HSBC Holdings plc FY18 Results

Fixed Income Investor Presentation

Contents

Key credit messages

HSBC

Key credit messages

Diversified businesses, strong capital, funding and liquidity position

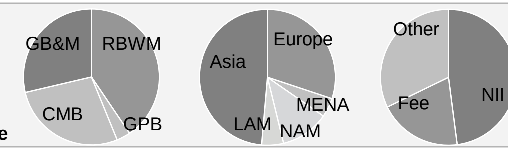
As at FY18

Conservative and consistent approach to risk

- 18bps — ECL as a % of gross customer advances
- 1.3% — Stage 3 loans as a % of gross customer advances

Diversified revenue streams, with a pivot to Asia

Adj. Revenue



Strong capital position

- 14.0% — CET1 ratio
- 5.5% — Leverage ratio
- $12.6bn — Profit attributable to ordinary shareholders

Strong funding and liquidity metrics

- 72.0% — Advances / Deposits ratio
- 154% — Liquidity Coverage Ratio
- $567bn — High Quality Liquid Assets

Progress towards meeting MREL requirements

- $62bn — MREL-eligible HoldCo Senior outstanding
- $19bn — MREL-eligble HoldCo Senior issued in 2018

Single-A credit rating or above

- A — HSBC Holdings S&P rating
- A2 — HSBC Holdings Moody's rating
- AA- — HSBC Holdings Fitch rating

Group FY18 performance

HSBC

Progress on our strategic priorities

	Strategic priorities	Targeted 2020 outcomes	FY18 performance highlights, YoY
1	Accelerate growth from Asia ◆ Build on strength in Hong Kong ◆ Invest in Pearl River Delta, ASEAN, and Wealth in Asia	High single digit revenue growth per annum	Asia adjusted revenue of $28.7bn (+11%); Wealth in Asia revenue +13% (excluding market impacts in Insurance Manufacturing)
	Lead in support of global investment drivers: China-led Belt & Road Initiative and the transition to a low carbon economy	$100bn cumulative sustainable financing[1]	$28.5bn cumulative (+$17.4bn in FY18); awarded Best Bank for Sustainable Finance in Asia by Euromoney
2	Complete set up of UK ring-fenced bank; grow mortgage market share and commercial customer base; improve customer service	Market share gains	HSBC UK Bank plc adjusted revenue of £6.4bn or $8.6bn (+7%)[2]; Market share gains in mortgages (from 6.1% to 6.6%)
3	Gain market share and deliver growth from our international network	Mid to high single digit revenue growth per annum; market share gains in transaction banking	Transaction banking revenue of $16.6bn (+14%); market share gains in GLCM, GTRF and FX[3]
4	Turn around our US business	US RoTE >6%	US adjusted PBT of $1.0bn (+31%) supported by favourable ECL; RoTE of 2.7% (up from 0.9%)[4]
5	Improve capital efficiency; redeploy capital into higher return businesses	Increase in asset productivity	Reported revenue/RWAs: 6.2% (+30bps) improvement primarily driven by 4.5% revenue growth
6	Create capacity for increasing investments in growth and technology through efficiency gains	Positive adjusted jaws on an annual basis, each financial year	Negative adjusted jaws of 1.2%; impacted by negative market environment in 4Q18
7	Enhance customer centricity and customer service through investments in technology	Improve customer satisfaction in eight scale markets[5]	Markets that sustained a top-three rank or improved by two ranks: RBWM had six markets[5a] and CMB had three markets[5b]
8	Simplify the organisation and invest in future skills	Improve employee engagement ESG: outperformer[6]	Made governance more efficient, simplified policies, and streamlined processes; employee engagement of 66% (+2ppt) ESG average performer rating

Outlook

1. **Growing revenues in areas of strength**
2. **Continue to redeploy capital into higher return businesses and invest in technology to improve customer service and competitiveness**
3. **Long term drivers of revenue growth remain strong**
4. **Our 2020 targets remain unchanged; proactive management of costs and investment, to meet risks to revenue growth, given the current uncertain economic environment**

Financial targets

RoTE[7]	◆ >11% by 2020
Costs	◆ Positive adjusted jaws
Capital and dividend	◆ Sustain dividends through the long term earnings capacity of the businesses ◆ Share buy-backs subject to regulatory approval

Key financial metrics

- Reported profit before tax of $19.9bn, up $2.7bn or 16% vs. FY17
- Adjusted profit before tax of $21.7bn, up $0.6bn or 3% vs. FY17
- Group Return on average tangible equity of 8.6% vs. 6.8% FY17

Key financial metrics	FY17	FY18	∆ FY17
Return on average ordinary shareholders' equity	5.9%	7.7%	1.8ppt
Return on average tangible equity	6.8%	8.6%	1.8ppt
Jaws (adjusted)[8]	1.0%	(1.2)%	(2.2)ppt
Dividends per ordinary share in respect of the period	$0.51	$0.51	-
Earnings per share[9]	$0.48	$0.63	$0.15
Common equity tier 1 ratio[10]	14.5%	14.0%	(0.5)ppt
Leverage ratio[11]	5.6%	5.5%	(0.1)ppt
Advances to deposits ratio	70.6%	72.0%	1.4ppt
Net asset value per ordinary share (NAV)	$8.35	$8.13	$(0.22)
Tangible net asset value per ordinary share (TNAV)	$7.26	$7.01	$(0.25)

Reported results, $m

	4Q18	∆ 4Q17	∆ %	FY18	∆ FY17	∆ %
Revenue	12,695	394	*3%*	53,780	2,335	*5%*
LICs / ECL	(853)	(195)	*(30)%*	(1,767)	2	*0%*
Costs	(9,144)	751	*8%*	(34,659)	225	*1%*
Associates	558	2	*0%*	2,536	161	*7%*
PBT	3,256	952	*41%*	19,890	2,723	*16%*

Adjusted results, $m

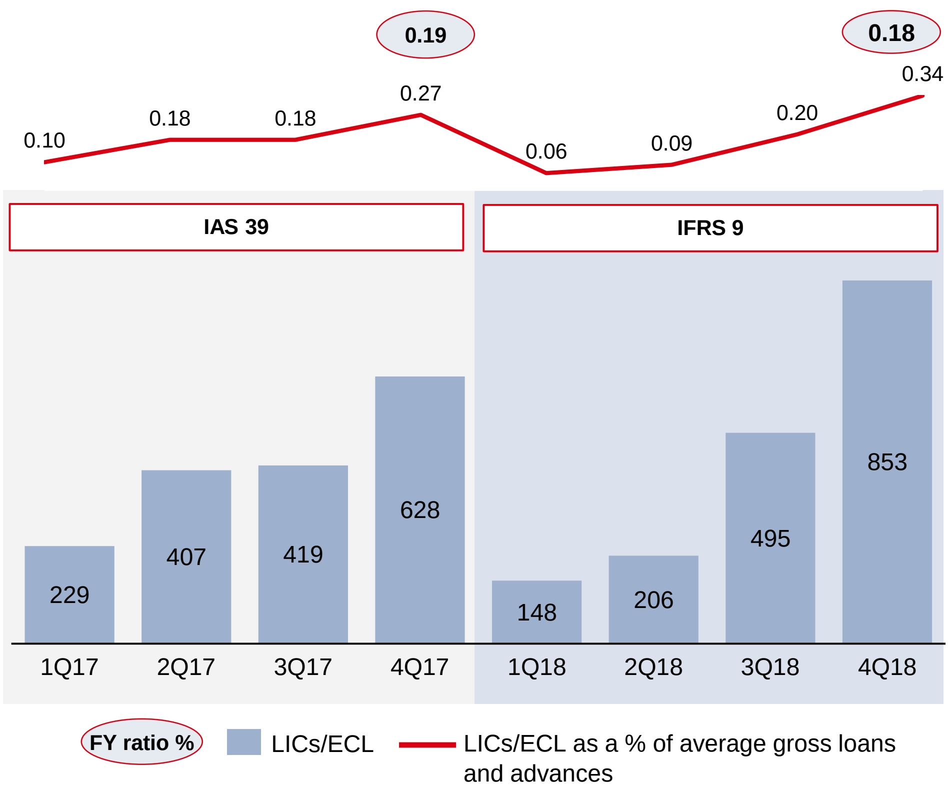
	4Q18	∆ 4Q17	∆ %	FY18	∆ FY17	∆ %
Revenue	12,564	582	*5%*	53,940	2,279	*4%*
LICs / ECL	(853)	(225)	*(36)%*	(1,767)	(54)	*(3)%*
Costs	(8,882)	(429)	*(5)%*	(32,990)	(1,759)	*(6)%*
Associates	558	25	*5%*	2,536	120	*5%*
PBT	3,387	(47)	*(1)%*	21,719	586	*3%*

A reconciliation of reported results to adjusted results can be found on slide 23, the remainder of the presentation unless otherwise stated, is presented on an adjusted basis

Credit performance

- $1,767m ECL in FY18; $1,713m LICs in FY17
- ECL as a percentage of average gross loans and advances of 0.18% in FY18
- 4Q18 ECL of $853m was $358m higher than 3Q18; including a 4Q18 $165m charge in the UK relating to the current economic uncertainty
- Stage 3 loans remain low at $13bn or 1.3% of total loans with limited signs of deterioration
- We expect normalisation of credit costs going forward

LICs/ECL charges



Analysis by stage

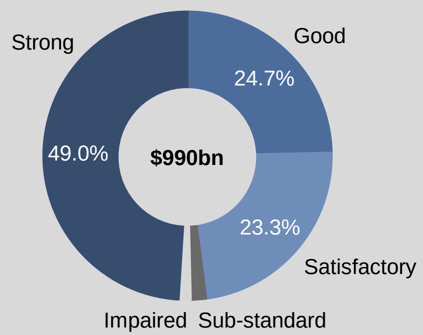
Reported basis $bn	Stage 1	Stage 2	Stage 3	Total[12]	Stage 3 as a % of Total
31.12.18					
Loans and advances to customers	915.2	61.8	13.0	990.3	1.3%
Allowance for ECL	1.3	2.1	5.0	8.6	
30.09.18					
Loans and advances to customers	904.8	71.1	13.7	989.9	1.4%
Allowance for ECL	1.3	1.9	5.0	8.5	
1.1.18					
Loans and advances to customers	871.6	72.7	13.9	959.1	1.4%
Allowance for ECL	1.3	2.2	5.6	9.3	

Asset quality

Gross loans and advances to Customers - $990bn

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

As at 31 December 2018



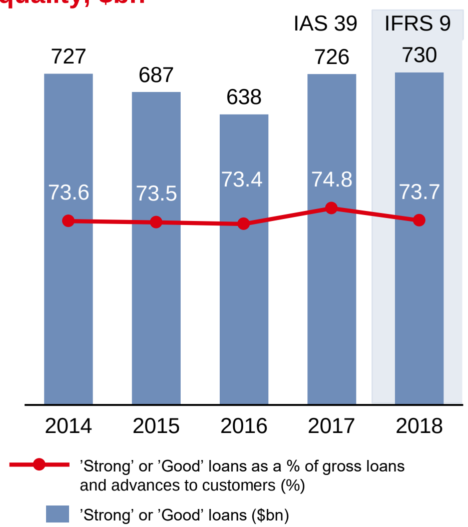
Total gross customer loans and advances to customers of $990bn

Increased by $31bn (3%) from 1 Jan 2018 on a reported basis.

Increased by $65bn or 7% from 1 Jan 2018, on a constant currency basis.

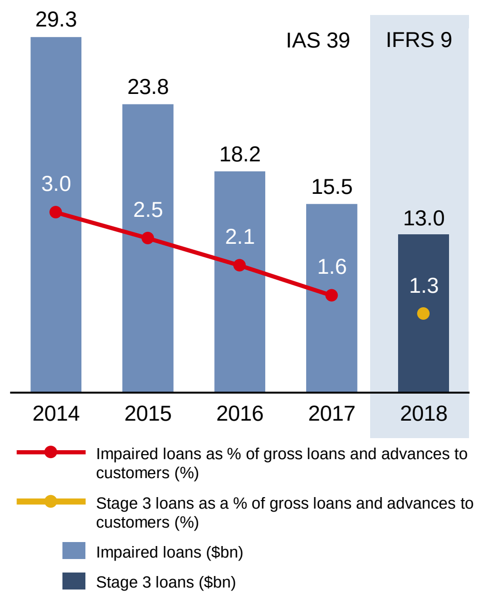
The effect of transitioning to IFRS 9 on 1.1.18 was a reduction in loans and advances to customers of $11bn from 31.12.17.

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



c.74% of gross loans and advances to customers of ‘Strong’ or ‘Good’ credit quality, equivalent to external Investment Grade credit rating.

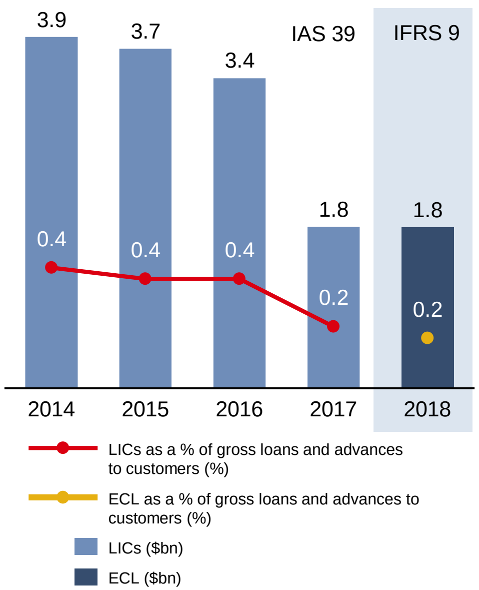
Stage 3 and impaired loans and advances to customers, $bn



Stage 3 loans as a % of gross loans and advances to customers was 1.3%.

