HSBC SFH (France)

Investor Presentation – April 2018

Contents

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

61.7% Average Indexed LTV[1]

- 100% prime home loans, all fixed-rate, with first-lien mortgage (15%) or guaranteed by *Crédit Logement* (85%)[1]
- 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 42k loans[1]
- Voluntary over-collateralisation of 111.1%, above the regulatory minimum of 105%
- Weighted average indexed LTV at 61.7%

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 2017 performance

Our highlights

2017 Full Year highlights

Reported PBT
(2016: $7.1bn)
$17.2bn

Adjusted PBT
(2016: $18.9bn)
$21.0bn

Reported RoE
(2016: 0.8%)
5.9%

Reported RoTE
(2016: 2.6%)
6.8%

A/D ratio
(2016: 68.2%)
70.6%

CET1 ratio[3]
(2016: 13.6%)
14.5%

4Q17 financial performance

- Reported PBT of $2.3bn was $5.7bn higher than 4Q16
- Adjusted PBT of $3.6bn up $0.8bn vs. 4Q16:
  - Revenue of $12.4bn up $1.1bn or 10%
    - RBWM up $366m or 8% primarily from increased deposit revenue; excluding favourable market impacts in insurance manufacturing, revenue increased by 6%
    - CMB up $349m or 11% mainly from our GLCM business
    - GB&M down $323m or 9% and included adverse credit and funding valuation movements; Global Markets revenue was down $300m or 19% reflective of the subdued trading conditions; GLCM and Securities Services continued to perform well
    - Corporate Centre up $695m as 4Q16 included significant adverse valuation differences on long-term debt and associated swaps, compared with minimal movements in 4Q17
  - LICs increased by $188m mainly driven by two individual corporate exposures
  - Increase in operating costs of 2% in part reflecting planned investment in business growth

Full year

- Reported PBT of $17.2bn was $10.1bn higher than 2016
- Adjusted PBT of $21.0bn was $2.1bn or 11% higher than 2016 with gains in all four global businesses
- Adjusted revenue of $51.5bn was $2.2bn or 5% higher than 2016 reflecting increases in our three main global businesses: increased deposit margins across RBWM and CMB; revenue growth in all GB&M businesses, notably GLCM and Securities Services
- Adjusted costs of $31.1bn increased by $1.1bn or 4% from an increase in investments for growth and performance-related pay
- Delivered positive jaws of 1.0%

Balance Sheet and capital

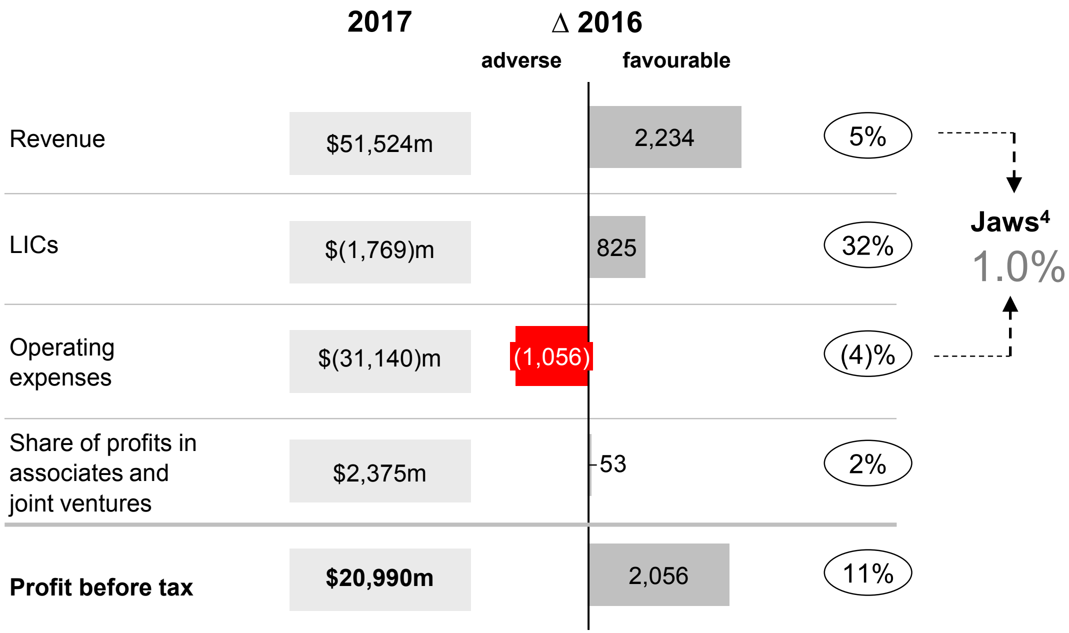
- $12bn or 1% lending growth since 3Q17 (excluding CML run-off and red-inked balances); $20bn or 2% growth in deposit balances
- Strong capital position with a CET1 ratio of 14.5% and a leverage ratio of 5.6%
- $1.6bn impact to NAV ($1.3bn through the Income Statement; $0.3bn through OCI) and 9bps impact to CET1 following US tax reforms
- Share buybacks as and when appropriate, subject to the execution of targeted capital actions and regulatory approval
- Additional Tier 1 capital issuance of between $5bn and $7bn planned during the first half of 2018

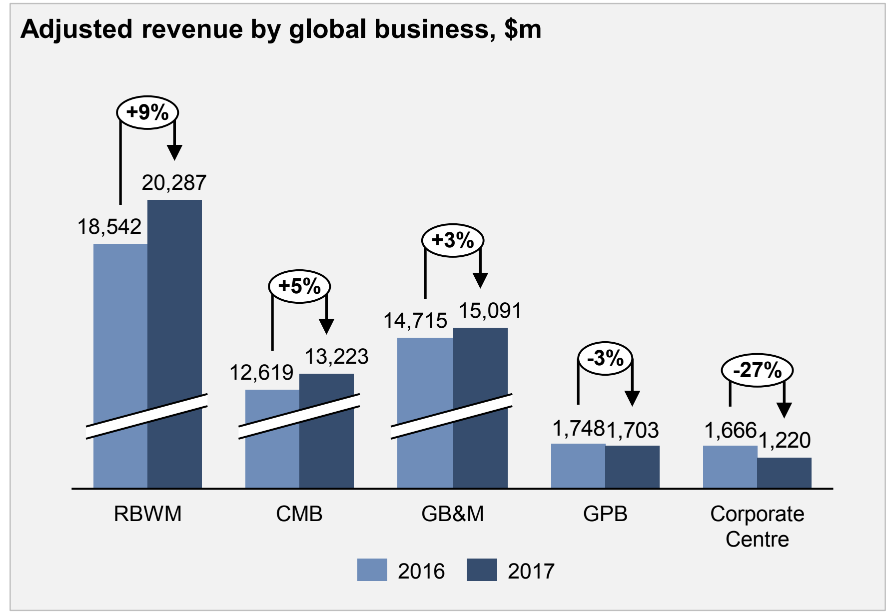
Strategy execution

- Delivered growth from our international network with a 6% increase in transaction banking product revenue and a 13% rise in revenue synergies between global businesses compared with 2016
- Achieved annualised run-rate savings of $6.1bn since our Investor Update in 2015, while continuing to invest in growth and regulatory programmes and compliance; 2017 exit run-rate in line with 2014 adjusted cost base
- Targeted initiatives removed a further $71bn of RWAs in 2017. Exceeded our RWA reduction target; extracting a total of $338bn of RWAs from the business since the start of 2015
- Shifted the Group's business mix towards Asia with growth of 15% and 20% vs. 2014 in revenue and customer lending, respectively

2017 Profit before tax

Revenue growth in our three main global businesses





Adjusted PBT by global business, $m	2016	2017	Δ 2016	Δ %
RBWM	5,236	6,478	1,242	24%
CMB	5,904	6,780	876	15%
GB&M	5,509	5,774	265	5%
GPB	272	296	24	9%
Corporate Centre	2,013	1,662	(351)	(17)%
Group	**18,934**	**20,990**	**2,056**	**11%**

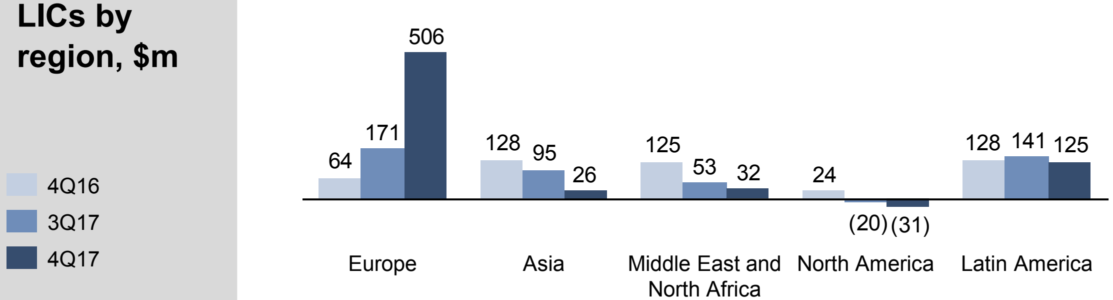
Adjusted PBT by geography, $m	2016	2017	Δ 2016	Δ %
Europe[4]	1,468	1,004	(464)	(32)%
Asia	14,188	16,090	1,902	13%
Middle East and North Africa	1,391	1,536	145	10%
North America	1,343	1,708	365	27%
Latin America	544	652	108	20%
Group	**18,934**	**20,990**	**2,056**	**11%**

