Leading the way in Asia, Africa and the Middle East

Richard Meddings
Group Finance Director
Key messages

- 2013 performance has been resilient

- We are confident in our markets and our competitive strengths

- Our strategy remains consistent and we are sharpening our focus

- We aspire to strong growth while focusing on returns
10 years of financial objectives

Profit and income (US$bn)

- Operating income
- Operating profit before tax

Earnings Per Share (EPS) cents

- 2002: 63 cents
- 2003: 76 cents
- 2004: 105 cents
- 2005: 144 cents
- 2006: 167 cents
- 2007: 169 cents
- 2008: 197 cents
- 2009: 198 cents
- 2010: 225 cents

10 year CAGR 15%

10 year profit CAGR 18%

Double digit income growth
Flat cost-income jaws (with a positive bias)
Double digit EPS Growth
Mid-teens ROE* medium term

* Return on Equity

Progression
Met
Missed
Financial framework - next couple of years

- **High single**
  - Double digit income growth

- **Positive**
  - Neutral cost – income jaws (with positive bias)

- Double digit Earnings per Share (EPS) growth

- Mid-teens Return on Equity (ROE) over the medium term

  - Earnings growth ahead of Risk Weighted Asset (RWA) growth
Financial framework (cont’d)

- Simplify business processes
- Adopt agile working
- Cost efficiencies through automation

### Operational cost

- **Operations cost-income jaws (%):**
  - 2011: 5.4
  - 2012: 4.8
  - 2013: 4.9

- **FX transaction cost (US$):**
  - 2011: 1.7
  - 2012: 1.6
  - 2013: 1.4

### RWA management

- Investment prioritisation
- Greater returns from RWA deployed
- Driving greater cross sell into lower RWA intensive products
- Intensify our focus on sub-optimal returns
- Disciplined limit management and facility structuring including collateral management
- Continue to develop our distribution channels
Strong foundations

Basics of good banking

**Principles**
- A conscious strategy to build balance sheet strength
- Balance sheet as a competitive differentiator
- Focus on organic equity generation to self fund growth

**Capital & Liquidity**
- Strongly capitalised
- Highly liquid
- Geographies independently liquid
- Low refinancing needs

**Risk**
- Clearly defined risk appetite
- Diversity by geography, sector and product
- Conservative balance sheet
- Short tenor, low concentrations, well collateralised

**Financial Metrics**
- Double digit income growth
- Neutral cost-income jaws (with a positive bias)
- Double digit EPS growth
- Mid teens ROE over the medium term
Liquidity

- Well diversified by funding source and region, with US$184bn of liquid assets
- Customer deposit funded with a strong Assets to Deposit (A/D) ratio
- US$5.4bn of Tier 2 issuances and US$1.4bn of senior unsecured in 2013

Results of daily 8 day stress testing*

* As at 30 June 2013
Capital

- Strongly capitalised with a focus on Common Equity Tier (CET) 1
- Pro-forma Basel III CET1 ratio impact of 80bps to 100bps
- Pro forma Basel III end point leverage ratio of 4.6%

Funding profile (US$bn)

Note: Capital refinancing has been modelled based on first call date at the Group level only
CRD IV – impact and model changes

### Basel III impact on capital

<table>
<thead>
<tr>
<th></th>
<th>H1 2013 (Basel 2.5)</th>
<th>Capital</th>
<th>RWA</th>
<th>Others</th>
<th>H1 2013 (Basel III)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11.4</td>
<td>(0.5)</td>
<td>(0.3)</td>
<td>(0.2)</td>
<td>10.4</td>
</tr>
</tbody>
</table>

### IRB* model performance

- **All IRB**: Impact and model changes on capital.
- **Residential mortgages**: Impact and model changes on capital.
- **Institutions and central governments**: Impact and model changes on capital.
- **Corporates**: Impact and model changes on capital.
- **Consumer banking**: Impact and model changes on capital.
- **Wholesale banking**: Impact and model changes on capital.

