



Making Finance Work in a Higher Capital World

Bank of America Merrill Lynch Conference

HSBC Group Finance Director Iain Mackay

September 2013

HSBC 

Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations capital position 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 Interim Report. Past performance cannot be relied on as a guide to future performance.

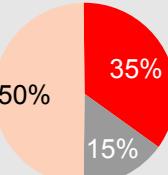
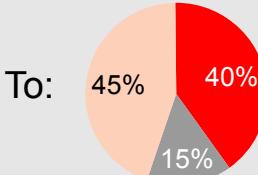
This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the supplement available at www.hsbc.com.

Making finance work in a higher capital world

- Vision and strategy
- Simplify business
- Sharpen focus on capital efficiency
- Understand and adapt to regulatory complexity and uncertainty

Vision and strategy

At the beginning of 2011 defined a new vision for HSBC

Purpose	Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose.	Reason why we exist												
Values	Act with courageous integrity <ul style="list-style-type: none">▪ Dependable and do the right thing▪ Open to different ideas and cultures▪ Connected to customers, regulators and each other	How we behave and conduct business												
Strategy	<ul style="list-style-type: none">▪ International network connecting faster growing and developed markets▪ Develop Wealth and invest in Retail only in markets where we can achieve profitable scale	Where and how we compete												
Outcome	<p>Being the world's leading international bank</p> <p>Delivering consistent returns</p> <p>From:  To: </p> <table border="1"><thead><tr><th>Category</th><th>From (%)</th><th>To (%)</th></tr></thead><tbody><tr><td>Dividends</td><td>35%</td><td>40%</td></tr><tr><td>Variable pay</td><td>15%</td><td>15%</td></tr><tr><td>Earnings retained</td><td>50%</td><td>45%</td></tr></tbody></table> <ul style="list-style-type: none">DividendsVariable payEarnings retained	Category	From (%)	To (%)	Dividends	35%	40%	Variable pay	15%	15%	Earnings retained	50%	45%	
Category	From (%)	To (%)												
Dividends	35%	40%												
Variable pay	15%	15%												
Earnings retained	50%	45%												

Four Global Businesses with clear scope of activities

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Global Private Bank
Liability driven	<ul style="list-style-type: none"> ▪ Deposits ▪ Payments and cash management 	<ul style="list-style-type: none"> ▪ Deposits ▪ Payments and cash management ▪ Balance sheet management 	<ul style="list-style-type: none"> ▪ Deposits ▪ Account services 	<ul style="list-style-type: none"> ▪ Deposits ▪ Account services
Asset driven	<ul style="list-style-type: none"> ▪ Credit and lending ▪ Trade and receivables finance 	<ul style="list-style-type: none"> ▪ Credit and lending ▪ Asset and trade finance 	<ul style="list-style-type: none"> ▪ Credit and lending 	<ul style="list-style-type: none"> ▪ Credit and lending
Fee driven and other	<ul style="list-style-type: none"> ▪ Commercial insurance and investments 	<ul style="list-style-type: none"> ▪ Corporate finance¹ ▪ Markets² ▪ Securities services 	<ul style="list-style-type: none"> ▪ Asset management ▪ Wealth solutions and financial planning ▪ Broking³ ▪ Life insurance manufacturing 	<ul style="list-style-type: none"> ▪ Asset management⁴ ▪ Financial advisory⁵ ▪ Broking³ ▪ Corporate finance (via GBM)¹ ▪ Alternative investments⁶

