

March 2016

## UK Retail Banking and Wealth Management (RBWM)

Investor Update



# Important notice and forward-looking statements

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## Important notice

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This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is ‘adjusted performance’ which is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in the 2015 Annual Report and Accounts and the Reconciliations of Non-GAAP Financial Measures document which are both available at [www.hsbc.com](http://www.hsbc.com).

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# Business and Market Context

## UK RBWM Business and Market Context

- Multi-brand, multi-segment proposition, multi-channel distribution capability.....Positioned for future growth, addressing changing customer preferences in a digital world
- 13m active customers at 2015YE
- Differentiated offering for Affluent and Emerging Affluent... ..Organised around customer needs, helping them to achieve their hopes, dreams and ambitions
- Engaging with customers through their channel of choice... ..Transformation investment is enabling process simplification, accelerating channel migration, improving productivity and customer experience

# Through our Brands and Propositions, we are organised around customer needs and positioned to address changing customer preferences

## UK RBWM Business and Market Context

### Who we are

Customers <sup>1</sup>	c13m
Branches <sup>2</sup>	937

### Customer propositions<sup>1</sup>

Premier customers	c1m
Advance customers	c2m
Mass customers	c10m

### Three leading brands with differentiated propositions

**HSBC**  **c.9m customers<sup>1</sup>**

- Supporting Human Ambition. Positioned as fair and convenient

**first direct** **c.1m customers<sup>1</sup>**

- >50 high profile awards in 2014-16, including Most Trusted Financial Provider and Current Account Switching Provider of the Year

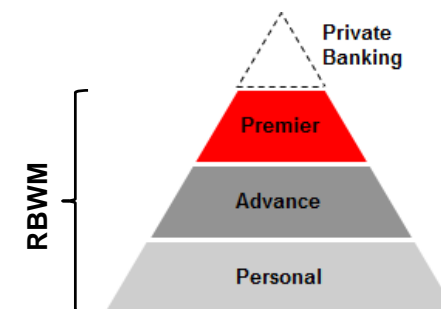
**M&S BANK** **c.3m customers<sup>1</sup>**

- Winner of Best New Current Account 2015
- Investing in customer experience with first self service branch – in addition to 29 full-service branches and 120 FX bureaux



- Organised around customer needs, helping them to achieve their hopes, dreams and ambitions
- Positioned for future growth, addressing changing customer preferences in a digital world

### Customers and propositions



- Customers worldwide, served through a consistent global proposition model
- Significant domestic scale in the UK market
- Focused on developing affluent segments

1. Existing active customers as at Dec 2015  
2. Branches as at the end of February 2016

# Revenue environment remains challenging, although returns are accretive to Group RoE

## UK RBWM Financial Performance

### UK RBWM financial performance<sup>1</sup>

<b>Revenue</b>	<ul style="list-style-type: none"> <li>▪ Growth in new business revenue</li> <li>▪ Margin compression on mortgages from re-emergence of highly competitive market pricing as customers refinance</li> <li>▪ Fee pricing changes for overdrafts, including text alert service, is building sustainable revenue</li> <li>▪ Regulatory impact on cards interchange fees, partially offset by changes to loyalty schemes</li> </ul>
<b>Loan Impairment Charges (LICs)</b>	<ul style="list-style-type: none"> <li>▪ Low LICs reflecting high quality asset portfolio and market cycle (c.3 bps)</li> </ul>
<b>Operating Expenses</b>	<ul style="list-style-type: none"> <li>▪ Cost control being maintained</li> <li>▪ Higher costs for Risk and Compliance functions for implementation of Global Standards and increased focus on risk and conduct</li> <li>▪ Significant investment in UK RBWM business as part of Global Transformation</li> </ul>

2015 (USDbn)	
<b>Revenue</b>	5.5
<b>LICs</b>	0.04
<b>Operating expenses</b>	3.9
<b>PBT</b>	1.6
<b>CER</b>	70%
<b>Loans and Advances<sup>2</sup></b>	132
<b>Customer Deposits<sup>2</sup></b>	176
<b>A/D Ratio</b>	75%

