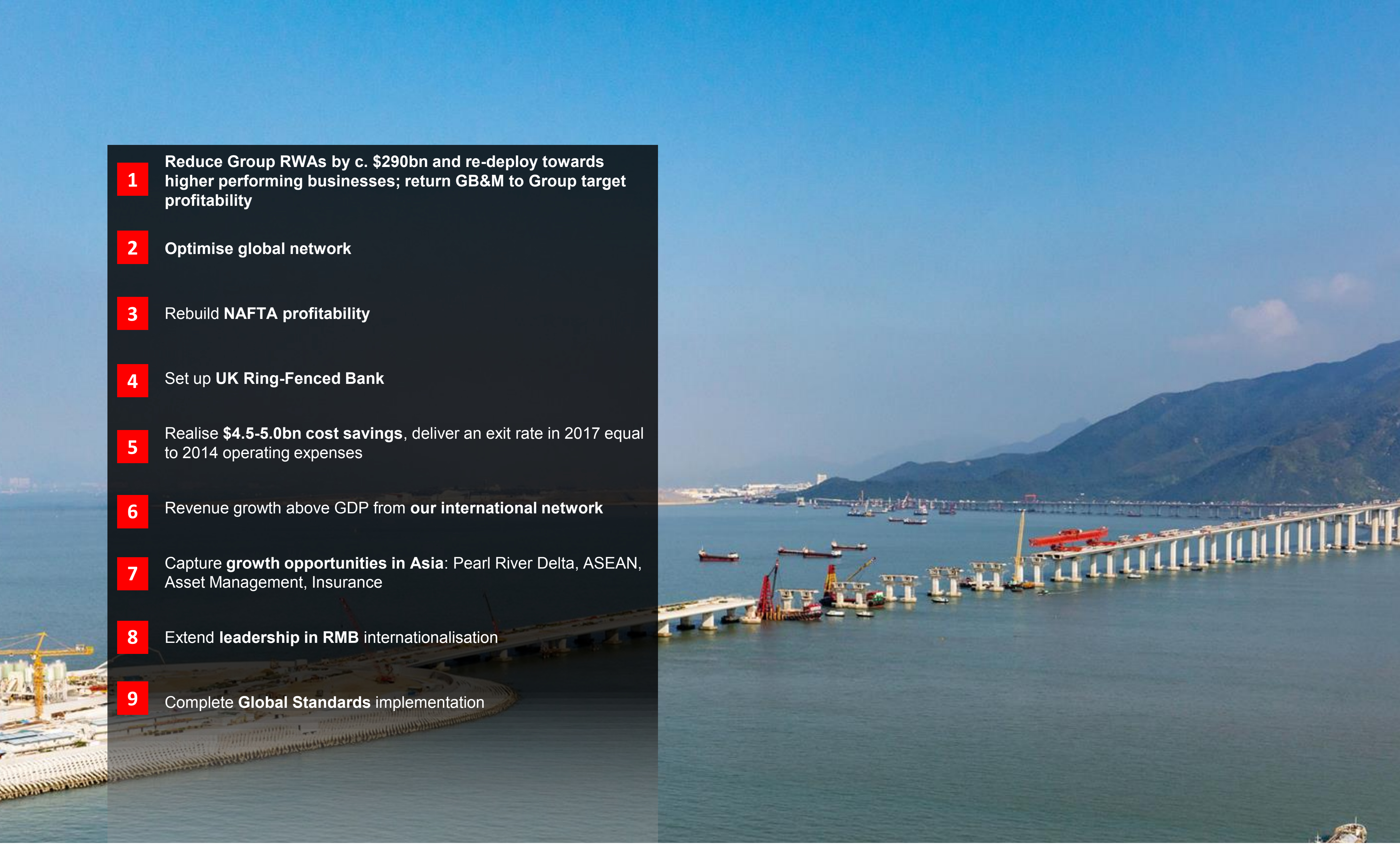


1. **Reduce Group RWAs by c. $290bn and re-deploy towards higher performing businesses; return GB&M to Group target profitability**
2. **Optimise global network**
3. Rebuild **NAFTA profitability**
4. Set up **UK Ring-Fenced Bank**
5. Realise **$4.5-5.0bn cost savings**, deliver an exit rate in 2017 equal to 2014 operating expenses
6. Revenue growth above GDP from **our international network**
7. Capture **growth opportunities in Asia**: Pearl River Delta, ASEAN, Asset Management, Insurance
8. Extend **leadership in RMB** internationalisation
9. Complete **Global Standards** implementation

HSBC Holdings plc Annual Results 2016

Fixed Income Update

HSBC

Contents

HSBC Group 2016 Performance

Our highlights

2016 Full Year	
Reported PBT (2015: $18.9bn)	$7.1bn
Adjusted PBT (2015: $19.5bn)	$19.3bn
Reported RoE (2015: 7.2%)	0.8%
Adjusted Jaws[1]	1.2%
Ordinary dividends *In respect of the year* (2015: $0.51)	$0.51
CET1 ratio (2015: 11.9%)	13.6%

2016 Financial Performance

- Reported PBT of $7.1bn was $11.8bn lower than 2015 and impacted by significant items of $12.2bn, mainly:
  - non-cash items of $8.9bn including the write-off of GPB goodwill ($3.2bn), fair value own credit spread losses on own debt ($1.8bn)
  - cash items of $3.3bn including cost to achieve (CTA) investment of $3.1bn
- Adjusted PBT of $19.3bn down $0.2bn or 1%:
  - revenue of $50.2bn down $1.3bn or 2%. Improved performance in CMB (up 1%) and GB&M (up 2%); RBWM and GPB were affected by challenging market conditions
  - 4Q16 revenue included valuation differences on long-term debt and swaps of $0.7bn; (FY16 $0.3bn)
  - operating expenses fell by $1.2bn or 4% reflecting our cost-saving initiatives and focus on cost management
  - FY16 LICs up 2%; 4Q16 LICs fell by $0.8bn to $0.5bn vs. 4Q15
- Growth in lending in Asia (4% vs. 4Q15) and Europe (2% vs 4Q15); continued deposit growth (5% vs. 4Q15)

Capital and dividends

- Strong capital position with a CET1 ratio of 13.6% and a leverage ratio of 5.4%
- We have maintained the dividend at $0.51 per ordinary share; total dividends in respect of the year of $10.1bn
- Announcing a further share buy-back of up to $1.0bn to retire more of the capital that previously supported the Brazil business

Strategy execution

- Clearly defined actions to capture value from our network and connecting our customers to opportunities
  - Completed a $2.5bn share buy-back following the sale of our Brazil business
  - Further reduced our risk-weighted assets (RWAs) during 2016 by $143bn as a result of extensive management actions including our sale of operations in Brazil
  - Investment in CTA of $4.0bn to date generating annualised run rate savings of $3.7bn
  - Deliver increased annualised cost savings of c$6bn while continuing to invest in regulatory programmes and compliance
  - Increased market share in a number of key markets and international product areas, including trade finance in Hong Kong and Singapore

1. Includes the impact of UK bank levy

2016 Key financial metrics

Key financial metrics	2015	2016
Return on average ordinary shareholders' equity	7.2%	0.8%
Return on average tangible equity	8.1%	2.6%
Jaws (adjusted)[1, 2]	(3.7)%	1.2%
Dividends per ordinary share in respect of the period	$0.51	$0.51
Earnings per share	$0.65	$0.07
Common equity tier 1 ratio	11.9%	13.6%
Leverage ratio	5.0%	5.4%
Advances to deposits ratio	71.7%	67.7%
Net asset value per ordinary share (NAV)	$8.73	$7.91
Tangible net asset value per ordinary share (TNAV)	$7.48	$6.92

