

HSBC HOLDINGS PLC

HSBC: strong despite the environment

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HSBC 

The world's local bank

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 Annual Report. Past performance cannot be relied on as a guide to future performance.

Financial crisis has hit real economy

- Co-ordinated policy measures by governments
- Extreme levels of stress in financial and credit markets have been reduced

But

- Financial system remains under strain
- Dislocation in financial system spread to wider economy
- Sharp contraction in demand and world trade

Future remains uncertain

- Economic activity remains unusually depressed in spite of low interest rates
- Unemployment increasing

But

- US consumer spending held up well
- Asia proven resilient, with China and India continuing to grow robustly
- Still see growth in key emerging markets in 2010

The big issues for 2009

- How bad will it get?
- When can we expect to see recovery?
- How will markets behave?

What will the financial industry look like after recovery?

- Industry entering a period of profound change
- Supervision and regulation will be enhanced
- Bank capitalisation and increased scrutiny of banks' capital
- Return to core products, with appropriate pricing of risk
- Shift in the provision of banking services as government-supported banks retrench to their home markets
- Decline in tax receipts from the financial sector, which will impact future spending plans for countries where financial services are a large part of the economy

HSBC: Strength, diversity and resilience

Strength from diversified business model and financial position

Strategy positions Group for long-term growth and attractive returns

Rights issue – strengthen competitive positioning

Managing capital allocation and balance sheet risk

Key highlights from the Interim Management Statement

Underlying pre-tax profit

- Excluding fair value gains on our own debt, underlying pre-tax profits were lower than 1Q 2008, but significantly higher than 4Q 2008.

Capital

- Generated capital ahead of the run rate achieved in 2H 2008 and more than covered the first interim dividend.
- Further boosted by successful completion of the US\$17.8bn rights issue.

Loan impairment charges

- Loan impairment charges and other credit risk provisions higher than in 1Q 2008, but lower than 4Q 2008 on both an underlying and a reported basis. In the US were slightly better than expected.

US Business / AFS Reserve

- Reduced both the HSBC Finance exit portfolios and the available-for-sale asset-backed securities portfolio, where the deficit on the reserve reduced modestly.

Fair value on own debt

- Credit spreads widened significantly in 1Q 2009, contributing to gains on HSBC's own debt recorded at fair value of US\$6.6 billion compared with US\$2.5 billion in 1Q 2008.

Strength from diversified business model and financial position

Profitable in all Customer Groups, except Personal Financial Services and in all Regions, except North America

Global Banking and Markets

- Delivered record quarterly results
- Strong in foreign exchange and interest rate trading
- Client revenues grew strongly and remain key contributor to overall revenues

Commercial Banking

- Performed strongly, remaining profitable in all regions
- Benefited from asset re-pricing and deposit growth, largely off-setting liability spread compression

Personal Financial Services

- Profitable outside the US, where we continue to make progress in running off the consumer finance exit portfolio
- Resilient in the face of revenue pressure from deposit margin compression and rising loan impairment charges

