

September 2008



John Flint  
Group Treasurer



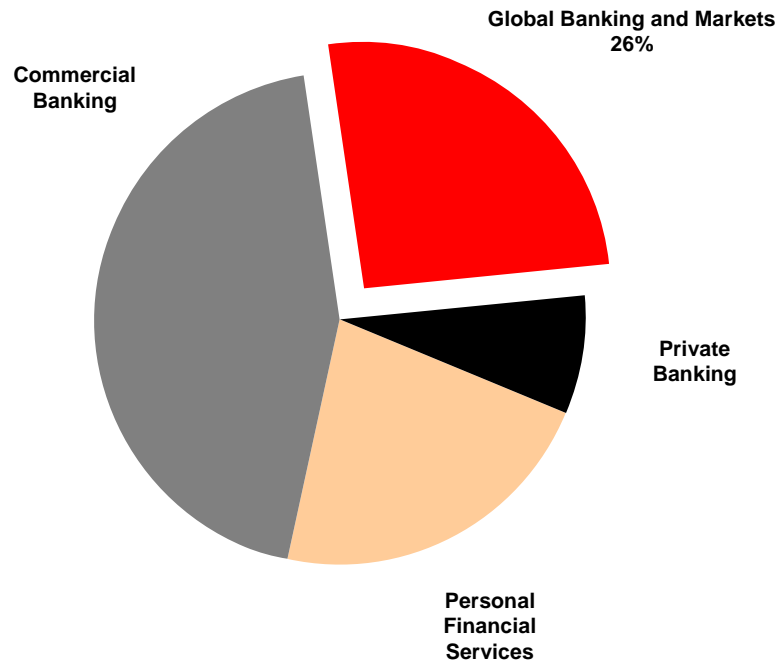
## Forward-looking statements

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.

