Hong Kong, RMB Internationalization
US roadshow

Mark McCombe  Chief Executive Officer Hong Kong
Forward-looking statements

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HSBC Holdings plc reports financial results in accordance with International Financial Reporting Standards (‘IFRSs’) as issued by the International Accounting Standards Board (‘IASB’) and endorsed by the European Union (‘EU’). EU-endorsed IFRSs may differ from IFRSs, as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At December 31, 2010, there were no unendorsed standards affecting this document and there was no difference between IFRSs endorsed by the EU and IFRSs as issued by the IASB in terms of their application to HSBC.

IFRSs comprise accounting standards issued by the International Accounting Standards Board and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee and its predecessor body.

IFRS Management Basis assumes that the mortgages, credit card loans, motor vehicle finance loans and private label customer loans transferred to HSBC’s US banking subsidiary, HSBC Bank USA, National Association (‘HSBC Bank USA’), have not been sold and remain on HSBC Finance Corporation’s balance sheet. IFRS Management Basis also assumes that all purchase accounting fair value adjustments relating to the acquisition of HSBC Finance Corporation by HSBC Holdings plc have been ‘pushed down’ to HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS Management Basis because the loans sold to HSBC Bank USA were conducted primarily to fund prime customer loans more efficiently through bank deposits and such customer loans continue to be managed and serviced by HSBC Finance Corporation without regard to ownership.

All amounts are in US$ unless otherwise stated.
Group strategy: The leading international bank

**International connectivity**

- Presence in key markets that matter for international connectivity
  - Global Banking and Markets hub-and-spoke model with global reach
  - Commercial Banking to provide commercial financial services in 60+ markets
  - Investment opportunities in fast growing and mature markets

**Economic development and wealth creation**

- Wealth creation in most relevant markets
- Focus on retail banking only in markets where we can achieve profitable scale
  - Large scale positions
  - High growth markets
  - Leading market shares in small geographies
## Progress on strategy

<table>
<thead>
<tr>
<th>Key execution elements</th>
<th>Achievements</th>
</tr>
</thead>
</table>
| **Capital deployment**  | - Closure of retail banking businesses in Russia and Poland  
                          - Disposal of three non-strategic insurance businesses – UK (motor insurance), Mexico (Afore), Bermuda (captive management)  
                          - Strategic review of US credit card business and disposal of 195 US branches |
| **Cost efficiency**    | - Launched restructurings – France, UK, MENA, US and Latin America  
                          - Agreed program to improve efficiency of Head Office and global support functions  
                          - Established consistent operating models for RBWM and CMB |
| **Growth**             | - Wealth Management, new business strategy and senior appointment  
                          - Increased cross-sale of GBM products to CMB customers  
                          - Grew revenue in selected markets |
Outlook

Positive on emerging markets

Geopolitical and regulatory uncertainty

Results demonstrate progress on journey to achieve long-term targets
## 2011 interim results - financial highlights

<table>
<thead>
<tr>
<th>Summary financial highlights</th>
<th>1H10</th>
<th>2H10</th>
<th>1H11</th>
<th>% Better / (worse)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported profit before tax (USDbn)</td>
<td>11.1</td>
<td>7.9</td>
<td>11.5</td>
<td>3</td>
</tr>
<tr>
<td>Earnings per share (USD)</td>
<td>0.38</td>
<td>0.35</td>
<td>0.51</td>
<td>34</td>
</tr>
<tr>
<td>Dividends¹ (USD)</td>
<td>0.16</td>
<td>0.20</td>
<td>0.18</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial ratios (%)</th>
<th>1H10</th>
<th>2H10</th>
<th>1H11</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on average ordinary shareholders' funds</td>
<td>10.4</td>
<td>8.9</td>
<td>12.3</td>
<td>12-15²</td>
</tr>
<tr>
<td>Cost efficiency ratio</td>
<td>50.9</td>
<td>59.9</td>
<td>57.5</td>
<td>48-52</td>
</tr>
<tr>
<td>Advances-to-deposits ratio</td>
<td>77.9</td>
<td>78.1</td>
<td>78.7</td>
<td>&lt;90</td>
</tr>
<tr>
<td>Core tier 1 ratio</td>
<td>9.9</td>
<td>10.5</td>
<td>10.8</td>
<td>9.5–10.5³</td>
</tr>
</tbody>
</table>

