HSBC

Transcript

Q2 Results Fixed Income Call

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FAISAL YOUSAF, GROUP TREASURER: Hello everyone, and thank you for joining our first half 2026 fixed income investor call. I'm Fas Yousaf, Group Treasurer, and I'm joined today by Greg Case, Head of Debt Investor Relations, and Mark Phin, Head of Equity Investor Relations. Many of you will already have had an opportunity to go through the results materials and listen to the equity investor call, so I'll focus my remarks on the areas most relevant to Fixed Income investors.

I'll cover three areas. First I'll provide a brief overview of the Group's performance and progress against our strategic priorities in the first half. Second, I'll focus on the strength and resilience of our balance sheet, including capital generation, asset quality, funding and liquidity. Finally, I'll look ahead, covering targets and guidance, the regulatory outlook and our issuance plans. As I speak, we'll show a small selection of slides from our first half 2026 fixed income investor presentation, which is available on our website. Once I've finished, we'll move straight into Q&A.

Turning first to performance, our strong first half results reinforce the strength of our diversified and capital generative businesses, as well as the disciplined execution of our strategic priorities. I will refer to our results, excluding notable items with comparisons on a constant currency basis. Further details are set out in the appendix to our first half results presentations, available on the Investor Relations page of HSBC.com.

Group revenue for the first half was $38.2 billion, up 6% year on year. Profit before tax was $20.4 billion, up 6% on last year. The group generated an annualised return on tangible equity of 19.1% for the first half, consistent with our guidance of 17% or better for the full year. Importantly, performance was broad-based with all four of our global businesses generating returns in excess of 17%.

Turning to revenue drivers, the revenue base continues to be well diversified, reflecting our two scale home market positions, our global CIB business and our International Wealth and Premier Banking division, with its primary focus on Asia. Banking NII for H1 was $22.9 billion, an increase of 5% year on year, and we have upgraded our full year banking NII guidance to at least $46 billion.

In fee and other income, our wholesale transaction bank showed year-on-year growth of 7% in the second quarter, driven by strength across all product areas. We continue to see strong demand for trade and payments products with accelerated income streams in the second quarter. Our Wealth business continues to show a high level of growth in fee and other income, at 21% year on year in the second quarter. We saw net new money of $64 billion in the first half, with $57 billion coming from Asia. Our wealth balances are now $1.6 trillion globally, and we are Asia's number one wealth manager, with $1.1 trillion of wealth balances across the region.

Turning briefly to strategic execution, as Georges set out in detail earlier today, we have made significant progress in creating a simpler, more agile and customer-focused bank, better positioned to deliver sustainable growth. Today, we revised upwards our total organisational simplification saves target to $2 billion. We also remain on track to deliver our $1.8 billion target of cost reallocation away from non-strategic businesses, having now announced 15 business or market exits since the beginning of 2025. These changes provide investment capacity to drive franchise growth in our strategic growth areas.

At the full year 2025 analyst call, I spoke about the development of our digital asset and artificial intelligence capabilities. Both continue to progress at pace. In digital assets, our activity remains client-driven and focused on building out our custody, tokenisation capabilities and market infrastructure. During the first half, we extended our tokenised deposits product into the UAE, building on our existing capability in the UK, Hong Kong, the US, Singapore and Luxembourg, providing stronger connectivity for clients internationally.

Our digital bond issuance platform, HSBC Orion, continues to set the benchmark, most recently delivering the largest ever digital bond issuance, US$1.5 billion equivalent, for the Hong Kong Mortgage Corporation in June, across Hong Kong dollar and CNH. As I mentioned in February, the HSBC Orion platform secured the UK government's digital gilt instrument, or DIGIT, mandate and we are positioning to issue the first sterling digital sovereign bond by early next year. Work is also progressing on a UK bank digital bond issuance programme on Orion as part of the Great British Tokenised Deposit pilot and that is also expected in the first half of 2027. In Hong Kong, following the HKMA stablecoin issuer licence grant in April, we are planning to launch a Hong Kong dollar denominated stablecoin later this year.

