HSBC

Edited transcript

Q2 Post-Results Analyst Meeting

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ALASTAIR RYAN, GLOBAL HEAD OF INVESTOR RELATIONS: Thank you for joining us in Hong Kong and in London. We will try and get around each company once before we go to people a second time, so if there's more than one of you from your company, you better have agreed who's asking first, or we'll come around to you at the end.

KIAN ABOUHOSSEIN, JP MORGAN: I just wanted to come back to cost. I know you don't give cost guidance in the outer years, but what I would like to understand is just the moving parts, ex disposals, that we should think of, in terms of drivers from wage inflation, technology inflation, to offset what you're doing on the other side, and investments. If you could outline that to us, so we can put that into our own context of what we think is a growth rate.

The second question, on ODI, I hear you that it hasn't had an impact, and thanks for the detailed numbers, but what I really would like to understand is does it slow down the process of client acquisition in any way from onshore China? It wasn't clear to me if you discussed July in particular, if there's been any impact, that would be helpful.

Lastly, thanks for the deposit breakdown. It was very, very helpful in terms of new disclosure.

PAM KAUR, GROUP CFO: Thank you. Let me take the second question first, and then come to costs. On the China rule clarification, there's been a lot of market discussion to say there's going to be some big news in July, and July's come and gone. There really has been no shift or change, but let me break down what we have seen. We have seen the same or, a little more momentum in terms of new customers through May and June, and good customer momentum has continued into July. Partly, it's because of the competitive landscape, given what some of the brokerage firms who were in the spotlight were facing, but also we had, in Hang Seng, much better uptake of customers because we could apply the technology of HSBC in Hong Kong in terms of apps and onboarding processes, so we see no change in that. We don't see any change in either the product mix or the number of customers. Customer flows have been very good. Every month there'll be ups and downs, but overall on a quarterly basis the rate continues.

The second thing I would say on our customer inflows is that the bigger majority of those already have accounts in Hong Kong with competitors, as opposed to coming straight from the Chinese mainland.

The third piece would be the discussion of what is happening on trust account-related activity. That relates to the wealthier customers from the mainland, who would go to Hong Kong or elsewhere, who are Private Bank customers. We have very small number of those sorts of customers with trust accounts, so it has minimal impact for our Private Bank business compared to some of our peers. We have to understand the volumetrics, the range of products, where the customers are coming from, the amount of money they are bringing. The most recent news has been looking at governance and the regulatory compliance requirements. It's quite differentiated, and it is important to see that differentiation.

It is important, because people were giving dates for something to happen. We follow this closely, and I have been saying in investor meetings, please don't think of a specific date, because the type business we do, and our onboarding processes have always complied with the highest standards - so the onboarding process has not got longer or slowed down, the requirements in terms of the individual customer attestations has continued.

On costs, the best way to shape this is what I said yesterday. Inflation and investment-related costs grew 5% gross in 1H26. Against that came simplification savings of 3%, therefore net growth was 2%. Quarter by quarter there's some variation, but we are comfortable that given the other simplification savings, we have already actioned savings that will come in the second half, so we will be near the "about 1%" guidance for costs on a target basis.

To understand costs, it's good to understand where the revenue is coming from and where the growth opportunities are. When we talked about next year it was to say, if we now see growth opportunities in identified investment areas - if that revenue growth comes faster, then we may need to accelerate investment - the timing of some of that investment from outer years into inner years, so from 2028 to 2027. That is important, because it's not that the run-the-bank cost is shifting or changing. It's purely the timing of the acceleration of the investments.

Against that, there will be a partial offset from the simplification savings we have actioned this year. The new news yesterday was they are $300 million[1] higher than we told you at the previous quarter, the benefit of that will go through into next year. On timing, we've said before, the portfolio benefit of the costs takes a while, because all the actions, in terms of exits of colleagues, etc, doesn't happen on day one. There is a averaging period for that, so please don't take that straight to the bottom line. It comes through over time.

