



2008 Lehman Brothers Financial Services  
Conference

# HSBC in North America (USA & Canada)

BRENDAN MCDONAGH  
HSBC NORTH AMERICA HOLDINGS INC.  
CHIEF EXECUTIVE OFFICER

SEPTEMBER 8, 2008

# 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, 2007, the HSBC USA Inc. and the HSBC Finance Corporation Quarterly Report on Form 10-Q for the period ended June 30, 2008, and the HSBC Holdings plc 2008 Interim Report. Please further be advised that Regulation FD prohibits HSBC representatives from answering certain, specific questions during the Q&A session.**

# Agenda

## HSBC in North America (USA & Canada)

- **Overview**
- **Financial Performance**
- **US Businesses:**
  - **Consumer Finance**
  - **Personal Financial Services**
  - **Commercial Banking**
  - **Private Banking**
  - **Global Banking and Markets**
- **Canada Business**
- **Summary**

# Overview

- **A top 10 US bank holding company, with assets exceeding US\$500bn <sup>(1)</sup> at June 30, 2008**
- **Approximately 48,000 employees**
- **Branches in 46 states and across Canadian provinces**
- **1H08 pre-tax loss of US\$(3.0)bn <sup>(1)</sup>**
- **Comprised 21% of Group's assets in 1H08**

<sup>(1)</sup> International Financial Reporting Standards (IFRS) basis, excluding Bermuda.

# Financial performance

## (USA & Canada)

Profit (loss) before tax (US\$m, IFRS basis)	1H07	2H07	1H08
<b>United States</b>			
- Personal Financial Services (PFS) <sup>(1)(2)</sup>	\$1,336	\$(3,160)	\$(2,194)
- Commercial Banking (CMB)	215	162	167
- Global Banking and Markets	292	(1,535)	(1,779)
- Private Banking (PB)	50	106	48
- Other <sup>(3)</sup>	(44)	1,512	277
<b>Total US</b>	<b>\$1,849</b>	<b>\$(2,915)</b>	<b>\$(3,481)</b>
<b>Canada</b>	<b>493</b>	<b>490</b>	<b>494</b>
<b>Total US &amp; Canada</b>	<b>\$2,342</b>	<b>\$(2,425)</b>	<b>\$(2,987)</b>

### US & Canada combined country figures

- (1) PFS segment includes Consumer Finance (CF)
- (2) Goodwill impairment of \$5.5bn recorded at HSBC Finance Corporation in 2H07 was not recognized at a Group level. In 1H08, \$0.5bn of goodwill impairment was recognized at the HSBC Group level and is included in the 1H08 Group results.
- (3) Primarily represents movements in the fair value of own debt designated at fair value.

# HSBC Finance Corporation – Consumer Finance

## Positioning the businesses

### Real estate secured receivables



- Launched a new programme to sell selected real estate secured receivables to Freddie Mac

### The UK Business



- Sold the UK business to HSBC Overseas Holdings (UK) Limited to focus our operations on North America

### Taxpayer Financial Services



- Exited all relationships except H&R Block

### Auto Finance Loans



- In July 2008, decided to discontinue new auto finance loan originations in the US from the dealer and direct-to-consumer channels and to continue offering auto finance loans in the Consumer Lending offices until a third party provider is arranged
- Agreed to sell substantially all of the Canadian auto finance portfolio to a third party

# HSBC Finance Corporation – Consumer Finance

## Positioning the business

### Reducing outstandings

- Decreased the size of overall customer loans and advances portfolio

### Branch closures

- Reduced Consumer Lending branch network to about 900 branches

### Underwriting

- Continued to tighten underwriting standards in all businesses and reduced available credit lines in our credit card portfolio