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

Change in LICs/ECL, $bn



ECL charge of $1.8bn in FY18; ECL as a % of gross loans and advances to customers was 18bps.

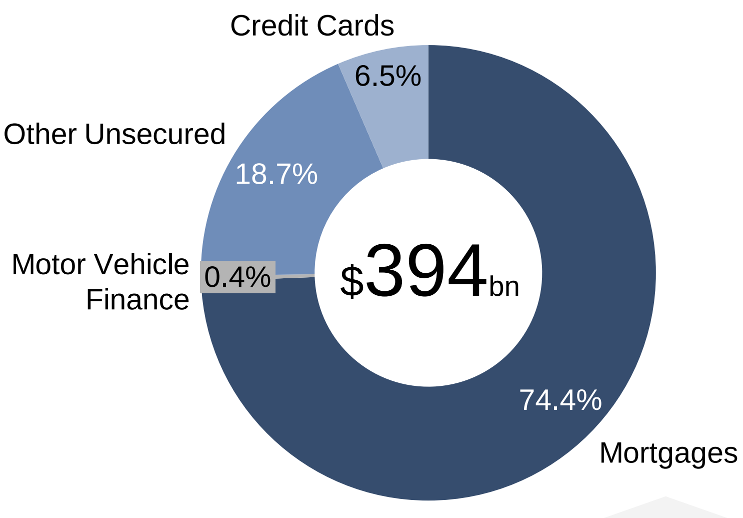
Loans and advances to customers by type

Retail Mortgage average LTVs (portfolio, indexed)

UK: 49%
New lending: 65%

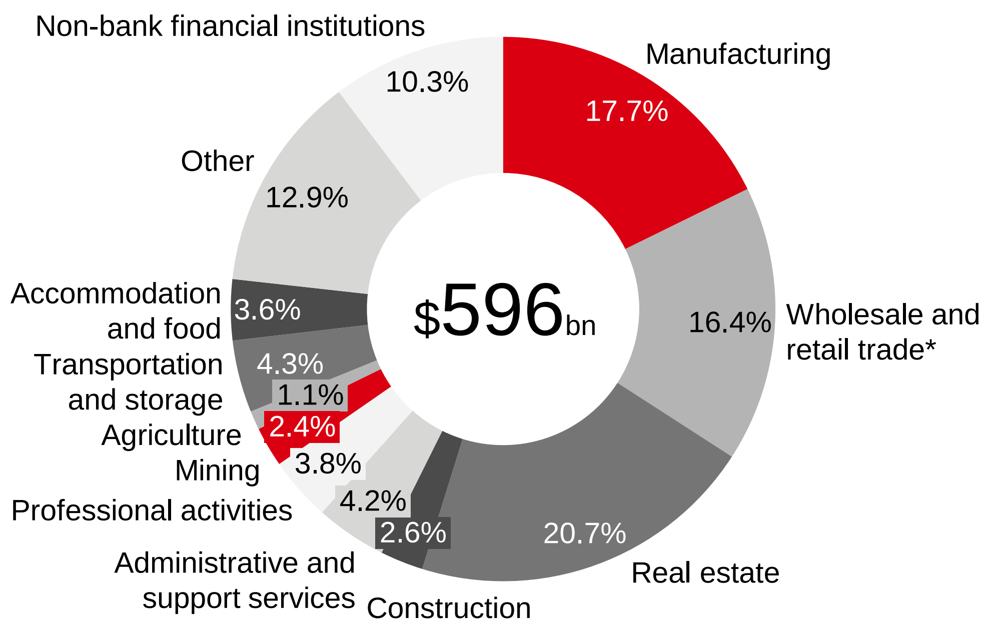
HK: 42%
New lending: 48%

Personal loan book ($bn, gross loans and advances to customers)



Of which:
UK interest-only: $26bn[13]

Wholesale loan book ($bn, gross loans and advances to customers)

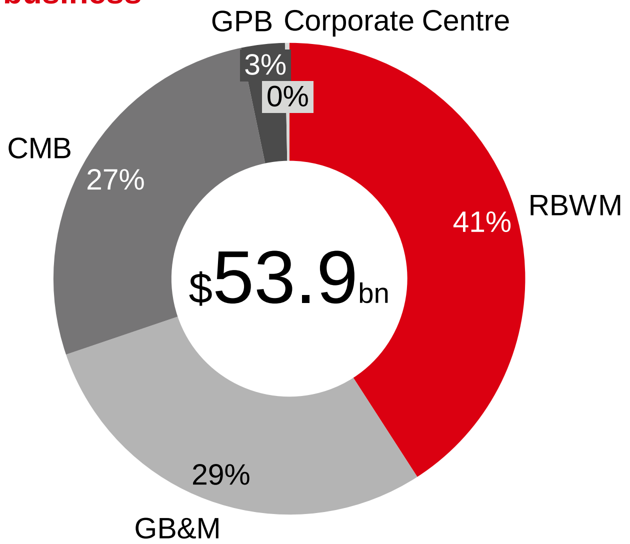


* includes repair of motor vehicles and motorcycles

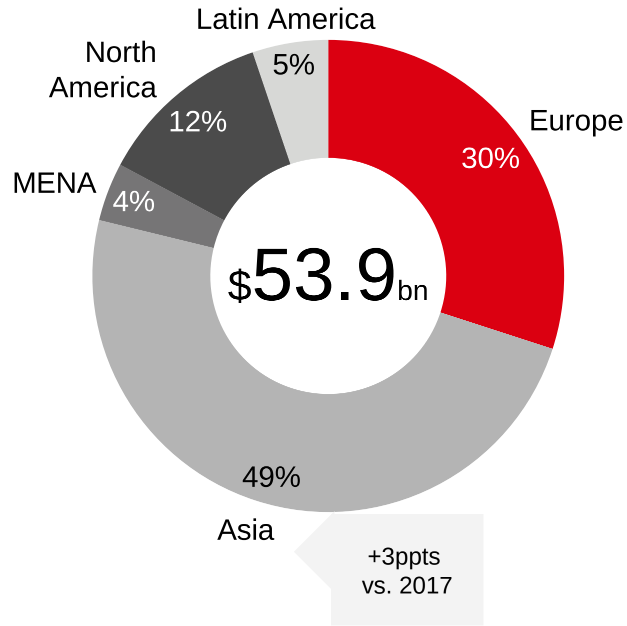
Diversified revenue streams, pivoting to Asia

- Diversified revenue streams by global business, region and type
- Strategic priority 1 is to accelerate growth from our Asia franchise and be the leading bank to support drivers of global investment

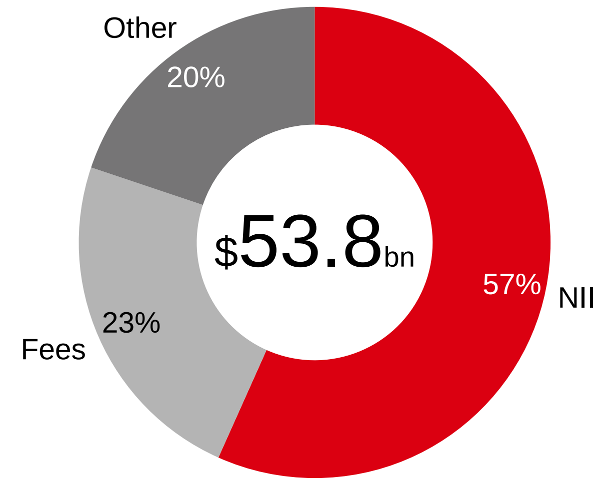
2018 adjusted revenue by global business

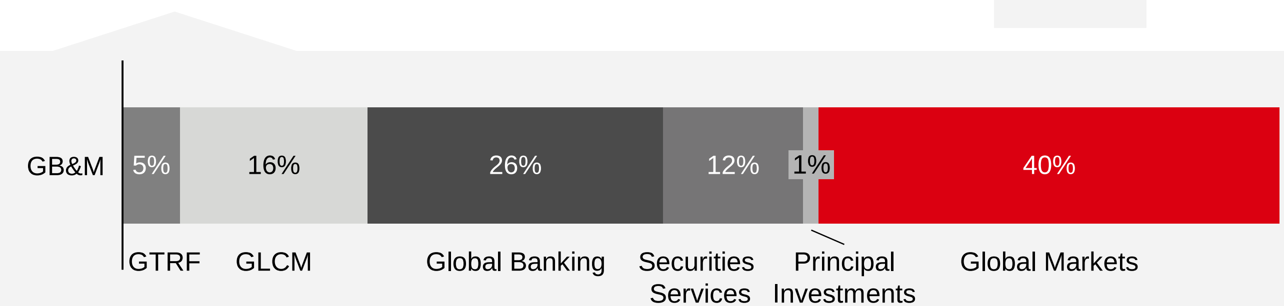


2018 adjusted revenue by region[14]



2018 reported revenue by type



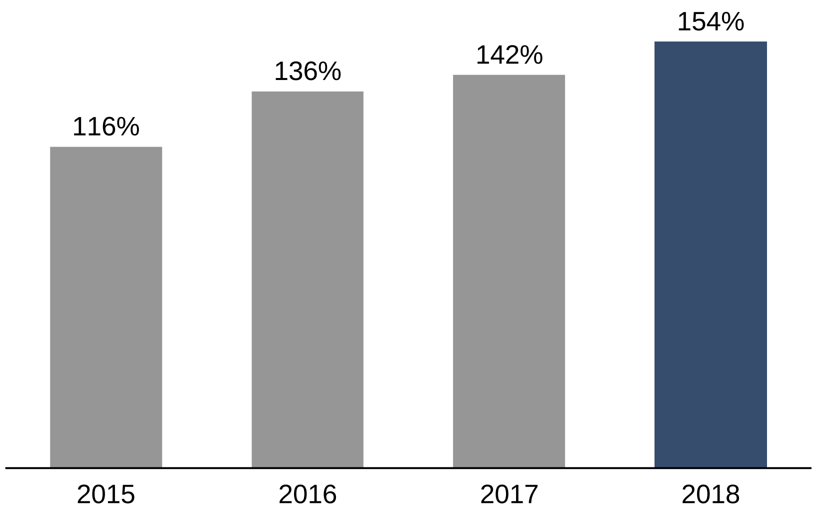


Our GB&M business has a diversified product offering, with a range of transaction banking, financing, advisory, capital markets and risk management services

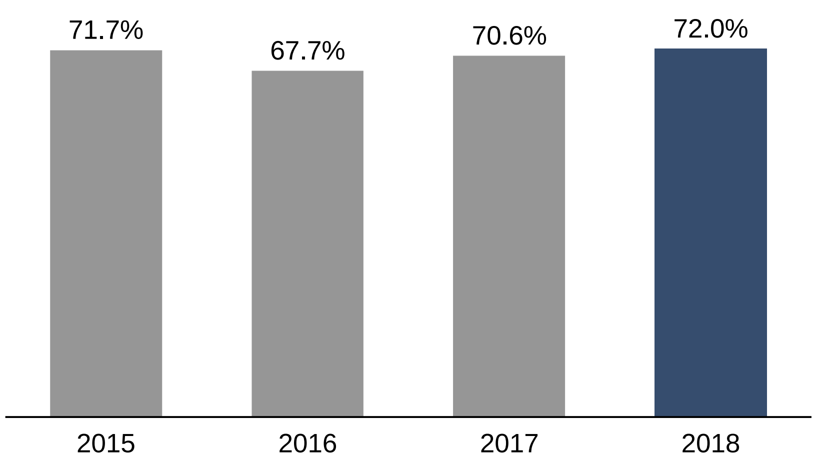
Total GB&M adjusted revenue of $15,512m includes Other revenue of $(561)m and Credit and funding valuation adjustments $(183)m – these have been exclude from the chart above

Funding and liquidity

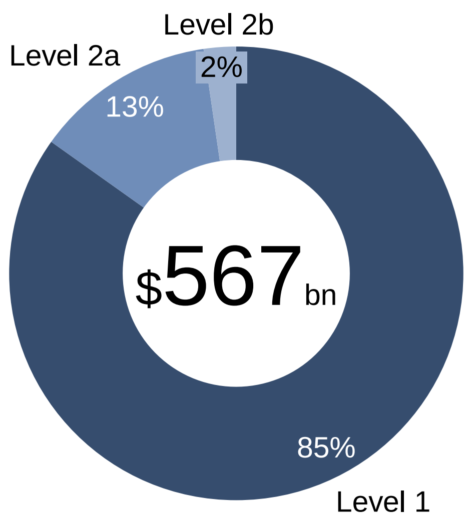
Group consolidated LCR[15]



