

# HSBC: Europe, Middle East and Global Businesses

**STUART GULLIVER**

**Executive Director, Chairman, Europe, Middle East and Global Businesses**

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# 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 Interim Report. Past performance cannot be relied on as a guide to future performance.**

# HSBC Group – Headline results

## Strongly improved performance

		1H09		1H10
Reported PBT	More than doubled	US\$5,019m	+121%	US\$11,104m
Reported PBT ex FV of own debt <sup>1</sup>	Strong increase	US\$7,476m	+34%	US\$10,030m
Underlying PBT <sup>2</sup>	Strong increase	US\$7,385m	+30%	US\$9,630m
Core tier 1 ratio <sup>3</sup>	Generated capital	8.8%		9.9%
Dividends <sup>4</sup>	A leading industry payer	US\$2,769m		US\$2,795m

Notes:

(1) Reported profit before tax ex changes in fair value (FV) of own debt designated at FV due to credit spread

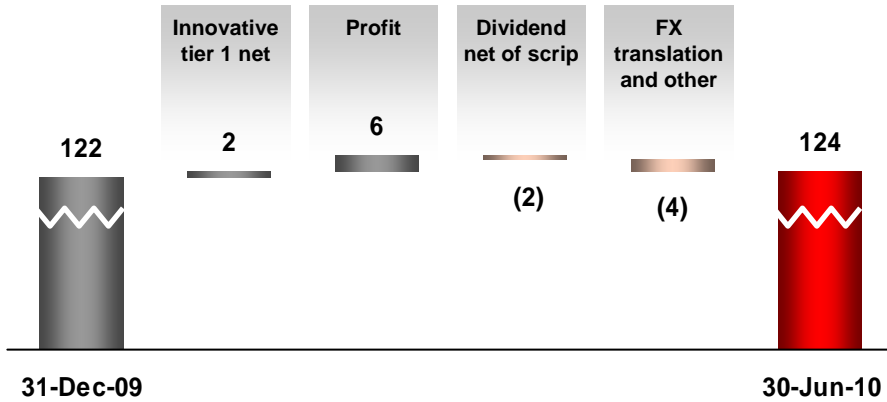
(2) Underlying results eliminate the effects of foreign currency translation differences, acquisitions and disposals of businesses and changes in FV of own debt designated at FV due to credit spread

(3) As at 30 June

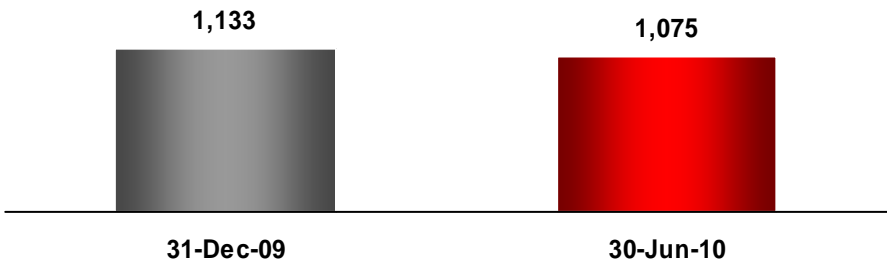
(4) Declared on ordinary shares in respect of 1H09 and 1H10

# Further strengthening the capital base

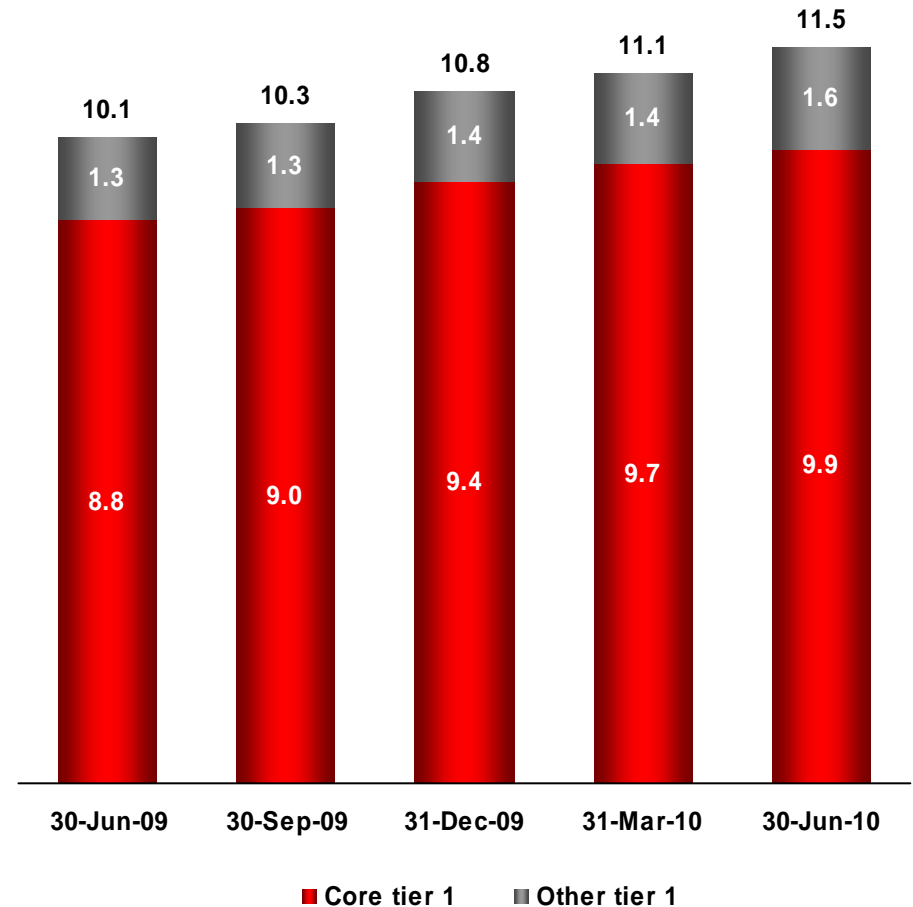
## Movement in tier 1 capital (US\$bn)



