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HSBC UK Retail Banking – RBWM & CMB

2011 Interim Results

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Forward-looking statements



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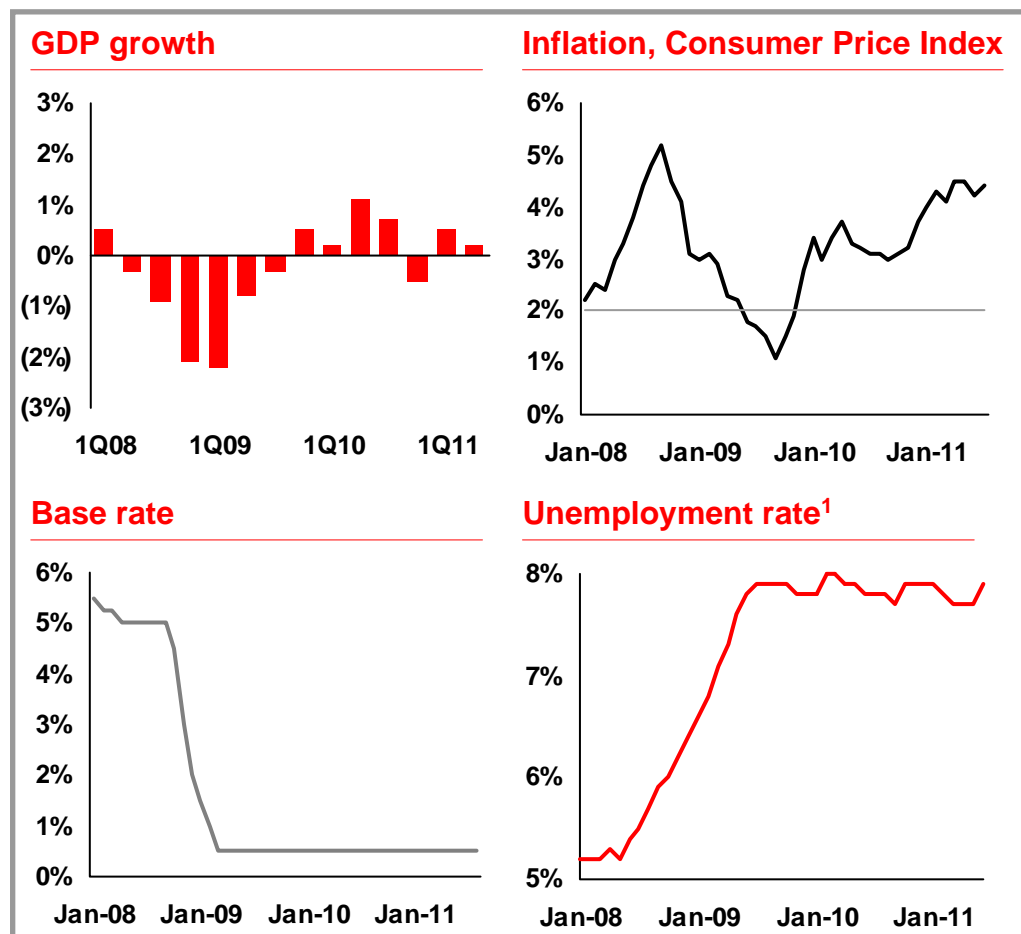
Agenda

- ▶ Economic overview
 - Macro economic trends
 - International connectivity and changing demographics
 - Industry issues
- ▶ UK Retail Banking strategy and performance
 - Financial performance
 - RBWM
 - CMB
- ▶ Outlook and conclusions
 - Investor day strategic actions
 - Outlook and conclusions

Economic overview

Macro economic trends

Present economic climate



- ▶ The UK economy appears to be losing momentum – failure of the recovery raising the threat that growth might stall
- ▶ Inflation above 2% target – driven by increases in VAT, fuel, food and weak Sterling
- ▶ Wage growth restrained – consumer spending supported by household savings with retailers feeling the squeeze
- ▶ Consumer confidence remains low
- ▶ Base rates at a record low since March 2009 and likely to remain so for foreseeable future
- ▶ Housing market remains subdued

Source: Office of National Statistics, Bank of England
1 Labour Force Survey: rolling 3-month average rate of unemployment for all persons 16 and over

