HSBC

Edited transcript

Post-Results FY Event

26 February 2025, 8.00am GMT

NEIL SANKOFF, GLOBAL HEAD OF INVESTOR RELATIONS: Thanks, everyone, for coming. Welcome. I'm not going to do any introductory remarks or anything like that, so we'll go straight to questions. We'll start here in the room. As always, just wait for the microphone and remember to say your name and the name of your institution, just so we can get the transcript right.

ALVARO SERRANO, MORGAN STANLEY: A couple of questions, please. At the results presentation, you said that you were, I think – I don't remember the word, but optimistic or had the view that, with low interest rates, the Hong Kong loan growth would stabilise. We're seeing some clearing in commercial real estate, which, for me, suggests that maybe it's going to take a while longer. Is there anything you're seeing on the ground that gives you that optimism? And where I'm coming from is, if loan growth is going to be positive, then I think the $42 billion NII guidance looks conservative, so I'm trying to reconcile – if rates are going to take longer to come down and loan growth is not that bad, maybe there's a missing piece, and I think it might be loan growth, but I'm happy to be corrected.

And then the second question is on the reallocation. You've obviously called out the $1.5 billion and given some colour on the revenues, but are there any capital-intensive businesses further down the line that we could look forward to in terms of RWA savings that you could reallocate? Thanks.

PAM KAUR, GROUP CFO: Thank you. So, firstly, the NII – our current best estimate for the year, we are holding that at $42 billion. There is a lot of benefit from deposits, not just from loan growth. In terms of Hong Kong loan growth, you're right. There's no specific signs to call out. The only thing I'd said was that, in January, there had been a bit of pick-up of volume and price stabilisation, but we have to see it in the context of coming from a very low base, so I wouldn't run too fast with it for now, which doesn't say that, from our own book's perspective, an ECL perspective, we consider there to be any material headwinds. So that's the picture, but I would wait a little longer to see how the loan growth comes through. And also, from loan growth, there are broader factors to consider: global, macro, uncertainties and a bit more predictability and confidence needed in the market to go for capex rather than opex spend. So I would keep to the $42 billion, as we've said.

In terms of the reallocation, just to remind, the reallocation really comes from those businesses which are either sub-scale or not strategic, so there's nothing specific, from an RWA perspective, which is highly concentrated, that's being considered as part of that picture. So I wouldn't consider an RWA shift in that space to be material.

GUY STEBBINGS, BNP PARIBAS EXANE: The first question was on restructuring and then one on rate sensitivity. On restructuring, you very clearly pointed out $1.8 billion, but, with regards to the non-strategic shift into priorities such as ECM in the UK and Europe, etc, you've noted there will be some additional severance – notable items. Can you help us at all in terms of sizing? I know there's some uncertainty around what those actions will be, but certainly a lot of the conversations with investors I've had have been around trying to work out what the statutory earnings are going to be in particularly 2026 and 2027, so any colour there would be very helpful.

And then, on rate sensitivity, I'm just trying to understand the uptick in the second half of the year. I know it has come down a lot over the last few years, but it increased in the second half.

I'm guessing that might have something to do with the deposit inflows, but if there's anything else you'd call out there. Thank you.

PAM KAUR: Let me come to the first question first. We are not giving any more guidance on that reallocation, and the reason is quite simple: for the first $1.5 billion, we know it's direct FTE savings from the reorganisation, named teams, etc, so therefore, the severances are straight through. In the other one, it's not related to just changes in market participation or shrinking footprint. There could be sales. There's M&A activity, so there isn't really a mathematical way of saying there's an upfront or a severance cost-related matter to it. So that's the answer on that.

FAISAL YOUSAF, GROUP TREASURER: There was an uptick in the NII sensitivity. I presume you're talking about the NII sensitivity to a 100 basis point move. There was a marginal uptick from Q3 to Q4. I think the first point I would make is that there will be slight variations in that as things happen, and as the rate environment moves around, and as we do things within our portfolio. The trajectory, as you've called out, has been downward for some time, going from $7 billion down to the current level of $2.9 billion.

The reason for the uptick – probably a couple of things I would call out: the Hong Kong market and the deposit flooring in Hong Kong so, as rates go down, the sensitivity varies somewhat. We've also got, as I'm sure you're aware, a set of euro French mortgages that we've put available for sale now, and the hedging of that has had a slight influence on the sensitivity for the euro currency, so that's really driven a bit of the movement there as well, but it is very minor in the scheme of things. $0.2 billion, I think, was the change.

