



11 May 2011

# Commercial Banking

## Investor Day

Alan Keir

Chief Executive Commercial Banking

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).**

Key trends for CMB

# The world is more international and connected



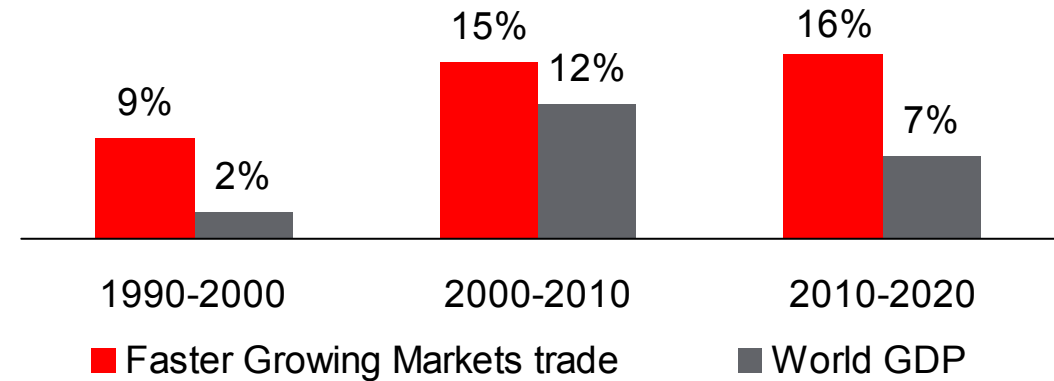
## Faster Growing and Mature Markets connectivity

- Faster Growing Markets to contribute over half of the world's trade in 2020<sup>1</sup>
- Strong FDI flows in both Mature and Faster Growing Markets
- World trade growth centered around six hubs: Greater China, India, United States, Germany, United Kingdom and France<sup>2</sup>

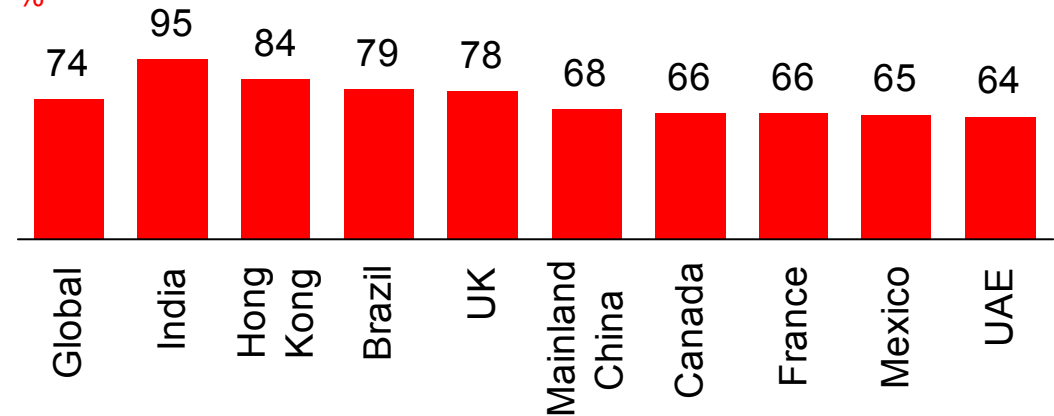
## Businesses becoming international

- 74% of Corporates plan to expand international business
- 40% of SMEs expect to be operating internationally within next two years<sup>4</sup>
- 65% of companies grew international business faster than domestic<sup>3</sup>

World GDP vs. Faster Growing Markets trade<sup>2</sup>  
CAGR



Corporates planning to expand international business<sup>3</sup>  
%



Note: Mature markets are USA, Canada, Japan, Australia, New Zealand, Switzerland, Malta and the EU15, remaining sites are classified as 'Faster Growing'.

