

Niall Booker  
Chief Executive Officer, HSBC North America Holdings Inc.  
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The world's local bank

## HSBC in North America (USA & Canada)



# Forward-looking statements

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# Overview

- ▶ A top 10 US bank holding company
- ▶ Assets in North America of almost US\$500bn at June 30, 2010
- ▶ Approximately 34,000 employees
- ▶ Branches in 12 states plus the District of Columbia and across Canadian provinces
- ▶ 1H 2010 pre-tax profit of US\$428 million<sup>(1)</sup>
- ▶ Comprised 20% of Group's assets in 1H 2010

Notes:

(1) International Financial Reporting Standards (IFRS) basis, excluding Bermuda and Other.

# Financial Performance – USA & Canada

Returning to profitability in 1H 2010

<b>Profit (loss) before tax (US\$m, IFRS basis)</b>	<b>1H 2009</b>	<b>2H 2009</b>	<b>1H 2010</b>
<b>United States</b>			
Personal Financial Services (PFS) <sup>(1)</sup>	\$(2,858)	\$(2,434)	\$(1,579)
Commercial Banking (CMB)	52	106	265
Global Banking and Markets	384	121	843
Private Banking (PB)	23	(72)	55
Others <sup>(2)</sup>	(1,519)	(2,107)	342
<b>Total US</b>	<b>\$(3,918)</b>	<b>\$(4,386)</b>	<b>\$(74)</b>
Canada	144	279	502
<b>Total US &amp; Canada</b>	<b>\$(3,774)</b>	<b>\$(4,107)</b>	<b>\$428</b>

Source: US & Canada combined country figures from Group Interim Reports

Notes:

(1) PFS segment includes Consumer Finance (CF)

(2) Primarily represents movements in the fair value of own debt designated at fair value

# North America Strategy - Overall Summary

Leadership has changed but not overall strategy

- ▶ **Continue to take decisive actions to reposition our Core businesses to ensure a solid foundation for future growth, long-term success and sustainable profitability**
- ▶ **In 1H 2010, US Core operations contributed PBT excluding goodwill and FVO of \$1.9bn<sup>(1)</sup>**
- ▶ **Continue to grow our Core businesses with a focus on global connectivity and maintain appropriate balance between opportunity and risk**
- ▶ **Remain focused on managing down the run-off assets in our Non-core businesses ethically and effectively while maintaining home preservation efforts**
- ▶ **Manage regulatory challenges**
  - ▶ **Implementing Dodd-Frank Wall Street Reform and Consumer Protection Act**
  - ▶ **On-going regulatory and governmental inquiries focused on Bank Secrecy Act and Anti-Money Laundering**
  - ▶ **Continue to adapt to ever changing regulatory environment**
- ▶ **Manage capital requirements as we move toward US adoption of Basel II**
- ▶ **Build American talent to run business in the future**

(1) IFRS basis

# North America Strategy- Continuing to Execute

Focusing on growing Core and winding down Non-core

In 2010, HSBC continues to focus on growing its Core businesses through Global connectivity with strategic market/customers and winding down its Non-core businesses

## Core Businesses

PFS  
CMB  
GBM  
Cards  
PB and Insurance

- ▶ Continued strategic expansion of bank branch network consistent with our internationally-led strategy with an additional four branches opened in 2010 and 107 since early 2005
- ▶ Premier customer base has grown to over 600,000 at June 30, 2010, up 20 percent since year-end 2009. In the US, we have added 60 Premier relationship managers since June 2009
- ▶ Commercial Banking reported solid PBT of \$572 million in 1H 2010 while maintaining focus on connectivity to other HSBC Group businesses and cross-border business referrals which have continued to increase
- ▶ Global Banking and Markets reported strong PBT of \$998 million in 1H 2010 while continuing to focus on global connectivity among emerging and developed markets
- ▶ Cards business continued its strong contribution in 1H 2010, reporting PBT of \$940 million while successfully implementing the business practices and systems changes required by the Card Act
- ▶ Continue to invest in Cards and other Core businesses to preserve/increase value and ensure solid foundation for future growth

## Non-core Run-off Business

Consumer Lending  
Mortgage Services  
Vehicle Finance  
Taxpayer Financial Services

