



Europe 2011 – A year of strategic progress

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HSBC 



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 and Annual Report and Accounts 2011. 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.



Agenda

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Key messages

HSBC is well positioned to capture medium-term opportunities in Europe

**2011 Europe results impacted by lower GB&M revenues
partly offset by strong profit growth in CMB and resilient profits in RBWM**

Strong progress in strategy implementation

Significant cost initiatives in progress across the region to improve operational efficiency

Economic overview and HSBC position



HSBC 

Short-term macro-economic outlook uncertain

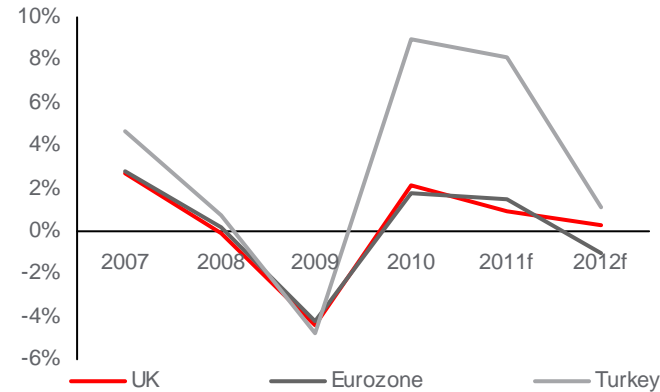
In the UK, 2.1% growth in 2011 however with inflation of 5.2% in September 2011 before moderating to 3.6% in December 2011

In the Eurozone, 1.5% growth in 2011, however 0.2% contraction in the final quarter

HSBC economists expect UK GDP to rise by some 0.3% in 2012. Uncertainty surrounding the eurozone and weak consumer confidence alongside the ongoing fiscal consolidation should constrain growth of domestic demand, while only modest growth is expected from net trade

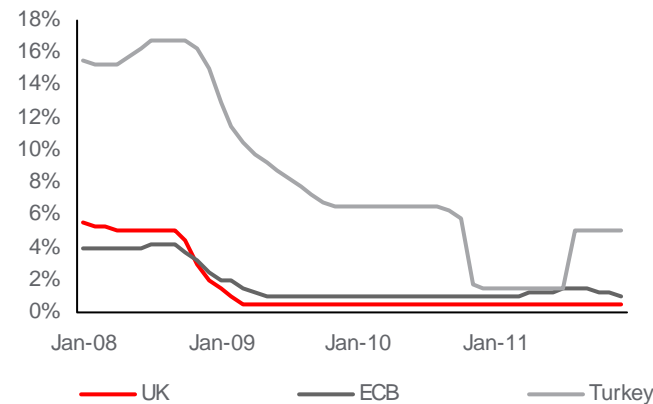
Eurozone GDP is expected to contract by 1% in 2012 but with large divergences between countries, as Spain and Italy experience deeper contractions than the core eurozone. Sentiment indicators suggest that the downturn that began in the second half of 2011 appears to be stabilising in early 2012

GDP growth



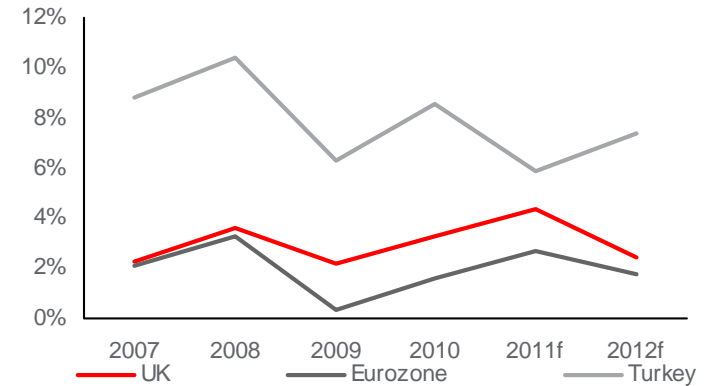
Source: HSBC Research (13 October 2011, December 2011)

Base rate



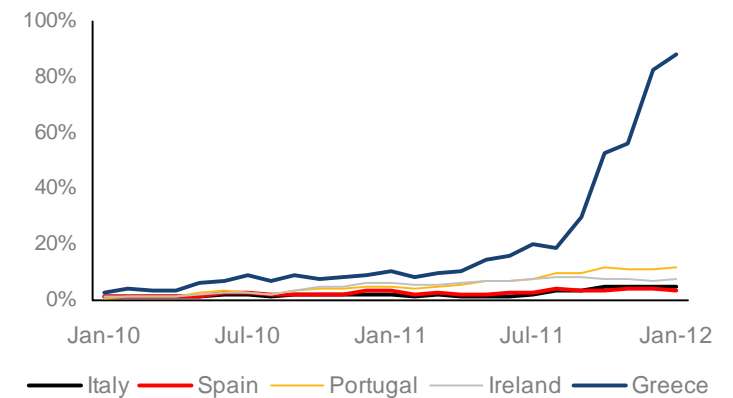
Source: Bank of England, ECB, CBRT

Inflation



Source: HSBC Research (13 October 2011, December 2011)

Sovereign CDS spreads



Source: Datastream

Changing regulation

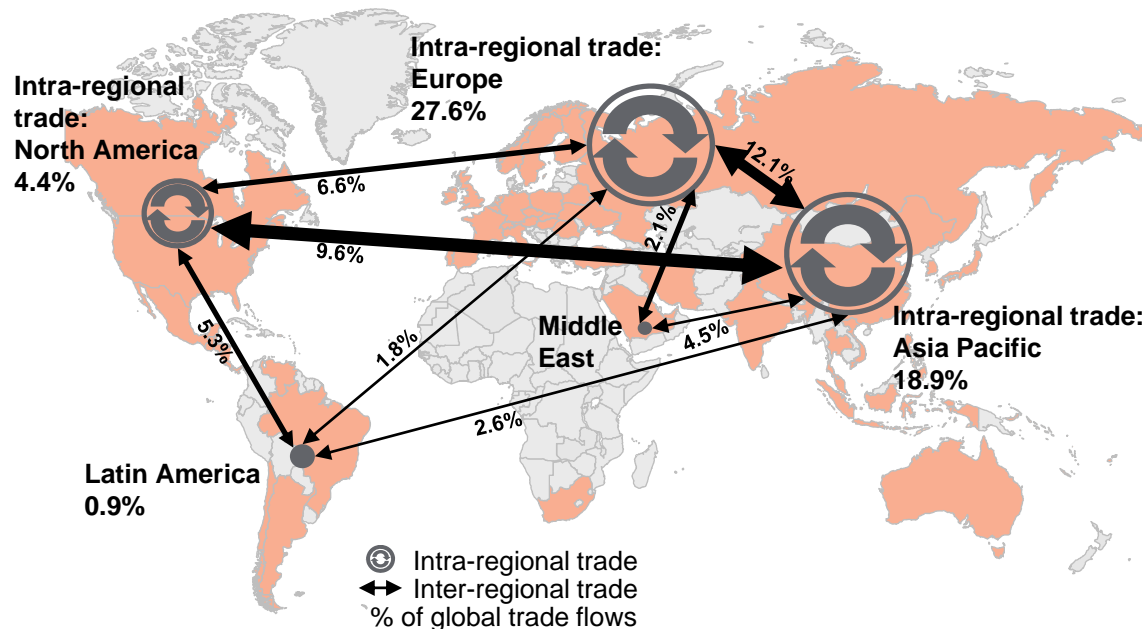
- Complex series of regulatory changes at global, regional and national levels will transform how the sector operates
- Most important developments for HSBC Bank plc:
 - Basel 3 capital, liquidity and funding requirements
 - UK's Independent Commission on Banking (ICB)
- Other current developments include:
 - Bank levy, primarily in the UK (USD570m in 2011)
 - New regulatory and supervisory frameworks in EU and UK
 - Recovery and resolution plans (EU's proposed Crisis Management Directive)

