HSBC

Edited transcript

J.P. Morgan Financials Conference 2026
Fireside chat

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KIAN ABOUHOSSEIN, J.P. MORGAN: Georges, great to have you here in London at our financial conference. You've done extremely well. We were just discussing how the bank has really changed under your leadership. There seems to be more focus, both in terms of business, tracking performance, setting objectives, and making people accountable, and you talked a lot about this, as well as the technology side.

Before we go into all these topics, let's start with Hong Kong, one of your key markets. You privatised Hang Seng Bank. It's a very dynamic place, GDP growth is improving, lending growth is improving. We've seen recently some signs of deposit pressure, so can you give us a bit of a report card of where we are today in Hong Kong?

GEORGES ELHEDERY, GROUP CEO: Thank you Kian for hosting me and thank you everyone for joining. And thank you for your kind remarks at the start - of course, disciplined execution and delivering on our growth opportunities is a laser focus for the whole bank.

Hong Kong is one of our two home markets, the UK and Hong Kong. Incidentally, they're both of my home markets. I'm based both in Hong Kong and the UK, and commute between the two. But Hong Kong is a fantastic market for HSBC. We're known in Hong Kong as the Hong Kong bank. And now with the privatisation of Hang Seng Bank, which we finalised in January this year, we have this privilege of having two iconic banks in Hong Kong, with two iconic brands, HSBC and Hang Seng, able to capture the full potential of Hong Kong through these two brands. We're extremely pleased with the position, because Hong Kong's own position has materially shifted and improved.

Hong Kong was constrained during the COVID years, it had some real estate challenges, but if you look at the last year, two years, and certainly the outlook, the positioning of Hong Kong is fantastic. Hong Kong is a top 3, global financial centre, arguably also a top two global financial centre. We've seen they're a top two in the IPO market, raising capital, the debt market, the dim sum market is resilient, and is definitely here to stay and to be a driver for a lot of the growth of Hong Kong.

Hong Kong is the super connector between the mainland and the rest of the world. For decades, it's been the gateway into China, and if you look at the next decade, it's also becoming the gateway for those Chinese companies hungry for investment internationally, going global, and there's a lot of catch-up the Chinese multinationals are playing with the growth we've seen from the US, France, Germany, the UK, Japan, Korea's multinationals. Chinese multinationals growing and trying to catch up with that international expansion, and Hong Kong is a gateway for that. As of this year, Hong Kong has become the leading cross-border wealth hub, exceeding Switzerland in cross-border wealth management.

We are the Hong Kong bank, so it feels like we have the whole front row, not just a front row seat in being able to capture this opportunity.

Then what you said also, Kian, is we've seen our deposits grow in Hong Kong by about 10%, $68 billion. Our loans have been growing at around 10 or 11%, that's $28 billion, and that's very promising, because for a few years, it was a loan contraction story in Hong Kong, so that is a trend.

Our net new money in Hong Kong has been growing about 10% as well. Our wealth business is able to capture this wealth of money. We've been acquiring about 90,000 to 100,000 new-to-bank customers in the retail space every month. That's more than a million a year for two years, and that trend carries on.

So this growth story, and GDP growth at 5.2% now, all of it is giving us structural confidence in the opportunities that Hong Kong provides.

And then lastly, in Hong Kong we generate more than 40% return on tangible equity.

When you talk about deposits, we have ample pricing power. We have all the options at our disposal. Our deposit base in Hong Kong, more than $600 billion, is 50% larger than the second largest peer. So we have ample room to choose how we compete, when we compete, and the proposition we have, and from time to time we will show our muscle in the deposit space.

KIAN ABOUHOSSEIN: And for people who haven't been to Hong Kong recently, they should definitely visit, because every time I go, it's just the energy in Hong Kong. You feel it when you walk around. It really has changed, it's really on the up. And you had the Investor Day in May, which was superb to outline the Hong Kong story as well as your Group.

Sticking with Hong Kong, the third quarter, we talked about migration of deposits into time deposits and term deposits. You clearly have a big market share. You have a very low loan-to-deposit ratio. How do you see the balance between growing deposits and taking margin pressure on the deposit side, and the competition?