Loan impairment charges

Loan impairment charges by global business

	4Q16	3Q17	4Q17	Δ 4Q16	Δ 3Q17
Group, $m	**470**	**440**	**658**	**188**	**218**
as a % of gross loans and advances to customers	*0.21*	*0.18*	*0.27*	*0.06*	*0.09*
RBWM, $m	**261**	**232**	**186**	**(75)**	**(46)**
as a % of gross loans	*0.32*	*0.27*	*0.21*	*(0.11)*	*(0.06)*
CMB, $m	**202**	**186**	**190**	**(12)**	**4**
as a % of gross loans	*0.27*	*0.23*	*0.23*	*(0.04)*	*0.00*
GB&M, $m	**10**	**46**	**373**	**363**	**327**
as a % of gross loans	*0.02*	*0.07*	*0.59*	*0.57*	*0.52*
GPB, $m	**10**	**16**	**(1)**	**(9)**	**(17)**
as a % of gross loans	*0.10*	*0.17*	*0.01*	*(0.09)*	*(0.16)*
Corporate Centre, $m	**(13)**	**(41)**	**(90)**	**(77)**	**(49)**
as a % of gross loans	*(0.33)*	*(2.12)*	*(4.86)*	*(4.53)*	*(2.74)*

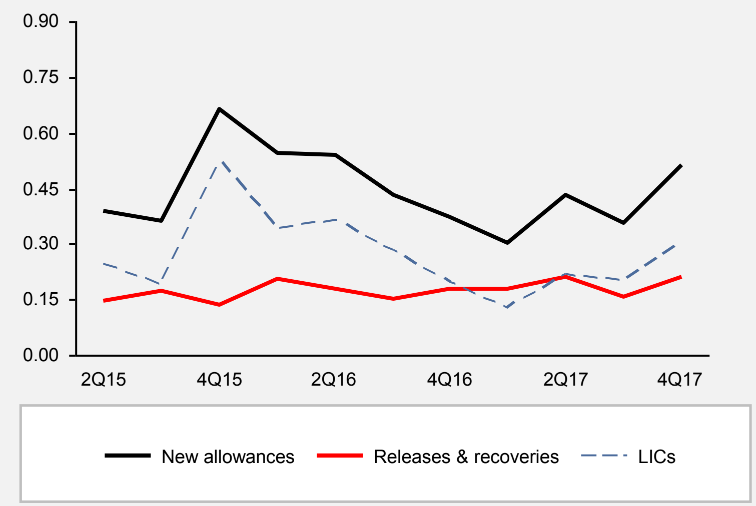
LICs by region, $m



Credit environment remains stable

- 4Q17 LICs are $218m higher than 3Q17, largely driven by two individual corporate exposures in Europe. Excluding these, LICs were lower, primarily in RBWM

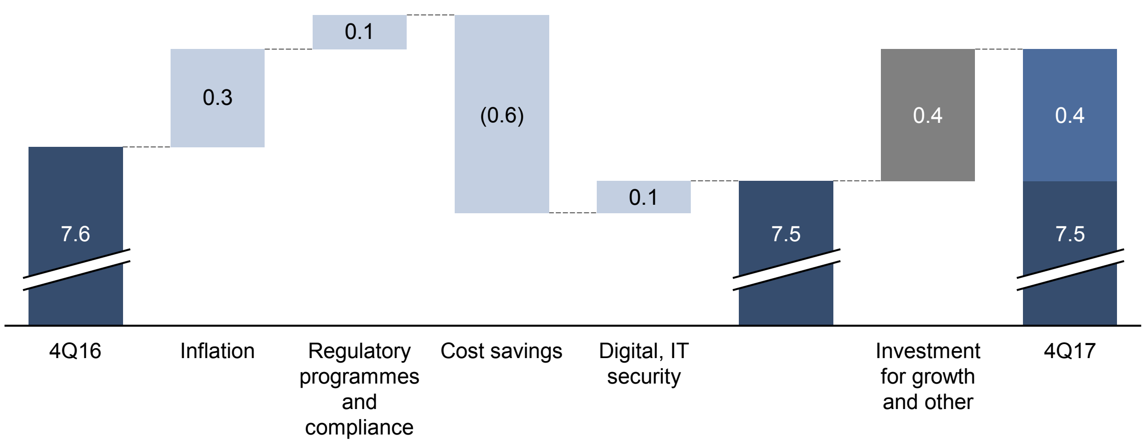
New allowances, allowance releases and recoveries as a % of gross loans and advances to customers[6]

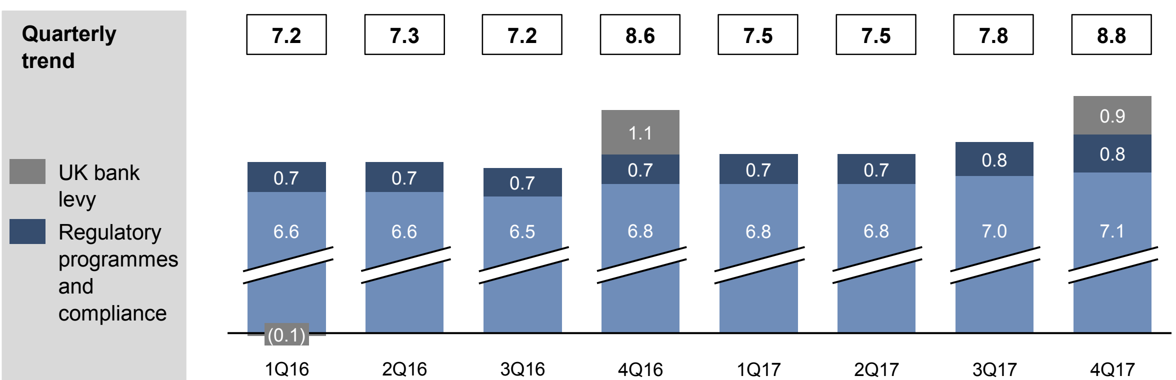


Operating expenses

Delivered positive jaws for 2017 while continuing to invest in growth

4Q17 vs. 4Q16 excluding UK bank levy, $bn





- **FY positive jaws of 1.0% for the Group;** all four global businesses delivered FY positive jaws
- **$0.3bn investment for growth in 4Q17** mainly in RBWM
  - grow the franchise and enhance credit card and personal loan propositions in the UK
  - improve distribution capacity across Asia
  - enhance Retail Banking products for small businesses and international customers
- Using FX rates as at 14 February 2018, **2017 adjusted costs would increase by c$1.3bn,** primarily due to the weakness of USD against GBP, with a slightly greater benefit to revenue

Capital adequacy

Strong capital base: Common Equity Tier 1 ratio of 14.5%

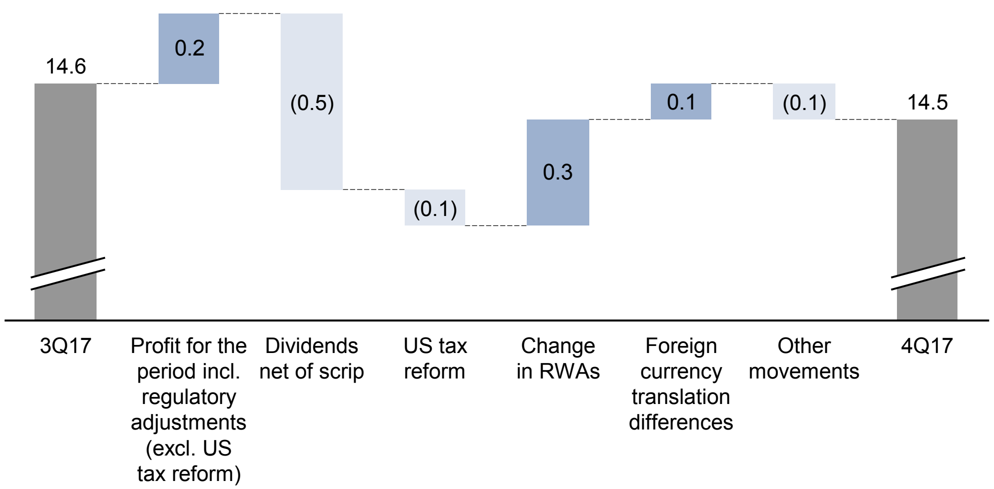
Regulatory capital and RWAs, $bn:

	3Q17	4Q17
Common equity tier 1 capital	129.8	126.1
Total regulatory capital	186.4	182.4
Risk-weighted assets	888.6	871.3

4Q17 CET1 movement, $bn:

At 30 Sep 2017	**129.8**
Profit for the period including regulatory adjustments (excluding US tax reform)	1.4
Dividends[7] net of scrip	(3.9)
US tax reform	(1.2)
Foreign currency translation differences	0.8
Other movements	(0.8)
At 31 Dec 2017	**126.1**

CET1 ratio movement, %:



Quarterly CET1 ratio and leverage ratio progression:

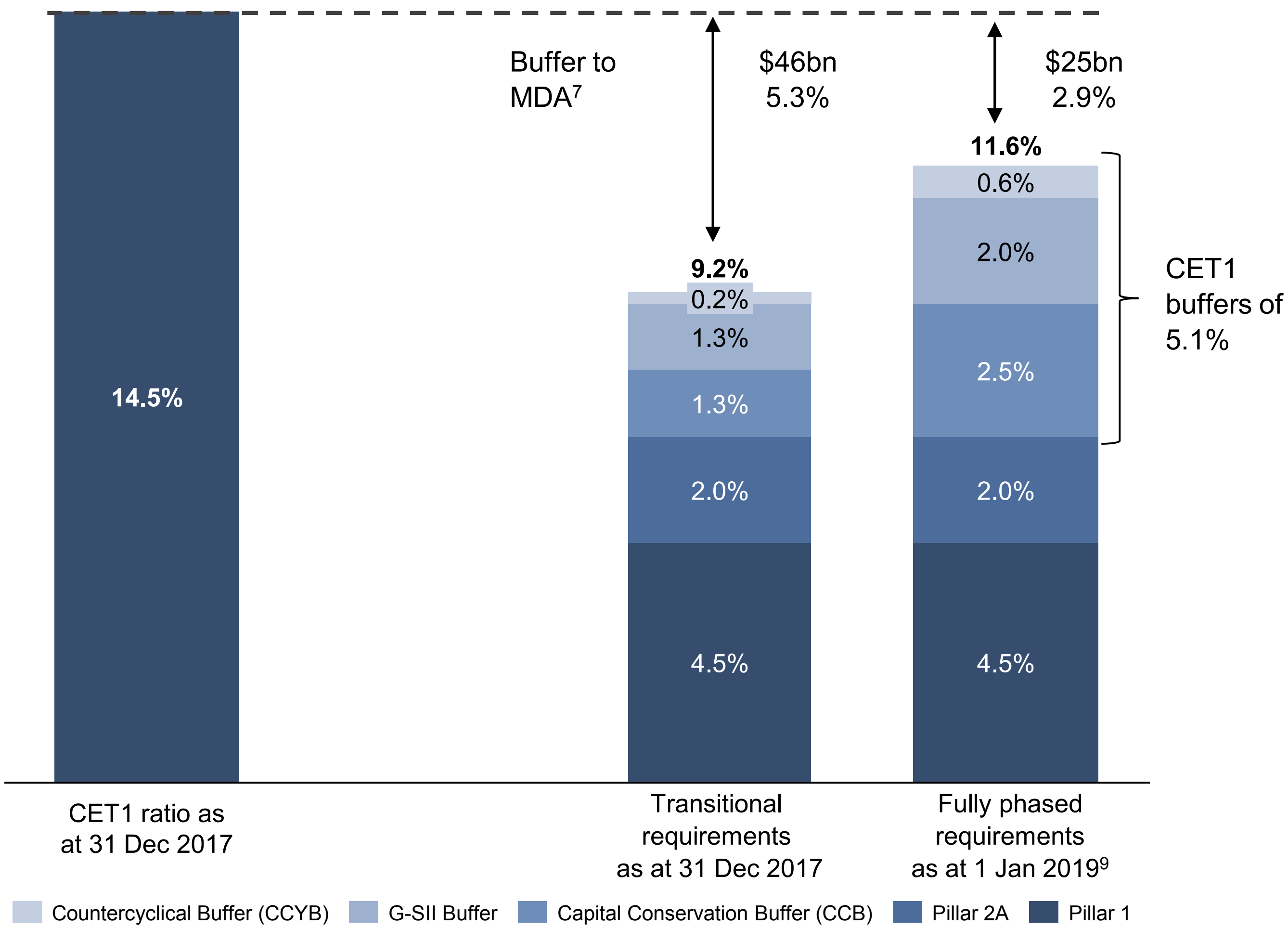
	4Q16	1Q17	2Q17	3Q17	4Q17
CET1 ratio	13.6%	14.3%	14.7%	14.6%	**14.5%**
Leverage ratio	5.4%	5.5%	5.7%	5.7%	**5.6%**

US tax reform	This movement in CET1 primarily reflects a reduction in the value of our deferred tax assets as a result of the change in legislation
IFRS 9	Implementation of IFRS 9, including benefits from classification and measurement changes, is expected to result in a favourable impact on our CET1 ratio applying the European Union's capital transitional arrangements. The fully loaded day one impact is expected to be negligible
Basel III reform	We are currently evaluating the final Basel III reform package, which we expect will be implemented from 1 Jan 2022

Group CET1 requirements

Strong capital position versus requirements

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

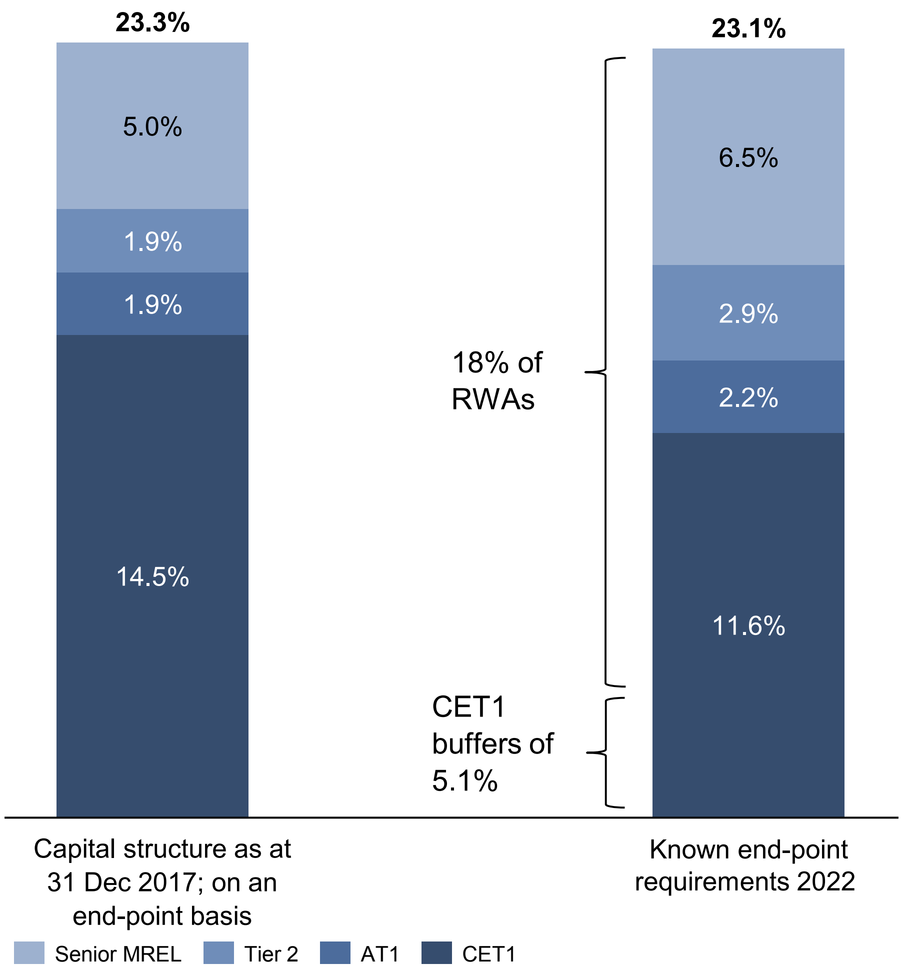


- 14.5% CET1 ratio, up 90bps from 31 Dec 2016
- $9.7bn of profit attributable to ordinary shareholders in the year, generating $3.7bn of CET1 (net of dividends)
- $38bn of distributable reserves

Total capital and estimated MREL requirements

HSBC well-positioned to meet requirements

Capital structure versus regulatory requirements as a % of RWAs



- HSBC meets its estimated 2019 MREL requirements [10,11]
- HSBC group MREL requirement for 2022 is the greater of:
  - 18% of RWAs
  - 6.75% of leverage exposures
  - The sum of requirements relating to each of its resolution groups
- We are currently evaluating HKMA and Bank of England MREL proposals, and await final rules [12]
- Based on current assumptions, HSBC Senior MREL issuance requirement is estimated to fall in the range $60-80bn
- HSBC manages its capital and debt securities to meet end-point regulatory requirements, as well as funding and other business needs
- HSBC has a Multiple Point of Entry resolution strategy

Balance sheet

Customer lending

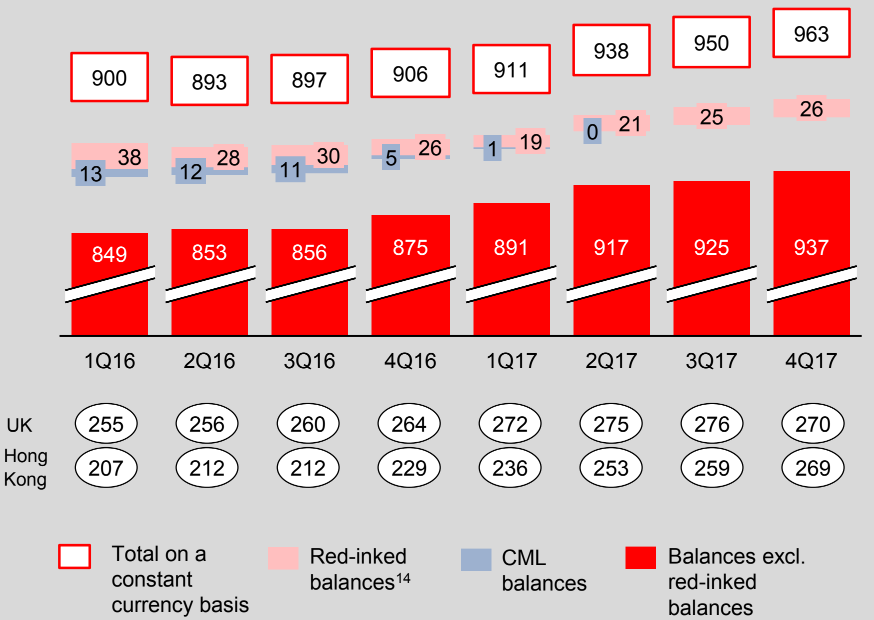
4Q17 Loans and advances to customers[13], $bn

Balances increased by $13bn vs. 3Q17. Excluding CML and red-inked balances, lending increased by $12bn or 1%:

- Growth in term lending in Asia
- $1.5bn or 2% growth in mortgage balances in Hong Kong
- $2.3bn or 2% growth in mortgage balances in the UK

Balances increased by $57bn vs. 4Q16. Excluding CML and red-inked balances, lending increased by $62bn or 7%:

- $8.0bn or 12% growth in mortgage balances in Hong Kong
- $8.2bn or 7% growth in mortgage balances in the UK



Growth by global business excluding red-inked and CML balances

		Growth since 4Q16		*Growth since 3Q17*	
RBWM	**$346.1bn**	22	7%	7	2%
CMB	**$310.9bn**	24	8%	0	0%
GB&M	**$232.5bn**	12	6%	4	2%
GPB	**$40.3bn**	3	9%	1	3%
Corporate Centre	**$7.5bn**	-0	1%	0	5%
Total	**$937.3bn**	62	7%	12	1%