- ▶ Sold vehicle finance servicing platform and remaining US consumer finance vehicle finance loan portfolio was sold in Q3 2010
- ▶ Continue to reduce the run-off portfolio:
  - ▶ \$68.8 billion at June 30, 2010, a 13 percent decline compared to year-end 2009; down 25 percent year over year
  - ▶ Fair value as a percentage of book value improved to 68 percent at June 30, 2010 from 61 percent at year-end 2009
- ▶ Continue to work with our customers who are willing to pay but are having difficulties through the use of modification
  - ▶ Modified 26,500 accounts representing \$3.9 billion of receivables in 1H 2010
- ▶ For customers who are unable to pay, we have increased the use of short sales
- ▶ Ensure appropriate work force reduction as the run-off book declines
- ▶ Although not a significant "run-off" business, as the wholesale banknotes business did not fit with our core strategy in the US, we decided to exit this business in 2Q 2010

# Significant North America Entities

Ongoing areas of focus in 2010

## HSBC Bank USA

- ▶ Additional growth efforts in HSBC Premier, Commercial Banking and cross-selling insurance to build bank awareness
- ▶ Leveraging Group relationships and unique global footprint in Global Banking and Markets, Commercial Banking and Private Banking as well as LatAm connections in Global Banking and Markets and Private Banking
- ▶ Continue to provide vital banking and financial services to our personal and commercial customers
- ▶ Build on branch expansion efforts by targeting ethnic groups with international connectivity
- ▶ Regulation

## HSBC Finance

- ▶ Continue to effectively manage our run-off portfolios to maximize cash collection in an ethical manner
- ▶ Leading home preservation efforts
- ▶ Preserve or increase the value of the Cards franchise. Continue to leverage US Cards expertise globally and migrate US Cards platform into a Global Cards platform
- ▶ As capital supporting run-off assets in our Non-core businesses is released, it will be re-deployed elsewhere where asset risk weighting may be lower

## HSBC Bank Canada

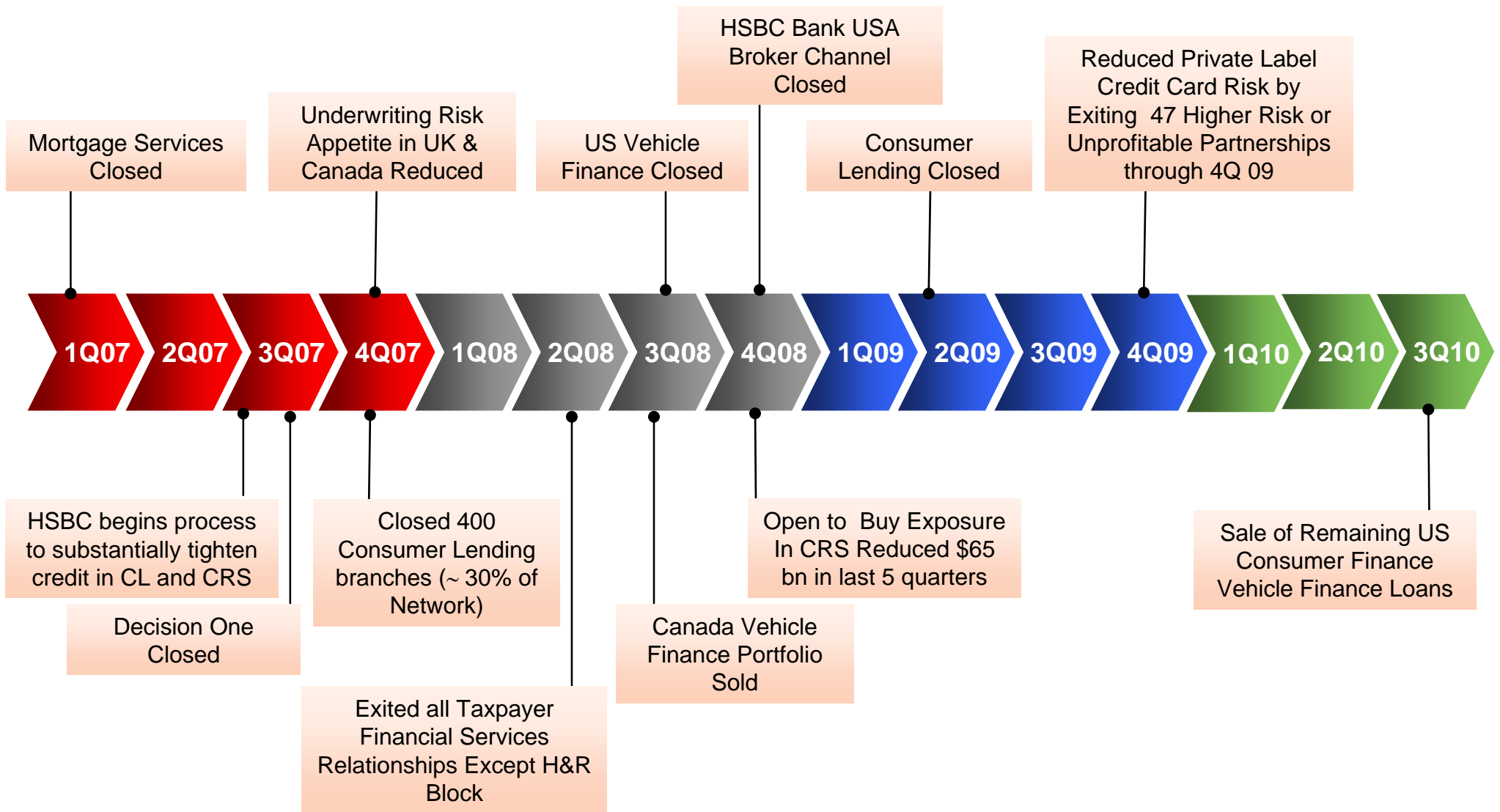
- ▶ Current focus on international clients and Commercial Banking is a model for the US business
- ▶ Leverage international capability to enhance Premium PFS and Wealth Management proposition
- ▶ Continue as leading international bank for business in Canada
- ▶ Focus on cross border Debt Capital Markets leveraging our Middle Eastern and LatAm connections in Global Banking and Markets
- ▶ Expand Business Banking, including Business Direct
- ▶ Exploit areas of synergy within the US

