



HSBC UK Retail Banking

Sustained growth in RBWM and CMB

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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 2012. Past performance cannot be relied on as a guide to future performance.

This presentation contains non-GAAP financial information. Reconciliations 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.

Scope of the presentation

Business segments in Europe

UK Retail Banking

**Continental Europe
Retail Banking**

**Global Banking and
Markets (GBM)**

**Global Private
Banking (GPB)**

**Retail Banking and
Wealth
Management
(RBWM) in the UK**

- Retail banking and wealth management provider to UK personal customers
- Operating through a variety of distribution channels and under various brands including HSBC, first direct and M&S Bank

**Commercial
Banking (CMB) in
the UK**

- Commercial banking provider to UK Small and Medium sized Enterprises ('SMEs') and Corporates



Agenda

- Economic overview and key trends for the UK Section 1
- Performance in UK Retail Banking Section 2
- Vision and position of HSBC Section 3
- Progress against strategic direction in the UK Section 4
- Concluding remarks Section 5

Economic overview and key trends for the UK



Challenging economic and regulatory backdrop

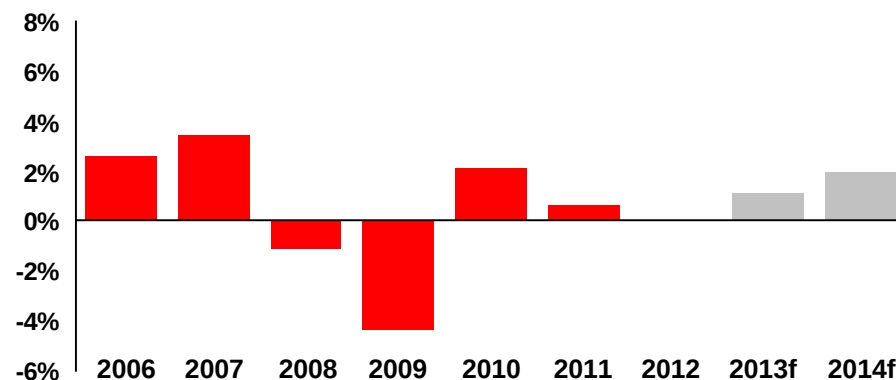
Lack of visibility in the short term

Subdued macro environment

- § Weak growth prospects in the short-term
- § Small and gradual rise in consumer spending expected
- § Fiscal tightening to drag on future growth
- § Base rates to remain at a record low (0.5%¹) despite “sticky” inflation

UK GDP growth¹

GDP year-on-year change (%)



Pace and quantum of regulatory reform

- § Increasingly “intensive and intrusive supervision” by regulators²
- § Newly formed Financial Conduct Authority in the UK
- § Higher capital requirements
- § Financial stability and structure debate: ring-fencing in the UK
- § Global co-ordination of Recovery and Resolution Plans

