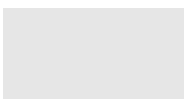
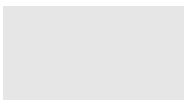
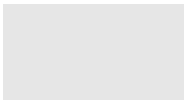
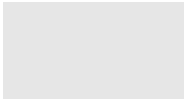


# Growth in the new normal



# 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 from what 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.

# Contents

- ▶ **Shaping the business**
  - ▶ **The new normal**
  - ▶ **Regulatory challenges**
  - ▶ **Strategic focus**
  
- ▶ **Positioning for growth in Personal and Commercial Banking and Insurance**
  - ▶ **Building on strong regional presence for growth in local businesses**
  - ▶ **Serving connectivity between markets and geographies**

# The new normal

The crisis has created more focus on business model and resolution

Industry issue

Capital

Liquidity

Resolution

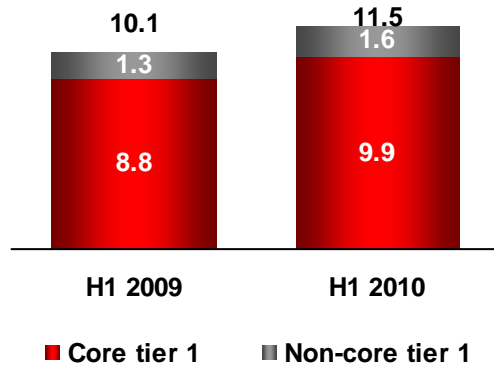
HSBC position

Strengthening through capital generation

Strong A/D ratio

HSBC Group structure based on a principle of subsidiarity

Tier 1 ratio %



30 June 2010

77.9%

Locally capitalised and funded

Globally managed

# Regulatory challenges and emerging themes

- ▶ **Funding strength is likely to be the major identifier of winners and losers, as well as inorganic opportunities**
- ▶ **Risk of protectionism through ring fencing**
- ▶ **How extra territorial will be incoming US legislation?**
- ▶ **What risks would splitting off or carving out activities unearth or open up?**
- ▶ **Is a level playing field possible?**
- ▶ **Timing, grandfathering, transition?**