- Continued focus on expense management and efficient use of capital across all entities
- Compliance risk is one of the most significant areas of focus across all entities



# Managing Consumer Finance Risk 2007-2010

Continued progress in managing risk



# Core US Businesses Strategy – Summary

Focusing on opportunities where we have a “right to win”

## Opportunities

- ▶ Emerging markets
- ▶ Cross-border
- ▶ Wealth

### Commercial Banking

- ▶ Be the leading international business bank for small and medium size businesses
- ▶ Target internationalizing US customers

### Personal Financial Services

- ▶ Premium participation via Premier and Advance
- ▶ Differentiated premium services to internationally minded customers
- ▶ Cards and Retail Services
  - ▶ Continue to be profitable
  - ▶ Continue to pursue integration of Cards into global business line, leveraging US analytic expertise
  - ▶ Exited unprofitable relationships in Retail Services or increased the value of those relationships
  - ▶ Continue to review risk issues

### Global Banking and Markets

- ▶ Emerging markets-led, financing-focused wholesale bank
- ▶ Integrated Americas platform
- ▶ Core products for core clients
- ▶ Be strategic, significant and sustainable

### Global Private Banking

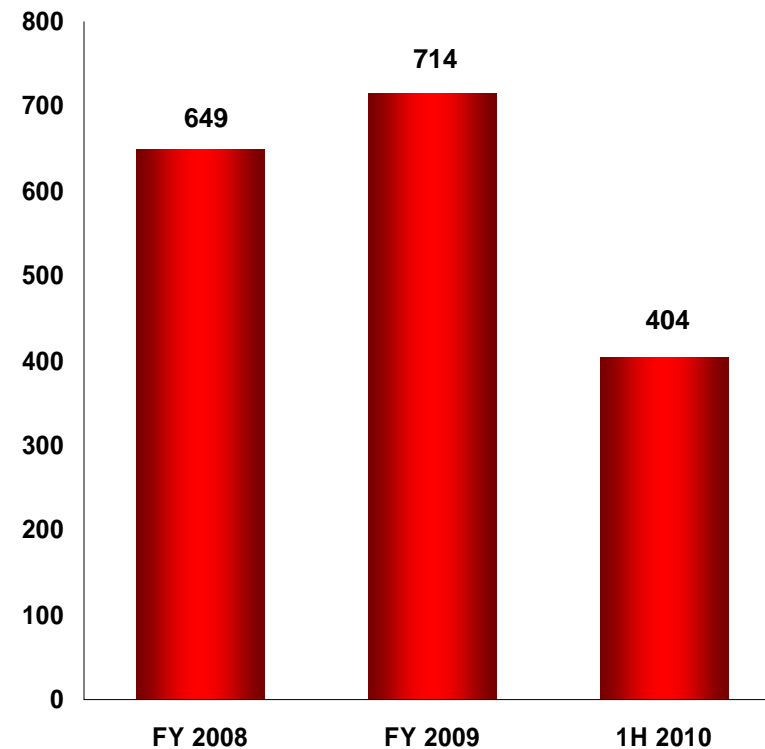
- ▶ “The World’s Private Bank”
- ▶ Re-positioned as an internationally-led Private Bank in the US

