



HSBC Holdings plc **Interim Results 2014**
Presentation to Investors and Analysts





Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations, capital position 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 Interim Report. Past performance cannot be relied on as a guide to future performance.

This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial measurements to the most directly comparable measures under GAAP are provided in the 'reconciliations of non-GAAP financial measures' supplement available at www.hsbc.com.

2011-2013: Created a stronger bank with platform for growth

Achievements 2011-2013

Achievements 2011-2013

Re-focused the business

- Re-defined the strategic core of HSBC
- 74¹ disposals/exits announced since 2011, reduction of c.USD97bn RWAs² and c.20k FTE
- Progress on running down Legacy portfolios, reduction of USD28bn and USD19bn in total assets across the CML and ABS portfolios respectively
- Introduction of Global Standards and subsequent progress in de-risking the business

Simplified and globalised the organisation

- Transformed the way we manage the business as a global bank in 4 Global Businesses and 11 Global Functions
- USD4.9bn annualised sustainable savings from 2011 to 2013
- Net reduction of 41k FTE, including disposals/exits

Grown Global Business revenue

- Grown Global Business revenue³ at a CAGR⁴ of 2%, driven by CMB (7%), GB&M excluding legacy credit (2%) and Principal RBWM (3%)
- Achieved double digit gross loan growth in 13 out of 21 home and priority markets
- Leveraging the international network to improve our market position in strategic products

Key financials⁵ 2010-13

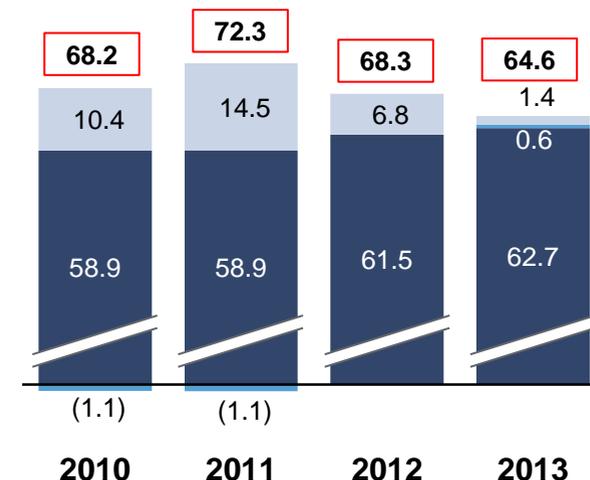
Revenue, USDbn

Underlying adjustments

Significant items

Global Business revenue³

Reported Revenue



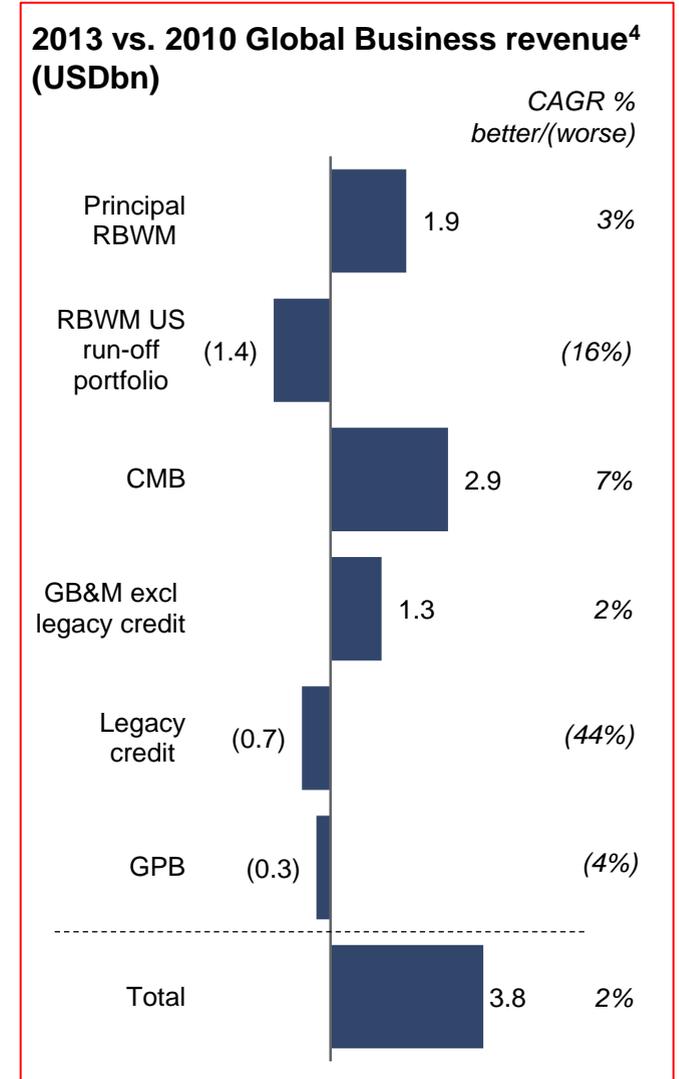
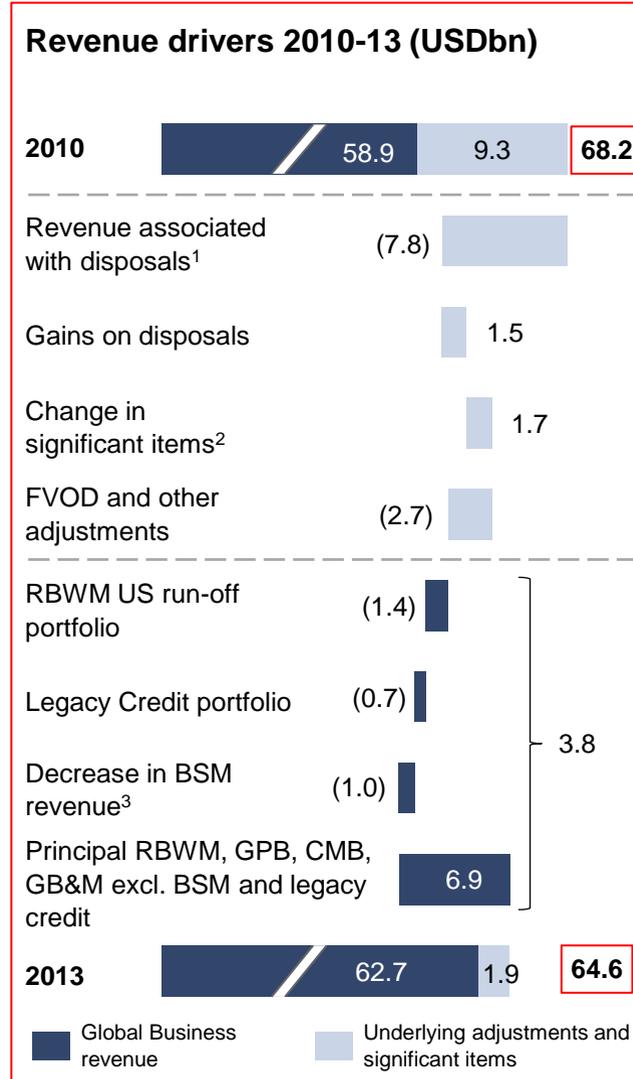
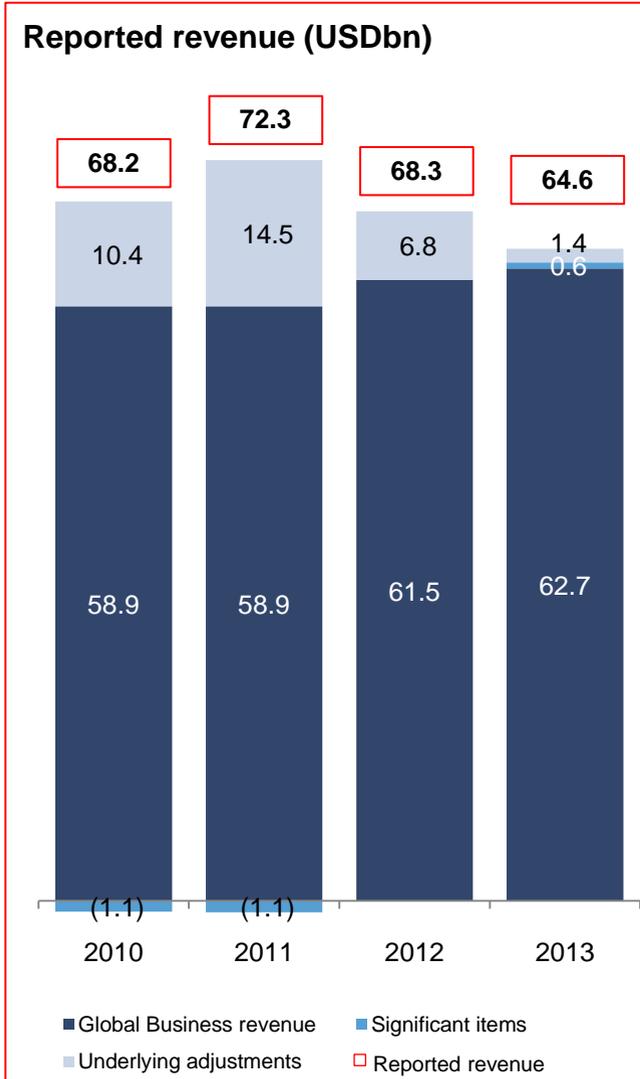
PBT, USDbn	19.0	21.9	20.6	22.6
CER, %	55.2	57.5	62.8	59.6
Core tier 1 Ratio, %	10.5	10.1	12.3	13.6
ROE, %	9.5	10.9	8.4	9.2
Shareholders' equity, USDbn	148	159	175	182
Dividends in respect of year, USDbn	6.3	7.3	8.3	9.2

