
# HSBC progress in 2013

## UBS Conference

**HSBC Group Finance Director Iain Mackay**

**November 2013**

HSBC

# 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 and 3Q 2013 Interim Management Statement. Past performance cannot be relied on as a guide to future performance.

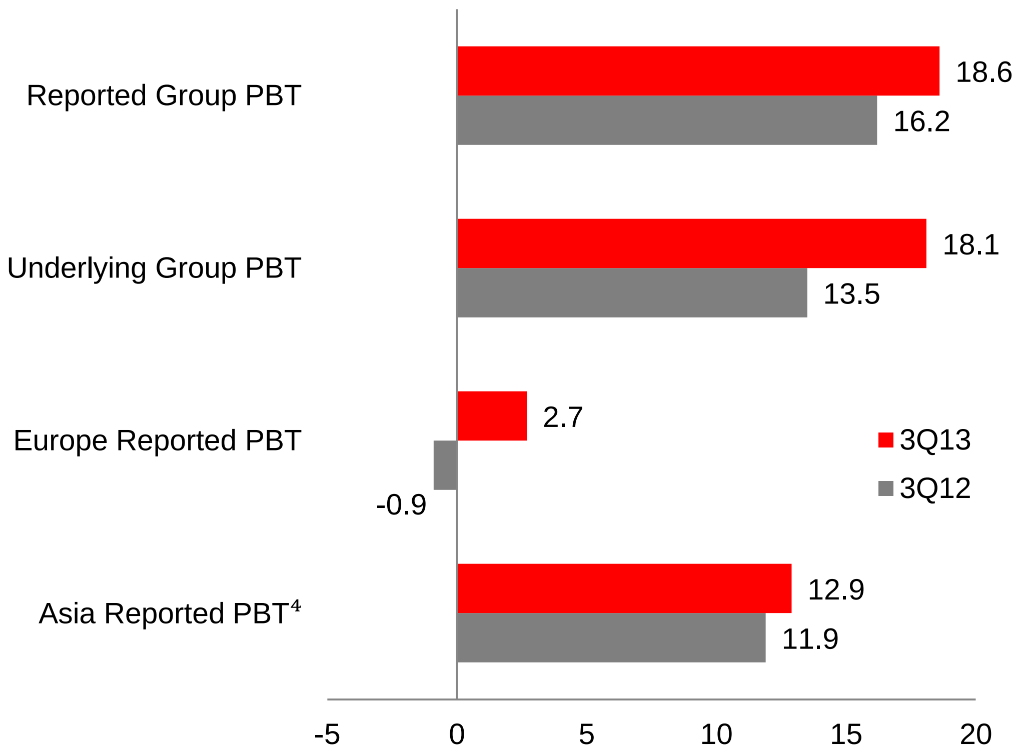
This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the supplement available at www.hsbc.com.

# Agenda

- Summary Financials
- Vision and strategy
- Simplify business
- Europe and Asia
- Understand and adapt to regulatory complexity and uncertainty

# HSBC 3Q 2013 results
## Financial highlights[1]

**HSBC summary financial highlights (USDbn)** **YTD**




| Key ratios % | 3Q 2012 YTD | 3Q 2013 YTD |
|---|---|---|
| Return on average ordinary shareholders' equity | 8.9 | 10.4 |
| Cost efficiency ratio | 61.2 | 56.6 |
| Advances-to-deposits ratio | 76.3 | 73.6 |
| Core tier 1 ratio | 11.7 | 13.3 |
| Common equity tier 1 ratio[2] | - | 10.6 |
| EPS (USD) | 0.58 | 0.71 |
| Dividends (USD)[3] | 0.27 | 0.30 |

Notes:
1 All figures are as reported unless otherwise stated
2 Estimated CRD IV end point CET1 ratio based on our interpretation of the July 2011 draft CRD IV regulation, supplemented by UK Regulator guidance for 31 December 2012 and Final CRR rules for 30 June 2013. Refer to Estimated effect of CRD IV end-point rules table on page 188 and basis of preparation on page 197 in the Interim Report 2013
3 Declared in respect of the period
4 Data for 'Asia' comprises the sum of Hong Kong and Rest of Asia Pacific geographical regions without the elimination of inter-segments