1 M&A, ECM, Event and Project financing and co-investments

2 Includes Foreign exchange, Rates, Credit and Equities

3 Intermediation of Securities, Funds and Insurance products. Includes securities services in GPB

4 Includes portfolio management

5 Includes private trust and estate planning (for financial and non-financial assets)

6 Includes Hedge Funds, Real Estate and Private Equity

Cohesive geographic portfolio

HSBC network			
Region	Home and Priority markets	Other markets	PBT contribution
Asia Pacific	<ul style="list-style-type: none"> ▪ Hong Kong ▪ Australia ▪ India ▪ Indonesia ▪ Mainland China ▪ Malaysia ▪ Singapore ▪ Taiwan ▪ Vietnam 		Faster growing regions 70-80%
Latin America	<ul style="list-style-type: none"> ▪ Argentina ▪ Brazil ▪ Mexico 		
MENA	<ul style="list-style-type: none"> ▪ Egypt ▪ Saudi Arabia ▪ UAE 		
Europe	<ul style="list-style-type: none"> ▪ UK ▪ France ▪ Germany ▪ Switzerland ▪ Turkey 		
US	<ul style="list-style-type: none"> ▪ US 	Network and Small markets	Mature regions 20-30%
Canada	<ul style="list-style-type: none"> ▪ Canada 		
PBT contribution	90-95%		5-10%

Simplify business

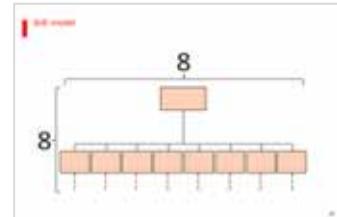


Established a simplified, more focused and easier to manage organisation

Progress

Created four Global Businesses	<ul style="list-style-type: none">▪ Developing global strategies▪ Defining and implementing consistent business and operating model▪ Focus on clear portfolio of activities▪ Oversight by Group Management Board, Holdings Board of Directors, Group Risk Committee, Group Audit Committee, Financial System Vulnerabilities Committee
Established eleven Global Functions	<ul style="list-style-type: none">▪ Managed independently, but with close links to businesses▪ Focus on global consistency and rigour of governance, control, process efficiency, transparency
Focused role of six operating Regions	<ul style="list-style-type: none">▪ Defined clear portfolio of 2 home markets and 20 priority growth markets▪ Driving implementation of Group and Global Businesses' strategies▪ Primarily organised through separately capitalised, regulated, governed subsidiaries tapping local funding through strong deposit bases
Simplified organisation structure	<ul style="list-style-type: none">▪ Simplified organisation applying 8x8 programme across all priority markets▪ Stronger management oversight and accountability and reduced bureaucracy

What we have done: Put in place a simplified structure to manage the bank globally

From	To	
Fragmented	Cohesive and Focused	<p>Focus on 22 Home and Priority markets</p> 
Complex Management Structures	Simplified Management Structures	<p>Implemented 8x8 programme</p> 
Federated Business and Functional Model	Global Business and Functional Model	<p>Target Operating Models Consistent Metrics</p> 

Simplify: A few examples



Approach

- Identify activities with potential opportunity to simplify
- Map the current activity or process
- Identify inefficiencies and improvement opportunities e.g., duplications, unnecessary complexity, over-capacity etc.
- Redesign and optimise
- Pilot launch and measure impact

Examples

Management information

- Centralise, standardise and rationalise MI production and implement a consistent finance operating model

Facilities management

- Recently signed a 5 year global facilities management contract with one vendor to replace c.1,100

