



9th June 2015

US and NAFTA – Building US Profitability

Investor Update 2015

HSBC 

Important notice and forward-looking statements

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This presentation and subsequent discussion may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group (together, “forward-looking statements”). Forward-looking statements may be identified by the use of terms such as “believes,” “expects,” “estimate,” “may,” “intends,” “plan,” “will,” “should,” “potential,” “reasonably possible” or “anticipates” or the negative thereof or similar expressions, or by discussions of strategy. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant assumptions and subjective judgements which may or may not prove to be correct and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Certain of the definitions, assumptions and judgements upon which forward-looking statements contained herein are based are discussed under "Projections: Basis of Preparation" within the presentation "Investor Update 2015 - Glossary and Basis of preparation", available at www.hsbc.com. A variety of additional risks and uncertainties that could cause actual results to differ materially from those expected or anticipated, including those that are described in the Group's Annual Report on Form 20-F for the year ended 31 December 2014 filed with the US Securities and Exchange Commission and other reports and filings of the Group, including under the headings 'Top and Emerging Risks' and 'Risk Factors' and in Note 40 (Legal Proceedings and Regulatory Matters) and other notes on the 2014 Financial Statements included therein. Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update them if circumstances or management's beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. Moreover, past performance cannot be relied on as a guide to future performance. Nothing in this presentation or in the subsequent discussions should be considered as a profit forecast.

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. Reconciliation of non-GAAP financial measurements to the most directly comparable measures under GAAP is provided in the ‘reconciliations of non-GAAP financial measures’ supplement available at www.hsbc.com.

Unless otherwise noted, financial results are presented in accordance with HSBC Group accounting and reporting policies, which apply International Financial Reporting Standards.

Key messages

1

HSBC US aims to substantially improve its returns through 2017 and grow the business in a targeted and capital disciplined manner

2

Our US wholesale clients are served by GB&M and CMB on a global basis and significant revenue is generated outside the US

3

RBWM is integral to the HSBC US business

4

As capital is released from the accelerated CML wind-down, it will be redeployed in CMB and GB&M to support growth in the US business

5

NAFTA and other trade corridors are vital to growth and leveraging HSBC's international network

History of the US business

Timeline

1980 – 2006: Acquisitions

- § 1980: Marine Midland acquisition
- § 1999: Republic Bank acquisition
- § 2003: Household International acquisition

2007 – 2011: Responding to the financial crisis

- § 2007: Start of financial crisis
- § 2008-09: Start of HBIO¹ run-off, closure of Consumer Finance branches
- § 2010-11: Regulatory consent decrees

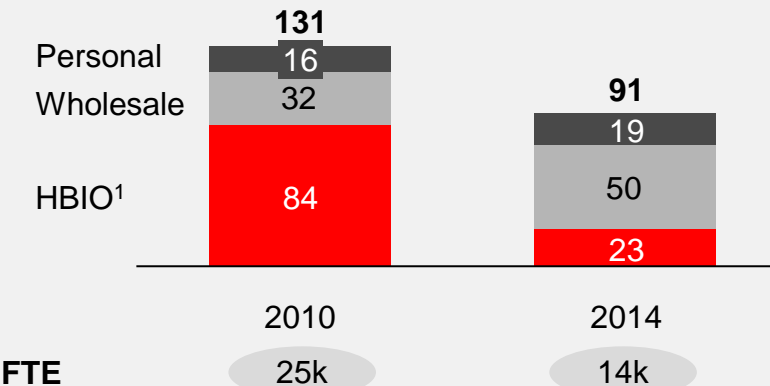
2011 – 2014: Transformation and deep regulatory remediation focus

- § 2012: Sale of upstate New York branches and cards businesses
- § 2012: Additional regulatory consent decrees
- § 2012: Deferred Prosecution Agreement (DPA)
- § 2012-14: Operational transformation, including first phases of core banking system

2011 – 2014 Repositioning

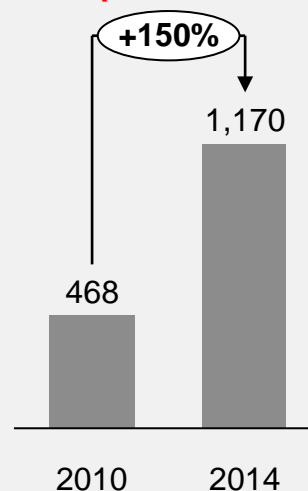
Reshaping business to commercial focus

Net Loans and Advances to Customers², USDbn



Strengthened Risk and Compliance

Compliance FTE



- § Significant progress on 5 open consent orders³ and DPA actions
- § Invested c.USD1.7bn in regulatory and compliance programmes since 2010
- § Key role in Global Standards implementation Group-wide
- § Extensive cultural change and compliance programmes
- § Values incorporated into incentive frameworks and performance evaluations

Note: Operations in the US are primarily conducted through HSBC Bank USA, N.A.; HSBC Finance Corporation, a 2. national consumer finance company; and HSBC Markets (USA) Inc., the intermediate holding company of, inter alia, HSBC Securities (USA) Inc.

1. HBIO is HSBC Finance Corporation

2010 data has been re-stated following a change, effective from 1 January 2014, to present non-trading reverse repos and repos which were previously included within 'Loans and advances to Customers' as separate lines in the balance sheet

3. (1) Mortgage servicing FRB-C (HBIO, HBUS); (2) Mortgage servicing OCC (HBUS); Enterprise wide Compliance Programme: (3) FRB-C and (4) OCC; (5) BSA/AML Compliance Programme (OCC)

Value of the US to international network

Restoring profitability in the US

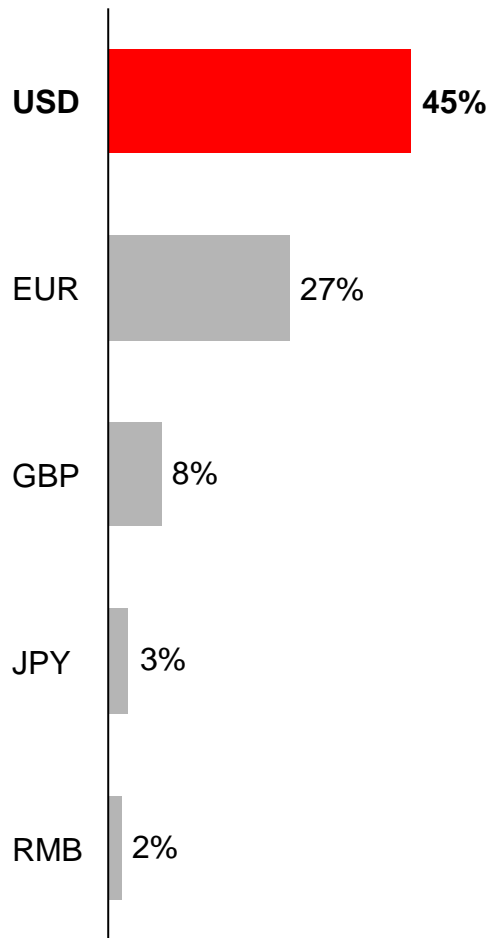
Capturing upside from unique NAFTA position

