Managing Risk at HSBC Holdings plc

Presentation to Investors and Analysts

London, 11 September 2009

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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.

Risk Management

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Risk Management

The risks HSBC faces

- Strategic Risk
- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- Insurance Risk
- Residual Value Risk
- Pension Risk
- Reputational Risk
- Sustainability Risk

Risk Management

Philosophy

- A conservative risk and capital culture embedded in HSBC values
- Low advance-to-deposit ratio (79.5%) and high capital reserves
- Subsidiary-based model with country-level operations supported by global policy
- Predominantly a customer-led business with a limited proprietary book

Risk Management

Governance

- Risk appetite set by HSBC Holdings plc Board
- Delegated authorities to the Group Chairman, Chief Executive Officer, Chief Risk Officer and Senior Executives

HSBC Holdings plc Board

Group Management Board

Risk Management Meeting

- Credit Risk Analytics Oversight Committee
- Operational Risk and Internal Control Committee
- Basel 2 Steering Committee
- Stress Testing Oversight Forum
- Economic Capital Policy Committee

Risk Management

Responsibility

- Risk managed independently of the business
- Primary responsibility lies at legal entity level and managed by CRO
- Consistent approach across regions and businesses
- Regions and businesses have strong functional reporting
- Functional risk teams at Group, Regional and Country levels
- Global Risk Management Board provides strategic direction and guidance

Risk Management

Policy, Reporting, Systems and People

- Group credit policy integrated into functional, geographical and business policies
- Large exposures managed by concentration risk policy
- Ongoing regular and exception reporting
- Continued enhancement of Group Credit IT systems and processes
- Ongoing development of Risk professionals

Risk Appetite

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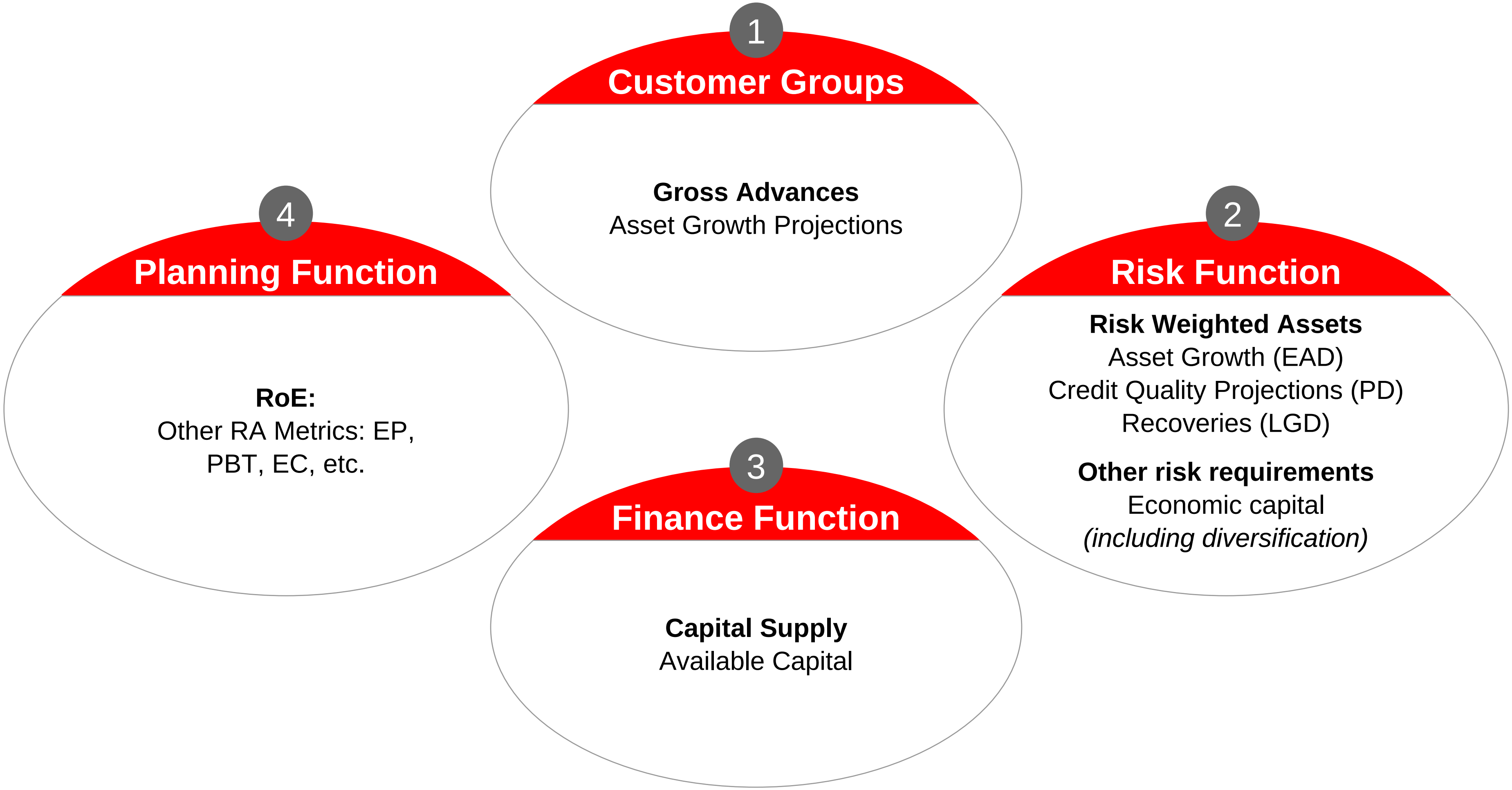
Risk Appetite

Risk Appetite framework is a critical building block

- Expresses the types and quantum of risk HSBC wishes to be exposed to based on: HSBC core values, strategy, and risk management competencies
- Considers HSBC's risk capacity, financial position, strength of core earnings and resilience of reputation and brand
- Expressed in qualitative and quantitative terms
- Framework approved by HSBC Holdings plc Board and Group Management Board

Risk Appetite

Process: Risk capital and performance are planned and monitored in an integrated manner