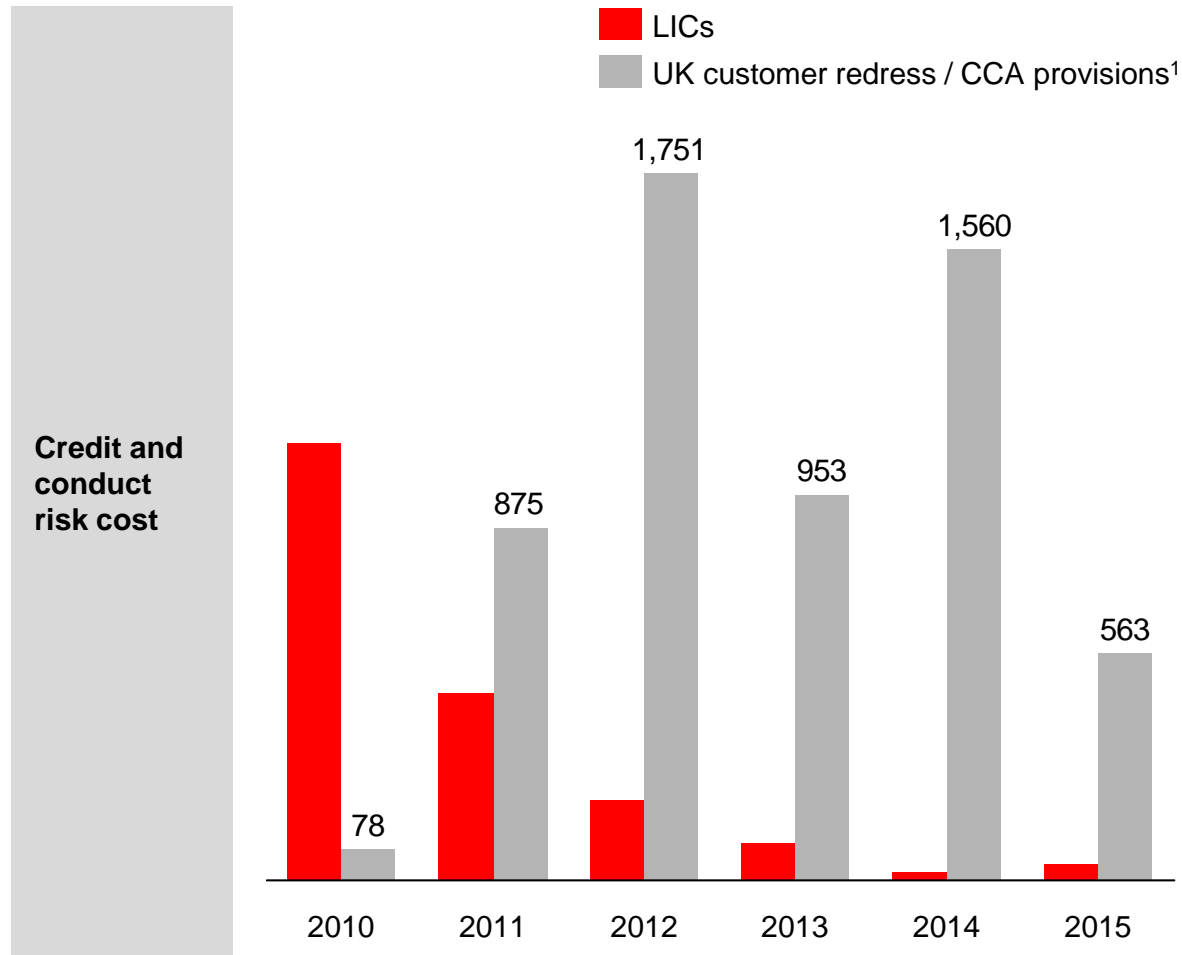
1. Figures presented on an adjusted basis; On a reported basis, revenue was USD5.5bn, operating expenses were \$4.5bn and PBT was USD1.0bn

2. YoY growth in 2015: Loans and Advances 1%; Customer Deposits 6%

# Conduct risk is redefining how retail banks engage with and serve their customers. We have proactively repositioned the business for this...