1 HSBC Global Research

2 UN, World Bank and HSBC estimates, September 2010

3 HSBC International Business survey, June 2010

4 HSBC Small Business Confidence Monitor, January 2011

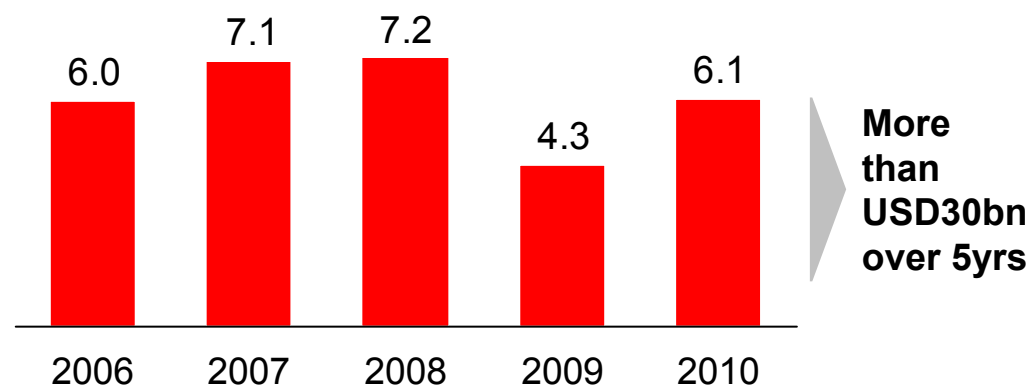
## HSBC position and competitive advantages

# Building on our rich heritage to enable connectivity



### Profitable throughout the crisis

PBT, USDbn



### Deep and strong relationships

- Our model is, and always has been, about relationships
- We value length of relationship, getting to know the business owner/driver and understand their needs
- We help businesses grow and expand into new markets
- We consistently benchmark ourselves with customer research
- Customers value this approach and stay with us for the long term

### Industry recognition

PCM	 <p><b>Treasury Management International</b>  <i>Best Cash Management Bank in Asia</i>  <i>Best Cash Management Bank in China</i></p>  <p><b>Global Finance</b>  <i>Best Overall Bank for Cash Management – Asia &amp; M. East</i>  <i>Best Bank for Payments &amp; Collections – M. East</i>  <i>Best CLS-Linked Bank Offering – M. East</i></p>
Trade and supply chain	 <p><b>GTR Leaders in Trade Awards</b>  <i>Leading Global Trade Finance Bank</i>  <i>Leading Trade Finance Bank in MENA, UAE &amp; Saudi Arabia</i></p>  <p><b>Trade Finance</b>  <i>Best International Trade Bank in Indonesia</i>  <i>Best Trade Finance Bank in Hong Kong</i></p> <p><b>Receivables Finance</b>  <i>Best Global Factoring Institution</i></p>
E-Banking	 <p><b>Best Corporate/Institutional Internet Bank</b>  <i>Brunei   Hong Kong   Indonesia   Kuwait   Macau   Oman   Qatar   Saudi Arabia   Thailand   Turkey</i></p> <p><b>Regional Awards – Asia Pacific</b>  <i>Best Investment Management Services</i>  <i>Best Online Cash Management</i>  <i>Best Trade Finance Services</i>  <i>Best Web Site Design</i>  <i>Best Information Security Initiatives</i></p>

# Delivering connectivity across the Group



## Customer Group cross-sales in 2010

<b>Global Markets</b>	<ul style="list-style-type: none"> <li>USD1.4bn revenue</li> </ul>
<b>GPB</b>	<ul style="list-style-type: none"> <li>USD4bn in net new money</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>USD0.7bn revenue</li> </ul>
<b>Premier</b>	<ul style="list-style-type: none"> <li>45,000 successful referrals (+200% over 2009)</li> </ul>

## Referrals within CMB 2010<sup>1</sup>

% of referrals by transaction value

		To	
		Mature	Faster Growing
From	Mature	18	33
	Faster Growing	11	38

- Successful referrals up 77% in 2010 to USD15bn
- Cross border referrals: 72% CAGR (2007-2010)
- Referrals from mainland China more than doubled from 2009

<sup>1</sup> The share of referrals between markets has excluded the effect of referrals between mainland China and Hong Kong. Including these referrals would increase the share of referrals between Faster Growing Markets from 38% to 52%

*HSBC position and competitive advantages*

# Consistently delivered strong and sustainable financial performance



		2009		2010
<b>Revenue</b>	<ul style="list-style-type: none"> <li>Steady growth</li> </ul>	USD12.9bn	+8%	<b>USD13.8bn</b>
<b>PBT</b>	<ul style="list-style-type: none"> <li>Strong increase</li> </ul>	USD4.3bn	+42%	<b>USD6.1bn</b>
<b>Cost efficiency ratio</b>	<ul style="list-style-type: none"> <li>Invested for future revenue growth</li> </ul>	46.4%	+3.0pp	<b>49.4%</b>
<b>LIC as % of average advances</b>	<ul style="list-style-type: none"> <li>Return to historical lows</li> </ul>	1.7%	-83bp	<b>0.8%</b>
<b>Advances-to-deposits ratio</b>	<ul style="list-style-type: none"> <li>Self-funded global business</li> </ul>	74.7%	+9.0pp	<b>83.7%</b>

