



March 2017

## US Business Update

HSBC 

# Important notice and forward-looking statements

## Important notice

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## Non-GAAP Financial Information

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 year-on-year effects of foreign currency translation differences and significant items which distort year-on-year 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 available at [www.hsbc.com](http://www.hsbc.com).

Unless otherwise noted, financial results are presented in accordance with HSBC Group accounting and reporting policies ("Group Reporting Basis") (a non-U.S. GAAP financial measure), which apply International Financial Reporting Standards ("IFRS").

## **Key Messages**

**1**

US remains a strong and growing contributor to the Group Network

**2**

The US turnaround strategy is in process

**3**

Consumer and Mortgage Lending ('CML') asset sales progress has exceeded expectations, with near complete exit expected by year-end 2017; potential capital actions may follow depending on opportunities and approvals

**4**

2016 reported profit before tax is lower than 2015, impacted by significant items as well as movements in credit spreads associated with structured notes and losses associated with credit default swap protection (primarily on a single client exposure)

# Agenda

**A**

**US and the HSBC Network**

**B**

HSBC US market position

**C**

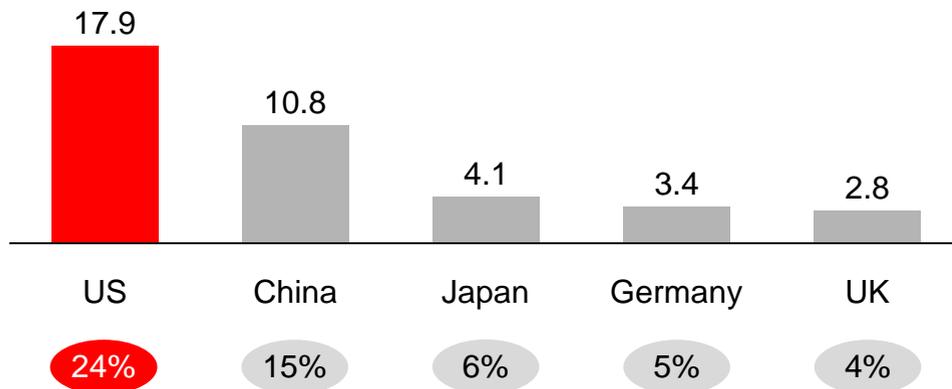
HSBC US performance

# The US economy remains globally significant

## Largest economy globally in 2015

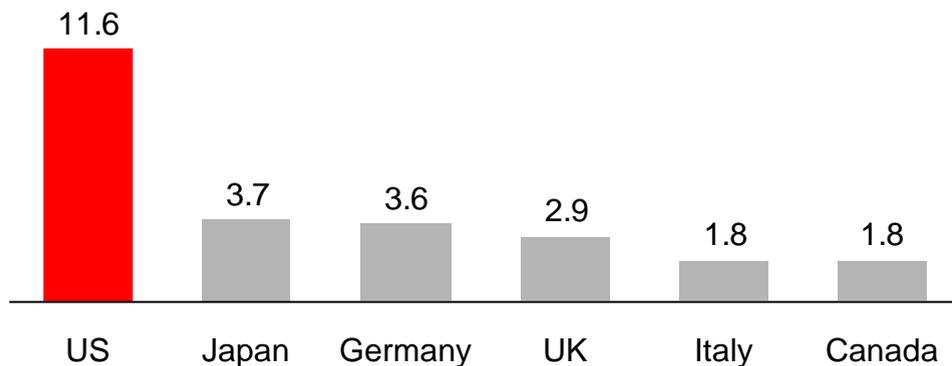
Top 5 economies by GDP<sup>1</sup>, 2015, USDtrn