Lastly, but very importantly, divestments and cost redeployment opportunities. Georges called out the number yesterday of $1.1 billion of costs for things we have announced already. We said at the beginning of last year that these cost redeployments will come through over time, so through 2026, 2027, into 2028. Then by 2029, you get more into BAU territory, although there may be one or two pending regulatory approvals that may be delayed.

The divestments you've seen last year helped us, within that $1.8bn envelope, to invest in opportunities, it was less than $100 million last year, in Securities Services and so on. This year, that number is higher, a couple of hundred million. Next year, it'll be a little higher. That will mean that you're moving from areas which are low for us in scale or uncompetitive, into priority areas where we have scale and we have broader growth opportunities.

The question that comes is when you have those kinds of costs coming out, what's the revenue impact? If you estimate the broad-brush revenue impact using our overall cost-income ratio, the impact is about $2 billion. But the redeployment is in existing areas where we have strength, it's not as though we're looking at building a completely new business. There will be a revenue shortfall, but the uptick comes fairly soon - it won't be in the same quarter - so you could have some differences in terms of when that revenue comes in. That's the broader picture.

It is important, because the driver for the acceleration of investments is the acceleration of the growth opportunity, as opposed to going away from the discipline of costs which we have held onto and we'll continue to hold onto, in terms of run-the-bank cost.

PERLIE MONG, BANK OF AMERICA: On loan growth, I know you don't have a loan growth target anymore, but you used to talk about mid-single-digit CAGR. With Hong Kong loan growth already there, and UK growth has been very strong as well, especially in commercial, is there any reason why we shouldn't think about maybe even higher than mid-single digit loan growth from here?

Then maybe on wealth - net new money I think was $34 billion in Asia last quarter, $22 billion this quarter, so we're annualising somewhere in the high single digits, or maybe low double digits. Is that a good way to think about what sustainable growth in fee income might look like? Obviously there will be an impact from product mix and margins, etc, but if that's the rate you're getting money in, is that a way to think about sustainable growth?

PAM KAUR: Firstly we had that guidance for a long time and loan growth didn't happen. We took it away and we're not reinstating it because we have important targets we manage the bank to, in terms of ROTE and so on. Loan growth is part of the Banking NII guidance as a driver.

In Hong Kong, one of the reasons we did not see loan growth was because although there was some loan growth, there were also early repayments by large developers and conglomerates in Hong Kong commercial real estate, the unsecured portion. With the market settling and near normalising - I use the word 'near' because there are still pockets of stress - you don't see that. So all that growth now comes through. Also, the impact of the new business engagement

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[1] $0.3bn of additional saves to be actioned in 2H26, expected to deliver additional realised saves of $0.5bn in the FY27 P&L. See slide 27 of the *HSBC Holdings plc 2Q26 results presentation to investors and analysts*

coming through from the Chinese mainland, and broader sectors beyond commercial real estate, so technology, etc, that is driving that loan growth. We don't see any shift in that pattern of loan growth. Similarly, the UK has continued to be resilient despite headwinds and conversations with people in terms of what could happen and go wrong. Having said all that, loan growth is going to happen only if it is at our RoTE hurdle rate and within our risk appetite, that is fundamental. We are also looking at loan growth from an RWA perspective. We're continuing to work slowly, with some early work done and successfully on what we do on balance sheet velocity.

This quarter loan growth was double what we have seen in any of the previous quarters, so very comfortable with that. That also gives us opportunities.

As you've seen in the trade product, as supply chains are shifting, we're getting a lot of opportunities, doing more loan growth. We are also lending to large multinationals and government-backed companies in the Middle East. There is a lot of appetite and uptake of that in terms of selling down that as well. In that context, there is a revenue impact from loan growth, but also an RWA impact.

In terms of wealth, one of the reasons we are even talking about accelerating costs, is because we see opportunities in our wealth business, whether it's net new money or net new invested assets. We think that's a huge opportunity for us. And not just in Hong Kong. It's Hong Kong. It's Singapore. It's Taiwan. It's Malaysia. We have done a lot of work to be the number one bank in the opportunity of working with NRIs in India, in terms of the foreign currency product launched by the government in their desire to shore up the foreign currency reserves. We've been number one there too because of the investment we made in GIFT City. We may do a little bit more. So wealth is a key engine that gives us the confidence, not just in Hong Kong, but it's broad-based. We also have five million Premier customers - if each of those individually does a little bit more, that helps.

