



May 2012

Group Strategy

Investor Day

Stuart Gulliver Group Chief Executive

HSBC 

Agenda

Recap and progress on execution

Vision of HSBC

Priorities going forward

Group Strategy

Strategy aligned with two long-term trends

International trade and capital flows



- Build on international trade and commercial banking heritage
- International network in markets that matter

Economic development and wealth creation



- Most relevant markets for wealth creation
- Retail banking only where we can achieve profitable scale

If we are successful in executing against this strategy, we will be regarded as the world's leading international bank

Progress against May 2011 Report Card

Key execution elements

May 2011 Report Card Metrics

Progress to date

1

Capital Deployment *Five Filters*

- Disposals and closures of non-strategic / underperforming businesses
- Turnaround of strategically relevant businesses

- 28 transactions to dispose of or close businesses
 - c.USD55bn expected reduction in RWAs
 - c.15k FTE to be transferred
 - c.USD5.9bn total consideration

2

Cost efficiency *Four Programmes*

- USD2.5-3.5bn in sustainable cost saves by 2013
- Simplify and delayer organisation

- USD2.0bn in total annualised sustainable savings
- FTE down 14k from 1Q11 (including 1.5k from transactions and US run off portfolios)
- Global functions re-engineering across the Group

3

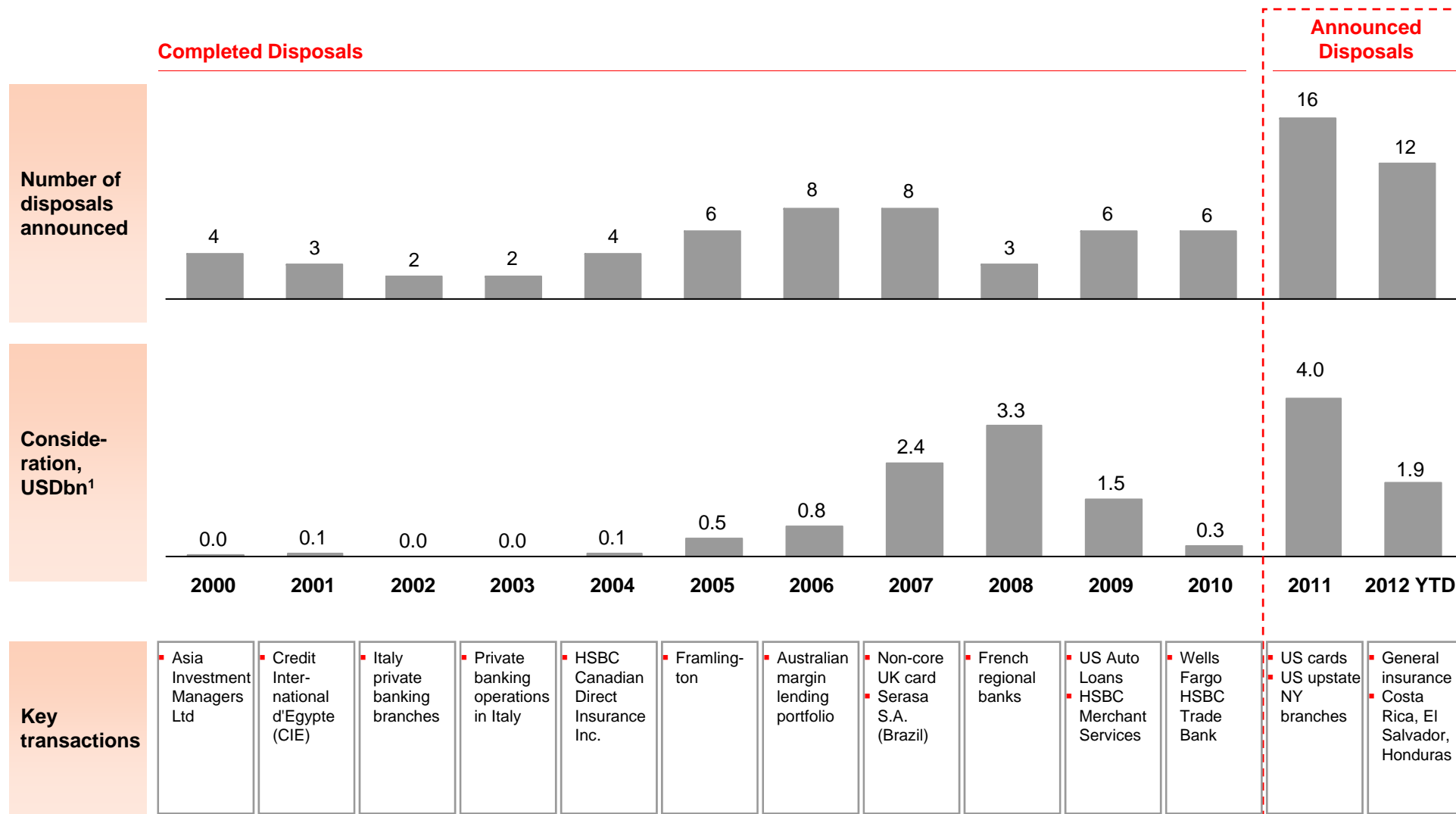
Growth

- Revenue growth in faster growing markets
- USD4bn in incremental wealth revenues in the medium term
- USD1bn in additional CMB and GB&M revenues in the short to medium term

- 1Q12 yoy revenue growth of 7% in Latin America, 16% in Hong Kong, and 18% in Rest of Asia Pacific
- c.USD300m in incremental Wealth revenues in 2011
- c.USD500m in incremental revenues from CMB and GB&M integration in 2011

Progress on Execution

1 Five Filters – We have announced an unprecedented number of disposals over the last 12 months



(1) Based on consideration at the time of the deal announcement. Consideration for announced transactions, for the purposes of this analysis, is defined as the value received for the sale of a business for legal entity sales and the premium / discount to assets / liabilities received for the sale of a business for asset & liability transfers. The premium for the US Cards and Retail Services sale is as at closing.

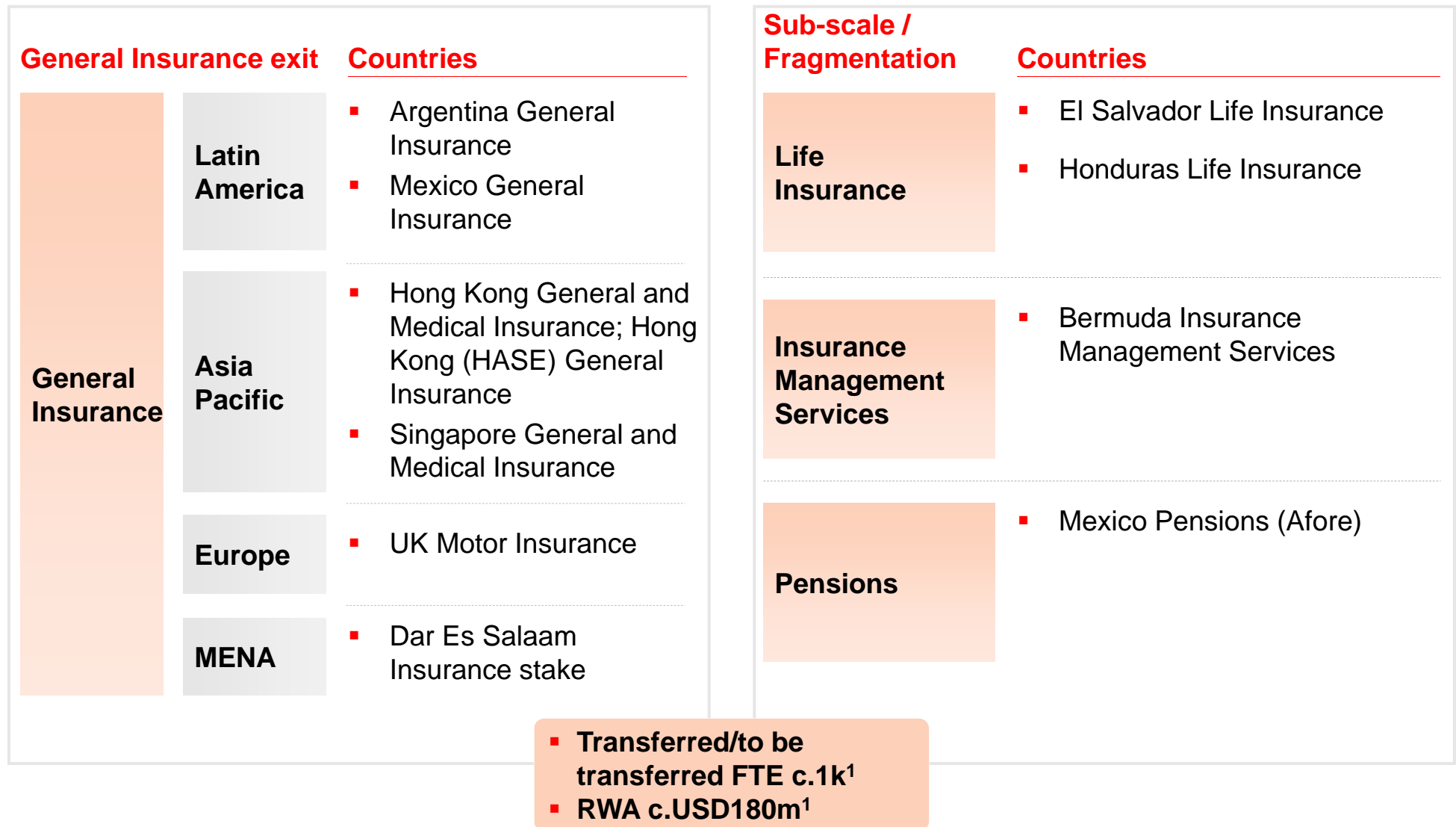
1 Five Filters – Reduce fragmentation in our portfolio through closures and disposals in non-strategic markets

