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HSBC Commercial Banking

Royal Bank of Scotland Investor Presentation

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HSBC 

Forward-looking statements



This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report and Accounts 2010, Interim Report 2011 and Interim Management Statement 3Q 2011. Past performance cannot be relied on as a guide to future performance.

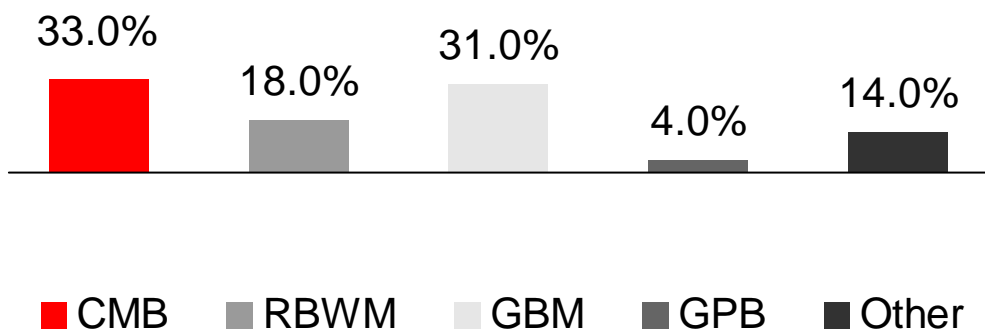
This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at www.hsbc.com.

Global Commercial Banking interim results 2011

2011 3Q Highlights

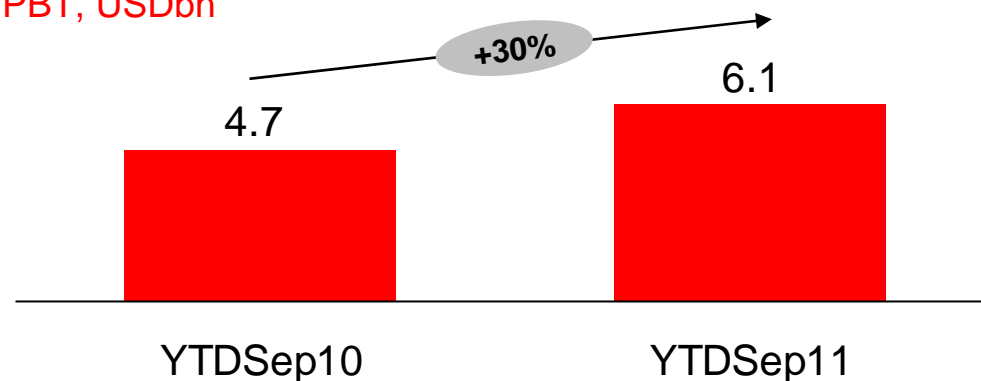
Significant contributor to group profits

