



September 2011

HSBC SFH (France)

Investor roadshow

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HSBC 

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Section 1

Executive summary

- HSBC France
 - The HSBC Group’s principal banking operation in France and one of its principal banking operations in Europe
 - Senior unsecured debt ratings of AA (Stable) by S&P, Aa3 (Neg) by Moody’s, and AA (Stable) by Fitch
 - Strong Global Banking and Markets platforms and substantial Commercial Banking operations
 - Retail focus on affluent and high net worth clients
 - 72% of new home loans are originated to existing HSBC customers
- HSBC SFH (France) (the “Issuer”)
 - A French credit institution approved and regulated by the *Banque de France and Autorité de Contrôle Prudentiel* (“ACP”), with the status of *Société de Financement de l’Habitat*
 - Full recourse obligation of the Issuer against HSBC France
 - AAA/Aaa rated issuance by S&P and Moody’s with hard bullet maturities
 - Covered bonds issued under *Obligations de Financement de l’Habitat* (OH) legal framework
 - Minimum contractual overcollateralisation (“Contractual OC”) of 8.1%
 - Current minimum OC of 14.9% to get AAA rating (based on a current asset percentage of 87%)
 - Contractual Asset Cover Test performed with 80% LTV cap
- Current Cover Pool
 - Prime residential mortgages and Crédit Logement guaranteed home loans
 - 100% originated by HSBC France’s branch network – no brokers, direct marketing or acquired portfolios
 - 100% income verification
 - Current weighted average LTV of 68.7%; weighted average indexed LTV of 58.9%; weighted average seasoning of 51.6 months (as of 31 July 2011)

Programme terms		Current cover pool ¹	
Issuer	HSBC SFH (France) previously HSBC Covered Bonds (France)	Pool Notional	EUR3,754,669,706
Programme size	EUR8bn	Collateral	100% prime home loans
Ratings	AAA/Aaa (S&P/Moody's)	Number of loans	30,789
Maximum LTV	80%	Average loan balance	EUR121,948
Minimum Contractual over-collateralisation	108.1%	Breakdown	73% Crédit Logement, 27% Mortgages
Currency	Any	WA Seasoning	51.6 Months
Specific Controller	Cailliau Dedouit & Associés	WA Remaining Term	13.86 Years
Asset Monitor	KPMG	WA Current LTV	68.7%
Listing	Euronext Paris for the OH	WA Indexed LTV	58.9%
Law	French Ability to issue German law governed Namens-schuldverschreibungen		

Note:
1 As at 31 July 2011

Section 2

HSBC Group

HSBC Holdings plc Overview



History and development of HSBC

1865 Established in Hong Kong and Shanghai

Asia and Middle East

1959 British Bank of the Middle East purchased

1965 Acquired majority of Hang Seng Bank

2002 Investment in Ping An Insurance – now 16.78%

2004 Investment in Bank of Communications – now 19.01%

2008 Acquired The Chinese Bank, Taiwan

2009 Acquired PT Bank Ekonomi, Indonesia

Europe

1992 Purchased Midland Bank plc

2000 Acquired 99.99% of Crédit Commercial de France S.A., now HSBC France

Americas

1987 Purchased Marine Midland Banks, Inc.

1997 Assumed Banco Bamerindus do Brazil S.A., now HSBC Bank Brasil

1999 Republic New York Corp purchased

2002 Acquired 99.59% of Grupo Financiero Bitel

2003 Household International, Inc. purchased

HSBC Holdings plc at 30 June 2011

	USD	Numbers
Market capitalisation	USD177bn	
Total assets	USD2,690,987m	
Total equity	USD167,537m	
Countries and territories		87
Offices		7,500
Staff numbers (full-time equivalent)		295,995

Staff numbers at 30 June 2011

	Numbers	%
Hong Kong	30,214	10%
Rest of Asia-Pacific	91,924	31%
Middle East and North Africa	8,755	3%
Europe	76,879	26%
North America	32,605	11%
Latin America	55,618	19%
Total	295,995	100%

Financial overview

Summary of reported results

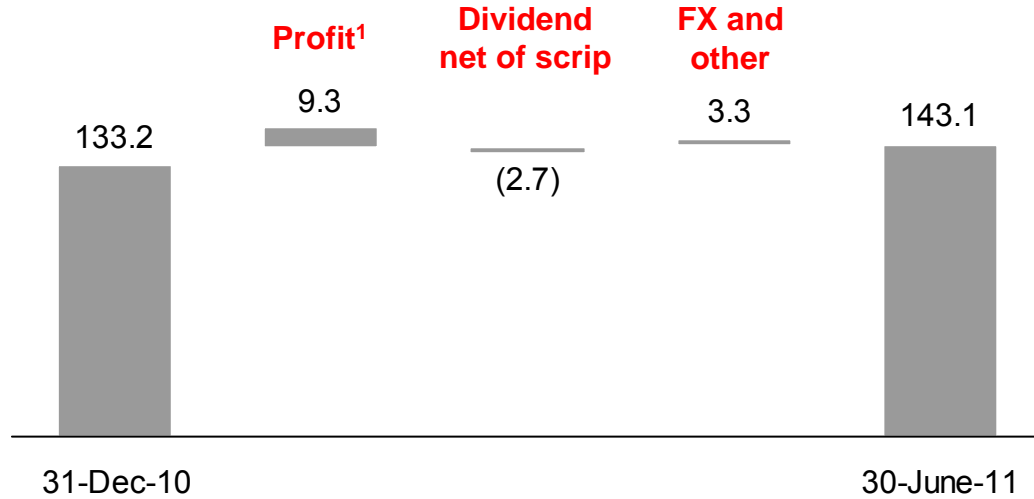


USDm	31/12/2010	30/06/2010	30/06/2011	% Better/(worse) 06/2011 vs 06/2010
Net operating income before loan impairment charges and other credit risk provisions	32,696	35,551	35,694	–
Loan impairment charges and other credit risk provisions	(6,516)	(7,523)	(5,266)	30
Net operating income	26,180	28,028	30,428	9
Total operating expenses	(19,577)	(18,111)	(20,510)	(13)
Share of profit in associates and joint ventures	1,330	1,187	1,556	31
Profit before tax	7,933	11,104	11,474	3
Tax expense	(990)	(3,856)	(1,712)	56
Profit for the period	6,943	7,248	9,762	35
Profit attributable to ordinary shareholders	6,117	6,629	8,929	35
EPS USD	0.35	0.38	0.51	32

