



30 September 2014

# Establishing HSBC as the Leading International Bank

BoAML Conference

Iain Mackay – Group Finance Director



## 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 2013 Annual Report and Accounts and our 2014 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 measures to the most directly comparable measures under GAAP are provided in the 'reconciliations of non-GAAP financial measures' supplement available at [www.hsbc.com](http://www.hsbc.com).

# Agenda

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**HSBC today**

2

Transformation 2011-13 and drivers of growth

3

Strategic priorities and outlook

# 1. HSBC today

## HSBC today

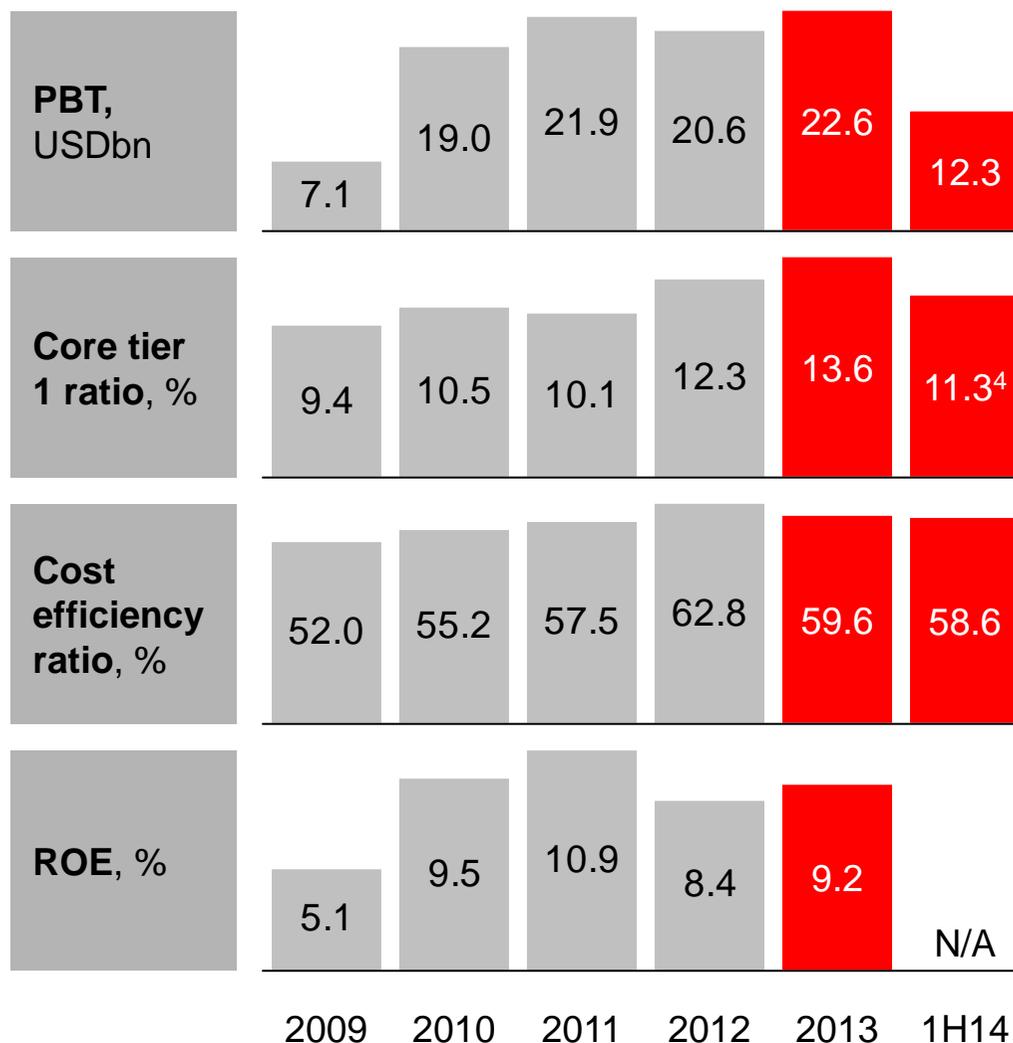
### Who we are<sup>1</sup>

Countries and territories	74
Customers	52m
Employees	256,000
Shareholders	216,000 in 129 countries and territories

### Market performance

Market capitalisation <sup>1</sup>	USD193bn
Dividend payout ratio <sup>2</sup>	57.1%
Ordinary dividends <sup>3</sup>	USD9.2bn

