Resilience in a challenging climate

Update on HSBC Strategy in Europe

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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, Interim Report 2012 and 3Q2012 Interim Management Statement. 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.

Agenda

- **The external environment**
- **HSBC's position**
- **Performance**
- **Progress against strategic direction**
- **Exposure to Eurozone**
- **Concluding remarks**

The external environment

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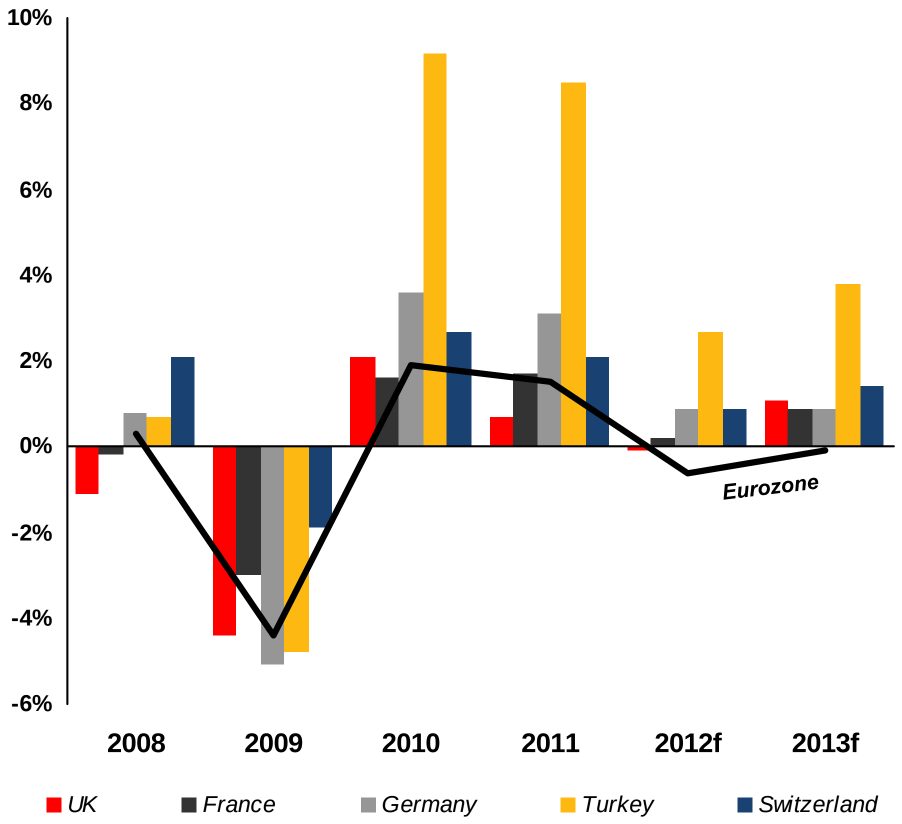
Navigating the challenging macro-economic backdrop
Mid-term growth prospects remain weak in the region

The backdrop ahead remains challenging

GDP year-on-year change (%)



- Growth prospects still weak in the UK and in Continental Europe
  - Downward revision to underlying macro-economic assumptions in Europe
  - Economies will still be slowing, unemployment rising and more austerity required ahead
- Clear divergence in growth expected between Northern and Southern Europe
- The ECB can provide the incentive to continue the reform but cannot single-handedly assure the long-term sustainability of the Euro
- Fiscal consolidation, structural reforms and European institution building are required, darkening mid-term prospects
- Further austerity to be expected in 2013, and potentially beyond, will be unhelpful on road to long-term recovery

Source: HSBC Research – Macro European Economics Q4 2012

Challenging environment
Pace and quantum of regulatory pressure

Increasingly "intensive and intrusive supervision" by regulators[1]	Higher capital ratios, increased capital quality and RWA increases from Basel III	Liquidity standards and central counterparty infrastructure	Global co-ordination of Recovery and Resolution Plans
New regulatory and supervisory frameworks in the UK	Individual regulators have their own additional capital requirements	Expansion of the UK Bank Levy	Financial stability and structure debate: ring-fencing in UK, Liikanen in EU

HSBC will continue to navigate the changes and challenges presented

We are formulating and implementing global standards to ensure our conduct matches our values