Risk Appetite

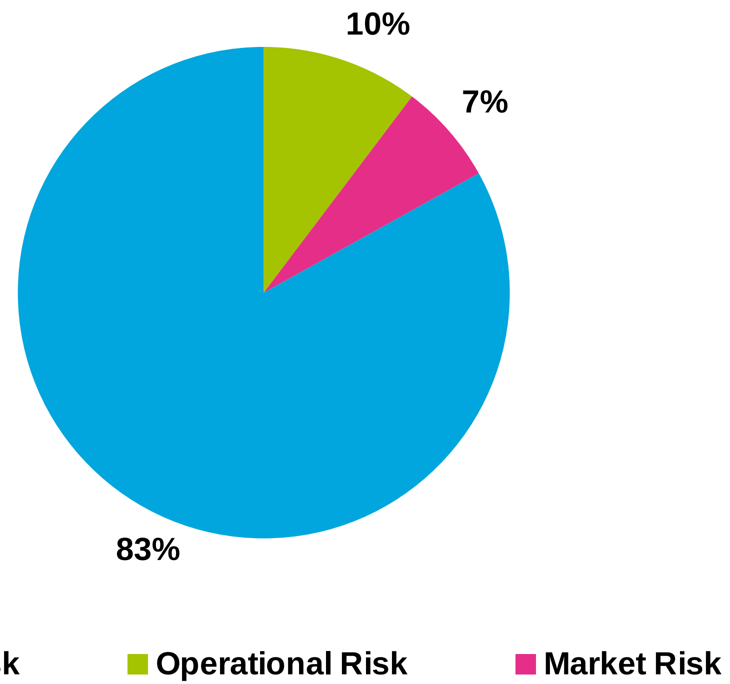
Economic Capital provides a common currency for assessing risk and capital

- Supports the evaluation of risks in a comprehensive manner
- Risk sensitive measure which considers the diversification of HSBC’s activities
- Capital requirement calculated to support the risks to which HSBC is exposed
- Economic Capital embodied within the HSBC Capital Management Principles
- Economic Capital monitored on an ongoing basis by the Group Management Board

Risk Appetite

Capital and Risk at HSBC

HSBC's risk profile as at 30 Jun 09 in Pillar 1 RWA terms



Economic Capital analysis is used by Risk to further inform HSBC's risk profile

Risk Appetite

Stress testing: Risk profile assessed under stress scenarios

- Stress testing is important to understand the sensitivities of extreme events to capital and business plans
- Key output: establish management action plans to proactively mitigate risks
- Stress Testing Framework overseen by Group Management Board
- Analysis reviewed and challenged on an ongoing basis, for instance by Group Audit Committee
- Stress tests include macroeconomic and event driven scenarios

HSBC Group
Credit Risk Profile

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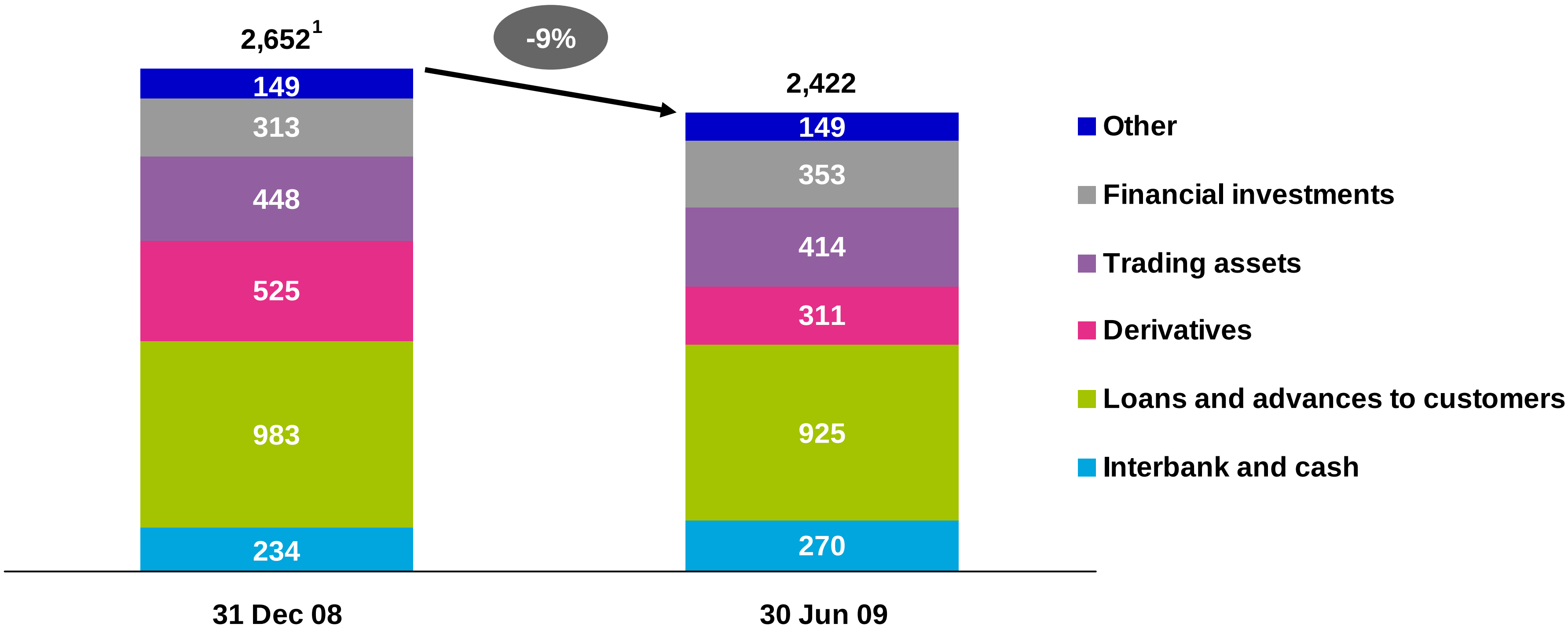
Credit Risk Profile