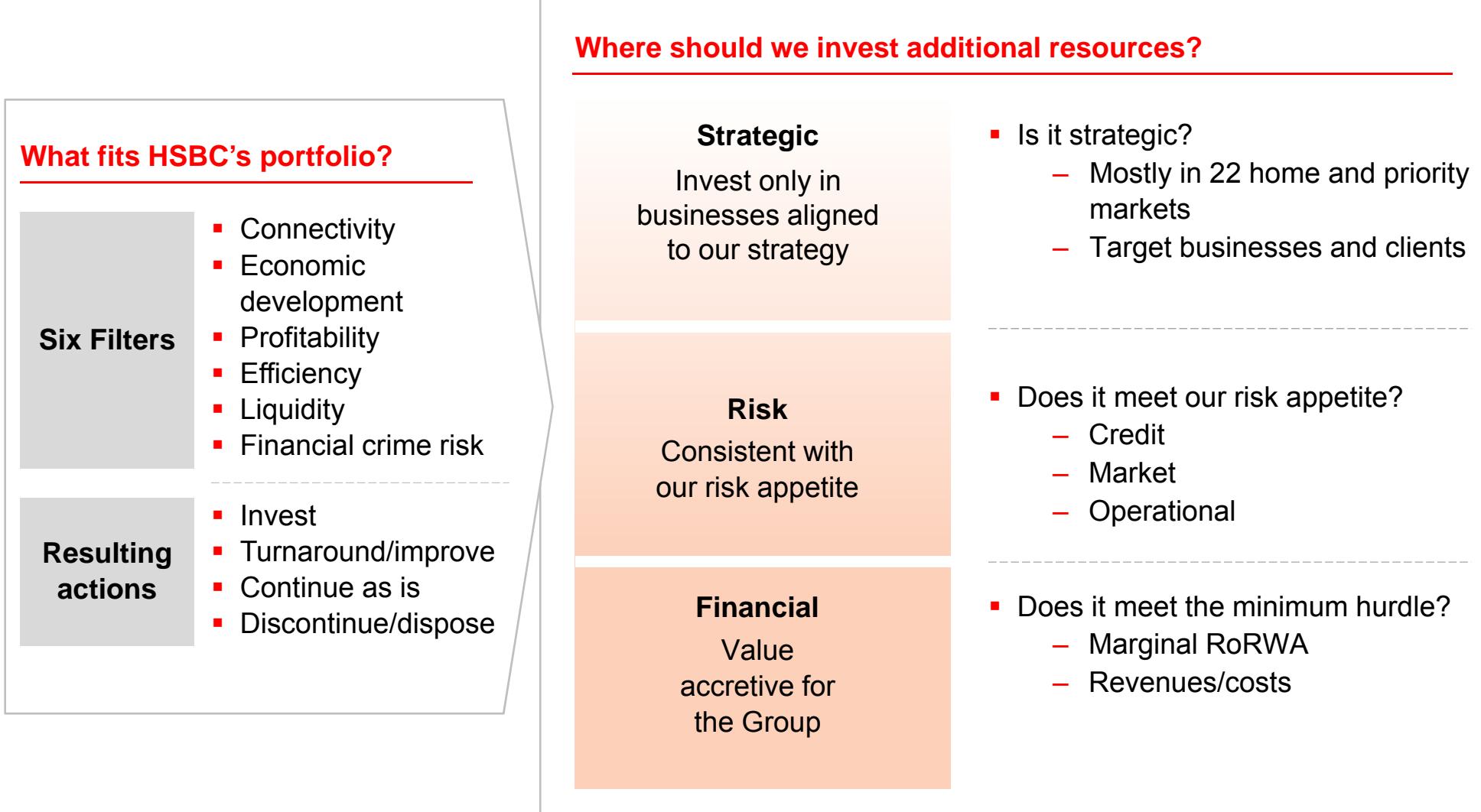
US transformation

- Execute transformation plan focused on simplifying IT, Operations and Global Functions

