



9th June 2015

Global Banking and Markets – Returning to Group target profitability

Investor Update 2015

HSBC 

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Non-GAAP Financial Information

This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is 'adjusted performance' which is computed by adjusting reported results for the year-on-year effects of foreign currency translation differences and significant items which distort year-on-year comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliation of non-GAAP financial measurements to the most directly comparable measures under GAAP is provided in the 'reconciliations of non-GAAP financial measures' supplement available at www.hsbc.com.

Global Banking & Markets – Returning to Group target profitability (1/2)

Overview and track record

- Diversified by clients, geographies and businesses
- Top 5 market positions driving c.70% of client facing revenue
- International network of 62 countries capturing growth in trade and capital flows
- Integral part of HSBC Group, enabling c.USD8bn revenue synergies
- Balance sheet with client facing assets^{1,2} of USD729bn, smaller than most major wholesale peers
- RWA mitigation of c.USD100bn between 2011 and 2014
- Resilient and diversified Client Facing^{1,3} revenue: USD14.2bn average and c.6% CAGR 2011-14
- Tight management of direct costs

1. Client Facing GB&M defined as GB&M excluding Associates, excluding Legacy Credit and excluding Balance Sheet Management

2. After adjustments for netting derivative positions – please see Slide 9 for further details

3. Reflects new management structure in place in August 2013, prior year comparatives were restated back to 2011. (2010 not restated)

Global Banking & Markets – Returning to Group target profitability (2/2)

Returning to Group target profitability

- 2.5% RoRWA by 2017 for Client Facing¹ GB&M
- Reduce RWAs by gross USD140bn² and net USD130bn³, 31% reduction
- Keep costs flat, aggressive management to offset USD1bn+ of growth from inflation and investment
- Mid single digit revenue⁴ CAGR required to achieve RoRWA target

Actions summary

- Exit Legacy Credit; manage down long-dated Rates and low returning loan portfolios; disciplined application of hurdle rates to client relationships and new business
- Simplify GB&M business: Business and client exits, Productivity, Technology and Operations
- Growth from GB&M Clients, Event, Transaction banking products, Renminbi, cross-Global Business revenue synergies and digital

1. Client Facing GB&M defined as GB&M ex Associates, ex Legacy Credit and ex Balance Sheet Management
2. Gross reduction of USD140bn from GB&M ex Associates ex BSM ex effects of Brazil and Turkey
3. Net reduction of USD130bn from GB&M ex Associates ex BSM
4. Client Facing GB&M

Agenda

1

GB&M overview and track record

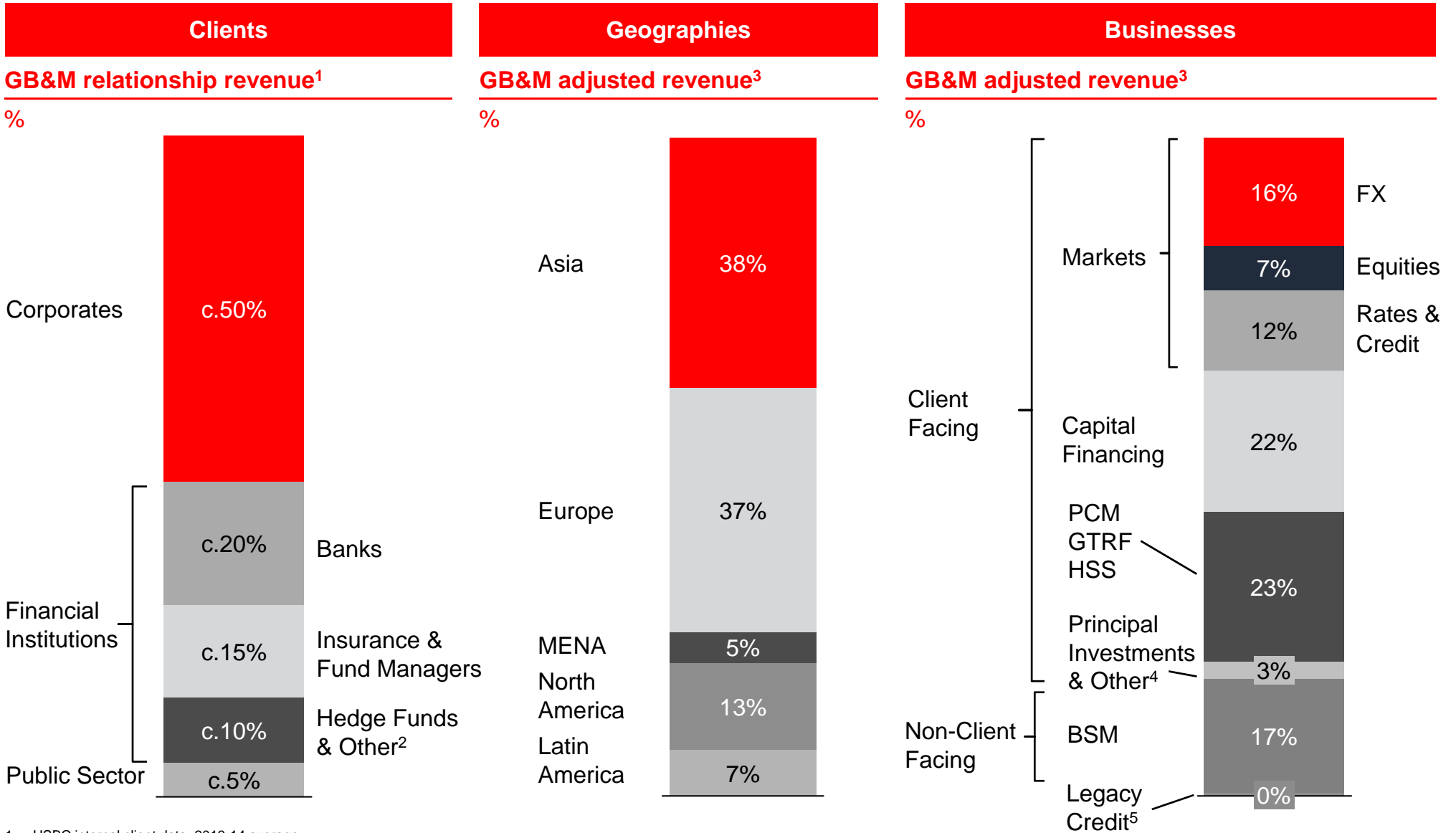
2

Strategy update: Returning to Group target profitability

3

Summary

Diversified by clients, geographies and businesses

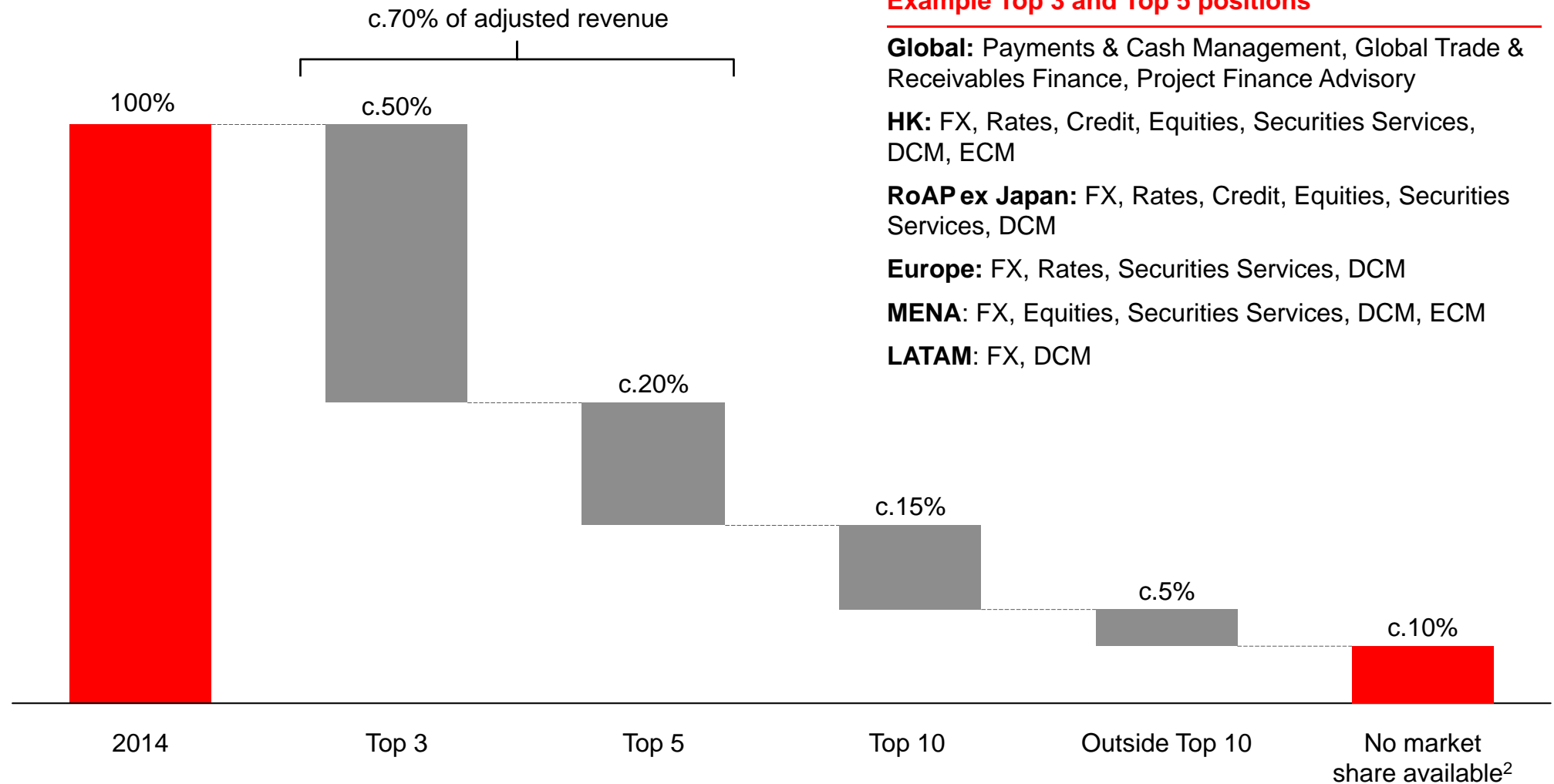


1. HSBC internal client data, 2013-14 average
 2. Other includes Portfolio Client Group, Securities, Global Financial Companies and Sovereign Wealth / Public Funds
 3. 2013-14 average net operating income before loan impairment charges and other credit risk provisions. Excludes currency translation and significant items.
 4. Other accounts for c.-0.1% of 2013-14 average revenue; includes earnings on capital
 5. Legacy accounts for c.0.4% of 2013-14 average revenue

