



# HSBC UK Retail Banking 2010 Annual Results

28 MARCH 2011

# Forward-looking statements

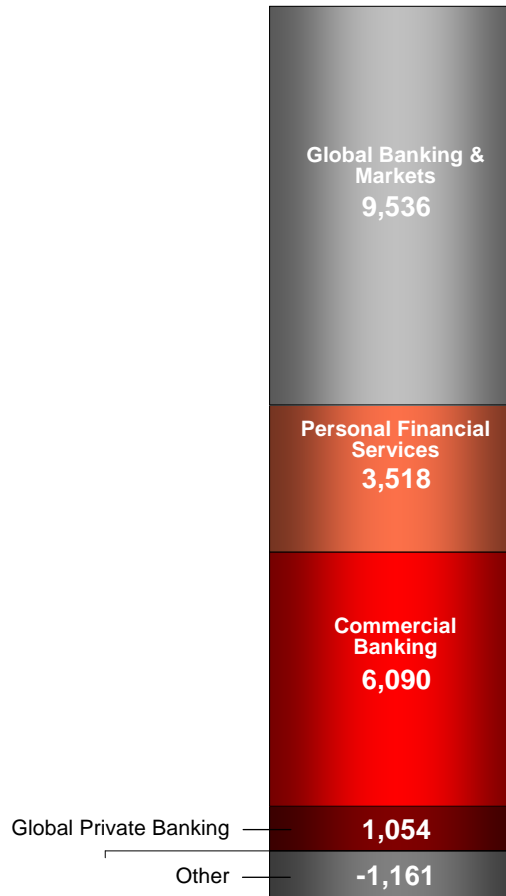
**This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC Bank plc (“the Bank”). These forward-looking statements represent the Bank’s expectations or beliefs concerning future events 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. Past performance cannot be relied on as a guide to future performance.**

# HSBC in the UK

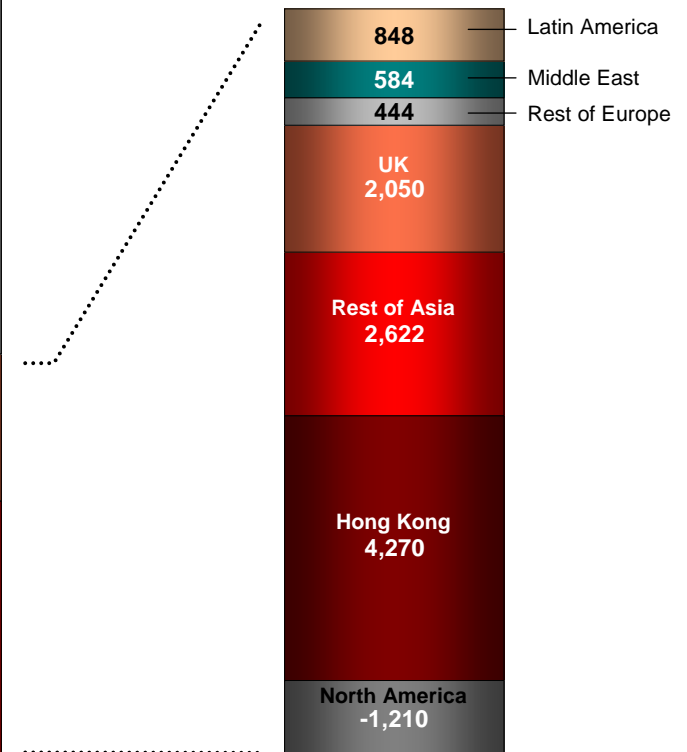
UK Retail is an important cornerstone of the Group's emerging market-led strategy

- HSBC UK Retail Banking is a significant contributor to overall Group profit – one part of a much broader and larger global business and key to global connectivity
- Emerging markets growth will outpace that of developed markets – but inter-regional and global connectivity is crucial to our customers
- In Retail Banking local scale matters – the UK is one of 22 markets where HSBC is or plans to be in the Top 5 market positions
- Trade will be one of the main drivers of economic growth – we will leverage our global franchise to be the best bank for international customers
- In Wealth management the most attractive investment opportunities will come from emerging markets – we aim to be the best provider of emerging markets investment opportunities

**HSBC Group PBT by line of business, \$m**



**HSBC Group Retail Banking<sup>1</sup> PBT by geography, \$m**



<sup>1</sup> 'Retail Banking' defined as Personal Financial Services and Commercial Banking lines of business. The UK component of 'HSBC Group Retail Banking' includes PBT of \$25m not managed by HSBC Bank plc (including exchange differences, consolidation adjustments and UK businesses not owned by HSBC Bank plc). These items are therefore excluded from the remainder of this presentation. Figures quoted are for the year ended 31 December 2010.