Key longer-trends remain attractive

International connectivity - Europe is the global hub for trade flows

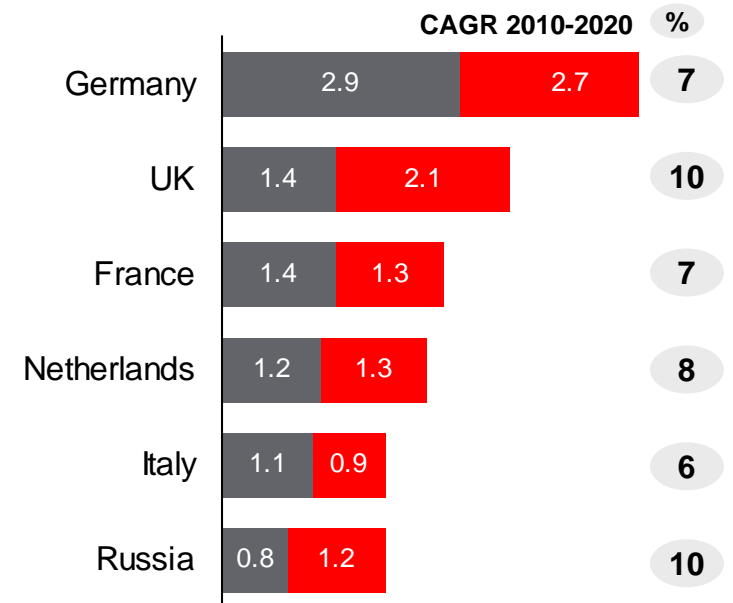
Major trade flows

2010¹



Top trade countries

Europe countries in the Top 15 global Imports and Exports, USDtrn²



■ 2010 Imports and Exports

■ Change in 2010-2020 Imports and Exports

- Among the 5 largest trade hubs in 2010, three are European: Germany, France and UK
- Intra-Europe trade is the most important trade flow (28% of total)
- Including cross-regional trade flows, Europe is part of c.50% of global trade
- Trade growth expected to outpace GDP growth

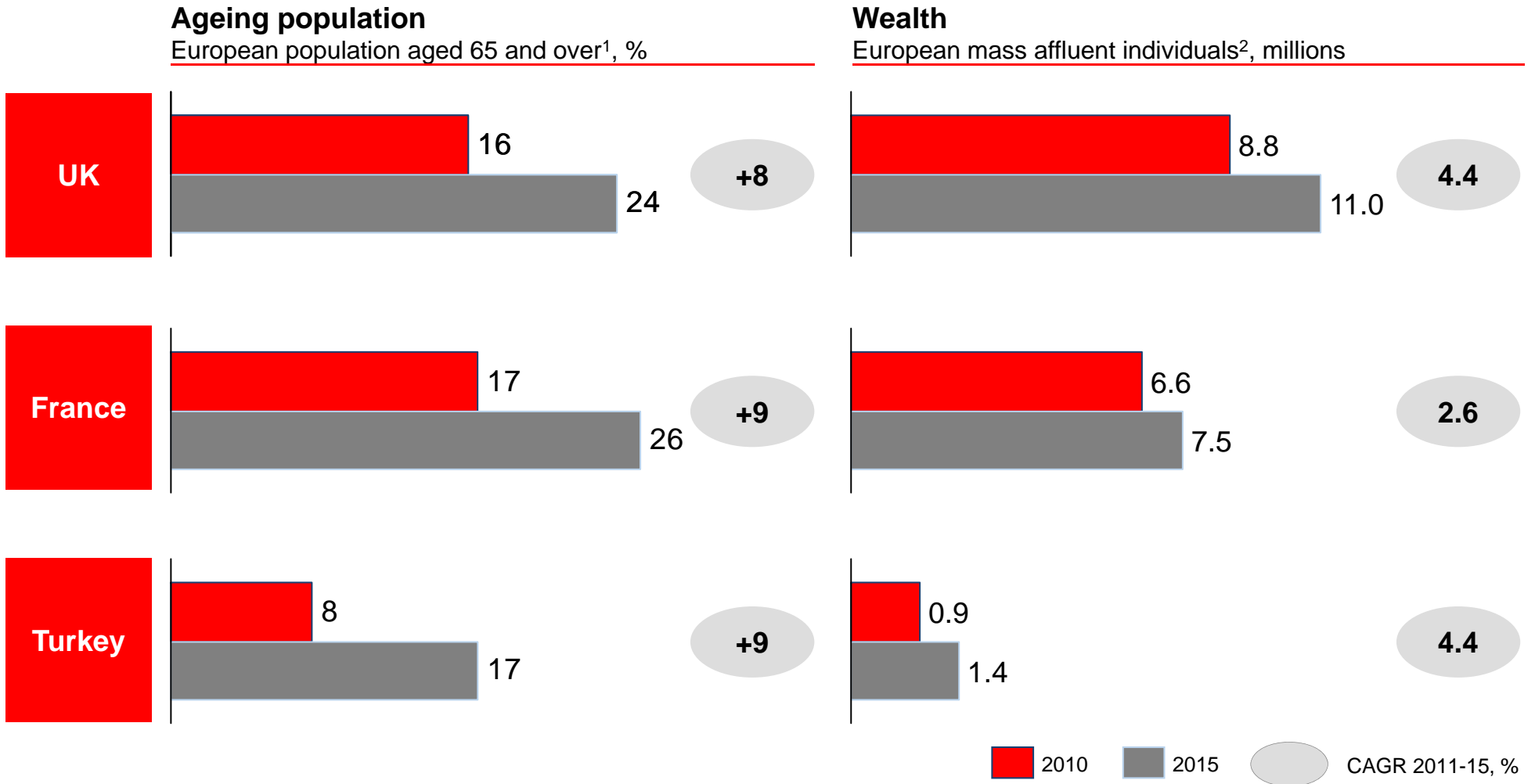
Notes:

1. Source: Delta Economics based on Top 10 trade partners for focus set of 33 countries

2. Source: Global Insights

Key longer-trends remain attractive

Wealth potential driven by ageing population and growing number of mass affluent individuals



Notes:

1. UK and France based on EU 27 OECD information; Turkey Based on World Bank and OECD

2. Mass affluent defined as >USD50,000 onshore liquid assets. Specifically excludes life and pensions assets, unquoted equity or any other fixed assets such as property.

