



Retail Banking and Wealth Management

Investor Update

John Flint Chief Executive, RBWM





Forward-looking statements

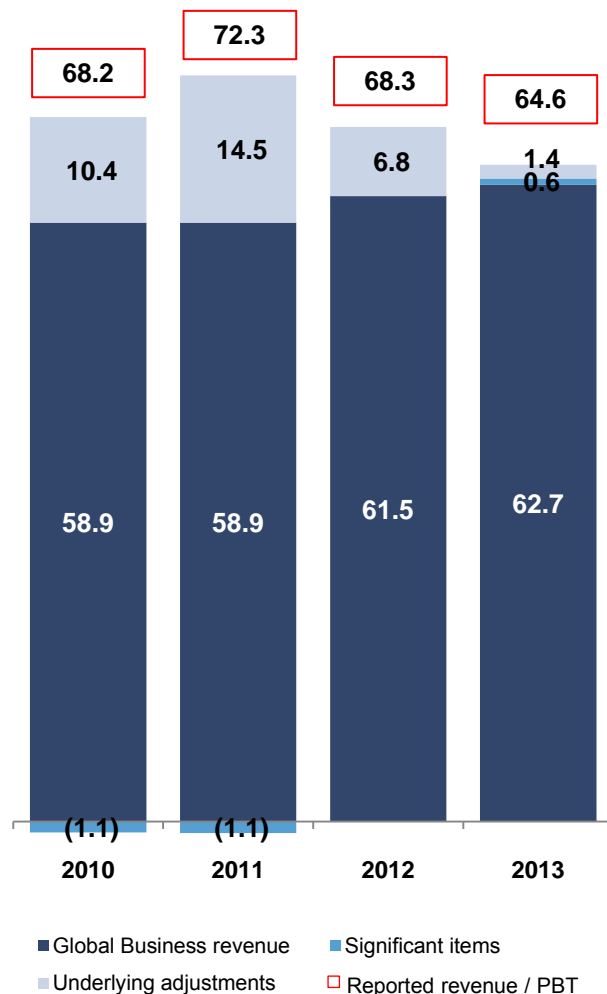
This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events 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 our Interim Report. Past performance cannot be relied on as a guide to future performance.

This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial measurements to the most directly comparable measures under GAAP are provided in the 'reconciliations of non-GAAP financial measures' supplement available at www.hsbc.com.

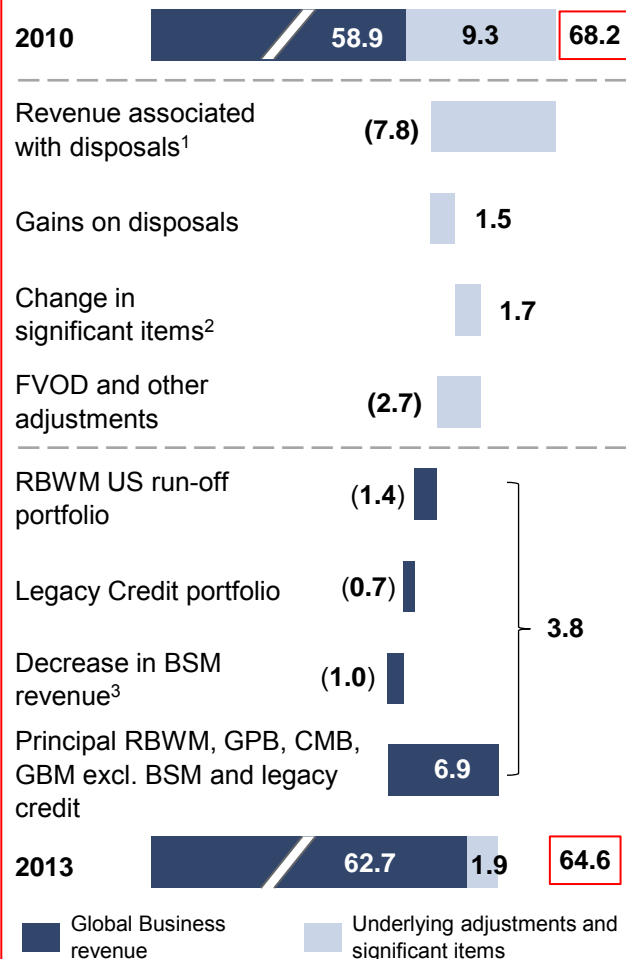
I. 2010 – 2013 Developments

Growth in Global Business revenues

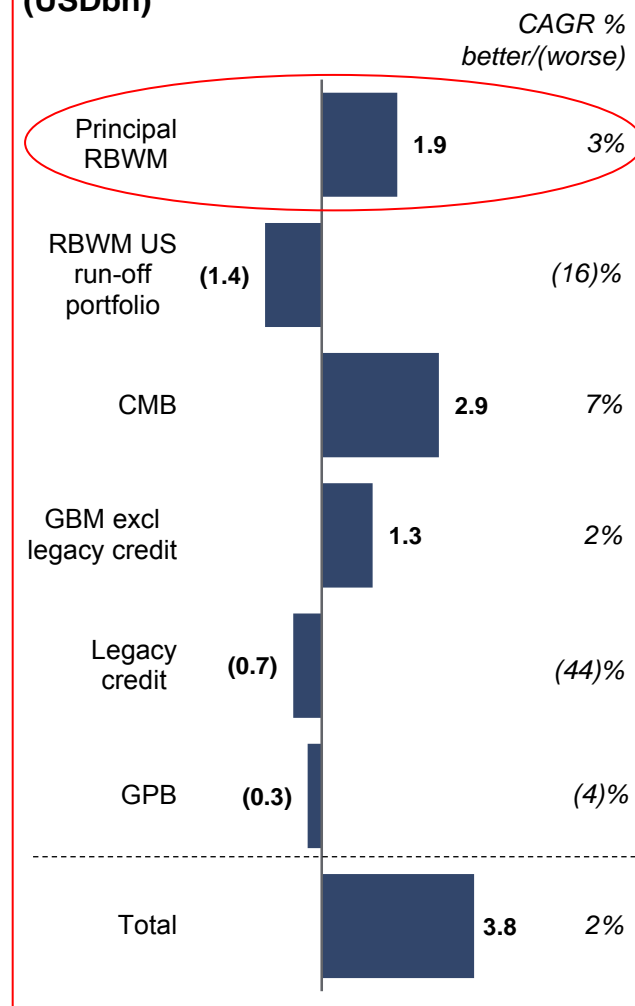
Reported revenue (USDbn)



Revenue drivers 2010-13 (USDbn)



2013 vs. 2010 Global Business revenue⁴ (USDbn)

