



May 2012

Capital and Financial targets

Investor Day

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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 2011. 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.

Committed to delivering on our financial targets

1

Capital

- On track to exceed Basel 3 capital and liquidity requirements
- Maintain dividend growth policy and 50% earnings retention
- Target upper end of 9.5-10.5% Core Tier 1 capital range in advance of increased capital requirements

2

Returns

- Target lower end of 12-15% RoE range in medium term
- RoRWA targets to reflect increasing capital requirements
- Focus on 'growth HSBC' business returns

3

Efficiency

- Deliver at upper end of USD2.5-to-USD3.5 billion of sustainable cost save target
- Target 48-52% CER

Financial strength

	Key Metrics	2011 ¹	Q1 2012 ¹
1	Capital & Liquidity	Core Tier 1 Ratio (%)	10.1
		Dividends (USD per ordinary share) ²	0.41
		ADR (%)	75.0
2	Returns	PBT (USDbn)	21.9
		RoE (%)	10.9
		RoRWA (%)	1.9
3	Efficiency	CER (%)	57.5
		CER (%) (underlying)	61.0
		Sustainable Saves Achieved (USDbn)	0.9

(1) On a reported basis unless otherwise stated

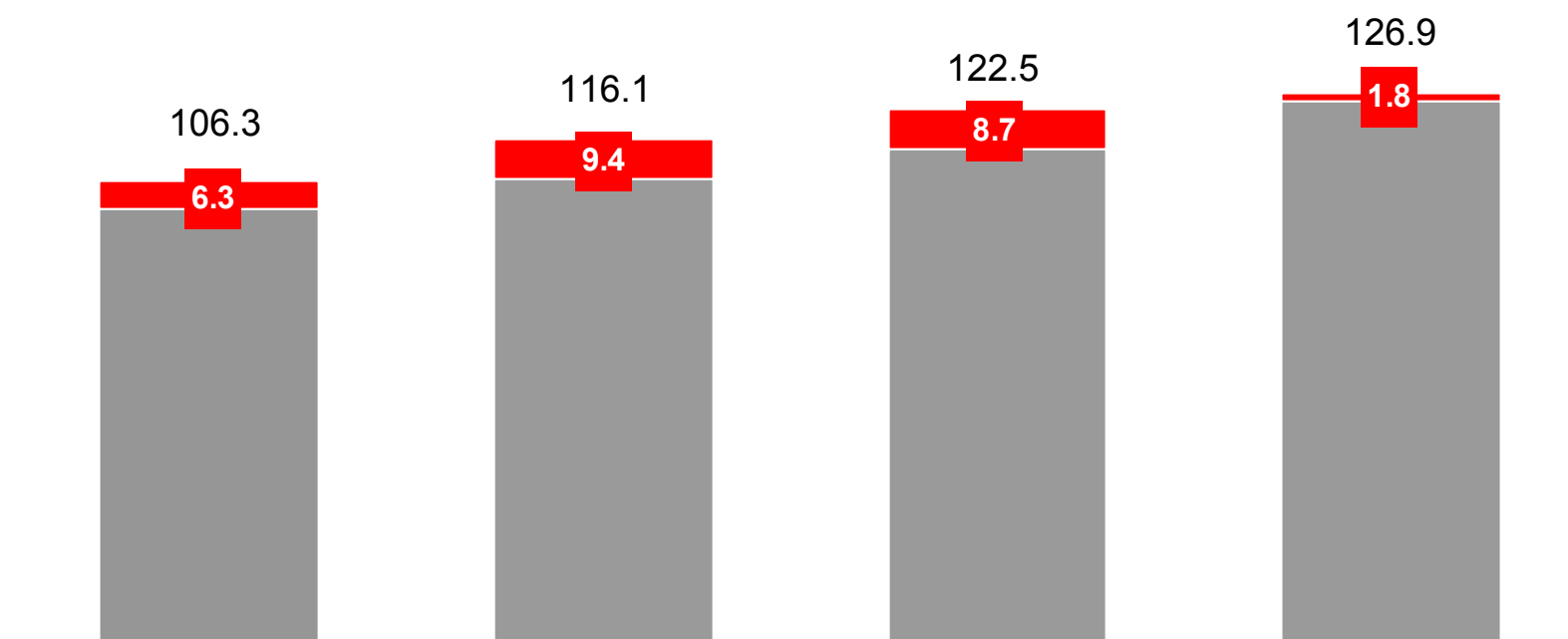
(2) Dividends in respect of the year/quarter

1 Capital generation through the cycle

2011 Core Tier 1 Capital

■ Capital Generation¹

USDbn



	2009	2010	2011	Q1 2012
Profit ²	10.2	13.2	14.0	4.5
Gross Dividends ³	5.6	6.4	7.5	2.7
Scrip	1.7	2.5	2.2	n/a
Core Tier 1 Ratio	9.4	10.5	10.1	10.4

(1) Capital generation is calculated as profit attributable to shareholders excluding changes in fair value on own debt related to credit spread changes (net of tax), less declared dividends net of scrip

