February 2016

HSBC Holdings plc - Fixed Income Update

HSBC

Important notice and forward-looking statements

Important notice

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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 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 2015 Annual Report and Accounts and the Reconciliations of Non-GAAP Financial Measures document which are both available at www.hsbc.com.

Contents

HSBC Group 2015 Performance

HSBC Group 2015 Performance

Our highlights

2015 Full Year

Reported PBT
(2014: $18.7bn)
$18.9bn

Adjusted PBT
(2014: $22.0bn)
$20.4bn

Reported RoE
(2014: 7.3%)
7.2%

Adjusted Jaws
(3.7)%

Ordinary dividends
In respect of the year
(2014: $0.50)
$0.51

CET1 ratio
(2014: 11.1%)
11.9%

2015 Financial Performance

- Reported PBT up 1%: net favourable movement in significant items
- Adjusted PBT fell 7%:
  - Higher revenue of $0.5bn (1%) from growth in client-facing GB&M (7%), CMB (3%) and Principal RBWM (2%)
  - Higher costs (up $1.6bn) from increased bank levy ($0.4bn), investment in growth ($0.3bn) and regulatory programmes and compliance ($0.7bn)
  - Higher LICs (up 17% or $0.6bn) across a number of countries and industrial sectors, most notably oil and gas

Capital and dividends

- Strong capital position with a common equity tier one ratio of 11.9% on an end point basis and a strong leverage ratio of 5.0%
- Progressive dividends in 2015 of $0.51 per ordinary share; total dividends in respect of the year of $10.0bn

Strategy execution

- Clearly defined actions to capture value from our network and connecting our customers to opportunities
  - Progress on reducing Group RWAs with a $124bn reduction from RWA initiatives
  - Signed agreement to sell operations in Brazil[1]
  - Revenue from transaction banking products up 4% highlighting the value and potential of our international network
  - Development of Asia business gaining momentum – revenue growth in excess of GDP in seven out of eight of our priority Asia markets
  - 2H15 costs in line with 1H15 following tight cost control and the initial effect of our cost saving plans

1. We plan to maintain a corporate presence in Brazil to serve our international clients

2015 Key metrics

Key financial metrics	FY14	FY15	Target
Return on average ordinary shareholders' equity	7.3%	7.2%	>10%
Jaws (adjusted)	-	(3.7)%	Positive
Dividends per ordinary share in respect of the year	$0.50	$0.51	Progressive
Earnings per share	$0.69	$0.65	n/a
Common equity tier 1 ratio (end point basis)[1]	11.1%	11.9%	n/a
Return on average tangible equity	8.5%	8.1%	n/a
Leverage ratio	4.8%	5.0%	n/a
Advances to deposit ratio	72.2%	71.7%	n/a
Net asset value per ordinary share (NAV)	$9.28	$8.73	n/a
Tangible net asset value per ordinary share (TNAV)	$7.91	$7.48	n/a

Reported Income Statement, $m

	4Q15	vs. 4Q14	2015	vs. 2014
Revenue	11,772	(18)%	59,800	(2)%
LICs	(1,645)	(32)%	(3,721)	3%
Costs	(11,542)	3%	(39,768)	4%
Bank levy[3]	(1,465)	(32)%	(1,421)	(34)%
Costs excl. bank levy	(10,077)	6%	(38,347)	5%
Associates	557	(2)%	2,556	1%
PBT	(858)	(150)%	18,867	1%

Adjusted Income Statement, $m

	4Q15	vs. 4Q14	2015	vs. 2014
Revenue	12,950	(1)%	57,765	1%
LICs	(1,645)	(63)%	(3,721)	(17)%
Costs	(9,959)	(2)%	(36,182)	(5)%
Bank levy[3]	(1,465)	(32)%	(1,421)	(34)%
Costs excl. bank levy	(8,494)	2%	(34,761)	(4)%
Associates	557	2%	2,556	3%
PBT	1,903	(34)%	20,418	(7)%

1. From 1 January 2015 the CRD IV transitional CET1 and end-point CET1 capital ratios became aligned for HSBC Holdings plc due to recognition of unrealised gains on investment property and available-for-sale securities
2. Net bank levy charge was $1,421m in 2015 and $1,063m in 2014; 1Q14 and 1Q15 included credits relating to the prior year's bank levy charge of $45m and $44m respectively

2015 Profit before tax performance

Progress on revenue and LICs remain at low levels; investments in growth, regulatory programmes and compliance and higher bank levy drive costs

Full year PBT analysis

Adjusted PBT by account line

	2015	vs. 2014 (adverse / favourable)	
Revenue	$57,765m	538	1%
LICs	$(3,721)m	(553)	(17)%
Operating expenses	$(36,182)m	(1,606)	(5)%
Bank levy	$(1,421)m	(358)	(34)%
Operating expenses excl. bank levy	$(34,761)m	(1,248)	(4)%
Share of profits in associates and joint ventures	$2,556m	63	3%
Profit before tax	**$20,418m**	(1,558)	(7)%

PBT by global business, $m	2014	2015	vs. 2014
RBWM	7,555	6,830	(725)
CMB	8,623	8,192	(431)
GB&M	7,678	8,746	1,068
GPB	703	519	(184)
Other	(2,583)	(3,869)	(1,286)
Group	**21,976**	**20,418**	**(1,558)**

