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HSBC Group Strategy

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HSBC 

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.

Why should you own HSBC?

Distinctive position aligned with key trends


1 Network of countries relevant for **international connectivity**



2 Access and exposure to **high growth markets** and businesses



3 Strong balance sheet generating **resilient stream of earnings**



Clear strategy and execution focus

I **Strategy** drives investment priorities and **capital allocation**

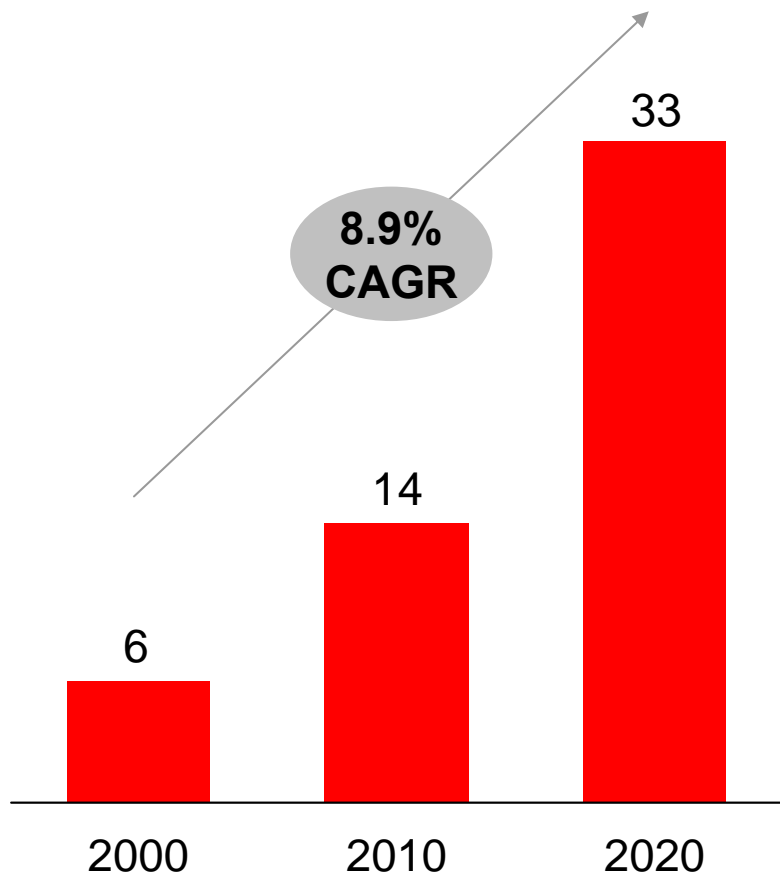
II **Action plan** addressing **growth and cost efficiency** across geographies and businesses

III **Experienced management team** accountable for delivery

1 Importance of global connectivity will increase

Trade will continue to grow

Trade growth¹, USDtn



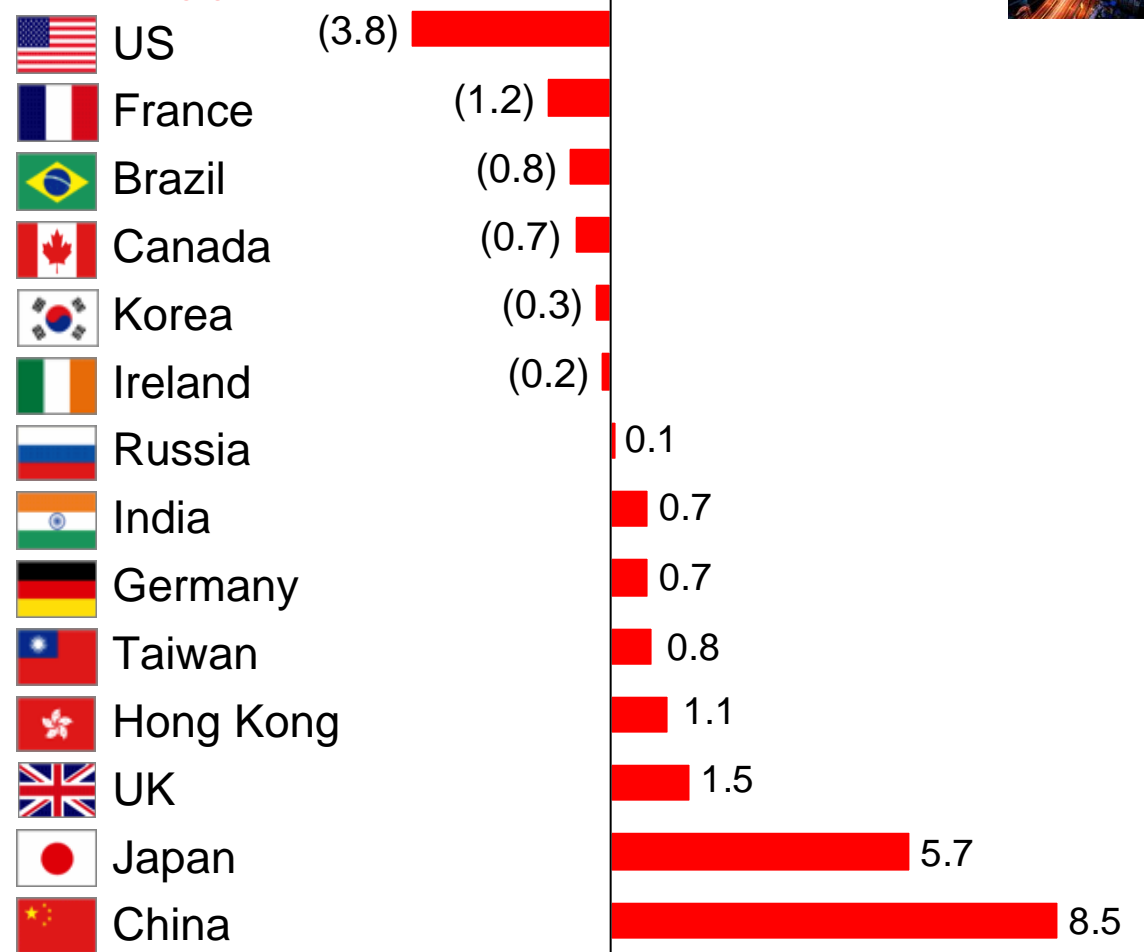
¹ Merchandise Exports

² Positive value means funding surplus, negative value means funding gap

Source: Global Insights, McKinsey & Company and World Economic Forum, 'More Credit with Fewer crises: Responsibly meeting the World's growing demand for credit' page 49, exhibit 25: 'Funding gap or surplus for selected countries', (http://www3.weforum.org/docs/WEF_NR_More_credit_fewer_crises_2011.pdf)

