

HSBC Holdings plc
HSBC Bank USA, National
Association
US Resolution Plan
Section I – Public Section

Date: July 1, 2014

US Resolution Plan: Section I – Public Section

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about HSBC's beliefs and expectations. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

*Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission (**SEC**), summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC's directors, officers or employees to third parties, including financial analysts.*

*Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Factors that could cause HSBC Holdings plc's or HSBC Bank USA, National Association's actual results to differ materially from those described in the forward-looking statements can be found in HSBC Holdings plc's Annual Report on Form 20-F for the fiscal year ended December 31, 2013 filed with the SEC under the Securities Exchange Act of 1934, as amended (**Exchange Act**), on February 28, 2014 (**Form 20-F**) and in HSBC USA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC under the Exchange Act on February 24, 2014.*

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1. INTRODUCTION

US resolution plan rules

In September 2011, the Federal Deposit Insurance Corporation (**FDIC**) and the Board of Governors of the Federal Reserve System (**FRB**) issued a final rule (**SIFI Rule**) implementing Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (**DFA**). This requires bank holding companies with total global consolidated assets of US\$50 billion or more to submit periodically to the FRB and the FDIC a plan for the rapid and orderly resolution in the event of material distress or failure of the covered companies' United States of America (**US**) operations.

In January 2012, the FDIC also issued a final rule (**IDI Rule** and, with the **SIFI Rule**, the **Rules**) that requires insured depository institutions (**IDIs**) with assets of US\$50 billion or more to submit periodically to the FDIC a plan for resolution of the IDI in the event of failure.

The global consolidated assets of HSBC Holdings plc (**HGHQ**, together with its subsidiaries, **HSBC** or the **HSBC Group**), the holding company for the HSBC Group, exceed US\$50 billion and as a result it is a covered company under the SIFI Rule (**Covered Company**) and must file a resolution plan under the SIFI Rule. Similarly, the assets of HSBC's largest IDI in the US, HSBC Bank USA, National Association (**HBUS**), exceed US\$50 billion, and as a result HBUS is a covered IDI under the IDI Rule (**Covered IDI**) and it must file a resolution plan. The timing of initial, annual and interim resolution plan submissions under both Rules is the same. HSBC's initial US resolution plan submissions were made to the FDIC and the FRB as of July 1, 2013.

The FDIC and the FRB have each, by rule and through the supervisory process, prescribed the assumptions, required approach and scope for these resolution plans and have required that certain information be included in a public section of the resolution plans. HGHQ and HBUS submit this public section of HSBC's US resolution plans (**US Resolution Plan**) in compliance with the Rules and other relevant guidance.

Under the Rules, HGHQ as the Covered Company and HBUS as the Covered IDI must map their Core Business Lines (**CBLs**) and Critical Operations (**COs**) to Material Entities (**MEs**). The US Resolution Plan provides a detailed analysis of how HSBC's material US operations would be resolved in a rapid and orderly manner that would not disrupt US financial stability and, as required by the IDI Rule, of how HBUS could be resolved by the FDIC in the event of its insolvency under the Federal Deposit Insurance Act in a manner that ensures depositors receive access to their insured deposits within one business day of HBUS's failure (or two business days if the day HBUS fails is any day other than a Friday), maximizes net present value return from the sale or disposition of its assets, minimizes the amount of any loss realized by the creditors, and achieves the least costly resolution to the FDIC's Deposit Insurance Fund. The CBLs and MEs that have been designated are described further below. Except as otherwise specifically required by the Rules and as noted in the US Resolution Plan, the information contained in the US Resolution Plan relates to the subsidiaries, CBLs and COs of HGHQ that are domiciled in the US or conducted in whole or material part in the US.

The US Resolution Plan also identifies Critical Services (**CSs**) as required by the IDI Rule, which are services and operations of the IDI, such as servicing, information technology support and operations, and human resources that are necessary to continue the day-to-day operations of the IDI.

Global structure and resolution planning

HSBC is subject to regulation by financial regulators in multiple jurisdictions. As a foreign bank holding company, HGHQ does not carry out any banking activities. Rather, the HSBC Group primarily consists of a large number of separately incorporated and capitalized banking entities across different jurisdictions.

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The HSBC Group's regional and national subsidiary structure provides HSBC with significant advantages in promoting greater resilience for HSBC's operations within individual countries, including the US. In the context of the "Key Attributes of Effective Resolution Regimes for Financial Institutions" as set out by the Financial Stability Board (**FSB**), HSBC's corporate structure and operating model appears suited to the FSB's "Multiple Point of Entry" model. Should it ever be required, this would allow for the orderly resolution of each of the subsidiaries under the appropriate national laws and regulations, with cross-border cooperation but limited jurisdictional issues.

The HSBC Group's subsidiary structure and its emphasis on independent balance sheet management, ensure that the HSBC Group's operating subsidiary entities and banks satisfy domestic capital, liquidity and funding requirements (as applicable) and have the independent resources to respond to financial stress. In addition HSBC's US operations benefit from the global reach of HSBC's businesses and share in certain common services, nevertheless most support services are available within the US and through resilient contractual arrangements. The funding and liquidity model and the operational model support the separation and orderly resolution of HSBC's US operations in accordance with US law and regulation.

The US Resolution Plan was accordingly prepared as part of a global effort to address resolution planning in multiple jurisdictions through a consistent approach while being responsive to each individual jurisdiction's resolution planning requirements. The US Resolution Plan is focused on planning for the resolution of HSBC's US operations. There are existing plans and plans being formulated in other jurisdictions for HGHQ subsidiaries operating in these jurisdictions. These plans call for the recovery or resolution of those HGHQ subsidiaries according to the applicable rules and laws in those specific jurisdictions. Accordingly, the assumptions, definitions, and specific actions in the US Resolution Plan may differ from those in similar plans filed by HGHQ or its non-US subsidiaries with non-US regulators.