# UK Retail Banking financial overview

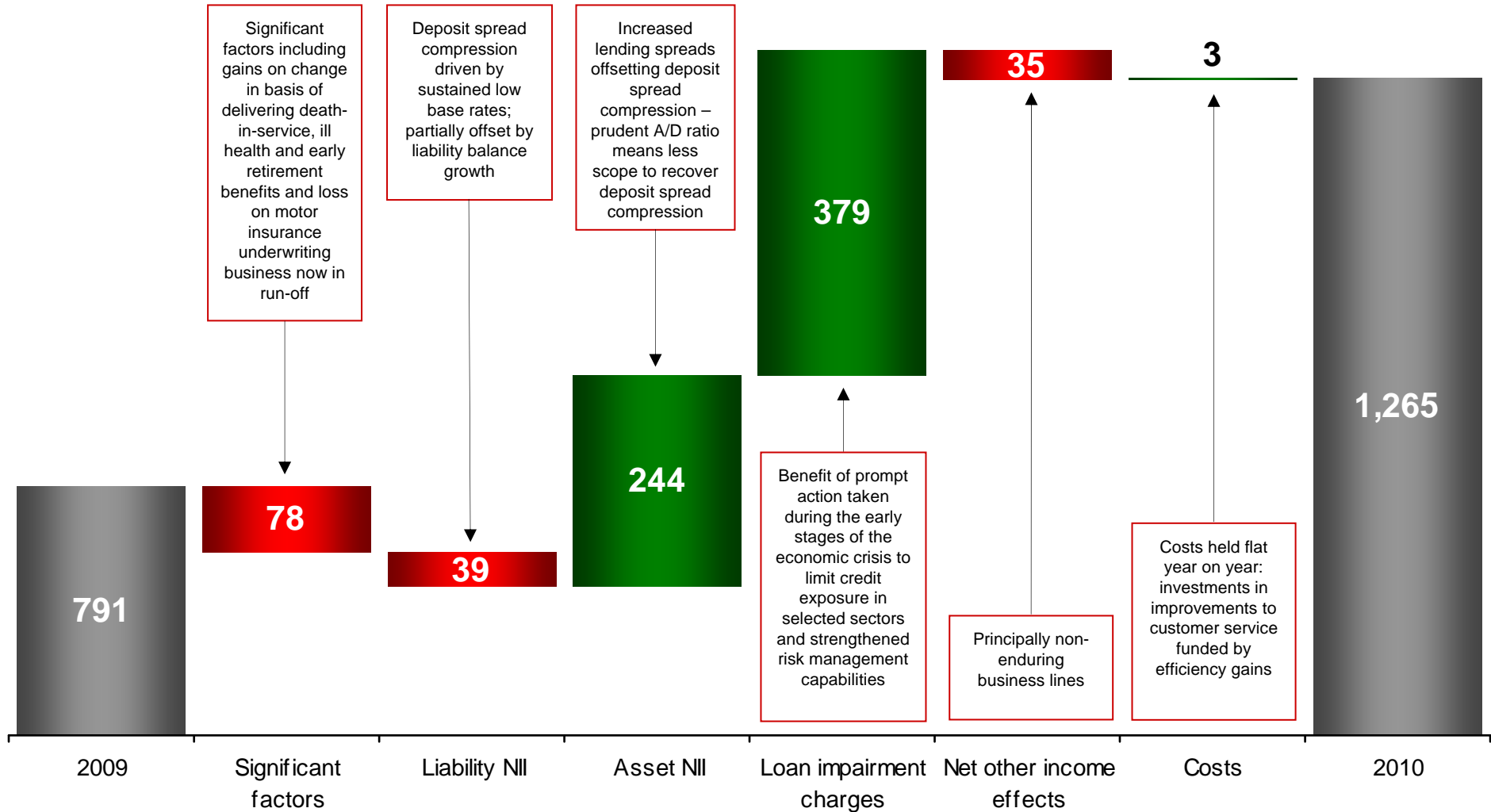
Summary of reported results and underlying profit before tax

<b>£m</b>	<b>2009</b>	<b>2010</b>	<b><i>Better/ (worse)</i> <i>2010 v 2009</i></b>
Net operating income before loan impairment charges and other credit provisions	5,543	5,652	+2%
Loan impairment charges and other credit provisions	(1,600)	(1,221)	+24%
<b>Net operating income</b>	<b>3,943</b>	<b>4,431</b>	<b>+12%</b>
Operating expenses	(2,968)	(3,121)	(5%)
Associates and joint ventures	13	3	(77%)
<b>Profit before tax - reported</b>	<b>988</b>	<b>1,313</b>	<b>+33%</b>
Underlying adjustments <sup>1</sup>	(197)	(48)	-
<b>Profit before tax – underlying</b>	<b>791</b>	<b>1,265</b>	<b>+60%</b>

<sup>1</sup> Underlying adjustments include gains on the disposal of the UK card acquiring business in 2009 (£180m) and UK Retail Banking's share of discontinued insurance broking business.

