



March 2016

**Commercial Banking**

**Investor update**

**Noel Quinn** Chief Executive Officer, Global Commercial Banking

**HSBC** 

# Important notice and forward-looking statements

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## Important notice

The information set out in this presentation and subsequent discussion does not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any recommendation in respect of such securities or instruments.

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## 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. Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in the 2015 Annual Report and Accounts and the Reconciliations of Non-GAAP Financial Measures document which are both available at [www.hsbc.com](http://www.hsbc.com).

# HSBC Group highlights

## 2015 Full Year

**Reported PBT**  
(2014: \$18.7bn)

**\$18.9bn**

**Adjusted PBT**  
(2014: \$22.0bn)

**\$20.4bn**

**Reported RoE**  
(2014: 7.3%)

**7.2%**

**Adjusted Jaws**

**(3.7)%**

**Ordinary dividends**  
*In respect of the year*  
(2014: \$0.50)

**\$0.51**

**CET1 ratio**  
(2014: 11.1%)

**11.9%**

## 2015 Financial Performance

- Reported PBT up 1%: net favourable movement in significant items
- Adjusted PBT fell 7%:
  - Higher revenue of \$0.5bn (1%) from growth in client-facing GB&M (7%), CMB (3%) and Principal RBWM (2%)
  - Higher costs (up \$1.6bn) from increased bank levy (\$0.4bn), investment in growth (\$0.3bn) and regulatory programmes and compliance (\$0.7bn)
  - Higher LICs (up 17% or \$0.6bn) across a number of countries and industrial sectors, most notably oil and gas

## Capital and dividends

- Strong capital position with a common equity tier one ratio of 11.9% on an end point basis and a strong leverage ratio of 5.0%
- Progressive dividends in 2015 of \$0.51 per ordinary share; total dividends in respect of the year of \$10.0bn

## Strategy execution

- Clearly defined actions to capture value from our network and connecting our customers to opportunities
  - Progress on reducing Group RWAs with a \$124bn reduction from RWA initiatives or 45% of our rebased 2017 target achieved
  - Signed agreement to sell operations in Brazil<sup>1</sup>
  - Revenue from transaction banking products up 4% highlighting the value and potential of our international network
  - Development of Asia business gaining momentum – revenue growth in excess of GDP in seven out of eight of our priority Asia markets
  - 2H15 costs in line with 1H15 following tight cost control and the initial effect of our cost saving plans

1. We plan to maintain a corporate presence in Brazil to serve our international clients

# HSBC Group 2015 key metrics

Key financial metrics	FY14	FY15	Target
Return on average ordinary shareholders' equity	7.3%	7.2%	>10%
Jaws (adjusted)	-	(3.7)%	Positive
Dividends per ordinary share in respect of the year	\$0.50	\$0.51	Progressive
Earnings per share	\$0.69	\$0.65	n/a
Common equity tier 1 ratio (end point basis) <sup>1</sup>	11.1%	11.9%	n/a
Return on average tangible equity	8.5%	8.1%	n/a
Leverage ratio	4.8%	5.0%	n/a
Advances to deposit ratio	72.2%	71.7%	n/a
Net asset value per ordinary share (NAV)	\$9.28	\$8.73	n/a
Tangible net asset value per ordinary share (TNAV)	\$7.91	\$7.48	n/a

Reported Income Statement, \$m					Adjusted Income Statement, \$m				
	4Q15	vs. 4Q14	2015	vs. 2014		4Q15	vs. 4Q14	2015	vs. 2014
Revenue	11,772	(18)%	59,800	(2)%	Revenue	12,950	(1)%	57,765	1%
LICs	(1,645)	(32)%	(3,721)	3%	LICs	(1,645)	(63)%	(3,721)	(17)%
Costs	(11,542)	3%	(39,768)	4%	Costs	(9,959)	(2)%	(36,182)	(5)%
Bank levy <sup>2</sup>	(1,465)	(32)%	(1,421)	(34)%	Bank levy <sup>2</sup>	(1,465)	(32)%	(1,421)	(34)%
Costs excl. bank levy	(10,077)	6%	(38,347)	5%	Costs excl. bank levy	(8,494)	2%	(34,761)	(4)%
Associates	557	(2)%	2,556	1%	Associates	557	2%	2,556	3%
PBT	(858)	(150)%	18,867	1%	PBT	1,903	(34)%	20,418	(7)%

1. 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

2. Net bank levy charge was \$1,421m in 2015 and \$1,063m in 2014; 1Q14 and 1Q15 included credits relating to the prior year's bank levy charge of \$45m and \$44m respectively

# Commercial Banking Overview

Commercial Banking continues to focus on international growth and returns

## Key messages

### Growth in a challenging environment

- Achieved 3% YoY revenue growth in 2015 despite challenging market conditions – Credit & Lending and PCM driving performance
- LICs were \$0.5bn higher driven by global economic challenges but asset quality robust at 56bps<sup>1</sup>
- Adjusted PBT down 5% YoY in 2015

### Decisive action to address challenges

- Actions taken which have generated more than \$100m cost savings toward 2017 target of \$200m
- Management initiatives contributed a reduction of \$23bn in RWAs in 2015, over 75% of 2017 target
- Increased proactive management of risk and returns, e.g., managing exposures more efficiently
- Continued investment in Global Standards