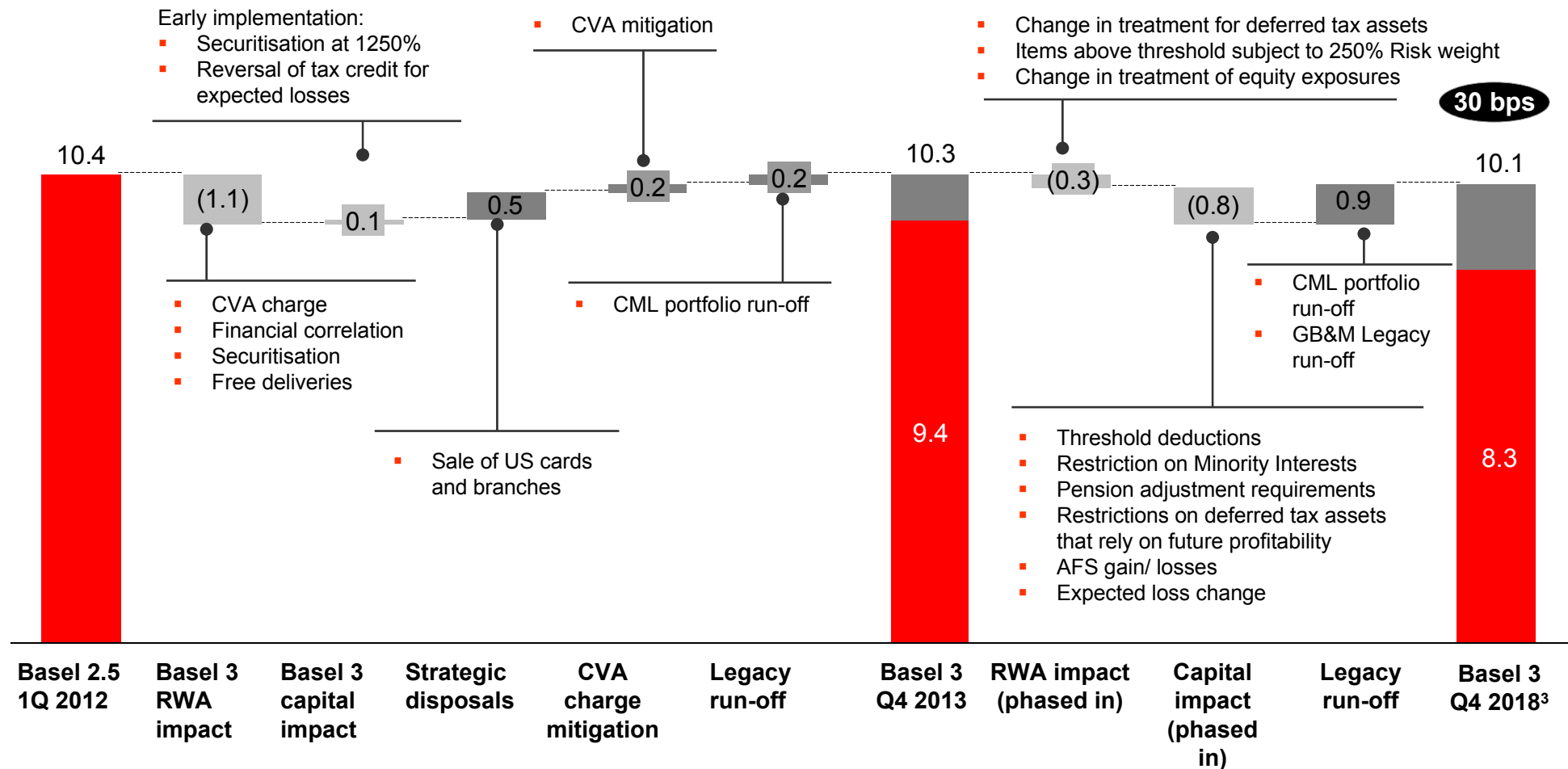
(2) Profit attributable to shareholders excluding changes in fair value on own debt related to credit spread changes (net of tax)

(3) Dividends declared

1 Simulated effect of full Basel 3 rules on HSBC 1Q 2012 Core Tier 1 capital ratio exclusive of future profit or business growth

