HSBC Holdings plc Annual Results 2017

Fixed Income Investor Presentation

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HSBC Key Credit Messages

HSBC

HSBC Key Credit Messages

Diversified businesses, capital strength, robust funding and liquidity

As at FY 2017

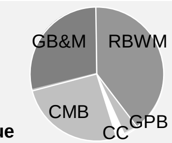
Conservative approach to risk management

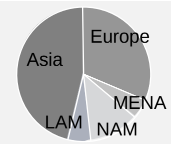
19bps
LICs as a % of average gross customer advances

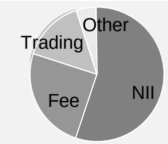
1.6%
Impaired loans as a % of gross customer advances

Diversified revenue streams by business, geography and type

Adj. Revenue







Strong capital position and capital generation ability

14.5%
CET1 ratio

5.6%
Leverage ratio

$9.7bn
Profit attributable to ordinary shareholders

Robust funding and liquidity metrics

70.6%
Advances / Deposits ratio

142%
Liquidity Coverage Ratio

$600bn
Unencumbered Liquid Assets

Strong credit ratings

A
HSBC Holdings S&P rating

A2
HSBC Holdings Moody's rating

AA-
HSBC Holdings Fitch rating

2018 Issuance Plan[1]	**Additional Tier 1**	**Tier 2**	**Senior MREL**
	$5-7bn	No current plans	$12-17bn

HSBC Group 2017 Performance

HSBC

Our highlights

2017 Full Year highlights

Reported PBT (2016: $7.1bn)
$17.2bn

Adjusted PBT (2016: $18.9bn)
$21.0bn

Reported RoE (2016: 0.8%)
5.9%

Reported RoTE (2016: 2.6%)
6.8%

A/D ratio (2016: 68.2%)
70.6%

CET1 ratio[2] (2016: 13.6%)
14.5%

4Q17 Financial Performance

- Reported PBT of $2.3bn was $5.7bn higher than 4Q16
- Adjusted PBT of $3.6bn up $0.8bn vs. 4Q16:
  - Revenue of $12.4bn up $1.1bn or 10%
    - RBWM up $366m or 8% primarily from increased deposit revenue; excluding favourable market impacts in insurance manufacturing, revenue increased by 6%
    - CMB up $349m or 11% mainly from our GLCM business
    - GB&M down $323m or 9% and included adverse credit and funding valuation movements; Global Markets revenue was down $300m or 19% reflective of the subdued trading conditions; GLCM and Securities Services continued to perform well
    - Corporate Centre up $695m as 4Q16 included significant adverse valuation differences on long-term debt and associated swaps, compared with minimal movements in 4Q17
  - LICs increased by $188m mainly driven by 2 individual corporate exposures
  - Increase in operating costs of 2% in part reflecting planned investment in business growth

Full year

- Reported PBT of $17.2bn was $10.1bn higher than 2016
- Adjusted PBT of $21.0bn was $2.1bn or 11% higher than 2016 with gains in all 4 global businesses
- Adjusted revenue of $51.5bn was $2.2bn or 5% higher than 2016 reflecting increases in our 3 main global businesses: increased deposit margins across RBWM and CMB; revenue growth in all GB&M businesses, notably GLCM and Securities Services
- Adjusted costs of $31.1bn increased by $1.1bn or 4% from an increase in investments for growth and performance-related pay
- Delivered positive jaws of 1.0%

Balance Sheet and capital

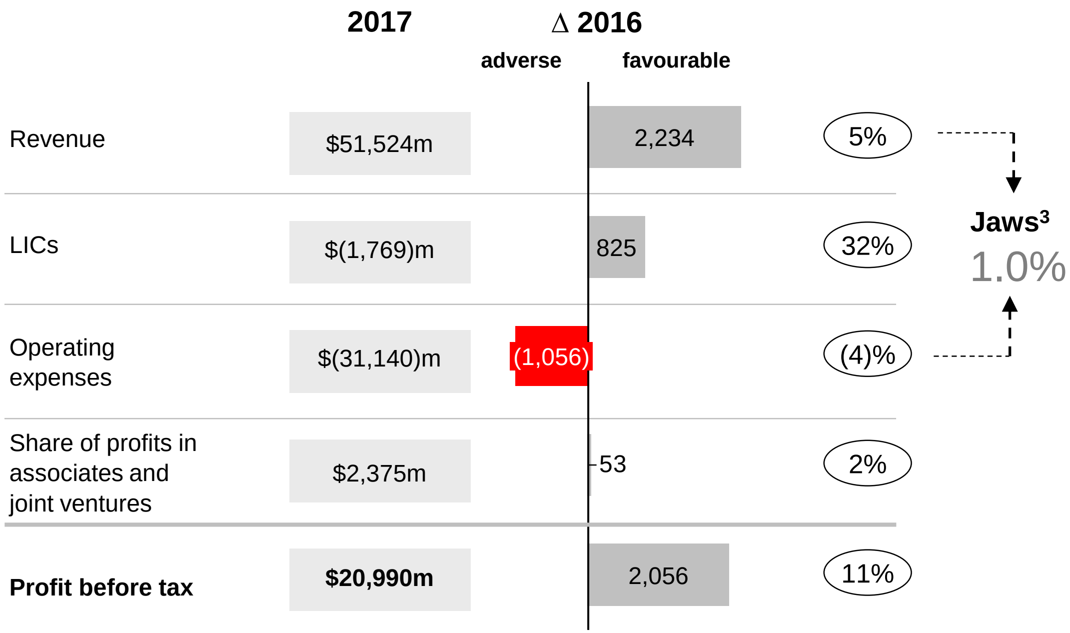
- $12bn or 1% lending growth since 3Q17 (excluding CML run-off and red-inked balances); $20bn or 2% growth in deposit balances
- Strong capital position with a CET1 ratio of 14.5% and a leverage ratio of 5.6%
- $1.6bn impact to NAV ($1.3bn through the Income Statement; $0.3bn through OCI) and 9bps impact to CET1 following US tax reforms
- Share buybacks as and when appropriate, subject to the execution of targeted capital actions and regulatory approval
- Additional Tier 1 capital issuance of between $5bn and $7bn planned during the first half of 2018

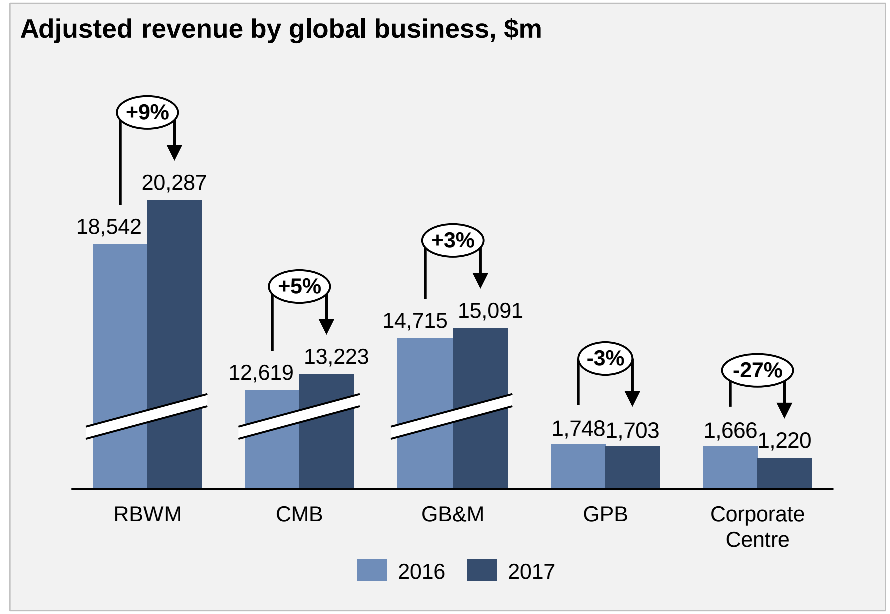
Strategy execution

- Delivered growth from our international network with a 6% increase in transaction banking product revenue and a 13% rise in revenue synergies between global businesses compared with 2016
- Achieved annualised run-rate savings of $6.1bn since our Investor Update in 2015, while continuing to invest in growth and regulatory programmes and compliance; 2017 exit run-rate in line with 2014 adjusted cost base
- Targeted initiatives removed a further $71bn of RWAs in 2017. Exceeded our RWA reduction target; extracting a total of $338bn of RWAs from the business since the start of 2015
- Shifted the Group's business mix towards Asia with growth of 15% and 20% vs. 2014 in revenue and customer lending respectively

2017 Profit before tax

Revenue growth in our three main global businesses





Adjusted PBT by global business, $m	2016	2017	Δ 2016	Δ %
RBWM	5,236	6,478	1,242	24%
CMB	5,904	6,780	876	15%
GB&M	5,509	5,774	265	5%
GPB	272	296	24	9%
Corporate Centre	2,013	1,662	(351)	(17)%
Group	**18,934**	**20,990**	**2,056**	**11%**

Adjusted PBT by geography, $m	2016	2017	Δ 2016	Δ %
Europe[4]	1,468	1,004	(464)	(32)%
Asia	14,188	16,090	1,902	13%
Middle East and North Africa	1,391	1,536	145	10%
North America	1,343	1,708	365	27%
Latin America	544	652	108	20%
Group	**18,934**	**20,990**	**2,056**	**11%**

4Q17 Profit before tax

Higher adjusted PBT from increased revenue, partly offset by increased LICs and higher costs

4Q17 vs. 4Q16

Adjusted PBT by item

	4Q17	Δ 4Q16 (adverse / favourable)	
Revenue	$12,440m	1,095	10%
LICs	$(658)m	(188)	(40)%
Operating expenses	$(8,758)m	(144)	(2)%
Share of profits in associates and joint ventures	$556m	44	9%
Profit before tax	**$3,580m**	807	29%

Adjusted PBT by global business, $m	4Q16	4Q17	Δ 4Q16	Δ %
RBWM	1,162	1,420	258	22%
CMB	1,431	1,694	263	18%
GB&M	1,380	836	(544)	(39)%
GPB	16	98	82	>100%
Corporate Centre	(1,216)	(468)	748	62%
Group	**2,773**	**3,580**	**807**	**29%**

