HSBC

Transcript

Q1 2025 Results
Analyst and Investor Call
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GEORGES ELHEDERY, GROUP CEO: Welcome, all, to today's call. I'm joined here in London by Pam. Before Pam takes you through the numbers, I would like to begin with some opening remarks. Overall, there was a strong quarter, marked by three key drivers – momentum in our earnings, discipline in our execution, and confidence in our ability to deliver our targets.

First, we have strong momentum in our business. We had a strong first quarter, with profit before tax up 11%, and an annualised return on tangible equity of 18.4%, both excluding notable items. We had our fifth consecutive quarter of double-digit growth in Wealth, and attracted net new invested assets of $22 billion, as well as another 300,000 new-to-bank customers in Hong Kong, continuing the trend from last year. We also had a strong performance in Transaction Banking, in particular in FX, and our equities and debt trading businesses, benefiting from higher client activity on the back of higher volatility.

Second, we remain focused on executing our strategy with discipline, and are on track to deliver the cost actions we set out in February. We are progressing at pace to deliver on the simplification-related cost saves, as well as the strategic cost reallocations. We also continue to take a disciplined approach to our investments and capital allocation to drive growth across our four businesses. We will provide you with a full update on this at the half-year results in July.

Third, the external macroeconomic environment is less favourable and more uncertain than it was in February, as the uncertainty around trade policy dampens business confidence and constrains investment. However, we remain confident in our ability to deliver our targets. Our balance sheet is strong. This is reflected in the deposit surpluses we hold in every major currency in each of our four businesses, in every geography in which we operate. This is why our clients place their trust in us during times of predictability, and even more so during times of unpredictability. These provide us with a steady recurring income stream and underpin the lion's share of our Banking NII. Growing our structural hedge has reduced the sensitivity of these revenues to interest rate cuts. Our balance sheet is also underpinned by a strong capital position and a high-quality credit portfolio. We also have resilient recurring fee income from stable flow-based activities in Transaction Banking and in Wealth, with a much smaller contribution from Investment Banking event-driven business.

I encourage you to keep the diversity and quality of our earnings in mind when considering how changes in trade policy will affect our business. Our Wholesale Transaction Banking business covers much broader activities than those related to cross-border trade. And within our trade finance business, we have diverse products and cover all major global and intraregional corridors.

To assess the impact higher tariffs could have on our business, we modelled scenarios that contemplate significant but plausible increases in tariffs by the world's largest trading blocs, resulting in a notable slowdown in global trade, as well as a slowdown in global GDP growth. In a plausible downside tariff scenario, we estimate that there will be a low-single-digit percentage impact on the group's revenues. Separately, our consensus downside scenario models a slowdown in global trade and GDP growth as a result of an increase in tariffs. The impact of this scenario would be incremental ECLs of $0.5 billion. On this basis, we remain confident in delivering a mid-teens return on tangible equity for 2025, 2026 and 2027, and are reaffirming all of the guidance that we gave in February.

We recognise, though, that the broader impacts of the current conditions are more difficult to quantify, and we will continue to monitor these as we formulate our ongoing outlook.

Importantly, in the current environment, customers look for the strength, stability and expertise of a trusted partner. We are extremely well-positioned to support all of our customers, wherever they are, however their needs evolve and whatever the market conditions.

Finally, we're also pleased to announce an up to $3 billion share buyback, and a 10 cents per share interim dividend, reflecting our continued focus on capital returned to our investors.

With that, let me hand over to Pam.

PAM KAUR, GROUP CFO: Thank you, Georges. Thank you, everyone, for joining. The momentum in our business has enabled us to deliver a strong first-quarter performance, headlined by an annualised return on tangible equity of 18.4%, excluding notable items.

We had very good underlying profit and revenue performances. Credit remained stable, and we maintained a disciplined approach to cost management. We are pleased to announce a first interim dividend of 10 cents per share, and a share buyback of up to $3 billion. The buybacks we completed over the last 12 months have helped take us closer to our target range of 14-14.5% CET1. We will continue to return surplus capital to shareholders, with buybacks remaining our preferred method. As always, a decision on any share buyback will be made on a quarterly basis. It will depend on organic capital generation and the capital needs of the business.

Unpacking the revenue story, excluding notable items, revenue of $17.7 billion was up $1.1 billion on the first quarter of last year, driven by fee and other income. It also included a $0.3 billion increase in debt and equity markets, driven by higher volatility, and a favourable impact of $0.2 billion in the quarter from the disposal of Argentina, which we completed at the end of last year.

On banking NII, excluding the impact of Argentina and other notable items, the banking NII run rate remained broadly stable on the fourth quarter. The impact of interest rate cuts and two fewer days in the quarter were offset by the repricing of liabilities and structural hedge assets, and some favourable changes in asset mix. We continue to expect banking NII of around $42 billion in 2025. As previously stated, this is not an underpin. It remains our expectation at the present time, based on the current market rates outlook and our own projections.

Moving to fee and other income, Wholesale Transaction Banking was up 13% on last year's first quarter. This was driven by a strong FX performance, as elevated volatility drove substantial volumes of client hedging activity. Excluding the impact of disposals, Global Payment Solutions was up 3% year on year, and Global Trade Solutions was up 6%.