Share of PBT based on YTD Sep 2011 Results



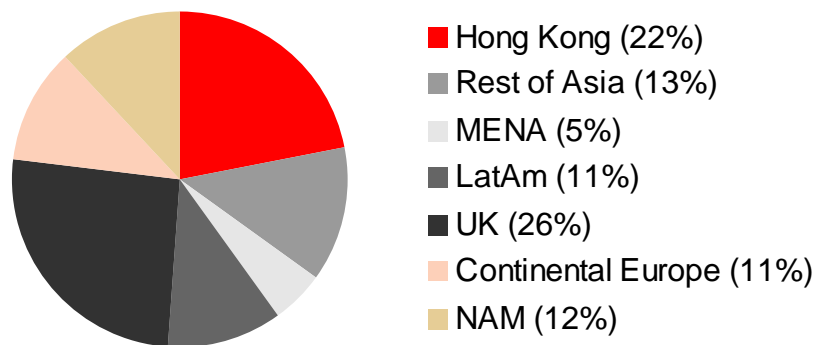
Strong profitable growth

PBT, USDbn



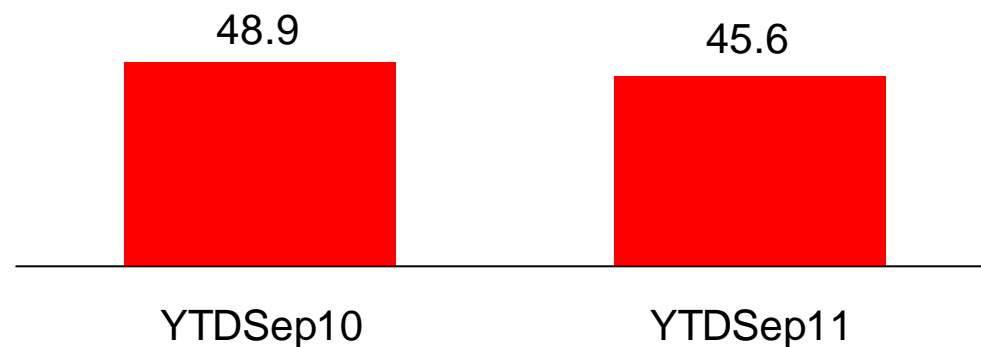
Diversified business

(Distribution of Loans and advances to customers¹)



Improving cost efficiency ratio


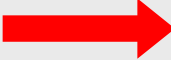



(%)



Note:

¹ As at 30 June 2011

3Q 2011 financial results

USDbn	YTD Sep10		YTD Sep11	% Better / (Worse)
Revenue	10.2		11.7	+15%
Operating expense	(5.0)		(5.3)	-7%
Loan impairment charges	(1.1)		(1.2)	-7%
Profit before tax	4.7		6.1	+30%
RORWA ¹	2.1%		2.3%	+0.2pp

All financial measurements trending positively:

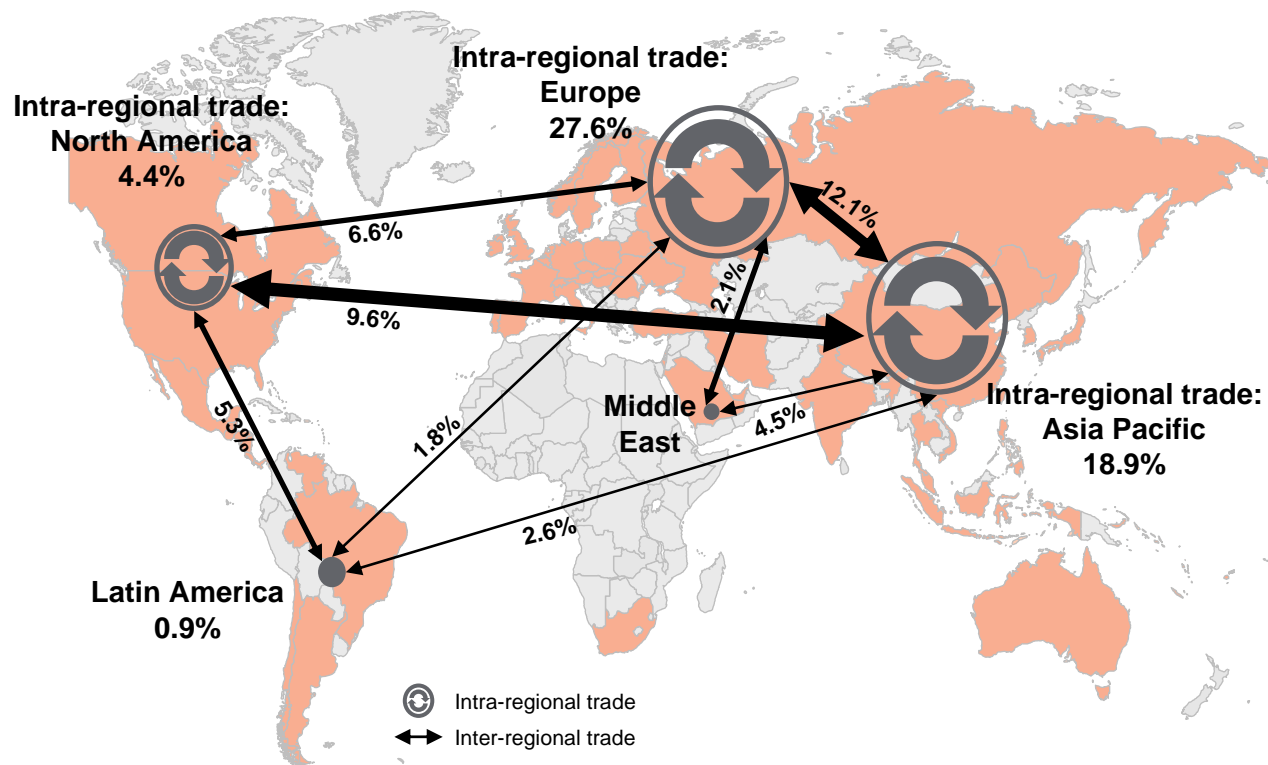
- Risk adjusted revenue grew by 15%
- Strong positive JAWs ... revenue growing faster than cost
- RoRWA¹ improved by 20bps

