



12 June 2013

HSBC in Europe – Strategy update

Brian Robertson Chief Executive Officer, HSBC Bank plc

HSBC 

Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report and Accounts 2012 and 1Q2013 Interim Management Statement. Past performance cannot be relied on as a guide to future performance.

Agenda

HSBC in Europe – Strategy update

A Distinctive position in the new banking environment

B Proven track record in delivering change – First phase

C Clear plan for growth – Next phase

Europe – Strategy update



A Distinctive position in the new banking environment

I Long term trends remain valid

II HSBC's distinctive position

B Proven track record in delivering change – First phase

C Clear plan for growth – Next phase

I. Long term trends remain valid

The backdrop is still challenging in Europe

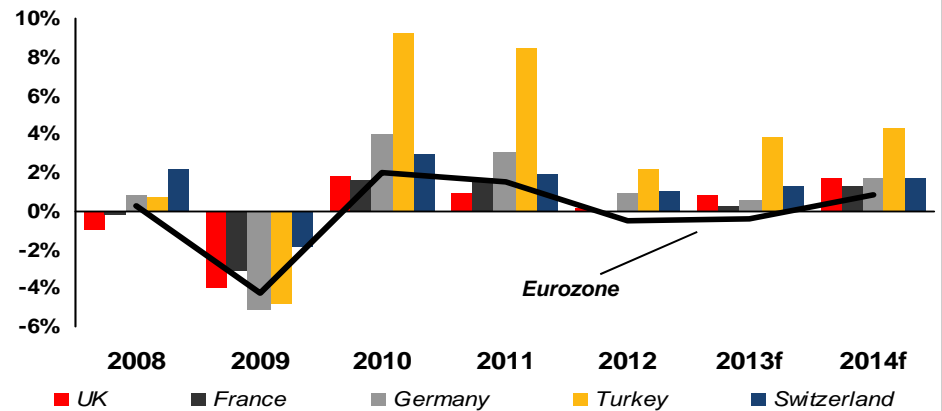
Lack of visibility in the short term

Subdued macro environment

- Weak growth prospects in the short-term
- Small and gradual rise in consumer spending expected
- Fiscal tightening represents a continued drag on future growth
- Base rates to remain at a record low despite “sticky” inflation

GDP growth in key markets¹

Real GDP year-on-year change (%)



Pace and quantum of regulatory reform

- Increasingly “intensive and intrusive supervision” by regulators²
- Newly formed Financial Conduct Authority in the UK
- Higher capital requirements
- Financial stability and structure debate: ring-fencing
- Global co-ordination of Recovery & Resolution Plans

- Greater focus on conduct risk, and wider definition
- Need to adapt and enforce highest standards
- Downward pressure on returns
- More uncertainty on corporate structure, banks likely to operate at higher cost

¹ Projection in 2013-2014. Source: HSBC Research – Macro European Economics Q2 2013
² Source: FSA Business Plan

