

HSBC Holdings plc



1 August 2011

Interim Results 2011

Presentation to Investors and Analysts

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 Interim Report. 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.



2011 interim highlights



Improved financial performance

Progress on strategy

Revenue growth in priority markets

Capital and liquidity to support growth

2011 interim financial highlights



Summary financial highlights	1H10	2H10	1H11	% Better / (worse)	
				1H/1H	1H/2H
Reported PBT (USDbn)	11.1	7.9	11.5	3	45
EPS (USD)	0.38	0.35	0.51	34	46
Dividends ¹ (USD)	0.16	0.20	0.18	13	n/a

Financial ratios (%)	1H10	2H10	1H11	KPI
Return on average ordinary shareholders' funds	10.4	8.9	12.3	12-15 ²
Cost efficiency ratio	50.9	59.9	57.5	48-52
Advances-to-deposits ratio	77.9	78.1	78.7	<90
Core tier 1 ratio	9.9	10.5	10.8	9.5–10.5 ³

Notes:

1 In respect of the period

2 Basel III basis

3 Assumed common equity tier 1 ratio under Basel III



Financial performance, 1H11

Financial overview

Reported results – continuing recovery in profit



USDbn	1H10	2H10	1H11	% Better / (worse)	
				1H11 vs 1H10	1H11 vs 2H10
Income excluding changes in FV of own debt due to credit spread	34.5	33.8	35.8	4	6
Loan impairment ¹	(7.5)	(6.5)	(5.3)	30	19
Net operating income	27.0	27.3	30.5	13	12
Operating expenses	(18.1)	(19.6)	(20.5)	(13)	(5)
Associates and joint ventures	1.1	1.3	1.6	31	17
Profit before tax, excl. changes in FV of own debt due to credit spread	10.0	9.0	11.6	16	28
Changes in FV of own debt due to credit spread	1.1	(1.1)	(0.1)	n/m	87
Profit before tax	11.1	7.9	11.5	3	45
Tax	(3.9)	(1.0)	(1.7)	56	(73)
Profit after tax	7.2	6.9	9.8	35	41
Profit attributable to ordinary shareholders of the parent company	6.6	6.1	8.9	35	46

Notes:

1 Loan impairment charges and other credit risk provisions (LICs)

Financial overview

Underlying growth¹, 1H11 vs 1H10 and 2H10



USDbn	1H10	2H10	1H11	% Better / (worse)	
				1H11 vs 1H10	1H11 vs 2H10
Net operating income ²	35.3	34.2	35.6	1	4
Loan impairment ³	(7.7)	(6.6)	(5.3)	32	21
Net operating income	27.6	27.6	30.3	10	10
Operating expenses	(18.7)	(20.0)	(20.5)	(10)	(2)
Associates and joint ventures	1.2	1.3	1.6	27	15
Profit before tax	10.1	8.9	11.4	13	28

Notes:

1 Eliminates effects of foreign currency translation differences, acquisitions and disposals of subsidiaries and businesses, and fair value movements on own debt attributable to credit spread

2 Net operating income before LICs

3 LICs

Financial overview

Notable items within underlying basis



USDm	1H10 ¹	2H10 ¹	1H11 ²
Net operating income	(493)	99	(42)
Global Banking and Markets trading (write-downs) / write-backs ²	362	67	29
Gain on sale / sale and lease back of properties	250	-	-
Non-qualifying hedges (NQH)	(1,105)	32	(314)
PVIF, refinement of calculation	-	-	243
Operating expenses	(268)	(174)	(639)
Pension curtailment gain/other gains	148	-	587
Payroll tax	(398)	45	-
UK Customer redress programmes (mainly P.P.I.)	-	(78)	(611)
Restructuring	(18)	(141)	(477)
Acceleration of deferred bonus awards	-	-	(138)
Tax	(1,590)	374	486
On sale by HSBC North America Holdings Inc of HSBC Canada to HSBC (Overseas) Holdings Ltd ²	(1,590)	374	-
Recognition of deferred tax offset in respect of foreign tax credits, partly offset by a current period tax charge in respect of prior periods ²	-	-	486

Notes:

1 Significant factors on an underlying basis

2 Reported basis

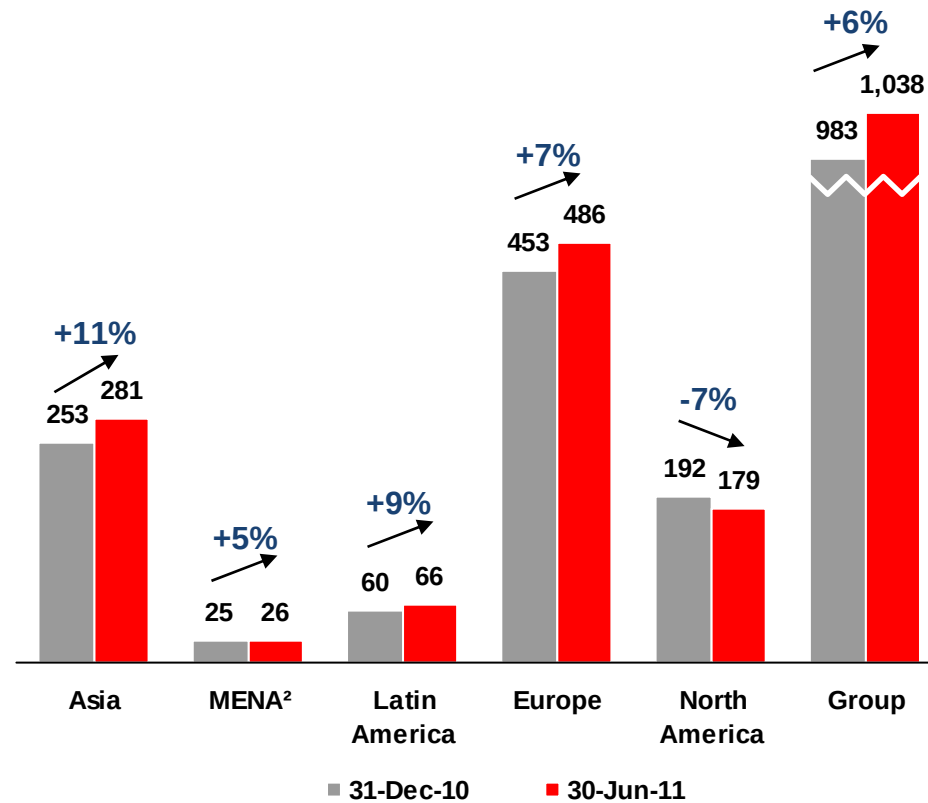
Customer lending and funding

Growth in target markets



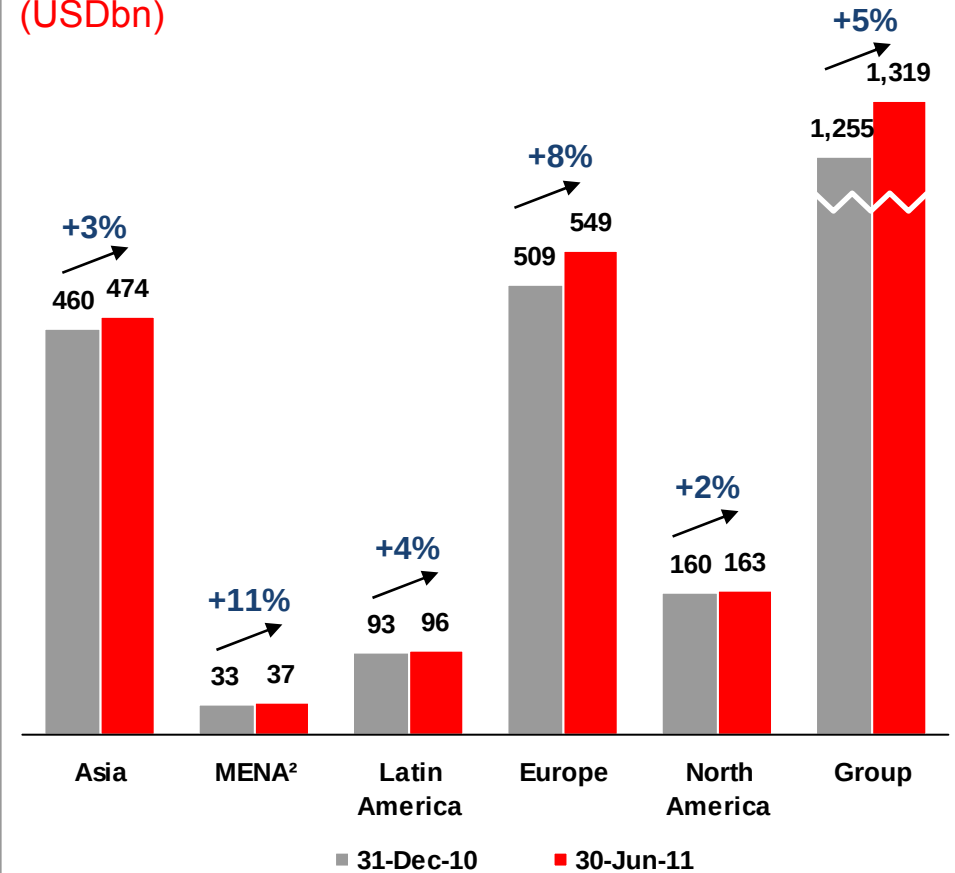
Customer loans and advances¹

(USDbn)



Customer accounts¹

(USDbn)



Notes:

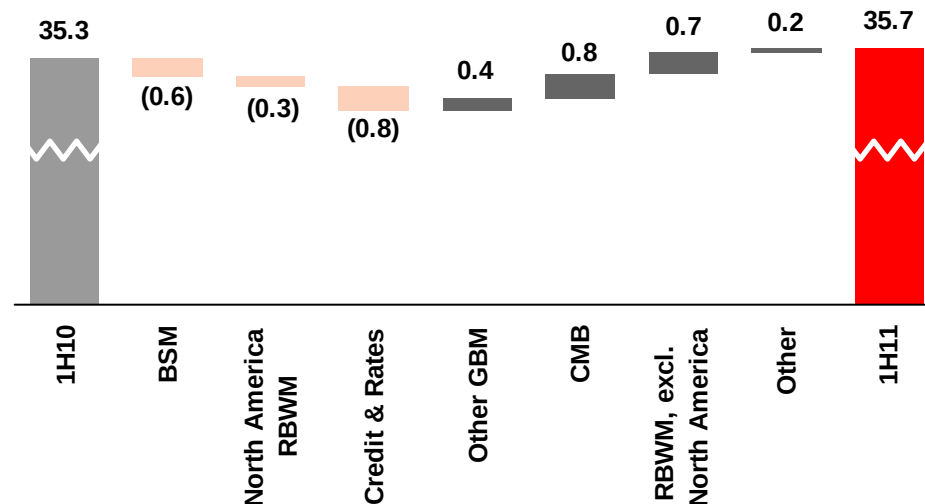
1 Underlying basis

2 Middle East and North Africa

Revenues¹

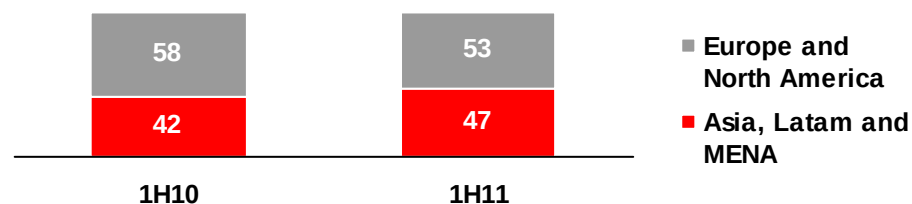


(USDbn)



Geographic split of revenues²

(%)



- ▶ Commercial Banking (CMB) growth, notably lending in Asia and Latin America, and trade in Asia
- ▶ Retail Banking and Wealth Management (RBWM), growth in Wealth Management, notably Asia
- ▶ Balance Sheet Management (BSM) lower
- ▶ Global Banking and Markets (GBM) Credit and Rates affected by an uncertain environment as well as lower revenues on legacy positions
- ▶ Run-off in North America

Notes:

1 Net operating income before LICs, underlying basis

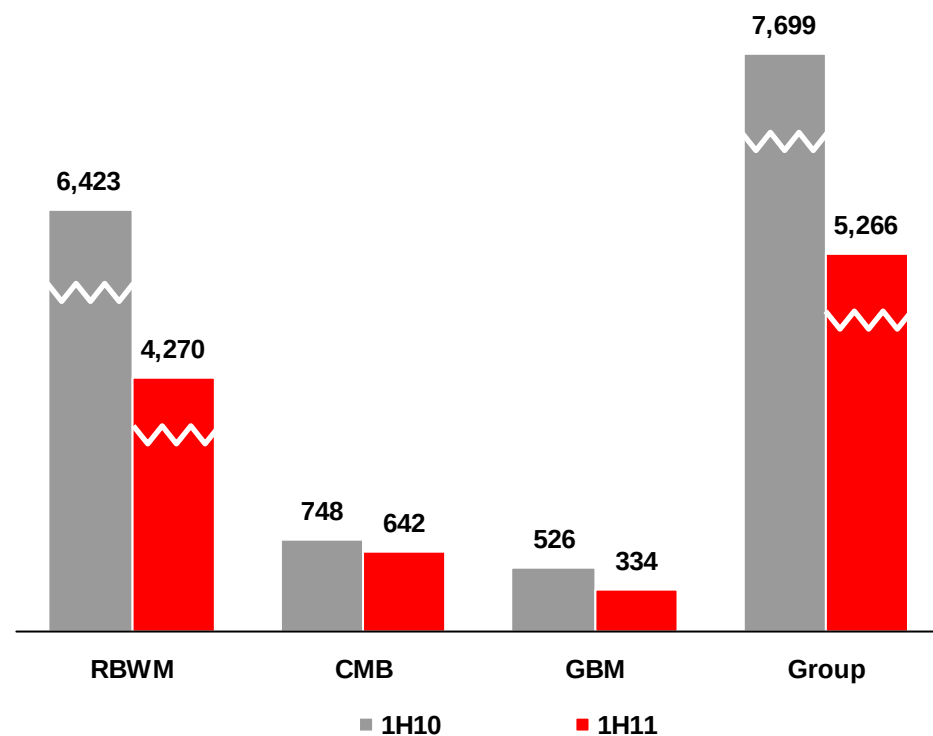
2 Not adjusted for intra-group items

Credit quality

Continued improvement



LICs¹ (USDm)



- ▶ North America RBWM LICs down from USD4.6bn to USD3.0bn with lower balances
- ▶ Asia cyclical low level LICs
- ▶ GBM LICs fewer significant items
- ▶ Recovery in Latam and MENA
- ▶ Europe lower in RBWM and CMB

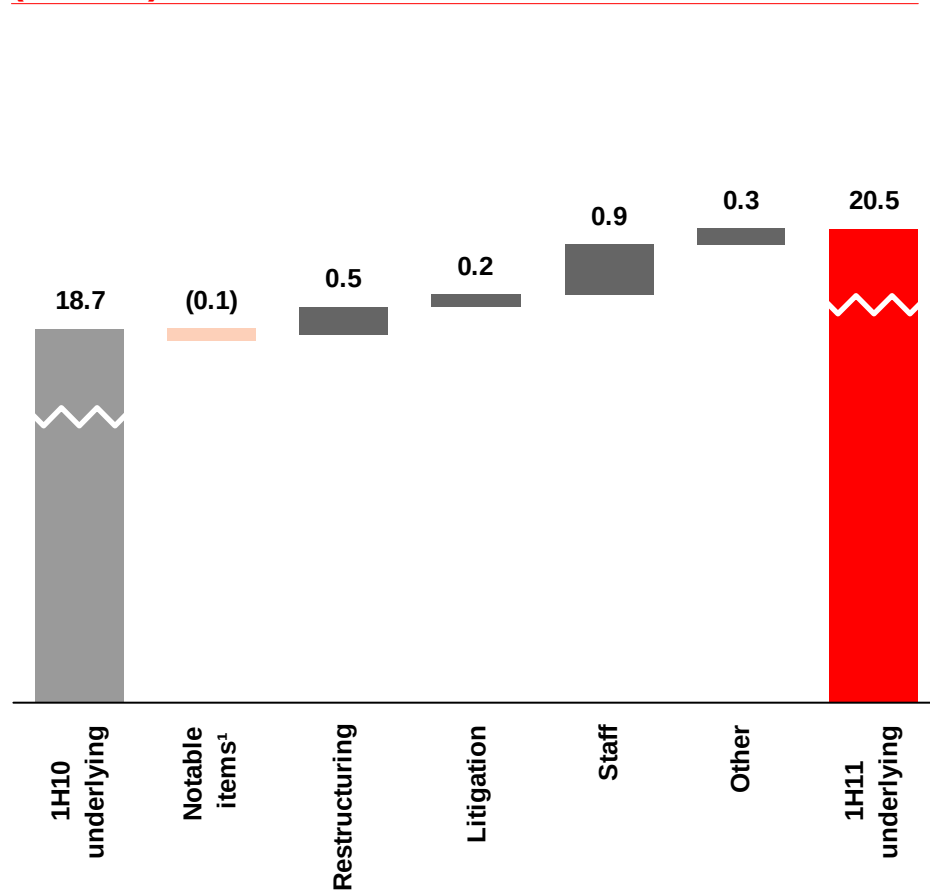
Notes:
1 Underlying basis

Costs

Underlying growth, 1H11 vs 1H10



(USDbn)



▶ Notable items include pension credit (1H10 and 1H11), payroll tax (1H10) and customer redress programme (1H11)

▶ Staff costs, higher FTE and wage inflation in Asia and Latam to support business growth

▶ Restructuring costs in Latam, North America and Europe

Notes:

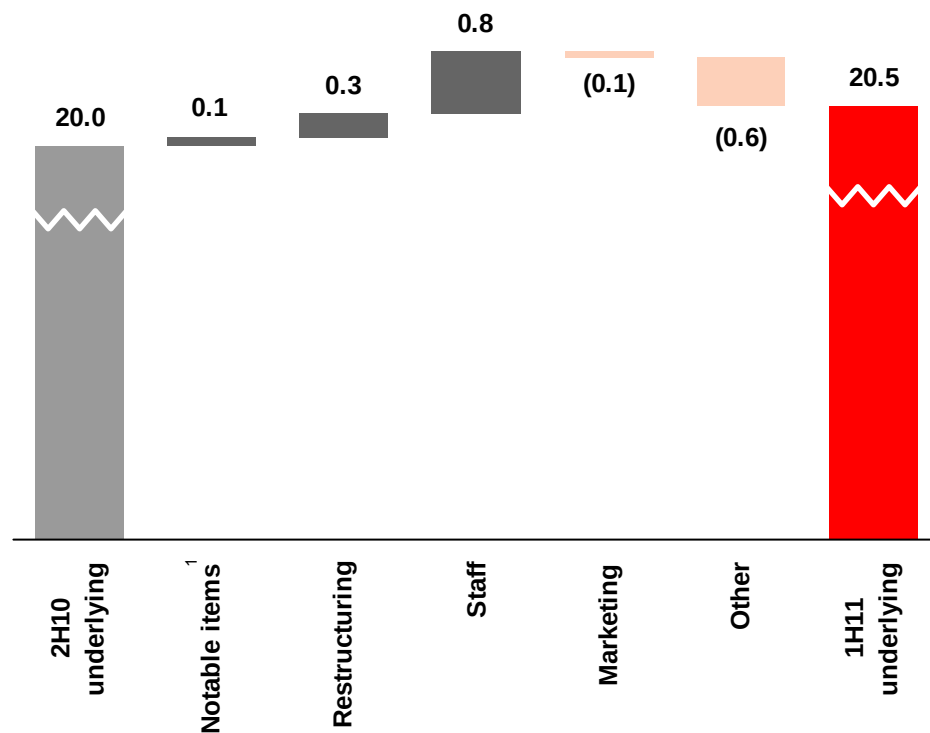
1 Excluding restructuring

Costs

Stabilisation of cost growth, 1H11 vs 2H10



(USDbn)



- ▶ Underlying growth 2% 1H11 vs 2H10 compared with 10% for 1H11 vs 1H10
- ▶ Notable items, pension credit offset customer redress programme
- ▶ Staff – Asia and Latam higher with increased FTE, inflation and performance pay
- ▶ Restructuring costs notably in Latam and North America
- ▶ Lower general and administration costs across the Group

Notes:
1 Excluding restructuring

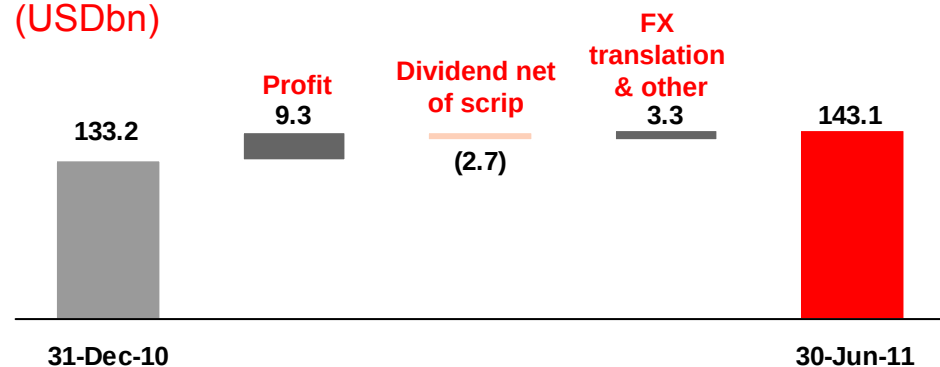
Capital adequacy

Continued capital generation¹



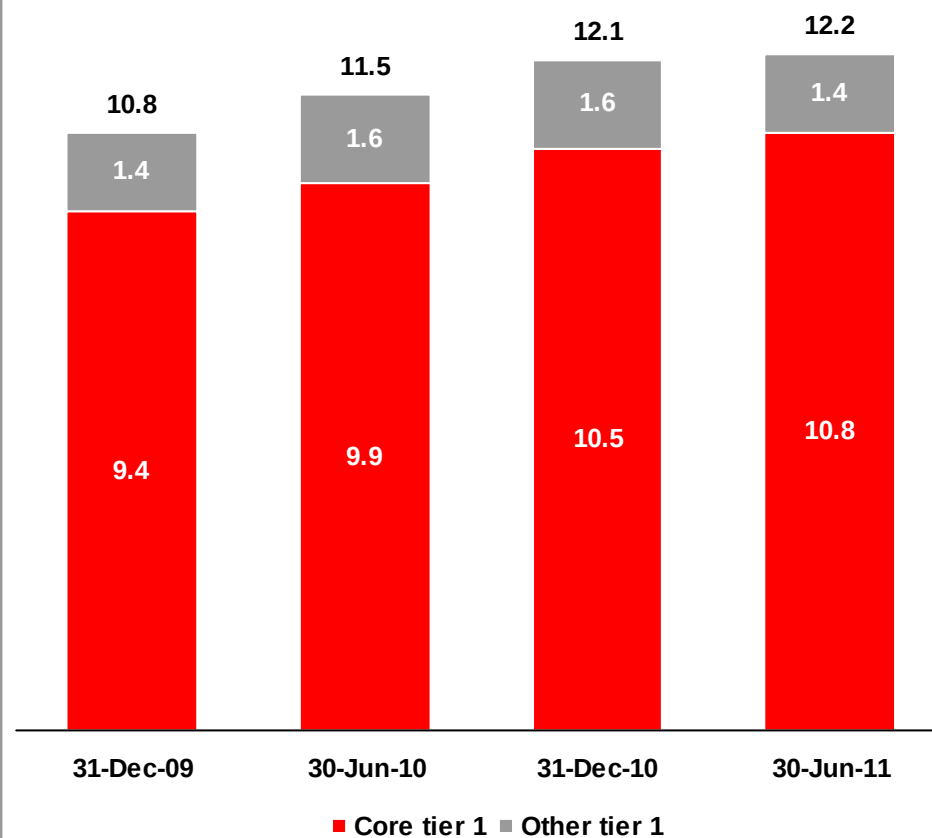
Movement in tier 1 capital

(USDbn)



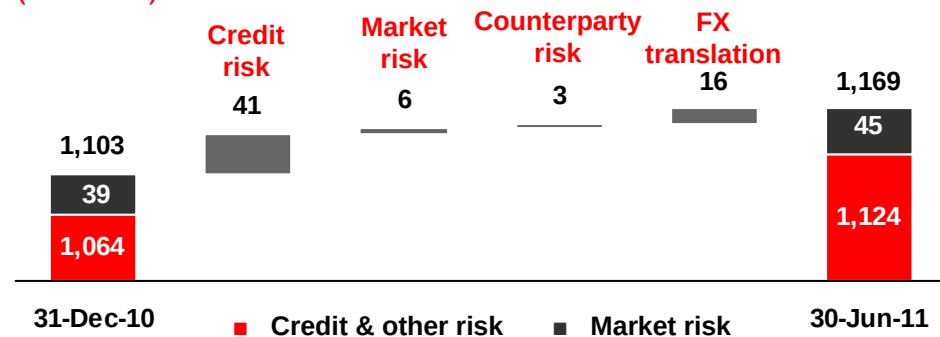
Tier 1 ratio

(%)



