



Commercial Banking - Investor Update

Simon Cooper – Group Managing Director, CEO of Global Commercial Banking

May 2014





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 the 1Q 2014 Interim Management Statement. Past performance cannot be relied on as a guide to future performance.

HSBC Group 1Q 2014 results

Financial highlights¹

Summary financial highlights, USDbn	1Q13	4Q13	1Q14	Better/(worse)	
				1Q14 vs 1Q13	1Q14 vs 4Q13
Reported PBT	8.4	4.0	6.8	(1.6)	2.8
Underlying ² PBT	7.6	3.5	6.6	(1.0)	3.1

Key ratios, %	1Q13	4Q13	1Q14	KPI
Return on average ordinary shareholders' equity ³	14.9	5.9	11.7	12-15%
Cost efficiency ratio	50.8	69.6	55.7	mid-50s
Jaws (underlying) ⁴	–	–	(6.4)	Positive
Advances-to-deposits ratio ⁵	72.9	72.9	73.9	< 90
Common equity tier 1 ratio (transitional basis)	–	10.8	10.7	>10%
Common equity tier 1 ratio (end point basis)	10.1	10.9	10.8	>10%

- Notes:
1. All figures are reported unless otherwise stated and are sourced from HSBC's 1Q 2014 Interim Management Statement ("1Q14 IMS") and accompanying data pack ("1Q14 data pack").
 2. Adjusted for foreign currency translation differences, acquisitions, disposals and changes in ownership level of subsidiaries, associates, joint ventures and businesses, and fair value ("FV") movements in credit spread on own long-term debt issued by Group and designated at fair value
 3. On an annualised basis
 4. Calculated as percentage growth in net operating income before loan impairment charges and other credit risk provisions less percentage growth in total operating expenses, 1Q14 versus 1Q13
 5. Excludes reverse repos and repos

HSBC Group Financial Overview

Reconciliation of Reported to Underlying results

USDm	1Q13	4Q13	1Q14	Variance 1Q14	
				vs 1Q13	vs 4Q13
Reported profit before tax	8,434	3,964	6,785	(1,649)	2,821
Includes:					
FVOD ¹	(243)	(652)	148	391	800
Gain on de-recognition of Industrial Bank as an associate	1,089	–	–	(1,089)	–
Gain on sale of associate shareholding in Bao Viet Holdings	104	–	–	(104)	–
Loss on sale of Household Insurance Group's insurance manufacturing business	(99)	–	–	99	–
Gain on disposal of Colombia operations	–	–	18	18	18
Gain on disposal of Panama operations	–	1,107	–	–	(1,107)
Other losses on acquisitions / disposals	–	(77)	–	–	77
Operating results of disposals, acquisitions and dilutions	(73)	51	(2)	71	(53)
Currency translation	67	35	–	(67)	(35)
Underlying profit before tax	7,589	3,500	6,621	(968)	3,121
Significant items included in underlying profit before tax (reported basis)²					
Revenue	935	(276)	(141)	(1,076)	135
Operating expenses	(458)	(1,424)	(123)	335	1,301