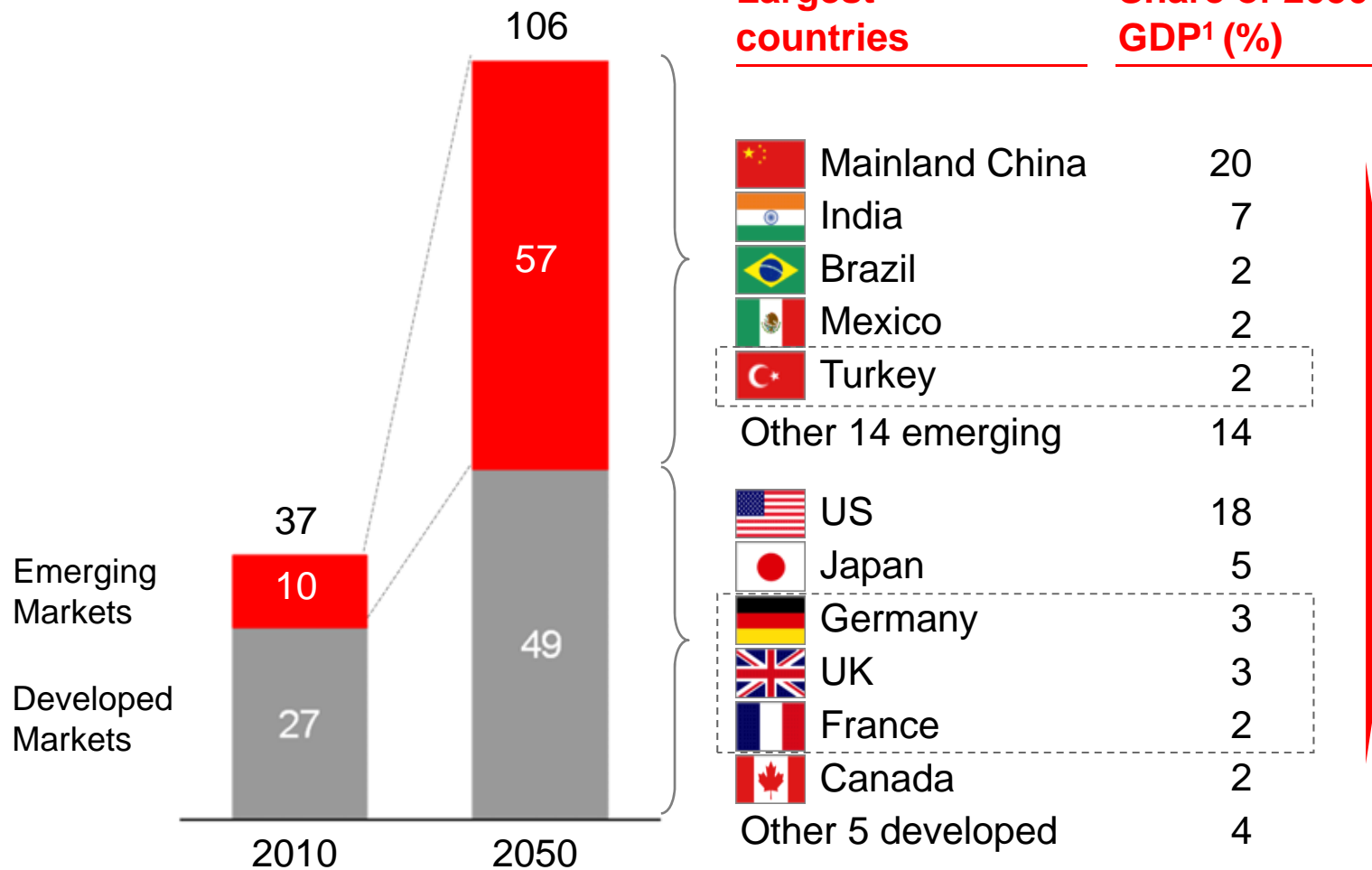
I. Long term trends remain valid

Despite a rebalancing of the world economy, growth in Europe will remain steady in the long run



GDP of top 30 economies

USDtrn



Our priority growth markets² in Europe are expected to remain among the largest countries in 2050

Source: HSBC – “The World in 2050: Quantifying the shift in the global economy”

1 2050 GDP estimated for top 30 countries, 2050 world GDP estimated by assuming top 30 maintain same share of total world GDP as 2010 of 85%

2 Excluding Switzerland

I. Long term trends remain valid

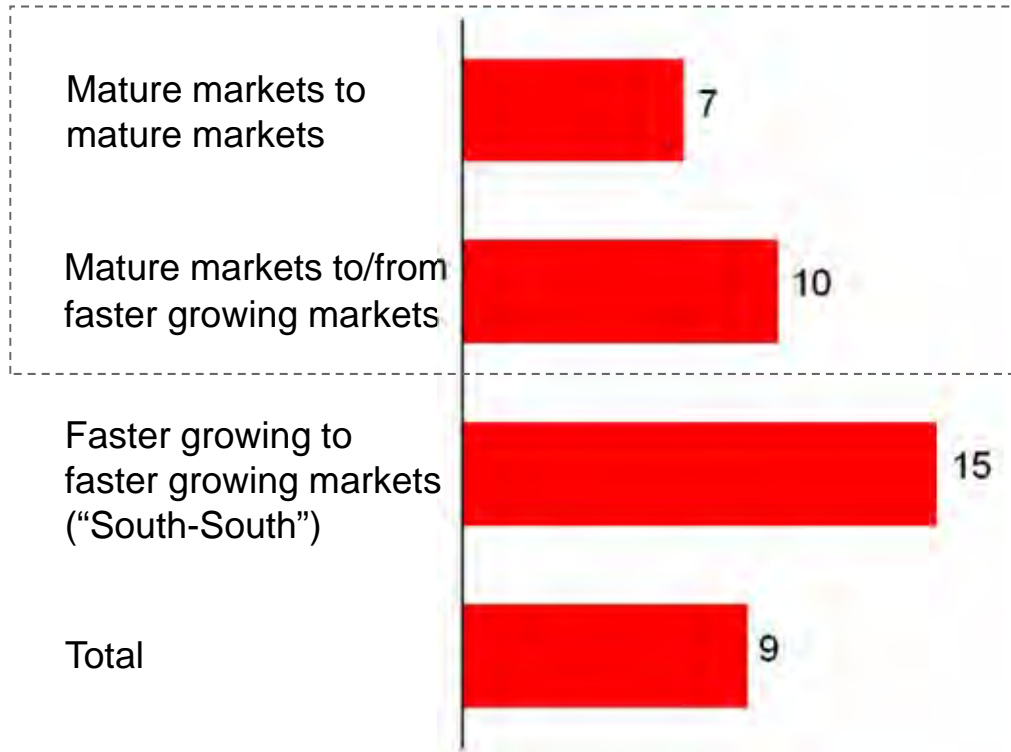
Europe will continue to contribute significantly to world trade growth