Value of the US to the international network

USD capabilities critical to HSBC global product offering

USD is the top global cross-border transaction currency

% of total values¹, MAR15

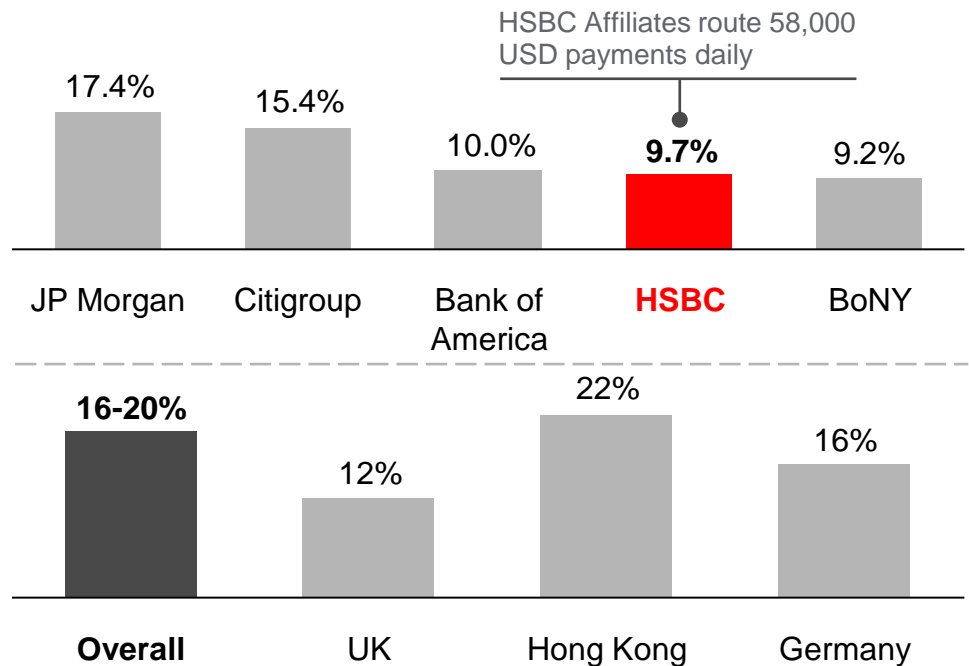
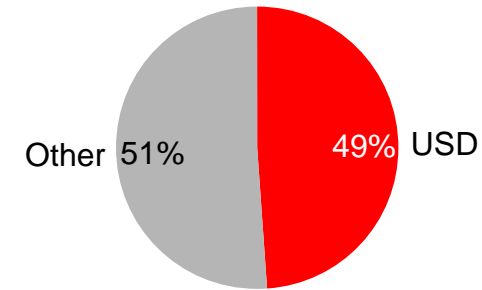


Significant for HSBC's global franchise

USD represents 49% of payments volume for HSBC²

HSBC top 5 cross-border USD clearer³

16-20% of HSBC custody assets held in USD⁴



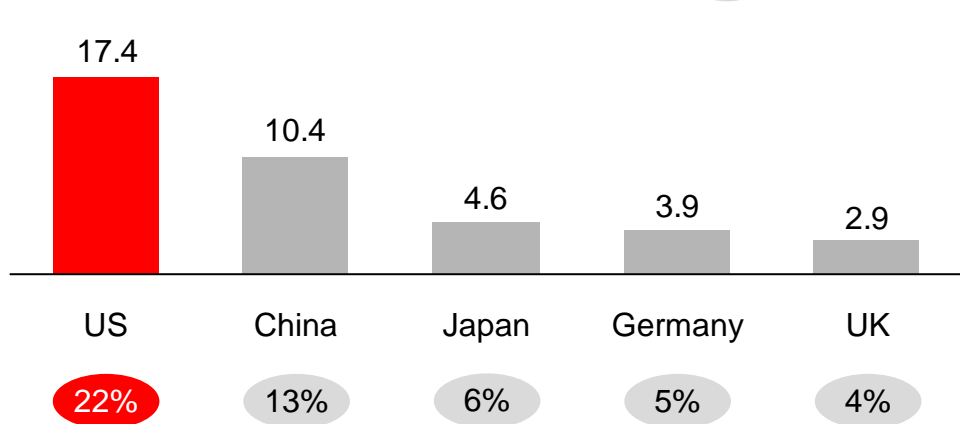
1. Society for Worldwide Interbank Financial Telecommunications (SWIFT)
 2. Internal HSBC data and SWIFT 2015
 3. Clearing House Interbank Payments System (CHIPS) April 2015 market share based on actual volumes
 4. Internal HSBC data; UK, Hong Kong and Germany expressed as a percentage of the overall amount