### Canada

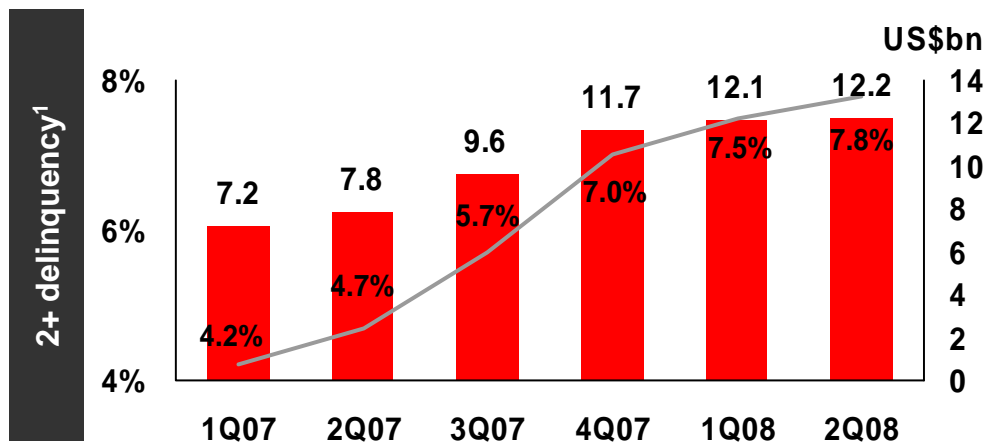
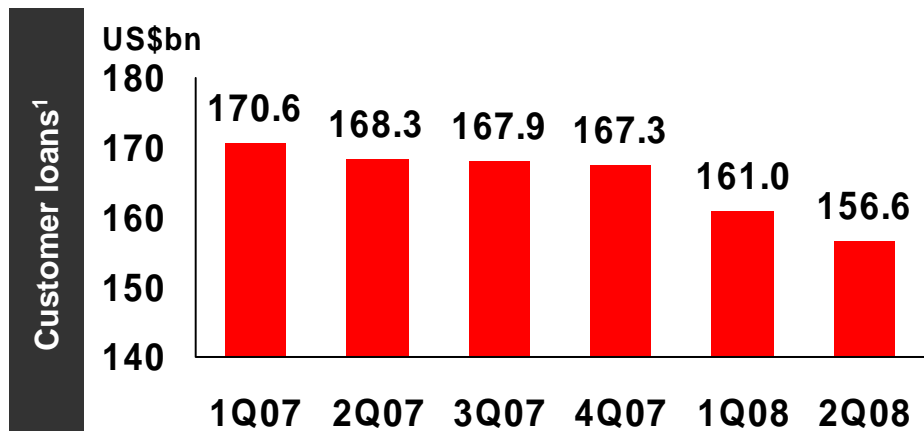
- Canadian operations sold its mortgage brokerage operations

### Cost and capital

- Focus on cost containment measures and improving our cost efficiency ratio
- Capital infusion of \$2.2bn from HSBC Holdings plc in 1H08

# HSBC Finance Corporation – Consumer Finance

## Continued reduction of exposure in the US



- Delinquencies continued to rise broadly in line with expectations
- Continued to tighten underwriting standards in all businesses
- Reduced size of loan portfolio
- Focus on cost reduction measures
  - Operating expenses decreased \$0.4bn or 14% compared to 1H07

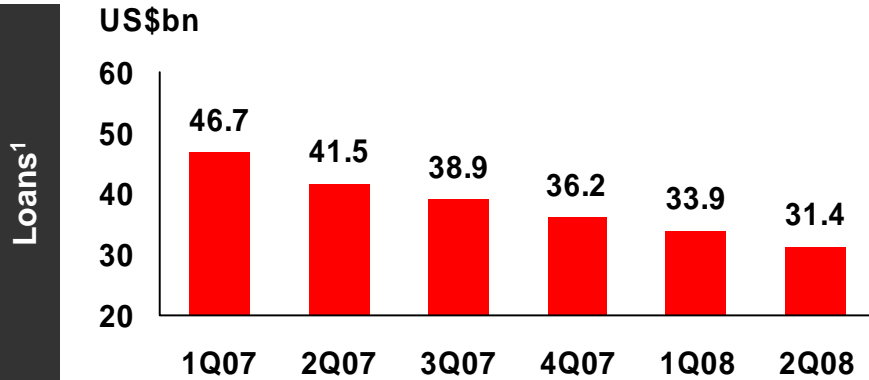
Note: (1) IFRS management basis for US, excludes operations in the UK and Canada



