

Commercial Banking Investor Update

Simon Cooper – Group Managing Director, CEO of Global Commercial Banking
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Important notice and forward-looking statements

Important notice

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This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is ‘adjusted performance’ which is computed by adjusting reported results for the year-on-year effects of foreign currency translation differences and significant items which distort year-on-year comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliation of non-GAAP financial measurements to the most directly comparable measures under GAAP is provided in the ‘reconciliations of non-GAAP financial measures’ supplement available at www.hsbc.com.

2014 Financial Results

2015 CMB Priorities

Appendix

Group key messages for 2014

Financial performance

Highlights

- § Reported PBT of USD18,680m included fines, settlements, UK customer redress, and associated provisions of USD3,709m
- § 2014 adjusted revenue¹ of USD62,002m and adjusted² PBT of USD22,829m broadly unchanged compared with 2013
- § Adjusted² PBT growth in 3 out of 5 regions
- § Adjusted² operating expenses increased by USD2,172m driven by Regulatory Programmes and Compliance and inflationary pressures
- § ROE of 7.3%; (ROTE³ of 8.5%)

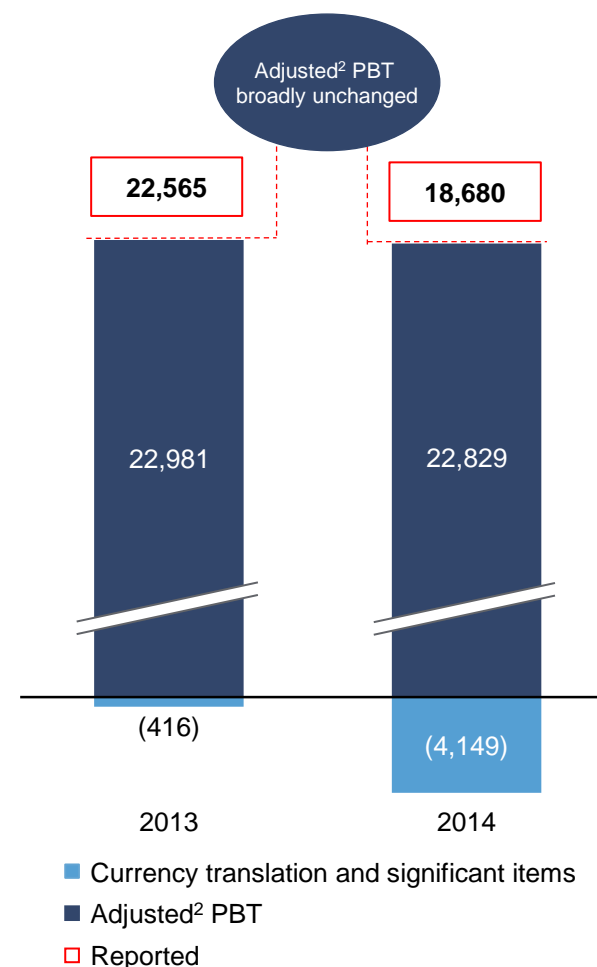
Capital and dividends

- § Strong capital position with a common equity tier one ratio of 10.9% (transitional basis⁴) and 11.1% (end point basis⁴)
- § Progressive dividend in 2014 of USD0.50 per ordinary share⁵

Strategy execution

- § Maintained leadership position in payments and cash management⁶
- § Increased market share in Capital Financing; Awarded Bond and Derivatives House of the year⁷
- § Increased RMB revenue and volumes, benefiting from accelerating global expansion of RMB
- § Global Standards: Continued progress in roll out of Global Standards programme

Reported and Adjusted² PBT (USDm)



Notes:

1. Net operating income before loan impairment charges and other credit risk provisions, excluding currency translation and significant items
2. Excludes currency translation and significant items
3. Return on average tangible equity measures the return attributable to ordinary shareholders, excluding the impairment of goodwill and the movement in the present value of in-force long-term insurance business ('PVIF') net of tax, divided by the average tangible equity, which is defined as the average ordinary shareholders' equity excluding average goodwill, PVIF and other intangibles, net of deferred tax and net of non-controlling interests
4. On 1 January 2014, CRD IV came into force and capital and RWAs at 31 December 2014 are calculated and presented on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA
5. Total dividends in respect of the year
6. Euromoney 2014
7. Market share: Bloomberg League tables; Bond and Derivatives House of the year: IFR Awards 2014

Group annual results 2014

Financial highlights¹

Summary financial highlights, USDbn			Better/(worse)
	2013	2014	2014 vs 2013
Reported PBT	22.6	18.7	(17)%
Adjusted ² PBT	23.0	22.8	(1)%

