



HSBC UK Retail Banking

Sustained growth in RBWM & CMB

Joe Garner

Deputy Chief Executive, HSBC Bank plc

1st June 2012

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 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.



Agenda

- Key trends and economic overview for UK
 - Macro economic trends
 - International connectivity and changing demographics
 - Regulatory and industry issues
 - Robust business franchise
- Progress against strategic direction
 - Strategic overview
 - RBWM
 - CMB
 - Increased operational effectiveness
- Financial performance in 2011
 - Financial statement
 - Financial performance
- Concluding remarks
 - Contribution to society
 - Overview

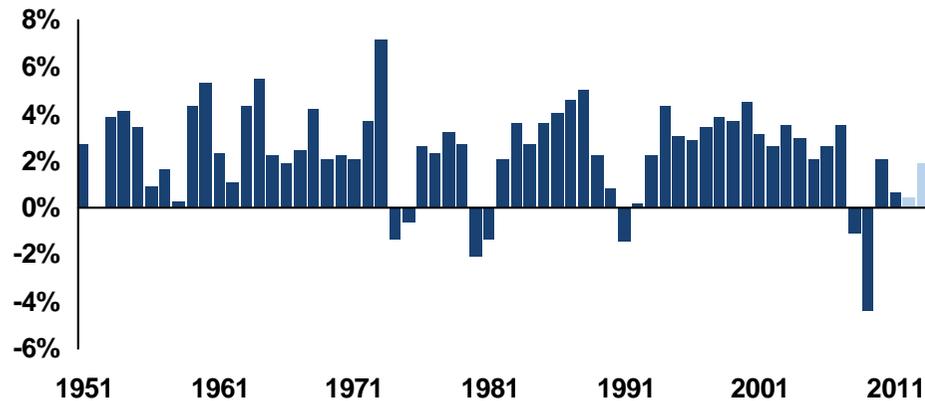
Key trends and economic overview for UK



Macro economic trends

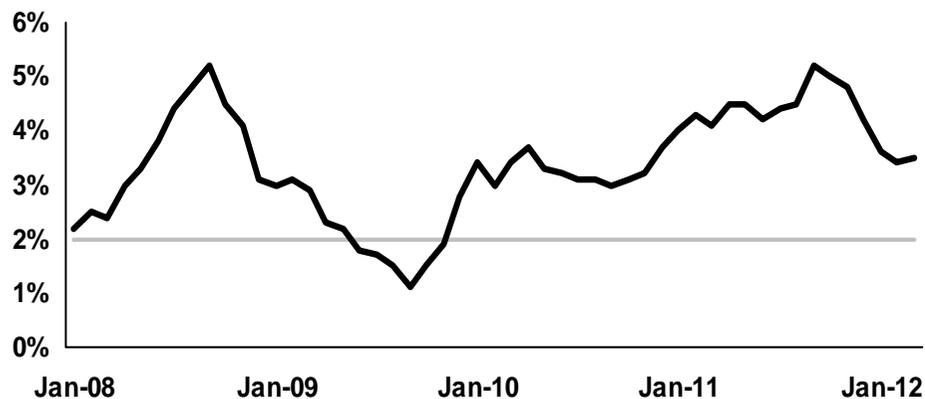
Outlook uncertain

UK GDP growth



Source: HSBC Research. 2012 & 2013 forecasts

Inflation



Source: Office of National Statistics, Consumer Price Index

Impact

- The economic outlook remains testing with the UK in a “technical” recession
 - Eurozone crisis on-going
 - Frailty and uncertainty in domestic and financial markets
 - Regulatory proposals have the potential to amplify the challenges
- Consumers and businesses wary of future
 - Wage growth restrained and unemployment remains above 8%¹
 - Demand for lending by SMEs remains muted, investment by large corporates stagnating
- Base rates at a record low and expected to remain at 0.5% in the short-term despite “sticky” inflation