Growth by region excluding red-inked and CML balances

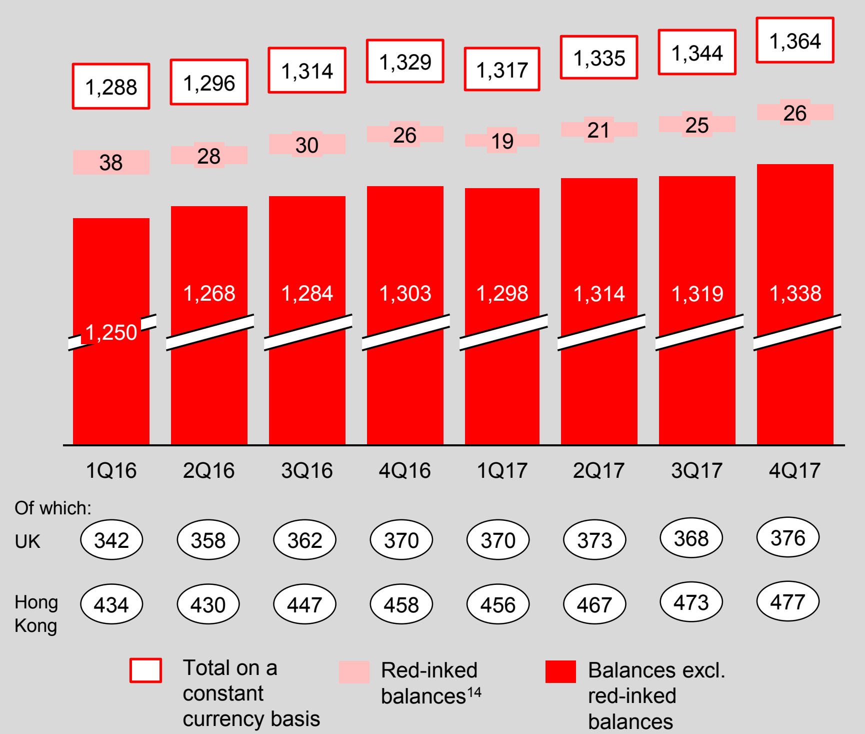
		Growth since 4Q16		*Growth since 3Q17*	
Europe	**$355.8bn**	10	3%	(4)	(1)%
Asia	**$426.0bn**	53	14%	13	3%
Middle East and North Africa	**$28.1bn**	(3)	(8)%	0	1%
North America	**$107.6bn**	(1)	(1)%	1	1%
Latin America	**$19.8bn**	3	16%	2	10%
Total	**$937.3bn**	62	7%	12	1%

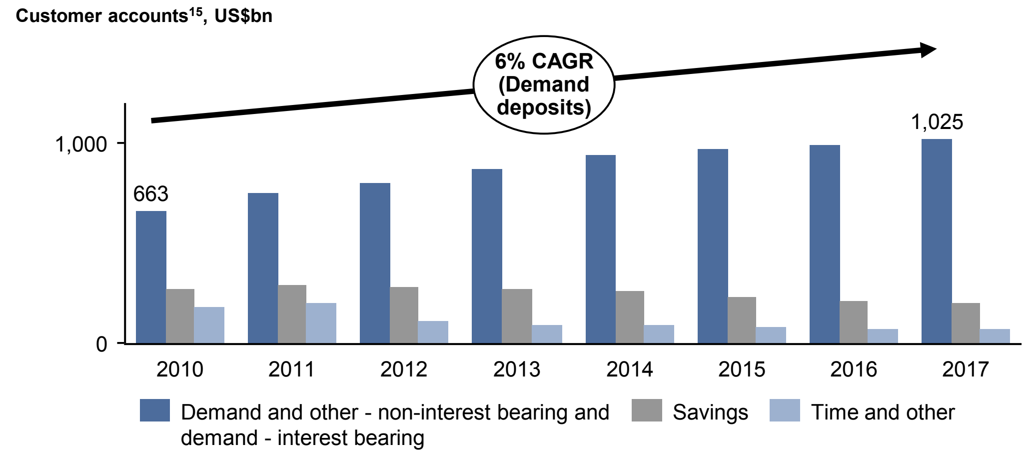
Balance sheet

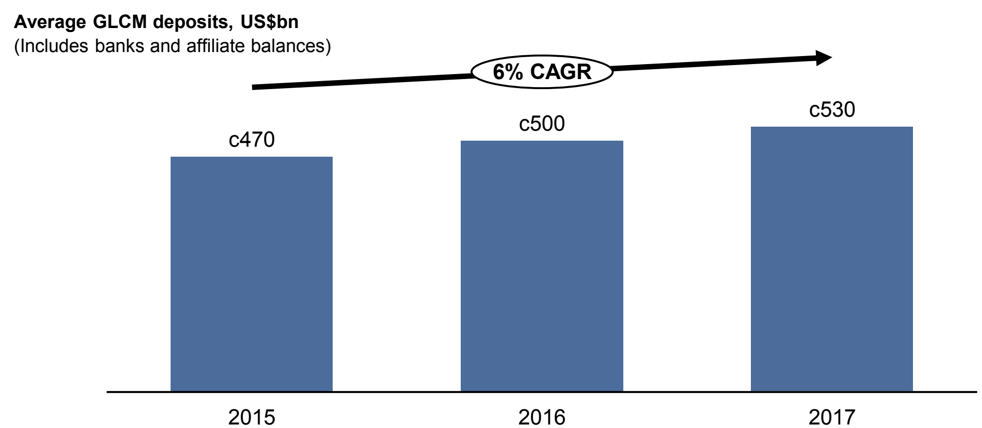
Customer accounts

4Q17 Customer accounts[13], $bn

Excluding red-inked balances, customer accounts increased by $20bn vs. 3Q17 and $36bn vs. 4Q16 notably in the UK and Hong Kong



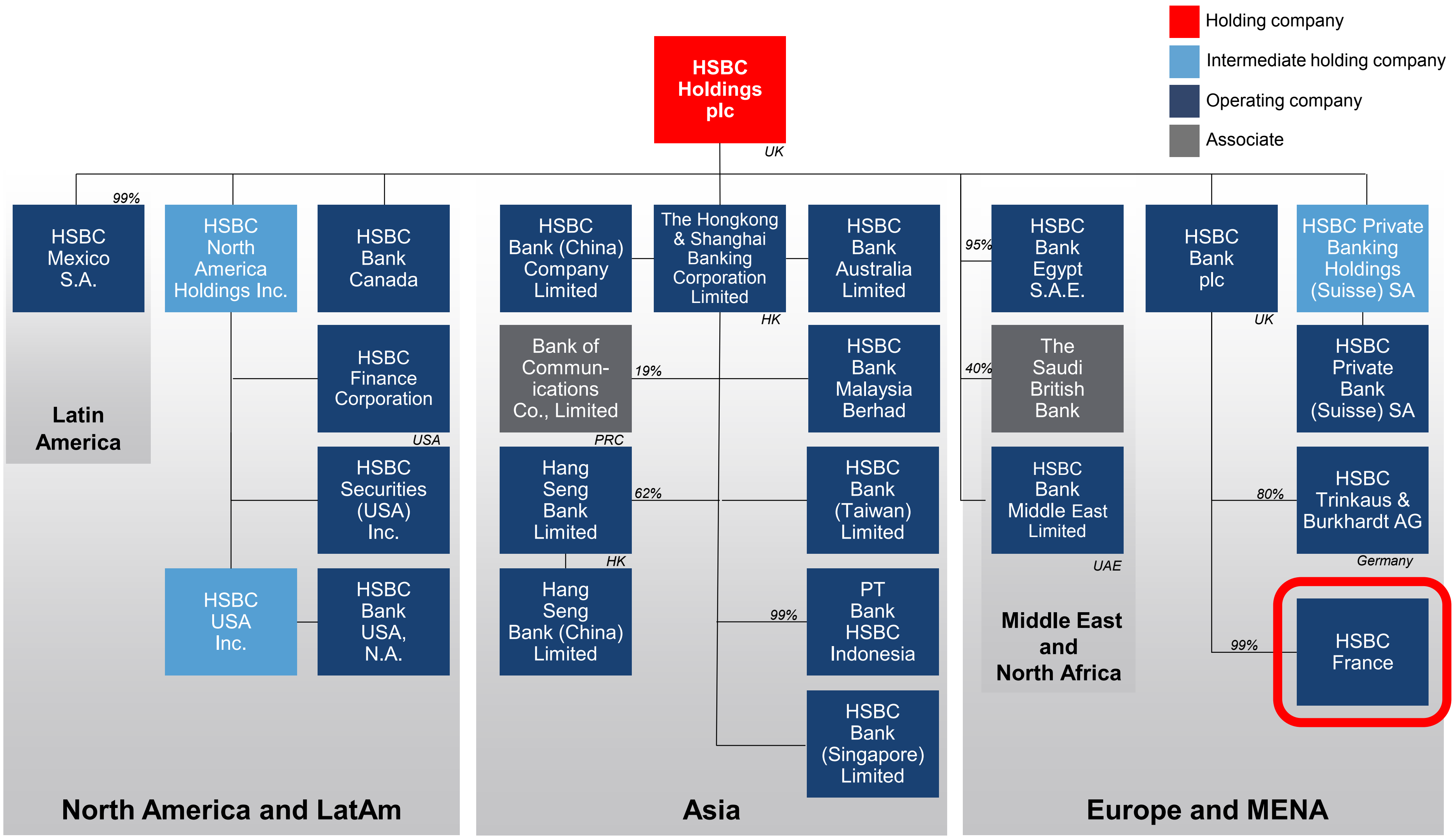




HSBC France key facts

HSBC Group legal structure

Principal entities



HSBC France – a key priority market for the Group

France

France is the 5th largest global economy based on GDP[16] and a key member of the Eurozone. It also is the 5th largest trade nation[17] and it has a wealthy population, ranking 3rd in wealth per adult among large countries[17].