## Risk-weighted assets (US\$bn)

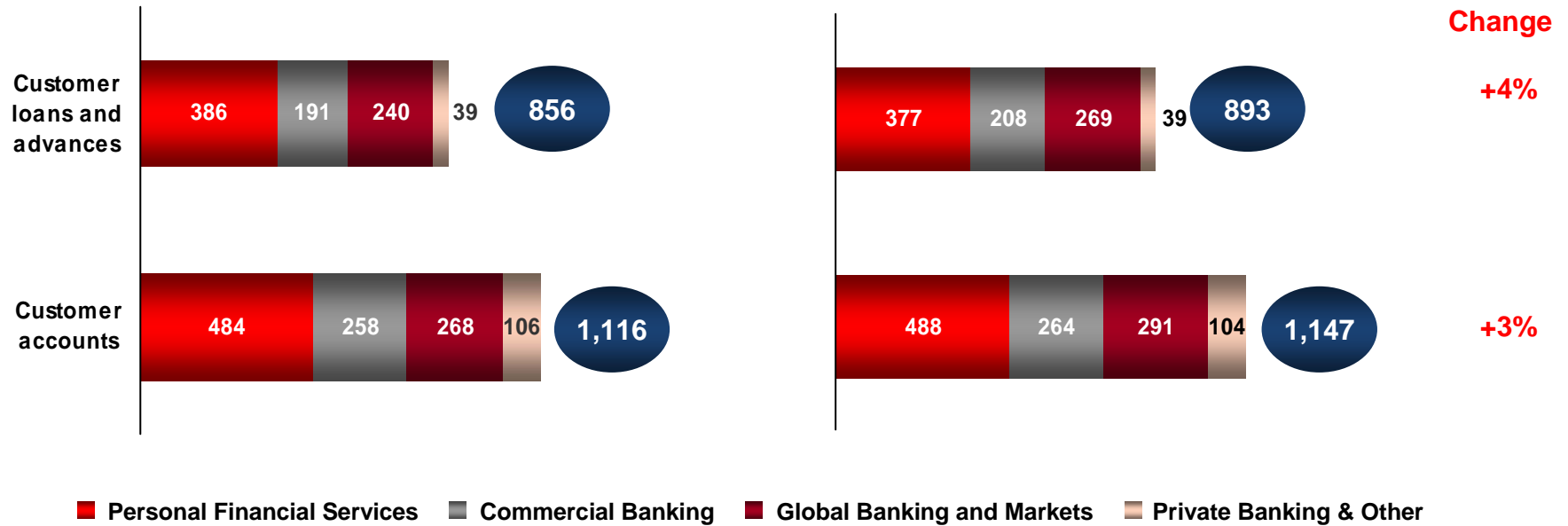


## Tier 1 ratio (%)



# Maintaining our funding strength

▶ (US\$bn) 31 Dec 2009<sup>1</sup> 30 Jun 2010



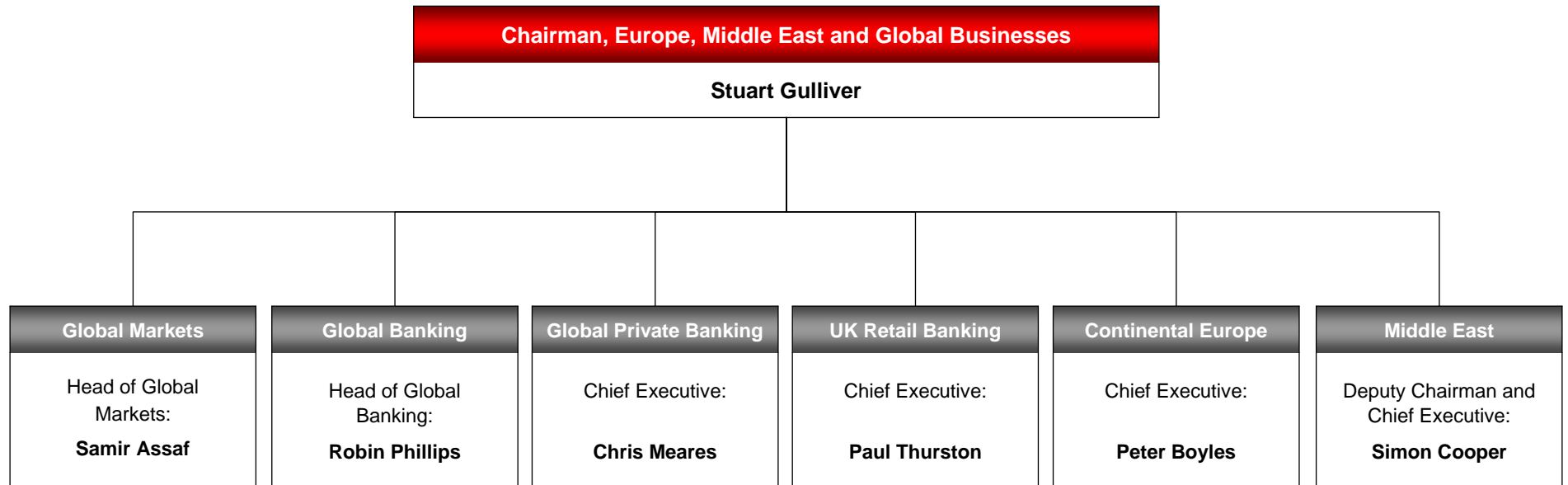
Advances-to-deposits ratio

76.7%

77.9%

Note:  
(1) Underlying basis

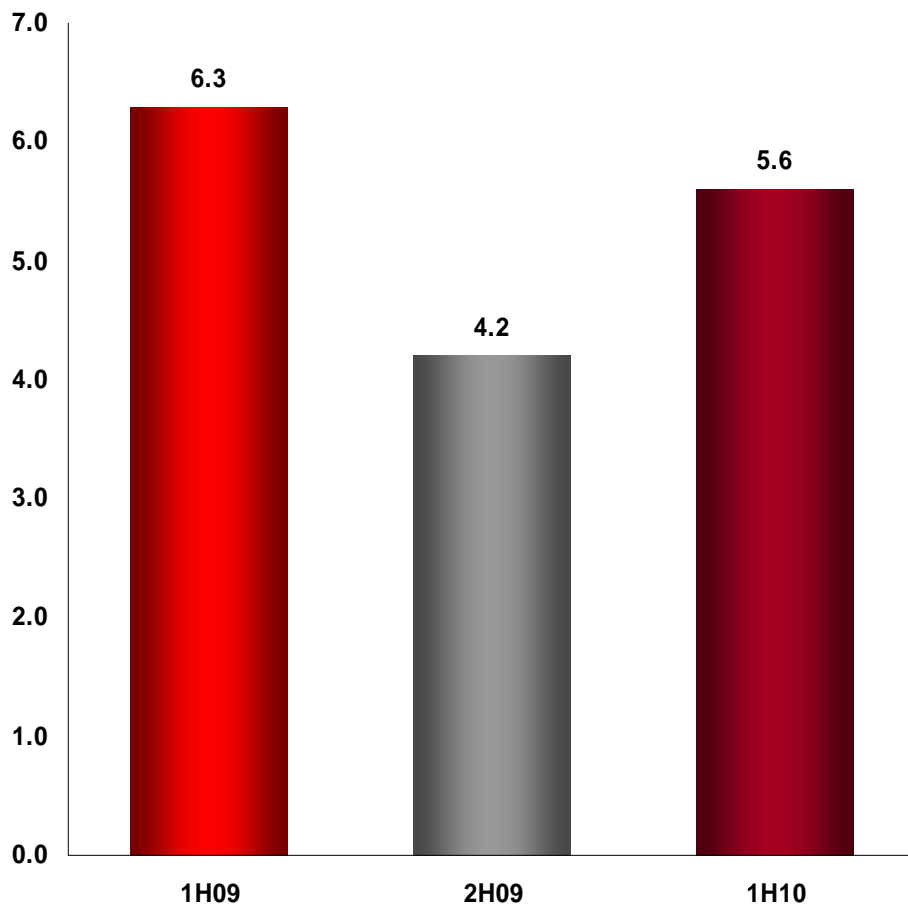
# Europe, Middle East and Global Businesses



# Strong performance in Global Banking and Markets

An integral part of the Group

## Profit before tax (US\$bn)



## Managed view of total operating income (US\$m)

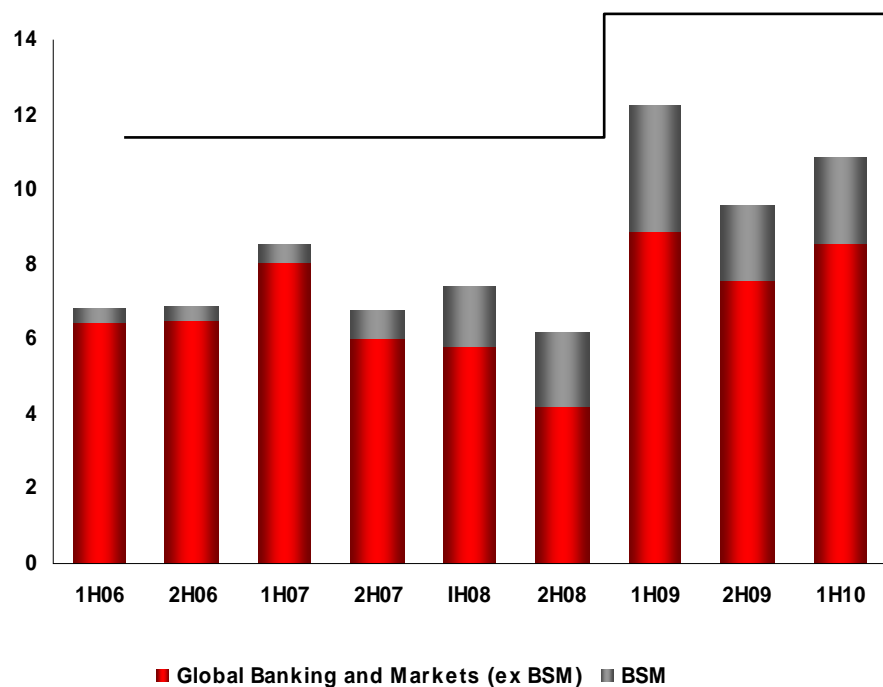
	1H09	2H09	1H10
<b>Global Markets</b>	5,991	4,373	<b>5,542</b>
Credit	1,066	1,264	<b>1,043</b>
Rates	1,964	684	<b>1,529</b>
FX	1,797	1,182	<b>1,513</b>
Equities	315	326	<b>479</b>
Securities Services	712	708	<b>718</b>
Asset & structured finance	137	209	<b>260</b>
<b>Global Banking</b>	2,403	2,227	<b>2,288</b>
Financing & ECM	1,609	1,461	<b>1,420</b>
Payments & Cash Mgmt	535	518	<b>542</b>
Other Transaction Services	259	248	<b>326</b>
<b>BSM</b>	3,350	2,040	<b>2,269</b>
<b>Global Asset Management</b>	414	525	<b>540</b>
<b>Principal Investments</b>	(38)	80	<b>126</b>
<b>Other</b>	146	343	<b>84</b>
<b>Total Operating Income</b>	12,266	9,588	<b>10,849</b>