The HSBC Group business model

HSBC is a global banking and financial services organization. The HSBC Group is headquartered in London, England, and operates through long-established businesses and had, as at December 31, 2013, an international network of over 6,300 offices in 75 countries and territories organized into geographic regions. A comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by subsidiary banks, typically with local deposit bases.

Within the geographical regions, HSBC's operations are conducted through a network of regional banks and locally incorporated regulated banking entities. Each bank is separately capitalized in accordance with applicable prudential requirements and maintains a capital buffer consistent with HSBC's appetite for risk in its country or region. The banking entities manage their own funding and liquidity within parameters set centrally.

HSBC takes deposits from its customers and uses these funds to make loans, either directly or through the capital markets. Direct lending includes residential and commercial mortgages and overdrafts and term loan facilities. HSBC finances importers and exporters engaged in international trade and provides advances to companies secured on amounts owed to them by their customers. In addition, HSBC offers additional financial products and services including brokerage activities, asset management, financial advisory, life insurance, corporate finance, markets, securities services and alternative investments. HSBC provides these products for clients ranging from governments to large and mid-market corporates, small and medium-sized enterprises, high net worth individuals and retail customers.

HSBC's four global businesses, Retail Banking and Wealth Management (**RBWM**), Commercial Banking (**CMB**), Global Banking and Markets (**GBM**) and Global Private Banking (**GPB**), develop, implement and manage their business propositions consistently across HSBC, focusing on profitability and efficiency. The global businesses set their strategies within the confines of the HSBC strategy and in liaison with the

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geographical regions, are responsible for issuing planning guidance regarding their businesses, are accountable for their profit and loss performance and manage headcount.

Retail Banking and Wealth Management

RBWM served over 50 million customers globally as at December 31, 2013. HSBC takes deposits and provides transactional banking services to enable customers to manage their day-to-day finances and save for the future through deposit and account services. HSBC selectively offers credit facilities to assist customers in their short or longer-term borrowing requirements and it provides financial advisory, broking, insurance and investment services to help them to manage and protect their financial future. HSBC develops products designed to meet the needs of specific customer segments, which may include a range of different services and delivery channels.

Commercial Banking

CMB allows HSBC to provide an appropriate level of support to companies with more sophisticated needs and small and medium sized enterprises (**SMEs**) as they grow both domestically and internationally, and ensures a clear focus on internationally aspirant customers. HSBC places particular emphasis on international connectivity to meet the needs of its business customers and aims to be recognized as the leading international trade and business bank by focusing on faster-growing markets, repositioning towards international business and enhancing collaboration across HSBC.

Global Banking and Markets

GBM provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. Managed as a global business with regional oversight (and local management and oversight in the US), GBM operates a long-term relationship management approach to build a full understanding of clients' financial requirements. Sector-focused client service teams comprising relationship managers (**RMs**) and product specialists develop financial solutions to meet individual client needs.

Global Private Banking

GPB provides investment management and trustee solutions to high net worth individuals and their families in HSBC's priority markets. GPB aims to meet the needs of its clients by providing excellent customer service and offering a comprehensive suite of solutions.

2 MATERIAL ENTITIES

As in the 2013 US Resolution Plan, HSBC identified six US MEs based on the criteria set forth in the SIFI Rule: HSBC North America Holdings Inc. (**HNAH**), HSBC USA Inc. (**HUSI**), HBUS, HSBC Securities (USA) Inc. (**HCSU**), HSBC Technology & Services (USA) Inc. (**HTSU**) and HSBC Finance Corporation (**HBIO**). Each of these entities is also an ME for purposes of the IDI Rule, with the exception of HBUS (the **Covered IDI**). In addition, HGHQ, HSBC Bank plc (**HBEU**), and The Hongkong and Shanghai Banking Corporation Limited (**HBAP**), have been identified as non-US MEs because of their connections with HSBC's US operations.

HSBC North America Holdings Inc.

HNAH is a bank holding company organized under the laws of the State of Delaware and is the top level holding company for HSBC's operations in the US.

HSBC USA Inc.

HUSI is a bank holding company organized under the laws of the State of Maryland and is an intermediate level holding company for HSBC's US operations. HUSI's principal subsidiary is HBUS. HUSI works with its affiliates to maximize opportunities and efficiencies in HSBC's operations in the US. These affiliates do so by providing each other with, among other things, alternative sources of liquidity to fund operations and expertise in specialized corporate functions and services.¹

HSBC Bank USA, National Association

HBUS, HSBC's principal US banking subsidiary and Covered IDI, is a national banking association chartered by the Office of the Comptroller of the Currency (**OCC**). As at December 31, 2013, HBUS had 244 branches and 30 representative offices in the US, including 157 branches and 13 representative offices in the State of New York and the remainder distributed across 15 states and the District of Columbia. As at December 31, 2013, HBUS and its subsidiaries had deposits of approximately US\$123 billion. HBUS has its main office in McLean, Virginia and its principal executive offices are located at 452 Fifth Avenue, New York, New York.

HBUS offers its customers a full range of commercial and consumer banking products and related financial services. Customers include individuals, small businesses, corporations, institutions and governments. HBUS is also an international dealer in derivative instruments denominated in US dollars and other currencies, focusing on structuring of transactions to meet clients' needs.

HSBC Securities (USA) Inc.

HCSU is a corporation organized under the laws of the State of Delaware and is a registered broker-dealer of securities under the Securities Exchange Act of 1934 (**Exchange Act**) and a registered

¹ HBUS is subject to significant restrictions imposed by federal law on extensions of credit to, and certain other "covered transactions" with, HNAH, HUSI or other affiliates. Covered transactions include loans and other extensions of credit, investments and asset purchases, and certain other transactions involving the transfer of value from a subsidiary bank to an affiliate or for the benefit of an affiliate. Starting in July 2012, a bank's credit exposure to an affiliate as a result of a derivative, securities lending or repurchase agreement are also subject to these restrictions. A bank's transactions with its non-bank affiliates are also generally required to be on arm's length terms.