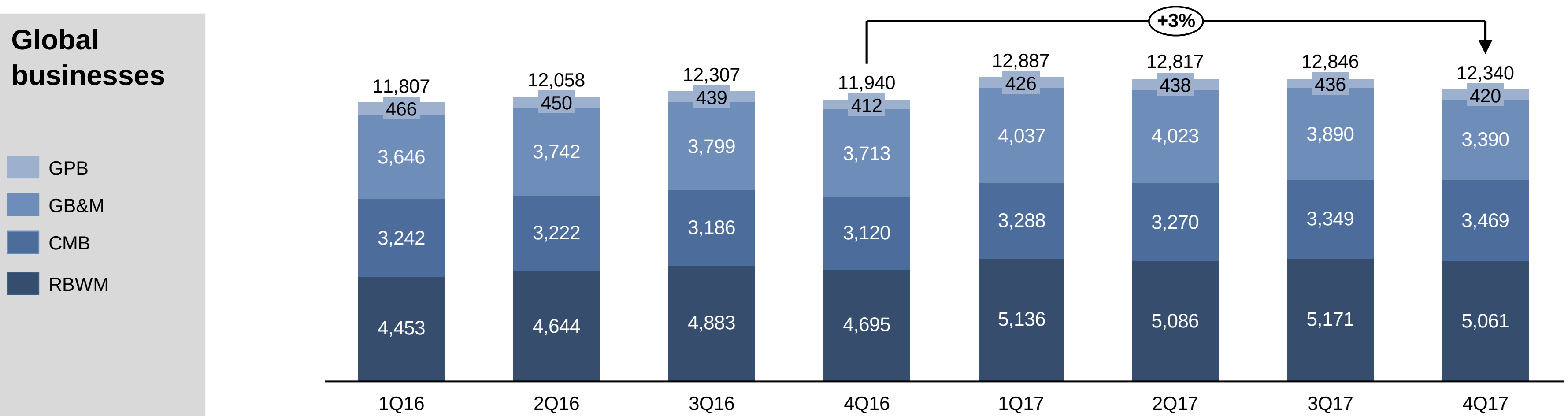
Adjusted PBT by geography, $m	4Q16	4Q17	Δ 4Q16	Δ %
Europe	(1,038)	(1,337)	(299)	(29)%
Asia	3,240	3,975	735	23%
Middle East and North Africa	210	346	136	65%
North America	272	421	149	55%
Latin America	89	175	86	98%
Group	**2,773**	**3,580**	**807**	**29%**

Revenue performance

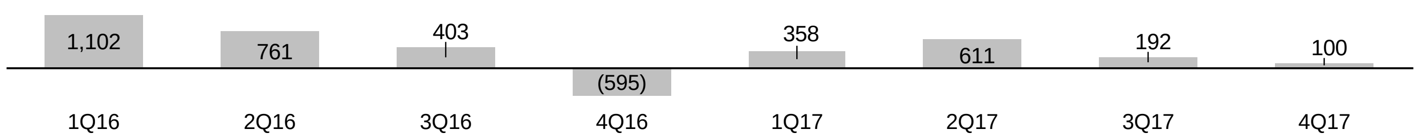
4Q17 revenue up vs. 4Q16 in RBWM and CMB partly offset by subdued trading conditions in GB&M

Revenue performance, $m[5]

Global businesses



Corporate Centre



Group revenue

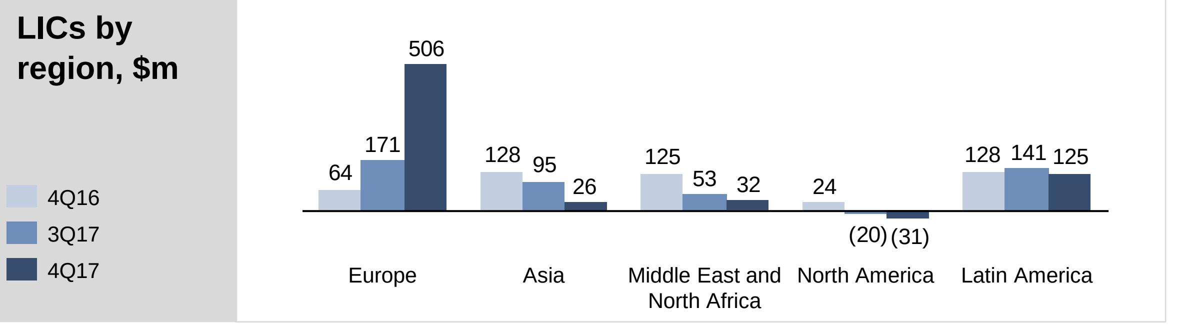
12,909	**12,819**	**12,710**	**11,345**	**13,245**	**13,428**	**13,038**	**12,440**

Loan impairment charges

Loan impairment charges by global business

	4Q16	3Q17	4Q17	Δ 4Q16	Δ 3Q17
Group, $m	**470**	**440**	**658**	**188**	**218**
as a % of gross loans and advances to customers	*0.21*	*0.18*	*0.27*	*0.06*	*0.09*
RBWM, $m	**261**	**232**	**186**	**(75)**	**(46)**
as a % of gross loans	*0.32*	*0.27*	*0.21*	*(0.11)*	*(0.06)*
CMB, $m	**202**	**186**	**190**	**(12)**	**4**
as a % of gross loans	*0.27*	*0.23*	*0.23*	*(0.04)*	*0.00*
GB&M, $m	**10**	**46**	**373**	**363**	**327**
as a % of gross loans	*0.02*	*0.07*	*0.59*	*0.57*	*0.52*
GPB, $m	**10**	**16**	**(1)**	**(9)**	**(17)**
as a % of gross loans	*0.10*	*0.17*	*0.01*	*(0.09)*	*(0.16)*
Corporate Centre, $m	**(13)**	**(41)**	**(90)**	**(77)**	**(49)**
as a % of gross loans	*(0.33)*	*(2.12)*	*(4.86)*	*(4.53)*	*(2.74)*

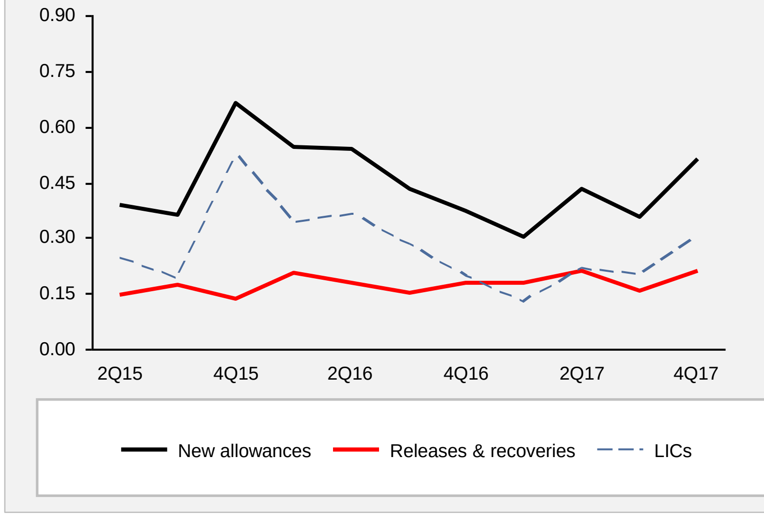
LICs by region, $m



Credit environment remains stable

- 4Q17 LICs are $218m higher than 3Q17, largely driven by two individual corporate exposures in Europe. Excluding these, LICs were lower, primarily in RBWM

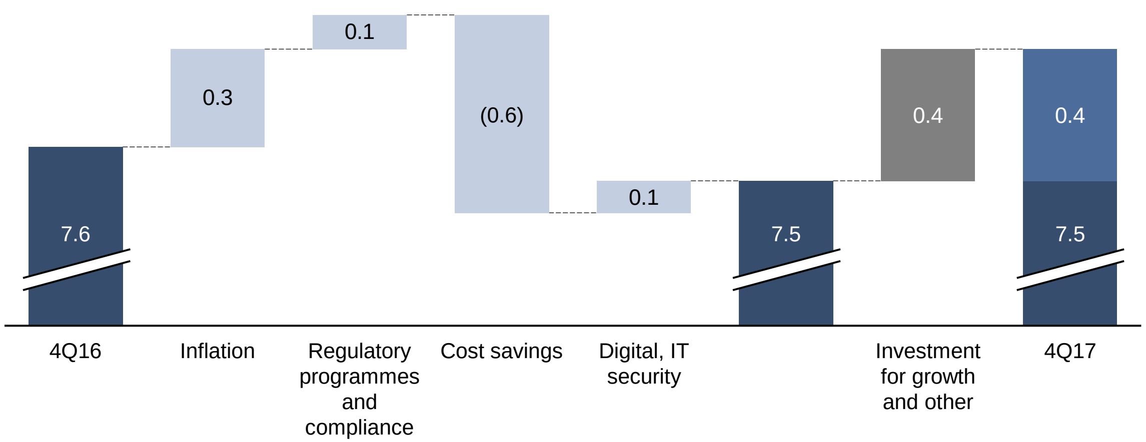
New allowances, allowance releases and recoveries as a % of gross loans and advances to customers[6]

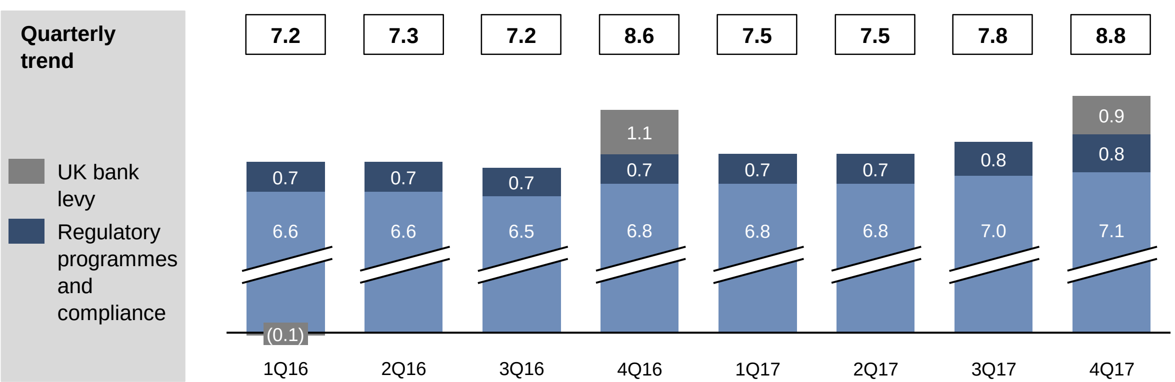


Operating expenses

Delivered positive jaws for 2017 while continuing to invest in growth

4Q17 vs. 4Q16 excluding UK bank levy, $bn





- **FY positive jaws of 1.0% for the Group;** all four global businesses delivered FY positive jaws
- **$0.3bn investment for growth in 4Q17** mainly in RBWM
  - grow the franchise and enhance credit card and personal loan propositions in the UK
  - improve distribution capacity across Asia
  - enhance Retail Banking products for small businesses and international customers
- Using FX rates as at 14th February 2018, **2017 adjusted costs would increase by c$1.3bn,** primarily due to the weakness of USD against GBP, with a slightly greater benefit to revenue

Capital adequacy

Strong capital base: Common Equity Tier 1 ratio of 14.5%

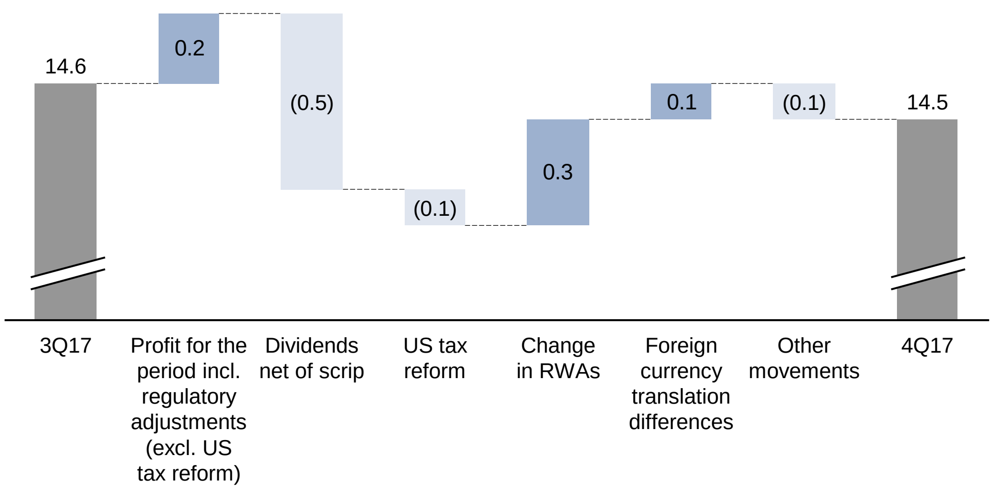
Regulatory capital and RWAs, $bn:

	3Q17	4Q17
Common equity tier 1 capital	129.8	126.1
Total regulatory capital	186.4	182.4
Risk-weighted assets	888.6	871.3

4Q17 CET1 movement, $bn:

At 30 Sep 2017	**129.8**
Profit for the period including regulatory adjustments (excluding US tax reform)	1.4
Dividends[7] net of scrip	(3.9)
US tax reform	(1.2)
Foreign currency translation differences	0.8
Other movements	(0.8)
At 31 Dec 2017	**126.1**

CET1 ratio movement, %:



Quarterly CET1 ratio and leverage ratio progression:

	4Q16	1Q17	2Q17	3Q17	4Q17
CET1 ratio	13.6%	14.3%	14.7%	14.6%	**14.5%**
Leverage ratio	5.4%	5.5%	5.7%	5.7%	**5.6%**

US tax reform	This movement in CET1 primarily reflects a reduction in the value of our deferred tax assets as a result of the change in legislation
IFRS 9	Implementation of IFRS 9, including benefits from classification and measurement changes, is expected to result in a favourable impact on our CET1 ratio applying the European Union's capital transitional arrangements. The fully loaded day one impact is expected to be negligible
Basel III reform	We are currently evaluating the final Basel III reform package, which we expect will be implemented from 1 Jan 2022

Balance sheet

Customer lending

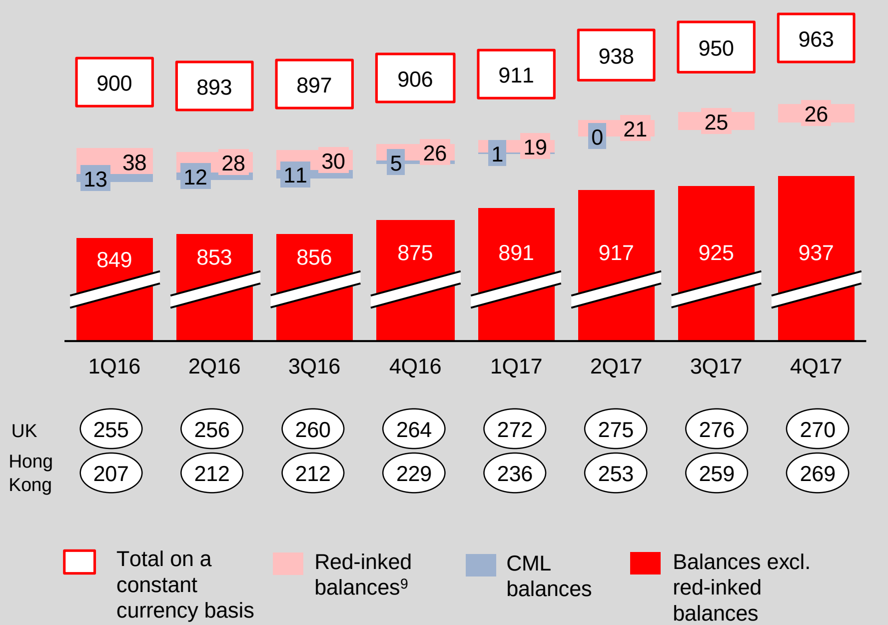
4Q17 Loans and advances to customers[8], $bn

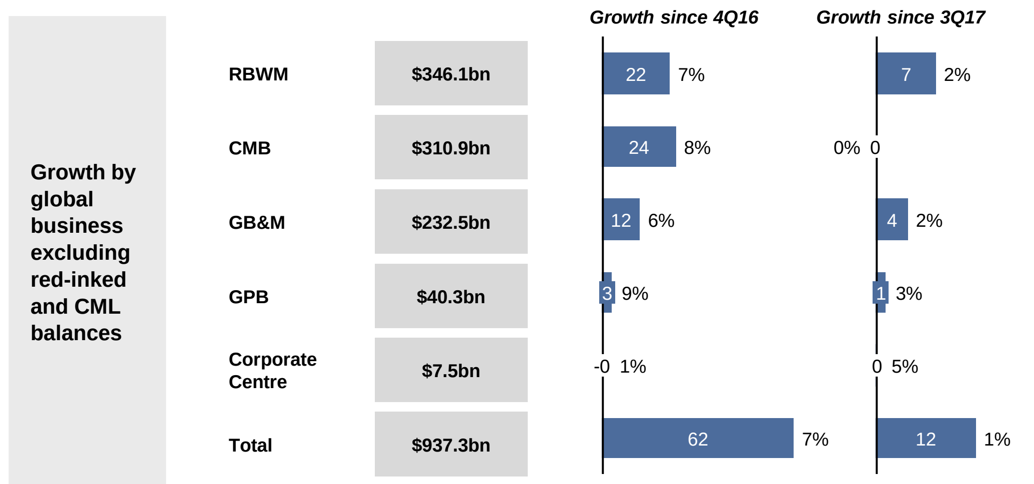
Balances increased by $13bn vs. 3Q17. Excluding CML and red-inked balances, lending increased by $12bn or 1%:

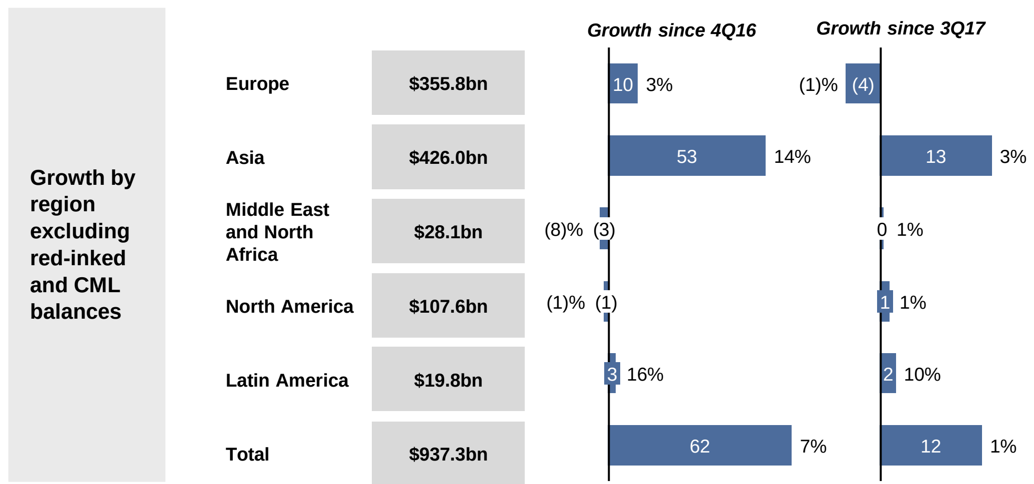
- Growth in term lending in Asia
- $1.5bn or 2% growth in mortgage balances in Hong Kong
- $2.3bn or 2% growth in mortgage balances in the UK

Balances increased by $57bn vs. 4Q16. Excluding CML and red-inked balances, lending increased by $62bn or 7%:

- $8.0bn or 12% growth in mortgage balances in Hong Kong
- $8.2bn or 7% growth in mortgage balances in the UK





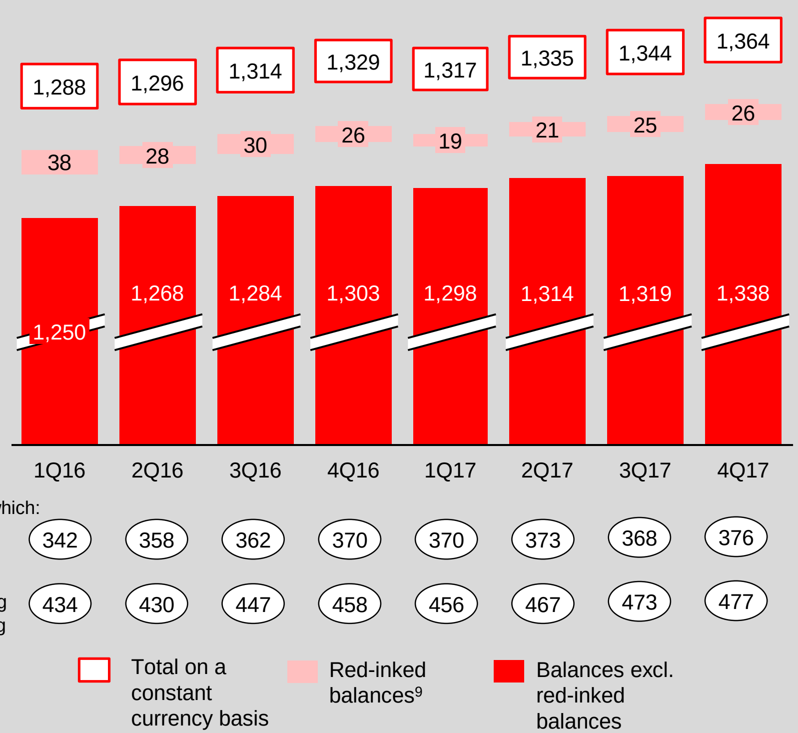


Balance sheet

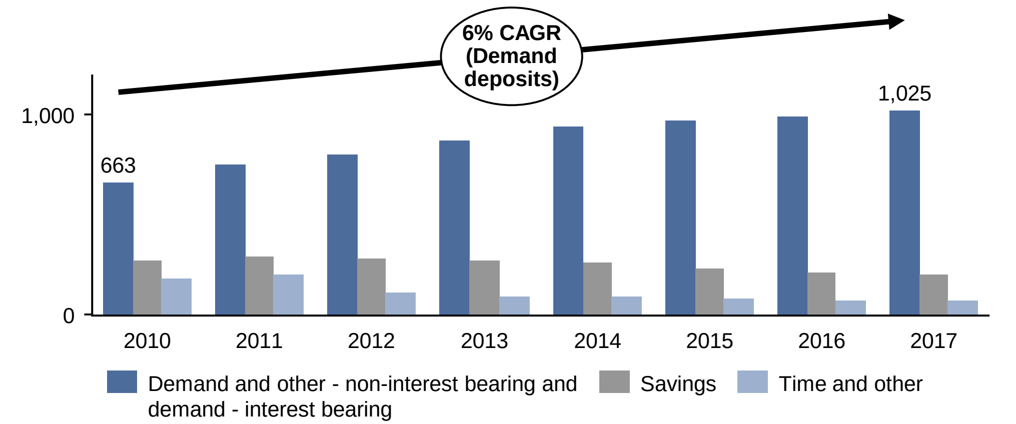
Customer accounts

4Q17 Customer accounts[8], $bn

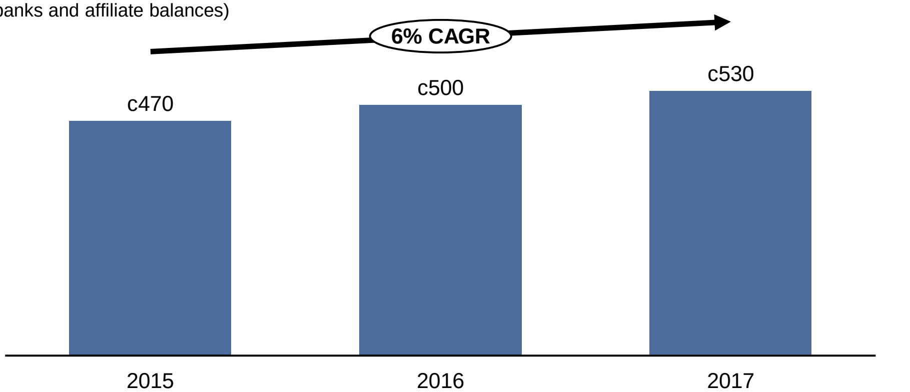
Excluding red-inked balances, customer accounts increased by $20bn vs. 3Q17 and $36bn vs. 4Q16 notably in the UK and Hong Kong



