



# HSBC France – Activity and strategy

## Barclays Capital Reverse Roadshow

Matthieu Kiss – Chief Financial Officer, HSBC France

June 2012

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 HSBC in France. These forward-looking statements represent HSBC France 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 will be available in our Annual Report. Past performance cannot be relied on as a guide to future performance**

**Unless stated otherwise, the financial figures in this presentation are based on IFRS accounting rules and are for the HSBC in France perimeter, which primarily comprises the operations of HSBC France, HSBC Assurances and the Paris Branch of HSBC Bank plc (excluding intra-Group funding costs). These figures have been reconciled with the consolidated accounts of HSBC France, as subject to external audit. Procedures on consolidated financial statements are being conducted by statutory auditors**

# HSBC France

France market and strategic overview



# HSBC Group's cohesive portfolio of markets

France confirmed as a priority growth market for the Group

	Hong Kong and rest of Asia Pacific	Europe	Middle East and North Africa	North America	Latin America
<b>'Home markets'</b>	<ul style="list-style-type: none"> <li>Hong Kong<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>United Kingdom</li> </ul>			
<b>Priority Growth markets</b>	<ul style="list-style-type: none"> <li>Australia</li> <li>Mainland China</li> <li>India</li> <li>Indonesia</li> <li>Malaysia</li> <li>Singapore</li> <li>Taiwan</li> <li>Vietnam</li> </ul>	<ul style="list-style-type: none"> <li><b>France</b></li> <li>Germany</li> <li>Switzerland</li> <li>Turkey</li> </ul>	<ul style="list-style-type: none"> <li>Egypt</li> <li>Saudi Arabia</li> <li>UAE</li> </ul>	<ul style="list-style-type: none"> <li>Canada</li> <li>USA</li> </ul>	<ul style="list-style-type: none"> <li>Argentina</li> <li>Brazil</li> <li>Mexico</li> </ul>
<b>Network markets</b>	<ul style="list-style-type: none"> <li>Operations primarily focused on CMB and GB&amp;M international clients and businesses</li> <li>Together with home and priority growth markets these concentrate c.85-90% of international trade and capital flows</li> </ul>				
<b>Small markets</b>	<ul style="list-style-type: none"> <li>Markets where HSBC has profitable scale and focused operations</li> <li>Representative Offices</li> </ul>				

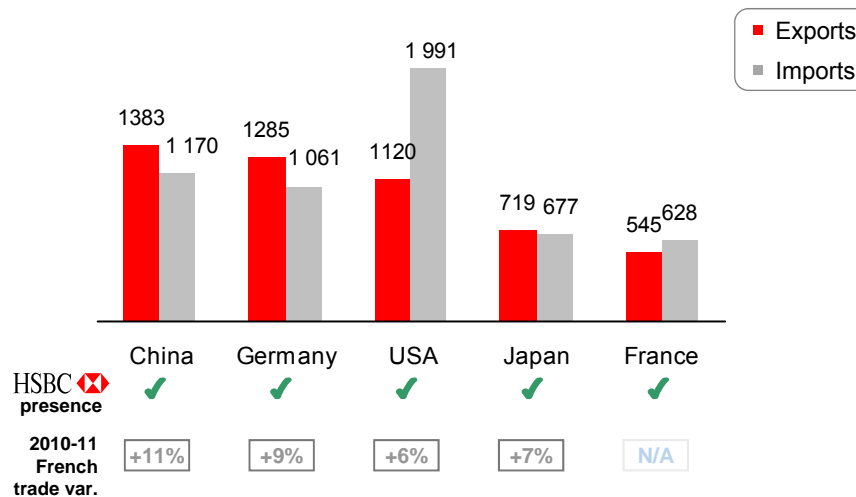
Note:  
1 Includes Hang Seng Bank

# Local economy

France is a major player in world trade, with a wealthy population and low sovereign risk

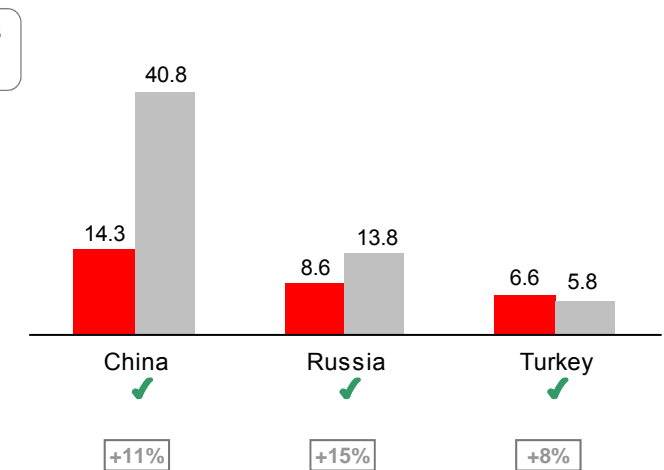
- **5<sup>th</sup> largest GDP in the world** for large countries (>20m pop), France **rank 5<sup>th</sup>** in terms of **GDP/Capita =>** opportunity for Premier / Advance Proposition
- **2<sup>nd</sup> largest trading nation** in Western Europe and **5<sup>th</sup> in the world<sup>1</sup>** In 2011: 3.3% in global trade
- **Mature, low risk economy:** **Aaa rating, low inflation** thanks to ECB strict policy and **stable political environment**
- **High public debt (85.8% of GDP<sup>2</sup>) but decreasing deficit**
- **Highly regulated country, with changes expected** (tax system, consumer protection) post May/June 2012 elections

