



# HSBC in North America

(USA & Canada)

## 2007 Lehman Brothers Financial Services Conference

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HSBC 

The world's local bank

## Forward-looking statements

**This presentation, including the accompanying slides and subsequent discussion, contains certain forward-looking information with respect to the financial condition, results of operations and business of HSBC Holdings plc, HSBC Finance Corporation, HSBC USA Inc., HSBC Bank Canada and HSBC North America Holdings Inc. This information represents expectations or beliefs concerning future events and is subject to unknown risks and uncertainties. This information speaks only as of the date on which it is provided. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the HSBC Holdings plc Annual Report and the HSBC Finance Corporation and HSBC USA Inc. Annual Reports on Forms 10-K for the year ended December 31, 2006, HSBC Holdings plc Interim Report for the period ended June 30, 2007, and the HSBC Finance Corporation and HSBC USA Inc. Quarterly Reports on Forms 10-Q for the periods ended March 31, 2007 and June 30, 2007. Please further be advised that Regulation FD prohibits HSBC representatives from answering certain, specific questions during the Q&A session.**

# Agenda

- **HSBC – North America (USA & Canada)**
- **HSBC Finance Corporation**
- **HSBC USA Inc.**
- **HSBC Bank Canada/HSBC Finance Canada**
- **Global Consumer Finance**
- **Summary**