Top 5 market positions driving c.70% of client facing revenue

Client Facing GB&M: adjusted revenue by business by market rank¹

USDbn

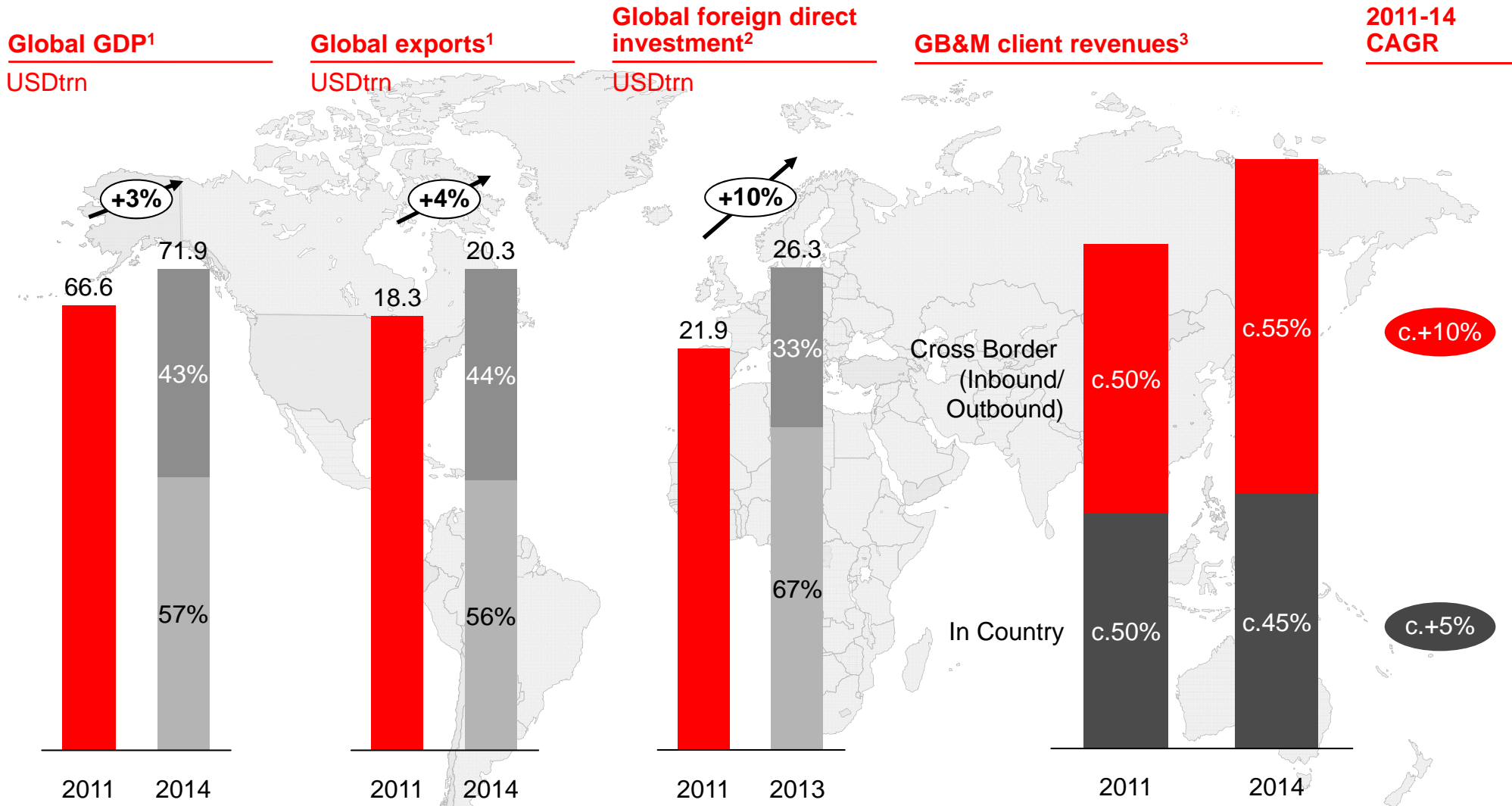


1. GB&M Client Facing Revenue classified based on country of booking. Business revenue classified either globally, by region or by country based on market ranking sources (refer to Definitions)
 2. Includes Principal Investments and Other

GB&M overview and track record

International network capturing growth in trade and capital flows

HSBC Priority Markets
 Non-Priority Markets



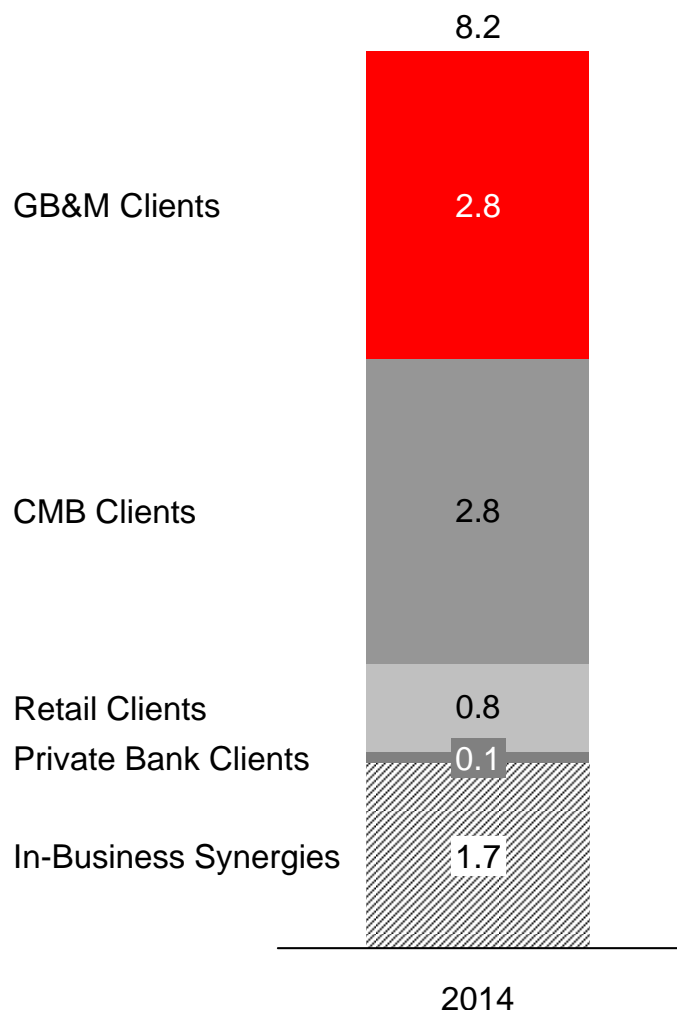
1. Oxford Economics ; priority markets inclusive of Australia, Canada, China, Egypt, France, Germany, HK, Indonesia, Malaysia, Mexico, Saudi Arabia, Taiwan, UAE, UK, USA; data not available for Argentina, Brazil, India, Switzerland, Turkey
 2. UNCTAD FDI Stock Outflows
 3. HSBC internal client data. Cross border revenues refer to inbound/outbound revenues booked outside the location where the client relationship is managed. . In country revenue refers to revenues booked in the country from where the client relationship is managed

GB&M overview and track record

Integral part of HSBC Group, enabling c.USD8bn revenue synergies

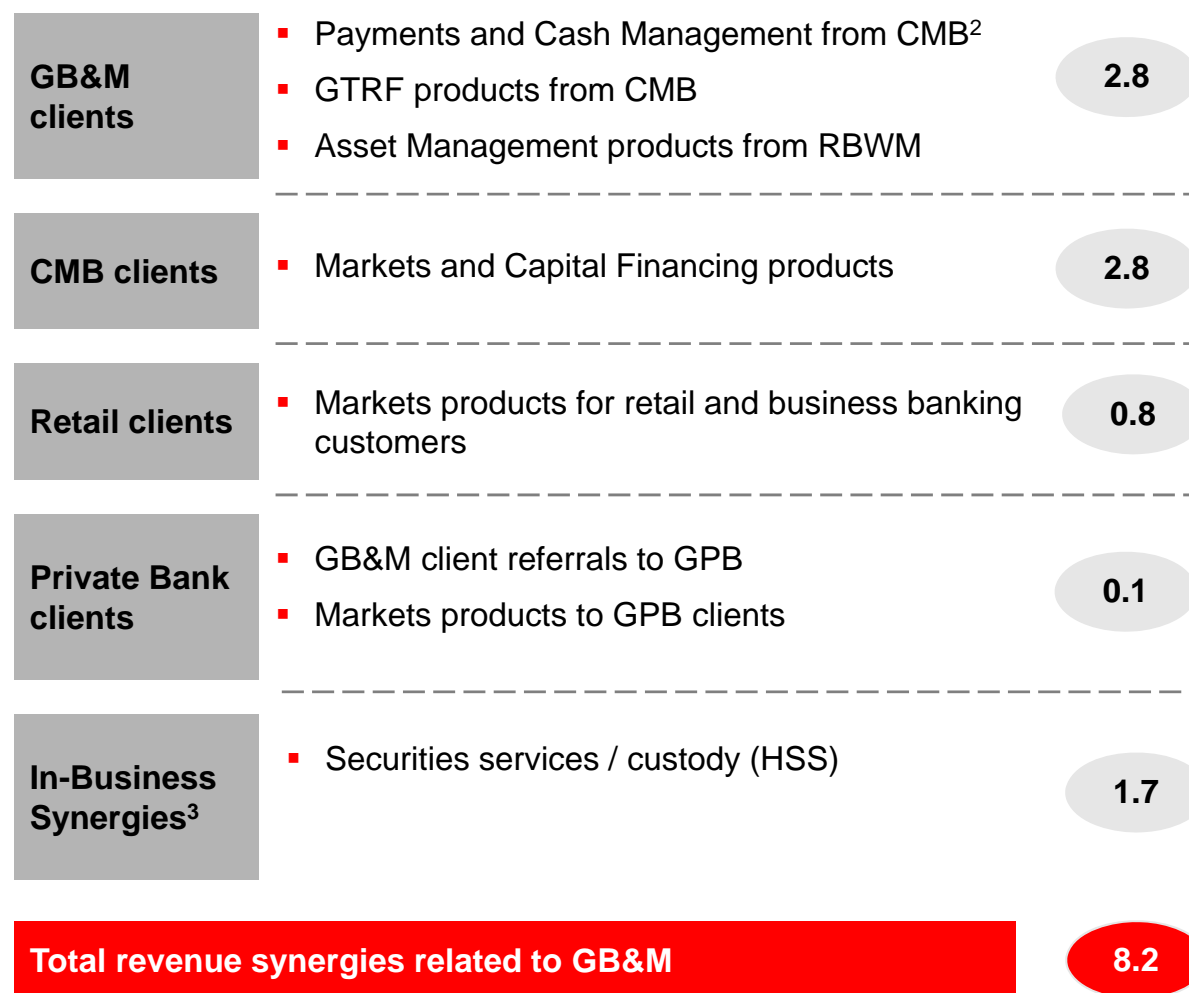
Total revenue synergies related to GB&M¹