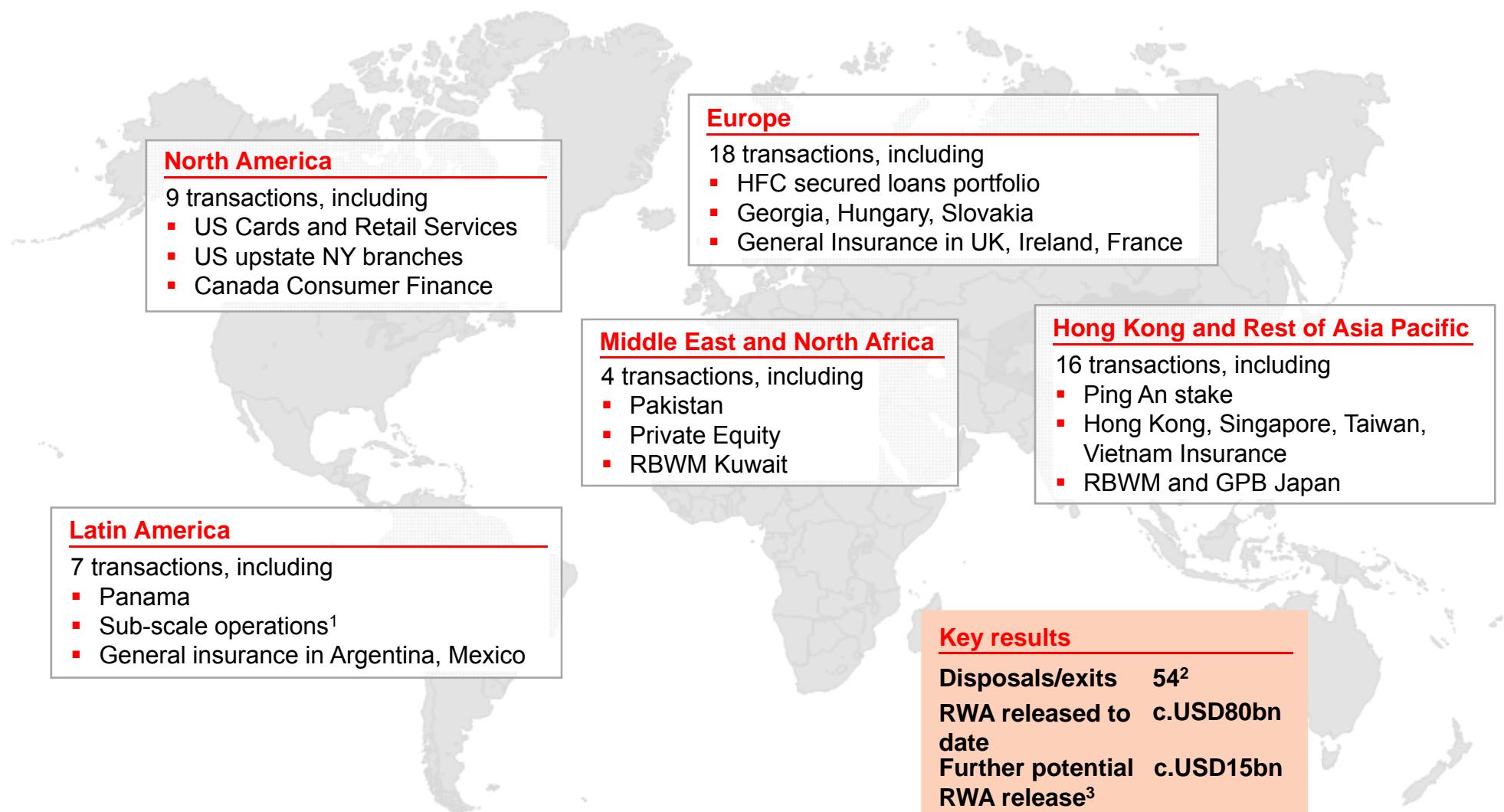
Sharpen focus on capital efficiency



Clear organic investment criteria



Reduced fragmentation and focused the portfolio



¹ Including Colombia, Costa Rica, El Salvador, Honduras, Paraguay, Peru, Uruguay and Chile (RBWM)