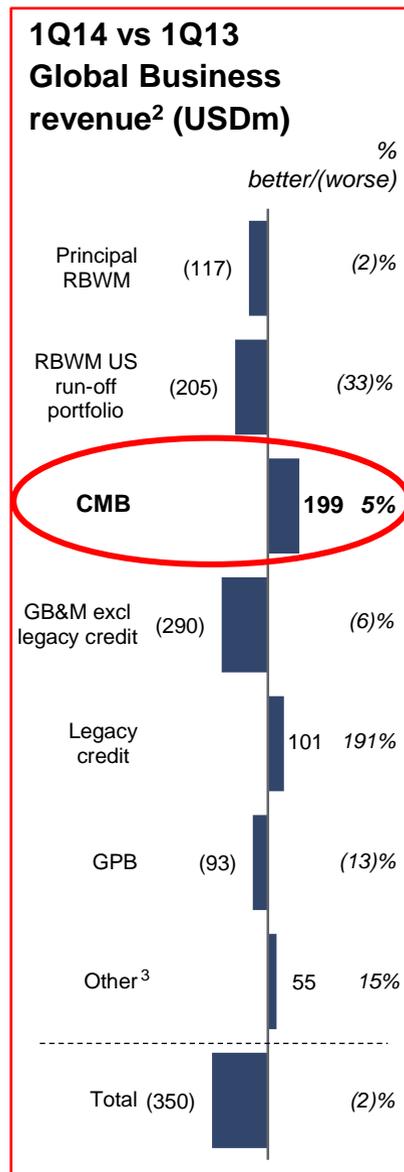
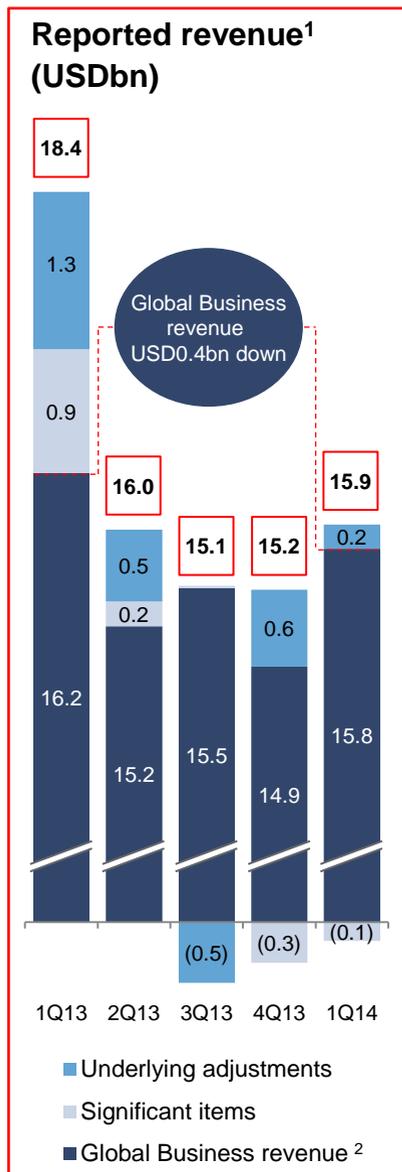
Note:

All figures are sourced from 1Q14 IMS & 1Q14 data pack.

1. Fair value movements on our long-term debt designated at fair value resulting from changes in credit spread
2. Details are included in the appendix

HSBC Group Revenue Analysis

Global Business revenues: growth in CMB



CMB financial highlights (USDbn)	1Q13	4Q13	1Q14	Better/(worse)	
				1Q14 vs 1Q13	1Q14 vs 4Q13
Reported Revenue ¹ (USDbn)	3.9	4.5	4.0	0.1	(0.5)
Reported PBT (USDbn)	2.2	2.4	2.4	0.2	-
Underlying PBT (USDbn)	2.2	1.9	2.4	0.3	0.5
Cost efficiency ratio (% reported)	43.9	41.6	43.4	0.5	(1.8)
Advances-to-deposits ratio (%)	86%	84%	86%		

CMB Product revenues (USDm)	1Q13	4Q13	1Q14	Better/(worse)	
				1Q14 vs 1Q13	1Q14 vs 4Q13
Global Trade & Receivables Finance ⁴	713	713	686	(27)	(27)
Credit & Lending	1,488	1,541	1,494	6	(47)
Payment and Cash Management ^{4,5}	1,275	1,363	1,322	47	(41)
Other	457	900	508	51	(392)

Notes:

- Global Trade and Receivables Finance' and 'Payments and Cash Management' include revenue attributable to foreign exchange products.
- Referred to as "Payment and Cash Management, current accounts and savings deposits" in the 1Q IMS.

Notes:

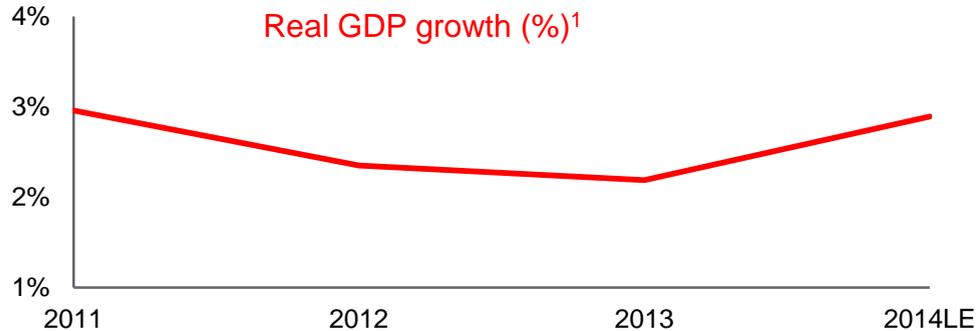
All figures are sourced from 1Q14 IMS & 1Q14 data pack.

- Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.
- Global Business revenue excludes underlying adjustments and significant items
- Includes intersegment revenue variance of USD(89)m

Operating environment

CMB grew assets but the macro environment remains challenging

Global GDP forecast to grow ...



... and total CMB lending book grew



However external factors remain challenging

- Macro:
 - Mixed global economic picture.
 - Interest rates remain low³.
 - Margin stabilised in some markets but average rates still lower than prior year.
- Regulatory:
 - On-going changes and uncertainty.
 - Enhanced regulatory focus across key markets.

Notes:

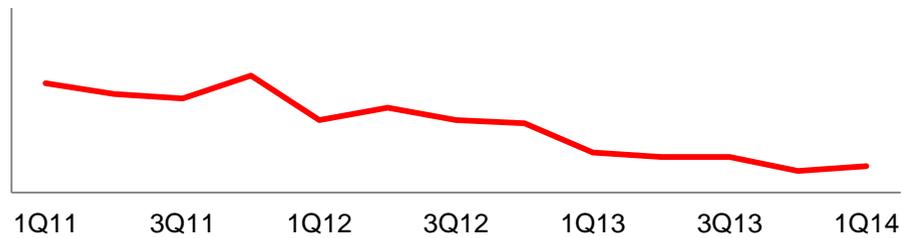
1. Source: Oxford Economics (March 2014)
2. Total CMB loans and advances on a constant currency basis (1Q14 FX rates)
3. HSBC Global Research estimates, Global Economics Q2 2014

Operating environment

Margin compression slowed and lower LICs

Margin compression slowed

Total CMB Assets Margin

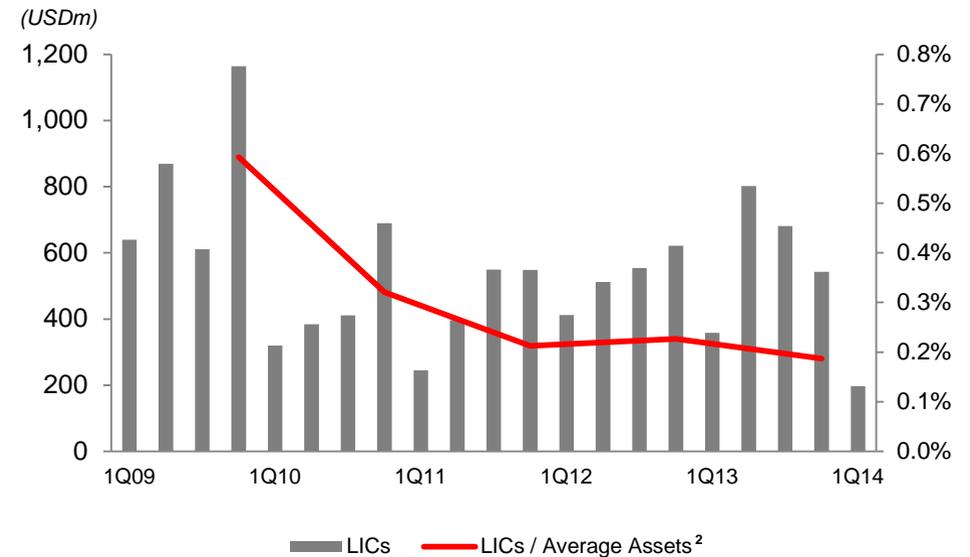


GTRF Asset Margins



Portfolio quality remains strong

Total CMB LICs¹



- Total asset margins remained relatively flat compared to 4Q13.
- GTRF margin compression stabilising.