Source: OECD Factbook 2011, Datamonitor 2011 Wealth Market Database; World Bank Ageing Report 2007

HSBC competitive advantages (Europe)

Strong balance sheet

- Advances to Deposits ratio at 88.0% (DEC11)
- Tier 1 ratio at 10.0%, total capital ratio at 14.4%¹ (DEC11)

Resilient and diversified business franchise

- Reported 2011 PBT of USD4.7bn⁵ despite challenging environment
- 40% growth in CMB profitability and resilient profits in RBWM and GPB
- Balance sheet growth in CMB and RBWM offset by reduction in GB&M

Geographical network

- Unique network connecting Mature and Faster Growing Markets with CMB and GB&M covering 19 European countries
- Well-positioned to unlock the wealth management opportunity

Strong brand and customer focus

- UK RBWM - Customer recommendation index (GBP30k+): first direct 8.6, HSBC 6.9, competitor average 6.3²
- UK CMB - Non-customer consideration³: HSBC 53%, next best peer 34%
- In France, one of the top-rated brands driven by high ratings in “momentum”, “differentiation” and “international attributes”⁴

Notes:

1. HSBC Bank plc, consolidated
2. Source: Millward Brown (average results for 2011)
3. Source: BDRC Continental. Proportion of non-HSBC customers who would consider HSBC for an international bank (businesses with GBP2-10m turnover)
4. Source: Customer research by Synovate (RBWM) and TNS (CMB)
5. Includes favourable fair value movement of USD2.9bn due to change in credit spreads on the Group's own debt held at fair value

2011 financial performance – Europe



Europe financial overview

2011 pre-tax profit of USD4.7bn, 9% higher than in 2010, including:

- Favourable fair value movements² of USD2.9bn in 2011, compared with adverse fair value movements of USD198m in 2010
- Gains in 2010 of USD107m and USD255m on the disposal of HSBC Insurance Brokers Limited and Eversholt Rail Group, respectively

61% decrease in 2011 underlying profit before tax (excluding previous items) as turmoil in eurozone sovereign debt markets dominated European market sentiment, resulting in markedly **lower revenues in GB&M**

Reported, USDm

	2009	2010	2011	2011 vs 2010
Income	23,544	22,750	24,246	+7%
Loan impairment ¹	(5,568)	(3,020)	(2,512)	-17%
Net operating income	17,976	19,730	21,734	+10%
Operating expenses	(13,988)	(15,445)	(17,069)	+11%
Associates and joint ventures	21	17	6	-65%
Profit before tax (PBT)	4,009	4,302	4,671	+9%
RoRWA	1.2%	1.3%	1.5%	
CER	59.4%	67.9%	70.4%	
Advances to Deposits ratio	88.8%	88.7%	88.0%	

Notes:

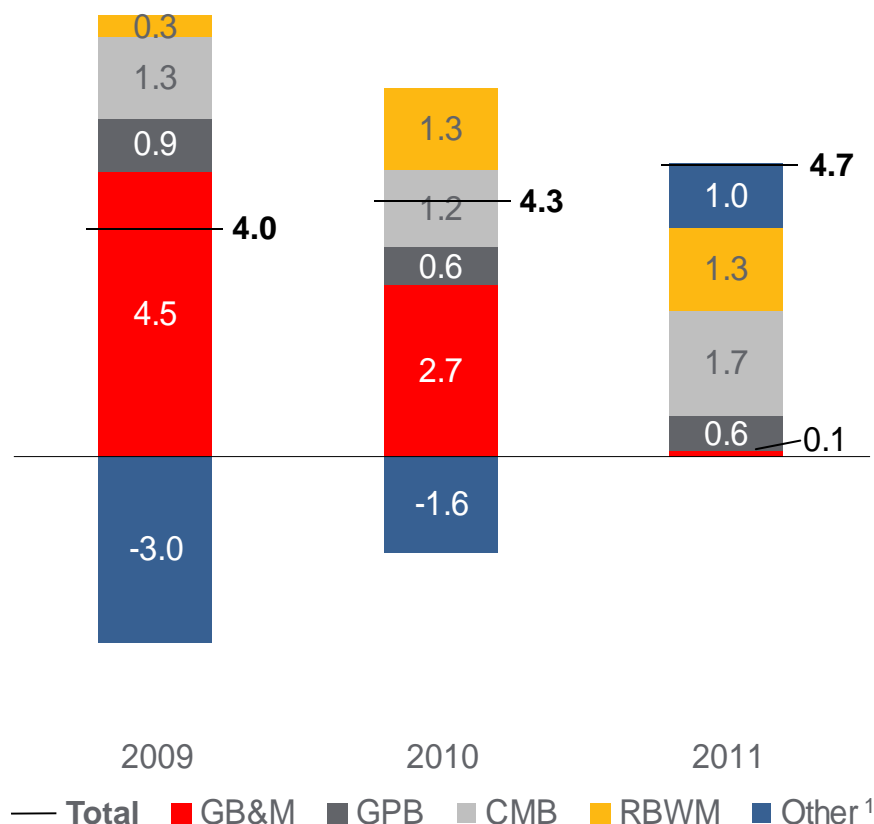
- 1 Loan impairment charges and other credit risk provisions
- 2 Due to the change in credit spreads on the Group's own debt held at fair value