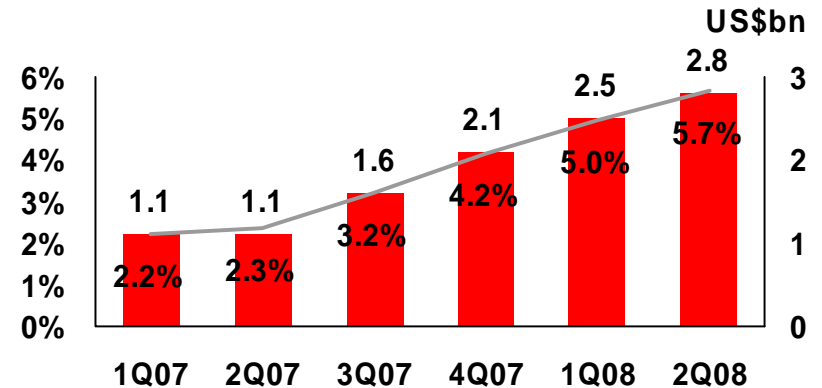
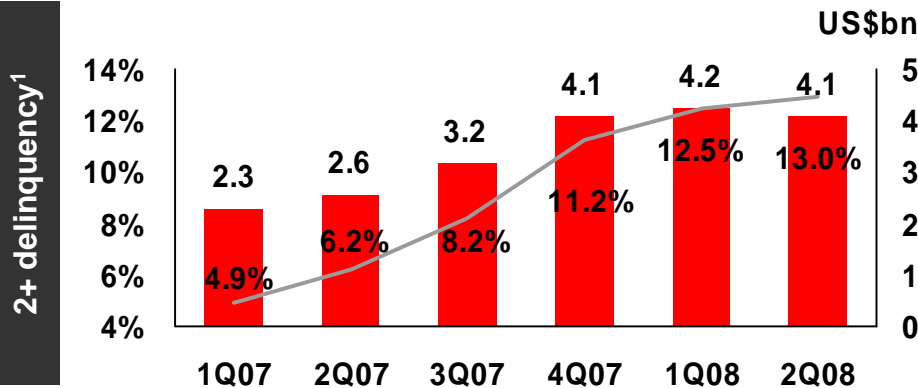
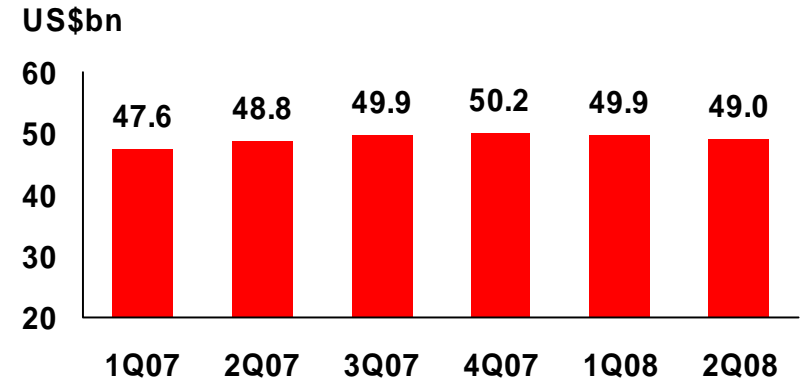
# HSBC Finance Corporation – Consumer Finance