We will adopt and enforce the highest standards required in any part of the business to every part of the business

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(1) Source: FSA Business Plan

HSBC’s position

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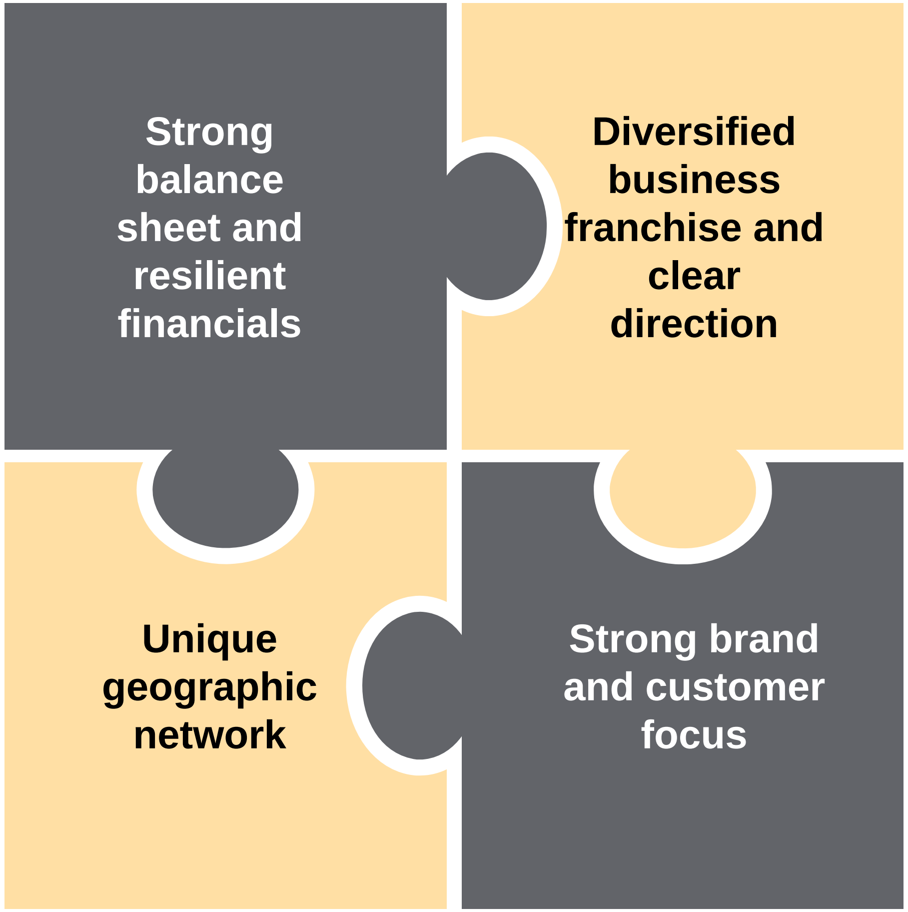
HSBC's strengths and capabilities
Well positioned to face the challenges ahead



HSBC Vision

Being the world’s leading international bank

Purpose

We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions

Reason why we exist

Values

Act with courageous integrity

- Dependable and do the right thing
- Open to different ideas and cultures
- Connected to customers, regulators and each other

How we behave and conduct business

Strategy

- International network connecting faster growing and developed markets
- Develop Wealth and invest in Retail only in markets where we can achieve profitable scale

Where and how we compete

Outcome

Being the world’s leading international Bank

Delivering consistent returns:

- 50% of earnings retained
- 35% to shareholders as dividends
- 15% variable pay

Performance

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3Q2012 Interim Management Statement results

Group performance highlights

Profit before tax

- Reported profit before tax USD16.2bn in the nine months ended 30 September 2012, down 13% on the same period in 2011
- Reported YTD PBT is adversely affected by adverse movements in the fair value of our own debt (USD3.0bn), provisions for UK customer redress (USD1.7bn) and US law enforcement and regulatory matters (USD1.5bn)
- Underlying[1] profit before tax USD14.9bn, up 21% on the same period in 2011