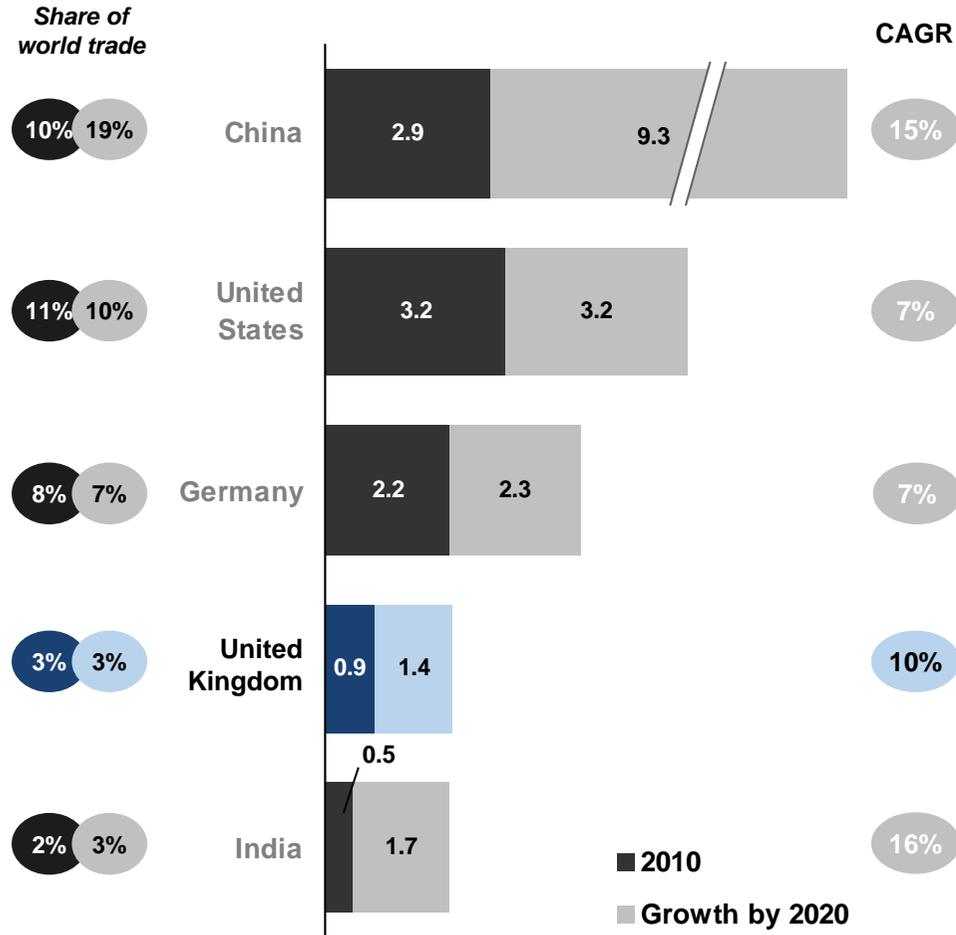
¹ Labour Force Survey: rolling 3-month average rate of unemployment for all persons 16 and over

Key long-term trends remain attractive

Internationally connected and continued demand for wealth

Top 5 trade countries in 2020

Imports and exports, USDbn



Source: Global Insights

Ageing population

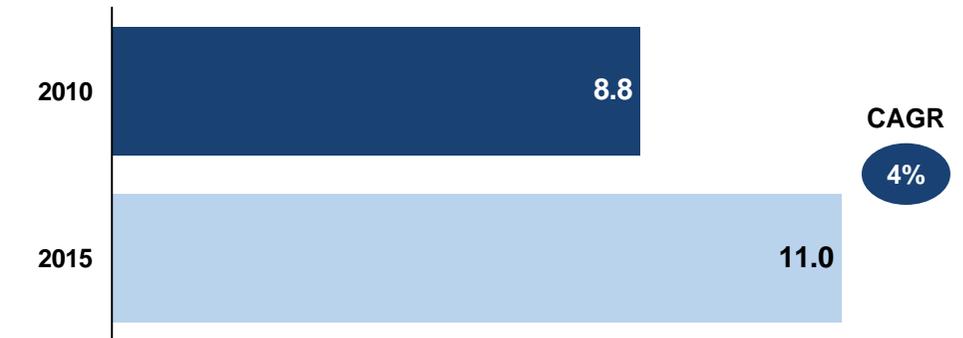
UK population aged 65 and over, %



Source: Office of National Statistics

Growing wealth

Mass affluent individuals, Millions



Source: Datamonitor 2011. Defined as having USD50k or more of onshore liquid assets