Managing balance sheet risk

US$bn



Note:
(1) Restated at constant currency

Credit Risk Profile

Overview of Group consolidated assets

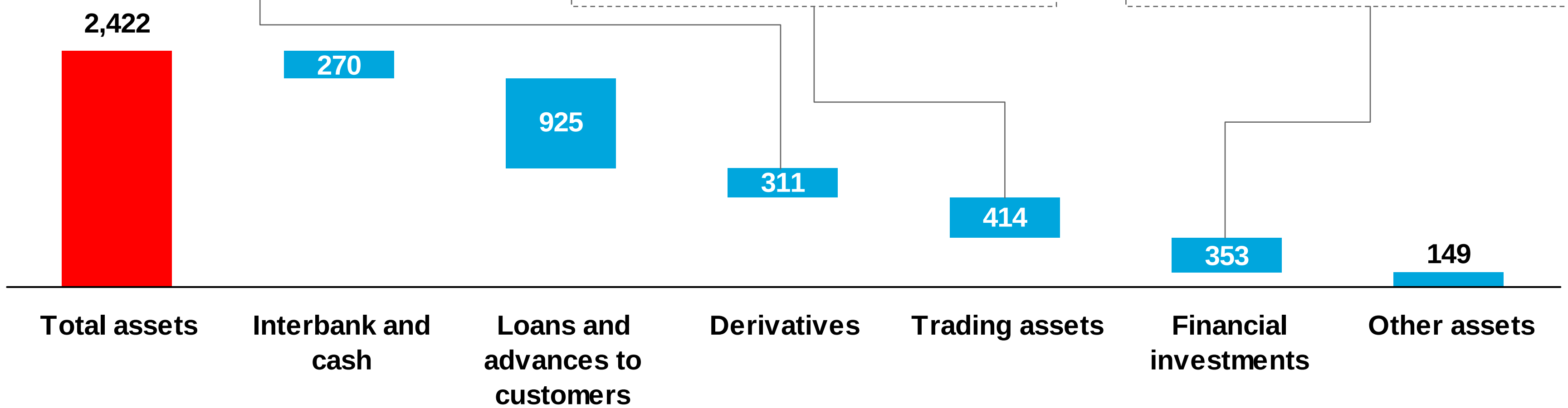
30 Jun 09, US$bn

Derivatives

37% decrease in fair value
4% decrease in notional value
US$73bn net exposure after offset
2% of total valued on Level 3 basis

Trading assets	**US$bn**
Reverse repos, settlement accounts, stock borrowing and other loans and advances	175
Governments and Government agencies	134
Corporate and other bonds	75
of which financial institutions	*42*
Equities	25
ABS	5
Total	**414**
of which 2% valued on Level 3 basis	

Financial investments	**US$bn**
Government bills / securities	130
Debt securities issued by banks and other financial institutions:	
Government guaranteed	*70*
Other	*100*
AFS asset-backed securities[1]	47
Other investments	6
Total	**353**



Note:
(1) Includes securities supported by an explicit guarantee issued by the US government

Key Elements of Risk at HSBC: Retail Credit Risk

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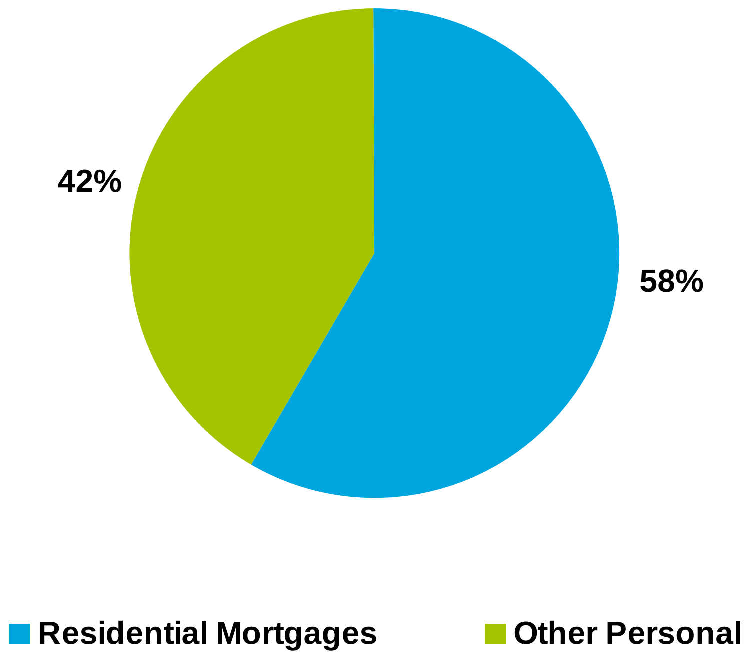
Retail Risk

HSBC's Retail Credit portfolio

Product mix of Retail gross loans and advances to customers at 30 Jun 09



US$437.8bn

Retail Risk

Caps and triggers enable well-diversified portfolios and avoid concentration of risk and excessive growth rates

- Regular reporting to Group Management Board
- Advances and Product e.g. Mortgages, Cards, Other PFS
- Monitors concentration, growth rates, delinquency and write-offs against plan
- Further granularity in caps at business unit level (sub-product level)
- Further development of cap and trigger process to include Risk Weighted Assets

Retail Risk

Group Retail Risk reviews credit risk in the regions, incorporating:

- Structure
- Portfolio and Products
- Governance and Strategy
- People and Resources
- Retail Risk Systems and Data
- Management Information
- Credit Policy and Underwriting
- Model Development and Validation
- Impairment Allowances
- Collections

Retail Risk

Centres of Excellence

Global Analytics

- Global organisation and governance
- Improves model development and achieves consistency
- Supports developing countries
- Rationalising systems and processes
- OneHSBC: greater automation of decisions and reliance on analytics

