



11 May 2011

# Group Strategy

## Investor Day

**Stuart Gulliver**    Group Chief Executive

HSBC 

## Forward-looking statements



**This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations 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 Annual Report and Accounts 2010. 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 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

# HSBC heritage and business model



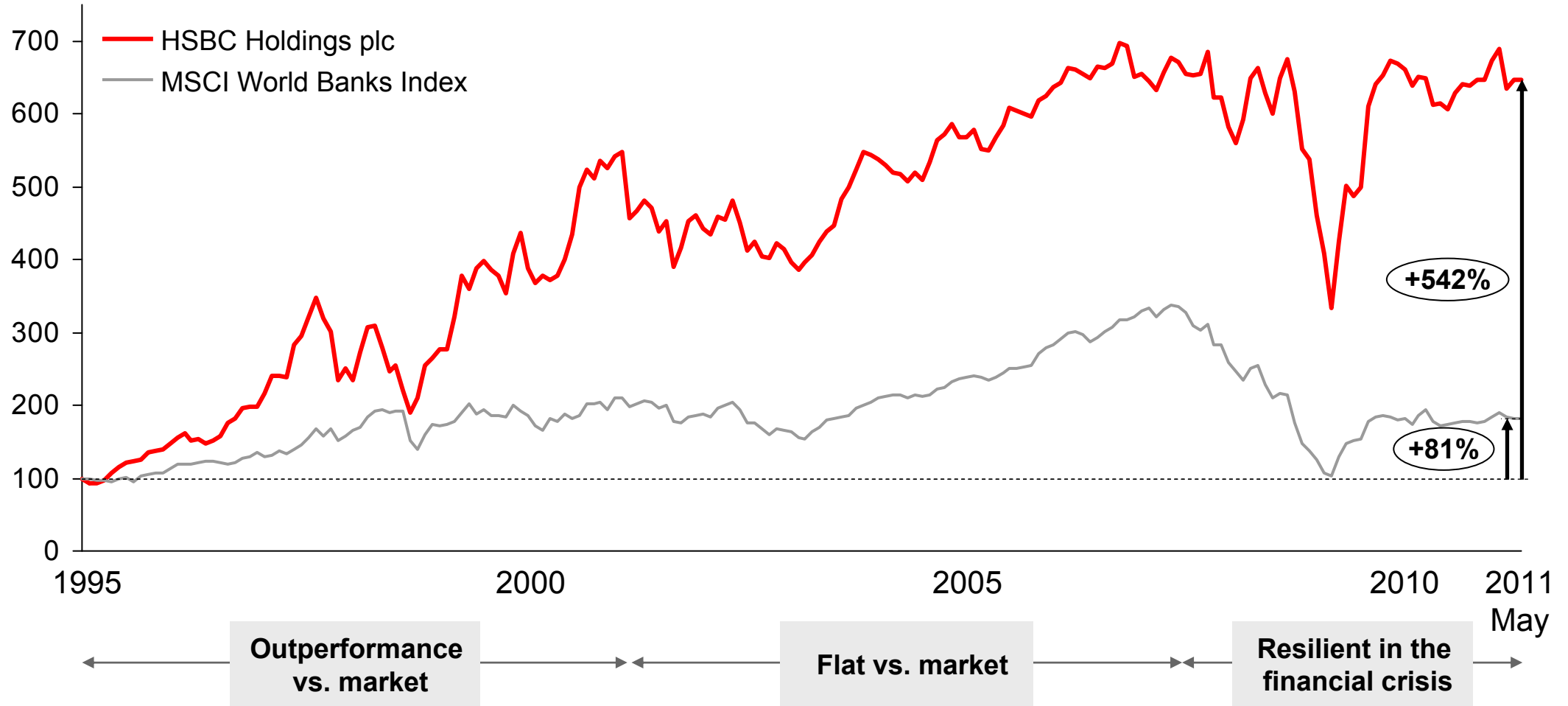
Context

# Total shareholder return over the last 16 years



## Total shareholder return<sup>1</sup>

TSR rebased to 100 on 30/12/1994



<sup>1</sup> Includes capital appreciation and dividends. Calculation is adjusted for equity raisings  
Source: Thomson Reuters Datastream

# Why should you own HSBC?

## Distinctive position aligned with key trends

- 1 Network of countries relevant for **international connectivity**


- 2 Access and exposure to **high growth markets** and businesses


- 3 Strong balance sheet generating **resilient stream of earnings**



## Clear strategy and execution focus

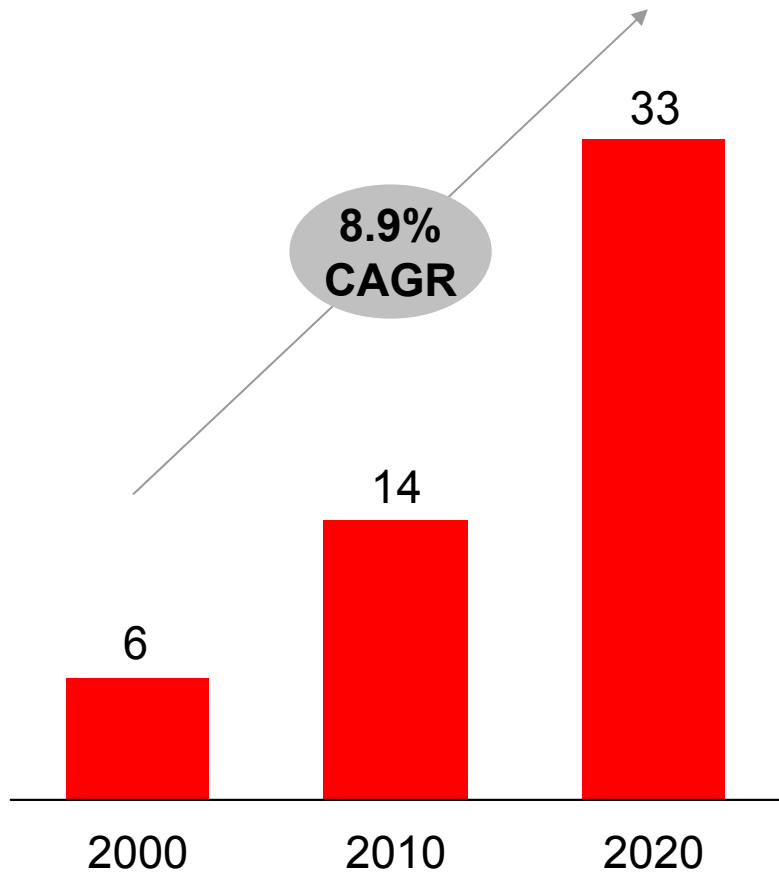
- I **Strategy** drives investment priorities and **capital allocation**
- II **Action plan** addressing **growth** and **cost efficiency** across geographies and businesses
- III **Experienced management team** accountable for delivery