# Strategic focus

**Build on our heritage**

**Leading international network**

**Leading presence in faster-growing markets**

**International management culture**

**Positioning for growth**

**Responding to global trends**

**Serving global connectivity**

**Building our regional and local presence**

**Operational transformation**

**OneHSBC**

**People engagement**

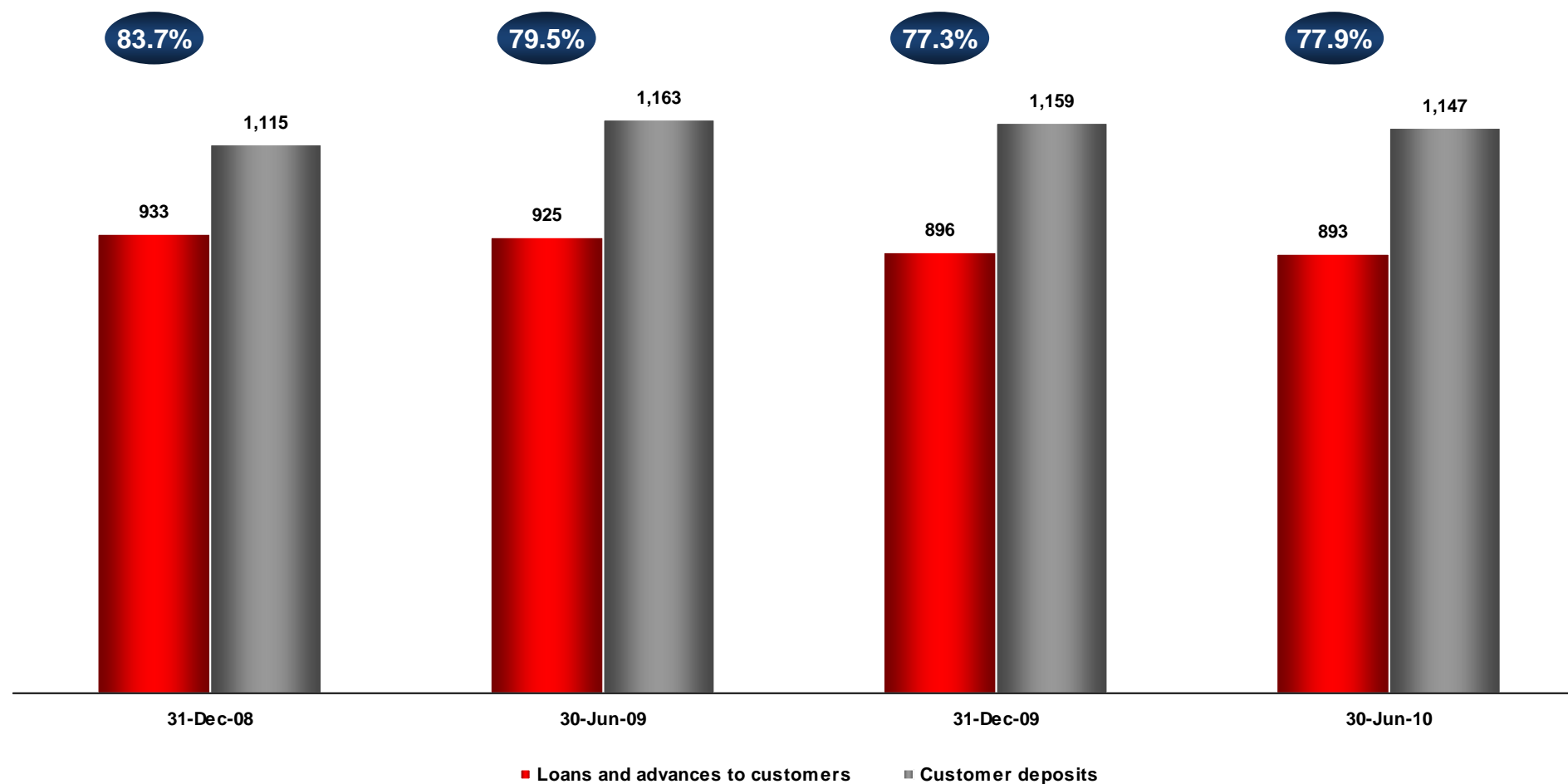
**Financial strength and brand**

# Positioning for growth – building our deposit base

Impacting revenues in the short term

## Customer deposits and loans and advances to customers<sup>1</sup>

USDbn



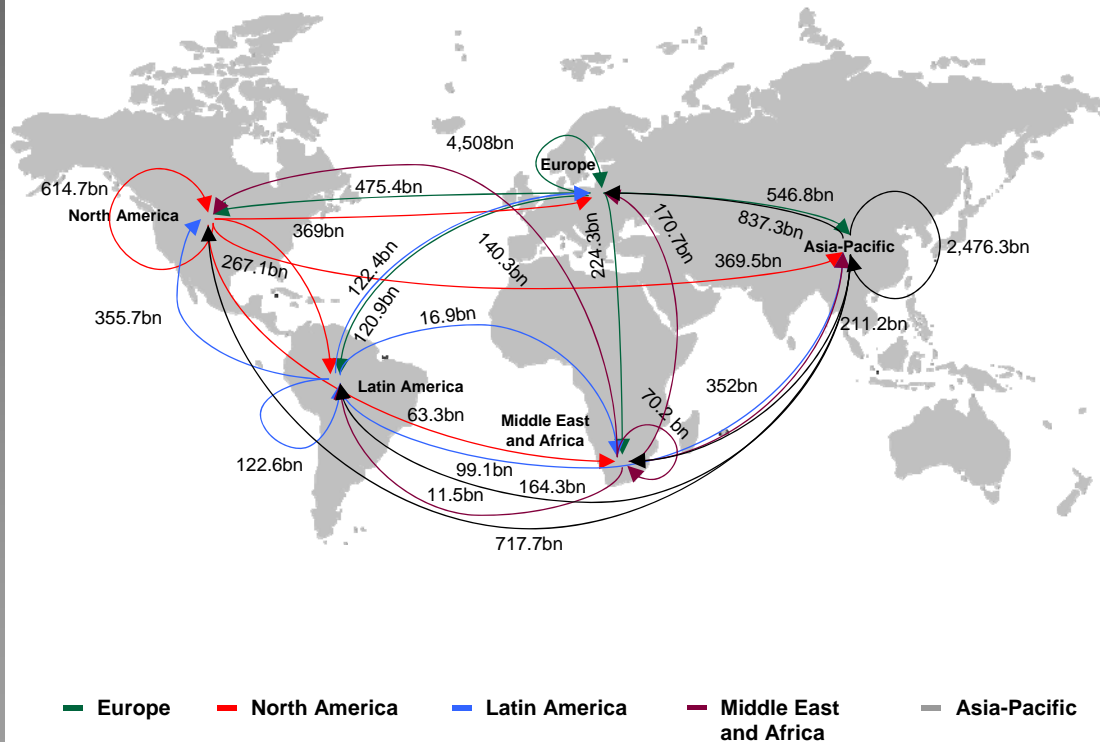
Notes:

(1) Customer loans and advances for H1 2009 and H2 2009 on an underlying basis; customer loans and advances are on a net basis

# At the centre of global trade flows

Linking developing and developed markets

## World trade flows



Source: International Trade Centre, 2008 (WTO, UN)

## Global footprint<sup>1</sup>

- ▶ 8,000 offices in 87 countries and territories
- ▶ Over 100 million customers
- ▶ 287,571 employees
- ▶ No. 1 in Trade and Supply Chain
- ▶ Best Global Trade Finance Bank 2009<sup>2</sup>
- ▶ Best Trade Finance Services in Asia-Pacific 2009<sup>3</sup>
- ▶ Best Trade Finance Bank 2009<sup>4</sup>

Notes:

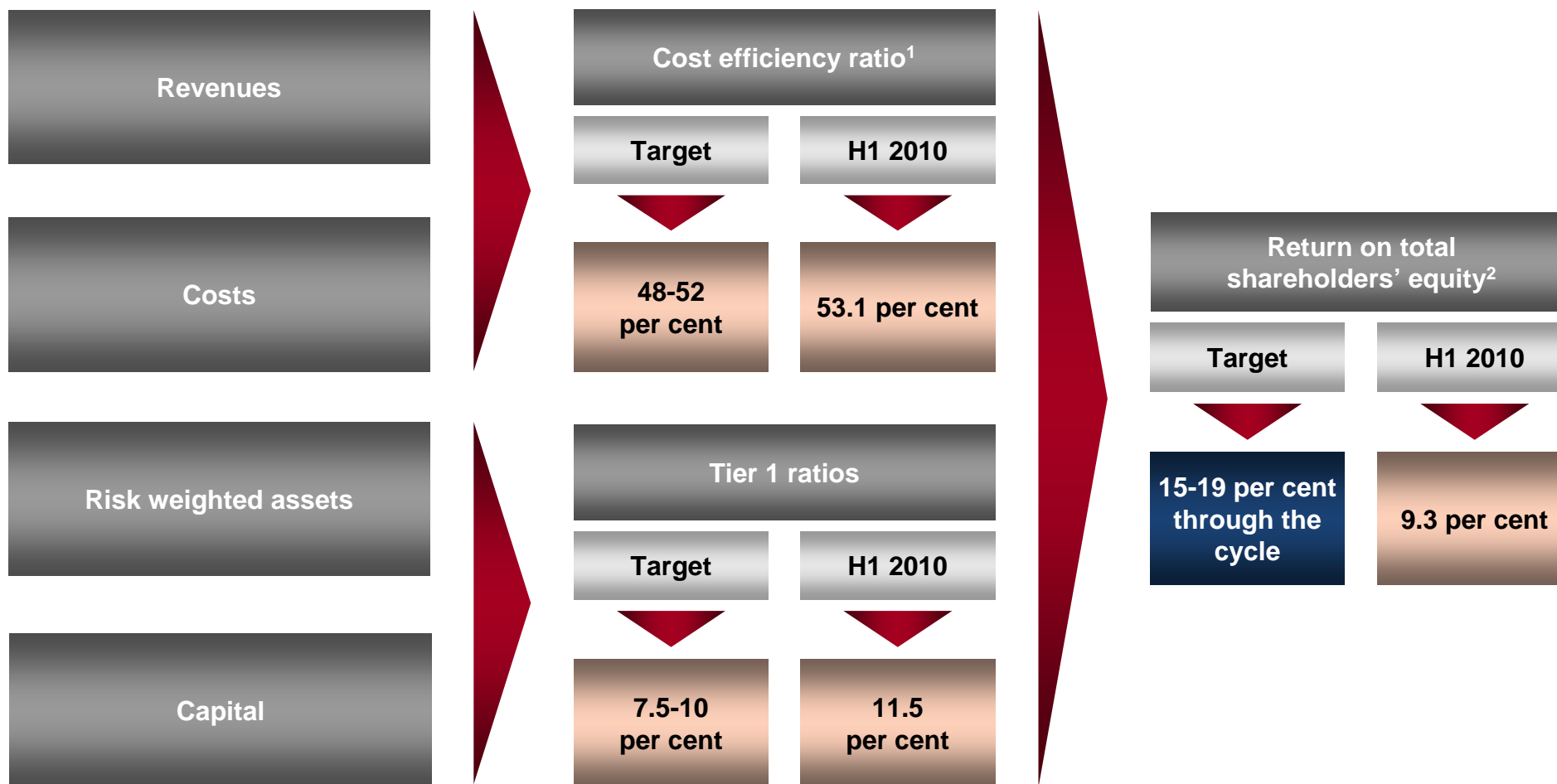
(1) As at 30 June 2010  
(2) Global Trade Review

(3) Global Finance  
(4) Cargonews Asia



# Financial targets

## Key performance indicators



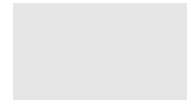
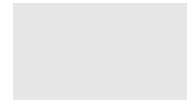
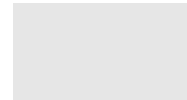
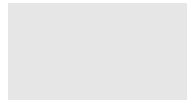
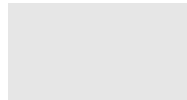
Notes:

(1) On an underlying basis: underlying results eliminate the effects of foreign currency translation differences, acquisitions and disposals of businesses and changes in fair value (FV) of own debt due to credit spread

