



March 2017

UK Retail Banking and Wealth Management (RBWM) Investor Update



Important notice and forward-looking statements

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

Business Overview

Positioned for future growth with a multi-brand, multi segment and multi-channel capability

Business Offering:

- Four market leading brands: HSBC, first direct, M&S Bank and John Lewis Partnership serving ~13m active customers (2016YE)
- Within the HSBC brand, three differentiated propositions organised around the needs of different market segments
- Well advanced investment in digital is improving customer experience while enabling optimisation of our branch network
- Focused on delivering growth in a challenging environment while maintaining credit discipline

Business and Market Context, Brands

Four market leading brands delivering to distinctive customer needs

HSBC 

- ▶ For the open minded, with a world view seeking to make the most out of life
- ▶ ~8m customers
- ▶ Acquire high earners in the 25-50 age range, looking for intelligent advice and likely to prefer digital channels
- ▶ Offer full banking relationships

first direct

- ▶ For the entrepreneurially minded who live and think differently
- ▶ ~1m customers
- ▶ Acquire independent, digitally native, early adopters of technology in the youth to 35 year old cohort
- ▶ Offer full banking relationships

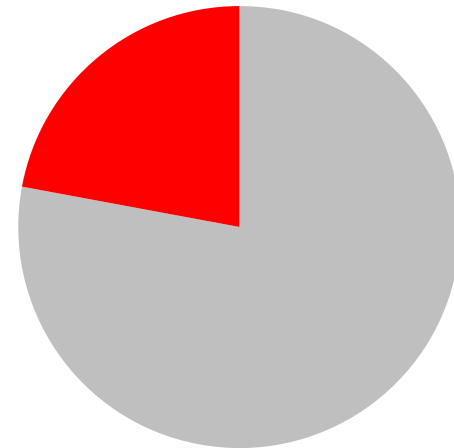
M&S BANK

- ▶ For the diverse 21st century family who seek trust and rewarding relationship banking
- ▶ ~3m customers
- ▶ Acquire 35-50 year olds who value the M&S high street brand and have growing financial needs
- ▶ Offer savings and unsecured lending services

partnership
John Lewis Waitrose

- ▶ For customers valuing the John Lewis and Waitrose brands
- ▶ ~1m customers
- ▶ Offer unsecured lending services to valued John Lewis Partnership customers

Share of UK RBWM revenue² 2016FY



1. All customer numbers quoted are existing active customers as at 31 Dec 2016. Not unique across Brands.
2. Adjusted basis

Business and Market Context, HSBC

HSBC brand has further differentiated propositions to cover key market segments in the UK



Personal Banking

- ▶ For customers who want access to simple transactional banking products, often including access to credit for the first time
- ▶ Each customer holds 1.5 HSBC products on average



Advance

- ▶ For emerging affluent, digitally savvy professionals looking for support to achieve their personal and professional goals
- ▶ Average product holding¹ per customer 3.7x and relationship balances 1.7x that of a Personal Banking customer
- ▶ Requirement to pay at least £1,750 a month into the account (or a minimum of £10,500 every six months)
- ▶ Benefits include: travel & leisure perks, preferential overdraft interest rate, discounted booking fees on the standard mortgage range, interest & cashback offer on selected personal loans



Premier

- ▶ Premium banking services for affluent customers with more complex / international financial needs
- ▶ Average product holding per customer 4x and relationship balances 12.8x that of a Personal Banking customer



- ▶ Jade by HSBC Premier is an exclusive membership programme that caters for its members' complex financial needs and high expectations
- ▶ Launched in the UK in 2016 for customers holding balances of £500,000 & above

¹ Average Product Holding Per Customer is total number of products held divided by number of active customers.