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¹ In respect of the period
² Basel III basis
³ Assumed common equity tier 1 ratio under Basel III
Hong Kong

Volume-driven and trade-related growth in Commercial Banking (CMB) and Global Banking and Markets (GBM), driven by growth of mainland China

Strong sales in Wealth Management products

Asset spreads narrowed

Continued good credit quality

Investment and inflation-driven cost growth

<table>
<thead>
<tr>
<th></th>
<th>1H10¹</th>
<th>2H10¹</th>
<th>1H11¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit / (loss) before tax (USDbn)</td>
<td>2.8</td>
<td>2.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Cost efficiency ratio (%)</td>
<td>40.7</td>
<td>47.1</td>
<td>43.2</td>
</tr>
<tr>
<td>Return on risk-weighted assets (%)</td>
<td>4.9</td>
<td>4.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Advances-to-deposits ratio (%)</td>
<td>41.7</td>
<td>47.3</td>
<td>52.1</td>
</tr>
</tbody>
</table>

1. Underlying basis
2. Profit before tax basis
3. Other includes GPB and Other Customer Groups
Rest of Asia-Pacific

<table>
<thead>
<tr>
<th></th>
<th>1H10¹</th>
<th>2H10¹</th>
<th>1H11¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit / (loss) before tax (USDbn)</td>
<td>2.9</td>
<td>3.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Cost efficiency ratio (%)</td>
<td>56.1</td>
<td>57.6</td>
<td>54.9</td>
</tr>
<tr>
<td>Return on risk-weighted assets² (%)</td>
<td>3.1</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Advances-to-deposits ratio (%)</td>
<td>67.1</td>
<td>69.0</td>
<td>72.0</td>
</tr>
</tbody>
</table>

- Growth in Global Banking and Markets (GBM) and Commercial Banking (CMB) loan and trade volume
- Wealth Management revenue growth in Retail Banking and Wealth Management (RBWM)
- Loan impairment charges fell in RBWM
- Costs rose from increased employee numbers, higher volumes and wage inflation
- Contribution from Associates up

Profit before tax, 1H11¹ (USDbn)

<table>
<thead>
<tr>
<th></th>
<th>RBWM</th>
<th>CMB</th>
<th>GBM</th>
<th>Other ³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total: 3.6</td>
<td>1.5</td>
<td>0.8</td>
<td>0.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Revenue¹ (USDm)

<table>
<thead>
<tr>
<th>Country</th>
<th>1H10</th>
<th>1H11</th>
<th>+10%</th>
<th>+6%</th>
<th>+47%</th>
<th>+15%</th>
<th>+19%</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>948</td>
<td>1,038</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>291</td>
<td>307</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mainland China excl. Associates</td>
<td>508</td>
<td>749</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>466</td>
<td>534</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>552</td>
<td>657</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Underlying basis
2. Profit before tax basis
3. Other includes GPB and Other Customer Groups
HSBC Hong Kong

Capturing the rise of Greater China and Renminbi
China: a significant economy
2nd largest economy\(^1\); largest exporter\(^1\); 2nd largest importer\(^1\)

Share of Global Trade\(^2\)

\[\begin{array}{c|c|c|c|c}
\#2 GDP\(^1\) (2010 est.: Trn USD) & \#1 Exporter\(^1\) (2010: Tm USD) & \#2 Importer\(^1\) (2010: Tm USD) \\
14.7 & 1.5 & 1.9 \\
5.9 & 1.3 & 1.7 \\
5.5 & 1.3 & 1.3 \\
3.3 & 0.7 & 0.6 \\
2.6 & & \\
US & China & Japan & Germany & France
\end{array}\]

1. IMF / CIA – The World’s Factbook
2. For 2009 / HSBC Trade Connections website
Rise of Greater China
Significant economic benefits for Hong Kong

People
- Growth of wealth & the mass affluent segment
- Spending power spilling over to HK

Trade
- Largest exporting country
- Robust HK/China trade

China GDP
USD 5.7trn (2010)¹: World’s 2nd largest¹

Capital
- Active foreign asset acquisition & continued domestic infrastructure spending
- Strong capital flow between China & HK

Currency
- RMB internationalization
- Targeting full convertibility. Reserve currency?