(2) This excludes the changes in FV of own debt due to credit spread

# Retail business

Commercial Banking, Personal Financial Services and Insurance



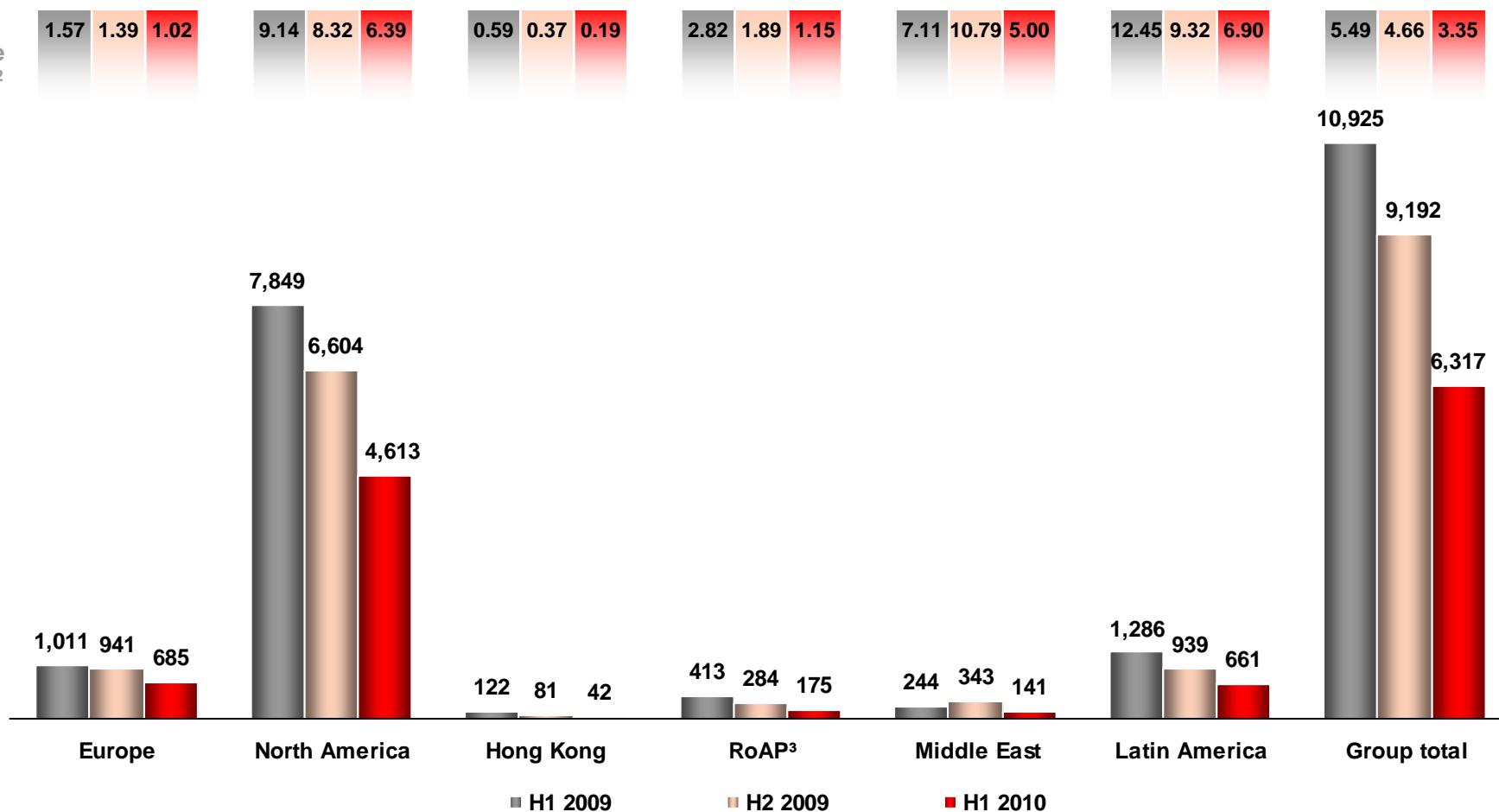
# Credit quality strongly improved

## Personal Financial Services

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

USDm

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



Notes:

(1) LICs for H1 2009 and H2 2009 on an underlying basis

(2) LICs as a % of average advances on a net basis

(3) Rest of Asia-Pacific

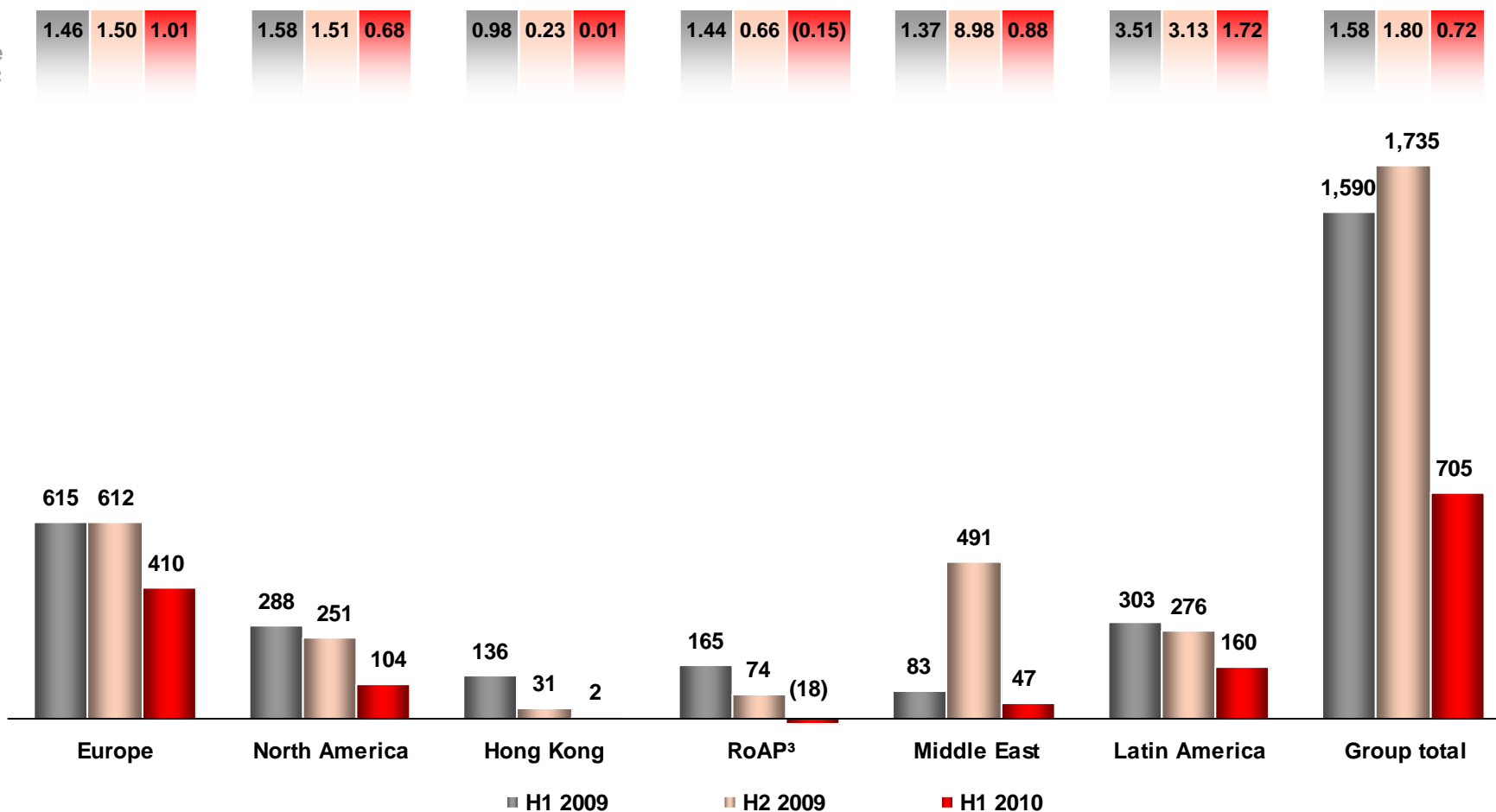
# Credit quality strongly improved

## Commercial Banking

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

USDm

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



Notes:

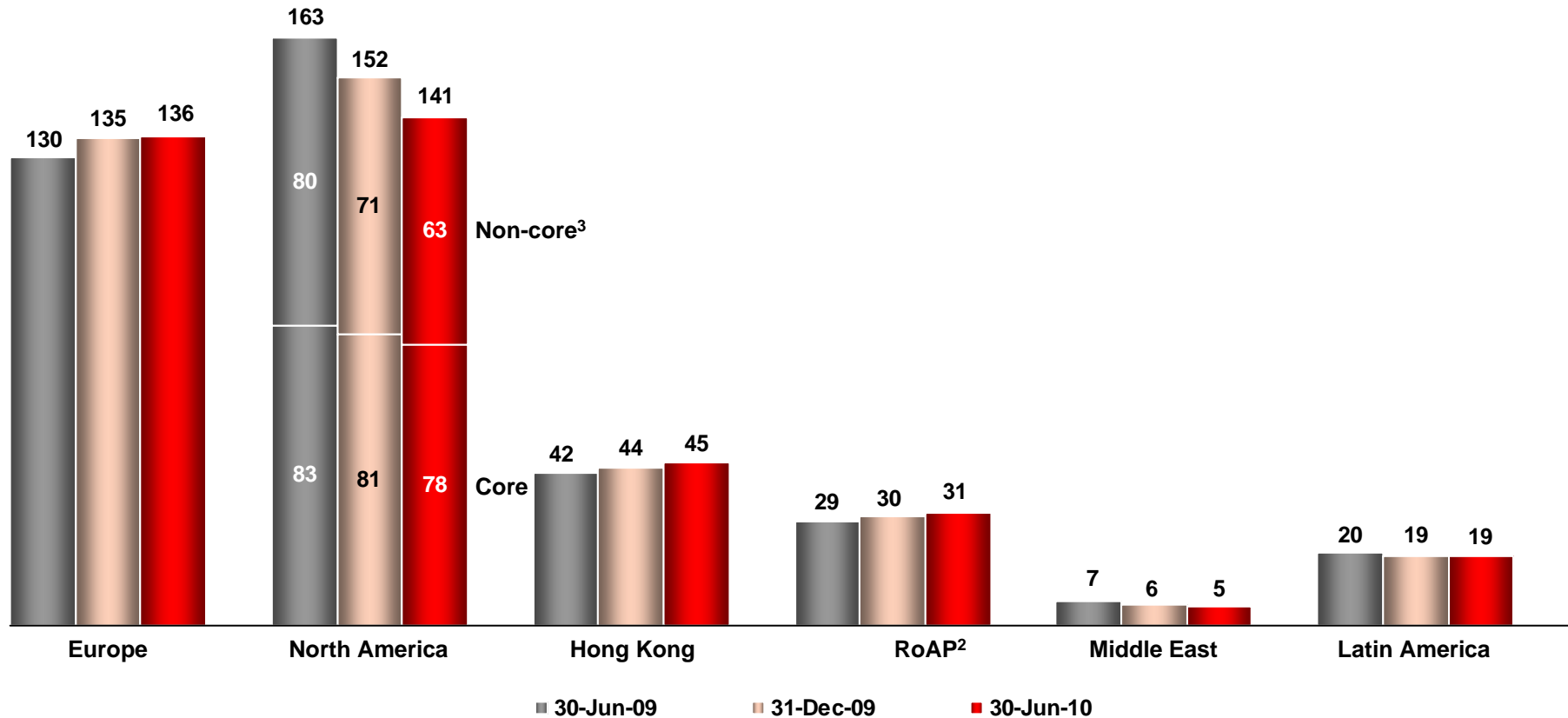
- (1) LICs for H1 2009 and H2 2009 on an underlying basis
- (2) LICs as a % of average advances on a net basis
- (3) Rest of Asia-Pacific

# Customer loans and advances

Stable pattern in core business

## Personal Financial Services<sup>1</sup>

USDbn



Notes:

(1) Customer loans and advances for H1 2009 and H2 2009 on an underlying basis; customer loans and advances are on a net basis

(2) Rest of Asia-Pacific

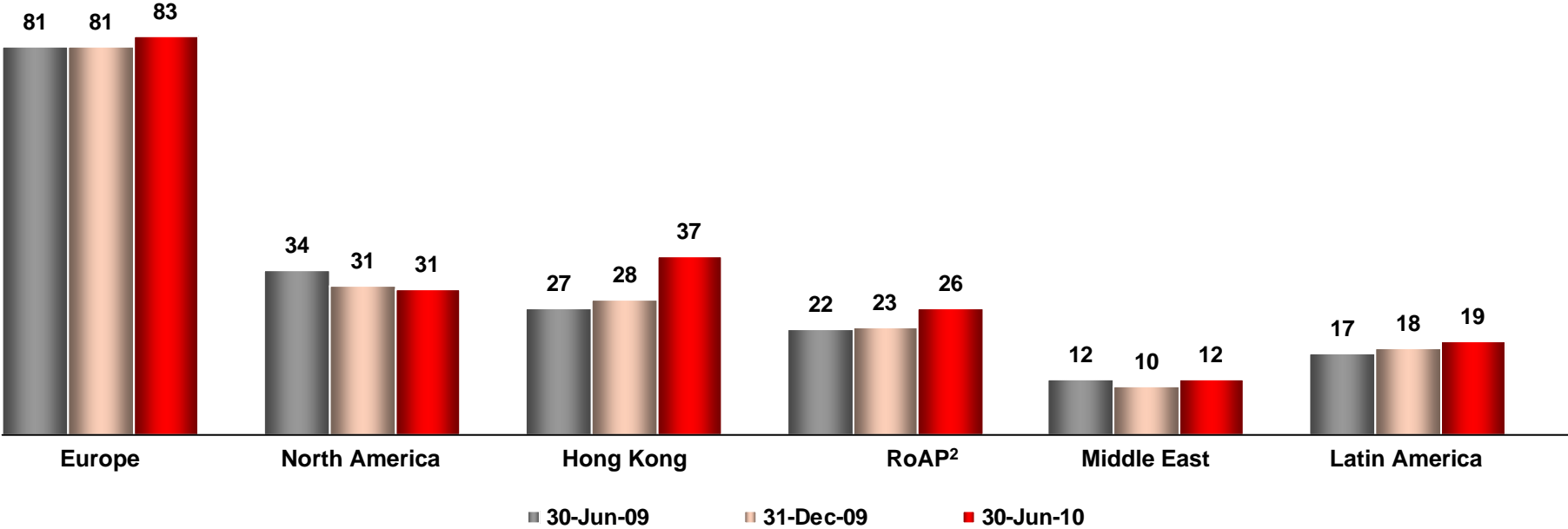
(3) Non-core Operations represents the Consumer and All Other business segments of HSBC Finance Corporation. The Consumer segment represents the run-off businesses of Consumer Lending, Mortgage Services and Auto Finance

# Customer loans and advances

Growth in all regions outside North America

## Commercial Banking<sup>1</sup>

USDbn



Notes:  
(1) Customer loans and advances for H1 2009 and H2 2009 on an underlying basis; customer loans and advances are on a net basis  
(2) Rest of Asia-Pacific

