

HSBC Holdings plc

Douglas Flint, Group Chairman

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The world's local bank

# Morgan Stanley Conference

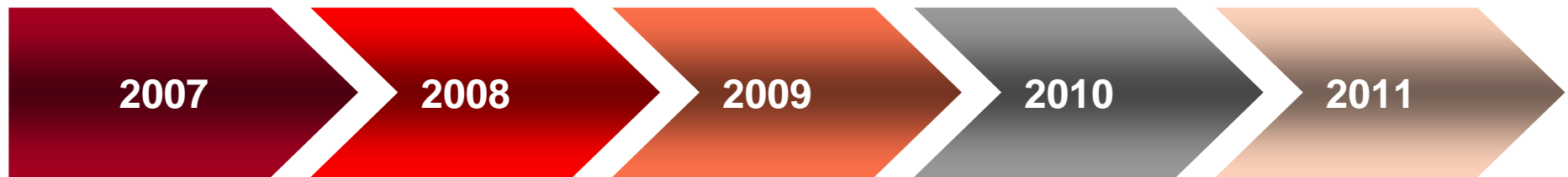


# Forward-looking statements

**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 and Accounts 2010. 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 are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

# We are reaching the conclusion of a period of dramatic regulatory reform



- ▶ Government injections of liquidity
- ▶ Initial interest rate cuts

- ▶ Further liquidity injections
- ▶ Creation of Bail-out schemes (TARP, APS)
- ▶ Interest rates cut further
- ▶ Impetus from G20
- ▶ Development of local regulatory responses

- ▶ Initial regulatory reforms to trading books
- ▶ Focus on remuneration
- ▶ Interest rates cut to near zero
- ▶ Economic stimulus packages

- ▶ Basel rules on capital, liquidity and funding
- ▶ Dodd-Frank Act in US
- ▶ Independent Commission on Banking in UK
- ▶ Recovery & Resolution Plans

- ▶ Translation of Basel rules to CRD4
- ▶ Observation period for liquidity framework
- ▶ FSB proposals on SIFIs
- ▶ Implementation of Dodd-Frank
- ▶ ICB conclusions
- ▶ Development of EU Crisis Management Frameworks

# Challenges in conducting reform

Challenge 1: Rebuilding a regulatory framework after the worst financial crisis of the 1930's where the origins had multiple causes:

- Poor management
- Poor governance
- Poor supervision
- Public policy goals re housing that had unintended consequences
- Excessive liquidity coupled with low risk free bond rates
- Excessive reliance on modelling versus judgment
- Overreliance on and misunderstanding of ratings

Challenge 2: Create a level playing field so far as possible across countries:

- With different shaped financial systems
- At different stages of economic development
- With differing degrees of central bank/supervisory intervention
- With different growth prospects