28 transactions to dispose of or close businesses announced and currently being executed

Fragmentation	US repositioning	<ul style="list-style-type: none">▪ US Upstate New York Branches▪ US Cards and Retail Services
	Businesses	<ul style="list-style-type: none">▪ General Insurance – UK (Motor), HK, Singapore, Mexico, Argentina, Bermuda (Ins. Mgt.), Iraq (Dar Es Salaam Insurance stake)▪ Pension fund management – Mexico (Afore)▪ Private Equity and other – US (PE), Canada (PE, Consumer Finance and Investment Advisory), Middle East (PE), UK (Montagu Private Equity stake)
	Geographies	<ul style="list-style-type: none">▪ Europe – Slovakia, Georgia (Closure), Poland (RBWM), Russia (RBWM), Hungary (Consumer finance), Malta (Merchant acquiring)▪ Asia – Thailand (RBWM), Japan (Private banking, Consumer Banking)▪ Latin America – Costa Rica, Honduras, El Salvador, Chile (Retail), Colombia, Peru, Uruguay and Paraguay

▪ Transferred/to be transferred FTE c.15k
▪ RWA c.USD55bn

1 Five Filters – Overall Insurance review addresses General Insurance and other fragmented businesses



(1) Excludes El Salvador and Honduras

1 Five Filters – Reduced fragmentation in Europe and Asia

Europe actions

Footprint simplification

- Georgia full exit
- Slovakia full exit
- Poland RBWM exit
- Russia RBWM exit



Priority Markets

- UK
- France
- Germany
- Switzerland
- Turkey

Disposal of non-core businesses

- Hungary consumer finance sale
- Malta merchant acquiring sale
- UK Montagu Private Equity stake
- UK Motor Insurance

- Transferred/to be transferred FTE c.0.1k
- RWA c.USD700m

Asia actions

- Japan RBWM and GPB exits
- Thailand RBWM exit



Priority Markets

- Hong Kong
- Australia
- Mainland China
- India
- Indonesia
- Malaysia
- Singapore
- Taiwan
- Vietnam

- Hong Kong general and medical insurance disposal;
- Hong Kong (HASE) general insurance
- Singapore general insurance disposal

- Transferred/to be transferred FTE c.0.7k
- RWA c.USD970m

1 Five Filters – Reduced fragmentation in Latin America

Footprint simplification

Costa Rica	Full exit
El Salvador	Full exit
Honduras	Full exit
Chile	Exit RBWM; become network market to support CMB, GB&M
Colombia	Onshore exit; move to rep office model
Peru	Onshore exit; move to rep office model ¹
Uruguay	Onshore exit; move to rep office model
Paraguay	Full exit

Disposal of non-core businesses

Argentina	Disposal of general insurance
Mexico	Disposal of pensions funds management (Afore); general insurance



Priority Markets

- **Argentina**
- **Brazil**
- **Mexico**

- **Transferred/to be transferred FTE c.6.3k**
- **RWA c.USD7.1bn**

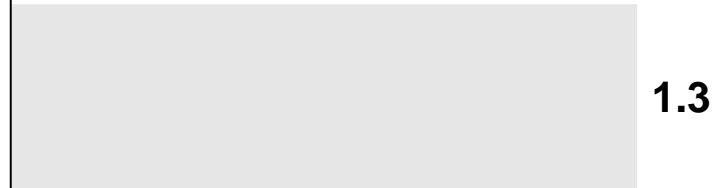
(1) Planned

2 Four Programmes – Sustainable savings booked until 1Q 2012 to deliver USD2bn by 2012YE

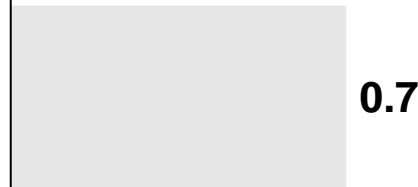
USDbn

Annualised benefits

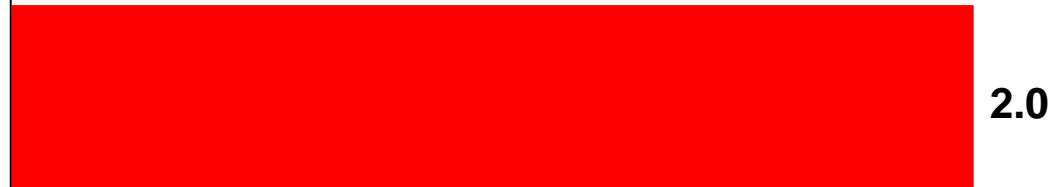
Sustainable savings from actions taken in 2011