# HSBC's global distribution – a competitive advantage

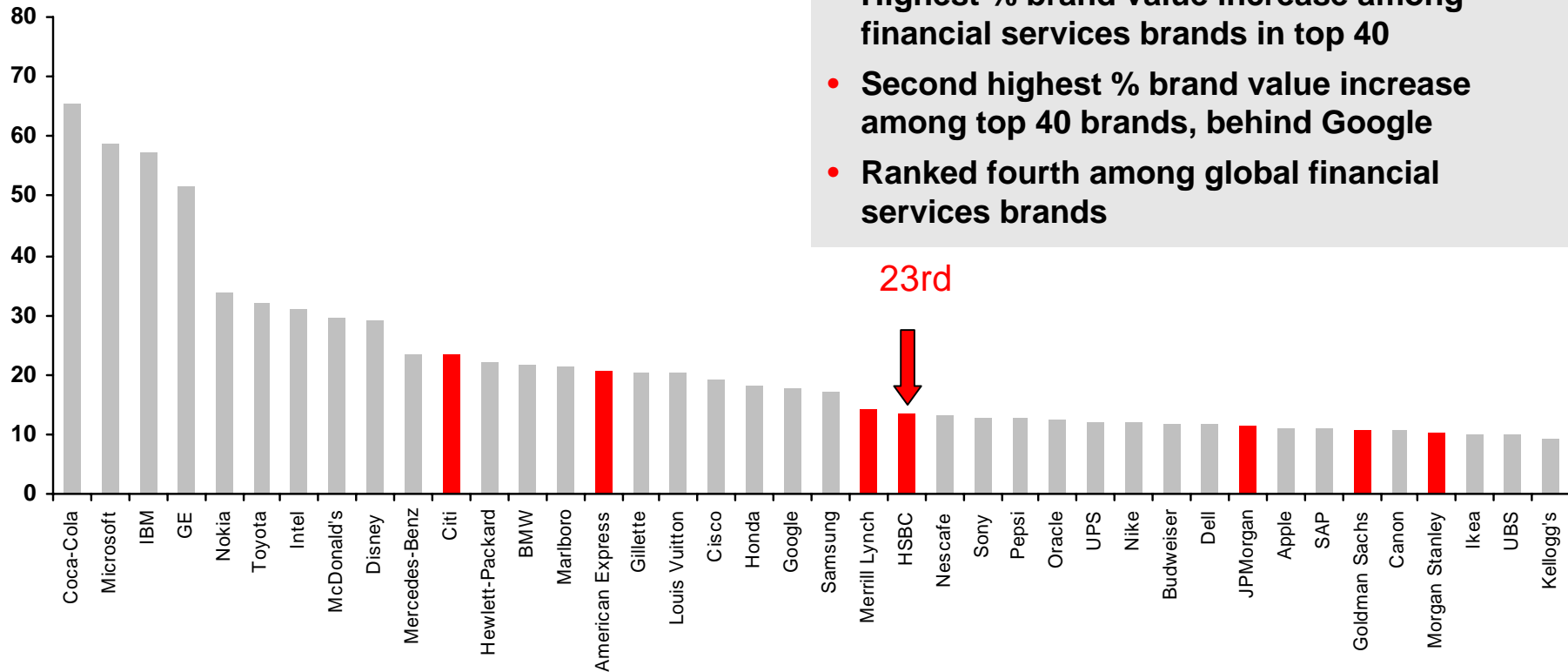
## The world's local bank

### HSBC Group international network



# The value of the HSBC brand – 2007

Brand value  
(US\$ billions)



Source: Interbrand – Best Global Brand 2007



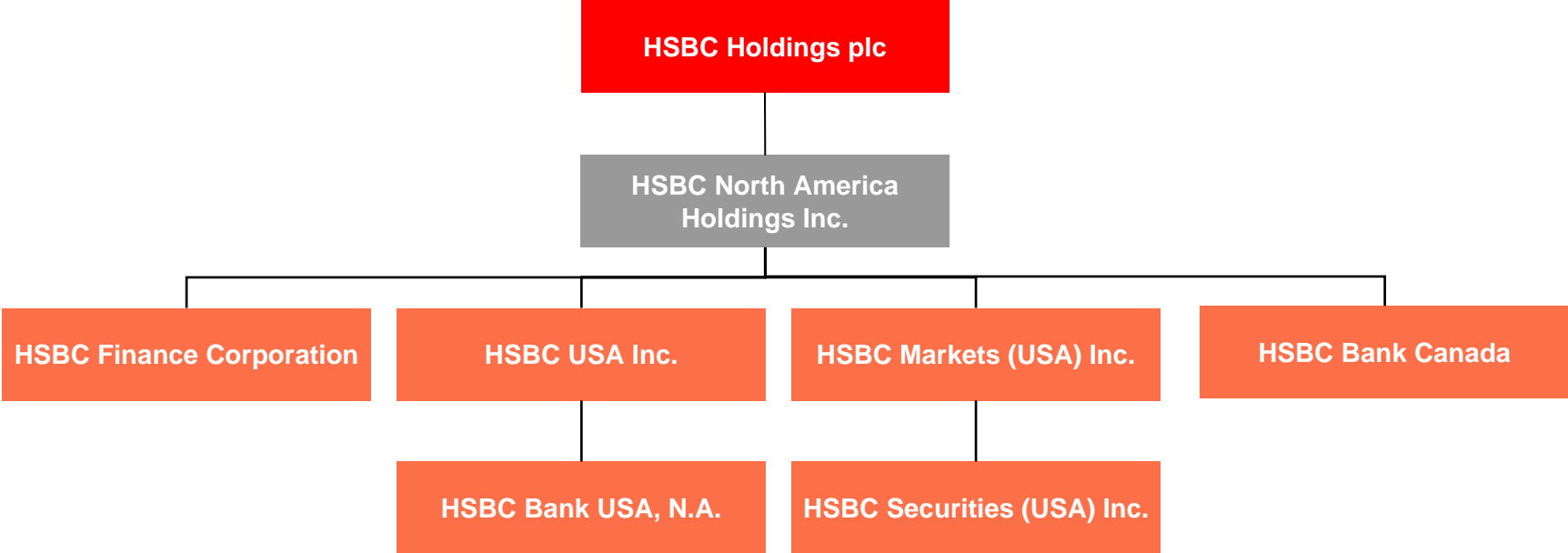
## HSBC – North America (USA & Canada) profile

- **A top 10 U.S. bank holding company, with assets exceeding US\$500 billion <sup>(1)</sup> at June 30, 2007**
- **Over 56,000 employees**
- **Operating in over 46 states and across Canadian provinces**
- **H1 2007 pre-tax income of US\$2.3 billion <sup>(1)</sup>**
- **Comprised 17% of Group's profit before tax in H1 2007**

