Group Chief Executive's Business Review

"During 2009, HSBC stuck to its fundamentals and, thanks to this clear focus and our balanced business model, we ended the year as we began: one of the world's strongest and most profitable independent banks."

Michael Geoghegan
Group Chief Executive

EUROMONEY AWARDS FOR EXCELLENCE 2009

No.1
'Best Global Bank'

GROWTH IN NUMBER OF COMMERCIAL BANKING CUSTOMERS

10%

Diversified business delivering for customers and shareholders

In last year's business review, I said that 2009 would be another challenging year for both the economy and the financial sector. It was.

Lower trade volumes, shrinking investment and rising unemployment combined to hurt personal and commercial banking customers everywhere. No region and no industry was untouched. Although improved financial and capital market conditions led to stronger results in wholesale markets, the impact of global recession on the banking industry was broad and deep. Risk appetite remained subdued, deleveraging continued and demand for credit was constrained. Meanwhile, the effect of the low interest rate environment on income was hard for depositors and deposit-takers alike.

In this tough climate, it was our priority to work closely with our customers and to support them through the downturn. Thanks to our strong liquidity and capital position, we continued to make credit available to individuals and to companies. We worked with our wholesale and commercial customers to protect their businesses from foreign exchange and interest rate volatility, and to assist them in raising and refinancing their debt. We continued to meet the financial needs of businesses which depend on international trade, and to support smaller and medium-size companies – the lifeblood of so many economies. We also further built our financial strength, ensuring we would continue to provide a safe home for customer deposits.

Despite the many challenges for our customers and our industry, HSBC's underlying performance improved significantly in 2009. Underlying pre-tax profit* was US$13.3 billion, some US$4.7 billion ahead of the previous year after excluding the goodwill impairment in North America Personal Financial Services in 2008. This improvement was largely driven by stronger results across our Global Banking and Markets businesses, where we saw exceptional revenues, considerably stronger Balance Sheet Management performance, and a significant decline in write-downs compared with 2008. It also reflected a significant fall in loan impairment charges in our US consumer finance portfolios, offset by higher loan impairment charges elsewhere.

On a reported basis, pre-tax profit was US$7.1 billion, down 24 per cent on the previous year. This reflected the reversal of fair value accounting gains on our own debt, the impact of the gain on the sale of the French regional banks in 2008 and foreign exchange movements, offset by the impact of the goodwill impairment.

These results were ahead of our expectations at the outset of the year, and they underscore the resilience of HSBC throughout the most difficult stages of the economic cycle. In particular, our improved underlying performance highlights the strength of our diversified business model. In 2009, the exceptionally strong results in Global Banking and Markets balanced the headwinds from severe deposit spread compression and lower demand elsewhere in the business. Commercial Banking remained profitable in all regions and in Personal Financial Services, loan impairment charges improved in the US consumer finance run-off business. Private Banking remained solidly profitable and insurance sales in Asia and Latin America were strongly ahead. Our diversification is also reflected in our global reach and ability to serve customers with international financial needs.

In 2009, while developed economies continued to bear the brunt of the downturn, we reinforced our focus on emerging markets, where we have unrivalled capability to support economic progress.

During 2009, HSBC stuck to its fundamentals and, thanks to this clear focus and our balanced business model, we ended the year as we began: one of the world's strongest and most profitable independent banks.

Performance overview

Public scrutiny of banks understandably intensified during 2009 and the industry's reputation remained under severe challenge. In such a year, we never took for granted the continued support of our customers, and we are grateful for it.

Deposits remained high at US$1,159 billion, despite lower activity and the impact of low interest rates on balances, especially in developed markets. This was in line with the previous year-end, when we benefited from a strong inflow of deposits during the market turmoil. Lending balances also held up well given muted demand in the tougher economic conditions. Commercial Banking customer numbers increased by 10 per cent to 3.2 million. In Personal Financial Services, HSBC continued to win HSBC Premier customers, with numbers increasing to 3.4 million. In February 2010, we launched HSBC Advance which adds to our Premier

** All commentary is on an underlying basis unless otherwise stated.*

LOANS AND ADVANCES TO CUSTOMERS AS % OF CUSTOMER ACCOUNTS

77.3%
2008: 83.6%

HSBC PREMIER NET NEW CUSTOMERS

724,000
Total: 3.4m customers

proposition. Focusing on the needs of upwardly mobile customers, we will launch the product in over 30 markets this year.

