

Financial Analysis: HSBC - 2025 FY summary

Executive Summary

****Executive Summary: HSBC Holdings plc Quarterly Performance (Q1-Q3 2025)****

The first three quarters of 2025 presented a dynamic and somewhat challenging operating environment for HSBC Holdings plc, marked by fluctuating revenue, a modest increase in headcount, and significant risk provisions, particularly in Q3. While underlying business segments demonstrated resilience and strategic execution, overall profitability was notably impacted by one-off items and elevated credit loss charges.

****Revenue Trend:****

Quarterly revenue demonstrated a mixed but ultimately resilient trajectory. Q1 2025 reported strong revenue of ****\$17.6 billion****, which then experienced a dip to ****\$16.5 billion in Q2****. However, the Group saw a robust rebound in Q3, with revenue increasing to ****\$17.8 billion****. While the first half of 2025 saw a reported 9% decrease in overall revenue compared to the prior year, primarily due to the non-recurrence of significant gains from business disposals, the underlying quarterly trend indicates a recovery in Q3, driven by strong growth in Wealth management and an increase in banking net interest income.

****Headcount Changes:****

Total headcount saw a modest increase across the period. Starting at ****211,940 in Q1 2025****, the Group's workforce grew to ****212,409 by Q3 2025****. Specific headcount data for Q2 was not provided. This slight upward trend suggests targeted investments in personnel or operational adjustments to support strategic priorities, despite broader cost discipline efforts.

****Write-offs and Risk Profile:****

Risk management remained a critical focus, with Expected Credit Losses (ECL) showing an elevated and increasing trend. ECL provisions were ****\$876 million in Q1****, rising to ****\$1.1 billion in Q2****, and remaining substantial at ****\$1.008 billion in Q3****. These provisions primarily reflect ongoing challenges in the Hong Kong commercial real estate sector, model updates, and heightened uncertainty stemming from geopolitical tensions and trade tariffs.

A significant development in Q3 was the recognition of ****\$1.4 billion in legal provisions**** related to historical matters. This included a substantial ****\$1.1 billion provision for the Bernard L. Madoff Investment Securities LLC fraud claim**** and ****\$0.3 billion for historical trading activities**** in France. These material provisions directly impacted reported profitability and the Common Equity Tier 1 (CET1) capital ratio. No material write-offs were reported across these quarters. The persistent complex geopolitical environment, coupled

with a cautious outlook on lending demand and potential for a 'disruptive correction' in certain market sectors, continues to pose headwinds for the Group's risk profile.

****Conclusion:****

HSBC demonstrated strategic execution and underlying business growth in key segments, particularly in wealth management, with a notable revenue rebound in Q3. However, profitability was significantly impacted by substantial legal provisions and elevated credit loss charges throughout the period. The Group continues to navigate a complex global economic and regulatory landscape, with a cautious outlook on lending demand and ongoing credit risk in specific real estate markets, necessitating continued vigilance in risk management and capital allocation.

Quarterly Metrics

| Metric | H1 | Q1 | Q3 |
|-------------------------------------|--------|--------|---------|
| Quarterly Revenue Bn | 16.5 | 17.649 | 17.788 |
| Eps | 0.0 | 0.39 | 0.28 |
| Net Interest Income Millions | 0 | 8302 | 8777 |
| Dividend Per Share | 0.1 | 0.1 | 0.1 |
| Assets Under Supervision Bn | 0.0 | 1900.0 | 1500.0 |
| Total Headcount | 0 | 211940 | 212409 |
| Write Offs Millions | 0.0 | 0.0 | 0.0 |
| Credit Loss Provisions Millions | 1100.0 | 876.0 | 1008 |
| Operating Expenses Bn | 8.9 | 8.102 | 10.076 |
| Return On Equity Bn | 0.0 | 6.932 | 4.873 |
| Return On Equity Tier1 Captial Bn | 0.0 | 0.0 | 0.0 |
| Net Profit Growth Percentage | -29.0 | -30.15 | -18.46 |
| Liquidity Coverage Ratio Percentage | 140.0 | 139.0 | 139.0 |
| Risk Weighted Assets Bn | 886.86 | 853.3 | 878.793 |

Qualitative Insights

Key Highlights

[H1]: HSBC Holdings plc reported positive progress in becoming a simpler, more agile, and focused organization, with sustained momentum in earnings and revenue growth across all four businesses in the first half of 2025. The Group delivered an annualised return on average tangible equity (RoTE) of 14.7%, or 18.2% excluding notable items, demonstrating strong underlying performance and confidence in achieving its targets.