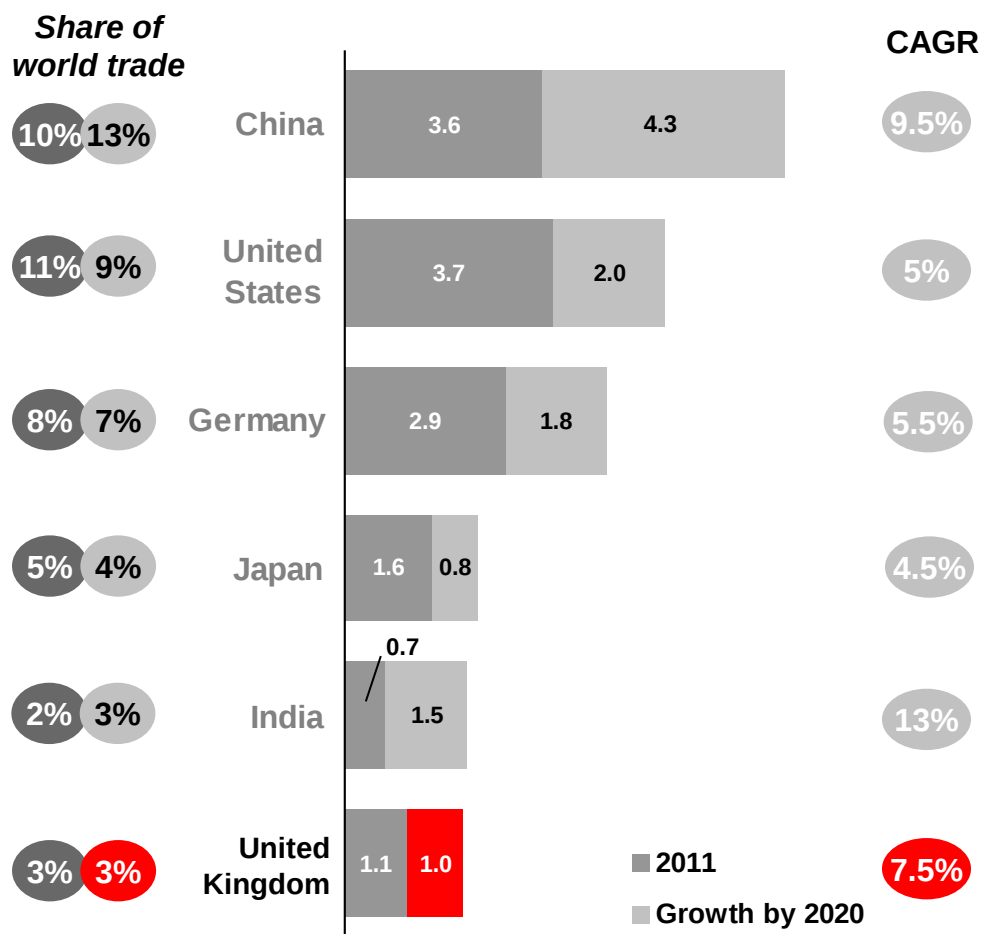
- § Greater focus on conduct risk, and wider definition
- § Need to adapt and enforce highest standards
- § Downward pressure on returns
- § More uncertainty on corporate structure, banks likely to operate at higher cost

Long-term prospects remain attractive

Robust fundamentals in the UK will fully support HSBC's RBWM and CMB businesses

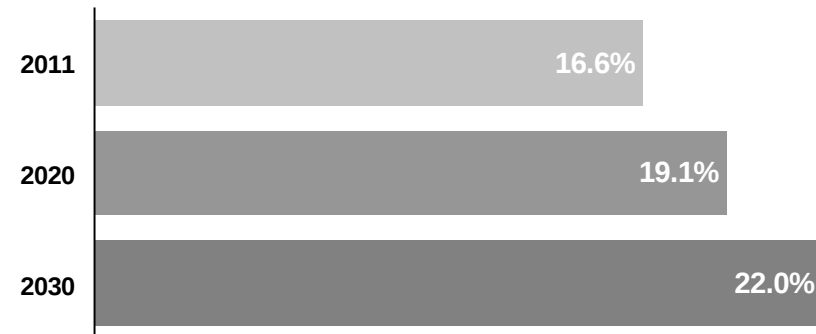
International trade and capital flows

Top 6 trade countries in 2020 - Imports and exports, USDbn



Ageing population

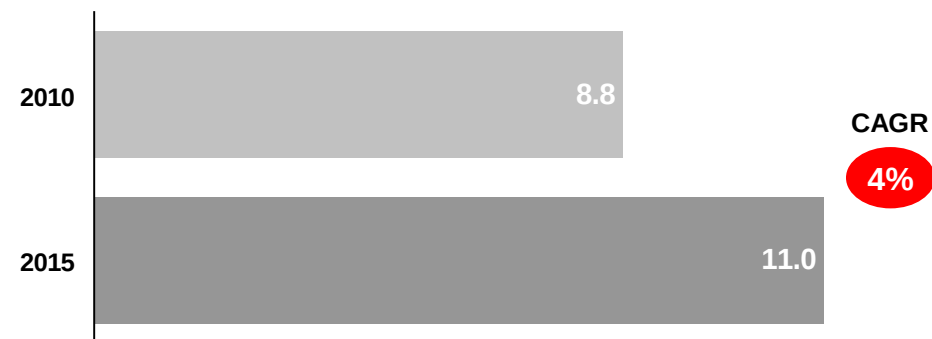
UK population aged 65 and over, %



Source: Office of National Statistics

Growing wealth

Mass affluent individuals, millions



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

The UK represents a key market for HSBC

One of our two “home markets”

