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Global Banking and Markets Investor Update

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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 Interim Report 2016 and the Reconciliations of Non-GAAP Financial Measures document which are both available at www.hsbc.com.

HSBC Group highlights

1st Half 2016

Reported PBT
(1H15: \$13.6bn)

\$9.7bn

Adjusted PBT
(1H15: \$12.6bn)

\$10.8bn

Reported RoE¹
(1H15: 10.6%)

7.4%

Adjusted Jaws

(0.5)%

CET1 ratio²
(2015: 11.9%)

12.1%

1H16 Financial Performance (vs. 1H15)

- Reported PBT of \$9.7bn down \$3.9bn
- Adjusted PBT of \$10.8bn down \$1.8bn; a reasonable performance in the face of considerable uncertainty:
 - Revenue down \$1.3bn or 4% versus a strong 1H15: Client-facing GB&M and BSM down 7% and Principal RBWM down 6%
 - Continued momentum in CMB with revenue up 2%
 - Higher LICs, up \$1.1bn from increased charges in the oil & gas and metals & mining sectors and from Brazil; LICs in 2Q16 broadly unchanged compared with 1Q16
 - 4% fall in costs: tight cost control with run-rate saves of more than \$2.0bn since commencement of our cost savings programme

Capital and liquidity

- Strong capital position with a common equity tier one ratio² of 12.1% and a strong leverage ratio of 5.1%
- Post Brazil disposal, common equity tier one ratio of 12.8%

Strategy

- Announcing a share buy-back of \$2.5bn in 2H16 following the successful disposal of HSBC Bank Brazil³ on 1 July 2016
- US successfully achieved a non-objection to its capital plan, which included a dividend payment in 2017, as part of the Comprehensive Capital Analysis and Review (CCAR)
- Further reduced RWAs in 1H16 by \$48bn through management actions bringing the total since 2014 to \$172bn
- Continued to capture value from our international network and gained market share in key Asian markets and businesses
- Commitment to sustain annual ordinary dividend in respect of the year at current levels for the foreseeable future

1. On an annualised basis

2. Since 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios have been aligned for HSBC holdings plc

3. We plan to maintain a corporate presence in Brazil to serve our international clients

HSBC Group 1H16 Key metrics

Key financial metrics	1H15	1H16
Return on average ordinary shareholders' equity ¹	10.6%	7.4%
Return on average tangible equity ¹	12.0%	9.3%
Jaws (adjusted)	-	(0.5)%
Dividends per ordinary share in respect of the period	\$0.20	\$0.20
Earnings per share	\$0.48	\$0.32
Common equity tier 1 ratio ²	11.6%	12.1%
Leverage ratio	4.9%	5.1%
Advances to deposits ratio	71.4%	68.8%
Net asset value per ordinary share (NAV)	\$9.11	\$8.75
Tangible net asset value per ordinary share (TNAV)	\$7.81	\$7.53

