HSBC
Group
Strategy

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Financial Targets

Investor Day

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Forward-looking statements

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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.

Financial targets

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1 **Capital**

2 **RoE: 12-15%**

3 **CER: 48-52%**

Potential Basel 3 impact

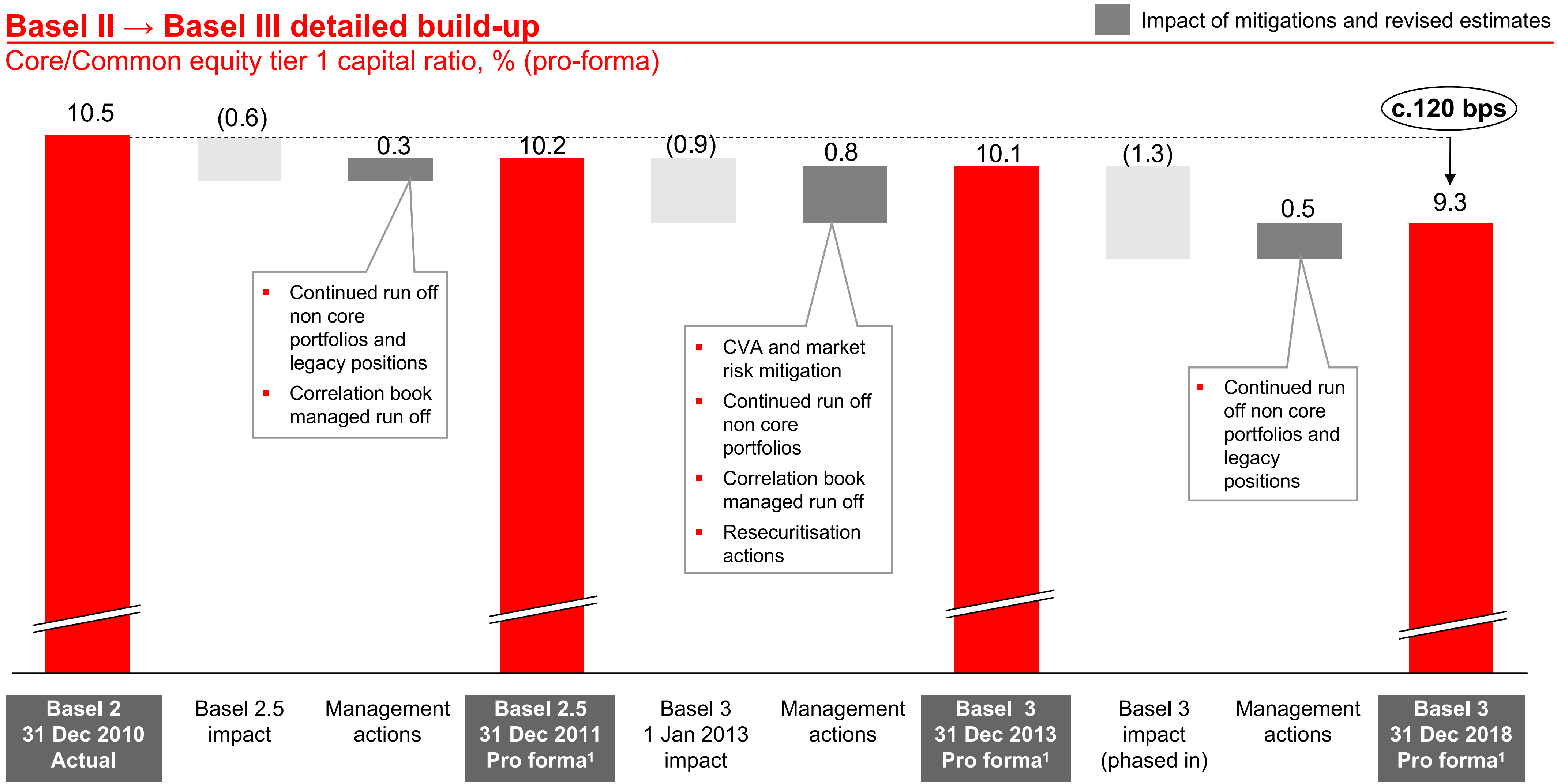
	Basel II → Basel III impacts	Probable timing	Potential bp impact	
RWAs impact	VaR, Securitisation and correlation trading	By 2013	40 to 45	100 to 115bp
	CVA charge and financial correlation	By 2013	60 to 70	
Dual impact	Threshold deductions and other	2013 to 2018	70 to 80	95 to 110bp
	DTA – loss carried forward	2014 to 2018	25 to 30	
Capital impact	AFS and other reserves	2014 to 2018	5 to 10	55 to 75bp
	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