Imbalances continue to drive capital flows

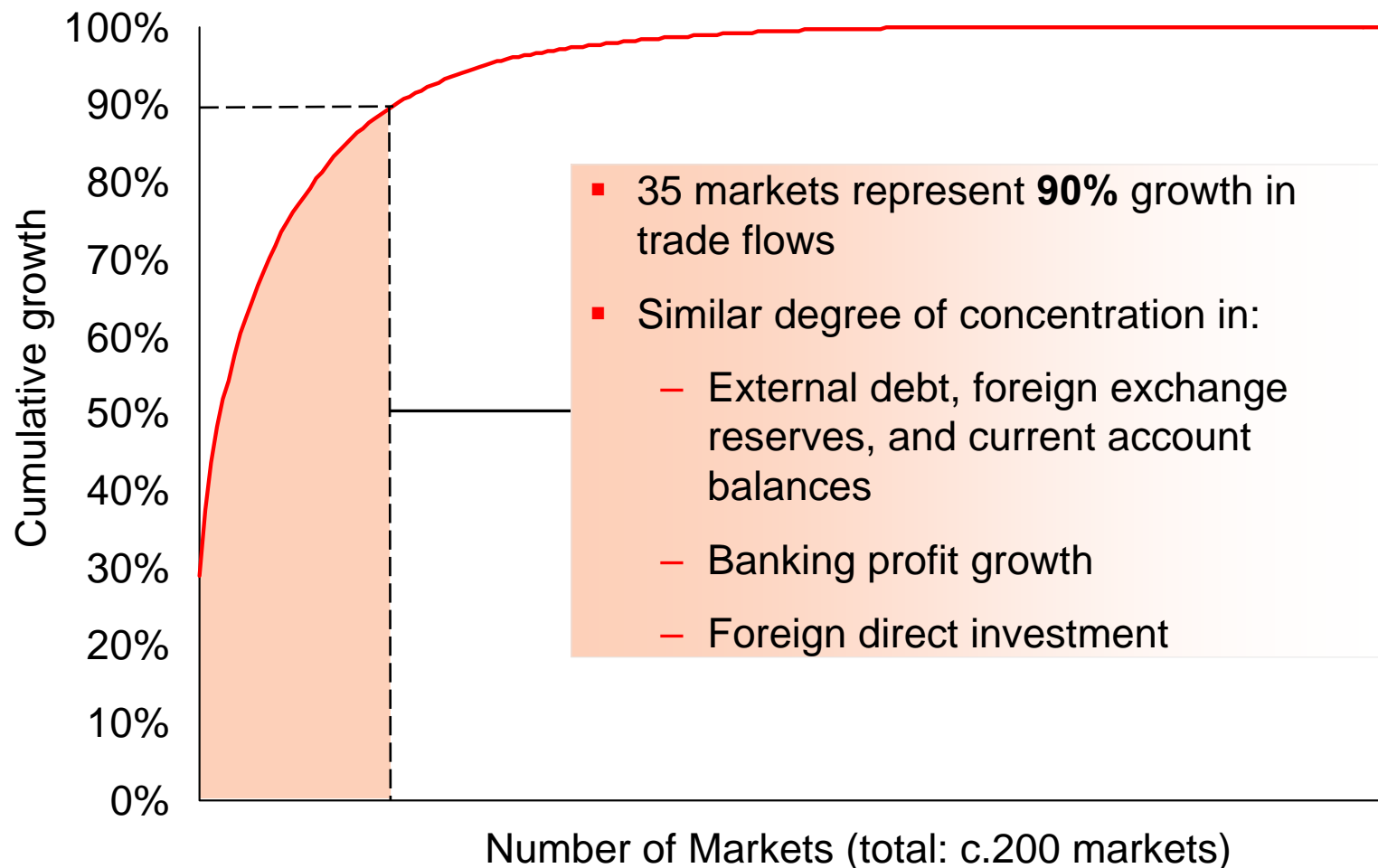
Net funding gap/surplus², USDtn, 2020E



1 Trade and capital flows connectivity is concentrated

Cumulative growth in total merchandise export and import, 2010-2020

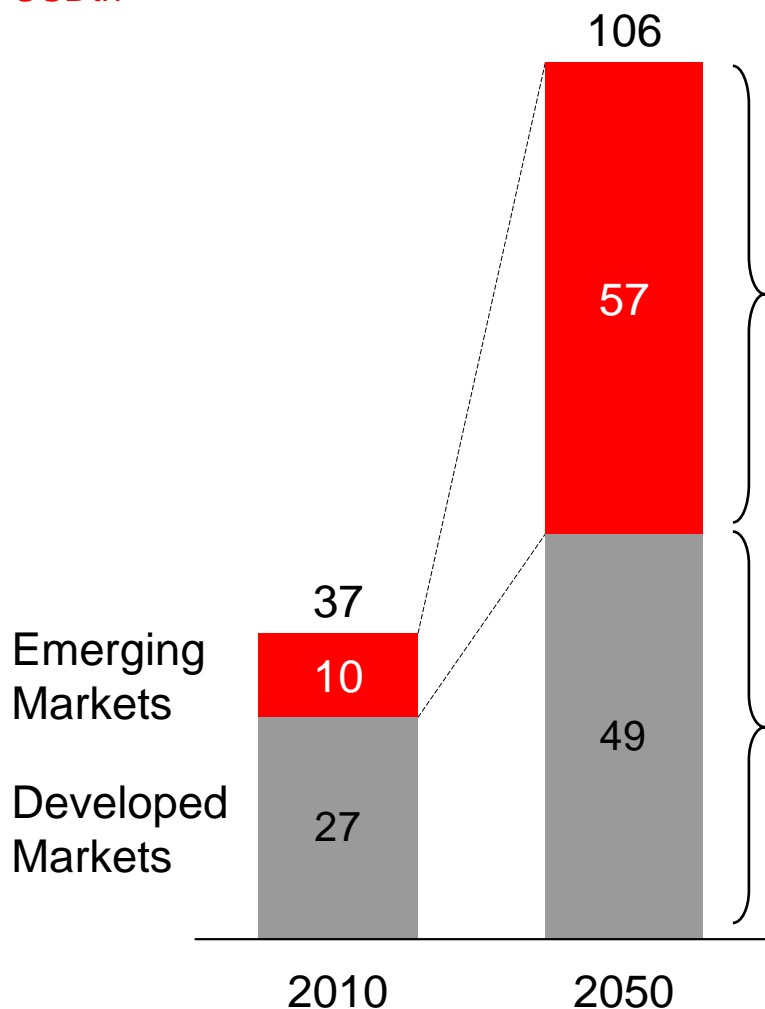
100% = USD37.1tn



2 Rebalancing of the world economy

GDP of top 30 economies

USDtn



Largest countries

- China
- India
- Brazil
- Mexico
- Turkey

Other 14 emerging

- US
- Japan
- Germany
- UK
- France
- Canada

Other 5 developed

Share of 2050 GDP¹ (%)

- 20
- 7
- 2
- 2
- 2
- 14

- 18
- 5
- 3
- 3
- 2
- 2
- 4

19 of the top 30 economies in 2050 will be from currently deemed “emerging markets”