² Thereof 11 announced but not yet closed as at 1H13

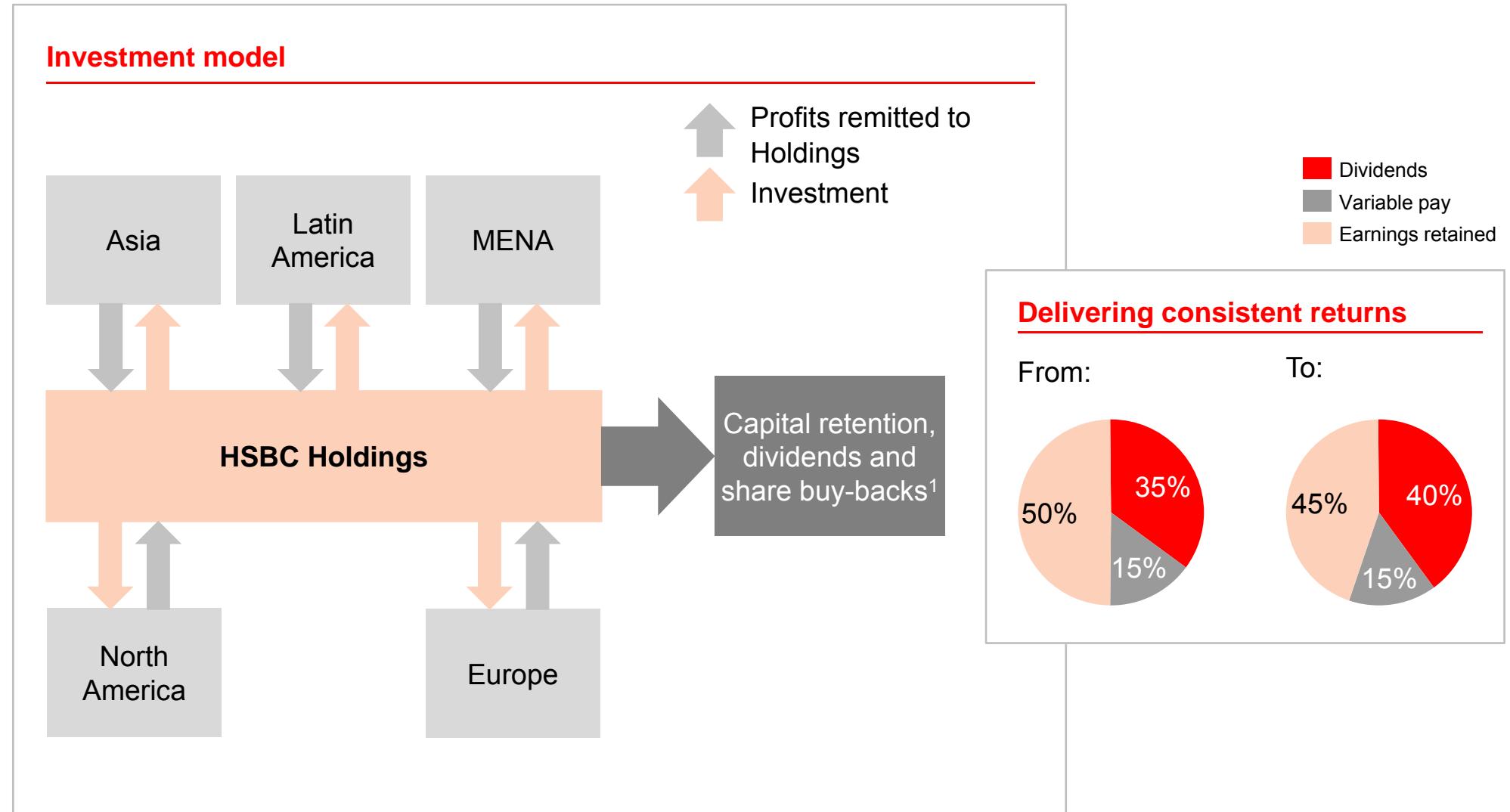
³ Expected reduction in RWAs after completing remaining 11 transactions

Four Global Businesses

Four integrated global businesses		Directional PBT contribution % of Group total	2016 target RoRWA %
“To become the world’s leading international bank”	CMB	“The Leading International Trade and Business Bank”	30-40 2.2-2.5
	RBWM	“Securing customers’ future prosperity and realising their ambitions”	25-35 5.0-5.5 ¹
	GBM	“Connecting clients to global growth opportunities”	25-35 2.0-2.2
	GPB	“Building on our commercial banking heritage, be the leading private bank for business owners”	3-5

¹ Excluding run-off

Earnings split



¹ Subject to meeting United Kingdom regulatory capital requirements and shareholder approval

Interim results 2013

Financial highlights¹

Summary financial highlights

	1H12	2H12	1H13	% better/(worse)	
				1H13 vs 1H12	1H13 vs 2H12
Reported PBT (USDbn)	12.7	7.9	14.1	10	78
Underlying PBT (USDbn)	8.9	6.5	13.1	47	100
EPS (USD)	0.45	0.29	0.54	20	86
Dividends ² (USD)	0.18	0.27	0.20	11	n/a

Key ratio %

	1H12	2H12	1H13	KPI
Return on average ordinary shareholders' equity	10.5	6.5	12.0	12 – 15
Cost efficiency ratio	57.5	69.1	53.5	48 – 52 ³
Advances-to-deposits ratio	76.3	74.4	73.7	≤ 90
Core tier 1 ratio	11.3	12.3	12.7	9.5 – 10.5
Common equity tier 1 ratio ⁴	n/a	9.5	10.1	> 10.0