**Note**: Period net impairment charge vs Opening regulatory Expected Loss (EL).

### Conservative models

<table>
<thead>
<tr>
<th>Year</th>
<th>Impairment Charge</th>
<th>IRB Expected Loss</th>
<th>Multiples</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>902</td>
<td>3,348</td>
<td>3.7x</td>
</tr>
<tr>
<td>2011</td>
<td>584</td>
<td>3,197</td>
<td>5.5x</td>
</tr>
<tr>
<td>2010</td>
<td>670</td>
<td>2,919</td>
<td>4.4x</td>
</tr>
<tr>
<td>2009</td>
<td>1,342</td>
<td>2,071</td>
<td>1.5x</td>
</tr>
</tbody>
</table>

**Note**: No Wholesale models have under-predicted losses.

* Internal Ratings Based (IRB)

### Wholesale Banking model over-prediction of losses (past 12 months)

- **86%**: Over 100%
- **7%**: 40% - 100%
- **7%**: 15% - 40%

**Note**: No Wholesale models have under-predicted losses.

* Internal Ratings Based (IRB)*
Resource allocation framework

- **Growth**
  - Top line - Income growth

- **Returns**
  - Return on RWA – Profit and income

- **Dividend**
  - Dividends vs. equity deployed

- **Network**
  - Growth and returns from domestic, inbound and network businesses

- **Strategic value**
  - GDP growth, banking sector growth and profitability, risk and liquidity

---

**Growth vs. returns**

- Income growth CAGR 2009 – 2012 (%)

**Market share**

- 2017 GDP (US$bn)

*Note: size of the bubble reflects 2012 income*
India

Our plan

- Selectively allocate RWA capacity to support client growth
- Improve capital efficiency and returns
- Improve productivity and reduce cost base
- Focus on local currency liability gathering
- Continue to grow network business

Financial performance

- Customer Loans and Advances
- Wholesale Banking income
- Consumer Banking income

Growth vs. returns

India export growth* CAGR 10% 2005-2012
2013-2018 GDP growth 6.3%

2012 Banking sector* ROE 18.9%

Source: International Monetary Fund, World Economic Outlook
Korea

Our plan

- De-risk loan portfolios
- Reshape the balance sheet to improve capital efficiency and returns
- Focus on inbound and network income
- Align RWA to build network income
- Focus on cost productivity

Financial performance

- Customer Loans and Advances
- Wholesale Banking income
- Consumer Banking income

Growth vs. returns

- Returns: RoRWA 2010-2012

Korea

7th largest exporter in 2012

2013 H1 Banking sector* ROE 3.0%

2013-2018 GDP growth* 3.9%

Source: International Monetary Fund, World Economic Outlook
Hong Kong

Our plan

- Continue to invest RWA and expense capacity
- Capture financial flows into and out of China
- Further integrate the Greater China strategy
- Capitalise on the RMB internationalisation opportunity

Financial performance

- Customer Loans and Advances
- Wholesale Banking income
- Consumer Banking income

Growth vs. returns

Growth (Income growth 2009 – 2012)

2013-2018 GDP growth* 4.5%

2012 Banking sector* ROE 15.5%

China

Largest exporter in 2012

Source: International Monetary Fund, World Economic Outlook
Our plan

- Continue to invest RWA and expense capacity
- Enhance distribution through “Africa 100”
- Deliver digital capabilities
- Develop local balance sheet scale in Nigeria
- Extend footprint to next generation markets

Financial performance

- Africa-China trade CAGR 35% 2002-2012
- 2012 Banking sector* ROE 17.2%
- 2013-2018 GDP growth* 5.4%

Source: International Monetary Fund, World Economic Outlook
Key messages

- 2013 performance has been resilient
- We are confident in our markets and our competitive strengths
- Our strategy remains consistent and we are sharpening our focus
- We aspire to strong growth while focusing on returns