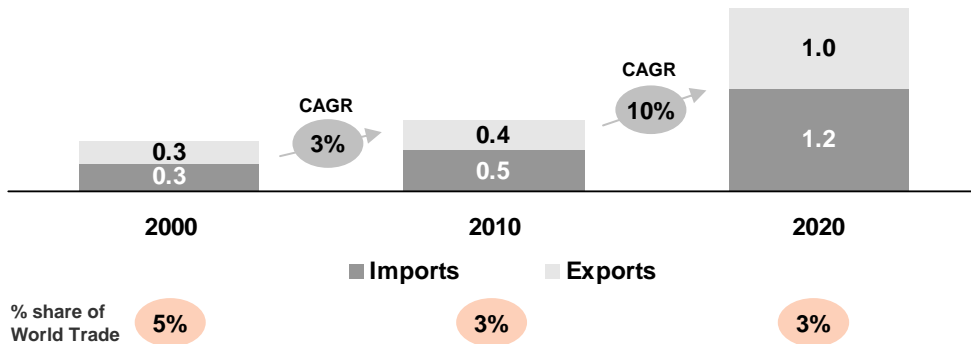
Economic overview

International connectivity and changing demographics



Trade flows – International connectivity

UK merchandise imports and exports, USDbn

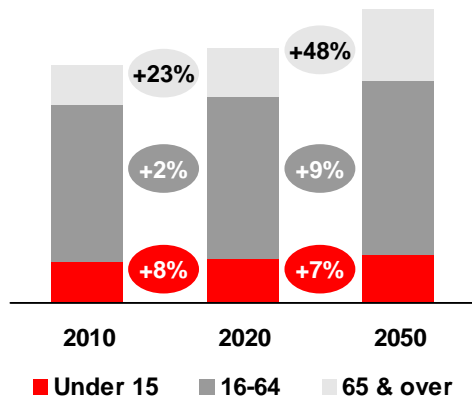


Source: Global Insights

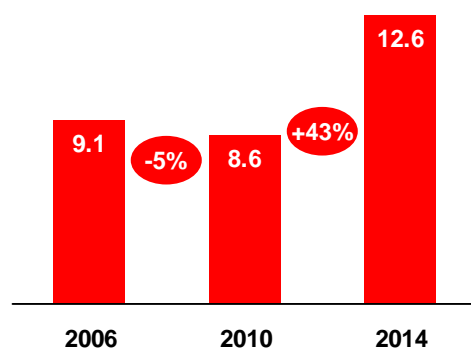
- ▶ UK trade growth between 2000-10 below Europe and the World (CAGR: 8-9%)
- ▶ Pace of UK growth 2010-20 expected to increase and outperform Europe and the World – only emerging market economies will perform better (11%)¹
- ▶ By 2020, UK will still account for 3% of World trade despite Europe's overall share declining to 35% (39% in 2010)
- ▶ As the government continues to promote an export led recovery demand for international products and services will increase

Changing demographics – Demand for wealth

UK population, by age



Mass affluent individuals², Millions



- ▶ Age profile of UK population continues to change, with growth of post-retirement (65+) expected to considerably out-strip lower ages
- ▶ Mass affluent market has decreased following recession but is expected to grow markedly over the next few years
- ▶ Demand for wealth management services will continue to grow to accommodate the needs of this changing population

Source: Office of National Statistics, Datamonitor 2010

¹ Source: Global Insights. Europe CAGR of 8% and World of 9% for 2010-20

² Defined as having USD50k or more of onshore liquid assets

Economic overview

Industry issues



Fragile Economy

Economic recovery losing momentum

- Eurozone crisis and sluggish domestic growth increasing risk of recession
- Consumers and businesses beginning to adapt but uncomfortable times lie ahead – need to balance support for customers with responsible banking
- Demand for lending by SMEs remains muted but signs of investment by large corporates

Challenging Regulation

Pace and quantum of regulatory reform

- Enhanced capital and liquidity requirements, new tripartite regulatory framework, new approach to macro prudential regulation, more intrusive regulation, recovery and resolution plans *and more*
- Longer term impact of Retail Distribution Review (RDR) remains uncertain
- Uncertainty caused by ICB report due September 2011