Strength from diversified business model and financial position

Funding, liquidity and capital: maintaining our signature financial strength

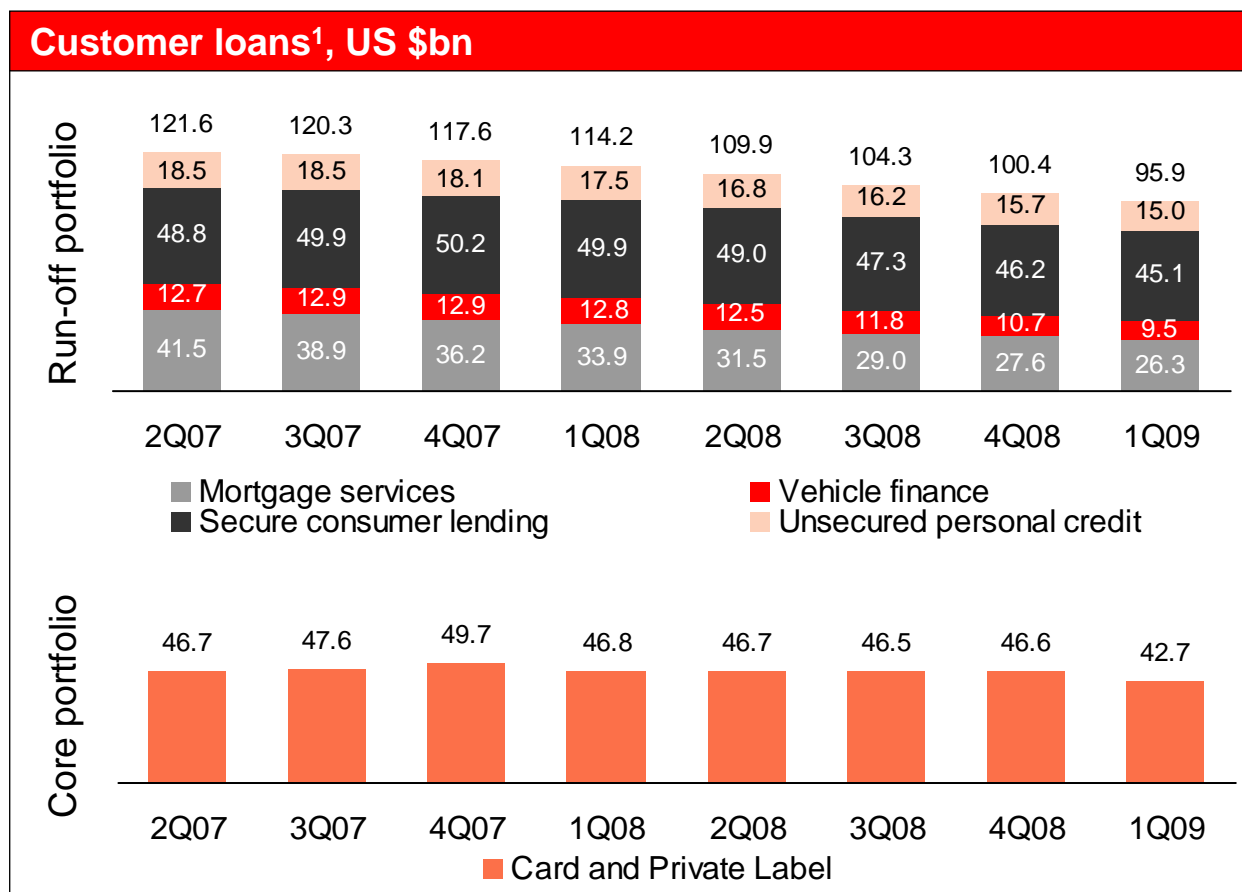
- Deposit rich balance sheet: conservative advances to deposits ratio of 82 per cent
- Capital generation in the quarter was ahead of the run rate achieved in 2H 2008
- Successful completion of the US\$17.8 billion Rights Issue, strongly supported by shareholders with 97 per cent take up overall and 98 per cent in Hong Kong
- Tier 1 and core equity tier 1 capital ratios strengthened to 9.9 percent and 8.6 per cent (on a pro-forma basis at 31 March 2009)

Loan impairment charges, other credit risk provisions and AFS reserve

- Loan impairment charges and other credit risk provisions rose in 1Q 2009 in all customer groups and regions
- Over half the increase was in Personal Financial Services, driven by continuing weakness in the US
- However, in US they were slightly better than expected
- We made progress in reducing the available-for-sale asset-backed securities portfolio, where the deficit on the reserve reduced modestly
- Movement largely reflected the sale of US government agency-backed debt and the amortisation and maturing of bonds held within SICs and other asset-backed securities held within the available-for-sale portfolio

HSBC Finance Corporation

Run-off portfolio: below US\$100bn



- The run-off portfolio decreased \$4.5 billion or 4 percent from December 2008

- The core portfolio decreased 8% from December 2008, reflecting normal seasonal run-off, continued actions to reduce risk and slow growth

Note:
 (1) IFRS management basis for US; excludes operations in UK and Canada

Strategy is intact *and* positions Group well for long-term growth and attractive returns

Concentrating on core emerging markets and faster growing businesses

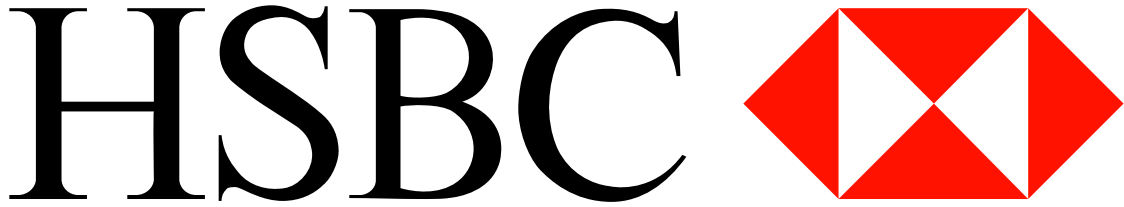
Benefiting from combination of world's leading emerging market bank with extensive international network

Focus on organic but positioned for inorganic if aligned with strategy and risks fully understood

Strategy is intact *and* positions Group well for long-term growth and attractive returns

	Target range
Return on total shareholders' equity	15 – 19% through the cycle
Cost efficiency ratio	48 – 52%
Tier 1 capital	7.5 – 10.0%
Total shareholder return	Above peer group average

Strength, diversity and resilience



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