### Unrivalled network positions us well for growth

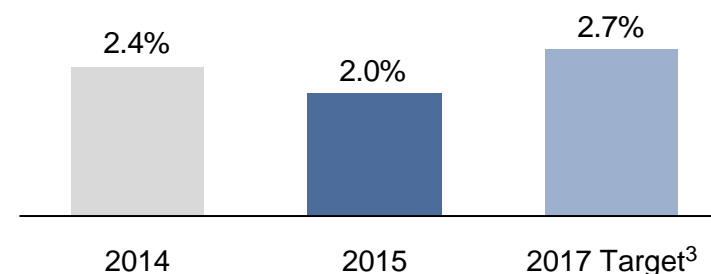
- CMB enabled c.\$6bn of synergy revenue with the rest of Group in 2015 with 5% YoY growth
- Grew International Subsidiary Business revenue by circa 12% YoY via our network
- Growth of 8% in average PCM deposits, 12% in average Receivables Finance balances, and 5% in Open Account revenues compared with 2014
- Invested in Pearl River Delta, ASEAN and NAFTA growth areas

## 2015 Financial performance<sup>2</sup>

(\$bn unless stated otherwise)

Revenue	14.9
LICs	(1.8)
Operating expenses	(6.5)
PBT	8.2
CER	44%
RWA incl. Associates	421
RWA excl. Associates	318

### RoRWA (excl. Associates)



1. LICs as a percentage of average gross loans and advances

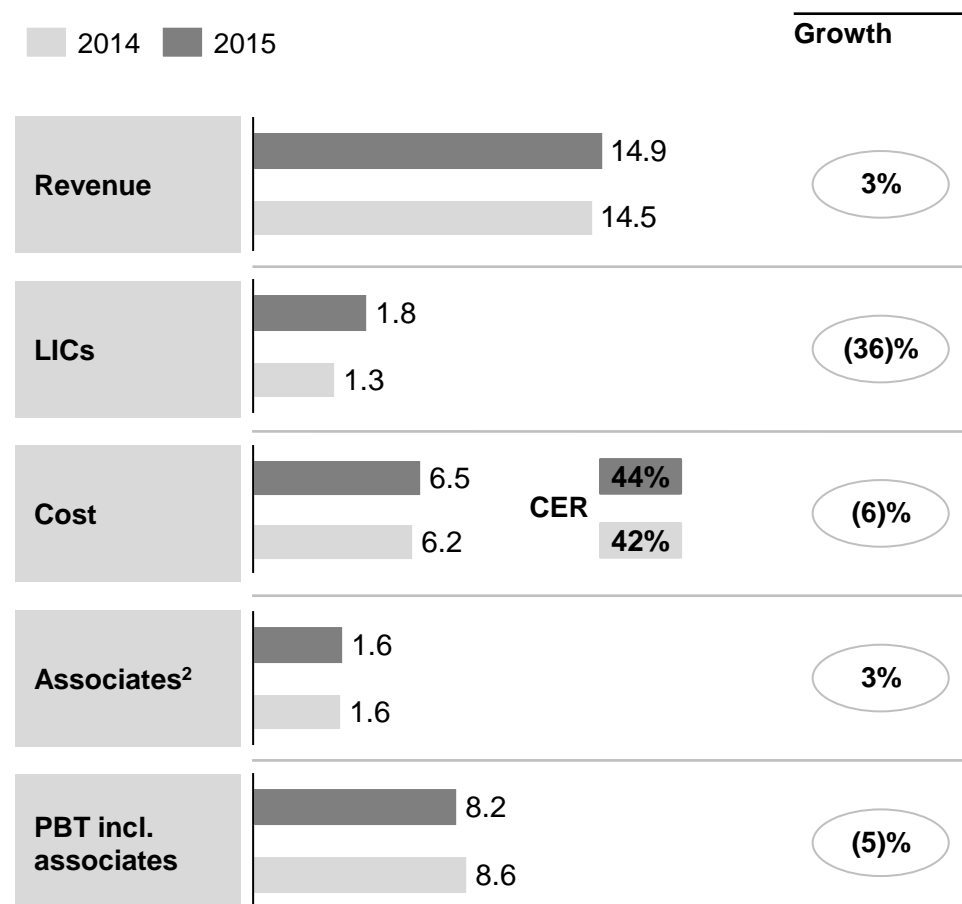
2. Numbers presented on an adjusted basis

3. As per Investor Update in June 2015, the 2017 target excludes Turkey and Brazil and the impact of TLAC charges being passed to Global Businesses. As reported in the 2015 Annual Report and Accounts, our operations in Turkey are no longer for sale