Advances to deposits ratio, %



High Quality Liquid Assets[16] (HQLA) as at 31 Dec 18



Short term wholesale funding

13%

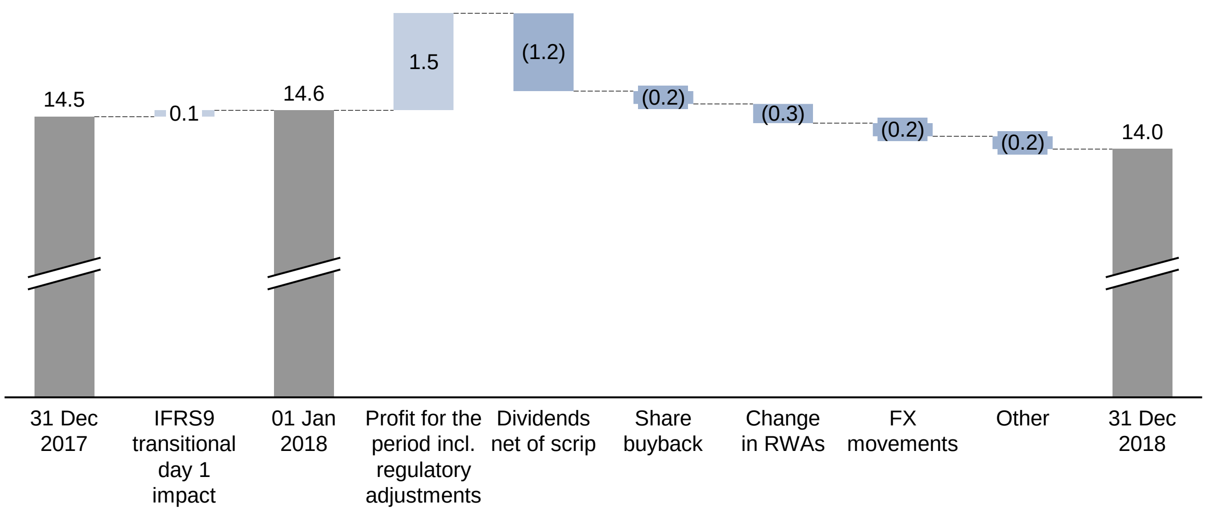
CP, CDs and ABCP <1y as % total wholesale debt

22%

Total debt maturing within 1 year

Capital position

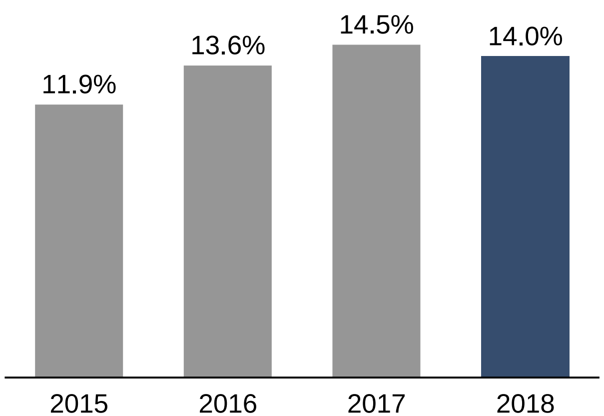
FY18 vs. FY17 CET1 ratio movement, %



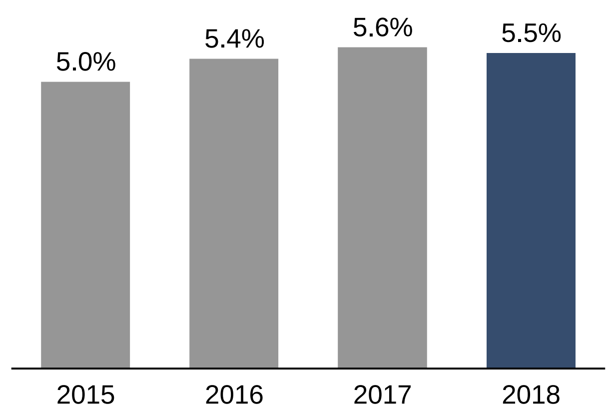
- 14.0% CET1 ratio, down 0.5ppts from 31 December 2017, mainly as a result of:
  - Dividends net of scrip (-1.2ppts)
  - RWA growth (-0.3ppts)
  - Share buyback (-0.2ppts)
  - Adverse FX movements (-0.2ppts)

  Partly offset by:
  - Profit for the period (1.5ppts)

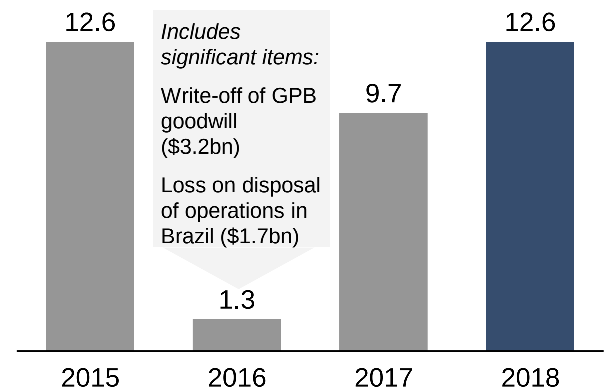
Common Equity Tier 1 ratio



Leverage ratio[11]

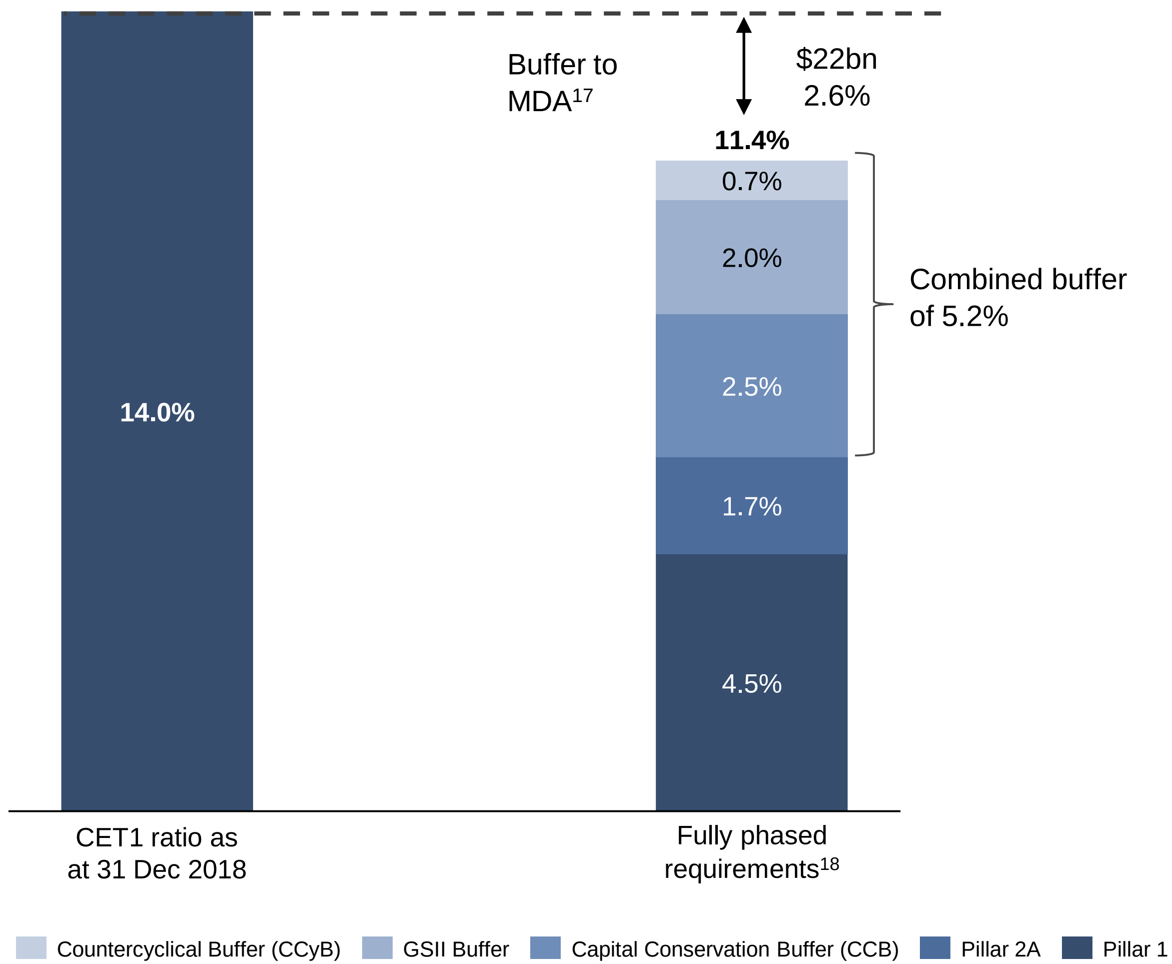


Profit attributable to ordinary shareholders, $bn



Capital position versus requirements

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



- 14.0% CET1 ratio as at 31 December 2018
- From 1 January 2019, our Pillar 2A requirement is 3.0% of RWAs, of which 1.7% must be met by CET1
- From 1 January 2019, the CCB (2.5%) and GSII buffer (2.0%) are fully implemented
- The CCyB implementation continues, notably with:
  - Hong Kong at 2.5% from 1 January 2019
  - France at 0.25% from 1 July 2019

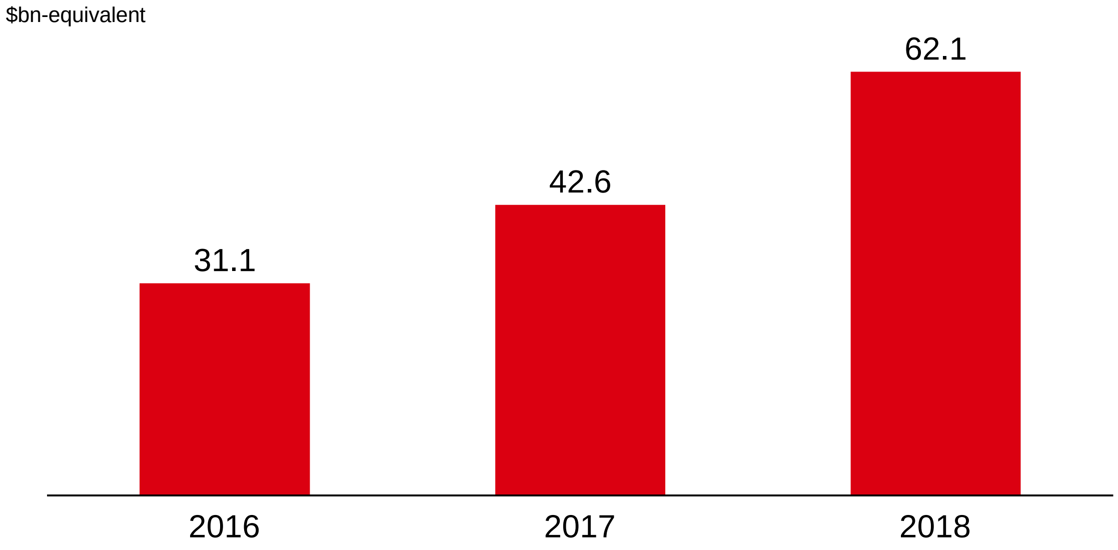
  Expected fully implemented requirement of 0.7%[18]
- Throughout the period to 2020, our plan assumes our CET1 ratio will be above 14%
- $30.7bn of distributable reserves, down $7.3bn from 31 December 2017 primarily driven by distributions to shareholders and the re-presentation of the 2017 share buy-back

Capital structure and debt issuance

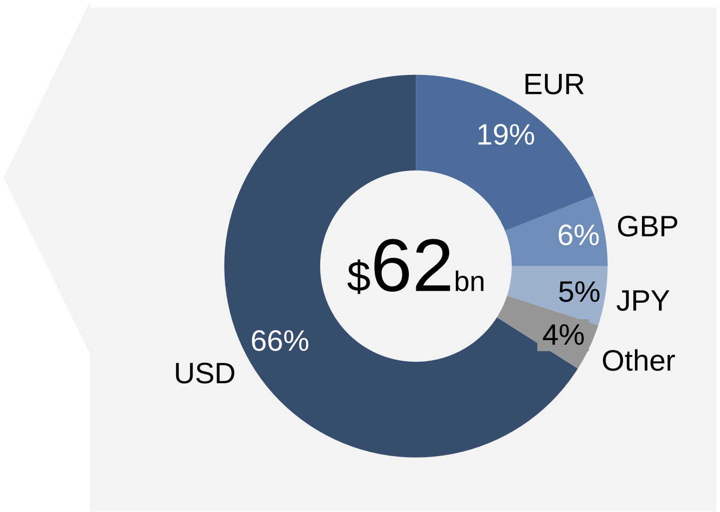
HSBC

Progress toward meeting MREL requirements

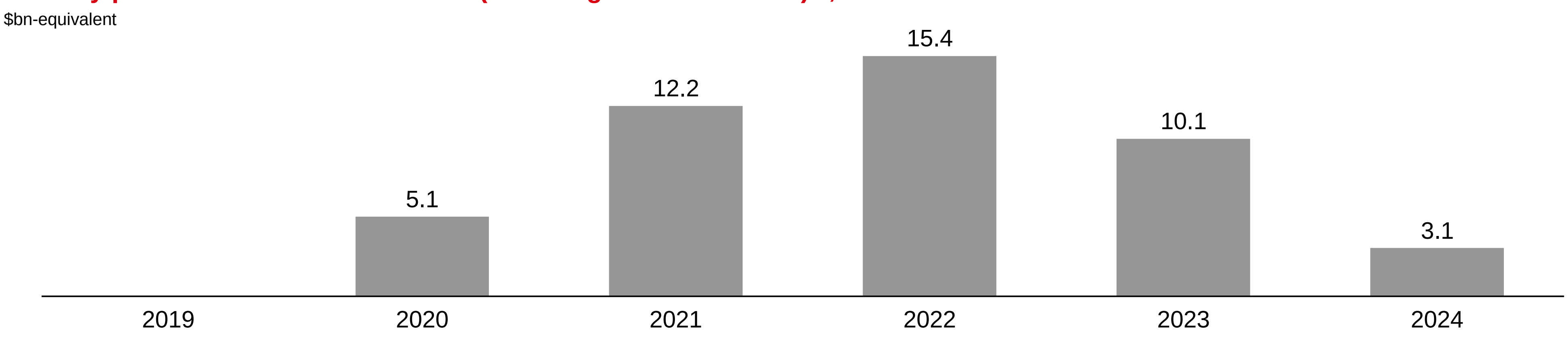
$62bn stock of MREL-eligible HoldCo Senior built in 3 years