## US Mortgages – continuing to shrink the Mortgages Services portfolio

Mortgage Services



Consumer Lending



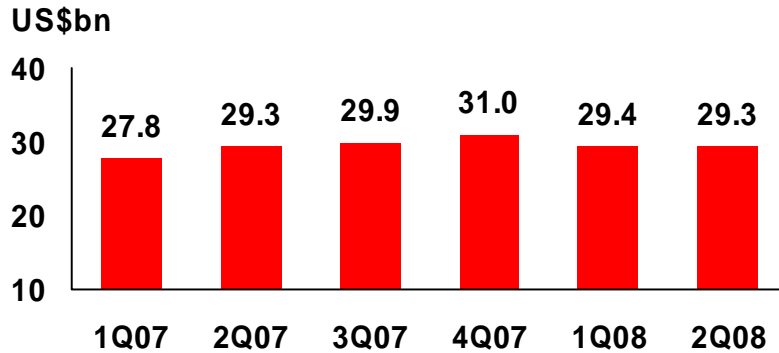
Note: (1) IFRS management basis

# HSBC Finance Corporation – Consumer Finance

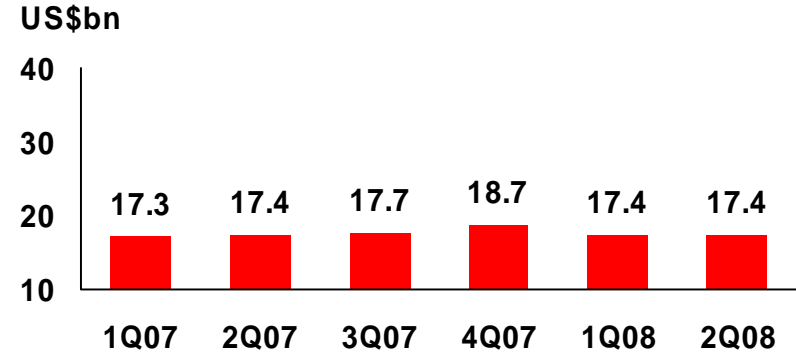
## Management action helps trends in cards

Cards

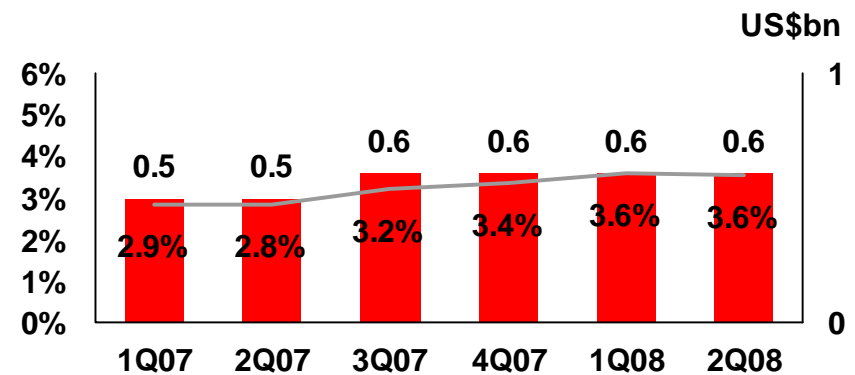
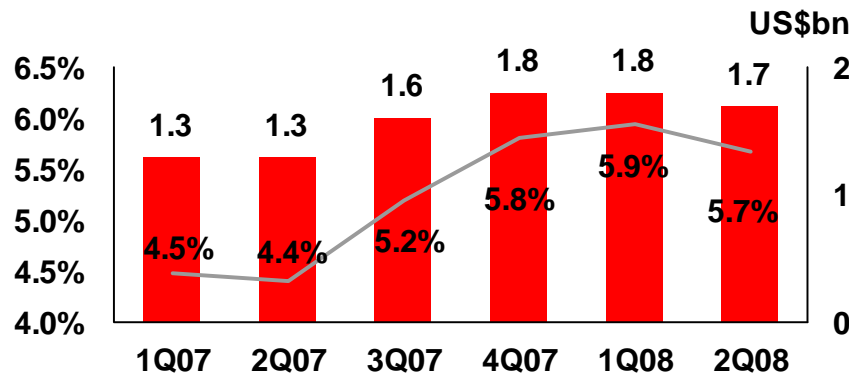
Loans<sup>1</sup>



