UNITED KINGDOM/HONG KONG

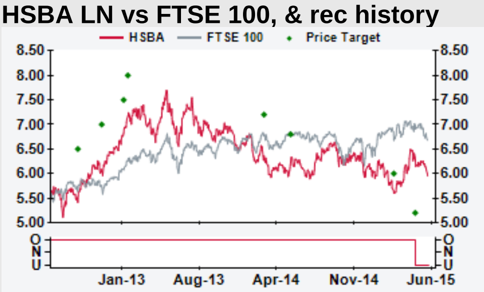
HSBA LN/5 HK	Underperform
Price (16 Jun 2015 GMT)	£5.95/HK$72

Valuation - Price to Book		**£5.20/ HK$61**
12-month target		**£5.20/HK$61**
12-month TSR	**%**	**-7.3**
GICS sector		**Banks**
Market cap	**US$m**	**181,407**
30-day avg turnover	**US$m**	**181**
Number shares on issue	**m**	**19,516**

Investment fundamentals

Year end 31 Dec		2014A	2015E	2016E	2017E
Net interest Inc	m	35,360	33,758	31,309	31,935
Non interest Inc	m	26,642	26,015	24,259	24,619
Underlying profit	m	25,084	23,442	23,661	25,207
Adjusted profit	m	16,381	15,135	15,773	16,711
EPS adj	US$	0.86	0.78	0.80	0.83
EPS adj growth	%	2.2	-9.3	2.2	3.9
PER adj	x	10.8	11.9	11.7	11.2
Total DPS	US$	0.50	0.51	0.40	0.42
Total div yield	%	5.4	5.5	4.3	4.6
ROA	%	0.6	0.6	0.6	0.7
ROE	%	9.1	8.4	8.5	8.7
P/BV	x	1.1	1.1	1.0	1.0

HSBA LN vs FTSE 100, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, June 2015

(all figures in USD unless noted, TP in GBP)

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18 June 2015
Macquarie Capital Securities (Singapore) Pte. Limited

HSBC

Victor "Al" Pease

Event

- In the 1969 Canadian Grand Prix, Victor "Al" Pease became the only driver in history to be disqualified from an F1 race for being **too slow**. At the point he was ordered from the race, he had completed 22 laps – fewer than half the total that the leaders had managed at that point. This brings us to the updated restructuring plan of HSBC which was announced on 9 June 2015.
- We believe that HSBC is moving too slowly to adopt to the new regulatory and operating environment. In short, the updated restructuring plan may buy some more time but it does not solve the underlying problem of HSBC's impaired profitability profile we think. HSBC will remain a sub-10% RoE business with the dividend at risk to be cut in the mid-term in our view.

Impact

- **Restructuring without negative revenue impacts – sounds too good to be true.** In short, the restructuring plan seems to be based on the assumption to cut around 13% of the cost base and 25% of RWA while keeping revenue growing at the same time. We do not believe that this is realistic and expect that disappointments on topline growth will continue. The final outcome of restructuring this time will look similar to the outcome of HSBC's 2011 restructuring plan in our view – where HSBC missed most of its targets.
- **Dividends at risk to be cut in the mid-term** – In our view, HSBC will generate around US$40bn profit from end 2014 until 2017 and plans to pay out more than US$30bn in dividends over the same time period. We doubt that this will be possible given that HSBC has a pro-forma capital shortfall of US$18bn to achieve 13% CET1 ratio (or US$36bn for 14.5% CET1 ratio).

Earnings and target price revision

- We adjust our estimates for the planned disposal of Brazil and Turkey, the US$290bn planned RWA cuts and the planned US$4.5-5.0bn cost reduction, including US$4.0-4.5bn restructuring charges. As a result we adjust our underlying EPS estimates between +0.9% to -3.8% for 2015E to 2017E. Due to the disposal of Brazil and Turkey, we model now for a cut in the dividend in 2016 (vs end-2015 before). No change in target price and recommendation.

Price catalyst

- 12-month price target: £5.20/HK$61 based on a Price to Book methodology.
- Catalyst: Litigation risks, revenue pressure, mid-term dividend cut possible.

Action and recommendation

- We have an **Underperform** rating on HSBC – **target price £5.20/HK$61**.
- We believe that HSBC in its current form could be a value trap. Assuming no radical strategic change, we believe that the dividend is at risk and HSBC will remain a sub-10% ROE business.
- We think that HSBC will struggle to build up capital ratios, meet profitability targets and continue to pay a progressive dividend. Over the mid-term, we continue to see the risk of a dividend cut, which would move HSBC closer to a break-up in our view.

Please refer to page 24 for important disclosures and analyst certification, or on our website www.macquarie.com/research/disclosures.

Restructuring without negative revenue impacts - Too good to be true

In short, we consider HSBC's restructuring assumptions as too optimistic. However, the major concern that we have with HSBC's updated restructuring plan is that it does not resolve the underlying problem of HSBC's impaired profitability. HSBC is not cutting back in sub-scale and underperforming businesses and markets (ex Brazil and Turkey) but sticking to its global universal banking model.

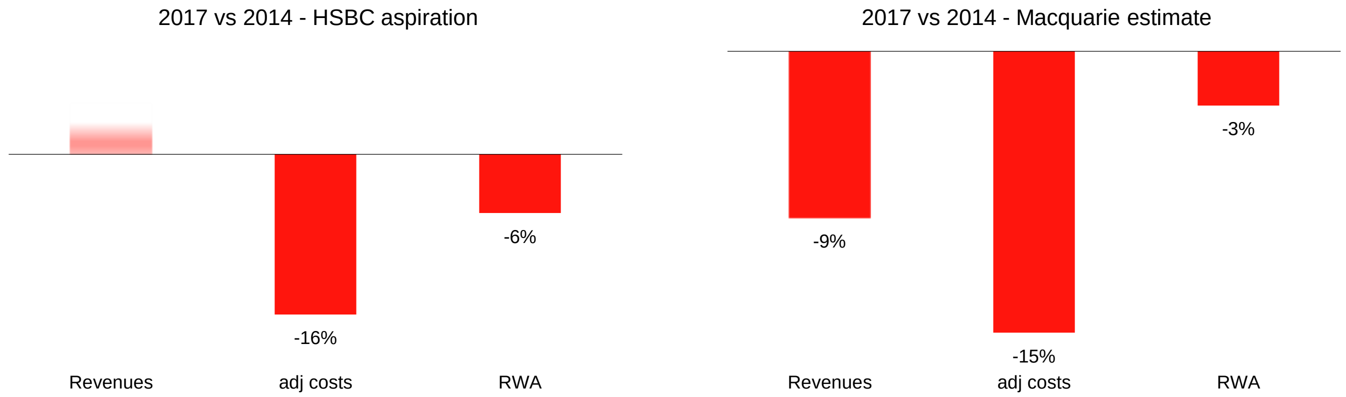
From end 2014 until 2017, HSBC plans to reduce costs by around 16% (US$4.5-5.0bn or 13% of the 2014 cost base) (see Fig 4) and RWA by 6% (US$290bn or 25% of the 2014 RWA base) (see Fig 5). At the same time, HSBC expects that revenues across **all business lines** will continue to grow (see Fig 3). These look to be very optimistic – if not unrealistic – assumptions, similar to 2011 when the first round of restructuring was announced. HSBC has not achieved most of its 2011 targets.

We model that HSBC will achieve its cost targets but we think that there will be a negative impact on revenues – similar to 2011.

Fig 1 No negative impact of restructuring on revenues across all business lines looks optimistic to us

HSBC aspiration - growing revenues, flat costs and declining RWA by 2017

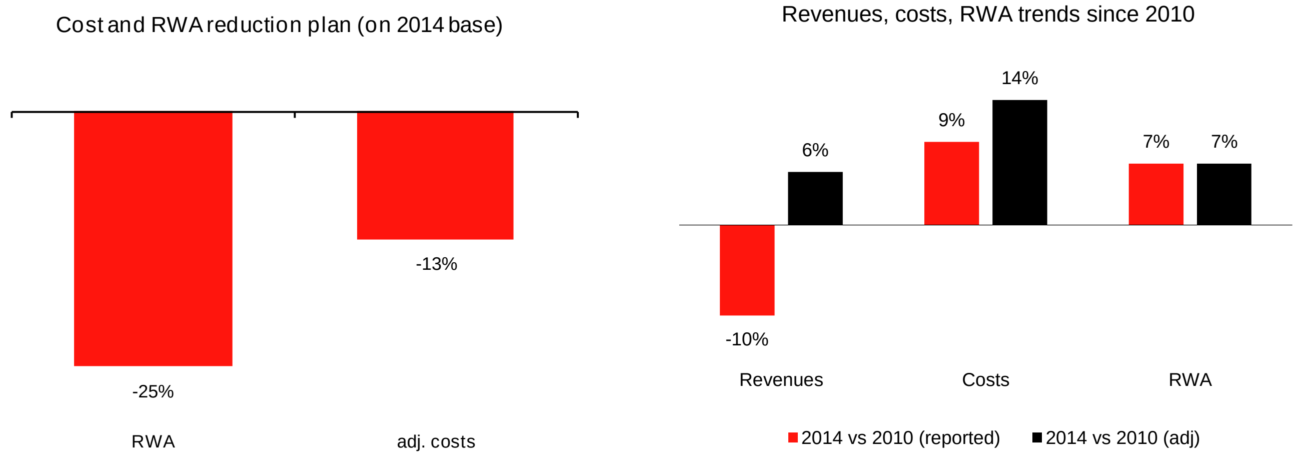
Macquarie estimates – declining revenues, flat costs, declining RWA



Source: Macquarie Research, June 2015

For illustration: HSBC intends to cut RWA in Global Banking & Markets by US$140bn and assumes only US$0.4bn negative revenue impact as a result of it. This suggest a revenue-to-RWA margin of less than 30bp which compares to the group revenue-to-RWA margin of 480-510bp.

Fig 2 Since 2010, costs outgrew revenues and RWA at HSBC. Will this time really be different?



Source: Macquarie Research, June 2015

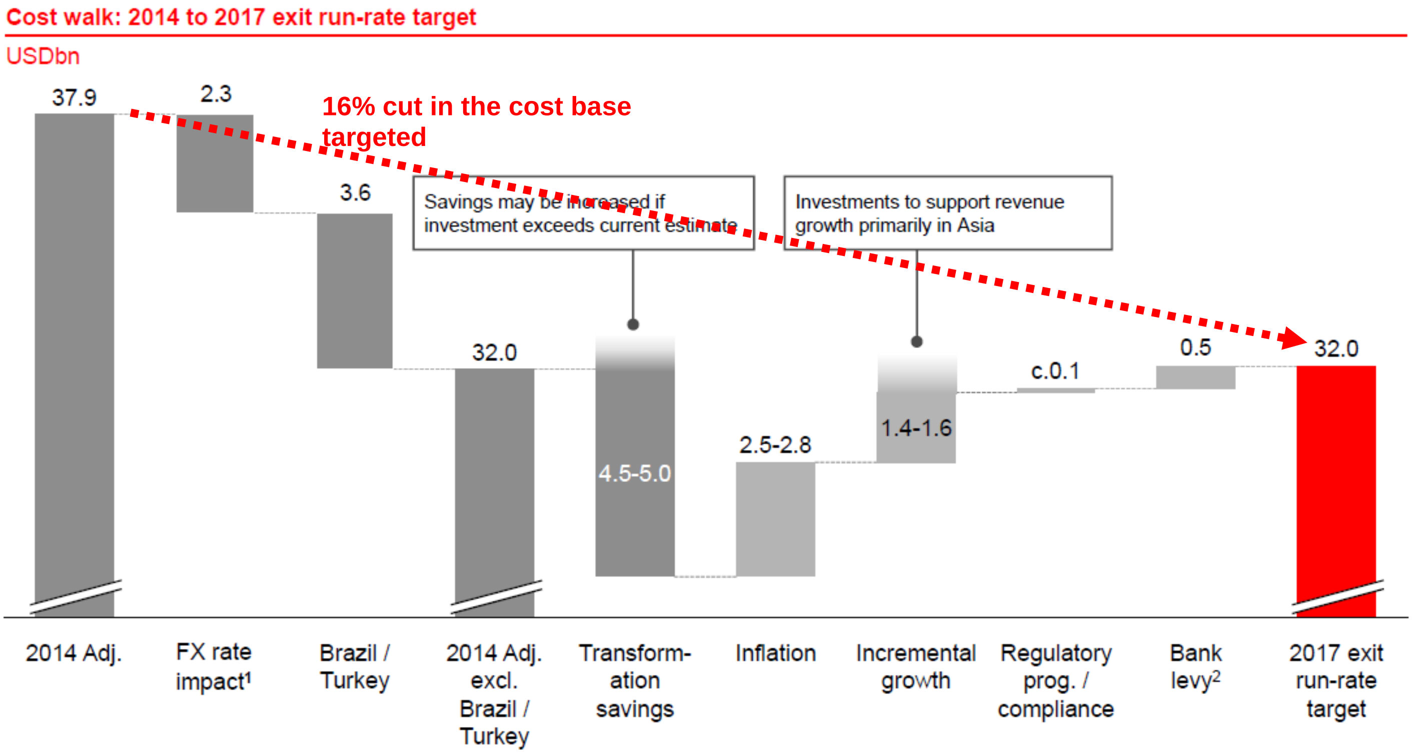
The read across from the first round of restructuring is that costs have outgrown both revenues and RWA for HSBC.