# Commercial Banking

Executing our strategy

	Best bank for business	Leading international business
<b>Emerging markets growth engine</b>	<ul style="list-style-type: none"><li>▶ 84 per cent of new Business Banking (SME) customers are in emerging markets</li></ul>	<ul style="list-style-type: none"><li>▶ Continued footprint expansion in core markets such as mainland China and Indonesia</li><li>▶ Launched RMB settlement capability in 24 markets globally</li></ul>
<b>Exploiting scale and efficiency</b>	<ul style="list-style-type: none"><li>▶ Consistent global business model tailored for local market</li><li>▶ Common customer propositions and systems</li><li>▶ The leading direct bank for business in Europe</li></ul>	<ul style="list-style-type: none"><li>▶ Continued growth of customers and capabilities on global payments platform, <i>HSBCnet</i></li></ul>
<b>Connected and diversified</b>	<ul style="list-style-type: none"><li>▶ Transaction and deposit model generates fees and deposits</li><li>▶ Major player in direct banking</li></ul>	<ul style="list-style-type: none"><li>▶ Cross-border referrals doubled, with underlying transaction value of over USD6.8bn</li><li>▶ Launched improved foreign exchange platforms in key markets such as UK and India</li></ul>

# Commercial Banking

## Diversified income and profits

### ▶ By geography

- ▶ Profitable in all regions
- ▶ Significant exposure to emerging markets

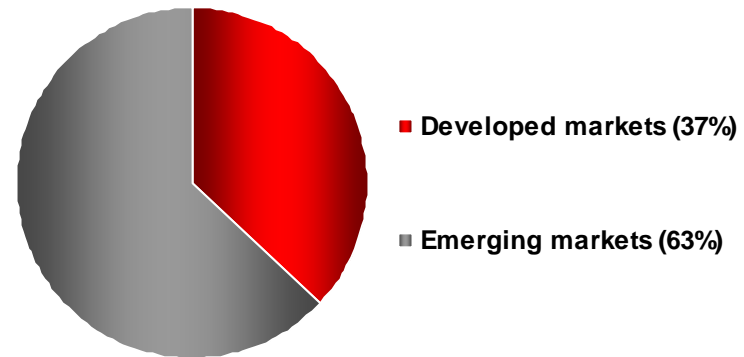
### ▶ By customer segment

- ▶ Enhanced value creation across Commercial Banking
- ▶ Overall self-funding

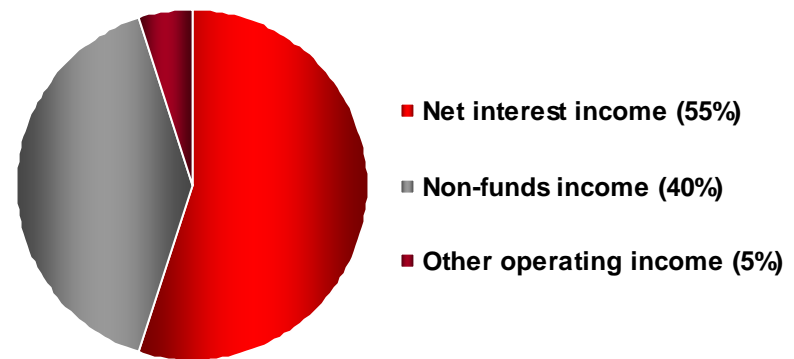
### ▶ By product

- ▶ Enhance balance sheet earnings with core banking and transactional banking

### Profit before tax<sup>1</sup>, geographic split, H1 2010



### Diversification of business<sup>1</sup>, H1 2010



Notes:

(1) Underlying basis



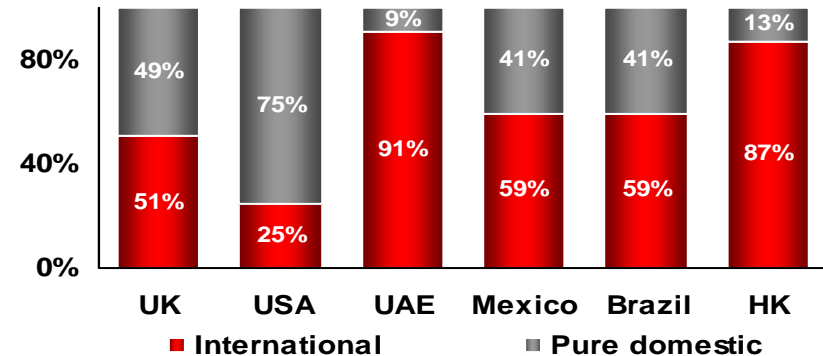
# Commercial Banking

## Connectivity – the value of international customers

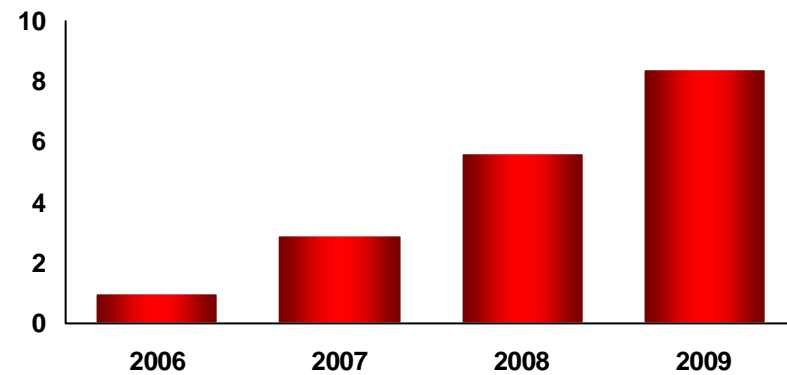
- ▶ **International business is prevalent in many markets where HSBC operates**
- ▶ **International customers typically generate up to more than two times the revenue of domestic customers**
- ▶ **Increasing cross-border activity**
  - ▶ Successful referrals doubled vs. H1 2009
  - ▶ Aggregate transaction value of over USD6.8bn in H1 2010

### 38 per cent of businesses have international needs<sup>1</sup>

% of businesses with international needs



### Number of cross-border referrals<sup>2</sup> ('000s)



Notes:

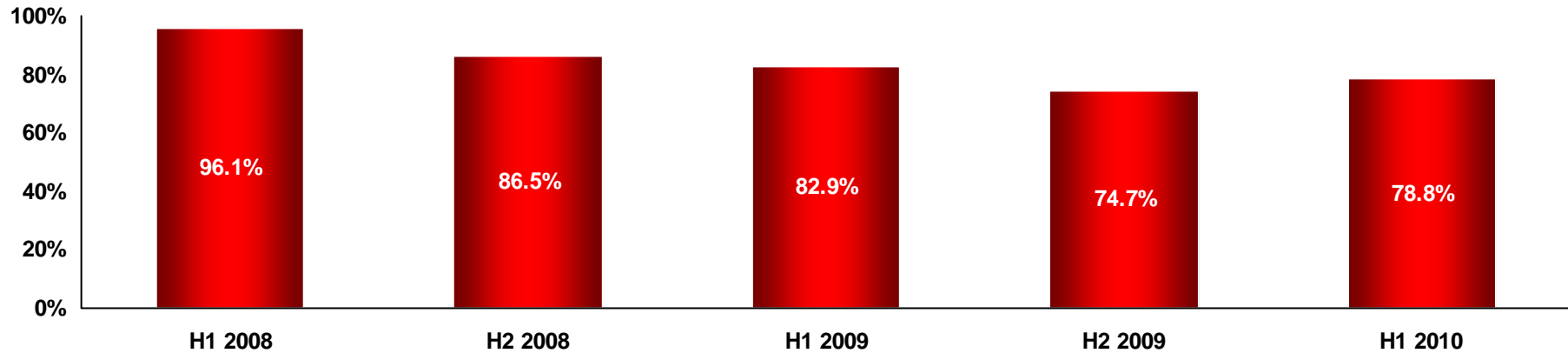
(1) Businesses with turnover of more than USD5m; source: Dun & Bradstreet (July 2009)

