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HSBC in North America

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Forward-looking statements



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Key Trends for North America

Why we need to be in North America as discussed on Investor Day



Overview

- US and Canada account for 26% of world GDP in 2010
- International trade hubs with c.11% of global exports and c.15% of global imports
- Ranked #4 (US) and #10 (Canada) on the Global Competitiveness Index 2010-2011
- Significant FDI flows into region (ranked #2 worldwide)
- US is the largest wealth management market in the world with a wealth pool of \$29tn

Long-term trends

Economic relevance

- The region remains materially relevant: In 2050, the combined GDP forecast for US and Canada is comparable to mainland China
- By 2020, North America will account for 25% of global banking profit pools and 10% of total trade growth

International connectivity

- Asian population to increase to c.10% of total US population by 2050
- North America will continue to be a dominant player in world trade

Wealth

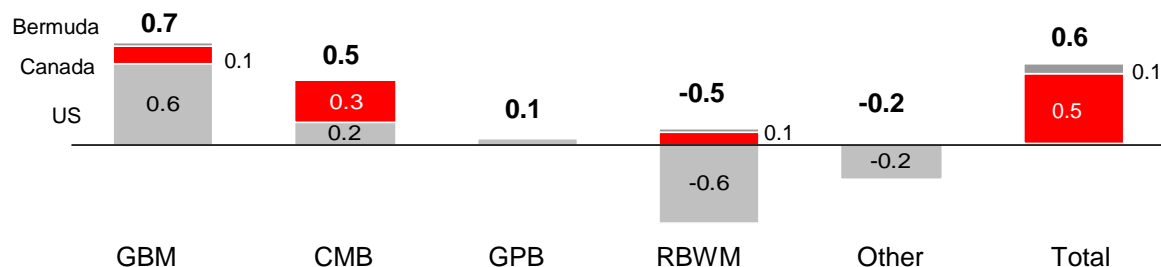
- Continued sizeable growth of wealth market expected
- In 2050, GDP per capita in US / Canada will be three times greater than in mainland China

HSBC Position in North America

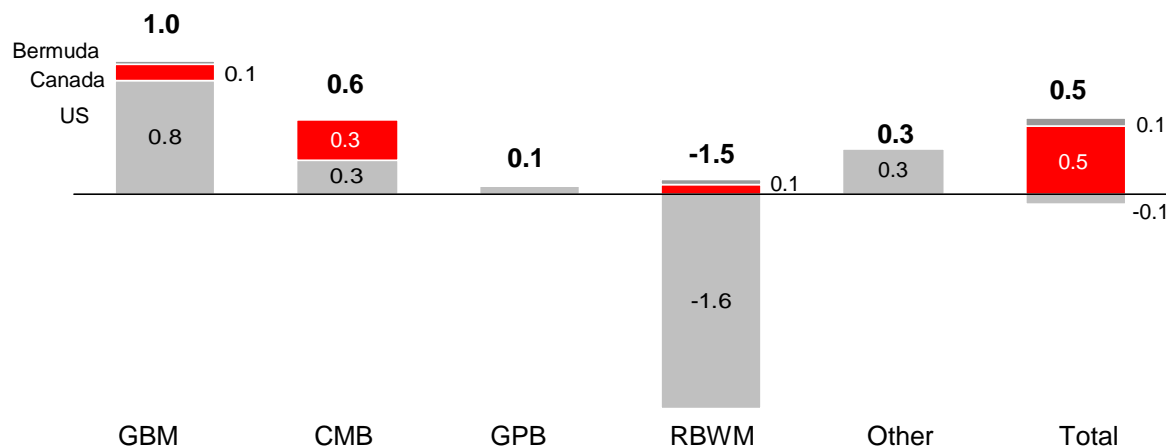
North America results⁽¹⁾



Reported PBT, \$bn, 1H 2011



Reported PBT, \$bn, 1H 2010



- North America PBT increased slightly in 1H 2011 as significantly improved results at RBWM were largely offset by lower profit in Other resulting from gains in credit spreads on our own FVO debt in 2010 that did not recur in 2011 and lower profit in GBM
- On an underlying basis⁽²⁾, pre-tax profit improved \$723m in 1H 2011
- US RBWM loss of \$0.6bn in 1H 2011 is significantly reduced from comparable 2010 period due to improvements in loan impairment charges
- Canada contributed over \$500m in PBT in 1H 2011 and in 1H 2010 making it a significant contributor to Group's PBT