GUY STEBBINGS: Okay. Thank you, and in terms of just looking forward, should we just assume flattish from here is our best assumption, or are there more things you can do?

FAISAL YOUSAF: In terms of the sensitivity, it will move around with the rate environment. As rates drop, you could see a slight uptick in that. That's just natural in the way it behaves, but we are looking to increase our structural hedging this year, albeit at a much slower pace than we've done over the past two years. So not a significant shift, is what I'd say, from where we are today.

MING LAU, CFO, ASIA: Building on Fas's point related to Hong Kong and deposits, the way to think about it is the Hong Kong savings rates that we're paying on US dollar and Hong Kong dollar now are getting to a point where you can only cut them so much before you get to zero, so there is convexity in that calculation. We're broadly paying about 25 basis points[1] now on savings accounts, so, if you think about further rate cuts, you'll get to a point, as we pass through, where it hits zero, and then that naturally means your NII sensitivity past that point will increase.

AMAN RAKKAR, BARCLAYS: One very quick follow-up to that one, and then I'll just add two questions. Just about pass-throughs, previously, we've talked about – I think your disclosed sensitivity assumes a 50% pass-through, but Georges has previously really laid out the potential upside of betas coming in better. He talked about a $600 million swing if you get a 10% better pass-through. Could you just lay out your pass-through experience in Q4 and whether you think you can replicate that kind of level going forward? It sounds like we should think about lower pass-throughs going forward than what you've executed in Q4.

There's a question about BoCom recapitalisation I'm getting a lot from clients this morning. There's news flow this morning about China looking to recapitalise banks. Could you help us just work through what the capital impact is if that was to take place and if there's any consideration from a fair value calc on the value in use going forward? What's the net impact of a BoCom recap?

On Wealth, what's the outlook for relationship managers, net new money going forward? I think my take is that your Asia piece is doing well. I think you underperform some of your peers, actually, from an AUM point of view. I know there's a definitional difference here. So I wanted to – my guess is that part of that $1.5 billion that you're recycling is about, for example, hiring

[1] Correction: this was incorrectly stated as 62.5 basis points during the meeting

RMs in Asia. So can you help us understand the outlook for RMs and, ideally, net new money, AUM formation, in light of that recycling, please? Thank you so much.

PAM KAUR: I'm happy to pick up the Wealth first, and then I'll ask Jon to pick up on BoCom, and if you can pick up on the pass-through rates, please, Fas. Ming, please add on the Asia piece. So, for Wealth, we've said it is a real strategic priority for us, and part of that is both in terms of building on Wealth in Hong Kong, whether it's building in terms of opening new wealth centres, hiring RMs, and looking at the segmented market, from $100,000 up, when we look at from our view of defining wealth, and particularly focusing around the people with AUMs around $500,000. We think that's a sweet spot, so we'll add more there, but in addition to Hong Kong, we are also going to invest more in Singapore, and that's where the investment is in terms of whether it is doing more from a technology app perspective, hiring of RMs, and then linking it through to what we're doing also in the UAE, plus India, because if you look at the triangulation of the wealth piece, it's not just from an Asia perspective, but it's connectivities with the diaspora who come from – whether it's from the sub-continent, linking back to the UAE and to Singapore. So that's really our broader sweet spot.

I would just say that, in terms of growth numbers and the rest, it's always good to compare with our competitors to say it is X percentage growth over what baseline, so when you are growing from a higher baseline and at a similar rate to your competitors, you actually increase the gap between yourself and the competitors. So, like for like, a double-digit growth from a smaller base versus another is not the same. So I'm very comfortable both in our investment prioritisation, management focus and the linking through from our experience in Hong Kong and leveraging it, whether it's product, whether it's applications, whether knowing what has worked from an RM hiring, training, embedding perspective. That's something which will be key for us.

JON BINGHAM, GLOBAL FINANCIAL CONTROLLER: On BoCom, we continue to hold our 19.9% investment at the share of its tangible net assets. We didn't take any further impairments, so the last impairment we took was Q4 last year. We don't have any unique insight into the capitalisation, so we are subject to events as they unfold, and we'll continue to assess that as more information comes out.

