HSBC

Fixed Income Factbook
31 December 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

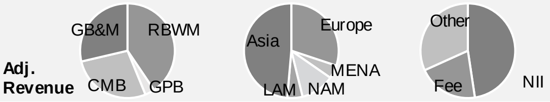
As at FY18

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



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-eligible HoldCo Senior issued in 2018

Single-A credit rating or above

A
HSBC Holdings S&P rating

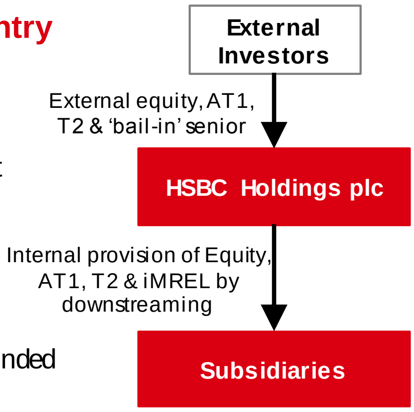
A2
HSBC Holdings Moody's rating

AA-
HSBC Holdings Fitch rating

Approach to issuance

Issuance strategy - single point of issuance, multiple point of entry

- Since 2015, HSBC Holdings has been the Group's issuing entity for external AT1, T2 and MREL-eligible Senior
- HSBC Holdings retains some cash for its own liquidity and capital management
- Issuance over time to broadly match group currency exposures
- Issuance executed with consideration to our maturity profile
- HSBC will continue to issue senior and secured debt from certain subsidiaries in local markets to meet funding and liquidity requirements. This debt is not intended to constitute MREL/TLAC


External Investors

External equity, AT1, T2 & 'bail-in' senior

HSBC Holdings plc

Internal provision of Equity, AT1, T2 & iMREL by downstreaming

Subsidiaries

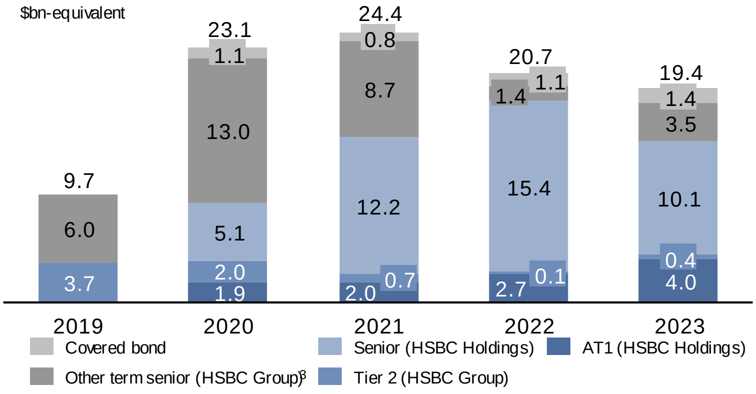
Forward-looking issuance plan[1]

- **HoldCo Senior**: expect to issue low / mid-teens USDbn per year

  Increasing maturities will erode net issuance to nil over time
- **Tier 2**: no near-term plans
- **AT1**: expect to issue low single-digit USDbn in 2019
- **OpCo:** expect certain subsidiaries to issue senior and secured debt

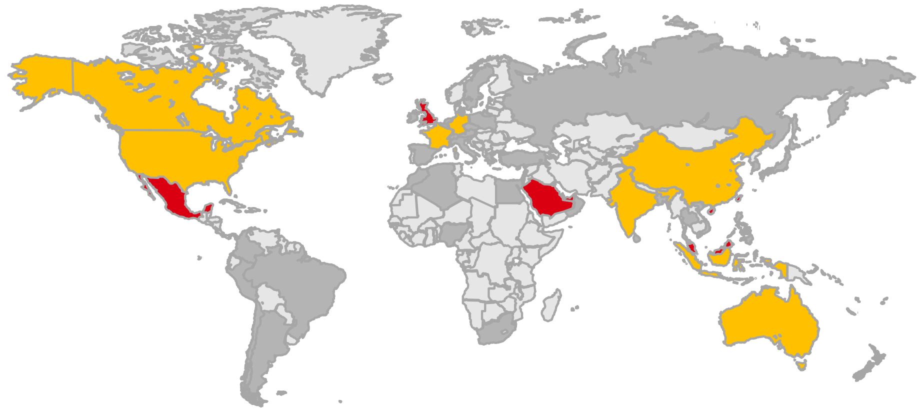
Contractual maturity profile[2]

