



Chasing growth in a Constrained Environment

14th European CEO Seminar

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HSBC 



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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

**A challenging economic and regulatory environment in Europe
but attractive long-term prospects**

Section 1

Unique positioning offers great structural advantage

Section 2

Good progress against strategic direction

Section 3

Key messages

Very challenging economic and regulatory environment in Europe represents the key risk that HSBC is currently facing

However, fundamentals and long-term prospects remain attractive driven by trade flows and wealth creation

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

Increasing pace in strategy implementation with good progress in 1Q 2012

Implementing Target Business and Operational models to simplify the organisation and generate sustainable cost savings

Challenging environment but long-term prospects remain attractive



The backdrop continues to deteriorate

Economic instability

On-going Eurozone crisis

- Downward revision to global and regional GDP forecasts
- Elevated Eurozone challenges
- Greek firewall may only be wishful thinking



3 Key Eurozone scenarios

- **Continued:** Successful debt restructuring, limited contagion effects outside the Eurozone
- **Greek exit:** contagion to other peripheral countries, deep recession in Europe
- **Break-up:** peripheral countries leave the Eurozone, defaults of major European banks and significant impact outside Eurozone

HSBC actions to minimise exposure

Exposure to Peripheral Eurozone:

- Net exposure to Sovereign and Banks continues to be managed carefully and proactively
- Strong focus on redenomination risk
- Particular attention on Greece

Exposure to Eurozone:

- Right-sizing of limits to Eurozone banks

Intragroup exposures:

- Reduction in Euro-denominated short-term inter-group funding with/between HSBC entities in France, UK, Germany and Switzerland

The backdrop continues to deteriorate

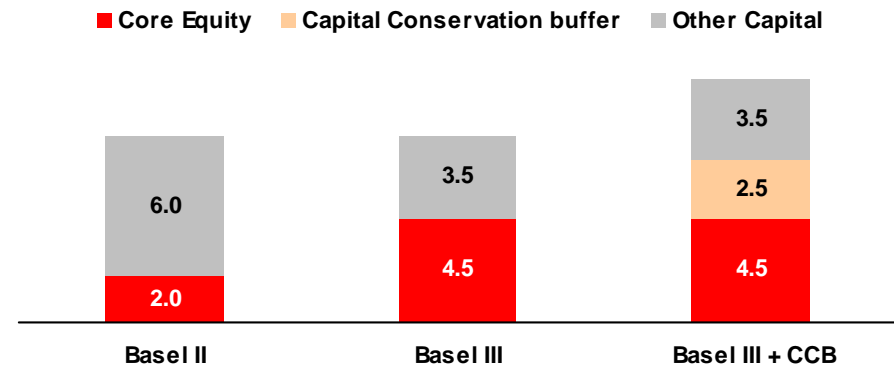
Regulatory pressure

Pace and quantum of regulatory reform

- Increasingly intensive and intrusive supervision by regulators¹
- New regulatory and supervisory frameworks in the UK (e.g. Financial Services Bill)
- Further financial sector funding and capital support needed in Europe
- Uneven scope and speed of implementation of Basel III
- Increased attention on Recovery and Resolution Planning
- Expansion of the UK Bank Levy
- Ring-fencing debate in UK (Vickers) and EU (Liikanen) still uncertain

Higher expected minimum capital levels

- Impact of Basel III:
 - Higher capital ratios
 - Quality of capital: less instruments qualify as capital
 - RWA increases



- Individual regulators have their own additional requirements
 - FSA's Individual Capital Guidance (ICG)
 - FSA's Capital Planning Buffer
 - The ICB recommended a further increase in minimum capital levels