Last but not least, we have really pushed hard on our Private Bank. We've seen some new mandates come through in the first quarter. That can go up or down quarter by quarter, but it's on a very good, strong trajectory.

Then finally the work we have done in terms of collaboration across businesses for customer referrals, that's kicking in really well now. When CIB was formed, the first area was to bring together commercial and global banking. Now that's more established, you can see real growth coming from CIB, from a mindset and focus perspective, to help drive further growth for the wealth business. That's purely a timing thing and acceleration.

I feel comfortable on sustainable growth in wealth. We didn't give any targets, per se, on the wealth, but it has been showing very good growth, portions well above double-digit, some at double-digit growth over the last several quarters.

I'd add that we called out in the third quarter last year some positive insurance experience variances. That is an annual review, but you should not assume that those are positive each year. Your starting point would be there'd be a gap in the income year over year.

ALISTAIR WARR, AUTONOMOUS: Two questions, if I may. First is on wealth. Could you give us a little bit of a sense of how much of the wealth is transactional churn versus more annuity income? Has that changed at all in the last year or two? It was something you used to call out, particularly in Private Banking, I think. Essentially, do you have any concern in there that very buoyant equity markets are setting a bit of a high base?

Then my second question was on the UK business. You called out the $10 billion high growth in commercial, another $10 billion in mortgage. The UK division's gross loans are only up by about $10 billion, so could you give us a little bit of colour of what else you might be winding down a bit?

PAM KAUR: You're right. investment distribution is volatile, and it's very much related to how well indices are performing. We are overweight Hong Kong - this quarter was not that great for Hong Kong equities, but the business held quite well. There are quarters where there is outperformance on investment distribution, and it does really well. It's not so much the Private Bank, it's much more Hong Kong Premier. In the round, I don't expect that to be a huge impact, because we've seen in a quarter which was down the business still held very well.

We've given you disclosures on the bank distribution margin we are getting from insurance which is a much more annuity-driven, and will be coming through in the next eight to ten years.

UK commercial banking really did well, we did call out to you last year that we were accelerating some investments in terms of RM capabilities, especially at the lower end on the SME side and fee arrangements, to drive that business. It's a much more liability-driven business at the lower end, but lending further up. Within our risk appetite, that business has done really well.

On the commercial, I'm very comfortable. That is the $10 billion growth. People may ask the question, 'You had a bit more in terms of defaults on stage 3s and wholesale', and that's not because of this new lending. That's just little pockets of mid-market all over the place, so it's not just UK-driven.

KUNPENG MA, CHINA SECURITIES: I have two questions. The first is about the future trend of revenue growth. Everything looks pretty good at this moment. Rates are higher for longer. The market is good. Wealth is good. So I tend to think 5% as the bottom line for the revenue growth for the next two years. I'm trying to ask if there are any potential risks for revenues for the next two years not achieving 5%.

The second one is about CIB revenue. China outbound revenue accounts for 10% of CIB revenue, a bit lower than I expected. Are there any targets to increase the contribution of China outbound revenue to overall CIB revenue?

PAM KAUR: I think you framed our guidelines really well. Whenever we make our targets or give guidelines, they always are the baseline after considering a range of plausible downside scenarios. You comment we are conservative. That's the way we operate, and we are happy to do so.

What gives me confidence on revenue, even plausible downside scenarios, is that from a banking NII perspective, we don't control rates, but we made really good progress on our structural hedge, including the work Fas and team has done on the Hong Kong dollar hedge. That's a huge positive.

Volumes that drive banking NII, whether deposits but now loans, are on a good trajectory, and that's a pretty stable trajectory but going up on loans. So that's the second one.

The third one is, as much as we love banking NII and our deposits and loan base, fee income is a big contributor. Firstly, wealth, the highest growing business. Every quarter its baseline from its growth gets bigger, so its contribution to the overall pool gets bigger. By the time you get to the end of this year, you already have a much larger proportional contribution from wealth than you had at the beginning of last year.