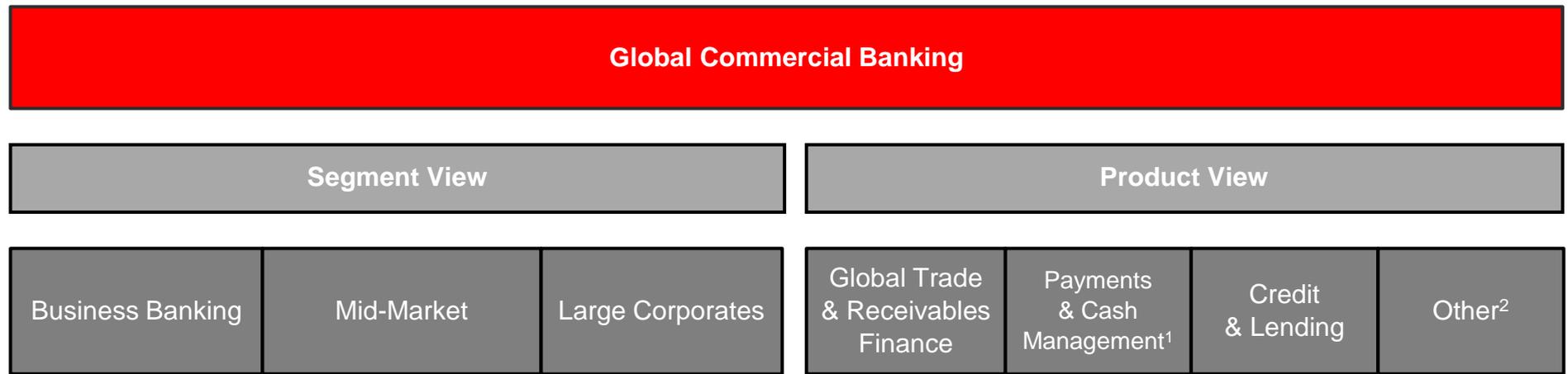
- Compared to 4Q13, lower specific impairments in Mexico relating to homebuilders due to a change in the public housing policy, and in Brazil and UK.

Notes:

1. On a reported basis.
2. Total average CMB loans and advances on a reported basis.

Management Structure

Driving the Global Business of Commercial Banking



- Continued globalisation of the business will enable a sustainable and consistently executed strategy
- The business is being organised around global segments and global products....
-increasing transparency and mitigating risk.

Notes:

1. Includes current accounts and savings deposits
2. Included in 'Other' in the AR&A are Markets & Capital Financing products as well as Insurance and Investments and other products.