As at 31 Dec 2018



HSBC at a glance

🟥 Markets at scale
▨ Markets to connect the network
🟨 Markets where we aspire to be the leading international bank



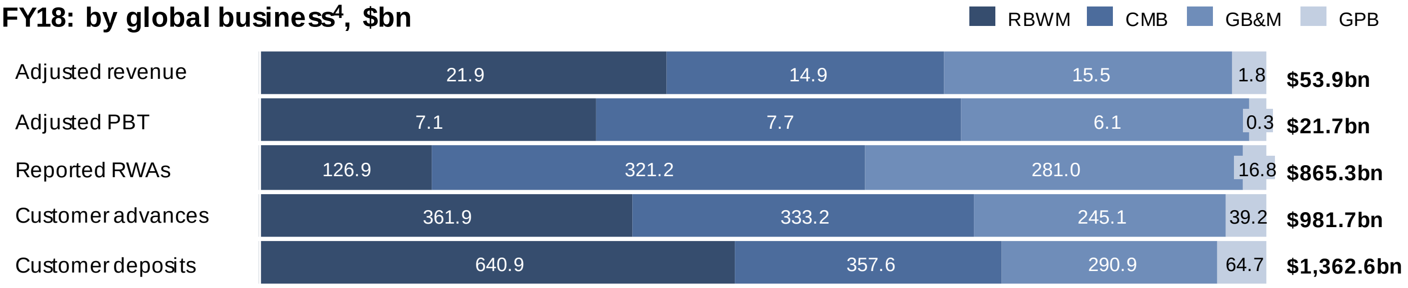
66
Markets

>50%
Of Group client revenue connected to the network

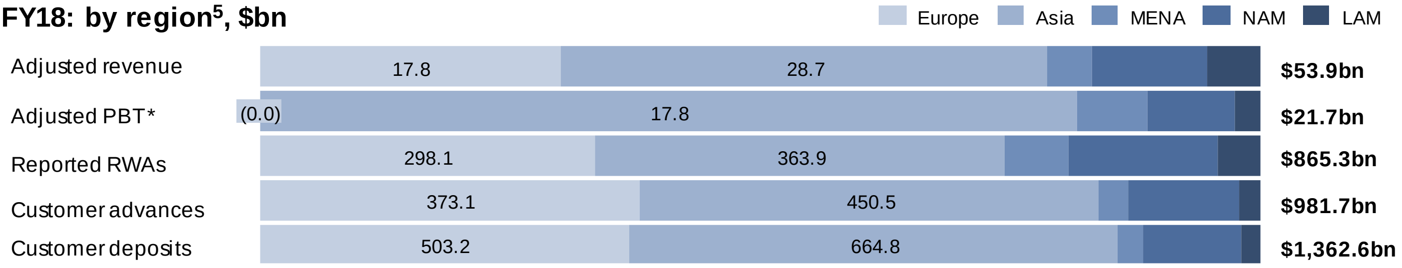
>90%
Of global GDP, trade and capital flows covered by our footprint

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

FY18: by global business[4], $bn



FY18: by region[5], $bn



** Europe loss of $(40)m*

Our strategic priorities (2018-2020)

Deliver growth from areas of strength

1. **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**

2. Complete **establishment of UK ring-fenced bank, increase mortgage market share, grow commercial customer base**, and **improve customer service**