‘Home markets’

- Hong Kong

United Kingdom

Priority Growth markets

- Australia
- Mainland China
- India
- Indonesia
- Malaysia
- Singapore
- Taiwan
- Vietnam

- France
- Germany
- Switzerland
- Turkey

- Egypt
- Saudi Arabia
- UAE

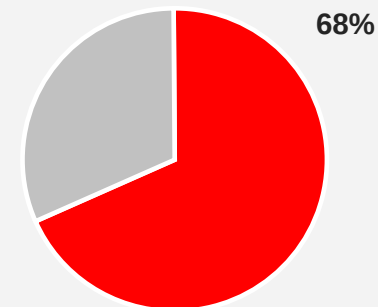
- Canada
- USA

- Argentina
- Brazil
- Mexico

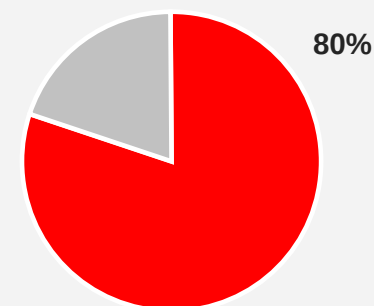
Significant PBT Contribution

UK Retail Banking, % of Reported PBT 2012¹

Europe RBWM and CMB



Europe²



¹ UK Retail Banking defined as per HSBC Bank plc Annual Report and Accounts 2012. Figures as per HSBC Bank plc Annual Report and Accounts 2012 and include GBP(1,260)m of notable items

² Includes Other / Intersegment of GBP(1,300)m

Performance in UK Retail Banking



Financial performance

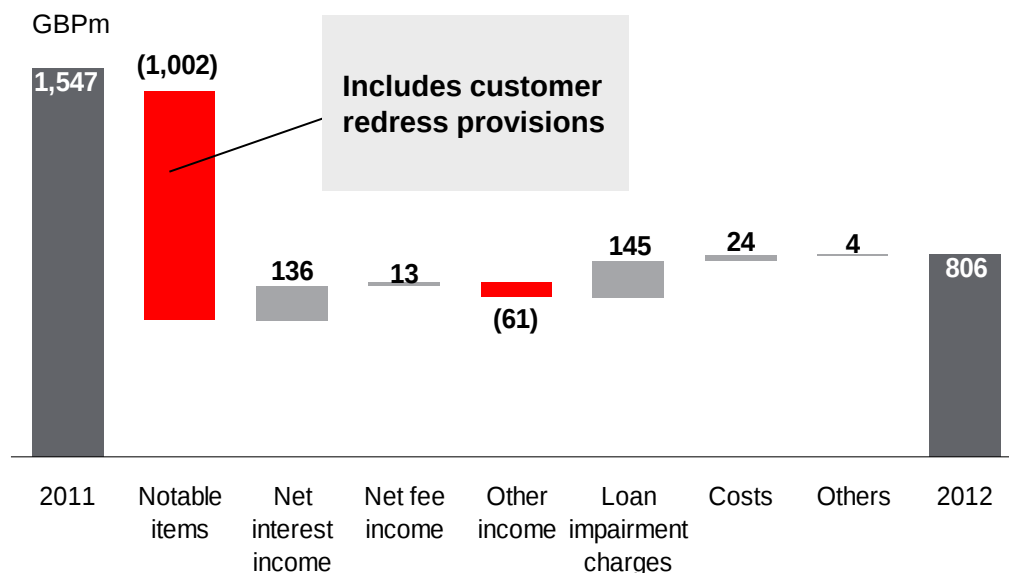
Income statement – UK Retail Banking

GBPm	2012	2011	% Var
Net Interest Income	3,738	3,602	4
Net fee income	1,789	1,776	1
Trading income	87	54	61
Other income	100	194	(48)
Net operating income ¹	5,714	5,626	2
Loan impairment charges (LICs) and other credit risk provisions	(651)	(796)	18
Operating expenses	(4,260)	(3,282)	30
Associates and joint ventures	3	(1)	-
Profit before tax – reported	806	1,547	(48)