### Performance (Reported basis)



In 1H14 Core tier 1 ratio replaced by Common equity tier 1 ratio

Source: HSBC 2013 annual report and 1H14 interim report

1. As at 30 June 2014

2. FY2013

3. Ordinary dividends declared in respect of the year 2013

4. On 1 January 2014, CRD IV came into force. Capital and RWAs at 30 June 2014 are calculated and presented on this (end point) basis

# 1. HSBC today

## Balanced global universal banking model with presence in key countries and territories

- ✓ Home and priority growth markets
- ✓ Network markets

### Balanced presence across the world

- 2013 Revenue<sup>1</sup>
- Share of revenue from Associates



**Presence in 74 countries and territories, with 21 Priority markets of which 2 are Home markets**

### Top 15 countries by Nominal GDP<sup>2</sup>

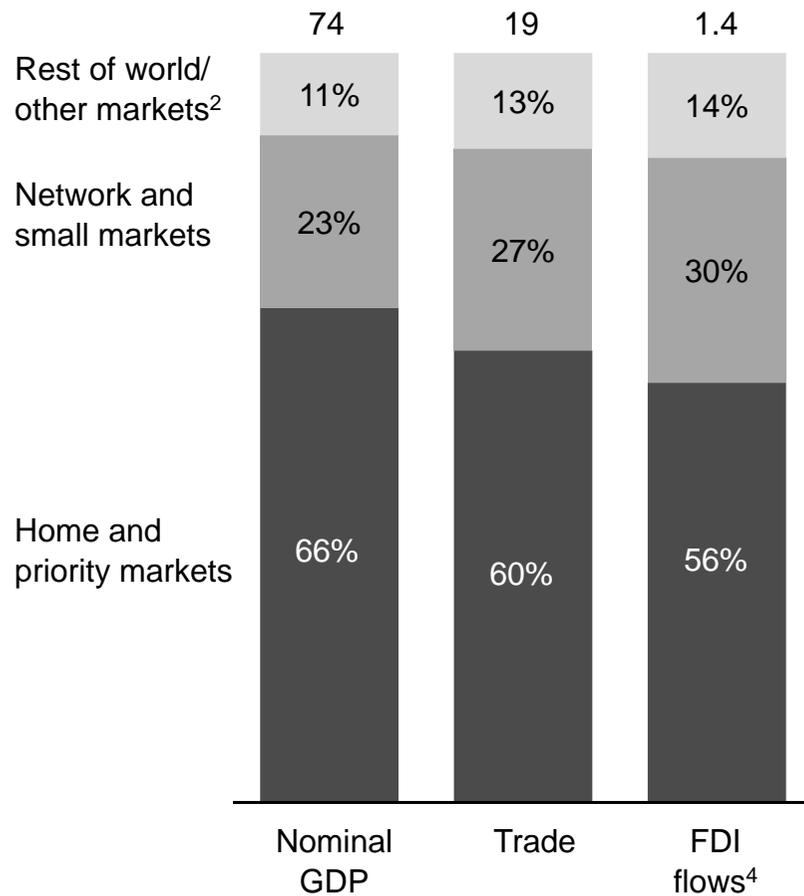
2025	USDtrn	CAGR 2013-25 %	HSBC Presence
✓ China	30.4	10.4	Universal
✓ US	28.5	4.5	Universal
✓ India	8.6	13.2	Universal
✓ Japan	6.5	2.4	Wholesale
✓ Germany	5.6	3.6	Wholesale
✓ UK	4.9	5.6	Universal
✓ Brazil	4.6	6.1	Universal
✓ France	4.5	3.9	Universal
✓ Russia	4.2	6.0	Wholesale
✓ Italy	3.0	3.2	Wholesale
✓ Canada	2.8	3.8	Universal
✓ Mexico	2.7	6.4	Universal
✓ Indonesia	2.5	9.3	Universal
✓ Australia	2.5	4.2	Universal
✓ S. Korea	2.4	5.3	Wholesale

1. Reported basis. Red circles denote Home markets  
 2. Source: Global Insights  
 3. US ex. US run-off portfolio (USD1,672m)

# 1. HSBC today

## Unrivalled network to support global trade and capital flows

**HSBC network coverage<sup>1</sup> (USDtrn)  
2013**



Source: Global Insights, UNCTAD

**HSBC is present in all the major trade corridors**

2020 trade growth forecasts <sup>3</sup> (USDbn)	CAGR 2013-2020 %	Strong presence	
Mainland China - Hong Kong	1,363	12	✓
Japan - USA	1,316	7	✓
Mainland China - USA	968	10	✓
Canada - USA	910	5	✓
Mexico - USA	866	8	✓
Mainland China - Korea	552	13	✓
Hong Kong - Japan	289	11	✓
Mainland China - Japan	265	10	✓
France - Germany	244	1	✓
Australia - China	238	10	✓
Mainland China - Germany	232	8	✓
Canada - Japan	207	4	✓
Mainland China - Singapore	188	11	✓
Mainland China - Vietnam	186	17	✓
India - UAE	181	13	✓

