HSBC SFH (France)

Investor Presentation – September 2018

Content

HSBC SFH (France) key messages

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Issuer

HSBC France

ECB / ACPR

AAA / Aaa

Specialised Credit Inst.

- Specialised credit institution licensed as a *Société de Financement de l'Habitat*
- Fully-owned by HSBC France
- Jointly regulated by the European Central Bank (ECB) and the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR)
- Programme rated AAA/Aaa by S&P and Moody's
- Full recourse obligation of the Issuer against HSBC France

Cover pool

100%
Prime Home Loans

AA- / Aa3 / AA-

111.1%
Committed OC

61.0%
Average Indexed LTV[1]

- 100% prime home loans, all fixed-rate, with first-lien mortgage (16%) or guaranteed by *Crédit Logement* (84%)[1] [18]
- All originated by HSBC France (rated AA- / Aa3 / AA- by S&P / Moody's / Fitch[1]) with 100% income verification and focus on affluent and high net worth individuals
- Granular pool with 39k loans[1]
- Voluntary over-collateralisation of 111.1%, above the regulatory minimum of 105%
- Weighted average indexed LTV at 61.0%

Supervision

Specific Controller

180 Days Liquidity

Maturity Mismatch

Stress Tests

- Cover pool compliance monitored by an independent Specific Controller
- Regulatory limits on ALM risks measured between the cover pool and the covered bonds for:
  - 180 days liquidity requirements
  - Maturity mismatch
- Stress tests on the renewal of the cover pool
- Bankruptcy remoteness of the covered bonds

Market standards

ECBC
EUROPEAN COVERED BOND COUNCIL

COVERED BOND
LABEL
HTT

Level 1B HQLA

- Member of the European Covered Bond Council
- Compliant with the Covered Bond Label
- Quarterly Harmonised Transparency Template published and monthly Asset Cover Test published on hsbc.fr
- Series in EUR eligible to the level 1B LCR HQLA and to the favourable risk-weighting[2]

HSBC Group 1H18 performance

Key messages

1st half 2018

Reported PBT
(1H17: $10.2bn)
$10.7bn 5% ⬆

Adjusted PBT
(1H17: $12.4bn)
$12.1bn 2% ⬇

RoE[3]
(1H17: 8.8%)
8.7% 0.1ppt ⬇

Reported RoTE[3]
(1H17: 9.9%)
9.7% 0.2ppt ⬇

A/D ratio
(1H17: 70.1%)
71.8% 1.7ppt ⬆

CET1 ratio[4]
(1H17: 14.7%)
14.2% 0.5ppt ⬇

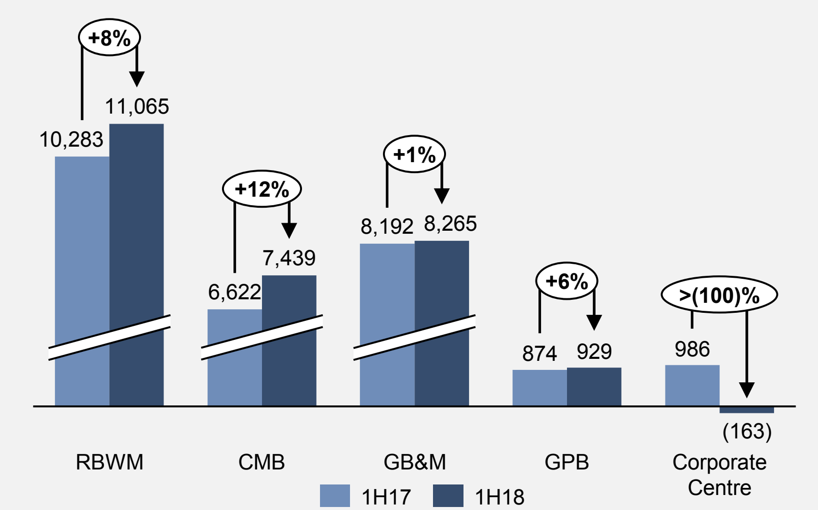
2Q18 key messages

1. **Reported PBT of $6.0bn, 13% higher than 2Q17; $6.1bn adjusted PBT, in line with 2Q17**
2. **Total adjusted revenue increased $0.2bn to $13.7bn vs. 2Q17; good business momentum with revenue up $0.9bn or 7% in all four global businesses; Corporate Centre down $0.6bn**
3. **Adjusted operating costs of $8.1bn were $0.6bn or 7% higher than 2Q17, reflecting increased investment in growth and technology; in line with 1Q18 and guidance**
4. **$26bn or 3% lending growth compared with 1Q18 and $43bn or 5% compared with 1.1.18 (on a constant currency basis)**
5. **Strong capital base with a common equity tier 1 ratio of 14.2%**

1H18 Profit before tax

	1H18	Δ 1H17 adverse	Δ 1H17 favourable	
Revenue	$27,535m		578	2%
LICs / ECL	$(407)m		250	38%
Operating expenses	$(16,370)m	(1 175)		(8)%
Share of profits in associates and joint ventures	$1,381m		122	10%
Profit before tax	**$12,139m**	(225)		(2)%

Adjusted revenue by global business, $m

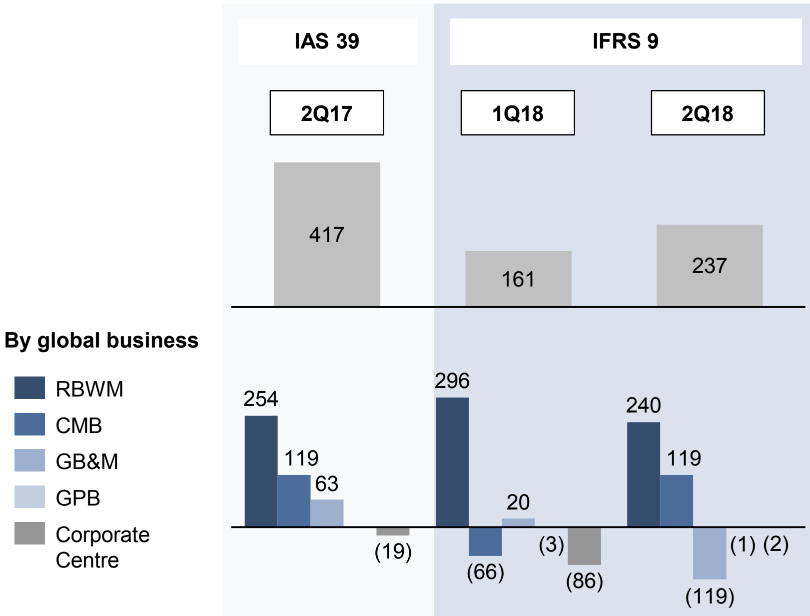


Adjusted PBT by global business, $m	1H17	1H18	Δ 1H17	Δ %
RBWM	3,397	3,630	233	*7%*
CMB	3,564	4,111	547	*15%*
GB&M	3,543	3,568	25	*1%*
GPB	144	190	46	*32%*
Corporate Centre	1,716	640	(1,076)	*(63)%*
Group	**12,364**	**12,139**	**(225)**	***(2)%***

Adjusted PBT by geography, $m	1H17	1H18	Δ 1H17	Δ %
Europe	2,100	464	(1,636)	*(78)%*
Asia	8,223	9,360	1,137	*14%*
Middle East and North Africa	816	834	18	*2%*
North America	944	1,104	160	*17%*
Latin America	281	377	96	*34%*
Group	**12,364**	**12,139**	**(225)**	***(2)%***

Credit outlook remains stable

Loan impairment charges and expected credit losses, $m



By region, $m	2Q17	1Q18	2Q18
Europe	(14)	60	125
- of which UK	*(16)*	*56*	*99*
Asia	282	32	84
- of which Hong Kong	*231*	*14*	*6*
MENA	65	3	99
North America	(32)	(47)	(187)
Latin America	116	113	116
Total	**417**	**161**	**237**

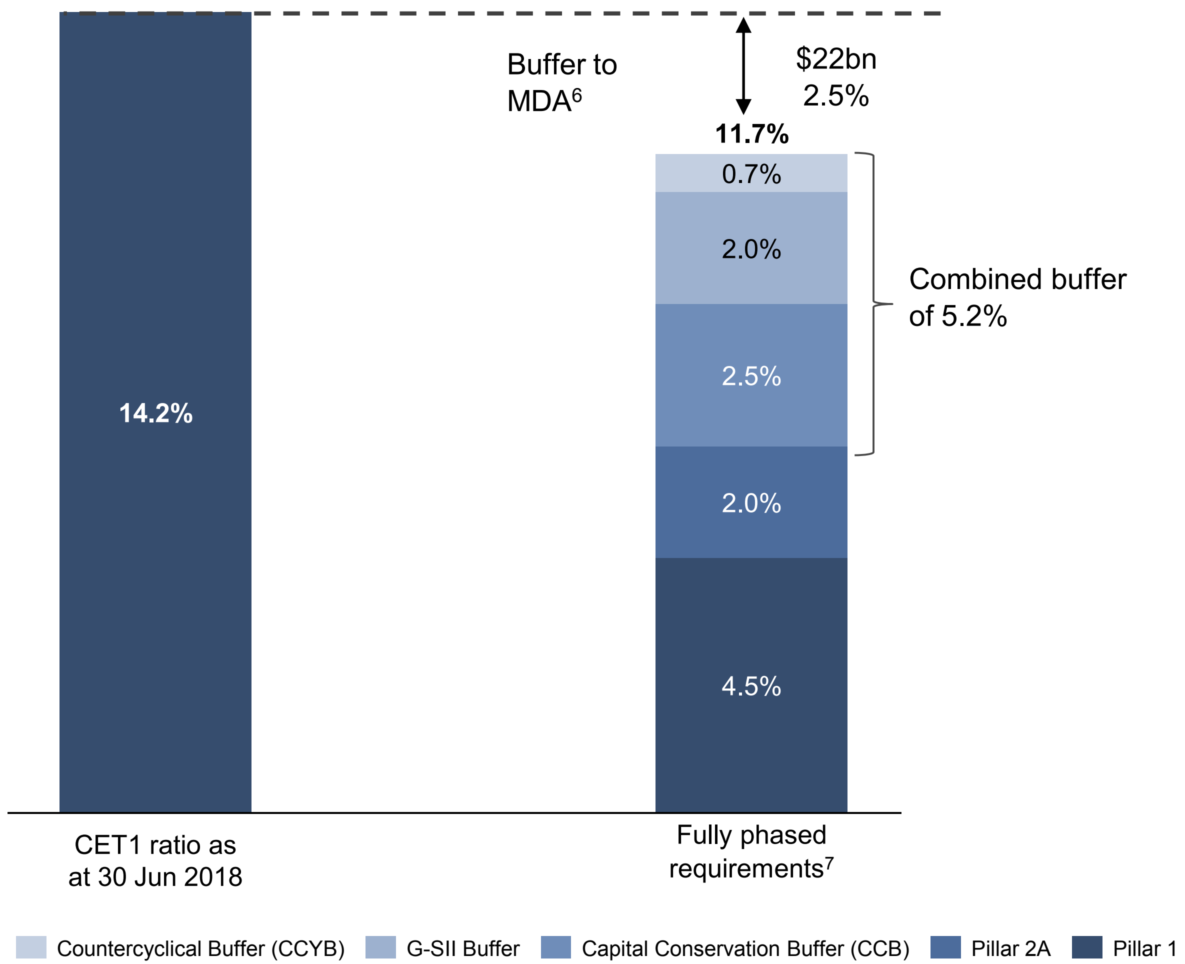
Analysis by stage as at 30 Jun 2018

$bn	Stage 1	Stage 2	Stage 3	Total[5]	Stage 3 as a % of Total
30 Jun 2018					
Loans and advances to customers	898.9	68.8	14.2	982.2	1.4%
Allowance for ECL	1.3	2.0	5.3	8.7	
31 Mar 2018					
Loans and advances to customers	906.3	68.1	15.4	990.5	1.6%
Allowance for ECL	1.3	2.2	5.7	9.4	