Capital strength Enhanced through capital generation

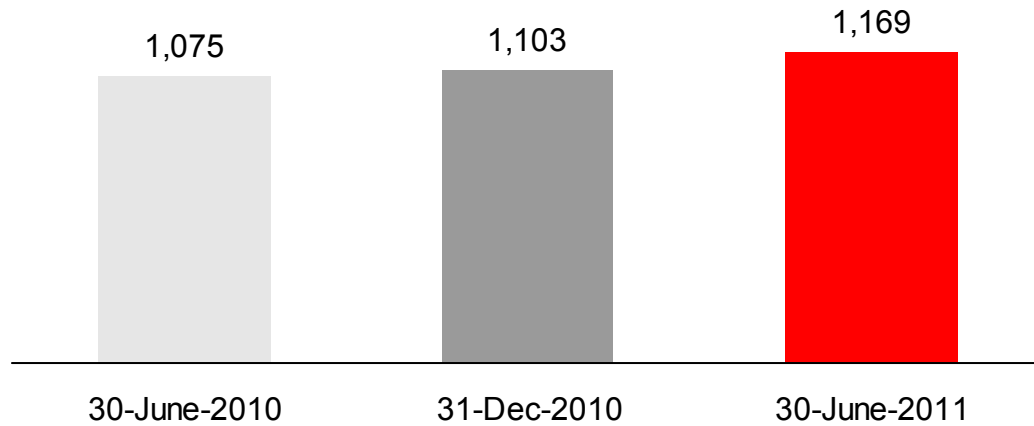
Movement in Tier 1 capital

USDbn

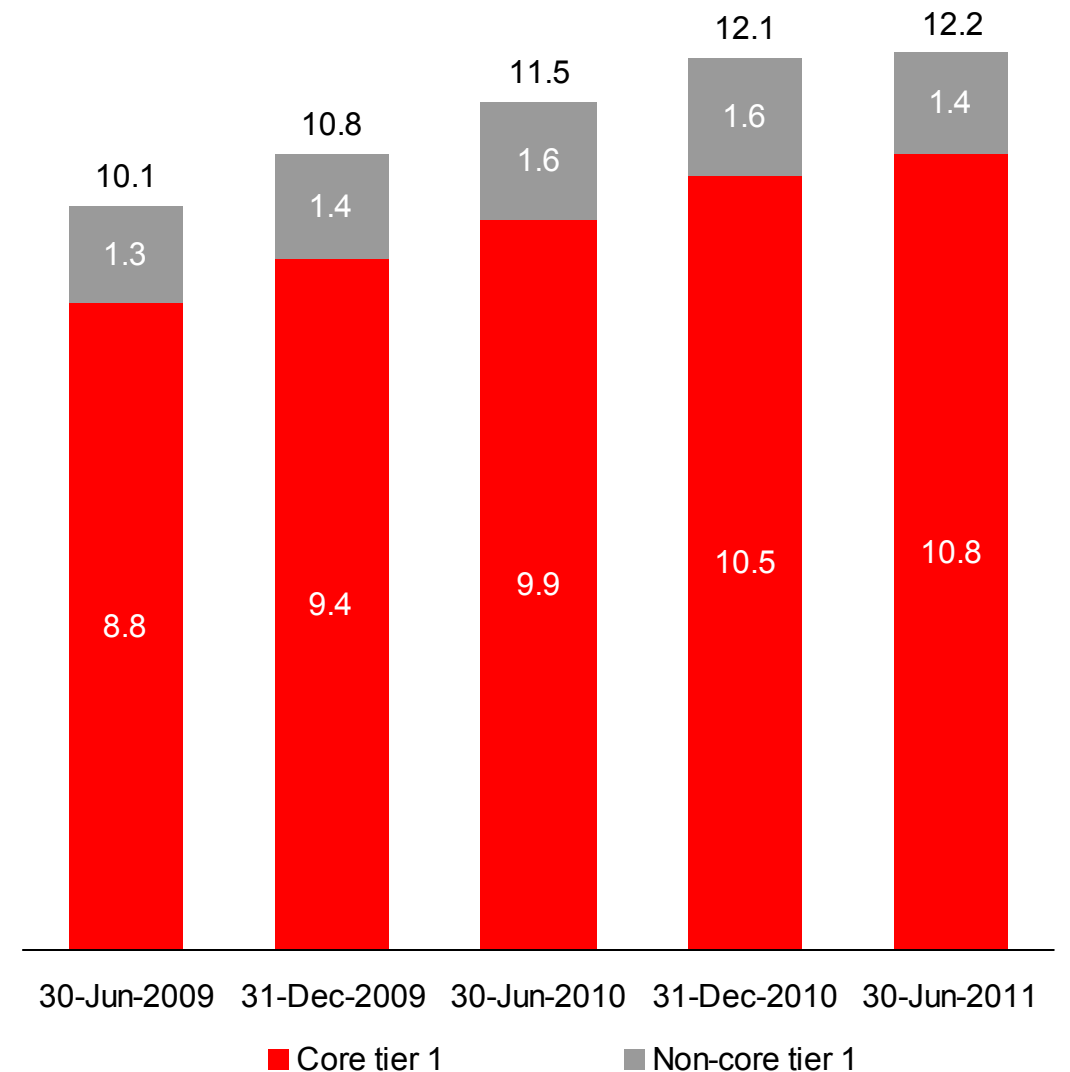


Risk-weighted assets

USDbn



Tier 1 ratio (%)



