



## Fixed Income Factbook 30 June 2018

## Connecting customers to opportunities

HSBC aims to be where the growth is, enabling business to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

### HSBC key credit messages

As at 1H18

#### Conservative approach to risk management

#### Diversified revenue streams by business, geography and type

#### Strong capital position and capital generation ability

#### Robust funding and liquidity metrics

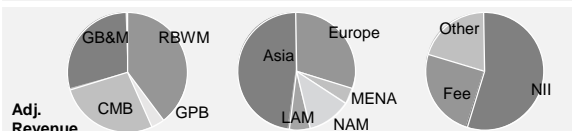
#### Strong credit ratings

8bps

ECL as a % of gross customer advances<sup>1</sup>

1.4%

Stage 3 loans as a % of gross customer advances



14.2%

CET1 ratio

5.4%

Leverage ratio

\$7.2bn

Profit attributable to ordinary shareholders

71.8%

Advances / Deposits ratio

158%

Liquidity Coverage Ratio

\$540bn

High Quality Liquid Assets

A

HSBC Holdings S&P rating

A2

HSBC Holdings Moody's rating

AA-

HSBC Holdings Fitch rating

### HSBC as an issuer

#### ◆ Issuance strategy and plan

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

#### 2018 Issuance Plan<sup>2</sup>

#### Additional Tier 1

\$5-7bn

#### Tier 2

No current plans

#### Senior MREL

\$12-17bn

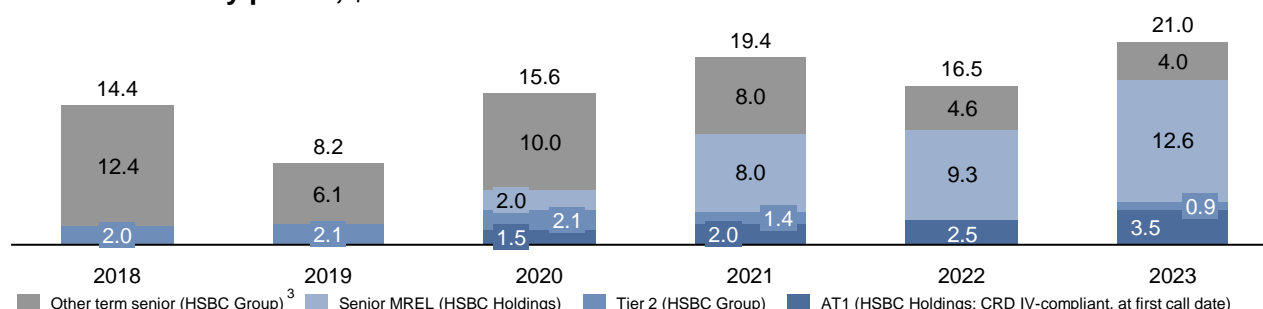
MREL issuance is expected to be at the top end of the 2018 guided range; we may also look to pre-fund part of our 2019 issuance

#### ◆ Redemptions

- HSBC manages its capital and debt securities to meet end-point regulatory requirements, as well as funding and other business needs

#### Contractual maturity profile, \$bn

As at 30 June 2018



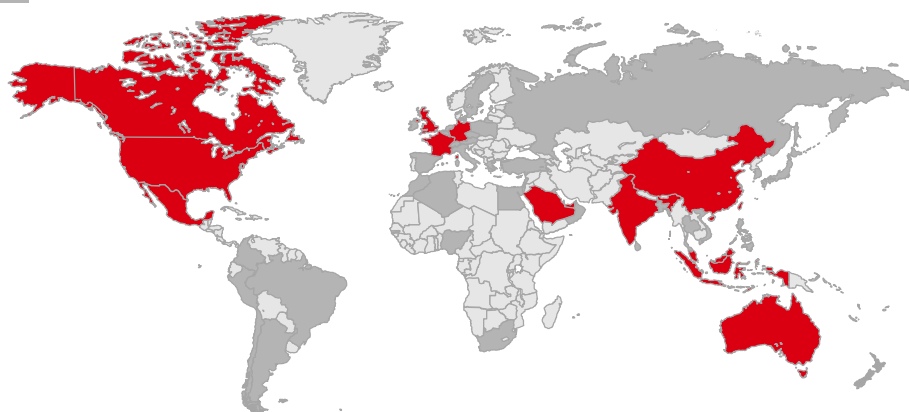
1. Annualised

2. The 2018 issuance plan is guidance only; it is a point in time assessment and is subject to change

3. "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

## HSBC at a glance

- Markets at scale and markets as leading international bank
- Markets to connect the network



