



Commercial Banking Investor Update

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November 2014



Forward-looking statements

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

3Q14 Financial Results

Management & Strategy

Appendix

Group key messages

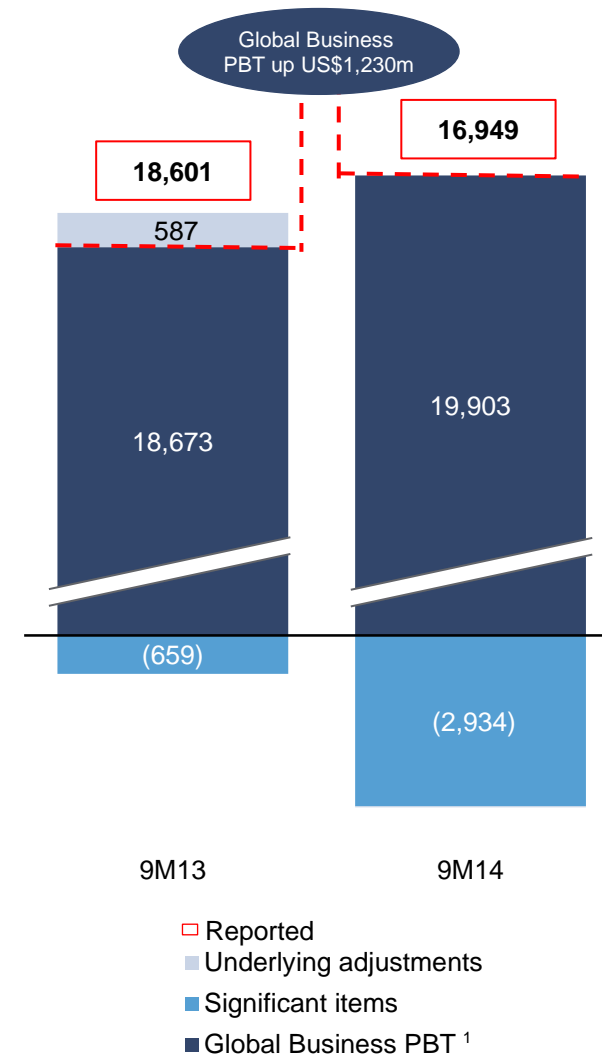
3Q14 highlights

- § Reported PBT of US\$4,609m up US\$79m on prior year and included fines, settlements and UK customer redress of US\$1.8bn
- § Global Business PBT¹ of US\$6,641m up US\$873m versus 3Q13
- § Continued revenue growth in CMB, notably in our home markets of the UK and Hong Kong
- § Strong revenue performance for GB&M, driven by Markets

9M14 highlights

- § Reported PBT of US\$16,949m, down US\$1,652m on prior year reflecting the effect of significant items
- § Global Business PBT¹ up US\$1,230m versus 9M13
- § Lower loan impairment charges
- § Higher Global Business operating expenses² driven by inflation, risk, compliance and related costs
- § Strong capital base with a common equity tier 1 ratio (end point basis) of 11.4

Reported PBT 9M14 vs 9M13 (US\$m)



Notes:

1. Global Business reported PBT excluding underlying adjustments and significant items
2. Global Business reported operating expenses excluding underlying adjustments and significant items

Group 3Q 2014 results

Financial highlights¹

Summary financial highlights, US\$m	Better / (worse)			Better / (worse)		
	3Q13	3Q14	3Q14 vs 3Q13	9M13	9M14	9M14 vs 9M13
Reported PBT	4,530	4,609	79	18,601	16,949	(1,652)
Underlying ² PBT	5,004	4,409	(595)	18,014	16,969	(1,045)
Significant items ³ included in underlying PBT	(764)	(2,232)	(1,468)	(659)	(2,934)	(2,275)