Notes:

- 74 disposals/exits were announced 2011-1H14. Out of these, 62 disposals/exits were announced 2011-13
- Expected reduction in RWAs after completion of all 74 transactions
- Global Business reported revenue excluding underlying adjustments and significant items
- Compound Annual Growth Rate ("CAGR") calculated from FY2010 to FY2013
- Reported basis unless otherwise stated

Revenue development 2011-2013

Growth in Global Business revenues



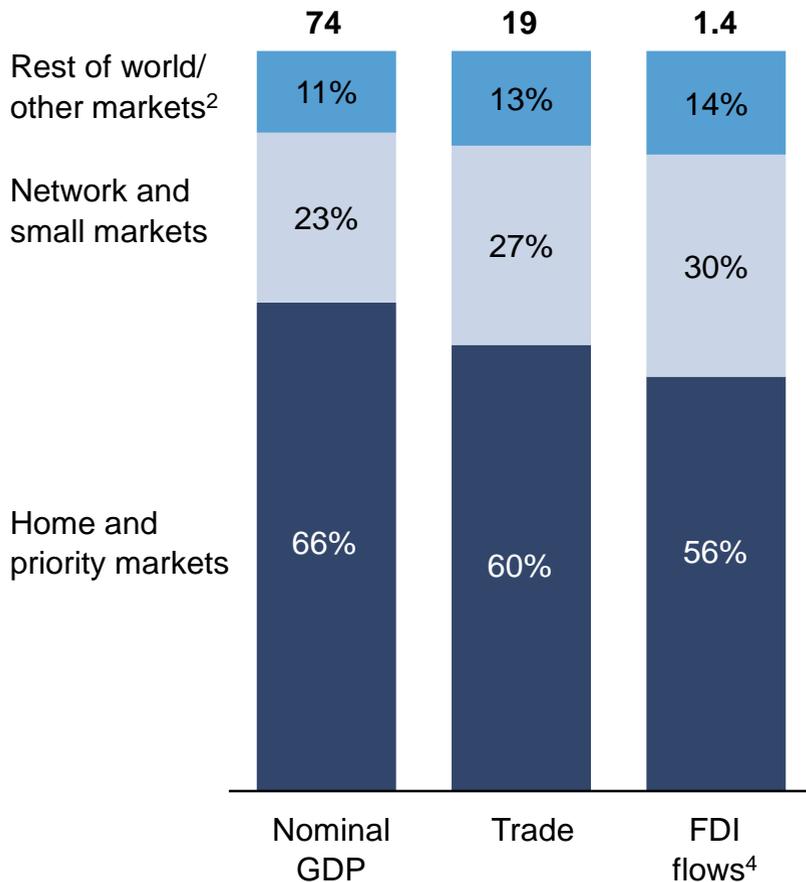
Notes:

- Includes revenue in respect of CRS, US branches and disposals in Latin America (Panama, Costa Rica, Honduras and El Salvador only) only in 2010
- Includes non-qualifying hedges USD1.6bn, net gain on completion of sale of Ping An USD0.6bn, structural FX USD0.4bn, gain on sale and leaseback of the Paris headquarters USD0.2bn, debit valuation adjustment USD0.1bn, loss on sale of several tranches of real estate secured accounts USD(0.1)bn, loss on sale of HFC USD(0.1)bn, loss on termination of cash flow hedges in CML USD(0.2)bn, loss on sale of the Monaco finance portfolio in the USD(0.2)bn, loss on sale of the CML non real estate personal loan portfolio USD(0.3)bn, write-off of goodwill related to the Monaco GPB business USD(0.3)bn
- On a reported basis
- Global Business reported revenue excluding underlying adjustments and significant items

Value of the network

Created unrivalled network to support global trade and capital flows

HSBC network coverage¹ (USDtrn) 2013



Source: Global Insights, UNCTAD

Notes: Trade is measured as total merchandise exports; FDI is measured as FDI outflows

- Home, priority, network and small markets
- Includes representative offices and non-strategic markets
- Exports and imports (Source: HSBC and Oxford Economics analysis)
- Foreign Direct Investment ("FDI")

HSBC is present in all the major trade corridors

2020 trade growth forecasts ³ (USDbn)	CAGR 2013-2020 %	Strong presence	
Mainland China - Hong Kong	1,363	12	✓
Japan - USA	1,316	7	✓
Mainland China - USA	968	10	✓
Canada - USA	910	5	✓
Mexico - USA	866	8	✓
Mainland China - Korea	552	13	✓
Hong Kong - Japan	289	11	✓
Mainland China - Japan	265	10	✓
France - Germany	244	1	✓
Australia - China	238	10	✓
Mainland China - Germany	232	8	✓
Canada - Japan	207	4	✓
Mainland China - Singapore	188	11	✓
Mainland China - Vietnam	186	17	✓
India - UAE	181	13	✓

2013
 2013-2020 growth
 ✓ Priority markets on both sides
✓ Priority market on one side

Value of the network

Leveraging the international network and HSBC client franchise to improve our market position in strategic products

Key products of international and business connectivity (selected examples)

Products ¹	2013 Revenues	Measure	Market growth, CAGR% 2011-13	HSBC's market share, %		
	USDbn			2011	2012	2013
Payments & Cash Management ²	7.1	Payments messages volume	+8%	8.0	10.7	10.9
Global Trade & Receivables Finance ³	3.7	Merchandise exports volume	+2%	11.1	13.1	13.6
Foreign Exchange ⁴	3.2	Average daily volume	+11%	6.7	6.9	7.1
Capital Financing ⁵	4.0	International Bonds	+1%	5.4	5.3	5.7
		Offshore CNY bonds	+36%	21.8	24.2	21.7

