



Making Finance Work in a Higher Capital World

Bank of America Merrill Lynch Conference

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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 supplement available at www.hsbc.com.

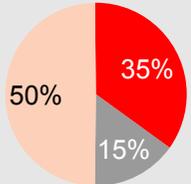
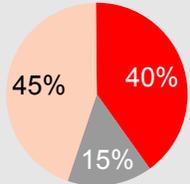
Making finance work in a higher capital world

- 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

<p>Purpose</p>	<p>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.</p> <p><i>Reason why we exist</i></p>
<p>Values</p>	<p>Act with courageous integrity</p> <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 <p><i>How we behave and conduct business</i></p>
<p>Strategy</p>	<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 <p><i>Where and how we compete</i></p>
<p>Outcome</p>	<p>Being the world's leading international bank</p> <p>Delivering consistent returns</p> <div style="display: flex; align-items: center;"> <div style="margin-right: 20px;"> <p>From:</p>  </div> <div style="margin-right: 20px;"> <p>To:</p>  </div> <div style="margin-left: 20px;"> <ul style="list-style-type: none"> ■ Dividends ■ Variable pay ■ Earnings retained </div> </div>

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 	Network and Small markets	Faster growing regions	
Latin America	<ul style="list-style-type: none"> ▪ Argentina ▪ Brazil ▪ Mexico 			70-80%
MENA	<ul style="list-style-type: none"> ▪ Egypt ▪ Saudi Arabia ▪ UAE 		Mature regions	
Europe	<ul style="list-style-type: none"> ▪ UK ▪ France ▪ Germany ▪ Switzerland ▪ Turkey 			20-30%
US	<ul style="list-style-type: none"> ▪ US 			
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

- 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

- Managed independently, but with close links to businesses
- Focus on global **consistency** and rigour of governance, control, process efficiency, transparency