In Wealth, the strong momentum from the fourth quarter continued as we delivered our fifth consecutive quarter of double-digit year-on-year growth. High client activity levels in Asia, primarily Hong Kong, were the key driver, and there was broad-based growth. We are pleased that the investment we are making in our Wealth products, distribution channels and customer journeys is translating into results – a record new business CSM, 301,000 new-to-bank customers in Hong Kong, and $22 billion of net new invested assets, $16 billion of which was in Asia. The CSM balance, which is a store of future value, was up again this quarter. As you know, the CSM balance is subject to market fluctuations, and sensitivities to key indices are in the earning release.

On credit, our first-quarter ECL charge was $0.9 billion, equivalent to an annualised charge of 37 basis points as a percentage of loans and advances. This included a $150 million provision to reflect heightened economic uncertainty. Excluding this, the first-quarter charge was broadly the same as in the first quarter of 2024. The credit risk metrics that we track remain stable, and we continue to monitor them closely.

Thinking about the potential impact of tariffs on credit's performance, ECLs will be sensitive to macroeconomic performance, the outlook for which remains uncertain. We consider a variety of scenarios as part of our ECL calculation. One of these is the consensus downside scenario in which an increase in tariffs results in a global economic slowdown. In this scenario, there would be an incremental ECL charge of around $0.5 billion.

On costs, we are taking a disciplined approach to cost management, and are on target to achieve our target of around 3% cost growth in 2025 compared to 2024 on a target basis. We are also on track to deliver $0.3 billion of simplification savings into the P&L in 2025.

On loans and deposits, loan balances were broadly stable quarter on quarter, as growth in Corporate and Institutional Banking was offset by the reclassification of our retained French home loan portfolio. Deposits were also broadly stable quarter on quarter, with a partial reversal of some of the seasonal inflows we saw in Q4. Year on year, deposits were up 6%, with growth in all entities and businesses.

Our CET1 ratio was 14.7%. The reclassification of our retained French home loan portfolio led to a $1.3 billion pre-tax loss in the quarter, recognised in fair value through other comprehensive income. This had a capital impact of around 0.2 percentage points of CET1.

Looking ahead, we expect the buyback we announced today to have an impact of around 0.4 percentage points in the second quarter. You will have seen that Bocom has announced that it has approved a share issuance of up to RMB120 billion. Upon completion, we expect to recognise an accounting impact dilution loss of between $1.2 billion and $1.6 billion on our stake. This will be treated as a material notable item and will have no material impact on CET1 and no impact on the dividend.

Let me end by summarising. First, we have momentum in our earnings. We had a strong first-quarter performance, with an annualised return on tangible equity of 18.4%, excluding notable items. We have also continued to perform well in the quarter to date. Second, we have discipline in our execution. We are on track to deliver the cost actions we set out in February. Third, although the external environment is more uncertain, we are confident in our ability to deliver, and we are reaffirming our existing targets and guidance. This includes a mid-teens return on tangible equity in 2025, 2026 and 2027.

Louise, can we go to Q&A, please?

BENJAMIN TOMS, RBC: Good morning, both, and thank you for taking my questions. Firstly, you mentioned in the release that you've launched a strategic review of Malta. At full-year results, we were relatively early in the strategic refresh process. Are there other geographies that you're also strategically reviewing? At full-year results, you talked about $1.5 billion of gross cost saves. Now you're deeper into that process, have you seen any potential to be able to achieve cost saves in excess of that target?

And then, secondly, one of the features of your Q1 results was the strength in fees and other income. Can you provide some colour on how substantial that print is and how much is driven by the augmented volatility? Thank you.

GEORGES ELHEDERY: Thank you very much, Ben. So we've announced, in February, $1.5 billion of cost saves from the organisation and simplification, which we expect to take to the bottom line. And as Pam shared earlier, we are on track to deliver those and we're moving at pace.

We separately announced $1.5 billion from strategic reallocation of costs from activities that are non-strategic or low-returning into our core strategy, where we have competitive strength. We continue to progress at pace on those, and we've made a number of announcements, which we've shared, including Investment Banking in Europe and the US, including the French insurance, the private bank in Germany, etc, and we're progressing with those at pace. And again, on both items, we continue the execution with discipline and pace, and we remain unfazed with the external environment for the execution of those. This is our primary focus now, just focusing on delivering those. Cost efficiencies is a matter of BAU. If we identify cost efficiencies, we will, of course, be taking them as a matter of BAU, but our primary focus is to deliver on those commitments.

With regards fees and other income, we've talked to the plausible downside scenario, it's an adverse scenario, but it is a plausible scenario, and it will slow down parts of our business – trade flows, but also the implication it has on other aspects of our business, including volumes in general. But outside, I would say, this adverse scenario, we continue to see strength in the

Wealth business – five quarters double-digit growth, which we expect to continue in the medium term, at least for the medium term – and we continue to invest in this space. And we continue investing in a number of areas, as we called out in February, because we believe in the growth potential that we can exhibit in these areas. Thank you, Ben.

PAM KAUR: Ben, just to add, for the quarter, there's been good performance, and there's been high level of client activity, which has benefited FX, debt, equities, markets, and Wealth. Also, I want to just remind that one benefit was also the Argentina headwind that we had of $0.2 billion in Q1 of '24, which, obviously, didn't repeat in this quarter because of the sale. But the key franchise factors are Wealth – it's a structural growth, and those dynamics will persist. They are driven by our brand. They're driven by the range of products we have to offer, the improvements we've made in terms of technology, and that investment is going to pay. And as Georges said, we stay confident in terms of double-digit growth in the medium term.