Notes:

1. Key products that directly benefit from the international spread of our global network. Product revenues are as disclosed in the Annual Report 2013 and include both domestic and international elements of the business
2. Revenue includes Commercial Bank current accounts, savings deposits and PCM embedded foreign exchange revenues; Market volume and share: Swift
3. Revenue includes Commercial Bank GTRF embedded foreign exchange revenues. Market volume: UNCTAD; Market share of Traditional Trade Finance (includes shadow income from foreign exchange and revenue from associates): Oliver Wyman Analysis / estimates
4. Revenue contributed from GB&M; Market volume: Bank for International Settlements (BIS). CAGR is from 2010-13 as BIS publishes data every 3 years. Market share: Euromoney Global FX Survey; 2013 market share is based on survey results in May 2014 done for 2013 and similar for previous years
5. Market volume and share: Bloomberg League table

2014-2016: Executing three equally weighted priorities

Strategic priorities

Grow both business and dividends

- Continue to recycle RWAs from low into high performing businesses within the Group's risk appetite
- Further capitalise on global network and strengthen position in priority growth markets

Implement Global Standards

- Continue to invest in best-in-class Compliance and Risk capabilities
- De-risk operations and/or improve risk management in higher risk locations and businesses
- HSBC values – act with courageous integrity

Streamline processes and procedures

- Re-design key processes and procedures achieving improvements in service, quality, cost and risk
- Release costs to provide headroom to invest in growth and Global Standards
- Deliver additional USD2-3bn sustainable saves

Investment priorities for the Group

Global Trade & Receivables Finance

- Reinforce HSBC's leading position in trade
- Strengthen position in high growth products/corridors and expand in trading hubs

Payments and Cash Management

- Deliver improved client coverage and products via customer proposition enhancements

Foreign Exchange

- Upgrade Global Business collaboration
- Renew capabilities of electronic distribution platform

RMB

- Strengthen our global leadership position
- Capture offshore RMB, FX and capital markets opportunities

Geographic priorities

- **Cities-led strategy:** Invest and align global resources to city clusters with fast-growing international revenue pools
- **UK:** Strengthen home market position
- **Germany:** Build-out corporate franchise through improved client coverage, financing products and capture greater share of key trade corridors
- **Mainland China:** Continue investments in organic growth (in particular in Guangdong)
- **ASEAN:** Develop ASEAN cluster to support integration and connectivity with global HSBC network

1H14 results

Interim results 2014

Financial highlights¹

Summary financial highlights, USDbn	1H13	2H13	1H14	Better/(worse)	
				1H14 vs 1H13	1H14 vs 2H13
Reported PBT	14.1	8.5	12.3	(12)%	45%
Underlying ² PBT	13.0	8.6	12.6	(4)%	46%

Key ratios, %	1H13	2H13	1H14	KPI
Return on average ordinary shareholders' equity ³	12.0	6.5	10.7	12-15%
Cost efficiency ratio	53.5	66.6	58.6	mid-50s
Jaws (underlying) ⁴	-	-	(5.7)	Positive
Advances-to-deposits ratio ⁵	74.1	72.9	74.0	< 90
Common equity tier 1 ratio (transitional basis) ⁶	N/A	10.8	11.2	>10%
Common equity tier 1 ratio (end point basis) ⁶	10.1	10.9	11.3	>10%

Notes:

- All figures are reported unless otherwise stated
- Adjusted for foreign currency translation differences, acquisitions, disposals and changes in ownership levels of subsidiaries, associates, joint ventures and businesses, and fair value ("FV") movements in credit spread on own long-term debt issued by Group and designated at fair value
- On an annualised basis
- Calculated as percentage growth in net operating income before loan impairment charges and other credit risk provisions ('revenue') less percentage growth in total operating expenses, 1H14 versus 1H13
- Excludes reverse repos and repos
- On 1 January 2014, CRD IV came into force and capital and RWAs at 30 June 2014 are calculated and presented on this basis. At 31 December 2013, capital and RWAs were also estimated based on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA, details of which can be found in the basis of preparation on page 324 of the *Annual Report and Accounts 2013*

Financial overview

Reconciliation of Reported to Underlying results

USDm	1H13	2H13	1H14	Variance 1H14	
				vs 1H13	vs 2H13
Reported profit before tax	14,071	8,494	12,340	(1,731)	3,846
Includes:					
FVOD ¹	(19)	(1,227)	(215)	(196)	1,012
Gain on de-recognition of Industrial Bank as an associate	1,089	-	-	(1,089)	-
Gain on sale of associate shareholding in Bao Viet Holdings	104	-	-	(104)	-
Loss on sale of Household Insurance Group's insurance manufacturing business	(99)	-	-	99	-
Gain on disposal of Colombia operations	-	-	18	18	18
Gain on disposal of Panama operations	-	1,107	-	-	(1,107)
Other losses on acquisitions / disposals	1	(19)	(32)	(33)	(13)
Operating results of disposals, acquisitions and dilutions	(34)	(21)	9	43	30
Currency translation	12	27	-	(12)	(27)
Underlying profit before tax	13,017	8,627	12,560	(457)	3,933
Significant items² included in underlying profit before tax					
Revenue	851	(258)	(431)	(1,282)	(173)
Operating expenses	(746)	(2,208)	(271)	475	1,937

Notes:

1. Fair value movements on our long-term debt designated at fair value resulting from changes in credit spread
2. On a reported basis

Financial overview

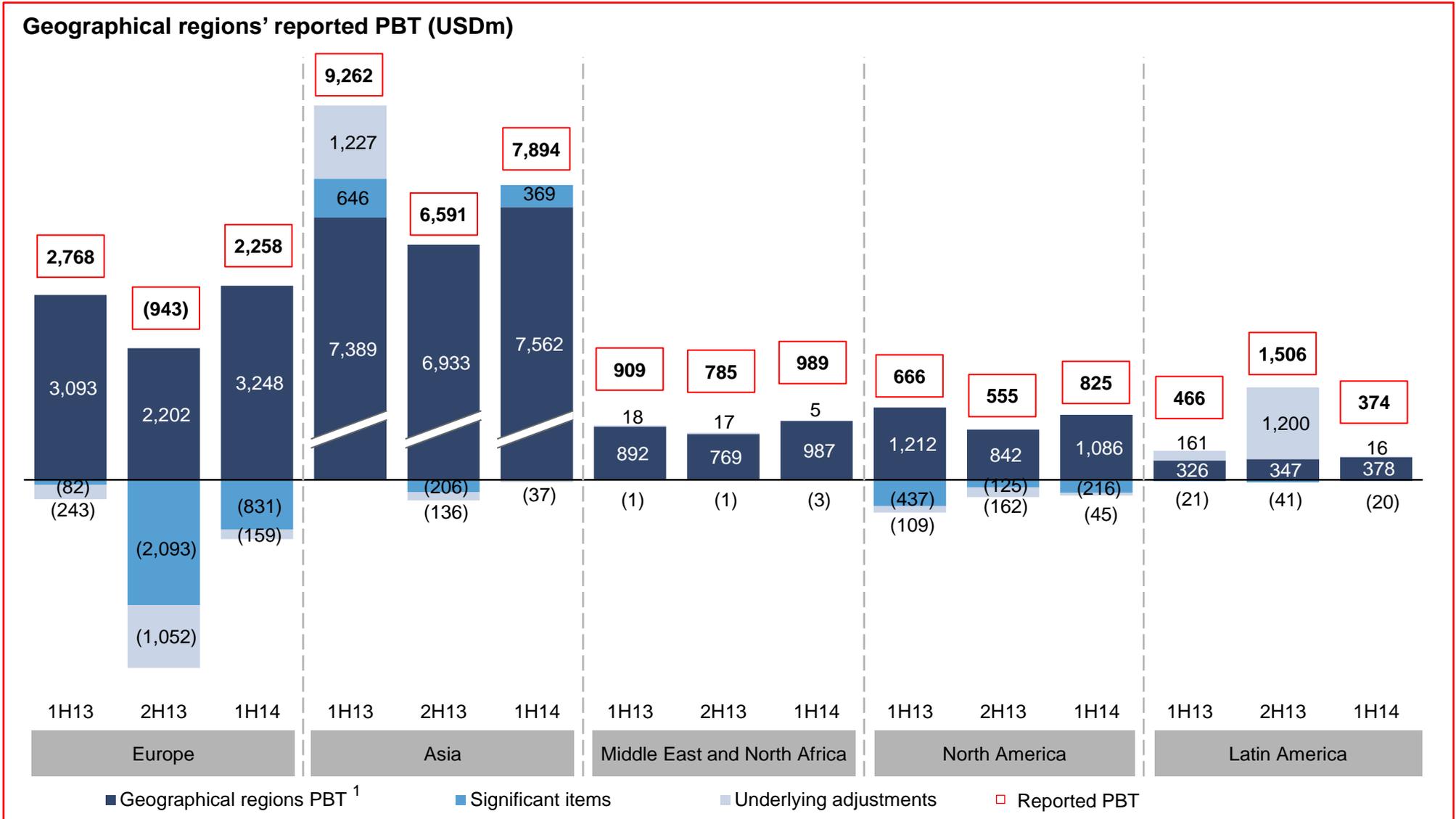
Significant items included in underlying profit before tax