Notes:

1. All figures are as reported unless otherwise stated
2. Declared in respect of the period
3. CER target for 2014-16 is mid 50s
4. Estimated CRD IV end-point CET1 ratio after planned mitigation of immaterial holdings based on our interpretation of the July 2011 draft CRD IV regulation, supplemented by UK regulator guidance for 31 December 2012 and Final CRR rules for 30 June 2013. Refer to Estimated effect of CRD IV end-point rules table on page 188 and basis of preparation on page 197 in the Interim Report 2013

Understand and adapt to regulatory complexity and uncertainty

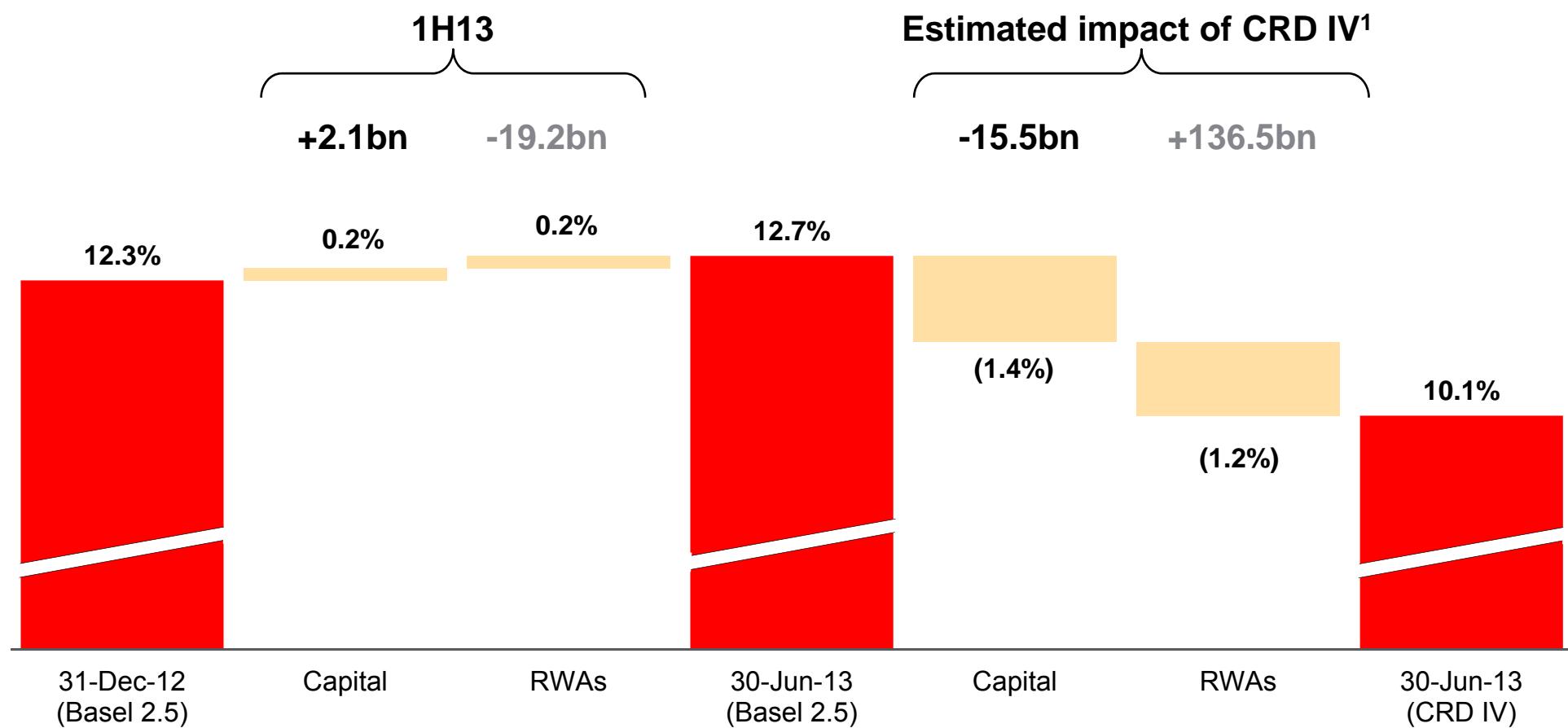


Capital Strength

Now and under CRD IV

Core / Common Equity Tier 1 ratio

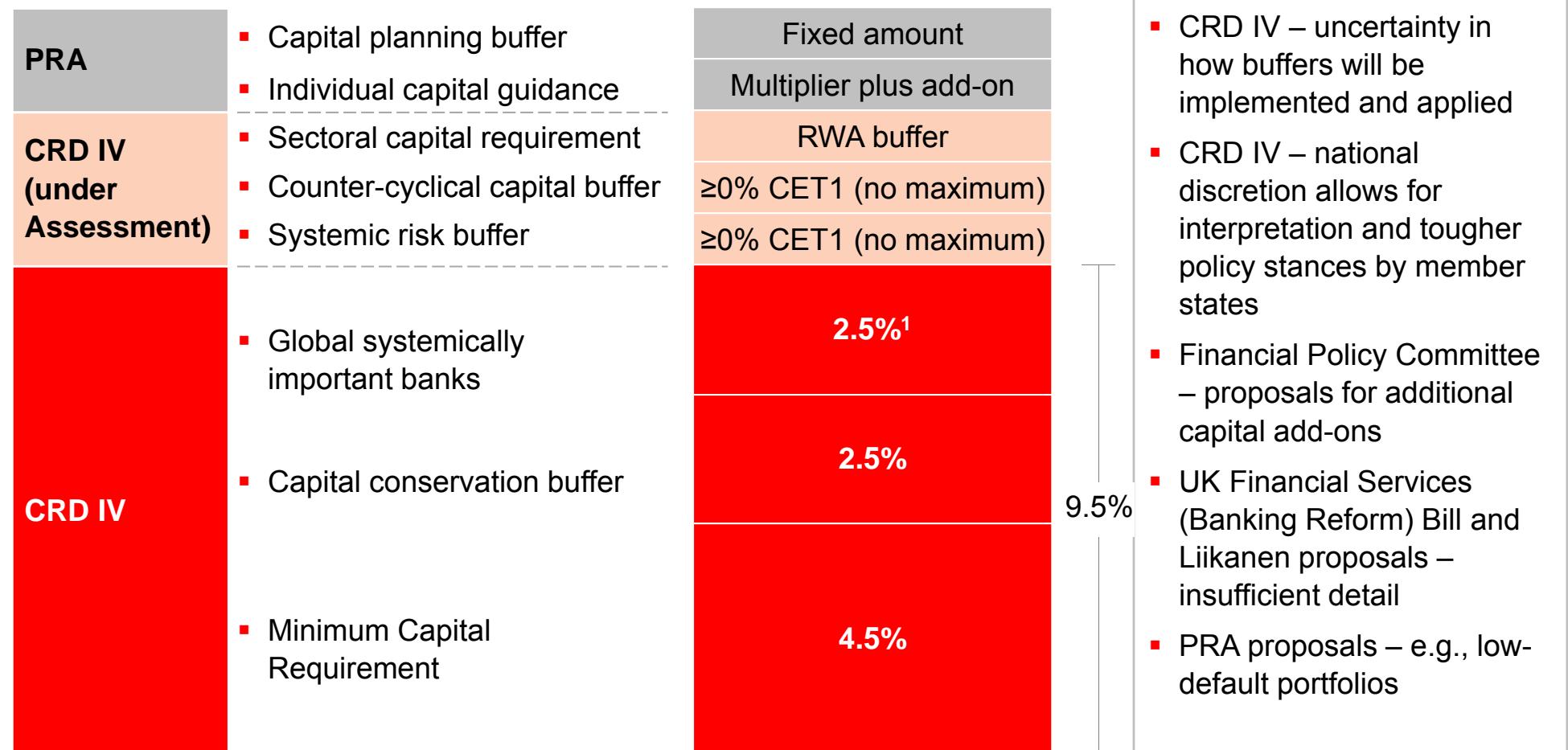
USDbn



¹ Estimated CRDIV end point CET1 after planned mitigation of immaterial holdings based on our interpretation of final CRR rules