Key business segments showed robust growth: Hong Kong attracted 600,000 new customers and saw 9% deposit growth, while the UK loan book grew by 4% with signs of recovery in commercial banking. International Wealth and Premier Banking (IWPB) achieved 22% revenue growth in wealth businesses and attracted \$44bn in net new invested assets. Corporate and Institutional Banking (CIB) grew fee and other income by 18%, largely from wholesale transaction banking.

In terms of shareholder returns, the Board approved a second interim dividend of \$0.10 per share and announced a new share buy-back of up to \$3bn, bringing total returns to shareholders to \$9.5bn in the first half of 2025. The Group also reduced its share count by 13% since the first quarter of 2023, reflecting a disciplined approach to capital management and commitment to delivering attractive returns.

[Q1]: HSBC Holdings plc reported a profit before tax of \$9.5 billion for Q1 2025, a decrease of \$3.2 billion compared to Q1 2024. This reduction was primarily attributed to the non-recurrence of significant gains from business disposals in Canada and Argentina in the prior year. Despite this, the Group highlighted strong underlying performances in its Wealth business, particularly within International Wealth and Premier Banking and Hong Kong segments, as well as in Foreign Exchange and Debt and Equity Markets within Corporate and Institutional Banking.

Revenue for the quarter stood at \$17.6 billion, down 15% from Q1 2024, also impacted by the aforementioned business disposals. However, excluding notable items, revenue showed growth driven by increased customer activity in Wealth and volatile market conditions benefiting trading segments. Net interest income (NII) was \$8.3 billion, a slight decrease of \$0.4 billion, influenced by disposals and foreign currency translation, though underlying NII benefited from lower funding costs.

The Group maintained stable operating expenses at \$8.1 billion, with cost discipline offsetting investments in technology and inflation impacts. Expected credit losses (ECL) increased to \$0.9 billion, reflecting a more cautious economic outlook due to geopolitical tensions and trade tariffs. HSBC's capital position remained strong with a Common Equity Tier 1 (CET1) ratio of 14.7%. The Board approved a first interim dividend of \$0.10 per share and announced plans for a new \$3 billion share buy-back, following the completion of a \$2 billion buy-back.

[Q3]: HSBC Holdings plc reported a resilient performance in Q3 2025, demonstrating progress in its strategic execution despite significant legal provisions. The Group's reported revenue increased by \$0.8 billion, or 5%, to \$17.8 billion compared to Q3 2024, driven by strong growth in Wealth management and an increase in banking net interest income (NII). Banking NII specifically rose by \$0.5 billion, or 4%, to \$11.0 billion.

Annualised return on average tangible equity (RoTE) stood at 12.3% for the quarter, improving to 16.4% when excluding

notable items. The Board approved a third interim dividend of \$0.10 per share for 2025, reflecting confidence in the bank's capital generation. Total assets reached \$3.2 trillion as of 30 September 2025, with customer lending balances increasing by \$5.6 billion on a constant currency basis and customer accounts growing by \$25.5 billion, also on a constant currency basis, compared to Q2 2025.

Looking ahead, HSBC expects to deliver a mid-teens or better RoTE for 2025, excluding notable items, and anticipates banking NII of \$43 billion or better. The Group maintains its target for expected credit losses (ECL) charges at around 40 basis points of average gross loans for 2025 and projects mid-single digit percentage growth for customer lending balances over the medium to long term. Double-digit percentage average annual growth in fee and other income in Wealth is also expected over the medium term, reinforcing the bank's focus on priority growth areas.

Critical View

[H1]: Despite the positive narrative, reported profit before tax decreased significantly by \$5.7bn to \$15.8bn in 1H25, primarily due to \$2.1bn in dilution and impairment losses related to Bank of Communications Co., Limited (BoCom) and the non-recurrence of \$3.6bn in net gains from disposals in 1H24. This resulted in a 30% lower profit after tax compared to the prior year, indicating that 'notable items' had a substantial negative impact on headline figures.