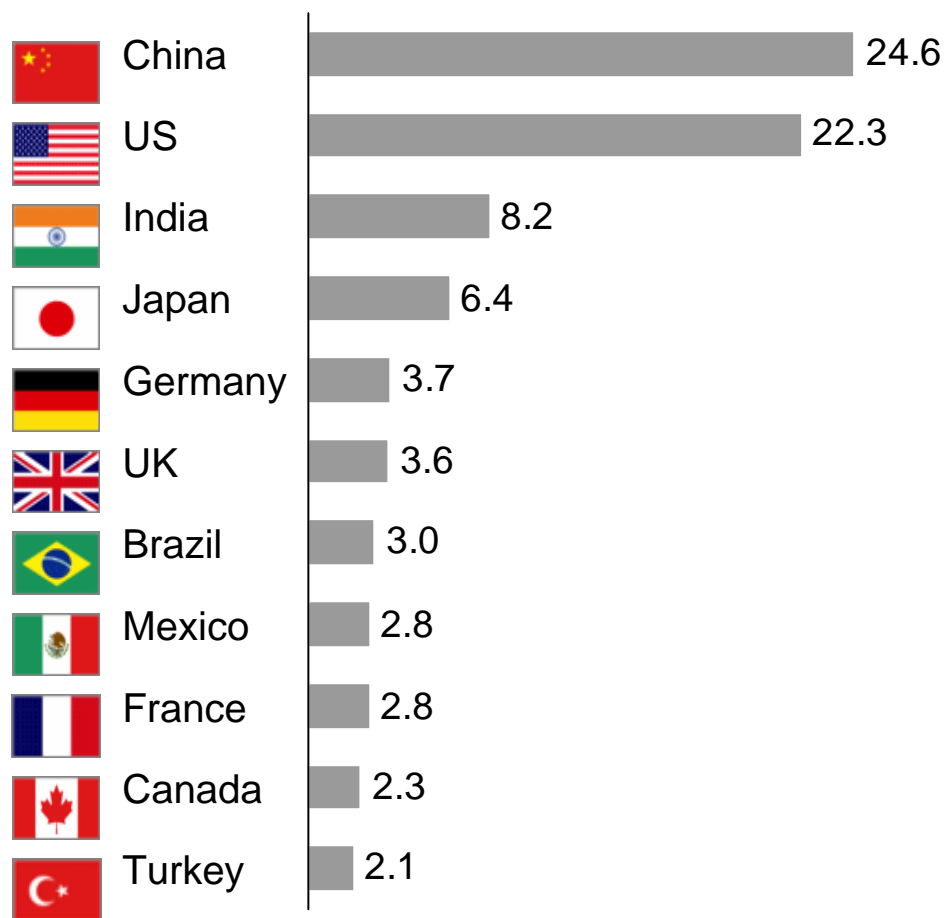


¹ 2050 GDP estimated for top 30 countries, 2050 world GDP estimated by assuming top 30 maintain same share of total world GDP as 2010 of 85%
Source: HSBC – “The World in 2050: Quantifying the shift in the global economy”

