

March 2018

US Business Update

Key messages

- 1 Consumer and Mortgage Lending 'CML' (run-off portfolio) sales completed by YE 2017
- 2 \$4.5bn dividends paid from HSBC North America Holdings (HNAH) to Group in 2017
- 3 The US is the largest contributor of cross-border revenue in the Group, and this is growing¹
- 4 Improved US Principal Business² Return on Risk Weighted Assets (RoRWA) by 60bps to 0.9% from 2016, with an accelerated growth strategy in execution
- 5 2012 Deferred Prosecution Agreement (DPA) with US Department of Justice (DoJ) has expired; with respect to 2010 and 2012 Consent Orders against HSBC Bank USA, N.A. and HNAH, we believe we have taken the appropriate steps to bring ourselves into compliance with the corresponding requirements
- 6 These accomplishments provide a foundation for profitable growth

1. A significant amount of revenue from US international clients is booked outside of the US. International clients are businesses and individuals with an international presence

2. US Principal Business is the US business excluding CML run-off portfolio

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Strategic role of the US for HSBC's global network

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US Global Business update

Executive Summary

2017 Full Year Highlights

Adjusted Principal Business PBT

(2016: \$387m)

\$920m

Adjusted Principal Business RoRWA

(2016: 0.3%)

0.9%

Dividends paid to Group

(2016: nil)

\$4.5bn

International client revenue² (YoY)

Inbound up c10%

Outbound up c15%

CML portfolio: run-off completed

Receivables \$0bn

(2014: \$24bn)

RWAs \$3bn

(2014: \$55bn)

2017 Completed Management Actions

Principal Business Financial Performance

Principal Business Strategic Execution

- 2012 DPA with US DoJ has expired; with respect to 2010 and 2012 Consent Orders against HBUS and HNAH, we believe we have taken the appropriate steps to bring ourselves into compliance with the corresponding requirements
- Completed the run-off of the CML portfolio with nil receivables at end 2017
- Achieved non-objection to US capital plan as part of 2017 CCAR; first dividends paid by HNAH to HSBC Holdings (\$4.5bn) since 2006
- PBT more than doubled from 2016 led by a net release of LICs related to exposures in the oil and gas, and mining sectors
- Adjusted costs of \$3.9bn remained within targeted levels¹
- Improved Principal Business Return on Risk Weighted Assets (RoRWA) by 60bps to 0.9% benefiting from a net release of LICs and RWA management
- Improved credit quality from portfolio optimization and active risk management
- Improved earnings quality through strategic client exits
- Strong expense discipline across **global** businesses
- Double-digit growth delivered in inbound and outbound revenue year-over-year²
- Awarded **Best Bank for Transaction Services** in North America and **Best Domestic Cash Manager for corporates** in the US³

1. Targeted levels as stated in the Investor Update 2015 dated 9 June 2015

2. Revenue from international clients is derived from an allocation of adjusted revenue based on internal management information. International clients are businesses and individuals with an international presence

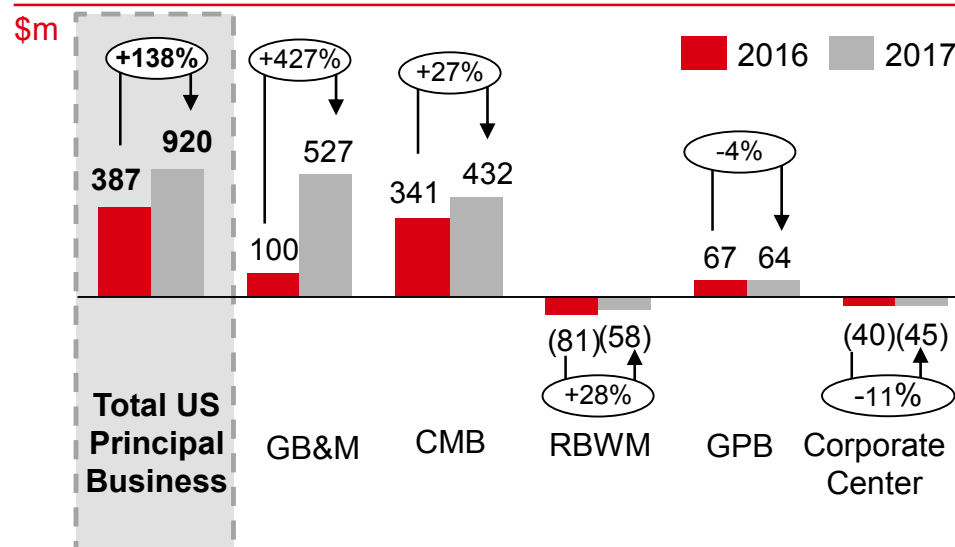
3. Awarded Best Domestic Cash Manager for Corporates in the US by Euromoney Market Leader Cash Management 2017; awarded Best Bank for Transactions Services in North America by Euromoney Awards for Excellence 2017

US Principal Business: 2017 Financial Overview

Key Metrics (on an adjusted basis)