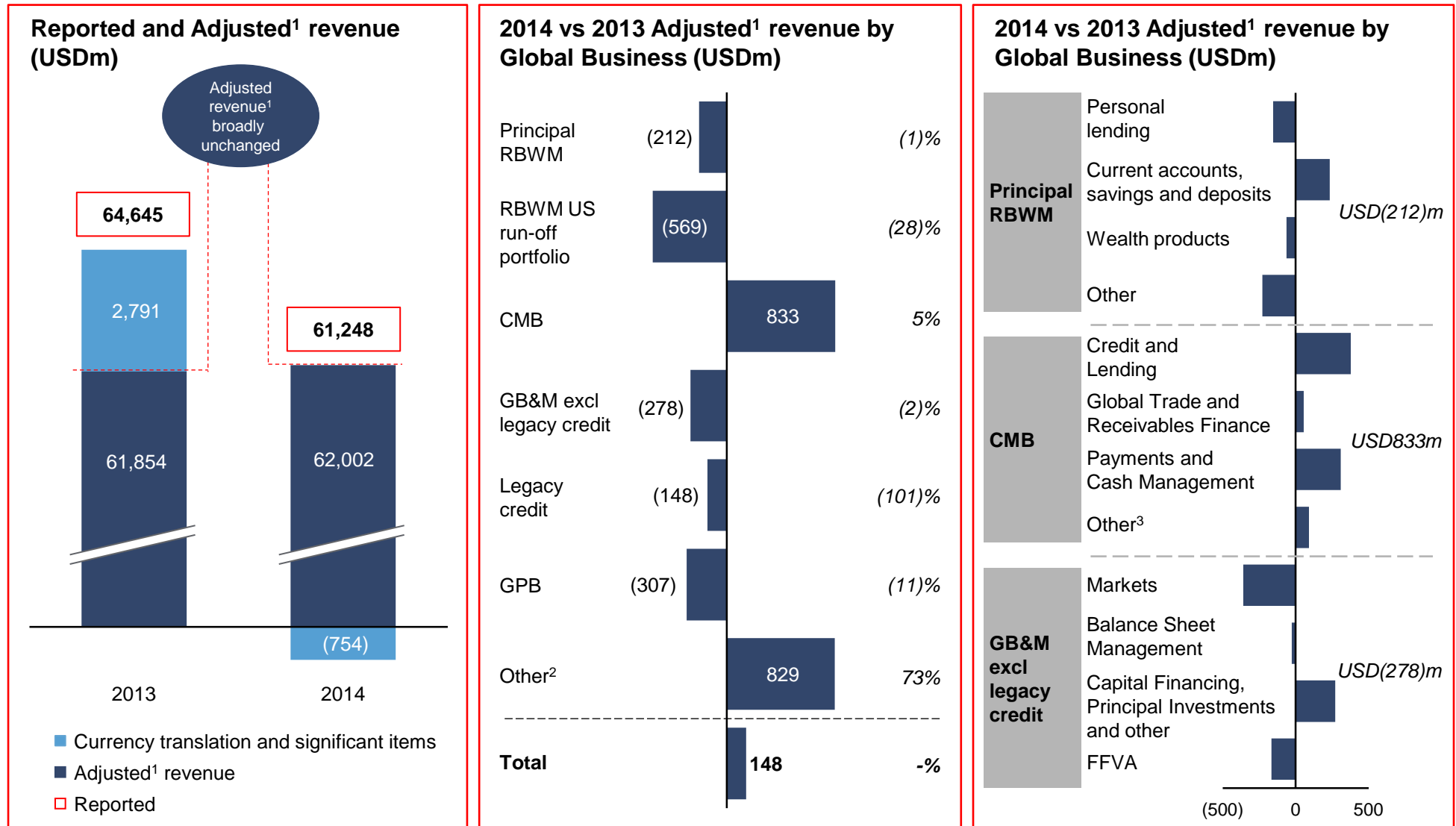
Key ratios, %			
	2013	2014	KPI
Return on average ordinary shareholders' equity	9.2%	7.3%	12-15%
Return on average tangible equity	11.0%	8.5%	n/a
Cost efficiency ratio	59.6%	67.3%	mid-50s
Jaws (adjusted) ³	n/a	(5.8%)	Positive
Advances-to-deposits ratio	72.9%	72.2%	< 90%
Common equity tier 1 ratio (transitional basis) ⁴	10.8%	10.9%	>10%
Common equity tier 1 ratio (end point basis) ⁴	10.9%	11.1%	>10%

Notes:

- All figures are reported unless otherwise stated
- Excludes currency translation and significant items
- Calculated as percentage growth in adjusted net operating income before loan impairment charges and other credit risk provisions less percentage growth in adjusted operating expenses, 2014 versus 2013
- On 1 January 2014, CRD IV came into force and capital and RWAs at 31 December 2014 are calculated and presented on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA. At 31 December 2013, capital and RWAs were also estimated based on the Group's interpretation of final CRD IV legislation supplemented by guidance provided by the PRA, as applicable, details of which can be found in the basis of preparation on page 324 of the Annual Report and Accounts 2013