Value of the US to the international network

Proven network opportunity; c.50% of US trade with NAFTA and China

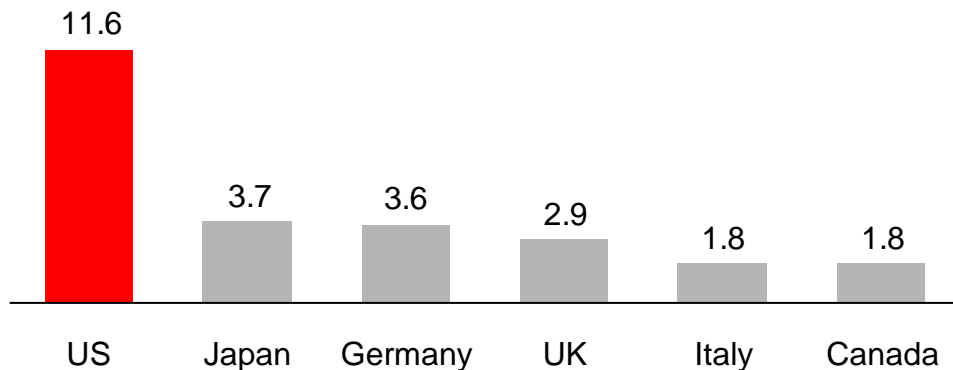
Largest economy globally in 2014

Top 5 economies by GDP¹, 2014, USDtrn



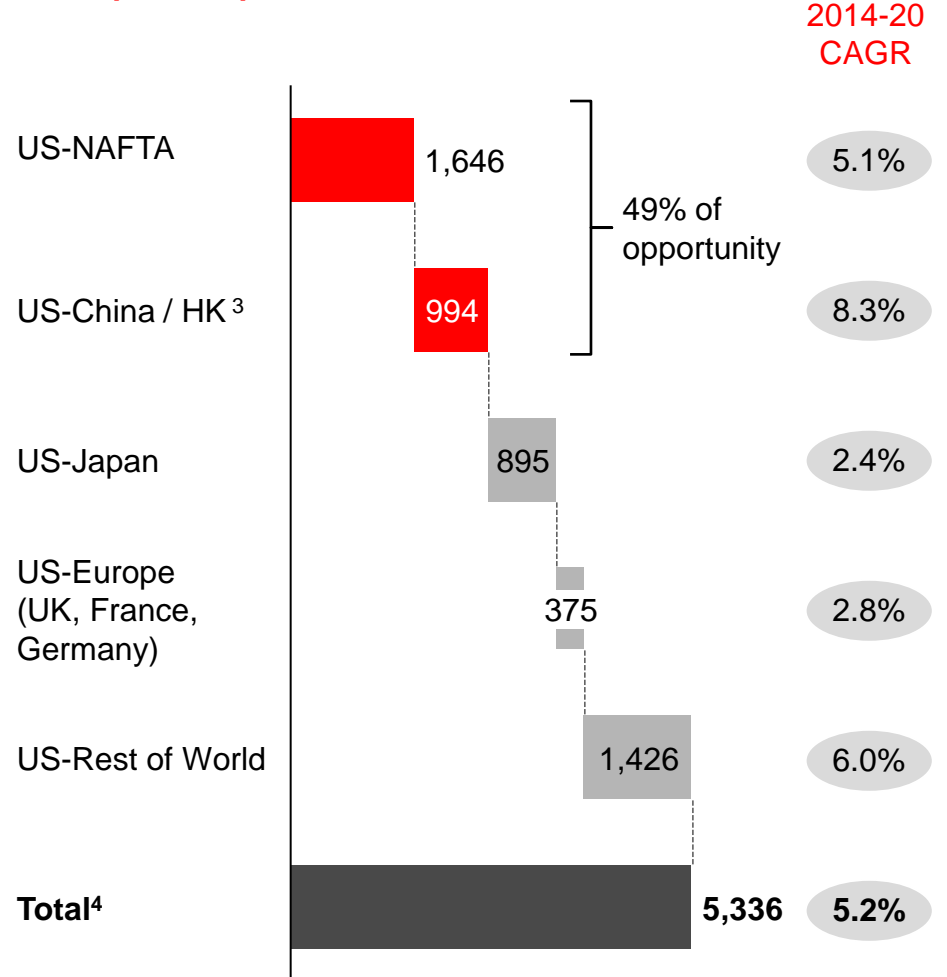
Proven network opportunity

Number of companies by headquarter location², '000s



Strong trade fundamentals

US Exports/Imports¹, 2020, USDbn



1. Oxford Economics, 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

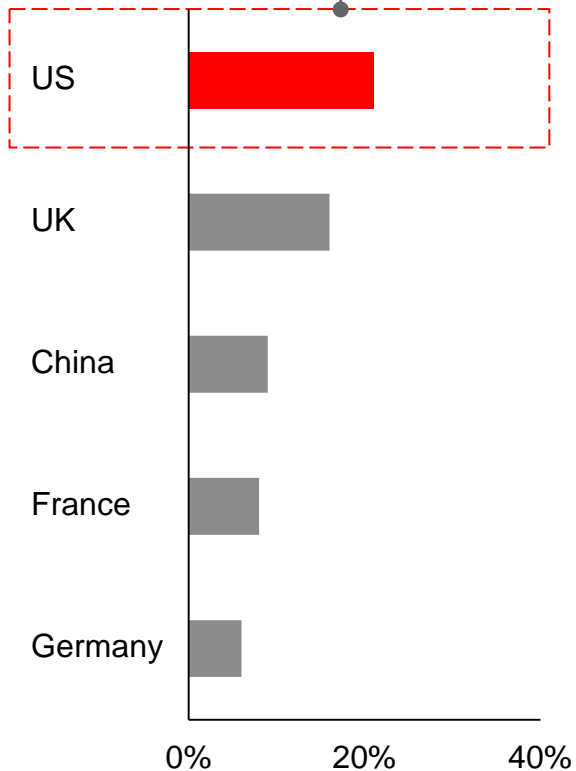
Value of the US to the international network

Significant value of US for the Group; top contributor of outbound revenue

Integral to Group franchise

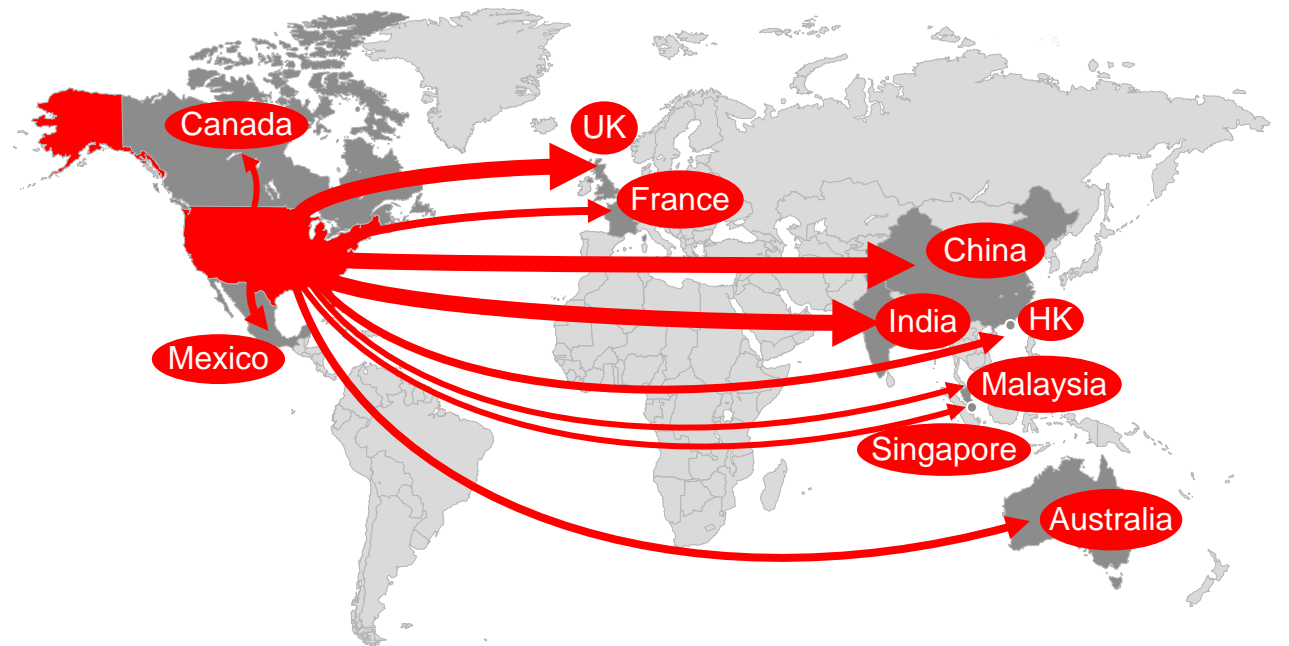
Outbound revenue, % of Group total

#1 contributor to Group
outbound revenues in 2014



US Outbound revenue

Share of US outbound revenue, top-10 priority markets



Value of the US to international network

Restoring profitability in the US

Capturing upside from unique NAFTA position

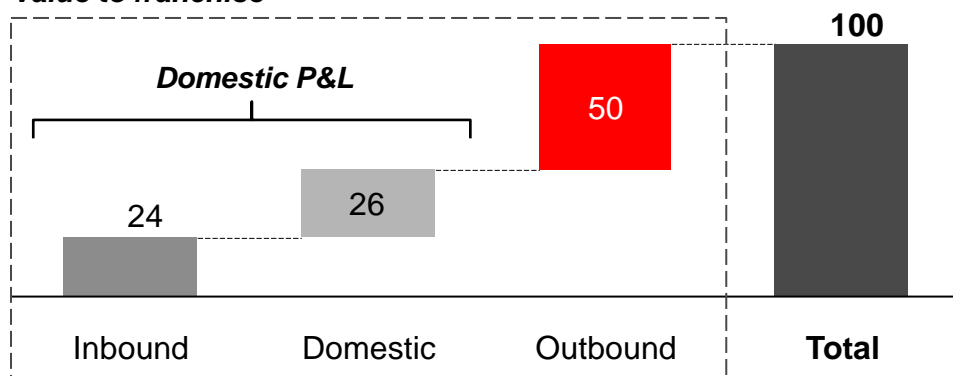
Restoring profitability in the US

GB&M: Building on outbound success, significant opportunity to grow trade corridors, inbound and domestic revenue