Macro economic trends

15 markets will comprise 64% of world trade by 2020, mainly concentrated in Asian and European regional corridors²



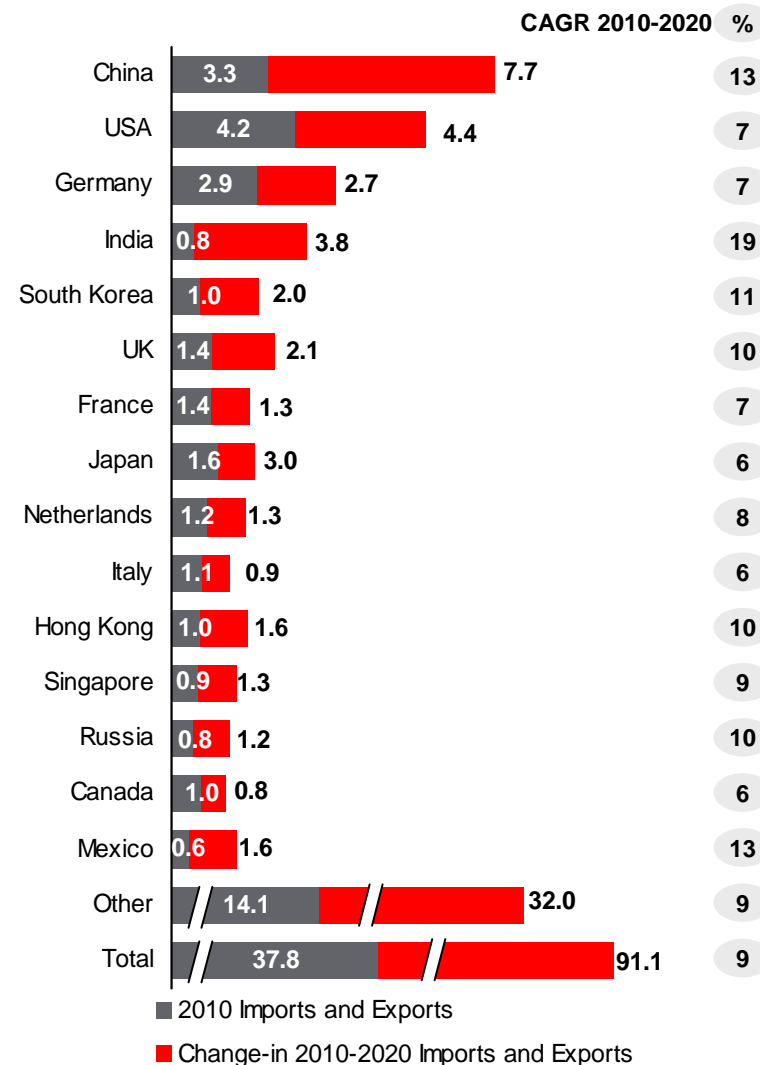
Major trade flows¹ 2010



Comments

- Developed markets still play a vital role in Global Trade:
 - 5 largest trade hubs in 2010 are USA, China, Germany, France and UK
 - 5 most important trade flows in 2010 are intra-regional Europe, intra-regional Asia, between Asia and Europe, between Asia and North America and between Europe and North America