Fig 3 HSBC assumes revenue growth and improving profitability across all business lines from 2014 until 2017

		2014 RoRWA[2]	2014-17 RoRWA drivers: Revenue	2014-17 RoRWA drivers: Operating expenses (exit run rate)	2014-17 RoRWA drivers: RWA impact	2014-17 RoRWA drivers: Continued application of 6 filters	2017E RoRWA[3]
Global Business adjusted returns[1]	**RBWM** ex US CML run-off ex Associates	4.8%	Grow	Maintain	Invest	Positive impact	6.3%
	CMB ex Associates	2.3%		Invest	Invest	Positive impact	2.7%
	GB&M ex Legacy ex Associates	1.7% (1.4% excl. BSM)		Maintain	Reduce	Limited	2.7% (2.5% excl. BSM)
	GPB [5] ex Associates	3.4%		Maintain	Reduce	Limited	4.3%
Associates, run-off portfolios and "Other" Global Business							
Group, adjusted[4]		1.9%	Grow	Maintain	Reduce	Positive impact	>2.3%

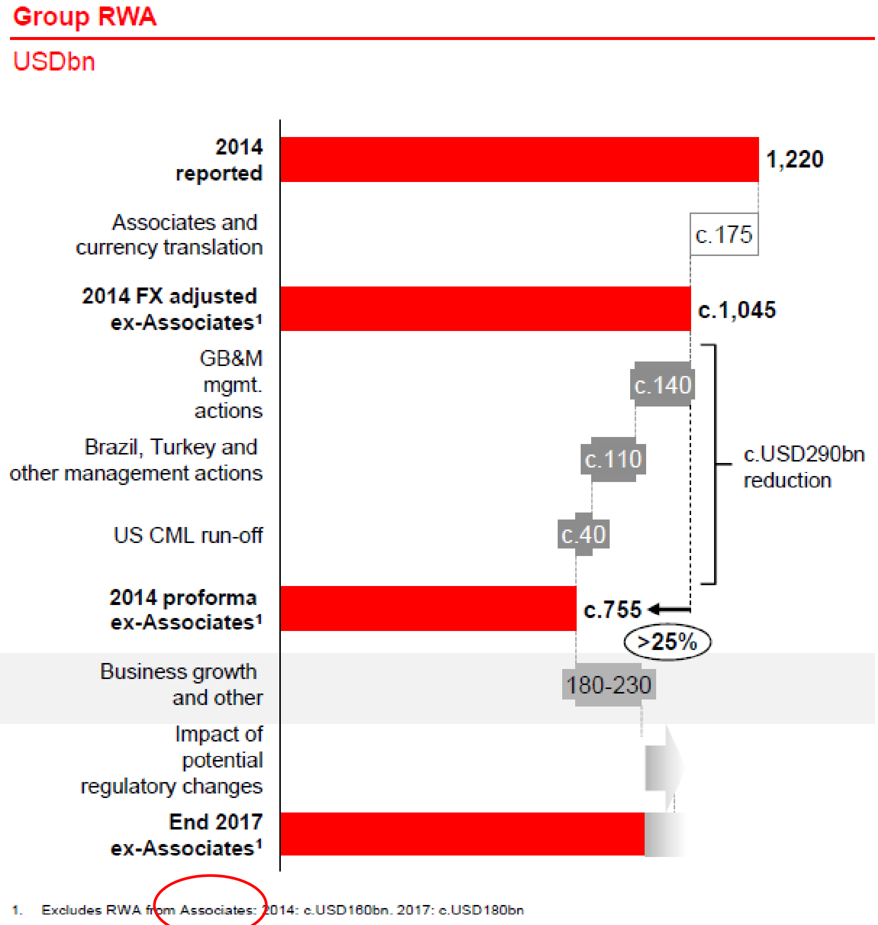
Source: HSBC, Macquarie Research, June 2015

Fig 4 HSBC – optimistic cost cutting plan leaves little room for any positive surprises we think



Source: HSBC, Macquarie Research, June 2015

Fig 5 RWA (incl associates) to decline slightly to US$ 1.1-1.2tn by 2017



Source: HSBC, Macquarie Research, June 2015

Upcoming regulation likely to drive RWA inflation

	Description	Current position	Estimated impact	Proposed timeframe
Fundamental review of trading book (FRTB)	▪ Redefinition of trading book ▪ Replacement of market risk framework	▪ Industry wide BCBS QIS exercise undertaken ▪ Further calibration required	▪ **Impact dependent on calibration and scope** of application	2018
Credit Valuation Adjustment	▪ BCBS review of CVA risk ▪ EU consideration of EBA exemptions	▪ BCBS review to be added to FRTB ▪ Exemptions under review by local competent authorities	▪ **Possible offset of exemption and re-calibration** ▪ Risk of Pillar 2 charge in short to medium term	2016 / 2018
Revised Counterparty Credit Risk Standardised	▪ Replacement of Current Exposure Method	▪ Yet to be adopted by EU	▪ **Impact dependent on extent of IMM and margin usage**	2017
Securitisation framework	▪ Amended hierarchy of risk weight calculations and change in focus away from external credit ratings	▪ BCBS standard final, subject to simple securitisation framework ▪ Yet to be adopted by EU	▪ **Limited impact** expected ▪ Active disposal of Legacy securitisation in line with strategy	2018
Revisions to Pillar 1 Standardised (operational risk)	▪ Replacement of Gross Income with Business Indicator to address deficiencies in Pillar 1 framework	▪ PRA Pillar 2A framework contemplates a Pillar 2A charge which should reduce with improved Pillar 1 measure of risk	▪ **Limited overall capital impact expected**	2018
Revisions to Pillar 1 Standardised (credit risk)	▪ Re-focus away from external credit ratings with revised, less sensitive risk drivers	▪ First consultation launched late 2014 by BCBS ▪ Under discussion with BCBS, regulators, industry	▪ Regulation in consultation	2018
Capital floors	▪ Introduction of capital floors based on revised standardised RWAs	▪ Initial consultation undertaken and recalibration required ▪ Under discussions with BCBS, regulators and industry	▪ Regulation in consultation	2018

Source: HSBC, Macquarie Research, June 2015

Dividends at risk of being cut in the mid-term

In the current form, we believe that HSBC is a sub-10% ROE business despite the highly profitable HK franchise (30-35% return on allocated capital based on our estimates).

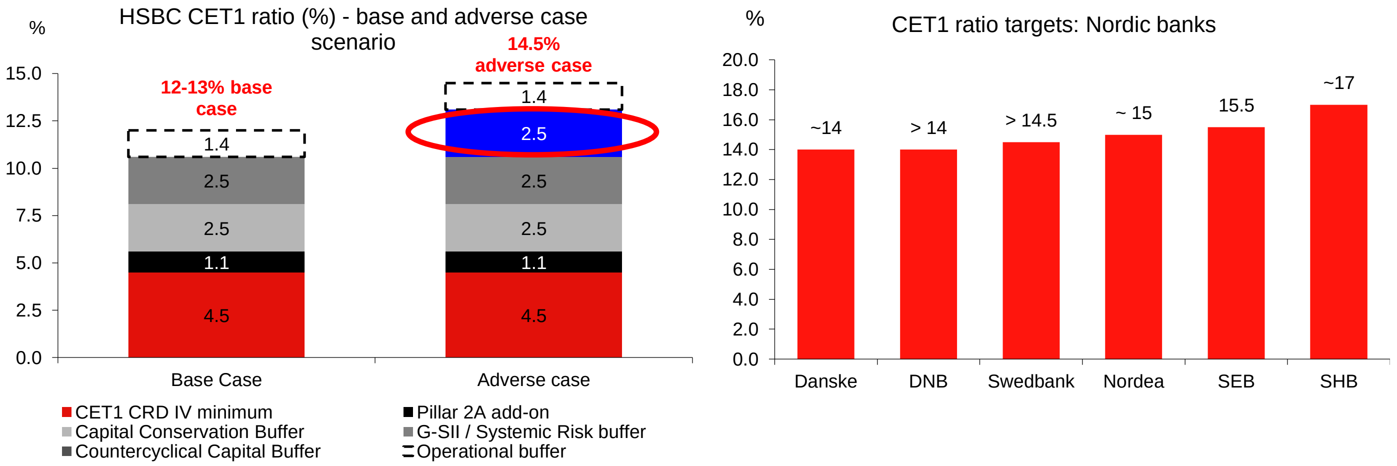
Disposing Brazil and Turkey will buy HSBC some time but it does not solve the underlying problem: **the business is just not profitable enough to sustain a progressive dividend**.

We see the risk that capital ratio requirements for HSBC could increase further from here if regulators introduce further buffers, particularly on the 'too big to fail' banks.

Currently, HSBC is targeting a 12-13% CET1 ratio, and we believe that 'at least 13%' is adequate for HSBC while 'bear case' could be 14.5% we think. Just as a read-across: Nordic banks target between 14-17% CET1 ratios and currently already have CET1 ratios between 13% and 17%.

Under the progressive dividend, HSBC will struggle to meet the upper-end of its current capital ratio targets and could fund only low single-digit RWA growth after the capital shortfall is closed in our view. In short, the situation looks unsustainable to us and we think the dividend could be cut or the share of dividends paid in script will be increased.

Fig 6 Capital ratios – we believe that HSBC should be 'at least at a 13%' CET1 ratio



*Nordic ratios are adjusted to include 25% weighting on mortgages in Pillar 1
Source: Macquarie Research, June 2015

Based on the implied RWA target of US$1.1-1.2tn by 2017 (after restructuring and disposal of Brazil and Turkey), HSBC currently has a US$18bn capital shortfall for a 13% CET1 ratio, or US$36bn for a 14.5% CET1 ratio in our view.

The "known minimum regulatory requirement" for the CET1 ratio is **10.6% for HSBC**. In its base case – and by including an operational buffer above the minimum - **HSBC targets 12- 13% CET1 ratio**.

In a bear case scenario, the adequate CET1 ratio for **HSBC could go up to 14.5%** in our view by including a 2.5% countercyclical capital buffer. This would turn HSBC into sub-9% ROE business based on our estimates.

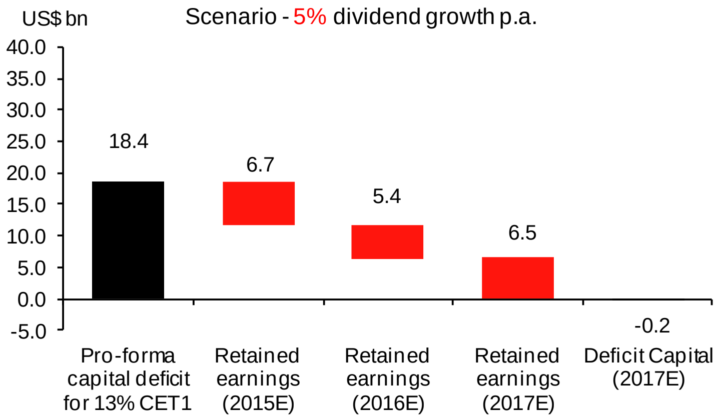
HSBC currently assumes "0" for the countercyclical capital buffer in its base case scenario of 12-13% CET1 ratio[1]. This looks optimistic to us.

- The Basel III Committee has recommended a countercyclical capital buffer within a range of 0-2.5%, to be phased in by Jan 2019.
- The Hong Kong Monetary Authority will progressively introduce a countercyclical buffer of up to 2.5% by Jan 2019.

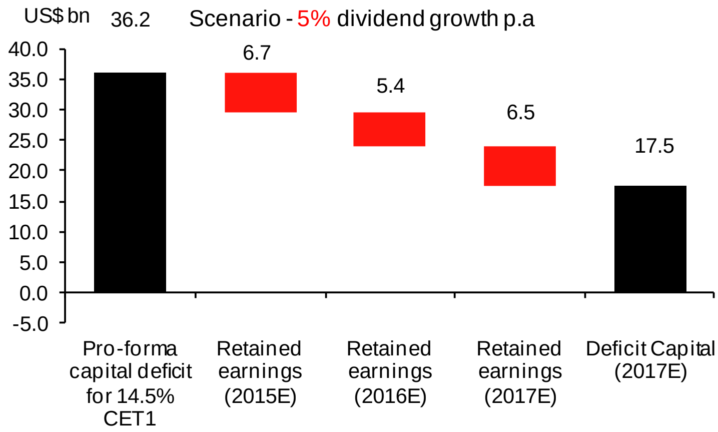
[1] See Appendix on page 22

Fig 7 Scenario (i) – Progressive dividends and assuming 13% and 14.5% adequate CET1 ratio

Scenario to achieve 13% CET1 ratio by 2017 assuming 5% dividend growth p.a.



Scenario to achieve 14.5% CET1 ratio by 2017 assuming 5% dividend growth p.a.



