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Environment and Regulation

Investor Day

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Forward-looking statements



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This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at www.hsbc.com.

Economic background improving although still uncertain – but acute phase of financial crisis is over

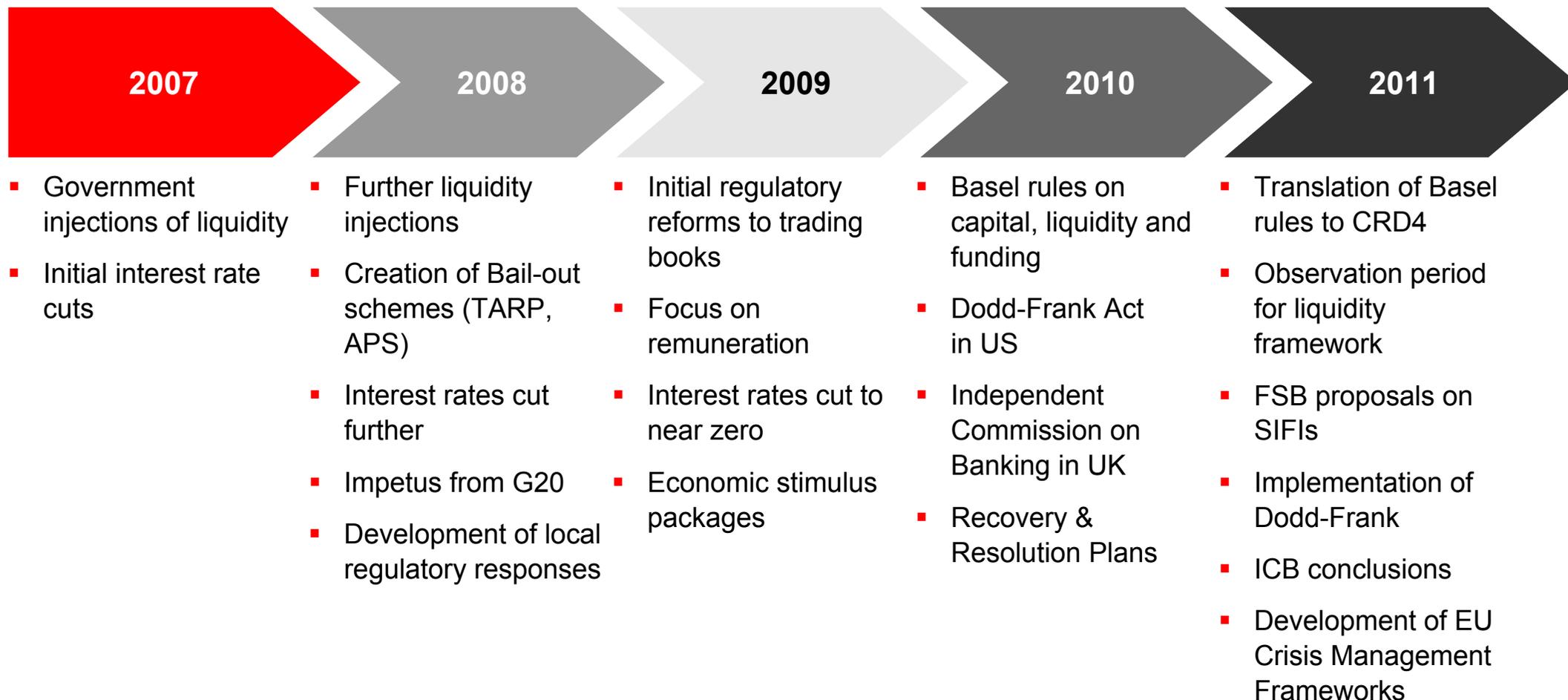


- Economic growth strong in Faster Growing Markets and improving in Mature Markets
- Financial markets functioning with good liquidity in core areas
- Market confidence evidenced by resumption of M&A activity across many sectors
- Legacy positions running off steadily

However:-

- Fiscal deficits in mature economies pose ongoing challenges
- US housing market still fragile
- Commodity prices volatile and elevated
- Inflation risks evident with food and energy problematic in emerging economies
- Continuation of low interest rates important to economic recovery and resolution of over-indebtedness
- Significant regulatory change program underway

There has been an intense period of regulatory change



Policies still being agreed with long term implementation



- Basel 3 framework on capital, liquidity and funding has a timetable to 2019 and beyond
 - Both liquidity and funding still subject to observation periods
 - Implementation into key national and regional frameworks (such as US and EU) to be completed
- Definition and measures for Globally Systemically Important Financial Institutions (G-SIFIs) is due later this year
- New regulatory and supervisory frameworks need to be put in place and bedded-down
 - US: New institutions created by Dodd-Frank; Europe: Establishment of EBA and ESMA; UK: Transition to FPC, PRA, FCA
- Development of Recovery and Resolution Plans is still fundamentally at a national level
 - International agreement is critical for complex organisations and structures such as debt bail-in
- Agreement still required on use of Central Clearing Counterparties for certain derivatives contracts

Specifically to the UK, the potential ICB impact is still unclear – however



- Capital ratio of at least 10% in line with our expectations, as indicated at annual results
 - The detail of the proposals for debt which can be bailed-in is also important
- The Ring-Fenced Bank proposals are work in progress to which we are contributing:
 - Need to define the perimeter in terms of customers or activities or definitions of financial connections with the rest of the Group
 - Operational separation needs to be considered carefully in the context of a global Group
- Competition aspects are as expected and we welcome focus on making markets more competitive
- We are alert to the possibility of an unlevel playing field compared to the rest of the EU and other banks operating in UK
- Intensive consultation period ahead of 4 July and publication of final report in September
 - Implementation decisions will need to reflect other regulatory developments, particularly improved macro and micro supervision to reduce the potential scale and scope of any future crisis

HSBC is well positioned for the changing regulatory landscape



- Management team is refreshed and in place
- HSBC already has a strong core capital base, with 10.5% Core Tier 1 capital as at 31 December 2010 (10.7% as at 31 March 2011)
- The Group continues to have a strong capital generating capability
- We shall be discussing later the impact of Basel 3 changes and mitigating steps
- The Group has consistently operated with strong liquidity and a conservative approach to funding – this does not need to change
- The overall Group structure offers material advantages in discussions on recovery and resolution, particularly on a geographic basis reducing UK risks
- Funding and liquidity strength in key Faster Growing Markets give the Group a range of investment opportunities to deliver returns to shareholders