Risk-weighted assets

(USDbn)



Notes:

1 Reported basis



Business performance, 1H11

Progress on strategy



Key execution elements

Achievements

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

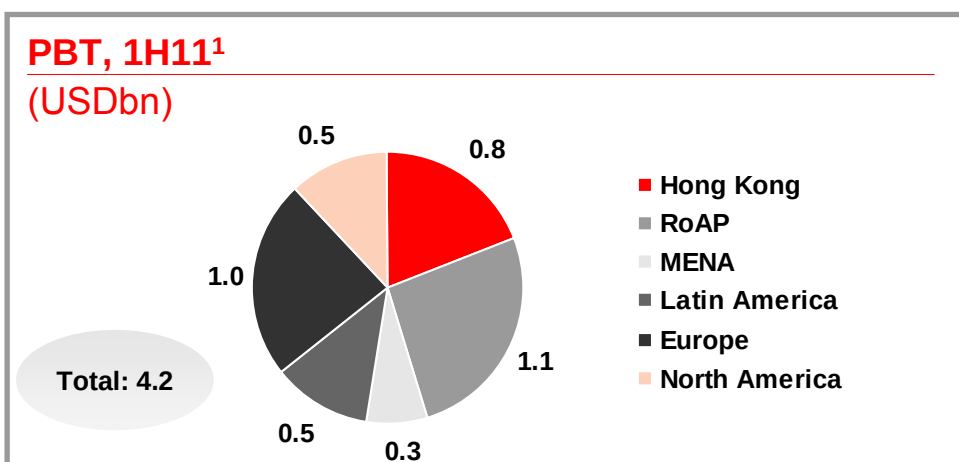
- Launched restructurings – France, UK, MENA, US and Latam
- Agreed programme to improve efficiency of Head Office and global support functions
- Established consistent operating models for RBWM and CMB

Growth

- Wealth Management, new business strategy and senior appointment
- Increased cross-sale of GBM products to CMB customers
- Grew revenue in selected markets

Commercial Banking

	1H10 ¹	2H10 ¹	1H11 ¹
Profit / (loss) before tax (USDbn)	3.2	2.9	4.2
Cost efficiency ratio (%)	49.2	50.4	45.1
Return on risk-weighted assets ² (%)	2.1	1.8	2.4
Advances-to-deposits ratio (%)	79.3	83.9	89.0



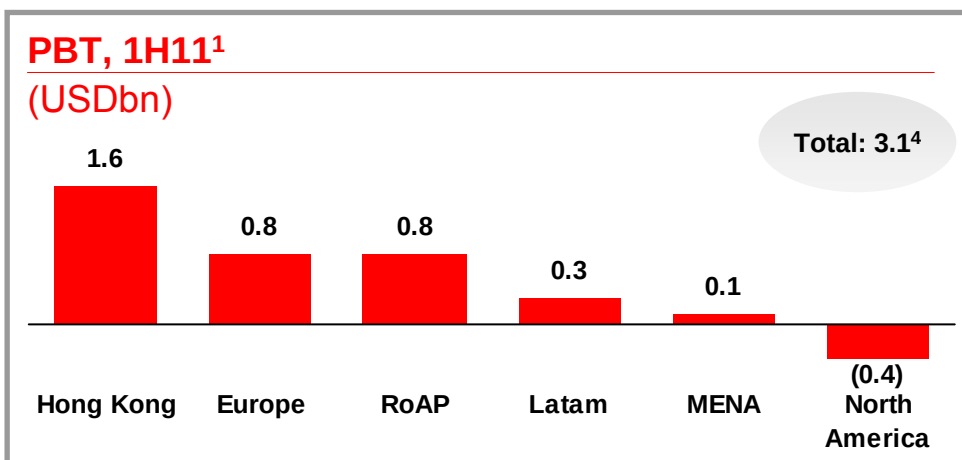
- ▶ Strong growth in lending and trade volumes in Asia and Latam
- ▶ LICs down notably in North America and Europe
- ▶ Significant positive jaws
- ▶ Global business model agreed and implemented

Notes:
¹ Underlying basis
² Profit before tax basis

Retail Banking and Wealth Management¹



	1H10 ²	2H10 ²	1H11 ²
Profit / (loss) before tax (USDbn)	1.4	2.5	3.1
Cost efficiency ratio (%)	56.9	60.0	61.2
Return on risk-weighted assets ³ (%)	0.8	1.5	1.8
Advances-to-deposits ratio (%)	77.8	74.7	74.0



- ▶ Creation of RBWM; strategic review underway; Head of Wealth Management appointed
- ▶ Increase in Wealth Management sales, notably in Asia
- ▶ Cost increase from higher FTE and inflation in Asia and Latam to support growth
- ▶ Review of US cards, branch disposal
- ▶ Closure of Russia and Poland retail banking
- ▶ Continued decline in US balances, as planned, with substantially lower LICs

Notes:

- 1 Includes Group Asset Management (GAM), previously included in GBM
- 2 Underlying basis
- 3 Profit before tax basis
- 4 Numbers above not adjusted for rounding