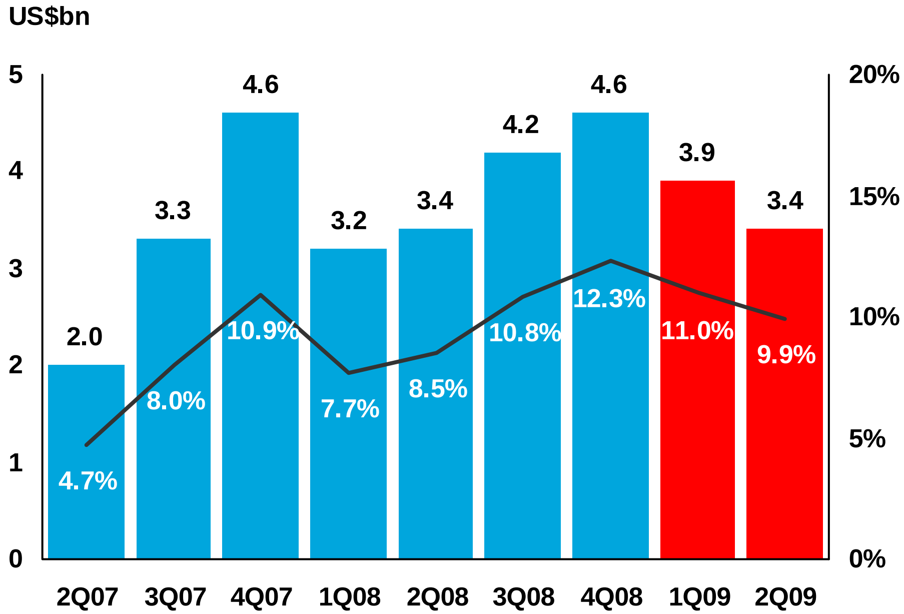
Collections

- Target Operating Model: achieve best in class
- Best practice sharing to support developing countries
- OneHSBC Systems deployment
- Collections Global Service Centres
- Consistent dialler strategy and call modelling

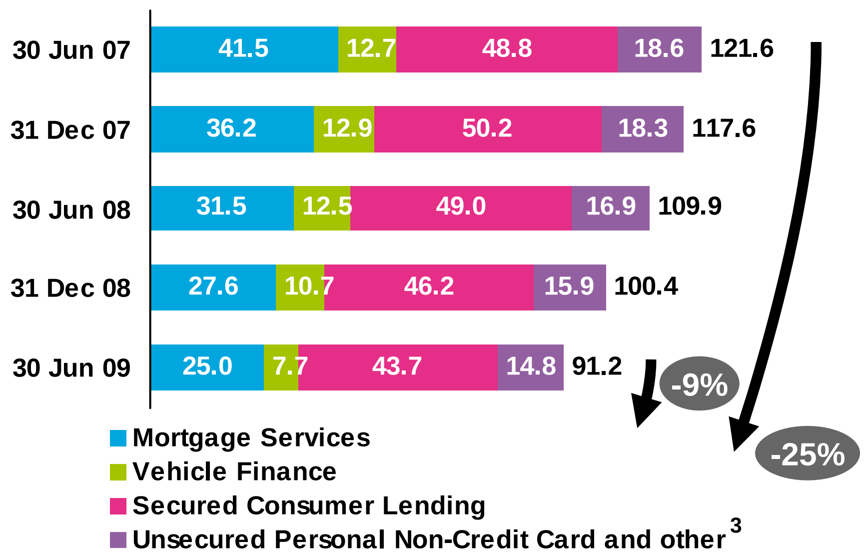
Retail Risk

HSBC Finance Corporation[1]

Loan impairment charges[2]
Total Portfolio



Customer loans, US$bn
Run-off portfolio



Consecutive quarters down in loan impairment charges

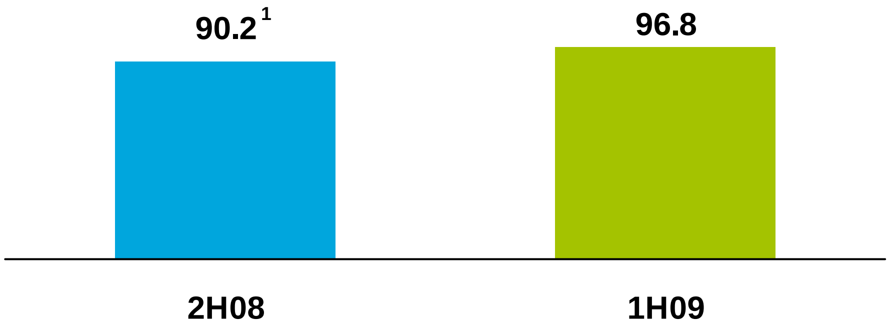
Restructuring of HSBC Finance Corporation on-track

Notes:
(1) IFRS management basis for US; excludes operations in UK and Canada
(2) Impairment charges ratio as a % of average total customer loans (annualised)
(3) Includes Vehicle Finance loans held for sale (US$0.8bn)

Retail Risk

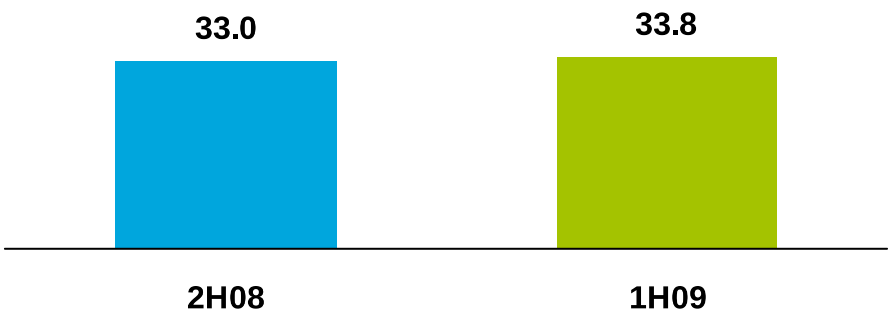
UK and HK Mortgages: Credit quality of the portfolio remains resilient

UK Mortgage Lending, US$bn



- Intentionally reduced market share in 2006 and 2007 as house prices continued to rise
- Mortgage lending rose 7.3% in 1H09 following focused marketing campaigns
- Average loan-to-value ratio of new business was 49.9%, a decrease of 8.8% from 2H08

Hong Kong Mortgage Lending, US$bn



- Mortgage lending rose $794 million in 1H09
- Mortgage lending remained well secured
- Average loan-to-value ratio was 40.2%

