HSBC

Transcript

# Annual Results 2024 Announcement

**19 February 2025, 7.45am GMT**

GEORGES ELHEDERY, GROUP CEO: Welcome, all, to today's call. I'm joined by Pam, our new Group CFO. We're delighted to be here in Hong Kong, the city where HSBC was founded 160 years ago. Our history and heritage stand us in good stead in so many ways. Adapting to new economic realities and technologies is what we have always done. It brings out the best in our people and culture, especially when acting as a trusted advisor to our customers as they navigate the world's economic uncertainties and look towards new opportunities.

Before Pam takes you through the fourth-quarter numbers, I will cover four items. First, I will go through our full-year 2024 results. Second, I will set out the changes implemented over the past few months to create a simple, more agile, focused bank addressing the ways we operate in a fundamental way. Third, I will describe in some detail the solid foundations we are building on. For example, I will share with you what we plan to do next in order to deliver sustainable strategic growth and meet our return targets.

Starting with the full-year numbers, 2024 performance was strong. We delivered record profit before tax of $32.3 billion, or $34.1 billion excluding notable items. We generated a 14.6% return on tangible equity, or 16% excluding notable items, in line with our mid-teens target. We announced a total of $26.9 billion of distributions to our shareholders in respect of 2024, including 87 cents per share of dividends and $11 billion of share buybacks.

When I took the role in September, my priority was to inject energy and intent in the way we deliver our strategy, while maintaining continued focused cost discipline. At our third-quarter results, I committed to provide you with more detail on the expected benefits from our organisational simplification. We have simplified HSBC in two important ways. We have elevated and empowered our two home markets of Hong Kong and the UK and our Wealth proposition, and we have combined our two wholesale businesses.

In doing so, we have eliminated large parts of our complex matrix governance structure. This significantly improved operating model is now led by a tighter Group Operating Committee. It has clarity of accountability, fewer management lines and layers, reducing the need for the number of committees we previously ran across the bank. This has increased our agility. As an illustration, previously, every dollar of revenue we generated had at least two accountable executives at the Group Executive Committee. Today, around 60% of our revenue has a single accountable executive at the Group Operating Committee. This will empower our people to make faster decisions, collaborate better and innovate for the benefit of our customers.

In short, we've simplified our structure and we've aligned it to our strategy. This will enable us to deliver around $1.5 billion of annualised savings by the end of full-year 2025, primarily through de-duplication of roles. This represents circa 8% reduction of our global staffing costs. This will cost around $1.8 billion in severance and other up-front costs. Those $1.5 billion savings will have no meaningful impact on revenue and they will be taken straight to the bottom line.

Separately, we will redeploy c.$1.5 billion of costs from non-strategic or low-returning activities as incremental investments to our priority growth areas, where we have clear competitive advantages and generate accretive returns. We have started to do this by announcing that we will begin to wind down our M&A and ECM activities in the UK, Europe and the US. I will cover our priority growth areas shortly. These actions give us the confidence to target a mid-teens return on tangible equity in 2025, 2026 and 2027.

Each of our four businesses are firmly rooted in our core strengths. In our two home markets of Hong Kong and the UK, we have two strong businesses. In both businesses, we serve Personal Banking customers as well as Commercial Banking and Small and Medium Enterprises. We are a leading bank and are growing market share in key products. Importantly, in both, we are profitable and delivering very good returns. As for the large corporations with global banking needs in both home markets, alongside individuals with multi-country personal financial needs, they will be served by our two international businesses, as I am about to set out.

Corporate and Institutional Banking – CIB – is a global wholesale bank with significant competitive advantages. It has a powerful deposit franchise with strong financing capabilities, and it also has a market-leading transaction bank, leveraging our global network. As the world's number one trade bank for the last seven consecutive years, we are exceptionally well placed to help our customers and capture global and intra-regional trade flows as supply chains reconfigure, new trade routes emerge, economies grow, and our customer expectations evolve. CIB is also well positioned to help entrepreneurs secure the capital they need to build the businesses of the future and help our customers decarbonise.

International Wealth and Premier Banking – IWPB – is ideally placed to capture the increasing number of affluent and high-net-worth customers, especially those with international banking needs who seek new investment opportunities to help them protect and grow their wealth. Our recognised brand, financial strength and complementary footprints across Asia and the Middle East reinforce our position in the world's fastest growing wealth markets.

Let me now highlight our distinctive strengths, starting with our high-quality revenue streams. Our franchise generates resilient recurring revenue from three key sources. As you can see, in 2024, two-thirds of revenue was from Banking NII. This is the result of the strong deposit and lending positions in each of our four core businesses. As you know, we have built up the structural hedge to protect this revenue stream from falling interest rates. Pam will speak more about this. The remaining third was from fee and other income. Around a half of this was from our market-leading Wholesale Transaction Banking business, which is built on our global network, covering 85% of global trade and capital flows, including high-growth markets such as India, ASEAN, mainland China, the Middle East and Mexico. Around a third was from Wealth, which I will talk about shortly. Taken together, this means that more than 90% of our revenue comes from three high-quality streams.

Moving to our strong deposit franchise, our customers trust the strength of our balance sheet and have chosen us to look after their deposits. This gives us a highly liquid and profitable balance sheet, which provides greater flexibility through the cycle. Within our $1.7 trillion deposit base, we have large deposit surpluses in each of our four businesses, giving us the funding capacity to support our clients.

Turning now to our high-quality loan portfolio, we have always maintained a conservative approach to risk management, as evidenced by the quality of our loan portfolio. In the period since 2018, we have experienced a global pandemic, an energy crisis and the real-estate cycle in the US, in Hong Kong and in mainland China. Our average annual ECL charge over that period was 32 basis points of average gross loans, which is well within our medium-term planning range of 30-40 basis points.

On our disciplined capital management, over the last two years, our capital generation has enabled us to return $47.7 billion to our shareholders. This comprises of $27.7 billion of dividends and $20 billion of share buybacks, including those announced today. Through the rolling series of share buybacks we have undertaken since the start of 2023, we have now repurchased 11% of our year-end 2022 issued share count.

