



# Retail Banking and Wealth Management

## Investor Update

May 2014

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Chief Executive, RBWM





## 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 1Q 2014 Interim Management Statement. Past performance cannot be relied on as a guide to future performance.

## I. Group and RBWM Results

### 1Q14 results

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

Summary financial highlights, USDbn	1Q13	4Q13	1Q14	Better/(worse)	
				1Q14 vs 1Q13	1Q14 vs 4Q13
Reported PBT	8.4	4.0	6.8	(1.6)	2.8
Underlying <sup>2</sup> PBT	7.6	3.5	6.6	(1.0)	3.1

Key ratios %	1Q13	4Q13	1Q14	KPI
Return on average ordinary shareholders' equity <sup>3</sup>	14.9	5.9	11.7	12-15%
Cost efficiency ratio	50.8	69.6	55.7	mid-50s
Jaws (underlying) <sup>4</sup>	–	–	(6.4)	Positive
Advances-to-deposits ratio <sup>5</sup>	72.9	72.9	73.9	< 90
Common equity tier 1 ratio (transitional basis)	–	10.8	10.7	>10%
Common equity tier 1 ratio (end point basis)	10.1	10.9	10.8	>10%

Notes:

1. All figures are reported unless otherwise stated and are sourced from HSBC's 1Q 2014 Interim Management Statement ("1Q14 IMS") and accompanying data pack ("1Q14 data pack").
2. Adjusted for foreign currency translation differences, acquisitions, disposals and changes in ownership level of subsidiaries, associates, joint ventures and businesses, and fair value ("FV") movements in credit spread on own long-term debt issued by Group and designated at fair value
3. On an annualised basis
4. Calculated as percentage growth in net operating income before loan impairment charges and other credit risk provisions less percentage growth in total operating expenses, 1Q14 versus 1Q13
5. Excludes reverse repos and repos

## I. Group and RBWM Results

### Group Financial overview

#### Reconciliation of Reported to Underlying results

USDm	1Q13	4Q13	1Q14	Variance 1Q14	
				vs 1Q13	vs 4Q13
<b>Reported profit before tax</b>	<b>8,434</b>	<b>3,964</b>	<b>6,785</b>	<b>(1,649)</b>	<b>2,821</b>
Includes:					
FVOD <sup>1</sup>	(243)	(652)	148	391	800
Gain on de-recognition of Industrial Bank as an associate	1,089	-	-	(1,089)	-
Gain on sale of associate shareholding in Bao Viet Holdings	104	-	-	(104)	-
Loss on sale of Household Insurance Group's insurance manufacturing business	(99)	-	-	99	-
Gain on disposal of Colombia operations	-	-	18	18	18
Gain on disposal of Panama operations	-	1,107	-	-	(1,107)
Other gains / losses on acquisitions / disposals	-	(77)	-	-	77
Operating results of disposals, acquisitions and dilutions	(73)	51	(2)	71	(53)
Currency translation	67	35	-	(67)	(35)
<b>Underlying profit before tax</b>	<b>7,589</b>	<b>3,500</b>	<b>6,621</b>	<b>(968)</b>	<b>3,121</b>
<b>Significant items included in underlying profit before tax (reported basis)</b>					
Revenue	935	(276)	(141)	(1,076)	165
Operating expenses	(458)	(1,424)	(123)	335	1,301

Notes:

All figures are sourced from 1Q14 IMS & 1Q14 data pack

1. Fair value movements on our long-term debt designated at fair value resulting from changes in credit spread

## I. Group and RBWM Results

### Group Financial overview

Significant items included in underlying profit before tax

USDm				Variance 1Q14	
	1Q13	4Q13	1Q14	vs 1Q13	vs 4Q13
<b>Underlying profit before tax</b>	<b>7,589</b>	<b>3,500</b>	<b>6,621</b>	<b>(968)</b>	<b>3,121</b>
<b>Includes the following significant items (reported basis):</b>					
<b>Revenue</b>					
<i>Restructuring and repositioning:</i>					
Net gain on completion of Ping An disposal	553	-	-	(553)	-
FX gains relating to the sterling debt issued by HSBC Holdings	442	-	-	(442)	-
Write-off of allocated goodwill relating to GPB Monaco business <sup>1</sup>	(279)	-	-	279	-
Loss on early termination of cash flow hedges in the US run-off portfolio	(199)	-	-	199	-
Loss on sale of an HFC Bank UK secured loan portfolio	(138)	(8)	-	138	8
Loss on sale of several tranches of real estate secured accounts in the US	-	(123)	(30)	(30)	93
<i>Volatility:</i>					
Debit valuation adjustment on derivative contracts	472	(195)	31	(441)	226
Fair value movements on non-qualifying hedges	84	50	(142)	(226)	(192)
	<b>935</b>	<b>(276)</b>	<b>(141)</b>	<b>(1,076)</b>	<b>135</b>
<b>Operating expenses</b>					
<i>Restructuring and repositioning:</i>					
Restructuring and other related costs	(75)	(87)	(40)	35	47
<i>Customer redress and litigation-related charges:</i>					
UK customer redress programmes	(164)	(395)	(83)	81	312
Regulatory investigation provisions in GPB	(119)	(35)	-	119	35
US customer remediation provision relating to CRS	(100)	-	-	100	-
<i>Bank levy:</i>	-	(907)	-	-	907
	<b>(458)</b>	<b>(1,424)</b>	<b>(123)</b>	<b>335</b>	<b>1,301</b>