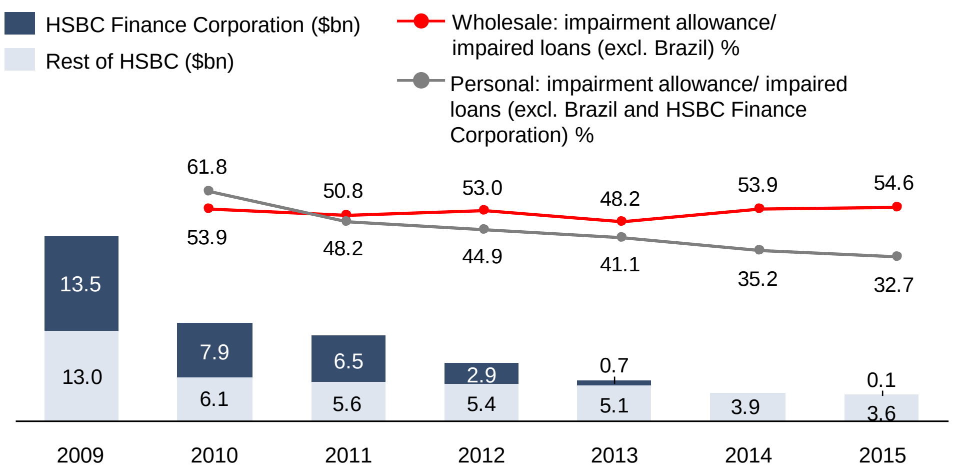
PBT by geography, $m	2014	2015	vs. 2014
Europe	3,496	2,392	(1,104)
Asia	14,295	14,462	167
Middle East and North Africa	1,820	1,542	(278)
North America	1,999	1,563	(436)
Latin America	366	459	93
Group	**21,976**	**20,418**	**(1,558)**

Loan impairment charges and other credit risk provisions

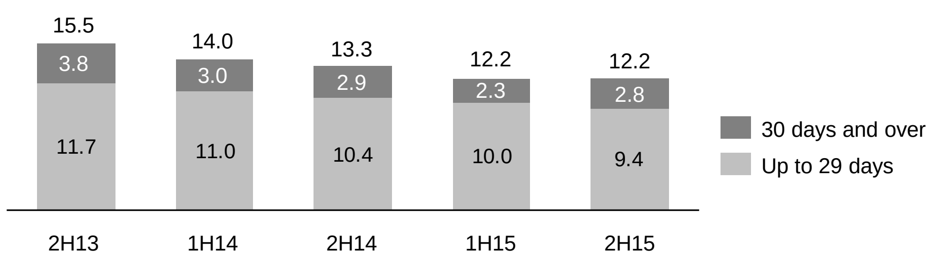
LICs remain at low levels; diversified portfolio

LICs progress

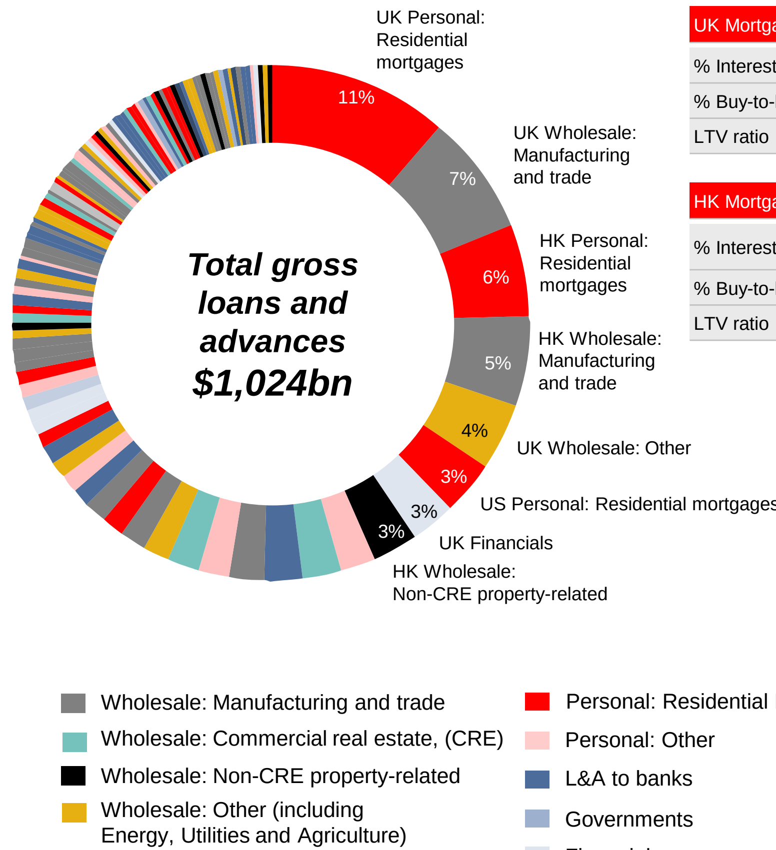
Reported LICs and coverage %: ***Loan impairments remain low***



Reported past due but not impaired, $bn: ***Remain at low levels***



2015 gross loans and advances: ***Diversified lending portfolio***



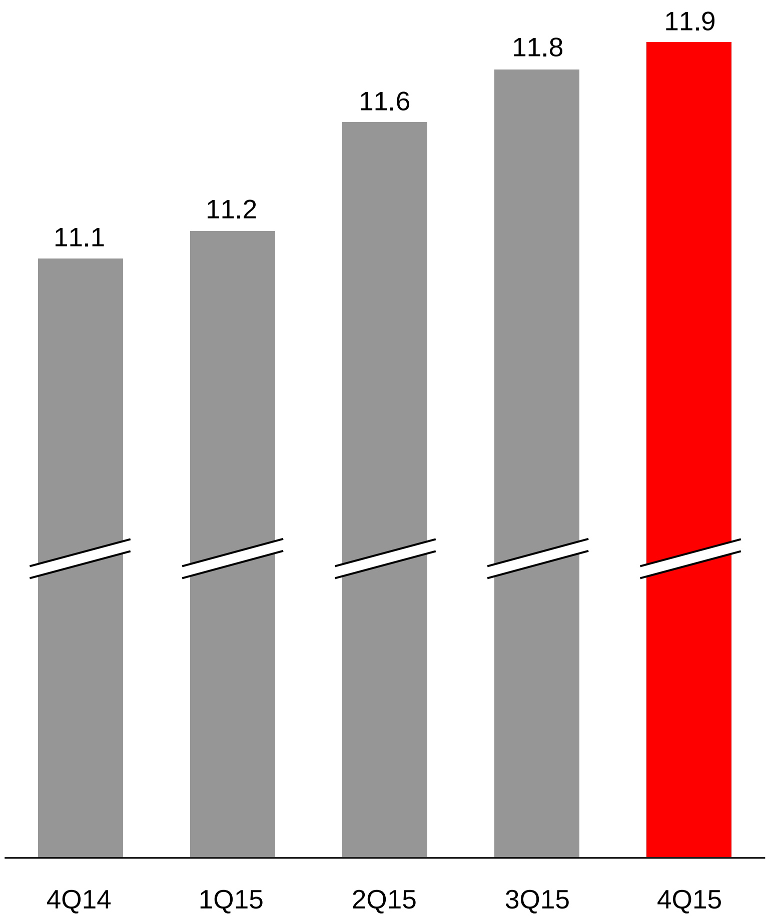
UK Mortgages $117bn:	
% Interest only	34%
% Buy-to-let	3%
LTV ratio	42.6%