2013    
  2013-2020 growth    
 ✓ Priority markets on both sides    
 ✓ Priority market on one side

Notes: Trade is measured as total merchandise exports; FDI is measured as FDI outflows

1. Home, priority, network and small markets
2. Includes representative offices and non-strategic markets
3. Exports and imports (Source: HSBC and Oxford Economics analysis)
4. Foreign Direct Investment ("FDI")

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## 2. Transformation 2011-13 and drivers of growth

# 2011-13: Created a stronger bank with platform for growth

## Achievements 2011-13

### Achievements 2011-13

#### Re-focused the business

- Re-defined the strategic core of HSBC
- 74<sup>2</sup> disposals/exits announced since 2011
- Running down Legacy portfolios
- Introduction of Global Standards and subsequent progress in de-risking the business

#### Simplified and globalised the organisation

- Transformed the way we manage the business as a global bank in 4 Global Businesses and 11 Global Functions
- USD4.9bn annualised sustainable savings from 2011 to 2013

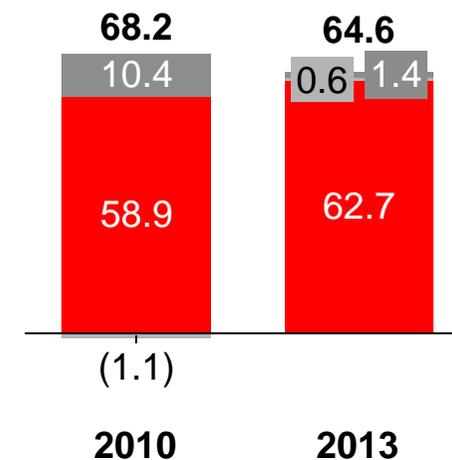
#### Grown Global Business revenue

- Grown Global Business revenue<sup>3</sup>; CMB (7% CAGR<sup>4</sup>), GBM excluding legacy credit (2%) and Principal RBWM (3%)
- Achieved double digit gross loan growth in 13 out of 21 home and priority markets
- Leveraging the international network to improve our market position in strategic products

### Key financials<sup>1</sup> 2010-13

#### Revenue, USDbn

- Underlying adjustments
- Significant items
- Global Business revenue<sup>3</sup>



#### PBT, USDbn

19.0      22.6

#### CER, %

55.2      59.6

#### Core tier 1

#### Ratio, %

10.5      13.6

#### ROE, %

9.5      9.2

#### Shareholders' equity, USDbn

148      182

#### Dividend in respect of year, USDbn

6.3      9.2

1. Reported basis unless otherwise stated

2. 74 disposals/exits were announced 2011-1H14. Out of these, 62 disposals/exits were announced 2011-13