Top 15 trade countries² Imports and Exports, USDtrn



¹ Delta Economics based on Top 10 trade partners for focus set of 33 countries
² Global Insights. Note: Brazil represents USD0.5tn in 2010 expected to grow to USD0.9tn in 2020

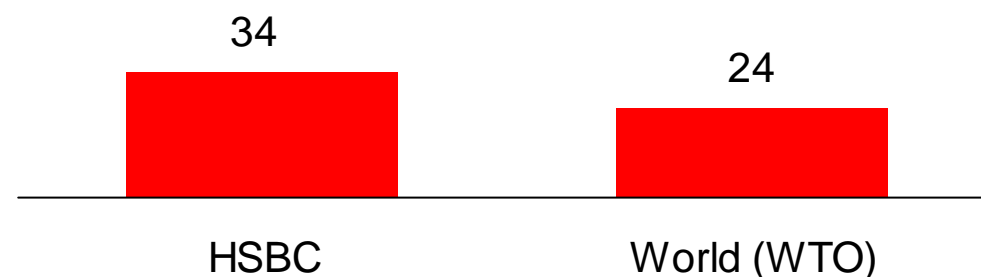
HSBC – leadership in global trade



- USD1.0bn Trade & Supply Chain revenue in H1 2011 – up 26% – over 8x GDP growth
- Recognised leader in trade
 - Whether open account ...
 - Footprint in countries which account for more than 80% of global trade flows¹
 - Global Liquidity Management in 55 markets
 - Receivables Finance: coverage across 24 sites – merged function with TSC to drive revenue over medium term
 - International Factoring: #2 globally²
 - ... or directly through other products
 - Traditional remittances and collections
 - Commodity and Structured Trade Finance
- Strong capability with ancillary products: FX, Insurance etc