## Top 5 players in world trade 2006-11 avg (USD bn)



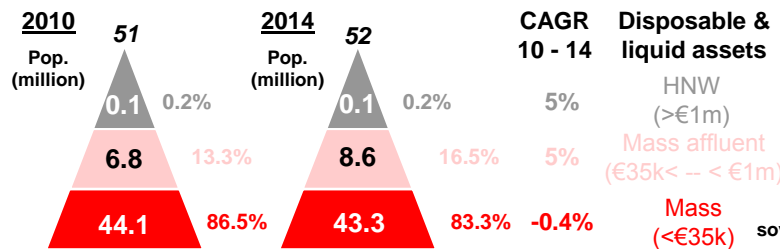
Source: UNCTAD

## Top 3 EM trade partners Q1-12 YTD (EUR bn)



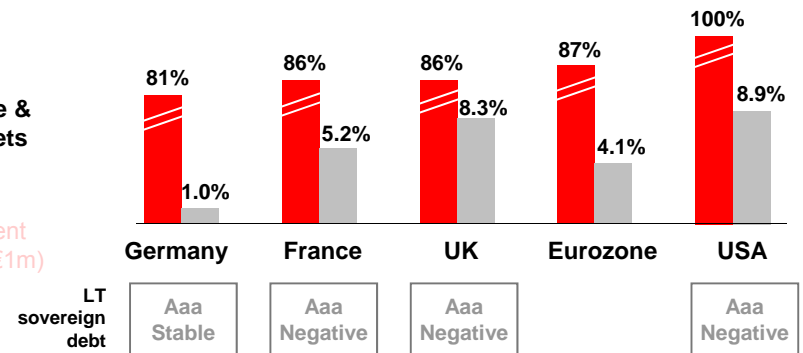
Source: French Foreign Trade statistics

## Banked population wealth/demographics



Source: INSEE

## Country risk benchmark



Source: Eurostat, Moody's

# Banking industry performance

A balanced, large, very concentrated and mature banking sector

- **High concentration:**

- 6 institutions holding > 85% of domestic assets
- Universal model dominates
- Presence of numerous and sophisticated niche players, with increasing competition on **Wealth Management** (deposit 'war' through short term boosted interest rates, upgrade of product range, development of direct channels)

- **Mature market:**

- 99% banking services penetration<sup>1</sup> among population over 18 years of age
- 114% loan to GDP ratio<sup>2</sup>

- **2010-2020 French profit pool CAGR: +9.8%<sup>3</sup>, despite impacts of the subprime and eurozone crisis in a growing regulatory environment**

Notes:

1 Fédération bancaire française (FBF)

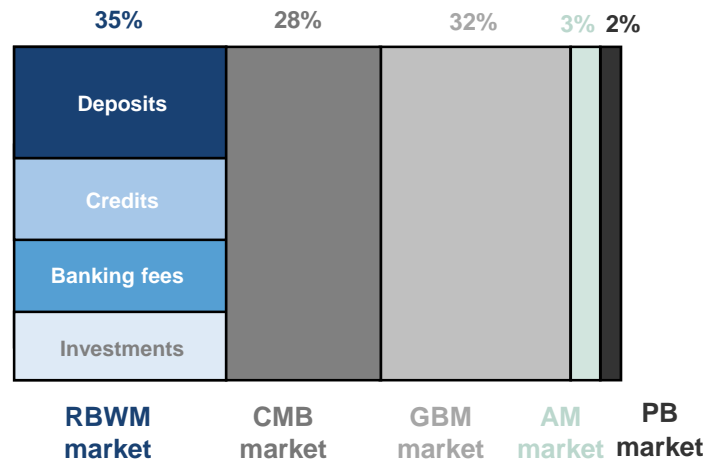
2 World Bank

3 HSBC Global Research

4 Data comprising the 7 main banks (including HBFR) accounting for 90% (c. 85% excluding HBFR) of domestic assets – network density in France: 1 branch / 700 households

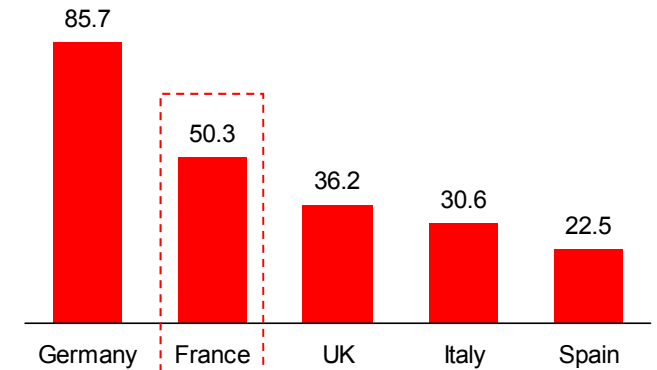
5 Other composed of main GBM, PB and Retail foreign players (Barclays, ING, UBS, Credit Suisse, BoA-ML, JPM, GS, MS) and remaining domestic banks (Dexia, Axa and Groupama Banque, Municipal Credit Institutions...)