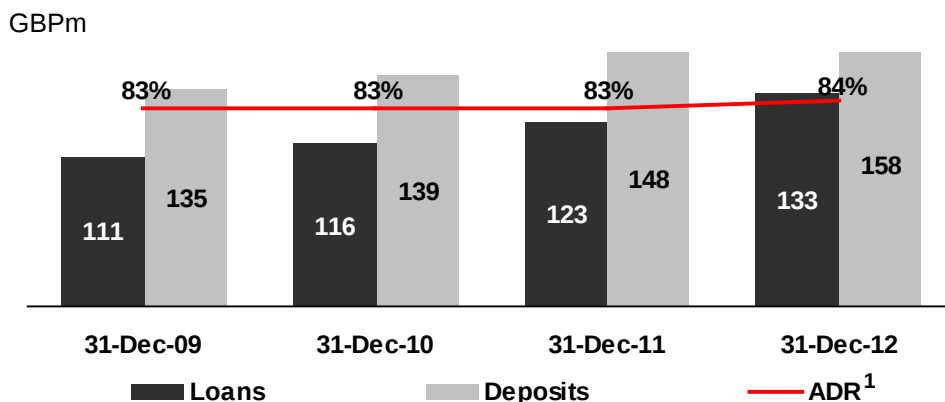
¹ Before loan impairment charges and other credit risk provisions

Financial performance

Key movement in reported PBT



Balance sheet growth



Comments

- Strong growth in lending
 - 12% market share in new UK mortgage lending in 2012 (vs. 10% in 2011), while maintaining an average loan-to-value of 52%
 - Lending through the International Small and Medium Enterprise ('SME') Fund totalled GBP5.1bn, exceeding original target of GBP4bn
- Significant reduction in loan impairment charges in RBWM
 - Continued focus on improving collections and high quality of new business booked over the last 4 years
- Good control of underlying operating expenses
 - Reported costs strongly impacted by high notable items (customer redress provisions of GBP1,144m, operational losses of GBP65m, and restructuring costs of GBP51m)

¹ Advances to Deposits Ratio

Vision and position of HSBC



HSBC Vision

Being the world's leading international bank¹

Purpose

We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions

Reason why we exist

Values

Act with courageous integrity

- Dependable and do the right thing
- Open to different ideas and cultures
- Connected to customers, regulators and each other

How we behave and conduct business

Strategy

- International network connecting faster-growing and developed markets
- Develop Wealth and invest in Retail only in markets where we can achieve profitable scale

Where and how we compete

¹ Source: HSBC Investor Day May 2012

HSBC's strengths and capabilities

Well positioned to face the challenges ahead



HSBC's strategic direction in RBWM and CMB

Key strategic imperatives

Retail Banking & Wealth Management (RBWM)

Commercial Banking (CMB)

I Increase customer centricity and continue to focus on high value customer acquisition and quality mortgage origination

I Focus on faster-growing markets while connecting revenue and investment flows with developed markets

II Continue to develop wealth management, leveraging insurance and wealth management capabilities, developing innovative propositions and deepening customer relationships

II Capture growth in international small and medium-sized enterprises ('SMEs') and corporate businesses

III Develop multi-channel and digital capabilities to support customer channel of choice and reduce costs

III Enhance collaboration across all global businesses to provide our customers with access to the full range of the Group's services