Last but not least, CIB, which truly is the heart of what made HSBC historically. It is now growing across all lines, because we have done multi-year investments in this business, in GPS, in trade, in securities services, in FX. That is giving us good, solid mid-single-digit or above rate of growth.

In terms of the ROTE, you need to bear in mind in rates, that you don't control, and also ECLs. You don't want to be in a position of sacrificing ROTE by writing business just to meet a revenue target. Given all that, I feel fairly comfortable from a revenue perspective on using the 5% as a baseline.

In terms of China outbound CIB revenues, you can see the IPO participation we've had this year compared to last year, that is on a very strong trajectory, and the engagement model we have between our on-the-ground colleagues in China as well as our CIB colleagues more broadly, now that CIB has really settled well into its own structure last year. I think there's a huge further opportunity.

That is the reason that when we announce the divestment of sub-scale or non-strategic retail businesses, we state our absolute commitment that wholesale is a very important aspect of keeping CIB's network. That's important with regard to building China outbound revenues.

ALASTAIR RYAN: Just for everybody to have in mind the disposals when thinking about the rate of revenue growth that Pam was just commenting on.

ANDREW COOMBS, CITIGROUP: A couple, please. The first one, on the year one interest rate sensitivity, there's been quite a decline in the Hong Kong dollar sensitivity to an upwards 100-basis-point shift. It was $310 million, it's now $25 million, so if you could just comment on the cause of that, and you now have a non-symmetrical payoff both on the dollar and on the Hong Kong dollar, between 100 bps up versus 100 bps down, so again, any commentary?

Then the second question on Turkey and Egypt. We can get the subsidiary accounts, but you're only selling the retail and SME parts of the business, so anything you can do to help us drill down a bit further into the revenue contribution within Turkey and Egypt that you're divesting?

ALASTAIR RYAN: Turkey is under strategic review, so no announcements have been made. Egypt, we do provide the PBT for the retail business in the annual report. There isn't further disclosure, but it's a fairly typical part of the bank, and the numbers are small enough they wouldn't make a huge impact on your overall picture, but we'd point you to the retail PBT disclosure in the annual report as a useful benchmark.

PAM KAUR: If you think about the retail businesses, they run on very good cost-income ratios, they're profit-making and people value them, and therefore, we get paid well for them in most cases, but the actual contribution in these countries really comes from wholesale, and from the multinationals. It comes from contribution both in the country as well as the outbound, which is booked elsewhere, and that is going to stay. That is the majority of the revenue contribution, but also good for the bottom line, because it's not as if retail is just subsidising wholesale. We run wholesale to a tight cost margin, so I would factor that in in virtually all cases. The size and scale of wholesale is a multiple of retail, even though customer numbers, etc, are there, they are sub-scale, and that is the reason why we are selling them. That applies to whether it's Egypt or the review we are doing for Turkey.

I'm going to ask Fas to give you more detail on the sensitivities. We've already called out what we've done from a Hong Kong dollar, we've increased the hedging in the first half of 2026 and we're going to continue to look at opportunities to do more. We've also modelled pass-through on our savings accounts, given the prevailing forward rate curves, and the sensitivities are impacted on where interest rates are today. You can see the shift quite clearly, the sensitivities compared to the end of last year are lower, in terms of both the reduction and the upside, so it has come in almost symmetrically on both sides.

FAISAL YOUSAF, GROUP TREASURER: First, thinking about it holistically, we've increased our structural hedge over the first half of the year by slightly over $40 billion. That's taking into account the rate environment that we're in, and we've always said that where there are opportunities, we would look to do that. The opportunities have presented themselves and that's been helpful to us.