¹. IMF / CIA – The World’s Factbook
HK the launch pad for Mainland companies “Going Out”

China’s ODI continues to grow

2010 Non-financial ODI: USD59bn

<table>
<thead>
<tr>
<th>Year</th>
<th>USDbn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>60</td>
</tr>
</tbody>
</table>

China is now the 5th largest ODI originator

<table>
<thead>
<tr>
<th>Region</th>
<th>USDbn</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>300</td>
</tr>
<tr>
<td>France</td>
<td>100</td>
</tr>
<tr>
<td>Japan</td>
<td>50</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
</tr>
</tbody>
</table>

HK benefiting from China’s ODI

- China is the 5th largest Overseas Direct Investment (ODI) originator
- HK is Mainland’s largest ODI destination
- 56% of new company accounts opened in Hong Kong are for customers from mainland China

Mobilizing HK’s liquidity for POEs/SOEs

- HK$ AD ratio (market): 85.4%
- Non-bank China exposure: 12.3% of HK banks’ assets

1. 2009 Statistical bulletin of China’s outward foreign direct investment
3. HSBC figure
4. HKMA statistics – MAY11
5. HKMA statistics – MAR11
RMB internationalization
Rapid development

Trading Currency → Investment Currency → Reserve Currency

- 2004
  - Personal RMB business

- 2007
  - RMB bonds

- 2009
  - RMB trade settlement pilot scheme

- 2010
  - Enlarged trade pilot scheme
  - RMB wealth management products
  - Access to Mainland’s bond market
  - Case approval of RMB FDI

- 2011
  - Overseas Direct Investment in RMB
  - RMB Equity IPO

- 2020
  - Fully convertible ???
RMB to become 3rd largest currency globally
RMB Trade Settlement to reach USD 2 trillion by 2015

- 57% of Hong Kong traders will use RMB for trade settlement in the coming 6 months. ²
- RMB is expected to be #3 currency for trade settlement ²

More than USD 2 trillion or half of China’s total trade flows with emerging markets will be settled in RMB by 2013 to 2015 ¹

RMB to become a fully convertible currency by 2020.¹

1. HSBC in-house estimates
2. HSBC Trade Confidence Index – MAY 2011
HK’s RMB deposits to reach RMB 800bn by end 2011
Or 13% of Hong Kong’s deposits

RMB deposit pool
1H2011 end: RMB 554bn
Or 9% of total HK deposits base

RMB800bn to RMB1.2tn by end of 2011

Source: CEIC, HSBC
HSBC expanding leadership in Hong Kong
Sustained leadership through the economic cycle

**HSBC position**

**Leading player with # 1 market shares**

<table>
<thead>
<tr>
<th></th>
<th>HSBC only¹</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits (Dec 10)</td>
<td>25%</td>
<td>34%</td>
</tr>
<tr>
<td>Mortgages (Dec 10)</td>
<td>19%</td>
<td>34%</td>
</tr>
<tr>
<td>HKD Bonds (Dec 10)</td>
<td>34%</td>
<td>34%</td>
</tr>
</tbody>
</table>

**Ability to generate profits through the economic downturn**

Hong Kong PBT USDbn, Reported

![Graph showing profits over the years](chart)

**Key actions**

**Continue to invest to maintain leadership¹**
- Top advertising spend (15% of industry) with #1 in Brand Health
- USD1.4bn IT and delivery channel spend over past three years

**Build new leadership segments¹**
- #1 in life insurance new business 18.1% and Mandatory Provident Fund 24.8% market share
- Building ECM capability. “Best Equity House” 2010 by Finance Asia

**Continue advances and deposits growth**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USDbn, Reported</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>251</td>
<td>275</td>
<td>297</td>
<td>9%</td>
</tr>
<tr>
<td>Advances</td>
<td>100</td>
<td>99</td>
<td>141</td>
<td>19%</td>
</tr>
<tr>
<td>A/D ratio</td>
<td>40%</td>
<td>36%</td>
<td>47%</td>
<td>52%</td>
</tr>
</tbody>
</table>

1. HSBC excluding Hang Seng Bank
2. mReferral data

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1H FY 2008 2009 2010 2011
## Chinese diaspora: a major source of new customers\(^1\)

<table>
<thead>
<tr>
<th>Premier Total new accounts 2010</th>
<th>Business Total new accounts 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese diaspora</td>
<td>Others</td>
</tr>
<tr>
<td>23%</td>
<td>77%</td>
</tr>
<tr>
<td>56%</td>
<td>44%</td>
</tr>
</tbody>
</table>