HK Mortgages $61bn:	
% Interest only	n/a
% Buy-to-let	15%
LTV ratio	29.3%

Capital adequacy

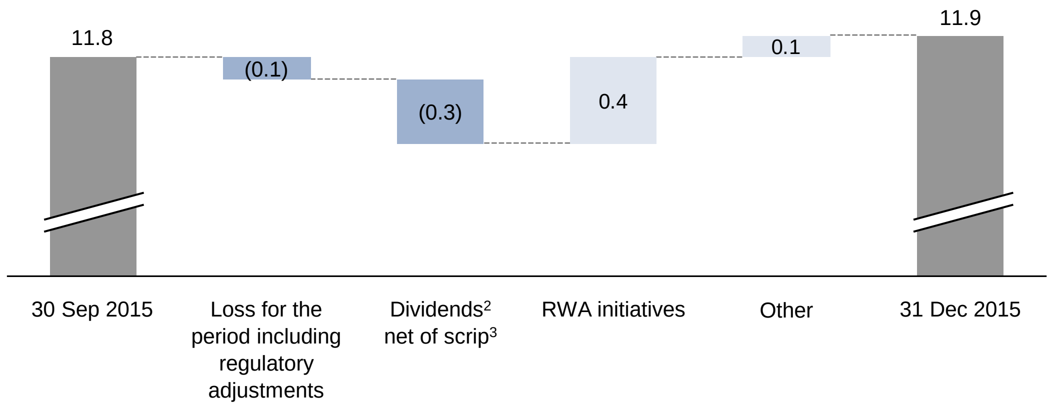
Strong capital base: common equity tier 1 ratio – 11.9%

Quarterly CET1 ratio[1] end-point basis progression, %

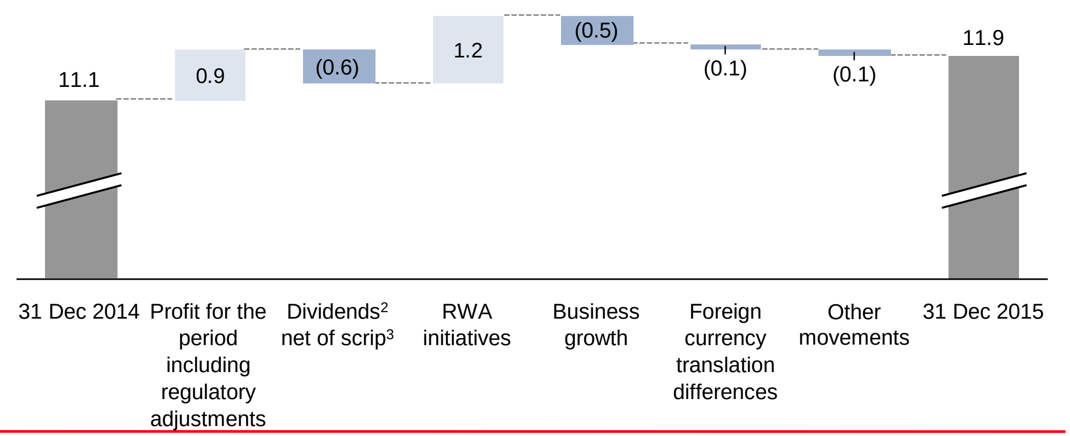


CET1 ratio[1] movement %

4Q15 movement in common equity tier 1 ratio



Full year movement in common equity tier 1 ratio



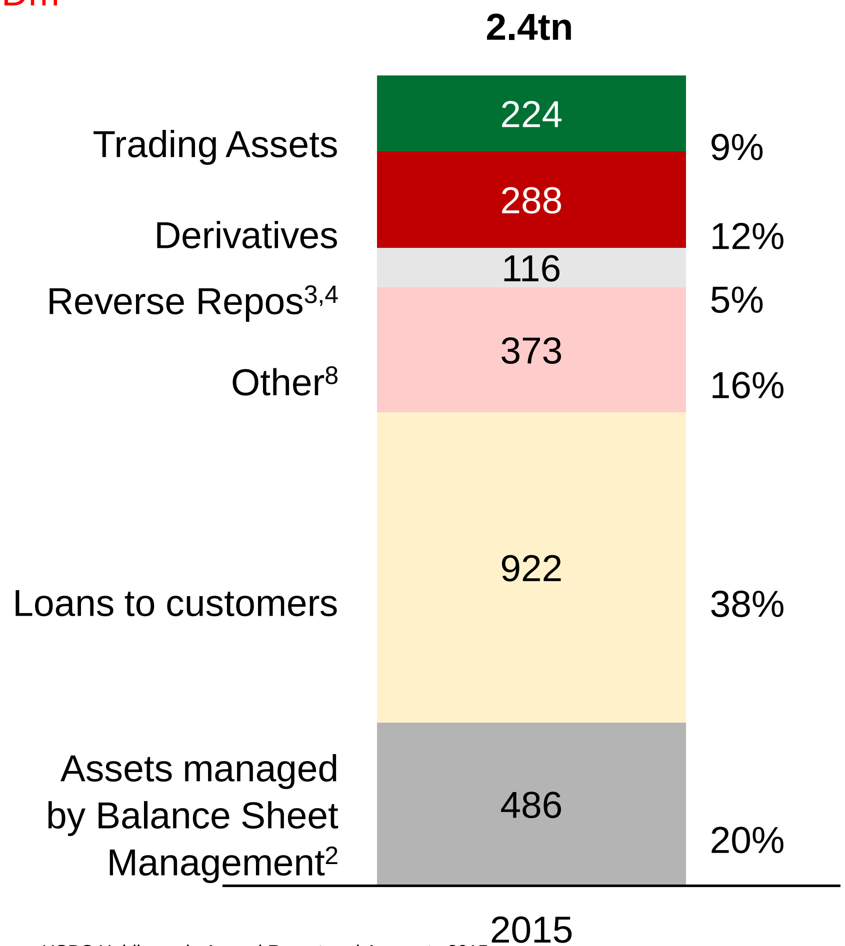
1. From 1 January 2015 the CRD IV transitional CET1 and end-point CET1 capital ratios became aligned for HSBC Holdings plc due to recognition of unrealised gains on investment property and available-for-sale securities
2. This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity
3. Dividends net of scrip includes fourth interim dividends net of planned 20% scrip take-up

