HSBC Holdings plc

# Perpetual Subordinated Contingent Convertible Securities

## Presentation to Institutional Investors

March 2015

HSBC

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# Contents

# The HSBC Group

# Strategy

## An unrivalled global position and platform for growth

| | |
|---|---|
| HSBC today | ▪ A leading international bank with a presence in 73 countries and territories<br>▪ Balanced global business model with universal banks in key global geographies<br>▪ Strong capital position and resilient results in 2014 |
| Unrivalled global position | ▪ World economy shifting to Asia, Latin America and Middle East and North Africa[1]<br>▪ Unique international franchise to support economic development and facilitate global trade and capital flows<br>▪ Difficult to replicate global position |
| 2014-16: Strategic priorities | ▪ Grow business and dividends capitalising on our global platform<br>▪ Implement Global Standards and increase quality of earnings<br>▪ Further streamline processes and procedures to create capacity for growth |
| Financial targets | Assuming a 12-13% CET1 ratio (end point basis):<br>▪ Return on Equity: >10%<br>▪ Adjusted[2] jaws: Positive<br>▪ Dividend: Progressive[3] |

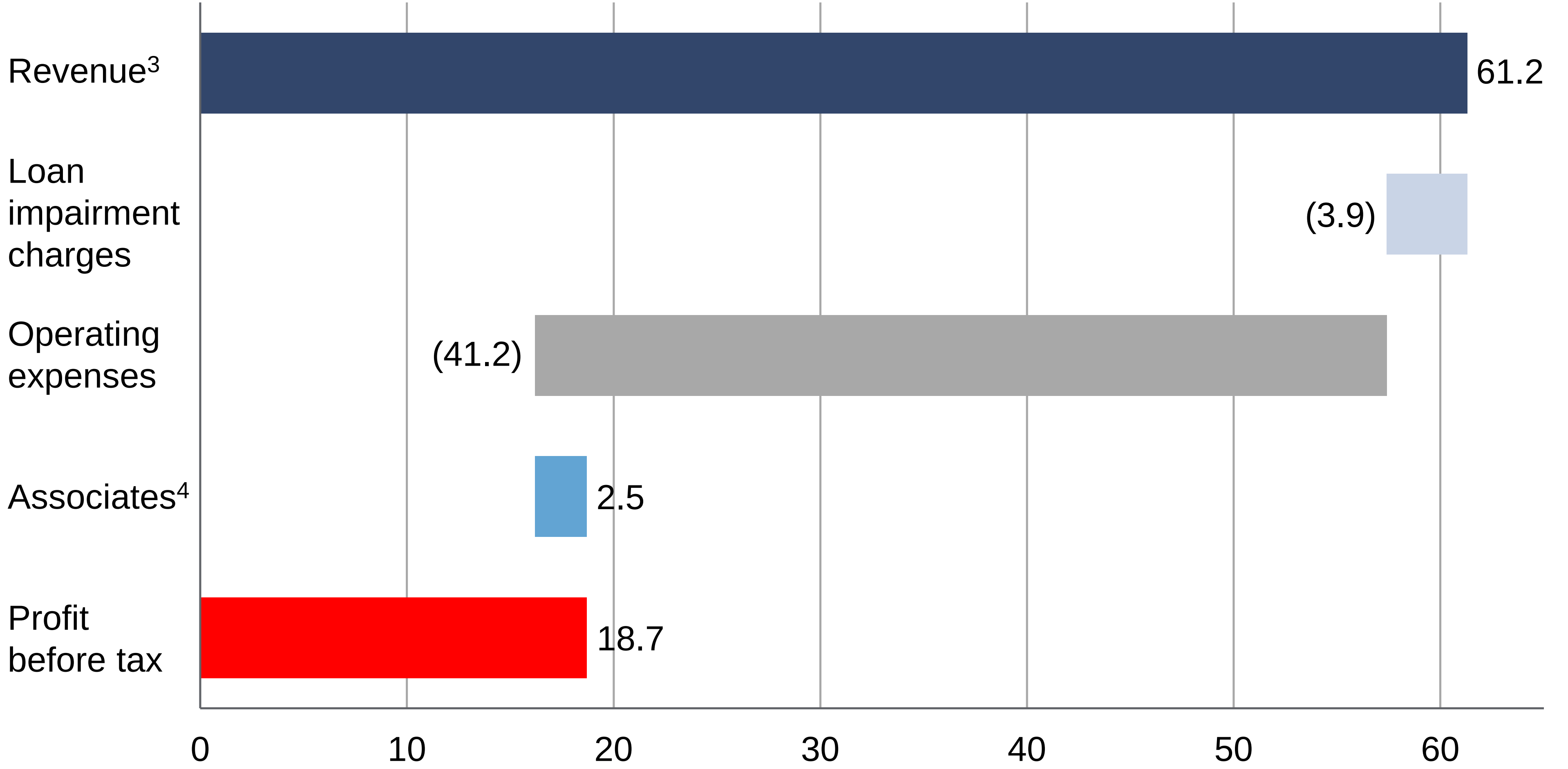
1. Based on HSBC analysis on Global Insights data and HSBC Global Research – The world in 2050 (JAN12)
2. Excludes currency translation and significant items
3. Progression of dividends should be consistent with the growth of the overall profitability of the Group and is predicated on the ability to meet all capital requirements in a timely manner