Funding and liquidity



Prudent position maintained with advances-to-deposits ratio at 78.7%

30 June 2010

USDbn



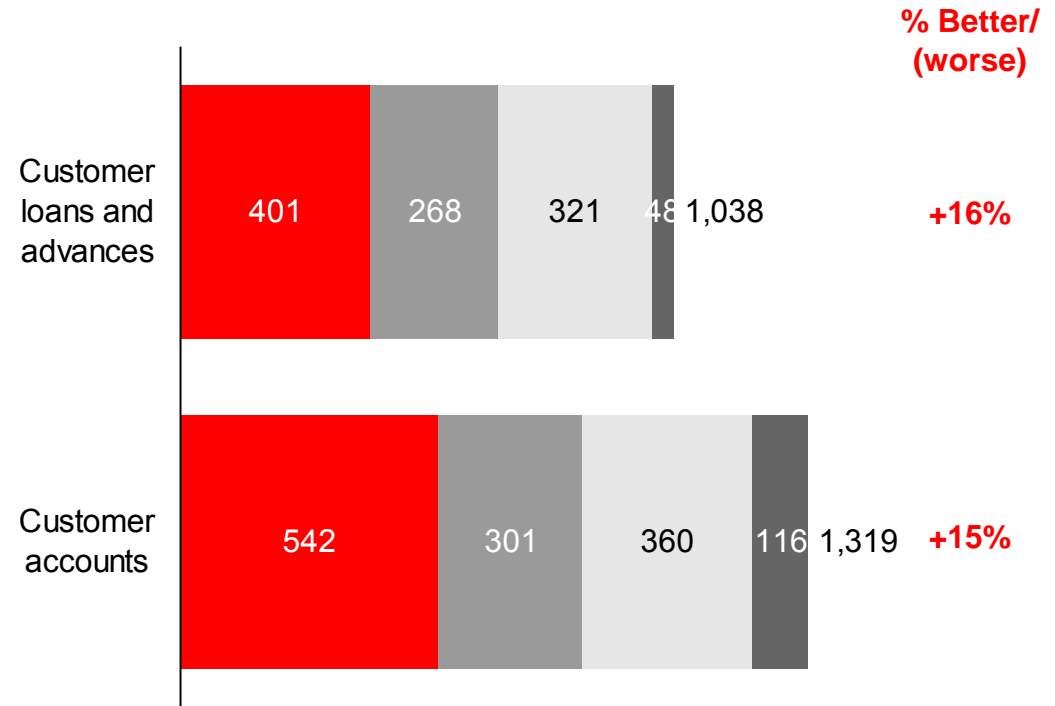
- Retail Banking and Wealth Management
- Commercial Banking
- Global Banking and Markets
- Global Private Banking and other

Advances-to-deposits ratio

77.9%

30 June 2011

USDbn



- Retail Banking and Wealth Management
- Commercial Banking
- Global Banking and Markets
- Global Private Banking and other

78.7%

Section 3

HSBC France

France within the HSBC Group



- HSBC France is HSBC Bank plc's principal banking operation in Continental Europe
- France contributes
 - 4% of Group profit before tax¹
 - 8% of the Group's Customer accounts
 - Nearly one third of the Group's Global Asset Management activity
- History
 - HSBC Bank plc acquired the CCF group in 2000 (Parent Company, 4 Greater Paris-based subsidiaries, and 7 Regional subsidiaries (the "Regional Banks", mainly located in the South of France))
 - CCF and Greater Paris subsidiaries successfully re-branded "HSBC" in November 2005
 - Regional Banks sold to Groupe Banque Populaire in July 2008 for EUR2.1bn (21x after-tax earnings in 2007)
 - Full legal merger of all HSBC France entities completed 31 July 2008; systems and operational merger fully completed 15 May 2009

Note:

¹ For period ending 30 June 2011. Figures include HSBC France group and HSBC Bank plc Paris branch (including intragroup funding costs)

HSBC France (consolidated figures)



HSBC France – financial strength

- High stand-alone credit ratings
 - AA (Stable) by S&P, Aa3 (Neg) by Moody's and AA (Stable) by Fitch
- Consistently well-capitalized
- Increased focus on wealth management in respect of Group strategy

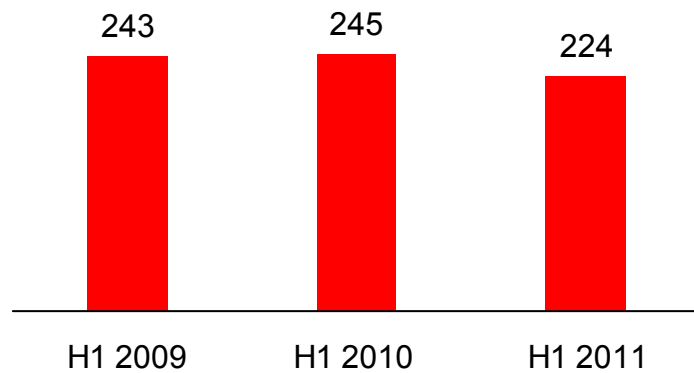
Net operating income before loan impairment charges

By business (EUR1,329m) – H1 2011¹



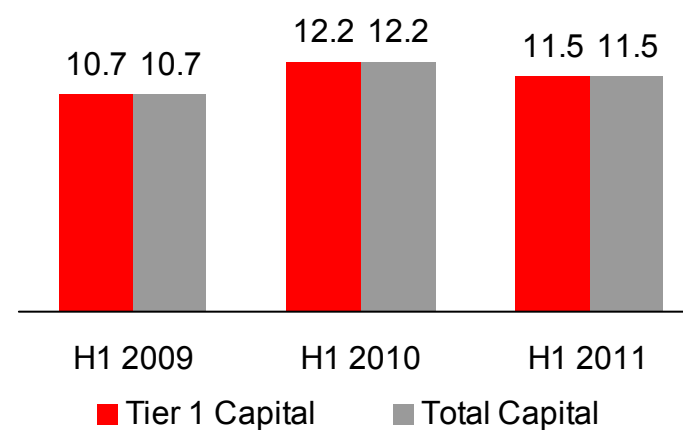
Total assets

(EURbn)



