

# Investor Presentation

**HSBC USA Inc**  
**March 16, 2009**



**HSBC**   
The world's local bank



## Disclosure statements

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HSBC Holdings plc reports financial results in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU"). EU-endorsed IFRSs may differ from IFRSs, as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At December 31, 2008, there were no unendorsed standards effective for the year ended December 31, 2008, affecting this document and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

IFRSs comprise accounting standards issued by the International Accounting Standards Board and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee and its predecessor body.

Certain reclassifications have been made to prior period amounts to conform to the current year presentation.



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## Strategic Overview

**Paul Lawrence**  
President and CEO  
HSBC Bank USA NA

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## HSBC Group – Resilient performance in 2008

### Profit before tax

**US\$9.3bn, down 62%**  
**(US\$19.9bn, down 18%, excluding goodwill impairment)**

### Attributable profit

**US\$5.7bn, down 70%**  
**(US\$16.3bn, down 15%, excluding goodwill impairment)**

### Earnings per share

**US\$0.47, down 72%**  
**(US\$1.36, down 18%, excluding goodwill impairment)**

### Return on total shareholders' equity

**4.7% compared to 15.9% in 2007**  
**(13.3%, excluding goodwill impairment)**

### Tier 1 capital

**8.3% rising to 9.8% on pro forma basis**  
**Core equity tier 1 ratio 7.0% rising to 8.5% on pro forma basis**

### Dividends<sup>1</sup>

**US\$7.7bn, GBP4.6bn<sup>2</sup>**  
**US\$0.64 per share, down 29% in US dollar,**  
**down 15%<sup>2</sup> in Sterling**

