



June 2015

HSBC UK: Transition to the Ring-Fenced Bank

Antonio Simoes
Chief Executive Officer, HSBC UK



Important notice and forward-looking statements

Important notice

The information set out in this presentation and subsequent discussion does not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any recommendation in respect of such securities or instruments.

Forward-looking statements

This presentation and subsequent discussion may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group (together, “forward-looking statements”). Forward-looking statements may be identified by the use of terms such as “believes,” “expects,” “estimate,” “may,” “intends,” “plan,” “will,” “should,” “potential,” “reasonably possible” or “anticipates” or the negative thereof or similar expressions, or by discussions of strategy. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant assumptions and subjective judgements which may or may not prove to be correct and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Certain of the definitions, assumptions and judgements upon which forward-looking statements contained herein are based are discussed under the ‘Basis of Preparation’ in a supporting document. A variety of additional risks and uncertainties that could cause actual results to differ materially from those expected or anticipated, including those that are described in the Group’s Annual Report on Form 20-F for the year ended 31 December 2014 filed with the US Securities and Exchange Commission and other reports and filings of the Group, including under the headings ‘Top and Emerging Risks’ and ‘Risk Factors’ and in Note 40 (Legal Proceedings and Regulatory Matters) and other notes on the 2014 Financial Statements included therein. Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update them if circumstances or management’s beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. Moreover, past performance cannot be relied on as a guide to future performance. Nothing in this presentation or in the subsequent discussions should be considered as a profit forecast.

Non-GAAP Financial Information

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 year-on-year effects of foreign currency translation differences and significant items which distort year-on-year 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. 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.

UK franchise is well positioned for the future

Key messages

Healthy UK economy

- Return to pre-crisis GDP growth (2.6%¹ in 2015) – among the highest in Western Europe
- Strong 1Q15 services PMI data, suggesting continued near-term growth in the UK

Profitable and scale business

- Large franchise with c.17m customers
- RBWM and CMB increased adjusted PBT at a CAGR² of 12% and 31%, respectively, despite the total UK adjusted PBT decreasing at a CAGR of 1%

Customer-centric strategy

- RBWM: Three leading brands (HSBC, first direct and M&S) with differentiated propositions
- CMB: Organised around customer needs, delivering market share growth across key products
- GPB: Focused on serving HSBC's existing clients with a best-in-class investment proposition

Broad Ring-Fenced Bank³ (RFB)

- Broad RFB comprised of three Global Businesses – RBWM, CMB and GPB³
- Robust plan in place to transition to the RFB in 2018

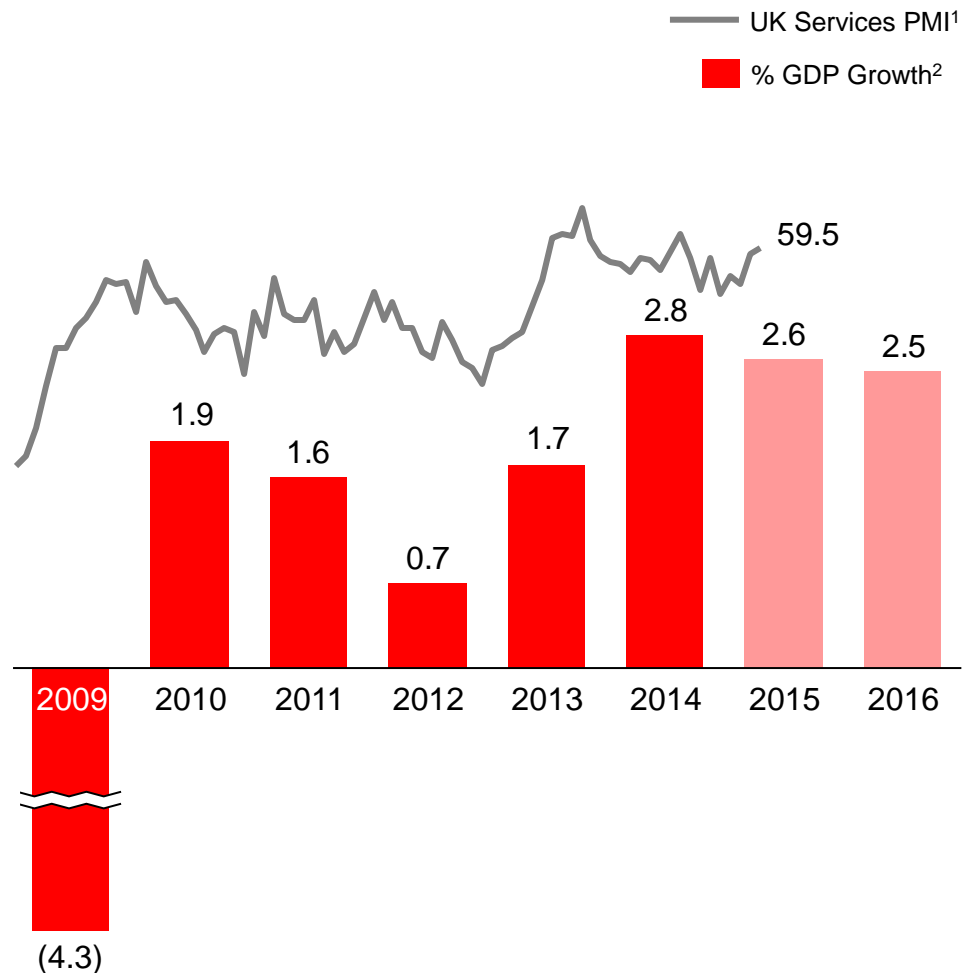
1. Estimated 2015 figure. Source: HSBC Global Research, Macro European Economics 2Q15