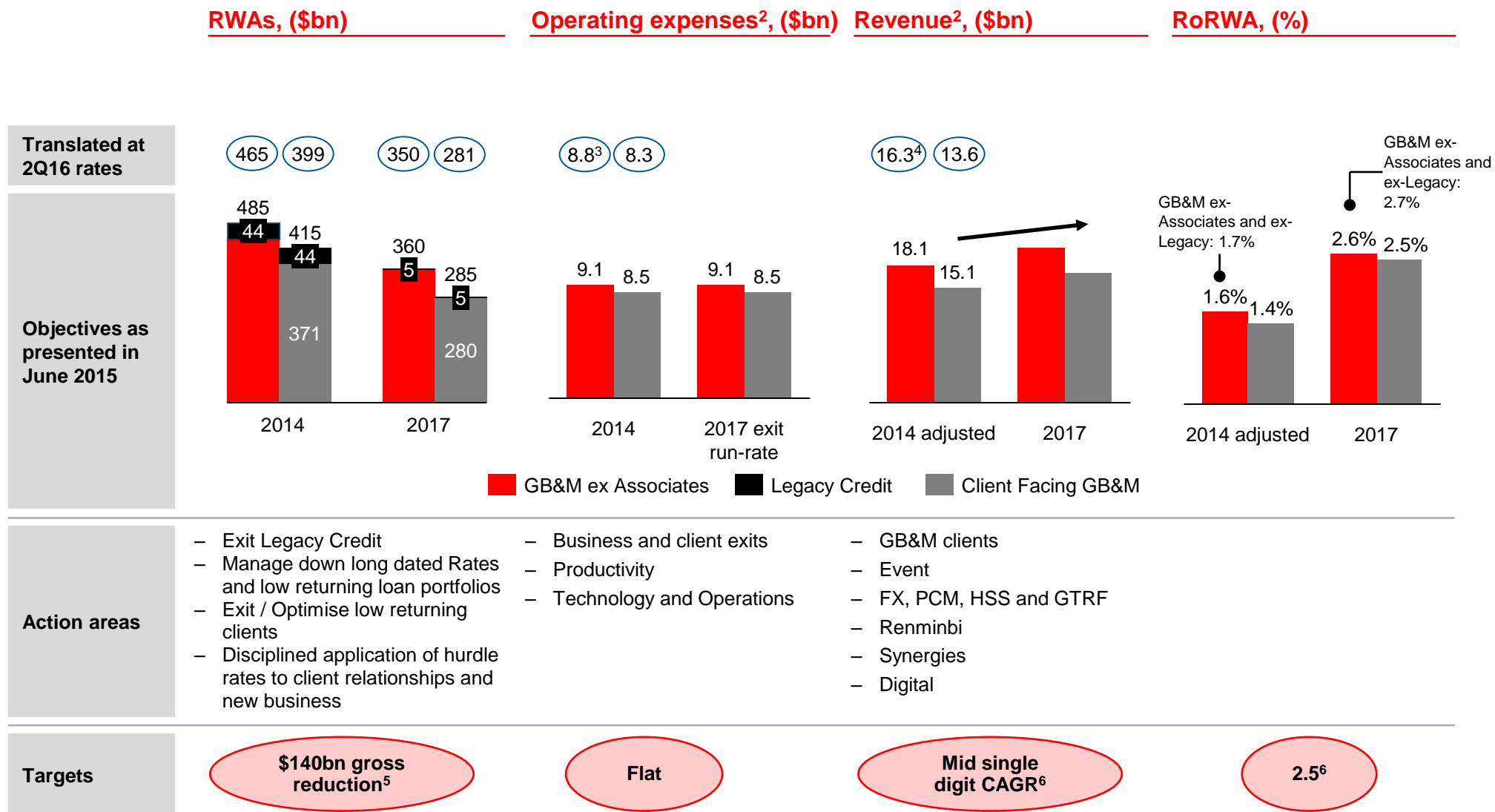
Reported Income Statement, \$m						
	2Q16	vs. 2Q15	%	1H16	vs. 1H15	%
Revenue	14,494	(2,557)	(15)%	29,470	(3,473)	(11)%
LICs	(1,205)	(336)	(39)%	(2,366)	(927)	(64)%
Costs	(10,364)	(22)	0%	(18,628)	559	3%
Associates	683	(46)	(6)%	1,238	(73)	(6)%
PBT	3,608	(2,961)	(45)%	9,714	(3,914)	(29)%

Adjusted Income Statement, \$m						
	2Q16	vs. 2Q15	%	1H16	vs. 1H15	%
Revenue	13,954	(783)	(5)%	27,868	(1,310)	(4)%
LICs	(1,205)	(394)	(49)%	(2,366)	(1,087)	(85)%
Costs	(8,071)	584	7%	(15,945)	660	4%
Associates	683	(14)	(2)%	1,238	(18)	(1)%
PBT	5,361	(607)	(10)%	10,795	(1,755)	(14)%

1. On an annualised basis

2. Since 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios have been aligned for HSBC holdings plc

GB&M Investor day targets¹



1. Targets as presented at Investor Update on 9 June 2015

2. Presented on an adjusted basis to exclude the effects of currency translation and significant items

3. Reported Operating expenses of \$12.0bn less significant items of \$1.9bn and less \$1.3bn due to effect of translating to 2Q 2016 foreign exchange rates and excluding Brazil. The target presented in June 2015 was \$9.1bn, and was based on 1Q15 exchange rates

