



# 17th Annual Credit Suisse Asian Investment Conference

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## Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations, capital position 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. Past performance cannot be relied on as a guide to future performance.

This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial measures to the most directly comparable measures under GAAP are provided in the 'reconciliations of non-GAAP financial measures' supplement available at [www.hsbc.com](http://www.hsbc.com).

# Delivering the strategy

Who we are / Financial results

Strategic update

Regulatory environment

# Who we are / Financial results



## Who we are

- § Leading international bank
- § Headquartered in London, with 4 Global Businesses
- § Our network covers 75 countries and territories in six geographical regions, serving 54 million customers
- § Market cap c.USD 207 billion
- § One of the best capitalised banks with CET1 capital at 10.9%
- § One of the highest dividend payers in FTSE

# Annual results 2013

## Financial highlights<sup>1</sup>

### Summary financial highlights

	2012	2013	% better/(worse) 2013 vs 2012
Reported PBT (USDbn)	20.6	22.6	9
Underlying PBT (USDbn)	15.3	21.6	41
EPS (USD)	0.74	0.84	14
Dividends <sup>2</sup> (USD)	0.45	0.49	9

### Key ratios %

	2012	2013	KPI
Return on average ordinary shareholders' equity	8.4	9.2	12 – 15
Advances-to-deposits ratio	74.4	72.9	< 90
Core tier 1 ratio	12.3	13.6	9.5 – 10.5
Common equity tier 1 ratio	9.5	10.9	9.5 – 10.5 <sup>3</sup>

Notes:

1. All figures are as reported unless otherwise stated
2. Dividends per share declared in respect of the year
3. Target for 2014-16 is >10%

# Annual results 2013

## Regional and business profit contributions

### Geographical regions

Underlying PBT (USDbn)	2012	2013	% better/(worse) 2013 vs 2012
Hong Kong	7.2	8.1	13
Rest of Asia-Pacific	5.6	6.7	20
MENA	1.3	1.7	26
Latin America	1.9	0.7	(62)
Europe	0.8	2.8	272
North America	(1.5)	1.6	n/a
<b>Total</b>	<b>15.3</b>	<b>21.6</b>	<b>41</b>

### Global businesses

Underlying PBT (USDbn)	2012	2013	% better/(worse) 2013 vs 2012
Commercial Banking	7.5	7.9	5
Global Banking and Markets	7.9	9.0	15
Retail Banking and Wealth Management	4.0	6.4	60
Global Private Banking	0.9	0.2	(79)
Other	(5.0)	(1.9)	62
<b>Total</b>	<b>15.3</b>	<b>21.6</b>	<b>41</b>

# Strategic update



# First phase strategic achievements, 2011-13

## Capital deployment

### Objectives

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

### Achievements

- 63 disposals/exits announced since 2011, reduced c.USD95bn RWAs<sup>1</sup> and c.20k FTE
- Progress on running down and de-risking Legacy portfolios since the start of 2011
  - US run off portfolio down from USD58bn to USD30bn<sup>3</sup>
  - GB&M legacy credit portfolio<sup>2</sup> down from USD47bn to USD28bn

## Organisation and cost efficiency

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

- Transformed the way we manage the business
  - Four global businesses
  - 11 global functions
- USD4.9bn in annualised sustainable savings from 2011 to 2013
- Net reduction of 41k FTE, including disposals/exits

## Growth

- Revenue growth in Latin America, Hong Kong, RoAP and MENA
- Capture wealth opportunity (to generate USD4bn in additional revenues)
- Leverage intra-group connectivity between CMB and GB&M (to generate USD1bn of additional revenues)

- Latin America, Hong Kong, RoAP and MENA regions' revenues up 21%, total CMB up 18%<sup>3,4</sup>
- Achieved double digit gross loan growth in 13 out of 22 home and priority markets<sup>3,4</sup>
- Wealth management revenues increased by USD0.9bn<sup>3,4</sup>. Revised target to USD3bn for 2014-16
- c.USD1.3bn<sup>3,4</sup> incremental collaboration revenue (increased target to USD2bn in 2012)