We are targeting a mid-teens return on tangible equity in each of the next three years. The external environment presents us with opportunities but also challenges. The interest rate outlook is benign but remains volatile. We can adapt to changing patterns of trade and economic growth, but there is a risk of disruption, and we have a major opportunity in wealth in Asia and the Middle East, but it is a highly competitive space. Despite these challenges, we have levers we can pull on to support us to deliver on our target. We're confident we can take decisive action to do so. These levers are, first, driving operating leverage as an ongoing process through cost efficiency and optimisation, as well as continuous improvements in productivity, second, dynamic balance sheet management and capital allocation, which I'll cover shortly, and third, investing for strategic long-term growth. Let me turn to this next.

We're creating the capacity to invest for growth in the business and to drive efficiencies. We're focusing our growing investment pot, as shown on this and the next slide. First, in our home markets, we intend to expand the number of wealth centres and enhance our wealth capabilities in Hong Kong, which is set to become the world's leading cross-border wealth centre. We attracted around 800,000 new-to-bank personal banking customers in Hong Kong last year, and we are well positioned to capture growth opportunities as international customers choose Hong Kong as their cross-border wealth hub. In the UK, we plan to also grow the Wealth business, and we plan to improve our SME covering and proposition. This is an extremely attractive and profitable segment, where we will intensify our focus.

Second, in CIB, we intend to leverage our network and further enhance our transaction banking capabilities, including in high-growth markets such as mainland China, ASEAN, India, the Middle East and Mexico. We are also looking to scale up our broad loan origination capabilities by underwriting more and distributing more to our institutional and wealth clients. This ability to leverage our loan origination for the purpose of distribution will give us larger opportunities to generate fee income, improve capital efficiencies and, in turn, improve CIB returns.

Third, in IWPB, we intend to accelerate the wealth build-up in our home markets, and particularly also in key growth markets such as Singapore, the UAE, India and mainland China. In each of these, we aim to accelerate the hiring of relationship managers, establish new wealth centres, and expand our product offering. While we are benefiting from an underlying growth in this segment, particularly in Asia and the Middle East, we also aim to grow our market share by, first, better driving wealth penetration with our own wholesale or Premier customers, second, better capturing cross-border flows of our own customers in their outbound location, and third, increasing the proportion of mandates within our invested assets.

Finally, underpinning all of this and across the Group, we aim to seize the opportunity of AI and generative AI. Our flagship initiatives will focus on improving customer service through both our mobile apps and our contact centres. We also intend to increase tech productivity with tools such as coding assistants, and improve process efficiency in areas such as onboarding, KYC, credit applications and many others.

Mid-teens returns will give us a range of attractive options for capital deployment and will drive EPS and DPS growth over time. As the illustration on the right-hand slide of the slide demonstrates, a mid-teens return on tangible equity will enable us to deliver the 50% dividend payout ratio in 2025, and still have sufficient capital to grow the balance sheet, buy back shares, or both. Supporting our customers will always be our first priority, and we expect our loan book to grow in the mid-single digits over the medium- to long-term.

However, fluctuations in customer demand for credit mean our loan book may grow at an uneven pace. Share buybacks remain our preferred method of returning excess capital to our shareholders, because they drive growth in EPS and DPS. For instance, in 2024, while our earnings grew by c.2%, our earnings per share grew by c.9%, reflecting the benefit from the c.6% reduction of share count through share buybacks in this year.

So in summary, we've simplified the Group and, along with our continued focus on costs, are committed to delivering c.$1.5 billion savings to the bottom line. We're focused on delivering for our customers by capturing growth opportunities where we have a clear competitive advantage and accretive returns. And we're eliminating, over the medium term, an additional c.$1.5 billion of costs from non-strategic or low-returning activities, and redeploying them into these priority growth areas. We are targeting a mid-teens return on tangible equity in each of 2025, 2026 and 2027.

With that, let me hand over to Pam.

PAM KAUR, GROUP CFO: Thanks, Georges. Thank you, everyone, for joining. I would like to begin by sharing my approach as Group CFO. In short, I'm fully focused on discipline, performance and delivery. Discipline means prioritising with precision, maintaining strong cost control, and ensuring investment rigour for growth. Performance means gearing our financial strategy towards achieving our mid-teens returns target. Delivery means ensuring we remain agile and resilient, enhance operating leverage, and are always well positioned to support our customers.

Let me now turn to the Q4 numbers. Starting with the highlights, profit before tax was $2.3 billion, or $7.3 billion excluding notable items. This strong performance enabled us to announce a further $8.4 billion of distributions in respect of the fourth quarter. This consists of a fourth interim dividend of 36 cents per share, and a share buyback of up to $2 billion, which we intend to complete before our first-quarter results in April.

On this slide, you can see the impact of notable items on year-on-year revenue and profit growth. This was principally the $5.2 billion related to historical foreign exchange translation losses from the Argentina disposal. Excluding these, profit before tax was up 10% on the fourth quarter of last year.

Excluding notable items, revenue of $16.5 billion was up $1.2 billion on the fourth quarter of last year, driven by Banking NII and a strong performance in Wealth. On Banking NII, excluding the impact of Argentina and other notable items, the Banking NII run rate remained broadly stable. Deposit growth and benefits from the structural hedge were partially offset by lower interest rates.

Looking ahead, we expect Banking NII of around $42 billion in 2025. To be clear, this is a change to the way we have given you guidance before. ‘Around $42 billion’ is not an underpin. It is our expectation at the present time, based on the current market rates outlook and our own projections.

We also want to give you some additional detail on the structural hedge. As you know, we have been building up the structural hedge to help manage our interest rate sensitivity. During 2024, we increased the notional balance by around $50 billion. We also extended the duration from 2.8 years to 3.1 years. This contributed to a further reduction in the interest rate sensitivity of our Banking NII last year. We have reduced our sensitivity to a 100-basis-point rate shock from around $7 billion in June 2022 to around $2.9 billion at the end of 2024. We’re also providing additional disclosures on the expected reinvestment profile of the structural hedge. We expect to reinvest around $95 billion of assets in each of 2025 and 2026, from a current average yield of around 2.8%. We also expect to reinvest around $90 billion of assets in 2027, from a current average yield of around 3.4%.

Moving to fee and other income, Wholesale Transaction Banking was stable on last year’s fourth quarter. Excluding the impact of strategic transactions, primarily the sale of Canada, it was up by 3%, as we continue to leverage our global network and capitalise on our position as the world’s number one trade bank. The standout performance was again in Wealth, which was up 27% on the same quarter last year. This was our fourth consecutive quarter of double-digit year-on-year growth. I’m pleased we added 234,000 new-to-bank Personal Banking customers in Hong Kong in the quarter. This brings the total number added in 2024 to 799,000, as Hong Kong continues to grow in importance as a cross-border wealth hub. I’m also pleased with the strong momentum in the business in January, which is in line with previous years. All of this gives us confidence that we can continue to grow this business further.