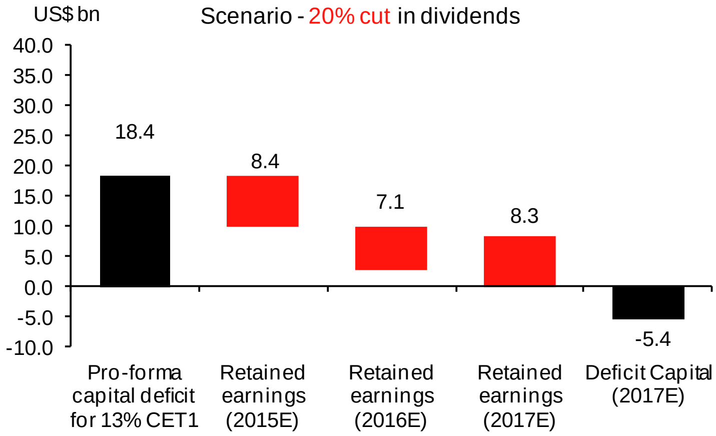
We assume that 30% of total dividends will be settled in scrip

Source: Macquarie Research, June 2015

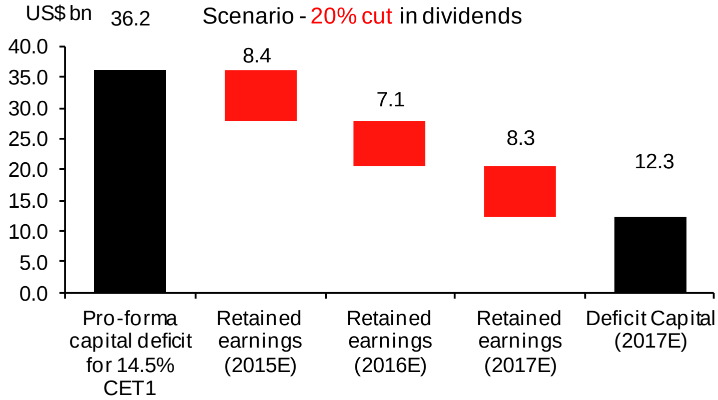
- Assuming 13% CET1 ratio and assuming that HSBC achieves its RWA reduction targets, HSBC would currently have a US$18bn pro-forma capital shortfall. Assuming a progressive dividend of 5% p.a. there would be a marginal capital **surplus** of US$0.2bn by 2017 based on our estimates. This leaves little error for (i) unexpected losses (such as higher litigation chargers) (i) RWA inflation or (ii) worse than expected revenues, costs or provisions.
- Assuming s 14.5% CET1 ratio and assuming that HSBC achieves its RWA reduction targets, HSBC would currently have a US$36bn pro-forma capital shortfall. Assuming a progressive dividend of 5% p.a., the capital **shortfall** by 2017 would be US$18bn based on our estimates.
- With an unchanged progressive dividend, HSBC will be able to grow RWA by around 4% p.a. after the capital shortfall is closed we think. This suggests little organic growth potential.

Fig 8 Scenario (ii) – Cut in dividends and assuming 13% and 14.5% adequate CET1 ratio

Scenario to achieve 13% CET1 ratio by 2017 assuming a 20% cut in dividends



Scenario to achieve 14.5% CET1 ratio by 2017 assuming a 20% cut in dividends



We assume that 30% of total dividends will be settled in scrip

Source: Macquarie Research, June 2015

- Assuming 13% CET1 ratio and assuming that HSBC achieves its RWA reduction targets, HSBC would currently have a US$ 18bn pro-forma capital shortfall. Assuming a 20% cut in dividends the capital **surplus** by 2017 would be around US$ 5bn based on our estimates.
- Assuming 14.5% CET1 ratio and assuming that HSBC achieves its RWA reduction targets, HSBC would currently have a US$ 36bn pro-forma capital shortfall. Assuming 20% cut in dividends, the capital **shortfall** by 2017 would be US$ 12bn based on our estimates.
- With a 20% cut in the dividend, HSBC will be able to grow RWA by 6% p.a. after the capital shortfall is closed in our view.

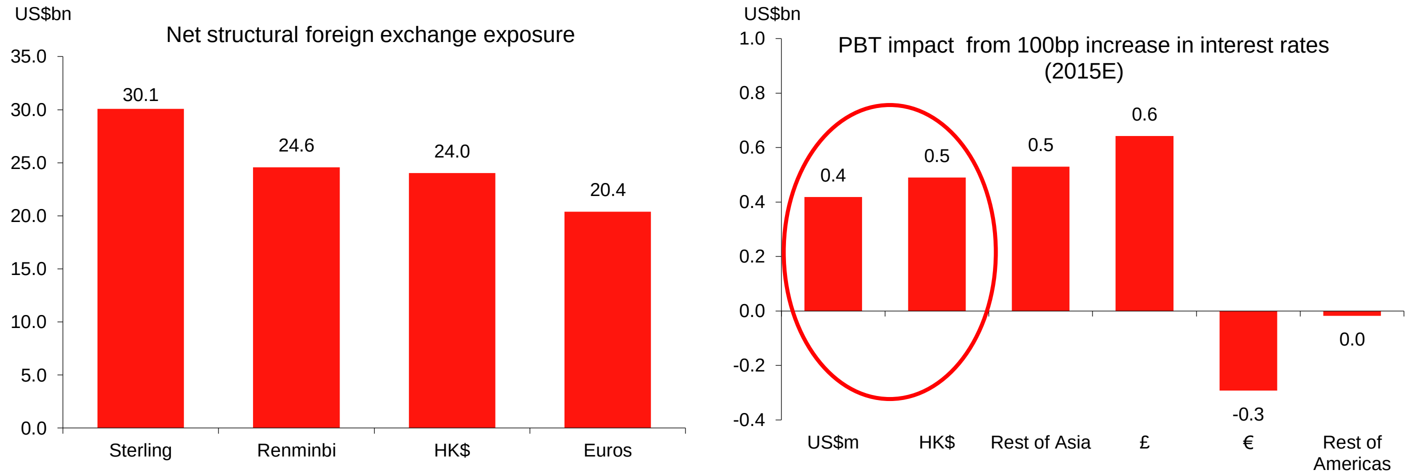
Will higher US rates resolve all of HSBC's problems? Probably not …

A 100 bp increase in interest rates would most likely lift RoE because it increases pre-tax profit (in theory) and reduces equity (due to the decline in value of the AfS book) for HSBC.

Given that HSBC needs to build up capital ratios – and the unrealised AfS gains/losses (excl the insurance related part) are reflected in CET1 capital (fully loaded) - we do not believe that rising rates are an outright blessing for HSBC. We would also assume that a lot of the margin benefits of higher rates on new business will get competed away, volume growth would slow and asset quality would be unlikely to improve in a rising rate environment.

As a rule of thumb, 100 bp higher **US rates** would lift pre-tax profit for HSBC by just below US$1bn, or by 4.5% (from US$ and HK$ exposure only) of our 2015E underlying pre-tax profit base. A 100bp parallel move in the yield curve **across all currencies** – which is unlikely – would increase pre-tax profit by US$1.8bn, or 8% of our 2015E underlying earnings base.

Fig 9 Net structural foreign exchange exposure and PBT sensitivity on a 100 bp move in the yield curve



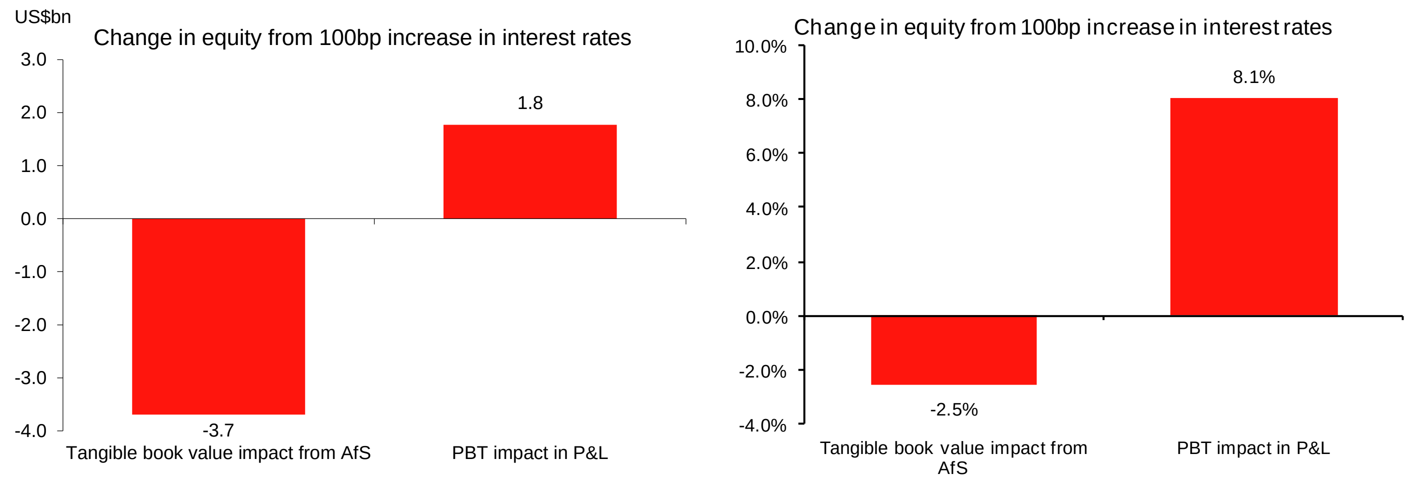
Shareholders' equity would decrease by US$2.5bn if euro and sterling foreign currency exchange rates weakened by 5% relative to the US dollar.

Scenario assumes a 100 bp move in the yield curve across all currencies

Source: Company data, Macquarie Research, June 2015

A 100 bp parallel move in rates would reduce equity due to the reduction in the value of the **available-for-sale (AfS) portfolio**. The minimum impact would be US$ 3.7bn and the maximum impact would be US$ 5.2bn. This could reduce tangible book value between 2.5-3.6% based on our estimates. Unrealised (gains)/losses in available-for-sale debt and equities (excl the insurance related part) are reflected in CET1 capital.

Fig 10 Equity impact could be between minus US$3.7bn to minus US$5.2bn for a 100 bp increase in rates (2015)



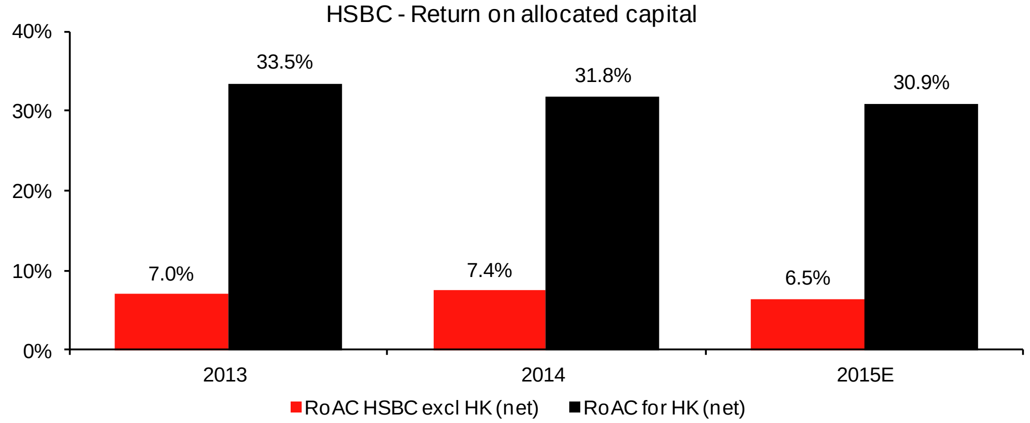
Source: Company data, Macquarie Research, June 2015

HSBC's structural negatives remain

In our recent research report **Asia and Multinational Banks – Welcome to the New Age** we argued that the business model and strategy of some multinational financial conglomerates is significantly challenged - if not broken. We expect to see radical restructuring, shrinking of global empires, business breakups and takeovers within the next 2-3 years. HSBC is sleepwalking towards a break-up and the recent **Investor Update** was not the wake-up call in our view.

The conclusion in our research report was that domestically focused banks are much better positioned to consistently achieve better ROE at lower volatility vs multinational financial conglomerates that are sub-scale in too many markets and businesses. This is particularly true in the new regulatory and operating environment. Given the poor restructuring track record so far, we would avoid investing into 2018 hope stories.

Fig 11 HSBC Hong Kong – where HSBC has scale - is incredibly profitable while HSBC outside Hong Kong – where HSBC is sub-scale - is incredibly unprofitable



We work with the data from HSBC Holdings and not with the local accounts. We allocated 13% equity to risk weighted assets to estimate what we call 'Allocated Capital'. HSBC Holdings reports the pre-tax profit for HK for 2013 and 2014 and we deduct taxes and minorities (mainly HSB) to estimate the net profit for HSBC HK.

Source: Company data, Macquarie Research, June 2015

Strong cost efficiency is a synonym for high profitability in the New Age. Cost efficiency is often achieved by economies of scale as a result of having a high market share in one particular market or business segment. The problem of the multinational financial conglomerates is that they have never been cost efficient and are sub-scale in too many markets and businesses. The business model worked well during financial de-regulation and globalisation but the environment has changed.

Cost inefficiency was often offset by high leverage either through an artificially low risk weight on assets or by allocating too little capital to RWA. Regulators globally have put a stop to that and the trend is now reversing by forcing 'too big to fail' banks to hold capital buffers and change their risk models.