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 31 December 2017, representing 6% of the Group
- Benefits from an International Network
- Positioned as the largest foreign bank in the French market, by assets[38]
- Acting as the HSBC Group's Global Markets centre of excellence in euro rate products and equity derivatives
- Well-positioned in the context of Brexit

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

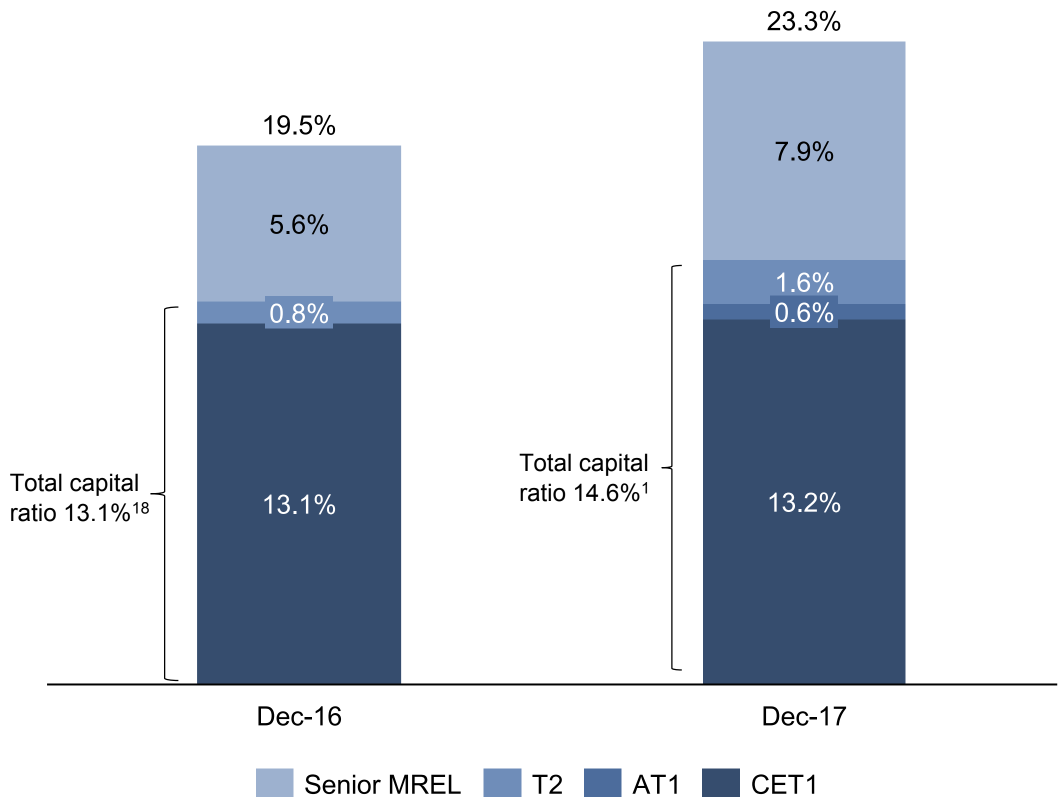
Strategy

- 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
  - Implement an omni-channel model and improve customer experience in retail banking

Capital structure

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

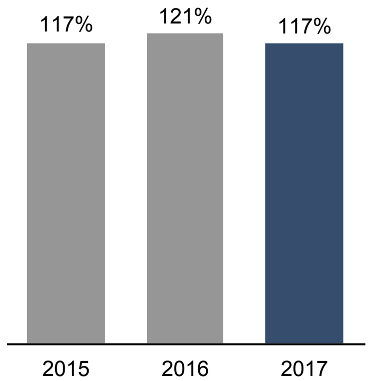
Capital and loss-absorbing instruments



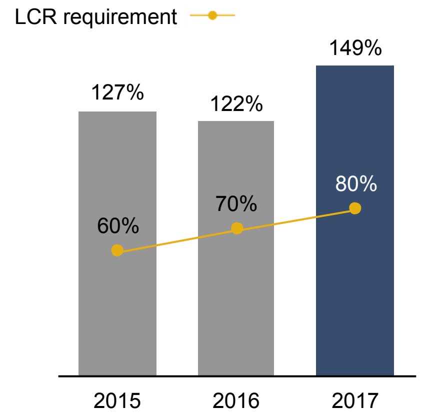
- HSBC France's capital position:
  - CET1 ratio of 13.2%; up 10bps from 2016 (net of dividends)
  - Total Capital Ratio of 14.6% versus 2017 requirement of 11.9% and 2018 requirement of 12.6%
- Regulatory capital base optimised during 2017:
  - Issued €0.5bn of AT1 and Tier 2 capital to parent
  - Paid a €300m exceptional dividend to parent
- Progressed MREL strategy by issuing €2.8bn senior to parent, intended to be converted into senior non-preferred (SNP) when MREL regulation is finalised, taking potential total loss-absorbing capacity up to €8.2bn

Liquidity and funding

Advances / Deposits Ratio (ADR)

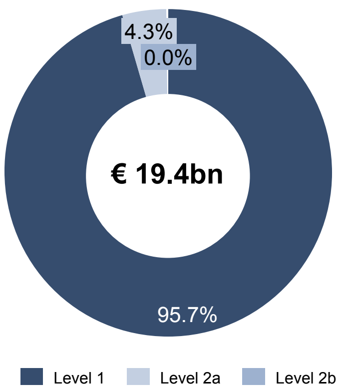


Liquidity Coverage Ratio (LCR)



Net Stable Funding Ratio (NSFR)

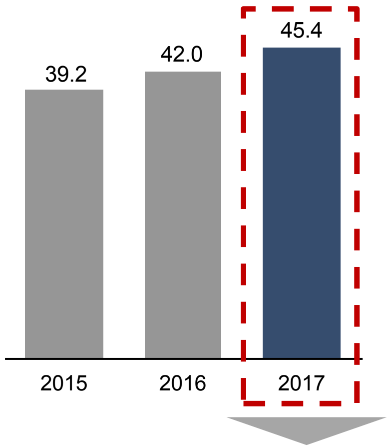
Liquid Asset Buffer



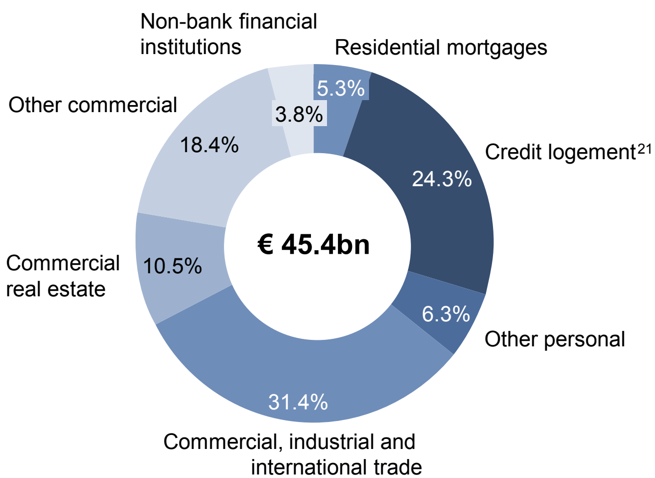
- HSBC France has a robust liquidity position and maintains its LCR and NSFR well above the regulatory minimum
- The Liquid Asset Buffer is mainly comprised of cash and government bonds
- HSBC France maintains a stable and diversified funding base, with around half of its Available Stable Funding (ASF) 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 program and through its covered bond vehicle HSBC SFH (France) has €3.6bn of covered bonds outstanding

Asset structure and quality

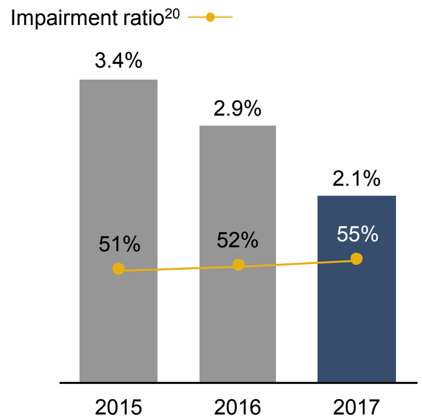
Gross loans and advances to customers, €bn



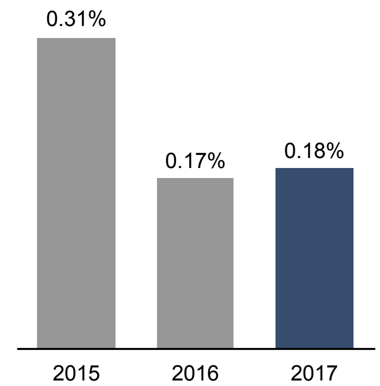
Gross loans and advances to customers by lending type



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
- Impaired loans as a % of gross loans and advances to customers showing a decreasing trend
- The impairment ratio continues to improve, with 55% of impaired loans covered by impairment allowances

FY 2017 HSBC France results[22]

€m	Global businesses and Corporate Centre					HSBC France
	RBWM	CMB	GB&M	GPB	Corporate Centre	
Revenue	761	518	657	49	(54)	**1,931**
LICs	(11)	7	(76)	(1)	0	**(81)**
Operating expenses	(744)	(345)	(364)	(43)	(21)	**(1,517)**
Profit before tax	6	180	217	5	(75)	**333**

€bn

	RBWM	CMB	GB&M	GPB	Corporate Centre	HSBC France
Reported RWAs	4.6	11.1	16.7	1.0	0.6	**35.4**[22]
Customer advances	18.3	11.4	13.2	1.9	0.0	**44.9**
Customer deposits	15.4	10.9	11.3	0.7	0.0	**38.3**
A/D ratio (%)	119%	105%	118%	263%	n/d	**117%**

External credit ratings

Long term senior ratings as at 31 Dec 17	Fitch		Moody's		S&P	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
HSBC Holdings plc	AA-	Stable	A2	Negative	A	Stable
HSBC Bank plc	AA-	Stable	Aa3	Negative	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