Weak financial services sector

Strong banks required to support growth

- Sustained low base rates impact ability of banks to restore profitability
- Risk that ICB proposals reduce supply of credit to the real economy
- Pressure on funding as Special Liquidity Scheme winds down
- Pressure on investor appetite for financial services sector

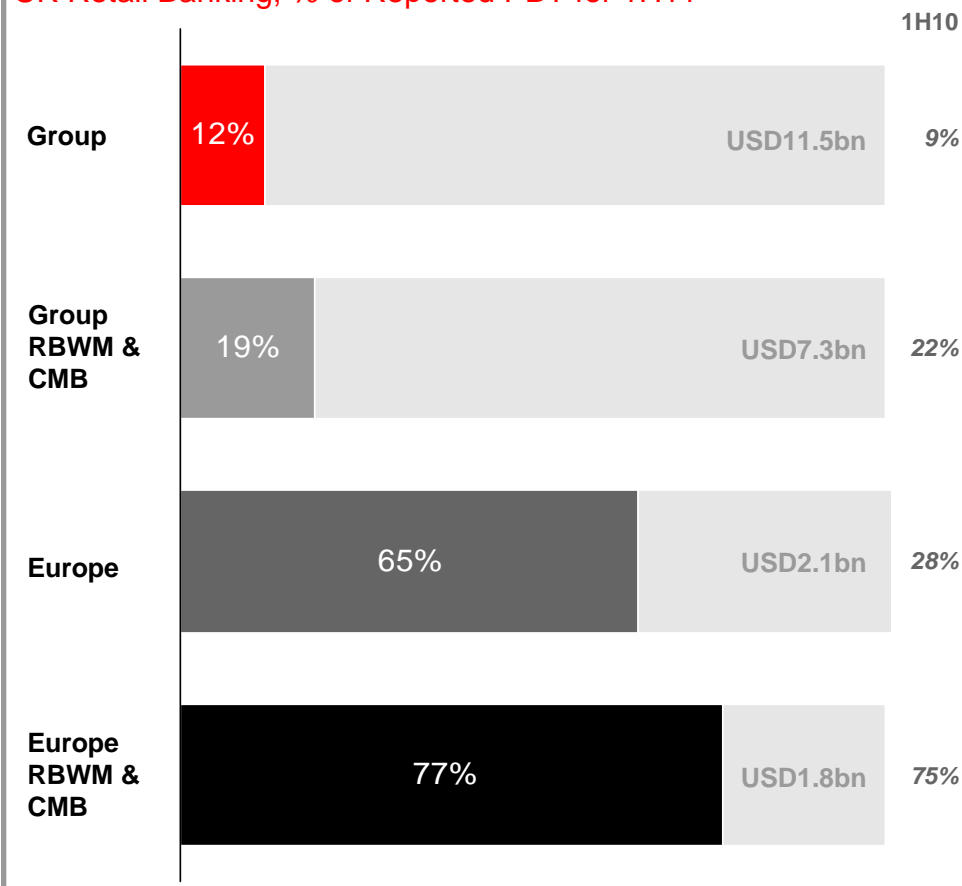
UK Retail Banking strategy and performance

UK Retail Banking – robust business franchise



Significant PBT contribution

UK Retail Banking, % of Reported PBT for 1H11



UK is one of the Group's cornerstones

- ▶ HSBC UK Retail Banking is a significant contributor to overall Group profit and key to the Group's strategy
- ▶ 5th largest economy in the world – the UK is expected to be 6th largest in 2050, accounting for 3% of World GDP¹
- ▶ Centre for international trade and driver of growth: one of the top 6 countries expected to account for 54% of trade growth in 2010-20²
- ▶ Strong demand for wealth management – 3rd largest market for wealth management (2009) 30% higher than next best³

Well established strategy, leveraging Group capabilities

"Best Place to Invest"

- ▶ Maximise income and return within risk appetite
- ▶ Innovate sustainable saves to enable investment

"Best Place to Bank"

- ▶ Target long term high value customers
- ▶ Mutually valuable relationships
- ▶ Deliver superior service

"Best Place to Work"

- ▶ Leadership with courageous integrity at all levels
- ▶ Leverage economic, environmental and social value to society

