK, it's a little bit lacklustre. David Lindberg joined from NatWest. Could we expect a revamp in this part of the group over the next 12 months, and does David have a mandate for M&A within the UK? Thank you.

PAM KAUR, GROUP CHIEF FINANCIAL OFFICER: Overall in the UK business, the driver for our growth really has been continuing loan growth, whether it's in terms of maintaining mortgage share but also small business and business banking, and I think it's fair to say, if you look at fee growth for HSBC overall, the quantum of fee growth we get, particularly from the wealth side, is much larger in Asia and the Middle East than in the UK.

The one thing I'd say in terms of fee numbers for the UK, because you're looking at only ringfenced bank separately, but, if you look at the UK geography – and we will start doing broader disclosures – i.e. UK wholesale names which are sitting in the non-ringfenced bank – then, from a Wholesale Transaction Banking fees perspective, it'll be pretty much in line with what we see overall.

I think the margins maybe slightly shifted and changed, but the growth we are seeing particularly in mortgages, we are very comfortable to see that growth, while maintaining our hurdle rates. And we have seen more interest come in, in terms of applications, which were higher in the first quarter of this year, so we'll have to see how that pulls through. But just on the wealth fee, I totally accept that.

In terms of your question for a mandate for M&A or not, our criteria for M&A is really quite strict across the globe. So if you are in a home market and it's a market of scale, it gives you strategic benefits as you look at it, but it has to be both EPS accretive, but, on the other hand, it cannot be something which is a distraction which takes you away from your organic growth, because we have ample opportunity for organic growth across all our businesses. So that is the distinction if you think in terms of Hang Seng, because, there, we knew the entity really well, so there was very little risk of buyer's remorse.

ALASTAIR RYAN: I'd just make two complementary points. One, as Pam said, we are the leading UK bank for international business, so we have scale in the UK, which you don't always see in the HBUK ringfenced bank. It's just the nature of how things get reported. On the margin, just be mindful – I doubt Fas will want to get into details, but we don't break out our UK hedge, specifically because it's best to look at it on a global basis. But we had said consistently our hedge has been higher-yielding than that of some of the other UK banks in recent years. We weren't reinvesting mechanistically in a way that some of the banks were at zero yields, so we're not getting that pace of pick-up that some other banks would be having in the hedge right now, because the yield on there has started stronger. You just want to take

that into account when you're looking at relative margin trends, I think. I don't know Fas if you want to add?

FAISAL YOUSAF, GROUP TREASURER: That's exactly right. If you look at a number of our peers, they were, to Alastair's point, programmatically continuing their hedge programme across a pretty low-rate environment. We weren't. And when rates started to pick up in late 2022, 2023, we then ramped up the hedging in our UK franchise significantly, so we benefited early on from that pick-up. I think the UK peers are now catching up.

To the wider question on margins and loan growth - on UK loan growth, we had about £3-3.5 billion of pick-up in Q1. Then, if you look at it year on year, it was around about, I think, something like £15 billion in loan growth pick-up Q125 to Q126, so that's positive momentum and progress. We've also seen positive progress in terms of the ISA season in the UK and what we've been doing there. I think we saw a bit of attrition in 2025. We've addressed that in 2026 in terms of what we've done, so very positive there as well.

NICK LORD, MORGAN STANLEY: I just want to come back on the Net New Money in the Wealth business in Hong Kong, which was a very strong number in 1Q. I know you called out there were a couple of Private Bank benefits to that number, but I just wonder if you could talk about what we should think of in terms of run rate going forward. You have, over the last two or three years, been doing about \$20 billion a quarter of Net New Invested Assets in Asia, and I just wonder if that is something that picks up from here. I don't know if you can make a comment about RM force or anything that's happening there.

PAM KAUR: A couple of things that I would call out. Firstly, on Net New Money, Q1 always tends to be a strong number for invested assets but also for deposits. Overall it's been a strong quarter, and the growth that we've seen in our Wealth business is across all pillars. It's come through from Insurance, Asset Management, Private Bank.

We are not giving any specific Wealth growth rates. All I can say is the second quarter has continued to be strong, even though, in the end of March, there was a bit of a slowdown; people were more 'wait and watch'. The overall investment in the Wealth business continues, but particularly as we look into the investments we are doing in Hong Kong through the privatisation of Hang Seng, we should see some benefits come through.

In terms of the other markets that I would call out which are particularly doing well, I would say Taiwan, Singapore. We are continuing to work through with the big markets – mainland China, India. And the Middle East, despite concerns over the last couple of months, we have strong momentum with our customers, so even when they are opening new accounts, they're opening them with us, so I see that to be pretty positive.

Overall there are enough levers of investment, particularly in customer journeys, in technology applications, as well as RM hiring and RM productivity using AI that gives us confidence in a strong trajectory for Wealth, which is core to our growth story, albeit it starts at a smaller number compared to the other businesses, IWPB in particular.

NICK LORD: Can I ask a question on Indonesia? I know it's a very small business for you, but I'm trying to get an idea about how you think about these smaller markets? When you sell that loan book, is it about capital release? Is it about simplification of the business? Is there a lot of cost? Because I presume you've still kept operations in Indonesia, so I'm just trying to work out what was the driver for you to get out of that business, albeit noting the size.