2 HSBC has exposure to markets with strong fundamentals driving wealth creation

Top economies by 2050

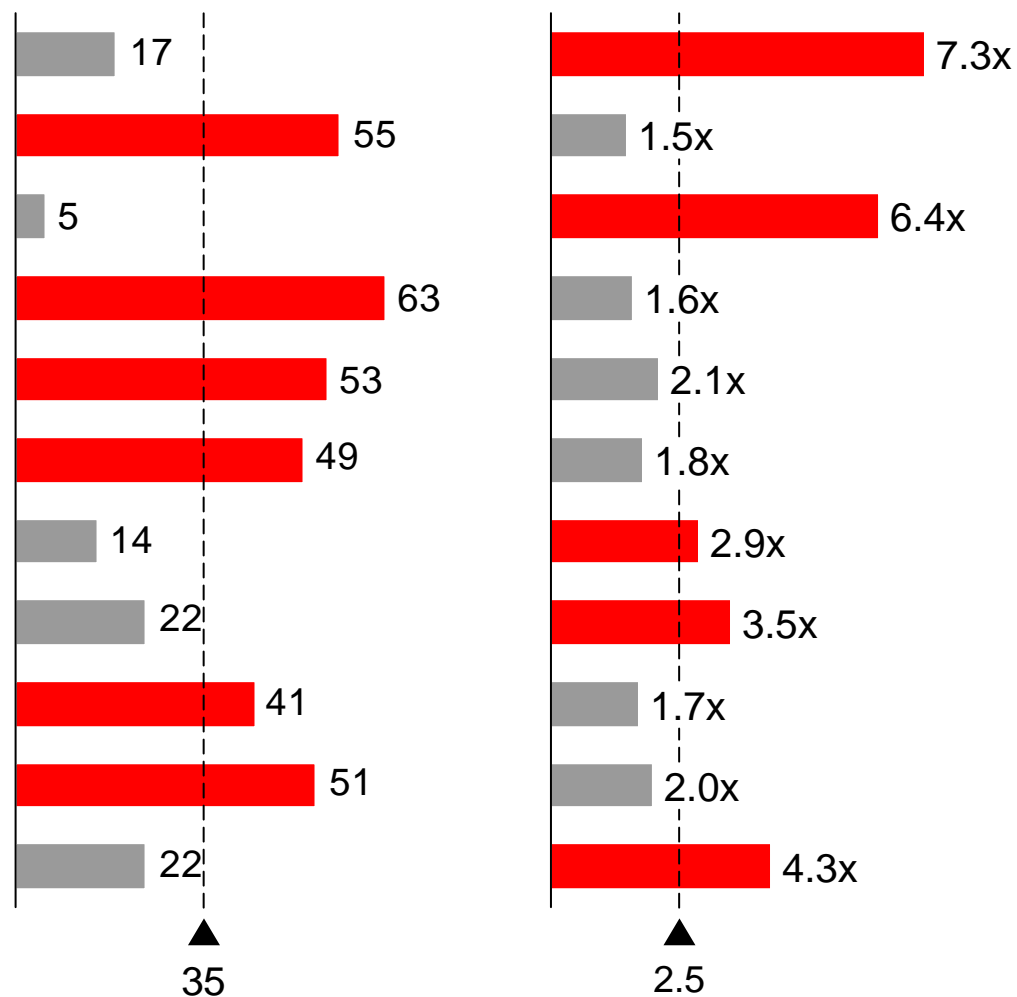
GDP, USDtn




Income per capita in 2050

USD thousands

Multiple over 2010 income

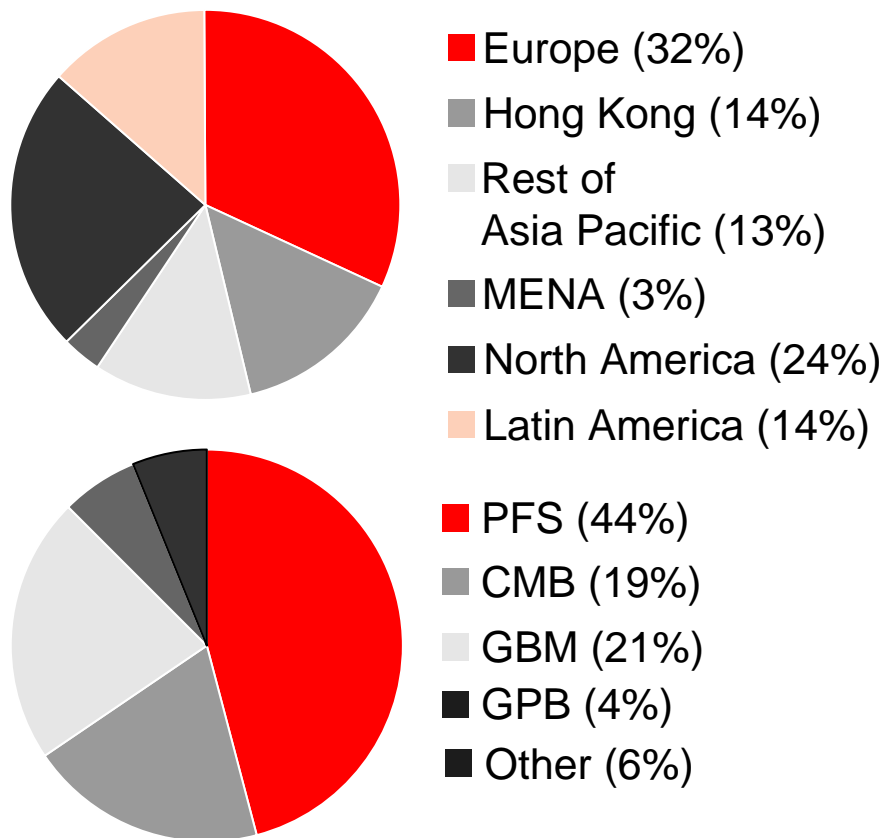


HSBC distinctive position

3 A well diversified business with ample access to funding and liquidity **HSBC** 

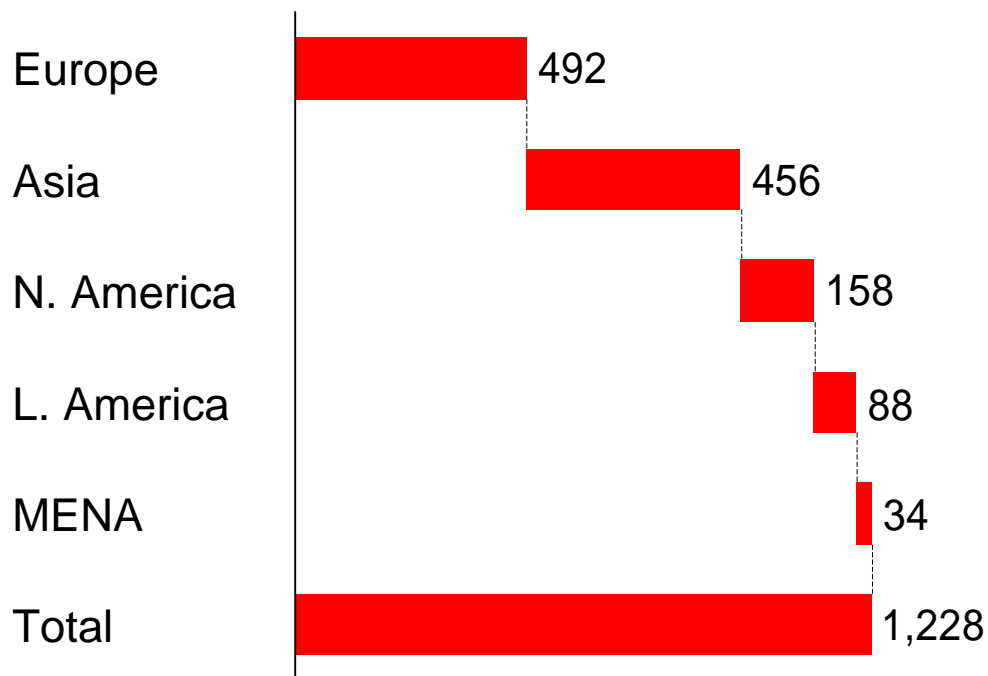
HSBC has a well diversified business...

Distribution of revenues, 2010¹



... with ample access to funding and liquidity

Customer accounts, 31/12/2010, USDm



One of the largest deposit base in the World² with an A/D ratio below 80%

¹ Intra-HSBC revenue has not been eliminated in the preparation of these charts. Intra-HSBC revenue includes revenue between geographic regions and revenue between customer groups and global businesses. HSBC's Balance Sheet Management business, reported within Global Banking and Markets, provides funding to trading businesses

² Including Chinese and Japanese banks, HSBC has the 3rd largest deposit franchise

3 HSBC has meaningful improvement opportunities

Regulation and capital Requirements

- Evolving regulation resulting in higher capital requirements which, in light of continued uncertainty, we assume to be 9.5-10.5% Common Equity Tier 1 under Basel III
- HSBC can comfortably meet Basel III capital requirements

Common Equity Tier 1 ratio of 9.5% - 10.5% (Basel III)

Efficiency

- **CER of 55% for 2010** (in Q1 2011, 61%, or 55% excluding notable items and fair value, FVOD) is well above target range and unacceptable
- There is a programme of sustainable cost saves planned to bring cost efficiency within the target range by 2013

CER target of 48 - 52%

Profitability

- **ROE of 9.5% for 2010**, with some of the assets not delivering the desired target return (e.g., North America) of 12-15%
- Persistent low interest rate environment impacting profitability

ROE target of 12 - 15% (Basel III)

Why should you own HSBC?

Distinctive position aligned with key trends

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

I **Strategy** drives investment priorities and **capital allocation**



II **Action plan** addressing **growth and cost efficiency** across geographies and businesses



III Experienced **management team** accountable for delivery



Detailed in following section

To be the leading international bank

Two main elements

International connectivity



Economic development/ wealth creation



This means . . .

- Presence in key markets that matter for international connectivity
- Businesses that are internationally connected:
 - GBM hub-and-spoke model with global reach
 - CMB provides a full range of commercial financial services to companies in 60+ markets
 - Investment opportunities in fast growing and mature markets
- Wealth creation in most relevant markets (18 key markets)
- Focus on retail banking only in markets where we can achieve profitable scale:
 - Large scale positions (Hong Kong and UK)
 - High growth markets (e.g., Mexico, Singapore, Turkey, Brazil)
 - Leading market shares in small geographies



Strategy provides a clear framework to review our portfolio
and achieve higher discipline in capital allocation

I Potential Basel 3 impact

	Basel II → Basel III impacts	Probable timing	Potential bp impact
RWAs impact	VaR, Securitisation and correlation trading	By 2013	40 to 45
	CVA charge and financial correlation	By 2013	60 to 70
<hr/>			
Dual impact	Threshold deductions and other	2013 to 2018	70 to 80
	DTA – loss carried forward	2014 to 2018	25 to 30
<hr/>			
Capital impact	AFS and other reserves	2014 to 2018	5 to 10
	Expected loss deduction	2014 to 2018	25 to 30
	Pension filter	2014 to 2018	15 to 20
	Partly excluding minorities	2014 to 2018	10 to 15
			250 to 300bp

Notes:
Impact evaluated based on 31/12/10 positions, assuming full one time implementation, see page 8 2010 Annual Report and Accounts