The HSBC Group

# Strong profit generation
FY14

**Consolidated statement of income[1,2]**

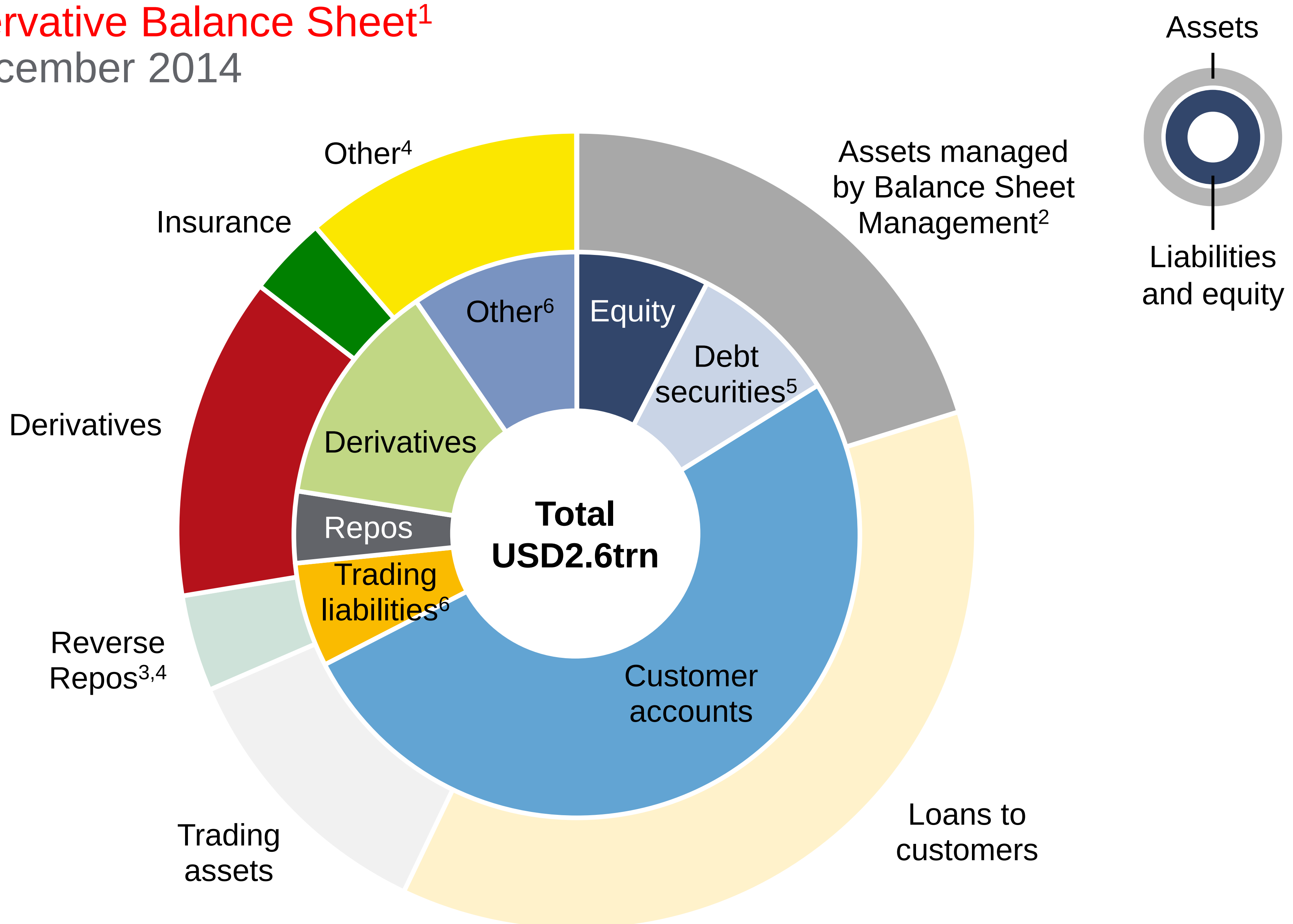
USDbn




1. Source: HSBC Holdings plc Annual Report and Accounts 2014
2. On a reported basis
3. Net Operating Income before loan impairment charges and other credit risk provisions
4. Share of profit in associates and joint ventures

# Conservative Balance Sheet[1]

## 31 December 2014



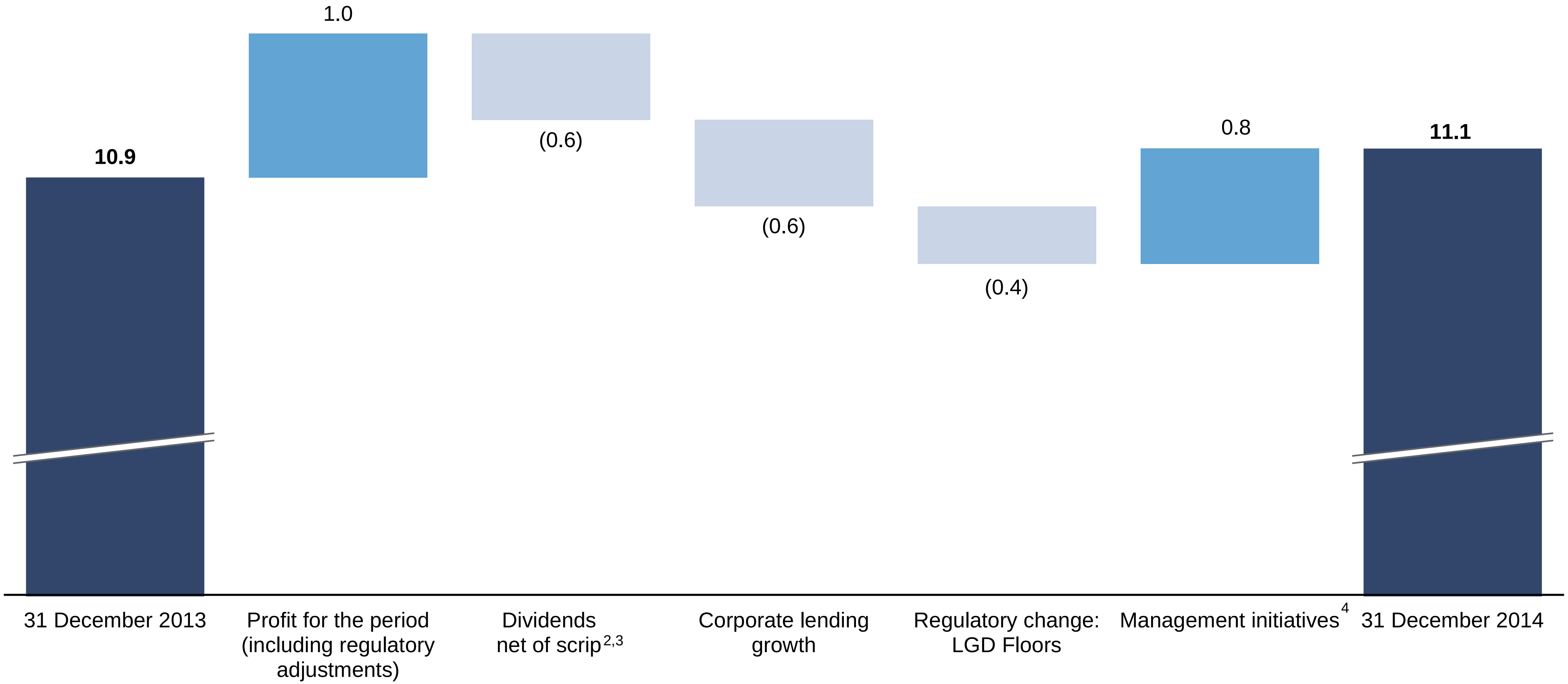

1. Source: HSBC Holdings plc Annual Report and Accounts 2014
2. These primarily include financial investments, cash and balances at central banks and reverse repurchase agreements – non-trading
3. Reverse repurchase agreements – non-trading. Excludes agreements managed by Balance Sheet Management
4. Excludes some assets managed by Balance Sheet Management. Excludes Insurance in Other
5. Includes all Debt securities in issue, Subordinated liabilities and Preferred securities
6. Excludes Debt securities in issue and Other debt securities in issue