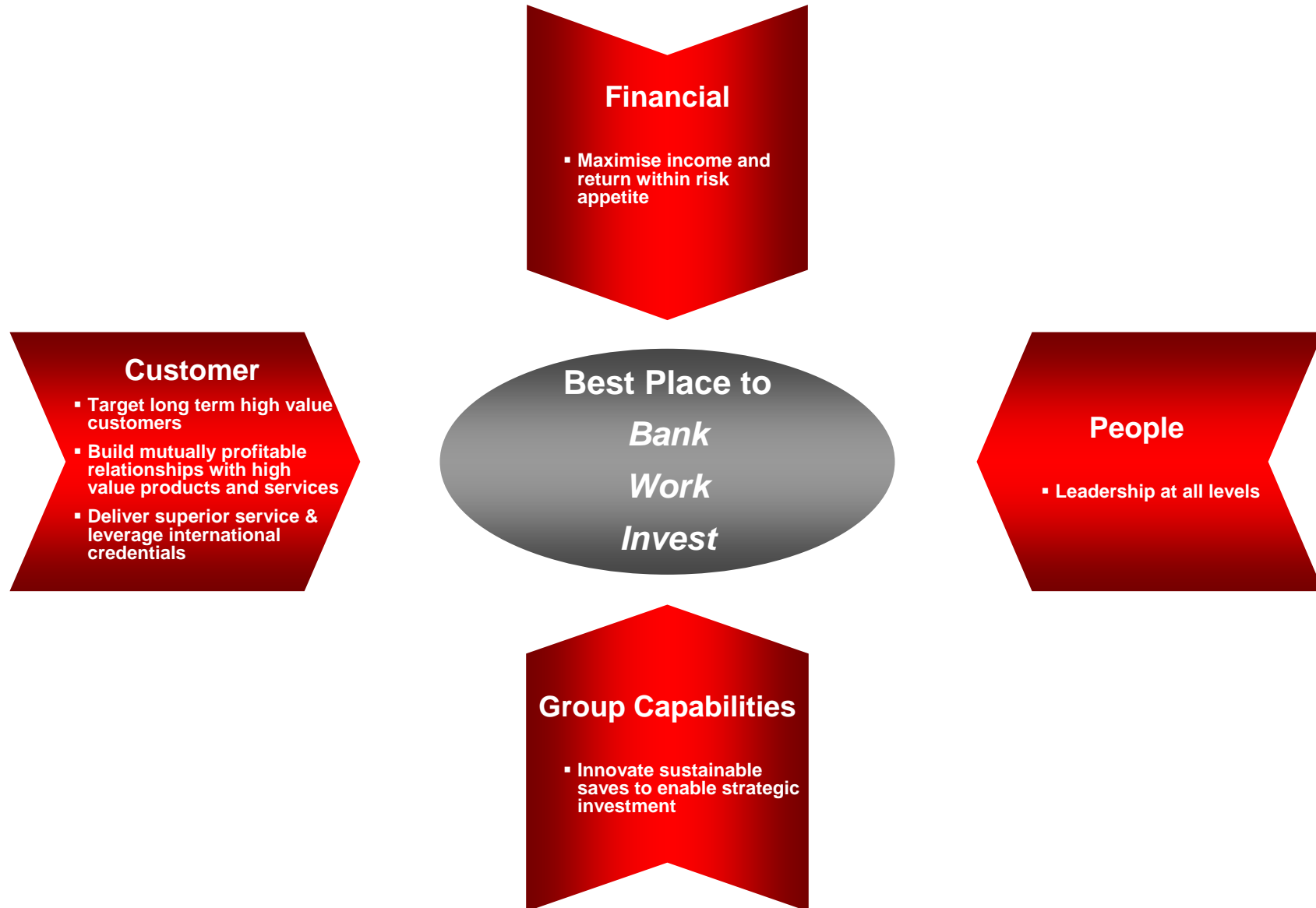
# UK Retail Banking financial overview

Key movements in underlying profit before tax £m



# UK Retail Banking

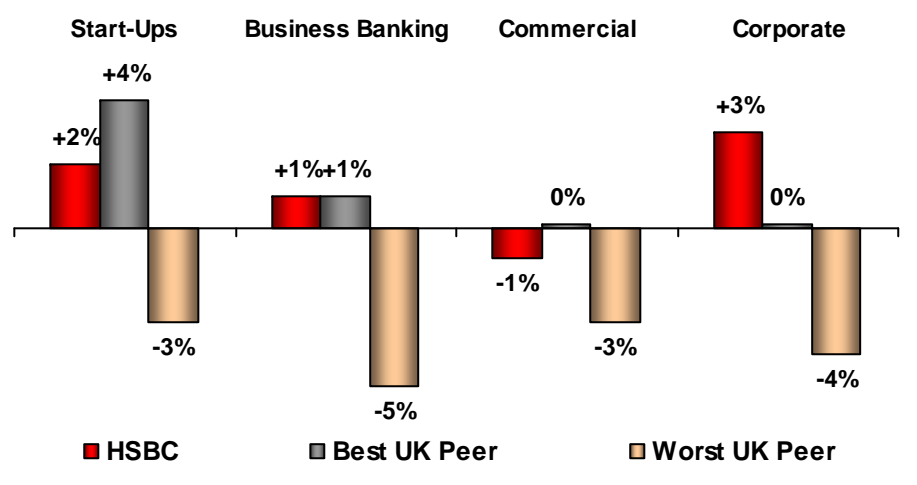
Leveraging the Group strategy for sustainable success