On Wholesale Transaction Banking, it remains an area of competitive advantage. We will continue to grow there, but it's going to be hard to predict quarter to quarter, especially in the current environment. Volatility has definitely benefited us in this quarter, so it may not repeat at the very high levels that we've seen in this quarter, but we are still continuing to see underlying growth as we have progressed through in Q2.

JOSEPH DICKERSON, JEFFERIES: Hi. Thank you for taking my question. Congrats on a strong set of numbers and some clarity on your thinking on the path forward. Can I just ask on the plausible downside scenarios for the low-single-digit impact on revenue? I guess, what was the point of undertaking that exercise? Was it to, basically, show that the perception of the bank as a global trade bank, in some ways, may be exaggerated about how, basically, you're not overly reliant on any particular corridors? And I guess, what kind of elements went into that scenario in terms of magnitude of the drawdown on trade?

And then, secondly, just on that, could you opine on any opportunities that you're seeing or that you foresee as a result of what's happening – not that what's happening is necessarily certain at the moment, but just any opportunities that you can see, based on any initial discussions? And then you had very strong new-to-bank customers in Hong Kong, can you make any comment on April trends there? I would have presumed that would have continued from last quarter, if what we're picking up on the ground in Hong Kong is accurate. Thanks.

GEORGES ELHEDERY: Thank you very much, Joseph. I'll take your question about the positioning of our trade business and our bank, as well as the opportunities, and I'll ask Pam to take you through the elements of this analysis.

So we are the world's trade bank. We have been ranked the number one trade bank for eight consecutive years, but our trade covers a variety of products, as well as we cover all the large corridors of trade, including intra-regional corridors, which have been growing quite fast over the last few years.

The exercise that we've conducted is meant to, basically, evaluate the impact of plausible downside scenarios on our overall activities, obviously including trade. But just to add on trade, number one, we have more than 5,000 trade specialists in more than 50 markets. We're in a unique position to be able to support our customers with our expertise in trade, as the business environment shifts, the business outlook shifts, their trading patterns shift, and our customers need to reconfigure some of their supply chains.

We expect to be able to deepen our relationships with existing clients, but also, thanks to our strength, stability and expertise, to attract more clients and to continue building market share in the trade business, among other of the robust business proposition and service proposition we have for our customers. Pam?

PAM KAUR: Thanks, Joseph, for the question. So firstly, broadly, in terms of context setting, every quarter, we do a range of scenario analysis. This quarter, we looked at the significant but plausible downside scenario resulting from an increase in tariffs. We homed in on one scenario after looking at a range of possible outcomes, which, as you know, are uncertain and remain very wide.

So the specific scenario which we homed into was based on a significant increase in tariffs, as well as retaliatory tariffs. We also took a holistic approach. We considered different businesses, different geographies, as well as customer segments, and this scenario resulted in a significant decline in trade and a significant slowdown in global GDP growth.

We looked at the impact of this both in terms of revenue through lower balances, but also on flow-based income. In addition, just like we took a reserve of $150 million in this quarter from a downside scenario, we further looked at the downside scenario on a 100% probability basis and came up with a number, which is the $0.5 billion provision best estimate in terms of the tariffs.

GEORGES ELHEDERY: With regards to new-to-bank customers in Hong Kong, we were pleased to announce that we acquired 300,000 new-to-bank customers in Q1. This is after we acquired 800,000 new-to-bank customers in the full year 2024, and we continue to see that trend ongoing. Thank you very much, Joseph.

KUNPENG MA, CHINA SECURITIES: Hi, Georges. Hi, Pam. This is Kunpeng of China Securities. Thank you for taking my question. I have two questions. The first is also some follow-ups on the plausible downside trade scenario. If we compare the – you have two scenario tests – one for trade, one for ECL – and we got your set of assumptions for those ECL tests from your annual report. So if we compare those two tests, are the assumptions for the trade test better or worse than the – I mean the downside scenario – better or worse than those set of assumptions used in the ECL test? And also, is the low single-digit revenue impact just for some one-year revenue or for every year's revenue thereafter? That's the first question.

The second question is, could you please give us some colour on the latest trend on Hong Kong CRE? Thank you.

GEORGES ELHEDERY: Thank you very much, Kunpeng. I'm going to ask Pam to address both your questions, Kunpeng.

PAM KAUR: Thanks, Kunpeng. So we're not going to get into the detail, but the underpinning of the scenarios, whether it's ECLs or, indeed, on revenue, has the same starting point. And we are comfortable, based on the work we have done, to reaffirm our guidance on RoTE. I just want to be clear that the scenario does not include the secondary impact of any change in policy rates in terms of the revenue-related scenario. Secondly, none of these two scenarios have what you call an extreme downside to scenario, with a double-digit contraction of GDP like we saw in the Covid period, just to give you some guardrails.

So in terms of Hong Kong CRE, this was a relatively quiet quarter. We did have one specific name, which, in the performing book, there was a credit downgrade. Otherwise, there's really nothing more significant. We continue to look at our book in detail, and there may be a few names up or down on the credit curve, with very modest impact on RWAs, but no significant impact on ECLs.

AMAN RAKKAR, BARCLAYS: Hey, Georges. Hey, Pam. Thanks very much for the various updates and sensitivities that you've given us. I had two questions just around customer behaviour. So I just wondered if you'd observed any material shift in the way that your customers are transacting with you. Have you seen any forward indicators around sentiment, any signs of de-risking or de-leveraging, any shift in particularly your corporate customers that might be on the receiving end of trade tariffs? Any insights there would be really helpful.