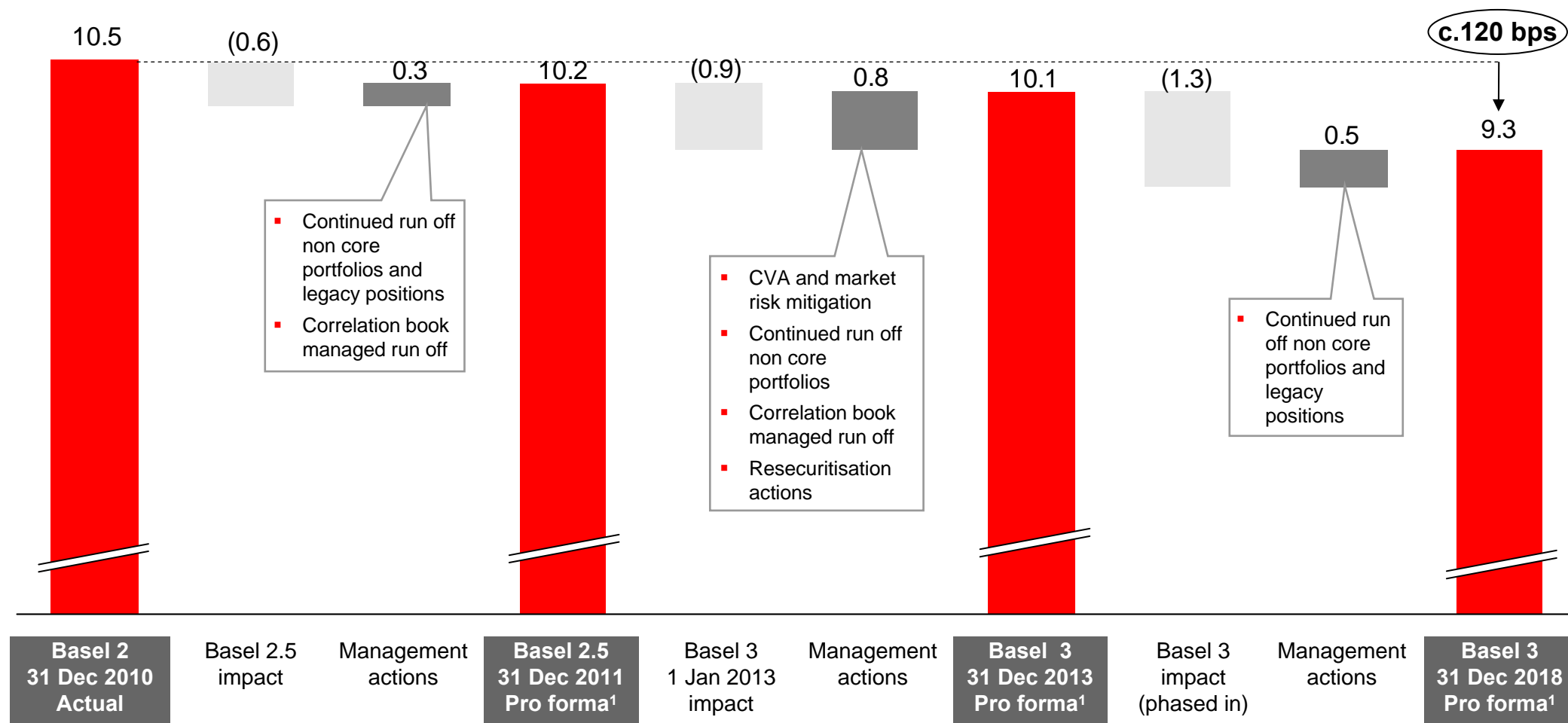
I Phased Basel 3 implementation and mitigations

(Pro-forma)

Basel II → Basel III detailed build-up

■ Impact of mitigations and revised estimates

Core/Common equity tier 1 capital ratio, % (pro-forma)



¹ No capital generation, no business growth included

1 Improve capital deployment – Five filters

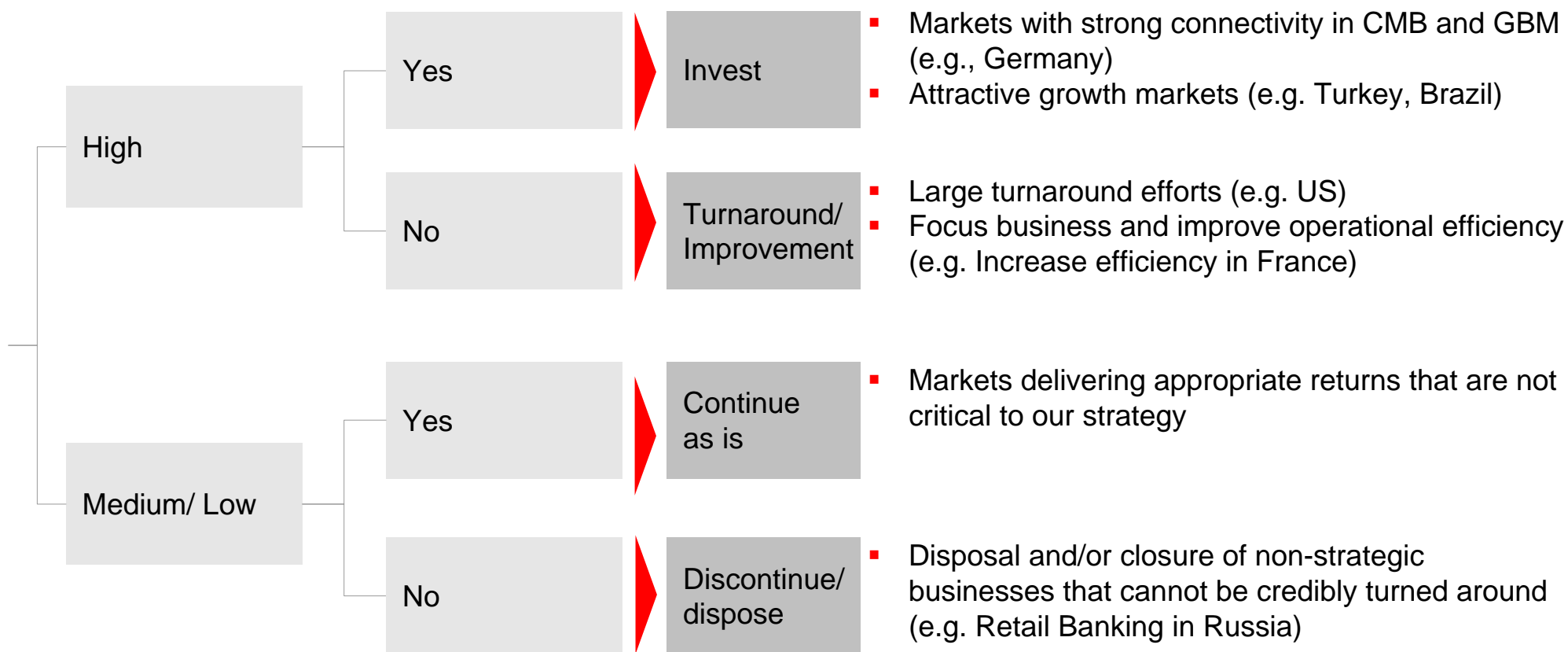
What is the strategic relevance?

- 1. Connectivity
- 2. Economic development

Are the current returns attractive?