Reported Income Statement, $m

	4Q16	vs. 4Q15	2016	vs. 2015
Revenue	8,984	(24)%	47,966	(20)%
LICs	(468)	72%	(3,400)	9%
Costs	(12,459)	(8)%	(39,808)	0%
Associates	498	(10)%	2,354	(8)%
(Loss) / Profit before tax	(3,445)	<(200)%	7,112	(62)%

Adjusted Income Statement, $m

	4Q16	vs. 4Q15	2016	vs. 2015
Revenue	11,000	(3)%	50,153	(2)%
LICs	(468)	64%	(2,652)	(2)%
Costs	(8,411)	3%	(30,556)	4%
Associates	498	(6)%	2,355	(4)%
Profit before tax	2,619	39%	19,300	(1)%

1. Includes the impact of UK bank levy
2. 2015 Jaws as reported in 2015

2016 Profit before tax performance

1% lower profit before tax with reduced costs more than offset by a fall in revenue

2016 vs. 2015 PBT analysis

Adjusted PBT by item

	2016	vs. 2015 (adverse / favourable)	
Revenue	$50,153m	(1,266)	(2)%
LICs	$(2,652)m	(48)	(2)%
Operating expenses	$(30,556)m	1,174	4%
Share of profits in associates and joint ventures	$2,355m	(88)	(4)%
Profit before tax	**$19,300m**	(228)	(1)%

Jaws[1]

+ 1.2%

Adjusted PBT by global business, $m	2015	2016	vs. 2015	%
RBWM	5,690	5,333	(357)	(6)%
CMB	5,423	6,052	629	12%
GB&M	5,534	5,597	63	1%
GPB	387	289	(98)	(25)%
Corporate Centre	2,494	2,029	(465)	(19)%
Group	**19,528**	**19,300**	**(228)**	**(1)%**

Adjusted PBT by geography, $m	2015	2016	vs. 2015	%
Europe	2,147	1,598	(549)	(26)%
Asia	14,227	14,203	(24)	-%
Middle East and North Africa	1,417	1,595	178	13%
North America	1,537	1,329	(208)	(14)%
Latin America	200	575	375	>100%
Group	**19,528**	**19,300**	**(228)**	**(1)%**

1. Includes the impact of UK bank levy

4Q16 Profit before tax performance

Higher profit before tax from reduced costs and lower LICs

4Q16 vs. 4Q15 PBT analysis

Adjusted PBT by item

	4Q16	vs. 4Q15 (adverse / favourable)	
Revenue	$11,000m	(339)	(3)%
LICs	$(468)m	825	64%
Operating expenses	$(8,411)m	283	3%
Share of profits in associates and joint ventures	$498m	(31)	(6)%
Profit before tax	**$2,619m**	738	39%

Includes valuation differences on long-term debt and swaps of $742m

Jaws[1]

+ 0.3%

Adjusted PBT by global business, $m	4Q15	4Q16	vs. 4Q15	%
RBWM	1,323	1,140	(183)	(14)%
CMB	786	1,393	607	77%
GB&M	689	1,328	639	93%
GPB	81	26	(55)	(68)%
Corporate Centre	(998)	(1,268)	(270)	27%
Group	**1,881**	**2,619**	**738**	**39%**

Adjusted PBT by geography, $m	4Q15	4Q16	vs. 4Q15	%
Europe	(1,325)	(1,155)	170	13%
Asia	2,942	3,194	252	9%
Middle East and North Africa	227	226	(1)	0%
North America	77	262	185	>200%
Latin America	(40)	92	132	>300%
Group	**1,881**	**2,619**	**738**	**39%**

1. Includes the impact of UK bank levy

Loan impairment charges

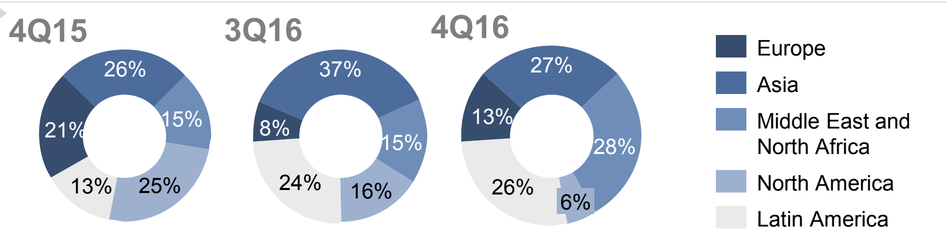
Lower impairment charges in 4Q16

Loan impairment charges and other credit risk provisions (LICs) analysis

LICs by global business

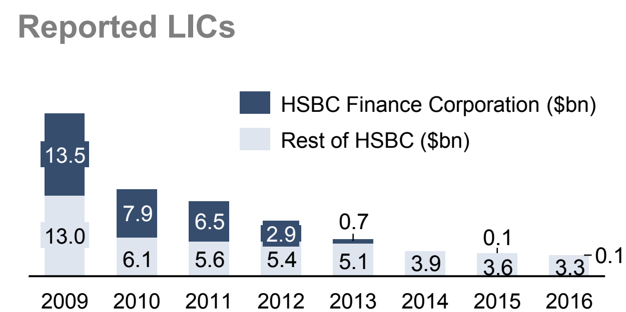
	4Q15	3Q16	4Q16	vs.4Q15	vs. 3Q16	2015	2016
Group, $m	**1,293**	**551**	**468**	**825**	**83**	**2,604**	**2,652**
as a % of gross loans	***0.59***	***0.26***	***0.22***	*0.38*	*0.04*	**0.30**	**0.31**
RBWM, $m	296	338	259	37	79	1,060	1,171
as a % of gross loans	*0.40*	*0.44*	*0.34*	*0.06*	*0.11*	*0.36*	*0.39*
CMB, $m	882	234	201	681	33	1,434	1,000
as a % of gross loans	*1.26*	*0.33*	*0.28*	*0.98*	*0.05*	*0.53*	*0.36*
GB&M, $m	103	23	12	91	11	74	457
as a % of gross loans	*0.18*	*0.04*	*0.02*	*0.16*	*0.02*	*0.03*	*0.20*
GPB, $m	3	0	8	(5)	(8)	11	(1)
as a % of gross loans	*0.03*	*0.00*	*0.09*	*(0.06)*	*(0.08)*	*0.03*	*0.00*
Corporate Centre, $m	9	(45)	(10)	19	(35)	25	25
as a % of gross loans	*0.14*	*(0.94)*	*(0.31)*	*0.45*	*(0.46)*	*0.08*	*0.13*
Of which:							
- Oil and gas	*$0.4bn*	*$nil*	*$(0.1)bn*	*$0.5bn*	*$0.1bn*	*$0.5bn*	*$0.3bn*
- Metals and mining	*$nil*	*$0.1bn*	*$nil*	*$nil*	*$0.1bn*	*$0.1bn*	*$0.4bn*

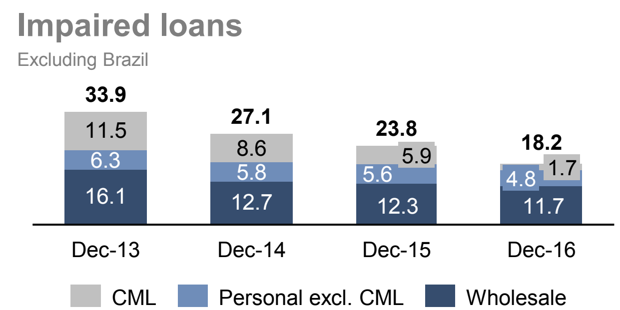
LICs by region, %



Q416 benign environment

- Better economic conditions
- LICs as a % of gross loans are c. 0.22%
- Impaired loans down $5.6bn in 2016 to $18.2bn





