Chasing growth in a Constrained Environment
14th European CEO Seminar

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13 June 2012
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 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.
A challenging economic and regulatory environment in Europe but attractive long–term prospects  

Unique positioning offers great structural advantage  

Good progress against strategic direction  

Section 1

Section 2

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 regulators
- 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

Notes:
1 FSA Business Plan
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

<table>
<thead>
<tr>
<th>Share of world trade</th>
<th>CAGR</th>
<th>Growth by 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2020</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>2.4</td>
<td>+2.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.0</td>
<td>+1.4</td>
</tr>
<tr>
<td>France</td>
<td>1.1</td>
<td>+1.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.9</td>
<td>+0.9</td>
</tr>
<tr>
<td>Italy</td>
<td>0.9</td>
<td>+0.9</td>
</tr>
<tr>
<td>Russia</td>
<td>0.6</td>
<td>+0.7</td>
</tr>
</tbody>
</table>

Ageing population
European population aged 65 and over², %

<table>
<thead>
<tr>
<th>Growth 10-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Turkey</td>
</tr>
</tbody>
</table>

Growing wealth
European mass affluent individuals³, Millions

<table>
<thead>
<tr>
<th>CAGR 11-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Turkey</td>
</tr>
</tbody>
</table>

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.
Unique positioning offers great structural advantage
HSBC is well positioned to face these challenges given its strengths and distinctive capabilities

1. A strong balance sheet and resilient financials
2. A diversified business franchise and a clear strategic direction
3. A unique geographic network
4. A strong brand and customer focus
A strong balance sheet and resilient financials in Europe despite the challenging environment

<table>
<thead>
<tr>
<th>Key Metrics</th>
<th>Group, FY11</th>
<th>Europe, FY11</th>
<th>Europe, 1Q12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Capital &amp; Liquidity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Tier 1 Ratio (%)</td>
<td>10.1</td>
<td>88.0</td>
<td></td>
</tr>
<tr>
<td>ADR (%)</td>
<td>75.0</td>
<td>88.0</td>
<td></td>
</tr>
<tr>
<td>2. Returns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reported PBT (USDbn)</td>
<td>21.9</td>
<td>4.7</td>
<td>(1.0)</td>
</tr>
<tr>
<td>PBT₁ excl. FVOD (USDbn)</td>
<td>17.7</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Reported RoRWA (%)</td>
<td>1.9</td>
<td>1.5</td>
<td>(1.2)</td>
</tr>
<tr>
<td>RoRWA₁ excl. FVOD (%)</td>
<td>1.5</td>
<td>0.5</td>
<td>1.1</td>
</tr>
<tr>
<td>3. Efficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reported CER (%)</td>
<td>57.5</td>
<td>70.4</td>
<td>116.7</td>
</tr>
<tr>
<td>CER₁ excl. FVOD (%)</td>
<td>61.0</td>
<td>80.1</td>
<td>77.7</td>
</tr>
<tr>
<td>Sustainable Saves Achieved (USDm)</td>
<td>c.900</td>
<td>c.300</td>
<td>c.120</td>
</tr>
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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

- Established positions in the UK, France, Turkey and Malta
- Asset Management rep. offices in Austria and Sweden

- 16\(^\d\) countries leveraging international connectivity
- Key markets: UK, France, Germany and Turkey

- 2 hubs: London and Paris
- Hub in Switzerland complemented by Monaco, Luxembourg and Channel Islands
- Meaningful domestic presence in UK, Germany and France

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

<table>
<thead>
<tr>
<th>France Telecom</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 3bn Triple-Tranche Fixed Rates Notes, 3yr, 6yr, 10yr</td>
<td>USD 350m RegS Sukuk</td>
</tr>
<tr>
<td>Global Coordinator and Joint Bookrunner</td>
<td>Joint Lead Manager and Bookrunner</td>
</tr>
<tr>
<td>Continued strength in coverage for Investment-Grade corporates in Europe</td>
<td>Continued strength in both Emerging Markets and Islamic Finance. First benchmark DCM issuance in sukuk format out of Turkey</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Republic of Poland</th>
<th>UniCredit</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR 527m 10yr Schuldschein</td>
<td>EUR 7.5bn rights issue</td>
</tr>
<tr>
<td>Sole Lead Manager and Bookrunner</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Poland’s largest NSV to date which was delivered through close partnership between HSBC teams in London, Dusseldorf and Warsaw</td>
<td>Largest global equity issue in 2012 YTD – represents an essential step in the recapitalisation of the European banking sector post the EBA stress tests</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GDF Suez</th>
<th>CPA GLOBAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR 3bn Triple-Tranche Fixed Rates Notes, 3yr, 6yr, 10yr</td>
<td>Acquisition of CPA Global by Cinven</td>
</tr>
<tr>
<td>Global Coordinator and Joint Bookrunner</td>
<td>Financial Adviser to vendor Intermediate Capital Group. Global Coordinator, Mandated Lead Arranger and Physical Bookrunner for the GBP555m financing backing the acquisition by Cinven</td>
</tr>
<tr>
<td>Continued strength in coverage for Investment-Grade corporates in Europe</td>
<td>Close collaboration between Global Banking and Commercial Banking and across multiple products and clients</td>
</tr>
</tbody>
</table>
Good progress against strategic direction
We continue to use the five filters to optimise our business and geographic mix and to improve our returns.

**What is the strategic relevance?**
- Connectivity
- Economic development

**Are the current returns attractive?**
- Profitability
- Efficiency
- Liquidity

**Resulting actions**
- Invest
- Turnaround/Improvement
- Continue as is
- Discontinue/dispose

**Europe Priority Markets**
- UK
- France
- Turkey
- Germany
- Switzerland

**Europe exits / disposals in 1Q12 / 2011**
- Georgia full exit
- Slovakia full exit
- Poland RBWM exit
- Russia RBWM exit
- Hungary consumer finance sale
- Malta merchant acquiring sale
- UK Montagu Private Equity stake sale
- UK Motor Insurance sale

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- UK Montagu Private Equity stake sale
- UK Motor Insurance sale
Good progress against Group’s strategic priorities

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

## 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

1. Implement consistent business models
2. Re-engineer Global Functions
3. Re-engineer processes
4. Streamline IT

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