It is possible, and we put this in our disclosures, that we could trigger a dilution loss if our share gets diluted and the price is below the book value of net assets. There is the possibility of impairments. That will depend on how the capital is deployed in the Chinese economy and over what term that gets, but we haven't sought to guide on any of those. What we would reiterate is, from a capital perspective, because of the way that we carry capital deductions against this, that immunises any capital or dividend impact of these movements. So we'll update you as the situation evolves.

FAISAL YOUSAF: On betas, Aman, as you rightly say, the tables that we disclose are on a stylised 50% beta assumption. To the first part of your question, if we look back at our experience from 2021, through to the peak of the rate cycle, on average, it was 50%. Actually, it started with a lower beta, and then that picked up above 50% towards the end of the hiking cycle. On the way down, we broadly expect it to be symmetric in the sense that higher pass-throughs at the start but then reducing as we see further rate declines.

In terms of sensitivity, if we think about it this way, a 10% move in beta – so, at the moment, we've got $2.9 billion for a 100 basis point shift. That's based on a 50% beta assumption. If you changed it by 10%, that's worth about a $0.6 billion shift in sensitivity.

AMAN RAKKAR: So that's realistic that that could happen from here?

FAISAL YOUSAF: I'm not going to say it's realistic. On average, 50% is a reasonable assumption, as you go down. We present on a stylised beta because it allows one to look consistently quarter upon quarter, but 50% on average, as we go down to a more normalised rate cycle, is not probably a bad assumption.

NEIL SANKOFF: And you've got two things happening. You've got some deposits where you can pass through more than 50%, but then, as we were saying before, you've got some deposits that are already priced below 50 basis points, so you wouldn't be able to pass through even 50%.

ED FIRTH, KBW: The first question would be just following on from the BoCom issue. As a base case, should we assume that you would subscribe to your fair share if there was a recapitalisation? I mean, you obviously carry in your books at way in excess of market value, so I assume internally you think it's worth a lot more than the market price, so should we assume from that that, therefore, if there was a recapitalisation, you would take your share?

Then the second question is about the new strategy. I don't want to be too critical, but it just feels a bit like the same old HSBC, cutting back, selling stuff off, and that made a lot of sense when you're trading on 0.7 times and making a 7% return, but you're now trading over tangible book. You're making double-digit returns or better, and I'm just not sure at what point do you say, 'Look, we are now a confident company. We're going to put capital to work. If we've got subnormal market shares, we're going to grow, rather than just close the business and leave'? Is there a stage at which you can start saying, 'Look, we're going back to what we were 10, 15, 20 years ago and actually grow this franchise', or is this now a thing that we should assume forever now, that HSBC is just going to be a reductionist, return capital, focus on dividend yields, etc? Thanks very much.

PAM KAUR: Firstly on BoCom, I don't think you should assume anything. We are very comfortable with our investment, the way it stands. We don't know the full details on how the capitalisation is going to be, and we will look at it as it comes through, so please don't assume anything.

On strategy – this is my third role in HSBC, but I've been a part of the GEC for the last 12 years, and I'll tell you why this is different. In the past, when we have streamlined or shrunk, it's been a cost-driven exercise. It has been very much at reducing the junior-level staff, moving people offshore, doing the normal productivity, efficiency things that people do piecemeal, and then streamlining some businesses. This time, why it's different is that, firstly, we made it very clear what our four pillars are. So we have made a distinction between how we look at our two home markets, Hong Kong and the UK. We have made the matrix much simpler; we have given much more personal accountability because we think they are the drivers of growth. What's come between us and our growth sometimes is the speed with which we could react and respond, and the matrix was part of that. So that's the real objective, and the cost saving and the rest comes as a consequence of the reorganisation and de-duplication.

Secondly, in terms of our businesses, we have very clearly put our stake out to say we have our network, which primarily supports our wholesale transaction banking business, whether it's FX, trade, payments, or leveraging our own capital financing, debt financing capabilities, because it's the strength of our balance sheet and our deposit base which is the cornerstone of the franchise. We've never before made this delineation between saying, 'This is what we will do, and this is what we will not do', hence the call also on the investment bank, and it's not just the amount of money, and it's not token. It's a very much cultural shift to say we know what our competitors' strengths are. We are very comfortable with them, but in the same token, we also know where we have a right to compete, and when, and where we don't. So there's no point being number 20 or number 40 in any particular business or product line.

