HSBC

Edited transcript

Q3 Post-Results Analyst Meeting

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PAM KAUR, GROUP CFO: I'm going to make a few opening remarks. I would like to reiterate that the sweet spot for banks in terms of the highest marginal benefits on return is at a US dollar interest rate of 3% to 4%, and I stand by it for lots of different reasons, because once interest rates go up, there's an impact on pass-throughs, there's also an impact on shifts towards time deposits.

In how we look at our business, the most important thing is where we see actual momentum and the growth trajectory going into Q4, and also the extent to which those building blocks are a sustainable source of growth, or could be volatile. That is what we are focused on, the foundations on which we have built our strategy. Nothing has changed.

In terms of our targets and our guidance, our stance is exactly the same, we work to achieve them, and circumstances allowing, we motor ahead to exceed them. Nothing has changed in terms of that view or how we are managing the business. With that, open to questions.

ANDREW COOMBS, CITI: As we've gone through this results season, the cost of deposits has been an ongoing theme, so could we touch on the Hong Kong and UK deposit markets?

In Hong Kong, we can see the headline rates, not necessarily the RM promotional rates, but historically, you've always offered time deposit rates that are below your peers or in line with your peers. You've now moved in line or even slightly above, and you've seen quite a pronounced mix shift, even though that change in pricing was more towards the end of the quarter.

Does that mean there's more flow-through on mix shift to come through in Q4? What's the rationale for doing that given you have a very low LDR and a very high LCR in Hong Kong? Why do you need to grow the deposit base? Then in the UK, perhaps you could touch upon what you're seeing in terms of mix shift and pricing there as well?

PAM KAUR: Firstly, given where Hong Kong is in terms of its growth in GDP and the macro environment, the key driver for us is that as a relationship bank, we want to maintain our market share across the board.

The last time interest rates were higher, you saw the same shift to TD, but our positioning was that we were fine, because the overall environment was not that conducive, it was more deflationary - we were not leaning in. Now with the privatisation of Hang Seng, we're leaning in for market share across the board, not at a product level, but at a customer level. We want to participate at the same level in increasing wallet size of existing customers as well as new customers. This is primarily in Retail, because in Wholesale deposits and CASA mix and rates, it's not the same situation.

We believe that gives us a store of value of the customer with us, that over time, as they move and make choices into wealth and other products, our baseline and foundation for that growth continues to be in line with the market.

Lending is not the only reason we would want to grow deposits - we have a very good loan-to-deposit ratio - better than the market - and a better CASA-to-time deposit ratio. But we're seeing growth in Hong Kong across the board, whether IPO-related, whether fixed mortgage-related, which makes my treasury team happy because it helps with the structural hedge.

It's a very different approach in how we are looking at it.

The time deposit ratio was at around 38% at the end of September. In October, it's nudged a little more, and going into next year and beyond, we gave you a view that the last time rates were higher, the ratio was at 40%.

The key thing is not just that shift, it's deposit margin pressure, but overall we stay in the positive space, we don't go negative, deposits will be accretive

In terms of overall impacts, both the pressure on deposit margins and the interest rate tailwind came more in September. It's a bit of a continuing pattern through this quarter, but we are very confident that bottom-line growth will carry on.

The important thing is the increase in time deposits, not just migration of CASA to time deposits. There could be a bit of that, but it's more in terms of the absolute growth.

The UK is slightly different. Our proposition is not driven by market share across the board, across all products. Our position is anchored to us being the most important international bank, in terms of maintaining our number one position in trade, payments and FX. We are well ahead in all those areas, so there are not the same dynamics to consider.

There is deposit pressure in the UK. We've got a good loan-to-deposit ratio compared to the market, a good CASA-to-time deposit ratio. It is not the same view or positioning as Hong Kong, not because we don't think the UK is important, it is very important for us, it's a home market. However, our drive and push through the UK comes from a very specific angle, over and above just participating in the UK overall.

ALASTAIR RYAN, GLOBAL HEAD OF INVESTOR RELATIONS: Just to plug, our UK management will be presenting in this room next Monday. Love for you to join. We will be prioritising, for the London-based people, questions from people in the room.