\$m	2017	Δ2016		Growth, YoY
		Adverse	Favourable	
Revenue	4,737		39	1%
Loan impairment charges	118		621	
Operating expenses	(3,936)	(128)		(3)%
PBT	920		533	138%
RoRWA	0.9%			+60bps

Adjusted PBT by Global Business



Adjusted Revenue by Global Business

\$m

	2016	2017	Δ2016	Δ%
GB&M	1,979	1,951	(28)	(1)%
CMB	981	947	(34)	(3)%
RBWM	1,161	1,194	33	3%
GPB	303	317	14	5%
Corporate Center	274	328	54	20%
US Principal Business	4,698	4,737	39	1%

Risk Weighted Assets by Global Business

\$bn

	2016	2017	Δ2016	Δ%
GB&M	48.3	45.2	(3.1)	(6)%
CMB	26.8	25.1	(1.7)	(6)%
RBWM	11.0	11.0	(0)	0%
GPB	4.1	4.2	0.1	2%
Corporate Center	13.6	10.0	(3.6)	(26)%
US Principal Business	103.8	95.5	(8.3)	(8)%

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Strategic role of the US for HSBC's global network

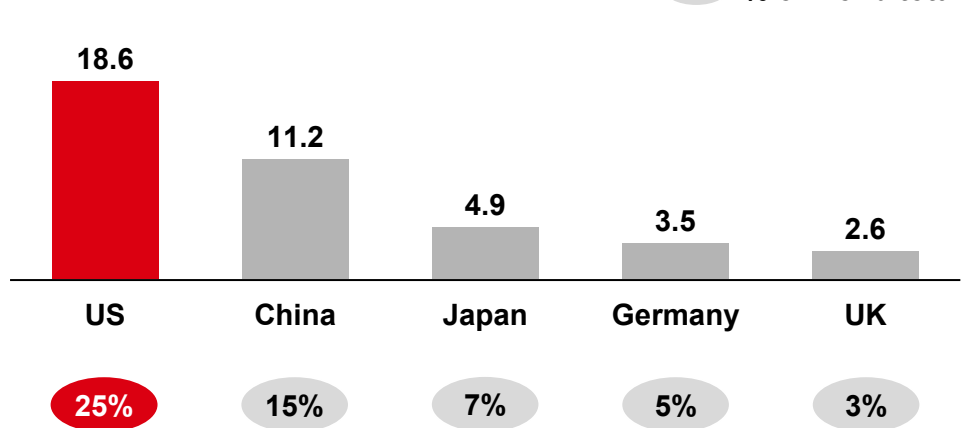
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US Global Business update