Our medium-term target is to continue to grow fee and other income by double-digit CAGR. There are three trends that underpin this ambition. First, the multi-year growth in new-to-bank customers in Hong Kong underlines that the city is on track to becoming the number one cross-border wealth hub before the end of this decade. Our past experience suggests that new customers grow their total balances and wealth products over time, so this is expected to provide a tailwind. Second, the strength of our business in key international wealth hubs, particularly Hong Kong, has enabled us to grow invested assets in Asia at 17% CAGR. This was also the key driver of our 13% CAGR growth in invested assets at the Group level. There have also been strong multi-year inflows of net new invested assets, with Asia accounting for the majority. Finally, our CSM balance is a third bigger than it was two years ago, despite the reclassification of our French life insurance business in the fourth quarter. This reflects continued year-on-year growth in new business CSM from higher volumes, particularly in Hong Kong. As you know, the CSM balance is a store of future earnings, which released into the P&L at between 9% and 10% in the last two years. All things being equal, this means that future earnings growth has been built in. Also, last year the value of new business CSM was substantially greater than the CSM released to the P&L.

On credit, our fourth quarter ECL charge was $1.4 billion. $1 billion of this was in wholesale, including around $300 million from two clients, one in the UK and one in mainland China commercial real estate sector. Overall, our portfolios in our home markets remained strong. This brought our 2024 charge to 36 basis points of average loans, which is within our medium-term planning range of 30 to 40 basis points. We expect our 2025 charge to be within our medium-term planning range.

On costs, we are committed to deliver $1.5 billion of simplification savings from our reorganisation to the bottom line, of which around $0.3 billion will be recognised in our 2025 P&L. We expect to incur around $1.8 billion of severance and other up-front costs by the end of 2026. The bulk of these costs will be incurred this year. Separately, we are also aiming to reallocate a further around $1.5 billion of costs from non-strategic activities to priority growth areas. You will have seen that we have announced that we will begin to wind down our ECM and M&A activities in the UK, Europe and the US while refocusing on Asia. Those businesses were not materially profitable and exiting them will make around $300 million of costs available for reinvestment in our priority growth areas. The slide also shows some businesses that we have recently agreed to dispose of, German Private Banking and French life insurance, to which I'll add the sale of our retail banking operations in Bahrain, which was announced today. These were not aligned with our four businesses where we will focus our investment dollars and our time.

Through these actions, we are creating investment space in our priority areas within our strict cost discipline. As Georges said, these include Wealth in Asia and the Middle East, UK SME coverage and wholesale transaction banking. Entry to the extra investment list is a high hurdle requiring strategic alignment and financial returns. As we continue to work through exits of low return and non-strategic activities, we are confident the investment dollars they provide will deliver a higher return to the bank.

The actions taken last year mean that 2024 costs were in line with our guidance of around 5% growth on a target basis. We remain fully committed to cost discipline. We expect 2025 costs to grow by around 3% compared with 2024 on a target basis, which excludes notable items and the direct costs of the Canada and Argentina disposals. Our guidance of around 3% growth includes up to 4% underlying growth from inflation and investment, partly offset by around $0.3 billion of efficiency cost savings that we expect to realise this year.

On loans and deposits, loan balances were stable. Deposits were up 3% in the fourth quarter. This included an increase in Hong Kong supported by customer growth as well as seasonality. As we have said before, I would caution you against annualising that number.

Our CET1 ratio was 14.9%, above our target range of 14% to 14.5%. We expect the buyback of up to $2 billion announced today to have an impact of around 0.2 percentage points in the first quarter. We have reclassified our $7 billion legacy French home loan portfolio as hold-to-collect-and-sell in the first quarter. This will lead to recognition of an estimated $1 billion pre-tax loss in other comprehensive income, equivalent to around 0.1 percentage points of CET1.

In summary, we have set out our current expectations in respect of 2025 and the medium term, but our key target is mid-teens return on tangible equity in each of the next three years. We will run the bank to deliver this.

Neil, can we go to Q&A please?

NEIL SANKOFF, GLOBAL HEAD OF INVESTOR RELATIONS: Thanks, Pam. We'll start with questions from the room. Please just wait for the microphone and remember to say your name and the name of your firm. Thank you.

GURPREET SINGH SAHI, GOLDMAN SACHS: Thank you. If I can have two, please, the first is on CIB. Thank you for the 14% trailing RoTE. So with the cost saves, etc, where do we expect the CIB RoTE to trend over the next couple of years and how would the management think about incremental capital allocation in that business division? I know that interest rates are having an impact. So implied question is - let's say interest rates were a lot lower and payments, cash management, etc, earn us less.

And then the second one is on International Wealth and Premier Banking. Thanks, again, for the 16% RoTE. So how should we think about incremental technology or new apps or gaining market share in the cross-border area as it relates to International Wealth, given that the RoTE is not so high? For example, Zing and those kinds of apps, where we were looking at competing with the fintech – how competitive would we want to be? Thank you so much.

GEORGES ELHEDERY: Thank you very much, Gurpreet. I will handle the two questions. On CIB, we haven't given specific medium-term returns for CIB. As Pam said, we've given a bank-wide target of mid-teens return on tangible equity for 2025, 2026 and 2027. We haven't been business-specific, but let me give you some indications of how we're looking at the business.

First, this business will benefit from the largest of the reorganisation-related cost saves because this business is the result of the merger of two wholesale businesses and, as per any merger, you would expect a lot of cost synergies in areas where we had duplicative activities, be it mostly back-office activities that are duplicative where we will achieve the savings. This business also will benefit– we called it also the investment space – from additional capital allocation efficiencies. We will be looking for more originate and distribute model. We will be looking to churn the balance sheet more, sweat the balance sheet more, drive higher earnings and fee income from this balance sheet and create better efficiency in the capital, and therefore we have a number of activities that will support this business's return on tangible equity performance.

