

# HSBC Strategy Update: Return to Growth and Value Creation

Investor presentation, June 2018



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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 2017 20-F, the Reconciliations of Non-GAAP Financial Measures document and the 1Q 2018 Earnings Release which are available at [www.hsbc.com](http://www.hsbc.com).

Information in this presentation was prepared as at 10 June 2018.

## Summary of the strategy

### **Leading international bank with platform for growth and signature balance sheet strength**

- **World's leading international bank and No 1 global transaction bank**
- **Unparalleled access to high growth markets** and coverage of trade corridors between them
- **Recognised for signature balance sheet strength** – foundation for **future growth** and a **stable dividend**

### **Next phase of our strategy is to return the Group to growth, improve returns, and enhance customer and employee experience**

- After a period of restructuring, supported by normalising interest rates and synchronised economic growth, it is **time for HSBC to get back into growth mode**
- **Accelerate growth in areas of strength with higher capital efficiency**, in particular in Asia and from our international network
- Leverage our size and strength to **embrace new technologies** over a period of disruptive technological change. **Investing USD15-17bn until 2020 primarily in growth and technology while delivering positive adjusted jaws**
- **Complete the turnaround in the US**
- **Simplify the organisation** and invest in capabilities for the future

**As a result of these strategic priorities, the Group targets a RoTE of >11% by 2020 while delivering positive adjusted jaws on an annual basis and sustaining our dividend**

# Strategic priorities to deliver growth, improve returns, and enhance customer and employee experience

Strategic priorities		Financial targets
 <p><b>Deliver growth from areas of strength</b></p>	<p><b>1 Accelerate growth from our Asian franchise</b></p> <ul style="list-style-type: none"> <li>Build on strength in Hong Kong</li> <li>Invest in PRD, ASEAN, and Wealth in Asia (incl. Insurance and Asset Management)</li> </ul> <p>Be the leading bank to support drivers of global investment: <b>China-led Belt and Road Initiative</b> and the transition to a <b>low carbon economy</b></p>	<p><b>RoTE<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>&gt;11% by 2020</li> </ul>
	<p><b>2 Complete establishment of UK ring-fenced bank, increase mortgage market share, grow commercial customer base, and improve customer service</b></p>	
	<p><b>3 Gain market share and deliver growth from our international network</b></p>	
<p><b>4 Turn around our US business</b></p>	<p><b>Capital and dividend</b></p> <ul style="list-style-type: none"> <li>Sustain dividends through long-term earnings capacity of the businesses</li> <li>Share buy-backs subject to regulatory approval</li> </ul>	
 <p><b>Turnaround of low-return businesses</b></p>		<p><b>5 Improve capital efficiency; redeploy capital into higher return businesses</b></p>
 <p><b>Build a bank for the future that puts the customer at the centre</b></p>		<p><b>6 Create capacity for increasing investments in growth and technology through efficiency gains</b></p>
		<p><b>7 Enhance customer centricity and customer service through investments in technology</b></p> <ul style="list-style-type: none"> <li>Invest in <b>digital capabilities</b> to deliver improved customer service</li> <li>Expand the reach of <b>HSBC</b>, including partnerships</li> <li>Safeguard our customers and deliver industry-leading financial crime standards</li> </ul>
 <p><b>Empower our people</b></p>		<p><b>8 Simplify the organisation and invest in future skills</b></p>

1. Return on tangible equity ('RoTE') is calculated as reported profit attributable to ordinary shareholders less changes in goodwill and present value of in-force long term insurance business divided by average tangible shareholders' equity. A targeted reported RoTE of 11% in 2020 is broadly equivalent to a reported return on equity ('RoE') of 10%; assumes a Group CET1 ratio greater than 14%

# Agenda

1

**Leading international bank with platform for growth and signature balance sheet strength**

2

Next phase of strategy: Return to growth and value creation

3

Profitable growth to deliver RoTE > 11% by 2020

# Leading international bank with a platform for growth and signature balance sheet strength

## Who we are

**c.38m**  
customers served  
by **229k**  
colleagues<sup>1</sup>

**67** markets  
Covering **>90%**  
of global GDP,  
trade and capital  
flows

**#1**  
global transaction  
bank<sup>2</sup>

**#1**  
International bank  
in Asia<sup>3</sup>

**USD182bn**  
Total capital<sup>4</sup>

**Top 3**  
FTSE dividend  
payer<sup>5</sup>

## Strategic differentiators

- 1 Leading international bank**
  - >50% of Group client revenue connected to the network
  - No 1 global transaction bank, gaining market share
  - Recognised by customers as leading international bank
- 2 Unparalleled access to high growth markets**
  - Access to high growth developing markets in Asia, Middle East and Latin America
  - Investment aligned to high growth markets to deliver shareholder value
- 3 Signature balance sheet strength**
  - Strong capital, funding and liquidity position with diversified business model
  - Conservative approach to credit risk and liquidity management
  - Low earnings volatility
  - Strong capital position and intrinsic capital generation
  - Foundation for sustained dividend; strong capacity for distribution to shareholders

1. Full-time equivalent as at 31 Dec 2017

2. Based on 2017 Transaction Banking product total revenue (including Payments, Cash Management, Trade Finance, FX and Securities Services) compared with US and European peers. Source: HSBC Research

3. Based on 2017 total revenue in Asia among major international and regional banks in Asia. Peers include Standard Chartered, DBS, Citi, UOB, OCBC, Maybank and CIMB. Source: Company accounts

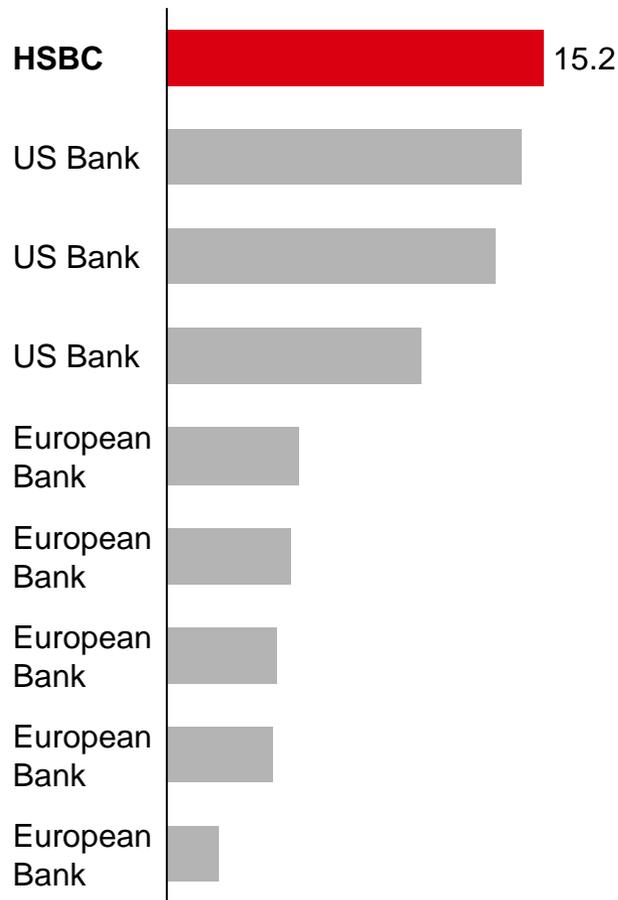
4. As at 31 Dec 2017

5. Total USD payout (2015-2017)

# 1 Leading international bank with high return transaction banking

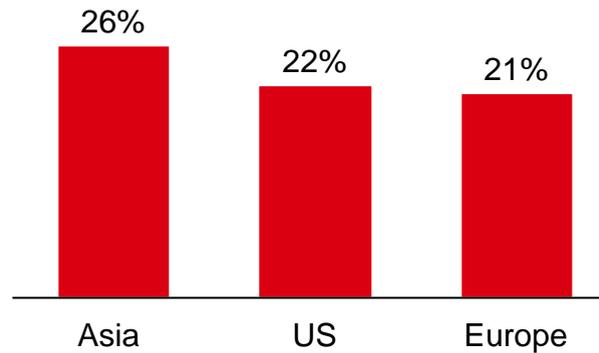
## Leading transaction banking franchises<sup>1</sup>

FY2017, revenue, USDbn

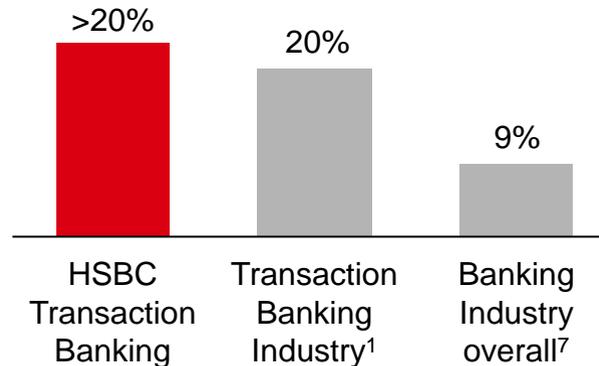


## Recognised as leading international bank

% of large corporates choosing HSBC as their lead international bank<sup>2</sup>



RoTE Transaction Banking, %



## Leading market positions



1. Revenue from GTRF, GLCM, FX and Securities Services, compared with peer equivalents.

Source: Company financial data; HSBC adjusted revenue

2. Greenwich Associates – Large Corporate Banking

3. Oliver Wyman

4. Greenwich Survey; G10 + EM countries

5. EY, based on data provided by HSBC and Tricumen

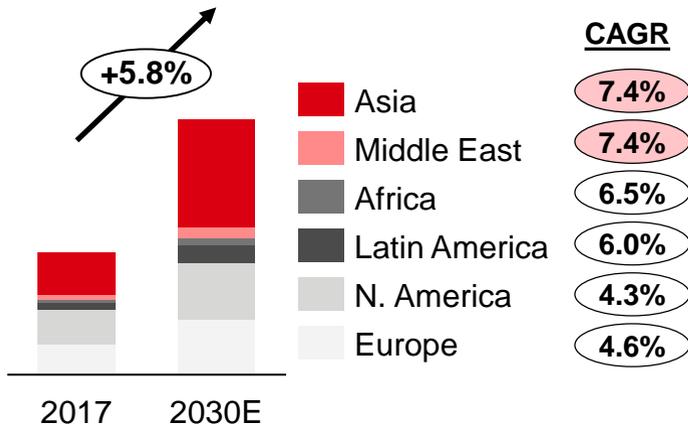
6. EM Macro; McKinsey/ Coalition

7. McKinsey

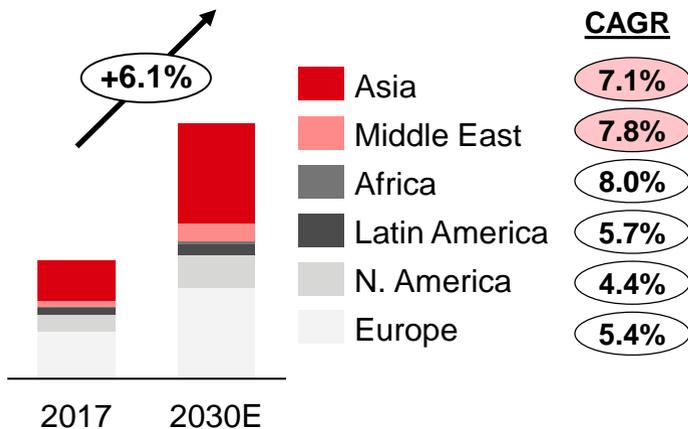
## 2 Unparalleled access to high growth markets