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Futures Commission Merchant (**FCM**) with the Commodity Futures Trade Commission (**CFTC**). HCSU is engaged in underwriting, dealing and brokering a full range of debt and equity securities, and futures contracts. HCSU is also a primary dealer of US government and government agency securities.

HCSU leads or participates as underwriter of domestic issuances of term debt in the US market for its clients. HCSU also participates as underwriter of HGHQ SEC registered issuances of debt and HBEU Rule 144A issuances of debt.

HSBC Technology & Services (USA) Inc.

HTSU is a corporation organized under the laws of the State of Delaware and is a provider of information technology and centralized operational and support services, including human resources, tax, finance, compliance, legal, policy, communications and other services shared among HNAH and its subsidiaries, as well as across HSBC.

HSBC Finance Corporation

HBIO is a corporation organized under the laws of the State of Delaware and HBIO's subsidiaries provided real estate secured loans, personal non-credit card loans and auto finance receivables, as well as credit card and private label credit card and tax refund anticipation loans and related products, all of which HBIO no longer originates. With the completion of the sales of its Card and Retail Services business in May 2012 and its Insurance business in March 2013, its corporate and treasury activities now solely support its Consumer segment, which consists of its run-off mortgage services businesses that provided real estate secured loans with both revolving and closed-end terms and with fixed or variable interest rates. HBIO and its subsidiaries continue to generate cash flow from the ongoing collections of the receivables, including interest and fees, through its Consumer segment. HBIO has historically been the principal fund-raising vehicle for the operations of its subsidiaries.

Non-US Material Entities

In addition to the MEs identified for the US Resolution Plan, the non-US entities listed below have been identified as providing significant support for US MEs, CBLs, or COs.

HSBC Holdings plc

HGHQ is the holding company of the HSBC Group and the ultimate parent company of HNAH and its subsidiaries. HGHQ is incorporated under the laws of England and Wales. HGHQ is listed in London, Hong Kong, New York, Paris and Bermuda. HGHQ does not carry out any banking business in its own right. It is the primary source of equity capital for its subsidiaries and provides non-equity capital to them when necessary. HGHQ does not provide core funding to any of its banking subsidiaries.

HSBC Bank plc

HBEU is incorporated under the laws of England and Wales and is a wholly owned subsidiary of HGHQ. HBEU and its subsidiaries are HSBC's principal banking subsidiaries in Europe. HBEU and its subsidiaries provide a wide range of banking, treasury and financial services to personal, commercial and corporate customers across Europe.

The Hongkong and Shanghai Banking Corporation Limited

HBAP is a wholly owned indirect subsidiary of HGHQ incorporated in Hong Kong and is HSBC's principal banking subsidiary in the Asia-Pacific region. HBAP and its subsidiaries provide a comprehensive range of domestic and international banking and related financial services, principally in the Asia-Pacific region.

3. CORE BUSINESS LINES

As required by the SIFI Rule, HSBC has identified CBLs that are conducted in whole or material part in the US. With the exception of the Consumer Finance CBL (**CF CBL**), each of the CBLs is a CBL for purposes of both the SIFI Rule and the IDI Rule, and with the exception of the CF CBL, all of the CBLs are carried out primarily through HBUS and HCSU. The CBLs operate through HSBC's four global businesses: RBWM, CMB, GBM and GPB.

Banking and Capital Financing Core Business Line

Banking and Capital Financing CBL (**GB CBL**) is a core product offering within the GBM global business. GB CBL comprises: Banking which includes the Relationship Management Function (**Relationship Management**); and Capital Financing which includes (i) the Lending Business Lines (the **Lending Business**); and (ii) the Advisory Services Business (the **Advisory Business**). The GB CBL provides sector-focused client service teams comprising RMs and product specialists to develop financial solutions to meet individual client needs.

Products include capital raising, advisory services, bilateral and syndicated lending, leveraged and acquisition finance, structured and project finance, lease finance and non-retail deposit taking. Services offered include international, regional and domestic payments and cash management services, and trade services for large corporate clients.

Global Markets Core Business Lines

HSBC's three designated US Global Markets CBLs are conducted through the GBM global business and comprise Global Markets – Foreign Exchange (**GM-FX CBL**), Global Markets – Metals (**GM-Metals CBL**) and Global Markets – Rates (**GM-Rates CBL**). Global Markets' operations consist of treasury and capital markets services, and provide a hub for international clients across the Americas and globally, providing US dollar funding. With a presence in over 60 countries/territories and access to HSBC's worldwide presence and capabilities this business serves subsidiaries and offices of HSBC's clients on a global basis. Global Markets in the US delivers international products to US clients and local products to international clients, with New York as the hub for the Americas business, including Canada and Latin America.

GM-FX

The GM-FX CBL provides services in foreign exchange (**FX**) spot, forwards, swaps and other related derivatives.

GM-Metals

The GM-Metals CBL provides metals spot, forwards, swaps, lending and custodial services.

GM-Rates

The GM-Rates CBL provides services in government bonds, interest rate swaps and other related derivatives.

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Commercial Banking

The Commercial Banking CBL (***CMB CBL***) is part of HSBC's CMB global business. The CMB CBL is segmented into large corporates, mid-market companies and Business Banking. This allows the CMB CBL to provide an appropriate level of support to companies with more sophisticated needs and SMEs as they grow both domestically and internationally. The CMB CBL focuses on faster-growing markets, repositioning towards international business and enhancing collaboration across the HSBC group.

The CMB CBL offers credit and lending services including in respect of commercial real estate, international trade and receivables finance, payments and cash management services, insurance and investment products.