Retail Transformation Programme

Well-advanced investment in digital is improving customer experience while enabling cost savings from our branch optimisation programme

Capabilities already released

Online Global Service Platform

A fresh new design with integrated money transfer capabilities enhancing the customer's online experience

Apple Pay & Android Pay

Adding a new payment solution to make transactions quicker and easier for our customers

Live Chat

Instant messaging solution that offers customers the ability to have conversations with support staff

Voice Biometrics

47% of people sometimes forget their passwords or PIN. Improves experience, security and cost

 Migration Online of Statements

 E-docs

 Digital Coaches

 Loans Remote Signature

 Signature less Offers

 Intelligent Sales & Service Transformation

Capabilities to be released

My Docs Online

Secure digital delivery of customer correspondence

Online Account Opening

Quicker and more streamlined account opening

Branch Video

Customers able to video conference with a remote advisor in 239 branches

Third Party Mortgage Intermediaries

Substantially enhanced process and platform for mortgage brokers

Connected Money

Hassle free day to day mobile money management

 Samsung Pay

 Mobile X

 Card Remote Digital Signature

 Account servicing

 Cards Origination


 Loans Origination


 Digital Mail

 Personal Internet Banking Limit increase

 Co-Browse Customer Support


 Multi Channel Account Booking System

 Card Servicing

 Savings and Term Deposits Straight Through Processing

 Live Chat Expansion

 Customer Online Preference

 Card Servicing

 Next Generation Telephony

Building innovation around customers' channel of choice

HSBC is investing in propositions and functionality that complement changing customer behaviour, reinforce 'channel of choice' and deliver operational efficiencies

Digital adoption has become the 'norm'

- 90% of HSBC's payments and transfers are now completed digitally¹
- 93% of customer contact with the bank is now completed via the telephone, internet or smartphone



Optimising our branch footprint

- HSBC has reduced its branch footprint² by almost 40% over the last 5 years
- HSBC will have 625 branches in the UK by the end of 2017
- Geographical reach will be maintained (see Appendix)

¹ HSBC data as at JAN17

² Branch numbers exclude branches in the Channel Islands and Isle of Man, Relationship Management Centres (5 in the UK) and M&S branches

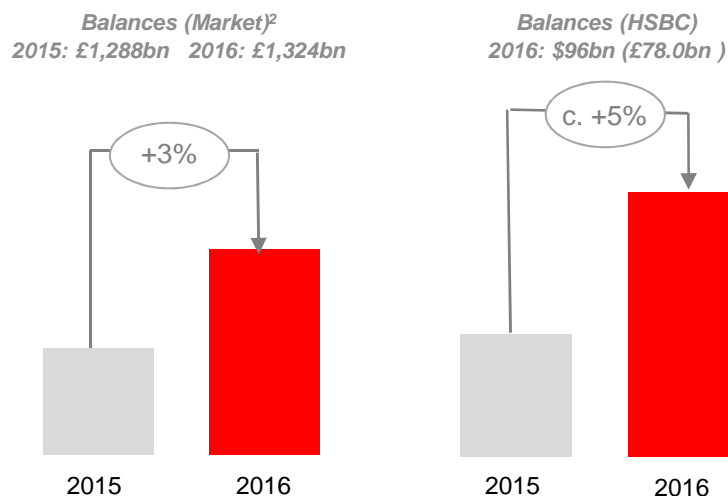
UK Mortgages

Market share gains in 2016 driven by expansion in the intermediary market, customer journey improvements and great value products

Market Dynamics

- **Channel trends** – around three quarters¹ of all customers now choose to take their mortgage advice through an intermediary
- **Simplified journeys** – Customers want the application process to be simpler, clearer and more certain, with more digital functionality
- **Competition** – The market remains extremely competitive with the large high street lenders already established within the intermediary market
- **HSBC continues to perform strongly in the direct channels (branch, telephony, online)** – over 1 in 5 of all UK mortgages originated in these channels are written by HSBC
- **Opportunity** – HSBC has a unique opportunity to deliver sustained growth within the intermediary channel and invest in improving the customer journey

Following initial expansion into the intermediary channel and customer journey improvements during 2015, benefits already starting to be seen with growth in both new lending and balances ahead of the market in 2016



Strategic Focus

- **Increase our penetration of the intermediary channel**
 - As of YE2016, c.35% of the intermediary market³ had access to HSBC mortgages (following initial launch in 3Q15)
 - Controlled expansion will continue during 2017, with c.75% of the intermediary market expected to have access to HSBC mortgages by the end of 2017 through a bespoke IT platform
- **Increasing value**
 - Although sector margins continue to remain compressed, incremental growth continues to provide returns in excess of Group RoE
 - Overall mortgage new business approvals (by value) increased 21% YOY in 2016, primarily driven by lower LTV remortgage customers moving their mortgages to HSBC, supporting our high quality, low risk approach
 - Conservative average LTV of the book at 40%
 - Average LTV of new business was 59% in 2016, with HSBC providing increased support for first-time buyers across the UK
 - Controlled growth within the intermediary channel, in conjunction with a strong direct channel presence, ultimately provides the opportunity to optimise margins and new business volumes