Conservative Balance Sheet[1]

Mainly deposit funded with an A/D ratio of 72%

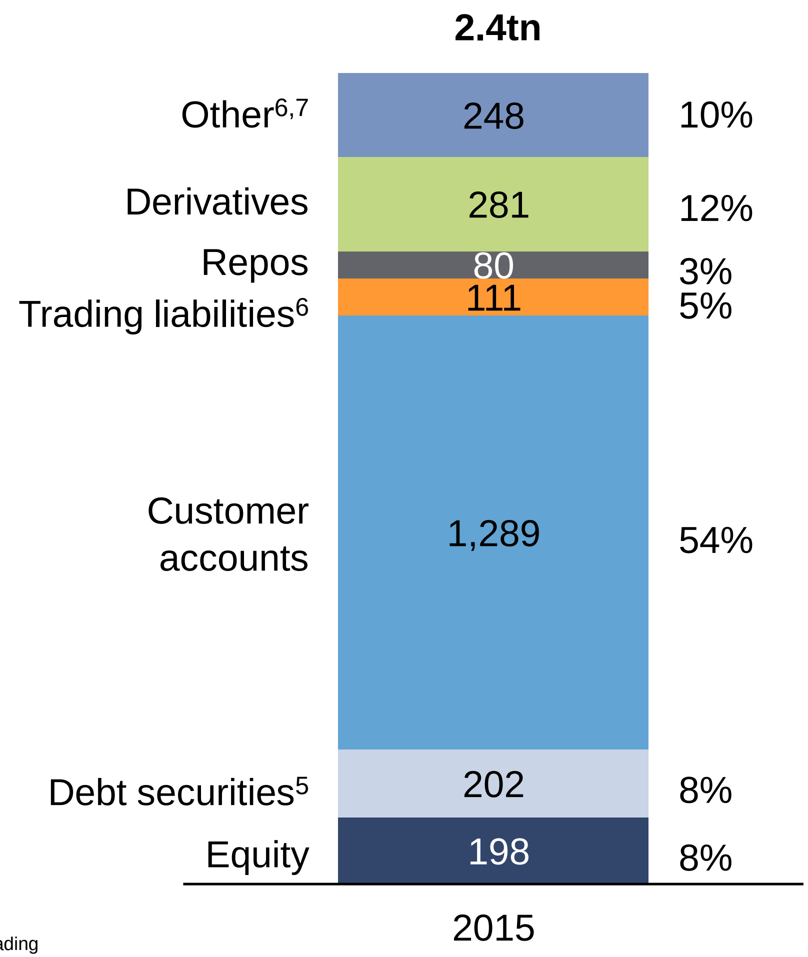
Assets

USDm



Liabilities and equity

USDm



1. Source: HSBC Holdings plc Annual Report and Accounts 2015
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 financial liabilities designated at fair value and subordinated liabilities
6. Excludes Debt securities in issue.
7. Includes Deposits by banks, Hong Kong currency notes in circulation, Liabilities of disposal groups Held for Sale, Accruals. See page 339 in HSBC Holdngs Plc Annual Report and Accounts 2015 for full Consolidated Balance Sheet
8. Includes Financial Investments, Prepayments, Goodwill and intangible assets, Interests in Associates. See page 339 in HSBC Holdngs Plc Annual Report and Accounts 2015 for full Consolidated Balance Sheet

Key Credit Metrics

- 2015 demonstrated the fundamental strength of our business
- Targeted investment, prudent lending and our diversified, universal business model helped us achieve revenue growth in a tough market
- In total we generated $11.3bn of capital from profit in 2015 which enabled us to increase the dividend, strengthen the CET1 capital ratio and support asset growth

2015 Summary

ROE	7.2%
CET1 Capital ratio	11.9%
Total Capital ratio	17.2%
CER	66.5%

2015 Year End Summary

CRDIV (end point) Leverage Ratio	5.0%
LCR[1]	116%
Advance/Deposit Ratio	72%
Reserves available for distribution	USD46.6bn
Buffer to 7% AT1 trigger	USD53.7bn

Capital Generation & Distributions

Capital generation from profit (2015)	$11.3bn
Gross ordinary dividends in respect of the year (2015)	$10.0bn
RWA change (2015)	USD117bn reduction

1. Under European Commission ('EC') Delegated Regulation 2015/61, the consolidated liquidity coverage ratio ('LCR') became a minimum regulatory standard from 1 October 2015. The calculation of the EC LCR metric involves two key assumptions: the definition of operational deposits and the ability to transfer liquidity from non-EU legal entities. We define operational deposits as transactional (current) accounts arising from the provision of custody services by HSBC Security Services or Payments and Cash Management services, where the operational component is assessed to be the lower of the current balance and the separate notional values of debits and credits across the account in the previous calculation period. No transferability of liquidity from non-EU entities is assumed other than to the extent currently permitted. This results in $94bn of high quality liquid assets ('HQLA') being excluded from the Group's LCR.