### Emerging markets remain drivers of global growth

#### World Nominal GDP growth, 2017-2030<sup>1</sup>



#### World Trade Growth, 2017-2030<sup>1</sup>



### HSBC has access to high growth markets

#### Asia, Market shares<sup>2</sup>

**29%** Hong Kong

**12%** PRD<sup>4</sup>  
(Share in Guangdong among foreign banks)

**5%** Singapore

**3%** Malaysia

- **Largest** among international and regional banks<sup>3</sup>
- **50% of Group** adjusted revenues and **>75% of Group** adjusted profits in 2017
- Strong foundation in **China / PRD** to support future expansion
- **#1 DCM in Asia<sup>5</sup>** (6% market share)
- **#1 in offshore RMB bond underwriting** with 28% market share<sup>6</sup>

#### Middle East, Market shares<sup>2</sup>

**8%** Saudi Arabia<sup>7</sup>

**4%** United Arab Emirates

- **Leading international bank in the Middle East<sup>8</sup>**
- **Ranked #1** in cash management and trade finance<sup>9</sup>
- Well positioned for **Saudi Vision 2030** and **Belt and Road Initiative<sup>10</sup>**
- **#1 DCM in Middle East<sup>5</sup>**

#### Latin America, Market shares<sup>2</sup>

**8%** Mexico

- **Top 5 bank in Mexico<sup>11</sup>**
- Wholesale **network across LATAM** region
- An **intra-regional strategy** focused on leveraging **cross-border flows**, including with NAFTA

1. Global Insights Jan18; World trade based on imports plus exports  
 2. Customer deposits, based on local regulators' data  
 3. Excludes Asia-Pacific based banks where majority of revenue generated in its domestic market and excludes Japanese banks  
 4. CBRC/PBOC  
 5. Dealogic, based on 2017 full year fees

6. 109 QFI applications approved by CMA  
 7. Engagement in Saudi Arabia primarily through investment in Saudi British Bank (SABB); held as an Associate of HSBC  
 8. By assets in 2017 from MENA regional bank financials  
 9. Euromoney Trade Finance Survey 2018 and Euromoney Cash Management Survey 2017  
 10. Best International Bank for BRI in 2017 Asiamoney New Silk Road Finance Awards  
 11. National Commission of Banking and Securities (Mexico)

## 2 Access to domestic growth in eight markets; network to connect trade and capital flows

	Aspiration	Characteristics	Markets	% of adj. revenue FY17
<b>Markets at scale</b>	“HSBC is considered one of the leading domestic banks”	<ul style="list-style-type: none"> <li>▪ Top 5 bank, at least 3-5% market share</li> <li>▪ At least USD1bn revenue</li> <li>▪ Universal bank</li> <li>▪ Full participation across customer segments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hong Kong</li> <li>▪ UK</li> <li>▪ Mexico</li> <li>▪ PRD</li> <li>▪ Singapore</li> <li>▪ Malaysia</li> <li>▪ UAE</li> <li>▪ Saudi Arabia<sup>1</sup></li> </ul>	<b>c.60%</b>
<b>Markets as leading international bank</b>	“HSBC is the leading international bank in the country”	<ul style="list-style-type: none"> <li>▪ Leading international bank</li> <li>▪ At least USD0.5bn revenue</li> <li>▪ Wholesale bank or Universal bank with very focused retail offering (where strategic)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Australia</li> <li>▪ Canada</li> <li>▪ China</li> <li>▪ France</li> <li>▪ Germany</li> <li>▪ India</li> <li>▪ Indonesia</li> <li>▪ US</li> </ul>	<b>c.25%</b>
<b>Markets to connect the network</b>	“HSBC is in the country to connect foreign and local customers to our network”	<ul style="list-style-type: none"> <li>▪ Targeted offering for international customers</li> <li>▪ Wholesale-focused</li> <li>▪ Branch or rep office where possible</li> </ul>	<ul style="list-style-type: none"> <li>▪ Network markets to connect trade and capital flows (e.g. Japan, Spain, Brazil)</li> <li>▪ Supporting subsidiaries of global customers</li> </ul>	<b>c.15%</b>

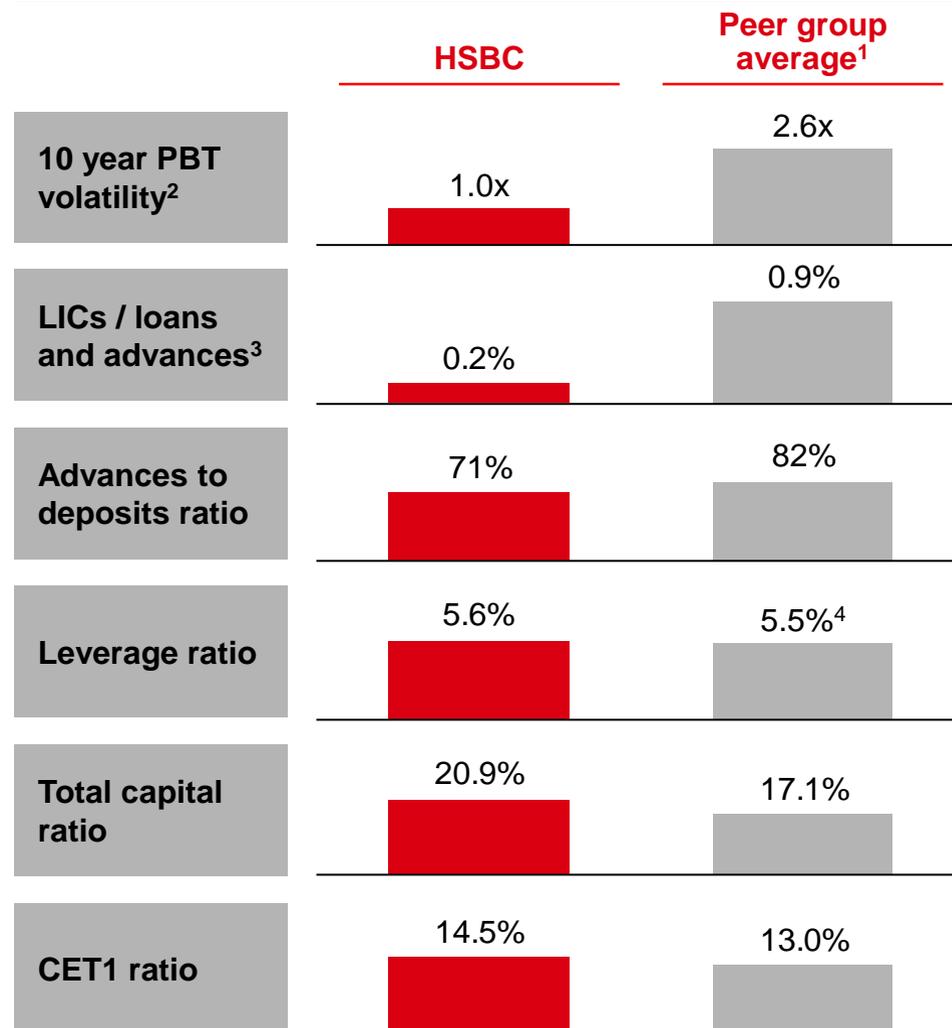
1. Engagement in Saudi Arabia primarily through investment in Saudi British Bank (SABB); held as an Associate of HSBC

## 3 Signature balance sheet strength

### Strong balance sheet, FY2017, USD (unless otherwise stated)

Balance Sheet	Customer accounts	1.4tn
	Loans & advances to customers	1.0tn
	Total equity	198bn
Capital	Total regulatory capital	182bn
	Leverage ratio	5.6%
	Total capital ratio	20.9%
Funding and liquidity	Advances to deposits ratio	71%
	Liquidity coverage ratio	142%
	Liquid asset buffer	>500bn

### Low-risk model with stable earnings, 2017



Source: HSBC and peers' public filings, Bloomberg, Factset

1. Average calculated based on 2017 published figures by the following peers: Barclays, BNP, Citi, DBS, Deutsche Bank, ICBC, Itau, JP Morgan, Santander, Standard Chartered, BoAML; ICBC not included in CET1 ratio

2. Calculated as range of reported PBT divided by average reported PBT from 2008 to 2017

3. Represents gross loans and advances to customers

4. Leverage ratio not disclosed by ICBC and Itau

# Agenda

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Leading international bank with platform for growth and signature balance sheet strength

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**Next phase of strategy: Return to growth and value creation**

3

Profitable growth to deliver RoTE > 11% by 2020

# Completing period of transformation; platform for growth

## Transformation since 2011

- **Divested or exited 110 businesses and geographies**, reducing Group footprint from 87 countries to 67
- **Reduced Risk Weighted Assets** by USD349bn or 29%<sup>1</sup>
- **Globalised the organisation** around 4 Global Businesses, supported by Global Functions
- Introduced robust **financial crime risk management** capabilities
- Invested USD7bn “Costs to Achieve” to realise **cost efficiencies** of USD6.1bn p.a. from our global platform and built **digital capabilities**
- **Shifted business to Asia** and faster-growing markets with Asia representing **c.50% of Group revenue and c.75% of Group profits**<sup>2</sup>
- **Strengthened network** to support global trade and capital flows
- **Demonstrated ability to execute**