# Challenges in conducting reform

## Challenge 3: In building a new system:

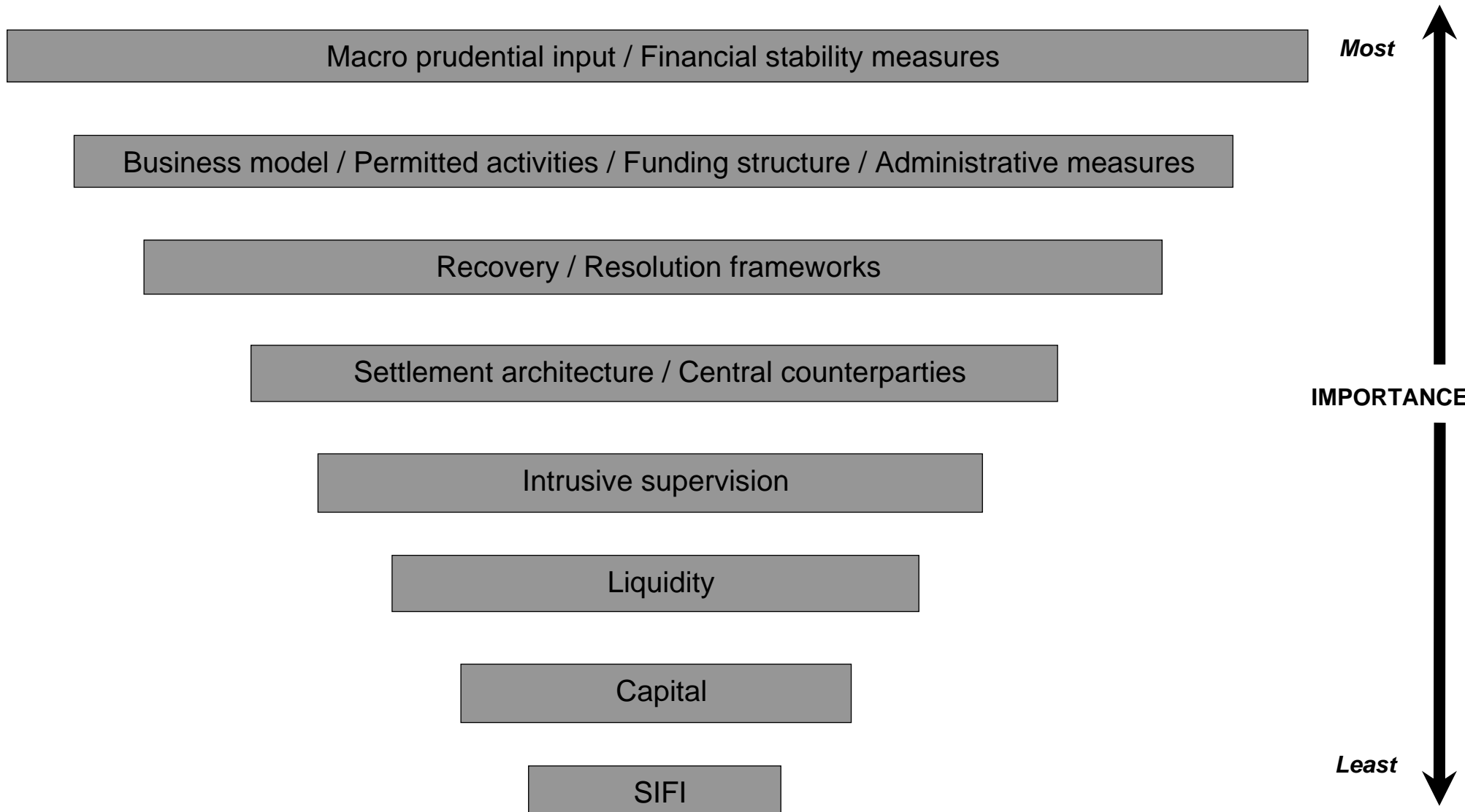
- Build a new framework that limits the risk of repetition of a crisis but at the same time doesn't excessively hamper economic activity
- Build a system that constrains over exuberant credit supply but doesn't choke credit formation to the real economy
- Build a system that promotes good innovation but doesn't allow arbitrage and misaligned structures
- Create a system with the right incentives

## Challenge 4: And if it all goes wrong:

- Find a way to mitigate the impact
- That deals with cross border claims
- That avoids contagion
- That recognises that every country is starting from a different place in terms of legal architecture to deal with this