Outstanding MREL-eligible senior by currency

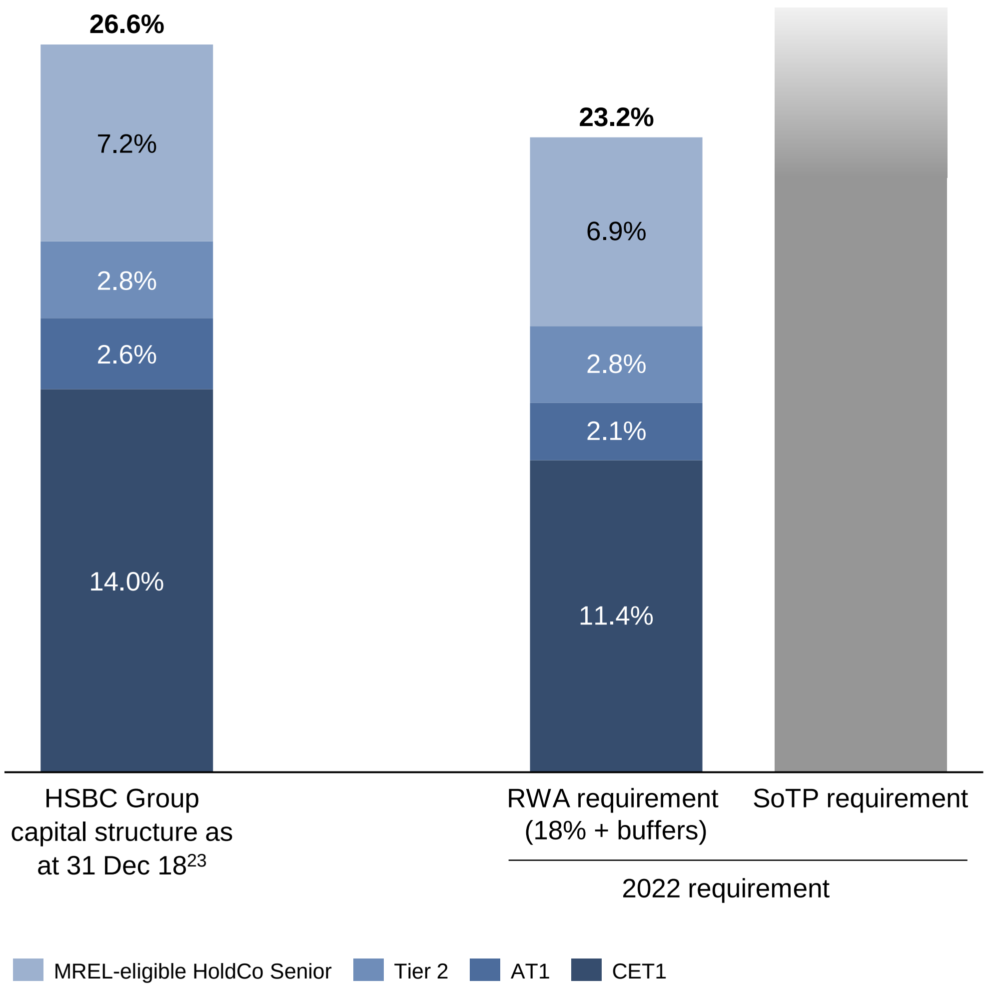


Maturity profile of HoldCo Senior debt (including non-MREL debt)[19], $bn



Total capital and estimated MREL/TLAC requirements[20]

Regulatory capital and MREL-eligible HoldCo Senior versus regulatory requirements as a % of RWAs



- HSBC comfortably meets its 2019 MREL requirements
- Good progress made in meeting expected end-state requirements[21]
- The preferred resolution strategy for HSBC is Multiple Point of Entry ('MPE')
- From 2022, HSBC Group's indicative MREL requirement[22] is the greater of:
  - 18% of RWAs
  - 6.75% of leverage exposures
  - The sum of requirements relating to Group entities ('SoTP')
- On current assumptions, HSBC expects the SoTP calculation will be the binding constraint
- There remains some uncertainty over the timing and quantum of MREL requirements at certain subsidiaries

Indicative summary MREL/TLAC requirement[24]

On current assumptions, HSBC expects the 'sum-of-the-parts' MREL/TLAC calculation will be binding. SoTP sums our local subsidiaries' MREL/TLAC requirements to give the group's overall MREL requirement

HSBC Group

Group Consolidated RWAs: $865bn

Total binding MREL requirement expected to be the sum of the below and other capital requirements relating to other Group entities*

US Resolution Group

RWAs: $141bn[25]

2022 expected requirement:

18% of RWAs + buffers

+

European Resolution Group

RWAs: $301bn[26]

2022 expected requirement:

2 x (Pillar 1 + Pillar 2A) + buffers

+

Asia Resolution Group

RWAs: $359bn[27]

2022 expected requirement[28]:
Firm specific requirement to be confirmed by HKMA

Expected to be subject to TLAC floor of the greater of:
18% of RWAs + buffers
6.75% of leverage exposures

*Note: HSBC Group MREL SoTP requirement is the sum of all loss-absorbing requirements and other capital requirements relating to other group entities or sub-groups

A simplified structure chart can be found on page 33

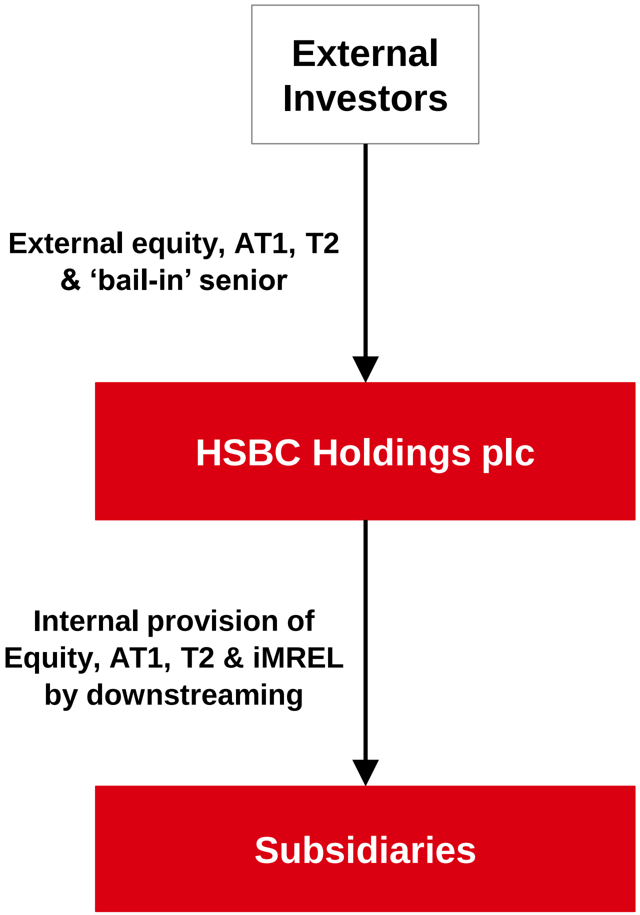
Indicative timeline of MREL/TLAC requirement

Expected binding constraint

	2019	2020	2021	2022
HSBC Group	The greater of: ▪ 16% of RWAs ▪ 6% of leverage exposures ▪ Sum-of-the-parts ♦			Indicatively, the greater of: ▪ 18% of RWAs ▪ 6.75% of leverage exposures ▪ Sum-of-the-parts ♦
♦ Key sum-of-the-parts components:				
European Resolution Group	The greater of: ▪ 16% of RWAs ▪ 6% of leverage exposures	Indicatively, the greater of: ▪ 2 x P1 + P2A ▪ 2 x leverage ratio requirement ▪ 6% of leverage exposures		Indicatively, the greater of: ▪ 2 x (P1 + P2A) ▪ 2 x leverage ratio requirement ▪ 6.75% of leverage exposures
+				
Asia Resolution Group[28]	Firm specific requirement to be confirmed by HKMA Expected to be subject to TLAC floor of the greater of: ▪ 16% of RWAs ▪ 6% of leverage exposures			Firm specific requirement to be confirmed by HKMA Expected to be subject to TLAC floor of the greater of: ▪ 18% of RWAs ▪ 6.75% of leverage exposures
+				
US Resolution Group	TLAC: the greater of: ▪ 18% of RWAs (+ TLAC buffer) ▪ 6.75% of leverage exposures ▪ 9% of total assets LTD: the greater of: ▪ 6% of RWAs ▪ 3.5% of leverage exposures ▪ 2.5% of total assets			

Note: HSBC Group MREL SoTP requirement is the sum of all loss-absorbing requirements and other capital requirements relating to other group entities or sub-groups

Approach to issuance – single point of issuance, multiple point of entry



HSBC Holdings plc

- Since 2015, HSBC Holdings has been the Group's issuing entity for external AT1, T2 and MREL/TLAC-eligible Senior
- Issuance over time to broadly match group currency exposures
- Issuance executed with consideration to our maturity profile

Internal Capital and MREL/TLAC

- Proceeds of external debt issued by HSBC Holdings is predominantly used to acquire capital and internal MREL/TLAC instruments issued by its subsidiaries
- HSBC Holdings does not provide funding to subsidiaries for day-to-day liquidity needs
- HSBC Holdings retains some cash for its own liquidity and capital management

External debt issued by subsidiaries

- HSBC will continue to issue senior and secured debt from certain subsidiaries in local markets to meet their funding and liquidity requirements. This may include: preferred senior, CP, CDs, and covered bonds. This debt is not intended to constitute MREL/TLAC

Issuance strategy and plan

Executed against 2018 targets

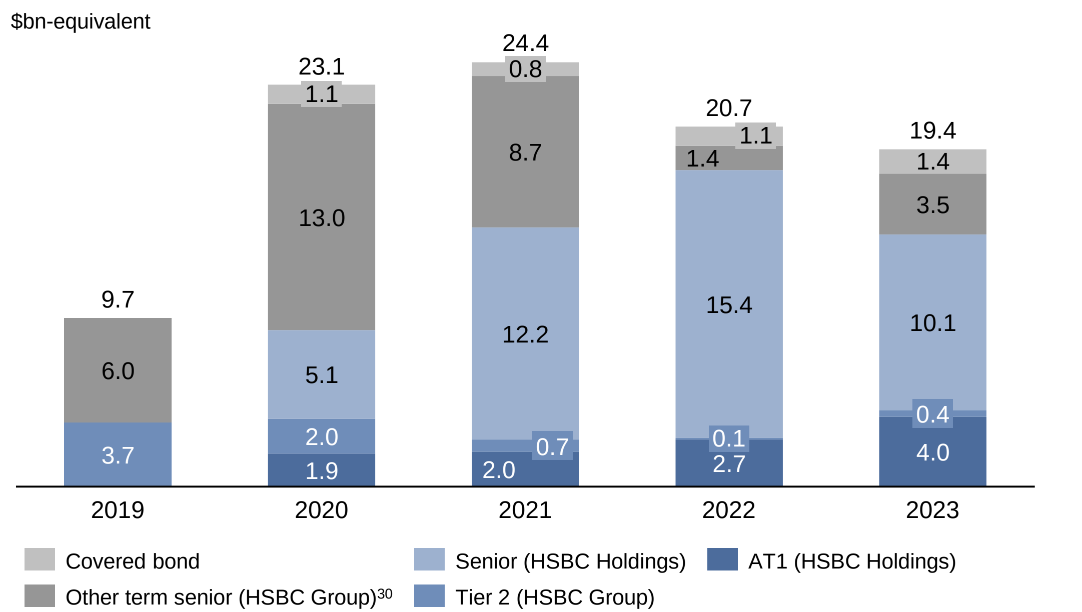
- Issued $19bn of HoldCo Senior debt and $6bn of AT1, in line with plan and partially pre-funding our 2019 need
- Maintained buffer above regulatory minimums for AT1 and Total Capital
- Issuance into local markets from certain subsidiaries, including:
  - HSBC France EUR senior preferred and covered bond
  - HSBC Bank Canada CAD term deposit note and USD covered bond

Forward-looking issuance plan[29]

- **HoldCo Senior:** expect to issue low / mid-teens USDbn per year
  - Increasing maturity profile will reduce net issuance to nil over time
- **Tier 2:** no near-term plans
  The final implementation of CRR2 and the future path of UK regulation post-Brexit may impact our plans
- **AT1:** expect to issue low single-digit USDbn in 2019, over the longer-term expect net issuance to reflect balance sheet evolution
- **OpCo:** expect certain subsidiaries to issue senior and secured debt in local markets

Maturity profile[19]