USDm				Variance 1H14	
	1H13	2H13	1H14	vs 1H13	vs 2H13
Underlying profit before tax	13,017	8,627	12,560	(457)	3,933
Includes the following significant items (reported basis):					
Revenue					
<i>Restructuring and repositioning:</i>					
Net gain on completion of Ping An disposal	553	-	-	(553)	-
FX gains relating to the sterling debt issued by HSBC Holdings	442	-	-	(442)	-
Write-off of allocated goodwill relating to GPB Monaco business ¹	(279)	-	-	279	-
Loss on early termination of cash flow hedges in the US run-off portfolio	(199)	-	-	199	-
Loss on sale of an HFC Bank UK secured loan portfolio	(138)	(8)	-	138	8
Loss on sale of the non-real estate portfolio in CML	(271)	-	-	271	-
Loss on sale of several tranches of real estate secured accounts in the US	(1)	(122)	(15)	(14)	107
Gain on sale of shareholding in Bank of Shanghai	-	-	428	428	428
<i>Volatility:</i>					
Debit valuation adjustment on derivative contracts	451	(346)	(155)	(606)	191
Fair value movement on non-qualifying hedges	293	218	(322)	(615)	(540)
<i>Provision arising from a review of compliance with the Consumer Credit Act in the UK</i>	-	-	(367)	(367)	(367)
	851	(258)	(431)	(1,282)	(173)
Operating expenses					
<i>Restructuring and repositioning:</i>					
Restructuring and other related costs	(238)	(245)	(82)	156	163
<i>Customer redress and litigation-related charges:</i>					
UK customer redress programmes	(412)	(823)	(234)	178	589
Regulatory investigation provisions in GPB	(119)	(233)	-	119	233
US customer remediation provision relating to CRS	(100)	-	-	100	-
Madoff-related litigation costs	(298)	-	-	298	-
<i>UK bank levy</i>	(9)	(907)	45	54	952
<i>Accounting gain arising from change in basis of delivering ill-health benefits in the UK</i>	430	-	-	(430)	-
	(746)	(2,208)	(271)	475	1,937

Note:
1. In 1Q13, the private banking operations of HSBC Private Bank Holdings (Suisse) SA in Monaco were classified as held for sale. At this time, a loss on reclassification to held for sale was recognised following a write down in the value of goodwill allocated to the operation. Following a strategic review, we decided to retain the operation, and the assets and liabilities of the business were reclassified to the relevant balance sheet categories, however the loss on reclassification was not reversed.

Profit before tax analysis

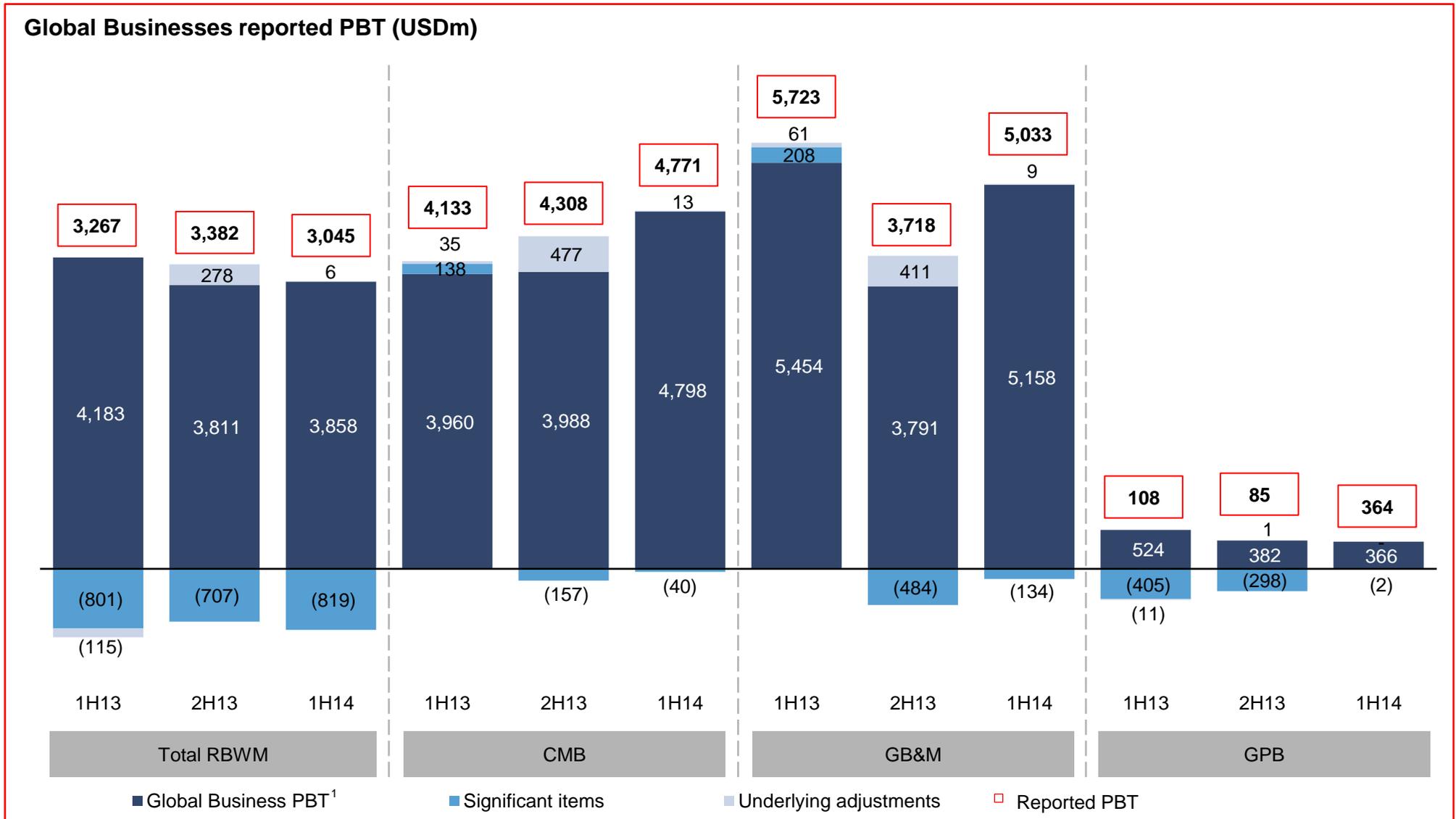
Regional profit contributions¹: growth in four out of five regions compared with 1H13