2. Compounded Annual Growth Rate. Calculated between 2010-14

3. Global Businesses largely within the RFB. The review around GPB UK and its component elements is on-going, with the current assumption that GPB will be a ring-fenced entity albeit this is subject to change

The UK economy is healthy with solid growth prospects

Sustained growth in the UK...



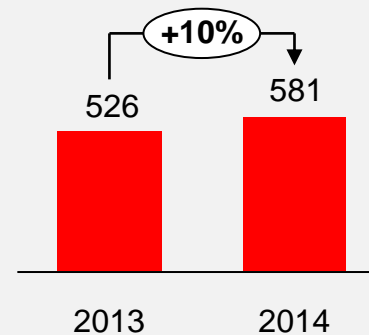
...makes it a good place to invest

1 Economy³

- Return to pre-crisis GDP levels - highest among Western European countries
- Low forecast levels of unemployment (5.5%) and inflation (+0.3%) in 2015
- Interest rates expected to remain low into 2016

2 Business activity

UK registered start-ups⁴, '000



- Record registered start-ups in 2014, indicating a growing appetite for new businesses
- Thriving entrepreneurial spirit in key hubs outside of London, including Birmingham and Manchester
- Firms dropping out of the Companies House register fell by 6%⁴ in 2014

3 Political landscape

- MAY15 election result provides stability for UK businesses⁵
- Political risk has not disappeared with an upcoming referendum expected on the UK remaining part of the EU

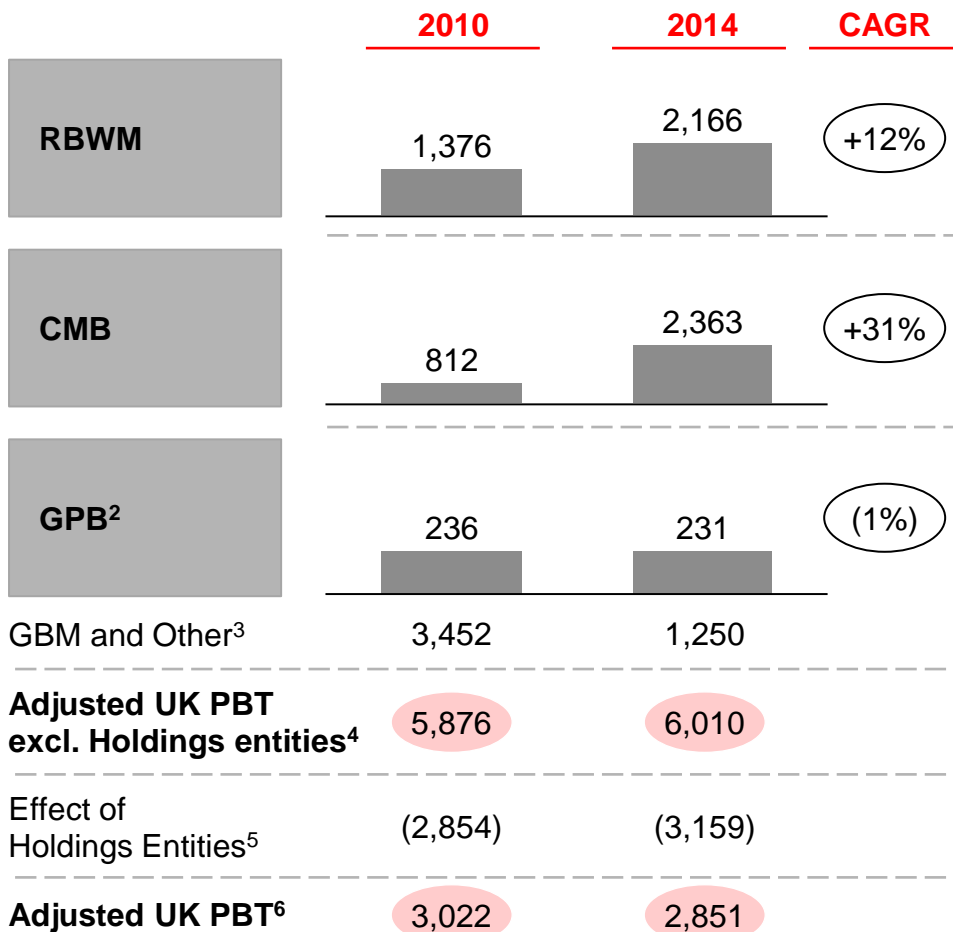
1. Purchasing Managers' Index. 2009-14: Average; 2015: Average of JAN-APR. Source: Markit
 2. Source: Office of National Statistics (2009-14), HSBC (2015-16)
 3. Source: HSBC Global Research, Macro European Economics 2Q15
 4. Source: Start-up Britain, tracking data from Companies House
 5. Source: Confederation of British Industry