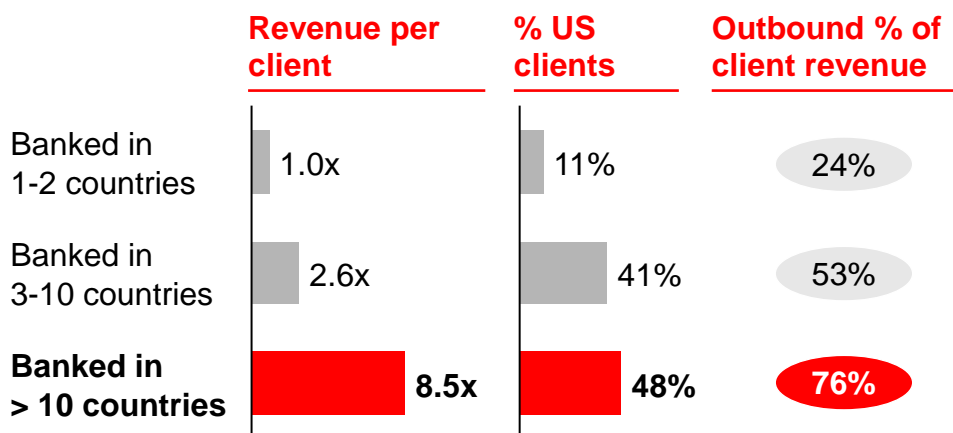
Outbound revenue equals domestic booked revenue

GBM Client Revenue¹, 2014 % of total

Value to franchise



Most clients served in multiple countries with majority of revenue booked outside US²



Priorities for 2015-17

Grow inbound revenues

- § Enhance coverage and leverage US platform to capture inbound business from network clients
- § Focus on key trade corridors (NAFTA, Europe, China, India)

Grow domestic revenues / CMB collaboration

- § Leverage outbound success to deepen US client domestic share of wallet
- § Expand US regional presence and sector expertise to deepen cross-sell with existing and newly acquired CMB clients
- § Enhance and align product capabilities in Markets and Capital Financing to capture CMB opportunities

Improve returns

- § Improve discipline on RWA and balance sheet
- § Grow fee generating business through platform enhancement and client prioritisation

Sustain growth in outbound revenue

- § Continue to support outbound revenue growth

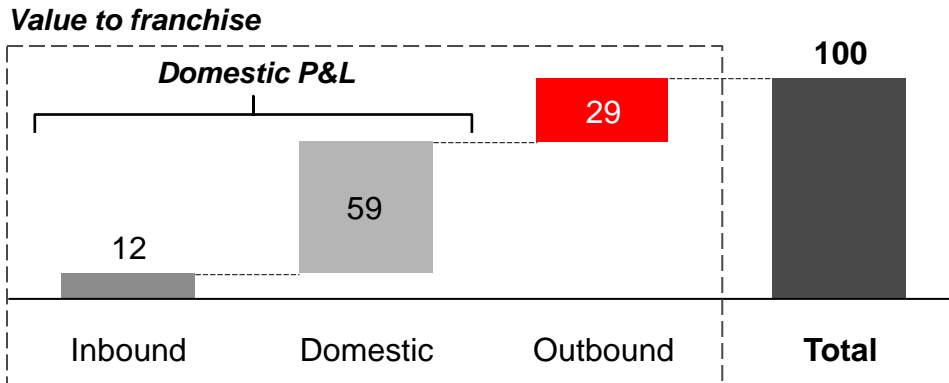
1. Internal HSBC client data

2. HSBC priority and core clients; Internal HSBC client data

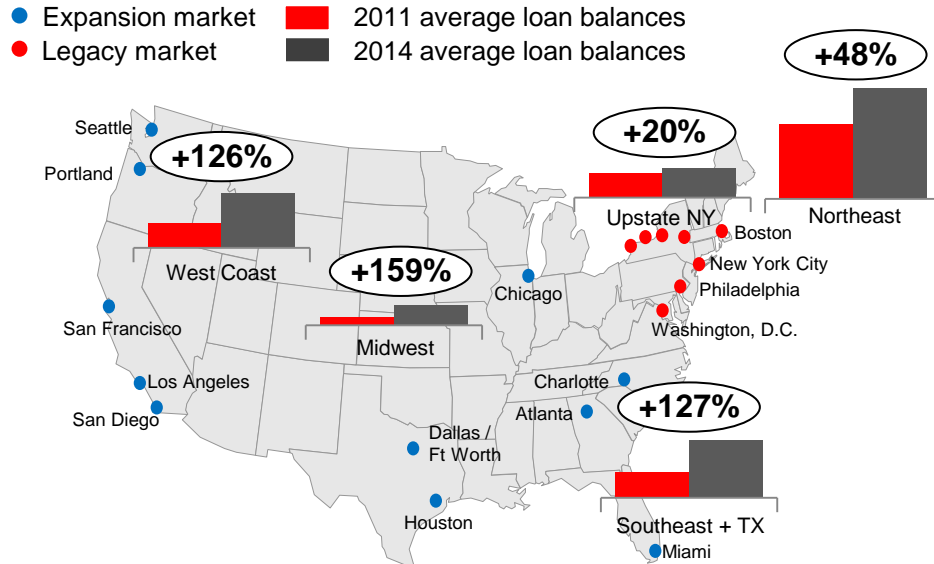
Restoring profitability in the US

CMB has built a strong foundation to accelerate network contribution

CMB Client Revenue¹, 2014 % of total



City-cluster strategy to drive client acquisition



1. Excludes Business Banking; Internal HSBC client data

Priorities for 2015-17

Support international expansion of US corporates

- § Deliver full network value proposition to US clients
- § Focus on priority trade corridors (NAFTA, Europe, China, India)

Attract inbound revenue

- § Invest in international subsidiary banking (ISB) teams to drive inbound revenues
- § Increase connectivity and engagement with Global Relationship Managers globally
- § Leverage NAFTA regional proposition
- § Focus on priority trade corridors

Increase penetration of domestic clients

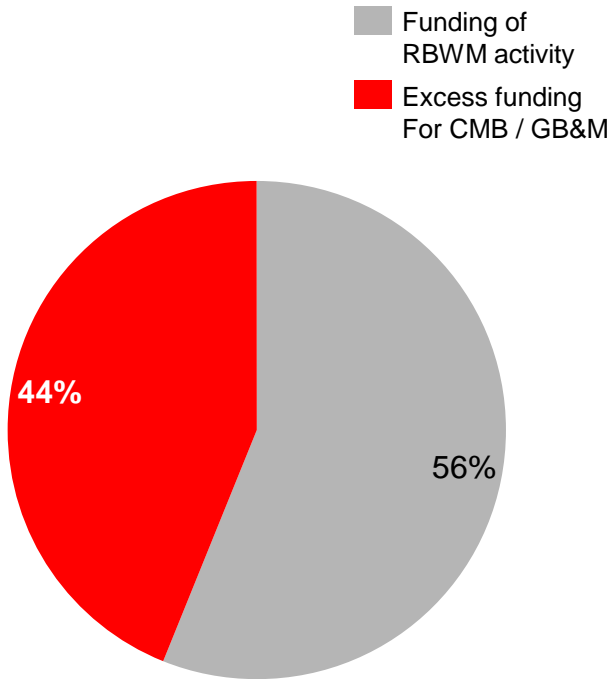
- § Continue successful investment in cities strategy – particularly in expansion markets
- § Build additional capacity and capability in core flow products, including Payments and Cash Management and Global Trade and Receivables Finance
- § Strengthen cross-sell with GB&M, particularly in Markets and Capital Finance

Restoring profitability in the US

RBWM provides funding; turnaround actions in progress

RBWM provides liquidity across US business¹

Critical liquidity provider (2014)