**Capital generation<sup>5</sup>, USD31bn, and dividends<sup>6</sup>, USD25bn**

#### Notes:

1. Expected reduction in RWAs after completion of all 63 transactions

2. Based on reported ABS carrying values FY10 to FY13

3. From FY10 to FY13

4. Reported basis

5. Capital generation calculated from profits attributable to shareholders of the parent company after regulatory adjustment for own credit spread and net of dividends, for the period 31 December 2010 to 31 December 2013

6. Dividends in respect of 2011, 2012 and 2013

# Next phase strategic priorities, 2014-16

	<b>Objectives</b>	<b>2016 milestones</b>
<b>Grow both business and dividends</b>	<ul style="list-style-type: none"><li>Continue to recycle RWAs from lower into higher performing businesses within the Group's risk appetite, in particular, trade, PCM, forex, renminbi internationalisation and in the Pearl River Delta and ASEAN</li></ul>	<ul style="list-style-type: none"><li>Continue to grow RWAs in line with our organic investment criteria</li><li>Progressively grow dividends and introduce share buy-backs<sup>1</sup> as appropriate</li><li>Reduce impact of Legacy and non-strategic activities on PBT and RWAs</li></ul>
<b>Implement Global Standards</b>	<ul style="list-style-type: none"><li>Continue to invest in best-in-class Compliance and Risk capabilities</li><li>De-risk operations and/or improve risk management in higher risk locations and businesses</li><li>HSBC values – act with courageous integrity</li></ul>	<ul style="list-style-type: none"><li>Significant progress in implementation of Global Standards</li></ul>
<b>Streamline processes and procedures</b>	<ul style="list-style-type: none"><li>Re-design key processes and procedures achieving improvements in service, quality, cost and risk</li><li>Cost savings to provide headroom to invest in growth and Global Standards</li></ul>	<ul style="list-style-type: none"><li>Achieve USD2-3bn additional sustainable savings from 2014 to 2016</li></ul>

Note:

1. Subject to meeting United Kingdom regulatory capital requirements and shareholder approval

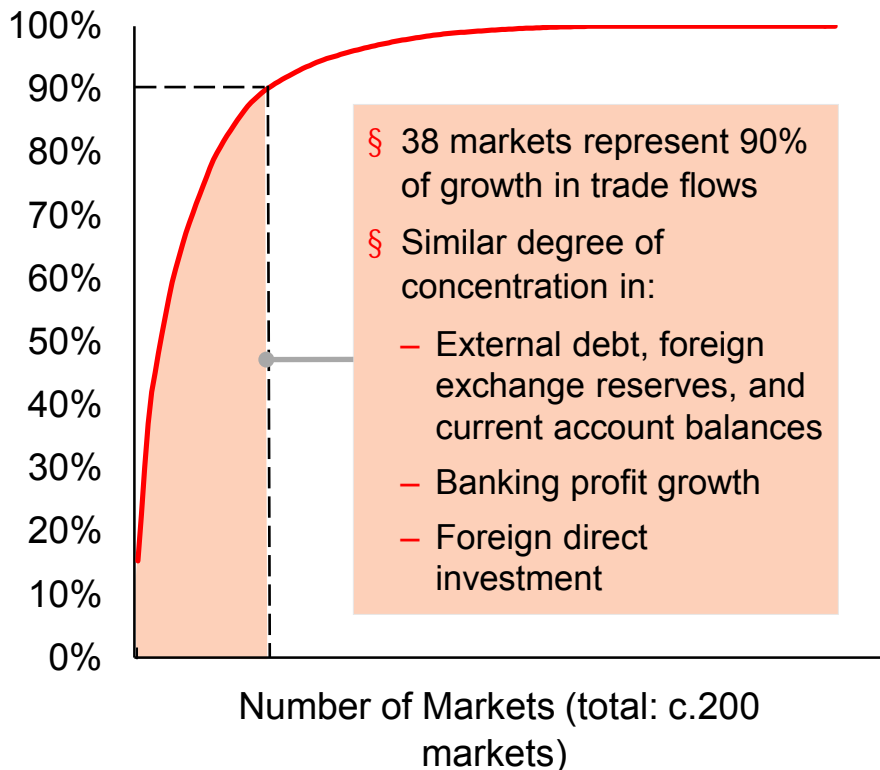
# Cohesive and focused geographic portfolio