HSBC UK: Transition to the Ring-Fenced Bank

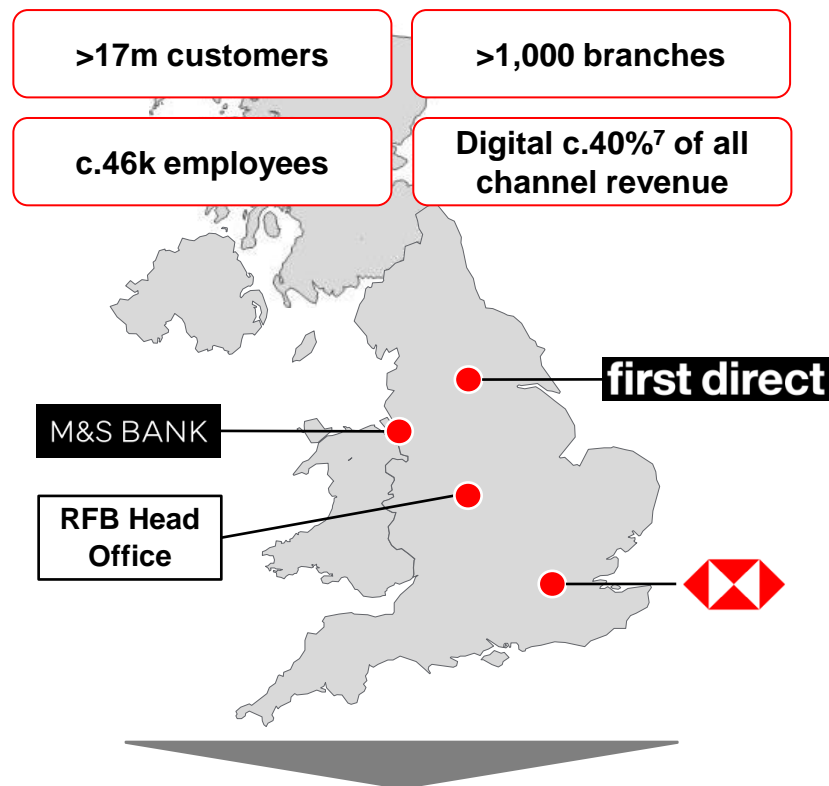
UK is a large, well-run and profitable franchise

Key financial data

Adjusted PBT¹, USDm



Business overview



- **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

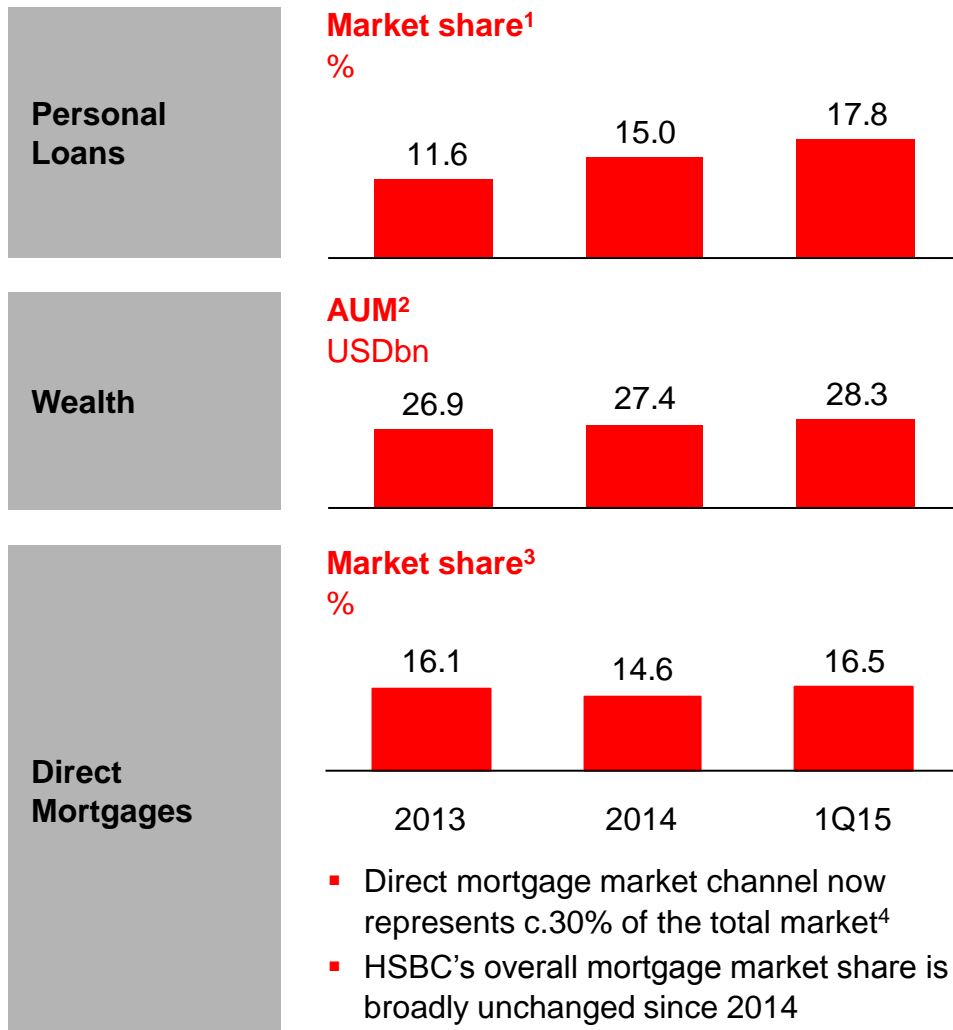
Note: Figures on this slide represent the 3 global businesses that are largely expected to be in the RFB. However, the RFB will contain revenue and cost items outside of these businesses, including the Bank Levy, and these figures cannot be used to estimate the profitability of the RFB as a whole. The review around GPB UK and its component elements is on-going, with the above representing the latest thinking and is subject to change