# Vision and strategy

HSBC

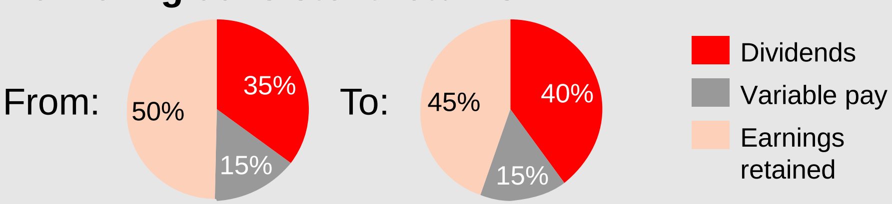
# At the beginning of 2011 we defined a new vision for HSBC

| | | |
|---|---|---|
| **Purpose** | Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose. | ***Reason why we exist*** |
| **Values** | Act with courageous integrity<br>▪ Dependable and do the right thing<br>▪ Open to different ideas and cultures<br>▪ Connected to customers, regulators and each other | ***How we behave and conduct business*** |
| **Strategy** | ▪ International network connecting faster growing and developed markets<br>▪ Develop Wealth and invest in Retail only in markets where we can achieve profitable scale | ***Where and how we compete*** |

**Outcome**

**Being the world's leading international bank**

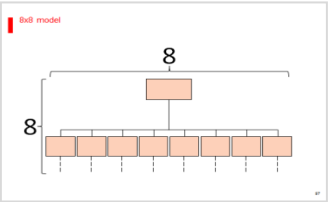
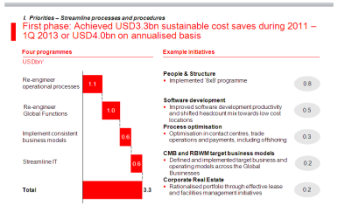
**Delivering consistent returns**



# Simplify business

HSBC

# What we have done: Put in place a simplified structure to manage the bank globally

| From | To | | |
|---|---|---|---|
| **Fragmented** | **Cohesive and Focused** | Focus on 22 Home and Priority markets |  |
| **Complex Management Structures** | **Simplified Management Structures** | Implemented 8x8 programme |  |
| **Federated Business and Functional Model** | **Global Business and Functional Model** | Target Operating Models<br>Consistent Metrics |  |
| **2011-13 Sustainable Cost Savings of USD2.5-3.5bn** | **2014-16 further Sustainable Cost of Savings USD 2-3bn** | Annualised total of USD4.5bn since start of 2011, positive Jaws and CER mid 50's |  |

# Established a simplified, more focused and easier to manage organisation

## Progress

| | |
|---|---|
| **Sustainable cost savings** | ▪ Set target to achieve USD2.5-3.5bn throughout 2011-13<br>▪ Annualised USD4.5bn since the start of 2011<br>▪ Set further sustainable savings target of USD2-3bn for 2014-16<br>▪ Positive Jaws of 9% in 3Q13 YTD<br>▪ CER mid 50's |
| **Established eleven Global Functions** | ▪ Managed independently, but with close links to businesses<br>▪ Focus on global **consistency** and rigour of governance, control, process efficiency, transparency |
| **Focused role of six Regions** | ▪ Defined clear portfolio of **2 home markets** and **20 priority growth markets**<br>▪ Driving **implementation** of Group and Global Businesses' strategies<br>▪ Primarily organised through **separately capitalised, regulated, governed subsidiaries** tapping local funding through strong deposit bases |
| **Simplified organisation structure** | ▪ **Simplified organisation** applying 8x8 programme across all priority markets<br>▪ Stronger management **oversight and accountability** and **reduced bureaucracy** |