IV Enforce global standards to strengthen risk management and control

Progress against strategic direction in the UK



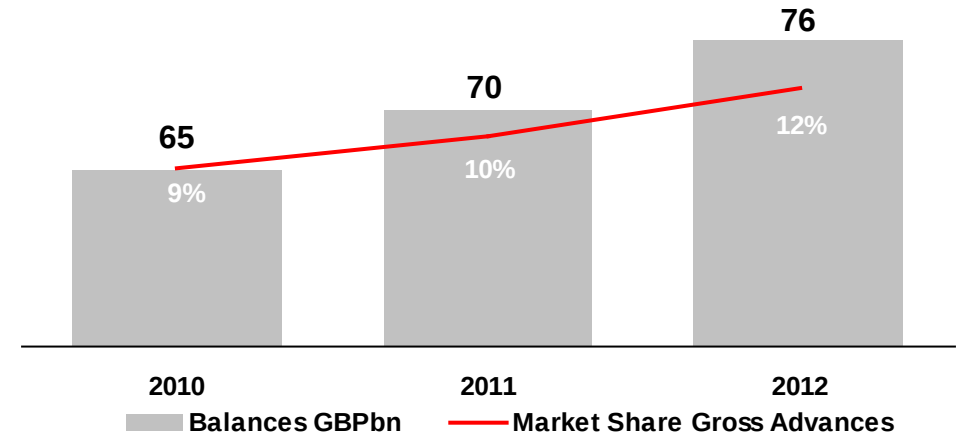
RBWM

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

Key strategic progress

- I Ensuring customer centricity**
 - Creation of a Top Tier segment
 - Development of key products e.g. strong growth in mortgage lending to build more holistic relationships
- II Growing Wealth Management**
 - Successful transition to RDR-advice model including enhanced propositions and operational capabilities
 - Continued investments in Wealth Management platform (Risk profiling & suitability) and sales force training
- III Enhancing multi-channel experience**
 - Enhancement of mobile technology (more than 1m registered users of Fast Balance in 2012, e-FX transaction platform)
 - Investment underway in digital innovation and security
- IV Reinforcing risk management**
 - Pro-active support on ongoing remediation programs
 - Implementation of Global standards and investment in risk governance & control framework
 - Strongly improved LICs

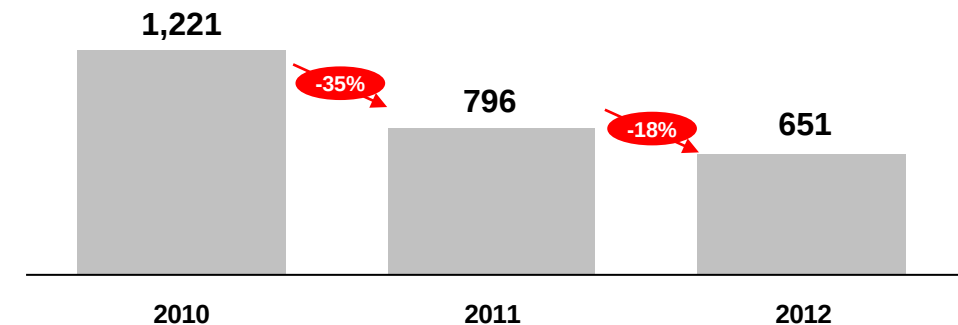
Increased share of new UK mortgages



Note: Balances as at period end.

Continued improvement in LICs

LICs, GBPm and year-on-year decline, %



CMB

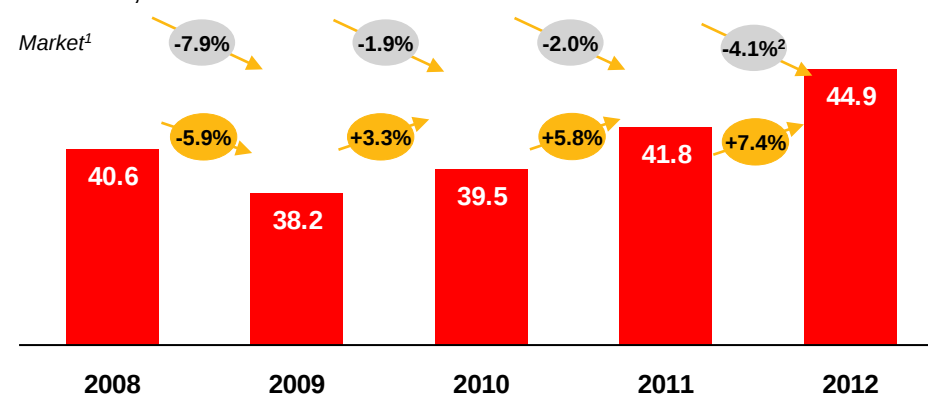
Become the UK's leading international bank and deliver targeted domestic growth