**Notes:**

All figures are sourced from 1Q14 IMS & 1Q14 data pack

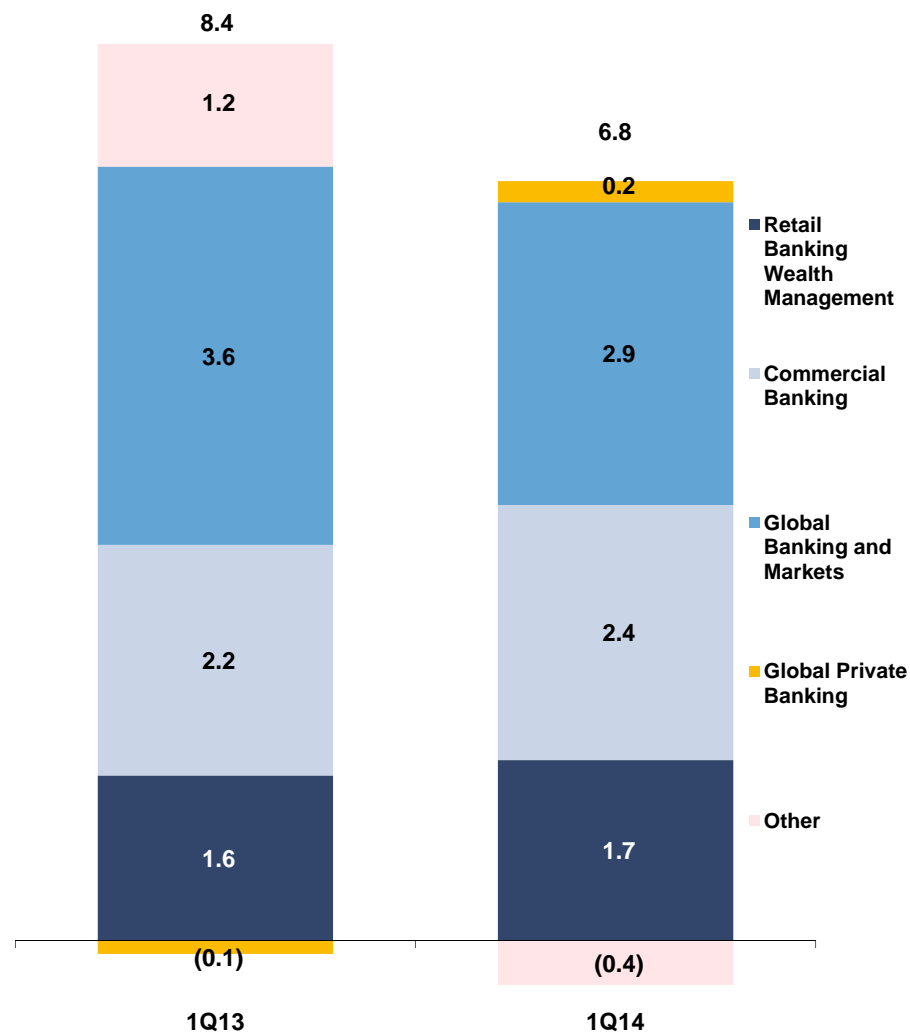
- In the first quarter of 2013 the private banking operations of HSBC Private Bank Holdings (Suisse) SA in Monaco were classified as held for sale. At this time, a loss on reclassification to held for sale was recognised following a write down in the value of goodwill allocated to the operation. Following a strategic review we decided to retain the operation, and the assets and liabilities of the business were reclassified to the relevant balance sheet categories, however the loss on reclassification was not reversed.

# I. Group and RBWM Results

## 1Q14 results

### Business profit contributions

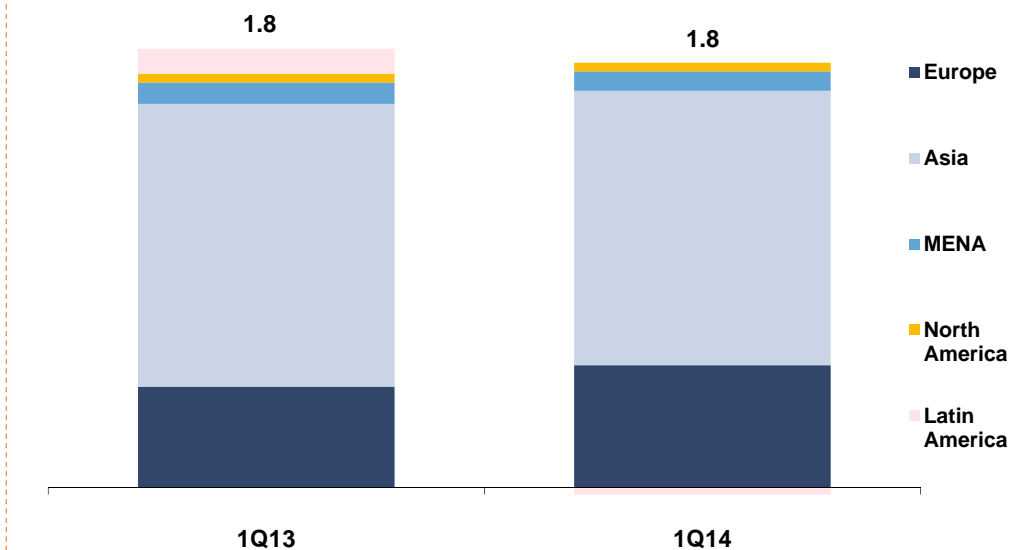
Global Businesses – Reported Profit Contribution (USDbn)