<sup>(1)</sup> International Financial Reporting Standards (IFRS) basis

# HSBC North America Holdings Inc.

## Legal entity structure



# HSBC - North America – financial performance

(US\$ millions, IFRS)

Pre-tax profits	H1 2006	H2 2006	H1 2007
<b>United States</b>			
Personal Financial Services (PFS) <sup>(1)</sup>	\$2,886	\$242	\$1,336
Commercial Banking (CB)	206	236	215
Corporate, Investment Banking and Markets (CIBM)	273	(74)	292
Private Banking (PB)	37	70	50
Other	(145)	(119)	(44)
<b>Total U.S.</b>	<b>\$3,257</b>	<b>\$355</b>	<b>\$1,849</b>
<b>Canada</b>	<b>393</b>	<b>503</b>	<b>493</b>
<b>Total U.S. &amp; Canada</b>	<b>\$3,650</b>	<b>\$858</b>	<b>\$2,342</b>

U.S. and Canada combined country figures

(1) PFS segment includes Consumer Finance (CF)

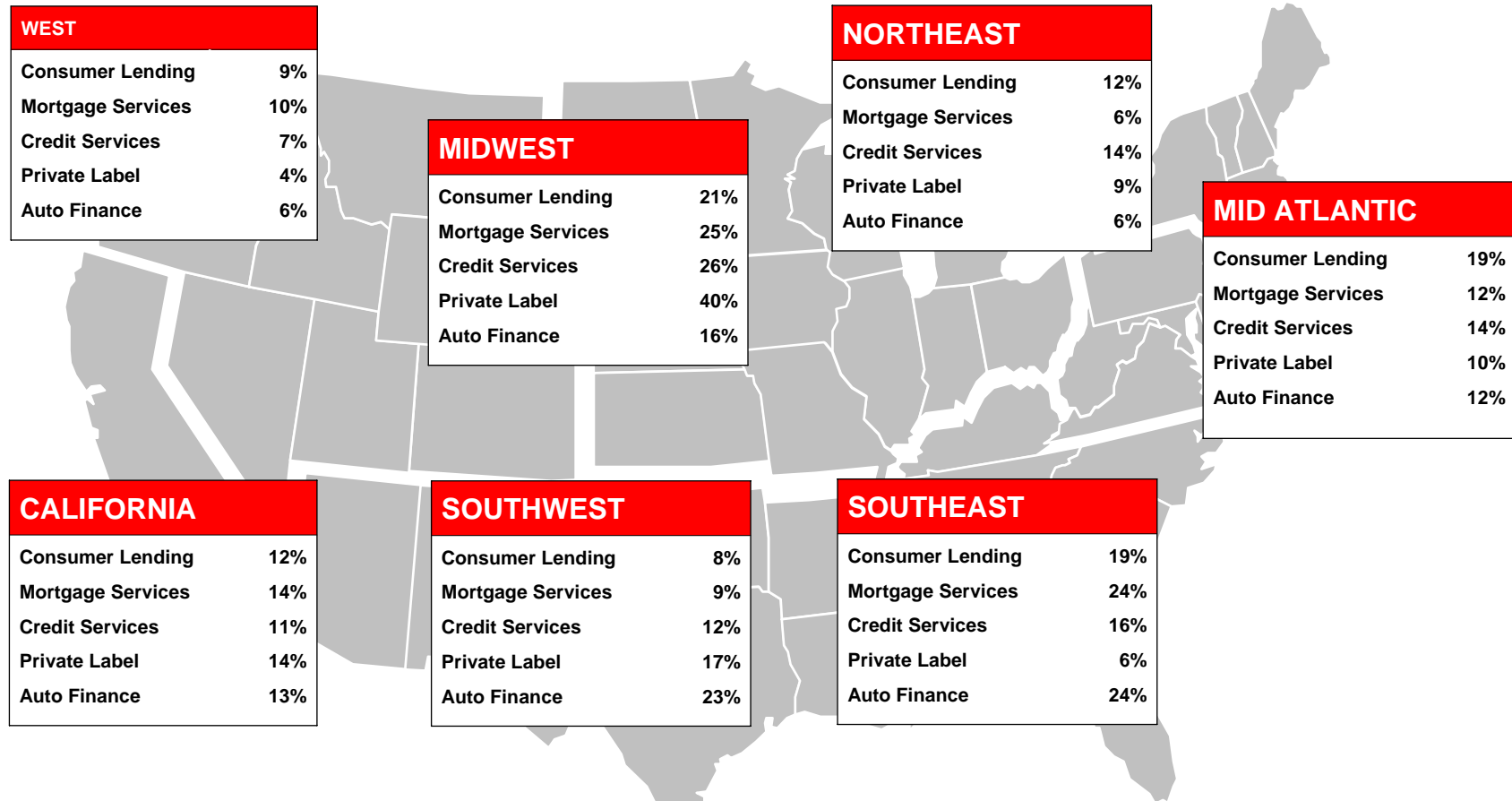


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# HSBC Finance Corporation

