HSBC North America Holdings Inc.
HSBC Bank USA, N.A.

2014 Comprehensive Capital Analysis and Review and Annual Company-Run Dodd-Frank Stress Test

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HSBC North America Holdings Inc. and
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2014 CCAR and Annual Company-Run Dodd-Frank Stress Test Disclosure

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This document has been prepared pursuant to the disclosure requirements set out in the regulations issued by the Board of Governors of the Federal Reserve System ('Federal Reserve') and the Office of the Comptroller of the Currency ('OCC') under the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank Act') related to the annual company-run stress testing exercise.

References to 'HSBC' are to HSBC North America Holdings Inc. and its subsidiaries.

This document makes certain references that are not historical facts, including statements about HSBC's beliefs and expectations, which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as 'may', 'will', 'should', 'would', 'could', 'appears', 'believe', 'intends', 'expects', 'estimates', 'targeted', 'plans', 'anticipates', 'goal' and similar expressions are intended to identify forward-looking statements but should not be considered as the only means through which these statements may be made. These matters or statements will relate to our future financial condition, economic forecast, results of operations, plans, objectives, performance or business developments and will involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements. The projections disclosed in this document should not be viewed or interpreted as forecasts of expected outcomes or capital adequacy or of the actual financial condition of either HSBC or HSBC Bank USA, N.A. Rather, these projections are based solely on the hypothetical adverse scenarios and other specific conditions required to be assumed by HSBC for the purpose of Dodd-Frank Act stress testing as well as modeling assumptions necessary to project and assess the impact of the various adverse scenarios on HSBC's capital position. Forward-looking statements speak only as of the date of this document. 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. Factors that could cause HSBC's actual results to differ materially from those described in forward-looking statements can be found in the Annual Report on Form 10-K for HSBC USA Inc. and HSBC Finance Corporation. Additionally, please refer to the HSBC USA Inc. Annual Report on Form 10-K for a broader description of our capital planning and risk management processes.

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2014 CCAR and Annual Company-Run Dodd-Frank Stress Test Disclosure

1. Overview of the Comprehensive Capital Analysis and Review and Dodd-Frank Stress Tests

Pursuant to the Dodd-Frank Act, the Federal Reserve and the OCC have issued regulations requiring Bank Holding Companies ('BHCs') and national banks, respectively, with average total consolidated assets of US$50 billion or more to conduct annual company-run stress tests ('Dodd-Frank stress test'). HSBC North America Holdings Inc. ('HSBC North America') and HSBC Bank USA, N.A. ('HSBC Bank USA') are required to participate in the Dodd-Frank stress tests and provide herein the disclosure of their 2014 stress test exercise, as required under these regulations. In addition, BHCs, including HSBC North America, are required to conduct mid-cycle company-run stress tests. The Federal Reserve is also required to undertake an annual supervisory stress test of BHCs, as defined above.

The company-run stress test is a forward looking exercise to assess the impact of hypothetical macroeconomic baseline, adverse and severely adverse scenarios provided by the Federal Reserve and the OCC on the financial condition and capital adequacy of a BHC or bank over a nine quarter planning horizon, beginning in the fourth quarter of 2013. For HSBC North America, the Dodd-Frank stress test was conducted in conjunction with the Federal Reserve's annual Comprehensive Capital Analysis and Review ('CCAR'). Under CCAR, the Federal Reserve also undertakes an assessment of a BHC's capital adequacy process and HSBC North America submitted its Capital Plan in compliance with the CCAR requirements[1]. BHCs, such as HSBC North America, are required to receive a 'no objection' from the Federal Reserve before executing a capital action.

HSBC North America and HSBC Bank USA are required to disclose the results of their Dodd-Frank stress tests under the Federal Reserve and OCC's severely adverse stress scenario[2] (the 'supervisory severely adverse scenario'). For the 2014 annual stress testing cycle, the supervisory severely adverse scenario is characterized by a substantial weakening in economic activity across all of the economies included in the scenario. In addition, the scenario features a significant reversal of recent improvements to the U.S. housing market and the outlook for the eurozone. In the U.S., the scenario features a severe recession in which the unemployment rate increases four percentage points from current levels and, from late 2014 to mid-2016, it is above any level experienced in the past 70 years. Mortgage interest rates remain relatively unchanged at the current low levels. It is important to note that the scenarios provided by the Federal Reserve and OCC are not forecasts, but rather hypothetical scenarios to be used to assess the strength and resilience of institutions in baseline and stressed economic and financial market environments.

Six BHCs with large trading operations were required by the Federal Reserve to include a global market shock as part of their supervisory adverse and severely adverse scenarios and to conduct a stress test of their trading books and private equity positions. In addition, eight BHCs with substantial trading or custodial operations were required to incorporate a counterparty default scenario component into their supervisory adverse and severely adverse stress scenarios. HSBC North America was not included within these exercises.