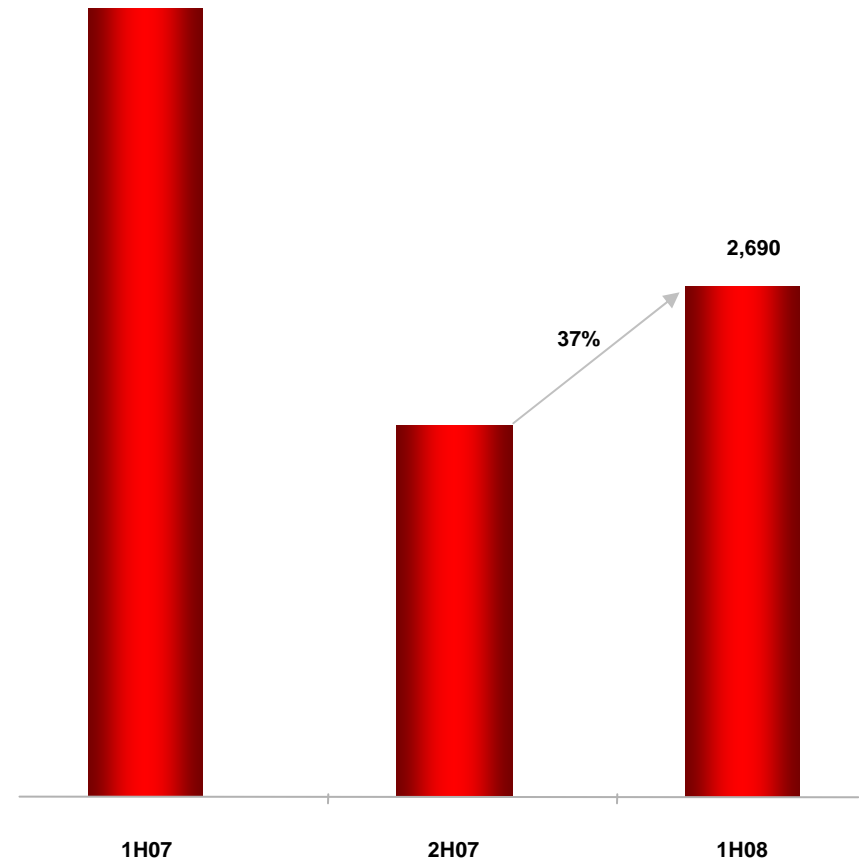


## Strong performance against challenging market conditions in 1H08

### Significant contribution to Group PBT 1H08



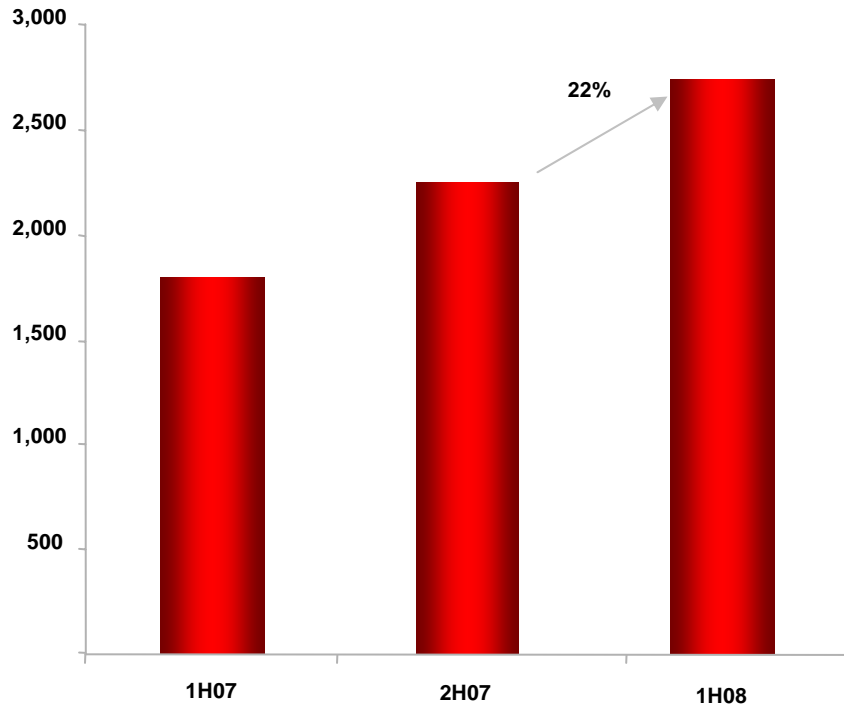
### PBT US\$m



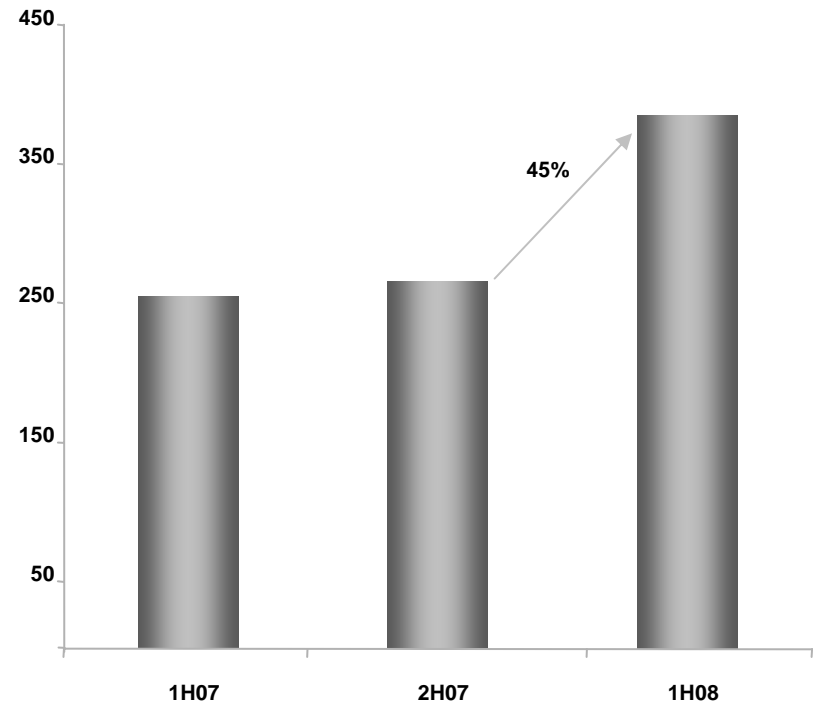


## Emerging market strength helped the business remain profitable in 1H08

### Asia Pacific PBT<sup>1</sup>



### Latin America PBT



- Emerging markets-led, financing-focussed strategy supports clients in cross border transactions into and out of emerging markets

- Emerging markets<sup>2</sup> PBT increased 51% YoY

Notes:

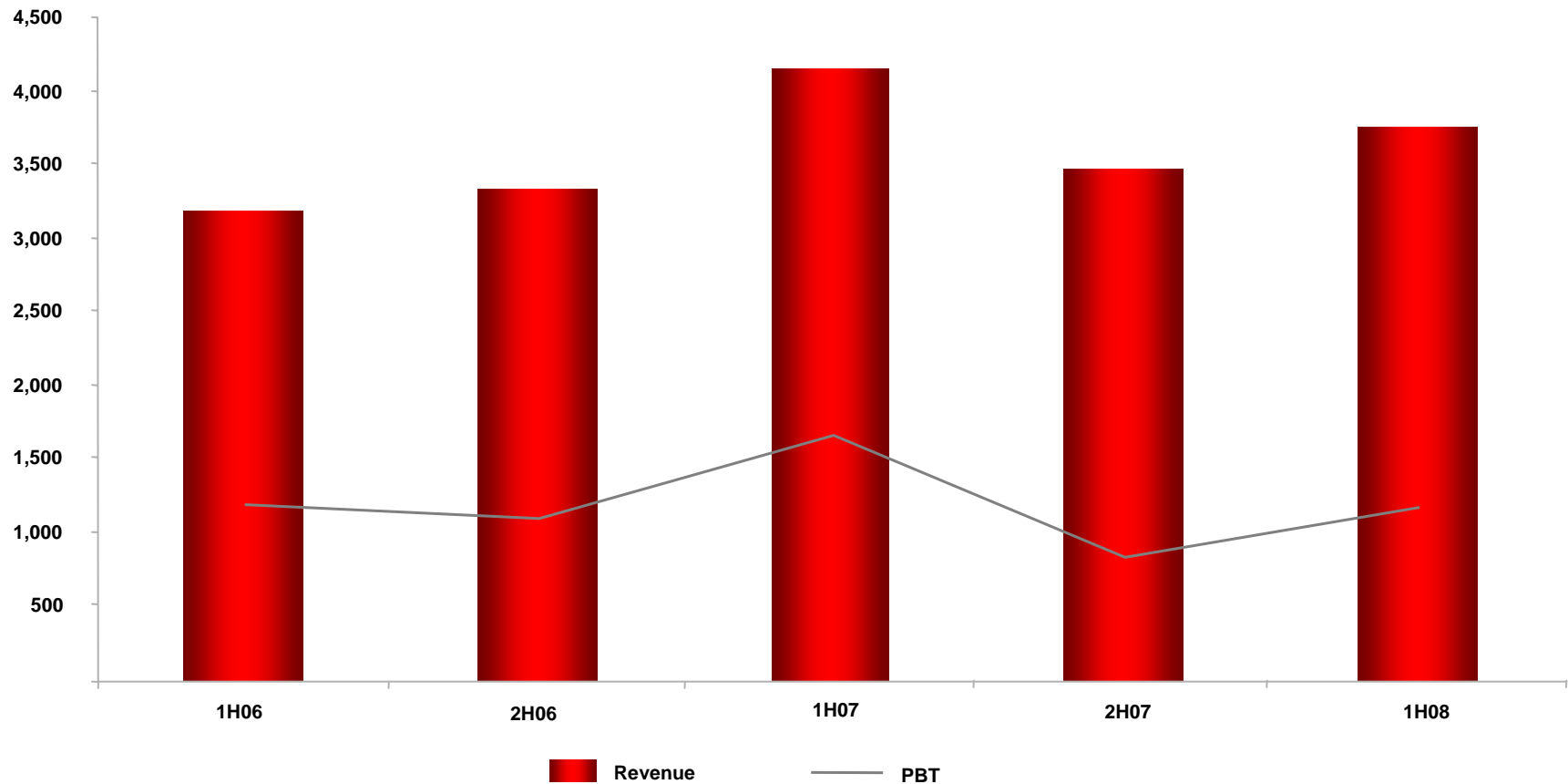
(1) Includes Hong Kong and Middle East

(2) Includes Turkey, Armenia, Czech republic, Kazakhstan, Poland, Russia, Ukraine and excludes Japan, new Zealand and Australia



## Solid performance in Europe in spite of difficult market conditions

### Europe US\$m





## Income statement

US\$m	1H08	% change vs 1H07	% change vs 2H07
Net operating income before loan impairment charges	7,379	-13	+10
Loan impairment charges	(115)	n/a	+85
Net operating income	7,264	-15	+9
Total operating expenses	(4,827)	+8	-1
Operating profit	2,437	-40	+38
Associates and JVs	253	+122	+31
Profit before tax	2,690	-35	+37



## Writedowns

US\$bn	1H08 write-downs	Net exposure at 30 June 08	2007 write-downs	Net exposure at 31 Dec 07
Subprime mortgage related assets	1.0	2.9	1.0	3.7
Non-subprime credit trading assets	1.4	8.9	0.6	9.8
Leveraged loans	0.3	8.3	0.2	8.7
Fair value of derivative transactions with monolines	1.2	1.3	0.3	1.2
<b>Total</b>	<b>3.9</b>		<b>2.1</b>	



## Structured Investment Vehicles

- HSBC has created a stable funding base for two SIVs, Cullinan and Asscher. Assets transferred or forward sold into three Securities Investment Conduits (SICs)
- Cullinan assets are sold into Mazarin and Barion. Asscher assets are sold into Malachite
- Two SICs (Mazarin & Malachite) benefit from a 100% liquidity facility provided by HSBC Bank plc
- One SIC (Barion) is term funded through Repo and MTN with HSBC Group entities
- Each SIC is additionally funded through a two-tier and for Malachite three-tier capital note structure
- Assets remaining in the SIVs will transfer over to the SICs as senior debt is refinanced
- Capital note holders provide loss protection to senior investors
- Assets of these vehicles are classified as 'available for sale' to 30<sup>th</sup> June 2008