Note: All numbers shown on a reported basis



# Leveraging international capabilities

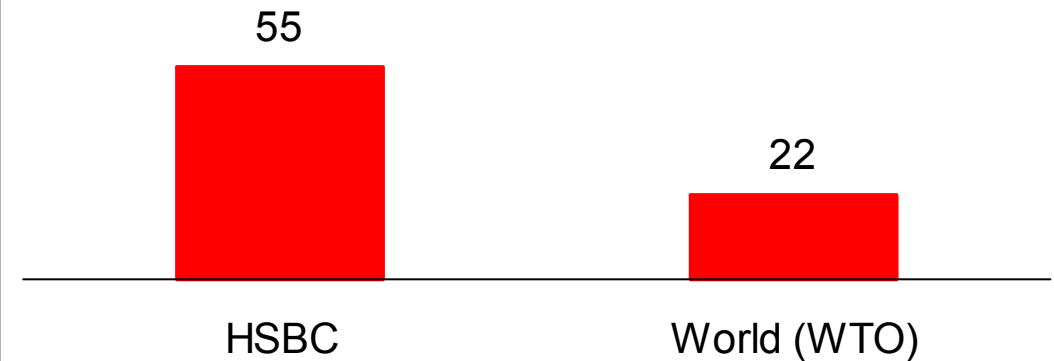


## HSBC international capabilities

- Recognised leader in trade
  - Whether open account ...
    - Global Liquidity Management in 55 markets
    - Receivables Finance: coverage across 19 sites
    - International Factoring: #2 globally<sup>1</sup>
    - ... or directly through other products
      - Traditional LC, remittances and collections
      - Commodity and Structured Trade Finance
- Leader in Cash Management penetration<sup>2</sup>
- Strong capability with ancillary products: FX, Insurance etc
- Leading RMB capability

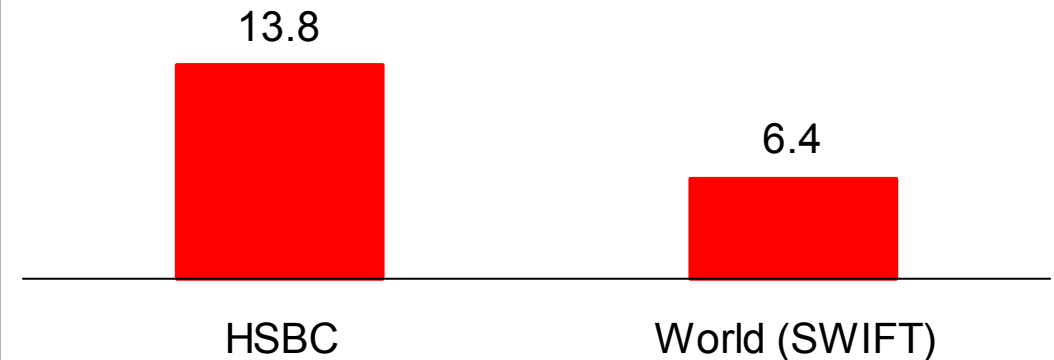
## Trade growth

Turnover growth<sup>3</sup>, %, 2009-2010



## Payments growth

Transaction growth<sup>4</sup>, %, 2009-2010



1 Factor Chain International, Nov 2010

2 2010 Greenwich Associates Online Services Benchmarking Study, Greenwich Associates

3 WTO and HSBC Total (Import and Export) Trade Turnover (Internal Management Information)

4 www.swift.com; Payment transactions growth 2009-2010

# Strategic direction and actions overview



## Commercial Banking

*Strengthen our position as the leading international trade and business bank*

1

**Focus on Faster Growing Markets**

2

**Collaborate with GBM to capture the mid-market opportunity**

3

**Capture growth in international SMEs**

4

**Drive efficiency gains**



# 1 Focus on Faster Growing Markets



## Key opportunities<sup>1</sup>

- Faster Growing Markets will contribute twice as much as the Mature Markets to global growth over the period 2010-2050
- By 2050, 19 of the top 30 markets by GDP will be countries currently described as emerging
- Demand for commodities continues to increase
- Climate business will be increasingly important

