



Commercial Banking Investor Presentation
Simon Cooper – Group Managing Director, CEO of Global Commercial Banking
September 2014





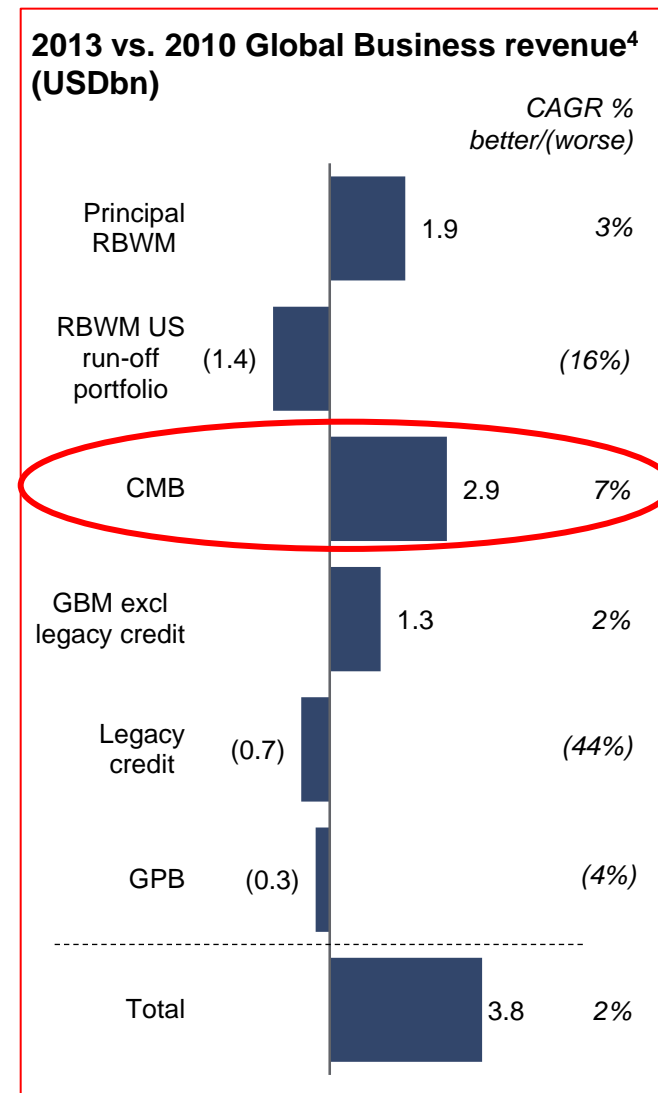
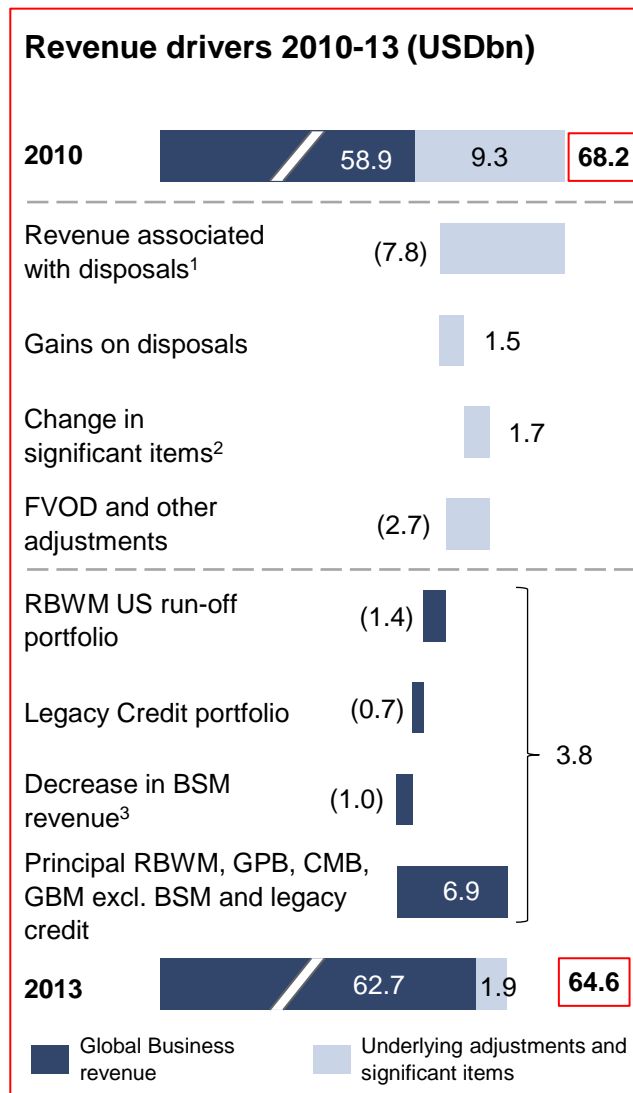
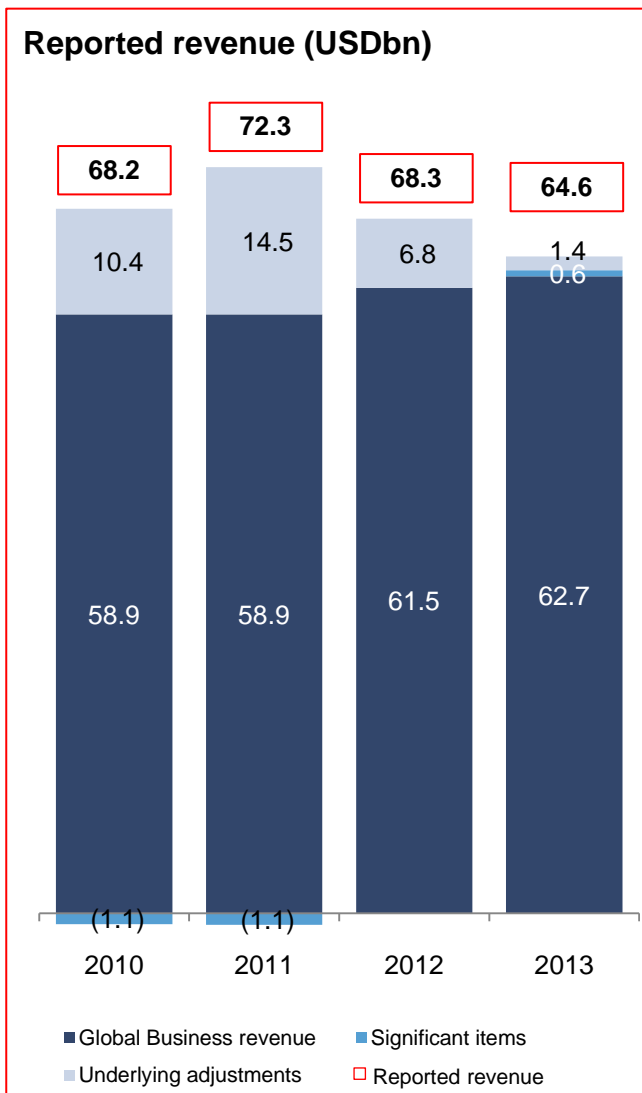
Forward-looking statements