(1) All amounts presented for North America in total either in the chart above or elsewhere in this presentation represent the North America geographical region which includes Bermuda. Our business in Bermuda is not discussed in this presentation.

(2) Excludes movements in our own debt designated at fair value resulting from changes in credit spreads and in 2010, the gain from the sale of our stake in the Wells Fargo HSBC Trade Bank as well as the impact of translating the results for the previous half-year at the average exchange rate applicable for current half-year.

HSBC Position and Competitive Advantage in North America

Contrasting performance, opportunities and challenges across North American businesses as discussed on Investor Day



HSBC Canada

- A good record of satisfactory returns with double digit ROE throughout the cycle
- Effective business model with a clear focus on key businesses with international connectivity
- Role model for the future US business

HSBC Bank USA

- A record of underperformance against Group target returns

HSBC Finance

- Cards has been profitable through the cycle, but is not fully aligned with strategic customer base
- Mortgage business is in run-off

Global business hubs

- New York as GBM hub for the Americas
- Miami as GPB hub and gateway to Latin America

North America Looking Forward

Strategic direction



- Target RoRWA of 0.8% - 1.3% (Reported 0.4%⁽¹⁾ in 1H 2011)
 - RWAs (\$335.8bn at June 30, 2011) will continue to decline in the future as the Consumer and Mortgage Lending loan portfolios and legacy GBM assets continue to run-off and the sale of the Cards business is completed. Just over half of North America RWAs are currently consumed by these assets
 - Committed to reviewing opportunities to release and re-allocate capital to internationally connected businesses, subject to regulatory approval
 - Future returns will be influenced by economic conditions including unemployment and the housing market which will impact future loss levels in the run-off Consumer and Mortgage Lending loan portfolios
- Boost our international connectivity by satisfying the international needs of US clients and the US needs of international clients
- Focus on sustainable growth across the Americas region for our global businesses
- Focus US branch network on internationally connected metro areas
- Continue to collect effectively but ethically
- HSBC to ensure resources are available as necessary to pay-off HSBC Finance Corporation debt as it matures
- Refocus and rationalize cost base to support strategic businesses

(1) Pre-tax annualized basis

North America Looking Forward

Debt repayment and cost initiatives



HSBC Finance Corporation debt repayment

- At June 30, 2011, \$47.8bn of long-term debt was outstanding with maturities of approximately \$5bn for remainder of 2011 and with further maturities of \$11bn in 2012 and \$7bn in 2013
- We currently anticipate a substantial majority of the cash required to meet these debt obligations through 2013 will be sourced from the proceeds from the sale of the Cards business and net asset attrition, with the rest from operating cash flows and new debt issuances

Refocus and rationalize cost base. Reported cost efficiency rate of 55.8% in 1H 2011.

- Re-engineer the US business cost structure to fit its reduced size in order to improve financial performance
 - Simplify product offerings and refocus in strategic, profitable businesses and markets
 - Establish a lean and sustainable support infrastructure
- Multi-year US restructuring already underway to create a significantly more efficient and globally connected business
 - Dedicated restructuring team in place and a comprehensive program of initiatives identified
- Cost reduction initiatives achieved to date include workforce reductions which have resulted in a reduction in period end staff at June 30, 2011 of almost 4% since year-end as well as the cancellation of certain software development projects and strategic reductions in marketing. Period end staff are down 38% since December 31, 2007
- Additional cost reduction initiatives include organizational structure redesign, vendor and discretionary spending and IT
- Increased compliance related costs and pending sale of Cards business represents a significant headwind to this ratio
- Cards business incurred \$1bn of operating expenses in 1H 2011