- 3. Profitability
- 4. Efficiency
- 5. Liquidity

Resulting actions

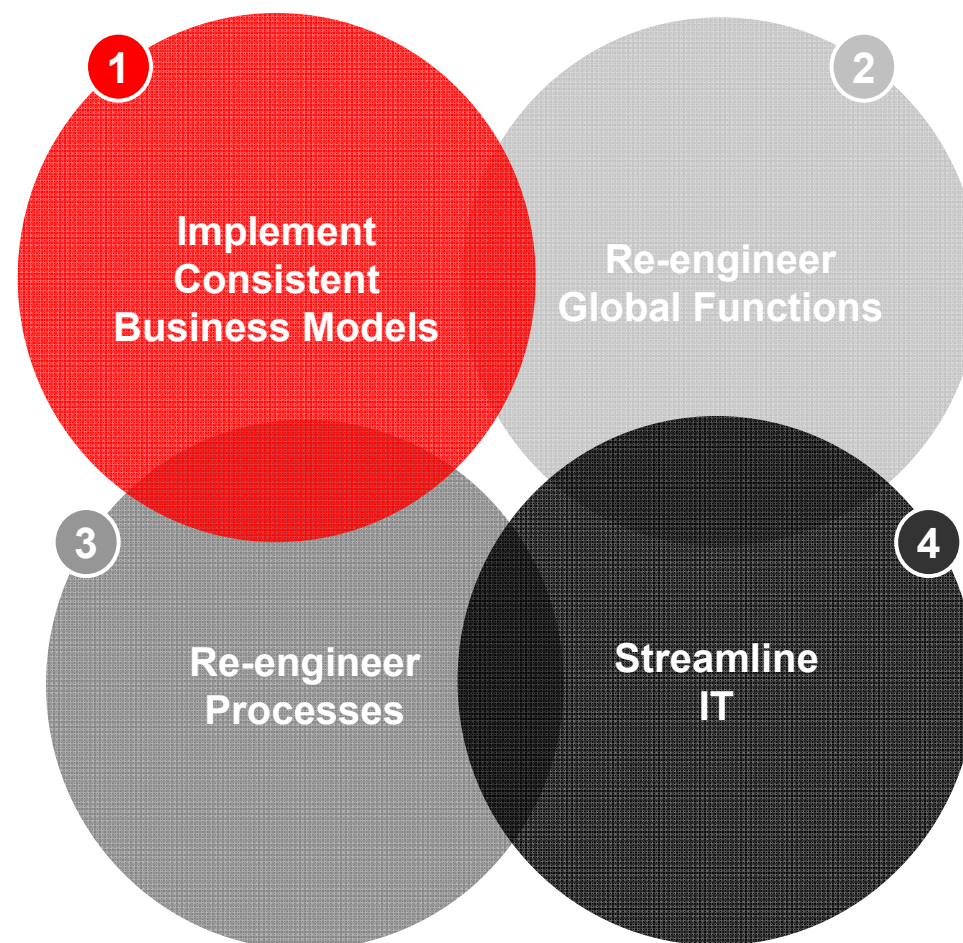


II Improve cost efficiency and organisational effectiveness HSBC

Sustainable cost saves

- USD2.5-3.5bn of sustainable cost saves targeted over the next 3 years
- Achieve 48-52% CER by 2013
- Sustainable cost saves will facilitate:
 - Growth in key markets
 - Investment in new products, processes and technology
 - Provide buffer against regulatory and inflationary headwinds
- Positive jaws

Approach



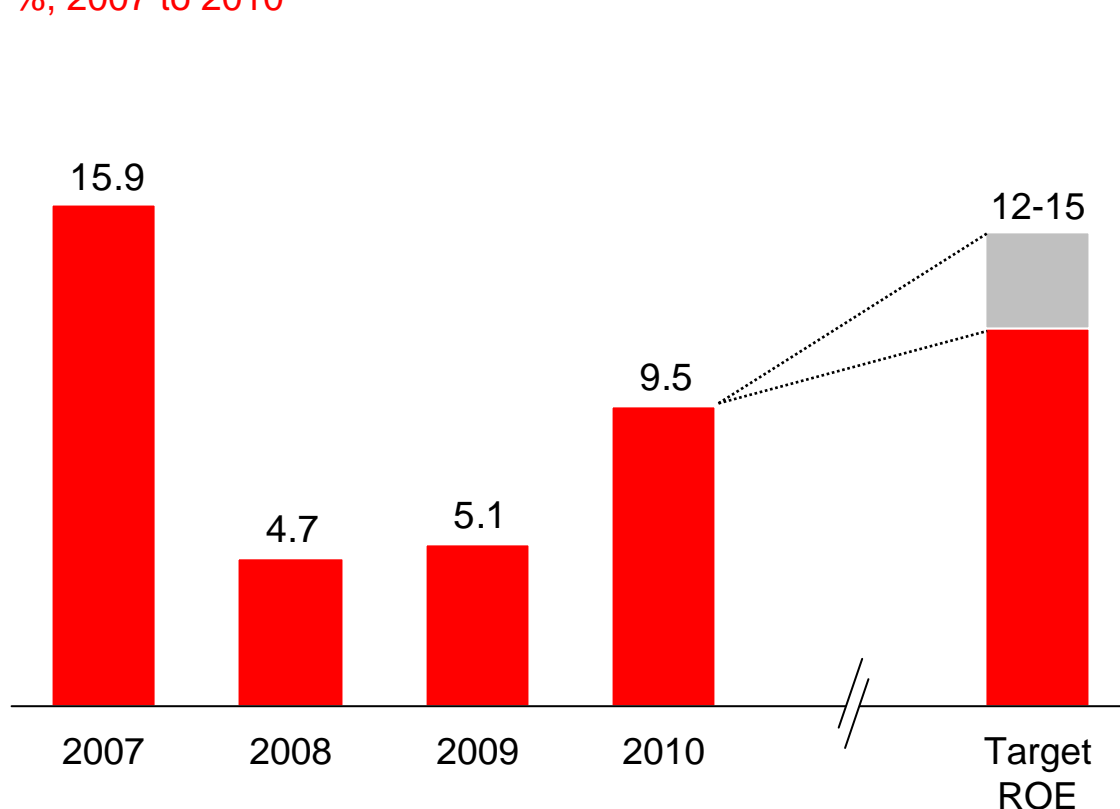
Long-term sustainable growth

Target RoE of 12-15%



HSBC return on average ordinary shareholders' equity

%, 2007 to 2010



Getting to 12-15%

- Common Equity Tier 1 ratio of 9.5 to 10.5% assumed under Basel III
- Basel III management actions
- Capital deployment
- Presence in faster growing attractive markets
- Cost efficiency and positive jaws
- Upside from rising interest rates