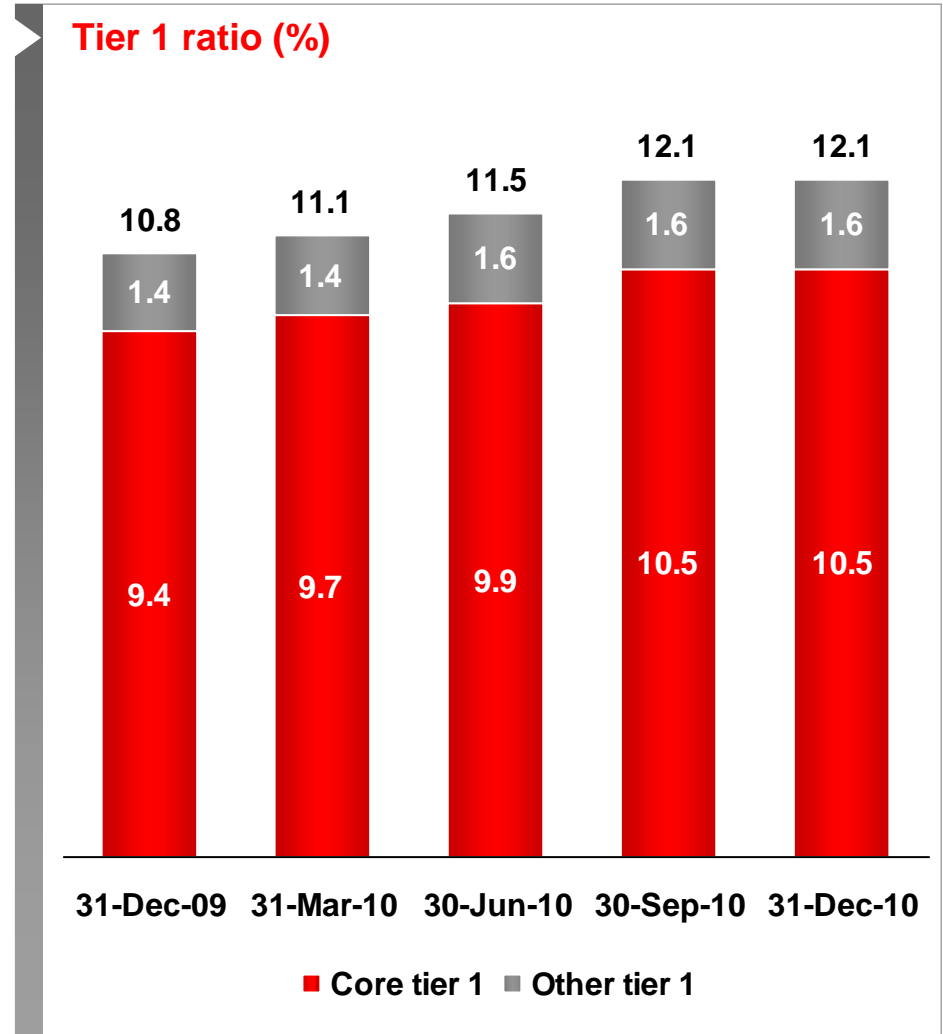
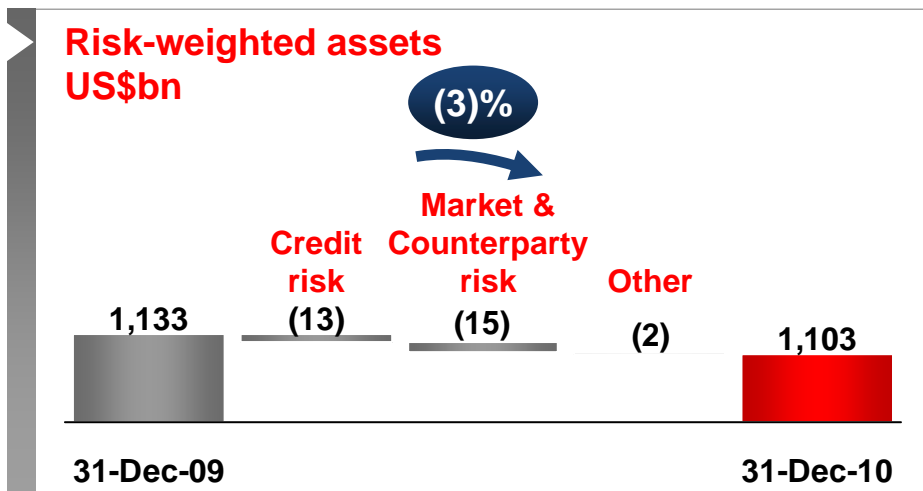
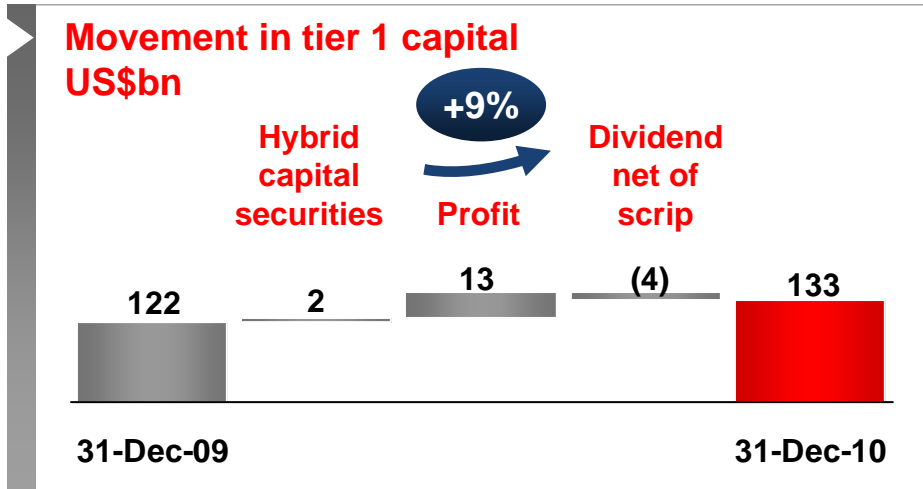
...And in the case of the UK, it starts from the position as the host to the most international of all major financial systems.