At HSBC, we have always understood the importance of maintaining our signature financial strength, and I will describe how we put this into practice in 2009. We continued to generate capital in all four quarters of the year. The proceeds from the rights issue further reinforced this position and we will use that capital wisely on behalf of our shareholders. As a result, our tier 1 ratio increased by some 250 basis points, putting us ahead of our target range. This capital position, combined with HSBC's prudent advances-to-deposits ratio of 77.3 per cent, gives us a financial strength which I believe sets us apart in our industry.

In 2009, HSBC also proved its ability to pay dividends to shareholders in the toughest of times. Shareholder return on equity once again fell short of our target range, at 9.2 per cent excluding the effect of fair value movements on our own debt. However, at this point in the economic cycle we believe it is an acceptable result. In light of current market conditions and proposed changes to capital requirements currently under consideration, HSBC believes return on average total shareholders' equity over the medium term is more likely to be around the low end of the target range. Once regulatory proposals are in definitive form, we intend to publish a revised target.

In this uncertain climate, we make no apology for having continued to position the balance sheet conservatively. Throughout the crisis, HSBC's banking philosophy has remained unchanged: we take deposits first, then we lend. The past three years have only reinforced our commitment to this approach.

In this exceptionally low interest rate environment, it will be painful in the short term. But I am confident that the liquidity this gives us will prove to be one of our strongest advantages during the next stage of the economic cycle, as new opportunities to grow revenues emerge and a more normal interest rate environment returns.

When I became Group Chief Executive in 2006, I believed that HSBC should be able to write greater revenues from a lower cost base. Despite the obvious challenges that 2009 presented for growth, we increased revenues by 8 per cent during the year, to US$72.4 billion and drove costs down by 4 per cent to US$34.4 billion, excluding the impact of the goodwill impairment in 2008.

On the same basis, our cost efficiency ratio, for which we have set a target range of 48 to 52 per cent, was on course at 47.5 per cent.

Our One HSBC programme is an important initiative in driving our progress on cost efficiency forward. We established this programme in 2007 to join up our products, processes and technologies, improving and simplifying the way we work. In 2009, as we moved to the next phase of the programme, we established regional centres of excellence which will allow us to transform and standardise our business models. By consistently managing products and services at equally high standards across all businesses and regions, our goal is to deliver enhanced and seamless service to our customers, at lower cost.

Credit quality: some early signs of improvement

Loan impairment charges and other credit risk provisions for the Group rose by 9 per cent to US$26.5 billion, and we believe this was acceptable given the severity of the global recession and the rise in unemployment in most developed markets. Loan impairments fell by 16 per cent in our US consumer finance run-off business compared with 2008. We also continued to benefit from actions taken in previous years to restrict growth in unsecured lending in certain markets, to tighten our underwriting criteria, and to reduce our exposure to higher-risk areas.

In our commercial businesses, we lowered our appetite for certain high-risk sectors, and we maintained only a selective appetite for leveraged and acquisition financing. In Global Banking and Markets, where loan impairment charges were significantly higher than in 2008, the increase was concentrated in a small number of individual accounts with losses driven by exposure to real estate, investment companies and the financial sector. In Commercial Banking, loan impairment charges were concentrated in manufacturing, general trading and real estate.

Within our personal portfolios, we continued to focus on our collection processes. We withdrew higher-risk products in those markets which have been most affected by recession. We also continued to reposition towards Premier business in key markets. Loan impairment charges stabilised in many of the worst affected markets in the second half, including Mexico, Brazil and the UK. In India, delinquencies began to moderate in the fourth quarter.

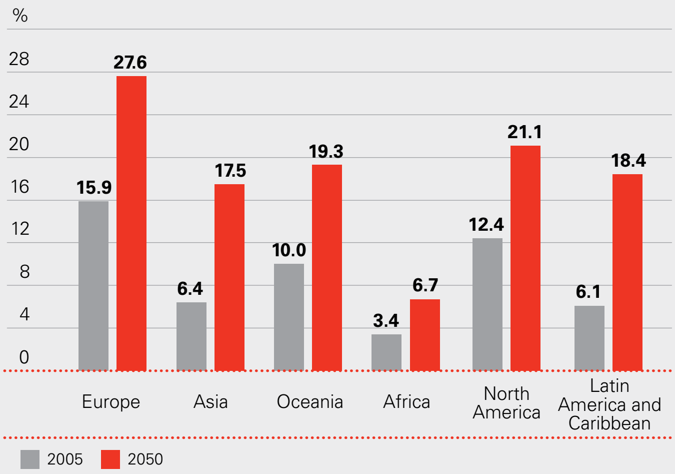
"As the world changes, it also makes sense to position ourselves at the heart of the world's economic activity. In February 2010, HSBC moved the principal office of the Group Chief Executive to Hong Kong, the gateway to greater China, and at the centre of Asian trade and growth."