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 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 measurements to the most directly comparable measures under GAAP are provided in the 'reconciliations of non-GAAP financial measures' supplement available at www.hsbc.com.

Group revenue development 2010-2013

Growth in Global Business revenues



Notes:

- Includes revenue in respect of CRS, US branches and disposals in Latin America (Panama, Costa Rica, Honduras and El Salvador only) only in 2010
- Includes non-qualifying hedges USD1.6bn, net gain on completion of sale of Ping An USD0.6bn, structural FX USD0.4bn, gain on sale and leaseback of the Paris headquarters USD0.2bn, debit valuation adjustment USD0.1bn, loss on sale of several tranches of real estate secured accounts USD(0.1)bn, loss on sale of HFC USD(0.1)bn, loss on termination of cash flow hedges in CML USD(0.2)bn, loss on sale of vehicle finance portfolio in the USD(0.2)bn, loss on sale of the CML non real estate personal loan portfolio USD(0.3)bn, write-off of goodwill related to the Monaco GPB business USD(0.3)bn
- On a reported basis
- Global Business reported revenue excluding underlying adjustments and significant items

Group interim results 2014

Financial highlights¹

Summary financial highlights, USDbn	1H13	2H13	1H14	Better/(worse)	
				1H14 vs 1H13	1H14 vs 2H13
Reported PBT	14.1	8.5	12.3	(12)%	45%
Underlying ² PBT	13.0	8.6	12.6	(4)%	46%