And then the second is, definitely get the message around continuing to execute on the existing strategy. I guess just two related points to that, one around capital returns. It's great that you've announced a $3 billion buyback. You're talking about a more subdued outlook for lending by extension RWAs, so presumably you might be quite capital generative this year. So it seems like you're committed to distributions despite the uncertainty. It's an uncertain backdrop, but the pace of distributions that you're executing on, it feels like you're committed to that. Is that the right read? Should we be confident around things like the buyback sustainability from here?

And just the related part of that question, then, is just around, you talk about divestiture on track – the $1.5 billion. But in terms of the redeploy, because I think you talked about some potential revenue opportunities from the redeploy or cost savings, if it doesn't come through, are you minded to delay any of this redeploy, basically, given the volatile backdrop? Thank you.

GEORGES ELHEDERY: Very good. Thank you very much, Aman. I'm going to take your first question about customer behaviour, and I'll ask Pam to address both our capital return strategy, as well as the cost redeployment from the reallocations.

So in terms of customer behaviour, I think nothing that would really surprise you. Corporate customers, essentially, are in a wait-and-see mode, so some of the capex or large investments are on hold. Certainly, some of the shipments from China, specifically to the US, have slowed down, but we've seen no panic. So there's been no significant drawdowns. Deposit behaviour has remained normal, so nothing really to call out beyond the wait and see.

In terms of personal banking and Wealth customers' activity, this has been quite strong. Remember, we have a diversified product offering. So we've seen customers rebalance their investments between various offerings, be it various geographic equity exposure or other assets, such as mutual funds or structured products. And when customers want to take a risk-off approach, we see the money flow into our deposit base, so we capture the customer assets either in invested assets or in deposits.

But when we look at our NNIA for the first three months of the year, it remained positive, strong, so we remain positive on the outlook of the growth in this business. Remember also, we're investing in this business, so we're capturing the underlying growth in the market, but we're also capturing market share in the way we're investing in this business. Pam?

PAM KAUR: Thanks, Aman. So just one point to add on the Wealth customer behaviours. Our strength really lies in our very broad product proposition. So as we see the mix shift between US equities or Asian equities, or, indeed, into short-term fixed income products, we are there to support our customers, as well as in terms of insurance on more protection and savings-related products. So that gives us confidence that this double-digit growth continues, and we have seen the same trend even through April, and the same trend also, no panic, no drawdowns, and deposit behaviour normal through April. So that's just to set that.

So coming down to distribution, just as a starting point, we have our policy on ordinary dividends. I'm assuming your question is much more on share buybacks, but let me see overall on the process we follow. Every quarter, we look at where we are in terms of our CET1, and you know our CET1 operating range is between 14% to 14.5%. We also look at our capital generation, less the capital needs or capital deployment that we want to do. And what's very important is, routinely, we look at a range of scenarios in terms of the macroeconomic environment, and then, based on that, we look at the quantum on share buybacks.

And clearly, if we have excess capital, share buybacks continues to be our preferred method to return capital. We have not changed our view on capital redeployment, but, as I've said, we look at opportunities, we look at the generative capability, quarter on quarter, and that's how we make the decision on the quantum of share buybacks.

GEORGES ELHEDERY: And on the redeployment of costs?

PAM KAUR: Yeah, on the redeployment of costs, absolutely. So far, we have not made any change to the timeline of what we said we would do. That redeployment is going to be through the midterm period, so between '25, '26, and '27. Clearly, in terms of the macroeconomic uncertainty, we are very mindful, in this current environment, that there may be some delays, but, overall, it doesn't shift the trajectory or, indeed, the transactions that we have both announced and are working on. They are progressing as we expected.

JASON NAPIER, UBS: Good morning. So two questions, please. The first, Georges, HSBC is a signatory to a letter suggesting to the UK regulators that ringfencing is something that should go. I think that's the right view, but we've got a lot of investor demand for a sense from you as to the motivation for that. What is it that you'd say in terms of opex funding costs and what restructuring charges may go with that? So when you made that motivation, what was the maths behind it?

And then, secondly, very strong performance in costs in Q1, but guidance held constant for the year ahead. I guess that implies potentially some slippage in efficiency ratios in the quarters to come, notwithstanding the cost-saving actions that are underway. Could you talk a little bit about the moving parts, just quarter-to-quarter volatility? Is there anything we should be thinking about in the upcoming quarters as far as cost inflation is concerned? Thanks very much.

GEORGES ELHEDERY: Thank you, Jason. Let me address your first question on ringfencing, and Pam will take your second question on the cost. So our view on ringfencing is that there's been major enhancement to the prudential regulations for banks in the UK – in particular, the broader regimes of capital, of loss absorbency through MREL, of liquidity, recovery and resolution, etc. All these measures have, basically, put the bank in a much better, safer prudential space that have made ringfencing, effectively, redundant.

The second thing to say is that the UK is the only major economy that has applied ringfencing, so it's quite unique to the UK. So as an outcome, it's increased the cost to operate as a bank. It created capital inefficiencies. It trapped liquidity. It, effectively, exposed our customers, including businesses and SMEs, to higher costs. It did somewhat also stifle competition. The bar to be able to compete in the UK for banks has become stiffer and more difficult. So therefore, we believe that removing ringfencing, or at least scaling back on some of the ringfencing considerations, will improve the outcome for customers and, ultimately, therefore, will support growth in the UK.