## Next phase of strategy: Return to growth and value creation



Growth

*Deliver growth from areas of strength*



Turnaround

*Turnaround of low-return businesses*



Customer

*Build a bank for the future that puts the customer at the centre*



Our People

*Empower our people*

- 1 Accelerate growth** from our **Asian franchise**, and **Insurance and Asset Management** in Asia  
Be the leading bank to support drivers of global investment: **China-led Belt and Road Initiative** and the transition to a **low carbon economy**
- 2 Complete establishment of UK ring-fenced bank**, **increase mortgage market share**, **grow commercial customer base**, and **improve customer service**
- 3 Gain market share and deliver growth** from our **international network**
- 4 Turn around our US business**
- 5 Improve capital efficiency**; redeploy capital into higher return businesses
- 6 Create capacity for increasing investments in growth and technology** through **efficiency gains**
- 7 Enhance customer centricity and customer service** through **investments in technology**
  - **Invest in digital capabilities** to deliver improved customer service
  - **Expand the reach of HSBC**, including partnerships
  - **Safeguard our customers and deliver industry-leading financial crime standards**
- 8 Simplify the organisation and invest in future skills**

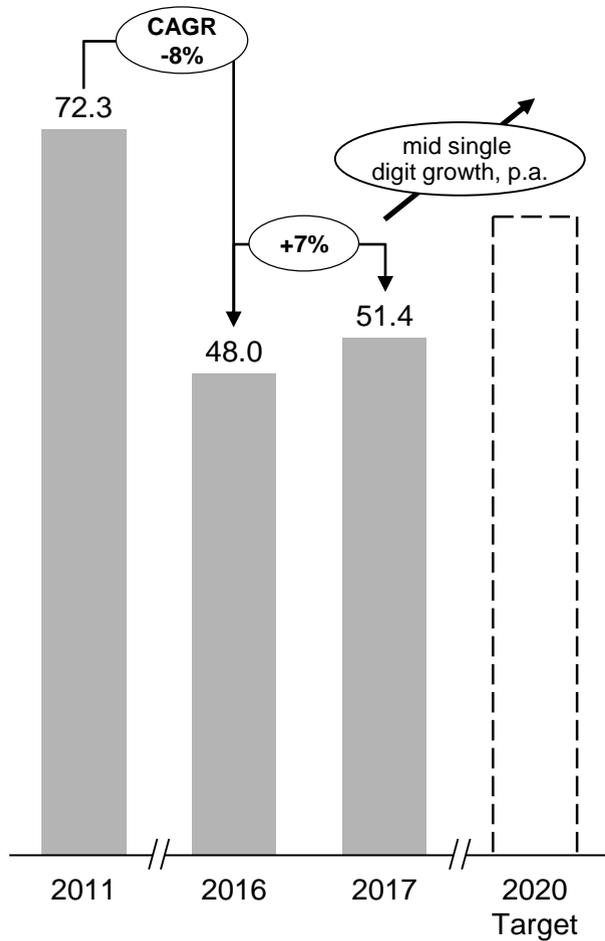
1. Period 2015-17

2. Adjusted basis

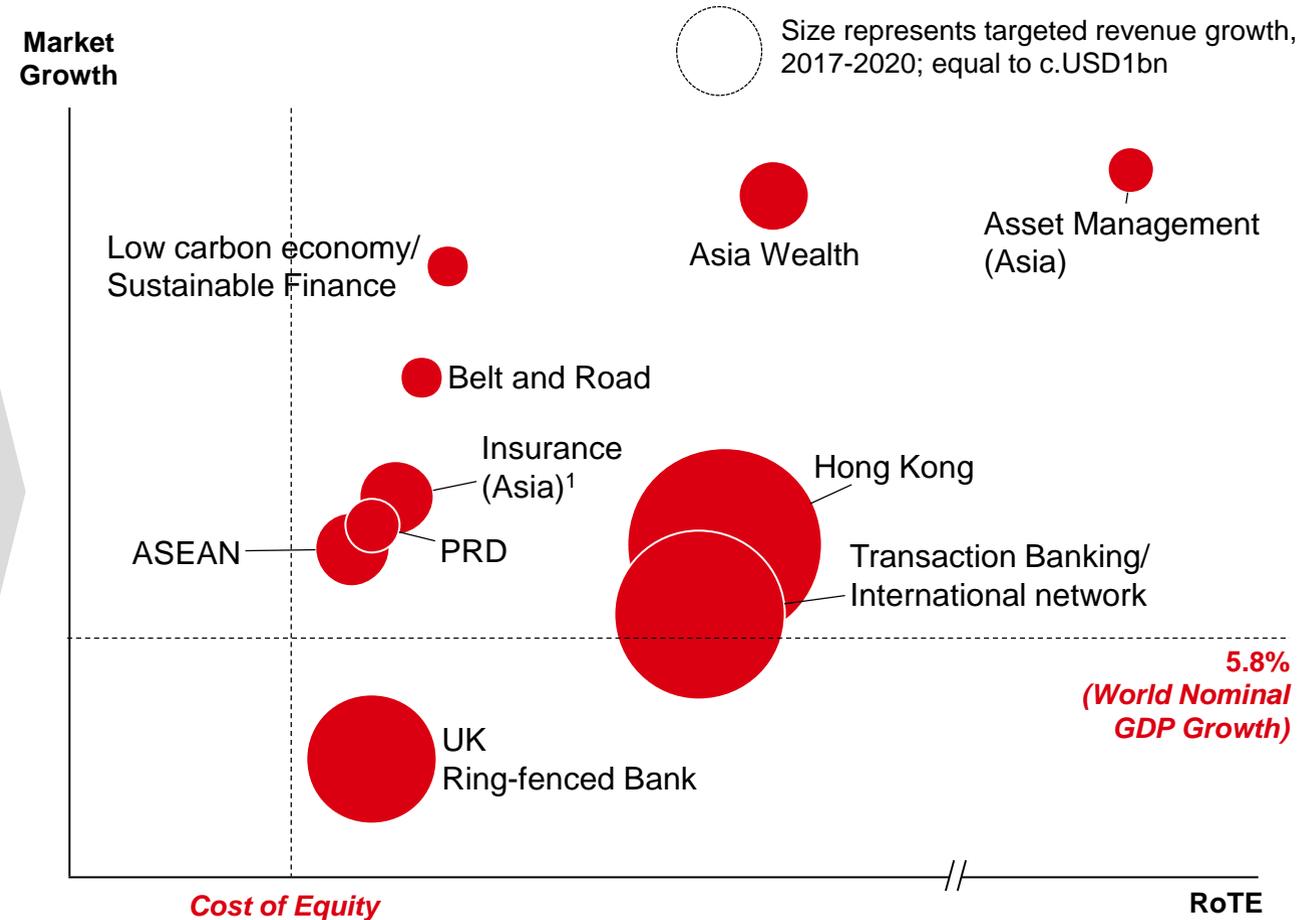


# 1-3 Targeting revenue opportunities in high growth areas with returns well above cost of equity

Revenue (reported), USDbn, 2011-2020



Targeting revenue opportunities in high growth areas with returns well above cost of equity



1. ROE including PVIF



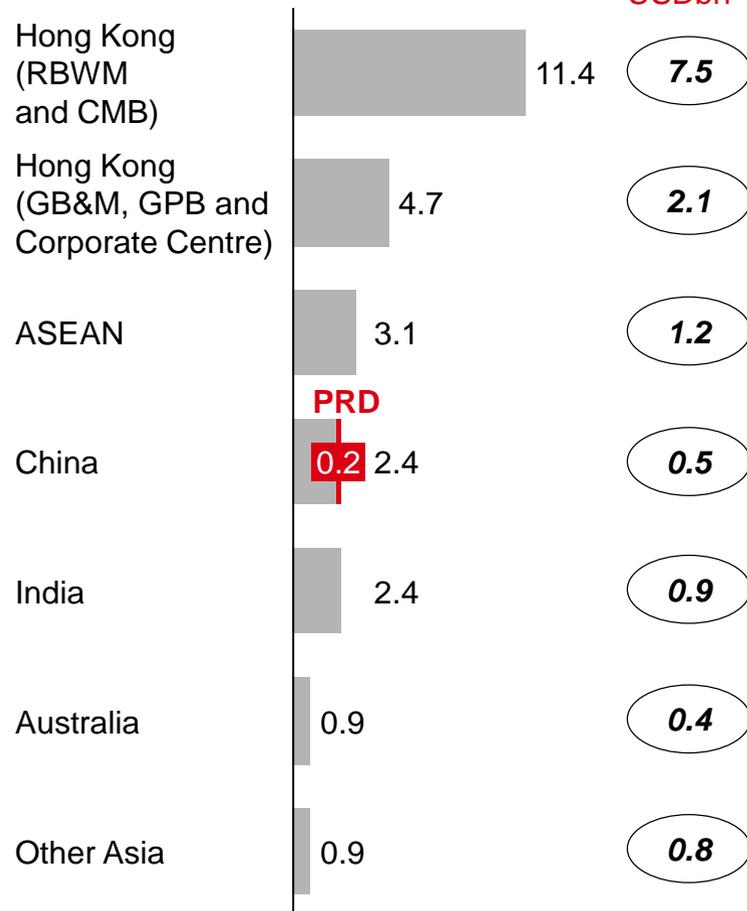
# 1 Accelerate revenue growth in Asia

■■■ >3bn 
 ■■□ >1bn 
 ■□□ >0.2bn

## Franchise in Asia (reported, ex BoCom)

Revenue, 2017 USDbn

PBT, 2017  
USDbn



## Opportunities and areas of investment

Targeted revenue growth by 2020

USD

- A Build on strength in Hong Kong**

■■■
  - Capture growth in targeted segments
  - Enhance customer experience
  - Capitalise on China outbound investments
  
- B Develop a leading business in the Pearl River Delta**

■□□
  - Serve emerging middle class
  - Facilitate industrial up-grade and cross-border connectivity
  - Expand new business capabilities by further developing technology in PRD
  
- C Build leading Wealth Management business**

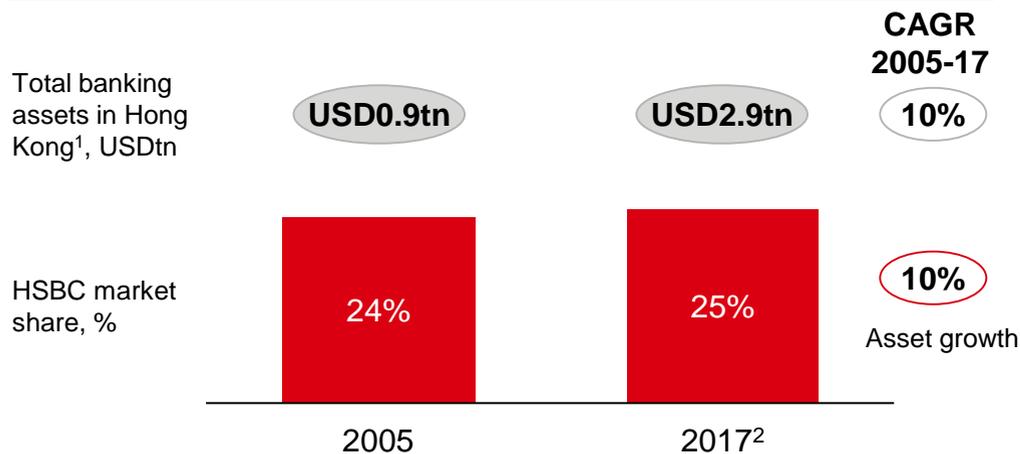
■■□
  - Capture growth in financial wealth in Asia
  - Build leading wealth business, particular focus on Greater China and ASEAN
  - Grow insurance to address the protection gap
  - Enhance Asset Management to serve retail / institutional clients
  