Core/Common Equity Tier 1 Ratio^{1,2}

■ Capital/RWA requirements ■ Management actions and run-off



(1) No capital generation, no business growth included

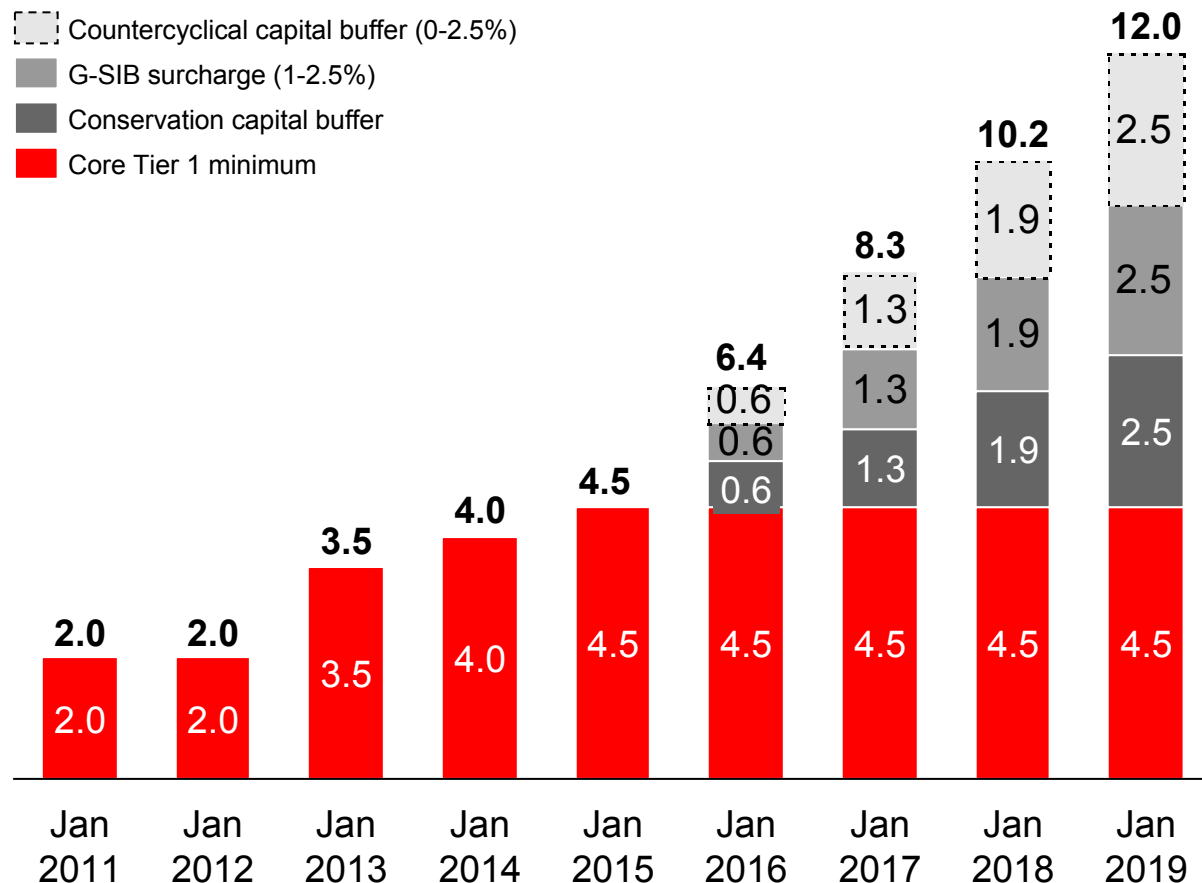
(2) Based on current accounting rules

(3) March 2012 position after strategic disposals and certain management actions on expected 2018 regulatory basis

1 Beyond 2013: continued regulatory uncertainty

Transition to Basel 3 Common Equity Tier 1 requirements¹

Required Core/Common Equity Tier 1 ratio, %

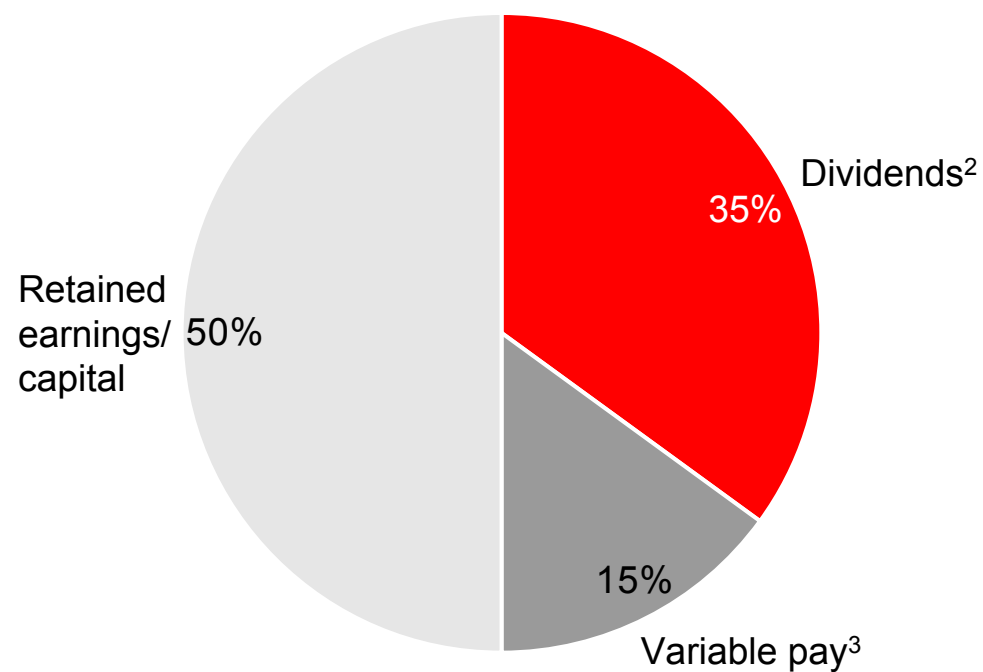


- ICB, G-SIB, countercyclical buffer, EU Bail-in requirements
- Impacts mitigated by:
 - Run-off of residual legacy businesses
 - Strong capital generation
 - Five filters discipline
 - Self-funded business growth

(1) Does not include requirements proposed by UK Independent Commission on Banking or the proposed EU debt write-down requirements ('bail-in')

1 Dividends/Earnings usage

2011 pro forma post-tax profits allocation¹



- 50% profit retention
- Robust subsidiary dividend flow
- Maintain 40-60% dividend payout ratio
- Considered levels of variable pay

(1) Attributable profits excluding changes in fair value on own debt related to credit spread changes (net of tax) and before variable pay distributions