UK RBWM Conduct, Risk, Regulatory profile

## UK customer redress and CCA provisions at their lowest since 2010 (USDm)



## Numerous actions to significantly reduce conduct risk starting in 2012

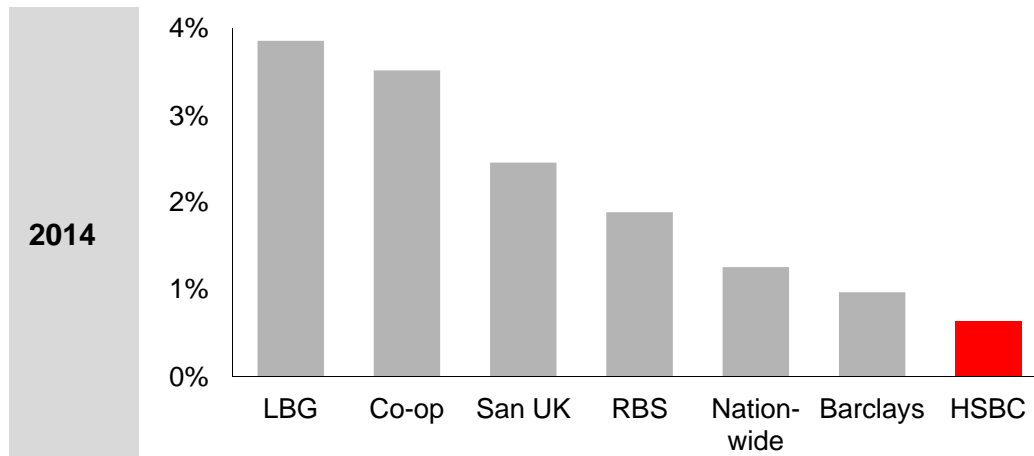
- Removed the formulaic link between product sales and remuneration: staff are paid on a discretionary basis
- Simplified our product shelf
- Addressed pro-actively the Fair Value Exchange (FVE) between customers and shareholders
- Implemented new sales quality monitoring, including mystery shopping and strengthened assurance programme
- Deployed new investment product risk framework to better match products with clients' risk profile

1. 2014 includes a provision arising from the ongoing review of compliance with the Consumer Credit Act in the UK of USD568m

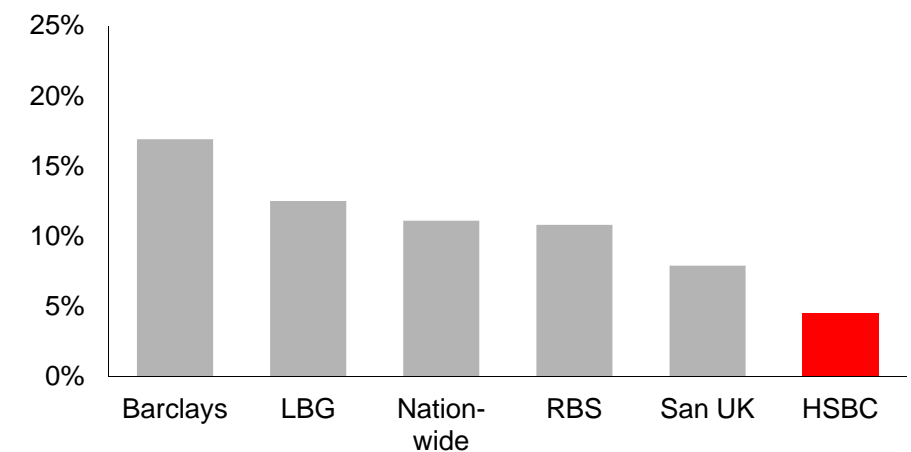
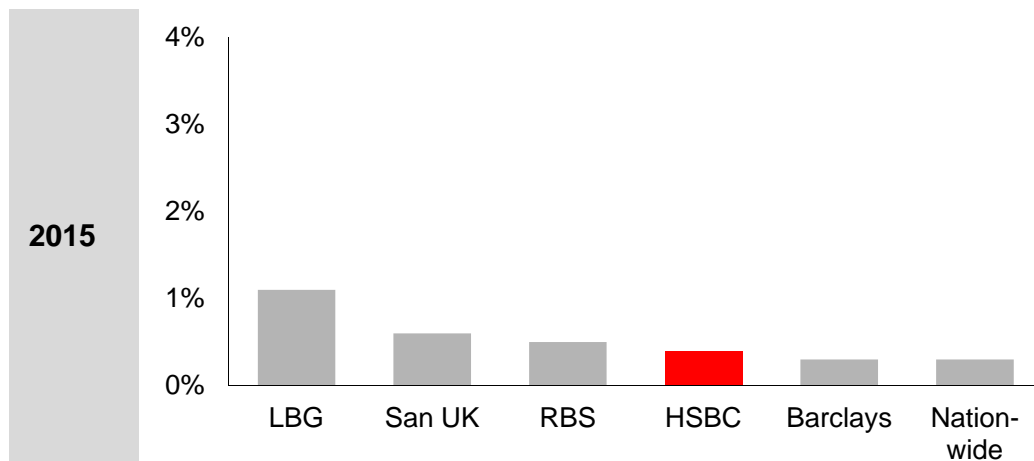
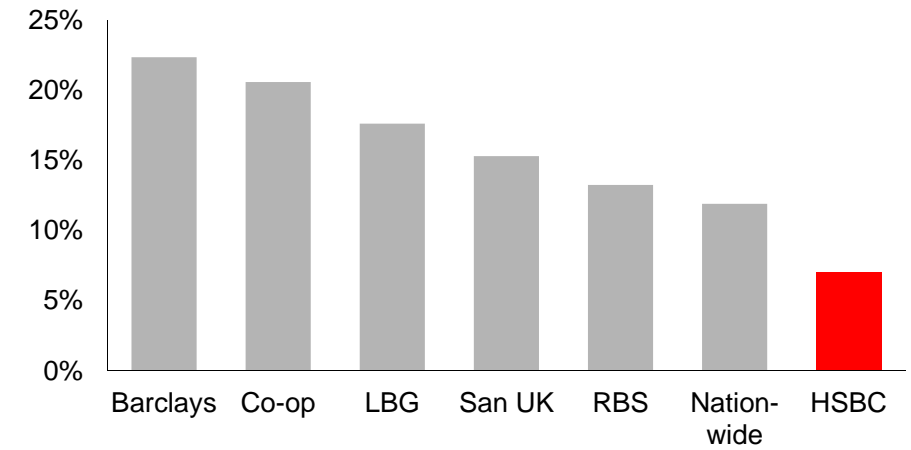
# ... and we are maintaining our credit discipline