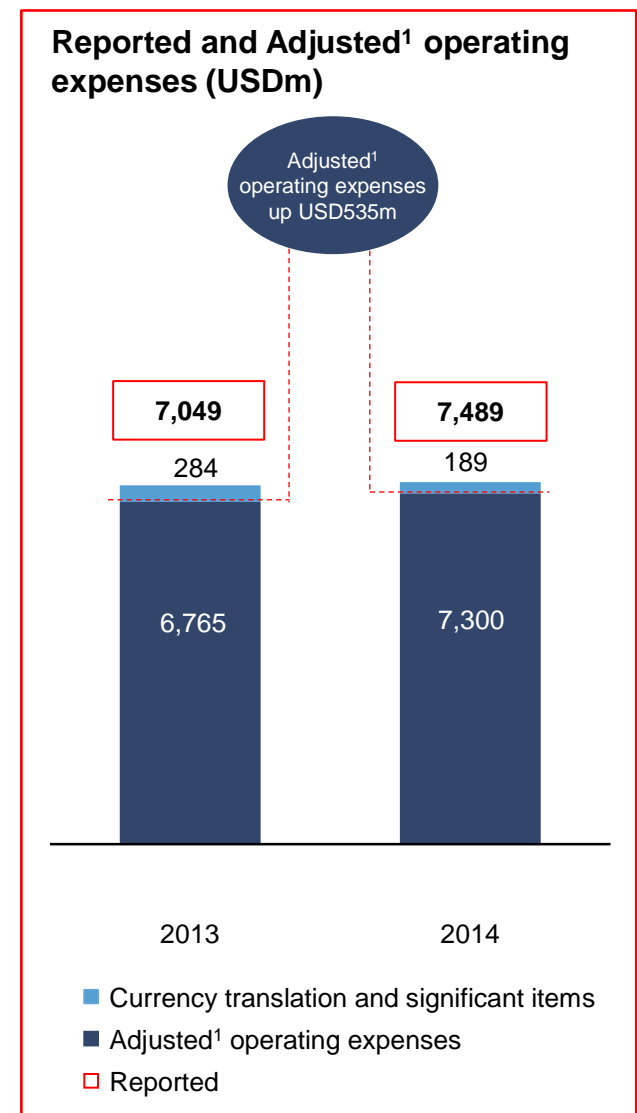
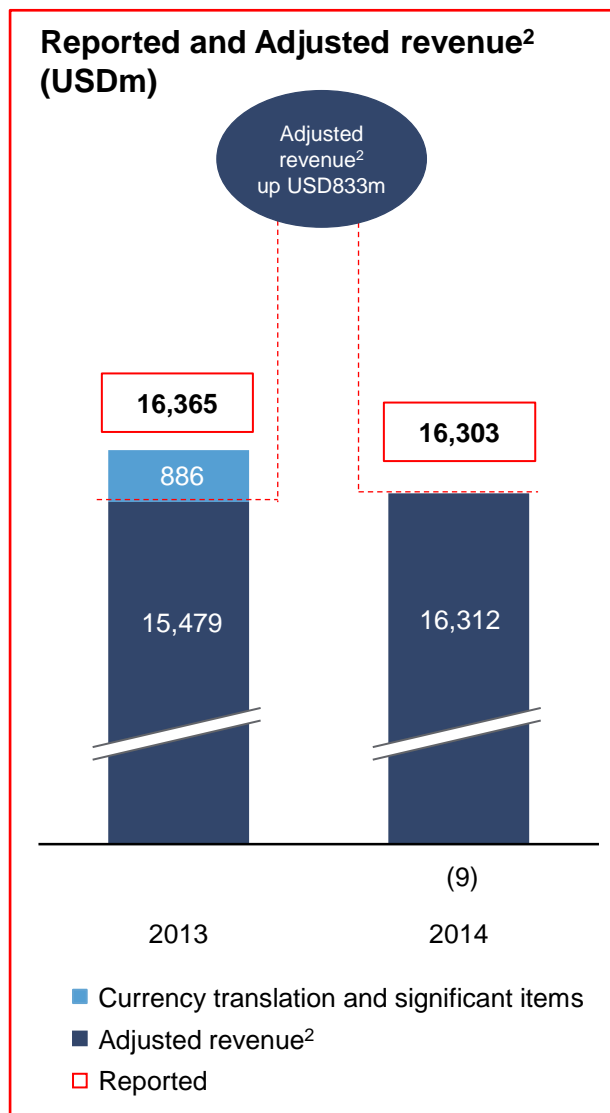
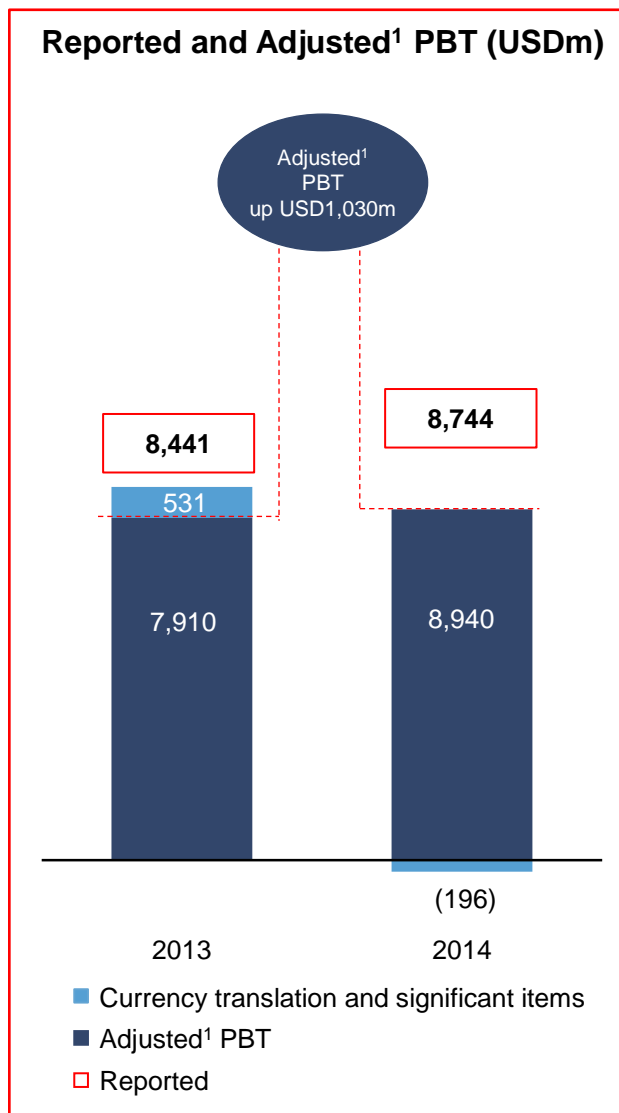
Group revenue analysis

Adjusted revenue¹ broadly unchanged, growth in CMB



Global CMB financials: Reconciliation of Reported to Adjusted¹

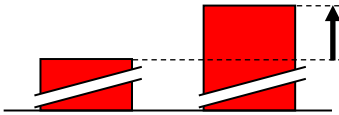
Record Reported profit before tax of USD8.7bn



Notes:

1. Excluding the effect of currency translation and significant items
2. Net operating income before loan impairment charges and other credit risk provisions excluding the effect of currency translation and significant items