### Chinese diaspora key behaviours

- **Higher Value**
  - Higher take up of wealth management products
  - Bigger transaction value
- **Lower cost**
  - More use of direct channel
  - Tend to use one bank only

### Key actions\(^3\)

- **Leveraging on cross-border connectivity to capture commercial clients**
  - 35% of new locally incorporated companies in HK bank with HSBC
  - Commercial Banking referrals
    - HK to mainland: +25%;
    - mainland to HK: +70%

- **Strengthening sales force to capture retail clients**
  - Recruited 1,500 frontline staff (70% Mandarin speaking)
  - 112% YoY growth in new Chinese diaspora Premier accounts\(^2\)
  - Premier referrals
    - HK to mainland: +332%;
    - Mainland to HK: +150%

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1. Companies Registry, HKSAR / HSBC in-house figures, all excluding Hang Seng Bank
2. FY 2010
3. HSBC excluding Hang Seng Bank
HSBC - The leading international RMB Bank

**Hong Kong RMB deposits vs. RMB trade settlement**

<table>
<thead>
<tr>
<th>Year</th>
<th>RMB deposits</th>
<th>RMB trade settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0.1</td>
<td>58</td>
</tr>
<tr>
<td>2008</td>
<td>1.9</td>
<td>63</td>
</tr>
<tr>
<td>2009</td>
<td>6</td>
<td>71</td>
</tr>
<tr>
<td>2010</td>
<td>29</td>
<td>107</td>
</tr>
<tr>
<td>2011</td>
<td>315</td>
<td>681</td>
</tr>
<tr>
<td>2012</td>
<td>451</td>
<td>970</td>
</tr>
<tr>
<td>2013</td>
<td>554</td>
<td></td>
</tr>
</tbody>
</table>

1. HKMA
2. HSBC in-house figures (exclude Hang Seng Bank)
3. Bloomberg

**CNH Bond new issuance forecast**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross issuance</th>
<th>Redemption</th>
<th>Net issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2011</td>
<td>45</td>
<td>10</td>
<td>35</td>
</tr>
<tr>
<td>2012</td>
<td>45</td>
<td>10</td>
<td>35</td>
</tr>
<tr>
<td>2013</td>
<td>45</td>
<td>10</td>
<td>35</td>
</tr>
</tbody>
</table>

**Key actions**

- Leveraging on first mover advantage
- Joint-Listing Agent on HK’s first RMB IPO
- First RMB structured deposits. Launched RMB insurance, RMB Bond Fund
- Pioneered Offshore RMB (CNH) Bond Index

- Capitalizing on international connectivity to further increase market share
- HK’s RMB deposits estimated to rise threefold in 2011
- RMB bond issuance: #1 Rank YTD 2011. Issuance includes World Bank, Unilever, etc.
- RMB trade services in over 50 markets on all 6 continents, settlement volume reaches RMB45bn FY2010
HSBC leading in Offshore RMB bond issuance

1. Bloomberg Standard League Table. As of YTD end June 2011
HK launched the first offshore RMB equity IPO
Paved way for more issues in the future

- Launched on 19 April 2011, the first RMB equity IPO outside mainland China

- HSBC as Joint-Lead Arranger and Receiving Bank

- Expanded RMB product suite. A way to deploy RMB liquidity in HK

- Upcoming RMB FDI (Foreign Direct Investments) policy will drive more RMB IPOs
Product and Service Distribution
Providing convenience; expanding overseas

Providing Convenience

- Business Internet Banking supporting RMB transactions since Jul 2010
- 160,000 commercial banking integrated accounts with RMB capabilities
- RMB cash withdrawal available at ATMs

Expanding overseas

- RMB Retail Banking services offered in 11 Asia Pacific markets
- Business Internet Banking supporting RMB transactions
- RMB cash withdrawal now available
Developing global platform
RMB capabilities established in over 50 markets across all 6 continents

Updated: August 2011
Key takeaways

Opening of China is an opportunity, not a threat

Hong Kong reinforcing its position as the logical gateway into China

Rapid rise of RMB and its eventual full convertibility shifts the dynamic in Hong Kong

HSBC has the ideal international platform - product capability and distribution - to capture the opportunity
Contacts and further information

HSBC Holdings plc
Hugh Pye, Head Investor Relations
- Asia Pacific
hugh.pye@hsbc.com
+ 85 22822 4908