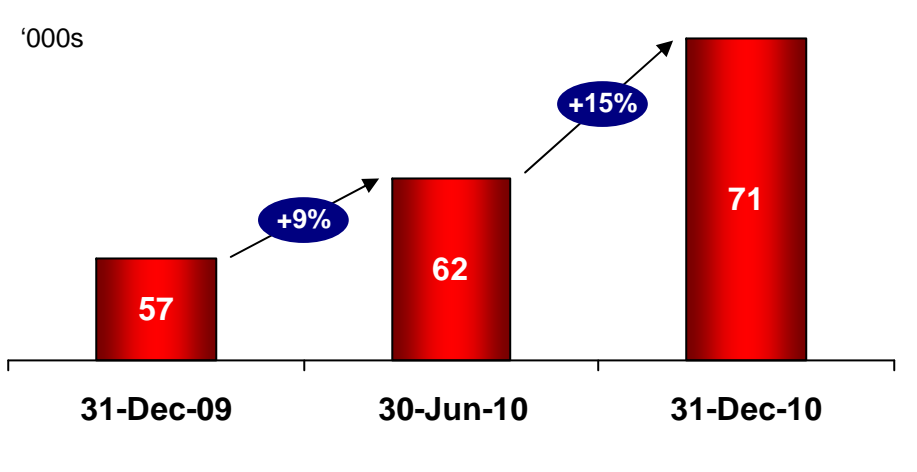
# Our customers are internationally connected

CMB customers value our unrivalled global footprint

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



## Number of international customers<sup>2</sup>



- Market share of international business is above domestic footprint in three segments and best for Business Banking and Corporate – however, significant opportunity remains
- Global Relationship Managers and International Commercial Managers focus specifically on the needs of international businesses
- Market leading brand amongst international starts with 20% share
- Export trade finance grew by 43%<sup>3</sup> in a declining market – core expertise from which to leverage future international business wins
- Revenue from international products increased 14% year-on-year and now constitutes 19% of total revenue
- 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 February 2010 as well as FX-Week's Best Bank for FX for Corporate Customers in November
- Market leading performance in payments – we are the UK's number 1 bank for Faster Payments (26% ex standing orders) number 2 for BACS (32%) and have a 21% share of CHAPS

<sup>1</sup> Research undertaken by BDRG Continental for the year ended Q3 2010. Competitor peer group: Barclays, RBS (inc. NatWest), Santander and LTSB. Statistical significance of data 90-95%.

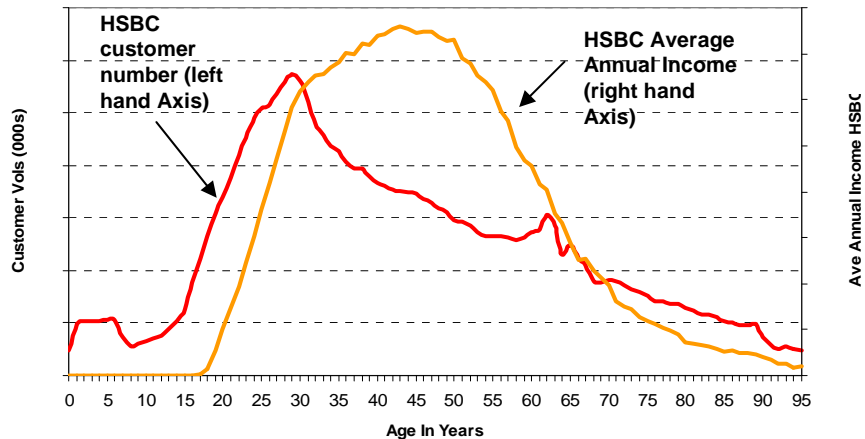
<sup>2</sup> Customers identified as such, including, inter alia, customers trading internationally, foreign subsidiaries of UK businesses and/or customers utilising an international product or service.

<sup>3</sup> Year on year growth in trade export average asset balances.

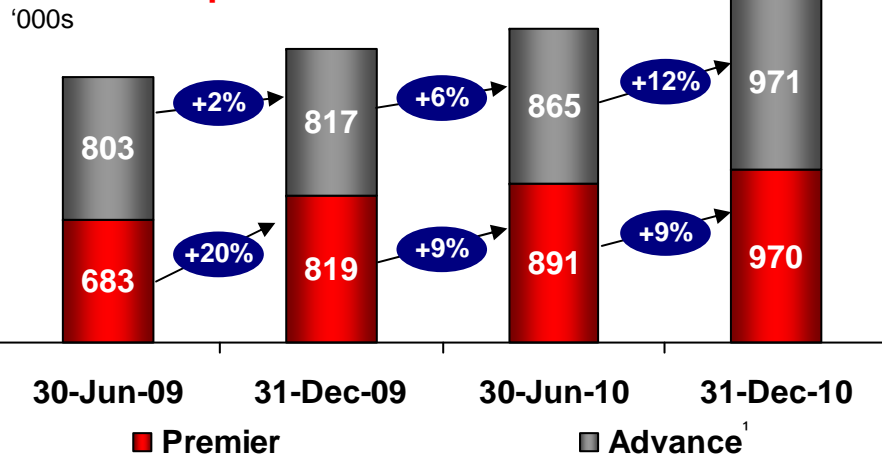
# Our customers are high value

High quality, young, affluent, internationally minded personal customer base

## PFS customer age profile



## Number of premium customers



- 40% of our customer base has an international need that HSBC services through our global propositions or international connections
- On average, HSBC current account customers earn 13% 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>
- 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
- Investment funds under management attributable to UK Retail customers increased 15% year-on-year driven by the success of World Selection
- The age profile of HSBC customers is complemented by the M&S and first direct brands – source of sustainable income growth

<sup>1</sup> Includes former HSBC Plus customers now migrated to HSBC Advance.