Customer accounts[10], US$bn



Average GLCM deposits, US$bn
(Includes banks and affiliate balances)



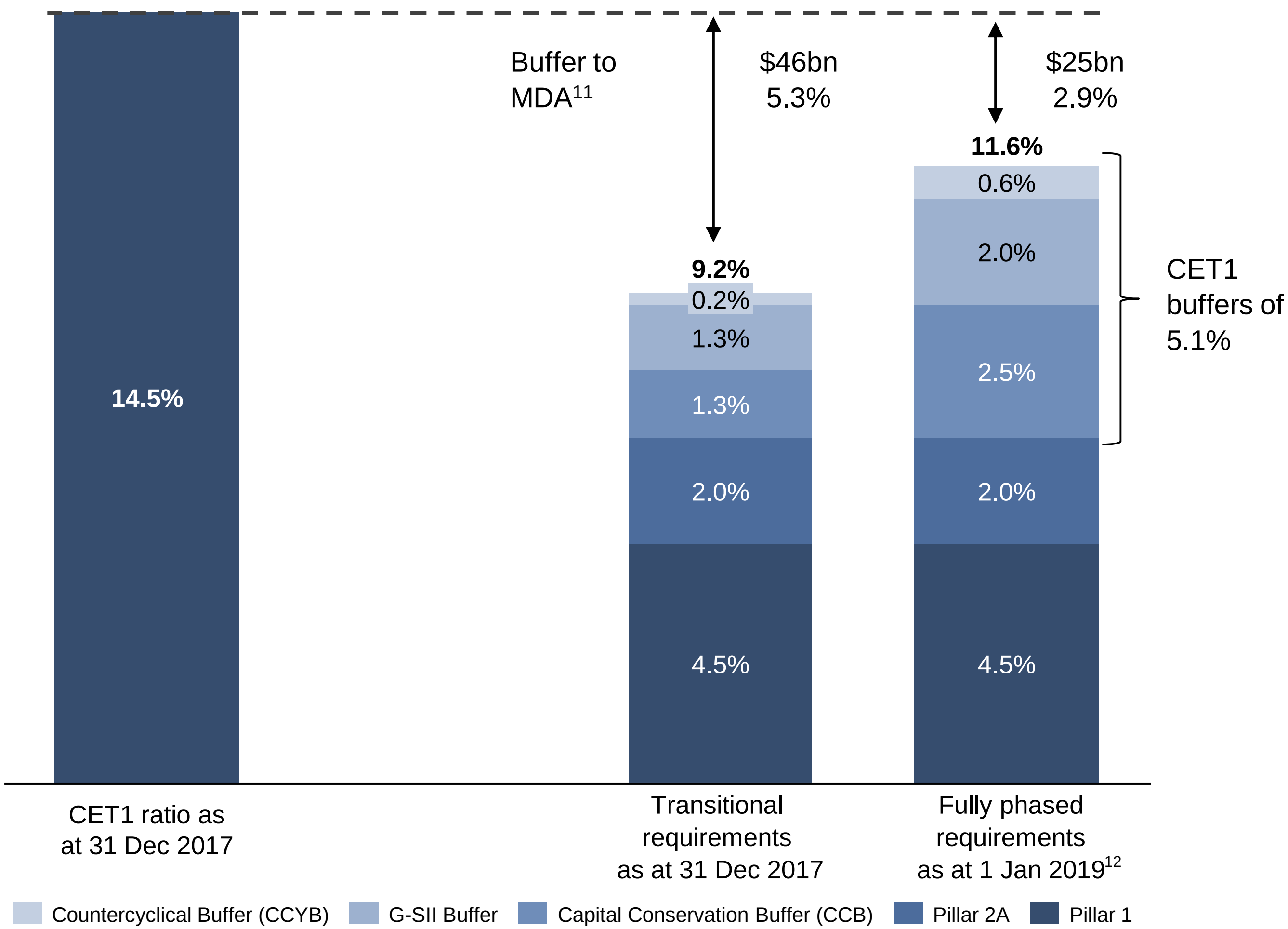
HSBC's Capital Structure and Debt Issuance

HSBC

Group CET1 requirements

Strong capital position versus requirements

Common Equity Tier 1 ratio, versus Maximum Distributable Amount (“MDA”)

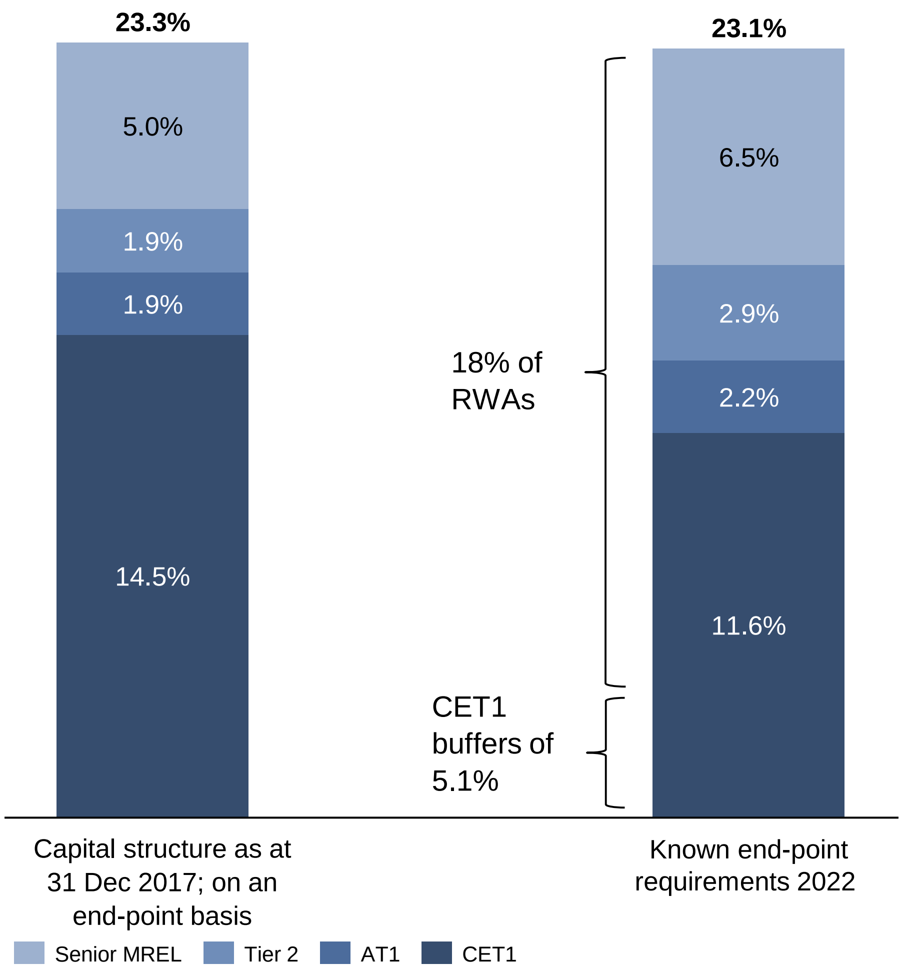


- 14.5% CET1 ratio, up 90bps from 31 Dec 2016
- $9.7bn of profit attributable to ordinary shareholders in the year, generating $3.7bn of CET1 (net of dividends)
- $38bn of distributable reserves

Total capital and estimated MREL requirements

HSBC well positioned to meet requirements

Capital structure versus regulatory requirements as a % of RWAs



- HSBC meets its estimated 2019 MREL requirements [13,14]
- HSBC group MREL requirement for 2022 is the greater of:
  - 18% of RWAs
  - 6.75% of leverage exposures
  - The sum of requirements relating to each of its resolution groups
- We are currently evaluating HKMA and Bank of England MREL proposals, and await final rules [15]
- Based on current assumptions, HSBC Senior MREL issuance requirement is estimated to fall in the range $60-80bn
- HSBC manages its capital and debt securities to meet end-point regulatory requirements, as well as funding and other business needs
- HSBC has a Multiple Point of Entry resolution strategy

Issuance strategy and plan

Issuance plans broadly consistent with prior year

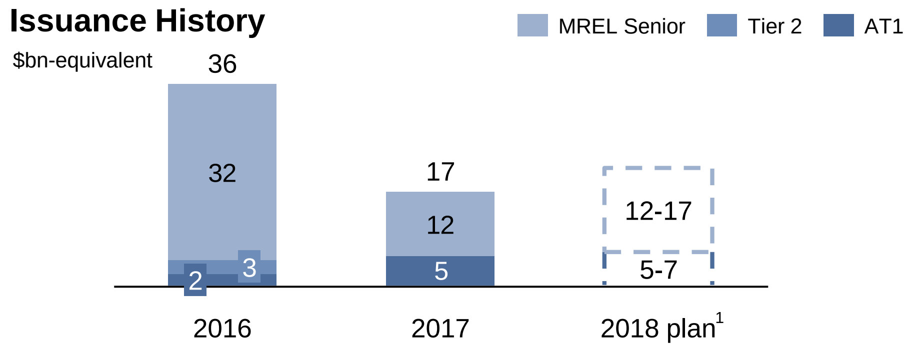
Issuance Strategy

- HSBC Holdings is the Group's principal issuing entity for AT1, T2 and Senior MREL
- MREL debt will be downstreamed, where appropriate, in a form compliant with local regulations
- Issuance over time to broadly match group currency exposures
- Issuance executed with consideration to our maturity profile
- Selected operating subsidiaries may issue to meet local funding and liquidity requirements

2017 Issuance Highlights

- Issued $12bn of MREL; $43bn outstanding at FY
- Issued $5bn of compliant AT1; $16bn outstanding at FY
- Issued a 'Sustainable Development Goal' bond, demonstrating HSBC's commitment to sustainable finance