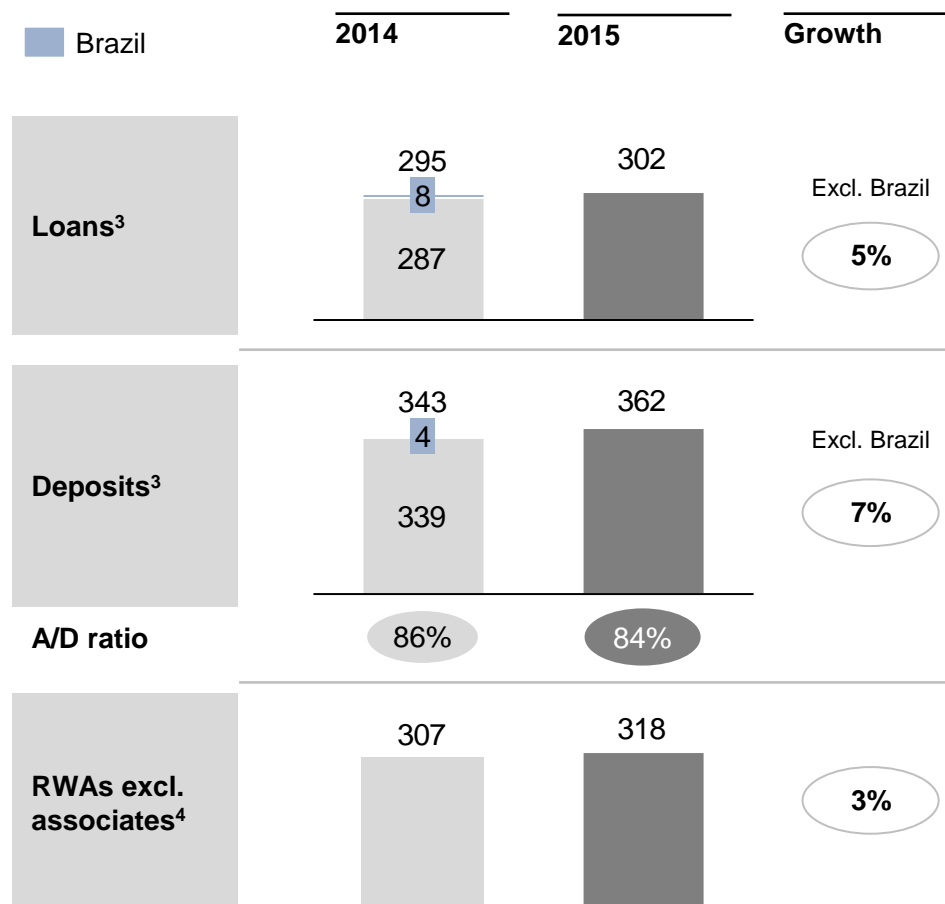
# Financial Performance

Solid business performance in challenged environment

## CMB continues to grow revenues despite headwinds<sup>1</sup> (\$bn)



## Strong balance sheet growth and effective RWA management<sup>1</sup> (\$bn)



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

2. Share of profit in associates and joint ventures

3. Balance sheet figures are on a constant currency basis. Excluding red-linked balances which 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. Brazil balances transferred to held-for-sale in 2015

4. RWAs excl. Associates are presented on a constant currency basis and include Brazil

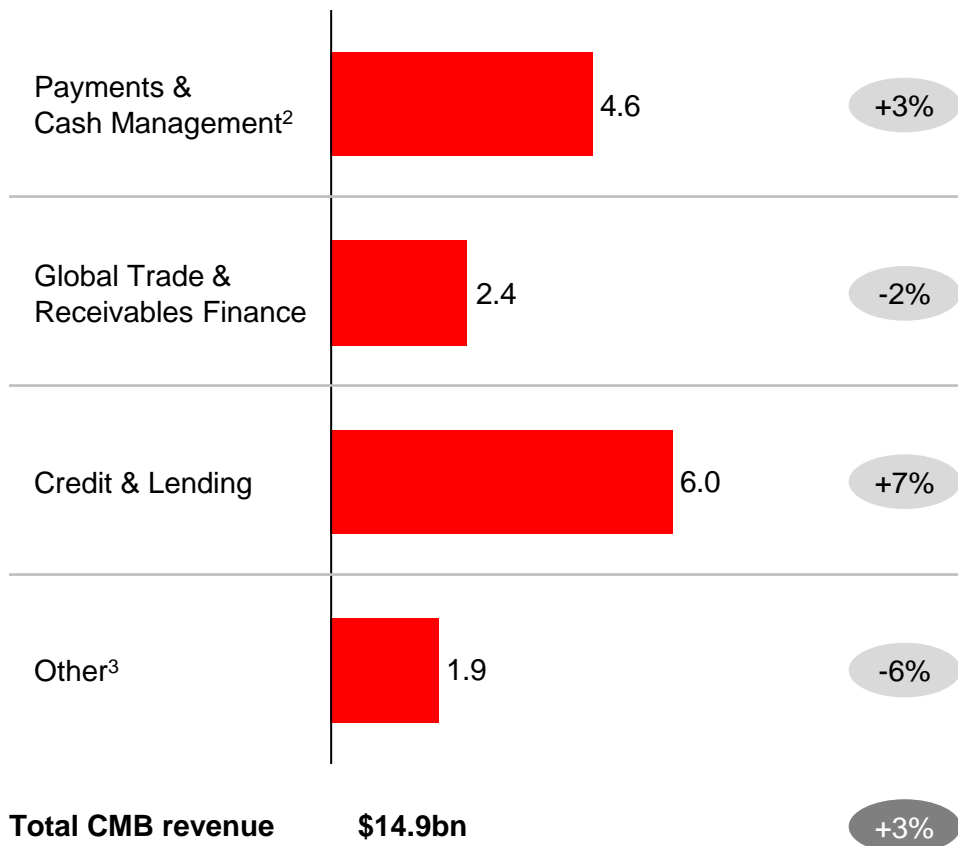
# Revenues

Revenue growth driven Credit & Lending and PCM

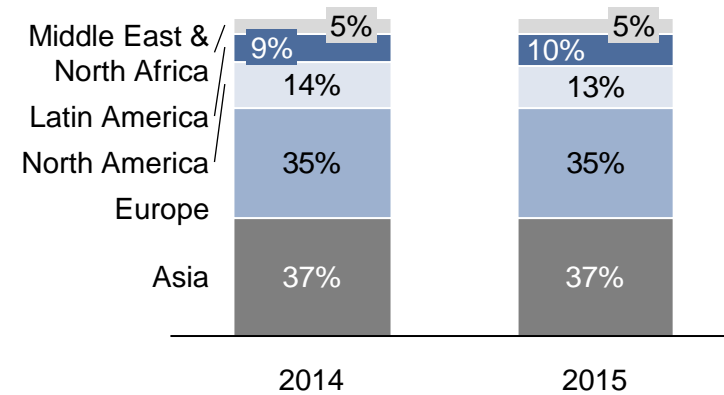
## CMB revenue performance

Revenue<sup>1</sup> by Product 2015 (\$bn): **Growth driven by Credit & Lending and PCM**