GEORGES ELHEDERY: Yes, we've seen our term deposit mix shifting from 36% to 38%. First let me put it in context. As a deposit powerhouse with a deposit base that's 50% higher than the second largest, a very low loan-to-deposit ratio, in the fifties, gives us ample capacity to choose how we compete, where we compete, and which segments in which we compete. So there is no pressure, apart from how we want to commercially position ourselves in Hong Kong across two banks who are competing, that's the whole spirit of not losing revenue synergies. We have a million and a half clients who are clients of both banks, we want to retain them as clients of both banks, with the differentiated proposition.

The second thing to call out is that the mix mostly shifted because of new deposits. Effectively most of the term deposit ratio increase was due to new deposits acquisition. We may see shifts within deposits, but it's mostly new deposits, it's reflective of our ability to continue attracting new deposits.

Thirdly, new deposits are important because Hong Kong is a wealth economy, there are a lot of equity brokerage and other investment opportunities for us in Hong Kong. Those new deposits may be temporarily parked in term deposits, and may be looking at some stage to go back into broking, which was soft in Q3 and is looking soft in Q4, because equity valuations have been softer and rates have been high. That naturally means you will see some shift from equity broking into term deposits, and the softness we saw in Q3 is carrying on as we see it today. That mix may continue to evolve, but over multiple quarters, we see potential for the balances to move back to wealth investment.

In the context where our net new money is increasing at 10%, in Asia we acquired $95 billion of wealth net new money in the first nine months of this year, we have ample potential for some of that money moving to support deposits.

Then from time to time, we have competitive proposition. Hang Seng Bank, now with the regained confidence of being fully supported by the group, and having got over some of their challenges in the commercial real estate space and what have you, we're very pleased to see them compete and be in the market.

It remains a market where we have choice and optionality because we have pricing power. Remember we're talking 38% term deposit mix, the market mix is 20 percentage points higher and if you take us out of that market average, it's even another five percentage points higher, so we have ample space to decide how we choose to compete in this market.

KIAN ABOUHOSSEIN: Switching to the UK, you gave a presentation last week on the UK business which was very interesting. One of the topics being discussed in the UK in particular is funding competition just as lending is picking up, so it seems to be very early in the cycle, maybe you can comment on that - how do you see that developing? In that context, how do you see your UK business being positioned?

GEORGES ELHEDERY: In the UK we are also a leading bank. We're a top three bank in the UK, not dissimilar position in terms of market leadership as in Hong Kong. We're the leading corporate bank in the UK, we're the leading trade bank in the UK. We operate in the UK across

three brands, HSBC, first direct, our own neobank, and M&S Bank. We have a very strong market position in the UK.

It is true the UK has been more competitive in the deposit space, driven by a number of factors including quantitative tightening, which has withdrawn multiple hundreds of billions of pounds from the system over the last few years, a reversal of what we've saw over COVID. That created one set of pressure on deposits. The second pressure is loan growth, and we ourselves reported more than 10% loan growth in the corporate space - this is great, because it's a precursor for possible growth in the UK economy, and the corporate space in the UK is in a historic under-levered position - seeing them taking a little bit more leverage for investment purposes is reassuring. That's also taken some of the deposits. Then there's been some deposit competition from neobanks which has also created some pressure.

The differentiator is that in the UK we retain the best loan-to-deposit ratio among our peers. We're at 88% in our UK bank, and if you look at our two banks, the UK ring-fenced bank and the non-ring-fenced bank, we're below 70% loan-to-deposit ratio. The mix of our deposits remains one of the strongest in the market, with 78% CASA deposits. This leaves us with a lot of room to manoeuvre and optionality of how we want to compete, and we have three brands, some of whom would want to have different positioning than others.

We recognise that there is more competitive pressure in this market, but I would say we're coming at it from a position of strength, with a lot of optionality, and with loan growth in the commercial and corporate space that is very welcome. But we need to see how this evolves over the next few quarters.

KIAN ABOUHOSSEIN: Commercial lending growth, as you said, is very welcome, and it's picked up. As I understand it, you're not really aggressive in the AI financing area, this is not an outsized growth area. What is driving UK commercial lending growth from your perspective?