Remember also this business is a leading business in wholesale transaction banking. We're the largest trade bank in the world for seven consecutive years. We're a top-two bank in payments and a top-two bank in foreign exchange. We're the largest bank in securities services across Asia and the Middle East, so we're benefiting from an amazing transaction banking capability. We're also benefiting from an amazing deposit franchise. As you've seen, this business is in the 50s percent loan-to-deposit ratio, and that is a highly stable and highly profitable proposition. So a lot of investment in this business is to support this direction of travel. I didn't mention the activities such as debt capital markets, etc, which also remain core in the wider capital solutions we provide to our customers.

On your second question about IWPB, I think you have to look at this business as one of the largest growth engines of this firm. Starting with Hong Kong, Hong Kong is on track to become the world's largest cross-border wealth hub, ahead of Switzerland, by the end of this decade. We're talking a few years. 800,000 new-to-bank customers, and we see this trend continuing. Then you look at various other parts of our network. Singapore is a major financial hub. The UAE has become a major wealth hub. We are the leading international wealth provider in mainland China and in India.

So we continue to invest in these areas, and that investment will come in all forms, like more relationship managers, more wealth centres, more products on the shelf, more technology capabilities, and therefore, you have to expect that a lot of investment will go to this business, but this business is exhibiting already double-digit growth. This business, Wealth in particular, has grown more than 20% year on year, and if you look at Asia alone our Wealth business in 2024 has grown more than 30% year on year, and therefore it deserves a lot of investment, even if that means we will eat a little bit on our return growth because we want to really secure our future as a leading provider, and our brand in parts of the world, such as Asia and the Middle East, is frankly second to none and our capability to attract this.

Cross-border is a very important area for us. Frankly, we have to punch at our weight. We're punching below our weight in cross-border. Our customers are with us in a given location, and then we lose them as their wealth or part of their wealth moves to another location. By just setting the right referral mechanisms, the product capabilities cross-border, the internal incentives, there is so much we can capture. It's our own customers. So the reach is fairly easy. It's a self-help mechanism that we're trying to just recover on.

As for Zing, so Zing was a fantastic technology platform which we built and were rolling out to non-clients that we were building from scratch and built a few tens of thousands. What we did is we flipped it over its head, and we're bringing in the technology platform right in the core proposition. As we roll this technology platform within our core proposition in the UK, 15 million clients will be able to benefit from it practically straight away, and we shouldn't be preventing that. That, on the contrary, accelerates our acquisition of international customers. And then, as we start thinking, rolling these new technologies widely in our Wealth business, there's a lot of potential we can get there. And that is a much faster gain than trying to build it from scratch in an area where we have non-customers working with a different brand than our very strong brand, HSBC. Thank you, Gurpreet.

NEIL SANKOFF: Let's take a couple from the Zoom, and then we'll come back with Kunpeng and Jeremy. We'll take our first question from Kian Abouhossein from JP Morgan. Please, so we can get to as many of you as possible, please limit yourselves to two questions each. Thank you.

KIAN ABOUHOSSEIN, JP MORGAN: Hi. Thanks for taking my questions. The first one is related to the $1.5 billion reallocation of costs. I just wanted to understand a bit if you could talk around the revenues associated, the capital and the risk-weighted assets, so we get a bit of an idea of the optimisation of this capital, and secondly, also what the return on investment on this that you expect — you mentioned a high hurdle rate.

And then the second question is more general to you, Georges. I mean, you are a CIB guy; you think about curveball issues all the time, spillover effects. So I'm quite interested about how you are planning for tariffs within the Group, and in particular how you're thinking about the curveballs, not the direct impacts, but the indirect impacts that are impacting you from CRE to Wealth growth, etc, FX, and how you're basically putting that in your planning on your outlook and sensitivities around that. Thanks.

GEORGES ELHEDERY: Thank you, Kian. Okay. I'll take the two questions, but if there are more details, additional granularity on CRE, I'm sure Pam can handle that, but I'll just give you a general sense. So on your first question, $1.5 billion reallocation of costs, so what we did say is we would reallocate it from non-strategic or low-returning activities into activities where we have a competitive edge, where we have better returns, and where we have opportunities to grow. So you have to look at this as returns incremental.

Just as an illustration, the wind-down of our M&A and ECM activities in the UK, US and Europe will give us $300 million of saves as we achieve them, that we can redeploy elsewhere. This cost was generating broadly break-even profits, so we're marginally profitable in these activities. We do expect these to give us a much higher return as they're reinvested, and we haven't quantified that, but the expectation is that there's an accretion of return.

Second, if you look at the areas we're looking to invest in, wealth, transaction banking, as big callouts, they are actually none or low balance sheet-consuming businesses. They're materially fee and other income-driving businesses, with low, if any, impact on RWA growth. And if you look at the SME business, this business is essentially liability-driven and transaction banking-driven. The loans portion of this business is relatively small. The loan to deposit ratio is in the low-teens percentage points, which means, again, it's a low RWA impact, high in Banking NII from deposits or transaction banking, but low RWA impact.

In terms of your CIB curveball question, look, tariffs are not a new feature of global trade. There has always been various forms of tariffs on various products along various corridors, and we've always navigated those with our clients and supported them along the route. I think what's changed now is maybe the speed at which the landscape will be evolving, the speed at which we may see new tariffs or changes in tariffs. But with the bank present on 85% of the trade corridors, with our global network, with our deep knowledge in all the markets where we operate, deep understanding of local rules and regulations, deep understanding of global rules and regulations, we're actually very well placed to support our customers adjust and position their businesses to navigate these tariffs.

Now, I add to that also, remember, most of the jurisdictions we operate in have pro-growth government policies. The UK is a good example, pro-growth government policy; the US is a very good example;. mainland China, pro-growth initiatives, consumer support initiatives. You look at Hong Kong, the removal of the cooling off measures on the commercial real estate or real estate in general. These measures have been effective, and we're seeing the benefits in the economy and economic growth. So, there are a number of positive factors that also we can benefit from. We've seen that in January, by the way. The start of this year has been very encouraging.

And look, the idea of all the simplification work we've done is that so we are simple, so we are agile, and agile means we can dynamically react and support our customers. And we will adapt quickly. We will react. We will make sure that we're supporting our customers along these journeys. Thank you, Kian.

NEIL SANKOFF: Let's take one more from the call. Ben Toms, from RBC.