The piece on the WPB is very important because, in the past, what we have done is looked at our businesses as one whole lot. We are now saying there are two markets where we have scale and where we want to absolutely be looking at the full spectrum of the retail business. But elsewhere, we are very much pivoting to a premium, affluent base, and that's a much greater shift too, not just from lending, but more fee income. That's the difference in terms of how we are doing the reorganisation, the degree of change, and what we are driving to in terms of rebalancing the totality of HSBC, rather than just relying on our very strong balance sheet, which will always be there, but there is lots to add on to that. I would look at it as a focused growth drive with the confidence of having targets which are over three consecutive years in terms of RoTE with sufficient levers to pull, because that's the reshaping.

AMIT GOEL, MEDIOBANCA: One clarification, and then two questions, if possible. So the clarification – on the strategy – just to make sure I've got it completely clear in my head, in terms of the $1.5 billion of cost saves and reallocation, what proportion has already been identified and is already set in action, versus what proportion is still to be decided and to be seen?

And secondly, in terms of the profitability and the target, I saw, in terms of your compensation and Georges' now, there are two slight changes versus last year which I focused on. On the RoTE, there's the 18% target for you to get full payment in your LTIP versus the 16% where you only get about half of that. I'm curious what you think, or what the main levers would be, for you to get beyond that mid-teens and to get to that 18% so you get full recognition of performance, so the main levers there.

On the 2025 plan, there's a metric on fee growth in excess of balance sheet growth, and I think the consensus has got something like 5% fee growth and 3% balance sheet growth, so about a 2 percentage points delta. I'm curious if that would take you to the top end of payment there, or you think you could do a bit better than that, or you'd need to do better than that to get full recognition on that metric. Thank you.

PAM KAUR: Firstly, in terms of costs, I really want to distinguish between the $1.5 billion cost saving, which is a straight to the bottom line, where there is the detail, there is the timing, and we have given that very clear view to say that comes through in 2025 and 2026 and then flows into full year 2027. The other $1.5 billion is quite distinct. We will give you details of that as the deals come through - we said that in our results. There are areas which we are working on at the moment with which we are actively engaged, but clearly, I'm not going to disclose those here, and then there is another piece further down.

So I'll break it into three buckets: announced, done, details there; working on, in progress, with some degree of detail and focus – obviously, timing, in many cases, is regulatory approval driven - you can't be precise; and the last piece is knowing what we are going to do, but early stages of going through the process. That's how it would work through, but we are very keen to address that as soon as possible. It will not all be done in 2025, 2026, but when we say 'medium term', we want the bulk of this done through 2025, 2026, 2027, which then aligns to your next question, which is the mid-teens RoTE in the medium term.

What Georges is going to be paid, I'm going to be paid, is a RemCo decision, and our target is right at the centre of what our performance-related pay is. There is the downside, and there is also the upside. We've always said the target is what we manage to, but we aim to beat the target as the market environment and other opportunities come through. The kind of thing that could happen would be where there's volatility in the macroeconomic environment, market confidence in terms of loans. I think for fee income there's a pretty strong demographic trend – the market environment doesn't that much change it - so that's very much being competitive and being in that space.

Our only target is for RoTE. Balance sheet growth is more of a mid-single digit over the medium term, and fee is very much double-digit, and I do recognise double-digit is a very broad church.

NEIL SANKOFF: And that's just on Wealth, of course, not on all fees.

AMIT GOEL: And are you confident you can get to the top end of your performance pay?

PAM KAUR: I'm never going to say I'm confident to get the top of my pay. Will I work hard enough to deliver the best we can for the organisation? Absolutely - but it's not going to be at the cost of going beyond our risk parameters. We're not just going to grow and be reckless about it. That's not in our culture, and we want to very much preserve the good that we have while we're trying to grow.

JON BINGHAM: I think you understand this anyway, but just to make sure that you've factored this in as you think about our targets - we changed the remuneration structure, there is more upside stretch in the targets this year, so we shouldn't signal the top end of the RoTE last year's remuneration to this year's remuneration is signalling a change in performance - that is also changing the structure of our remuneration. But, as Pam articulates, we do feel there's a lot of upside potential in our business, but it depends on a lot of other factors.