As at 31 Dec 2018



Appendix

HSBC

Currency translation and significant items included in the income statement

$m	4Q17	3Q18	4Q18	FY17	FY18
Reported PBT	**2,304**	**5,922**	**3,256**	**17,167**	**19,890**
Revenue					
Currency translation	450	147	-	(133)	-
Customer redress programmes	(105)	-	7	(108)	53
Disposals, acquisitions and investment in new businesses	(79)	-	29	274	(113)
Fair value movements on financial instruments	45	(43)	95	(245)	(100)
Currency translation on significant items	8	-	-	(4)	-
	319	**104**	**131**	**(216)**	**(160)**
ECL / LICs					
Currency translation	(30)	(12)	-	(56)	-
	(30)	**(12)**	**-**	**(56)**	**-**
Operating expenses					
Currency translation	(344)	(105)	-	143	-
Costs of structural reform	(131)	(89)	(61)	(420)	(361)
Costs to achieve	(655)	-	-	(3,002)	-
Customer redress programmes	(272)	(62)	16	(655)	(146)
Gain on partial settlement of pension obligation	188	-	-	188	-
Disposals, acquisitions and investment in new businesses	(39)	(51)	2	(53)	(52)
Restructuring and other related costs	-	(27)	(15)	-	(66)
Settlements and provisions in connection with legal and other regulatory matters	(228)	1	24	198	(816)
Past service costs of guaranteed minimum pension benefits equalisation	-	-	(228)	-	(228)
Currency translation on significant items	39	2	-	(52)	-
	(1,442)	**(331)**	**(262)**	**(3,653)**	**(1,669)**
Share of profit in associates and joint ventures					
Currency translation	23	8	-	(41)	-
	23	**8**	**-**	**(41)**	**-**
Currency translation and significant items	**(1,130)**	**(231)**	**(131)**	**(3,966)**	**(1,829)**
Adjusted PBT	**3,434**	**6,153**	**3,387**	**21,133**	**21,719**

Balance sheet – customer lending

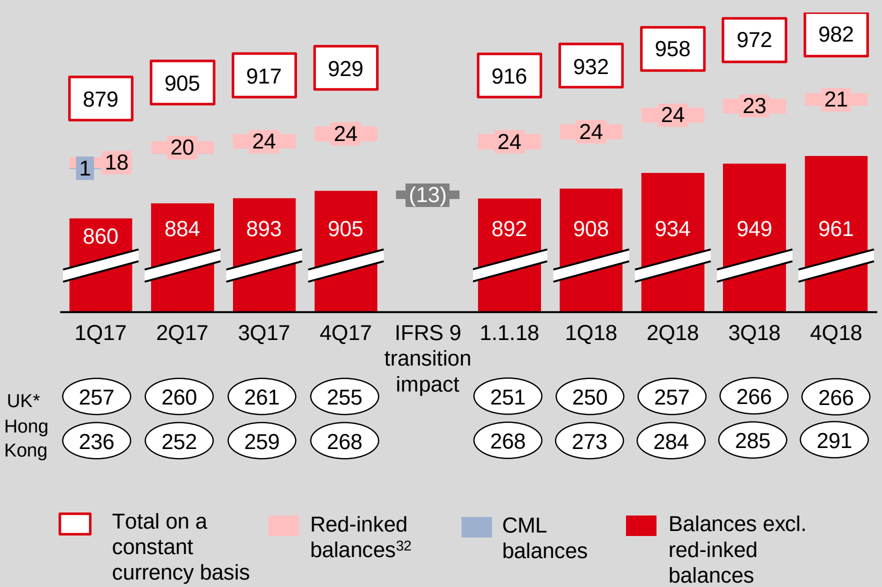
4Q18 Net loans and advances to customers[31]

Customer lending* increased by $12bn or 1.3% vs. 3Q18, reflecting:

- Lending growth in Hong Kong of $6bn (of which $3bn RBWM mortgage growth)
- Term lending growth in GB&M North America
- Lending growth in Europe ($2bn), primarily in the UK from RBWM mortgage growth ($4bn) partly offset by a managed reduction in GLCM overdraft balances in GB&M

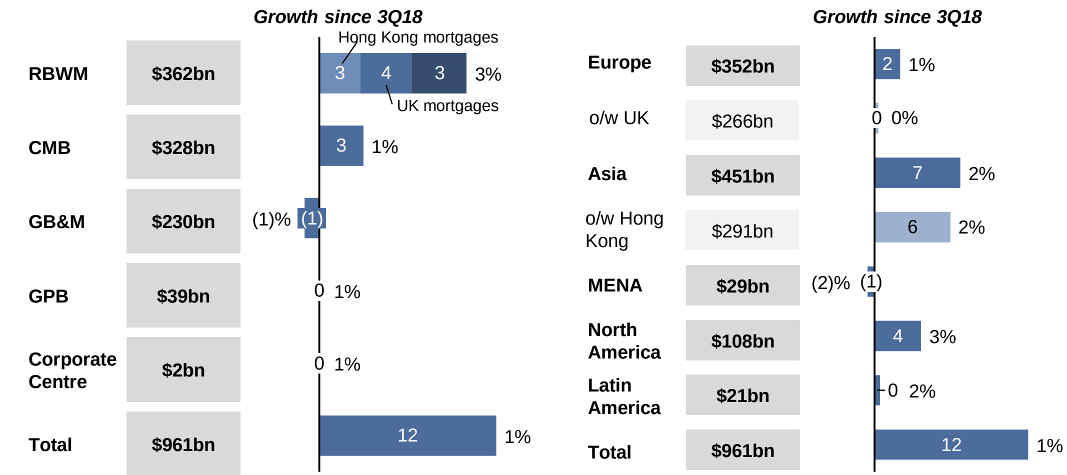
Customer lending* increased by $69bn or 8% vs. 1.1.18:

- Lending growth in Asia of ($38bn): mortgage lending in RBWM ($14bn), CMB ($13bn) and GB&M ($11bn) mainly from term lending; growth was mainly in Hong Kong
- Lending growth in Europe of $20bn primarily in the UK from mortgage growth in RBWM ($11bn)

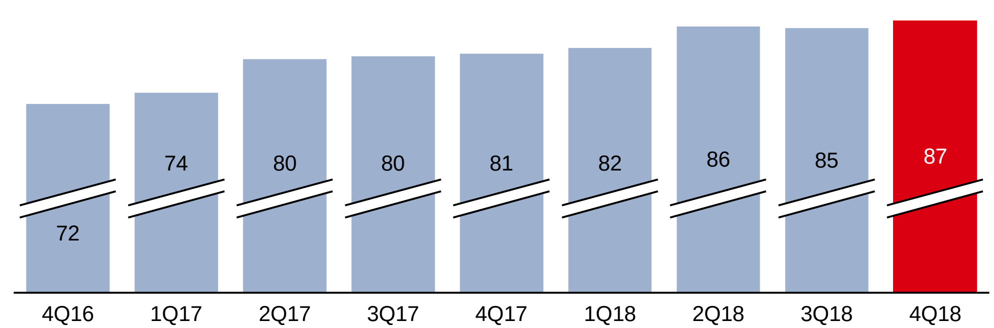


* excluding red-inked balances

4Q18 lending growth by global business and region (excluding red-inked balances)



GTRF funded assets, $bn



Balance sheet – customer accounts

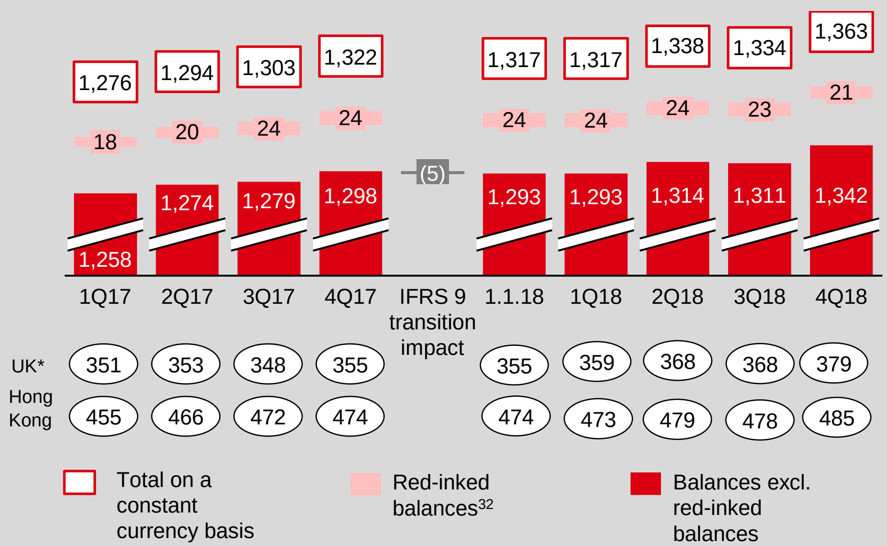
4Q18 Customer accounts[31], $bn

Customer accounts* increased by $31bn or 2.4% vs. 3Q18:

- Growth in Asia of $13bn notably RBWM ($6bn) and GB&M ($5bn) primarily in savings reflecting higher customer inflows due to competitive rates
- Growth in Europe of $12bn, from growth in CMB $5bn mainly in the UK RFB and increases in Global Markets in the UK

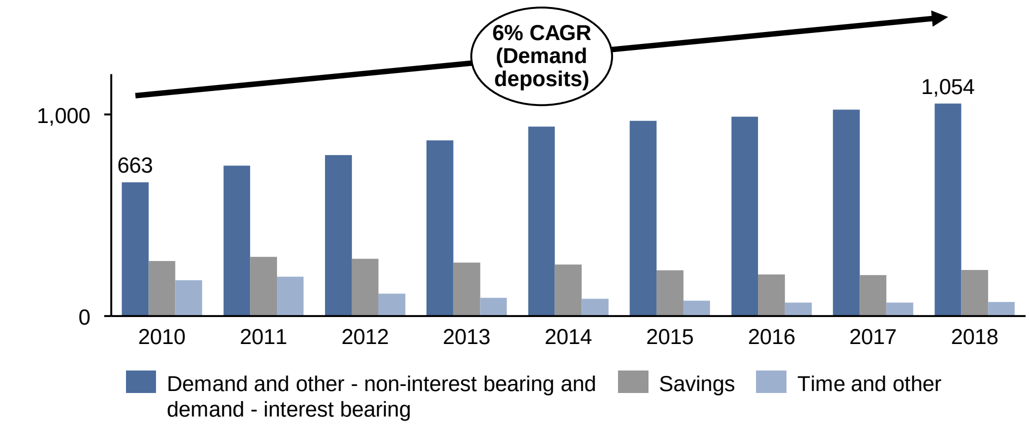
Customer accounts* increased by $49bn or 4% vs. 1.1.18:

- Growth in Europe of $29bn, targeted growth in GB&M to support funding in the NRFB, increases in CMB in the UK RFB and higher current account and savings balances in RBWM
- Growth in Asia of $18bn, notably RBWM ($10bn) and GB&M ($9bn) primarily in savings reflecting higher customer inflows due to competitive rates

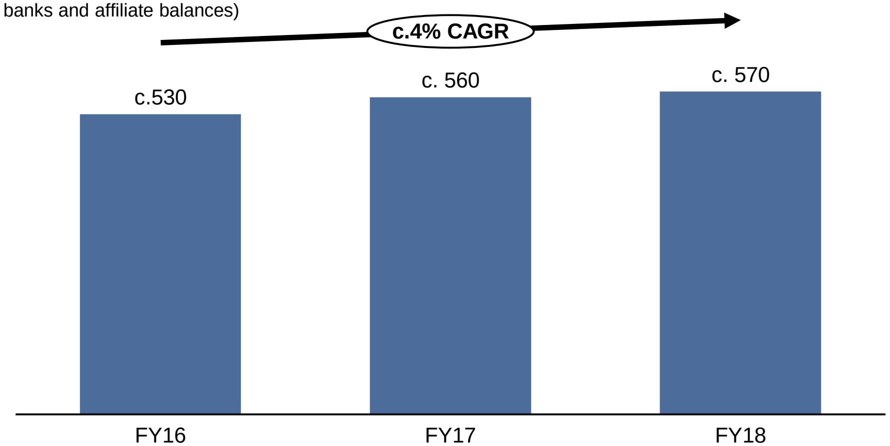


* excluding red-inked balances

Average Customer accounts[33], US$bn



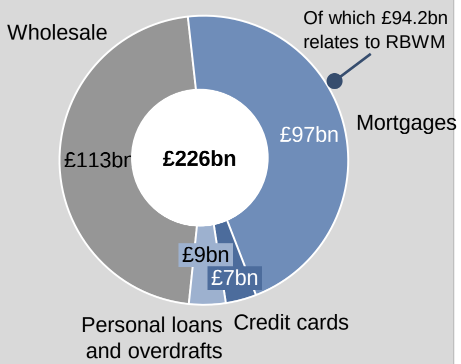
Average GLCM deposits, US$bn
(Includes banks and affiliate balances)



UK customer advances

Total UK[34] gross customer advances - £226bn

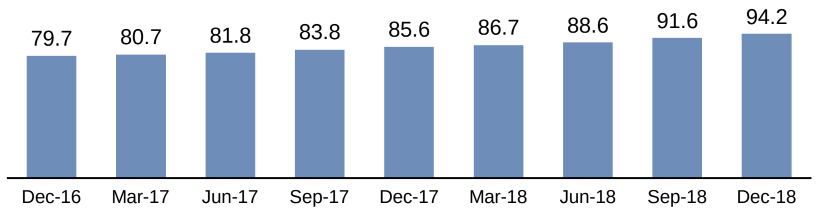
As at 31 Dec 2018



Total UK gross customer advances of £226bn ($290bn) represented 29% of the Group's gross customer advances:

- Continued mortgage growth whilst maintaining 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