Retail Banking and Wealth Management

The Retail Banking and Wealth Management CBL (***RBWM CBL***) is part of HSBC's RBWM global business and provides a full range of banking and wealth products and services through branches and direct channels. The RBWM CBL is primarily run out of HBUS.

Consumer Finance

The primary business of the CF CBL consists of consumer lending and mortgage services businesses originated or acquired in and before 2009 that provided real estate secured and personal non-credit loans with both revolving and closed-end terms and with fixed or variable interest rates. The CF CBL business is being run off and no new business has been originated by HBIO and its subsidiaries since February 2009. The CF CBL is carried out by HBIO and its subsidiaries, although certain CF CBL servicing employees are employed by HBUS to comply with regulatory licensing requirements.

Private Banking

The Private Banking CBL (***PB CBL***) is conducted as part of HSBC's GPB global business. The PB CBL provides private banking and trustee services to high net worth individuals and families with local and international needs, with many clients sourced in collaboration with other CBLs. Accessing the most suitable products from the marketplace, the PB CBL works with its clients to offer both traditional and innovative ways to manage and preserve wealth while optimizing returns. The PB CBL offers a wide range of products and services, including banking, liquidity management, investment services, custody, tailored lending, trust and fiduciary services, insurance, family wealth and philanthropic advisory services. The PB CBL also works to ensure that its clients have access to other products and services, capabilities, resources and expertise available throughout the HSBC Group, such as credit cards and investment banking, to deliver total solutions for all their financial and banking needs.

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4. SUMMARY FINANCIAL INFORMATION REGARDING ASSETS, LIABILITIES, CAPITAL AND MAJOR FUNDING SOURCES

The HSBC Group's financial information

The following summarizes the consolidated balance sheet of the HSBC Group as at December 31, 2013 presented in accordance with International Financial Reporting Standards (*IFRS*) as issued by the International Accounting Standards Board and as endorsed by the European Union.

	US\$m
ASSETS	
Cash and balances at central banks	166,599
Trading assets	303,192
Financial assets designated at fair value	38,430
Derivatives	282,265
Loans and advances to banks	211,521
Loans and advances to customers	1,080,304
Financial investments	425,925
Assets held for sale	4,050
Other assets	159,032
Total assets	<u>2,671,318</u>
LIABILITIES AND EQUITY	
Liabilities	
Deposits by banks	129,212
Customer accounts	1,482,812
Trading liabilities	207,025
Financial liabilities designated at fair value	89,084
Derivatives	274,284
Debt securities in issue	104,080
Liabilities under insurance contracts	74,181
Liabilities of disposal groups held for sale	2,804
Other liabilities	117,377
Total liabilities	<u>2,480,859</u>
Equity	
Total shareholders' equity	181,871
Non-controlling interests	8,588
Total equity	<u>190,459</u>
Total equity and liabilities	<u>2,671,318</u>

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The following summarizes the capital ratios of the HSBC Group as at December 31, 2013 calculated based on the requirements in force.

	Ratio
Core tier 1 ratio	13.6%
Tier 1 ratio	14.5%
Total capital ratio	17.8%

Further details of the assets, liabilities, capital and major funding sources of the consolidated organization are set forth in the HSBC Group's Annual Report and Accounts (**AR&A**) on Form 20-F for the year ended December 31, 2013. Please refer to pages 47 to 76 of the AR&A for a description of financial and operating results of HSBC and its subsidiaries. Please refer to pages 77 to 129 of the AR&A for a description of financial and operating results by global business and relevant geographical regions. Please refer to pages 416 to 564 of the AR&A for the consolidated financial statements and related notes of HGHQ and its subsidiaries.

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HSBC Bank USA, National Association financial information

The following summarizes the consolidated balance sheet of HBUS as at December 31, 2013, presented in accordance with the US Generally Accepted Accounting Principles (**US GAAP**).

	US\$m
ASSETS	
Cash and due from banks	953
Interest bearing deposits with banks.....	19,062
Federal funds sold and securities purchased under agreements to resell	2,119
Trading assets	29,172
Securities available for sale	54,402
Securities held to maturity	1,354
Loans, net of allowances.....	62,781
Loans held for sale	230
Properties and equipment, net	268
Other assets	9,399
	<u>179,740</u>
Total assets	<u>179,740</u>
LIABILITIES AND EQUITY	
Liabilities	
Deposits	122,999
Repurchase agreements and other short-term borrowings	15,756
Trading liabilities	11,713
Long-term borrowings	1,345
Subordinated debt.....	6,353
Other liabilities.....	3,365
	<u>161,531</u>
Total liabilities.....	<u>161,531</u>
Shareholders' equity	
Common shareholders' equity:	-
Common stock	2
Additional paid-in capital	16,045
Retained earnings (deficit)	2,311
Accumulated other comprehensive income (loss)	(149)
	<u>18,209</u>
Total shareholders' equity	<u>18,209</u>
Total liabilities and shareholders' equity	<u><u>179,740</u></u>

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The following summarizes the capital ratios of HBUS as at December 31, 2013 and is calculated in accordance with US banking regulations.

	Ratio
Tier 1 capital ratio	13.4%
Tier 1 common ratio	13.4%
Tier 1 leverage ratio	9.1%
Total capital ratio	18.1%

Funding sources

HSBC funds its US operations through a diversified deposit base (in respect of HBUS), by issuing short-term and long-term debt, borrowing under unsecured and secured financing facilities, issuing preferred equity, selling liquid assets, and, as necessary, receiving capital contributions from parent entities.