Note:
(1) Restated at constant currency

Retail Risk

Personal lending challenges

Themes	HSBC Action
US Economic environment: Rising unemployment	Management of US portfolio on track
Lag of US impact on other regions	Tighten credit criteria and focus any growth on emerging markets
Rate of regulatory intervention	Adapting charges, minimum payments, bankruptcy, foreclosure policies
Supporting customers through difficult times	Focus on sustainable customer relationships
Fraud	Improved fraud detection systems for applications and transactions

Retail Risk

Lessons learnt

Lesson	Action Taken
Consider withdrawal from higher risk products, segments and markets	Focus on more strategic growth with lower but more sustainable income
Global economic events overlaying local issues	Refocused global risk policy on lower risk customers, products and delivery channels
Rapid sales growth in developing countries without full supporting risk infrastructure	Improve capabilities across emerging markets by greater use of Centres of Excellence
Effectiveness of scores, forecasts and stress tests	Improve data management, MI and the use of analytics and collections
Reflecting on reputation risk within management decisions	Decreased use of third parties throughout account recruitment and management; Group standards reinforced

Key Elements of Risk at HSBC: Wholesale and Market Risk

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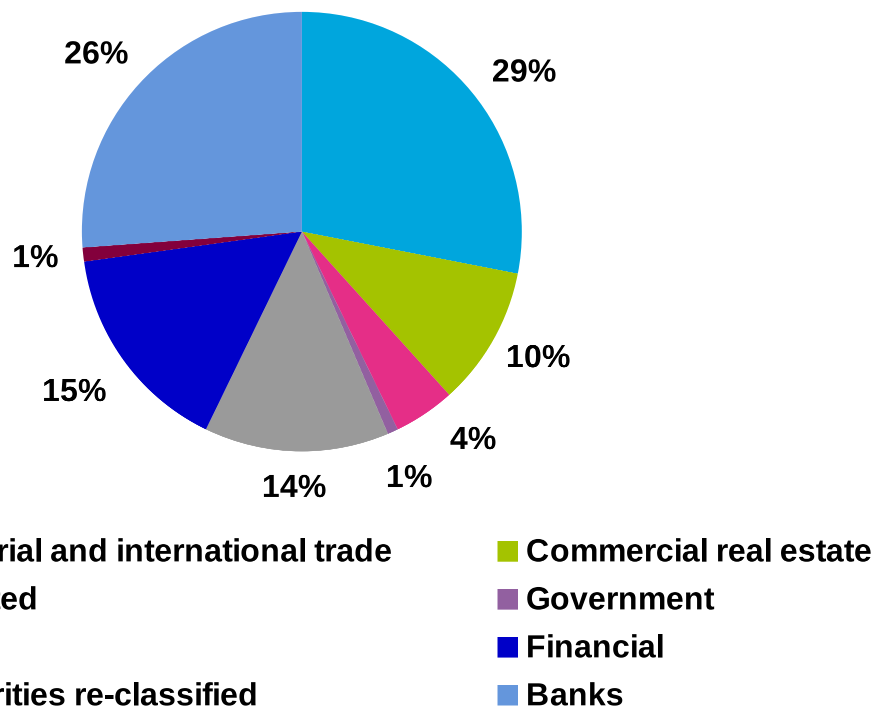
Wholesale Risk

HSBC's Wholesale Credit portfolio

Product mix of Wholesale Gross loans and advances to customers and banks at 30 Jun 09[1]



US$696.9bn

Notes:
(1) Wholesale lending is described from page 145 of the 2009 Interim Report

Wholesale Risk

Management process for Credit Risk

Approval on a client-by-client basis	Due diligence and credit assessment undertaken for each client All clients have a relationship manager
Single Approval Authority structure	No credit committees; rather a hierarchy of individual approval authorities
Corporate counterparty exposures	Approved by local operating companies, according to delegated local authorities Subject to local regulator-led large-exposure / single borrower limits Exposures above local authorities require concurrence at Group level
Banks, Sovereigns and Non-Bank Financial Institutions counterparty exposures	Centrally approved after recommendation by local operating companies

Wholesale Risk

Management process for Credit Risk (continued)

- Global Annual Review
  - Sets appetite for global names annually
  - Management co-ordination of Group-wide exposures to global client groups
  - Objective offline appraisal of risk conducted for both corporates and banks
- Internal Rating Process of customers
  - Governance = Credit Risk Analytics Oversight Committee Process + external regulator
  - Client-by-client
  - Independent of the Business: Credit Risk Rating

Wholesale Risk

Areas of Special Interest

Insurance	Reduced exposure in line with overall risk appetite to sector
	Concentrating exposure to the most substantial companies
Leveraged Financing	Exposure controlled since 1H07 with caps on underwriting and hold levels
	Effect of lower credit quality on impairment provisioning was minor at Group level
Commercial Real Estate	7% of total loans and advances to customers
	Origination loan-to-value ratios typically less than 65%
Automotive Sector	No significant direct exposure to failed US auto manufacturers; portfolio cap on industry
Sovereign Counterparties	No significant downward shift in the quality composition of the portfolio

Wholesale Risk

Actions taken in response to market conditions

- Watch and Worry List procedures enhanced
- Crisis Management Procedures renewed and strengthened
- Enhanced settlement control procedures
- Improvement to Management Information
- Reinforcement of the conservative credit risk culture

Wholesale and Market Risk

A combined Wholesale Credit and Market Risk function

Brings together Counterparty and Market Risks	Holistic approach to managing wholesale credit and market risk
Market Contingent Credit Risk	Credit exposures driven by uncertain market movements
Credit Contingent Market Risk	Market exposures impacted by counterparty failure
Risk Concentrations	Identifies, analyses and monitors globally and for each major operating entity
	Portfolio caps and parameters established to limit concentration risk