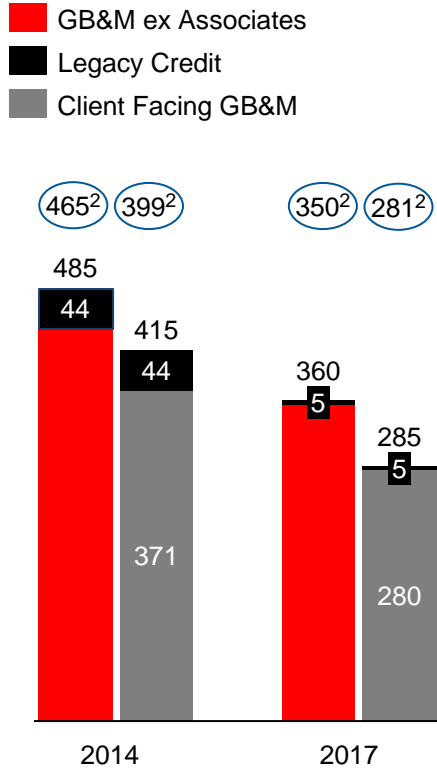
4. Reported revenue of \$17.8bn, less \$1.8bn due to the effect of translating to 2Q 2016 exchange rates and adding back \$0.3bn of significant items

5. \$140bn gross reduction from GB&M Client Facing and Legacy excluding country exits as reported. Please refer to Slide 17 from our Investor Update in June 2015 for a reconciliation of total RWAs

6. GB&M Client Facing

GB&M Progress to date: RWAs

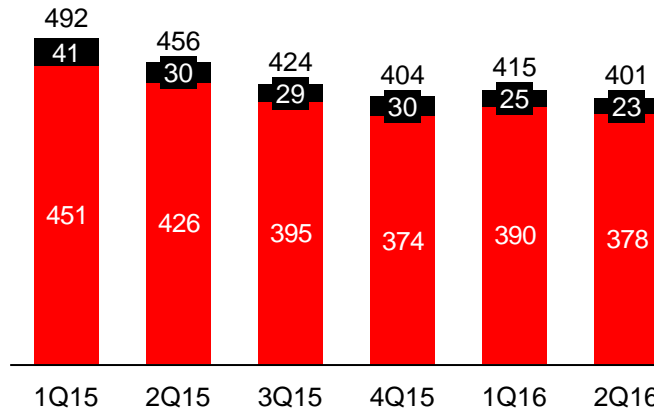
Investor day target¹, \$bn



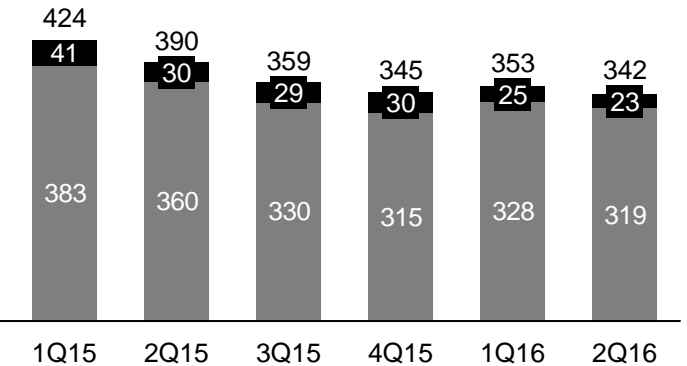
\$140bn gross reduction³

Update on progress¹

RWAs: GB&M ex. Associates, (\$bn)



RWAs: Client facing and Legacy, (\$bn)