In addition, the costs of running a global and complex banking business model have been increasing over the past few years. Costs for litigation and legal matters and investments in compliance, risk and IT infrastructure are driving up costs while many regulators have an increasing local focus by forcing foreign banks to meet local liquidity, local capital and local reporting requirements which heavily dilutes the benefits of a global banking franchise.

Feedback from the Investor Update (9 June 2015): HSBC – 2011 flashbacks

- **No bold strategic changes** - Similar to 2011 – when the first restructuring plan was announced – we believe that HSBC is over-optimistic on revenues given its RWA and cost reduction plan. In addition, we think that HSBC continues to underestimate the structural negatives of running a complex global universal banking business model in the new regulatory and operating environment.
- **Defending the global empire -** A fair part of the presentation was spent on highlighting the benefits of having a global universal banking business model while little time was devoted to addressing the negatives (costs, complexity, capital) of that strategy. No exit of businesses and markets apart from Turkey and Brazil were announced. Sub-scale and underperforming markets and businesses are the root of HSBC's profitability problem, in our view. Overall, the structural issues for HSBC's low profitability profile remain largely unchanged, in our view.

Fig 12 There is little reasons for HSBC to be in the 15 countries that do not provide network synergies in our view

Strategic actions for the Group: Optimise global network

2 50-60 countries of HSBC's network required to provide international connectivity

		HSBC footprint				
		Priority countries	Next 20 largest trade countries	Next 21-40 largest trade countries	Remaining countries	Countries not covered by HSBC
Number of countries[1]		18	20	20	15	>120
Market coverage	Share of global GDP	61%	24%	8%	1%	7%
	Share of global trade flows[2]	58%	27%	5%	1%	9%
	Share of global capital flows[3]	54%	26%	12%	1%	6%
HSBC Revenues	Share of reported revenue[4]	84%	2%	12%	2%	n / a
	Share of inbound / outbound revenue[5]	79%	11%	9%	1%	n / a

Source: Global Insights, March 2015
1. Pearl River Delta not included in total number of countries
2. Exports and imports
3. Inbound and outbound capital flows
4. Revenue by geographical region includes intra-HSBC items, this revenue has not been eliminated in calculating the above percentages
5. Inbound / outbound revenue associated with serving international clients; Source: Internal HSBC client data

Source: HSBC, Macquarie Research, June 2015

HSBC said that it required 50-60 countries to provide international connectivity. At the moment, HSBC has exposure to 73 countries. In other words, HSBC could get rid of 15 countries which contribute little to international connectivity.

We think that a sub-scale presence in too many markets and businesses is a key reason for HSBC's uncompetitive cost/income ratio. Unfortunately, HSBC seems to have no intention at the moment to shrink its global presence since a significant part of the Investor Update was spent defending the global universal banking model.

10 strategic actions planned by HSBC

1. Reduce Group RWA by at least c.25% and re-deploy towards higher performing businesses; return GB&M to Group target profitability
2. Sell operations in Turkey and Brazil; continued application of six filter process
3. Rebuild NAFTA profitability
4. Set up UK Ring-Fenced Bank
5. Realise USD4.5-5bn cost savings, deliver flat costs by end 2017
6. Deliver growth above GDP from international network
7. Capture growth opportunities in Asia: Pearl River Delta, ASEAN, Asset Management, Insurance
8. Extend leadership in RMB internationalisation
9. Complete Global Standards implementation
10. Complete Headquarters review by end of 2015

Fig 13 Summary of company guidance and targets

Company guidance and targets	Timeline
US$290bn RWA cuts	2017
US$70bn from sale of Brazil and Turkey	2016
US$140bn from GBM	2017
US$40bn from US CML run-off	2017
US$40bn from CMB and others	2017
US$4.5bn-$5.0bn cost savings	2017
Adjusted cost to be flat vs 2014 at ~US$32bn	2017
US$4.0bn-$4.5bn restructuring charges	Till 2017
>10% ROE target	2017
>2.3% RoRWA for the group	2017
By business segments	
6.3% RoRWA in RBWM (vs 4.8% in 2014)	2017
2.7% RoRWA in CMB (vs 2.3% in 2014)	2017
2.7% RoRWA in GBM (incl. BSM) (vs 1.7% in 2014)	2017
4.3% RoRWA in GPB (vs 3.4% in 2014)	2017
Progressive dividend target	
CET1 ratio of 12%-13%	2019
TLAC funding gap of US$12.5bn-$44.0bn (based on 21%-25% TLAC requirements)	2017
22k to 25k headcount reduction	2017
UK ring-fenced bank	2018
Review of headquarter	2015

Source: Company data, Macquarie Research, June 2015

Links to research reports

Date	Report title	Type
HSBC and Standard Chartered		
09 Jun	HSBC - 2011 flashbacks	Flyer – 20 pages
09 Jun	HSBC - Defending the global empire at all costs	Flashnote
03 Jun	HSBC - Expectations for the Investor Update	Flashnote
11 May	Standard Chartered - No change, a radical change or a takeover	Flyer – 28 pages
11 May	HSBC - Sleepwalking towards a breakup	Flyer – 30 pages
11 May	**Asia and multinational banks - Welcome to the New Age**	**Report – 129 pages**
05 May	HSBC - Feedback from the results conference call	Flashnote
05 May	HSBC - Earnings beat from Global Banking & Markets	Flashnote
28 Apr	Standard Chartered - No further negative surprises but still plenty of mid-term challenges	Flashnote
10 Mar	HSBC and StanChart - Different signals	Flyer – 25 pages
04 Mar	Standard Chartered - Feedback from the results presentation	Flashnote
04 Mar	Standard Chartered - First read: more positives than negatives	Flashnote
26 Feb	Standard Chartered - Board changes	Flashnote
23 Feb	HSBC - Feedback from the conference call	Flashnote
23 Feb	HSBC - earnings miss and cut in company targets	Flashnote
27 Jan	Standard Chartered - Commodity Financing on top of many other structural challenges	Flyer – 17 pages
26 Jan	**Asia Multinational Banks - Commodity Finance Risks**	**Report – 98 pages**
2014		
3 Nov	HSBC Holdings - High legal provisions and weak results in Asia	Flashnote
30 Oct	Standard Chartered - When it rains, it pours: New US investigations?	Flashnote
28 Oct	Standard Chartered - CCCC – Credit quality, Capital, Confidence and China	Flyer – 8 pages
28 Oct	Standard Chartered - Pressure changes everything Part 2	Flashnote
20 Aug	Standard Chartered - Settlement with the New York regulator	Flashnote
6 Aug	Standard Chartered - Many challenges	Flashnote
4 Aug	HSBC Holdings - Feedback from the earnings conference call: Tired of restructuring?	Flashnote
4 Aug	HSBC Holdings - earnings beat	Flashnote
20 Jun	Singapore and Multinational Banks - Metal Financing – When secured lending turns into unsecured	Flyer – 8 pages
17 Jun	**OCBC + Great Eastern - With or without you**	**Report – 61 pages**
17 Jun	HSBC Holdings - Another large non-core biz for sale?	Flyer – 16 pages
15 May	**Singapore and multinational banks - There's no place like home!**	**Report – 87 pages**
15 May	Standard Chartered - Significant structural challenges	Flyer – 14 pages
15 May	HSBC Holdings - Where are the benefits of the global franchise?	Flyer – 14 pages
7 Mar	Standard Chartered - A restructuring case	Flyer – 10 pages
27 Feb	HSBC Holdings - Cutting EPS and DPS expectations	Flyer – 9 pages
2013		
05 Dec	Standard Chartered - For a better 2014 after a lost 2013	Flyer – 9 pages
25 Nov	**Standard Chartered - Pressure changes everything**	**Report – 32 pages**
25 Oct	HSBC and Standard Chartered - Once you choose hope, anything is possible	Flyer – 26 pages
18 Sept	**HSBC and Standard Chartered - Asia Investment Banking update**	**Report – 44 pages**
05 Sept	**HSBC and Standard Chartered – Fighting the Macro**	**Report – 50 pages**
27 Jun	Standard Chartered - Cost control as a possible catalyst	Flyer – 12 pages
13 Jun	HSBC and Standard Chartered - Currency volatility, spread widening and capital leaving the region	Flyer – 19 pages
03 Jun	**HSBC and Standard Chartered - After two weeks in Asia…**	**Report – 38 pages**
03 Jun	HSBC Holdings - Running out of significant further upside potential	Flyer – 14 pages
03 Jun	Standard Chartered - Positives are totally overlooked	Flyer – 8 pages
16 Apr	HSBC and Standard Chartered - Trade Finance pain	Flyer – 17 pages
26 Mar	**HSBC and Standard Chartered - Two similar banks – two different strategies**	**Report – 44 pages**
26 Mar	HSBC Holdings - Continually delivering	Flyer – 15 pages
26 Mar	Standard Chartered - Remaining top-line growth focused	Flyer – 20 pages
28 Feb	Asian Dispatches - HSBC and Standard Chartered –Headwinds for mortgage business	Flyer – 18 pages
08 Feb	Asian Dispatches - HSBC and Standard Chartered - Only 6% Asia export volume growth	Flyer – 11 pages
28 Jan	**HSBC and Standard Chartered - Upgrading our 2013 outlook**	**Report – 53 pages**

Fig 14 HSBC – Selected ratios

HSBC consolidated SELECTED RATIOS (in %)	2012	2013	2014	2015E	2016E	2017E
GROWTH PROJECTIONS						
Growth in Net Interest Income	-7.4	-5.7	-0.5	-4.5	-7.3	2.0
Growth in Pre Provision Profit	-1.8	-1.2	0.2	-3.6	-7.0	1.8
Growth in Net Profit	18.9	7.2	4.4	-7.6	4.2	5.9
Growth in Assets	5.4	-0.8	-1.4	-4.6	-3.2	-1.3
Growth in Shareholders' Equity	8.6	3.6	-3.9	4.1	3.2	5.1
ASSET ANALYSIS						
Net interest income / average assets	1.4	1.3	1.3	1.3	1.3	1.3
Earning assets to Total assets	60.4	62.5	67.8	69.4	70.1	72.1
Return on Avg Earning Assets	0.9	0.9	0.9	0.9	0.9	1.0
Loans to earning assets	59.6	59.6	55.0	55.5	55.6	55.0
LOAN ANALYSIS						
Loan growth	6.1	-0.6	-1.8	-1.6	-2.1	2.7
Consumer loans (% of loans)	41.6	41.4	39.5	40.0	39.5	38.9
Corporate loans (% of loans)	58.4	58.6	60.5	60.0	60.5	61.1
DEPOSIT ANALYSIS						
Deposit growth	6.9	1.6	-0.8	-2.6	-3.1	1.7
Deposits to Interest Bearing Liabilities	92.6	94.7	90.8	94.5	95.4	96.6
LIQUIDITY						
LDR	74.4	72.9	72.2	72.9	73.7	74.4
Loans to Assets	37.1	37.1	37.0	38.2	38.6	40.2
Customer Deposits to Earning Assets	79.8	80.9	75.9	76.5	75.9	74.3
ASSET QUALITY						
NPL	3.8	3.6	3.0	3.1	3.2	3.1
Reserve Cover	41.6	41.6	42.1	45.6	46.4	48.0
Provisions to Loans	0.8	0.6	0.4	0.3	0.3	0.3
Reserves to Loans	1.7	1.5	1.3	1.4	1.5	1.5
SOLVENCY/CAPITAL ADEQUACY						
Tier 1 ratio	13.4	14.5	12.5	13.3	14.5	14.8
Equity to assets	6.5	6.8	6.7	7.3	7.8	8.2
Core tier 1	9.5	10.9	11.1	11.8	13.1	13.4
SPREAD ANALYSIS						
Int. rate received on ttl loans	3.49	3.07	2.92	2.89	2.80	2.82
Int. rate paid on ttl funds	1.36	1.10	1.11	1.12	1.13	1.14
Interest rate spread	2.13	1.97	1.81	1.77	1.67	1.68
NIM	2.32	2.13	1.98	1.94	1.84	1.85
OTHER INCOME						
Non interest income to total income	39.8	42.5	43.0	43.5	43.7	43.5
Fees to non interest income	65.9	62.5	59.9	58.6	60.7	61.6
Fees to total income	26.2	26.6	25.7	25.5	26.5	26.8
OPERATING EFFICIENCY						
Cost to income ratio	57.5	57.7	61.1	62.4	59.2	57.2
Costs to assets	1.37	1.33	1.43	1.45	1.33	1.34
Interest bearing liabilities /Total liabilities	55.8	57.3	60.8	60.8	60.8	60.8
PROFITABILITY						
ROA	0.54	0.59	0.62	0.60	0.65	0.70
ROE	9.1	9.2	7.7	8.9	8.9	9.1
Pre provision ROE	16.6	15.4	14.2	13.2	12.9	13.2
Dividend yield	5.0	4.5	5.0	5.6	4.4	4.7
EPS (lc)	80.2	84.1	86.0	78.0	79.7	82.8
VALUATIONS						
PER (x)	11.23	12.99	11.68	11.60	11.35	10.92
P/B (x)	0.99	1.19	1.16	1.02	1.01	0.98