Detailed in following section

# 1 Importance of global connectivity will increase

## Trade will continue to grow

Trade growth<sup>1</sup>, USDtn



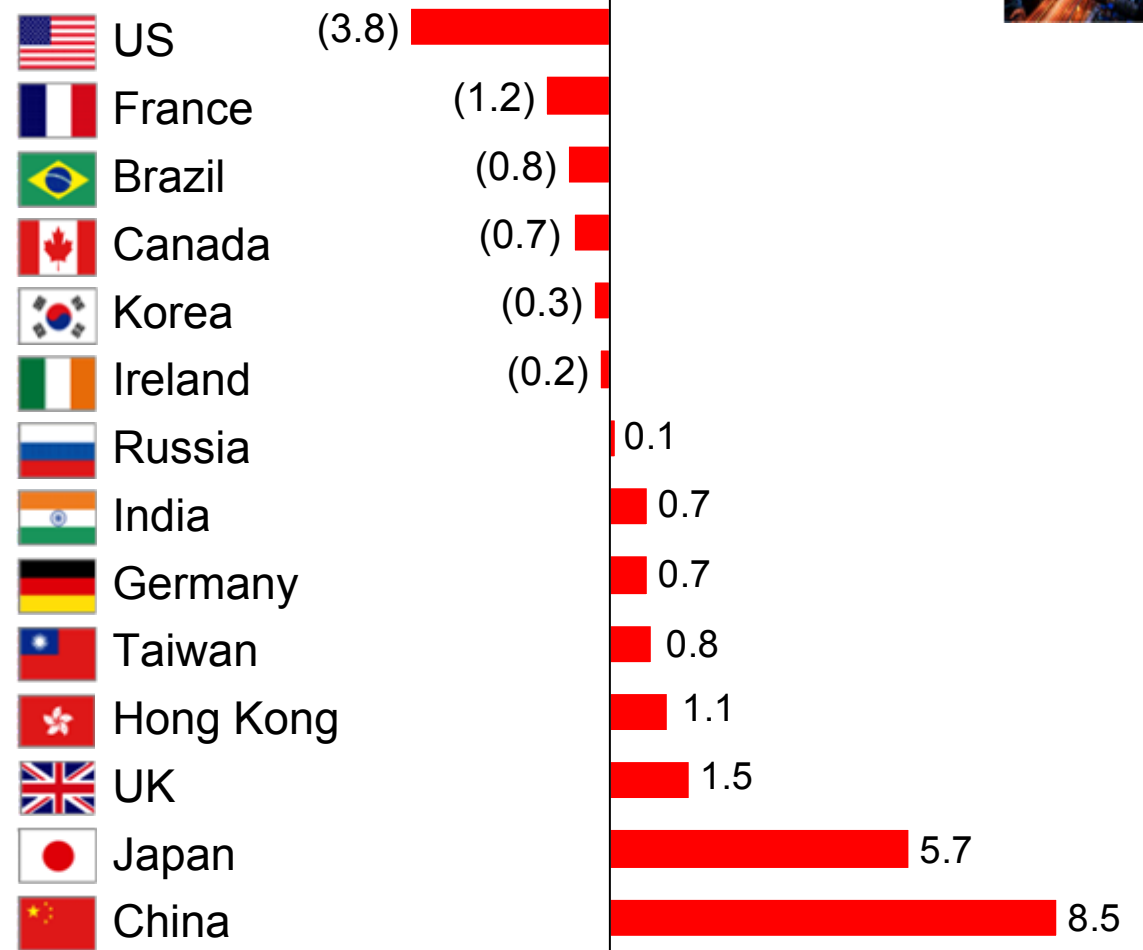
<sup>1</sup> Merchandise Exports

<sup>2</sup> Positive value means funding surplus, negative value means funding gap

Source: Global Insights, McKinsey & Company and World Economic Forum, 'More Credit with Fewer Crises: Responsibly meeting the World's growing demand for credit' page 49, exhibit 25: 'Funding gap or surplus for selected countries', ([http://www3.weforum.org/docs/WEF\\_NR\\_More\\_credit\\_fewer\\_crises\\_2011.pdf](http://www3.weforum.org/docs/WEF_NR_More_credit_fewer_crises_2011.pdf))

## Imbalances continue to drive capital flows

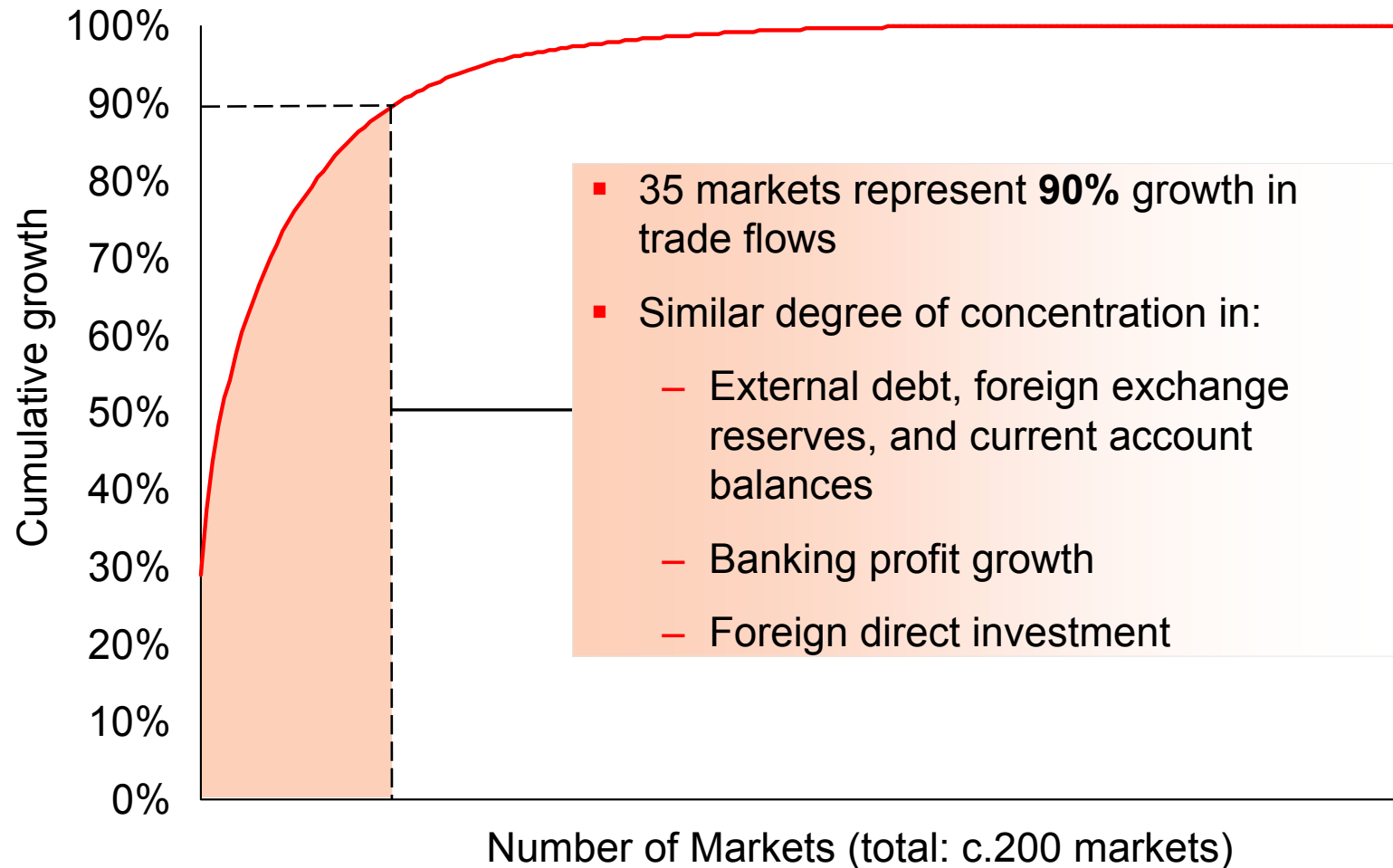
Net funding gap/surplus<sup>2</sup>, USDtn, 2020E



# 1 Trade and capital flows connectivity is concentrated

## Cumulative growth in total merchandise export and import, 2010-2020

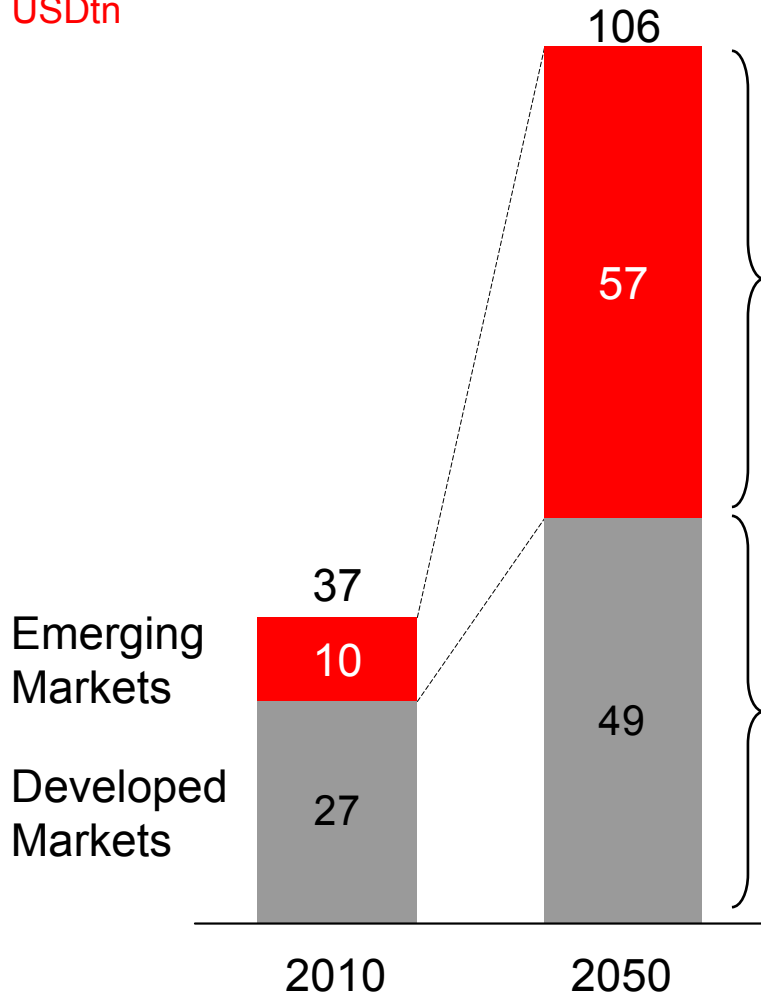
100% = USD37.1tn



## 2 Rebalancing of the world economy

### GDP of top 30 economies

USDtn



#### Largest countries

	China
	India
	Brazil
	Mexico
	Turkey
	Other 14 emerging
	US
	Japan
	Germany
	UK
	France
	Canada
	Other 5 developed

#### Share of 2050 GDP<sup>1</sup> (%)

China	20
India	7
Brazil	2
Mexico	2
Turkey	2
Other 14 emerging	14
US	18
Japan	5
Germany	3
UK	3
France	2
Canada	2
Other 5 developed	4