- \$79bn reduction in RWAs since the beginning of 2015 (reported basis). Excluding Associates RWAs and the effect of currency translation, GBM RWAs reduced by \$64bn
- 2Q16 RWAs decreased by \$10bn since 1Q16 on a constant currency basis, driven by:
 - Targeted management mitigation actions reduce RWAs by c.\$11.6bn during the quarter through Legacy actions (-\$2.0bn), client portfolio management (-\$3.7bn), and underlying data and model improvements (-\$5.8bn)
 - This was partly offset by post EU referendum impacts on counterparty risk exposure c.\$4bn, new business growth c.\$2bn, and markets VaR and RNIV reductions c.-\$4bn
- As at 2Q16, GB&M have achieved \$94bn of the \$140bn targeted reductions announced during the 2015 Investor Update

1. RWAs as published in HSBC Holdings plc Annual Report and Accounts, Interim Report

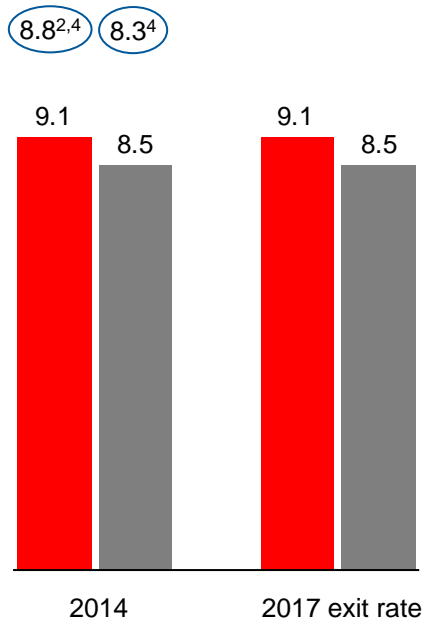
2. Translated at 2Q 2016 FX rates

3. \$140bn gross reduction from GB&M Client Facing and Legacy excluding country exits as reported. Please refer to Slide 17 from our Investor Update in June 2015 for a reconciliation of total RWAs

GB&M Progress to date: Operating expenses

Investor day target^{1,3} \$bn

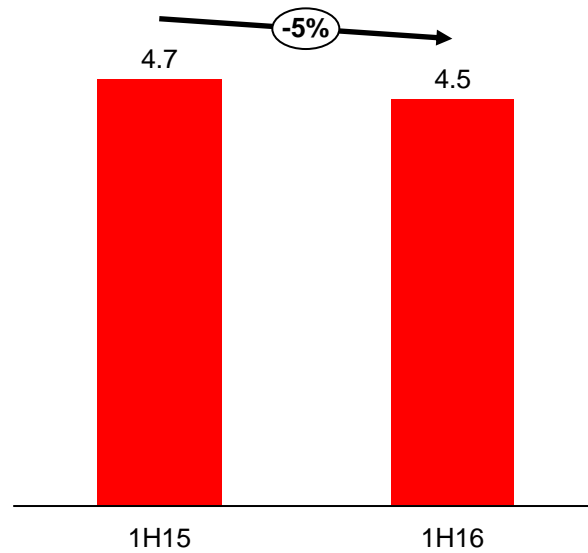
■ GB&M ex Associates
■ Client Facing GB&M



Flat

Update on progress

Operating Expense: GB&M ex. Associates,¹ (\$bn)

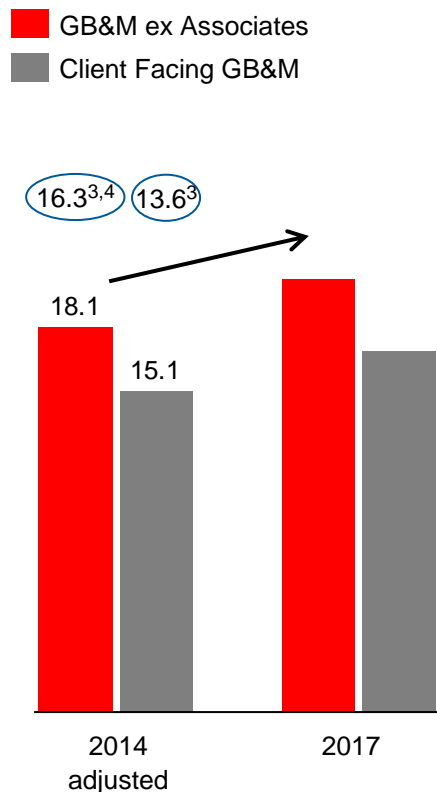


- Adjusted Costs are down 5% primarily due to lower performance related costs and the impact of cost saving initiatives, more than offsetting inflationary and regulatory investment increases
- We remain focused on FTE's which continue to show a steady decline
- Our transformational cost-reduction programmes are in execution mode and gaining momentum. We remain confident on achieving our cost Target by the end of 2017