ALASTAIR WARR, AUTONOMOUS: On costs, something a little bit longer term. Consensus, if we're looking out to 2028, it looks pretty efficient already compared to many smaller, simpler, more in-market banks you'd compete with in Asia. In UK retail and commercial banking, you were already looking very efficient in a European context.

I'm wondering if there's ultimately some sort of 'common sense floor' to cost/income at the Group level? Or is there some world of future productivity gains where these comparisons, the current ones aren't really a constraint, and maybe you could be a low 40% cost/income bank?

PAM KAUR: We are not giving any guidance on the cost/income ratio. We are very pleased with where the cost/income ratio is. It's probably the lowest I've seen in the 14 years I have been in the bank. The key driver is that we are absolutely disciplined, focused on run-the-bank costs, and I'm very confident that that will continue.

What we are trying to do is within the overall cost envelope, as run-the-bank costs are brought down, initially through organisational saves and simplification, then in terms of streamlining the footprint, focusing more on strategic areas. That's not a bottom line cost save, but that's more redeployment. We've seen great examples of where that has worked well, in terms of Securities Services last year, GIFT City this year. That's giving us a benefit to revenue and operating scale.

But we will not fall behind on change-the-bank spend, whether in terms of work on data, on AI, on process simplification, because we believe that is the building block for future productivity for the bank. Once the divestments have happened and once that footprint is firmed up, from 2029 onwards, it's a very good building block for that.

Overall, given our business mix, and across all four businesses, both cost/income ratio and RoTE is in a very strong position. We are not driving the absolute cost number down. What we are absolutely doing is making sure that run-the-bank stays as efficient as possible and continues to be disciplined, while we make room for investment for growth as well as change the bank in terms of technology, in terms of customer journeys, because we've seen the result of that giving us the benefit of top line revenue growth.

That's our ethos on that. We don't have in any shape or form a "cost issue" to handle.

ALVARO SERRANO, MORGAN STANLEY: You mentioned you're looking at the term deposits a bit like a net new money tool, a funnel maybe for wealth. In the short term, you've already alluded to that 38% mix should go up a bit, but if the market conditions improve, should we think about the term deposit mix being linked to market conditions and which can fluctuate, or does the new strategy change how we should think about the term deposit mix versus history in Hong Kong?

Second, a conceptual question about the UK. You have an extremely strong funding situation with you loan-to-deposit ratio, but the LCR has been coming down for all players, including yourselves. I think it's 150% or so the LCR in the UK.

As a CFO, how low an LCR would you be comfortable with? Not necessarily for your subsidiary, but in general, is it 120%, 130%? How low can it go? You've got liquidity pools in other parts of the bank, does that influence your decision of how low you can go in the UK, for example, theoretically?

PAM KAUR: On the term deposit mix, we look at the customer's overall wealth with us. We have seen the impact in recent months of equity conditions, leading to customers not investing in wealth equity products. Typically when they're positioned to do that, whether on back of an IPO or more broadly, that's very good for the wealth business. But they also tend to keep their money at the lower end of the time deposit tenor, because they want it available, as opposed to three to six months.

The time deposit percentage you alluded to – 40% - was just what we saw, where it went to. A lot will depend on how conducive market conditions are, and how customer appetite shifts.

In Hong Kong per se the commercial environment is positive. The question is about demand for equities, where people have been a little slower leaning in. Having said that, sales of mutual funds and structured products are still going. If you don't have anywhere else to put your money, a time deposit is a good place, especially at current rates. There's a bit of that, but it could very easily shift.

On the LCR funding and the rate, the direction of travel from a regulatory perspective has made this difficult for banks, particularly in the UK. It could be anything in terms of for example how regulators define and consider operational deposits.

I would suggest that on the liquidity side, going into discussions with the FPC and regulators, and in light of some recent pronouncements from the Chancellor about UK competitiveness, there is room to discuss and engage pragmatically. Some of the additional regulatory requirements from the start of 2027 have been paused. The question is the extent to which it changes so we don't have trapped liquidity because of regulatory and interpretation reasons.

In terms of the number, you're right. I don't think 150% is a sensible number. People have talked in terms of peers, who want to be in the 120s or 130s. Overall we stay highly liquid. We've got strong liquidity pools, and we have a track record that when there is an issue in a particular market or a subsidiary, we are very quick to action. I remember during the COVID period, we immediately leant in when there were large drawdowns. So, we feel comfortable to run liquidity at a much more efficient level if you look at the totality of our available liquidity pools.