## Nationwide coverage and well diversified

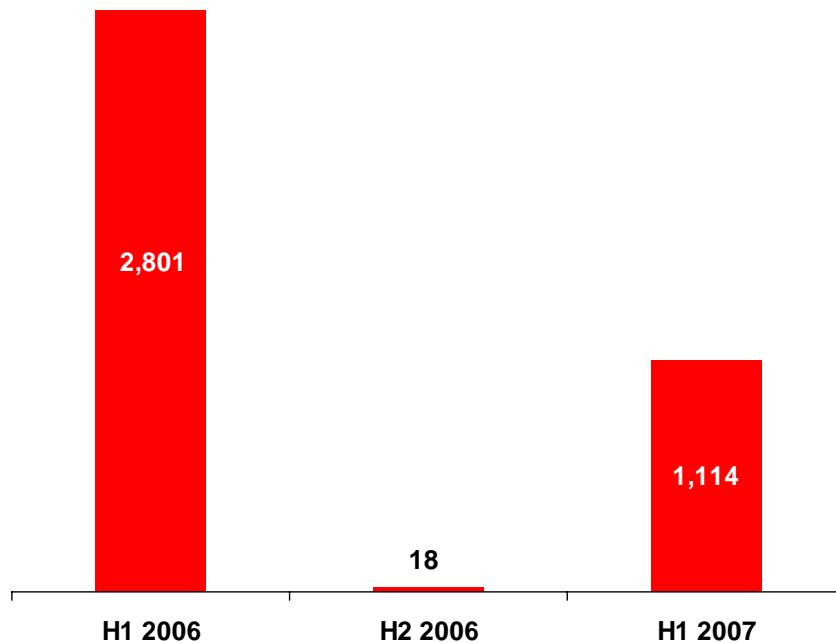


Represents per cent distribution of consumer receivables (US GAAP) as of December 31, 2006



# HSBC Finance Corporation – financial summary

## Profit Before Tax



(US\$ millions, IFRS Management basis)

## H1 2007 results highlights

- Higher net operating income before loan impairment charges from H1 2006 driven by good performance in branch-based real estate portfolios and card business
- Loan impairment charges excluding Mortgage Services increased US\$1.3 billion from H1 2006 due to growth and seasoning of portfolio and the unusually favorable credit environment, low bankruptcy and strong economic conditions in H1 2006
- Mortgage Services' portfolio has continued to decrease as expected. Decrease of US\$8.1 billion (16%) over H2 2006.
- Operating expenses increased 4% compared to H1 2006 primarily to support loan growth.
  - Operating expenses increase of 1% over H2 2006

