



HSBC Holdings plc Presentation to Fixed Income Investors

August 2015



Important notice and forward-looking statements

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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 period-on-period effects of foreign currency translation differences and significant items which distort period-on-period 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 the difference between the non-GAAP financial measurements with the most directly comparable measures under GAAP is provided in the ‘Reconciliations of Non-GAAP Financial Measures’ supplement available at www.hsbc.com.

Strategy

Actions to capture value from our global presence in a changed world

- 1 Reduce Group RWA by at least 25%** and re-deploy towards higher performing businesses; return **GB&M to Group target profitability**
- 2 Sell operations in Turkey and Brazil¹**; continued application of six filter process
- 3 Rebuild NAFTA profitability**
- 4 Set up UK Ring-Fenced Bank**
- 5 Realise USD4.5-5bn cost savings**, deliver flat costs by end 2017
- 6 Deliver growth above GDP from international network**
- 7 Capture growth opportunities in Asia:** Pearl River Delta, ASEAN, Asset Management, Insurance
- 8 Extend leadership in RMB internationalisation**
- 9 Complete Global Standards implementation**
- 10 Complete Headquarters review** by end of 2015

Group financial targets

ROE >10%

Jaws Positive (adjusted², excluding cost to achieve)

Dividend Progressive³

1. Plan to maintain a presence in Brazil to serve large corporate clients with respect to their international needs

2. Excludes currency translation and significant items; excluding cost to achieve

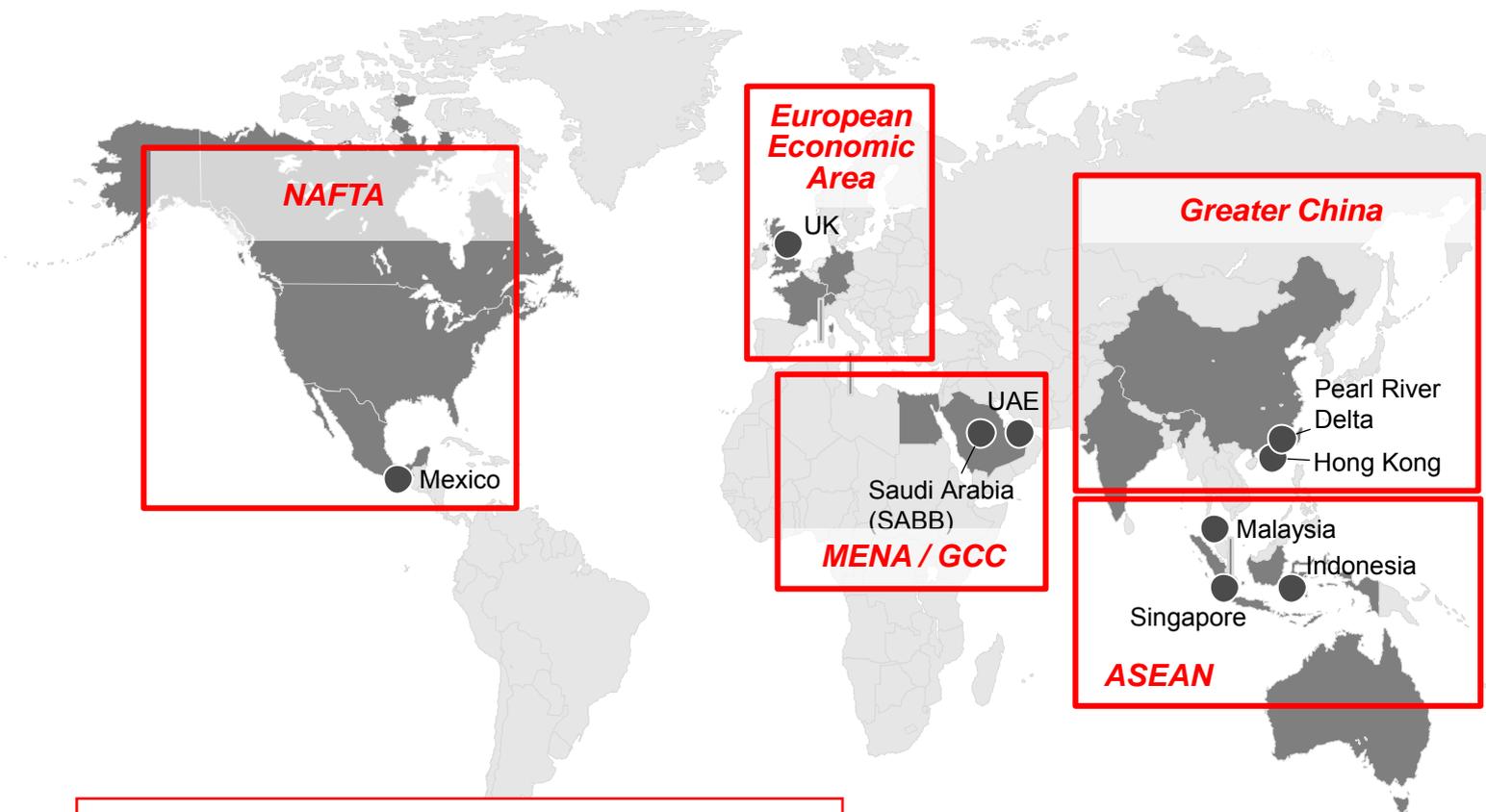
3. Progression of dividends should be consistent with the growth of the overall profitability of the Group and is predicated on the ability to meet all capital requirements in a timely manner

Strategy Group

Shape of HSBC will be aligned to the world's largest trade and economic zones; business mix further shifting towards Asia

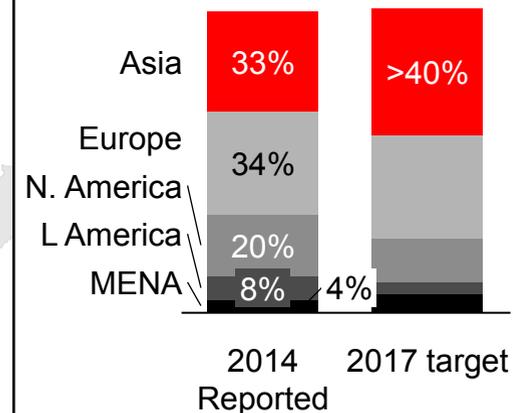
Global market presence

■ Priority markets ● Scale priority markets

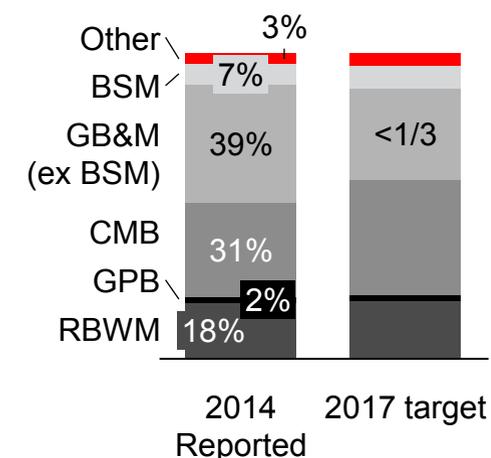


- Coverage of largest trade and economic zones
 - Coverage of >90% of global GDP, global trade and capital flows

By geography, RWA excl. Associates¹, USDbn



By business, RWA excl. Associates¹, USDbn



Source: Annual reports
1. End point basis

Key strategic priorities

Key messages

Strong position to capture Asian growth

- Asia is the world's leading economic region
- China continues to be an engine of growth
- HSBC is in a unique position to benefit from Asia's development, as Asia's leading international bank

ASEAN

- Strong growth potential in ASEAN priority markets
- HSBC to capture opportunities in Wealth, trade and investment flows in Singapore and Malaysia
- Build scale post-integration in Indonesia

Expansion in China

- Connecting China to the world, with Shanghai as key emerging financial centre and focus for HSBC
- Growth opportunities arise from stronger integration of Pearl River Delta (PRD) with Hong Kong
- Aspiration to expand presence in PRD significantly

RMB internationalisation

- Strong underlying factors and policy reforms are driving the international use of the RMB
- HSBC is the leading international RMB bank and in a strong position to capture resulting opportunities

Wealth and Connectivity

- Capture emerging middle class and wealth creation
- Business corridor initiative to capture client opportunities along fast growing Asian trade corridors