19 of the top 30 economies in 2050 will be from currently deemed “emerging markets”

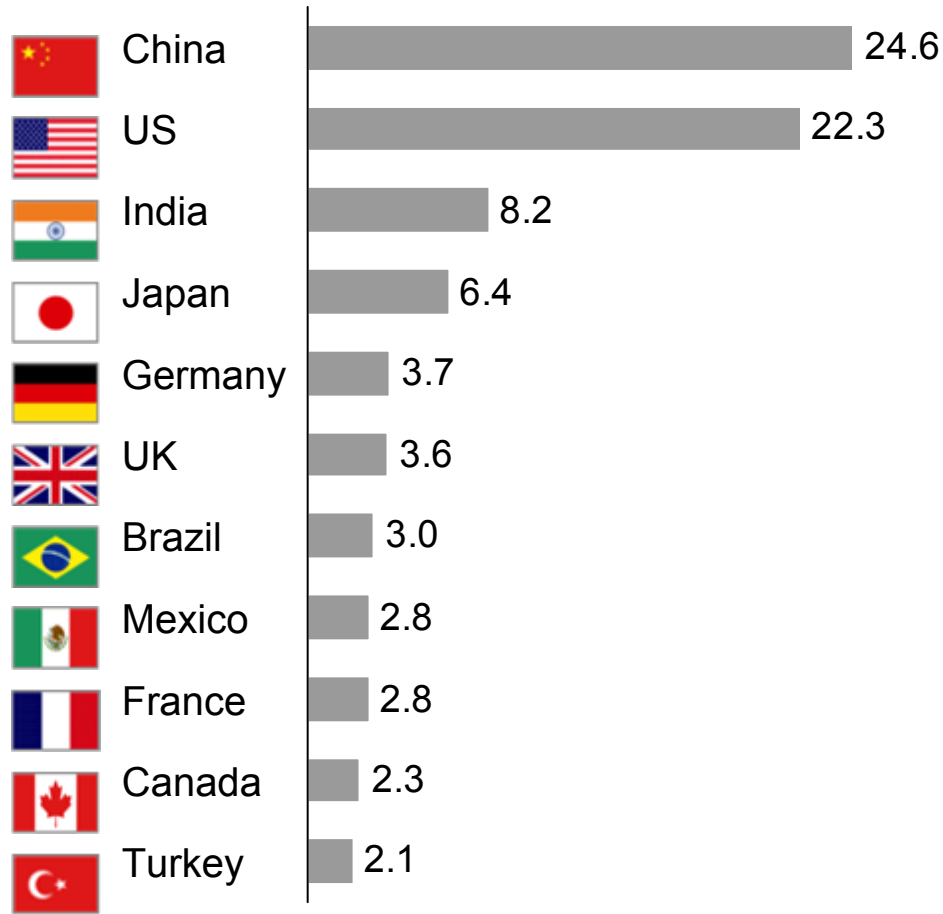
<sup>1</sup> 2050 GDP estimated for top 30 countries, 2050 world GDP estimated by assuming top 30 maintain same share of total world GDP as 2010 of 85%  
Source: HSBC – “The World in 2050: Quantifying the shift in the global economy”