BENJAMIN TOMS, RBC: Good morning, both. Thank you for taking my questions. The first one is on capital, please. In relation to your CET1 ratio guidance of 14% to 14.5%, before today, this used to have a caveat: you'd aim to manage this down further over time. I just note that that hasn't been mentioned in today's update. What are your latest thoughts on your medium-term ambitions for the CET1 ratio and has there been any change in sentiment?

And then, secondly, on costs in relation to your $1.5 billion of savings, you note that they will be taken to the bottom line, although presumably there'll be offsets from drivers such as inflation. Maybe you could just clarify directionally what you expect the shape of costs will do coming out of 2025 and going into 2026 and 2027? Thank you.

GEORGES ELHEDERY: Thank you, Ben, for the two questions. I am going to ask Pam to address both your questions, Ben, but remember, our capital, our CET1 ratio today is at 14.9%. So we're well above our medium-term operating range and expect to remain so this quarter. So the question is really a medium to long term as opposed to anything now. Pam.

PAM KAUR: Thanks, Georges. And Ben, coming to your first question, we are very comfortable operating between the 14% to 14.5% range. The comment on looking at it again was removed some time ago, so no change for now in that respect.

I want to just unbundle a little bit more on the cost point. So on the cost point, if you look at the guidance that we have, and this is the $1.5 billion of cost savings that are going straight to the bottom line. So the way we've looked at it is that it's about 4%, if you look at inflation, as well as BAU investment. The benefit of that $1.5 billion this year that we are taking straight to the bottom line is $300 million. So if you compare to on a target basis, and you're starting excluding disposals and hyperinflation, you start from 2024, it's going to be a 3% year-on-year growth. So that's what we are looking at.

Now, severance and other one-off costs, they will be treated as notable items. Now, the timing of the $1.5 billion, yes, is $300 million this year. There'll be more to come, clearly, in 2026. We see the full benefit of the $1.5 billion savings coming through for the full-year 2027, and the severance costs, etc, will be more upfront.

GEORGES ELHEDERY: Thank you, Ben.

NEIL SANKOFF: Thank you. Let's come back to the room. So I think we have Kunpeng and then Jeremy.

KUNPENG MA, CHINA SECURITIES: Thank you. Thank you for taking my question. This is Kunpeng of China Securities. And congratulations to the very strong result. I also have two questions. The first question is a little bit out of the bank itself. And Georges, could you please share some colour on the global trade business and also the wealth management business? I mean your feelings about the trends in these two businesses. I think, as a CEO, your feeling must be quite insightful.

The second is about the new business areas you mentioned, along with your reform. I think many of them are non-capital consuming. So to what level should we expect the revenue structure to change to, going forward? Maybe the non-NII portion will be much higher than one-third. Yeah, that's my two questions. Thank you.

GEORGES ELHEDERY: Thank you, Kunpeng. I'll take your first question, and I'll ask Pam to address your second question. So, look, trade and wealth. First, it's very difficult to predict what will happen to global trade in an uncertain environment, but what we can say is, for the last eight years, that trade has started to become more disrupted. Global trade has continued growing, low-single-digit percentage points. The trade routes have reconfigured. ASEAN has become the largest trading partner of China, ahead of the US and Europe.

We've seen more intra-regional trade pick up. We've seen more fragmentation of trade routes. So rather than the goods moving from point A to point B from, say, manufacturing to consumption, they're usually going through multiple legs on the journey, across various other jurisdictions. Now, it so happens that we still have expectations that global trade will grow at low-single-digit percentage points. And it so happens that this reconfiguration segmentation is playing to our strength, because many of these new jurisdictions that have become major participants in global trade are jurisdictions where we have deep presence and, in some cases, leading presence as an international bank, and we are able to capture these flows and we will be supporting our customers along these routes.

In wealth, again, if you look at various analysts and consultants' consideration, Asia and Middle East wealth is expected to grow at high single digit into 10% CAGR for the next five years. So the underlying trend of the growth of the middle class in many of these Asian economies is there. And simply being a leading bank in this space, we benefit from this underlying trend, but what we are doing is we also want to increase our market share because, in some areas, apart from Hong Kong, where we've really been a leading player, in other places, we've been punching below our weight. And the idea is to be able to step up our product capabilities, our customer reach, the various metrics, which I shared in the slide without repeating. And the additional investment is not only to capture the underlying trend, but also to grow to our more natural share. This will be focused essentially on Asia and the Middle East. We recognise there are other pockets of wealth that will be important for us, but we're not going to be a wealth player in the US because we don't have the right to win. Pam.

PAM KAUR: Thank you, Georges. So just in terms of our focus on both NII and fee income, clearly, as we sit today, our NII, given our strong balance sheet, deposit base, loans and advances, is a much bigger proportion of earnings compared to fee income. But given the guidance we've just shared with you, that we are looking at double-digit growth in Wealth over the medium term, even though it's on a smaller base, whereas on loans and advances, we are looking at a mid-single-digit growth in the medium term.

So that balance will tilt, but I won't go over my skates just as yet because the baseline starting point is so much bigger for balance sheet-driven business as opposed to fee income, but in direction of travel, absolutely. And also, the two things are a bit correlated. Hopefully, with your customers, when you do more, it's not just balance sheet-related products. You do more fee income-driven. And we think that really gets us more into the space of hearts and minds of our customers, which is what we are here for.

GEORGES ELHEDERY: Thank you, Kunpeng.

JEREMY HOU, CICC: Thank you for taking up my question. My first question is related to the capital distribution. Thank you for elaborating on the capital distribution hierarchy, but I recognise that you are guiding to a mid-teens RoTE for the next three years, but only a 50% dividend payout for 2025. So what are the implications behind it? And we can see the bank's share price is above one-times price to book, so will that affect your future consideration between buybacks and maybe raise the dividend payout?

And the second question is on the loan growth. HSBC has been consistently guiding to a mid-single-digit loan growth for the medium to long term, but it's still very challenging in the near term. So what circumstances do you think might be necessary for the bank to finally hit the target, and to what extent is that loan growth assumption baked into our Banking NII guidance? Thank you.

GEORGES ELHEDERY: Thank you very much, Jeremy. I'll ask Pam to address both questions. Let me share some insight on capital distribution. Look, with a mid-teens return guidance, there's plenty of space to do the 50% dividend payout ratio and to support the businesses to grow, which has always been the priority use of additional capital. But as you said, loan growth hasn't been there for the last many quarters, and the opportunity for us was to return the excess capital through share buybacks. It remains our intention to return excess capital to our shareholders through share buybacks, because we see this also as a means to create an accretion in our earnings per share and dividends per share, by reducing the share count. Pam?