FAISAL YOUSAF, GROUP TREASURER: Just to build on Pam's response, it's a very good question and something we're thinking about, and there's a lot of talk within the industry on this topic.

The first thing I'd say is the LCR as a metric, recognising that it's probably the one metric that you can look at across banks, is not the best metric in our opinion to determine the strength of a deposit base and the strength of liquidity within a firm. Most firms have their own internal liquidity metrics they use and operate to. Nevertheless, we're all required to publish our LCRs, and we do that according to the regulatory rules.

We are seeing talk about divergence in the way the LCR might be calculated across different regulatory regimes. One of the things we're leaning into is to try and ensure there is consistency and that you can look at that metric, albeit with flaws, on a consistent basis.

In terms of the UK and the 150% that you quote, for some time we've had an elevated LCR – in many of our legal entities actually – and now we're going to a more optimised position in terms of where we can deploy liquidity, where we can get returns and how we use that strength of our franchise.

We're not calling a lower bound on that, but I think for the UK, we're some way off being at the low point of where the LCR can go, and we look at many factors in that. We will look at the loan-to-deposit ratio, we'll look at funding sources, we'll look at the pipeline, we'll look at issuance of covered bonds, which all factor into our thinking as to where we're comfortable on the LCR. But it's some way off being a low point.

We also publish a Group LCR, and you will see that coming down as well. We're very comfortable with that. It's coming to a more optimised use of our financial resources. Our Group LCR is calculated on a pretty conservative basis. We assume a lot of trapping of liquidity across our legal entities, so when you look at the LCR and the different legal entities against the Group number, virtually all of those entities are much higher than the Group number. We often get

asked by fixed income analysts why that occurs, and it really is the conservatism baked within the approach.

In summary we are obliged to report the LCR, it's not the only metric I would look at from the external perspective in terms of the strength of the deposit base and franchise, but it is one consistent metric. We are trying to ensure consistency across different regimes, and we're very comfortable with where we are at the moment.

KUNPENG MA, CHINA SECURITIES: On deposits, if we assume one or two more hikes ahead, what will the deposit beta be? When will the deposit beta peak after all these hikes?

On wealth, excluding the one-off CSM effect, wealth income increased by around 10% in Q3. It slowed down quite a lot from previous levels. I know this might be affected by the deposit side. So, under the same assumption of the one or two big hikes and the deposit beta peaking, how can we estimate the future trend of wealth income?

PAM KAUR: Firstly we expect the deposit base to grow, but from a margin perspective, we only do that when we are in the positive territory. We are not losing money with that increase in the deposit base – you should get some comfort from that.

In terms of the betas, if rate hikes continue, there is some pressure on betas, but it's also driven by the competitive landscape. You would have seen with some of the Singaporean and regional banks results coming in, this is part of a broader trend. I don't think this trend will continue ad infinitum. It's not right to say that with every rate increase, the entire rate increase will go to the bank's bottom line. Hence my earlier comment on the 3% to 4% sweet spot.

We are growing lending as well. So, there's a range of drivers. It's linked to your wealth point in a way that the wealth trajectory very often in the Hong Kong market is correlated to how the Hang Seng Index is doing, how people are shifting their portfolios when they feel there's more room for growth and valuation upticks on Hong Kong equities.

There has been pressure on wealth fees given some of the divestments we have announced and some pressure on banking NII from wealth.

We have a good number of new customers coming on board, which has continued pretty much as it was in prior quarters.

We're also making really strong inroads in markets beyond also Hong Kong, whether it's Singapore, India, the Middle East. On the India point, our FCNR deposits grew $14.5 billion. This was not just existing customers, it was also new customers. We had very strong touchpoint with those customers. We were number 2, and a very close number 2 to the largest Indian local banks, which are a multiple of our size in India. That shows you the strength of our franchise and the foundational building blocks I talked about, which will then lead to growth in wealth.

Quarter-on-quarter, there will be fluctuations in wealth revenue. There's a very strong positive trend, just because of demographics and how we are building the customer base, but it's not going to all happen in a straight line every quarter because of the impact of market-related factors.