2 HSBC has exposure to markets with strong fundamentals driving wealth creation 

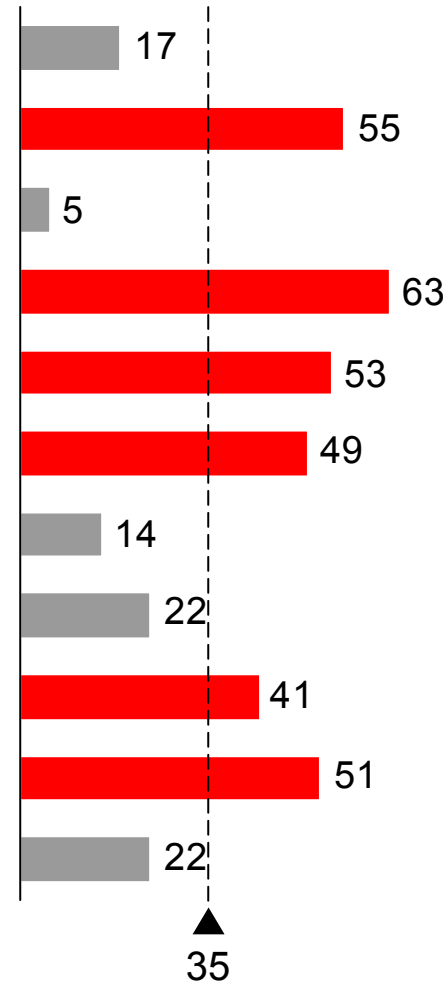
Top economies by 2050

GDP, USDtn

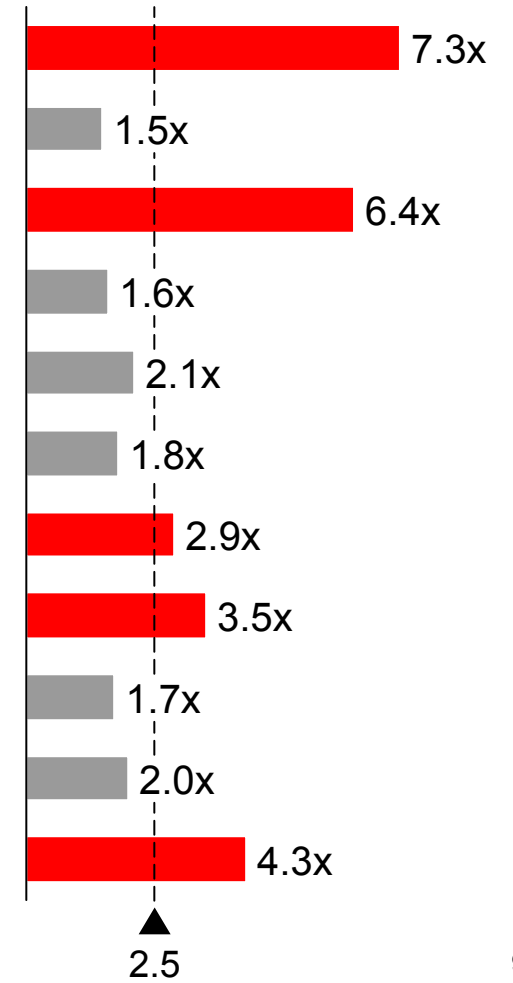


Income per capita in 2050

USD thousands



Multiple over 2010 income



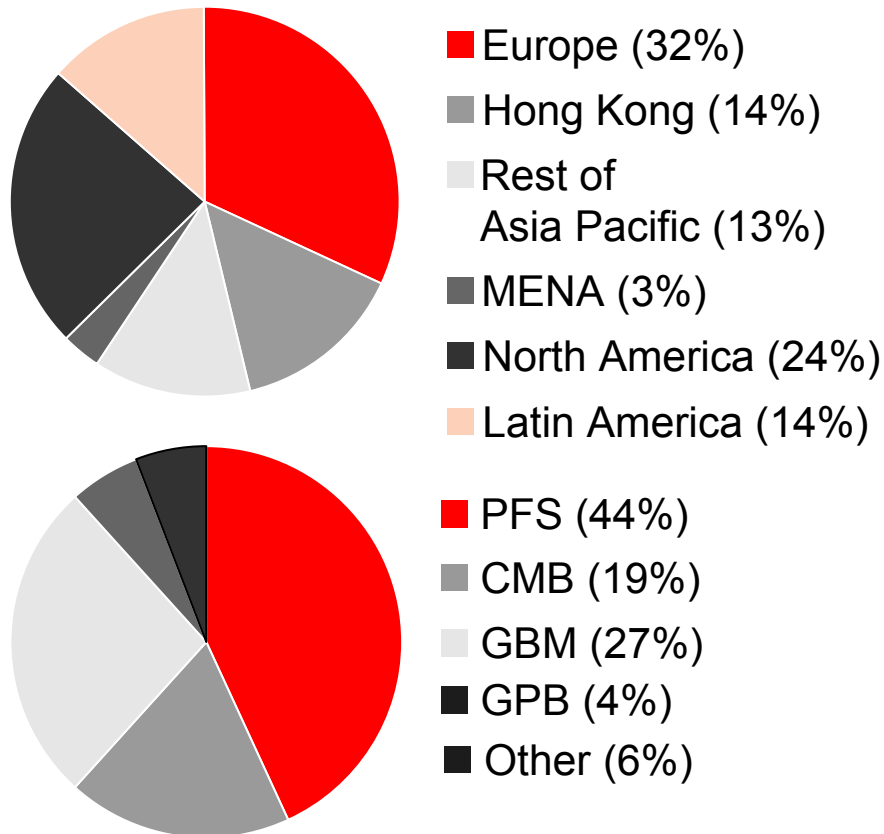
**HSBC distinctive position**

**3 A well diversified business with ample access to funding and liquidity**



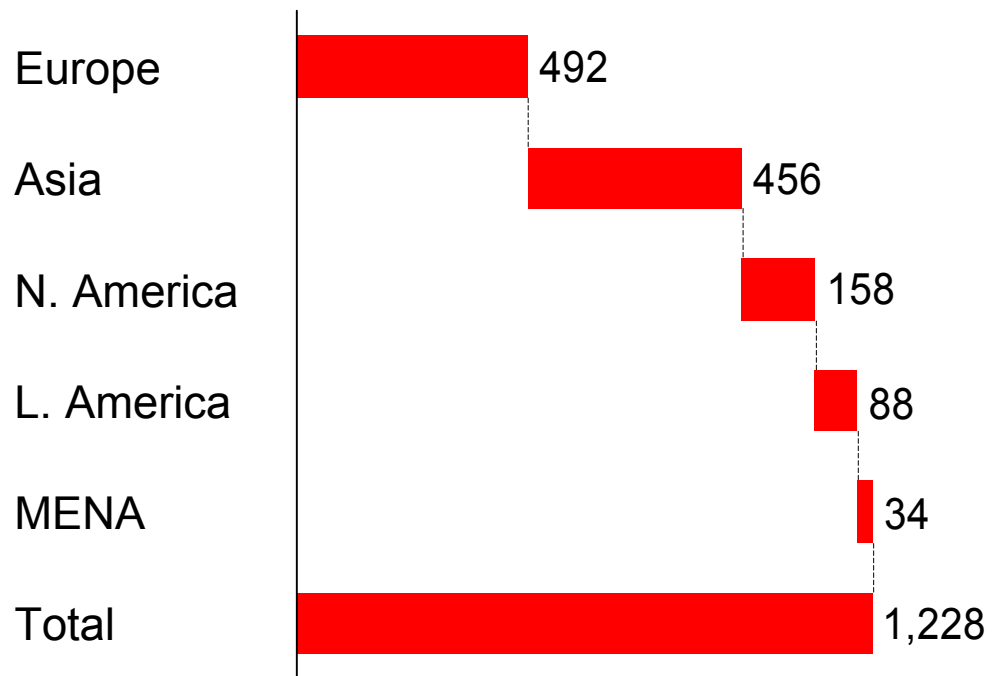
**HSBC has a well diversified business...**

Distribution of revenues, 2010<sup>1</sup>



**... with ample access to funding and liquidity**

Customer accounts, 31/12/2010, USDm



One of the largest deposit base in the World<sup>2</sup> with an A/D ratio below 80%

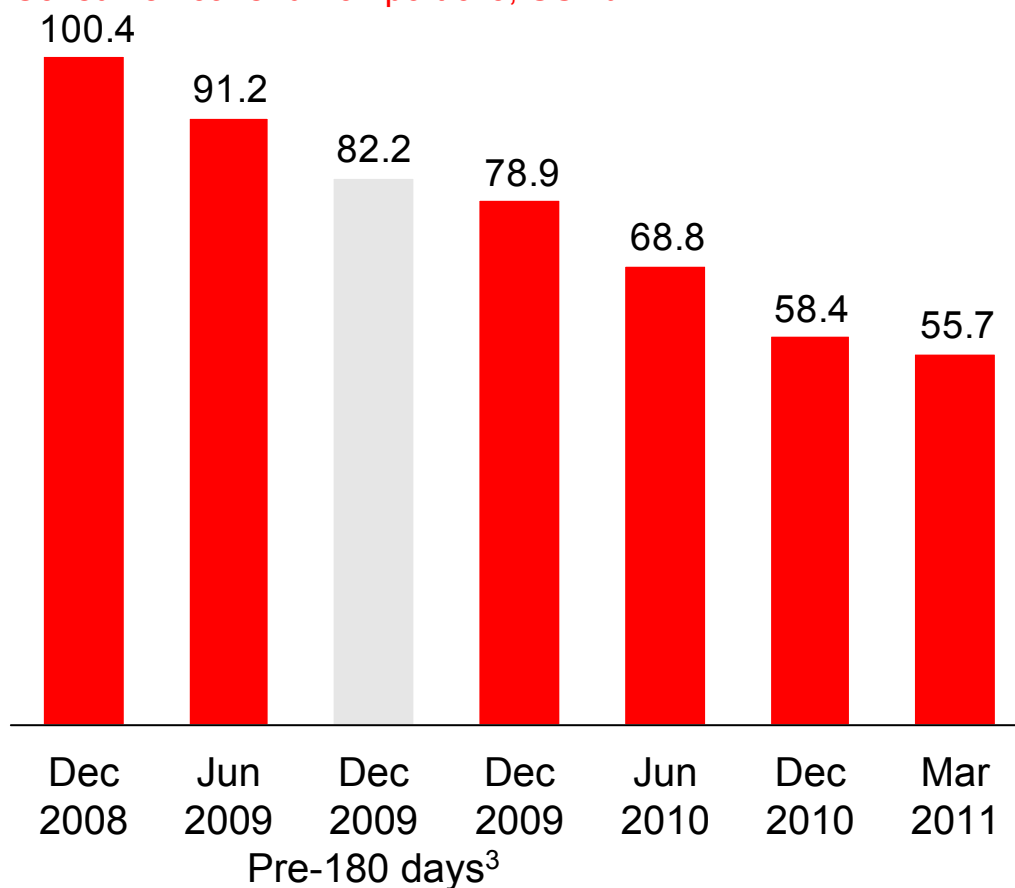
<sup>1</sup> Intra-HSBC revenue has not been eliminated in the preparation of these charts. Intra-HSBC revenue includes revenue between geographic regions and revenue between customer groups and global businesses. HSBC's Balance Sheet Management business, reported within Global Banking and Markets, provides funding to trading businesses

<sup>2</sup> Including Chinese and Japanese banks, HSBC has the 3rd largest deposit franchise

### 3 Legacy positions have affected our results

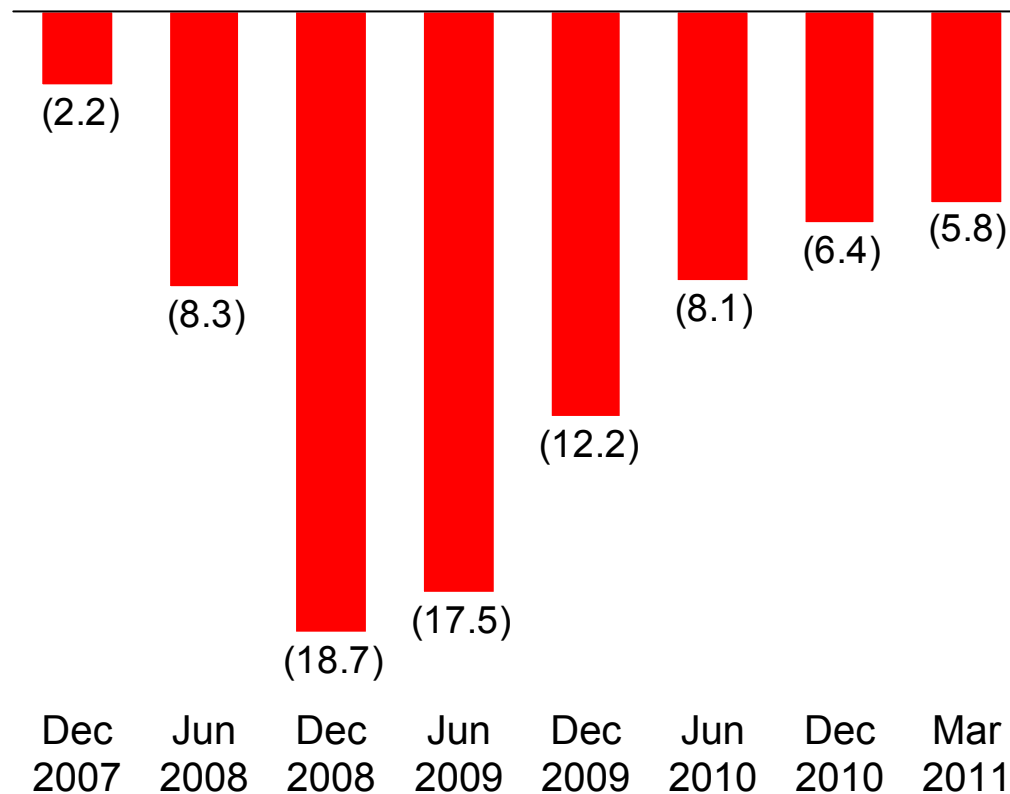
#### HSBC Finance Corporation

Consumer loans run-off portfolio, USDbn<sup>1</sup>



#### GBM AFS ABS reserve

USDbn<sup>2</sup>



1 Excludes reverse repo balances

2 Available-for-sale fair value reserve in respect of asset-backed securities

3 Write off period changed from 240 days to 180 days

### 3 HSBC has meaningful improvement opportunities

#### Regulation and capital Requirements

- Evolving regulation resulting in higher capital requirements which, in light of continued uncertainty, we assume to be 9.5-10.5% Common Equity Tier 1 under Basel III
- HSBC can comfortably meet Basel III capital requirements