Asia financials¹

2014, USDbn

Revenue 23.7

Operating expenses 10.4

LICs 0.6

PBT 14.6

CER 44%

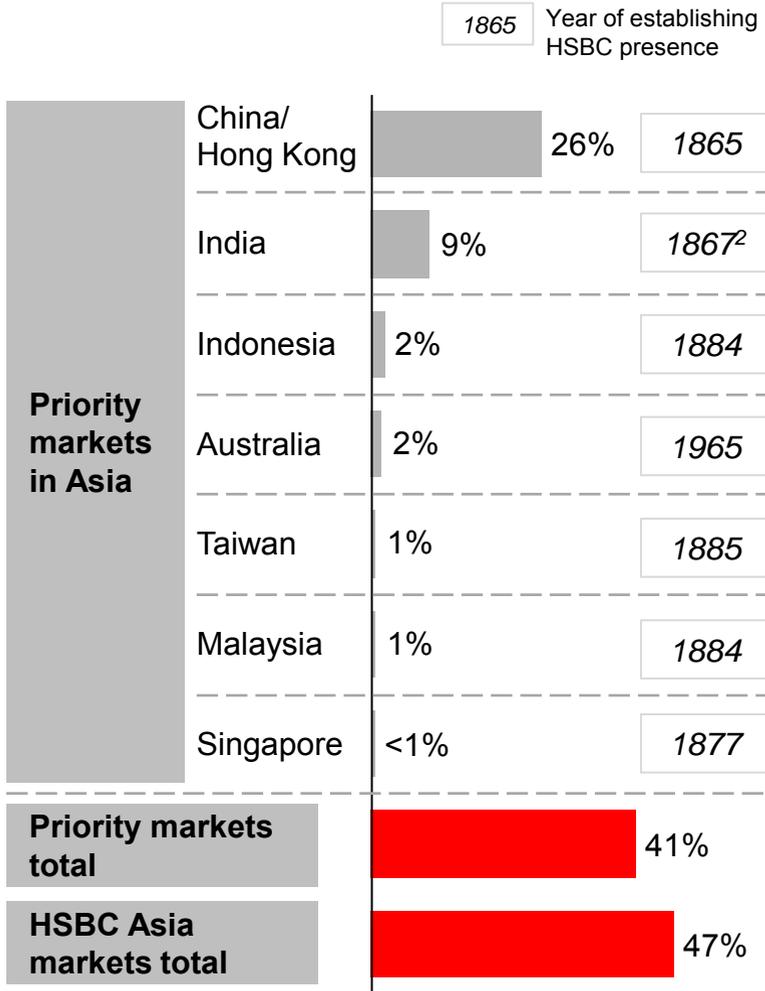
RWA 500

RoRWA² 3.1%

1. Financials on reported basis
2. Including Associates

HSBC is in a strong position to capture growth opportunities in Asia...

Share of global GDP growth 2014-25¹



HSBC footprint in Asia



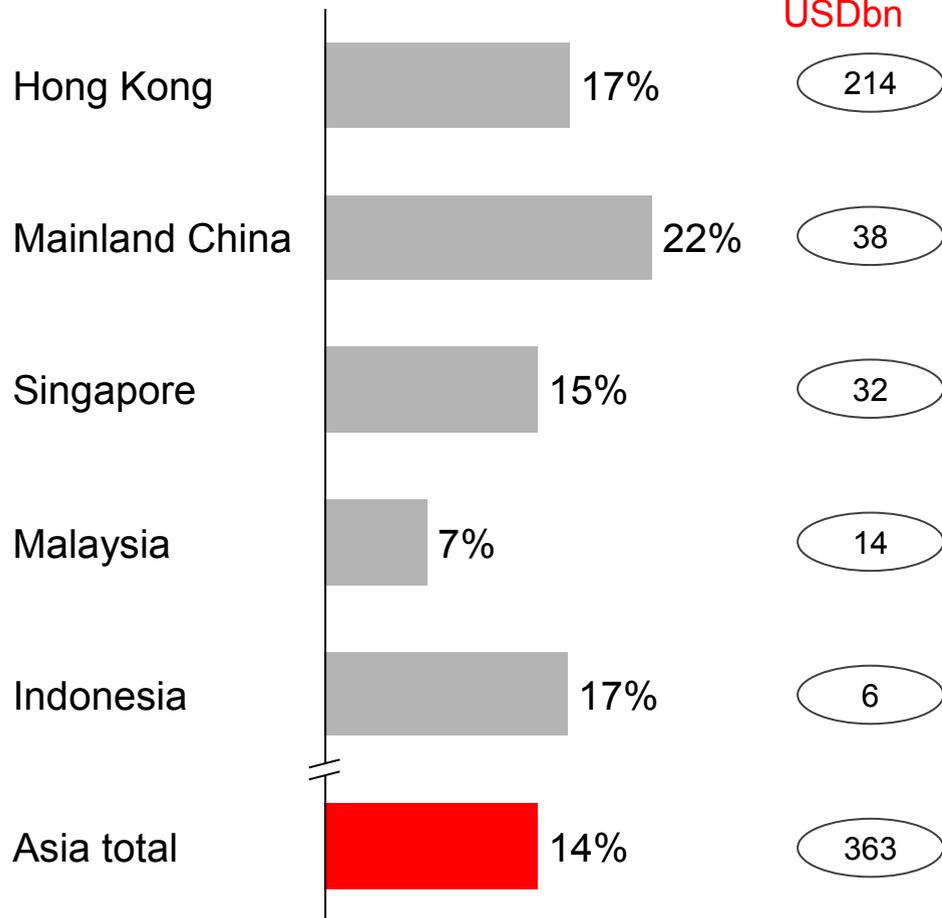
1. Real GDP growth (Billions of 2010 U.S. dollars); Source: Global Insights

2. HSBC Group commenced operations in India in 1867 with a branch in Calcutta (now Kolkata). An earlier commencement, as the Mercantile Bank of India, China and London, which the Group acquired in 1959, was established in 1853, with a branch in Bombay (now Mumbai)

...which has been reflected in strong performance over the past years

Significant growth in Loans and Advances ...

CAGR 2009-14¹



... and leadership position across core markets and products

- Market leader in Hong Kong
- Leading international bank in mainland China
- Among top-5 banks in Singapore
- Leading foreign bank in Malaysia² and leadership in Islamic Finance
- 100+ branches in Indonesia