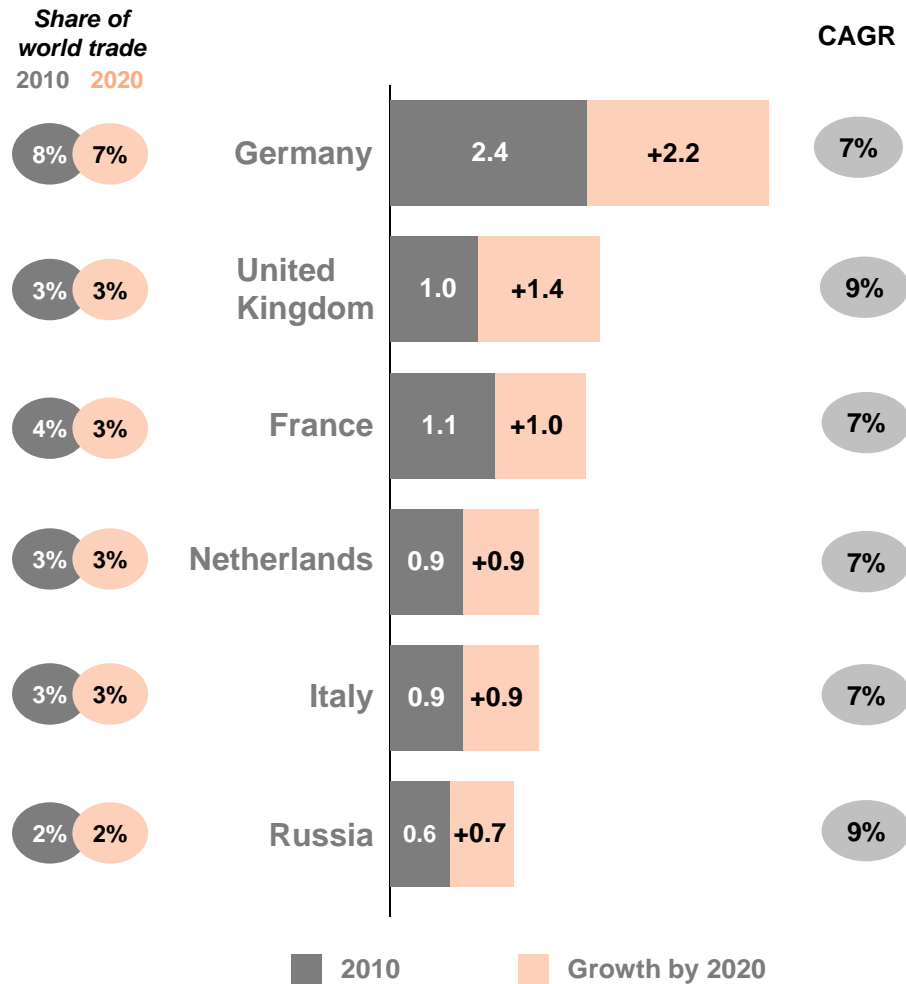


HSBC will have to adjust its business model in Europe to maintain sufficient capital to meet the new larger regulatory requirements

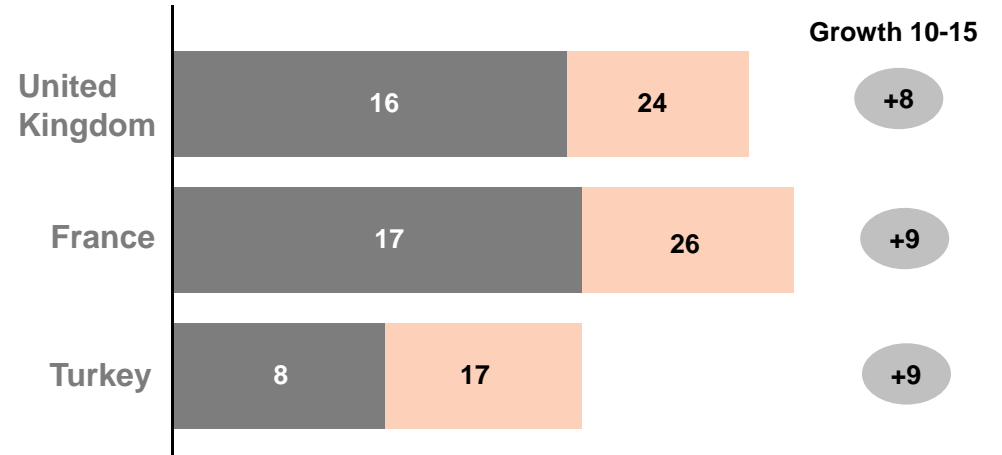
However long-term prospects remain attractive in Europe