Phased Basel 3 implementation and mitigations
(Pro-forma)

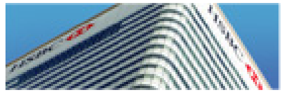
Basel II → Basel III detailed build-up

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



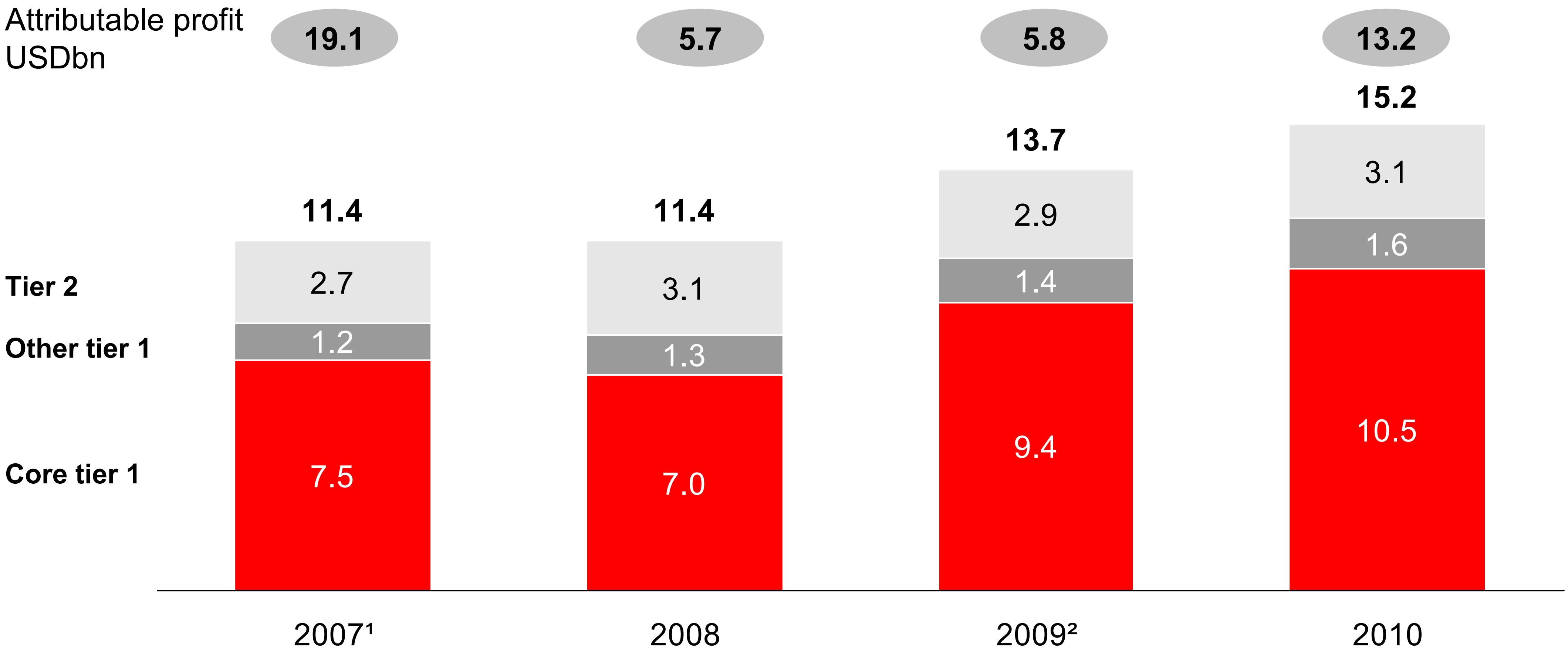
1 No capital generation, no business growth included