ANDREW COOMBS, CITI: If I could have one on Wealth and then one on RWAs. Firstly, on Wealth, if I take your overall Wealth and Personal Banking numbers, both the Wealth balances and the invested assets are down Q on Q. Part of that is to do with the French life insurance business, but what I'm particularly interested in is the move in Asia, because the invested assets have gone from $662 billion to $645 billion in Asia. You call out fluctuations between the assets and the deposits, but I don't think you provide the Wealth balances for Asia. Can you give us a feel for the underlying trajectory in Asia, and why you have negative net new invested assets in Q4? And if you can provide the overall balance number, it would be very helpful, just so we can see if it is just fluctuation.

Then the second question on RWAs. You start the year with $838 billion. There's almost no loan growth at the moment. Basel IV has been pushed out to January 2027. You've got a host of potential divestments coming through, so French home loans, you've called out; if you believe the press, Australia, Malta, South Africa, etc, etc, all small, but add up. Do you think your RWAs will be down year on year?

PAM KAUR: Let me take the RWA question, a little bit on Wealth, and then I'll ask Ming to give some flavour on how things are progressing from an Asian perspective. So firstly, from an RWA perspective, Basel is, actually, a modest benefit as opposed to a headwind for us. Therefore, that benefit has gone a little further out. It's very modest, but it's still there.

In terms of the businesses that you've talked about divesting, they're all very sub-scale, and I agree they do add up, but it's very small elements, adding up, so I won't read too much into it. From a growth perspective, I want to make one point - we are very committed to supporting our customers in every market we are. We have our lines. We hold to them. But at this point of time, given the demand, there are commitments which are not utilised, so we do expect that that will flow through over time, and that's not going to be something we are showing as an RWA shift.

From a market perspective, given our view on our portfolio, we don't think there's going to be any significant headwinds from a CRR downgrade. All in all, it kind of nets off.

From a Wealth perspective, having just been there last week, but also having spoken to colleagues, the momentum from the growth in Wealth, particularly in Hong Kong, but more broadly in Asia, we have seen some very tangible signs of it through the month of January. Now, that is always, if you look year on year, a time of year when it always picks up, and the momentum builds up first quarter, but then you don't use that first quarter, and then you extrapolate for the full year. Ming?

MING LAU: Andy, it's good to see you again. Asia net new invested assets, you could see a drop of about $2 billion in the fourth quarter. There's seasonality in that. So the fourth quarter is usually the slowest quarter for us. We did see some change in behaviour on the clients in the fourth quarter, and you'll notice that the Asia deposits went the other way. So deposits went up, net new invested assets came down, so there was a shift from clients in terms of moving some money out of Wealth and into deposits. We've seen that now as we work through the first quarter reverse, so clients are re-risking again.

So my comment there is, really, don't take that fourth quarter as a run rate. We are continuing to see very, very strong momentum on the Wealth side of things. So for the full year of 2024, we saw net new invested assets of $47 billion, and that's on top of $47 billion in 2023.

ANDREW COOMBS: You don't provide the Asia balances for Wealth, or do you? The invested assets are not invested assets with deposits as well, because the issue is your peer that we all look at gives you net new money based on balances and invested assets, so it's on a different metric.

MING LAU: We only disclose invested assets.

NEIL SANKOFF: But you also have the deposit numbers. We just don't say these for Asia whether these are Premier, Private Bank deposits.

MING LAU: But regardless, invested assets is $645 billion at the end of 2024, and that's an increase of nearly $97 billion year on year. Some of that coming from the net new invested assets, and clearly the markets have also performed well to help grow that. Momentum wise, you would have heard from Pam and Georges on 799,000 new-to-bank accounts. Roughly 60% of that is from non-resident Chinese. That should give you a very good lag indicator in terms of momentum to drive growth in 2025, because the reality is, when we open these accounts, the clients don't immediately fund the accounts. So typically, the peak is you'll see

12 months from when they open the account. That's when we really see the invested assets come through. So that growth that you're seeing in 799,000, in my mind, is a big factor in terms of driving the growth in 2025. That's how I would think about it. And so far we continue to see that demand there in terms of new accounts.

JON BINGHAM: And there's some additional detail on page 107 to 109 of the annual accounts, which goes into Asia private banking balances, including deposits, so that might be helpful.

GURPREET SINGH SAHI, GOLDMAN SACHS: My question is regarding non-banking NII and the potential for growth in that. I know we flagged a double-digit Fee and other income growth in Wealth, but then Wholesale Transaction Banking growth, we didn't say anything. It seems like the global FX market is growing by mid-single digit, which is half of this Wholesale Transaction Banking. Trade and payments, is the other half, and trade flows are growing at, let's say, at the very least, 4%.