- Expected credit losses of $237m in 2Q18 related mainly to charges in RBWM, notably in Mexico and the UK, against our unsecured lending portfolios
- North America ECLs benefited from a release in the oil and gas sector
- The credit environment remains stable

Group CET1 requirements

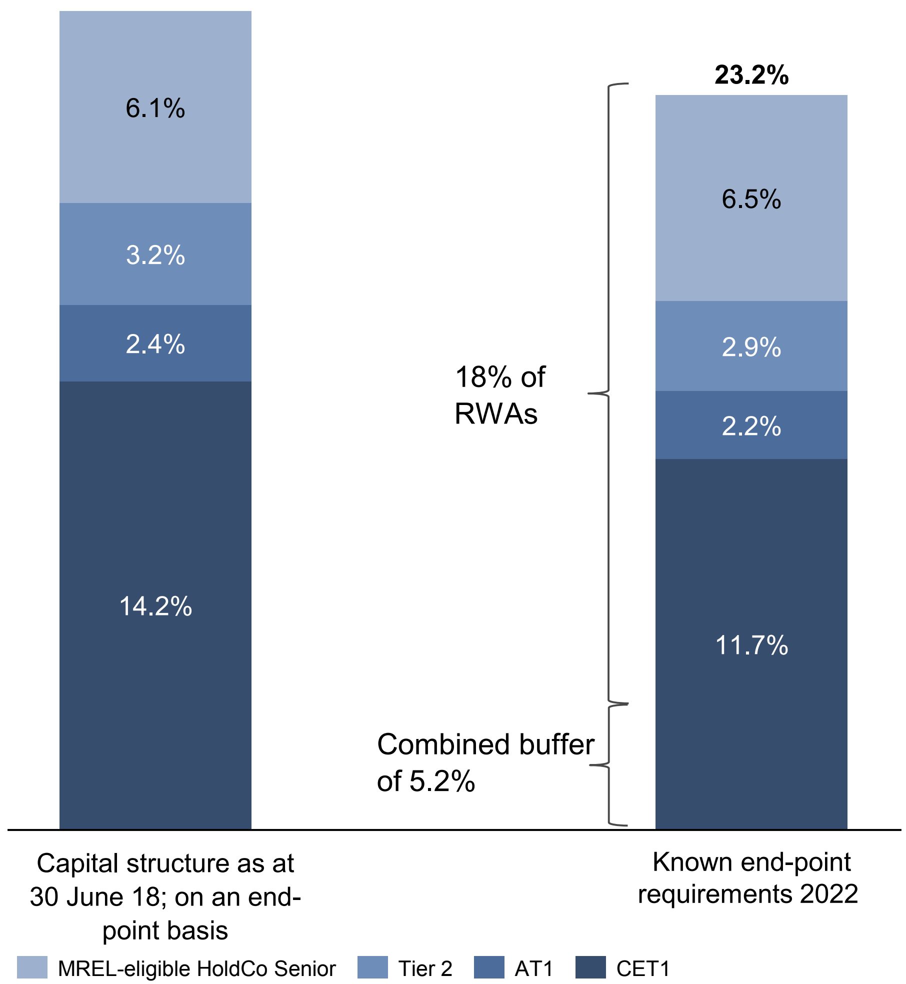
Common Equity Tier 1 ratio, versus Maximum Distributable Amount ("MDA")



- 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[8]

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[9] 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[10] 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

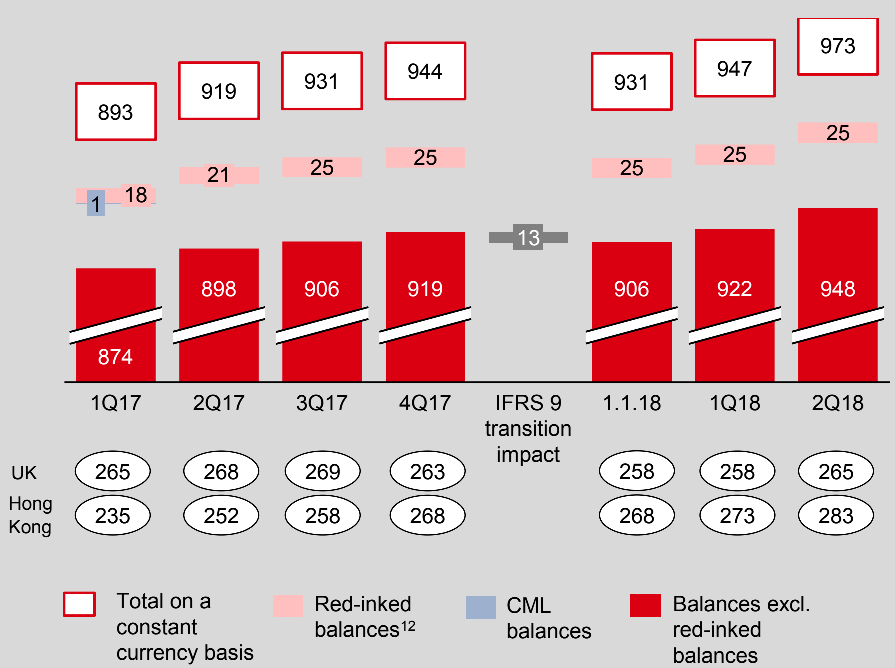
Customer lending

2Q18 Loans and advances to customers[11]

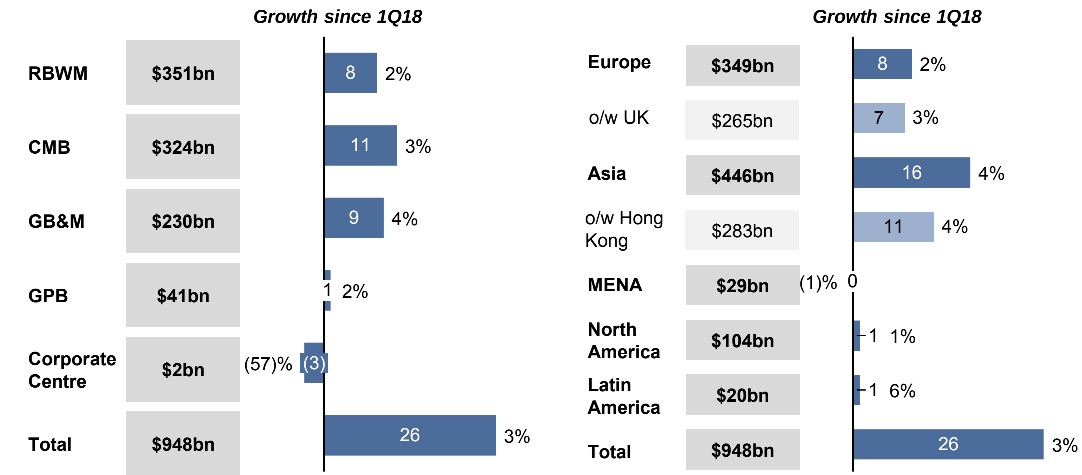
Balances increased by $26bn from 1Q18, reflecting:

- Continued lending growth in Asia ($16bn) primarily in Hong Kong in term lending in line with our strategic focus; Hong Kong mortgage growth of $2.4bn
- UK mortgage growth of $2.4bn

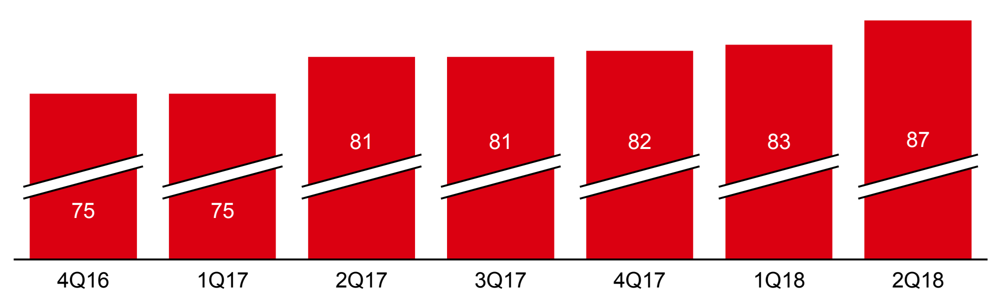
Loan growth compared with 1.1.18 of $43bn or 5%