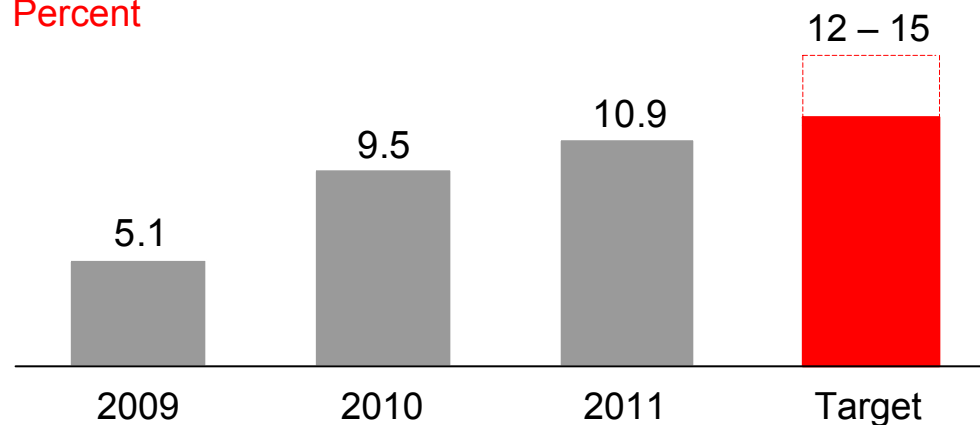
(2) Inclusive of dividends to holders of other equity instruments and net of scrip issuance

(3) Total variable pay pool for 2011 net of tax and portion to be delivered by the award of HSBC shares

2 Lower end of 12-15% RoE expected in the medium term

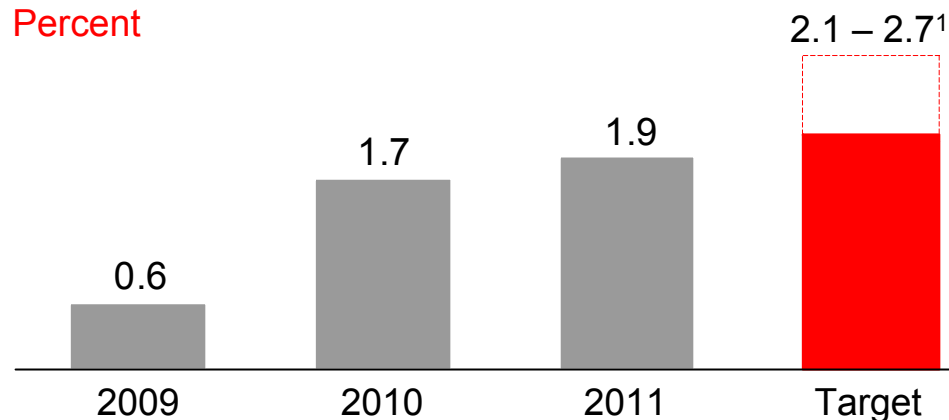
HSBC return on average ordinary shareholders' equity

Percent



HSBC return on average risk weighted assets (%)

Percent



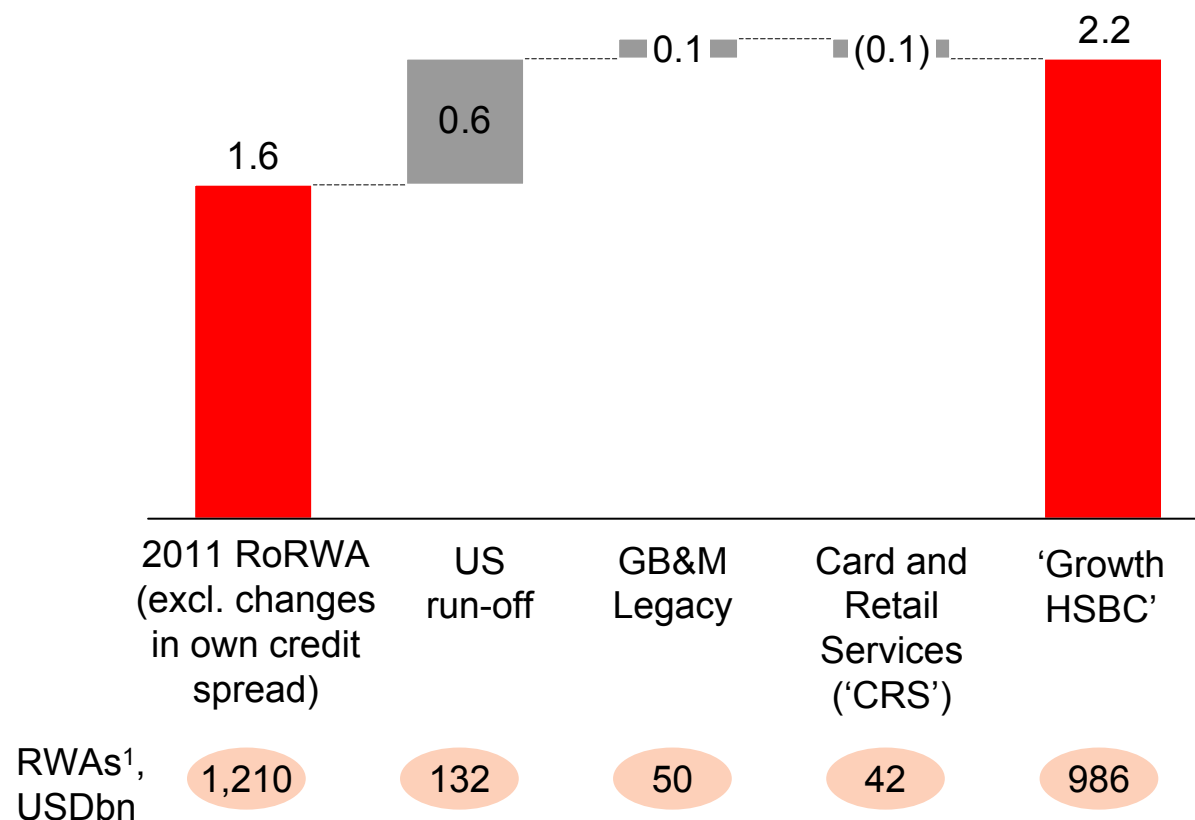
- Target returns impacted by evolving regulatory requirements
- Returns dependent on degree of market stability
- Strategic disposals suppress medium term returns
- RoRWA targets reviewed as regulatory requirements evolve
- Global Businesses and Regions targeting middle/upper end of RoRWA target ranges in medium term to support 12-15% RoE