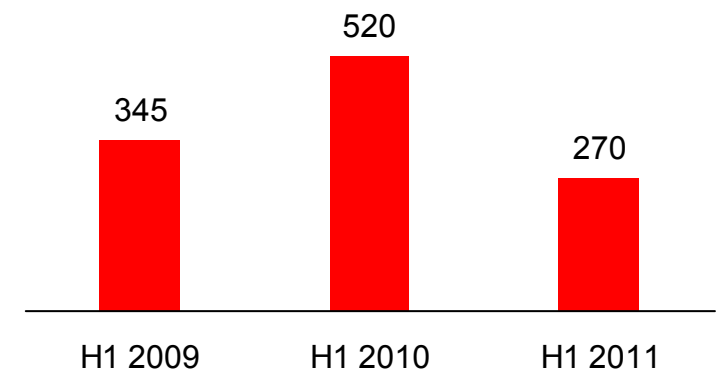
Capital ratios

(%)



Profits before tax

(EURmns)



Source: HSBC France 2011 Half-Year Report and Accounts

Note:

¹ For Period ending 30 June 2011. Figures include HSBC France group and HSBC Bank plc Paris branch (excluding intragroup funding costs)

Position in France and retail approach

- Market position in France
 - 5.5% Penetration rate of the high net worth segment in France (about 5.8 millions persons representing the 10% richest adults in terms of revenues and assets)¹
- Increasing Brand Health Index
 - HSBC is #1 brand in terms of momentum, differentiation and international, #2 overall²
- A personal banking (RBWM³) business focused on high net worth and high net worth clients
 - 315 branches across the main urban centers in France
 - 809,000 RBWM³ customers, 44% of which are in the high net worth segment (i.e. HSBC Premier)
 - Product offering and distribution aligned with customer segments
 - Structured approach for wealth management advice and dedicated Premier centers
 - Training and accreditation levels of Premier customer advisers
 - Structured products, optimization products and advice
 - Tailoring to internationally-minded customers (for instance: integrated online banking with other HSBC entities around the world)

Distribution of branch networks



Note:

1 Source INSEE

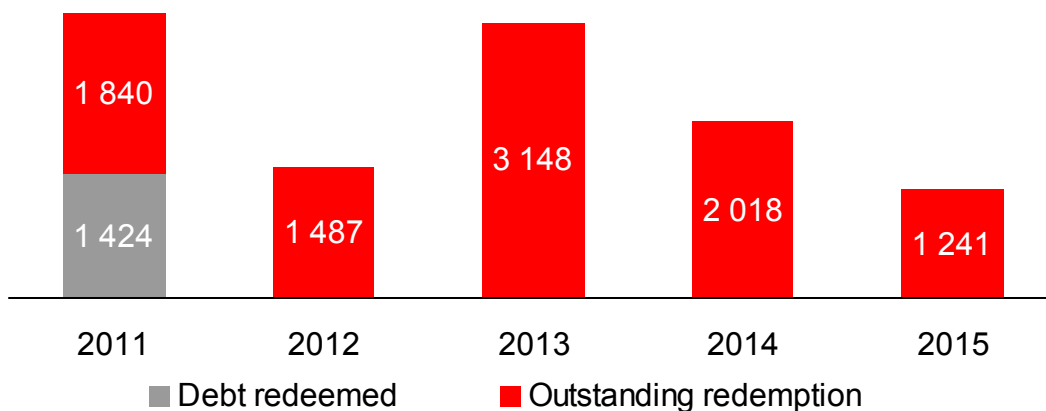
2 Source Synovate survey – 2011

3 Retail Banking and Wealth Management

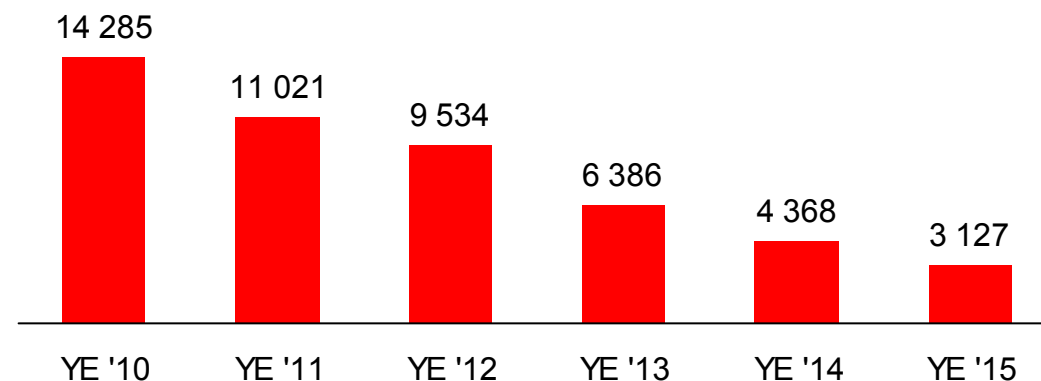
HSBC France: Funding strategy



Yearly redemptions of debt securities in issue to 2015 (EURmns)¹



Profile of debt securities in issue to 2015 (EURmns)²



Motivations to issue covered bonds

- Refinance maturing debt
- Fund balance sheet increase
- Manage Asset & Liabilities profile
- Diversify investor base
- Reduce overall cost of funds

Covered bond issuance strategy

- Plan is to issue up to 2 EUR benchmarks per year
- Additional private placements opportunities
 - In German law-registered form *Namensschuldverschreibungen*
 - In foreign currencies, particularly but not exclusively, in CHF

Note:

1 As 30 June 2011

2 As 31 December 2010

Section 4

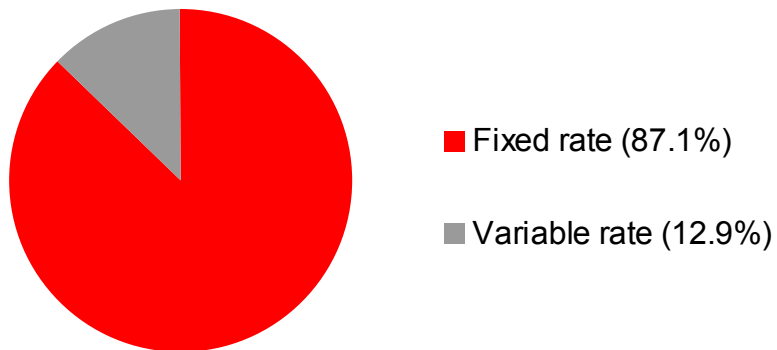
French Home Loan Business

French home loan market

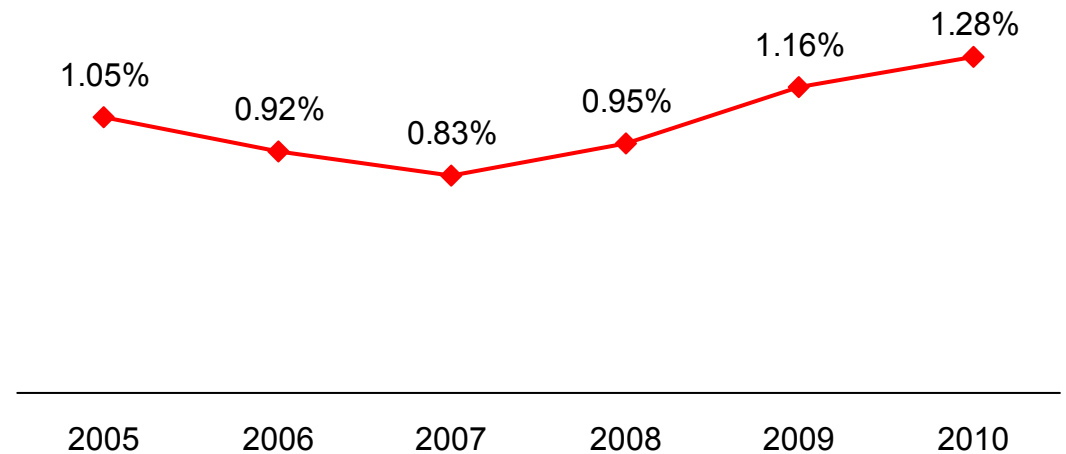
Typical loan characteristics

- Fixed rate for the entire length of the home loan
- Fully amortising, not “re-advanceable”
- Underwriting criteria mainly based on the creditworthiness of the borrower
- Compulsory life and disability insurance
- Institutional guarantees available in addition to traditional mortgages
- Low delinquency
- Regulated product environment

Home loan rate terms in France as of 2010¹



Doubtful home loans – French market²



Notes:

Banque de France : Enquête de l'Autorité de contrôle prudentiel sur le financement de l'habitat – Données 2010

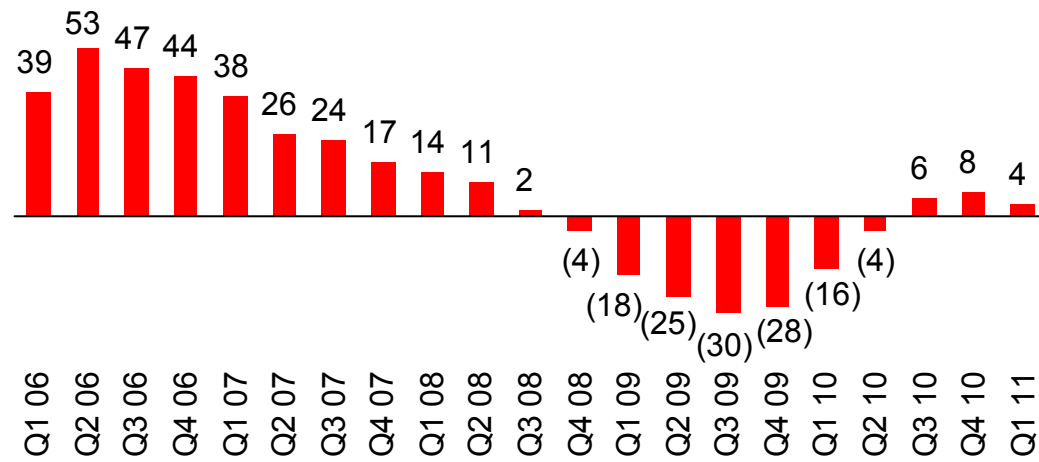
Banque de France : Survey led by French regulatory “Secrétariat général de l'Autorité de Contrôle Prudentiel » (survey on 17 banks that represent \$720bn balance)

French home loan market (cont'd)

Market dynamics

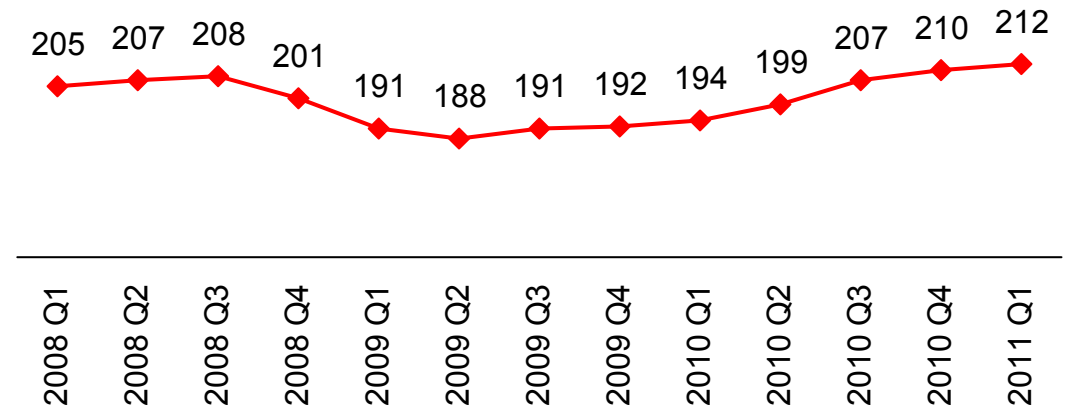
- Steady growth in demand associated with home price increases driven by:
 - Low interest rates
 - Government incentive programs (Prêt à Taux Zero¹)
- Growth now levelling off
- Outlook points to reduced loan demand caused by stability of high home prices and affected by:
 - Conservative loan terms:
 - Long-term fixed rates
 - Fully amortising loans
 - Persistent supply imbalance

Quarterly growth rate in New home loans (%)²



Note:
 1 Government subsidized interest-free loan
 2 Banque de France
 3 Insee – Indice de prix des notaires

French home price index (base 100 in 2000 Q4)³



French home loan market (cont'd)