Capital adequacy – YTD

Strong capital base: common equity tier 1 ratio – 13.6%

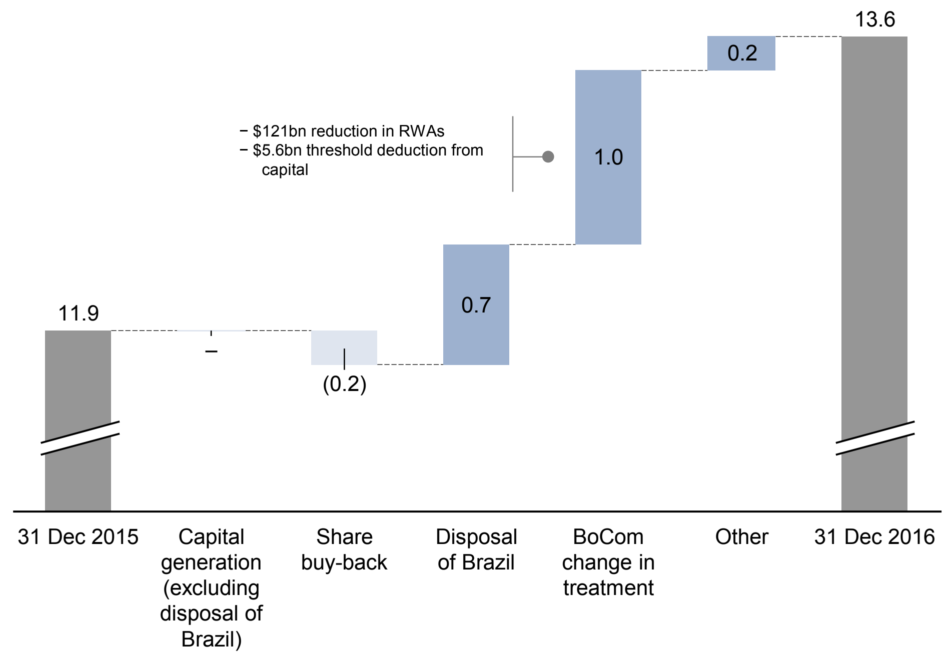
Regulatory capital and RWAs, $bn

	31 Dec 2015	**31 Dec 2016**
Common equity tier 1 capital	130.9	116.6
Total regulatory capital	189.8	172.4
Risk-weighted assets	1,103.0	857.2

CET1 capital movement, $bn

At 31 Dec 2015	**130.9**
Capital generation	0.1
Profit for the period including regulatory adjustments (excluding disposal of Brazil)	8.4
Dividends net of scrip	(8.3)
Disposal of Brazil	2.4
Change in treatment of BoCom	(5.6)
Share buy-back	(2.5)
Foreign currency translation differences	(7.8)
Other movements	(0.9)
At 31 Dec 2016 (transitional)	**116.6**

CET1 ratio movement, %



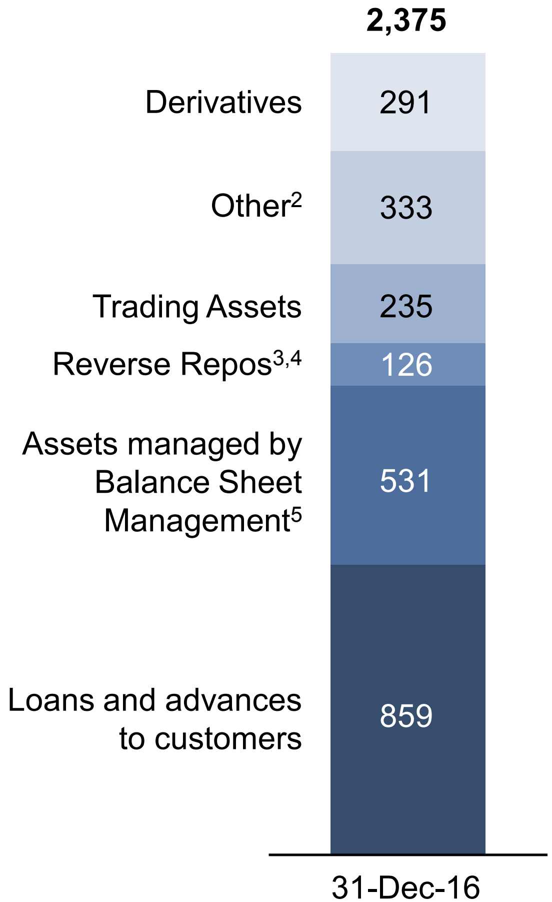
Quarterly CET1 ratio and leverage ratio progression

	4Q15	1Q16	2Q16	3Q16	**4Q16**
CET1 ratio	11.9%	11.9%	12.1%	13.9%	13.6%
Leverage ratio	5.0%	5.0%	5.1%	5.4%	5.4%

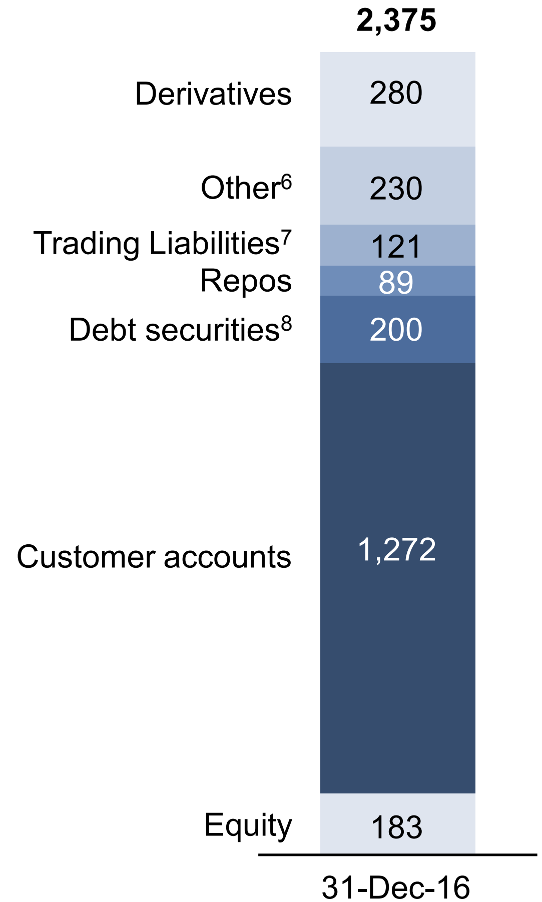
Conservative Balance Sheet[1]

Mainly deposit funded with an Assets to Deposits ratio of 67.7%

Assets, $bn



Liabilities and Equity, $bn



1. Source: HSBC Holdings plc Annual Report and Accounts 2016
2. Includes Financial Investments, Prepayments, Goodwill and intangible assets, Interests in Associates. See page 186 in HSBC Holdings plc Annual Report and Accounts 2016 for full Consolidated Balance Sheet
3. Reverse repurchase agreements – non-trading. Excludes agreements managed by Balance Sheet Management
4. Excludes some assets managed by Balance Sheet Management
5. These primarily include financial investments, cash and balances at central banks and reverse repurchase agreements – non-trading
6. Includes Deposits by banks, Hong Kong currency notes in circulation, Liabilities of disposal groups Held for Sale, Accruals. See page 186 in HSBC Holdings plc Annual Report and Accounts 2016 for full Consolidated Balance Sheet
7. Excludes Debt securities in issue
8. Includes all financial liabilities designated at fair value and subordinated liabilities

Key Credit Metrics

- 2016 demonstrated the fundamental strength of our business
- HSBC came through 2016 securely as our diversified business model and geographic profile again demonstrated resilience in difficult market conditions
- Our 2016 profit[1] of $8.4bn along with a strong CET1 capital ratio of 13.6% enabled us to maintain the dividend.