(1) Assuming a core tier 1 ratio of 10.5% (on a transitional Basel 3 basis)

2 Focus on building returns in growth businesses

2011 Impact of Legacy Businesses on RoRWA

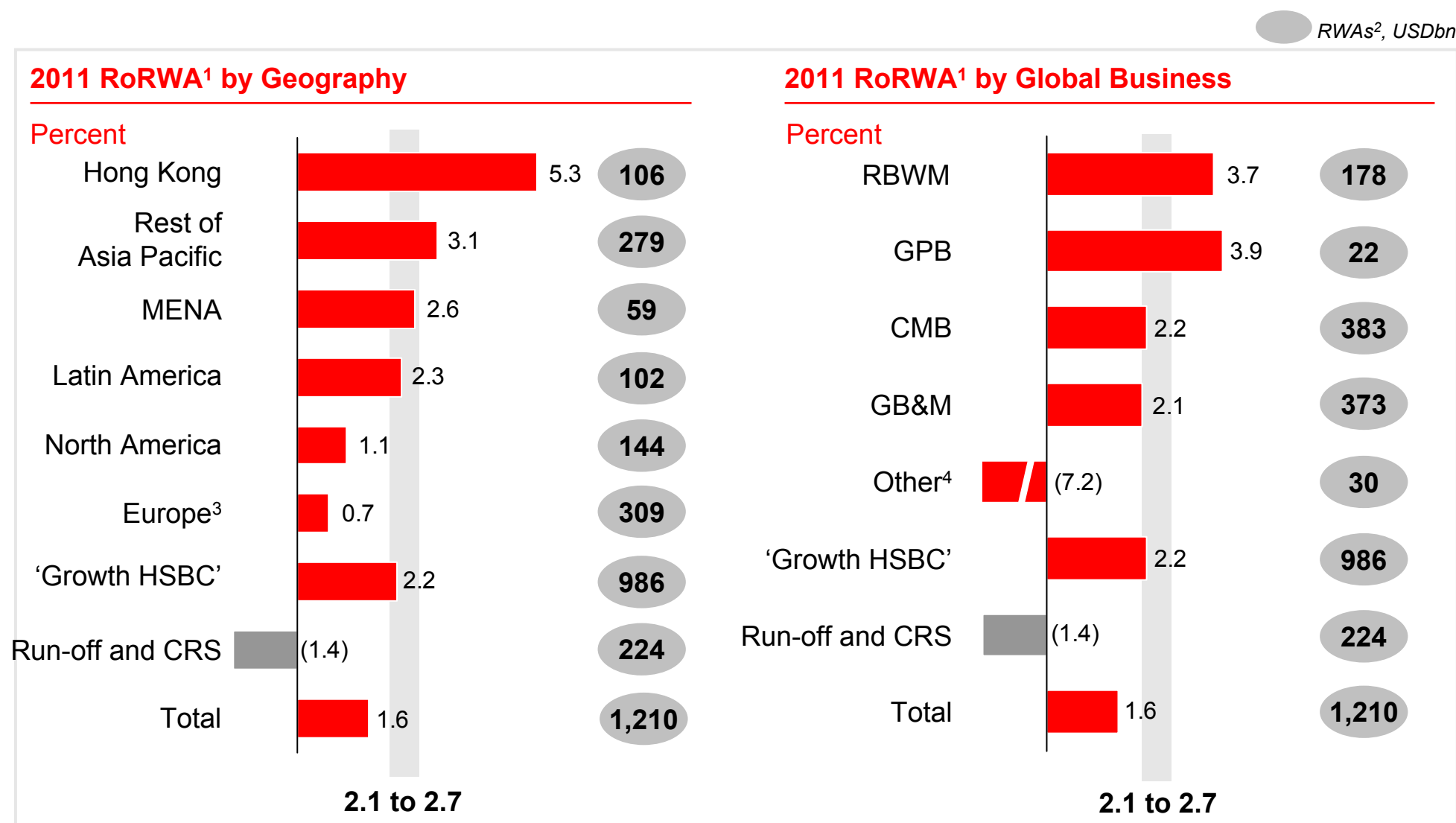
Percentage points



- Legacy businesses will be managed down robustly
- Redeployment of capital within 'growth HSBC' to optimise returns
- Capture additional growth through Global Business connectivity
- Sustainable cost saves through four programmes
- Simplification of HSBC

(1) RWAs as at 31 December 2011

2 2011 RoRWA by Geography and Global Business ('growth HSBC')



(1) Excludes USD3.9bn change in fair value on own debt related to credit spread changes

(2) RWAs as at December 2011. RWAs are non-additive across geographical regions due to market risk diversification effects within the Group