Now, just to reiterate, we are very supportive of the government's growth agenda, and we will play our role in the UK for that. And as regards the financial impact of the removal or the scaling down of ringfencing, we haven't done a full analysis, but we believe this will be positive for both capital, cost and our ability to compete and support the growth of the UK economy and our customers. Pam?

PAM KAUR: Thanks, Jason. So firstly, we manage costs to a full-year number. And quarter on quarter, you can see some volatility. But just to clarify, our full-year 2025 guidance of plus 3% is on a base of $31.9 billion, which is the full-year '24 restated to the average FX for Q1 2025. So just unbundling that, the 3%, the dependency is on the 4% inflation investment spend and the benefit of $0.3 billion, so the 1% from the P&L saves from the simplification as we guided at Q4, and the actions that are going to realise that $300 million in the year have been already broadly taken, so the P&L will come through in subsequent months.

KIAN ABOUHOSSEIN, J P MORGAN: Hi, Georges and Pam. Thanks for taking my questions. Great results, but, clearly, the focus is on the new tariff world, and I want to try to understand, first of all, your targeting guidance around interest rates in particular, but also GDP assumptions. You mentioned mid-April, but, clearly, a lot happened in April, so I'm just trying to understand what date or what week we should use as guidance in terms of interest rate assumption, if you could give maybe GDP assumptions.

And secondly, coming to your sensitivities or your analysis around tariff impact, if you could discuss again interest rate assumptions, in particular in GDP, but also your assumptions about China as a trading counterparty in terms of your revenues versus the corridors you talk about, because, clearly, really, in the new world, the corridors seem to be impacted as well. So are you assuming corridors can grow, or do you assume corridors would also be negatively impacted in a new tariff world?

And lastly, in that context, can you just talk about cost flexibility, as you didn't discuss that?

GEORGES ELHEDERY: Thank you, Kian. Kian, I'm going to make some broad comments on the view of corridors and, overall, our business, and I'll ask Pam to give you additional information on the tariff scenarios, as well as on the cost implications, okay?

So a couple of things to note. The first one is, as we did say, the lion's share of our banking NII is driven by our deposit franchise. This deposit franchise is a hallmark of our balance sheet, and we're on 50s loan-to-deposit ratio in three of our four businesses. And in the UK, we're on 80s, which is the lowest. Therefore, we have deposit surpluses in every currency, every geography, every business line. And this franchise is very robust and is a driver of a very important, the lion's share, for banking NII, a very important revenue stream.

The second, when you look at our fee income, wealth so far has continued to grow at double-digit returns, and we do expect it to continue to grow at double-digit returns in the medium term, given the underlying market opportunities and market growth, as well as our own investment, to continue gaining market share. So transaction banking is the one we really are diving into. Remember, first, transaction banking is a wide set of products that cover various areas outside trade. And remember, a lot of our business is, let's say, with multinational customers operating in Asia or in China. A lot of their business is in China for China, or in Asia for Asia, where they produce and manufacture locally and distribute locally, with limited impact on tariffs, albeit some may be impacted by tariffs.

But even within trade, we have seen growth of trade corridors intra-Asia or within Asia and Middle East, at a very fast pace, and a number of these corridors have become structurally resilient and on a growth trajectory. Now, some of the China plus one trade patterns that are still meant to ultimately distribute or export to the US will be affected insofar that there's intra-Asia trade flows for that ultimate purpose, but there is a much bigger intra-Asia, intra-Asia and Middle East trade flows that are two-way, and that are related to domestic manufacturing for the purposes of domestic consumption, which we continue to see as structurally growing. Our scenarios have really looked at differentiation between the areas of structural growth and the areas that will be widely impacted by tariffs, which Pam can talk to.

PAM KAUR: Thank you, Kian. So firstly, just to reiterate, the $42 billion banking NII continues to be our best estimate for full-year 2025. Now, we've looked at a range of reasonable upside/downside assumptions, including rates, but we are not immune to all scenarios, despite the stress work that we have done. Our Q1 run rate of $10.6 billion puts us on a good trajectory, given that range of scenarios we've looked at – all plausible upsides and downsides.

Now, as always, there are four key drivers. The rates that we have included are based on the mid-April curves. The structural hedge will be a tailwind to this headwind of rates. We have $75 billion maturities in the remainder of the year, and they are on 2.8% yield at the moment, so there'll be an upside to that. The other two elements are harder to forecast, particularly in terms of balance sheet growth, as we've said before, and loans stay muted. Having said that, loans and advances were slightly up in the first quarter of this year, primarily because Hong Kong loans and advances were stable compared to Q4 last year where they had contracted.

Now, the deposit migration trend from Hong Kong has stayed stable over last year into this year, at 39%, and that is continuing even through April. So if I look at it in the round in terms of deposit behaviours of our customers, both from a corporate side as well as from a retail side, we stay quite comfortable.

So on tariffs, just in terms of the broad piece, what we have looked at from a tariff perspective is – and it's all in terms of seeing the various scenarios, in terms of delivering the mid-teens RoTE. Firstly, we looked at our income stream beyond banking NII, which is Wholesale Transaction Banking, and it has many more products beyond trade finance. It also is in diverse products within trade finance and their diverse global and intra-regional corridors. When we have looked at the downside scenario, we've looked at higher tariffs, we have looked at impact on GDP, we have looked more broadly at policy rates, inflation – the big picture – but again, to say we have not looked at GDP to the stress level of a downside two scenario that we have called out in our release, which is like a double-digit contraction of GDP as we saw in the Covid period.