# Inputs to a new regulatory system



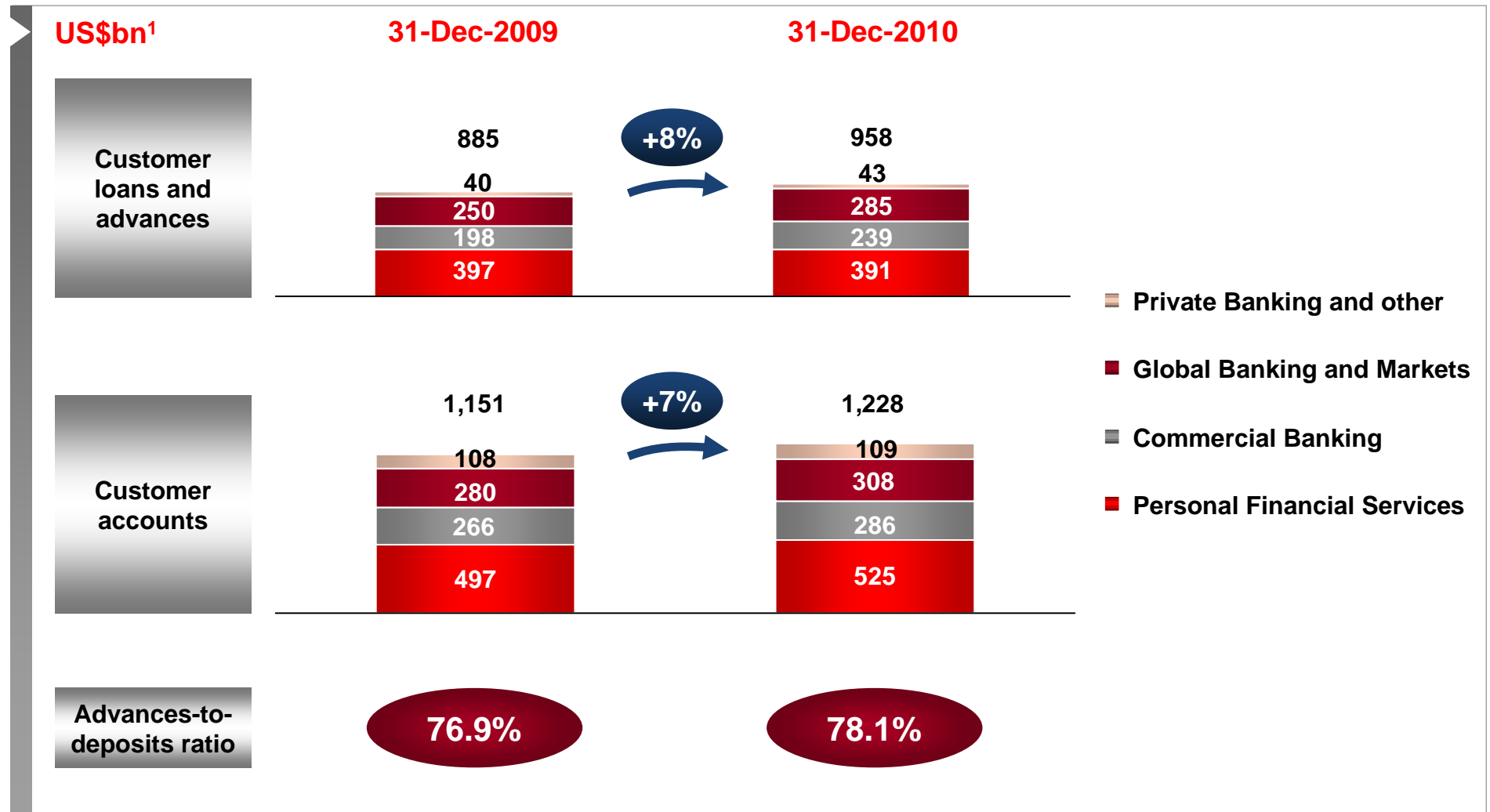
# Capital adequacy

Strengthened by capital generation and lower risk-weighted assets