Internationally connected and continued demand for wealth

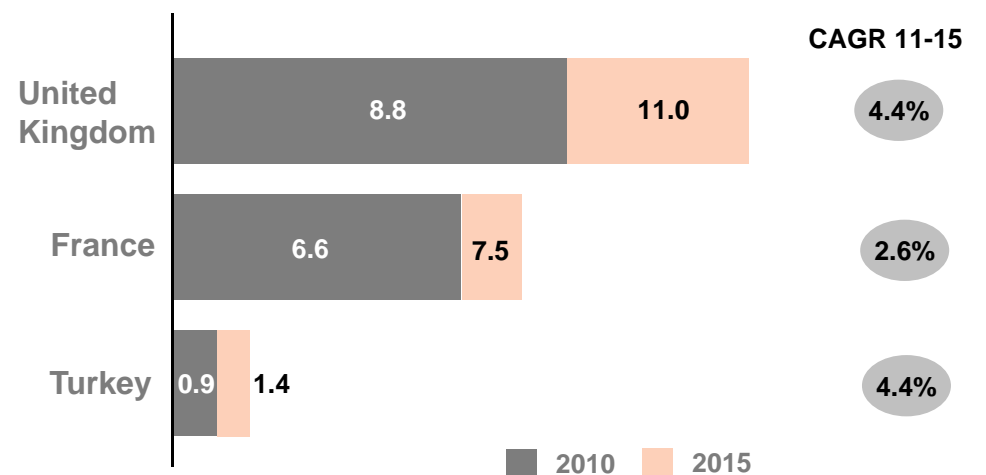
Top trade countries in 2020
Europe countries in the Top 15 global
 Imports and exports¹, USDbn



Ageing population
 European population aged 65 and over², %



Growing wealth
 European mass affluent individuals³, Millions



Notes:
 1 Goods only. Source: Global Insights
 2 UK and France based on EU 27 OECD information; Turkey Based on World Bank and OECD
 3 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

Unique positioning offers great structural advantage



HSBC is well positioned to face these challenges given its strengths and distinctive capabilities

- I A strong balance sheet and resilient financials**
- II A diversified business franchise and a clear strategic direction**
- III A unique geographic network**
- IV A strong brand and customer focus**

A strong balance sheet and resilient financials in Europe despite the challenging environment

	Key Metrics	Group, FY11	Europe, FY11	Europe, 1Q12	
1	Capital & Liquidity	Core Tier 1 Ratio (%)	10.1		
		ADR (%)	75.0	88.0	
2	Returns	Reported PBT (USDbn)	21.9	4.7	(1.0)
		PBT ¹ excl. FVOD (USDbn)	17.7	1.7	1.0
		Reported RoRWA (%)	1.9	1.5	(1.2)
		RoRWA ¹ excl. FVOD (%)	1.5	0.5	1.1
3	Efficiency	Reported CER (%)	57.5	70.4	116.7
		CER ¹ excl. FVOD (%)	61.0	80.1	77.7
		Sustainable Saves Achieved (USDm)	c.900	c.300	c.120

Notes:

1 Excludes changes in the Fair Value of Own Debt attributable to credit spreads

Four integrated Global Businesses

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 Foster collaboration across Group Businesses