Regulatory and industry issues

Challenging environment

Pace and quantum of regulatory reform

- Intensive and intrusive supervision by the FSA¹
- New regulatory and supervisory frameworks (e.g. Financial Services Bill)
 - Prudential oversight by the Prudential Regulation Authority (PRA) e.g. capital requirements (move to Basel 3, FSA's Individual Capital Guidance, ICB proposals)
 - Conduct oversight by the Financial Conduct Authority (FCA) e.g. Retail Distribution Review (RDR), Mortgage Market Review
- ICB's ring-fencing proposals have been supported by the UK Government; to be enacted by MAY15
- Recovery and Resolution Plans – submission to FSA by JUN12

Financial services sector slowly recovering

- Sustained low base rates impacting the ability of banks to restore profitability
- Pressure on funding, forcing some to deleverage
- Competition for deposits high
- Government's credit easing scheme has helped some banks – but uneconomic for HSBC
- ICB proposals further risk the supply of credit

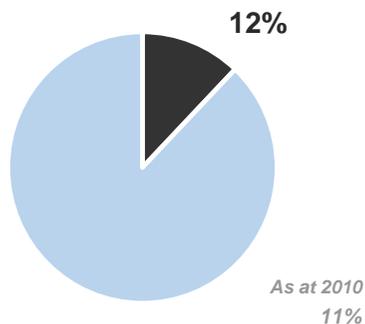
¹ FSA Business Plan

Robust business franchise

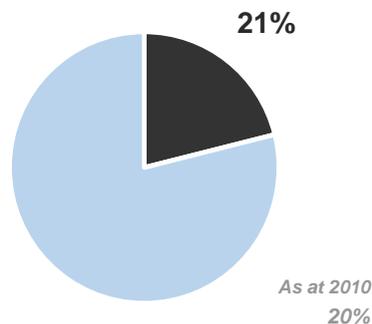
Significant PBT Contribution

UK Retail Banking, % of Reported PBT 2011¹

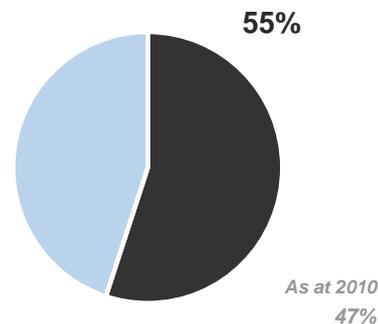
Group



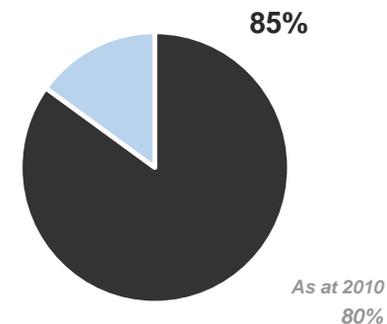
Group RBWM & CMB



Europe



Europe RBWM & CMB



Well positioned and aligned to strategy

- Dependable contribution and solid returns
- Scale in world's 6th largest economy in 2050²
- One of the top 6 countries for trade growth over next decade³
- Strength in target markets such as trade and mass affluent

Competitive advantage

- Brand strength
- Robust business model – well capitalised and self-funded
- Established prudent culture
- Globally connected, with deep history in trade

¹ Figures as per HSBC Holdings plc Annual Report and Accounts 2011. UK Retail Banking defined as UK RBWM and CMB

² Source: HSBC – "The world in 2050"

³ Source: Global Insights. Trade growth 2010-20

Progress against strategic direction



HSBC vision

Purpose	We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions	<i>Reason why we exist</i>
Values	Act with courageous integrity <ul style="list-style-type: none">• Dependable and do the right thing• Open to different ideas and cultures• Connected to customers, regulators and each other	<i>How we behave and conduct business</i>
Strategy	<ul style="list-style-type: none">• International network connecting faster growing and developed markets• Develop Wealth and invest in Retail only in markets where we can achieve profitable scale	<i>Where and how we compete</i>
UK		<i>Our mission</i>