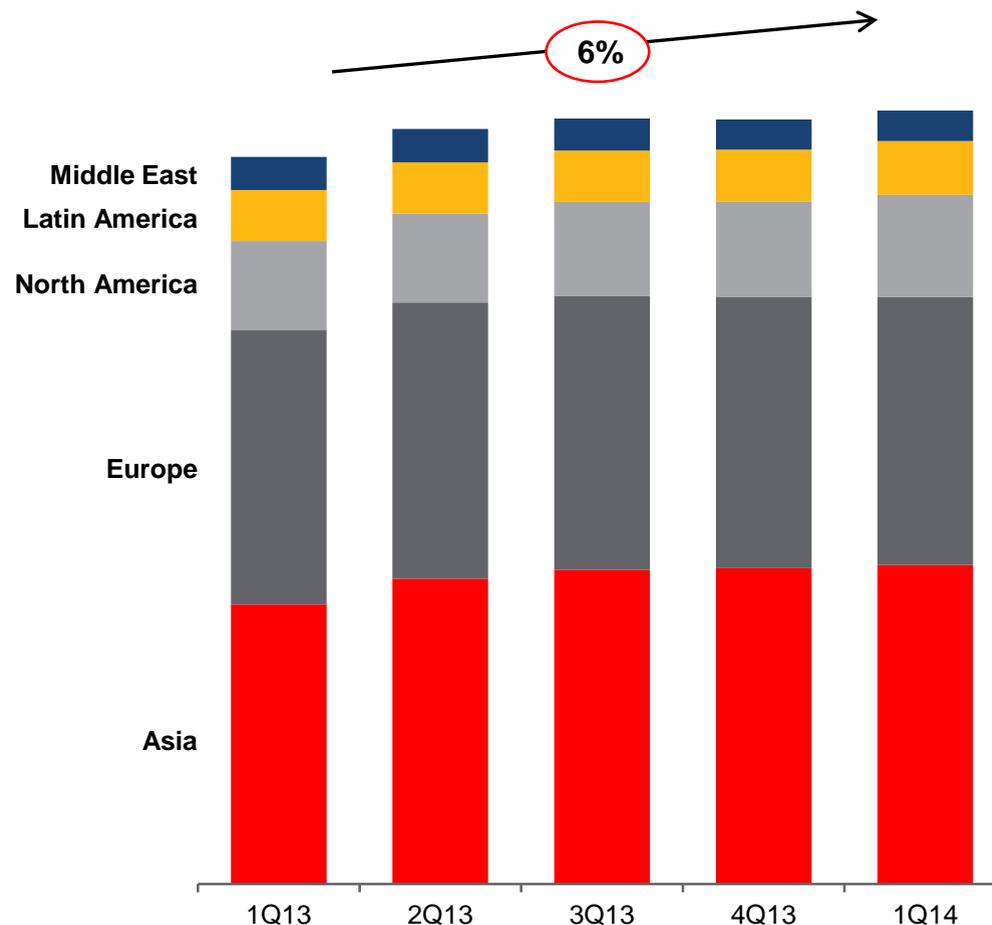
Credit & Lending

HSBC supports client growth ambitions globally

Growth in customer lending

- Asset balances saw marginal growth returning in 1Q14 after flat 4Q13.
- Growth in term lending year-on-year and against 4Q13, mainly in Asia.
- Capturing a greater share of new term lending in UK as a result of year-on-year growth above market¹.
- Supporting our customers' international business growth.

CMB assets²



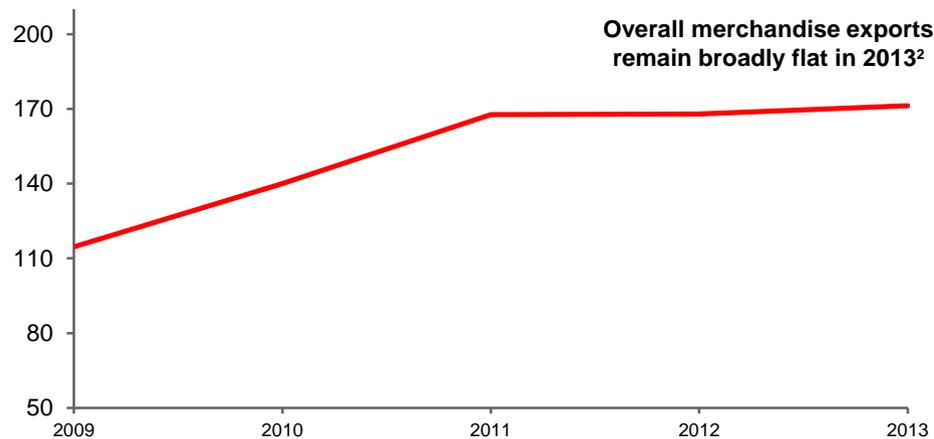
Notes:

1. Bank of England, March data
2. Customer Loans and Advances (period end) at constant currency. The majority of loans and advances are comprised of Credit & Lending

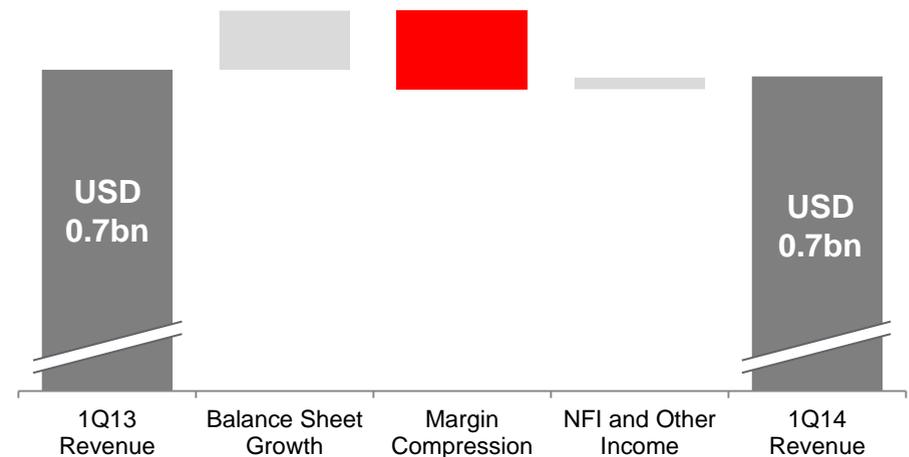
Global Trade and Receivables Finance

HSBC continues to be the Global Trade Finance bank of choice¹

Challenging external environment



Double digit lending growth offsets margin compression³



- Economy remains volatile, albeit margin compression is stabilising.
- Focus on customer driven solutions across the product suite resulting in double-digit balance growth year-on-year to offset impact.
- Leadership reflected in recognition by key industry publications
 - Best Global Trade Finance bank – Global Trade Review¹