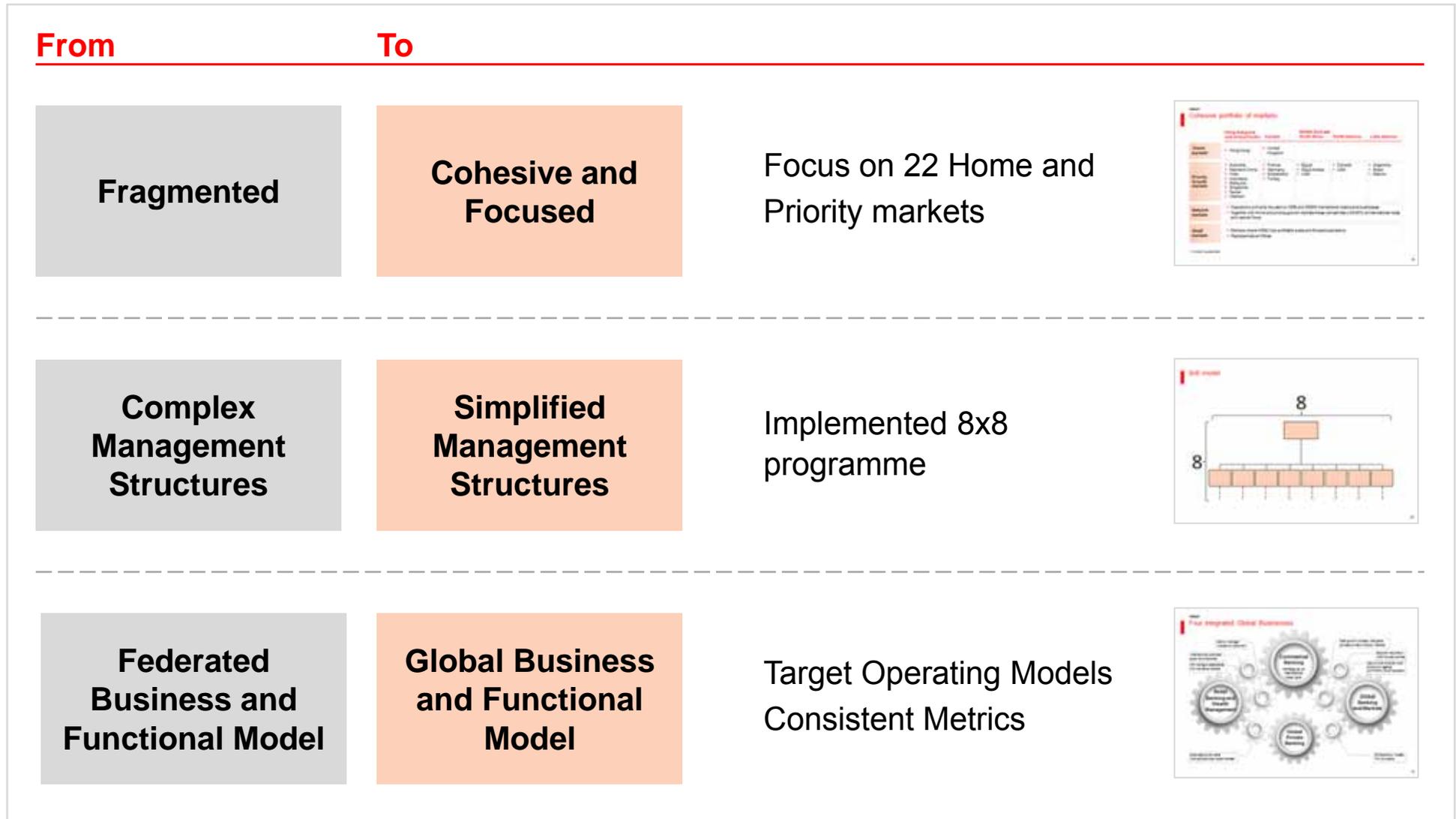
Focused role of six operating Regions

- 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

- **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



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

What fits HSBC's portfolio?

Six Filters

- Connectivity
- Economic development
- Profitability
- Efficiency
- Liquidity
- Financial crime risk

Resulting actions

- Invest
- Turnaround/improve
- Continue as is
- Discontinue/dispose

Where should we invest additional resources?

Strategic

Invest only in businesses aligned to our strategy

- Is it strategic?
 - Mostly in 22 home and priority markets
 - Target businesses and clients

Risk

Consistent with our risk appetite

- Does it meet our risk appetite?
 - Credit
 - Market
 - Operational

Financial

Value accretive for the Group

- Does it meet the minimum hurdle?
 - Marginal RoRWA
 - Revenues/costs

Reduced fragmentation and focused the portfolio

North America

- 9 transactions, including
- US Cards and Retail Services
 - US upstate NY branches
 - Canada Consumer Finance

Europe

- 18 transactions, including
- HFC secured loans portfolio
 - Georgia, Hungary, Slovakia
 - General Insurance in UK, Ireland, France

Middle East and North Africa

- 4 transactions, including
- Pakistan
 - Private Equity
 - RBWM Kuwait

Hong Kong and Rest of Asia Pacific

- 16 transactions, including
- Ping An stake
 - Hong Kong, Singapore, Taiwan, Vietnam Insurance
 - RBWM and GPB Japan

Latin America

- 7 transactions, including
- Panama
 - Sub-scale operations¹
 - General insurance in Argentina, Mexico

Key results

Disposals/exits	54 ²
RWA released to date	c.USD80bn
Further potential RWA release ³	c.USD15bn