Best Bank in Asia
Euromoney Awards for Excellence 2014



Winner in all eight Offshore RMB categories
Asiamoney Offshore RMB Poll 2014



Best Bank in Hong Kong³
Sixth time since 2008



Best Domestic Bank in Hong Kong⁴
15th consecutive year

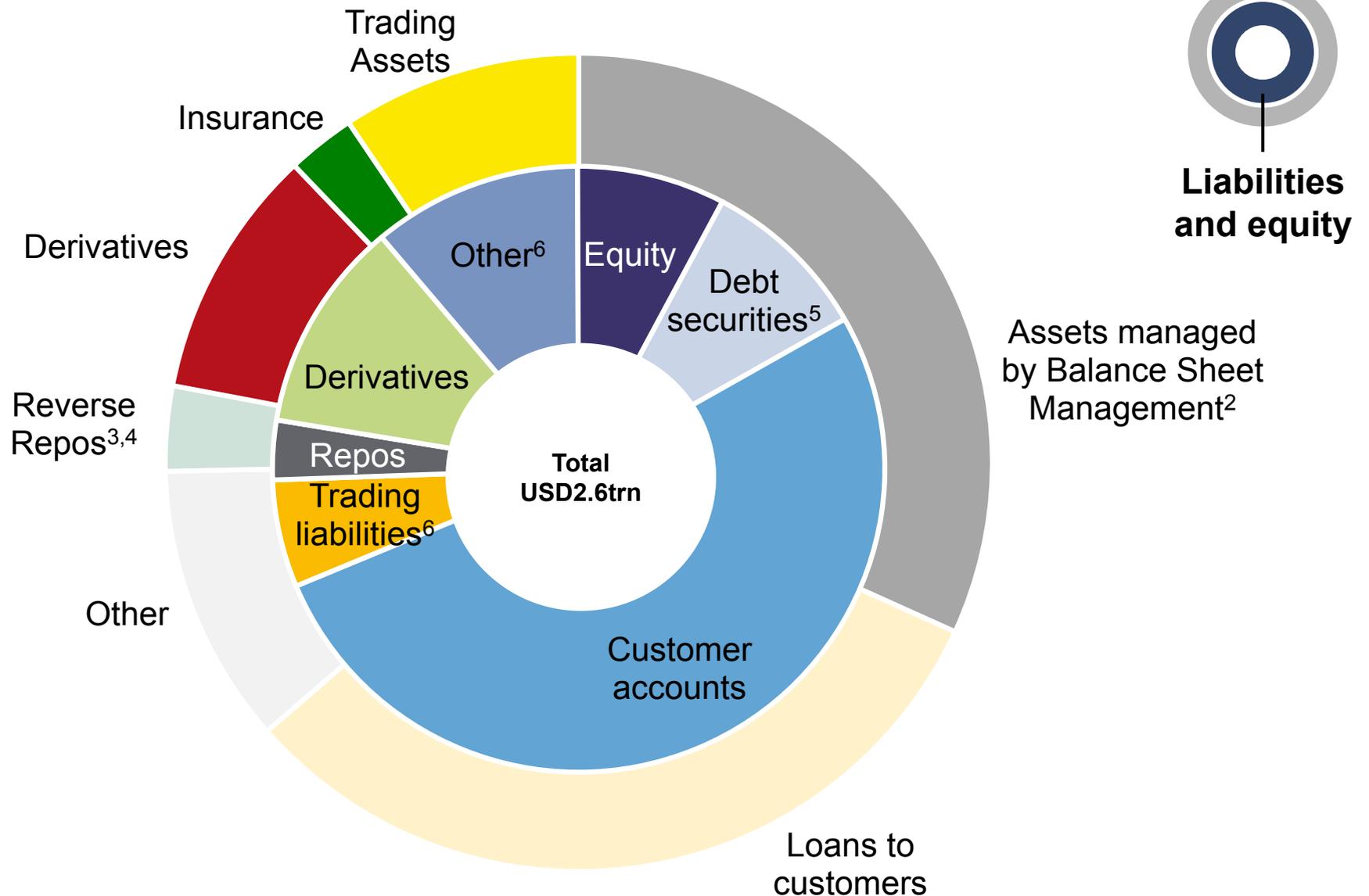


1. On a constant currency basis
2. By PBT and branch network
3. HSBC Hong Kong
4. Hang Seng Bank Hong Kong

Fixed income overview

Conservative Balance Sheet¹

30 June 2015

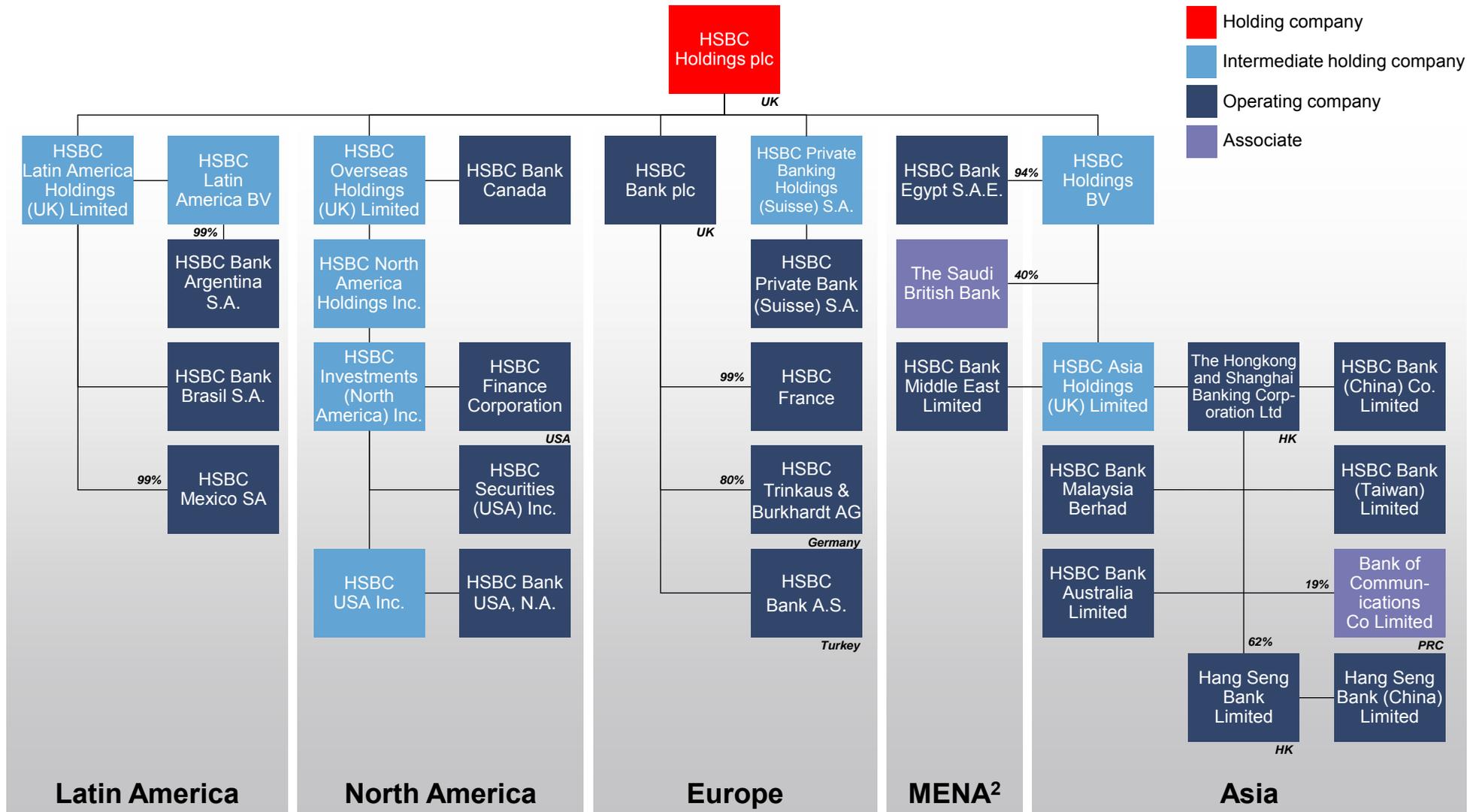


1. Source: HSBC Holdings plc Interim Report 1H15
 2. These primarily include financial investments, cash and balances at central banks and reverse repurchase agreements – non-trading
 3. Reverse repurchase agreements – non-trading. Excludes agreements managed by Balance Sheet Management
 4. Excludes some assets managed by Balance Sheet Management. Excludes Insurance in Other
 5. Includes all financial liabilities designated at fair value and subordinated liabilities
 6. Excludes Debt securities in issue