Europe PBT per global business and geography

PBT impacted by lower revenues in GB&M partly offset by 40% growth in CMB

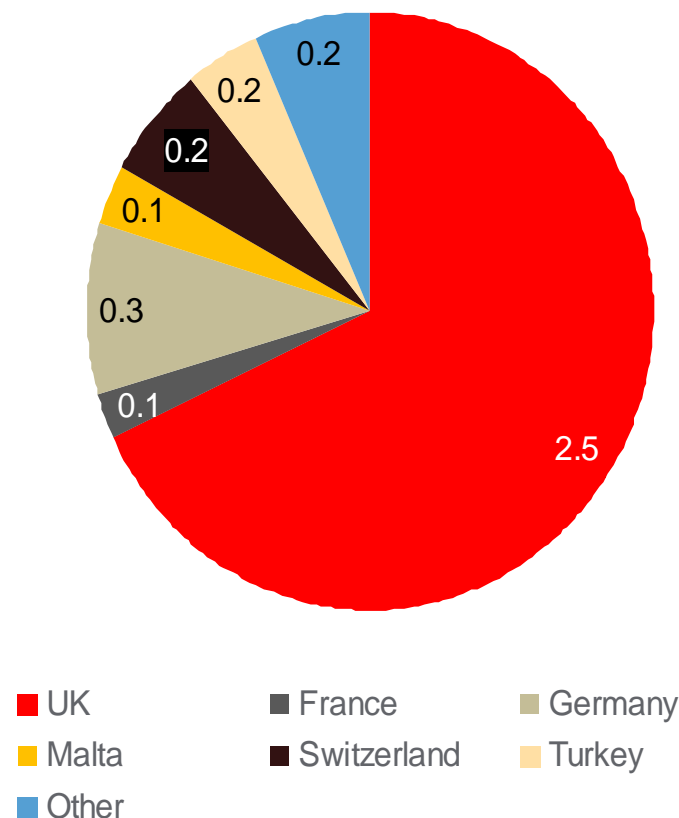
Europe PBT per global business

Reported, USDbn



Europe PBT per geography, excluding "Other¹"

Reported, 2011, USDbn



Notes:
¹ Main items reported under 'Other' are certain property activities, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value and HSBC's holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries

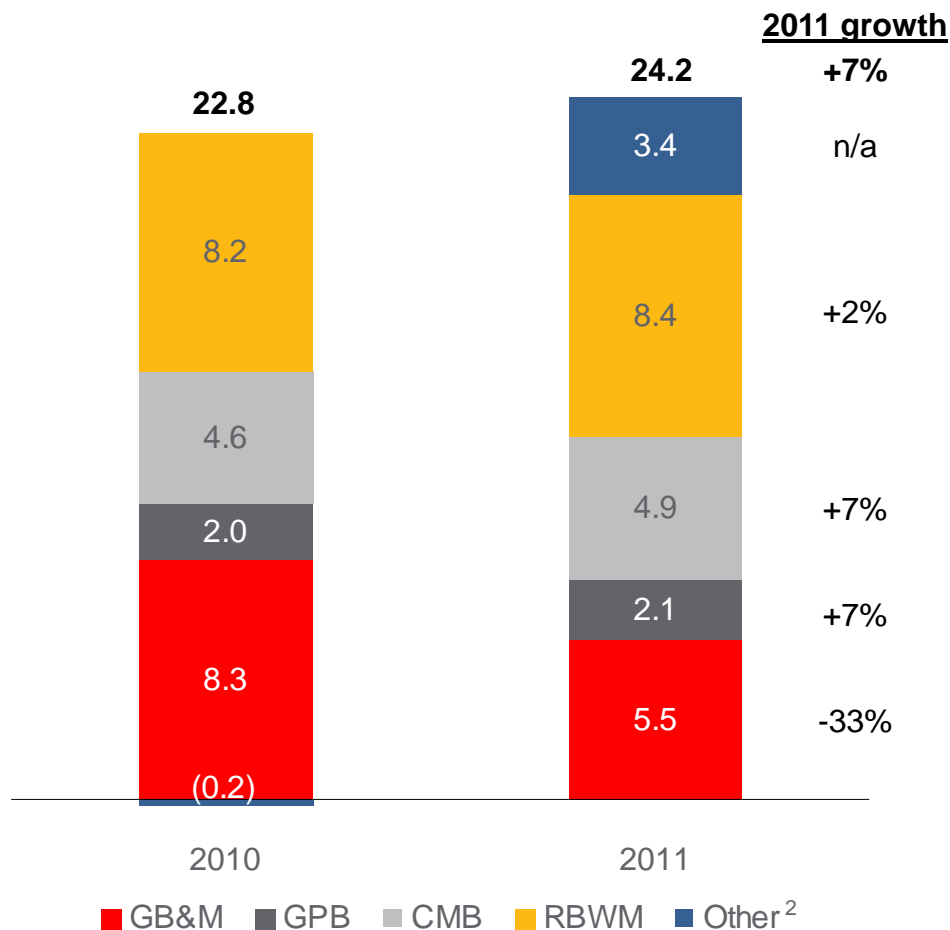
Europe revenues

Growth in CMB, RBWM and GPB offset by revenue reduction in GB&M

Europe revenues per global business

Reported, USDbn

- GB&M revenues in Credit and Rates impacted by the effect of turmoil in Eurozone sovereign debt markets
- In CMB, income growth driven by higher net interest income from an increase in term lending balances in the UK and Continental Europe
- In RBWM, income was broadly in line¹: higher net interest income benefiting from strong mortgage balance growth in the UK and strong deposit growth across the region, offset by increased costs of raising deposits
- GPB benefited from balance sheet growth and higher fees as higher market volatility resulted in higher transaction volumes



Notes:

¹ On a constant currency basis

² Main items reported under 'Other' are certain property activities, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value and HSBC's holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries

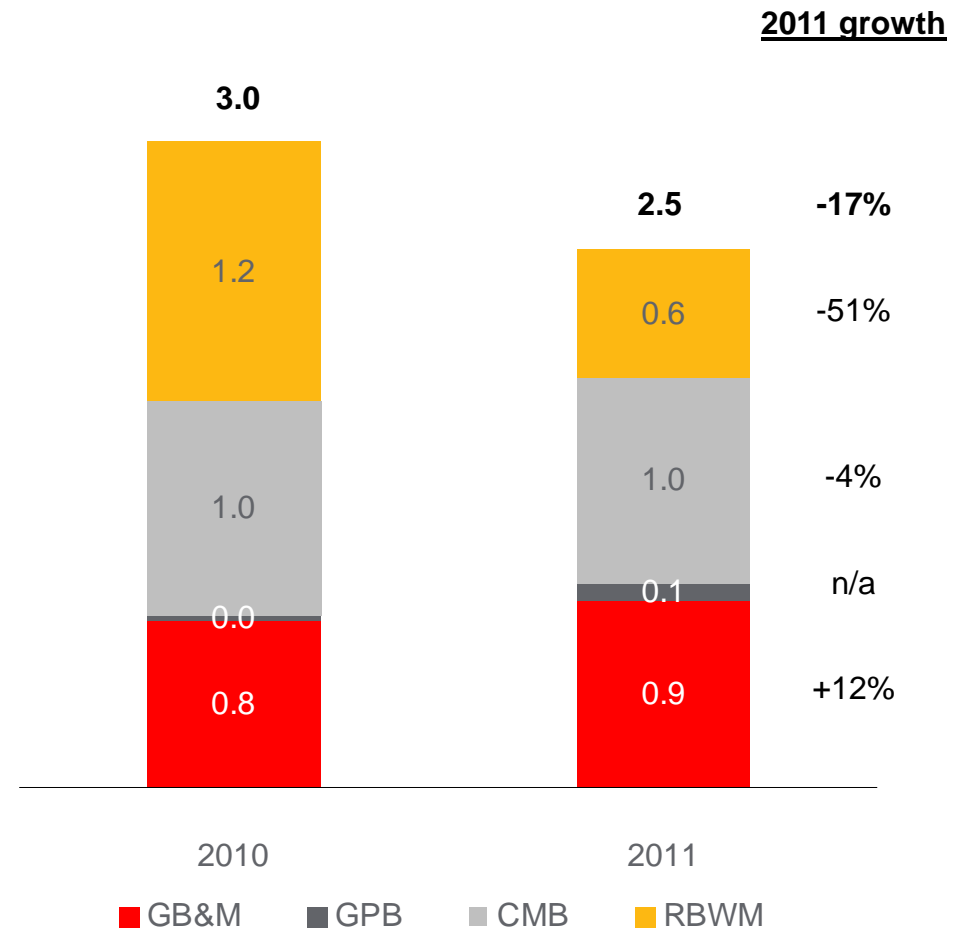
Europe loan impairment charges

Significant reduction in impairments driven by RBWM

Europe LICs¹ per global business

Reported, USDbn

- In RBWM, lower delinquency rates across both the secured and unsecured lending portfolios from a range of initiatives including a focus on monitoring and identifying customers facing financial hardship
- In CMB, loan impairment charges declined as the non-recurrence of specific provisions in the UK was partly offset by higher specific provisions related to a small number of customers in Greece
- In GB&M, charge of USD145m to write down to market value available-for-sale Greek sovereign debt now judged to be impaired. Partly offset by lower credit risk provisions on ABSs as the losses arising in the underlying collateral pools generated lower charges on ABSs
- Impairments of USD46m in our GPB and insurance businesses in relation to Greek available-for-sale debt securities



Notes:

1 Loan impairment charges and other credit risk provisions

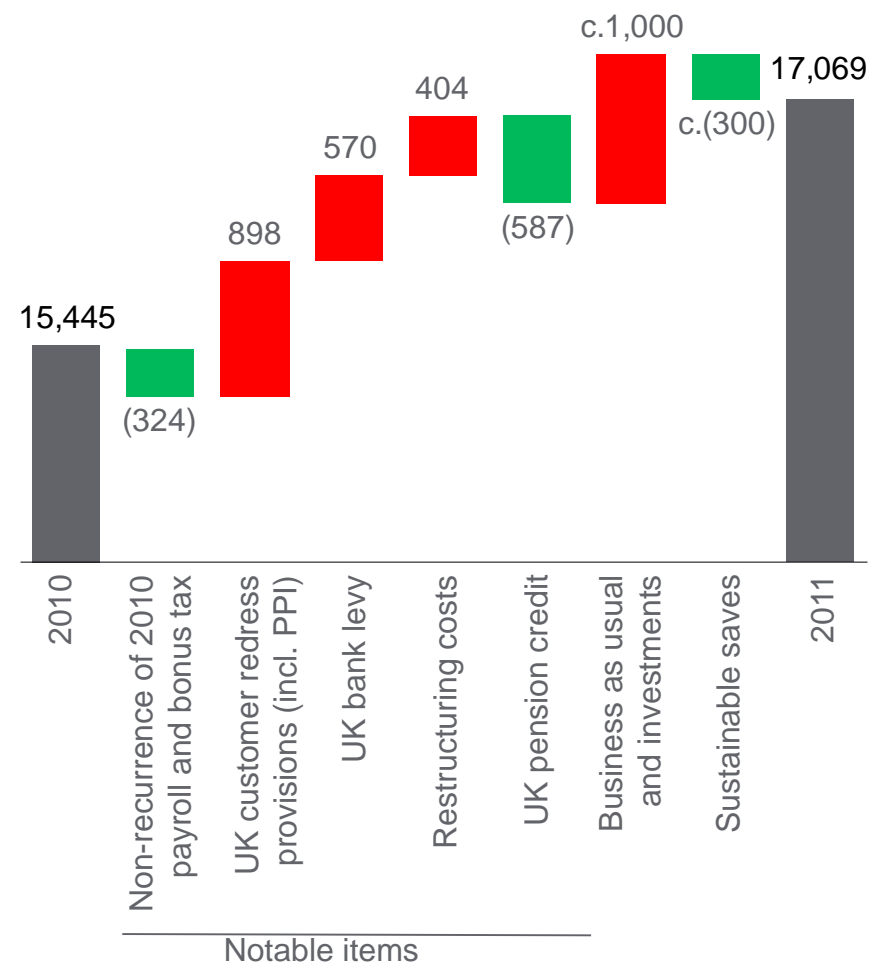
Expenses

Growth driven by significant notable items, CHF strengthening and compliance costs, partly offset by sustainable saves