World trade growth¹

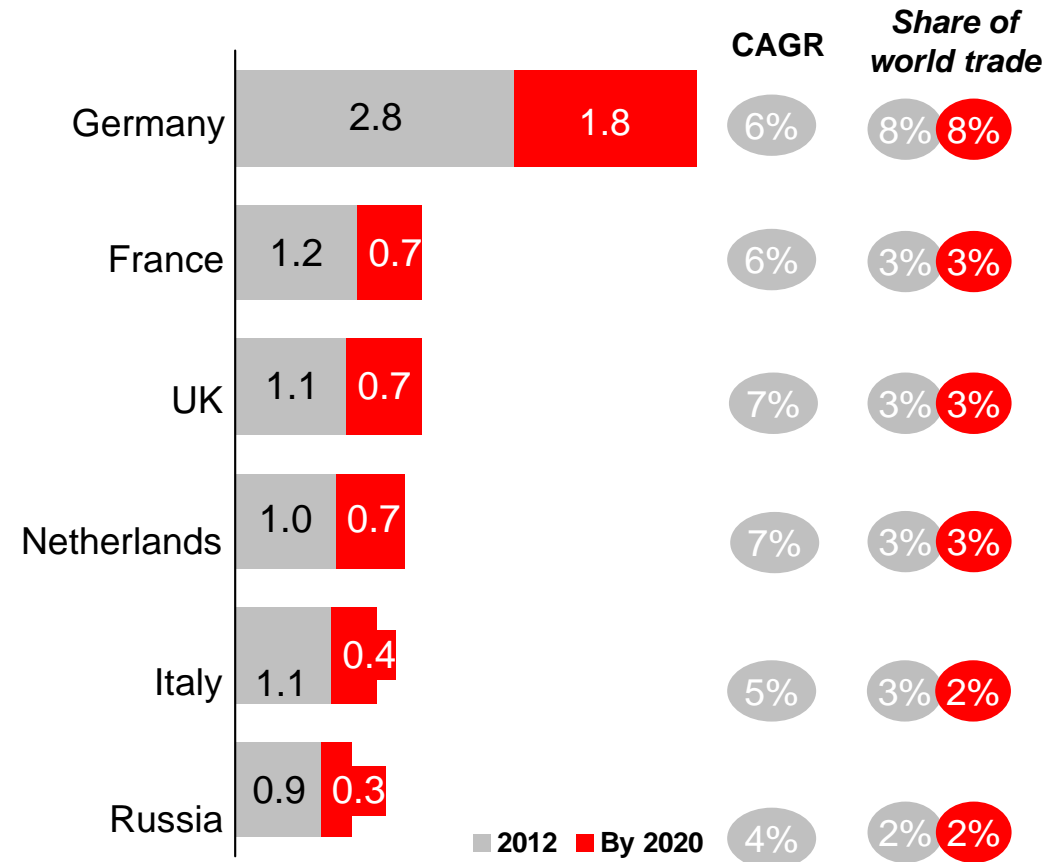
Corridor

Merchandise export
2010-12, CAGR, %



6 European countries in the Top 15 in 2020²

Imports and exports, USDbn



¹ International Monetary Fund, Direction of Trade and Statistic – IMF Data Warehouse

² Global Insight – May 2013

II. HSBC's distinctive position

Distinctive position in the new banking environment

Key trends

Economic development and wealth creation



International trade and capital flows



What matters going forward

- Organic investment opportunities in the most attractive growth markets
- Capacity to invest

- International network and global product capabilities to capture international trade and capital flows

HSBC competitive advantages

- Meaningful presence in many of the most attractive growth markets
- Strong capital generation
- Stable funding base
- Long-term commitment to our strategic markets

- Network covering >90% of global international trade and capital flows
- Local balance sheet and trading capabilities in the most relevant financial hubs

HSBC in Europe

- An extensive network including 1 Home market (UK) and 4 priority growth markets (France, Germany, Turkey, Switzerland)
- Strong capital base, full support from the Group
- Strong funding base, 84% A/D ratio¹

- HSBC network covering 85%² of the EU trade flows
- Local balance sheet and trading capabilities in all our European priority markets

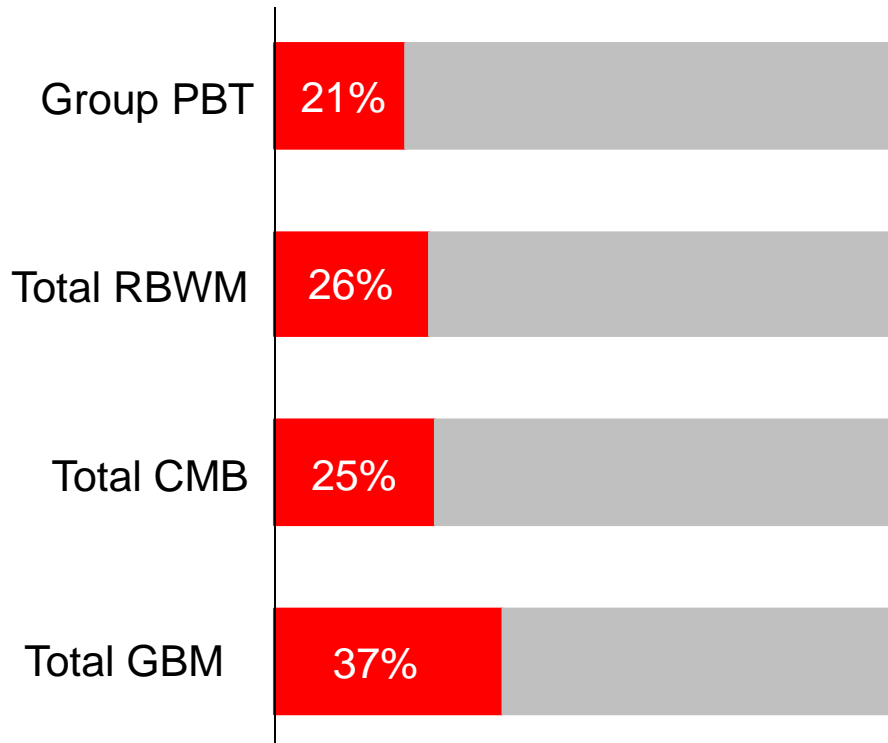
1 As of 31DEC12
2 Global Insight

II. HSBC's distinctive position

Europe is a key region for HSBC

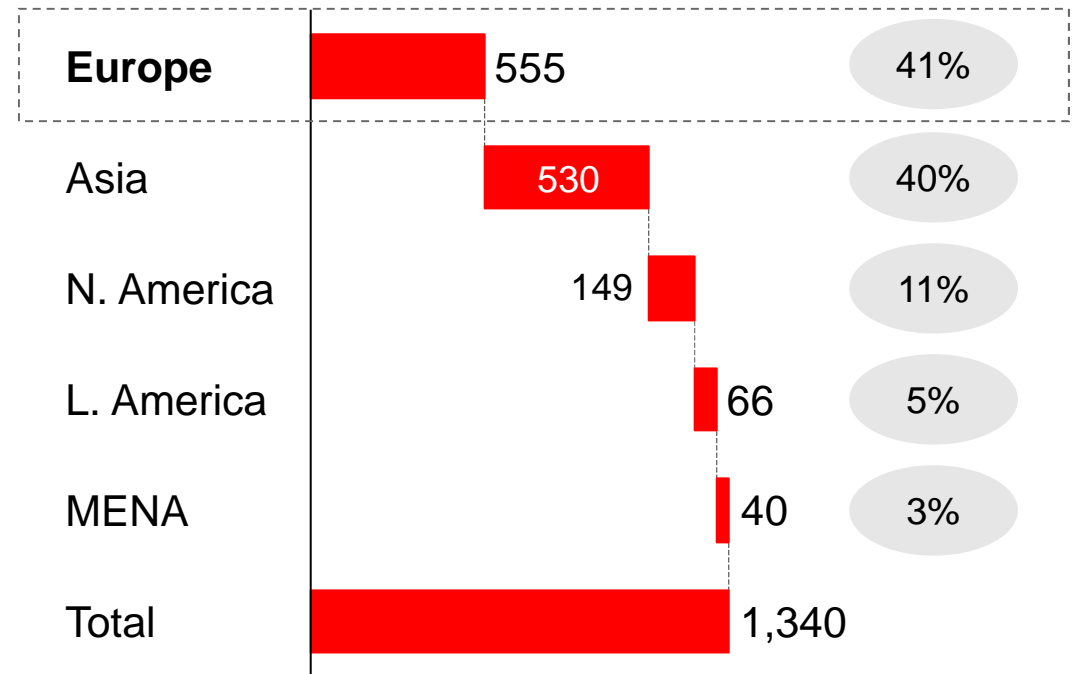
A robust contribution to Group profitability ...