Next, briefly on artificial intelligence, we are investing in deploying AI to re-engineer, simplify, strengthen and accelerate activity across the bank. Our ambition is to empower colleagues to use AI, delivering end-to-end process re-engineering and enhancing our customer experience whilst keeping human judgment, decision-making and accountability at the core.

Next, moving on to the second area, our balance sheet, asset quality, funding, capital and liquidity. We continue to operate from a position of strength which is supported by our deep customer relationships. Our deposit base grew $129 billion year on year to $1.8 trillion, including balances classified as held for sale. In the first half of the year, we saw customer accounts increase by $56 billion, primarily in CIB, driven by continued momentum in global payment services and securities services. Alongside the deposit growth, we've seen increased momentum in loan growth. Loan balances are up 6% year on year, including held for sale. The growth is broad-based, with particular strength in trade and commercial lending in the UK and Hong Kong.

Turning to asset quality, the annualised cost of risk was around 47 basis points, with an ECL charge of $2.4 billion for the first half. The charge was 41 basis points in the second quarter, including $0.2 billion related to Hong Kong commercial real estate. The Hong Kong residential market has continued to recover, supported by consecutive quarters of price and volume growth, while leasing activity in the prime office market has also strengthened. Although pressures remain in parts of the office and retail CRE markets, particularly outside the prime segment, the overall picture has improved. Beyond Hong Kong, there is no broad-based pattern emerging. However, we continue to monitor closely, particularly against the backdrop of geopolitical tensions in the Middle East, elevated energy prices and higher interest rates.

For full year 2026, we are reiterating our guidance of around 45 basis points. Our CT1 ratio was 14.1% and is inside our 14 to 14.5 medium-term planning range. We generated 1.9% of organic capital in the first half, demonstrating the earning strength of the franchise. Our CT1 ratio remains around 3% above our MDA hurdle rate of 11.2%.

Today, we announced that we are restarting share buybacks. We plan to buy back up to $1 billion, three quarters after pausing them, following the announcement of the Hang Seng Bank privatisation.

We were also pleased to see that S&P revised the outlook on our ratings to positive in May, recognising the structural improvement in profitability alongside our consistent balance sheet strengths. We continue to engage constructively with the rating agencies, and it is our desire to maintain a rating at the upper end of our peer group. We recognise this is a decision for the agencies and we will continue to focus on delivering our strategy, which we believe is supportive of our credit profile over time.

We have a 33% MREL ratio, a 3.9 percentage point buffer to our minimum requirement, plus buffers of 29.1%. This is equivalent to a buffer of around $36 billion. Our liquidity position also remains exceptionally strong, with a Group LCR of 134%, which excludes $153 billion of HQLA. The total HQLA on hand is now $0.9 trillion, covering around half our total $1.8 trillion customer deposit base. The 56% loan-to-deposit ratio generates a $0.8 trillion surplus. Our deposit-led funding model, low loan-to-deposit ratio and substantial stock of high-quality liquid assets provides considerable resilience and results in a very low reliance on wholesale funding.

Finally: targets, guidance, regulation and issuance plan. Today, we reiterated the targets that we set out at the full year:– revenue rising to 5% year-on-year growth by 2028, return on tangible equity at 17% or better each year to 2028, both excluding notable items and a dividend payout ratio of 50 percent of EPS, excluding material notable items and related impacts.

Touching briefly on regulation. Last month in the UK, the Financial Policy Committee set out further details of its review of the UK bank capital framework. The FPC and PRA announced changes to improve the usability of capital buffers under stress and indicated that they would expect to consult in late 2026 or early 2027 on potential amendments to the leverage ratio framework. We expect the impact of these changes to be immaterial at the HSBC Group level, with a potential 10 basis points increase in the group's minimum leverage requirements, which are not currently binding.

We welcome the direction of the FPC's review. At the same time, we believe there is scope to go further and faster in simplifying the UK capital framework, improving international alignment and enhancing the competitiveness of the UK banking sector. We remain committed to constructive engagement with the Bank of England and the UK government as that work progresses.