- D Expand our business in ASEAN**

■□□
  - Continue to build regional product and coverage expertise to capture opportunities from Singapore's role as a regional hub for treasury and wealth
  - Support intra-ASEAN business corridor flow
  - Capture infrastructure opportunity (including BRI)
  - Targeted digital investments to enhance position



# 1A Build on strength in Hong Kong

## HSBC's market share has been steady over the years...



## ...with leading positions across major products<sup>3</sup>

<b>Customer accounts</b>	#1	<b>Mortgages</b>	37%	#1
<b>Loans and advances to customers</b>	#1	<b>Credit cards</b>	>40%	
<b>DCM</b>	#1	<b>Trade finance</b>		#1

## Opportunities and areas of investment

<b>Capture growth in targeted segments</b>	<ul style="list-style-type: none"> <li>▪ Grow millennials client base to build customer generation for the future</li> <li>▪ Enhance proposition for Non Resident Chinese customers</li> <li>▪ Invest in insurance for sustainable market share growth</li> </ul>
<b>Enhance customer experience</b>	<ul style="list-style-type: none"> <li>▪ Develop digital payment ecosystem</li> <li>▪ Build new capabilities in Business Banking</li> <li>▪ Explore partnerships to launch innovative solutions</li> </ul>
<b>Capitalise on China outbound investments</b>	<ul style="list-style-type: none"> <li>▪ Capture new growth opportunities with China, in particular:                             <ul style="list-style-type: none"> <li>– Belt and Road Initiative</li> <li>– International activities of Chinese corporates and financial institutions</li> <li>– Greater Bay Area / Pearl River Delta</li> <li>– Sustainable Finance/ Hong Kong as Green Financial Centre</li> <li>– RMB Internationalisation</li> </ul> </li> </ul>

1. HKMA, Annual Report 2017  
 2. 25% asset market share; 29% deposit market share  
 3. HKMA announcements, Bloomberg, mReferaln 2017 and HSBC internal data; HSBC including Hang Seng. Mortgages - new sales count, legal mortgages; Loans – loans for use in Hong Kong; DCM - G3 currency bonds, Asia excluding Japan

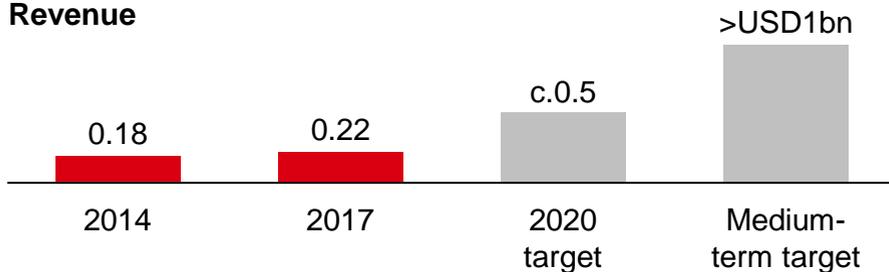


# 1B Develop a leading business in the Pearl River Delta (PRD)

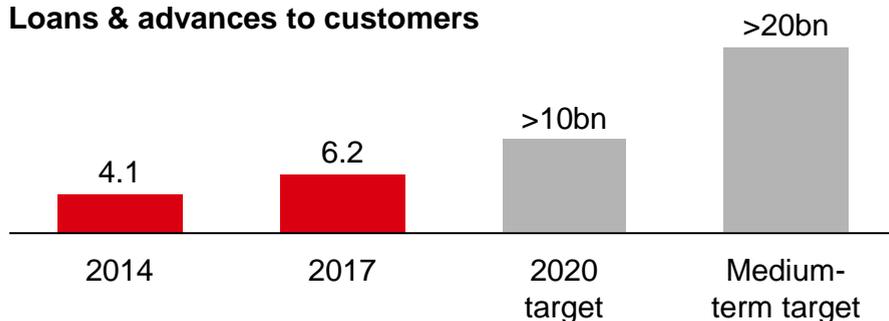
## HSBC's business in PRD has grown steadily

USDbn

### Revenue



### Loans & advances to customers



- **First JV securities company:** majority-owned by a foreign bank in China, opened for business in December 2017
- **Headcount:** >700 FTE increase in 2017; more than doubled since project launched in June 2015
- **Credit cards:** Launched first HSBC sole-branded credit cards in December 2016; total cards in force number: c.280k in PRD as of April 2018

## Opportunities and areas of investment

### Emerging Middle Class

- Grow and enhance distribution network / access to customers
- Broaden product offerings and accelerate quality asset growth
- Capture cross-border wealth flows, e.g. opportunities from remittances, Shenzhen-Hong Kong Stock Connect

### Industrial up-grade / cross-border connectivity

- Enhance corporate coverage to capture growth from international supply chains and industrial upgrading
- Broaden client base and drive for deposit-heavy product mix

### New business capabilities

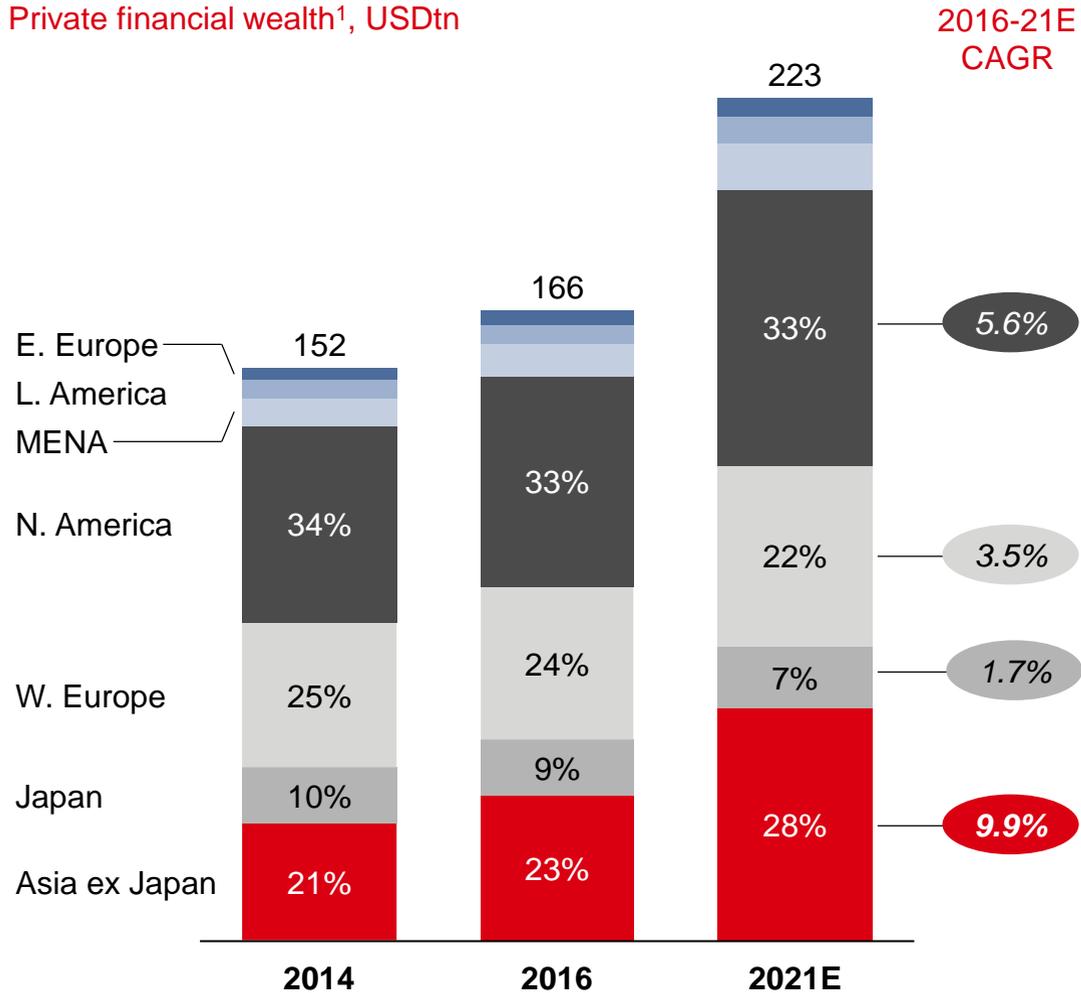
- Fully leverage capital market capabilities of new Securities Joint Venture HSBC Qianhai Securities
- Expand Global Markets capabilities arising from policy liberalisation



# 1C Asia expected to be the largest creator of wealth

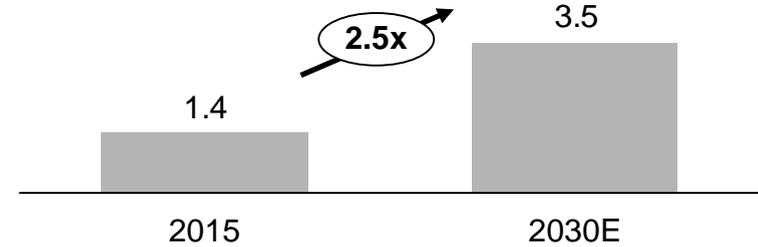
## Rising wealth in Asia

Private financial wealth<sup>1</sup>, USDtn



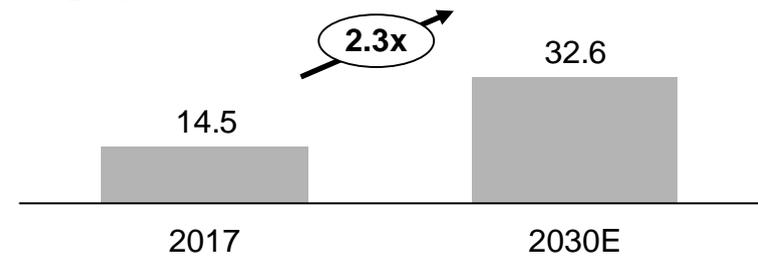
## Middle class in Asia<sup>2</sup>

# of people, bn



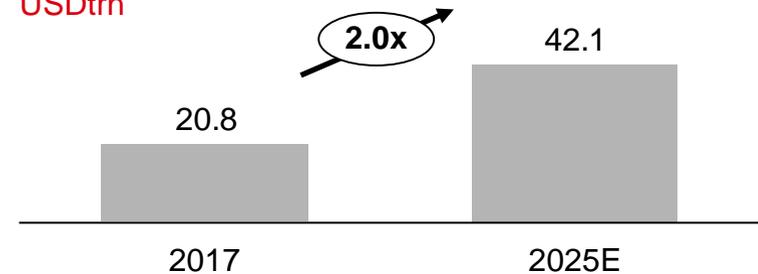
## Average household annual income<sup>3</sup>