Capital strength (and generation) throughout the crisis



HSBC total capital ratio

Tier 1 and Total Capital Ratios, %



1 Basel II Pro forma basis
2 2009 capital ratio benefitted from the USD18bn rights issue (net of expenses)

Whilst being one of the biggest dividend payers in the industry

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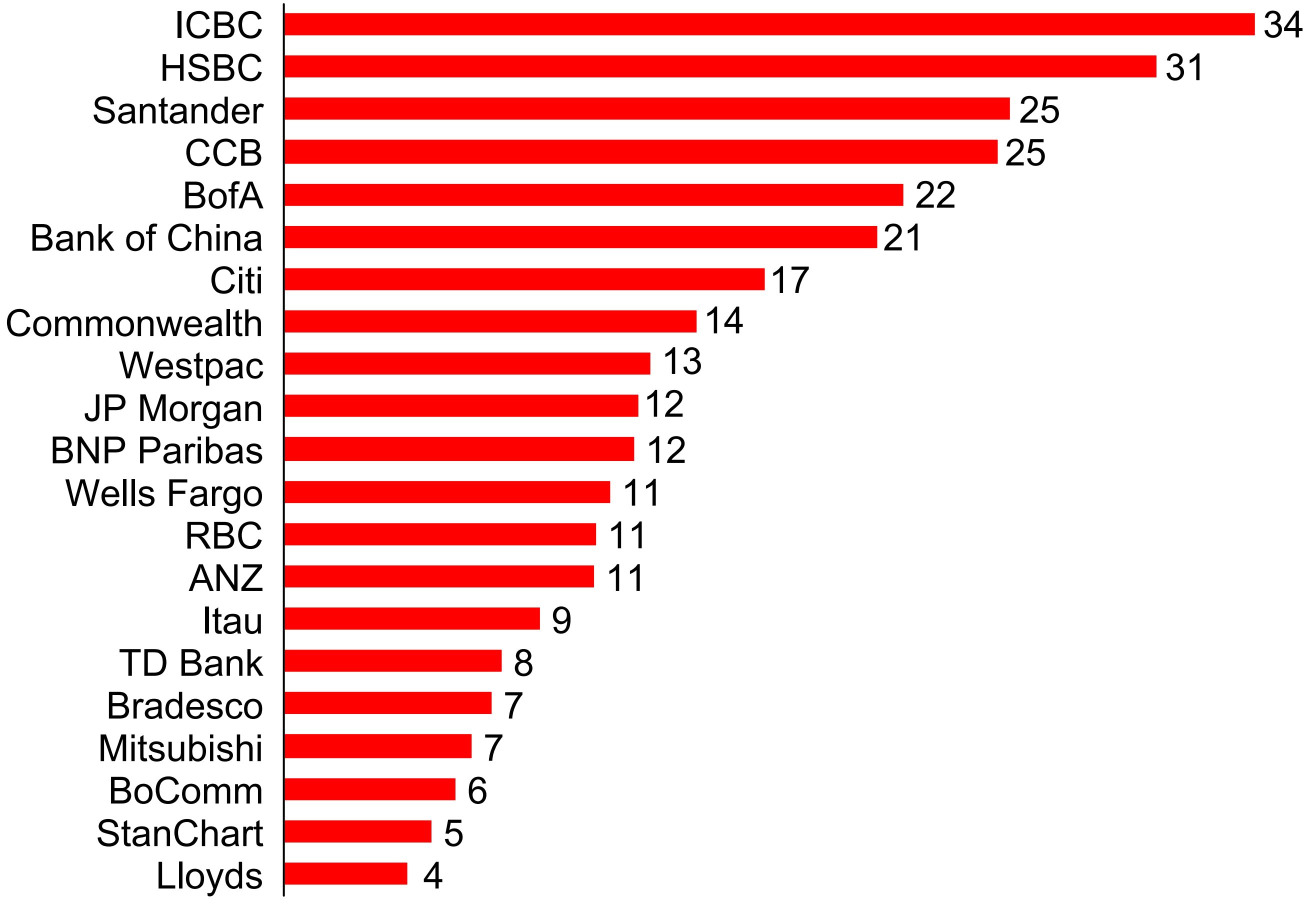
Bank dividends declared

USDbn 2007-2010[1]