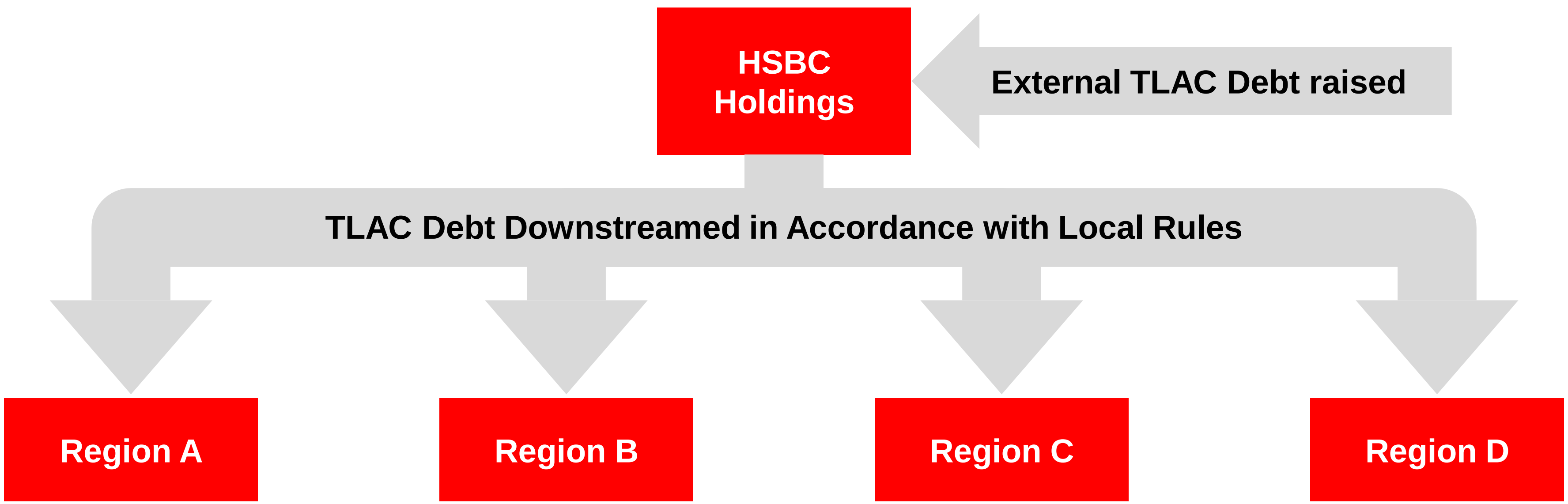
HSBC's Approach to Debt Issuance

HSBC's Approach to TLAC

Issuing Entity

- In 2016 HSBC Holdings plc will be the sole issuer of external TLAC debt for the Group
- TLAC debt will be downstreamed in a form compliant with local regulations
- Once regulatory rules have been clarified and the Group's resolution strategy finalised, TLAC debt may be issued directly from regional / local Intermediate Holding Companies

Illustrative example of TLAC Debt HoldCo Downstreaming to subsidiaries[1]



1. This is an indicative approach for illustration only

HSBC's Approach to TLAC (continued)

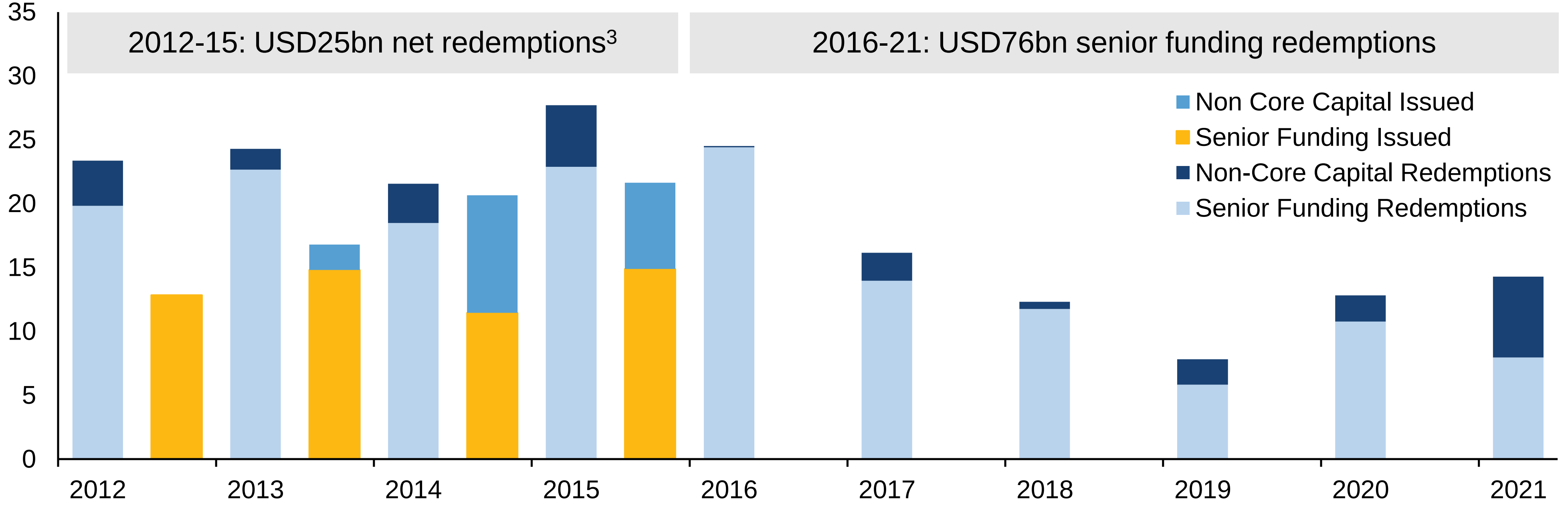
Volume Requirements	▪ HSBC plans to issue approximately USD60 - 80bn[1] of TLAC debt between 2016 and 2018 ▪ HSBC has approximately USD51bn[2] of senior funding securities that will mature by year end 2018, and approximately USD76bn[2] that will mature by year end 2021 ▪ HSBC has over USD25bn[2] of redemptions in 2016 ▪ HSBC is primarily deposit funded
Issuance Strategy	▪ HSBC Holdings will maintain regular access through the year in material G3 benchmark currency issuance ▪ The above will be supplemented with issuance in selected local currency markets, principally where the currency meets the functional requirements of the local entities ▪ HSBC will minimise the issuance of non-TLAC debt by it's subsidiaries although some issuance may continue to meet the specific senior funding and liquidity requirements of operating subsidiaries

1. Based on our interpretation of the Financial Stability Board's ("FSB") "Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution" (published in November 2015). Based on Group 3rd party RWAs on a PRA basis as at 31st December 2015; excluding associates. Final implementation rules could differ from FSB.
2. For illustration. Funding securities include senior unsecured and structured note issued to external investors with size above $250m equivalent and more than 18 months maturity at time of issue .