Core deposit growth to support lending growth plan

Opportunity and plan for material PBT improvement

PBT improvement actions	Growth in affluent, wealth	<ul style="list-style-type: none"> § Grow new-to-bank Premier and Advance customers to fund growth and drive profitability § Deepen penetration of international/diaspora communities via non-conforming mortgage origination (held on balance sheet) § Wealth benefitting from increased sales force productivity and adoption of needs-based recurring revenue model 									
	Improve customer experience	<ul style="list-style-type: none"> § Reengineer processes to improve customer experience and solidify relationship § Increase multi-channel digital engagement via three-year investment program 									
	Reduce costs	<ul style="list-style-type: none"> § Optimise branch network reducing square footage by c.30% § Improve branch staffing model effectiveness 									
Timing would depend on Rates scenario	<p>Potential PBT impact of rate increase on RBWM, USDm</p> <table border="1"> <thead> <tr> <th>Rate Scenario</th> <th>Year</th> <th>Potential PBT Impact (USDm)</th> </tr> </thead> <tbody> <tr> <td>1.75%</td> <td>2017</td> <td>c.140</td> </tr> <tr> <td>1.25%</td> <td>2016</td> <td>c.100</td> </tr> </tbody> </table> <p>Fed Funds Forward Curve²</p>		Rate Scenario	Year	Potential PBT Impact (USDm)	1.75%	2017	c.140	1.25%	2016	c.100
Rate Scenario	Year	Potential PBT Impact (USDm)									
1.75%	2017	c.140									
1.25%	2016	c.100									

1. Internal HSBC data. RBWM excluding CML run-off, ratio of loans-to-deposits as at 31 December 2014

2. Internal HSBC estimate. Impact on RBWM PBT of a gradual increase in interest rates to 125bps by end of 2016 and 175bps end of 2017, based on Federal Funds forward curve projections and estimated on a full-year impact basis

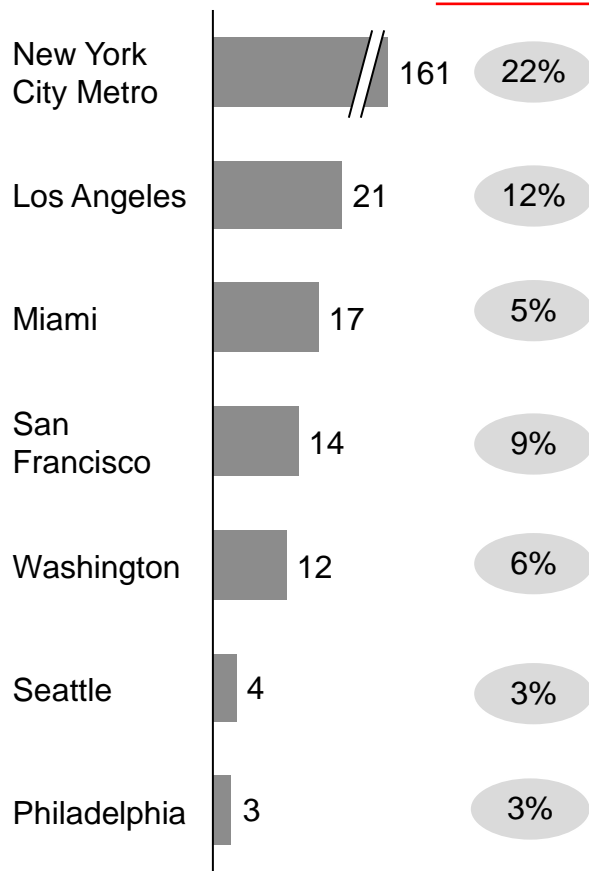
Restoring profitability in the US

RBWM refocusing on international customers and growth

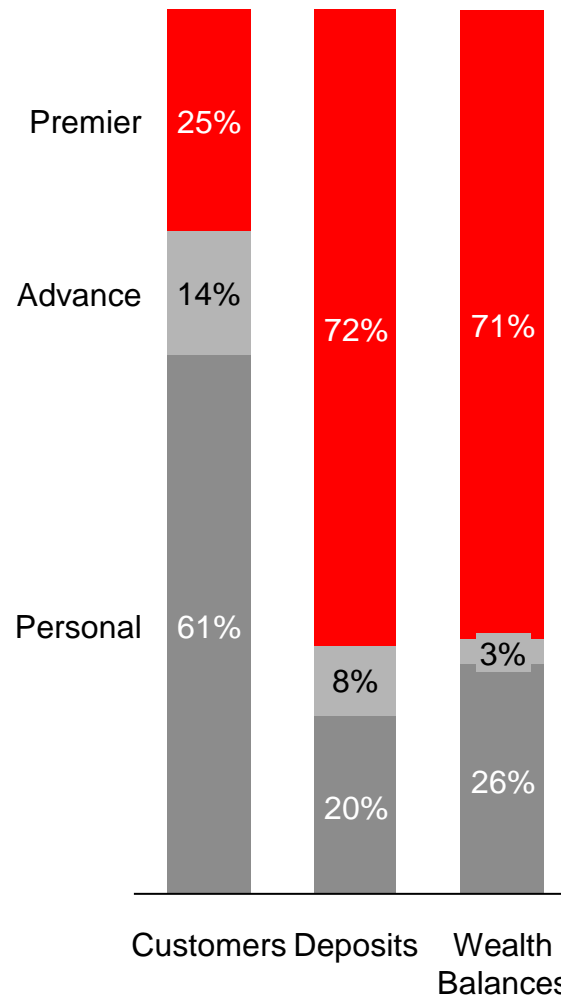
Branch network in cities representing nearly 60% of international population

Branches

% of US international residents¹



Client segment mix²



Opportunities

Premier and International

- § Over 300k active³ Premier customers; 7% new-to-bank in 2014; 70% are international over last three years
- § Full product suite and network targeting international customers

Wealth Management

- § US is largest Wealth market and key destination for global diasporas
- § Robust offering and support from Private Bank for high net worth cross-sell

Primary Relationship Growth

- § Build on 2014 Premier and Advance proposition launches to acquire new clients
- § Leverage digital capabilities and sales knowledge to strengthen customer relationship and become primary cash management bank
- § Targeted proposition and marketing to improve fulfilment of customer needs

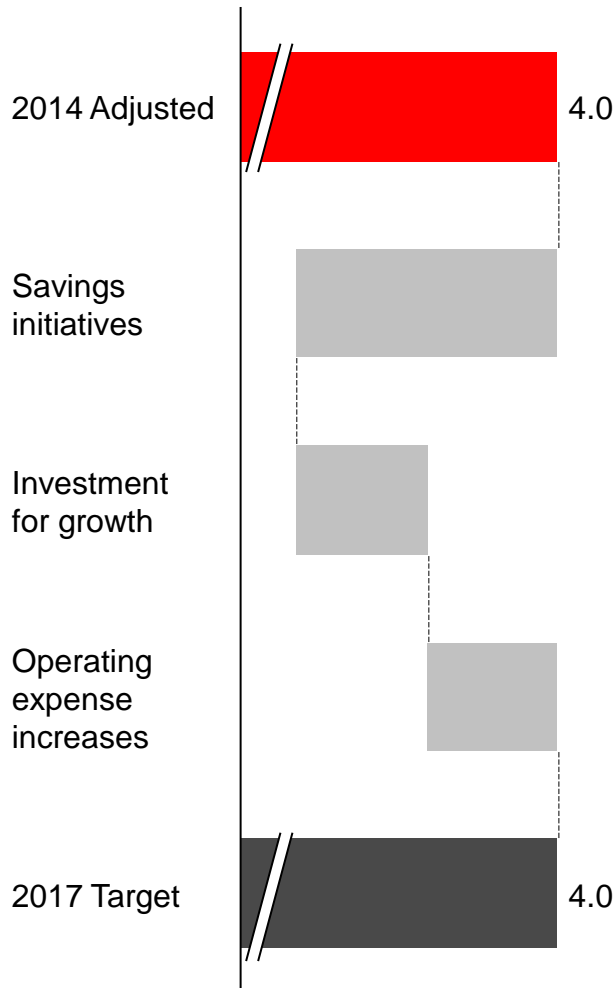
1. Homeland Security year book (2009-2013) data. International population estimated using percent of 2009-2013 lawful permanent resident permits granted to employment-based applicants by metropolitan area
 2. Internal HSBC data, April 2015. Premier customers have Total Relationship Balance (TRB) > USD100k, Advance TRB > USD10k; Personal customer count excludes non-deposit customers
 3. Internal HSBC data. Customers who have transacted one or more products in the last 12 months