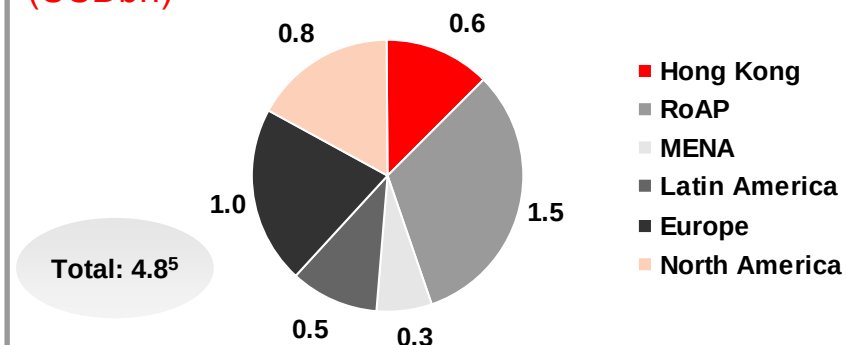
Global Banking and Markets¹



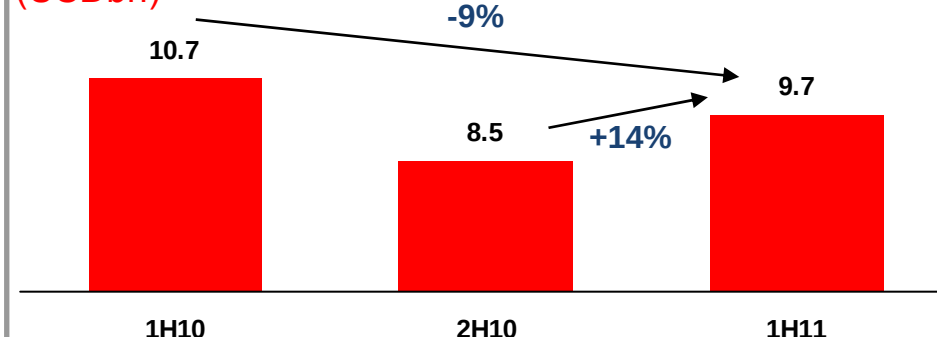
	1H10 ²	2H10 ²	1H11 ²
Profit / (loss) before tax (USDbn)	5.7	3.5	4.8
Cost efficiency ratio (%)	44.0	56.0	50.2
Return on risk-weighted assets ⁴ (%)	2.9	1.9	2.6
Advances-to-deposits ratio (%)	91.3	92.2	89.2

- ▶ Revenue decline in Credit, Rates and BSM
- ▶ Revenue growth in Financing and ECM³, PCM³, Equities and Securities Services
- ▶ 64% of PBT from faster growing regions which generated 10% revenue growth
- ▶ Lower LICs from improved credit environment

PBT, 1H11¹ (USDbn)



Revenue¹ (USDbn)

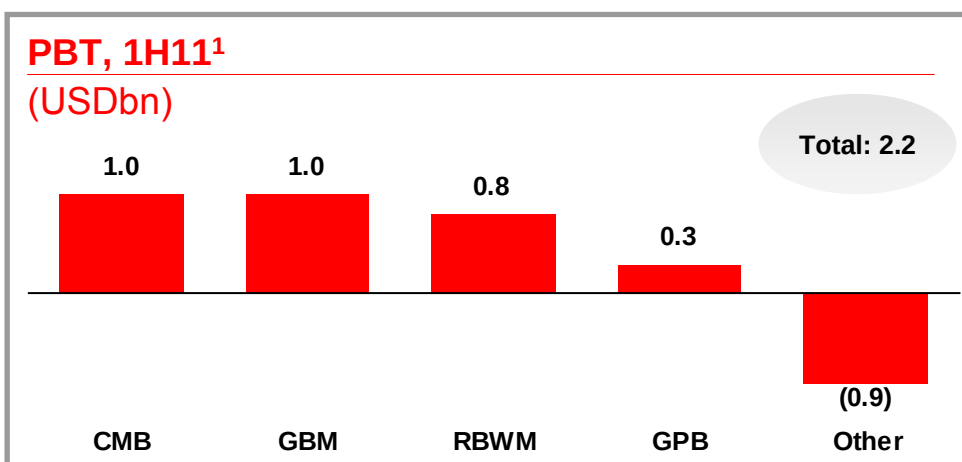


Notes:

- 1 GAM transferred to RBWM
- 2 Underlying basis
- 3 Equity Capital Markets; Payments and Cash Management
- 4 Profit before tax basis
- 5 Numbers above not adjusted for rounding

Europe

	1H10 ¹	2H10 ¹	1H11 ¹
Profit / (loss) before tax (USDbn)	3.1	1.4	2.2
Cost efficiency ratio (%)	63.0	73.2	70.2
Return on risk-weighted assets ² (%)	1.8	0.8	1.4
Advances-to-deposits ratio (%)	85.6	89.0	88.6



- ▶ Lower revenues from GBM (BSM, Eurozone uncertainty). Improved revenues in UK RBWM and CMB
- ▶ Improved LICs in RBWM and CMB
- ▶ Increase in underlying expenses from investment in GBM and customer redress programmes
- ▶ On track to achieve our goals under Merlin agreement in UK
- ▶ Closure of Russia and Poland retail banking
- ▶ Restructuring of UK and France

Notes:
 1 Underlying basis
 2 Profit before tax basis

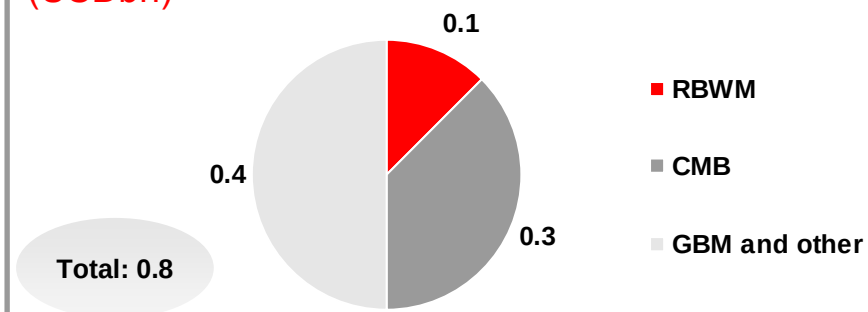
Middle East and North Africa



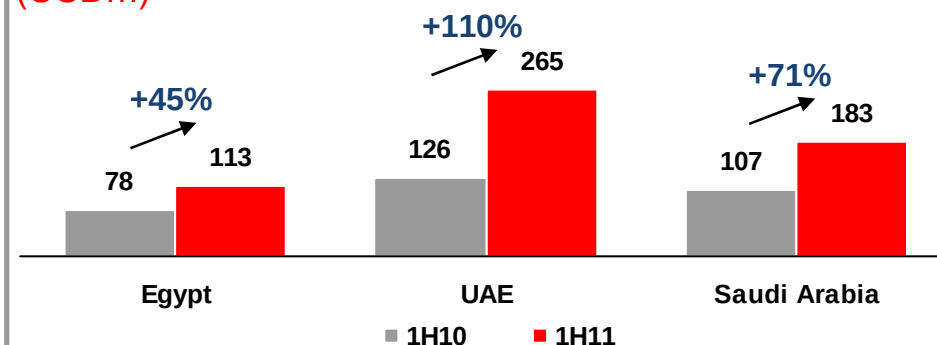
	1H10 ¹	2H10 ¹	1H11 ¹
Profit / (loss) before tax (USDbn)	0.4	0.5	0.8
Cost efficiency ratio (%)	42.1	45.9	46.3
Return on risk-weighted assets ² (%)	1.5	2.0	2.7
Advances-to-deposits ratio (%)	71.2	73.7	69.2