Detailed Global CMB financials¹

	2013	2014	2014 vs 2013	2014 vs 2013 comments
(USDbn)				
Loans			10%	§ Growth primarily in Credit & Lending in Asia reflecting demand for credit, and also in Europe where balances increased in the UK. In addition, CRE and corporate balances were higher in the US from continued business expansion.
Deposits ²			7%	§ Deposit growth in PCM balances driven by deposit acquisition and retention in Asia, as well as growth in the UK due to the success of the 'business deposit acquisition strategy' and improved retention supported by competitive pricing.
A/D ratio ³	84%	86%		
(USDm)				
Revenue ⁴	15,479	16,312	5%	§ Driven by Credit and Lending and PCM and notably in Hong Kong and the UK. This was due to growth in average lending and deposit balances in Hong Kong and rising average deposit balances and wider lending spreads in the UK.
% fee income	30%	29%		§ Higher costs driven by FTE investment and wage inflation , as well union-agreed salary increases in Brazil and Argentina. In addition, operating expenses increased due to higher Regulatory Programmes and Compliance related costs
Opex	6,765	7,300	8%	
CER	44%	45%		
(USDm)				
PBT	7,910	8,940	13%	§ PBT growth driven by higher revenue and lower LICs, partly offset by higher costs. § Return on Risk Weighted Assets remain broadly stable compared with 2013.
RoRWA ⁵	2.1%	2.1%		

1. All figures are on an adjusted basis, unless stated otherwise

2. Excl. red-inked balances. 'Red-inked' balances refer to a number of corporate overdraft and corresponding deposit positions where clients benefit from net interest arrangements, but where net settlement is not intended to occur.

3. On a reported basis

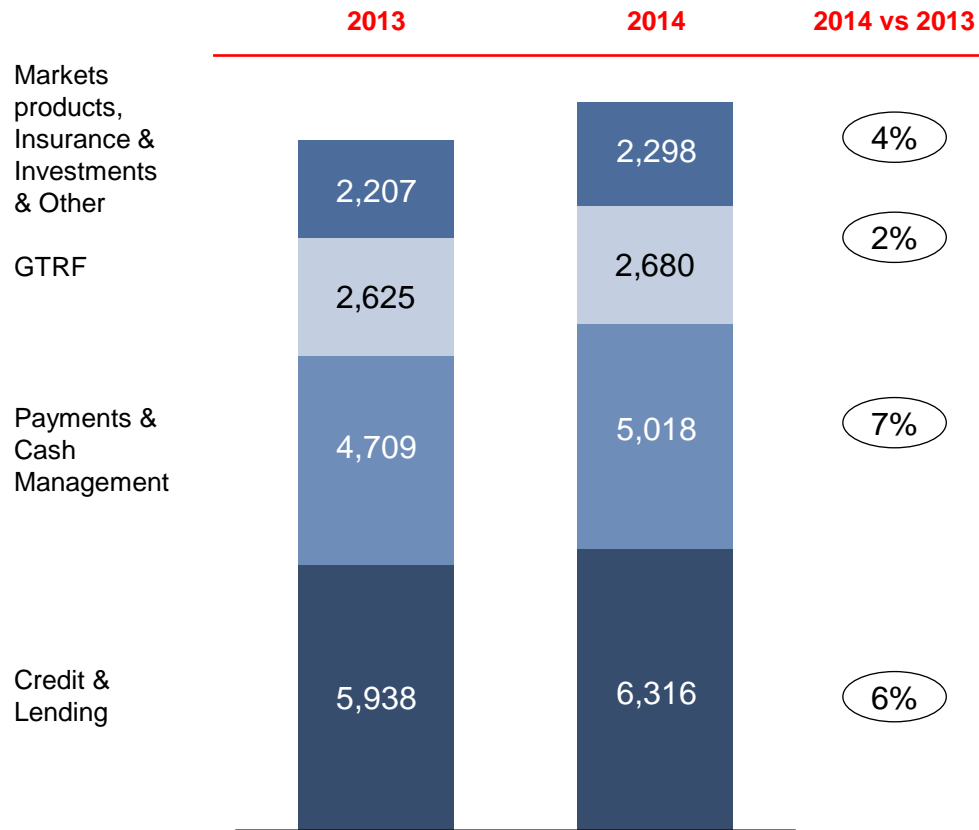
4. Net operating income before loan impairment charges and other credit risk provisions.

5. Return on risk-weighted assets include associates on an adjusted basis. Adjusted RoRWA calculated using adjusted PBT and average RWAs on a constant currency basis adjusted for the impact of significant items