Sustainable savings from actions taken in 1Q 2012



Total sustainable savings



Progress on Execution

3 Growth – HSBC has exposure to markets with strong fundamentals driving wealth creation

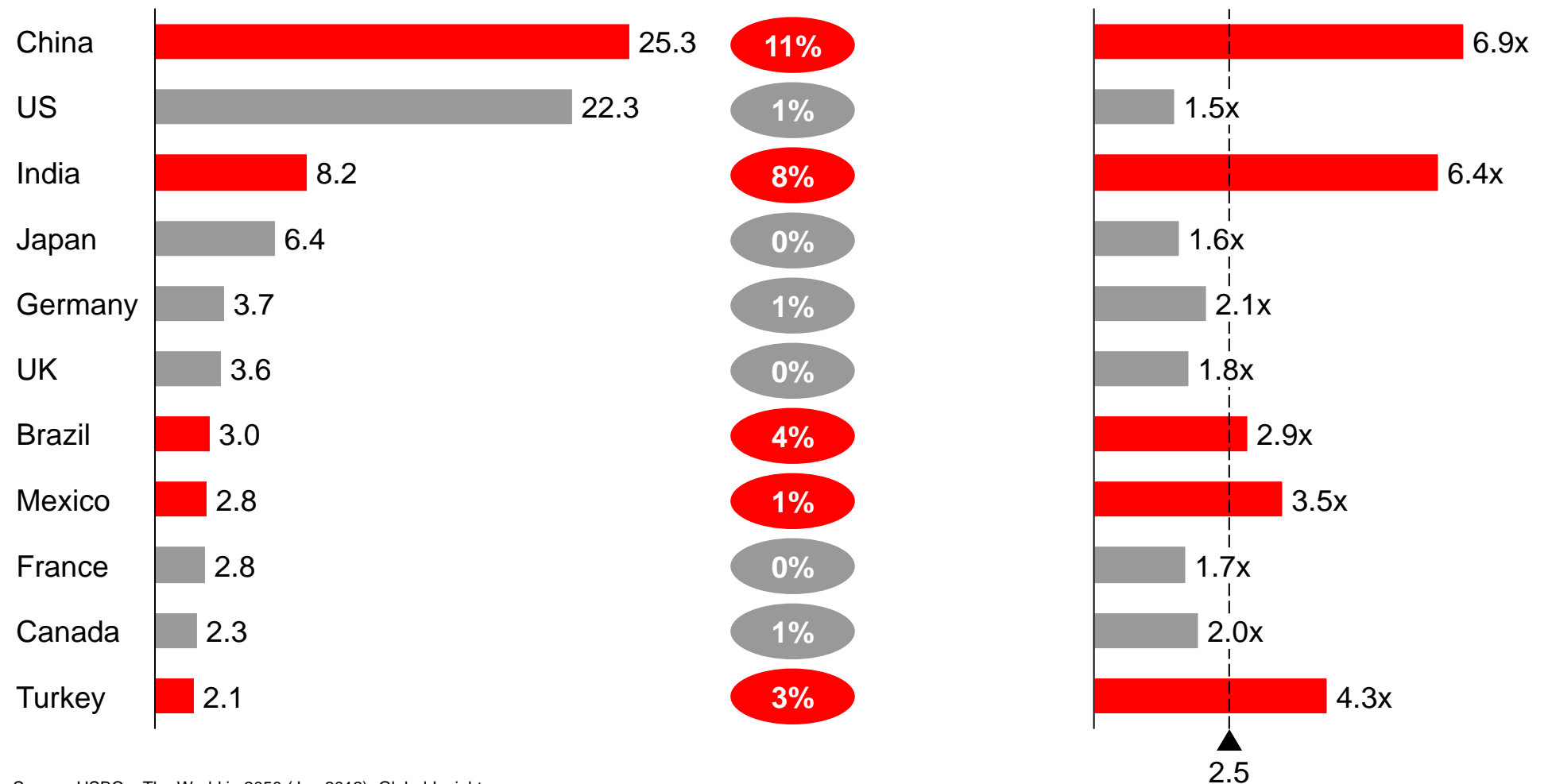
Top economies by 2050

GDP, USDtn

GDP Growth 06-11, CAGR

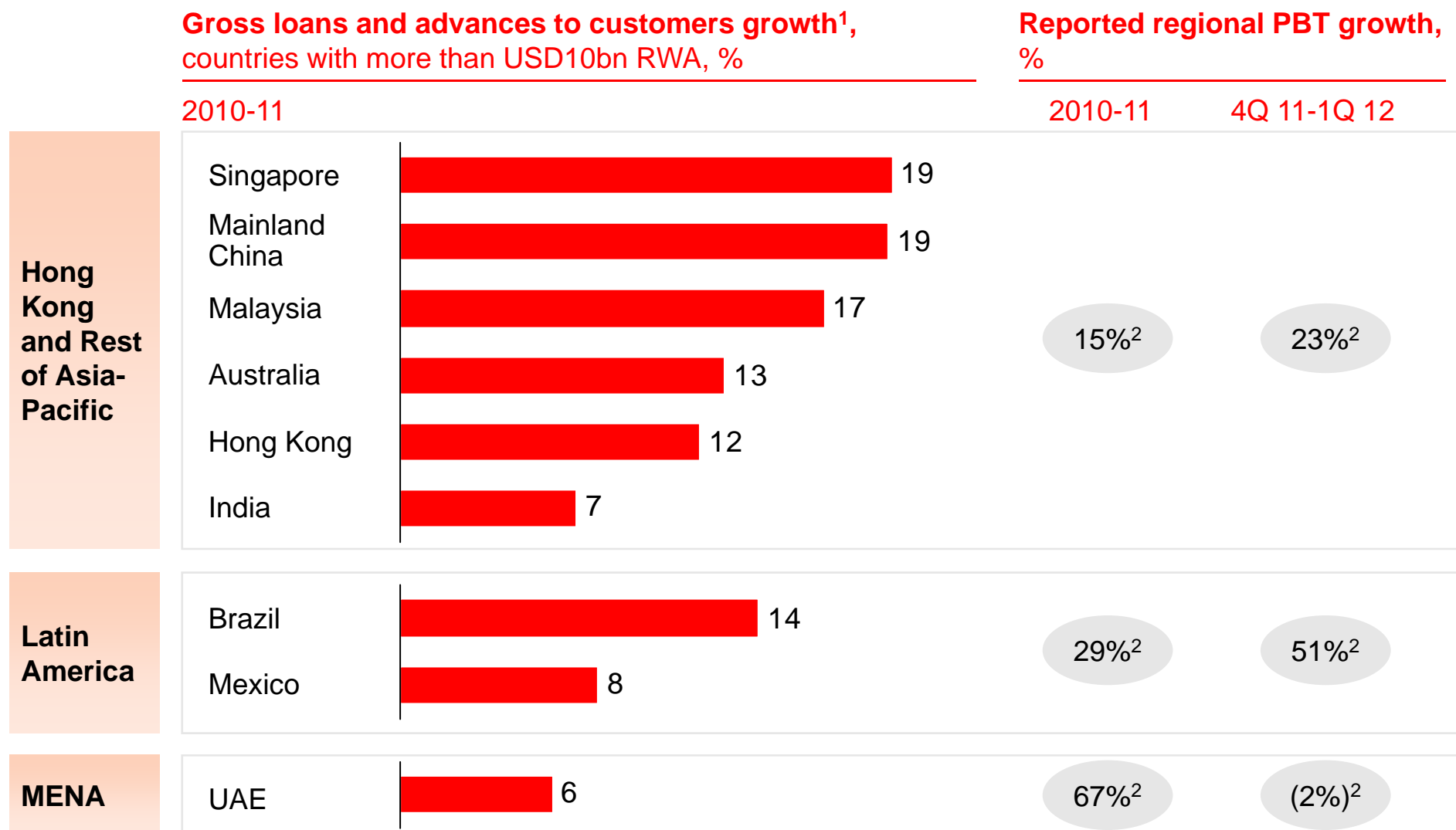
Income per capita in 2050

Multiple over 2010 income



Source: HSBC – The World in 2050 (Jan 2012), Global Insights

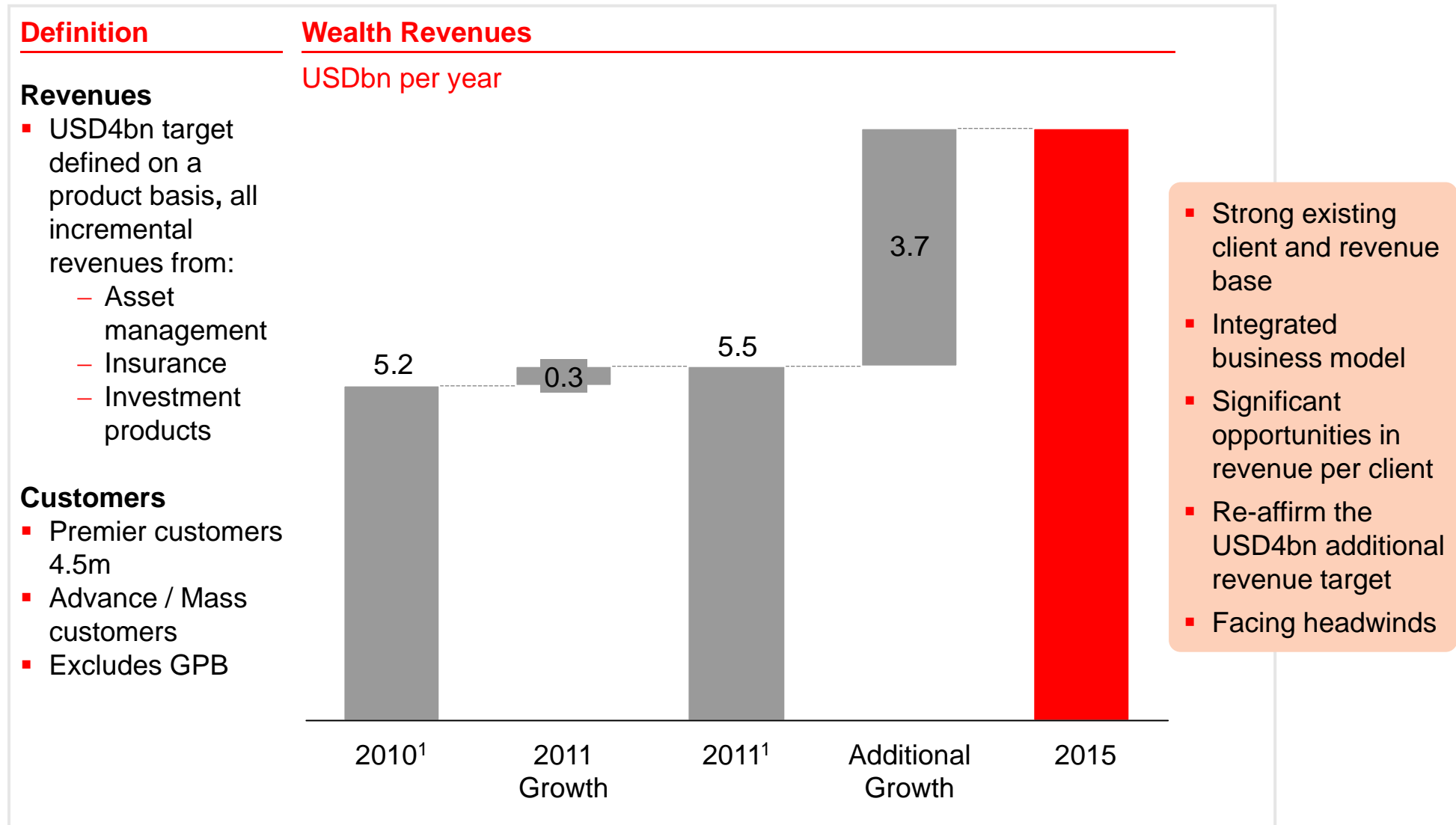
3 Growth – Progress has been made across faster growing markets



(1) Constant currency

(2) Numbers refer to whole region

3 Growth – Initiatives on-track to position HSBC as a leading wealth provider



(1) Excludes cash FX

3 Growth – Integration between CMB and GB&M has resulted in c.USD500m in incremental revenues in 2011

Actions to date

Client targeting

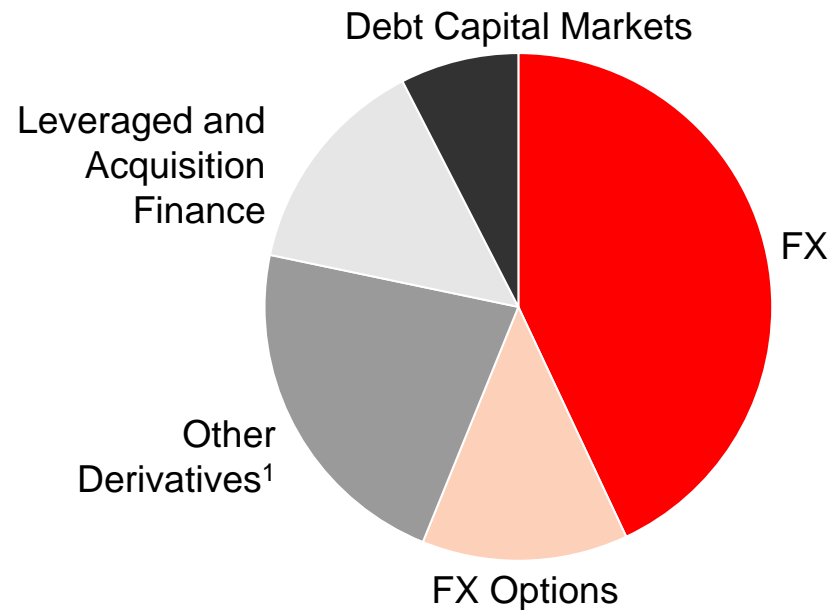
- Clients screened and prioritised for collaborative coverage
- Increased sales coordination across GB&M, Payments, Cash Management and Trade

Collaborative client engagement

- Additional GB coverage resources dedicated to CMB clients in Asia Pacific
- Development and delivery of electronic FX proposition for CMB clients

c.USD500m additional revenues delivered in 2011

Incremental integration revenues by product



(1) Vanilla Rates Derivatives and Structured Products

1Q 2012 results also demonstrated progress

USDm		1Q 2011	1Q 2012	Difference	
				USDm	Percent
Reported	PBT	4,906	4,322	(584)	(12%)
	CER	60.9%	63.9%		
Underlying ¹	PBT	5,413	6,775	1,362	25%
	CER	58.7%	55.5%		

(1) We measure our performance internally on a like-for-like basis by eliminating the effects of exchange differences, acquisitions and disposals of subsidiaries and businesses and the effect of changes in credit spread on the fair value of our long-term debt where the net result of such movements will be zero upon maturity of the debt, all of which distort year-on-year comparisons. We refer to this as our underlying performance.