USD'000



## HNWI financial wealth<sup>4</sup>

USDtrn



1. BCG Global Wealth 2017  
 2. Global Economy and Development: The Unprecedented Expansion of the Global Middle Class, 2017  
 3. Euromonitor, disposable income by household  
 4. Capgemini: Asia Pacific Wealth Report, 2017

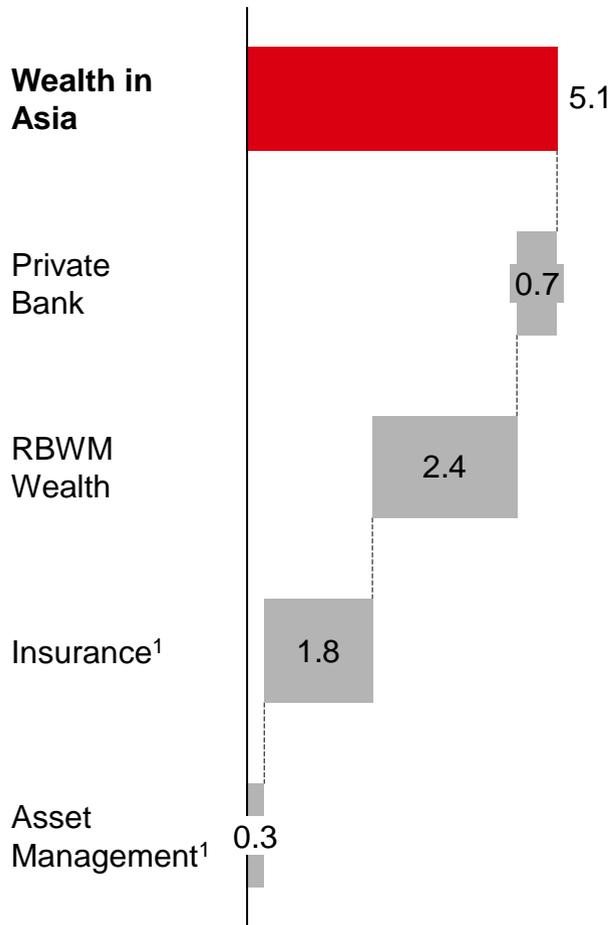


# 1C HSBC is well-positioned to build a leading wealth business in Asia

■■■ >USD1bn 
 ■■□ >0.4bn 
 ■□□ >0.1bn

## Wealth in Asia already a USD5.1bn business for HSBC today

Revenue (reported) in USDbn, Asia, 2017



## Opportunities and areas of investment

## Targeted revenue growth by 2020

USD

### Wealth management (across Private Bank and RBWM)

■■□

- **Hong Kong:** Increase share in UHNW segment across Greater China
- **Singapore:** Accelerate client coverage / RM growth across all segments including ASEAN new-to-bank / referred clients, and Chinese offshore wealth
- **China:** Primary focus on Jade build-out underpinned by investment in RM and product platform
- **Product:** Leverage transactional banking, digital, discretionary portfolio management and lombard lending

### Insurance

■■□

- Develop product range to address the needs of new wealth customers, and strengthen front line
- Deepen existing insurance specialist coverage, and open up new distribution channels
- Exploring opportunities in mainland China

### Asset management

■□□

- Leverage coverage of GB&M / CMB clients
- Increase share of wallet and net new money growth via RBWM / GPB customers
- Growth in Alternatives and Sustainable Investing
- Exploring opportunities in mainland China

1. Includes manufacturing revenue only



## 2 UK presents an opportunity for growth after successful completion of ring-fencing

■■■ >USD1bn 
 ■■□ >0.4bn 
 ■□□ >0.1bn

**Targeted revenue growth by 2020**

### Ring-Fenced Bank setup close to completion

- HSBC is **positioned for sustainable growth**; 14% deposit market share<sup>1</sup> and a 7% mortgage market share<sup>2</sup>
- **UK ring-fencing remains on track** ahead of the July 2018 legal separation - six months ahead of the regulatory deadline:
  - On the 21 May 2018, the High Court approved the UK Ring-Fenced Transfer Scheme
  - **More than 95%** of technical and IT related **transfers have already been successfully completed**

### Opportunities and areas of investment

**Retail banking**

- Target **mortgage growth** (high single digit) by embedding controlled intermediary channel expansion<sup>3</sup>
- Enhancing the **multi-brand strategy** to drive growth and acquire new customers

USD



**Corporate banking**

- Leverage our unique global access to support commercial customers' **trade and overseas banking needs**
- **Improve penetration of mid market segment** through additional on-boarding capacity and renewed focus on 'fast growth cities or sectors'
- **Improve CRM and data analytics** to drive better value segmentation of clients (in particular Business Banking)



**Digital and customer satisfaction**

- Target a consistent **top 3 position in the UK for customer satisfaction**, via journey improvements, digital investment and simplification
- Capitalise on AI, Data analytics and Open Banking to **develop immersive customer experiences** (e.g., Connected Money app)
- Grow collaboration opportunities across business lines and brands



1. Source: CACI Retail Finance Benchmark, 2017  
 2. Source: Council of Mortgage Lenders (CML), 2017  
 3. No change in risk appetite



# 3 Proven ability to grow the business and gain market share; invest for growth from our international network

■ ■ ■ >USD1bn ■ ■ □ >0.4bn ■ □ □ >0.1bn

## Investments are delivering

		2015	2017	
Global Trade and Receivables Finance	Trade Finance rank <sup>1</sup>	#1	#1	✓
	Hong Kong market share <sup>2</sup>	10.8%	13.8%	↑
Global Liquidity and Cash Management	Average GLCM balances	c\$470bn	c\$530bn	↑
	Hong Kong market share <sup>3</sup>	22.8%	26.3%	↑
FX	FX corporates rank <sup>4</sup>	#1	#1	✓
	FX institutional rank <sup>4</sup>	#7	#3	↑
Securities Services	Assets under custody	\$6.2trn	\$7.7trn	↑
	Market share <sup>5</sup>	5.4%	5.8%	↑
	Asia rank <sup>6</sup>	#1	#1	✓

## Opportunities and areas of investment

Targeted revenue growth by 2020

### Digitise and grow Trade Finance



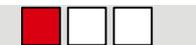
- **Transform technology and business model**, enabling simpler, safer and faster experiences for clients, and seamless communication with trade ecosystems
- **Capitalise on growth outlook** for structured trade by investing in our channel and product capabilities
- **Extend No 1 position** in both traditional and structured trade

### Strengthen global leadership position in GLCM



- **Drive sustained deposit and transaction growth** by leveraging API and cloud to transform payments, liquidity and data propositions
- **Create new products and revenue streams** - new propositions powered by machine learning, offsetting competitive pressures in traditional fees

### FX business growth



- Grow the business through the continued development of **'FX as a service' engagement model**
- **Utilise technology to deliver efficiencies and digitise the customer experience**

### Grow Securities Services business



- Evolve business by **enhancing and develop** products and services; invest in digital future
- **Grow core business with Group clients**, focus on asset managers and asset owners

1. Oliver Wyman  
 2. Hong Kong Monetary Authority  
 3. Oliver Wyman  
 4. Greenwich Survey

5. Based on AUC of Top 9 providers (BM, SS, JPM, Citi, BP2S, SG, NT, RBC, HSBC) making up c.82% of the market  
 6. Assets Under Custody (AUC), EY, based on data provided by HSBC and Tricumen



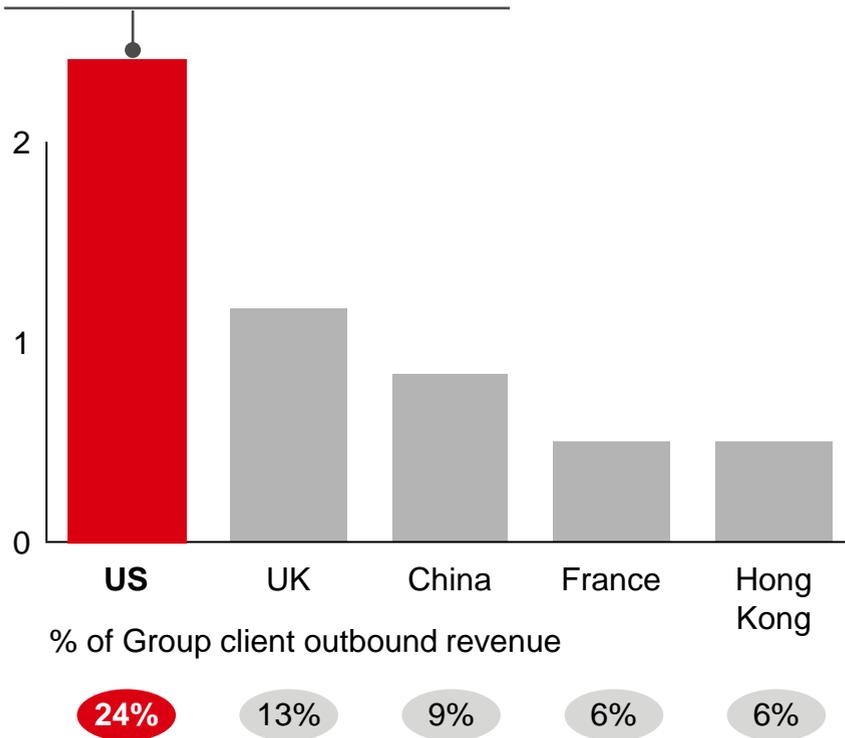
# 4 The US is the single biggest exporter of revenue to the Group and an important part of HSBC's proposition as leading international bank