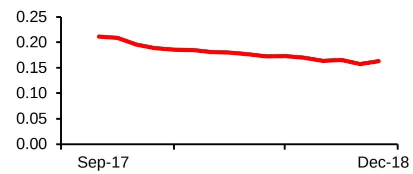
RBWM residential mortgages[35], £bn



By LTV

Less than 50%	£47.0bn
50% - < 60%	£15.4bn
60% - < 70%	£13.3bn
70% - < 80%	£11.4bn
80% - < 90%	£5.9bn
90% +	£1.2bn

90+ day delinquency trend, %

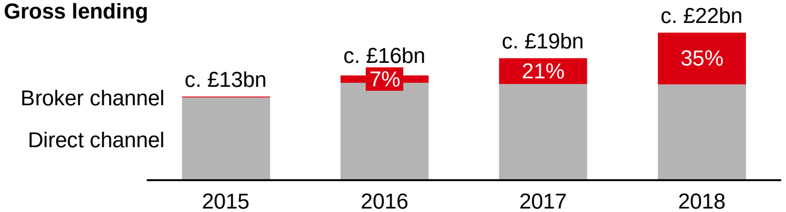


- c.28% of mortgage book is in Greater London
- Buy-to-let mortgages of £2.8bn
- Mortgages on a standard variable rate of £3.4bn
- Interest-only mortgages of £20bn[13]
- LTV ratios – 4Q18:
  - c50% of the book < 50% LTV
  - new originations average LTV of 65%;
  - average LTV of the total portfolio of 49%[36]

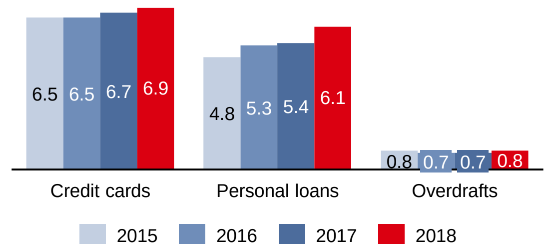
Expansion into the broker channel

	2015	2016	2017	2018
Broker coverage (by value of market share)	8%	43%	70%	84%

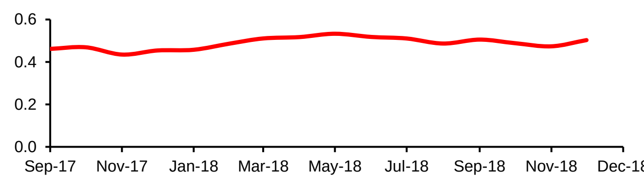
Gross lending



RBWM unsecured lending[37], £bn



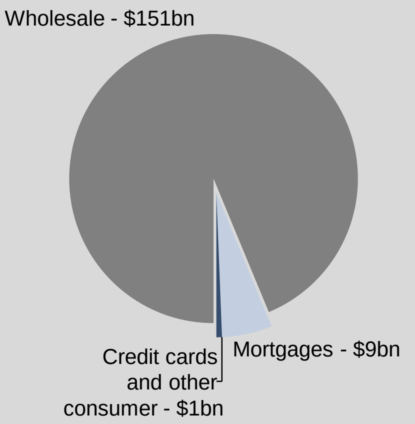
Credit cards: 90+ day delinquency trend, %



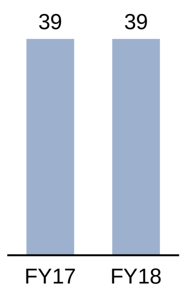
- 18% of outstanding credit card balances are on a 0% balance transfer offer
- HSBC does not provide a specific motor finance offering to consumers although standard personal loans may be used for this purpose

Mainland China drawn risk exposure[38]

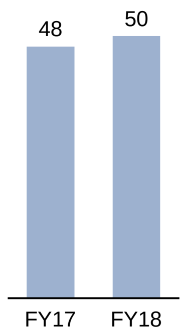
Total Mainland China drawn risk exposure of $161bn



Mainland gross loans and advances to customers[39], $bn

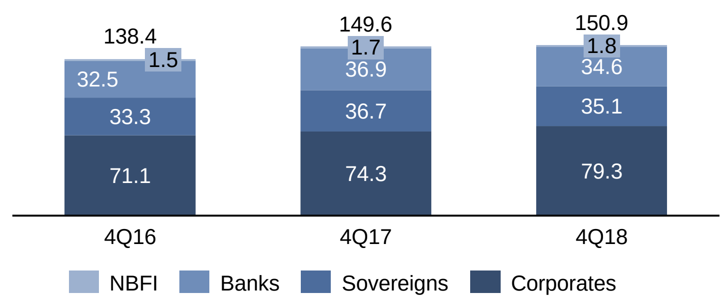


Mainland customer deposits[39], $bn



- Total mainland China drawn risk exposure of $161bn
- Wholesale: $151bn (of which 51% is onshore); Retail: $10bn
- Gross loans and advances to customers of c.$39bn in mainland China (by country of booking, excluding Hong Kong and Taiwan)
- Stage 3 loan balances, days past due trends and losses remain low
- HSBC's onshore corporate lending market share is 0.14%; we are selective in our lending

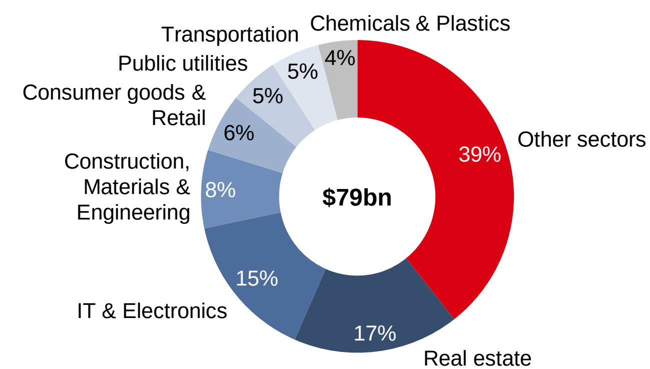
Wholesale analysis, bn



Wholesale lending by risk type:

CRRs	1-3	4-6	7-8	9+	Total
Sovereigns	35.1				35.1
Banks	34.3	0.3			34.6
NBFI	1.6	0.2			1.8
Corporates	51.5	27.3	0.2	0.3	79.3
Total	**122.5**	**27.9**	**0.2**	**0.3**	**150.9**

Corporate Lending by sector:



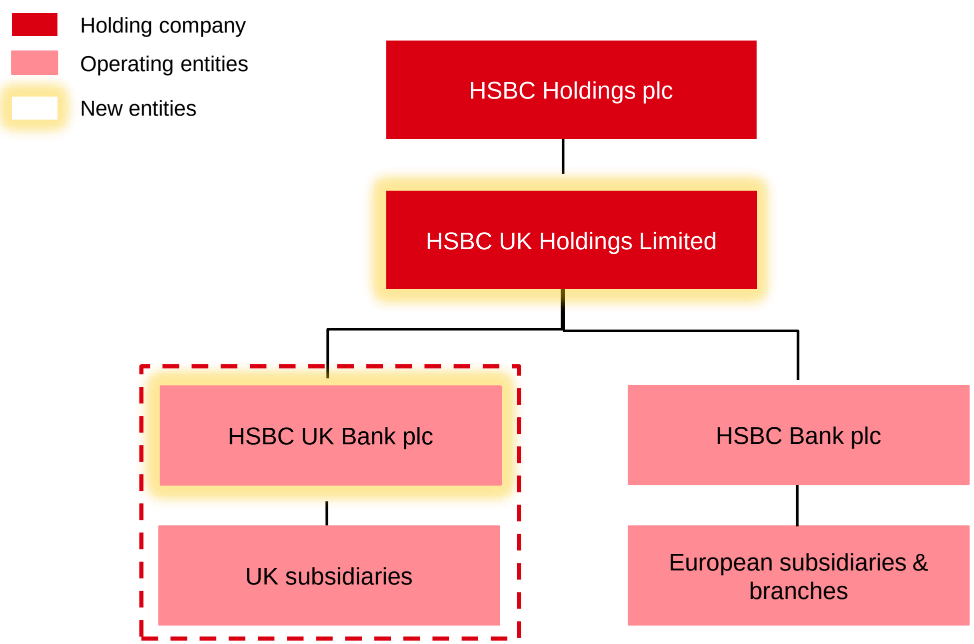
- c21% of lending is to Foreign Owned Enterprises, c35% of lending is to State Owned Enterprises, c43% to Private sector owned Enterprises
- Corporate real estate
  - 58% within CRR 1-3 (broadly equivalent to investment grade)
  - Highly selective, focusing on top tier developers with strong performance track records
  - Focused on Tier 1 and selected Tier 2 cities

Current credit ratings for main issuing entities

Long term senior ratings as at 18 February 2019	Fitch		Moody's		S&P	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
HSBC Holdings plc	AA-	Stable	A2	Stable	A	Stable
The Hongkong and Shanghai Banking Corporation Ltd	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC Bank plc	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC UK Bank plc	AA-	Stable	-	-	AA-	Stable
HSBC France	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC Bank USA NA	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC Bank Canada	AA-	Stable	A3	Stable	AA-	Stable

HSBC has completed the ring-fencing of its UK retail banking activities

New structure



Our ring-fenced bank

Was set up to hold HSBC's qualifying components of UK RBWM, CMB and GPB businesses, and relevant retail banking subsidiaries

Our non ring-fenced bank

Has retained the non-qualifying components, primarily the UK GB&M business and the overseas branches and subsidiaries

Milestones completed in FY18

- ✓ In January 2018, the Ring Fence Transfer Scheme ('RFTS') court process was initiated with the submission of an application to the High Court, followed by the first hearing to consider and approve the communications programme
- ✓ The RFTS was sanctioned by the High Court in May 2018
- ✓ All mobilisation restrictions to HSBC UK Bank plc's banking licence under section 55I of the FSMA were lifted on 27 June 2018
- ✓ HSBC completed the ring-fencing of its UK retail banking activities on 1 July 2018
- ✓ The transfer of c14.5 million customers
- ✓ The migration of roles from London to Birmingham has completed and a fully functioning HSBC UK Bank plc team is in place
- ✓ HSBC Bank plc transferred to HSBC UK Holdings Limited in the second half of 2018

HSBC UK Bank plc (our ring-fenced bank)

Source: HSBC UK Bank plc Annual Report and Accounts 2018

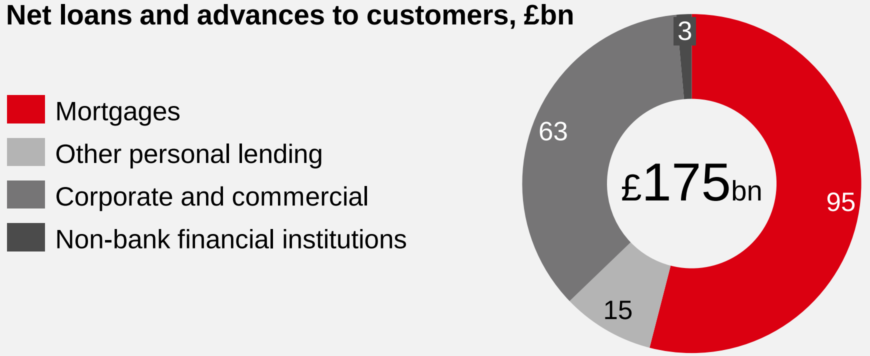
Pro forma adjusted results, £m

	FY18	FY17	Δ FY17	Δ %
Revenue	6,449	6,009	440	*7%*
ECL / LICs	(399)	(229)	(170)	*(74%)*
Costs	(3,510)	(3,392)	(118)	*(3%)*
PBT	2,540	2,388	152	*6%*

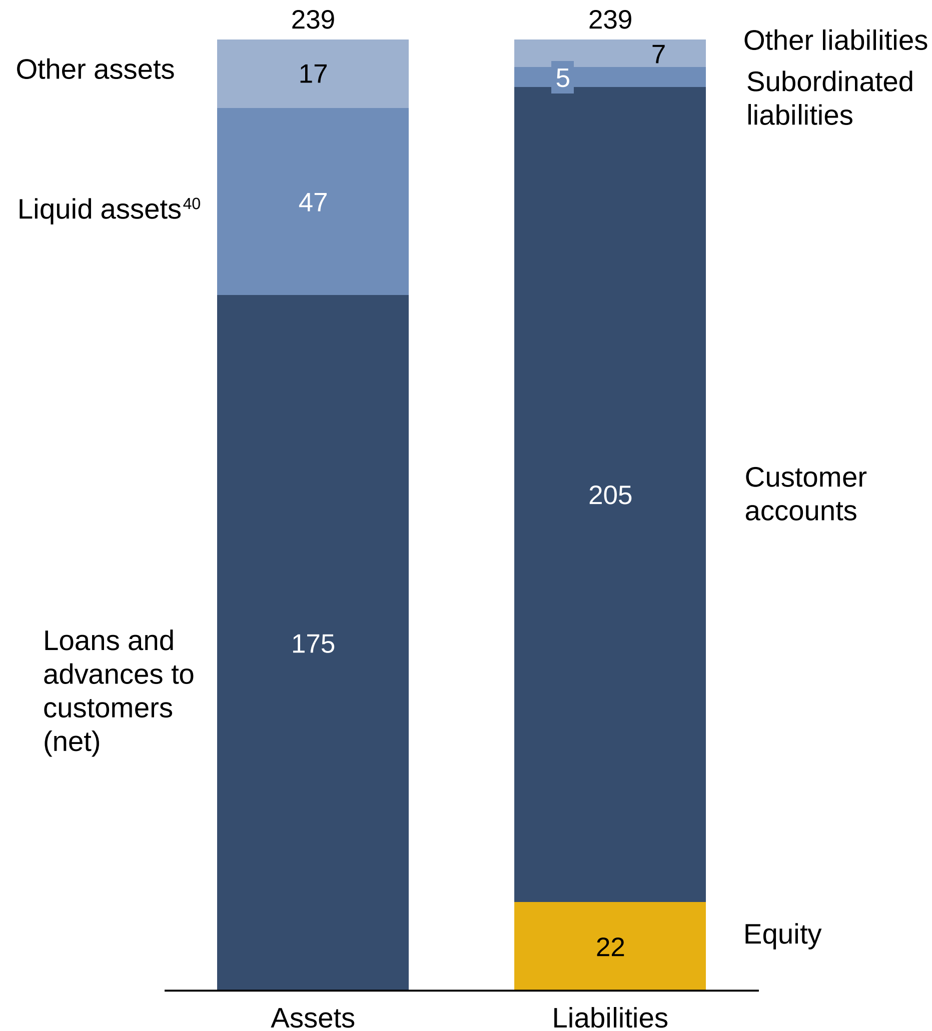
Key financial metrics

	FY18
Jaws (adjusted)	3.8%
Common equity tier 1 ratio	12.7%
Leverage ratio	5.6%
Advances to deposits ratio	85.3%
LCR[41]	143%