○ % of world total



## Proven network opportunity

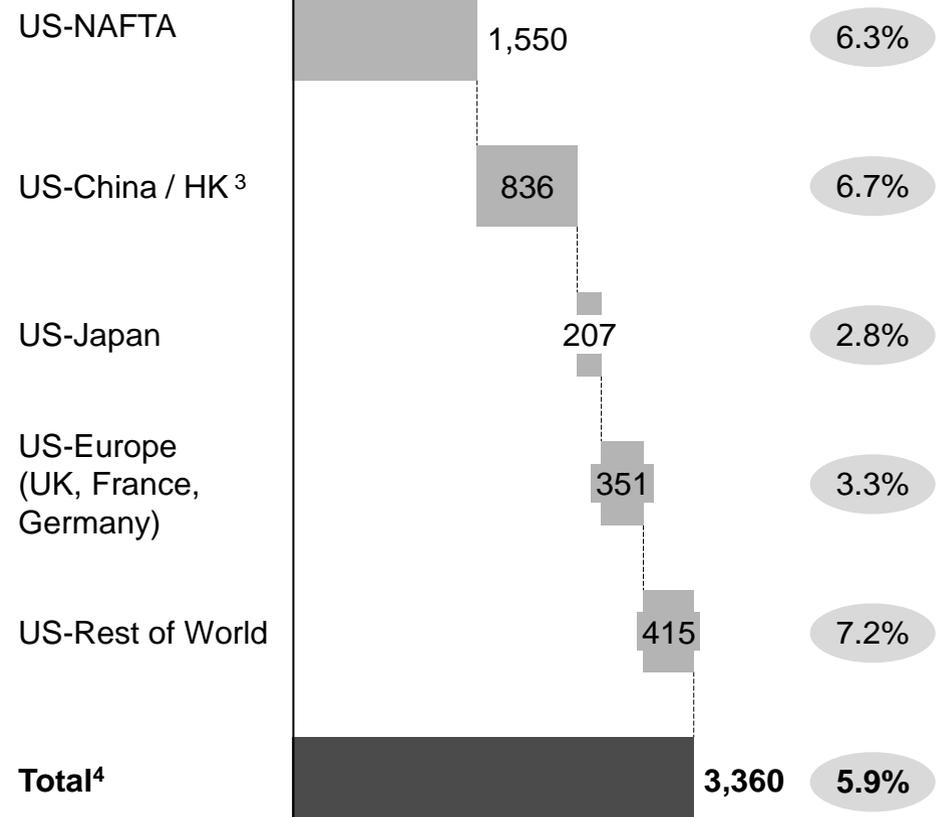
Number of companies by headquarter location<sup>2</sup>, '000s



## Strong trade fundamentals

US Exports/Imports<sup>1</sup>, 2020, USDbn

2015-20 CAGR



1. Oxford Economics, Global Insights, HSBC Analysis

2. Source: Dun and Bradstreet, April 2015 – Headquartered Companies, or are actively importing/exporting, with Global Sales over USD30m