Market Risk

Governance and management

Group Management Board

Risk Management Meeting

Group Market Risk

Entity Asset Liability Committee

Principal Office Manager

Business / Desk / Trader

General Measures

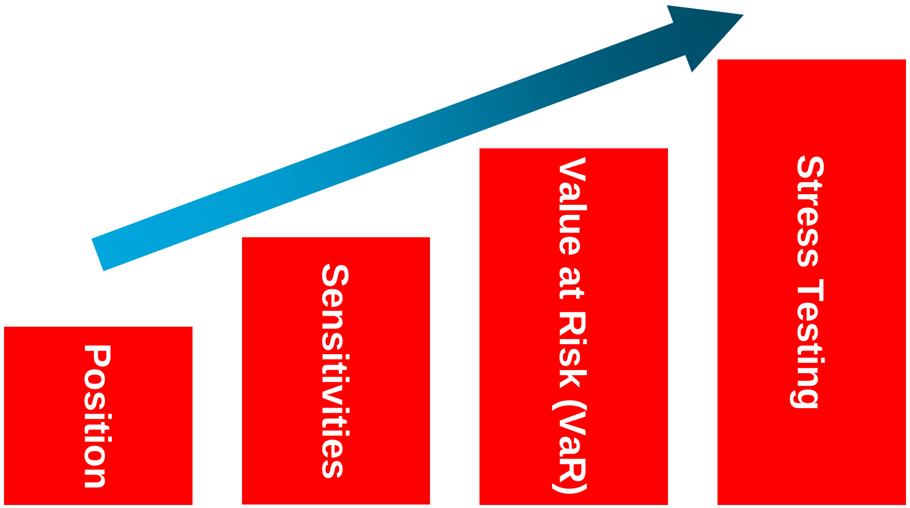
Specific Measures

- Risk appetite capped by limits set by Group Management Board
- Risk managed at entity level within defined limits
- All Market Risk transferred to Global Markets

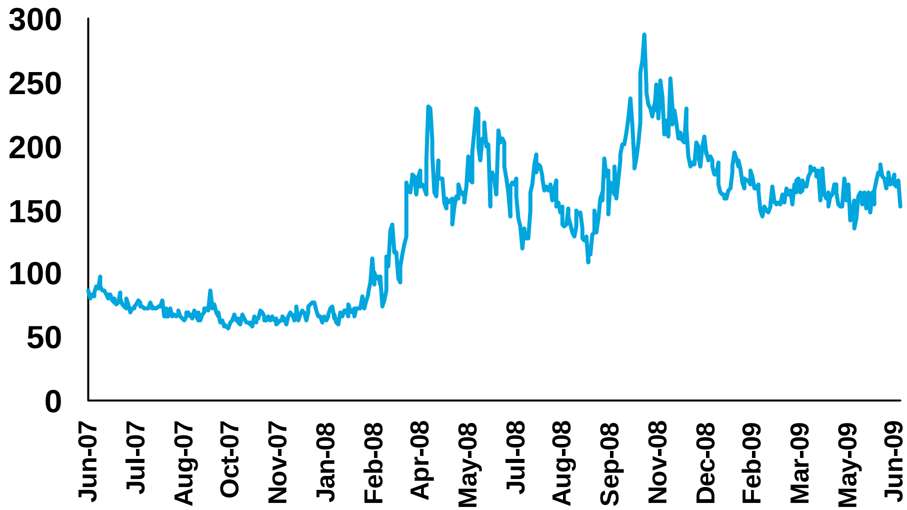
Market Risk

Monitoring and limiting exposures

A single measure is not sufficient



HSBC Holdings Daily Value at Risk (VaR)



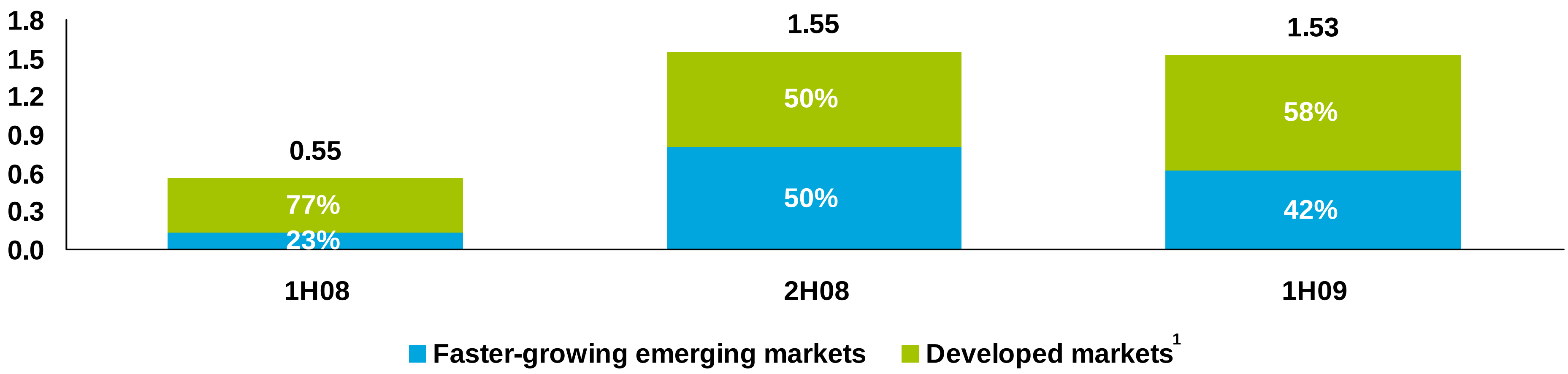
- Comprehensive suites of measures
- New products through due diligence process
- Monthly Business Control Committees by line of business

US$m, 99% Confidence Level, 1 Day Holding Period

Wholesale Risk

Commercial Banking: Stabilising loan impairment charges in line with 2H08

Loan impairment charges and other credit risk provisions, US$bn



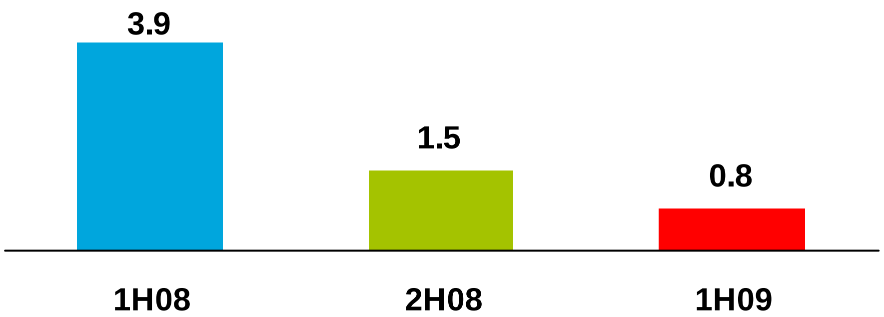
- Impairment charges remain broadly in-line with expectations
- Recent loan impairment charges driven more by issues in underlying economy as opposed to fraud and derivative losses in 2H08
- Re-pricing initiative commenced in early 2008 now producing results to mitigate probability of default drift