(2) As reported in Global Links

# Commercial Banking

Liquidity – conservative funding policy

## Advances-to-deposits ratio



### Strong in challenging times

- ▶ Strong deposit growth
- ▶ Strong brand attraction/flight to quality
- ▶ Driven by customer growth

### Self-funding through a balanced model across segments

- ▶ Business banking as net deposit generator
- ▶ Corporate as net asset generator

# Commercial Banking

## Sustainable growth – revenue drivers

### Consistent growth in customer base

- ▶ Targeted customer acquisition driven by propositions across direct and face-to-face channels

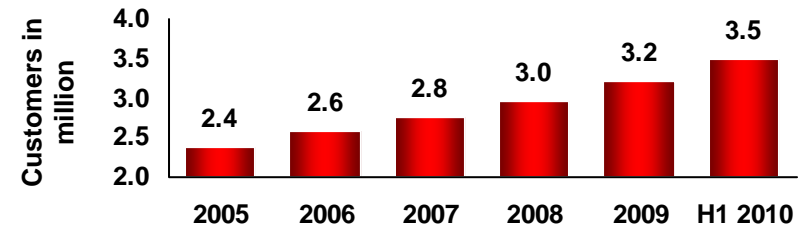
### Strong profit contribution

- ▶ USD30bn<sup>1</sup> over five years
- ▶ USD3.1bn<sup>2</sup> in H1 2010
- ▶ **2010 headwinds: compressed deposit margins, lower loan balances and higher loan impairment charges**
  - ▶ Historical trends highlight upside potential in key profit drivers

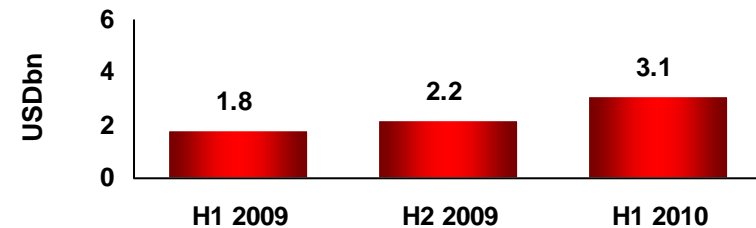
### Strong growth in deposits

- ▶ Anchor product
- ▶ Provides core liquidity for HSBC's other customer groups

### Growth in customer base



### Profit before tax<sup>2</sup>



Notes:  
 (1) Reported basis  
 (2) Underlying basis

# Personal Financial Services

Use global reach and scale to grow profitably in selected markets through relationship banking and wealth management services

## Participation models

- ▶ Service all customer segments where:
  - ▶ Already have scale
  - ▶ Scale can be built

## Global proposition

- ▶ Premier
- ▶ Advance

## Strategic focus

- ▶ Increase penetration of wealth management services
- ▶ Grow quality assets
- ▶ Maintain strong funding position
- ▶ Manage US run-off portfolio



# Insurance

## Strong growth in contribution to profits

USDbn <sup>1</sup>	H1 2009	H2 2009	H1 2010	% better/(worse)	
				H1 2009	H2 2009
Net earned premiums	5.1	5.3	5.7	+11	+7
Investment income <sup>2</sup>	1.5	2.5	0.8	(45)	(65)
Net claims incurred and movements in liabilities to policyholders	(5.5)	(6.7)	(5.1)	+8	+23
PVIF <sup>3</sup> movement	0.3	0.3	0.3	+11	+5
Net underwriting result	1.4	1.4	1.7	+23	+28
Net fee income	0.5	0.5	0.5	(7)	0
Other operating income	0.1	–	–	–	–
Net operating income	2.0	1.9	2.2	+13	+20
Operating expenses	(1.0)	(0.9)	(0.9)	+4	(3)
Operating profit	1.0	1.0	1.3	+30	+36
Associates and joint ventures	0.2	0.3	0.3	+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:

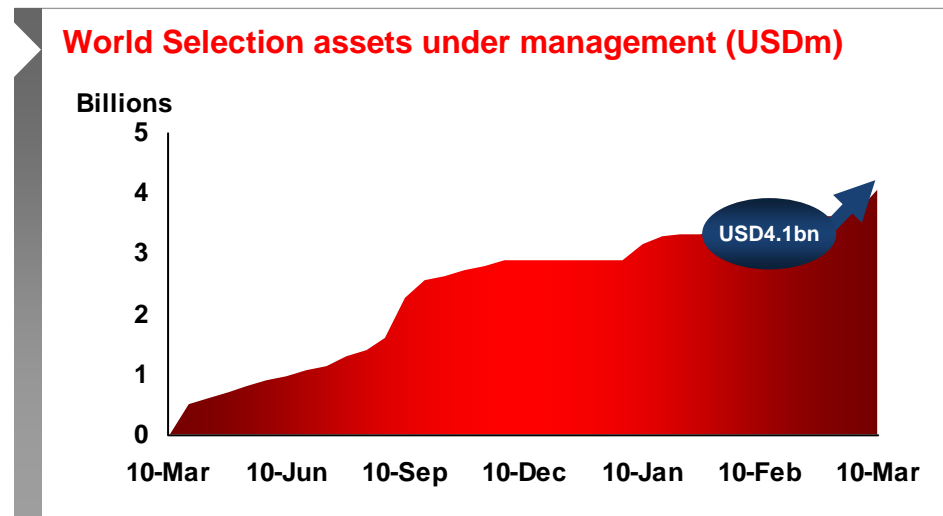
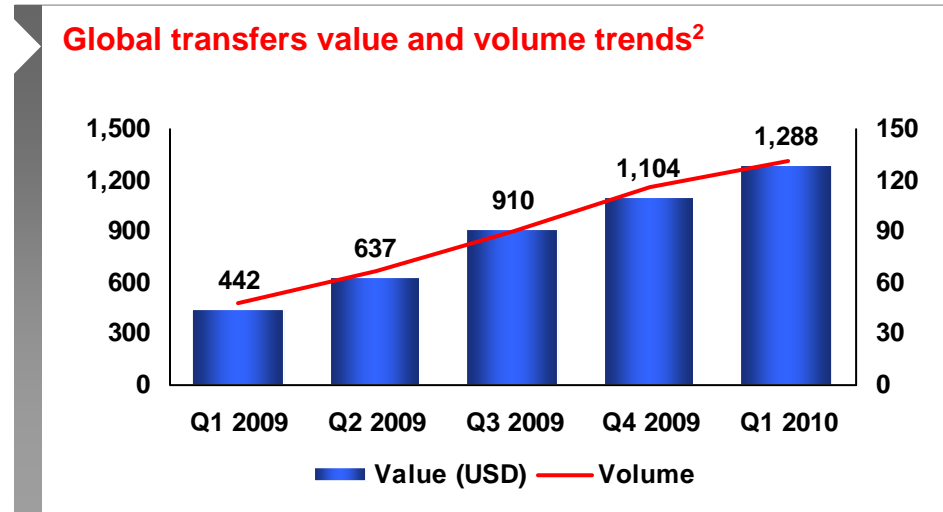
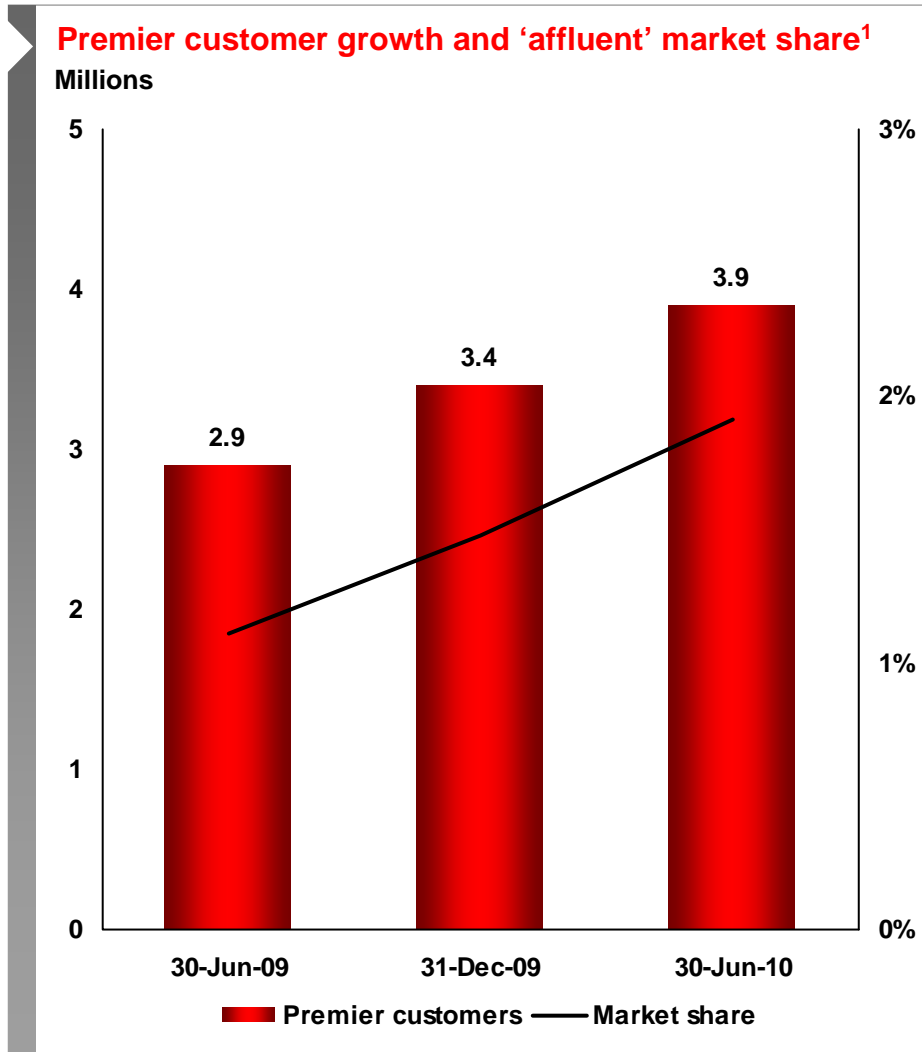
(1) Underlying basis