	Hong Kong and Rest of Asia Pacific	Europe	Middle East and North Africa	North America	Latin America
<b>Home markets</b>	§ Hong Kong	§ United Kingdom			
<b>Priority Growth markets</b>	<ul style="list-style-type: none"> <li>§ Australia</li> <li>§ Mainland China</li> <li>§ India</li> <li>§ Indonesia</li> <li>§ Malaysia</li> <li>§ Singapore</li> <li>§ Taiwan</li> <li>§ Vietnam</li> </ul>	<ul style="list-style-type: none"> <li>§ France</li> <li>§ Germany</li> <li>§ Switzerland</li> <li>§ Turkey</li> </ul>	<ul style="list-style-type: none"> <li>§ Egypt</li> <li>§ Saudi Arabia</li> <li>§ UAE</li> </ul>	<ul style="list-style-type: none"> <li>§ Canada</li> <li>§ USA</li> </ul>	<ul style="list-style-type: none"> <li>§ Argentina</li> <li>§ Brazil</li> <li>§ Mexico</li> </ul>
<b>Network markets</b>	<ul style="list-style-type: none"> <li>§ Operations primarily focused on CMB and GBM international clients and businesses</li> <li>§ Together with home and priority growth markets these concentrate c.85-90% of international trade and capital flows</li> </ul>				
<b>Small markets</b>	<ul style="list-style-type: none"> <li>§ Markets where HSBC has profitable scale and focused operations</li> <li>§ Representative Offices</li> </ul>				

# HSBC network covers over 90% of international trade and capital flows

## Trade and capital flow connectivity is concentrated HSBC network covers >90% of global flows

Cumulative growth in total merchandise export and import, 2012-2022, 100% = USD35.0trn