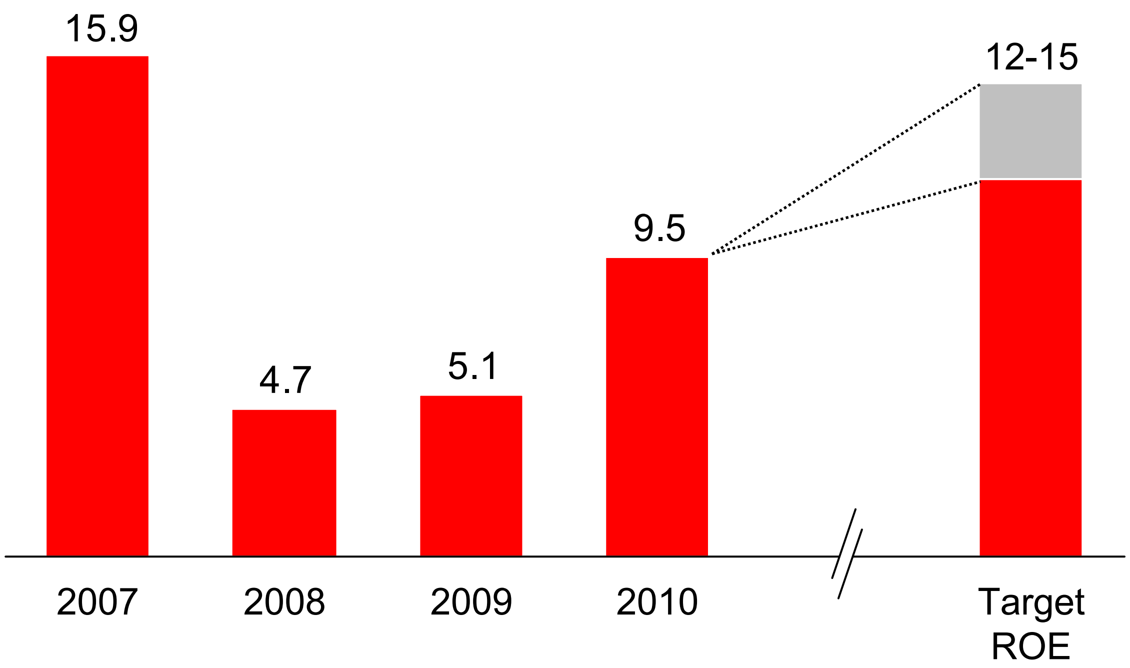
- Strong track record
- Capital generation through the cycle
- Robust subsidiary dividend flow
- Maintain 40-60% dividend payout ratio

1 Gross Dividends - Common Stock
Source: Thomson Reuters Datastream

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

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

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	2010 results			Target RoRWAs
	PBT USDbn	RWAs[1] USDbn	RoRWAs %	%
Asia	11.6	324	3.8	3.4-4.2
Europe	4.3	302	1.3	1.3-1.8
Latin America	1.8	96	2.0	2.6-3.3
MENA	0.9	54	1.6	2.2-2.9
North America	0.5	331	0.1	0.8-1.3
Group	19.0	1,103	1.7	1.8-2.6