Simplifying and restructuring the business

- A further 24 transactions announced since the beginning of this year, 41 since beginning of 2011
- Costs of USD31.5bn, included notable items of USD3.8bn (YT Sep 2011: USD0.9bn)
- Sustainable annualised cost savings of USD3.1bn helped fund business growth and strengthen our compliance infrastructure

Return on equity

- RoRWA[2] 1.8%
- RoE[3] 8.9%
- Target RoE range of 12-15% by 2013

Continued to generate capital

- Profit attributable to ordinary shareholders USD10.9bn
- Core tier 1 ratio 11.7%, up from 10.1% at 31 December 2011

(1) Underlying basis eliminates effects of: foreign currency translation differences; acquisitions, disposals and changes in ownership levels of subsidiaries, associates and businesses; and changes in fair value ("FV") due to movements in credit spread on own long-term debt issued by the Group and designated at fair value
(2) Calculated using pre-tax return on reported average RWAs (annualised)
(3) Return on average ordinary shareholders equity (annualised)

3Q2012 Interim Management Statement results

Europe financial highlights

Financial results

USDm	Nine months ended 30 Sep 2011	Nine months ended 30 Sep 2012	% Better / (Worse)
Revenue	18,889	13,775	(27)
Loan impairment charges[1]	(1,866)	(1,409)	24
Operating expenses[2]	(11,924)	(13,246)	(11)
Other[3]	3	(4)	(233)
Reported profit before tax	**5,102**	**(884)**	**(117)**

Financial targets

%	Nine months ended 30 Sep 2011	Nine months ended 30 Sep 2012	KPI
Reported RoRWA	2.2	(0.4)	1.3 – 1.8
Reported cost efficiency ratio	63.1	96.2	48 – 52[5]

- Excluding adverse movements in the fair value of own debt[4], PBT in the nine months to 30 Sep 2012 actually rose, reflecting favourable revenues and a reduction in loan impairment charges, partly offset by higher expenses
- Expenses were higher than in 2011 mainly due to the increase in customer redress provisions
- Excluding the notable items[2], Europe's costs decreased as a result of the organisational effectiveness initiatives, delivering sustainable cost savings of circa USD470m in the nine months to 30 Sep 2012

(1) Including other credit risk provisions
(2) Operating expenses include notable items consisting primarily of UK customer redress programmes (2012: US$1,698m, 2011:US$630m) and UK pension credit (2012: Nil, 2011: (US$587))
(3) Share of profit/(loss) in associates and joint ventures
(4) Movement in the fair value of our own debt from favourable USD3.0bn in the nine months ended 30 Sep 2011 to adverse (USD3.0bn) in the nine months ended 30 Sep 2012
(5) KPI represents HSBC Group target