Note:
 1. Geographical regions' reported PBT excluding underlying adjustments and significant items

Profit before tax analysis

Global Business profit contributions¹

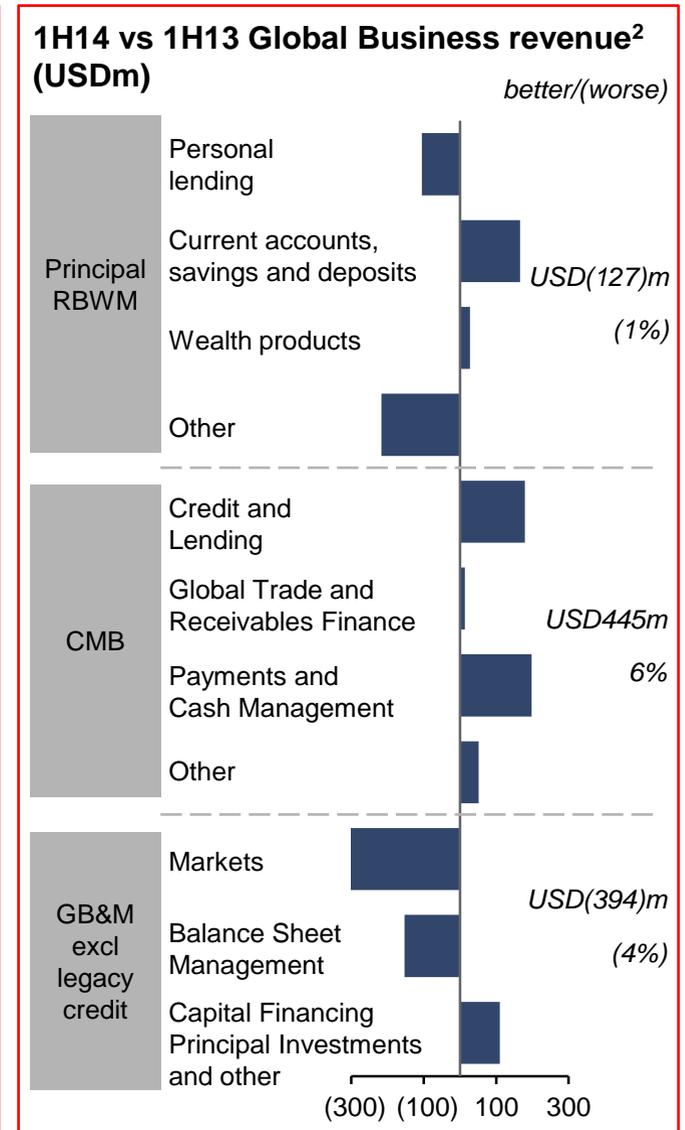
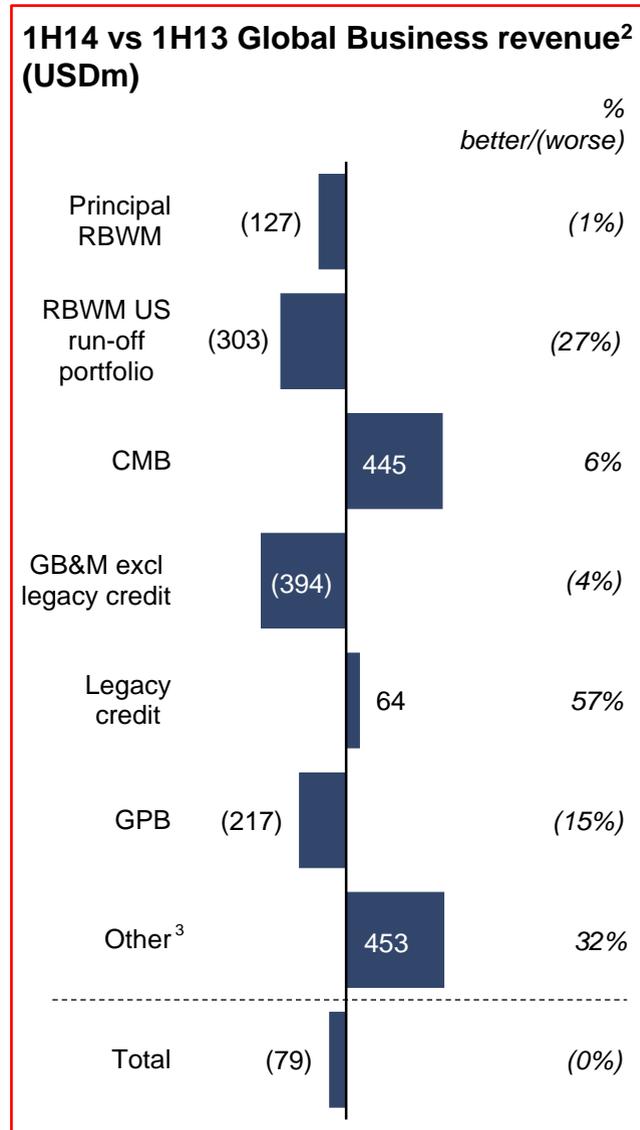
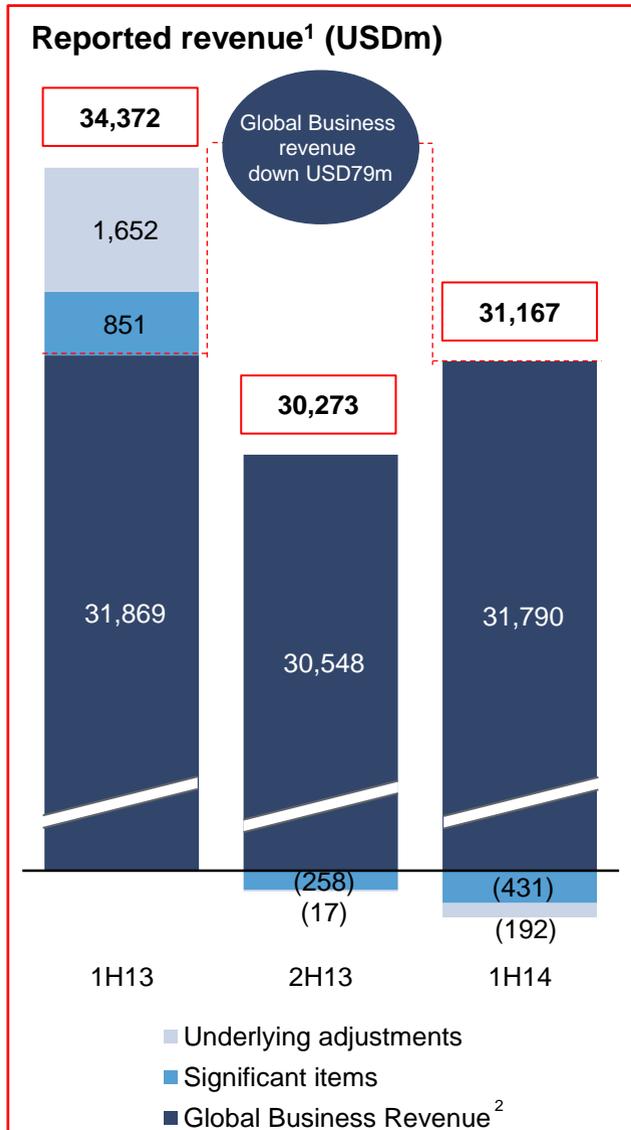