# HSBC Finance Corporation Initiatives during H1 2007

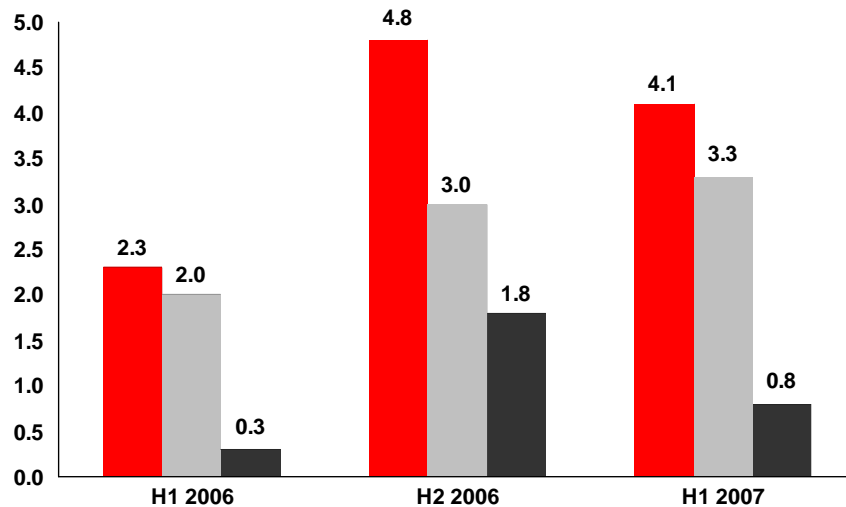
## Strategic actions

- Strategic repositioning of the Mortgage Services business
- Strengthened structure with Chief Operating Officer role extended to cover credit risk organization
- Discontinuation of pre-season tax products by Taxpayer Financial Services
- Non-binding agreement to sell UK Insurance operations

## New initiatives

- Cross-sale of credit card customers with home loans is gaining momentum
- Cross-sale of card customers with auto loans started in June

# HSBC Finance Corporation Loan impairment charges



■ Total

■ Excluding Mortgage Services

■ Mortgage Services

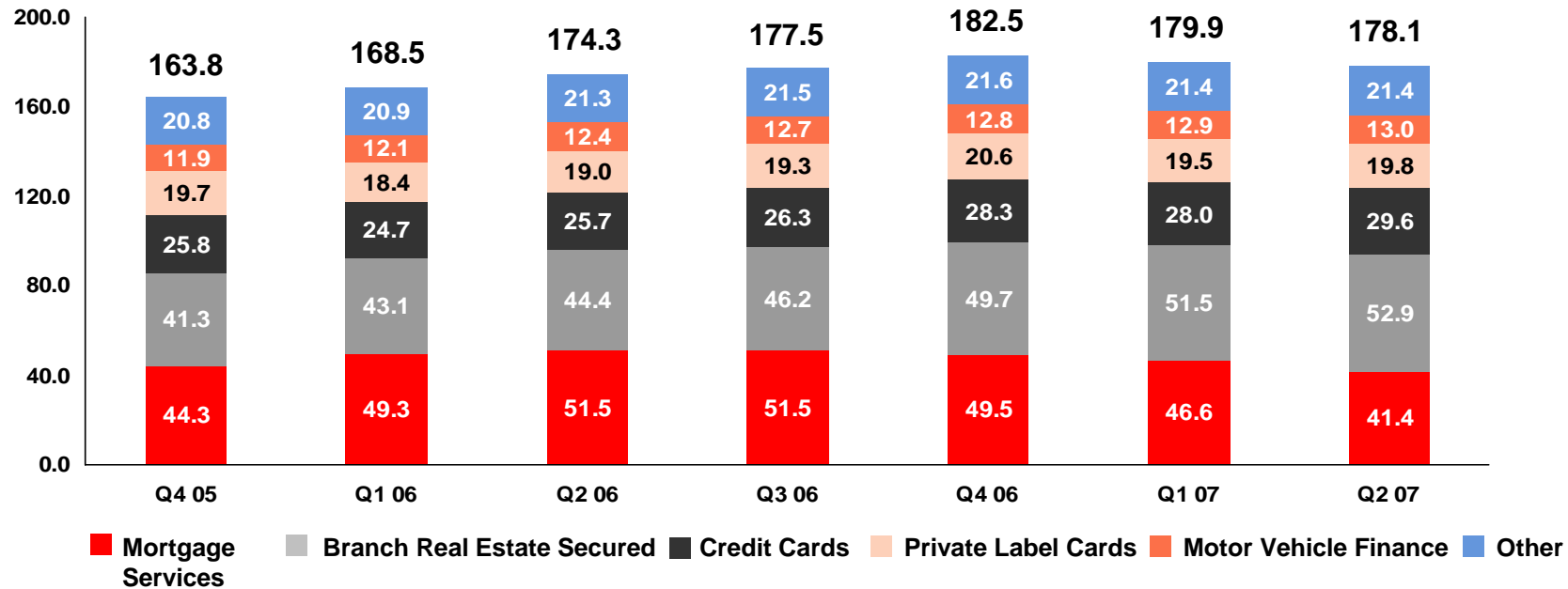
(US\$ billions, IFRS Management basis)