PAM KAUR: We're making a distinction between the countries we need for our CIB network, and Indonesia is absolutely part of that and important and core to that. We've gone back and looked at the other countries where we have, in addition to the CIB business, some retail footprint. The question we ask is in terms of the scale of the retail footprint and the growth trajectory of the wealth business in that market, given the risk appetite we are comfortable with - 'where would it stand in priority order for growth of wealth?'

That is the reason why we are exiting some of these sub-scale markets – our focus is pretty much on wealth and, within the risk appetite, the growth and the size of that wealth business. If we don't want to be in mass retail, then what's the growth trajectory for that wealth business? That becomes a risk appetite, growth trajectory and investment prioritisation

question, but it does not mean that we are reducing either seniority of people or coverage or investment from a CIB perspective. Many of these businesses started as CIB businesses and over time grew retail and wealth, like many other international banks.

ALASTAIR RYAN: Any costs associated with that business will go back into the core franchises on disposal. And there is a \$400 million gain on disposal.

KIAN ABOUHOSSEIN, JP MORGAN: I just wanted to come back on deposits. You gave some very helpful new disclosure on the \$1.8 trillion. I wanted to get a bit more understanding on the \$1.2 trillion of instant access demand accounts. If you could give further split, if possible, a little bit more into current accounts, and how should we think about the deposit split by region if possible? And on your \$600 billion hedge, considering your deposits are growing so fast, should we think there's room to expand the hedge?

PAM KAUR: We have disclosed instant access deposits by legal entity - you can see the large numbers for HBAP come through from Hong Kong, and because Hong Kong has shorter-term deposits, the instant access number is slightly smaller in Hong Kong compared to some of the other markets where term deposits only start at one year plus.

In terms of whether these disclosures just relate to wholesale operating accounts or current accounts - this is everything - anything which is not term deposits.

In terms of the countries, the best disclosure is on page 19. Deposits have been a very strong driver of Banking NII; this disclosure makes that even clearer, just because of the percentage held in the instant access deposits versus term deposits, which is a strength of the franchise and continues to grow.

Now, from a hedge perspective, we've always said that we will continue to grow the hedge, but the biggest increases are behind us.

FAISAL YOUSAF: Our structural hedge is around \$604 billion as at the end of Q1. That's across a range of currencies. We have, in some of our markets and some of our currencies, taken us to the point where we're comfortable with the hedge. We're not seeking to increase. One of the exceptions to that is Hong Kong dollar. There's still scope for us to increase the hedge there. You can see, in our pack, the sensitivity by currency. You can see through that disclosure some of the currencies we would target and where we are at the moment.

The short answer to your direct question in terms of, 'Deposits growing. Could that lead to an increase in the structural hedge?' is yes, potentially it could. It wouldn't be, to Pam's point, at the same pace that we've seen over the past two years, but, where there's opportunity, we would look towards increasing.

ALASTAIR RYAN: We think that instant access is the most useful breakdown rather than checking accounts per se, but we'll pick that up afterwards.

KUNPENG MA, CHINA SECURITIES: You have upgraded Banking NII by about \$1 billion for this year, and also upgraded credit costs by around 5 bps, which translates to around \$0.5 billion this year, which translates automatically to an increase in net profit of about \$0.5 billion. I don't know whether my maths are correct for this year or whether there are any surprises from the non-interest income or net-fee income aspects?

PAM KAUR: Firstly, the process we follow for any change to guidance is the same. We look at plausible downside scenarios. When it came to Banking NII, we gave you guidance after considering plausible downside scenarios. We tend to be a bit conservative, so you can make of it what you would like, because, clearly, at one point, HIBOR was below 2%. Today, we are very happy. It's 2.7%, and let's see where it goes. We have the tailwind of the structural hedge, albeit it not as much as some of our UK peers. Then finally, Banking NII will be dependent on customer behaviours, but, so far, we see strength in deposits and the rest holding up.

When it comes to ECLs - I'll be very clear about why ECLs have gone up. The change in the ECL guidance is driven by the extent and the time duration over which we are seeing the Middle East conflict persist. When I spoke to a conference earlier this year, I said that in Q1

our ECLs would be circa \$300 million higher than they were in Q1 2025, just because of the conflict, but, if the conflict stays longer, the normal policy we follow is that we need at least two clear quarters before we start releasing the reserves. Therefore, the total amount of the ECL guidance has gone up.

In terms of the stage 3, the overall quantum was not that different, but it was more concentrated in one specific name. If that wasn't the case, it would be a much lower ECL charge. But from a guidance perspective, again, looking at plausible downside scenarios, we've called this out. Over the cycle, our ECLs have pretty much stayed within our range of around 40 basis points, but, quarter on quarter, year on year, we've seen fluctuations as we've gone through Covid, as well as the Russia-Ukraine conflict.

In terms of fees, I just want to flag Wealth - we are very pleased because Wealth fee growth across all four pillars has been very good. However, I also am mindful that Q1, typically, every year, is the strongest quarter, so I don't want to automatically just do a quantum leap and multiply by four, because it's broad-based fee growth compared to what you may see in some other organisations. We feel comfortable with fee growth.