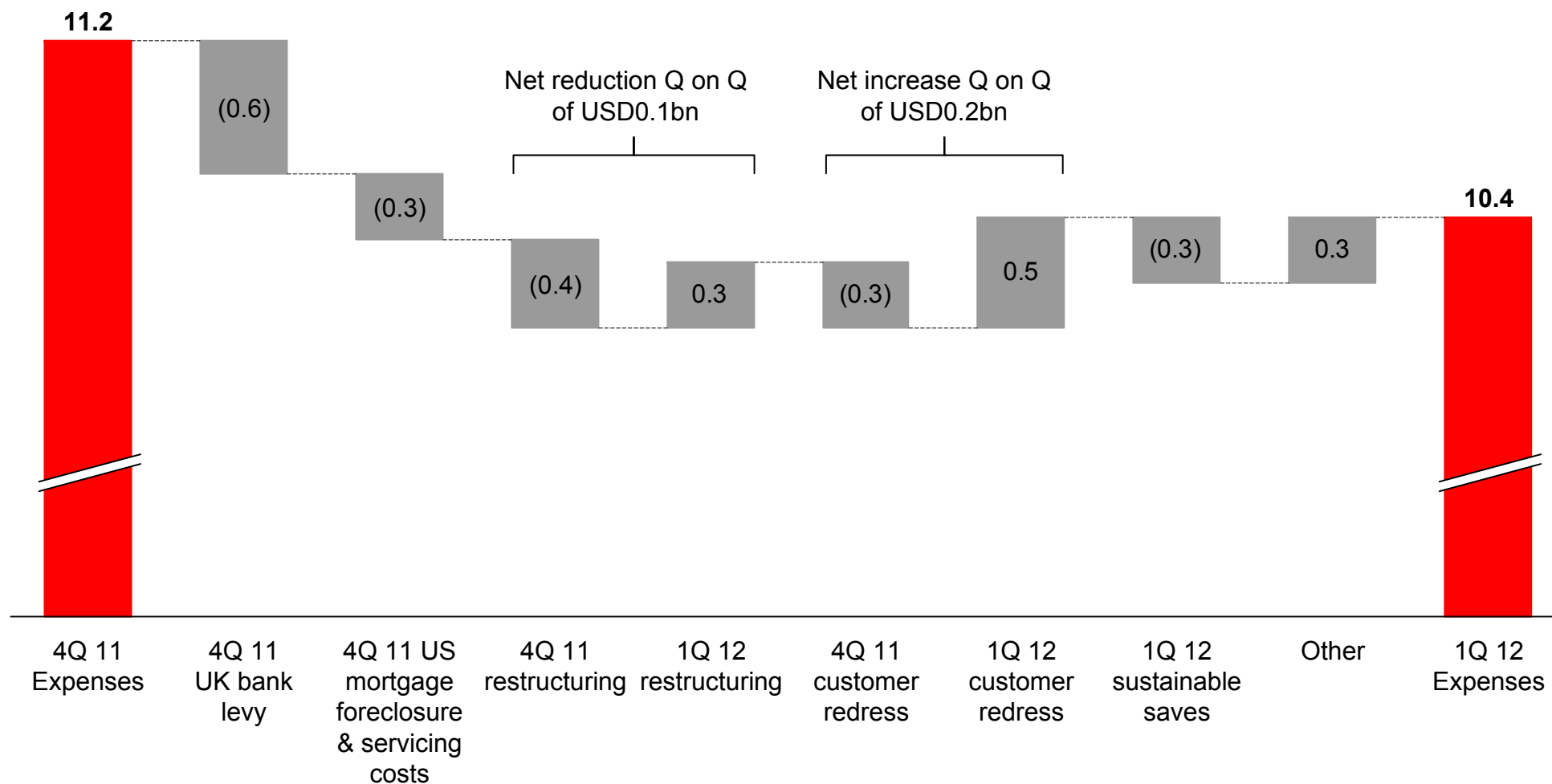
(3) Europe includes the Group's head office costs, intra HSBC recharges and the total impact of the UK bank levy

(4) Main items reported in other are the UK bank levy, unallocated investment activities, and certain property related activities. It also includes 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 Services Centres and Shared Services Organisations and associated recoveries.