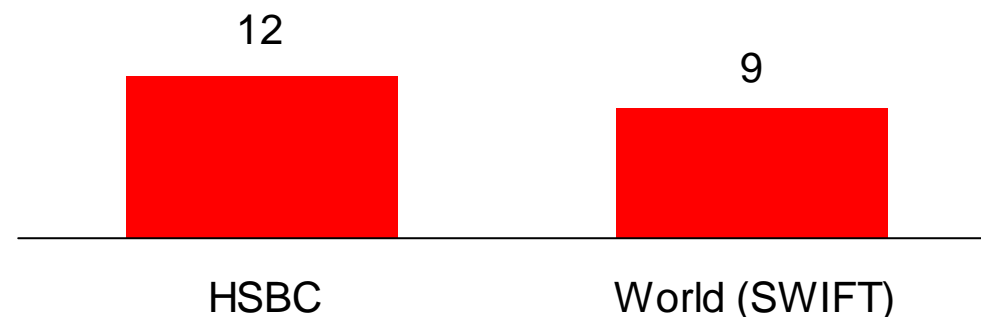
Trade growth

Turnover growth³, %, 1H10-1H11



Payments growth

Transaction growth⁴, %, 1H10-1H11



1 WTO data, 2010

2 Factor Chain International, Nov 2010

3 WTO and HSBC Total (Import and Export) Trade Turnover (Internal Management Information)

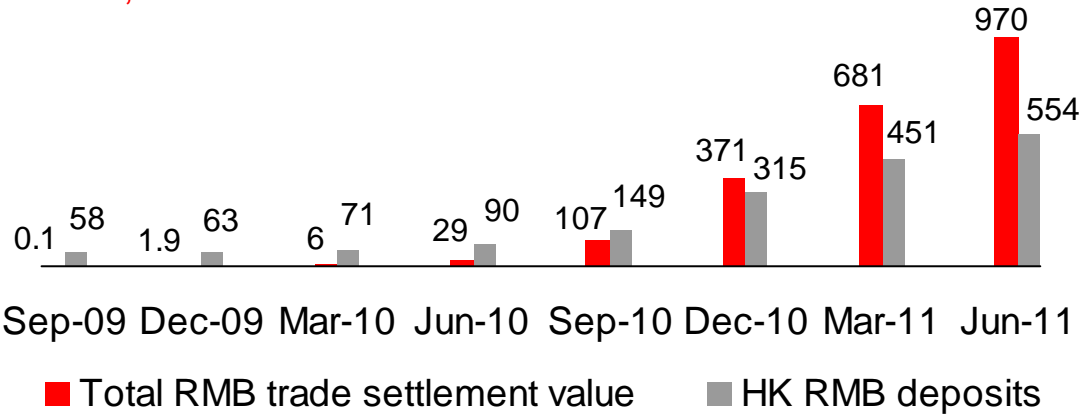
4 www.swift.com; Payment transactions growth 1H10 – 1H11

HSBC – a leading international RMB bank



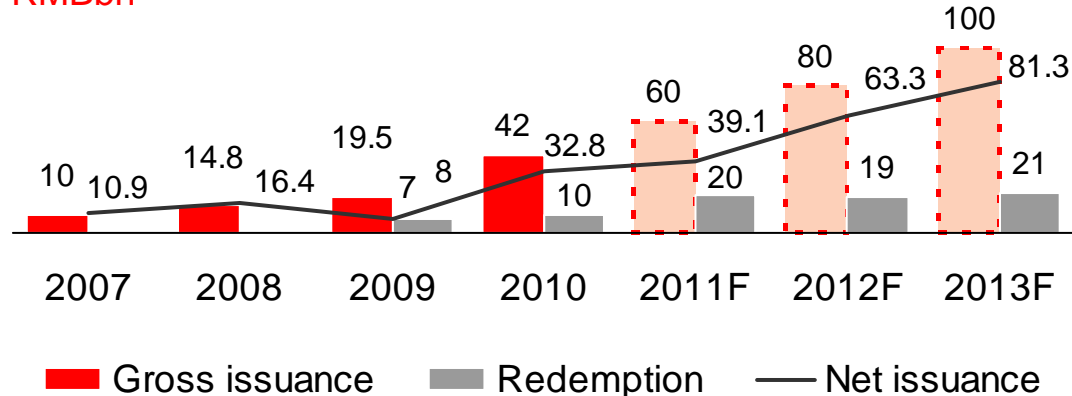
Hong Kong RMB deposits vs RMB trade settlement¹

RMBbn, cumulative



RMB Bond new issuance forecast²

RMBbn



1 HKMA
 2 HSBC Research 'Offshore RMB: What's next' on 15 February 2011; HKMA
 3 HSBC management information (excluding Hang Seng Bank)
 4 Bloomberg as at 7 November 2011

Potential for growth

Capitalising on international connectivity to further increase market share

- HK's RMB deposits estimated to rise threefold in 2011²
- HSBC offers RMB trade services in over 50 markets on all 6 continents, settlement volume reached RMB45bn FY2010³
- Offshore RMB bond issuance: #1 Rank (YTD October 2011). Issuance includes World Bank, Unilever, etc⁴

Leveraging on first mover advantage

- Joint-Listing Agent on HK's first RMB IPO
- First RMB structured deposits. Launched RMB insurance, RMB Bond Fund
- Pioneered Offshore RMB Bond Index
- Launched first RMB business card in Hong Kong

Significant opportunity in target markets

Key messages

Macro economic environment

- Faster growing markets GDP growing 2.5x faster than developed, share of global trade growing to 56% by 2020¹
- 20 CMB priority markets with 63% of global trade¹ by 2020
- Customers becoming more international with 74% of Corporates² and 40% of SMEs³ planning to expand internationally