Drive referrals and cross-business revenues

6 Increase capital and cost efficiency

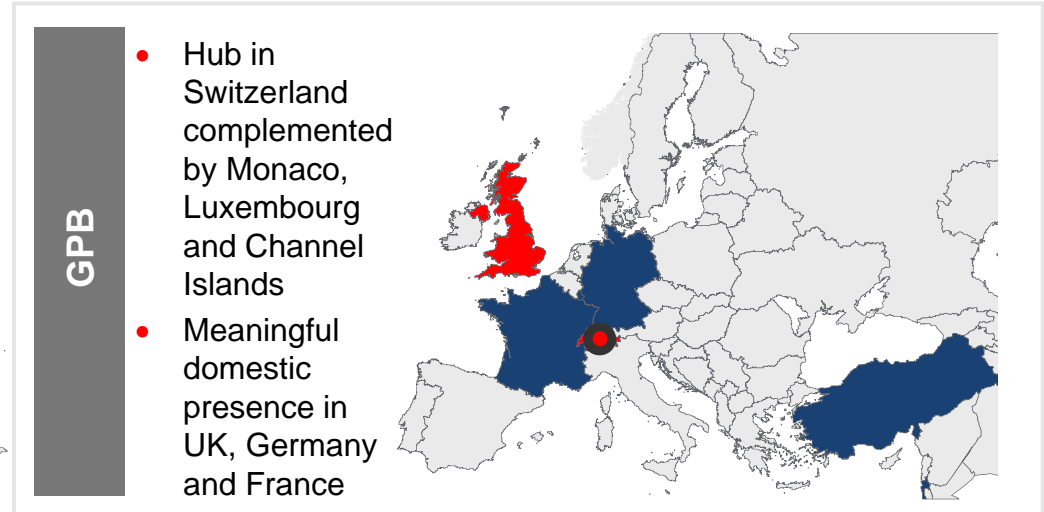
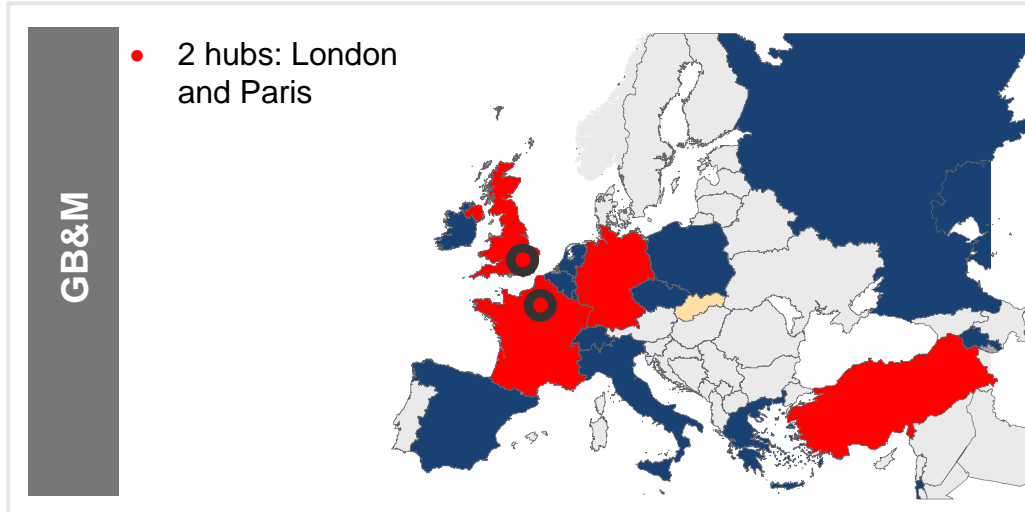
