



21 November 2011

# Global Banking and Markets

## Citi Reverse Roadshow

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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 Annual Report and Accounts 2010, Interim Report 2011 and November 2011 Interim Management Statement. Past performance cannot be relied on as a guide to future performance.**

**This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

# Key trends

# Challenging market trends...but opportunities still remain

## Challenges

- Challenging macroeconomic environment
- Unstable regulatory environment
  - Basel 2.5/3: New market-risk framework, increased counterparty-credit-risk charges and capital ratios impacting returns
  - Continuing regulatory uncertainty i.e. UK ICB ring fencing, Dodd-Frank Act
  - Level playing field

## Opportunities

- Emerging Markets growth and development
  - Emerging Markets represent the global growth engine for Wholesale Banking revenues
  - Fastest growing trade corridors are driven by Emerging Markets and South-South trade flows
- Surge in flight to quality
  - Preference for banks perceived to have strong balance sheets, good liquidity and lower exposures to troubled Eurozone markets

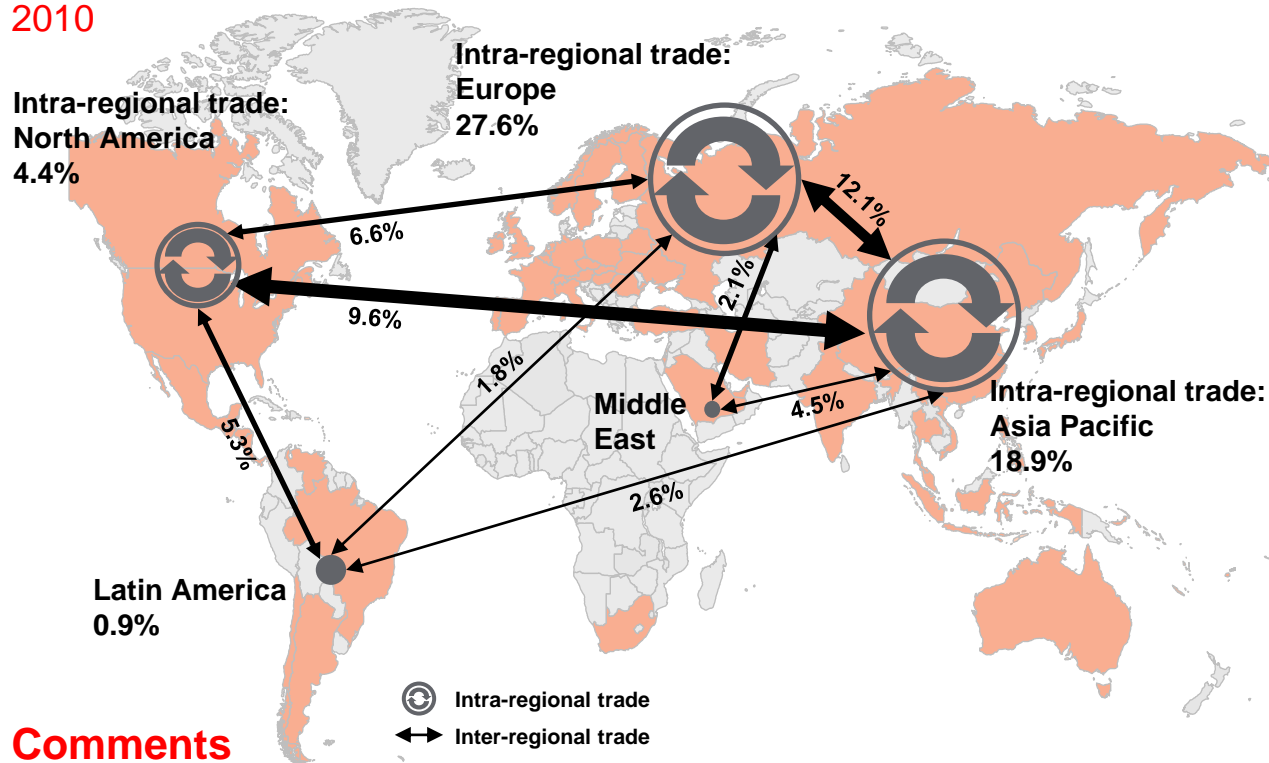
Key trends