1. Excludes currency translation and significant items
 2. Includes the Channel Islands and the Private Wealth Solutions and Alternative Investments businesses. These are expected to remain outside the UK RFB
 3. Includes GBM UK and Other, which includes central support/functional costs with associated recoveries and certain financing costs and excludes the results of HSBC's holding entities

4. Excludes the results of HSBC's holdings entities and consolidation adjustments
 5. A small number of Holdings entities, primarily HSBC Holdings plc, and associated consolidation adjustments
 6. Total UK PBT, including the results of holdings entities, central financing operations and consolidation adjustments on an adjusted basis, excluding currency translation and other significant items
 7. For RBWM. Total distribution channel revenue (new retail product sales and revenue generating transactions) in 2014

Growing Retail and Wealth business with strong customer focus

Sustained performance in key product areas



Customer-centric approach

Clear customer-centric propositions

- HSBC Premier** ▶ Supporting your personal economy
- Advance** ▶ Together, We Advance
- first direct** ▶ The unexpected bank
- M&S BANK** ▶ New fashioned banking

Commitment to customer service

- Streamlined processes improving customer experience, including for personal loans:
 - Customer Needs Met up by at least 30%⁵
 - Journey time reduced by c.40%⁶
- Launched mortgage broker market pilot in 2014, with a broader roll out in 2015
- Ranked #1 bank on Lady Geek's Empathy Index⁷

Digital investments and capabilities

- The only UK high-street bank with an online end-to-end mortgage journey⁸
- Personal loans application on mobile app
- Introduced Digital Secure Key to offer secure and convenient access to online banking
- Launch of Apple Pay in JUL15

1. New loans. Source: CACI 2013-15

2. Retail investment funds, including unit trusts and open-ended investment companies and excluding structured products

3. New drawdowns. Source: Council of Mortgage Lenders, 2013-15

4. Source: Council of Mortgage Lenders, 2015

5. The figures are an average across 26 pilot branches as compared to non-pilot locations. The year-on-year comparison period is from JAN15 to APR15

6. The figures are an average across 3 pilot branches in Q4 14

7. Across 3 components: customer, employee and social media. As at 2JUN15



Source: <http://ladygeek.com/empathy-index/>

8. HSBC Online Mortgage Experience ("HOME")





Aim to be the top 3 leading retail brands in the UK



- Best retail brand for customer service in the UK¹
- >20 high profile awards in 2014-15, including most trusted financial provider² and Current Account Switching Provider of the Year³
- >8m customer calls handled every year – by real people and without IVR⁴



- Winner of Best New Current Account 2015⁵
- Which? Recommended Provider Status⁶; 5★ Defaqto rating⁷
- Investing in customer experience
 - New meeting pods in M&S stores
 - First self service branch – in addition to 29 full-service branches and 120 FX bureaux



- Supporting Human Ambition. Positioned as innovative, fair and convenient
 - Mortgages: Unbeatable range⁸ and Homebuyer Specials⁹; 4 awards so far this year
 - Advance Account: no fee, Save Together ISA¹⁰ and 10% interest cash back on loans
 - Overdrafts: lower fees; text alert when customers reach their limit
- No.3 (out of 7) in terms of Customer Recommendation¹¹