3. **Gain market share and deliver growth from our international network**

Turnaround of low-return businesses

4. **Turn around our US business**

5. **Improve capital efficiency**; redeploy capital into higher return businesses

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

6. Create capacity for increasing **investments in growth and technology through efficiency gains**

7. 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

8. **Simplify the organisation and invest in future skills**

Target RoTE: >11% by 2020

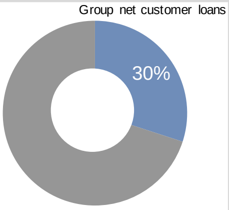
Positive adjusted jaws

Planned investment: $15-17bn

Our key markets

As at 31 December 2018

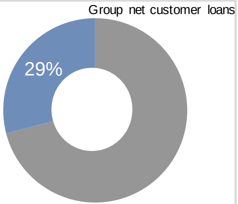
Hong Kong



- HSBC founded in Hong Kong in 1865
- HSBC the largest bank in Hong Kong, with market shares* of 27% and 29% for advances** and deposits
- Our leading position is supported by two brands: HSBC and Hang Seng Bank
- HK net customer loans of $291bn represents 30% of the Group
- Average LTV ratio of 42% for the HK mortgage portfolio

* HKMA, as at August 18, includes Hang Seng
** For use in Hong Kong

United Kingdom



- Four market leading brands: HSBC, first direct, M&S Bank and John Lewis Finance
- UK net customer loans of $287bn represents 29% 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

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 one of the world's largest platform for regional trade collaboration and we are well positioned to capitalise on this opportunity
- Mainland gross customer loans of $39bn and deposits of $50bn at FY18
- Stage 3 loan balances, days past due trends and losses remain low
- 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%

FY18 Group results (comparison vs. FY17)

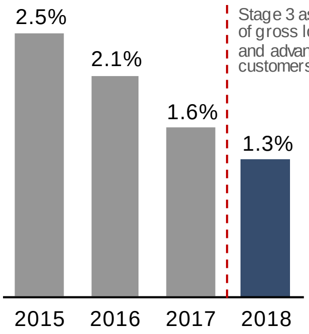
By global business, $bn	RBWM		CMB		GB&M		GPB		Corporate Centre		Group	
Revenue	21.9	8%	14.9	12%	15.5	1%	1.8	4%	(0.2)	(>100)%	53.9	4%
ECL / LICs	(1.2)	(21)%	(0.7)	(59)%	0.0	>100%	0.0	>100%	0.1	(37)%	(1.8)	(3)%
Operating expenses	(13.7)	(7)%	(6.5)	(9)%	(9.5)	(5)%	(1.4)	(3)%	(1.9)	9%	(33.0)	(6)%
Associates and JVs	0.0	>100%	-	-%	-	-%	-	-%	2.5	4%	2.5	5%
Profit before tax	7.1	9%	7.7	12%	6.1	4%	0.3	16%	0.5	(67)%	21.7	3%
RoTE[7] (%)	21.0	(0.6)ppt	14.0	0.0ppt	10.5	(0.1)ppt	9.9	2.8ppt	(5.7)	(0.5)ppt	10.2	0.9ppt
Cost efficiency ratio (%)	62.5	0.7ppt	43.5	1.4ppt	61.0	(2.2)ppt	81.2	0.7ppt	nm	-	61.2	(0.7)ppt
Reported RWAs	126.9	4%	321.2	7%	281.0	(6)%	16.8	5%	119.4	(11)%	865.3	(1)%
Customer advances (net)	361.9	9%	332.2	9%	245.0	0%	39.2	(1)%	2.5	(66)%	981.7	6%
Customer deposits	640.9	3%	357.6	2%	290.9	7%	66.7	3%	8.6	(21)%	1,362.6	3%
A/D ratio (%)	56.5	(3.0)ppt	93.2	(6.4)ppt	84.2	5.3ppt	58.8	2.1ppt	28.9	38.2ppt	72.0	(1.8)pt