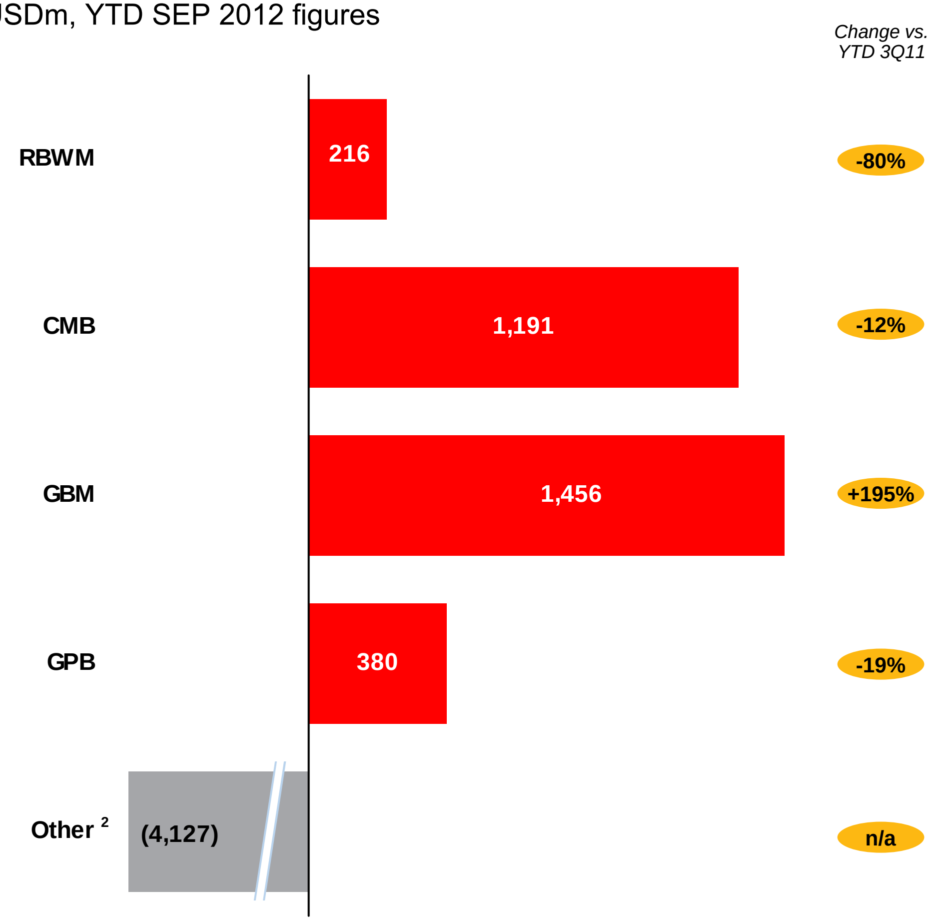
Europe performance

Well balanced regional business

- Results for RBWM were affected by lower deposit spreads and provisions taken for customer redress programmes
- CMB revenues benefited from improved lending spreads and growth in average lending balances, but profitability was adversely affected by the non-recurrence of the favourable 2011 UK pension credit effect and by the increase in customer redress provisions in the nine months to 30 Sep 2012
- GBM's reported PBT grew 195%, driven primarily by Rates and Credit as spreads tightened

PBT by Global Business[1]

USDm, YTD SEP 2012 figures



(1) On a reported basis
(2) "Other" contains the results of certain property transactions, unallocated investment activities, centrally held investment companies, movements in fair value of own debt, central support and functional costs with associated recoveries, HSBC's holding company and financial operations

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Progress against strategic direction

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Europe report card
Delivering the Group's strategy

Key executions	Progress in nine months ended 30 September 2012
Simplify	• Progressed organisational effectiveness programmes; implementation of target operating models on-track • Achieved circa USD470m of sustainable cost savings in the nine months ended 30 September 2012 • In GPB, navigating the regulatory challenges largely through implementing the new target operating model to improve risk and compliance standards, and better manage the business
Restructure	• Reduced fragmentation in our European portfolio, disposing of non-core businesses – completed exits from Hungary, Georgia, Slovakia, RBWM Russia & Poland, completed disposals of Property Vision in the UK, HSBC Insurance and Reinsurance businesses in Ireland, and sale of retail equities brokerage in Greece under completion • Actions underway in GBM to address structural challenges and mitigate RWA pressure arising from Basel III – Legacy business reported loss before tax of USD369m in 1H12, affecting GBM's reported PBT by c.25% • Repositioning elements of GPB business model for growth and the regulatory challenges
Grow	• Focus on priority markets UK, France, Turkey, Germany (CMB focus) and Switzerland (GPB focus) • Continued development in Wealth Management, targeting the mass affluent market • Investment in international CMB capabilities and business growth (UK, France, Turkey and Germany) • Strong and increasing collaboration between Global Businesses