HSBC North America is the holding company for HSBC Holdings plc's operations in the United States. Those operations are primarily conducted through HSBC Bank USA and HSBC Finance Corporation, a national

[1] *See Board of Governors of the Federal Reserve System, 'Comprehensive Capital Analysis and Review 2014 Summary Instructions and Guidance', November 1, 2013, for the CCAR and Dodd-Frank Act stress test instructions.*

[2] *For the supervisory severely adverse scenario description and macroeconomic variables, see Board of Governors of the Federal Reserve System, '2014 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule', November 1, 2013, available at http://www.federalreserve.gov/bankinforeg/bcreg20131101a1.pdf.*

consumer finance company. HSBC Markets (USA) Inc. is the intermediate holding company of, inter alia, HSBC Securities (USA) Inc.

HSBC Holdings plc is one of the world's largest banking and financial services organizations. With over 6,300 offices in both established and faster-growing markets, it aims to be where growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realize their ambitions.

The results of HSBC North America and HSBC Bank USA's annual company-run Dodd-Frank stress test are shown below in section 3.

2. Forecasting methodologies utilized for Dodd-Frank stress testing

Our stress testing methodologies focus on empirically defining the relationship between macroeconomic variables and business volumes, revenues and losses in order to estimate outcomes that may result from a specific adverse scenario. We use a series of models and estimation methodologies, coupled with management judgment and overlays to modeled results to take account of HSBC North America's specific risk profile, to produce a comprehensive estimate of future business performance. Stress testing methodologies are subject to considerable uncertainties and modeling limitations, including uncertainty about the extent to which historical relationships between macroeconomic factors and business outcomes will continue to be relevant in a severely stressed economic environment and the potential for changes to consumer behavior in response to changes in the environment. We regularly consider uncertainties and the limitations of our estimates when evaluating stress test results. The methodologies apply accounting practices consistent with HSBC's significant accounting policies, generally accepted accounting principles in the U.S., and the regulatory capital rules currently in force or due to be in force over the planning horizon.

The forecast methodologies employed by HSBC to quantify the impact of the hypothetical assumptions over the stress testing forecast period, included, but were not limited to, the following:

Pre-provision net revenue

HSBC's revenue forecast, under the supervisory severely adverse scenario, reflected a detailed process in which each business segment developed projections over the nine-quarter capital planning horizon. These forecasts incorporated the impact on net interest income, non-interest income and non-interest expense of the hypothetical macroeconomic and market environment prescribed under the scenario. The scenario revenue forecast also reflected the level of resources projected to be employed by each business segment over the capital planning horizon, as well as HSBC's expectations of customer behavior and competitive dynamics. Pre-provision net revenue also included forecast movements in the lower of amortized cost or fair value adjustments on the fair value of real estate receivables held for sale in HSBC Finance Corporation.

Losses

Stress losses from market risk, wholesale and retail credit risk and operational risk exposures across HSBC, under the supervisory severely adverse scenario, were measured utilizing the following methodologies:

Market Risk: Market risks included all mark-to-market positions and loans carried at fair value (the latter primarily in HSBC Finance Corporation). The potential impact of market movements on trading positions and mark-to-market losses for fair-value assets not held in the trading book, including loans held for sale or held for investment under the fair-value option, projected in the scenario were incorporated, as appropriate.

Our approach to projecting market risk trading losses in a stress environment was based upon specifying macroeconomic shifts and observing and incorporating their impacts into HSBC's forecast performance. The market risk trading stress was computed using a full revaluation methodology in which the portfolio was fully re-priced under the stress risk factor assumptions.

Credit Risk: Loans to our customers are a significant component of HSBC's total assets and their related credit risk is among the most significant risks we manage. When estimating loan losses, probability of default, exposure at default, and loss severity assumptions are incorporated into the loan loss estimates. Loss estimates take into consideration the unique characteristics of our wholesale and retail loan portfolios and reflect the run-off nature of the retail loan portfolio in HSBC Finance Corporation.

A variety of models were used to project losses on loans. These models take into consideration many factors, including historical performance, the forecast economic scenarios, current credit characteristics, and loan-level credit quality ratings. Where appropriate, we incorporated country-specific, state and local economic variables to reflect geographical concentrations within a given loan portfolio.

Wholesale loss estimates were made at the asset type level, specifically between commercial & industrial and commercial real estate portfolios. Within each of these, the portfolio was segmented further to capture key portfolio risk characteristics that may react differently under various stress scenarios. Rigorous statistical techniques were used to determine and estimate relationships between probability of default and macro-economic factors. Probability of default projections are sensitive to and consistent with scenario conditions, resulting in loss rates that are indicative of underlying economic fundamentals.