Note:

1. Global Business reported PBT excluding underlying adjustments and significant items

Revenue analysis

Global Business revenues broadly unchanged, growth in CMB

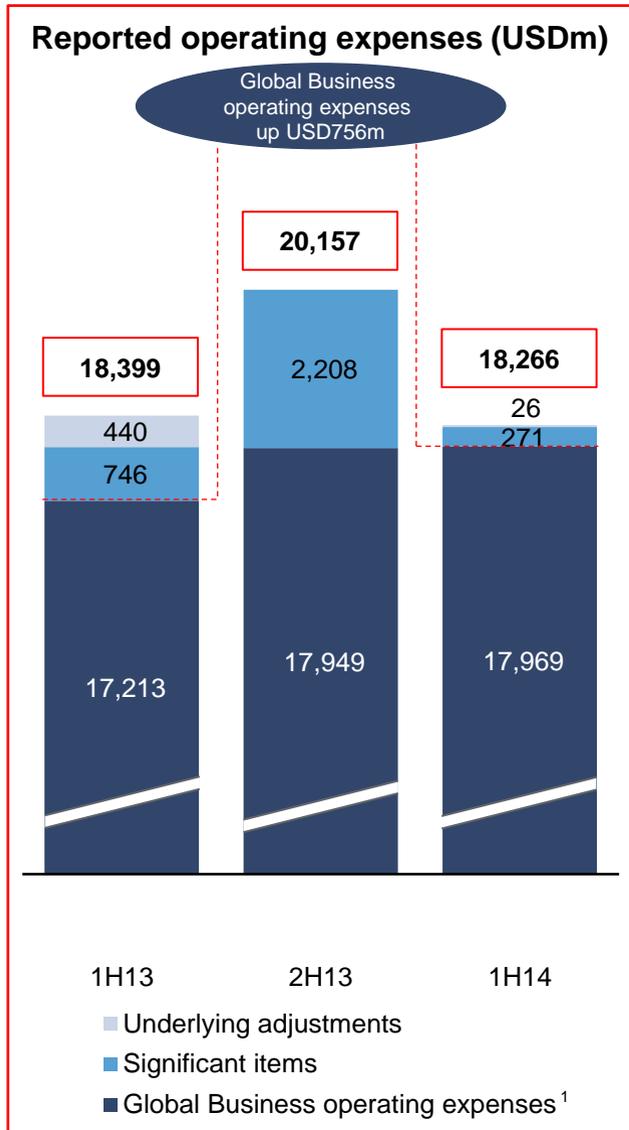


Notes:

1. Net operating income before loan impairment charges and other credit risk provisions
2. Global Business reported revenue excluding underlying adjustments and significant items
3. Includes intersegment revenue variance of USD0.2bn

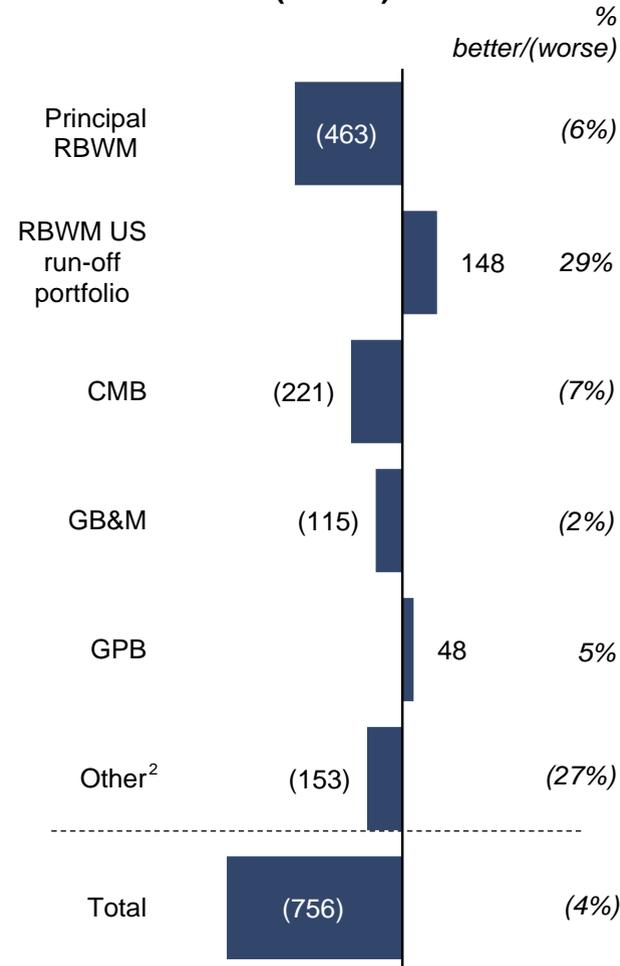
Operating expenses analysis

Continued investment in Risk, Compliance and Global Standards

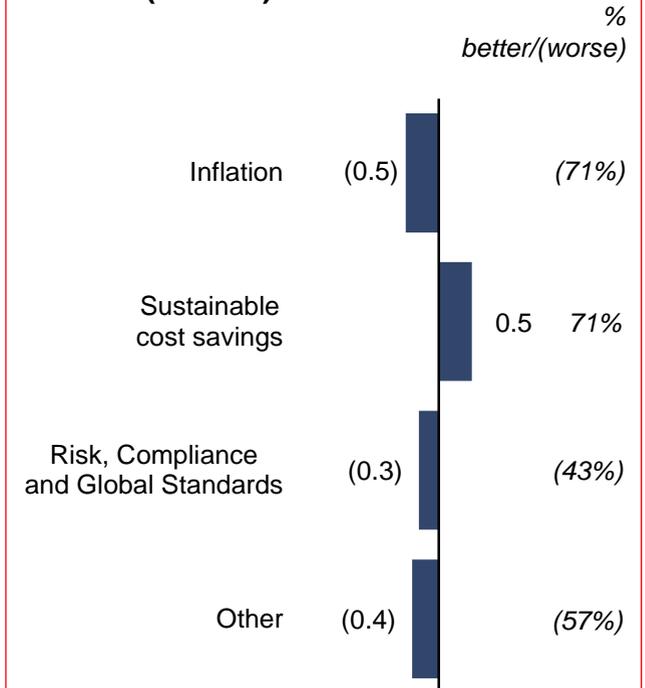


1H14 vs 1H13 operating expenses¹

Global Business (USDm)



Drivers (USDbn)



Employees

FTEs, Thousands	1H13	2H13	1H14
Total employees	259.4	254.1	256.1
Risk and Compliance	23.4	23.4	24.3