1 Source: HSBC – "The world in 2050: Quantifying the shift in global economy"

2 Source: Global Insights

3 Bain & Company, AXCO Insurance Information Services Ltd.

UK Retail Banking strategy and performance

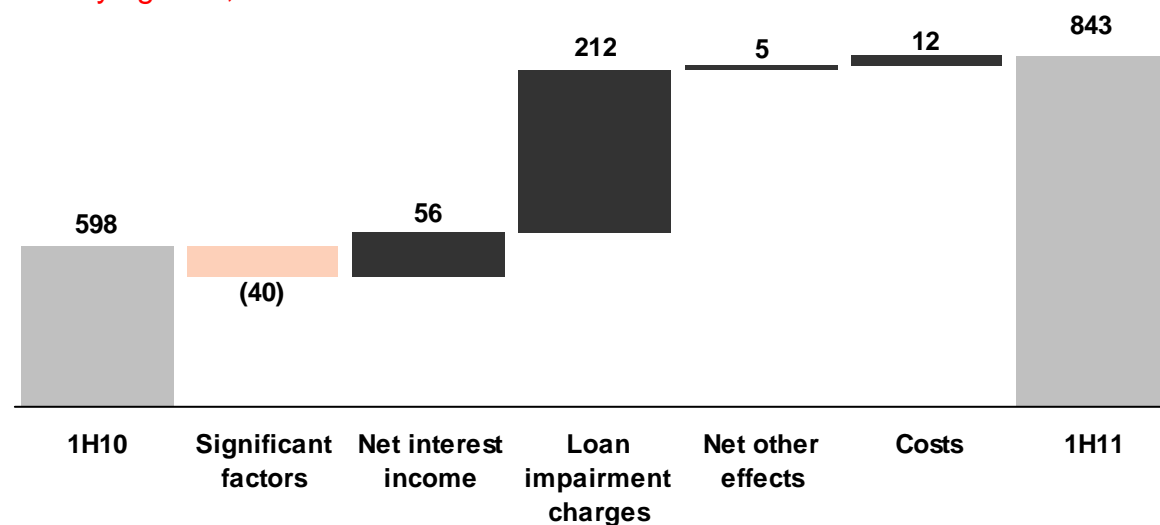
Financial performance



GBPm	1H10	2H10	1H11
Net operating income ¹	2,841	2,827	2,818
Loan impairment charges ²	(616)	(606)	(404)
Net operating income	2,225	2,221	2,414
Operating expenses	(1,576)	(1,552)	(1,567)
Associates and joint ventures	2	1	(4)
Profit before tax – reported	651	670	843
Underlying adjustments ³	(53)	5	0
Profit before tax – underlying	598	675	843

Key movements

Underlying PBT, GBPm



- ▶ Significant factors include: provisions in respect of customer redress programmes including that estimated for the possible mis-selling of PPI policies; and an accounting gain relating to the legislative change in indexation of certain pension liabilities
- ▶ Improved loan impairment charges due to strengthened credit risk management practices and continuation of high quality lending
- ▶ Costs were broadly flat: sustainable savings funding re-investment

¹ Net operating income before loan impairment charges and other credit risk provisions

² Loan impairment charges and other credit risk provisions

³ Adjustments for disposal of Insurance Broking business

Note: Figures include Global Asset Management (AMG)

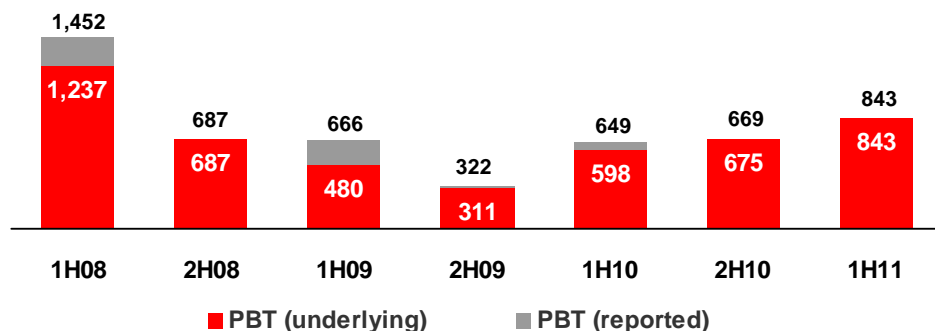
UK Retail Banking strategy and performance