If you look at Wholesale Transaction Banking, quarter on quarter, Trade was up 8% - small numbers, but the baseline was still up. Securities Services was up 11% and FX was slightly down. Payments, which is a very large base number, was up 3%. If I look at the range of drivers which underpin our revenue growth, I feel comfortable that that trajectory will continue. Will it be at the same level as Q1 or not? Because of seasonality, I can't say.

ANDREW COOMBS, CITIGROUP: If I look at the HBAP Corporate Centre, +\$274 million of revenues, there are no notable items called out, but I'm assuming that the one-off real estate gain that you flagged in the presentation is booked in the HBAP Corporate Centre?

PAM KAUR: To be really clear, the one-off real estate gain is, because of its size, not a notable item in these results. It will be as you've said, but I wanted to clarify it's not a notable.

ANDREW COOMBS: If I look at the CIB investment banking result, the Debt and Equity Markets result, Investment Banking is up slightly year on year. If I look at Debt and Equity Markets, it's down 23% year on year. That compares to peers with a very strong quarter. I'm assuming that's because of the steps that you took last year to exit European and US ECM and M&A, and resize some of your equities franchise? Do you think this is now a good base level to think of those from which to extrapolate?

PAM KAUR: Overall we are very pleased with the DCM investment. We are leaning in more into the IPO activity in Hong Kong/Asia. The uplift you've seen in some of peers from ECM activity - we were never really a big participant in it in the first place. So, whether it was last year or this year, it's just that that difference is showing more starkly. And if we had pending transactions from prior years and commitments, those will taper off over time.

As a baseline, that's a good starting point, except that the tailwind for us will be continuing to increase IPO activity in Hong Kong, and Hong Kong as a centre of Asia capital markets - that growth trajectory is pretty much at the foothills. When it grows, there will be large volumes - maybe not individual large ticket size items, and we may not participate in all of them - but the ecosystem in which it grows is good for the economic growth of Hong Kong, is good for the ancillary business that we get from it.

ALASTAIR RYAN: If you look at market risk RWA, we're not a big trading shop. There were some big trading gains to be had by people participating in that market. That wouldn't have been our market in any event - that's just a benchmark. That number is very low for HSBC.

PAM KAUR: Our earnings typically tend to be less volatile, more annuity-driven, and that's been the case for years. Fee income is great, we don't have those peaks and troughs.

ALASTAIR WARR, AUTONOMOUS RESEARCH: RWAs have been falling in Hong Kong steadily for the last year or so - perhaps a little bit more than the loan book - if you could just add a little bit more colour on that? On ECL, you had 52 bps in 1Q. We had two exceptional lumps in there. Thinking about the 45 basis points for the year as a whole, are you guys

thinking about back to more business-as-usual run rate for the rest of this year? Or leaving a bit of room still for some more follow-through, either from the Middle East or private credit?

PAM KAUR: RWAs are pretty much driven by two factors. As some of the Hong Kong commercial real estate and others have stabilised, you don't have so many RWA downgrade increases. Overall, loans are flattening, but they're not really picking up.

We're very comfortable with the Hong Kong business in terms of balance sheet efficiency and the revenue it's driving, because of the mix between fees and Banking NII. Hong Kong is a huge contributor to the ROTE of 18.7%, despite the fact that, this quarter, we had these ECL hits. We had the one-off gain, but the ECL hit. If you normalise, that's a healthy trajectory for ROTE, but in 1Q ROTE is always very strong, but not at the level we've seen in 1Q in prior years, so we are very pleased with that.

On ECLs, like with all guidance, we consider plausible downside risks and we have done a review of private credit - we don't see any concentrations of secondary or primary exposure to private credit in the books. In terms of the Middle East impact on the wider world, we bring in the milder downside and impact on broader markets as part of that 45 basis points guidance. This is without bring in the stress test view of the Middle East, because that was a very severe stress test view, which included markets falling by 35%.

In terms of normalising, the way I would look at that is you take the fraud risk out because it's idiosyncratic. The way you look at the reserve build is that it normalises over time, as we've seen in prior years, but it sometimes doesn't normalise entirely in a calendar year, depending on the duration of the conflict, because you don't start releasing your reserves if a conflict is continuing and you don't have two quarters of stability.

GUY STEBBINGS, BNP PARIBAS: The first question is on business disposals. Slide 25 and 26 are helpful in terms of setting them out and the day one impacts, but can you help us, given as they tally up now in numbers, what the run rate revenue would be associated with them? Any NII / non-interest income split would be helpful, to the extent you can help there?

The second question is on private markets - it's probably the area I've had the most questions since results. I'm really interested in any additional insight and colour you can give around governance and timing around what happened, what visibility you had and when? In terms of monitoring you would have had, I appreciate you might not have had full visibility directly, given the nature of that exposure, but what other monitoring might you have been able to do?

And a clarification – when you said there's nothing comparable in the book, is that to say there's nothing with the same sort of scale of size and where the visibility be comparable, or what do you mean by that exactly?

PAM KAUR: In terms of exits, we have a large number of exits that have been completed, but then there's an even larger number of those which have been announced, but will be following through later this year, going into next year.

At an individual level, most of these exits are very small, so from a Banking NII or a revenue perspective it's a very limited impact.