So if you assume mid-single digit here, and then double-digit, even 10%, in Wealth, why can't we have 7% or high-single digit growth? I know we don't have guidance. I'm not looking for that, just for colour in the wholesale transaction banking, so we will reach 6, 7, 8% on the non-banking NII. That's not what the market is expecting, and implicit is not what the guidance is also on the RoTE. So why is this Wholesale Transaction Banking slower growth for us compared to industry data?

And the related question is, am I missing something else like credit card and other account fees, which is not in these two things, but accounts for non-banking NII, and that can be flattish, or no growth. Is that the one?

PAM KAUR: In terms of the material drivers, you're right. It's really FX. It's trade. It's payments. From a credit card and fee piece, that's not a material item for us. I would say, overall, as we look at when we give guidance, we look at a range of scenarios. We look at the upside, the downside. We come through a mid-single digit and we don't necessarily define mid-single digit, but, by all accounts, mid-single digit can include 4 to 6%, or low single digits on the lending side.

NEIL SANKOFF: On the retail, the non-Wealth retail Fee and other income, that was about $1.3 billion last year, and it did grow a bit versus the prior year. But I think, if you were to look back over the last four or five years, it's been relatively stable.

ALISTAIR WARR, AUTONOMOUS: Two quick follow-ups. One more niggle on BoCom, and just on Hong Kong, perhaps for Ming. On BoCom, with the capital raise, we're early days, but if this rule of thumb on state-related assets not raising at below book happens, so you have a slightly unusual looking placing price, say, would that affect your decision to follow or not, and have implications for the valuation that it would be maybe a strange investment decision, but support the carrying value?
And then just a second follow-up question on the Hong Kong budget today and any excitement on the stamp duty thing, or is it all a bit marginal?

PAM KAUR: On BoCom, we're not going to speculate. We'll see what the terms are, we'll absolutely look at them, but in no way it's any kind of indication on our commitment to our current investment or, the strategic importance of China for our franchise.

MING LAU: The Financial Secretary did make a speech today. I think, based on initial reading of what's been announced, there were no additional surprises, it looks like, in terms of stamp duties. If you look at the stamp duties for the residential properties in the market, the bulk of the special stamp duties were already relieved and changed in his previous budget announcement. So when you look at what's been announced today, it doesn't look like there's any material additional changes that will help the property market, if that's what you're looking for.

BENJAMIN TOMS, RBC: I appreciate you won't want to talk specifics on the individual geographies, but we've talked today about geographies where you're sub-scale. I think retail is probably a focus of that. You've also talked about how you'd like to execute by 2027, so it forms part of our model. If we don't talk about individual geographies, but we talk about in aggregate, how many geographies do you think that you are sub-scale in, and if we aggregated it together at a revenue level, can you give us an indication about what kind of headwinds to revenues that might be? Less than 5%? Is that the right way of thinking about it out of 2027? Thank you.

PAM KAUR: Let me pick up the point on revenue first, and then talk about geographies because the reality is, when we talk about a geography, it's mainly market participation - like we've done on the Bahrain retail - it's not the entirety of a geography.

On revenue, the way we are looking at this is, when we reallocate the costs, the costs come off, they come to the group, and then the group determines where it's going to reinvest, and there is a bit of a time lag. So you get the benefit of the costs as a tailwind, but you haven't reinvested as yet in the other area. It's not a lot, but there's still some time lag. Similarly, the revenue that you lose as a headwind - you expect that to come through where you've reinvested, and at a higher return. So I don't think there is any link between saying, 'We're cutting these costs and this is the revenue stream', because it's not a reallocation of costs which is going to the bottom line and not being reinvested for growth purposes.

If you look over the medium term, this is not a story of cutting down footprint, reducing revenue and just driving costs. It's more in terms of having the cost to the bottom line where there's no revenue impact, which is the first $1.5 billion, and the second $1.5 billion is the redeployment into areas which will give us more revenue and better returns.

SHEEL SHAH, JP MORGAN: On CRE, I appreciate there are differences between Hong Kong CRE and mainland China CRE in terms of the exposures and the developments in the market, but how are you thinking internally of managing this exposure in the provisioning of Hong Kong CRE, and how did that compare to maybe last year's developments on your management of mainland China CRE?

