

HSBC Holdings plc and HSBC Finance Corporation

June 2011



# Presentation to AFSA Finance Industry 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 the Group's and [subsidiaries'] 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).**

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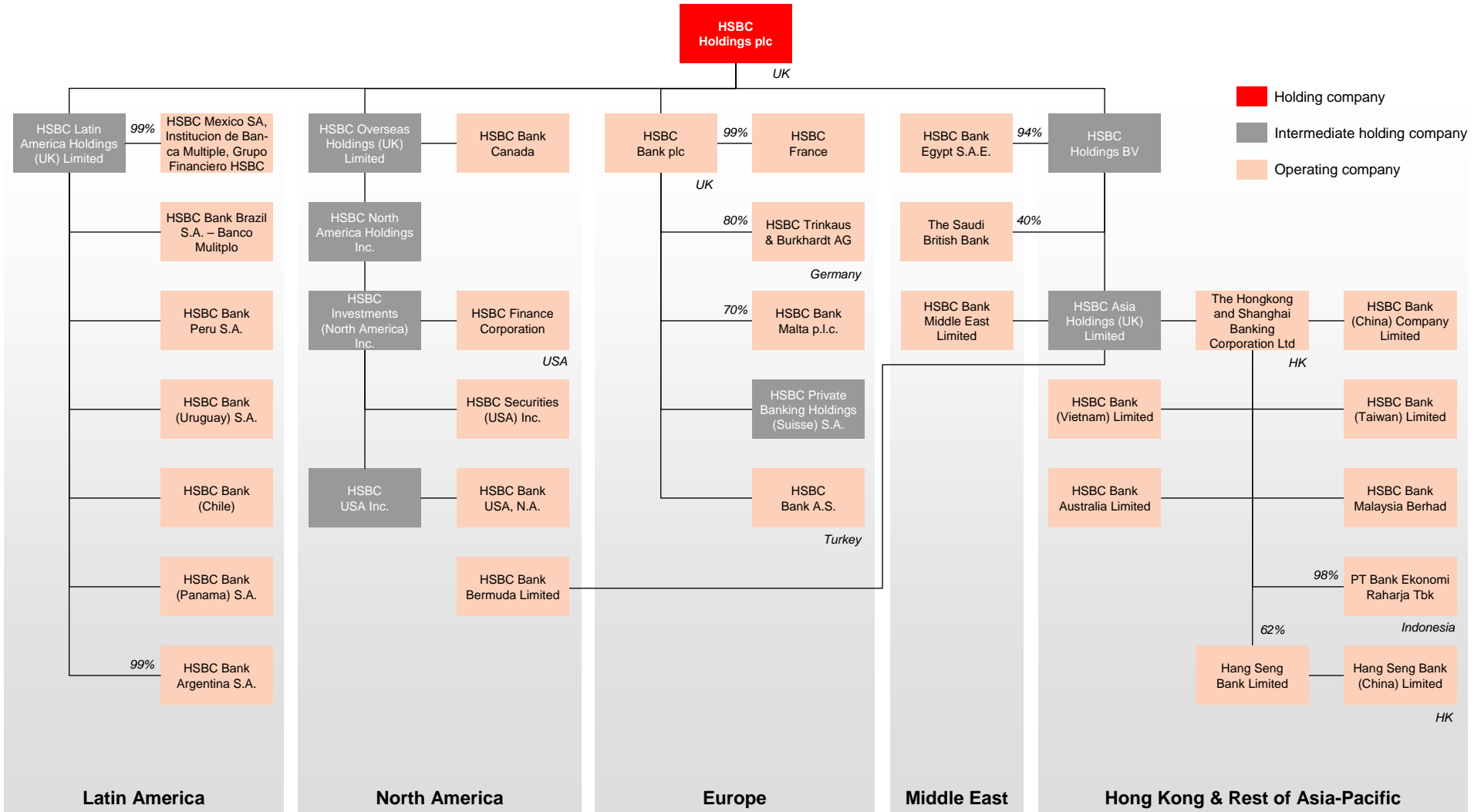
**Conclusion**