(1) In respect of 2008

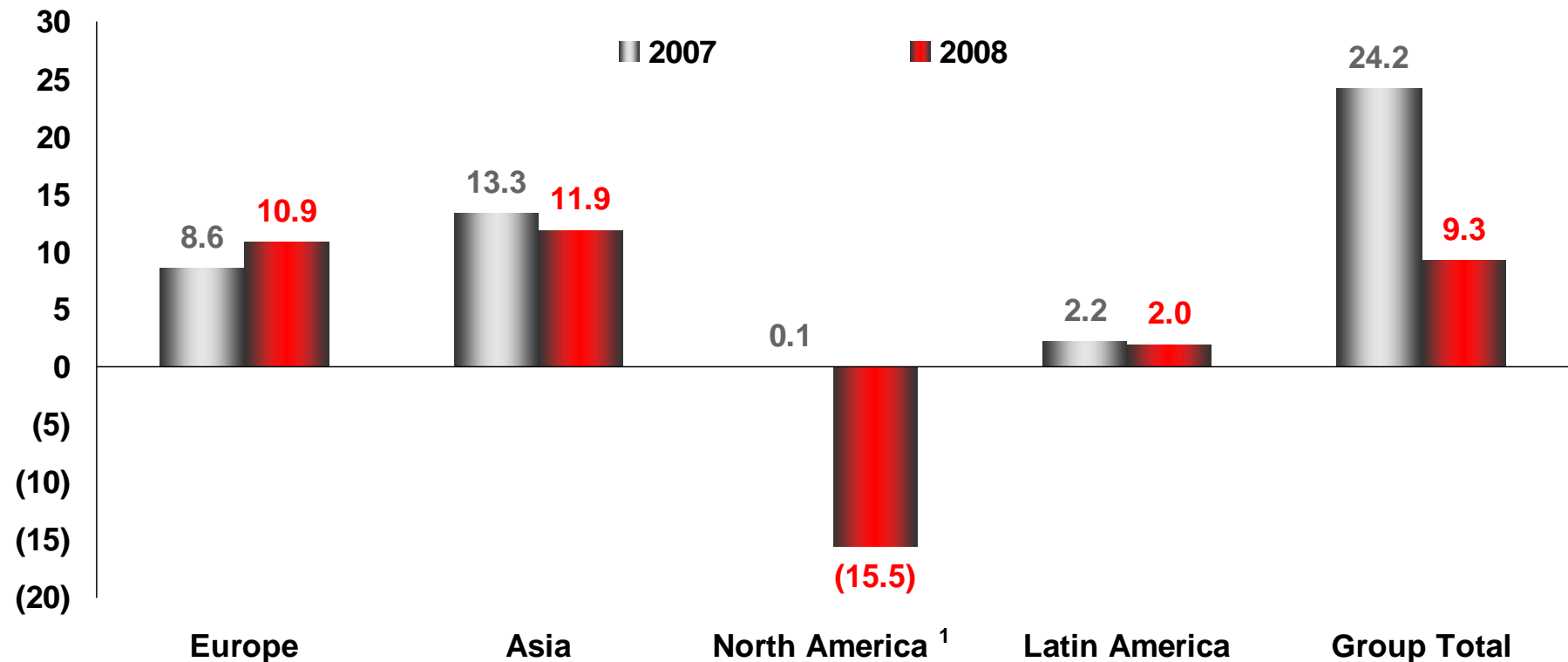
(2) Estimated



## HSBC Group – Results by Geography

### Pre-tax Profit by Geography

IFRS (US\$bn)



**2008 total: US\$9.3bn**

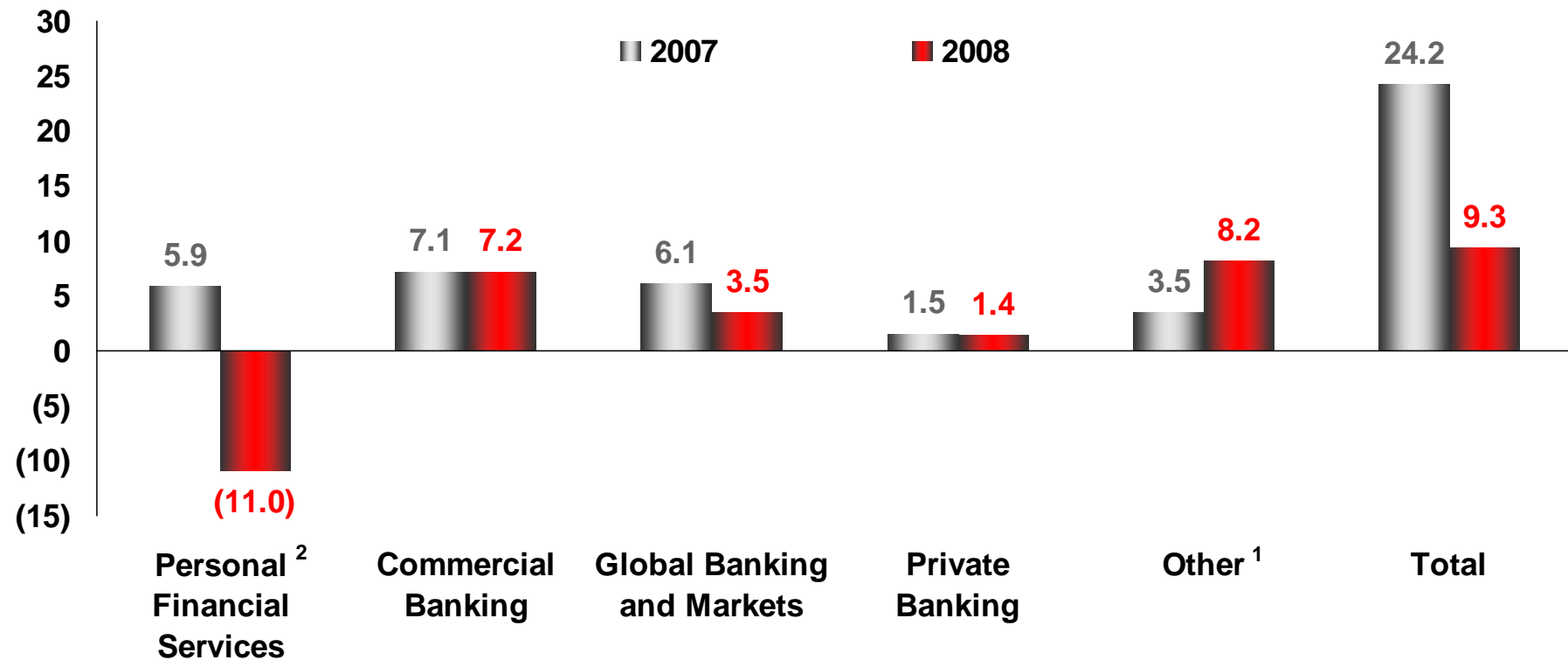
(1) Includes goodwill impairment of \$10.6 billion in 2008