There's a switch between what goes into deposits and what goes into wealth. Hence, we look at overall net new money, which continues to be very strong, up $38 billion in Asia alone and $41 billion overall. That's the underpinning of where it's going.

ALASTAIR RYAN: Just one point of detail. Within wealth fees, there's Investment Distribution and within that, there's Hong Kong stock market turnover. That's a very nice retail business we have. That particular piece of it tends to be quite correlated to volumes on the Hang Seng Index. You will note they were down in October. That's a piece of a piece of the wealth fees. That's a particular feature for us and typically not other banks because we've got a particularly high market share in that business.

PAM KAUR: It has the most seasonal fluctuation as well, Kunpeng, typically it comes down in the fourth quarter and then Q1, it again builds up. So, there's a seasonality as well.

JAMES INVINE, ROTHSCHILD & CO REDBURN: I wanted to ask about the changes announced in the UK wealth business a month or so ago. What effect is that going to have on your UK deposit base, and in the rest of Group, wealth balances? Is that going to have any impact? You've got $500 million of rest of Group wealth balances. Is that number basically stable and going to carry on as it is, or is there any chance of some growth there?

PAM KAUR: You can see that Private Banking has done very well this year, that's a very good building block for the wealth business. It's growing and it's not just a Hong Kong story, it's a global story. That also applies to the UK with the new leadership, how we are leaning in.

Part of the story is also customer wealth journeys which we are making more automated, we are friction-proofing those customer journeys. As a consequence, the investment shift is much more into that space as opposed to just increase in FTEs. We have tried to lean in on wealth distribution and products even in the UK Retail bank, but that is hard yards.

Typically we see most successes where we have international customers who do wealth with us in other locations as well as the UK, but domestic wealth doesn't really sit with banks in the UK. There are other competitors. That's the broad shape, but it no way are we moving away from wealth. It's just how we are leaning into wealth, and how we are making the distinction between investment and FTEs.

On the Private Banking side, we are hiring more people and upskilling staff, and that has been behind the 16% growth in Private Banking.

AMIT GOEL, MEDIOBANCA: A follow-up on capital, I just want to check, we've got the Basel 3.1 benefit, the 40 bps to 50 bps, and then there's quite a lot of disposal gain in the first half of 2027. It looks like there's $6 to $7 billion or so of additional capital generation beyond what would normally be the case. Is there any reason why that wouldn't come back to investors? How should we think about that?

PAM KAUR: We've called out the benefit coming from Basel 3.1, and a Pillar 2A impact. We've demonstrated that we are comfortable even at the lower end of our target operating range to be able to do share buybacks.

The key drivers for what is the residual for share buyback, once you've done the 50% dividend payout ratio, is really lending growth, which consumes RWAs, and can take away a good chunk of the organic capital generation of 90 to 100 basis points per quarter. Then we keep a bit of a buffer in terms for impacts like HTC&S last quarter, for example. We still consider share buybacks to be the preferred way of distributing.

The quantum of buybacks is correlated to organic growth. For the first time in a long time, we are seeing the opportunity to grow our loan book in all our markets within our risk appetite and at the right return. We will always be cautious. We are not going to go beyond our concentration limits or our risk appetite. You need to factor that in when you consider the quantum of share buybacks. The very simple maths - 100 minus 50, minus loan growth, minus the buffer to get to the residual.

PERLIE MONG, BANK OF AMERICA: One on deposits and one on loan growth. On deposits, especially in the UK, a lot of other banks have flagged that Q4 is probably going to be another one with fairly high deposit competition. On the basis that I think some of the deposit competition in Hong Kong probably came towards the end of the quarter, is it broadly right to think that volume and margins are going to be broadly offsetting in Q4?

I know you won't want to comment on 2027 too much, but do you think Q4 is a reasonable base to think about 2027? Or do you think there is a little bit of a timing factor, there may be some migration, maybe competition is particularly high for whatever reason? Maybe that's not necessarily the right base to think about 2027?

Loan growth this year has been very strong. UK wholesale particularly strong. Hong Kong probably has an element of commercial lending as well. There's retail too. But commercial lending has been very strong and that's something that we've seen across many of your peers.