Financial performance



PBT (reported and underlying)

GBPm

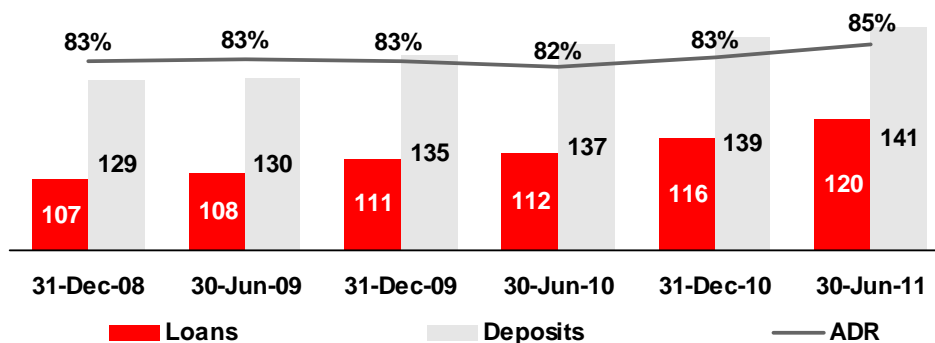


Note: PBT prior to 2010 does not include Global Asset Management (AMG)

- ▶ Resilient PBT performance
- ▶ Impairments back to 2007 levels in 2011, down 34% 1H11 vs 1H10
- ▶ Adjusted costs held flat since 2008¹
- ▶ Improved CER of 56% is progressing downwards to the Group target of 48-52%

Balance sheet growth

GBPbn



- ▶ Sustained lending growth through the financial crisis
- ▶ Mortgage lending up 9.5%, CMB lending up 7.4% 1H11 vs 1H10
- ▶ Funding position has remained strong – deposits growing by 3% year-on-year, following continued growth 2009-10
- ▶ Advances to deposits ratio remains strong and differentiated from UK peer group

¹ Costs excluding underlying adjustments and significant items as per HSBC Bank Plc Interim Report (2011)

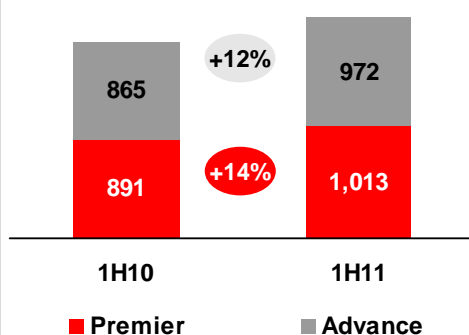
UK Retail Banking strategy and performance

RBWM: deliver market leading propositions so that customers trust us with their banking and future