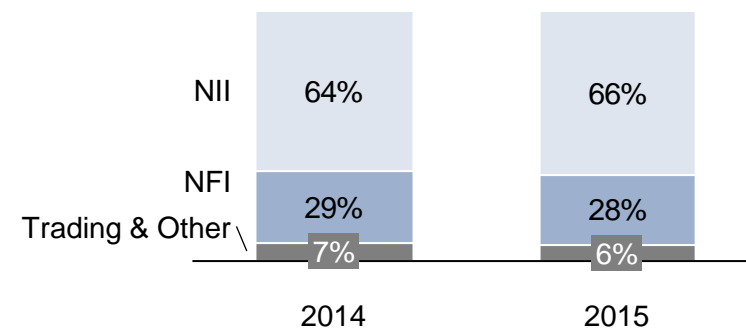
vs. 2014  
(% growth)



Revenue<sup>1</sup> by Region 2015 (% of total): **Revenue remains regionally diversified**



Revenue<sup>1</sup> by income type 2015 (% of total): **Opportunity to grow fee income**



1. Numbers presented on an adjusted basis

2. PCM includes payments and cash management, current accounts, and savings deposits

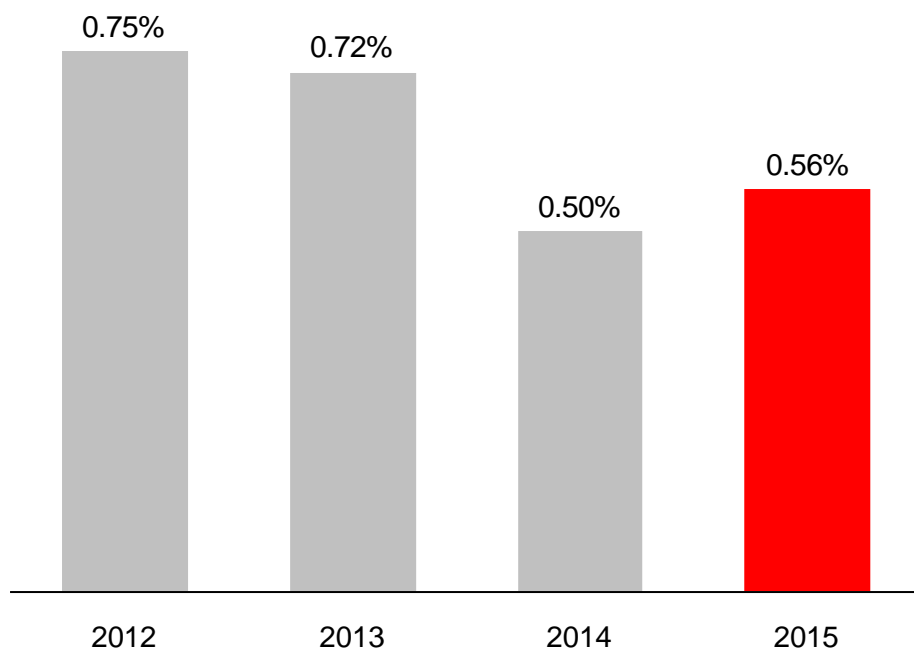
3. Other includes Insurance & Investments and non-product revenues primarily due to gains/losses on disposals, as well as Capital Financing, Global Markets and Principal Investments. Numbers include pay aways depending on product. Remainder of revenues generated booked under GB&M

# Risk management

Quality of assets remain robust – increase in LICs primarily driven by global economic challenges

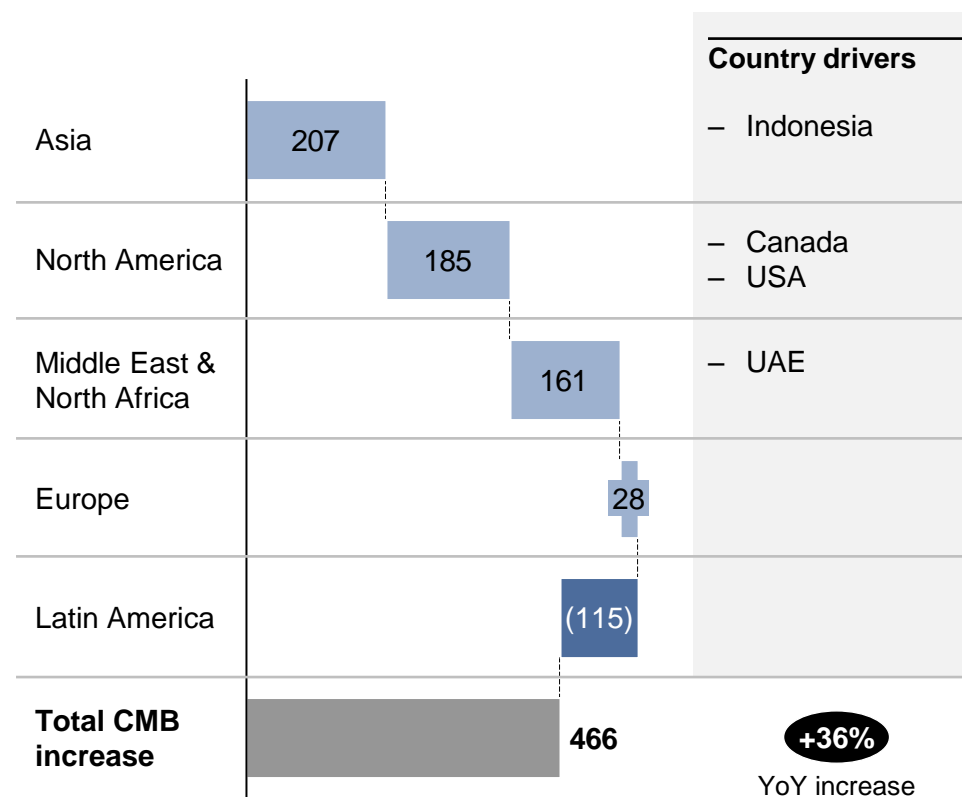
## CMB LICs remain below historical performance