## US biggest exporter of client revenue to the Group

Cross-border GB&M and CMB client revenue<sup>1</sup>, 2017, USDbn

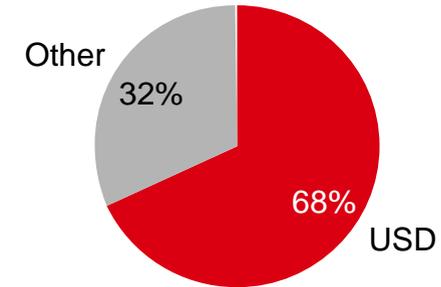
**Outbound client revenue:** client revenue booked outside of the country where client is managed

Client revenue from US-managed companies booked outside US

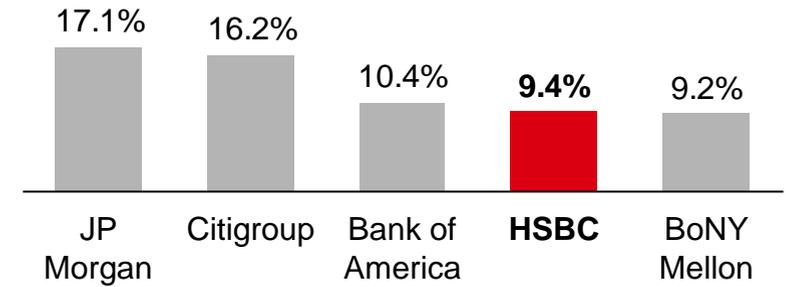


## Significant for HSBC's global franchise

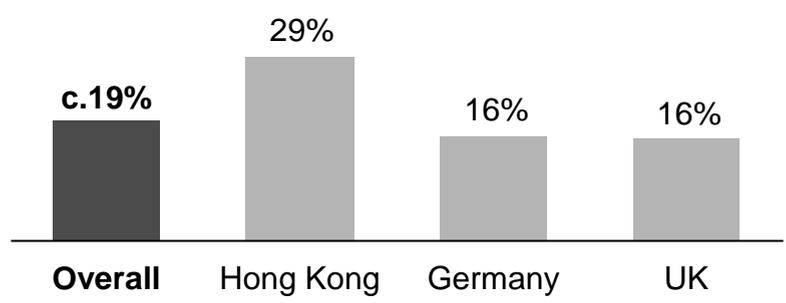
USD represents 68% of payments volume for HSBC<sup>2</sup>



HSBC top 5 cross-border USD clearer<sup>3</sup>



c.19% of HSBC custody assets denominated in USD



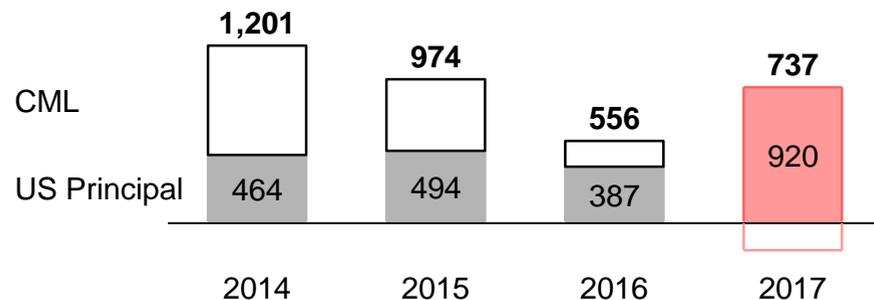
1. Client revenue is sourced from HSBC internal client MI. Client revenue excludes Business Banking and differs from reported revenue  
 2. Internal HSBC data and SWIFT  
 3. Clearing House Interbank Payments System (CHIPS)



# 4 Significant progress to date; targeted organic growth to bring scale to US platform

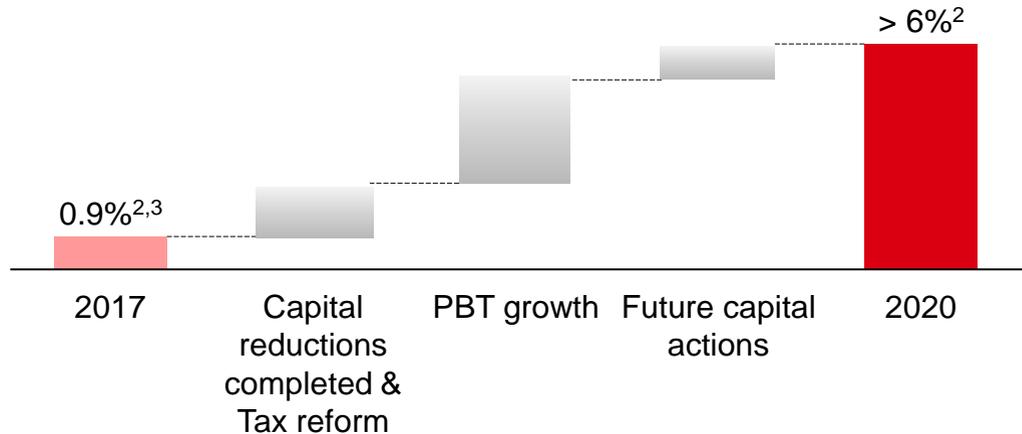
The US has made progress over the past several years...

Adjusted PBT<sup>1</sup>, USDm



...and our medium-term strategy is built on continued organic growth

RoTE<sup>2</sup>



- Completed **run-off** of the CML **legacy portfolio**; reduced receivables from USD24bn at end-2014 to USD0bn at end 2017
- Improved **RBWM** PBT, revenue and deposits; migration of >1mn customers to new core banking platform; launched **CMB** returns improvement and infrastructure rebuild
- Achieved non-objection to **US capital plan** as part of CCAR in 2016 and 2017; first return of capital to the Group (USD5.4bn) since 2006
- International client revenue**<sup>4</sup> booked in the US up c.10% YoY; US client revenue booked outside of the US (outbound) is up c.15% YoY

- Improved profitability driven by **global business organic growth** in:
  - CMB**: Targeting greater share in corporates, particularly international mid market companies and subsidiaries, through increased coverage and sector focus; supported by selected cash management and lending product expansion
  - RBWM**: Targeted growth within international segment and higher-return products and business banking
  - GBM**: Sector coverage and greater share of foreign multi-national clients in the US
- Further **efficiency gains** to help fund reinvestments; invest in innovation leveraging Group **technology solutions**
- Return to regular dividend payments to Group**

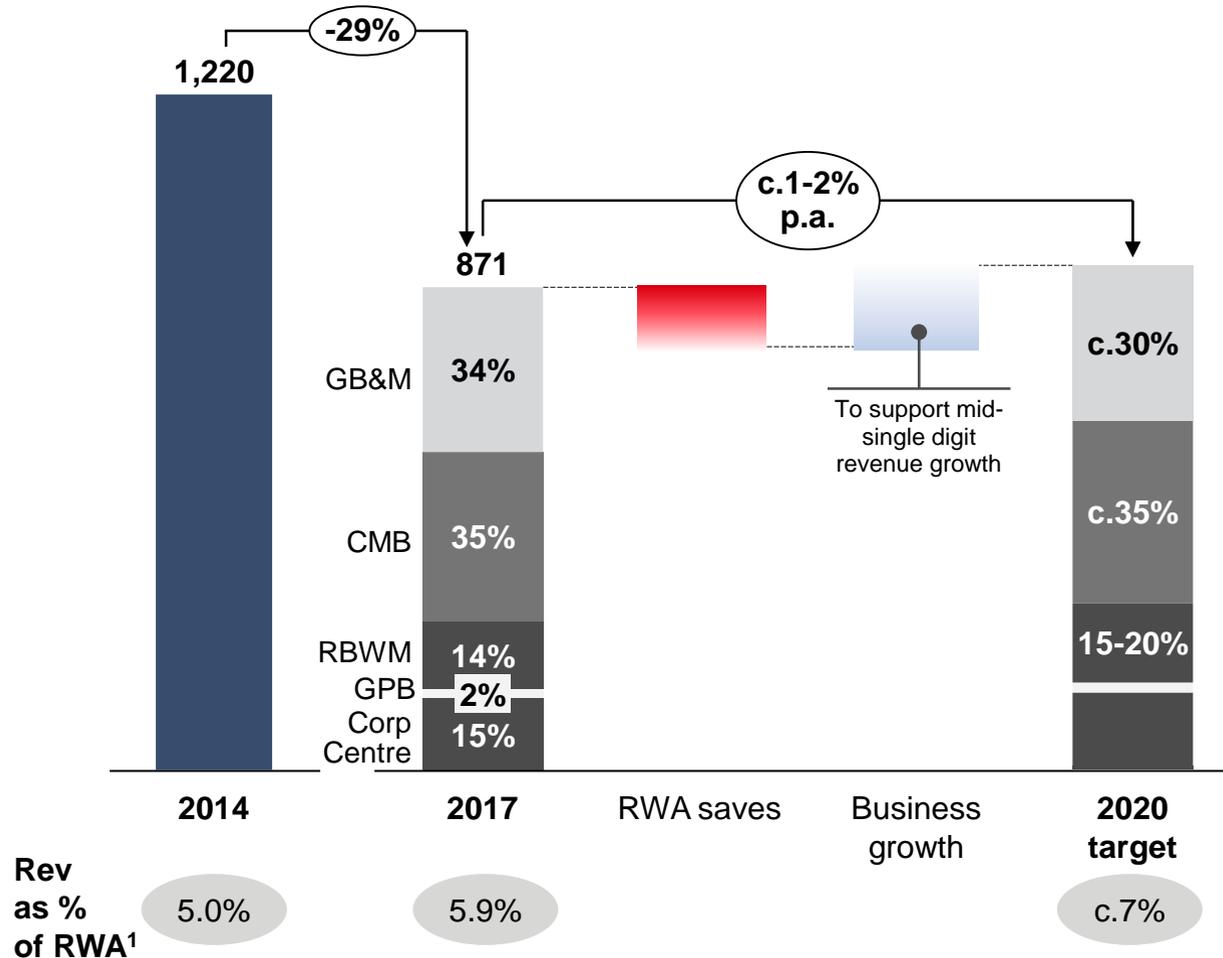
1. US geographic basis  
 2. HSBC North America Holdings ('HNAH') legal entity basis. Reported RoTE for 2017 was -4.3% and included a 5.2% adverse impact from the one time write down of deferred tax assets due to US Tax Reform  
 3. Principal Business RoTE for 2017 excluding the one time write down of deferred tax assets due to US Tax Reform, CML and deferred tax assets disallowed for capital purposes would be 2.2%  
 4. Revenue from international clients is derived from an allocation of Adjusted revenue based on internal management information. International clients are businesses and individuals with an international presence; YoY growth refers to 2017