<sup>2</sup> Source: © GfK NOP Financial Research Survey (FRS) 12 months ending December 2010, c.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).



# Consistent approach to risk appetite

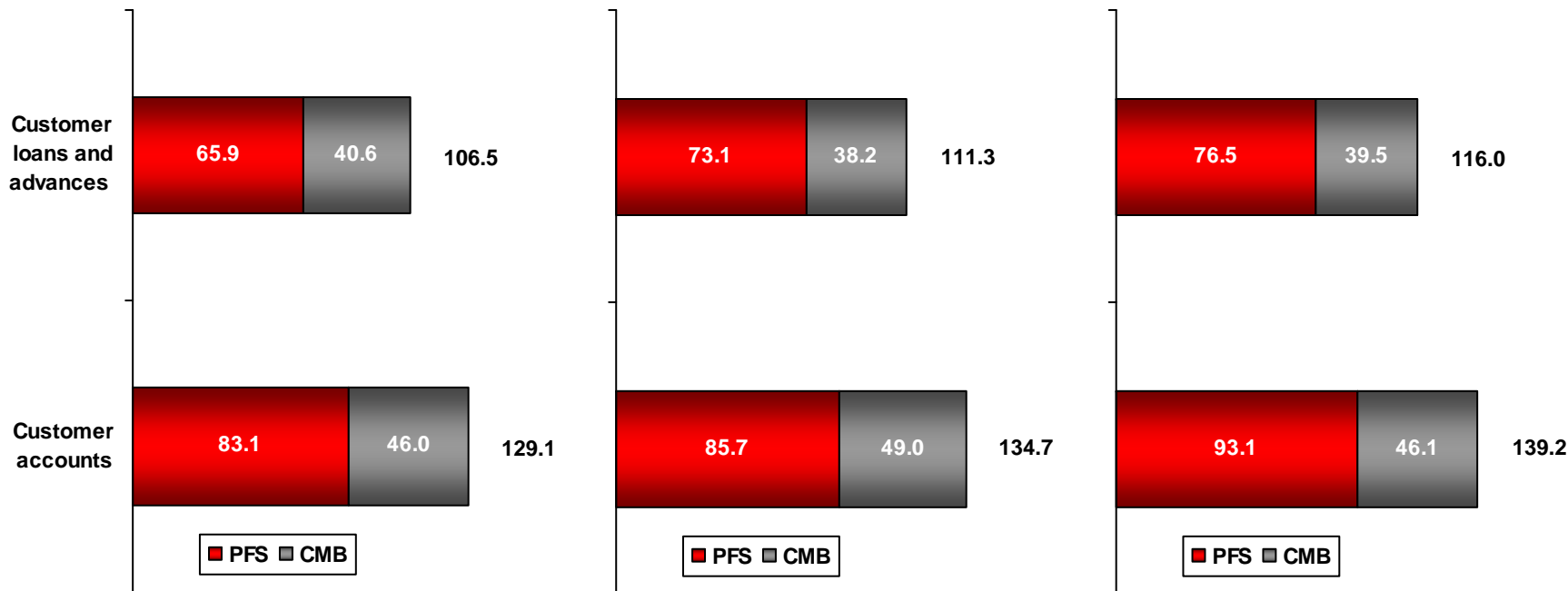
High quality customer base provides strong liquidity and solid base for growth