3. China includes mainland China and Hong Kong

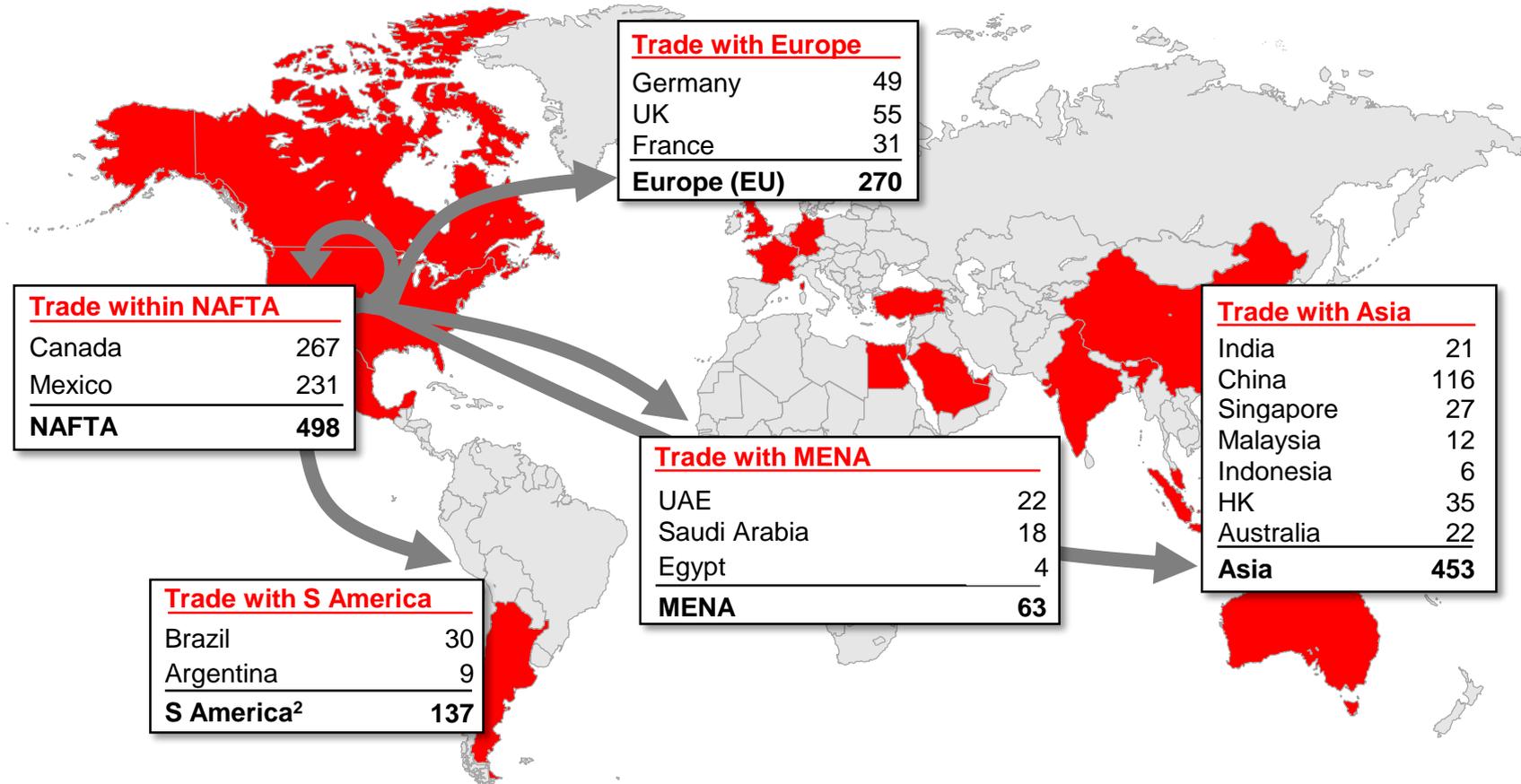
4. Total includes all US exports plus imports for HSBC priority markets