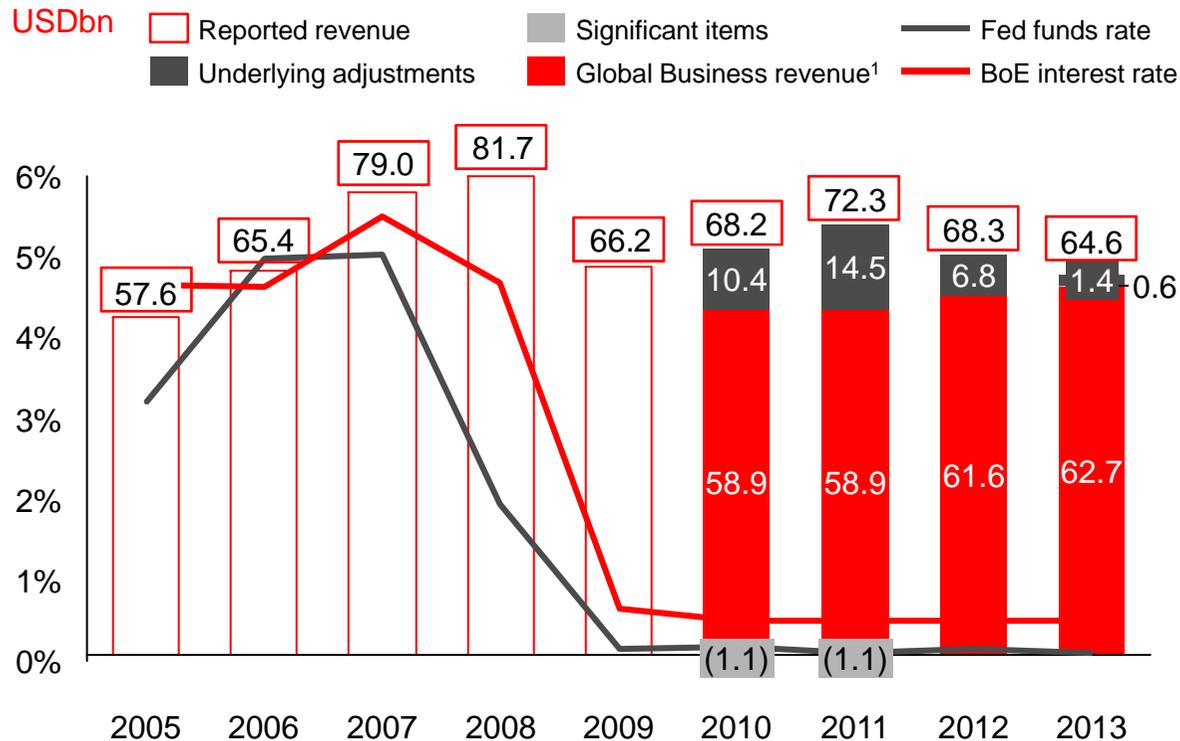
3. Global Business reported revenue excluding underlying adjustments and significant items

4. Compound Annual Growth Rate ("CAGR") calculated from FY2010 to FY2013

## 2. Transformation 2011-13 and drivers of growth

# Resilient revenues in challenging environment and disposals; growth in Global Businesses

### Resilient revenues

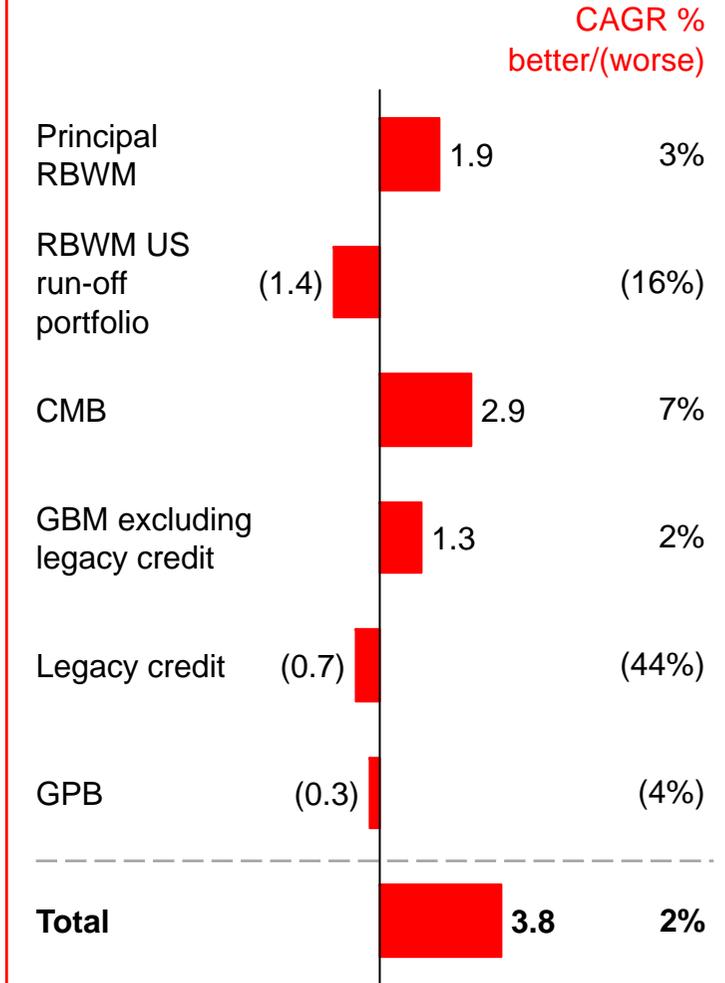


#### Major regulatory changes since 2010

- **Basel III** framework being implemented (2010, 2013)
- **Dodd Frank**: derivative clearing and CCP (2010)
- **Volcker rule**: separation of proprietary trading (2010)
- FSB proposing G-SIB banks to hold **loss absorbing capacity** (2010)
- **FATCA**: global rollout of financial/tax treatment of US persons (2010)
- **UK ring-fencing** (2011)