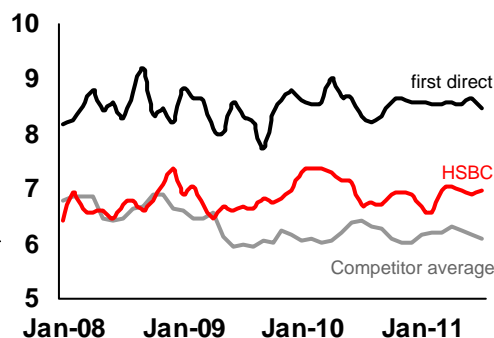


Target customer base

Customers base, '000s



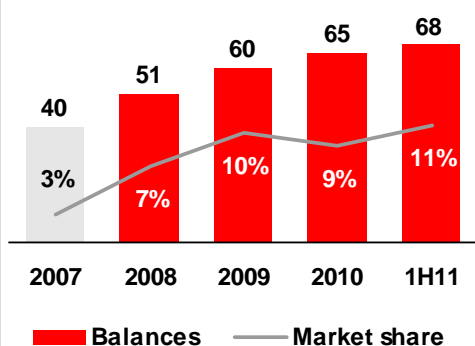
Customer recommendation, £30k+



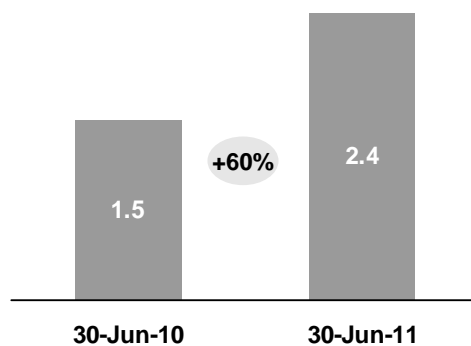
Source: Millward Brown

Mortgages and wealth performance

Mortgages³, GBPbn



World selection FUM⁴, GBPbn



Current position

- ▶ Customer value-led focus: target customer acquisition +13% 1H11 vs 1H10 with income from Premier customers growing +15%
- ▶ Funds under management +12% as at end JUN11 vs. JUN10¹
- ▶ Market share of mortgage new business increased to 11% 1H11, four times share in 2007 without the use of intermediaries, at an average LTV of 53%
- ▶ Digital transformation: first direct iPhone app, smartphone-friendly internet banking, enhanced online customer security via Secure Key
- ▶ Customer satisfaction well above defined peer group for first direct and strong HSBC customer recommendation²

Future focus

- ▶ Build consideration for our wealth capability from our target customers via World Selection and Premier Investment Management Service
- ▶ Continue transformation of our digital platforms to help ensure delivery of superior service across all channels
- ▶ Develop wealth infrastructure and further professionalise our advisors ahead of Retail Distribution Review (RDR)
- ▶ Build on current mortgage success by improving the end-to-end customer experience

¹ Funds under management attributable to UK customers

² Customer satisfaction source: GfK NOP FRS based on interviews over the period March 2000-June 2010. Peer group defined as: Barclays, Halifax, HSBC, Lloyds TSB, Nationwide, NatWest and Santander

³ Balances are period end. UK market share of gross advances, average share in the period (exc. Jersey). Source: Council for Mortgage Lenders (CML)

⁴ World Selection funds under management attributable to UK customers

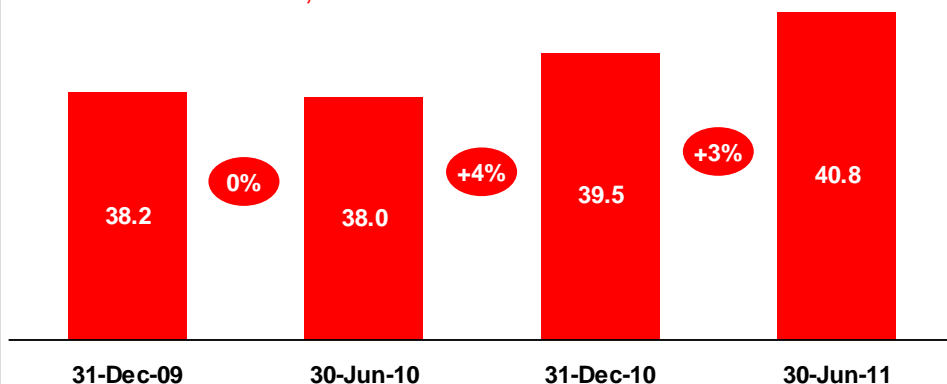
UK Retail Banking strategy and performance

CMB: become the UK's leading international bank and deliver targeted domestic growth



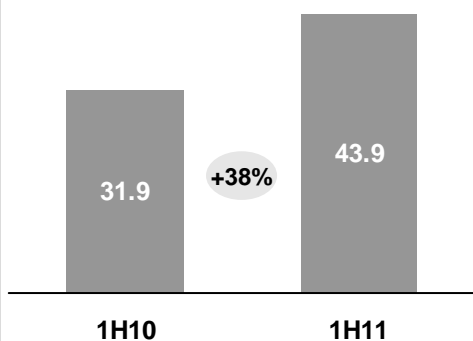
Lending performance

Loans and advances, GBPbn

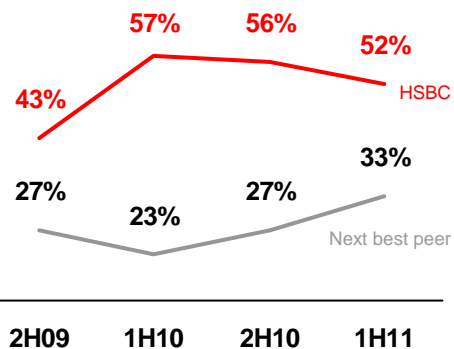


International customer base

Customers², '000s



Non-customer consideration³



Current position

- ▶ CMB lending up 7.4% 1H11 vs 1H10 despite market contraction of 4%¹
- ▶ On target to meet Merlin lending commitments
- ▶ iPhone application successfully launched, complementing award winning business internet banking website
- ▶ Investment in International Commercial Managers has seen International product income increase +16% 1H11 vs 1H10
- ▶ A second "Business Thinking" campaign launched March 2011 following the success in 2010