2014, USDbn



Total revenue synergies related to GB&M¹

Revenue 2014, USDbn



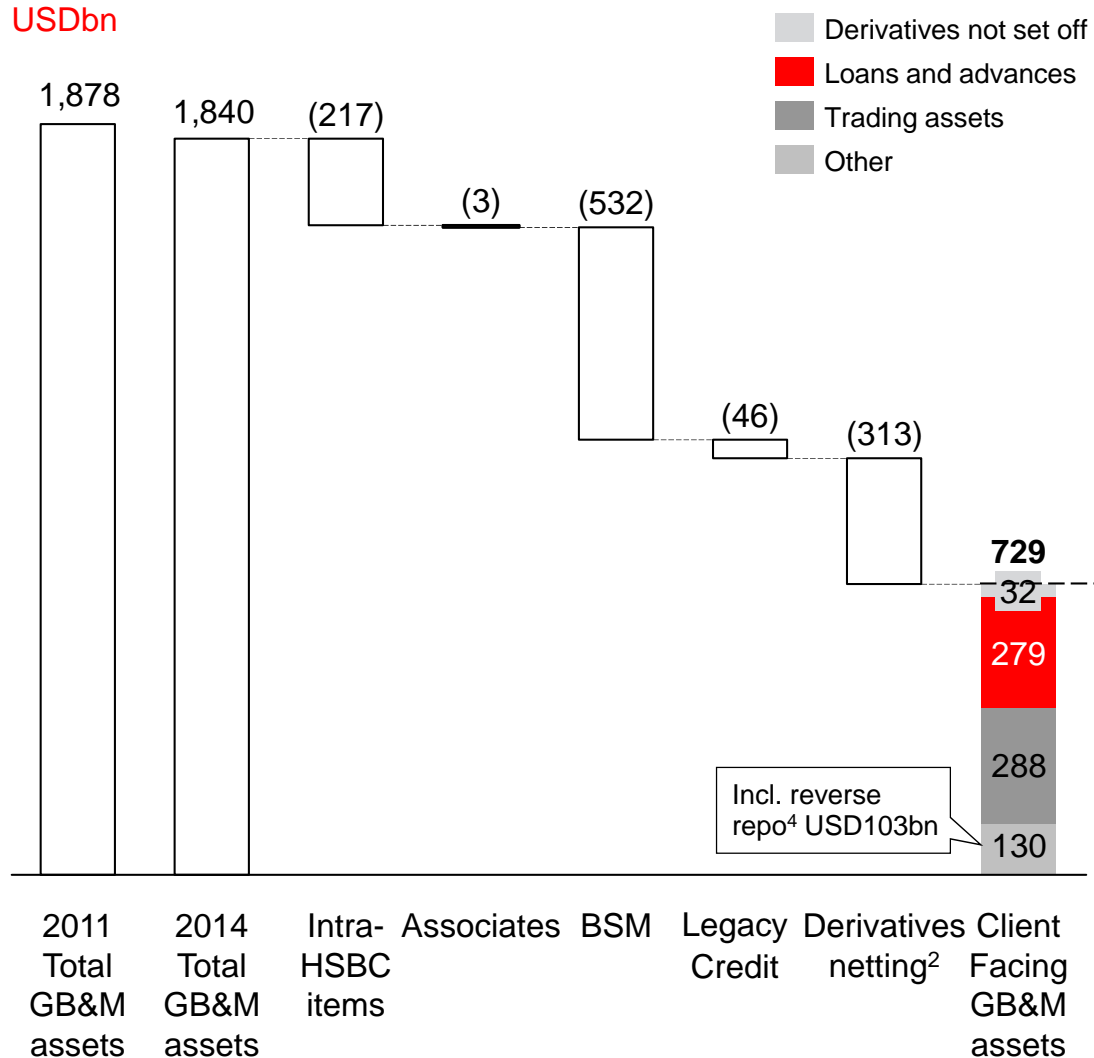
1. Cross business synergies are presented as gross revenue and do not reflect any revenue sharing arrangement between Global Businesses
 2. PCM is currently managed under CMB and GB&M; the GB&M portion is included as a revenue synergy to provide a consistent treatment with GTRF
 3. In-business synergies include separately managed operations reported within a Global Business line.

GB&M overview and track record

Balance sheet with Client Facing assets of USD729bn, smaller than most major peers

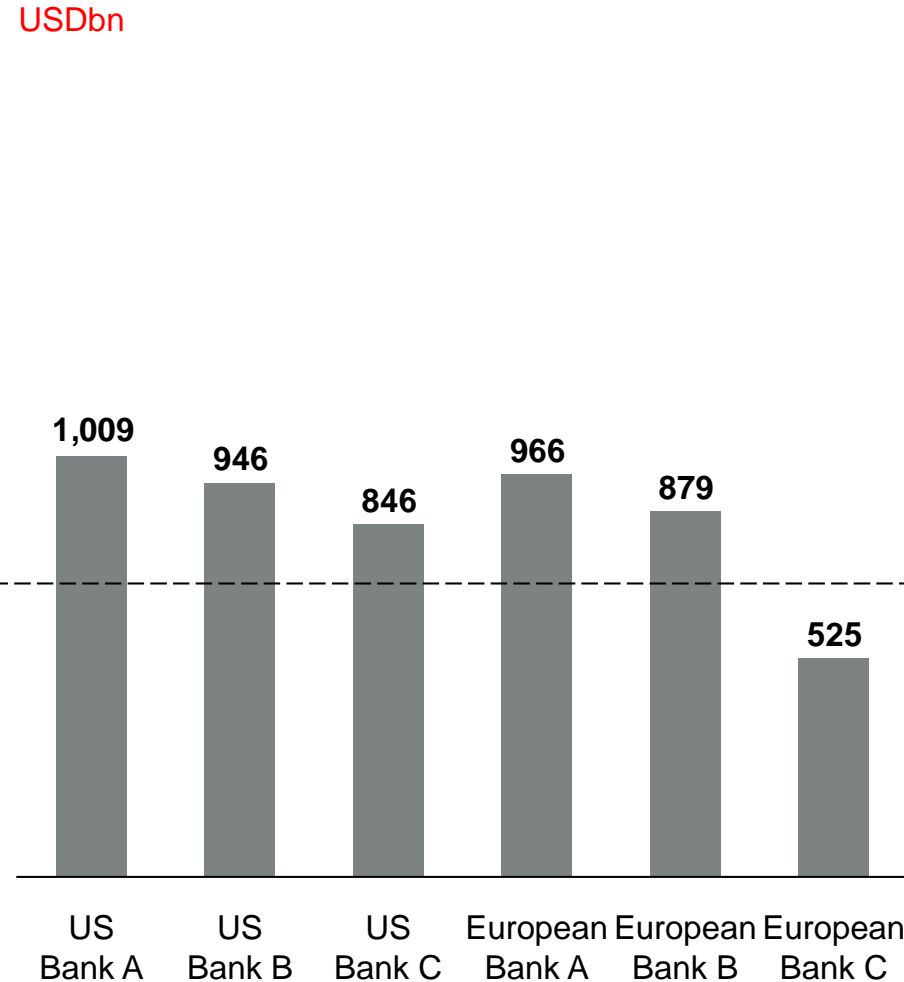
GB&M assets¹

USDbn



Peer estimated CIB assets³

USDbn



1. Total GB&M Assets as Reported

2. Please refer to Glossary for definition

3. Peer estimated CIB assets calculated as segmental period end assets offset by derivative netting, methodology as follows i) financial data sourced from peer published financial disclosures, ii) assumptions made as to the equivalent peer segments, iii) assumptions made as to the allocation of the peer derivative balances and respective netting to the GB&M equivalent segment and iv) European peers converted at the Dec 2014 spot fx rates.

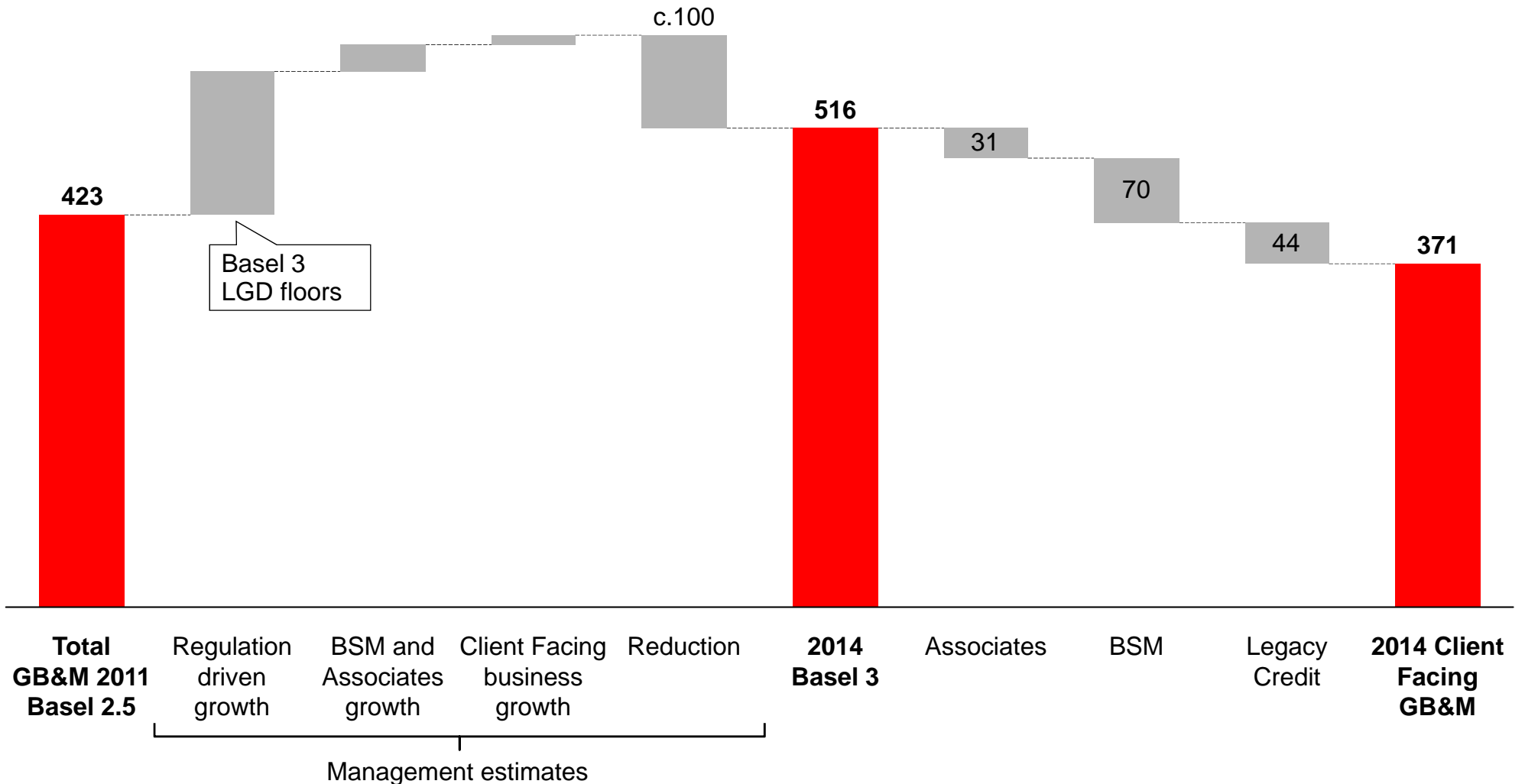
4. Reverse repurchase agreements - non trading.