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

2016 target RoRWA

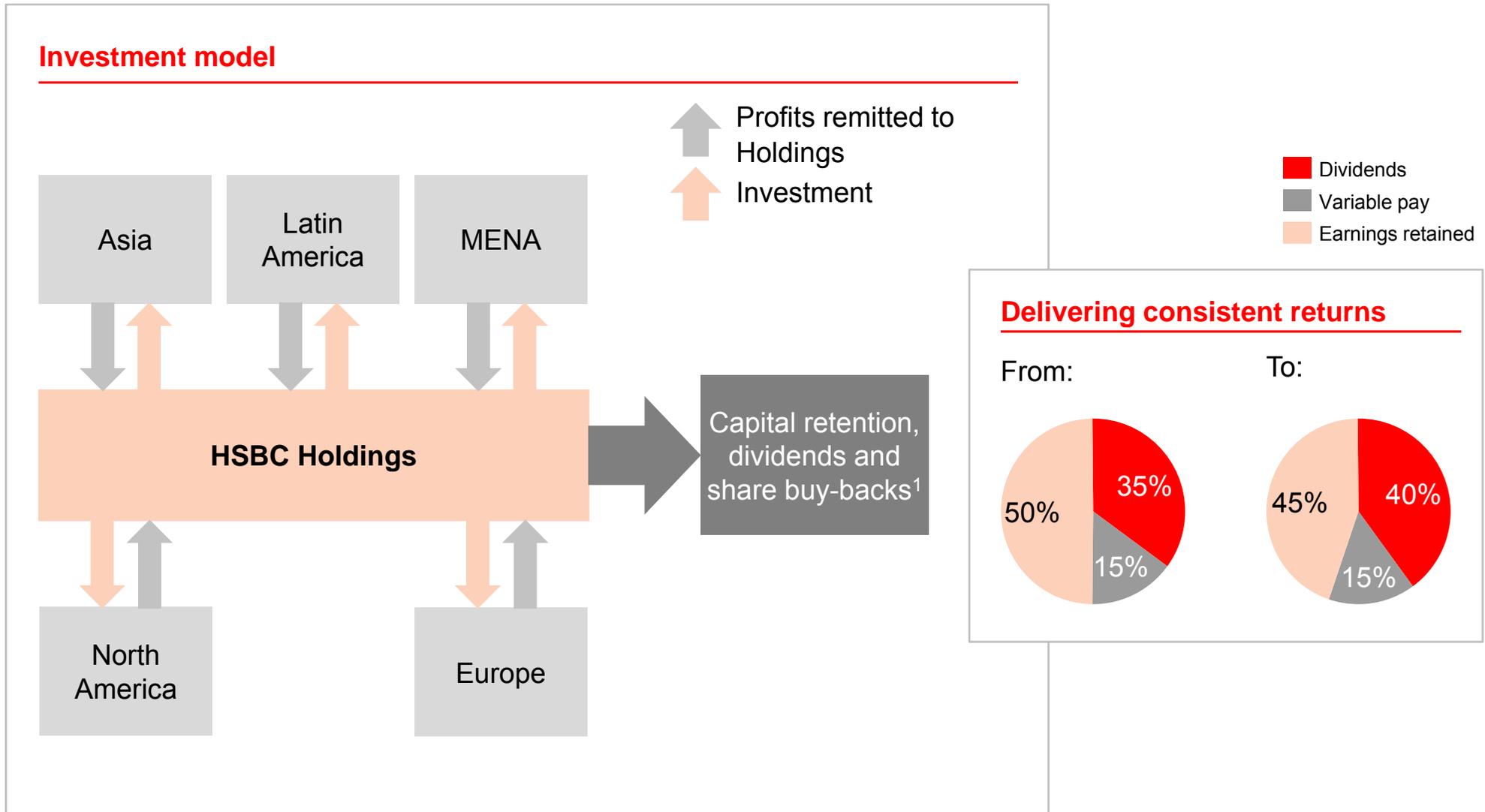
% of Group total

%

		Directional PBT contribution	2016 target RoRWA	
		% of Group total	%	
“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:

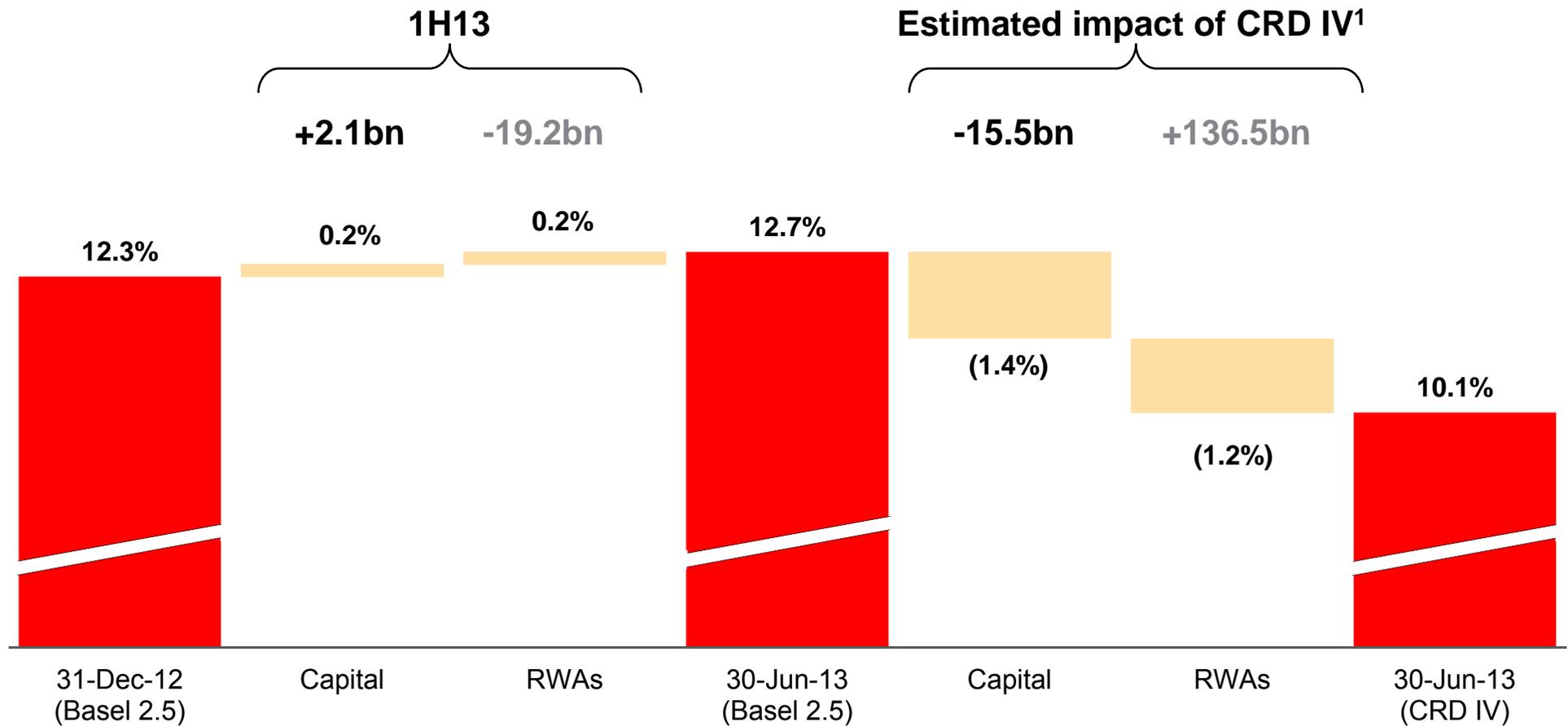
1. All figures are as reported unless otherwise stated
2. Declared in respect of the period
3. CER target for 2014-16 is mid 50s
4. Estimated CRD IV end-point CET1 ratio after planned mitigation of immaterial holdings based on our interpretation of the July 2011 draft CRD IV regulation, supplemented 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