Finally, I'll finish on issuance. We've been active during the first half, and I'm pleased to say that our issuance programme for the year is largely complete. In senior holdco, we've issued $18 billion against our plan of circa $20 billion. In the second half, we have around $6 billion of calls and maturities.

In tier 2, we have no issuance planned this year. In AT1, we have issued $4 billion, completing our planned issuance for the year. Last week, we announced the call of our sterling AT1, effective in September. Finally, our opcos remain well-funded with only modest needs for wholesale issuance. At this stage, we have no notable needs to call out.

Looking forward, as we complete our plan, we may then look at opportunities for pre-financing should markets be attractive. We will consider the carry cost and prevailing spreads balanced against next year's maturities.

To conclude, the first half demonstrates the continued strength of HSBC's franchise and the resilience of our balance sheet. Our strong capital generation, robust asset quality, alongside the substantial capital and liquidity buffers provide us with considerable financial flexibility to invest in our strategic priorities, grow the business sustainably, and support our customers.

With that, Michael, please can you open to Q&A?

LEE STREET, CITI: Hello, good afternoon and thank you for taking my questions. I've got a few for you, please. In terms of pre-financing, you just mentioned that obviously you're well ahead in your holdco senior issuance plan, but we've seen the US banks issue a lot of debt as opposed to their second quarter numbers in response to spread levels and balance sheet growth. Why would you not be looking to do similar?

Secondly, you referred to wanting to stay at the upper end of your rating peer group. Just remind us from your perspective, who do you see as your main peers in that rating group?

Then, I guess finally, you mentioned that you'd like the FPC go further and faster on regulatory change. What would be your number one ask that you'd like to see from them? They've been my three questions, thank you.

FAISAL YOUSAF: Thank you, Lee. Always great to hear from you. I'll probably try and take all three questions and hand over to Greg if there's anything for him to add. Perhaps I'll do it in a different order to the order you gave it in.

To start with, perhaps the issuance, and if I caught your question correctly, you've commented that US banks are increasing issuance and perhaps why wouldn't we think likewise? Well, from our perspective, we're seeing strong loan growth, which is more than supported by our deposit growth. We grew deposits by $129 billion, as I said in my prepared comments, year on year. I'm conscious that we've nearly completed our issuance plan for the year. And so, that will leave us with plenty of time to look for opportunities to pre-fund. But we are pretty conscious and disciplined about when we choose to issue, and we're not at this stage looking to materially increase the issuance plans just because of spread. We'll look and see whether the market's constructive. We'll look at whether it makes sense from our maturity profile, regulation, economics, funding metrics as well. As you know, many of our balance sheets are very well funded anyway, so really no intent to follow suit from some of the American houses and what they have done.

In terms of regulation, just to step back for a minute on the FPC side of things, the FPC released their findings, as you know, in July, and had three core areas of focus. Those were, in no particular order, buffer usability, the leverage framework, and then international comparability. We welcome that direction of travel. We think those are the right areas to focus on. If I take each in turn, on the buffer usability side of things, the FPC and indeed the PRA have commented that they really are focusing on two aspects. They've made the O-SII buffer releasable, and that's really for domestic banks. They've also talked about entering into dialogue internationally to build one single reusable buffer.

Now, on the single reusable buffer, I think that is a valid direction to head in. It is something that will simplify the framework, but it's likely to be a long journey to get there. On buffer usability in its entirety, I don't see that there are immediate benefits that are going to assist growth in the UK or indeed benefit HSBC. We'd like to see a bit more in that space.

On the leverage framework, there have been some constructive changes there. Leverage has become a binding constraint for some UK banks and UK entities. It's not for us at the group level a binding constraint, but we want to see some simplification of that. Some of the moves that have been proposed – which are still to go through consultation –will, we think, be supportive of that. That said, from a group perspective – as I said in my remarks – it is likely to be a 10 basis points increase in leverage requirements for HSBC.