Retail Banking and Wealth Management – Profit Contribution

PBT (USDbn)	1Q13	1Q14	% better/(worse) 1Q14 vs 1Q13
RBWM - Reported basis	1.6	1.7	9
RBWM - Underlying basis <sup>1</sup>	1.6	1.7	4
<i>Of Which</i>			
US run-off portfolio	(0.2)	(0.1)	75
Principal RBWM Business <sup>2</sup>	1.8	1.8	(5)

Principal RBWM Business – Underlying Profit by Region (USDbn)



Notes:

All figures are sourced from 1Q14 IMS & 1Q14 data pack

- Underlying basis eliminates effects of foreign currency translation differences, acquisitions, disposals and changes in ownership levels of subsidiaries, associates, joint ventures and businesses, and fair value ("FV") due to movements in credit spread on own long-term debt issued by Group and designated at fair value
- Excludes US run-off portfolio

## I. Group and RBWM Results

### 1Q14 results

#### RBWM highlights

##### Financial highlights:

- **RBWM: Underlying profit before tax ('PBT')** increased by 4% to USD1.7bn
- **Principal RBWM business: Underlying profit before tax ('PBT')** decreased by 5% to USD1.8bn, of which:
  - **Revenue** broadly in line with previous year reflecting the run-off of our Canadian consumer finance business and lower fees in the US and Europe. This was partly offset by non-recurrence of the loss on disposal of HFC Bank UK and higher revenue from savings and deposits, mainly in Europe and Asia
  - **Operating expenses** increased by 2% mainly in Latin America and Asia. This was partly offset by lower customer redress provisions in the UK
  - **LICs** were in line with prior year

##### Strategy highlights – Focused on:

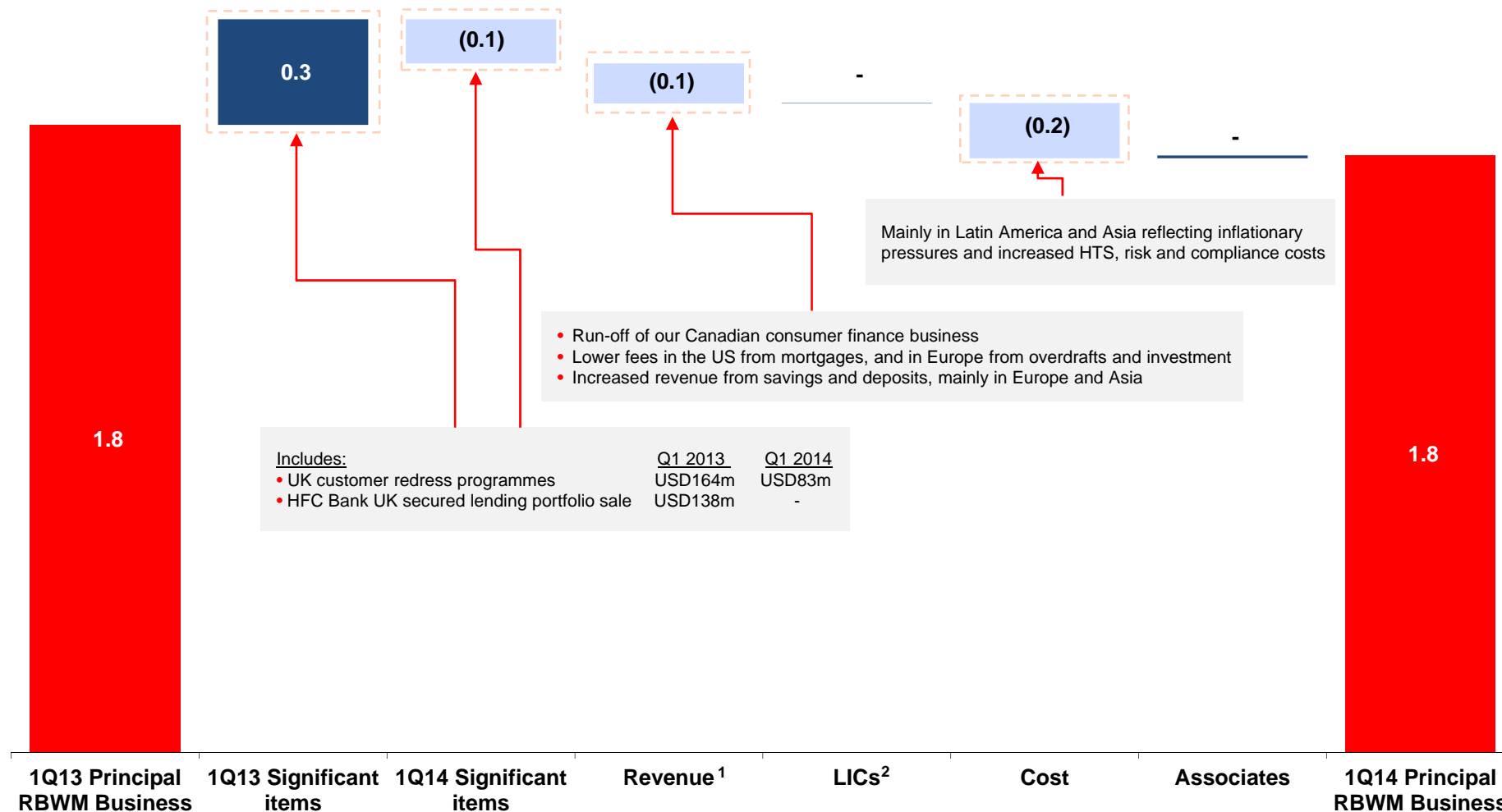
- **Three growth priorities**
  - Focus on relationship led personal lending to drive balance sheet growth
  - Continue to develop Wealth Management with focus on growing customer assets
  - Develop digital capabilities to support customers and reduce cost
- **Implementation of Global Standards**
- **Streamlining processes and procedures**