GB&M overview and track record

RWA mitigation of c.USD100bn achieved 2011 to 2014

Total GB&M RWAs¹

USDbn



1. Reported FX rate

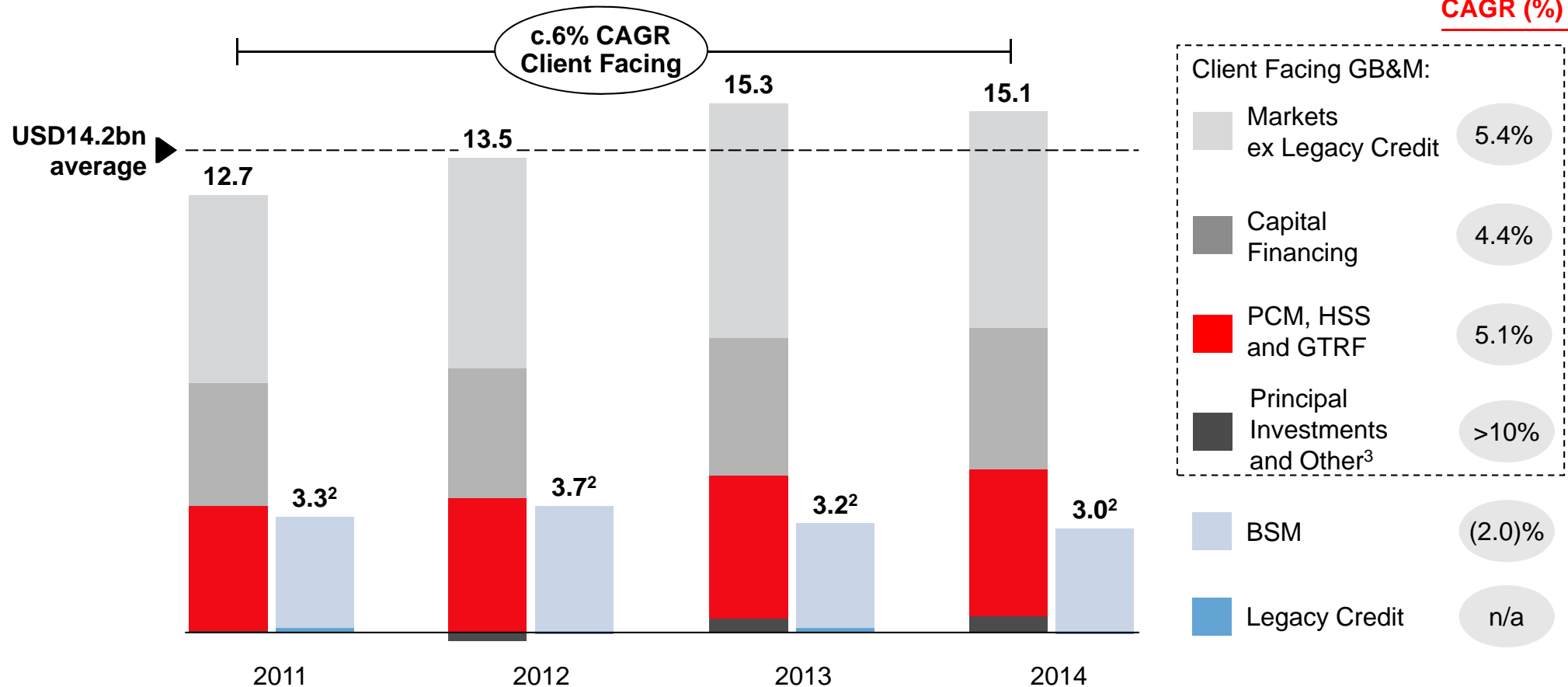
GB&M overview and track record

Sustained Client Facing revenue growth of c.6% CAGR 2011 to 2014

Total GB&M adjusted revenue by business¹

USDbn

**2011-14
CAGR (%)**

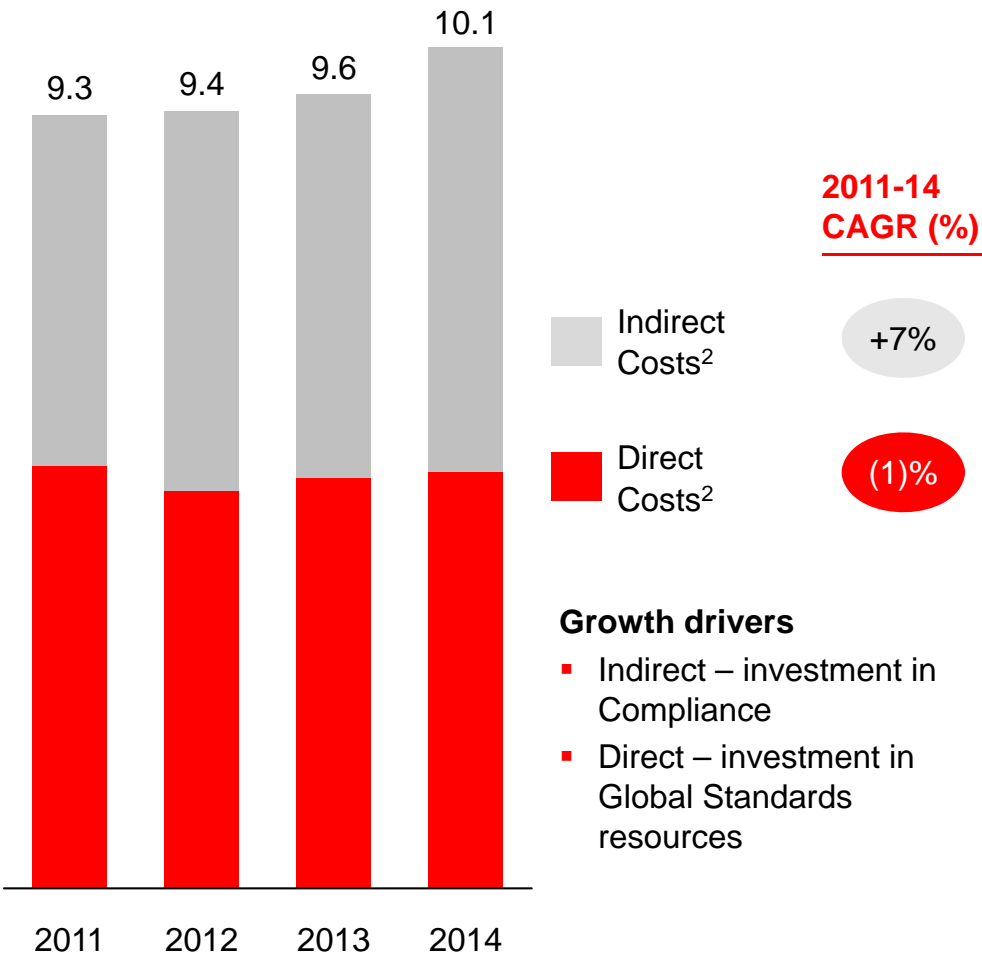


1. Excludes currency translation and other significant items
 2. Legacy Credit adjusted revenue: 2011; USD169m, 2012; USD(15)m, 2013; USD146m, 2014; USD(2)m
 3. Please refer to Definitions

Tight management of direct costs

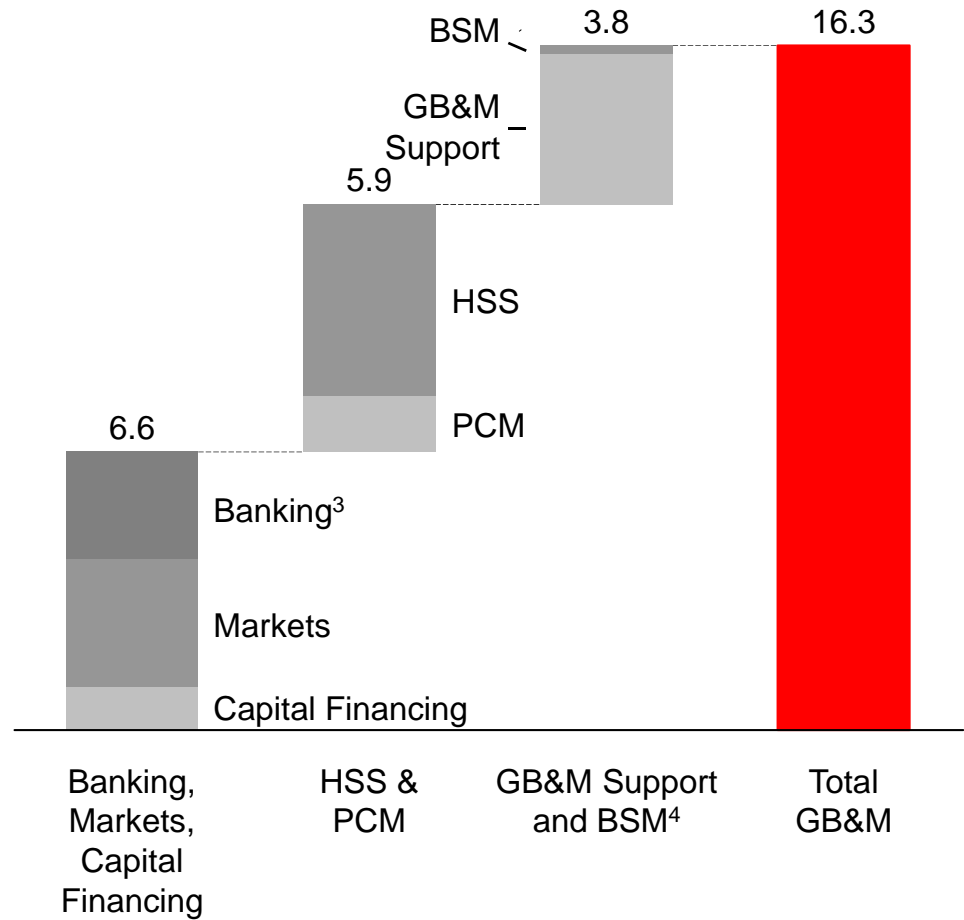
Total GB&M adjusted operating expenses¹

USDbn



GB&M headcount

End 2014 FTE, '000



1. Adjusted basis excludes currency translation and other significant items
 2. Please refer to Definitions
 3. Banking includes client relationship management teams
 4. GB&M support includes Market Operations, Middle Office, Research and Management

Actions taken to improve profitability and simplify the business

Actions taken

Client Actions

- Focused GB&M client base c.20% reduction
 - c.275 client mastergroup exits (c.5% of total) completed
 - c.700 client mastergroup exits (c.15% of total) currently in execution
- Reduction in the Securities Services client base of >20% since 2012

Business Actions

- Legacy Credit net 43% (USD31bn) RWA reduction from 2012 to 1Q15¹
- Closed Structured Credit business
- Downsized Structured Rates business
- Focused new Corporate Trust & Loan Admin business only on internal HSBC clients
- Closed the Fund Administration business in the US

Cost Actions

- Streamlining saves of more than USD500m from 2011-14
 - Reviewed management layers and spans of control
 - Offshoring of certain support functions
 - Technology and operations rationalisation and efficiencies

1. Comparison on a like for like CRD IV basis

Agenda

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GB&M overview and track record

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Strategy update: Returning to Group target profitability