## Banking sector revenue pool 2010



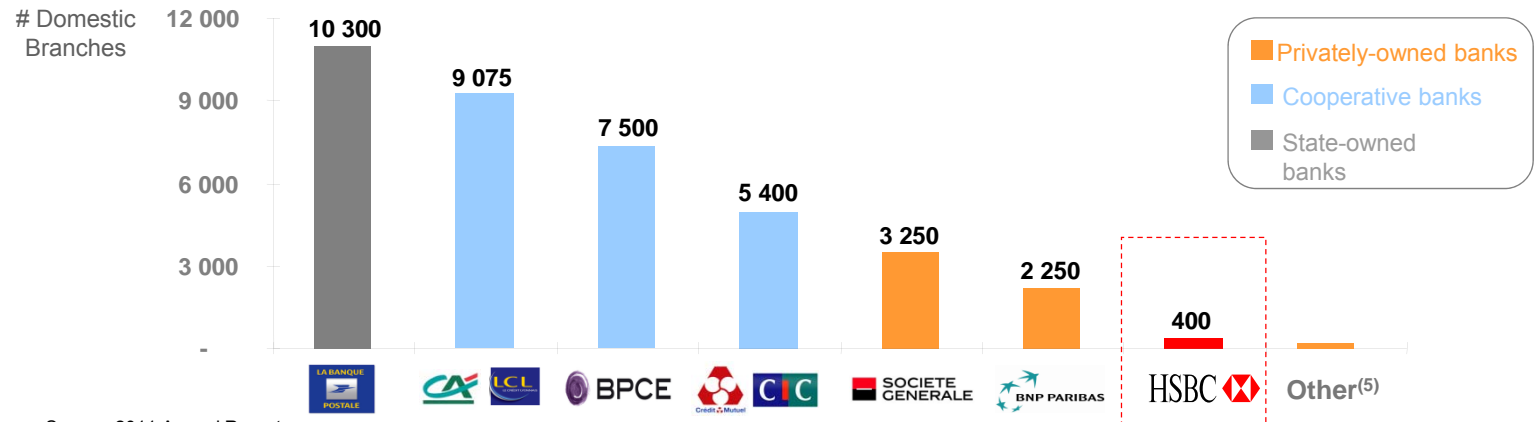
Source: HSBC France research

## Banking profit pool growth 2010-20 (EUR bn)



Source: HSBC Global Research

## 2011 French banking landscape<sup>(4)</sup>



Source: 2011 Annual Reports

# Key risks and trends for the banking sector

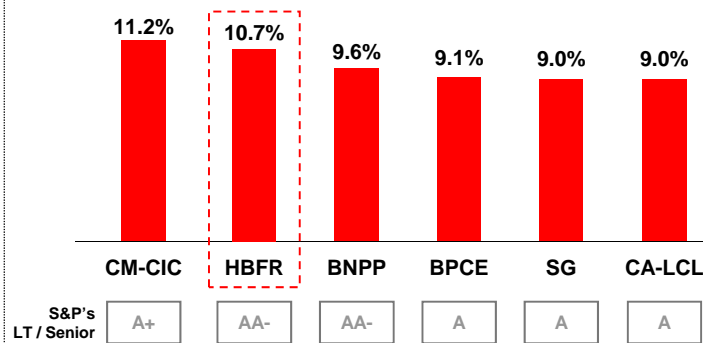
Improving efficiency, anticipating regulation, enhancing services and expecting political change

## 1 Pressure on efficiency throughout the banking sector

- Cost optimisation in the French market
  - Implement consistent Business Models
  - Re-engineer Global Functions
  - Re-engineer Processes
  - Streamline IT
- FTEs reduction
  - Most of French banks already announced reductions in headcounts
  - Impacting primarily corporate and investment banking departments

## 2 Increased regulatory constraints raising expectations regarding capital and liquidity

### Core Tier 1 ratio Dec-2011



Source: 2011 Annual Reports

- HBFR has the 2nd strongest capital position and 2nd best agency's rating of the main French players
- Combination of stabilisation measures regarding European sovereign debt crisis: more generous ECB policy (LTRO), ESM establishment, EFSF reform and the completion of the bond exchange in Greece
- Sale of non core businesses already announced by French Banks
- Decrease in sovereign debt exposure managed by French banks (-22% in the second half of 2011, down to \$44bn<sup>1</sup>)

## 3 A changing landscape in terms of customers, products and legal framework

### Customers

- Shift in customer behaviour
  - Development of on-line banking services as 80%<sup>2</sup> of internet users check their accounts on-line
  - Higher customer mobility facilitated with easier comparisons of banks (national regulatory requirements)

### Offer (Products/Business model)

- Multi-channel approach including mobile banking and on-line banking services: BNPP Net Banque Privée
- Emergence of on-line banks: Boursorama, BforBank, Monabanq
- Investment products diversification for Premier clients with financial solutions and servicing model getting closer to Private Banking organisation

### Legal framework

- Increased financial sanctions power given to AMF<sup>3</sup> and ACP<sup>4</sup>
- Introduction of a tax for systematic risks (equivalent of the FSA Bank Levy)
- Stricter qualifying conditions for i) research and development tax credit as well as ii) zero tax rate loan (applying to individuals)

