

## Presentation to Investors and Analysts



# 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 Interim Report. 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 can be found in HSBC's 2010 Interim Report in the Operating and Financial Review.

# Headline results

## Strongly improved performance

		1H09		1H10
Reported PBT	More than doubled	US\$5,019m	+121%	US\$11,104m
Reported PBT ex FV of own debt <sup>1</sup>	Strong increase	US\$7,476m	+34%	US\$10,030m
Underlying PBT <sup>2</sup>	Strong increase	US\$7,385m	+30%	US\$9,630m
Core tier 1 ratio <sup>3</sup>	Generated capital	8.8%		9.9%
Dividends <sup>4</sup>	A leading industry payer	US\$2,769m		US\$2,795m

Notes:

- (1) Reported profit before tax ex changes in fair value (FV) of own debt designated at FV due to credit spread as shown on slide 5
- (2) Underlying results eliminate the effects of foreign currency translation differences, acquisitions and disposals of businesses and changes in FV of own debt designated at FV due to credit spread
- (3) As at 30 June
- (4) Declared on ordinary shares in respect of 1H09 and 1H10

# Financial overview, 1H10

# Financial overview

## Summary of reported results

US\$m	1H09	2H09	1H10	% Better / (worse)	
				1H09	2H09
Income ex changes in FV of own debt due to credit spread	37,198	35,516	<b>34,477</b>	(7)	(3)
Loan impairment <sup>1</sup> (LICs)	(13,931)	(12,557)	<b>(7,523)</b>	+46	+40
Net operating income	23,267	22,959	<b>26,954</b>	+16	+17
Operating expenses	(16,658)	(17,737)	<b>(18,111)</b>	(9)	(2)
Associates and joint ventures	867	914	<b>1,187</b>	+37	+30
Profit before tax, ex changes in FV of own debt due to credit spread	7,476	6,136	<b>10,030</b>	+34	+63
Changes in FV of own debt due to credit spread	(2,457)	(4,076)	<b>1,074</b>	n/m	n/m
Profit before tax	5,019	2,060	<b>11,104</b>	+121	+439
Tax	(1,286)	901	<b>(3,856)</b>	(200)	n/m
Profit after tax	3,733	2,961	<b>7,248</b>	+94	+145
Profit attributable to ordinary shareholders	3,347	2,487	<b>6,763</b>	+102	+172
EPS <sup>2</sup> US\$	0.21	0.13	<b>0.38</b>	+81	+192

Notes:

- (1) Loan impairment charges and other credit risk provisions  
(2) Earnings per ordinary share

# Financial overview

## Significant factors (on a reported basis)

US\$m	1H09	2H09	1H10
<b>Items excluded from underlying profit before tax</b>			
Changes in FV of own debt due to credit spread	(2,457)	(4,076)	<b>1,074</b>
Gain on sale of UK merchant acquiring business	280	–	–
Reclassification of Bao Viet from investment to associate	–	–	<b>62</b>
Gain on sale of Wells Fargo HSBC Trade Bank	–	–	<b>66</b>
Gain on sale of Insurance Brokers	–	–	<b>107</b>
Dilution gain on investment in Ping An	–	–	<b>188</b>
Loss on agreement to sell British Arab Commercial Bank	–	–	<b>(47)</b>

# Financial overview

## Significant factors (within underlying basis)

US\$m	1H09	2H09	1H10
<b>Profit before tax items</b>			
Global Banking and Markets trading (write-downs) / write backs	(602)	271	<b>362</b>
Impairment of Available for Sale (AFS) debt securities	(591)	(883)	<b>(282)</b>
Impairment of AFS equity securities	(281)	(77)	<b>(40)</b>
Gain on sale of Fifth Avenue and gain on sale and leaseback of 8 Canada Square (2H09) / Champs Elysées (1H10)	–	576	<b>250</b>
Pension curtailment gains / (other gains)	499	–	<b>148</b>
Bonus tax	–	–	<b>(367)</b>
Non-Qualifying Hedges (NQH)	977	(26)	<b>(1,099)</b>
Tax on sale by HSBC North America Holdings Inc of HSBC Canada to HSBC Overseas (UK) Holdings Ltd	–	–	<b>(1,590)</b>

# Financial overview

## Underlying growth, 1H10 vs 1H09

US\$m	1H09	1H10	% Better / (worse)
Net operating income <sup>1</sup>	38,065	<b>34,058</b>	(11)
Loan impairment <sup>2</sup>	(14,294)	<b>(7,523)</b>	+47
Net operating income	23,771	<b>26,535</b>	+12
Operating expenses	(17,251)	<b>(18,092)</b>	(5)
Associates and joint ventures	865	<b>1,187</b>	+37
<b>Profit before tax</b>	<b>7,385</b>	<b>9,630</b>	<b>+30</b>

Notes:

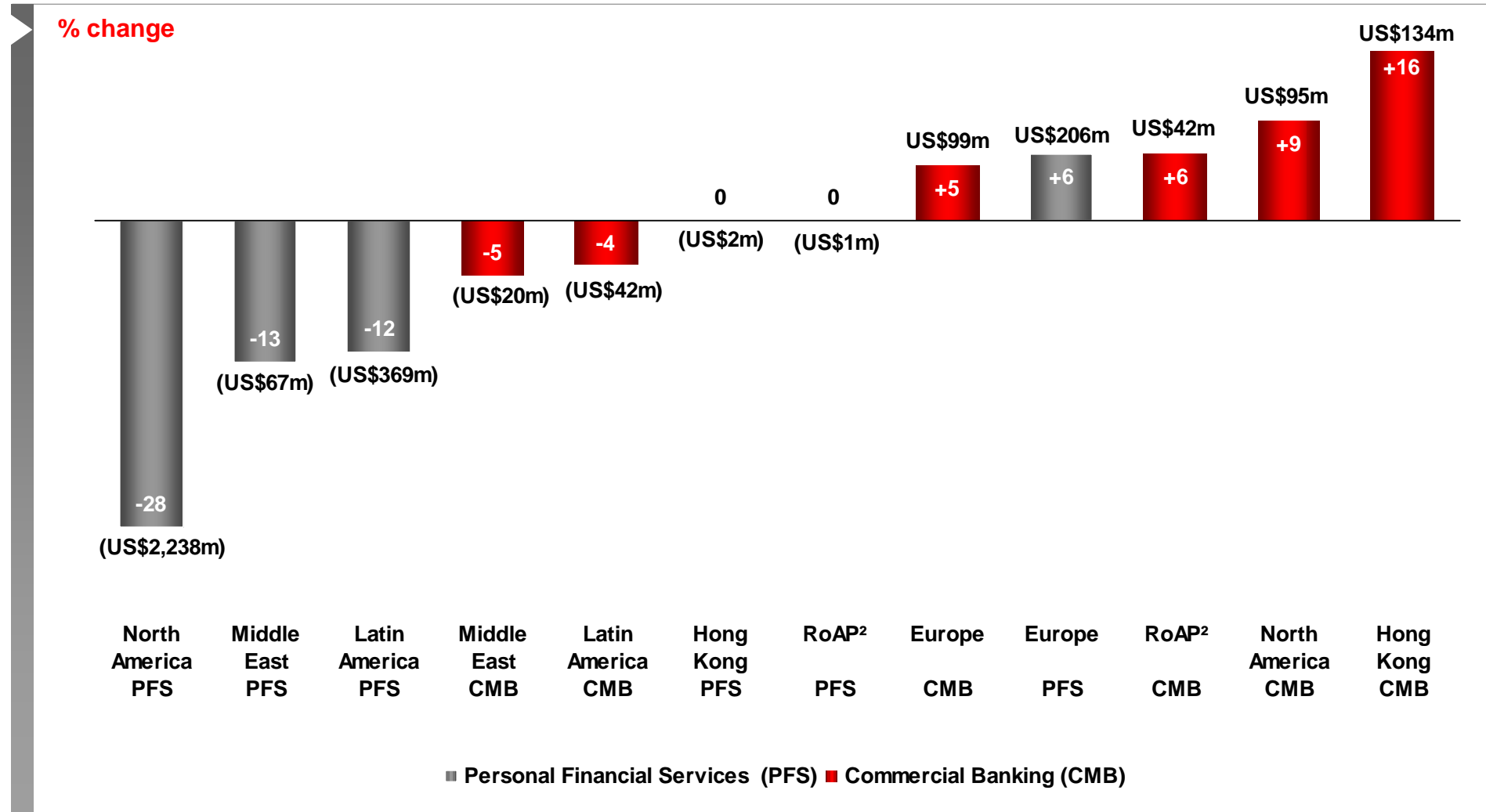
(1) Net operating income before LICs

(2) LICs



# Retail businesses

Revenue growth<sup>1</sup>, 1H10 vs 1H09



Notes:

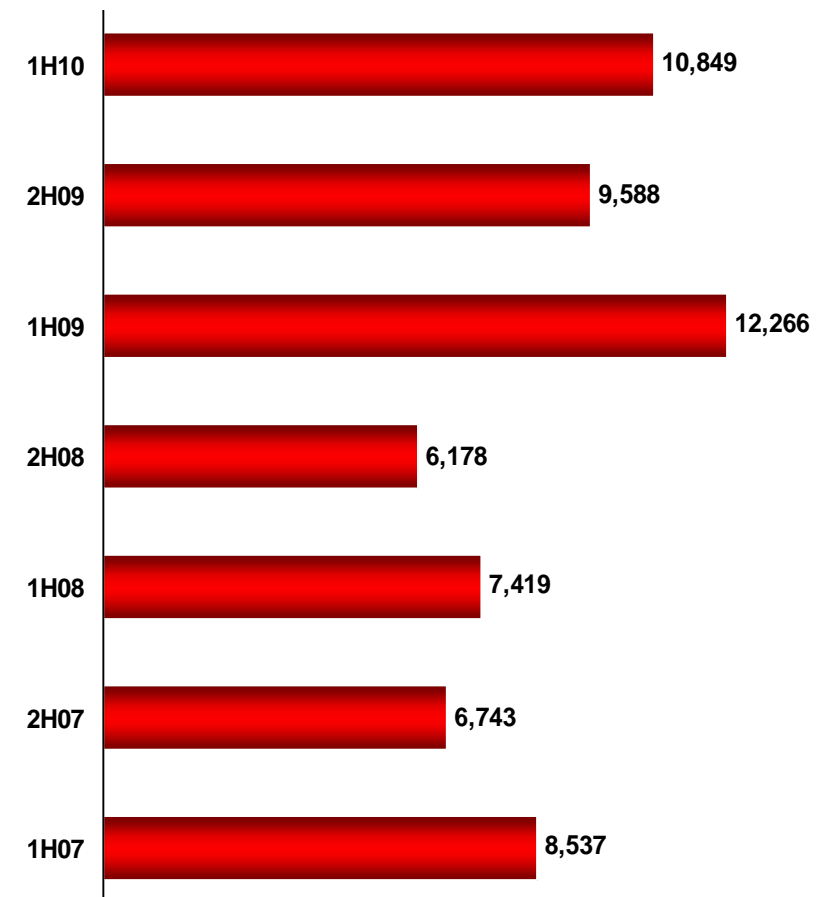
- (1) Net operating income before LICs on an underlying basis
- (2) Rest of Asia-Pacific

# Revenue growth

## Global Banking and Markets, 1H10 vs 1H09

Management view of total operating income US\$m	1H09	1H10
Foreign exchange	1,797	1,513
Credit	1,066	1,043
Rates	1,964	1,529
Equities	315	479
Securities services	712	718
Asset and structured finance	137	260
<b>Global Markets</b>	<b>5,991</b>	<b>5,542</b>
Financing and ECM	1,609	1,420
Payments and cash management	535	542
Other transaction services	259	326
<b>Global Banking</b>	<b>2,403</b>	<b>2,288</b>
<b>Balance Sheet Management</b>	<b>3,350</b>	<b>2,269</b>
<b>Global Asset Management</b>	<b>414</b>	<b>540</b>
<b>Principal Investments</b>	<b>(38)</b>	<b>126</b>
<b>Other</b>	<b>146</b>	<b>84</b>
<b>Total</b>	<b>12,266</b>	<b>10,849</b>

### Half yearly revenue progression US\$m



# Financial overview

Underlying growth, 1H10 vs 2H09

US\$m	2H09	1H10	% Better / (worse)
Net operating income	34,812	<b>34,101</b>	(2)
Loan impairment	(12,416)	<b>(7,523)</b>	+39
Net operating income	22,396	<b>26,578</b>	+19
Operating expenses	(17,315)	<b>(18,111)</b>	(5)
Associates and joint ventures	915	<b>1,187</b>	+30
<b>Profit before tax</b>	<b>5,996</b>	<b>9,654</b>	<b>+61</b>