66

Markets

>50%

Of Group client revenue connected to the network

>90%

Of global GDP, trade and capital flows covered by our footprint

4

Inter-connected global businesses share balance sheets and liquidity in addition to strong commercial links

### 1H18: by global business, \$bn

RBWM CMB GB&M GPB

Adjusted revenue	11.1	7.4	8.3	0.9	\$27.5bn
Adjusted PBT	3.6	4.1	3.6	0.2	\$12.1bn
Reported RWAs	124.1	315.1	284.5	17.0	\$865.5bn
Customer advances	351.1	329.3	250.1	40.9	\$973.4bn
Customer deposits	635.6	355.7	291.7	63.6	\$1,356.3bn

### 1H18: by region, \$bn

Europe Asia MENA NAM LAM

Adjusted revenue	9.0	14.5	1.4	3.5	1.6	\$27.5bn
Adjusted PBT	0.5	9.4	0.8	1.1	0.4	\$12.1bn
Reported RWAs	301.3	364.0	58.0	133.0	37.0	\$865.5bn
Customer advances	374.3	445.7	29.1	104.4	20.0	\$973.4bn
Customer deposits	507.1	656.6	34.2	135.7	22.7	\$1,356.3bn

## Our strategic priorities (2018-2020)

### Deliver growth from areas of strength

- Accelerate growth from our Asian franchise**
  - Build on strength in Hong Kong
  - Invest in PRD, ASEAN, and Wealth in Asia (incl. Insurance and Asset Management)

Be the leading bank to support drivers of global investment: **China-led Belt and Road Initiative** and the transition to a **low carbon economy**
- Complete establishment of UK ring-fenced bank, increase mortgage market share, grow commercial customer base, and improve customer service**
- Gain market share and deliver growth from our international network**

### Turnaround of low-return businesses

- Turn around our US business**
- Improve capital efficiency; redeploy capital into higher return businesses**

### Build a bank for the future that puts the customer at the centre

- Create capacity for increasing investments in growth and technology through efficiency gains**
- Enhance customer centricity and customer service through investments in technology**
  - Invest in digital capabilities** to deliver improved customer service
  - Expand the reach of HSBC**, including partnerships
  - Safeguard our customers and deliver industry-leading financial crime standards**

### Empower our people

- Simplify the organisation and invest in future skills**

Target RoTE:  
>11% by 2020

Target costs:  
positive adjusted jaws

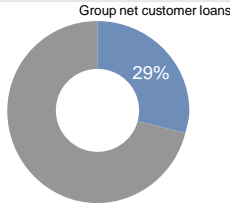
Planned investment:  
\$15-17bn

## Our key markets

As at 30 June 2018

### Hong Kong

- HSBC founded in Hong Kong in 1865
- HSBC the largest bank in Hong Kong, with market shares<sup>1</sup> of 27% and 29% for advances<sup>2</sup> and deposits
- Our leading position is supported by two brands: HSBC and Hang Seng Bank
- HK net customer loans of \$283bn represents 29% of the Group
- Average LTV ratio of 36% for the HK mortgage portfolio



1. HKMA, as at May 18, includes Hang Seng  
2. For use in Hong Kong



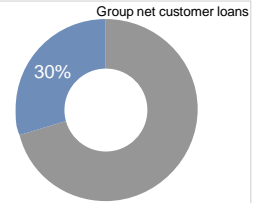
滙豐



恒生銀行  
HANG SENG BANK

### United Kingdom

- Four market leading brands: HSBC, first direct, M&S Bank and John Lewis Partnership
- UK net customer loans of \$290bn represents 30% of the Group
- Ring-fencing of UK retail banking activities was completed on 1 July 2018
- Average LTV ratio of 49% for the UK mortgage portfolio