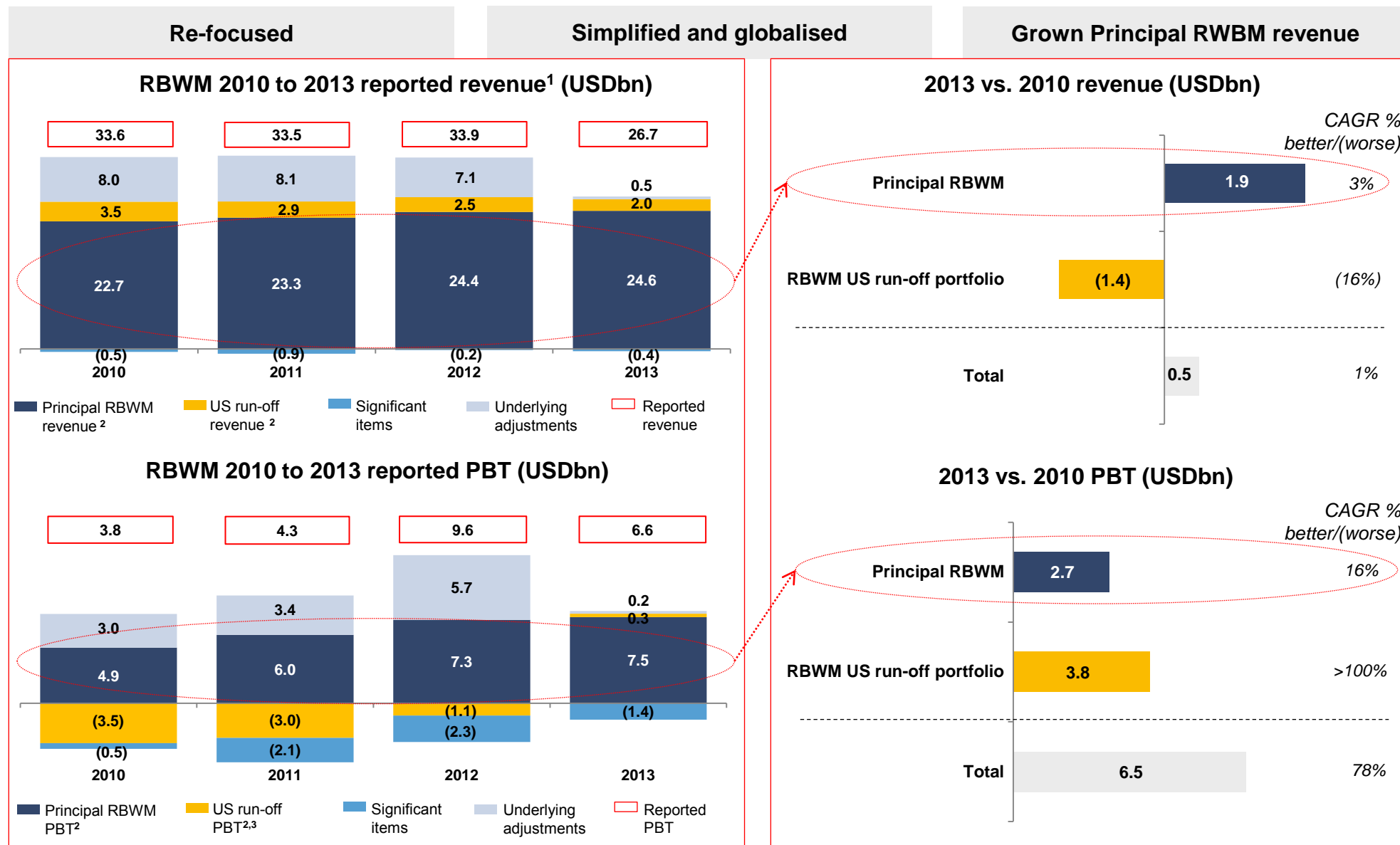


Notes:

- Includes revenue in respect of CRS, US branches and disposals in Latin America (Panama, Costa Rica, Honduras and El Salvador only) only in 2010
- Includes non-qualifying hedges USD1.6bn, net gain on completion of sale of Ping An USD0.6bn, structural FX USD0.4bn, gain on sale and leaseback of the Paris headquarters USD0.2bn, debit valuation adjustment USD0.1bn, loss on sale of several tranches of real estate secured accounts USD(0.1)bn, loss on sale of HFC USD(0.1)bn, loss on termination of cash flow hedges in CML USD(0.2)bn, loss on sale of vehicle finance portfolio in the USD(0.2)bn, loss on sale of the CML non real estate personal loan portfolio USD(0.3)bn, write-off of goodwill related to the Monaco GPB business USD(0.3)bn
- On a reported basis
- Global Business reported revenue excluding underlying adjustments and significant items

I. 2010 – 2013 Developments

Growth in revenues and profitability of the Principal RBWM business



Notes:

1. Net operating income before loan impairment charges and other credit risk provisions
2. Reported excluding underlying adjustments and significant items
3. 2012 includes USD150m costs relating to the US Cards and Retail Services business, sold in May 2012

II. Group Interim results 2014

Financial highlights¹

Summary financial highlights, USDbn	1H13	2H13	1H14	Better/(worse)	
				1H14 vs 1H13	1H14 vs 2H13
Reported PBT	14.1	8.5	12.3	(12)%	45%
Underlying ² PBT	13.0	8.6	12.6	(4)%	46%

Key ratios, %	1H13	2H13	1H14	KPI
Return on average ordinary shareholders' equity ³	12.0	6.5	10.7	12-15%
Cost efficiency ratio	53.5	66.6	58.6	mid-50s
Jaws (underlying) ⁴	-	-	(5.7)	Positive
Advances-to-deposits ratio ⁵	74.1	72.9	74.0	< 90
Common equity tier 1 ratio (transitional basis) ⁶	N/A	10.8	11.2	>10%
Common equity tier 1 ratio (end point basis) ⁶	10.1	10.9	11.3	>10%

Notes:

All figures are sourced from 2014 Interim Report & Data Pack

1. All figures are reported unless otherwise stated

2. Adjusted for foreign currency translation differences, acquisitions, disposals and changes in ownership levels 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 ('revenue') less percentage growth in total operating expenses, 1H14 versus 1H13