## US and the HSBC Network

# The US is highly connected with other regions with largest trade volume across NAFTA

### US key trade corridors

2016 value of exports<sup>1</sup>, USDbn



1. Source: Foreign trade data from [www.census.gov](http://www.census.gov)  
2. Central and South America

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US and the HSBC Network

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**HSBC US market position**

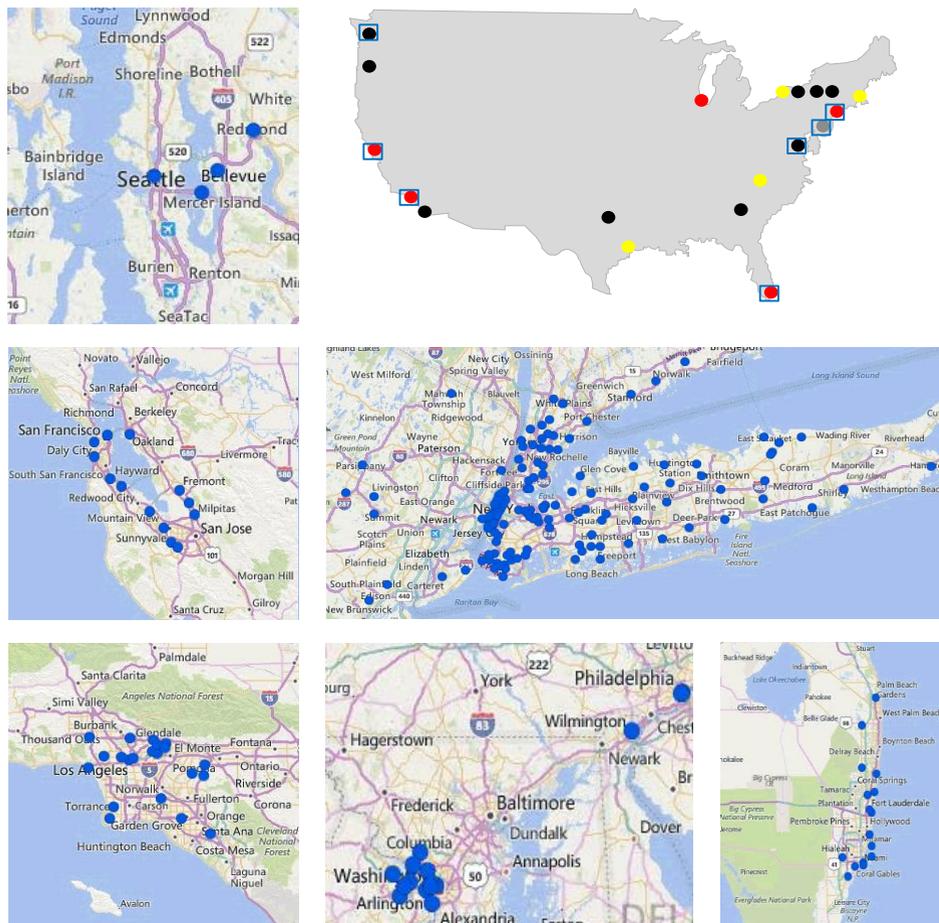
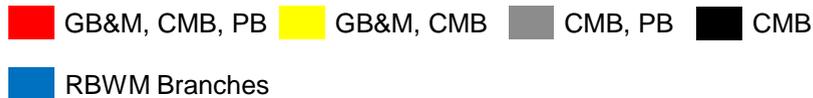
C

HSBC US performance

# HSBC US Market Position

## HSBC US Overview

### HSBC presence in US (ex-CML)



### HSBC US<sup>1</sup>

- Strategy: National universal bank operating across four Global Businesses focused on international connectivity, and Corporate Center<sup>2</sup>
- 12<sup>th</sup> largest US bank by assets<sup>3</sup>
- c. 12,000 employees<sup>3</sup>
- #4 US Dollar clearer

### GB&M

- Strategy: Deliver the global GB&M platform to US-based clients and the US needs of multinationals through Global Banking, Financial Institutions Group, and Markets teams
- 1,400 clients; 9 offices

### CMB

- Strategy: Domestic and international banking for Business, Corporate, and Commercial Real Estate clients
- 14,000 clients; 19 offices

### RBWM

- Strategy: Retail banking and wealth management focused on Advance and Premier propositions, with international requirements
- 1.4m active customers; 227 branches in 7 international gateway markets

### PB

- Strategy: Domestic and international private bank, closely aligned to GB&M and CMB for client referrals
- 4,000 clients; 6 offices

1. Source: Federal reserve data as of Sept 30, 2016; SNL data as of Sept 2016 and internal data  
 2. Corporate Center includes Balance Sheet Management, Legacy businesses, financing operations and central support costs with associated recoveries previously reported in Other  
 3. HSBC North America Holdings Inc.