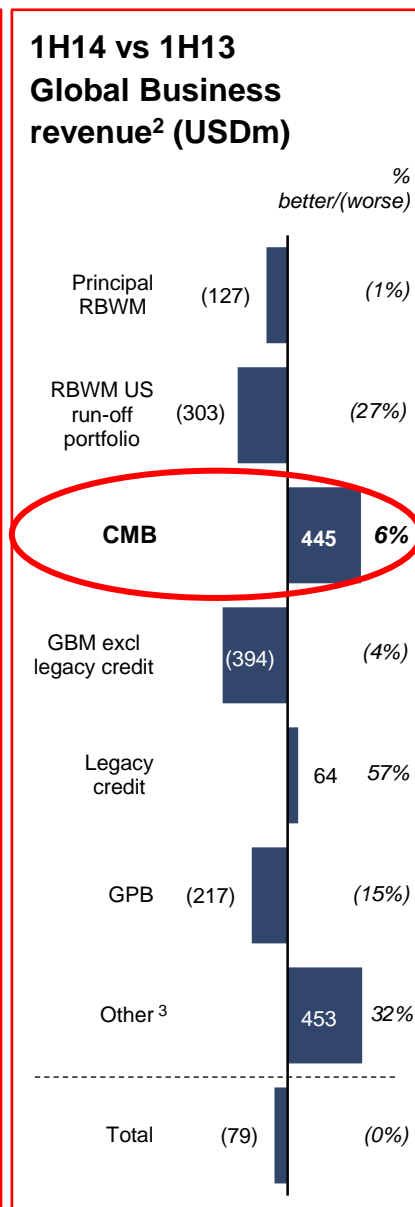
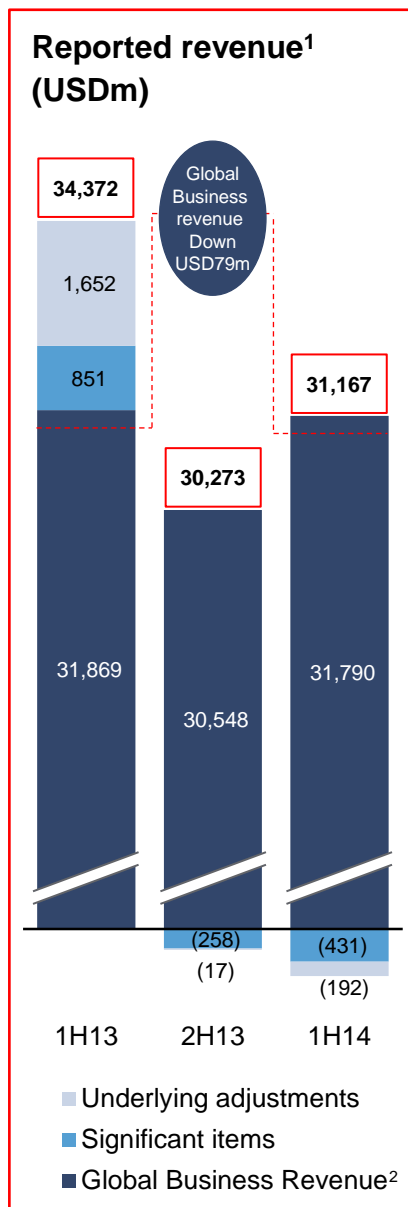
Key ratios, %	1H13	2H13	1H14	KPI
Return on average ordinary shareholders' equity ³	12.0	6.5	10.7	12-15%
Cost efficiency ratio	53.5	66.6	58.6	mid-50s
Jaws (underlying) ⁴	-	-	(5.7)	Positive
Advances-to-deposits ratio ⁵	74.1	72.9	74.0	< 90
Common equity tier 1 ratio (transitional basis) ⁶	N/A	10.8	11.2	>10%
Common equity tier 1 ratio (end point basis) ⁶	10.1	10.9	11.3	>10%

Notes:

- All figures are reported unless otherwise stated
- Adjusted for foreign currency translation differences, acquisitions, disposals and changes in ownership levels 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
- On an annualised basis
- Calculated as percentage growth in net operating income before loan impairment charges and other credit risk provisions ('revenue') less percentage growth in total operating expenses, 1H14 versus 1H13
- Excludes reverse repos and repos
- On 1 January 2014, CRD IV came into force and capital and RWAs at 30 June 2014 are calculated and presented on this basis. At 31 December 2013, capital and RWAs were also estimated based on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA, details of which can be found in the basis of preparation on page 324 of the *Annual Report and Accounts 2013*