Revenue also decreased by \$3.2bn or 9% in 1H25, largely attributed to the impact of these notable items. Net interest income (NII) saw a slight decrease, and the net interest margin (NIM) declined by 5 basis points in 1H25 and 3 basis points in 2Q25, partly due to lower margins in Asia. Expected Credit Losses (ECL) increased significantly by \$0.9bn to \$1.9bn in 1H25, with 2Q25 charges of \$1.1bn reflecting ongoing challenges in the Hong Kong commercial real estate sector, model updates, and heightened uncertainty from geopolitical tensions and trade tariffs.

Operating expenses rose by \$0.7bn in 1H25, driven by restructuring costs and increased investment in technology. The Common Equity Tier 1 (CET1) capital ratio decreased by 0.3 percentage points to 14.6% at 30 June 2025, mainly due to an increase in risk-weighted assets. The outlook remains cautious, anticipating a global environment of constant change and uncertainty, with muted lending demand expected for 2025 and continued challenging market conditions in the Hong Kong CRE sector contributing to higher ECL charges.

[Q1]: While the report emphasizes strong underlying performances and strategic execution, a critical review reveals several concerning trends and downplayed items. The significant 25% decrease in profit before tax and 30% decrease in profit after tax, alongside a substantial drop in annualised Return on Average Tangible Equity from 26.1% to 17.9%, are largely attributed to the non-recurrence of one-off gains from business disposals in the prior year. This narrative, while factually correct, masks a considerable decline in reported profitability that is not fully offset by organic growth.

Furthermore, the increase in Expected Credit Losses (ECL) by \$0.2 billion to \$0.9 billion signals a deterioration in the forward economic outlook, driven by "heightened uncertainty, geopolitical tensions and higher trade tariffs." This indicates growing credit risk exposure. The Common Equity Tier 1 (CET1) capital ratio also saw a slight decrease, partly due to an increase in risk-weighted assets and a specific 0.2 percentage point reduction from the reclassification of a retained loan portfolio in France, highlighting some capital erosion.

The outlook section explicitly warns of "heightened uncertainty" from protectionist trade policies, which could adversely

impact revenue and lead to incremental ECLs. The report also acknowledges that demand for lending is expected to remain "muted" throughout 2025. These forward-looking statements, coupled with detailed discussions of ongoing geopolitical risks, persistent inflation, and challenging real estate market conditions in key regions like Mainland China and Hong Kong, suggest significant headwinds that could continue to pressure the Group's financial performance beyond the impacts of prior-year disposals. The anticipated \$1.2bn to \$1.6bn pre-tax loss from the reduction in the BoCom stake, while excluded from dividend calculations, represents a material future financial hit.

[Q3]: While the report highlights positive revenue growth and strategic execution, a critical look reveals several areas that temper the overall positive narrative. Reported profit before tax was \$1.2 billion lower compared to Q3 2024, and profit after tax saw a significant 18% decline, primarily due to a substantial increase in operating expenses. These expenses were inflated by \$1.4 billion in legal provisions related to historical matters, including a \$1.1 billion provision for the Madoff securities fraud claim and \$0.3 billion for historical trading activities.

The reported annualised RoTE of 12.3% in Q3 2025 represents a notable decrease from 15.5% in Q3 2024. The emphasis on RoTE 'excluding notable items' (16.4%) effectively downplays the material impact of these legal provisions on the bank's actual profitability. Furthermore, the Common Equity Tier 1 (CET1) capital ratio experienced a slight decrease, driven by the recognition of these \$1.4 billion legal provisions, indicating a direct capital impact from these 'notable items'.

Beyond the financial figures, the report acknowledges persistent challenges in the commercial real estate (CRE) sectors in Hong Kong and mainland China, leading to increased ECL charges. The geopolitical environment remains complex and uncertain, with ongoing conflicts and trade tensions posing potential risks to operations and customer activity. The report also flags the risk of a 'disruptive correction' in the highly valued AI and technology sectors, and the uncertainty surrounding future interest rate trajectories, which could either pressure net interest margins or reduce loan demand. These factors suggest a more cautious outlook than the headline figures might imply, with significant external and internal headwinds impacting the bank's performance.