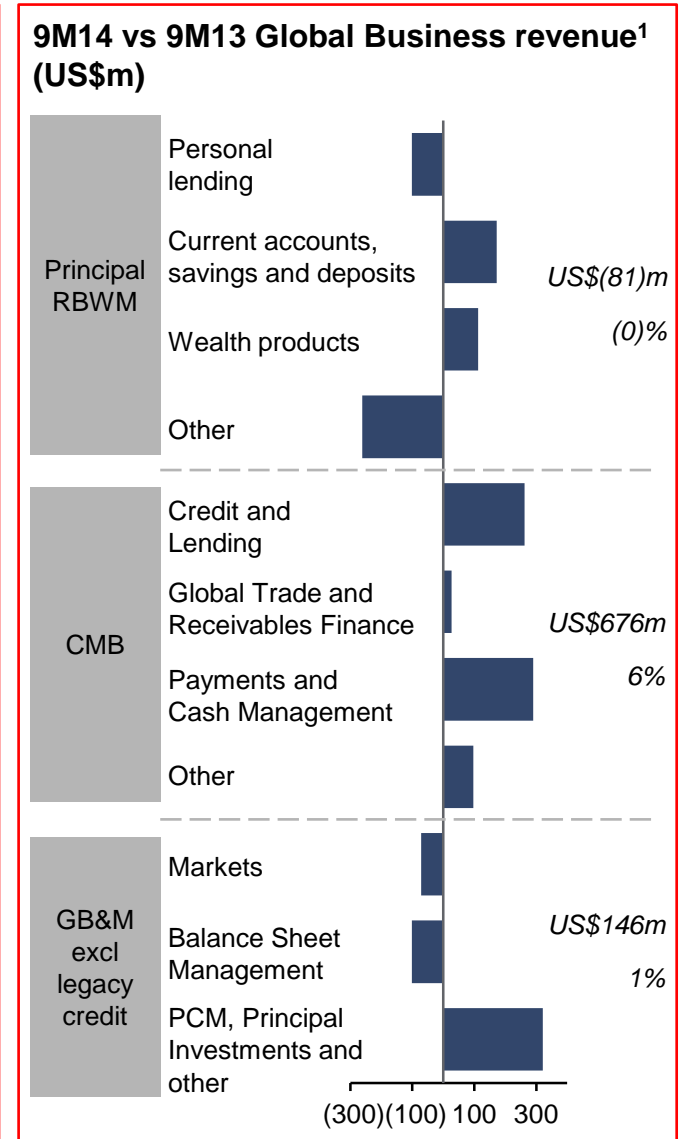
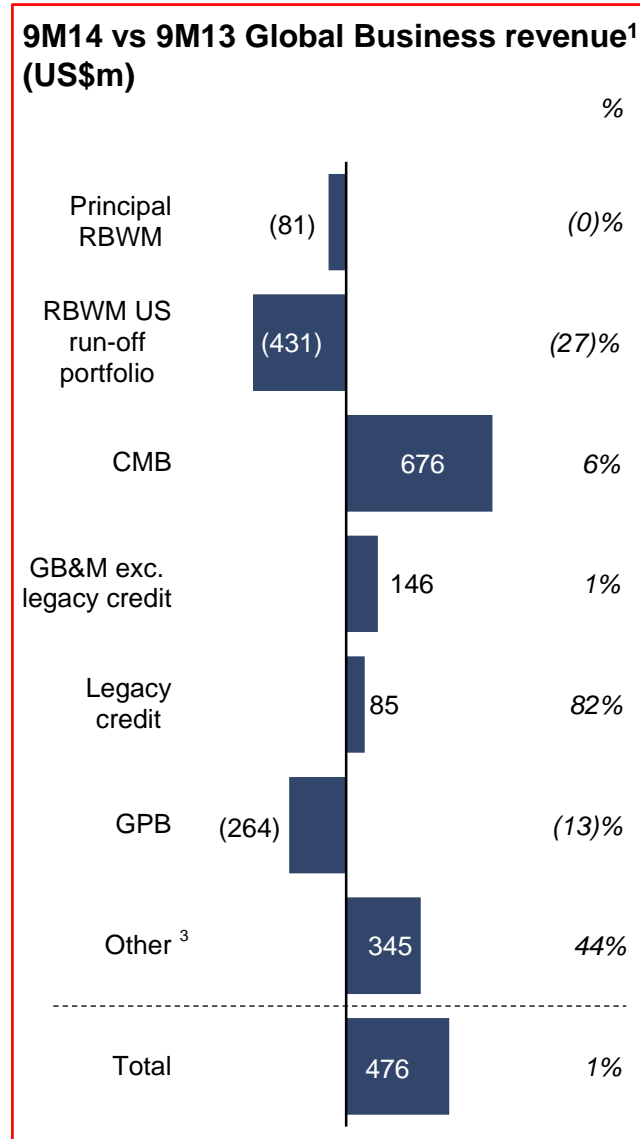
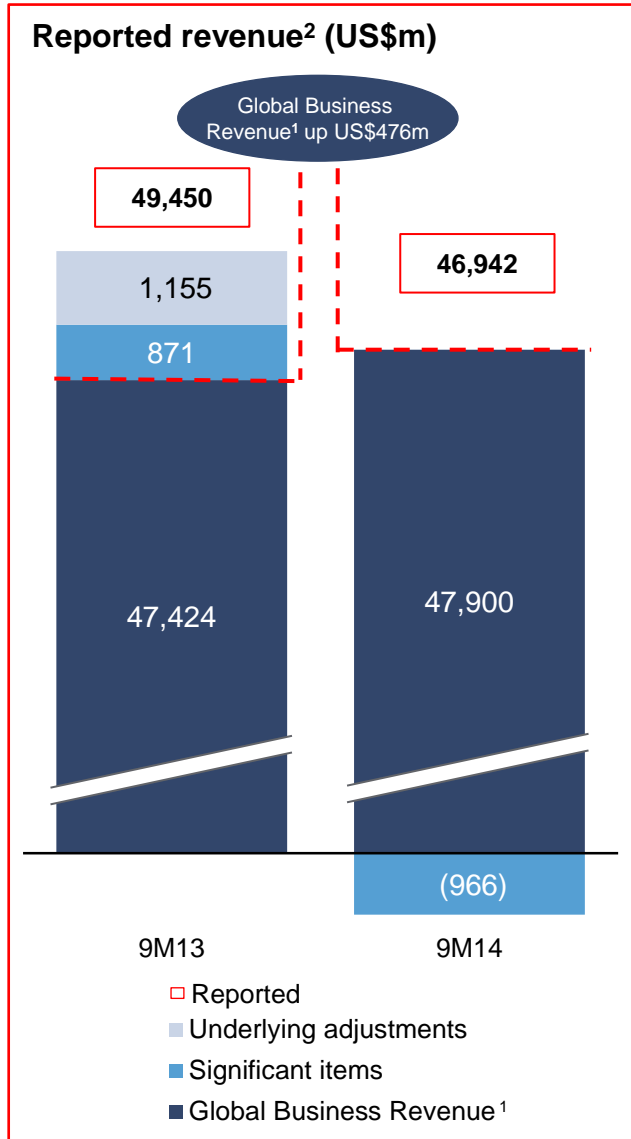
Key ratios, %	9M13	9M14	KPI
Return on average ordinary shareholders' equity ⁴	10.4	9.5	12-15%
Cost efficiency ratio	56.6	62.5	mid-50s
Jaws (underlying) ⁵	-	(9.2)	Positive
Advances-to-deposits ratio ⁶	73.6	73.7	< 90
Common equity tier 1 ratio (transitional basis) ⁷	-	11.2	>10%
Common equity tier 1 ratio (end point basis) ⁷	10.6	11.4	>10%

Notes:

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 a reported basis
4. On an annualised basis
5. 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, 9M14 versus 9M13
6. 9M14 number excludes reverse repos and repos
7. On 1 January 2014, CRD IV came into force and capital and RWAs as at 30 June and 30 September 2014 are calculated and presented on this basis. At 30 September 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*

Group revenue analysis

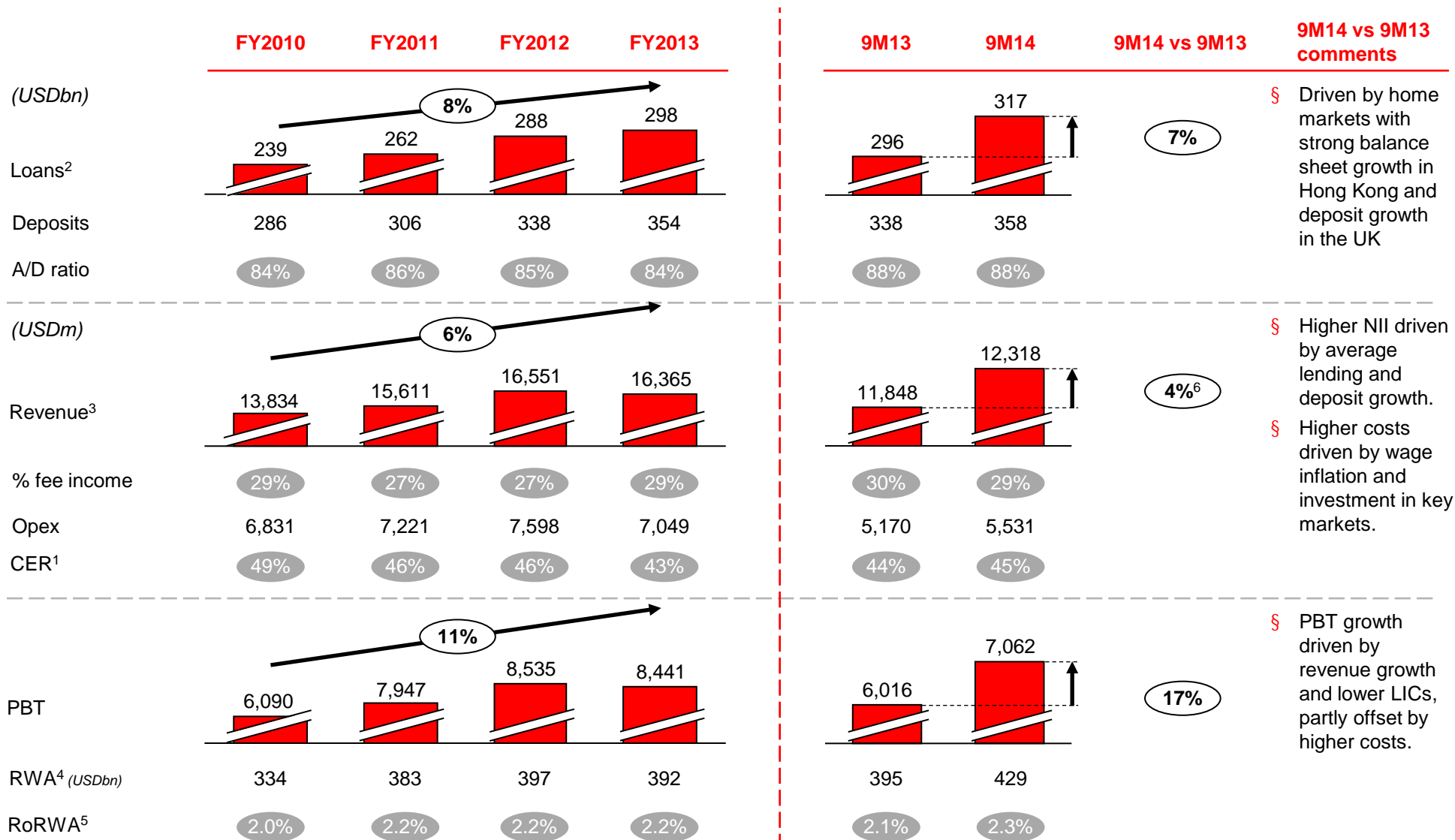
Global Business revenues¹ increased from growth in CMB and GB&M



Notes:

1. Global Business reported revenue excluding underlying adjustments and significant items
2. Net operating income before loan impairment charges and other credit risk provisions
3. Includes intersegment revenue variance of US\$0.4bn