2016 Summary

CET1 Capital ratio	13.6%
Total Capital ratio	20.1%
RWA change	$245.8bn reduction
Leverage ratio (CRR basis)	5.4%
LCR[2]	136%
Advances to Deposits Ratio	67.7%

Capital Generation & Distributions

Distributable reserves[3]	**$42bn**
Profit for the period including regulatory adjustments	$8.4bn
Ordinary dividends in respect of the year[4]	$10.1bn

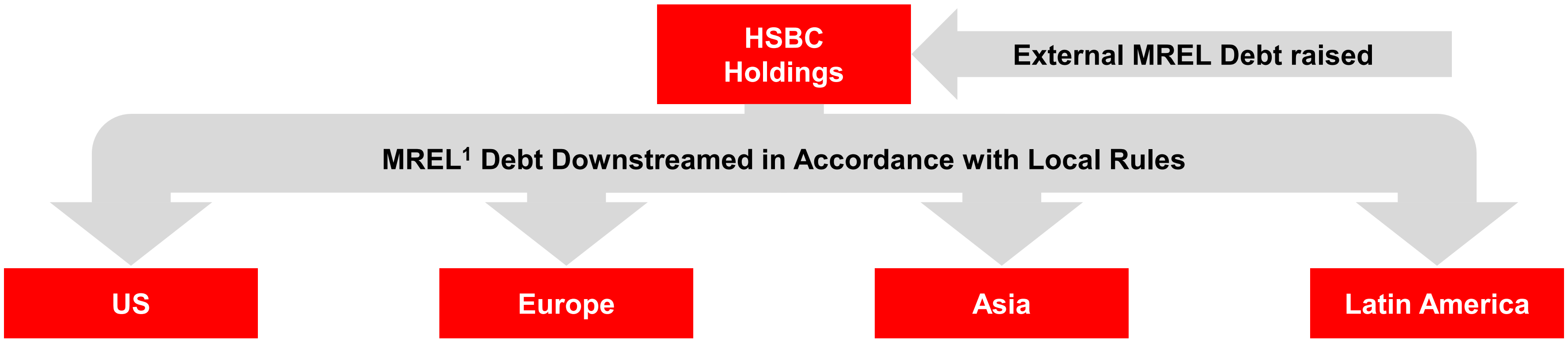
1. Profit for the period including regulatory adjustments excluding Brazil.
2. The HSBC application of the Liquidity Coverage Ratio ('LCR') metric involves the following two key assumptions about the definition of operational deposits and the ability to transfer liquidity from non-EU legal entities: we define operational deposits as transactional (current) accounts arising from the provision of custody services by HSBC Security Services or Global Liquidity and Cash Management, where the operational component is assessed to be the lower of the current balance and the separate notional values of debits and credits across the account in the previous calculation period; and we assume no transferability of liquidity from non-EU entities other than to the extent currently permitted.
3. Of HSBC Holdings plc
4. Includes 2016 1st, 2nd and 3rd interim dividends paid in the year and 2016 4th interim dividend declared.

HSBC's Debt Issuance Approach

HSBC's Approach to MREL[1]

Issuing Entity	▪ In 2017 HSBC Holdings plc will be the sole issuer of external MREL debt for the Group ▪ MREL debt will be downstreamed in a form compliant with local regulations ▪ Once regulatory rules have been finalised MREL debt could be issued directly from regional / local Intermediate Holding Companies

Illustrative example of MREL Debt HoldCo Downstreaming to subsidiaries



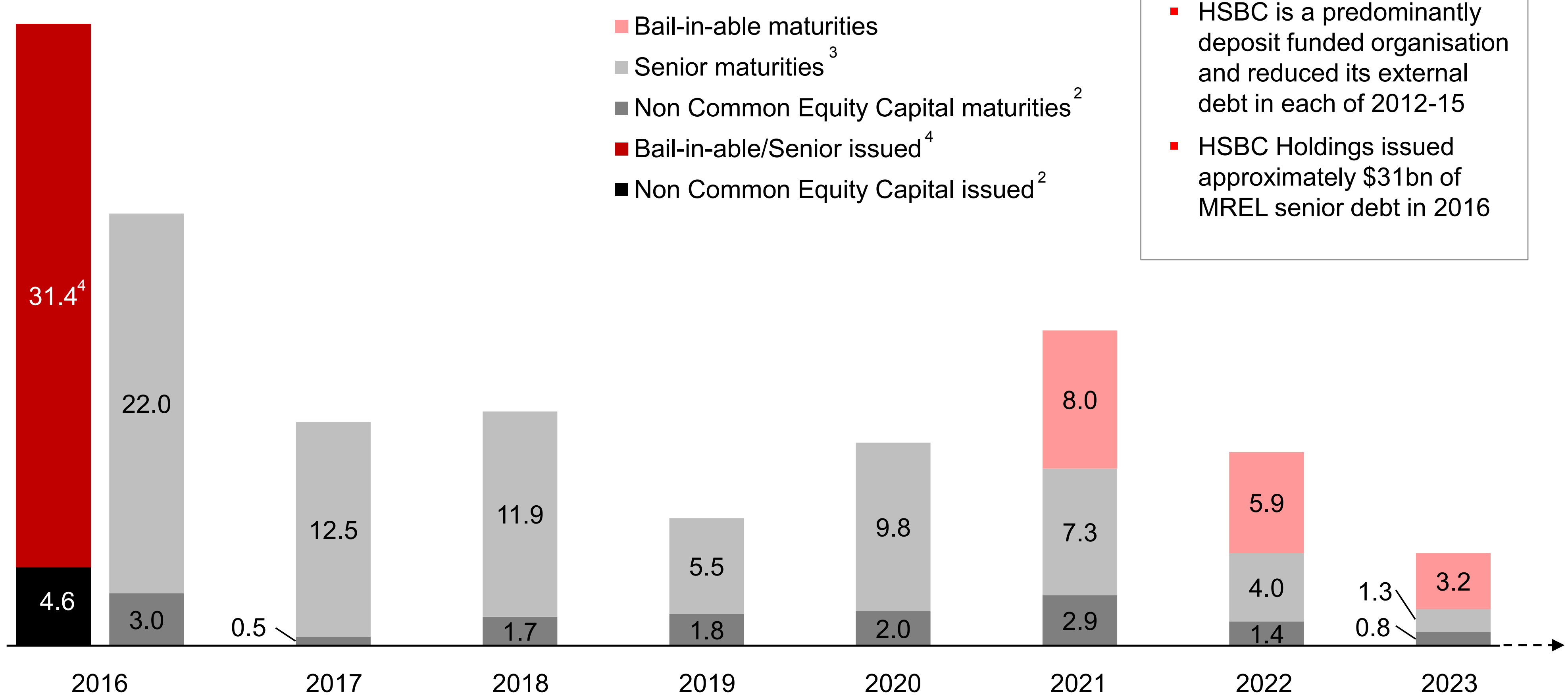
Volume requirements	▪ HSBC plans to issue approximately $30-50bn[2] of MREL debt to meet regulatory MREL requirements between 2017 and 2018, and issued approximately $31bn in 2016
Issuance Strategy	▪ HSBC Holdings will maintain regular access through the year in material G3 benchmark currency issuance ▪ The above will be supplemented with issuance in selected local currency markets, principally where the currency meets the functional requirements of the local entities ▪ HSBC will minimise the issuance of non-MREL debt by its subsidiaries although some issuance may continue to meet the specific senior funding and liquidity requirements of operating subsidiaries