## HSBC Group – Results by Customer Group

### Pre-tax Profit by Customer Group

IFRS (US\$bn)



**2008 total: US\$9.3bn**

(1) Includes gains on disposal of French regional banks and fair value on owned debt

(2) Includes goodwill impairment of \$10.6 billion in 2008



## HSBC Group Strategy

- Long-term confidence in Group's business – Strategy remains intact and sound
  - Continued focus on faster-growing emerging markets – Asia, Middle East and Latin America
  - Continued emphasis on businesses where international connectivity is important
  - Take advantage of organic and possible inorganic opportunities
- Holding firm in a turbulent world and remaining open for business
- Continuing efforts to join up the company





## HSBC USA Inc. – Strategic Focus

- Continuing to execute our strategy – Leveraging Group strengths and competencies
- Competing where we have a “right to win”
- Focusing on meeting needs of Group customers
- Continuing to grow core businesses, including selective expansion of footprint

<b>Personal Financial Services</b>	<b>Commercial Banking</b>	<b>Global Banking and Markets</b>	<b>Private Banking</b>
<ul style="list-style-type: none"><li>• Focus on premium and internationally-oriented mass / emerging affluent (Premier) and self-directed segments (HSBC Direct)</li></ul>	<ul style="list-style-type: none"><li>• Aim to be the leading international business bank and the best small business bank in target markets</li><li>• Target pool of internationalizing US customers</li></ul>	<ul style="list-style-type: none"><li>• Aim to be the leading emerging markets-led and financing-focused wholesale bank</li><li>• Back to basics</li><li>• Core products for core clients</li></ul>	<ul style="list-style-type: none"><li>• Re-position as an internationally-led Private Bank in the US for both onshore and offshore clients</li><li>• “The World’s Private Bank”</li></ul>