Europe's contribution to Group and GB's reported PBT, 1Q 2013, %



... and to the funding base

Customer accounts, 31 December 2012, USDbn



Europe remains self-funded, with an A/D ratio of 84%¹

¹ As of 31DEC12

Europe – Strategy update



A Distinctive position in the new banking environment

B Proven track record in delivering change – First phase

I Capital deployment

II Organisation and cost efficiency

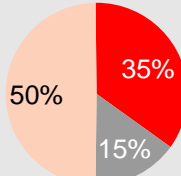
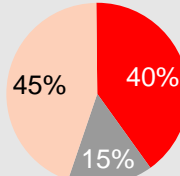
III Growth

IV Financial performance

C Clear plan for growth – Next phase

Proven track record in delivering change – First phase

At the beginning of 2011 we defined a new vision for HSBC

<p>Purpose</p>	<p>Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose.</p> <p><i>Reason why we exist</i></p>
<p>Values</p>	<p>Act with courageous integrity</p> <ul style="list-style-type: none"> ▪ Dependable and do the right thing ▪ Open to different ideas and cultures ▪ Connected to customers, regulators and each other <p><i>How we behave and conduct business</i></p>
<p>Strategy</p>	<ul style="list-style-type: none"> ▪ International network connecting faster growing and developed markets ▪ Develop Wealth and invest in Retail only in markets where we can achieve profitable scale <p><i>Where and how we compete</i></p>
<p>Outcome</p>	<p>Being the world's leading international bank</p> <p>Delivering consistent returns</p> <div style="display: flex; align-items: center;"> <div style="margin-right: 20px;"> <p>From:</p>  </div> <div style="margin-right: 20px;"> <p>To:</p>  </div> <div style="margin-left: 20px;"> <ul style="list-style-type: none"> ■ Dividends ■ Variable pay ■ Earnings retained </div> </div>

Proven track record in delivering change – First phase

Material progress over the last two years

May 2011 report card

I Capital deployment

- Six Filters driving disposals and closures of non-strategic and/or underperforming positions (Legacy) or businesses
- Turnaround of strategically relevant businesses

II Organisation and cost efficiency

- Simplify and delayer the organisation
- Target USD2.5-3.5bn in sustainable cost saves in 3 years, achieving our 48-52% CER target by 2013

III Growth

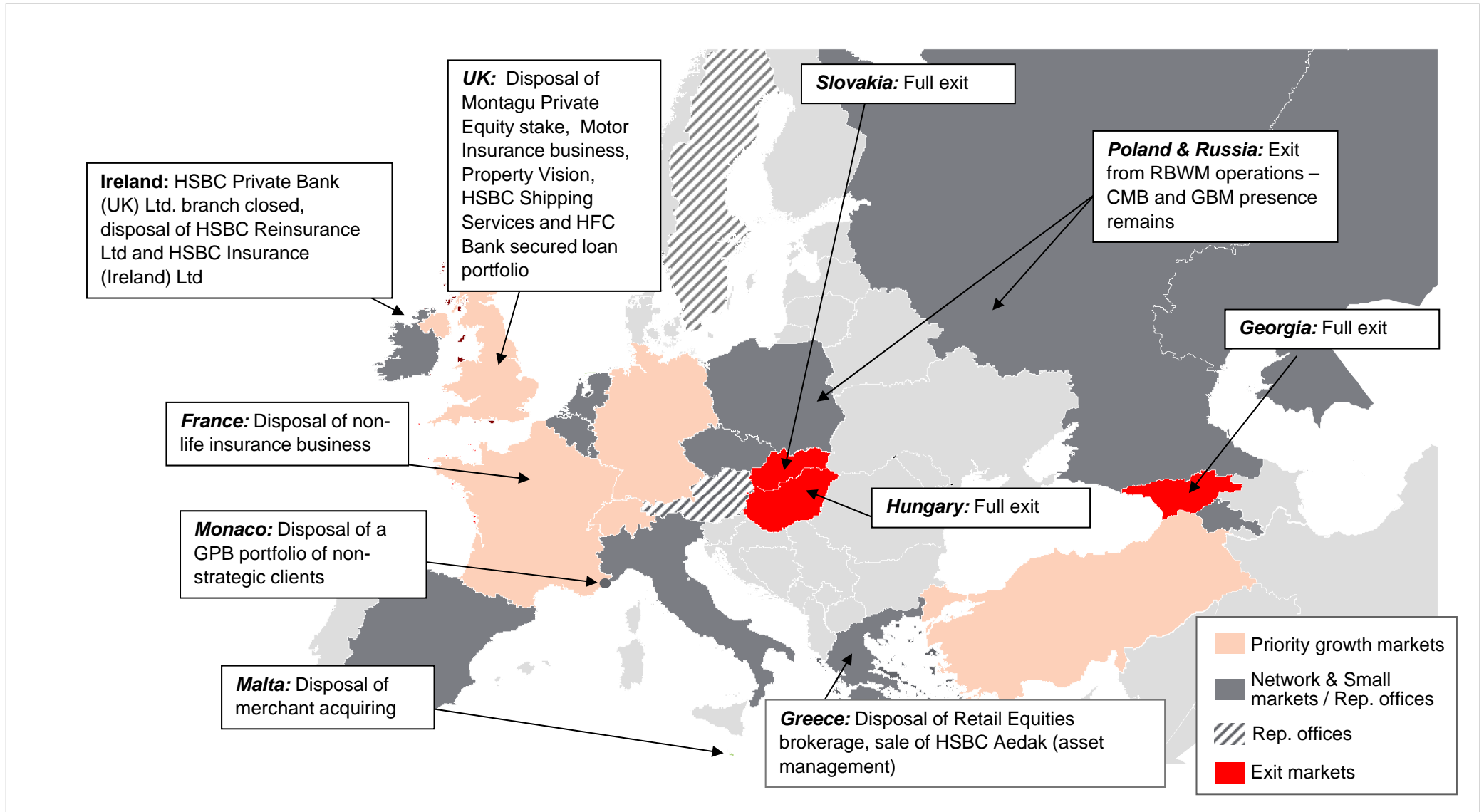
- Revenue growth in faster growing markets
- Capture wealth opportunity (USD4bn in additional revenues)
- Leverage intra-group connectivity between CMB and GBM (USD1bn of additional revenues)