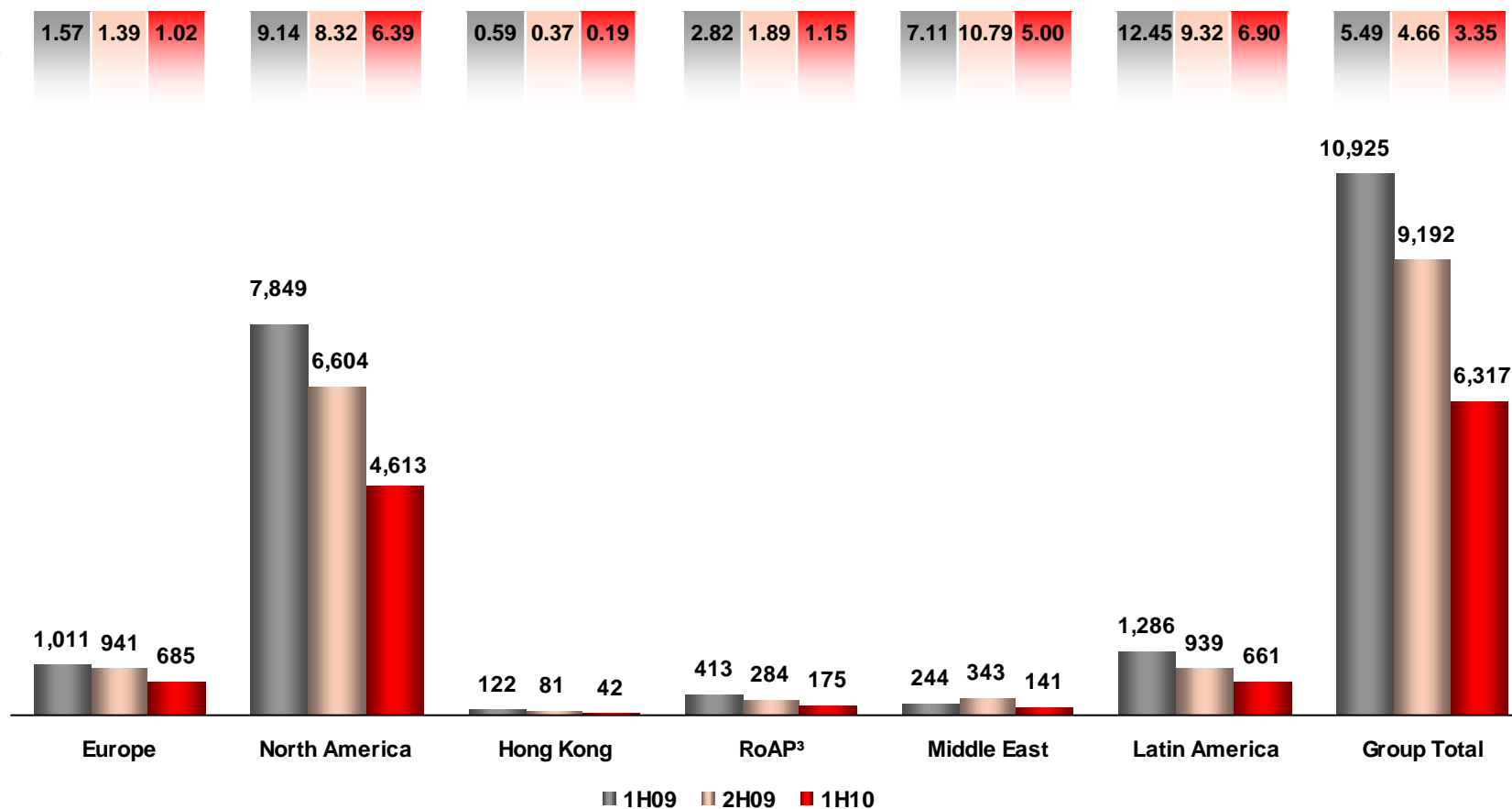
# Credit quality strongly improved

## Personal Financial Services

### Loan impairment charges and other credit risk provisions<sup>1</sup>

US\$m

LIC as %  
of average  
advances<sup>2</sup>



Notes:

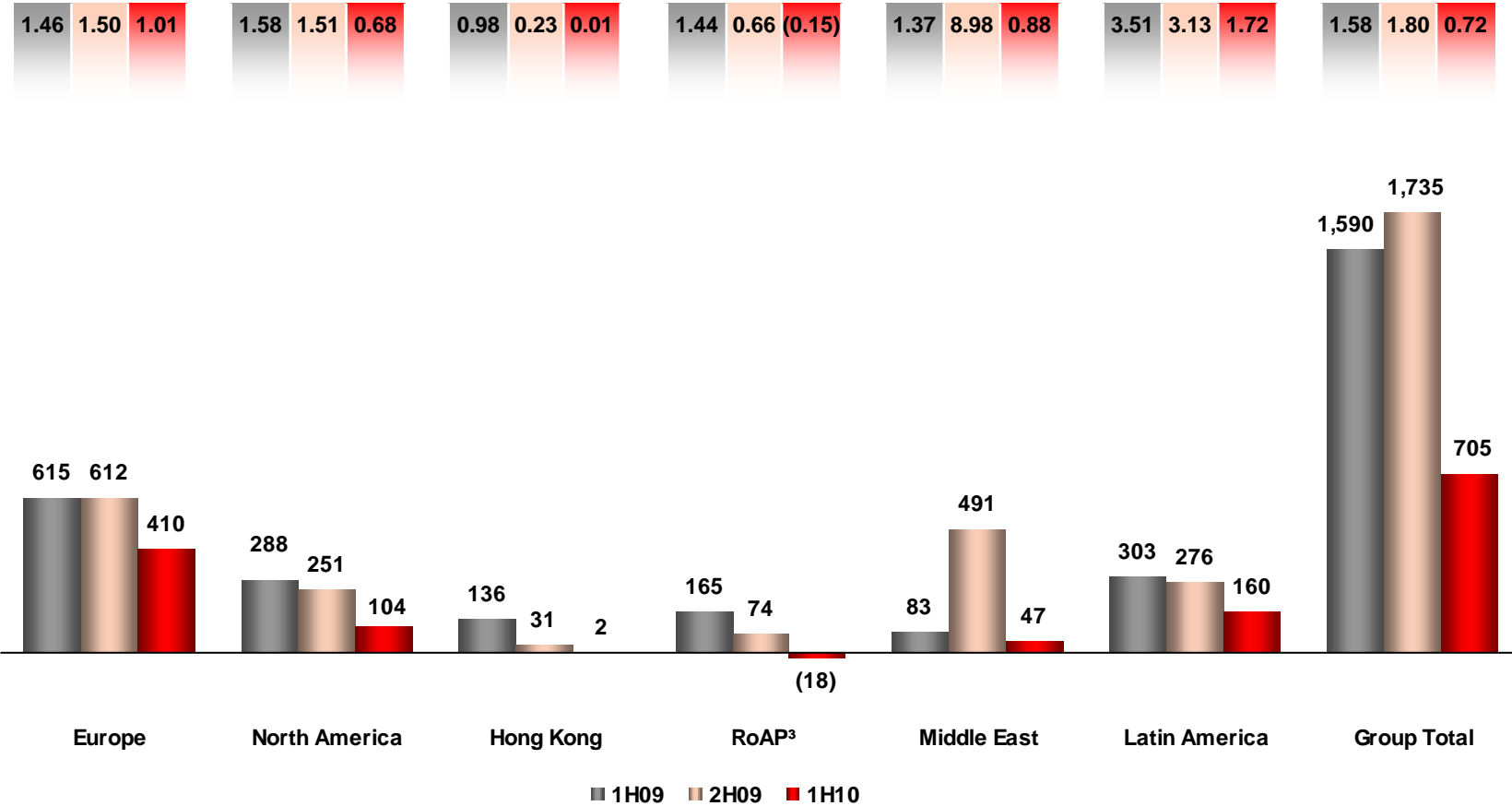
- (1) LICs for 1H09 and 2H09 on an underlying basis
- (2) LICs as a % of average advances on a net basis
- (3) Rest of Asia-Pacific

# Credit quality strongly improved

## Commercial Banking

### Loan impairment charges and other credit risk provisions<sup>1</sup> US\$m

LIC as %  
of average  
advances<sup>2</sup>

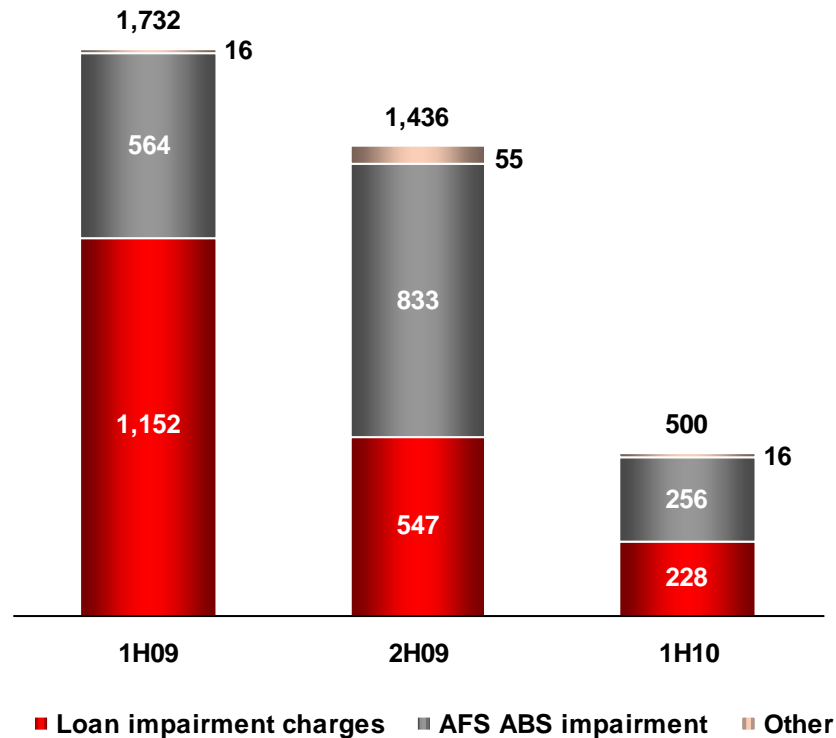


Notes:  
 (1) LICs for 1H09 and 2H09 on an underlying basis  
 (2) LICs as a % of average advances on a net basis  
 (3) Rest of Asia-Pacific