By region[5], $bn	Europe		Asia		MENA		North America		Latin America		Group	
Revenue	17.8	(2)%	28.7	11%	2.7	4%	6.8	3%	3.1	9%	53.9	4%
ECL / LICs	(0.6)	5%	(0.6)	(7)%	(0.2)	(2)%	0.2	(17)%	(0.6)	15%	(1.8)	(3)%
Operating expenses	(17.3)	(6)%	(12.5)	(12)%	(1.4)	(4)%	(5.2)	(1)%	(1.9)	(10)%	(33.0)	(6)%
Associates and JVs	0.0	(38)%	2.1	8%	0.4	(1)%	0.0	(>100)%	0.0	(33)%	2.5	5%
Profit before tax	(0.0)	(>100)%	17.8	11%	1.6	3%	1.9	9%	0.6	2%	21.7	3%
Cost efficiency ratio (%)	96.9	(7.3)ppt	43.3	(0.3)ppt	50.5	0ppt	75.9	1.2ppt	63.1	(0.2)ppt	61.2	(0.7)ppt
Reported RWAs[8]	298.1	(4)%	363.9	2%	56.7	(4)%	131.6	0%	38.3	5%	865.3	(1)%
Customer advances (net)	373.1	3%	450.5	8%	28.8	7%	108.1	4%	21.1	17%	981.7	6%
Customer deposits	503.2	5%	664.8	3%	35.4	6%	133.3	(5)%	26.0	21%	1,362.6	3%
A/D ratio (%)	74.1	1.5ppt	67.8	(3.3)pt	81.4	(1.3)ppt	81.1	(6.5)ppt	81.3	2.6ppt	72.0	(1.8)ppt