Issuance History



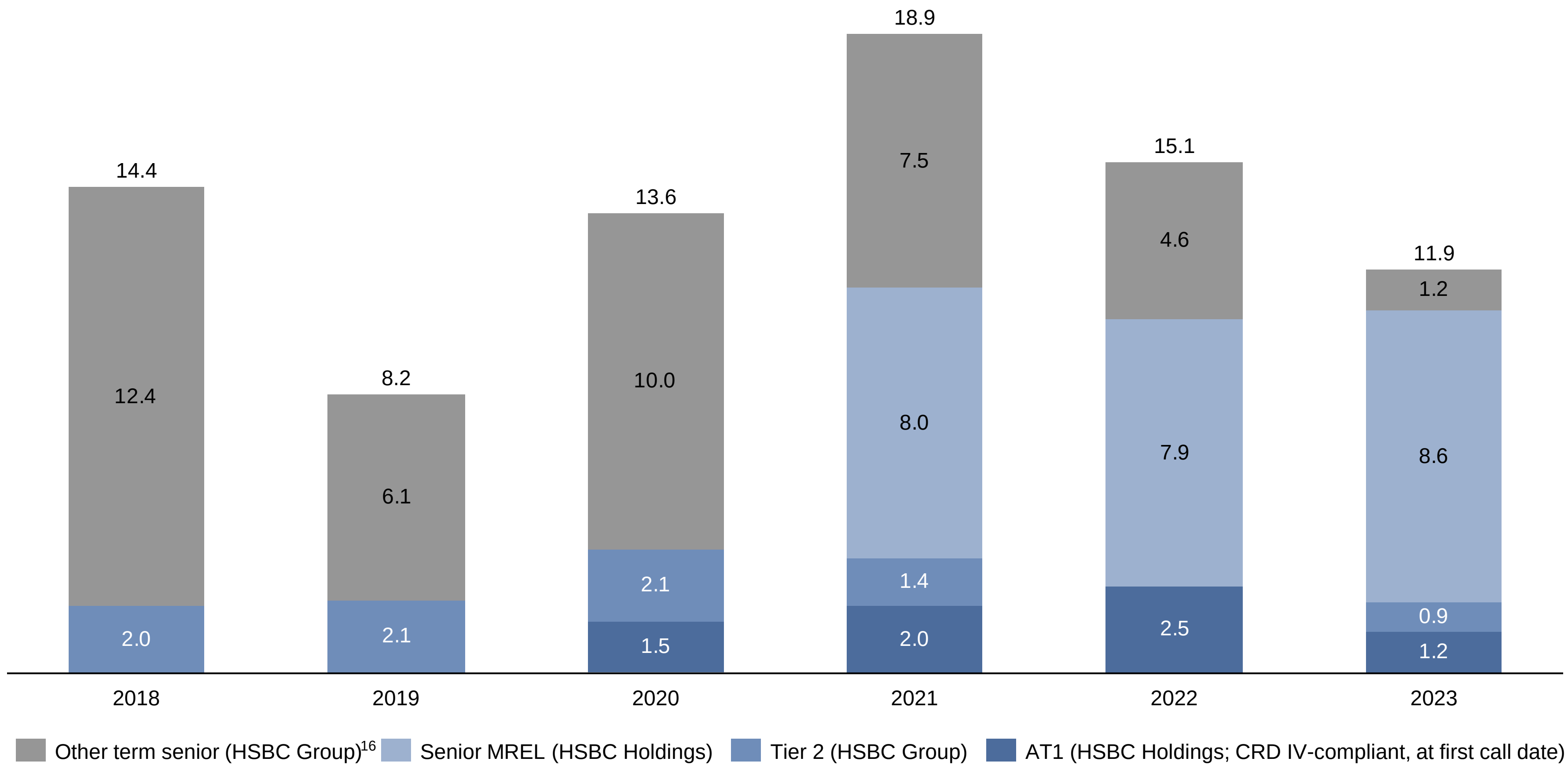
2018 Issuance Plan[1]	Additional Tier 1	Tier 2	Senior MREL
	$5-7bn	No current plans	$12-17bn

Redemption profile

Planned maturities to minimise refinance risk

Contractual maturity profile, $bn

As at 31 Dec 2017

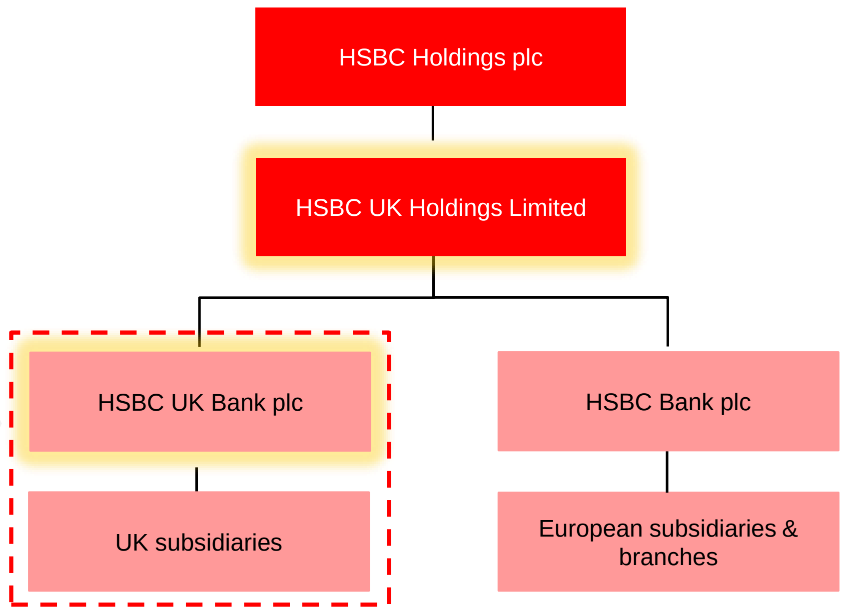


Establishing the UK Ring-Fenced Bank

HSBC Bank plc to remain issuer of its debt issuance programmes and outstanding securities

Illustrative future structure

Holding company
Operating entities
New entities already in existence



Our ring-fenced bank

- Will house HSBC's qualifying UK RBWM, CMB and GPB businesses
- Is a subsidiary of HSBC UK Holdings Limited, the new UK intermediate holding company

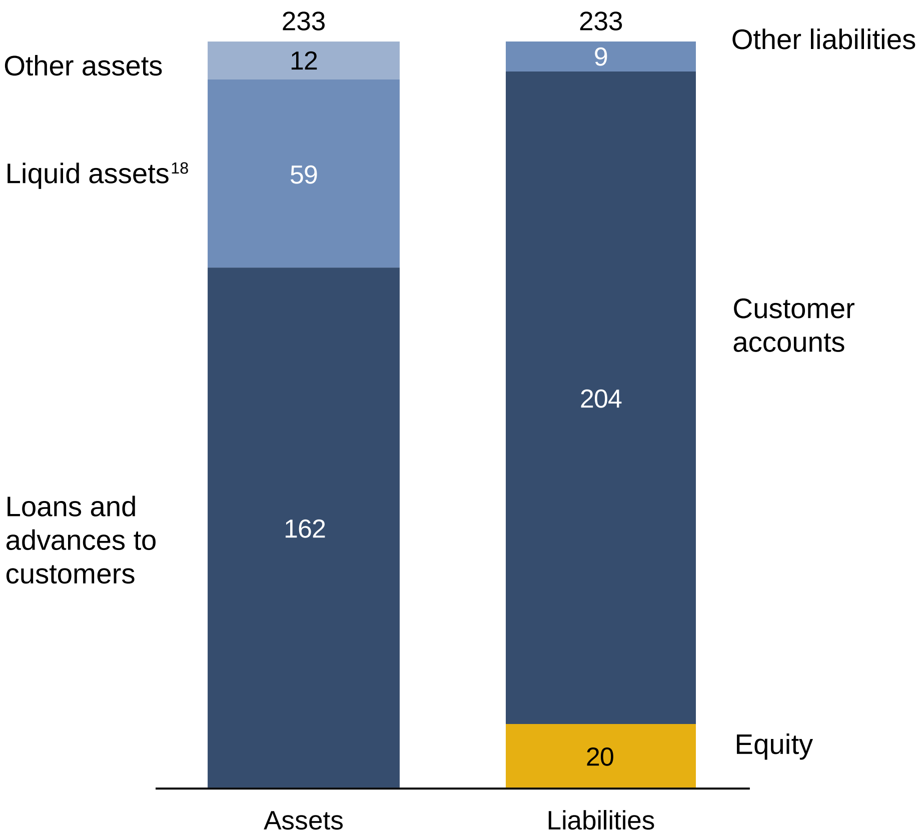
Our non ring-fenced bank

- At inception, will house HSBC's UK GB&M business and current overseas subsidiaries and branches
- HSBC Bank plc will remain the issuer under its debt issuance programmes
- Outstanding securities issued by HSBC Bank plc will continue to be obligations of the entity

Establishing the UK Ring-Fenced Bank

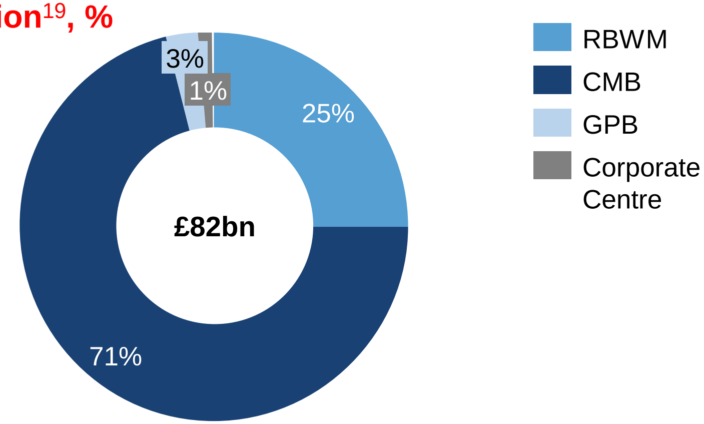
HSBC UK Bank plc – illustrative disclosures as at 31 December 2017[17]

Balance Sheet, £bn



HSBC Bank plc (excluding HSBC UK) is not presented due to various transfers and re-organisation activities which have not yet occurred and that will take place in the months leading to legal separation (including capital contributions).