UK RBWM Conduct, Risk, Regulatory profile

**PRA stress tests: Projected cumulative three-year impairment charge rates on UK individuals mortgage lending in the stress<sup>1,2</sup> (%)**



**PRA stress tests: Projected cumulative three-year impairment charge rates on UK individuals non-mortgage lending in the stress<sup>1,2</sup> (%)**



Source: "Stress testing the UK banking system: 2015 results", Bank of England, Dec 2014 and Dec 2015, respectively page 17 and page 46

1. Data sources: Participating banks' FDSF data submissions, Bank of England analysis and calculations

2. Cumulative impairment charge rates = (three-year total impairment charge) / (average gross on balance sheet exposure), where the denominator is a simple average of 2014, 2015 and 2016 year-end positions. This calculation may result in a lower impairment rate for those banks that expand balances significantly in the later years of the scenario as the economy recovers

# Key strategic priorities

## UK RBWM Strategy

### Capital accretive

- Consistently strong returns, accretive to Group RoE
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### Sustainable high quality revenue

- Significant contribution from affluent customers
  - High quality asset book with low LICs (c.3bps)
  - Repositioned the business for conduct risk
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### Diversified revenue base

- Diversified revenue sources broadly spread across products and segments
  - Strong momentum on new business activity despite competitive pressures
  - Broadened our distribution channels (e.g. mortgage brokers) and continued use of multi-brand approach
- 

### Interest rate sensitivity

- Business will benefit as interest rates rise, especially considering our A/D ratio
- 

### Strong deposit franchise

- Strong deposit growth maintained throughout the post-crisis years
  - Supports a stable and diversified core funding base for the Group
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### Group value

- Shared infrastructure generates economies of scale
  - Branch services support other Global Businesses
  - Significant investment in UK RBWM business as part of Global Transformation
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# Our growth priorities have not changed and we continue to optimise our portfolio of products