Losses on retail loans were projected using portfolio-based econometric vintage models that use economic attributes (such as unemployment rate, gross domestic product, housing price level and year-over-year change in housing prices) to condition delinquency-status migration patterns and estimate loss. Estimated troubled debt restructuring volumes and life of loan reserves, most significant to loans made by HSBC Finance Corporation, were stressed quarterly throughout the observation period.

Operational Risk: Operational risk loss estimates were calculated through multiple approaches, including trending of historical performance, management judgment and statistical modeling to project operational losses in a stress environment. Currently, our statistical modeling process for operational risk losses utilizes our Basel II Advanced Measurement Approaches framework and statistical techniques to estimate correlation relationships between changes in specific macroeconomic variables on operational loss frequency and resulting potential future operational risk losses. The forecast operational risk losses include the estimation of litigation costs, as set out in the CCAR requirements, under the supervisory severely adverse scenario.

Capital position

The capital positions of HSBC North America and HSBC Bank USA were forecast using the projected revenue and loss estimates described above and risk-weighted assets forecast under the supervisory severely adverse scenario. Tier 1 common, tier 1, total capital and tier 1 leverage ratios were then projected over the nine-quarter stress testing forecast period under the existing Basel I general risk-based capital rules and, for forecasts from January 1, 2014, the U.S. rules implementing the Basel III framework, including forecasts of Standardized Approach risk-weighted assets.

3. Company-Run Stress Tests – HSBC North America Holdings Inc.

The results of our 2014 annual Dodd-Frank stress test are shown below. The forecasts include prescribed assumptions, as required under the Dodd-Frank stress testing requirements, in respect of the capital actions projected over the planning horizon: (i) no issuances or redemptions of regulatory capital instruments, (ii) no payment of common stock dividends (based on previous year actual experience), and (iii) payments on any other regulatory capital instruments are equal to the stated dividend, interest or principal due on such instrument in the quarter. The estimates should not be seen as forecasts of expected outcomes or capital adequacy or of the actual financial condition of either HSBC North America or HSBC Bank USA. The forecasts for HSBC North America may not necessarily be in alignment with those of other institutions or the Federal Reserve because of differences in modeling techniques, methodologies and assumptions made.

The changes in forecast regulatory capital ratios are driven by increased loan losses, unfavorable movements in the lower of cost or fair value adjustments on real estate receivables held for sale in HSBC Finance Corporation and operational risk losses, largely due to litigation events. Despite the projected declines in net income, we forecast a tier 1 common ratio well above the 5% benchmark minimum ratio established under the Federal Reserve's capital plan rule. As shown in Table 1, the other minimum regulatory capital ratios are forecast to be above all regulatory minimum ratios.

The following tables show projected regulatory capital ratios, projected losses, revenues and net income before taxes and projected loan losses by loan type for HSBC North America under the supervisory severely adverse scenario.

Table 1: HSBC North America projected minimum regulatory capital ratios and tier 1 common ratio, 4Q13 to 4Q15, and the required regulatory minimum capital ratios for CCAR 2014

Projected stressed capital ratios through Q4 2015	Required regulatory minimum capital ratios			Actual	Stressed capital ratios	
	Q4 2013	2014	2015	Q3 2013	Q4 2015	Minimum[1]
Tier 1 common ratio[2]	5.00%	5.00%	5.00%	14.73%	8.74%	8.64%
Common equity tier 1 capital ratio	n/a	4.00%	4.50%	n/a	9.85%	9.82%
Tier 1 risk-based capital ratio	4.00%	5.50%	6.00%	17.13%	10.20%	10.15%
Total risk-based capital ratio	8.00%	8.00%	8.00%	26.48%	18.05%	17.97%
Tier 1 leverage ratio	3% or 4%	3% or 4%	4.00%	7.84%	5.92%	5.92%

1 The minimum capital ratios represent the lowest projected ratio in the period 4Q13 to 4Q15 and do not necessarily occur in the same quarter.

2 The tier 1 common ratio is calculated under the definitions of tier 1 capital and total risk-weighted assets as in effect during 2013. All other ratios are calculated in accordance with the transition provisions set out in the Federal Reserve's revised capital framework implementing Basel III.

Table 2: HSBC North America projected losses, revenues and net loss before taxes for the nine quarters

Projected losses, revenue, and net loss before taxes, Q4 2013 - Q4 2015	Billions of dollars
Pre-provision net loss[1]	(2.13)
less	
Provisions	5.29
Realized losses/gains on securities (AFS/HTM)	0.12
Trading and counterparty losses[2]	0.00
Other losses/gains[3]	0.72
equals	
Net loss before taxes	(8.26)

1 Pre-provision net revenue includes losses from operational-risk events, mortgage repurchase expenses, unfavorable movements in the lower of amortized cost or fair value adjustments on the fair value of real estate receivables held for sale and other real estate owned ('OREO') costs.