Global role of the US economy

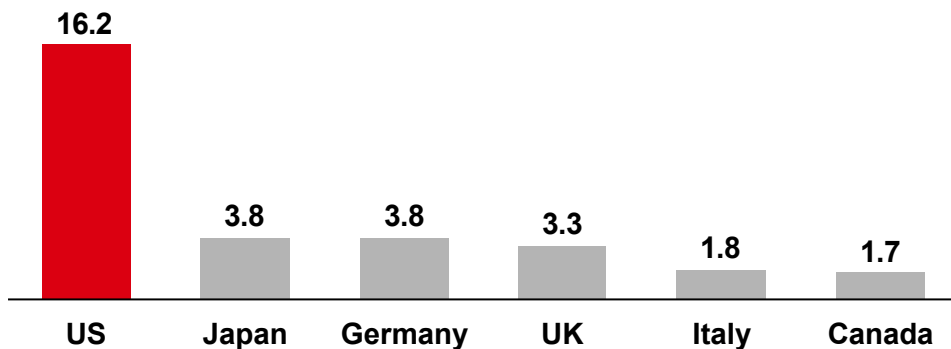
US is the world's largest economy

Top 5 economies by GDP¹, 2016, \$trn



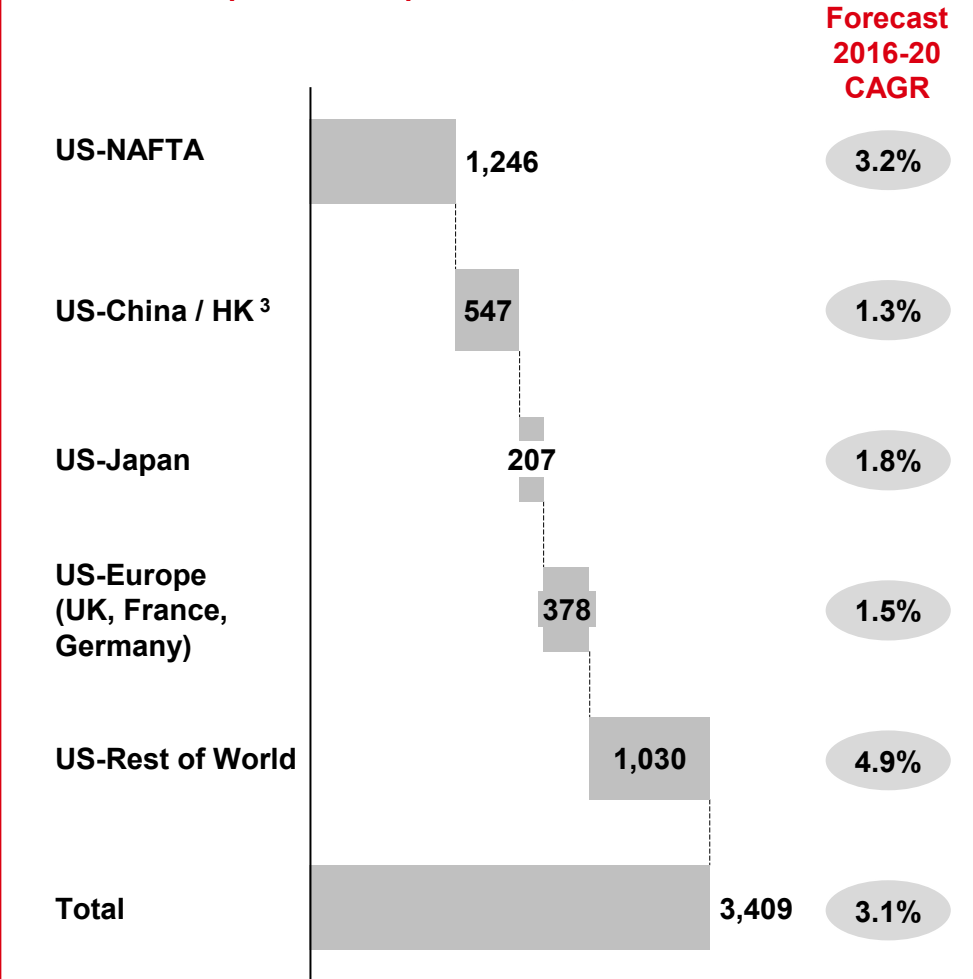
Proven network opportunity

Number of companies with annual sales >\$30m, by headquarter location², '000s



Strong trade fundamentals

Forecast US exports and imports³, 2020, \$bn



1. Global Insights (JUL17)

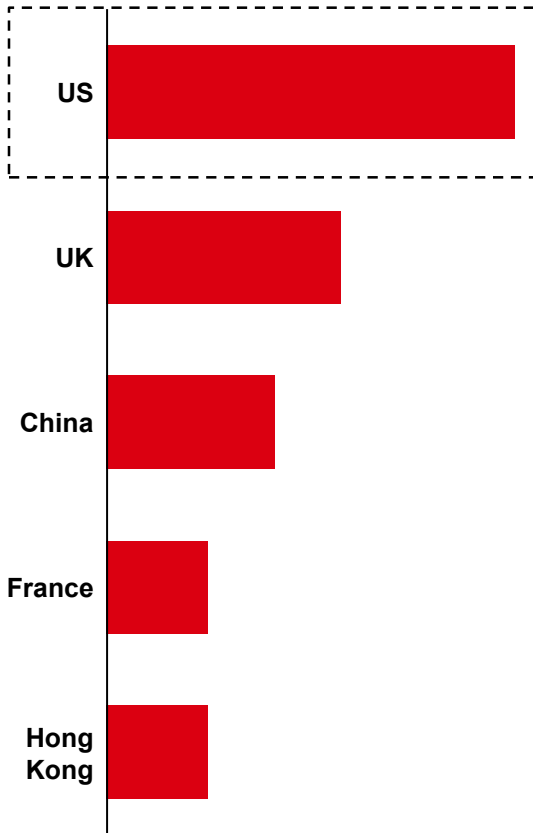
2. Source: Dun and Bradstreet, March 2017 – Headquartered Companies, or are actively importing/exporting, with Global Sales over \$30m