3

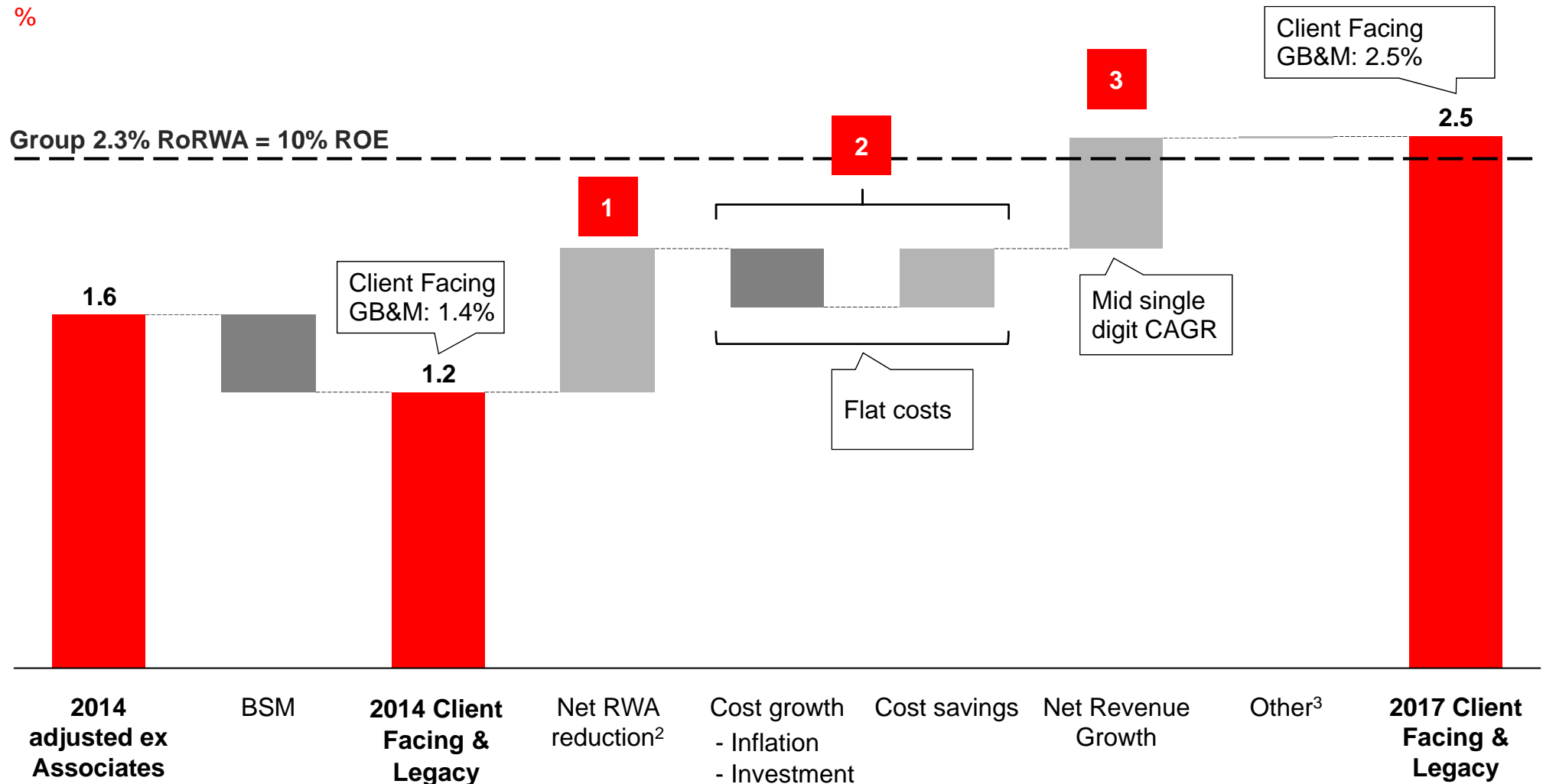
Summary

Strategy update: Returning to Group target profitability

Achieve 2.5% RoRWA for Client Facing GB&M by 2017

GB&M RoRWA¹

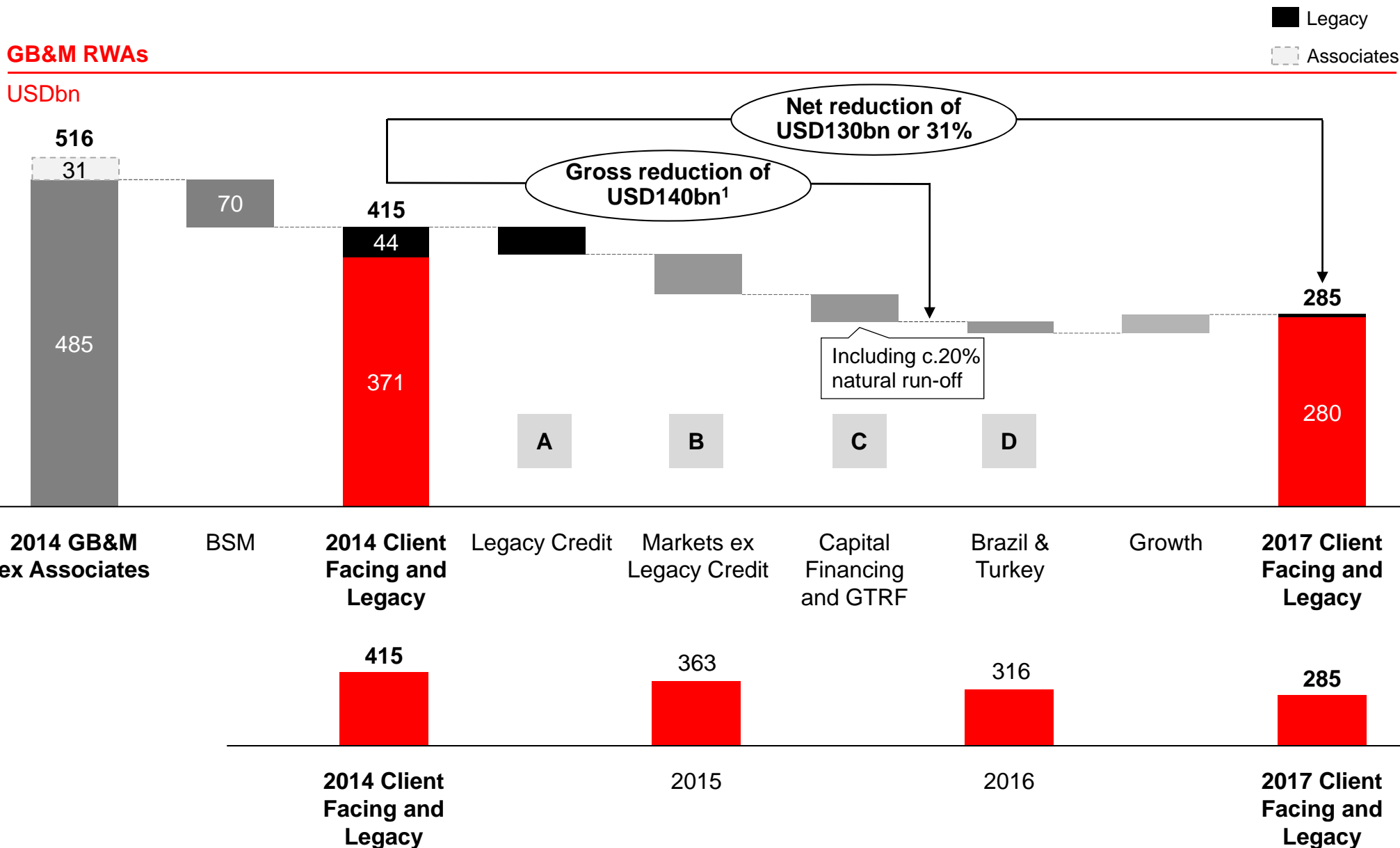
%



1. Forward looking movements are estimated based on progressive revenue growth and net RWA reduction to be achieved over the period to 2017
 2. Includes impact of revenues foregone as result of RWA reductions
 3. Other includes loan impairment charges

Strategy update: Returning to Group target profitability

1 RWAs – Reduce RWAs by gross USD140bn¹ and net USD130bn, 31% reduction



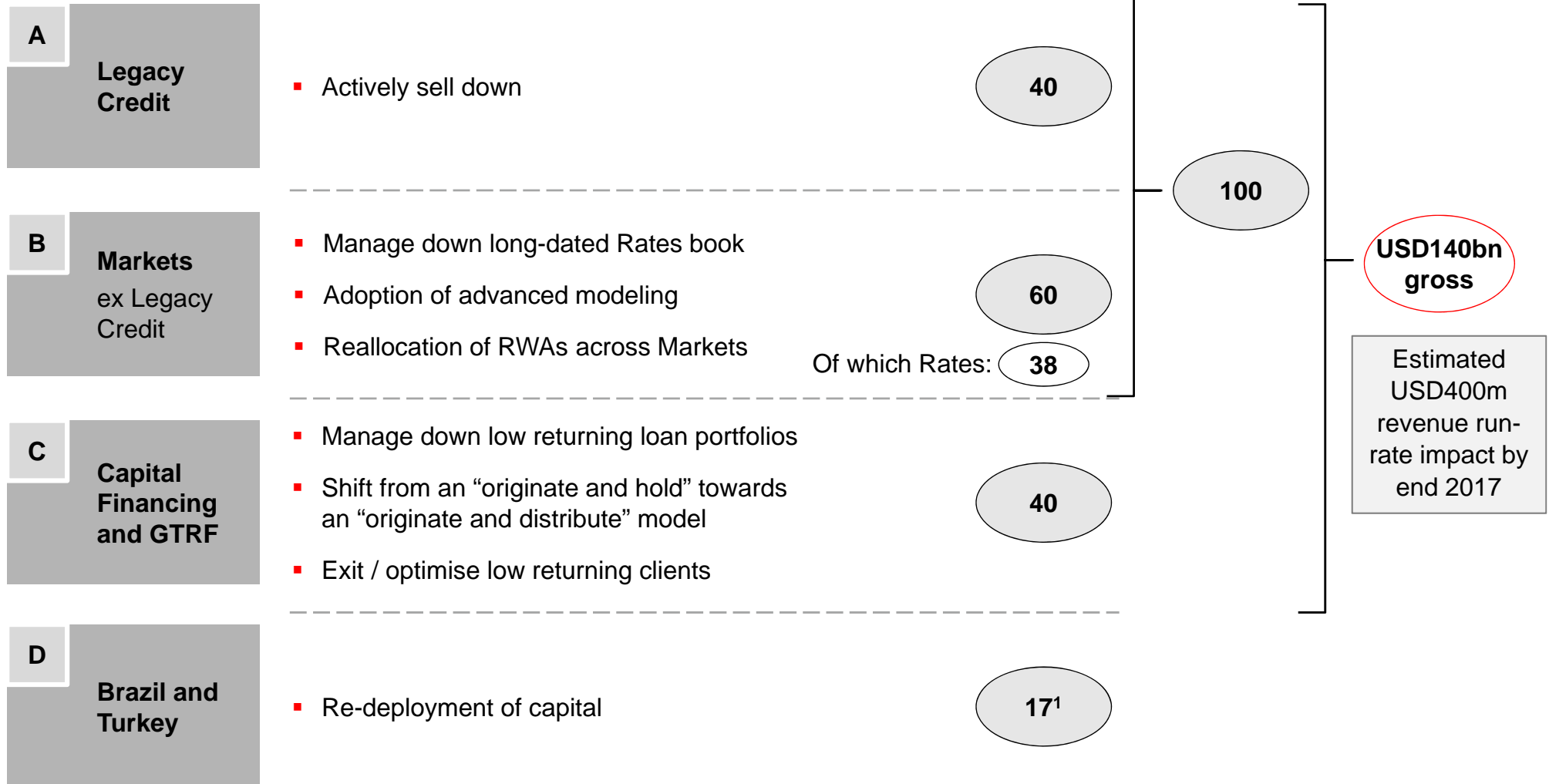
1. Gross reduction of USD160bn including Brazil and Turkey