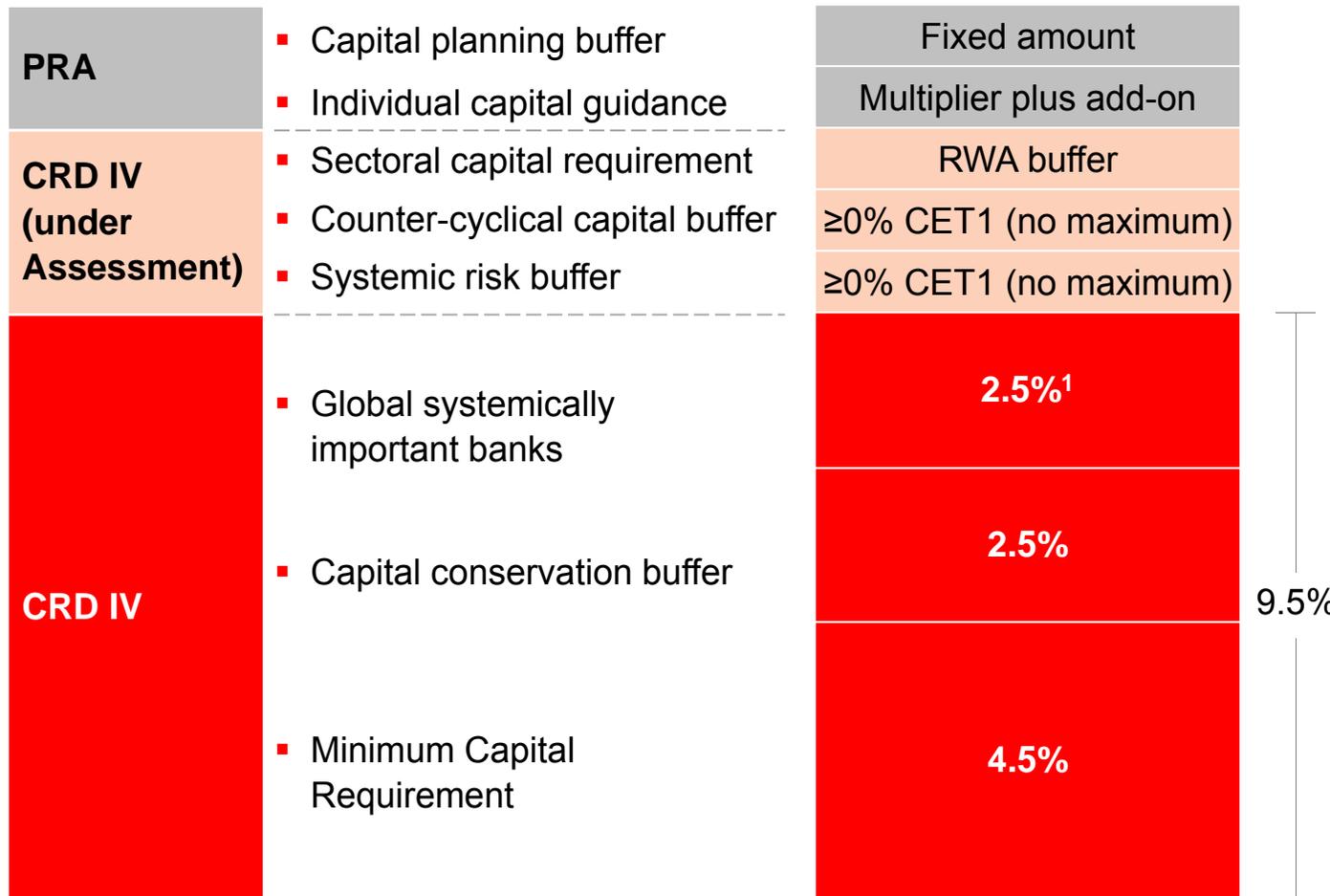
Core / Common Equity Tier 1 ratio
USDbn



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

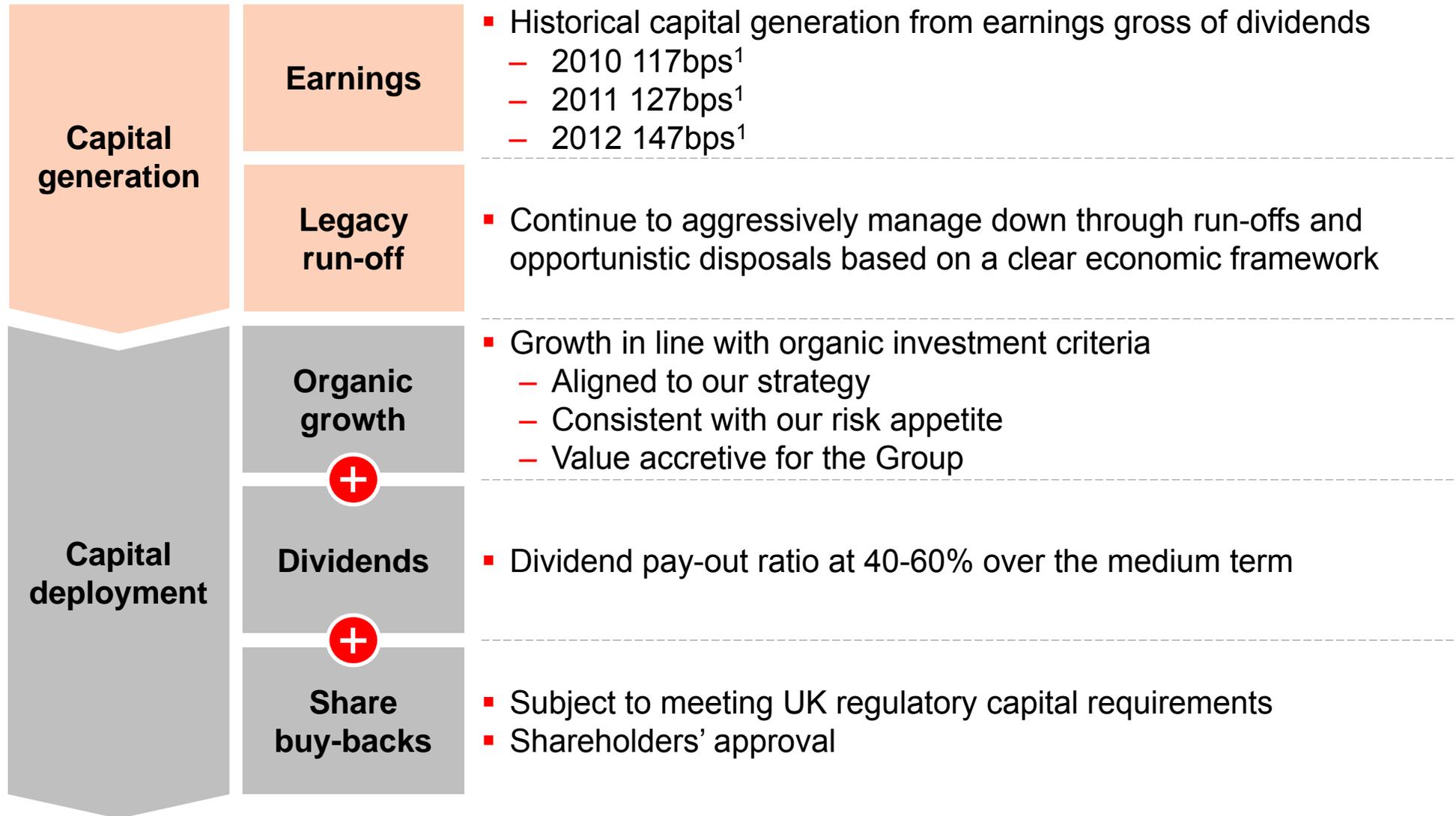


Further sources of uncertainty

- CRD IV – uncertainty in how buffers will be implemented and applied
- CRD IV – national discretion allows for interpretation and tougher policy stances by member states
- Financial Policy Committee – proposals for additional capital add-ons
- UK Financial Services (Banking Reform) Bill and Liikanen proposals – insufficient detail
- PRA proposals – e.g., low-default portfolios

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