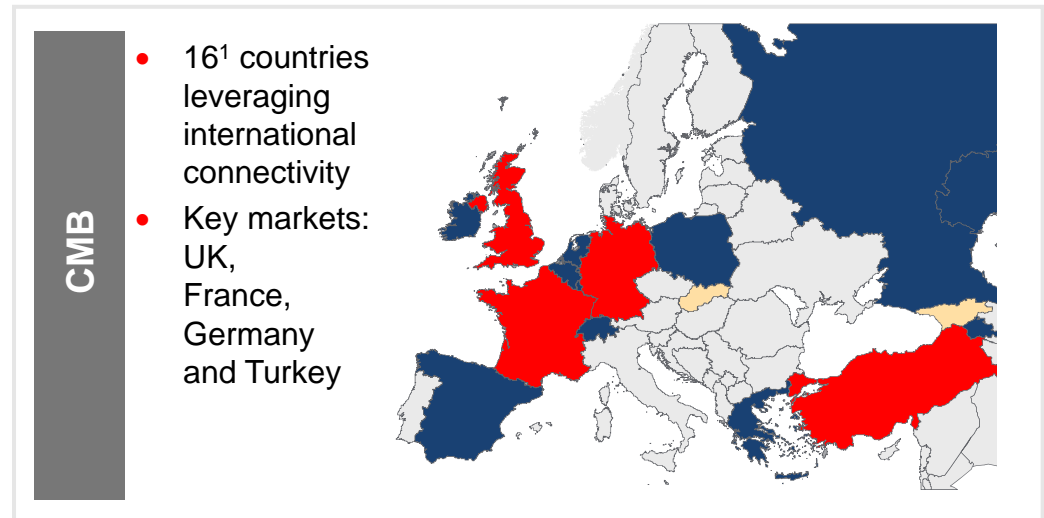
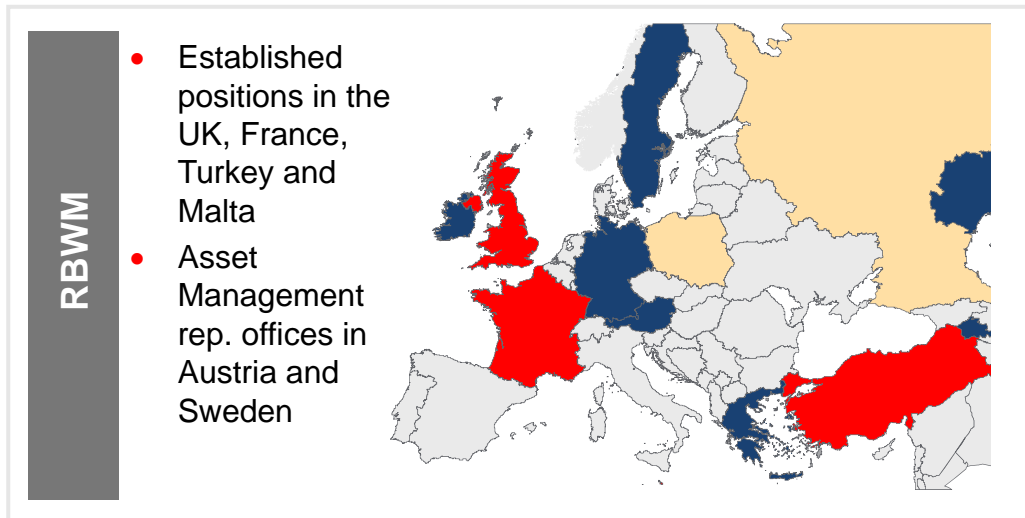
Increase operational efficiencies through portfolio rationalisation and sustainable cost savings