3. Oxford Economics (NOV16)

US continues to be a top contributor of cross border revenue to the Group

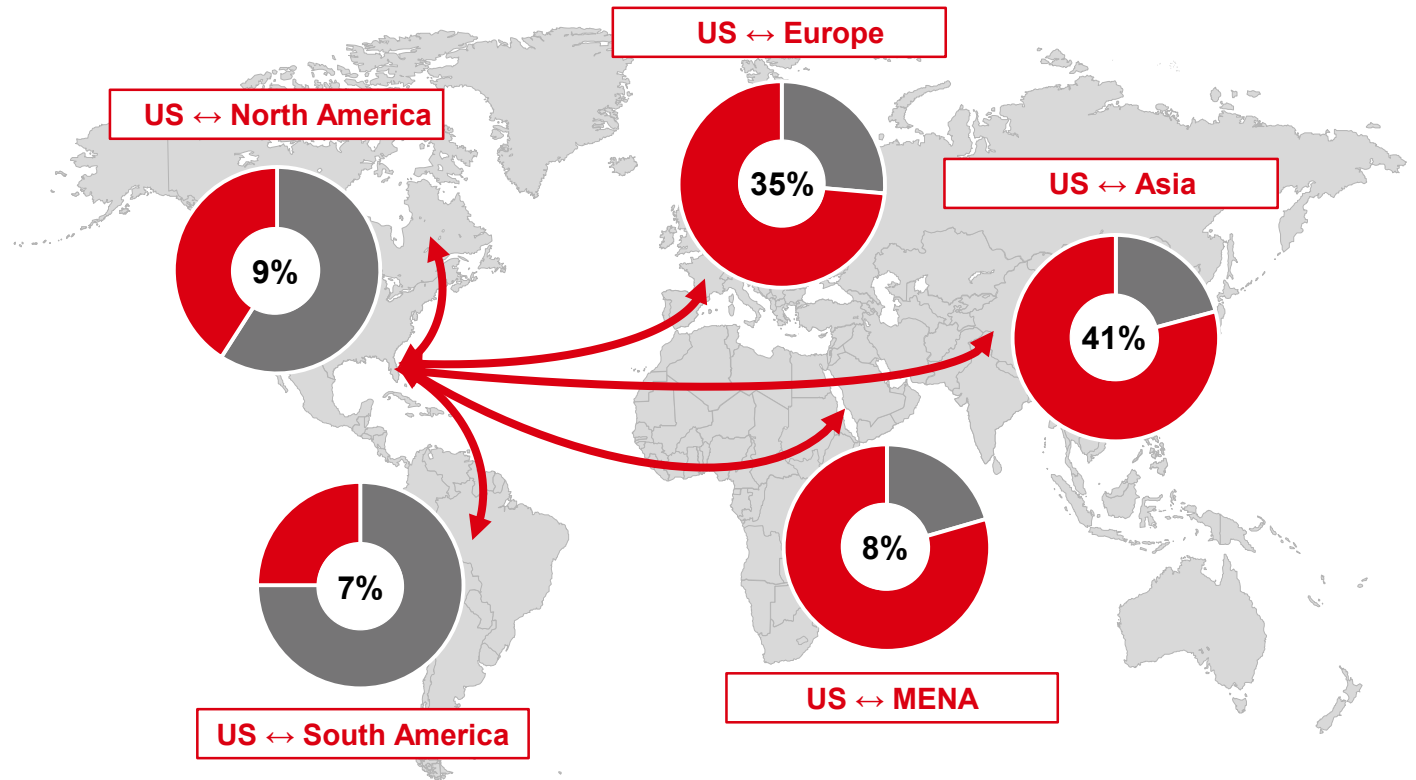
Top 5 contributors to Group

■ Outbound



US inbound and outbound client revenues showed double-digit growth in 2017^{1,2,3}

■ Inbound ■ Outbound



1. Inbound client revenue: International client revenue booked in the US. Outbound client revenue: International client revenue booked outside the US. International client revenue is revenue from international clients derived from an allocation of adjusted revenue based on internal management information. International clients are businesses and individuals with an international presence
 2. Pie charts show breakdown of inbound / outbound revenue between the US and North America (Canada + Mexico), South America, Europe, Asia and Middle East/North Africa (MENA) corridors
 3. Metric within the pie charts represent each corridor's total revenue as a percent of total US cross-border revenue. Data is as of YE2017

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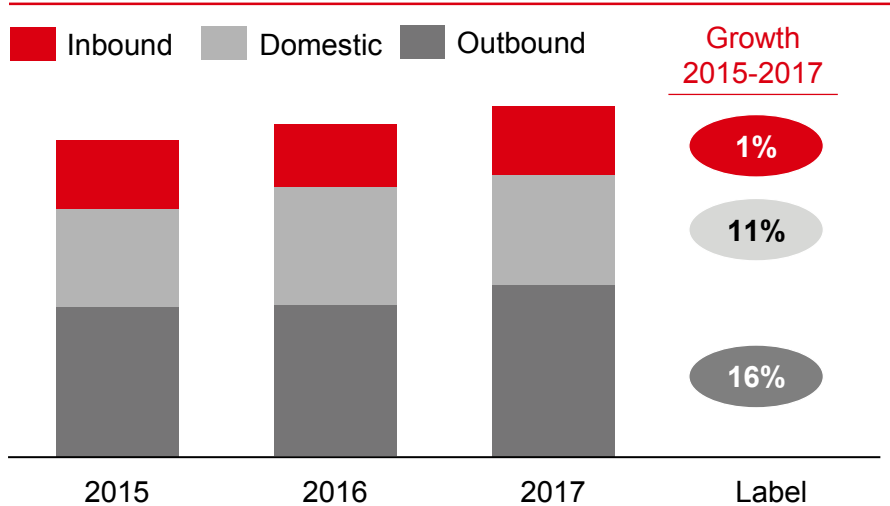
Strategic role of the US for HSBC's global network