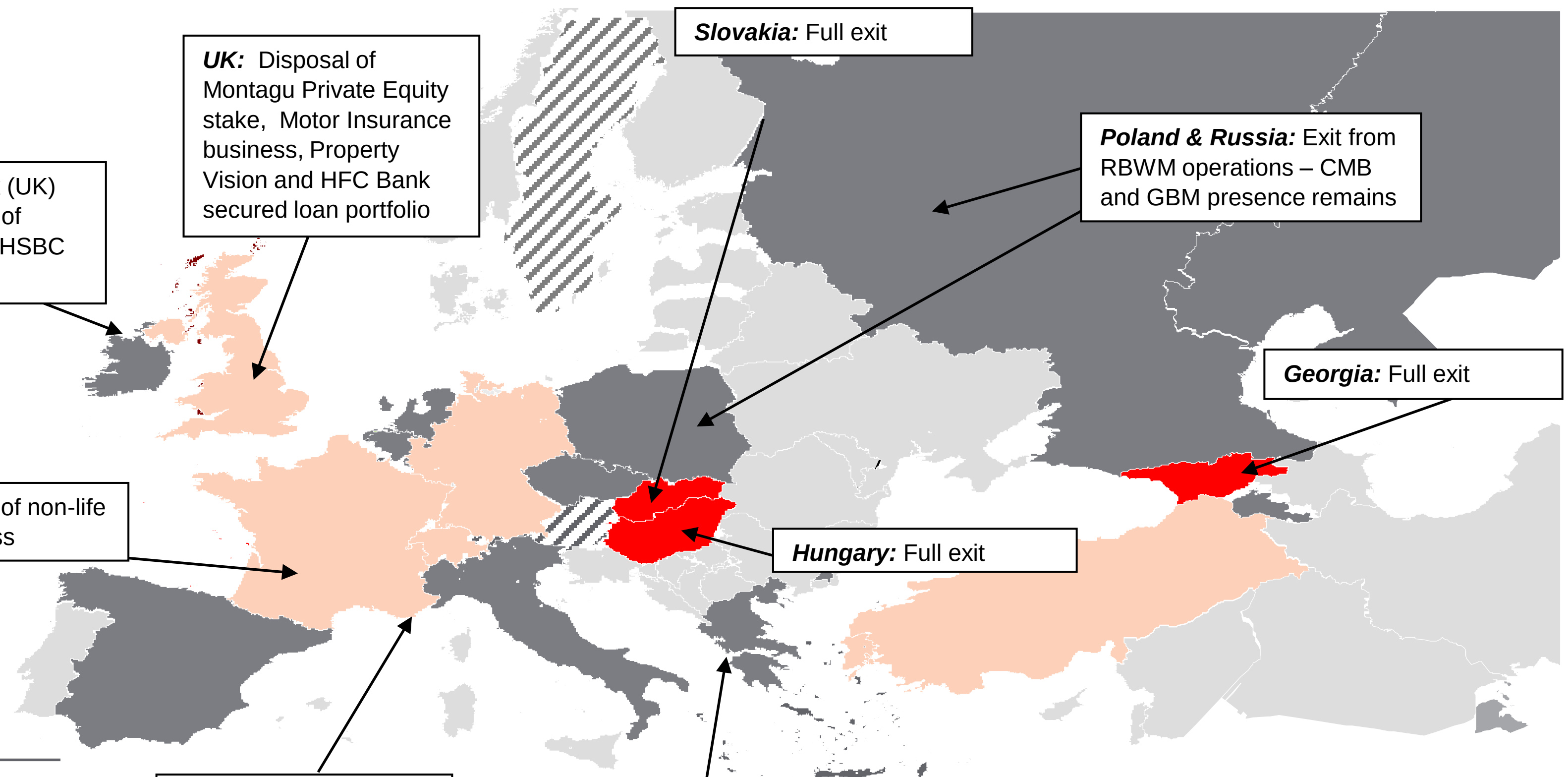
# Global Standards define governance and programmes

| | | |
|---|---|---|
| **Governance** | **Financial System Vulnerabilities Committee**[1] | Provides governance, oversight and policy advice to simplify business activities and enhance risk management and control |
| | **Global Standards Steering Meeting**[2] | Sets the strategic direction and priorities for the Global Standards programme |
| | **Global Standards Execution Committee** | Provides execution control across line of business based on strategic direction and priorities |
| **Programmes** | **Customer Due Diligence** | Develop an integrated framework to manage financial crime risk more effectively (including Affiliates Due Diligence, Tax Transparency, Bearer Shares, Customer Selection and Exit Policy) |
| | **Financial Crime Compliance** | Create a consistent, flexible and scalable organisation and establish controls to meet Deferred Prosecution Agreement and other regulatory obligations |
| | **Financial Intelligence** | Build our capabilities in capturing and using customer and transactional level data to identify suspicious transactions, activity or connections |