# Global Banking and Markets half yearly trend

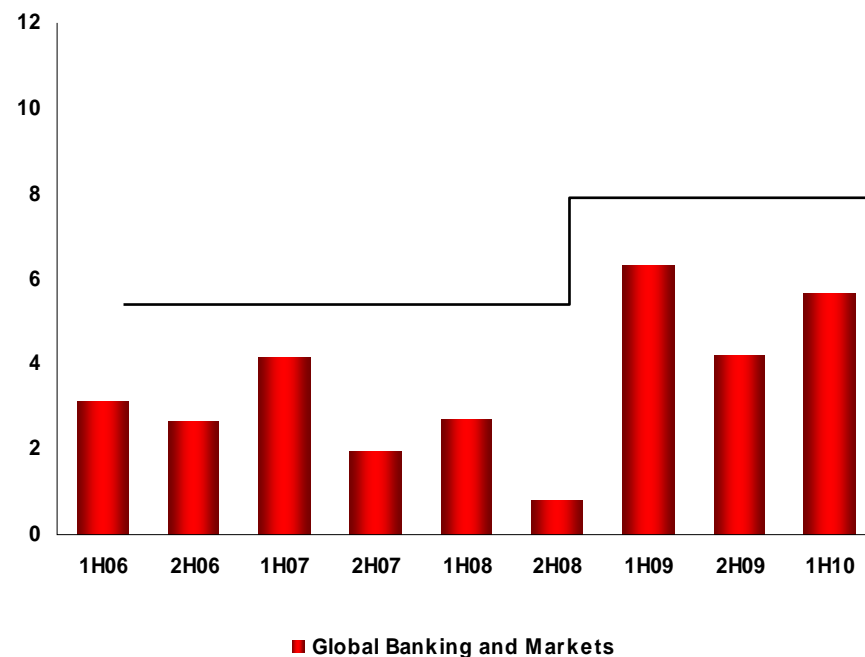
Established a new operating level

- ▶ Sustainable income streams
- ▶ Investment in key areas: Prime Services, FX and Equities

▶ Operating income (US\$bn)



▶ Profit before tax (US\$bn)





# Investment to support the platform

## FX and Fixed Income

### FX

- ▶ Global integration of FX, Metals and Energy
- ▶ Increasing market share through Prime Services, product range and research delivery
- ▶ Expanding cross-border EM advisory and execution
- ▶ Enhancing distribution capabilities



#### FX Week Best Bank Awards 2009

Best Bank for:

- FX Corporate
- Emerging Asian currencies
- Emerging EMEA currencies
- Emerging Latin America currencies
- FX in Asia Pacific

### Rates

- ▶ Strengthening primary business by supporting new issues providing liquidity in secondary markets
- ▶ Growth in market share through increased client coverage and cross selling
- ▶ Develop deeper relationships with real money accounts
- ▶ Broader product range and currencies
- ▶ Improved risk management and pricing through global platform, diversified products and positions

### Credit

- ▶ Strong primary business and sales and distribution platform
- ▶ Consistent provider of liquidity, particularly in emerging markets
- ▶ Improved execution through e-Trading
- ▶ Enhanced investment solutions



#### Euroweek Bond Market Awards 2010

- Corporate Bond Awards
  - Best bank team in Sterling
  - Best bank team in Euros
  - Best corporate banker-Mark Kitchen
- MTN Awards
  - Best Overall Dealer
- SSA Bond Awards
  - Most Impressive SSA Sterling House

# Investment to support the platform

## Prime Services, Securities Services and Payments and Cash Management

### Prime Services

- ▶ Integrated proposition for hedge funds and institutional asset managers:
  - ▶ Safe custody and clearing/asset servicing
  - ▶ Flexible financing solutions and equity financing/securities lending
  - ▶ Cross asset class margining and dedicated client service and consolidated reporting
- ▶ Multi-asset approach will allow us to support strategies across Equity, Futures and Options, FX and Fixed Income
- ▶ Our initial offering is aimed at supporting Equity Long and Equity Long/Short strategies

### Securities Services

- ▶ Co-Heads appointed in March 2010 to more effectively bring together HSS and Global Markets capabilities for key clients
- ▶ Brings together Securities Services and Global Markets
- ▶ Reports to Global Markets to ensure an “End to End Securities Services Solution”
- ▶ Significant investment in One HSBC to develop a common platform to service Global Transaction Banking, Global Markets and Global Asset Management

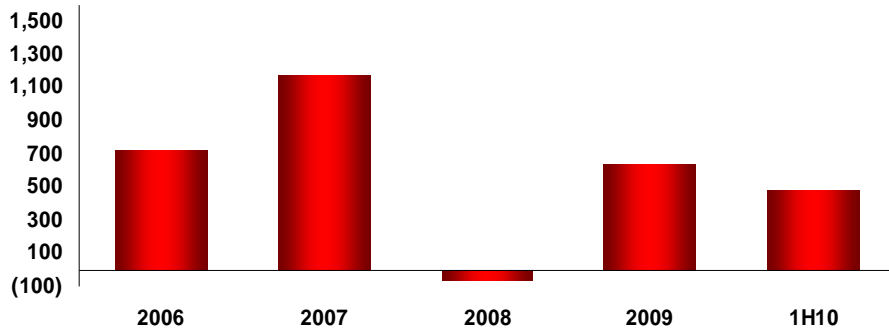
### Payments and Cash Management

- ▶ Continued investment in key regions
- ▶ Development of core client strategic propositions:
  - ▶ Corporates
    - ▶ Working Capital solutions for large corporates and payments and collections solutions for MME/SME
  - ▶ Institutions
    - ▶ Bundled multi-currency payments and clearing capabilities, and sophisticated client management solutions

# Investment to support the platform

## Equities

### ▶ Equities operating income (US\$m)<sup>1</sup>



### Results and awards:

#### European Extel Survey - 2010

Numerous 1st and Top 3 ratings in European Sales & Research, Top 8 Pan European Broker

#### Finance Asia - 2010

Best Equity House in Hong Kong

#### Börse Online on securitized products – 2010

Issuer of the Year

#### Securities Lending Industry - 2010

Best Global Market Knowledge Awards for Borrowers

#### Equity Finance Survey from ISF Magazine – 2009

8<sup>th</sup> overall, 6<sup>th</sup> in Asia and 11<sup>th</sup> in America

### ▶ Investment strategy

#### Geographies:

#### Top 5

Mainland China, Hong Kong, India, Middle East, Brazil and Mexico

#### Top 10

UK, France, Germany, Singapore, Korea, Taiwan and South Africa

#### ▶ Products

- ▶ Prime Services
- ▶ Launch of HSBC ETFs
- ▶ Expansion of existing core product range

#### ▶ People

- ▶ New hires in 2010 across Equities & Prime Services

#### ▶ Process

- ▶ Improved execution and STP

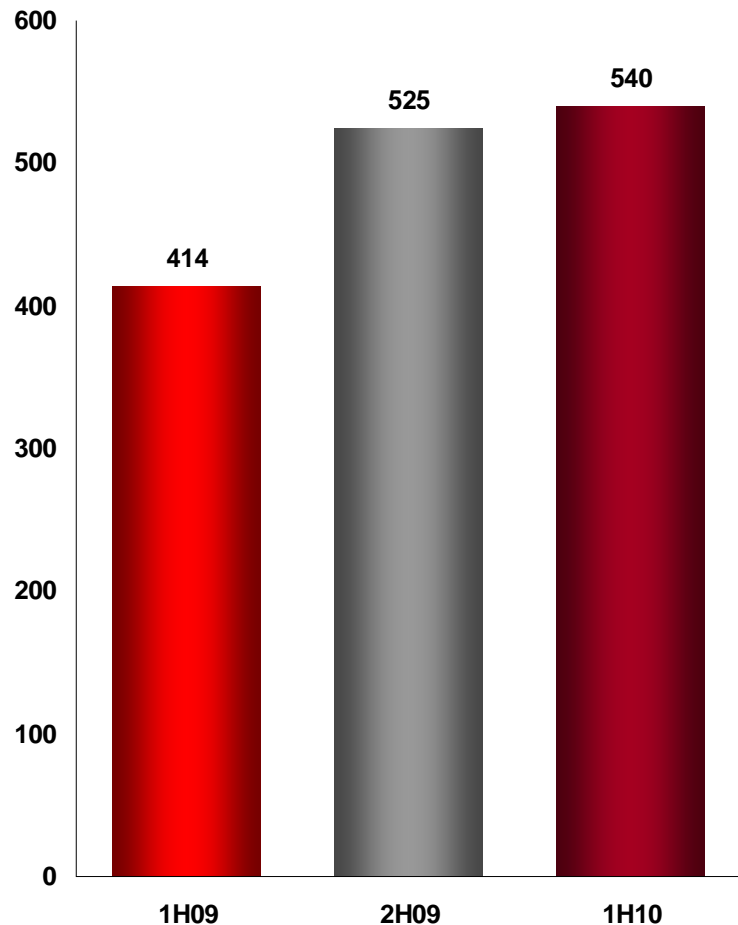
#### ▶ Progress made

- ▶ Market share gains across most strategic markets and sectors
- ▶ Commissions growth significantly outpaces wallet growth
- ▶ Global research capabilities developed to support the Group's strategic sector priorities