### Growth in Global Business revenue<sup>1</sup>

2013 vs. 2010, USDbn

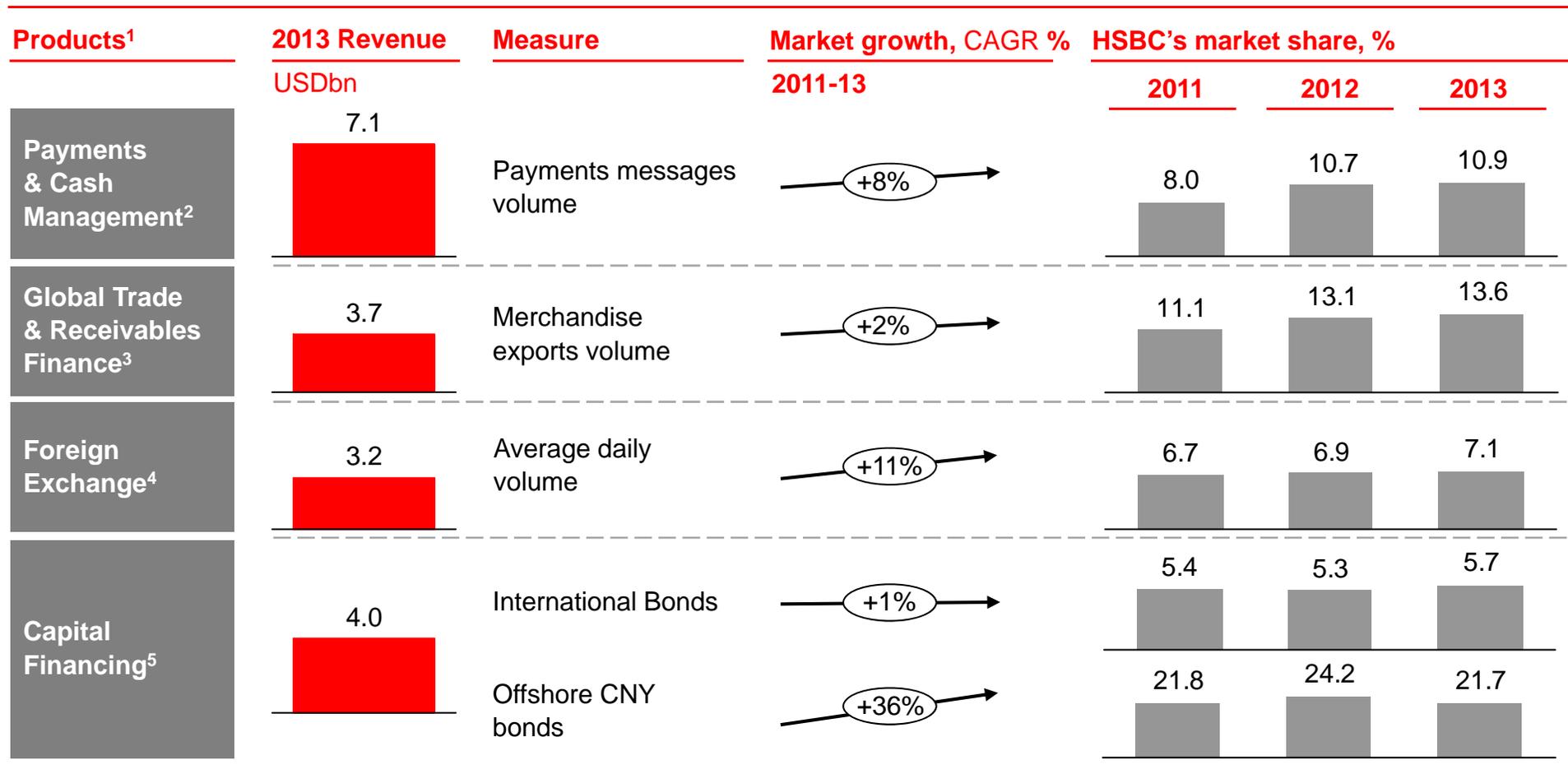


Note: 74 disposals/exits were announced 2011-1H14. Out of these 62 disposals/exits were announced 2011-13  
<sup>1</sup> Global Business reported revenue excluding underlying adjustments and significant items

## 2. Transformation 2011-13 and drivers of growth

# Leveraging the international network and HSBC client franchise to improve our market position in strategic products

### Key products of international and business connectivity (selected examples)



1. Key products that directly benefit from the international spread of our global network. Product revenues are as disclosed in the Annual Report 2013 and include both domestic and international elements of the business