PAM KAUR: So China – I want to make a distinction between onshore and offshore exposures. The onshore was secured, so there wasn't the risk associated with them, and we did pretty well with them. The offshore China exposures which were in Hong Kong were not secured exposures, so that's the big distinction between that.

And I'll come to you on Hong Kong, why we are more comfortable. In Hong Kong, about 54% of our exposures are secured and 46% unsecured. The secured ones have very low LTVs, very strong collateral, and therefore, even when because of cashflow reasons they go into a stage 3, the ECLs are minimal. From a regulation perspective, the HKMA was very forward looking. They've got very strict guidelines on the LTVs and lending, and that really helped the market to stay stable, even through the various price shocks that the Hong Kong markets had had over the years.

In terms of the unsecured, 90% of it is investment grade, and it's investment grade in the hands of conglomerates who also have property exposure, but by the nature of their business have diversified cashflows. So therefore, in terms of the performance of their book, there is very little, if any, that's going into stage 3s. That's the way to look at it, both the nature of the market, the nature of the borrowers, as well as our participation in it.

EMMA XU, BANK OF AMERICA: The Hong Kong business generates a RoTE of 38%. That number is terrific, but we've noticed that the Hang Seng Bank, their ROE was only 11%, so wondering why there is such a big discrepancy between Hang Seng Bank and the rest of your Hong Kong business. Why is the rest of your Hong Kong business – the profitability is much higher?

PAM KAUR: Fundamentally, from a HASE perspective and us, the business positioning in terms of the products, the customer segments, are different, and the scale is different. From a Hong Kong perspective, the benefits we get from the Wealth, the retail and the fee income is a positive tailwind for HSBC's Hong Kong business, as compared to Hang Seng.

MING LAU: Just to build on that, the mix of the two different businesses will be slightly different. HSBC, on the red brand side, will have a bigger deposit base. It's got a bigger current and savings account base. Hang Seng would be a little bit more dependent on time deposits, so that comes in as a factor. Naturally, the red brand would also have a slightly bigger Wealth business, which also helps the RoTE. And the last point I would make which you need to keep into consideration is Hang Seng, because it's a standalone entity, when you look at the capital levels, it's carrying pretty high levels of CET1, so when you take that into consideration as a factor, that also does drive down the RoTE slightly for Hang Seng.

EMMA XU: We noticed that Hang Seng's CET1 is 17.7%, much higher than the group. So do you think there is room for you to further optimise the capital of the Hang Seng group and improve the profitability of that subsidiary so that it can further improve your profitability for your Hong Kong entity?

PAM KAUR: Hang Seng is a listed entity. Where they look at their risk appetite in terms of their capital is a decision for the Hang Seng board.

KATHERINE LEI, JP MORGAN: In terms of capital return, you are doing share buybacks, but now you are trading above book. Will you consider continuing to do share buybacks or will you consider an increased dividend payout ratio on top of the 50% that we have guaranteed in terms of the structure of the total shareholder return?

I just want to clarify - just now, you said a double-digit fee growth is on Wealth only - it's not on total fees - if that is Wealth only, then how should we look at transaction banking and all those – what is the trend so far, and what kind of growth rates do you think is appropriate for 2025?

PAM KAUR: For the first question, a very simple answer - we don't consider our share price versus tangible book value to be, in any shape or form, a ceiling at which to stop share buybacks. So, for us, we are comfortable with our 50% payout, and we are not changing that, and we are looking at the share buyback as a preferred method which gives us the flexibility as well as helps to reduce share count to pay back our shareholders.

In terms of your other question on fees, the only guidance we have given is as it relates to Wealth. In terms of the specific fee guidance for non-Wealth, we're not giving any guidance, but a lot of factors will come into play. We are number one or number two in a range of areas, whether it's trade, FX, payments, so it's going to be driven by changes in some of the supply chains and trade corridors. We think we're very well positioned there because, in the traditional trade corridors, you have a lot of competition from other peer banks, but given our presence and network, we are able to very quickly adjust and respond to our customer needs, so I feel optimistic in that respect.

In terms of FX payments, it's volume driven as well, so nothing specific to add, other than to give you a bit of colour. The world is still growing. The way it's growth and the corridors in which it's growing may shift or change, but we do believe that our positioning, particularly in Asia and the Middle East, puts us in a very good spot to take advantage of that increase as it comes.