The third aspect is international comparability, and that's an area I think the industry's been pretty vocal on in the UK. A number of other jurisdictions are moving at some pace. If I was to answer your question directly, that would be an area of real focus from our perspective, trying to ensure there's a level playing field internationally between the different international banks, and obviously ensuring that the capital regimes are prudent and well supported, but also straightforward to implement.

Finally, on your question about ratings and who we see as our peers, I would say we don't have a direct peer to point to in the market. We are the world's number one trade bank. We're a leader in payment services, number one wealth manager in Asia, so we are unique in terms of our footprint, but also our business model. That said, we look at what we think are appropriate ratings, given the strength of our balance sheet, our earnings, our sustained earnings, our resilience, the markets that we operate in, and we look at some of our peers, and we think that there's room for positive movement up. With that, Greg, anything to add?

GREG CASE, HEAD OF DEBT INVESTOR RELATIONS: Maybe just one point, Fas, on the ratings. You'll know that the group is very, very deposit rich. Those deposit relationships are based on a long history and trust. The ratings – as I think as Fas alluded to – should reflect the strength of the group. We continue to engage with the rating agencies, and we hope that the strength that we continue to demonstrate in the results is shown in that rating trajectory over time.

We've had a question in over text from Soumya Sarkar at Barclays. Thanks for the question. I'll just read it out. 'On digital assets, do you see this primarily as a technology which will help improve efficiency and consumer experience, or is there also a significant revenue opportunity available as well? Do you see this as also important for your deposit franchise?'

FAISAL YOUSAF: Thank you. I mean, the digital asset landscape is evolving. Regulation is changing on a regular basis, and so there's still uncertainty there. We are focused on providing solutions for our clients across bonds, gold, funds and custody. As I said in my remarks earlier, our HSBC Orion platform is one that is a benchmark. It's leading the way in this space, and has enabled us to build a tokenised deposit service across multiple jurisdictions that allow our customer base to leverage cross-border payment transfer.

From a customer perspective, we also have a licence now for stablecoin issuance in Hong Kong, and we intend to, in the second half of the year, launch a stablecoin there. I think it's still an open question which customers would prefer. I think for corporate and institutional customers, the tokenised deposit service is a more appealing prospect. It offers programmability, instant settlement, and all of the aspects that you would expect to see in terms of a digital asset. Stablecoin – we'll see whether that has a similar appeal for retail customers. So really an open area. We're not focusing on the revenue impact at this point in time; we're focusing on offering our customers the features and the products that they want to see.

GREG CASE: Another pre-submitted one – anonymous this time. Fas, could you give us a bit of an update on the Middle East situation and how that's impacting HSBC?

FAISAL YOUSAF: Certainly. Thanks, Greg. First of all, I'm pleased to say that our people in the region are safe. We are very focused on supporting our people and staff and customers in the region in the best possible way as we navigate through this period of uncertainty. HSBC, from a financial perspective, there's very little new information to call out. We've not increased our ECL charges, notably in the second quarter. They remain at around $0.3 billion ECL charge that we took in Q1. Our exposures in the region remain of high quality, typically skewing towards international-orientated corporates, many of whom are often government linked. We understand the risks here are really global, and can impact broader and will impact more broadly than the Middle East, so we are focusing on supporting our customers across Asia and Europe, and other parts of the world as well. We obviously hope that the conflicts and the situation resolves as quickly as possible.

GREG CASE: We've had another question in from Cecile Rihouey at American Century. The question is, 'Could you walk us through how management thinks about the legacy capital stack when considering potential liability management exercises? What factors typically drive the decision to target one instrument rather than another? Beyond regulatory capital eligibility, how do you weigh funding costs, maturity profile, outstanding size in that process?'

FAISAL YOUSAF: Thanks, Cecile. I guess to start with, we've made good progress in addressing our legacy stack over the past three to four years. If I look back at 2022, we had approximately $14 billion of issuance outstanding that was classified as legacy. We're now at about 50% of that level, and that's through a series of measures that we've taken over time. The principles we go on – and I've probably commented on this in the past – are really that we will look at various factors in no particular order, but we will look at complexity and the various options available to us, the economics, fair treatment to our bondholders and shareholders, regulatory guidance, and ultimately we'll look to take actions that we consider reasonable and proportionate.