# Commercial Banking US

Increasing momentum and continuing to lead international business

- ▶ **Continued focus on cross-border business:**
  - ▶ **Successful referrals to other HSBC Group offices grew by c. 24% YOY during 1H 2010**
- ▶ **Growing International revenues from HSBC US customers**
  - ▶ **CMB Revenues from International Customers grew c. 10% YOY during 1H 2010**
- ▶ **Joint sales and marketing efforts towards expanding international wallet share with key trading partners**
- ▶ **Increasing knowledge and understanding of international capabilities among Commercial Banking teams**
  - ▶ **Combination of training programs, virtual and live roadshows**

**# Successful Referrals**



# Commercial Banking US

## International banking and building the franchise

Several high value business wins in 2010 demonstrated market potential for HSBC:

### **Healthcare Company** **US\$100+bn annual turnover**

Trade receivables securitization program, in addition to existing payments and cash management business in five countries, Bermuda time deposits, global liquidity, FX, trade finance and credit participation.

### **Global REIT** **US\$700m annual turnover**

80+ accounts in Mexico, local currency clearing, payroll services and investments, in addition to credit participation in the US and Singapore, payments and cash management in Singapore and Brazil, FX, interest rate derivatives in the US and Japan, and co-manager roles on bond and equity offerings.

### **Commercial Real Estate Services** **US\$4+bn annual turnover**

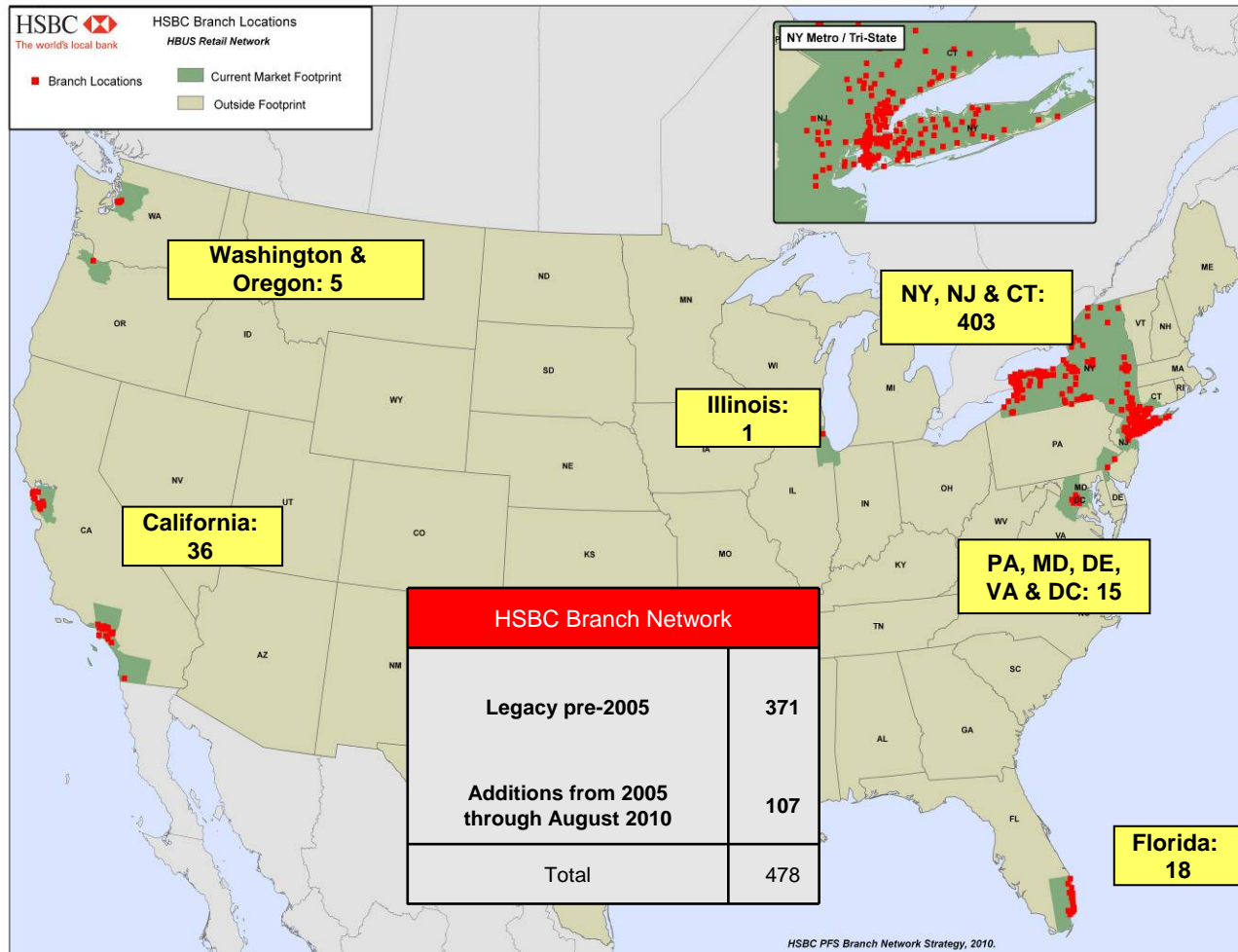
Trade receivables securitization program, in addition to a wide array of banking services in 22+ countries including credit lines, 200+ cash management accounts, FX, investments, ECM and DCM.