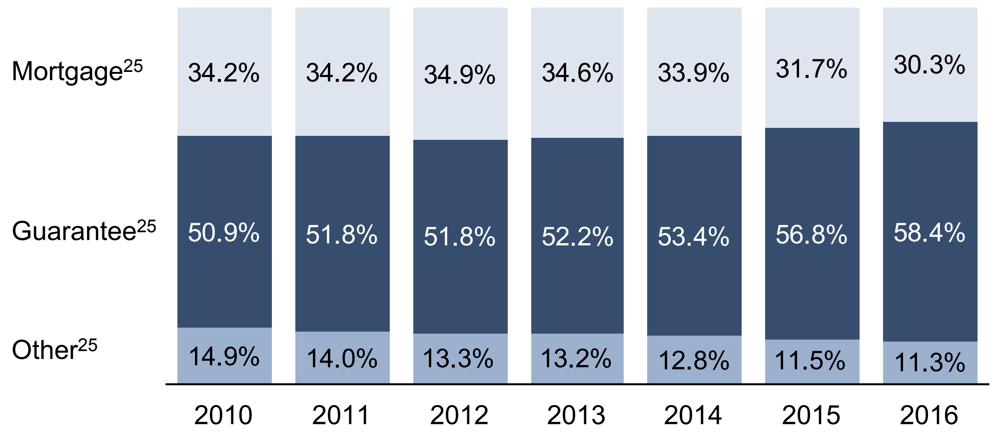
French home loan market

French home loan market

Typical loan characteristics

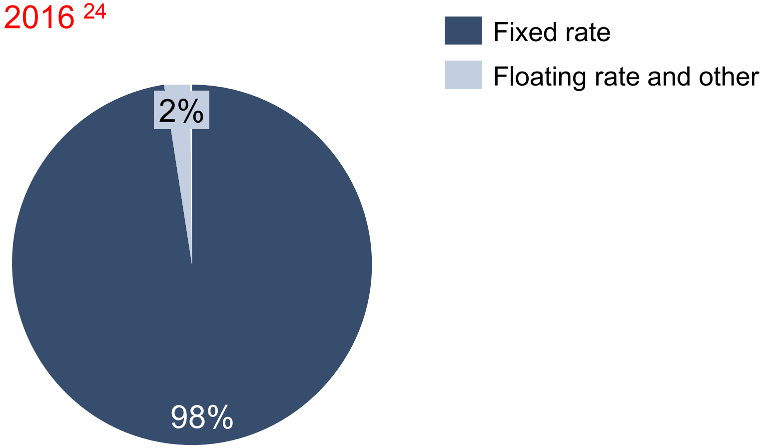
- Fixed rate for the entire length of the home loan
- Fully amortising, not “re-advanceable”
- Underwriting criteria primarily based on the creditworthiness of the borrower
- Compulsory life and disability insurance
- Institutional guarantees available in addition to traditional mortgages
- Low delinquency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

French market – home loan security type[24]

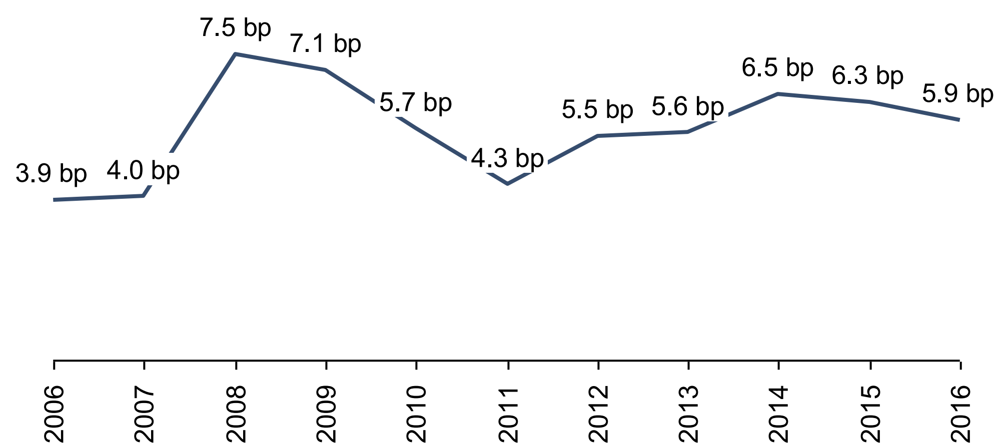


French market – home loan interest rate type

Production in 2016 [24]



Average loss rate[26] on home loans – French market[24]

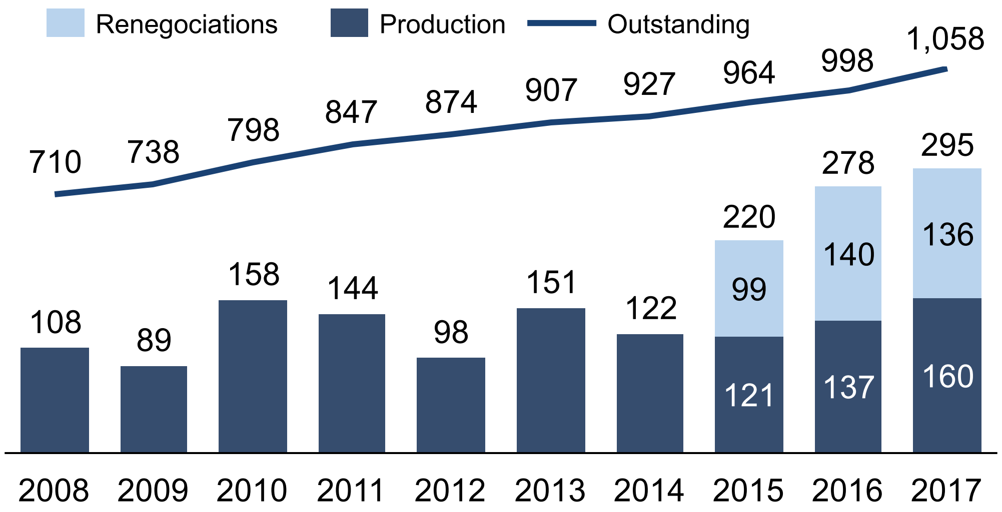


French home loan market

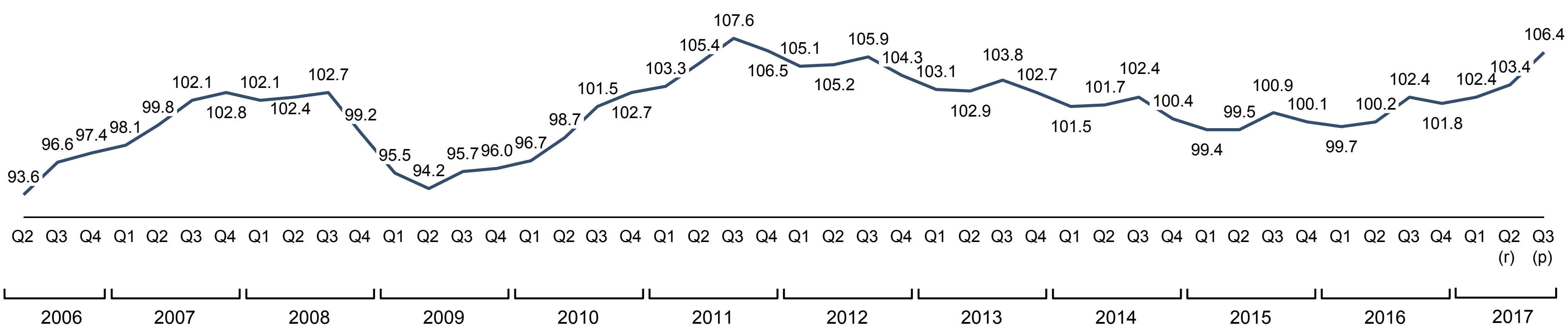
Market dynamics (2016) [24]

- In the context of a significant reduction in borrower rates, the housing market has continued its recovery with an increase of 6% of the number of transactions. Home prices increased sharply in Paris (+4.4%) and in the regions (+3.1%). The decrease of interest rates increased the purchasing power of all segments of borrowers.
- Production has been largely driven by clients refinancing or re-negotiating their loans. However, the market remained healthy with the balance of other home loans increasing by +11%.
- Borrowers preferred fixed rate loans (97.9% of new lending) and opted for slightly longer maturities (18.6y in 2016).
- The average LTV of all home loans increased slightly to 69.4% while the credit risk decreased with LICs observed on average at 5.9bps of outstanding loan balances in 2016[24].

Production and outstanding balance of home loans[27]



French house price index (2015 average = 100)[28]



French home loan 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 (58.4% of outstanding home loans in 2016[24]).

Crédit Logement's business model

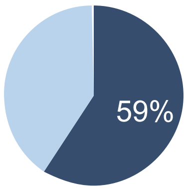
- Crédit Logement is an entity owned by France's major banks, providing guarantees to French home lending as an alternative to the more classic mortgage registration.