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Simplify

Delivering operational efficiencies

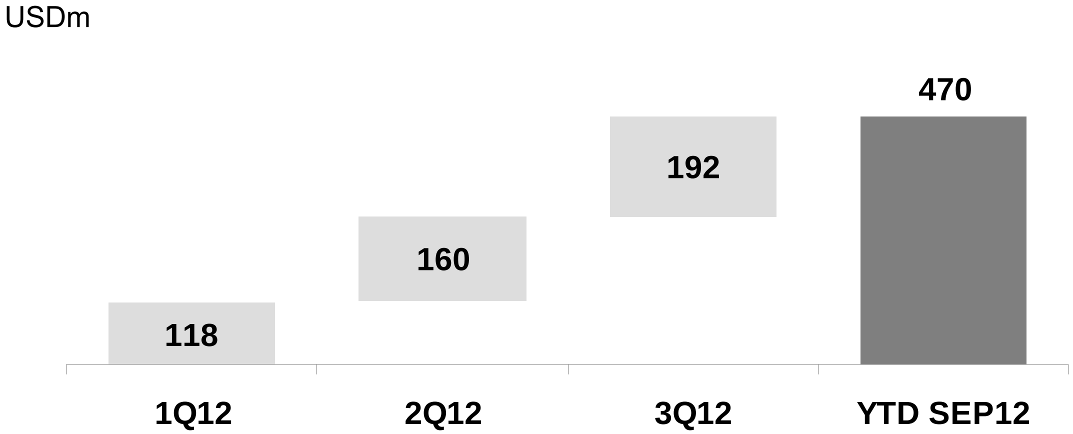
Key strategic initiatives

1. *Implement consistent business models*
2. *Re-engineer Global Functions*
3. *Re-engineer processes*
4. *Streamline IT*

Update

- Streamlining our processes with the aim of lowering future costs of operations while maintaining high standard of services, particularly in UK, France, Malta and Turkey. Examples:
  - Blueprint structures for global businesses, functions and HTS implemented
  - 13 centres of excellence in place in UK RBWM
  - Premises optimisation across the region
  - Continued headcount reduction since 31DEC11

c.USD470m of sustainable saves YTD in Europe



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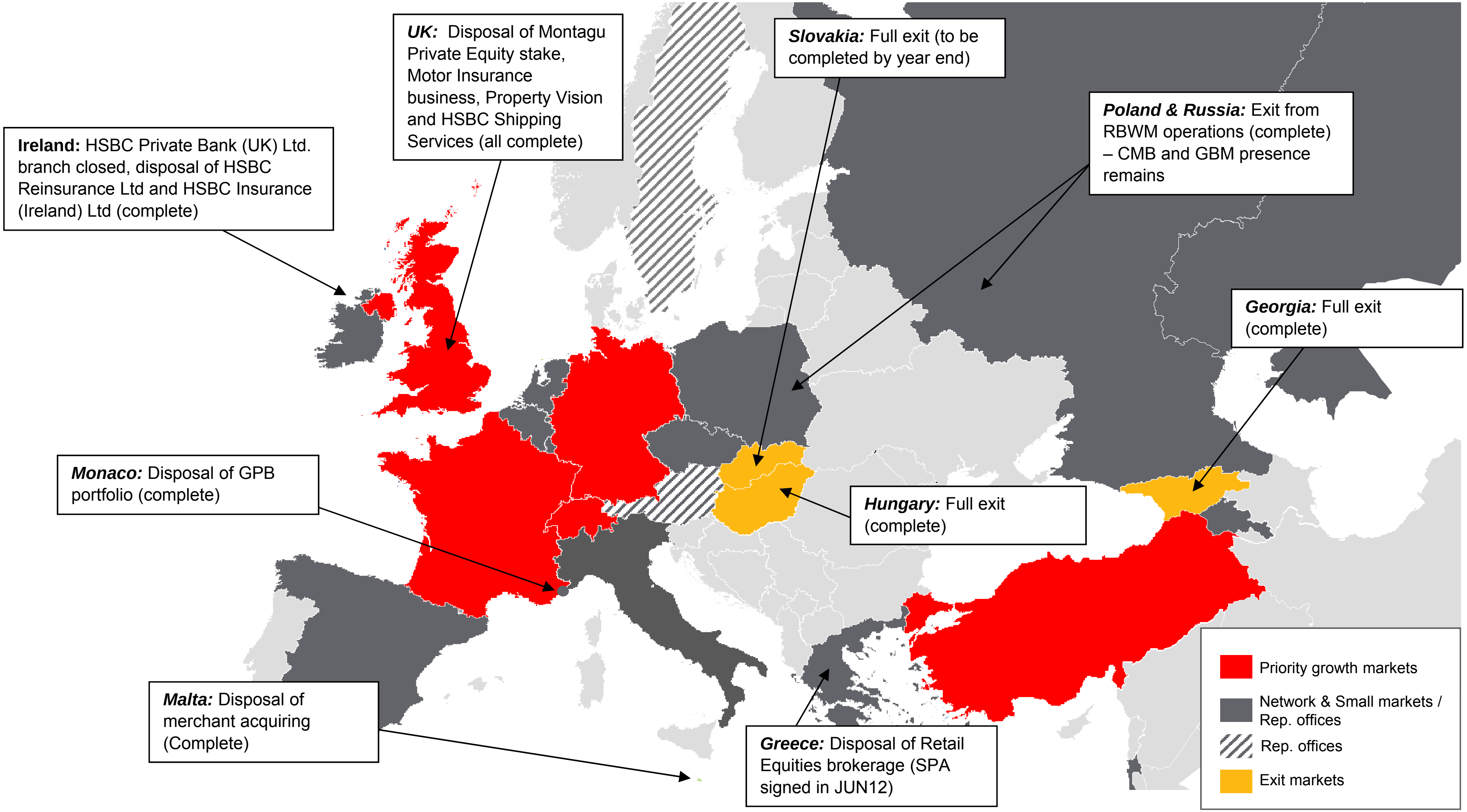
Restructure