So from a revenue perspective, in our FRP¹, when we gave our guidance, we considered the impact of whether it was a fee income or Banking NII reduction from these exits, and the quid pro quo is we also said, 'if we can accelerate some of the investments, how does fee income grow in other areas?' And you've seen the proof of that. That's starting, and we expect that that will accelerate over time.

I'm very happy to take a question directly on where we were in terms of this particular exposure and what it says in terms of governance. Like any situation where there is a market event or market news, of course we go and look at that. I'm not going to comment on individual names, but we go through our books and say, 'Do we have exposure? Don't we? Direct or otherwise?' Whenever you have an exposure to whatever the name may be through

¹ Financial Resource Plan

a financial sponsor, we need to first go and look through that exposure and see the extent of provision we are required to take. It's not just the exposure; you have to give the provision as well. That is something that was not known when we had our 4Q results. It was not known even when we had the last conference we spoke at. I did call out in all those events that we are not immune to secondary exposure because, when it's in the market, of course we're there, but you don't know the extent of it.

Once you've done that, you look at the entirety of private markets. That's why we gave you the largest possible definition on private markets. Within that, we then went back to look at the extreme right hand [side of slide 15], the \$22 billion which is private credit-related, not just the \$6 billion private credit. We looked at things we had exposure to, plus where we had commitments. Then we went back to see, in any of these classes – if there's a securitisation, for example, what is the underlying asset? Who is it through? What is the size of it? You use all three filters and ask whether there anything similar driven by size, quality of assets, market considerations or the conduit through which you have secondary exposure. Once you've gone through that, you can say, in a substantive sense, you don't have that risk anywhere else.

The reason I use 'substantive' – I'm not trying to be cagey on that – is quite simple. Businesses which are doing well today, if the conflict continues for longer, even robust business models will get challenged over time, so I cannot say that there will never be another loss in this space, but you have to go based on the fundamentals through all these filters. That's the work we did through April, and that's how we gave our disclosures.

AMIT GOEL, MEDIOBANCA: I had a follow-on on the private markets exposure because that's where we've been getting a lot of questions and debate. I appreciate the points post-fact and obviously now you've gone through the book and so forth, but there's a lot of questions about the build-up. So, for example, how do you think about single-party exposures, whether it's different when it's done on this indirect basis versus a direct exposure in the book? Reading press reports, it seems like the loan-to-value is higher than some of peers or industry norms for this type of lending. So trying to understand how did the Group get into a position where it could have that type of exposure or risk? And what's changed? How does that not happen going forwards?

Then a secondary question. There was a negative NII in Hong Kong, \$100 million or so. I wanted to double-check what that was and what drives some of those things.

PAM KAUR: So from a risk perspective, in our credit books we have single-name concentrations when we underwrite risk. We look at the duration of risk and we look at the underlying assets in any situation. Fraud is something which is idiosyncratic. It can happen anywhere. Fraud does not in any shape or form reflect on how good your credit underwriting is. However, to protect yourself from things like fraud, you have concentration risk limits, which is absolutely what we have.

The learning in this case has been that, even though we've said quite clearly that private credit in itself is not something which contributes significantly to our growth – it never has, it never really will - the question is, in the build-up of an exposure over a period of time are you now looking differently in terms of how you would curtail risk appetite? And we are, absolutely.

We've also said that, to some extent, secondary exposure is a bit like correspondent banking. You rely on your correspondent and their due diligence, but we have all learned, whether it's in correspondent banking or private credit, that, no matter how good the financial sponsor is, you can't rely on that due diligence, and that is something which is another learning we've taken. We called it out at the results. We've called it out also at our AGM. Those are the filters we will be following through going forward.

In this particular case, the credit underwriting per se – and, yes, you say the LTVs were high, but, given what we knew of the assets... we said that we have now got a substantively good level of provisioning.

ALASTAIR RYAN: On the second one on NII, it's 1% of quarterly NII. It's just that we call these things out because we know, quite reasonably, everybody takes the last three months

and timeses them by four. So there was a positive in Q4 and there's a negative in Q1. We're just calling them out to help the modelling.

KATHERINE LEI, JP MORGAN: I have three questions. The first is to follow up on private credit. Based on your comment, my understanding is that HSBC has reviewed the whole \$22 billion private credit portfolio and assessed the potential underlying risk, also for fraud cases, no matter which industry that the borrower is in - you have reviewed the portfolio of that industry, even though it may be or not in private credit, right?

PAM KAUR: Nobody reviews fraud risk in the market. Can I be really clear - nobody reviews fraud risk because it is idiosyncratic by nature. You look at your risk from a materiality perspective and say, 'What is the propensity of risk?', just to clarify.

KATHERINE LEI: I'm not saying fraud risk in particular. Let me give an example. If you look at broader media reports, there are a few names people highlight, Tricolor and whatsoever, related in a particular industry. From a banking perspective, then you will say, 'maybe these industries are facing challenges that are higher than other industries'. Are you reviewing the risk, not fraud risk, but overall risk relating to this identified high-risk industry?

Number two – I want to clarify whether the \$0.4 billion includes any management overlay or is just a specific provision to the particular fraud case?