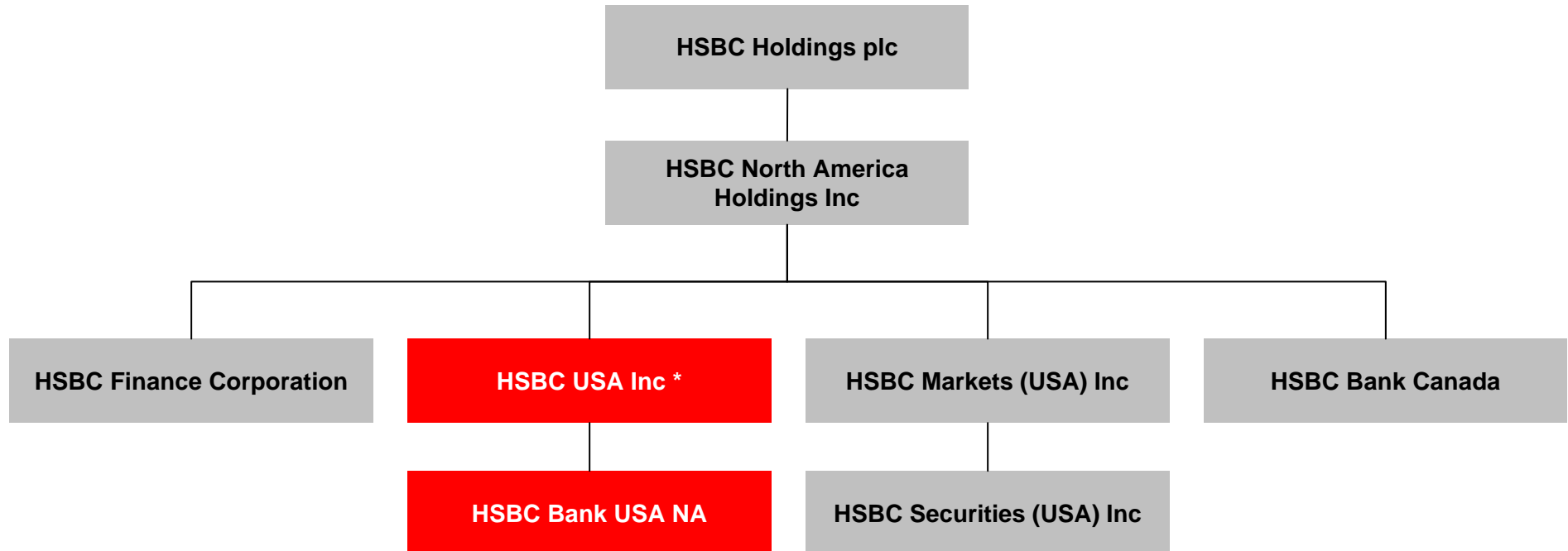


## **HSBC USA Inc. – Tactical Priorities**

- Selectively grow core businesses strategically relevant to HSBC
- Maintain a disciplined approach to financial and resource management
- Continue risk reduction and mitigation efforts
- Goal is to emerge fit for purpose and well-positioned for future growth



## Legal Entity Structure



\*HSBC USA Inc will be referred to as 'HUSI' throughout this presentation.  
 This is the principal bank subsidiary for the HSBC Group in the United States.



## Financial Overview

**Gerard Mattia**

Senior Executive Vice President  
Chief Financial Officer, HUSI



## HSBC USA Inc – Key Performance Metrics

	Full Year		Variance on 2007	
	2008	2007	\$	%
Profit (Loss) Before Tax (IFRS) (US\$m)	(1,856)	497	(2,353)	<i>nmf</i>
Profit (Loss) for the year (IFRS) (US\$m)	(1,208)	386	(1,594)	<i>nmf</i>
Cost Efficiency Ratio (IFRS) (%)	79.5	60.4		(19.1)
Return on Average Assets (US GAAP) (%)	(0.9)	0.1		(1.0)
Return on common shareholders equity (US GAAP) (%)	(17.6)	0.4		(18.0)
Total Assets (US GAAP) (US\$bn)	186	188	(2)	(1.1)
Tier 1 capital / RWA (US GAAP) (%)	7.6	7.1		0.5
Total capital / RWA (US GAAP) (%)	12.0	11.3		0.7



## HSBC USA Inc – Income Statement

IFRS, US\$m	Full Year		Variance on 2007	
	2008	2007	\$	%
Net interest income	3,833	2,722	1,111	40.8
Other operating income	(14)	2,317	(2,331)	(100.6)
Net Operating Income before loan impairment charges	3,819	5,039	(1,220)	(24.2)
Loan impairment charges	(2,640)	(1,497)	(1,143)	(76.4)
Operating expenses	(3,035)	(3,045)	10	0.3
Profit for the year	(1,856)	497	(2,353)	<i>nmf</i>
Tax Expense	648	(111)	759	<i>nmf</i>
Profit (Loss) for the year	(1,208)	386	(1,594)	<i>nmf</i>



## HSBC USA Inc – Profit (Loss) Before Tax by Customer Group

IFRS, US\$m	Full Year		Variance on 2007	
	2008	2007	\$	%
<b>Personal Financial Services*</b>	<b>(818)</b>	245	(1,063)	<i>nmf</i>
<b>Commercial Banking</b>	<b>193</b>	389	(196)	(50.4)
<b>Global Banking and Markets</b>	<b>(1,836)</b>	(471)	(1,365)	<i>nmf</i>
<b>Private Banking</b>	<b>63</b>	134	(71)	(53.0)
<b>Other</b>	<b>542</b>	200	342	<i>nmf</i>
<b>Total profit (loss) before tax</b>	<b>(1,856)</b>	497	(2,353)	<i>nmf</i>