HSBC’s prospects for growth in the US continue to be dependent upon the ability to attract and retain deposits. Emphasis is placed on maintaining stability in core deposit balances. Numerous factors, both internal and external, may impact access to, and the costs associated with, both retail and wholesale sources of funding. These factors may include debt ratings, overall economic conditions, overall capital markets volatility, the counterparty credit limits of investors to HSBC, the effectiveness of compliance remediation efforts, and the management of the credit risks inherent in HSBC’s US business and customer base.

5. DERIVATIVE AND HEDGING ACTIVITIES

HSBC transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge HSBC's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments as defined in the International Accounting Standard 39, "Financial Instruments: Recognition and Measurement," issued by the International Accounting Standards Board) are held for trading. Within the held-for-trading classification are two types of derivatives: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value (FV). These activities are described more fully below.

HSBC's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, HSBC employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

Trading derivatives

Most of HSBC's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin.

Other derivatives classified as held for trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. Trading derivatives also include derivatives managed in conjunction with financial instruments designated at FV.

Derivatives for hedging risks

HSBC uses derivatives, principally interest rate swaps, for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables HSBC to optimize the overall cost to the Group of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are FV hedges, cash flow hedges, or hedges of net investment in foreign operations.

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6. MEMBERSHIPS IN MATERIAL PAYMENT, CLEARING AND SETTLEMENT SYSTEMS

As an essential part of engaging in the financial services industry and serving customers and clients, HSBC participates in payment, messaging, clearing and settlement systems, also known as financial market utilities (*FMUs*), to conduct financial transactions in a global economy.

The FMUs allow HSBC to provide payment services to customers and clients, to serve as a broker-dealer for securities transactions and to engage in derivatives transactions as needed to manage risk, secure funding and meet the needs of customers and clients. These arrangements also allow for greater risk management and operational efficiencies in the trading of financial instruments worldwide.

“Membership” means that an HSBC Group legal entity has direct access to an FMU to serve HSBC’s customers and clients around the globe. See below for a table mapping ME membership to key FMUs significant to HSBC’s US operations.

KEY FINANCIAL MARKET UTILITIES		
Name	Type	Membership
CHIPS	Payments	HBUS
EPN	Payments	HBUS
Fedwire	Payments	HBUS
Mastercard	Payments	HBUS
Visa	Payments	HBUS
CLS	FX Settlement	HBEU (settlement member)
SWIFT	Messaging	HBEU
Chicago Mercantile Exchange	Clearing and Settlement	HCSU
COMEX	Clearing and Settlement	HCSU
Depository Trust Corporation	Clearing and Settlement	HBUS, HCSU
Fixed Income Clearing Corporation (Government Securities Division)	Clearing and Settlement	HBUS, HCSU
Fixed Income Clearing Corporation (Mortgage-Backed Securities Division)	Clearing and Settlement	HBUS
LCH Clearent	Clearing and Settlement	HBUS
London Precious Metals Clearing Ltd.	Clearing and Settlement	HBUS London Branch
Mortgage-Backed Securities Division	Clearing and Settlement	HBUS
National Securities Clearing Corporation	Clearing and Settlement	HCSU
NYMEX	Clearing and Settlement	HCSU
NYSE Liffe	Clearing and Settlement	HBEU, HCSU
ICAP Global Derivatives Ltd.	Swap Execution Facility	HBUS
Bloomberg SEF LLC	Swap Execution Facility	HBUS

7. FOREIGN OPERATIONS

HSBC serves approximately 54 million customers globally. As at December 31, 2013, HSBC's network covered 75 countries and territories organized into geographic regions. HSBC's operations are conducted through a network of regional banks and locally incorporated regulated banking entities.

As at December 31, 2013 HSBC had a total global workforce of approximately 263,000 full-time and part-time employees of which approximately 16,000 were located in the US.

As at December 31, 2013, HSBC had approximately US\$2.7 trillion of assets. HSBC had approximately US\$22.6 billion in profit before tax for the year ended December 31, 2013. The breakdown of both by geographic region is presented in the table below.

FINANCIAL HIGHLIGHTS BY GEOGRAPHIC REGIONS AT OR FOR THE YEAR ENDED DECEMBER 31, 2013				
	Total Assets²	Net Operating Income (Revenue)²	Profit (Loss) before Tax	Profit (Loss) after Tax
	US\$m	US\$m	US\$m	US\$m
Europe.....	1,392,959	20,967	1,825	546
Hong Kong	555,413	13,203	8,089	6,777
Rest of Asia Pacific	335,937	11,978	7,764	6,906
Middle East and North Africa	60,810	2,503	1,694	1,366
North America	432,035	8,803	1,221	908
Latin America	113,999	10,568	1,972	1,297

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HGHQ were held by approximately 216,000 shareholders in 131 countries and territories as at December 31, 2013.

HBUS foreign operations

In addition to HBUS's domestic offices, HBUS currently maintains a foreign branch office in each of London, England; Toronto, Canada; and Hong Kong. These non-US branches in aggregate offer the following products and services: metals deposits, FX products, clearing of metals, and limited over-the-counter trading of metals. As at July 1, 2014, HBUS also has representative offices in Bogota, Colombia and Santiago, Chile.

² Figures do not include intra-HSBC items.

8. MATERIAL SUPERVISORY AUTHORITIES***US supervisory authorities******Banking supervisory authorities***

HSBC is subject to the extensive US legal and regulatory framework applicable to bank holding companies, banks and securities firms. Such laws and regulations apply to certain activities of HSBC, including HBUS, HNAH and HUSI and impose prudential restrictions, such as limits on extensions of credit by HBUS to affiliates.

HGHQ, HNAH and HUSI are bank holding companies that have elected to become financial holding companies. They are regulated by the FRB, which exercises umbrella authority over HSBC's US activities.