Europe expenses

Reported, USDm

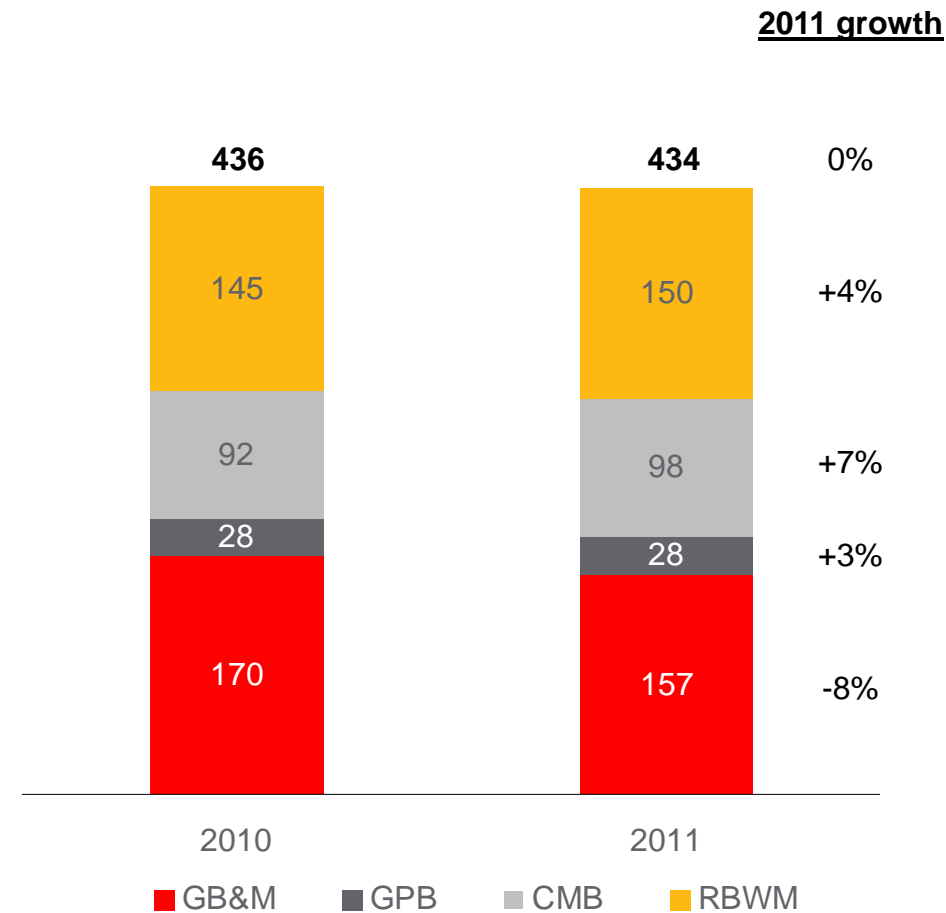
- Excluding notable items, operating expenses growth driven by:
 - Higher regulatory and compliance costs
 - Increased expenses in GBP as a result of the strengthening of the Swiss Franc
- In GB&M, excluding notable items, expenses increased:
 - Higher amortisation charges for previous years' performance shares and an acceleration in the expense recognition of current-year deferred bonus awards
 - Investment in strategic initiatives
 - Mostly offset by substantially lower performance-related awards than in 2010, reflecting the decline in revenues
- c.USD300m of sustainable savings during 2011 reinvested in strategic initiatives, including:
 - Development of Prime Services and equity market capabilities
 - Expansion of the Rates and Foreign Exchange e-commerce platforms



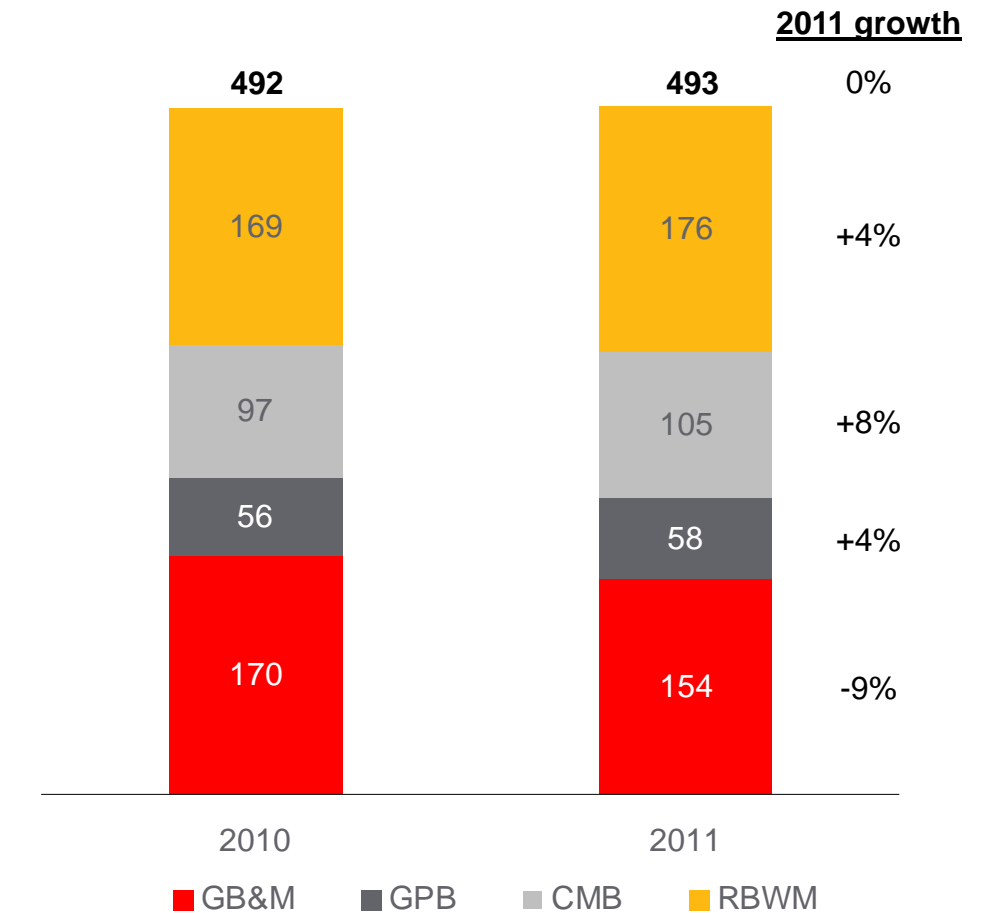
Balance sheet

Growth in CMB and RBWM offset by contraction in GB&M

Loans and advances to customers (net)
Reported, USDbn¹



Customer accounts
Reported, 2011, USDbn



Notes:

¹ Total includes loans and advances in the "Other" Global Business (USD988m in 2010 and USD696m in 2011)

Exposure to Eurozone

Strong risk management

At 31 December 2011, our Group exposure to the PIIGS¹ sovereign and agency debt was USD4.7bn, USD2.2bn lower than at the end of 2010

Exposure to banks is largely in stronger countries. Close monitoring of exposures in the peripheral Eurozone countries and regular update of our risk appetite

Exposure to other financial institutions and other corporate portfolios is largely comprised of large multinational clients with significant operations outside these countries, thus mitigating the risk

In 2011, USD212m Group impairment recognised in respect of Greek sovereign and agency exposures. No impairment in respect of exposures to Banks in peripheral countries and no significant impairment in respect of Other financial institutions and corporates' exposure