Common Equity Tier 1 ratio of 9.5% - 10.5% (Basel III)

#### Efficiency

- **CER of 55% for 2010** (in Q1 2011, 61%, or 55% excluding notable items and FVOD) is well above target range and unacceptable
- There is a programme of sustainable cost saves planned to bring cost efficiency within the target range by 2013

CER target of 48 - 52%

#### Profitability

- **ROE of 9.5% for 2010**, with some of the assets not delivering the desired target return (e.g., North America) of 12-15%
- Persistent low interest rate environment impacting profitability

ROE target of 12 - 15% (Basel III)

# Why should you own HSBC?

## Distinctive position aligned with key trends

Network of countries relevant for **international connectivity**

Access and exposure to **high growth markets** and businesses

Strong balance sheet generating **resilient stream of earnings**

## Clear strategy and execution focus

I

**Strategy** drives investment priorities and **capital allocation**



II

**Action plan** addressing **growth and cost efficiency** across geographies and businesses



III

Experienced **management team** accountable for delivery



Detailed in following section

# I To be the leading international bank

## Two main elements

### International connectivity



### Economic development/ wealth creation



## This means . . .

- Presence in key markets that matter for international connectivity
- Businesses that are internationally connected:
  - GBM hub-and-spoke model with global reach
  - CMB provides a full range of commercial financial services to companies in 60+ markets
  - Investment opportunities in fast growing and mature markets
- Wealth creation in most relevant markets (18 key markets)
- Focus on retail banking only in markets where we can achieve profitable scale:
  - Large scale positions (Hong Kong and UK)
  - High growth markets (e.g., Mexico, Singapore, Turkey, Brazil)
  - Leading market shares in small geographies



Strategy provides a clear framework to review our portfolio  
and achieve higher discipline in capital allocation

# I Improve capital deployment – Five filters

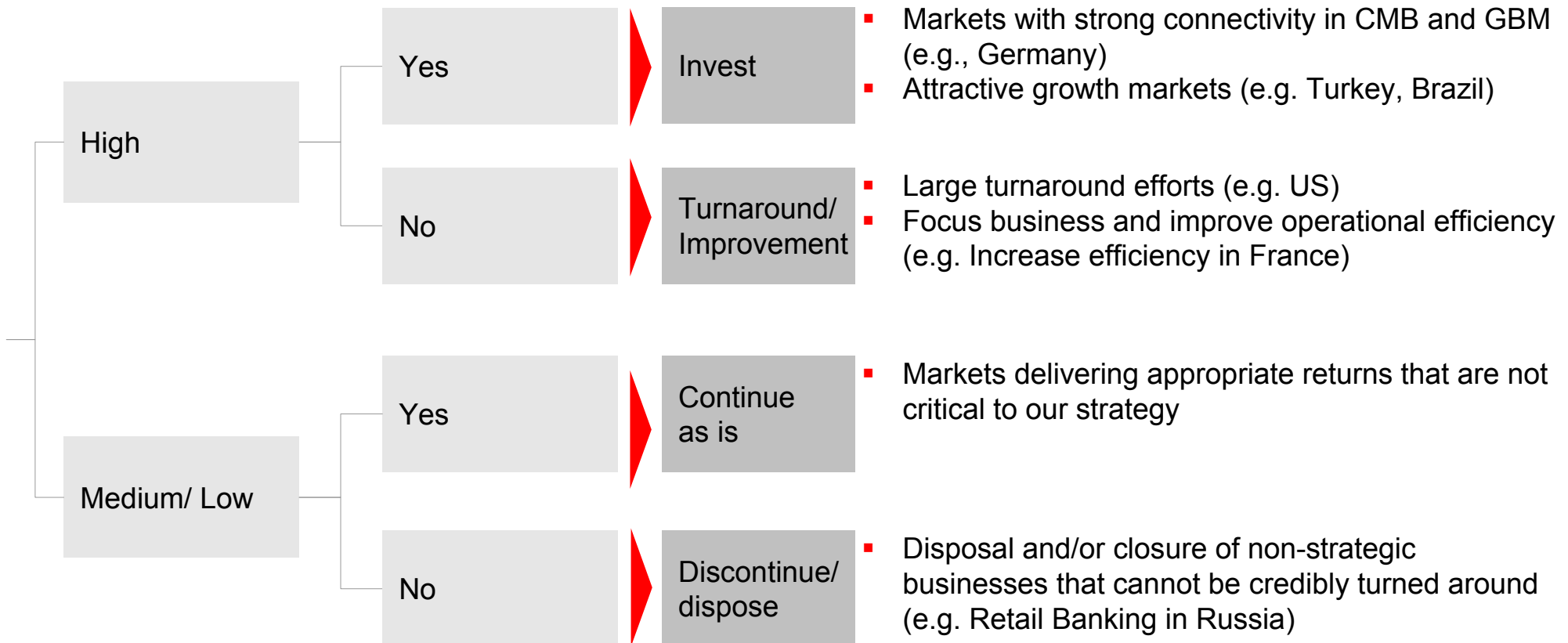
## What is the strategic relevance?

- 1. Connectivity
- 2. Economic development

## Are the current returns attractive?

- 3. Profitability
- 4. Efficiency
- 5. Liquidity

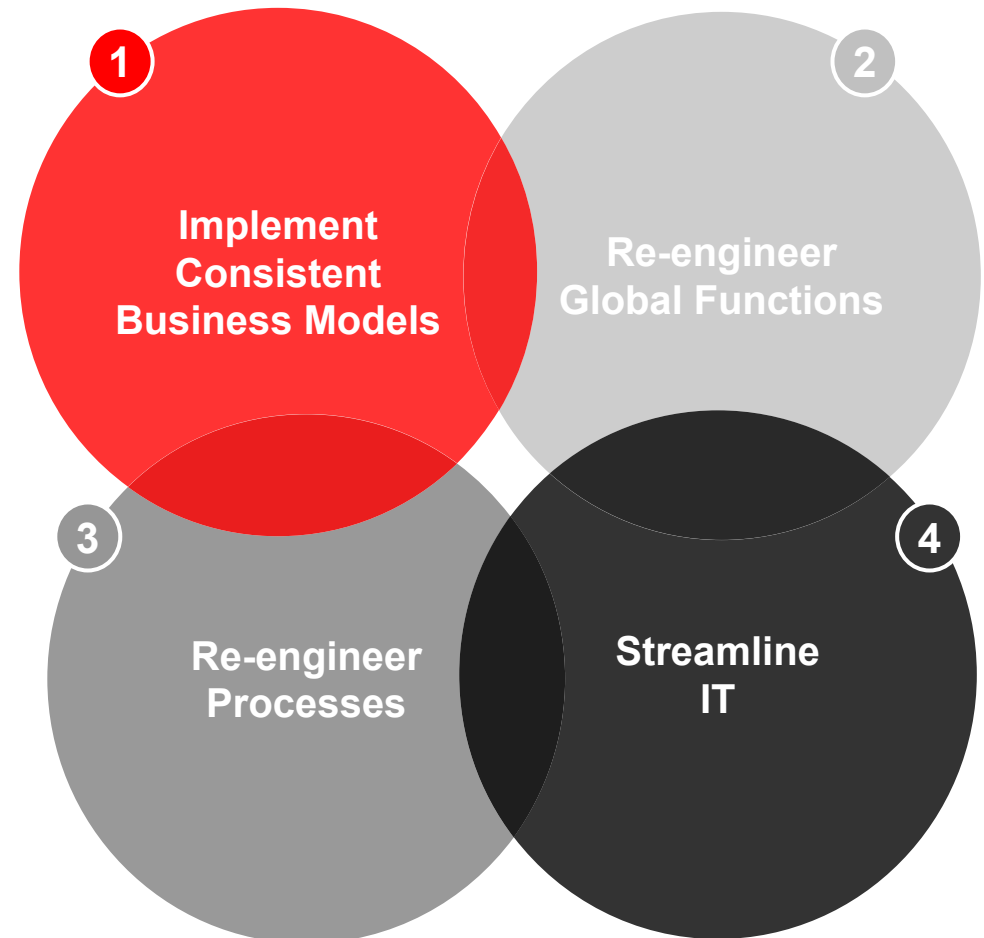
## Resulting actions



## Sustainable cost saves

- USD2.5-3.5bn of sustainable cost saves targeted over the next 3 years
- Achieve 48-52% CER by 2013
- Sustainable cost saves will facilitate:
  - Growth in key markets
  - Investment in new products, processes and technology
  - Provide buffer against regulatory and inflationary headwinds
- Positive jaws