Note:
(1) Developed markets comprise US, Canada, Japan, Australia, New Zealand, EU15, Switzerland, Malta

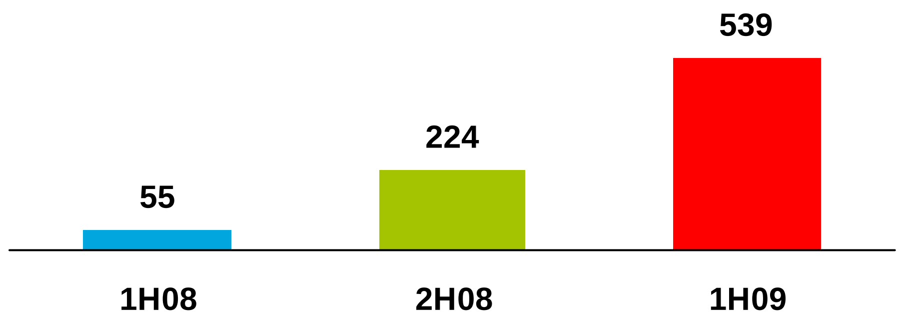
Wholesale Risk

Global Banking and Markets: Lower write-downs but higher loan impairment charges; no change to stress test guidance on available-for-sale (AFS) Asset-Backed Securities (ABS)

Write-downs, US$bn

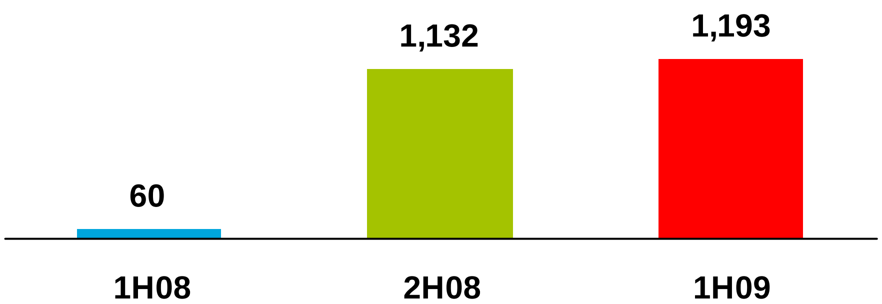


Available-for-sale ABS – impairment, US$m

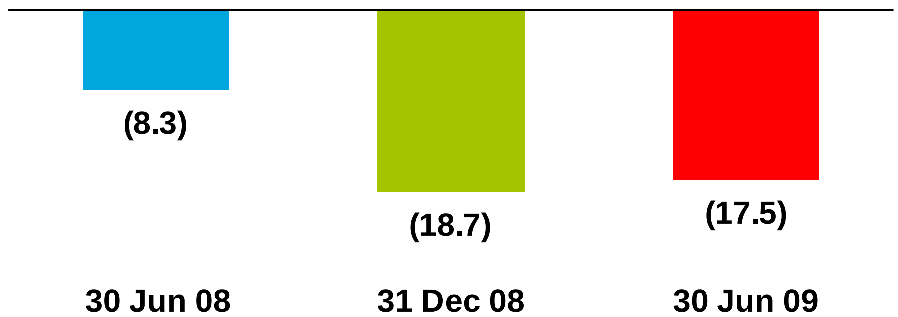


Loan impairment charges and other credit risk provisions, US$m

(ex Available-for-sale ABS impairment charge)



Available-for-sale ABS – reserves, US$bn



Wholesale Risk

Global Banking and Markets: Managing balance sheet risk – write-downs and impairments

US$m	Write-down/(recovery)			Carrying amount at end		
	1H08	2H08	1H09	Jun 08	Dec 08	Jun 09
Sub-prime mortgage related assets						
– Loan securitisation	301	292	156	1,565	1,213	943
– Credit trading	665	150	83	1,377	428	302
Other non sub-prime assets						
– Credit trading (ABS / MBS / Preferred)	1,327	486	103	8,923	2,201	1,350
– Leveraged loans[1]	278	-	(11)	7,375	271	285
Assets reclassified (impairment)	**–**	**26**	**160**	**–**	**16,649**	**16,308**
Derivative transactions with monolines						
– Investment grade counterparts	598	130	25	1,206	2,089	1,593
– Non-investment grade counterparts	608	370	241	78	352	510
Other credit related items	**99**	**95**	**5**	**321**	**186**	**116**
Total before AFS impairment	**3,876**	**1,549**	**762**			
AFS impairment	55	655	564			
Total	**3,931**	**2,204**	**1,326**			

Note:
(1) Includes carrying amount of funded loans plus the net exposure to unfunded leveraged finance commitments

Wholesale Risk

Global Banking and Markets: Available-for-sale (AFS) Asset-Backed Securities (ABS)

	Carrying value		AFS reserve	
US$bn	31 Dec 08	30 Jun 09	31 Dec 08	30 Jun 09
Government agency	20.3	14.1	0.3	0.1
Structured Investment Conduits (SICs)	14.6	12.9	(7.2)	(6.6)
Other	21.3	20.1	(11.8)	(11.0)
Total	**56.2**	**47.1**	**(18.7)**	**(17.5)**

- Government agency positions are high quality with negligible AFS reserves
- SICs: $2.2bn of first loss protection from 3rd parties exceeding management's stress losses
- Other: Asset prices remained static or declined modestly, offset by repayments at par. Portfolio performing in line with management's stress tests