30th June 08 S&P Ratings	Mazarin US\$bn	Barion US\$bn	Cullinan US\$bn	Malachite US\$bn	Asscher US\$bn
AAA	9.4	3	2.5	2.8	2
AA	2.7	1.8	0.9	0.5	0.1
A	0.4	0.6	0.2	0.2	0.1
BBB	0.1	0.2	0.1	0.1	-
BB	-	0.1	-	-	-
<b>Total Investments</b>	<b>12.6</b>	<b>5.7</b>	<b>3.7</b>	<b>3.6</b>	<b>2.2</b>
<b>Cash and other assets</b>	<b>1.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>-</b>
	<b>13.7</b>	<b>5.9</b>	<b>3.8</b>	<b>3.7</b>	<b>2.2</b>

Note: Table shows mark-to-market values





## Continuing positive trend across the business despite dislocation in 1H08

### Management view of total operating income US\$m

	1H 2008	1H 2007	2H 2007
<b>Global Markets</b>	<b>1,688</b>	<b>3,825</b>	<b>1,895</b>
Credit <sup>2</sup>	-3,124	658	-1,977
Rates <sup>2</sup>	1,303	592	699
Foreign Exchange Equities <sup>1&amp; 2</sup>	1,546	909	1,269
Securities Services	1,112	855	1,071
Asset and Structured Finance	105	159	308
<b>Global Banking</b>	<b>2,432</b>	<b>1,974</b>	<b>2,216</b>
Financing and Equity Capital Markets	1,371	1,042	1,144
Payments and Cash Management	839	751	881
Other Transaction Services	222	181	191
<b>Balance Sheet Management</b>	<b>1,630</b>	<b>521</b>	<b>705</b>
Global Asset Management	669	636	700
Principal Investments	167	755	498
Other	833	826	729
<b>Total operating income</b>	<b>7,419</b>	<b>8,537</b>	<b>6,743</b>

Notes:

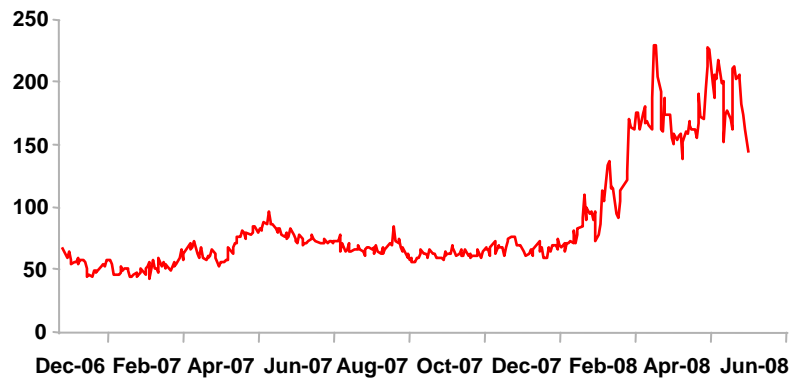
(1) In H1 2007, equities included a total gain of US\$107m from the disposal of HSBC's investments in Euronext NV and the Montreal Exchange

(2) In 2008, the widening of the HSBC's credit spread on certain structured liabilities led to a gain of US\$262million which has been reported in Global Markets

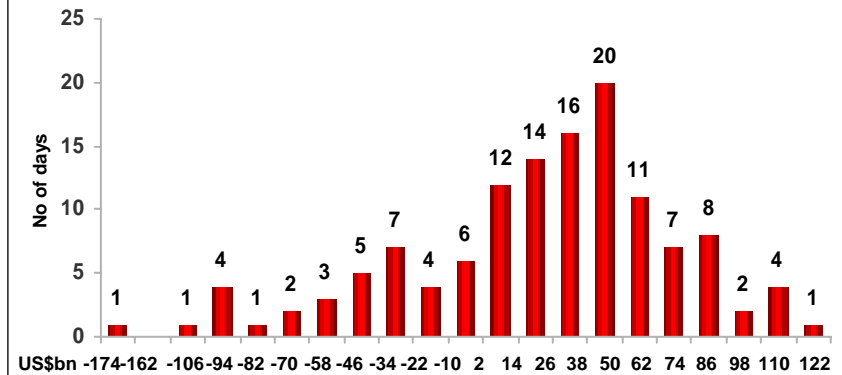


## Market risk management

**Daily Group VAR (trading and non-trading) (US\$m)**



**Daily distribution of Global Markets' revenues (US\$m)**



**Value at risk for the Group<sup>1</sup> (US\$m)**

	1H07	2H07	1H08
At 31 December	84.2	70.1	144.2
Average	62.5	67.9	135.5
Minimum	43.8	57.3	59.8
Maximum	98.1	85.9	230.5

**Bases for valuing trading assets**

	2H07	1H08
	US\$446.0bn	US\$473.5bn
Quoted marked price	47%	47%
Valuation techniques		
– Using observable inputs	50%	50%
– With significant non-observable inputs	3%	3%