Balance sheet metrics

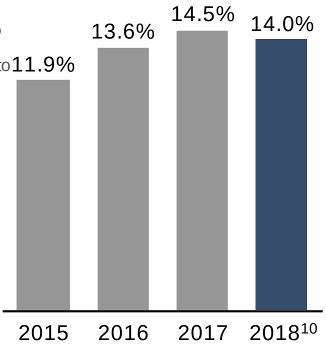
Asset quality remains strong

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



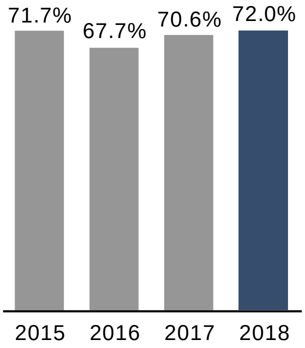
Strong capital ratio

CET1 ratio



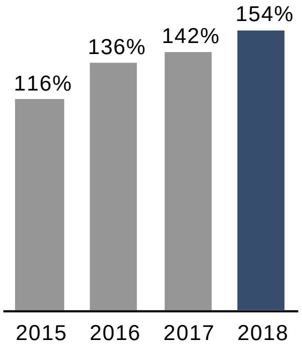
Conservative funding metrics

Advances / deposits ratio



Robust liquidity

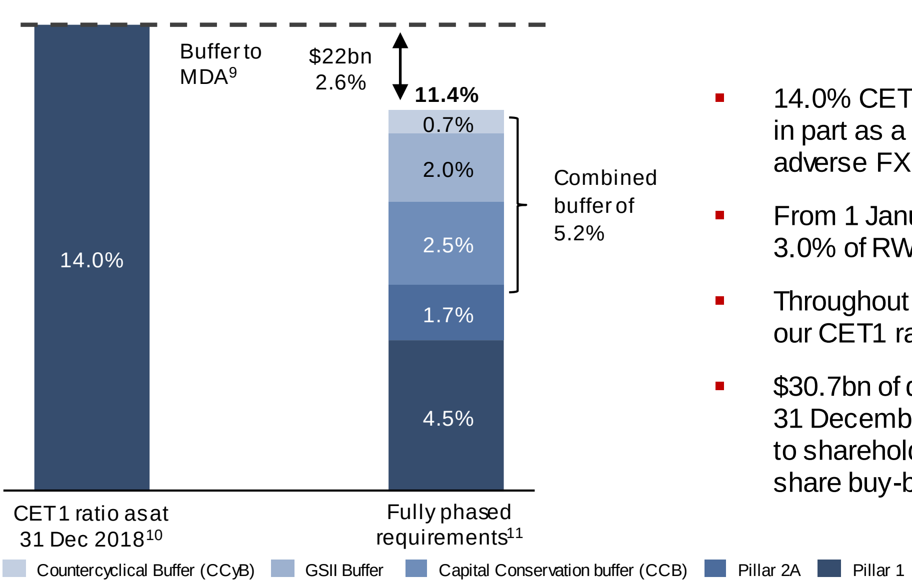
Group consolidated LCR



Group capital and estimated MREL/TLAC requirements

Group CET1 requirements

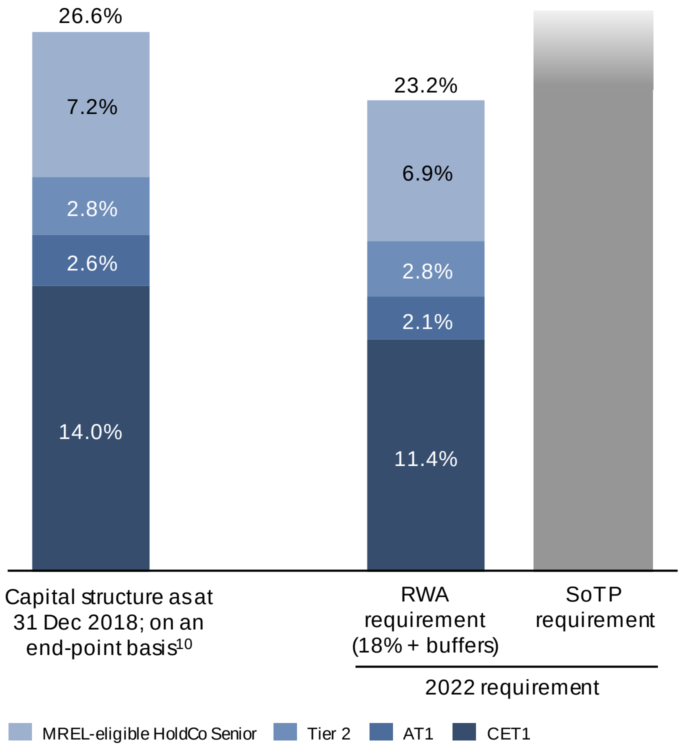
Common equity tier 1 ratio versus Maximum Distributable Amount (“MDA”)



- 14.0% CET1 ratio, down 0.5ppts from 31 Dec 2017, in part as a result of: RWA growth (-0.3ppts) and adverse FX movements (-0.2ppts)
- From 1 January 2019, our Pillar 2A requirement is 3.0% of RWAs, of which 1.7% must be met by CET1
- 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

Total capital and estimated MREL/TLAC requirements[12]