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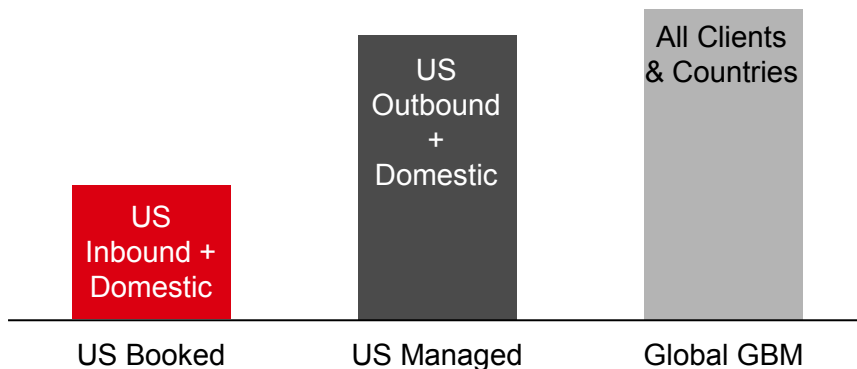
US Global Business update

A US GB&M connects multinational clients to international markets and delivers profitable growth to HSBC Group

US-related GB&M Income Mix by Source



US GB&M Returns on RWAs



Business Overview

Connecting Global Clients

- GB&M serves top multinational clients with collective knowledge of global economies and industries, providing products both domestically and across borders
- HSBC US is the largest exporter of revenues to Group. US GB&M clients produce higher returns outside the US than domestically. US inbound and outbound revenue production grew significantly in 2017

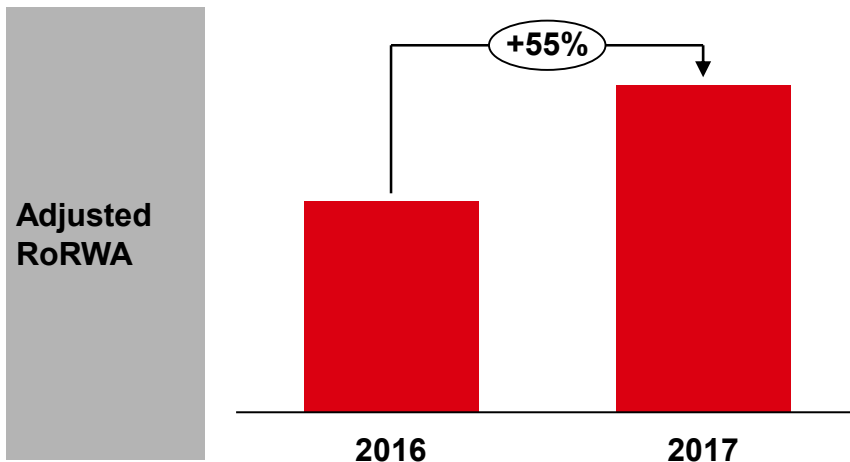
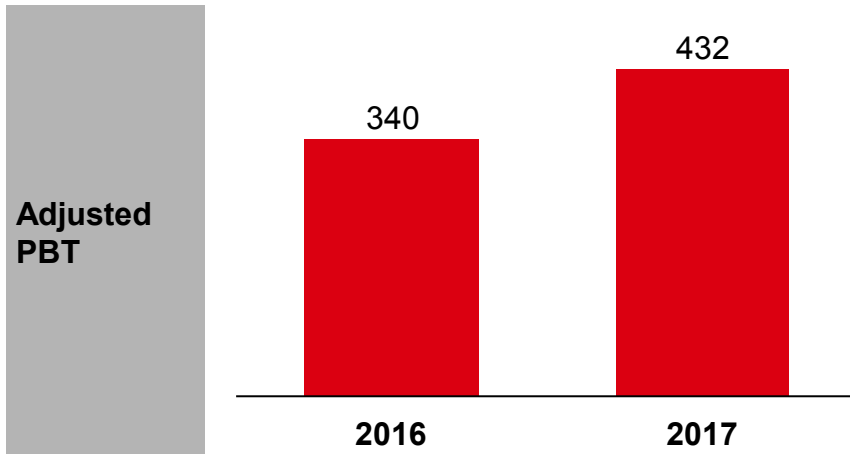
2018 Strategic Outlook

- Continued focus on driving high-returning inbound revenue from Europe, Asia and NAFTA
- Use the strong US balance sheet to increase structured and leveraged lending
- Reap benefits of the 2017 upgrade of Sales and Trading talent
- Deepen share of client wallet
- Invest in digital and e-platforms
- Maintain capital and balance sheet discipline

Definitions: Inbound=revenue booked to the US P&L from non-US clients. Outbound=revenue booked to a non-US P&L from US clients. Domestic=revenue booked to the US P&L from US clients

B US CMB shifting focus from returns improvement to disciplined and profitable revenue growth

Focus on returns improvement resulting in improved PBT; driven by cost and RWA saves and LICs improvement



Ambition: Leading International Commercial Bank in the US

US Strategy

- Revenue growth focused on:
 - New client acquisition efforts
 - Improved product cross-sell with a focus on capital-light products (e.g. GLCM¹, FX, DCM²)
 - Inbound revenue concentrating on priority trade corridors (e.g. UK, Hong Kong / China)
 - Deposit growth across all segments
- Growth strategy supported by investments in:
 - Priority markets / cities (e.g. Chicago, Los Angeles)
 - Product enhancements / capabilities
 - Improved client, product and market analytics
 - Digital platforms
 - In-country Desk Heads to push revenue (Inbound) to the US (e.g. UK, Hong Kong / China)
- Continue to support outbound revenue growth
- Maintain discipline around cost and RWA growth