Key strategic progress

- I Connecting the UK with fast-growing markets**
 - Building on strong Global Trade and Receivables Finance and FX capabilities
 - Creation of a China desk to provide local support to Chinese companies
- II Capturing growth in International SMEs and corporates**
 - More International Relationship Managers
 - Launch of the International SME Fund, exceeding initial lending target
 - Lending in 2012 grew faster than in 2011 as a whole in a shrinking market³
- III Implementing global operating model**
 - Delivered efficiencies and reinforced risk management by sharing systems and global standards
 - Improved customer experience, training and product offerings
 - Direct banking model selectively applied

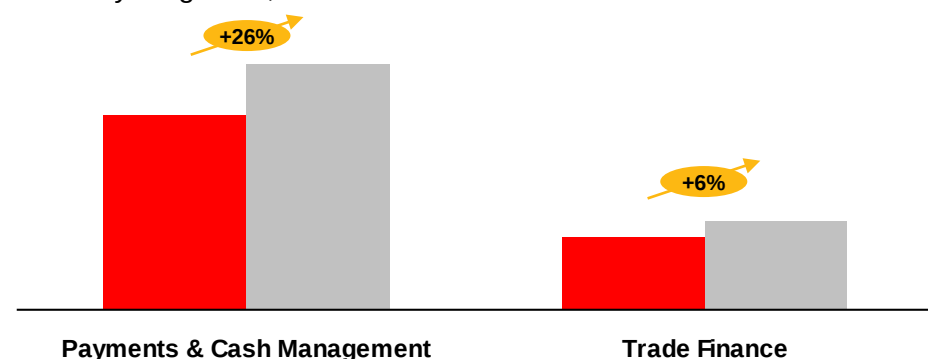
Continued outperformance in lending in the UK

Balances, GBPbn



Income growth in CMB

Year-on-year growth, %



¹ Source: Bank of England. 12 months to 31DEC

² As at NOV12

³ Source: Bank of England - Trends in Lending. As at end of November 2012

Cross-business collaboration

Expanding partnerships between Global businesses

Key strategic progress

CMB and GBM

- Enhanced coverage of CMB clients
- Global Trade & Receivable Finance (GTRF) to CMB and GBM customers
- Increased revenue in FX

RBWM / CMB and GPB

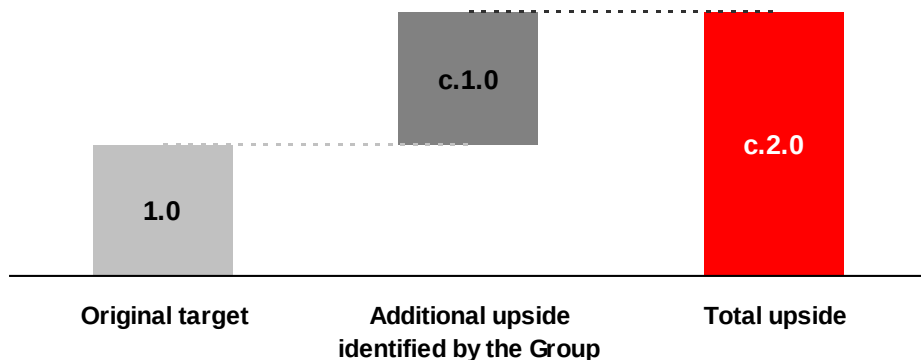
- Increased referrals between RBWM / CMB and GPB

CMB and Insurance (RBWM)

- Cross-selling of Insurance
- Trade Credit and Business protection

A key part of the Group's collaboration strategy

Total global collaboration revenues in the medium term, USDbn



Examples of CMB / Global Banking achievements



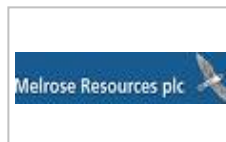
- Sole financial adviser to Kohlberg Kravis Roberts & Co L.P. on its acquisition of Acteon Group
- Mandated Lead Arranger and Bookrunner



- Acquisition financing for proposed acquisition of US-based Seaboard and Novatech
- Origination of USD1bn US Private Placement