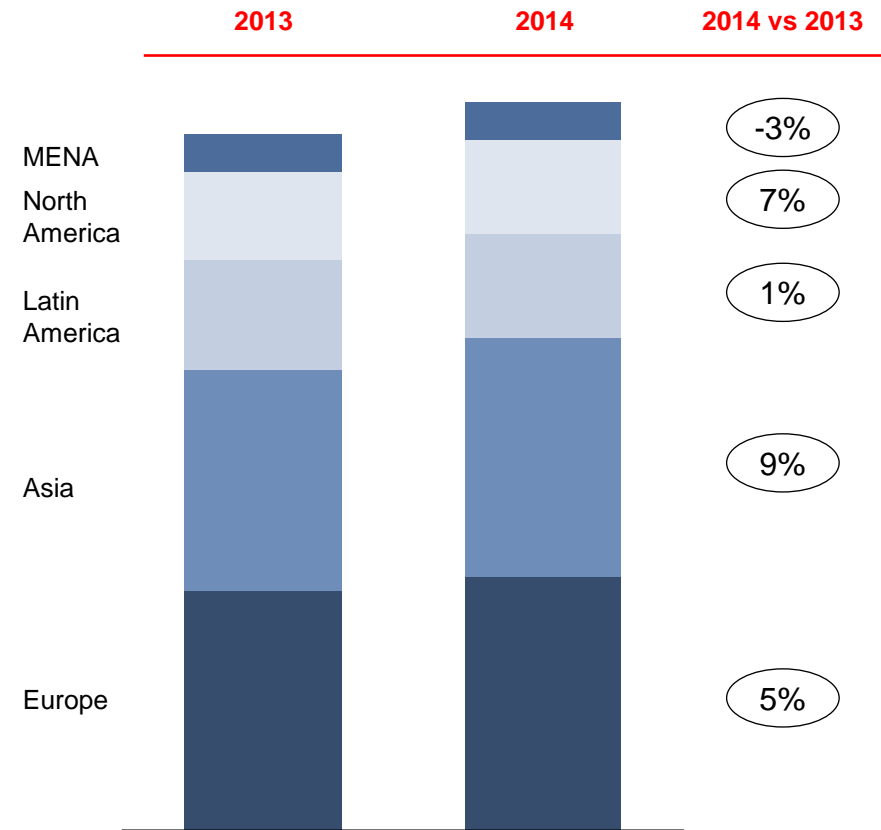
Revenue evolution by Product and Region¹

Revenue growth, notably in our home markets of Hong Kong and the UK

Revenue² by product (USDm)



Revenue by region (USDm)



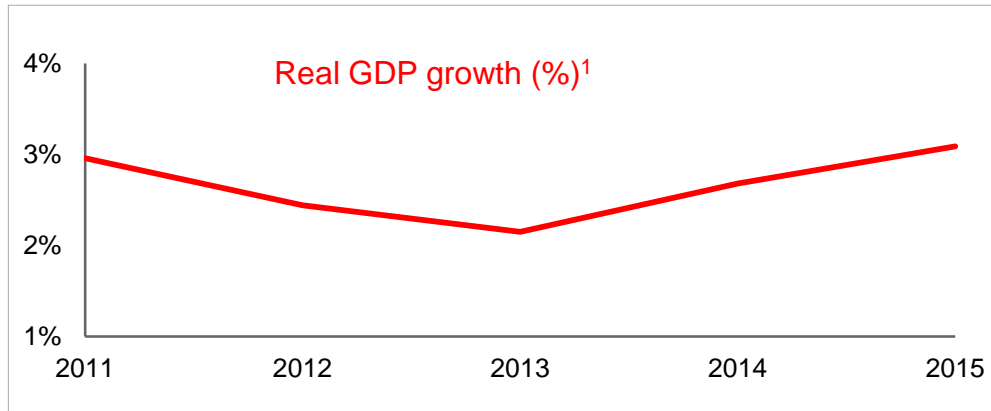
Notes:

1. On an adjusted basis. Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.
2. Product revenues have been restated to reclassify Foreign Exchange revenue included within Global Trade and Receivables Finance and Payments and Cash Management into Markets products, Insurance and Investments and Other. In 2014, Markets products, Insurance and Investments and Other included Foreign Exchange revenue of USD207m previously included within Global Trade and Receivables Finance (2013: USD213m) and USD516m previously included within Payments and Cash Management (2013: USD462m).

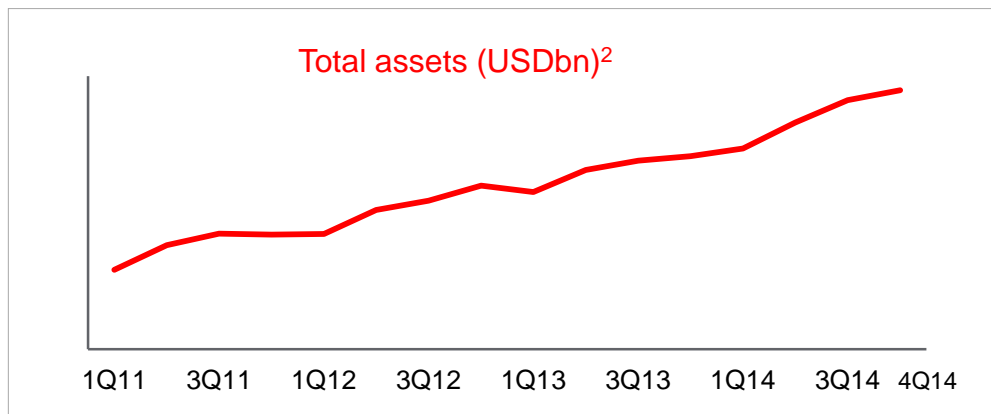
Operating environment

Strong lending growth of 10% year on year

Global GDP forecast to grow ...



... and total CMB lending book grew



However, external factors remain challenging

- Macro:
 - Mixed global economic picture
 - Interest rates remain low
 - Oil price slowdown
 - Impact of softening commodity prices
 - Strengthening of USD
- Regulatory:
 - On-going changes and uncertainty
 - Enhanced regulatory focus across key markets