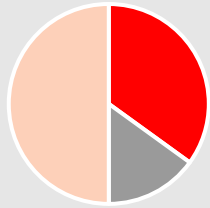
Agenda

Recap and progress on execution

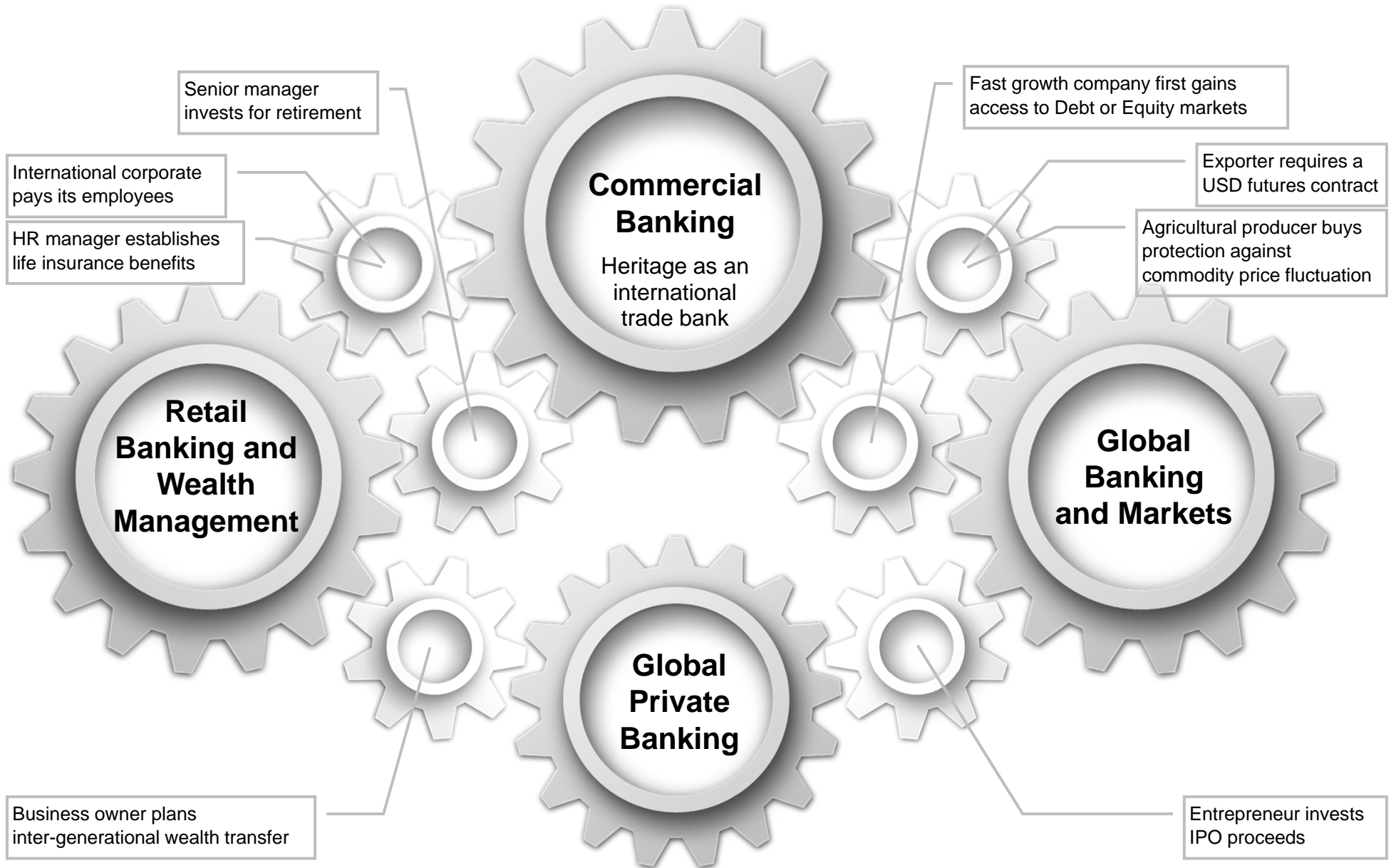
Vision of HSBC

Priorities going forward

HSBC Vision

Purpose	We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions	<i>Reason why we exist</i>
Values	Act with courageous integrity <ul style="list-style-type: none">▪ Dependable and do the right thing▪ Open to different ideas and cultures▪ Connected to customers, regulators and each other	<i>How we behave and conduct business</i>
Strategy	<ul style="list-style-type: none">▪ International network connecting faster growing and developed markets▪ Develop Wealth and invest in Retail only in markets where we can achieve profitable scale	<i>Where and how we compete</i>
Outcome	Being the world's leading international Bank	 Delivering consistent returns: <ul style="list-style-type: none">▪ 50% of earnings retained▪ 35% to shareholders as dividends▪ 15% variable pay

Four integrated Global Businesses



Cohesive portfolio of markets

	Hong Kong and rest of Asia Pacific	Europe	Middle East and North Africa	North America	Latin America
'Home markets'	<ul style="list-style-type: none"> Hong Kong¹ 	<ul style="list-style-type: none"> United Kingdom 			
Priority Growth markets	<ul style="list-style-type: none"> Australia Mainland China India Indonesia Malaysia Singapore Taiwan Vietnam 	<ul style="list-style-type: none"> France Germany Switzerland Turkey 	<ul style="list-style-type: none"> Egypt Saudi Arabia UAE 	<ul style="list-style-type: none"> Canada USA 	<ul style="list-style-type: none"> Argentina Brazil Mexico
Network markets	<ul style="list-style-type: none"> Operations primarily focused on CMB and GB&M international clients and businesses Together with home and priority growth markets these concentrate c.85-90% of international trade and capital flows 				
Small markets	<ul style="list-style-type: none"> Markets where HSBC has profitable scale and focused operations Representative Offices 				

(1) Includes Hang Seng Bank

Vision

Committed to delivering on our financial targets

Capital

**Common equity tier 1
ratio of
9.5 - 10.5%**

Profitability

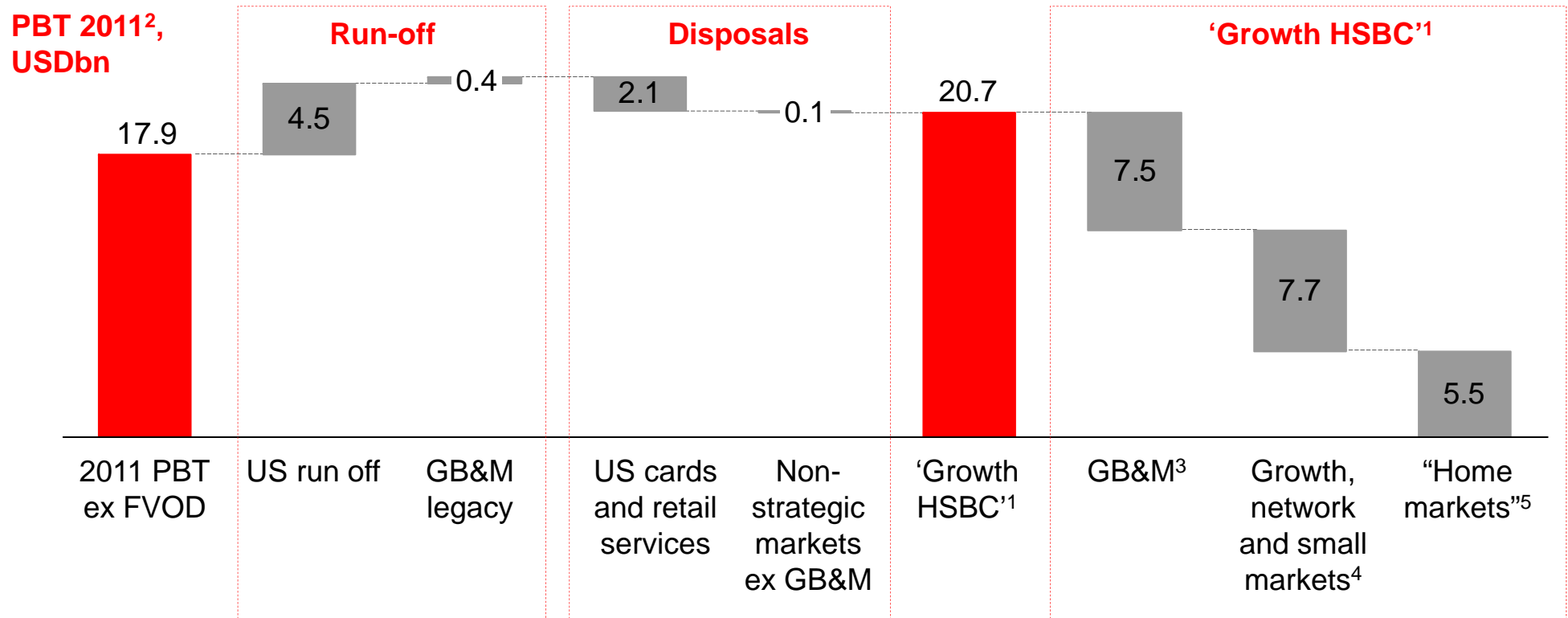
**ROE target of
12 - 15%**

Efficiency

**CER target of
48 - 52%**

Vision

'Growth HSBC'¹ delivered a pre-tax RoRWA² of 2.2% in 2011



Closing RWAs USDbn

1,210

132

50

42

986⁶

RoRWA² %

1.6

2.2⁶

(1) Growth HSBC excludes US run off, GB&M legacy, US cards and retail services and non-strategic markets (excluding GB&M); (2) Excludes USD3.9bn change in fair value on own debt related to credit spread changes; (3) Excludes GB&M legacy; (4) Includes Priority Growth Markets, Network Markets and Small Markets all excluding GB&M; (5) Hong Kong and UK both excluding GB&M. Note that the UK includes the Group's head office costs and the UK Bank Levy (c. USD0.6bn); (7) Includes non-strategic markets (ex GB&M)