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**HSBC US performance**

# North America Geographic Results<sup>1</sup>

## Group Reporting Basis ('GRB')

(\$m)	North America		CML		North America Excl CML	
	2015	2016	2015	2016	2015	2016
Year Ended December 31,						
Revenue <sup>(2)</sup>	7,696	7,219	1,155	686	6,541	6,533
LICs	(541)	(732)	(62)	(128)	(479)	(604)
Costs	(5,618)	(5,158)	(617)	(392)	(5,001)	(4,766)
<b>Adjusted Profit Before Tax (PBT)</b>	<b>1,537</b>	<b>1,329</b>	<b>476</b>	<b>166</b>	<b>1,061</b>	<b>1,163</b>
Significant Items	(923)	(1,144)	(1,096)	(888)	173	(256)
<b>Reported (Loss)/PBT</b>	<b>614</b>	<b>185</b>	<b>(620)</b>	<b>(722)</b>	<b>1,234</b>	<b>907</b>
<b>Reported PBT</b>						
US	41	(471)	(620)	(722)	661	251
Canada	485	540	-	-	485	540
Other	88	116	-	-	88	116
<b>Balance Sheet (\$bn)</b>						
Loans to Customers (gross) <sup>(3)</sup>	132.9	115.1	19.2	7.2	113.7	107.9
Customer Accounts	135.2	138.8	-	-	135.2	138.8
Risk-Weighted Assets	191.6	150.7	39.5	15.5	152.1	135.2

## Highlights

- Principal North American businesses are located in the US and Canada. Operations in the US are primarily conducted through:
  - HSBC Bank USA, N.A., a subsidiary of HSBC USA Inc. ('HUSI'),
  - HSBC Finance, a national consumer finance company, and
  - HSBC Markets (USA) Inc., the intermediate holding company of, *inter alia*, HSBC Securities (USA) Inc.
- Revenue in North America excluding CML was relatively flat despite adverse movement in Credit and Funding valuation adjustments (related to structured notes in GB&M).
- Loan impairment charges ('LICs') increased mainly in GB&M, largely in the mining sector and US CML.
- Cost reductions better-than-expected.
- Good progress on reducing risk-weighted assets, down 21% primarily from RWA initiatives.

1. For more information please see the 2016 HSBC Holdings plc Annual Report and Accounts  
 2. Includes share of profit/(loss) in associates and joint ventures of (\$1m) in 2016 and \$2m in 2015  
 3. Includes loans held for sale

# 2016 Reported results

## HUSI<sup>1</sup> 2016 FY Results GRB

(\$m)	Year Ended December 31, 2016					
	RBWM	CMB	GB&M	PB	Other <sup>(2)</sup>	Total
<b>HUSI Legal Entity</b>						
Revenue	1,177	962	1,546	291	18	3,994
LICs	(60)	(50)	(384)	-	-	(494)
Costs	(1,144)	(588)	(987)	(232)	(255)	(3,206)
<b>Reported PBT</b>	<b>(27)</b>	<b>324</b>	<b>175</b>	<b>59</b>	<b>(237)</b>	<b>294</b>
Corporate Center <sup>(2)</sup>	7	13	(192)	5	167	-
<b>PBT including Corporate Center</b>	<b>(20)</b>	<b>337</b>	<b>(17)</b>	<b>64</b>	<b>(70)</b>	<b>294</b>
<b>US geographic Reported PBT<sup>(3)</sup></b>	<b>(28)</b>	<b>336</b>	<b>86</b>	<b>67</b>	<b>(932)</b>	<b>(471)</b>

### Balance Sheet (\$bn)

Loans to Customers (net)	17.5	24.1	24.9	6.0	-	72.5
Customer Accounts	32.5	22.0	29.2	11.6	-	95.3

### Year Ended December 31, 2015

<b>HUSI Legal Entity</b>						
Revenue	1,129	980	1,638	300	217	4,264
LICs	(65)	(139)	(65)	5	-	(264)
Costs	(1,185)	(608)	(1,055)	(245)	(152)	(3,245)
<b>Reported PBT</b>	<b>(121)</b>	<b>233</b>	<b>518</b>	<b>60</b>	<b>65</b>	<b>755</b>
Corporate Center	(4)	8	(144)	4	136	-
<b>PBT including Corporate Center</b>	<b>(125)</b>	<b>241</b>	<b>374</b>	<b>64</b>	<b>201</b>	<b>755</b>
<b>US geographic Reported PBT<sup>(3)</sup></b>	<b>(112)</b>	<b>194</b>	<b>319</b>	<b>64</b>	<b>(424)</b>	<b>41</b>