2Q18 growth by global business and region excluding red-inked and CML balances



GTRF funded assets, $bn

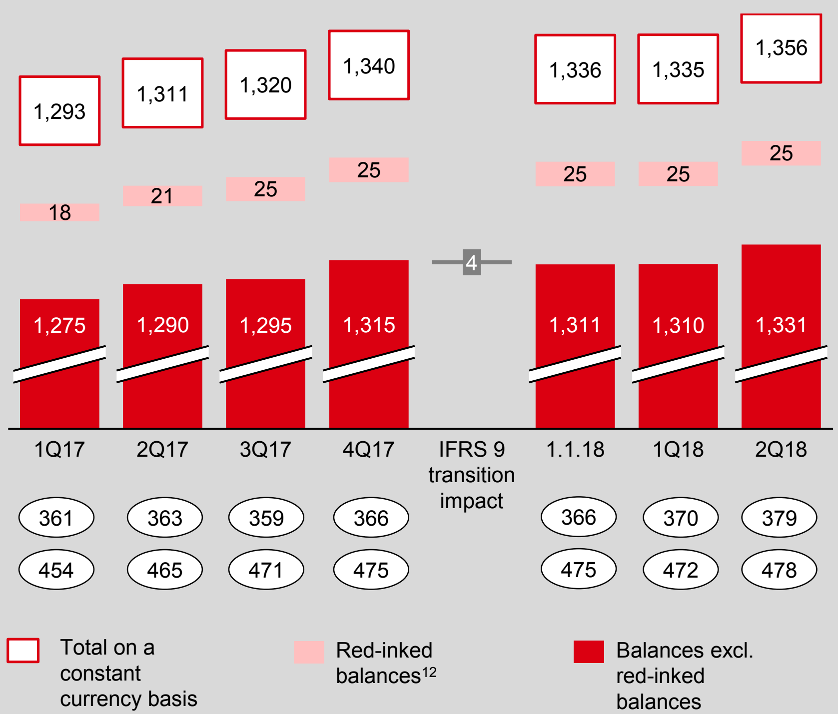


Customer accounts

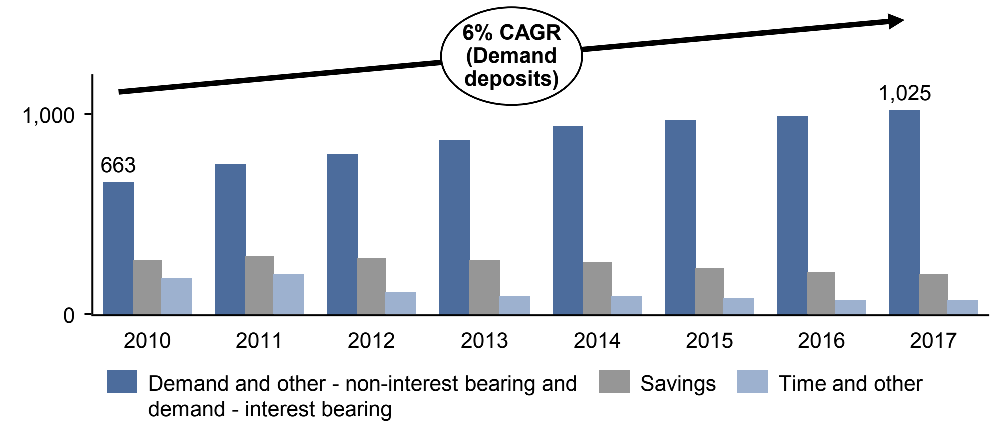
2Q18 Customer accounts[11], $bn

Balances increased $21bn in 2Q18:

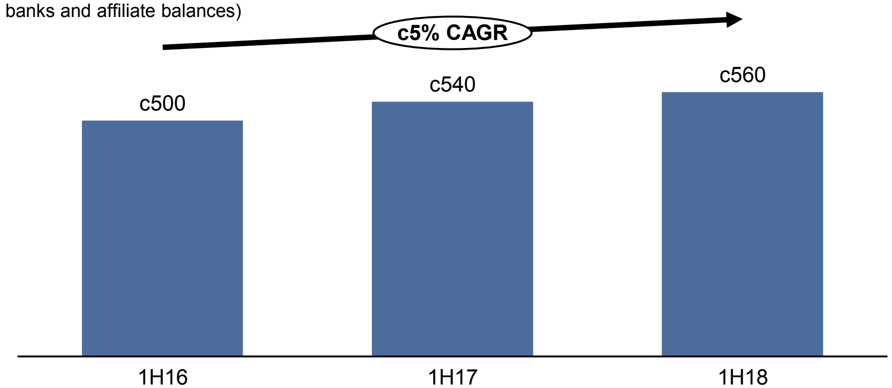
- Growth in Europe of $9bn, all in the UK from higher GLCM deposits
- Growth in Asia of $11bn mainly from Hong Kong ($6bn or 1%) largely from term deposits



Customer accounts[13], US$bn



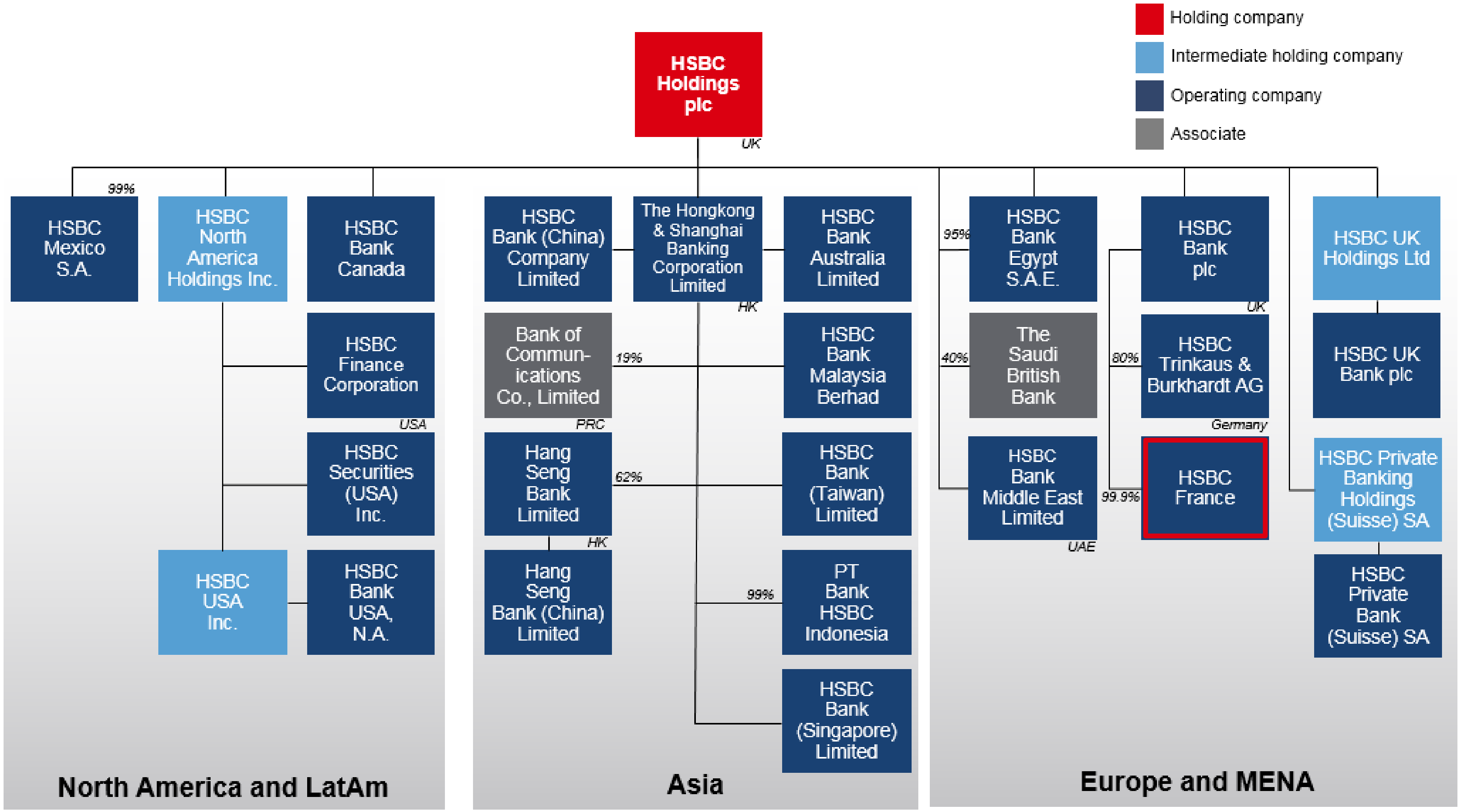
Average GLCM deposits, US$bn
(Includes banks and affiliate balances)



HSBC France key facts

HSBC

HSBC Group Legal Structure – Principal entities as of 1st July 2018



HSBC France – A key priority market for the Group

France

France is the 5th largest global economy based on GDP[14] and a key member of the eurozone. It also is the 5th largest trade nation[15] and it has a wealthy population, ranking 3rd in wealth per adult among large countries[16].

HSBC in France

- HSBC France is one of HSBC Group's scale markets with the 4th largest balance sheet by assets
- Gross customer loans of €45bn ($54bn) as at 30 June 2018, representing 6% of the Group
- Benefits from an international network
- Positioned as the largest foreign bank in the French market, by assets
- Acting as the HSBC Group's Global Markets centre of excellence in euro rate products
- Well-positioned in the context of Brexit. HSBC France acquired operations and subsidiaries in Greece, Poland and Ireland and will acquire operations in seven other EEA countries from HSBC Bank plc early 2019.

Our Global Businesses

RBWM	**Retail Banking and Wealth Management:** Personal Financial Services, Asset Management and Insurance activities
CMB	**Commercial Banking:** Banking products and services for businesses
GB&M	**Global Banking and Markets:** Banking and market support for large corporates, institutional investors and governments
GPB	**Global Private Banking:** Services to High Net Worth customers

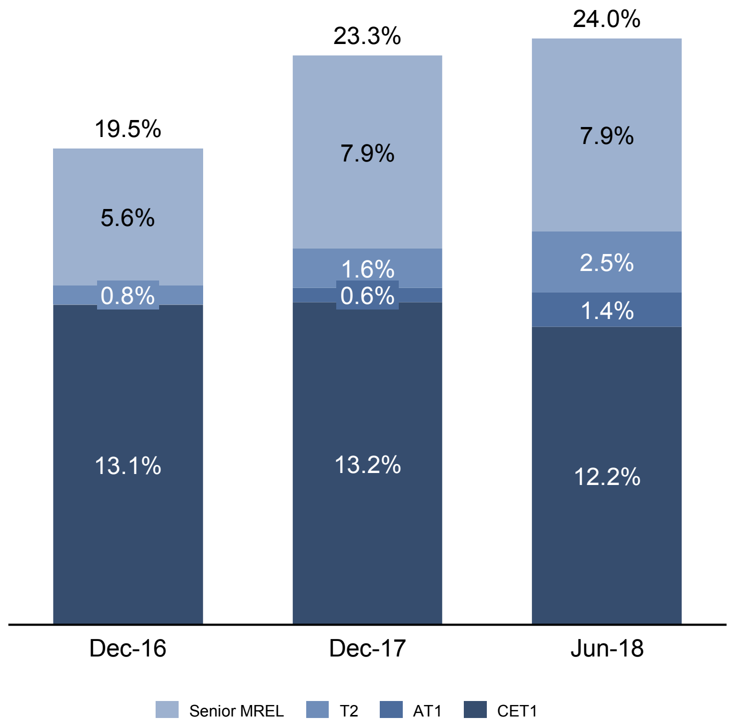
Strategy

- HSBC seeks to partner with French corporates in respect of their international development and retail clients for their wealth management needs
- HSBC France positions itself for future growth through a number of strategic investments:
  - Grow Global Markets revenues by intensifying client coverage in Europe, extending the scope of traded rates products, and leveraging technology and e-platforms to enhance sales
  - Grow its share of wallet on Corporates by leveraging specialised product teams and increase international business by focusing on key corridors (US, UK, China, Germany)
  - Implement an omni-channel model and improve customer experience in retail banking

Capital structure

HSBC France has enhanced its capital structure in 2017 and 2018 to support its business planning and strategic initiatives.