Note:  
(1) Trading and non-trading

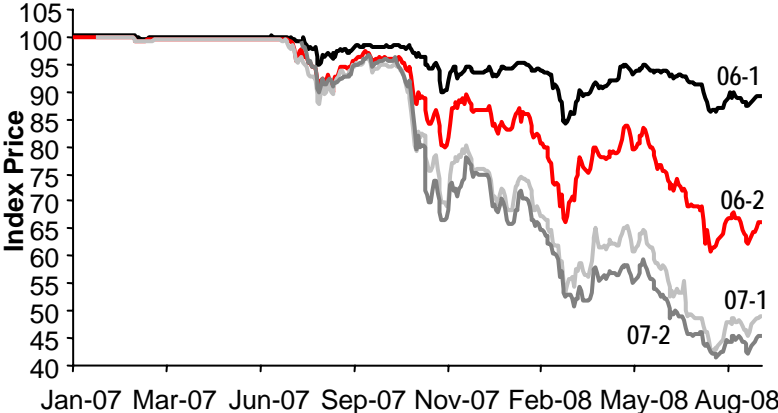


# Credit crisis – key indicators

## Euro financial CDS spread



## ABX HE AAA indices



## ITRAXX LEVX



## ITRAXX crossover

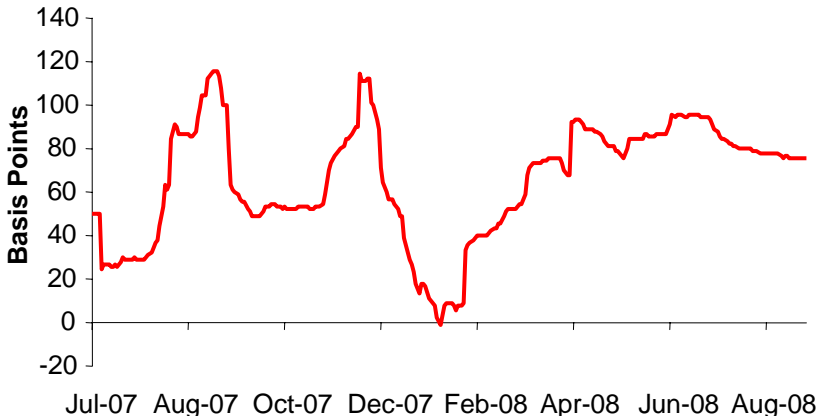


Note: All charts daily up until 29 August 2008

Source: Datastream

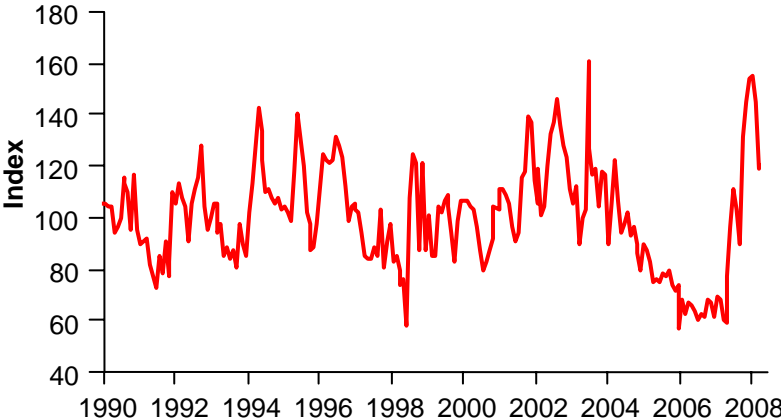