1 New Board committee of external experts and independent advisers
2 Part of the Group Management Board

# Europe and Asia

# Reduced fragmentation and clear focus in the European portfolio




**Europe summary financial highlights**

| YTD (USD bn) | 3Q12 | 3Q13 |
|---|---|---|
| Revenue | 13.8 | 16.3 |
| PBT | (0.9) | 2.7 |
| % Group revenue | 27% | 33% |
| % Group PBT | N/A | 15% |

Note: Reported basis unless otherwise stated

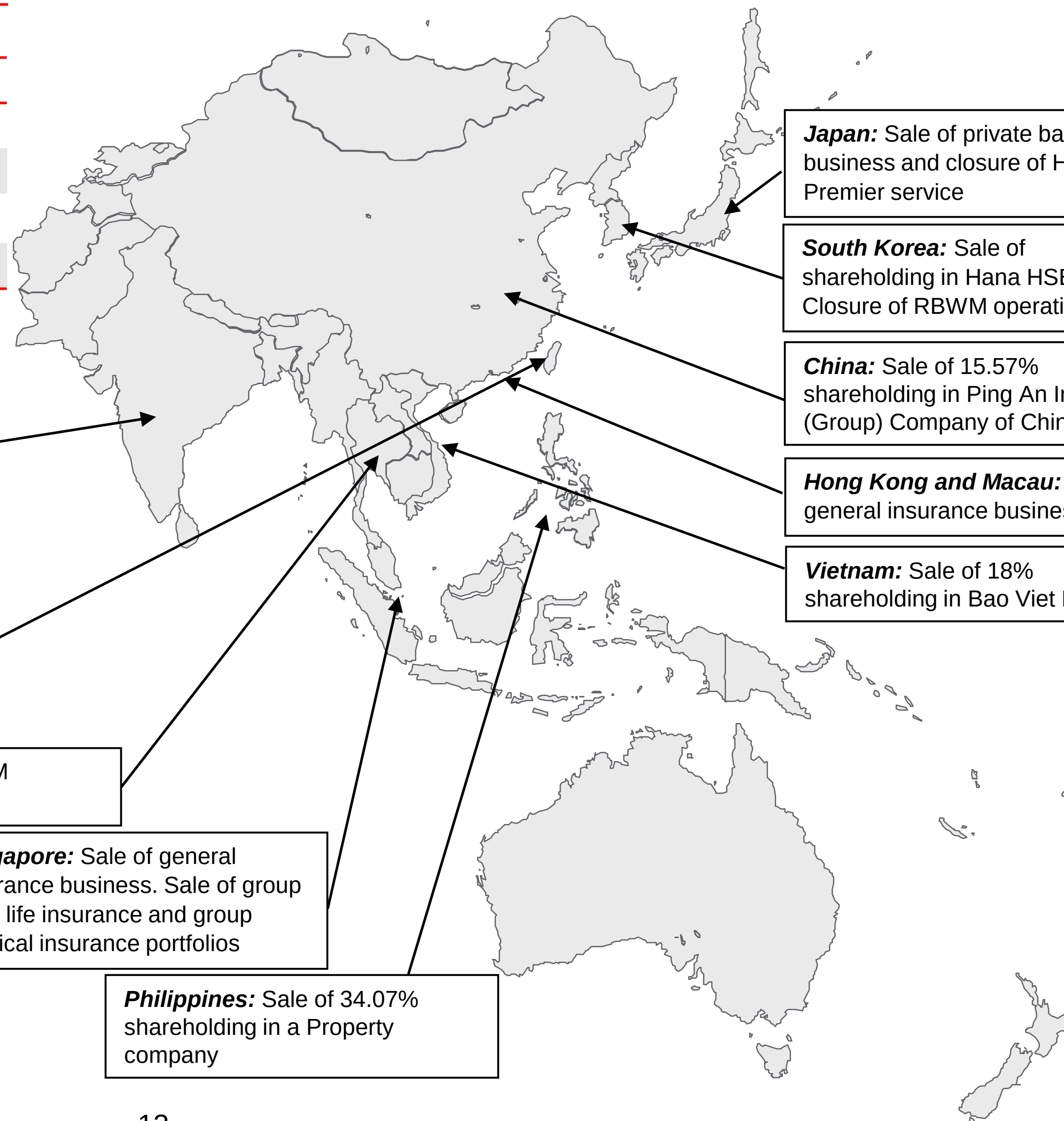
# Reduced fragmentation and clear focus in the Asia portfolio

