



World's Best Bank



**HSBC Holdings plc**

Bank of America Merrill Lynch 22<sup>nd</sup> Annual Financials CEO conference

Iain J Mackay, Group Finance Director

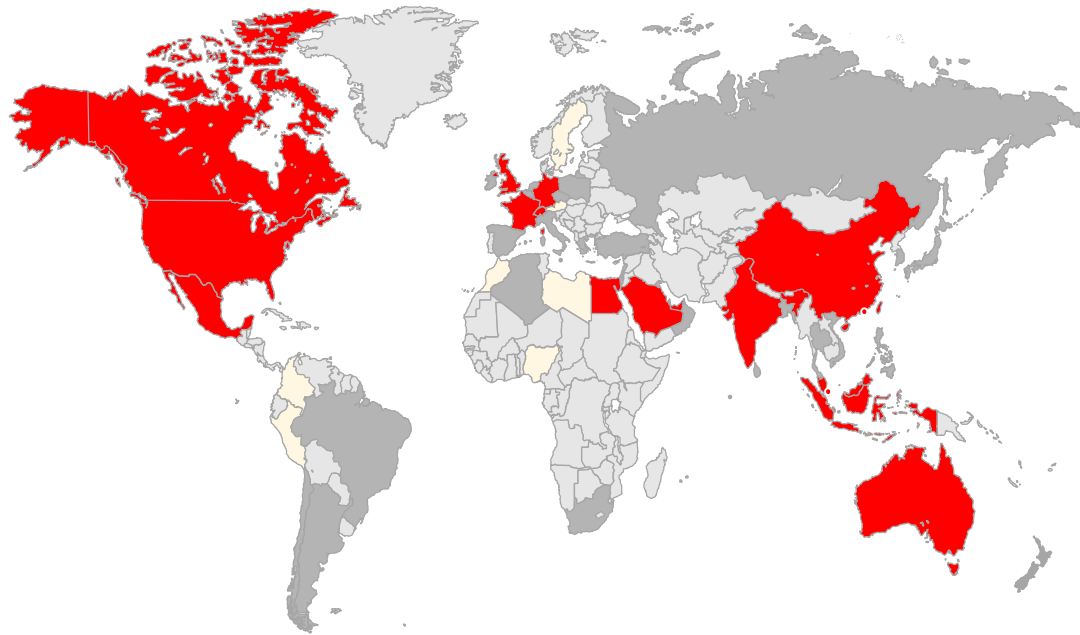
26<sup>th</sup> September 2017



# HSBC is a leading universal and global bank

## Our global footprint

■ Priority ■ Network ■ Rep office



67

markets

90%

Our network covers countries accounting for more than 90% of global GDP, trade and capital flows

> 49%

Our international network supports more than 49% of our client revenue

4 Inter-connected global businesses

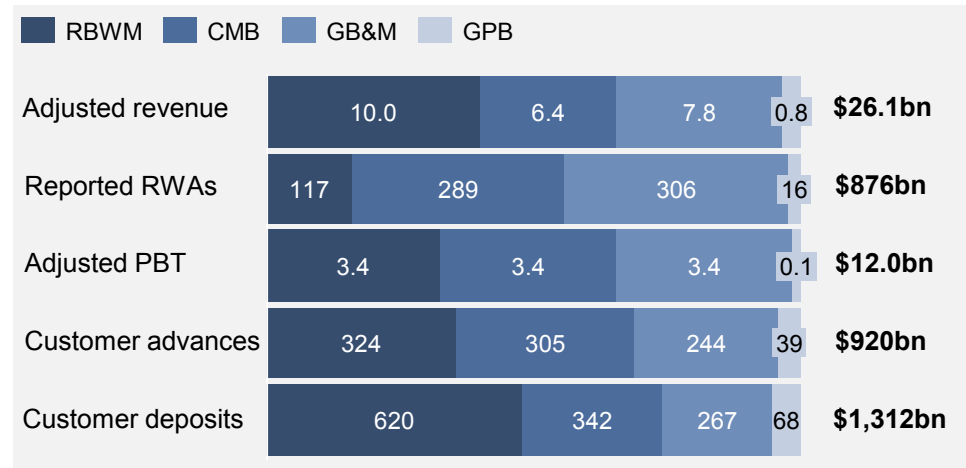
share balance sheets and liquidity in addition to strong commercial links

1. Metrics relate to 1H17 and are on an adjusted basis unless otherwise stated, totals provided are for the Group and include Corporate Centre. Details of reported results and a reconciliation of reported to adjusted results are included in the Appendix.
2. Amounts are non-additive across regions due to intra-HSBC items