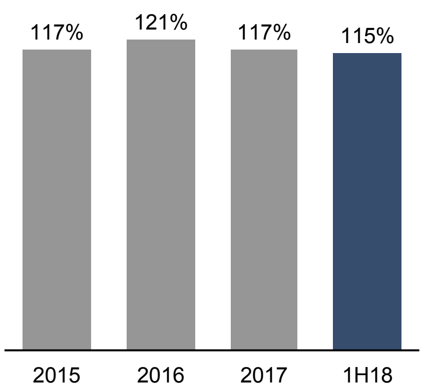
Capital and loss-absorbing instruments



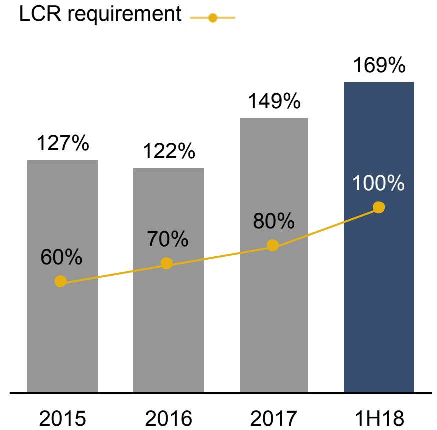
- HSBC France's capital position as at 30 June 2018:
  - CET1 ratio of 12.2%
  - Total Capital Ratio of 15.2% net of prudential deductions versus requirement of 12.6%
- Regulatory capital base further optimised during 2018:
  - Issued €0.3bn of AT1 and €0.3bn of Tier 2 capital to parent
- MREL strategy is on track with the issuance €2.8bn senior to parent in 2016 and 2017 intended to be converted into senior non-preferred (SNP) when MREL regulation is finalised, taking potential total loss-absorbing capacity up to €8.5bn, including the €0.3bn of AT1 and €0.3bn of Tier 2 issued in 1H 2018.

Liquidity and Funding

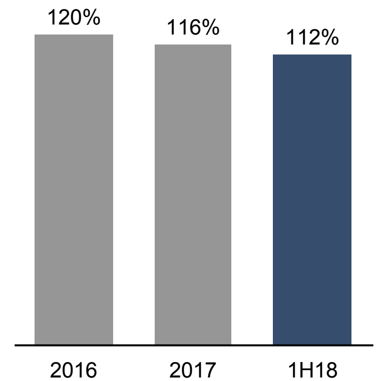
Advances / Deposits Ratio (ADR)



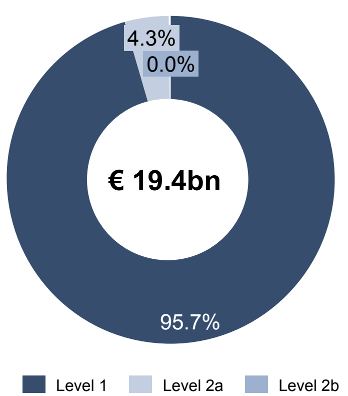
Liquidity Coverage Ratio (LCR)



Net Stable Funding Ratio (NSFR)



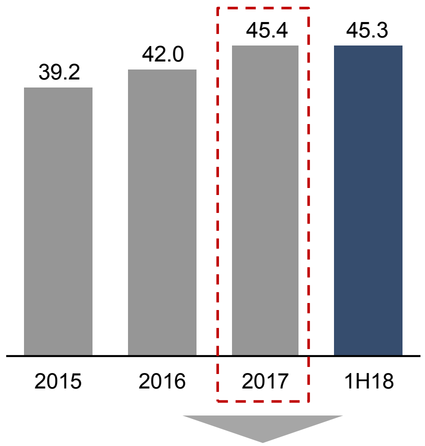
Liquid Asset Buffer – Dec 17



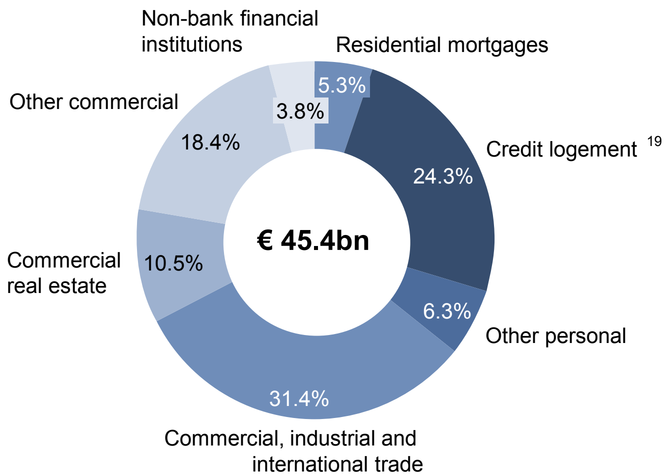
- HSBC France has a robust liquidity position and maintains its LCR and NSFR well above the regulatory minimum
- The Liquid Asset Buffer is mainly comprised of cash and government bonds
- HSBC France maintains a stable and diversified funding base, with around half of its Available Stable Funding (ASF) coming from customer deposits, and the remainder coming from a variety of different debt and capital instruments
- HSBC France has participated with €4.1bn in the TLTRO[17] program and through its covered bond vehicle HSBC SFH (France) has €4.6bn of covered bonds outstanding

Asset structure and quality

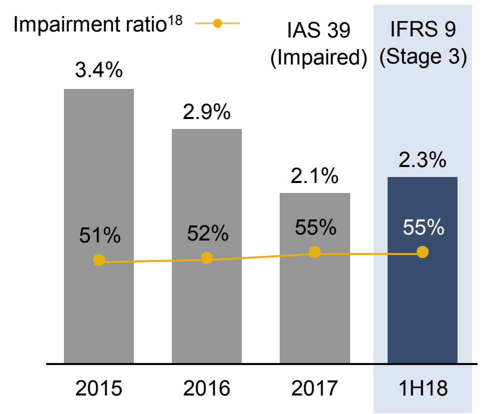
Gross loans and advances to customers, €bn



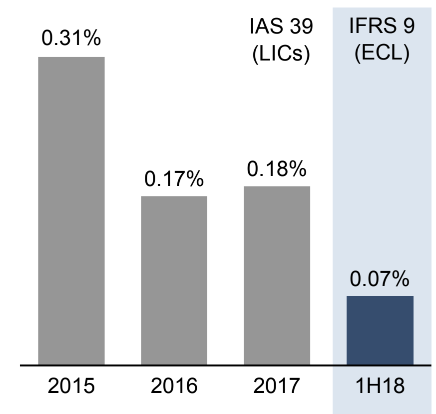
Gross loans and advances to customers by lending type



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



LICs as a % of total gross loans and advances to customers



- HSBC France has a conservative approach to risk management, consistent with the Group
- HSBC France has a high quality lending portfolio, with 82% of gross loans to customers of ‘Strong’ or ‘Good’ credit quality in 2017
- Impaired loans and LICs as a % of gross loans and advances to customers showing a decreasing trend over 2015 to 2017, and its 2018 ECL as a % of gross loan underlines the portfolio quality
- The impairment ratio continues to improve, with 55% of impaired loans covered by impairment allowances

1H18 HSBC France results[20]

	Global businesses and Corporate Centre					HSBC France
€m	**RBWM**	**CMB**	**GB&M**	**GPB**	**Corporate Centre**	
Revenue	406	259	218	27	(10)	**900**
ECL	(3)	(12)	(3)	1	2	**(15)**
Operating expenses	(409)	(185)	(211)	(23)	(26)	**(854)**
Profit before tax	(6)	62	4	5	(34)	**31**
€bn						
Reported RWAs[21]	4.6	11.1	16.7	1.0	0.6	**35.4**
Customer advances	18.9	12.0	12.0	2.2	(0.5)[22]	**44.6**
Customer deposits	16.8	11.0	11.1	0.9	(1.1)[22]	**38.7**
A/D ratio (%)	112%	109%	108%	228%	n/d	**115%**

External credit ratings

Long term senior ratings as at 30 June 18	Fitch		Moody's		S&P	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
HSBC Holdings plc	AA-	Stable	A2	Stable	A	Stable
HSBC Bank plc	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC France	AA-	Stable	Aa3	Stable	AA-	Stable
HSBC SFH (France)			Aaa	Stable	AAA	Stable

- HSBC France has strong ratings with a stable outlook from all three main rating agencies
- HSBC France is perceived by all the main rating agencies as a core strategic subsidiary of HSBC Group
- In September 2017, Moody's upgraded HSBC France from A2 to Aa3
- HSBC France has AA- Rating from S&P since 2011 and from Fitch since 2012

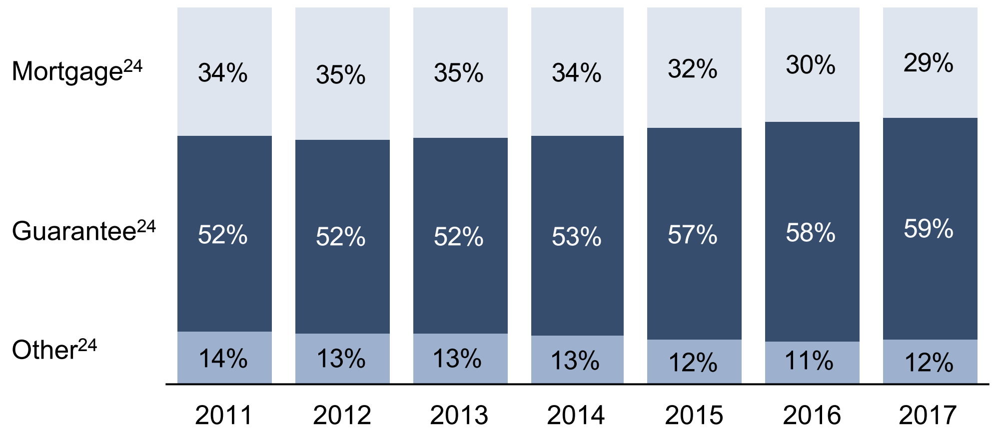
French home loan market

French home loans market

Typical loan characteristics

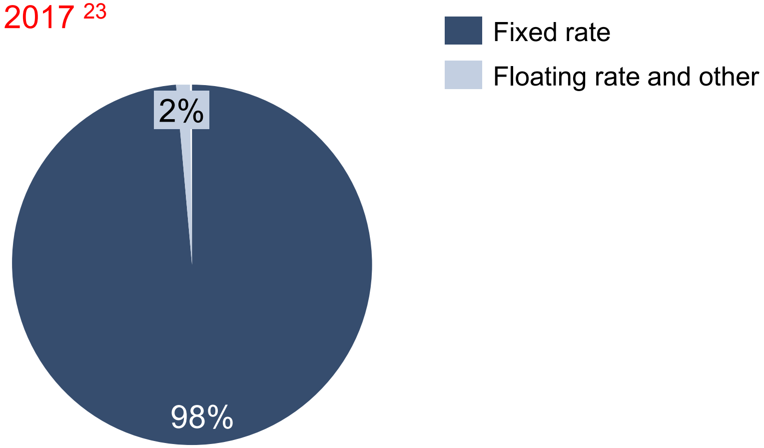
- Fixed rate for the entire length of the home loan
- Fully amortising, not “re-advanceable”
- Underwriting criteria primarily based on the creditworthiness of the borrower
- Compulsory life and disability insurance
- Institutional guarantees available in addition to traditional mortgages
- Low delinquency
- Regulated product environment