2. Revenue includes Commercial Bank current accounts, savings deposits and PCM embedded foreign exchange revenues; Market volume and share: Swift

3. Revenue includes Commercial Bank GTRF embedded foreign exchange revenues. Market volume: UNCTAD; Market share of Traditional Trade Finance (includes shadow income from foreign exchange and revenue from associates): Oliver Wyman analysis / estimates

4. Revenue contributed from GBM; Market volume: Bank for International Settlements (BIS). CAGR is from 2010-13 as BIS publishes data every 3 years. Market share: Euromoney Global FX Survey; 2013 market share is based on survey results in May 2014 done for 2013 and similar for previous years

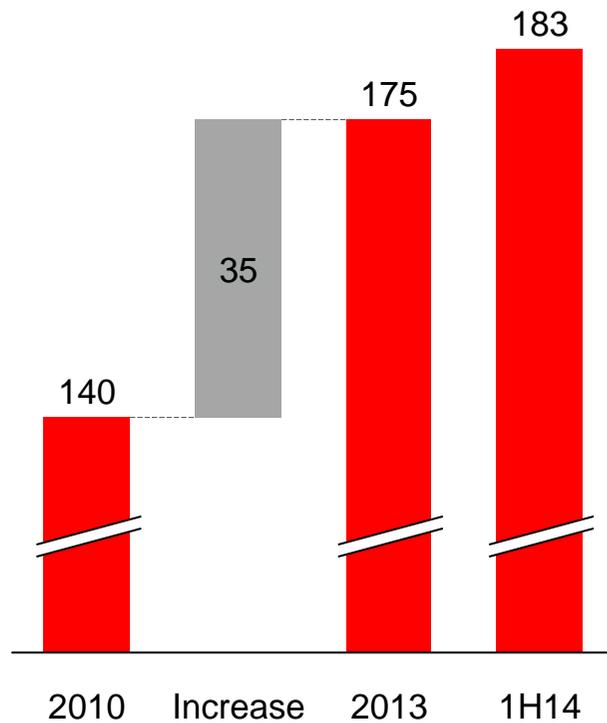
5. Market volume and share: Bloomberg League table

## 2. Transformation 2011-13 and drivers of growth

Added Shareholders' equity of c.USD34bn and declared dividends of c.USD25bn over last three years

### Ordinary Shareholders' equity<sup>1</sup>

USDbn



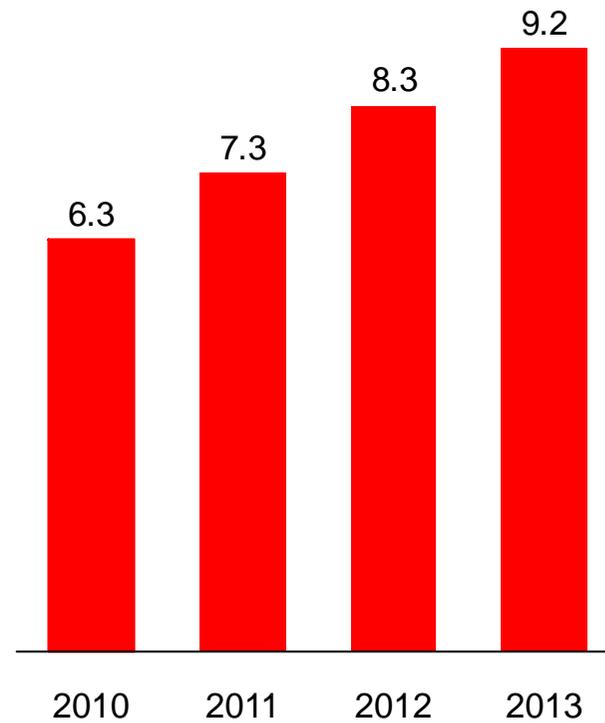
Shareholders' equity under Tier 1 capital<sup>4</sup>, USDbn

143

173

### Total gross ordinary dividends declared in respect of the year

USDbn



Payout Ratio<sup>3</sup> %

47

42

55

57

Dividend Yield<sup>5</sup>, %

3.5

5.4

4.3

4.5

In 2011-13 HSBC has been

- #2 dividend payer<sup>2</sup> in FTSE 100
- #5 dividend payer<sup>2</sup> in Hang Seng index

HSBC would be #3 dividend payer<sup>2</sup> in comparison to the S&P500

Source: 2010, 2011, 2012, 2013 Annual Reports; 1H14 Interim Results

1. Shareholders' equity excluding preference share premium and other equity instruments.

2. Based on sum of total dividends declared and paid to common shareholders in respect of the year from 2011-13; Source: FactSet