RWA composition[19], %



Milestones completed

- ✓ HSBC UK and HSBC UK Holdings Limited now incorporated
- ✓ HSBC UK granted a restricted banking licence
- ✓ Ring Fence Transfer Scheme (‘RFTS’) court process initiated
- ✓ IT infrastructure established and c412,000 sterling and foreign currency customer accounts successfully migrated to new HSBC UK sort codes
- ✓ 21,571 employees transferred to HSBC UK
- ✓ More than 90% of the roles that need to move from London to Birmingham, HSBC UK’s headquarters, have now been filled
- ✓ The Board is fully constituted and the management team is in place

Indicative future milestones

- Final court hearing to sanction the RFTS is planned for May 2018
- Ring-fencing transfers planned for 1 July 2018
- HSBC Bank plc to be transferred to the UK Holding Company in H2 2018

Source: HSBC Bank plc Annual Report and Accounts 2017

Appendix

Appendix

Achieved eight out of ten of the actions we set out at our 2015 Investor Update

Strategic actions	Targeted outcome by 2017	Outcomes	Status
Actions to re-size and simplify			
Reduce Group RWAs by c.$290bn	– Group RWA reduction: $290bn	– RWA: $338bn gross reduction through management actions (>100% of our FX adjusted target)	✓
Optimise global network	– Reduced footprint	– Present in 67 countries at the end of 2017 (compared to 73 at the end of 2014)	✓
Rebuild NAFTA profitability	– US PBT c. $2bn	– US adjusted PBT excluding CML run-off portfolio increased 98% vs. 2014 to $0.9bn – $4.5bn in dividends to the Group, the first dividends from the US since 2006 – Completed the run-off of the CML legacy portfolio; reduced receivables from $24bn at 31 Dec 2014 to $0bn at 31 Dec 2017	-
	– Mexico PBT c. $0.6bn	– Mexico adjusted PBT of $0.4bn increased over ten-fold vs. 2014, supported by strong RBWM market share gains	✓
Set up UK ring-fenced bank	– Completed in 2018	– Received a restricted banking licence from regulators for UK ring-fenced bank – On track to have a fully functioning team in place for the opening of our new UK headquarters in the first half of 2018	✓
Deliver $4.5-5.0bn cost savings	– 2017 exit rate to equal 2014 adjusted operating expenses	– Achieved annualised run-rate saves of $6.1bn – Realised positive adjusted jaws of 1.0% in 2017 and 1.2% in 2016 – We have shifted our Onshore/Offshore FTE mix; 26% of group FTEs are now located offshore (in lower cost / high quality locations), up from 22% at the end of 2014	✓
Actions to redeploy capital and invest			
Deliver growth above GDP from international network	– Revenue growth of international network above GDP	– Transaction banking adjusted revenue +5% vs. 2015; gained GTRF share in key markets, including Hong Kong in 2017 – Revenue from collaboration between our businesses grew +8% vs. 2015; particularly strong cross-sell to GB&M clients in 2017 – Awarded '#1 Global Trade Finance Bank' by 2018 *Euromoney* Trade Finance Survey	✓
Investments in Asia – prioritise and accelerate	– Market share gains – c. 10% growth p.a. in assets under management	– Guangdong customer advances of $6.2bn is +50% vs. 2014 – Asset management AuM and insurance annualised new business premiums +49% and +32% vs. 2014, respectively – Launched HSBC Qianhai Securities, the first securities JV in mainland China to be majority-owned by an international bank – Awarded 'Asia's Best Bank' by *Euromoney* Awards for Excellence 2017	✓
RMB internationalisation	– $2.0-2.5bn revenue	– RMB internationalisation revenues of $1.2bn, -26% vs. 2014; impacted by a decrease in overall market volumes – Ranked #1 in offshore RMB bond underwriting, with market share nearly doubling since 2015 to 28% as per Bloomberg; first in Bloomberg league table in each year from 2011 to 2017 – Obtained the first Panda bond license to underwrite bonds for non-financial companies among foreign banks – Best Overall Offshore RMB Products and Services in the *Asiamoney* Offshore RMB Poll for the past six years	-
Global Standards – safeguarding against financial crime[20]	– Implementation completed	– We have completed the introduction of the major compliance IT systems, put in place our AML and sanctions policy framework, and assessed our current financial crime risk management capabilities to identify any gaps and enable integration into our day-to-day operations. All of the actions that we committed to in 2013 as part of the Global Standards programme have been completed or superseded. Further improvements are underway to make our reforms more effective and sustainable. – By end 2017: Introduction of major compliance IT systems; AML and sanctions policy framework in place; assessment against the capabilities of our Financial Crime Risk Framework to enable the capabilities to be fully integrated in our day-to-day operations.	✓ *
		– Post 2017: Fully integrate the policy framework and associated operational processes into day-to-day financial crime risk management practices in an effective and sustainable way. Target end state, which has been agreed with the Financial Conduct Authority, to be achieved. Major IT systems continue to be fine-tuned and recommendations from the Monitor/Skilled Person continue to be implemented.	
Headquarters review	– Completed review by end of 2015	– Review completed: Decision announced February 2016 to keep London as global HQ location	✓

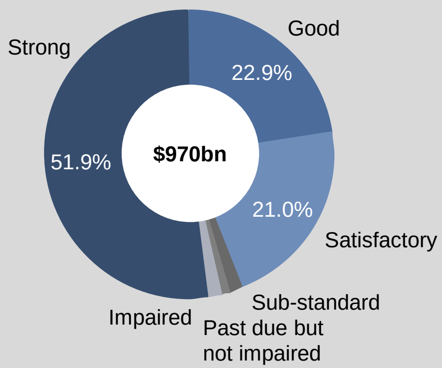
*As set out under 'Outcomes'

Appendix

Credit quality remains robust reflecting the Group's conservative approach to risk management

Gross loans and advances to customers - $970bn

Total gross customer loans and advances to customers by credit quality classification

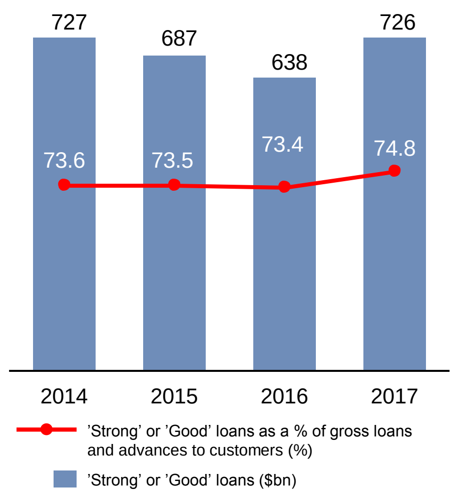


Total gross customer loans and advances to customers of $970bn

Increased by $101bn (12%) from FY16 on a reported basis

Increased by $56bn (6%) from FY16 on a constant currency basis

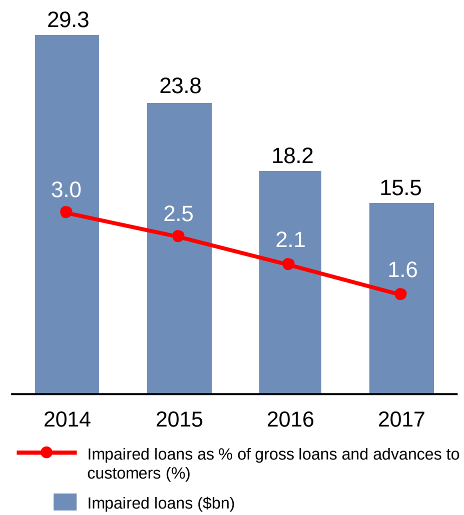
Loans and advances to customers of 'Strong' or 'Good' credit quality, $bn



c75% of gross loans and advances to customers of 'Strong' or 'Good' credit quality, equivalent to external Investment Grade credit rating.

Proportion of gross loans and advances rated 'Strong' or 'Good' up 140bps from 2016.

Impaired loans and advances to customers, $bn

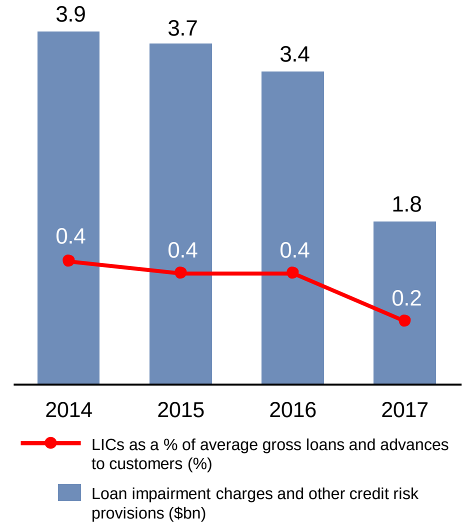


Impaired loans decreased by 50bps to 1.6% of gross loans in 2017.

Both the impaired loan ratio and the absolute amount of impaired loans have halved since 2014 on a reported basis.

The run down of CML loans to zero in 2017 was a significant factor in the reduction of impaired loans.

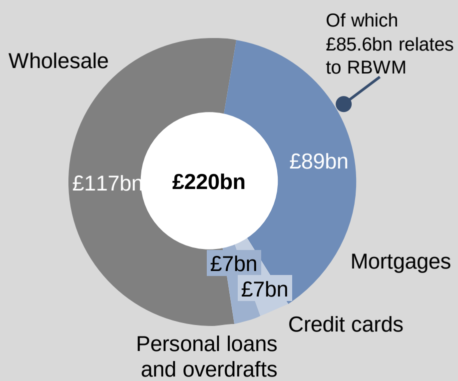
Loan impairment charges and other credit risk provisions (LICs), $bn



LICs halved in 2017 on generally improving credit quality across the businesses, along with the disposal of the Brazil business.

Excluding Brazil, LICs are down 33% on 2016.

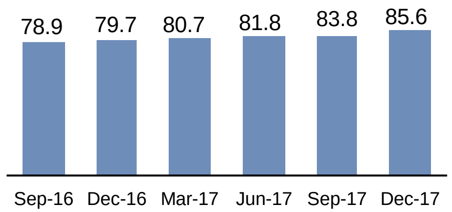
Total UK[21] gross customer advances - £220bn



Total UK gross customer advances of £220bn ($298bn) which represents 31% of the Group's gross customer advances:

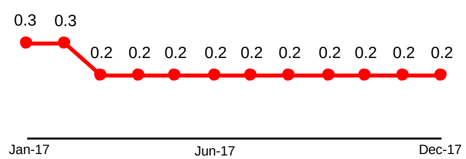
- Continued mortgage growth whilst maintaining extremely conservative loan-to-value (LTV) ratios
- Low levels of buy-to-let mortgages and mortgages on a standard variable rate (SVR)
- Low levels of delinquencies across mortgages and unsecured lending portfolios
- Commercial real estate lending to high quality operators and conservative LTV levels

RBWM residential mortgages[22], £bn



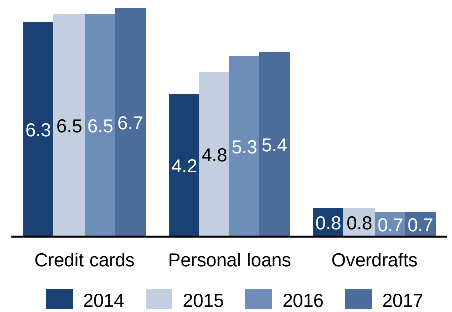
By Loan to Value (LTV)	
Less than 50%	£46.2bn
50% - < 60%	£14.2bn
60% - < 70%	£11.3bn
70% - < 80%	£8.9bn
80% - < 90%	£4.4bn
90% +	£0.6bn

90+ day delinquency trend, %

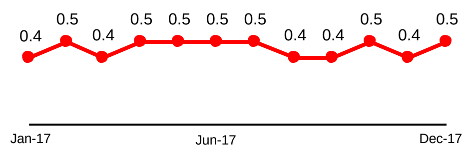


- c.28% of mortgage book is in Greater London
- LTV ratios:
  - c54% of the book < 50% LTV
  - new originations average LTV of 59%;
  - average LTV of the total portfolio of 40%
- Buy-to-let mortgages of £2.8bn
- Mortgages on a standard variable rate of £3.9bn
- Interest-only mortgages of £21.1bn
- 2017 net mortgage lending market share of 13.7%

RBWM unsecured lending[23], £bn

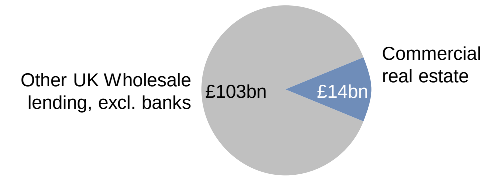


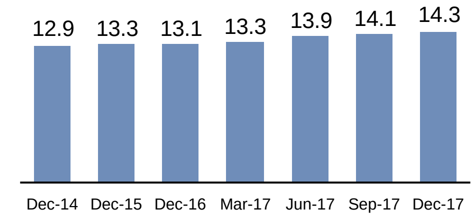
Credit cards: 90+ day delinquency trend, %