## UK RBWM Growth Priorities

### Strategic actions

### Targeted outcome 2014-17

Growth Priorities	Strategic actions	Targeted outcome 2014-17
	<p><b>Digital</b></p> <ul style="list-style-type: none"> <li>– Enhance digital platform and service capabilities within RBWM including digitalisation of processes, end to end customer journeys</li> <li>– Deliver data-driven, relevant and timely customer touchpoints</li> <li>– Leverage digital investment to transform customer experience – and cost base</li> </ul>	<ul style="list-style-type: none"> <li>– Improve number of digitally active customers<sup>1</sup></li> <li>– 2017 exit cost rate at 2014 level</li> </ul>
	<p><b>Wealth Management</b></p> <ul style="list-style-type: none"> <li>– Deliver competitive Premier USD1-5m, International, FX and Digital propositions, simpler customer interactions</li> <li>– Disciplined execution of the needs-based sales model</li> <li>– Continue strong collaboration with the rest of Group</li> </ul>	<ul style="list-style-type: none"> <li>– Premier Total Relationship Balance<sup>2</sup> Growth</li> <li>– Wealth revenue<sup>3</sup> growth</li> </ul>
	<p><b>Relationship-led Personal Lending</b></p> <ul style="list-style-type: none"> <li>– Invest in marketing, customer relationship management, analytics and digital</li> <li>– Strengthen credit capabilities (people, tools)</li> <li>– Grow broker channel for mortgage business</li> <li>– Acquire new customers through unsecured lending</li> </ul>	<ul style="list-style-type: none"> <li>– Personal lending balance<sup>4</sup> growth</li> </ul>

1. Total customers who have logged in to one of our Digital platforms (Internet / Mobile) in the last three months as a % of all RBWM active customers

2. Aggregate of Deposits (both local and foreign currency), investments (e.g. Mutual Funds, Equities, etc.) and Insurance (Life, Pension and Investment insurance products). It is exclusive of Credit Enhancement Services Insurance and General Insurance products, pure Protection Insurance products as well as Mortgage or other Loan / Asset balances

3. Wealth Distribution revenue only

4. Money lent to individuals rather than institutions. This includes both secured and unsecured loans such as mortgages and credit card balances.

# Digital Journey through 2015

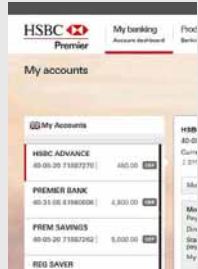
UK RBWM Digital

Jan Feb Mar Apr May June July Aug Sep Oct Nov Dec

Touch ID



Online Banking Upgrade



Lost Cards



eCare

eCare

LiveChat



DCO Tablet: 6 minutes...



Secure Key



Live Connect



MCAB: Come and see us



Vizolution: 'Let me do that for you now'



Updating our people



Yammer: Connecting our people

# Nudge Banking

UK RBWM Digital

**Nudge app launched December 18<sup>th</sup> with live nudges sent from January 7<sup>th</sup> to staff in various categories.**

- Calendar Alert
- People like you
- Spending Expert
- Testing
- Marketing



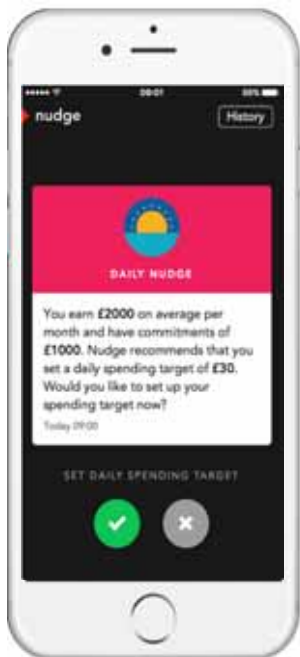
Today is your most expensive day of the week. On Friday's you typically spend £25 more than on other days of the week.



You spent £282.50 this week on groceries. This is much more than most people in your income bracket.



In October you cut your discretionary spending by £150. Why not consider investing this amount in your savings account?



- World class experience designed using customer centric design approach (**100+** sketches, **10+** customer interviews)
- **101** nudges designed, **48** prioritised for pilot and **33** programmed based on **5+ million** customer accounts (covering **95%** of customer base and **~1.3** nudge per day per customer)
- Digital solution delivered in **6 weeks** (iOS mobile app and back-end application ready to be connected to analytics platform)
- **600+** customers enrolled to internal pilot with staff

# 82%

Percentage of nudges with positive reaction to the Nudge

# Voice ID

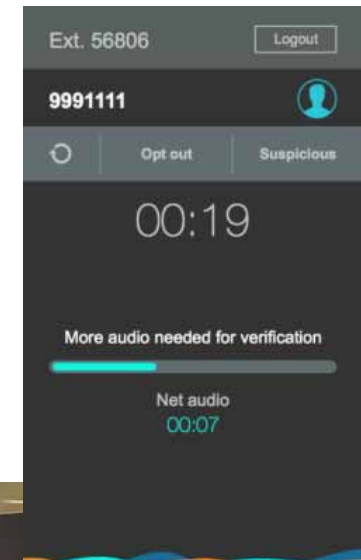
UK RBWM Digital

## What is Voice ID?

- first direct is migrating telephony verification from the current password and memorable data to a Voice Biometrics system
- Voice ID isn't voice recognition - In the same way that your fingerprint is unique to you, so is your voice
- Voice ID to be implemented from Spring 2016 onwards for telephone banking customers, reducing time to complete the authentication process by up to 2 minutes