1. Source: Council of Mortgage Lenders (CML) forecast data

2. Source: CML total mortgage market size by balances outstanding

3. Source: CML forecast data and represents 14 intermediaries (12 of which were added in 2016)

Unsecured Lending

Focus is on high value, low risk customers superseding direct price competition

Loans:

- Intense price competition, a crowded market with access to low funding costs is driving rates to as low as 2.8%¹
- HSBC balance growth +11% and new acquisitions +4.2% FY16 vs. FY15
- HSBC's digital sales have grown by 7% vs. 2015 and now represent a channel mix of 41%² (DEC16)



Cards:

- Outstanding balance reduction has slowed, but zero balance transfer market remains buoyant, amplified by aggregators. Non interest bearing card balances are now estimated to be ~35-40% of total card balances market-wide³
- HSBC's digital sales have grown by 14% vs. 2015 and now represent a channel mix of 16%² (DEC16)



▶ Key Focuses:

- **Continue growth in higher value customer segments** (e.g. Premier and Advance)
- **Simplified Journeys** (e.g. reducing branch application journeys by 20 mins, increased online loan approval rates)
- **Maintain price competitiveness** and credit discipline on risk based pricing

▶ Key Focuses:

- **Enhanced Product Range** (launching new card offers in H1 2017 to better meet customer needs and drive growth)
- **Simplified Journeys** (ability for straight through processing of applications in digital channels by end of 2017)
- **Increased Customer Engagement** to grow interest bearing balances (more personalized customer communications)

¹ Sainsbury loans offer <http://www.moneysavingexpert.com/news/loans/2016/12/sainsburys-bank-launches-cheapest-ever-standard-personal-loan-at-just-28-apr>

² HSBC internal data for HSBC brand only

³ Market report: BOAML Peak margin, trough bad debts, 10 Mar2017

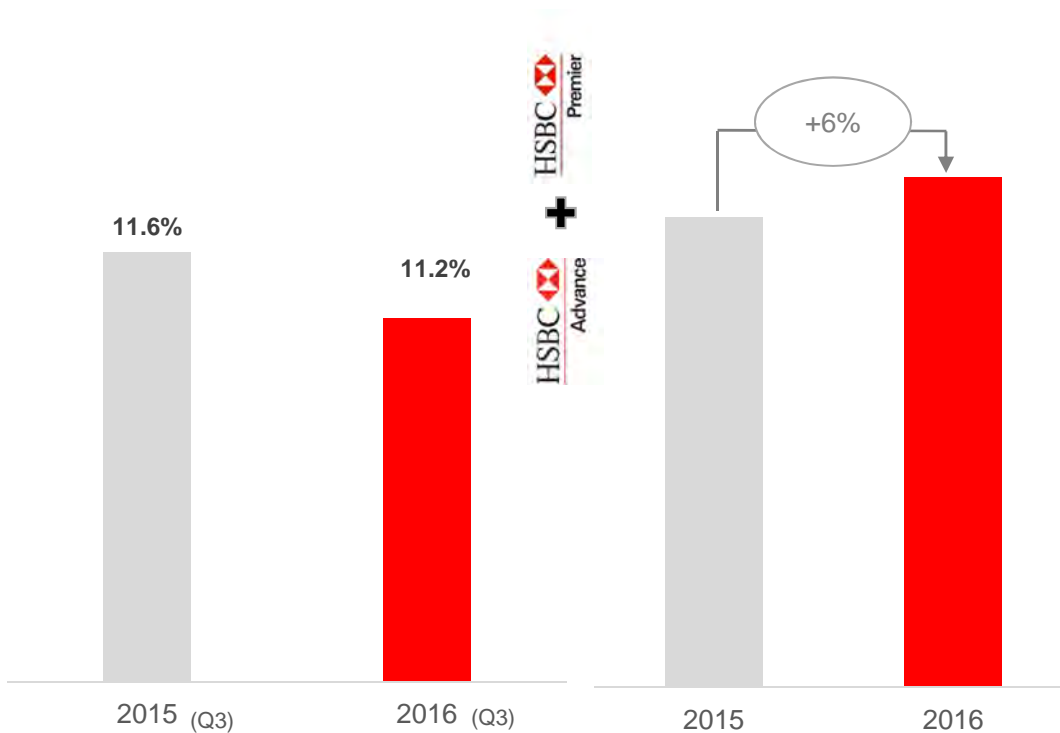
Current Accounts (CAs)