HSBC

first direct

M&S BANK

partnership  
John Lewis Waitrose

### Mainland China

- China is an important part of HSBC's growth strategy, with focus on the Pearl River Delta
- HSBC has the largest foreign bank network in mainland China, and is the first foreign bank with a majority-owned securities joint venture, HSBC Qianhai Securities
- The Belt and Road Initiative (BRI) has the potential to be the world's largest platform for regional trade collaboration and we are well positioned to capitalise on this opportunity
- Mainland gross customer loans of \$41bn at 2Q18, up from \$38bn at 2Q17
- Losses remain low, onshore ECL charges of less than \$100m in 1H18
- Our wholesale portfolio is of high credit quality due to our highly selective customer strategy. HSBC's onshore corporate lending market share was 0.14% in 2017



## 1H18 Group Results<sup>1</sup> (comparison vs. 1H17)

### By global business, \$bn

	RBWM	CMB	GB&M	GPB	Corporate Centre	Group
Revenue	11.1 8%	7.4 12%	8.3 1%	0.9 6%	(0.2) (>100)%	27.5 2%
ECL / LICs	(0.5) 4%	(0.1) 50%	0.1 >100%	0.0 >100%	0.1 (55)%	(0.4) 38%
Operating expenses	(6.9) (9)%	(3.3) (11)%	(4.8) (4)%	(0.7) (2)%	(0.7) (9)%	(16.4) (8)%
Associates and JVs	0.0 >100%	- 0%	0.0 0%	- 0%	1.4 7%	1.4 10%
Profit before tax	3.6 7%	4.1 15%	3.6 1%	0.2 32%	0.6 (63)%	12.1 (2)%
RoTE <sup>2</sup> (%)	21.3 (1.3)ppt	15.1 0.3ppt	12.3 (0.2)ppt	11.2 4.7ppt	(3.9) (4.2)ppt	11.5 (0.1)ppt
Cost efficiency ratio (%)	62.4 (1.0)ppt	44.0 0.5ppt	58.0 (1.7)ppt	80.0 3.4ppt	nm -	59.5 (3.1)ppt
ECL / LICs % of gross loans <sup>3</sup>	0.31 0.0ppt	0.03 0.0ppt	(0.08) 0.1ppt	(0.02) 0.0ppt	(4.62) 3.4ppt	0.08 0.1ppt
Reported RWAs	124.1 6%	315.1 9%	284.5 (7)%	17.0 4%	124.8 (16)%	865.5 (1)%
Customer advances (net)	351.1 8%	329.3 8%	250.1 2%	40.9 6%	2.1 (73)%	973.4 6%
Customer deposits	635.6 3%	355.7 4%	291.7 9%	63.6 (7)%	9.8 (34)%	1,356.3 3%
A/D ratio (%)	55.2 2.7ppt	92.6 3.6ppt	85.8 (5.2)ppt	64.3 8.0ppt	21.2 (31.2)ppt	71.8 1.7ppt

### By region, \$bn

	Europe	Asia	MENA	North America	Latin America	Group
Revenue	9.0 (8)%	14.5 11%	1.4 1%	3.5 7%	1.6 13%	27.5 2%
ECL / LICs	(0.2) >100%	(0.1) 74%	(0.1) 16%	0.2 67%	(0.2) 4%	(0.4) 38%
Operating expenses	(8.4) (8)%	(6.1) (14)%	(0.7) (6)%	(2.6) (6)%	(1.0) (11)%	(16.4) (8)%
Associates and JVs	0.0 38%	1.1 9%	0.3 14%	0.0 (>100)%	0.0 0%	1.4 10%
Profit before tax	0.5 (78)%	9.4 14%	0.8 2%	1.1 17%	0.4 34%	12.1 (2)%
Cost efficiency ratio (%)	93.0 (14.0)ppt	42.2 (1.0)ppt	50.7 (2.7)ppt	75.2 (0.5)ppt	62.4 (1.0)ppt	59.5 (3.1)ppt
Reported RWAs <sup>4</sup>	301.3 (3)%	364.0 5%	58.0 (2)%	133.0 (3)%	37.0 (4)%	865.5 (1)%
Customer advances	374.3 3%	445.7 11%	29.1 2%	104.4 (2)%	20.0 1%	973.4 6%
Customer deposits	507.1 6%	656.6 3%	34.2 (2)%	135.7 (3)%	22.7 1%	1,356.3 3%
A/D ratio (%)	73.8 (2.4)ppt	67.9 4.9ppt	85.1 3.2ppt	76.9 (1.0)ppt	88.3 (0.2)ppt	71.8 1.7ppt