1. Minimum Requirement for Own Funds and Eligible Liabilities (MREL). On a regional/local level, resolution groups and material subsidiaries may need to comply with MREL, Total Loss-Absorbing Capacity (TLAC) or equivalent requirements as applicable under local resolution regimes.
2. This is based on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)", published in November 2016. This establishes that G-SIBs with resolution entities incorporated in the UK will be required to meet the minimum requirements set out in the Financial Stability Board's ("FSB") "Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution" ("FSB Term Sheet"), published in November 2015, being the higher of 16% of RWAs or twice the Basel III Tier 1 leverage ratio of 3%, from 1 January 2019. The MREL requirement for HSBC, to apply from 1 January 2019 onwards, is yet to be formally confirmed by the Bank of England. In November 2016, the European Commission published proposed amendments to MREL which are yet to be finalised and not yet reflected in our estimates.

HSBC Issuance and maturities of existing long-term debt

HSBC Group debt maturity profile[1,2], $bn

2016-21: $76bn senior funding maturity profile



Recent Supply

- HSBC is a predominantly deposit funded organisation and reduced its external debt in each of 2012-15
- HSBC Holdings issued approximately $31bn of MREL senior debt in 2016

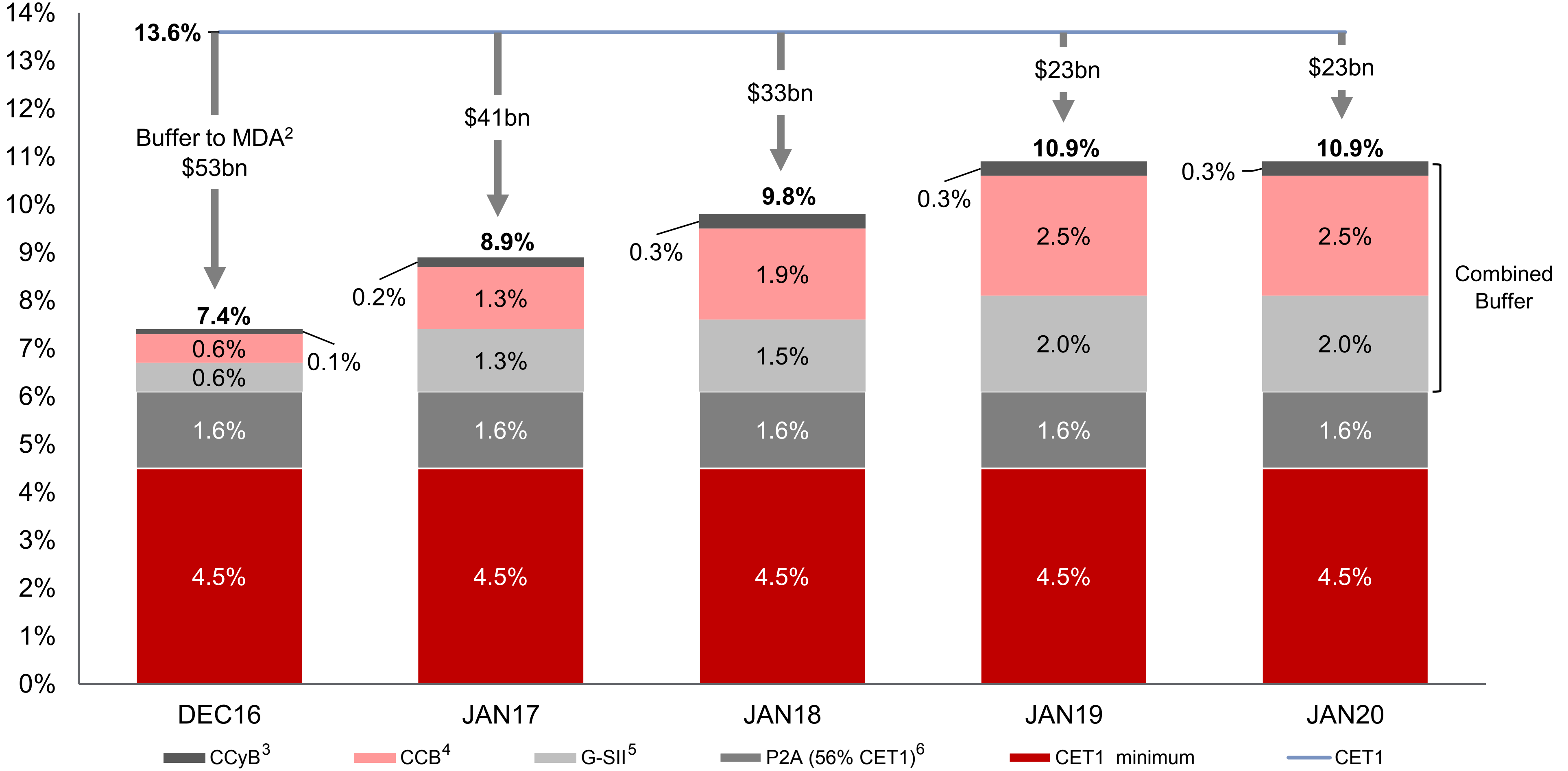
1. For illustration. Funding issues and maturities: Senior and structured note issues greater than $250m equivalent size at issue, with original maturity above 18 months
2. Non Common Equity Capital issued and maturities: Includes fully compliant and grandfathered AT1 and Tier 2 securities; non common equity capital redemptions include callable securities at final maturity date
3. Maturities of senior debt from both HSBC Holdings and its subsidiaries are included for illustration
4. Bail-in-able debt issued by HSBC Holdings in 2016