How do you think about marginal return on loans in a world where funding costs are higher, and to what extent would you expect some of that to be able to be passed on to customers on the asset side? It sounds like lending margins on commercial lending are not especially high. Do you expect a pass-through, and how quickly could that come through?

PAM KAUR: On deposits, it's relatively simple. In Q4, there are going to be two other tailwinds. One will be the reinvestment of the structural hedge, and given the rates, the structural hedge tailwind will continue into 2027. I'm not giving any guidance for 2027, just the building blocks. The impact of the interest rate hike which came towards the end of Q3 will come through in full in Q4.

The other thing in 2027 you need to consider is the divestments we called out, which will have an overall impact of $2.2 billion on revenue. With redeployment of the associated costs, you'll get that back from other businesses.

There is a $700 million impact this year, $900 million next year and $600 million in 2028. The big difference is the $700 million upfront is more weighted towards fees, given the businesses we are divesting. Into next year, it's more mixed between fees and Banking NII, that is a headwind. Then when you go into 2028, it's much more Banking NII.

Those are the building blocks for Q4, and with continuing growth, those are a positive for Q4. You need to then mitigate that positivity from the headwind the impact of disposals. We also called out that a shift in time deposit mix by one percentage point equates to $200 million on a full year basis.

In terms of lending, we're seeing lending growth across the board and it is within our risk appetite, and we are very disciplined. We lend based on hurdle rates. We do not lend below hurdle rate at the customer relationship level.

We don’t use lending as a product to go below our overall customer return rates. Individual products can be at different levels of returns, but we are disciplined on the overall relationship returns, and that will continue.

ALASTAIR RYAN: One IR comment for your modelling. The disposals we detailed on slide 20 almost all come in IWPB. There's Malta, Australia, Egypt, Indonesia, Singapore insurance, all going out from IWPB, mainly in 2027.

KATHERINE LEI, J.P. MORGAN: On deposits, particularly in Hong Kong, we noticed that when HSBC was not competing, for example, in second quarter this year, we still got an offer of a time deposit rate, a three month Hong Kong time deposit rate of 60 basis points. Now it's 3% and above. The change in trajectory is much higher than a fund rate hike or HIBOR trajectory?

On a forward-looking basis, the change in time deposit rate is not going to be another 200, 300 basis points. Can we fairly say that on a forward-looking basis, on a sequential basis, the rise in funding costs will slow down in Hong Kong?

On wealth, we see in net new money excluding deposits there's a Q-on-Q decline for HSBC Hong Kong new-to-bank clients. We don't have the same number for last year, so we don't know how much of the decline is due to seasonality, how much is due to the cyclical market influence?

PAM KAUR: On time deposits, whether percentage shifts or not, when rates were high, the quantum of money retail customers keep in time deposits is to some extent impacted by what else they can do with their money in terms of wealth, borrowing or mortgages. You have to look at it in the round. It's not just a straight line.

In terms of net new money, if you look at the net new money growth and you look at the new-to-bank customers, the average of around 100,000 new-to-bank customers, which has also continued more or less within October in this quarter, that has not changed. What has changed is that in May and June this was a higher number. The reason it was higher was, given some of the new clarification that came on the existing regulations, there were competitors who would put a pause and they were bolstering their compliance requirements. We didn't have to, so we got more. I wouldn't treat the May and June as a trend, in the round of 100,000 per month has stayed the same.

These new-to-bank customers are not an immediate source of wealth because they come with relatively small balances, $10,000, $20,000, they don't all come with the full allocation of $50,000, in which case the deposit base would be increasing at a much higher rate. But they are a very good source of wealth customers over two to three years, which is what we have seen since this trend started.

The wealth build-up typically comes from increasing wallet share with our existing customers plus the new as a secondary driver.

AMAN RAKKAR, BARCLAYS: On term deposits, you talked about refinancing pressures in addition to mix shift. Could you help with quantifying that dynamic at all in terms of what the difference is on the spread of your term deposit book in Hong Kong, new business versus back book? Is there churn going forward? What are the balances behind that?

Then more broadly digging into monetising deposits - that's something that the market has been reacting to - you're potentially less rate sensitive than we're used to, and you're potentially less able to benefit from extracting margin from the deposit inflows you get. It's challenging elements in the investment case.