PAM KAUR: Thank you, Georges. Firstly, in terms of our views on the 50% earnings per share, we are very comfortable with that number, and as you can see, we look at obviously distribution but also opportunities for growth that we can deploy our surplus capital. I'm very pleased that we are trading above tangible book value, and we absolutely don't consider the tangible book value to be a ceiling for our buybacks. Share buybacks will continue to be our preferred mode of distribution going forward. The other thing on dividends is that you obviously have to look at where your CET1 is at a point of time. You have to look at regulatory changes. For now 50%, we're very comfortable with.

Now, in terms of your next question on loan growth, we need to unbundle it a little bit. Yes, loan growth is flat. It was down $3 billion in Hong Kong, up $3 billion for the rest of Asia, up $1 billion for the UK, down $1 billion for the rest of the world. We are optimistic that as the interest rate trajectory stabilises there will be customer demand, and when there's customer demand we'll be there obviously to support our customers. But what's also really important is as we're seeing that from a Hong Kong perspective there is some momentum coming back, we expect at least the loan trajectory in Hong Kong to stabilise and not reduce. Once that happens, given the other breakdown I've given you, that gives us more optimism in terms of loan growth.

GEORGES ELHEDERY: Thank you, Jeremy.

NEIL SANKOFF: Thank you. Let's go back to the call. Andy Coombs from Citigroup, please.

ANDY COOMBS, CITIGROUP: Good morning. If I can have two follow-ups, please, firstly on the capital return and secondly on the costs. On the buybacks, if you could just clarify, the $2 billion is obviously a step down from $3 billion. Should we think about that as a permanent step down, given that you now need to absorb these upfront restructuring charges, or does the $2 billion reflect a shorter timing period between Q4 and Q1 results compared to other quarters? That's the first question.

The second question, I want to have another stab at the costs. Ben asked about this. I think the walk to 2025 is very clear, but if we then think about the walk to 2026, should we assume a similar level of inflation and investment? Is 4% a fair assumption for future years in your view as well? Then when we eyeball slide 29, which has that cost phasing, and it looks like there's a $600-700 million step up in the cost saves in 2026, before the full run rate is recognised in 2027. So are we looking at a 4% increase in 2026 from that 2025 guide, less another incremental $700 million of cost saves, so a sub-$34 billion cost number? Anything you can give us in terms of how to frame, more explicitly, that 2026 and 2027 cost base would be really helpful. Thank you.

GEORGES ELHEDERY: Thank you, Andy. Let me deal with your capital question, and I'll ask Pam to talk you through cost. But remember, we only guided return on tangible equity for 2026 and 2027. We haven't given additional specific guidance.

Look, on capital, $2 billion because we have two months until April and that amount will be reviewed on a case-by-case, quarter-by-quarter basis. We do not pre-commit on any future amounts. It will depend on the outlook and the loan growth and other parameters as we get to it. But the current $2 billion is obviously because we have two months until the results in April. Pam?

PAM KAUR: Thank you, Georges. In terms of cost, we are not giving a cost guidance beyond full-year 2025. The big moving parts always when we look at our cost is what's the underlying inflation, staff costs and we also track very closely what's the increase in fixed pay from a staff cost perspective. So it was expected 3.6% in 2025. It was 4.4% in 2024, so you can see the trajectory shifting as obviously inflation is coming down. We also include in that 4%, and we have for 2025, additional investments, so you can do the maths in terms of where we go to for 2026. But also let's be mindful, so far we're saying for 2025 we are only taking $300 million of the $1.5 billion down to the savings line, so there is an absolute tailwind for the rest of it coming through for 2026, so that's how the maths works.

As we go into 2027, I would expect two things to happen. You'll see some normalisation on the inflation and the underlying built number. We will have the BAU investment, so that continues the same building block, but what's important is even though the $1.5 billion has been taken down to the bottom line we expect through our simplification some of the additional efficiency costs beyond just FTE-related costs, i.e. the ways of working, so that will give us some tailwind, but obviously not to the same extent as you've had in 2026.

GEORGES ELHEDERY: Thank you, Andy.

NEIL SANKOFF: Our next question is from Amit Goel at Mediobanca.

AMIT GOEL, MEDIOBANCA: Thank you. Two questions then from me. One is, again, just when you're talking about the mid-teens RoTE target, so this year on a reported basis it was 14.6%, on ex. notable items 16%. I just wanted to see, are you thinking about that more in line with the underlying ex. notable items level that you've achieved this year and that you can maintain that given the cost savings and wealth management growth that you're targeting, or are you looking at it closer to the reported number that you achieved in 2024?

Then secondly, I just wanted to dig in a bit more in terms of the potential revenue impact or lack of from the cost actions, including the re-prioritisation, just to understand how you're thinking about the marginal or negligible revenue impact. Is that because you just expect the revenue growth elsewhere from the reallocation of cost, or how you're thinking about that? Thank you.

GEORGES ELHEDERY: Thank you very much, Amit. I'll take your first question and I'll ask Pam to address your second question about how we're looking to phase cost and the reallocation and the revenue impact of that.

Look, it's quite simple for the first question. What we mean by mid-teens is around 14% to 16%, and our target is on return on tangible equity excluding notable items. This is how you should look at it. Pam?

PAM KAUR: Thank you, Georges and Amit. Just adding a little bit to the RoTE question, mid-teens is mid-teens, what it says on the tin: 14 to 16%. It’s a target and obviously, if the world’s in a better place, there is an upside, but you also have to look at the downside and that’s how we look at all scenarios in our assumptions.

Coming back to your second question on the $1.5 billion. Firstly I want to clarify, the first $1.5 billion, which is simplification savings, has no revenue impact because it’s literally more senior roles, deduplication, simplifying the matrix. On that, there is no revenue impact and the whole savings is a tailwind which goes straight to the bottom line. On the second $1.5 billion, which is different, it is clearly a reallocation, which will happen from the individual business level, but we will take it all to the Group level. Now, when you take it all to the Group level, there is going to be some time lag between the cost coming up and re-investing, but we do think that the payback period is pretty quick because we know it’s in existing areas we want to reinvest. So that time lag on the revenue should not be that long and that will get compensated.