HSBC's Capital Structure

Group Capital Requirements[1] to 2020

HSBC's Capital Structure – Maximum Distributable Amount (MDA) Requirements

Common equity tier 1 ratio of 13.6% as at 31 December 2016

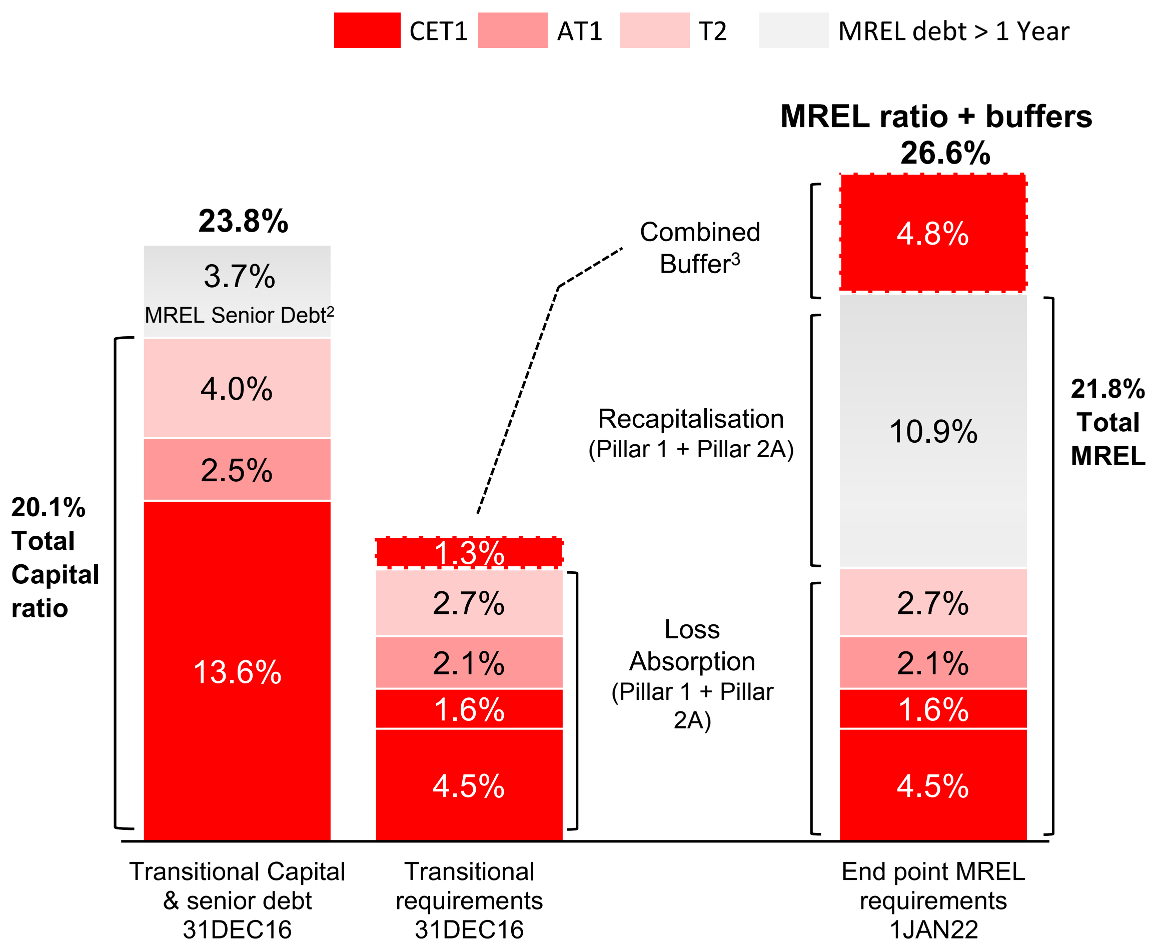


1. Known CET1 capital requirements (% of RWA), as confirmed by the PRA, including Pillar 2A and CRD IV buffers, as per UK implementation of CRD IV. Excludes non MDA buffers (e.g. PRA buffer).
2. Pro forma buffer to MDA trigger based on RWAs and CET1 capital resources at 31 December 2016.
3. The Countercyclical Capital Buffer (CCyB) is dependent on the buffer rates set by regulators and is subject to change (numbers shown for 31 December 2016 are based on effective rates as at that date; future increases in the CCyB rates have been included, where formally confirmed as at 31 January 2017).
4. The Capital Conservation Buffer (CCB) is a fixed buffer, set at 2.5%. It is phased-in from 1 January 2016 to 1 January 2019.
5. The Global Systemically Important Institutions (G-SII) buffer is currently set at 2.5% but reduces to 2% from 1 January 2018 (as confirmed by the PRA). It is phased-in from 1 January 2016 to 1 January 2019.
6. The Pillar 2A requirement is a point in time assessment of the amount of capital the PRA consider the Group should hold to meet the overall financial adequacy rule and is subject to change pending annual assessment and supervisory review process; it is held constant in the chart.

Progressing to end state Group capital structure

HSBC's Capital Structure – Total Capital Requirements

Evolution of Group capital structure in % of RWA[1]



MREL issuance

- Based on Bank of England's finalised rules from November 2016, HSBC's indicative MREL requirement as at 1 January 2019 is 16%, increasing to an estimated 21.8%[1] from 1 January 2022.
- HSBC plans to issue approximately \$30 – 50bn[1] of MREL debt over the period 2017-18 to meet these requirements.
- HSBC Holdings issued approximately \$31bn of bail-in-able senior debt in 2016

End point requirements 2022 - assumptions

- Loss absorption Pillar 1 and capital buffer requirements per CRD IV; Pillar 2A requirements as currently communicated by the PRA (held constant for illustration)
- BoE expected to set MREL recapitalisation amount equal to Pillar 1 plus Pillar 2A (to be confirmed upon assessment of our resolution strategy).
- MPE resolution groups local requirements expected to be no higher than group consolidated (SPE) requirement

1. Based on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)", published in November 2016. This establishes that G-SIBs with resolution entities incorporated in the UK will be required to meet the minimum requirements set out in the FSB total loss-absorbing capacity (TLAC) standard, being the higher of 16% of RWAs or twice the Basel III Tier 1 leverage ratio of 3%, from 1 January 2019. As per the Bank of England's calibration, these requirements increase to the higher of 2 x Pillar1 plus 1 x Pillar 2A or twice the leverage ratio requirement, from 1 January 2020; and to the higher of 2 x (Pillar 1 plus Pillar 2A) or 6.75% leverage requirement, from 1 January 2022, but subject to review by the end of 2020. The MREL requirement for HSBC is yet to be formally confirmed by the Bank of England. In November 2016, the European Commission published proposed amendments to MREL which are yet to be finalised and not yet reflected in our estimates. Estimates may include rounded numbers.
2. MREL Senior debt includes senior unsecured debt issued to external investors by HSBC Holdings plc, with reference to the PRA bail-in regime and under UK law, with size above USD250m equivalent and more than 18 months maturity at time of issue. This translates in to 3.7% of RWAs as at 31 December 2016. This is based on our interpretation of "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)", and is subject to change.
3. The breakdown of the combined buffer is described on previous slide.