Progress to date in Europe

- 17 disposals/exits announced since 2011
- Progress in running down our Global Markets Legacy portfolio which sits mostly in Europe
- Transformed the way we manage the business
- c.USD1.1bn annualised sustainable saves over the last 2 years
- Net reduction of 5.6k FTE
- Focus on priority markets in UK, France, Turkey, Germany & Switzerland
- Continued investment in Wealth Management, and in international CMB capabilities
- Strong and increasing collaboration between Global Businesses with tight monitoring

I. Capital Deployment

Reduced fragmentation and clear focus in the European portfolio



II. Organisation and cost efficiency

Established a simplified, more focused and easier to manage organisation

Progress

Created four Global Businesses

- Developing **global strategies**
- Defining and implementing consistent **business and operating model**
- Focus on clear **portfolio of activities**
- **Oversight** by Group Management Board, Holdings Board of Directors, Group Risk Committee, Group Audit Committee, Financial System Vulnerabilities Committee

Established eleven Global Functions

- Managed independently, but with close links to businesses
- Focus on global **consistency** and rigour of governance, control, process efficiency, transparency

Focused role of Europe

- Defined clear portfolio of **1 home market** and **4 priority growth markets**
- Driving **implementation** of Group and Global Businesses' strategies
- Primarily organised through **separately capitalised, regulated, governed subsidiaries** tapping local funding through strong deposit bases

Simplified organisation structure

- **Simplified organisation** applying 8x8 programme across all priority markets
- Stronger management **oversight and accountability** and **reduced bureaucracy**

II. Organisation and cost efficiency

Simplifying Europe

Transformation

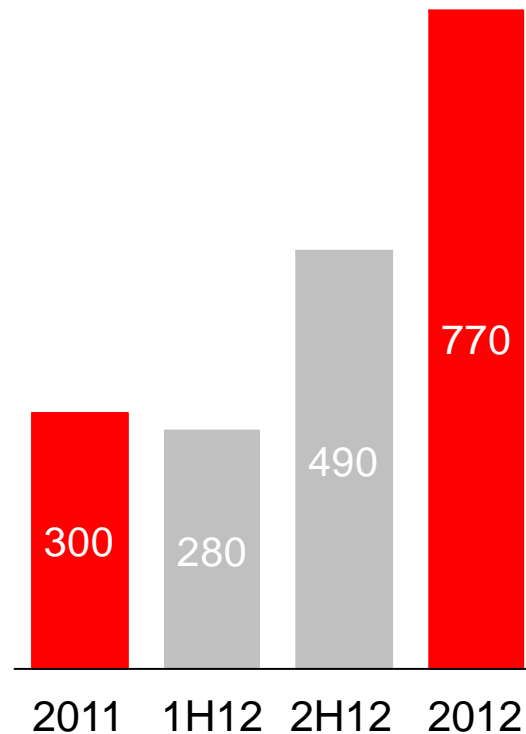
- Reshaped portfolio
- Simplified organisation
- Established Four Programmes
 1. Re-engineer operational processes
 2. Re-engineer Global Functions
 3. Implement consistent business models
 4. Streamline IT

Outcome

- USD1.1bn in annualised sustainable saves across 2011-2012
- Net reduction of 5.6k FTE
- Reported CER at 1Q13 of 67%

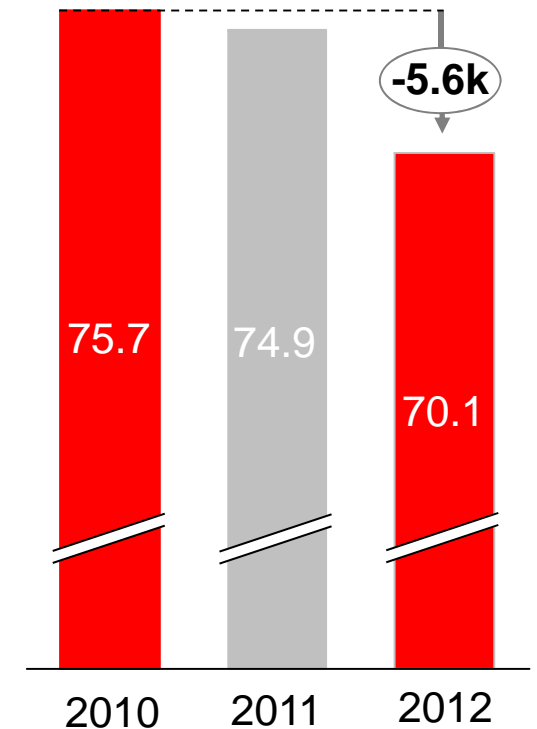
Sustainable saves

USDm



Employees

Year-end FTE, thousands



III. Growth

Gained market share in European priority markets

2010-2012 change in market share

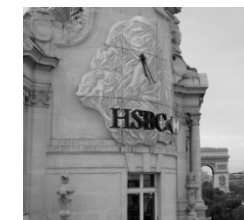
UK

- Market share of 12% on new mortgages, up from 9% in 2010¹
- 17% market share of the UK trade finance market, up from 13% in 2011²