In terms of the Hong Kong dollar hedge, we've called out previously that Hong Kong dollar as a currency is more difficult to hedge, because you don't have the natural fixed rate instruments in the market with the appropriate tenor. But progressively over the past three years, we've been working on building up that hedge. We're now in a much better position. We have increased the hedge this half through fixed-rate instruments. Some are natural assets that we put on the balance sheet, largely within our markets business, that can act as a hedge. Others are dedicated hedges that we have put on. That sensitivity will move around, so as rates go down that sensitivity could start to mechanically tick up, but at this point in time we're pretty well hedged from a Hong Kong dollar perspective.

The asymmetry that you talk about is largely there because of the mortgage business we do within Hong Kong, the switchable component in there. It creates a convexity, which is the behaviour you see in sensitivities.

ALASTAIR RYAN: In slide 43 of the fixed income deck there's an extra hedge disclosure that you might find useful.

FAISAL YOUSAF: Yes, we've got a slide that explains the considerations we have when building the hedge.

PAM KAUR: We are really pleased, because we're in every quarter saying that we're looking at ways to improve hedging capabilities in Hong Kong, and having made that step it's really now paying off.

CHRIS HALLAM, GOLDMAN SACHS: A follow-up question on costs. How do you characterise the degree of confidence you have in the growth dynamics you're seeing accelerate, and the requisite investment spend you need to do behind that? And when the businesses talk to you about the changing nature of growth, are they also changing their view on the operating leverage or jaws associated with the new growth dynamics, the accelerated growth dynamics?

The second question, you talked a little bit on the interconnectivity between CIB and Wealth. Maybe it's impossible to answer, but how would you characterise how much of that referral revenue, if you want to call it that, is specific transaction-related – an IPO, M&A activity, etc – versus just doing a better job of understanding, isolating and monetising wealthy customers who happen to sit in your corporate CIB network and referring them to Wealth?

PAM KAUR: Let me explain the process we go through when we accelerate investment, which we do as part of our normal processes. We'll say, 'this is the investment you have today, but if you had more money, by order of priority where would you spend it?' It's not just that CIB gets money and Wealth gets money, it goes line by line in detail - 'Which market, which products, what are you going to do? Is it going to be on technology? Is it going to be on people? How much of it is going to be a cost which is going to be in-built for future, or is it a one-off?'

Then we say, depending on the timing and the importance of the return, who gets the first bite of the cherry and who gets the next. All of this cost and investment is part of existing multi-year programmes, but if you want to bring forward some of your investment from a future programme, you have to compete to say, 'why should I give this to you versus the next business?' That's the process we are going through. It is incumbent to track revenue against what people said they would get, because the investment isn't in and out of different programmes. It doesn't cause confusion on the ground - once we commit, we commit long-term. It's just a question of how quickly we can pass that money on.

I'm very comfortable that the granularity of what we are looking at – that applies to investment acceleration, whether we do it in businesses or in infrastructure – that's all aligned, and we do it from a value stream perspective. 'If you're growing this business, how much investment do you need at the front end? How much do you need from the technology perspective? How much do you need from a risk and compliance so that you can do it safely?' That has enabled us to deliver growth sustainably and safely. Once you give us that wish list, it doesn't mean you're going to get that, but we have super clarity, as and when we may consider giving more, as to who is ahead and who is next. But the commitment is that everybody gets multi-year spending - it's when you get it, and who gets accelerated, that shifts from time to time.

On CIB and Wealth, what we have done, and I know this as part of OpCo, is identify a top few hundred clients, then engage with them. They all have very senior sponsors, whether it's Georges, myself, others on the OpCo, or senior people within CIB. When they engage with those clients at the C-suite level, the CFO level further down, they bring the whole of HSBC to the client. It's not the next IPO, the next transaction, the next cross-sell, as you would do for a payments business. Then you track and see actual business from those referrals. I have done this at least half a dozen times this year – how you are picking up those clients through the Private Bank, how it's falling through, and then we have follow-up mechanisms. It's real hands-on engagement.

Beyond that, we have KPIs and incentives tracked at the RM level and to see the growth of the business relationship, how that is evolving. That is important, not just because it brings direct revenues, but it is an indication of how embedded that relationship is, and how you are making sure that what you are bringing to the client is the totality of what the firm can offer, as opposed to lots of verticals with duplicate levels of engagement.

