

Proposed privatisation of Hang Seng Bank
Conference call for analysts and investors
09 October 2025, 08.00am BST

GEORGES ELHEDERY, GROUP CEO: Hello everyone this is Georges Elhedery speaking. First, thank you everyone for joining us at short notice. I'm very pleased to announce the proposed take-private of Hang Seng. I'll focus on the strategic and financial rationale in my comments, as I know you have seen the media coverage. And after my brief introduction, I would be happy to take your questions. So, the proposal is an agreed offer of HK\$155 per share for the minority owners of Hang Seng. The payment of US\$13.7 billion for Hang Seng shares not already owned by HSBC will be financed from the internal resources of the Group.

We will maintain both brands operating with their distinct customer proposition and branch networks for retail banking and commercial banking customers. Hang Seng will retain its separate authorisation as a licensed bank under the Hong Kong Banking Ordinance.

This agreement enhances our platform for growth in Hong Kong with two fully-owned iconic brands. Hang Seng, the leading local bank, and HSBC as the leading international bank, both addressing the whole market.

This agreement accelerates our ability to deliver focused, sustainable growth in one of our home markets, Hong Kong. And it allows a significant simplification of the Group structure, making us more agile.

This agreement also meets all four principles for any acquisition as per our strategy announcement back in February. One, it is fully aligned with our strategy. Two, it provides us with scale. Three, we are confident the integration will not distract us from organic growth. And four, it is more value generative than the share buyback.

My financial comments are limited by the time to the successful completion of the offer, which seems most likely in the second quarter of 2026. We will not be undertaking changes until then, beyond those actions that Hang Seng management undertake, noting us as their largest existing shareholder.

Let me start with the revenue opportunity. We see multi-year growth potential in Hong Kong, both domestically and as a super connector for the mainland. Having two iconic brands in the market allows us to capture those opportunities. Under the proposed new structure, Hang Seng will benefit from a more seamless availability of capabilities provided by HSBC to advance its own customer proposition, such as capital market products to its commercial banking clients, wealth products to its retail banking clients, and an international network.

Next, we believe we can achieve synergies in the manufacturing activities, such as insurance, asset management and markets, as well as infrastructure areas. We also expect to drive synergies across the non-domestic network of Hang Seng, which overlaps with the 'Red' brand. The changes necessary to effect such alignment will be made over time. HSBC expects the removal of the earnings deduction for non-controlling interest in Hang Seng to be accretive to earnings per share. HSBC expects to maintain its target dividend payout ratio for 2025 of 50% of earnings per ordinary share, excluding material notable items and related impacts.

Turning to capital, as you know, we currently consolidate 100% of Hang Seng's balance sheet. But Basel III rules require excess capital above minimum requirements to be deducted from Group CET1. Hang Seng had more than 20% CET1 ratio at the half year. Therefore, 40 basis points are deducted from HSBC's CET1. This will be removed under the proposed new structure. So, the CET1 impact of c.125bps is less than the cash price, as this inefficiency is addressed.

HSBC expects to restore its CET1 ratio to its target operating range of 14 to 14.5% through a combination of organic capital generation and not initiating any further buybacks for approximately three quarters following the date of this announcement. The decision to recommence buybacks will be subject to HSBC's normal buyback considerations and process on a quarterly basis. The share buyback announced on 31 July will continue in accordance with its terms. With that, I'm very happy to move on to questions.

YAFEI TIAN, HSBC INVESTOR RELATIONS: Thank you. The first question comes from Katherine Lei at J.P. Morgan. Please unmute your line when prompted.

KATHERINE LEI, J.P. MORGAN: My question is on 'why' - why are we doing this now, and in what areas can we see synergy between the two banks? HSBC previously announced that, for the Hong Kong business, the return on tangible equity is 38% in 2024. But Hang Seng Bank's ROE is about 11% in the same year. So there is a wide gap between the profitability of the two entities. Maybe can you help us to understand what is the plan that HSBC has in narrowing the gap, in helping Hang Seng to integrate into HSBC with higher profitability? Thank you.