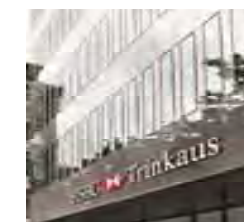
France

- RBWM growing faster than market over 2010-12: total deposits (+10% pa versus 5% for market³) and mortgages (+7% versus 3% 2011-12³)
- GTRF market share increase of +1.5% 1Q 2013 versus 2012⁴



Germany

- DCM league table increased from 9th in 2010 (4.2% market share) to 2nd in 2013 (8.4% market share)⁵



Turkey

- 6th in credit cards receivables improving market share to 5.8%⁶ as of March 2013



1 Bank of England, HSBC analysis

2 Oliver Wyman analysis

3 Banque de France

4 SWIFT

5 Dealogic, 2013 data as at end of April, 2013

6 Turkish Banks Association

III. Growth

Significant progress growing the business

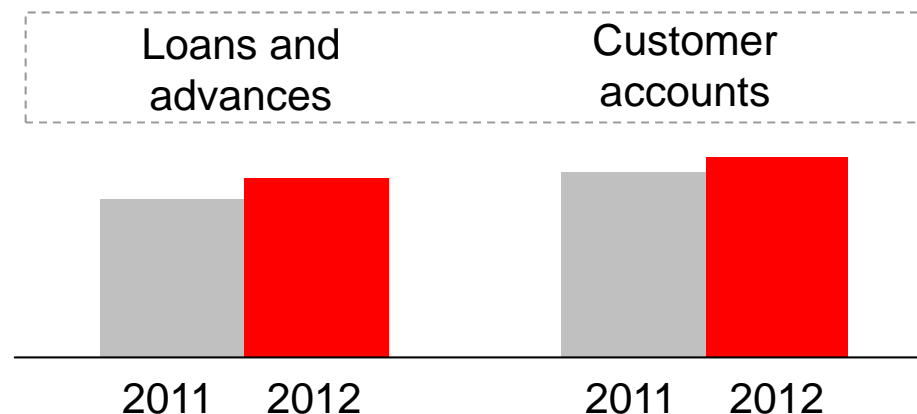
Material progress in Europe...

- Transformed the wealth management business whilst continuing to invest
 - Services redesigned in accordance with the RDR¹ in the UK
 - Enhanced operational capabilities (risk profiling and suitability) and offerings (Top-Tier proposition launched)
- Growing the International business in CMB and GBM
 - Connecting European priority countries to faster growing markets
 - Focusing on target customers (corporates and international SMEs)
 - Investing in strategic, RWA-efficient products i.e. GTRF² and PCM³
- Initiatives undertaken to grow cross-business collaboration

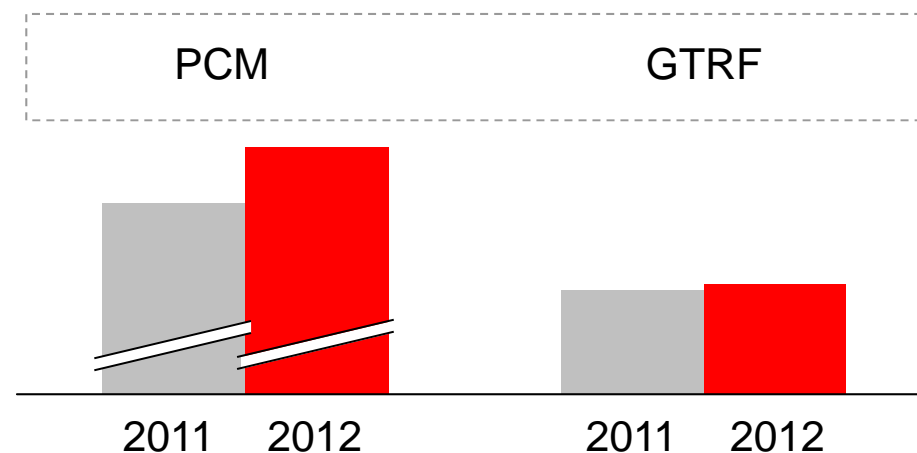
1 Retail Distribution Review
2 Global Trade and Receivables Finance
3 Payments and Cash Management

...leading to growth

Volumes in RBWM, USDbn and year-on-year growth



CMB Revenues, USDm and year-on-year growth



IV. Financial performance

Europe performance – 1Q 2013 results

Financial results

USDm	1Q 2012	1Q 2013	% Better / Worse	
			1Q13 vs 1Q12	
Revenue	3,885	5,968	53.6%	
Loan Impairment Charges	(347)	(190)	45.2%	
Operating Expenses	(4,534)	(3,984)	12.1%	
Reported PBT	(997)	1,795	-	
Underlying PBT¹	949	1,949	105.4%	

Financial targets

%	1Q 2012	1Q 2013	KPI	
Reported RoRWA	(1.2)%	2.4%	1.4% – 1.7%	✓
Reported CER	116.7%	66.8%	Mid-50s ²	✗