1. Source: Which?, OCT14

2. Moneywise

3. Consumer Moneyfacts Awards 2015

4. Interactive Voice Response

5. Moneynet

6. For the M&S Current Account, Home Insurance and Travel Insurance. As at 2JUN15. Source: Which?

7. For M&S Credit Card. 2014. Source: Defaqto

8. HSBC matched any on-sale mortgage rate on high street (JAN15)

9. Between GBP1,000 and GBP1,500 cash back (APR15)

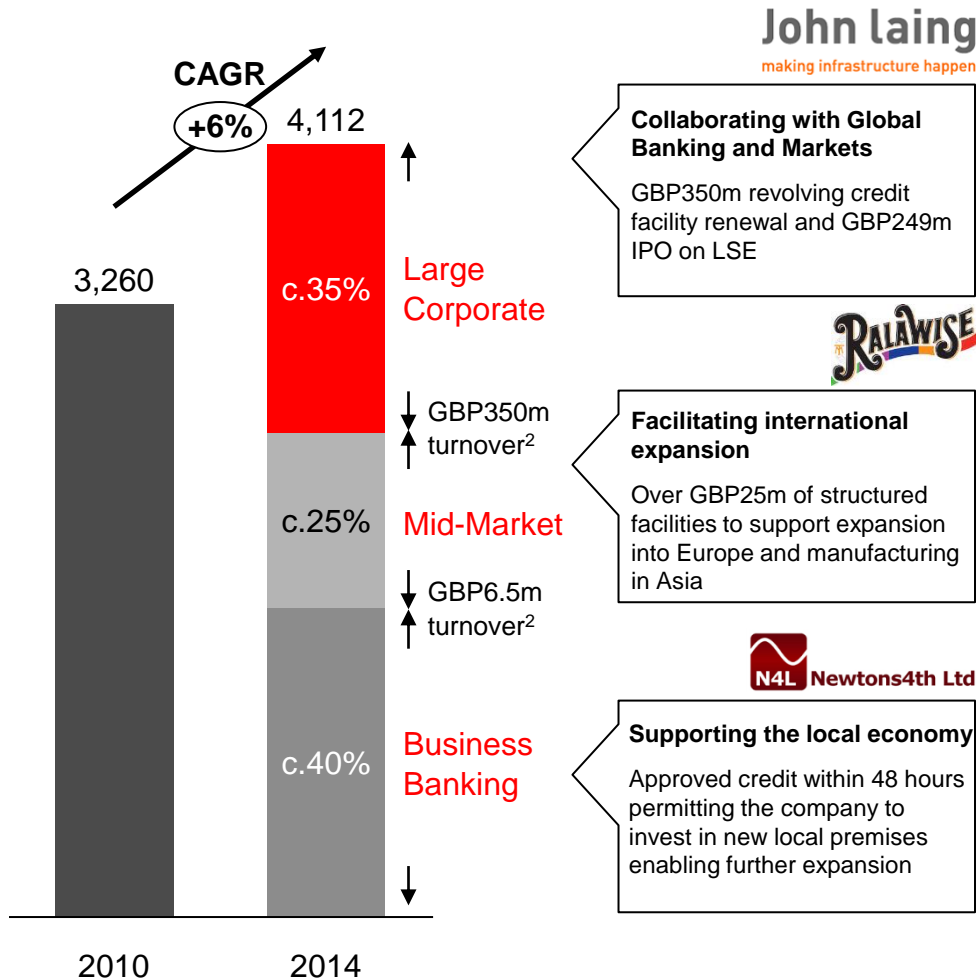
10. HSBC contributes GBP10 / month to Advance customers' cash ISA (for 12 months)

11. Within HSBC's target market (emerging and mass affluent) as at 1Q15

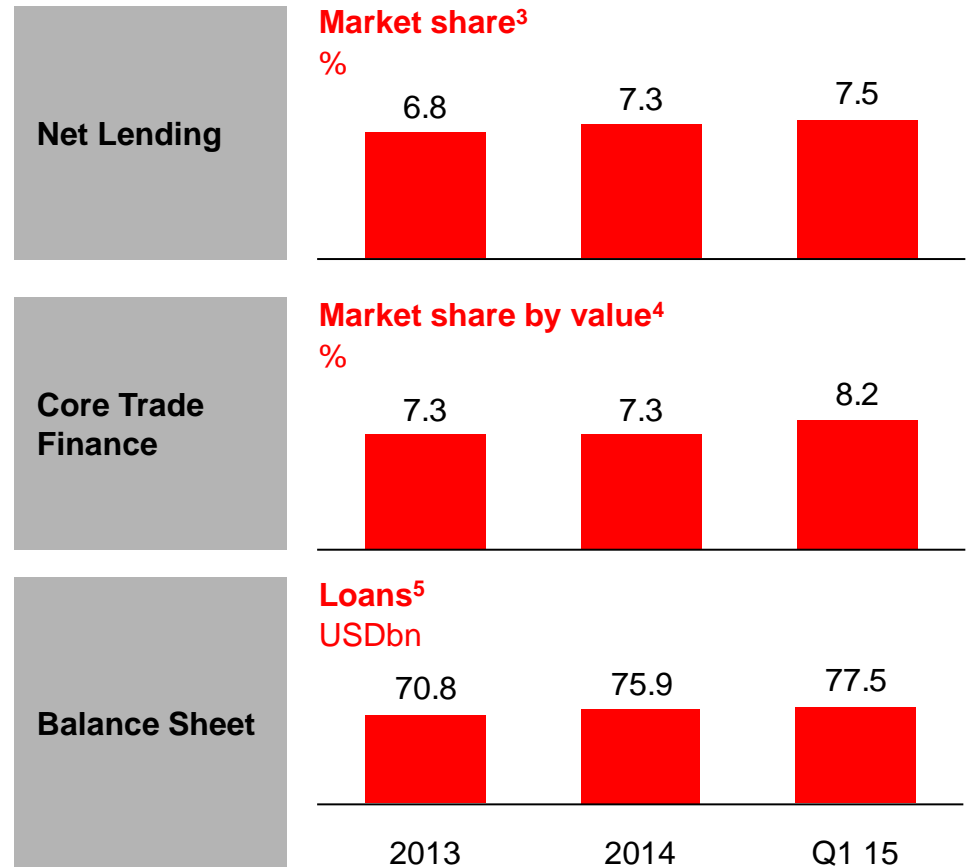
Growing Commercial business helping customers achieve ambitions

More targeted focus on customer needs...