\* Includes Consumer Finance



## HSBC USA Inc – Period End Balance Sheet

US GAAP, US\$bn	Current	Prior	Variance on 2007	
	31-Dec-08 Actual	31-Dec-07 Actual	Inc / (Dec)	%
Cash and due from banks	17.0	3.6	13.4	<i>nmf</i>
Interest bearing deposits with banks	1.9	4.7	(2.8)	(59.6)
Fed funds	10.8	13.7	(2.9)	(21.2)
Trading assets	31.3	36.6	(5.3)	(14.5)
Securities AFS	24.9	20.0	4.9	24.5
Securities HTM	2.9	2.9	0.0	0.0
Loans (net of reserves)	78.7	89.1	(10.4)	(11.7)
Loans held for sale	4.4	5.3	(0.9)	(17.0)
Goodwill	2.7	2.7	0.0	0.0
Other assets	11.0	9.4	1.6	17.0
<b>Total Assets</b>	<b>185.6</b>	<b>188.0</b>	<b>(2.4)</b>	<b>(1.3)</b>
Domestic deposits	85.6	82.1	3.5	4.3
Foreign deposits	33.5	34.1	(0.6)	(1.8)
<b>Total deposits</b>	<b>119.1</b>	<b>116.2</b>	<b>2.9</b>	<b>2.5</b>
Trading liabilities	16.3	16.3	0.0	0.0
Short-term borrowings	10.5	11.8	(1.3)	(11.0)
Interest, taxes and other liabilities	4.9	4.2	0.7	16.7
Long term debt	22.1	28.3	(6.2)	(21.9)
<b>Total Equity</b>	<b>12.7</b>	<b>11.2</b>	<b>1.5</b>	<b>13.4</b>
<b>Total Liabilities and Equity</b>	<b>185.6</b>	<b>188.0</b>	<b>(2.4)</b>	<b>(1.3)</b>





## HSBC USA Inc – Loans Outstanding

US GAAP, US\$bn	Full Year		Variance on 2007	
	31-Dec-08	31-Dec-07	\$	%
<b>Total commercial loans</b>	<b>37.4</b>	36.8	0.6	1.6
<b>Consumer loans:</b>				
<b>Residential mortgages</b>	<b>22.5</b>	32.5	(10.0)	(30.8)
<b>Credit card receivables:</b>				
<b>Private label</b>	<b>17.1</b>	17.4	(0.3)	(1.7)
<b>MasterCard/Visa</b>	<b>2.1</b>	1.8	0.3	16.7
<b>Other consumer</b>	<b>2.0</b>	2.0	0.0	0.0
<b>Total consumer loans</b>	<b>43.7</b>	53.7	(10.0)	(18.6)
<b>Total loans</b>	<b>81.1</b>	90.5	(9.4)	(10.4)
<b>Allowance for credit losses</b>	<b>(2.4)</b>	(1.4)	(1.0)	(71.4)
<b>Loans, net</b>	<b>78.7</b>	89.1	(10.4)	(11.7)
<b>Loans held for sale</b>				
<b>Commercial loans held for sale</b>	<b>0.9</b>	2.0	(1.1)	(55.0)
<b>Consumer loans held for sale</b>	<b>3.5</b>	3.3	0.2	6.1
<b>Total loans held for sale</b>	<b>4.4</b>	<b>5.3</b>	(0.9)	(17.0)



## HSBC USA Inc – Customer Accounts

IFRS, US\$bn	Full Year		Variance on 2007	
	2008	2007	\$	%
Personal Financial Services	45.5	42.7	2.8	6.6
Commercial Banking	22.8	18.2	4.6	25.3
Global Banking & Markets	39.3	42.0	(2.7)	(6.4)
Private Banking	12.3	12.2	0.1	0.8
<b>Total customer accounts</b>	<b>119.9</b>	<b>115.1</b>	<b>4.8</b>	<b>4.2</b>

US GAAP, US\$bn	Full Year		Variance on 2007	
	2008	2007	\$	%
Total deposits	119.1	116.2	2.9	2.5
Core deposits	68.8	65.1	3.7	5.7



## HSBC USA Inc – Credit Quality

US GAAP, US\$m	Full Year		Variance on 2007	
	2008	2007	\$	%
<b>Provision for Credit Losses</b>				
<b>Commercial</b>	<b>428</b>	205	223	108.8
<b>Consumer:</b>				
Residential mortgages	505	126	379	300.8
Credit card receivables	1,505	1,095	410	37.4
Other consumer	105	96	9	9.4
<b>Total consumer</b>	<b>2,115</b>	1,317	798	60.6
<b>Total provision for Credit Losses</b>	<b>2,543</b>	1,522	1,021	67.1
<b>As a percentage of Total Loans (%)</b>	<b>3.14</b>	1.68		1.5
<b>Non-accruing Loans</b>				
<b>Commercial:</b>				
Construction and other real estate	74	34	40	117.6
Other commercial	167	89	78	87.6
<b>Total commercial</b>	<b>241</b>	123	118	95.9
<b>Consumer:</b>				
Residential mortgages	1,007	640	367	57.3
Credit card receivables	2	1	1	100.0
<b>Total consumer</b>	<b>1,009</b>	641	368	57.4
<b>Total Non-accruing Loans</b>	<b>1,250</b>	764	486	63.6
<b>As a percentage of Total Loans (%)</b>	<b>1.46</b>	0.80		0.7