## Approach





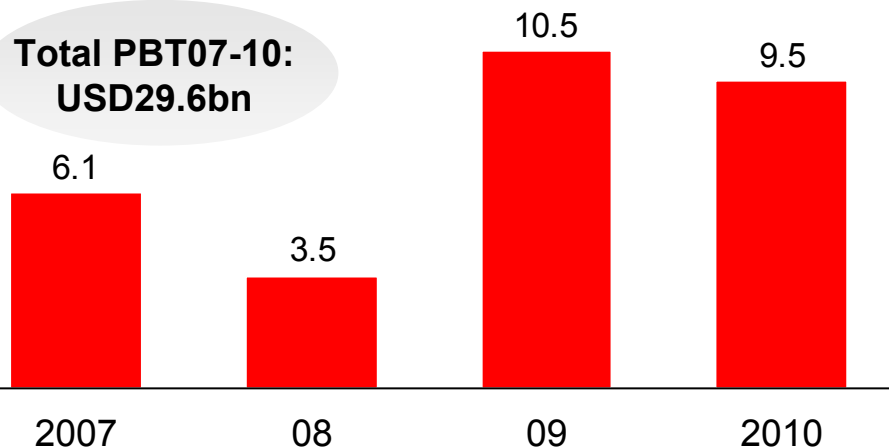
## II Global Banking and Markets (GBM)

*Emerging markets-led, financing focused with greater emphasis on connectivity*



### GBM key financials

PBT, USDbn



#### 2010 Metrics

- CER: 50%
- RWAs: USD358bn
- RoRWA: 2.5%

### Position

- Business built organically and run as a global business
- Reached new base level of USD9-10bn in 2009/10 with additional upside for growth
- Strong emphasis on connecting faster growing markets, in particular with Europe

### Strategic actions

- Improve client coverage (e.g., selective hiring)
- Enhance core product strengths (e.g., FX, commodities) and selectively develop new capabilities (e.g., equities)
- Increase penetration of product solutions into broader customer base (e.g., USD1bn of incremental revenue from CMB customer base)
- Achieve sustainable cost saves (e.g., integrate technology trading platforms)

Clear strategy and execution focus

## II Commercial Banking (CMB)



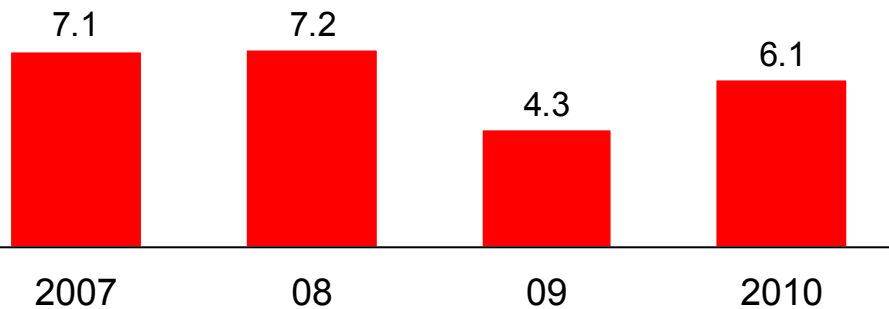
Strengthen our position as the leading international trade and business bank



### CMB key financials

PBT, USDbn

Total PBT07-10:  
USD24.7bn



#### 2010 Metrics

- CER: 49%
- RWAs: USD322bn
- RoRWA: 2.0%

### Position

- Heritage of the Group in international trade
- Organic growth since the Group's foundation
- Present in 60+ markets

### Strategic actions

- Expand presence in key faster growing markets
- Capture growth in International SMEs leveraging network, capabilities and scale
- Collaborate with GBM to capture Mid-market opportunity in FX, derivatives and Global Capital Financing

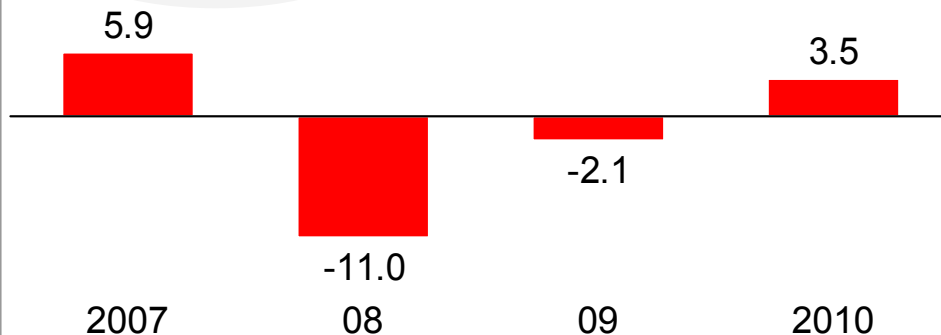
World class banking and wealth solutions



## PFS key historical financials (going forward RBWM<sup>1</sup>)

PBT, USDbn

Total PBT07-10:  
USD-3.7bn



### 2010 Metrics

- CER: 58%
- RWAs: USD361bn
- RoRWA: 1.0%

## Position

- Global propositions: Premier and Advance
- Top 15 markets concentrate majority of profits

## Strategic actions

### Wealth Management

- Develop world class wealth management for retail consumers focusing on 18 key markets (USD4bn in additional revenues)
- Build sustainable non funds income
- Up-skill RMs, invest in product platform and deepen client relationships

### Retail Banking

- Grow retail banking in key markets where we have or can achieve scale (e.g., Mexico, Turkey)
- Standardise banking propositions and operating models to reduce complexity

### Portfolio Management

- Exit sub-scale markets (e.g., Retail Banking in Russia)

Clear strategy and execution focus

## II Global Private Banking (GPB)



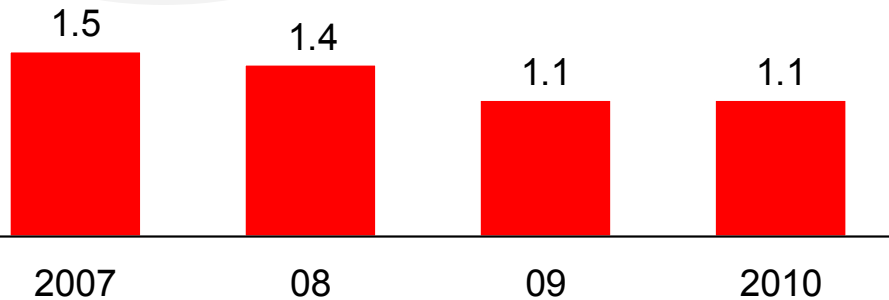
*Become the world's leading international private bank*



### GPB key financials

PBT, USDbn

Total PBT07-10:  
USD5.1bn



#### 2010 Metrics

- CER: 66%
- RWAs: USD25bn
- RoRWA: 4.0%

### Position

- Well established footprint and in most attractive growth markets, particularly Asia
- Efficient platform to deliver full range of solutions
- Vigorous actions taken to address data security issues

### Strategic actions




- Focus on domestic and the faster growing markets in Asia, Middle East and Latin America as legacy offshore business becomes less relevant
- Leverage intra-group connectivity (RBWM feeder, CMB referrals, GBM partnership)
- Grow annuity revenues and invest in platform for improved efficiency

## II North America

*To build an internationally connected, sustainable business model, aligned with overall group strategy*

### North America

- In the US, explore other options to reallocate capital:
  - Finance business in run-off except for cards
  - Cards and Retail Services (USD33bn in customer loans)
  - Part of the branch network (currently total of 475 branches)
  - Invest in network in internationally connected areas
- Capture internationalisation opportunity for small and mid-market US companies
- Strengthen New York as GBM hub for the Americas
- Strong Canadian franchise focused on international connectivity generating USD0.9bn PBT in 2010

-  Strategic market
-  Present
-  Not present






### North America 2010

▪ PBT	USD0.5bn
▪ CER	49%
▪ RWAs	USD331bn
▪ RoRWA	0.1%

## II Latin America

**Becoming the leading international bank serving key growth segments and markets**



-  Strategic market
-  Present
-  Not present

### Latin America

- Position to capture social mobility and wealth creation opportunity
- Organic growth in Brazil, Mexico and Argentina
- Review opportunities to reallocate capital from less strategic and underperforming businesses
- Leverage CMB and GBM competitive strength across the region
- Costs efficiency and delayering



### Latin America 2010

■ PBT	USD1.8bn
■ CER	66%
■ RWAs	USD96bn
■ RoRWA	2.0%

**Be the leading international bank connecting Europe**

**UK**

- Continue to develop Wealth Management through Premier, Advance and other key products, e.g., mortgages
- Be the UK's leading bank for international businesses
- Evaluate the impact of ICB: potential ringfencing of retail operations