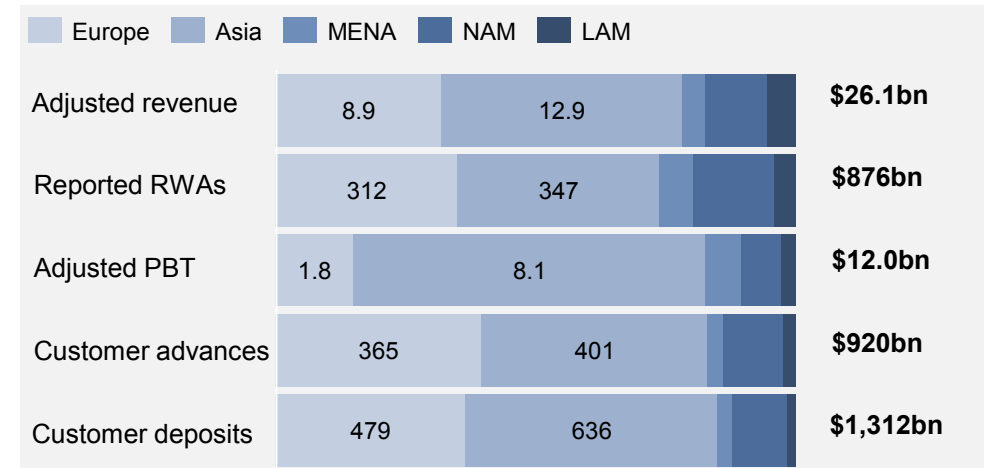
# HSBC is a leading universal and global bank

## Diversified global businesses and regions<sup>1</sup>

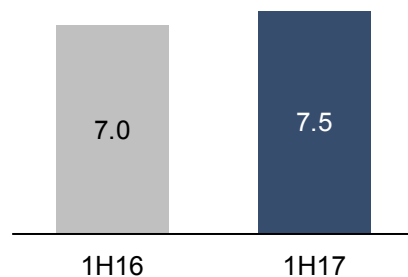
### 1H17 performance by global business, \$bn



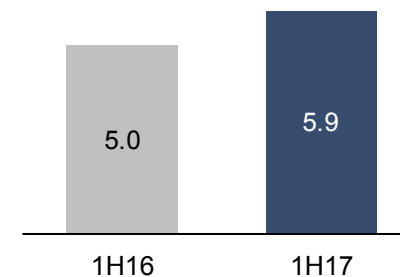
### 1H17 performance by region<sup>2</sup>, \$bn