# Customer lending and funding

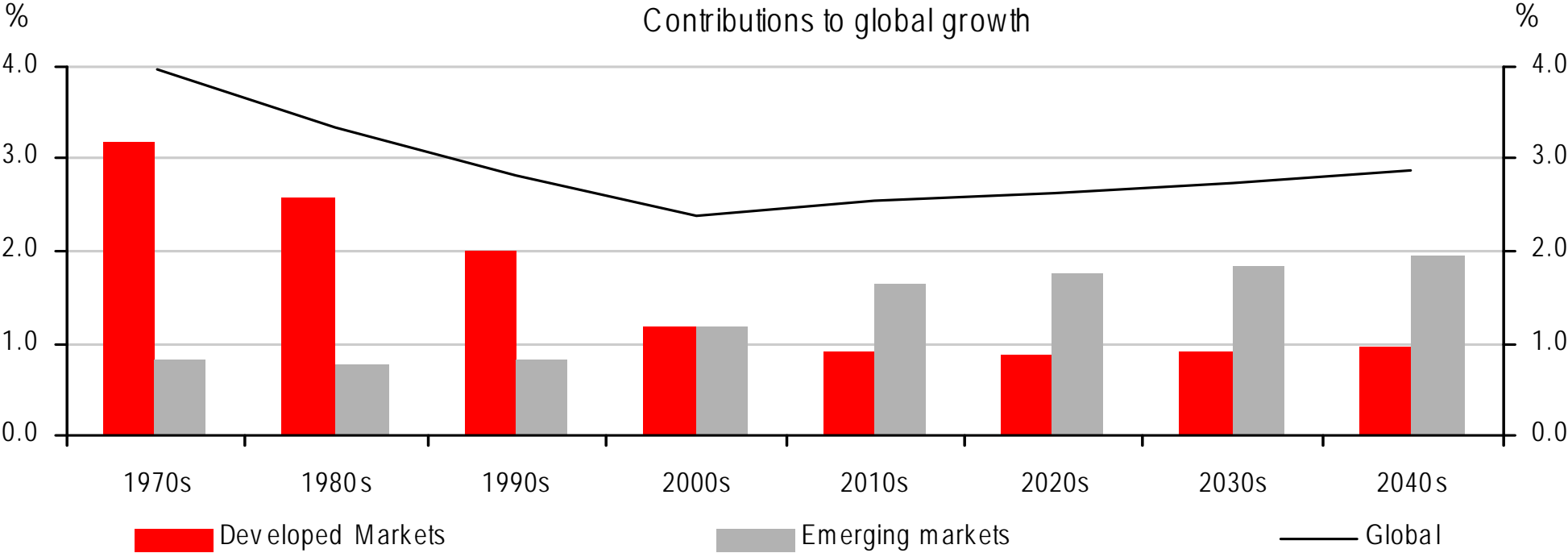
Funding strength supports customer lending growth