£bn, 31 Dec 2008

£bn, 31 Dec 2009

£bn, 31 Dec 2010

% increase / (decrease)  
DEC09 vs DEC08    DEC10 vs DEC09



UK Retail  
Published  
advances to  
deposits ratio

83%

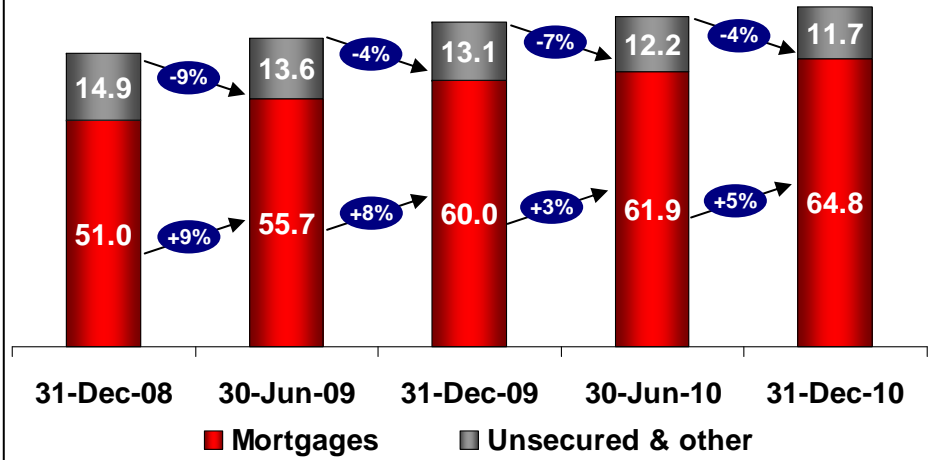
83%

83%

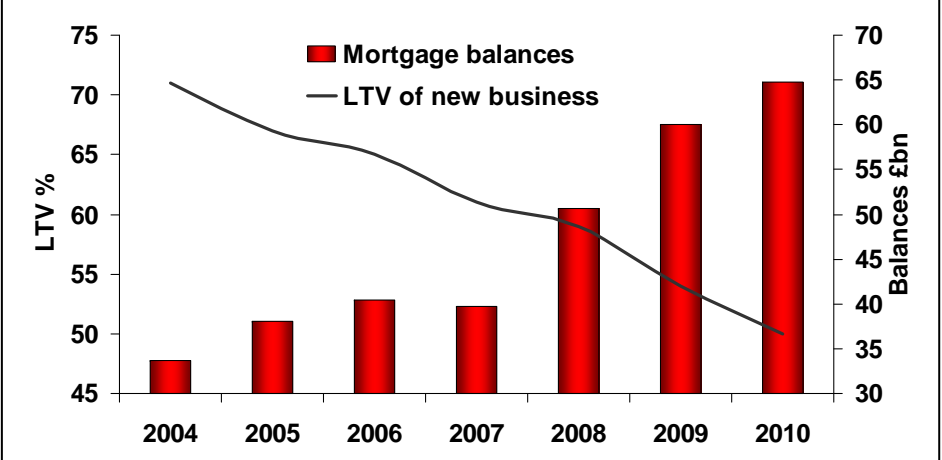
# Consistent approach to risk appetite

High quality, growing loan portfolio

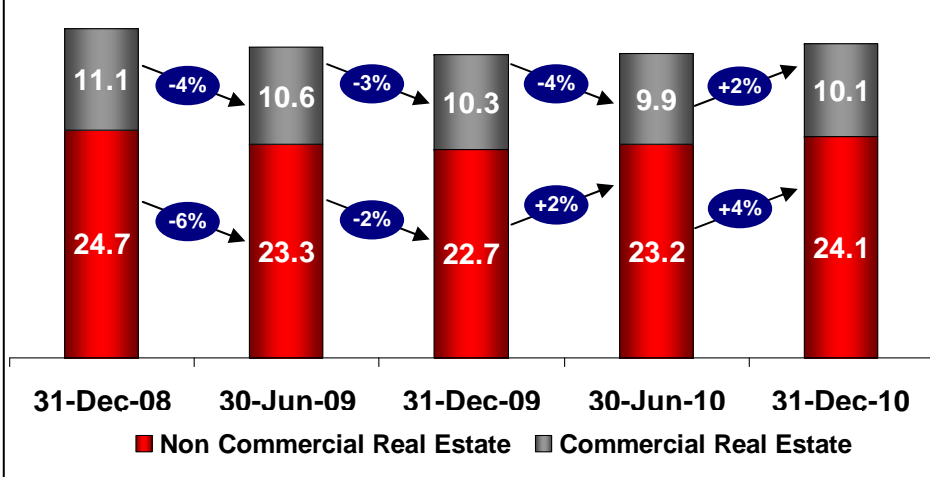
## PFS loans and advances, £bn



## LTV of new business and balance trends



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



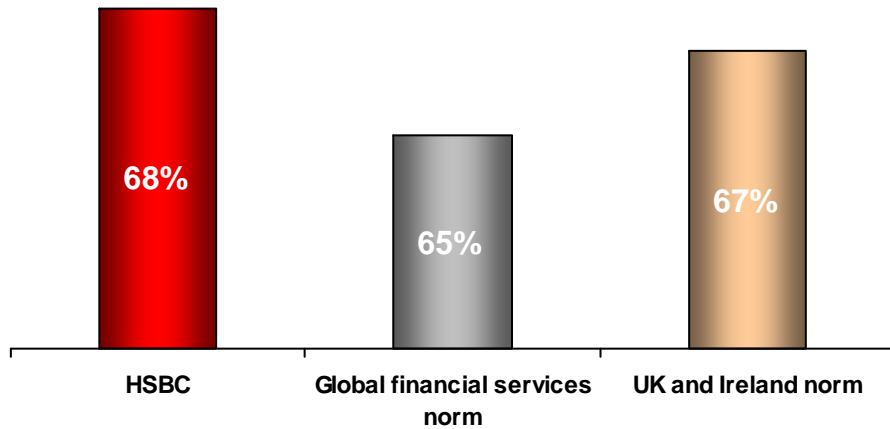
- Share of gross mortgage lending has doubled from that experienced between 2004-2007 to 10% in 2009 and 9% in 2010
- Increase in net mortgage lending in 2010 was £4.8bn vs market growth of c.£5.0bn – achieved without servicing the intermediary broker market
- Demand for CMB lending has improved, with balances increasing 3% in the second half of 2010
- Impairments decreased 24% year-on-year from £1.6bn to £1.2bn:
  - PFS:** continued shift in mix from unsecured to secured lending, benefits of earlier tightening of unsecured credit policy and strengthening of collections, new lending focused on customers with full banking relationships, mortgage non performing loan ratio 0.79% in Q4 2010
  - CMB:** impairments on the Commercial Real Estate (“CRE”) book were not significantly different from those generally, with CRE now at a sustainable proportion of the CMB portfolio

<sup>1</sup> Figures quoted net of items grossed up for statutory accounts purposes amounting to £4.8bn at 31 December 2008, £4.6bn at 30 June 2009, £5.2bn at 31 December 2009, £4.9bn at 30 June 2010 and £5.3bn at 31 December 2010.