Detailed Global CMB financials¹



1. All figures are reported unless otherwise stated

2. 3Q13 L&A includes a transfer of \$1.8bn of assets to GB&M

3. Net operating income/(expense) before loan impairment charges and other credit risk provisions.

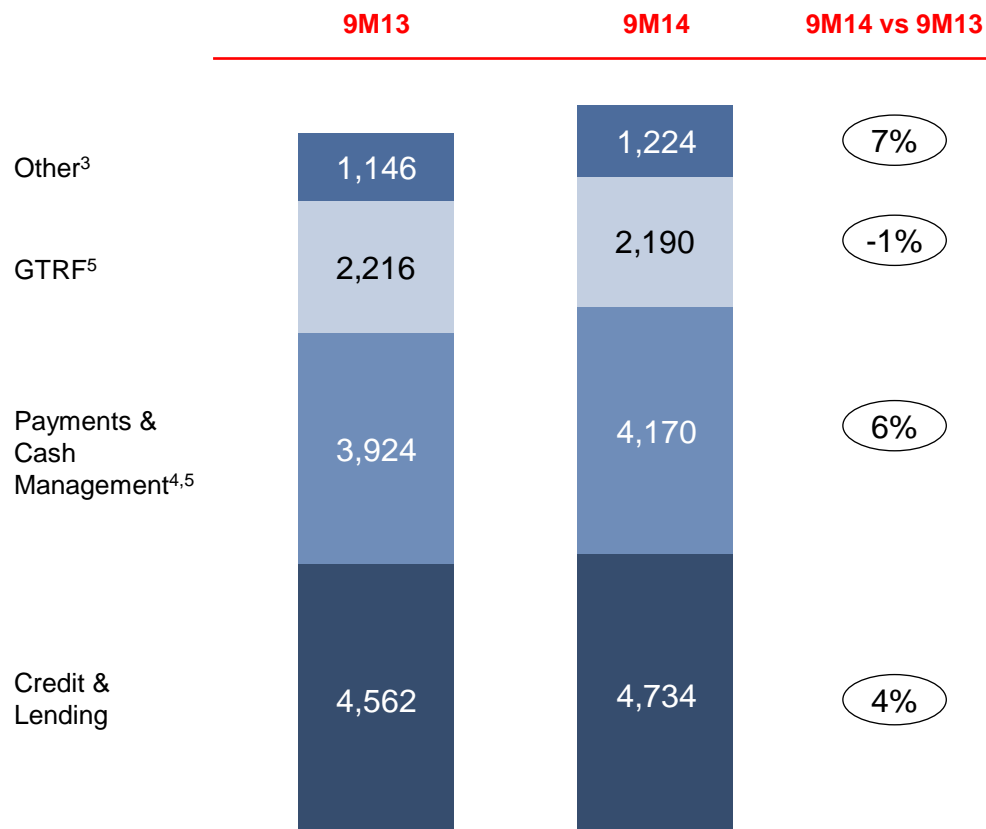
4. RWAs at 31 March 2014, 30 June 2014 and 30 September 2014 are calculated and presented on a CRD IV basis. Prior periods are on a Basel 2.5 basis.

5. Return on risk-weighted assets are on a reported basis and include associates, and calculated using average RWAs on a Basel 2.5 basis up to and including 31 December 2013 and on a CRD IV basis at 31 March, 30 June and 30 September 2014.

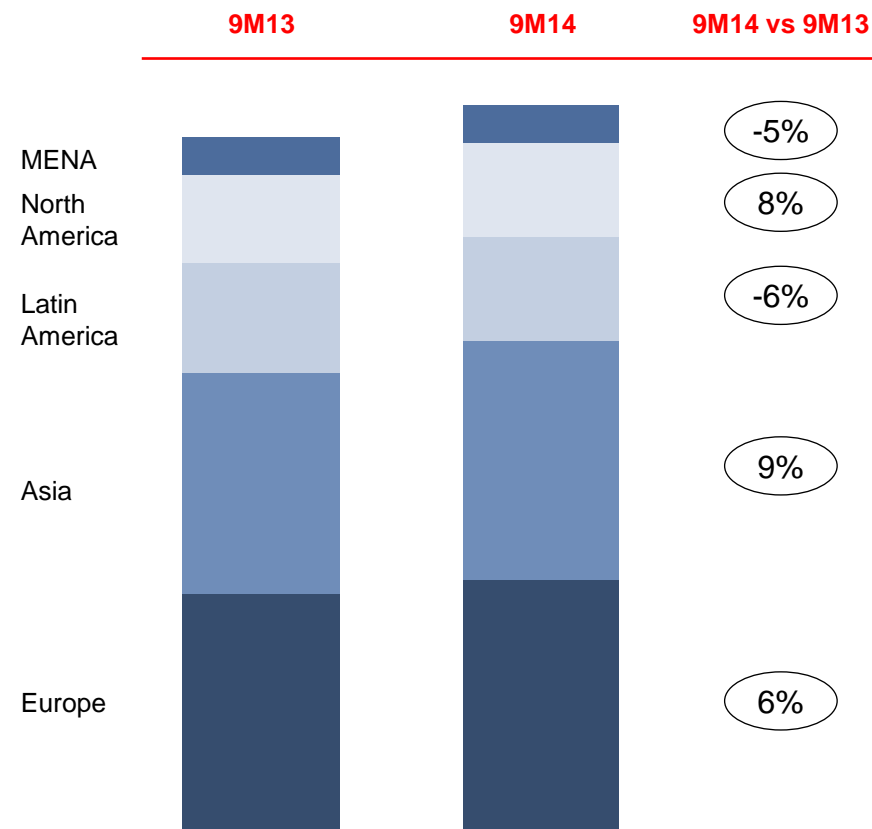
6. On an adjusted basis, 9M14 revenues increased by 6%, compared with 9M13, as per slide 6.

Revenue evolution by Product and Region

Revenue¹ by product (USDm)



Revenue² by region (USDm)



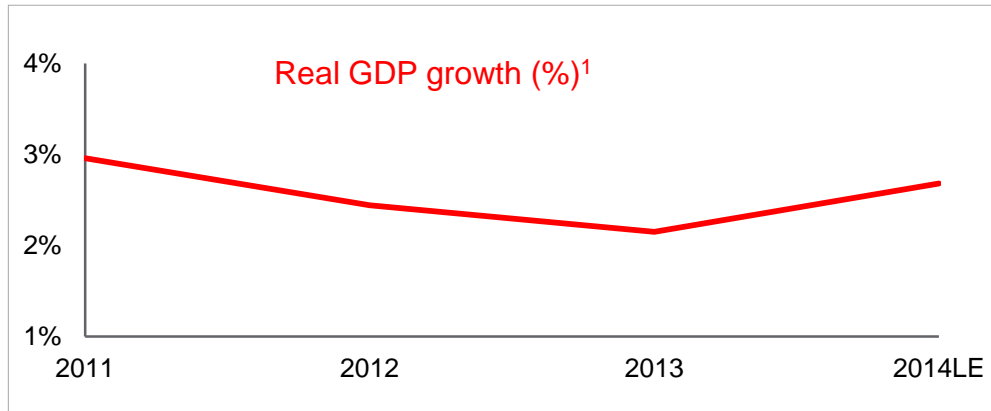
Notes:

1. On a Reported basis. Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.
2. On a constant currency basis. Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.
3. Included in 'Other' are Markets & Capital Financing products as well as Insurance and Investments and other products.
4. Also includes current accounts and savings deposits
5. 'Global Trade and Receivables Finance' and 'Payments and Cash Management' include revenue attributable to foreign exchange products.