In Summary

Summary

Investment case

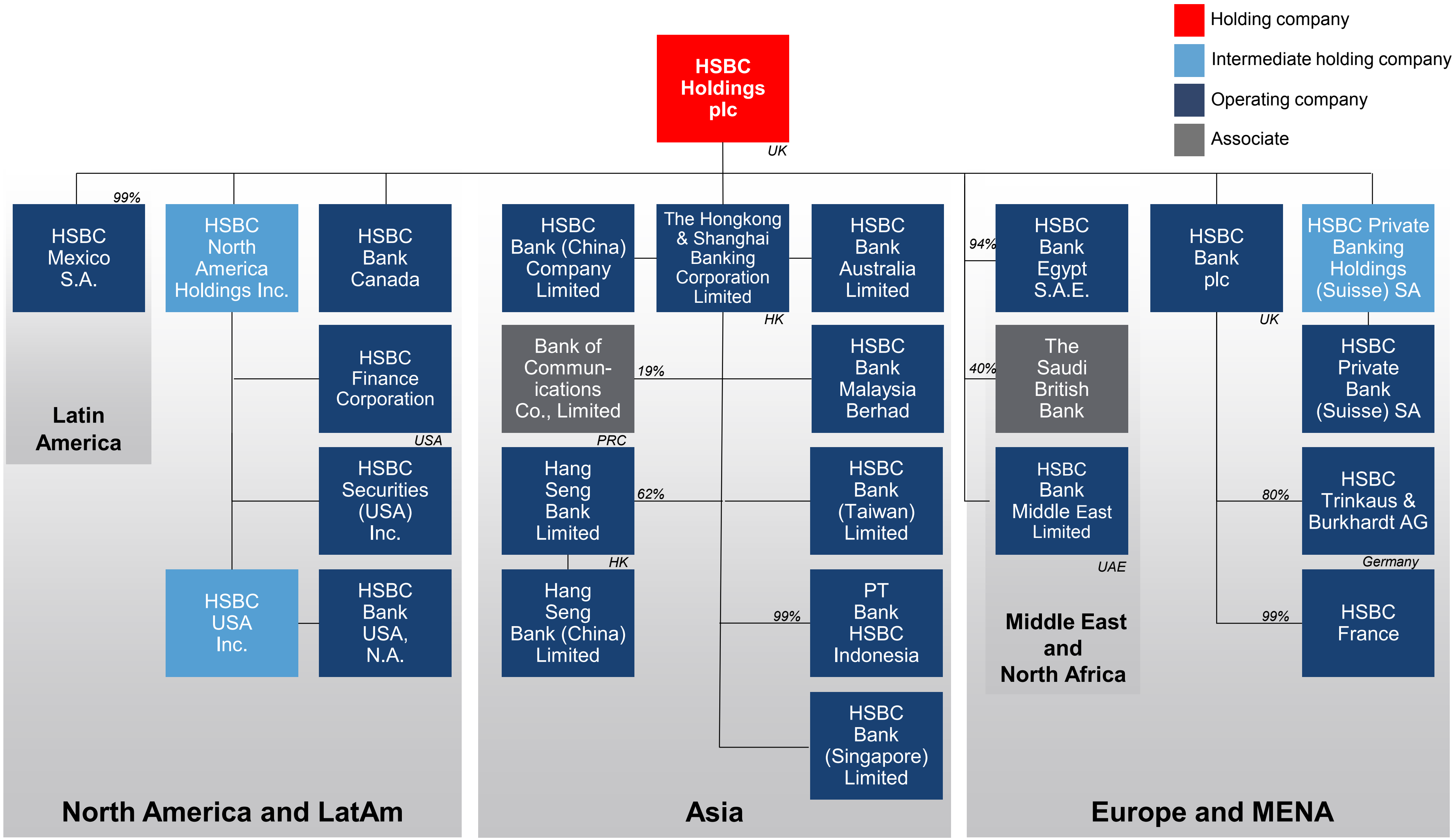
Distinctive advantages	▪ Our unparalleled network covers countries accounting for more than 90% of global GDP, trade and capital flows ▪ Four interconnected, global businesses share balance sheets and liquidity in addition to strong commercial links
Long-term strategy	▪ To facilitate international trade and capital flows and serve our clients, with potential to help them grow from small enterprises into large multinationals ▪ To make the most of global social mobility, wealth creation and long-term demographic changes in our priority markets.
Attractive issuer	▪ Investor-friendly capital management history ▪ HSBC plans to issue $30 - 50bn[1] of MREL debt over the period 2017-18 ▪ HSBC Holdings issued approximately $31bn of MREL senior debt in 2016
Capital Management	*"We manage our capital in an effort to ensure we exceed current regulatory requirements and are well placed to meet those expected in the future."* HSBC Holdings plc Annual Report and Accounts 2016

1. This is based on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)", published in November 2016. This establishes that G-SIBs with resolution entities incorporated in the UK will be required to meet the minimum requirements set out in the Financial Stability Board's ("FSB") "Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution" ("FSB Term Sheet"), published in November 2015, being the higher of 16% of RWAs or twice the Basel III Tier 1 leverage ratio of 3%, from 1 January 2019. The MREL requirement for HSBC, to apply from 1 January 2019 onwards, is yet to be formally confirmed by the Bank of England. In November 2016, the European Commission published proposed amendments to MREL which are yet to be finalised and not yet reflected in our estimates.

Appendix

Simplified structure chart

Principal entities[1]



1. At 31 December 2016, showing entities in Priority markets, wholly-owned unless shown otherwise (part ownership rounded down to nearest per cent). Excludes other Associates, Insurance companies and Special Purpose Entities.

Establishing the UK Ring-Fenced Bank

Changes to the legal structure in Europe and to the business of HSBC Bank plc as at 31 December 2016

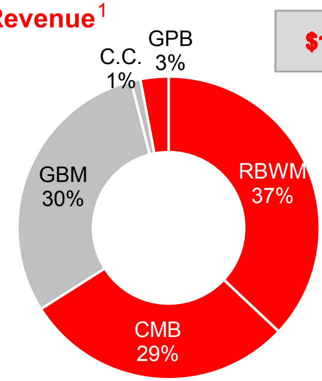
- HSBC's ring-fenced bank, HSBC UK Bank plc, will be a new entity and will not be a subsidiary of HSBC Bank plc
- We intend to transfer into HSBC UK Bank plc the qualifying components of HSBC Bank plc's UK RBWM, CMB and GPB businesses. The UK GB&M business will remain in HSBC Bank plc
- HSBC Bank plc will remain the issuer under its debt issuance programmes and outstanding securities issued under such programmes will continue to be obligations of HSBC Bank plc and will not transfer to HSBC UK Bank plc

Ring-fencing impact
Illustrative figures

Business to be transferred to HSBC UK Bank plc
Business remaining in HSBC Bank plc