## Business Overview

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## Personal Financial Services

**Kevin Martin**  
Executive Vice President  
Personal Financial Services

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## Personal Financial Services

### Strategic focus in the US – Selective participation

- Leverage global scale and local distribution and capabilities to grow profitably in selected markets
- Competing where we have a “right to win”
  - Customer segments which have strong international connectivity
  - Product families where global scale is critical and we have it
- Implementation in the US:
  - Wealth Management-led banking targeted to internationally-oriented mass affluent, emerging affluent and niche segments
  - Direct banking



## Personal Financial Services

### Redefining how HSBC achieves scale in US retail banking

- Our selective participation in US retail banking underscores a redefinition of how we achieve profitable scale
- Retail banking model based on large scale branch networks with volume of mass customers is less relevant for HSBC in the US market

#### Bank-in-view

- **Scale defined by:**
  - More branches and sales people
  - Larger call centers
  - Centralized operations teams
  - More products and services
  - More owned ATM's
  - More customers
  - More business lines
  - More products per customer
  - Punitive fees to force channel change



#### Customer-driven

- **Customer-driven model requires:**
  - Fully integrated channels aligned to target customer needs
  - Fewer products and services allowing customers to customize
  - Availability of “one click” purchase
  - Ability to speak to right person in need
  - More options on how to obtain cash
  - Customers save / earn more if they are self directed
  - Straight through – No back end
  - More of the right customer



## Personal Financial Services

US strategy: Focus on markets where we have a “right to win”

**Premium /  
Internationally-  
Oriented  
Mass Affluent /  
Emerging  
Affluent  
Segment**

- **HSBC Premier:**
  - Target Cosmocrats – internationally mobile / oriented and niche segments
- **HSBC Plus:**
  - Target emerging affluent international and niche segments (eg. Chinese and Hispanic)

**Self Directed –  
Confident  
Consumer  
Segment**

- **HSBC Direct**
  - Target “confident saver segment” with a broadening of focus to the “confident consumer”. Provide straight through products designed for self-directed consumer
- **HSBC Choice**
  - Choice is not actively marketed and will be used over time to facilitate channel migration