#### Notes:

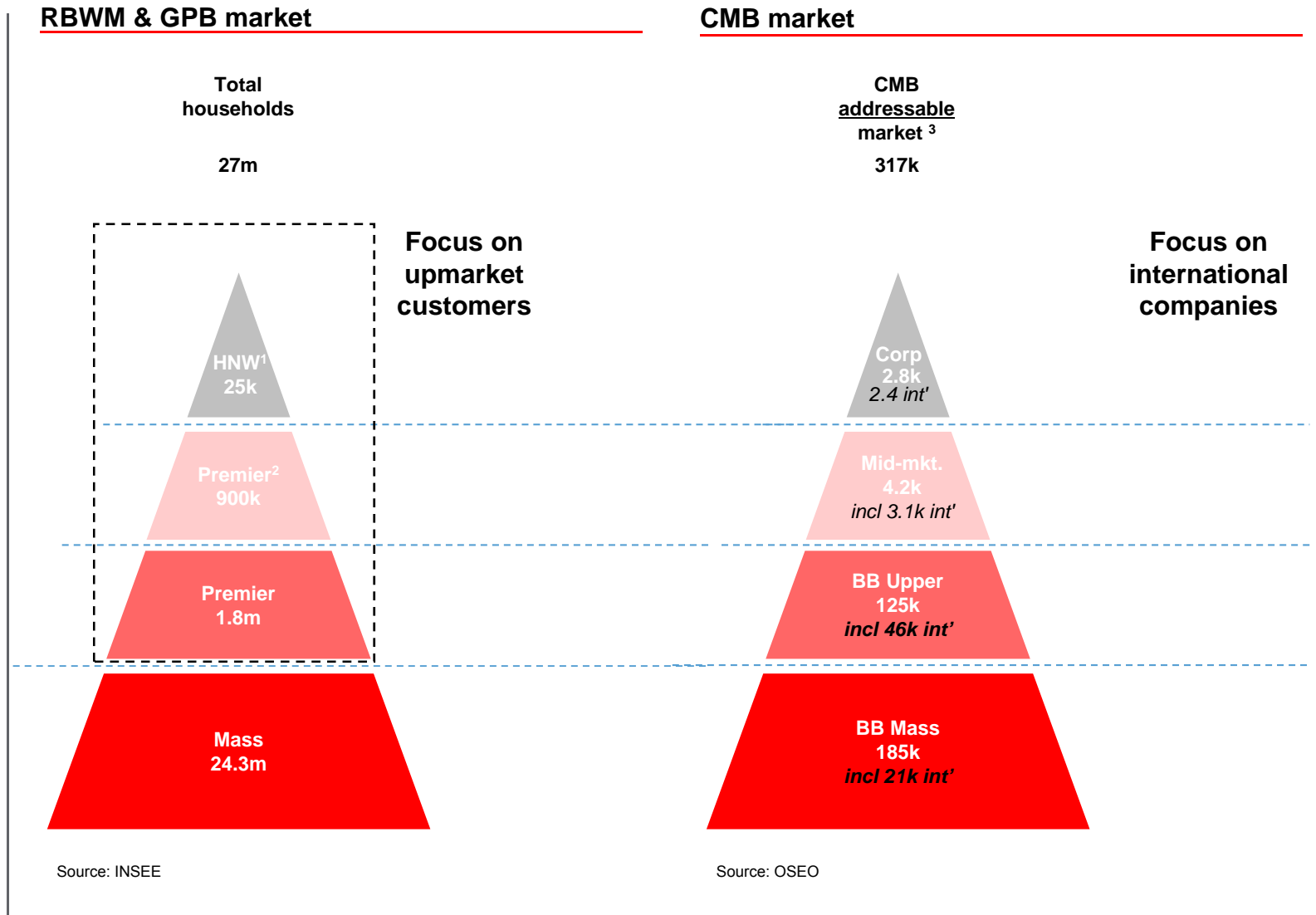
- 1 Bank for International Settlements (BIS)
- 2 Fédération bancaire française (FBF)
- 3 Autorité des Marchés Financiers
- 4 Autorité de Contrôle Prudentiel

# HSBC France: ideally positioned to build on these structural trends

A focused positioning on strategic client segments

- HBFR specific positioning on upper customers and international companies

- HBFR is well positioned on international customers to leverage Group connectivity



Notes:

1 High Net Worth

2 Premier clients holding more than €250k assets under management (AUM)

3 Addressable market: criteria to assess qualified markets include low to medium risk profile and corporate proximity to the HBFR network footprint



# HSBC France

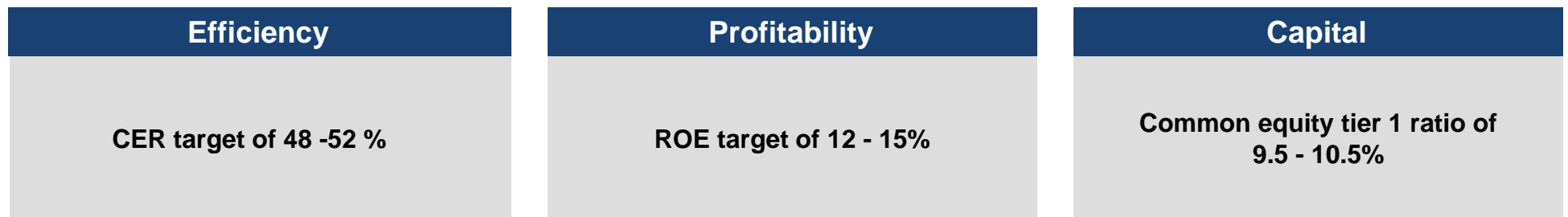
Strategic direction and actions

# France strategy: fully aligned with Group's strategy

Develop across all business lines, while improving overall cost efficiency



## France contributes to Group targets



Notes:  
1 Payment and Cash Management  
2 Trade and Supply Chain

# HSBC France – 2011 financial highlights

Strong commercial dynamism offset by adverse market conditions

- **All Business Lines profitable in 2011 except GBM**

- Good commercial performance of banking activities
- Decrease in revenues in the context of the significant position of HSBC in the Euro Rates market
- Profit before Tax excluding Global Markets: EUR448m

- **Client-related loan impairment charges<sup>(2)</sup> -10% vs. 2010**

- Client-related loan impairment charges decreasing from 0.38% loans outstandings in 2010 down to 0.30% in 2011