# The fastest growing trade corridors are driven by Emerging Markets and South-South trade flows



## Major trade flows<sup>1</sup>

2010



## Comments

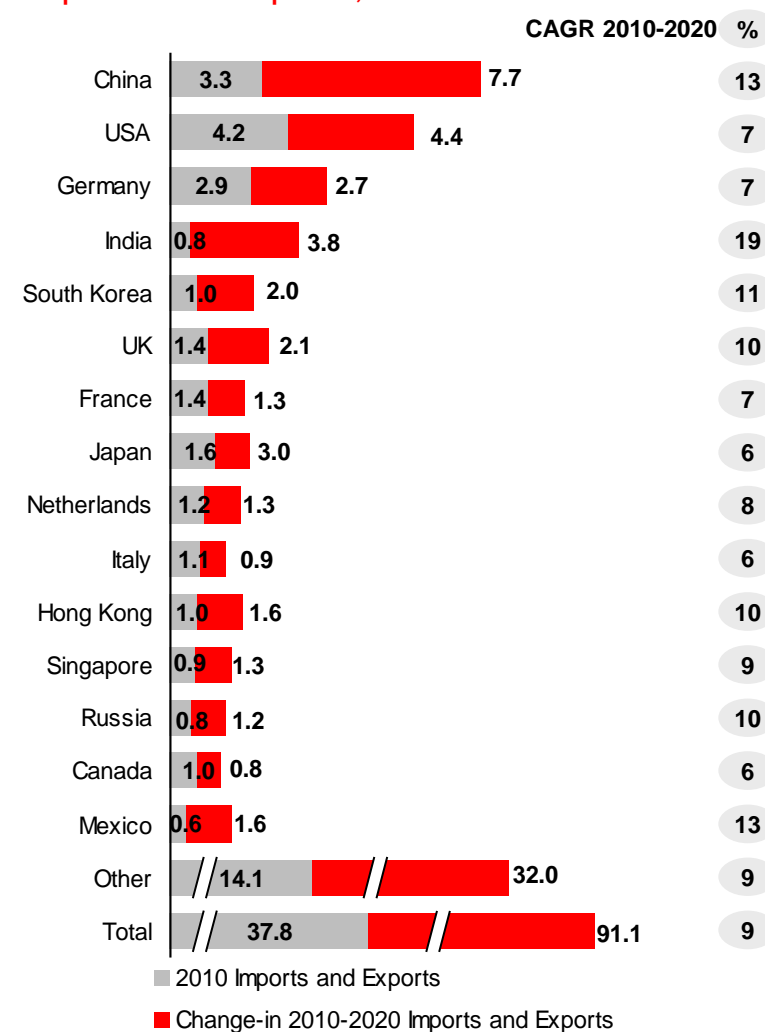
- Developed markets still play a vital role in Global trade:
  - 5 largest trade hubs in 2010 are USA, China, Germany, France and UK
  - 5 most important trade flows in 2010 are intra-regional Europe, intra-regional Asia, between Asia and Europe, between Asia and North America and between Europe and North America

Notes:

(1) Delta Economics based on Top 10 trade partners for focus set of 33 countries  
 (2) Global Insights. Note: Brazil represents USD0.5tn in 2010 expected to grow to USD0.9tn in 2020

## Top 15 trade countries<sup>2</sup>

Imports and Exports, USDtn



# HSBC position and competitive advantages

# GBM competitive advantages



## HSBC Position

**I Strategic geographical and client footprint with global reach**

**II Sustainable business model with future growth potential**

**III Integrated Wholesale Bank with strengths in core product capabilities, Capital and Funding**

## Competitive advantages

- Hub-and-spoke model with global reach across over 65 countries
- A leading wholesale bank with reach and scale
- Strong presence in both faster growing and mature markets
- Diversified client base aligned with geographical footprint