Implications

- CMB already present in most markets that matter for future economic and trade growth
- International target customer segment expected to grow faster than pure Domestic
- International opportunity is large and addressable
- CMB needs to be competitive in basic banking products while developing international

¹ Global Insights, updated June 2011

² HSBC International Business survey, June 2010

³ HSBC Small Business Confidence Monitor, January 2011

⁴ McKinsey Global Banking Profit polling study performed for HSBC for the Top 20 + 2 markets, September 2011

Key Challenges

- Concerns about inflation shifting to concerns around growth
- Euro-zone debt crisis
- Quantitative easing in the West against quantitative tightening in the East
- Constrained economic recovery
- Regulatory changes and implications to business, e.g. Basel III

Progress against strategic direction

Strategic direction



**May 2011 HSBC Strategy Day established the CMB Overall Strategic Direction:
Strengthen our position as the leading international trade and business bank**

1

**Focus on
Faster
Growing
Markets**

2

**Collaborate
with GBM to
capture the
mid-market
opportunity**

3

**Capture
growth in
international
SMEs**

4

**Drive
efficiency
gains**

1 Focus on faster growing markets

Key actions

Expanding presence in key faster growing markets

Target sustainable profit growth at more than double the world's GDP growth rate

Roll out Commodity and Structured Trade Finance (CSTF) Capability

Increase product penetration

Highlights to date

Customer lending in Faster Growing Markets grew more than double the rate of growth in Developed Markets, for the period 1H 2011

Reported strong revenue of USD4.3bn in 1H 2011

Reported PBT levels of USD2.7bn up 39% against projected annual GDP growth of 3%¹

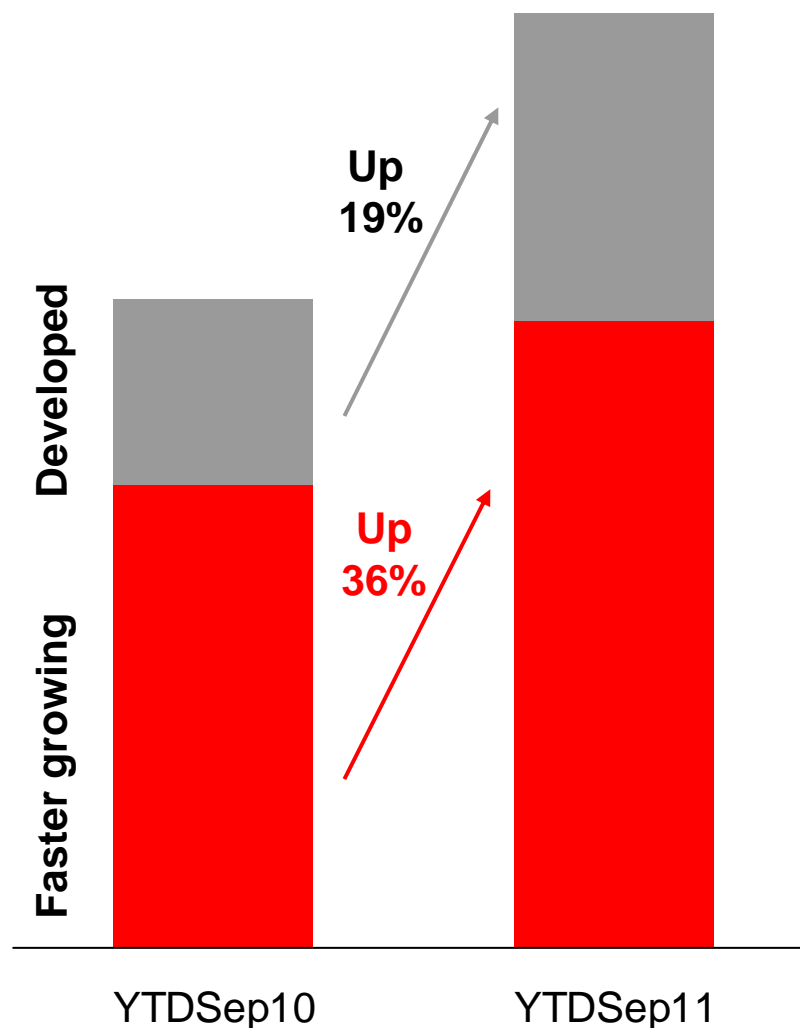
Head of CSTF Asia hired to build out Asia hub in Singapore with further investments in Hong Kong, Sydney & Shanghai to complement European network (London, Paris, Dusseldorf)