Significant North America Entities

Ongoing areas of focus in 2011



HSBC Bank Canada

- Continue to be a leading international bank in Canada, building a sustainable business through connectivity to HSBC Group, our customers and employees
- CMB - Continue to be a leading international bank for business in Canada, leveraging Group's international connectivity, and the best bank for business banking
- RBWM - Transform our Wealth Management capability and become the leading international premium bank in Canada by deepening our existing relationships
- GBM - Leverage HSBC's international and emerging market expertise nationally and promote Canadian product abroad
 - Focus attention on energy and mining businesses

HSBC Bank USA

- Additional growth efforts in HSBC Premier, Commercial Banking and Wealth Management
- Leveraging Group relationships and unique global footprint in Global Banking and Markets, Commercial Banking and Private Banking as well as Latin America connections in Global Banking and Markets and Private Banking
- Additional focus on CMB especially trade finance
- Branch network focus on targeting ethnic groups with international connectivity
 - Execution of pending sale of branches
- Complete strategic review of our mortgage operation

HSBC Finance

- Continue to effectively manage our run-off portfolios to maximize cash collection and capital preservation in an ethical manner
- Leading home preservation efforts
- Address increase in capital requirements through RWA management and inflow of additional capital
- Focus on execution of pending sale of Cards business
- Regulation and Compliance, especially foreclosure oversight
- Focus on debt repayment
- Continue to monitor NQH positions
- Subject to market conditions, pursue opportunities to accelerate portfolio run-off

- Continued focus on expense management relative to our size and efficient use of capital across all entities
- Manage risks including regulatory and compliance risk across all entities through integrated enterprise-wide risk management
- Across North America, increase GBM focus on selling Canadian business to the world and joining up Canadian energy company opportunities with Latin America and the US

Canada – Business Highlights

No other international bank has our domestic presence, no Canadian bank has our international reach



Overview

- Largest international and seventh-largest bank in Canada
- Over 140 bank branches and over 76 finance branch offices in 10 provinces
- Over 6,800 full-time equivalent employees

Our Customer

- Fastest growing fund company in Canada and #2 in Group for World Selection sales⁽¹⁾
- Expansion of CMB platform in Eastern Canada on track

Our Brand

- Airport branding in Toronto, Vancouver and most recently Montreal
- Business Without Borders media partnership highly successful with 2,800 active members, French site launched

Our Culture

- Canada's top 50 Diversity employers⁽²⁾
- Canada's top 10 employers for young people⁽³⁾
- Top 50 socially responsible corporations in Canada⁽⁴⁾

Our Global Distribution

- Strong market share in Asian banking
- A leading Trade Finance bank in Canada
- Global Market sales to CMB clients up 29% YoY with significant and successful client calling program

Our Businesses

- All Global Businesses showed improved results in 1H 2011 versus 1H 2010 through reduced loan impairment charges and higher fee income

(1) Source: Investment Fund Institute of Canada

(2) Source: DiversityInc Magazine

(3) Source: Mediacorp Canada Inc

(4) Source: Maclean's Magazine

Canada – Invest in Internationally Connected Growth

No other international bank has our domestic presence, no Canadian bank has our international reach



CMB

- Pursue sizeable opportunity for revenue growth in Eastern Canada
- Expand Global Markets coverage to improve product offering and revenues

RBWM

- Pursue growth in Premier proposition
- Maintain focus on target populations, e.g., Asian diaspora
- Continued promotion of international wealth management capabilities

GBM

- Refocus efforts on Mining and Energy in order to strengthen the linkages to the emerging markets strategy

US Bank Businesses Strategy – Summary

Boost international connectivity and satisfy the international needs of clients. Focus on sustainable growth across the Americas region for our global businesses