Restoring profitability in the US

Streamlining: Business rescaling and expense recycling

Operating expenses, US excluding CML run-off¹

USDbn



Initiatives 2015-17

Savings Initiatives Primarily in Back Office

2017 annualised savings vs. 2014 expense base

- § Streamlining Critical Operations (e.g., Payments, KYC, Onboarding)
- § People and Location Strategy: right sizing, near-shoring and offshoring
- § Implementation of HSBC Group's core banking systems leading to c.30% reduction in legacy systems and applications
- § Data centre right-sizing and mainframe re-platforming / consolidation into Group sites
- § Reduced use of consultants and third parties and strategic use of market utilities
- § Branch network optimisation and end-to-end digitisation

USDm

135-175

100-125

40-50

Total 275-350

Investment Initiatives Primarily in Front Office

2017 investment spending vs. 2014 expense base

- § GB&M and CMB expanded coverage
- § Grow product capabilities (e.g., Payments & Trade)
- § Enhancing online and mobile channels

c.170

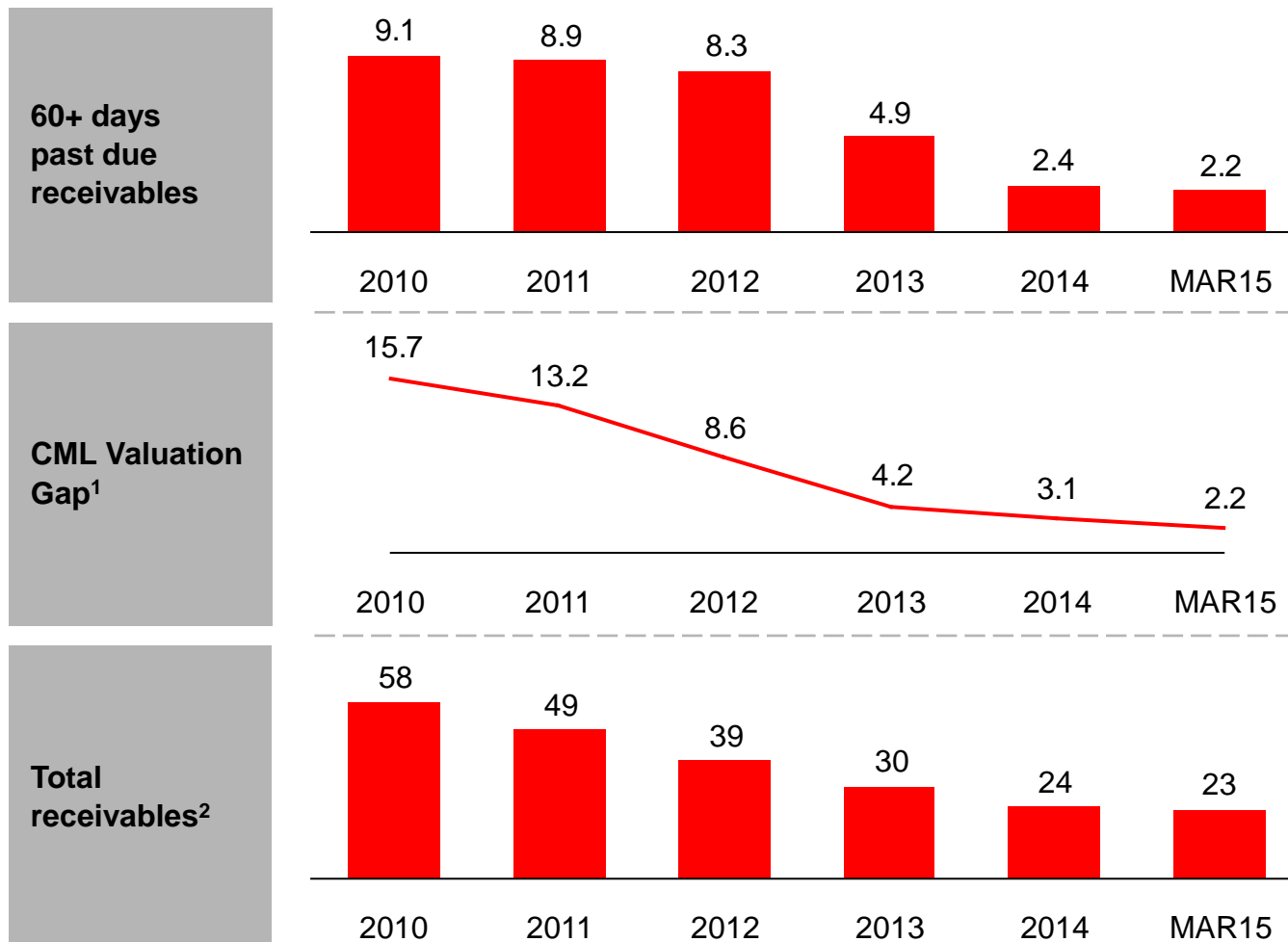
1. US excluding CML run-off reflects operations primarily conducted through HSBC Bank USA, N.A., and HSBC Markets (USA) Inc. and excludes the Consumer and Mortgage Lending portfolio and related treasury activities in HSBC Finance Corporation.

Restoring profitability in the US

CML portfolio has been managed down and favourable market conditions exist for accelerated liquidation

CML portfolio

USDbn



Accelerated CML Liquidation Strategy

- § Significant progress in accelerating liquidation and de-risking CML real estate secured portfolio
- § Robust markets and investor demand present opportunity to expand the current programmatic asset sales program
- § Current sales program at Mar 2015 includes c.USD1bn of partially charged-off accounts (generally 180+ days past due). Plan to expand the asset sale program to include certain assets (and attached multi-lien) that meet pre-determined criteria of c.USD10bn
- § Sales will further de-risk portfolio and release a significant amount of capital and RWAs
- § Lower operational and stress test risks