## first direct

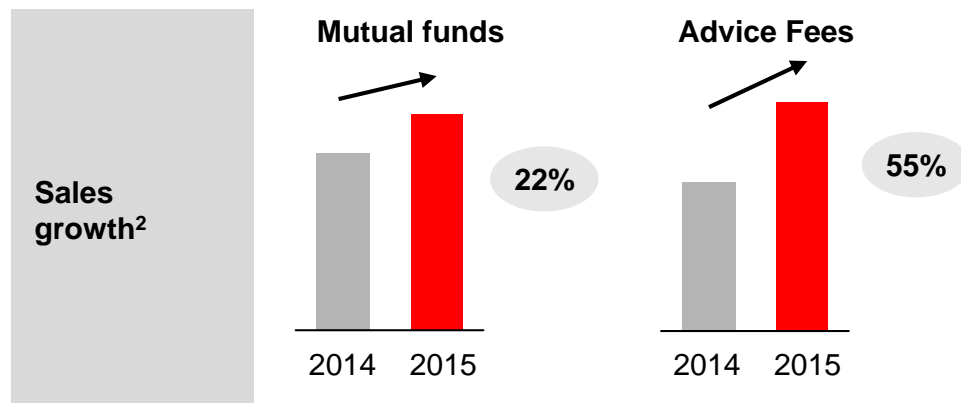
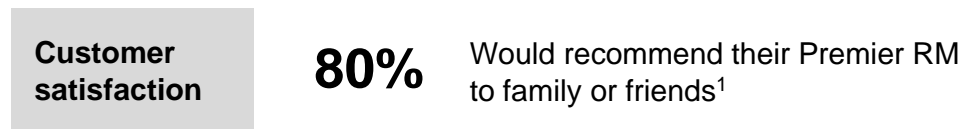
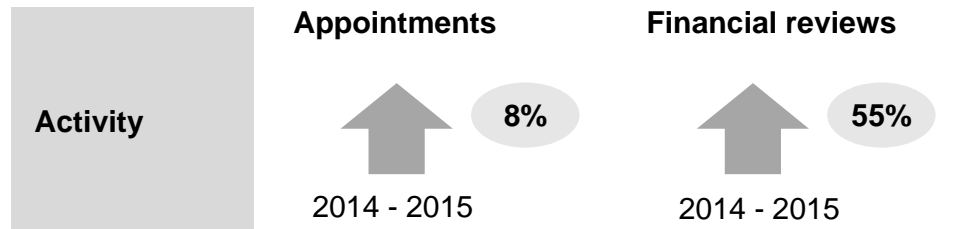
Voice ID - Launch 14 March 2016



# Our investment in a differentiated Wealth offering is driving increased activity, with further opportunities for growth

UK RBWM Wealth Management

## Strong customer satisfaction with improving sales momentum



## We have built a clearly differentiated Wealth offering

- Financial planning**
  - We operate a consistent global financial planning model based on our customers' goals and aspirations
- Aligned to needs**
  - Our relationship managers are rewarded for meeting customer needs, not for product sales
- Integrated advice**
  - A single relationship manager can provide professional advice across a customer's Wealth and Retail needs

## With opportunities for sustainable growth

- Further customising our Premier proposition to better meet the needs of wealthier and more international customers
- Deploying enhanced analytics to improve our understanding of customer needs
- Investing in marketing, tools, and digital capabilities
- Simplifying our processes for our customers
- Bringing Asset Management and Insurance capabilities to retail clients including research, insights and advice