- **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

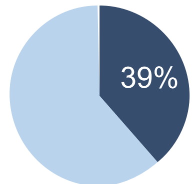
- **Advantages for the borrower**
  - Lower costs: mortgage registration costs are in general between 2.2% and 2.5% vs. a below 1% home loan guarantee fee
  - The administrative process is simplified at loan inception and maturity
  - Up to 75% of the guarantee fee is paid back to the borrower at maturity,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

Crédit Logement

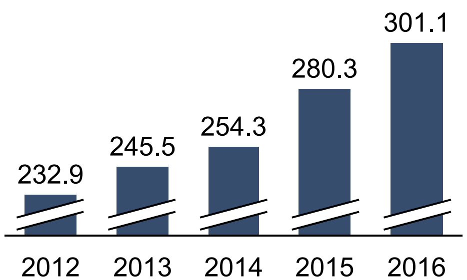
Crédit Logement is a major partner in the french home loan guarantee market



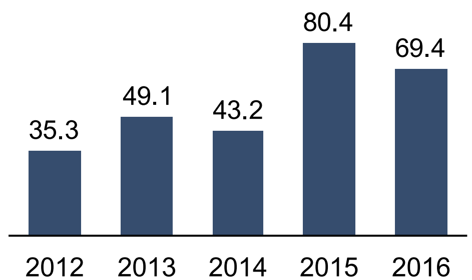
Proportion of 2016 French residential loans balance secured by a guarantee[29] excluding refinancing loans



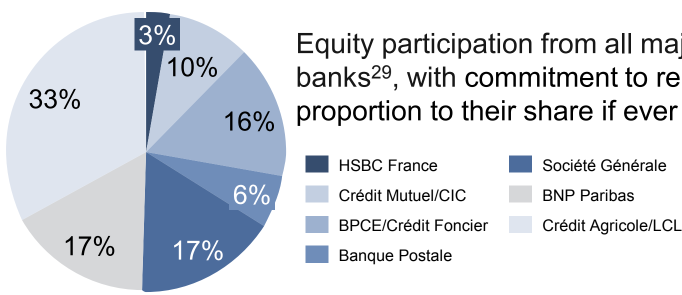
Proportion of 2016 French residential loans production guaranteed by Crédit Logement[30]



Outstanding guaranteed balance (EUR bn)[29]



Enforced production (EUR bn)[29]



Equity participation from all major French retail banks[29], 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[29]

2.0%

Minimum capital ratio required by the French ACPR for all guarantee providers[31]

2x

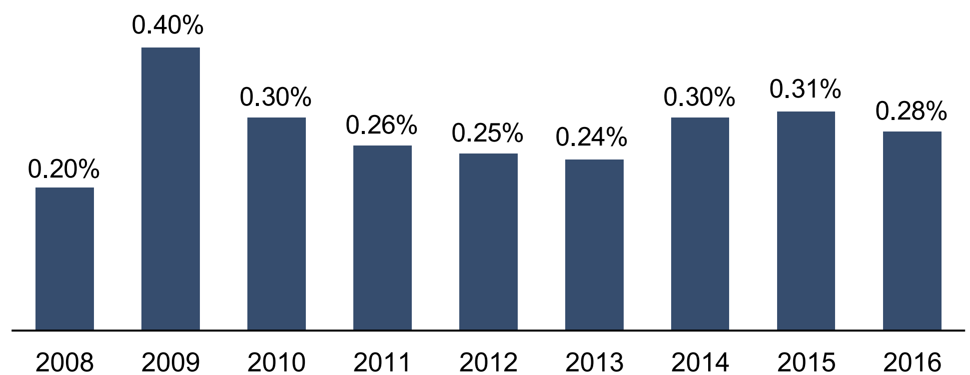
Coverage of the guaranteed portfolio credit risk by the EUR 4.9bn mutual guarantee funds (MGF)[29]

3x

Coverage of the guaranteed portfolio credit risk by the EUR 7.6bn shareholder funds (incl. MFG)[29]

Aa3 (stable) / AA Low (stable)

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



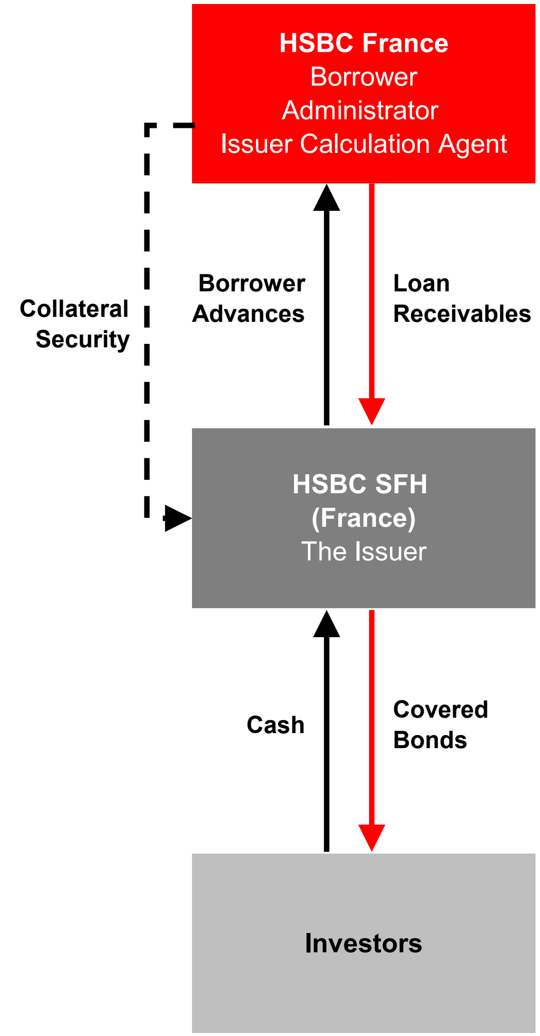
Average Estimated 1y Probability of Default

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[32]
  - 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[32]
  - 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



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)[33] 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[33, 34] 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[34]

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

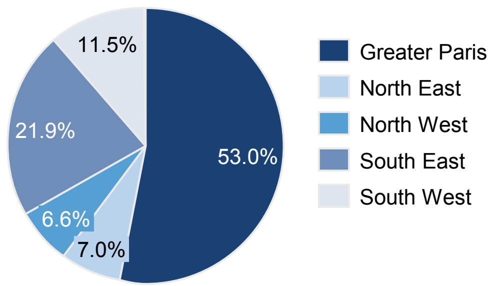
Cover pool

High quality and diversified collateral

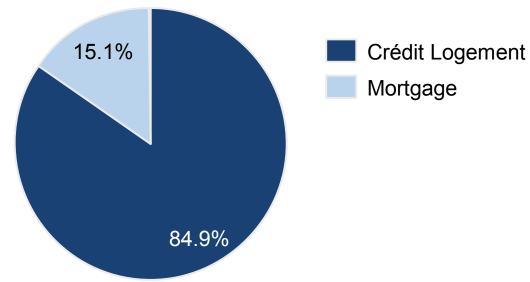
Main cover pool metrics[1]

Pool notional	EUR 6.4bn
Collateral	100% prime home loans
Number of loans	42.5k loans
Average loan balance	EUR 151k
Max loan amount	EUR1m
WA seasoning	36 months
WA remaining term	162 months
WA indexed LTV	61.7%

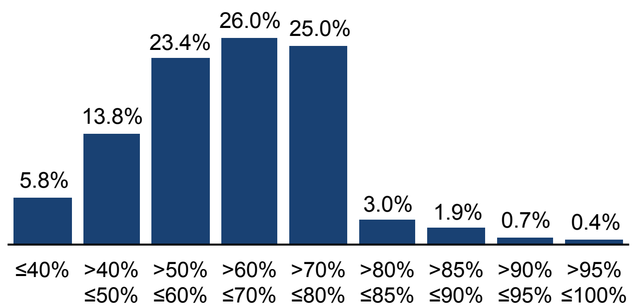
Regional distribution[1] [35]



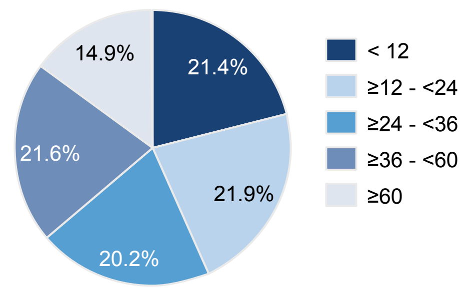
Loan security[1]



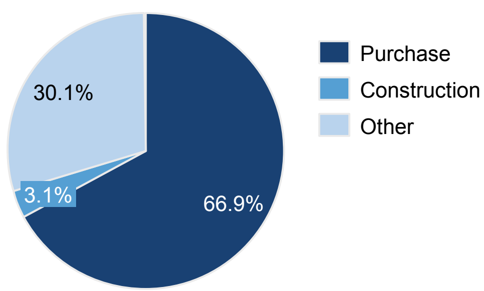
LTV range[1]



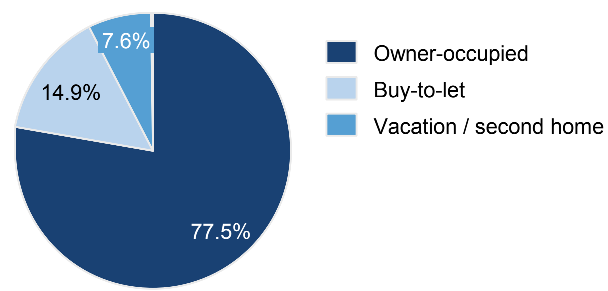
Seasoning[1]



Loan purpose[1]



Occupancy type[1]



Liabilities

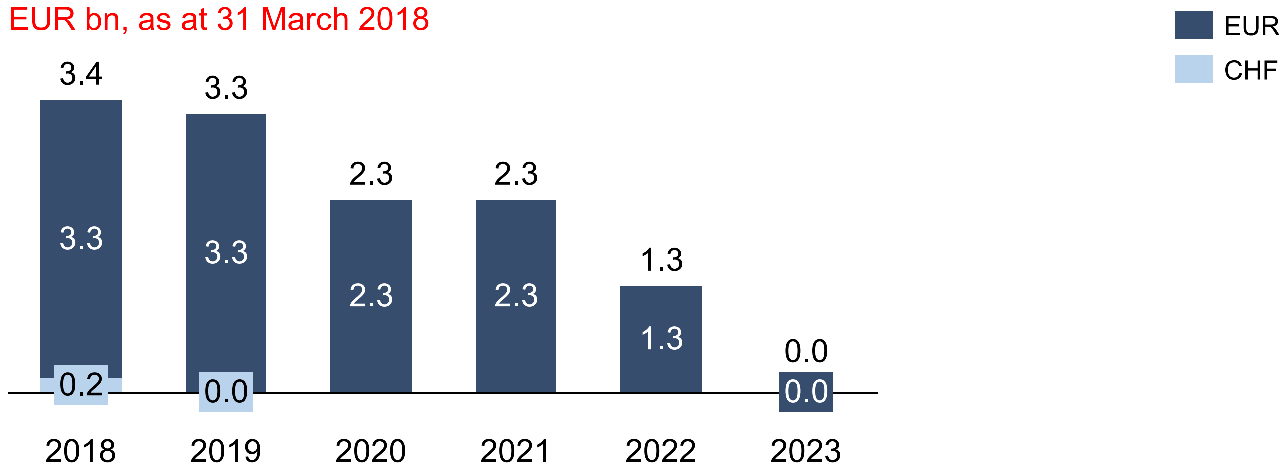
Funding strategy

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[36]