But as we have said before, we are taking this reallocation of cost, particularly from two areas: ones where we are sub-scale, and so materially it doesn’t really make an impact in terms of your profit – they’re small-scale divestments – but there are others where in terms of profitability they are not materially profitable, like we said on the investment bank. Therefore, as we take them through into new areas with higher returns and being very focused on those which are our competitive strengths, we do think that positivity will come back pretty quickly.

GEORGES ELHEDERY: Thank you, Amit.

KATHERINE LEI, JP MORGAN: I just want to clarify on the cost questions. I would like to ask about the second $1.5 billion. Have we factored that in in the mid-teens RoTE guidance? Because when we are exiting some business, we need some regulatory approval and it’s hard to gauge the timeline. What assumptions do we have regarding these parts in our mid-teens RoTE guidance? The underlying question is will we see some upside, because if we do it faster or slower?

The second one, I still want to ask about CRE question. I think it’s an old question, but I think we still have a lot of people, a lot of investors care about it. Both in Hong Kong and China in last quarter we heard some events which led to some concerns on these areas. If I look at our Q4 numbers, I know that some are edging up on the ECL charges. Is any parts of that related to CRE and what is our outlook on CRE in both regions? Thank you.

GEORGES ELHEDERY: Thank you, Katherine. I’m going to ask Pam to address both your questions but let me share with you just briefly my outlook on the CRE situation. So firstly, in mainland China we believe that we’ve hit a trough, really, in the challenges that the sector has faced. We believe the measures that have been taken to stabilise and start a normalisation process are working their way effectively through the economy. But more importantly, our exposure has materially reduced and therefore it is not going to be any more any major driver for our ECL.

Second, about Hong Kong. We’re actually positive about the outlook of Hong Kong. Hong Kong, first the economy and certainly rate trajectory is going to support that, we’re seeing growth manifest in 2024, in growth outlook in 2025 and a number of sectors really have revived. But also in the CRE space, the underlying CRE market in Hong Kong is strong and resilient. The supply/demand equation is very supportive for the medium to long term and as we said, the rate outlook will also support that.

But then if you look at our exposure to many of the borrowers in the space, the borrowers are much stronger and much less leveraged than what we’ve seen in the China CRE space. They are in a better balance sheet position, albeit they may have cash flow challenges due to high rates, etc, but the loan to valuation we have on our exposure is also very strong. We are in the 50s percent. Therefore, we do not think the Hong Kong CRE exposure in our books will be any material driver of our future ECLs.

Pam can address your questions on cost and take you more specifically in the CRE elements.

PAM KAUR: Thank you for your question. Firstly, yes, we have factored the reallocation into our mid-teens RoTE guidance, and we’ll work as quickly as we can to reallocate costs to higher-return areas. Obviously, if it is faster than our assumptions – we tend to be a bit conservative, which is good space to be in – there'll be some upside. But given regulatory approvals, etc, things can be slower. But all in all, we are still very comfortable to have a mid-teens RoTE for each of the next three years.

I'll take the China CRE question first, and then I'll do Hong Kong CRE. Now China CRE, we've always been very comfortable with our onshore exposure, which has been secured. The issue really has been with the offshore exposure, which was unsecured, but that number is way down from where we started. We are now down to $2.2 billion net of ECLs, and, out of that, there is very little of the exposures where we feel that there is more headwind. And as you can see, the chart for ECL last year was much lower than the prior years. So that gives me a sense of optimism with regard to the trajectory of the China CRE outlook. And of course, you can have one-off cases, and things move on, but, overall, it's based upon our exposure.

Now, on Hong Kong CRE, just as a starting point, as long as the interest rate trajectory is high, of course you can see some customers facing headwinds, because it's a cash flow issue, fundamentally, and that makes you bring more names into the stage 3s. But what's very important to note is that, despite them coming into stage 3s, our ECLs haven't increased, and the answer is quite simple. Most of the names coming through the stage 3s last year have been from a secured portfolio, which is 54% of our total portfolio. And as Georges said, there's a very high level of collateralisation. Average LTV on sub-standard is 46% and, on the impaired, is at 58%, so there's enough room in that space and there is strong collateral. So even when they go to stage 3, there is not an ECL increase, and the ECL increase this year has been minimal and we see nothing changing there.

On the unsecured, 90% of it is investment grade, so 46% of portfolio is unsecured; 90% is investment grade. And it's primarily with the conglomerates and strong developers and, because they have diversified cash flows, the inflow into stage 3 from this portion of the book is very small.

So all in all, even though, with the increase in stage 3s, you see a minimal uplift in RWAs and the capital impact, but a very small capital impact, from an ECL perspective, there is really no material change in the ECL trajectory at this point of time, and we are very comfortable that it's all well within our mid-term guidance of 30-40 basis points.

GEORGES ELHEDERY: Thank you, Katherine.

NEIL SANKOFF: Thank you. Let's go to Joe Dickerson from Jefferies, please.

JOE DICKERSON, JEFFERIES: Thank you for taking my question. Just a quick one following on from the Hong Kong CRE question. If I look at the ECL allowance to stage 3, it was 67% FY23, and that's fallen to, I think, about 26% – 25-26% – in respect of full-year for the Hong Kong piece. So I guess I'm just wondering what explains that decline. Is it the proportion of the stage 3s that are secured that's driving that reduction in coverage, or what's the answer there, and how low can that number go?

PAM KAUR: I'm happy to take the question, thank you. You're absolutely right. It is really because all of the stage 3s, virtually – a very large majority is coming through from the secured and, given the cover, ECL coverage is dropping through. But also we've written off some of the China CRE exposure overall, and you should think in terms of total exposures that we have, and that's also reducing the ECL coverage.

GEORGES ELHEDERY: Thank you, Joe.

NEIL SANKOFF: Thank you. Our next question is from Aman Rakkar at Barclays.

AMAN RAKKAR, BARCLAYS: Good morning, Pam. Good morning, Georges. I had two questions. I think you're pointing to much better pre-provision profit outlook than consensus. I guess we've laboured the discussion around costs, but my takeaway is that it is broadly flattish beyond 2025, and maybe a bit of growth, but well lower than where the street is. I think Banking NII guidance also speaks for itself, so there are two related questions to that.