GDP GROWTH RATES OF HSBC'S MAJOR MARKETS

	2008 %	2009 %	2010[1] %
Brazil	5.1	-0.2[1]	5.6
China	9.6	8.7[2]	9.5
Hong Kong SAR	2.1	-2.7[2]	5.4
India*	6.7	7.2[1]	8.5
Mexico	1.5	-6.5[2]	3.6
UK	0.5	-5.0[2]	2.2
United Arab Emirates	7.0	-2.9[1]	2.0
USA	0.4	-2.4[2]	2.7

Sources:
1 *Forecast by HSBC's Global Economic Research Department (2010 forecasts made in second half of 2009, except for Hong Kong, which was in March 2010)*
2 *National statistical offices*
* *Fiscal year*

AN AGEING WORLD 2005-50
Percentage of population aged 65 and over



Source: UN Programme on Ageing

It is likely that improvement in employment levels will continue to lag GDP growth throughout 2010 and possibly into 2011. However, at this stage in the cycle of recovery, we are encouraged by the signals we are seeing. If economic and unemployment trends develop in line with our expectations and, in the absence of unforeseen events, loan impairment charges should decline in 2010.

Positioning the business for the future

In 2007, we articulated a Group strategy built upon three important long-term global forecasts. These were: emerging markets will grow faster than developed ones, global trade will grow faster than GDP, and populations are ageing. Earlier this year the Board reviewed the strategy, to ensure it continues to reflect and anticipate the changing world in which we operate. It was clear to us that each of these three fundamentals remains unchanged.

Over the next 10 years, emerging markets will account for the majority of global growth. As a result, we will invest primarily in these faster-growing markets. We also believe that global trade will rebound faster than GDP. In Commercial Banking, developing our capabilities in trade, payments and international connectivity will therefore continue to be a key part of our strategy for both emerging and developed markets. Finally, ageing populations are now a feature of many of our markets, including a number of key emerging countries, leading to greater demand for wealth management products. As a result, our strategy in Personal Financial Services will be wealth-focused and we will continue to deepen our relationships by delivering the products and services our customers need over their lifetime.

As patterns of trade and wealth evolve, we will focus uncompromisingly on those markets, products and areas of business where HSBC has competitive strengths, based on our global reach, our scale and our expertise. As the world changes, it also makes sense to position ourselves at the heart of the world's economic activity. In February 2010, HSBC moved the principal office of the Group Chief Executive to Hong Kong, the gateway to greater China, and at the centre of Asian trade and growth. This move reflects our deep roots in the region, and also the changing shape of our business. It is a strategic decision for the Group, but also a symbolic one which signals the strength of our commitment to grow HSBC in all of the world's faster-growing markets.

Global businesses

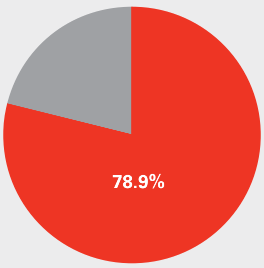
MAJOR AWARDS

- **Euromoney:** 'Best Global Debt House' and 'Best Debt House' in Asia, Latin America, Middle East, Mexico and Turkey
- **Financial News:** 'European Debt Capital Markets House of the Year', 'European Corporate Bond House of the Year' and 'European Financial Institutions Bond House of the Year'

GLOBAL BANKING AND MARKETS CONTRIBUTION TO PRE-TAX PROFIT

US$10.5b

Increase of 249% on 2008



PRE-TAX PROFIT BY GEOGRAPHICAL REGION

	US$m
Europe	**4,545**
Hong Kong	**1,507**
Rest of Asia-Pacific	**2,314**
Middle East	**467**
North America	**712**
Latin America	**931**

- Seven businesses had revenues exceeding US$1b.
- Bigger market share in a year of increased customer activity.