Private Label



2+ delinquency<sup>1</sup>



Note: (1) IFRS management basis

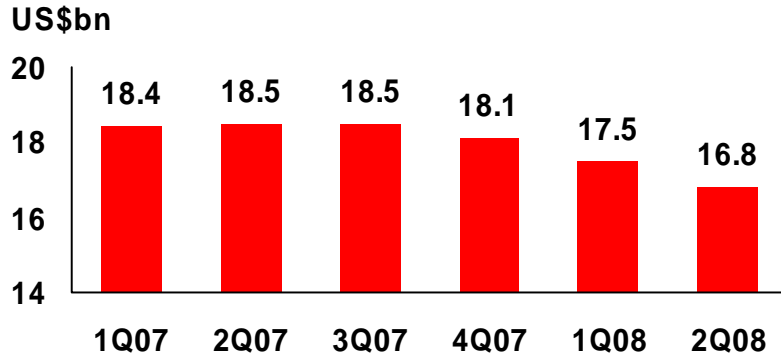


# HSBC US Finance Corporation – Consumer Finance

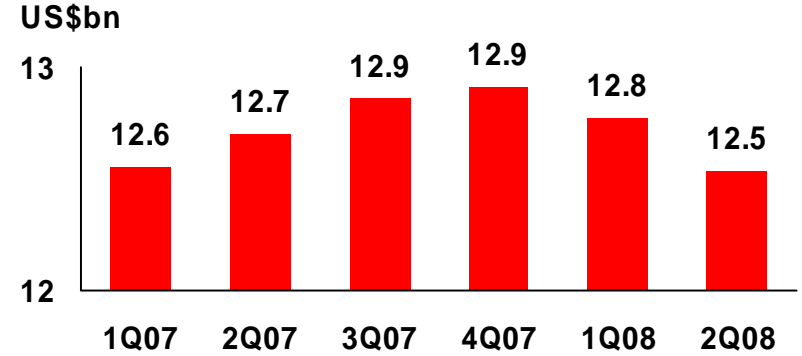
## Vehicle Finance will be run off

Unsecured Personal Credit

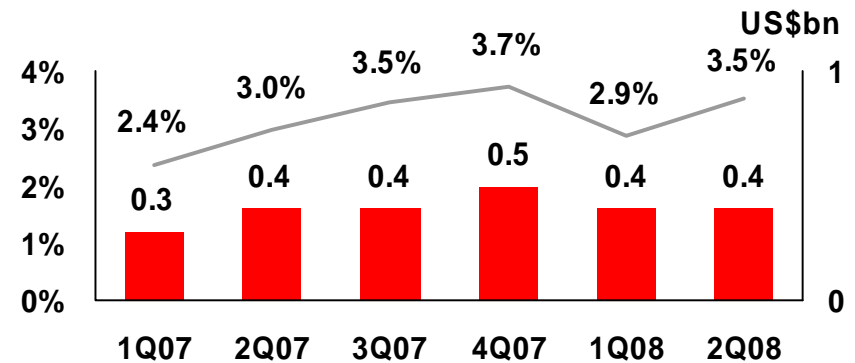
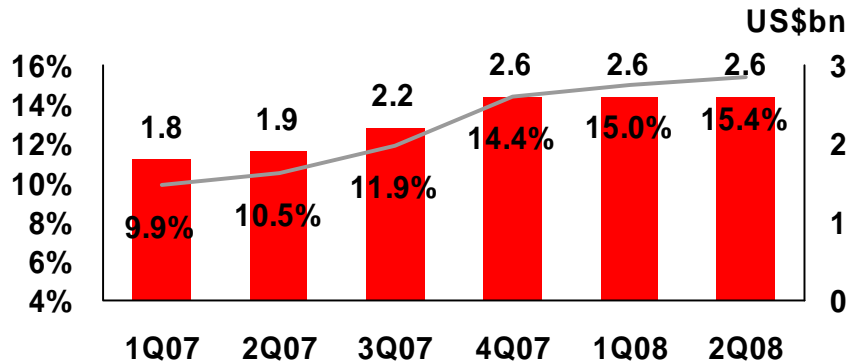
Loans<sup>1</sup>