Source: Company Data, Macquarie Research, June 2015

Fig 15 HSBC – Consolidated Income Statement (US$ m)

HSBC Holdings Profit & Loss (US$ m, adjusted)	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Net interest income	35,539	35,337	33,758	31,309	31,935	-1%	-4%	-7%	2%
Commission income	16,434	15,957	15,235	14,720	15,175	-3%	-5%	-3%	3%
Trading income	8,419	7,633	7,603	7,527	7,728	-9%	0%	-1%	3%
Core operating income	**60,392**	**58,927**	**56,596**	**53,556**	**54,838**	**-2%**	**-4%**	**-5%**	**2%**
Investment income	3,114	3,545	4,319	3,296	3,132	14%	22%	-24%	-5%
Net earned insurance premiums	11,940	11,921	12,309	11,995	12,459	0%	3%	-3%	4%
Other operating income	100	954	58	-208	-363				
Total operating income	**75,546**	**75,347**	**73,281**	**68,639**	**70,067**	**0%**	**-3%**	**-6%**	**2%**
Net insurance claims	-13,692	-13,345	-13,509	-13,071	-13,513	-3%	1%	-3%	3%
Net operating income	**61,854**	**62,002**	**59,772**	**55,568**	**56,554**	**0%**	**-4%**	**-7%**	**2%**
Loan loss provisions	-5,849	-3,851	-3,079	-2,471	-2,806	-34%	-20%	-20%	14%
Operating expenses	**-35,682**	**-37,854**	**-37,285**	**-32,881**	**-32,340**	**6%**	**-2%**	**-12%**	**-2%**
Pre-provisioning profit	**26,172**	**24,148**	**22,487**	**22,687**	**24,214**	**-8%**	**-7%**	**1%**	**7%**
Income from Associates/JVs	2,325	2,532	2,528	2,608	2,691	9%	0%	3%	3%
Profit before tax (adjusted)	**22,648**	**22,829**	**21,936**	**22,824**	**24,099**	**1%**	**-4%**	**4%**	**6%**
Total one-offs and adjustments	-87	-4,149	-1,856	-3,913	-3,275				
Profit before tax (reported)	**22,561**	**18,680**	**20,080**	**18,912**	**20,824**	**-17%**	**7%**	**-6%**	**10%**
Income tax	-4,765	-3,975	-4,317	-4,066	-4,477	-17%	9%	-6%	10%
Profit after tax	**17,796**	**14,705**	**15,763**	**14,846**	**16,347**	**-17%**	**7%**	**-6%**	**10%**
Minority interest	-1,596	-1,017	-1,183	-1,242	-1,304	-36%	16%	5%	5%
Net profit (reported)	**16,200**	**13,688**	**14,580**	**13,604**	**15,042**	**-16%**	**7%**	**-7%**	**11%**
Preference dividends	-90	-90	-90	-90	-90				
Coupon securities & others	-483	-483	-812	-812	-812				
Net profit (consolidated)	**15,627**	**13,115**	**13,678**	**12,702**	**14,140**	**-16%**	**4%**	**-7%**	**11%**
Net profit (adjusted)*	**15,695**	**16,381**	**15,135**	**15,773**	**16,711**	**4%**	**-8%**	**4%**	**6%**
** Results adjusted for significant items. One-offs include US$ 2bn litigation costs p.a. and US$ 4.25bn restructuring costs (2015E-17E)*									
Cost/Income ratio	**57.7%**	**61.1%**	**62.4%**	**59.2%**	**57.2%**				
Margins and Provision ratios									
Net interest margin on IEA (bp)	213	198	194	184	185				
Loan loss provisions to customer loans (bp)	58	39	31	26	29				
adjusted profitability ratios									
RoE	9.2%	7.7%	8.9%	8.9%	9.1%				
RoE (at 13% CET1)	**8.0%**	**8.5%**	**8.2%**	**9.0%**	**9.3%**				
RoTBV	11.2%	11.6%	10.6%	10.6%	10.7%				
RoTBV (at 13% CET1)	**9.5%**	**10.0%**	**9.7%**	**10.7%**	**11.0%**				
Return on RWA (pre-tax)	1.81%	1.88%	1.81%	1.94%	2.07%				
Return on total assets	0.59%	0.62%	0.60%	0.65%	0.70%				
Per share data									
Shares outstanding	18,830	19,218	19,602	19,994	20,384	2%	2%	2%	2%
Reported EPS (c)	84	69	70	64	70	-18%	2%	-9%	9%
adjusted EPS (c)	**84**	**86**	**78**	**80**	**83**	**2%**	**-9%**	**2%**	**4%**
Book value per share (c)	921	867	885	896	923	-6%	2%	1%	3%
TBV per share (c)	**762**	**723**	**744**	**758**	**788**	**-5%**	**3%**	**2%**	**4%**
Dividend per share (c)	**49**	**50**	**51**	**40**	**42**	**2%**	**2%**	**-22%**	**6%**
Dividend yield	4.5%	5.0%	5.6%	4.4%	4.7%				
Payout ratio	58%	58%	65%	50%	51%				
Valuation multiples									
adjusted PE	**13.0**	**11.7**	**11.6**	**11.4**	**10.9**				
Reported PE	13.0	14.6	12.8	14.1	12.9				
Pre-provision PE	7.8	7.9	7.8	7.9	7.5				
P/BV	1.19	1.16	1.02	1.01	0.98				
P/TBV	**1.43**	**1.39**	**1.22**	**1.19**	**1.15**				

Source: Company Data, Macquarie Research, June 2015

Fig 16 HSBC – Consolidated Balance Sheet (US$ m)

Balance sheet (US$ m)	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Assets									
Cash	166,599	129,957	123,950	119,992	118,376	-22%	-5%	-3%	-1%
Loans to banks	120,046	112,149	108,087	105,716	105,350	-7%	-4%	-2%	0%
Customer loans	**992,089**	**974,660**	**958,963**	**939,287**	**965,110**	**-2%**	**-2%**	**-2%**	**3%**
Trading assets	303,192	304,193	293,175	286,745	285,751	0%	-4%	-2%	0%
Financial investments	425,925	415,467	400,419	391,636	390,278	-2%	-4%	-2%	0%
Goodwill and intangibles	29,918	27,577	27,577	27,577	27,577				
Derivatives and Other assets	633,549	670,136	600,218	561,207	506,964				
Total assets	**2,671,318**	**2,634,139**	**2,512,390**	**2,432,161**	**2,399,405**	**-1%**	**-5%**	**-3%**	**-1%**
Liabilities and Equity									
Deposits from banks	86,507	77,426	73,847	71,489	70,526	-10%	-5%	-3%	-1%
Customer deposits	**1,361,297**	**1,350,642**	**1,315,384**	**1,275,241**	**1,297,547**	**-1%**	**-3%**	**-3%**	**2%**
Debt securities	89,084	76,153	73,395	71,785	71,536	-15%	-4%	-2%	0%
Trading liabilities	207,025	190,572	183,670	179,641	179,018	-8%	-4%	-2%	0%
Derivatives and Other liabilities	745,368	763,198	683,099	645,422	583,053				
Total liabilities	2,489,281	2,457,991	2,319,863	2,234,047	2,192,150	-1%	-6%	-4%	-2%
Total shareholders' equity	182,037	176,148	182,996	188,583	197,725	-3%	4%	3%	5%
Shareholders' equity	**173,449**	**166,617**	**173,465**	**179,052**	**188,194**	**-4%**	**4%**	**3%**	**5%**
Minorities	8,588	9,531	9,531	9,531	9,531	-36%	16%	5%	5%
Total liabilities and equity	**2,671,318**	**2,634,139**	**2,512,390**	**2,432,161**	**2,399,405**	**-1%**	**-5%**	**-3%**	**-1%**
Off balance sheet assets	587,603	651,380	651,359	651,332	651,368				
Preference shares and other equity instruments	7,256	12,937	12,937	12,937	12,937				
Tangible book value (TBV)	**143,531**	**139,040**	**145,888**	**151,475**	**160,617**	**-3%**	**5%**	**4%**	**6%**
Interest earning assets (IEA)	1,669,368	1,786,536	1,742,500	1,705,713	1,730,460	-2%	-2%	-2%	1%
Loans to deposits	**73%**	**72%**	**73%**	**74%**	**74%**				
Excess liquidity	369,208	375,982	356,420	335,954	332,437	2%	-5%	-6%	-1%
Capital adequacy									
Risk weighted assets (RWA)	1,214,939	1,219,765	1,202,081	1,148,395	1,185,574	0%	-1%	-4%	3%
Common Equity Tier I capital Basel 3	**132,514**	**135,640**	**142,207**	**149,911**	**158,516**	**2%**	**5%**	**5%**	**6%**
Common Equity Tier I ratio Basel 3	**10.9%**	**11.1%**	**11.8%**	**13.1%**	**13.4%**				
Leverage ratio	4.9%	4.6%	5.0%	5.4%	5.8%				
-Deficit/+Surplus capital for 13% CET1	-25,428	-22,930	-14,064	620	4,391				
-Deficit/+Surplus capital for 5% leverage ratio	-14,932	-13,136	-481	11,236	21,477				
Asset quality									
Non performing loans (NPLs)	36,428	29,283	29,722	30,168	30,621	-20%	1%	1%	1%
NPL ratio	**3.6%**	**3.0%**	**3.1%**	**3.2%**	**3.1%**				
Provisions	15,143	12,337	13,566	14,002	14,708	-19%	10%	3%	5%
NPL coverage	42%	42%	46%	46%	48%				

Source: Company Data, Macquarie Research, June 2015

Fig 17 HSBC – Segment reporting overview (1/2)

Geographies: Overview (US$ m)	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Net interest income	**35,539**	**35,360**	**33,758**	**31,309**	**31,935**	**-1%**	**-5%**	**-7%**	**2%**
Europe	10,693	11,243	9,843	9,183	8,837	5%	-12%	-7%	-4%
Asia	11,432	12,273	12,817	13,779	14,938	7%	4%	8%	8%
Mid-East & North Africa	1,486	1,519	1,566	1,606	1,648	2%	3%	3%	3%
North America	5,742	5,015	4,437	4,095	3,828	-13%	-12%	-8%	-7%
Latin America	6,186	5,310	5,095	2,646	2,684	-14%	-4%	-48%	1%
Trading income	**8,419**	**7,610**	**7,603**	**7,527**	**7,728**	**-10%**	**0%**	**-1%**	**3%**
Europe	3,785	3,101	3,173	3,078	2,983	-18%	2%	-3%	-3%
Asia	2,708	2,622	2,884	3,110	3,326	-3%	10%	8%	7%
Mid-East & North Africa	357	314	333	347	362	-12%	6%	4%	4%
North America	633	717	573	628	683	13%	-20%	10%	9%
Latin America	936	856	640	365	374	-9%	-25%	-43%	3%
Commission income	**16,434**	**15,957**	**15,235**	**14,720**	**15,175**	**-3%**	**-5%**	**-3%**	**3%**
Europe	6,032	6,042	5,294	5,043	5,002	0%	-12%	-5%	-1%
Asia	5,936	5,910	6,103	6,508	6,991	0%	3%	7%	7%
Mid-East & North Africa	622	650	692	724	768	5%	6%	5%	6%
North America	2,143	1,940	1,796	1,736	1,691	-9%	-7%	-3%	-3%
Latin America	1,701	1,415	1,350	709	723	-17%	-5%	-48%	2%
Loan loss provisions	**-5,849**	**-3,851**	**-3,079**	**-2,471**	**-2,806**	**-34%**	**-20%**	**-20%**	**14%**
Europe	-1,530	-764	-604	-707	-829	-50%	-21%	17%	17%
Asia	-498	-647	-680	-856	-1,148	30%	5%	26%	34%
Mid-East & North Africa	42	6	-56	-81	-105	-86%		44%	30%
North America	-1,197	-322	-234	-302	-339	-73%	-27%	29%	12%
Latin America	-2,666	-2,124	-1,504	-526	-385	-20%	-29%	-65%	-27%
Operating expenses (incl intra-group items)	**-39,057**	**-41,039**	**-40,470**	**-36,066**	**-35,525**	**5%**	**-1%**	**-11%**	**-1%**
Europe	-15,869	-17,593	-17,904	-16,773	-16,045	11%	2%	-6%	-4%
Asia	-9,849	-10,362	-10,552	-11,090	-11,662	5%	2%	5%	5%
Mid-East & North Africa	-1,289	-1,216	-1,232	-1,262	-1,300	-6%	1%	2%	3%
North America	-6,196	-6,052	-5,272	-4,676	-4,131	-2%	-13%	-11%	-12%
Latin America	-5,854	-5,816	-5,510	-2,264	-2,387	-1%	-5%	-59%	5%
Profit before tax (adjusted)	**22,648**	**22,829**	**21,936**	**22,824**	**24,099**	**1%**	**-4%**	**4%**	**6%**
Europe	4,232	4,033	2,303	1,699	1,841	-5%	-43%	-26%	8%
Asia	14,547	14,533	15,401	16,195	17,048	0%	6%	5%	5%
Mid-East & North Africa	1,697	1,826	1,852	1,923	2,002	8%	1%	4%	4%
North America	1,231	2,105	1,934	1,968	2,071	71%	-8%	2%	5%
Latin America	941	332	446	1,039	1,137	-65%	34%	133%	9%
Cost/Income ratio	**58%**	**61%**	**62%**	**59%**	**57%**				
Europe	73%	79%	86%	87%	86%				
Asia	43%	44%	43%	43%	42%				
Mid-East & North Africa	51%	48%	47%	46%	46%				
North America	72%	72%	71%	67%	63%				
Latin America	62%	70%	74%	59%	61%				
Net return on allocated capital (13% on RWA)	**9%**	**10%**	**10%**	**11%**	**11%**				
Europe	6%	6%	4%	4%	5%				
Asia	33%	19%	18%	18%	17%				
Mid-East & North Africa	17%	18%	17%	17%	17%				
North America	3%	6%	5%	6%	6%				
Latin America	6%	2%	3%	10%	17%				