(2) Investment income includes net income from financial instruments designated at fair value H1 2009: USD0.7bn, H2 2009: USD1.6bn, H1 2010: USD(-)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

# Personal Financial Services

Growth – increasing premium market share with globally consistent propositions



Notes:

(1) 'Affluent and Premier' customer population based on 2008 Datamonitor figures and internal estimates for the mass affluent (USD100,000 to USD2m) segment

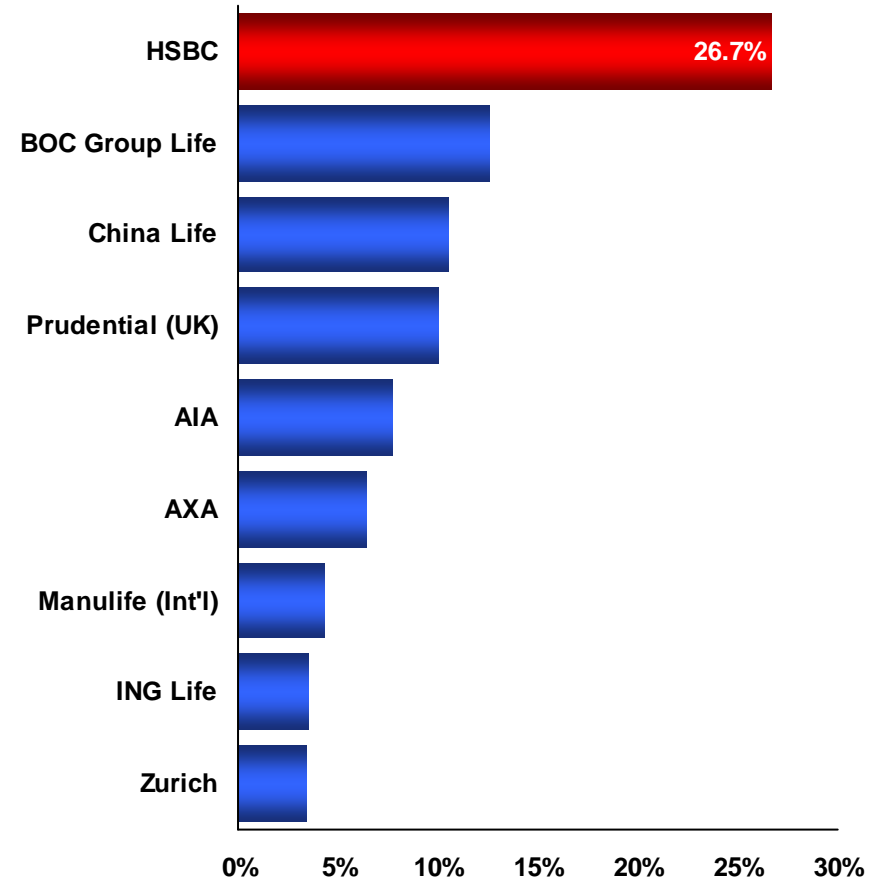
(2) Q1 2010 YTD volume (no. of transfers) and value (sum transferred in USD) vs. the same period in 2009

# Positioning for growth

## Increasing wealth management penetration

- ▶ Over 1 million Premier customers in Asia-Pacific
- ▶ Launched global mid-market wealth management proposition, Advance, in seven markets in Asia-Pacific as at H1 2010
- ▶ In Hong Kong, maintained no. 1 position in new annualised life premium in H1 2010 in both linked and non-linked regular premium (RP) business
- ▶ Building share of non-resident Indian, non-resident Chinese customers
- ▶ Launched Amanah Premier and Advance in Malaysia with expanding base of Amanah customers in Bangladesh, Brunei and Indonesia

Share of new life insurance business in Hong Kong<sup>1</sup>



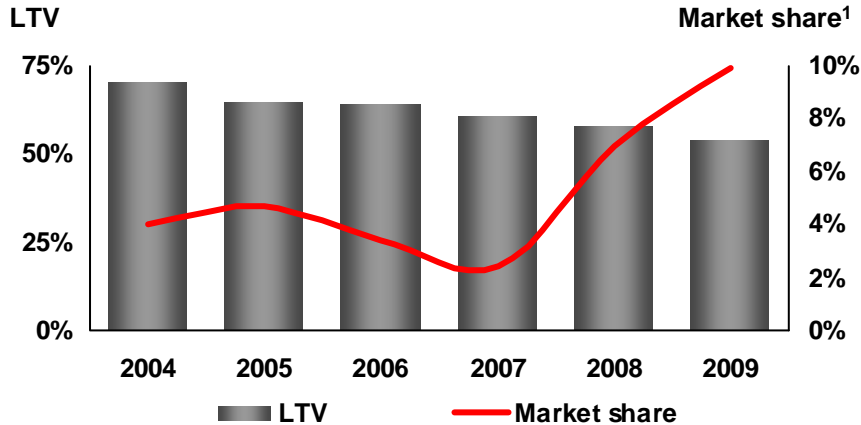
Notes:

(1) Office of the Commissioner of Insurance (H1 2010 Provisional Statistics on Hong Kong Long-term Insurance Business, direct new individual business; annualised premiums). HSBC includes HSBC Life (18.7 per cent) and Hang Seng Insurance (8 per cent).