HSBC Group Revenue Analysis

Global Business revenues broadly unchanged, growth in CMB



CMB financial highlights (USDm)	1H13	2H13	1H14	Better/(worse)	
				1H14 vs 1H13	1H14 vs 2H13
Reported Revenue ¹ (USDbn)	7,863	8,502	8,116	253	(386)
Reported PBT (USDbn)	4,133	4,308	4,771	638	463
Underlying PBT (USDbn)	4,098	3,831	4,758	660	927
Cost efficiency ratio (% reported)	42.4	43.7	44.2	-	-
Advances-to-deposits ratio (%)	87.5	84.1	86.4	-	-

CMB Product revenues (USDm)	1H13	2H13	1H14	Better/(worse)	
				1H14 vs 1H13	1H14 vs 2H13
Global Trade & Receivables Finance	1,459	1,470	1,429	(30)	(41)
Credit & Lending	3,008	3,095	3,108	100	13
Payment and Cash Management ⁵	2,579	2,708	2,738	159	30
Other	817	1,229	841	24	(388)

Notes:

4. Referred to as "Payment and Cash Management, current accounts and savings deposits" in the 2014 Interim Report.

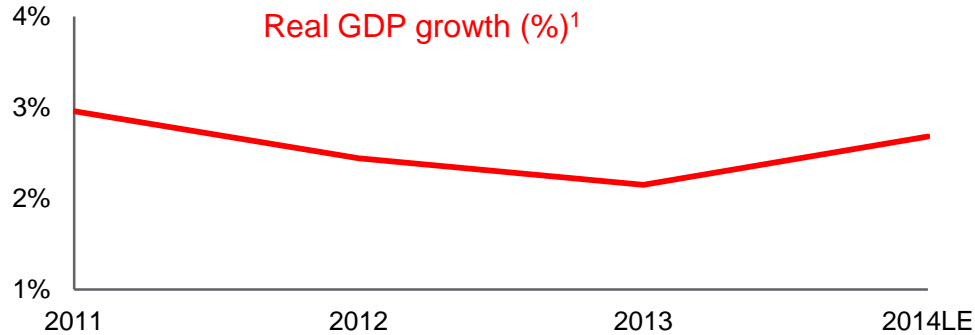
Notes:

1. Net operating income before loan impairment charges and other credit risk provisions
2. Global Business reported revenue excluding underlying adjustments and significant items
3. Includes intersegment revenue variance of USD0.2bn

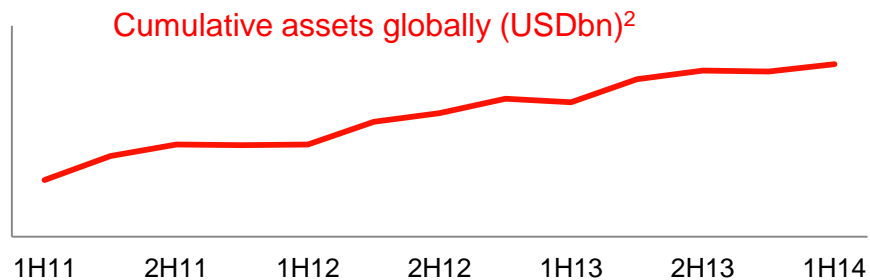
Operating environment

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.
- Regulatory:
 - On-going changes and uncertainty.
 - Enhanced regulatory focus across key markets.

Notes:

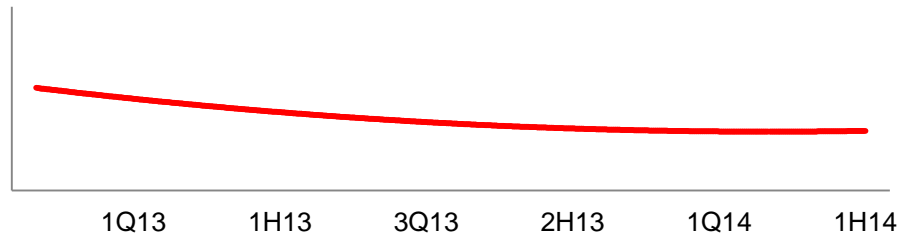
1. Source: Oxford Economics (March 2014)
2. Total CMB loans and advances on a constant currency basis (2Q14 FX rates)
3. HSBC Global Research estimates, Global Economics Q2 2014