1. All numbers presented are on an adjusted basis unless otherwise stated. The income statement for 1H17 is restated at the average rates of exchange for 1H18. Comparison on an (adverse) / favourable basis

2. Group RoTE and global business RoTEs exclude significant items and UK bank levy

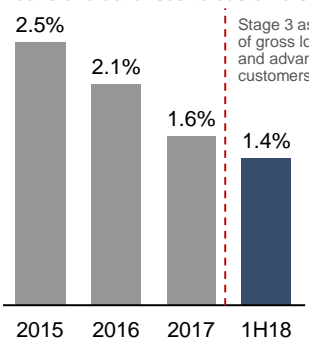
3. ECL / LICs as a % of average gross loans and advances to customers

4. RWAs are non-additive across geographical regions due to market risk diversification effects within the Group

## Balance sheet metrics

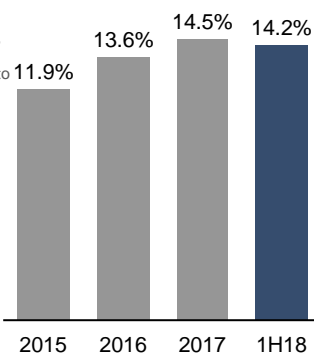
### Asset quality remains strong

Impaired loans as a % of gross loans and advances to customers



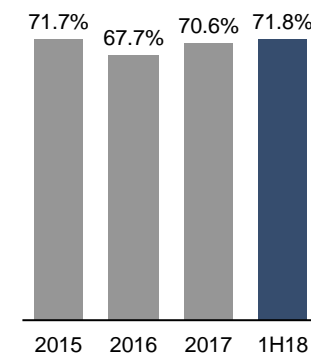
### Strong capital ratio

CET1 ratio



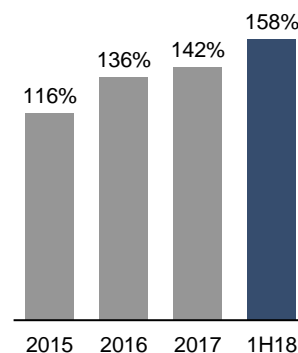
### Conservative funding metrics

Advances / deposits ratio



### Robust liquidity

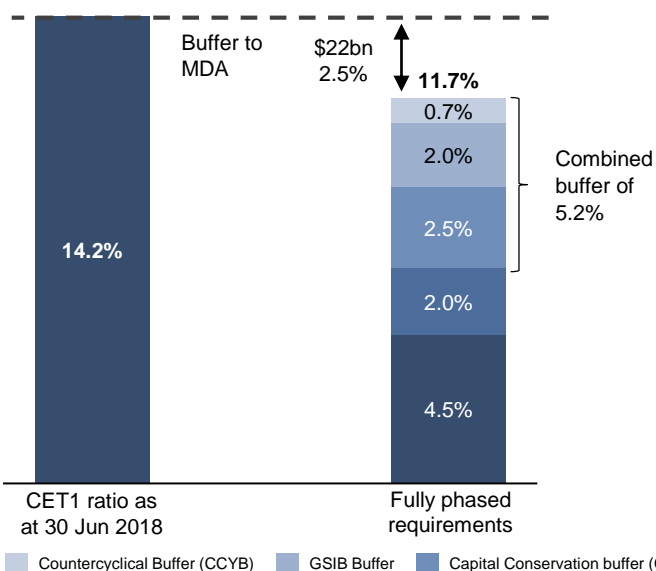
Group consolidated LCR



## Group capital and estimated MREL requirements<sup>1</sup>

### Group CET1 requirements

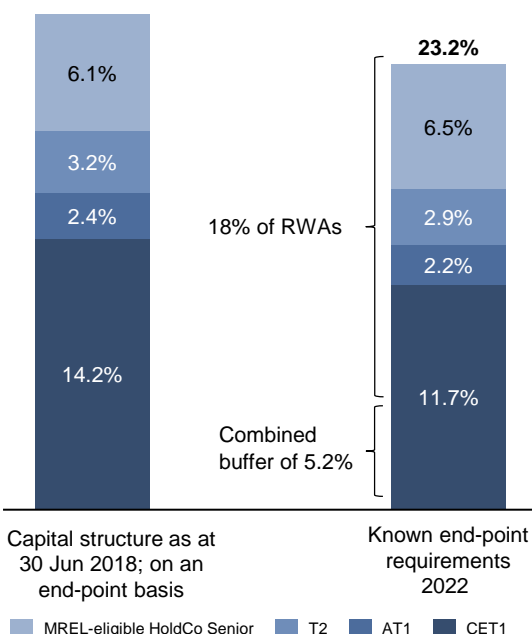
Common equity tier 1 ratio versus Maximum Distributable Amount ("MDA")