# 5 HSBC has a strong track record in delivering RWA reductions while growing revenue; plans to further improve capital efficiencies

## RWA mix by Global Business

Group RWAs, USDbn



## Initiatives

- RoTE implementation**
  - Embed RoTE in Global Businesses and operating entities
  - Link incentives to value creation
- Distribution**
  - Develop distribution channel and increase distribution for wholesale lending
  - Free up capital/balance sheet capacity and deploy to higher return business/clients
- RWA optimisation**
  - Operating entity RWA optimisation
  - Improve global booking model

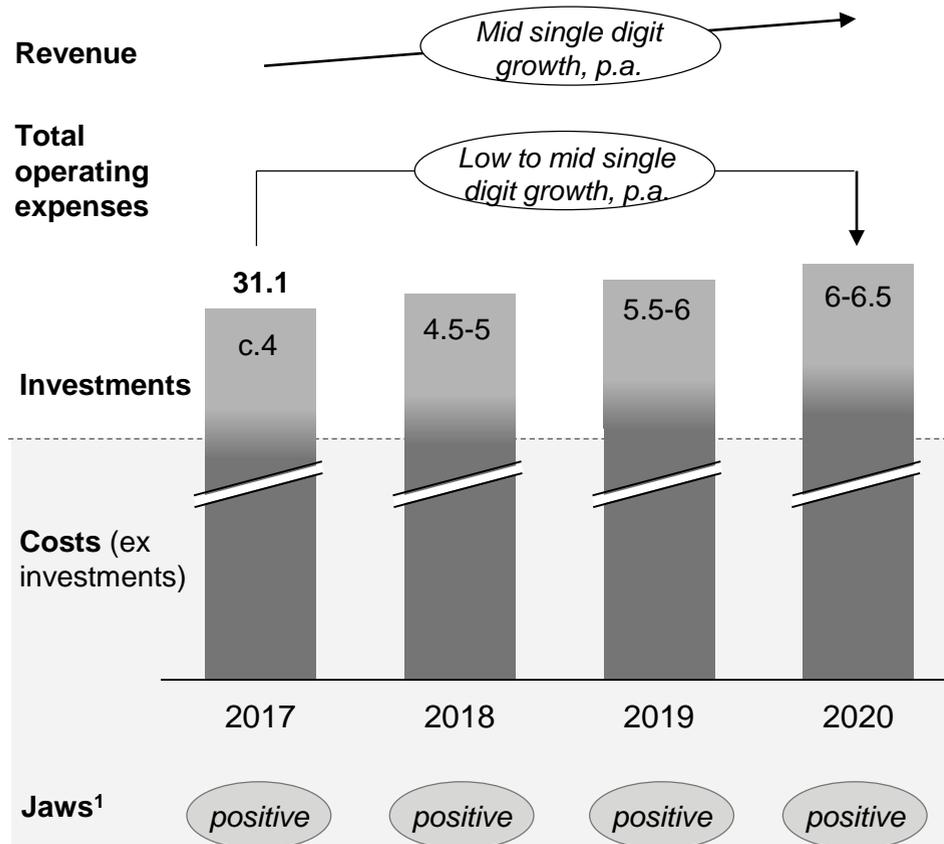
1. Calculated using reported revenue and reported average RWAs. The increase between 2014 and 2017 includes the RWA impact of the 2016 change in the regulatory treatment of our investment in BoCom



## 6 Maintain strong cost discipline, deliver positive jaws and create capacity for increased investment

Create investment capacity and deliver overall positive adjusted jaws on a full year basis

Adjusted basis, USDbn



### Investments of USD15-17bn (2018-2020)

- Ability to invest is a prerequisite for the Group's long-term competitiveness
- Investments aligned to strategic priorities
- Managed through a **strong approval and prioritisation framework** to deliver payback in the near to medium term
- Ability to respond to changes in economic environment and revenue development
- No CTA<sup>2</sup> in strategic plan; all investments to be made from within the cost base of the Group

### Strong cost discipline and control to create investment capacity

- Implement strong cost discipline and control
  - Continue to benchmark our costs with the market
  - Absorb inflation through productivity gains
  - Maintain focus on improving business productivity
- Maintain positive (adjusted) jaws on an annual basis each year 2018-2020

1. Adjusted, on an annual basis  
2. Costs to Achieve



# 7 Investing in growth and technology; managed through robust investment framework

Investment categories	Description	Investment criteria	Examples of specific initiatives	Share of investment
<b>Near term investments in core business</b>	<ul style="list-style-type: none"> <li>Investments to grow, improve customer service and defend competitive position of established businesses in short term</li> </ul>	<ul style="list-style-type: none"> <li>Positive Return on Investment in financial year<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Investments across Global Businesses to grow and improve customer service across core businesses (e.g. hiring Wealth RMs in Hong Kong)</li> </ul>	<div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; padding: 5px;">c.2/3</div>
<b>Medium term investment in core business and new opportunities</b>	<ul style="list-style-type: none"> <li>Investments to grow revenue or increase returns in the medium term (e.g., selected business turnaround, product enhancements)</li> <li>Investments in new opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Positive Return on Investment over 2-5 years<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Transaction Banking platform transformation (e.g. build new payment and liquidity platform)</li> <li>Turnaround of existing businesses (e.g. US)</li> <li>Investing in expanding our businesses (e.g. PRD)</li> </ul>	
<b>Investment in productivity programmes and core infrastructure</b>	<ul style="list-style-type: none"> <li>Improve operational efficiency in order to lower cost base</li> <li>Deliver robust solution design with additional franchise benefits</li> </ul>	<ul style="list-style-type: none"> <li>Positive Return on Investment broadly in financial year<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Productivity programmes (e.g. process re-design, cloud migration, use of robotics and machine learning initiatives in operations)</li> <li>Core infrastructure replacement or modernisation (e.g. US)</li> </ul>	<div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; padding: 5px;">c.1/3</div>
<b>Regulatory and mandatory investments, including service sustainability</b>	<ul style="list-style-type: none"> <li>Implement required regulatory programmes and invest in cyber security</li> </ul>	<ul style="list-style-type: none"> <li>Deliver in cost effective manner with additional franchise benefits</li> </ul>	<ul style="list-style-type: none"> <li>Implement regulatory programmes (e.g. IFRS 9)</li> <li>Strengthen capabilities to manage financial crime risk</li> <li>Increase cyber security measures</li> </ul>	
<b>Total cumulative investment over 2018-2020</b>				<b>USD15-17bn</b>

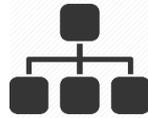
**Leverage technology to enhance customer centricity and customer service, expand the reach of HSBC and safeguard our customers**

1. P&L basis



## 8 Simplify the organisation and invest in future skills

### Reducing organisational complexity



- **Simplifying the organisation**
- **Strengthen accountability**, decision-making
- Clarify roles **within** the organisation's **matrix**

### Simplifying processes



- Improving **end-to-end processes**, e.g.
  - **Client onboarding** from 65 days to 10 (Private Banking)
  - Lending: Reduce **time to money** from up to 2 months to 1 day for SME and mid market clients
  - **Delivering more digital features faster**; 67 features delivered in 1H18 v. 22 in 1H17
- Building capabilities for continuous improvement

### Investing in training and development



- **Establishing HSBC Universities** in UK, China, Mexico, UAE, and online
- **Areas of focus:**
  - Leadership
  - Technical capability
  - Digital & Future Skills

### Streamlining governance



- **Reducing number of committees** needed to manage the business, e.g. Holdings Board committees reduced from 7 to 5
- Improving the **efficiency and effectiveness** of governance
- **Embed throughout the organisation** and for all legal entities

### A leadership encouraging the right behaviours



- A **connected leadership cadre** committed to **reinforcing our new ways of working**
- **Balanced scorecards** to incentivise the right performance and behaviours from the leadership and across the organisation

### Building a platform for future talent



- **Established HSBC Digital Solutions** to attract and develop technology talent
- Implementing **agile ways of working** across large parts of technology and business teams
- Access to **digital training and resources** allowing talent to shape and develop their own career paths
- Build a **diverse workforce**

# Deliverables for strategic priorities by 2020; continue to provide regular progress updates

Strategic priorities	Targeted outcome by 2020
<p><b>1 Accelerate growth from our Asian franchise</b></p> <ul style="list-style-type: none"> <li>Build on strength in Hong Kong</li> <li>Invest in PRD, ASEAN, and Wealth in Asia (incl. Insurance and Asset Management)</li> </ul> <p>Be the leading bank to support drivers of global investment: <b>China-led Belt and Road Initiative</b> and the transition to a <b>low carbon economy</b></p>	<ul style="list-style-type: none"> <li>High single digit revenue growth p.a. from Asian franchise</li> <li>Market share gains in 8 scale markets</li> <li>No 1 international bank for BRI</li> <li>USD100bn in sustainable financing &amp; investment<sup>1</sup></li> </ul>
<p><b>2 Complete establishment of UK ring-fenced bank, grow mortgage market share, grow commercial customer base, and improve customer service</b></p>	<ul style="list-style-type: none"> <li>Market share gains</li> </ul>
<p><b>3 Gain market share and deliver growth from our international network</b></p>	<ul style="list-style-type: none"> <li>Mid to high single digit revenue growth p.a. from international network</li> <li>Market share gains in Transaction Banking</li> </ul>
<p><b>4 Turn around our US business</b></p>	<ul style="list-style-type: none"> <li>US RoTE &gt;6%</li> </ul>
<p><b>5 Improve capital efficiency; redeploy capital into higher return businesses</b></p>	<ul style="list-style-type: none"> <li>Increase in asset productivity</li> </ul>
<p><b>6 Create capacity for increasing investments in growth and technology through efficiency gains</b></p>	<ul style="list-style-type: none"> <li>Positive adjusted jaws, on an annual basis, each financial year</li> </ul>
<p><b>7 Enhance customer centricity and customer service through investments in technology</b></p> <ul style="list-style-type: none"> <li>Invest in digital capabilities to deliver improved customer service</li> <li>Expand the reach of HSBC, including partnerships</li> <li>Safeguard our customers and deliver industry-leading financial crime standards</li> </ul>	<ul style="list-style-type: none"> <li>Improve customer satisfaction in 8 scale markets<sup>2</sup></li> </ul>
<p><b>8 Simplify the organisation and invest in future skills</b></p>	<ul style="list-style-type: none"> <li>Improved employee engagement</li> <li>ESG rating: 'Outperformer'<sup>3</sup></li> </ul>