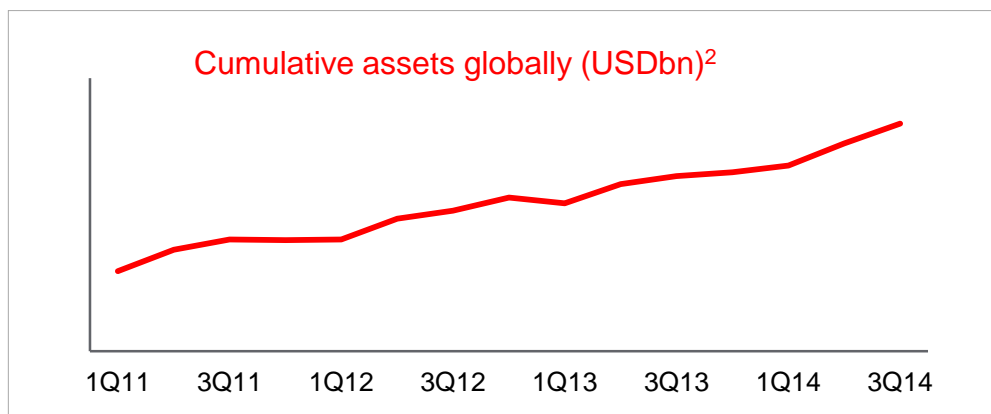
Operating environment

CMB continue to grow lending despite a challenging macro environment

Global GDP forecast to grow ...



... and total CMB lending book grew



However external factors remain challenging

- Macro:
 - Mixed global economic picture.
 - Interest rates remain low³.

- Regulatory:
 - On-going changes and uncertainty.
 - Enhanced regulatory focus across key markets.

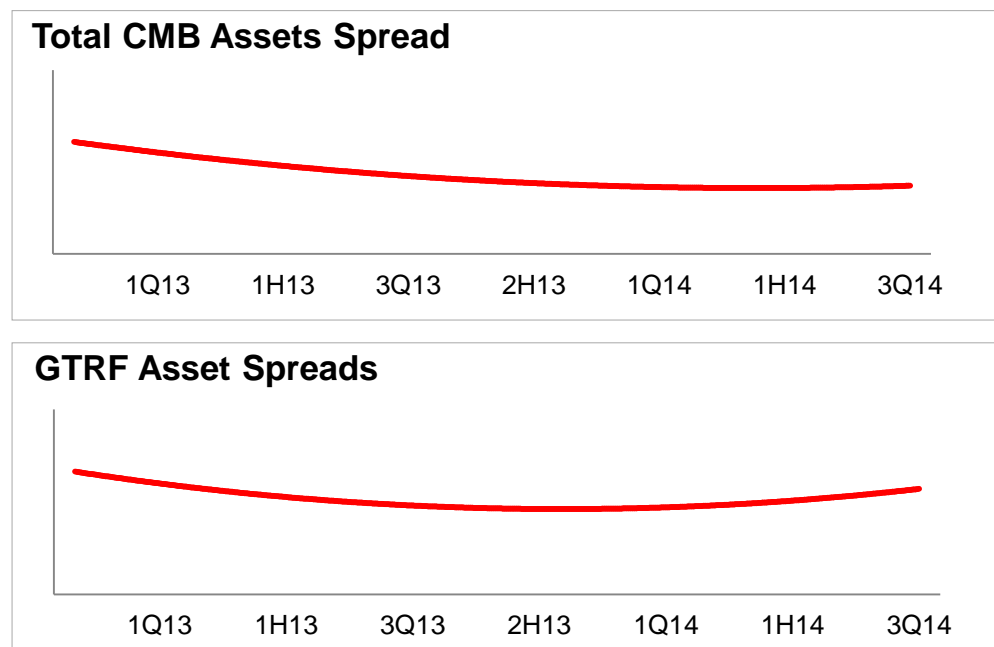
Notes:

1. Source: Oxford Economics (June 2014)
2. Total CMB loans and advances on a constant currency basis (3Q14 FX rates)
3. HSBC Global Research estimates, Global Economics Q2 2014

Operating environment

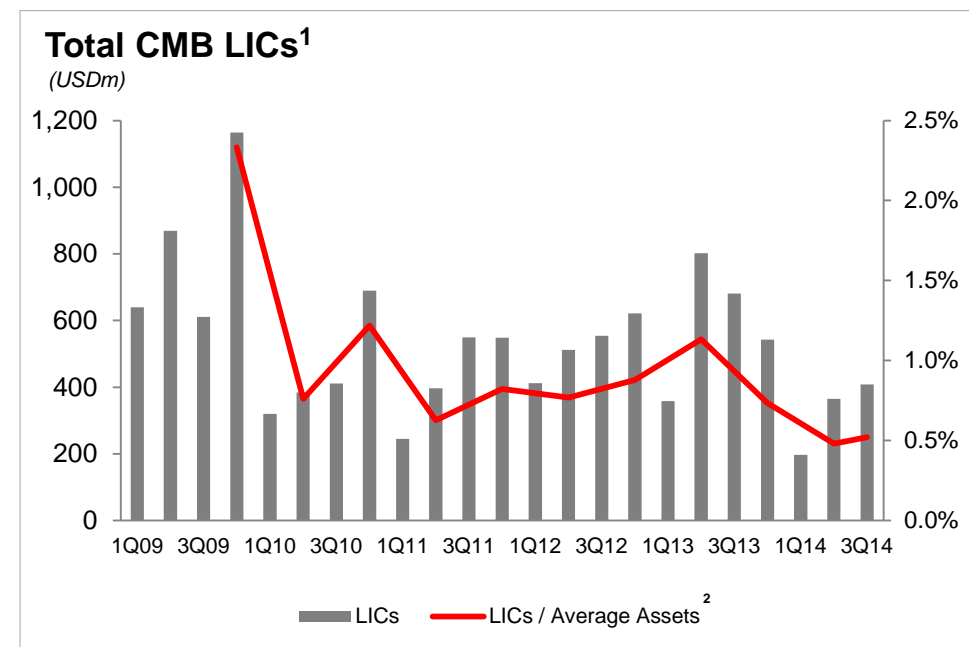
Spread compression slowed and lower LICs