# Global Asset Management

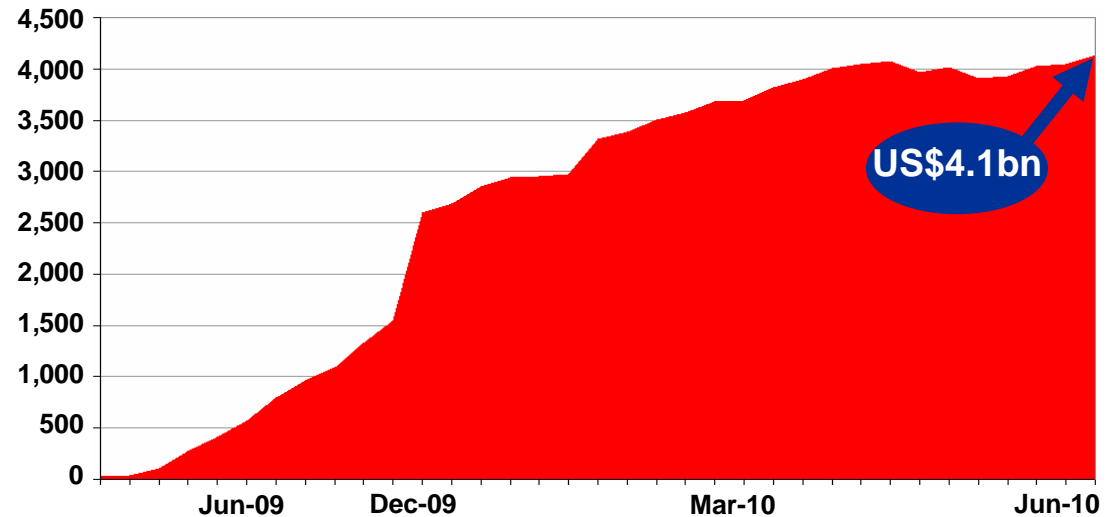
Building a world class Emerging Markets business

▶ Total operating income (US\$m)



- ▶ Launched single brand – HSBC Global Asset Management
- ▶ Continued success with Personal Financial Services on World Selection

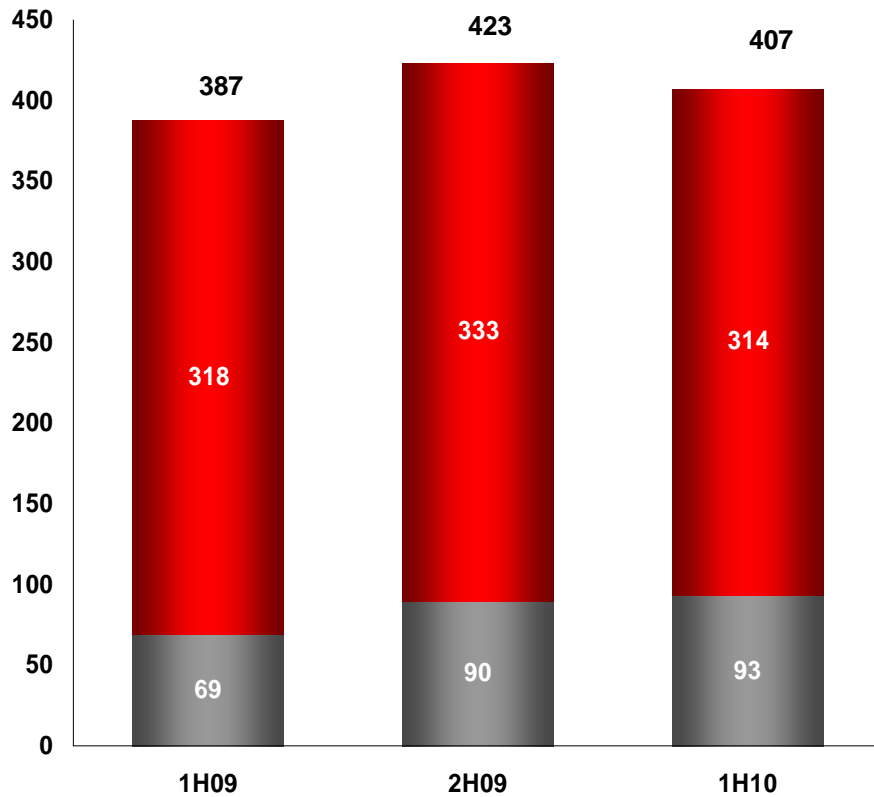
▶ World selection AUM (US\$m)



# Global Asset Management

Building a world class Emerging Markets business

## ▶ Funds under management (US\$bn)



■ Emerging Markets FUM ■ Developed Markets FUM

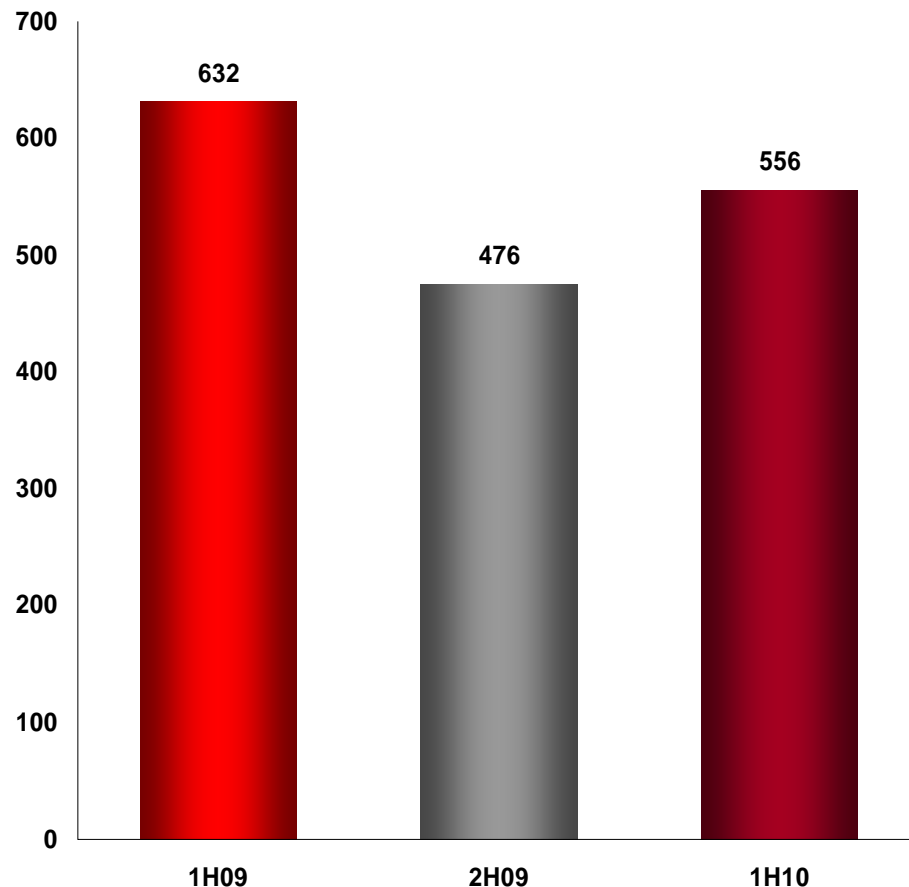
## ▶ Drivers of growth

- ▶ Build a world class Emerging Markets asset management business
- ▶ Enhance business strengths in Developed Markets
- ▶ Growth in Institutional Sales and External Wholesale Distribution Capabilities
- ▶ Asset Management remains a key component of the Group's Wealth Management Strategy

# Global Private Banking

International business focused on growth markets

## ▶ Profit before tax (US\$m)



- ▶ Cross-business referrals continued to result in good inflows – over US\$2bn raised in 1H10
- ▶ Launched Family Office initiative with Global Banking and Markets
- ▶ Around 100 Front Office hires made in Emerging Markets in 2010
- ▶ Plan to hire a further 150 Emerging Market focused staff per year to 2013