So if we look at all that, we come to a low single-digit percentage impact on revenues, and within that and within the incremental $500 million ECLs, we stay very confident for our mid-teens RoTE for the next three years. Now, the broader impacts are going to be hard to quantify. These are your second, third order impacts, but we continue to monitor them through our various scenarios and review them quarter-on-quarter.

On costs, our cost trajectory is on track, and given this, there's no shift on that, and we will still continue through our envelope to be able to invest in the areas which we have been, as Georges has said, because we can see the direct benefit coming very quickly in those areas, even in the current environment and continuing through April, and that's primarily on the wealth side.

GEORGES ELHEDERY: Perfect. Kian, thank you very much.

AMIT GOEL, MEDIOBANCA: Hi. Thank you. A potential follow-up, actually, to Kian's question. Thank you, and I understand essentially that plausible downside tariff scenarios are pretty similar or closer to the ECL downside one rather than the downside two type case. Again, just coming back in terms of the broader profitability mid-teens target, so essentially, you're saying that if we were to see that plausible downside scenario, you still believe you can achieve that mid-teens profitability level, and that's before factoring in any further cost actions, or would that be with any kind of re-jigging or additional cost action taken by the group to mitigate some of that impact?

And then secondly, I just wanted to check – when I look at the downside one ECL scenario now versus at full-year, it seems like the China and Hong Kong drawdown is not quite as severe. I see the US is maybe a little bit – 30 bps more severe, so I was also kind of curious why that downside scenario is not quite as negative, perhaps, as what you assessed at the full-year stage. Thank you.

GEORGES ELHEDERY: Okay, thank you, Amit. Amit, I'm going to ask Pam to comment on your second question, but on your first question, we're not going to give more details than what we've shared, but I think your analogy to say that it's downside one like scenario in the sense that it is adverse but plausible is correct. And within that scenario, without additional cost actions than the one that we have set out to do and are on-track for doing, and obviously committed to do, we are confident we can achieve our targets, in particular our targets of mid-teen returns for '25, '26 and '27. Pam.

PAM KAUR: Thanks. So just in terms of the scenarios, just to confirm, they are not identical scenarios, but in terms of severity and plausibility, you're right in the ballpark because the ECL scenario stresses a lot of things on interest rates, inflation, etc from a range of factors, and this one on tariffs is quite specific on the revenue line. And to clarify on ECLs, we had to build our reserve for this quarter, change the weightings of the downside one from 15% to 30%, and when we look at the 500 million potential impact, that is if you change the downside one scenario weighting to 100%, so just to say that's 500 additional to the 150. Now, in terms of Hong Kong and China CRE – absolutely. In terms of both from an individual customer level, as well as on the forward economic guidance given the starting point, there is a lesser impact, and overall, there has been very little noise from a Hong Kong CRE and a China CRE other than isolated names in this quarter. There can be credit downgrades over a period of time. We saw a few now, but the impact from an RW perspective is very modest. If you look from a US perspective, also there was a specific name, and when we look at the credit downgrades, so that's also in the quarter. I wouldn't really build any trend from this quarter into a full year, and all these factors, bottom-line, are part of the scenario analysis which we do on upside and downside before we reaffirm our RoTE guidance and target.

GEORGES ELHEDERY: Okay, thank you, Amit.

GURPREET SINGH SAHI, GOLDMAN SACHS: Thank you for taking my question, Georges and Pam. Good morning. So really on banking NII, a couple if I may, please. First is Q on Q banking NII held up pretty much flat, whereas interest rates would have added a headwind of, as per my calculation, 170 million. So can you please double-check and tell us how much was the benefit from the deposit price through being not that high, and then improved asset makes and then the structural hedge? That's one.

And then second, again on banking NII, around 42 billion guidance – how much are we assuming for average interest earning assets growth? Because as I see, deposit growth has been consistent, but that somehow on an YoY basis, it's now showing up as 4% growth, but then Q on Q there's no growth and previously on YoY also, we could not show any growth.

And then what is the around? Is a $41.5 billion outcome around $42 billion? Does that tick the box and help us meet the target? Thank you.

GEORGES ELHEDERY: I'm going to ask Pam to address both your questions on banking NII.

PAM KAUR: Thank you, Gurpreet. So firstly, banking NII was flat on a quarter-on-quarter, constant currency basis, excluding notable items and Argentina, but we don't split out the dollar impact of every moving part, but let me just unbundle. So the headwinds were too few a days in the quarter as well as lower interest rates, but the tailwinds were reinvestment of maturing hedge assets at high yields, a bit of change in the mix of our market treasury assets, as well as the benefit of deposit passthroughs, particularly in the UK, which come through with a delay of 90 days. So the interest rate cuts which we saw in August came in through for a full quarter in this quarter, and then we saw a bit of a tail of the November cuts as well, so that's the impact there. In terms of your other question, of course we look at various upsides and downsides in that $42 billion, and I just want to reiterate that $42 billion is not an underpin. It is just around $42 billion, our current best estimate based upon what we see in terms of deposit betas, based upon what we see in terms of actual deposit flows coming through, updated not just for the quarter but also considering the trends we've seen through April.

GEORGES ELHEDERY: Thank you very much, Gurpreet.