% of world

■ HSBC coverage

Trade growth  
2012-2022

92%

FDI flows  
2006-2011

94%

FX reserves  
2012

94%

External debt  
2012

94%

Market cap  
2013<sup>1</sup>

98%

Source: Global Insights, UNCTAD, CIA World Factbook, FactSet

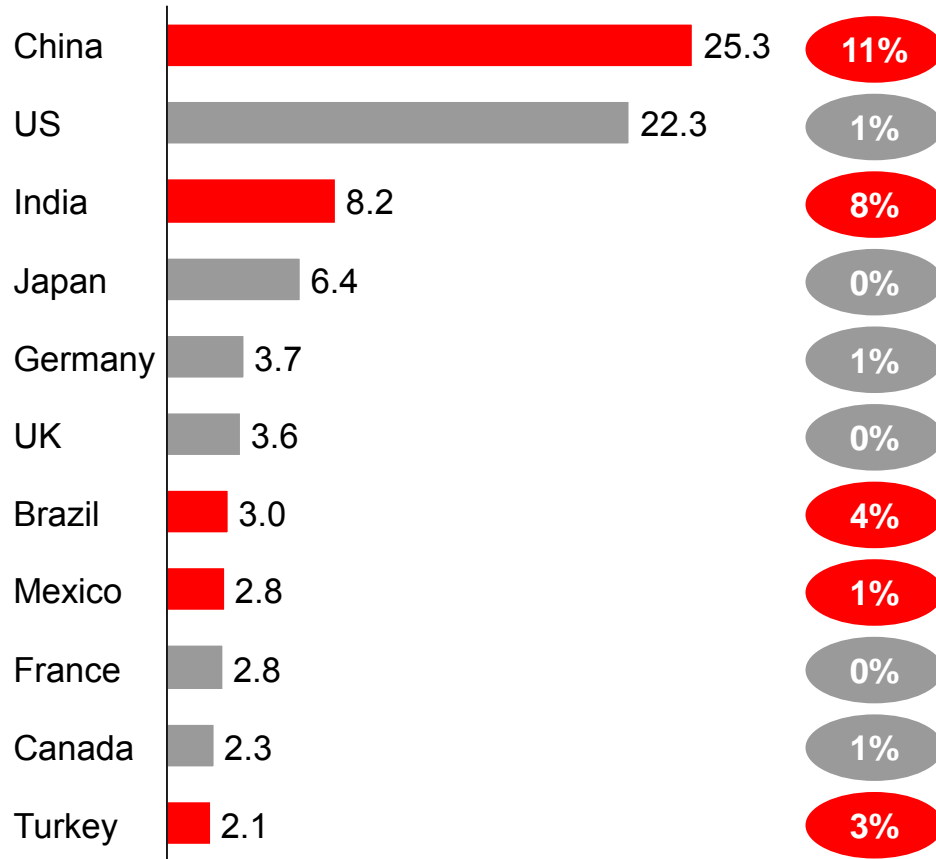
<sup>1</sup> As of 1 May 2013

# Growth – HSBC has exposure to markets with strong fundamentals driving wealth creation

## Top economies by 2050

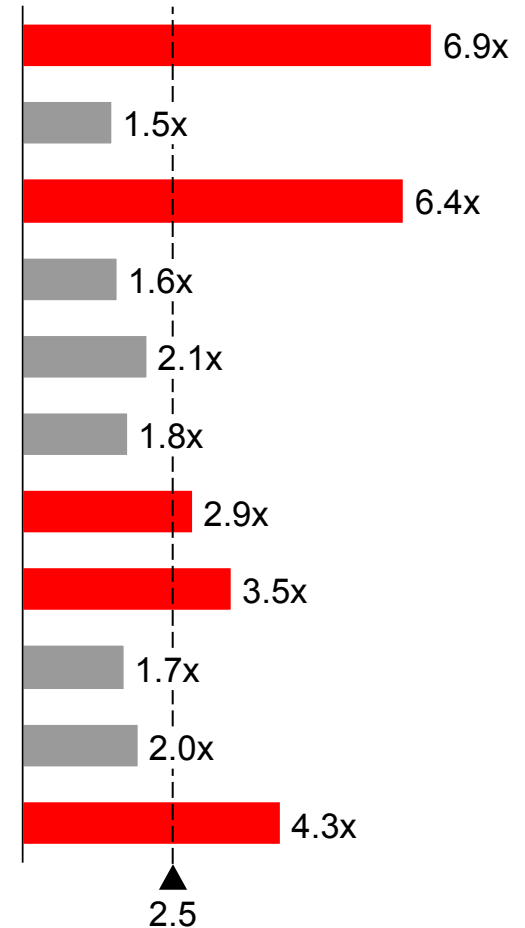
GDP, USDtn

GDP Growth 06-11, CAGR



## Income per capita in 2050

Multiple over 2010 income



Source: HSBC – The World in 2050 (Jan 2012), Global Insights

# Clear organic investment criteria

## What fits HSBC's portfolio?

### Six Filters

- § Connectivity
- § Economic development
- § Profitability
- § Efficiency
- § Liquidity
- § Financial crime risk