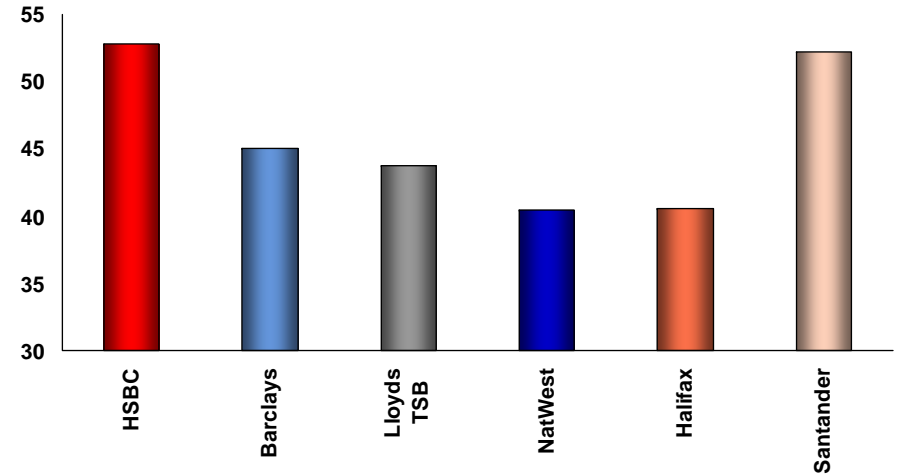
# People

Best Place to Work leads to Best Place to Bank and Best Place to Invest

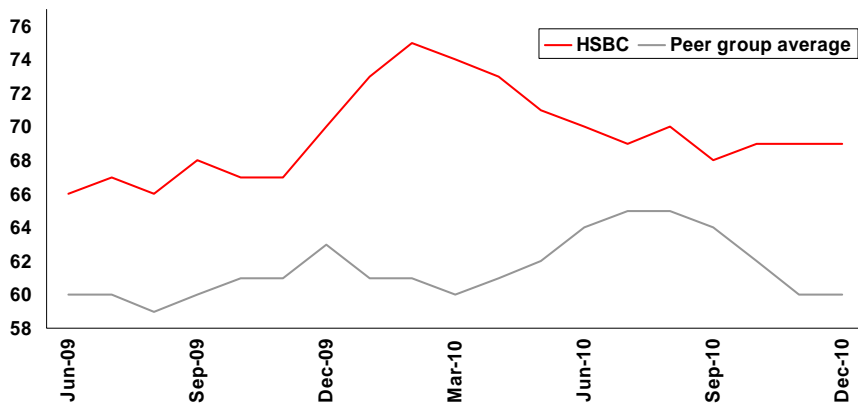
## Employee Engagement Index <sup>1</sup>



## Brand Health Index PFS <sup>3</sup>



## Customer recommendation index 2010 <sup>2</sup>: £30k+ personal income & main c/a customer (mean score)



- We have a sustained programme of empowering leadership and addressing employee concerns
- HSBC remains the leading banking brand globally and in the UK capitalising upon the Group's financial strength throughout the financial crisis
- Customer recommendation has remained strong – HSBC has consistently been the most recommended high street bank amongst mass affluent customers earning over £30k per year since June 2009