### Transaction banking revenue, \$bn



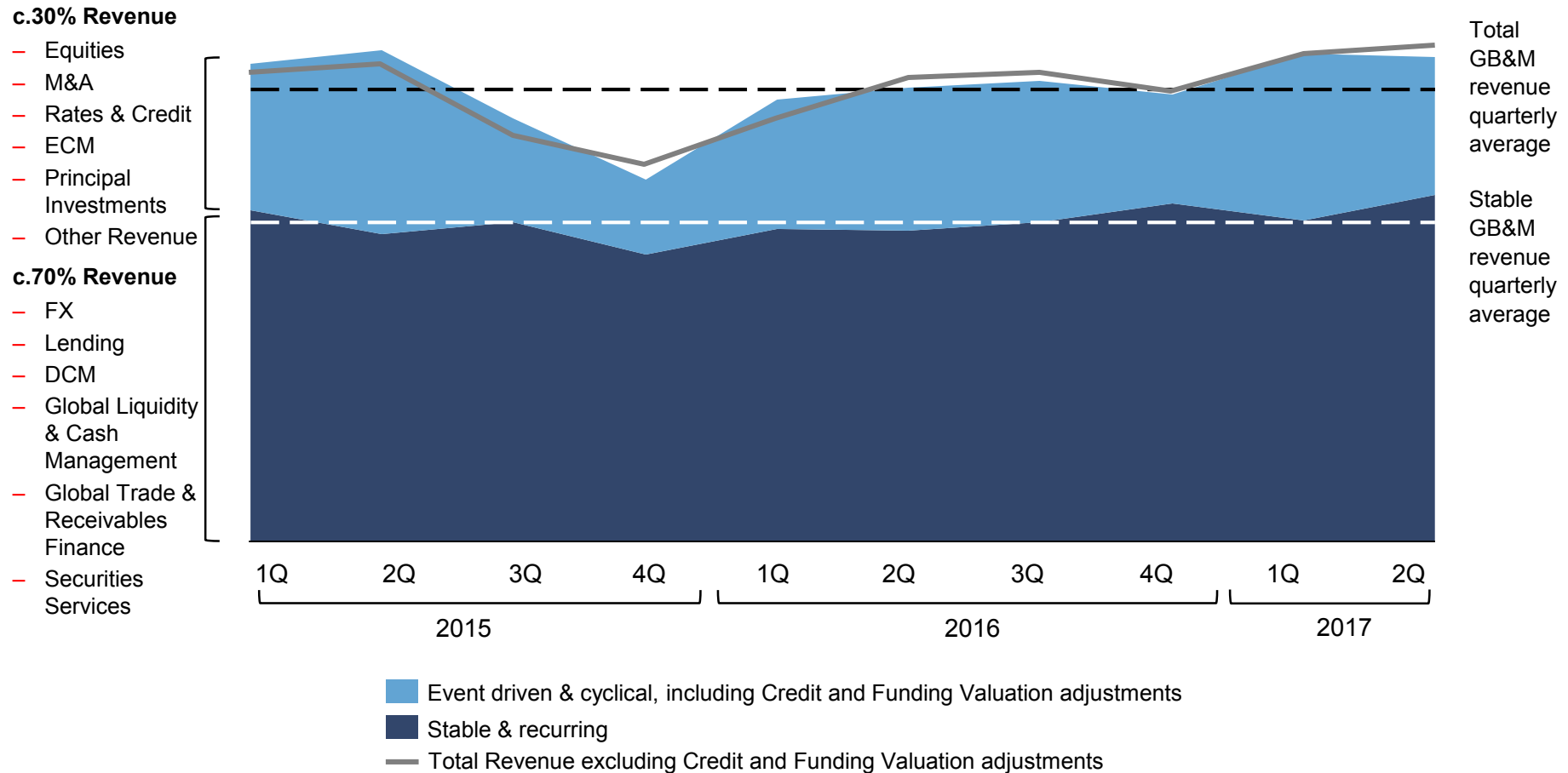
### Revenue synergies, \$bn



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# Low volatility GB&M business

## Quarterly GB&M revenue<sup>1</sup>



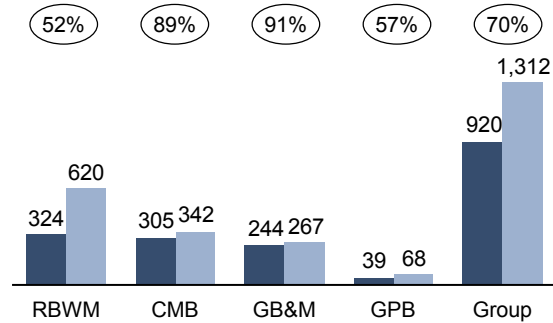
1. GB&M Adjusted Revenue, translated at 2Q17 FX rates, post-Corporate Centre re-segmentation; Source: HSBC Management View of Adjusted Revenue as reported in the Annual and Interim Report and Accounts between 2014 and 1H17

# Conservative approach to risk

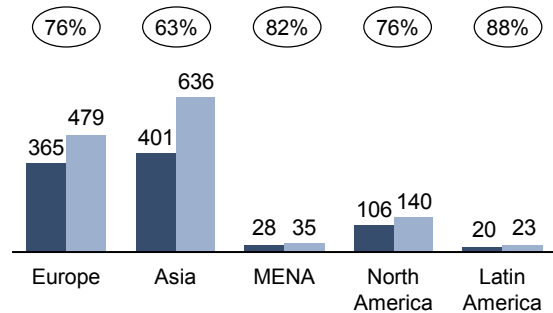
**We operate deposit surpluses in all businesses and regions**