GEORGES ELHEDERY: The starting position is that UK corporates have been underlevered by historic terms, and they've been underlevered by global peer comparison terms, so the UK has a lot of potential to grow its leverage.

Usually, leverage is a precursor for investment, because when corporates want to invest they will borrow. We are seeing more investment, which is a good precursor for economic growth which we hope to start seeing manifest, and for the last few quarters, we've seen economic growth in the UK pick up.

Third, and I think this is quite unique to HSBC in the leadership role we play, the UK remains a very open economy for trade. The UK is a top two exporter of services all around the world, and we're the world's trade bank, so we are supporting many of the UK companies as they grow due to these massive export capabilities and opportunities they have.

The last one I want to call out is the UK remains extremely attractive for foreign direct investment, be it from the US, from China, from all around the world. We're extremely well positioned to capture these flows into the UK and that is also a good precursor for employment and growth in UK GDP. We're playing a leading role in supporting these flows. I want to say it's a precursor for good things to come, let's hope this trend carries on.

KIAN ABOUHOSSEIN: Switching to wealth which has been growing very strongly, but in line with the market. What would you have to do to outperform the market over time?

GEORGES ELHEDERY: Our major focus on wealth is in Asia. This is where we're leading. We're the number one wealth manager in Asia by wealth balances, with $1.1 trillion of wealth balances, we have the scope. We're also growing our net new money, Asia net new money was $95 billion for the first nine months of this year, about a 12% annualised growth rate, which is also very handy.

We have the balance sheet trends, the brand recognition, that is naturally attractive. We're starting from a position of strength. We have also over the last two years added focus. We added focus in building capabilities - frankly, we're a little bit behind, so we're catching up, in products, services, and the web space, we're catching up. We can catch up quite fast, because we have the scale and the size. That's allowed us to continue growing at the same pace.

Remember when I say $1.1 trillion wealth balances in Asia, that's about two and a half times some of our direct competitors, and we're growing at the same percentage point rate, so that's two and a half times more U.S. dollar equivalent. This scale is a real differentiator here, but

we're catching up on some of the product and services, and we've been investing with purpose and at pace.

We also have a fantastic corporate and innovation bank across Asia, and we haven't been very strong historically at referring clients who trust us deeply in their corporate space to our Wealth, Private Banking, Premier banking space. We've been much more purposeful with that referral mechanism, driving a lot of our new client acquisitions in the Private Bank from CIB, at zero cost, because the cost of acquisition is a referral from an internal business.

Then the third thing, we have also a Premier proposition in a number of markets, including all of those markets where you have a growing, affluent middle class, which means we can capture wealth at the early rungs of the wealth escalator. Once you acquire them, with $100,000 of net worth to invest, they grow, they grow with you. That cost of acquisition through brand, through deep presence in many of these markets, mainly China, India, but of course Hong Kong, Singapore, Taiwan, the UAE, allows us to capture that wealth early on and grow with it, and they grow with us.

We have all the ingredients to be able to outgrow our peers. We need to continue focusing on them, and clearly it's our mission that we are able to outgrow and gain market share. But we're growing at equal rates from about two and a half times the size. I think our scale and capability is already demonstrated, but that remains a big investment area for us.

KIAN ABOUHOSSEIN: Your wholesale business is doing extremely well, especially Wholesale Transaction Banking, where you're seeing 12% growth year-on-year. What has changed and how do you see that developing going forward?

GEORGES ELHEDERY: Our wholesale business has a few components that are primary building blocks. The first component is we're a deposit bank. The strength of our balance sheet and the scale of our network and the understanding that we have in operating in all these markets attracts deposits - this is the building block of how we engage with our clients. We build the client franchise by first and foremost making sure clients trust us sufficiently so that they leave their money with us. That's a starting goal. This is why the wholesale business's loan-to-deposit ratio is in the 50s percent. It's deposit-led.

The second layer is our transaction banking capabilities. We are the world's trade bank and our trade business not only is the leading trade business globally, number one, but it is growing faster than numbers two, three and four combined. We are the world's trade bank and taking more market share, because trade has become more complicated and people need expertise and skill to be able to navigate it, and we are differentiating. That business continues to grow.

With deposits and transaction banking, we are able to build the growth of our deposit base, and we're growing our deposit base mid-single digit in this space. We are liquid in all major currencies, all major jurisdictions.