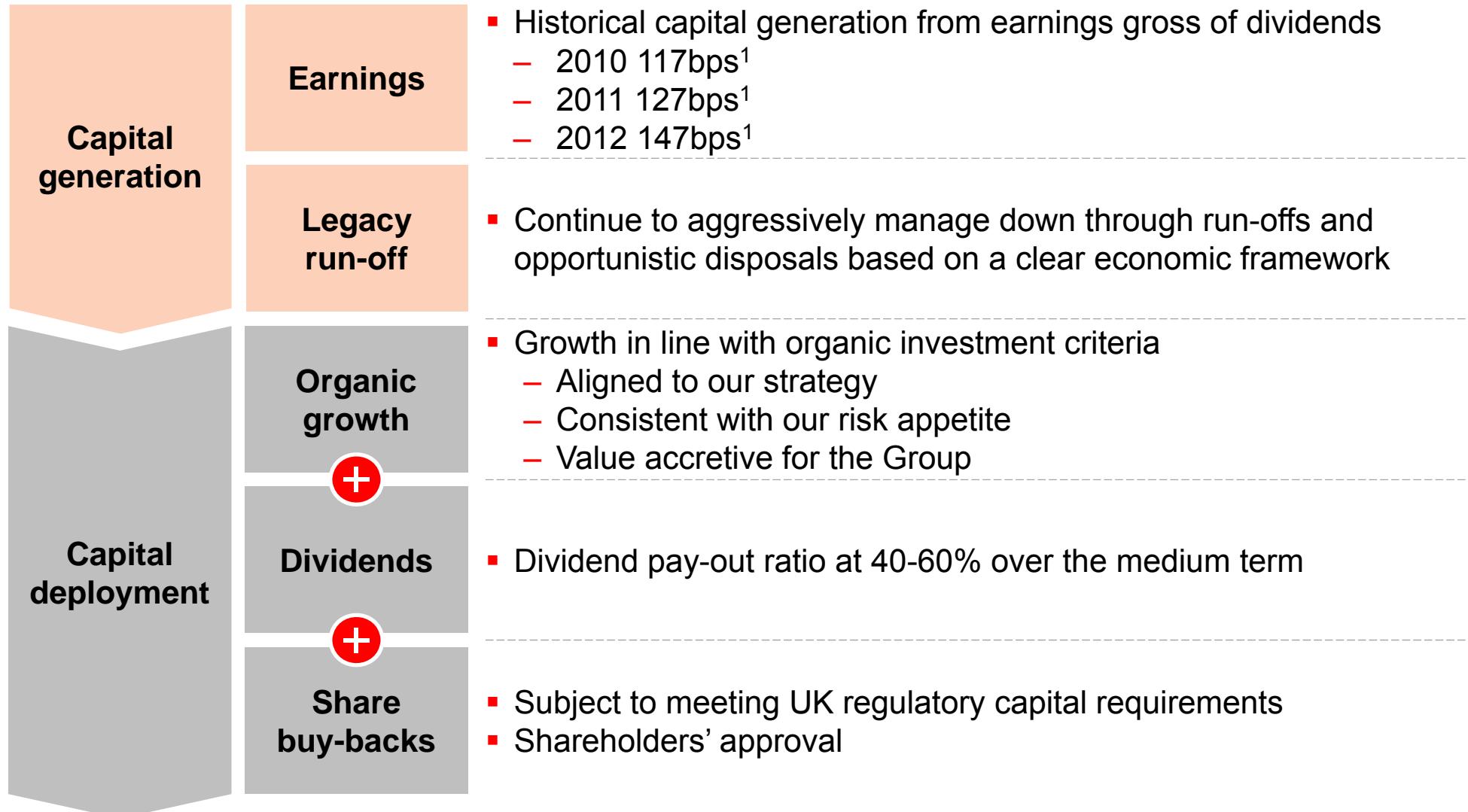
Regulatory uncertainty remains

CRD IV Common Equity Tier 1 and other capital requirements



1 Draft guidance from the Financial Stability Board

Summary : Grow both business and dividends



¹ Gross capital generation (before dividends) on a Basel 2.5 basis