- Only c16% of outstanding credit card balances are on a 0% balance transfer offer
- HSBC does not provide a specific motor finance offering to consumers although standard personal loans may be used for this purpose
- Growth in unsecured lending has been across both personal loans and credit cards with tight risk controls. Credit cards have moved to slightly higher risk segments than previously booked

Commercial real estate, £bn



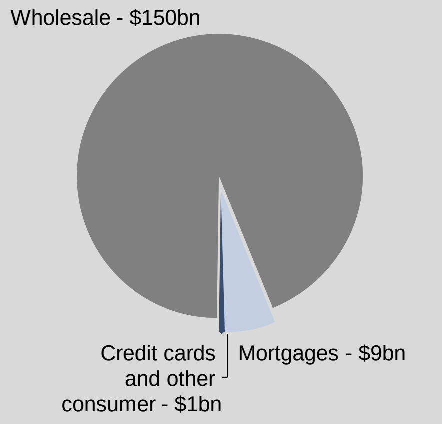


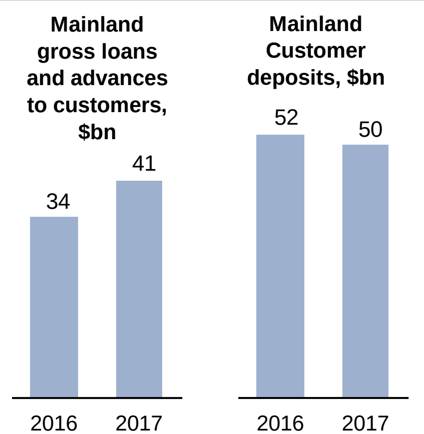
We lend to high quality real estate operators:

- 41% general financing vs. 59% specific property-related financing
- 51% in London and the South East
- 88% investment grade
- We have maintained conservative LTV levels and have strong interest cover

Appendix
Mainland China drawn risk exposure[24]

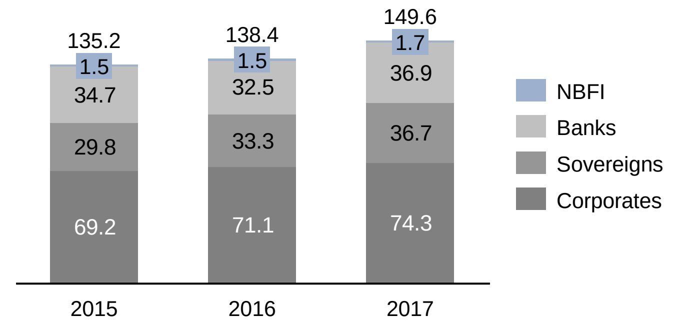
Total China drawn risk exposure of $160bn





- Total China drawn risk exposure of $160bn of which 58% of wholesale is onshore.
- Wholesale: $150bn; Retail: $10bn
- Gross loans and advances to customers of c$41bn in Mainland China (by country of booking, excluding Hong Kong and Taiwan)
- Losses remain low (onshore loan impairment charges of less than $100m in FY17)
- Impaired loans and days past due trends remain low
- HSBC's onshore corporate lending market share is 0.14% which allows us to be selective in our lending

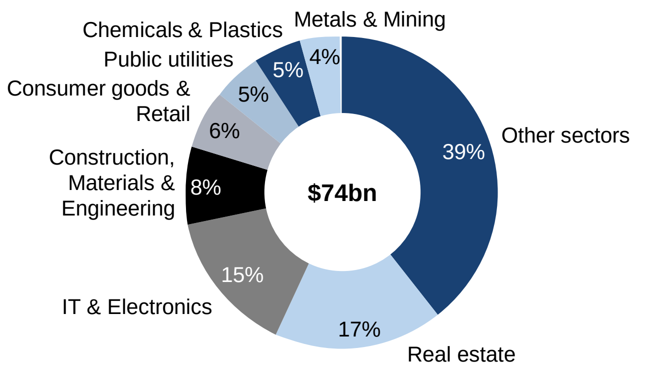
Wholesale analysis, $bn



Wholesale lending by risk type:

CRR	1-3	4-6	7-8	9+	Total
Sovereigns	36.7				36.7
Banks	36.4	0.5			36.9
NBFI	1.4	0.3			1.7
Corporates	46.7	27.1	0.2	0.3	74.3
Total	**121.2**	**27.9**	**0.2**	**0.3**	**149.6**

Corporate Lending by sector:



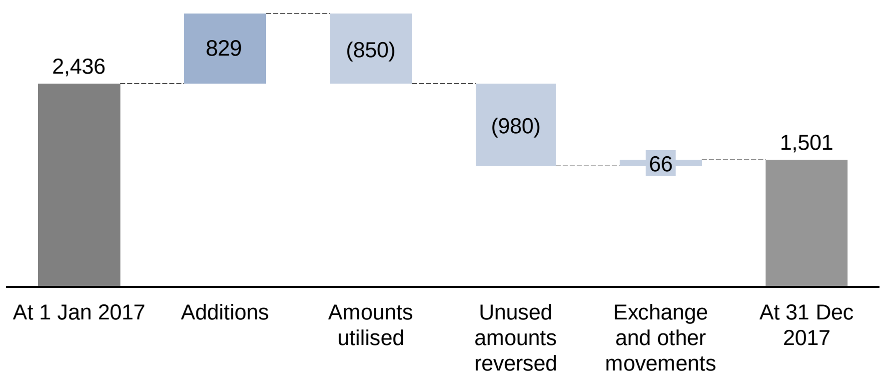
- c28% of lending is to Foreign Owned Enterprises, c33% of lending is to State Owned Enterprises, c39% to Private sector owned Enterprises
- Corporate real estate
  - 57% sits within CRR 1-3 (broadly equivalent to investment grade)
  - Highly selective, focusing on top tier developers with strong performance track records
  - Focused on Tier 1 and selected Tier 2 cities

Appendix

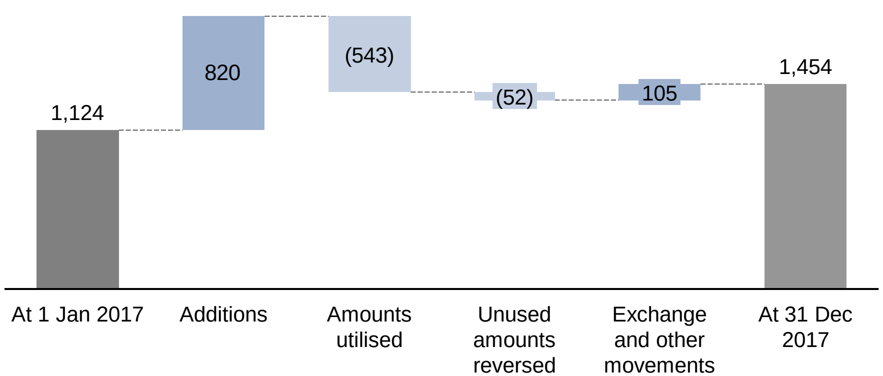
Legal proceedings and regulatory matters

This slide should be read in conjunction with Note 26 and Note 34 of the HSBC Holdings plc Annual Report and Accounts 2017.

Provisions relating to legal proceedings and regulatory matters, $m



Provisions relating to customer remediation, $m



Commentary on selected items[25]

Anti-money laundering and sanctions-related matters	▪ In December 2017, the AML DPA expired and the charges deferred by the AML DPA were dismissed. The Monitor will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion.
Foreign exchange rate investigation[26]	▪ In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. ▪ At 31 December 2017, HSBC has recognised a provision for these and similar matters in the amount of $511m.
Madoff[26]	▪ Based upon the information currently available, management's estimate of possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding $500m, excluding costs and interest.
US mortgage securitisation activity and litigation	▪ Due to the high degree of uncertainty involved, it is not practicable to estimate the possible financial impact of these matters, which could be significant.
Tax-related investigations[26]	▪ At 31 December 2017, HSBC has recognised a provision for these various matters in the amount of $604m. Based on the information currently available, management's estimate of the possible aggregate penalties that might arise as a result of the matters in respect of which it is practicable to form estimates is up to or exceeding $1.5bn, including amounts for which a provision has been recognised.
PPI	▪ At 31 December 2017, a provision of $1,174m (2016: $919m) was held relating to the estimated liability for redress in respect of the possible mis-selling of payment protection insurance ('PPI') policies in previous years.

Appendix
HSBC's SDG Bond & Framework

Background

In September 2015, the UN General Assembly formally established the 17 Sustainable Development Goals (SDGs) to be addressed by 2030. They give a framework to end poverty and reverse human impacts for a more sustainable planet by 2050. The SDGs call for collaboration between all sectors: private, public, grass roots and governments.

HSBC SDG Framework

- In November 2017 HSBC published its SDG Framework and issued a $1bn Senior MREL SDG bond.
- The HSBC SDG Framework is an example of our strategic commitment to sustainability and support for our customers and clients in this important area.

Use of proceeds

Proceeds from the issuance of bonds which comply with the SDG Bond Framework will be used in defined Eligible Sectors relating to the SDGs. The defined Eligible Sectors under the HSBC SDG Framework are:

The SDG framework can be found on our website, along with our Green Bond framework and ESG Update