Future focus

- ▶ Continue to deliver on our Merlin commitments, providing lending facilities to businesses where there is demand and it is in line with our risk appetite
- ▶ Collaborate across business areas to enhance relationship and product offering
- ▶ Leverage cross-sale capability across customer groups, building on success to date
- ▶ Invest in digital platform to align functionality and experience to customer need and increase active internet banking users

¹ Source: Bank of England Trends in Lending Report July 2011. 12 months to May 2011

² International customer defined as utilising international products or services

³ Source: BDRC Continental. Proportion of non-HSBC customers who would consider HSBC for an international bank (businesses with £2-10m turnover)

Outlook and conclusions

Investor Day strategic actions



RBWM strategic actions

- I** Continue to develop wealth management and insurance capabilities, innovating new propositions, increasing customer penetration
- II** Leverage Group's global scale and international capabilities e.g. World Selection, Premier Investment Management Service (PIMS)
- III** Continue to focus on high value customer acquisition and quality mortgage origination
- IV** Deliver superior service for all, facilitating investment from sustainable cost savings

New structured investment products launched
Enhancements to capabilities underway including preparation for RDR

World Selection FUM continues to grow (£2.4bn /+20% vs 2H10)¹
Strong success in PIMS sales following re-launch in 4Q10

Target customer acquisition up 13%; mortgage balances up 9.5%
Focus on developing mutually valuable relationships

first direct and Premier customer satisfaction strong
Investment in digital to deliver superior service across all channels

CMB strategic actions

- I** Leverage previous investments in segmentation strategy and International Relationship Managers
- II** Improve relationship management and product penetration for domestic customers
- III** Invest in digital platforms to meet customer demands and optimise cost to serve
- IV** Develop cross-business referrals especially with RBWM (Wealth, Premier) and GPB

International customer base and income continues to grow
Utilisation of Group's global connectivity – outbound referrals +70%

Enhance relationship and product offering especially for corporate customers, leveraging expertise in GB&M

Award winning business internet banking service²
Develop digital functionality further, building on success of iPhone app

Referrals cross-business up 89% following success of co-locating Premier and Commercial RMs

¹ World Selection Funds Under Management (FUM) attributable to UK customers

² Business Moneyfacts 2011 Award Winner for "Best on-line banking provider"

Outlook and conclusions

Outlook and conclusions



External pressures

Economic outlook weak, potentially deteriorating

- Eurozone crisis – long term impacts for UK economy
- House prices to undergo long term structural realignment relative to earnings
- Impact of HMG's deficit reduction plans

Increasing weight of regulation

- Increases in capital requirements risk reducing credit supply
- Introduction of ring fencing risks more brakes on GDP growth and increased costs
- Path to recovery already long and looking longer

Return to profitability and re-capitalisation will take time

- Sale of taxpayer stakes likely to be some years away
- Withdrawal of Special Liquidity Scheme (SLS) increasing funding costs

HSBC response

Continue growth of strategic segments

- Continue lending growth in mortgages at prudent LTVs
- Investment in international business capabilities will help HSBC capitalise on increasing globalisation
- Balance support for customers with responsible banking

Established prudent culture

- Build on the high quality funding base provided by our customers and maintain low AD Ratio
- Strong capital base, prudent management and Treating Customers Fairly principles embedded throughout the organisation
- Scrutinise return on RWAs

Well positioned for growth

- HSBC well capitalised and funded
- Strong growth in high quality customer base
- CMB loan portfolio repositioned and growing
- Build on record of continued improvement in efficiency, enhancing service for all customers
- Empowering leadership programme

Contacts and further information



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