Section 4

HSBC Group

HSBC   
The world's local bank

# Simplified structure chart



**Notes:**

(1) All entities wholly owned unless shown otherwise (part ownership rounded down to nearest percent)

(2) At 31 December 2010

# Strategy summary

## HSBC's distinctive position

Network of countries relevant for international connectivity

Access and exposure to high growth markets and businesses

Strong balance sheet generating resilient stream of earnings

## Clear strategy and execution focus

Strategy drives investment priorities and capital allocation

Action plan addressing growth and cost efficiency across geographies and businesses

Experienced management team accountable for delivery

# Strategy implementation

## Key elements

## Actions (examples)

## In 12 months progress on<sup>1</sup>...

### Capital Deployment

- Five filters driving disposals and closures of non-strategic and/or underperforming positions/businesses
- Turnaround of strategically relevant businesses

- Transactions announced and executed
- Tangible progress in turnaround actions (e.g., US)

### Cost efficiency

- Target USD2.5-3.5bn in sustainable cost saves in 3 years, achieving our 48-52% CER target by 2013
- Simplify and delayer the organisation

- Material savings identified and being delivered across the 4 main programmes

### Growth

- Revenue growth in fast growing markets
- Capture wealth opportunity (USD4bn in additional revenues)
- Leverage intra-group connectivity between CMB and GBM (USD1bn of additional revenues)

- Income growth particularly in Asia and Latin America
- Wealth and GBM/CMB connectivity

Note:

(1) From 11 May 2011

# HSBC Group Financial performance in 2010



# Financial overview

Reported results – strong recovery in profit

USDm	2009	2010	% Change
Income <sup>1</sup>	72,714	68,310	(6)
Loan impairment changes <sup>2</sup>	(26,488)	(14,039)	+47
Operating expenses	(34,395)	(37,688)	(10)
Associates and joint ventures	1,781	2,517	+41
Profit before tax, ex changes in FV of own debt due to credit spread	13,612	19,100	+40
Changes in FV of own debt due to credit spread	(6,533)	(63)	n/a
Profit before tax	7,079	19,037	+169
Profit after tax	6,694	14,191	+112

Notes:

(1) Excluding changes in Fair Value of own debt due to credit spread

(2) Loan impairment charges and other credit risk provisions

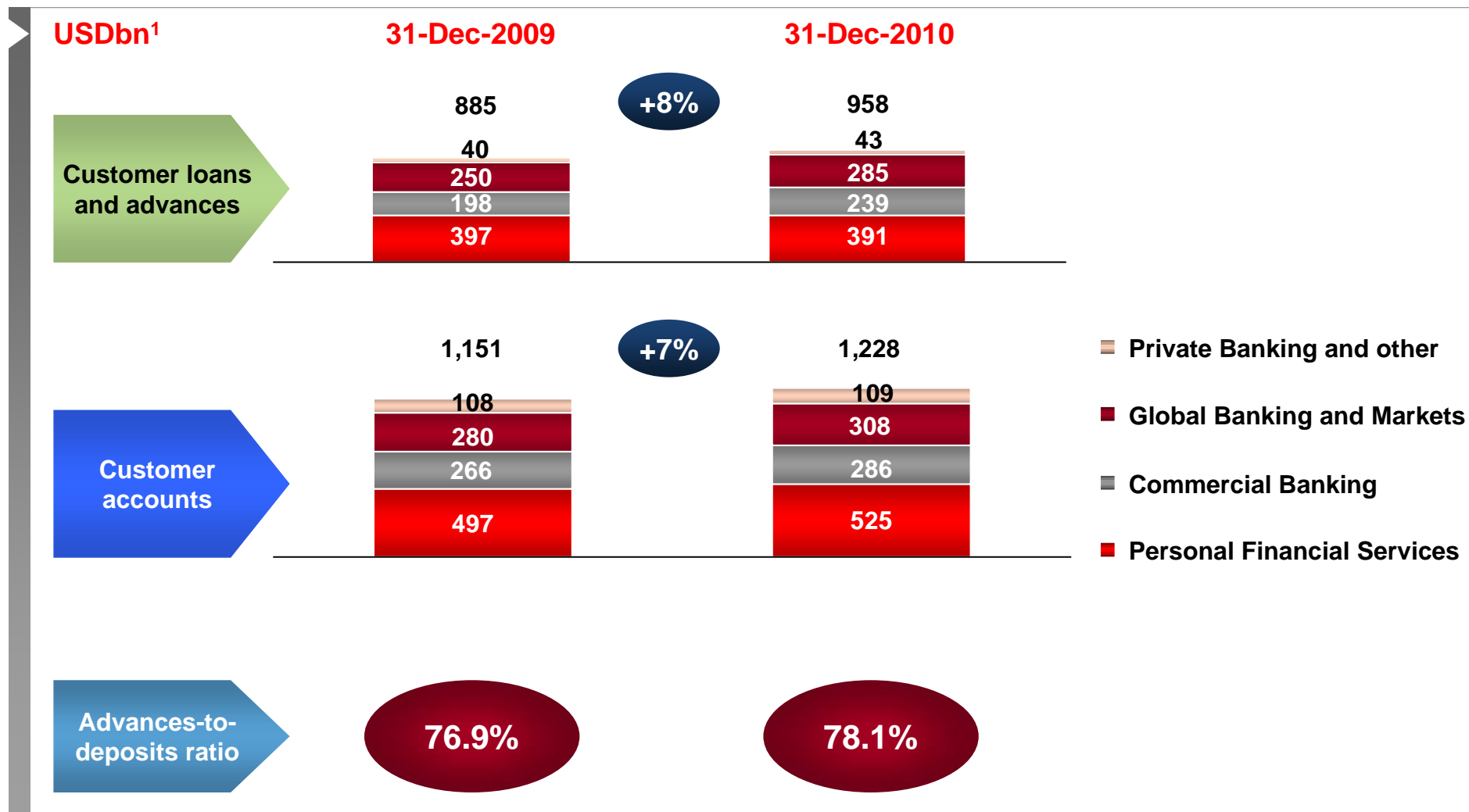
# All regions and businesses profitable

Profit before tax

USDm	Latin America	North America	Europe	Middle East	Hong Kong	Rest of Asia-Pacific	Total
Personal Financial Services	294	(2,149)	1,289	100	2,918	1,066	3,518
Commercial Banking	554	939	1,205	484	1,352	1,556	6,090
Global Banking Markets	897	1,582	2,726	317	1,430	2,584	9,536
Private Banking	10	111	640	(15)	227	81	1,054
Other	40	(29)	(1,558)	6	(235)	615	(1,161)
<b>Total</b>	<b>1,795</b>	<b>454</b>	<b>4,302</b>	<b>892</b>	<b>5,692</b>	<b>5,902</b>	<b>19,037</b>