HSBC Private Bank

- ▶ *Best Wealth Manager for Alternative Investments*

Source: Interim Report, 2010

HSBC Private Bank

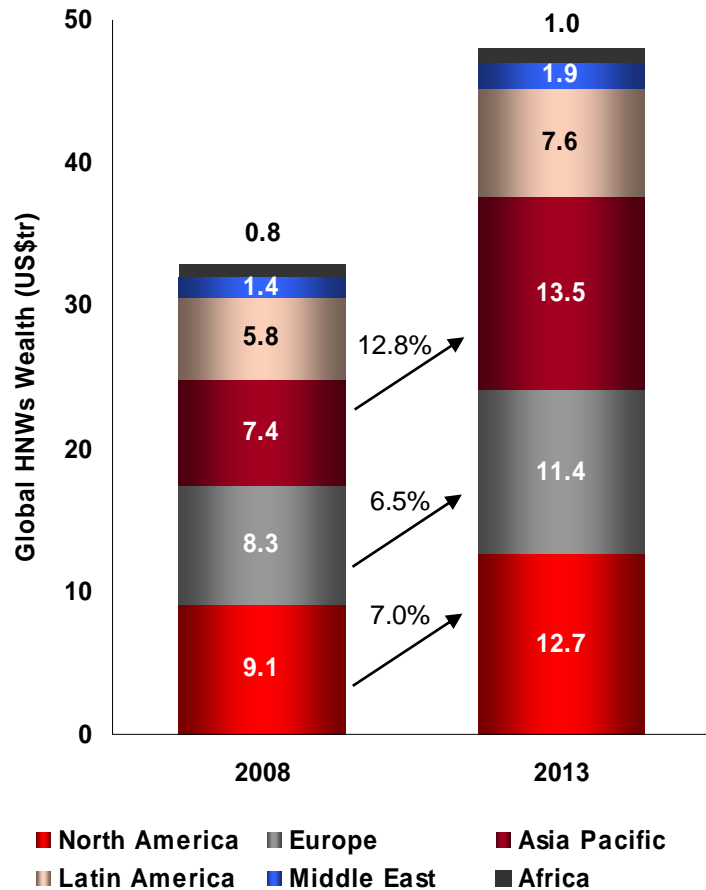
- ▶ *Best Global Wealth Manager*

Source: Euromoney Awards for Excellence 2010

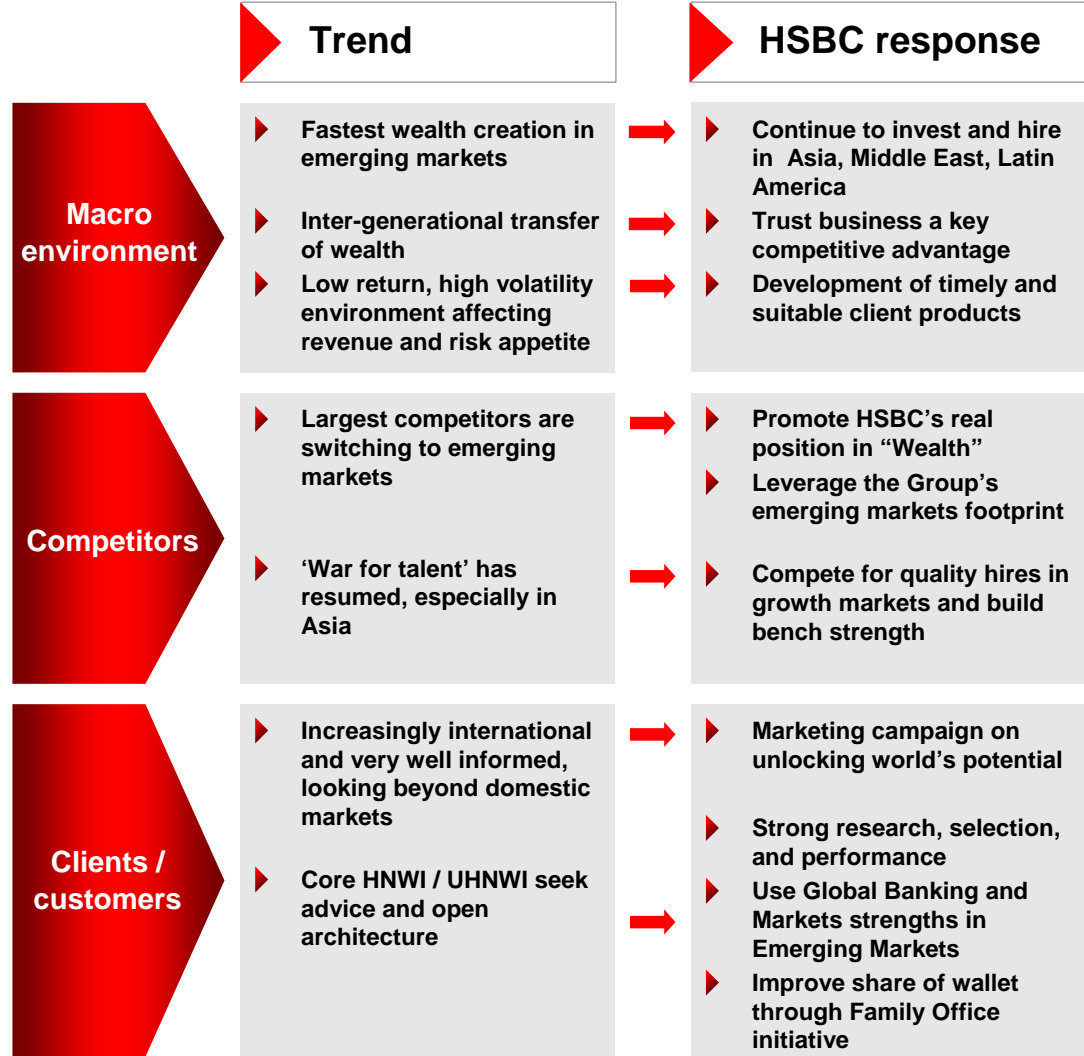
# Global Private Banking

International business focused on growth markets

## ▶ HNWI wealth – Growth by region<sup>1</sup>



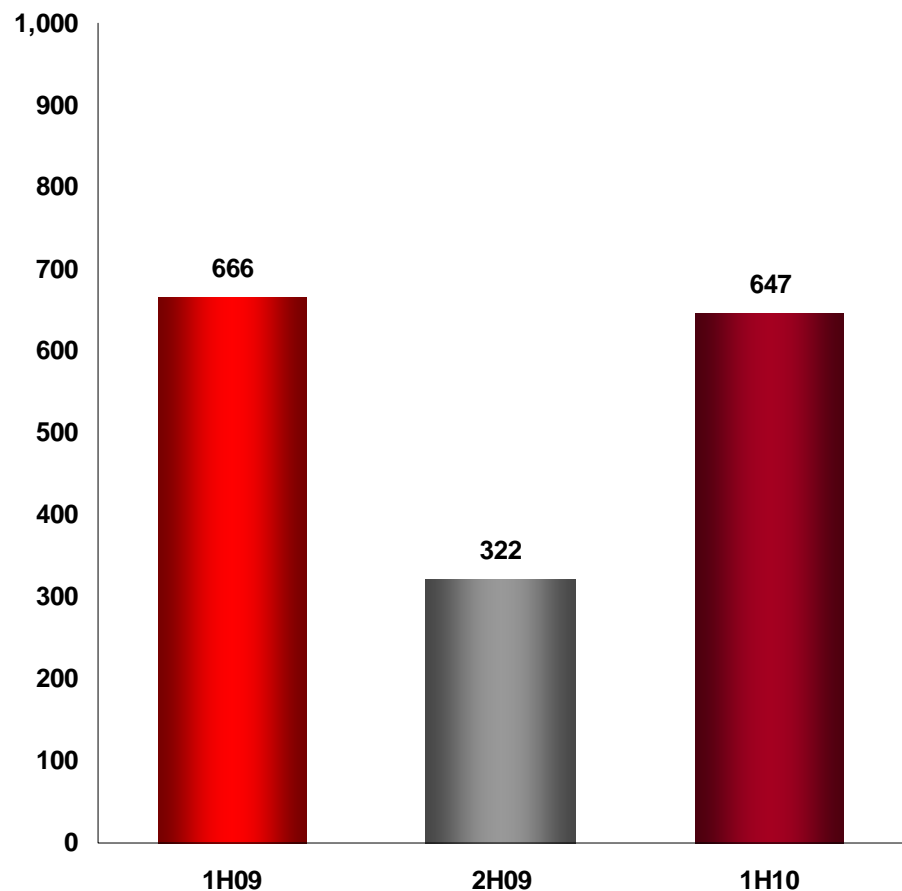
Note:  
 (1) Cap Gemini Merrill Lynch World Wealth Report 2009 cagr