Focus on acquiring and deepening relationships with high value customers in target Premier and Advance segments has resulted in significant balance growth

Driving value from key propositions despite overall decline in total current account market share

% HSBC market share
(Number of CAs¹)

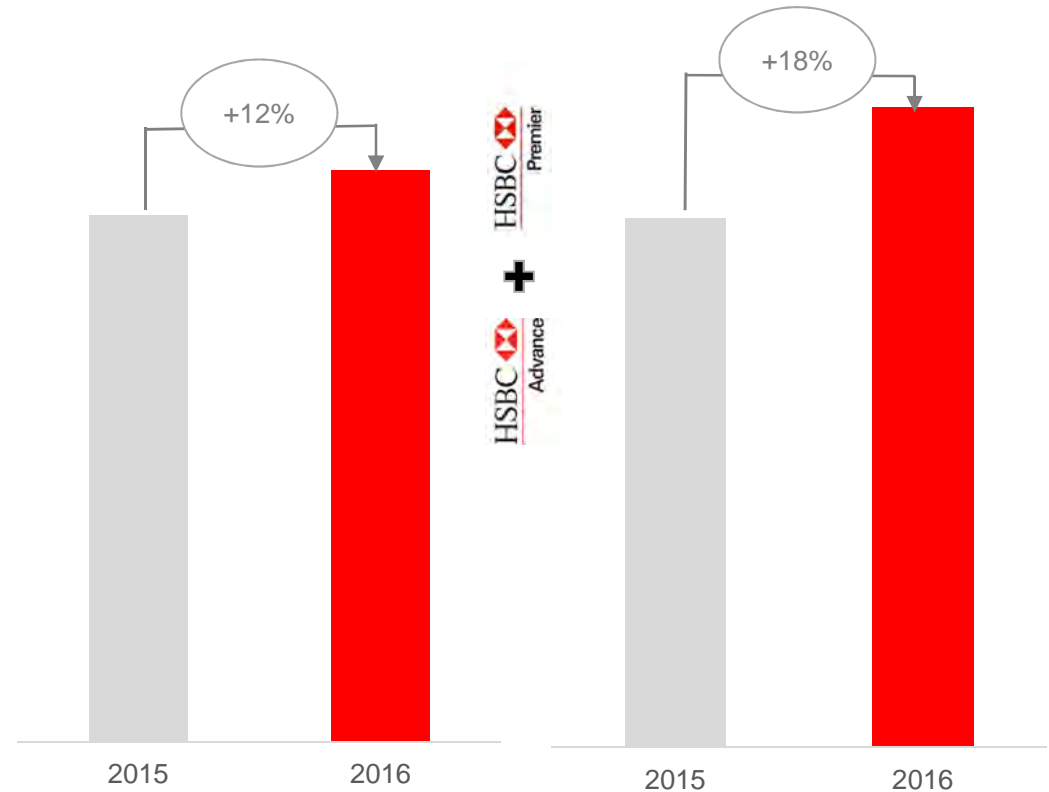
Growth in number of CAs²
(Premier and Advance only)



Balances are increasing as we deepen relationships with valuable customers

UK RBWM CA balance growth³

Premier and Advance CA balance growth⁴



Targeting higher value segments to deliver sustainable growth

1. Financial Research Survey, GfK Global: market share of number of accounts held
2. HSBC Advance and Premier current accounts stock at the end of Dec 2015 and Dec 2016.
3. Current account balances at the end of Dec 2015 and Dec 2016 for RBWM UK
4. Current account balances at the end of Dec 2015 and Dec 2016 for and Advance / Premier propositions