Vehicle Finance



2+ delinquency<sup>1</sup>



Note: (1) IFRS management basis



# Personal Financial Services

## Leveraging the HSBC global footprint, platforms and brand

Client propositions

HSBC  PREMIER

- Internationally oriented mass affluent
- Global solutions
- Globally connected platforms
- Integrated 'independent' Wealth Management
- Approximately 313,000 customers in North America, a net increase of almost 32,000 since 4Q07

BusinessSmart<sup>SM</sup>  
*from HSBC*

- Internationally-oriented small businesses
- Professionals
- Relationship managed
- Multichannel, eg Remote Deposit capture

HSBC  Direct.

- Self-directed confident savers
- Tailored, simple, customer driven, online banking experience targeting needs, attitudes and motivations
- High yield, savings-centric proposition

# Personal Financial Services

## Tailored approach to service our four niche markets

### New York State

- 'Upstate NY'
- 196 branches
- US\$12.8bn deposits
- Leading market share
- 'Metro NY'
- 187 branches
- US\$25.7bn deposits
- Successful Premier and SME proposition

### Expansion and Niche

- NJ CT CA FL DC
- 60 new branches since inception (December 2004)
- US\$3.6bn deposits
- Focus on Asians, NRI and cosmocrats
- Strong deposit growth from new branches

### HSBC Direct

- No demographic boundaries
- Over 750,000 customers
- US\$13.1bn deposits
- 90% new money
- 70% out of footprint
- Complementary products (OPA and CDs) launched
- Effective and cost efficient channel

# Commercial Banking

## Grow where we have a differentiated proposition

- Diversification from core geographies to major financial centers nationwide via organic office expansion, such as Chicago, Washington DC, the West Coast and most recently in Houston
- Emphasis on cross-border transactions in line with being the Leading International Business Bank
- Continue to drive product penetration and cross-sell opportunities

### New York – Upstate

Existing including Buffalo, Syracuse, Rochester and Albany, covering Cleveland, Pittsburgh

### Seattle

Existing

### Portland

Existing

### Chicago

Opened in 2006

### San Francisco

Opened in 2004  
Covering San Jose

### Los Angeles

Opened in 2004

### Houston

Opened in 2Q08

### Philadelphia

Opened in 2005

### Boston

Opened in 2003

### New York – New York City and Downstate

Existing (excluding Connecticut)  
Covering Westchester  
Long Island, Mid-Hudson and  
Connecticut opened 2006