### **Branded Apparel Company** **US\$2+bn annual turnover**

Senior Managing Agent for a US\$950m senior secured credit facility, Co-Manager on debt and Equity offerings, in addition to banking relationships in Canada for 10+ years.

# Personal Financial Services US

Branch network transformation consistent with our premium bank strategy



Note: As of August 2010

- ▶ Aligning retail branch network size and geographic distribution with our internationally-led strategy
- ▶ Focusing on high density, segment specific prospects in internationally connected cities
- ▶ Optimizing our US resources and providing the greatest customer reach in support of our global proposition
- ▶ Network in CA has grown from 8 to 36 since early 2005
- ▶ 22% of the network now resides outside New York State, driving 52% of all New-to-HSBC Premier customers
- ▶ Plans to expand with 5 new branches in 2010, of which 4 were added in 1Q 2010. Additional new branches will be opened as the opportunity arises

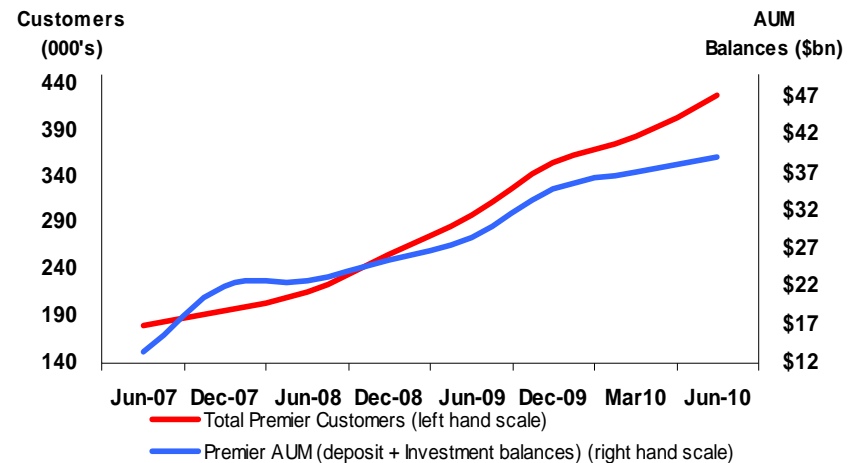
# Personal Financial Services US

## Strong momentum in Premier and Insurance

### Premier

- ▶ Target internationally minded mass affluent segment
- ▶ Strong account and balance growth. 137% growth in customers since re-launch of Premier
- ▶ Since re-launch of Premier, 46% of New-to-Premier customers are New-to-HSBC

### Growth in Premier customers<sup>1</sup> and deposits<sup>2</sup>



### Insurance

- ▶ Life Insurance 1H 2010 policy sales up 28% YOY and commission revenues up 52% YOY
- ▶ Selected for Ward's 50 Benchmark Group of life-health insurance companies for outstanding achievement

Notes:

(1) Excludes Premier accounts in Global Private Banking

(2) IFRS basis

# Global Banking and Markets Americas

Emerging markets-led and financing-focused

## Strategic

- ▶ Strategically aligned with Group's focus on connectivity between emerging and developed markets
- ▶ Concentrate on core businesses with global scale, serving core customers

## Significant

- ▶ Significant contribution to HSBC Group profits
- ▶ Achieve returns within HSBC Group's target range
- ▶ Top 3 Latin American franchise and leading North American house for international business