## Commercial Banking

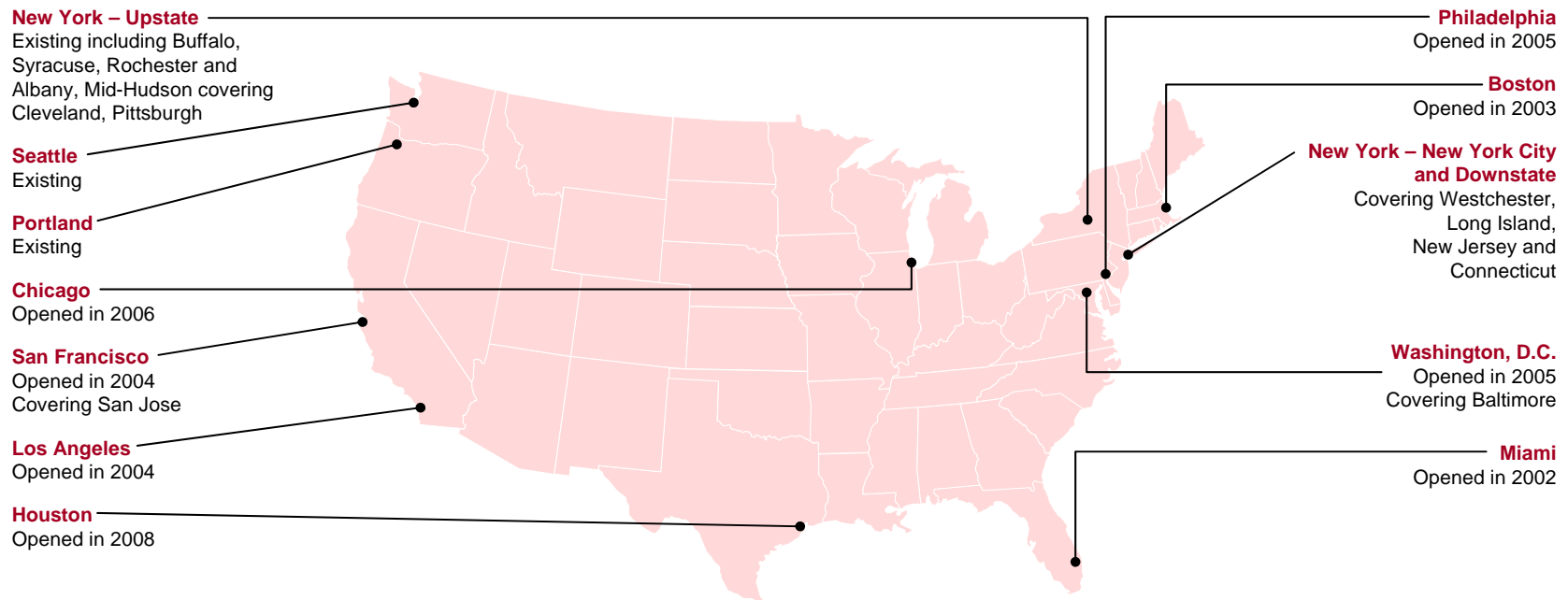
**Diane D'Erasmus**  
Executive Vice President  
Commercial Banking

**HSBC**   
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## Commercial Banking

- Diversification from core geographies to major financial centers nationwide via organic office expansion
- 2008: Dedicated MME offices provide coverage in 18 of the top 25 business centers ranked by CMB prospects (Source: Dun & Bradstreet) vs. 2004: MME coverage provided in seven of the same top 25 business centers
- SME sales and service team comprised of 388 Business Segment Leaders, Business RMs and Business Specialists covering a network of over 450 branches





## Commercial Banking

### Financial Performance

- Revenue in line with 2007 despite falling liability margins
- Balanced growth over last year between established and expansion markets
- Moderate cost growth and introduction of tighter control measures
- Increase in impairment charges reflects deteriorating economic conditions
- Focus on improving returns and share of wallet
- Rapid revenue growth in foreign exchange and trade products reflecting success of Leading International Business strategy



## Commercial Banking

### Strategic focus

- To be the international business bank
  - Focus on pool of internationalized US MME companies nationwide
  - Grow customer base selectively
  - Joining up with the rest of the Group – Increased focus on cross border and cross business activity
- To be the best small business bank in target markets
  - Leverage expanded geographic ‘footprint’
  - Up-skill RMs to position HSBC as a premium service provider for the SME market
  - Continue roll out of Business Direct banking
- Return Management: A consistent approach to Portfolio Management and efficient use of the CMB balance sheet
- Expense Management: Costs allocated in line with CMB strategic priorities
- Risk Management: Comprehensive portfolio reviews to focus on early detection and action
- Leverage strengths in payments and cash management, trade finance and links to Global Banking and Markets