Note: All data shows position as at period end

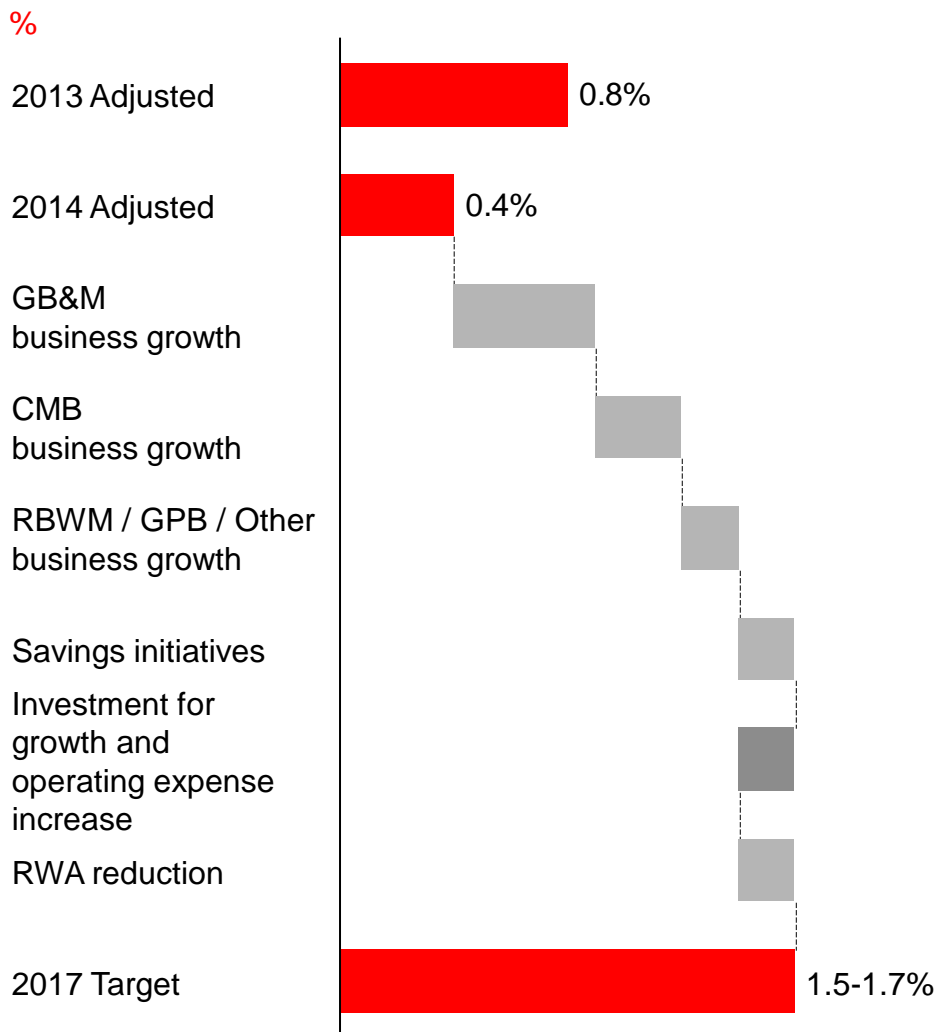
1. Source: HSBC Finance Corporation 10Q /10K. The valuation gap is on a US GAAP Legal Entity basis and represents the difference between carrying value and estimated fair value.

2. Gross receivables excluding Held for sale

Restoring profitability in the US

RoRWA walk: US excluding CML run-off

2014-17 target RoRWA^{1,2}



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, Payments and Cash Management
- § Execute retail turnaround primarily via deposits, wealth and mortgage
- § Interest rate increases, primarily within Payments 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 excluding CML run-off 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.

2. Targets include assumptions of an increase in interest rates in line with estimates published by Oxford Economics and an improvement in market activity. Such targets could be negatively impacted by adverse economic conditions or any of the risk factors referred to in the HSBC Group's public filings.

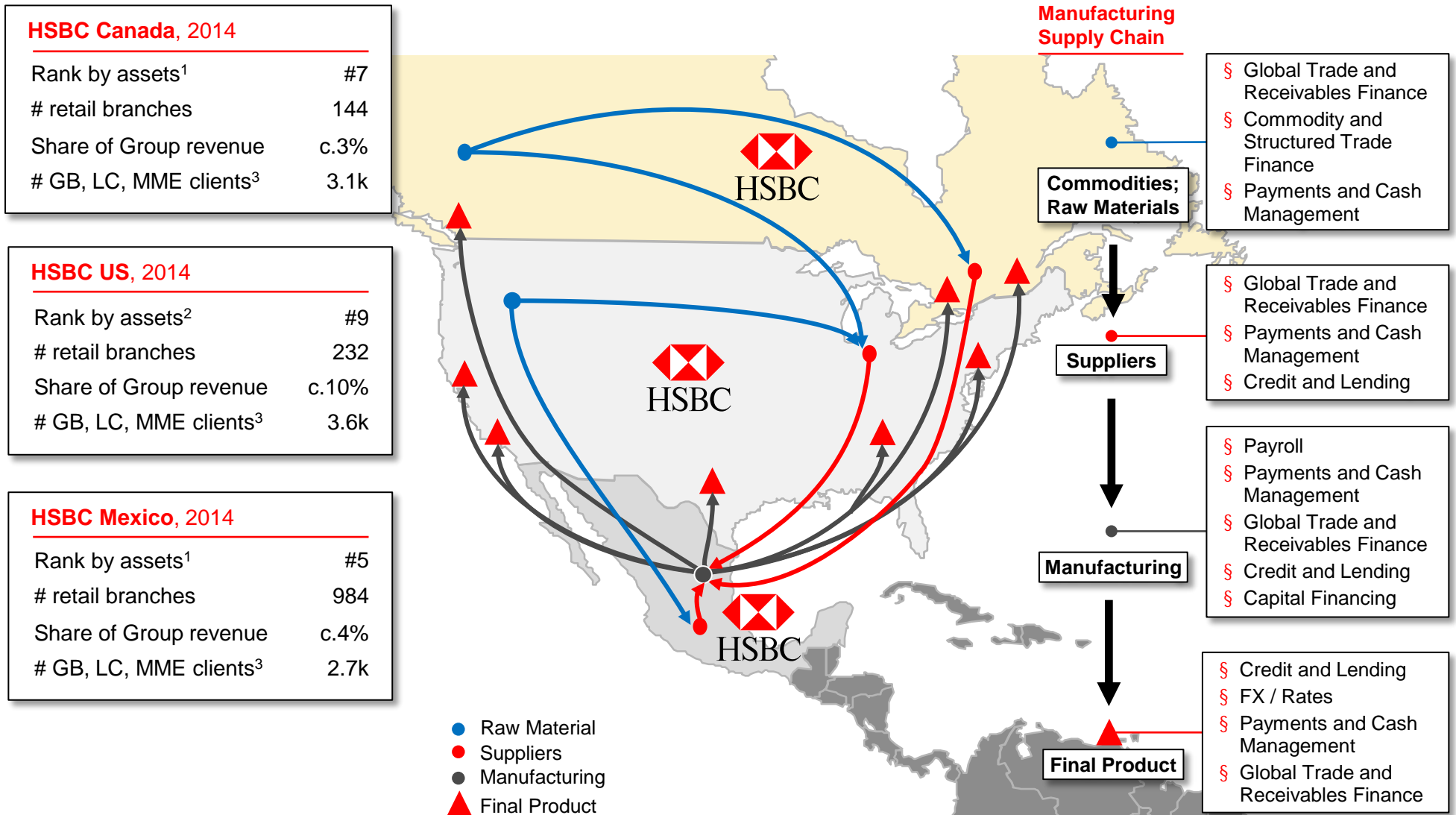
Value of the US to international network

Restoring profitability in the US

Capturing upside from unique NAFTA position

Capturing upside from unique NAFTA position

NAFTA: HSBC is uniquely positioned for regional growth



1. Source: Bankscope

2. Source: SNL Financial 'Top 50 US banks and thrifts in Q4'14'; industrial banks, non-depository trusts and companies with less than 25% deposit-to-asset ratio are excluded