1 RWAs – Concrete actions defined to deliver plan

Key actions to manage down RWAs

2015-17 gross RWA reduction plan

USDbn



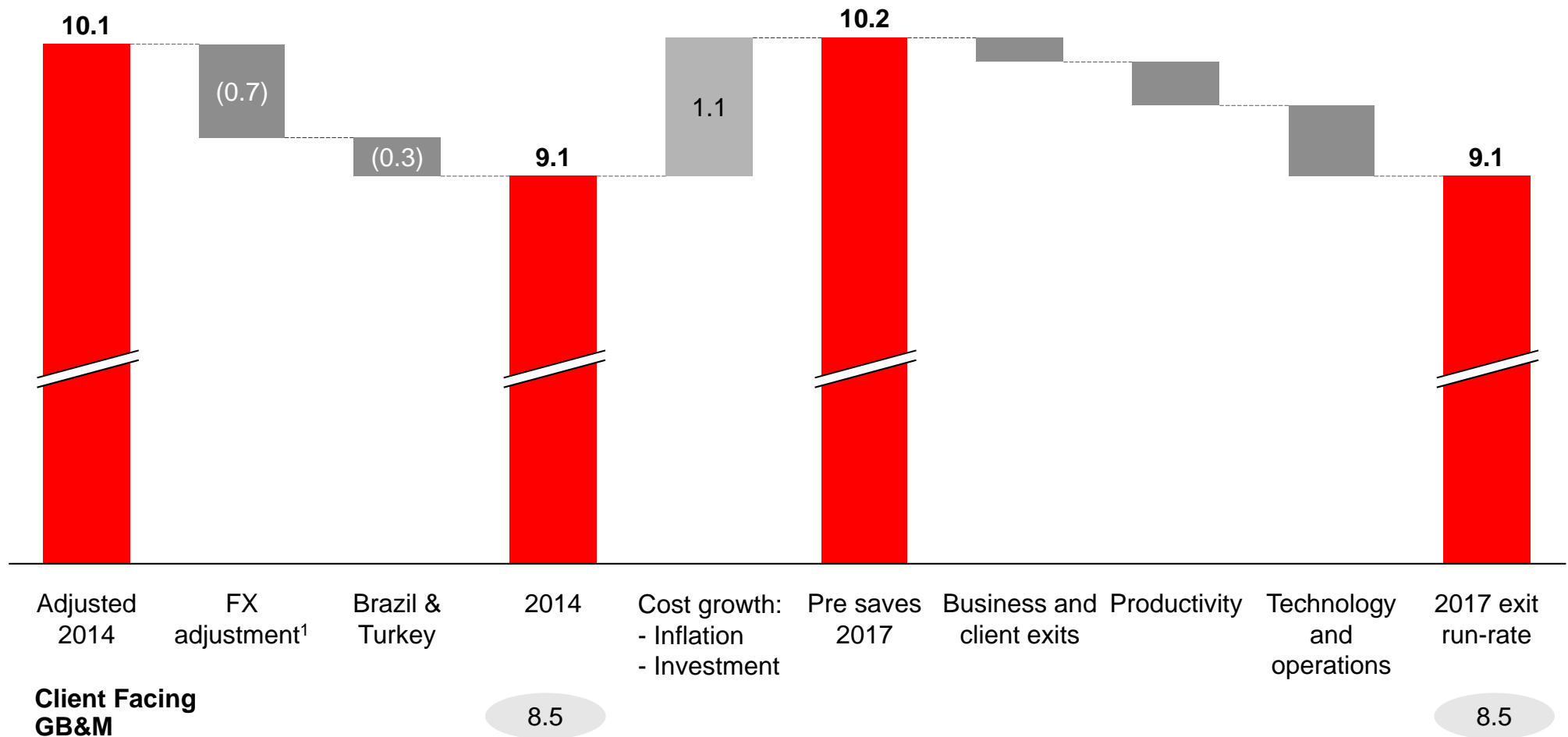
1. Client Facing only - Brazil and Turkey impact including BSM totals USD20bn

Strategy update: Returning to Group target profitability

2 Costs – Keep costs flat by aggressive management to fully offset USD1bn+ inflation and investment growth

Total GB&M adjusted operating expenses

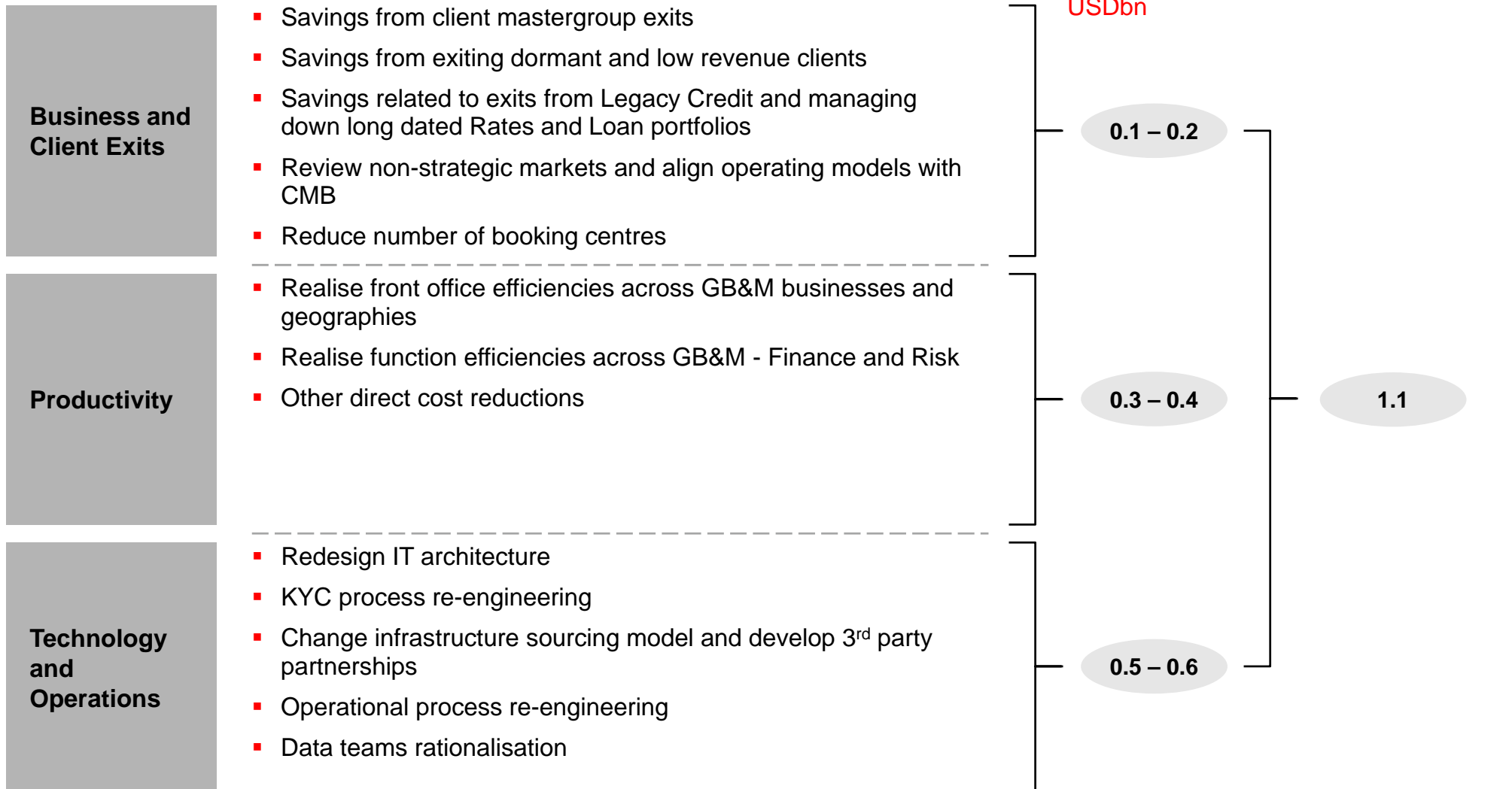
USDbn



1. Impact of change from 2014 reported FX rate to 1Q15 FX rate.

2 Costs – Actions defined front-to-back to achieve cost target

Cost initiatives



3 Growth – Revenue growth opportunities in areas of competitive advantage

Strategic priorities

GB&M Clients & Event

- Realise the value of the universal banking model and the network i.e. more products across more countries to existing GB&M clients
- Capture growth in DCM, ECM and continue momentum in our Event business

Transaction banking products

- FX: Enhance e-trading platform and capabilities
- PCM: Expand client coverage and extend product offering
- HSS: Increase ancillary revenue from global custody mandates
- GTRF: Grow supply chain and receivables finance

Renminbi

- Reinforce leadership in offshore RMB FX and capital markets
- Enhance RMB international servicing capabilities
- Expand China custody capabilities
- Capture RMB onshore opportunity

Synergies

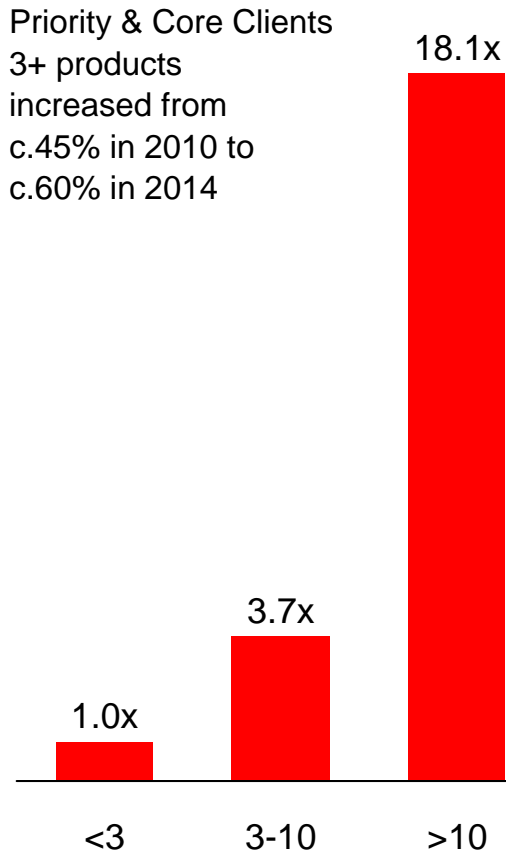
- Grow Markets and Capital Financing sales to CMB clients
 - Leverage enhanced Markets e-distribution platform and capabilities
 - Expand Capital Financing provision to CMB Large Corporate clients

Strategy update: Returning to Group target profitability

3 Growth – Realise the value of the network and the universal banking model with the GB&M client base

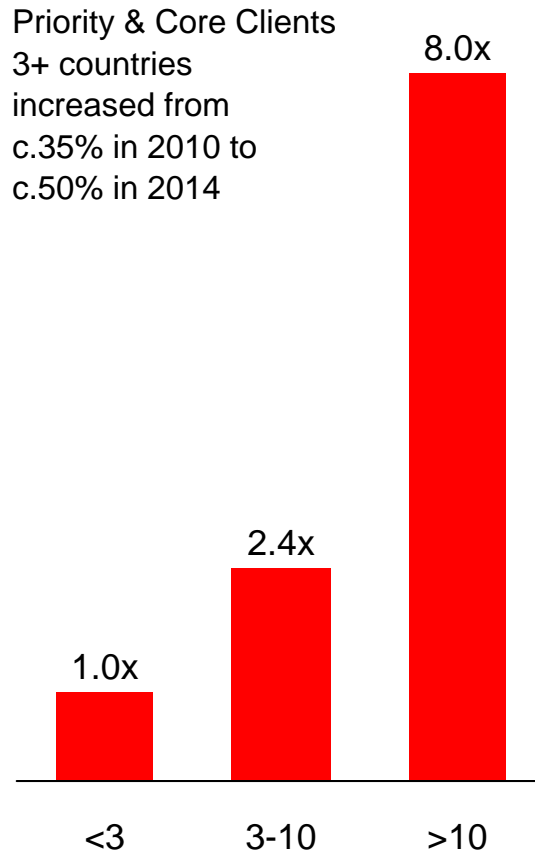
Client revenue multiplier by number of products sold¹

of products sold²




Client revenue multiplier by number of countries served in¹

of countries served in³




- Client since 1909
- GB&M relationship
 - 28 countries
 - 18 product types



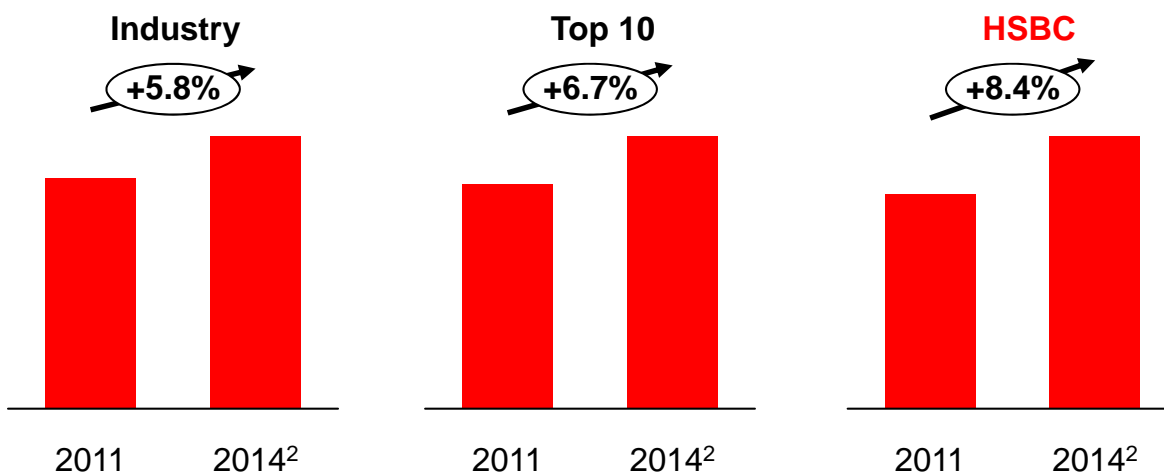
- Client since 1983
- GB&M relationship
 - 27 countries
 - 15 product types