- Step change in scale and profitability
- Profitable through the cycle
- Resilient franchise backed by strong financial performance
- HSBC brand and reputation

- Strong market share in core products and targeted markets
- Integrated suite of product capabilities
- Ability to leverage strong balance sheet
- Cross-business collaboration (CMB, RBWM, GPB)

# Financials



## 3Q11 YTD Financial Overview

Summary Information GBM <sup>1</sup>	YTD	YTD	Quarter ended	Quarter ended
	30 Sep 2011	30 Sep 2010	30 Sep 2011	30 Sep 2010
Profit / (loss) before tax (USDbn)	5.8	7.6	1.0	2.1
Cost efficiency ratio (%)	54.7	46.6	67.4	51.3
Return on risk-weighted assets <sup>3</sup> (%)	2.1	2.7	1.0	2.3

- Credit and Rates businesses affected by a general widening of credit spreads and reduced client activity
- BSM<sup>2</sup> revenues lower due to continued effect of low interest rates
- Significant rise in FX revenues due to volume of client activity and market volatility. Strong performance in both Asia and the Americas
- Equities benefitted from competitive position and increased client flows
- HSS<sup>2</sup> income grew resulting from higher spreads and transaction volumes
- Strong PEF<sup>2</sup> performance from new business origination
- PCM<sup>2</sup> saw good growth in balances and spreads

## Notes:

(1) On a reported basis

(2) BSM - Balance Sheet Management, HSS - Securities Services, PEF - Project and Export Finance, PCM - Payments and Cash Management

(3) Pre-tax return on average RWAs (annualised)