Fixed income overview

Simplified structure chart

Principal entities in Home and Priority growth markets¹

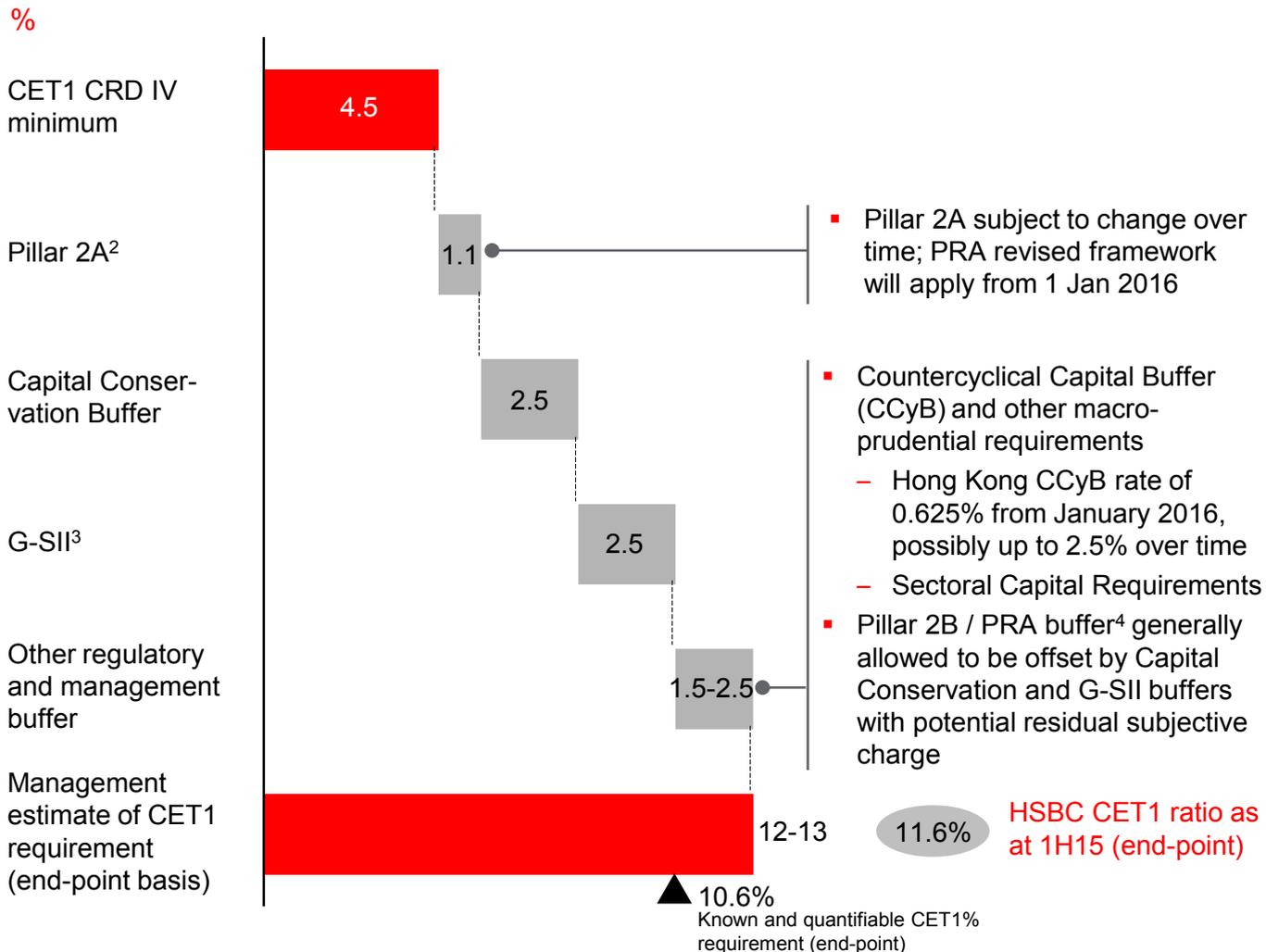


1. At 31 December 2014. All entities wholly owned unless shown otherwise (part ownership rounded down to nearest per cent). Excludes other Associates, Insurance companies and Special Purpose Entities
 2. Middle East and North Africa

Fixed income overview

Management estimate of required CET1 ratio in 2019 of 12-13% 2019 end-point basis

Common Equity Tier 1 ratio, Pillar 2A and buffers¹



Regulatory requirements 2014-19

Emerging clarity on broad regulatory agenda

- ✓ Pillar 2 and other capital buffers
- ✓ Leverage ratio
- ✓ Revised Counterparty Credit Risk Standardised and Securitisation framework
- ✓ Ring-fencing and Bank Structural Reform

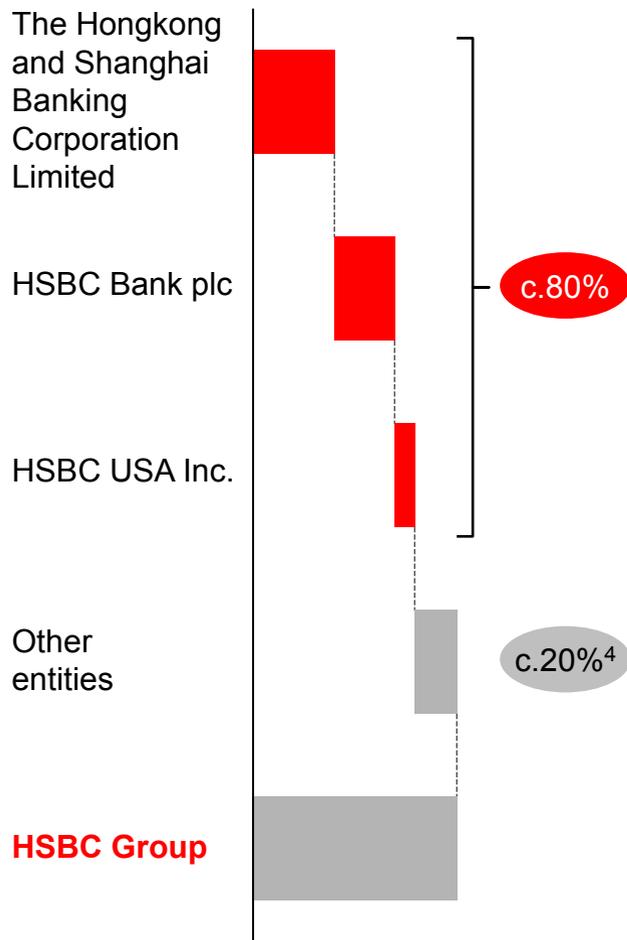
Certain regulatory uncertainty and headwinds remain

- Basel revisions to the RWA framework
- Capital floors and other macro-prudential measures
- TLAC and G-SIB ongoing developments

Fixed income overview

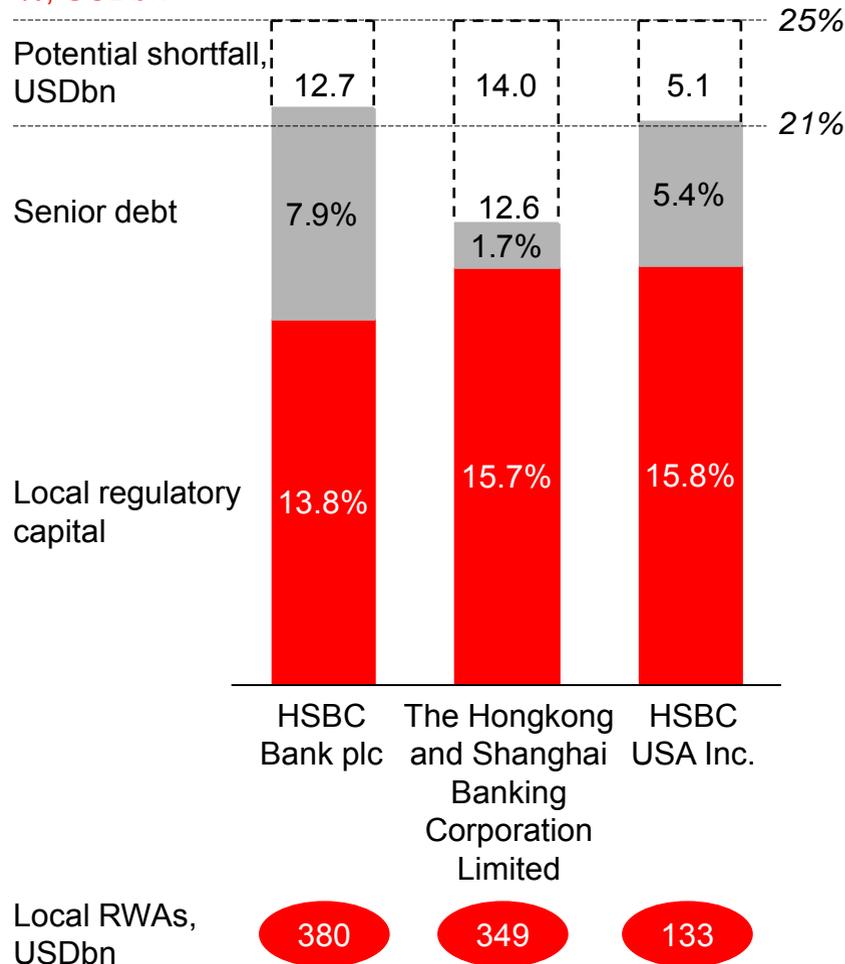
TLAC requirements¹

Group PRA basis RWA mix by resolution entity (including Associates)³



Subsidiary proforma TLAC as a proportion of RWAs, with shortfalls to 21% and 25%²

%, USDbn



- Under an MPE resolution strategy TLAC will be applied to subsidiary resolution entities based on local RWAs
- TLAC is subject to future capital and RWA developments
- Existing senior debt would need to be refinanced to be TLAC compliant
- Cost of compliance (at the lower end of the 21-25% range) estimated to be USD200-300m p.a.⁵