Some of the actions that we've taken, as you will know, is that in 2024 we took some steps to address a legacy tier 1 instrument that was a US dollar instrument from the holding company, and we called that. It had a make-whole call embedded within it. There was another similar instrument that we chose at the time not to call, and that was by and large financially motivated. The financials on that did not look conducive at that time, and we continue to look at that instrument – and indeed others – to see if there might be opportunities to take some action.

Another area that has been a focus for us has been on our New York law legacy instruments. Those legacy subordinated instruments, they've lost – we've derecognised them from tier two and MREL last year, and therefore removed the infection risk. We took a liability management exercise on that. We took two actually, one in 2022 and then another one last year, which, through the combination of both of those, has allowed us to reduce the stack from around $6.7 billion to just over half that number.

One of the things we did not do when we did the exercise last year was we did not offer the 2037 legacy instrument, and that was largely based on economics. Again, the economics were not conducive. That might be something we look at in the future, but no intention to do so at this point in time. So really, that's the background as to how we think about legacy, and it remains an area we will look at but only take steps when reasonable and proportionate.

DANIEL DAVID, AUTONOMOUS: Thanks for the call and taking my questions, and congratulations. I've got three questions. The first one is on the buyback. I understand it was a bit light compared to some expectations on the street. My question is: is there scope to top up the buyback, and is there any trapped capital in Hang Seng that could be deployed longer term?

The second one – and potentially linked – I guess you've provided helpful detail on the UK reg changes. I note they're primarily targeted at the OSIs rather than the GSIBs, but could it impact the way you look at your capital target longer term? I guess what I'm getting at is: could your capital target be lowered to satisfy equity investors?

Finally – forgive me – just on legacy, I heard your answer just a second ago, but I just wanted to ask a quick one on the 5.844. I guess when I look at the make-whole price now, it's a lot closer to par, so is there anything – and what I'm referring to is the economics look a lot better. Is there anything stopping you from taking out that bond in the short term? Thanks.

FAISAL YOUSAF: Thank you, Dan. Okay, perhaps I'll go in reverse order and talk about the legacy one first, given we've just discussed that. Yeah, the 5.844 is the legacy instrument that we chose not to take actions on in 2024. I guess that is a dated instrument, and the economics on it will depend on how we've perhaps hedged the risk over time. As we've always said, you should not make any assumptions on how we might have managed or hedged that risk. At the moment, it doesn't look conducive to calling. I really can't make any comments as to when we might change that position, but it is something we look at. We know that there are a number of investors that would like us to consider that.

On the other topics, let me try and go in order, so the top-up of the buyback question. Very pleased, first of all, to have announced $1 billion of buyback for this quarter. That resumes our buyback process, following three quarters of pause as part of the Hang Seng privatisation. We are very capital generative. As you will know, we generated 100 basis points of capital in the quarter, 190 basis points over the full year. We generally look at our hierarchy in terms of the way we would use that capital, so if I take this quarter as an example of the 100 basis points, the first priority is our dividend and our dividend accrual, which comprised around 50 basis points, and then we look at growth – growth of the balance sheet, organic opportunities. I'm very pleased to say that our loan balances increased in both of our home markets quite substantially this quarter. For Hong Kong, that was a return to growth after a period of flat/slightly negative loan growth. That's positive, and that will use some of our capital.

On the residual amount, we will look at potentially inorganic opportunities, but also share buybacks. That's the real hierarchy that we go with internally, so there's no plans to change that, and we don't make any comments on future share buybacks. We will take a decision at the end of each quarter.

On Hang Seng, which I believe was your next question, so very, very pleased to have completed the Hang Seng privatisation ahead of schedule. We're working hard to complete the integration and explore synergies in that privatisation. We've recognised that there are $0.5 billion of synergies that we can report and that meets the accounting rules for reporting. There's probably an extra $0.4 billion as well that goes over and beyond that. That's a stretch target, and we're starting to progress well along those lines.