## Asia Pacific summary financial highlights

| YTD (USDbn) | 3Q12 | | 3Q13 | |
|---|---|---|---|---|
| | HK | RoAP | HK | RoAP |
| Revenue | 9.2 | 8.6 | 10.0 | 9.5 |
| PBT | 6.3 | 6.3 | 6.3 | 6.6 |
| % Group revenue | 18% | 17% | 20% | 19% |
| % Group PBT | 39% | 39% | 34% | 35% |

Note: Reported basis unless otherwise stated

## List of announced disposals and exits since start of 2011



***Japan:*** Sale of private banking business and closure of HSBC Premier service

***South Korea:*** Sale of shareholding in Hana HSBC Life. Closure of RBWM operations

***China:*** Sale of 15.57% shareholding in Ping An Insurance (Group) Company of China,Ltd.

***Hong Kong and Macau:*** Sale of general insurance business

***Vietnam:*** Sale of 18% shareholding in Bao Viet Holdings

***India:*** Sale of non-core investment in Axis Bank Limited. Sale of non-core investment in Yes Bank Limited. Closure of retail broking and depository services business

***Taiwan:*** Sale the assets and liabilities, other than the statutory deposits, of the Taiwan branch of HSBC Life (International) Limited

***Thailand:*** Sale of RBWM operations

***Singapore:*** Sale of general insurance business. Sale of group term life insurance and group medical insurance portfolios

***APAC:*** Sale of 44% shareholding in Global Payments Asia-Pacific Limited

***Philippines:*** Sale of 34.07% shareholding in a Property company



13

# Understand and adapt to regulatory complexity and uncertainty

# Regulatory uncertainty remains

## CRD IV Common Equity Tier 1 and other capital requirements

| | | | |
|---|---|---|---|
| **PRA** | Capital planning buffer | Fixed amount | |
| | Individual capital guidance | Multiplier plus add-on | |
| **CRD IV (under Assessment)** | Sectoral capital requirement | RWA buffer | |
| | Counter-cyclical capital buffer | ≥0% CET1 (no maximum) | |
| | Systemic risk buffer | ≥0% CET1 (no maximum) | |
| **CRD IV** | Global systemically important banks | **2.5%**[1] | 9.5% |
| | Capital conservation buffer | **2.5%** | |
| | Minimum Capital Requirement | **4.5%** | |

1 Draft guidance from the Financial Stability Board

## Further sources of uncertainty

- CRD IV – uncertainty in how buffers will be implemented and applied
- CRD IV – national discretion allows for interpretation and tougher policy stances by member states
- Financial Policy Committee – proposals for additional capital add-ons
- UK Financial Services (Banking Reform) Bill and Liikanen proposals – insufficient detail
- PRA proposals – e.g., low-default portfolios

# Summary : Grow both business and dividends

| | | |
|---|---|---|
| **Capital generation** | **Earnings** | ▪ Historical capital generation from earnings gross of dividends<br>– 2010 117bps[1]<br>– 2011 127bps[1]<br>– 2012 147bps[1] |
| | **Legacy run-off** | ▪ Continue to aggressively manage down through run-offs and opportunistic disposals based on a clear economic framework |
| **Capital deployment** | **Organic growth** | ▪ Growth in line with organic investment criteria<br>– Aligned to our strategy<br>– Consistent with our risk appetite<br>– Value accretive for the Group |
| | + **Dividends** | ▪ Dividend pay-out ratio at 40-60% over the medium term |
| | + **Share buy-backs** | ▪ Subject to meeting UK regulatory capital requirements<br>▪ Shareholders' approval |

1 Gross capital generation (before dividends) after regulatory adjustment for own credit spread. The bps have been calculated using opening risk-weighted assets for the year