Third, of course, we have enormous financing power. Structured financing, infrastructure financing, export financing, various forms of financing, trade financing – we are growing in a number of areas.

Unique deposit proposition, a deposit powerhouse, a fantastic network, transaction banking capabilities, best in class in trade and cross-border payments and foreign exchange and securities services and financing capability.

Then you add to that our investment banking capabilities, such as debt capital markets globally, where we're leading in a number of areas. And then in M&A and equity capital markets, that's mostly specific to Asia and Middle East, where now we're top three international bank in IPOs in Hong Kong.

If you look at growth opportunities, there are some megatrends that support this business. First megatrend - reconfiguration of globalisation. Supply chains, foreign direct investment, consumer markets, all of that has been diversified. Partly for resilience, partly for opportunity. We talked about 'China-plus-one' during COVID. Of course, those necessities have grown more and more when we see disruptions, such as the unfortunate conflicts in Russia-Ukraine and in the Middle East. Those have created the necessity to diversify supply chains. It means more economies, more jurisdictions, more markets are now part of this reconfiguration of supply chain. The UAE has signed 40 free trade agreements in five years, a record.

These economies are becoming more open for trade and investments, not less so. And we are the world's trade bank. That's a secular trend, the reconfiguration of globalisation, which benefits us given the breadth and depth of our network.

Second megatrend, the innovation economy. Since the acquisition of Silicon Valley Bank UK in 2023, and with the rollout of HSBC Innovation Banking in a dozen markets, we are the leading innovation bank in most of these markets. These are companies that very early in their life want to go international, and are growing very fast. We're very well connected to them, we can grow with them, given our international network.

Third, the mega-trend is the future of finance, many of these now companies expect more from their banks by way of 24-7, real-time frictionless, weekend payments, investments, capabilities, all of which now we're rolling through - tokenised deposits, other blockchain-based services, 24-7, frictionless. This will open the door for new opportunities which were not possible when there was more friction and more restrictions on payments. That is a new wallet pool we can address, and this is a secular wallet pool. I'm not talking next quarter, or whatever. I'm talking multiple years ahead.

The last one I want to call out is the rise of the Asian multinational. We started with a very multinational business from, say the America, from Britain, from Germany, from France. Then in the 1980s, we've seen Japanese multinationals grow very fast. Then Koreans. All of these multinational businesses are now quite mature and looking at various opportunities. But the Asian multinational, the Chinese, the Indian, is nascent, and they really want to catch up, with pace, with speed, and with intent. We are the go-to bank when they're looking to, say, go from China internationally. They come to Hong Kong, but then they want the world, and we offer them our network.

Those are clear growth strengths in this business, and we are investing in them to be able to capture it because of our scale.

KIAN ABOUHOSSEIN: Moving to group capital, you are growing, as you just outlined, quite significantly. We have some potential benefits coming your way. Basel III reform, and Pam alluded also to a potential Pillar 2A benefit. How should we think about capital flexibility and what you do with capital?

GEORGES ELHEDERY: So maybe first just to highlight that we're well capitalised and we always intend to be well capitalised. That's one of the hallmarks of our financial strength. We're highly captive generative, and that's supported us pay the 50% dividend payout ratio, support loan growth, and in many cases do a share buyback or the privatisation of Hang Seng Bank.

Then the targets we communicated for 2026, 2027, 2028 expressed our confidence in how strongly captive generative we expect to remain and we're operating to retain. So we're comfortable.

This being said we have some good news from Basel 3.1, we expect this to be a 40 to 50 basis point CET1 ratio improvement. We have some good news from Pillar 2A requirements, where we expect to be able to release about 20 basis points, but we cannot speculate on the outcomes. As we said, we will wait until we have all the information in our hands, including next week's FPC to understand what the implications for us will be - this will materially reduce regulatory uncertainty on capital. We will then evaluate any additional flexibility we want to create for ourselves. But I wouldn't expect this to be materially changing. If we create flexibility, it will be marginal. It will reflect the fact that at all times, we will run with a strong capital position and a strong capital generation outlook.