- **Core Tier 1 ratio at 10.7%, above 9% EBA target (as of 30.06.12) despite higher RWAs due to regulatory evolution**

## HSBC France results

2010-2011

EURm	2010 <sup>(1)</sup>	2011	Var. 11/10
NOI before LICs	2 596	2 065	-20%
Loan Impairment Charges	-121	-127	+5%
- o/w Client related Cost of Risk <sup>(2)</sup>	-121	-109	-10%
NOI	2 475	1 938	-22%
Total Operating Expenses	-1 847	-1 747	-5%
<b>Profit Before Tax</b>	<b>628</b>	<b>191</b>	<b>-70%</b>
<b>Adjusted Profit Before Tax<sup>(3)</sup></b>	<b>521</b>	<b>154</b>	<b>-71%</b>
<i>EURbn – Legal perimeter<sup>(4)</sup></i>			
Risk Weighted Assets – end of period (ACP rules)	33.5	36.8	+10%

## HSBC France results by Business Line

2011

EURm	RBWM	CMB	GBM	Private Banking	Other	Total
NOI	856	551	339	74	118	1938
Total Operating Expenses	-806	-413	-468	-63	3	-1747
<b>Profit Before Tax</b>	<b>50</b>	<b>138</b>	<b>-129</b>	<b>11</b>	<b>121</b>	<b>191</b>
<b>Adjusted Profit Before Tax<sup>(3)</sup></b>	<b>116</b>	<b>151</b>	<b>-124</b>	<b>11</b>	<b>n.a.</b>	<b>154</b>
<b>Variation 11/10</b>					<b>n.a.</b>	

Notes:

1 Including the gain on sale and lease-back of Paris Headquarters (€141m)

2 Excluding impairment on sovereign Greek bonds in insurance business (borne by the bank for 3%)

3 in 2010: excluding 'Other' (comprising notably capital gains on sale and lease back of Champs Elysées HQ, impact of credit spread on own debt, litigations provisions and various accounting adjustments) and tax on GBM performance costs  
in 2011: excluding 'Other' (comprising notably capital gains, impact of credit spread on own debt and various accounting adjustments), restructuring costs and Non Qualifying Hedges

4 Excluding the operations of HSBC Assurances and the Paris Branch of HSBC Bank plc

# Progress report: Retail Banking and Wealth Management

Ongoing success based on Premier strategy

- **Sharp rise in customer accounts**

- +15% increase of HSBC Premier new-to-bank customers to 45,000
- HSBC Premier customers represent 45% of retail clients at the end of 2011

- **Sustained level of retail loans**

- **Increase in assets under management** of personal customers in spite of a difficult market environment

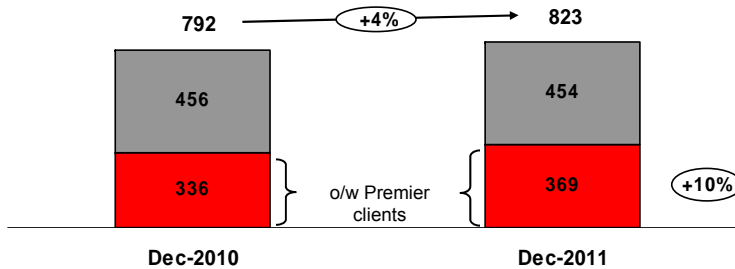
- **Development of Retail network**

- Opening of 3 new branches in 2012 (Chartres, Pessac, Montpellier)
- Significant progress in branches refurbishment plan (95 branches refurbished at end 2011)

- **Stable profitability after adjusting for significant items despite low level of interest rates and adverse market effect**

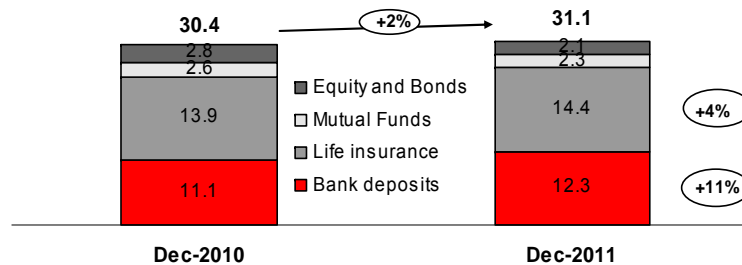
## Expanding our customer base

Client base ('000s)



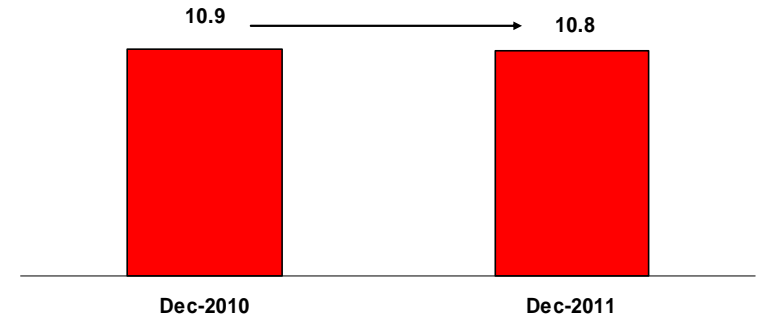
## Increase of AUM<sup>(1)</sup> in difficult conditions

(EURbn)