### Resulting actions

- § Invest
- § Turnaround/improve
- § Continue as is
- § Discontinue/dispose

## Where should we invest additional resources?

### Strategic

Invest only in businesses aligned to our strategy

#### § Is it strategic?

- Mostly in 22 home and priority markets
- Target businesses and clients

### Risk

Consistent with our risk appetite

#### § Does it meet our risk appetite?

- Credit
- Market
- Operational

### Financial

Value accretive for the Group

#### § Does it meet the minimum hurdle?

- Marginal RoRWA
- Revenues/costs

# Key opportunities in Growth Priority Markets

## Asia Pacific

### Mainland China

- § Leading foreign bank for RMB in 2013
- § Debt and equity financing opportunities
- § International desks driving China in/outbound business
- § Largest branch network among foreign peers

### India

- § Invest in accelerating growth of internationally-focused corporate franchise
- § Expand distribution for retail opportunity

### Singapore

- § Develop Wealth management and Private Banking
- § Expand Trade Finance

## Latin America

### Brazil

- § Continue strong growth in CMB, particularly with international customers
- § Drive collaboration revenues from CMB to GBM, RBWM and GPB
- § Capture Wealth Opportunity and accelerate growth in Premier/Advance

### Mexico

- § Leverage 1,000+ branches to capture fair share of lending in RBWM and Business Banking
- § Grow Wealth Management business
- § Drive corporate opportunity through GBM and CMB collaboration (FX, Trade, DCM)

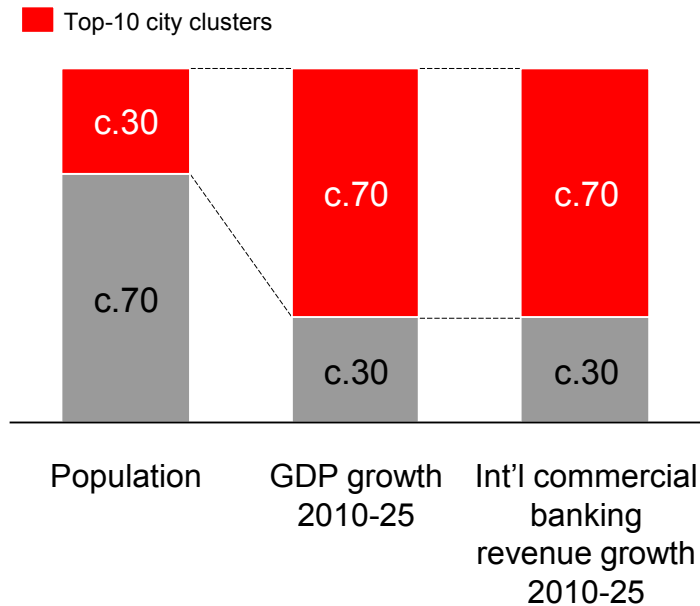
## South – South Corridor

- § 9% share of fast growing Brazil – China trade
- § Recognised as 'Financial institution of the year' (2011) by the Brazil-China Chamber of Commerce for having contributed most to the growth and development of the trade corridor
- § Asia-Latin America desks in place to facilitate cross border business

# In Mainland China c.70% of the international opportunity in the top-10 city clusters

## Mainland China city clusters

% of Mainland China total



Globally, top 100 city clusters concentrate **c.70%** of international commercial banking revenue growth 2010-25

## Example: Guangzhou-Shenzhen city cluster

Major cities of cluster





# Regulatory environment

# Regulatory change has made banks safer but...unintended consequences?

## Regulatory initiatives

### A continuous stream of new regulations

- G20 Pittsburgh Summit in 2009 set out four regulatory themes
  - Better capital and less pro-cyclicality
  - Reforming compensation
  - Improve OTC derivative markets
  - Addressing cross-border resolution and G-SIFIs
- FSB report to G20 in Sept 2013 on 39 recommendations
  - Policy completed in 11 areas at global level
  - Four areas facing difficulties at global level
  - 14 areas facing difficulties at national level including cross border resolution
- Additional national and supra-national initiatives in key areas such as structural reform

## Consequences

### Banks are safer...

- Better quality of bank capital
- Improvements in risk weighting
- Increase in capital ratios beyond Basel 3