Financial Performance

Revenue environment remains challenging but returns are above Group RoE

Revenue	<ul style="list-style-type: none"> – Margins face continued pressure from competition and a low-rate environment – However, HSBC has successfully grown balances in high-return segments such as low-LTV mortgages
Loan Impairment Charges (LICs)	<ul style="list-style-type: none"> – Low LICs, reflecting high quality asset portfolio
Operating Expenses	<ul style="list-style-type: none"> – Investment in digital has enabled us to improve the customer experience, whilst delivering increased productivity and greater trading performance through an optimised branch network

UK RBWM financial performance¹

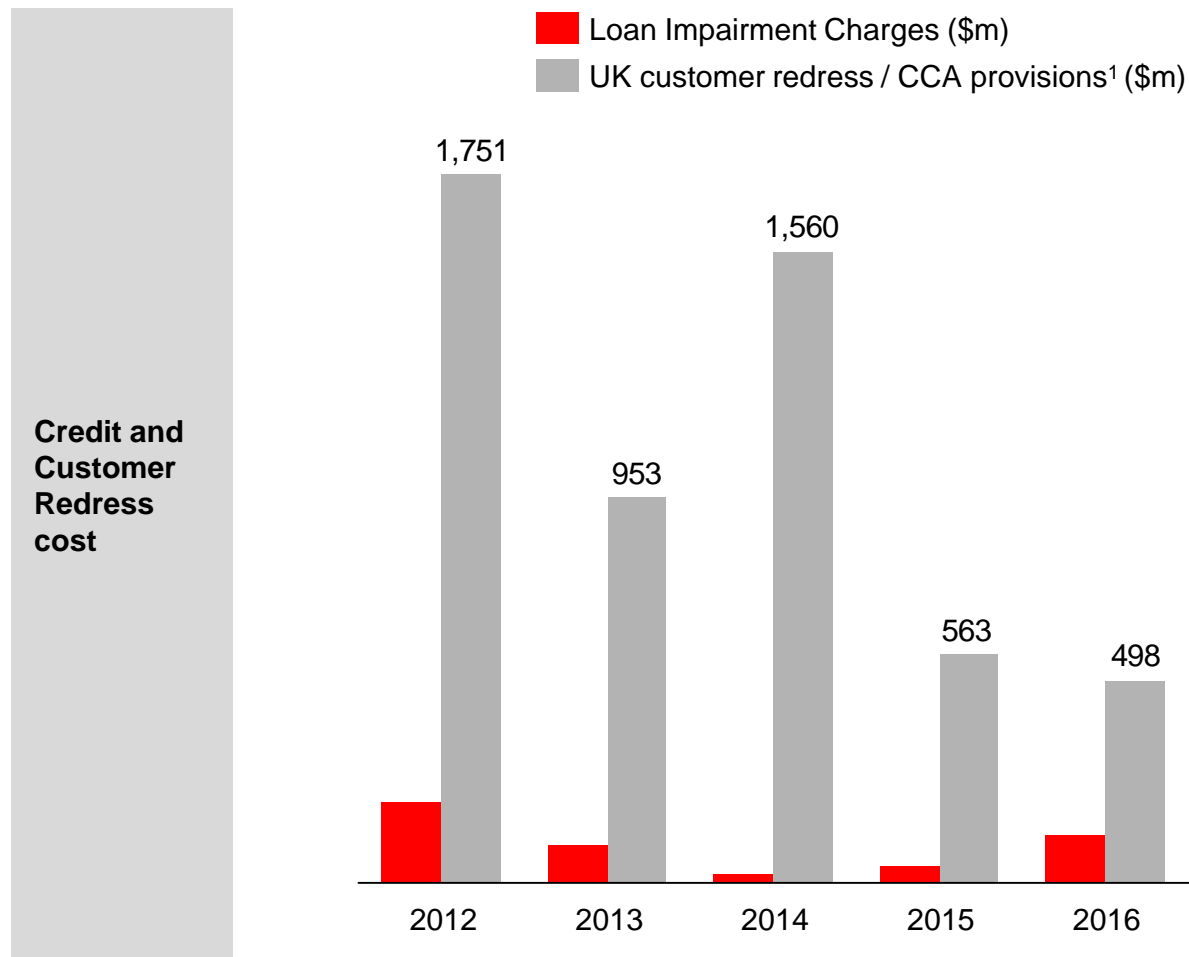
	2016	Change YoY (%)
Revenue (\$bn)	4.8	(2.3)%
LICs (\$bn)	0.1	>100%
Operating expenses (\$bn)	3.6	0.2%
PBT (\$bn)	1.1	(19.4)%
CER	74.5%	(3.6)%
Loans and Advances (\$bn)	115	4.6%
Customer Deposits (\$bn)	160	9.1%
A/D Ratio	72%	(3.4)%