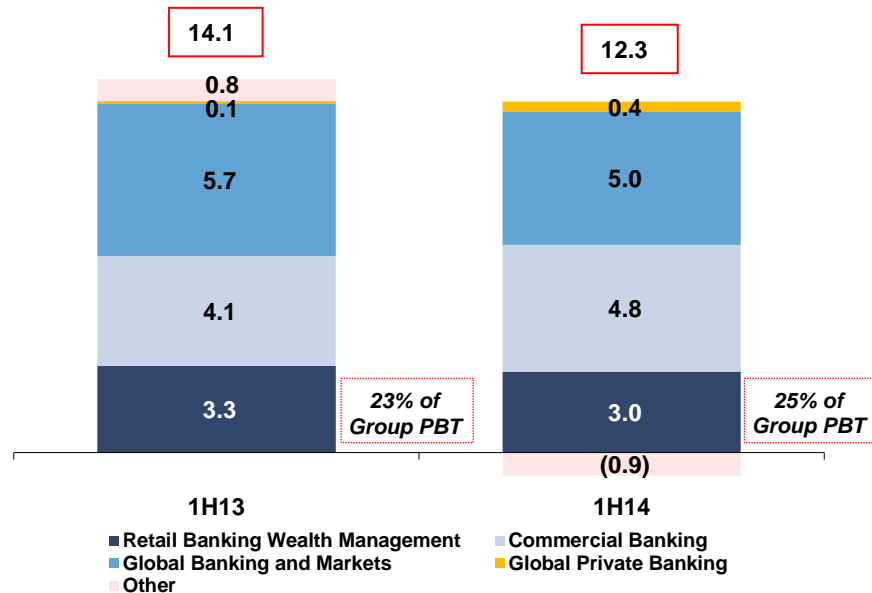
5. Excludes reverse repos and repos

6. On 1 January 2014, CRD IV came into force and capital and RWAs at 30 June 2014 are calculated and presented on this basis. At 31 December 2013, capital and RWAs were also estimated based on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA, details of which can be found in the basis of preparation on page 324 of the *Annual Report and Accounts 2013*

III. RBWM Interim results 2014

PBT and RoRWA: RBWM is a key business contributor to Group

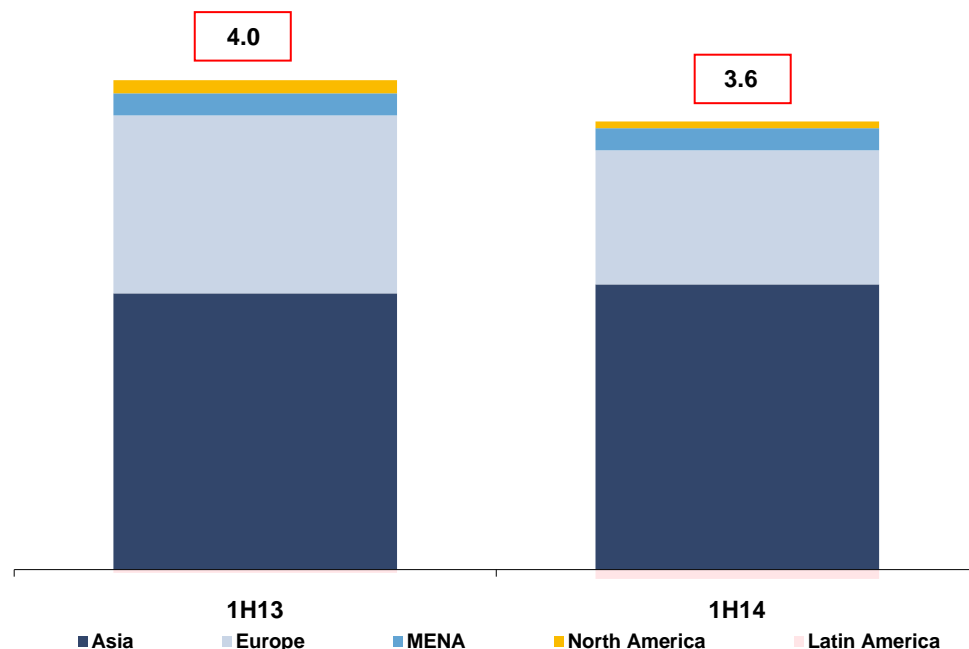
Reported PBT by Global Businesses (USDbn)



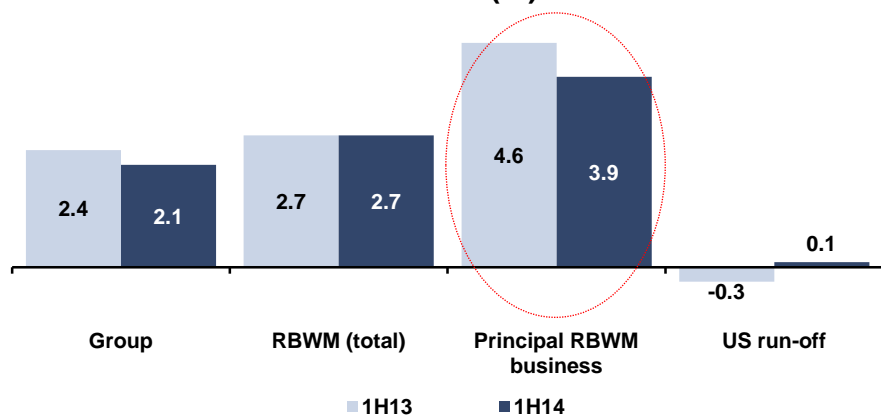
Retail Banking and Wealth Management

PBT (USDbn)	1H13	1H14	% better/(worse) 1H14 vs 1H13
RBWM - Reported	3.3	3.0	(7)
RBWM - Underlying ¹	3.4	3.0	(10)
RBWM - Significant items	(0.8)	(0.9)	2
RBWM - Underlying excluding significant items	4.2	3.9	(8)
Of Which			
US run-off portfolio	0.2	0.3	29
Principal RBWM business	4.0	3.6	(10)

Principal RBWM business – PBT² by Region (USDbn)



RoRWA¹ (%)



Notes:

All figures are sourced from 2014 Interim Report & 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
- Underlying excluding significant items

III. RBWM Interim results 2014

Financial & Strategy highlights

Financial highlights - Principal RBWM business¹:

- **Revenue:** Stable, reflecting resilience considering:
 - Challenging economic environment: low interest rates and low growth in key markets
 - Significant de-risking initiatives weighing on income but providing better quality revenue and improved franchise:
 - § Exiting relationships and changing the portfolio mix in certain markets
 - § Customer fairness principles
 - § Regulatory requirements
 - § Introduction of new discretionary incentive frameworks for our front line staff in Wealth Management (GWIF) and Retail Banking (RBIF): sales based on needs fulfilment
- **LICs:** Decrease across most of the regions, mainly driven by lower delinquencies in the US and the UK
- **Operating expenses:** Cost discipline but increase of USD0.5bn (6%) driven by:
 - Ongoing investments in Risk, Compliance and Marketing
 - Inflationary pressures in our higher growth markets
 - Timing of the recognition of the FSCS levy (USD0.1bn)
- **PBT:** As a result of the above, decrease by 10%, from USD4.0bn to USD3.6bn

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 balances
 - Develop digital capabilities to support customers and reduce cost
- **Implementation of Global Standards**
- **Streamlining processes and procedures**