Operating environment

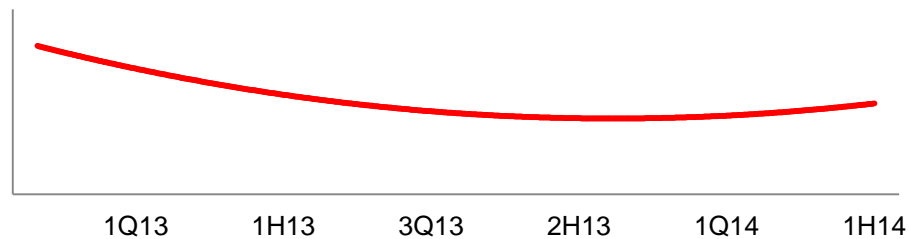
Spread compression slowed and lower LICs

Spread compression slowed

Total CMB Assets Spread



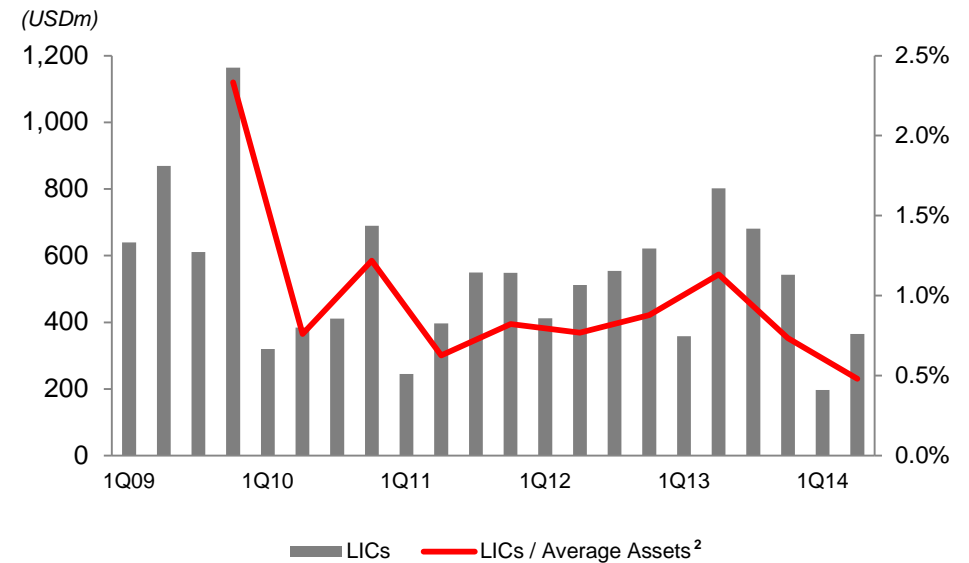
GTRF Asset Spreads



- Total asset spreads remained relatively flat compared to 4Q13.
- GTRF spread compression stabilising with recoveries in some of geographies.

Portfolio quality remains strong

Total CMB LICs¹



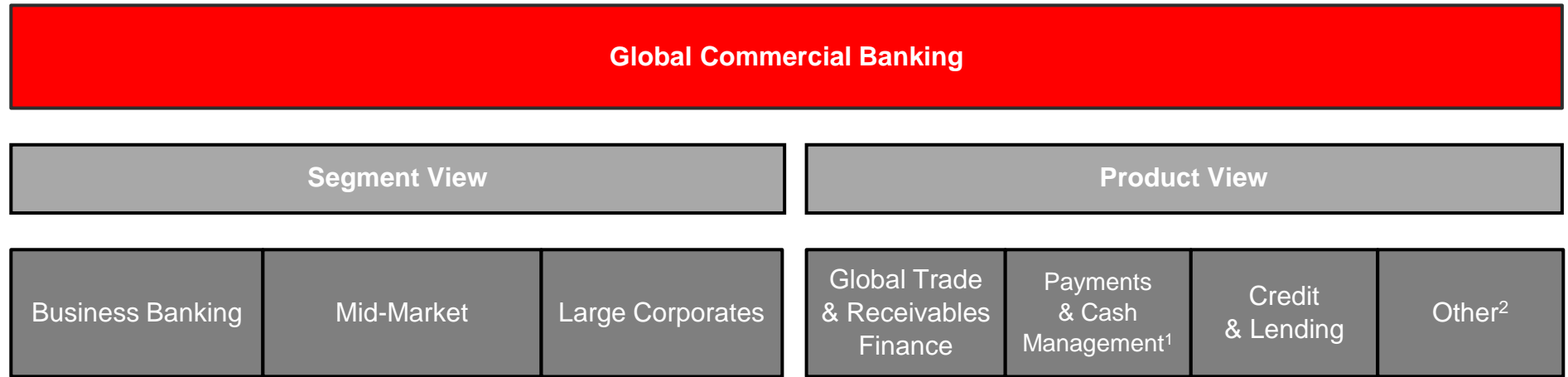
- Compared to 1H13:
 - lower specific impairments in UK, Spain, Mexico (in particular to homebuilders) and Canada.
 - lower collectively assessed impairments in Brazil