1. HSBC internal client data, priority clients only
 2. Where annual revenue per product is >USD200k
 3. Where annual revenue per booking country is >USD200k

Strategy update: Returning to Group target profitability

3 Growth – Capture and accelerate growth in Capital Financing fee income

Global IB Fees – Industry vs. HSBC growth¹



Global IB Volumes – HSBC market share¹

	2013		2014		2017 Target
M&A	3.8%	↑	4.7%	↑	Grow
ECM	2.1%	↑	3.6%	↑	Grow
DCM	6.0%	↑	6.4%	↑	Grow
Loans	2.4%	↑	2.5%	↑	Grow

Example event deals

Hutchison Whampoa Limited GBP10.3bn acquisition of O₂ UK from Telefonica SA (JAN15)



Holcim and Lafarge USD40bn merger and subsequent EUR6.5bn asset disposal to CRH (FEB15)

HOLCIM
LAFARGE



Valeant Pharmaceuticals International, Inc. USD16bn acquisition of Salix (APR15)



1. Source: Dealogic. HSBC addressable fees (CAGR) and volume. Investment Banking (IB) is the sum of M&A, ECM, DCM and Loans. For fees: M&A excludes Japan and Australia. ECM excludes Japan, Australia, and Chinese A Shares. DCM excludes Japan and Chinese Onshore. Loans excludes Japan. For volumes: M&A excludes domestic US, Japan and Australia. ECM excludes US, Japan, Australia, Canada and Chinese A Shares. DCM excludes Japan, Chinese Onshore and US borrowers in US dollar. Loans excludes US and Japan
2. 2014 fees rebased at 100

3 Growth – Transaction banking products: Investing in FX, PCM, HSS and Trade Finance

	Ranking	Strategic priorities	Adjusted GB&M revenue 2014, USDbn
Foreign Exchange	#1 Global Market Share – Corporates ¹	<ul style="list-style-type: none"> Enhance electronic trading platform and capabilities Expand pre and post-trade services Increase Global Business collaboration Capture offshore Renminbi FX opportunity 	2.9
Payments and Cash Management	#1 ²	<ul style="list-style-type: none"> Expand client coverage Extend product offering <ul style="list-style-type: none"> Liquidity and investment solutions Mobile products and digital channels Corporate card expansion in new markets 	1.8
Securities Services	Top 5 Asia & EMEA ³	<ul style="list-style-type: none"> Ancillary revenue from global custody mandates Asia / MENA growth China custody Broker dealer outsourcing 	1.7
Global Trade and Receivables Finance	Leading Global Trade Finance house ⁴	<ul style="list-style-type: none"> Supply chain and receivables finance Commodities finance Under penetrated Financial Institution markets and NBFIs⁵ clients 	0.8

- Cross-sell opportunities: PCM and GTRF; PCM and FX; HSS and FX; GTRF and FX
- Platform synergies: Corporate digital across PCM, FX and GTRF

1. FX – Euromoney 2015 : #1 Global Market Share – Non-Financial Corporates

2. PCM – Euromoney Cash Management Survey 2014: HSBC voted top international cash manager for third successive year

3. HSS – Global Custodian, Custody Risk European Awards 2014, The Asset Tripe A Asset Servicing Awards 2014, Asian Investor Service Provider Awards 2014, HFM European Hedge Fund Services Awards 2014, Mutual Fund and Hedge Fund Administration Survey, Hedge fund.net administrator survey

4. GTRF – Oliver Wyman Global Transaction Banking Survey

5. Non-Bank Financial Institutions

3 Growth – Renminbi: Capturing growth opportunity

Context

External environment assumptions

- Interest rate liberalisation by 2016
- RMB fully convertible by 2017
- Capital account opening by 2017
- RMB becomes top 5 most traded currency
- Onshore bond market capitalisation reaches 100% GDP

Opportunities

- FX demand; China to settle 50% of trade in RMB by 2020
- Increased FX and interest rate volatility creating hedging demand
- Risk management solutions for Chinese companies investing overseas
- Onshore capital market development

Product

FX¹

Equities²

Fixed Income³

Securities Services⁴

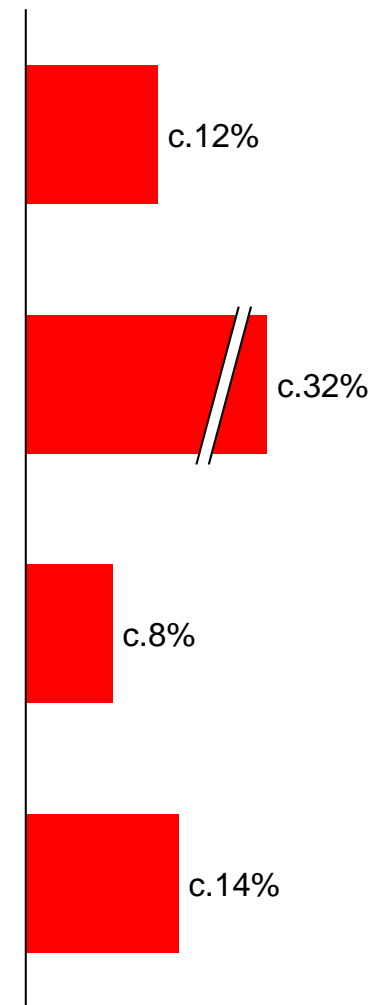
GB&M revenue⁵

2014

>USD900m

Global revenue pool

2014-17 CAGR



Assumptions:

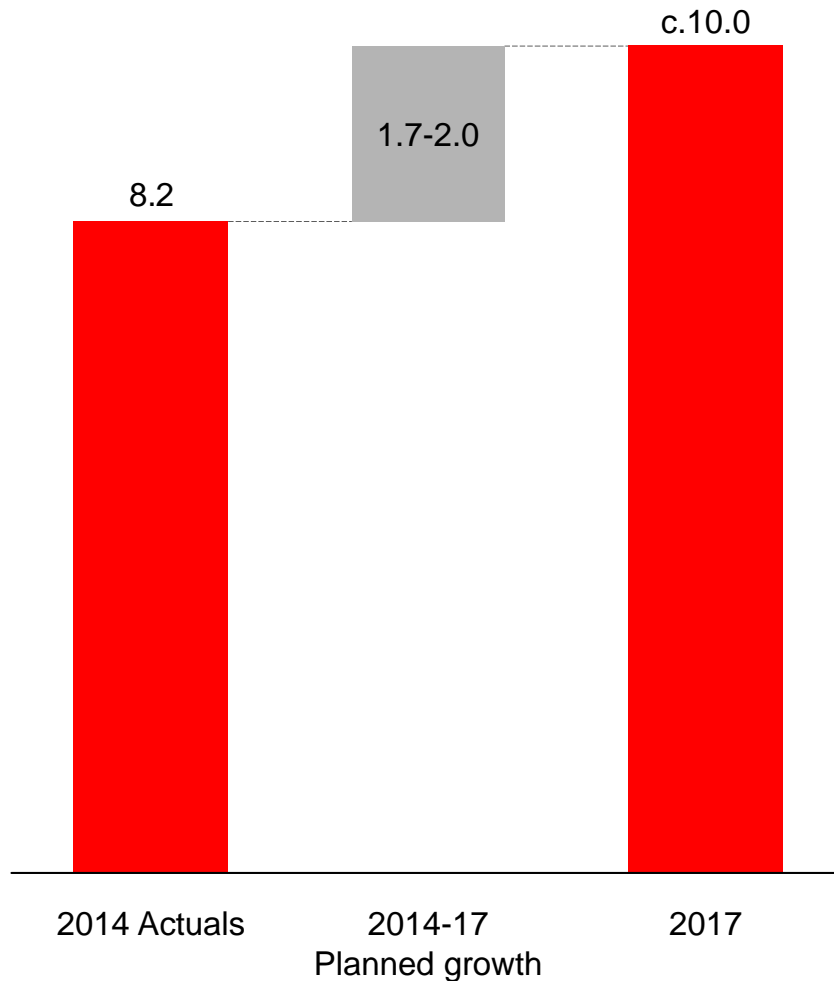
1. Market turnover to reach USD310bn/day in 2017 and USD870bn/day in 2020; currently at USD120bn/day (vs. EUR and YEN at USD1.8trn/day and USD1.2trn/day respectively)
2. A-share market size to reach USD7trn in 2017 and USD10trn in 2020
3. Onshore bond market size to reach USD7trn in 2017 and USD10trn in 2020; offshore bond market size peaks in 2017 to reach c.USD0.2trn
4. RMB-denominated AUC and cash to reach c.USD0.5trn in 2017 and c.USD1.5trn in 2020
5. Presented as gross revenue and does not reflect revenue sharing arrangements between GB&M and other global businesses

Strategy update: Returning to Group target profitability

3 Growth – CMB, RBWM, GPB clients: Realising the value of the universal banking model

Total revenue synergies related to GB&M

USDbn



GB&M revenue synergy examples

John Laing
making infrastructure happen

- CMB UK client
- HSBC acted as Joint Sponsor, Joint Global Coordinator and Joint Bookrunner on a GBP249m IPO of John Laing Group plc on the London Stock Exchange
- HSBC was additionally Mandated Lead Arranger on related GBP350m RCF
- Largest UK IPO priced in 2015 year to date

Actavis

- CMB US client
- HSBC acted as co-manager on Actavis' USD4.2bn ordinary share offering
- HSBC also acted as documentation agent on the debt financing backing of Actavis' USD70.5bn acquisition of Allergan
- The deal represented the largest healthcare equity sale in history

1. Cross-business synergies are presented as gross revenue and do not reflect any revenue sharing arrangement between Global Businesses

Digital – Leveraging digital to create competitive advantage for ourselves and our clients

HSBC Solutions



Aspirations

- Access & Convenience
- Deeper client relationships
- Superior analytics
- Cost efficiency & streamlining

- Seamless, end-to-end system integration: HSBCnet; HSBCconnect; SWIFT for Corporates
- Developing next generation electronic single dealer platforms: evolveFX
- Equipping RMs with digital tools to better understand clients: RM Portal
- Enabling real time, interactive analysis and solutions for clients: Working Capital Analytics
- Utilising Big Data to create unique client insight: Supply Chain Solution

Investment¹
c. USD0.3bn

1. Cumulative 2014-17

Agenda

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GB&M overview and track record