1. For footnotes, refer to slide X in the Appendix of Investor Update 2015 Group presentation available on www.hsbc.com

2. Note: 21% / 25% correspond to TLAC requirements of 16% / 20% + 5% (Systemic and Capital Conservation Buffers)

Performance

Performance

1H15 Financial highlights

Financial highlights

USDbn

	<u>1H14</u>	<u>2H14</u>	<u>1H15</u>	<u>1H15 vs. 1H14</u>	<u>1H15 vs. 2H14</u>
Reported PBT	12.3	6.3	13.6	1.3	7.3
Adjusted PBT	12.7	9.4	13.0	0.3	3.6
	<u>1H14</u>	<u>2H14</u>	<u>1H15</u>	<u>Target (if applicable)</u>	
Return on average ordinary shareholders' equity ¹	10.7%	4.0%	10.6%	> 10%	
Return on average tangible equity ¹	12.6%	4.7%	12.0%	n/a	
Jaws (adjusted)	-	-	(2.9)%	Positive	
Advances to deposits ratio	74.0%	72.2%	71.4%	n/a	
Common equity tier 1 ratio (end point basis)	11.3%	11.1%	11.6%	n/a	

1. Return on average ordinary shareholders' equity (ROE) and Return on average tangible equity (ROTE) are calculated on an annualised basis

Performance

Reported to Adjusted

Currency translation and significant items

USDm	<u>1H14</u>	<u>2H14</u>	<u>1H15</u>
Currency translation	586	134	-
Significant items:			
Revenue			
(Loss) / gain on sale of several tranches of real estate secured accounts in the US	(15)	183	17
Gain on the partial sale of shareholding in Industrial Bank	-	-	1,372
Favourable / (adverse) debit valuation adjustment on derivative contracts	(155)	(177)	165
Adverse fair value movements on non-qualifying hedges	(322)	(219)	(45)
(Provisions) / releases arising from the ongoing review of compliance with the Consumer Credit Act in the UK	(367)	(265)	12
Own credit spread	(215)	632	650
Gain on sale of shareholding in Bank of Shanghai	428	-	-
Impairment of our investment in Industrial Bank	-	(271)	-
Acquisition, disposals and dilutions	31	(22)	-
	<u>(615)</u>	<u>(139)</u>	<u>2,171</u>
Loan impairment charges and other credit risk provisions	(2)	2	-
Operating expenses			
Charge in relation to settlement agreement with Federal Housing Finance Authority	-	(550)	-
Regulatory provisions in GPB	-	(65)	(147)
Settlements and provisions in connection with legal matters	-	(1,187)	(1,144)
UK customer redress programmes	(234)	(1,041)	(137)
Restructuring and other related costs	(82)	(196)	(117)
Acquisition, disposals and dilutions	(35)	(5)	-
	<u>(351)</u>	<u>(3,044)</u>	<u>(1,545)</u>
Currency translation and significant items	<u>(382)</u>	<u>(3,047)</u>	<u>626</u>

Performance

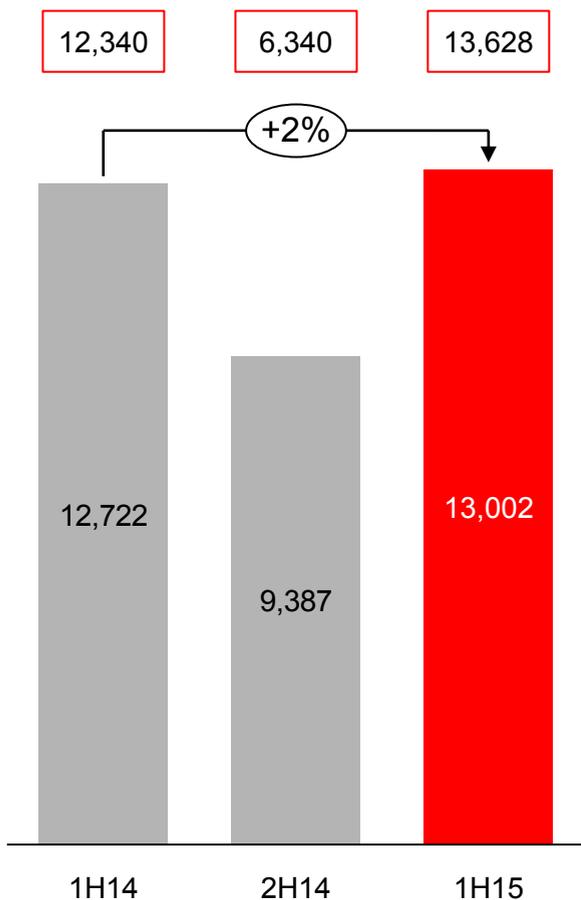
Profit before tax

Increase in adjusted PBT driven by Asia, which contributed over 60% of Group adjusted PBT