KIAN ABOUHOSSEIN: Moving to costs and investments. Starting with investments, you are investing in the business, growth is justifying that. Where is the focus on investments? How do you fund it? How do you think about return on investment? At the same time, your costs are expected, based on consensus data, to grow. Just to understand run rate cost growth and some of the cost measures you're taking to offset some of that growth?

GEORGES ELHEDERY: First and foremost, cost discipline remains top priority. It's an important discipline. This year we gave indication on cost target for running the bank and investing at around 1% on a target basis, which for all intents and purposes we absolutely intend to meet, we're on track to, and we're comfortable with it.

We also indicated a potential upside for variable pay, should our performance by the end of the year, once we close the books, justify recognising a little bit more for variable pay. We've quantified this, a 1% cost increase is about a 10% variable pay increase. I think that gives you a realm of the possible.

That's what we've committed. For future years, we have not given cost indication, but we can give the philosophy and how we're addressing it.

Number one, discipline remains paramount, which means we expect to retain good control and oversight of our costs, and we will always have visibility in advance of where we're going to spend and how we're going to spend. It's an ex ante assessment of our cost target, not an ex-post realisation. That's the discipline.

Number two, we will always take out efficiencies and productivity gains. As we shared with the Q3 results, we expect now full year organisational simplification benefits to be around $2 billion. We have already delivered $1.8, 1.9 billion of that.

And then participation choices, the exit or sale of non-strategic or non-high returning businesses, will generate up to $1.5 billion. We've already decisioned about 80% of that. We also indicated we want to drive cost synergies from the privatisation of Hang Seng Bank of $0.3 billion, with the ambition to take it up to $0.5 billion.

All of those are important as part of creating the capacity to invest. We drive focus, discipline, and synergies and efficiencies from our run-the-bank costs, and the cost capacity that's created, we will purposefully invest in our growth areas.

The first question is, can we invest? Well, the cost-income ratio for the firm is 46%. We have no cost issues. We can invest. I keep telling my teams, if we have a cost issue, it's a cost wastage issue, not a cost issue. Can we find more efficiencies? That journey is ongoing. We will have closed the two big programmes, at least one of the two programmes will certainly have closed by the end of this year. The cost efficiencies will remain, and you can imagine AI will help us with cost productivities that will feed into the next opportunities of driving cost efficiency, I would love to bank that discipline. But investment capacity is absolutely available when you're running a cost-income ratio for a bank at 46%.

Where do we invest? We invest in our focused growth areas, where we have a leadership position. Where we have growth opportunities and we're able to generate good returns. Take wealth, Asia wealth in particular – of course. Take transaction banking capabilities - of course. Take Hong Kong and the growth of Hong Kong - of course. Take AI and the AI capabilities and capacity it's delivering for us - of course. These are the areas we invest, very purposefully.

KIAN ABOUHOSSEIN: Sticking to innovation and investments, maybe you should talk about AI and AI Agentic? You've talked about this, in the past, on quarterly calls, maybe you can talk about your views on AI and agentic, and the impact it could have on your business, both on the revenue and on the cost side, more from a longer-term perspective and what you're doing there? And in this context the HKMA project, Sage, is quite an interesting project. I find the HKMA very forward-looking in a lot of topics around technology, and you're part of that. How do you see that impacting your business, potentially?

GEORGES ELHEDERY: So, AI and then Agentic commerce in general. AI, we've been very upfront about it. We've set a vision, we set three goals, and it explains our core.

One goal is empower our colleagues, putting in our colleagues' hands, 200,000 of them, AI capabilities, tools, productivity tools, specialised tools, legal, wealth markets. Knowledge tools, knowledge management tools, support tools. All of which is broadly done, and we're tracking now utilisation, because we want all our colleagues to be empowered with AI. That journey is progressing very nicely, any colleague who's empowered by AI is a higher performing colleague, and you want higher performing colleagues in your organisation.

Second is that AI will help us re-engineer the bank, redesign our policies, process, procedures in a way that we can drive productivity gains and simplification at the same time. We're very purposeful. We said we have 50 or so initiatives enabled by AI, and we're on that journey. I'm sure you would expect us in the next few quarters to start talking about what it means for us, in terms of productivity gains.

The third goal is to create capabilities to hyper-personalise our offering to our clients in a way where we can generate revenue streams that would not be achievable at our current scale.