Net loans and advances to customers, £bn



Consolidated balance sheet, £bn
As at 31 Dec 2018



HSBC Bank plc (our non ring-fenced bank)[42]

Source: HSBC Bank plc Annual Report and Accounts 2018

The 2018 results include the income and expenses associated with transferred activities (to HSBC UK Bank plc) during the six months to 30 June 2018

Adjusted results, £m

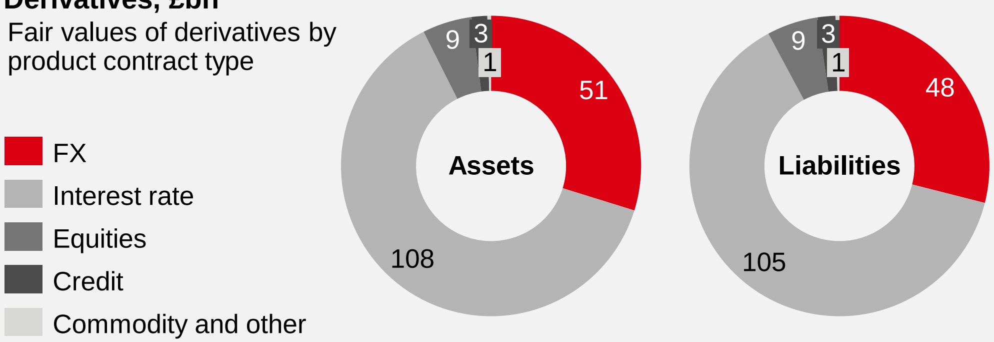
	FY18
Revenue	9,394
ECL / LICs	(159)
Costs	(7,151)
Associates	16
PBT	2,100

Key financial metrics

	FY18
Common equity tier 1 ratio	13.8%
Leverage ratio	3.9%
Advances to deposits ratio	61.9%
LCR[43]	147%

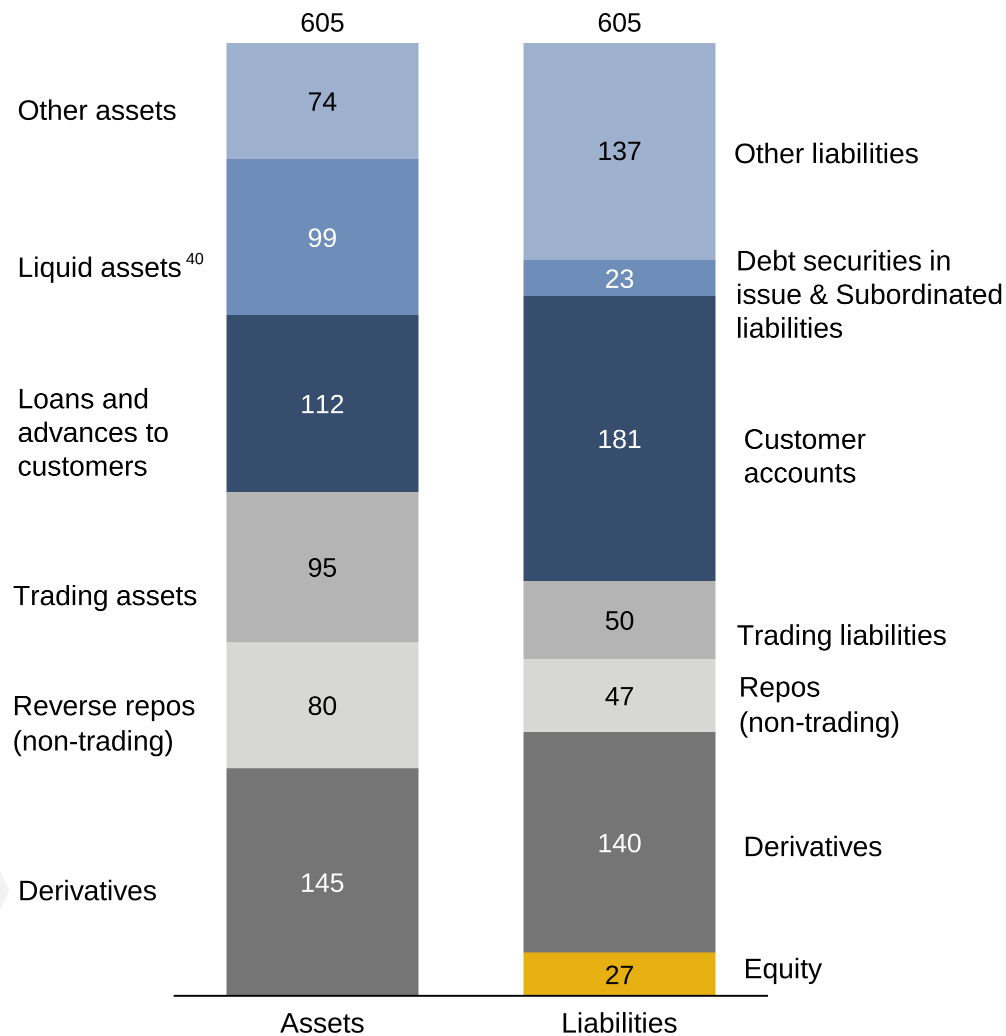
Derivatives, £bn

Fair values of derivatives by product contract type



Excludes amounts offset

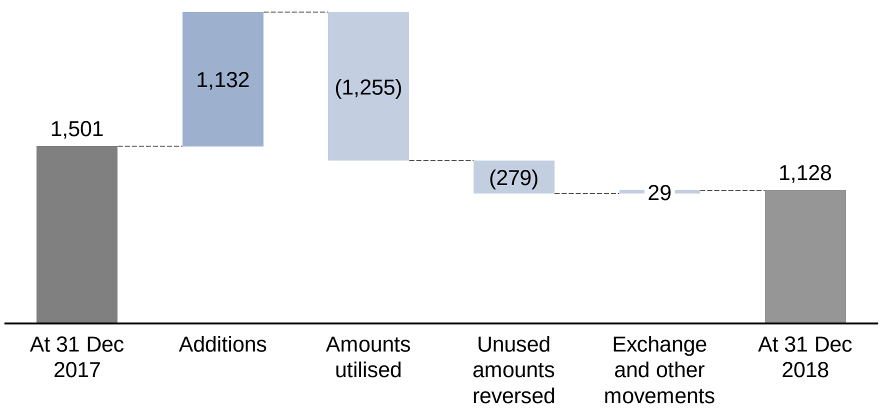
Consolidated balance sheet, £bn
As at 31 Dec 2018



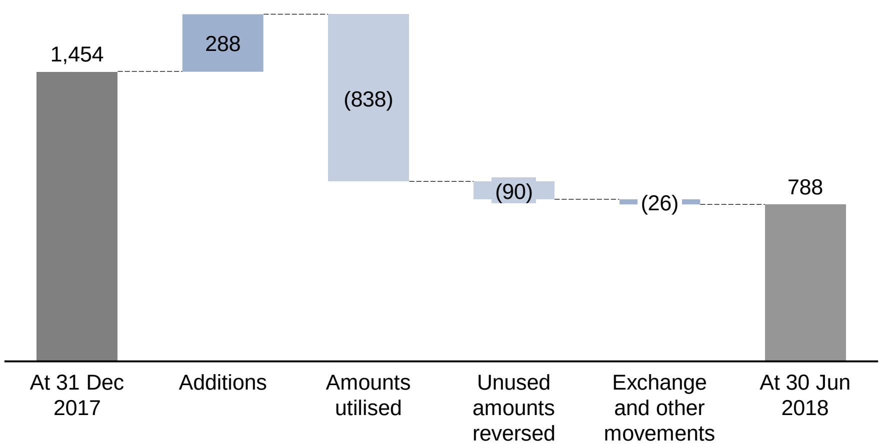
Legal proceedings, regulatory matters and customer remediation

This slide should be read in conjunction with Note 27 and Note 35 of the HSBC Holdings plc Annual Report and Accounts 2018.

Provisions relating to legal proceedings and regulatory matters, $m



Provisions relating to customer remediation, $m



Commentary on selected items[44]

Anti-money laundering and sanctions-related matters

- In December 2017, the AML DPA expired and the charges deferred by the AML DPA were dismissed.
- In July 2018, a claim was issued against HSBC Holdings in the High Court of England and Wales alleging that HSBC Holdings made untrue and/or misleading statements and/or omissions in public statements between 2007 and 2012 regarding compliance by the HSBC Group with AML, anti-terrorist financing and sanctions laws, regulations and requirements, and the regulatory compliance of the HSBC Group more generally.
- Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

Foreign exchange-related investigations

- 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.
- Other matters remain outstanding. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, which could be significant.

Madoff

- Based upon the information currently available, management's estimate of the 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. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.

US mortgage securitisation activity and litigation

- In October 2018, HSBC concluded a settlement to resolve the DoJ's civil claims relating to its investigation of HSBC's legacy RMBS origination and securitisation activities from 2005 to 2007 and paid the DoJ a civil money penalty of $765m.
- Other matters remain outstanding. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

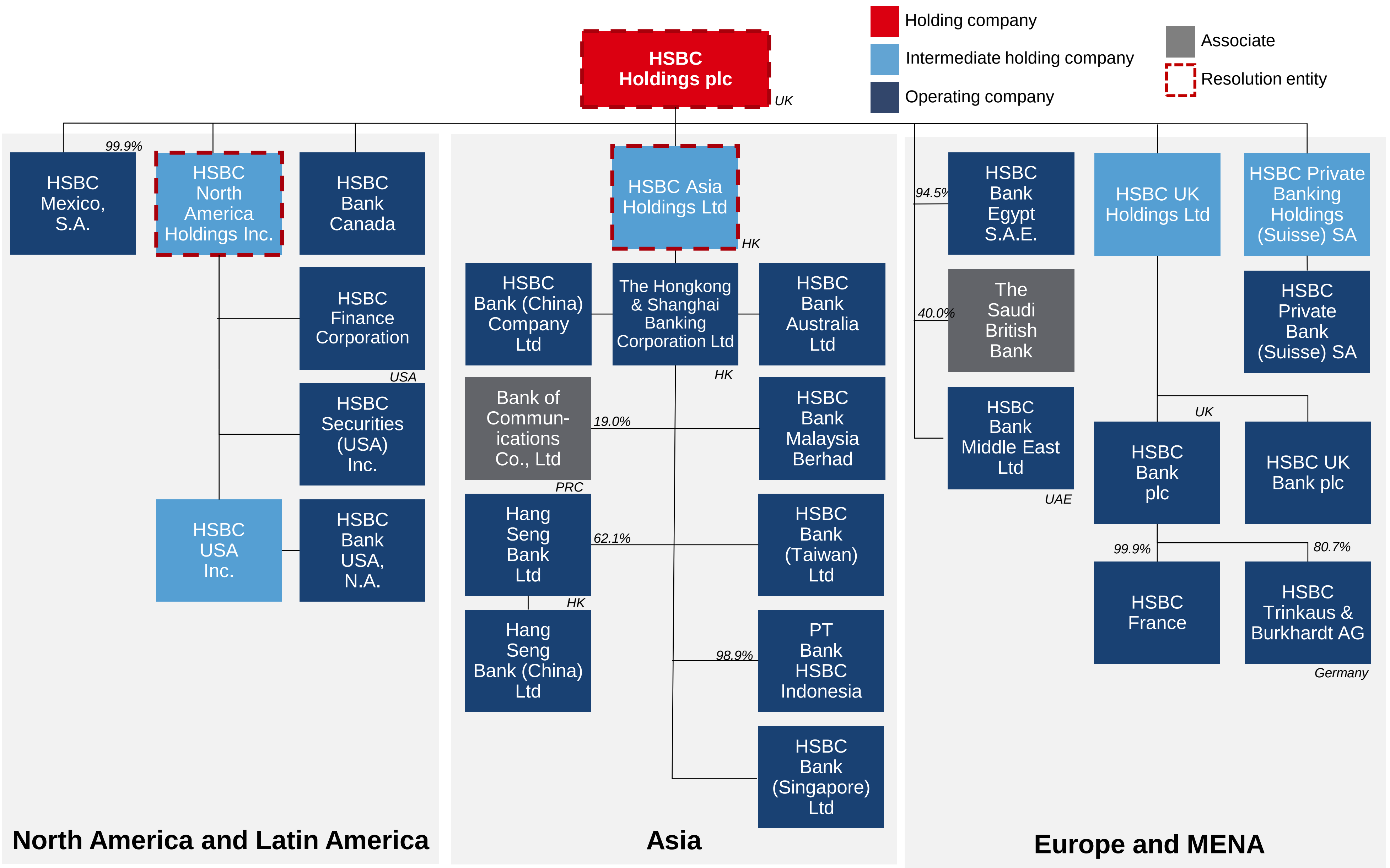
Tax-related investigations

- As at 31 December 2018, HSBC has recognised a provision for these various matters in the amount of $626m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews. 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 $800m, including amounts for which a provision has been recognised. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from this amount.