Agenda

Recap and progress on execution

Vision of HSBC

Priorities going forward

I

Simplify

- Run off
- Portfolio fragmentation (Five Filters)
- Organisation, processes and procedures

II

Restructure

- Reposition elements of GPB business model
- Reposition US business
- GB&M structurally challenged products

III

Grow

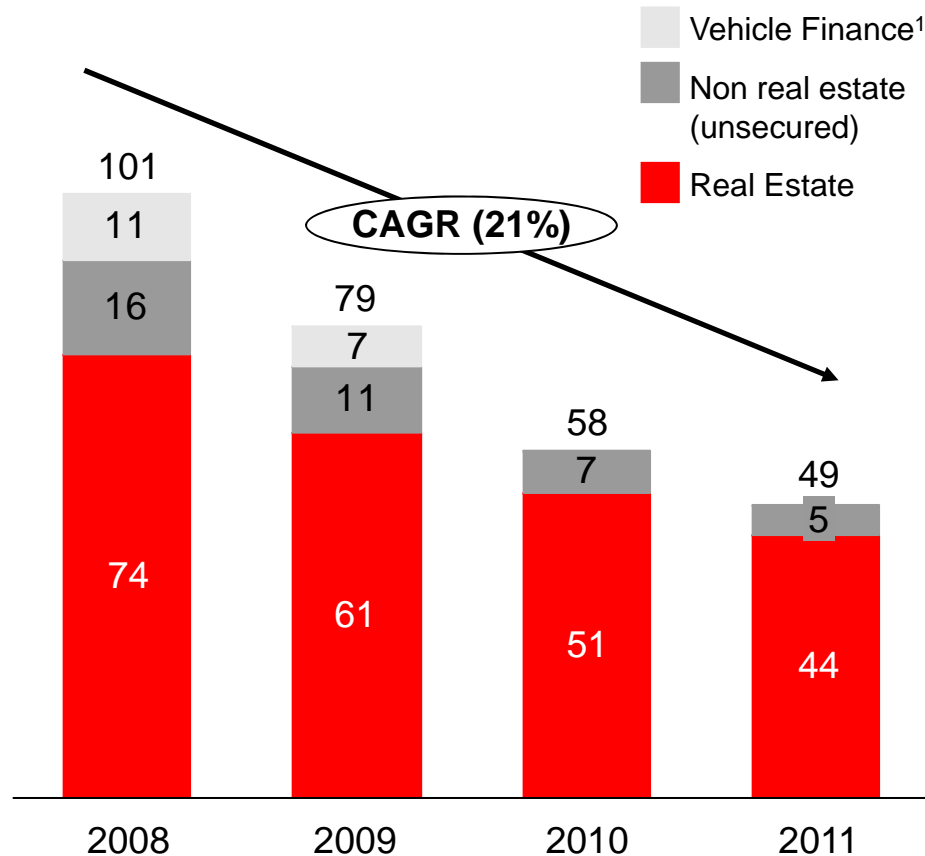
- Integration of Global Businesses
- Capital commitment to priority growth markets



US Legacy Consumer Assets – Running off the CML book

We continue to run off US Legacy consumer assets ...

Run-off Portfolio Receivables, USDbn



(1) Vehicle Finance sold in 3Q 2010

... and are actively analysing opportunities to reduce risk and improve returns

Sales

- Identifying segments of the real estate portfolio we may want to consider selling that (i) represent high risk and/or high operational burden or (ii) may be sold on a capital accretive basis
- Full sale of non-real estate portfolio should be explored to reduce operational risk

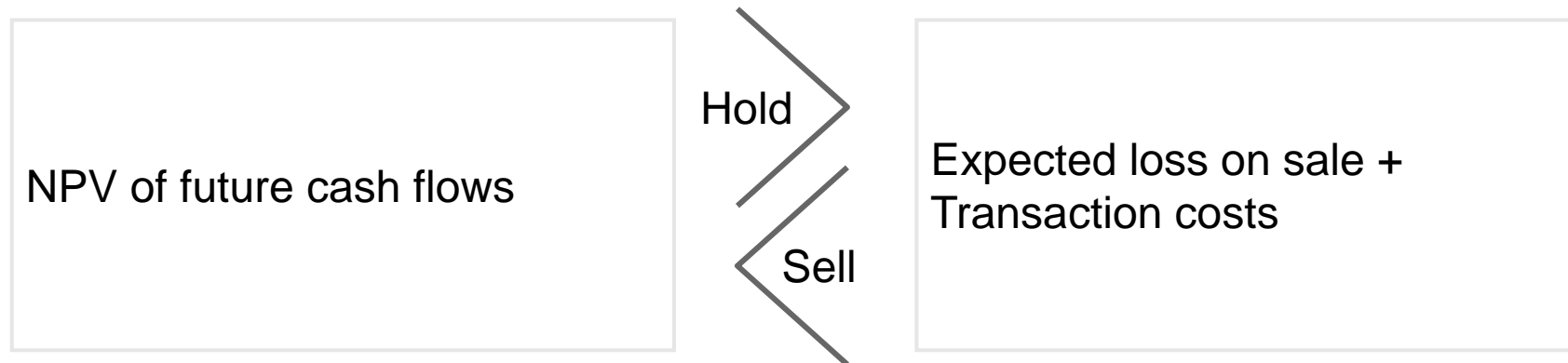
Servicing

- Continuing to collect effectively and ethically while focusing on expense control and managing operational and employee retention risks



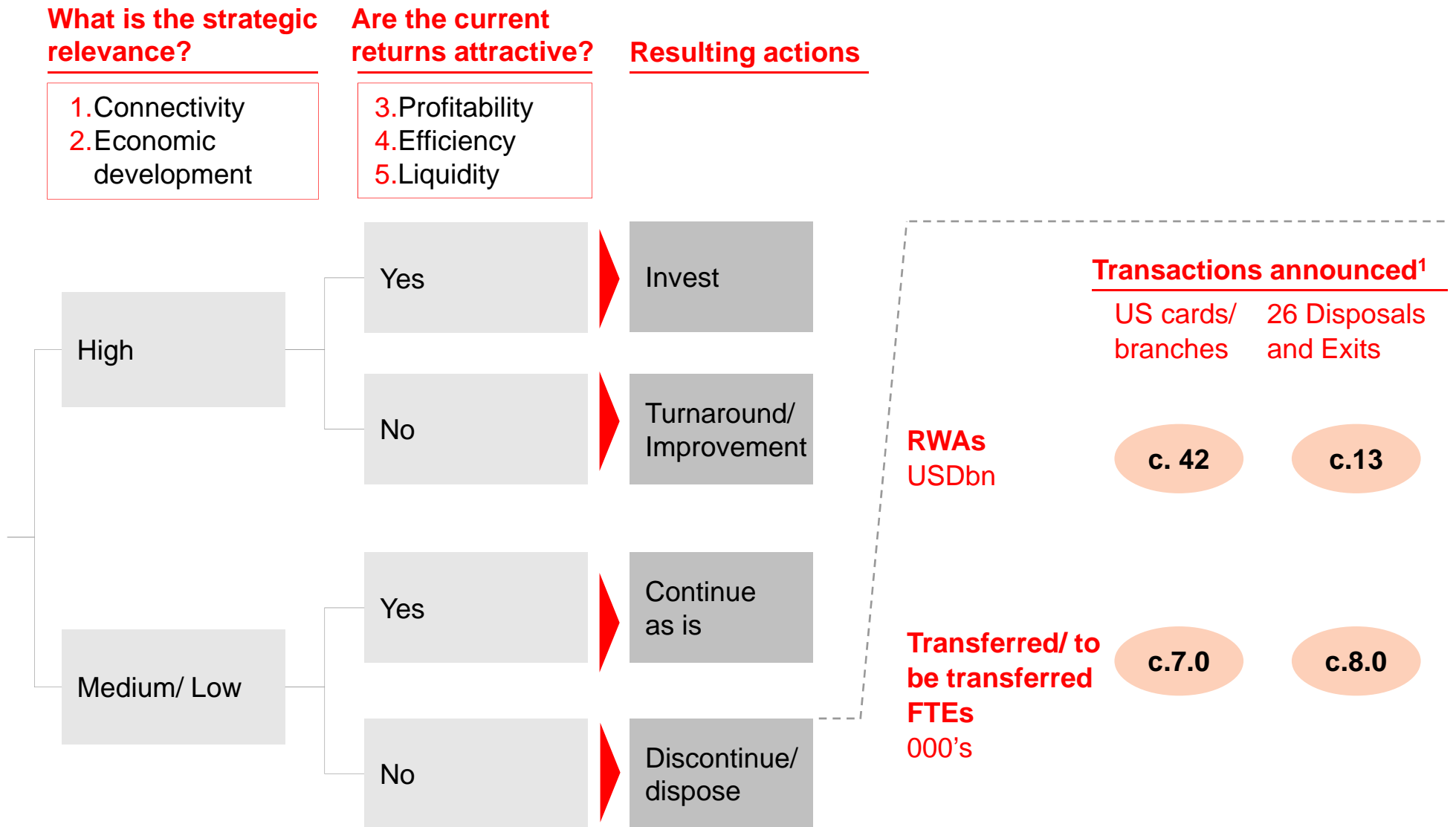
GB&M – GM Legacy hold vs. sell decisions taken based on a clear economic framework