■ Customer advances ■ Customer deposits (x%) A/D ratio

**By global business, \$bn:**

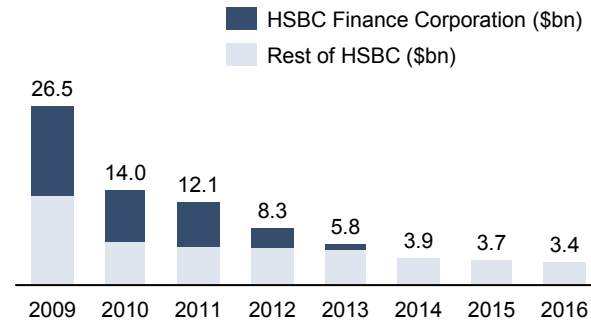


**By region, \$bn:**

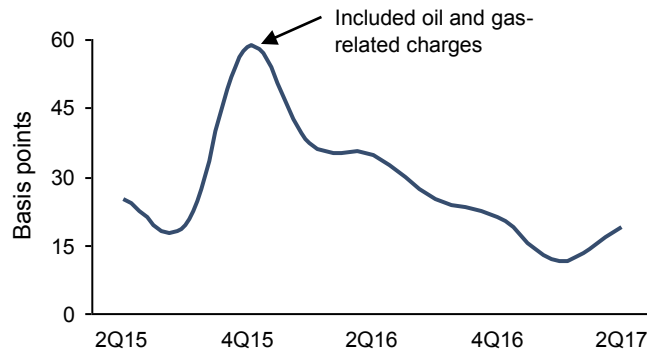


**Long track record of disciplined credit risk management**

**Reported LICs, \$bn**

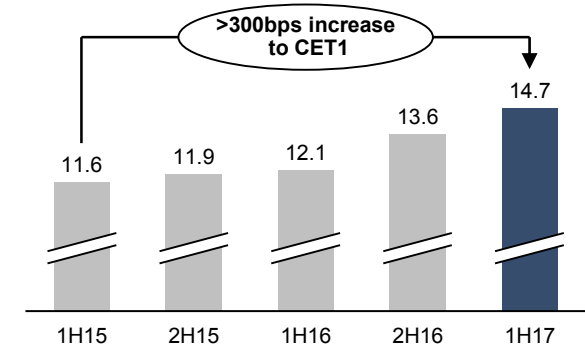


**LICs as proportion of gross customer advances**

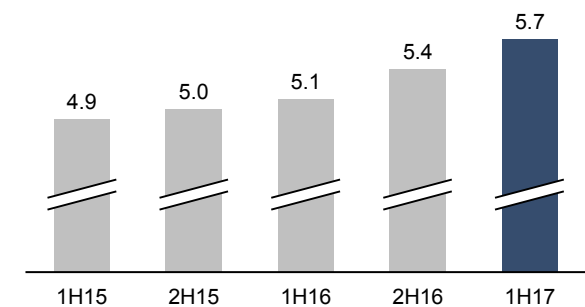


**Strong capital and leverage position**

**CET1 ratio, %**

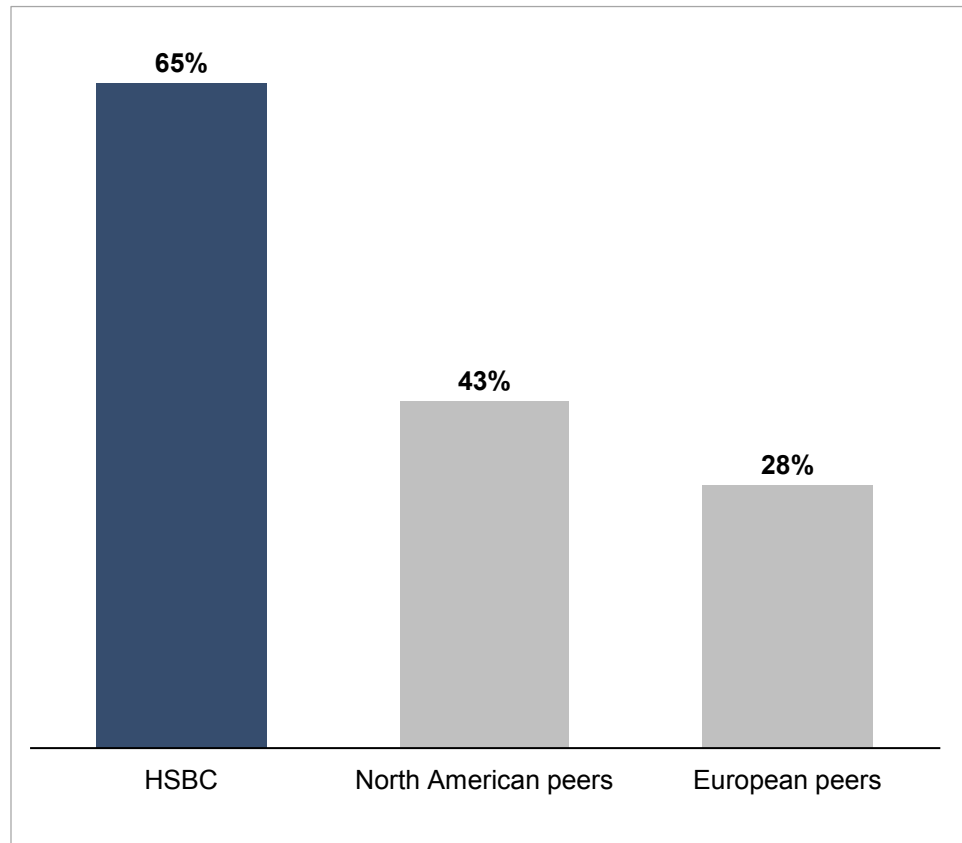


**Leverage ratio, %**

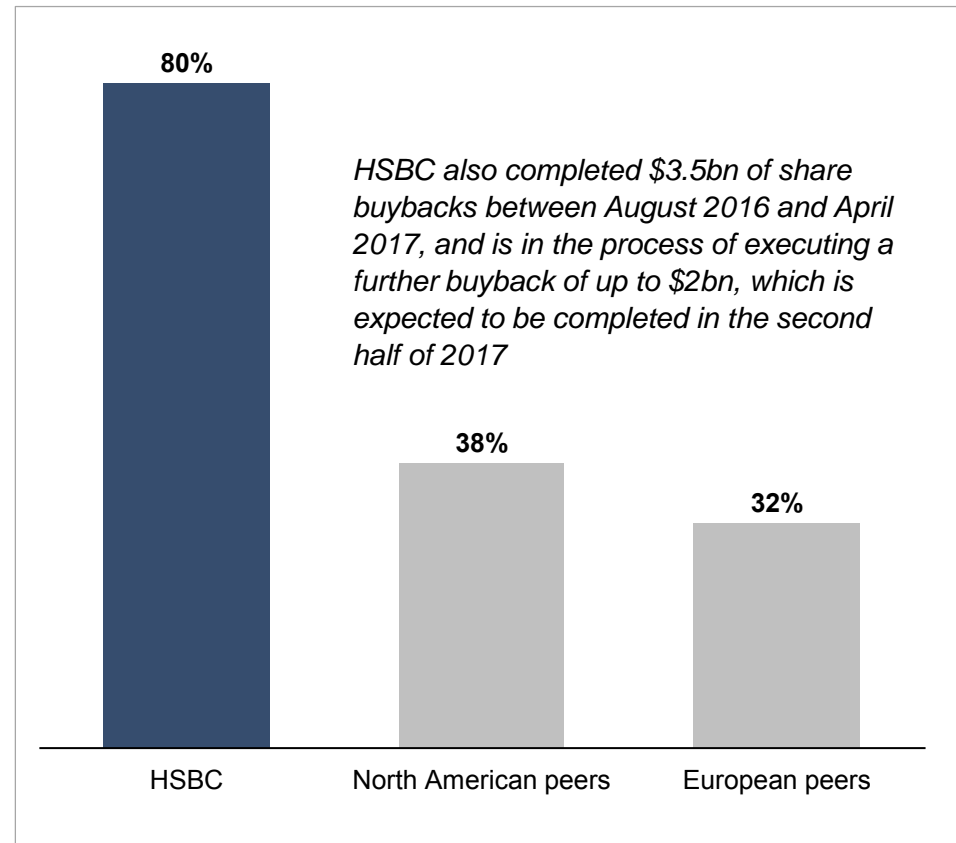


# Consistent earnings and a stable dividend

## Consistency of profitability, 2007 to 2016



## Consistency of dividends, 2007 to 2016



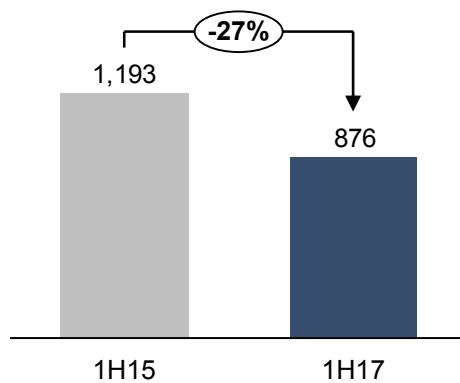
Source: Individual company reports