Successful cross-border referrals from DM to FGM grew by 58% compared to 1H 2010

Merged TSC² and RF³ to leverage scale – we aim to double HSBC trade revenue from USD2.5bn⁴ to USD5bn⁴ over medium term

The changing balance of our business

PBT



1 Nominal GDP weights – Source – HSBC Global Research
 2. Trade & Supply Chain
 3. Receivables Finance
 4. Trade revenue generated from both CMB & GBM customers

2 Collaborate with GBM to capture the mid-market opportunity HSBC

Key actions

Capture potential revenue upside of USD1bn in the short to medium term

Greater investment in franchise with particular emphasis on origination and cross-sell opportunities

Focus on key markets with deepest profit pools

Better global coordination within franchise and with GBM

Highlights to date

Strong revenue growth from the sale of GBM products

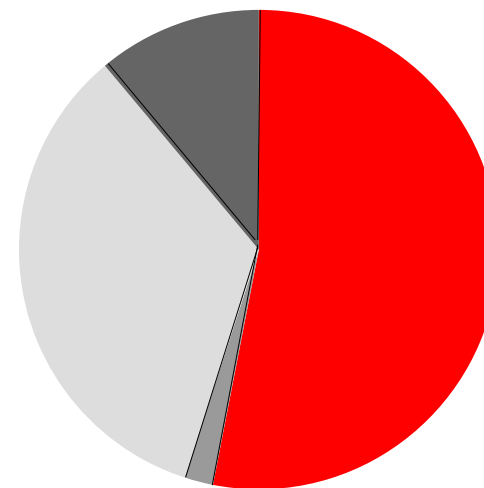
Appointed Global Head of CMB Coverage, Global Banking and Global Head of CMB Distribution, Global Markets

Asia and Latin America contributed more than 80% of total revenue growth

Joint sector and product coverage on key clients

Increasing contribution of GBM products

Corporate product revenue by business group 1H 2011



- Credit and lending
- Other
- Global transaction banking
- GBM

3 Capture growth in international SMEs

Key actions

Capture increased share of growing market of international and internationally aspirant SMEs

Reposition legacy SME books to an even greater focus on international

Leverage on-line banking capabilities to help customers execute cross border payments efficiently

Deliver wider product set to International SMEs

Highlights to date

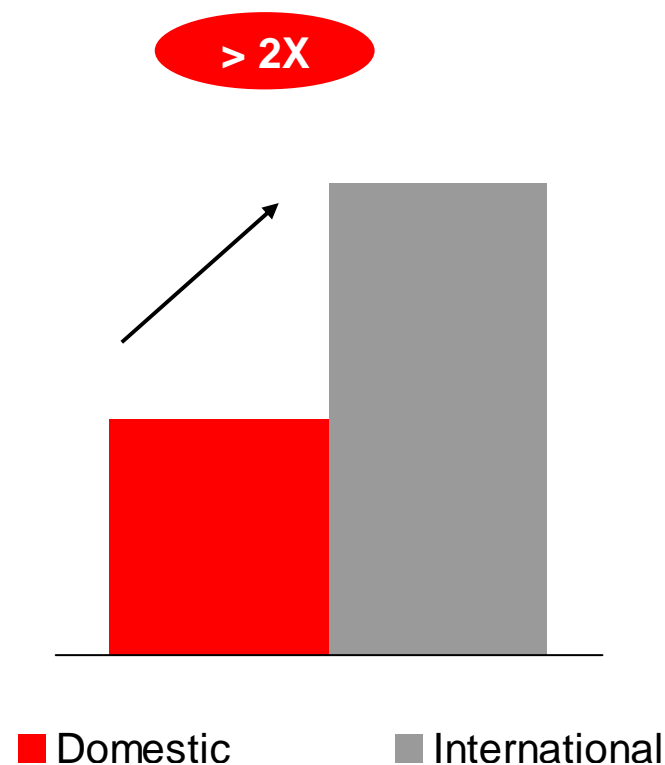
Fundamental shift in acquisition strategy to international SMEs whilst withdrawing from domestic acquisition in selected markets (based on 5 filter criteria)