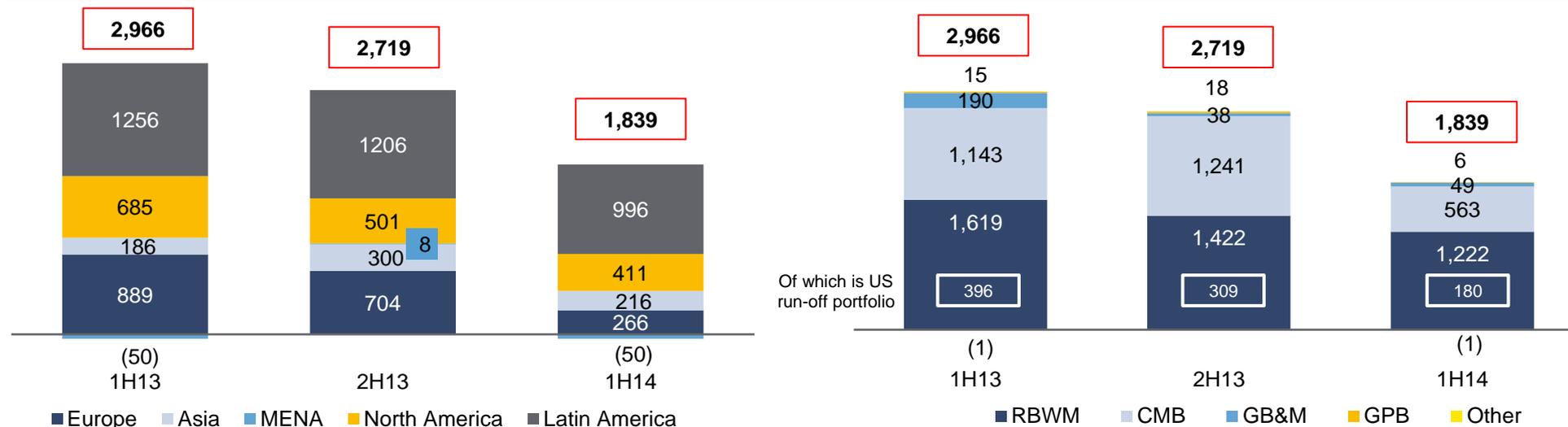
Notes:

1. Reported operating expenses excluding underlying adjustments and significant items
2. Includes intersegment cost variance of USD0.2bn

Loan impairment charges¹

Lower loan impairment charges primarily in Europe, North America and Latin America

Loan impairment charges (USDm)



Loan impairment charges / average gross loans and advances to customers² (%)

Geographical regions %	1H13	2H13	1H14
Europe	0.38	0.30	0.11
Asia	0.12	0.18	0.12
Middle East and North Africa	(0.32)	0.04	(0.35)
North America	1.01	0.74	0.63
Latin America	5.43	5.20	4.14
Total	0.61	0.54	0.36

Global Businesses %	1H13	2H13	1H14
RBWM	0.87	0.74	0.64
CMB	0.78	0.81	0.36
GB&M	0.14	0.03	0.03
GPB	0.07	0.08	0.03
Other	(0.03)	0.02	(0.07)
Total	0.61	0.54	0.36

Notes:

- All figures are on an underlying basis unless otherwise stated
- LIC figures are on a constant currency basis and have been annualised for the purposes of this calculation

Capital adequacy

Strong capital generation

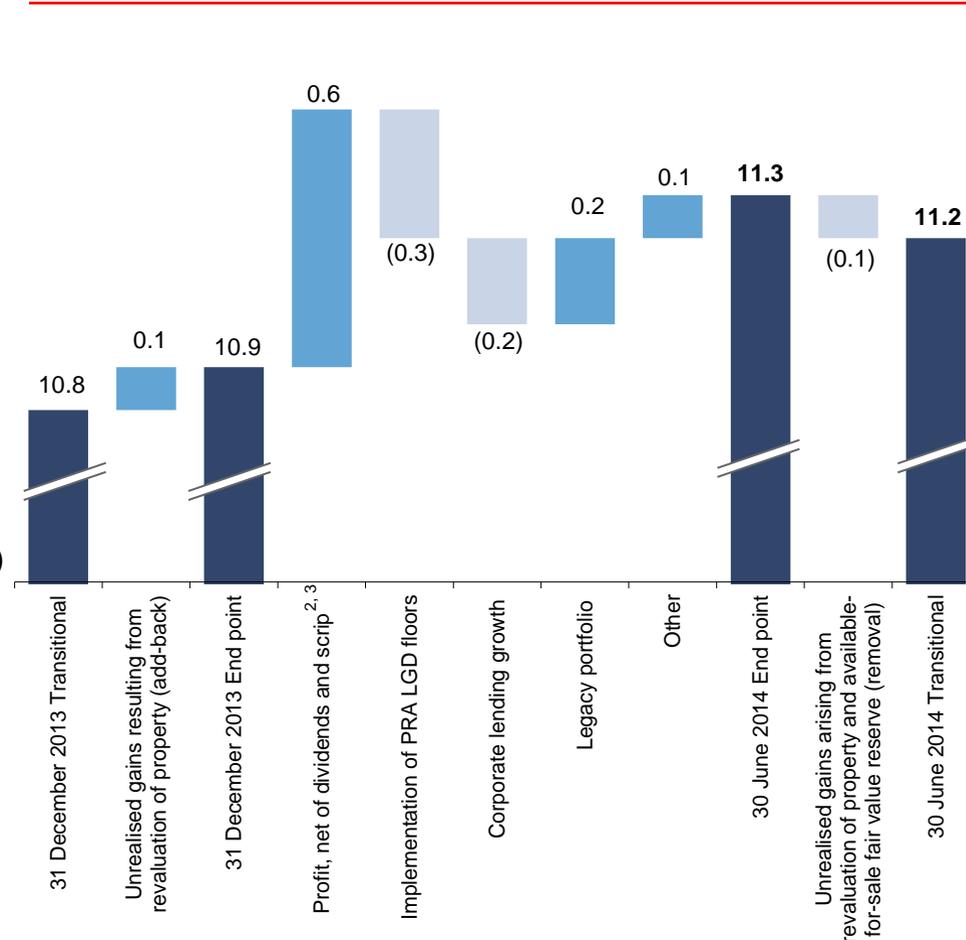
Movement in common equity tier 1 capital (USDbn)

	CRD IV ¹	
	Yr1 Trans	End point
At 31 December 2013	131.2	132.5
Profit for the half year	10.0	10.0
Dividends net of scrip ²	(0.6)	(0.6)
Second interim dividend net of planned scrip take-up ²	(1.7)	(1.7)
Other	1.2	1.4
At 30 June 2014	140.1	141.6

Movement in risk-weighted assets (CRD IV¹ end point) (USDbn)

	Total
At 31 December 2013	1,215
Implementation of PRA LGD floors	34
Corporate lending growth	25
Legacy portfolio	(20)
Other	(5)
At 30 June 2014	1,249

Common equity tier 1 ratio movement (%)



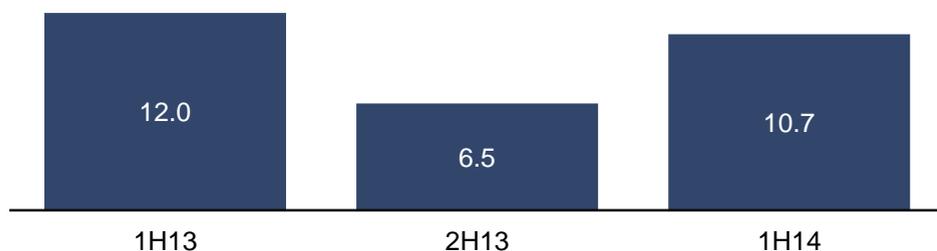
Notes:

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- This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity.
- Dividends net of scrip in respect of the 2014 first and second interim and an update for a higher 2013 fourth interim dividend scrip take-up in excess of plan. The second interim dividend is net of planned scrip take-up.