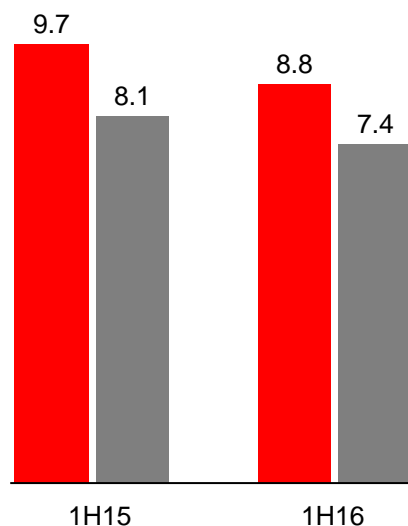
1. Presented on an adjusted basis to exclude the effects of currency translation and significant items
 2. Reported Operating expenses of \$12.0bn less significant items of \$1.9bn and less \$1.3bn due to effect of translating to 2Q 2016 foreign exchange rates and excluding Brazil. The target presented in June 2015 was \$9.1bn, and was based on 1Q15 exchange rates.
 3. 2017 Target based on 2014 Adjusted cost translated to 2015 foreign exchange rate and updated to exclude cost related to Brazil
 4. Restated using 2Q 2016 FX rates

GB&M Progress to date: Revenues

Investor day target¹, \$bn



Update on progress^{1,3}



Client Facing GB&M	Client Facing revenues are down 8% against 1H15
Event	<p>Significant deals in 2Q16 including:</p> <ul style="list-style-type: none"> – Lead Sell-Side Adviser to Groupe Casino on the disposal of its Vietnamese subsidiary, Big C Vietnam to Central Group, at an enterprise value of c. €1bn – Joint Bookrunner for Oracle Corporation on a five-tranche \$14bn senior unsecured debt offering – Joint Bookrunner on Steinhoff's €1.1bn, 7.5 years convertible bond offering
Transaction banking	Transaction banking revenue: \$3.6bn (down 2% on 1H15)
Renminbi	<ul style="list-style-type: none"> – 1H16 revenue² reached \$0.7bn (down 32% on 1H15) – Maintained #1 ranking in CNH bond underwriter league table (as of end-2Q16) – 52% Securities Services RMB QFII⁵ custodian market share (as of end-2Q16) – Joint lead manager for China's Ministry of Finance RMB3bn bond in the UK, the first sovereign RMB bond issued outside of China, issued in JUN16
Synergies	GB&M synergies revenue down 10% against 1H15 due to market uncertainty
Digital	HSBC evolve (FX Platform) launched to 3,600 clients booking to 14 different balance sheets, with internal daily volume in Q2 of \$7.6n; RM portal launched to c.2,300 relationship bankers

1. Presented on an adjusted basis to exclude the effects of currency translation and significant items
 2. Group RMBI Revenues
 3. Translated at 2Q 2016 FX rates
 4. Reported revenue of \$17.8bn, less \$1.8bn due to the effect of translating to 2Q 2016 exchange rates and adding back \$0.3bn of significant items
 5. RMB Qualified Foreign Institutional Investor