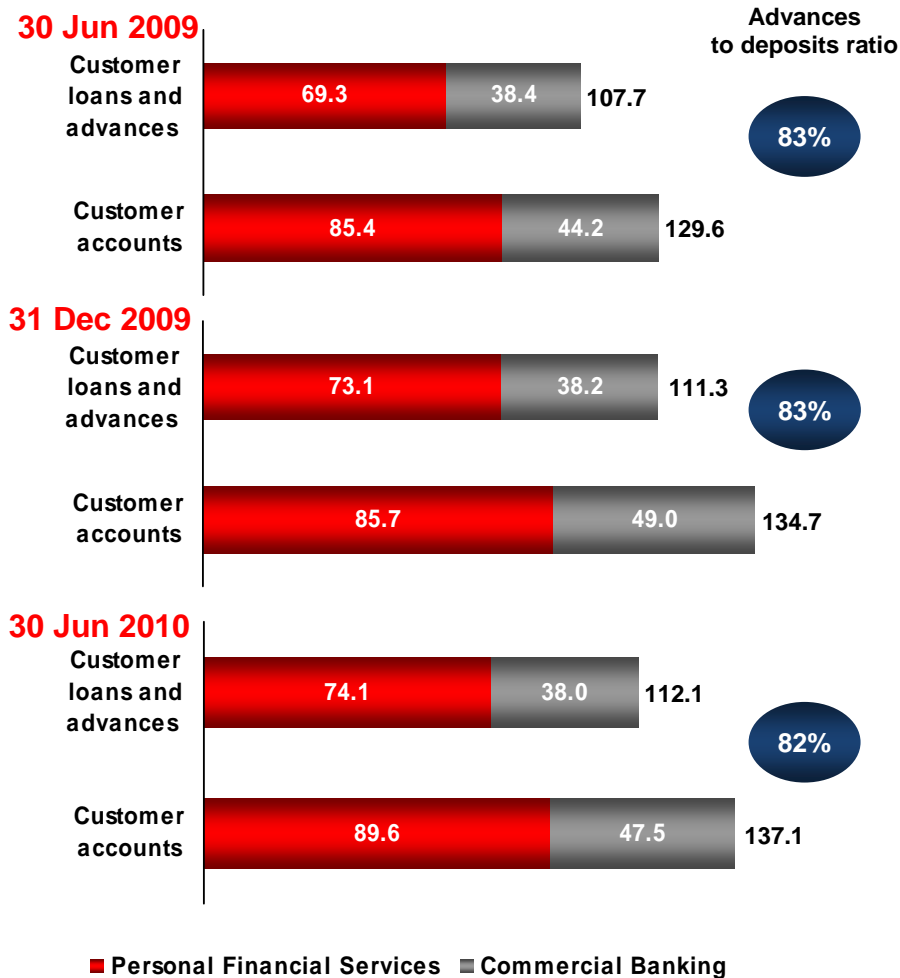
# UK Retail Banking

Well positioned for the recovery

## Profit before tax (£m)



## Funding strength (£bn)

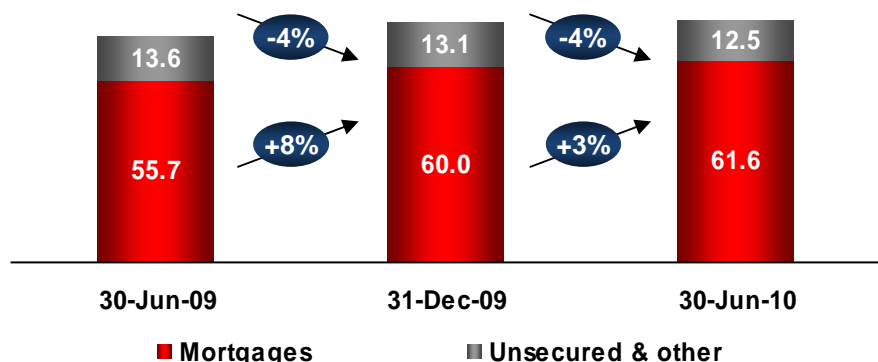




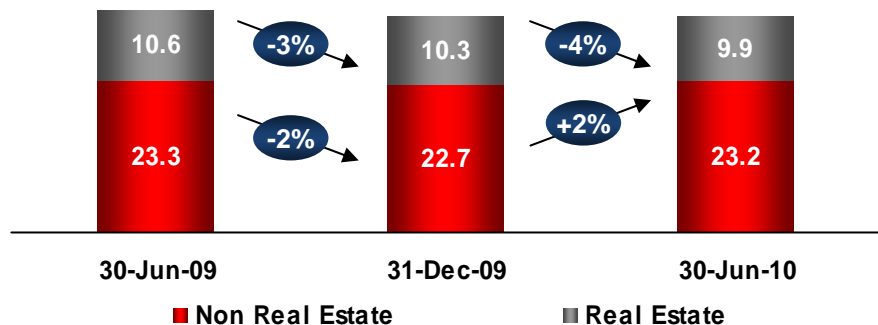
# UK Retail Banking – loan portfolio quality

Well positioned for the recovery

## PFS loans and advances (£bn)



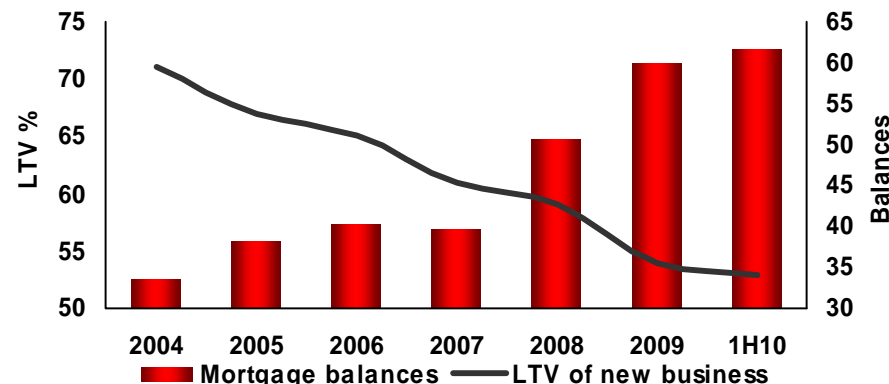
## CMB loans and advances (£bn)<sup>1</sup>



Note:

(1) Figures quoted net of items grossed up for statutory accounts purposes amounting to £4.6bn at 30 June 2009, £5.2bn at 31 December 2009 and £4.9bn at 30 June 2010

## LTV of new business and balance trends

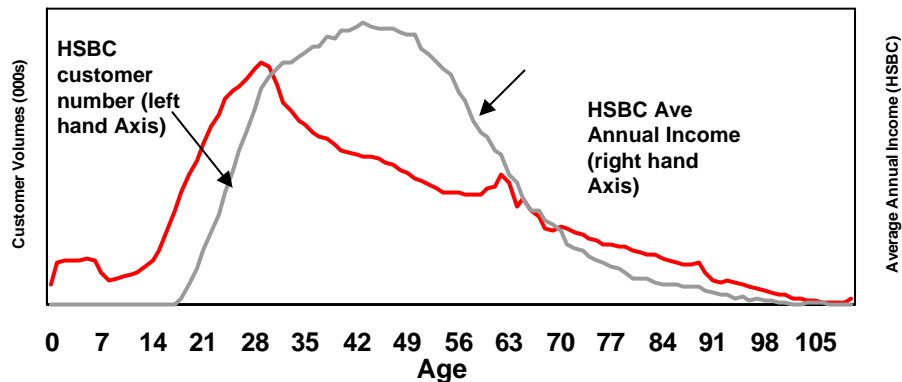


- ▶ Share of gross mortgage lending has doubled from that experienced between 2004-2007 to 8-10% in 2009 and 2010. Our increase in net mortgage lending in the first half of 2010 was £1.6bn vs the BoE's total market of £2.0bn – this has been achieved without servicing the intermediary broker market
- ▶ Demand for business lending has remained muted – customers managing working capital levels and discretionary spend
- ▶ Action has been taken to better reflect risk in lending pricing offsetting in part deposit spread compression
- ▶ Impairments decreased 25% year on year from £819m to £616m in 1H10