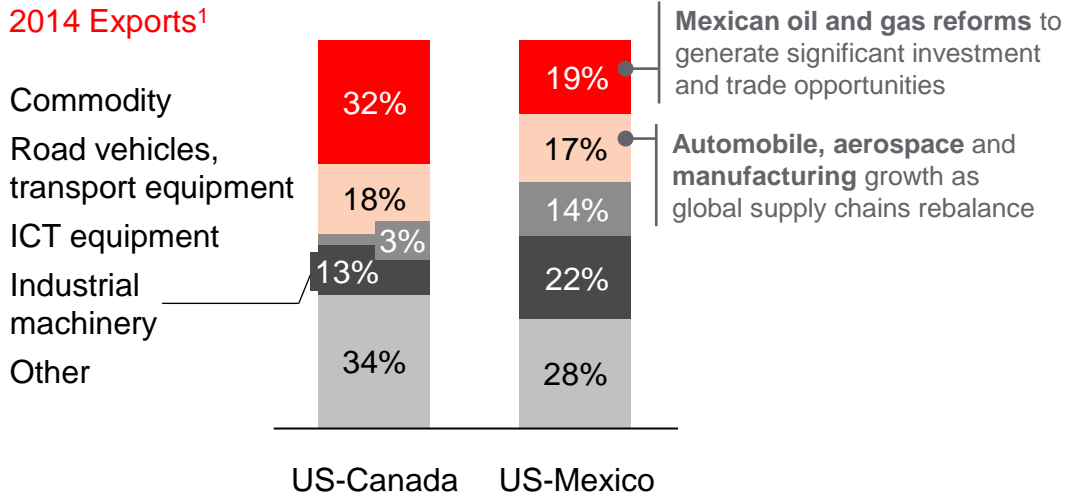
3. Client refers to individual mastergroups where the managing country is either US, Canada, or Mexico. The numbers include all GB&M clients and CMB clients in the segments Large Corporate, Middle Market Enterprises, and Commercial Real Estate

Capturing upside from unique NAFTA position

Investing to capture corridor growth through a regional proposition

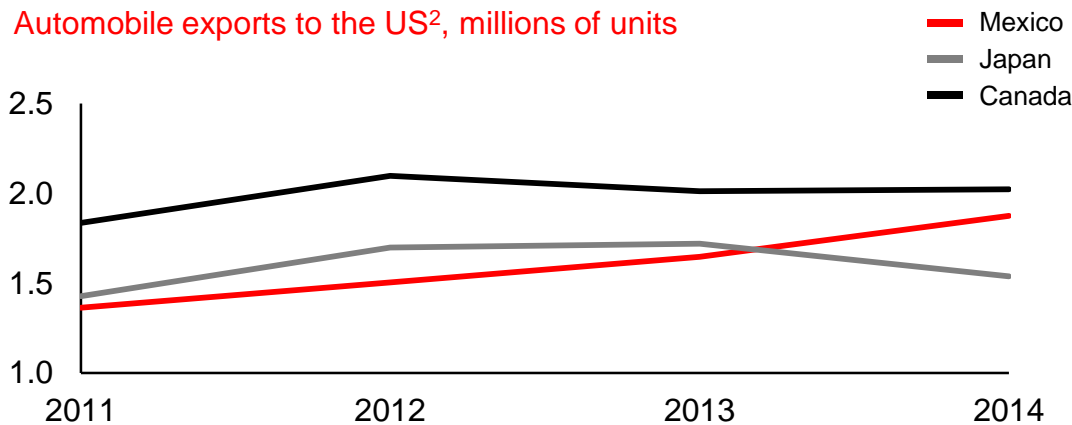
Growth opportunity in key sectors in NAFTA

2014 Exports¹



Case study: Growth of Mexican automobile manufacturing

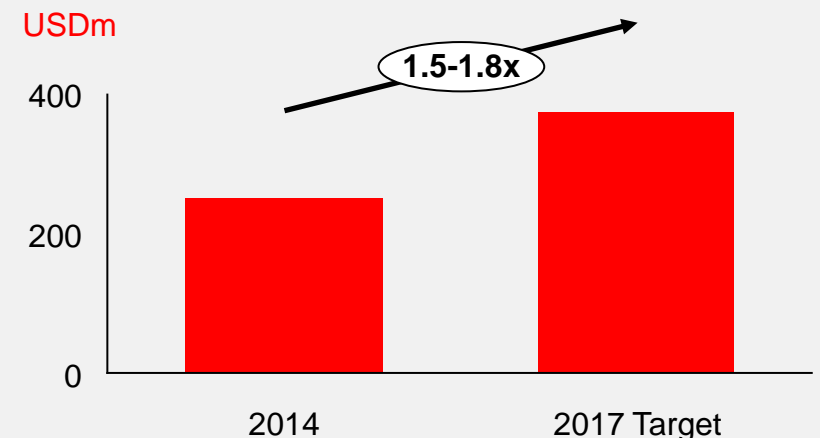
Automobile exports to the US², millions of units



Actions to Position HSBC as key player in NAFTA

- § Enhance synergies, capabilities and servicing across the NAFTA region
- § Invest in enhanced coverage of multinationals across NAFTA in GB&M and CMB
- § Deliver new product and servicing capabilities in Payments and Cash Management, FX and Global Trade and Receivables Finance
- § Market capabilities for existing regional clients and clients across the Group through Global Relationship Bankers

Plan to substantially grow NAFTA corridor revenues³









1. Source: Oxford Economics

2. AMIA (Automotive Industry Association of Mexico), JAMA (Japan Automobile Manufacturers Association), and the US Department of Commerce

3. Internal HSBC client data

NAFTA cross-border client success stories

Client	 	 	 
HSBC relationship	<ul style="list-style-type: none"> § Global alternative asset manager § More than USD200bn AuM, investments covering Infrastructure, Property, Renewable Energy, and Private Equity <hr/> <ul style="list-style-type: none"> § A client since 1997, HSBC banking relationships in over 20 countries 	<ul style="list-style-type: none"> § Develops, manufactures, distributes, and sells tires and related products and services worldwide § 50 manufacturing facilities in 22 countries <hr/> <ul style="list-style-type: none"> § Client since 2002; banking relationship in 12 countries § Provide Credit and Lending, DCM, ECM, Trade, Payments and Cash Management and FX products 	<ul style="list-style-type: none"> § Largest bakery in the world and one of the largest consumer food companies in the Americas § Operations in 22 countries (US, Canada, Mexico, LatAm, Europe and Asia) <hr/> <ul style="list-style-type: none"> § Banking relationship in 10 countries (including US, Canada, Mexico) § Revenue from Lending, Payments and Cash Management, DCM, Payroll, FX, Derivatives, Trade
Recent key wins	<ul style="list-style-type: none"> § Accounts Bank in the Americas for Renewable Energy division § Mandated Lead Arranger for Financing Brookfield's Manhattan West Office and Residential platform Developments § Lead-Arranger financing for hydro plant acquisitions in the US § Lead roles on Debt and Equity financings in 2015 for Infrastructure 	<ul style="list-style-type: none"> § 2015: new Payments and Cash Management accounts in Mexico § HSBC chosen for strength and size in Mexico 	<ul style="list-style-type: none"> § 2015: Bilateral loan to finance Saputo Bakery acquisition in Canada § 2014: USD1.3bn 10 and 30 year 144A/Reg S bond § 2014: USD2.0bn 5.25 year RCF in USD, MXN and CAD, used for Canada Bread acquisition

US executing connectivity strategy and improving financial performance

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