International customers grew by 5% in top 12 markets since Dec 2010

Globalising our internet banking platform for International businesses – 1.2m active Business Internet Banking Customers, up 13% Y-o-Y

Developed a global model of International Business Teams (IBT)

Revenue from international vs domestic customers¹



Source: HSBC Internal management report

Globally, in Commercial Banking, international customers typically generate more than double the revenues of domestically focused companies.

4 Drive efficiency gains



Key actions

Implement a globally consistent operating model

Re-engineer processes to drive operational efficiencies

Improve efficiency gains from technology

Leverage scale in Centres of Excellence (CoEs)

Highlights to date

Rolling out globally consistent business model across all CMB countries in Q3 2011

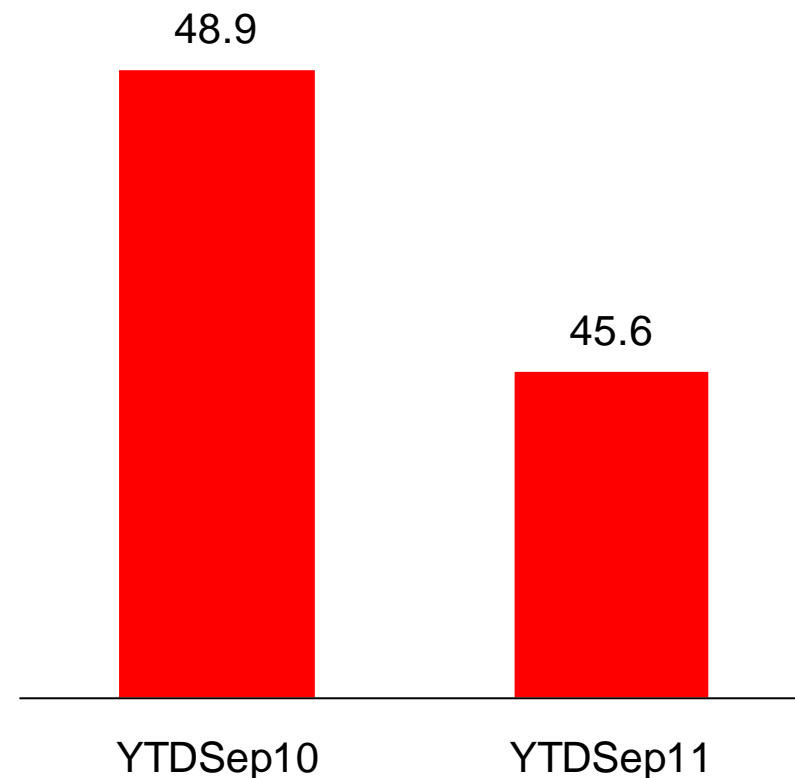
Reported CER of 46% is lower than target set at Strategy Day
Strong positive JAWs

BIB Mobile launched in 7 countries
HSBCnet Mobile piloted in 40 countries

Four operational workstreams initiated in Q2 to leverage efficiencies of scale

Driving efficiencies across CMB

% Cost efficiency ratio – CMB YTD Sep 2011¹



¹ Excluding the UK pension credit, CER of 47% is still below target range of 48 – 52%

Maintaining momentum

Execution Priorities

- Maintain focus on targets: RORWA 2.2 – 2.5% and CER of 46 – 48%

- Implement strategic business model

- Leverage leadership in international trade

- Continue to focus on cross sell potential with GBM

Q&A

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