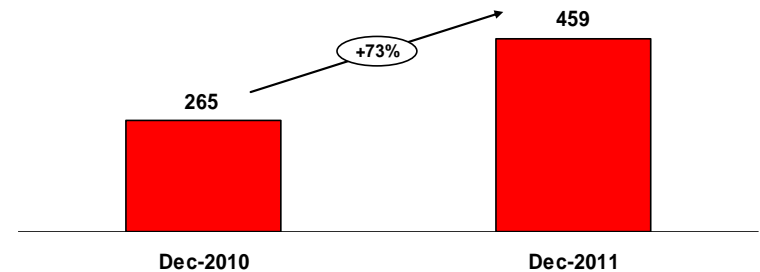
## Stable customers loans

Mortgages outstandings (EURbn)



## Asset Management: success of World Selection campaign

World Selection Funds AuDs (in EURm)



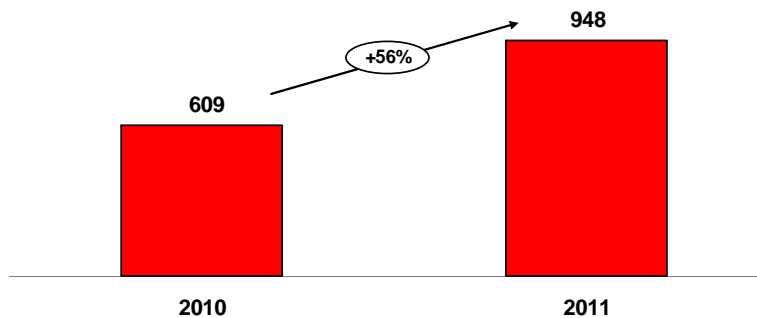
Note:  
1 Assets held by HSBC France retail customers

# Progress report: Commercial Banking

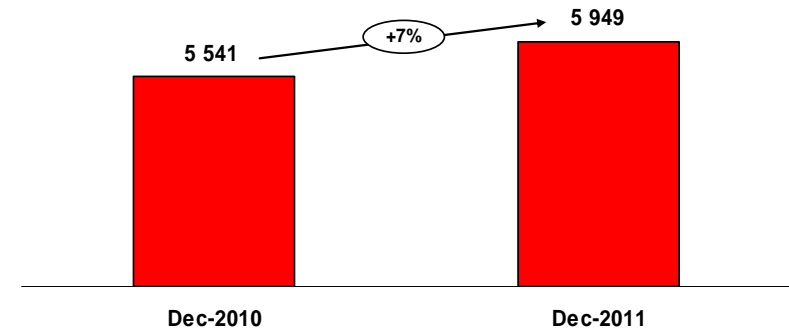
Business growth oriented on internationally active clients

- Strong focus on upper segment customers
- Development of direct channels (focused on small businesses) with a number of customers multiplied by 2.5
- Improving main banker rate on strategic customer base
- Successful Product offers of Commercial Banking
  - Strong development of international activities, (Trade Services revenues: +23%)
  - Sustained growth of the Receivable Finance activity (+32% revenues vs. 2010)
  - Increasing synergies with GBM (+78% revenues with Corporate clients vs. 2010)
- Long-standing balance between deposits and loans
  - Sharp rise of deposit balances
  - Increasing loan balances

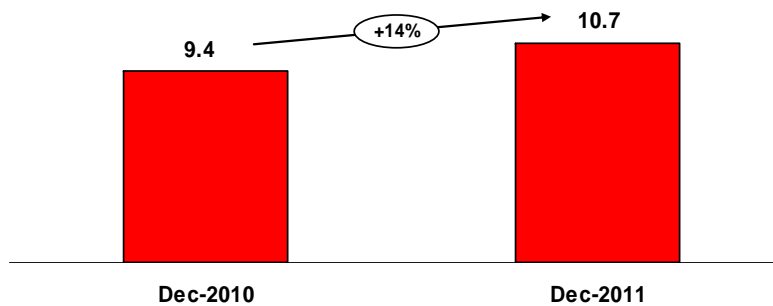
**Strong growth of international connectivity**  
# of customers referrals to Group entities



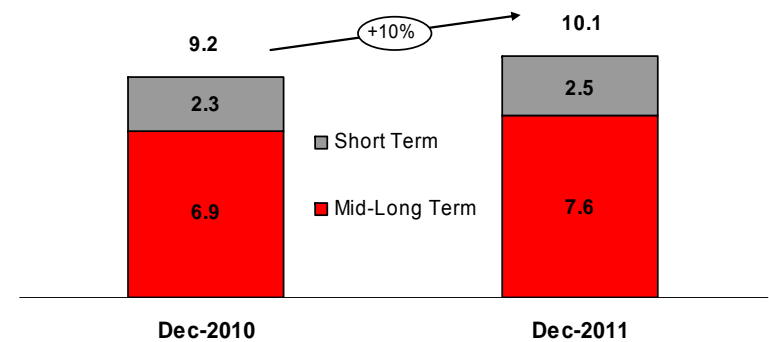
**Growing number of Corporate customers**  
# of Corporate Banking Centres clients



**Increasing deposits balances**  
(EURbn)



**Rising customer loans**  
(EURbn)



# Progress report: Global Banking and Markets

The impact associated with the financial crisis on Euro Rates activities has offset the good performance of other GBM business lines

## • Strong fundamentals

- Good performance of Coverage mainly in M&A, Lending and Leverage Finance
- Success in focusing on international clients
  - Growing revenues from operations with French clients abroad : +18% / 2010
  - Relationship continuity with key clients (eg: EDF, FT, Peugeot, Vivendi)
- France is a strategic hub for the Group despite the 2011 turmoil in eurozone debt markets
- HSBC France is one of the main market makers on Euro sovereign bonds

## • Reduction in sovereign debt exposure

- Ongoing efforts to reduce sovereign debt risk exposure
- At the end of the year, exposure to sovereign risk of peripheral<sup>(3)</sup> Eurozone countries amounted to 0.7% of HSBC France's balance sheet (vs. 1.3% at end 2010)