1. Consistency defined as 1-10yr standard deviation / 10yr average, with a floor of zero. Profitability = reported PBT. Dividends = aggregate dividends declared. North American peers: Bank of America, Citi, JPM, RBC, Wells Fargo. European peers: Barclays, BNP, CS, Deutsche, Lloyds, Santander, Soc Gen, Standard Chartered, UBS, Unicredit

# Good progress on key strategic actions

## RWA reduction target achieved

Group Reported RWAs, \$bn



GB&M RWAs

1H15	377	1H17	306
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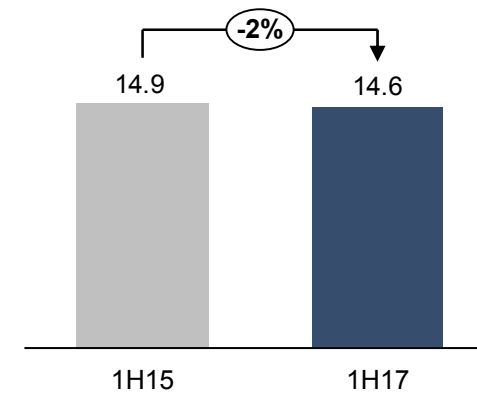
US CML<sup>1</sup> Loans & Advances

1H15	23	1H17	1.6
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- Achieved 100% of target \$290bn RWA reduction target while growing in target areas
- Further reductions planned in GB&M over the medium term (c\$20bn)
- RWA discipline an ongoing management focus