I'm interested in response to that, and when you're thinking about monetising deposits, you're thinking more broadly, right? You're thinking about the fee opportunity, the lending, the relationship. Is there any way you can add colour to that, or numbers to help us frame it?

PAM KAUR: In terms of deposits, you have to look at our business in terms of sensitivity of this differently in UK versus Hong Kong.

From a UK perspective, the breadth of that business, that sensitivity is lower and it is a very deliberate positioning. We are not using deposit gathering as a loss leader to grow our business here, which may or may not be the case with some peer banks, notwithstanding that in the UK, there's a structural point which says that on the two sides of the balance sheet, there are more banks active on the liability side than the asset side.

That's not cyclical, that's a structural shift in the UK business given the competitor base beyond the UK headquartered banks as well as new entrants into the market. They're doing it for different reasons because of how they're positioning and how they're using those deposits on the asset side.

Hong Kong, you're right, it's a specific relationship-driven piece. You can see the RoTE we are generating, which is a key target for us in Hong Kong, continues to get better. That gives the value, not just of this relationship that we have in Hong Kong, the positioning we have in Hong Kong, and our ability to lean into the GDP growth in Hong Kong, which we don't want to give up on within our appetite, from a lending fee income and broader relationship perspective.

One thing which is common across both home markets and across our global franchise is, we are fundamentally a relationship bank. One product may be used as an entry point to get new customers or to do more with existing customers, but the value to the franchise for us doesn’t come from the margins, it is the overall customer returns, for which we stay very disciplined, whether it's on the retail side or the wholesale side.

JACK YANG, CFO, ASIA MIDDLE EAST: The front book, or the new TMD pricing, is dynamic. We just don't offer a very high rate, and that's it. A lot of us here in the room are wholesale customers, and you would know there's no headline, single high rate, so quite dynamic. This wouldn't impact our back book. I just want to add, in addition to retail, there is a big TMD piece in wholesale as well.

In the wholesale book, especially GPS, customers leaving money in operational accounts are less rate sensitive. That means that when we're talking about higher rates and higher migration, that’s true for retail, but for GPS and wholesale, they're a lot more resilient to this trend.

JONATHAN LEE, CFO HONG KONG: I would re-emphasise the point made earlier that these are still accretive deposits to the book and they're growing and we're pretty clear on that in terms of our pricing.

PAM KAUR: Please think about the Hong Kong deposit base as growing in volume, but at a typically shorter duration than what you may experience in the UK; they tend to be the three to six month range. They can come down even to a seven day duration, in which case there's a lesser differential versus savings accounts. It's a different deposit market than the UK which is typically one year plus.

NICK LORD, MORGAN STANLEY: Come back to this deposit question. I want to get a couple of things straight in my head about strategy. You've talked about how this is an acquisition tool. Is this about getting more deposits from existing customers? Bearing in mind what Jack just said about these not being headline offers, these are tailored offers, or is it about bringing in new customers?

Related to that, if it is about bringing in new customers, what are we expecting in terms of timing for how long it takes you to monetise these customers? People who come in on higher rates, they may not be loyal customers. How are you thinking about how you manage customer loyalty and how you get them there?

Do you have a pain threshold? If we suddenly find that time deposits are going up to 42% or 44% of a total, do you at that stage say, this strategy is not worth it anymore, we need to make sure that we continue to leverage our funding advantage in Hong Kong? Then finally, are you doing the same thing in Singapore?

PAM KAUR: As Jonathan has just said, both for Hang Seng and HSBC, we grow deposits only when it's accretive, that should give you some comfort. In terms of the market in Hong Kong, given our large customer base and positioning, most of these deposits are getting more wallet from existing customers, but not losing out with new customers.

We have more accounts – we have more customers banking with our combined iconic banks than the total population in Hong Kong. It's a very large baseline. In terms of the pain threshold, there's no specific number which says, 40% is a good, or 41%, or 39%, or whatever. I gave that proportion as illustrative of what we have seen before. I am comfortable with our overall ratio of time deposits versus CASA being more favourable than the market.

Singapore is a very different proposition. Singapore is a very much wealth-led proposition. Hong Kong is not just wealth-led, but it's also retail mass, which then becomes a building block for wealth.