GEORGES ELHEDERY: Thank you, Katherine. So, you're right about the return on tangible equity of Hong Kong under HSBC and Hang Seng. What you should note is that Hang Seng structurally has high pre-provision margins. The reason of these low returns is that, cyclically, Hang Seng has suffered from a number of debt charges, which in turn also required Hang Seng to hold additional capital, which when combined made returns lower.

There is obviously a structural growth opportunity in Hong Kong. Combined with a structurally strong balance sheet, with a great franchise in Hong Kong, fantastic franchise, iconic brand, about 100 years of history in customer franchise in Hong Kong, with a high pre-provision margin this is accretive.

And the removal of the deduction of the non-controlling interest in our earnings will immediately go to the bottom line as part of our earnings and then earnings per share. But obviously, on top of that, there's also the non-controlling capital deduction of 40 basis points, which will be removed through this transaction. Which means that effectively we'll be consuming about \$10.5 billion of CET1 for what is a purchase of \$13.6 or \$13.7 billion.

Thirdly, as mentioned, there is going to be a number of revenue synergies we're working on. Revenue synergies around the product capabilities and enhancement of the Hang Seng product capabilities. In particular in wealth, for retail customers, in capital markets, for wholesale customers, but also through natural improvement of our technology investments by providing scale from the HSBC investments through all the digital propositions, including mobile banking, as well as revenue synergies by allowing Hang Seng customers a more seamless access to the global network of HSBC. Combined, this will provide the revenue synergies we contemplate.

And then, fourth, we expect to achieve a number of cost efficiencies, thanks to the alignment between the two brands. And we expect these alignment efficiencies to come in areas such as manufacturing, that includes product manufacturing, including insurance, asset management, markets and other product manufacturing areas. Efficiencies in the international network, where Hang Seng can focus on its iconic domestic proposition and leveraging or deduplicating some of the international networks where possible, as well as efficiencies in the back office functions, in the control and support functions, and in the technology between the two brands. Thank you, Katherine.

JASON NAPIER, UBS: One of the issues that's arising with investors this morning is the potential scale of restructuring and any day-one charges – the capacity to fully write down concerns that people might have on Commercial Real Estate in particular, maybe complicated by the fact that this is already a subsidiary of the group. Can you give us a sense as to how people ought to think about accounting impacts at closure of the deal, if successful?

GEORGES ELHEDERY: So first you shouldn't expect a different treatment of the Hong Kong Commercial Real Estate exposure to the case today, because both Hang Seng and HSBC apply exactly the same policy with regards to its ECL approach. So therefore you should just expect normal course of evolution of this underlying exposure as opposed to any specific HSBC action towards it. Hang Seng and HSBC already operate at the same standard.

Second, in terms of the scale of the restructuring and the day one charges, a few things to share here. The first one is, this is going to be a relatively straightforward and rapid integration. Because Hang Seng is already part of the family, and we're very familiar with Hang Seng's

overall process, procedures, structure, governance, we do not expect any difficulties. On the contrary, we do expect this to be a very straightforward integration between the two entities.

In terms of how we're going to achieve the synergies, and your question about day one charges, we expect to achieve the synergies over time. And we expect to achieve them primarily through natural attrition and redeployment of staff, simply because the opportunity to continue investing in Hong Kong, given the growth opportunities we have in Hong Kong, remain tremendous, and that is across the board in personal banking, in wealth and around the international network.

Therefore, reskilling and training and redeployment will be the primary tools used to move forward with some of these charges. Now, I have not mentioned any day one charges, but it will be premature to call anything out before the completion of the transaction, after the minority shareholders vote and the court rules on this. And your last point about the accounting impact, the immediate accounting impact to recognise is that HSBC will remove the reduction of the 40 basis points CET1 which is the excess capital of Hang Seng over the required minimum. So that will contribute to reducing the impact of the transaction on CET1, so the impact will be around 120 basis points, instead of being around 160 basis points, considering the consideration for the transaction. The second impact, Jason, to keep in mind is that we will now be able to retain the earnings related to the minority shareholders, so the current non-controlling interest earnings deduction will be removed, and that will automatically go down as an earnings per share and an earnings accretion. And then any other impact will happen over time. Jason, thank you for your question.