On costs – you reiterated that your cost guidance for the full year is unchanged, but in the first quarter the cost increase, is about 8%, but the full year guidance is unchanged. Does it mean you are confident that for the remaining of the year it's likely that, on a worldwide basis, costs are flattish? Is my understanding correct?

Then on wealth - we have seen very strong net money inflow in the first quarter, up 70% worldwide. What is the composition of that new money? Was it mainly from clients from mainland China? What was the composition? Can you give any colour? One of the questions I get asked by investors is that with the expectation of RMB appreciation and the recovery in China's housing market in tier one and tier two cities, will mainland Chinese clients slow down their fund flows into Hong Kong or other offshore markets?

PAM KAUR: Firstly on private credit, of course we look at sector risk. There were a lot of these names where we didn't have exposures, but we still do a full 'drains up' to say, 'is there something analogous to that that we have, that we could be also exposed to?' That's normal practice. We do that across the board. I call it lessons learned.

I didn't want to give an impression that you go and look at the entirety of your book, the whole trillion dollars of loans and say whether a fraud could happen anywhere - that's an impossible exercise, but you absolutely look at the triggers and you do a read-across. You also look and see if the macro environment is getting tough. Even if there isn't a fraud risk, could there be very viable businesses which could be under duress?

So you do that full piece, and when we give our guidance and ECL charge, it all comes within that packet. This one was different because of the size. The fact is, a fraud can happen anywhere. It was the size of it. I absolutely get that message.

On costs, we said to you gross costs growth is 3%, but there will be savings from simplification of 2%, therefore the net is 1%. We plan on a quarterly basis. We are confident because of the timing of those savings – the full impact is by definition more back-ended because most of the actions for simplification-driven savings come through by the middle of the year, that is our level of confidence.

On quarterly costs, if you do a last year/this year comparison, there was a timing difference in the quantum of the VP accrual that was taken last year – less in the earlier quarters and more in the later quarters. This year we've taken that equivalently across the full year.

In terms of wealth, mainland Chinese customers are not a contributor to the wealth to begin with because they come with small balances. We are very pleased they've continued to come, with 100,000 new customers every month, despite fees being put in place for smaller balances. Over time, as we see the vintage over two or three years, they become wealth

customers, but it's still a relatively small proportion. They take products like insurance and so on, but it's a smaller proportion.

On the growth we are seeing for Wealth overall - one is the annuity buildup from how insurance has grown and, based on IFRS 17, how it drips into P&L. As long as the size of the business you're growing is more than what you're dripping to the P&L, you will have a positive trajectory. Asset Management is doing well. There has been a lot of transactional activity, brokerage activity, in not just mainland China but Hong Kong accounts, which are wealth accounts, not the new mainland Chinese. That gives us the growth in Wealth.

Then there are markets beyond Hong Kong which are also growing, as well as some very large mandates we won on the Private Bank side. The nature of this wealth growth is very broad-based and has got only a very minimal impact from the mainland Chinese customers because, if those mainland Chinese customers were coming with \$100,000, our deposits would be growing with a different number in front of it.

CHRIS HALLAM, GOLDMAN SACHS: You mentioned earlier that if current tensions persist, robust business models will still come under pressure. Should we think about that more in terms of grouping those businesses by industry type or by country? So thinking in terms of airlines, hospitality, short-cycle industrials? Or Philippines, Indonesia, India, UAE?

Then, secondly, you mentioned you'd need two clear quarters of tensions before considering starting to release those overlays. Is there any kind of linkage there between your flexibility to be able to return capital at Q2? If we were still in the current setup, would that be a position in which the company is comfortable starting to restart buy-backs?

PAM KAUR: On buy-backs, it's a quarterly process. We do it every quarter, so we will do it. We remain capital-generative. It doesn't mean, just because you're not releasing reserves, that's a factor that just stops you, so I want to make that disconnection.

In terms of the reserve release, to be clear, that is driven by macro factors, so we have to see macro factors settling then we'll release the reserves.

There was a question I didn't answer about the \$400 million - the best judgment includes the provision plus management judgment as well in terms of the one-off stage three, just to clarify that.

Coming back to your point on how we look at risks - we look at smaller countries, which tend to have very small exposures. We are very comfortable with our business in Philippines, a liability-driven business, with very little risk exposure. We have already done a lot of de-risking in Sri Lanka after the issues there. We look at markets like Bangladesh. They're smaller countries, but the risk mitigant for us is our exposures are not concentrated and they're smaller, not just on the corporate side, but we also look at banks, regional banks and so on. That is a comfortable space.

Then you look at mid-size countries, they could be countries like India. You look at the quality of your exposure and, if you are really at the top end of the corporates, you feel more comfortable, but then you also want to look at the short-dated bank exposures that you have, but banks have really cleaned up their act in India, so that's fine.

Coming back to the sectoral, whether it's hospitality, aviation and so on, we go back and see the strength of the counterparty. Specifically in the Middle East, we have seen in some sectors large drawdowns, up to \$1.9 billion, but we've also seen repayments - they're down to \$1.2 billion within a month. That shows that in some places, people had buffered up in terms of their business needs. However, fundamentally they're very strong businesses because of their almost national backing, and therefore we are comfortable.