Supported by target pre-tax RoRWA range of 1.8% to 2.6%¹

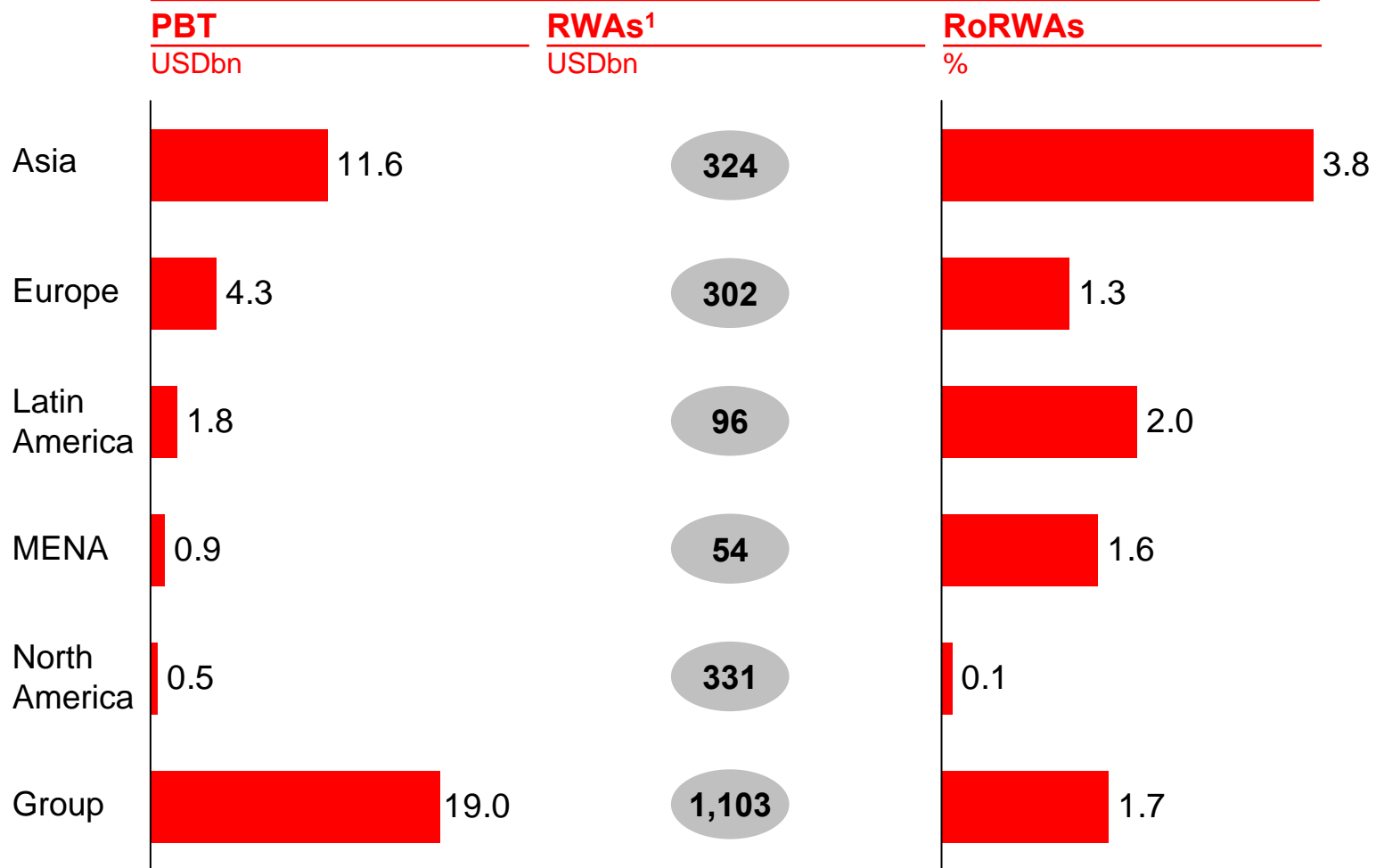
¹ Basel III basis

Long-term sustainable growth

Strong underlying performance by key geographies enables 1.8-2.6% Group pre-tax RoRWA

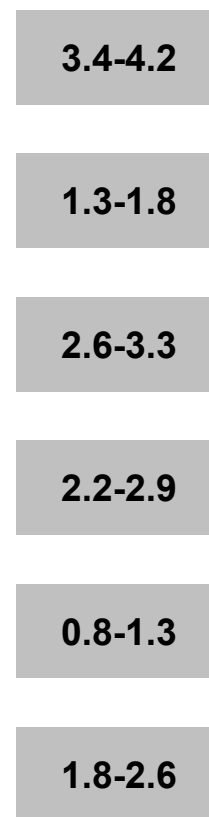


2010 results



Target RoRWAs

%

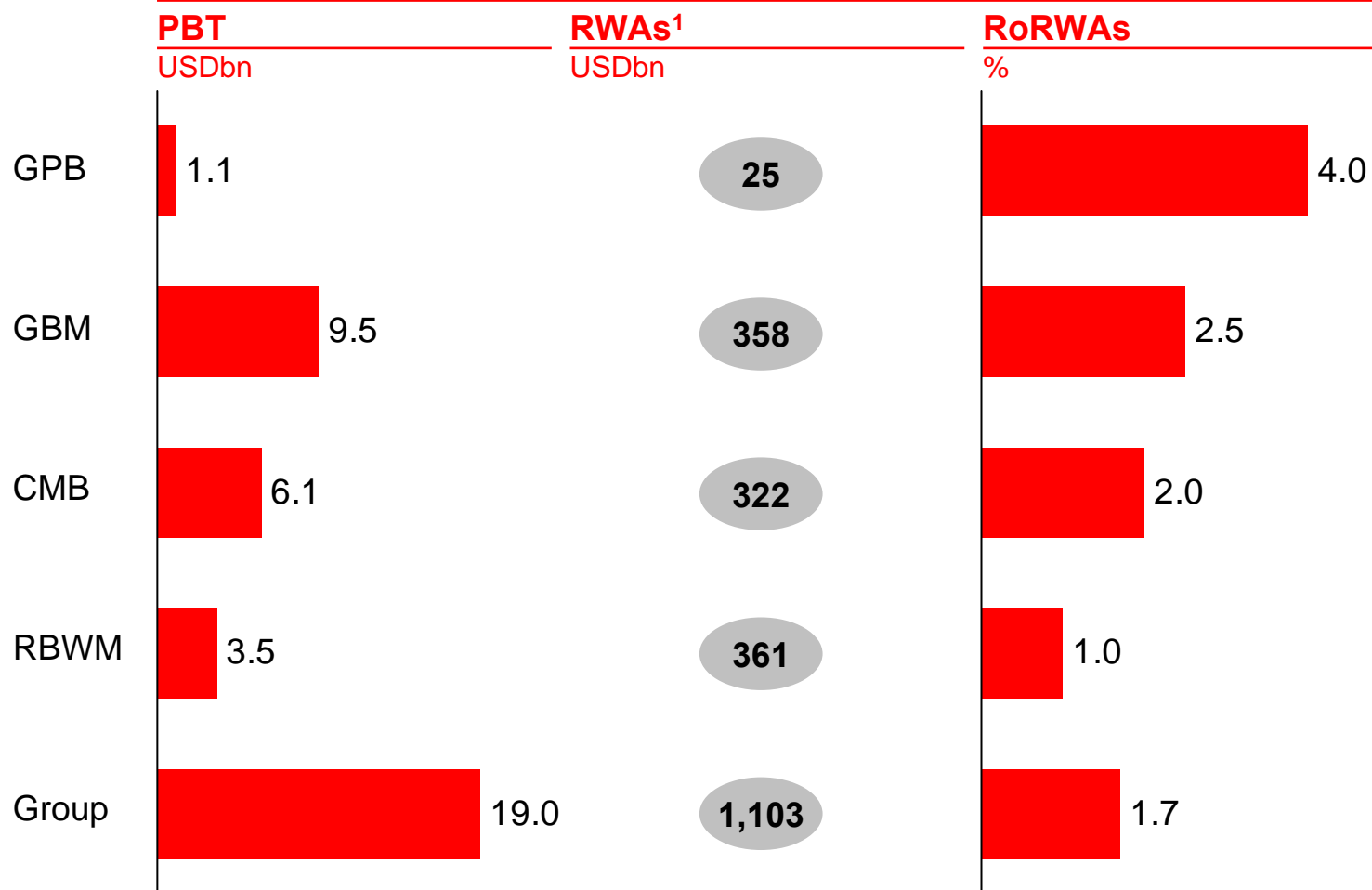


Long-term sustainable growth

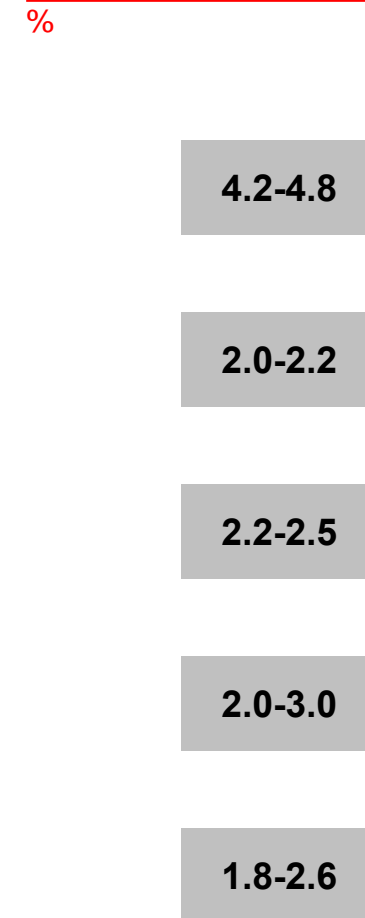
Strong underlying performance by key customer groups enables 1.8-2.6% Group pre-tax RoRWA