- 14.2% CET1 ratio, down 40bps from 1 Jan 2018 (after the IFRS9 transitional day 1 impact)
- \$7.2bn of profit attributable to ordinary shareholders in the half
- \$36.5bn of distributable reserves
- Throughout the period from 2018 to 2020, our plan assumes our CET1 ratio will be above 14%

### Total capital and estimated MREL requirements

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



- AT1 and Senior MREL increased in 1H18 due to planned issuance
- Tier 2 increased due to the change in regulatory capital recognition of selected capital securities
- HSBC group MREL requirement for 2022 is the greater of:
  - 18% of RWAs
  - 6.75% of leverage exposures
  - The sum of requirements relating to each of its resolution groups
- We are currently evaluating HKMA proposals, and await final rules
- Based on current assumptions, HSBC Senior MREL issuance requirement is estimated to fall in the range \$60-80bn
- HSBC manages its capital and debt securities to meet end-point regulatory requirements, as well as funding and other business needs
- HSBC has a Multiple Point of Entry resolution strategy

1. MREL requirements per guidance from the Bank of England. The 2019 and 2022 MREL requirements are subject to a number of caveats including: changes to the firm and its balance sheet (RWAs, FX and leverage); liability management and share buy backs; changes in accounting and regulatory policy; stress test requirements and, not least, confirmation of the final requirements from the Bank of England and other regulators, including the resolution strategy which is subject to revision on a regular basis. For further notes please refer to the HSBC Holdings plc Interim Report and Fixed Income Investor Presentation 1H18.

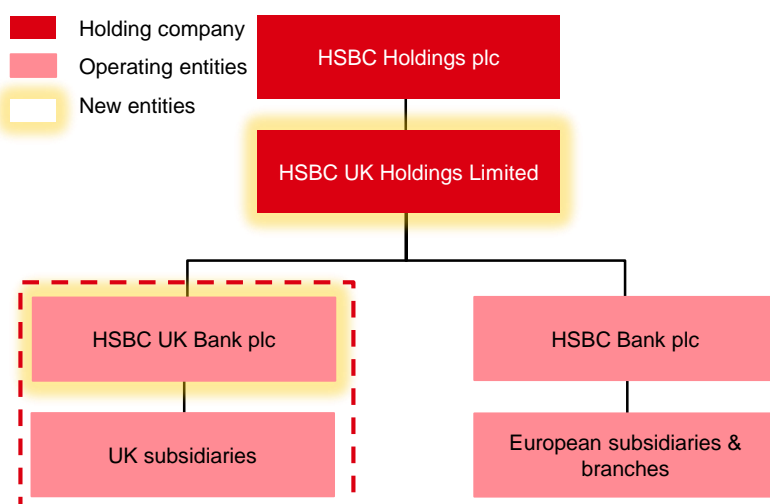
## Strong credit ratings

Long term senior ratings as at 5 August 2018

	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 USA Inc	AA-	Stable	A2	Stable	A	Stable
HSBC France	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC Bank Canada	AA-	Stable	-	-	AA-	Stable

## Establishing the UK ring-fenced bank

### Illustrative future structure



### Ring-fencing of UK retail banking activities complete

- ✓ HSBC UK Bank plc and HSBC UK Holdings Limited were incorporated in 2015 and 2017 respectively
- ✓ HSBC completed the ring-fencing of its UK retail banking activities on 1 July 2018, transferring c14.5 million qualifying RBWM, CMB and GPB customers from HSBC Bank plc to HSBC UK Bank plc