HSBC Maturities and issuance of long-term debt since 2012

HSBC Group Debt Redemption profile[1,2]

USDbn



Recent Supply

- HSBC is a predominantly deposit funded organisation and reduced its external debt in each of 2012-15
- Between 2012 and 2015 HSBC redeemed USD25bn more external long term debt than it issued

Upcoming Redemptions

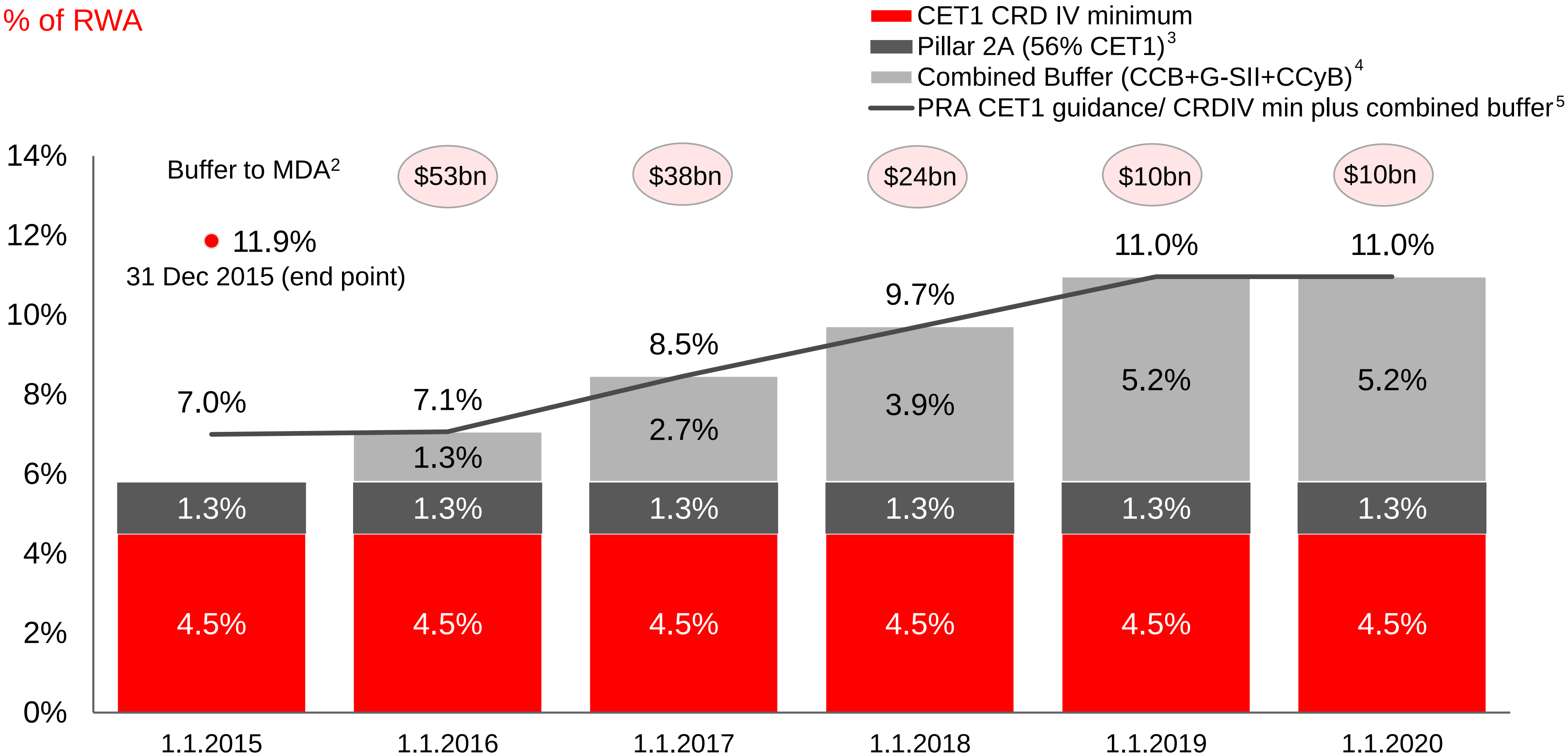
- HSBC has around USD51bn senior funding securities redeemable by year end 2018, and around USD76bn redeemable by year end 2021

1. For illustration. Funding issues and redemptions: Senior and structured note issues greater than $250m equivalent size at issue, with original maturity above 18 months
2. Non-Core Capital issued and redemptions: Includes fully compliant and grandfathered AT1 and Tier 2 securities; non-core capital redemptions include callable securities
3. Includes senior funding and non-core capital