3. Reported payout ratio. Dividends per share declared in a year expressed as a percentage of basic earnings per share

4. Shareholders' equity excluding preference share premium, other equity instruments, deconsolidation of special purpose entities

5. Based on reported dividend per share in respect of the year as a percentage of closing price on annual year end date; Source: Bloomberg

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**Strategic priorities and outlook**

### 3. Strategic priorities and outlook

## 2014-16: Three equally weighted priorities

	<u>Actions and priorities</u>	<u>By 2016</u>
<b>Grow both business and dividends</b>	<ul style="list-style-type: none"><li>▪ Continue to recycle RWAs from low into high performing businesses within the Group's risk appetite</li><li>▪ Capitalise on global network and strengthen position in priority growth markets</li></ul>	<ul style="list-style-type: none"><li>▪ Return HSBC to revenue growth capitalising on our unique global footprint ("always where the growth is")</li><li>▪ Progressively grow dividends and introduce share buy-backs<sup>1</sup> as appropriate</li><li>▪ Legacy and non-strategic activities reduced impact on PBT and RWAs</li></ul>
<b>Implement Global Standards</b>	<ul style="list-style-type: none"><li>▪ Continue to invest in best-in-class Compliance and Risk capabilities</li><li>▪ De-risk operations and/or improve risk management in higher risk locations and businesses</li><li>▪ HSBC values – act with courageous integrity</li></ul>	<ul style="list-style-type: none"><li>▪ Significant progress in implementation of Global Standards<sup>2</sup></li><li>▪ Establish Global Standards as competitive advantage and increase quality of earnings</li></ul>
<b>Streamline processes and procedures</b>	<ul style="list-style-type: none"><li>▪ Re-design key processes and procedures achieving improvements in service, quality, cost and risk</li><li>▪ Release costs to provide headroom to invest in growth and Global Standards</li></ul>	<ul style="list-style-type: none"><li>▪ Achieve USD2-3bn additional cost reductions from 2014 to 2016</li><li>▪ Achieve Group CER target of mid 50s</li><li>▪ Achieve positive jaws</li></ul>

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

2. Conditional on regulatory environment

### 3. Strategic priorities and outlook

## Investment priorities to capture areas of growth, building on our global footprint

#### Global connectivity and products

**Capitalise on unrivalled global position**

**Global Trade & Receivables Finance**

**Payments & Cash Management**

**Foreign Exchange**

**RMB**

#### Geographic priorities

##### US

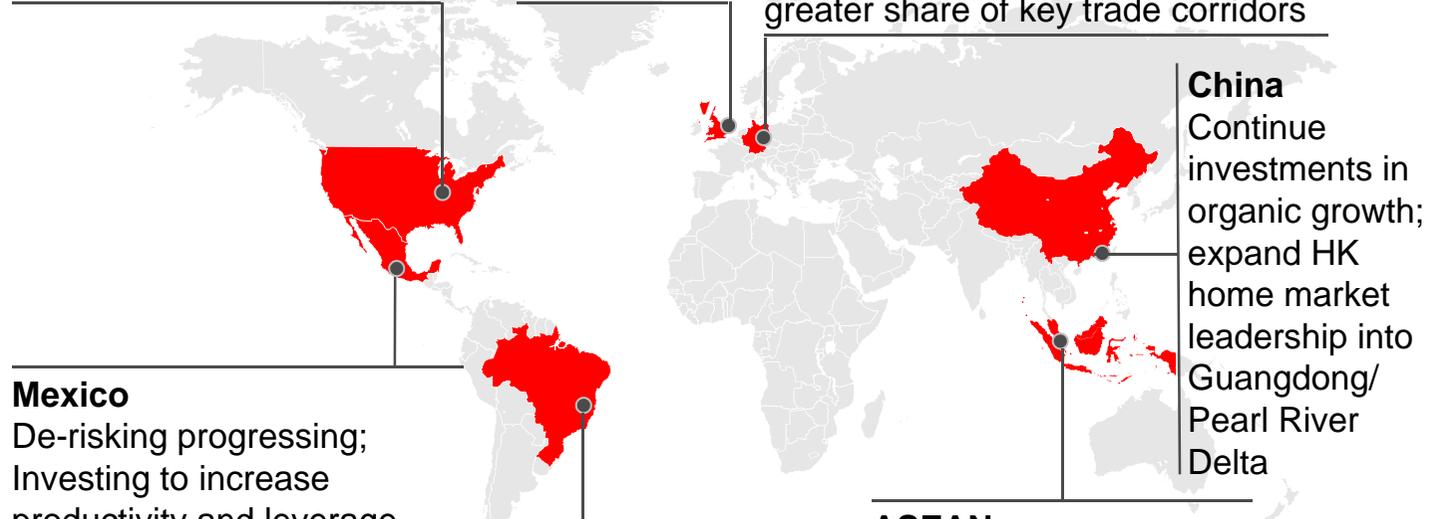
Transformation and targeted expansion of CMB network in city clusters

