HSBC sees profits plunge and defends Russian businesses

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SBC today reported a plunge in profits, defended its Russianbusiness and said rising interest rates should enable it to retain returns to investors.

The giant lender saw profits in the first quarter down $1.6 billion to $4.2 billion, a slump likely to be repeated across the sector as bad debts due to the Ukraine war ramp up.

Wall Street banks have already reported similar falls.

Banks are under pressure to enforce the Russian sanctions imposed by governments and regulators. Chief executive Noel Quinn said: “HSBC Russia is not accepting new business or customers and is consequently on a declining trend. The vast majority of our business in Russia serves multinational corporate clients headquartered in other countries, and as a global bank, HSBC has a responsibility to help them manage these challenging circumstances.”

HSBC isn’t paying a quarterly dividend at the moment, something it will review next year.

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Finance boss Ewen Stevenson notes that a likely surge in interest rates should protect profit margins and in turn dividends. “We are very interest rate sensitive,” he said.

On Russia, he added: “There is a difference between banks and manufacturing companies. We have 300 multi-national clients there; we have their deposits, we pay their employers. We have a fiduciary obligation to them.”

HSBC shares fell 20p to 482p today but are up 15% on a year ago.

Quinn added: “The Russia-Ukraine war continues to have devastating consequences both within Ukraine and beyond.”

Edison Group’s Rob Murphy said:

“Amidst continuing uncertainty in the world economy, HSBC has managed to beat analysts’ expectations in this set of quarterly results. Profits were significantly impacted by a new surge in covid-19 cases and restrictions in Hong Kong, which represents HSBC’s largest marke.

Revenues also were under pressure as weaker equity and debt markets affected Wealth and Personal Banking as well as Global Debt Markets and Principal Investments in Global Banking and Markets. On a positive note the bank continued to benefit from the higher interest rate environment with net interest margin up 5bps to 1.26%.”

The common equity tier 1 ratio fell 1.7% mostly due to expected regulatory changes and the buy back programme.

With HSBC in the middle of undertaking a multi-year strategic pivot towards Asia, redeploying over $100bn of its capital and slimming down its European and American operations, the lenders future success is tied to the continued growth of its Asian operations.