3 2011 and 1Q 2012 impacted by a number of notable items

Operating Expenses – 4Q 2011 to 1Q 2012

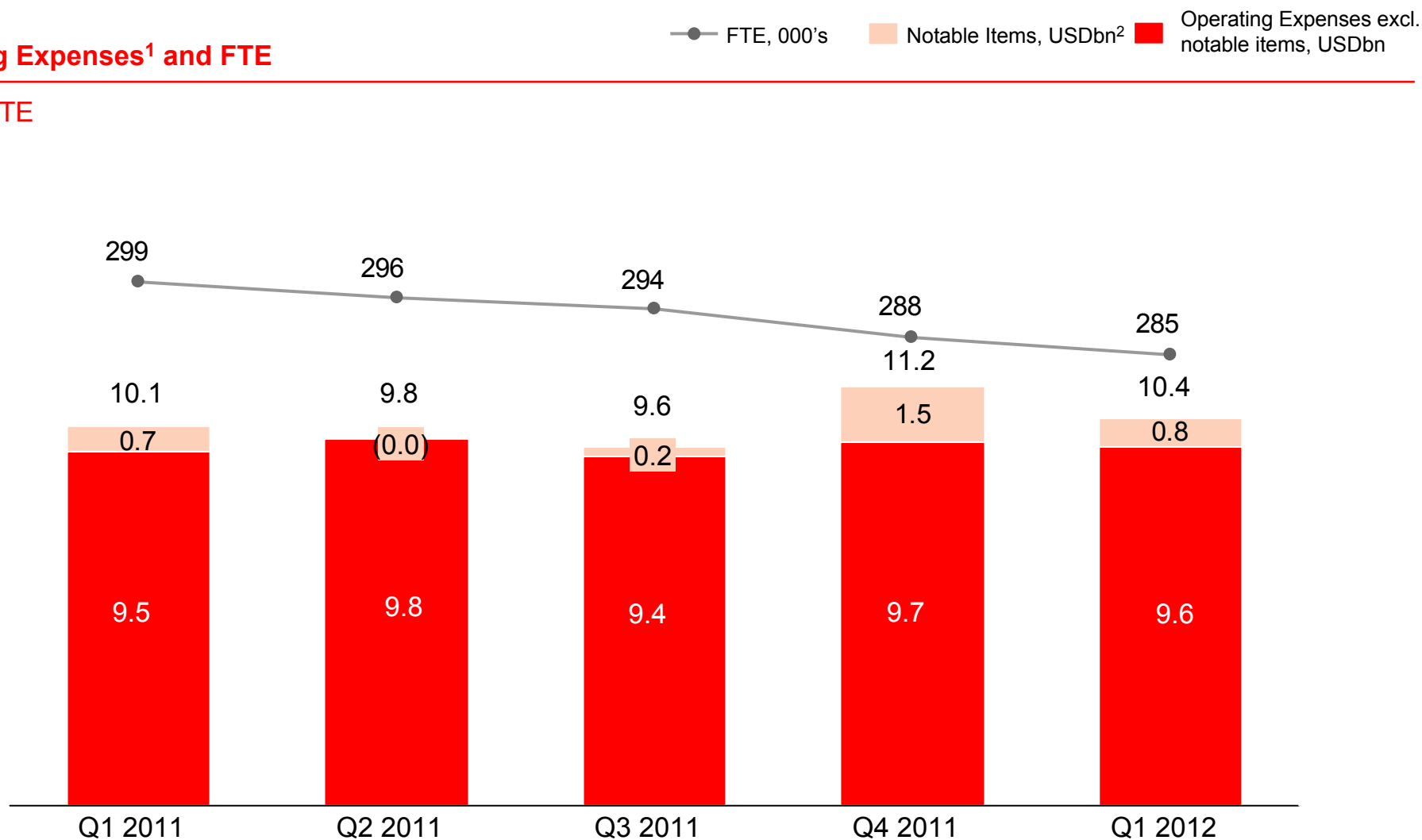
USDbn



3 Quarterly progression in operating expenses and FTE

Operating Expenses¹ and FTE

USDbn; FTE



(1) At constant currency

(2) Notable cost items are as presented on page 29 on the 2011 Annual Report and Accounts

3 Robust revenue base: over 90% of income from reliable revenue streams

Total Net Operating Income ¹ , 2011 USDbn			CAGR %	% Share Net Operating Income ¹
Minimum and Maximum 2009 – 2011			2009-2011	2009-2011 (average)
Reliable Revenue	RBWM NII and NFI	32.3	(3)	48
	CMB NII and NFI	14.2	11	19
	Global Markets (ex Rates and Credit)	6.4	9	8
	Global Banking	5.4	8	7
	BSM	3.5	(20)	6
	GPB	3.3	3	5
				93
Variable Revenue	Rates and Credit	1.7	(42)	5
	Other variable income	5.5	n.a.	2
Total		72.3		

(1) Before loan impairment charges and credit risk provisions

3 Continuous progress: 48-52% CER.....a KPI

Operating Income drivers, USDbn

2011 Net Operating Income	2011 variability	BSM	Disposals and run-off	Economic factors	Revenue growth
	- FVOD - NQHs - Other	Expected lower annual return of c. USD3.0bn	- CRS, US branches - US and GB&M run-off	- Policy rates/NII - GDP	- Wealth management - CMB/GBM connectivity - Other business growth
USD72.3	USD(2.8) ¹	USD(0.5)	USD(5.5) ²	USD1.6 ³	USD5.2 ⁴

Operating Expense drivers, USDbn

2011 Operating Expenses	2011 notable items	Sustainable saves	Disposals and run-off	Economic factors	Investment in growth markets with positive jaws
	- Restructuring - Customer redress - Bank levy - Pension credit ..	Target range of USD2.5-3.5 less 2011 saves	- CRS, US branches.... - US and GB&M run-off	Wage inflation....	
USD41.5	USD(2.4)	USD(1.6-2.6)	USD(1.8) ²		

Delivering sustainable cost saves & targeted revenue growth achieves CER in 48-52% range