Reported LICs as % of average gross loans and advances<sup>1</sup>



## Increase in 2015 driven by global oil and commodity prices as well as local economic environments

Increase / (decrease) in adjusted<sup>2</sup> LICs 2015 vs. 2014, by region (\$m)



1. 2013-15 numbers restated for the impact of a portfolio of customers in Latin America which was transferred from CMB to RBWM in the first half of 2015. Average balances calculated using 5-point average. Balances in Brazil were transferred to held-for-sale in 2Q15

2. Numbers on an adjusted basis computed by adjusting reported results for the effects of foreign currency translation differences and significant items

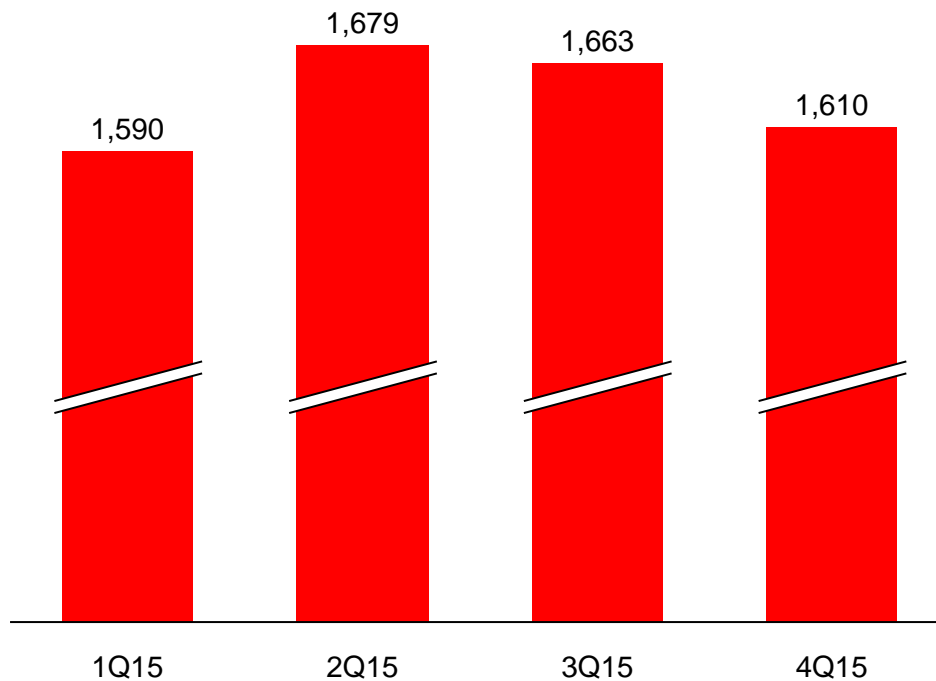


# Cost

CMB made good progress on key cost management actions in 2015

## 2Q15 actions begin to stabilise and reduce cost base

CMB adjusted operating expenses (\$m)



## Cost management actions

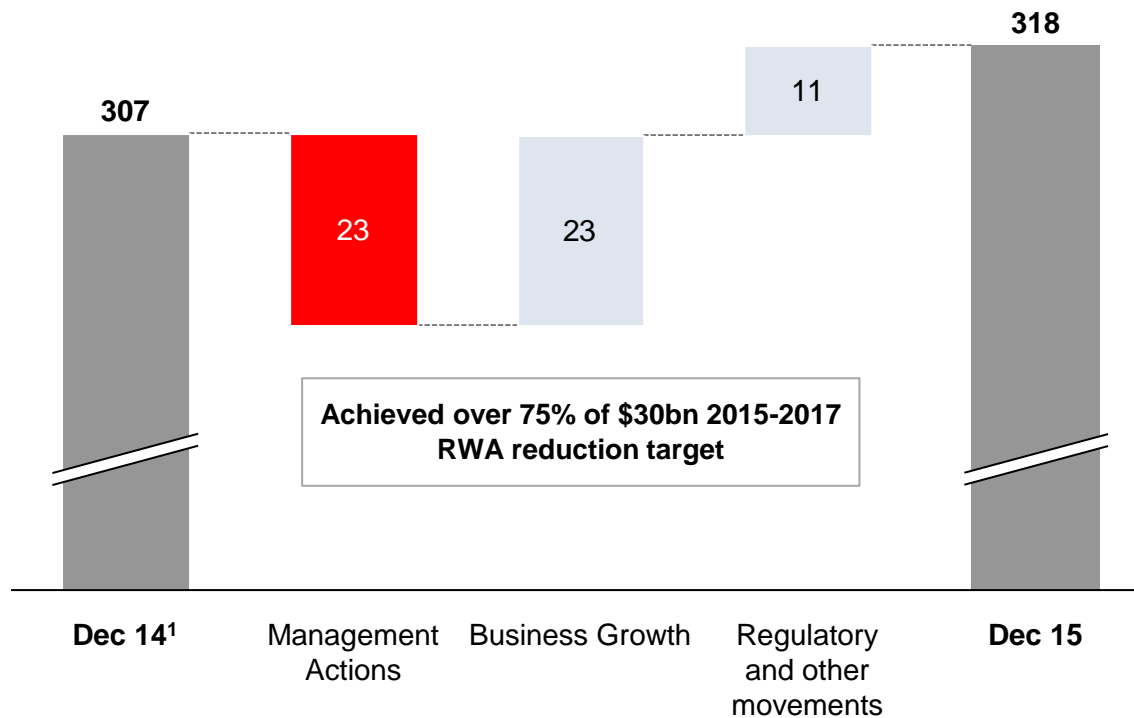
- Actions taken to achieve more than \$100m cost savings towards our \$200m target
- Rationalised RM coverage based on client needs
- Simplified management and organisation structure and reduced head office support
- Optimised end-to-end processes, e.g., credit, customer onboarding, and trade finance
- Centralised and reduced administrative tasks to free up time for relationship managers
- Managed reduction of discretionary expenses
- Target positive Jaws, whilst continuing to invest in Global Standards and key growth initiatives