Source: Company Data, Macquarie Research, June 2015

Fig 18 HSBC – Segment reporting overview (2/2)

Customer Groups: Overview (US$ m)	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Net interest income	**35,539**	**35,360**	**33,758**	**31,309**	**31,935**	**-1%**	**-5%**	**-7%**	**2%**
Retail Banking & Wealth Mgnt (RBWM)	18,339	17,414	16,112	14,318	14,425	-5%	-7%	-11%	1%
Commercial Banking (CMB)	10,200	10,506	10,529	10,051	10,483	3%	0%	-5%	4%
Global Banking and Markets (GBM)	6,766	7,022	6,805	6,642	6,735	4%	-3%	-2%	1%
Global Private Banking (GPB)	1,146	994	997	1,029	1,077	-13%	0%	3%	5%
Others	-912	-576	-686	-732	-785				
Trading income	**8,419**	**7,610**	**7,603**	**7,527**	**7,728**	**-10%**	**0%**	**-1%**	**3%**
Retail Banking & Wealth Mgnt (RBWM)	371	522	443	404	424	41%	-15%	-9%	5%
Commercial Banking (CMB)	649	618	647	638	683	-5%	5%	-1%	7%
Global Banking and Markets (GBM)	6,338	6,193	6,056	6,019	6,145	-2%	-2%	-1%	2%
Global Private Banking (GPB)	394	294	290	300	309	-25%	-1%	3%	3%
Others	667	-17	166	166	166				
Commission income	**16,434**	**15,957**	**15,235**	**14,720**	**15,175**	**-3%**	**-5%**	**-3%**	**3%**
Retail Banking & Wealth Mgnt (RBWM)	7,021	6,668	6,261	5,944	6,130	-5%	-6%	-5%	3%
Commercial Banking (CMB)	4,717	4,738	4,616	4,487	4,705	0%	-3%	-3%	5%
Global Banking and Markets (GBM)	3,482	3,560	3,319	3,223	3,227	2%	-7%	-3%	0%
Global Private Banking (GPB)	1,150	1,056	1,072	1,101	1,148	-8%	2%	3%	4%
Others	64	-65	-34	-34	-34				
Loan loss provisions	**-5,849**	**-3,851**	**-3,079**	**-2,471**	**-2,806**	**-34%**	**-20%**	**-20%**	**14%**
Retail Banking & Wealth Mgnt (RBWM)	-3,227	-1,819	-1,472	-1,156	-1,256	-44%	-19%	-21%	9%
Commercial Banking (CMB)	-2,384	-1,675	-1,433	-1,243	-1,495	-30%	-14%	-13%	20%
Global Banking and Markets (GBM)	-207	-365	-174	-73	-55	76%	-52%	-58%	-24%
Global Private Banking (GPB)	-31	8							
Others									
Operating expenses (incl intra-group items)	**-39,057**	**-41,039**	**-40,470**	**-36,066**	**-35,525**	**5%**	**-1%**	**-11%**	**-1%**
Retail Banking & Wealth Mgnt (RBWM)	-16,295	-16,530	-15,888	-13,431	-13,217	1%	-4%	-15%	-2%
Commercial Banking (CMB)	-6,901	-7,351	-7,367	-6,399	-6,514	7%	0%	-13%	2%
Global Banking and Markets (GBM)	-9,690	-10,307	-10,156	-9,468	-9,281	6%	-1%	-7%	-2%
Global Private Banking (GPB)	-2,229	-1,713	-1,708	-1,665	-1,659	-23%	0%	-3%	0%
Others	-3,942	-5,138	-5,352	-5,103	-4,854				
Profit before tax (adjusted)	**22,647**	**22,829**	**21,936**	**22,824**	**24,099**	**1%**	**-4%**	**4%**	**6%**
Retail Banking & Wealth Mgnt (RBWM)	7,287	7,648	7,043	7,478	7,777	5%	-8%	6%	4%
Commercial Banking (CMB)	8,113	8,882	8,965	9,460	9,846	9%	1%	6%	4%
Global Banking and Markets (GBM)	9,110	8,103	8,780	8,667	9,147	-11%	8%	-1%	6%
Global Private Banking (GPB)	472	691	652	765	874	46%	-6%	17%	14%
Others	-2,335	-2,495	-3,504	-3,545	-3,546				
Cost/Income ratio	**58%**	**61%**	**62%**	**59%**	**57%**				
Retail Banking & Wealth Mgnt (RBWM)	62%	65%	66%	62%	61%				
Commercial Banking (CMB)	43%	45%	46%	41%	40%				
Global Banking and Markets (GBM)	52%	56%	55%	54%	52%				
Global Private Banking (GPB)	82%	72%	72%	69%	65%				
Return on RWA (pre-tax)	**1.8%**	**1.9%**	**1.8%**	**1.9%**	**2.1%**				
Retail Banking & Wealth Mgnt (RBWM)	2.9%	3.5%	3.4%	3.6%	3.6%				
Commercial Banking (CMB)	2.1%	2.2%	2.1%	2.1%	2.1%				
Global Banking and Markets (GBM)	1.3%	1.5%	1.8%	1.9%	2.1%				
Global Private Banking (GPB)	2.2%	3.3%	3.1%	3.5%	3.8%				
Net return on allocated capital (13% on RWA)	**9%**	**10%**	**10%**	**11%**	**11%**				
Retail Banking & Wealth Mgnt (RBWM)	17%	21%	21%	22%	22%				
Commercial Banking (CMB)	12%	13%	12%	13%	13%				
Global Banking and Markets (GBM)	8%	9%	11%	11%	13%				
Global Private Banking (GPB)	13%	20%	19%	21%	23%				

Source: Company Data, Macquarie Research, June 2015

Fig 19 HSBC – By geographies (1/5)

Europe US$ m	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Net interest income	10,693	11,243	9,843	9,183	8,837	5%	-12%	-7%	-4%
Commission income	6,032	6,042	5,294	5,043	5,002	0%	-12%	-5%	-1%
Trading income	3,785	3,101	3,173	3,078	2,983	-18%	2%	-3%	-3%
Gains/losses from fin. investments	379	772	1,000	500	500				
Net earned insurance premiums	3,158	3,008	2,810	2,670	2,536	-5%	-7%	-5%	-5%
Other operating income	808	1,038	550	500	500	28%	-47%	-9%	
Total operating income	**26,370**	**26,203**	**24,345**	**22,509**	**21,853**	**-1%**	**-7%**	**-8%**	**-3%**
Net insurance claims	-4,740	-3,819	-3,533	-3,330	-3,138	-19%	-7%	-6%	-6%
Loan loss provisions	-1,530	-764	-604	-707	-829	-50%	-21%	17%	17%
Operating expenses	-15,869	-17,593	-17,904	-16,773	-16,045	11%	2%	-6%	-4%
Profit before tax (adjusted)	**4,232**	**4,033**	**2,303**	**1,699**	**1,841**	**-5%**	**-43%**	**-26%**	**8%**
Retail Banking & Wealth Mgnt (RBWM)	2,706	2,173	1,476	1,393	1,529	-20%	-32%	-6%	10%
Commercial Banking (CMB)	2,236	2,686	2,433	2,422	2,459	20%	-9%	0%	2%
Global Banking and Markets (GBM)	1,786	1,713	2,190	1,664	1,570	-4%	28%	-24%	-6%
Global Private Banking (GPB)	114	315	272	339	404	176%	-14%	25%	19%
Others	-2,611	-2,854	-4,068	-4,119	-4,120				
Risk weighted assets (RWA) in bn	408	347	312	253	223	-15%	-10%	-19%	-12%
Average RWA in bn	454	378	330	283	238	-17%	-13%	-14%	-16%
Return on RWA (pre-tax)	**0.9%**	**1.1%**	**0.7%**	**0.6%**	**0.8%**				
Net return on allocated capital (13% on RWA)	**5.7%**	**6.5%**	**4.2%**	**3.6%**	**4.7%**				
Customer loans	**504,200**	**409,733**	**381,637**	**360,255**	**354,436**	**-19%**	**-7%**	**-6%**	**-2%**
Retail Banking & Wealth Mgnt (RBWM)	177,357	165,112	151,903	148,603	151,575	-7%	-8%	-2%	2%
Commercial Banking (CMB)	105,498	106,342	103,152	99,852	101,849	1%	-3%	-3%	2%
Global Banking and Markets (GBM)	193,226	113,136	103,054	89,449	79,778	-41%	-9%	-13%	-11%
Global Private Banking (GPB)	27,289	24,766	23,528	22,351	21,234	-9%	-5%	-5%	-5%
Others	830	377							
Total assets	**1,392,959**	**1,290,926**	**1,157,589**	**1,033,228**	**932,962**	**-7%**	**-10%**	**-11%**	**-10%**
Retail Banking & Wealth Mgnt (RBWM)	238,499	221,679	203,945	198,995	202,975	-7%	-8%	-2%	2%
Commercial Banking (CMB)	124,242	120,819	117,194	112,244	114,489	1%	-3%	-3%	2%
Global Banking and Markets (GBM)	1,054,506	948,951	864,388	773,000	689,427	-41%	-9%	-13%	-11%
Global Private Banking (GPB)	75,718	64,676	61,442	58,370	55,452	-9%	-5%	-5%	-5%
Others	72,174	64,182	40,000	20,000					
Inter segment elimination	-172,180	-129,381	-129,381	-129,381	-129,381				
Net interest margin (on av total assets)	**0.77%**	**0.84%**	**0.80%**	**0.84%**	**0.90%**				
Retail Banking & Wealth Mgnt (RBWM)	2.34%	2.53%	2.35%	2.32%	2.29%				
Commercial Banking (CMB)	2.61%	2.95%	2.85%	2.80%	2.79%				
Global Banking and Markets (GBM)	0.17%	0.20%	0.18%	0.18%	0.17%				
Global Private Banking (GPB)	0.95%	0.85%	0.90%	0.96%	1.02%				
Loan loss provisioning ratio (on av cust. loans)	**0.32%**	**0.17%**	**0.15%**	**0.19%**	**0.23%**				
Retail Banking & Wealth Mgnt (RBWM)	0.19%	0.16%	0.15%	0.20%	0.25%				
Commercial Banking (CMB)	0.89%	0.47%	0.35%	0.40%	0.45%				
Global Banking and Markets (GBM)	0.14%								
Global Private Banking (GPB)	0.08%								
Cost/Income ratio	**73%**	**79%**	**86%**	**87%**	**86%**				
Retail Banking & Wealth Mgnt (RBWM)	62%	70%	76%	75%	72%				
Commercial Banking (CMB)	40%	44%	46%	43%	41%				
Global Banking and Markets (GBM)	69%	75%	69%	73%	73%				
Global Private Banking (GPB)	92%	77%	79%	75%	70%				

Source: Company Data, Macquarie Research, June 2015

Fig 20 HSBC – By geographies (2/5)