- Excluding Mortgage Services, loan impairment charges for H1 2007 were above H2 2006, primarily due to bankruptcies returning to normalized levels and growth and seasoning in the Cards and Consumer Lending portfolios
- H1 2006 significantly benefited from a strong economy, benign credit environment and low bankruptcies

# HSBC Finance Corporation

## Customer loans and advances

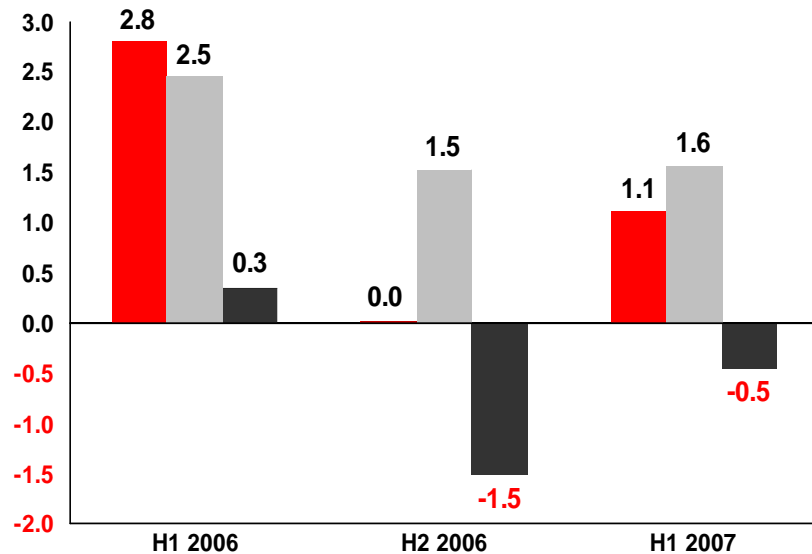
(US\$ billions, IFRS Management basis)



- Strategic reduction in Mortgage Services loan portfolio with growth in all other key portfolios considering seasonality
- Reduction in Mortgage Services portfolio consistent with decision to discontinue correspondent channel acquisitions and select sales of assets

# HSBC Finance Corporation

## Profit before tax



- Total
- Excluding Mortgage Services
- Mortgage Services

(US\$ billions, IFRS Management basis)

- H1 2006 benefited from unusually favorable credit environment and economic conditions
- Lower profit before tax excluding Mortgage Services compared with H1 2006 as a result of increased impairment charges as credit environment trends toward normalized levels
- Profit before tax excluding Mortgage Services consistent with H2 2006

## **US Mortgage Services – making good progress**

- **Reduced portfolio**
- **Stopped underwriting sub-prime mortgages from correspondents**
- **Selected portfolio managed by a dedicated centre with the most experienced management**
- **Proactive customer contact program for adjustable rate mortgage (ARM) resets**
- **By June 30, 2007, over 19,000 customers contacted with over 5,000 loans modified**