### Balance Sheet (\$bn)

Loans to Customers (net)	17.4	23.5	30.6	6.7	-	78.2
Customer Accounts	31.8	20.6	27.9	13.8	-	94.1

## Highlights

- HUSI is the US bank holding company for HSBC Bank USA, National Association.
- We have focused efforts on improving returns through disciplined lending and expanding existing customer relationships into other products.
- Revenue was impacted by significant items notably fair value of our own debt, as well as fair value adjustments on certain rate linked structured liabilities and losses associated with credit default swap protection (largely a single exposure).
- Increased LICs reflects downgrades, most notably a single mining customer in GB&M.
- Reduced costs reflect the impact of cost management efforts including staff optimization.

1. For more information please see HSBC USA Inc Form 10-K

2. In 2016 HSBC Holdings plc implemented changes to reporting and moved certain business portfolios into a newly created Corporate Center. HUSI implemented this change in January 2017.

3. For more information please see HSBC Holdings plc 2016 Annual Report and Accounts

# CML wind down continues to generate surplus capital

## Capital calculations in accordance with US banking regulations

Capital Metrics	2015	2016
<b>HSBC North America Holdings Inc.<sup>1</sup></b>		
Common Equity Tier 1	15.7 %	18.0 %
Tier 1	17.3	20.1
Total Capital	22.6	25.3
Tier 1 Leverage	10.0	9.6
Supplementary Leverage Ratio	n/a	7.2
Total RWAs (\$bn)	170.7	139.9
<b>HSBC USA Inc.<sup>2</sup></b>		
Common Equity Tier 1	12.0 %	13.7 %
Tier 1	12.6	14.5
Total Capital	16.5	18.3
Tier 1 Leverage	9.5	9.2
Total RWAs (\$bn)	148.4	128.5
<b>HSBC Bank USA, National Association<sup>2</sup></b>		
Common Equity Tier 1	13.8 %	15.7 %
Tier 1	15.4	17.6
Total Capital	18.6	21.1
Tier 1 Leverage	11.6	11.1
Supplementary Leverage Ratio	n/a	7.8

## Highlights

- HSBC North America Holdings ('HSBC North America'), HSBC USA and HSBC Bank USA are categorized as "well-capitalized," as defined by their principal regulators
- In June 2016, the Federal Reserve Bank informed HSBC North America that it did not object to its capital plan or the planned capital distributions included in its 2016 Comprehensive Capital Analysis and Review ('CCAR') submission