FAISAL YOUSAF: To supplement your comment on the buyback, what I'd say is the price-to-book ratio metric is often quoted when people think about share buybacks, but our view – and if you look at it carefully – is that it's much more nuanced than that. Share buybacks can be a really efficient form of capital distribution at any level of price-to-book ratio. So you look at your cost of equity versus return on equity. You look at other capital deployment opportunities, your regulatory capital, and when you take it into the mix – the price-to-book is not a ceiling on when it's effective to use share buyback for capital distribution.

JEREMY HOU, CICC: You are reintegrating the CMB and GBM divisions which have been separated many years ago, so I suppose now they may have very different approaches to do business, so do you anticipate any, maybe, challenges or conflicts when you are reintegrating these two segments?

PAM KAUR: A really good question, Jeremy. So, yes, we are integrating the businesses overall, but in terms of the people on the ground, the RMs who are providing support to the customers, that pretty much stays and is in line with what the customer need is, so I don't expect that to be in any shape or form detrimental.

There are areas where the two businesses can learn from each other. GBM had a good history, track record in terms of some of the balance sheet velocity approach they took, and that will be something that the CMB portfolio can also leverage at the right time, so that we can even go further in terms of supporting our customers.

On the other hand, there was some good technology work done, particularly in the trade space, in CMB, in terms of customer journeys, that GBM can leverage. There are a lot of what I would call activities and strengths they can leverage, but we're very mindful that the customer support, the customer engagement model, stays pretty much the same, because that has served us very well.

AMAN RAKKAR, BARCLAYS: I just wanted to ask on the net interest margin in the UK ringfenced bank, because it went backwards in Q4 - that's not a trend we're used to seeing in the other domestic UK banks, so what happened in Q4, and do you think NIM can expand from here?

NEIL SANKOFF: Banking NII went up a bit, so that is the quarter on quarter, and again, the reason why we point you to banking NII is just because you'll get this volatility in NIM. And NII, we're working on getting average Banking NII-earning assets - we're working on that. I don't think we'll necessarily give that to you at anything other than the group level, but watch this space, because we don't have a precise timeline yet on when that will be available, a lot of work has to be done on that.

We've said on the UK ringfenced bank NIM that you should expect it to be broadly stable over the next quarter or two, but 'broadly stable' means plus or minus 5 or 10 basis points because you can get volatility quarter to quarter from small things that are done in the Markets Treasury business on the hedge or other positioning activities.

PAM KAUR: Don't take it as a trend.

GUY STEBBINGS: On Hong Kong CRE, you very clearly articulated why you're not particularly concerned, but I'm guessing you do a lot of scenario analysis, so maybe you could just help us think about under what scenario you would be concerned about material losses and how unlikely you think that is.

And on capital, I think a few people have referenced this. Before, you had hinted about moving down to a 14.0% ratio. It's clearly 14.5%, the target for now. Is there a means by which you could lower that target? I know simple capital stack analysis doesn't really work that well for HSBC, but it does look like there's some wiggle room there, so can you manage down that capital in certain areas?

PAM KAUR: In terms of the CET1, it's a range of 14% to 14.5% that accommodates, RWA growth or other opportunities - I would look at it more like 14% to 14.5%, rather than 14.5% to 14%.

From a Hong Kong CRE perspective, we do from an IFRS 9 perspective all kinds of extreme downside scenarios for our portfolios, and when we look at the broader ECL guidance for our financial planning purposes, we look at a range of them. We have reverse stress-tested further reductions in valuations – 20%, 25% plus – and we feel we are still comfortable on that.

We have done some probability for distressed sales. We do valuations; we just don't say the valuation the way it is today. We give a probability to that, if you have to do a distressed sale, what it does to the portfolio. And under all those circumstances, from an ECL perspective, we feel comfortable because that's the outlook, and the distressed sale comes as part of that calculation.

The extreme stress would be very high interest rates and continued pressure on pricing and valuations, and also rentals coming down because what we've seen is people are not buying, but rental values coming up, so rentals have to come down in terms of demand and price, and valuations have to come significant double-digit down for the reverse stress test to hit.

JON BINGHAM: And just to build, we do give the Hong Kong-specific wholesale downside 2 scenario on page 157 of the accounts, and even on downside 2, it's not that huge, the Hong Kong downside ECLs.

NEIL SANKOFF: Thank you very much, everyone, for coming. Thank you for all your questions. If you have any follow-ups, you've got the IR team here in London and Hong Kong. Thank you all.