HSBC Holdings plc

2010 Investor and Analyst Roadshow

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Regulatory Developments

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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 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.

Agenda

- Current State of Play
- Developments by the Basel Committee
- Additional Proposals being developed by Basel Committee
- Options for Long Transition Timetable
- Additional Regulatory Change
- Overall Assessment
- HSBC has significant advantages in a changing world

Current State of Play

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Current State of Play

- ***There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know.***

- Donald Rumsfeld

Developments by the Basel Committee

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Developments by the Basel Committee

Capital and Risk Weighting

- Focus on Core Tier 1 with increased deductions from Shareholders' Equity
- All capital instruments (Tier 1 & 2) to be capable of absorbing losses at the point of non-viability
- Increased Risk Weightings for Trading Book to be implemented by end 2011
- Minimum capital ratio raised to 4.5%, with additional 2.5% capital conservation buffer
- Introduction of countercyclical buffer of up to 2.5% to address excess credit growth
- Introduction of 3% leverage ratio to be 'parallel-run' from 2013

Liquidity

- Liquidity Coverage Ratio ('LCR') to withstand a stressed scenario
- Additional Net Stable Funding Ratio ('NSFR') to reduce funding mis-matches

Additional Proposals being developed by Basel Committee

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Additional Proposals being developed by Basel Committee

Capital and Risk Weighting

- Fundamental Review of the Trading Book
- Reduced reliance on External Ratings and capitalisation of Securitisations
- Proposals for Systemically Important Banks, with a methodology by end 2010 and a study completed by mid-2011
- Review of possible contingent capital instruments by mid-2011

Other Areas

- Review of large exposures
- Enhanced cross-border resolution
- Review of Core Principles for Effective Banking Supervision

Options for Long Transition Timetable

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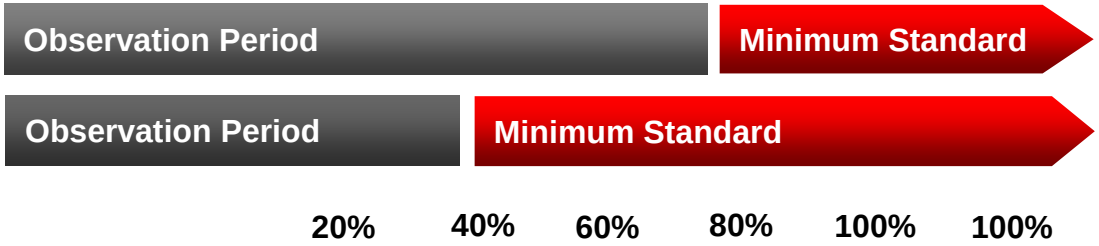
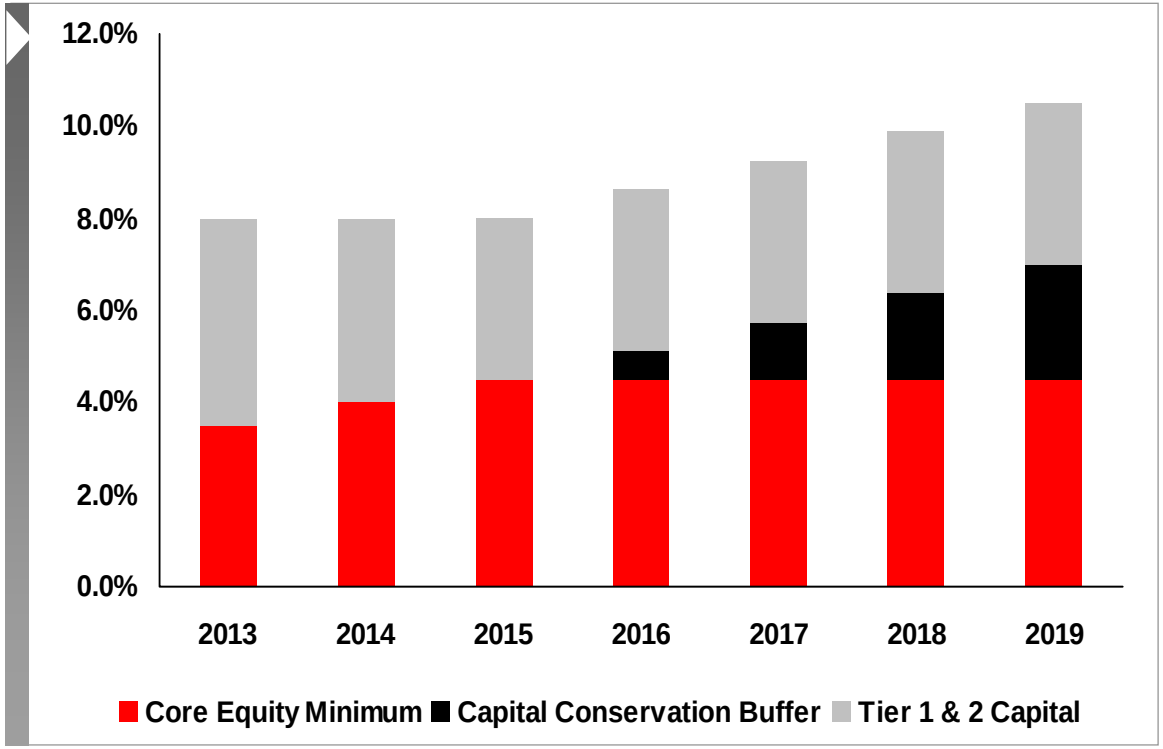
Options for Long Transition Timetable



Net Stable Funding Ratio

Liquidity Coverage Ratio

Deductions for Revised CT1



Additional Elements

- Countercyclical buffer
- Surcharges or contingent capital for Systemically Important Banks
- Practical operating surplus

Additional Regulatory Change

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Additional Regulatory Change

UK

- Recovery and Resolution Plans under FSA and BofE
- Global bank levy from January 2011
- Independent Commission on Banking reporting in September 2011
- Adjustments to overall regulatory framework

US

- Implementation of Dodd Frank
- Migration to Basel 3

Europe

- EU Remuneration Rules under CRD3
- Implementation of Basel 3 through CRD4
- New European institutions (European Banking Authority)
- Framework for Crisis Management
- Possible bank levies in Germany and France
- Creation of Central Clearing Counterparties

Overall Assessment

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Overall Assessment

Concerns arising from the regulatory change agenda

- What are the economic consequences and do they pose risks to the recovery?
- Prolonged regulatory uncertainty will impact investor appetite for banking stocks
- Risks of unintended consequences from multiple new regulations
- High fixed capital and liquidity requirements may not avert the next crisis – effective dynamic regulation is critical
- Return on Equity?

Global co-ordination is critical

- Migration to new regulatory structures such as central clearing counterparties must be coordinated
- Local or regional super-equivalence will create market distortions
- International frameworks for crisis management are essential

HSBC has significant advantages in a changing world

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HSBC has significant advantages in a changing world

HSBC already has a strong core capital base, with 9.9% Core Tier 1 capital as at 30 June 2010

- There will be material effects from the migration to new RWA and capital definitions
- The run-off of legacy portfolios in HSBC Finance Corporation and GB&M will release RWAs

The Group has a sustained capital generating capability with established exposures in key faster growing emerging markets

The Group has consistently operated with strong liquidity and a conservative approach to funding

The overall Group structure offers material advantages for management and regulation

HSBC's trading activities are driven, in large part, by client requirements