One is around non-interest income. There's a lot of moving parts on non-interest income, but I think you're coming in with significant momentum on non-interest income, in excess of consensus, but we do have a lot of moving parts there. Is there anything you can do to help us? I know you don't like to talk too much about non-interest income, because there's volatile line items in it, but you've got double-digit growth momentum in wealth management, trade that's probably growing low to mid-single digits. Who knows what markets do, but they're probably not going backwards. Then you've got a retail piece as well. But it just does feel like that is something that is trending well in excess. So if you were able to comment in respect of 2025 consensus, that would be really helpful.

The second is about Banking NII. So the $42 billion guidance this year is great. And I know there's a lot of focus on lending, but really it's deposits that matter, right? You alluded to the strength of your franchise. And loans are going to be subdued for a while, but deposits are already growing and, indeed, they're going to continue growing from here. Can you try and help us with that? Are you able to quantify the deposit growth and average interest-earning asset growth that we might look to expect? Because I think you can comfortably grow your balance sheet despite a subdued demand dynamic in your key markets. I think that would helps underpin the Banking NII beyond 2025.

My last question, then, is around FX and if you were to mark to market any of the cost guidance, for example, for the spot FX rate, if that would affect any of your guidance or commentary today, that would be really helpful. Thanks so much.

GEORGES ELHEDERY: Thank you, Aman. I'll ask Pam to handle your Banking NII question and the FX question, which will have an impact on our Banking NII guidance. I'll take your first question by saying, 'Nice try'. Unfortunately, I cannot give you more than what we shared. What we've shared is a confidence that we're running the bank towards a mid-teens target on return on tangible equity excluding notable items for 2025, 2026 and 2027.

We're also guiding to a medium-term outlook on Wealth at double-digit growth, which we're comfortable with, given this is an area where we're investing in and we see the underlying trends supportive, but this is more a medium-term guidance. It's difficult to evaluate what it means on a year-on-year or quarter-on-quarter basis.

And we're also comfortable that our wholesale transaction banking – given our strong leadership position in many of these areas, we will be able to ride the wave, and we think the wave – the macro is in a low-single-digit percentage growth. It's subject to possible disruptions, but the underlying trend, if you look at global trade with all forms of corridors – not just some of the disrupted corridors – other corridors are likely to continue growing. I think this is how you should look at it. And remember the rate trajectory as well. It's still uncertain, but that will be a way if we see faster rate cuts than we've implied.

Let me just pause here on that part of the question and ask Pam to take you through Banking NII and FX.

PAM KAUR: Thank you, Aman. So firstly, our cost guidance is on a constant currency basis, so clearly, from an FX perspective, there could be an impact.

In terms of the $42 billion guidance, you're right. On loans, we say it's mid-single-digit growth in the medium term, and lower rates will help to get some momentum back, but it's also driven by overall market confidence, so I can't really call out the timing of the return to loan growth exactly.

Now, deposits, clearly, was a key one in the fourth quarter, but we know that, in the fourth quarter, there's a bit of a seasonality effect, so I would very much caution you against annualising that number. But I think, in terms of deposits, if I look at just the drivers for the $42 billion guidance, there's interest rates, which is a headwind at this point of time, given the market-implied rate curves, and then there is the structural hedge, which will be a tailwind. The loans, we have talked about.

On deposits, we feel very lucky to have a strong deposit base, as you've said, and the trust of our customers to give us those deposits is a cornerstone for our strong balance sheet. The deposit benefit for next year is driven by what's going to be the time deposit mix, because that held through in the fourth quarter. As the interest rates come down, we expect the time deposit mix to also come down. So in that context, you can factor that in as part of your overall calculation in terms of the headwinds and the tailwinds.

GEORGES ELHEDERY: Thank you, Aman.

NEIL SANKOFF: Our last question today comes from Rob Noble at Deutsche Numis.

ROB NOBLE, DEUTSCHE NUMIS: Good morning. Thank you for taking my questions. I just wanted to ask a little bit more on the $1.5 billion of reallocation in the strategy. How much line of sight do you have on it at this point? I presume GBM, Germany and France is around $500 million in costs. Do you know where the other $1 billion is coming from, and the phasing of it? And then, linked to that, what are the restructuring charges from this part of the strategy? Should I still be thinking about 1.2 times the costs saved as additional below-the-line items against that $1.5 billion, or is that the wrong way to think about it?

GEORGES ELHEDERY: Thank you, Rob, for the question. Let me handle the reallocation, and I'll ask Pam to comment on the cost implication and treatment, if you want. So first, your math is right. There are a number of activities we already called out. The investment banking refocus will generate around $0.3 billion of saves, and we'll lose about $0.3 billion of revenue against it, so that's quite there. We did announce the German Private Bank, the French insurance. We announced this morning also the sale of our Bahrain retail business. So those are in motion. There are a number of other things we've called out that are in motion. There are a number of selectively identified activities that are non-strategic, which we're working on, and they'll be a continuation of that journey.

If you just note that we said this is a medium-term number. We haven't given a strict deadline, because some of these actions may take longer or may be subject to various approvals that are beyond our control, and we will be able to share with you as and when we move forward. Pam?

PAM KAUR: Thanks. So first, yes, we have identified the rest of the costs. We can't give a precise cost at this point of time. We'll keep you updated over the next quarters. Now, in terms of the one-off costs, yes, there will be severance and other one-off costs, and we will be looking at those costs, to a large extent, given the materiality, where there is, as notable items, so that's the broad picture in terms of how we're progressing. So a good broad line. We own where we are, but I can't give you any more precision at this point of time.

GEORGES ELHEDERY: Thank you very much, Rob. Thank you, all, for your questions. So in closing, strong 2024 performance. This provides us firm foundations upon which we are building. We've simplified the Group and, along with our continued focus on costs, as Pam said, we are committed to delivering c.$1.5 billion of savings to the bottom line. We're also focused on delivering for our customers by capturing growth opportunities where we have a clear competitive advantage and accretive returns. And we are eliminating, over the medium term, an additional c.$1.5 billion of costs from non-strategic or low-returning activities, and redeploying them into these priority growth areas. We're also targeting a mid-teens return on tangible equity in each of 2025, 2026 and 2027.

As usual, Neil and the team are available for any follow-ups. Meanwhile, Pam and I hope to see many of you here in Hong Kong next month for our second HSBC Global Investment Summit. Enjoy the rest of your day.