French market – home loan security type[23]

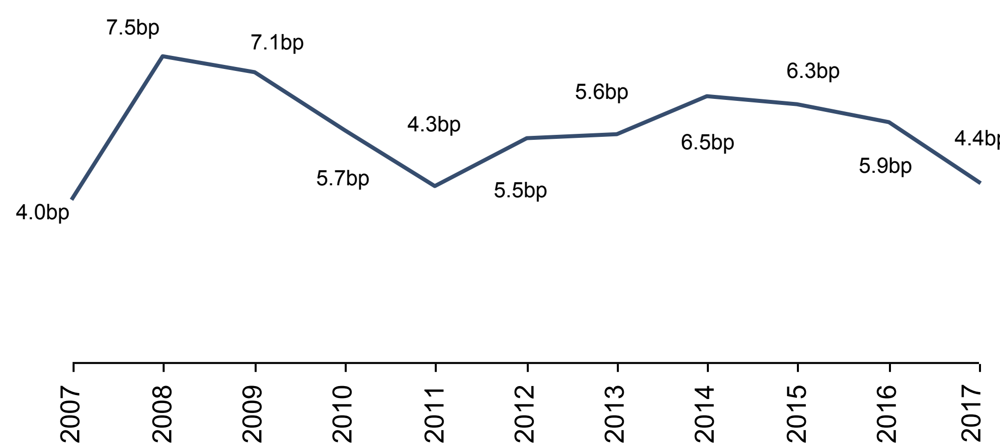


French market – home loan interest rate type

Production in 2017 [23]



Average loss rate[25] on home loans – French market[23]

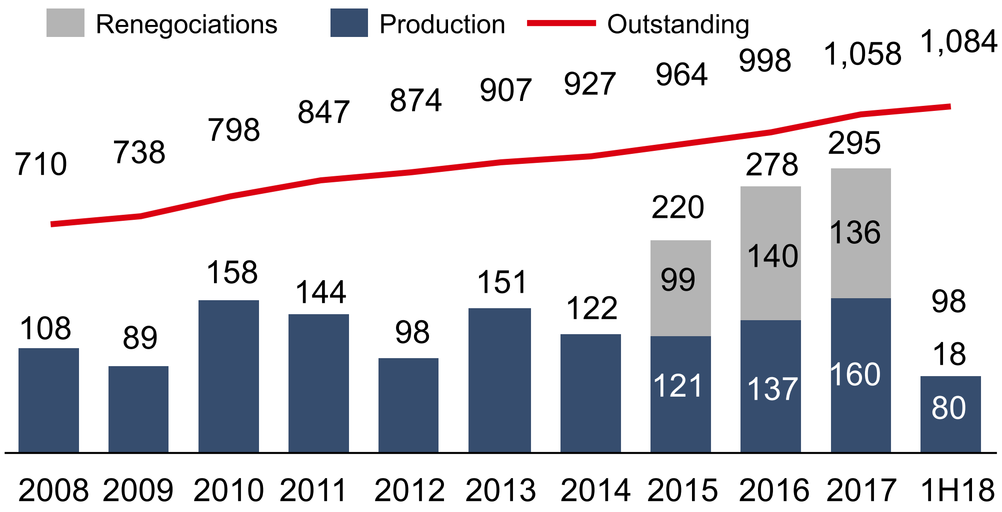


French home loans market

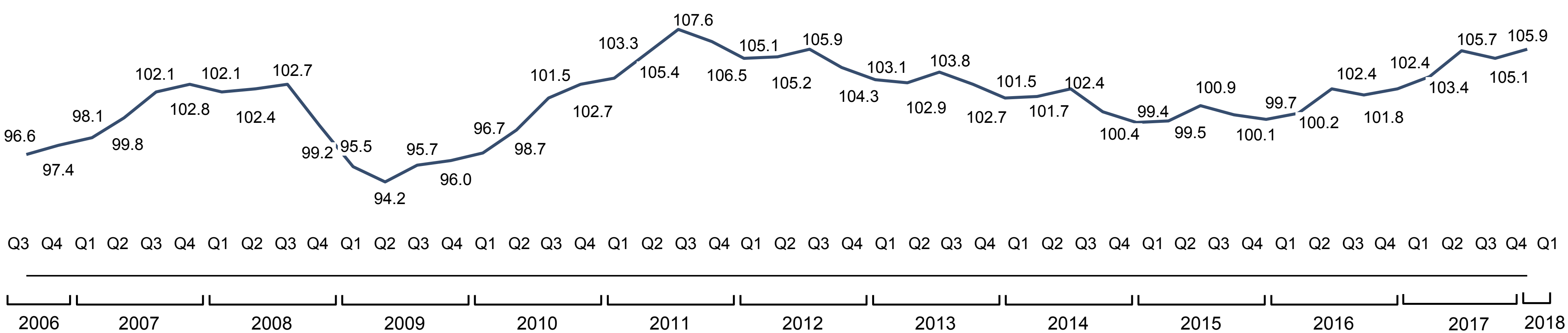
Market dynamics (2017) [23]

- In a context of sustained low borrowing rates, the housing has been very dynamic in 2017 in terms of volumes and prices. In a context where the number of transactions increased 15% over the year, home prices increased sharply in Paris (+8.6%) and in France (+3.9%). The sustained level of interest rates increased the purchasing power of all segments of borrowers.
- Production has been contrasted over the year, with a peak over 1H where the 12 rolling month growth was up to 59%, and a slowdown on the second half of the year.
- Borrowers preferred fixed rate loans (97.9% of new lending) and opted for slightly longer maturities (19y in 2017).
- The average LTV of all home loans increased slightly to 72.3% while the credit risk decreased with LICs observed on average at 4.4bps of outstanding loan balances in 2017[21].

Production and outstanding balance of home loans (EUR bn)[26]



French house price index (2015 average = 100)[27]



French home loans market

Guarantees as a distinctive characteristic of the French home loan market

- Home loans which are secured by a guarantee provided either by a selected financial institution or a selected insurance company represent the majority of the French home loan market (59.3% of outstanding home loans in 2017[23]).

Crédit Logement's business model

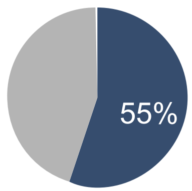
- Crédit Logement is an entity owned by France's major banks, providing guarantees to French home lending as an alternative to the more classic mortgage registration.

- **Main features for the lender**
  - A second risk review, with regular feedback to the lending institution:
    - Crédit Logement accepts or refuses each guarantee application following its independent credit review and scoring
    - Statistics are given on the lender's position (especially on risk) against Crédit Logement average
  - A complete financial guarantee
    - A complete alternative to the mortgage:
      - Crédit Logement guarantee is not limited to a first loss tranche
      - 100% of the amount of the loan is guaranteed
    - A complete range of guarantees.
      - From bridge loans to long term loans (up to 30 years)
      - For a maximum amount of EUR 2 million per loan or borrower
      - Also covers buy to let loans
  - A collections service takes over recovery of loans in default:
    - From the guarantee exercise, normally after three unpaid instalments
    - To the recovery completion (loan put back on track or totally repaid to the lending institution), with full collection carried out by Crédit Logement

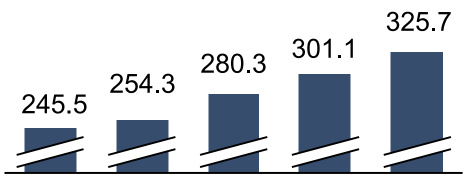
- **Advantages for the borrower**
  - Lower costs: mortgage registration costs are in general between 2.2% and 2.5% vs. a below 1% home loan guarantee fee
  - The administrative process is simplified at loan inception and maturity
  - Up to 75% of the guarantee fee is paid back to the borrower at maturity, if there is no payment incident during the life of the loan

French home loans market

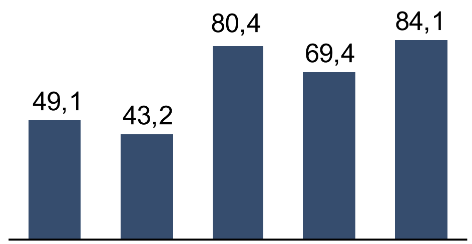
Crédit Logement is a major partner in the french home loan guarantee market



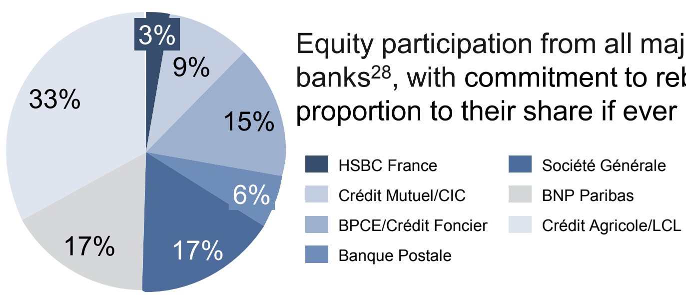
Proportion of 2017 French residential loans balance secured by a guarantee[28] excluding refinancing loans



Outstanding guaranteed balance (EUR bn)[28]



Enforced production (EUR bn)[28]



Equity participation from all major French retail banks[28], with commitment to rebuild capital in proportion to their share if ever necessary

Crédit Logement is a fully regulated financial institution with a strong balance sheet[28]