Important Contributor to Global CMB

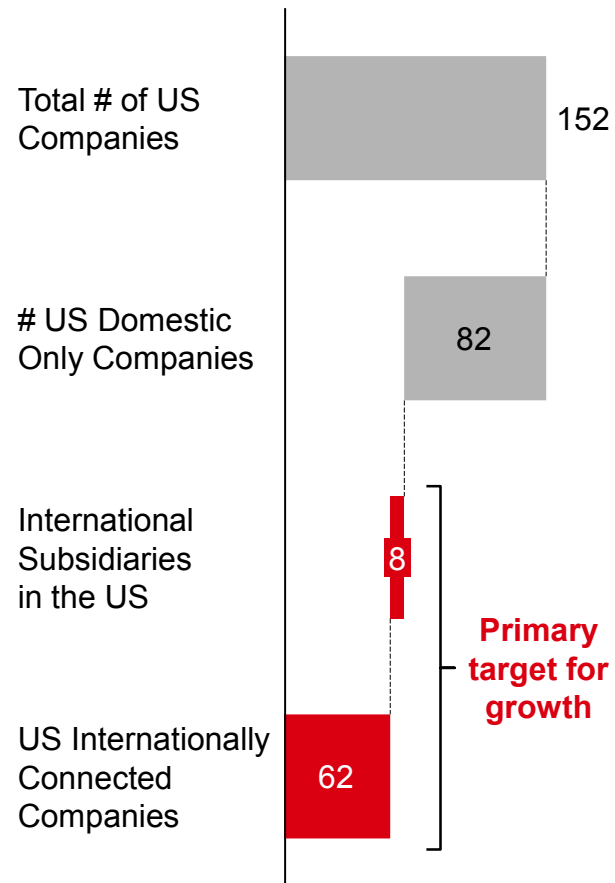
- 4th largest profit generating country for Global CMB
- Largest single country contributor of outbound revenue to other Group countries with strong and consistent growth rates

1. Global Liquidity and Cash Management
2. Debt Capital Markets

B Sizeable opportunity to grow the CMB business in the US

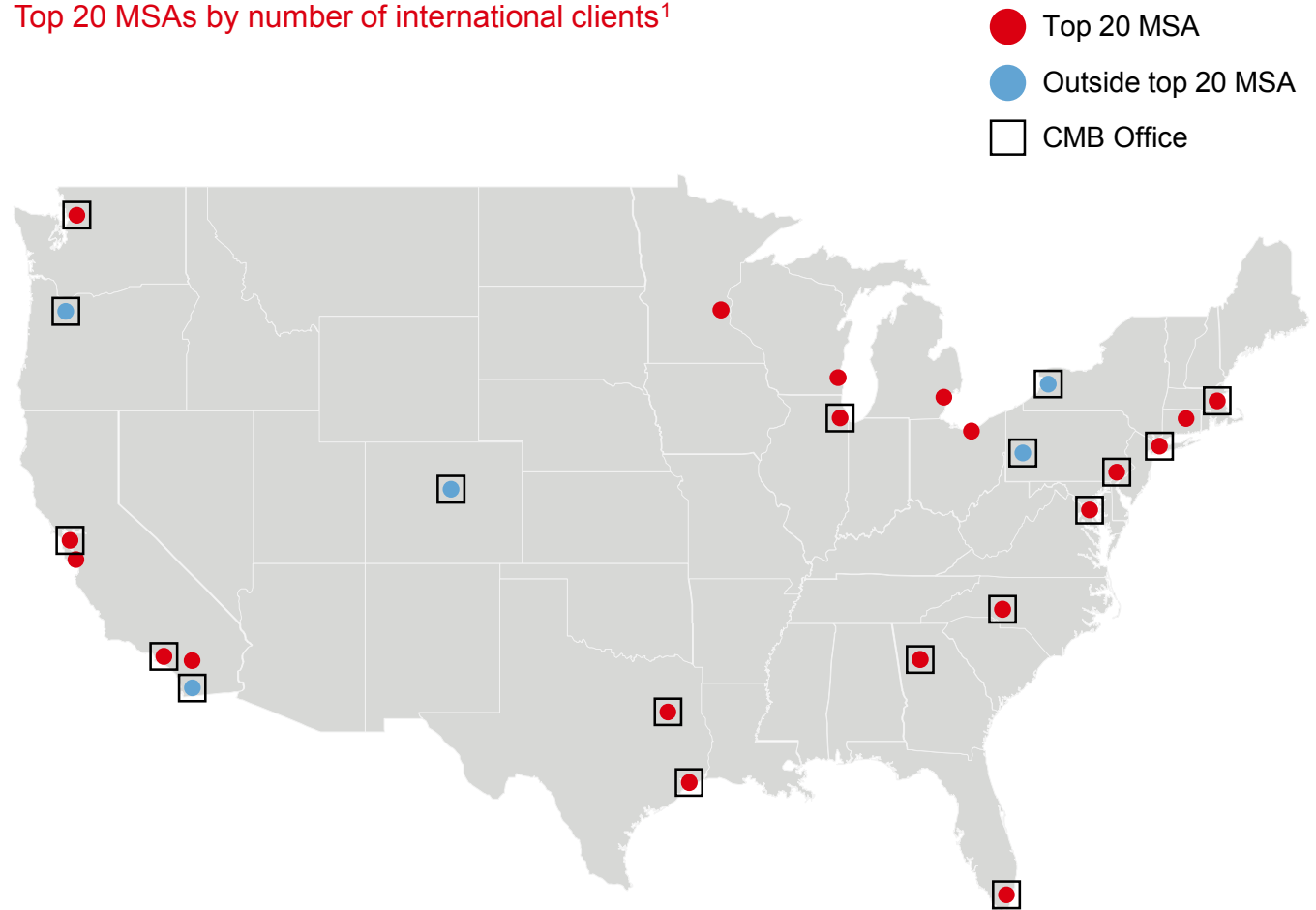
Over 70k internationally-connected companies operating in the US