HSBC has exposure to markets with strong fundamentals driving wealth creation and international connectivity

A cohesive portfolio of markets in Europe



HSBC network in Europe



Notes:
1 Excluding exit markets (ie Slovakia and Georgia)

Recognised brand and cross-border capabilities turn into major deals

Selected European transactions May 2012 YTD



France Telecom

USD3.4bn Public Offer for Egyptian Company for Mobile Services (ECMS)

Financial Adviser, Guarantor and Custodian

- ▶ One of the largest cross-border M&A transactions in Egypt



KUVEYTÜRK

Turkey

USD350m RegS Sukuk

Joint Lead Manager and Bookrunner

- ▶ Continued strength in both Emerging Markets and Islamic Finance. First benchmark DCM issuance in sukuk format out of Turkey



Republic of Poland

EUR 527m
10yr Schuldschein

Sole Lead Manager and Bookrunner

- ▶ Poland's largest NSV to date which was delivered through close partnership between HSBC teams in London, Dusseldorf and Warsaw



UniCredit

EUR7.5bn rights issue

Joint Bookrunner

- ▶ Largest global equity issue in 2012YTD – represents an essential step in the recapitalisation of the European banking sector post the EBA stress tests

GDF SUEZ

GDF Suez

EUR 3bn Triple-Tranche Fixed Rates Notes, 3yr, 6yr, 10yr

Global Coordinator and Joint Bookrunner

- ▶ Continued strength in coverage for Investment-Grade corporates in Europe



Acquisition of CPA Global by Cinven

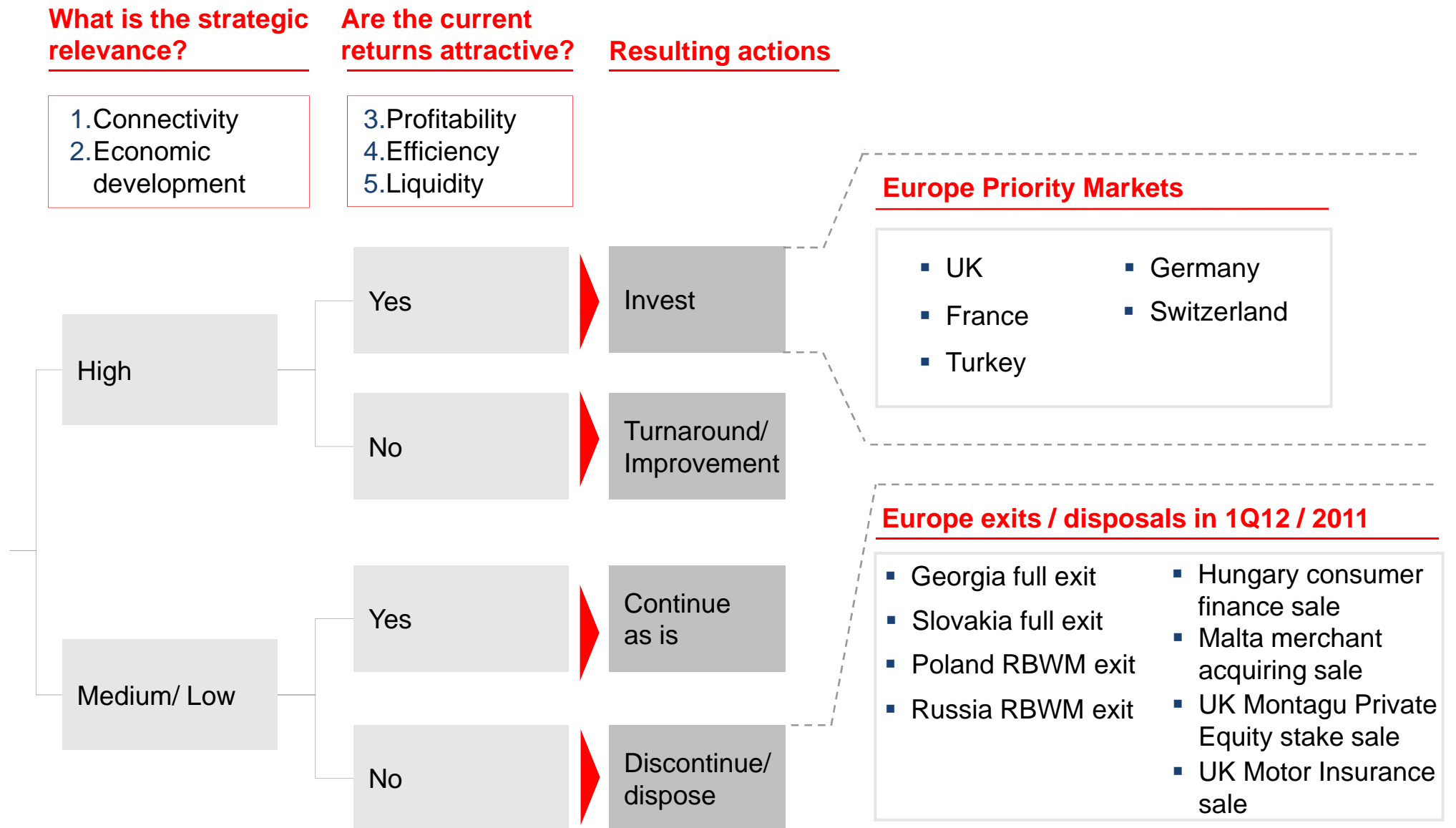
Financial Adviser to vendor Intermediate Capital Group. Global Coordinator, Mandated Lead Arranger and Physical Bookrunner for the GBP555m financing backing the acquisition by Cinven