Continued exit from non-core activities to reduce complexity



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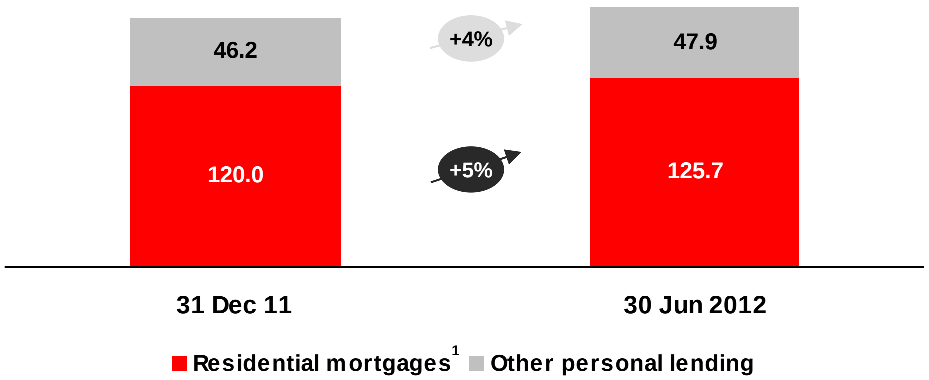
Grow
Focus on priority growth markets

- Continued investment in **priority markets**: UK, France, Turkey for all Businesses, Germany (CMB focus) and Switzerland (GPB focus)
- Key focus in RBWM remains on developing world class **wealth management** solutions for retail customers
- Significant benefits are being realised from focus on **international** clients in CMB
- Net fee income benefited from strong volume growth in **Payments and Cash Management and in Global Trade and Receivables Finance**
- Increased focus on **cross-business collaboration** to support income growth

Solid mortgage growth

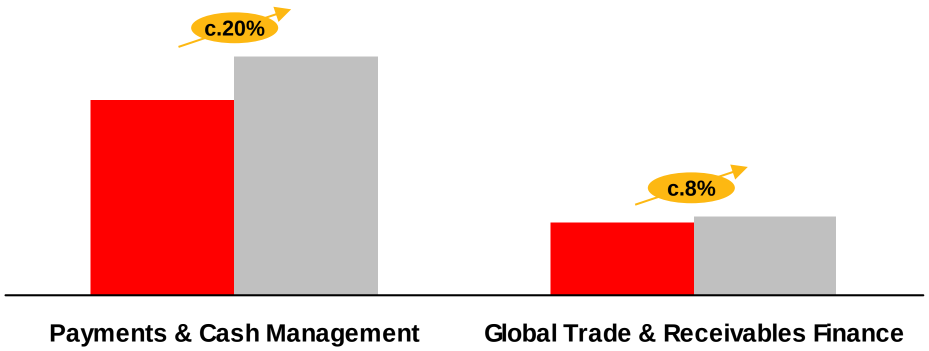
Gross lending to personal customers, USDbn

► **Share of new mortgage lending of 11% in the UK** (as at end of June 2012)