Reported and adjusted PBT

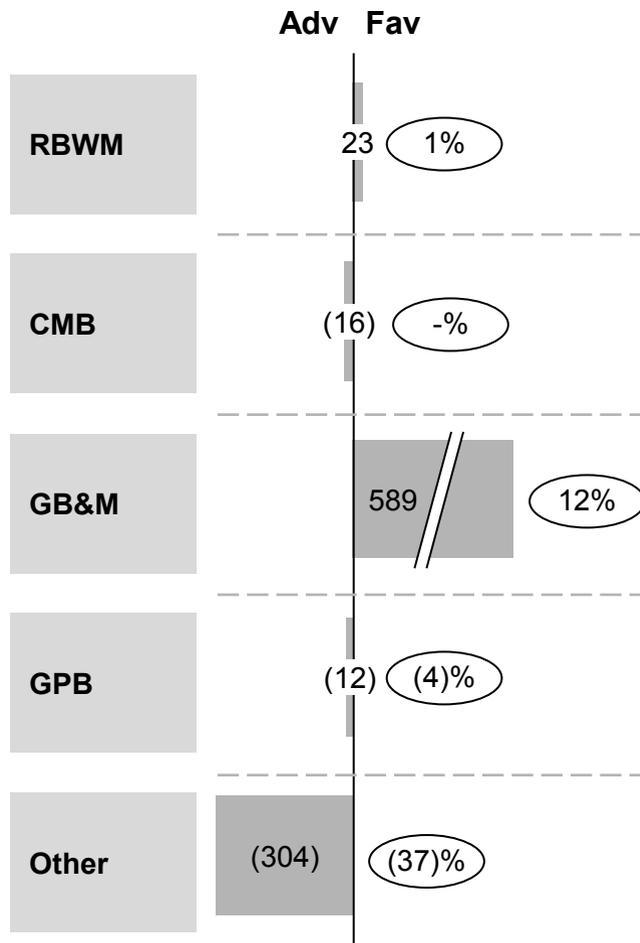
USDm

Reported



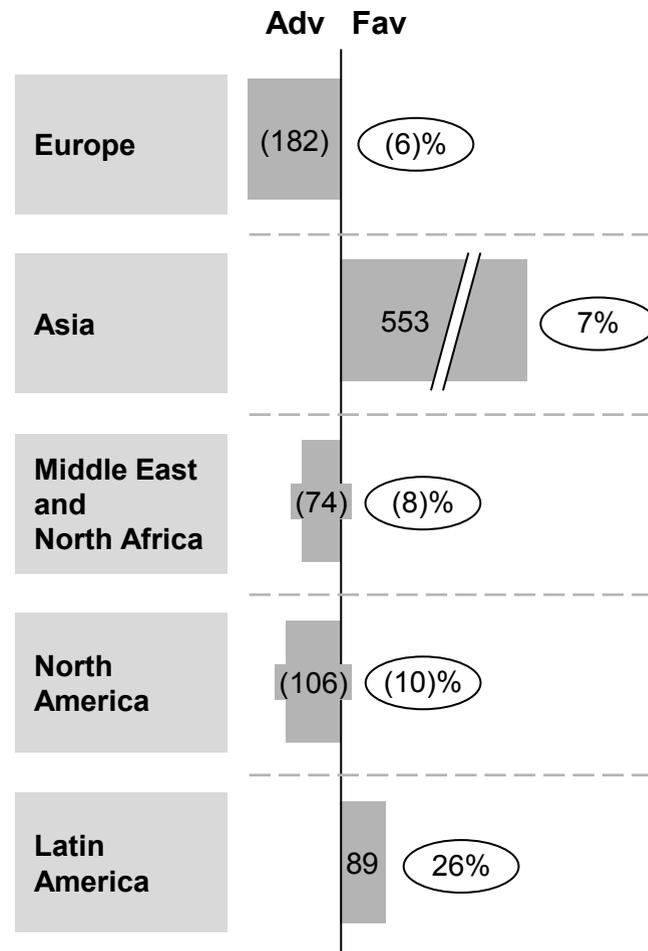
Adjusted PBT growth by global business

1H15 vs. 1H14, USDm



Adjusted PBT growth by region

1H15 vs. 1H14, USDm



Performance

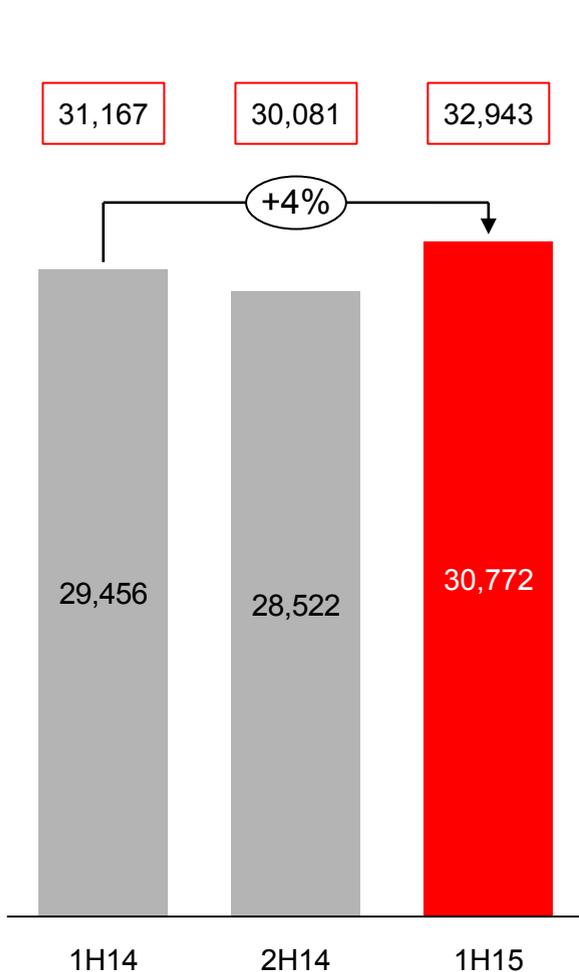
Revenue

Higher adjusted revenue in client-facing GB&M, Principal RBWM and CMB

Reported and adjusted revenue

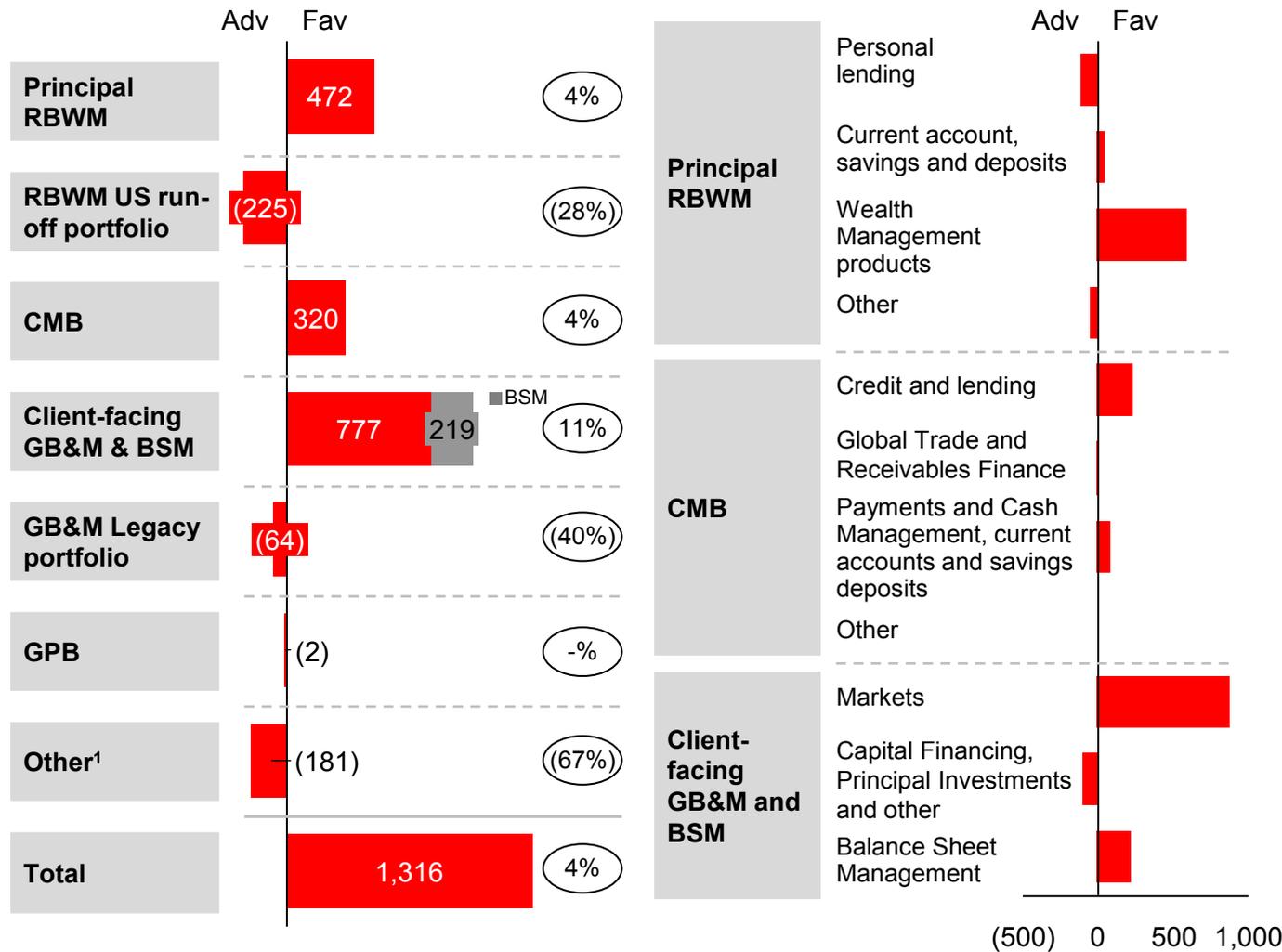
USDm

Reported



Adjusted revenue by global business

1H15 vs. 1H14, USDm

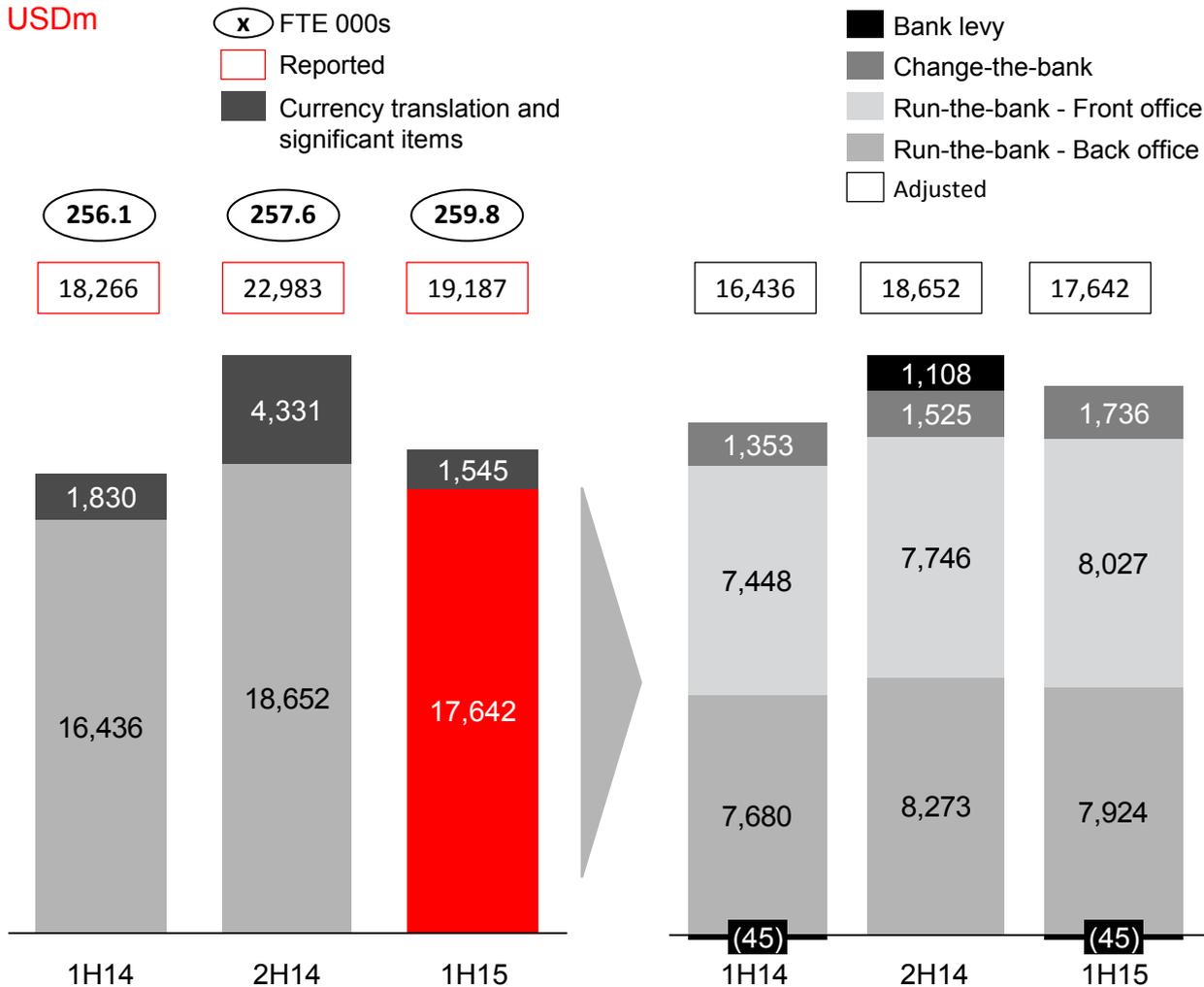


Performance

Operating expenses

Operating expenses in line with 2H14

Reported and adjusted operating expenses



Key cost reduction actions launched

	Target savings USDbn
Digital investment and productivity improvement	0.9 – 1.0
Automate and re-engineer operations	0.8 – 0.9
Simplify software development and optimise IT infrastructure	1.1 – 1.2
Re-shape Global Functions	0.6 – 0.7
Procurement	0.4 – 0.5
Other initiatives	0.6 – 0.7

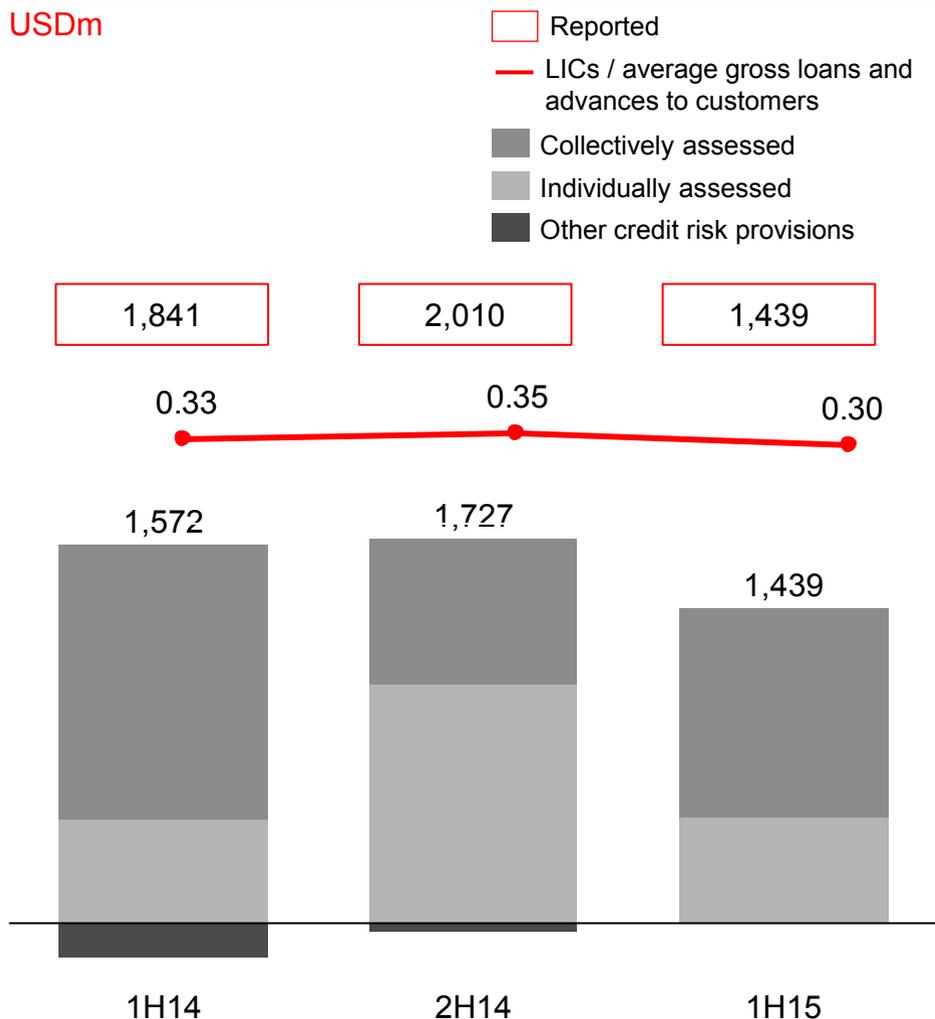
Performance

Loan impairment charges

Loan impairments remain low reflecting strategic actions to manage risk within our credit portfolio