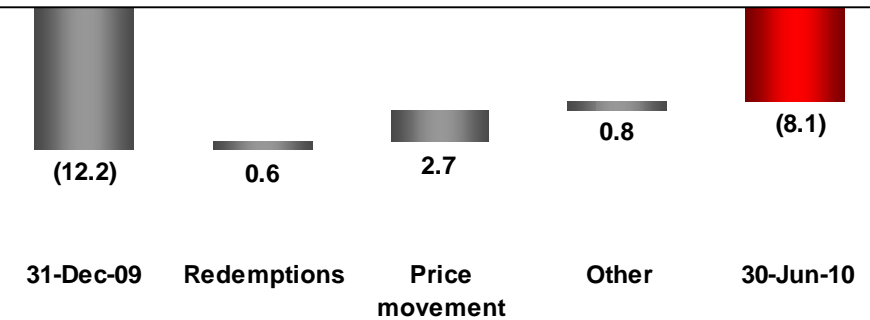
# Credit quality strongly improved

## Global Banking and Markets

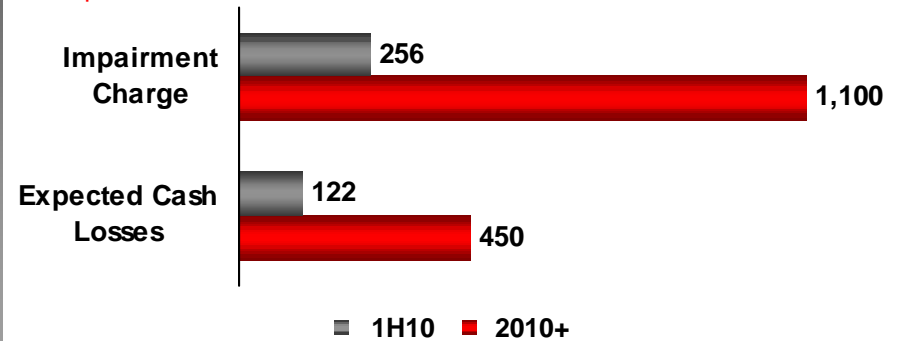
**Loan impairment charges and other credit risk provisions<sup>1</sup>**  
US\$m



**AFS ABS reserve<sup>2</sup>, 30 Jun 2010**  
US\$bn



**AFS ABS impairment charge and expected losses<sup>3</sup>**  
In line with expectations  
US\$m



Notes:

- (1) Reported basis
- (2) Available-for-sale fair value reserve in respect of asset-backed securities
- (3) Management's estimate can be found in the Interim Report 2010

# Insurance

Strong growth in contribution to profits

US\$bn <sup>1</sup>	1H09	2H09	1H10	% Better / (worse)	
				1H09	2H09
Net earned premiums	5.1	5.3	<b>5.7</b>	+11	+7
Investment income <sup>2</sup>	1.5	2.5	<b>0.8</b>	(45)	(65)
Net claims incurred and movements in liabilities to policyholders	(5.5)	(6.7)	<b>(5.1)</b>	+8	+23
PVIF <sup>3</sup> movement	0.3	0.3	<b>0.3</b>	+11	+5
Net underwriting result	1.4	1.4	<b>1.7</b>	+23	+28
Net fee income	0.5	0.5	<b>0.5</b>	(7)	0
Other operating income	0.1	–	–	–	–
Net operating income	2.0	1.9	<b>2.2</b>	+13	+20
Operating expenses	(1.0)	(0.9)	<b>(0.9)</b>	+4	(3)
Operating profit	1.0	1.0	<b>1.3</b>	+30	+36
Associates and joint ventures	0.2	0.3	<b>0.3</b>	+63	+11
<b>Profit before tax</b>	<b>1.2</b>	<b>1.3</b>	<b>1.6</b>	<b>+36</b>	<b>+30</b>

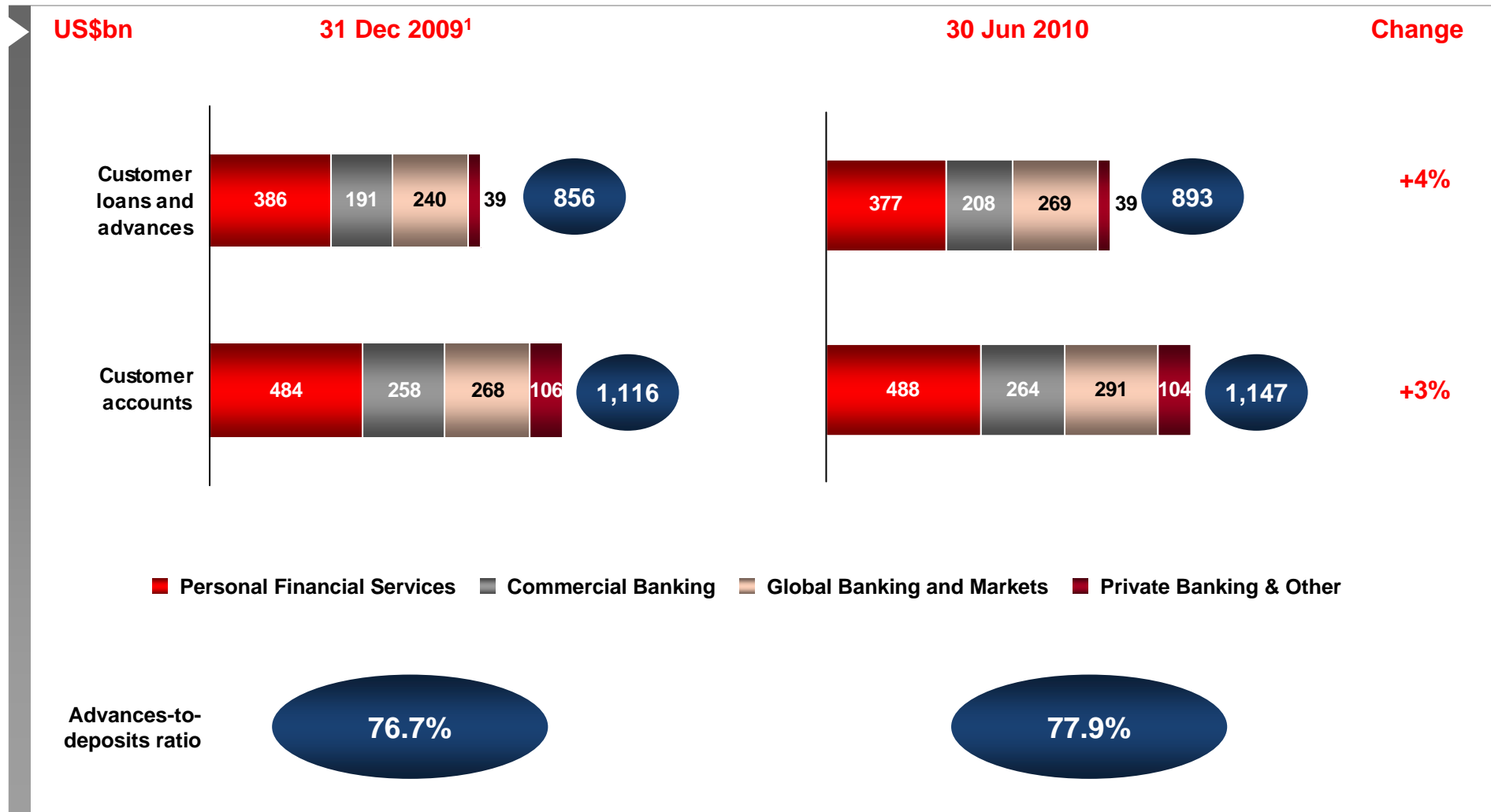
Notes:

(1) Underlying basis

(2) Investment income includes net income from financial instruments designated at fair value 1H09: US\$0.7bn, 2H09: US\$1.6bn, 1H10: US\$(-)bn. To the extent that these investment gains and losses are passed to policyholders, an offsetting entry will flow through the net claims incurred and movements in policyholder liabilities line to reflect the related movement in policyholder liabilities

(3) Present value of in-force long term insurance business

# Maintaining our funding strength



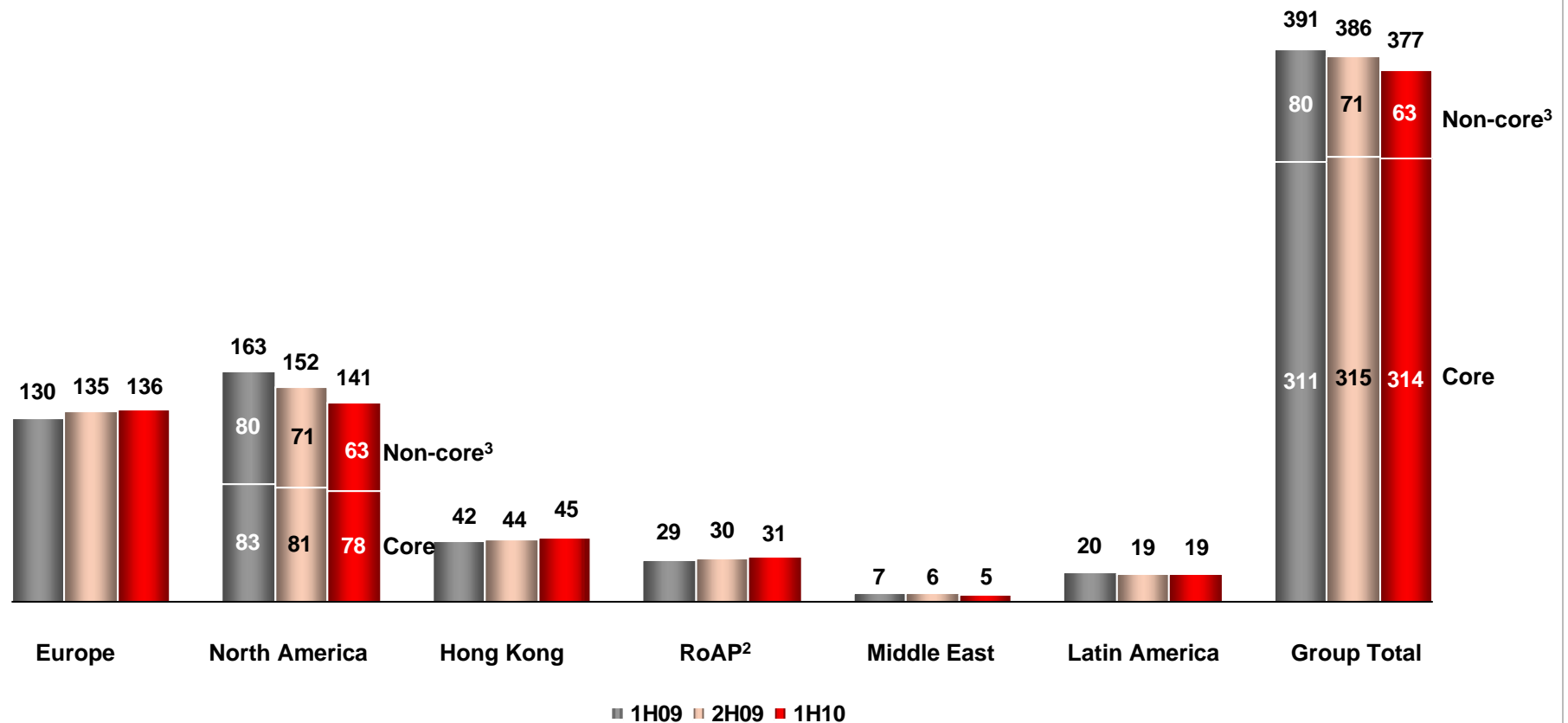
Note:  
 (1) Underlying basis



# Customer loans and advances

Personal Financial Services – stable pattern in core business

Customer loans and advances<sup>1</sup>  
US\$bn



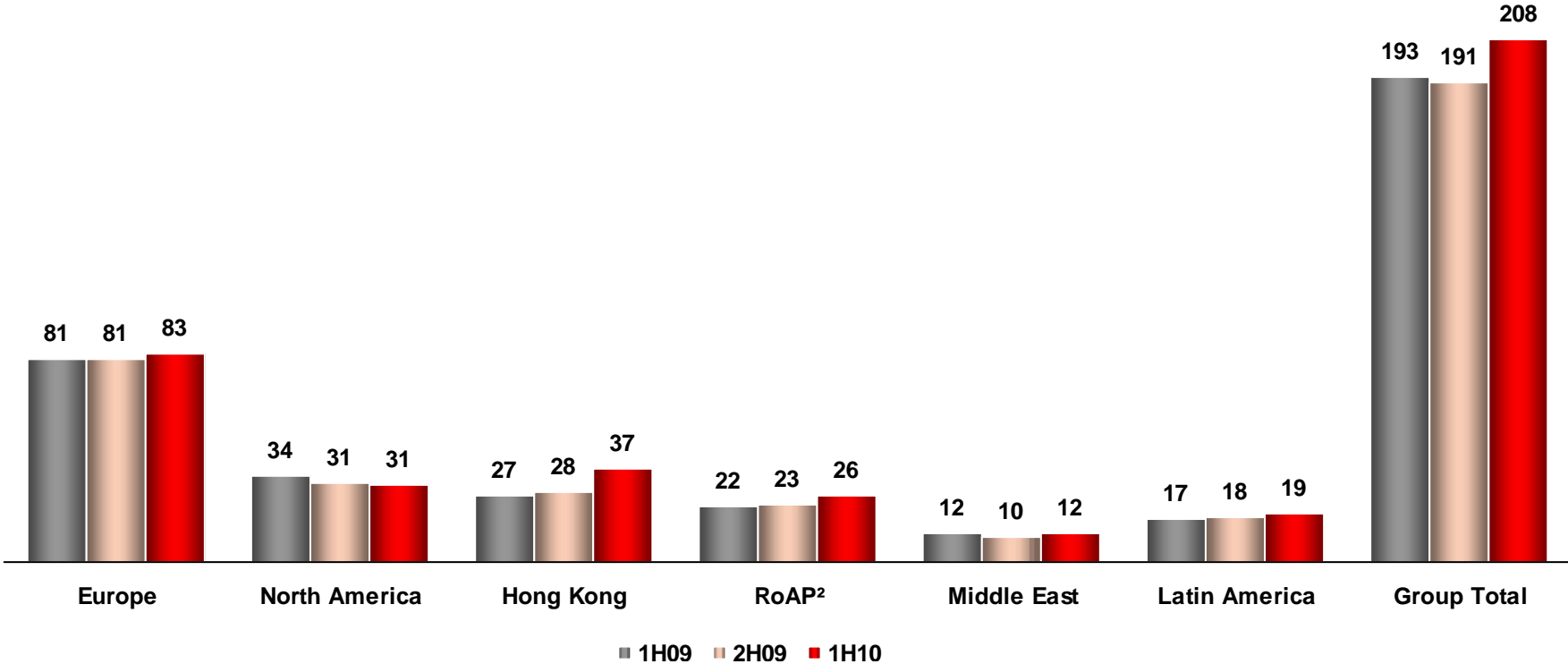
Notes:

- (1) Customer loans and advances for 1H09 and 2H09 on an underlying basis. Customer loans and advances are on a net basis
- (2) Rest of Asia-Pacific
- (3) HSBC Finance Corp. run-off portfolio

# Customer loans and advances

Commercial Banking – growth in all regions outside North America

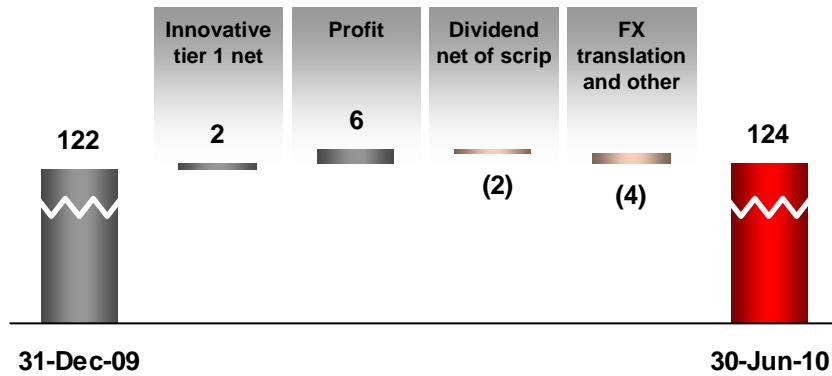
Customer loans and advances<sup>1</sup>  
US\$bn



Notes:  
(1) Customer loans and advances for 1H09 and 2H09 on an underlying basis. Customer loans and advances are on a net basis  
(2) Rest of Asia-Pacific

# Further strengthening the capital base

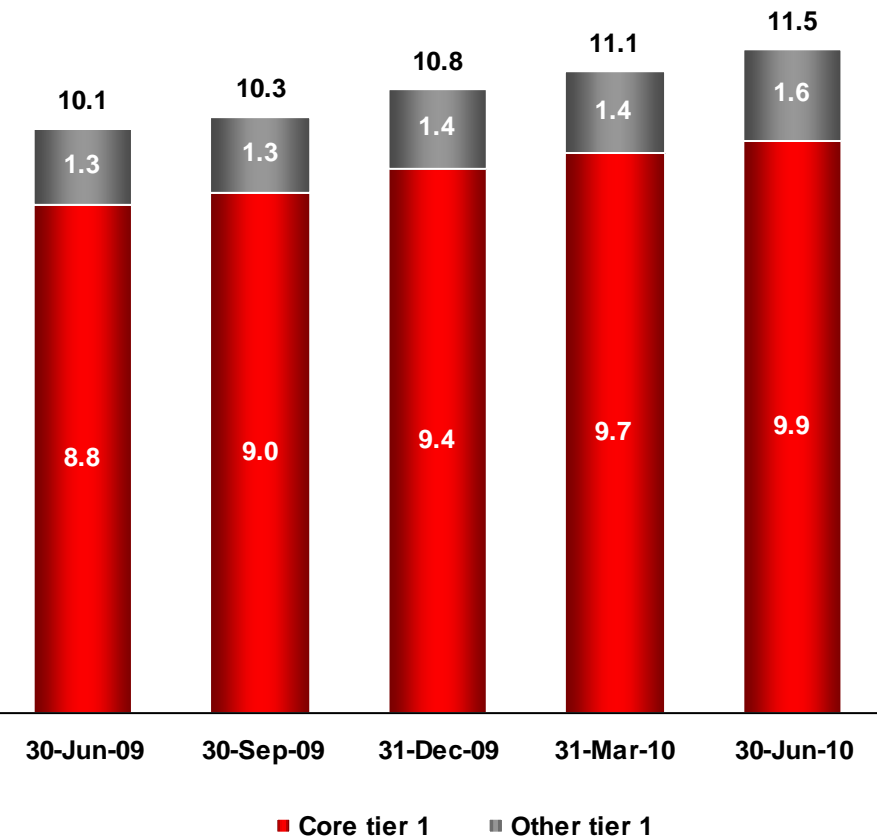
**Movement in tier 1 capital**  
US\$bn



**Risk-weighted assets**  
US\$bn

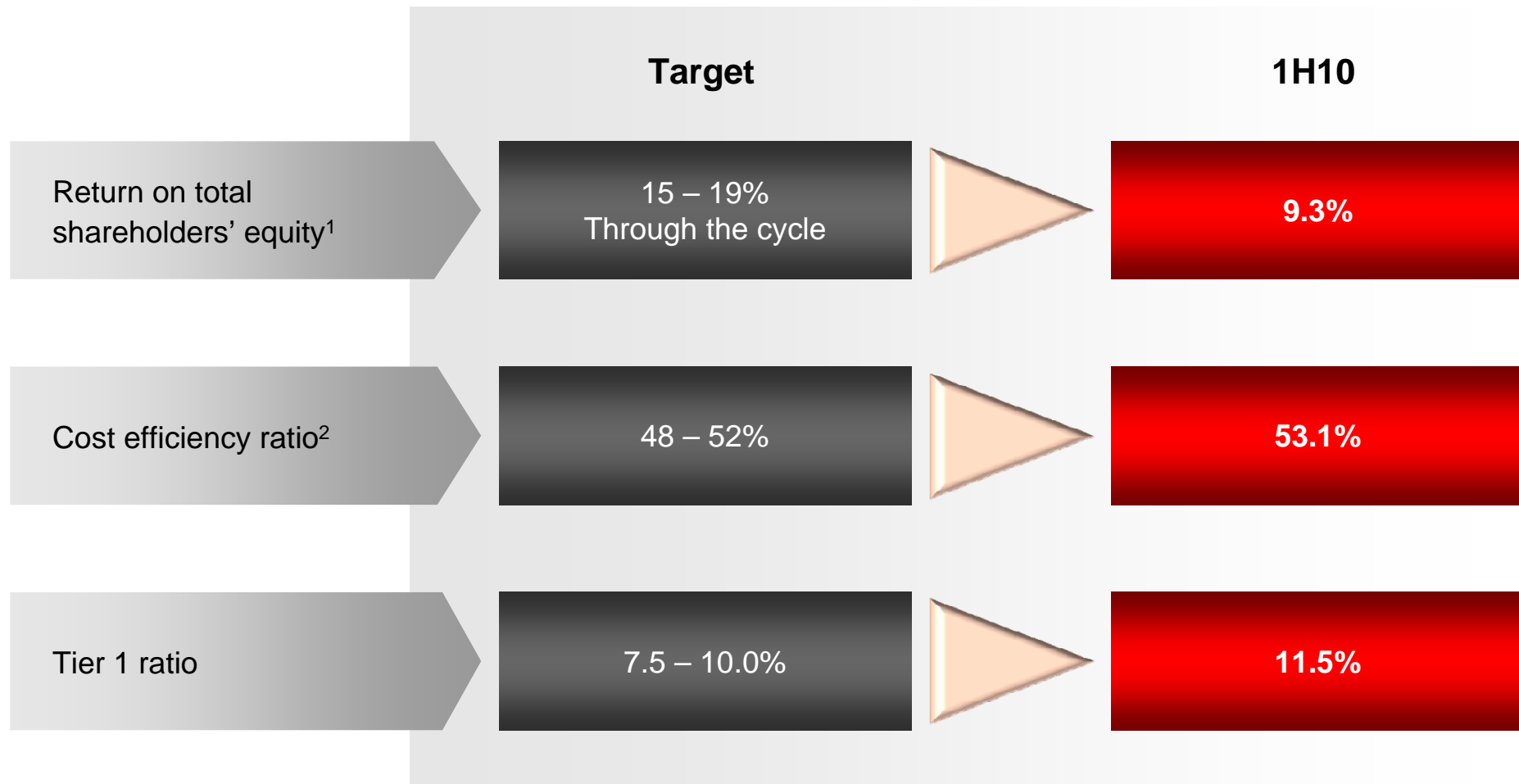


**Tier 1 ratio (%)**



# Business performance, 1H10

# Moving to the benchmark targets



Notes:

- (1) Excludes change in FV of own debt designated at FV due to credit spread
- (2) Underlying basis

# Business highlights

Profitable in all regions outside North America

► **Underlying profit before tax, 1H10**  
US\$m

	1H09	1H10	% Better / (worse) 1H10 vs 1H09
Hong Kong	2,499	<b>2,821</b>	+13
Rest of Asia-Pacific	2,149	<b>2,773</b>	+29
Latin America	647	<b>883</b>	+36
Middle East	643	<b>393</b>	(39)
Europe	3,497	<b>2,840</b>	(19)
North America	(2,050)	<b>(80)</b>	+96
<b>Total</b>	<b>7,385</b>	<b>9,630</b>	<b>+30</b>

# Business highlights

## Profitable in all customer groups

### Underlying profit before tax, 1H10 US\$m

	1H09	1H10	% Better / (worse) 1H10 vs 1H09
Personal Financial Services (PFS)	(1,313)	1,161	n/m
Commercial Banking (CMB)	2,202	3,074	+40
Global Banking and Markets (GBM)	6,485	5,623	(13)
Private Banking (PB)	636	556	(13)
Other	(625)	(784)	(25)
<b>Total</b>	<b>7,385</b>	<b>9,630</b>	<b>+30</b>

# Our business strategy

## Building on our distinctive strengths

### Strengthening our emerging market leadership

- ▶ Reinforced position as leading bank in Hong Kong
- ▶ Locally incorporated in Taiwan and opened 100<sup>th</sup> HSBC branded outlet in China – strengthens Greater China presence
- ▶ Agreed acquisition of RBS retail and commercial businesses in India – third investment in India in two years

### Leveraging our international connectivity

- ▶ PFS – market leading Premier proposition in 46 markets
- ▶ CMB – progressively gaining market share in financing export-related trade<sup>1</sup> through 1H10
- ▶ GBM – leading player in emerging markets debt

### Funding strength to grow the business

- ▶ Grew retail banking customer lending
- ▶ Deposits grew 3% to US\$1,147bn<sup>2</sup>
- ▶ Positioned to benefit from rising interest rates



**Best Global Emerging Markets Bank**

Euromoney



**Best Global Emerging Markets Debt House**

Euromoney

Notes:

- (1) Based on SWIFT export trade data
- (2) Underlying basis



# Building our customer base

## Personal Financial Services

- ▶ Premier – doubled monthly increase in customer numbers during 1H10
- ▶ Advance launched in 22 markets

## Commercial Banking

- ▶ Customer numbers up 6% to 3.5m YoY, 80% of this growth from emerging markets

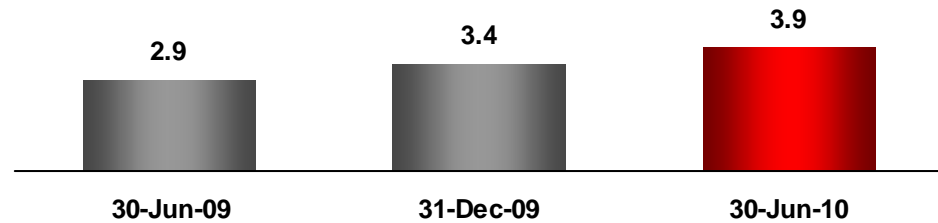
## Global Banking and Markets

- ▶ Greater focus on broader and deeper based relationships with international customers

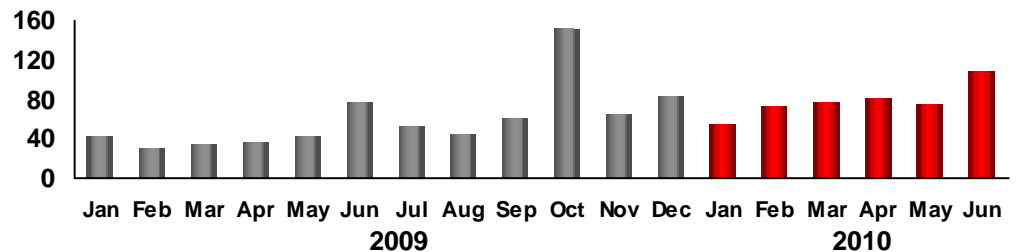
## Private Banking

- ▶ Adding up to 500 customer facing staff in emerging markets over three years

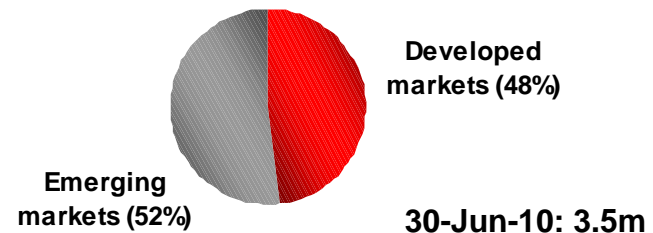
### Premier customer numbers (m)



### Premier monthly customer growth (000s)



### Commercial Banking customers



# Growing sustainable revenue streams – insurance

Hong Kong

- Maintained No.1 position in new annualised life premium
- 26% market share

Mainland China

- HSBC Life has grown rapidly within its first year of operation
- Product now sold through HSBC, Hang Seng Bank and Bank of Communications branches

India

- Fastest growing life insurer in India through JV with Canara Bank and Oriental Bank of Commerce
- Provides access to 40m customers

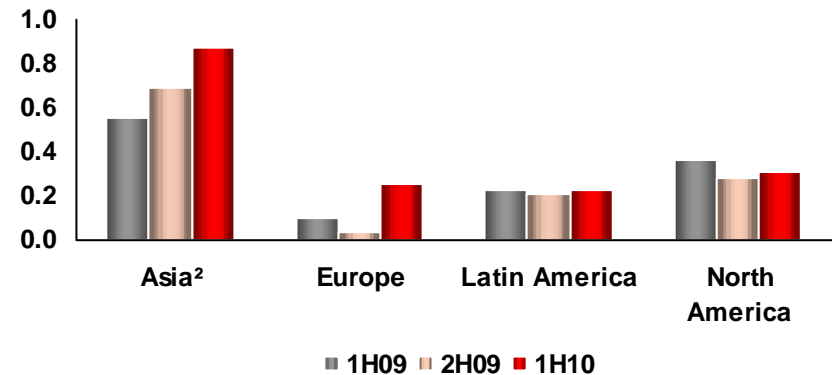
Korea

- With bancassurance partner Hana Financial (No.3 bank), we distribute through over 1,000 branches
- Grown from No. 21 to No. 7 in new business market share