Basel Monitoring Report – March 2014

<u>Larger Banks</u>	<u>H1 2011</u>	<u>H1 2013</u>
Basel 3 CET1	7.1%	9.5%
CET1 Shortfall	€486bn	€57bn

### ...but regulations are creating risks and inefficiencies

- Operational risks in implementation
- Additional costs delay capital building
- Uneven implementation distort markets
- Dangers of trapped capital and funding
- Concentration in few asset classes
- Risk of complacency on underlying risks

# Authorities might consider three measures to improve the situation

## Limit regulatory uncertainty

### Continuous regulatory change stifles investment

- Higher capital requirements through numerous actions
  - Increasing risk-weights
  - More aggressive stress-tests
  - Faster implementation
  - Higher absolute levels
- Review of conduct through retrospective view
  - UK mis-selling costs
- Extended regulatory agenda...is the end in sight?

## Improve coordination

### Lack of international coordination increases risks

- Cross –border resolution is a critical regulatory reform
  - Cooperation Agreements between regulators are not yet in sight
  - Geographic ring-fencing is increasing
  - Is the real economic impact understood, globally?
  - Clarity and consistency can reduce negative effects for economies

## Deploy macro-prudential policy

### Regulatory reform is still focused on individual banks

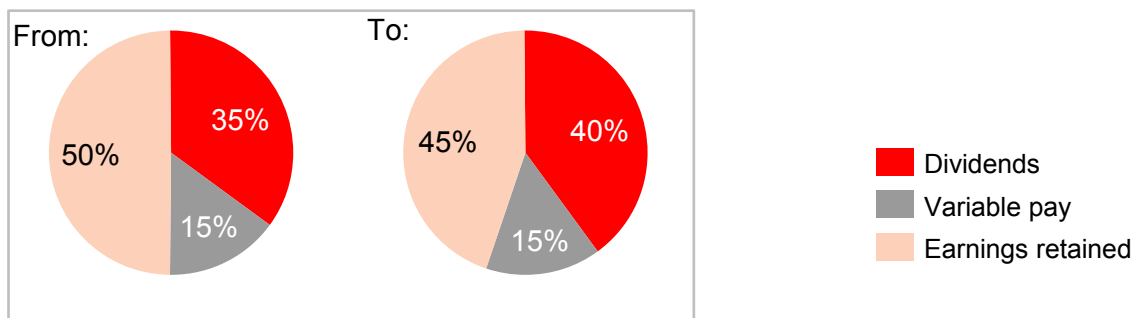
- Systemic failures are more often associated with asset classes, not banks
- Macro-prudential analysis needs to be improved
  - Capture system-wide, as well as bank-specific risks
  - Private capital – personal and corporate – must be measured alongside bank capital
  - Economic models must include the banking system

**International cooperation and consistency vital to avoid market place distortions**

## Well positioned for future growth

- § Capital strength through diversified capital generative business model
- § Progressive dividend history and capacity
- § Demonstrated adaptability over last three years and capability in future

### Delivering consistent returns



### Growing ordinary dividends<sup>1</sup>

USD	2012	2013	2014 <sup>2</sup>
Per share			
1Q	0.09	0.10	0.10
2Q	0.09	0.10	0.10
3Q	0.09	0.10	0.10
4Q	0.18	0.19	
	<b>0.45</b>	<b>0.49</b>	
<b>Total USDbn</b>	<b>8.3</b>	<b>9.2</b>	
<b>– of which scrip</b>	<b>2.7</b>	<b>2.7<sup>3</sup></b>	

1. In respect of the year

2. The board has a policy of quarterly interim dividends with an intended pattern of three equal interim dividends and a variable fourth. It is envisaged that the first interim dividend in respect of 2014 will be USD0.10 per share

3. Includes 4<sup>th</sup> interim dividend with scrip estimated at 20%