# Global Banking and Markets grew income in 6 businesses in the 9 months YTD 2011

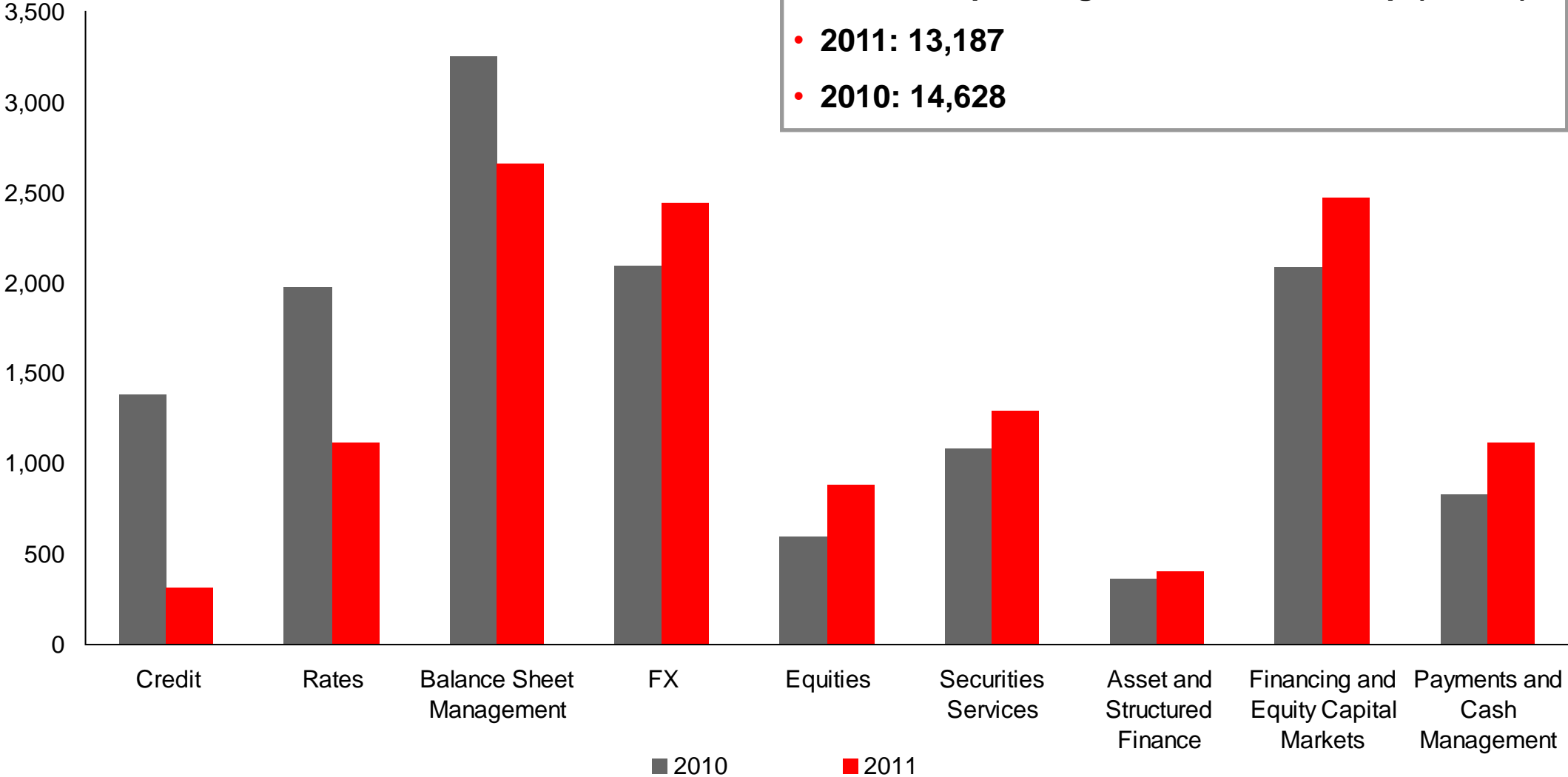


**Total operating income, for the nine months ended 30 Sep 2011 compared to the same period in 2010**

(USDm, reported)

**GBM total operating income, YTD 30 Sep (USDm):**

- 2011: 13,187
- 2010: 14,628



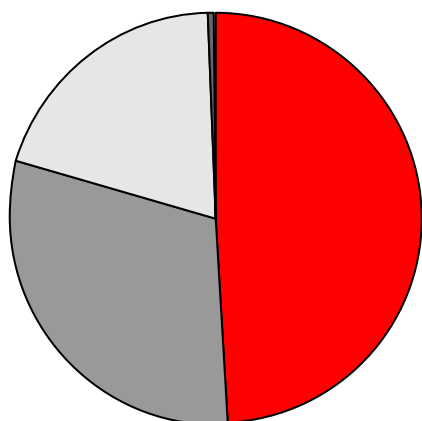
# Resilience in the face of a challenging third quarter



## Managed View of Total Operating Income<sup>1</sup>

%, 3Q11 YTD

**Total: USD13.2bn**

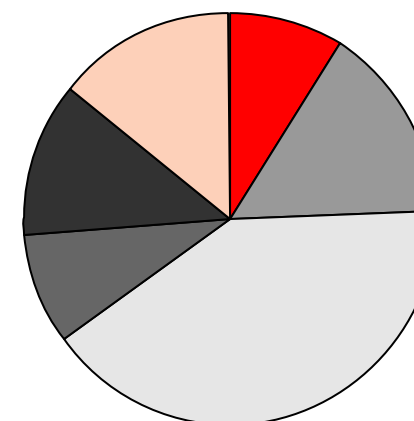


- Global Markets (49%)
- Global Banking (31%)
- BSM (20%)
- Principal Inv. & Other (<1%)

## Profit Before Tax<sup>1</sup>

%, 3Q11 YTD

**Total: USD5.8bn**



- Europe (9%)
- Hong Kong (16%)
- RoAP (40%)
- MENA (9%)
- North America (12%)
- Latin America (14%)