You also would expect us in the next few quarters to be able to say what we mean by this hyper-personalisation of services and creation of capabilities that will generate more revenue streams for the firm. Those investments are ongoing.

At the heart of all of this, at the core of all of this, human judgment, human decision making, and human accountability. We're not going to compromise on that. That's the cornerstone of trust.

So when you move to Agentic, there is a clear rationale for a world in the future where clients use agents to support them in their financial needs. We need to be ready for that. We're having discussions today with the HKMA through SAGE, but also with the FCA and the PRA, and a number of other jurisdictions, and we have the benefit of engaging on this topic with multiple jurisdictions and being able to compare and contrast and help shape the dialogue.

We need to solve immediate issues that are obvious, in our face, that we will not be able to shortcut. Otherwise, we're putting at risk safety and soundness and trust. Authorisation issues - how do we do know your agent, and how do we ensure that the agent is fully authorised to do what they're doing? Fraud and other misbehaviour issues. Who's liable if something goes wrong - the bank? the agent? who's the agent, the bank, the client? Number three, prudential issues. What happens if some deposits become more flighty, more volatile? How's the system going to cope with that? Number four, operational issues. We can factor in Black Friday, where humans rush onto their apps to pay, but what if we have 10 times that, because agents are 10 times more willing to come and execute them. I'm not sure how systems can cope with 10 times, or 20, or maybe 100 times. Number five, cyber issues. What happens if cyber gets inserted in this?

All of those discussions need to happen now, so we create an environment that is safe, where we can deliver this safely to our clients. We have to accept the future will have a big component of that, but we're not going to shortcut how we get there. Safety first. Security, trust, and then build the right foundations, and then we'll deliver it in the future.

KIAN ABOUHOSSEIN: Interesting. Very thoughtful. We have some time for a question.

AUDIENCE QUESTION: I just want to sort of talk around forward-looking risks to the mortgage book, and with regard to growing climate change, do you reckon we get to a point where there almost comes postcode pricing? Take London, for example, you're seeing with hot weather, you're seeing more [ground] heave. Either from the banks themselves, or from a regulatory point of view, capital, that side of things?

GEORGES ELHEDERY: First we really have mortgages at scale in two markets, the UK and Hong Kong. Some of the rest is quite episodic in our portfolio, because we don't have a retail proposition elsewhere, it's mostly, wealth or Premier. Mostly we're talking about these two markets.

From a credit standpoint in these two markets, the mortgage position is very comfortable. In Hong Kong, I can't even think if it's in single-digit basis points where we may have some issues, and the UK is a little bit more, but a very stable position.

But your question is, what happens if we start seeing more restrictions or more challenges with the location of these? That risk is not just mortgage book risk. We evaluate that risk across our portfolio, including the wholesale book. Physical location, disruption, floods, etc, for manufacturing companies, etc.

The way we evaluate this risk ourselves, but also with our regulators, is through stress scenarios. Usually climate stress scenarios. We communicate about that, and evaluate where you could see challenges, where are the weak points, what possible measures we should take to mitigate that. That is what we call stress scenarios for physical risk.

We also have other stress scenarios, such as stress scenario for transition risk. What if regulation or legislation changes required faster transition that we're on, and you end up with stranded assets, assets that may not be able to operate anymore because they've been subjected to a transition requirement where their business model is curtailed. And we look at transition risk.

We look at other risks in the climate space, but these are the two big risks. And then we take measures, I would say today these remain benign.

Mostly, we're looking at this as a business opportunity to support clients with resilience. We're supporting clients, borrowing for improving their position. This is more a business initiative. Pressure points are captured, and we and regulators have good sight of it, but it's within our capital and the risk appetite today. That most likely will evolve, but we're at the forefront of that. We now have ratings for housing, as well as ratings for other things in terms of emissions, etc. We're very much at the forefront, but this is an emerging risk, this is not an immediate risk. Thank you.

KIAN ABOUHOSSEIN: Thank you very much, Georges. This was very insightful, and we look forward to hearing more from you in the near future on the strategy and development going forward.

GEORGES ELHEDERY: Thank you very much, Kian, for having me. Thank you, everyone.