# Growing equity base driven by retained earnings

## With strong and increasing capital ratios

### Common equity tier 1 ratio (end-point) movement (%)[1]

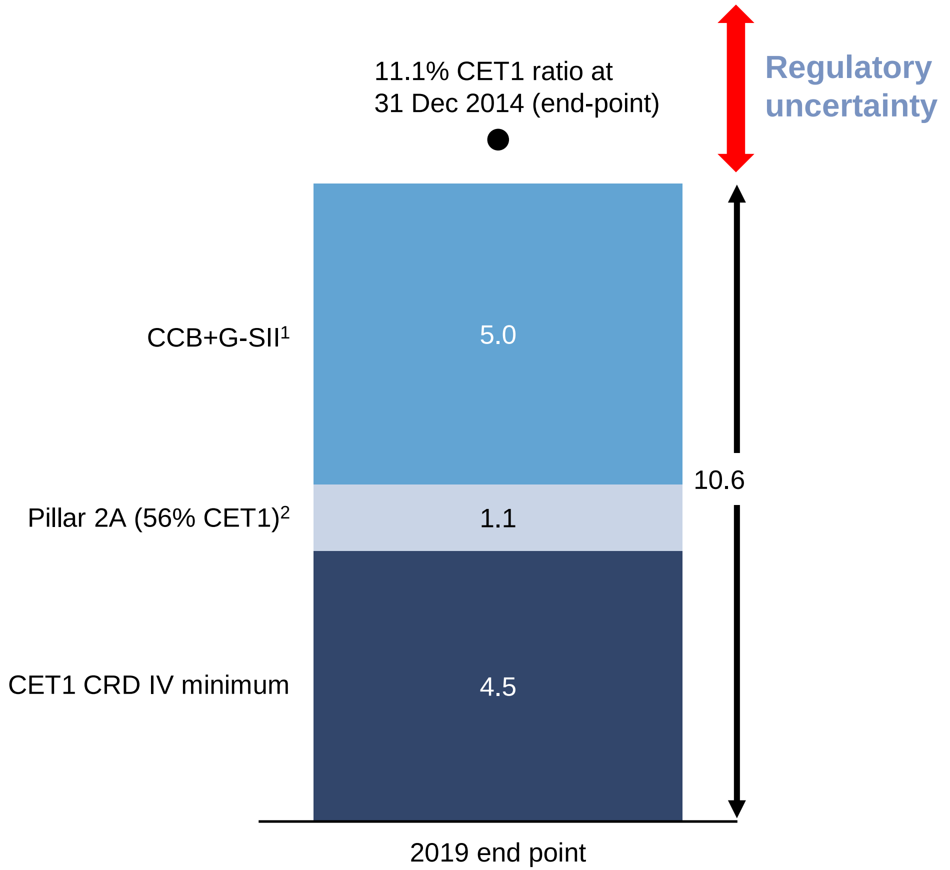
USDbn




1. Source: HSBC Holdings plc Annual Results 2014: Presentation to Investors and Analysts
2. This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity
3. This includes the 2014 fourth interim dividend net of planned scrip
4. This includes legacy reductions and run-off, portfolio and entity disposals and initiatives with respect to risk weighted assets ('RWAs')

# Future Regulatory Capital Developments

**Required common equity tier 1 ratio, %**




- We exceed known, quantifiable, CET1 regulatory requirements on an end point basis (10.6%)
- Inherent uncertainty will be a continuing feature of the regulatory capital framework, particularly due to time-varying elements
  - Countercyclical Capital Buffer (CCyB)
    - Hong Kong CCyB rate of 0.625% from January 2016, possibly up to 2.5% over time
    - Impact on Group weighted average CCyB rate is currently estimated as not significant
  - Pillar 2, including the PRA buffer[3]
  - Potential for Sectoral Capital Requirements
- Proposals for a revised RWA framework and related capital floors – under consultation