## Sustainable

- ▶ Sustainable business model and culture
- ▶ Leverage HSBC Group connectivity to develop lower volatility revenue streams
- ▶ Leverage HSBC Group strengths and global distribution capabilities to cross-sell Americas products
- ▶ Increase alignment with other HSBC Group customer segments

# Global Banking and Markets Americas

Market recognizes success of our strategy

## Recent Awards and Key Transactions



- Best Emerging Markets Bank
- Best Emerging Markets Debt House
- Best Sovereign Advisory House
- Best Wealth Management House
- Best Debt House in Brazil
- #2 Cash Management Bank Globally
- #2 in North America for Regional Cash Management
- #2 in the US for Domestic Cash Management



- Best Bank for FX for Corporates
- Best Bank for Emerging LatAm Currencies
- Best Bank for Forward FX



- Latin American Loan of the Year: Grupo Bimbo
- Latin American Bond of the Year: Petrobras

October 2009



USD4 billion  
Dual-Tranche 10yr -30yr

Bookrunner

December 2009



GBP7.1 billion  
Bridge Financing

Joint Lead Arranger

March 2010



Acquisition of a 31.2% stake  
in Cimpor

Financial Advisor

## 1H 2010 Rankings

**#4 in International Bonds Globally**

**#1 in Emerging Markets Bonds Globally**

**#1 in Latin American Investment Grade Bonds**

**#1 in Latin American Local and International Bonds**

**#1 in Brazilian Local and International Bonds**

**#3 in Mexican Local and International Bonds**

Source: Bloomberg



# Private Banking US

Internationally-led private bank with focus on emerging markets

## Key Strengths

### ▶ International connectivity:

- ▶ Almost 90% of onshore and offshore clients in the Americas have international connectivity through multi-national residences and business activities
- ▶ Capability to service clients globally with 90+ locations in 42 countries and territories in the Americas, Europe, Asia-Pacific, Middle East and Africa

### ▶ Strength in Latin America:

- ▶ Relationship manager teams in Miami serve five regions: Brazil, Mexico, Andes, Southern Cone and Central America/Caribbean
- ▶ Largest offshore private banking operation in Miami
- ▶ Miami hub supported by 14 offices in the region
- ▶ Capability to coordinate offshore services with onshore services in Brazil, Mexico and Panama

### ▶ Joined up to HSBC Group:

- ▶ Strong momentum in cross-referrals with other HSBC businesses
- ▶ Particular focus on cooperation with Commercial Banking and capital markets

# Cards & Retail Services (“CRS”) – Overview

Continuing to be profitable

## Credit Card overview

- ▶ Sixth-largest US MasterCard/Visa issuer
- ▶ US\$20.0 billion in managed receivables, 15 million<sup>(1)</sup> active accounts