Reported and adjusted Loan impairment charges and other credit risk provisions (LICs)

USDm



LICs / average gross loans and advances to customers

%

Regions %

	1H14	1H15
Europe	0.10	0.14
Asia	0.12	0.14
Middle East and North Africa	(0.35)	0.20
North America	0.65	0.23
Latin America	4.22	4.31
Total	0.33	0.30

Global businesses %

	1H14	1H15
Principal RBWM	0.57	0.53
RBWM US run-off portfolio	1.27	0.41
CMB	0.29	0.33
GB&M	0.02	(0.01)
GPB	0.02	0.02
Other	(0.05)	0.01
Total	0.33	0.30

Performance

Capital Adequacy

Strong capital base with a common equity tier 1 ratio of 11.6%

CRD IV End-point¹

Movement in common equity tier 1 capital

USDbn

At 31 December 2014	136.0
Capital generation from profit	5.6
Profit for the period (including regulatory adjustments) <i>of which USD1.4bn gain on the partial sale of our shareholding in Industrial Bank including fair value gains reclassified to the income statement</i>	8.2
Dividends net of scrip ^{2,3}	(0.7)
Second interim dividend ² (net of planned scrip)	(1.9)
Partial sale of shareholding in Industrial Bank including fair value gains reclassified to the income statement and lower allowable non-controlling interests	(3.6)
Foreign currency translation differences	(1.8)
Other movements	1.9
At 30 June 2015	138.1