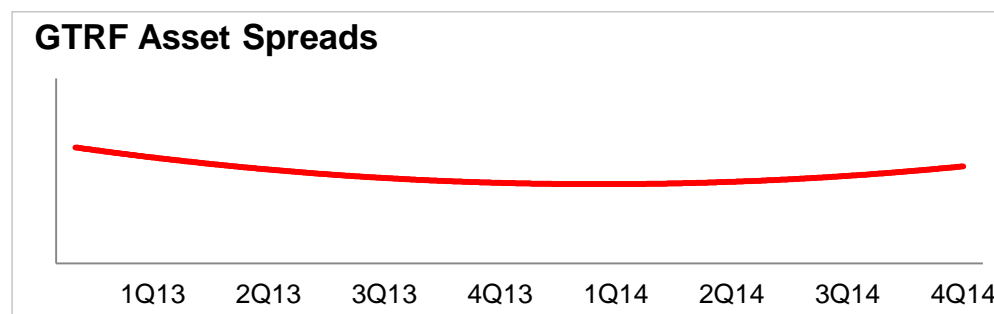
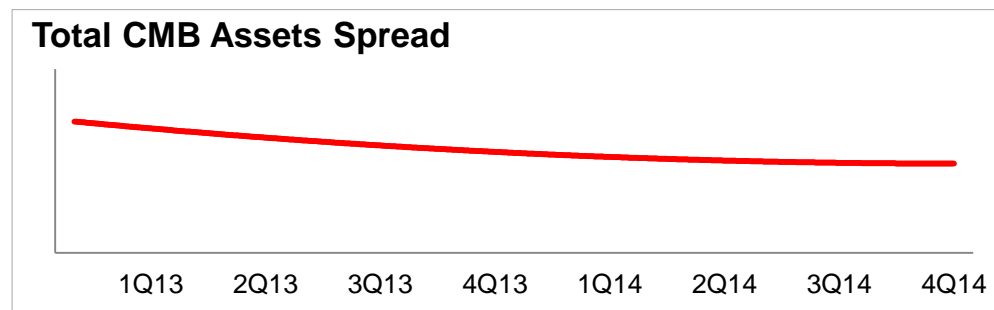
Notes:

1. Source: Oxford Economics (June 2014)
2. Total CMB loans and advances on a constant currency basis

Operating environment

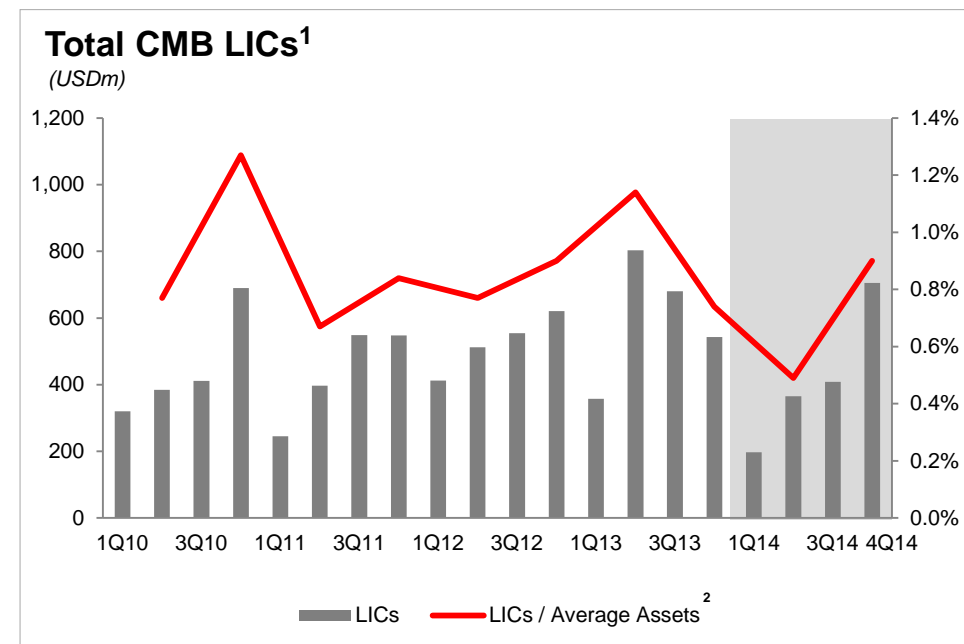
Signs of recovery in asset spreads and lower year on year LICs

Spread compression slowed



- Spreads in 2014 stabilised compared with 2013 and showed signs of recovery in certain markets.
- GTRF spread compression has also stabilised with recoveries in some geographies.

Portfolio quality remains strong



- Lower specific LICs in the UK reflecting the enhanced quality of the portfolio and improved economic environment
- Individually assessed charges reduced in Mexico, particularly relating to homebuilders, and a lower collective LICs in Brazil
- Higher individually assessed LICs in Asia, notably in mainland China and Hong Kong.

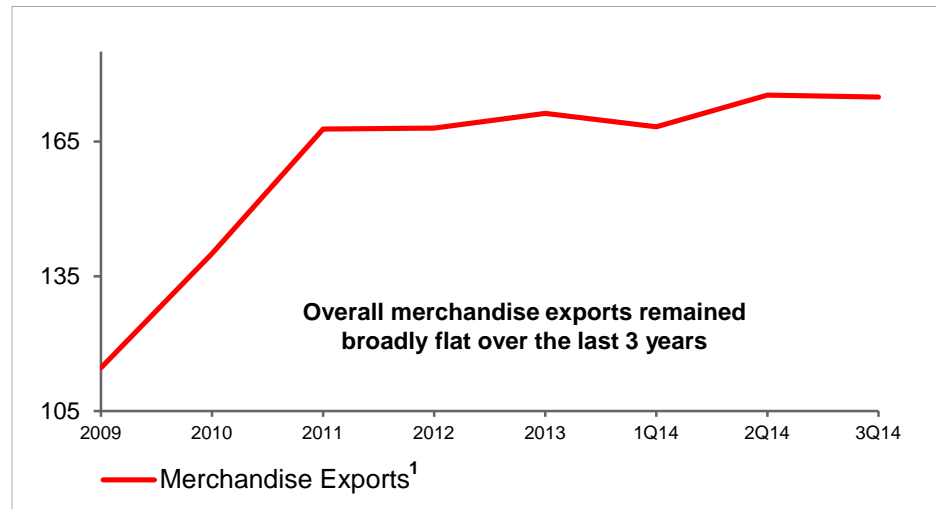
Notes:

1. On a reported basis.
2. Annualised quarterly LICs / five point average period end loans and advances.

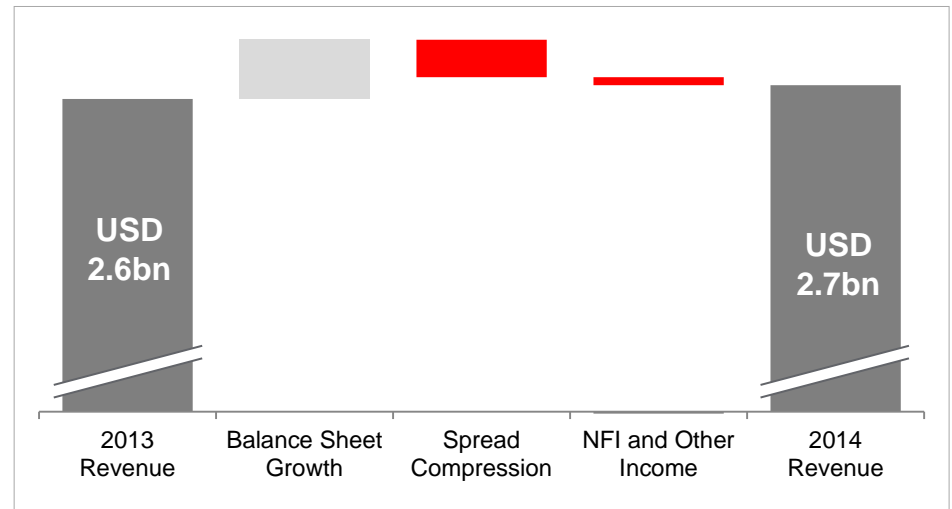
Global Trade and Receivables Finance

HSBC continues to be the world's leading Trade Finance Bank

Challenging external environment



GTRF lending growth offsets spread compression²



- Adjusted revenue up 2% against the backdrop of a challenging economic environment as we repositioned our business and refined our risk profile
- We grew our balance sheet and actively re-priced the book, and whilst spreads are marginally below prior year, they have recovered from the lowest point in 1Q 14
- HSBC continues to win multiple awards including the 'Best Global Trade Finance Bank'³
- We continued to enhance our open account financing capabilities through investment in Receivables Finance and Supply Chain, specifically the launch of a new Supply Chain Solutions platform and the consolidation of the existing Receivables platform into regional hubs.
- We achieved double digit asset growth in commodity financing year on year

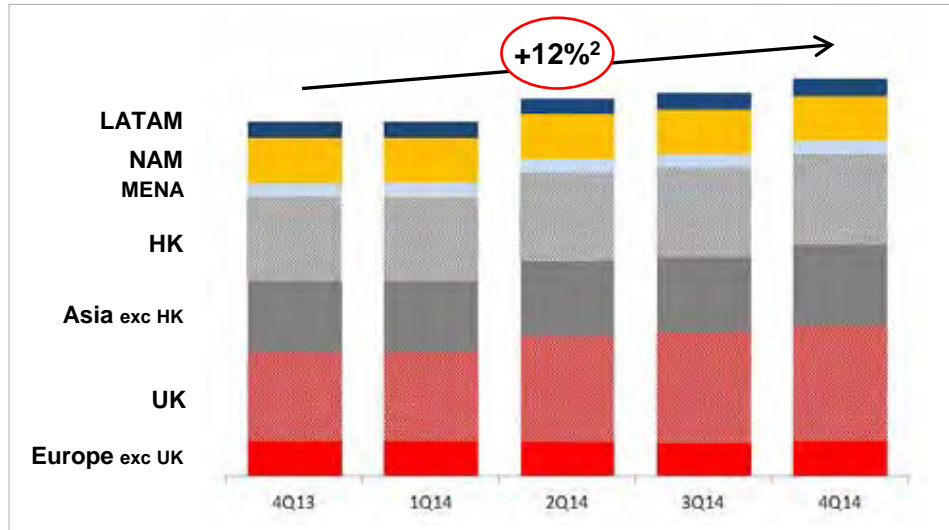
Notes:

- WTO Quarterly world merchandise exports by region and selected economies. Indexed to 100 in 1Q2009
- On an adjusted basis which excludes currency translations and significant items. Foreign Exchange revenue has been reclassified into Markets products, Insurance & Investments and Other. In 2014, Foreign Exchange revenue was USD207m within Global Trade and Receivables Finance (2013: USD213m).
- 2014 awards: 'Best Trade Bank in the World' Trade and Forfaiting Review, 'Best Global Trade Finance Bank' Global Trade Review, 'Best supply-chain finance bank' and 'Best factoring institution' Trade Finance Magazine