¹ Underlying basis eliminates effects of foreign currency translation differences, acquisitions, disposals and changes in ownership levels of subsidiaries, associates and businesses, and changes in fair value ('FV') due to movements in credit spread on own long-term debt issued by the Group and designated at fair value

² KPI represents HSBC Group target

IV. Financial performance

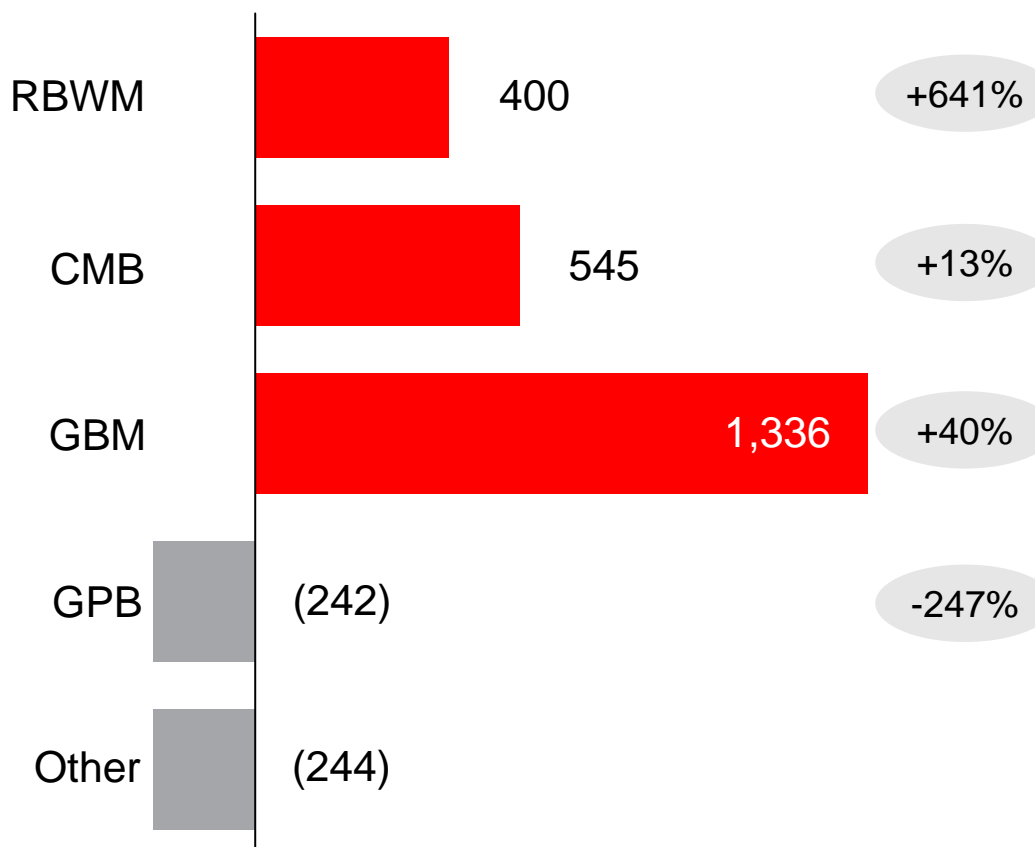
Europe performance – 1Q 2013 results

Strong performance in GBM, RBWM and CMB

- **RBWM:** good growth in secured lending, lower LICs and lower customer redress provisions
- **CMB:** Higher lending and deposit balances
- **GBM:** Revenues driven up mainly by a favourable DVA¹ despite lower performance in Rates than 1Q12 which benefited from the significant tightening of spreads on eurozone bonds following the ECB's announcement of the LTRO. Lower LICs reflecting lower credit risk provisions
- **GPB:** adverse impact of a loss relating to the write off of allocated goodwill recognised following the reclassification of a non-strategic business to 'Assets held for sale'

Reported PBT by Global Business

USDm, and year-on-year % growth



¹ Debit Valuation Adjustments on derivative contracts

Europe – Strategy update



A Distinctive position in the new banking environment

B Proven track record in delivering change – First phase

C Clear plan for growth – Next phase

I Priorities

II Targets for Europe



I. Priorities

Europe's strategic direction fully aligned to Group's priorities

	Actions and priorities	By 2016
Grow business	<ul style="list-style-type: none">▪ Continue to recycle RWAs from low into high performing opportunities within the Group's risk appetite	<ul style="list-style-type: none">▪ Continue to grow RWAs in line with our organic investment criteria in our priority markets▪ Legacy and non-strategic activities reduced impact on PBT and RWAs
Implement Global Standards	<ul style="list-style-type: none">▪ Continue to invest in best-in-class Compliance and Risk capabilities▪ De-risk operations in higher risk locations and businesses▪ HSBC values – act with courageous integrity	<ul style="list-style-type: none">▪ Significant progress in implementation of Global Standards throughout Europe
Streamline processes and procedures	<ul style="list-style-type: none">▪ Re-design key processes and procedures achieving improvements in service, quality, cost and risk▪ Release cost to invest in growth and Global Standards	<ul style="list-style-type: none">▪ Achieve USD2-3bn additional sustainable savings from 2014 to 2016 at Group level, Europe remaining a significant contributor

I. Priorities – Grow business

CMB growth priorities in Europe

The Leading International Trade and Business Bank

Growth priorities to 2016

Drive revenue growth through international network

- Accelerate Corporate segment growth
- Continue to invest in GTRF¹ and PCM²
- Invest in International relationship managers' capabilities for clients

Grow Collaboration Revenues

- Continue to build coverage for CMB customers in core GBM products
- Drive cross-referrals with both GPB and RBWM
- Increase GTRF¹ penetration into GBM

Grow coverage in faster growing markets

- Expand relationship manager coverage in priority markets
- Invest in targeted cities to capture international revenue pools

2016 Global business targets

Financial RoRWA³, % 2.2-2.5

Non-financial

- Global trade market share
- International RMs in target markets
- Cross-border revenue