ALASTAIR RYAN: Thank you. Back at the full year, when we took Hang Seng Bank private, and the first time we gave you a presentation and that was with the full year results, we would point you back to some statements we made there, particularly slide 6 on consolidating our number one market position in Hong Kong. The Hang Seng Bank privatisation enables us to scale capabilities and drive growth across both banks for all existing and new customers.

We wanted to give you a sense that this is a structural choice that we've made. The privatisation wasn't an isolated thing, it was a part of a broader strategy in Hong Kong.

WENQING HAN, BANK OF AMERICA: My question is on time deposits. You mentioned that your time deposit mix peaked at 40% last time round. I'm wondering how, for the 40%, this is not 41% or 42%? Could we see 40% as a threshold for maintaining market share or a threshold of not losing money? If neither of those, in the current environment, what is the threshold for the time deposit mix that maintains market share? What is the threshold for not losing money?

PAM KAUR: The driver really is that our deposits should be accretive. We take deposits and we participate in growth as long as the deposits are accretive to our bottom line. 40% was purely an illustrative number on what we saw customer behaviour before. I cannot project to say what it's precisely going to be, but if history is a good indicator, that's what that number is.

In terms of the overall profitability, it's not whether 40% becomes 41% or stays 39%, it also depends on what the level for individual products you are offering dynamically. In that offering, it has to stay overall positive. It's not linked to when suddenly a number becomes one percentage point more or less.

ANDREW COOMBS: I was going to switch the debate to impairments, your cost of risk this quarter was remarkably healthy. It was the first clean quarter I can remember for some time. No big overlay for geopolitical events, limited Hong Kong CRE charges. Is this the new baseline going forward?

PAM KAUR: Over the years we have tracked through the cycle between 30 basis points to 40 basis points. This is at the lower end of the cycle. We are not saying that's the new number, but I would point out that that this quarter this was the number, despite the fact we made no releases from the reserve we had built up in Q1.

It is important to see that when there is no specific concentrated loss, the capacity of the organisation to run this level of growth with this cost of credit is pretty normalised. In the quarters that called out, there have been one-offs, either a concentrated risk loss or a reserve build.

We are focused on name concentration risk and sector concentration risk, we stay very much on track. That's how we look at it, we don't really need to have any one lever to pull for us to drive growth so we can navigate very comfortably with that cost of credit range.

In terms of Q4, we are not changing our guidance as of now, for the simple reason it's a longer quarter because you look at the books until the end of January, but also it's a pretty volatile world. We see the normalisation on Hong Kong commercial real estate, but it doesn't mean quarter-on-quarter you won't have some impact. Sometimes there will be a reserve release, sometimes a valuation impact, but we are not seeing any new defaults happening. We feel pretty comfortable, and the NPR ratios are coming down.

KATHERINE LEI: One on credit costs and one on banking NII, because you mentioned that the rise in deposit costs is going to be accretive to NII, right? But if we look at the disclosed rate sensitivity, it shows that for Hong Kong dollar, for 100 basis points of increasing yield curve, has an impact on NII of zero. How should I reconcile your comments with the rate sensitivity?

On credit costs, in China this week, there was a near default of SOE developers / local government financing vehicles. I understand that HSBC is not big in business cooperating with local governments in China, but I just want to make sure that we don't get any negative surprise on that front?

PAM KAUR: In terms of the credit costs, the Chinese market has some very strong local banks who have most of the credit exposures. In terms of our own book on the Chinese mainland, our onshore commercial real estate exposure, even when there were issues in the market, was very limited and losses were limited. Most of the commercial real estate exposures and losses came from what was booked in Hong Kong, the 'Structure A and B', which were less-secured credits. We don't have that issue.

I can be relatively confident of that, other than idiosyncratic fraud risk that happens in the market from time to time. We are comfortable with the concentration risks we run and credit across all sectors over the last few years that I've been in this role and in prior roles. You should be comfortable, because typically our books have a tenor of around three years. There are no issues from the past lingering in that space.

In terms of the Hong Kong dollar and banking NII sensitivity, over time, we have reduced our sensitivity. Overall we are in a much better position than we were a few years ago, when we had greater sensitivity to rate changes, both from the downside and the upside. The impact is lesser, but that does not take us away from the point mentioned a few times already, that we do our lending and deposit products both on hurdle rate and based upon a positive accretion to the bottom line.