of companies in US with annual turnover >\$5m¹, (000s)



CMB has offices and bankers in the majority of cities / MSAs² with the highest concentration of international companies

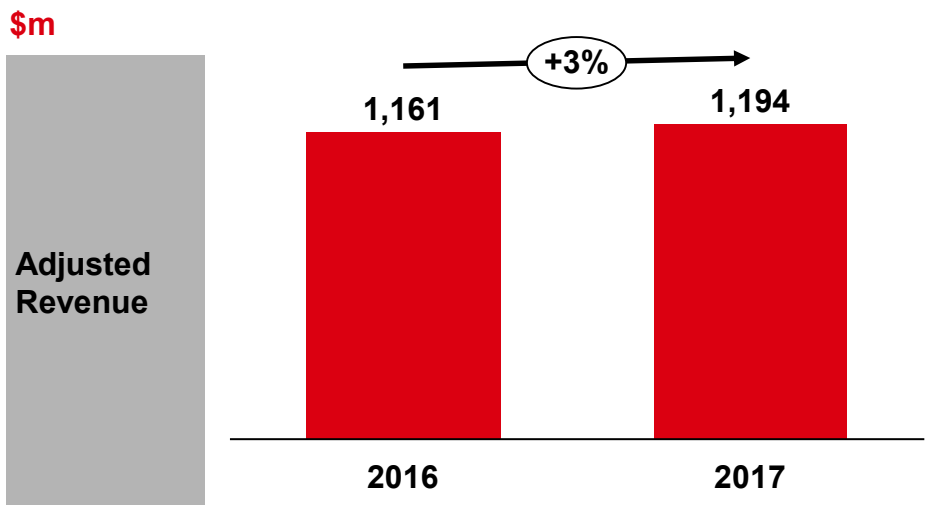
Top 20 MSAs by number of international clients¹



1. Source: Dun & Bradstreet, February 2018.

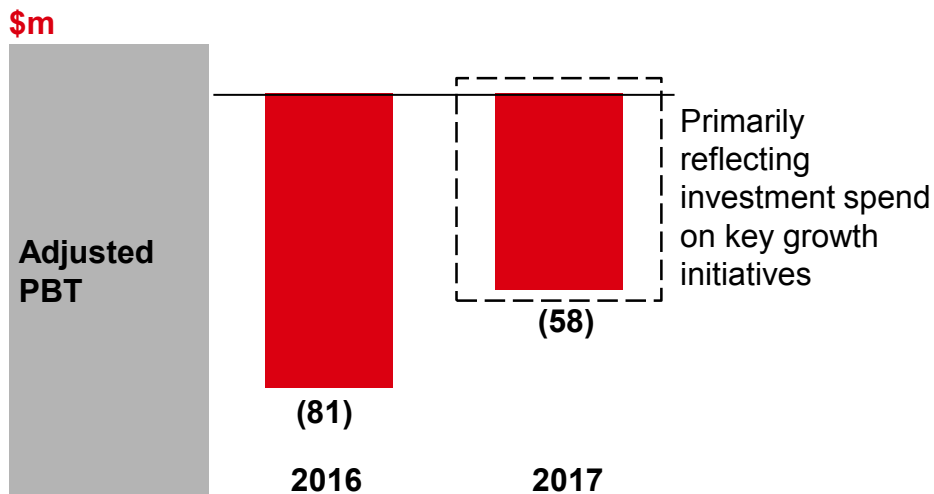
2. Metropolitan Statistical Area

© US RBWM: Achieved key milestones and is ready for growth



Key Milestones Achieved

- RBWM has improved profitability, grown revenue and deposits while transforming its core banking platform for an enhanced customer value proposition
- Successfully in-sourced residential mortgage loan originations; gaining greater control of customer journey and overall experience
- Exited Servicing Consent Order
- Launch of open market cards platform, with early positive results