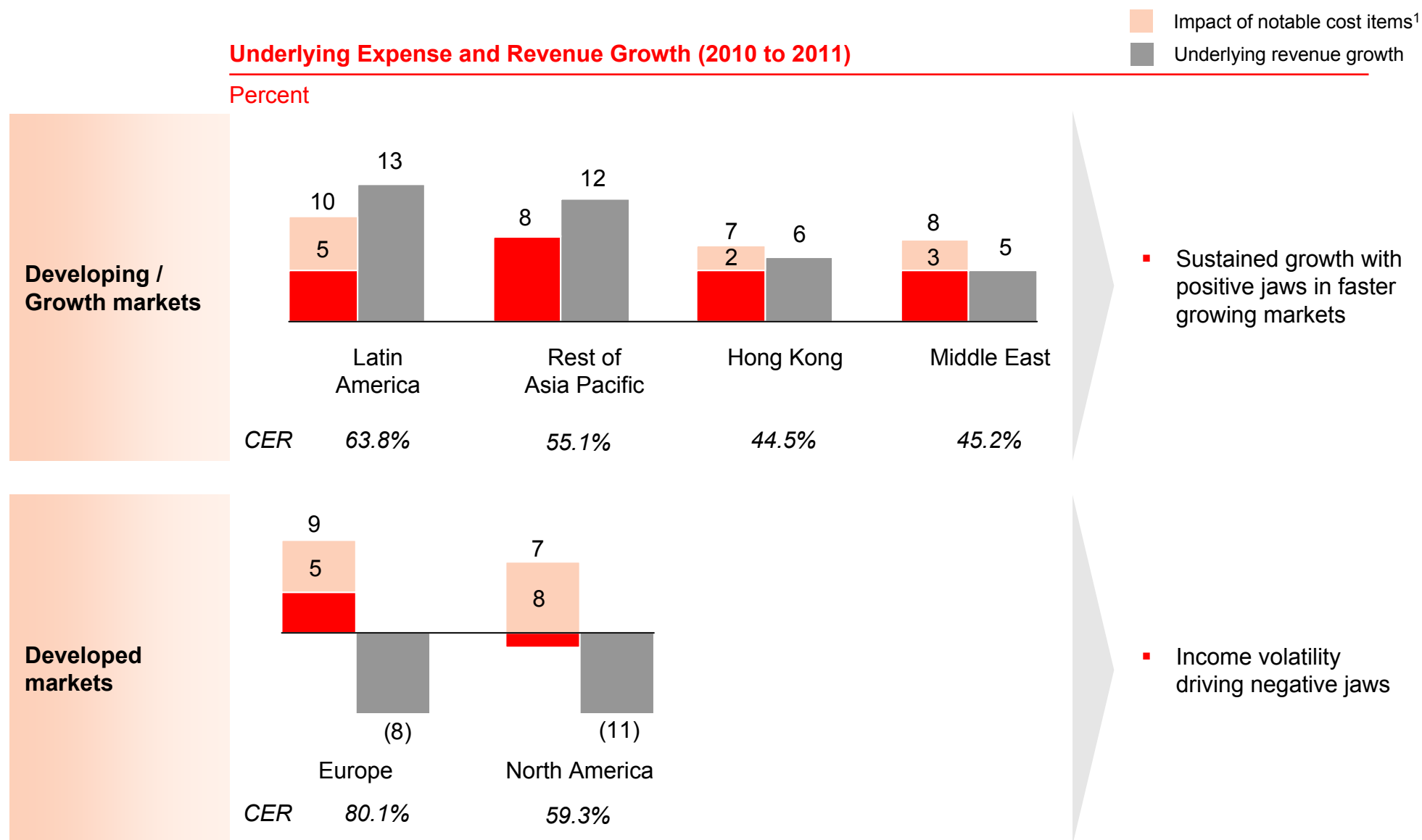
(1) 2011 underlying revenue items of USD4.2bn partly offset by USD1.4bn unfavourable movement on the fair value of non qualifying hedges (NQHs)

(2) 2011 revenue/operating expense contribution of Cards and Retail Services only

(3) Illustrative effect on future net interest income of an incremental 25 bps parallel rise in all yield curves worldwide at the beginning of each quarter during the 12 months from 1 January 2012

(4) Incremental revenues identified for wealth management (USD3.7bn) and Global Business integration (USD1.5bn)

3 Cost growth focused on growth markets with positive jaws



(1) Notable cost items are as presented on page 29 on the 2011 Annual Report and Accounts

Key messages

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Definitions (1/2)

Please refer to the 2011 Annual Report and Accounts for the definition of terms used in this presentation. Set out below, are the definitions of terms not defined in the 2011 Annual Report and Accounts.

RoRWA	The metric, return on risk weighted assets ('RoRWA'), is defined as profit before tax divided by average risk weighted assets ('RWAs'). RWAs have been calculated using FSA rules for the 2009, 2010 and 2011 metrics. In all cases, RWAs or financial metrics based on RWAs for geographical segments or Global Businesses include associates, are on a third party basis and exclude intra- HSBC exposures.
Capital Generation	Capital Generation is defined as profit attributable to shareholders' of the parent company excluding changes in fair value of own debt related to credit spread changes (net of tax), less dividends declared net of scrip dividends.
FVOD	Changes in fair value due to movements in own credit spread on long-term debt issued
Other Global Business	'Other' contains the full impact of the bank levy, the results of certain property transactions, unallocated investment activities, centrally held investment companies, movements in the fair value of own debt, central support and functional costs with associated recoveries, HSBC's holding company and financing operations.
Europe	Europe geographic segment includes the Group's head office costs, intra-HSBC recharges and the total impact of the UK bank levy

Definitions (2/2)

Run-off	Run-off includes Legacy Credit in GB&M and North America consumer lending and mortgage run-off portfolios.
CRS	Card and Retail Services.
Growth HSBC	The term 'Growth HSBC' is used in an analysis of HSBC's results, showing the effect of disposals and run-off portfolios separately from the rest of the Group. Refer to the footnotes on slide 21 of the Group Strategy presentation and slide 10 of the Capital and Financial Targets presentation for more details
Home markets	The term 'Home markets' refers to our principal existing markets in Hong Kong and the United Kingdom.
Priority growth markets	Priority growth markets are Australia, Mainland China, India, Indonesia, Malaysia, Singapore, Taiwan, Vietnam, France, Germany Switzerland, Turkey, Egypt, Saudi Arabia, United Arab Emirates, Canada, United States of America, Argentina, Brazil and Mexico.
Network markets	Network markets are further HSBC markets with high relevance for international connectivity.
Small markets	Small markets are markets where HSBC has profitable scale and/or focussed operations, subscale markets foreseen for exit and representative offices.