1. Figures presented on an adjusted basis; on a reported basis, revenue was USD5.02bn, operating expenses were USD4.3bn and PBT was USD0.65bn

Conduct risk

HSBC has repositioned the business for conduct risk ...

UK customer redress and Consumer Credit Act (CCA) provisions at their lowest since 2012



Numerous actions to reduce conduct risk started in 2012

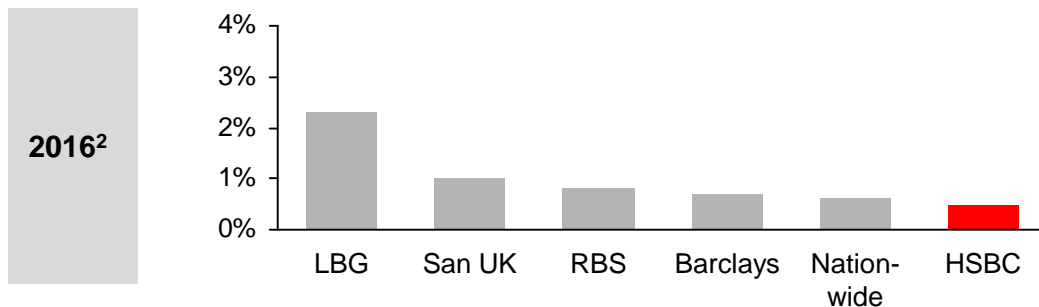
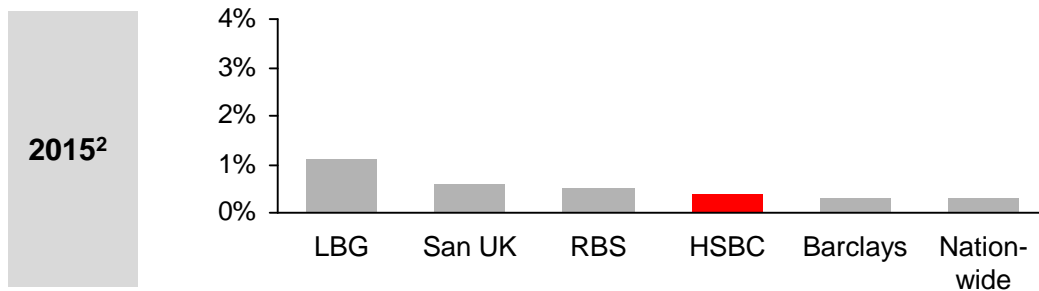
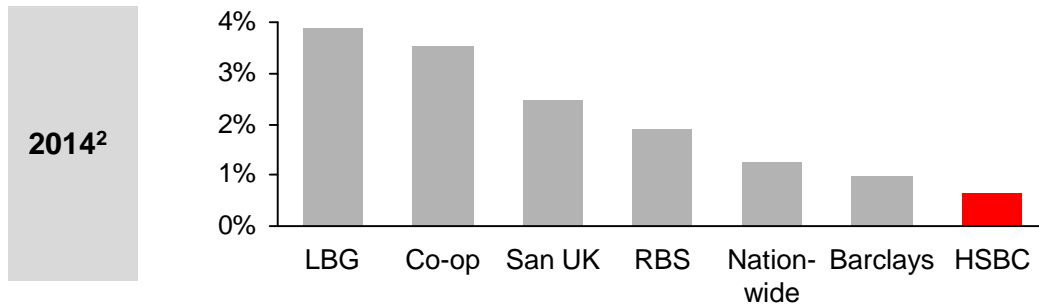
- Removed the formulaic link between product sales and remuneration: variable compensation is paid on a discretionary basis
- Regularly review our entire product range to ensure customers are receiving fair value
- Simplified our products to make them easier for our customers to understand, and easier for us to manage
- Implemented new sales quality monitoring, including mystery shopping, and strengthened our assurance programme