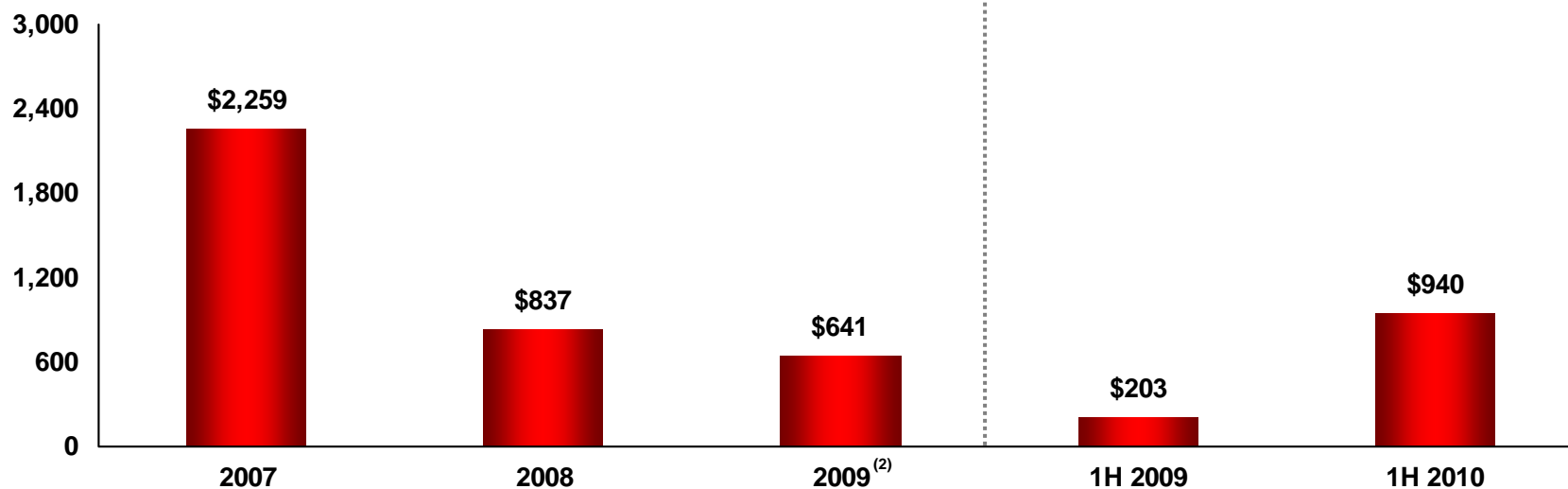
## Retail Services overview

- ▶ Third-largest private label issuer
- ▶ US\$13.2 billion in managed receivables, 13 million<sup>(1)</sup> active accounts
- ▶ More than 30<sup>(1)</sup> active merchant relationships

## 1H 2010 vs. 1H 2009:

- ▶ Pretax profit higher than 1H 2009
- ▶ Net interest margin has increased 169bps
- ▶ Lower loan impairment charges on lower loan levels, actions taken by customers to reduce debt levels, actions we have taken to reduce risk, and improvement in the underlying credit quality of portfolio
- ▶ Lower fees from reduced receivables, lower delinquency levels, shift in customer behavior and impacts from the CARD Act

## Pre-tax Profit (US\$m)



## After-tax – ROA

3.09%      1.15%      .96%      .51%      3.55%

Note: Card and Retail Services represents a business segment of HSBC Finance Corporation

(1) At December 31, 2009

(2) 2009 excludes goodwill writeoff of \$530 million

# As the Outlook Improves, CRS will Evaluate Growth Opportunities

Ensuring a solid foundation for future growth

## Marketing

- ▶ Increasing marketing spend to grow new account bookings where expected to exceed profitability hurdles in 2010
- ▶ Incorporated impact of CARD Act – conducting extensive testing of new price points and product constructs and initiating new product development. Estimated reduction of revenue net of loan impairment charges of approximately \$200 to \$300 million during 2010
- ▶ Considering new retail partnerships and card acquisitions as appropriate to preserve/enhance value

## Underwriting

- ▶ Economic stress continues to be applied to investment decision models
- ▶ Tightened underwriting policy including initial credit line assignment criteria
- ▶ State and mortgage attributes used in selection
- ▶ Underwriting may selectively be relaxed where historic data supports profitable outlook

## Portfolio Actions

- ▶ Expect to strategically increase credit line, cash advance, balance transfer activities and spend programs selectively in 2010 where expected profitability exceeds hurdles
- ▶ Ongoing efforts to improve customer satisfaction in service operations

# Group Cards Presence and Global Cards Strategy

CRS is a critical component of Group Cards presence and strategy

## Group Cards Presence

- ▶ HSBC issues credit cards in over 50 countries and territories across five continents, making it one of the few truly global players in the industry
- ▶ Over 100 million credit cards in force

## Global Cards Strategy

- ▶ Support for PFS Premier strategy
- ▶ Improve card capabilities by knowledge transfer and establishment of regional centers of excellence
- ▶ Develop and deploy the Global cards target business model

## Contribution to Group

- ▶ Contributed to the development of a globally common system infrastructure (over 80% Global Cards on US platform that can be used in other geographies)
- ▶ Global Analytics – Project to standardize and organize customer, risk and collection analytics on a regional basis under a common infrastructure
- ▶ CRS supports the Global Center of Excellence for Contact Management, a utility for optimizing dialing, staffing and alternative contacts for collections, which is core to One HSBC Collections

# Canada – Business Highlights

Continue to be the leading international commercial bank in Canada

## Overview

- ▶ Largest international and seventh-largest bank in Canada
- ▶ Over 140 bank branches and over 76 finance branch offices in 10 provinces
- ▶ Over 7,000 full-time equivalent employees

## Our Customers

- ▶ Increased Premier customers by 17 percent in 1H 2010
- ▶ Successful launch of new Advance customer product in 2010

## Our Brand

- ▶ Airport branding in Toronto and Vancouver
- ▶ Launched Business Without Borders in partnership with Rogers Media and The Globe and Mail

## Our Culture

- ▶ Canada's top 50 Diversity employers
- ▶ Canada's top 10 employers for young people
- ▶ Best 50 corporate citizens in Canada
- ▶ Top 50 socially responsible corporations in Canada