Key Elements of Risk at HSBC: Liquidity Risk

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Liquidity Risk

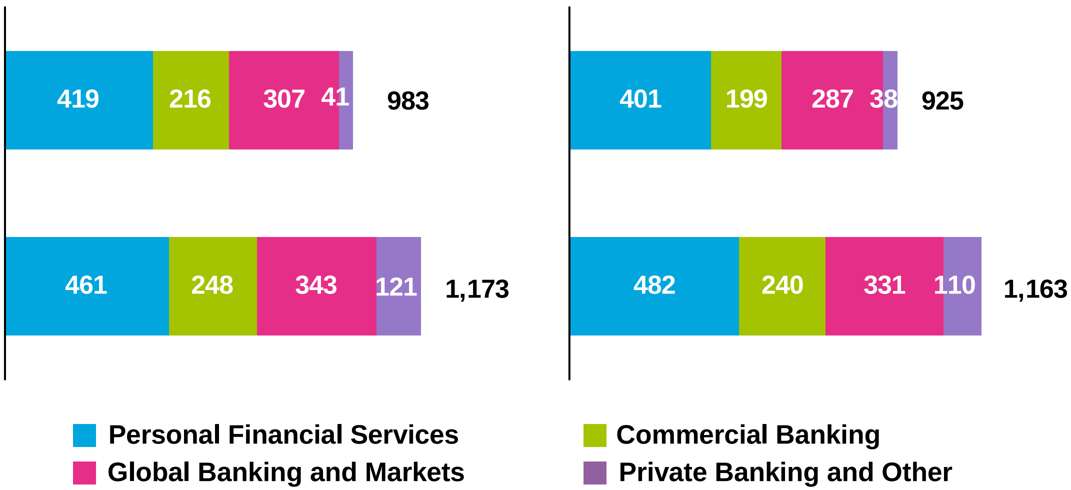
Managing Liquidity Risk at HSBC

- Fund illiquid assets with core customer deposits
- Where core customer deposits are not available as a source of funding, use long term professional funding
- In addition we maintain liquidity “buffers” to cater for stress – both firm specific and market wide
- Legal entities and geographies are required to be “stand-alone” with respect to liquidity and funding

Liquidity Risk

Diversity of funding and liquidity strength

US$bn	31 Dec 2008[1]	30 Jun 2009	% change
Customer loans and advances	983	925	-6%
Customer accounts	1,173	1,163	-1%
Advances-to-deposits ratio	83.8%	79.5%	



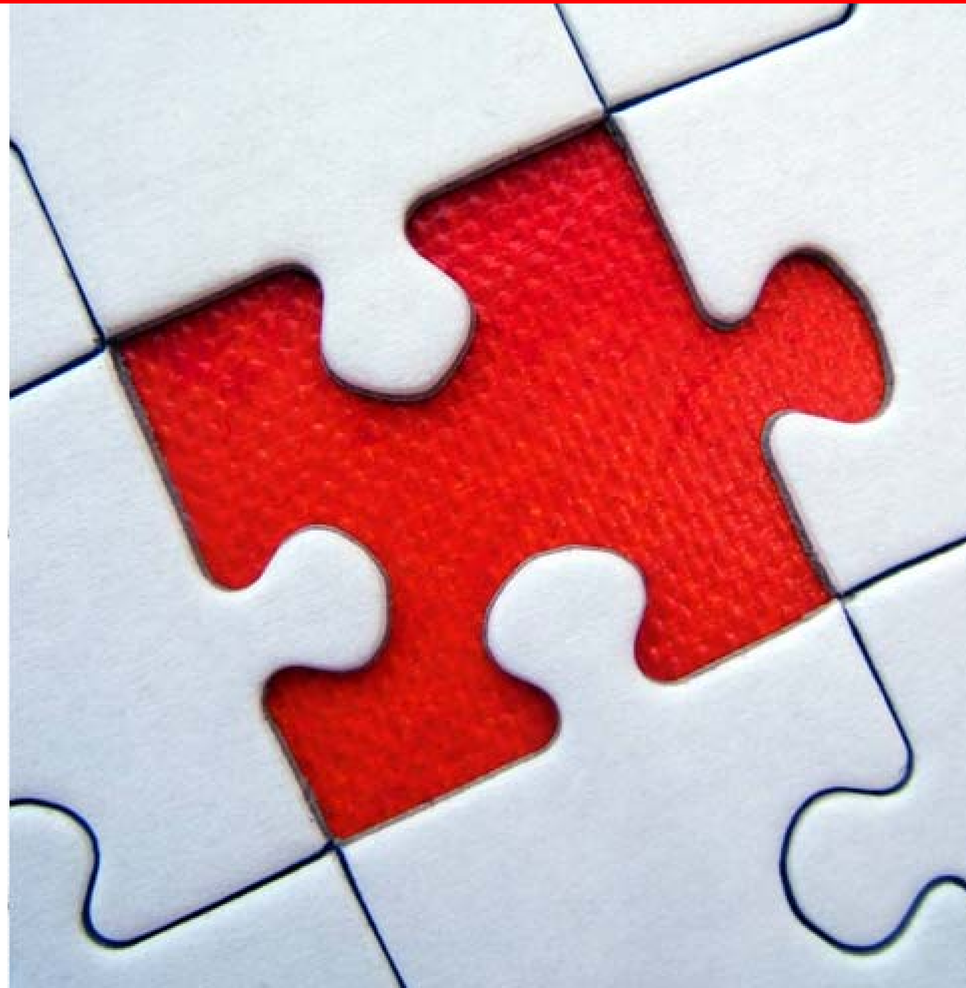
Note:
(1) Restated for constant currency, acquisitions and disposals

Liquidity Risk

The future of Liquidity Risk management

- FSA Regime - 2010
- Increased competition for customer deposits
- Role of Central Bank facilities - unclear
- No substantial change to the HSBC approach

Conclusion



Conclusion

How we are different

- HSBC is predominantly a customer-led business
- Long term relationship-driven approach provides greater understanding of our customers
- Integrated risk culture: strong risk management starts in the business
- Independence between the risk management function and the business
- Subsidiary-based model with country-level operations supported by global policy
- Well diversified

Conclusion

Positioned for the upturn

- An experienced and strong management team
- A robust capital base and highly liquid
- A strong risk culture embedded in the business ensures pursuit of measured growth
- Local businesses can make decisions, based within a global risk framework
- HSBC is well positioned for the recovery and ready to capitalise on opportunities