HBUS is subject to extensive regulation promulgated by the OCC, the FDIC, the Consumer Financial Protection Bureau (**CFPB**) and FRB. HBUS is subject to supervision and examination primarily by the OCC, secondarily by the FDIC and the CFPB. HBUS is subject to banking laws and regulations that place various restrictions on and requirements regarding their operations and administration, including the establishment and maintenance of branch offices, capital and reserve requirements, deposits and borrowings, investment and lending activities, compliance activities, payment of dividends and numerous other matters.

The types of activities in which the non-US branches of HBUS may engage are subject to various restrictions imposed by the OCC, the FDIC and the FRB. These branches are also subject to the laws and regulatory authorities of the countries in which they operate.

US securities regulatory authorities

HCSU is a registered broker-dealer of securities under the Exchange Act and a registered FCM with the CFTC. In 1996, HSBC was granted the authority by the FRB to engage, through HCSU, in limited underwriting and dealing activities under the Bank Holding Company Act of 1956, as amended. HCSU is engaged in underwriting, dealing, and brokering a full range of debt and equity securities and futures contracts. HCSU is also a primary dealer in US government and government agency securities.

HCSU is a member of the Financial Industry Regulatory Authority (**FINRA**), the New York Stock Exchange, Inc. (**NYSE**), CME Group Inc. (**CME**), Intercontinental Exchange (**ICE**), LCH Clearnet Ltd (**LCH**) and the Options Clearing Corporation. HCSU is eligible to clear over-the-counter derivatives at the CME, ICE and LCH.

As an international dealer in derivative instruments, HBUS is also a registered swap dealer with the CFTC.

Foreign supervisory authorities***Wider HSBC Group***

The HSBC Group is subject to a significant body of laws and regulations that are a condition for authorization to conduct banking and financial services business in each country of incorporation. These requirements are largely prescribed on a jurisdictional basis by the applicable government, central bank, regulatory authorities or other applicable bodies.

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Non-US Material Entities

HGHQ is the holding company of the HSBC Group and does not carry out any regulated activities in the UK. It is therefore not itself directly authorized or regulated by either the Prudential Regulation Authority (**PRA**) or the Financial Conduct Authority (**FCA**) in the UK. However, both the PRA and FCA have certain limited direct supervisory powers over HGHQ, including (in the FCA's case) pursuant to certain directions issued by the FCA on April 2, 2013 in connection with HGHQ and HNAH having entered into agreements as part of a global settlement with a number of US authorities in relation to the HSBC Group's failure to comply with anti-money laundering rules, US sanctions requirements and related matters. Moreover, the PRA acts as the HSBC Group's consolidated lead regulator.

HBEU's principal regulators are the PRA and FCA.

HBAP's lead regulator is the Hong Kong Monetary Authority (**HKMA**).

Regulators comprising the Crisis Management Group

HSBC has a Crisis Management Group (**CMG**) comprised of regulators from jurisdictions in which HSBC has a significant presence. The CMG formally meets twice a year to consider HSBC's recovery and resolution planning. Attendees include the following regulators: Banco Central do Brasil (Brazil), the Office of the Superintendent of Financial Institutions (Canada), the Canada Deposit Insurance Corporation (Canada), the The Autorité de contrôle prudentiel et de résolution (France), the HKMA (Hong Kong), Banco de Mexico (Mexico), Comisión Nacional Bancaria y de Valores (Mexico), Instituto para la Protección al Ahorro Bancario (Mexico), the Bank of England (UK), the PRA (UK) (a subsidiary of the Bank of England), the FRB, the FDIC and the OCC.

9. PRINCIPAL OFFICERS

HSBC Holdings plc

It is expected that, as at June 30, 2014, the HGHQ Board of Directors (*HGHQ Board*), will consist of the members presented in the following table.

HSBC HOLDINGS PLC BOARD OF DIRECTORS		
Executive Directors		
Name	Appointed	Title
Douglas J. Flint	1995	Group Chairman
Stuart T. Gulliver	2008	Group Chief Executive
Iain J. Mackay	2010	Group Finance Director
M. Marc Moses	2014	Group Chief Risk Officer
Non-Executive Directors		
Name	Appointed	Title
Sir Simon Robertson	2006	Deputy Chairman and Senior Independent Non-Executive Director
Kathleen L. Casey	2014	Independent Non-Executive Director
Safra A. Catz	2008	Independent Non-Executive Director
Laura M. L. Cha	2011	Independent Non-Executive Director
Marvin K. T. Cheung	2009	Independent Non-Executive Director
Jonathan D. Evans	2013	Independent Non-Executive Director
Joachim Faber	2012	Independent Non-Executive Director
Rona A. Fairhead	2004	Independent Non-Executive Director
Renato Fassbind	2013	Independent Non-Executive Director
William S. H. Laidlaw	2008	Independent Non-Executive Director
John P. Lipsky	2012	Independent Non-Executive Director
Janis R. Lomax	2008	Independent Non-Executive Director
Jonathan R. Symonds	2014	Independent Non-Executive Director
Group Company Secretary		
Name	Appointed	Title
Ben J. S. Mathews	2013	Group Company Secretary and Head of Corporate Governance

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HSBC North America Holdings Inc.

Board of Directors and Principal Executive Officers

It is expected that, with effect from June 30, 2014, the HNAH Board of Directors (**HNAH Board**) will consist of the members presented in the following table.