# I. Group and RBWM Results

## Principal RBWM business profit before tax

Underlying profit before tax

(USDbn)



Notes:

All figures are sourced from 1Q14 IMS & 1Q14 data pack

1. Revenue is net operating income before loan impairment charges and other credit risk provisions

2. Loan impairment charges and other credit risk provisions

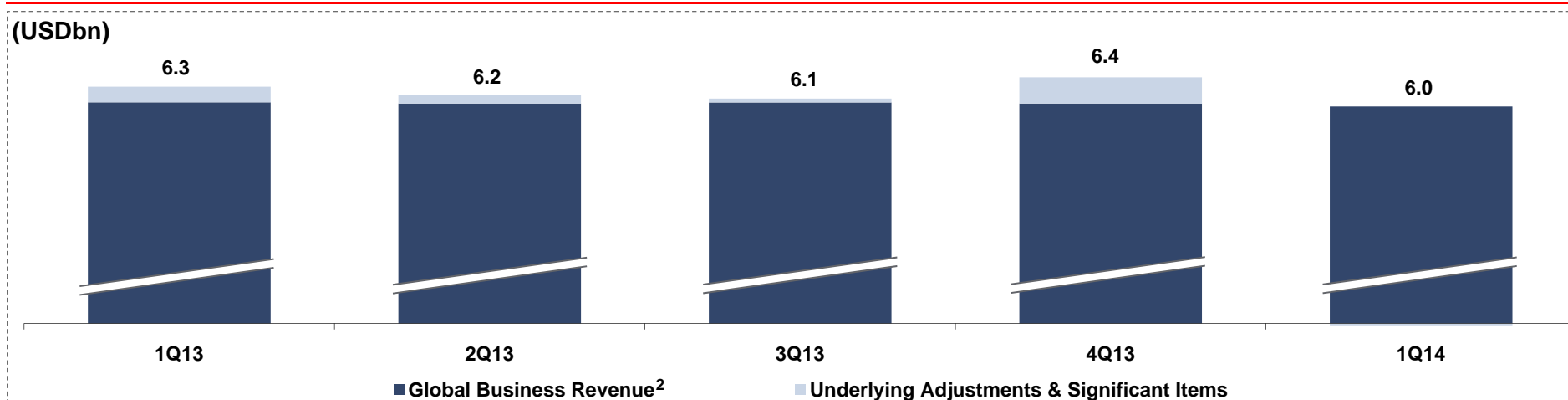


# I. Group and RBWM Results

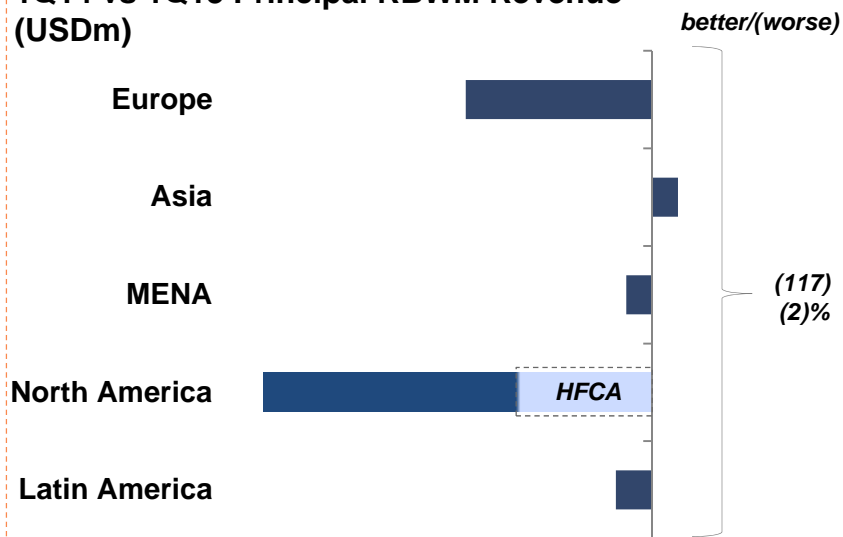
## Principal RBWM business revenue

Addressing conduct risk and improving the quality of revenues

### Reported Revenue<sup>1</sup>



### 1Q14 vs 1Q13 Principal RBWM Revenue<sup>2, 3</sup> (USDm)



### Regional Performance Highlights

- **Europe**
  - Regulatory changes impacting overdraft fees in the UK and card and overdraft rates in Turkey
  - Lower wealth fees, loan and mortgage spreads and card balances in the UK partly offset by higher revenue from savings and deposits in Europe
- **Asia**
  - Average balance sheet growth in assets and deposits mainly in HK
  - Growth in deposit spreads and volumes in China and Singapore
- **North America**
  - Continued run-off of the Canadian consumer finance business (HFCA)
  - Lower mortgage fees and deposit balances in the US
- **Latin America**
  - Lower wealth sales and current account fees in Mexico and Brazil
  - Lower margins in Brazil from a shift to secured lending

Notes:

All figures are sourced from 1Q14 IMS & 1Q14 data pack

1. Revenue is defined as net operating income before loan impairment charges and other credit risk provisions
2. Global Business Revenue excludes underlying adjustments and significant items
3. Chart illustration based on dollar variance

# I. Group and RBWM Results

## Industry context

ft.com > companies > financials >

### Banks

Home UK World Companies Markets Global Economy Lex Comment Manag

February 3, 2014 8:00 pm

#### UK banks count climbing cost of PPI mis-selling

The total bill for mis-selling PPI now runs to almost £20bn, or more than 1 per cent of the UK's annual economic output.