Appendix

GB&M Investor Update

Appendix

GB&M financials

	Reported						Adjusted					
	1H 15			1H 16			1H 16			1H 16		
	Total GB&M	Legacy	Assoc.	Total GB&M	Legacy	Assoc.	Total GB&M	Legacy	Assoc.	Total GB&M	Legacy	Assoc.
Legacy Credit	97	97		(100)	(100)		(100)	(100)		(100)	(100)	
Credit	492			506			506			506		
Rates	1,005			1,116			1,116			1,116		
Foreign Exchange	1,670			1,491			1,491			1,491		
Equities	1,108			575			575			575		
Markets	4,372	97		3,587	(100)		3,588	(100)		3,588	(100)	
Capital Financing	1,882			1,776			1,776			1,776		
Payments and Cash Management	899			924			924			924		
Securities services	865			786			786			786		
Global Trade & Receivables Finance	370			352			352			352		
Balance Sheet Management	1,566			1,428			1,448			1,448		
Principal Investments	128			(5)			(5)			(5)		
DVA	165			151			151			151		
Other	14			(86)			(87)			(87)		
Net operating income before loan impairment charges and other credit risk provisions	10,261	97		8,913	(100)		8,782	(100)		8,782	(100)	
Loan impairment charges and other credit risk provisions	11	15		(425)	12		(425)	12		(425)	12	
Net operating income	10,272	112		8,488	(88)		8,357	(88)		8,357	(88)	
Total operating expenses	(5,790)	(41)		(4,749)	(38)		(4,506)	(38)		(4,506)	(38)	
Income from associates	272		272	267		267	267		267		267	
Profit before tax	4,754	71	272	4,006	(126)	267	4,118	(126)	267	4,118	(126)	267
Cost efficiency ratio	56.4	42.3	n/a	53.3	(38.0)	n/a	51.3	(38.0)	n/a	51.3	(38.0)	n/a
Pre-tax return on average risk-weighted assets (annualised)	1.9	0.4		1.8	(1.0)							

GB&M financial overview

Reconciliation of Reported to Adjusted PBT

Half year

\$m	1H15	1H16	vs. 1H15
Reported profit before tax	4,754	4,006	(748)
Includes			
Currency translation	(223)	-	223
Significant items:			
Debit value adjustment ('DVA') on derivative contracts	(165)	(151)	14
Fair value movements on non-qualifying hedges	22	20	(2)
Revenue-related significant items	(143)	(131)	12
Costs-to-achieve	-	91	91
Disposal costs of Brazilian operations	-	(2)	(2)
Settlements and provisions in connection with legal matters	794	136	(658)
UK customer redress programmes	-	18	18
restructuring and other related costs	22	-	(22)
Operating expenses-related significant items	816	243	(572)
Adjusted profit before tax	5,204	4,118	(1,086)

Group financial overview

Reconciliation of Reported to Adjusted PBT

\$m	Discrete quarter			Half year		
	2Q15	2Q16	vs. 2Q15	1H15	1H16	vs. 1H15
Reported profit before tax	6,569	3,608	(2,961)	13,628	9,714	(3,914)
Includes						
Currency translation	142	-	(142)	452	-	(452)
Significant items:						
Fair value gains / (losses) on own debt (credit spreads only)	352	75	(277)	650	1,226	576
Gain on the partial sale of shareholding in Industrial Bank	1,009	-	(1,009)	1,372	-	(1,372)
Gain on disposal of our membership interest in Visa Europe	-	584	584	-	584	584
Other revenue-related significant items ¹	324	(119)	(443)	149	(208)	(357)
Revenue-related significant items	1,685	540	(1,145)	2,171	1,602	(569)
Settlements and provisions in connection with legal matters	(1,144)	(723)	421	(1,144)	(723)	421
Impairment of GPB Europe goodwill	-	(800)	(800)	-	(800)	(800)
UK customer redress programmes	-	(33)	(33)	(137)	(33)	104
Costs-to-achieve	-	(677)	(677)	-	(1,018)	(1,018)
Costs to establish UK ring-fenced bank	-	(63)	(63)	-	(94)	(94)
Other operating expenses-related significant items ¹	(82)	3	85	(264)	(15)	249
Operating expenses-related significant items	(1,226)	(2,293)	(1,067)	(1,545)	(2,683)	(1,138)
Adjusted profit before tax	5,968	5,361	(607)	12,550	10,795	(1,755)

1. For a complete list of significant items, please refer to HSBC Holdings plc Interim Report 2016

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