# Global Banking and Markets

**Jose-Luis Guerrero**  
Head of Global Markets, Americas

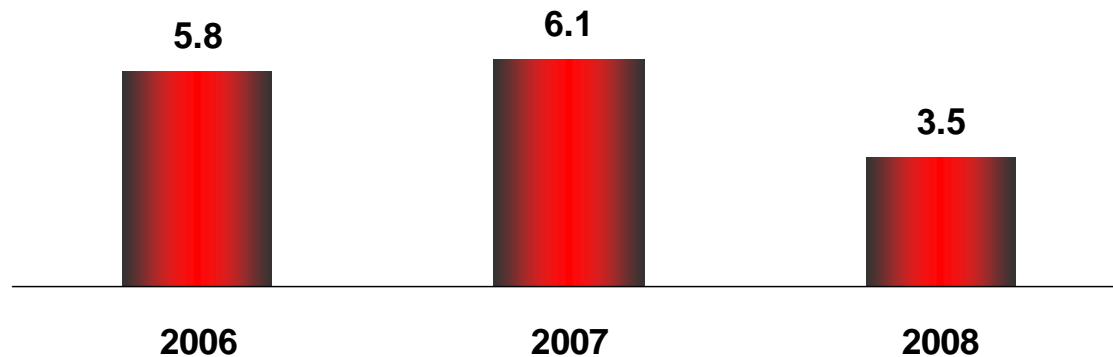


## Global Banking and Markets

### Profitable despite challenging environment

- Global pre-tax profit of \$3.5bn in 2008 amidst challenging market conditions
- Reflects success of our emerging markets-led and financing-focused strategy
- Strong results by core businesses overshadowed by negative impact from write-downs and impairments

HSBC Group – Global Banking and Markets (IFRS) PBT (US\$bn)





## Global Banking and Markets US

### Key themes

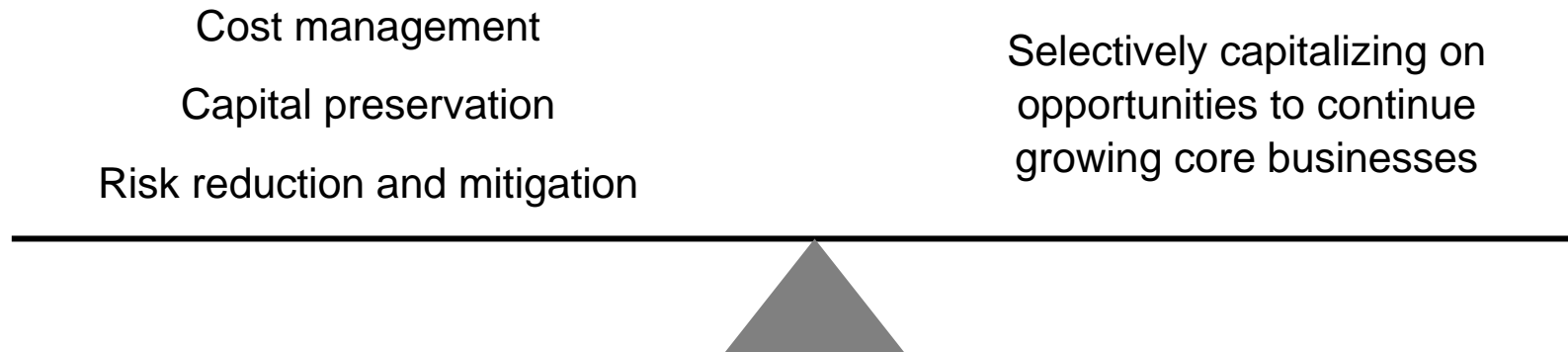
- Headline results overshadowed strong performances by many core businesses
- Client-driven franchise has seen benefits from persisting market volatility and flight to quality
- Continuing to support global strategy of being the leading Emerging Markets-led and financing-focused wholesale bank by:
  - Continuing to integrate Americas platform with New York serving as the hub
  - Focusing on core strengths and competencies (core products for core clients)
  - Returning back to basics, with focus on plain vanilla and lightly structured products
  - Competing in businesses where we have a “right to win”
- Continuing to review strategies and scope of Global Banking and Markets US businesses



## Global Banking and Markets US

### Near term priorities

- Working together to emerge fit for purpose and well-positioned for future growth



- Continue risk reduction and mitigation efforts around legacy positions
- Capitalize on opportunities to increase market share and strengthen key client relationships amidst persisting market volatility
- Focus on meeting needs of core clients and facilitating cross-border and international business
- Remain disciplined around capital usage and cost management





# Private Banking

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## Private Banking US

- Strategic focus
  - US: Re-position HSBC as an internationally-led private bank with a single integrated business model for both onshore and offshore clients
  - Americas: Establish HSBC as a leading private bank for both onshore and offshore clients in terms of product and service excellence
- Recent developments and accomplishments
  - Voted Best Foreign Private Bank in the US and 2nd Best Private Bank globally in 2009 by Euromoney
  - Global campaign underway to rebrand HSBC as “The World’s Private Bank”
  - Successfully retaining, expanding and attracting high value client relationships and AUM despite ongoing market turmoil



## Additional Q & A