Adjusted revenue¹, USDm



...is producing strong results across key products



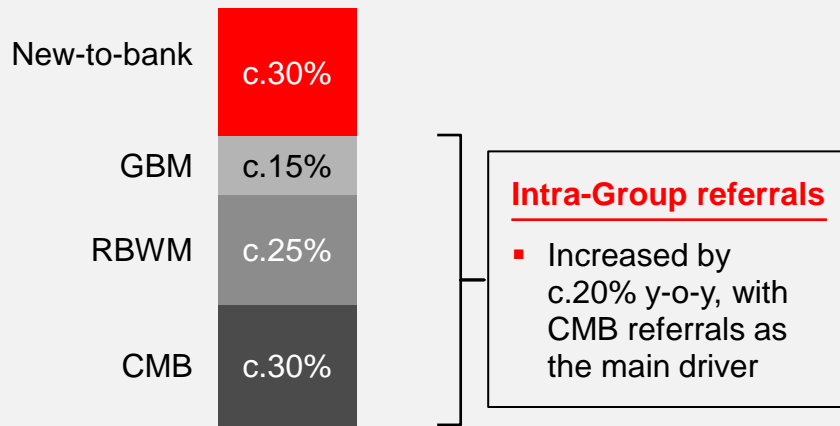
In MAY15 launched a GBP8bn fund to support SMEs across the UK within our BB and MME segments

1. Net operating income before loan impairment charges and credit risk provisions, also referred to as "revenue". On an adjusted basis
 2. Turnover thresholds are used as guidance. Large Corporate does not have an upper turnover threshold as client product needs are considered
 3. Outstanding balances for Loan and Overdraft lending products to non-financial institutions. Source: Bank of England Form LN definition
 4. Core trade excludes guarantees and standby Letters of Credit (LC). Source: MT700 (LCs) and MT400 (Confirmation of Payment) from SWIFT and G/MG
 5. Figures on a constant currency basis

Private Bank focused on better serving HSBC's existing Group clients

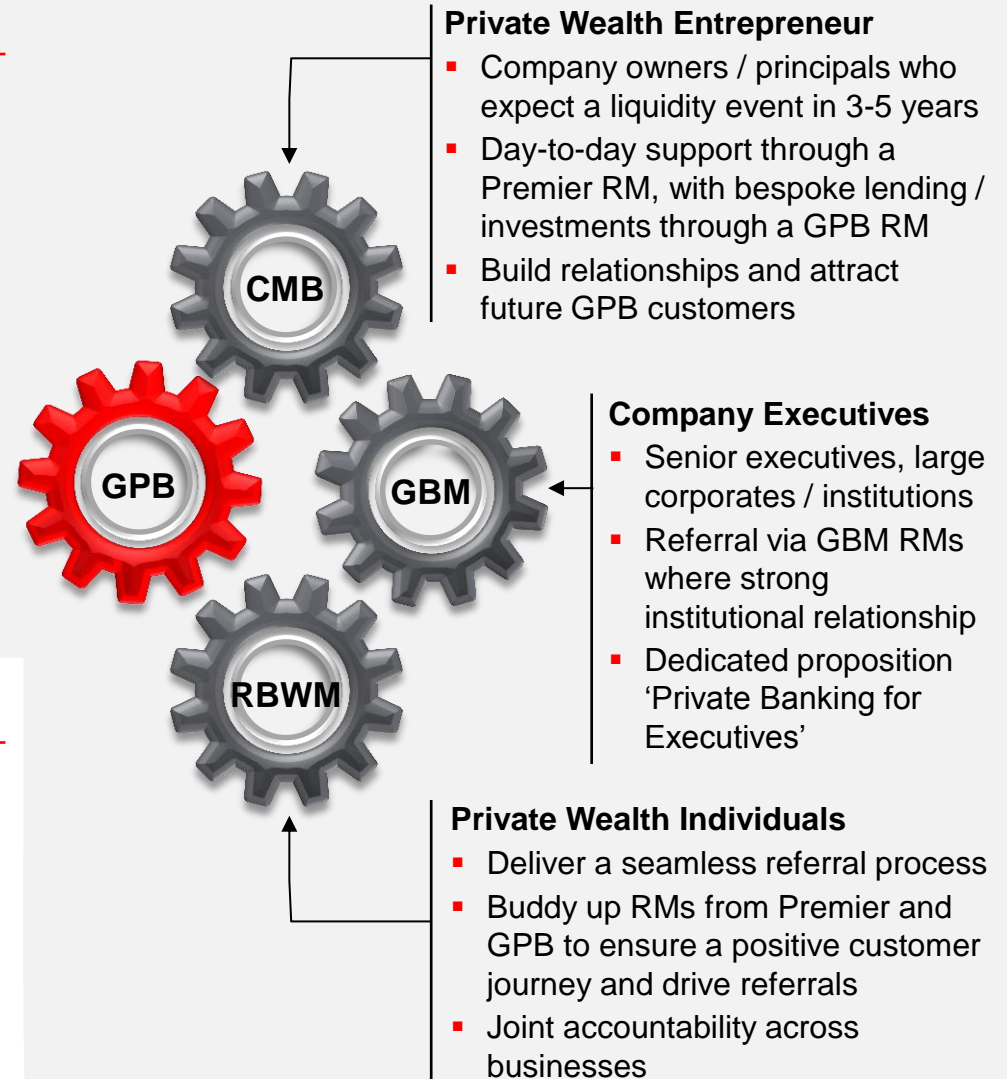
New relationships driven principally through referrals...