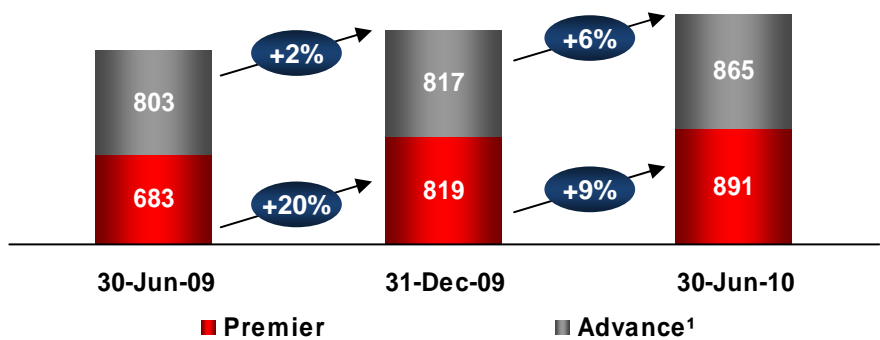
# UK Retail Banking – personal customer profile

High quality, young, affluent personal customer base

## PFS customer age profile



## Number of premium customers '000s



- ▶ On average, HSBC current account customers earn 10% more than current account holders at other banks with a high street presence<sup>2</sup>
- ▶ 60% of HSBC current account holders are A, B or C1 social grades, compared to 51% of current account holders at other banks with a high street presence<sup>2</sup>
- ▶ HSBC is consistently the most recommended high street bank amongst mass affluent customers earning over £30k per year and have been so since June 2009<sup>3</sup>
- ▶ As HSBC customers get older their spend on financial services is likely to increase, particularly on insurance, investments and pensions
- ▶ Our wealth-led strategy is focused on ensuring we meet the needs of the maturing customer base
- ▶ Mutual Funds increased 8% year-on-year driven by success of World Selection
- ▶ The age profile of HSBC customers is complemented by the M&S and firstdirect brands – source of sustainable income growth

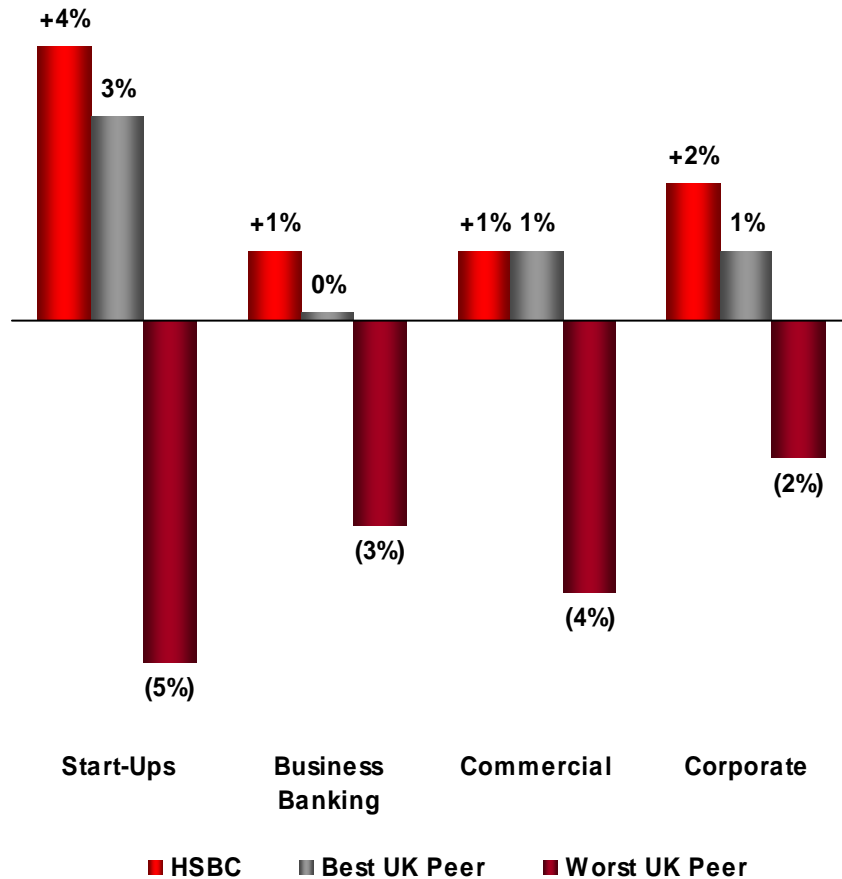
Notes:

(1) Represents existing Plus customers who are being migrated to Advance  
 (2) Source: © GfK NOP Financial Research Survey (FRS) 12 months ending July 2010, 59,000 adults interviewed (Banks with high street presence includes: Abbey, A&L, BoS, Barclays, Clydesdale, Co-op, Halifax, Lloyds, Nationwide, NatWest, RBS, Santander, Yorkshire Bank)  
 (3) Source: Millard Brown Brand Tracking Survey

# UK Retail Banking – international business

Unrivalled global footprint

## International market share vs footprint<sup>1</sup>



- ▶ Market share of international business is above domestic footprint in all segments
- ▶ Market leader amongst international starts (21%)
- ▶ Export trade finance grew by 46% in a declining market – core expertise from which to leverage future international business wins<sup>2</sup>
- ▶ Global Relationship Managers and International Commercial Managers focus specifically on the needs of international businesses
- ▶ In the first half of the year revenue from international products increased 12% year-on-year
- ▶ HSBC undertook its first UK cross-border RMB trade settlement transaction for a UK customer in June 2010 – it is anticipated that within 5 years RMB will become one of the top three currencies used in global trade
- ▶ HSBC was awarded Best Trade Finance Provider in UK by Global Finance in January 2010
- ▶ Market leading performance in payments – we are the UK's number 1 bank for BACS (32%) and Faster Payments (26% ex standing orders) and have a 21% share of CHAPS

Notes:

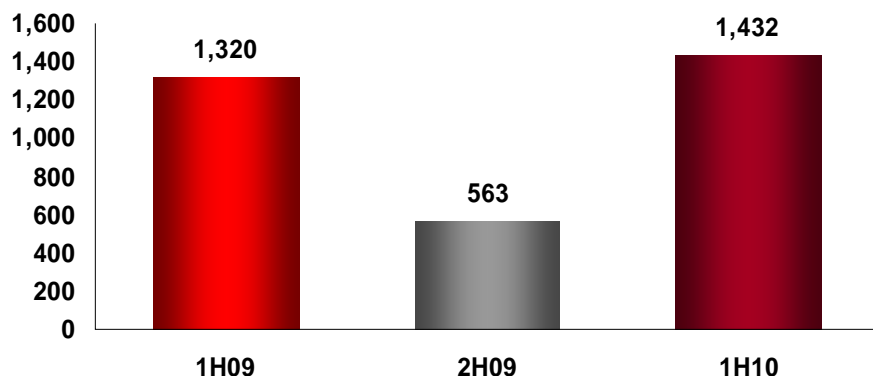
(1) Research undertaken by BDRG Continental Research for the year ended Q1 2010. Competitor peer group: Barclays, NatWest, RBS, Santander and LTSB

(2) Year on year growth in trade export average asset balances

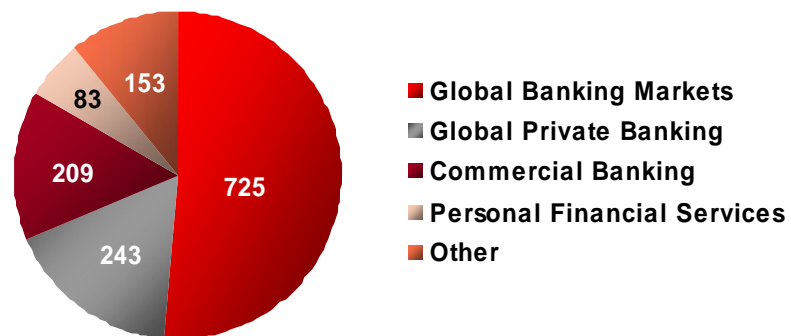
# Continental Europe

Strengthened focus to leverage Group connectivity

## ▶ Profit before tax (US\$m)



## ▶ Profit before tax by Customer Group (US\$m)



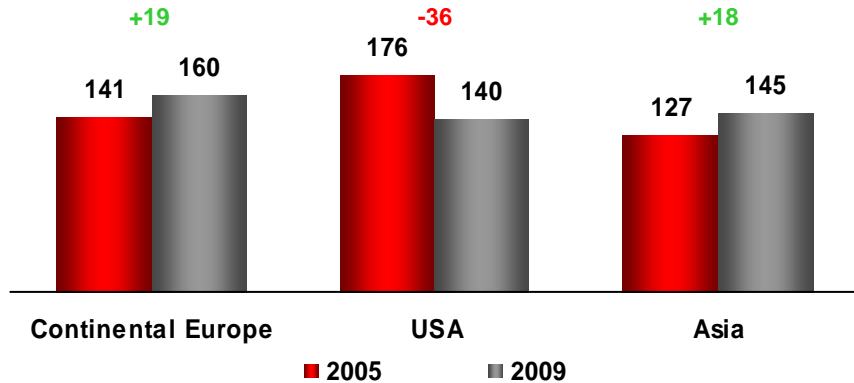
- ▶ Establishment of new management team
- ▶ Global Banking and Markets dominant contributor
- ▶ Global Private Banking based in Switzerland
- ▶ Commercial Banking continued focus on clients with international business relationships
- ▶ Personal Financial Services rolled out new personal sector proposition