## League Tables – HSBC France rankings

HSBC France positions	Ranking
Convertible Bonds Issues <sup>(1)</sup>	2 <sup>nd</sup>
Rights Issues <sup>(1)</sup>	4 <sup>th</sup>
Public Sector Bonds Issues <sup>(1)</sup> (bookrunner ranking in value)	2 <sup>nd</sup>
Mergers and Acquisitions <sup>(2)</sup> (announced deals in 2011)	2 <sup>nd</sup>
Corporate Bonds Issues <sup>(1)</sup>	5 <sup>th</sup>

## HSBC France tombstones – examples of 2011 main deals

<p>January</p> <p>Caisse d'Amortissement de la Dette Sociale</p>  <p>€12bn</p> <p>Syndicated Loan</p> <p>Bookrunner and Mandated Lead Arranger</p>	<p>April</p> <p>Vivendi</p>  <p>€6bn</p> <p>Acquisition Finance</p> <p>Bookrunner and Mandated Lead Arranger</p>	<p>April</p> <p>Solvay</p>  <p>€7bn</p> <p>IB - M&amp;A-Public Offer</p> <p>Financial Adviser</p>	<p>October</p> <p>CM-CIC Home Loans FCT</p>  <p>€7bn</p> <p>ABS - Structured Bonds/RMBS</p> <p>Sole Arranger</p>	<p>Mars</p> <p>France Telecom</p>  <p>€6bn</p> <p>Syndicated Loan</p> <p>Bookrunner and Mandated Lead Arranger</p>
---	--	--	---	---

Source: Public information

### Notes:

1 Source: Dealogic Bondware, December 2011

2 Source: Merger Market, December 2011

3 Greece, Ireland, Italy, Portugal and Spain

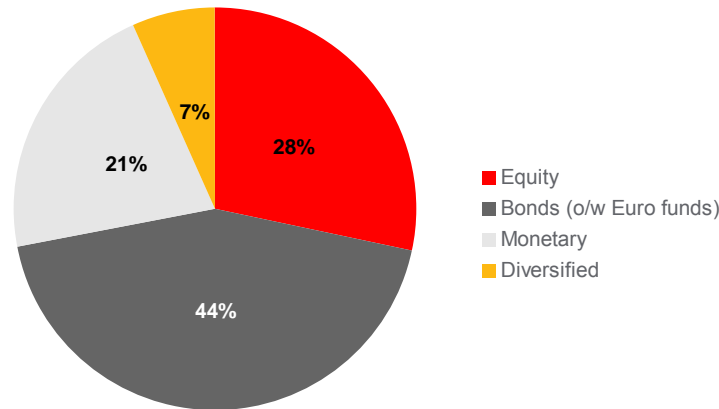
# Progress report: Global Private Banking

## Sustained activity

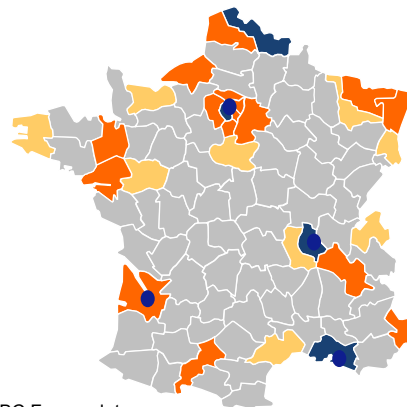
- Upgrade servicing model through full deployment of Troika model (RM, investment specialist, financial planner) for UHNWI<sup>(1)</sup>
- Reinforcement of front office capabilities through the opening of additional regional offices
- Diversified range of investment solutions and loans supported by synergies with HSBC France network
  - Continuous development of cross selling with other Global Businesses, based on CMB referrals
  - Sold life insurance together with other HSBC products
  - Assets under discretionary mandate
  - Alignment of organisation and coverage with wealth potential and CMB presence

### Diversified range of products

Split of Assets under Management (Dec-2011)