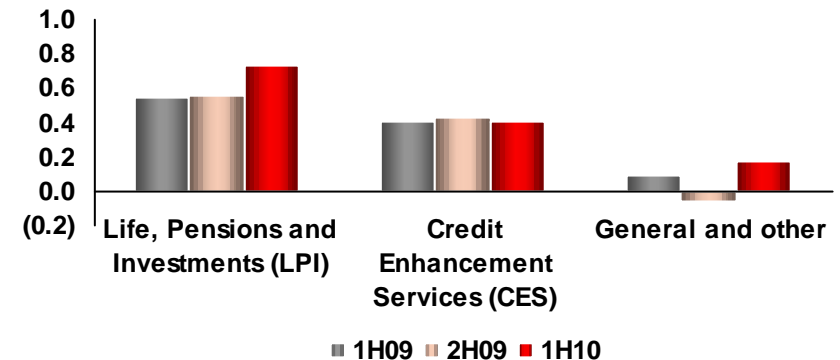
Vietnam

- Increased holding in Bao Viet from 10% to 18%
- Very attractive market with 1% insurance penetration at present

Insurance profit before tax by region  
US\$bn<sup>1</sup>



Insurance profit before tax by product category  
US\$bn<sup>1</sup>



Notes:

(1) Underlying basis

(2) Hong Kong and Rest of Asia-Pacific

# Growing sustainable revenue streams – capturing outflows from China

Strong growth of Chinese trade flows with rest of world

- ▶ Growing by 13% per annum
- ▶ Forecast to reach US\$5trn in five years

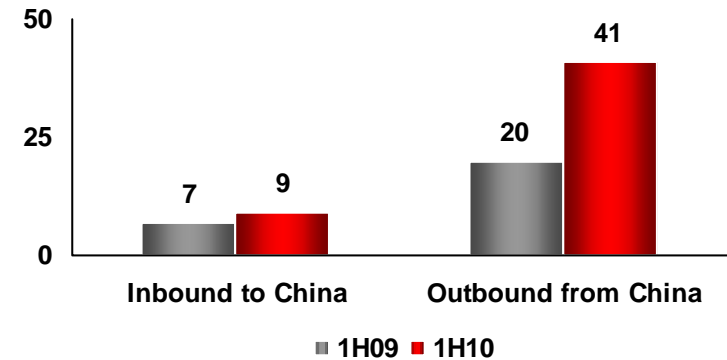
Help mainland Chinese companies in overseas expansion

- ▶ Mainland Chinese companies accounted for around half of new customer growth in Hong Kong CMB

Lead role in renminbi trade, settlement and bond issuance

- ▶ Largest market share amongst foreign banks for RMB cross-border clearance business
- ▶ Sole bookrunner / lead manager for first offshore renminbi certificates of deposit issue

China increasing share of Group referrals (%)



RMB cross-border trade settlement

No.1 Foreign Bank by Volume



29 June 2010  
Financial Times

# Growing sustainable revenue streams – equity platform in Asia and Middle East

Leverage successful DCM model in equities

Expanding capability in Hong Kong, Mainland China, India and the Middle East across Advisory, ECM, Research and Distribution



Building market share in Hong Kong and Mainland China



**Best Debt House**

Euromoney



**Best Global Emerging Markets Debt House**

Euromoney



**Best local houses in Hong Kong: Best Investment Bank**

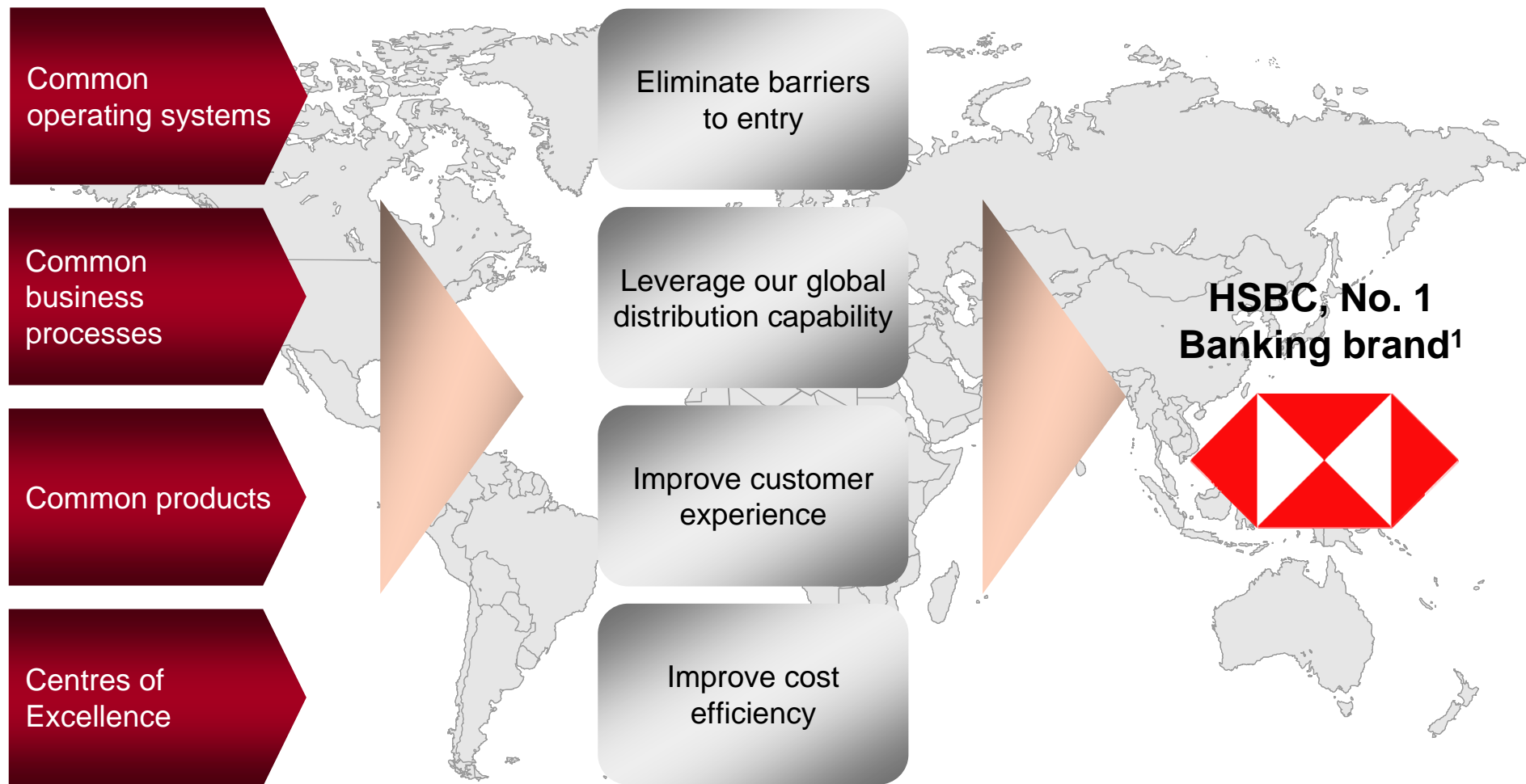
FinanceAsia



**Best local houses in Hong Kong: Best Equity House**

FinanceAsia

# Transforming our business infrastructure



Note:  
(1) Brand Finance Banking 500 2010 league table

# Outlook

Well positioned for shifting economy and regulatory change



**Constrained global demand**  
- uncertainty in the West  
- growth in emerging markets



**Regulatory change**

HSBC's universal banking model – a proven success

Strategy aligned with global trends

## Execution and implementation

- 
- ▶ Strengthen our presence in priority markets and rebalance the Group towards emerging markets
  - ▶ Deliver global connectivity and wealth management
  - ▶ Operational transformation
  - ▶ Maintain financial strength, leverage scale advantages, brand strength and culture