1. Commitment by 2025; on track to deliver 2025 target (see HSBC ESG Update November 2017)

2. Top 3 or improvement by 2 ranks; measured by customer recommendation for RBWM and customer satisfaction for CMB amongst relevant competitors

3. Based on Sustainalytics

# Agenda

1

Leading international bank with platform for growth and signature balance sheet strength

2

Next phase of strategy: Return to growth and value creation

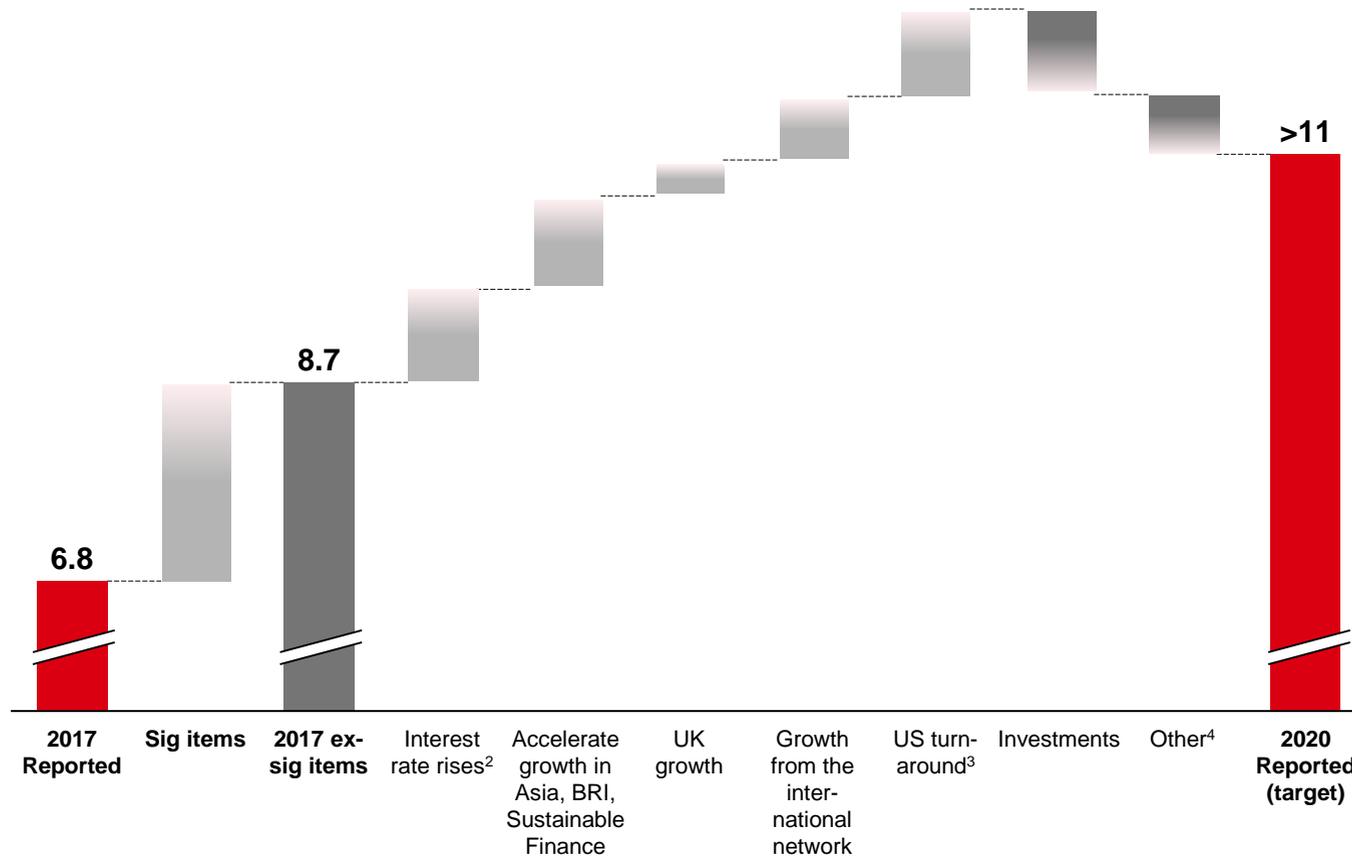
3

**Profitable growth to deliver RoTE > 11% by 2020**

# Path to achieve >11% RoTE by 2020

## Reported RoTE walk<sup>1</sup>

%



ROE Reported

5.9%

>10%

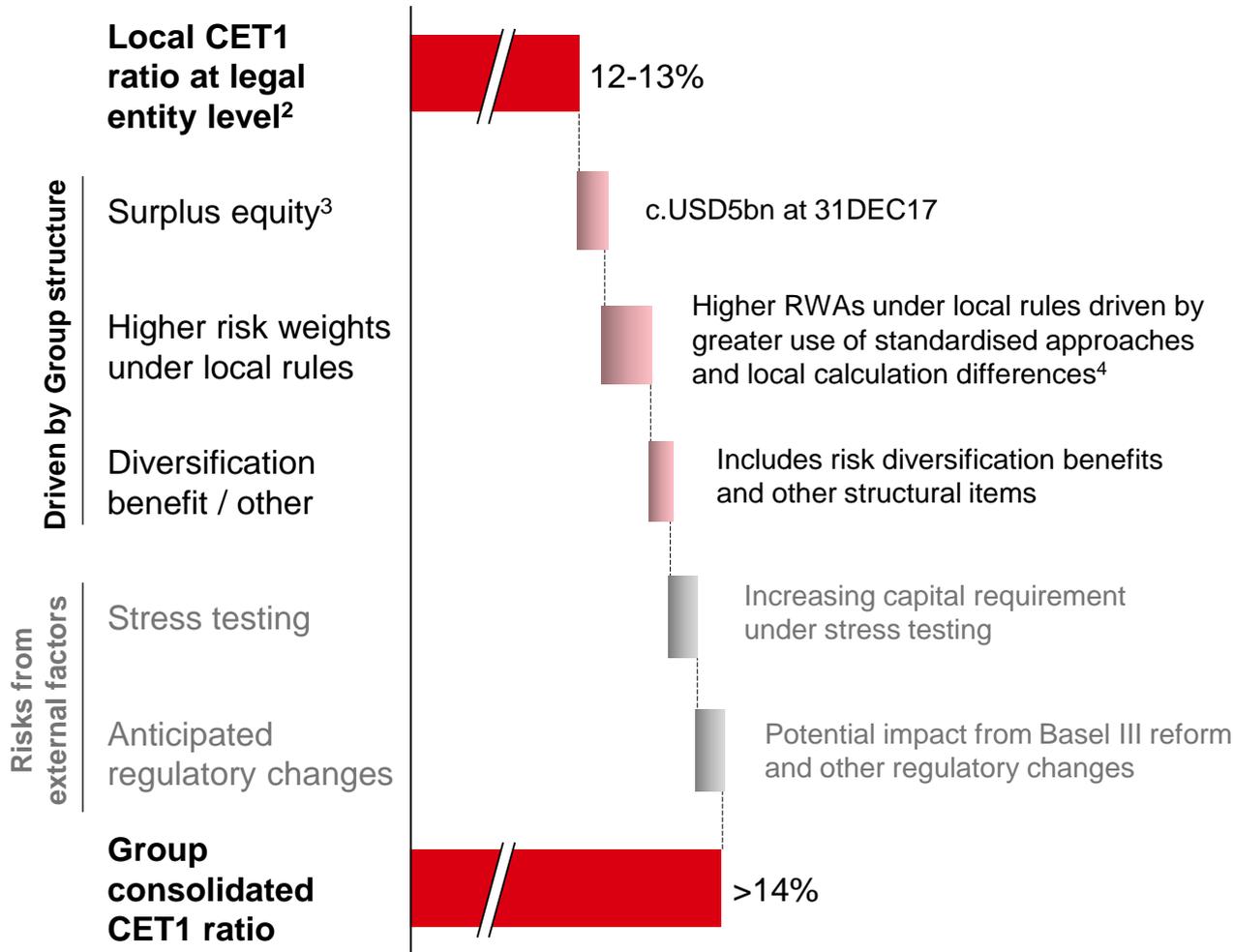
### Revenue growth supported by increasing capital and cost efficiency

- Investing USD15-17bn primarily in growth and technology
- Delivering positive adjusted jaws
- Increasing capital efficiency, limited RWA growth to 1-2% and increasing asset productivity
- Sustaining dividend, supported by share buy-backs<sup>5</sup>
- With >14% CET1 ratio

1. Bars in chart are illustrative and not to scale  
 2. Interest rate rises separated from other performance improvements  
 3. Changes in equity consolidated in 'Other'  
 4. Include LICs/ECL normalisation, profits and equity from rest of the Group, DTA write-off in US in 2017 and significant items  
 5. Subject to regulatory approval

# Strong capital base to support future growth and shareholder distribution

Group capital ratio above 14% over period of strategic plan<sup>1</sup>



**Strong capital base to support growth and returns to shareholders**

## Support asset growth in strategic priorities

Capital required to support growth in Global Businesses

## Maintain strong balance sheet

CET1 ratio greater than 14%  
Meet Basel III Reform requirements globally

## Deliver 11% RoTE on a higher capital base

## Sustain dividends, continue equity buy-backs

Share buy-backs as and when appropriate, subject to regulatory approval

1. Bars in chart are illustrative and not to scale

2. This represents a weighted average of legal entity CET1 ratios on a local basis

3. Surplus equity is equity held in excess of HSBC risk appetite in major operating entities that cannot be released immediately given local restrictions. Released over time or used to support growth

4. Including the application of national discretions, including RWA floors, and the extent of Basel III adoption by local regulators

## Conclusion

- HSBC is the **leading international bank with unparalleled access to the highest growth** markets
- **After a period of restructuring**, supported by normalising interest rates and synchronised economic growth, it is time for **HSBC to get back into growth mode**
  - **Accelerate growth in areas of strength with higher capital efficiency**, in particular in Asia and from our international network
  - Leverage our size and strength to **embrace new technologies** over a period of disruptive technological change. **Investing USD15-17bn until 2020 primarily in growth and technology while delivering positive adjusted jaws**
  - **Complete the turnaround in the US**
  - **Simplify the organisation and invest in capabilities for the future**
- The **Group will return to value creation**, targeting a RoTE of >11% by 2020 while delivering positive adjusted jaws
- Our **signature balance sheet strength** supports future growth and is the foundation for sustained dividends