1. For more information see Consolidated Financial Statements for Holding Companies – FRY-9C

2. For more information please see HSBC USA Inc Form 10-K

# CML portfolio reduction continues

IFRS

## CML Wind Down Strategy

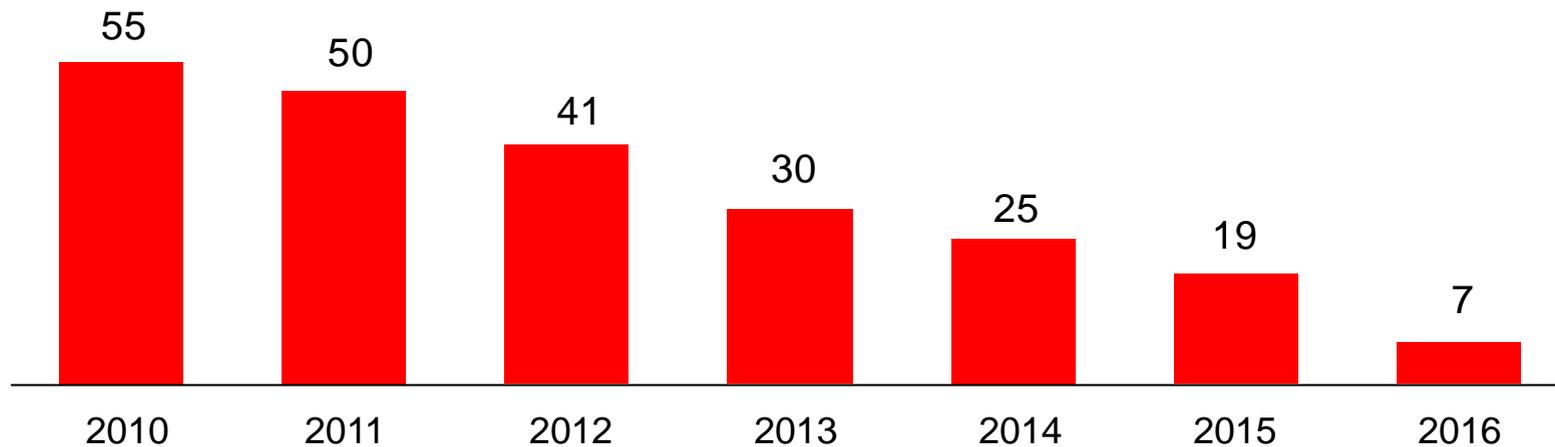
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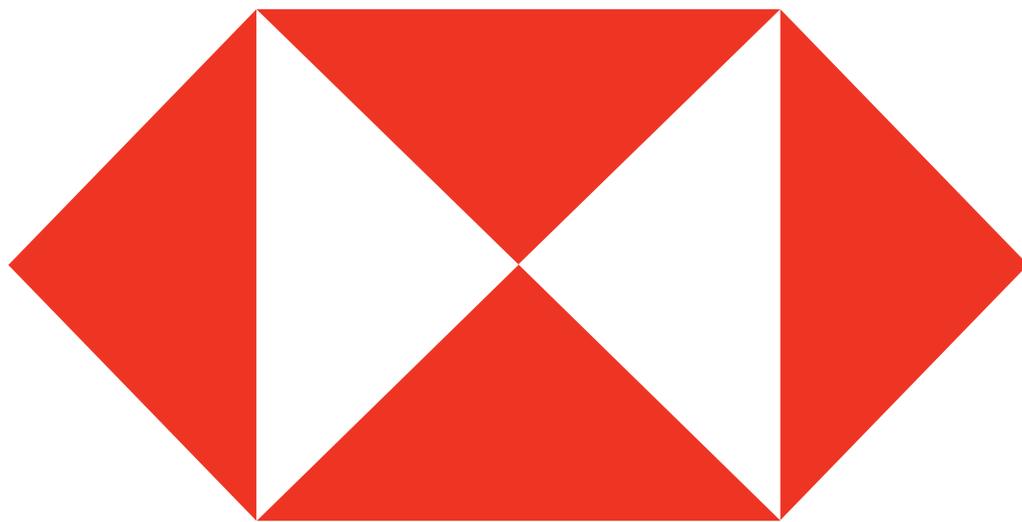
- Loan sales have been pursued actively since 2013. Recent investor appetite has enabled this sell down to accelerate
- The whole of the remaining portfolio was designated as held for sale at the end of 3Q16 under US GAAP
- At December 31, 2016, CML has approximately \$7bn of loan assets