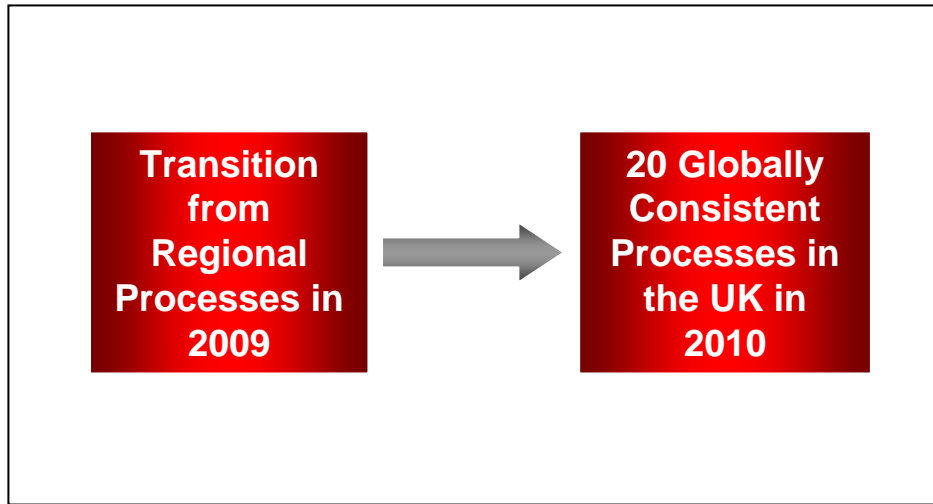
<sup>1</sup> Source: Kenexa

<sup>2</sup> Source: Millward Brown Brand Tracking Survey

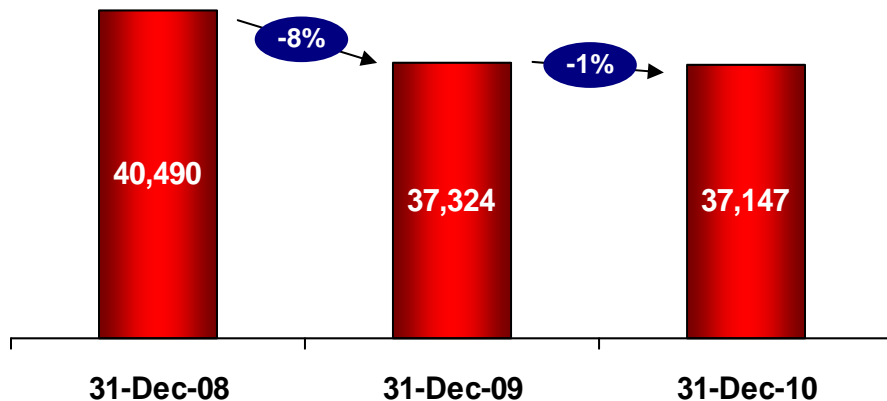
<sup>3</sup> Source: survey done by Synovate over 2010 period

# Group capabilities

Leverage scale and expertise to achieve savings for reinvestment



## Number of full time equivalent employees <sup>1</sup>



<sup>1</sup> Excluding discontinued businesses and motor insurance business in run-off; December 2008 figure restated to be on a consistent basis with subsequent dates.

- We have a programme to re-engineer our processes to align to Group standards in preparation of future IT development
- Implemented 20 globally consistent processes across the UK's Centres of Excellence (CoEs) in 2010
- Successful deployment of 3 new CoE's in UK – Wealth, Cards and Collections - leading the way for tangible transformation including enhanced customer experience
- Implemented the One-HSBC Global Payments System – providing robust, group-wide consistency of payments execution and new functionality such as intraday liquidity as well as delivering improved Straight Through Processing of 92%
- Work continues to bring together HSBC and first direct onto one version of the Group's One-HSBC Cards platform and to consolidate with M&S into a Centre of Excellence, due 2011
- Premier, the Group's mass affluent banking proposition, continued to grow strongly in 2010 with customer numbers increasing 18%
- Advance, the Group's packaged banking proposition, was launched in February 2010 growing 12% in the second half of 2010, 18% for the year <sup>2</sup>
- World Selection, the Group's innovative global investment product, leverages the HSBC's asset management capabilities in 11 cities<sup>3</sup> in 5 continents – funds under management attributable to UK Retail customers has grown to £2.0bn since launch in January 2009
- The number of successful referrals through Global Links, the Group's CMB cross border referral system increased 47% in 2010
- We have reduced the number of non-customer facing staff consistently since June 2008, reinvesting some of the sustainable savings in customer facing roles in 2010

<sup>2</sup> Starting customer base in 2009 includes customers migrated from HSBC Plus.

<sup>3</sup> London, Paris, Dusseldorf, Hong Kong, Tokyo, New York, Toronto, Bogota, Taiwan, Shanghai, Sao Paulo.

# Outlook

## Positioning the business for the future

Strategy	Industry Threats	HSBC Opportunities
Customer	<p>Economic outlook remains uncertain</p> <p>Recovery likely to be slow in the UK impacted by reduced government spending, increased taxation, rising base rates</p> <p>Competition will increase both domestically and internationally</p>	<p>Balance support for our customers with responsible banking</p> <p>Continue re-focus on wealth – leverage prior investments, continue to enhance products, support tools and training</p> <p>Continue to offer market leading solutions to our customers in both markets and aim to be number one choice for international customers, supporting all customers globally</p>
People	<p>Existing competitors and potential new entrants targeting our most highly trained and competent staff</p>	<p>Sustain above-sector average Employee Engagement Index performance</p>
Financial	<p>Pressure on funding in advance of withdrawal of HM Government's Special Liquidity Scheme</p> <p>Regulation will continue to increase for the foreseeable future – in volume and super equivalence terms</p>	<p>Build on the high quality funding base provided by our customers and maintain low advances to deposits ratio</p> <p>Strong capital base, prudent management and Treating Customers Fairly principles embedded throughout the organisation</p>
Group capabilities	<p>External cost pressures</p> <p>Developing markets will grow faster than developed markets</p>	<p>Build on record of continued improvement in efficiency, enhancing service for all customers</p> <p>Build on our position as the leading direct bank for business</p> <p>Leverage investment in Global Relationship Managers and International Commercial Managers in CMB</p>

For further information please contact Investor Relations

<http://www.hsbc.com/1/2/investor-relations>