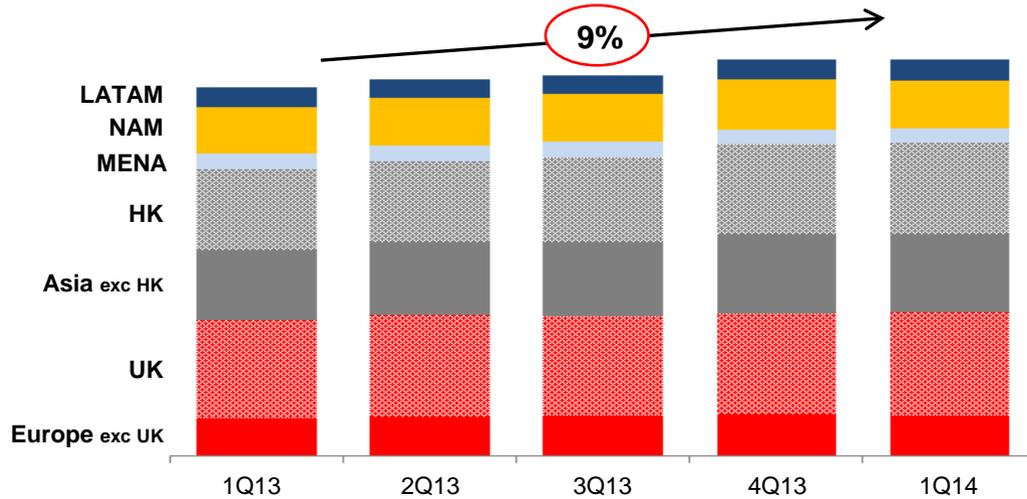
Notes:

1. Global Trade Review, December 2012 and 2013
2. WTO Quarterly world merchandise exports by region and selected economies. Indexed to 100 in 1Q2009
3. Figures on a reported basis

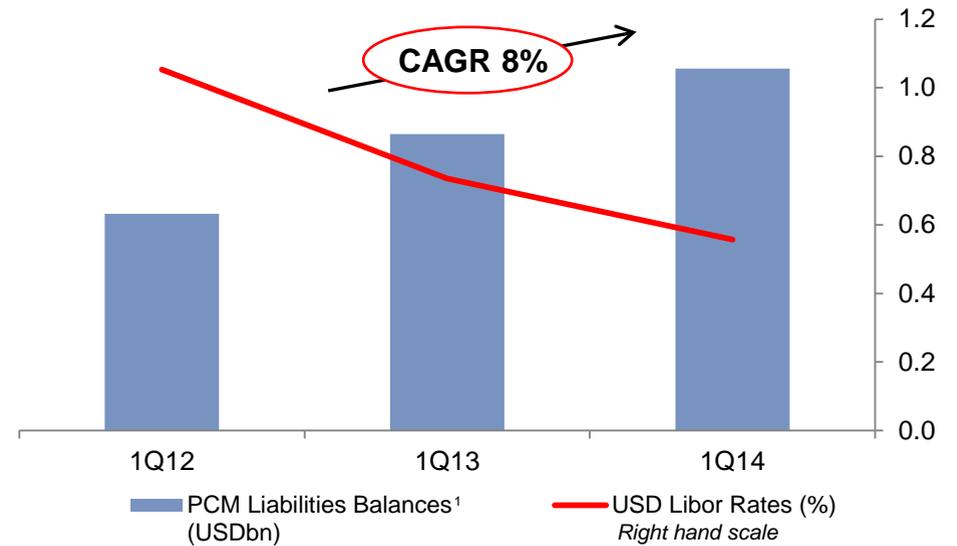
Payments and Cash Management

PCM growing liabilities to support the CMB balance sheet

PCM Liabilities Balances¹



Liability balances continue to grow despite low interest rate environment



- New customer mandates and higher transaction volumes in 1Q14 than 1Q13, although 1Q14 liabilities balance was flat on 4Q13.
- Products are well positioned to benefit from global trends such as increasing cross-border payment flows.
- HSBC's leadership was recognised by *Euromoney*, awarding HSBC the 'Best Transaction Banking House' in 2013².
- Product innovation: Enhancing customers Treasury and Cash Management needs through end of day RMB cross border liquidity sweeping structures from the Shanghai free trade zone.
- Digitalisation: PCM continues to migrate customers from legacy platforms to HSBCnet; increase usage of the mobile platform with USD34bn³ of mobile payments authorised.