- ▶ Close collaboration between Global Banking and Commercial Banking and across multiple products and clients

Good progress against strategic direction



We continue to use the five filters to optimise our business and geographic mix and to improve our returns



Good progress against Group's strategic priorities

I Simplify

Group priorities

- Portfolio discipline (Five Filters)
- Organisation, processes and procedures

II Restructure

-
- Reposition elements of GPB business model
 - GB&M structurally challenged products

Achievements in Europe

- Reduced complexity in our European portfolio
 - Continued footprint simplification (Slovakia full exit in Q1 2012) after 2011 exits
 - Implementation of Target business and operating models across Global Businesses well on track
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- Positioning GPB for growth while implementing highest industry standards
 - Implementation of global operating models
 - Further collaboration with CMB and GB&M
 - Undertaking necessary actions in GB&M to address industry challenges
 - Actively managing down the run-off of legacy Global Markets business
 - Managing down trading inventory and optimising RWA consumption

Good progress against Group's strategic priorities

III Grow

Group priorities

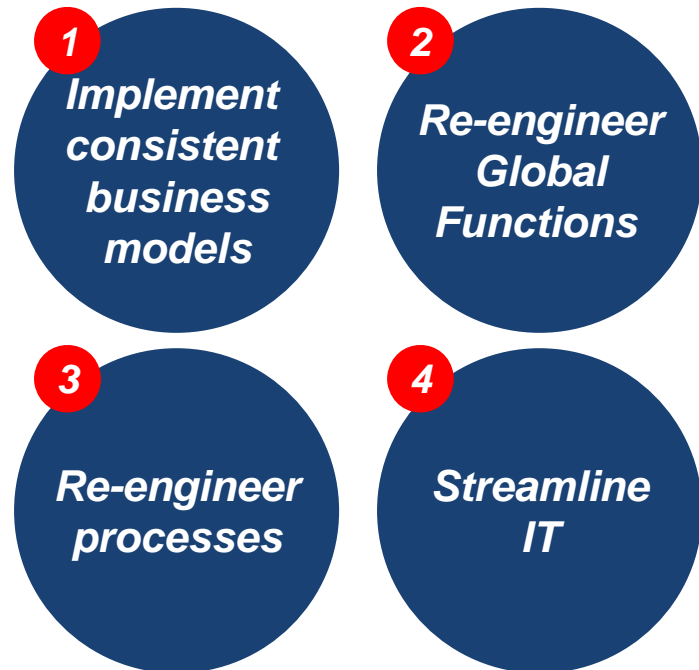
- Continued strategic initiatives
- Integration of Global Businesses
- Capital commitment to priority growth markets

Achievements in Europe

- Continued development in Wealth Management
- Further positioning CMB on international businesses to deliver sustainable strong results
- Good results through increased collaboration between Global Businesses in Europe
 - Enhanced coverage of CMB clients by GB&M
 - Increased referrals between CMB and GPB
 - Meaningful engagement between GPB and RBWM
- Reinforced focus on European priority growth markets (UK, France, Germany, Switzerland, Turkey)

Increase operational efficiencies through portfolio rationalisation and sustainable cost savings

Key strategic initiatives



Update

- 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. Examples:
 - Announced restructuring of UK (c.2,200 FTEs) and France (c.700 FTEs)
 - Premises optimisation across the region
 - 13 centres of excellence in place in UK RBWM
 - Internet two-factor authentication launched in the UK, driving reduction in fraud costs
 - Optimisation of the card loyalty program in Turkey

-
- c.USD120m of sustainable savings during 1Q12 within operating expenses in Europe
 - Continued headcount reduction since 31DEC11

Outlook and conclusions



Outlook and conclusions

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

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

Leveraging connectivity (CMB, GB&M, 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

- **Navigate the economic and regulatory environment**

Continue to monitor the Eurozone and reduce exposure

Adapt to the changing regulatory landscape