1 Global Trade and Receivables Finance
2 Payments and Cash Management
3 Global business target - CRD IV end point basis

I. Priorities – Grow business

GBM growth priorities in Europe

Connecting clients to global growth opportunities

Growth priorities to 2016

Well-positioned in products that will benefit from global trends

- **Debt Capital Markets** – Corporates in Europe shifting financing mix towards debt capital markets, including High Yield
- **Project and Export Finance** – Continued high levels of global expenditure on infrastructure
- **Trade Finance, Payments and Cash Management and Foreign Exchange**
- **RMB internationalisation**
- **Event – emerging markets led**

2016 Global business targets

Financial RoRWA¹, % 2.0-2.2

Non-financial

- ‘Top 5’ bank to our priority clients
- Maintain leadership in key product areas
- Usage of e-channels



1 Global business target - CRD IV end point basis

I. Priorities – Grow business

RBWM growth priorities in Europe

Securing customers' future prosperity and realising their ambitions

Growth priorities to 2016

Growth in priority markets

- Grow number of customers in target segments

Deepen customer relationships

- Acquiring new wealth in faster growing markets and consolidating wealth in developed markets
- Grow relationship-led lending

Distribution

- Accelerate digital
- Selectively improve geographic coverage

2016 Global business targets

Financial	RoRWA ¹ , %	3.8-4.3
	RoRWA ¹ , excl. run-off, %	5.0-5.5
	Incremental wealth revenues ²	USD3bn
Non-financial	▪ Customer Recommendation Index (CRI) for affluent segment in priority markets ³	
	▪ Total customer relationship balances	
	▪ Digitally active customers	



1 Global business target - CRD IV end point basis

2 Incremental revenues 2010 to 2016

3 CRI measured in Argentina, Brazil, Canada, France, Hong Kong, India, Mainland China, Malaysia, Mexico, Singapore, Taiwan, Turkey, UAE, UK and US

I. Priorities – Grow business

GPB growth priorities in Europe

Building on our commercial banking heritage, be the leading private bank for business owners

Growth priorities to 2016

Reposition the business

- Focus on home and growth priority markets, particularly onshore
- Emphasis on high net worth segments, as we established a Wealth proposition in RBWM

Capture growth opportunities

- Focus investment in priority markets and onshore businesses
- Acquire owners and principals of companies through CMB and GBM clients

2016 Global business targets

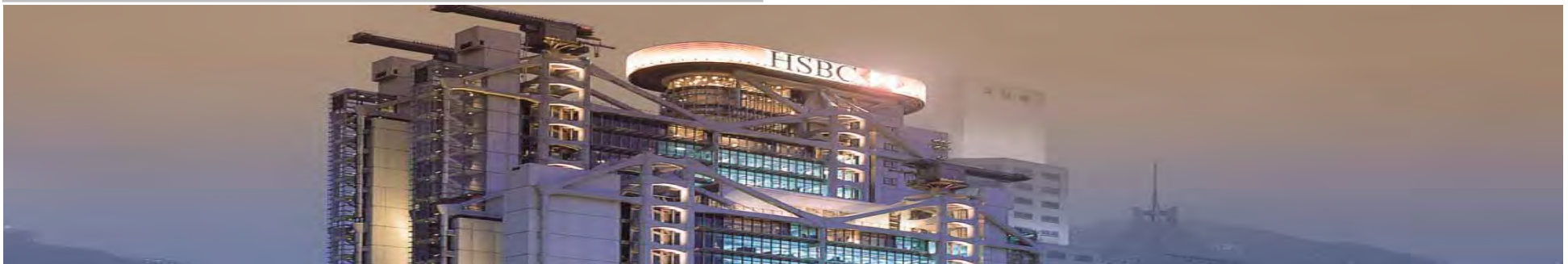
Financial

Return on assets¹

70-75bps

Non-financial

- Share of onshore business
- Net new money from Group referrals



¹ Global business target - Percentage of revenues to average client assets

I. Priorities – Implement Global Standards

Global Standards define governance and programmes

Governance	Financial System Vulnerabilities Committee¹	<ul style="list-style-type: none">▪ Provides governance, oversight and policy advice to simplify business activities and enhance risk management and control
	Global Standards Steering Meeting²	<ul style="list-style-type: none">▪ Sets the strategic direction and priorities for the Global Standards programme
	Global Standards Execution Committee	<ul style="list-style-type: none">▪ Provides execution control across line of business based on strategic direction and priorities▪ Regional committee set up
Programmes	Customer Due Diligence	<ul style="list-style-type: none">▪ Develop an integrated framework to manage financial crime risk more effectively (including Affiliates Due Diligence, Tax Transparency, Bearer Shares, Customer Selection and Exit Policy)
	Financial Crime Compliance	<ul style="list-style-type: none">▪ Create a consistent, flexible and scalable organisation and establish controls to meet DPA³ and other regulatory obligations
	Financial Intelligence	<ul style="list-style-type: none">▪ Build our capabilities in capturing and using customer and transactional level data to identify suspicious transactions, activity or connections

1 New Board committee of external experts and independent advisers

2 Part of the Group Management Board

3 Deferred Prosecution Agreement

Europe – Strategy update



A Distinctive position in the new banking environment

B Proven track record in delivering change – First phase

C Clear plan for growth – Next phase

I **Priorities**

II Targets for Europe



II. Targets for Europe

Next phase 2014-16 – Targets for Europe



Strategy remains unchanged

- Grow both business and dividends
- Implement Global Standards
- Streamline processes and procedures

Targets

- RoRWA 1.4-1.7%¹
- Positive jaws
- CER mid-50s
- Additional sustainable saves, significantly contributing to Group targets
- Advances-to-deposits ratio cap <90%

¹ Return on Risk Weighted Assets – CRD IV end-point. RWAs estimation based on our interpretation of the July 2011 draft CRD IV regulation, supplemented by PRA guidance