HSBC's Capital Structure

Group Capital Requirements to 2020

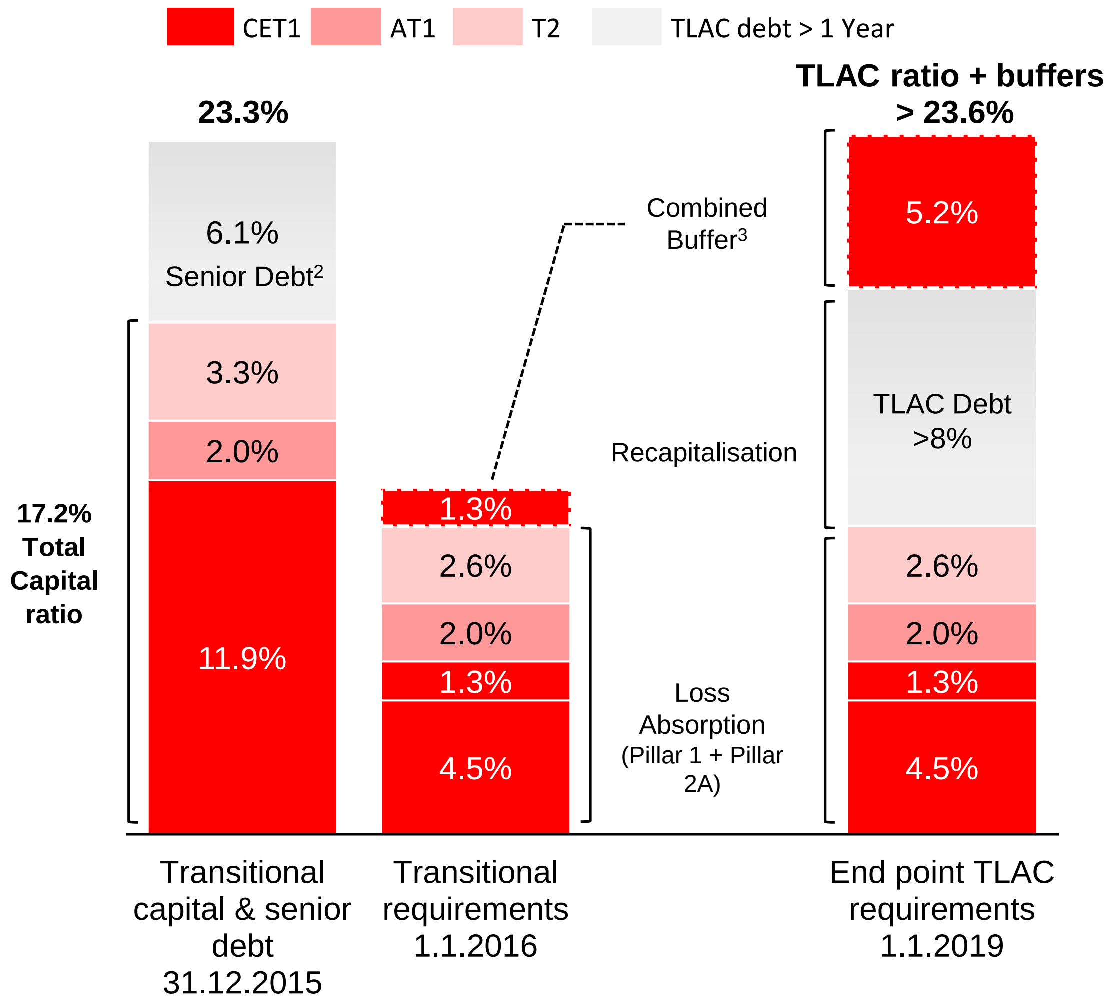
Required common equity tier 1 ratio[1]



1. Known or anticipated CET1 capital requirements, which have been defined and quantified by the regulator, including Pillar 2A and CRD IV buffers, as per UK implementation of CRDIV. Excludes non MDA buffers (e.g. PRA buffer).
2. Pro forma buffer to MDA trigger based on RWAs and CET1 capital resources at 31 Dec 2015; assumes that no CET1 is required to meet requirements for other forms of capital.
3. 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 annual assessment and supervisory review process; it is held constant in the chart for simplification.
4. The combined buffer is comprised of a Capital Conservation Buffer (CCB) of 2.5%; a G-SII buffer currently set at 2.5% (as confirmed by the PRA); and a Countercyclical Capital Buffer (CCyB) dependent on the buffer rates set by regulators - based on confirmed rates as of 31 December 2015, the HSBC weighted average CCyB rate would increase from approx. 0% at 31 December 2015 to approx. 0.2% at 1 January 2017(future increases in the CCyB rate, where not formally confirmed, have not been included in our numbers). The G-SII and CCB phase-in from 1 January 2016 to 1 January 2019. The G-SII and CCyB buffer rates are subject to change over time.
5. As per PRA's Supervisory Statement SS3/13, from 1 January 2014, major UK banks are expected to meet 7% CET1 end-point ratio. From 1 January 2016, the sum of the CRD IV minimum, Pillar 2A and combined buffer exceed this guidance.

Progressing to end state Group capital structure

Evolution of Group capital structure in % of RWA[1]



TLAC issuance

- Based on TLAC finalised principles from November 2015, HSBC's TLAC requirement as at 1 January 2019 is estimated at 23.6%[1], inclusive of capital buffers
- HSBC plans to issue approximately USD60 - 80bn[1] of TLAC debt over the period 2016-18 to meet these requirements. Total senior debt redemptions from the HSBC Group entities during that period will amount to c.USD51bn[2]
- Per the TLAC finalised principles[1] HSBC will be required to accumulate additional TLAC debt of 2% of RWAs by 1 January 2022

End point requirements 2019 - assumptions

- Loss absorption Pillar 1 and capital buffer requirements per CRD IV; Pillar 2A requirements as currently communicated by the PRA (held constant for illustration)
- BoE expected to align MREL with TLAC, with recapitalisation amount to be confirmed upon assessment of our resolution strategy
- MPE resolution groups local requirements expected to be no higher than group consolidated (SPE) requirement

1. Based on our interpretation of the Financial Stability Board's ("FSB") "Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution" (published in November 2015). Estimate is based on the higher of 16% of Group consolidated third party RWAs (excluding associates) and twice the Basel III Tier 1 leverage ratio of 3% (these increase to 18% and 6.75%, respectively, by 1 January 2022). HSBC is subject to BRRD firm-specific MREL requirements; the BoE is currently consulting on its implementation in the UK. Final implementation of the rules could differ from FSB. Further, prospective regulatory RWA changes may increase the TLAC requirement.
2. Senior debt includes senior unsecured and structured note issued to external investors with size above $250m equivalent and more than 18 months maturity at time of issue
3. The combined buffer is comprised of a Capital Conservation Buffer (CCB) of 2.5%; a G-SII buffer currently set at 2.5%; and a Countercyclical Capital Buffer (CCyB) dependent on the buffer rates set by regulators – the Group CCyB rate on 1 January 2016 is approximate nil; the 2019 CCyB estimate of approx. 0.2% is based on confirmed rates as of 31 December 2015 (future increases in the CCyB rate, where not formally confirmed, have not been included in our numbers). The G-SII and CCB are phased-in from 1 January 2016 to 1 January 2019. The G-SII buffer, CCyB buffer and Pillar 2A requirements are subject to change over time.