1 As at 31 December 2010

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

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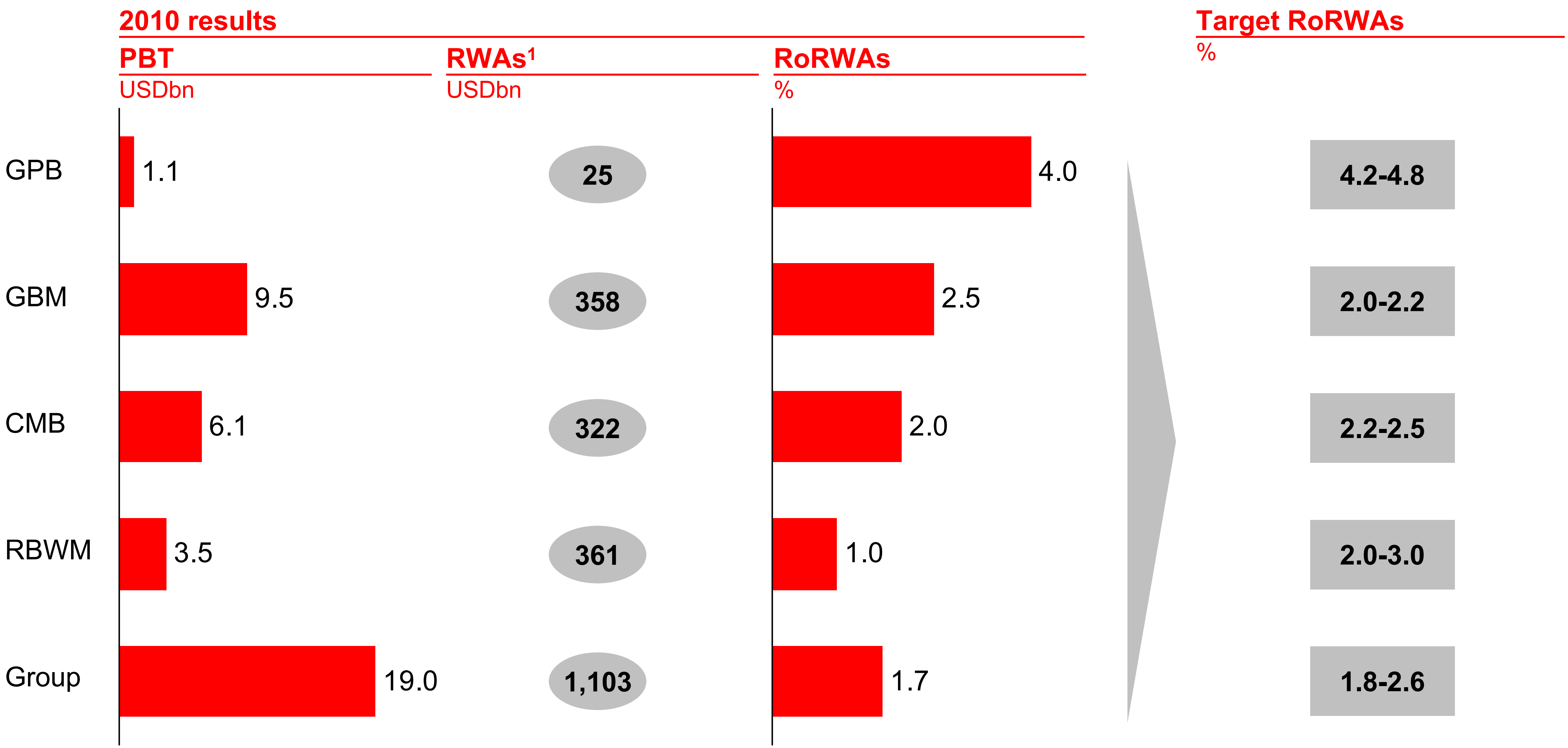
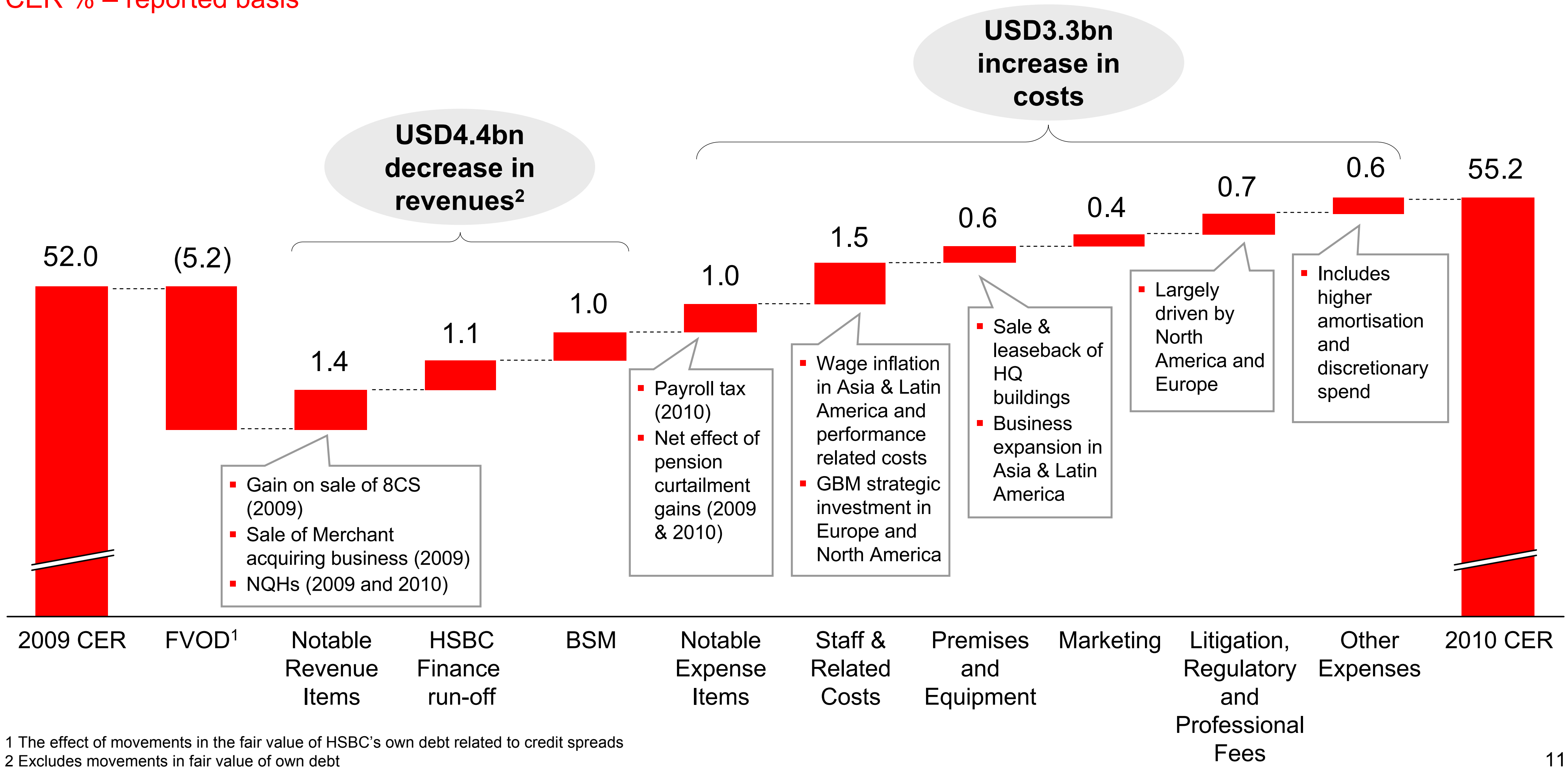