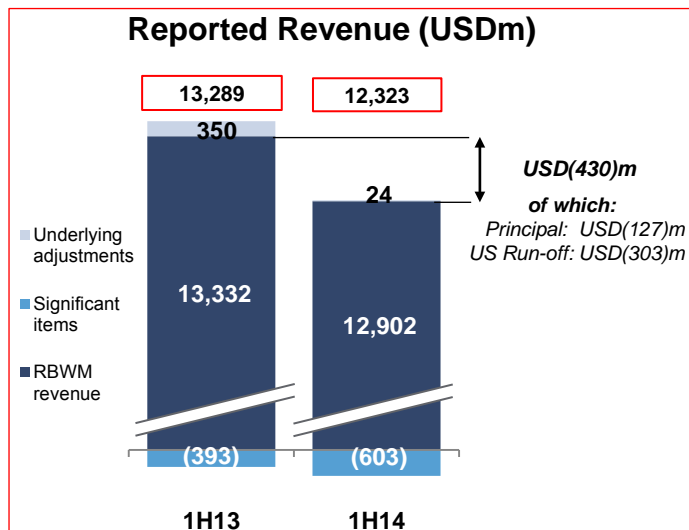
Notes:

All figures are sourced from 2014 Interim Report & Data Pack

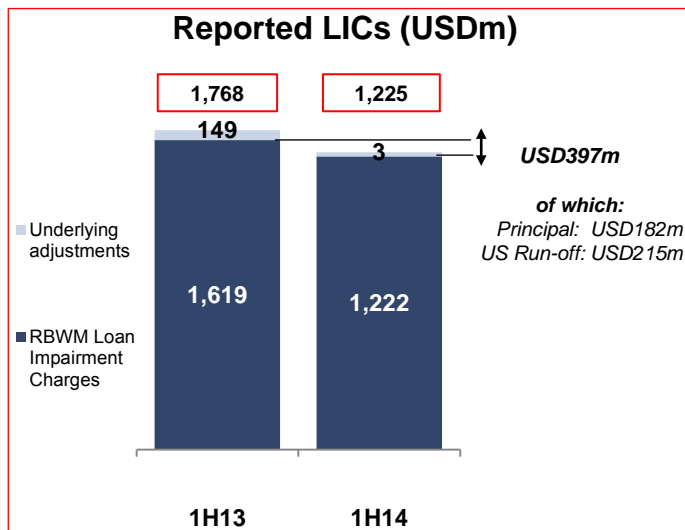
1. Reported basis excluding underlying adjustments and significant items

III. RBWM Interim results 2014

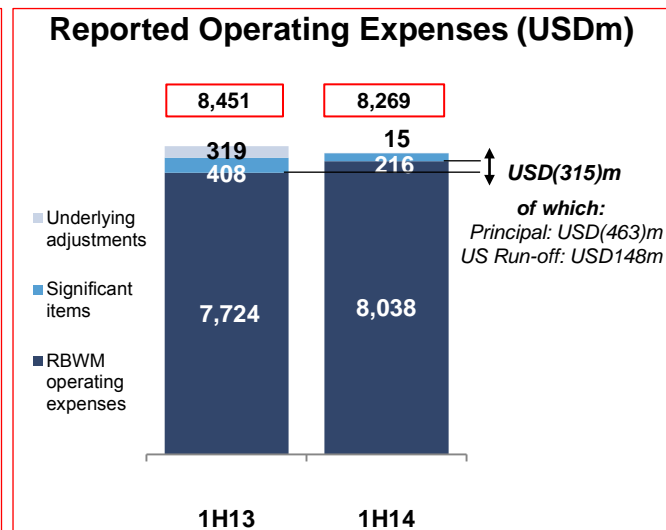
Revenue, LICs and Operating Expenses performance



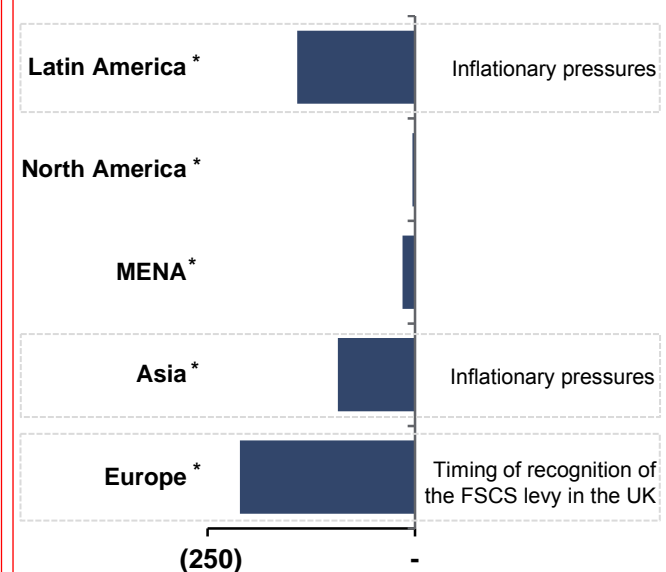
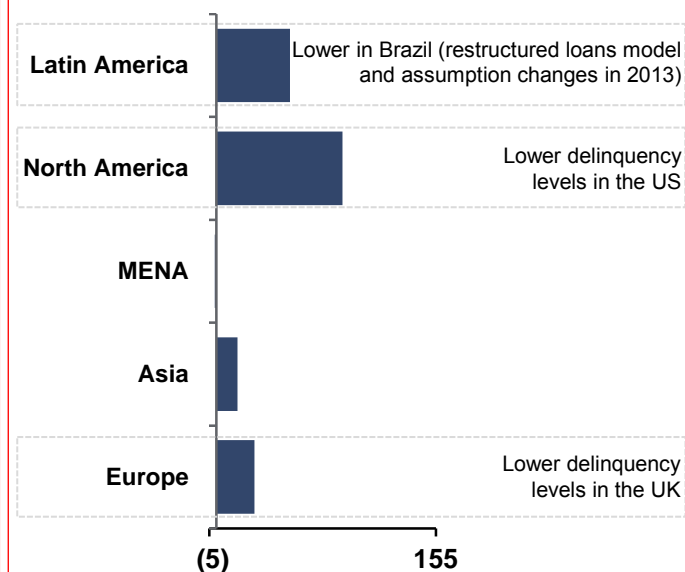
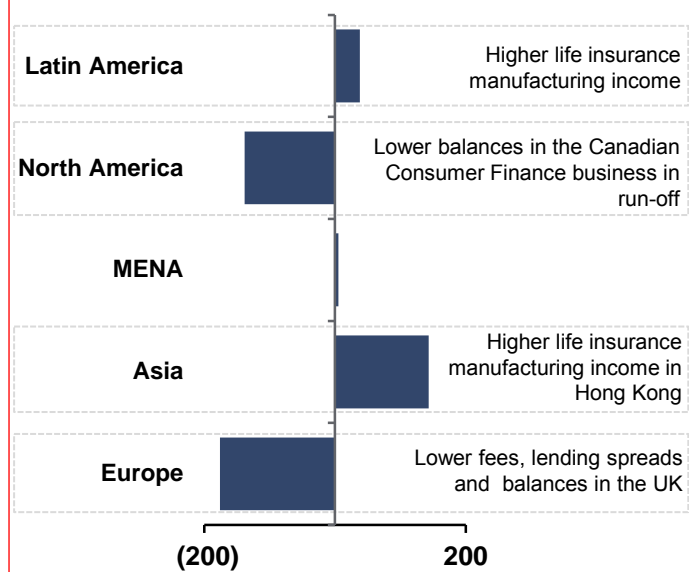
Principal RBWM¹: USD(127)m, 1% lower