2.0%

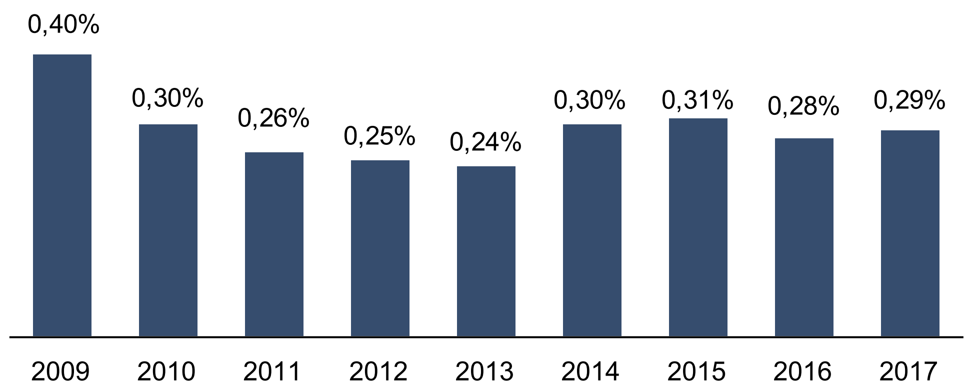
Minimum capital ratio required by the French ACPR for all guarantee providers[29]

2x

Coverage of the guaranteed portfolio credit risk by the EUR 5.3bn mutual guarantee funds (MGF)[28]

Aa3 (stable) / AA Low (stable)

Long-term ratings granted by Moody's and by DBRS

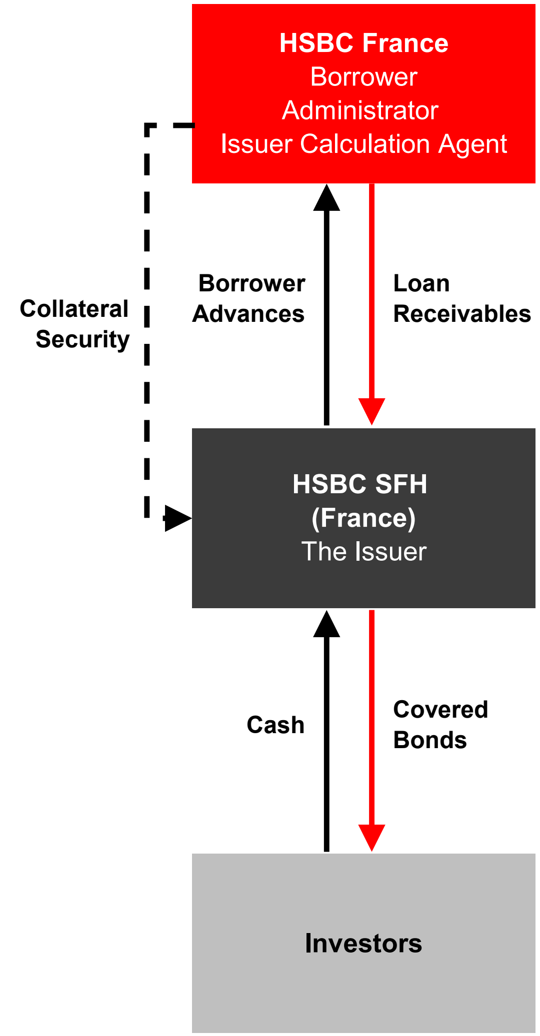


Average Estimated 1y Probability of Default

HSBC SFH (France)

Legal features and structure - Protecting Investors

- Dedicated issuing entity with a limited business purpose
  - Specialised credit institution licensed as a *Société de Financement de l'Habitat*, with a purpose limited by the law to the sole refinancing of eligible assets originated by the Borrower
  - Regulated by the European Central Bank (ECB) and the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR - French financial regulator)
- Specific insolvency regime[30]
  - Privilege (legal preferential claim and absolute seniority of payments over all creditors) granted to investors by the Art. L.513-11 of the French Financial and Monetary Code (FMFC) for covered bonds with the form of *Obligations de Financement de l'Habitat* (OH)
  - Regulated covered bonds exempted from bail-in (BRRD)
- Transfer of collateral[30]
  - Valid and enforceable legal transfer of full title as security under the European Collateral Directive and as per the collateral provisions of the articles L. 211-36 to L. 211-40 of the FMFC
  - Dual recourse on the cover pool and on HSBC France



HSBC France SFH legal framework

- Key provisions of SFH law
  - Requirement to cover all liquidity needs for the next 180 day period on an ongoing basis
  - Minimum 5% legal over-collateralisation of the cover assets
  - Possibility for the issuers to use up to 10% of outstanding issued covered bonds for direct repo operations with ECB
  - Guaranteed home loans:
    - The rating of the guarantor directly impacts the weighting of such home loans in the cover pool valuation
    - Guaranteed home loans secured by an "internal" guarantee (i.e. when the guarantor is at least 20% owned by the sponsor bank) are applied an additional 20% weighting haircut

Guarantor Rating	External Guarantor	Internal Guarantor
≥ A-	100%	80%
≥ BBB- and ≤ BBB+	80%	60%
< BBB- or not rated	0%	0%

  - *Obligations de financement de l'Habitat* (OH) investors benefit from the Privilege (statutory priority right of payment) over all the assets and revenues of the Issuer
  - OH are subject to strict criteria in terms of asset eligibility, supervision, control and license requirements

- The control over cover pool assets and guarantors are further tightened under the OH regime with the appointment of the specific controller, who publishes a yearly report to the Directors of HSBC SFH (France) on (i) the governance of the issuer, (ii) its ALM procedures, (iii) the eligibility of cover assets and (iv) the compliance with any other aspects of the law. This report is directly sent by the specific controller to the regulator. Moreover, the specific controller must certify any regulatory reporting sent to ACPR.

Programme features – Asset Cover Test

The Asset Cover Test (ACT)[31] is designed to ensure that the collateral constituted by home loans, cash and other collateral is able to meet the future cash flows (interest and principal) on the covered bonds (performed monthly by the calculation agent)

$$\text{Asset Cover Ratio} = \frac{\text{Adjusted Aggregate Asset Amount}}{\text{Aggregate Covered Bond Outstanding Principal Amount}} \geq 1$$

Whereby

Adjusted Aggregate Asset Amount =

Lower of:

Adjusted Home Loan Outstanding Principal Amount

And

(Sum of all Unadjusted Home Loan Outstanding Principal Amounts – Applicable Deemed reductions)

X

Asset Percentage

Plus

Cash
+
Aggregate Eligible Substitution Assets Amount
+
Aggregate Value of Permitted Investments

Less

Zero Or Potential financing costs of the swap

Plus

Weighted Average Maturity x Covered Bond Outstanding Principal Amount x Carrying Cost

Programme features – Amortisation Test

The Amortisation Test[31 32] is designed to ensure that the Issuer has the capacity to meet its commitments following the enforcement of the Borrower Event of Default. Compliance with the Amortisation Test requires compliance with the Amortisation Ratio (RA)

$$\text{Amortisation Ratio} = \frac{\text{Transferred Aggregate Asset Amount}}{\text{Aggregate Covered Bond Outstanding Principal Amount}} \geq 1$$

Whereby

Transferred Aggregate Asset Amount =

Sum of all:

Transferred Home Loan Outstanding Principal Amount[1]
X
M
(M=1 if loan less than 3 months in arrears;
M=0.7 if loan 3 months or more in arrears)

Plus

Cash
+
Aggregate Eligible Substitution Assets Amount
+
Aggregate Value of Permitted Investments

Less

Weighted Average Maturity x Covered Bond Outstanding Principal Amount x Carrying Cost

Programme features – Structural highlights

Pre-maturity test

- Designed to ensure that the Borrower can provide sufficient liquidity in case of a downgrade
- If, 180 days before the maturity of any series of hard bullet Covered Bonds, the Borrower's rating is below A (long term) by S&P or P-1(cr) (short term) by Moody's, the Borrower must fund the cash collateral account to a sufficient level calculated by the Issuer Security agent as the Covered Bond Principal Amount + Costs
- A non-compliance with the Pre-Maturity Test will prevent the Issuer from issuing any further series of Covered Bonds as long as it remains un-remedied. A failure to fund the cash collateral account to the required level within 30 calendar days of receipt of a notice of non-compliance will result in a Borrower Event of Default

Accounts agreement

- HSBC France provides bank accounts to the Issuer as long as it is an eligible bank for the rating agencies

Asset servicing

- HSBC France will perform the Asset Servicing and will provide HSBC SFH (France) with asset reporting

Commingling risk

- A cash collateral reserve will be placed under a specific account (the "Collection Loss Reserve Account") in case of downgrade of HSBC France below BBB (long term) by S&P or P-1(cr) (short term) by Moody's

Programme features – Key events

Borrower Event of Default

- The occurrence of any of the following events will constitute a Borrower Event of Default
  - Default in the payment of principal or interest on any Borrower Facility not remedied within 3 business days after the due date
  - Breach of Pre-Maturity Test
  - Breach of Asset Cover Test
  - Breach of Collection Loss Reserve Funding requirement
  - Any material representation or warranties made by the Borrower is incorrect in any material aspect
  - Failure to comply with any of the Borrower’s material obligations
  - Occurrence of Insolvency Event
  - Any of the Borrower’s material obligations becomes unlawful or ceases to be legal, valid and binding

- A Borrower Event of Default will result in a Borrower Enforcement Notice
  - No further Borrower advances shall be available
  - Borrower advances become due and payable
  - Enforcement of the Borrower Facility with a transfer of assets to the Issuer

Programme features – Key events

Issuer Event of Default

- The occurrence of any of the following events will constitute an Issuer Event of Default
  - Breach of Amortisation Test
  - Default in the payment of principal or interest on any Covered Bond not remedied within 5 business days after the due date
  - Default in the performance or observance of any of its other material obligations not remedied within 30 days after receipt by Fiscal Agent
  - Covered Bonds Cross Acceleration Event
  - Order made for the liquidation or winding up the Issuer
  - Occurrence of Insolvency Event
  - The Issuer ceases to carry on all or a material part of business

- An Issuer Event of Default will result in an Issuer Enforcement Notice
  - An Issuer Enforcement Notice causes the principal amount of all Covered Bonds of such Series to become due and payable, subject to the relevant Payment Priority Order

Programme features – Key events

No further issuance

- The Issuer undertakes not to issue any new Covered Bonds under the Programme
  - As from the date a Borrower Enforcement Notice has been served
  - As from the date an Issuer Enforcement Notice has been served
  - For so long as Non-Compliance with Asset Cover Test has occurred and is not remedied
  - For so long as Non-Compliance with Amortization Test has occurred and is not remedied
  - For so long as, regarding the Pre-Maturity Test, a Non-Compliance Notice has been delivered and is not withdrawn

Programme features – Cash flow priorities

Pre-Enforcement Priority Payment Order

Prior to any enforcement notice being served

1. Interest amounts due on the Covered Bonds
2. Principal amounts due on the Covered Bonds
3. Fees due and payable to the Administrator and the Servicer
4. Amounts due and payable to the Cash Collateral Provider
5. Other administrative and tax costs
6. Dividend to the Issuer's shareholders and any payment under the subordinated loan