Notes:

1. The Capital Conservation Buffer (CCB) will be 2.5%. The Countercyclical Capital Buffer (CCyB) is currently 0% and is dependent on the buffer rates set by regulators applicable at the time. The G-SII buffer rate is still to be confirmed by the PRA – we currently assume a 2.5% G-SII buffer. The Systemic Risk Buffer has not yet been set – it is to be applied to the ring fenced bank from January 2019; if applied at the group level, we expect the higher of the G-SII and Systemic Risk buffer to apply. Sectoral Capital Requirements (SCR) are currently not deployed in the UK. The requirements for G-SII, SCR and CCyB are subject to change, dependent on circumstances at the time
2. Pillar 2A guidance is a point in time assessment of the amount of capital the PRA consider the bank should hold, to meet the overall financial adequacy rule and is subject to change, pending periodic assessment and supervisory review process; Individual Capital Guidance ('ICG') was recently revised and a total Pillar 2A of 2% of RWAs is in effect from February 2015, of which 1.1% (56% of total P2A) is to be met with CET1 capital
3. As per CP1/15 (under consultation), to the extent there is duplication of risks being covered, the PRA buffer would be offset by some of the CRD IV buffers – namely, the G-SII and CCB. The risk management and governance scalar, if implemented and where applicable, would not be allowed to offset

# HSBC's Perpetual Subordinated Contingent Convertible Securities

# In overview

## Targeted at institutional investors: minimum denominations $200,000

| Item | Details |
|---|---|
| Issuer | HSBC Holdings plc |
| Distributions | Non-cumulative, discretionary, payable semi-annually<br>[%] fixed with Reset on the 1st call date, and every 5-years thereafter |
| Distribution cancellation | Mandatory if insufficient distributable items or insolvency |
| Maturity | Perpetual |
| Redemption at par[1] | On any coupon reset date, or<br>Loss of: tax deductibility on change of law; or full loss of capital eligibility |
| Loss absorption | 7% CET1[2] ratio,<br>Conversion into ordinary shares at USD equivalent of GBP2.70 per share |
| Listing | Irish Stock Exchange (Global Exchange Market) |
| Governing law | State of New York except subordination provisions (English Law) |
| Bail in | Statutory UK bail in powers |

1. In all cases subject to HSBC Holdings having obtained the prior permission of the UK Prudential Regulatory Authority
2. HSBC Holdings plc consolidated CET 1 ratio as measured on an end-point basis

# Mitigating the key risks

| Item | Details |
|---|---|
| Distributable items | USD48.9bn at 31 Dec 14 |
| Distributions - priority intention | "It is the current intention of our board of directors to take into account the relative ranking in our capital structure of our ordinary shares and outstanding additional Tier 1 securities whenever exercising its discretion to declare dividends on the former or to cancel interest on the latter. However, our board of directors may depart from this policy at any time in its sole discretion." **Prospectus** |
| Capital buffers | "We place great importance on our ability to maintain and grow distributions to our investors derived from business profit generation. It remains our intention to maintain a buffer above regulatory minimum requirements." **HSBC's 2014 Interim results call with analysts** |
| CET1 ratio | USD47.8bn buffer to trigger at 31 Dec 14 |
| Conversion Price | GBP2.70 per share - 10-year low |
| Maturity | Callable - subject to regulatory approval |

# Conclusions

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# HSBC's Perpetual Subordinated Contingent Convertible Securities

## Investment case

| | |
|---|---|
| **Clear strategy** | · Grow business and dividends<br>· Implement Global Standards<br>· Streamline processes and procedures |
| **Clear financial targets** | Assuming a 12-13% CET1 ratio (end point basis):<br>· Return on Equity: >10%<br>· Adjusted[1] jaws: Positive<br>· Dividend: Progressive[2] |
| **Attractive issuer** | · Investor-friendly capital management history<br>· USD49bn distributable items<br>· USD48bn buffer to trigger |
| **Capital Management** | "Our approach to managing Group capital is designed to ensure that we exceed current regulatory requirements and that we respect the payment priority of our capital providers." **HSBC Holdings 2014 Annual Report and Accounts** |

1. Excludes currency translation and significant items
2. Progression of dividends should be consistent with the growth of the overall profitability of the Group and is predicated on the ability to meet all capital requirements in a timely manner