# Customer lending and funding

Funding strength supports customer lending growth

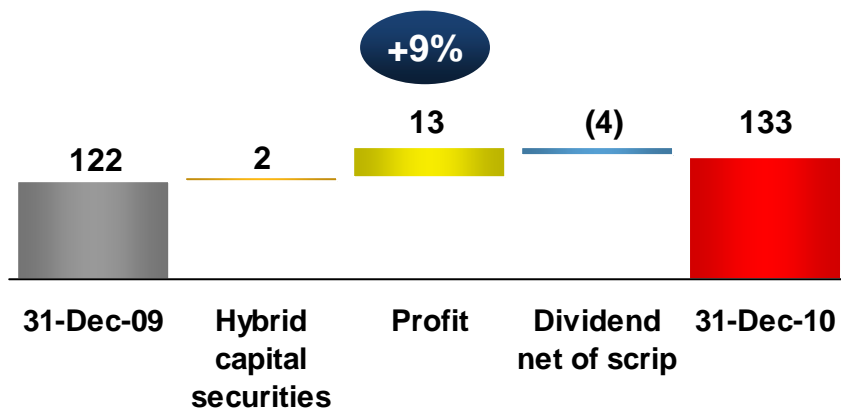


Note:  
(1) Underlying basis

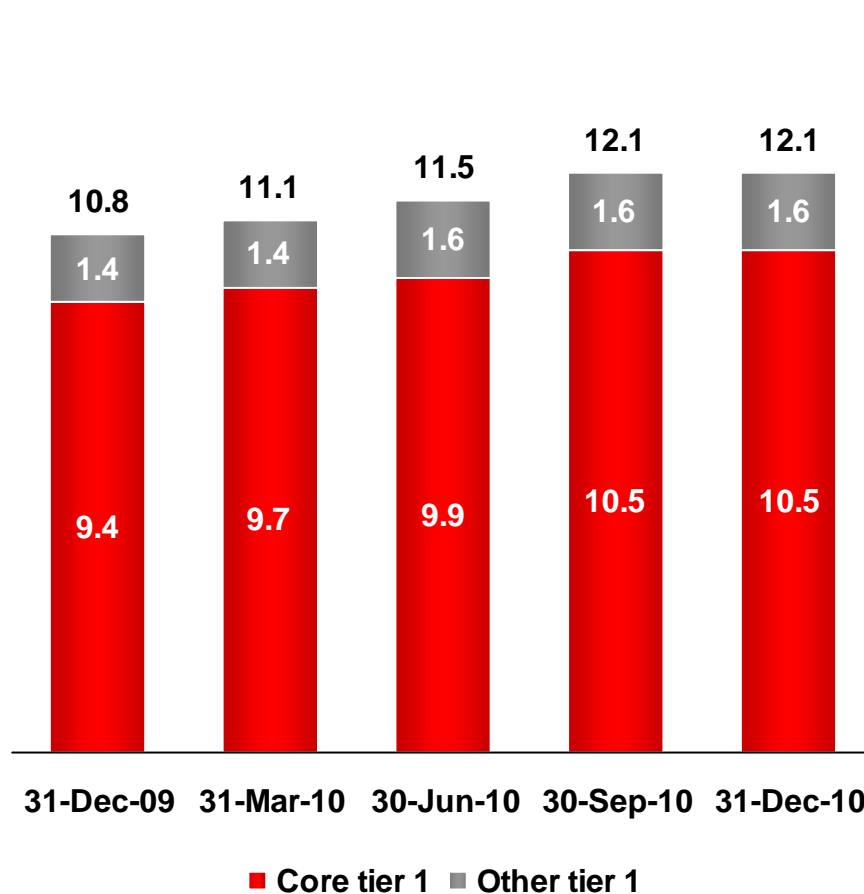
# Capital adequacy

Strengthened by capital generation and lower risk-weighted assets

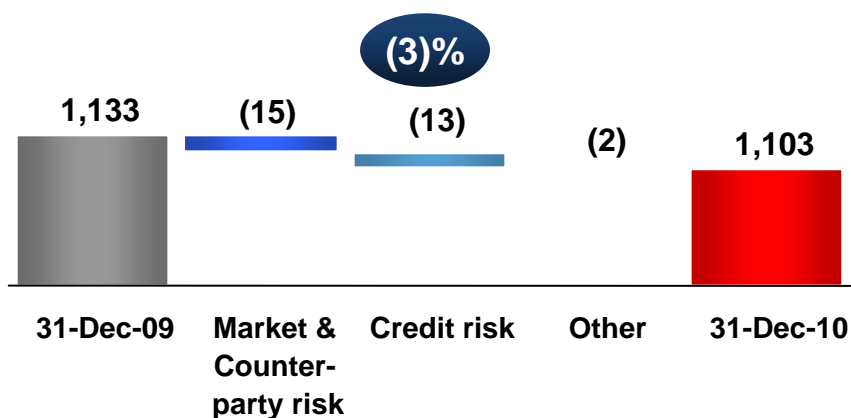
## Movement in tier 1 capital, USDbn



## Tier 1 ratio (%)



## Risk-weighted assets, USDbn



# Performance review

## Challenges and opportunities<sup>1</sup>

	2010	KPIs <sup>2</sup>
Return on total Shareholders' equity	9.5%	12% - 15%
Cost efficiency ratio	55.2%	48% - 52%
Advances-to-deposits ratio	78.1%	<90%

Notes:

(1) Figures on a reported basis

(2) Key Performance Indicators

# HSBC Finance Corporation

# HSBC Finance

## Financial Review

	Quarter Ended 3/31/11	Quarter Ended 3/31/10
Net Income (Loss) (\$ Millions) <sup>(1)</sup>	(21)	(603)
Income (Loss) Before Income Tax - Adjusted (\$ Millions) <sup>(2)</sup>	(183)	(1,131)
Provision for Credit Losses (\$ Millions)	782	1,864
Net Interest Income (\$ Millions)	922	1,127
Net Interest Margin	5.12%	5.32%
Consumer Two-Months and Over Contractual Delinquency	12.92%	13.60%
Consumer Net Charge-offs (annualized)	9.67%	13.28%
Total Receivables (\$ Billions)	63	80
Tangible Common Equity to tangible assets	7.70%	7.39%

(1) Includes the change in value of fair value option debt and related derivatives, which decreased income before tax by \$29 million during the first quarter of 2011 and increased income before tax by \$133 million in the prior year quarter.

(2) Excludes the impact of the items noted in footnote (1)

Note: Data from HSBC Finance 1Q 2011 and 1Q 2010 Form 10-Q, U.S.GAAP Basis

# HSBC Finance

## Card and Retail Services

- **Receivables/Customer Loans at 3/31/11:**
  - \$9 bn (legal entity - U.S. GAAP basis)
  - \$33 bn (total U.S. – IFRS basis)
- **Strong performance throughout the cycle, but dependent upon domestic market with limited international connectivity**
- **Further capital investment necessary to maintain performance - HSBC appetite is limited.**
- **Strategic review of options to maximize value and capital allocation is underway.**



# HSBC Finance

## Consumer Lending and Mortgage Services

- **Total Receivables: \$54 bn<sup>(1)</sup> at 3/31/11**
  - Real estate secured: \$47 bn
  - Personal non-credit card: \$7 bn
- **Continue to run-off ethically and effectively.**
  - 55% of real estate portfolio has been modified and/or re-aged.
  - 67% of modified and/or re-aged loan balances were current or less than 30-days delinquent at 3/31/11
- **Portfolio forecast to reduce by 50-60% over next 5 years**
- **Subject to market conditions, opportunities to accelerate portfolio run-off will be pursued.**

<sup>(1)</sup> U.S. GAAP basis

# HSBC Finance

## Funding Update

- **2011 debt maturities of approximately \$13 bn will be funded primarily through balance sheet attrition and cash from operations.**
  - No material debt issuance planned in 2011.
- **HSBC Finance continues its Commercial paper program**
  - Smaller program to match declining balance sheet (\$3.8 bn at 3/31/11)
  - Strategy is to maintain at least 100% backup line coverage
  - Recently refinanced \$4.0 bn in third party backup lines; total lines stand at \$6.0 bn.
  - Active cash management versus term funding
- **Going forward, funding requirements are very manageable.**
  - Maturing debt continues to decline
  - Attrition and cash from operations will continue to be the primary sources of debt repayment
  - Any incremental funding requirements will be met primarily through selected debt issuance, asset sales and/or funding provided by HSBC.

# Conclusion

# 2010 highlights

**Improved financial performance**

**All regions and customer groups profitable**

**Strong capital generation enabled an increased dividend**

**HSBC well placed for evolving regulatory environment**

# 2010 financial highlights

	2009		2010	Better / (worse)	
Reported PBT (US\$bn)	7.1	▶	19.0	+169%	Continued recovery in underlying profits
Underlying PBT <sup>1</sup> (US\$bn)	13.5	▶	18.4	+36%	
EPS (US\$)	0.34	▶	0.73	+115%	Significantly improved credit quality
ROE (%)	5.1	▶	9.5	+440bps	Strengthened capital position
Core tier 1 ratio <sup>2</sup> (%)	9.4	▶	10.5	+110bps	
Dividends <sup>3</sup> (US\$)	0.34	▶	0.36	6%	Increased dividend

Notes:

(1) Underlying results eliminate the effects of foreign currency translation differences, acquisitions and disposal of businesses and changes in fair value (FV) due to movements in credit spread on long-term debt issued and designated at FV

(2) As at 31 December

(3) Declared on ordinary shares in respect of 2009 and 2010