ALASTAIR RYAN: I encourage you to have in mind our international mid-market corporates business, which is unique at HSBC. We're banking companies in particular across Asia as they grow, and there are founders and senior people in those companies who are an opportunity set that we have that typically other companies wouldn't.

KATHERINE LEI, JP MORGAN: Do we have a bit more colour on Wealth, on the $25 billion net new money in this quarter or the $39 billion last quarter? What is the structure of it? What percentage is from Private Banking, what percentage is from Premium or Premium Elite, and what is from mass market, so we can roughly get a sense of the different client segments contributing to Wealth income?

The other one is Hong Kong - loan and deposit growth for HSBC is slower than reported by the industry. You explained a bit on the loan side. How about on deposit side? What is the driver for losing market share? And what are we going to do about it?

PAM KAUR: The vast amount of Wealth comes from what we consider to be our sweet spot in all our markets, from $100,000 up to about $2 million assets under management. That's a really important pocket for us, because that's where we've got the most volume growth coming through. Private Bank can be lumpy - we are very confident about the growth in the Private Bank going forward, but some of the new mandates came through more in Q1 rather than Q2. For us, it will always be what I would call the Premier or near-Premier customer base, and the lower end of what you would consider Private Bank, rather than just the 'super billionaire' or '$10-million-plus' category.

We're not giving specific percentage disclosures, but on a broad base that demographic is where the growth is. and the inherent growth of those pockets of customer base in Asia plays very well to our strengths, and doesn't cause us some of the issues on compliance which can arise in terms of cross-border flows.

In terms of Hong Kong deposits, it is really important for us to maintain market share in all markets, but we're not going to do it at any cost. We see from some competitors over periods of time, particularly towards quarter-ends, a lot of margin pressure, and there's a bit of a pricing war going on, but we don't really engage on that, nor do we need to.

ALASTAIR RYAN: Katherine, I appreciate we don't make it easy, but if you look at the legal entity disclosure in the data pack, deposit growth over the last 12 months has been very strong in Hong Kong in our business. The market share point I think was well made by Pam, that we are keen to maintain our market share, but not at any cost.

EMMA XU, BANK OF AMERICA: I have two questions. The first is about tax. I previously had the impression that there is room for you to reduce tax in the coming years, and some of your peers have indicated that there is a structural decline of their tax in the coming years, although from a higher base. But in the first half, your effective tax is slightly higher than the first half of last year. Is this still a reasonable assumption that your tax could decline in the coming years?

The second question is that you mentioned that for this year you may consider increasing variable pay, given the very strong business momentum. How much is variable pay within your total operating costs?

PAM KAUR: Variable pay last year was $3.9 billion, about 11-12% of our total cost base, so any increase is going to have only a modest impact on the top-line number.

In terms of tax, with global minimum tax, we know that tax requirements can change over time, and there are additional tax liabilities. We are not aggressive on tax, nor do we want to be frankly. It's really important to be compliant on tax, and we don't want any issues which can happen when you look at SLAs, etc, in terms of where revenues are booked and where costs are held.

I'm not going to make any call on any competitor, but it would be a very brave person who says in today's environment that they want to support their bottom line by being aggressive on tax, because tax authorities across the globe are going to be rigorous, as they should be, on tax requirements.

ALVARO SERRANO, MORGAN STANLEY: My question is on loan growth and the capital intensity of that loan growth. RWAs grew a bit higher than the loans. There's the CIB balance sheet in there as well, but when we look across the sector, a lot of loan growth is coming from mid- to large-corporates, i.e. lower RWA density growth. As we look forward, loan growth is accelerating a pretty big opportunity there. I want to invite you to comment on the capital intensity of the loan growth you're seeing as we think about RWA growth going forward, and your capacity to fund that and fine-tune whatever is left for buybacks.

Second, we've had, since we last spoke, the Financial Stability Report, the proposal on the leverage ratio as well the ring-fence proposal, and we're going to have lower pillar 2As. Can you update us on your views there if anything has changed, made you more optimistic?