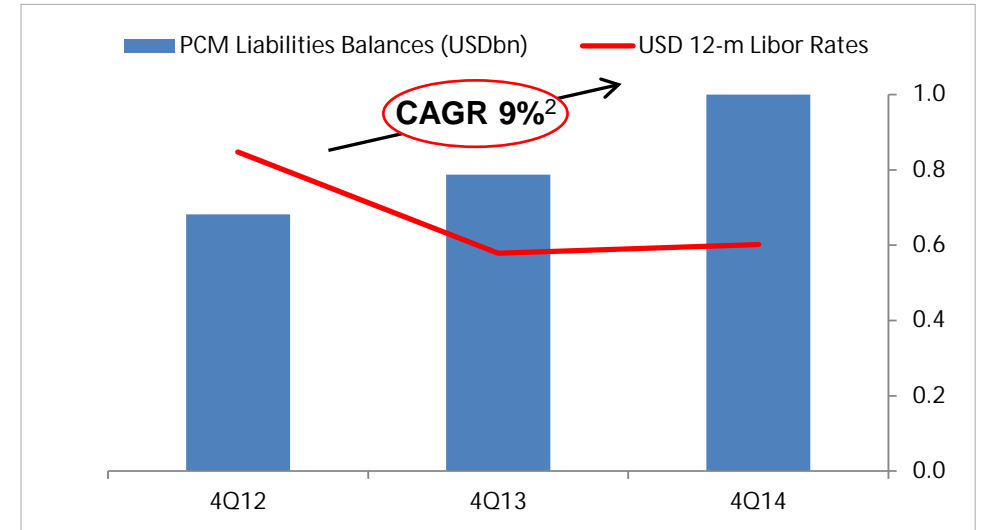
Payments and Cash Management

PCM growing liabilities to support the CMB balance sheet

PCM Liabilities Balances¹



Liability balances continue to grow despite low interest rate environment



- Revenue growth driven by new customer mandates and higher transaction volumes in 2014 compared with 4Q13
- PCM's ability to attract deposits and grow transaction volume has helped offset adverse effects of spread compression
- HSBC's payments volumes have grown 5% from 2013 to 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 2014 Euromoney customer survey, for the third year in a row
- 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; increased usage of the mobile platform with USD46bn⁴ of mobile payments authorised to date

Notes:

1. Period end balances on a constant currency basis
2. 2Q14 balances include a c.USD9bn boundary change from Retail Money Market Deposits

3. SwiftNet, Dec 2014
4. HSBC internal data



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Group Strategy 2015-2016

Executing the three equally weighted priorities in CMB

CMB Strategic priorities

Grow both business and dividends

- Providing consistency and efficiency for our customers through a business model organised around global customer segments and products.
- Utilising our geographical network to support and facilitate global trade and capital flows.
- Delivering excellence in our core flow products – specifically in GTRF and PCM.
- 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 USD2-3bn 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 & Cash Management

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

Foreign Exchange

- Upgrade Collaboration with GB&M.

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.



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Group other significant items¹ excluded from adjusted profit before tax

USDm	For the year-ending 31 December	
	2013	2014
Includes the following significant items (reported basis):		
Revenue		
<i>Restructuring and repositioning:</i>		
Net gain on completion of Ping An disposal	553	-
FX gains relating to the sterling debt issued by HSBC Holdings	442	-
Write-off of allocated goodwill relating to GPB Monaco business ²	(279)	-
Loss on early termination of cash flow hedges in the US run-off portfolio	(199)	-
Loss on sale of an HFC Bank UK secured loan portfolio	(146)	-
Loss on sale of non-real estate secured accounts in the US	(271)	-
(Loss) / gain on sale of several tranches of real estate secured accounts in the US	(123)	168
Gain on sale of shareholding in Bank of Shanghai	-	428
Impairment of our investment in Industrial Bank	-	(271)
<i>Volatility:</i>		
Debit valuation adjustment on derivative contracts	106	(332)
Fair value movements on non-qualifying hedges	511	(541)
<i>Customer redress:</i>		
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	-	(632)
	594	(1,180)
Operating expenses		
<i>Restructuring and repositioning:</i>		
Restructuring and other related costs	(483)	(278)
<i>Customer redress and litigation-related charges:</i>		
Charge in relation to the settlement agreement with Federal Housing Finance Authority	-	(550)
Settlements and provisions in connection with foreign exchange investigations	-	(1,187)
UK customer redress programmes	(1,235)	(1,275)
Regulatory provisions in GPB	(352)	(65)
US customer remediation provisions relating to CRS	(100)	-
Madoff-related litigation costs	(298)	-
<i>Other:</i>		
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	430	-
	(2,038)	(3,355)

- Notes:
- Adjusted profit before tax also excludes currency translation, the effect of acquisitions, disposals and reclassifications, and FVOD
 - 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

CMB Income Statement¹

USDm	For the year-ending 31 December	
	2013	2014
Net interest income	9,900	10,515
Net fee income	4,643	4,733
Net trading income	621	617
Other income	315	447
Net operating income before loan impairment charges and other credit risk provisions	15,479	16,312
Loan impairment charges and other credit risk provisions	(2,340)	(1,677)
Net operating income	13,139	14,636
Total operating expenses	(6,765)	(7,300)
Operating profit	6,374	7,336
Share of profit in associates and joint ventures	1,536	1,604
Adjusted Profit before tax	7,910	8,940
Reported Profit before tax	8,441	8,744
Cost efficiency ratio	43.7	44.8
Jaws%		(2.5)
Loans and advances	284,935	313,999
Customer accounts	339,325	363,654
A/D Ratio %	84.0	86.3

Note:

1. All numbers are adjusted basis, unless stated otherwise.



Cover images: HSBC – then and now

It is 150 years since HSBC was founded in Hong Kong to finance trade between Asia and Europe. Much has changed since then, as our cover photos demonstrate. The left photo shows Hong Kong harbour, with the HSBC office (extreme left) a few years after it was established in 1865. The right image shows the harbour today, with the HSBC building fifth from left (partially hidden).

Hong Kong has been transformed both physically and economically, from trading outpost to international financial centre. HSBC has mirrored Hong Kong's rise to global prominence, growing from a small regional trading bank into one of the world's largest banking and financial services organisations today.

HSBC's Hong Kong office is still at 1 Queen's Road Central, as it was in 1865. The current HSBC building is the fourth to occupy the site, but the values on which the bank was founded remain the same. HSBC still aims to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and helping people to fulfil their hopes and realise their ambitions.

We are proud to have served our customers with distinction for 150 years.

Photographs: (left) HSBC Archives; (right) Matthew Mawson

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Group Investor Relations
8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 3643

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