Note:  
(1) Underlying basis

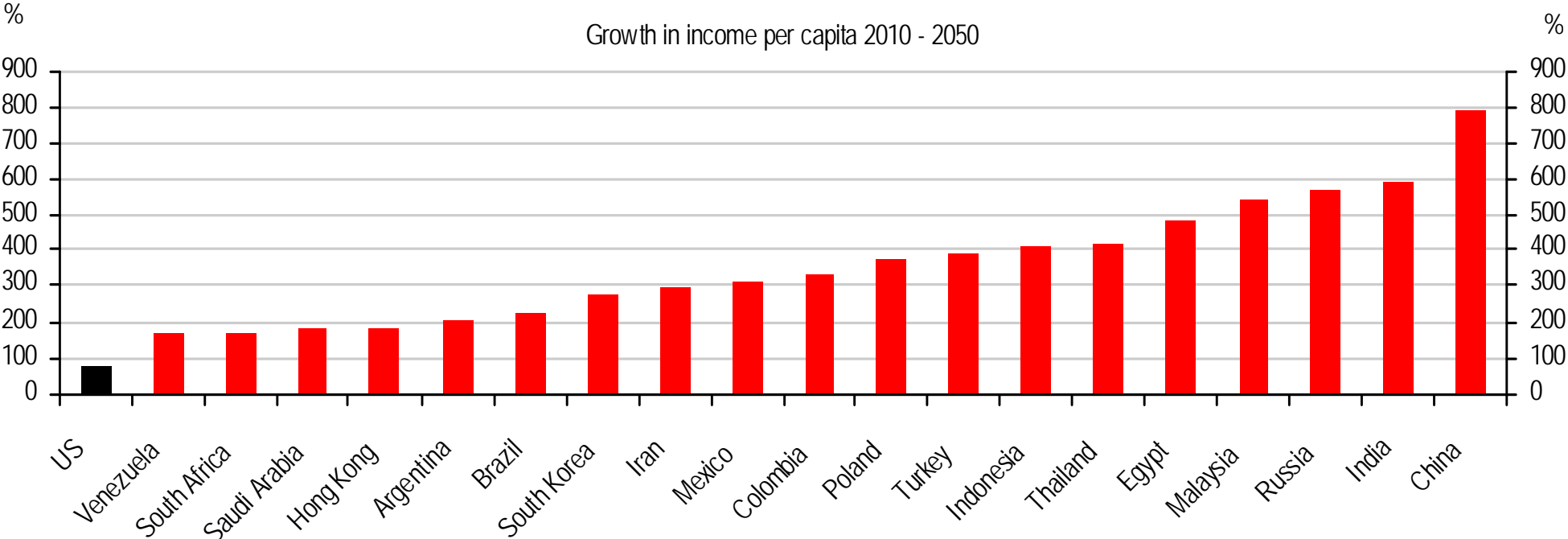


# The emerging markets will power global growth



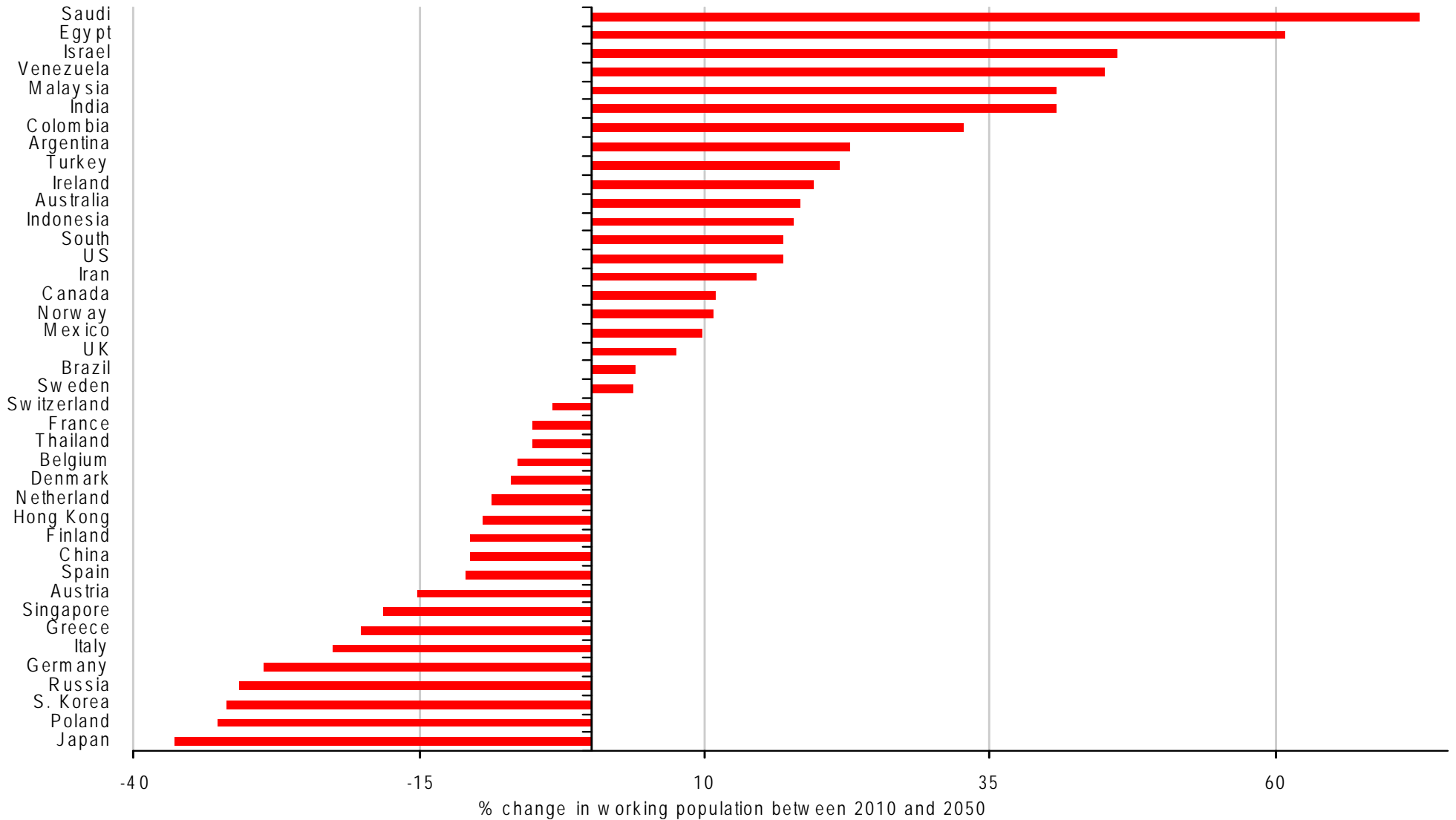
Source: CEIC, HSBC forecasts