## GBP LIBOR over base rate

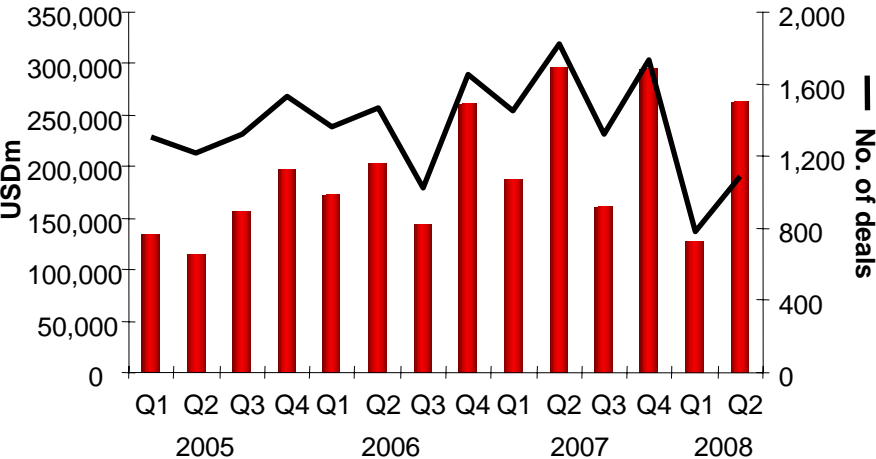


Daily from 01-Jul-07 to 29-Aug-08

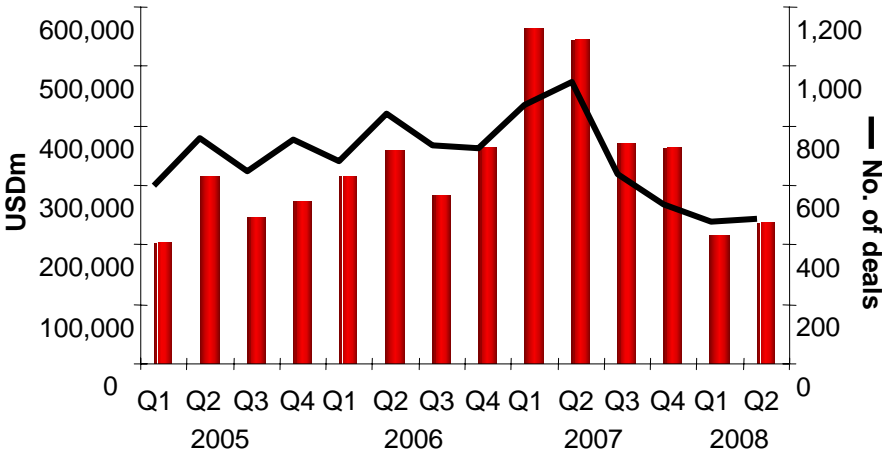
## US bond volatility index



## Global ECM volumes



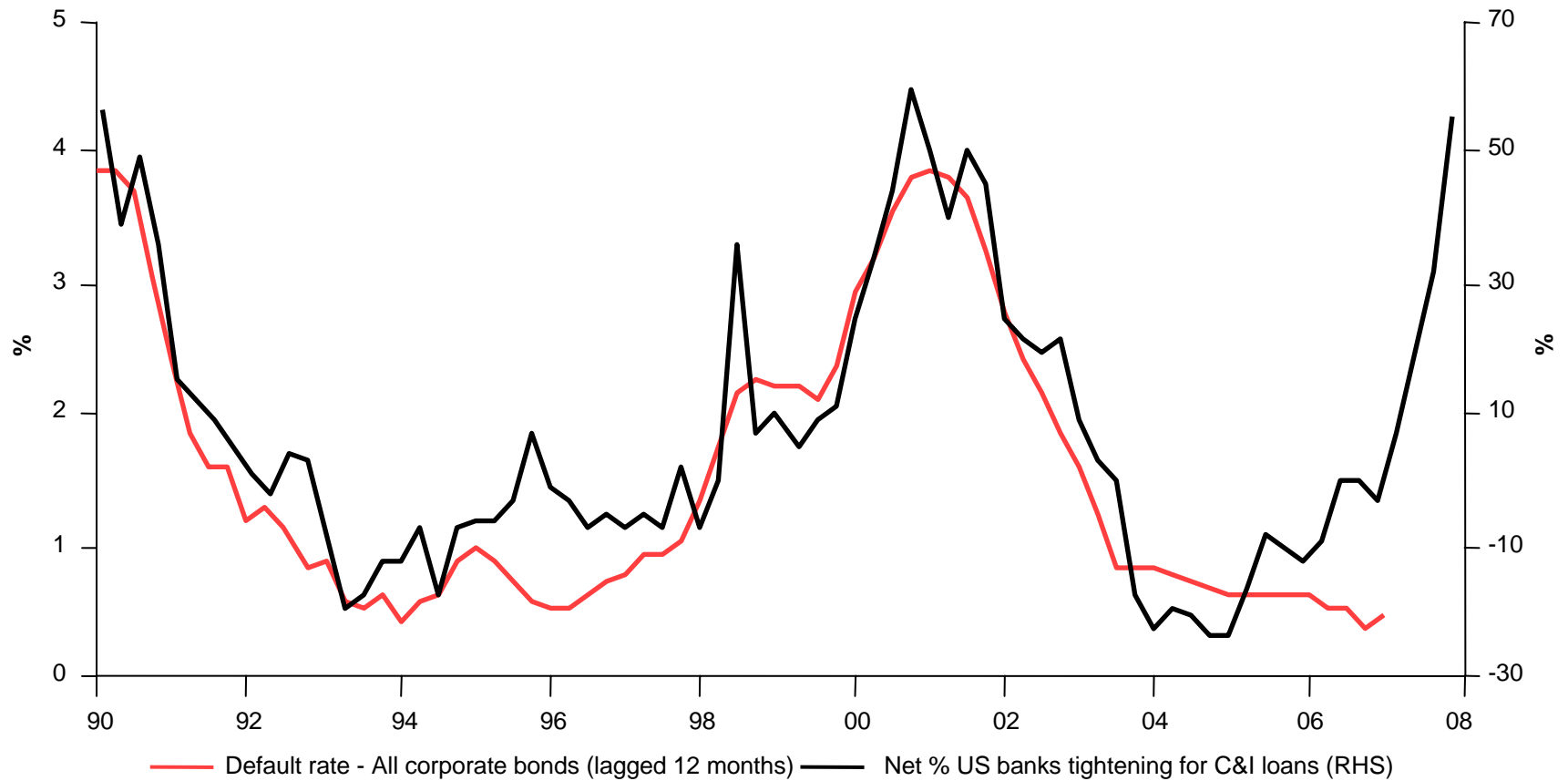
## Global leveraged loan volumes



Source: Datastream, Dealogic & Merrill Lynch (MOVE)