Specificity of the French home loan market : guaranteed home loans

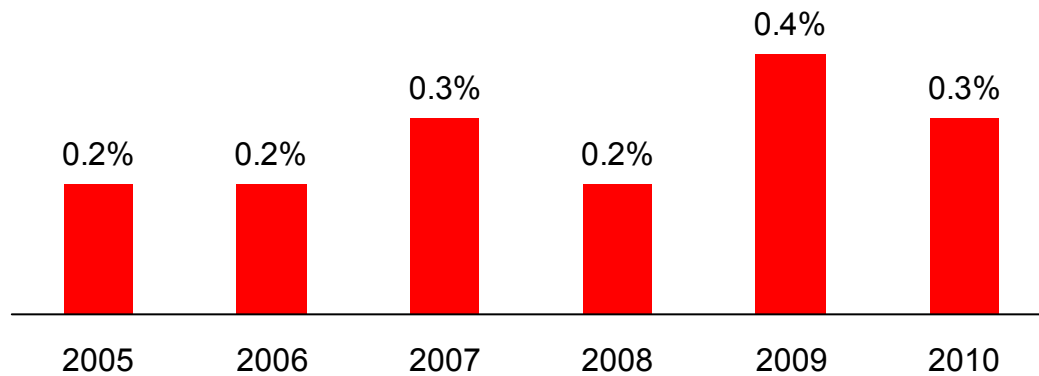
- Home loans which are secured by a guarantee provided either by a selected credit institution or a selected insurance company represent the majority of the French home loan market

- There are various reasons which explain the popularity of guaranteed home loans in France
 - From the borrower's perspective
 - Lower costs : mortgage registration costs are, in general, between 2.2% and 2.5% vs. below 1% for a home loan guarantee fee
 - The administrative process is simplified at signing of the loan and at maturity of the loan
 - Up to 75% of the guarantee fee is paid back to the borrower at maturity, if there is no payment incident during the life of the loan
 - From the lender's perspective
 - Mainly used for well known customers, low risk loans and loans below 1million€
 - The lending bank may call the guarantee after three unpaid instalments and is immediately fully indemnified by the guarantor
 - The recovery process is then fully managed by the guarantor
 - The administrative process is simplified at signing of the loan and at maturity of the loan

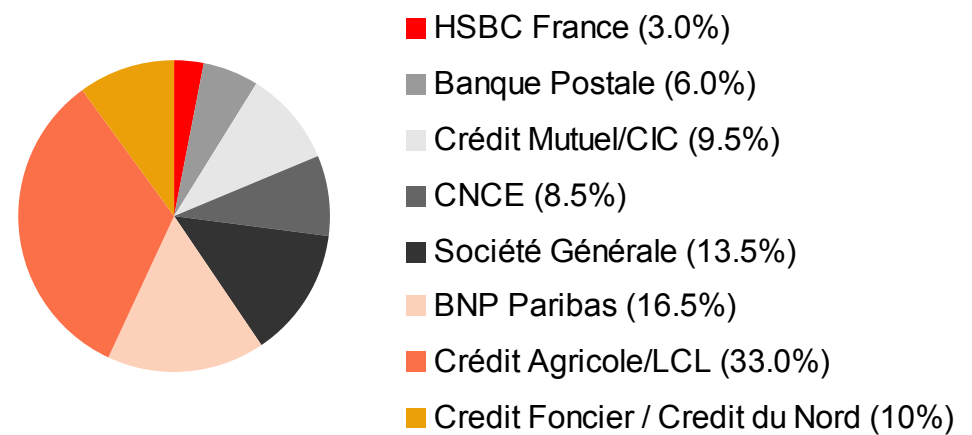
- Description
 - Surety agreements is the most popular residential guarantee on the French housing market with 56.8%¹ market share on the number of loans granted in 2009 and 2010
 - Crédit Logement is a credit institution which is specialized in guarantees of residential property loans distributed by banks.
 - The main objective of the CL guarantee is to cover the bank against default borrowers which are not in the situation usually covered by insurance guarantee (PPI²)
- Market presence
 - Crédit Logement has guaranteed loans for 35 years
 - In 2009, its market share increased slightly to 30% of the total French residential property market and is stable in 2010

- Credit Strength
 - Dominant franchise in French housing loan guarantee market
 - Equity participation from nearly all the major French banks
 - Shareholders' commitment to rebuild capital in proportion to their outstandings if ever necessary
 - Long-term rating of Aa2 (Moody's) and AA (S&P)
- Key figures in 2010
 - Outstanding guarantees of EUR201.9bn, on a total of 2.7m loans
 - Regulatory capital of EUR8.2bn, including EUR3.0bn in mutual guarantee funds
 - Administratively and financially advantageous for HSBC and its customers
 - Pays out on guaranteed loans within one month of loan default

Crédit Logement realised losses (%)



Crédit Logement shareholders



Source: Crédit Logement

Note:

1 OFL/CSA and Despina model 2009/2010

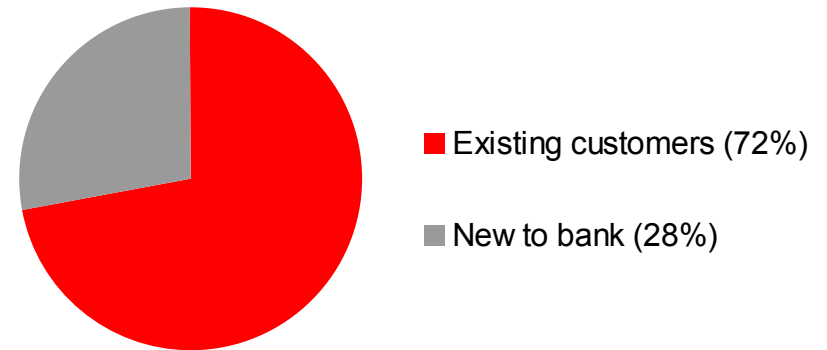
2 PPI typically covers the borrower against an accident, sickness, death, circumstances that may prevent them from earning a salary/wage by which they can service the debt