JACK YANG: Katherine, you quoted two numbers. One is migration, one percentage point of TMD migration, holding everything equal, having a negative NII of $0.2 billion. That's a big assumption, 'holding everything constant', because we're now observing the total amount remaining the same or slightly ticking up, but we're adding TMD. So, we're not holding everything constant - every dollar of TMD is generating additional NII.

The second number you quoted is NII sensitivity. If the Hong Kong dollar rates go up by 100 basis points, right now, the number is rounded as zero, but it is positive. It's just rounded to zero. But remember, that number is not just deposits, it's deposit plus loans. So, for example, Hong Kong dollar mortgages are capped, so even though rates are increasing, we're not going to earn more from the mortgage.

Together with the structural hedge and pass-through assumptions, the upside is quite limited, but it's not zero, it's slightly positive. I don't see those two numbers being contradictory because we're talking about the two different things. One is deposits, one is deposits and loans, and the first one is holding everything constant.

FAISAL YOUSAF: I would double down on what Jack has said, particularly his first point, which is that the sensitivity number quoted - on slide 18 - for time deposits is everything else being equal. You should factor into your models and your thinking that the deposit base is increasing and that's what can trigger the change in percentage here. You could have the same absolute level of deposits in CASA, but the overall increase in deposits within time deposits increases that percentage. That's the point Jack was making, it's a very important point to think through as you do your own modelling.

Katherine, the number you quote and the number that Jack relayed on the 100 basis point up sensitivity, just remember that that is a sensitivity from the end of June. We publish that every six months, so we'll give you the next update on that at the full year. So, that can change depending on balance sheet mix.

PAM KAUR: It is based on a 50% beta, that can also shift. So, there's product mix, there's beta shift, as well as a balance sheet mix.

PERLIE MONG: On wealth and the investments you've been making there. Hong Kong is an important market, still the home market, and you've made comments that investment distribution is affected by market movements in that market. You've invested a lot in the business, to what extent are you investing outside of Hong Kong?

I ask this because AI is an important theme, in terms of wealth generation, but also the sort of things that people want to invest in, whether it's retail investors or wealth customers or institutional investors. So just an observation that those markets have maybe had more activities and stronger performance, especially the first half of this year. How are you thinking about that incremental investment? If you've made that investment, how quickly would we be able to see that being a bigger driver of your wealth income over time?

PAM KAUR: We are really blessed with what we have in Hong Kong. It sometimes dwarfs what's happening in other markets for our business compared to some other peers. But we are very focused that what we have done in Hong Kong in terms of wealth centres, technology apps, products or customer journeys. We are building on that in a range of other markets

including Singapore, Malaysia, Taiwan, the Chinese mainland, India, the Middle East, UK, Channel Islands.

There are eight or so levers which we can absolutely pull to say this works here. We are accelerating investment in our wealth business so the timeline over which that investment can show the results is quicker across all these markets.

We still want Hong Kong to be the biggest, but you're right, it is pulling more than one lever. That's tried and tested because when we've done it in other products, you can see overall in big markets, like say India and Singapore, our bottom-line has grown fast, even though they're smaller in terms of bottom-line contribution compared to the home market. That's what we're working on, and that will help in managing some of the seasonal fluctuations.

Seasonal fluctuations will happen in wealth quarter-on-quarter. We have strong building blocks to be able to deliver wealth growth, not just in one year, but for many years to come. Our deposit proposition is part of that, because we are always fundamentally a relationship bank. If we stand by our customers, we see growth even through a crisis like in the Middle East.

If I may, one big driver for our growth going forward is trade, and trade-related lending, which is lower risk and short tenors, and a driver of growth in banking NII.

We called this out a year ago - as tariff changes came, we were active with our customers and despite the US-related corridor reducing, we are making more money on trade now because other corridors have higher margins and are less competitive. So, multiple levers come to play - and the same analogy works when you look at multiple levers for wealth in markets beyond Hong Kong.

We are very happy with our big markets, but we have more than one lever to grow and in multiple markets that we have chosen through our strategy. Thank you.

ALASTAIR RYAN: Thank you everybody for joining.