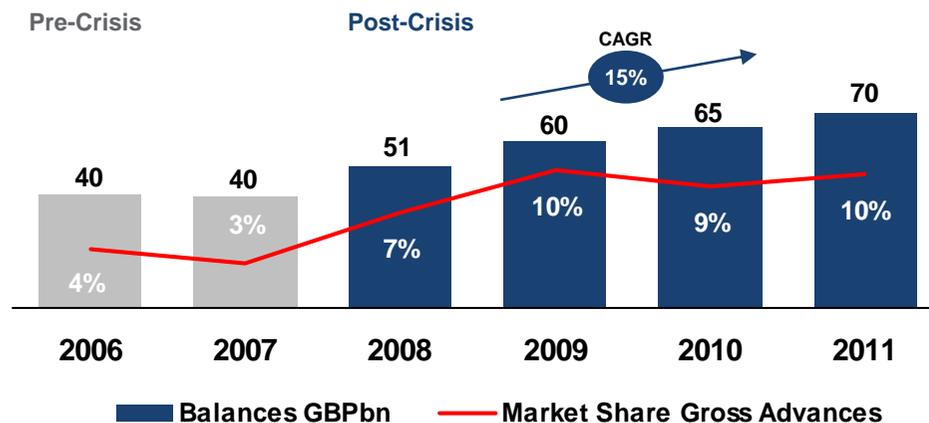
RBWM

Deliver market leading propositions so that customers trust us with their banking and future

MAY11 Investor Day Actions

- I Continue to develop wealth management and insurance capabilities, innovating new propositions, increasing customer penetration
- II Leverage Group's global scale and international capabilities e.g. World Selection, Premier Investment Management Service (PIMS)
- III Continue to focus on high value customer acquisition and quality mortgage origination
- IV Deliver superior service, facilitating investment from sustainable cost savings

Mortgage growth



Note: Balances as at period end. CAGR from 31DEC07 to 31DEC11

Progress

- Developing wealth management:
 - Global Investments Centre online platform launched OCT11
 - World Selection FUM grew +21% 2011 vs. 2010; customers invested £1.2bn via PIMS since launch in 2010¹
 - Focus on Retail Distribution Review (RDR) readiness prior to coming into effect 1JAN13
- Continuing to develop target relationships:
 - Average revenue per target customer over three times higher than mass market customers
 - Strong income growth from Premier customers
- 10% market share of mortgage new business in 2011 at LTV of 53%
 - Consistent performance in 1Q12
- Investment underway with our digital platforms to deliver a superior multi-channel experience

¹ As at 31DEC11

CMB

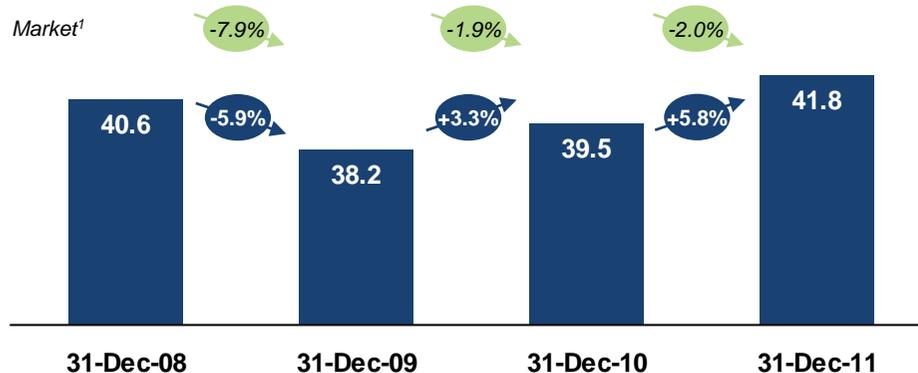
Become the UK's leading international bank and deliver targeted domestic growth

MAY11 Investor Day Actions

- I Leverage previous investments in segmentation strategy and International Relationship Managers
- II Improve relationship management and product penetration for domestic customers
- III Invest in digital platforms to meet customer demands and optimise cost to serve
- IV Develop cross-business referrals with RBWM (Wealth, Premier), GB&M and GPB