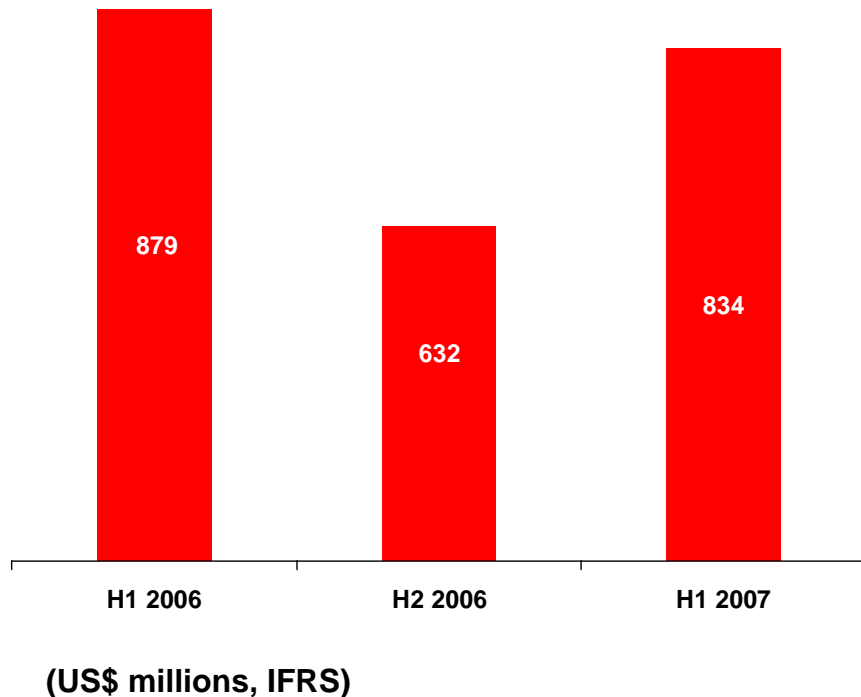


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# HSBC USA Inc. – financial summary

## Profit Before Tax



- Profit before taxes of US\$834 million for H1 2007 decreased 5% from H1 2006
  - Continued investment in business expansion initiatives and higher technology costs to support build out of enhanced product and service platforms
- Increase in both operating income and deposits from prior year
- Assets totaled US\$215 billion, increased 3% from H1 2006

# HSBC USA Inc. – strategic positioning and business highlights

Grow in segments/markets where we have a differentiated proposition  
Focus on streamlining processes and other enhancements

## Personal Financial Services

- Strong growth of deposit base in H1 2007
- Branch expansion initiative continues to be progressed and refined
- Continued investment in the HSBC brand
- Focus on Premier re-launch

## Commercial Banking

- Expansion of middle markets activities in Chicago, Washington DC and the West Coast
- Emphasis on cross-border
- Continue to drive product penetration and cross-sell opportunities

## Corporate, Investment Banking and Markets

- Focus on sectors where we can best leverage our unique footprint in emerging markets and financing activity globally
- Strong momentum in PCM continues

## Private Banking

- Continue to build on client-centric organization through holistic solutions and new offices
- Successful client acquisition and expansion of annuity streams
- Strong revenues from higher net interest income and higher commission and fees on structured and managed products

# HSBC Direct

- **Objectives**
  - Provide stable deposit base
  - Build HSBC Brand on a national basis
  - Attract new customers and potentially provide foundation for sale of other products
- **Results as of June 30, 2007**
  - Online deposits have grown to US\$12 billion (launched November 2005) with over 560,000 customers
    - US\$4.8 billion raised in H1 2007
    - Approximately 225,000 new accounts in H1 2007
- **Online savings account is successfully driving brand awareness and product adoption out-of-footprint**
  - 70% of customers reside beyond Bank's footprint
- **Growth in on-line deposits continues**

Note: US \$ figures above are presented on an IFRS basis



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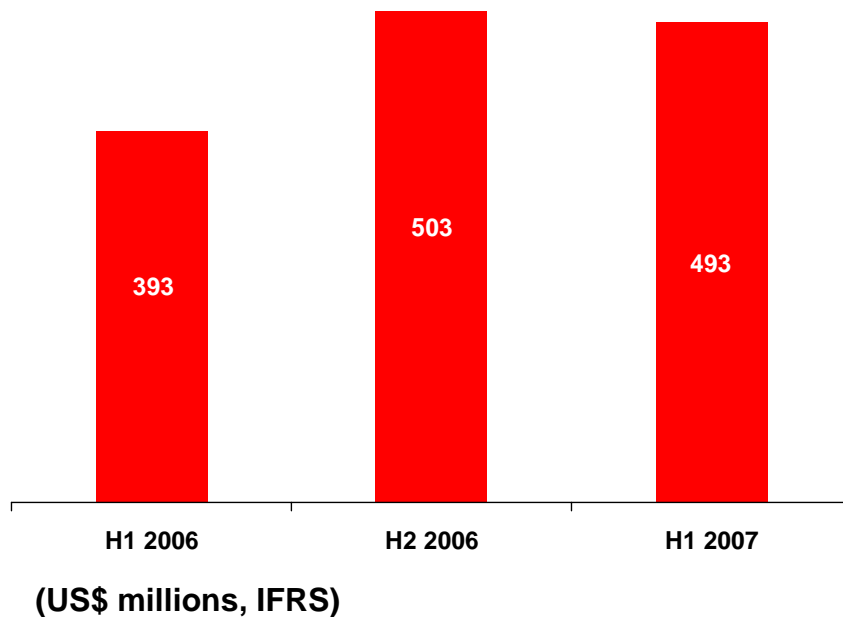
# HSBC in Canada – Overview