Opportunities

- Faster Growing Markets
- Cross-border
- Wealth

CMB	RBWM	GBM	GPB
<ul style="list-style-type: none"> ▪ Be the leading international business bank for medium size business ▪ Continue expansion in metropolitan areas with strong international connectivity ▪ Capitalize on increasing international needs of small and mid-market US companies ▪ Provide additional focus on trade revenue including Global Transaction Banking and trade finance 	<ul style="list-style-type: none"> ▪ Differentiated premium services to internationally minded customers ▪ Reposition and right-size branch network to concentrate on areas with strong international connectivity ▪ Increase value of Premier portfolio by deepening existing relationships 	<ul style="list-style-type: none"> ▪ Emerging markets-led, financing-focused wholesale bank ▪ Integrated Americas platform ▪ Strengthen New York as a hub for the GBM business across the Americas ▪ Increase global revenues from US managed clients ▪ Improve alignment across customer groups including Global Transaction Banking ▪ Deliver Canadian products to global priority clients ▪ Provide Faster Growing Markets products to Canadian investors 	<ul style="list-style-type: none"> ▪ Re-positioned as an internationally-led Private Bank in the US ▪ Sell Faster Growing Markets products to domestic and international clients ▪ Leverage Miami hub to support and expand Latin American business

Continue to focus on enhanced productivity, revenue growth and regulatory compliance

Commercial Banking US

A growing business with substantial opportunities



Our opportunities

- Executing the US strategy provides market coverage for 48% of the US GDP, 45% of the US export opportunity (Brookings) and 52% of the international HQ opportunities
- Research has indicated, 11% of domestic only companies with revenue greater than \$30m are going international annually⁽¹⁾
- Partnership with Export-Import Bank of the US and other government agencies to support specific international trade objectives of the Obama Administration and align HSBC firmly within the international space

Our focus

- Optimization of CMB in the US is integral to the HSBC Group and our international ambitions
- Our Leading International Business (LIB) strategy allows us to be very surgical in defining and identifying our target opportunity
- Invest in new Middle Market and Large Corporate teams
- Remain cost efficient by driving for scale in a limited number of regions with the highest concentration of LIB opportunities

Our business partners

- Since 2007, GBM referral revenue has grown at a substantial rate
- Global Transaction Banking including Trade and PCM continue to support business growth and deliver internationally-minded customers with a full-range of global solutions
- Continued connectivity to RBWM to promote cross-business referrals

(1) Source: Dun & Bradstreet

Global Banking and Markets Americas

Initiatives in place to capture significant cross-selling opportunities



Global Banking and Markets	<p>Increase derivatives cross-sale from Debt Capital Markets originations</p>	<p>Leverage corporate access and corporate relationships</p>	<p>Cross-sale FX solutions to Payments & Cash Management and institutional clients and continue to build out proposition across Latin America</p>	<p>Align HSBC Security Services customer base with global financial institutions and Global Markets</p>
Commercial Banking	<p>Selectively grow High Yield and Leveraged Acquisition Finance transactions with Commercial Banking customers</p>	<p>Grow number of Global Markets / Commercial Banking relationships</p>	<p>Drive growth of non-FX Global Markets revenues with Commercial Banking customers</p>	<p>Increase Global Banking sector / product co-calling on Commercial Banking clients</p>
Retail Bank Wealth Management	<p>Increase penetration of Global Banking and Markets products to Retail Bank Wealth Management client base</p>	<p>Drive Premier referrals from Global Banking and Markets clients</p>	<p>Extract value from family office relationships</p>	<p>Improve Asset Management cross-sale to Global Banking clients</p>