Lending to businesses

Balances, GBPbn



¹ Source: Bank of England Trends in Lending Report April 2012. 12 months to 31DEC

Progress

- Growing our international business:
 - Over 200 International Commercial Managers, +21% since 31DEC11²
 - International product income +14% 2011 vs. 2010
- Continue to provide lending facilities in line with our risk appetite where there is demand
 - Lending in 1Q12 grew faster than in 2011 as a whole in a market which contracted 3.3%³
- Penetration of business internet banking customers at 47%⁴:
 - iPhone application well received
 - Award winning business internet banking website
- Significant international transactions delivered through cross-business collaboration

² Over 200FTE as at MAR12

³ Source: Bank of England Trends in Lending Report April 2012. 12 months to FEB12

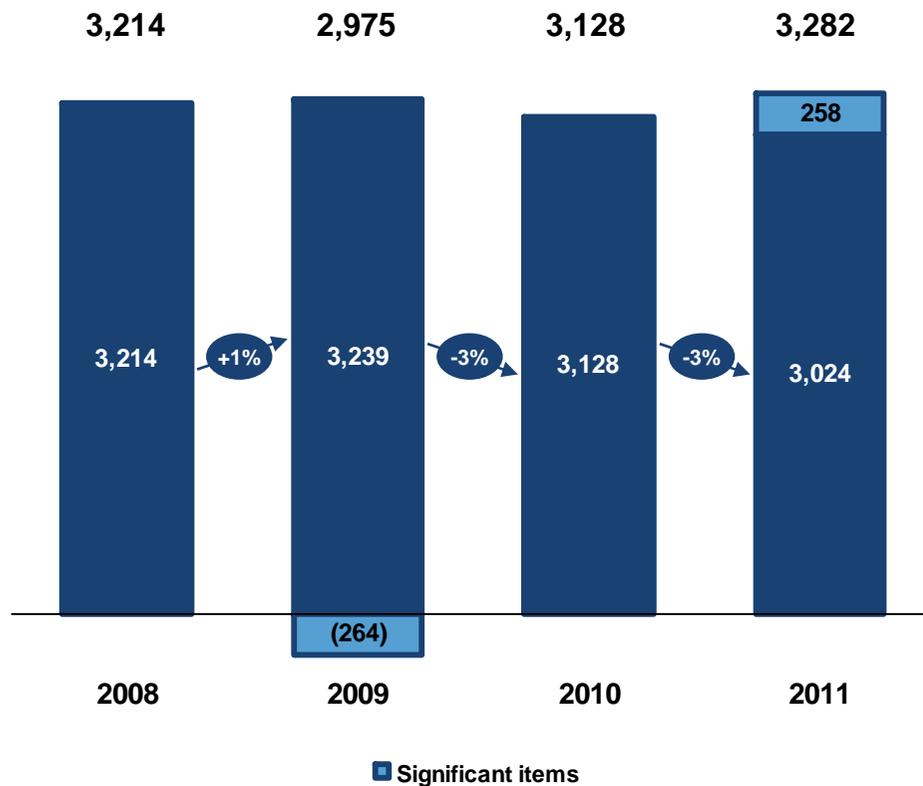
⁴ Active business internet banking customers as a proportion of active CMB customers

Increased operational effectiveness

Controlled costs

Operating expenses

Reported, GBPm



Key cost levers

- Operating expenses include the costs of the Insurance Broking business disposed of in April 2010 – excluding these and significant items costs have fallen modestly year-on-year
- This has been achieved alongside investment in the business funded from significant cost savings
- Alignment to the Group's target business model and reduction layers of management
 - Reduction of 2,217FTE announced MAY12
- Retail deposit funding model has an adverse impact on CER
- Regulatory costs present a challenge to headline figures
 - Total charges for customer redress programmes, including PPI mis-selling, amount to GBP798m for 2011 and 1Q12

Note: significant items as per HSBC Bank plc Annual Report & Accounts including £43m of restructuring costs in 2011.