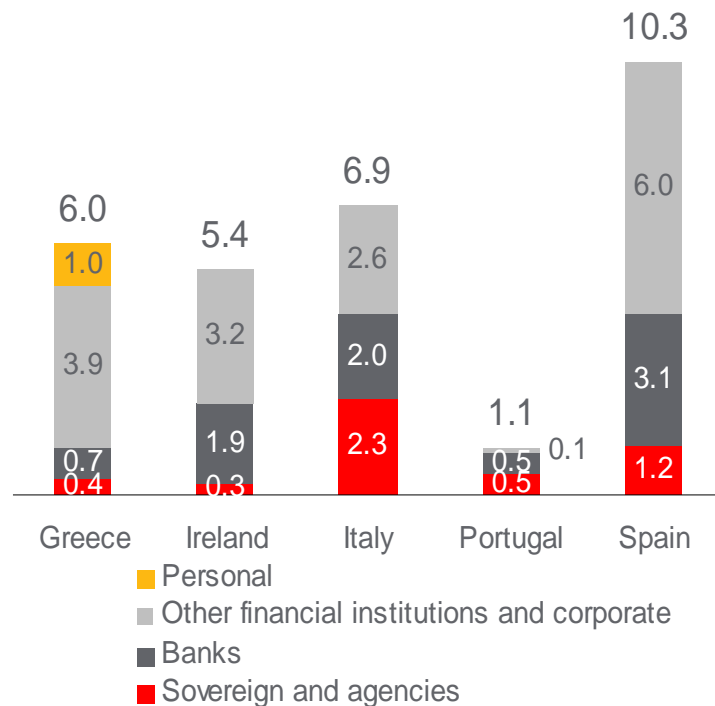
Notes:

¹ Portugal, Ireland, Italy, Greece and Spain

² Countries where our direct exposure is greater than 5% of the Group's equity at 31 December 2011

Exposure to peripheral Eurozone countries¹

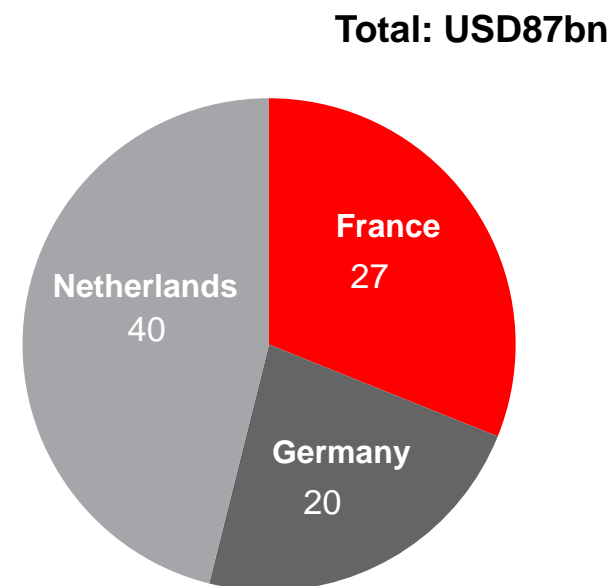
31 December 2011, USDbn, unaudited



- Greek exposure to corporates included USD2bn to Greek shipping companies who are mainly dependent on international trade

Sovereign and agencies exposure to core Eurozone countries²

31 December 2011, USDbn, unaudited



- Exposure in the Netherlands predominantly comprises cash placements with the Dutch Central Bank
- Exposure in Germany and France is commensurate to the size of our operations

Progress against Group strategy



Strategic direction and actions overview

Be the leading international bank connecting Europe with the rest of the world and capturing Europe's wealth opportunity

1 RBWM

Focus on selected markets where we have scale and growth opportunity

2 CMB

Drive international and intra-Group connectivity leveraging strong European footprint

3 GB&M

Expand franchise across the region by further enhancing product capabilities

4 GPB

Optimise market coverage and create synergies across Europe for domestic and Fastest Growing Markets clients

5 Increase capital and cost efficiency

Increase operational efficiencies through portfolio rationalisation and sustainable cost savings

RBWM

Continue to invest in UK, France and Turkey and rationalise portfolio

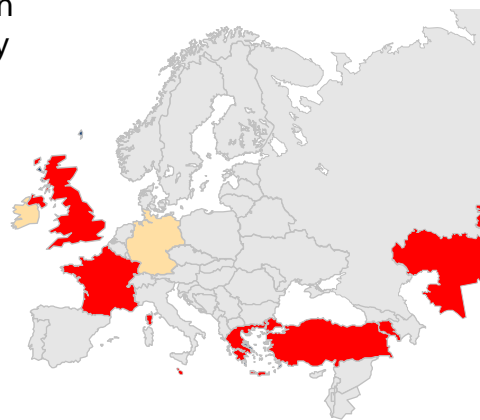
RBWM key strategic initiatives¹

- Focus investments in UK, France and Turkey and grow our wealth management franchise
- Focus on building long term sustainable relationships
- Rationalise portfolio and exit underperforming businesses (e.g. Russia)
- Optimise cost to serve via a multi-channel segmented approach

- Established positions in the UK, France, Turkey and Malta

Note:

- Germany: Asset Management only
- Ireland: Insurance only



Notes:

- 1 From May 2011 Investor Day
- 2 HSBC Bank plc, consolidated
- 3 Source: Council of Mortgage Lenders, Bank of England

2011² update

UK:

- Continuous development in Wealth Management
 - HSBC World Selection assets under management increased by 21% in the period to total c.USD4bn
 - c.USD1.9bn of assets invested via the Portfolio Investment Management Service launched in late 2010
 - Successful launch of the Global Investment Centre service in November 2011, enabling investors to hold and trade a wide range of funds online
- 10% share of new UK residential mortgage lending³
 - Above the group's total market share of 6% and the 9% share of new lending achieved in 2010
 - Average loan to value ratio of new lending at 53%

Continental Europe:

- Closure of retail banking businesses in Poland and Russia
- Refocusing the business in France, Malta, Turkey
- De-risking in Greece
- Increasingly centred on wealth management with strong emphasis on deepening customer relationships
- In France, increase in assets under management in spite of a difficult market environment

Build upon proven Leading International Business strategy

CMB key strategic initiatives¹

- Focus investments to capture regional and global FDI³ and trade flows (e.g. UK, France, Germany, Turkey)
- Strengthen connectivity by selectively extending our footprint (e.g. Switzerland)
- Enhance international product platforms and delivery channels (e.g. digital)
- Increase collaboration with GB&M

- 18 countries⁴ leveraging international connectivity
- Key markets: UK, France, Germany and Turkey



Notes:

- 1 From May 2011 Investor Day
- 2 HSBC Bank plc, consolidated
- 3 Foreign Direct Investment
- 4 Not including Italy (GB&M only operations). GB&M and CMB leverage connectivity in 19 countries

2011² update

UK:

- Further progress in becoming the leading International Bank
 - Launch of a full service Renminbi proposition
 - 19% growth in number of international customers, with related international product income up 14%
 - Trade business revenues up 18% as the value of import and export transactions grew by 19% and 33% respectively over the prior year
- Continuous support to UK businesses
 - Deposit base up 10%
 - 6% growth in total net lending despite market contraction
 - New lending to SMEs up 15% and the bank exceeded its 2011 lending intentions under the Project Merlin agreement
- Strengthening partnership with GB&M, with strong growth particularly in foreign exchange and derivative income