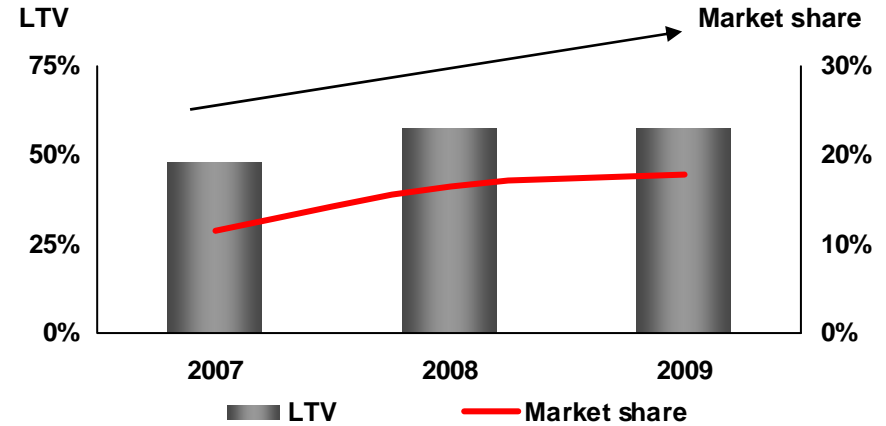
# Personal Financial Services

Lending – growing quality assets in the UK and market share in Hong Kong

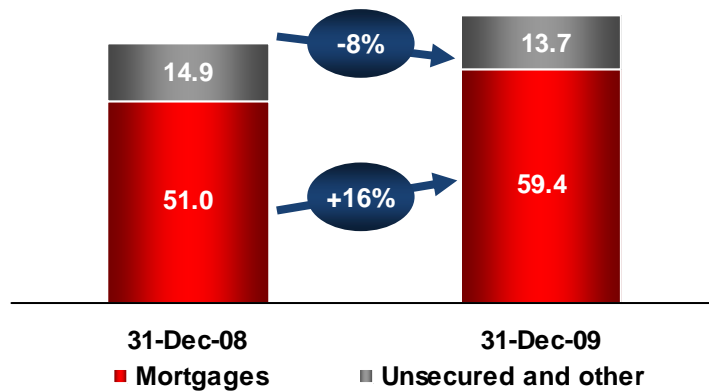
**LTV and market share of new UK mortgage business**



**Share of new mortgage business in Hong Kong<sup>2</sup>**



**PFS loans and advances in the UK, GBPbn**



**Positioning for growth – lending in Hong Kong**

- ▶ No. 1 market share for new residential mortgages in H1 2010
- ▶ Launch of HIBOR-based plans and a renewed focus on mortgages expected to drive growth in 2010
- ▶ Largest credit card issuer in Hong Kong based on cards in circulation<sup>3</sup>

Notes:

(1) Percentage of HSBC gross mortgage advances to Council of Mortgage Lenders published market size

(2) Source: mReferral, based on new residential mortgages

(3) Visa, MasterCard May 2010

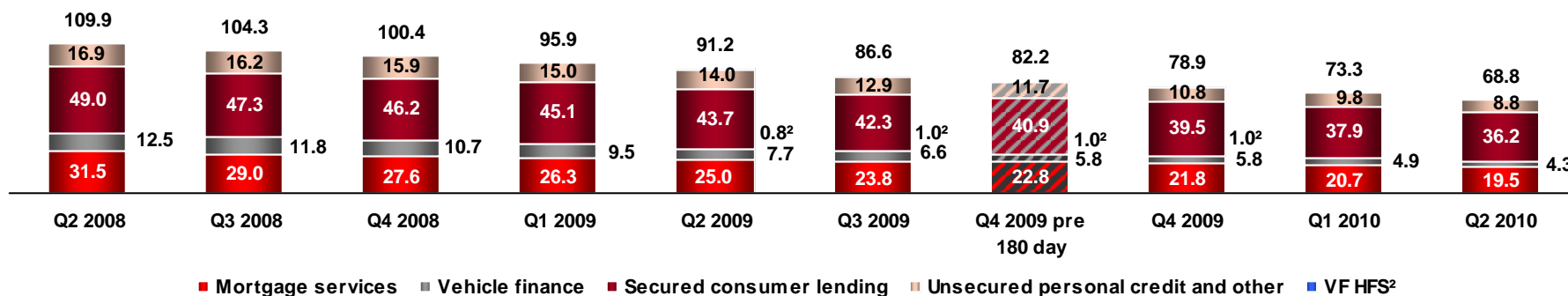


# HSBC Finance Corporation

US customer loans – run-off portfolio: down 6 per cent from March 2010

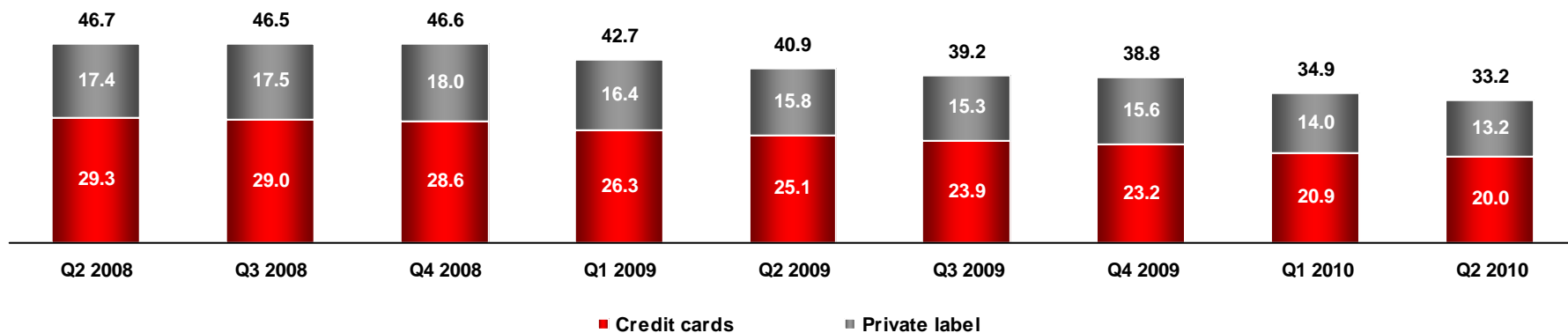
## Customer loans<sup>1</sup>

Run-off portfolio, USDbn



## Customer loans<sup>1</sup>

Core portfolio, USDbn



Notes:

- (1) Excludes reverse repo balances
- (2) Vehicle finance loans held for sale

# Headline results

Strongly improved performance in H1 2010

		H1 2009		H1 2010
<b>Reported PBT</b>	More than doubled	USD5,019m	+121%	USD11,104m
<b>Reported PBT ex FV of own debt<sup>1</sup></b>	Strong increase	USD7,476m	+34%	USD10,030m
<b>Underlying PBT<sup>2</sup></b>	Strong increase	USD7,385m	+30%	USD9,630m
<b>Core tier 1 ratio<sup>3</sup></b>	Generated capital	8.8 per cent		9.9 per cent
<b>Dividends<sup>4</sup></b>	A leading industry payer	USD2,769m		USD2,795m

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 due to credit spread
- (3) As at 30 June
- (4) Declared on ordinary shares in respect of H1 2009 and H1 2010