Notes:

1. On a reported basis.
2. Annualised quarterly LICs / total average CMB loans and advances.

Management Structure

Driving the Global Business of Commercial Banking



- Continued globalisation of the business enables a sustainable and consistently executed strategy
- The business is organised around global segments and global products
-increasing transparency and mitigating risk ...
- ... and ensuring consistency, efficiency and the right outcomes for our customers

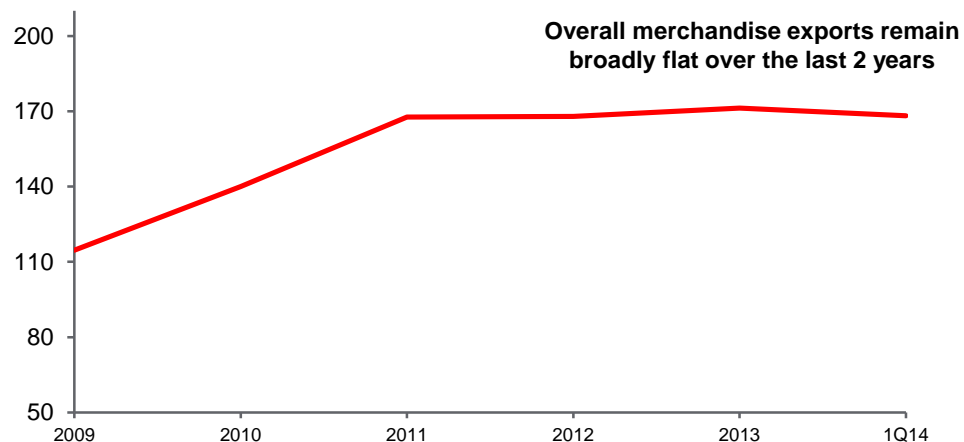
Notes:

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.

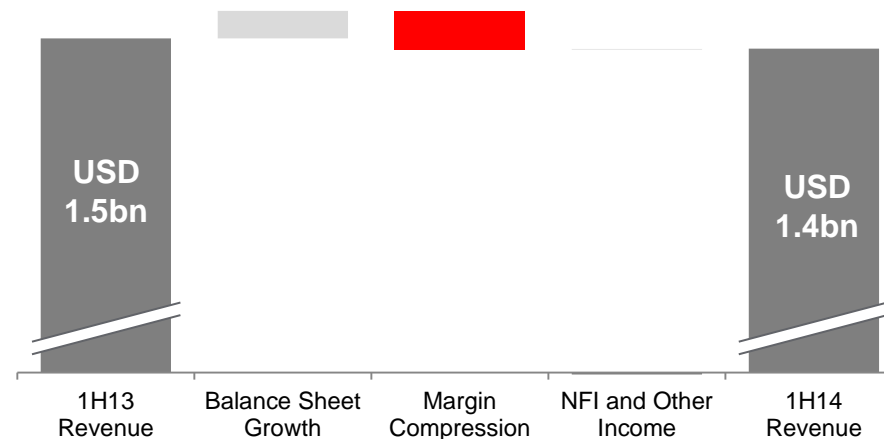
Global Trade and Receivables Finance

HSBC continues to be the Global Trade Finance bank of choice¹

Challenging external environment



Double digit lending growth helps to offset spread compression³



- Economy remains volatile, albeit spread compression is stabilising.
- We have seen double digit growth in volumes and stabilisation in spreads with slight recoveries in some of our key geographies, especially in Asia. Whilst on a reported basis revenue decreased by 2%, it remained broadly unchanged on a constant currency basis.
- We have continued to increase our market share. In the first half of 2014, we maximised the benefits of our network to win a number of high profile deals and began to reorganise our operating platforms for Receivables Finance on a regional basis. This allows us to provide a faster, more efficient service, benefiting our clients as well as our business.