1 As at 31 December 2010 adjusted for Chinese associates

CER drivers in 2010

2009-2010 CER evolution

CER % – reported basis

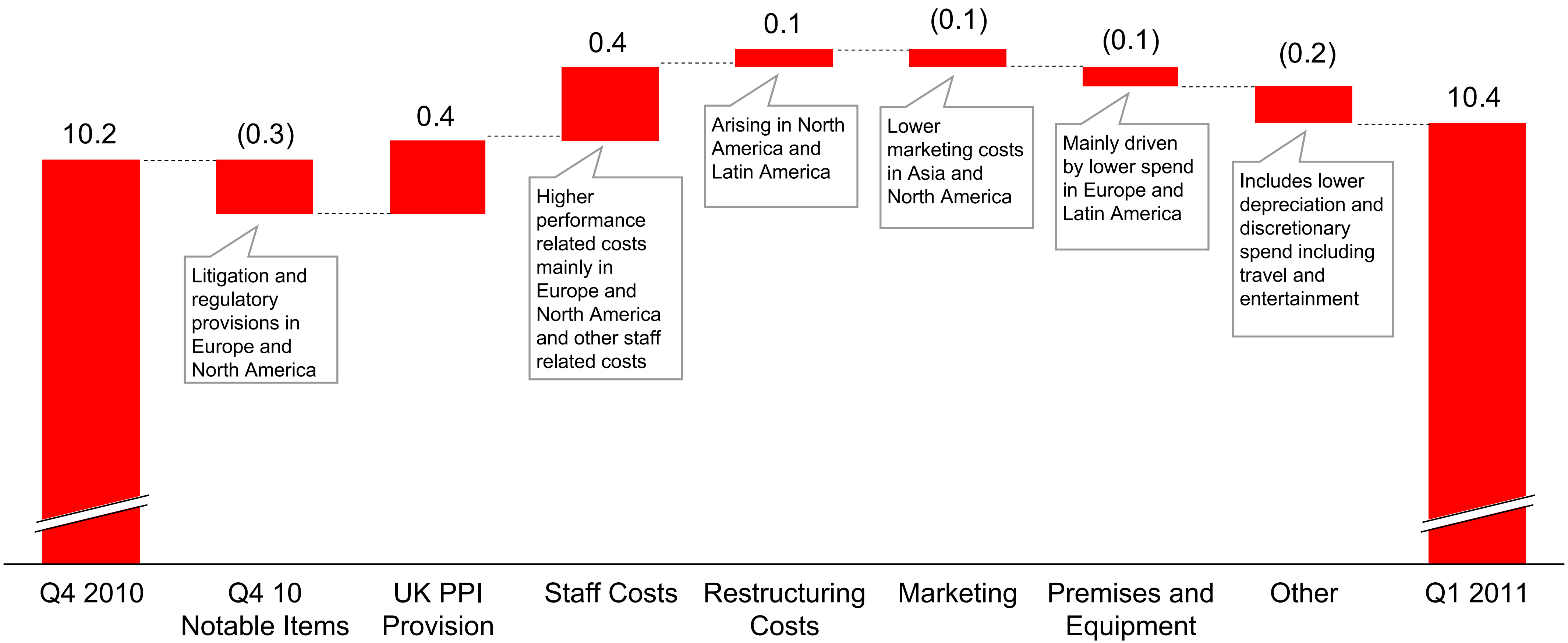


1 The effect of movements in the fair value of HSBC's own debt related to credit spreads
2 Excludes movements in fair value of own debt

Q4 2010 to Q1 2011 cost drivers

Cost base evolution Q4 2010 to Q1 2011

USDbn – reported basis



Sustainable cost saves key to achieving 48-52% CER

Sustainable cost saves

- USD2.5 – 3.5bn of sustainable cost saves targeted over next 3 years through four key programmes
- Sustainable cost saves will facilitate:
  - Growth in key markets
  - Investment in new products, process and technologies
  - Provide buffer against regulatory and other inflationary headwinds
- Positive jaws