- ▶ Growth in CMB trade business
- ▶ Regional uncertainties and lower RBWM lending balances restrained revenue
- ▶ Reduced LICs, particularly in GBM and RBWM
- ▶ Costs driven by higher FTE and wage inflation

PBT, 1H11¹ (USDbn)



Reported PBT (USDm)



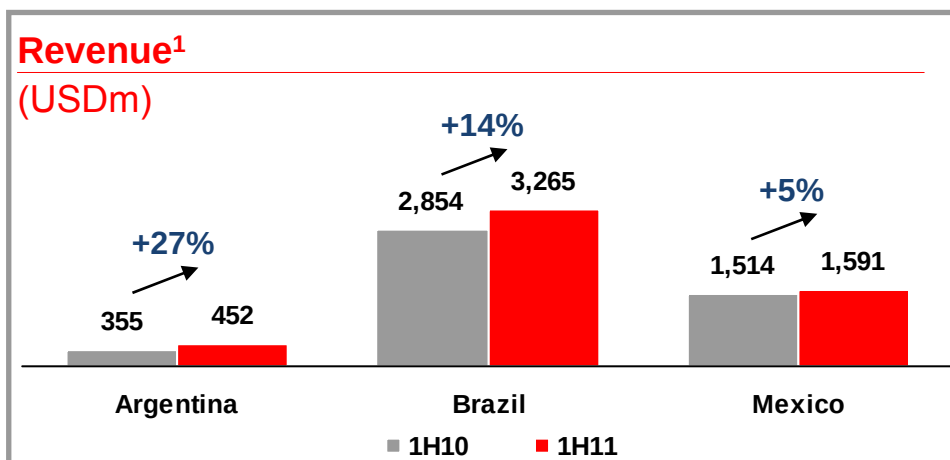
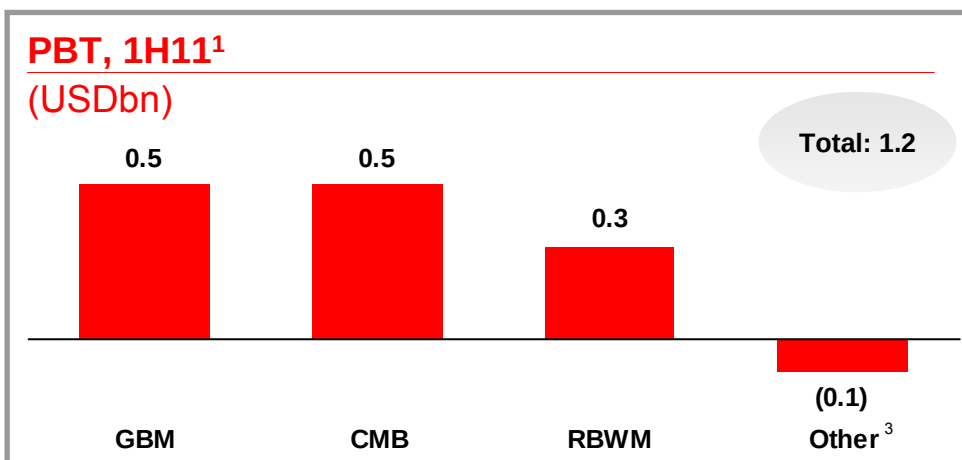
Notes:
 1 Underlying basis
 2 Profit before tax basis

Latin America



	1H10 ¹	2H10 ¹	1H11 ¹
Profit / (loss) before tax (USDbn)	0.9	0.9	1.2
Cost efficiency ratio (%)	63.9	67.4	65.3
Return on risk-weighted assets ² (%)	2.1	1.9	2.2
Advances-to-deposits ratio (%)	64.0	65.2	68.5

- ▶ Increased volumes in Brazil RBWM and CMB
- ▶ Lower LICs, mainly in RBWM
- ▶ Cost growth from wage inflation and restructuring
- ▶ Restructuring of regional head office in Mexico and support functions



Notes:

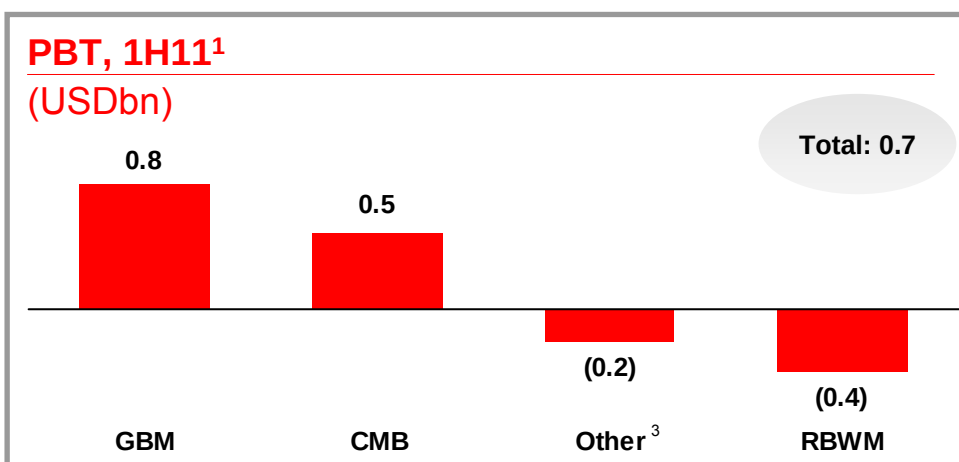
1 Underlying basis

2 Profit before tax basis

3 Other includes GPB and Other Customer Groups

North America

	1H10 ¹	2H10 ¹	1H11 ¹
Profit / (loss) before tax (USDbn)	(0.1)	0.3	0.7
Cost efficiency ratio (%)	47.0	51.9	55.4
Return on risk-weighted assets ² (%)	0.0	0.2	0.4
Advances-to-deposits ratio (%)	138.6	120.1	110.2