Asia US$ m	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Net interest income	11,432	12,273	12,817	13,779	14,938	7%	4%	8%	8%
Commission income	5,936	5,910	6,103	6,508	6,991	0%	3%	7%	7%
Trading income	2,708	2,622	2,884	3,110	3,326	-3%	10%	8%	7%
Gains/losses from fin. investments	40	43							
Net earned insurance premiums	6,918	7,390	7,981	8,540	9,138	7%	8%	7%	7%
Other operating income	2,835	2,331	2,367	2,352	2,340	-18%	2%	-1%	-1%
Total operating income	**30,335**	**31,281**	**32,982**	**34,974**	**37,274**	**3%**	**5%**	**6%**	**7%**
Net insurance claims	-7,296	-7,761	-8,382	-8,916	-9,550	6%	8%	6%	7%
Loan loss provisions	-498	-647	-680	-856	-1,148	30%	5%	26%	34%
Operating expenses	-9,849	-10,362	-10,552	-11,090	-11,662	5%	2%	5%	5%
Profit before tax (adjusted)	**14,547**	**14,533**	**15,401**	**16,195**	**17,048**	**0%**	**6%**	**5%**	**5%**
Retail Banking & Wealth Mgnt (RBWM)	4,419	4,472	4,839	5,037	5,217	1%	8%	4%	4%
Commercial Banking (CMB)	4,458	4,742	4,869	5,175	5,454	6%	3%	6%	5%
Global Banking and Markets (GBM)	4,675	4,576	4,879	5,188	5,600	-2%	7%	6%	8%
Global Private Banking (GPB)	284	276	311	336	364	-3%	13%	8%	8%
Others	711	467	503	458	413				
Risk weighted assets (RWA) in bn	431	500	524	584	651	16%	5%	12%	11%
Average RWA in bn	271	465	512	554	618	71%	10%	8%	11%
Return on RWA (pre-tax)	**5.4%**	**3.1%**	**3.0%**	**2.9%**	**2.8%**				
Net return on allocated capital (13% on RWA)	**32.5%**	**18.9%**	**18.2%**	**17.6%**	**16.7%**				
Customer loans	**336,897**	**362,955**	**380,223**	**410,469**	**443,206**	**8%**	**5%**	**8%**	**8%**
Retail Banking & Wealth Mgnt (RBWM)	111,769	115,643	120,269	128,688	137,696	3%	4%	7%	7%
Commercial Banking (CMB)	122,882	132,509	139,134	150,265	162,286	8%	5%	8%	8%
Global Banking and Markets (GBM)	89,722	99,934	103,931	112,246	121,226	11%	4%	8%	8%
Global Private Banking (GPB)	10,904	12,894	14,828	17,052	19,610	18%	15%	15%	15%
Others	1,620	1,975	2,061	2,219	2,389	22%	4%	8%	8%
Total assets	**903,517**	**878,723**	**920,958**	**1,001,013**	**1,087,511**	**-3%**	**5%**	**9%**	**9%**
Retail Banking & Wealth Mgnt (RBWM)	158,456	166,577	173,240	185,367	198,343	5%	4%	7%	7%
Commercial Banking (CMB)	146,898	158,747	166,684	180,019	194,421	8%	5%	8%	8%
Global Banking and Markets (GBM)	515,023	548,865	570,820	616,485	665,804	7%	4%	8%	8%
Global Private Banking (GPB)	12,994	14,905	17,141	19,712	22,669	15%	15%	15%	15%
Others	82,453	79,477	82,921	89,278	96,123	-4%	4%	8%	8%
Inter segment elimination	-12,307	-89,848	-89,848	-89,848	-89,848				
Net interest margin (on av total assets)	**1.59%**	**1.30%**	**1.30%**	**1.31%**	**1.32%**				
Retail Banking & Wealth Mgnt (RBWM)	3.84%	3.08%	3.10%	3.15%	3.17%				
Commercial Banking (CMB)	2.83%	2.25%	2.24%	2.29%	2.32%				
Global Banking and Markets (GBM)	0.84%	0.67%	0.66%	0.66%	0.66%				
Global Private Banking (GPB)	1.22%	1.27%	1.28%	1.29%	1.30%				
Loan loss provisioning ratio (on av cust. loans)	**0.20%**	**0.18%**	**0.18%**	**0.22%**	**0.27%**				
Retail Banking & Wealth Mgnt (RBWM)	0.40%	0.28%	0.29%	0.34%	0.40%				
Commercial Banking (CMB)	0.15%	0.18%	0.25%	0.30%	0.40%				
Global Banking and Markets (GBM)	0.00%	0.11%							
Global Private Banking (GPB)	0.05%	-0.01%							
Cost/Income ratio	**43%**	**44%**	**43%**	**43%**	**42%**				
Retail Banking & Wealth Mgnt (RBWM)	48%	48%	47%	46%	46%				
Commercial Banking (CMB)	35%	35%	34%	33%	32%				
Global Banking and Markets (GBM)	37%	38%	37%	37%	37%				
Global Private Banking (GPB)	56%	54%	53%	54%	55%				

Source: Company Data, Macquarie Research, June 2015

Fig 21 HSBC – By geographies (3/5)

Mid-East & North Africa									
US$ m	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2014**	**2015E**	**2016E**	**2017E**
Net interest income	1,486	1,519	1,566	1,606	1,648	2%	3%	3%	3%
Commission income	622	650	692	724	768	5%	6%	5%	6%
Trading income	357	314	333	347	362	-12%	6%	4%	4%
Gains/losses from fin. investments	-18	22							
Other operating income	52	32	37	42	47				
Total operating income	**2,506**	**2,548**	**2,645**	**2,741**	**2,851**	**2%**	**4%**	**4%**	**4%**
Loan loss provisions	42	6	-56	-81	-105	-86%		44%	30%
Operating expenses	-1,289	-1,216	-1,232	-1,262	-1,300	-6%	1%	2%	3%
Profit before tax (adjusted)	**1,697**	**1,826**	**1,852**	**1,923**	**2,002**	**8%**	**1%**	**4%**	**4%**
Retail Banking & Wealth Mgnt (RBWM)	258	323	336	343	357	25%	4%	2%	4%
Commercial Banking (CMB)	645	604	659	677	692	-6%	9%	3%	2%
Global Banking and Markets (GBM)	869	926	889	935	985	7%	-4%	5%	5%
Global Private Banking (GPB)	16	19							
Others	-91	-46	-32	-32	-32				
Risk weighted assets (RWA) in bn	63	63	66	69	72	7%	7%	6%	6%
Average RWA in bn	62	63	65	67	70	1%	3%	4%	4%
Return on RWA (pre-tax)	**2.7%**	**2.9%**	**2.9%**	**2.9%**	**2.9%**				
Net return on allocated capital (12% on RWA)	**16.5%**	**17.6%**	**17.3%**	**17.2%**	**17.2%**				
Customer loans	**27,211**	**29,063**	**30,982**	**32,784**	**34,824**	**7%**	**7%**	**6%**	**6%**
Retail Banking & Wealth Mgnt (RBWM)	6,152	6,318	6,444	6,638	6,903	1%	2%	3%	4%
Commercial Banking (CMB)	11,814	13,104	14,414	15,568	16,813	8%	10%	8%	8%
Global Banking and Markets (GBM)	9,241	9,641	10,123	10,579	11,108	0%	5%	5%	5%
Global Private Banking (GPB)									
Total assets	**60,810**	**62,417**	**65,534**	**67,916**	**71,283**	**3%**	**5%**	**4%**	**5%**
Retail Banking & Wealth Mgnt (RBWM)	7,016	7,073	7,214	7,431	7,728	1%	2%	3%	4%
Commercial Banking (CMB)	13,776	14,911	16,402	17,714	19,131	8%	10%	8%	8%
Global Banking and Markets (GBM)	39,302	39,229	41,190	43,044	45,196	0%	5%	5%	5%
Global Private Banking (GPB)	64	77							
Others	3,340	2,900	2,500	1,500	1,000				
Inter segment elimination	-2,688	-1,773	-1,773	-1,773	-1,773				
Net interest margin (on av total assets)	**2.41%**	**2.47%**	**2.45%**	**2.41%**	**2.37%**				
Retail Banking & Wealth Mgnt (RBWM)	8.62%	8.73%	8.68%	8.48%	8.28%				
Commercial Banking (CMB)	3.30%	3.26%	3.21%	3.06%	2.91%				
Global Banking and Markets (GBM)	1.03%	1.04%	1.04%	1.04%	1.04%				
Global Private Banking (GPB)									
Loan loss provisioning ratio (on av cust. loans)	**-0.15%**	**-0.02%**	**0.19%**	**0.25%**	**0.31%**				
Retail Banking & Wealth Mgnt (RBWM)	0.82%	0.42%	0.45%	0.55%	0.60%				
Commercial Banking (CMB)	0.16%	0.17%	0.20%	0.30%	0.40%				
Global Banking and Markets (GBM)	-1.23%	-0.56%							
Global Private Banking (GPB)									
Cost/Income ratio	**51%**	**48%**	**47%**	**46%**	**46%**				
Retail Banking & Wealth Mgnt (RBWM)	73%	69%	68%	67%	66%				
Commercial Banking (CMB)	40%	43%	41%	41%	41%				
Global Banking and Markets (GBM)	31%	28%	29%	29%	29%				
Global Private Banking (GPB)									

Source: Company Data, Macquarie Research, June 2015

Fig 22 HSBC – By geographies (4/5)

North America US$ m	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Net interest income	5,742	5,015	4,437	4,095	3,828	-13%	-12%	-8%	-7%
Commission income	2,143	1,940	1,796	1,736	1,691	-9%	-7%	-3%	-3%
Trading income	633	717	573	628	683	13%	-20%	10%	9%
Gains/losses from fin. investments	294	257	250	250	250	-13%	-3%		
Other operating income	-228	589	354	204	54				
Total operating income	**8,632**	**8,463**	**7,441**	**6,945**	**6,541**	**-2%**	**-12%**	**-7%**	**-6%**
Loan loss provisions	-1,197	-322	-234	-302	-339	-73%	-27%	29%	12%
Operating expenses	-6,196	-6,052	-5,272	-4,676	-4,131	-2%	-13%	-11%	-12%
Profit before tax (adjusted)	**1,231**	**2,105**	**1,934**	**1,968**	**2,071**	**71%**	**-8%**	**2%**	**5%**
Retail Banking & Wealth Mgnt (RBWM)	-522	770	410	243	163		-47%	-41%	-33%
Commercial Banking (CMB)	786	913	802	834	866	16%	-12%	4%	4%
Global Banking and Markets (GBM)	929	438	567	662	750	-53%	29%	17%	13%
Global Private Banking (GPB)	57	85	67	84	101	49%	-21%	26%	20%
Others	-19	-101	88	145	191				
Risk weighted assets (RWA) in bn	224	221	213	204	195	-1%	-4%	-4%	-4%
Average RWA in bn	238	223	217	208	200	-7%	-2%	-4%	-4%
Return on RWA (pre-tax)	**0.5%**	**0.9%**	**0.9%**	**0.9%**	**1.0%**				
Net return on allocated capital (12% on RWA)	**3.1%**	**5.7%**	**5.4%**	**5.7%**	**6.3%**				
Customer loans	**161,629**	**129,787**	**123,080**	**117,484**	**112,890**	**-20%**	**-5%**	**-5%**	**-4%**
Retail Banking & Wealth Mgnt (RBWM)	66,192	60,365	53,121	46,747	41,137	-9%	-12%	-12%	-12%
Commercial Banking (CMB)	37,735	41,966	44,064	46,268	48,581	11%	5%	5%	5%
Global Banking and Markets (GBM)	51,746	21,110	19,421	17,868	16,438	-59%	-8%	-8%	-8%
Global Private Banking (GPB)	5,956	6,346	6,473	6,602	6,734	7%	2%	2%	2%
Total assets	**432,035**	**436,859**	**401,618**	**369,417**	**338,172**	**1%**	**-8%**	**-8%**	**-8%**
Retail Banking & Wealth Mgnt (RBWM)	82,530	74,680	67,436	61,062	55,452	-10%	-10%	-9%	-9%
Commercial Banking (CMB)	45,706	48,411	50,832	53,373	56,042	11%	5%	5%	5%
Global Banking and Markets (GBM)	313,701	319,819	294,233	270,695	249,039	-59%	-8%	-8%	-8%
Global Private Banking (GPB)	8,542	8,386	8,554	8,725	8,899	7%	2%	2%	2%
Others	13,211	16,823	11,823	6,823					
Inter segment elimination	-31,655	-31,260	-31,260	-31,260	-31,260				
Net interest margin (on av total assets)	**1.25%**	**1.15%**	**1.06%**	**1.06%**	**1.08%**				
Retail Banking & Wealth Mgnt (RBWM)	3.79%	3.36%	2.95%	2.70%	2.50%				
Commercial Banking (CMB)	3.03%	3.09%	3.00%	3.00%	3.00%				
Global Banking and Markets (GBM)	0.18%	0.19%	0.18%	0.19%	0.20%				
Global Private Banking (GPB)	2.25%	2.41%	2.40%	2.40%	2.40%				
Loan loss provisioning ratio (on av cust. loans)	**0.79%**	**0.22%**	**0.19%**	**0.25%**	**0.29%**				
Retail Banking & Wealth Mgnt (RBWM)	1.33%	0.18%	0.15%	0.25%	0.30%				
Commercial Banking (CMB)	0.60%	0.37%	0.30%	0.35%	0.40%				
Global Banking and Markets (GBM)	0.05%	0.17%	0.10%	0.10%	0.10%				
Global Private Banking (GPB)	0.07%	-0.13%							
Cost/Income ratio	**72%**	**72%**	**71%**	**67%**	**63%**				
Retail Banking & Wealth Mgnt (RBWM)	87%	74%	80%	82%	83%				
Commercial Banking (CMB)	53%	51%	54%	54%	53%				
Global Banking and Markets (GBM)	64%	77%	73%	69%	66%				
Global Private Banking (GPB)	82%	78%	80%	76%	72%				

Source: Company Data, Macquarie Research, June 2015

Fig 23 HSBC – By geographies (5/5)