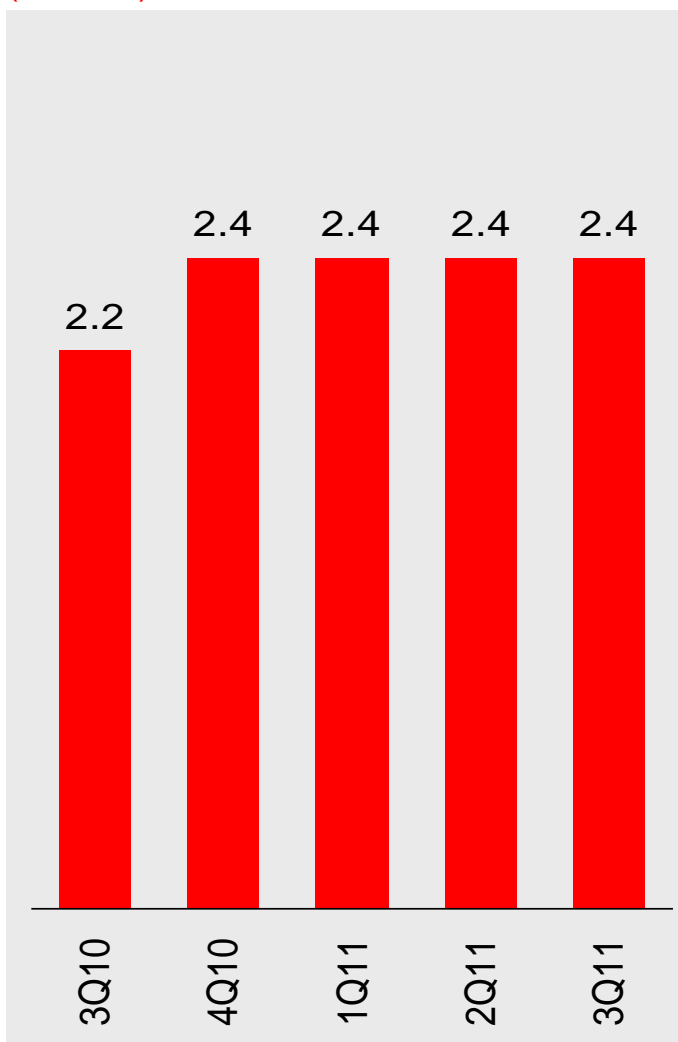
Note:  
(1) On a reported basis

# Costs remain a key area of focus – strong cost discipline



## Total Operating Expenses

(USDbn)



## Cost Drivers

- On-going cost of regulatory compliance
- Cost increases predominantly driven by:
  - Strategic initiatives
  - Higher compliance and insurance charges
- Partial offset by one-off pension credit

## Continuous Investment

- GBM continues to invest in client-facing initiatives, geographies and businesses – e.g. FX, HSS, PCM, Equities and Prime Services
- Strong progress being made against strategic objectives, including actions to deliver sustainable cost savings helping fund investment

# Strategic direction and actions

# GBM strategic direction to deliver future growth... an evolution

## Global Banking and Markets

*“Emerging Markets-Led, Financing-Focused”*

+

Greater emphasis on  
**Connectivity**

1

Reinforce client coverage and client-led solutions

2

Enhance core product strengths and selectively develop new capabilities

3

Collaborate with other customer groups to deliver incremental revenues

4

Focus on strategic re-engineering to deliver sustainable cost savings

# 1 Progress: Reinforce client coverage and client-led solutions



## Progress made

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### Strategic Investment in Resources

- A number of key hires announced – both external appointments and internal management changes

### Client-Led Solutions

- Significant revenue growth in FIG<sup>1</sup> and REG<sup>1</sup> sectors and strong build-out in Multinationals resulting in high year on year increases
- Corporate Treasury Solutions Group and Wealth Solutions Group established to provide multi-asset product origination for EMEA corporate clients and bring coverage support to RBWM in Asia-Pacific

### South-South Connectivity

- Continued progress made in harnessing trade corridor opportunities, with strong revenue ahead of prior year