## Cost discipline

Group Operating Expenses, \$bn



FTE

1H15	240k	1H17	233k
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CER

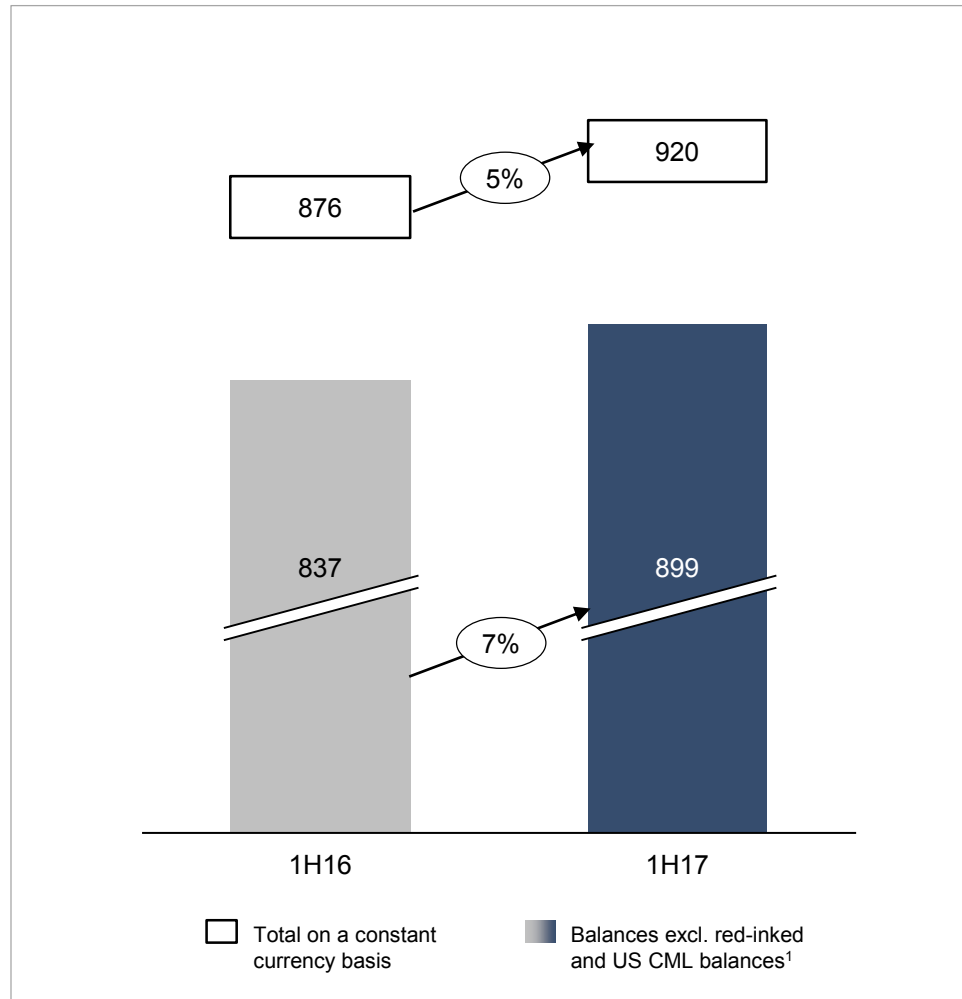
1H15	57%	1H17	56%
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- Annualised run-rate savings of \$4.7bn since start of the cost-to-achieve programme
- On-track to deliver c\$6.0bn run rate cost savings by end of 2017; 2H17 cost-to-achieve spend to be c\$1.0bn
- Positive adjusted jaws of +0.5% at 1H17

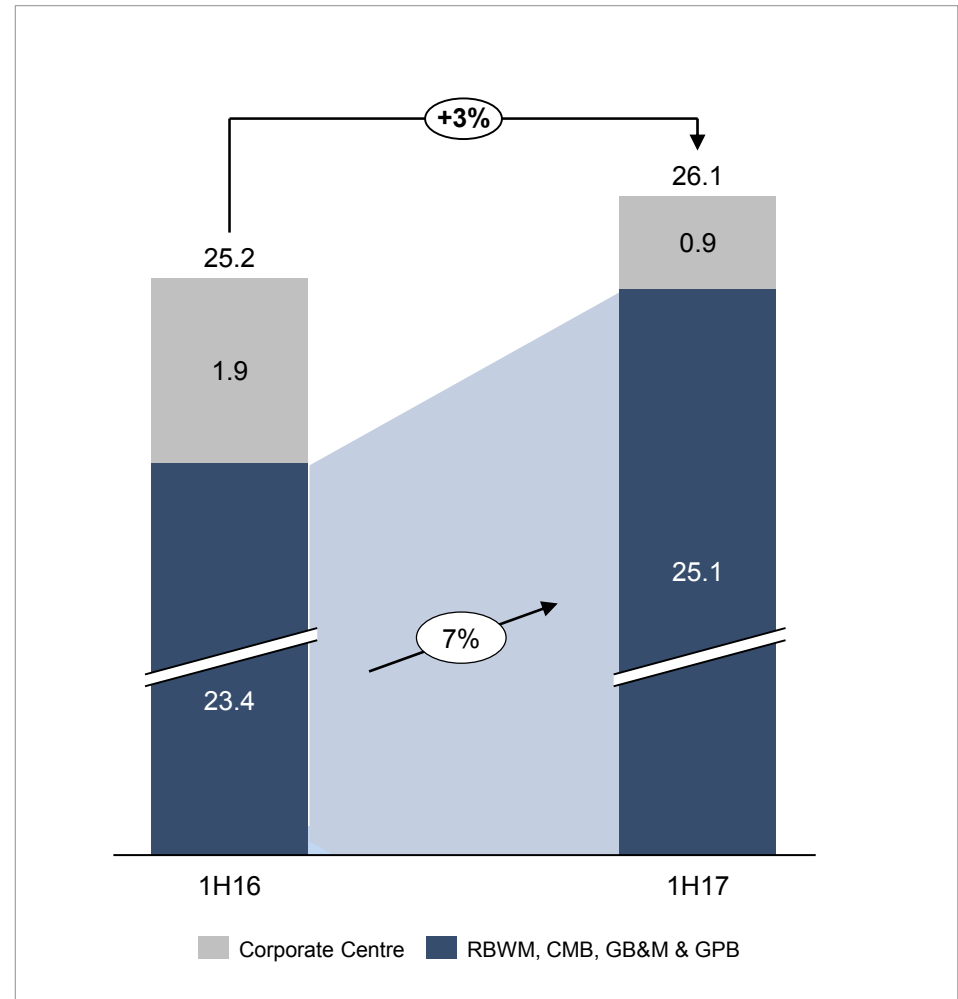
1. US Consumer and Mortgage Lending portfolio