## Our Global Distribution

- ▶ Strong market share in Asian banking
- ▶ Canadian market leader in trade finance

## Our Businesses

- ▶ All lines of business show improved results in 1H 2010 versus 1H 2009 driven largely by Commercial Banking and PFS as lending margins improved and loan impairment charges declined

# Non-core Consumer and Mortgage Lending (“CML”) Servicing Priorities

Results-oriented servicing operations focused on key drivers for business performance

## Focus On Our Customer

- ▶ Identify customer needs early by developing our culture around the Call Model
- ▶ Win the battle on the front end through effective contact strategies
- ▶ Continue to offer home preservation tools
- ▶ Improve our processes from the customer's perspective

## Manage Credit

- ▶ Leverage customer service interactions to improve cash collected / FTE
- ▶ Expand focus on delinquency prevention, proactively targeting at risk customers early
- ▶ Mitigate losses through Deed in Lieu and Short Sale programs
- ▶ Refine loss mitigation program
- ▶ Refine our reinstatement strategies to reduce foreclosure recidivism

## Mitigate Costs

- ▶ Further pursue integration efforts for critical default and servicing functions
- ▶ Develop and leverage 'Centers of Excellence' to maintain scale, consistency, and expertise
- ▶ Identify opportunities for broader integration across North America

- Strategic and operational focus on optimizing delinquency performance while maximizing the value of customer relationships
- CML Servicing continues to rely on its deep operational experience while embarking on new strategies to drive improved performance and transparent results

# CML is an Industry Leader in Homeownership Preservation

Loan modification is a critical component of our strategy

- ▶ Culturally, homeownership preservation has been embedded in our operating philosophy for years
- ▶ In 2009, we completed more than 104,000 loan modifications totaling approximately US\$15bn
- ▶ In the first 6 months of 2010, we completed 26,500 loan modifications totaling approximately US\$3.9bn
  - ▶ Volume of modifications and/or reages may have begun to level off as over 50% of the portfolio has already been modified and/or reaged through aggressive outreach in 2008 and 2009 and new originations have ceased

Portfolio Snapshots	12/31/07	12/31/08	12/31/09	6/30/10
<b>Total Real Estate Modifications and/or Reages</b>	<b>US\$17bn</b>	<b>US\$26bn</b>	<b>US\$30bn</b>	<b>US\$28bn</b>
<b>% of Real Estate Portfolio with modification and/or reages</b>	<b>20%</b>	<b>36%</b>	<b>51%</b>	<b>52%</b>

Note: Data from 2009 10-K and June 30 2010 10-Q, US GAAP legal entity basis

- ▶ As of June 30, 2010, approximately 60 percent of all loans modified and/or re-aged since January 2007 are less than 60 days delinquent or have paid in full
  - ▶ Our recidivism rates compare favorably to market experience in general
  - ▶ Modification when used appropriately maximizes cash flow and results in a positive NPV benefit
  - ▶ As a result of the higher modification levels, we are also seeing an increase in TDRs

# CML Going Forward

Continue to focus on our strategic initiatives

## Home Preservation

- ▶ Continuing to offer home preservation tools, enhancing our programs to maximize the economic benefit for HSBC and our customers, aligning processes across business units to obtain benefits of scale and efficiency

## Improving Cash Flows

- ▶ Where appropriate, focusing on shifting volume from foreclosures to short sale and deed-in-lieu, taking advantage of lower loss severities, and exploring opportunities for loan sales as the economic environment improves and asset prices strengthen
- ▶ Improve data analytics to better target modifications based on underlying performance of our portfolio

## Driving Efficiency

- ▶ Refine and enhance our customer contact strategies, leveraging all touch points with the customer to launch collections discussions regarding delinquent debt, with the goal of increasing cash collected per FTE and reducing customer handoffs

## Reducing Costs / Integration

- ▶ Continue to focus on integration across the business to maintain scale, consistency, and expertise through consolidation where feasible while ensuring flexibility to adapt to future demands



# HSBC North America Summary

Positioning for the future

**Continue to take decisive actions to reposition our Core businesses to ensure a solid foundation for future growth and sustainable profitability**

**Grow Core business with a focus on global connectivity**

**Remain focused on managing down the run-off assets in our Non-core business ethically and effectively**

**Manage regulatory challenges and capital requirements**

**Build American talent to run businesses in the future**

# 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 GM and UP credit card, auto finance, 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 fund prime customer loans more efficiently through bank deposits and such customer loans continue to be managed and serviced by HSBC Finance corporation without regard to ownership