20 November 2013 Last updated at 10:27

### JP Morgan in record \$13bn settlement with US authorities



US bank JP Morgan Chase has agreed to a record \$13bn (£8bn) settlement with US authorities for misleading investors during the housing crisis.

**NEWS BUSINESS** 13 September 2013 Last updated at 12:09

### AXA fined £1.8m by regulator FCA for advice failures

AXA put thousands of elderly and financially inexperienced customers at risk of buying unsuitable investment products, a regulator has found.



FCA kicks off thematic review into non-advised sales and simplified advice

HSBC to review investment advice after FCA mystery shop

Author: IFAonline  
IFAonline | 05 Nov 2013 | 08:07

The Guardian, Tuesday 11 March 2014 19:50 GMT  
Forex rigging claims could prove to be bigger scandal than Libor, says Carney

### FCA inquiry into 'zombie funds' hits industry but may help millions of savers

Shares in pensions and insurance industry plunge as potential mis-selling inquiry follows blow to annuity market in budget

The Guardian, Friday 28 March 2014 20:39 GMT

## HSBC's industry leading actions

- Conduct Risk Agenda now informing the way we run the business
- Implemented new Global Wealth Incentive Framework **removing formulaic link** between products sold and RMs remuneration, instead focusing on total relationship with the customer
- Rolling out new Retail Banking Incentive Framework and **removing formulaic link** between sales of retail products and remuneration in 2014
- De-risking the business and improving the quality of revenue

## II. Growth Priorities

# Wealth Management

Continue to develop Wealth Management with focus on growing customer relationships

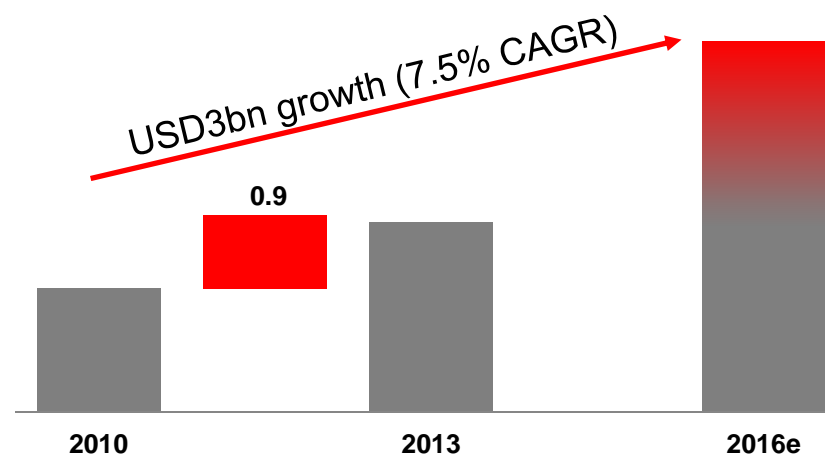
### Our approach

- Globally consistent, needs based, customer-centric

### Progress made

- Invested in training our front line staff to drive productivity
- Accelerated the delivery of platforms and digital capability
- Improved financial planning process and controls
- Introduced Net New Money as KPI for Premier RM<sup>1</sup>
- Increased quality of Premier client base

### Wealth target



### Opportunity for growth

- Deepening Premier customer relationships through:
  - Holistic relationship model
  - Broader coverage and fulfilment of client needs
- Strengthening Premier brand and digital investment to deliver international capabilities

### Continued Focus

- Improve Premier RM productivity
- Increase client contact and coverage rates
- Revamp and re-launch Premier proposition
- Improve product relevance and service delivery (FX, Research)
- Grow Premier customers' Total Relationship Balances<sup>2</sup> and Wealth Balances

Notes:

1. Relationship Managers
2. Total Relationship Balances corresponds to Investment and Insurance Balances plus Premier Deposits

## II. Growth Priorities

### Relationship-led lending

Using personal lending to deepen relationships with existing customers and to generate new relationships

#### Propositions

#### Participation strategy

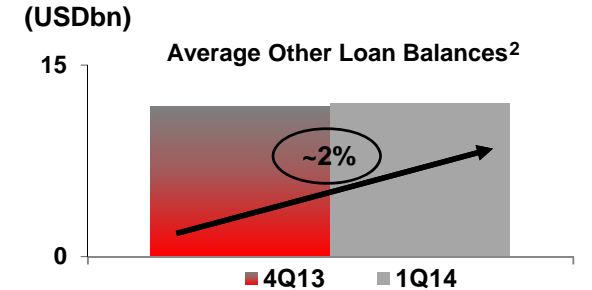
#### Progress to date<sup>1</sup>

#### Compete in proposition and mass market asset businesses

- UK, Hong Kong

- Premier
- Advance
- Mass Market (returns based)