Decision framework



- NPV considers terminal value, net of funding and operational costs as well as Cost of Capital
- Capital charge for projected RWAs assumes 10-15% Core Tier 1 requirement
- Cost of Capital specific to GB&M; determined using various economic factors
- Additional consideration for redeployment of capital

Fragmentation – We continue to use the five filters to drive further strategic actions



(1) 2011 FY and 2012 YTD

1 Simplifying the organisation and our approach to talent and values

		How we will achieve it . . .
Organisation	8 by 8 structure	<ul style="list-style-type: none"> Continue to establish 8x8 <ul style="list-style-type: none"> Maximum of 8 layers between Group CEO and frontline Increased spans of control (8 reports per manager)
	Four global businesses	<ul style="list-style-type: none"> Target business and operating models being implemented across global businesses As we dispose and close non-strategic businesses, we are able to organise resources at the centre
	Ten global functions	<ul style="list-style-type: none"> Ten global functions (e.g. HR, Finance, Marketing) to manage resources globally Easier to enforce global controls so that every geography meets the highest standard
Talent		<ul style="list-style-type: none"> Focus and visibility on our global talent pool Creating opportunities for talent as we change the organisation
Values	Courageous Integrity	<ul style="list-style-type: none"> Values programme, with courageous integrity as a guiding principle, led from the top and cascaded through the organisation – ensuring global adherence to high standards Values fully integrated into performance management

Group FTE
000's

Quarter	Group FTE (000's)
1Q 11	299
1Q 12	285

(5%)

Four Programmes – A strong pipeline of actions to deliver against the cost target

USDbn	Sustainable Savings (Booked) ¹	Confirmed Pipeline	Total (Booked & Pipeline)	Target by 2013
Four Programmes				
Implement consistent business models	0.2	0.6	0.8	0.9
Re-engineer Global Functions	0.3	0.5	0.8	1.0
Re-engineer operational processes	0.4	0.5	0.9	1.0
Streamline IT	0.3	0.3	0.6	0.6
Total	1.2	1.9	3.1	3.5

- Key actions in pipeline**
- De-layering
 - Procurement
 - RBWM and CMB Productivity
 - Process Re-engineering
 - Right-shoring

(1) 2011 and 1Q 2012

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- Capital commitment to priority growth markets



GPB – Elements of business model to be re-positioned

Industry challenges

- Capturing new inflows from faster growing markets and domestic businesses
- International businesses under increasing regulatory scrutiny
- Overall pressure on profitability

HSBC challenges

- 'Federation of Private Banks'
 - Booking centre driven
 - Loosely integrated business and operating model
 - Sub-optimal collaboration with rest of the Group
- Reputational and financial damage after 2010 data theft

Business model going forward

Operational risk and compliance

- Adhere to the highest standards in the industry
- Continue to focus International on transparency and provide access to international investment opportunities

Integrated operating model

- Implement new global operating model with better integration and coordination between regions
- Complete global roll-out of improved data security and compliance systems and processes

Integration with Group

- Intensify collaboration with CMB to access entrepreneur wealth creation
- Create seamless Group wealth proposition

Capturing growth

- Focus investment on most attractive developed and faster growing wealth markets where GPB can build on
 - Access to deep Group client franchise
 - Strong local and international product capabilities



II We are reshaping the US business to focus on core activities

Major US transactions announced to date

US Cards and Retail Services

- Consideration: USD2.4bn
- Transferred FTEs: c.5k
- RWAs: c.USD40bn¹
- Acquirer: Capital One
- Closed 1st May 2012

Upstate New York branches

- Consideration: USD1.0bn
- FTEs to be transferred: c.2k
- RWAs: c.USD2bn¹
- Acquirer: First Niagara
- Expected closing date: 2Q 2012

Reposition the US towards international businesses

- **Commercial Banking** focused on 5 hubs concentrating over 50% of US corporate imports/exports² – California, Florida, Illinois, New York, Texas
- **Global Banking** serving top-tier multinationals and **Global Markets (New York)** as a hub for international clients across Americas and world, leveraging USD funding
- **Retail Banking Wealth Management and Global Private Bank** target internationally mobile clients in large metropolitan centres in the West and East coast

(1) As at 31st March 2012

(2) International business opportunities were plotted by Metropolitan Statistical Areas (MSAs) and grouped into 5 key regions. These MSAs account for 52% of the international opportunity (Brookings report)

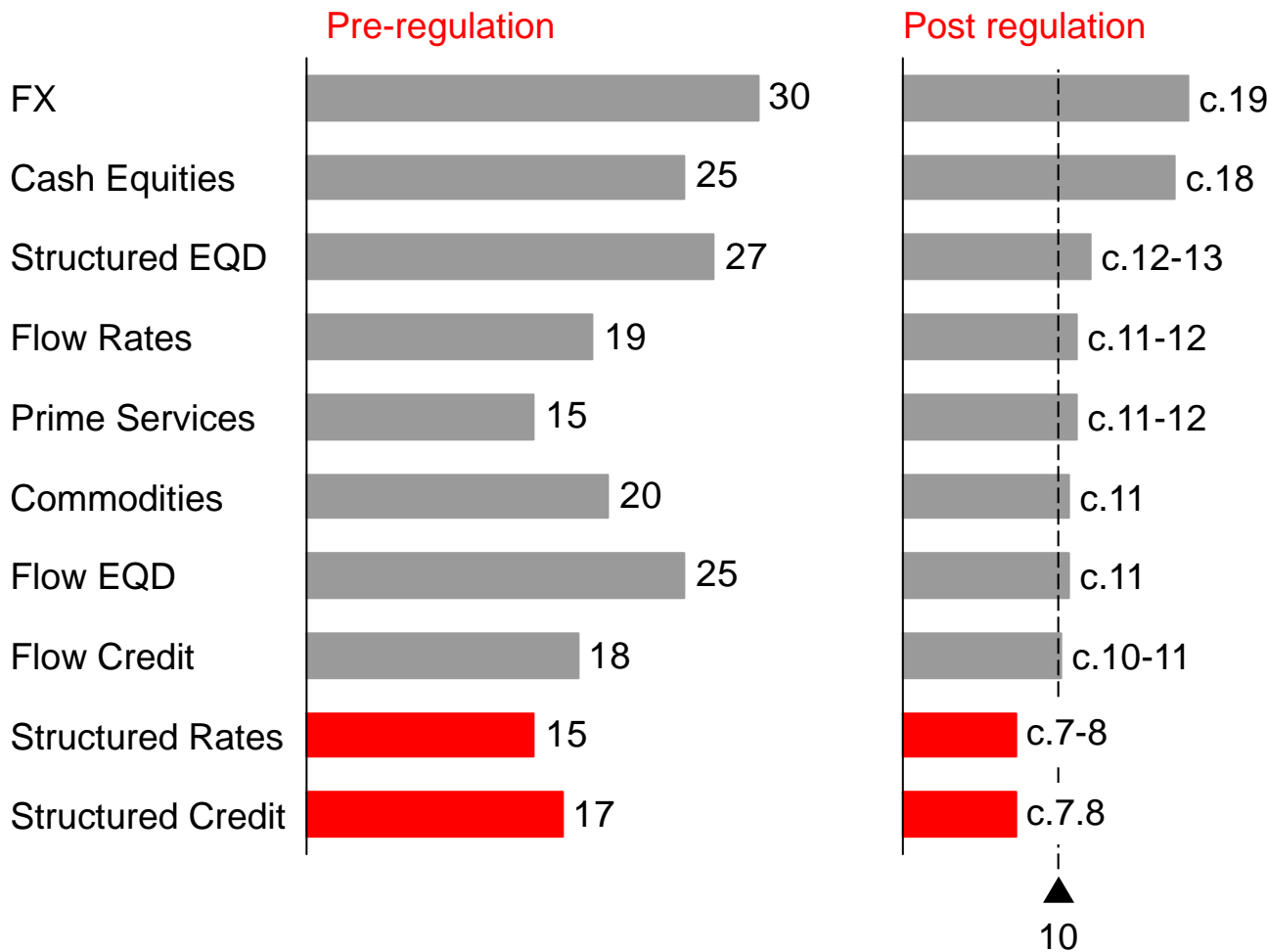
Restructure

II GB&M – Industry is changing and facing profitability challenges



Industry changes in product profitability

ROE, %



■ Industry-wide structurally challenged businesses

Industry challenges

- Client activity relatively subdued with global investment banking revenue pool forecasts for flat to moderate growth
- Regulatory changes reducing available capital and liquidity
- Overall downward pressure on returns

Source: McKinsey report "Day of Reckoning? New Regulation and Its Impact on Capital-Markets Businesses", September 2011

II GB&M – HSBC is well positioned for the new business paradigm



What matters going forward...