PAM KAUR: I'll take the leverage ratio first. The leverage ratio gives some advantages at the operating entity levels, whether it's HBUK or HCIB, but at the group level it's not advantageous, it's slightly adverse. However, having that advantage at the operational level does give us some flexibility in terms of the booking model and how much business we can book, so that is positive. I would also say that, in terms of the continuing consultations with the regulators, we are well engaged, so still more to see in that space.

In terms of loan growth, firstly, as you know, our overall RWA intensity is not high in our balance sheet if you look at it in terms of full numbers. That is because we have a large exposure to well-rated companies or to government-supported entities where the density is lower. We don't really have much in PE investments, where you have much higher RWA intensity. Having said that, in this quarter loan growth contributed to RWA growth, but there was also growth from our markets business where we deployed surplus deposits, that's another factor to consider.

For us, there are two tailwinds we are looking at to support loan growth with lower RWA growth. One is the work on balance sheet velocity we started doing some work on. We do low single-digit billions of dollars, $10-20 billion. That's the envelope we operate in, compared to some other competitors who do much more. We think, given the size of our balance sheet, there is scope to do more in that, and we are well positioned and invested in terms of our processes and the compliance requirements we need to follow to do that SRT going into 2027.

The second I would call out is that as at the beginning of next year, there will be a modest beneficial impact from Basel 3.1 implementation. As those numbers get firmed up over the next quarter or so, we will give you firmer numbers. So think about loan growth staying the same, but RWAs hopefully being supported from an intensity perspective and mitigation by these two factors into 2027.

GUY STEBBINGS, BNP PARIBAS: A couple of questions on capital, the first building on the last one in terms of the UK regulatory backdrop. As we think forward towards an update from the Bank of England, is there anything you're particularly focused on for HSBC which you think would move the needle in terms of your requirements, which you think there's a realistic chance of some changes? I'm interested to get your perspective there.

The second one was on AT1 costs, quite hard to calculate, but I think they might be fractionally higher than last year on a run rate basis. In terms of looking forward, if we've got RWA growth in the future or more loan growth, would you need to do more AT1 issuance? Or are you well stocked from here?

FAISAL YOUSAF: Our plan for this year was around $4 billion of AT1 issuance, and we've issued $4 billion, so we're pretty much done in terms of our plan. Where we choose AT1 as an asset class and instrument is typically for balance sheets that are growing but leverage constrained. AT1 is the mechanism to provide leverage capacity, that's typically where we would use it. There is an ongoing regulatory debate, particularly in Europe, on AT1 as an asset class, but we're very comfortable with it, and the PRA is on record as saying that they don't expect to make any changes.

PAM KAUR: I'm really pleased that, in terms of implementing our issuance plan, we did it when we did, because that puts us in a good position. We did that before we saw the loan growth which only came through in Q2. At the operating entity levels, if some of those leverage constraints come off, that helps as well.

In terms of your other question on capital requirements - in terms of our own operating range - we are not changing. We'll continue to look at that as the rules get implemented, but specifically how the rules get interpreted at each firm level in consultation with a supervisor, that's what makes the most difference, as opposed to just a baseline where the FPC has started. That's an ongoing dialogue for us, and we would like, given our diversity, given the fact that we had one of the least stress loss deltas last year, we should get more benefit as opposed to just the headwind because of our size and scale. There's ongoing dialogue about that.

PERLIE MONG: I'm not asking you to specifically comment, but there's an FT article on China potentially tightening taxes for individuals. The broader question is - and multiple clients have asked me about it this morning - Hong Kong regulators, the government and Chinese regulators, they're very sophisticated, they must understand that the constant flow of headlines on regulatory changes or potential regulatory changes is not helpful to the message they're trying to give. Do you get a sense that they understand that?

Question number two, is there a source, something that you would encourage to look at, in terms of understanding where the policy direction is going?

And then I know you're probably bored of talking about costs acceleration, but if we look back a couple of years, certainly if I look at consensus, it looks as if revenue expectations have gone up a lot, costs not so much. Would you say that we shouldn't assume that operating leverage could go on forever? Or do we think that operating leverage is there and incremental investments will continue to drive operating leverage going forward?