See our Annual Report and Accounts 2009, *pages 73-76 for more detailed analysis.*

Global Banking and Markets: sustainable business model and exceptional profits

Global Banking and Markets delivered very strong pre-tax profits of US$10.5 billion, compared with US$3.0 billion in 2008. These results are clear evidence of the success of our distinctive emerging markets-led, financing-focused strategy. Write-downs declined by US$5.1 billion compared with the previous year, and we saw more favourable market conditions, in which greater levels of volatility supported higher trading margins and capital market activity increased significantly from extremely depressed conditions. At the same time, the low interest rate environment constrained revenues in Global Transaction Banking and, as a result of wider economic conditions, loan impairment charges more than doubled to US$1.7 billion.

Profitability was broadly distributed by geography and faster-growing markets accounted for over 50 per cent of the total. Revenues were also distributed across a wide range of customer-facing businesses. In 2009, we saw robust revenues in Rates and Credit. We continued to build our financing capabilities, where we made strong market share gains in debt capital markets. HSBC led or co-led debt issuance in 12 of the 16 euro zone states where governments issued debt during the year. We strengthened those relationships which offer the greatest opportunity to develop broad-based revenues, and we exited various transaction-based relationships.

Even as some industry players were forced to curtail their business, HSBC increased market share in our core businesses. HSBC ranked first in the Bloomberg Euromarket bond league table combining all issuance in the euro zone. For the first time, Euromoney named HSBC 'Best Global Debt House' and we won all three emerging markets categories in the FX Week Best Banks Awards.

In Balance Sheet Management, we seek to manage the Group's interest rate exposure and, when possible, enhance returns on the investment of our commercial surplus. Revenues were significantly higher at US$5.4 billion as a result of earlier successful positioning for lower interest rates. While we expect these revenues to reduce in 2010 as certain high yield positions mature, the current interest rate environment also offers opportunities to mitigate this.

We are confident that our diversified and customer-focused business model, combined with our scale and international presence, positions Global Banking and Markets to maintain revenues and to consolidate market share.

In our available-for-sale portfolios, greater liquidity led to rising prices and our asset-backed securities portfolios continued to perform in line with our expectations. On a reported basis, we recognised impairments of US$1.4 billion and expected losses of US$378 million in 2009, which is in line with guidance previously given. The carrying value of the portfolio reduced by 9 per cent to US$45.9 billion during the year as a result of repayment and amortisation, and the available-for-sale reserve deficit further reduced by US$6.5 billion to US$12.2 billion as liquidity improved and prices rose.

"As patterns of trade and wealth evolve, we will focus uncompromisingly on those markets, products and areas of business where HSBC has competitive strengths, based on our global reach, our scale and our expertise."

Private Banking: focused on emerging market growth

Faced with a period of considerable uncertainty, private banking clients reduced their risk appetite for investments and demand for credit, leading to lower client revenues. Private Banking delivered pre-tax profits of US$1.1 billion, a decline of 21 per cent on 2008.

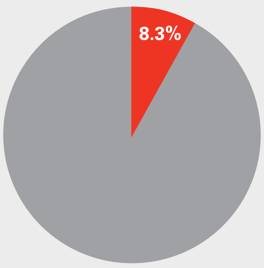
We have continued to build our presence and scale in all major emerging regions, in line with shifting patterns of wealth and opportunities for future growth. Driven by the tougher environment in developed markets, net new money fell overall. However, we were encouraged by net inflows of US$6.6 billion from emerging markets.

Reported total client assets increased by 6 per cent to US$460 billion, despite the wider economic trends and our decision not to chase deposits in highly competitive conditions. We completed the merger of HSBC's two Swiss private banks, and we successfully launched a number of niche and alternative market products during the year.

PRIVATE BANKING CONTRIBUTION TO PRE-TAX PROFIT

US$1.1b

Decrease of 21% on 2008



PRE-TAX PROFIT BY GEOGRAPHICAL REGION

	US$m
Europe	**854**
Hong Kong	**197**
Rest of Asia-Pacific	**90**
Middle East	**6**
North America	**(50)**
Latin America	**11**

LOANS AND ADVANCES TO CUSTOMERS

US$37b

CUSTOMER ACCOUNTS

US$107b

See our Annual Report and Accounts 2009, *pages 77-79 for more detailed analysis.*