2 Trading and counterparty losses include mark-to-market and credit valuation adjustments ('CVA') and losses arising from the counterparty default scenario component applied to derivatives, securities lending and repurchase agreement activities. HSBC North America was not subject to the global market shock component or counterparty default scenario component of the stress test.

3 Other losses/gains includes projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option, and goodwill impairment losses.

Table 3: HSBC North America projected loan losses, by loan type for the nine quarters

Projected loan losses, by type of loan, Q4 2013–Q4 2015	Billions of dollars	Portfolio loss rates (%)[1]
Loan losses		
First-lien mortgages, domestic	1.64	4.5%
Junior liens and HELOCs, domestic	0.80	18.3%
Commercial and industrial[2]	1.37	3.9%
Commercial real estate, domestic	0.67	8.7%
Credit cards	0.09	10.8%
Other consumer[3]	0.00	0.7%
Other loans	0.00	0.0%

1 Cumulative loss rates calculated over the nine-quarter planning horizon as a percentage of average loan balances (excluding loans held for sale and loans held for investment under the fair-value option).

2 Commercial and industrial loans include small and medium enterprise loans and corporate cards.

3 Other consumer loans include student loans and automobile loans.

4. Company-Run Stress Tests – HSBC Bank USA, N.A.

The following tables show projected regulatory capital ratios, projected losses, revenues and net income before taxes and projected loan losses by loan type for HSBC Bank USA under the supervisory severely adverse scenario.

Table 4: HSBC Bank USA projected minimum regulatory capital ratios and tier 1 common ratio, 4Q13 to 4Q15

Projected stressed capital ratios through Q4 2015						
	Required regulatory minimum capital ratios			Actual	Stressed capital ratios	
	Q4 2013	2014	2015	Q3 2013	Q4 2015	Minimum[1]
Tier 1 common ratio[2]	5.00%	5.00%	5.00%	13.33%	10.10%	8.96%
Common equity tier 1 capital ratio	n/a	4.00%	4.50%	n/a	9.46%	8.79%
Tier 1 risk-based capital ratio	4.00%	5.50%	6.00%	13.33%	9.46%	8.79%
Total risk-based capital ratio	8.00%	8.00%	8.00%	18.01%	12.69%	12.34%
Tier 1 leverage ratio	3% or 4%	3% or 4%	4.00%	9.30%	8.34%	7.94%

1 The minimum capital ratios represent the lowest projected ratio in the period 4Q13 to 4Q15 and do not necessarily occur in the same quarter.

2 The tier 1 common ratio is calculated under the definitions of tier 1 capital and total risk-weighted assets as in effect during 2013. All other ratios are calculated in accordance with the transition provisions set out in the Federal Reserve's revised capital framework implementing Basel III.

Table 5: HSBC Bank USA projected losses, revenues and net loss before taxes for the nine quarters

Projected losses, revenue, and net loss before taxes, Q4 2013 - Q4 2015	Billions of dollars
Pre-provision net revenue[1]	0.77
less	
Provisions	2.55
Realized losses/gains on securities (AFS/HTM)	0.12
Trading and counterparty losses[2]	0.00
Other losses/gains[3]	0.20
equals	
Net loss before taxes	(2.10)

1 Pre-provision net revenue includes losses from operational-risk events and mortgage repurchase expenses.

2 Trading and counterparty losses include mark-to-market and credit valuation adjustments ('CVA') and losses arising from the counterparty default scenario component applied to derivatives, securities lending and repurchase agreement activities. HSBC Bank USA was not subject to the global market shock component or counterparty default scenario component of the stress test.

3 Other losses/gains includes projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option, and goodwill impairment losses.

Table 6: HSBC Bank USA projected loan losses, by loan type for the nine quarters

Projected loan losses, by type of loan, Q4 2013–Q4 2015	Billions of dollars	Portfolio loss rates (%)[1]
Loan losses		
First-lien mortgages, domestic	0.18	1.0%
Junior liens and HELOCs, domestic	0.13	6.8%
Commercial and industrial[2]	1.37	3.9%
Commercial real estate, domestic	0.67	8.7%
Credit cards	0.09	10.8%
Other consumer[3]	0.02	4.2%
Other loans	0.00	0.0%

1 Cumulative loss rates calculated over the nine-quarter planning horizon as a percentage of average loan balances (excluding loans held for sale and loans held for investment under the fair-value option).

2 Commercial and industrial loans include small and medium enterprise loans and corporate cards.

HSBC