PAM KAUR: Let me take the costs question first. When you have scaled businesses and you build on them, you get operating leverage, but operating leverage doesn't happen exactly the same by month, by quarter, because there is a difference in the timing of the investments and when the revenue kicks in. We are going to be disciplined on run-the-bank costs, but when we have a growth opportunity, we want to make the investment.

Specifically on Securities Services, under the new mandates we were getting, we did more investment, even though it wasn't in the financial plan. We accelerated the investment and we saw the benefit of it: 16% growth coming into this year. So if you look at operating leverage over a period of time it gets driven, but I wouldn't say that it's something that you look at every month to say at a margin 'if it's not giving me operating leverage, I'm not going to invest'.

The reason we can say that is because our businesses run healthy cost-income ratios, our focus on that is sharp. That gives us results, putting us in a different position versus some other participants in the sector. Your assumption that HSBC will grow only where it can over time, and continue to have operating leverage is fair, but don't look at it quarter-on-quarter because we are not going to just mathematically try to control something - we are focused on having sustainable growth, at the right returns, at the right level. The binding factor in all of this is that the baseline of the RoTE we want to drive is 17% or better - that's a baseline - and there are a lot of contributing factors to that. That whole thing has to work well together.

On your other question, in terms of regulation, a couple of factors. Chinese mainland and Hong Kong connectivity is very strong and is being encouraged, whether in terms of flows which support business or individuals. That is something regulators are focusing on because that is important from their goals, from their macroeconomic objectives.

The regulators are saying that the rules are the rules, no matter what the press says, we are not making new rules. We do not expect new rules. There's additional clarity coming for when people don't follow existing rules. Those rules get reiterated when those who haven't followed those rules get enforcement actions. That's the context we need to consider, that applies across the board.

On tax requirements, in any market, this is going to be something every regulator, every country is going to be focused on. As those tax requirements change, the individual's accountability and liability to self-attest, and to be very clear when you do your KYC onboarding in terms of where the wealth's coming from is going to be heightened. From a bank perspective, we need to ensure we have applied and checked, and there are no exceptions in the process.

So the regulators are mindful in the macro sense, but we should not allow regulation to be led by press coverage - that wouldn't be right because that comes and goes. The fundamental point is that connectivity between the Chinese mainland and Hong Kong is very strong and will continue, and nothing so far that we've heard in any way reduces that.

ALASTAIR WARR: Hong Kong IPOs really don't make the spreads they used to. The list of book runners is pretty crowded these days, and you're going to have to have some mainland names near the top of the tree. Is it fair to assume involvement there is mostly about other relationships and services that can come with being involved in the IPOs?

PAM KAUR: The fact that we've participated in more IPOs is huge, we are very pleased with that. But for us, being a large bank which provides lots of services, the other business that comes through IPOs is equally if not more important. So you're spot on, and that is absolutely feeding into the growth numbers that we're seeing.

KIAN ABOUHOSSEIN: Based on your investor slides, you talked a lot about Asia FX growth and fee income. I think you indicated it grew to $2.9 billion full-year 2025 in CIB. I just wanted to understand a little bit, when we talk about Chinese companies going international and volatility in the FX market leading to hedging, on the corporate side, how we should think about the FX opportunity in particular?

PAM KAUR: FX is really a customer flow business. If you've got business arrangements and supply chain reconfigurations and what companies are doing through the trade business, FX becomes a part of that. That's how we're seeing the shifting macro landscape. As businesses are making choices, FX gets a lot of flow opportunity business.

KIAN ABOUHOSSEIN: And that's still with your current client base, or you need to expand to grow it?

PAM KAUR: Typically, it comes through our existing customer base if you just go deeper and do more with them, because they are doing more. That would be the big piece. In terms of expanding our customer base, we are very conscious in terms of new customer onboarding to ensure they are within our risk appetite.

ALASTAIR RYAN: Thank you, everybody, for joining us this morning. Much appreciated. We'll see you in September.

PAM KAUR: Have a wonderful vacation and see you all when we're back to school. Thank you.