Deep client franchise

- Access to **deep and diversified client base**

Network and product capabilities

- Network of markets covering majority of **global financial flows**
- Global **product capabilities**

Liquidity and funding

- Diversified funding base

...HSBC GB&M execution progress 2011

Faster growing markets

- 1Q 2012 vs 1Q 2011 PBT growth in Hong Kong (20%), Rest of Asia Pacific (17%), and Latin America (22%)

Financing focused

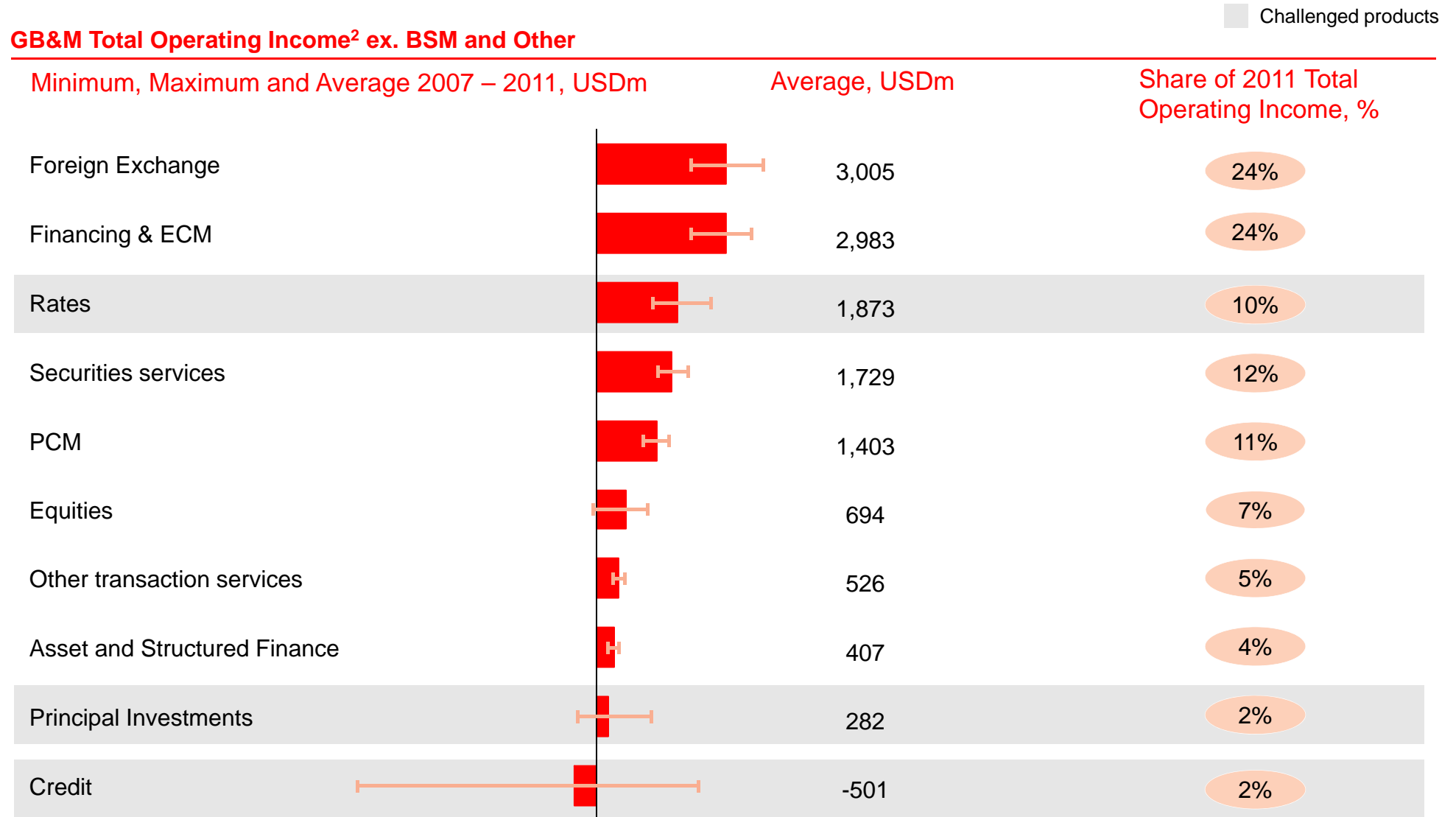
- DCM top 5 league table positions in Asia ex Japan, Europe and Latin America¹
- ECM initial success No. 2 in Hong Kong¹

Connectivity

- CMB collaboration growth of c.USD500m revenues in 2011
- RBWM / GPB collaboration growth

(1) Bloomberg

GB&M regulatory challenged products represent 14% of total operating income¹



(1) Excluding BSM and Other

(2) Before loan impairment charges and credit risk provisions

II GB&M is taking the necessary actions



Industry changes in product profitability

GM Legacy

- Actively **managing down legacy** exposure
- In 2011, disposal actions taken to **mitigate USD7bn RWA** increase; but RWAs **increased USD24bn largely due to regulatory changes**
- **Clear economic framework** for hold versus dispose decisions

Ongoing business actions

- **Comprehensive RWA mitigation** actions underway
- **Trading inventory** being managed down
- **Optimising RWA consumption**
- GM Rates – reposition in light of capital constraints. GM Credit – **Primary DCM focused business** going forward

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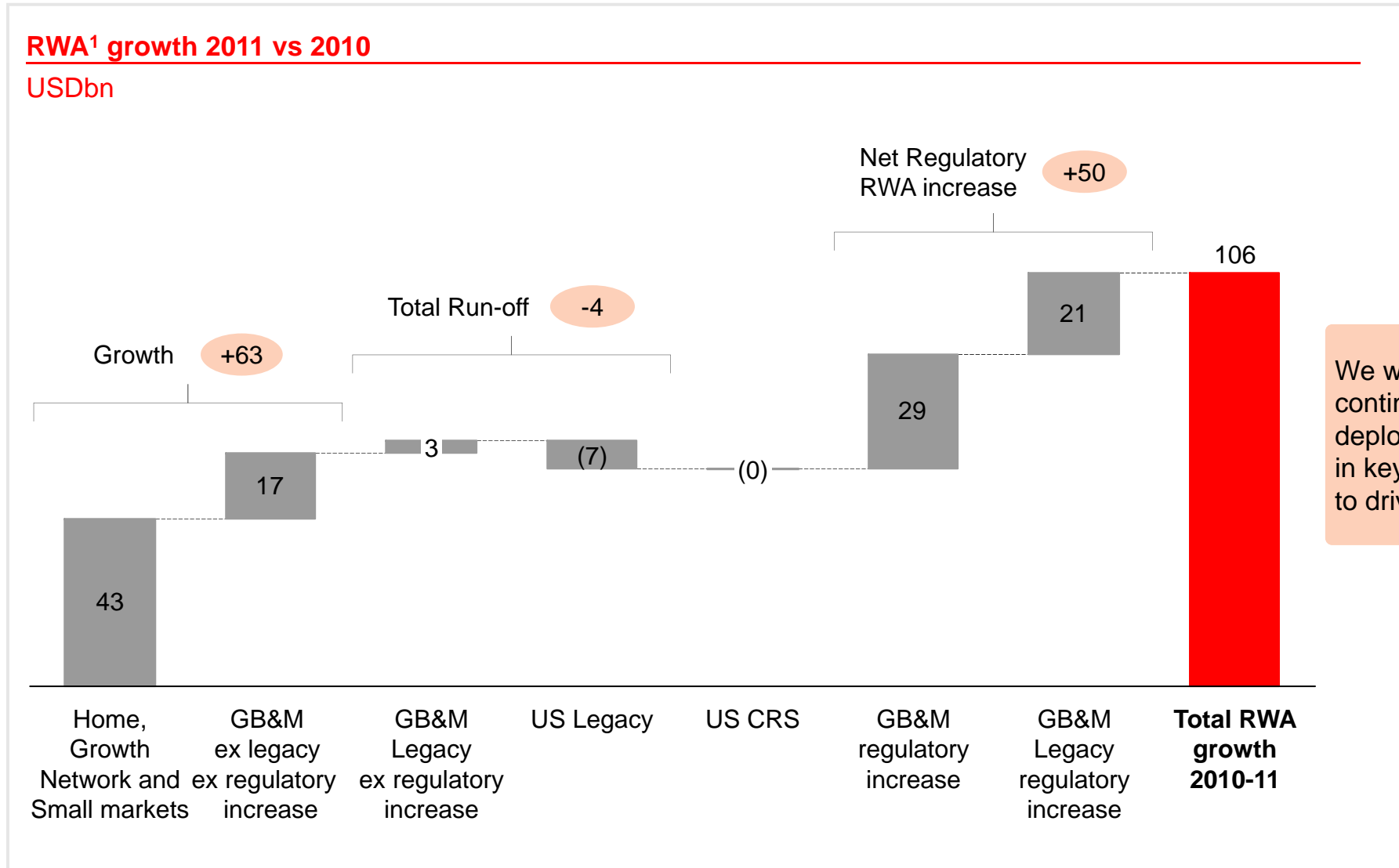
III Integration should deliver another USD1bn revenue upside in the short to medium term



Collaboration areas	Description	Total upside Revenues, USDbn
Previous target CMB and GB&M	<ul style="list-style-type: none"> Original collaboration target from May 2011 c.USD500m achieved in 2011 	1
Additional potential CMB and GB&M	<ul style="list-style-type: none"> Enhanced coverage of CMB clients Cross-selling of Trade & Receivable Finance (GTRF) to GB&M customers 	c.1
CMB and GPB	<ul style="list-style-type: none"> Increased referrals between CMB and GPB 	
CMB and Insurance (RBWM)	<ul style="list-style-type: none"> Cross-selling of Insurance (Trade Credit and Business protection) 	
Total Upside		c.2