Cost efficiency objectives and approach

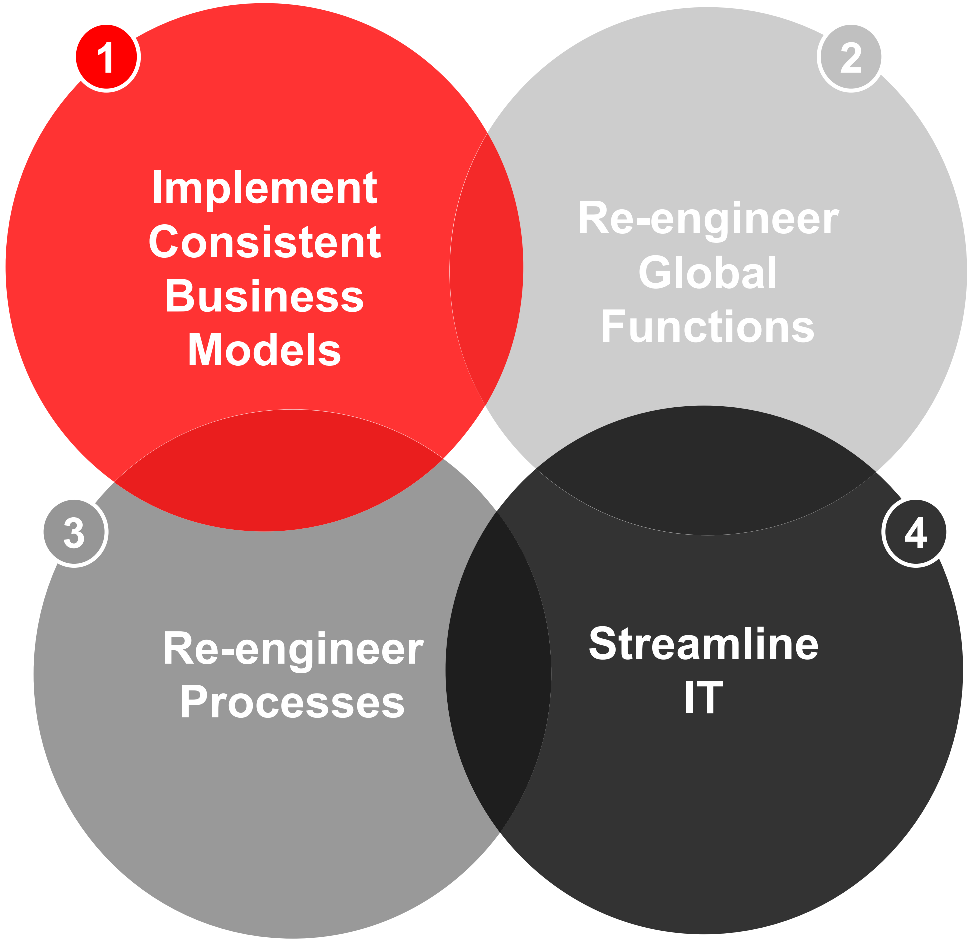
Objectives

- **Improve CER** from 55% to target range 48-52% by 2013
- Support achievement of **positive jaws**
- Become more **dynamic and agile**

Principles

- Sustainable cost saves
- Reduce complexity
- Pragmatically implement best practices
- Build world class business re-engineering capabilities and culture

Approach



1 Implement Consistent Business Models

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Rationale

- RBWM presence in 61 markets
- CMB presence in 65 markets
- But inconsistent business models across markets

Track record

- Global Banking and Markets
- Global Propositions
  - Premier Global View
  - World Selection
  - HSBC Net

Actions

- Implement consistent business models in RBWM and CMB
- Standardise RBWM and CMB global propositions across markets
- 20 key cost efficiency projects

Selected examples

Selected examples	Annual saves USDm, by 2013
CMB Relationship Manager capacity planning	50
Cards processing	50
Retail risk management	100
– Consistent underwriting processes, policies, delivery	
– Leverage economies of scale and reduce management layers	

② Re-engineer Global Functions

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Rationale

- Historical growth of the Group has led to multiple layers and head office structures
- Opportunity to review local, regional and global structures

Track record

- 16 Centres of Excellence successfully implemented in the UK

Actions

- Streamline global functions' organisational structure, activities and size
- Right-size head offices and optimise the balance between local, regional and global structures

Selected examples

Selected examples	Annual saves USDm, by 2013
De-layering and simplifying regional structures	300

③ Re-engineer Processes

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Rationale

- Inconsistent processes across markets
- Significant variance between best and worst operational practices

Track record

- Brazil deposit / bill payment processing
- Global Service Delivery and Centres of Excellence established
- Largest knowledge processing organisation – 38k people

Actions

- Implement standard activities and procedures
- Leverage best practice across the Group
- Drive greater straight through processing

Selected examples

Selected examples	Annual saves USDm, by 2013
Standardisation of payment processes and straight through processing in Asia	50
Reduction of paperwork	100
Shift processing and professional resources to lower cost locations	150
Procurement	300

4 Streamline IT

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Rationale

- Industry benchmarking shows:
  - IT Operations 'Run the bank' are efficient and effective
  - IT Development 'Change the bank' has significant improvement potential in productivity and quality
  - OneHSBC programme too IT-centric

Track record

- Successful elements of OneHSBC:
  - Consolidation of data centres
  - Premier Global View

Actions

- End-to-end review of 'change the Bank' IT to achieve industry benchmarks in productivity and quality
- Further reduce regional and local 'change the Bank' IT spend and leverage local expertise for global development
- Build less in-house and selectively buy more externally
- Increase utilisation of resources in lower cost markets

Selected examples	Annual saves USDm, by 2013
Shift IT development resources to lower cost locations	175
Consolidating data centres	100

Financial targets

1 Capital

- Strong capital generation with Core Tier 1 ratio of 10.5%[1]
- One of the biggest dividend payers in industry
- Assumed Common Equity Tier 1 ratio of 9.5-10.5% under Basel III

2 RoE: 12-15%

- 12-15% RoE over the cycle supported by 1.8-2.6% pre-tax RoRWA target
- Capital deployment, presence in faster growing markets, cost efficiency and upside from rising interest rates will drive improved RoE
- Target returns impacted by capital requirements

3 CER: 48-52%

- Improve CER from 55% to target range 48-52% by 2013
- USD2.5-3.5 billion sustainable cost saves targeted over next three years
- Positive jaws

1 As at 31 December 2010

Basis of preparation (1/2)

HSBC

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)

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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

HSBC

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