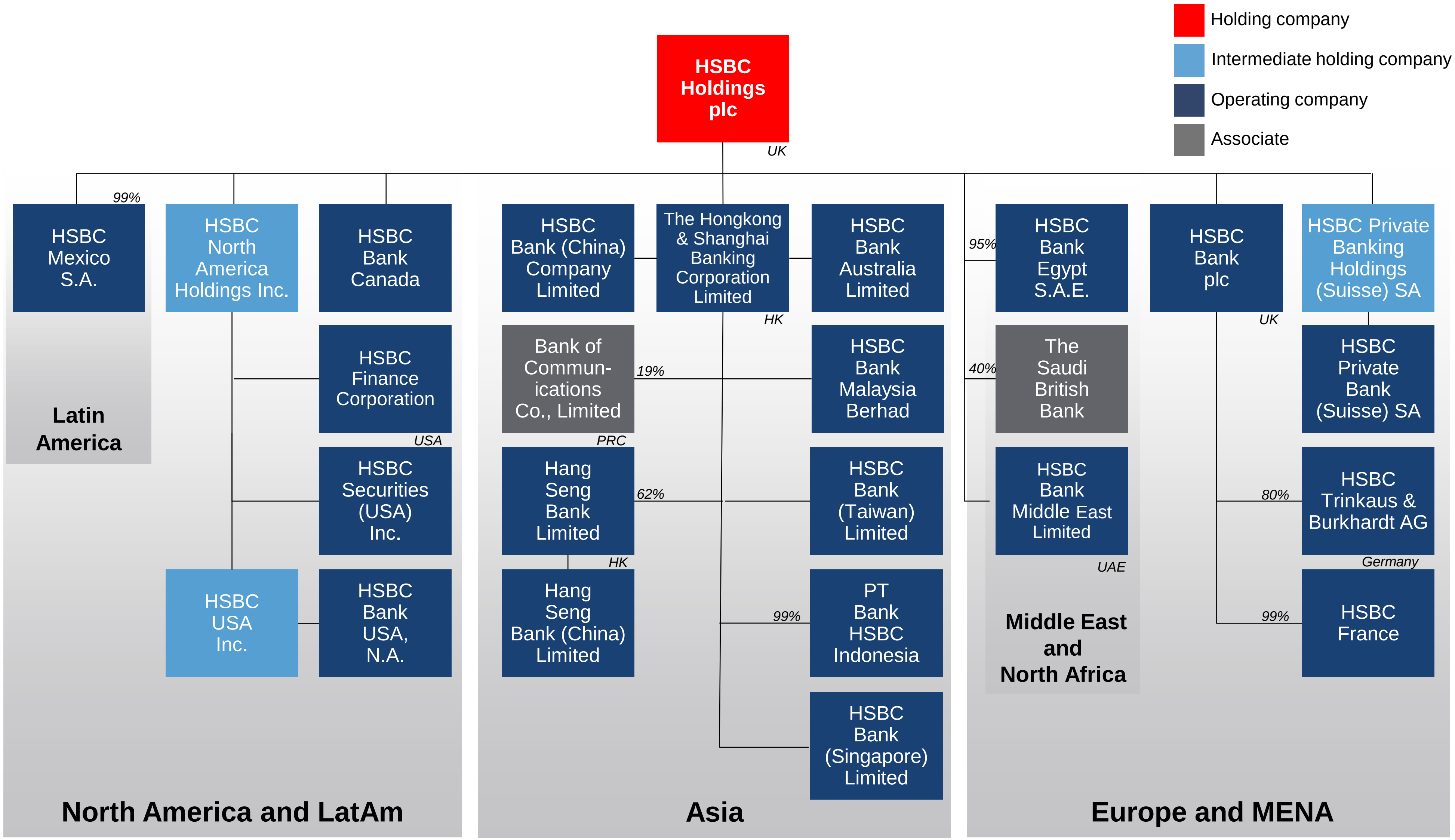
Appendix

Current credit ratings for key entities

Long term senior ratings as at 19 Feb 2018	Fitch		Moody's		S&P	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
HSBC Holdings plc	AA-	Stable	A2	Negative	A	Stable
The Hongkong and Shanghai Banking Corporation Ltd	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC Bank plc	AA-	Stable	Aa3	Negative	AA-	Stable
HSBC USA Inc	AA-	Stable	A2	Stable	A	Stable
HSBC France	AA-	Stable	Aa3	Stable	AA-	Stable

Appendix

Simplified structure chart - principal entities



Appendix
Glossary

AUM	Assets under management
AMG	Asset Management Group
BSM	Balance Sheet Management
CET1	Common Equity Tier 1
CMB	Commercial Banking, a global business
CML	Consumer Mortgage Lending portfolio
CTA	Costs-to-Achieve
CVA	Credit Valuation Adjustment
DCM	Debt Capital Markets
DPA	Deferred Prosecution Agreement
DVA	Debit Valuation Adjustment
FICC	Fixed Income, Currencies and Commodities
FVOD	Fair Value of Own Debt
GB&M	Global Banking and Markets, a global business
GLCM	Global Liquidity and Cash Management
GPB	Global Private Banking, a global business
GTRF	Global Trade and Receivables Finance
IFRS	International Financial Reporting Standard
Jaws	A ratio which measures the difference between the rates of change for revenue and costs

LICs	Loan Impairment charges and other credit risk provisions
MENA	Middle East and North Africa
MREL	Minimum requirement for own funds and eligible liabilities
NAV	Net Asset Value
NIM	Net interest margin
nm	Not meaningful
NQH	Non-qualifying hedges
PBT	Profit before tax
PRD	Pearl River Delta
PVIF	Present value of in-force insurance contracts
RBWM	Retail Banking and Wealth Management, a global business
RMB	Renminbi
RoE	Return on Equity
RoRWA	Return on average Risk-Weighted Assets
RoTE	Return on Tangible Equity
RWA	Risk-Weighted Asset
TNAV	Tangible Net Asset Value
Transaction Banking	Products including Foreign Exchange, GLCM, GTRF and Securities Services

Appendix
Footnotes

1. The 2018 issuance plan is guidance only; it is a point in time assessment and is subject to change
2. Unless otherwise stated, risk-weighted assets and capital are calculated and presented on a transitional CRD IV basis as implemented in the UK by the Prudential Regulation Authority
3. Includes the impact of UK bank levy
4. Europe's adjusted 2017 profit of $1.0bn includes a number of items incurred centrally on behalf of the Group as a whole, but which are disclosed in the Europe segment, including consolidation adjustments and Holdings costs such as interest costs on Group debt and the UK bank levy
5. Where a quarterly trend is presented on the Income Statement, all comparatives are re-translated at average 4Q17 exchange rates
6. In the 1Q17 Results Presentation, new individually assessed and collectively assessed allowances were presented as new allowances; in the current disclosure new allowances includes new individually assessed allowances and new collectively assessed allowances net of allowance releases
7. This includes dividends on ordinary shares, dividends on preference shares and coupons on capital securities, classified as equity
8. Balances presented by quarter are on a constant currency basis. Reported equivalents for 'Loans and advances to customers' are as follows: 1Q16: $920bn, 2Q16: $888bn, 3Q16: $881bn, 4Q16: $862bn, 1Q17: $876bn, 2Q17: $920bn, 3Q17: $945bn. Reported equivalents for 'Customer Accounts' are as follows: 1Q16: $1,315bn, 2Q16: $1,291bn, 3Q16: $1,296bn, 4Q16: $1,272bn, 1Q17: $1,273bn, 2Q17: $1,312bn, 3Q17: $1,337bn
9. Red-inked balances relate to corporate customers in the UK, who settle their overdraft and deposit balances on a net basis. CMB red-inked balances: 1Q16: $10bn, 2Q16: $10bn, 3Q16: $10bn, 4Q16: $8bn, 1Q17: $5bn, 2Q17: $5bn, 3Q17: $7bn and 4Q17: $6bn; GB&M red-inked balances: 1Q16: $28bn, 2Q16: $18bn, 3Q16: $20bn, 4Q16: $18bn, 1Q17: $13bn, 2Q17: $16bn, 3Q17: $19bn and 4Q17: $20bn
10. Source: Form 20-F; Average balances on a reported basis
11. Pro forma buffer to MDA trigger based on RWAs and CET1 capital resources at 31 December 2017
12. Pillar 2A requirements are subject to change, held constant for illustrative purposes. The capital buffers on an end point basis include: a) the fully phased-in capital conservation buffer of 2.5% of RWAs; b) the countercyclical capital buffer, which is dependent on the prevailing rates set in the jurisdictions where HSBC has relevant credit exposures (this buffer amounts to 0.6% of RWAs on an end-point basis, based on confirmed rates as of December 2017); c) the fully phased-in Global Systemically Important Institutions Buffer (G-SII buffer) of 2% of RWAs. With the exception of the capital conservation buffer, the remaining buffers are subject to change.
13. Minimum requirement for own funds and eligible liabilities (MREL) consists of a minimum level of equity and eligible debt liabilities that will need to be maintained pursuant to a direction from the Bank of England in the exercise of its powers under the Bank Recovery and Resolution Directive (BRRD) and associated UK legislation, with the purpose of absorbing losses and recapitalise an institution upon failure whilst ensuring the continuation of critical economic functions. The criteria for eligibility is defined in "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)", published in November 2016. In November 2016, the European Commission also published proposed amendments to MREL which are yet to be finalised. On a regional/local level, resolution groups and material subsidiaries may need to comply with MREL, Total Loss-Absorbing Capacity (TLAC) as defined in the Financial Stability Board's TLAC Term Sheet, or equivalent requirements as applicable under local resolution regimes.
14. End-point MREL requirements calculated as a % of Group consolidated RWAs. The Bank of England (BOE) has written to HSBC outlining its current expectation with regard to the Group's Multiple Point of Entry resolution strategy and the Group's indicative MREL to be met by 2019 and 2022. The Group's MREL requirements are expected to be set at the higher of (i) 16% of RWAs (consolidated) from 1 Jan 2019 and 18% of RWAs (consolidated) from 1 Jan 2022; (ii) 6% of leverage exposures (consolidated) from 1 Jan 2019 and 6.75% from 1 Jan 2022; and (iii) the sum of requirements relating to our resolution groups, which are not fully known.
15. The 2019 and 2022 MREL requirements are subject to a number of caveats including: changes to the firm and its balance sheet (RWAs, FX and leverage); liability management and share buy backs; changes in accounting and regulatory policy; stress test requirements and, not least, confirmation of the final requirements from the Bank of England and other regulators, including the resolution strategy which is subject to revision on a regular basis.
16. "Other term senior" means senior unsecured debt securities with an original term to maturity of >1.5 years and an original principal balance of > $250mn, issued by HSBC Group entities

Appendix
Footnotes

17. The purpose of this disclosure is to provide an estimate of the likely financial position of the RFB following legal separation, based on assets and liabilities held in HSBC Bank plc as at 31 December 2017. The estimated assets and liabilities of HSBC UK have been prepared for illustrative purposes only and, because of their nature, do not and may not represent HSBC UK's actual assets and liabilities on 1 July 2018. It may not, therefore, give a true picture of HSBC UK's financial position on 1 July 2018 nor is it indicative of HSBC UK's assets and liabilities or financial position thereafter
18. Liquid assets include cash and balances at central banks, items in the course of collection from other banks and financial investments
19. Includes only third-party RWAs
20. Further detail on the Monitor can be found on page 78 of the Annual Report and Accounts 2017
21. Where the country of booking is the UK
22. Includes First Direct balances
23. Includes First Direct, M&S and John Lewis Financial Services
24. Retail drawn exposures represent retail lending booked in Mainland China; wholesale drawn exposures represents wholesale lending where the ultimate parent or beneficial owner is Chinese
25. This slide contains selected items only, as at 31 December 2017. For further information, please refer to Note 26 and Note 34 of the Annual Report & Accounts 2017
26. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate damages and/or penalties could differ significantly from the amounts provided

Appendix

Important notice and forward-looking statements

Important notice

The information, statements and opinions set out in this presentation and subsequent discussion do not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any advice or recommendation in respect of such securities or other financial instruments.

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This presentation and subsequent discussion may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group (together, “forward-looking statements”). Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant assumptions and subjective judgements which may or may not prove to be correct and there can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Forward-looking statements are statements about the future and are inherently uncertain and generally based on stated or implied assumptions. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update, revise or supplement them if circumstances or management’s beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report and Accounts on Form 20-F for the fiscal year ended 31 December 2016 filed with the Securities and Exchange Commission on 21 February 2017 and our Annual Report and Accounts 2017, as well as in our Annual Report and Accounts on Form 20-F for the fiscal year ended 31 December 2017 which we expect to file with the Securities and Exchange Commission on 20 February 2018.

This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is ‘adjusted performance’ which is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in our Annual Report and Accounts 2017 and the Reconciliations of Non-GAAP Financial Measures document which are both available at www.hsbc.com.

Information in this presentation was prepared as at 19 February 2018.

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Cover image: Guangzhou is located at the heart of China's Pearl River Delta, one of the country's fastest growing economic regions.

Photography: Getty Images