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

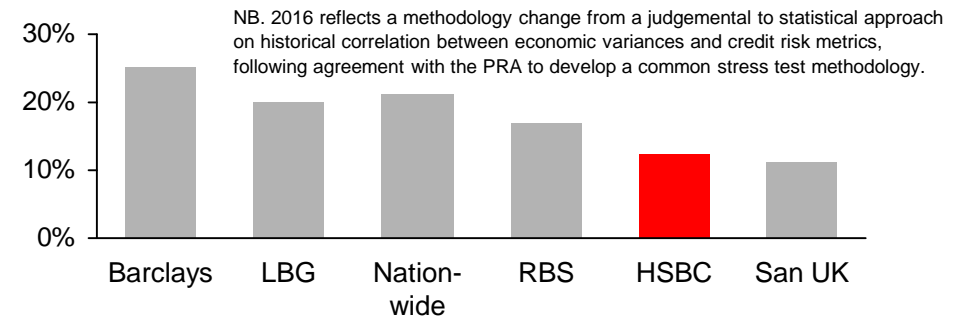
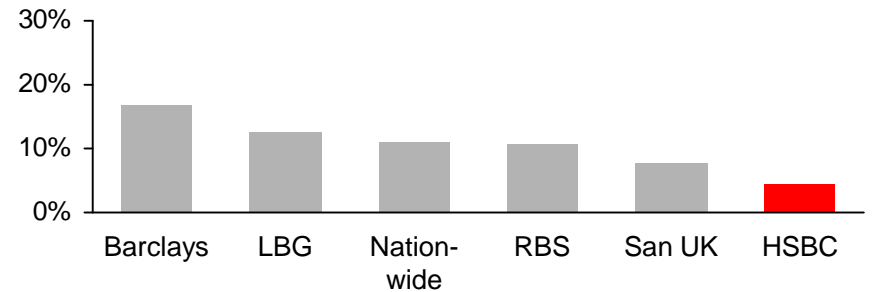
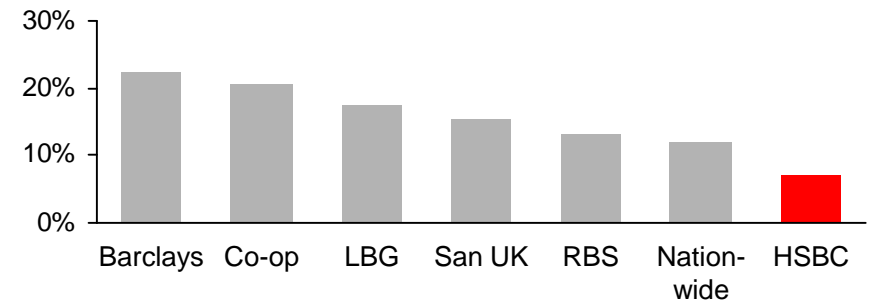
PRA Stress Test

... while maintaining strong credit discipline

PRA stress tests: Projected cumulative three/five-year impairment charge rates on UK individuals – mortgage lending^{1,2} (%)



PRA stress tests: Projected cumulative three/five-year impairment charge rates on UK individuals – non-mortgage lending^{1,2} (%)



Source: "Stress testing the UK banking system: 2015 results", Bank of England, Dec 2014, Dec 2015 and Nov 2016, respectively page 17, page 46 and page 49

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 3 years for 2014 & 2015 and 5 years for 2016 using year end balance sheet 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

Summary

Investing for growth

HSBC has a solid platform to build on:

- Strong balance sheet delivering returns in excess of Group RoE
- Low LICs reflecting high quality asset portfolio
- Investment in digital is improving customer experience while enabling cost savings from our branch optimisation programme
- Branch footprint reducing to 625 by the end of 2017 while maintaining geographical reach
- Growth in mortgage balances and market share, primarily through broker market

Appendix

Optimising our branch footprint – Geographical reach