Notes:

1. Reported basis, period end, CMB
2. Euromoney 2013

3. HSBC internal data

Global CMB Investment Priorities

Product investment priorities

Trade Finance

- § Reinforce HSBC's leading position in trade
- § Strengthen position in high growth products/corridors and expand in trading hubs

Payments and Cash Management

- § Deliver improved client coverage and products via customer proposition enhancements

FX

- § Upgrade Collaboration with GB&M

RMB

- § Accelerate global leadership position
- § Capture offshore RMB, FX and capital markets opportunities

Investments in Segments and Geographies

Segment priorities

- § **Large Corporate:** Upgrade strategic relationships with global large corporate customers
- § **Mid Market:** Build our franchise in US, Canada, Mexico, Brazil, HK
- § **Business Banking:** Roll-out a consistent International Relationship Management model in top 12 priority markets with c. 500 relationship managers in roles

Geographic priorities

- § **UK:** Strengthen UK home market position
- § **Germany:** Build-out corporate franchise through improved client coverage, financing products and capture greater share of key trade corridors
- § **ASEAN:** Develop ASEAN cluster to support integration and connectivity with global presence

Appendix

Significant items included in Group underlying profit before tax

USDm	1Q13	4Q13	1Q14	Variance 1Q14	
				vs 1Q13	vs 4Q13
Underlying profit before tax	7,589	3,500	6,621	(968)	3,121
Includes the following significant items (reported basis):					
Revenue					
<i>Restructuring and repositioning:</i>					
Net gain on completion of Ping An disposal	553	–	–	(553)	–
FX gains relating to the sterling debt issued by HSBC Holdings	442	–	–	(442)	–
Write-off of allocated goodwill relating to GPB Monaco business ¹	(279)	–	–	279	–
Loss on early termination of cash flow hedges in the US run-off portfolio	(199)	–	–	199	–
Loss on sale of an HFC Bank UK secured loan portfolio	(138)	(8)	–	138	8
Loss on sale of several tranches of real estate secured accounts in the US	–	(123)	(30)	(30)	93
<i>Volatility:</i>					
Debit valuation adjustment on derivative contracts	472	(195)	31	(441)	226
Fair value movements on non-qualifying hedges	84	50	(142)	(226)	(192)
	935	(276)	(141)	(1,076)	135
Operating expenses					
<i>Restructuring and repositioning:</i>					
Restructuring and other related costs	(75)	(87)	(40)	35	47
<i>Customer redress and litigation-related charges:</i>					
UK customer redress programmes	(164)	(395)	(83)	81	312
Regulatory investigation provisions in GPB	(119)	(35)	–	119	35
US customer remediation provision relating to CRS	(100)	–	–	100	–
<i>Bank levy:</i>					
	–	(907)	–	–	907
	(458)	(1,424)	(123)	335	1,301

Note:

All figures are sourced from 1Q14 IMS & 1Q14 data pack.

1. In the first quarter of 2013 the private banking operations of HSBC Private Bank Holdings (Suisse) SA in Monaco were classified as held for sale. At this time, a loss on reclassification to held for sale was recognised following a write down in the value of goodwill allocated to the operation. Following a strategic review we decided to retain the operation, and the assets and liabilities of the business were reclassified to the relevant balance sheet categories, however the loss on reclassification was not reversed



The view from HSBC Building, 8 Century Avenue, Pudong, Shanghai



The view from HSBC Main Building, 1 Queen's Road Central, Hong Kong SAR



The view from HSBC Group Head Office, 8 Canada Square, London

Cover images: internationalisation of the renminbi

The images show the views from HSBC's head offices in Shanghai, Hong Kong and London – the three cities that are key to the development of China's currency, the renminbi (RMB). The growth of the RMB is set to be a defining theme of the 21st century. HSBC has RMB capabilities in over 50 countries and territories worldwide, where our customers can count on an expert service.

Photography: Matthew Mawson

Cover designed by Creative Conduct Ltd, London. 01/14

Issued by HSBC Holdings plc

Group Investor Relations
8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 8041

www.hsbc.com