To be paid on any Payment Date

Controlled Post-Enforcement Priority Payment Order

In the event of service by the Issuer to the Borrower of a Borrower Enforcement Notice

1. Interest amounts due on the Covered Bonds
2. Principal amounts due on the Covered Bonds
3. Fees due and payable to the Administrator and the Servicer
4. Amounts due and payable to the Cash Collateral Provider
5. Other administrative and tax costs
6. Subject to full repayment of any outstanding Covered Bonds, distribution of remaining enforcement proceeds to the Borrower and payment of dividend to the Issuer's shareholders and any payment under the subordinated loan

In the event of service by the Issuer

Accelerated Post-Enforcement Priority Payment Order

An Issuer Event of Default will result in an Issuer Enforcement Notice and an Accelerated Post-Enforcement Priority Payment Order

1. Interest amounts due on the Covered Bonds
2. All principal outstanding amounts under the Covered Bonds
3. Fees due and payable to the Administrator and the Servicer
4. Amounts due and payable to the Cash Collateral Provider
5. Other administrative and tax costs
6. Subject to full repayment of any outstanding Covered Bonds, distribution of remaining enforcement proceeds to the Borrower and payment of dividend to the Issuer's shareholders and any payment under the subordinated loan

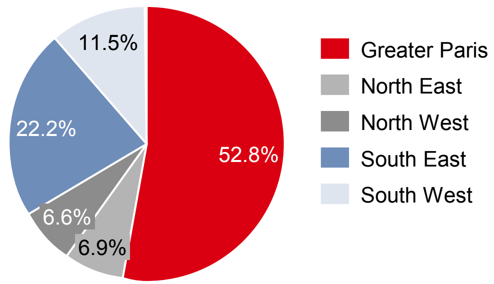
Instruction to pay to be given within three business days of receipt of Issuer Enforcement Notice

Cover Pool – Cash flow priorities high quality and diversified collateral

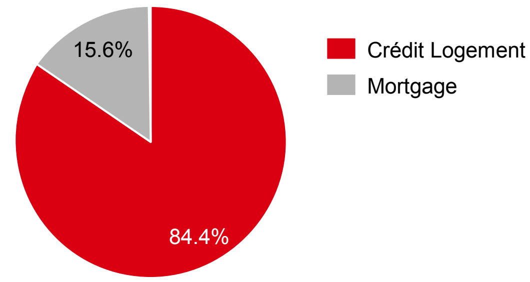
Main cover pool metrics[1]

Pool notional	EUR 5.9bn
Collateral	100% prime home loans
Number of loans	39.2k loans
Average loan balance	EUR 149k
Max loan amount	EUR1m
WA seasoning	38 months
WA remaining term	161 months
WA indexed LTV	61.0%

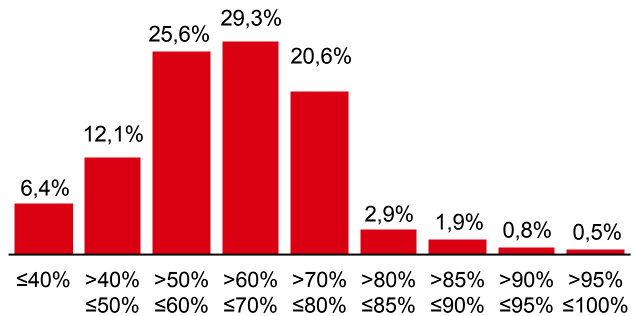
Regional distribution[1] [33]



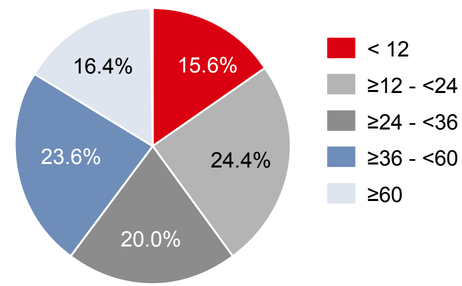
Loan security[1]



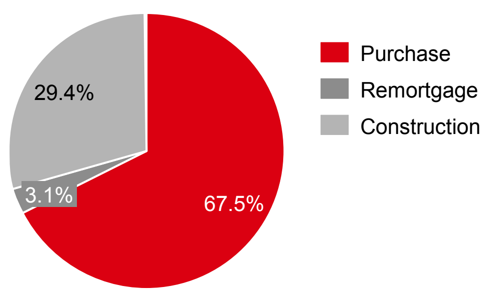
LTV range[1]



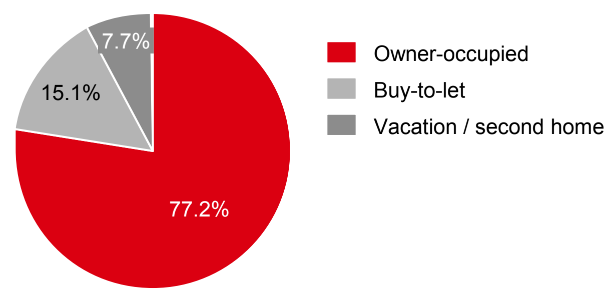
Seasoning[1]



Loan purpose[1]



Occupancy type[1]



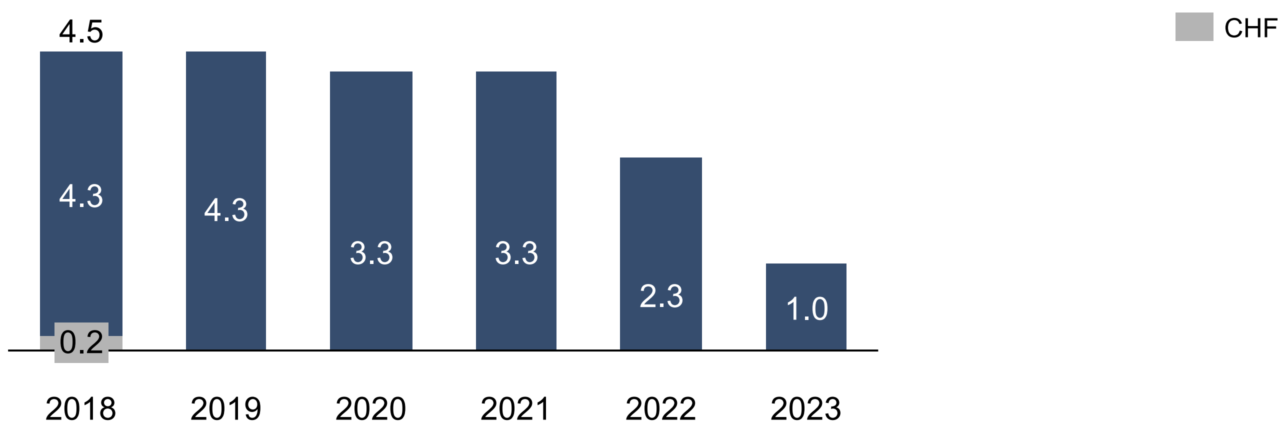
Funding Strategy

Rationale for covered bonds issuance

- Fund asset growth and refinance maturing debt
- Manage HSBC France's consolidated liability maturity profile
- Diversify investor base
- Reduce overall cost of funds
- Use as collateral for refinancing operations

HSBC SFH year end covered bonds balances[34]

EUR bn, as at 30 June 2018

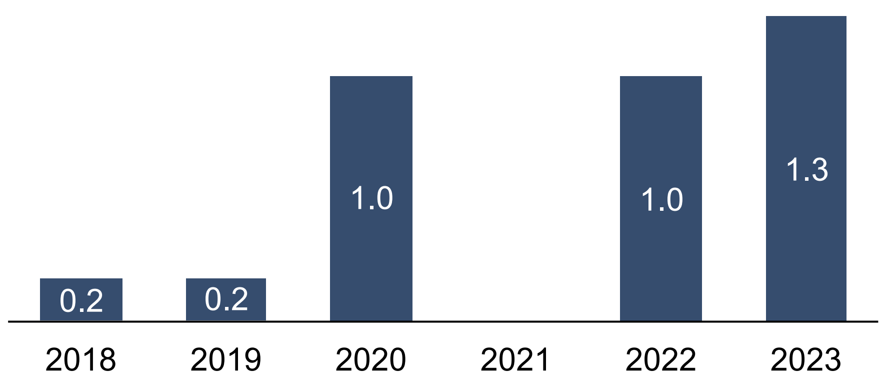


Covered bonds issuance strategy

- Mainly public benchmark series on various medium and long term maturities
- Issuance mainly in EUR denominated units, with the ability to issue in other major currencies
- Hard or soft bullets
- Public issuance, private placement or retained series

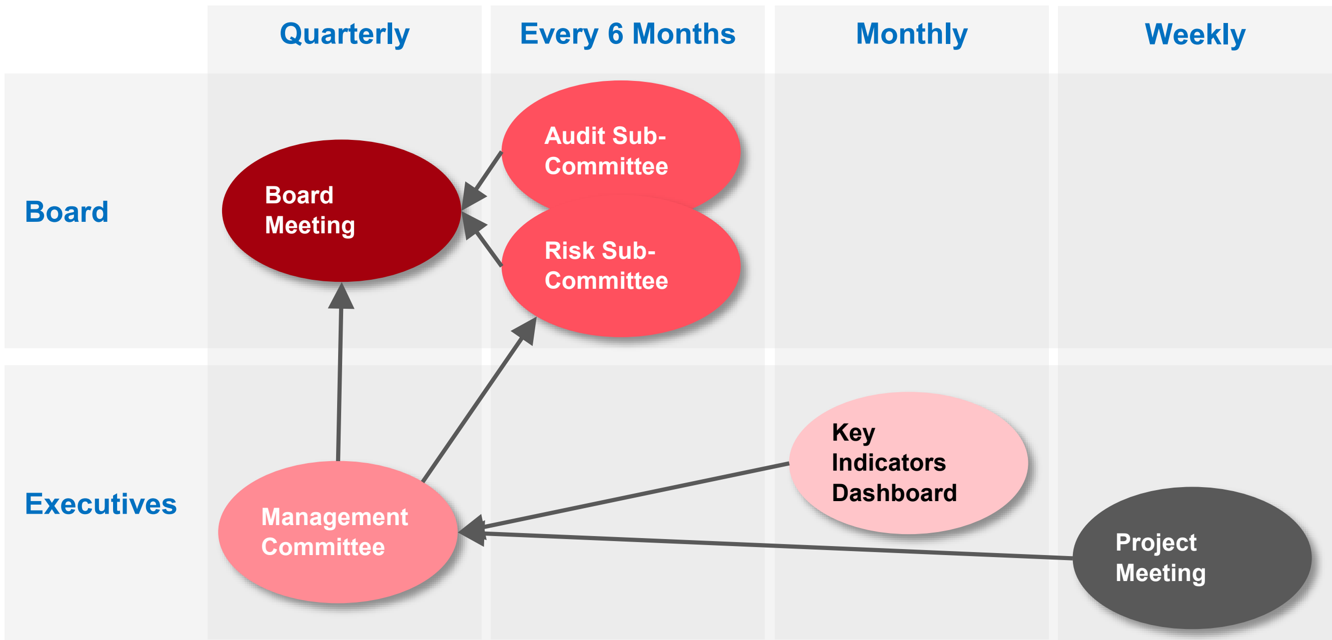
HSBC SFH covered bonds redemption profile[34]