ANDREW COOMBS, CITIGROUP: Morning. If I could have a couple on the organisational simplification and then also just one clarification on wealth. On the organisational simplification, you previously guided to $1.8 billion of restructuring costs, and you said the majority of that is expected to be booked in 2025. I think you only took $141 million in Q1, so presumably, we should expect a big step-up in the restructuring charges from Q2 onwards for the rest of this year. And then the second question attached to this is you said that the actions you've taken to date would already translate into $300 million of annualised savings. I appreciate in Q1, you've had very little of that, but nonetheless, you're still guiding to $300 million for the full year 2025 when you've already achieved $300 million annualised and there's presumably more to come over the remaining year with the additional restructuring. So can you just clarify a bit there on why more of the savings are not flowing into full-year 2025 compared to 2026?

And then on wealth, given the new segmental split, is it possible to get the split of the Asian invested assets and the $16 billion Asian net new invested assets this quarter that's attributable to Hong Kong? Thank you.

GEORGES ELHEDERY: Okay, thank you, Andrew. Andrew, I'm going to ask Pam to address the first two questions with regard to the organisation simplification. Just saying that, we will give, as I said earlier, a more thorough update at the interim results, and on your final question, let us take it forward and see what we can communicate. $16 billion of net new invested assets in Asia with the majority in Hong Kong, but we will take it forward to see what additional granularity we're likely to share. Pam.

PAM KAUR: Thanks, Andy. So firstly, in terms of the actions taken and the P&L coming through for the year, the actions taken typically is when you have colleagues put through at risk and decisions made, communicated. There is always a time lag typically between that and colleagues leaving the platform. Typically, in tends to be about a quarter – 90 days. So when you see an action has been taken, you know a saving is going to come through but there is going to be a time lag between that decision and the savings feeding into the P&L. So when we said the majority of the actions have already been taken, the annualised savings that we calculated, it's for the full year. So it's not as though these actions are already banked and there's going to be further, so that's the main piece.

Now, on restructuring costs, you're absolutely right that there is going to be the majority of the restructuring cost taken in 2025 rather than 2026, and I would expect most of that to come through Q2, Q3 and then some Q4 and tapering down as we go into 2026.

GEORGES ELHEDERY: Very good. Thank you, Andy.

ED FIRTH, KBW: Good morning, everybody. Thanks very much for taking the questions. I just had a couple. The first one – I noticed that your cost guidance is based on an average exchange rate in Q1, but the US dollar is off 6% since then, so I assume that if we were to actually do that at today's exchange rate, your cost number would be somewhat higher than that. I'm just trying to check – is your revenue guidance also based on those exchange rates? Is it effectively like we should gear up both revenue and costs for the weakened dollar in terms of our expectations? That's the first point.

I guess partly related to that, are we actually in the plausible downside scenario now? Trade flows from China to the US are down 45% booking, something like that. That feels to me like a pretty downside scenario. Should we assume that as we go through Q2 and Q3, we are actually in that scenario now? Is that effectively where we are, assuming nothing changes? And I guess nobody has any idea what will happen in terms of the changes, but assuming we stay where we are today.

And then my second question was just about Bocom. I can't really understand the accounting, because you're still running with a valuation that's $10 billion above the market value, but you didn't subscribe for new shares with the capital raise, which I assume you would have done if you had thought it really was worth that much more. Should we be expecting you to correct that down to what would be a market price rather than just the $1.6bn? Should we be revisiting how you do the – I think you call it value in use, something like that. Thanks very much.

GEORGES ELHEDERY: Okay, thank you very much, Ed. Let me take your plausible downside scenario, and I'll ask Pam to address the cost question as well as the Bocom accounting question. So the adverse plausible downside scenario is a scenario that is further adverse from where we are today, with significantly higher global tariffs on major trading blocks on an aggregate basis, and we've looked at their impact across obviously our trade business but more importantly across over all our volumes and the economic outlook of our businesses on the whole. We do recognise that there is uncertainty and it's very difficult to understand how much downside or upside there is in the future outlook for this, but we believe this plausible downside scenario is not the expected scenario, as in it is a lower probability downside than the expected scenario. Pam?

PAM KAUR: Thank you, Ed. So agree the downside scenario is not something where we are now, because the downside scenario clearly has broader impact in terms of GDP and other areas which then gives the significant impact that we talked about, so just to make that clear. And you're absolutely right – the target cost base of $31.9 billion, equivalent of a full-year '24 cost, was rebased on first quarter's average exchange rates. All things being equal, the US depreciation would put an upward pressure on an absolute cost, but in the same way, it would put an upward pressure, i.e. have some benefit, on the revenues and we would do that on the same principle quarter-on-quarter as we progress. Now, FX rates have been volatile. We will continue to update you quarter-on-quarter.

So in terms of Bocom, in simple terms, at this point in time, we continue to say Bocom is an associate. We have done the assessment as we do every year in terms of further impairment and there has been no impact for this quarter. The dilution impact into P&L, we will have an accounting impact on the completion of the share issuance, and that's where it will be taken. But I just want to reiterate, all said and done, there is an insignificant impact from this dilution on our CET1, and because it's a material notable item, there is no impact on dividend or distribution.

ED FIRTH: Can I just come back on that? I don't understand the logic on why you didn't subscribe for more capital, in the sense that if it is worth that much more, it would seem to me that it was an opportunity to put more capital in and to get the upside in due course.