HNAH BOARD OF DIRECTORS		
Executive Directors		
Name	Appointed	Title
Irene M. Dorner	2010	Chief Executive Officer
Patrick J. Burke	2014	President and Chief Executive Officer-Designate ³
Rhydian H. Cox	2014	Senior Executive Vice President and Head of Regulatory Remediation
Antonio M. Losada	2014	Executive Director ⁴
Non-Executive Directors		
Name	Appointed	Title
Rona A. Fairhead	2014	Non-Executive Chairman and Non-Executive Director
Brian Robertson	2014	Non-Executive, Non-Independent Director
Phillip D. Ameen	2012	Non-Executive Director
Jeffrey A. Bader	2012	Non-Executive Director
Kevin M. Blakely	2013	Non-Executive Director
William R. P. Dalton	2008	Non-Executive Director
Anthea Disney	2005	Non-Executive Director
Robert K. Herdman	2005	Non-Executive Director
Richard A. Jalkut	1992	Non-Executive Director
Samuel Minzberg	2005	Non-Executive Director
Nancy G. Mistretta	2012	Non-Executive Director
Thomas K. Whitford	2013	Non-Executive Director

³ Patrick (Pat) Burke (52) has been appointed President and Chief Executive Officer of HSBC US with effect from November 1, 2014. Mr. Burke will become President and Chief Executive Officer-Designate of HSBC US and an Executive Director of HNAH, HUSI and HBUS with effect from June 30, 2014. He succeeds Irene Dorner, who will retire.

⁴ Mr. Losada is a Group Managing Director and the Chief Executive Officer of Latin America and the Caribbean.

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It is expected that, with effect from June 30, 2014, the Principal Executive Officers of HNAH will consist of the members presented in the following table.

HNAH PRINCIPAL EXECUTIVE OFFICERS		
Name	Appointed	Title
Irene M. Dorner	2011	Chief Executive Officer
Stuart A. Alderoty	2010	Senior Executive Vice President and General Counsel
Mary E. Bilbrey	2012	Executive Vice President, Head of Human Resources USA
Patrick J. Burke	2014	President and Chief Executive Officer-Designate ⁵
Rhydian H. Cox	2014	Senior Executive Vice President and Head of Regulatory Remediation
Steven G. Ekert	2013	Senior Executive Vice President and Chief Risk Officer
Kevin I. Fromer	2011	Executive Vice President, Public Policy
Loren C. Klug	2012	Executive Vice President, Head of Strategy and Planning and Chief of Staff to CEO
Ian T. Leroni	2014	Executive Vice President and Chief Accounting Officer
Richard E. O'Brien	2014	Senior Executive Vice President and Chief Auditor
Gerard Mattia	2014	Senior Executive Vice President and Chief Financial Officer
Patrick D. Schwartz	2008	Executive Vice President and Corporate Secretary
Vittorio M. Severino	2014	Senior Executive Vice President and Chief Operating Officer, USA

⁵ Patrick (Pat) Burke (52) has been appointed President and Chief Executive Officer of HSBC US with effect from November 1, 2014. Mr. Burke will become President and Chief Executive Officer-Designate of HSBC US and an Executive Director of HNAH, HUSI and HBUS with effect from June 30, 2014. He succeeds Irene Dorner, who will retire.

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HSBC Bank USA, National Association

Board of Directors and senior management

It is expected that, with effect from June 30, 2014, the HBUS Board of Directors (**HBUS Board**) will consist of the members presented in the following table.

HBUS BOARD OF DIRECTORS		
Executive Directors		
Name	Appointed	Title
Irene M. Dorner	2010	Chairman of the Board, President and Chief Executive Officer
Patrick J. Burke	2014	President and Chief Executive Officer-Designate ⁶
Rhydian H. Cox ⁷	2014	Senior Executive Vice President and Head of Regulatory Remediation
Non-Executive Directors		
Phillip D. Ameen	2013	Non-Executive Director
Kevin M. Blakely	2013	Non-Executive Director
William R. P. Dalton	2008	Non-Executive Director
Anthea Disney	2008	Non-Executive Director
Robert K. Herdman	2010	Non-Executive Director
Richard A. Jalkut	1992	Non-Executive Director
Nancy G. Mistretta	2012	Non-Executive Director

The senior management team of HBUS contains the same officers as shown above in the table for HNAH Principal Officers with the addition of the Americas/US heads of the HSBC global businesses. Kevin Fromer is not an officer of HBUS and does not participate in the HBUS Senior Management meetings.

⁶Patrick (Pat) Burke (52) has been appointed President and Chief Executive Officer of HSBC US with effect from November 1, 2014. Mr. Burke will become President and Chief Executive Officer-Designate of HSBC US and an Executive Director of HNAH, HUSI and HBUS with effect from June 30, 2014. He succeeds Irene Dorner, who will retire.

⁷Rhydian H. Cox is not a US citizen. As such, his appointment as a director on the HBUS Board is subject to OCC approval of a waiver of the US citizenship requirement.

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10. RESOLUTION PLANNING CORPORATE GOVERNANCE STRUCTURE AND PROCESSES RELATED TO RESOLUTION PLANNING

Global resolution planning

HSBC supports the FSB and national regulators' aim of ensuring banking groups are resolvable and is fully committed to the resolution planning process. To reflect this support a global recovery and resolution planning program (the **RRP Program**) was established. The RRP Program is led by the Group Head of Corporate Structuring who leads the Group Corporate Structuring team and is accountable to a steering committee led by the Group Finance Director. The RRP Program is focused on ensuring that each RRP, including the US Resolution Plan, both satisfies jurisdictional regulatory requirements while also maintaining consistency with the Group's resolution planning and overall resolution strategy. To achieve this objective, the Group Corporate Structuring team oversees country-level RRP teams and contributes to the production of jurisdictional plans.

The Group Corporate Structuring team accordingly worked with and supported the US RRP team during the creation of the US Resolution Plan. The US RRP team retains primary responsibility for the production of the US Resolution Plan and day-to-day liaison with US regulators.

US resolution planning governance and organization

The US RRP team was established in 2012 to take responsibility for the ongoing activities required to produce the annual US Resolution Plan. The US RRP team located key stakeholders from across the global businesses, global functions, and HSBC Technology and Services. The key stakeholders contributed to the 2014 US Resolution Plan, as required, including participation in specialized workstreams or sub-groups to produce required deliverables.