EUR bn, as at 30 June 2018



Legal entity governance – Strong internal supervision and risk management

- Specific governance dedicated to SFH
- Board and sub-committees of the board
  - set risk appetite
  - review evolution of the structure against these limits
- Management committee involving all stakeholders
  - decides on project priorities
  - reviews collateral availability and quality
  - monitors identification / resolution of operational issues
- Monthly supervision of the structure performance and risks
- Weekly monitoring of project progress



Appendix

Home loan eligibility criteria[35]

a. All lending criteria and conditions precedent as applied by the originator of the Home Loan pursuant to its customary lending procedures were satisfied

b. The purpose of the Home Loan is either to buy, to renovate, to build or to refinance a residential real estate property

c. The underlying property is located in France

d. The Home Loan is governed by French law

e. The Home Loan is denominated in Euro

f. The Home Loan bears a fixed interest rate

g. All sums due under the Home Loan (including interest and costs) are secured by a fully effective Home Loan Security

h. When the relevant Home Loan is guaranteed by a Home Loan Guarantee, the borrower is contractually prevented from constituting a Mortgage on the underlying property without the previous consent of the originator

i. On the relevant Selection Date, the current principal balance of such Home Loan is no more than EUR1m

j. On the relevant Selection Date, the loan-to-value of the Home Loan is no more than 100%

k. When the relevant Home Loan is guaranteed by a Home Loan Guarantee, on the date upon which it has been made available to the borrower thereof, the loan-to-income ratio (*taux d'effort*) of this borrower was not above 33%;

l. On the relevant Selection Date, the remaining term for the Home Loan is less than 30 years

m. On the relevant Selection Date, the borrower under the Home Loan has paid at least 1 instalment in respect of the Home Loan

n. the borrower under the relevant Home Loan is either (i) an individual who is not an employee of the originator of such relevant Home Loan or (ii) a "*SCI patrimoniale*" (provided that the shareholders of such SCI shall only be individuals)

o. The Home Loan is current (i.e. does not present any arrears) as at the relevant Selection Date

p. The Home Loan is either monthly or quarterly amortizing as at the relevant Selection Date

q. The borrower under the Home Loan does not benefit from a contractual right of set-off

r. The opening by the borrower under the Home Loan of a bank account dedicated to payments due under the Home Loan is not a condition precedent to the originator of the Home Loan making the Home Loan available to the borrower under the Home Loan

s. Except where prior Rating Affirmation has been obtained, no amount drawn under the Home Loan is capable of being redrawn by the borrower thereof (i.e. the Home Loan is not flexible)

Glossary

CET1	Common Equity Tier 1
CMB	Commercial Banking, a global business
CML	Consumer Mortgage Lending portfolio
FMFC	French Monetary and Financial Code
GB&M	Global Banking and Markets, a global business
GLCM	Global Liquidity and Cash Management
GPB	Global Private Banking, a global business
GTRF	Global Trade and Receivables Finance
HTT	Harmonised Transparency Template
IFRS	International Financial Reporting Standard
Jaws	A ratio which measures the difference between the rates of change for revenue and costs
LICs	Loan Impairment charges and other credit risk provisions
MDA	Maximum Distributable Amount
MENA	Middle East and North Africa
MREL	Minimum requirement for own funds and eligible liabilities
NAV	Net Asset Value

OH	Obligations de Financement de l'Habitat
PBT	Profit before tax
PRD	Pearl River Delta
RBWM	Retail Banking and Wealth Management, a global business
RoE	Return on Equity
RoTE	Return on Tangible Equity
RWA	Risk-Weighted Asset
TLTRO	Targeted Longer-Term Refinancing Operations
Transaction Banking	Products including Foreign Exchange, GLCM, GTRF and Securities Services

Footnotes

1. HSBC SFH Investor Report, Selection on 30 June 2018
2. HSBC SFH (France) believes that, at the time of its issuance and based on transparency data made publicly available by HSBC SFH (France), these covered bonds would satisfy the eligibility criteria for Article 129(7) of the Capital Requirements Regulation (EU) 648/2012. It should be noted, however, that whether or not exposures in the form of covered bonds are eligible to preferential treatment under Regulation (EU) 648/2012 is ultimately a matter to be determined by a relevant investor institution and its relevant supervisory authority and HSBC SFH (France) does not accept any responsibility in this regard.
3. Annualised
4. Unless otherwise stated, risk-weighted assets and capital are calculated using (i) the CRD IV transitional arrangement as implemented in the UK by the Prudential Regulation Authority; and (ii) EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation. Figures at 31 December 2017 are reported under IAS 39
5. This table excludes POCI balances and related allowances. Full details can be found on page 55 of the 1H18 Interim Report
6. Pro forma buffer to MDA trigger based on RWAs and CET1 capital resources at 30 June 2018
7. Pillar 2A requirements are shown as applicable on 30 June 2018 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 July 2018); 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.
8. 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 recapitalise 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 (updating November 2016). 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 the outcome and timing of these amendments, alongside the UK withdrawal from the EU.
9. End-point MREL requirements calculated as a % of Group consolidated RWAs. The Bank of England (BOE) has written to HSBC outlining its current expectation with regard to the Group’s Multiple Point of Entry resolution strategy and the Group’s indicative MREL to be met by 2019 and 2022. The Group’s MREL requirements are expected to be set at the higher of (i) 16% of RWAs (consolidated) from 1 Jan 2019 and 18% of RWAs (consolidated) from 1 Jan 2022; (ii) 6% of leverage exposures (consolidated) from 1 Jan 2019 and 6.75% from 1 Jan 2022; and (iii) the sum of requirements relating to our resolution groups, and entities/sub-groups located outside these resolution groups, which are not fully known.
10. 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.
11. Balances presented by quarter are on a constant currency basis. Reported equivalents for ‘Loans and advances to customers’ are as follows: 1Q17: $876bn, 2Q17: $920bn, 3Q17: $945bn, 4Q17: $963bn, 1Q18: $981bn, 2Q18: $973bn. Reported equivalents for ‘Customer Accounts’ are as follows: 1Q17: $1,273bn, 2Q17: $1,312bn, 3Q17: $1,337bn, 4Q17: $1,364bn, 1Q18: $1,380bn, 2Q18: $1,356bn
12. Red-inked balances relate to corporate customers in the UK, who settle their overdraft and deposit balances on a net basis. CMB red-inked balances 1Q17: $5bn, 2Q17: $5bn, 3Q17: $6bn, 4Q17: $6bn,1Q18: $6bn, 2Q18: $6bn; GB&M red-inked balances: 1Q17: $13bn, 2Q17: $16bn, 3Q17: $18bn, 4Q17: $20bn, 1Q18: $19bn, 2Q18: $20bn
13. Source: Form 20-F; Average balances on a reported basis

Footnotes

14. Source: IMF (June 2018)
15. Source: Global Insights (Import + Export 2016)
16. Source: Wealth per adult among Top 10 GDPs (Credit Suisse Global Wealth Databook 2017)
17. TLTRO: Targeted long-term refinancing operations
18. Impairment ratio is calculated as Impairment allowances / Total impaired loans
19. Crédit Logement is a French nationwide home loans guarantee scheme regulated by the French regulatory authority, the ACPR. It provides robust guarantees to lenders against the risk of borrower default
20. All numbers presented are on an adjusted basis unless otherwise stated
21. As at December 2017, including Basel 1 floor impact of €1.3bn, which is not included within the Global Business or Corporate Centre
22. Relates to intragroup balances
23. Source: Annual study of the French Autorité de Contrôle Prudentiel et de Résolution on Home loans – 2017 (published on 12 July 2018)
24. Mortgage: 1st lien mortgage
    Guarantee: Commitment to bear the credit risk provided by a credit institution or an insurance company
    Other: Other types of security (eg. pledge of securities portfolio) and no security
25. Loan impairment charges to total average home loans outstanding balances
26. Source: Banque de France Webstat
    Outstanding: serie BSI1.M.FR.N.R.A220Z.A.1.U6.2250.Z01.E
    Production: serie MIR1.M.FR.B.A22.A.Y.A.2250U6.EUR.N
    Production excluding renegociations: serie MIR1.M.FR.B.A22HR.A.5.A.2254U6.EUR.N
27. Source: INSEE – Indice de prix des notaires (notary index on home prices), nationwide series ref 10001868
28. Source: Annual Report Crédit Logement 2017
29. Requirement as of 1 January 2018, to compare with an average cost of risk of 6bps as per the Annual study of the French Autorité de Contrôle Prudentiel et de Résolution on Home loans – 2016
30. Insolvency protection and security enforcement in case of bankruptcy of HSBC France based on the legal framework of the Sociétés de Crédit Foncier (SCF) (articles L513-2 to L513-27 of the French Monetary and Financial Code – FMFC) and of the Sociétés de Financement de l'Habitat (SFH) (articles L513-28 to L513-33 of the FMFC)
31. Please refer to the Asset Monitoring section of the prospectus for the detailed definitions
32. All Home Loans title to which has been transferred to the Issuer upon enforcement of the Borrower Collateral Security following the enforcement of a Borrower Event of Default
33. Greater Paris = Ile-de-France
    North East = Alsace, Bourgogne, Champagne-Ardenne, Franche-Comté, Lorraine, Nord-Pas-de-Calais
    North West = Basse-Normandie, Bretagne, Haute-Normandie, Pays-de-la-Loire, Picardie
    South East = Auvergne, Corse, Limousin, Provence-Alpes-Côte d'Azur, Rhône-Alpes
    South West = Aquitaine, Centre, Languedoc-Roussillon, Midi-Pyrénées, Poitou-Charentes
34. Source: HSBC SFH Investor website https://www.about.hsbc.fr/fr-fr/investor-relations/hsbc-sfh-france
35. Source: HSBC SFH Base Prospectus

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www.hsbc.com/investor-relations

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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.

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Cover image: Guangzhou is located at the heart of China’s Pearl River Delta, one of the country’s fastest growing economic regions.

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