- Lead relationship bank providing senior debt, working capital and acquisition facilities
- Buy-side advisor of Doughty Hanson for its acquisition of Asco Group



- Sole arranger on an 18-month USD300m Senior Secured Bridge Facility to facilitate merger with Petroceltic
- Financial adviser to Melrose on the agreed merger

▶ HSBC's commitment to building strong relationships in the UK SME space

▶ Needs-driven initiatives between CMB and Global Banking, driving ancillary business

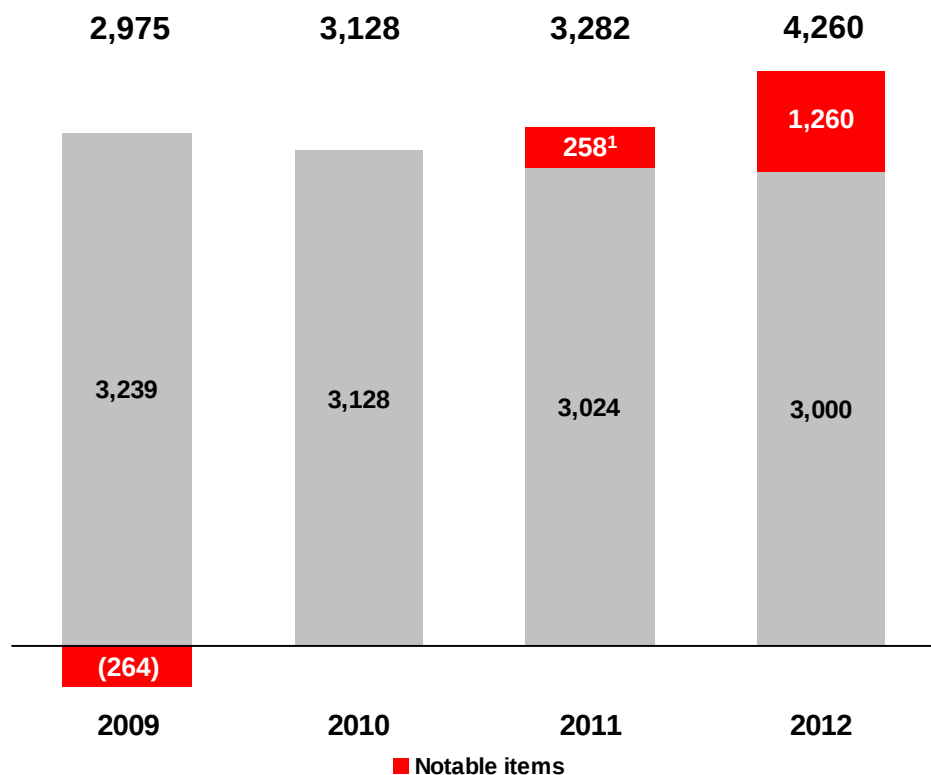
▶ HSBC's ability to provide strategic integrated financing solutions for clients