Latin America US$ m	2013	2014	2015E	2016E	2017E	2014	2015E	2016E	2017E
Net interest income	6,186	5,310	5,095	2,646	2,684	-14%	-4%	-48%	1%
Commission income	1,701	1,415	1,350	709	723	-17%	-5%	-48%	2%
Trading income	936	856	640	365	374	-9%	-25%	-43%	3%
Gains/losses from fin. investments	82	84	79	41	51	2%	-6%	-48%	24%
Net earned insurance premiums	1,830	1,523	1,518	786	786	-17%	0%	-48%	
Other operating income	8	149	-65	-122	-119			87%	-2%
Total operating income	**11,078**	**10,037**	**9,054**	**4,655**	**4,733**	**-9%**	**-10%**	**-49%**	**2%**
Net insurance claims	-1,617	-1,765	-1,594	-825	-825	9%	-10%	-48%	
Loan loss provisions	-2,666	-2,124	-1,504	-526	-385	-20%	-29%	-65%	-27%
Operating expenses	-5,854	-5,816	-5,510	-2,264	-2,387	-1%	-5%	-59%	5%
Profit before tax (adjusted)	**941**	**332**	**446**	**1,039**	**1,137**	**-65%**	**34%**	**133%**	**9%**
Retail Banking & Wealth Mgnt (RBWM)	426	-90	-18	461	512		-80%		11%
Commercial Banking (CMB)	-12	-63	202	352	374	425%		74%	6%
Global Banking and Markets (GBM)	851	450	255	218	242	-47%	-43%	-15%	11%
Global Private Banking (GPB)	1	-4	2	6	5				
Others	-325	39	5	3	3				
Risk weighted assets (RWA) in bn	90	89	87	39	44	-1%	-2%	-55%	14%
Average RWA in bn	94	89	88	63	41	-5%	-1%	-28%	-34%
Return on RWA (pre-tax)	**1.0%**	**0.4%**	**0.5%**	**1.7%**	**2.7%**				
Net return on allocated capital (12% on RWA)	**6.1%**	**2.3%**	**3.1%**	**10.0%**	**16.5%**				
Customer loans	**43,920**	**43,122**	**43,042**	**18,295**	**19,753**	**-2%**	**0%**	**-57%**	**8%**
Retail Banking & Wealth Mgnt (RBWM)	13,616	12,306	11,691	3,441	3,716	-10%	-5%	-71%	8%
Commercial Banking (CMB)	19,923	20,078	20,078	11,828	12,774	1%		-41%	8%
Global Banking and Markets (GBM)	10,306	10,642	11,174	2,924	3,158	3%	5%	-74%	8%
Global Private Banking (GPB)	75	96	99	102	105	28%		3%	
Others									
Total assets	**113,999**	**115,354**	**116,692**	**110,587**	**119,478**	**1%**	**1%**	**-5%**	**8%**
Retail Banking & Wealth Mgnt (RBWM)	30,584	29,074	27,620	25,970	28,048	-5%	-5%	-6%	8%
Commercial Banking (CMB)	30,001	29,851	29,851	28,201	30,457	0%		-6%	8%
Global Banking and Markets (GBM)	52,977	55,827	58,618	56,968	61,526	5%	5%	-3%	8%
Global Private Banking (GPB)	337	298	298	298	298	-12%			
Others	634	1,155	1,155						
Inter segment elimination	-534	-851	-851	-851	-851				
Net interest margin (on av total assets)	**5.04%**	**4.63%**	**4.39%**	**2.33%**	**2.33%**				
Retail Banking & Wealth Mgnt (RBWM)	11.32%	11.14%	11.04%	6.13%	6.14%				
Commercial Banking (CMB)	5.58%	5.11%	5.06%	2.73%	2.76%				
Global Banking and Markets (GBM)	1.39%	0.90%	0.86%	0.45%	0.44%				
Global Private Banking (GPB)	5.29%	5.98%	6.71%	3.52%	3.70%				
Loan loss provisioning ratio (on av cust. loans)	**5.47%**	**4.88%**	**3.49%**	**1.72%**	**2.02%**				
Retail Banking & Wealth Mgnt (RBWM)	10.06%	8.42%	6.50%	3.61%	4.96%				
Commercial Banking (CMB)	4.69%	3.88%	2.84%	1.25%	1.38%				
Global Banking and Markets (GBM)									
Global Private Banking (GPB)									
Cost/Income ratio	**62%**	**70%**	**74%**	**59%**	**61%**				
Retail Banking & Wealth Mgnt (RBWM)	65%	78%	82%	67%	70%				
Commercial Banking (CMB)	60%	68%	67%	55%	56%				
Global Banking and Markets (GBM)	40%	46%	59%	49%	49%				
Global Private Banking (GPB)	98%	98%	96%	79%	80%				

Source: Company Data, Macquarie Research, June 2015

Appendix

HSBC assumptions: HSBC management estimate of required CET1 ratio in 2019 of 12-13%

- A Capital Conservation Buffer (CCB) of 2.5% and a Global systemically important institution (G-SII) buffer of 2.5% will phase-in from January 2016. The Systemic Risk Buffer has not yet been set – it is to be applied to the ring fenced bank from January 2019; if applied at the group level, we expect the higher of the G-SII and Systemic Risk buffer to apply. **The Countercyclical Capital Buffer (CCyB) is currently 0% and is dependent on the buffer rates set by regulators** applicable at the time; impact of announced rates (0.625% for Hong Kong from January 2016; 1% for Norway and Sweden from October 2015) currently estimated as not significant. Sectoral Capital Requirements (SCR) are currently not deployed in the UK. A residential mortgage floor is currently applied in Hong Kong. The requirements for G-SII, SCR, CCyB and PRA buffer are subject to change, dependent on circumstances at the time.
- Pillar 2A guidance is a point in time assessment of the amount of capital the PRA consider the bank should hold, to meet the overall financial adequacy rule and is subject to change, pending periodic assessment and supervisory review process; Individual Capital Guidance ('ICG') was recently revised and a total Pillar 2A of 2% of RWAs is in effect from February 2015, of which 1.1% (56% of total P2A) is to be met with CET1 capital.
- G-SII is the CRD IV equivalent of the Basel Committee's / FSB G-SIB buffer. 4. As per PRA's consultation paper CP1 / 15 "Assessing capital adequacy under Pillar 2" (issued in January 2015), to the extent there is duplication of risks being covered, the PRA buffer would be offset by some of the CRD IV buffers – namely, the G-SII and CCB. The risk management and governance scalar, if implemented and where applicable, would not be allowed to offset. Final Pillar 2 rules are expected in July 2015.

Source: HSBC

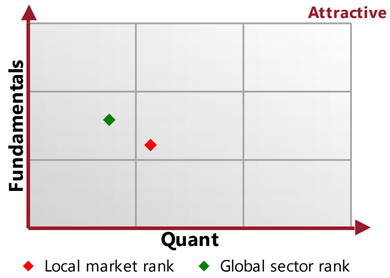
Macquarie Quant View

The quant model currently holds a neutral view on HSBC. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Earnings Momentum, indicating this stock has received earnings downgrades and is not well liked by sell side analysts.

500/666

Global rank in Banks

% of BUY recommendations	26% (7/27)
Number of Price Target downgrades	7
Number of Price Target upgrades	7

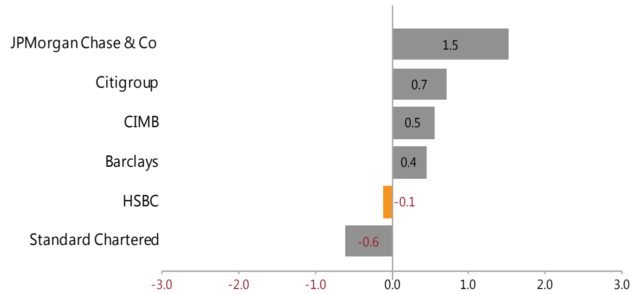


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Europe) and Global sector (Banks)

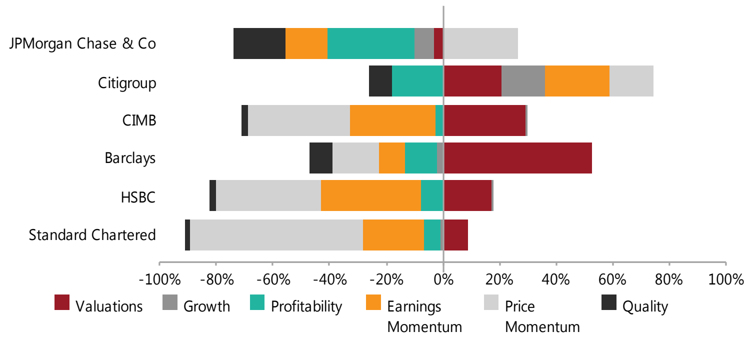
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



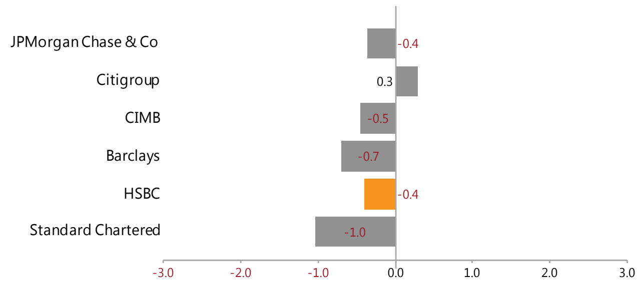
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



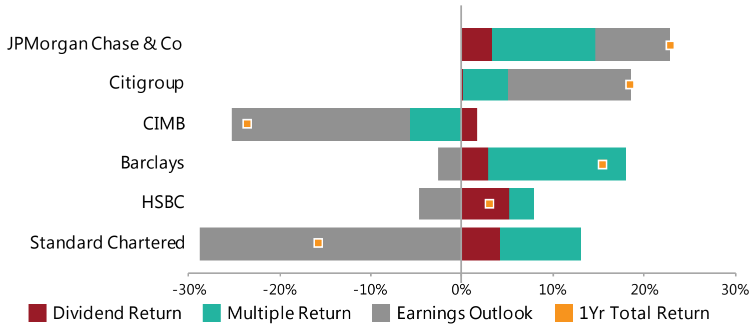
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



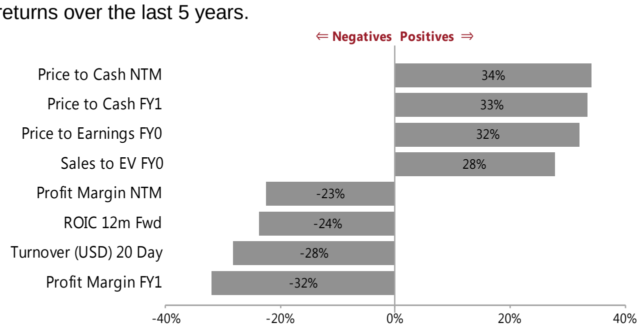
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



What drove this Company in the last 5 years

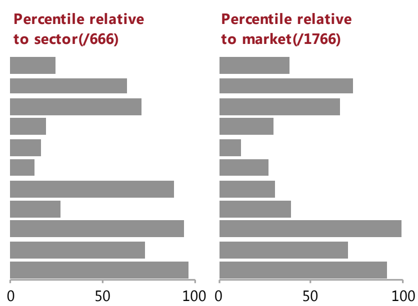
Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.

	Normalized Score
Alpha Model Score	-0.11
Valuation	0.19
Growth	0.07
Profitability	-0.48
Earnings Momentum	-0.58
Price Momentum	-0.42
Quality	-0.20
Capital & Funding	-0.08
Liquidity	1.08
Risk	0.20
Technicals & Trading	0.93



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

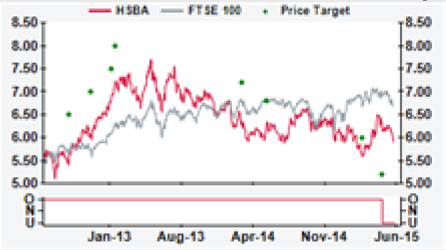
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2015

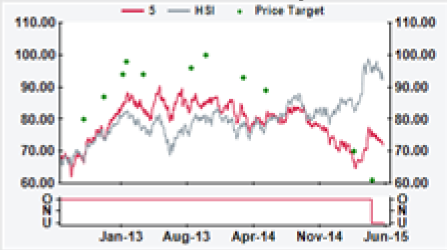
	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	48.99%	59.51%	49.30%	43.79%	59.59%	52.20%	(for US coverage by MCUSA, 7.42% of stocks followed are investment banking clients)
Neutral	34.12%	26.62%	35.21%	50.29%	34.93%	31.32%	(for US coverage by MCUSA, 5.68% of stocks followed are investment banking clients)
Underperform	16.89%	13.87%	15.49%	5.93%	5.48%	16.48%	(for US coverage by MCUSA, 0.87% of stocks followed are investment banking clients)

HSBA LN vs FTSE 100, & rec history



(all figures in GBP currency unless noted)

5 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, June 2015

12-month target price methodology

HSBA LN: £5.20/HK$61 based on a Price to Book methodology

5 HK: HK$61.00 based on a Price to Book methodology

Company-specific disclosures:
5 HK: Macquarie Capital Securities Limited makes a market in the securities of HSBC Holdings PLC.
Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
11-May-2015	HSBA LN	Underperform	£5.20
10-Mar-2015	HSBA LN	Outperform	£6.00
15-May-2014	HSBA LN	Outperform	£6.80
27-Feb-2014	HSBA LN	Outperform	£7.20
28-Jan-2013	HSBA LN	Outperform	£8.00
16-Jan-2013	HSBA LN	Outperform	£7.50
13-Nov-2012	HSBA LN	Outperform	£7.00
05-Sep-2012	HSBA LN	Outperform	£6.50

Target price risk disclosures:
HSBA LN: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.
5 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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