### Further legal entity moves

- HSBC Bank plc will be transferred to HSBC UK Holdings Limited in the 2H18

### Our ring-fenced bank

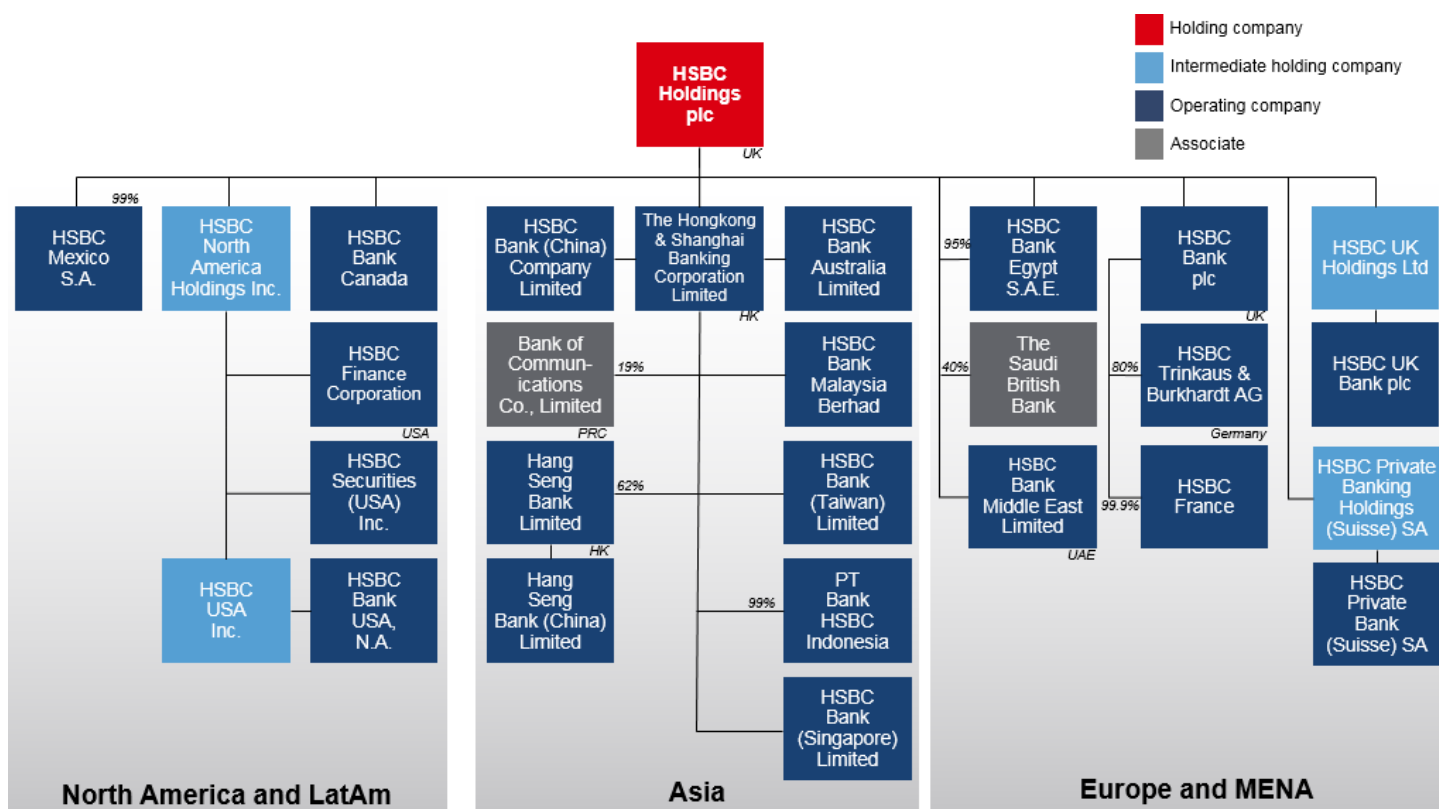
Was set up to hold HSBC's qualifying components of UK RBWM, CMB and GPB businesses, and relevant retail banking subsidiaries

### Our non ring-fenced bank

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

## Simplified legal entity structure

As at 1 July 2018



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### 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 the 2017 20-F, the Interim Report and the corresponding Reconciliations of Non-GAAP Financial Measures document which are available at [www.hsbc.com](http://www.hsbc.com).

Information in this presentation was prepared as at 6 August 2018.

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