JOE DICKERSON, JEFFERIES: The first question is the timing, what drove the timing here, in, October of 2025? And then secondly, I think you brought it up, on Jason's question, but Georges, you also alluded to the higher debt charges at Hang Seng, and there were some articles suggesting you were putting pressure on Hang Seng on CRE. So, is there any change in the outlook for the CRE charge in Hong Kong in the second half of the year? Thanks.

GEORGES ELHEDERY: Thanks, Joe. So, Joe, in terms of the timing, a couple of things to share. First, the group has been capital generative for a couple of years now, a little bit more, and we have been using excess capital or distributing excess capital in the form of share buybacks, considering various considerations, such as the performance of our share price, the performance of the Hang Sang share price. With the opportunities that we identify in Hong Kong as a home market, strategically, the time is right for this decision. Remember, this decision is a decision that takes many, many months in preparation, and it's also a decision that's meant for the next many, many years, so this is not a short-term consideration or a timing choice. This is more a strategic, commercially driven decision taken to support the best interests of our shareholder in terms of earnings accretion.

In terms of the debt charges, we do not comment on speculation, but you should not expect any change in the way we deal with these charges or with this exposure to our current, usual way of dealing with these exposures, which usually is managing it and supporting our customers, and then from time to time looking at opportunities to offload or to recycle some of these risks, but these will be more punctual rather than more widespread. But everything we've been commenting on in HSBC's quarterly results was on the basis of a 100% consolidation of Hang Seng, so my comments will remain the same in the future. There will be no expected change in the way we would comment about this exposure.

AMAN RAKKAR, BARCLAYS: I just wanted to come back to your comments that this transaction would be more accretive than the share buyback? I was hoping for a bit more colour there. Are you able to quantify that analysis, please, because when I look at the return on invested capital based on forward estimates for Hang Sang earnings and the price that you're paying, the return on invested capital does look quite low. I am struggling to get it above a single digit return on invested capital. So, you clearly think it's more accretive than doing a share buyback. Can you help me understand how we can get to that view, please? Thank you so much.

GEORGES ELHEDERY: A couple of things to share. So, first, the capital utilization is not the full amount of the proceeds. That's because we will benefit now from the removal of the capital deduction. So, the capital we'll be using is just north of \$10 billion, as opposed to the \$13.6 billion of the proceeds. Second, we will be able to account for the non-controlling interest earnings, which currently are deducted, related to the minority shareholders. That's the math around the 100% ownership structure, versus a share buyback, where you reduce \$10.5 billion to acquire shares and reduce the share count and increase EPS by the same ratio at the current

share price. You may find a very, very small difference today, based on those facts alone, in favour of share buyback. But remember, you have to throw in a couple of considerations.

The first one is that we expect to generate revenue synergies. The second one is that we expect to generate efficiencies. And the third one is that, inherently, Hang Seng is a structurally high pre-provision margin business, which say first half of this year, have been affected by a cyclical high provisioning level on its bad debt. Again, which is cyclical and not permanent. The combination of the revenue synergies, cost synergies and the structurally high pre-provision margin of the business are materially more in favour of the purchase of Hang Seng shares compared to purchasing HSBC shares, and therefore, I can stand behind the statement that this is more accretive for our shareholders in the medium to long term, this is not a one-year analysis, that we proceed with this transaction.

KUNPENG MA, CHINA SECURITIES: You mentioned that in order to restore the CET1 target, the internal capital generation will also be increased. We know that this transaction will increase EPS, increase RoTE, but is there any chance we can see an increase in the top line growth in the future? Thank you.

GEORGES ELHEDERY: I haven't given guidance on RoTE components. It would be premature to give guidance before any transaction is complete, and to give any firm numbers on synergies and otherwise before a transaction is complete, so this is more a qualitative indication about the earnings per share accretion compared to a share buyback that we are standing behind, but the rest will come in due course, more likely around Q2, after the transaction completes.