TOTAL CLIENT ASSETS

US$460b

2008: US$433b

MAJOR AWARDS

- **Euromoney:** 'No.1 Private Bank' in Asia and Middle East and for Islamic services

DATA SECURITY INCIDENT

During March 2010, the Private Bank in Switzerland reported that it had been a victim of a serious data theft by a former employee three years ago, as a consequence of which client information relating to a significant number of Swiss-based accounts had been compromised. The Private Bank unreservedly apologised to clients for the threat to their privacy. No data was compromised for any branches of the Private Bank outside Switzerland, which operate on separate systems and security, or other entities within the HSBC Group. The Private Bank has already made significant improvements to its security and is co-operating with the Swiss authorities while continuing its own investigations.

Emerging markets

ASIA

- **Hong Kong SAR:** Group Chief Executive's principal office relocated to the heart of HSBC's most strategically important region.
- **Mainland China:** HSBC leading international bank, with network expanded to 98 outlets.

MIDDLE EAST

- **HSBC Amanah Premier:** the world's first Islamic premium banking service, launched in the United Arab Emirates, Saudi Arabia, Qatar and Bahrain (and also in Malaysia and Indonesia).
- **United Arab Emirates:** fund launched to support business banking customers in small and medium-size enterprise sector.

LATIN AMERICA

- **Brazil and Mexico:** US$1.3b of fresh capital allocated.
- **The region:** loan impairment charges down 27% in second half of the year compared with first half.

See our Annual Report and Accounts 2009, *pages 98-144 for more detailed analysis.*

Building the business in Asia – the world's fastest-growing region

Our operations in the Asia-Pacific region achieved pre-tax profits of US$9.2 billion for the year, of which Hong Kong accounted for 55 per cent and the rest of Asia-Pacific accounted for 45 per cent. While this was down 8 per cent overall, it was a strong performance in light of the more challenging economic and interest rate environment, and the region remained the largest contributor to Group profitability.

Many Asian economies were hit hard by falling trade and investment flows in the first part of the year, but economic activity and demand for credit and wealth management improved in the second half. The Chinese economy continued to grow rapidly, stimulus proved effective and employment levels remained healthy. As a result, exports and domestic demand both saw a rebound and trade flows strengthened within and beyond the region.

We continued to execute on our ambitions for growth, both through organic expansion and by building our strategic partnerships. We grew our deposit base by 8 per cent. Lending activity picked up in the second half of the year, and we supported small and medium-sized businesses by launching our SME fund in Malaysia and increasing our lending commitments in Hong Kong. In insurance, sales and profitability increased significantly across the region.

In Hong Kong we further built on our position as the number one bank. We grew deposits and we were the market leader in cards and in residential mortgage lending, where the strength of our book was underpinned by conservative average loan-to-value ratios of 38 per cent. We also consolidated our position as the largest bancassurer. Loan impairment charges were 35 per cent lower than in 2008, highlighting the quality and resilience of our portfolios.

In mainland China, where HSBC is the leading international bank, we further expanded our network and we soon expect to open our 100th HSBC-branded outlet. Developing our relationships with strategic partners also remains a principal pillar of our ambition for growth. In 2009, the value of our strategic investments, measured by market capitalisation, increased by US$11.3 billion to US$25.4 billion on a reported basis. We launched a new jointly held insurance entity and we announced our intention to establish a joint cards venture with Bank of Communications, to which we will transfer over 11 million cards already in force. We also supported the strategic development of the renminbi as an international trading currency. We were the first international bank to settle cross-border trade in the currency and we launched trade settlement services in seven ASEAN (Association of South-East Asian Nations) countries.

We continued to integrate and expand our operations in the rest of the region, in line with our positive outlook for the economy. In Vietnam, which is forecast to be one of

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the fastest-growing ASEAN economies, HSBC was the first foreign bank to incorporate locally and, earlier this year, we increased our stake in the country's largest domestic insurer. We successfully completed our acquisition of Bank Ekonomi in Indonesia, nearly doubling our presence in the world's fifth most populous nation, where we now have over 200 outlets. In personal banking, we focused on opportunities in our Premier business, where we saw strong growth in Singapore and Malaysia. In line with this strategy, we exited consumer finance in India and Indonesia.

A difficult year for the Middle East economy

2009 was an extremely challenging year for the Middle East, where HSBC is the leading international bank. The region was significantly affected by falling capital inflows, a sharp decline in oil revenues, lower property prices and concerns over levels of debt in Dubai. Despite a recovery in oil prices in the second half of the year, credit conditions remained difficult.