- Leverage marketing, proposition led, more unsecured within risk appetite

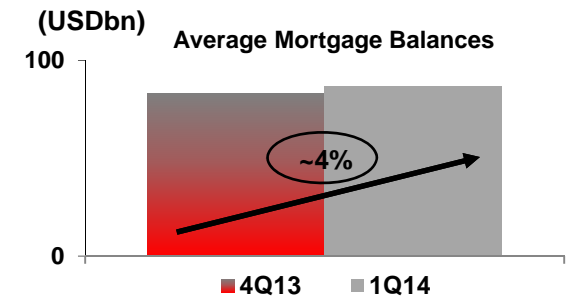


#### Maintain returns and target opportunities

- Australia, Taiwan, France, Canada, Singapore, US, China, Malaysia, Vietnam

- Premier
- Advance
- Mass Market (relationship based)

- Leverage marketing and pricing capability

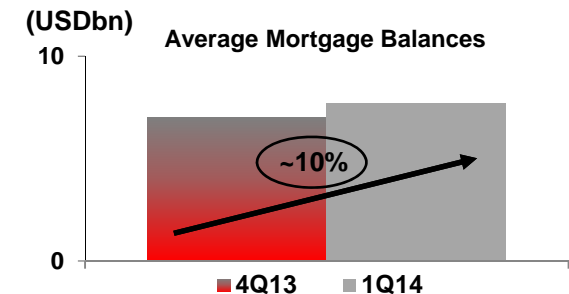


#### Focus on proposition and secured lending

- Brazil, Mexico, Turkey, India, Egypt, Argentina, Indonesia, UAE

- Premier
- Advance
- Mass Market (relationship based)

- Managed growth, rebalancing portfolios towards secured lending
- Targeted originations



#### Supported by

Process standardisation and simplification

Enhanced risk infrastructure

Global analytics capability

New digital investments

Notes:

1. On a constant currency basis
2. Other loan balances include non-residential loans and overdrafts balances

## II. Growth Priorities

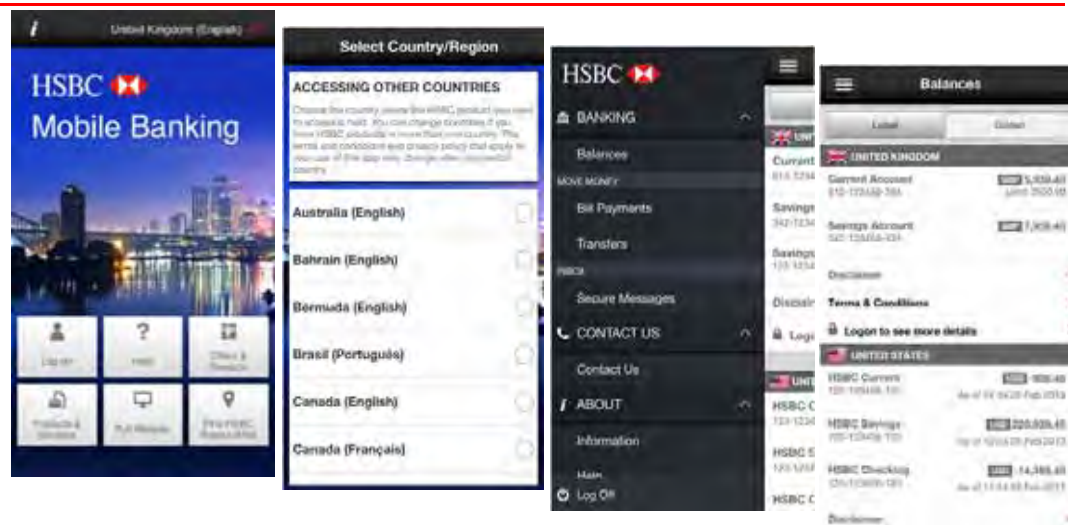
### Digital

### Distribution evolution

#### Investment examples

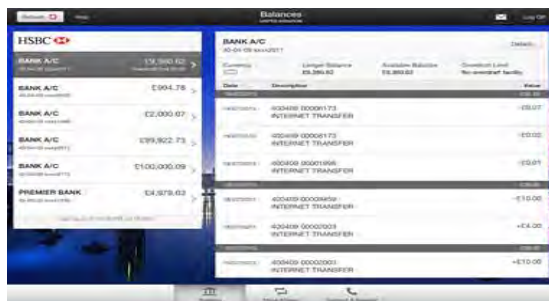
#### Mobile

- **Global mobile banking app** – Live in 25 markets at the end of March 2014, with 3.6 million downloads reached at the end of April 2014
- **Mobile payments** – Progressive deployment of simple and secure contactless payments
- **Advanced capabilities** – Mobile stock and FX Trading



#### Tablet

- **Customer-facing** – Mobile features optimised for tablet devices



- **Staff-facing** – Tablet-based tools for front-line staff to support discussions with customers, including:

Mortgage Applications Wealth Engagement

eSignature



#### Supported by

Improved analytics through our Digital Centres of Excellence and dedicated Digital teams in markets

### III. Streamline

## RBWM transformation

Improving efficiency and customer experience

### Approach



Identify inconsistent processes /  
Define customer journey and  
benchmark performance