We are looking to restore CET1 target. The CET1 impact will take place after the shareholders vote, whenever it takes place in the first half of 2026. And we will be restoring this target through various measures. The primary measure is our earnings and capital generation from our organic earnings. But one of the other measures is that we will not initiate share buybacks. We believe, after a period of approximately three quarters, to be able to operate back into the 14-14.5% target operating range. This is starting from a Q2 CET1 ratio at 14.6% that we communicated. Now, in terms of growth, first, the immediate bottom-line growth is that the earnings will not be deducted anymore for the non-controlling interest, so that's an immediate bottom line growth that will come into our earnings. But more importantly, this is an investment in what is one of HSBC's home markets, a market that we've been in for 160 years, and a market that's been exhibiting one of the fastest growth opportunities across a number of areas, and in particular lately, in the wealth space. Apart from Hong Kong being a major international financial centre, Hong Kong is on track to become the world's largest cross-border wealth hub sometime before the end of this decade. Hong Kong remains the super connector of choice between mainland China and the international markets, and has played a key role both in the capital markets and testament to the IPOs you're seeing as well as all the FDI and investment flows that are happening through Hong Kong between, say, Chinese corporates looking for investments overseas across Asia, Middle East, and the rest of the world. And this is the growth we anticipate to capture, having a leadership position in Hong Kong with two iconic brands being HSBC and Hang Seng.

ALASTAIR WARR, AUTONOMOUS: You've talked about credit cost guidance for this year, well, more broadly, a 30 to 40 basis points for this year being more the 40 basis points end of things. Do you have anything to add, colour to add for that, as far as next year goes?

GEORGES ELHEDERY: So, the around 40 basis points guidance we've given for the full year 2025 is, of course, reflective of a 100% consolidation view of Hang Seng, because we give the ECL guidance on a 100% consolidation basis. We're obviously in a closed period, so I cannot comment on what Q3 will look like, but just reminding you that is the guidance we've given at the half-year results. We have not given guidance for next year, apart from saying that in the medium term we expect our books to be between 30 to 40 basis points, in terms of ECL.

GURPREET SINGH SAHI, GOLDMAN SACHS: Just trying to understand the current setup, where Hang Seng is majority owned. And then we know over the years that the CEO of Hang Seng usually gets experience at HSBC and then is seconded, just like Luanne Lim, right? So, what could not be done under the current setup, that we hope to simplify the structure and do under the new setup, can you elaborate a bit more? Let's say, for example, a customer who was mass affluent or going towards private banking, would they not be referred to the products that HSBC Private Bank offers etc? So, if you can please elaborate, thank you so much.

GEORGES ELHEDERY: Since HSBC owns today a majority of 63% Hang Seng, and with, as you know, Hang Seng being part of the HSBC family, there's already a lot of coordination and

cooperation between the teams, and that strong collaboration is ongoing. What this structure unlocks is opportunities for greater alignment, which would not have been possible under the current structure. And this alignment happens around a number of areas for manufacturing products, and that could be all sorts of manufacturing - insurance, asset management, markets, all sorts of manufacturing. We will be able to more seamlessly leverage technology across both brands. While both brands can maintain a distinct customer proposition, they can be powered by the same technology, should we be able to move to this new structure, and then we will be able to enhance the capabilities of Hang Seng in terms of their product offering. Which means they will be able to use some of the wider suite of HSBC wealth products, which today, would not necessarily be available under the current governance and structure. While we do have extensive cooperation, there are much more capabilities of synergies that can be achieved, with a 100% ownership that would not be achieved in a more arm's length relationship which we have under the current structure.

YAFEI TIAN: Thank you so much. In the interests of time, that's all the questions we can take for today. If you have further questions, feel free to reach out to Investor Relations. We'll be answering your questions. Thank you so much.

GEORGES ELHEDERY: Thank you very much, everyone, for joining us. Again, this is a significant investment in Hong Kong. We're very excited about the opportunity this provides our customers, our colleagues, and certainly very much our investors and shareholders, and we look forward to continuing the engagement with you for the next few quarters, and speak to all of you in a couple weeks' time at our Q3 results. Thank you.