EUR bn, as at 31 March 2018

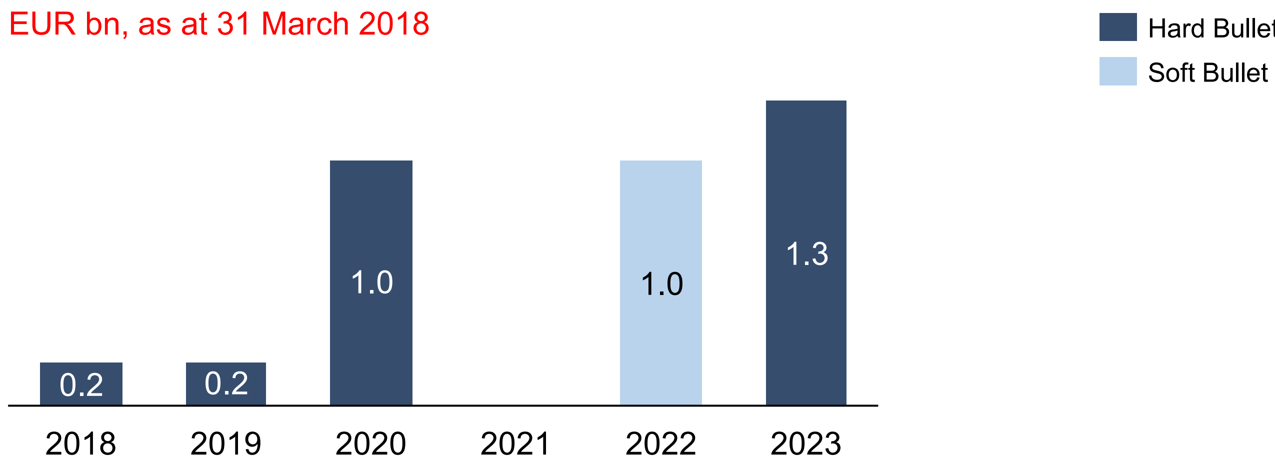


Covered bonds issuance strategy

- 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[36]

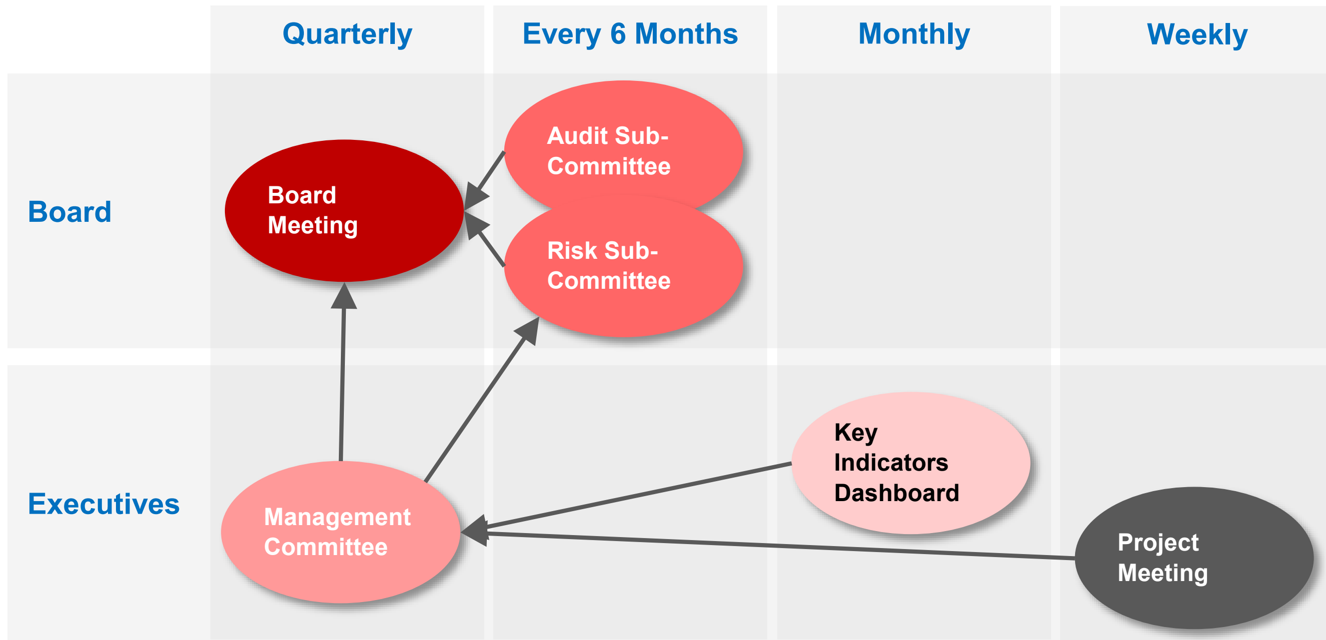
EUR bn, as at 31 March 2018



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

Appendix

Home loan eligibility criteria[37]

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)

Appendix
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

Appendix

Footnotes

1. HSBC SFH Investor Report, Selection on 28 February 2018, pledged on 31 March 2017
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. Unless otherwise stated, risk-weighted assets and capital are calculated and presented on a transitional CRD IV basis as implemented in the UK by the Prudential Regulation Authority
4. Includes the impact of UK bank levy
5. Europe's adjusted 2017 profit before tax of $1.0bn includes a number of items incurred centrally on behalf of the Group as a whole, but which are disclosed in the Europe segment, including consolidation adjustments and HSBC Holdings costs such as interest costs on Group debt and the UK bank levy
6. In the 1Q17 Results Presentation, new individually assessed and collectively assessed allowances were presented as new allowances; in the current disclosure new allowances includes new individually assessed allowances and new collectively assessed allowances net of allowance releases
7. This includes dividends on ordinary shares, dividends on preference shares and coupons on capital securities, classified as equity
8. Pro forma buffer to MDA trigger based on RWAs and CET1 capital resources at 31 December 2017
9. Pillar 2A requirements 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 0.6% of RWAs on an end-point basis, based on confirmed rates as of December 2017); and 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.
10. 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)", published in November 2016. In November 2016, the European Commission also published proposed amendments to MREL which are yet to be finalised. On a regional/local level, resolution groups and material subsidiaries may need to comply with MREL, Total Loss-Absorbing Capacity (TLAC) as defined in the Financial Stability Board's TLAC Term Sheet, or equivalent requirements as applicable under local resolution regimes.
11. 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, which are not fully known.
12. 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.
13. Balances presented by quarter are on a constant currency basis. Reported equivalents for 'Loans and advances to customers' are as follows: 1Q16: $920bn, 2Q16: $888bn, 3Q16: $881bn, 4Q16: $862bn, 1Q17: $876bn, 2Q17: $920bn, 3Q17: $945bn. Reported equivalents for 'Customer Accounts' are as follows: 1Q16: $1,315bn, 2Q16: $1,291bn, 3Q16: $1,296bn, 4Q16: $1,272bn, 1Q17: $1,273bn, 2Q17: $1,312bn, 3Q17: $1,337bn
14. 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: 1Q16: $10bn, 2Q16: $10bn, 3Q16: $10bn, 4Q16: $8bn, 1Q17: $5bn, 2Q17: $5bn, 3Q17: $7bn and 4Q17: $6bn; GB&M red-inked balances: 1Q16: $28bn, 2Q16: $18bn, 3Q16: $20bn, 4Q16: $18bn, 1Q17: $13bn, 2Q17: $16bn, 3Q17: $19bn and 4Q17: $20bn
15. Source: HSBC Holdings Form 20-F in respect of the financial year ended 31 December 2017; Average balances on a reported basis

Appendix
Footnotes

16. Source: IMF (December 2017)
17. Source: Global Insights (Import + Export 2016)
18. Source: Wealth per adult among Top 10 GDPs (Credit Suisse Global Wealth Databook 2017)
19. Net of deduction items
20. Impairment ratio is calculated as Impairment allowances / Total impaired loans
21. 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
22. All numbers presented are on an adjusted basis unless otherwise stated
23. Total includes Basel 1 floor impact of €1.3bn, which is not included within the Global Business or Corporate Centre
24. Source: Annual study of the French Autorité de Contrôle Prudentiel et de Résolution on Home loans – 2016 (published on 7 July 2017)
25. 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
26. Loan impairment charges to total average home loans outstanding balances
27. 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
28. Source: INSEE – Indice de prix des notaires (notary index on home prices), nationwide series ref 10001868
29. Source: Annual Report Crédit Logement 2016
30. Guarantees enforced in 2016 (Annual Report Crédit Logement 2016) / New lending in 2016 (Annual study of the French Autorité de Contrôle Prudentiel et de Résolution on Home loans – 2016)
31. Requirement as of 1st Jan 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
32. 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)
33. Please refer to section Asset Monitoring of the prospectus for the detailed definitions
34. 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
35. 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
36. Source: HSBC SFH Investor Web Site (see appendix)
37. Source: HSBC SFH Base Prospectus
38. Source: https://www.statista.com/statistics/693487/leading-banks-assets-france

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www.hsbc.com/investor-relations

Appendix
Important notice and forward-looking statements

Important notice

The information, statements and opinions set out in this presentation and subsequent discussion do not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any advice or recommendation in respect of such securities or other financial instruments.

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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 our Annual Report and Accounts 2017 and the Reconciliations of Non-GAAP Financial Measures document which are both 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.

Photography: Getty Images