HSBC France home loan business

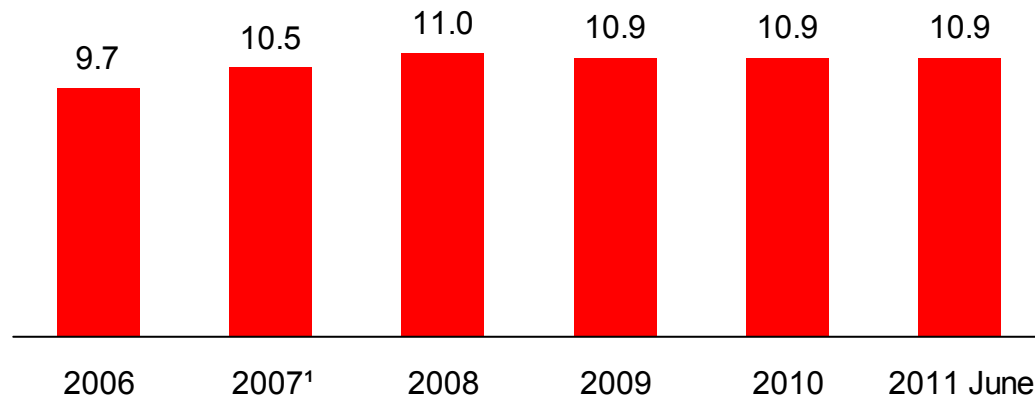


- Strategy
 - Organic growth (28% of loans to “New to bank” customers in 2010)
 - Enhancement of long-term relationship with affluent customer base
- Lending Practices
 - Origination through branch network (exclusively)
 - No direct promotional marketing
 - No specific sales incentives on home loans
 - 100% income verification
 - Underwriting based on ability to afford monthly payments
 - Around 95% long-term fixed rate mortgages
 - Debt servicing ratio 30% – 40% of net income

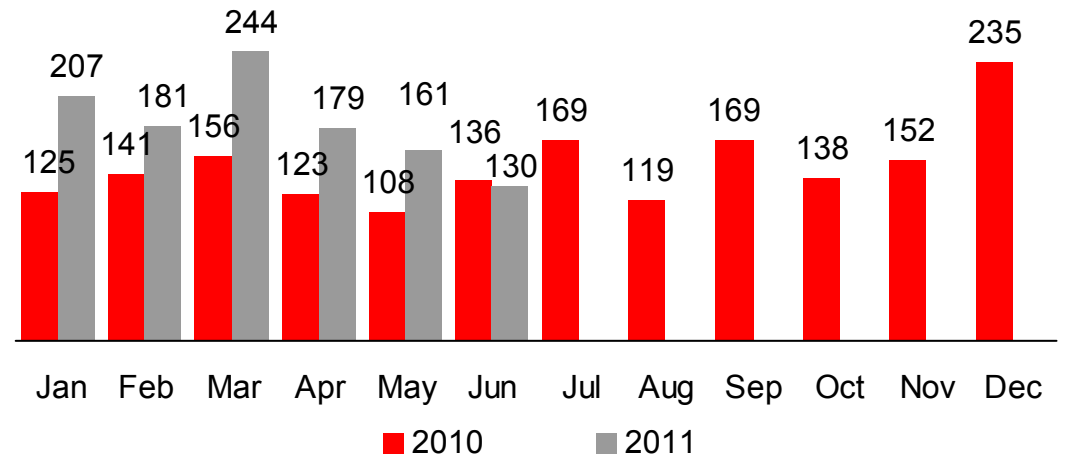
Portfolio breakdown by Profile of customers subscribing a home loan



Home loan portfolio (EURbn)



Monthly home loan production (EURmns)