### New Jersey

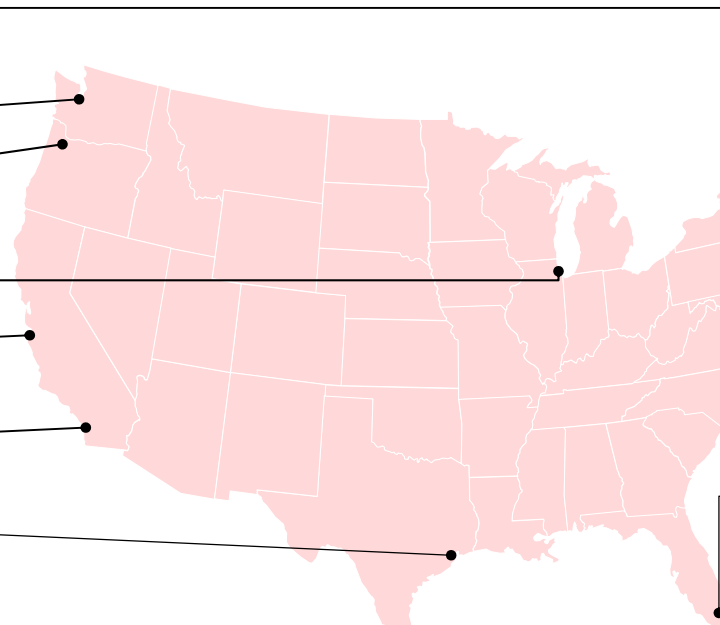
Opened in 2005

### Washington, D.C.

Opened in 2005  
Covering Baltimore

### Miami

Opened in 2002



# Private Banking

## Focus on repositioning for the future

- **Repositioning is underway with active segmentation and focus on core businesses**
- **Successful client acquisition and expansion of annuity streams**
- **Strong revenues from commission and fees on managed products, derivatives and annuity products**
- **Customer referral of high net worth clients grew significantly from/to other HSBC private banking businesses around the world as referral revenues increased 40% from 1H07**
- **Assets under management are up 7% compared with 1H07**
- **Deposit growth of 15% from 1H07**

# Global Banking and Markets

## Focus on sectors to leverage HSBC's unique footprint

- **Global Banking and Markets is a client driven business that seeks to leverage Group relationships and footprint**
- **US platform positioned to market US capabilities to non-US Clients and international capabilities to US clients across all products with focus on joining up with Latin America**
  - **Global Markets: The US serves as a hub for emerging markets and Latin America activities**
  - **Targeted business referral schemes supported by management objective**
- **Higher client penetration:**
  - **Directing our best sales people towards higher value-added business**
  - **Better e-commerce platforms and generally smarter technology**



# Canada

## Overview

- **HSBC Bank Canada**

- Assets of US\$73bn at 1H08
- Largest foreign bank and seventh-largest bank in Canada
- Over 1.2 million customers and 137 branch 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**

- 110 branch offices in 10 provinces, 18 merchant relationships
- 1.8 million customer accounts
- Over 1,400 employees

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

# Canada

## Focus

- **Strong Commercial Banking franchise**
  - Trade Finance strength as Canadian Bankers Association recently ranked HSBC Bank Canada number one in market share for exports
  - Continue to expand distribution and product offerings in Payment and Cash Management
  - Execute on Business Banking strategy through new products and customer interfaces
- **Opportunities in PFS and Wealth Management (including Consumer Finance), Private Banking and Global Banking and Markets**
  - Successful online Direct Savings Account, now at US\$1.6bn since launch in November 2006
  - New product offerings in mutual and other funds
  - Leveraged Global Banking and Markets platform to build relationships with target clients in energy, infrastructure and financial sectors
  - Substantial increase in lead roles on cross-border debt financing for target clients

# North America Summary

- While market conditions remain uncertain, we are focused on issues we can control
- Continue efforts to reach out and assist mortgage customers utilizing appropriate restructuring and loan modification programs to maximize home preservation
- Results largely within expectations for Consumer Finance while Global Banking and Markets experienced significant market related valuation losses
- We are right-sizing and joining up the HSBC businesses in North America
- Maintaining a sharp focus on costs
- Continue decisive actions across entities to reduce risk and deliver strong brand value



# Question and Answer



## Appendix- Basis of reporting

- **IFRS** HSBC Holdings plc (HSBC) prepares its consolidated financial statements in accordance with IFRSs as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). IFRSs comprise accounting standards issued by the IASB and its predecessor body, as well as 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. IFRS management basis also assumes that the purchase accounting fair value adjustments relating to the acquisition of HSBC Finance Corporation by HSBC have been “pushed down” to 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.