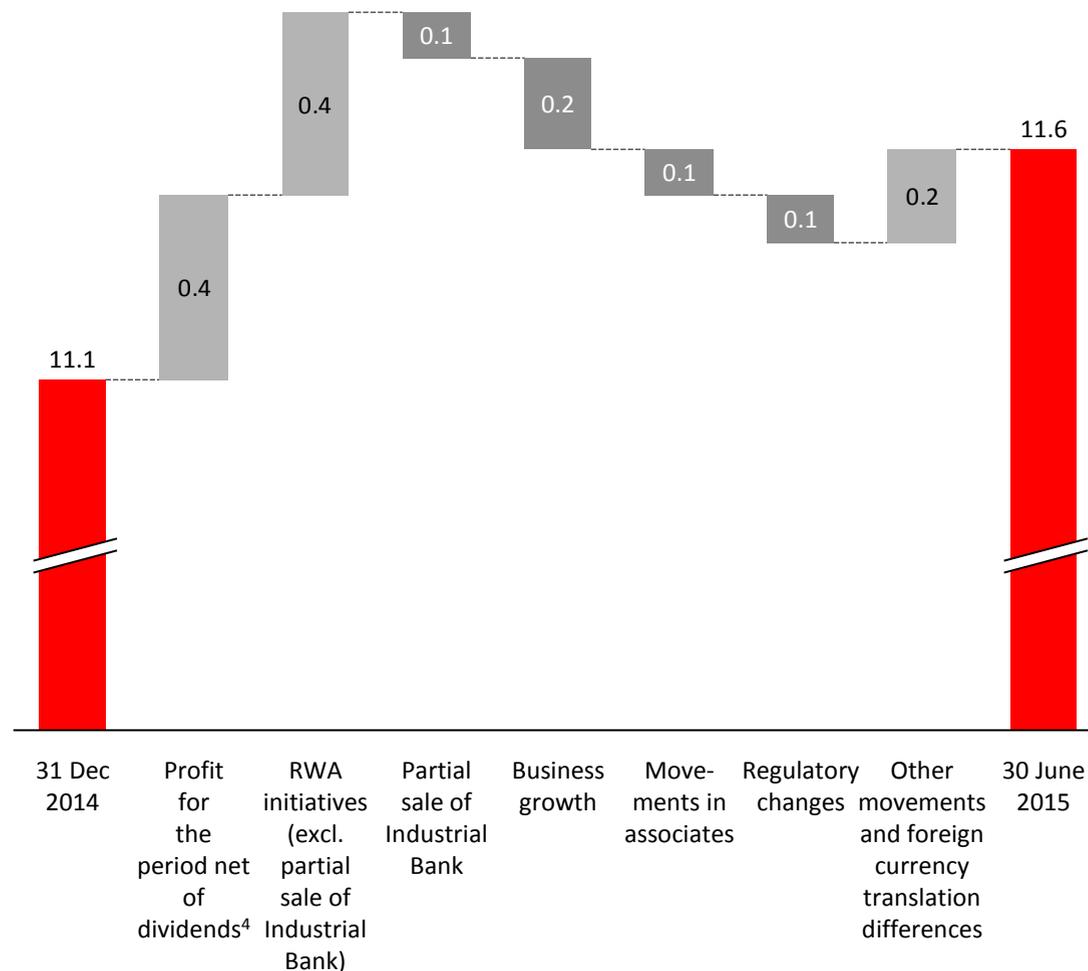
Movement in RWAs

USDbn

At December 2014	1,220
Regulatory changes	6
RWA initiatives	(50)
Business growth	22
Movement in associates	8
Foreign currency translation differences	(14)
Other movements	1
At 30 June 2015	1,193

Common equity tier 1 ratio movement

%



- From 1 January 2015 the CRD IV transitional CET1 and end-point CET1 capital ratios became aligned for HSBC Holdings plc due to recognition of unrealised gains on investment property and available-for-sale securities
- This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity
- Dividends net of scrip are in respect of the 2015 first interim dividend and an update for a higher 2014 fourth interim dividend scrip take-up in excess of plan
- Including regulatory adjustments and excluding the gain on partial sale of Industrial Bank separately disclosed

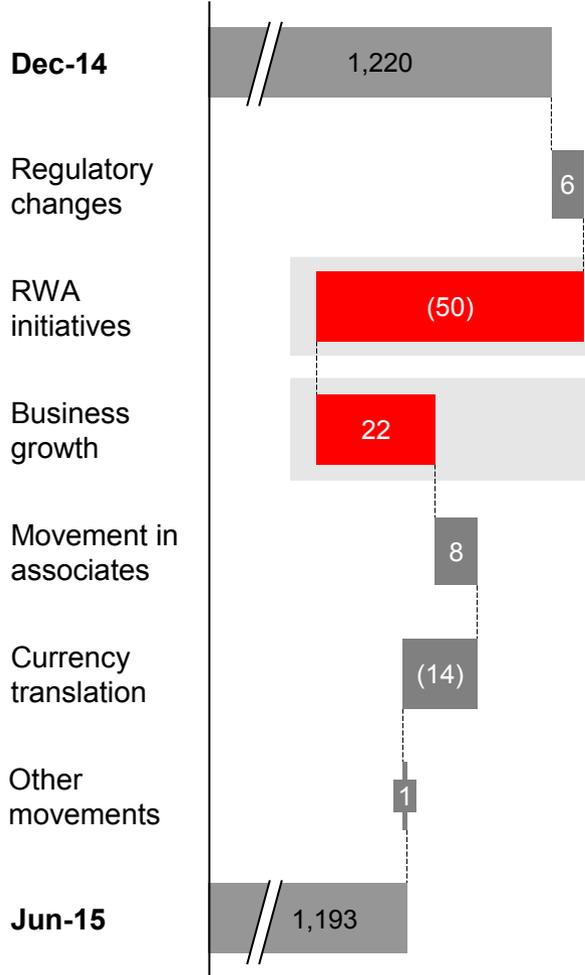
Performance

Risk-weighted assets

Net fall in RWAs driven by RWA initiatives of USD50bn together with USD22bn business growth

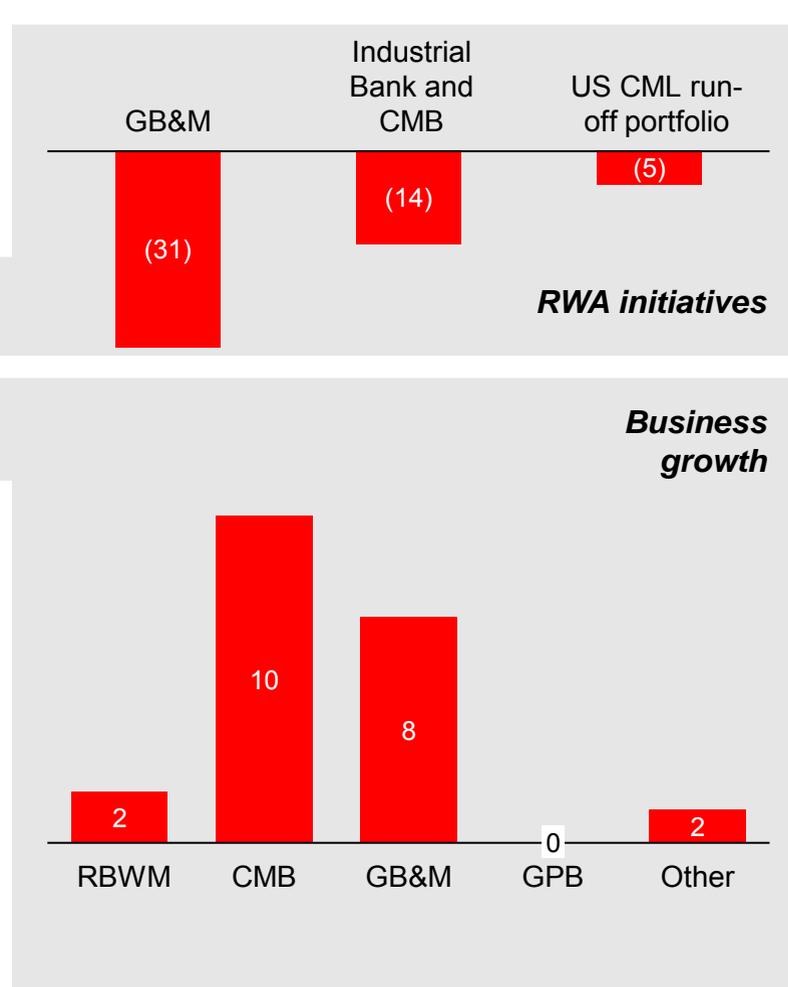
Reported RWAs

USDbn



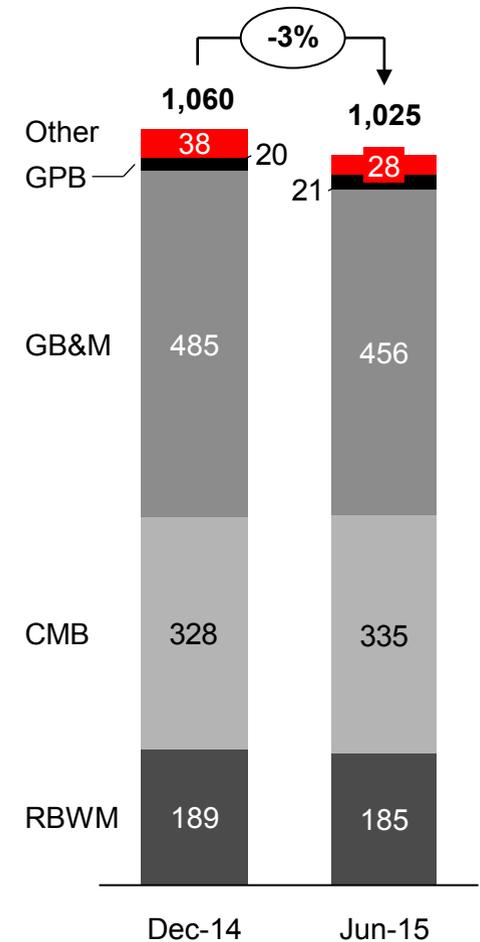
Movement excl. associates

USDbn



RWAs by global business, excluding associates

USDbn





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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