**Continental Europe**

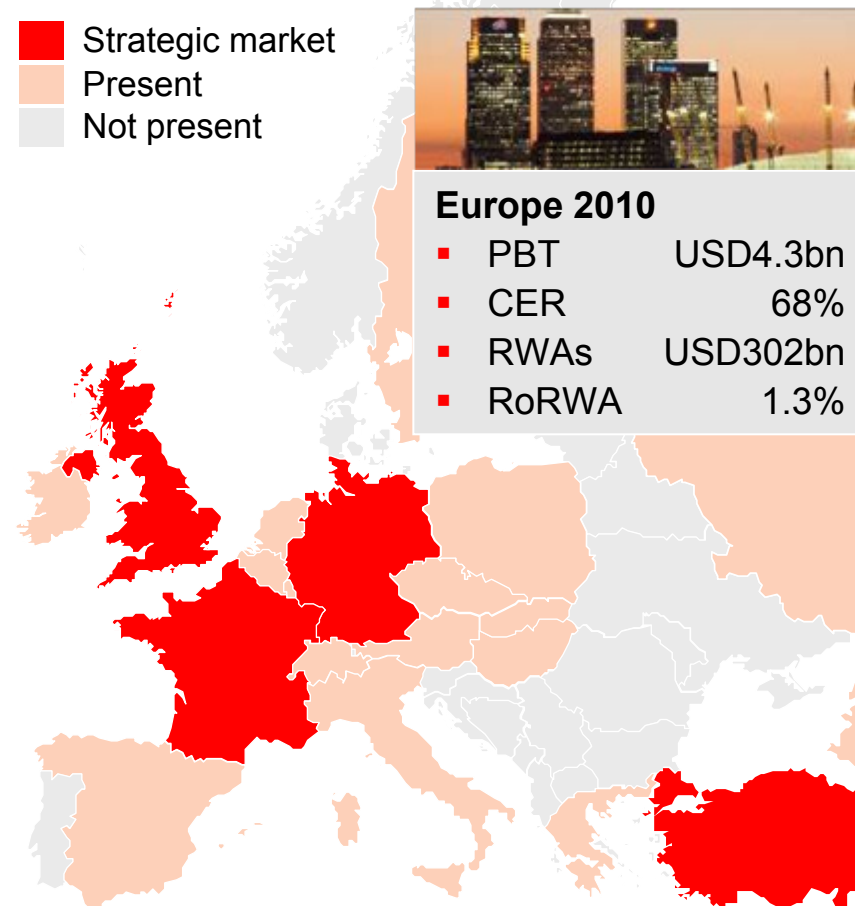
- Restructure sub-scale continental European operations (e.g., Retail Banking in Russia)
- Focus mature European markets on connectivity
  - **France**: Accelerate Wealth Management strategy, while reducing costs and increase role of Paris as a GBM hub
  - **Germany**: Focus on large internationally connected corporates, taking advantage of German business momentum
  - **Turkey**: Capture growth opportunities in Retail and CMB

- Strategic market
- Present
- Not present



**Europe 2010**

▪ PBT	USD4.3bn
▪ CER	68%
▪ RWAs	USD302bn
▪ RoRWA	1.3%



Clear strategy and execution focus

## II Middle East and North Africa



*The leading international bank connecting Middle East and North Africa with the rest of the world and capturing its wealth opportunity*

### Middle East and North Africa

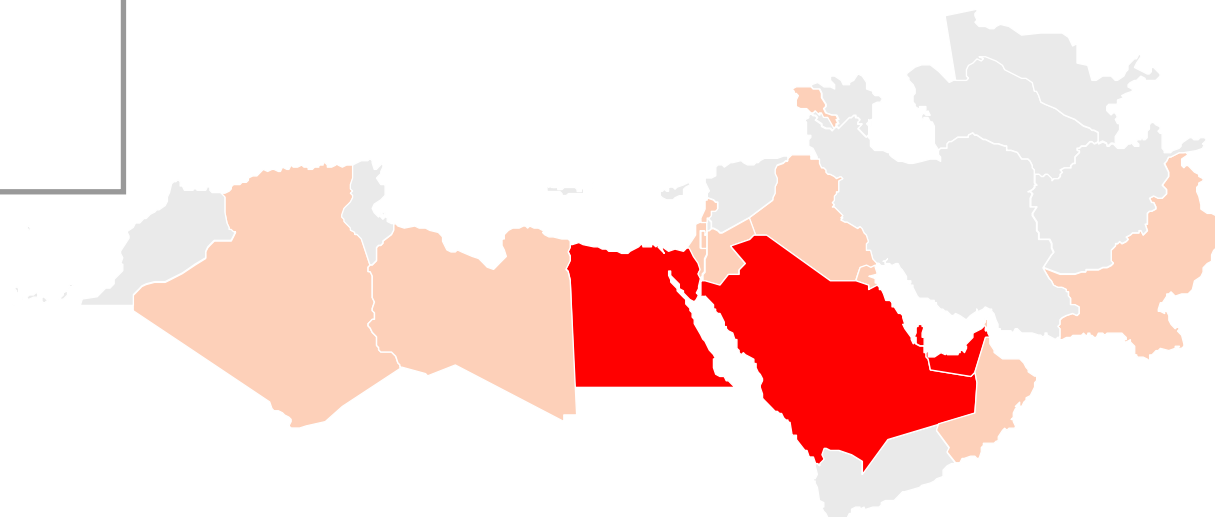
- Align coverage of both individuals and corporates to capture trickle-down of wealth
- Leverage regional and global footprint to capture East-to-East trade flows and FDI opportunities
- Maintain leadership in Islamic Finance products

- Strategic market
- Present
- Not present



### MENA 2010

▪ PBT	USD0.9bn
▪ CER	45%
▪ RWAs	USD54bn
▪ RoRWA	1.6%





**Connecting Asia and the world**

**Greater China**

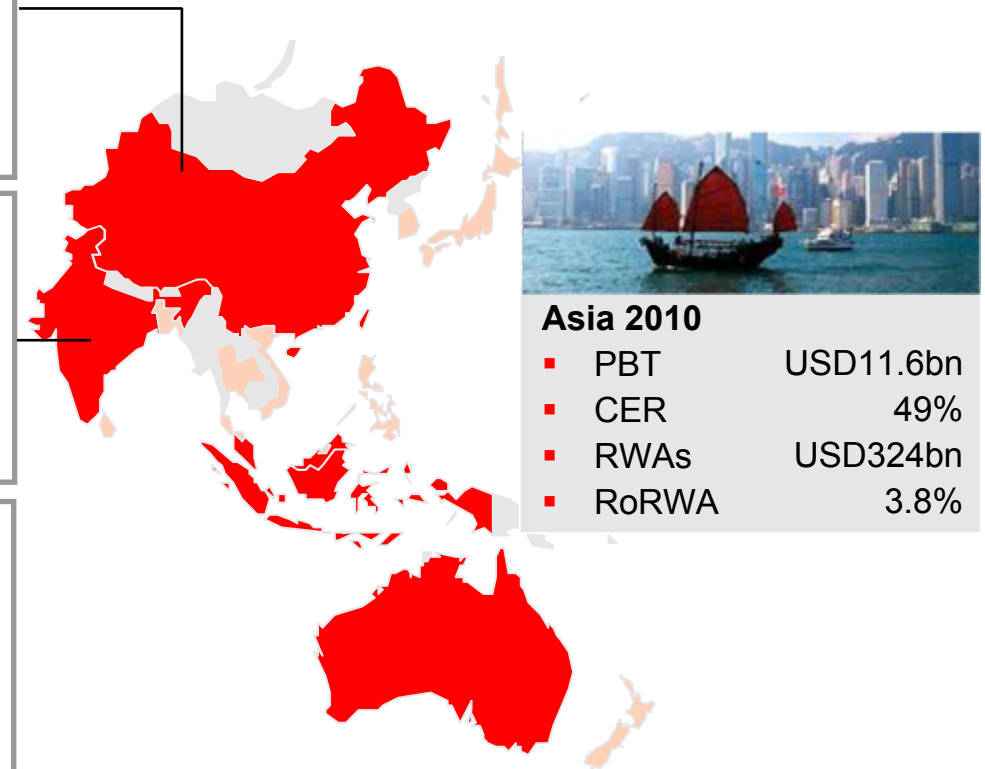
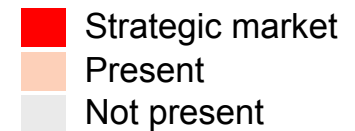
- Maintain leadership in Hong Kong
- Continued leadership as China's top foreign bank
- Be the leading international bank for RMB worldwide
- Build on historic success of investment in associates and expand successful strategic partnership with BoCom
- Pursue Shanghai listing

**India**

- Continue to capture strong growth in GBM and CMB (PBT grew 3x from 2005-2010)
- Continue to expand distribution to capture the retail opportunity e.g., RBS acquisition<sup>1</sup>

**Other Markets**

- Invest for growth in further key markets: **Singapore, Malaysia and Indonesia**
- Focus resources selectively in other markets to maintain leadership in connectivity