## HSBC position

- Excellent coverage in key Faster Growing Markets
- Growing franchises in mainland China, India, Brazil and Mexico
- Focused model in smaller franchises centered on international capability

## Key actions

**Expanding presence in key Faster Growing Markets**

**Increase product penetration**

**2011 roll-out of Commodity and Structured Trade Finance Capability**

**Target sustainable profit growth at more than double the world's GDP growth rate**

## 2 Collaborate with GBM to capture the mid-market opportunity



### Key opportunities

- Growing demand for financing solutions, particularly in Faster Growing Markets, to be delivered with:
  - Debt and Equity Capital Markets
  - Leveraged and Acquisition Finance
  - Asset and Structured Finance
  - Project and Export Finance

### HSBC position

- Strong, established mid-market franchise, the historic core of the group
- Excellent international coverage and connectivity
- In 2010, CMB clients generated USD1.4bn of revenues in Global Banking and Markets products

### Key actions

**Capture potential revenue upside of USD1bn in the short to medium term**

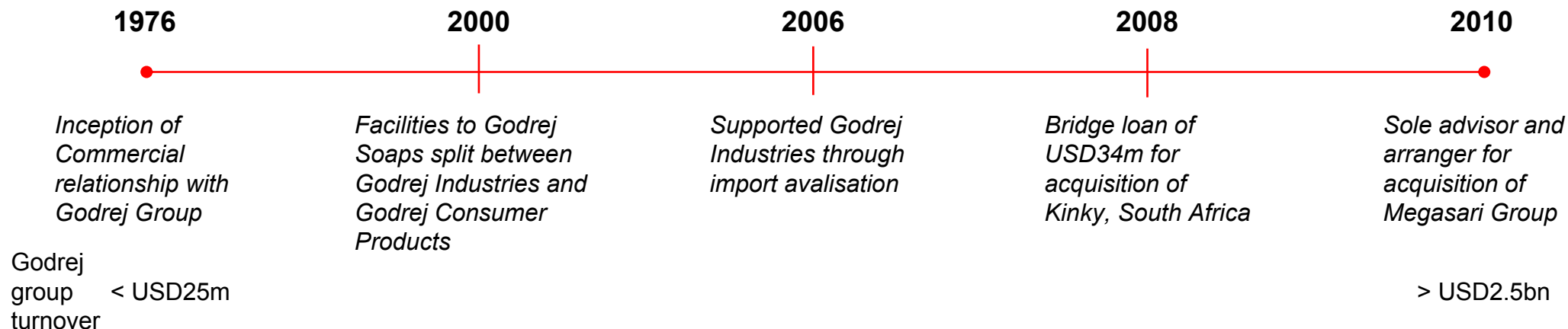
**Greater investment in franchise with particular emphasis on origination and cross-sell opportunities**

**Better global coordination within franchise and with GBM**

**Focus on key markets with deepest profit pools**

## Strategic direction and actions

# More than three decades supporting the Godrej Group



Commercial Banking customer relationships are built over time, rooted in discovery and understanding of the customer's needs and goals; underpinned with responsive and trusted advice. We grow with our customers, supporting their increasingly complex needs and helping them realise their objectives at every stage of their evolution.

### Differentiators

- Strategically aligned: Godrej Group values HSBC's strategic focus in Faster Growing Markets and in cross-border financing-led transactions
- HSBC uniquely positioned to meet customer's cross-border expansion needs through global presence and capabilities

### Ongoing growth opportunity

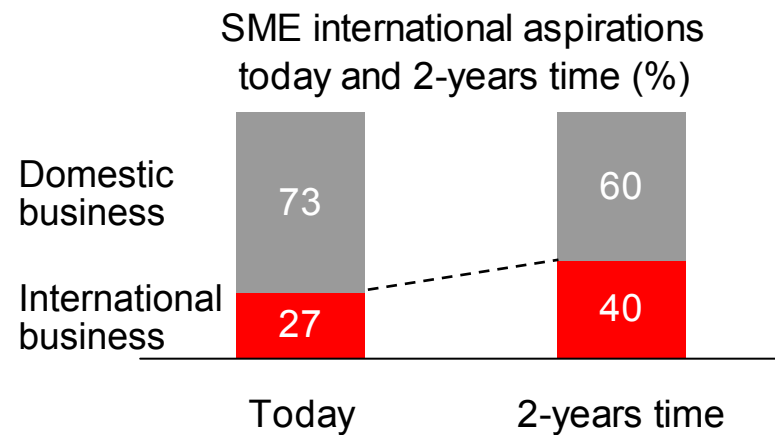
- Retain position as top international bank for Godrej
  - Initiate transaction banking across geographies (Indonesia, and Latin America)
  - Increase domestic wallet share in Cash Management
  - Leverage relationship to penetrate across wider group