# Income per capita gains will outstrip those of the US



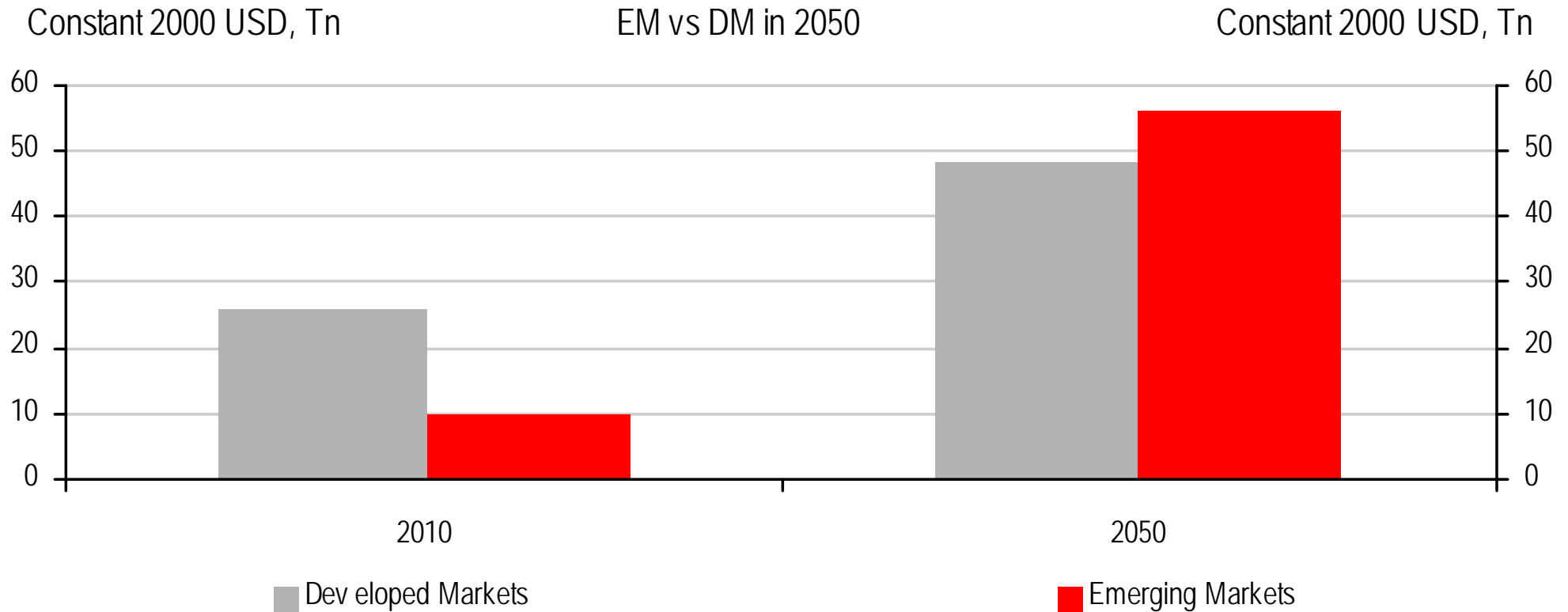
Source: HSBC calculations

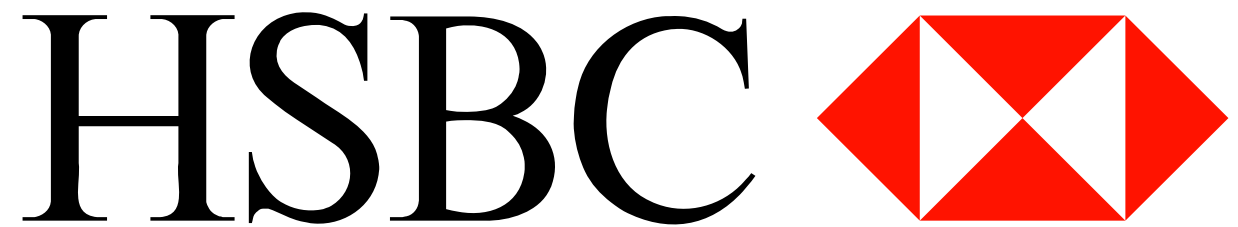
# The demographic outlook is vastly different across economies



Source: UN demographic projections

# The emerging world will be bigger than the developed world





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