# RWA management

\$23bn of managed RWA reduction in 2015 – negligible impact on revenue

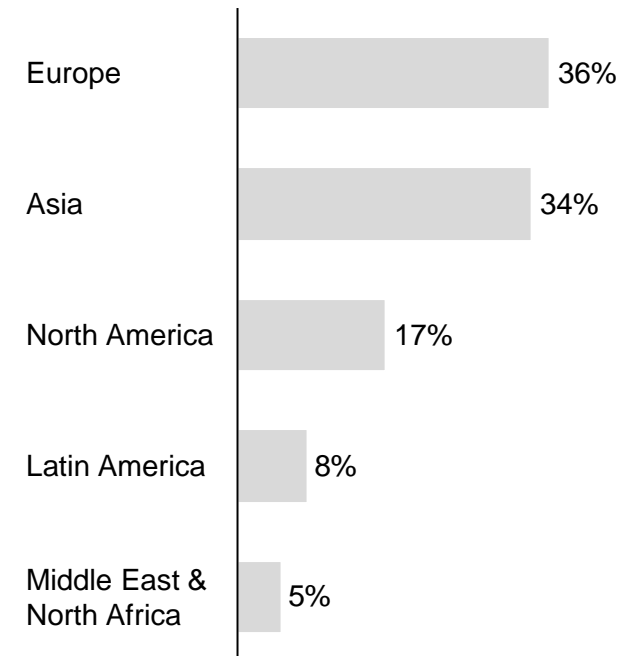
## RWA management alongside growth and regulation

RWAs excluding associates (\$bn)



## Majority of RWAs relate to Europe and Asia

Regional RWA distribution, excluding associates (% of total)



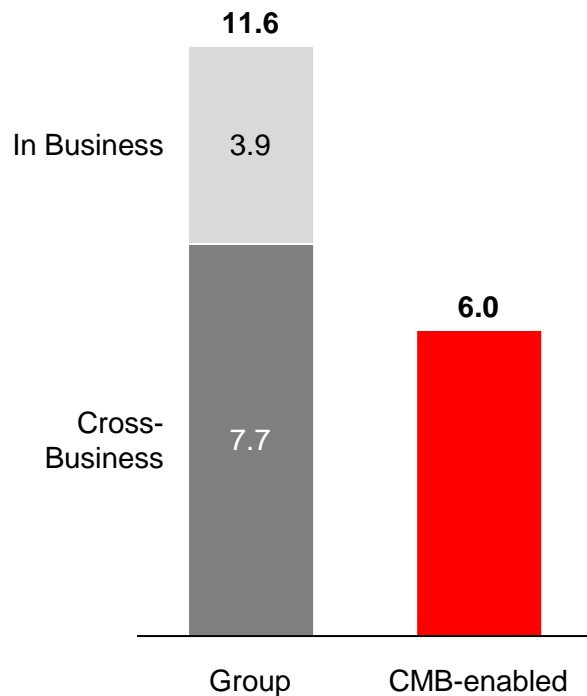
1. Numbers presented on a constant currency basis