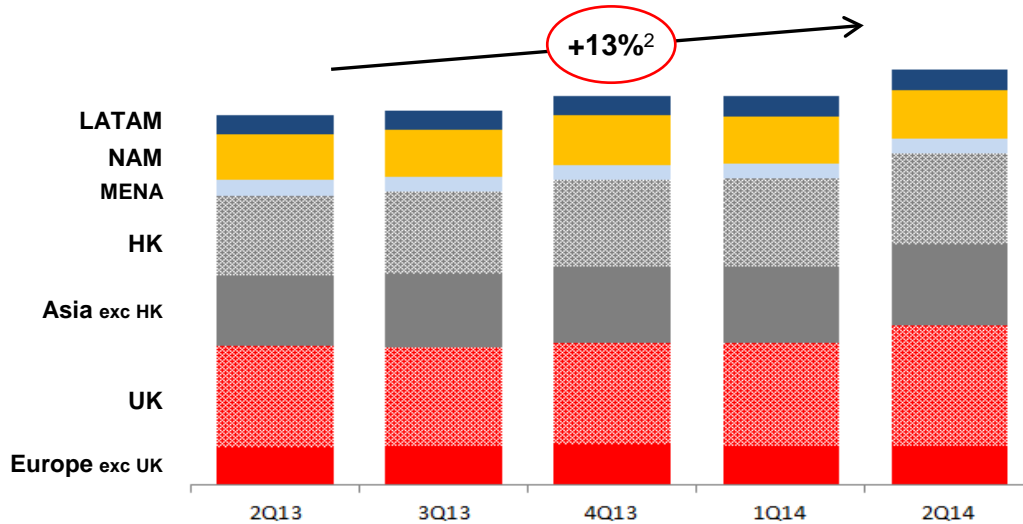
Notes:

1. Global Trade Review, December 2012 and 2013; Best Trade Bank in the World, Trade and Forfeiting Review, 2014
2. WTO Quarterly world merchandise exports by region and selected economies. Indexed to 100 in 1Q2009
3. All figures are presented on a reported basis

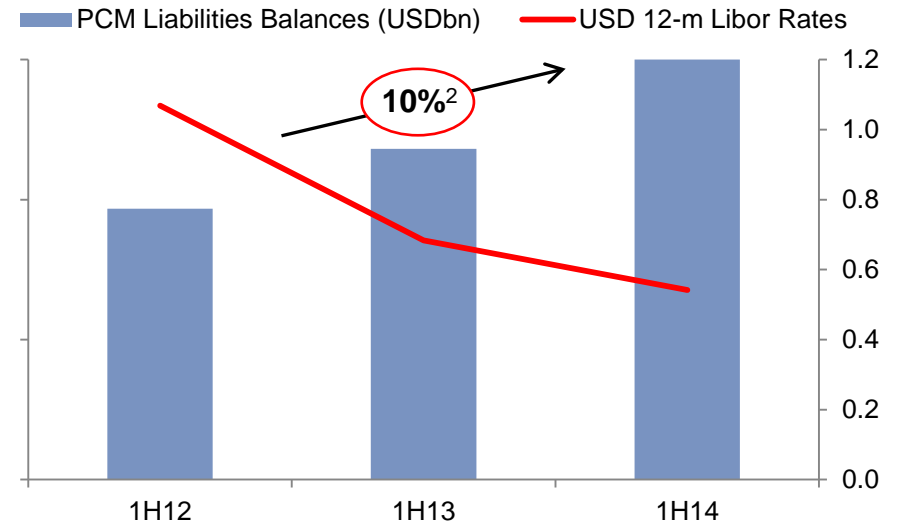
Payments and Cash Management

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 1H14 over 1H13 helped drive increased revenues
- Products are well positioned to benefit from global trends such as increasing cross-border payment flows.
- HSBC's payments volumes have grown 7% from 1H 2013 to 1H 2014³ generating additional fee revenues.
- HSBC's leadership was recognised naming it the 'Best Cash Management Bank' globally in the 'Financial Institutions' and 'Non-Financial Institutions' categories in the highly regarded 2013 Euromoney customer survey.
- 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 and recently extended to provide this functionality nationwide.
- Digitalisation: PCM continues to migrate customers from legacy platforms to HSBCnet; increase usage of the mobile platform with USD40bn⁴ of mobile payments authorised to date