Source of new relationships, 2014



...supported by a greater customer focus

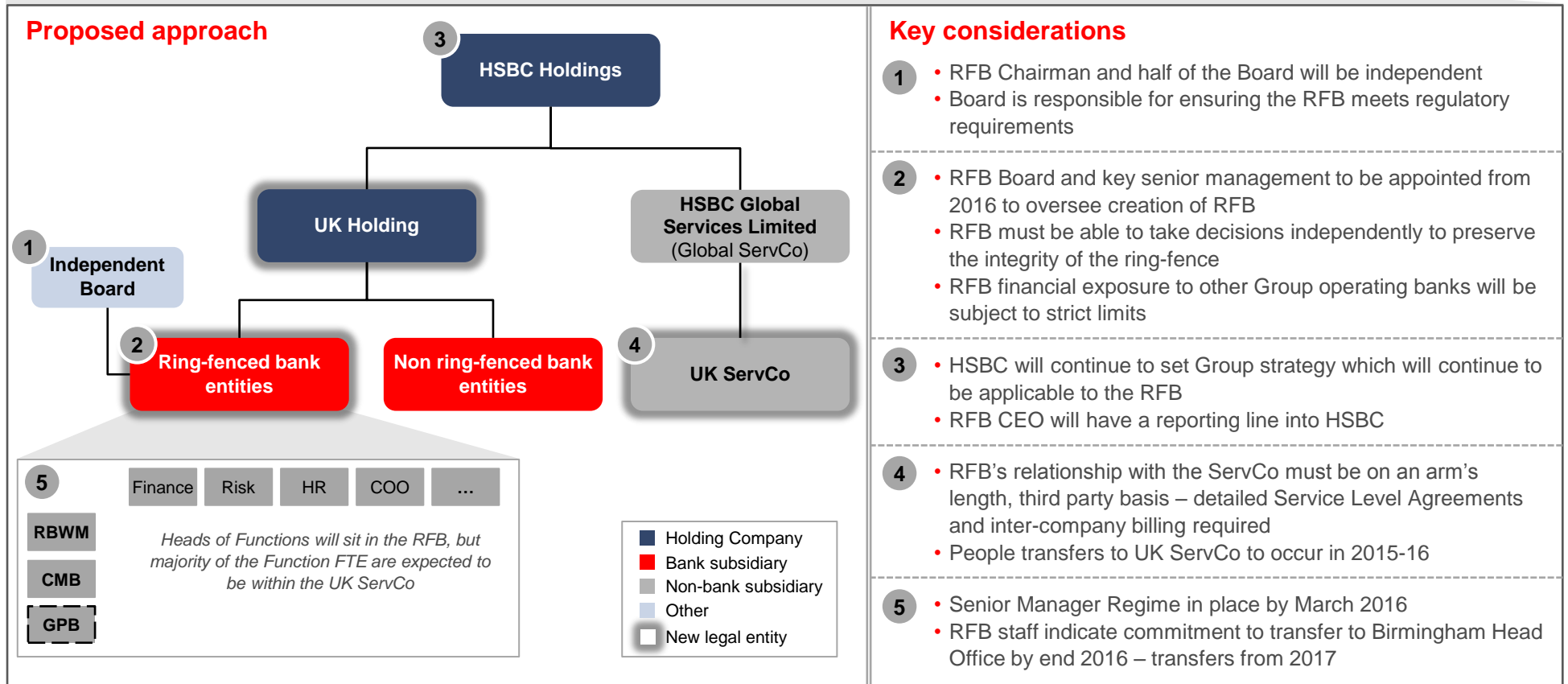
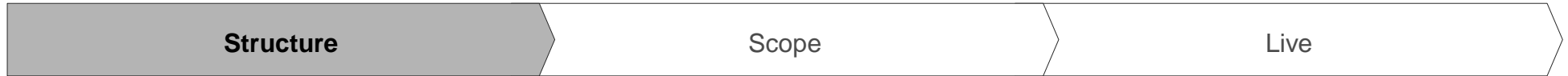
- 1 Proposition** – deliver a best-in-class investment proposition
- 2 Sales management** – structure the organisation to ensure we meet clients' needs with appropriate solutions, from product development to delivery
- 3 Client service** – invest in RM capabilities and client planning tools