# International Network

CMB is central to the Group's revenue synergies

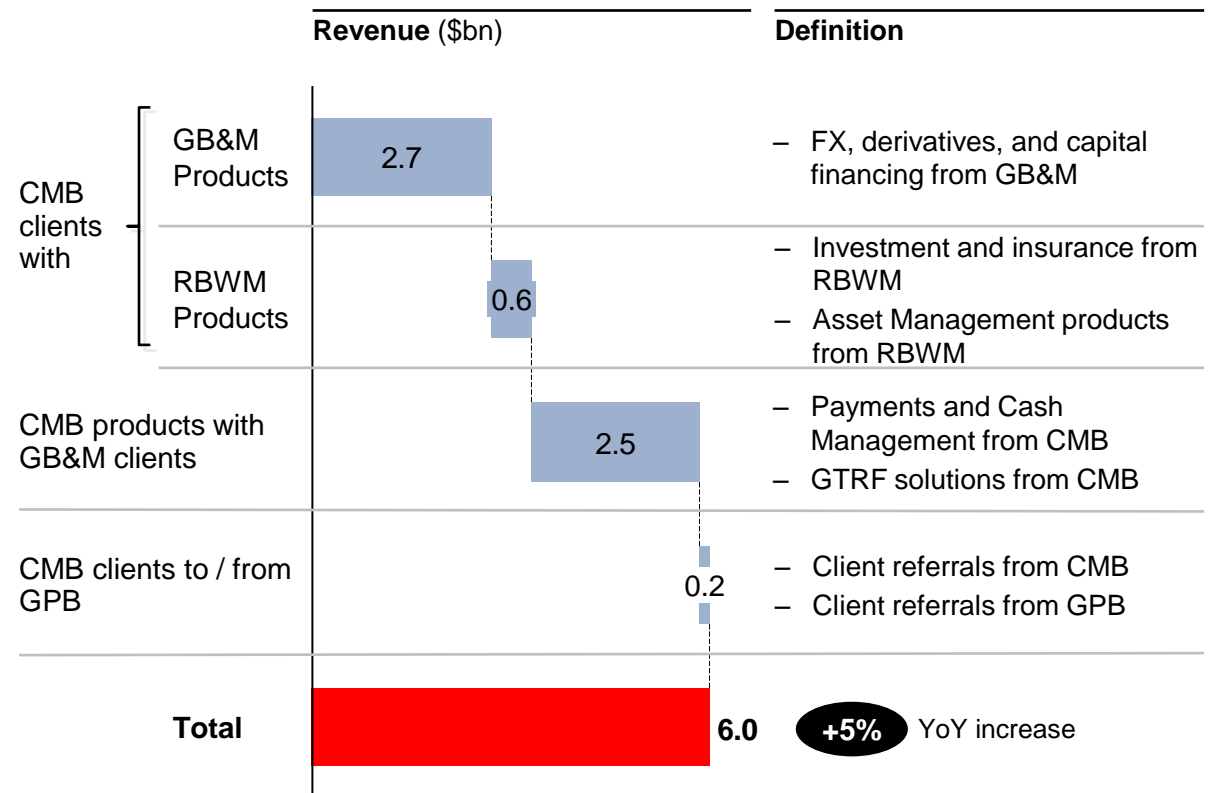
**Collaboration with CMB accounted for over half of the Group's revenue synergies**

Revenue synergies 2015 (\$bn)



**CMB-enabled revenue synergies grew 5%**

Revenue synergies with CMB clients and products 2015 (\$bn)

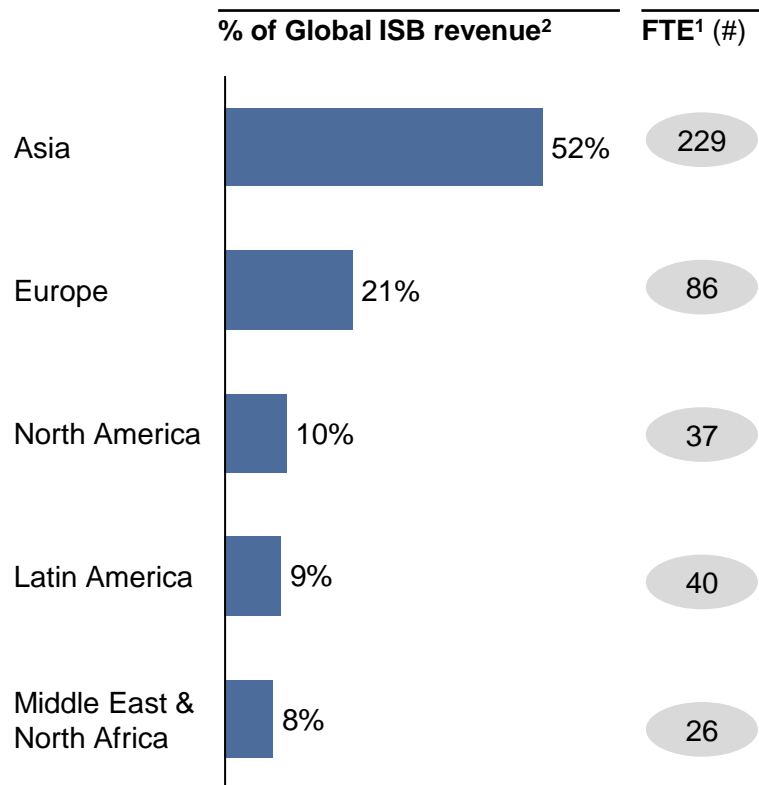


# International Network

International Subsidiary Banking network – supports clients as they expand globally