Principal RBWM¹: USD182m, 15% lower



Principal RBWM¹: USD(463)m, 6% higher



* Higher investment in Risk, Compliance and Marketing

Notes:

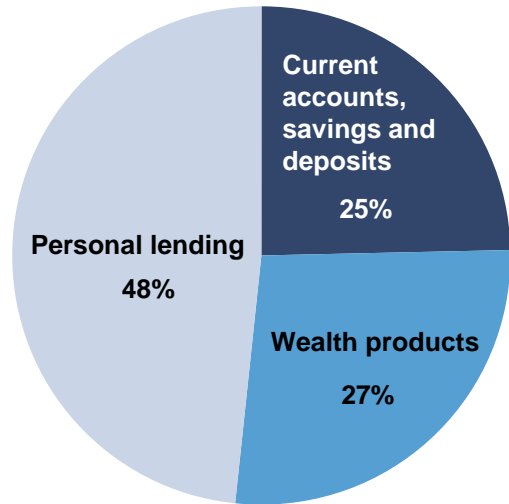
All figures are sourced from 2014 Interim Report & Data Pack

1. Reported basis excluding underlying adjustments and significant items

III. RBWM Interim results 2014

Principal RBWM business product analysis

1H14 Revenue¹ mix:

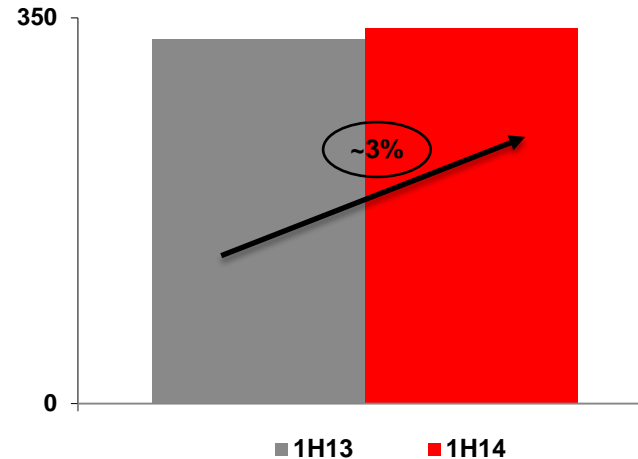


Product Revenue 1H14 vs 1H13:

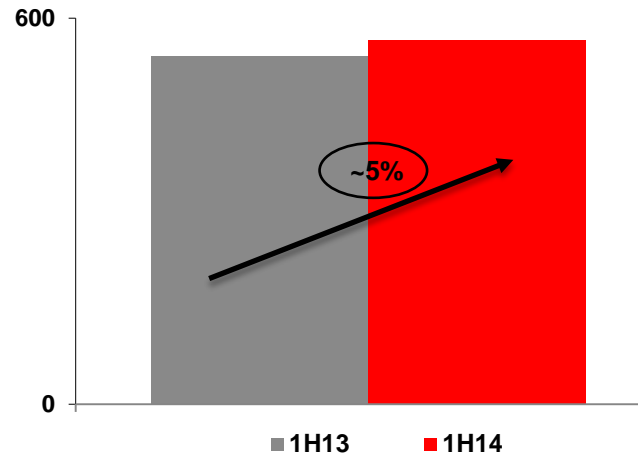
- Mortgages and credit cards: Broadly unchanged²
- Other personal lending: Decline in the UK (cessation of certain overdraft fees) and in Brazil (change to portfolio mix)
- Current accounts, savings and deposits: Increase driven by higher balances and wider spreads
- Life insurance manufacturing: Higher in Hong Kong (improved sales and favourable market movements)
- Investment distribution: Decline driven by lower fees from mutual funds in the UK and reduced volumes in Hong Kong

Balances³ (USDbn)

Loans and Advances to Customers⁴



Customer Accounts



Spreads

Loans and Advances to Customers⁴

1H14 vs 1H13:

- Compression on mortgages in the UK (re-pricing) and Hong Kong, partly offset by France (favourable pricing)
- Compression on cards in the UK (customers deleveraging) and in Turkey (regulatory changes)

Customer Accounts

1H14 vs 1H13:

- Wider spreads on savings and deposits across most regions, notably in the UK and in mainland China, partly offset by Hong Kong
- Compression on current accounts mainly in Europe due to low interest rates

Notes:

All figures are sourced from 2014 Interim Report & Data Pack

1. Reported Revenue, excluding revenue related to "Other". "Other" includes the distribution and manufacturing (where applicable) of retail and credit protection insurance, any gains or losses on business disposals, movements in non-qualifying hedges, losses arising from a review of compliance with the Consumer Credit Act in the UK in 2014 and loss on disposal of HFC UK Bank secured lending portfolio in 2013. Personal lending includes mortgages, credit cards and "other personal lending". "Other personal lending" includes personal non-residential closed-end loans and personal overdrafts. Wealth products include investment distribution, life insurance manufacturing and asset management.
2. Excluding the adverse impact of the run-off of our Canadian consumer finance business.
3. Average balances on constant currency basis
4. Net of impairment allowances

IV. RBWM Growth Priorities

Relationship-led lending: Using personal lending to deepen relationships with existing customers and to generate new relationships

Propositions

Participation strategy

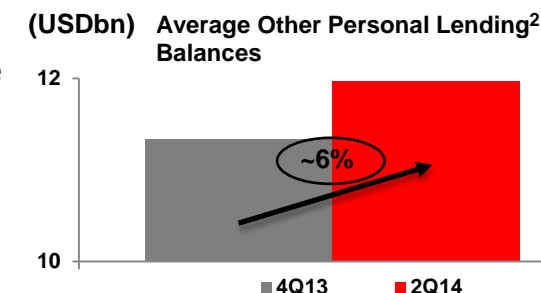
2014 Progress ¹

Compete in proposition and mass market asset businesses

- UK, Hong Kong

- Premier
- Advance
- Personal Banking (returns based)