# Momentum in loan and revenue growth

## Strong lending growth (\$bn) ...



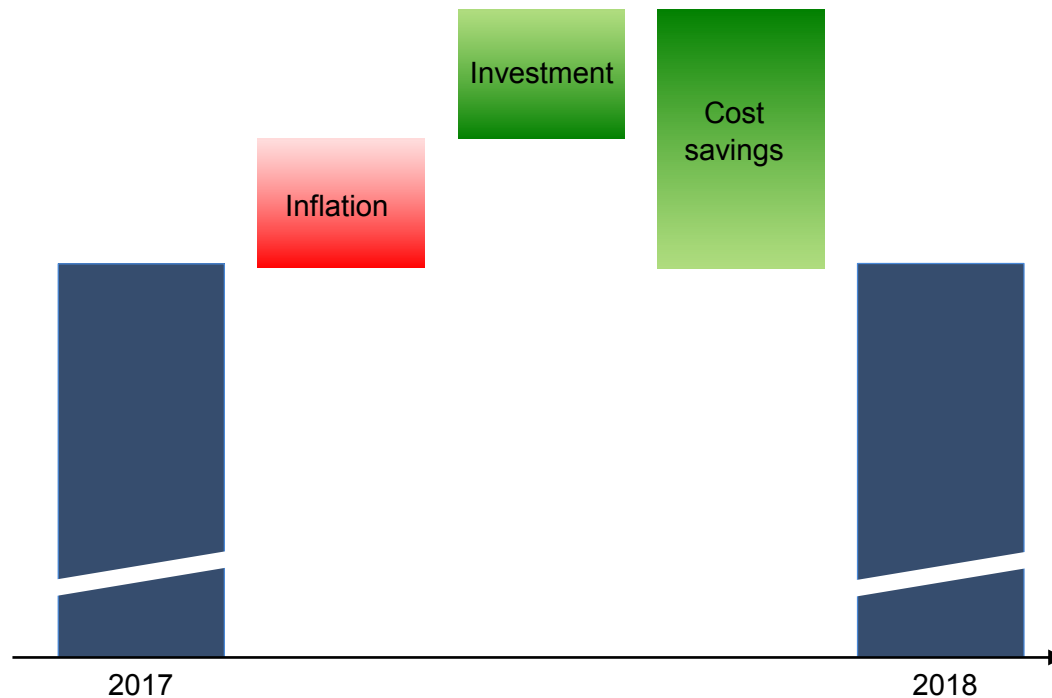
## ...and improved revenue performance (\$bn)



1. Balances exclude red-inked balances in Europe and US Consumer and Mortgage Lending (US CML) portfolio balances (1H16: red-inked balance of \$27bn and US CML \$12bn; 1H17: red-inked balance of \$20bn)



# Continued cost discipline will help drive positive Jaws



- Deliver circa \$6bn of run-rate efficiency savings by the end of 2017; more than the \$4.5bn to \$5bn we promised in June 2015<sup>1</sup>
- On track to achieve positive Jaws in 2017
- Transforming the Group’s ability to deliver year-on-year cost productivity
- Disciplined approach provides strategic flexibility