From a capital perspective, Hang Seng is well placed. Hang Seng Bank is well placed in terms of an entity with capital. The way we think about capital from a group lens is that we tend to manage capital at the group and deploy capital throughout the group where there are opportunities for growth and opportunities to use that capital in a way that returns in line with our return expectations. That philosophy doesn't change, and so we'll look at capital wherever it is across the group with that lens.

I think there was one other question, which was on the FPC and whether that might prompt us to relook at our capital targets and our target operating level. As I'm sure you're aware, Dan – and others will be aware on the call – our target operating range for CET1 is 14% to 14.5%. We're currently at 14.1%. In setting that target range, we consider a good number of factors. We look at our international footprint. We look at the markets we're in. We look at the opportunities, the risks as well, how we perform under stress. We look at regulations and a multitude of other factors. At this point, there's nothing I can announce in terms of changing that capital target operating level, but, as you would expect for an organisation such as ourselves, we look at that regularly. We'll look at how regulation evolves as well over the course. Hopefully that addresses your questions and I haven't missed anything.

DANIEL DAVID: Thank you very much. Appreciate it.

GREG CASE: Another question, this time submitted by Evelyne Assamoi at MFS. 'Fas, can you please provide more update on the Hong Kong commercial real estate book and the market's direction of travel? Should we assume less provisioning in this respect going forward?'

FAISAL YOUSAF: Okay, thank you. Perhaps I'll start and, Greg, maybe you want to add a bit to this. The ECL provision we took in Q2 was an additional $0.2 billion. We see considerable positive messages coming out of the Hong Kong commercial real estate market. If I start first with the residential, house price index was up 18% year on year, and we saw a 36% increase in volumes across the first half of this year. Retail sales themselves have grown 11% year on year. I believe there are around 13 months of consecutive price and volume growth in the residential space, so very, very positive signals there. That's recognised somewhat in our provisioning and the way we look at our ECL balance.

Looking at the other two dimensions then, office and retail, in the prime space in both of those areas we can again see good positive momentum. There are, though, pockets of tension still within the non-prime office and retail segments, so there's a bit to go there, but overall, I think the message is positive. We're seeing increased momentum in Hong Kong generally in terms of tourist arrivals, positive wealth effects. It is now the number one cross-border wealth hub in the world, and if you've not been there recently, it is buzzing with lots of connectivity throughout Asia, to the Middle East, and connectivity into mainland China. So positive signs. Greg, did you want to talk a bit about the numbers?

GREG CASE: Yeah, sure. Thanks, Fas. You'll see that we've included the usual slide on Hong Kong Commercial Real Estate in the appendix of the Fixed Income deck. That's on slide 44. I think when you look through that and you look through the history of that slide, you'll see that it's been pretty stable for a while now. We provide our internal credit gradings on there. Broadly speaking – and we disclose this in the annual report – you can see how those credit grades map to an external credit rating agency score. Strong and good is equivalent to investment grade; satisfactory is a BB, into the high Bs, and then substandard is single B- and below.

The satisfactory and above, which is the bulk of the book, has been very, very stable. The focus for us, in terms of the credit risk as we see it, is much more concentrated in the so-called substandard and the credit impaired book, but also specifically within that and, bearing in mind that these are secured exposures – it's the exposures that are of a higher LTV which are particularly of focus. And we've disclosed that. We've shown you what is greater than 70% LTV in both of those books. So as of the half year, that's $2.4 billion within impaired and $0.1 billion within what we call substandard.

So while the book is not small, it's of course very balanced within HSBC, and the area of focus for us, in terms of where we do see some of the risks, is very contained in the overall scope of HSBC.

FAISAL YOUSAF: Just to wrap up, I wanted to say thanks a lot for your time today. I hope you found the call useful. If you do have any questions, please don't hesitate to reach out to Greg and the IR team. And I look forward to speaking with you over the course of the rest of the year. Thank you very much.