- Proposition led, more unsecured lending within our risk appetite

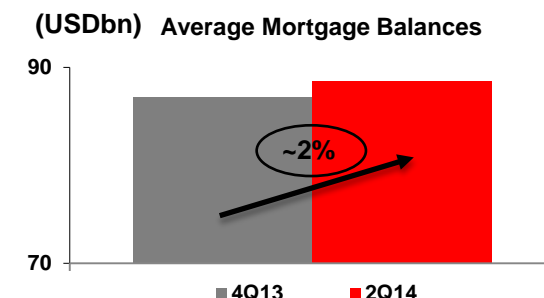


Maintain returns and target opportunities

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

- Premier
- Advance
- Personal Banking (relationship based)

- Proposition led, secured and unsecured lending within our risk appetite

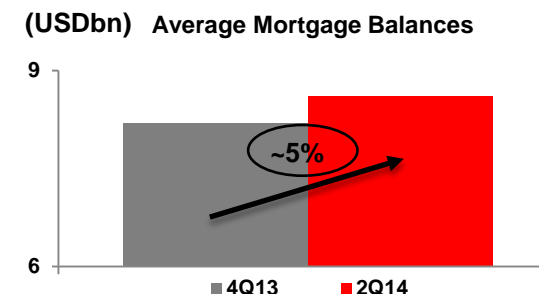


Focus on proposition and secured lending

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

- Premier
- Advance
- Personal Banking (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

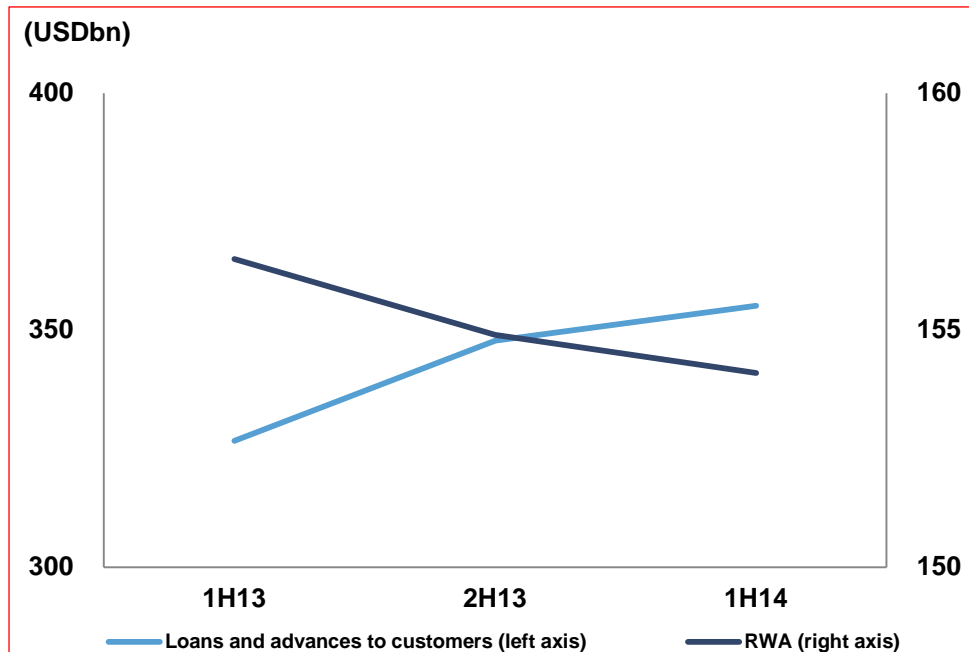
Notes:

- On a constant currency basis
- Other personal lending includes personal non-residential closed-end loans and personal overdrafts.

IV. RBWM Growth Priorities

Relationship-led lending: Contributing to an increase in Loan & Advances balances with lower RWAs and LICs

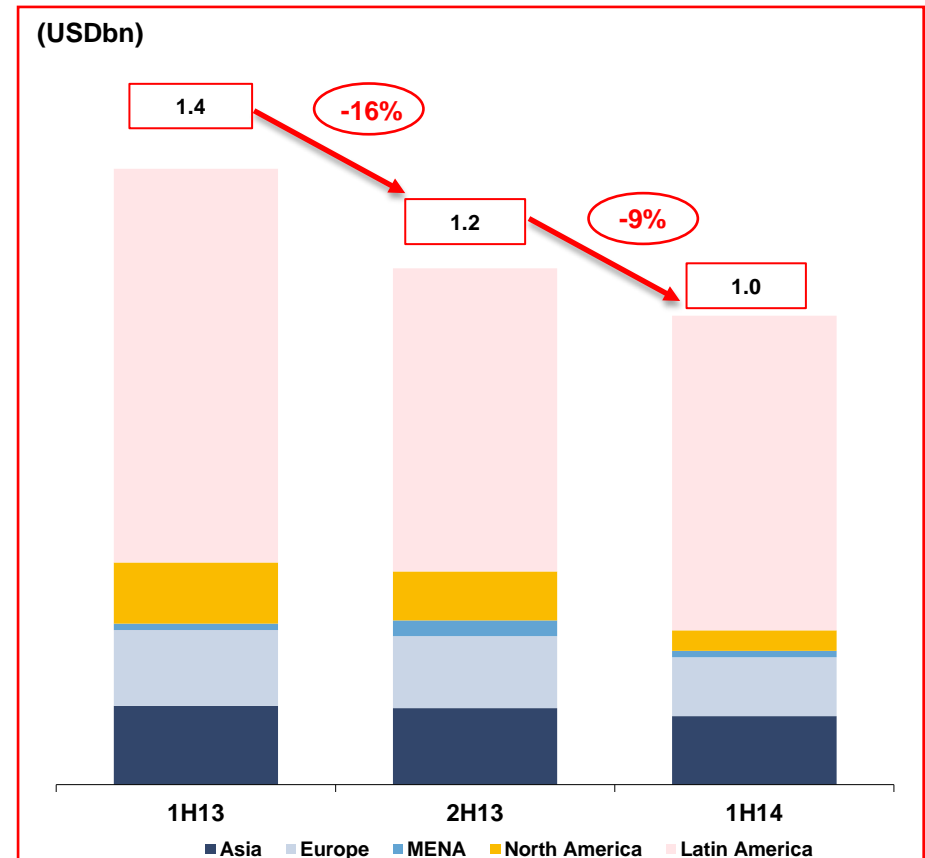
Principal RBWM - Loans & Advances to Customers¹ vs RWAs²



RWAs / Loans & Advances to Customers (%)	1H13	2H13	1H14
Principal RBWM business	48	45	43

- Home loan balances growth in France and mainland China, coupled with higher card and personal loan balances in Hong Kong driving higher Loans & Advances to Customer balances
- De-risking initiatives including disposals driving the RWA reduction