**International Subsidiary Banking delivered c.12% revenue growth from c.400 RMs<sup>1</sup> across 44 markets**

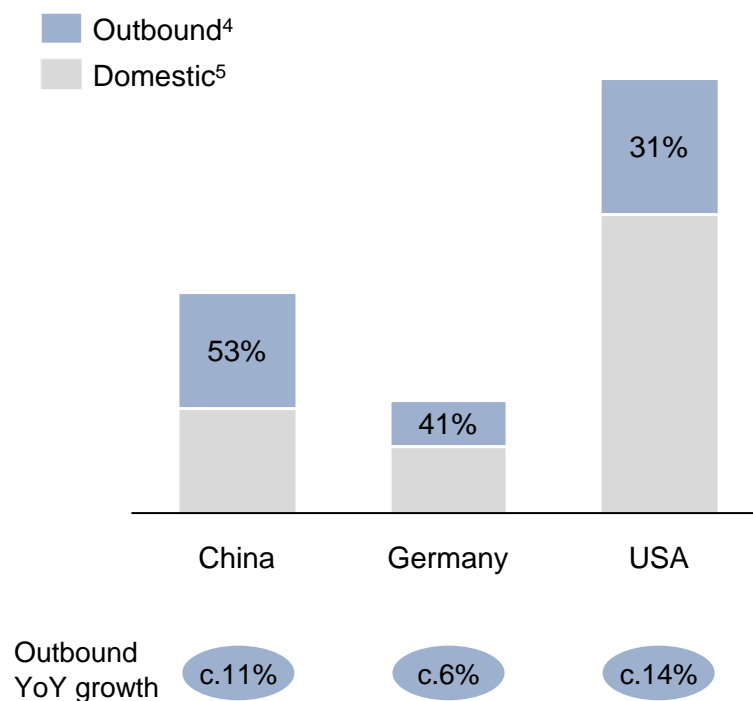
**ISB by region 2015**



**Globally ISB revenues grew c.12% YoY**

**CMB's cross-border revenue driven by clients headquartered in key hubs**

**Corporate client revenue<sup>3</sup> by selected markets 2015**  
(% of managed client revenue)

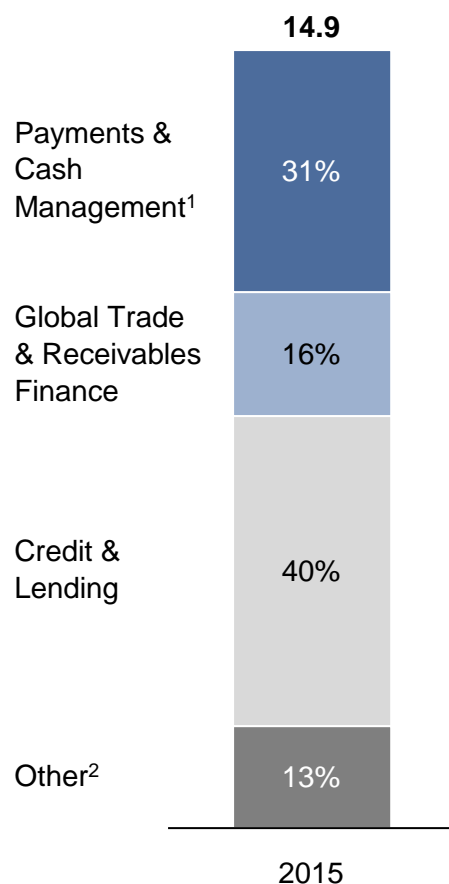


1. As at 31 December 2015. Dedicated ISB RMs only. A number of ISB clients are managed by non-dedicated RMs  
 2. ISB inbound revenue comprising revenue from all international subsidiaries of corporate clients delivered through both dedicated ISB RMs and other RMs where dedicated ISB coverage is not available. Internal HSBC client data; excludes Business Banking and Other  
 3. Internal HSBC client data; excludes Business Banking and Other. Revenue relating to clients headquartered in selected markets regardless of where booked. China excludes Hang Seng  
 4. Outbound refers to any client revenue booked outside the client's "home" country, i.e., booked in the country of the client's subsidiary  
 5. Domestic revenue refers to revenues of clients headquartered in-country. Excludes inbound revenues from clients headquartered in other countries

# International Network

PCM and GTRF – helping CMB’s clients globalise

## CMB revenue as a % of total (\$bn)



## Transaction banking core to revenue and CMB’s strategy

**Payments & Cash Management**

- PCM revenue up 3% YoY reflecting average deposit growth (+8% YoY)
- Significantly increased client mandates won (+29% YoY)
- Extended the Corporate Cards proposition into 6 additional countries, including ASEAN markets
- Continued roll-out of HSBCnet mobile app, available in 34 markets
- Recognised in *Euromoney’s* Global Cash Management Survey as:
  - Best Global Cash Management Bank for Corporates for fourth successive year
  - Best Domestic Provider in 29 countries, including for the first time in the UK

**Global Trade & Receivables Finance**

- Resilient revenue performance (down 2% YoY) despite commodity prices and challenges in world trade
- Focused on structured trade finance, with investment supporting growth in average Receivables Finance balances of 12% YoY
- Continued to outperform the market in documentary trade whilst delivering revenue growth in Open Account (+5% YoY)
- Investing in proposition and capabilities, particularly around the supply chains of our existing customers
- Recognised as the Best Overall Global Trade Finance Bank in the *Trade Finance Awards for Excellence*

1. PCM includes payments and cash management, current accounts, and savings deposits

2. Other includes Insurance & Investments and non-product revenues primarily due to gains/losses on disposals, as well as Capital Financing, Global Markets and Principal Investments. Numbers include pay aways depending on product. Remainder of revenues generated booked under GB&M

# Summary

Capitalise on Commercial Banking's network advantage to drive growth

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With more than 2 million customers in 55 countries and territories, CMB is able to engage in all aspects of the supply chain

## Targeting revenue growth above GDP

- **Grow revenue** by maximising our own global network and the networks of our clients:
    - Deepen relationships with customers overseas through International Subsidiary Banking proposition
    - Support the transactional banking needs of our existing clients to capture their buyers and suppliers
    - Continue to leverage the universal banking model to further develop client relationships in CMB and with those of the other Global Businesses
- 

## Supported by disciplined and efficient management

- Maintain **strong credit standards**, in line with historical performance, by leveraging existing client relationships
  - Deliver actions to **reduce cost base** by c.\$200m whilst improving processes and the customer experience
  - **Reduce RWAs** by c.\$30bn over 2015-17 through disciplined management and a proactive focus on returns
  - Continue to invest in **Global Standards** and deliver on our commitments
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**Photography:** Getty Images