In Summary

Summary
Investment case

Distinctive advantages

- Unrivalled global presence, with access to more than 90% of global GDP
- Universal banking model with four global businesses which serve the full range of banking customers

Long-term strategy

- Develop our international network of businesses to support connectivity
- Be recognised as the world's leading international bank, invest in wealth management and select retail businesses where we can achieve scale

Attractive issuer

- Investor-friendly capital management history
- USD46.6bn reserves available for distribution
- USD53.7bn buffer to 7% AT1 trigger
- HSBC plans to issue USD60 - 80bn of TLAC debt over the period 2016-18 when it will redeem circa USD51bn of long-term senior funding. Outstanding senior debt and Tier 2 as of 31 Dec 2015 of combined 9.4% of RWA is similar to end-point 1 Jan 2019 combined TLAC debt and Tier 2 requirements of 10.6% of RWA

Capital Management

"In managing capital, we ensure we exceed current regulatory requirements and are well placed to meet those expected in the future"

HSBC Holdings plc Annual Report and Accounts 2015

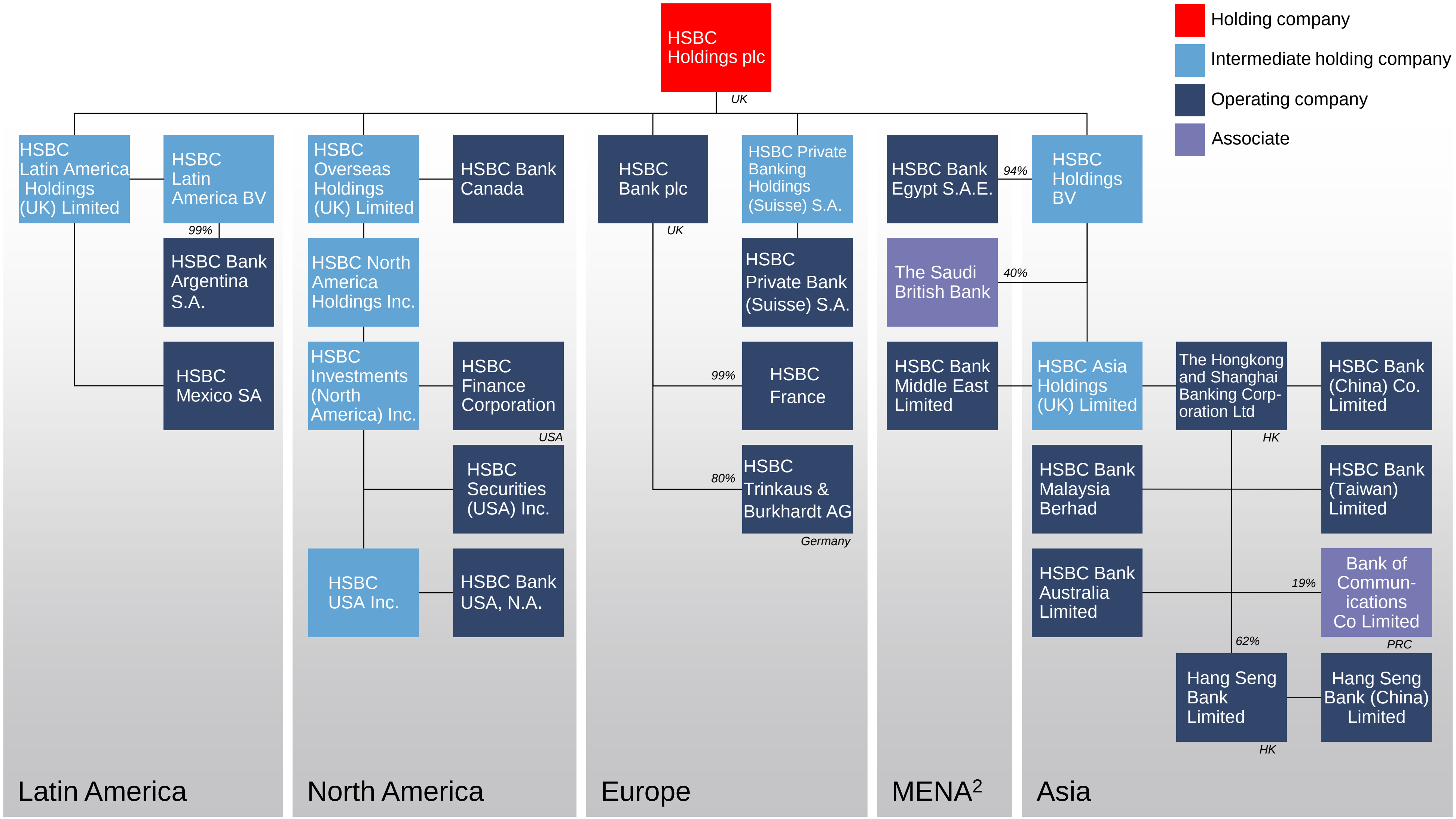
1. Excludes currency translation and significant items
2. Progression of dividends should be consistent with the growth of the overall profitability of the Group and is predicated on the ability to meet all capital requirements in a timely manner

Appendix

Appendix – Organisation Structure

Simplified structure chart

Principal entities[1]



1. At 31 December 2015, Priority Markets. All entities wholly owned unless shown otherwise (part ownership rounded down to nearest per cent). Excludes other Associates, Insurance companies and Special Purpose Entities
2. Middle East and North Africa

The view from HSBC Building, 8 Century Avenue, Pudong, Shanghai

The view from HSBC Main Building, 1 Queen's Road Central, Hong Kong SAR

The view from HSBC Group Head Office, 8 Canada Square, London

Cover images: internationalisation of the renminbi
The images show the views from HSBC's head offices in Shanghai, Hong Kong and London – the three cities that are key to the development of China's currency, the renminbi (RMB). The growth of the RMB is set to be a defining theme of the 21st century. HSBC has RMB capabilities in over 50 countries and territories worldwide, where our customers can count on an expert service.

Photography: Matthew Mawson

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