We look at concentrations through these various lenses and navigate our risk appetite through that. I don't want to sound complacent, but we have navigated our risk appetite through multiple areas when I was running risk for five, six years, and we stayed well within our guidance on ECL charges.

Now quarter-on-quarter, do you have events that happen? Absolutely, but you need to look at it as part of your overall cost of credit and evolve your risk appetite accordingly, which is exactly what we are doing now. But we are saying we are a relationship-led bank so, when our customers need us most, we will do it carefully, cautiously, but we are not going to walk away from our customers.

AMAN RAKKAR, BARCLAYS: I had two questions. One was on hedging. Could you give us a currency breakdown on the structural hedge, if all possible?

ALASTAIR RYAN: No.

AMAN RAKKAR: It's quite an important input into really understanding your rate sensitivity by currency. If there's any colour you can give us there, we'd really appreciate it.

PAM KAUR: We don't do much in Hong Kong dollar, so by definition it's going to be sterling and US dollar.

AMAN RAKKAR: That's why I was interested that you see room to run.

ALASTAIR RYAN: We're not getting into further detail on that because it'll enable everybody to make assumptions which might not be valid, so we've deliberately kept it at a high level.

PAM KAUR: Fas, is that fair?

FAISAL YOUSAF: That's absolutely fair. I understand why you're asking the question, but we're not going to give any more details. If you look at page 24, you can see the sensitivities, but, in terms of the breakdown of the \$604billion by currency, we're not providing that.

AMAN RAKKAR: It's in the context of kind of reducing the sensitivity to HIBOR, which I guess is something you're clear...

PAM KAUR: We've said to you that HIBOR, by definition, you hedge less. That is the reason why we consider plausible downside scenarios, and every time you say, 'Why are you being so conservative on your Banking NII?' That's exactly the reason, and that's why we very often do better than we guide.

AMAN RAKKAR: Makes sense. The second one was around costs. Your revenue growth rate year-on-year in Q1 was very robust, and you've increased Banking NII this year. There's a decent upward skew to the revenue outturn, I think, Middle East conflict notwithstanding. I'm trying to get a sense of how you're then thinking about the implications for costs. Is there a chance you come in above your full-year cost guide if this robust revenue outturn continues through this year?

PAM KAUR: We are very committed to meet our cost guidance, and we said, on the 1%, if it's going to be 1.1% or 0.9% or whatever, it is 1%. What we are looking at is, if this trajectory of cost growth continues and as we look into next year, how we look at cost guidance for next year. Of course, we will be reviewing a number of factors. We'll be looking at deployment of AI, productivity, simplification, redeployment of costs coming from our sales or businesses, but for this year we have enough levers that we want to run and work through to do that.

Now if there is massive underlying outperformance, variable pay is something we need to consider. So if we beat all lines by 20%, then costs are going to be more difficult to control, given variable pay implications. But the cost guidance is there to stay because I genuinely believe that's something you can control and you should control.

SONGTAO LV, CHINA INTERNATIONAL CAPITAL CORPORATION: I've got one question about your adjusted net interest margin. Since 4Q22, despite the changes in the market interest rate environment, your adjusted NIM has remained around 2%, and above 2% for the vast majority of the time. While hedging might help explain part of this, are there other factors supporting NIM? Does this imply that, as long as market interest rates stay above a certain level, say 2% or 3%, HSBC is fully capable of managing and maintaining NIM at approximately 2%? Though you currently have 70% of your deposit base in instant-access deposits, I assume the rates on these deposits are already quite low to begin with, so I think

their sensitivity is much lower compared to loans, which makes NIM management much harder?

PAM KAUR: I'm going to ask Fas to answer you. What I'll say is, if interest rates stay in the 2% or 3% range, that's a really good spot for banks to operate in. Fas.

FAISAL YOUSAF: It's a good question, but I think you've to some extent answered the question. The way you're describing it is about right. We are benefiting from the structural hedge, so that protects our net interest margin. You also need to look at the particular Hong Kong dynamics and the mortgage dynamic that occurs within Hong Kong with the difference between the Best Lending Rate and HIBOR. When you put the two together, that's what really drives the stability in our net interest margin. I think the way you're thinking about it and the assumptions you've given in your question are fair and accurate.

ALASTAIR RYAN: One last thing. We're not targeting a NIM. There's no secret NIM target that we haven't told you about. NIM is an observation of how things have dropped out. All the businesses are managed very carefully, but the NIM is an outcome, not a goal.

JAMES INVINE, ROTHSCHILD & CO REDBURN: I've got two, please. The first is, Pam, how do you see the outlook for the Hong Kong deposit growth? I noticed that the system deposit growth has been really good, but it is slowing and now down to about 9%. On the other hand, your deposit growth is accelerating and has come up to about 9%. We'll see what happens for the industry overall, but do you think HSBC could take market share in deposits in Hong Kong for a sustained number of quarters?

The second question is on centrally funded net trading assets. Those are now up to \$243 billion. I think that's getting on for double what they were when you first revealed them two or three years ago. Does that number keep on growing? Can you remind us - is that a demand pull from the trading businesses? Or more a home for your surplus liquidity?