Profitability

Drivers of returns

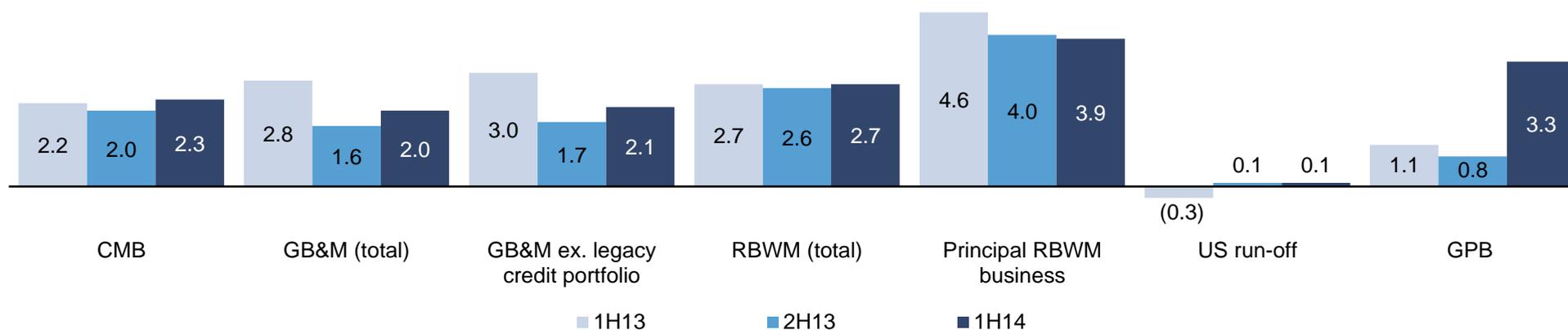
Group RoE¹



Group RoRWA

%	1H13	2H13	1H14
Reported	2.6	1.5	2.1
Underlying	2.4	1.6	2.1
Underlying, excluding legacy businesses ²	2.8	1.7	2.3
- of which significant items	0.0	(0.5)	(0.1)

RoRWA by global business³ (%)



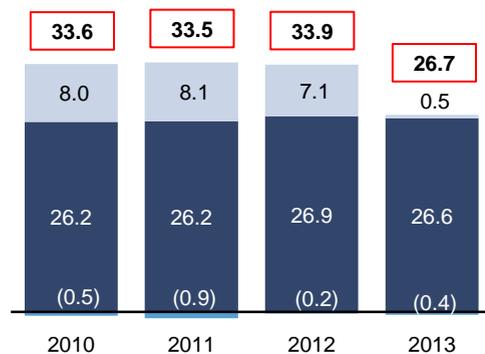
Notes:

1. ROE has been calculated on a reported basis and annualised
2. Includes GB&M legacy, US CML run-off portfolio and other run-off portfolios
3. Underlying basis

Appendix

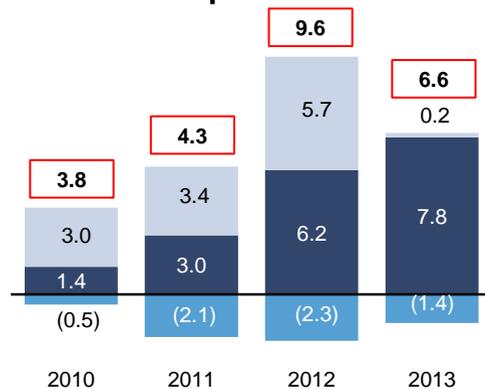
Global Business overview

RBWM 2010 to 2013 reported revenue¹ (USDbn)



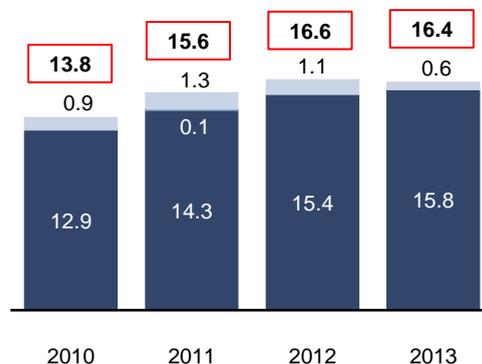
Principal RBWM	22.7	23.3	24.4	24.6
RBWM US run-off portfolio	3.5	2.9	2.5	2.0

RBWM 2010 to 2013 reported PBT (USDbn)

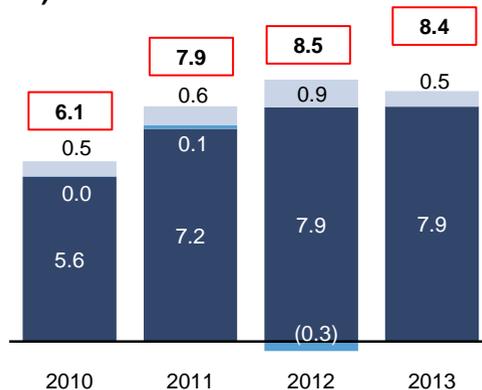


Principal RBWM	4.9	6.0	7.3	7.5
RBWM US run-off portfolio ³	(3.5)	(3.0)	(1.1)	0.3

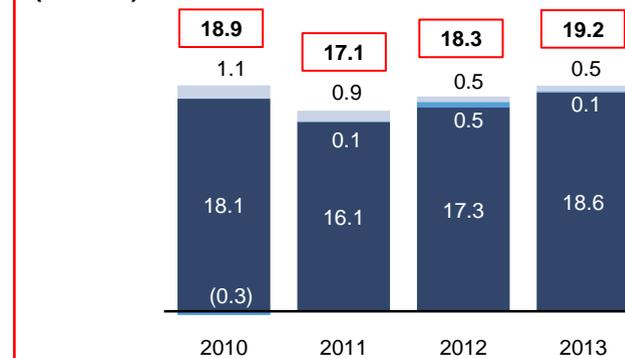
CMB 2010 to 2013 reported revenue¹ (USDbn)



CMB 2010 to 2013 reported PBT (USDbn)

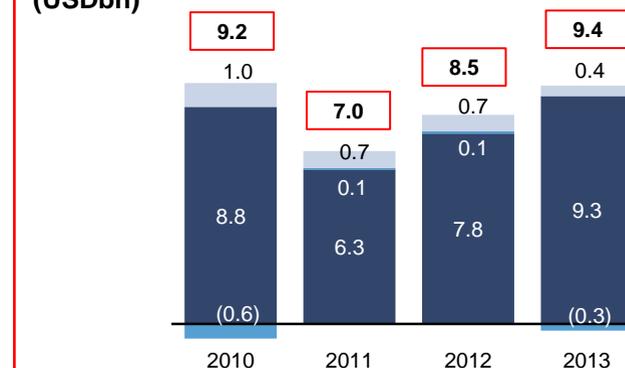


GB&M 2010 to 2013 reported revenue¹ (USDbn)



GB&M exc. Legacy credit	17.2	15.9	17.3	18.5
Legacy credit	0.9	0.2	(0.0)	0.1

GB&M 2010 to 2013 reported PBT (USDbn)



GB&M exc. Legacy credit	8.6	6.7	8.1	9.1
Legacy credit	0.2	(0.4)	(0.3)	0.2

Notes:

1. Net operating income before loan impairment charges and other credit risk provisions
2. Global Business reported revenue / PBT excluding underlying adjustments and significant items
3. 2012 includes USD150m costs relating to the US Cards and Retail Services business, sold in May 2012

■ Global Business revenue / PBT²
■ Significant items
 ■ Underlying adjustments
 Reported revenue / PBT



The view from HSBC Building, 8 Century Avenue, Pudong, Shanghai



The view from HSBC Main Building, 1 Queen's Road Central, Hong Kong SAR



The view from HSBC Group Head Office, 8 Canada Square, London

Cover images: internationalisation of the renminbi

The images show the views from HSBC's head offices in Shanghai, Hong Kong and London – the three cities that are key to the development of China's currency, the renminbi (RMB). The growth of the RMB is set to be a defining theme of the 21st century. HSBC has RMB capabilities in over 50 countries and territories worldwide, where our customers can count on an expert service.

Photography: Matthew Mawson

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