## CML portfolio reduction has been successful with full portfolio exit planned in 2017

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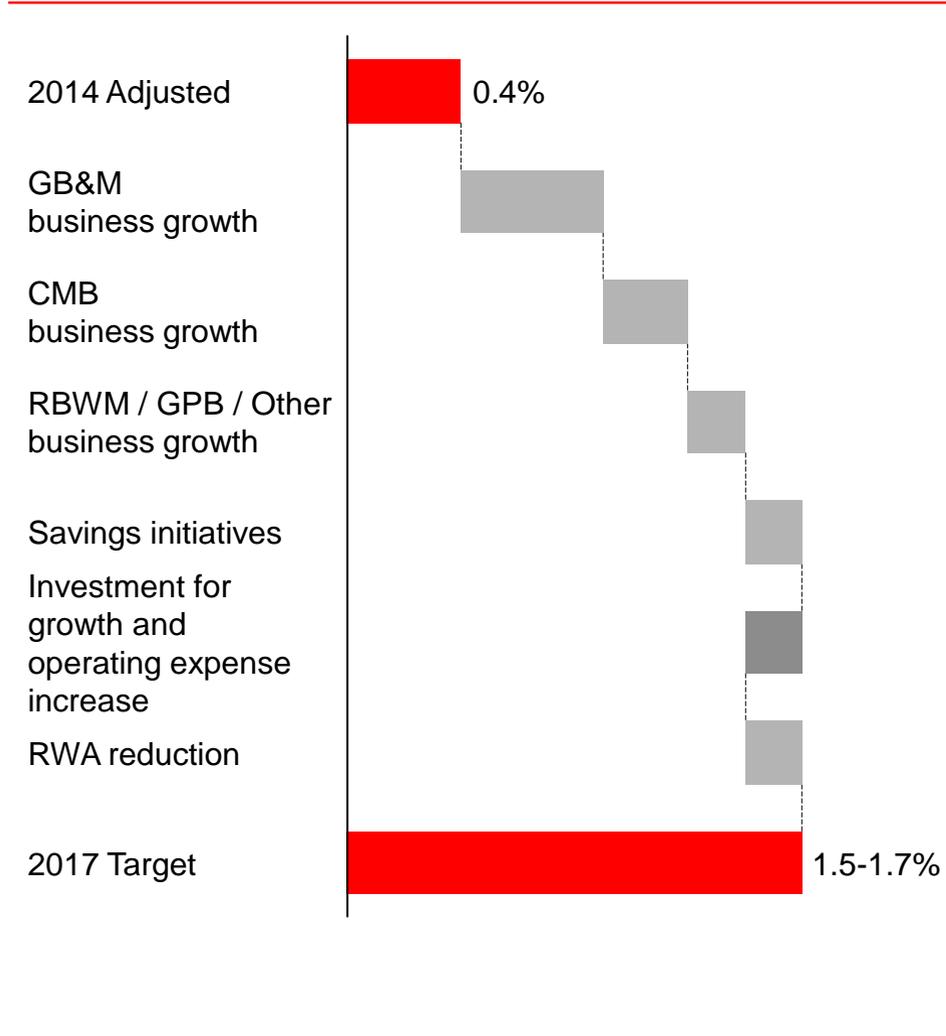
Total receivables balances (gross, including held for sale), USDbn





# Recap: 2015 Investor Day commitment to improve US Principal Business<sup>1</sup> returns

## 2015 Investor Day target RoRWA



## Key return improvement actions

- Revenue Growth including Interest Rates**
  - Leverage Group network to capture inbound growth and continue to support outbound
  - Drive commercial client acquisition, deepen relationships, and continue GB&M / CMB collaboration
  - Enhance product offering in Capital Financing, Markets, Global Liquidity and Cash Management
  - Execute retail turnaround primarily via deposits, wealth and mortgage
  - Interest rate increases, primarily within Global Liquidity and Cash Management and RBWM
- Reengineer and rescale for growth**
  - Recycling cost from back office to front office; client management
  - Continued investment in platform for strategic growth
- RWA reduction**
  - Data cleansing and model scope expansion
  - Optimise RWA deployment across Markets
  - Increase “originate and distribute” approach
  - Grow, optimise or exit low returning clients

1. US Principal Business reflects operations primarily conducted through HSBC Bank USA, N.A., and HSBC Markets (USA) Inc. and excludes the Consumer and Mortgage Lending portfolio and related treasury activities in HSBC Finance Corporation.

# Simplified Structure of North America primary entities as of December 31, 2016