Financial performance in 2011



Financial statement

Income statement

GBPm	2010	2011	% Var
Net operating income ¹	5,667	5,626	(-1)
Loan impairment charges and other credit risk provisions	(1,221)	(796)	35
Operating expenses	(3,128)	(3,282)	(5)
Associates and joint ventures	3	(1)	-
Profit before tax – reported	1,321	1,547	17
Underlying adjustments ²	(48)	(29)	-
Profit before tax – underlying	1,273	1,518	19

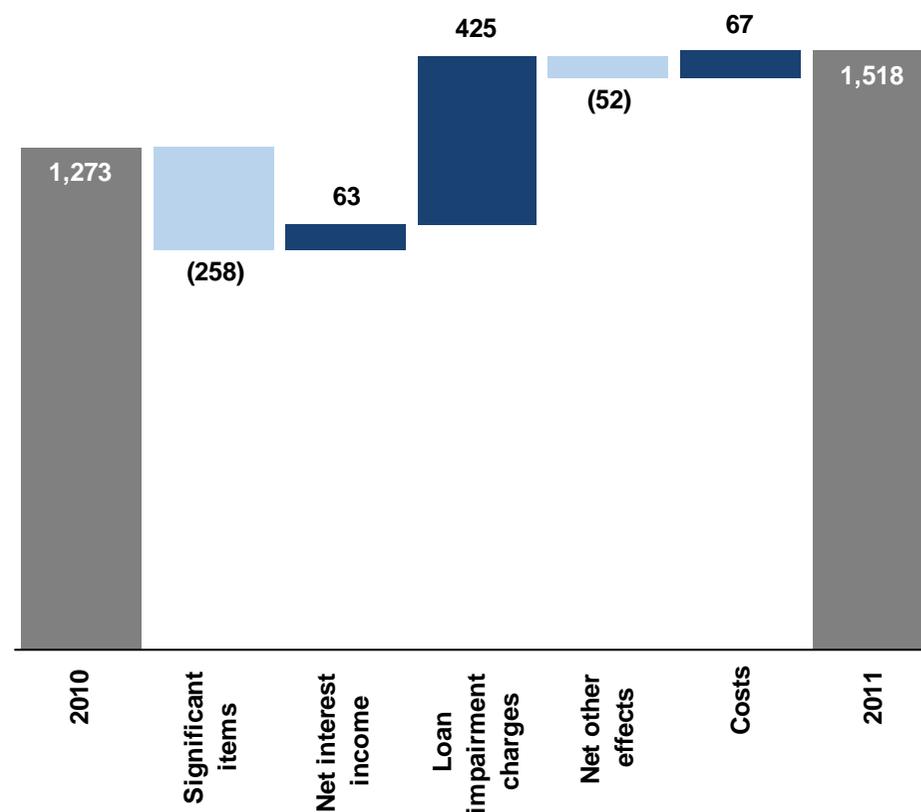
1 Before loan impairment charges and other credit risk provisions

2 Adjustments for disposal of Insurance Broking business

Note: Significant items include provisions in respect of customer redress programmes including that estimated for the possible mis-selling of PPI policies, an accounting gain relating to the legislative change in indexation of certain pension liabilities and restructuring costs