Notes:

(1) FIG – Financial Institutions Group, REG – Resource and Energy Group

## 2 Progress: Enhance core product strengths...

### Progress made

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#### FX and Rates

- eFX platform now live in Hong Kong, London and New York; Get-Rate live in 5 countries on HSBCnet and 7 countries on Business Internet Banking
- Further FX Prime Services clients on-boarded on to the platform; YTD Prime Services client volumes have grown significantly against prior year
- Global Rates: leadership position in the RMB market and developing growing presence in the Middle East

#### Securities Services (HSS)

- Building out HSS global custody capability, with particular emphasis on Sovereign Wealth Fund segment
- HSS making progress with development of third party clearing to support broker dealer outsourcing
- Strong pipeline of HSS deals across other product initiatives including Middle Office outsourcing mandates for Asset Managers and Hedge Funds

#### Payments and Cash Management (PCM)

- PCM Sales Transformation Programme is in flight and has delivered significant improvements in sales productivity and deal win rates
- Regional build out programmes continue to align sales and support capabilities to client requirements
- PCM international connectivity enhanced by extended network coverage and product capability through collaboration with local banks



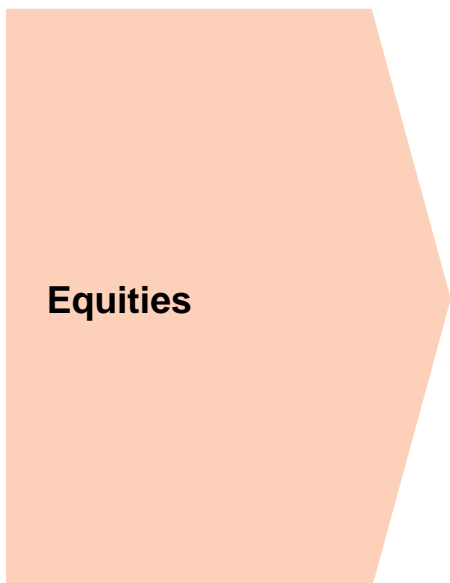
*Best Cash Management  
Bank in 13 Countries  
in Asia 2011*

Source: Euromoney, October 2011



## 2 Progress: ...and selectively develop new capabilities

### Progress made



- YTD SEP11 total Equities revenues have substantially increased year on year
- Strong ECM performance in 2011 with Top 10<sup>1</sup> league table position in 6 out of 9 equity strategy target countries and significant market share improvement in Asia and other key geographies
- Equity-Linked Note online distribution/execution platform launched in Asia for RBWM and GPB
- Key hires, team build-outs and targeted client interaction enabled Equity Research to move into the top 10 Equity Research houses for the first time<sup>2</sup>

<b>Top 5</b>	<b>Hong Kong, India, Middle East, Brazil and Mexico</b>
<b>Top 10</b>	<b>UK, France, Germany, Singapore, South Korea, Taiwan</b>



- Global Head of Prime Services appointed in SEP11 and continued hiring of experienced people
- Prime Services now live in Europe and Asia
- Equity Finance Delta One business now merged under Prime Services to better service and support hedge fund clients
- Continued progress in adding top quality brand name managers with c. 40 hedge fund managers currently in the process of on-boarding

Note:  
 (1) Dealogic, Bloomberg  
 (2) Extel survey

## 3 Progress: Collaborate with other global businesses to deliver incremental revenues

### Progress made

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#### Commercial Banking

- Incremental gross revenues are on-track against target of USD1bn
- Secured lead roles in a number of event deals in 2011 with CMB clients

#### Retail Banking and Wealth Management

- YTD AUG11 revenues from RBWM distribution have increased significantly year on year
- Wealth Management Solutions teams now established in Asia and US, in addition to EMEA team
- New products developed such as Mortgage Protection products and Protected World Selection in UK; equity linked online in HK and FX capabilities