Design Target Business and  
Operating Model / select  
standardised approach



Build once and deploy across  
the network prioritised by  
opportunity

### Streamlining - tangible benefits

- Sales channels and propositions:
  - Branch network / contact centre optimisation
  - Digital channel development
  - Product range review
- Processes and servicing:
  - Customer journey based process re-engineering
  - Migrating service processes to optimal channel
  - Locating work in the right locations
  - Improving input quality, decreasing turn around times
- Infrastructure:
  - Support functions and processes reengineering
  - Cost rationalisation
  - Redeploy staff capacity to improve customer servicing

## IV. Summary

# Global RBWM

Priorities 2014: Continue implementation of clear strategy

### Securing customers' future prosperity and realising their ambitions

#### Growth priorities in 2014

Relationship led personal lending

Continue to develop Wealth Management

Digital capabilities

#### 2016 targets

##### Financial

RoRWA<sup>1</sup>, %

3.8-4.3

RoRWA<sup>1</sup>,  
excl. run-off, %

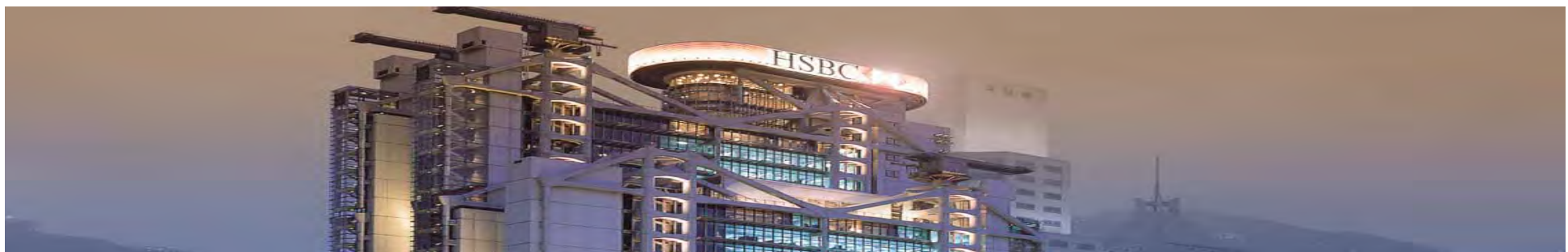
5.0-5.5

Incremental  
wealth revenues<sup>2</sup>

USD3bn

##### Non-financial

- Customer Recommendation Index (CRI) for affluent segment in priority markets<sup>3</sup>
- Total customer relationship balances
- Digitally active customers



Notes:

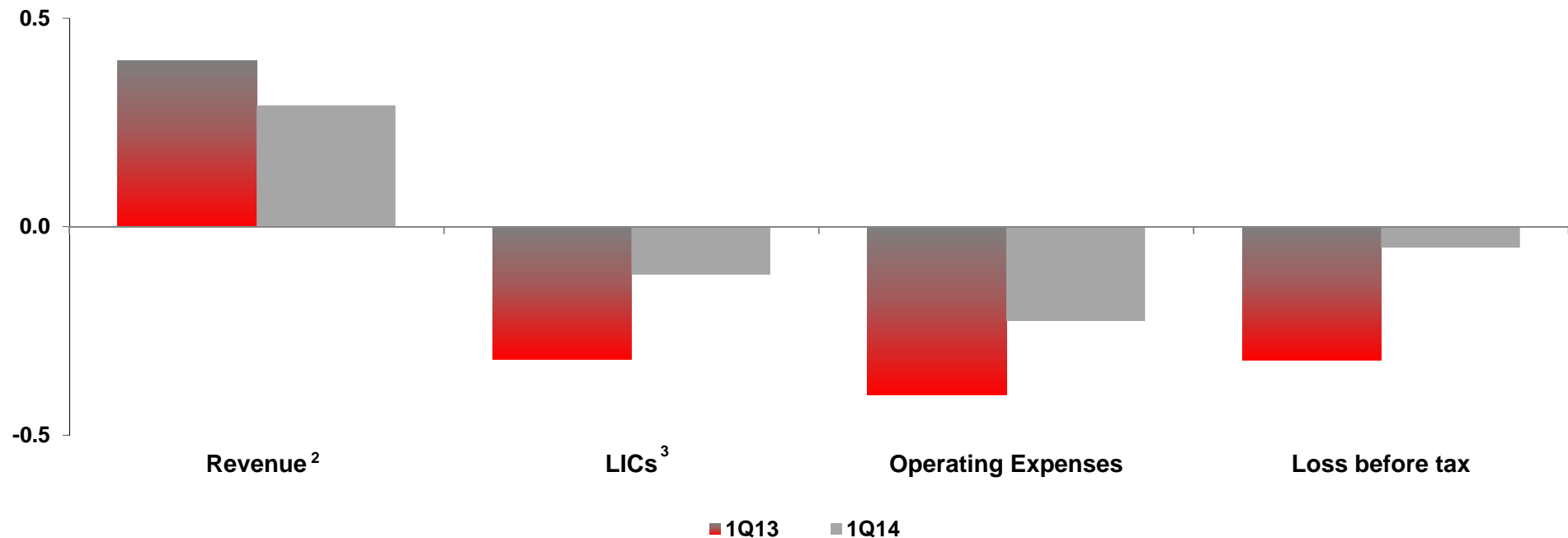
1. CRD IV end point basis
2. Incremental revenues 2010 to 2016
3. CRI measured in Argentina, Brazil, Canada, France, Hong Kong, India, Mainland China, Malaysia, Mexico, Singapore, Taiwan, Turkey, UAE, UK and US