PAM KAUR: On the net trading assets, the simple answer - it's what you've said - is the surplus for liquidity impact.

In terms of deposits, the Hong Kong growth is coming both from our existing customers in Hong Kong as well as the new customers coming from mainland China, because they contribute to deposits longer-term. We've seen deposit growth from our wholesale business as well as retail. There's some seasonal fluctuations between 4Q and 1Q. We are committed to continue to maintain and grow market share in Hong Kong, particularly as we start looking at some of the synergies that come with the privatisation of Hang Seng.

Having said that, we don't really want to overpay for deposits - we are mindful of that - but the growth rates in Hong Kong are promising and Hong Kong truly is getting to a space where it used to be in 2017 before the protests and Covid and so on, and the connectivity with mainland China is an important growth engine there.

EMMA XU, BANK OF AMERICA: I have a big question about RWA growth and CET1 target. In the past two quarters your RWA growth has resulted in about (20)bps drag on your CET1 ratio each quarter; is it reasonable to expect similar growth in your RWAs and a similar impact on your CET1 ratio in the coming quarters? Could you share your outlook for RWA growth over the next one to two years?

While you maintain a CET1 target range of 14% to 14.5%, how are you thinking about positioning within this range? Given the current macro uncertainties in the Middle East, would you aim to operate toward the upper end of the range or potentially above it?

PAM KAUR: In terms of the CET1 ratio, as we know, we are still waiting for the FPC pronouncements in the middle of July. As regulations evolve, we will look at our CET1 ratio and follow up. We have no specific level at which we want to maintain our CET1. It truly is a range, so we stay capital generative.

When we look at decisions on share buybacks, then you look at all of the headwinds you may face. One of them is RWAs - the RWA headwind comes because in a tough macro environment you get downgrades. There is a positive RWA headwind, which gives you

revenue, through loan growth, which we are very pleased to have, though the circumstances in which some of the loan growth came this quarter were not necessarily benign, but there was a lot of what I would call 'good' loan growth in the UK and other markets, so we are very positive about that. And that's how we look at RWA growth and CET1.

We look at a range of factors in terms of RWA growth mitigation, including significant risk transfer. We are pretty conservative. We are not a big player. We don't do very aggressive significant risk transfer, but we are focusing on areas like balance sheet velocity as well, so we can manage an increased origination pipeline and risk manage concentration positions and keep RWAs contained.

MELISSA KUANG, GOLDMAN SACHS: Firstly, in terms of your mid-term guidance, you talk about 'rising to 5%' in terms of revenue. This year has been, so far, a very good start for you, wealth is growing very strongly and Banking NII is looking on the up. I wanted to understand as we look towards this '5% rising', what do you have that you're still looking forward to? Is it you're going to have wealth growing faster? Or is it you still hope Banking NII can still be rising towards the 5% by 2028?

Then the second question. We've been hearing or seeing a lot of news articles in Singapore with regards to the sale of HSBC insurance. I guess Singapore is very important for you in terms of a wealth hub. I wanted to understand, not whether the news is true, but, let's say, if that's the case, what insurance products will you be able to sell in Singapore? Does it matter?

PAM KAUR: Our growth targets are built on accelerated growth in fee income, but the base is smaller, so the acceleration of growth is more there. For Banking NII we factor in growth, but it's a huge base, so even a small percentage of growth contributes to that top number. When we give a target, like we did last year, targets are what you work to and deliver, but targets are not necessarily where you stop. We don't say, 'we've met the target, so I've done it in 10 months - two months' holiday'. Targets are the level at which you run the bank and manage the risks of the bank. If you exceed your targets, you exceed your targets. Of course, you continue driving that.

In terms of Singapore insurance, Singapore absolutely is a critical market for us. A critical market for us for retail. A critical market for us for wholesale. A critical market for us for Private Bank.

The only thing I would bring to bear is the nature of the insurance business in different countries varies. The insurance business in Hong Kong, where a lot of the insurance products are both for your own customer base as well as for distribution to others, is one kind of a business. When you have insurance like we had in the UK, and to some extent in Singapore, where the product is much more for third parties not your own customers, there isn't that much of a connectivity to your baseline - that's why you review that business.

MELISSA KUANG: Would you say, then, you would still be able to sell your own products originated elsewhere?

PAM KAUR: We have an open architecture. We sell our own products, whether it's bank assurance, asset management, but we also, for good compliance reasons, offer our customers a broader range of products. We just have to say the product proposition, how germane it is, how critical it is for our own customer base, and that's why we're doing the review.

ALVARO SERRANO, MORGAN STANLEY: I had a question on costs and a follow-up on capital. When you look at the downsizing you've done over the last five years, it does look like headcount in 'central services' has gone up. If I think about that 2% simplification number for this year, and I look at the 'central services' headcount, should we think that that 2% simplification is sustainable in outer years? Is it a particularly good year? Any colour?

PAM KAUR: I think the 2% number this year was important because the simplification work and actions were going to complete this year. That was really a completion of one very specific initiative to firstly simplify the bank, and then the cost reduction came as a consequence of it. It didn't start with a journey to say, 'I want to reduce the cost base by 2%'.