Principal RBWM - LICs² by Region



LICs / Average Loans & Advances to Customers ³ (%)	1H13	2H13	1H14
Principal RBWM business	0.83	0.69	0.60

Notes:

All figures are sourced from 2014 Interim Report & Data Pack

1. Period end balances net of impairment allowances on a reported basis

2. Reported basis

3. LICs on a reported basis and annualised for the purposes of this calculation. Loans and Advances to Customers average balances net of impairment allowances on a reported basis

IV. RBWM Growth Priorities

Wealth Management: Continue to develop with focus on growing customer relationships

Our approach

- Informed by the conduct risk agenda
- Includes measures such as GWIP to reposition the business
- Globally consistent, needs based, customer-centric



Progress made

- Invested in training our front line staff
- Delivered platforms and digital capability
- Improved financial planning process and controls
- Introduced Net New Money as KPI for Premier RMs¹
- Increased quality of Premier client base
- Reduced end-to-end duration for opening international Premier accounts overseas

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 Balances² and Wealth Balances

Notes:

1. Relationship Managers

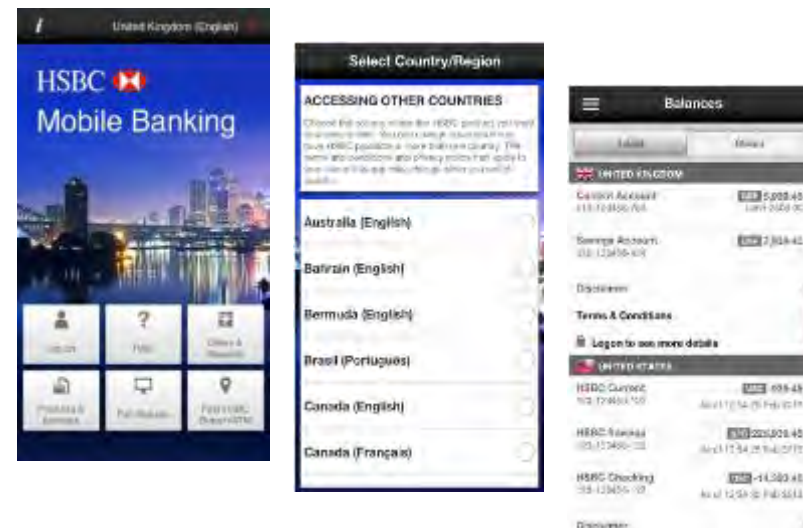
2. Total Relationship Balances corresponds to Investment and Insurance Balances plus Premier Deposits

IV. RBWM Growth Priorities

Digital: Good progress on the migration of customers to digital channels

2014 Progress

- Continued strong growth in customer usage of digital channels
 - Global mobile banking app surpassed 4.3 million downloads in June 2014, with almost 2 million in 1H14
 - 11% increase in monthly average sales and transaction revenue through digital across our priority markets¹
 - New product launches including 'Paym' in the UK and 'Mobile Check Deposit' in the US



Strategic Focus

- Continue improvement of digital capabilities to support and drive customer behaviour
 - Advanced capabilities – e.g. digital product origination, mobile stock and FX trading
 - Enhance multi-channel processes to improve customer experience
- Staff-facing – Tablet-based tools for front-line staff to support discussions with customers, including:
 - Mortgage Applications
 - Wealth Engagement
 - eSignature



Note:
1. From December 2013 to June 2014

V. 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

Tangible benefits

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

Streamlining examples

- Changed service delivery to reduce paper statements
- Improved the onboarding process for Wealth RMs¹

Note:
1. Relationship Managers

VI. Delivering the Strategy

2014 - 2016: Securing customers' future prosperity and realising their ambitions

Strategic priorities

Grow the business

- Continue to optimise RWAs within the risk appetite
- Further capitalise on global network and strengthen position in priority growth markets

Implement Global Standards

- Continue to invest in Compliance and Risk capabilities
- De-risk operations and/or improve risk management in higher risk locations
- HSBC values – act with courageous integrity

Streamline process and procedures

- Re-design key processes and procedures achieving improvements in service, quality, cost and risk
- Release costs to provide headroom to invest in growth and Global Standards
- Deliver additional sustainable saves

2014 Growth priorities

Relationship-led lending

Wealth Management

Digital Capabilities

2016 targets

Financial

Directional PBT contribution % (of Group)	25 - 35
RoRWA ¹ , %	3.8 - 4.3
RoRWA ¹ , excl. run-off, %	5.0 - 5.5

Non-financial

- Customer Recommendation Index (CRI) for affluent segment in priority markets²
- Total customer relationship balances
- Digitally active customers

Notes:

1. CRD IV end point basis

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



Appendix

Group Financial overview: Reconciliation of Reported to Underlying results

USDm	1H13	2H13	1H14	Variance 1H14	
				vs 1H13	vs 2H13
Reported profit before tax	14,071	8,494	12,340	(1,731)	3,846
Includes:					
FVOD ¹	(19)	(1,227)	(215)	(196)	1,012
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 losses on acquisitions / disposals	1	(19)	(32)	(33)	(13)
Operating results of disposals, acquisitions and dilutions	(34)	(21)	9	43	30
Currency translation	12	27	-	(12)	(27)
Underlying profit before tax	13,017	8,627	12,560	(457)	3,933
Significant items² included in underlying profit before tax					
Revenue	851	(258)	(431)	(1,282)	(173)
Operating expenses	(746)	(2,208)	(271)	475	1,937

Notes:

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

Group Financial overview: Significant items included in underlying PBT

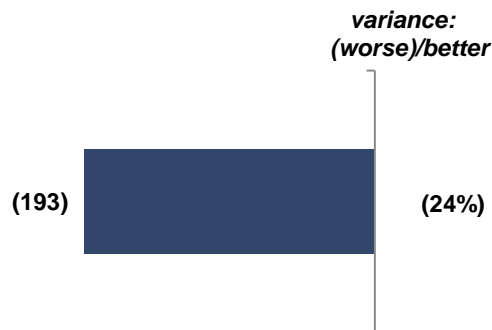
USDm	1H13	2H13	1H14	Variance 1H14	
				vs 1H13	vs 2H13
Underlying profit before tax	13,017	8,627	12,560	(457)	3,933
Includes the following significant items (reported basis):					
Revenue					
<i>Restructuring and repositioning:</i>					
Net gain on completion of Ping An disposal	553	-	-	(553)	-
FX gains relating to the sterling debt issued by HSBC Holdings	442	-	-	(442)	-
Write-off of allocated goodwill relating to GPB Monaco business ¹	(279)	-	-	279	-
Loss on early termination of cash flow hedges in the US run-off portfolio ²	(199)	-	-	199	-
Loss on sale of an HFC Bank UK secured loan portfolio ²	(138)	(8)	-	138	8
Loss on sale of the non-real estate portfolio in CML ²	(271)	-	-	271	-
Loss on sale of several tranches of real estate secured accounts in the US ²	(1)	(122)	(15)	(14)	107
Gain on sale of shareholding in Bank of Shanghai	-	-	428	428	428
<i>Volatility:</i>					
Debit valuation adjustment on derivative contracts	451	(346)	(155)	(606)	191
Fair value movement on non-qualifying hedges ²	293	218	(322)	(615)	(540)
<i>Provision arising from a review of compliance with the Consumer Credit Act in the UK²</i>	-	-	(367)	(367)	(367)
	851	(258)	(431)	(1,282)	(173)
Operating expenses					
<i>Restructuring and repositioning:</i>					
Restructuring and other related costs ²	(238)	(245)	(82)	156	163
<i>Customer redress and litigation-related charges:</i>					
UK customer redress programmes ²	(412)	(823)	(234)	178	589
Regulatory investigation provisions in GPB	(119)	(233)	-	119	233
US customer remediation provision relating to CRS ²	(100)	-	-	100	-
Madoff-related litigation costs	(298)	-	-	298	-
<i>UK bank levy²</i>	(9)	(907)	45	54	952
<i>Accounting gain arising from change in basis of delivering ill-health benefits in the UK²</i>	430	-	-	(430)	-
	(746)	(2,208)	(271)	475	1,937

Note:

- In 1Q13, 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.
- RBWM related item. Refer to reconciliations of Non Gaap financial measures for RBWM specific numbers.

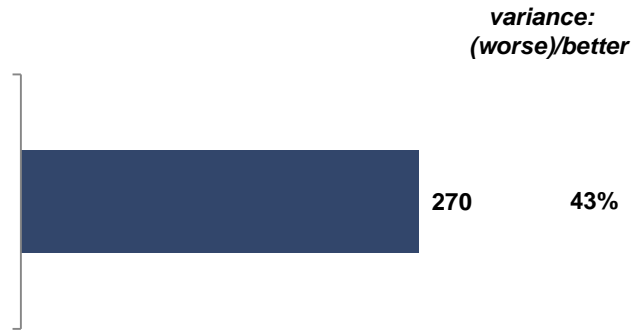
US Run-Off Portfolio: PBT components performance and de-risking progress

1H14 vs 1H13 Revenue¹ (USDm)



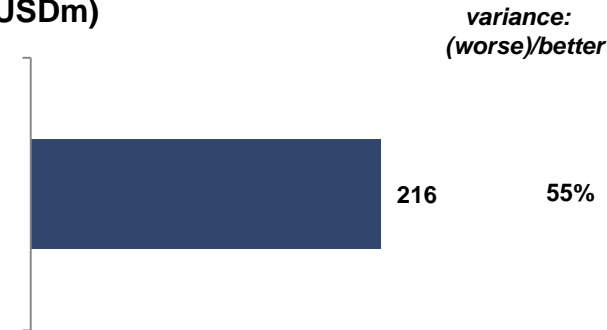
- **Revenue:** Decline from USD0.8bn to USD0.6bn, as the run down continues

1H14 vs 1H13 Operating Expenses¹ (USDm)



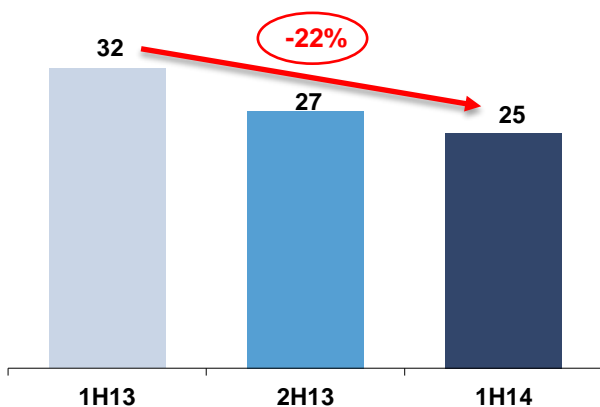
- **Operating Expenses:** Decline from USD0.6bn to USD0.4bn, mainly from the non-recurrence of a CRS customer redress provision

1H14 vs 1H13 Loan Impairment Charges¹ (USDm)

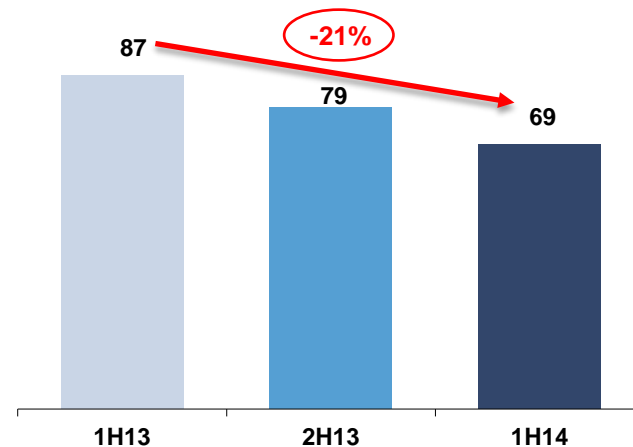


- **Loan Impairment Charges:** Decline from USD0.4bn to USD0.2bn, reflecting decreased lending balances, reduced new impaired loans and delinquency levels

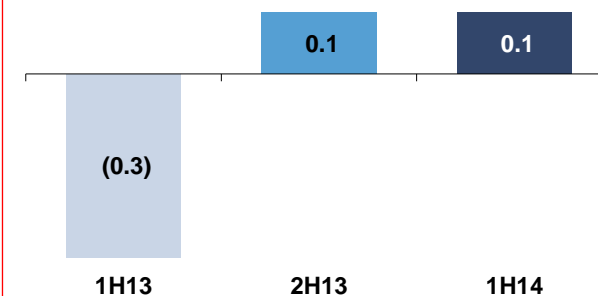
Loans and Advances to Customers² (USDbn)



RWA¹ (USDbn)



RoRWA³ (%)



Notes:

All figures are sourced from 2014 Interim Report & Data Pack

1. Reported basis
2. Reported basis, net of impairment allowances
3. Underlying basis



The view from HSBC Building, 8 Century Avenue, Pudong, Shanghai



The view from HSBC Main Building, 1 Queen's Road Central, Hong Kong SAR



The view from HSBC Group Head Office, 8 Canada Square, London

Cover images: internationalisation of the renminbi

The images show the views from HSBC's head offices in Shanghai, Hong Kong and London – the three cities that are key to the development of China's currency, the renminbi (RMB). The growth of the RMB is set to be a defining theme of the 21st century. HSBC has RMB capabilities in over 50 countries and territories worldwide, where our customers can count on an expert service.

Photography: Matthew Mawson

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