##### UK

Strengthen home market position

##### Germany

Build-out corporate franchise through improved client coverage and financing products; capture greater share of key trade corridors



##### Mexico

De-risking progressing; Investing to increase productivity and leverage inter-national capabilities, in particular NAFTA and LAM connectivity

##### Brazil

Leverage scale and optimise business mix; optimise cost base

##### ASEAN

Develop ASEAN cluster to support integration and connectivity with global HSBC network

##### China

Continue investments in organic growth; expand HK home market leadership into Guangdong/Pearl River Delta

##### Cities focus

- Invest in city clusters with fast-growing international revenue pools
- Align global resources to priority city clusters

### 3. Strategic priorities and outlook

## External influences

#### Macro economic environment

- Strong economic growth prospects, in particular in home markets; UK continues its strong economic recovery, HK to benefit from China's regain in momentum
- Recovery of World and China composite PMI since 1Q2014<sup>2</sup>

#### Regulation

- Ongoing uncertainty regarding HSBC Group capital requirements
- Fundamental structural changes through ringfencing in the UK and similar efforts in other jurisdictions

#### Interest rate recovery

- Possible increase in interest rates, in particular USD and GBP from 2015

#### Nominal GDP growth<sup>1</sup>

2013-14, %

#### Composite PMI<sup>2</sup>

August 2014

Region	Country	Nominal GDP growth <sup>1</sup> (2013-14, %)	Composite PMI <sup>2</sup> (August 2014)
Asia	India	13.2	51.6
	Indonesia	11.4	49.5 <sup>3</sup>
	China	9.8	52.8
	Malaysia	8.6	n/a
	HK	6.6	49.6
	Singapore	6.1	49.7 <sup>3</sup>
	Australia	4.8	47.3 <sup>3</sup>
	Taiwan	4.4	56.1 <sup>3</sup>
Europe	Turkey	8.6	50.3 <sup>3</sup>
	UK	4.8	59.3
	Germany	3.8	53.7
	France	2.0	49.5
	Switzerland	2.0	52.9 <sup>3</sup>
MENA	Egypt	11.5	51.6
	UAE	4.5	58.4
	Saudi Arabia	4.4	60.7
Latin America	Argentina	29.3	n/a
	Brazil	8.1	49.6
	Mexico	6.0	52.1 <sup>3</sup>
North America	Canada	4.7	54.8 <sup>3</sup>
	US	3.8	59.7

1. Based on nominal GDP in local currency. Source: Oxford Economics June 2014

2. Source: Markit Economics

3. Manufacturing PMI

## Summary

# HSBC – Unrivalled global position and platform for growth

### HSBC today

- **A leading international bank** with presence in 74 countries and territories
- **Unique international platform**
  - **Distinctive network** covering over 85% of international trade and capital flows<sup>1</sup>
  - Strong presence in most **attractive growth markets**
- **Strong capital position and resilient results**

### Transformation 2011-13 and drivers of growth

- Transformed the organisation to a leaner bank with platform for growth
  - **Clear strategic direction** leading to 74 disposals<sup>2</sup>
  - **Leaner organisation** managed as global entity
  - Recovered significant part of revenues sold in disposals through **organic growth**
- **Generated USD34bn of capital<sup>3</sup> and USD25bn of dividends<sup>4</sup>**

### 2014-16: Strategic priorities

- **Grow business and dividends:** Investing to capitalise on our global platform to deliver growth
- Implement **global standards** as competitive advantage and increase quality of earnings
- Further **streamline** the organisation to fund growth and investments in global standards

1. Based on HSBC analysis on Global Insights and UNCTAD data

2. 74 disposals/exits were announced 2011-1H14. Out of these 62 disposals/exits were announced 2011-13

3. Capital generation calculated from profits attributable to shareholders of the parent company after regulatory adjustment for own credit spread and net of dividends, for the period 31 December 2010 to 31 December 2013

4. Ordinary dividends declared in respect of 2011, 2012 and 2013



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

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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.

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