The US RRP team was accountable to the US RRP Executive Steering Committee (**RRP ESC**) that oversaw the creation and the approval of the 2014 US Resolution Plan. The RRP ESC is composed of the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer and General Counsel for each of HBUS and HNAH, as well as the Group Head of Corporate Structuring. Additional Legal, Finance, Risk and Group Corporate Structuring team representatives also attend the RRP ESC meetings. This committee meets at each approval milestone or as necessary and provides oversight and strategic direction.

Formal oversight responsibilities were also assigned to the US Risk Management Committee (**RMC**) and the North America Regulatory Activities Steering Committee.

Approval of US Resolution Plan

The HGHQ Board considered the US Resolution Plan on behalf of the Covered Company. Prior to the applicable Board meeting, the US Resolution Plan was also placed on the agenda of the Group Risk Committee and at the Group Risk Management Meeting. The US Resolution Plan was subsequently approved by the Group Chairman and Group Finance Director pursuant to the Board's delegation and in accordance with the requirements of the SIFI Rule.

The HNAH Board also approved the US Resolution Plan subsequent to its approval by the US RMC. The HBUS Board approved the IDI Plan in accordance with the IDI Rule.

11. MATERIAL MANAGEMENT INFORMATION SYSTEMS

HSBC's US operations rely on robust management information systems and reporting to monitor the financial health, risk and operations of its MEs, CBLs and COs. On a daily to monthly basis, the HSBC global businesses, global functions and/or HSBC Technology and Services provide management and the regulators with risk management, liquidity, accounting, operations and financial reports detailing a broad range of information necessary to maintain HSBC's strong financial position. The management information and reports used by management to conduct business as usual operations, in addition to certain bespoke management information, have been used to support the development of the US Resolution Plan.

In order to streamline the processes described above for the collection, analysis and reporting of the information and analytics underlying the US Resolution Plan, HSBC initiated process and systems improvements where necessary to achieve enhanced efficiencies in producing the required information and analytics. Through these improvements the collection and analysis of the information required was operationalized into a more business-as-usual process. While HSBC systems already provided effective information and analytics to operate and manage the business, these improvements allowed for a more efficient production process for the US Resolution Plan as well as for other recovery and resolution planning tasks.

12. RESOLUTION STRATEGY SUMMARY

The SIFI Rule requires that HSBC's US operations be resolved in a manner that substantially mitigates the risk that the failure of HSBC would have serious adverse effects on the financial stability of the US. The IDI Rule requires that HBUS be resolved in a manner that is least costly to the Deposit Insurance Fund. In addition, the IDI Rule generally requires that HBUS be resolved in a way that ensures depositors have access to their insured deposits within one business day of failure or two business days if the day HBUS fails is any day other than a Friday, maximizes the value of HBUS's assets and minimizes the amount of any loss realized by creditors in the resolution. As required by the SIFI rule, the resolution strategy must contemplate that HSBC's failure could occur under baseline, adverse and severely adverse economic scenarios. HSBC believes that the resolution strategy it has outlined achieves these goals and allows for the orderly resolution of HSBC's US operations.

HSBC's preferred resolution strategy for its US operations is the immediate sale of HBUS and HCSU with the continuation of the services provided by HTSU to HSBC Group entities under service level agreements or transitional services agreements. The remaining US MEs, namely HNAH, HUSI, HTSU and HBIO, would be resolved under the United States Bankruptcy Code (**Bankruptcy Code**). HTSU could be expected to continue to provide shared services to permit the resolution of the other HSBC entities under the existing service level agreements or under transitional services agreements because that would provide funding needed to retain value and repay creditors.

Potential acquirers of HSBC's US MEs, CBLs and COs include US-headquartered global and national banking groups with complementary branch networks and service offerings and foreign-based global banking groups interested in entering the US market or expanding their US operations.

If an immediate sale were not possible HBUS would most likely be resolved through the use of a bridge depository institution (**Bridge Bank**), a new national bank to be organized by the FDIC in accordance with 12 U.S.C. § 1821(n) that preserves continuity and maintains the value of HBUS's business and assets, followed by a whole bank purchase and assumption transaction, a sale of HBUS's CBLs separately or in packages or a recapitalization of HBUS. HBUS is largely self-funding and HSBC expects that the Bridge Bank would be able to fund itself based on the deposits and other transferred assets and lines of business under each of the economic scenarios. HSBC expects that HBUS would be an attractive acquisition, either through an immediate purchase and assumption transaction or through a sale from a Bridge Bank, to a number of financial institutions given its branch network and business lines, facilities and customer base.

Unless HCSU's business could be sold immediately before failure, HCSU would be resolved under the Securities Investor Protection Act (**SIPA**). If there exists a ready acquirer, HCSU's business or accounts could be sold out of a SIPA proceeding. However, if a sale could not be arranged, a trustee appointed by SIPA would likely liquidate HCSU's broker-dealer business, transfer its remaining FCM customer accounts to the extent possible and liquidate the remainder of the FCM business that is not transferred in a SIPA proceeding.

HNAH, HUSI, HTSU and HBIO would be resolved under Chapter 11 of the Bankruptcy Code. As holding companies with limited or no operations, HSBC believes that HNAH and HUSI would be wound down in conjunction with the resolution of their subsidiaries. HTSU, as a dedicated service company funded by payments from the US and non-US affiliates that receive its services, is unlikely to fail so long as a significant portion of those payments continue. If HTSU were placed into bankruptcy, it is anticipated that HTSU would continue to provide services under existing service level agreements and potentially under transitional services agreements with buyers of other HSBC Group assets, because this would maximize its value to vendors and other creditors. In resolution proceedings, it is likely that HTSU would charge the service recipients on a cost-plus or market basis. HTSU would subsequently be wound down. With



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respect to HBIO, its assets and those of its subsidiaries would be sold in a commercially reasonable manner and these companies wound down.