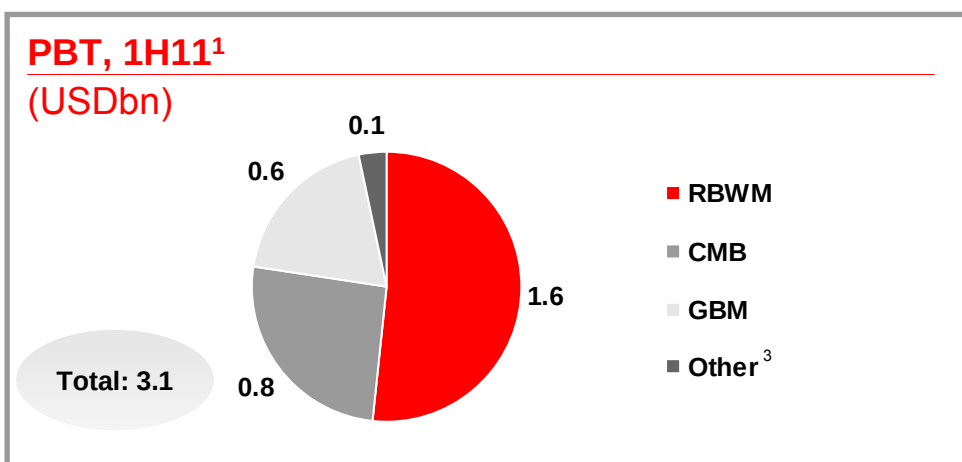


- ▶ Lower consumer finance balances reduced revenues
- ▶ LICs trending down with reduced balances and improved delinquencies
- ▶ Increased costs – software impairment and litigation provisions
- ▶ Robust performance in Canada
- ▶ Continuing strategic review of US cards, branch disposal

Notes:
¹ Underlying basis
² Profit before tax basis
³ Other includes GPB and Other Customer Groups

Hong Kong

	1H10 ¹	2H10 ¹	1H11 ¹
Profit / (loss) before tax (USDbn)	2.8	2.7	3.1
Cost efficiency ratio (%)	40.7	47.1	43.2
Return on risk-weighted assets ² (%)	4.9	4.9	5.6
Advances-to-deposits ratio (%)	41.7	47.3	52.1



- ▶ Volume-driven and trade-related growth in CMB and 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

Notes:

1 Underlying basis

2 Profit before tax basis

3 Other includes GPB and Other Customer Groups

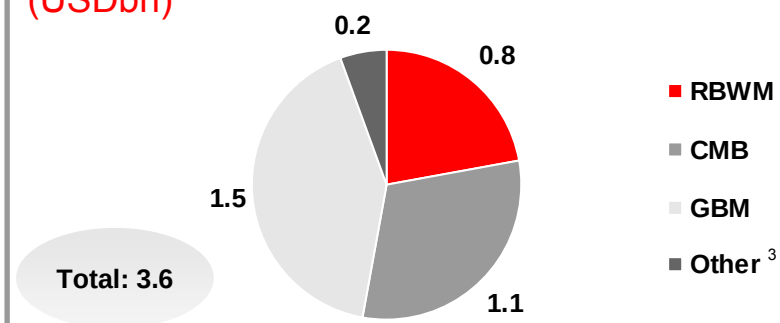
Rest of Asia-Pacific



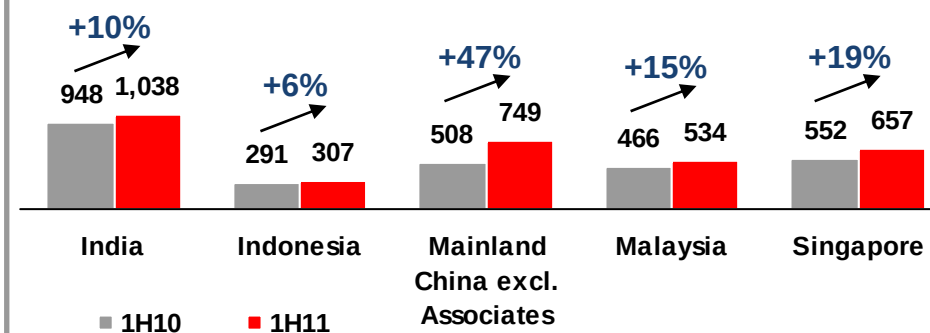
	1H10 ¹	2H10 ¹	1H11 ¹
Profit / (loss) before tax (USDbn)	2.9	3.0	3.6
Cost efficiency ratio (%)	56.1	57.6	54.9
Return on risk-weighted assets ² (%)	3.1	2.8	3.1
Advances-to-deposits ratio (%)	67.1	69.0	72.0

- ▶ Growth in GBM and CMB loan and trade volume
- ▶ Wealth Management revenue growth in RBWM
- ▶ LICs fell in RBWM
- ▶ Costs rose from increased FTE, higher volumes and wage inflation
- ▶ Contribution from associates up

PBT, 1H11¹ (USDbn)



Revenue¹ (USDm)



Notes:

1 Underlying basis

2 Profit before tax basis

3 Other includes GPB and Other Customer Groups



Outlook



Positive on emerging markets

Geopolitical and regulatory uncertainty

Results demonstrate progress on journey to achieve long-term targets



Appendix

Reported quarterly results

Consolidated summary



USDm	31 Mar 2010	30 Jun 2010	30 Sep 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
Income, excl. changes in FV of own debt due to credit spread	18,283	16,194	16,308	17,525	17,629	18,208
LICs	(3,787)	(3,736)	(3,146)	(3,370)	(2,384)	(2,882)
Net operating income	14,496	12,458	13,162	14,155	15,245	15,326
Operating expenses	(8,898)	(9,213)	(9,378)	(10,199)	(10,369)	(10,141)
Associates and joint ventures	471	716	675	655	619	937
Profit before tax, excl. changes in FV of own debt due to credit spread	6,069	3,961	4,459	4,611	5,495	6,122
Changes in FV of own debt due to credit spread	(357)	1,431	(934)	(203)	(589)	446
Profit before tax	5,712	5,392	3,525	4,408	4,906	6,568
Return on average ordinary shareholders' equity (annualised)	8.3%	12.8%	9.0%	8.8%	11.4%	13.2%
Cost efficiency ratio	49.6%	52.3%	61.0%	58.9%	60.9%	54.4%
Cost efficiency ratio, excl. changes in FV of own debt due to credit spread	48.7%	56.9%	57.5%	58.2%	58.8%	55.7%