### 3 Capture growth in international SMEs



#### Key opportunities<sup>1</sup>

- SMEs demonstrate increasingly “international” aspiration



#### HSBC position

- Leading position in key markets through international franchise
- Unparalleled ability to connect developed and Faster Growing Markets
- Wealth of international know-how to support growing businesses

#### Key actions

**Capture increased share of growing market of international and internationally aspirant SMEs**

**Deliver wider product set to International SMEs**

**Provide value-added knowledge and insight to customers through both online information and internationally aware RMs**

**Reposition legacy SME books to an even greater focus on international**

## 4 Drive efficiency gains



### Key opportunities

- Global capabilities and scale:
  - Greater standardisation of operating model to drive cost efficiencies
  - Focus on products, projects and processes that can bring material global competitive advantage
- Changing customer behaviour gives scope to use digital and mobile technologies to reduce cost whilst enhancing accessibility and service

### HSBC position

- 2010 CER of 49.4% reflecting investment in Faster Growing Markets
- Established offshoring capability
- Key focus on flagship projects

### Key actions

#### Implement a globally consistent operating model

- Reduce support function and IT costs through centralisation

#### Re-engineer processes to drive operational efficiencies

- Streamline credit processes to improve RM capacity

#### Improve efficiency gains from technology

- Increase customer penetration in digital channels

#### Leverage scale in Centres of Excellence (CoEs)

- Double proportion of operations and support functions in CoEs

*Key take-aways*

# Commercial Banking



## **Competitive advantages**

We connect Mature and Faster Growing Markets for our customers

We are a recognised leader in trade

Superior returns, leveraging our international and GBM capability

Rich heritage with a customer centric business model

## **Strategic actions**

Focus on Faster Growing Markets

Collaborate with GBM to capture the mid-market opportunity

Capture growth in international SMEs

Drive efficiency gains through adopting a global operating model

**Target RoRWA**

**2.2%-2.5%**

## 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>CAGR</b>	Compound annual growth rate	<b>GBM</b>	Global Banking and Markets global business	<b>RMs</b>	Relationship managers
<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>RMB</b>	Renminbi
<b>CHF</b>	Swiss franc	<b>GPB</b>	Global Private Banking global business	<b>ROE</b>	Return on equity
<b>CMB</b>	Commercial Banking customer group	<b>GTB</b>	Global Transaction Banking	<b>RoRWA</b>	Pre-tax return on 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>RWAs</b>	Risk weighted assets
<b>CoEs</b>	Centres of excellence	<b>HNWI</b>	High net worth individuals	<b>SIFIs</b>	Systemically Important Financial Institutions
<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>SMEs</b>	Small and medium-sized enterprises
	Capital Requirements Directive	<b>ICB</b>	Independent Commission on Banking	<b>STP</b>	Straight through processing
<b>CRD</b>	Capital Requirements Directive	<b>IPO</b>	Initial public offering	<b>TARP</b>	Troubled Asset Relief Program
<b>CRM</b>	Customer relationship management	<b>IT</b>	Information technology	<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>KYC</b>	Know your customer		
<b>DCM</b>	Debt capital markets	<b>LC</b>	Letters of credit	<b>UHNW</b>	Ultra high net worth individuals
<b>DTA</b>	Deferred tax asset	<b>LIC</b>	Loan impairment charges	<b>UK</b>	United Kingdom
<b>EBA</b>	European Banking Authority	<b>M&amp;A</b>	Mergers and acquisitions	<b>US</b>	United States of America
<b>ECA</b>	Export credit agency	<b>Mainland China</b>	People's Republic of China excluding Hong Kong	<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>EM</b>	Emerging markets	<b>MENA</b>	Middle East and North Africa		
<b>EMEA</b>	Europe, Middle East and Africa	<b>MLA</b>	Mandated lead arranger	<b>YoY</b>	Year on year
<b>ESMA</b>	European Securities and Markets Authority	<b>MMEs</b>	Mid-market enterprises		
		<b>NAFTA</b>	North American Free Trade Agreement		
		<b>NNM</b>	Net new money		