Continental Europe:

- Developing further the international business
 - 19% growth in number of international customers
 - Value of export transactions financed in 2011 up 33%
 - 17 countries (18 including the UK) with full Renminbi functionality. Landmark transactions in 8 markets
- Enhanced product offerings resulting in an increase in gross revenues from Trade and Receivables Finance and Payments and Cash Management
- Successful referrals to rest of the Group up 46%, majority of those to faster growing markets

Global connectivity backed by core product capabilities

GB&M key strategic initiatives¹

- Optimise market coverage: Build on London and Paris hubs, develop FIG and Multinational franchise through selective build-out
- Invest in Germany targeting top positions in selected products (e.g. fixed income, retail equity derivatives, corporate FX)
- Enhance product offering by investing in PCM, HSS, Prime Services, Equities and DCM²
- Increase cross-business collaboration and integration with other customer groups
- 2 hubs: London and Paris
- Strong product capabilities e.g. DCM, Credit, Rates, FX, PCM, HSS, Project Finance, Export Finance²



Notes:

- 1 From May 2011 Investor Day
- 2 Debt Capital Markets (DCM), Payments and Cash Management (PCM), HSBC Securities Services (HSS)
- 3 Source: Euromoney, July 2011

2011 update

- Revenues markedly lower in 2011 due to
 - Significantly lower trading revenues in Credit and Rates as turmoil in eurozone sovereign debt markets escalated,
 - Declining revenues in Balance Sheet Management and from our legacy credit portfolio
- However, strong performance in other lines of business, including Global Banking and Equities, despite the difficult trading conditions
- Continued focus on cross border initiatives to position GB&M to leverage trade flows
- Investment in technology platforms to capture medium-term opportunities in the region
 - Equities and Prime Services
 - Expansion of the Rates and Foreign Exchange e-commerce platforms
- Enhancement of Payments and Cash Management network capabilities
 - Innovative liquidity, channel and payables solutions
 - Substantial business won across the Corporate and Financial Institutions business segments



Euromoney Awards for Excellence 2011³

- Best Debt House in Western Europe
- Best Flow House in CEE
- Best Debt House in UK
- Best Debt House in Spain
- Best Debt House in Finland

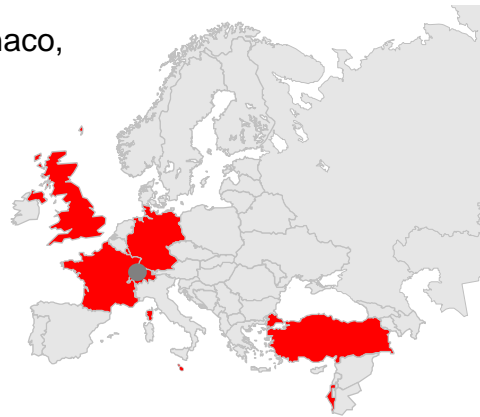
GPB

Optimise market coverage and create synergies across Europe

GPB key strategic initiatives¹

- Leverage intragroup strengths and connectivity with growth markets
- Scale up product offerings by leveraging the existing platforms across Europe
- Drive cost synergies between IT and Operations across and within countries
- Adapt to changing regulatory environment and build out domestic businesses

- Hub in Switzerland complemented by Monaco, Luxembourg and Channel Islands
- Meaningful domestic presence in UK, Germany and France



2011 update

- Revenue growth driven by increased client activity as we leveraged our global businesses' strengths and connectivity
 - Higher average lending balances particularly in the UK
 - Wider spreads following re-pricing activity
- Continuous investments in building the business
 - Further progress in building expertise in alternative investments, emerging markets and foreign exchange
 - Recruitment of additional front line staff
 - Investments in key front office systems in Switzerland and Monaco
- Consistent global proposition – products and service model tailored to each of the four client segments
- Closure of operations in Russia

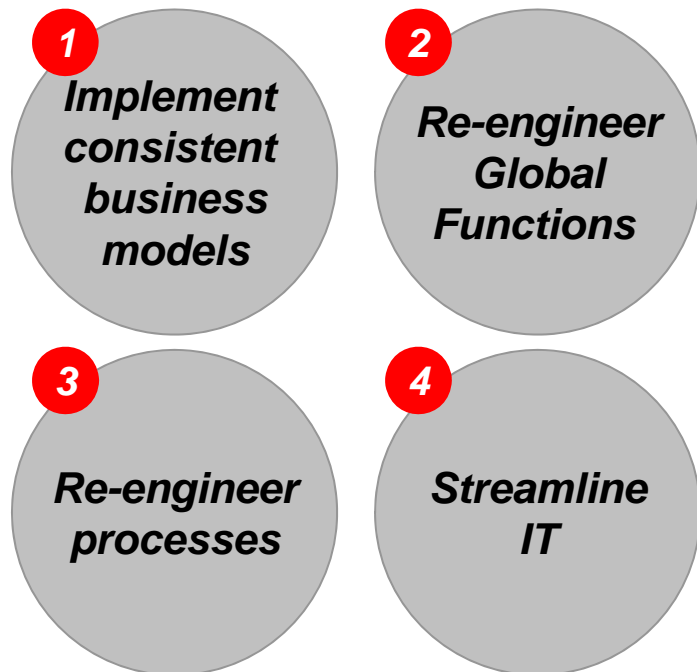
Notes:

¹ From May 2011 Investor Day

Increase operational efficiencies through portfolio rationalisation and sustainable cost savings

Key strategic initiatives

Portfolio rationalisation



2011 update

- Closure of Russia and Poland retail banking
 - Closure of Private Banking operations in Russia
 - Exit from Georgia
 - Disposal of the motor insurance business in the UK
-
- Measures to streamline our processes with the aim of lowering future costs of operations while maintaining high standard of services, particularly UK, France, Malta, Turkey and Greece. Examples:
 - Announced restructuring of UK (c.700 FTEs) and France (c.700 FTEs)
 - Premises optimisation across the region
 - 13 centres of excellence in place in UK RBWM and CMB head office
 - Internet two-factor authentication launched in the UK, driving reduction in fraud costs
 - Optimisation of the card loyalty program in Turkey
- ↓
- USD404m restructuring costs across the region
 - c.USD300m sustainable saves

Outlook and conclusions



Outlook and conclusions

- **Strong progress in implementing our strategy:**

Consolidating existing strong positions (incl. UK, France, Germany)

Leveraging connectivity (CMB, GBM, GPB)

Driving RBWM in selected markets where we have scale

Increasing operational efficiencies through portfolio rationalisation and sustainable cost savings

- **Building on strong competitive advantages:**

Strong balance sheet

Resilient and diversified business franchise

Unique network connecting Mature and Faster Growing Markets

Strong brand and customer focus