Regulatory & Legal

[H1]: HSBC is currently involved in a wide array of significant legal proceedings and regulatory matters across numerous jurisdictions. These include ongoing lawsuits related to the Bernard L. Madoff Investment Securities LLC fraud in the US and UK, US Anti-Terrorism Act litigation, and two pending individual US dollar Libor-related actions. Many of these cases seek unspecified damages and are at various stages, including appeals, making their resolution and potential impact inherently uncertain and potentially significant.

Further regulatory scrutiny and litigation involve foreign exchange-related investigations in Brazil and South Africa, with a claim for approximately GBP 3bn in damages filed in the UK Competition Appeals Tribunal. Precious metals fix-related litigation is also ongoing in the US and Canada, with Canadian class actions seeking over CA\$1bn in damages. Tax-related investigations by French and German prosecutors are targeting HSBC Continental Europe and HSBC Bank plc for alleged tax fraud.

While the UK Competition and Markets Authority's investigation into gilts trading concluded with a GBP 23.4m fine paid by HSBC, a US class action settlement for similar conduct is pending court approval. The Korean Prosecutors' Office

has appealed the acquittal of The Hongkong and Shanghai Banking Corporation Limited in a short selling indictment. Additionally, HSBC Private Bank (Suisse) SA is under investigation in Switzerland and France for alleged money laundering, and a \$1bn lawsuit from First-Citizens Bank & Trust Company is proceeding in the US. The Group is also defending a mortgage loan repurchase action and a class action related to Mexican government bonds, highlighting a broad and complex regulatory and legal landscape.

[Q1]: HSBC is navigating an evolving regulatory landscape, particularly concerning the implementation of Basel 3.1 standards in the UK. The Prudential Regulation Authority (PRA) revised the implementation date for these near-final rules to 1 January 2027, with full RWA output floor implementation by 1 January 2030, to align with developments in the US. The Group anticipates a modest benefit to its CET1 ratio from these changes.

Beyond capital regulations, the report highlights significant legal and compliance risks stemming from geopolitical developments. Several countries have imposed new sanctions and export controls, which could lead to adverse commercial, operational, or reputational consequences for HSBC. Specifically, the differing approaches to Russian sanctions between the US, UK, and EU pose operational, compliance, and reputational challenges. Furthermore, the US's focus on counter-terrorism sanctions against drug cartels introduces additional civil litigation, criminal prosecution, and secondary sanctions risks for non-US HSBC entities. The report also notes the end of IFRS 9 transitional arrangements on 1 January 2025, impacting financial reporting.

[Q3]: HSBC faced significant legal developments in Q3 2025, most notably the recognition of \$1.4 billion in legal provisions. This includes an \$1.1 billion provision related to a claim brought by Herald Fund SPC in the Luxembourg District Court concerning the Bernard L. Madoff Investment Securities LLC fraud, following a denial of HSSL's appeal on the securities restitution claim. Additionally, a \$0.3 billion provision was recognised in connection with the French National Financial Prosecutor investigation into certain historical trading activities in HSBC Bank plc.

In regulatory capital, the report notes the end of IFRS 9 transitional arrangements on 1 January 2025 and the CRR II grandfathering provisions on 28 June 2025. HSBC confirmed its compliance with the Prudential Regulation Authority's (PRA) regulatory capital adequacy requirement, including its Pillar 2A requirement equivalent to 2.5% of Risk-Weighted Assets (RWAs). The bank also exceeded its UK minimum leverage ratio requirement of 3.25%, supplemented by a 0.9% leverage ratio buffer.

Looking ahead, HSBC announced a conditional proposal on 9 October 2025 to privatise Hang Seng Bank Limited. This transaction, if approved, is expected to result in a net reduction of approximately 125 basis points to the CET1 capital ratio on day one. In light of this, HSBC has temporarily paused share buy-backs, expecting to restore its CET1 ratio to within its target range through organic capital generation and the absence of buy-backs.