- **HSBC Bank Canada**
  - Assets of CAD\$61 billion at H1 2007
  - Largest foreign bank and seventh-largest bank in Canada
  - Over 1.2 million customers and 176 offices
  - Approximately 6,000 full-time equivalent employees
  - Strong market share in Asian banking, trade finances, British Columbia and mid-market commercial
- **HSBC Finance in Canada**
  - 139 branch offices in 10 provinces, 55 merchant relationships
  - 1.3 million customer accounts
  - 1,900 employees

Note: CAD \$ figure above is presented on a Canadian GAAP basis

# HSBC in Canada – financial summary

## Profit Before Tax



- H1 2007 profit before taxes of US\$493 million increased 25.4% over H1 2006
  - Continued to achieve strong results from continuing strength of Canadian economy, while maintaining a high level of credit quality
  - Income benefited from gains of US\$22 million on sale of shares in the Montreal Exchange

# HSBC in Canada

- **Strong Commercial Banking franchise**
  - Strong commercial pipeline, continued vigilance on the credit front, impairments at historic lows
  - Continue to expand distribution and product offerings in the Payment and Cash management business
  - Implement Small Business strategy
- **Opportunities in PFS (including Consumer Finance), Private Banking and CIBM**
  - Strategic alliance providing 3<sup>rd</sup> largest Automated Banking Machines network in Canada
  - Launched the Direct Bank including a new online Direct Savings Account
- **Further opportunities in collaboration between HSBC Bank Canada and HSBC Finance in Canada**
  - Credit Cards, Auto Finance, Credit Insurance, Vendor Management
  - Broaden customer acquisition through leads management and cross business initiatives with HSBC Finance Canada



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# Global Consumer Finance – update

**The Global Consumer Finance (CF) expansion is a benefit of Household acquisition – leveraging expertise by exporting management throughout the Global Network.**

- **Globally, Consumer Finance continues to be a large, growing and profitable market**
- **Acquisition of Banistmo in November 2006 provides access to the Central American region's 83 million under-banked population**
- **Four strong PoS retail partnerships have been launched in China with Wal-Mart, Best Buy, Suning and New World department stores**
- **India operating out of 29 CF branches in 22 cities**
- **Indonesia has opened 52 CF branches in the past 15 months**
- **Preparing existing CF businesses for growth in Czech Republic, Hungary, Poland and Slovakia**

# HSBC in North America – summary

- **Scale**
- **Diversified**
- **Focused on execution**
- **Stable/Secure**



# Appendix

# Basis of reporting

- **IFRS** From January 1, 2005, HSBC Holdings plc (HSBC) has prepared its consolidated financial statements in accordance with IFRSs as endorsed by the European Union (EU). IFRSs comprise accounting standards issued by the International Accounting Standards Board and its predecessor body, as well as the interpretations issued by the International Financial Reporting Interpretations Committee and its predecessor body.
- **IFRS Management Basis** (a non-GAAP financial measure) results are IFRSs adjusted to assume that the private label and real estate secured loans transferred to HSBC Bank USA have not been sold and remain on the balance sheet of HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS management basis because the loans sold to HSBC Bank USA were conducted primarily to appropriately fund prime customer loans within HSBC and such customer loans continue to be managed and serviced by HSBC Finance corporation without regard to ownership.



**Q&A**

**HSBC**   
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