RFB's design reflects key regulatory and business requirements

2015

JAN 2019



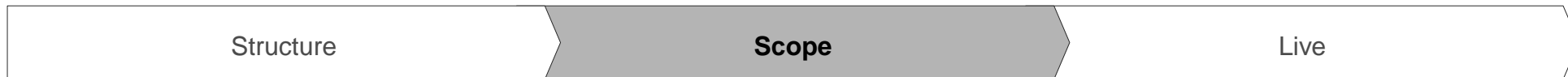
Note: Figures on this slide represent the three global businesses that are largely expected to be in the RFB. The review around GPB UK and its component elements is on-going, with the above representing the latest thinking and is subject to change

HSBC UK: Transition to the Ring-Fenced Bank

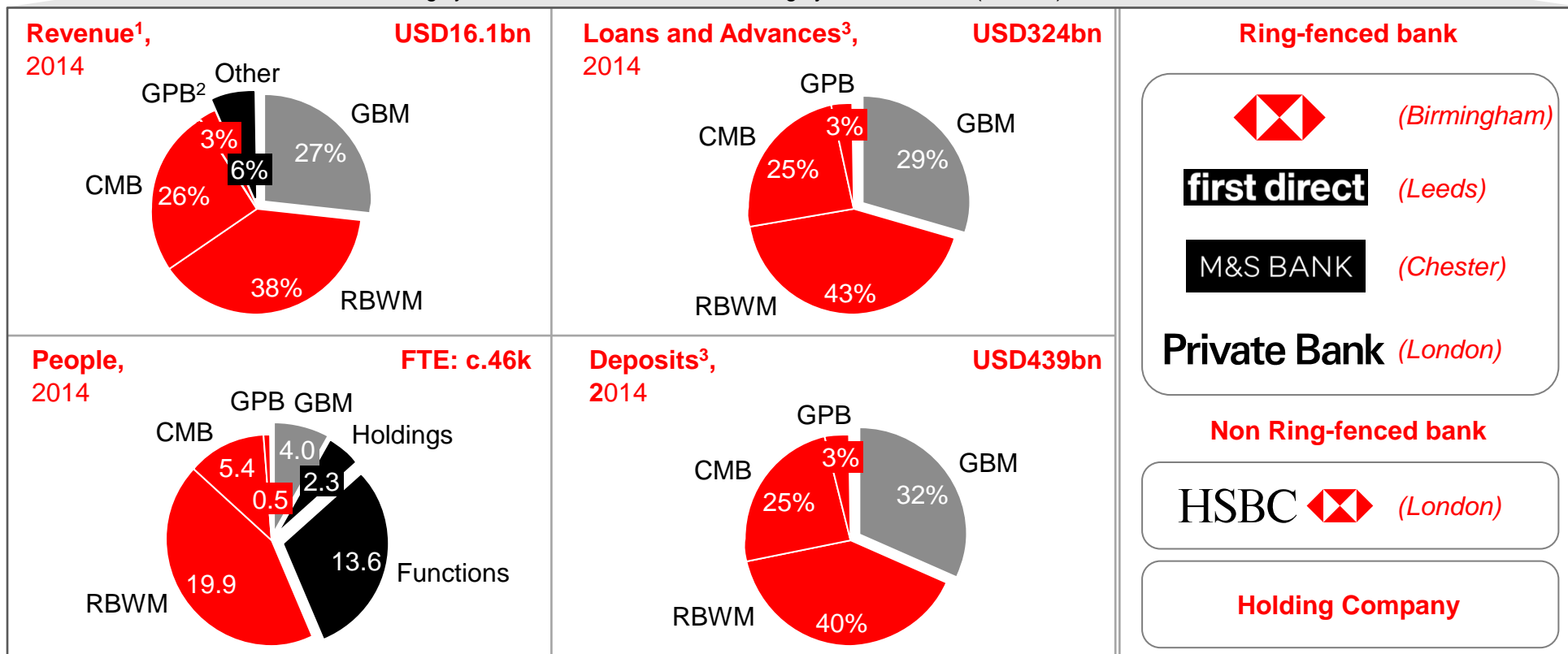
A substantial part of the UK business will be in-scope for the RFB, resulting in a c.USD11bn revenue RFB

2015

JAN 2019



■ Businesses largely in the RFB ■ Businesses largely not in the RFB ("NRFB") ■ Other



Note: Figures on this slide represent the three global businesses that are largely expected to be in the RFB. However, the RFB will contain revenue and cost items outside of these businesses, including the Bank Levy, and these figures cannot be used to estimate the profitability of the RFB as a whole. The review around GBP UK and its component elements is on-going, with the above representing the latest thinking and is subject to change

- Adjusted basis; Adjusted for significant items namely provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK (USD632m), debit valuation adjustments on derivative contracts (charge of USD203m) and fair value movements on non-qualifying hedges (income of USD8m)
- Includes the Channel Islands and the Private Wealth Solutions and Alternative Investments businesses. These are expected to remain outside the UK RFB
- To/from customers; As at 31DEC14 on a reported basis

Ambition to be the Bank of Choice in the UK

Customer

- Help people realise their ambitions
- Enable businesses to thrive

People

- Become employer of choice in the UK
- Reflect the society in which we live (diversity)

Society

- Balance social / environmental considerations
- Support the UK economy to prosper

Shareholder

- Provide steady dividend stream
- Maximise value of UK business