PPI

- At 31 December 2018, $555m (2017: $1,174m) of the customer remediation provision relates to the estimated liability for redress in respect of the possible mis-selling of payment protection insurance ('PPI') policies in previous years.

Simplified structure chart



As at 23 January 2019. Showing entities in Priority markets, wholly-owned unless shown otherwise. Excludes Service Companies, other Associates, Insurance companies and Special Purpose Entities.

Footnotes

1. Commitment by 2025
2. HSBC completed the set up of its ring-fenced bank, HSBC UK Bank plc, on 1 July 2018; pro forma results are extracted from the HSBC UK Bank plc Annual Report and Accounts, used for 2017 and 1H18 to enable an understanding of year-on-year performance
3. Market share gains are as of 3Q18
4. HSBC North America Holdings ('HNAH') legal entity basis, excluding the adverse impact from the one time write down of deferred tax assets due to US Tax Reform. Including this adverse impact brings FY17 RoTE to -4.3%.
5. Top three rank or improvement by two ranks; measured by customer recommendation for RBWM and customer satisfaction for CMB amongst relevant competitors
   5a. Customer satisfaction metrics for Pearl River Delta will be available from 2019, therefore they have been excluded from the assessment. Surveys are based on a relevant and representative subset of the market. Data provided by Kantar
   5b. Customer satisfaction metrics for Pearl River Delta will be available from 2019 therefore they have been excluded from the assessment. In HK, Singapore, Malaysia, Mexico and UAE, 2017 CMB performance is based on the bank that the customer defines as their main bank, whereas 2018 CMB performance for these markets is based on the bank that the customer defines as the most important. Surveys are based on a relevant and representative subset of the market. Data provided by RFi Group, Kantar and another third party vendor.
6. Rating as measured by Sustainalytics (an external agency) against our peers and reported annually
7. A targeted reported RoTE of 11% is broadly equivalent to a reported return on equity of 10%; assumes a Group CET1 ratio greater than 14%
8. FY17 jaws as reported in our FY17 Results
9. Uses average shares of 19,896m
10. Unless otherwise stated, risk-weighted assets and capital are calculated using (i) the CRD IV transitional arrangement as implemented in the UK by the Prudential Regulation Authority; and (ii) EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation. Figures at 31 December 2017 are reported under IAS 39. CET1 ratio if IFRS 9 transitional arrangements had not been applied of 13.9%
11. Leverage ratio is calculated using the CRD IV end-point basis for tier 1 capital
12. Total includes POCI balances and related allowances
13. Includes offset mortgages in first direct, endowment mortgages and other products
14. Excludes inter-regional eliminations
15. The methodology used to create a consolidated view of the Group's liquidity using the LCR is currently under review and any changes may have an impact on this disclosure in the future
16. The liquidity value of the HQLA is lower than the carrying value due to adjustments applied to comply with the European Commission ('EC') or other local regulators. For the purposes of this illustration the split of Level 1, Level 2a and Level 2b assets uses the sum of the liquid assets in HSBC's principal entities
17. Pro forma buffer to MDA trigger based on RWAs and CET1 capital resources at 13 December 2018
18. Pillar 2A requirements are shown as applicable on 1 January 2019 and 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 0.7% of RWAs on an end-point basis, based on confirmed rates as of 18 February 2019); 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
19. To first call date if callable; otherwise to maturity; to 2024/23 only
20. 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 recapitalising 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)" policy statement, published in June 2018. In November 2016, the European Commission also published proposed amendments to MREL which are yet to be finalised. The final MREL rules are subject to change pending (i) the outcome and timing of these amendments, and (ii) any eventual implementation of such rules in the UK, following the UK's withdrawal from the EU
21. The MREL requirements are subject to a number of caveats including: changes to the firm and its balance sheet (RWAs, FX and leverage); changes in accounting and regulatory policy; implementation of the final MREL rules in the EU and the UK and the content of those rules; 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

Footnotes

22. End-point MREL requirements calculated as a % of Group consolidated RWAs. The Bank of England has written to HSBC confirming the preferred resolution strategy for HSBC Group remains a multiple-point-of-entry ('MPE') resolution strategy and setting out the 2019 and indicative 2020, 2021 and 2022 external MREL applicable to HSBC Group. The Group's external MREL to be met from 1 January 2019 are set at the higher of (i) 16% of RWAs (consolidated); (ii) 6% of leverage exposures (consolidated); and (iii) the sum of all loss-absorbing capacity requirements and other capital requirements relating to other group entities or sub-groups. The Group's non-binding indicative external MREL in 2020 and 2021 is expected to follow the same calibration as in 2019. In 2022, the indicative MREL for the Group is expected to be set at the higher of (i) 18% of RWAs (consolidated); (ii) 6.75% of leverage exposures (consolidated); and (iii) the sum of all loss-absorbing capacity requirements and other capital requirements relating to other group entities or sub-groups
23. Capital is calculated using (i) CRR/CRD IV end point basis; and (ii) EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation
24. This is a simplified representation of our current view of the Group's MREL requirements. The "sum of the parts" effectively includes the expected requirements for each of our resolution groups and any loss-absorbing capacity requirements and other capital requirements relating to any other entities outside of these resolution groups. To be noted that any applicable regulatory capital buffers apply on top of the indicative MREL/TLAC requirements
25. For the purposes of this illustration, HSBC North America Holdings Inc consolidated local RWAs have been used. Source: HSBC North America Holdings Inc 4Q18 FR Y-9C filing
26. The European resolution group includes HSBC Holdings Plc and HSBC UK Holdings Limited and its subsidiaries. Work is ongoing to fully define the requirements of the European resolution group. For the purpose of this illustration the sum of HSBC UK Bank plc consolidated and HSBC Bank plc consolidated RWAs have been used. Source: HSBC Bank plc Annual Report and Accounts 2018 and HSBC UK Bank plc Annual Report and Accounts 2018
27. For the purposes of this illustration, The Hongkong & Shanghai Banking Corporation Limited consolidated local RWAs have been used. Source: The Hongkong & Shanghai Banking Corporation Limited Annual Results 2018 media release
28. HKMA rules were finalised in December 2018. These requirements are broadly aligned with the FSB TLAC term sheet. Individual requirements and date of application is dependent on HKMA formal designation and notification to HSBC, expected during 2019. The firm specific loss absorbing capacity requirement ('LAC requirement') is expected to be established based on a risk weighted ratio and a leverage ratio, both calculated with reference to a capital component ratio and a resolution component ratio. These requirements may reflect a variation given to the authorised firm pursuant to section 97F of the Banking Ordinance and may also be varied upon determination of HKMA for a particular firm. It is also expected that a G-SIB's LAC requirement would be subject to the FSB minimum TLAC requirements.
29. The issuance plan is guidance only; it is a point in time assessment and is subject to change
30. "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
31. Balances presented by quarter are on a constant currency basis. Reported equivalents for 'Loans and advances to customers' are as follows: 1Q17: $876bn, 2Q17: $920bn, 3Q17: $945bn, 4Q17: $963bn, 1Q18: $981bn, 2Q18: $973bn, 3Q18: $981.5bn, 4Q18: $982bn. Reported equivalents for 'Customer Accounts' are as follows: 1Q17: $1,273bn, 2Q17: $1,312bn, 3Q17: $1,337bn, 4Q17: $1,364bn, 1Q18: $1,380bn, 2Q18: $1,356bn; 3Q18: $1,345bn, 4Q18: $1,363bn
32. 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 1Q17: $5bn, 2Q17: $5bn, 3Q17: $6bn, 4Q17: $5bn,1Q18: $6bn, 2Q18: $5bn, 3Q18: $5bn, 4Q18: $5bn; GB&M red-inked balances: 1Q17: $13bn, 2Q17: $15bn, 3Q17: $18bn, 4Q17: $19bn, 1Q18: $18bn, 2Q18: $19bn; 3Q18 $18bn, 4Q18: $16bn
33. Source: Form 20-F; Average balances on a reported basis
34. Where the country of booking is the UK. This includes HSBC UK Bank plc (RFB) and also the UK geographic portion of HSBC Bank plc (NRFB)
35. Includes Channel Islands and Isle of Man. Includes first direct balances
36. In 2018, the UK has moved from a simple average approach to a balance weighted average method in calculating the LTV ratio. This aligns the methodology to Hong Kong
37. Includes first direct, M&S and John Lewis Financial Services. Excludes Channel Islands and Isle of Man
38. Mainland China drawn risk exposure. Retail drawn exposures represent retail lending booked in mainland China; wholesale lending where the ultimate parent and beneficial owner is Chinese
39. On a constant currency basis
40. Liquid assets include cash and balances at central banks, items in the course of collection from other banks and financial investments
41. HSBC UK Liquidity Group comprises: HSBC UK Bank plc (including Dublin branch), Marks and Spencer Financial Services Limited, HSBC Trust Company (UK) Limited and Private Bank (UK) Limited. It is managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the PRA
42. The group was impacted by the transfer of its UK retail and qualifying commercial banking activities to HSBC UK Bank plc ('HSBC UK') on 1 July 2018 to meet the ring-fencing requirements of the Financial Services (Banking Reform) Act 2013 and related legislation. The 2018 financial performance and position, reflect the transfer. The 2018 results include the income and expenses associated with the transferred activities during the six months to 30 June, which are disclosed as discontinued operations in Note 35 on the Financial Statements in HSBC Bank plc Annual Report and Accounts 2018. The discontinued operations contribution to Profit before tax in 2018 was £1,143m
43. HSBC Bank plc
44. This slide contains selected items only, as at 31 December 2018. For further information, please refer to Note 27 and Note 35 of the HSBC Holdings plc Annual Report and Accounts 2018

Glossary

ABCP	Asset-backed commercial paper
ASEAN	Association of Southeast Asian Nations
AT1	Additional Tier 1
Bps	Basis points. One basis point is equal to one-hundredth of a percentage point
CET1	Common Equity Tier 1
CCB	Capital Conservation Buffer
CCyB	Countercyclical Buffer
CD	Certificate of deposit
Corporate Centre	In December 2016, certain functions were combined to create a Corporate Centre. These include Balance Sheet Management, legacy businesses and interests in associates and joint ventures. The Corporate Centre also includes the results of our financing operations, central support costs with associated recoveries and the UK bank levy
CMB	Commercial Banking, a global business
CML	Consumer and Mortgage Lending (US)
CP	Commercial paper
CRD IV	Capital Requirements Directive and the Capital Requirements Regulation
CRR	Customer risk rating
CRR2	Amendments to the Capital Requirements Regulation (575/2013)
DoJ	US Department of Justice
ECL	Expected credit losses and other credit impairment charges
ESG	Environmental, social and governance
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
GSII	Globally significantly important institution
HKMA	Hong Kong Monetary Authority

HoldCo	Holding Company
HQLA	High Quality Liquid Assets
iMREL	Internal MREL
LTV	Loan-to-value ratio
IAS	International Accounting Standards
IFRS	International Financial Reporting Standard
Jaws	The difference between the rate of growth of revenue and the rate of growth of costs. Positive jaws is where the revenue growth rate exceeds the cost growth rate. We calculate this on an adjusted basis
LCR	Liquidity coverage ratio
LICs	Loan Impairment charges and other credit risk provisions
MREL	Minimum requirement for own funds and eligible liabilities
MENA	Middle East and North Africa, a region
NAV	Net Asset Value
NII	Net interest income
PBT	Profit before tax
Ppt	Percentage point
POCI	Purchased or originated credit-impaired
RBWM	Retail Banking and Wealth Management, a global business
RFTS	Ring fence transfer scheme
RMBS	Residential mortgage-backed securities
RoE	Return on average ordinary shareholders’ equity
RoRWA	Return on average risk-weighted assets
RoTE	Return on average tangible equity
RWA	Risk-weighted asset
TLAC	Total loss absorbing capacity
TNAV	Tangible net asset value

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Additional detailed information concerning important factors that could cause actual results to differ materially from this Presentation is available in our Annual Report and Accounts for the fiscal year ended 31 December 2017 filed with the Securities and Exchange Commission (the "SEC") on Form 20-F on 19 February 2018 (the "2017 Form 20-F), in our Interim Report for the six months ended 30 June 2018 furnished to the SEC on Form 6-K on 6 August 2018 (the "2018 Interim Report"), as well as in our Annual Report and Accounts for the fiscal year ended 31 December 2018 which we expect to file with the SEC on Form 20-F on 19 February 2019.

Non-GAAP financial information

This Presentation contains non-GAAP financial information. The primary non-GAAP financial measures we use are presented on an 'adjusted performance' basis 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 2017 Form 20-F, our 1Q 2018 Earnings Release furnished to the SEC on Form 6-K on 4 May 2018, the 2018 Interim Report, our 3Q 2018 Earnings Release furnished to the SEC on Form 6- K on 29 October 2018 and the corresponding Reconciliations of Non-GAAP Financial Measures document, each of which are available at www.hsbc.com.

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