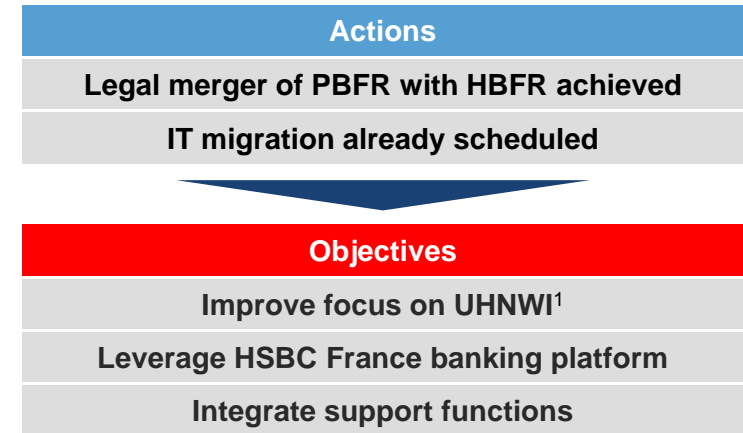


### GPB Footprint



Source: OSEO, HSBC France data

### Reorganisation project on track



● Current Offices

# of family owned companies with >50 FTEs by territorial division

■ < 750 ■ 750-1000 ■ 1000-2000 ■ > 2000

Note:  
1 Ultra High Net Worth Individuals

# Tie strategy to HSBC's competitive advantages

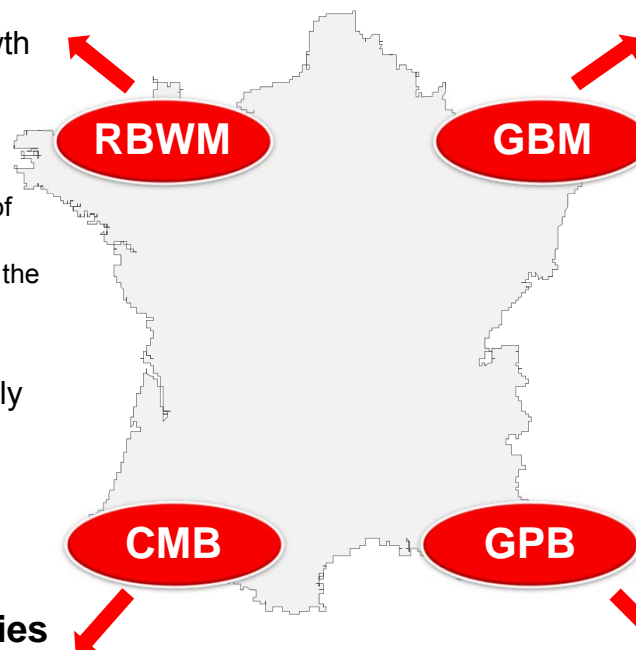
France leverages on Group expertise

## Strong brand and global propositions

- Strong brand recognition
- Strong funding position providing growth capacity and continuity
- Global propositions: HSBC Premier, HSBC Advance
  - Continuous growth in key segments of customer base with HSBC Premier accounting for 45% of retail clients at the end of 2011
- Leveraging on common platforms to deliver unique product offerings globally

## A new business paradigm

- France as a strategic hub for the Group
  - Trading platform of Vanilla Rates in euro for HBSC Group
  - Main market maker on sovereign bonds in Euro
- Top positions in League Tables
- Global Banking focusing on key global names
- Integrated wholesale bank with strength in core product capabilities



## Leveraging international capabilities

- Leveraging on HSBC 's international network covering 77% of world trade and 81% of multinational companies
- Financing capabilities throughout the trade cycle with a deep range of products and activities delivered globally
- Strong GBM synergies for the large corporate segment

## Integrated operating model

- Strong brand, reputation and financial strength
- Full range of Banking, Wealth Management and Estate Planning services built on Private Banking platforms



# HSBC France

## Outlook and conclusion

# Outlook

HBFR strategy relevance confirmed by upcoming challenges

## 1 Main achievements

### Increased focus on targeted customers

- **Enhanced focus on UHNWI** with reorganisation project (legal merger)
- Increasing **HSBC Premier** customer base
- Improving **core banker** rate on target clients (CMB)

### Process rationalisation

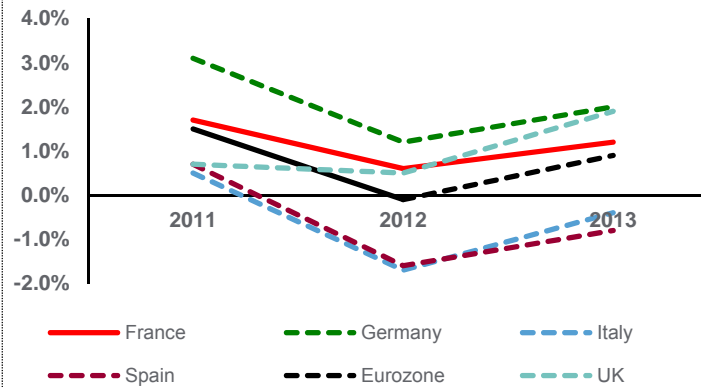
- **Simplification** of online brokerage offer
- **Alignment** of customer segments with specific sales structures (CMB)
- **GPB operational merger** with IT migration

### Offer & strategic positioning

- **Develop international activities** (such as Trade Services and Factoring)
- **Increase synergies** between Global Businesses: RBWM and GPB / CMB and GB
- Maintain France's position as a **strategic hub** for the Group for market activities

## 2 Challenges and opportunities

### Limited GDP recovery in Eurozone 2011-2013



### Potential political impacts in France

- Additional tax on banks (+15%)
- Cancellation of "Credit Impôt Recherche" for large companies
- Increased retirement contributions from businesses by 0.1 % / year
- Doubling of selected Regulated Savings Account rates
- Taxation of new life insurance contracts

## 3 HBFR strategy

### Efficiency

- **Rise of sustainable savings**
- **Cost base stability**
- **Leveraging offshore back-office platforms**

### Growth

- **Double digit PBT increase driven by revenue growth**

### Capital Deployment

- **Increase RoRWA**
- **Reach Group ROE ambitions by end 2013**



## Conclusion

- **Proven resilient Business model**

- Consistent profitability and capital generation despite adverse environment since 2008
- One of the strongest banks in the French market in terms of capital ratio (10.7% Core Tier 1) and liquidity position (152% French regulatory ratio)
- Low risk business model (30 bp credit provisions to customer advances)

- **Relevant strategic positioning compared to Group strategy and French market**

- Wealth management
- International bank
- Strategic banking partner for corporates and institutions

## Contacts and further information

### **Guy Lewis**

Senior Manager, Investor Relations

[guylewis@hsbc.com](mailto:guylewis@hsbc.com)

+44 (0) 207 992 1938

### **Matthieu Kiss**

Chief Financial Officer HSBC France

[matthieu.kiss@hsbc.fr](mailto:matthieu.kiss@hsbc.fr)

+ 33 (0) 1 40 70 35 79