Spread compression slowed



- Total asset spreads remained broadly unchanged from the end of 2013.
- Evidence that GTRF spread compression has stabilised with recoveries in some geographies.

Portfolio quality remains strong



- Lower specific LICs in the UK and Spain, reflecting the enhanced quality of the portfolio and improved economic environment.
- Reduction in collective LICs in Brazil and individually assessed charges reduced in Mexico, particularly relating to homebuilders.
- Higher LICs in the US as we revised certain estimates used in our corporate loan impairment calculation in 2Q14.

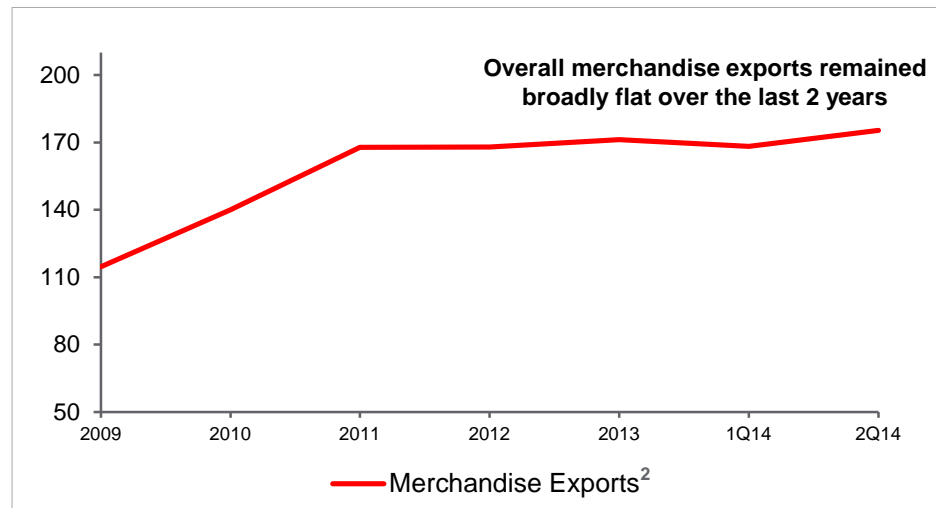
Notes:

1. On a reported basis.
2. Annualised quarterly LICs / total average CMB loans and advances. Three month average period end balances on constant currency basis (3Q14)

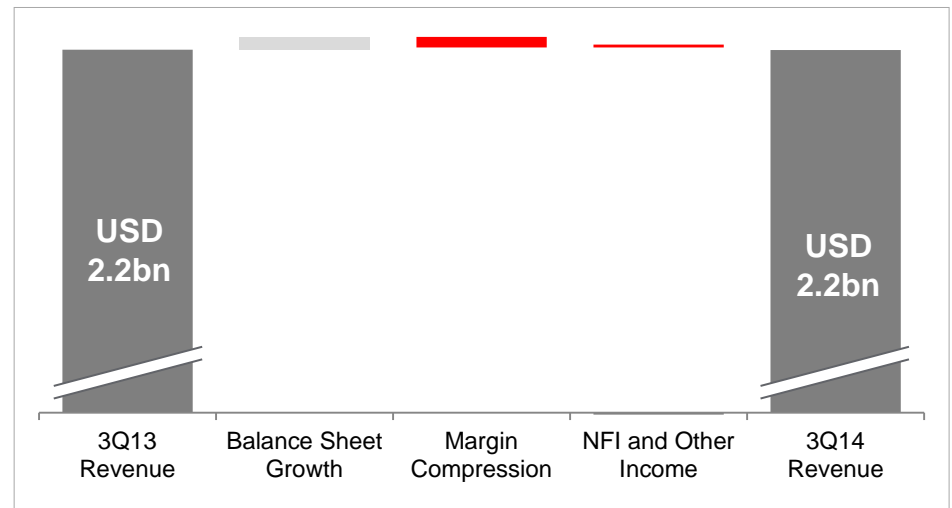
Global Trade and Receivables Finance

HSBC continues to be the Global Trade Finance bank of choice¹

Challenging external environment



Strong lending growth offsets spread compression



- Revenue remained broadly unchanged against the backdrop of challenging economic environment and reducing WTO forecasts
- Strong growth in average balances³ has helped to offset adverse effects of spread compression
- Spreads in 2014 have stabilised through active re-pricing of new business, whilst spreads are still below prior year, they are showing signs of recovery
- Our strategy to enhance our market positioning in supply chain finance continues to gain momentum evidenced by a number of mandates won from Fortune 100 companies
- We continue to capture market share in commodity financing with double digit growth in assets year on year