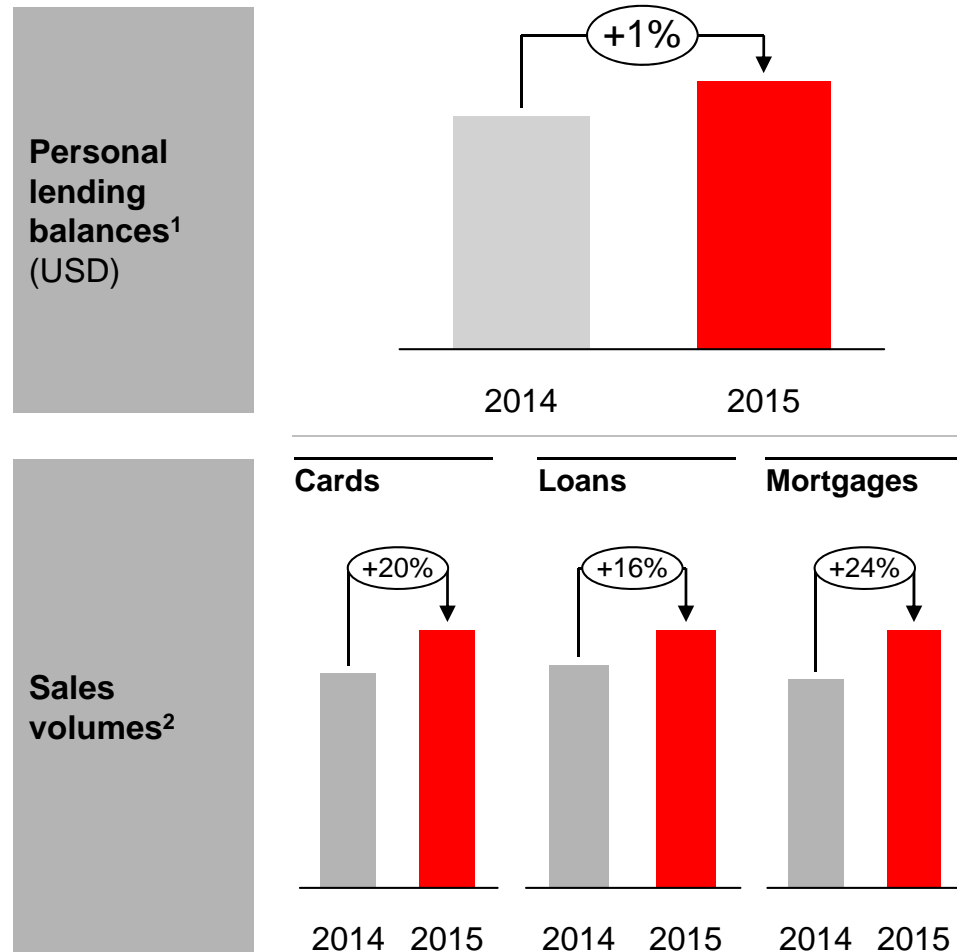
1. HSBC Premier Relationship Manager Customer Experience Survey 4Q15

2. Mutual funds gross sales (USDm); Advice Fees (USDm);

# We have the capacity to take more credit risk in RBWM and the business is showing signs of volume growth

## UK RBWM Relationship-led Personal Lending

### Personal lending balances and sales volume growth



### Actions to date

- Analytics capability improving the identification of customer needs
- New triggers enabling targeted offers to individual customers
- Expansion of sales channels supported by increased investment in marketing, improving new-to-bank customer acquisition
- Launched broker channel for mortgage business
- Consistently implemented global segmentation capability, strengthening pricing and profitability discipline
- Integrated risk approach enhancing risk adjusted returns

### Next steps

- Investing further in analytics, including digital targeting and real-time offer capability
- Deploying digital utilities (e-signature, document upload) to simplify the customer experience and enable straight through processing
- Focusing on innovation, including new mobile sales and service capabilities, and strategic partnerships with new payment providers
- Leveraging the Group's connectivity

1. Money lent to individuals rather than institutions. This includes both secured and unsecured loans such as mortgages and credit card balances; Financial data presented at 2015 exchange rate  
2. Average Weekly Sales; Cards: Number of new cards issued; Loans & Mortgages: Value of total drawdowns (including Internal Transfers: 16% of Total)

# Conclusion

## UK RBWM Business and Market Context

- High quality customer base and revenue model
  - Delivering returns in excess of Group RoE
    - Tough market conditions
    - Low interest rate environment
    - Increased competition
    - Regulatory changes
  - Focus on “Controlling the controllables”
  - Significant focus on cost management via Transformation to deliver effortless multi-channel capability, empower customers via self-assisted sales and optimise branch and contact centre footprint
-