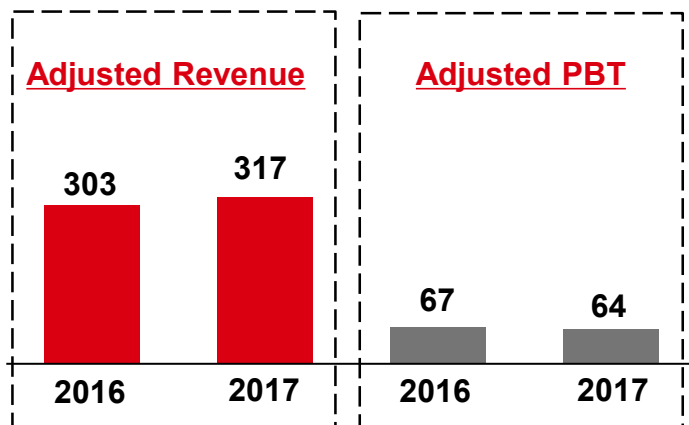
Key Growth Initiatives

- Deepen penetration of International customer segment where HSBC is positioned to be successful and can leverage its global platform
- Grow higher yielding unsecured personal loans, particularly to new to bank customers, via online lending
- Increase mortgage volume via improved customer experience and lead management
- Grow higher yielding Retail Business Banking lending and overall customer value proposition via enhanced product suite and digital services

D US GPB and Corporate Center

GPB

\$m



Key Milestones Achieved

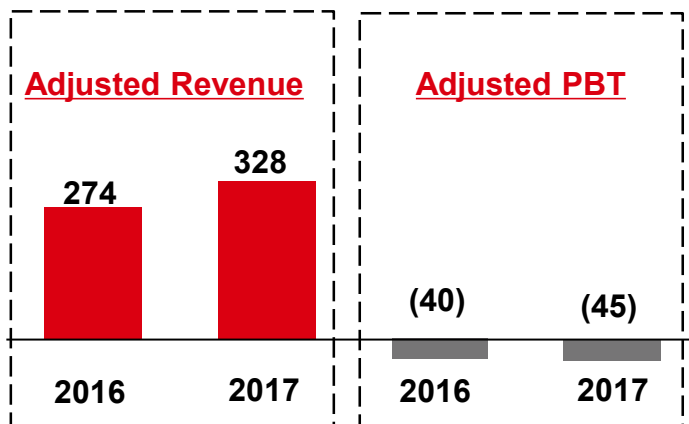
- De-risking of portfolio nearly complete
- Optimized US locations
- Up-tier, transfer or exit of small clients ongoing

Key Growth Initiatives

- Focus on optimizing investment products, platforms and sales model to drive growth
- Leverage the scale of GPB, Asset Management and Global Market platforms
- Drive growth in high value investment products
- Closer collaboration with CMB, RBWM and HSBC global affiliates

Corporate Center (excluding CML run-off portfolio)

\$m



Key Constituents

- Corporate Center primarily includes
 - The unwind of a legacy portfolio of structured credit products
 - Balance Sheet Management including immunization center charges
 - Income and expense associated with certain affiliate transactions
 - Liquidity cap charges from the impact of the framework adopted in preparation for the planned implementation of the Net Stable Funding Ratio

Appendix

Reconciliation of Adjusted¹ US Principal Business PBT to Reported US PBT

PBT (\$m)

	2017					2016				
	Adjusted US Principal Business	Significant items	Reported US Principal Business	CML run-off portfolio	Reported US	Adjusted US Principal Business	Significant items	Reported US Principal Business	CML run-off portfolio	Reported US
GB&M	527	(33)	494	-	494	100	(14)	86	-	86
CMB	432	3	435	-	435	341	(5)	336	-	336
RBWM	(58)	224	166	-	166	(81)	53	(28)	-	(28)
GPB	64	2	66	-	66	67	-	67	-	67
Corporate Center	(45)	(191)	(236)	(208)	(444)	(40)	(170)	(210)	(722)	(932)
Total	920	5	925	(208)	717	387	(136)	251	(722)	(471)

Revenue (\$m)

	2017					2016				
	Adjusted US Principal Business	Significant items	Reported US Principal Business	CML run-off portfolio	Reported US	Adjusted US Principal Business	Significant items	Reported US Principal Business	CML run-off portfolio	Reported US
GB&M	1,951	(28)	1,923	-	1,923	1,979	(4)	1,975	-	1,975
CMB	947	-	947	-	947	981	-	981	-	981
RBWM	1,194	234	1,428	-	1,428	1,161	72	1,233	-	1,233
GPB	317	-	317	-	317	303	-	303	-	303
Corporate Center	328	(2)	326	(65)	261	274	(5)	269	479	748
Total	4,737	204	4,941	(65)	4,876	4,698	63	4,761	479	5,240

1. To derive adjusted performance, we adjust for:

- the year-on-year effects of foreign currency translation differences; and
- the effect of significant items that distort year-on-year comparisons and are excluded in order to improve understanding of the underlying trends in the business

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