# Continental Europe

Strengthened focus to leverage Group connectivity

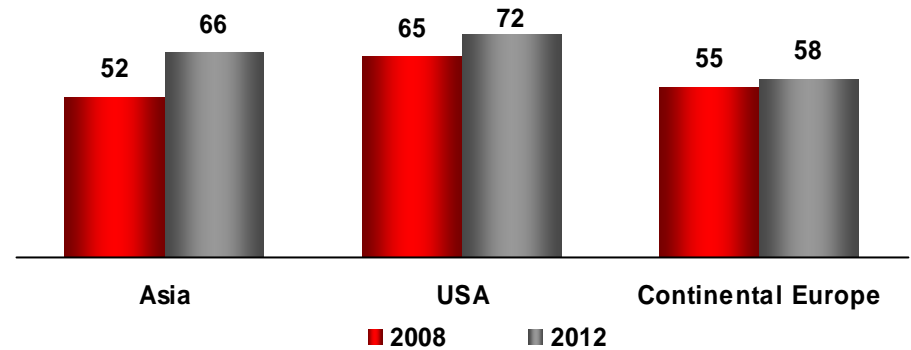
▶ Home to large corporates<sup>1</sup>

First region in terms of companies in Fortune 500



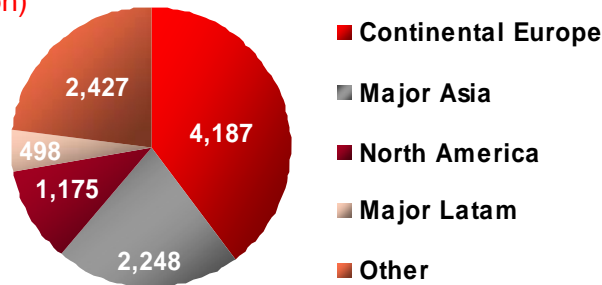
▶ High concentration of mass affluent individuals likely to increase due to ageing population<sup>2</sup>

Affluent population (in m inhabitants)



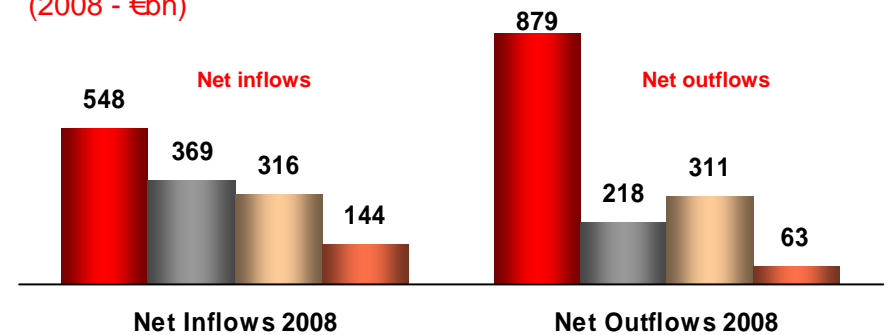
▶ Captures 40% of world exports<sup>1</sup>

(2008 - €bn)



▶ Significant share of global FDI flows<sup>1</sup>

(2008 - €bn)



Continental Europe: excl UK, incl Israel, Turkey, Kazakhstan

Source:

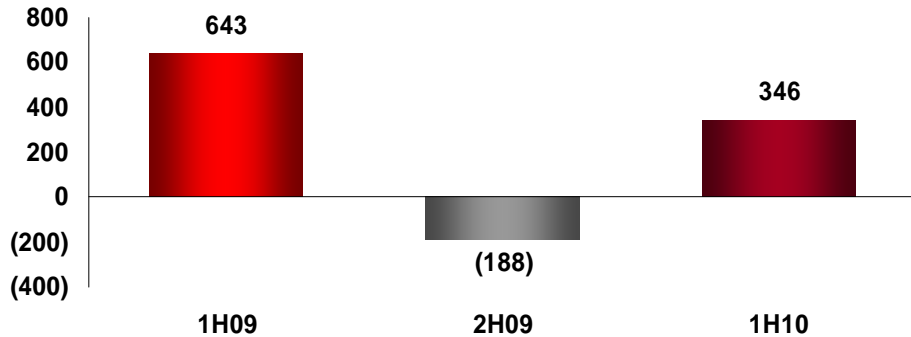
(1) UNCAT World Investment Report 2009, : CNN Money; Asia includes Australia

(2) Euromonitor; Datamonitor, OECD

■ Continental Europe ■ Asia & Oceania ■ USA ■ Latam & Caribbean

# Middle East – long standing presence evolving into more balanced business

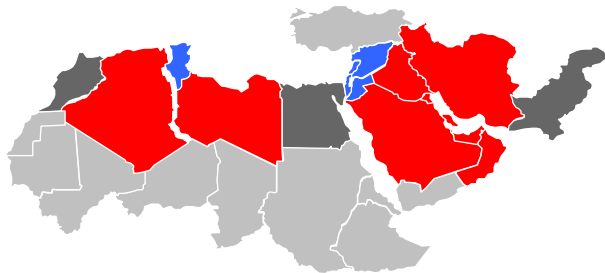
## ▶ Profit before tax (US\$m)



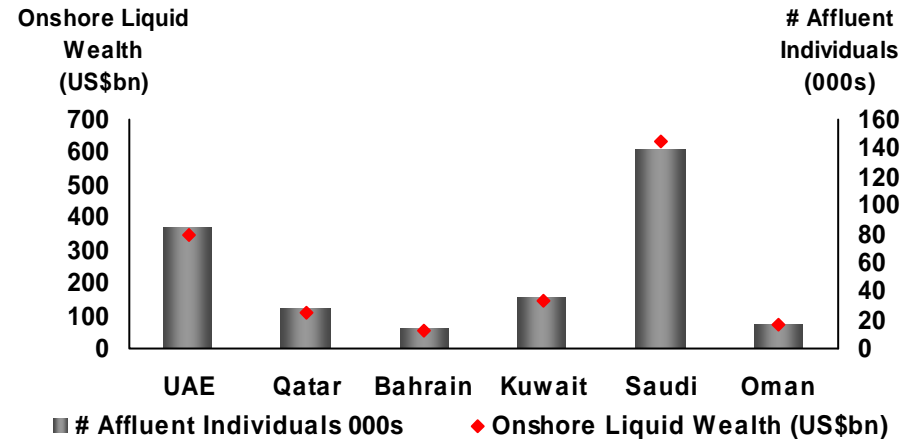
- ▶ Focus on high quality personal customers
  - ▶ 21% growth in Premier clients
  - ▶ Introduction of Advance
- ▶ Commercial banking impacted by economic activity
- ▶ Corporate customers reduced funding requirements

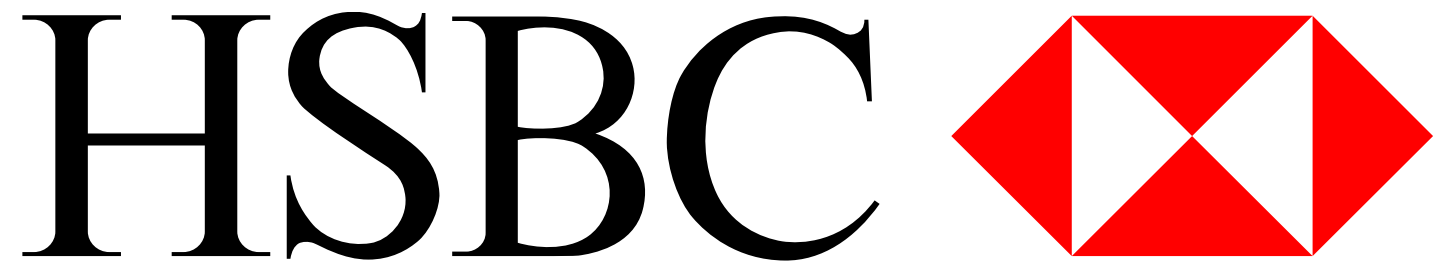
## ▶ Opportunity 1: Long term economic potential; opportunities for global and retail businesses

- 1. Capital Recycling
- 2. Scaleable Demographics
- 3. Emerging Connectivity



## ▶ Opportunity 2: Wealth restructuring gives opportunities for Personal Financial Services premium proposal





The world's local bank