Organic Growth

III Apart from regulatory increases, growth in RWAs focused on growth priority markets



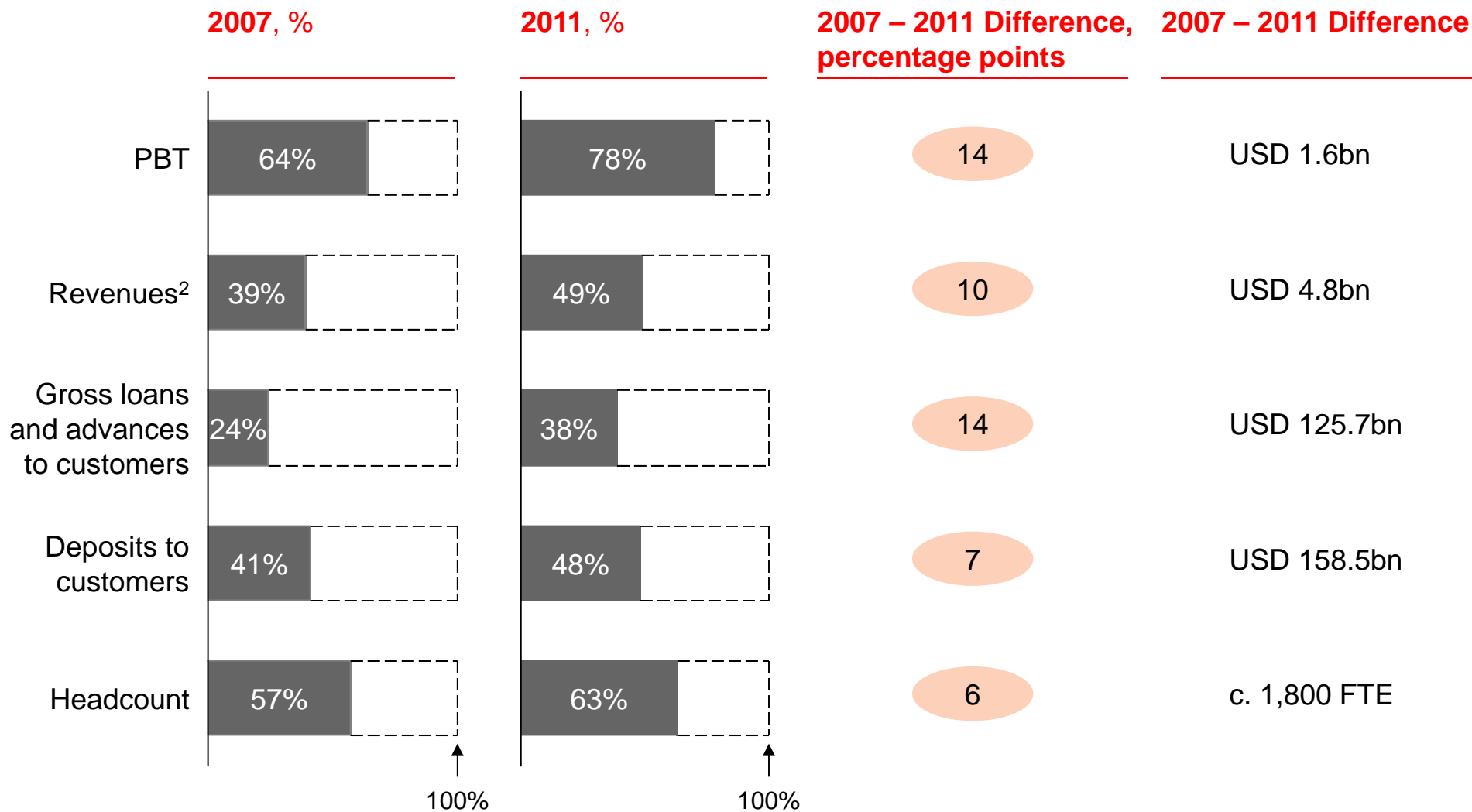
We will continue to deploy RWAs in key markets to drive growth

(1) Closing RWAs

HSBC has been shifting towards faster growing regions

■ Fast Growers
 □ Developed

Faster growing regions¹ as share of Group

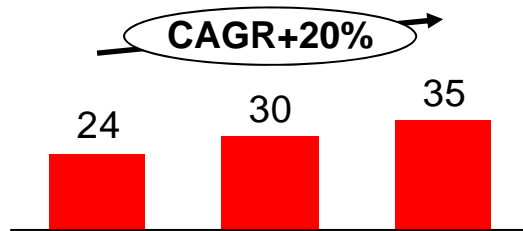


(1) Hong Kong, Rest of Asia Pacific, Middle East and North Africa, Latin America; (2) Net operating income before loan impairment charges and other credit risk provisions

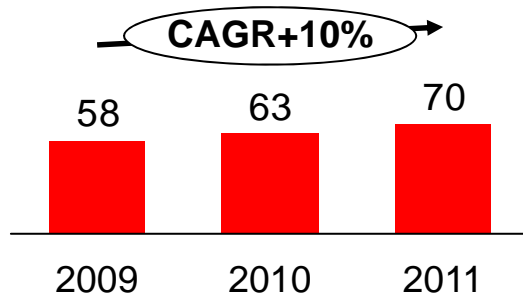
Key opportunities in Commercial Banking

World Trade continues to grow faster than GDP ...

World merchandise trade², USDtn



World nominal GDP, USDtn



Distinctiveness

- The world's **leading trade bank** with 9% global market share¹
- **International network** covering 77% of world trade² and 81% of multinational companies³
- Financing capabilities throughout the trade cycle
- **Superior client franchise** with over 3.6m clients
- Leading **international bank for RMB products**, providing capabilities in over 50 countries

Key opportunities

- International revenue opportunity is growing at twice the rate of domestic (19% vs 9%)⁴
- Accessing faster growing markets and all major trade corridors
- Capturing growth opportunities in trade finance as competitors deleverage

(1) Global market share by revenue, Oliver Wyman Global Transaction Banking survey 2011

(2) Global Insight 2011

(3) Dun & Bradstreet

(4) International revenue pool 19% CAGR 2010-14 vs 9% domestic, McKinsey Global Profit Pool Study 2011

Key opportunities in Growth Priority Markets

Asia Pacific

Mainland China

- Leading foreign bank for RMB in 2011
- Debt and equity financing opportunities
- International desks driving China in/outbound business
- Largest branch network among foreign peers

India

- Invest in accelerating growth of internationally-focused corporate franchise
- Expand distribution for retail opportunity
- RBS integration¹

Singapore

- Develop Wealth management and Private Banking
- Expand Trade Finance

Latin America

Brazil

- Continue strong growth in CMB, particularly with international customers
- Drive collaboration revenues from CMB to GB&M, RBWM and GPB
- Capture Wealth Opportunity and accelerate growth in Premier/Advance

Mexico

- Leverage 1,000+ branches to capture fair share of lending in RBWM and Business Banking
- Grow Wealth Management business
- Drive corporate opportunity through GB&M and CMB collaboration (FX, Trade, DCM)

South – South Corridor

- 9% share of fast growing Brazil – China trade
- Recognised as ‘Financial institution of the year’ (2011) by the Brazil-China Chamber of Commerce for having contributed most to the growth and development of the trade corridor.
- Asia-Latin America desks in place to facilitate cross border business

(1) Subject to regulatory approval

Priorities going forward

Key actions

I *Simplify*

- Aggressively run-off legacy assets
 - Fragmentation – Continue to dispose non-strategic businesses through Five Filters
 - Four Programmes – Make HSBC easier to manage and control
-

II *Restructure*

- Reposition elements of GPB business model
 - Reposition the US for growth
 - Review of GB&M challenges arising from regulatory environment
-

III *Grow*

- Integration – Capture an additional USD1bn in revenues through Global Businesses coordination
- Active capital deployment in growth portfolio

Report Card

	Actions (examples)	By the end of 2013 . . .
Capital Deployment <i>Five Filters</i>	<ul style="list-style-type: none"> ▪ Release capital from run-off (CML, GB&M) and non-strategic businesses ▪ Mitigate regulatory RWA increase ▪ Continue to shift balance towards Growth priorities 	<ul style="list-style-type: none"> ▪ Additional transactions announced and executed ▪ RWAs increase in 'Growth HSBC' and material reduction on Run-off businesses ▪ Progress in restructuring US businesses, elements of GPB and GB&M
Simplify HSBC <i>Four Programmes</i>	<ul style="list-style-type: none"> ▪ Simplify and delayer organisation, making HSBC easier to manage and control ▪ Continue to invest in best-in-class Compliance and operational risk capabilities 	<ul style="list-style-type: none"> ▪ Achieve USD3.5bn¹ in sustainable savings run-rate and target a 48-52% CER ▪ Increase costs in faster growing markets with positive jaws ▪ Reduce controllable costs in developed markets
Growth	<ul style="list-style-type: none"> ▪ Invest in growth priority markets ▪ Capture Wealth opportunity (USD4bn¹ in additional revenues by 2015) ▪ Continue to leverage integration across Global Businesses 	<ul style="list-style-type: none"> ▪ Grow loan, deposit volume and PBT in priority growth markets ▪ Additional progress on Wealth and Global businesses integration targets

(1) Versus 2010 year end

Our 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.