#### Global Private Banking

- Encouraging progress in Family Office Partnership initiatives with strong increase in revenues year-on-year
- AUM referrals are in excess of full year target

## 4 Progress: Strategic re-engineering to deliver sustainable cost savings

### Progress made

#### Efficient management of headcount

- Completed Organisational Effectiveness Review across GBM; focus on client coverage model, product orientation and productivity measures
- Significant pipeline of additional sustainable savings identified

#### Improve efficiency gains from technology

- Continued globalisation of trading platforms in specific asset classes
- Standardisation of platforms in Emerging Markets sites
- Investment in common and shared eCommerce trading capabilities in FX and Rates

#### Functional integration between Global Businesses

- Marketing for PCM and TSC merged into CMB, HSS merged into GBM
- GBM and CMB: Key appointments for full connectivity across lines of business and geography
- Successful consolidation of retail and institutional execution capabilities in Hong Kong – Equities market share position rose from 14 to 7 as at the end of SEP11

#### Re-engineer transaction booking model

- ICB recommendations and continuing parliamentary processes require an optimal transaction model - remains work in progress
- Continue to make tactical fine-tuning decisions to booking model

# Awards & Transactions

**Euromoney Awards for Excellence 2011**

- *Best Global Risk Management House*
- *Best Global Infrastructure and Project Finance House*
- *Best Global Sovereign Advisor*

Source: Euromoney, July 2011

**Euromoney FX Poll 2011 Awards**

- *Best for Asian, Latin American, Middle Eastern and African currencies*
- *Best for client service in Asia timezone*
- *Best for emerging market currencies trading- spot/forward*

Source: Euromoney, May 2011

**Euromoney Islamic Finance Awards 2011**

- *Sukuk House of the Year*
- *Best International Islamic Bank*

Source: Euromoney, February 2011

**The Banker Investment Banking Awards 2011**

- *Most Innovative for Sovereign Advisory*
- *Most Innovative for Infrastructure & Project Finance*

Source: The Banker, October 2011

**FinanceAsia Country Awards for Achievement 2011**

- *Best Bank in Hong Kong*
- *Best Investment Bank in Hong Kong*

Source: Finance Asia, June 2011

**Euromoney Primary Debt Survey 2011**

- *Best Overall Primary Debt Provider*
- *Best Debt syndicate team*
- *Best Coverage team*

Source: Euromoney, June 2011

**Key Global Banking Rankings**

• <i>PF – Fin. Advisor of Global PF deals<sup>1</sup></i>	Rank 1
• <i>EF – ECA Backed Loans<sup>1</sup></i>	Rank 1
• <i>ECM – Hong Kong IPOs<sup>2</sup></i>	Rank 2
• <i>M&amp;A – any BRIC involvement<sup>3</sup></i>	Rank 4

Source:  
 1 Dealogic  
 2 Bloomberg  
 3 Thomson Reuters

**August 2011**

USD7.7bn

Northumbrian Water

Financial Adviser, Corporate Broker and Mandated Lead Arranger

**June 2011**

USD1.3bn

Initial Public Offering

Joint Global Coordinator and Joint Bookrunner

**June 2011**

EUR1,300m (USD1,761m)

Russia

Financial Adviser, Coordinating Bank & MLA

**October 2011**

ICBC (Asia)

RMB1.5bn 10NC5-Year 6.0% Basel III-Compliant T2 Notes

Sole Structuring Advisor, Sole Ratings Advisor, Joint Global Coordinator, Lead Manager and Bookrunner

# Key take-aways



## Competitive Advantages

- Strategic geographical and client footprint with global reach
- Sustainable business model with future growth potential
- Integrated wholesale bank with strength in core product capabilities

## Strategic Actions

- Reinforce client coverage and client-led solutions
- Enhance core product strengths and selectively develop new capabilities
- Collaborate with other customer groups to deliver incremental revenues
- Focus on strategic re-engineering to deliver sustainable cost savings

Target RoRWA

2.0%-2.2%

(Basel 3)