**Maintain positive Jaws**

1. We have also increased our planned CTA investment from \$4.0bn - \$4.5bn to c\$6.6bn

# Conclusion

## Group financial targets

ROE

>10%

Costs

Positive jaws  
(adjusted)

Dividend and  
capital

– Sustain dividend through long-term earnings capacity of the businesses<sup>1</sup>

– Share buy-backs as and when appropriate, subject to the execution of targeted capital actions and regulatory approval

## Medium term prospects remain promising

Despite geopolitical risks, medium term prospects remain promising

- ◆ **Delivered organic growth in 1H17**; 3% revenue growth and 7% or \$62bn loan growth (excluding CML run-off and red-inked balances) compared with 1H16
- ◆ Will **achieve c\$6bn cost savings target** following substantial investment across our business (c\$6bn 'cost to achieve' investment programme concludes at the end of 2017)<sup>2</sup>
- ◆ **Positive jaws** in 2016 and 2017
- ◆ **Strong capital generation**, well funded, and well diversified balance sheet;
- ◆ **Financial targets unchanged**

1. Dividend per ordinary share  
2. As updated at 2016 Annual Results

# Appendix



# Appendix

## 1H17 Key financial metrics

Key financial metrics	1H16	1H17
Return on average ordinary shareholders' equity <sup>1</sup>	7.4%	8.8%
Return on average tangible equity <sup>1</sup>	9.3%	9.9%
Jaws (adjusted) <sup>2,3</sup>	(0.5)%	0.5%
Dividends per ordinary share in respect of the period	\$0.20	\$0.20
Earnings per share	\$0.32	\$0.35
Common equity tier 1 ratio	12.1%	14.7%
Leverage ratio	5.1%	5.7%
Advances to deposits ratio	68.8%	70.1%
Net asset value per ordinary share (NAV)	\$8.75	\$8.30
Tangible net asset value per ordinary share (TNAV)	\$7.53	\$7.26

Reported Income Statement, \$m						
	2Q17	Δ 2Q16	Δ %	1H17	Δ 1H16	Δ %
Revenue	13,173	(1,321)	(9)%	26,166	(3,304)	(11)%
LICs	(427)	778	65%	(663)	1,703	72%
Costs	(8,115)	2,249	22%	(16,443)	2,185	12%
Associates	651	(32)	(5)%	1,183	(55)	(4)%
PBT	5,282	1,674	46%	10,243	529	5%

Adjusted Income Statement, \$m						
	2Q17	Δ 2Q16	Δ %	1H17	Δ 1H16	Δ %
Revenue	13,210	546	4%	26,053	818	3%
LICs	(427)	330	44%	(663)	893	57%
Costs	(7,404)	(197)	(3)%	(14,606)	(384)	(3)%
Associates	651	(9)	(1)%	1,183	(11)	(1)%
PBT	6,030	670	13%	11,967	1,316	12%

1. Annualised
2. Includes the impact of UK bank levy
3. 1H16 jaws as reported in 1H16

# Appendix

## Reconciliation of Reported to Adjusted PBT

		Discrete quarter			Half year		
		2Q16	2Q17	Δ 2Q16	1H16	1H17	Δ 1H16
<b>Reported profit before tax</b>		<b>3,608</b>	<b>5,282</b>	<b>1,674</b>	<b>9,714</b>	<b>10,243</b>	<b>529</b>
Includes:							
<b>Currency translation</b>		245	-	(245)	520	-	(520)
<b>Significant items:</b>							
FVOD <sup>5</sup>	Fair value gains / losses on own debt	75	-	(75)	1,226	-	(1,226)
Brazil disposal	Trading results from disposed operations in Brazil	(220)	-	220	(338)	-	338
Disposal of membership interest in Visa	Europe	584	-	(584)	584	-	(584)
	US	-	166	166	-	312	312
DVA	DVA on derivative contracts	(7)	(178)	(171)	151	(275)	(426)
NQHs	Fair value movements on non-qualifying hedges	(164)	(61)	103	(397)	30	427
Cost-related	Settlements and provisions in connection with legal matters	(723)	322	1,045	(723)	322	1,045
	Impairment of GPB Europe goodwill	(800)	-	800	(800)	-	800
	Costs to achieve (CTA)	(677)	(837)	(160)	(1,018)	(1,670)	(652)
	UK customer redress	(33)	(89)	(56)	(33)	(299)	(266)
	Costs to establish UK ring-fenced bank	(63)	(93)	(30)	(94)	(176)	(82)
Other	Other significant items	34	22	(12)	(15)	32	47
<b>Adjusted profit before tax</b>		<b>5,360</b>	<b>6,030</b>	<b>670</b>	<b>10,651</b>	<b>11,967</b>	<b>1,316</b>

# Appendix

## Important notice and forward-looking statements

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# Appendix

## Important notice and forward-looking statements

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Issued by HSBC Holdings plc  
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