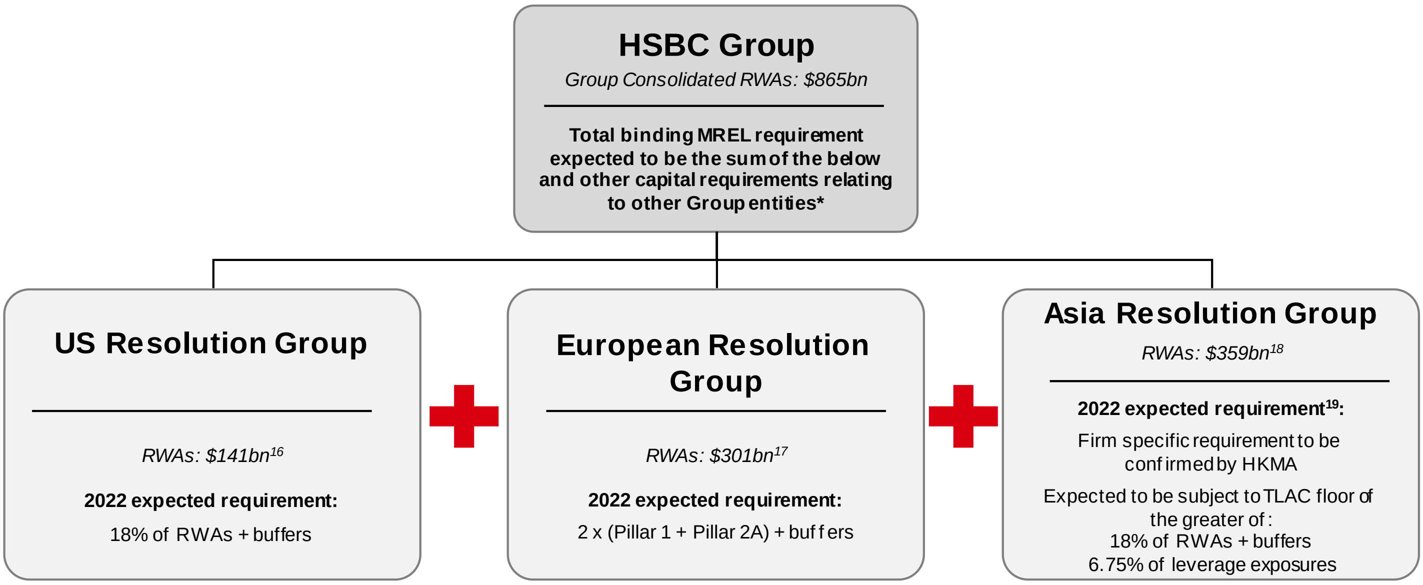
Regulatory capital and MREL-eligible HoldCo Senior versus regulatory requirements as a % of RWAs



- HSBC comfortably meets its 2019 MREL requirements
- Good progress made in meeting expected end-state requirements[13]
- The preferred resolution strategy for HSBC is Multiple Point of Entry (‘MPE’)
- From 2022, HSBC Group’s indicative MREL requirement[14] is the greater of:
  - 18% of RWAs
  - 6.75% of leverage exposures
  - The sum of requirements relating to each of its resolution groups (‘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[15]

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[16]

2022 expected requirement:

18% of RWAs + buffers

European Resolution Group

RWAs: $301bn[17]

2022 expected requirement:

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

Asia Resolution Group

RWAs: $359bn[18]

2022 expected requirement[19]:

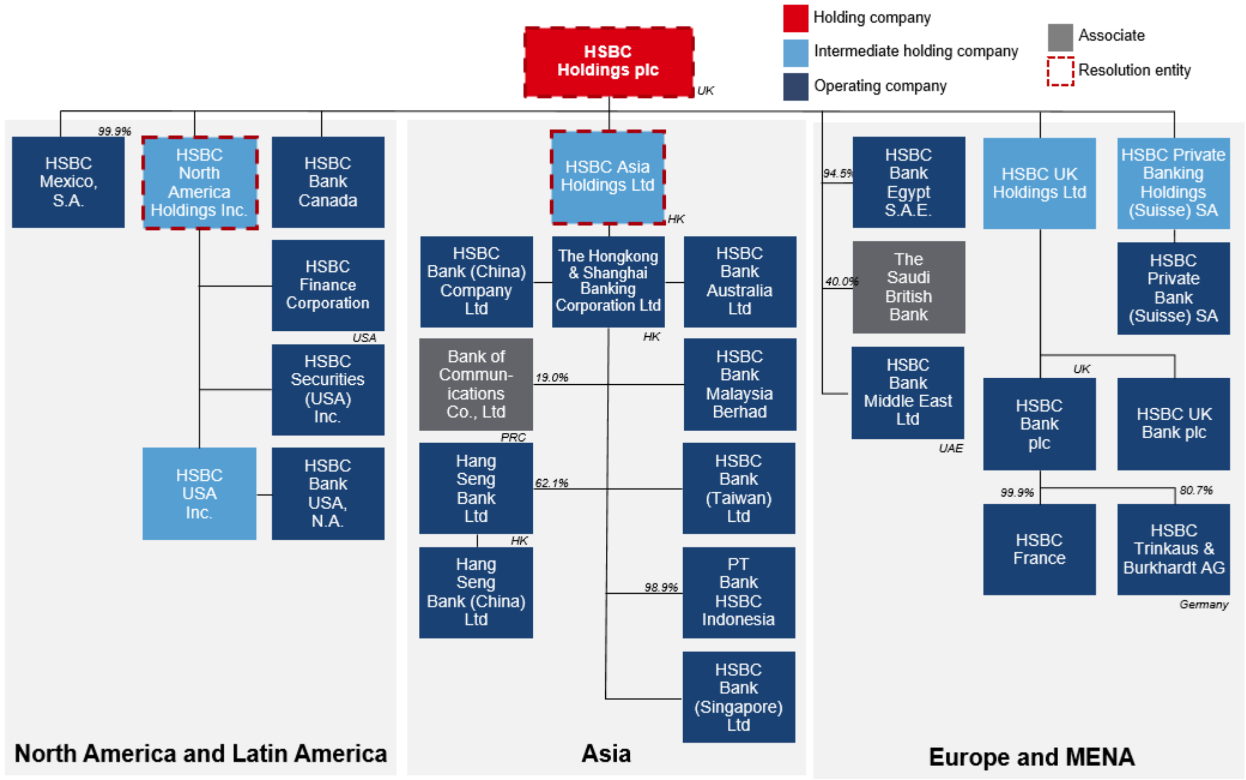
Firm specific requirement to be confirmed by HKMA

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

*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

Simplified legal entity structure

As at 23 January 2019



Strong credit ratings

Long term senior ratings as at 19 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

Notes

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Footnotes

1. The issuance plan is guidance only; it is a point in time assessment and is subject to change
2. To first call date if callable; otherwise to maturity
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
4. Total excludes Corporate Centre
5. Excludes inter-regional elimination
6. All numbers presented are on an adjusted basis unless otherwise stated. Comparison on an (adverse) / favourable basis
7. Group RoTE and global business RoTEs exclude significant items and UK bank levy; Group reported RoTE of 8.6% in 2018
8. RWAs are non-additive across geographical regions due to market risk diversification effects within the Group
9. Pro forma buffer to MDA trigger based on RWAs and CET1 capital resources at 13 December 2018
10. RWAs and capital are calculated using (i) CRD IV end point basis; and (ii) EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation
11. 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
12. 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
13. 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
14. 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
15. 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
16. 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
17. 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
18. 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
19. 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.

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Important notice

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This Presentation 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, strategy and business of the Group which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "seek", "intend", "target" or "believe" or the negatives thereof or other variations thereon or comparable terminology (together, "forward-looking statements"), including the strategic priorities and any financial, investment and capital targets described herein. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct. 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 assumptions and judgements upon which forward-looking statements regarding strategic priorities and targets are based are discussed under "Targeted Outcomes: Basis of Preparation", available separately from this Presentation at www.hsbc.com. The assumptions and judgments may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). 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, revise or supplement 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. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein.

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 2018 filed with the Securities and Exchange Commission (the "SEC") on Form 20-F on 20 February 2019 (the "2018 20-F").

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 2018 20 F and the Reconciliations of Non-GAAP Financial Measures document, both of which are available at www.hsbc.com.Information in this Presentation was prepared as at 19 February 2019.