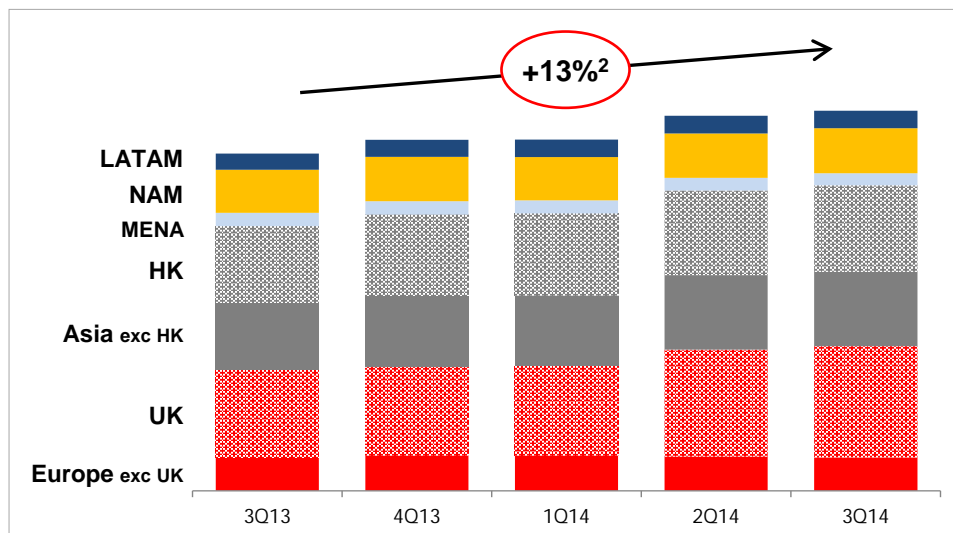
Notes:

1. Global Trade Review, December 2012 and 2013; Best Trade Bank in the World, Trade and Forfeiting Review, 2014
2. WTO Quarterly world merchandise exports by region and selected economies. Indexed to 100 in 1Q2009
3. On constant currency basis

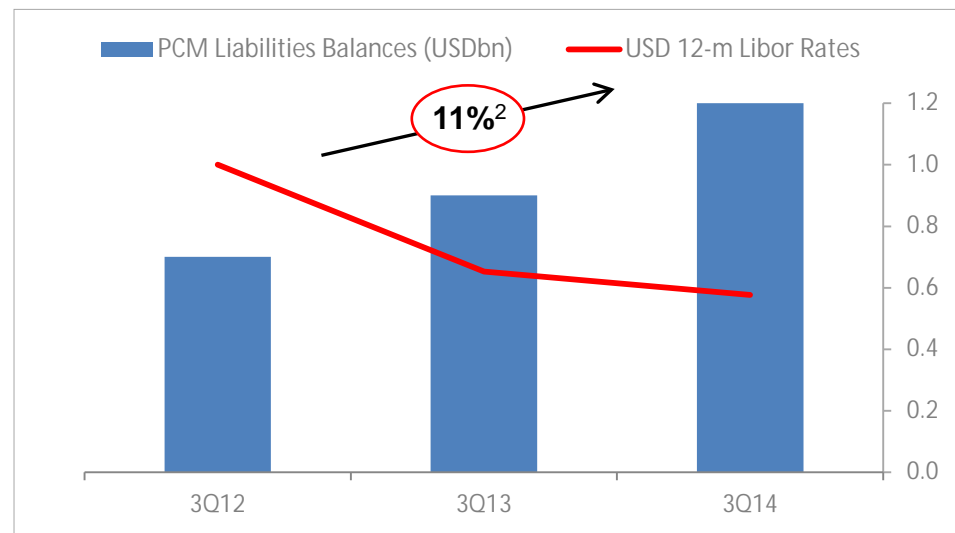
Payments and Cash Management

PCM growing liabilities to support the CMB balance sheet

PCM Liabilities Balances¹



Liability balances continue to grow despite low interest rate environment



- New customer mandates and higher transaction volumes in 3Q14 over 3Q13 helped drive increased revenues
- PCM's ability to attract deposits and grow transaction volume has helped offset adverse effects of spread compression
- HSBC's payments volumes have grown 4% from 3Q13 to 3Q14³ generating additional fee revenues
- HSBC's leadership was recognised naming it the 'Best Cash Management Bank' globally in the 'Financial Institutions' and 'Non-Financial Institutions' categories in the highly regarded 2014 Euromoney customer survey, for the third year in a row
- Product innovation: Enhancing customers Treasury and Cash Management needs through end of day RMB cross border liquidity sweeping structures from the Shanghai free trade zone and recently extended to provide this functionality nationwide
- Digitalisation: PCM continues to migrate customers from legacy platforms to HSBCnet; increased usage of the mobile platform with USD42bn⁴ of mobile payments authorised to date

Notes:

1. 'Constant Currency – QTR' basis per Group MI FX Policy, Period End, CMB
 2. 2Q14 balances include a c.\$9bn boundary change from Retail Money Market Deposits

3. SwiftNet, 30 Sept 2014
 4. HSBC internal data



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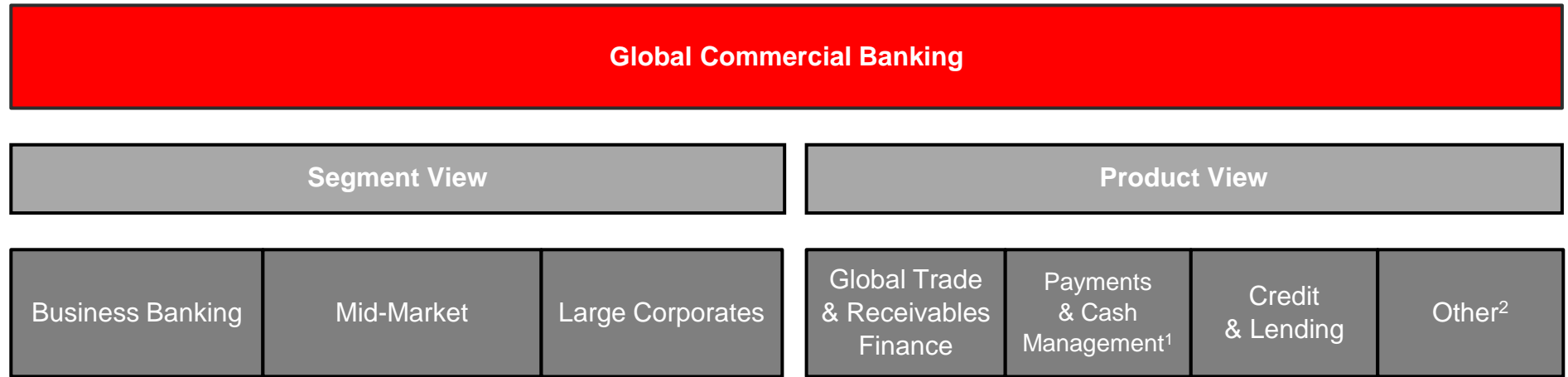
3Q14 Financial Results