<sup>1</sup> Subject to Regulatory approval

Clear strategy and execution focus

## III Experienced Management team



### Group management board



**Sandy Flockhart**  
Chairman EMEA,  
Latin America and  
Commercial Banking



**Iain Mackay**  
Group Finance  
Director



**Samir Assaf**  
Global Banking and  
Markets



**Alan Keir**  
Commercial  
Banking



**Paul Thurston**  
Retail Banking and  
Wealth  
Management



**Niall Booker**  
North America



**Emilson Alonso**  
Latin America and  
Caribbean



**Brian Robertson**  
Europe



**Peter Wong**  
Asia



**Marc Moses**  
Risk



**Ann Almeida**  
Human Resources



**Richard Bennett**  
Legal

Clear strategy and execution focus

## III Experienced Management team



### Other management members



**Muhammad Al Tuwajri**



**Peter Boyles**



**Pat Burke**



**Simon Cooper**



**John Coverdale**



**Christophe de Backer**



**Irene Dorner**



**Conrado Engel**



**John Flint**



**David Fried**



**Joe Garner**



**Naina Kidwai**



**Mark McCombe**



**Chris Meares**



**Sean O'Sullivan**



**Luis Pena**



**Russell Picot**



**Andreas Schmitz**



**Antonio Simões**



**Sandra Stuart**



**Helen Wong**

**Team with strong values:  
'Leading with courageous integrity'**

## In summary...

### Distinctive position

Network of countries relevant for **international connectivity**

Access and exposure to **high growth markets** and businesses

Strong balance sheet generating **resilient stream of earnings**

### Clear strategy and execution focus

**Strategy** drives investment priorities and **capital allocation**

**Action plan** addressing **growth and cost efficiency** across geographies and businesses

Experienced **management team** accountable for delivery

## Key execution elements

### Capital Deployment

### Cost efficiency

### Growth

## Actions (examples)

- **Five filters driving disposals and closures** of non-strategic and/or underperforming positions/businesses
- **Turnaround** of strategically relevant businesses
- Target **USD2.5-3.5bn in sustainable cost saves** in 3 years, achieving our 48-52% CER target by 2013
- **Simplify and delayer** the organisation
- Revenue growth in **fast growing markets**
- Capture **wealth opportunity** (USD4bn in additional revenues)
- Leverage intra-group **connectivity** between **CMB and GBM** (USD1bn of additional revenues)

## In 12 months progress on<sup>1</sup>. . .

- Transactions announced and executed
- Tangible progress in turnaround actions (e.g., US)
- Material savings identified and being delivered across the 4 main programmes
- Income growth particularly in Asia and Latin America
- Wealth and GBM/CMB connectivity

# Basis of preparation (1/2)



<b>Actuals</b>	Actual numbers presented are on a reported basis and include the effect of movements in the fair value of HSBC's own debt related to credit spreads
<b>AMG</b>	The Global Asset Management business formed part of GBM in 2010, but has been included in RBWM for the RoRWA targets. Comparative data will be presented to reflect this reclassification in the Interim Report 2011
<b>Asia</b>	Data for 'Asia' comprises the sum of reported figures for the Hong Kong and Rest of Asia-Pacific geographical regions without the elimination of inter-segment items
<b>Composition of the Group</b>	No changes to the composition of the Group have been assumed other than those described in this presentation
<b>Financial targets</b>	Financial targets are prepared on the basis of the Group's accounting policies as set out in the Annual Report and Accounts 2010, and on the basis of tax rates and laws enacted or substantively enacted as at 31 December 2010. The potential effects on HSBC's operations and performance of the Dodd-Frank Act in the US, the deliberations of the UK Independent Commission on Banking, and a range of evolving regulatory changes which may or may not affect HSBC have not been included in the targets
<b>Other</b>	The main items reported under 'Other' are certain property activities, the estimated impact of the UK bank levy, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value (the remainder of the Group's gain on own debt is included in GBM) and HSBC's holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries

## Basis of preparation (2/2)

<b>RoE</b>	Return on equity ('RoE') is profit attributable to ordinary shareholders of the parent company divided by average ordinary shareholders' equity
<b>RoRWA</b>	The metric, return on risk weighted assets ('RoRWA'), is the profit before tax divided by average RWAs. The RWAs have been calculated using FSA rules for the 2010 metrics. The regional and customer group targets are adjusted for Basel 3 rules specific to the GBM business. In all cases, RWAs or financial metrics based on RWAs for geographical segments or customer groups are on a third party basis and exclude intra-HSBC exposures
<b>RoRWA target for Europe</b>	The Europe RoRWA target includes the Group's head office costs, intra-HSBC recharges and the total estimated impact of the UK bank levy
<b>RoRWA target for 'Other'</b>	No RoRWA target has been set for the 'Other' customer group as it is not considered to be a meaningful measure in terms of performance assessment and resource allocation
<b>RWAs for the mainland China associates</b>	RWAs for the mainland China associates have been reallocated from the 'Other' customer group to RBWM, CMB and GBM to align better with the basis for the allocation of their profits. This represents a reclassification from the basis used in HSBC's 2010 Pillar 3 Disclosures. Comparative customer group RWAs will be presented on the new basis in the Interim Report 2011

# Acronyms and definitions



<b>A/D ratio</b>	Ratio of customer advances to customer deposits	<b>ETF</b>	Exchange traded funds	<b>NYSE</b>	New York Stock Exchange
<b>Advance</b>	HSBC Advance, a global banking proposition for the mass-affluent segment of customers	<b>EU</b>	European Union	<b>OCC</b>	Office of the Comptroller of Currency
<b>AFS</b>	Available for sale	<b>FCA</b>	UK Financial Conduct Authority	<b>OTC</b>	Over the counter
<b>AMG</b>	Global Asset Management	<b>FDI</b>	Foreign direct investment	<b>PBT</b>	Profit before tax
<b>APS</b>	Asset Protection Scheme	<b>FIG</b>	Financial Institutions Group	<b>PCM</b>	Payment and Cash Management, a division of Global Banking and Markets
<b>ASEAN</b>	The Association of South East Asian Nations	<b>FPC</b>	UK Financial Policy Committee	<b>PFS</b>	Personal Financial Services
<b>ASP</b>	Asia-Pacific	<b>FRB</b>	Federal Reserve Board	<b>PPI</b>	Payment protection insurance
<b>AUM</b>	Assets under management	<b>FSA</b>	Financial Services Authority	<b>PRA</b>	UK Prudential Regulation Authority
<b>BoCom</b>	Bank of Communications Co., Limited, mainland China's fourth largest bank by market capitalisation	<b>FSB</b>	Financial Stability Board	<b>Premier</b>	HSBC's premium global banking service
<b>bps</b>	Basis points (a basis point is 1/100 of a percentage point)	<b>FVOD</b>	Fair value of own debt related to credit spreads	<b>RBWM</b>	Retail Banking and Wealth Management global business, which comprises the existing Personal Financial Services customer group and Global Asset Management
<b>BSM</b>	Balance Sheet Management, a division of Global Banking and Markets	<b>FX</b>	Foreign exchange	<b>RMs</b>	Relationship managers
<b>CAGR</b>	Compound annual growth rate	<b>GBM</b>	Global Banking and Markets global business	<b>RMB</b>	Renminbi
<b>CER</b>	The cost efficiency ratio is total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions	<b>GDP</b>	Gross Domestic Product	<b>ROE</b>	Return on equity
<b>CHF</b>	Swiss franc	<b>GPB</b>	Global Private Banking global business	<b>RoRWA</b>	Pre-tax return on risk weighted assets
<b>CMB</b>	Commercial Banking customer group	<b>GTB</b>	Global Transaction Banking	<b>RWAs</b>	Risk weighted assets
<b>CML</b>	Consumer and Mortgage Lending	<b>HK</b>	Hong Kong Special Administrative Region of the People's Republic of China	<b>SIFIs</b>	Systemically Important Financial Institutions
<b>CoEs</b>	Centres of excellence	<b>HNWI</b>	High net worth individuals	<b>SMEs</b>	Small and medium-sized enterprises
<b>Core Tier 1 capital</b>	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments	<b>HSS</b>	HSBC Securities Services	<b>STP</b>	Straight through processing
<b>CRD</b>	Capital Requirements Directive	<b>ICB</b>	Independent Commission on Banking	<b>TARP</b>	Troubled Asset Relief Program
<b>CRM</b>	Customer relationship management	<b>IPO</b>	Initial public offering	<b>Tier 2 capital</b>	A component of regulatory capital, comprising qualifying subordinated loan capital, related non-controlling interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties
<b>CVA</b>	Credit valuation adjustment	<b>IT</b>	Information technology	<b>UHNW</b>	Ultra high net worth individuals
<b>DCM</b>	Debt capital markets	<b>KYC</b>	Know your customer	<b>UK</b>	United Kingdom
<b>DTA</b>	Deferred tax asset	<b>LC</b>	Letters of credit	<b>US</b>	United States of America
<b>EBA</b>	European Banking Authority	<b>LIC</b>	Loan impairment charges	<b>VaR</b>	Value at risk: a measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence
<b>ECA</b>	Export credit agency	<b>M&amp;A</b>	Mergers and acquisitions	<b>YoY</b>	Year on year
<b>EM</b>	Emerging markets	<b>Mainland China</b>	People's Republic of China excluding Hong Kong		
<b>EMEA</b>	Europe, Middle East and Africa	<b>MENA</b>	Middle East and North Africa		
<b>ESMA</b>	European Securities and Markets Authority	<b>MLA</b>	Mandated lead arranger		
		<b>MMEs</b>	Mid-market enterprises		
		<b>NAFTA</b>	North American Free Trade Agreement		
		<b>NNM</b>	Net new money		