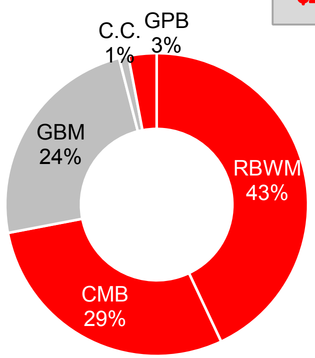
UK Revenue[1]
2016

$12.7bn



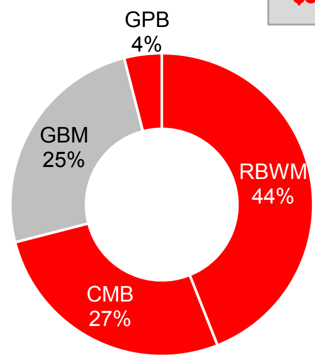
UK Loans and Advances[1]
2016

$264.1bn



UK Deposits[1]
2016

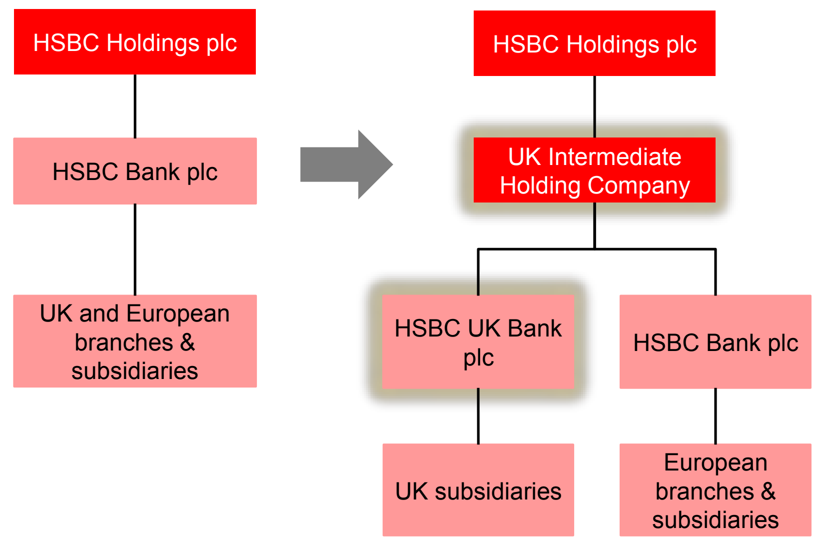
$361.3bn



Legal structure changes

Holding company
Operating entities
New entities

Current structure | **Illustrative future structure**



1. UK only, illustrative, based on geographic disclosure. For full details refer to HSBC Holdings plc 4Q 2016 Data Pack

HSBC's Creditor Loss Hierarchy

2

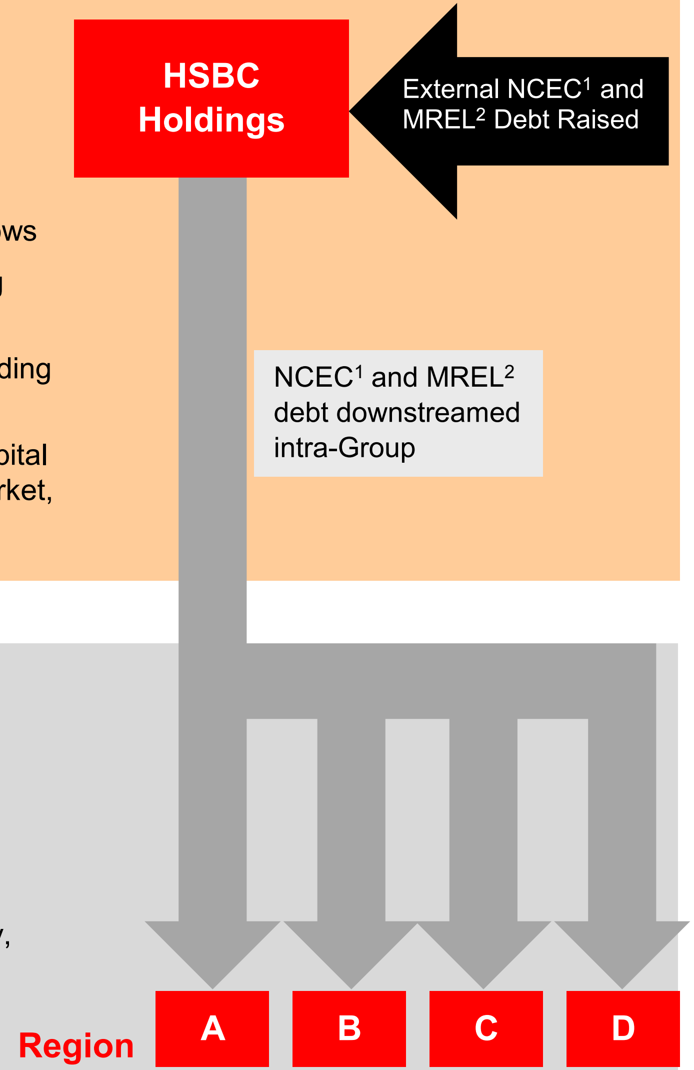
Impact of Banking Subsidiary Resolution on HSBC Holdings

- Consolidated CET1 ratio would be eroded by any losses in Banking Subsidiaries
  - But CET1 ratio has substantial buffers versus regulatory minima
- Any write down of internal NCEC[1] assets would impact HSBC Holdings balance sheet
- Any write down would reduce interest income which would erode HSBC Holdings cashflows
  - But the Group's diversified model provides flexibility to absorb deterioration in Banking Subsidiaries
- If any deterioration erodes consolidated capital ratios then AT1 could be converted according to contractual terms
- If any conversion of AT1 cannot recover HSBC Holdings financial profile/consolidated capital ratios then Resolution Authority intervenes, with subsidiary debt directly issued to the market, Tier 2, followed by MREL[2] debt, written down

1

Transmission of Losses from Banking Subsidiaries

- Each Banking Subsidiary absorbs losses to the extent of its equity capacity and write-down/conversion of internal and external NCEC[1] securities in accordance with the terms of the securities
- Banking Subsidiary resolution => Local Resolution Authority write-down/convert intercompany MREL[2] debt and assume responsibility for the Banking Subsidiary
- Any write-down/conversion of internal regulatory capital issued by the Banking Subsidiary, impacts HSBC Holdings balance sheet and cashflow



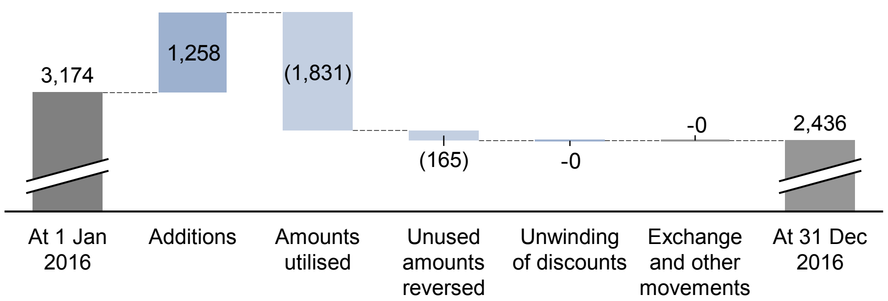
1. Non Common Equity Capital i.e. Tier 2 and Additional Tier 1 instruments
2. MREL eligible instruments include regulatory capital and debt instruments eligible as per "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)", published in November 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.

Legal proceedings and regulatory matters

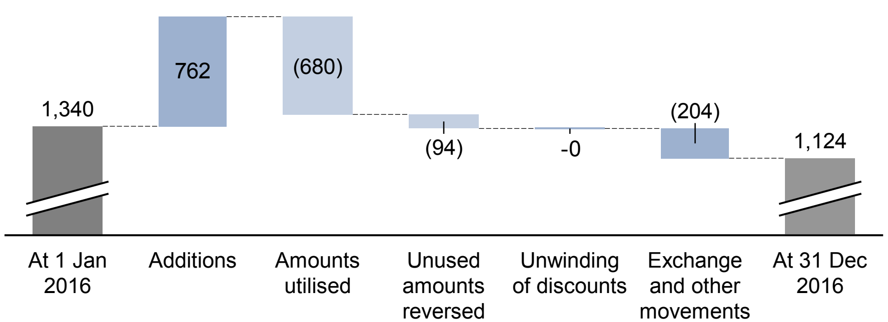
As at 31 December 2016

- This slide should be read in conjunction with Note 27 and Note 35 of the HSBC Holdings plc Annual Report and Accounts 2016.

Provisions relating to legal proceedings and regulatory matters, $m



Provisions relating to customer remediation, $m



$919m

As at 31 December 2016, provision held relating to the estimated liability for redress in respect of the possible mis-selling of PPI policies in previous years

$1.2bn

As at 31 December 2016, HSBC has recognised a provision for foreign exchange rate investigations and litigation[2]

Commentary on selected items[1]

Jaffe securities litigation	▪ In June 2016, HSBC reached an agreement to pay $1.6bn to settle all claims. Final court approval of the settlement and a final court order of dismissal with prejudice was granted in November 2016.
Madoff	▪ 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 $800m, excluding costs and interest. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.
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	▪ HSBC is cooperating with the relevant authorities. As at 31 December 2016, HSBC has recognised a provision for these various matters in the amount of $773m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews. ▪ Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from the amount provided.
PPI	▪ As at 31 December 2016, a provision of $919m (2015: $1,039m) 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. ▪ An increase in provisions of $492m was recognised during the year, primarily reflecting a delay to the inception of the expected time bar on inbound complaints; and an anticipated adjustment to the redress parameters surrounding 'Plevin'.

1. This slide contains selected items only, as at 31 December 2016. For further information, please refer to Note 27 and Note 35 of the HSBC Holdings plc Annual Report and Accounts 2016
2. 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 penalties could differ significantly from the amount provided.

Important notice and forward-looking statements

Important notice

The information set out in this presentation and subsequent discussion does 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 recommendation in respect of such securities or instruments.

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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 the 2016 Annual Report and Accounts and the Reconciliations of Non-GAAP Financial Measures document which are both available at www.hsbc.com.

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Cover image: The Hong Kong-Zhuhai-Macau Bridge: one of the most ambitious infrastructure projects in the Pearl River Delta.

Photography: courtesy of Dragages-China Harbour-VSL JV