Management & Strategy

Appendix

Management Structure

Driving the Global Business of Commercial Banking



- Continued globalisation of the business enables a sustainable and consistently executed strategy.
- The business is organised around global segments and global products
-increasing transparency and mitigating risk ...
- ... and ensuring consistency, efficiency and the right outcomes for our customers

Notes:

1. Includes current accounts and savings deposits
2. Included in 'Other' are Markets & Capital Financing products as well as Insurance and Investments and other products.

Group Strategy 2014-2016

Executing the three equally weighted priorities in CMB

CMB Strategic priorities

Grow both business and dividends

- Utilising our distinctive geographical network to support and facilitate global trade and capital flows.
- Delivering excellence in our core flow products – specifically in Trade and Payments and Cash Management.
- Enhancing collaboration with other global businesses by increasing product coverage.

Implement Global Standards

- § De-risking operations in higher risk locations and segments.
- § Continue to invest in best-in-class Compliance and Risk capabilities.
- § HSBC values: act with courageous integrity.

Streamline processes and procedures

- § Re-defining the role of the Relationship Manager, freeing up more time to spend with customers.
- § Improving customer on-boarding experience.
- § Simplifying the credit application process.
- § Continuing product and platform rationalisation.
- § Supporting the Group's USD2-3bn sustainable savings target.

Investment priorities for CMB

Business Banking

- § Roll-out a consistent International RM model in top 12 priority markets with c. 500 relationship managers in roles.

Mid-market Enterprises

- Grow our client-centric franchise in US, Canada, Mexico, Brazil, HK, UK.

Large Corporate

- Upgrade strategic relationships with global large corporate customers.

Global Trade & Receivables Finance

- Strengthen our position in high growth products/corridors and expand in trading hubs.

Payments & Cash Management

- Deliver improved client coverage and products via customer proposition enhancements.

Foreign Exchange

- Upgrade Collaboration with GB&M.

RMB

- Accelerate our global leadership position and capture offshore RMB, FX and capital markets opportunities.

Network

- Align resources and coverage (including International Subsidiaries) in priority cities and trade corridors.



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Group financial overview

Reconciliation of Reported to Underlying results

US\$m				
	9M14	9M13	3Q14	3Q13
Reported profit before tax	16,949	18,601	4,609	4,530
FVOD ¹	15	594	(200)	575
Gain on de-recognition of Industrial Bank as an associate	-	(1,089)	-	-
Gain on sale of associate shareholding in Bao Viet Holdings	-	(104)	-	-
Loss on sale of Household US Canadian Insurance business	-	99	-	-
Gain on disposal of Columbian operations	(18)	-	-	-
Other losses on acquisitions / disposals	32	(59)	-	(58)
Operating results of disposals, acquisitions and dilutions	(9)	8	-	(25)
Currency translation	-	(36)	-	(18)
Underlying profit before tax	16,969	18,014	4,409	5,004

Notes:

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

Group financial overview

Significant items included in underlying profit before tax

US\$m	9M14	9M13	3Q14	3Q13
Underlying profit before tax	16,969	18,014	4,409	5,004
Includes the following significant items (reported basis):				
Revenue				
<i>Volatility:</i>				
Debit valuation adjustment on derivative contracts	(278)	300	(123)	(151)
Fair value movement on non-qualifying hedges	(341)	461	(19)	168
<i>Restructuring and repositioning:</i>				
FX gains relating to the sterling debt issued by HSBC Holdings	-	442	-	-
Gain on sale of several tranches of real estate secured accounts in the US	76	2	91	3
Gain on sale of shareholding in Bank of Shanghai	428	-	-	-
Impairment to the carrying value of our investment in Industrial Bank	(271)	-	(271)	-
Loss on early termination of cash flow hedges in the US run-off portfolio	-	(199)	-	-
Loss on sale of an HFC Bank UK secured loan portfolio	-	(138)	-	-
Loss on sale of the non-real estate portfolio in the US	-	(271)	-	-
Net gain on completion of Ping An disposal	-	553	-	-
Write-off of allocated goodwill relating to GPB Monaco business ¹	-	(279)	-	-
<i>Provisions arising from a review of compliance with the Consumer Credit Act in the UK</i>	(580)	-	(213)	-
	(966)	871	(535)	20
Operating expenses				
<i>Accounting gain arising from change in basis of delivering ill-health benefits in the UK</i>	-	430	-	-
<i>Restructuring and repositioning:</i>				
Restructuring and other related costs	(150)	(396)	(68)	(158)
<i>Customer redress and litigation-related charges:</i>				
Madoff-related litigation costs	-	(298)	-	-
Provision for FCA investigation into foreign exchange	(378)	-	(378)	-
Regulatory investigation provisions in GPB	-	(317)	-	(198)
Charge in relation to settlement agreement with Federal Housing Finance Authority	(550)	-	(550)	-
UK customer redress programmes	(935)	(840)	(701)	(428)
US customer remediation provision relating to CRS	-	(100)	-	-
<i>UK bank levy</i>	45	(9)	-	-
	(1,968)	(1,530)	(1,697)	(784)

Note:
1. 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.



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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