As we go ahead and follow through, a couple of things will happen. In terms of an FTE, because, as we are selling some of these businesses – and you've seen the list – they do make a very small contribution in terms of revenue and cost, but from an FTE perspective, they're not insignificant - it all adds up.

When you're reinvesting, you can reinvest in technology, which is preferred, or you can reinvest in people. If more of the reinvestment from the redeployment goes into technology rather than people, in terms of people cost inflation, you get yourself into a better space. So the efficiencies that we will continue to drive, as a BAU process, will continue beyond this year. But the core of the simplification, with the formation of CIB and the removal of the matrix, finishes this year. And then it really comes through in terms of the divestment of the businesses.

ALVARO SERRANO: On capital, you mentioned that you're not very active in SRTs, or you're conservative in RWA mitigation, but considering you've got a 14-14.5% capital target, and loan growth is picking up – even if you look beyond Q1, it's picking up – and in CIB across all the banks probably we cover, what's holding you back from being more active in that? Is it the type of lending in Asia that's not suitable maybe for these instruments, or why not more aggressive on that?

PAM KAUR: To be honest with you, we were slow to start because we didn't really have an issue in terms of capital. Many banks started this journey 10, 15 years ago because they were capital constrained. We were not, so we didn't. So we are now absolutely focusing our investment prioritisation to build this. We've done some - very little balance sheet velocity work in the last year and a half - but we have started doing some, in the UK, in Asia, and we are continuing to focus on that. That's an area for us within the right risk parameters.

We have a lot of room to do more, compared to some other banks who may have done too much and have to scale back because of some regulatory factors. We absolutely have scope to do more, but this is not something which we have traditionally done. That's the honest answer.

JASON NAPIER, UBS: Pam, there's been a lot of column inches devoted to capital rejigging in the UK, and you're running a higher capital ratio than most of the banks that we look at. I wonder whether you'd talk a little bit about competitive dynamics in the CIB in particular. There's a lot written about de-regulation in the US, but in Q1 we did see a lot of banks missing on CET1. Granted, you were not one of them. And so if you could just talk a little bit about balance sheet demand and what's happening to product margins in CIB in particular, given that there's a lot of interest in whether those are destined to come down as US banks depool the capital that we think they'll now see released. Thanks.

PAM KAUR: So the demand coming from the US or UK, of course, we are a participant, but we take our share and no more. Our reliance on growth is there, but not as much as some of the peers. For us, the big demand in growth is coming from Asia, where demand was really low, but we expect more to come through, particularly through commercial banking clients, larger clients. And in those areas and in those markets, we don't see pressure on our margins. It's just where that growth is coming.

In terms of CET1, we are comfortable with the operating range we have, but we'll wait to see what happens from a regulation in a UK perspective.

And in terms of the work we are doing on balance sheet velocity, that would just give us an ability to be able to participate more without having that increase in RWAs and follow-through. I think we should all be pleased. We've been talking for years that we are going to have low-single-digit loan growth, and then we said we're not even going to talk about loan growth - and when you stop talking about it, it starts, so we just have to see how it plays out.

KIAN ABOUHOSSEIN: On digital money, I know you're probably going to discuss it next week, but I just wanted to get a bit of a feeling, because you have your fingers everywhere – tokenised deposits, stablecoins, CBDC – whereas we see some differentiation by some banks and players. Just trying to understand, what is your aim? Where are you trying to go? Do you want to be in everything or do you want to focus on something? And then, clearly, also Bank of England JV, I just wanted to see if you can put a bit more colour on that?

PAM KAUR: We are very comfortable to operate in those markets and spaces where it is strategically important for us - our home markets, or markets where we have good-scale businesses.

The next factor we consider is how well regulated those markets are and how comfortably we can navigate the ecosystem without falling foul of financial crime risk. That's the second hurdle.

The third piece is we are there to maintain our number one preeminent position - joint or otherwise - on payments - that is very important for us. So we want to be in that space where, both for our customers today as well as the expectations going forward, we play the full gambit because we are a relationship bank, provided we have looked at those filters.

And therefore, whether it comes to CBDCs or stablecoins or tokenised deposits, we are very comfortable to push through with that because it's on strategy, it's an area we are good at, we have scale, and we will put our full firepower to that. The limitation is purely that we don't want to fall foul of regulation, we have to be in markets that matter for us, and where we are comfortable to operate - you'll see more in that space. Fas, anything you want to add?

FAISAL YOUSAF: I would just say that regulation is evolving at different paces and with different nuances in different markets. We're very on top of that and we're looking at what customer demand will look like as well in those markets.

For tokenised deposits in particular, we believe these offer the benefits that stablecoin offers - the programmability, but also the protection in terms of AML and KYC that you would have in your standard deposit taking businesses. We're very pro-tokenised deposits, and our Tokenised Deposits Service has made great progress in terms of we've launched that into multiple markets over the past 18 months - we're now in five or six markets around the world. That's something we're investing in heavily, but we'll continue to look at how regulation evolves in all of our core markets, as Pam says, and we'll be in line with that.

PAM KAUR: We have multi-year investment plans for our payments business, and this is a fundamental part of that investment plan, which is all costed.

ALASTAIR RYAN: Thank you, everybody, for your time today. We look forward to seeing you next week.

PAM KAUR: Thank you.