## Market conditions leading to higher default rates

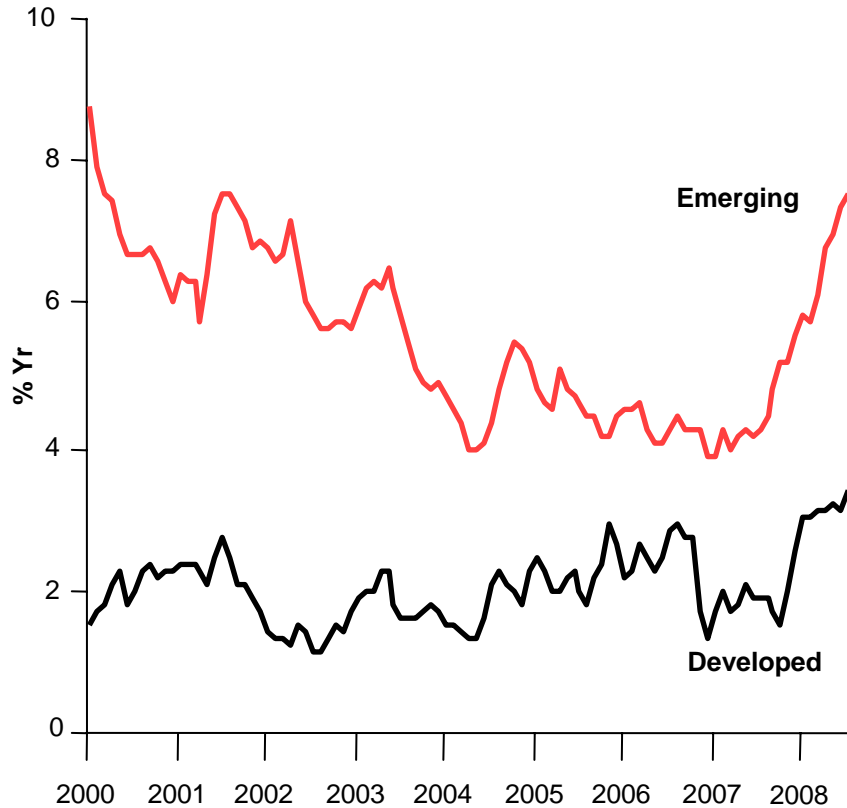


Source: US Federal Reserve Senior Loan Officer Survey, Moodys Investors Service



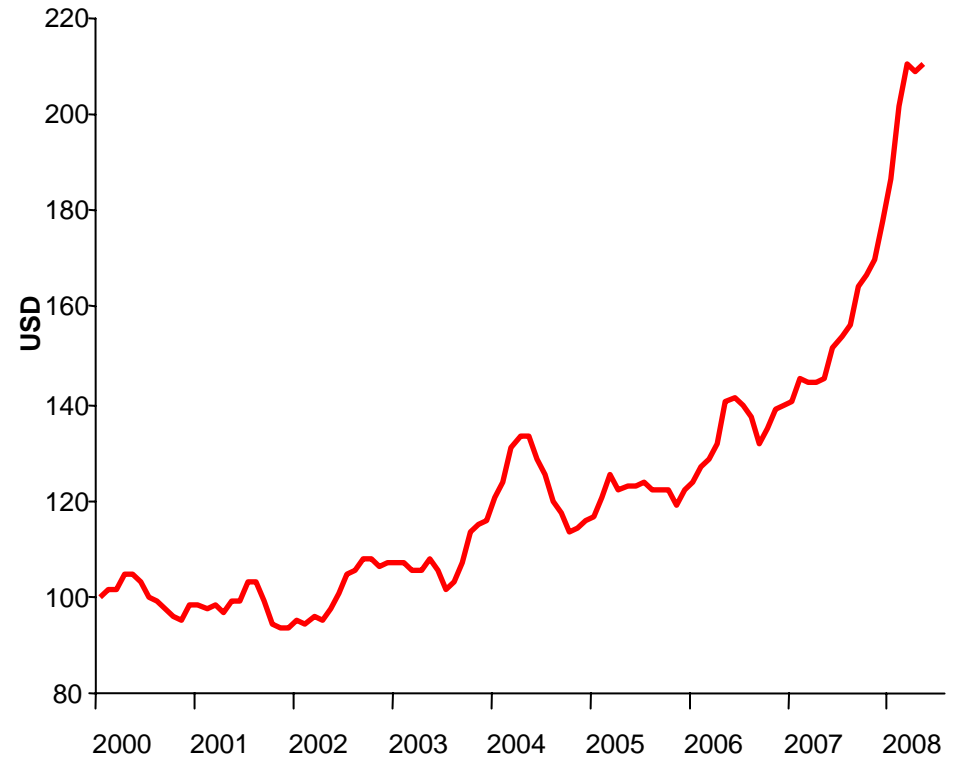
## Global Inflation

### Consumer prices



Source: National Statistical Institutes, HSBC

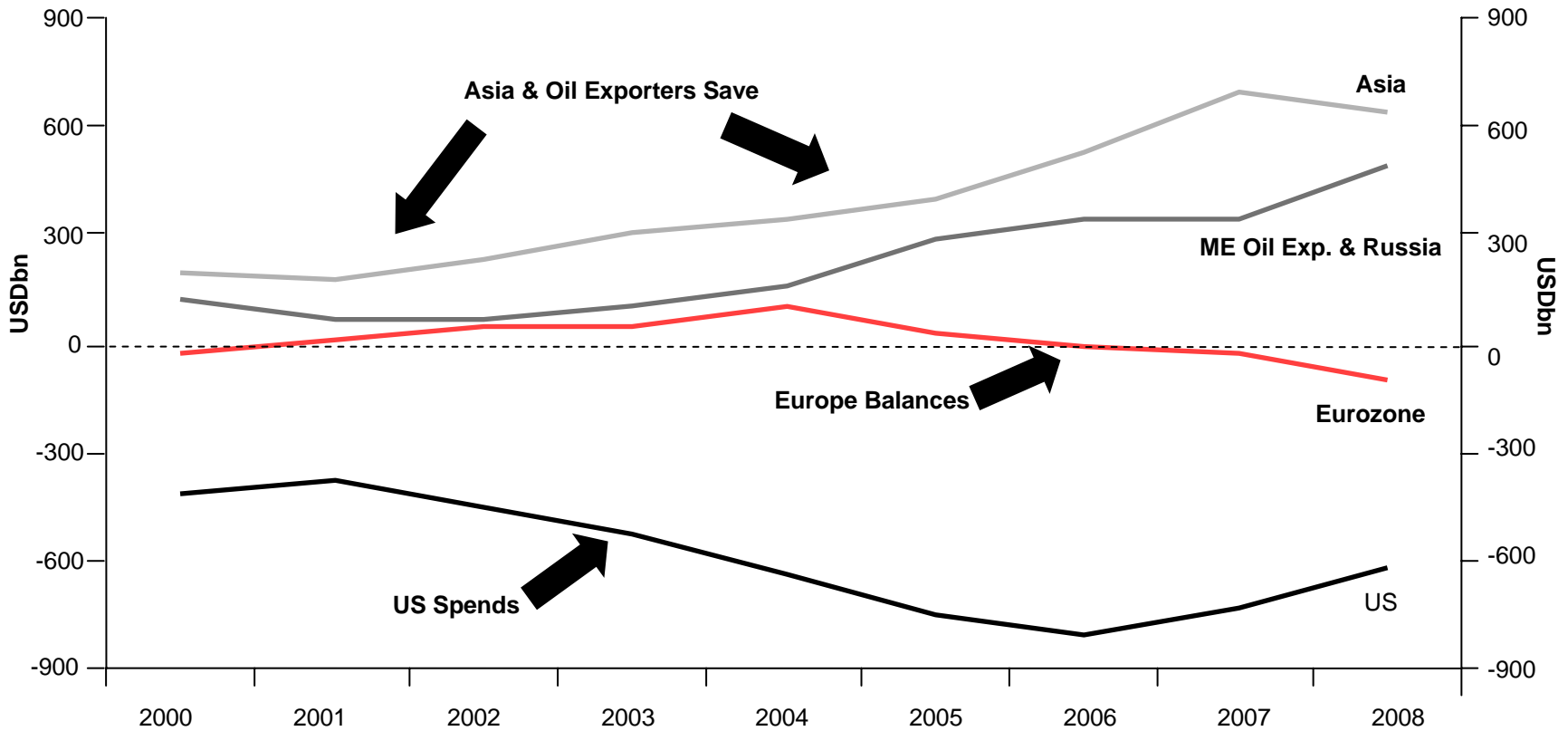
### IMF food commodities price index



Source: IMF



## Current account of balance of payments



Source: IMF, WEO (2007 estimate, 2008 forecast)



## The world

- Emerging markets may represent better prospects for longer-term growth
- US economy likely to get worse before it gets better
- Deleveraging of the financial system
- Continuing illiquidity in financial services
- World economic growth and continued trends in globalisation and trade flows

## HSBC in Emerging Markets

- Strong distribution platform, depth and breadth of client relationships, full product suite
- Emerging markets have not decoupled – expect moderate slowdown in EM economies
- Conservative balance sheet with strong capital base
- Strong deposit growth in emerging markets
- Well-positioned to leverage the HSBC brand and network to maximise revenue opportunities





## Summary

- Our emerging markets-led, financing-focused strategy supports clients in cross border transactions into and out of emerging markets
- Significant contribution to growth from emerging markets and a solid performance in Europe
- Conservative balance sheet with strong capital base
- Financial markets in on going recovery and banks in a deleveraging process
- Emerging markets growth but inflation and political risks