As a result of these tough conditions, HSBC achieved pre-tax profits of US$0.5 billion, 74 per cent lower than 2008. Deposits and lending portfolios reduced overall. Loan impairment charges rose to unsatisfactory levels, and we took appropriate action to minimise this and to manage risk. Our exposure to the region, and within the region, remains acceptably spread.

HSBC has been doing business in the Middle East for over a century. We remain confident that the authorities in the region will provide the necessary conditions and support for continued growth, and we expect the economy to recover during this year and next. The Middle East will continue to be an important market at the heart of international trade and investment flows. Our commitment to the region is undiminished and, in January 2010, we launched our SME fund in the United Arab Emirates to support our business banking customers.

Improved outlook in Latin America

HSBC's Latin American operations delivered pre-tax profits of US$1.1 billion, down 33 per cent on 2008, as a result of tougher economic conditions, the impact of the H1N1 virus in Mexico, and higher loan impairment charges across the region.

In 2009, we took a strategic decision to reposition our retail businesses. We continued to manage down successfully the higher risk personal lending and credit card portfolios where we had seen higher delinquency in 2008. We reduced the number of consumer finance and retail branches in Mexico and Brazil and focused on opportunities in Premier, which was particularly successful in Brazil. We also saw growth in insurance sales.

Economic conditions improved during the year. The Brazilian economy returned to growth in the second quarter and, in Mexico, conditions began to improve in the second half as the impact of the H1N1 virus abated and as trade volumes with the US picked up. Loan impairment charges in the region fell in the latter part of the year. The Group continues to view Latin America as a region of considerable future opportunity and allocated US$1.3 billion of fresh capital to its operations in Mexico and Brazil at the end of 2009. This has enhanced our capital strength and will help us meet the growing needs of our customers as these economies expand.

Developed markets

"In this uncertain environment, the strength of the HSBC brand remains one of our most important assets. In 2009, we were named the world's most valuable banking brand by Interbrand and last month we were named number one banking brand by *Brand Finance* for the third year running."

NORTH AMERICA

- Loan impairments fell by 16% in US consumer finance run-off businesses as the portfolios were managed down.
- 104,000 loans with aggregate value of US$14.6b were modified to help customers in difficulty.
- Cards business remained profitable despite the difficult economic environment.

EUROPE

- **UK:** the bank made available £15b of new mortgage lending as HSBC's market share rose to 11%.
- **Switzerland:** HSBC's two private banks were merged.
- **Turkey:** results improved from an expanded platform and the business is well positioned for growth.

See our Annual Report and Accounts 2009, *pages 87-135 for more detailed analysis.*

US – improvement in consumer finance

The US economy returned to growth in the second half of 2009, although conditions remained difficult, especially in the personal financial services sector. Unemployment rates climbed to double digits and house prices continued to fall generally, although we saw some moderation in the latter half of the year, particularly in the middle and lower price sectors where targeted tax credits and low interest rates helped support housing market activity.

US Personal Financial Services made a loss before tax of US$5.3 billion, an improvement of 22 per cent on 2008, excluding the impact of the goodwill impairment. We completed the closure of all consumer lending branches, and associated restructuring costs of US$150 million were significantly lower than expectations. We continued to make encouraging progress in managing down the run-off business.

At year-end, HSBC Finance aligned its write-off period with the rest of the Group, leading to a significant decline in delinquency balances. Total balances in all parts of the run-off loan portfolio reduced during the year, falling by US$22 billion in total, to US$79 billion.

We also announced the sale of our US vehicle loan servicing operations and US$1 billion in vehicle loans, representing further progress in our run-off strategy. Since we began to run off parts of the portfolio in the first quarter of 2007, we have reduced balances by US$47 billion, or 37 per cent.

Excluding the effect of changing the write-off period, delinquency balances showed the usual seasonal rise in the second half, but the increase was significantly less pronounced than in previous years. The majority of our customers continued to meet their agreed payments, and we supported those in difficulty by modifying over 104,000 loans with an aggregate value of US$14.6 billion during the year. Loan impairments fell by 16 per cent in our US consumer finance run-off business as a result of these trends.