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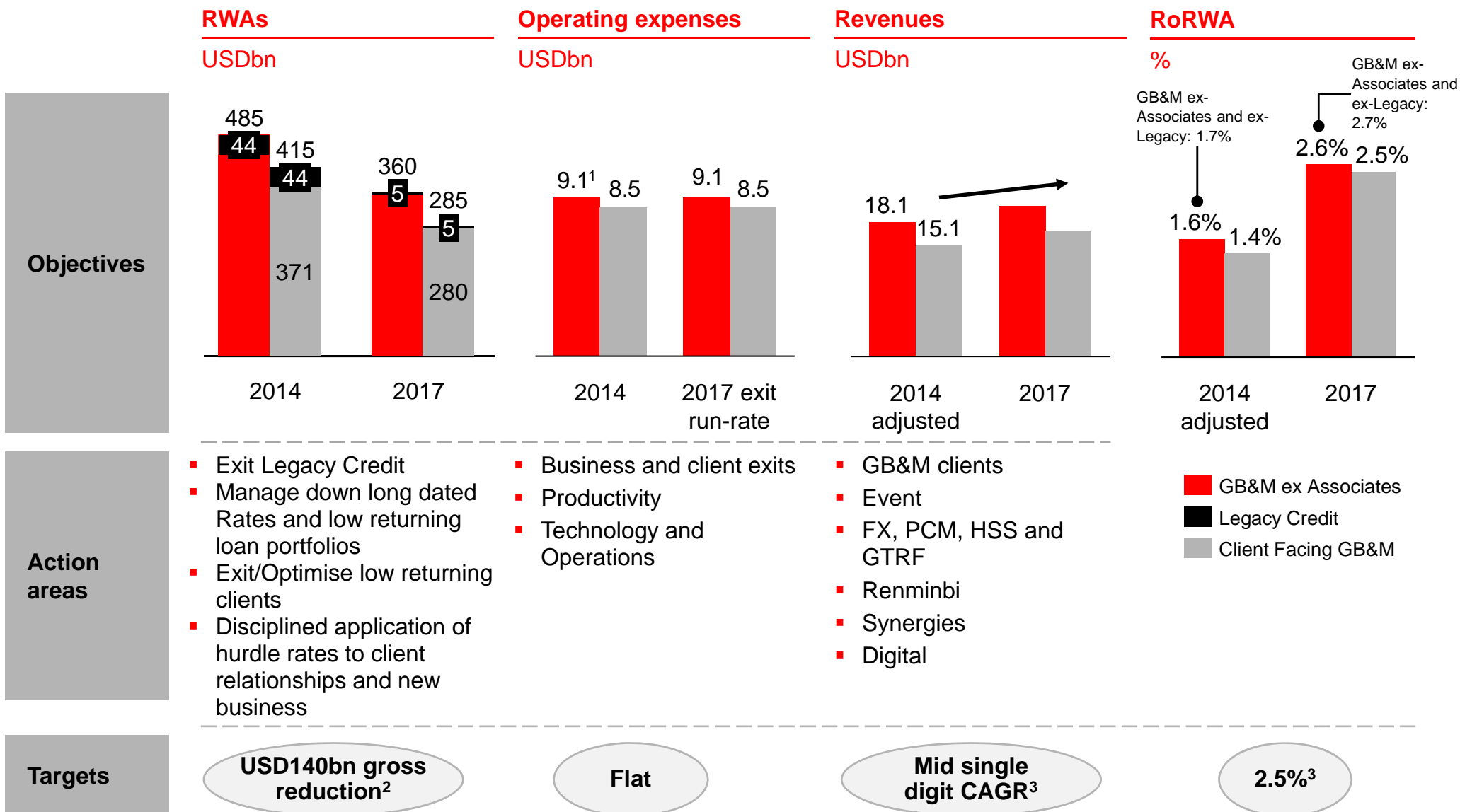
Strategy update: Returning to Group target profitability

3

Summary

Summary

Global Banking & Markets – Returning to Group target profitability



1. Adjusted operating expenses of USD10.1bn less \$0.7bn to change 2014 reported FX rates to 1Q15 FX rates and \$0.3bn relating to the impact of Brazil and Turkey

2. USD140bn gross reduction from GB&M Client Facing and Legacy excluding impact of Brazil and Turkey

3. GB&M Client Facing

Appendix

A

Appendix

Defined strategic direction by business

		<u>Asia Pacific</u>	<u>Europe, Middle East & North Africa</u>	<u>North America & Latin America</u>
Markets	FX	↗	↗	↗
	Rates ex long-dated book	↗	→	→
	Rates long-dated book	↓	↓	↓
	Core Credit	↗	↗	→
	Legacy Credit	n/a	↓	↓
	Equities	↗	→	→
Capital Financing	Credit & Lending	→	→	→
	Long-dated loan books	↓	↓	↓
	DCM	↗	↗	↗
	M&A & ECM	↗	→	→
	Project & Export Finance	↗	↗	→
	Asset Financing	↗	↗	→
PCM, HSS and GTRF	PCM	↗	↗	↗
	HSS	↗	↗	→
	GTRF – Receivables Finance	↗	↗	↗
	GTRF – Traditional Trade	→	→	→
	GTRF – Guarantees	→	→	→

↗ Grow → Optimise ↓ Exit

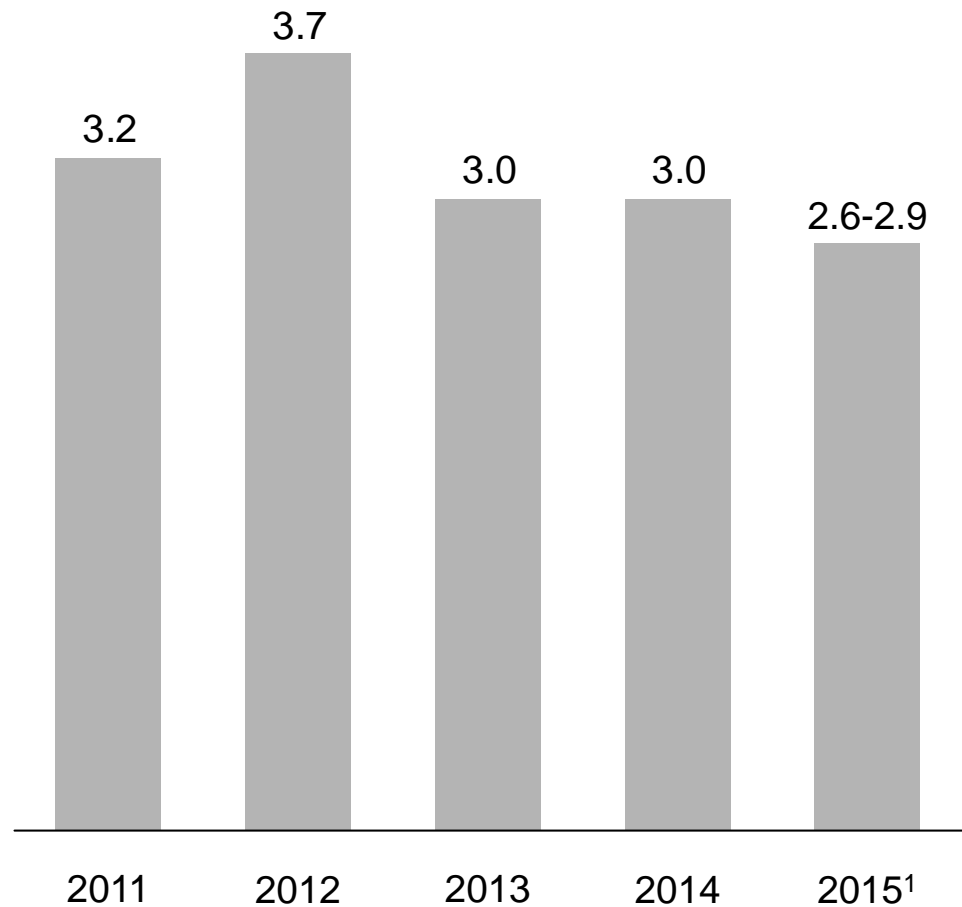
Balance Sheet Management – Managing non-operating deposits

Manage size of deposits

- Target to reduce non-operating deposits by USD100bn by offering clients alternate cash management solutions
- PCM developing automated platform to sweep funds to alternative assets as selected by clients
- Negative pricing will be used in certain cases to allow access to the balance sheet
- Reduction in absolute balance sheet as a consequence of reduction in BSM asset portfolios

BSM adjusted revenue

USDbn



1. Estimated figure

Appendix

GB&M financials^{1,2}

USDm	Reported			Adjusted					
	FY 14			FY 13			FY 14		
	Total GB&M	Legacy	Assoc.	Total GB&M	Legacy	Assoc.	Total GB&M	Legacy	Assoc.
Credit	567	(2)		801	146		567	(2)	
Rates	1,563			1,678			1,563		
Foreign Exchange	2,918			3,140			2,916		
Equities	1,216			1,314			1,216		
Markets	6,264	(2)		6,933	146		6,262	(2)	
Capital Financing	4,066			3,981			4,066		
Payments and Cash Management	1,794			1,743			1,794		
Securities services	1,699			1,653			1,698		
Global Trade & Receivables Finance	767			723			767		
Balance Sheet Management	3,015			3,046			3,020		
Principal Investments	531			450			531		
DVA	(333)			0			0		
Other³	(24)			4			(32)		
Total operating income before loan impairment charges and other credit risk provisions	17,778	(2)		18,532	146		18,106	(2)	
Loan impairment Charges and other credit risk provisions	(365)	349		(230)	213		(365)	349	
Net operating income	17,413	347		18,302	359		17,741	347	
Total operating expenses	(12,028)	(708)		(9,562)	(173)		(10,131)	(175)	
Operating profit	5,385	(361)		8,740	186		7,610		
Income from associates	504		504	468		468	504		504
Profit before tax	5,889	(361)	504	9,208	186	468	8,114	172	504
Cost efficiency ratio	67.7	n/a	n/a	51.6	118.4	n/a	56.0	n/a	n/a
Pre-tax return on average risk-weighted assets (annualised)	1.2	(0.8)	1.6	2.3	0.6	1.3	1.6	0.4	1.3

1. Source of information: 2014 Annual Report and Accounts and reconciliation of non-GAAP financial measures

2. FY14 Revenue includes Funding Fair Value Adjustment (FFVA) charge of USD(263)m: USD(164)m in Rates, USD(97)m in Credit, USD(2)m in Other

3. Please see Definitions

Definitions

The following terminology is used in the GB&M presentation: More detailed list of definitions available in the Glossary.

- **Direct costs** include staff employment and other costs directly managed by the business including market data, travel, and consultancy
- **Indirect costs** include technology, operations, corporate real estate and global functions costs allocated to the business
- **Other** (Page 11) in GB&M includes net interest earned on free capital held in the global business not assigned to products, allocated funding costs and gains resulting from business disposals. Within the management view of total operating income, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRS basis, the offset to these tax credits are included within 'Other'.
- **Page 6** has used the following source information:
 - **FX** – Euromoney (2014 published May 2014). Middle East ranking shown only (ex North Africa). Asia ranking shown (inc HK and Japan)
 - **Rates** – Greenwich (2014 published Nov 2014); UK & Cont. Europe – Greenwich Europe (published September 2014)
 - **Credit** – Greenwich (2014 published Nov 2014); UK & Cont. Europe – Greenwich Europe (published September 2014)
 - **Equities** – Extel for EMEA (2014 published in July), Asiamoney Brokers Poll 2014
 - **PCM** – Euromoney Cash Management Survey (2014 published Sep 2014)
 - **HSS** – Global Custodian Global Custody, Custody Risk European Awards 2014, The Asset Triple A Asset Servicing Awards 2014, Asian Investor Service Provider Awards 2014, HFM European Hedge Fund Services Awards 2014, Mutual Fund and Hedge Fund Administration Survey, Hedge fund.net administrator survey, Clearstream, CMU HK 6* - Continental Europe includes Germany, Luxembourg and Ireland
 - **Global Trade and Receivable Finance** – Oliver Wyman Global Transaction Banking Survey 2012
 - **Capital Financing** – Project and Export Finance: Dealogic 2014 – Project Finance Advisory; ECM: Dealogic FY2014, RoAP ex-Japan/Australia & Chinese A-shares; Syndicated Loans: based on Dealogic FY2014, RoAP ex-Japan; M&A: Dealogic FY2014, RoAP ex-Australia and Japan domestic; DCM: Dealogic FY2014, RoAP ex-Japan & China Onshore