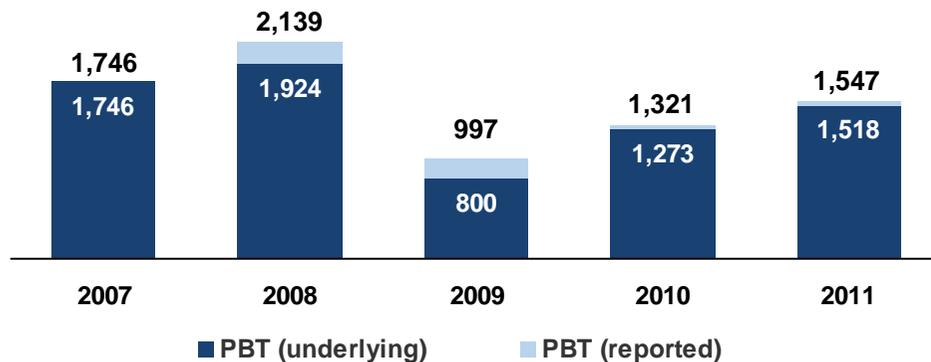
Key movements

Underlying PBT, GBPm



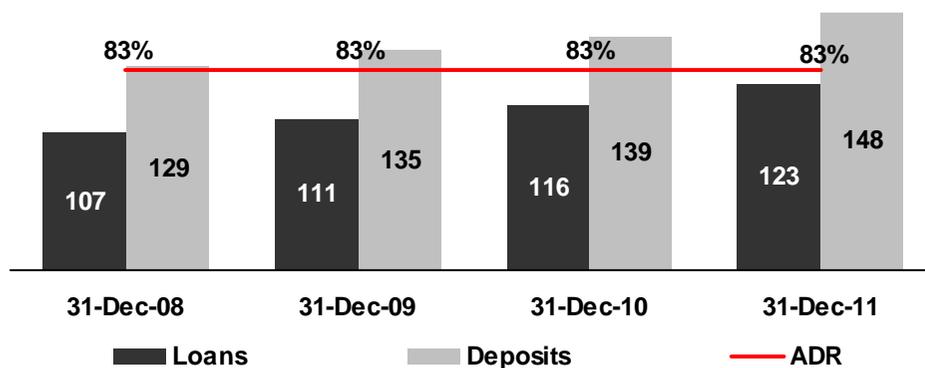
Financial performance

PBT, GBPm



Note: PBT prior to 2009 does not include Global Asset Management (AMG)

Balance sheet growth, GBPbn



Impact

- Resilient PBT performance
- Improved impairments due to strengthened credit risk management practices and continuation of high quality lending
 - 2011 LICs below 2007 levels
- Costs were broadly flat or decreasing¹
- Balance sheet growth of 5% year-on-year:
 - Sustained lending growth through the financial crisis and recovery
 - Funding position has remained strong
- ADR remains strong and differentiated from UK peer group
- Strong RoRWA, higher than RBWM and CMB Europe²

¹ Costs excluding underlying adjustments and significant items as per HSBC Bank Plc Annual Report (2011)

² RoRWA for RBWM and CMB Europe in 2011 was 2.2% per HSBC Holdings plc Annual Report and Accounts and Capital and Risk Management Pillar 3 Disclosures 2011

Concluding remarks



Contribution to society

Creating a sustainable bank for the long-term

We aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to realise their ambitions

- HSBC has generally been more positively viewed by our stakeholders than many other UK banks
- Our prudent management culture, strong capital base, self-funded model and lack of state support resonates with customers
- We are engaging with politicians and other key influencers on our social and economic commitments for 2012
- We are broadening the debate beyond current negative issues to promote a greater understanding of what banks do

HSBC's key commitments to the UK

Supporting growth in SMEs

1

Making £12bn of lending available to SMEs, more than we did in 2011 and the equivalent of £47m every working day

Helping SMEs trade in new markets

2

Providing a £4bn International fund to help UK SMEs sell more of their goods and services overseas

Helping UK homeowners

3

Making £15bn of new mortgages available, including £3bn for first time buyers, helping about 150,000 homeowners

Helping young people in our communities

4

Investing more than £20m in the UK over 5 years and working with 16 charities to help young people realise their potential

Overview

External pressures and position

- Challenging economic and regulatory environment
- Necessary scale in a significant and connected market
- Well capitalised, high quality funding base and prudent management principles embedded throughout the organisation

Outlook and focus

- Continue to ensure HSBC is a sustainable bank for the long-term
- Remain focused on relationship development in RBWM and CMB
- Acquire wealth market share through multi-channel development
- Leverage international capabilities to capitalise on globalisation
- Reduce CER and self-fund investment through sustainable saves

By focusing on our target customers – international and wealth management – coupled with our funding base, we are transforming UK Retail Banking into a lower risk, higher returning business

Contacts and further information

Guy Lewis

Senior Investor Relations Manager

guylewis@hsbc.com

+44 (0) 207 992 1938

Bloomberg / Website

HSBA LN <EQUITY> <GO>

HSBC <CORP> <GO>

www.hsbc.com/1/2/investor-relations