Increased operational effectiveness

Controlled costs

Operating expenses

Reported, GBPM



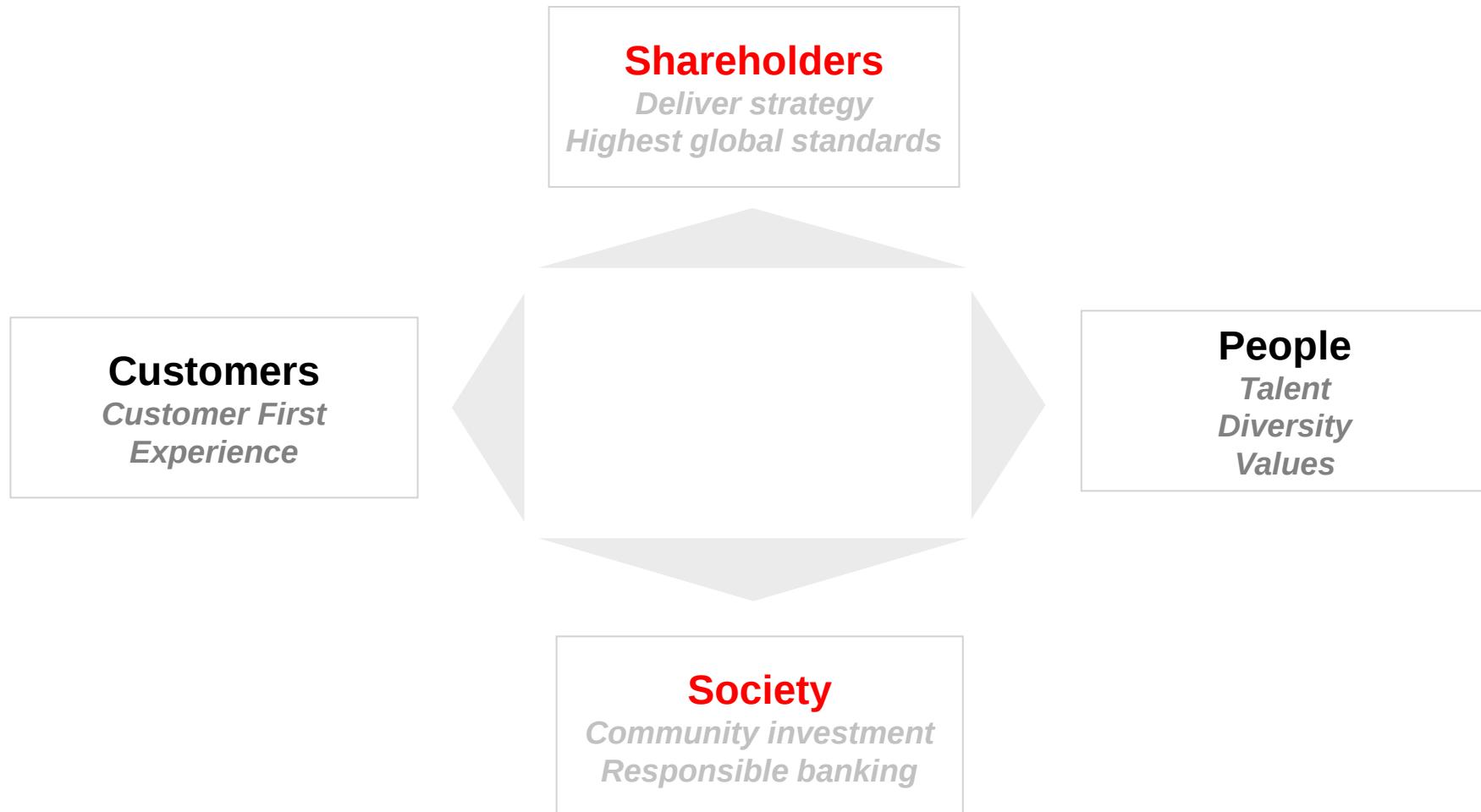
Key cost levers

- Material impact of notable items on reported operating expenses
 - Provision of GBP1,144m in 2012, in respect of customer redress provisions including the estimated redress for the possible mis-selling of PPI policies and interest rate protection products
 - Restructuring costs of GBP51m (vs. GBP43m in 2011) resulting from business transformation initiatives
 - Operational losses of GBP65m
- Continued focus on cost control in both businesses through good progress on the ongoing operational effectiveness initiatives
- Strong headcount reduction in the UK Retail and Commercial Banking by c.2,500² (6% of 2011 average number of employees)
- Significant contribution of UK Retail and Commercial Banking to the sustainable cost savings generated in Europe (c.GBP450m in 2012)

¹ Notable items included GBP507m of customer redress provisions, GBP43m of restructuring costs and a gain of GBP292m resulting from a legislative change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions recognised in 2011.

² Reduction in average number of persons employed during the year

Our priorities



Concluding remarks



External pressures and position

- Challenging current economic and regulatory environment but attractive long-term prospects, especially in trade flows and wealth creation
- 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
- Pro-actively manage risk through management focus, investment and cultural change
- Remain focused on relationship development in RBWM and CMB
- Acquire wealth market share through enhanced propositions and multi-channel development
- Leverage international capabilities to capitalise on our network and UK importance in world's trade
- Reduce CER and self-fund investment through sustainable saves

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