2010 results



Target RoRWAs



¹ As at 31 December 2010 adjusted for Chinese associates

Clear strategy and execution focus

III Experienced Management team



Group management board



Sandy Flockhart
Chairman EMEA,
Latin America &
Commercial Banking



Iain Mackay
Group Finance
Director



Samir Assaf
Global Banking and
Markets



Alan Keir
Commercial
Banking



Paul Thurston
Retail Banking and
Wealth
Management



Niall Booker
North America



Emilson Alonso
Latin America &
Caribbean



Brian Robertson
Europe



Peter Wong
Asia



Marc Moses
Risk



Ann Almeida
Human Resources

Report card



Key execution elements

Capital Deployment

Cost efficiency

Growth

Actions (examples)

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

In 12 months¹ . . .

- Series of transactions announced and executed
- Tangible progress in turnaround actions (e.g., US)
- Material savings already captured across the 4 main programmes
- Income growth particularly in Asia and Latin America
- Progress in Wealth and GBM/CMB connectivity

Basis of preparation (1/2)



Actuals	Actual numbers presented are on a reported basis and include the effect of movements in the fair value of HSBC's own debt related to credit spreads
AMG	The Global Asset Management business formed part of GBM in 2010, but has been included in RBWM for the RoRWA targets. Comparative data will be presented to reflect this reclassification in the Interim Report 2011
Asia	Data for 'Asia' comprises the sum of reported figures for the Hong Kong and Rest of Asia-Pacific geographical regions without the elimination of inter-segment items
Composition of the Group	No changes to the composition of the Group have been assumed other than those described in this presentation
Financial targets	Financial targets are prepared on the basis of the Group's accounting policies as set out in the Annual Report and Accounts 2010, and on the basis of tax rates and laws enacted or substantively enacted as at 31 December 2010. The potential effects on HSBC's operations and performance of the Dodd-Frank Act in the US, the deliberations of the UK Independent Commission on Banking, and a range of evolving regulatory changes which may or may not affect HSBC have not been included in the targets
Other	The main items reported under 'Other' are certain property activities, the estimated impact of the UK bank levy, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value (the remainder of the Group's gain on own debt is included in GBM) and HSBC's holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries

Basis of preparation (2/2)



RoE	Return on equity ('RoE') is profit attributable to ordinary shareholders of the parent company divided by average ordinary shareholders' equity
RoRWA	The metric, return on risk weighted assets ('RoRWA'), is the profit before tax divided by average RWAs. The RWAs have been calculated using FSA rules for the 2010 metrics. The regional and customer group targets are adjusted for Basel 3 rules specific to the GBM business. In all cases, RWAs or financial metrics based on RWAs for geographical segments or customer groups are on a third party basis and exclude intra-HSBC exposures
RoRWA target for Europe	The Europe RoRWA target includes the Group's head office costs, intra-HSBC recharges and the total estimated impact of the UK bank levy
RoRWA target for 'Other'	No RoRWA target has been set for the 'Other' customer group as it is not considered to be a meaningful measure in terms of performance assessment and resource allocation
RWAs for the mainland China associates	RWAs for the mainland China associates have been reallocated from the 'Other' customer group to RBWM, CMB and GBM to align better with the basis for the allocation of their profits. This represents a reclassification from the basis used in HSBC's 2010 Pillar 3 Disclosures. Comparative customer group RWAs will be presented on the new basis in the Interim Report 2011

Acronyms and definitions



A/D ratio	Ratio of customer advances to customer deposits	ETF	Exchange traded funds	NYSE	New York Stock Exchange
Advance	HSBC Advance, a global banking proposition for the mass-affluent segment of customers	EU	European Union	OCC	Office of the Comptroller of Currency
AFS	Available for sale	FCA	UK Financial Conduct Authority	OTC	Over the counter
AMG	Global Asset Management	FDI	Foreign direct investment	PBT	Profit before tax
APS	Asset Protection Scheme	FIG	Financial Institutions Group	PCM	Payment and Cash Management, a division of Global Banking and Markets
ASEAN	The Association of South East Asian Nations	FPC	UK Financial Policy Committee	PFS	Personal Financial Services
ASP	Asia-Pacific	FRB	Federal Reserve Board	PPI	Payment protection insurance
AUM	Assets under management	FSA	Financial Services Authority	PRA	UK Prudential Regulation Authority
BoCom	Bank of Communications Co., Limited, mainland China's fourth largest bank by market capitalisation	FSB	Financial Stability Board	Premier	HSBC's premium global banking service
bps	Basis points (a basis point is 1/100 of a percentage point)	FVOD	Fair value of own debt related to credit spreads	RBWM	Retail Banking and Wealth Management global business, which comprises the existing Personal Financial Services customer group and Global Asset Management Relationship managers
BSM	Balance Sheet Management, a division of Global Banking and Markets	FX	Foreign exchange	RMs	
CAGR	Compound annual growth rate	GBM	Global Banking and Markets global business	RMB	Renminbi
CER	The cost efficiency ratio is total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions	GDP	Gross Domestic Product	ROE	Return on equity
CHF	Swiss franc	GPB	Global Private Banking global business	RoRWA	Pre-tax return on risk weighted assets
CMB	Commercial Banking customer group	GTB	Global Transaction Banking	RWAs	Risk weighted assets
CML	Consumer and Mortgage Lending	HK	Hong Kong Special Administrative Region of the People's Republic of China	SIFIs	Systemically Important Financial Institutions
CoEs	Centres of excellence	HNWI	High net worth individuals	SMEs	Small and medium-sized enterprises
Core Tier 1 capital	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments	HSS	HSBC Securities Services	STP	Straight through processing
CRD	Capital Requirements Directive	ICB	Independent Commission on Banking	TARP	Troubled Asset Relief Program
CRM	Customer relationship management	IPO	Initial public offering	Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital, related non-controlling interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties
CVA	Credit valuation adjustment	IT	Information technology	UHNW	Ultra high net worth individuals
DCM	Debt capital markets	KYC	Know your customer	UK	United Kingdom
DTA	Deferred tax asset	LC	Letters of credit	US	United States of America
EBA	European Banking Authority	LIC	Loan impairment charges	VaR	Value at risk: a measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence
ECA	Export credit agency	M&A	Mergers and acquisitions	YoY	Year on year
EM	Emerging markets	Mainland China	People's Republic of China excluding Hong Kong		
EMEA	Europe, Middle East and Africa	MENA	Middle East and North Africa		
ESMA	European Securities and Markets Authority	MLA	Mandated lead arranger		
		MMEs	Mid-market enterprises		
		NAFTA	North American Free Trade Agreement		
		NNM	Net new money		