In HSBC Bank USA, we grew deposits in both Commercial Banking and in Personal Financial Services during the year. We sold US$4.5 billion of prime mortgages, and increased the number of Premier customers by 37 per cent. We also achieved encouraging results in cards. This business remained profitable despite the difficult economic environment, and the portfolio reduced overall.

However, we have resumed marketing spend to grow new card originations in some segments as a result of improving conditions.

Resilient performance in Europe

HSBC's European operations remained resilient in the face of severe economic challenges. Pre-tax profits increased by 83 per cent to US$6.6 billion, with Global Banking and Markets contributing 69 per cent of the total. On a reported basis, pre-tax profit was US$4.0 billion in 2009, compared with US$10.9 billion in the previous year.

In the UK, recession tightened its grip on the economy. While the downturn lasted longer than in many other developed markets, low interest rates and quantitative easing helped to moderate its impact for borrowers. However, the low interest rate environment also negatively affected our deposit spreads. HSBC continued to support its customers through this challenging period. We made available £15 billion of new mortgage lending for the year, for which average loan-to-value ratios were less than 55 per cent, and we grew our market share of net new mortgage lending to 11 per cent. Among our business banking customers, demand for credit remained muted and overdraft utilisation was 40 per cent, highlighting the ready availability of credit when demand picks up. We supported over 121,000 new business start-ups and lent £0.8 billion as part of our commitment to smaller and medium-size businesses. We also increased trade lending by over 30 per cent.

Our French operations delivered a very strong performance overall, with pre-tax profits of US$827 million, driven by significantly higher Global Markets revenues and resilient performance in Personal Financial Services and Commercial Banking

HSBC also achieved very strong results in Turkey. Pre-tax profits of US$261 million were considerably higher than in 2008, despite a significant contraction in the economy in 2009 and record levels of unemployment. In our view, Turkey remains one of our key opportunities for future growth, and our expansion of the platform in recent years positions us strongly as the economy returns to health.

Outlook

2010 economic outlook: a two-speed economy

As the world emerges from recession, we anticipate a two-speed recovery. In 2010, we expect GDP in emerging markets to grow by over six per cent, while the developed world struggles to reach two per cent. A bank's performance reflects that of the underlying economies it serves, and this presents both challenges and opportunities for the sector.

It is likely to be another difficult year for developed markets. In both the US and Europe, recovery remains fragile and may well be more modest than we had become used to following previous recessions. Demand will continue to be dampened by the need to rebuild savings. Governments and central banks have some tough calls to make as they balance the need to reduce spending against the need to support recovery and jobs. Low interest rates will likely continue to support recovery but will also constrain deposit spreads for some time. The implications for banks of regulatory change remain uncertain, but these will probably impact developed markets more than those faster-growing regions where our focus lies.

Emerging markets are now increasingly in the driving seat. The latest HSBC Emerging Markets Index suggests that many of these economies will grow strongly in 2010. Over time, these markets will become increasingly connected to each other, and less reliant on the West. The centre of economic gravity will continue to move east and south, and so will the opportunities for growth in financial services.

As industry restructuring inevitably takes place, some banks may consolidate activity and refocus on domestic markets. As they do so, we expect some to sell portfolios of assets, which could present selective opportunities for HSBC. We will remain disciplined in reviewing the opportunities which emerge.

In this uncertain environment, the strength of the HSBC brand remains one of our most important assets. In 2009, we were named the world's most valuable banking brand by Interbrand and last month we were named number one banking brand by *Brand Finance* for the third year running. Thanks to our strong brand, our signature financial strength, our broad and well-balanced business model and our clear strategy, I believe HSBC is positioned strongly and competitively for the next stage of the business cycle – and for the continuing shift in the global economy.

Finally, I am pleased to report that performance in January 2010 was strong and ahead of our expectations.

Thank you to our people

2009 was a year which, once again, made exceptional demands on our people. For many, this meant doing more to support our customers during the downturn. For others it meant working even harder than usual to deliver on their commitments, at a time when external conditions made this doubly challenging. It is proof of their strength and commitment that our employee engagement score increased from 67 to 71 per cent in such a year. It is also encouraging that this is notably higher than the industry average.

My final remarks are therefore reserved for my colleagues. It is because of your professionalism that HSBC can hold its head high at a time when the reputation of the banking industry is at a very low point. It is also because of your unwavering focus on our customers that HSBC is a bank which people want to do business with. Thank you.

Michael Geoghegan
Group Chief Executive
1 March 2010