Retail Banking and Wealth Management US

Strategic focus and objectives



- **Focus on internationally connected markets**
 - Target internationally connected customers (e.g. Asian diaspora) in providing global wealth management and banking needs in locations where HSBC has a presence
- **World class banking and wealth solutions**
 - Deepening our relationships with Premium customers through emphasis on cross-selling of wealth management (fee-based revenue model) and mortgages (asset-driven revenue model) which will minimize RBWM's dependence on deposit margins in the current low interest rate environment
 - Differentiated in wealth management from competitors through simplification of our suite of wealth products while also offering proprietary products (e.g. World Selection mutual funds) which enables our internationally-minded customers to invest in global markets
 - Global transfer capability provides customers with consistent worldwide services (e.g. foreign exchange, account access) that few banks can offer
 - Efficient acquisition of high value customers through cross-business referrals
- **Being an agile, fit-for-purpose organization**
 - Multi-year restructuring initiative already underway to create a more efficient and globally connected business
 - Realignment of management structure to support the growth of our wealth management business
 - Keen focus on expense control to achieve HSBC Group's target cost efficiency ratio

Global Private Banking US

Strategic priorities/initiatives



Sustainable Business

- Build on international strength and global capabilities – with an increased focus on the higher net worth client segments
- Continue to increase profitability in a low interest rate environment by generating net new money from existing and new clients, alignment resources to preferred client segments, increased structured product and brokerage activity and the launch of a new insurance product

Intra-Group Strengths

- Maximize the potential of the HSBC America's presence (over 800,000 commercial customers) for new client acquisition
- Strong communication on referral incentives
- Leverage Global Banking and Markets for the ultra high net worth Family Office segment

Annuity Revenue and Product

- Continued growth of Brokerage and Actively Managed Share products
- Focus on insurance and the capital protected product
- Realize revenue opportunity through increased focus on higher value investment products
- Controlled renewal of the lending business

Operational Cost Reduction

- Consolidation of systems and platforms such as SEI & ADP to State Street
- Demise of unnecessary legal entities
- Greater emphasis on off-shoring of staff functions

Risk and Management

- Nurture a smart risk-aware culture - with all staff acting as the first line of defense
- Close cooperation with North America risk and compliance as well as Global Private Bank risk and compliance

HSBC Finance Strategy Summary

Despite actions we cannot control all factors



Focus on Managing What We Can Control

Risk and Strategy Alignment

- Closure of businesses
- Pending sale of Cards business
- Keeping people in their homes where it makes economic sense to do so
- Compliance, including addressing deficiencies in foreclosure processes
- Continuing to collect effectively and ethically and in full compliance with the law

Cost management

- Continuing focus on expenses and headcount as the run-off book declines

People

- Developing talent and exporting talent across the globe
- Retaining key people while allowing the work force to shrink

Factors Which We Cannot Control

- Home price depreciation
- Unemployment
- Legislation/Regulatory Landscape
 - CARD Act
 - Dodd-Frank Wall Street Reform and Consumer Protection Act

Run-Off Consumer and Mortgage Lending

Key areas of focus going forward



Mitigating delinquency and maximizing cash flow

- Maximizing cash collection in a responsible and ethical manner
- Shifting volume from foreclosures to short sale and deed-in-lieu, where appropriate
- Exploring opportunities for loan sales as the economic environment improves and asset prices strengthen

Remediating consent orders and enhancing compliance and controls

- Addressing noted deficiencies and enhancing our policies and procedures
- Supporting the independent consultant review of foreclosure actions
- Performing a comprehensive assessment of risk management
- Strengthening our culture around strict compliance and control

Retaining an engaged workforce

- Identifying and retaining critical talent within the organization
- Enhancing our employee value proposition as the portfolio liquidates and staffing levels decline

North America

Progress on strategy



Key execution elements

Capital Deployment

Achievements

- Announced disposal of 195 branches in Upstate New York; expected to be completed in early 2012
- Announced sale of US Cards business with closing expected in the first half of 2012

Cost Efficiency

- Reduced staff numbers by 4%, or 1,260 from December 2010 to June 2011
- Completed rationalization of software development projects

Growth

- Continued to expand CMB and GBM businesses into areas with strong international connectivity
 - US west coast and eastern Canada for CMB
 - Latin America for GBM
- Continued to direct resources towards the expansion of wealth services and deepening Premier relationships

Question and Answer