## V. Appendix

### US run-off portfolio<sup>1</sup>

#### Progress in running down and de-risking US legacy portfolio

(USDbn)



- Revenue reduction driven by lower NII from the sale of the non-real estate portfolio in 2013 and lower average balances
- Lower LICs reflects a reduction in CML lending balances following continued run-off and disposals, lower levels of new impaired loans and improvements in the US housing conditions
- Operating expenses decreased mainly due to the non-recurrence of a customer remediation provision related to the former Cards and Retail Services (CRS) business allocated to the US run-off portfolio

Notes:

All figures are sourced from 1Q14 IMS & 1Q14 data pack

1. On a reported basis

2. Revenue is net operating income before loan impairment charges and other credit risk provisions

3. Loan impairment charges and other credit risk provisions

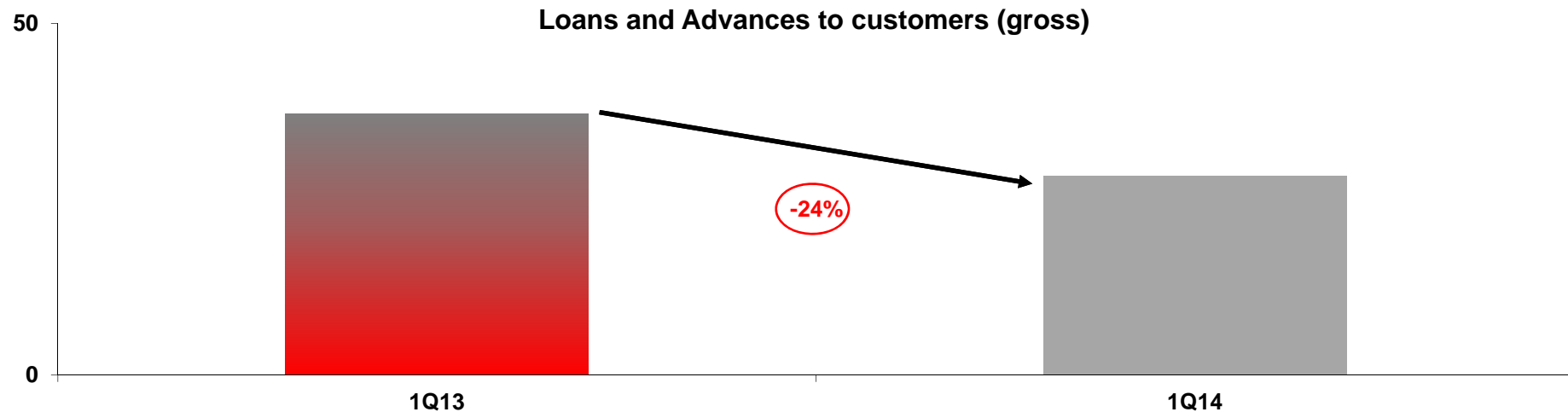
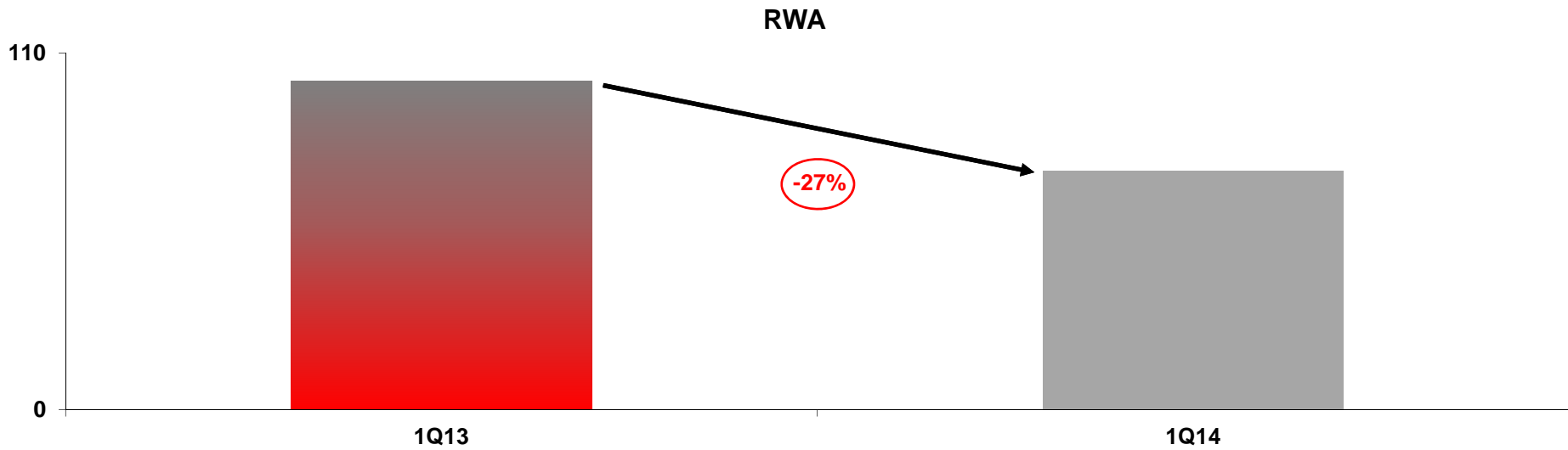


## V. Appendix

### US run-off portfolio<sup>1</sup>

#### Progress in running down and de-risking US legacy portfolio

(USDbn)



Note:

1. On a reported basis