GEORGES ELHEDERY: So Ed, the share issuance was subscribed by government or government-related entities in China. We were happy with our holding as it is, and therefore we're happy with the outcome. With regards to the actual accounting value, I would probably point you to the investor relations team which can take you through some of the specificities of the equity accounting principles which are quite unique in the way we treat the associate accounting of Bocom. I just want to re-emphasise we're happy with our holding in Bocom. We're happy with our strategic relationship with Bocom and the fact that they give us exposure to the domestic economy in China, be it retail, SME, outlook, which is not something our organic business is involved in, and very importantly, what Pam said – the valuation in our NAV is deducted from CET1, which means these impairments have a very minimal second order impact on our CET1 ratio, and therefore also do not impact our distribution capability.

PAM KAUR: And Ed, very happy to, offline, go through with you on the equity accounting treatment and the rest in detail.

GEORGES ELHEDERY: Thank you very much, Ed.

KATHERINE LEI, JP MORGAN: Thank you. I have two questions. The first one, I still want to ask about the tariff scenario, because I think for at least investors in this part of the world, I think it's widely expected that the Chinese government will have more stimulus policy because of the tariffs. So in your downside scenario analysis, have you incorporated some of the positive impact from the stimulus policies which could potentially be benefitting the Hong Kong, China market? I think this is number one.

Number two, I still want to ask about loan growth, because now the guidance is there will be muted loan demands in 2025. When we're giving this type of guidance, what sort of tariff environments are we incorporating? Also, is there any guidance on, say, for example, deposit growth and also banking asset or interest-generating asset growth? How should we look at this whole thing? Thank you.

GEORGES ELHEDERY: Thank you, Katherine. Katherine, I'm going to make some comments on your first question and I'll ask Pam to take it forward, as well as the loan growth question which gives you an overlook. Firstly, we recognise indeed there is a lot of potential for China to take policy measures and other measures to stimulate the economy, and we would be very encouraged by that. We're confident about the outlook for China. We're optimistic that these measures, as they are taken and they will be taken, will have a positive impact on the economy. We believe in the foundational strength of the Chinese economy and we're very encouraged to see the pick-up in retail sales and therefore the pick-up in domestic consumption also. So on the whole, our main scenario is that we are confident in the medium- to long-term outlook in China. This being said, in the plausible adverse downside scenario, we have not taken into account some of these potential positive impacts which may be, or are unlikely to come. Pam?

PAM KAUR: Yeah, thanks, Katherine. So absolutely, being a stress downside scenario, plausible but severe, we typically take the downside. We don't take the upside of the mitigating actions or any other policy measures. It's purely tariffs and retaliatory tariffs in a plausible range. So all said and done, just want to reaffirm it was all calculated as part of the target RoTE guidance that we are giving.

On loan growth, the situation is, in some ways, similar to where were at the end of Q4, because macroeconomic uncertainty delays decision-making, so we are not seeing any of those capex decisions being brought forward. They were delayed. They will continue to be delayed. Hopefully at some stage, some certainty remains there will be loan growth. We are also monitoring very closely to see if there is any increase in drawdowns, just like we observed in Q2 of 2020. At this point of time, there is no increase in drawdowns. So overall from a loan growth perspective, I will say still muted in terms of what we are seeing. The only thing I would say is that if there is continued tariff uncertainty, you will see maybe a little bit of pick-up from an OpEx perspective on working capital, because then you have to pay important duties up front and there's some delays and some of the money's coming and so on, so that will have an impact. But from a materiality perspective, the real driver for our banking NII guidance of $42 billion is really deposits, for which we have a very strong franchise. We are in a privileged position to be a trusted partner for our customers, and we expected that to grow. Of course, there'll be a bit of seasonal fluctuation quarter-on-quarter, but overall that trend has continued.

GEORGES ELHEDERY: Thank you very much, Katherine.

YAN JIAHUI, CICC: Thanks for taking my questions. My question is also about tariffs. Could you give an example of how your major clients react to tariff policy in April? Are they facing a sharp decline in business demand or are they actively seeking the solutions to reduce the effect of tariffs, or just to cut their business? And how HSBC help them navigate through the challenge from the tariffs, and beyond risks, have we seen any new business opportunities for HSBC in this context? Thank you.

GEORGES ELHEDERY: Thank you very much for your question. So yes, indeed. First, the customers aren't taking any decisions in panic. Customers are essentially in wait-and-see mode. A number of capex or large investments have been slowed down, and certainly trade between China and the US, we've seen a major slowdown. But on the whole, customers are looking at their business models. They are looking at their supply chains. They're looking at ways to create more resilience in their business, and we're definitely here to help them. As I said earlier, we are our customers' trusted banking partner. They trust our financial strength, the strength of our balance sheet, of our proposition. They trust the stability of our commitments to support them through their needs and through all predictable and unpredictable times, and very importantly, they trust our expertise. We have more than 5,000 trade experts in more than 50 jurisdictions working with clients to help them think through what this means for their business model, and how they can help them adapt and adjust and create resilience. So therefore, in an environment like this one, we expect to deepen relationships with clients. We expect to acquire new clients and to consolidate our position as a leading trade bank, and we expect to make hopefully a difference for our customers in navigating these uncertainties.

Thank you very much, Yan. I think we addressed all the questions, so I want to take this opportunity to thank all of you for your questions. In closing, we had a strong quarter marked by momentum in our earnings, discipline in our execution and confidence in our ability to deliver our targets. Neil and the team are available for any follow-up questions with our investor relations experts. Meanwhile, Pam and I look forward to speaking with you again soon. Enjoy the rest of the day. Thank you.