Notes:

1. Reported basis, period end, CMB
2. 2Q14 Balances includes c.\$11bn boundary change from Retail Money Market Deposits

3. SwiftNet, 30 June 2014
4. HSBC internal data

Group Strategy 2014-2016

Executing the three equally weighted priorities in CMB

CMB Strategic priorities

Grow both business and dividends

- Utilising our distinctive geographical network to support and facilitate global trade and capital flows
- Delivering excellence in our core flow products – specifically in Trade and Payments and Cash Management
- Enhancing collaboration with other global businesses by increasing product coverage

Implement Global Standards

- § De-risking operations in higher risk locations and segments
- § Continue to invest in best-in-class Compliance and Risk capabilities
- § HSBC values: act with courageous integrity

Streamline processes and procedures

- § Re-defining the role of the Relationship Manager, freeing up more time to spend with customers
- § Improving customer on-boarding experience
- § Simplifying the credit application process
- § Continuing product and platform rationalisation
- § Supporting the Group's 2-3bn sustainable savings target

Investment priorities for CMB

Business Banking

- § Roll-out a consistent International RM model in top 12 priority markets with c. 500 relationship managers in roles

Mid-market Enterprises

- Grow our client centric franchise in US, Canada, Mexico, Brazil, HK, UK

Large Corporate

- Upgrade strategic relationships with global large corporate customers

Global Trade & Receivables Finance

- Strengthen our 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

Foreign Exchange

- Upgrade Collaboration with GBM

RMB

- Accelerate our global leadership position and capture offshore RMB, FX and capital markets opportunities

Network

- Align resources and coverage (including International Subsidiaries) in priority cities and trade corridors



Appendix

Group Financial overview: Reconciliation of Reported to Underlying results

USDm	1H13	2H13	1H14	Variance 1H14	
				vs 1H13	vs 2H13
Reported profit before tax	14,071	8,494	12,340	(1,731)	3,846
Includes:					
FVOD ¹	(19)	(1,227)	(215)	(196)	1,012
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	1	(19)	(32)	(33)	(13)
Operating results of disposals, acquisitions and dilutions	(34)	(21)	9	43	30
Currency translation	12	27	-	(12)	(27)
Underlying profit before tax	13,017	8,627	12,560	(457)	3,933
Significant items² included in underlying profit before tax					
Revenue	851	(258)	(431)	(1,282)	(173)
Operating expenses	(746)	(2,208)	(271)	475	1,937

Notes:

1. Fair value movements on our long-term debt designated at fair value resulting from changes in credit spread
2. On a reported basis

Group Financial overview: Significant items included in underlying PBT

USDm				Variance 1H14	
	1H13	2H13	1H14	vs 1H13	vs 2H13
Underlying profit before tax	13,017	8,627	12,560	(457)	3,933
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 the non-real estate portfolio in CML	(271)	-	-	271	-
Loss on sale of several tranches of real estate secured accounts in the US	(1)	(122)	(15)	(14)	107
Gain on sale of shareholding in Bank of Shanghai	-	-	428	428	428
<i>Volatility:</i>					
Debit valuation adjustment on derivative contracts	451	(346)	(155)	(606)	191
Fair value movement on non-qualifying hedges	293	218	(322)	(615)	(540)
<i>Provision arising from a review of compliance with the Consumer Credit Act in the UK</i>	-	-	(367)	(367)	(367)
	851	(258)	(431)	(1,282)	(173)
Operating expenses					
<i>Restructuring and repositioning:</i>					
Restructuring and other related costs	(238)	(245)	(82)	156	163
<i>Customer redress and litigation-related charges:</i>					
UK customer redress programmes	(412)	(823)	(234)	178	589
Regulatory investigation provisions in GPB	(119)	(233)	-	119	233
US customer remediation provision relating to CRS	(100)	-	-	100	-
Madoff-related litigation costs	(298)	-	-	298	-
<i>UK bank levy</i>	(9)	(907)	45	54	952
<i>Accounting gain arising from change in basis of delivering ill-health benefits in the UK</i>	430	-	-	(430)	-
	(746)	(2,208)	(271)	475	1,937

Note:
1. In 1Q13, 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

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