Targeted income growth in CMB

1H11 vs. 1H12



A key part of the Group's collaboration strategy

Total global collaboration revenues in the medium term, USDbn

(1) *First lien residential mortgages*

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Exposure to Eurozone

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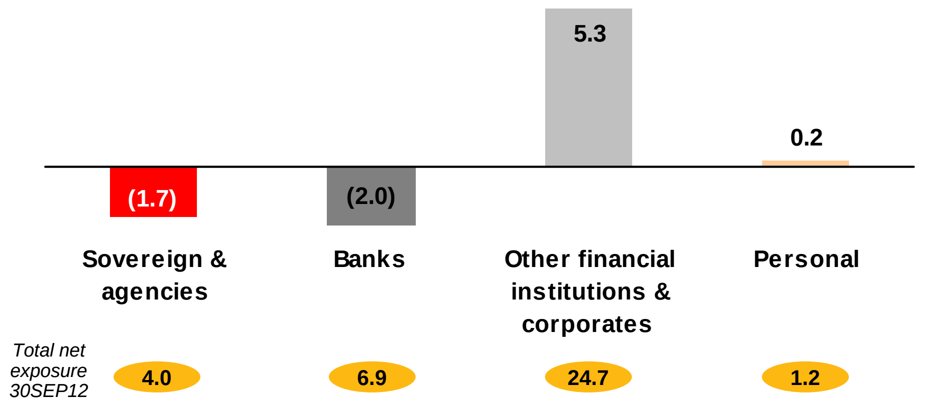
Continued de-risking
Actively managing the European portfolio

- Total net exposure to peripheral Eurozone countries amounted to USD37.3bn[1] at 30SEP12
- Continued reduction in overall net exposure to sovereign, agencies and banks[1]
  - Sovereign and agency debt exposure was USD1.7bn lower than at the end of 2011
  - Bank exposure was USD2.0bn lower than at 31DEC11
  - Active reduction in exposures to counterparties in the Eurozone that had sovereign and/or bank exposures to the peripheral countries
- Increases in exposures were largely to internationally active or multinational companies with significant operations outside of these countries and therefore carry a lower risk
- Contingency plans are in place to cover different exit scenarios from the Eurozone, including contagion and potential redenomination risks

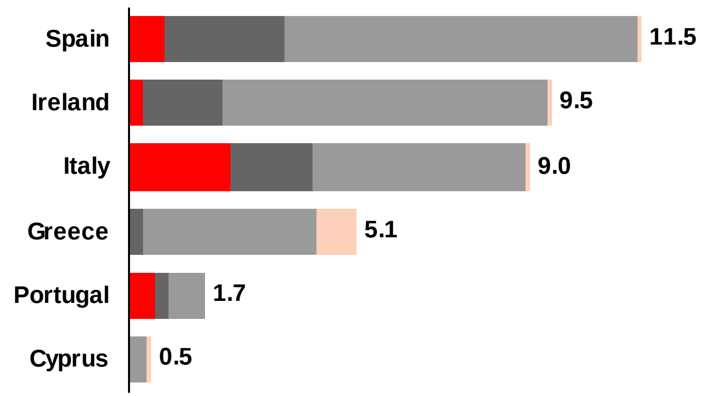
Movement in total net exposure[1] DEC11 to SEP12

To peripheral Eurozone countries[2], USDbn



Total net exposure[1] by peripheral Eurozone country

USDbn, at 30SEP12



(1) *HSBC Holdings' total exposure*
(2) *Spain, Ireland, Italy, Greece and Portugal only; excludes Cyprus*

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Concluding remarks

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Outlook and conclusions
Resilience in a challenging climate

Navigating the economic and regulatory environment	• Continue to monitor the Eurozone and actively manage exposure • Adapt to the changing regulatory landscape
Implementing our strategy	• Consolidate existing strong positions, with a focus on UK, France, Turkey, Germany (CMB), Switzerland (GPB) • Leverage connectivity (RBWM, CMB, GBM, GPB) • Drive RBWM growth in selected markets where we have scale • Increase operational efficiencies through portfolio rationalisation and sustainable cost savings
Building on strong competitive advantages	• Strong balance sheet • Resilient and diversified business franchise • Unique network connecting Mature and Faster Growing Markets • Strong brand and customer focus

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