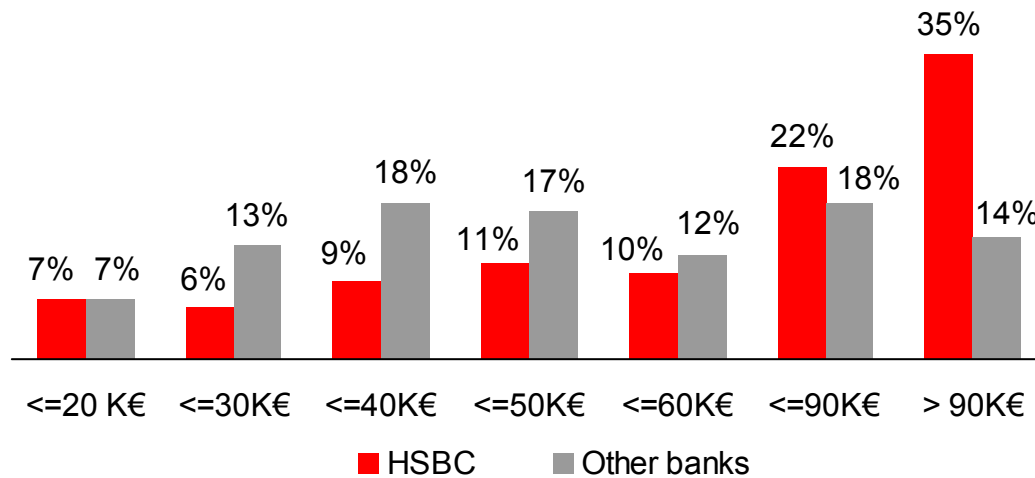


Home loan distribution

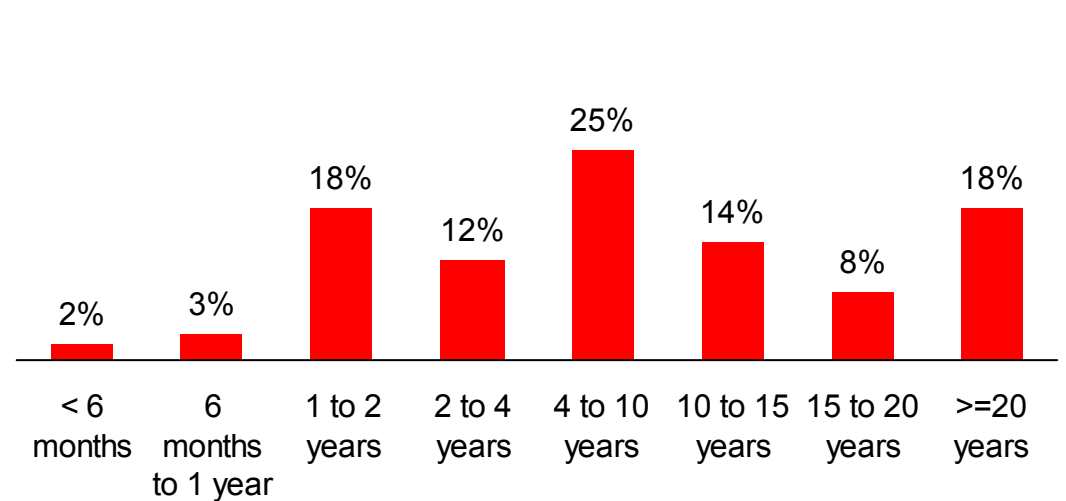


- Performance
 - Attractive customer profile
 - Average length of relationship with HSBC of 11 years
 - Over 55% of loans to existing Premier customers
 - 35% of customers with net income over EUR 90K (vs. 14% for market)
 - Low delinquency and negligible default losses
 - Less than 0.2% of HSBC France's home loan portfolio (by balance) have gone to legal collections annually since 2005

Net income of borrower: HSBC vs Market¹



Length of relationship of customers with a home loan



Note:
1 Crédit Logement pool

Section 5

HSBC SFH within the new legal framework

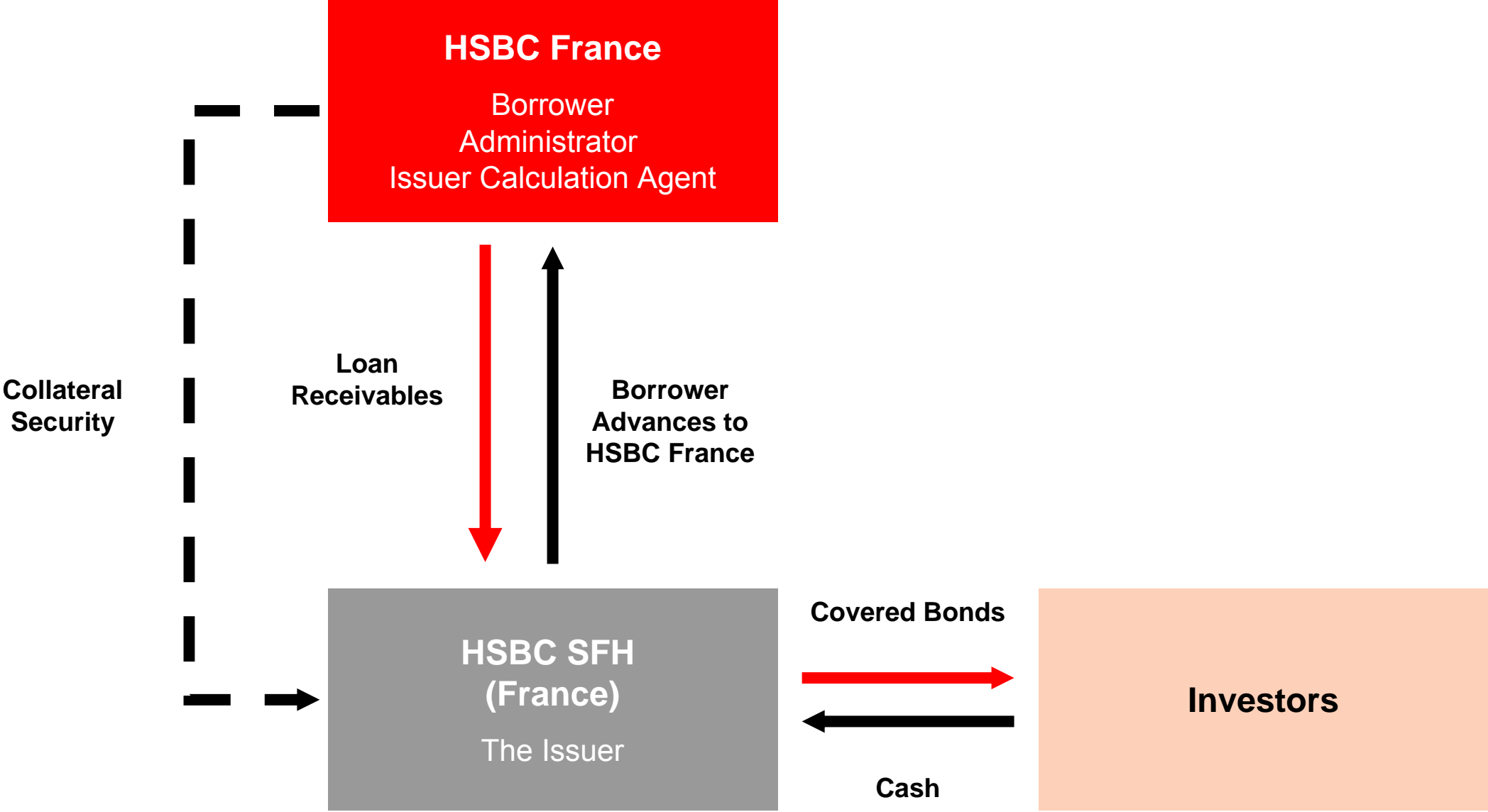
The *Obligations de Financement de l'Habitat*

Main characteristics of HSBC SFH (France)



- HSBC SFH (France) has opted for the new legal framework of the Société de Financement de l'Habitat as of April 21, 2011 pursuant the French Monetary and Financial Code (FMFC)
- HSBC SFH (France) may issue covered bonds (Obligations de Financement de l'Habitat) benefiting from the Privilege created by the Art. L.515-19 of the FMFC. Previous covered bond issuances benefit from a clause of grandfathering
- Appointment of Cailliau Dedouit & Associés as specific controller pursuant the Art. L515-38 of the FMFC
- Introduction of a minimum legal OC of 2% under the legal coverage ratio and a legal liquidity test (minimum contractual OC of 8.1% remains)
- Structured covered bonds existing security mechanisms are kept under the new framework
- Solvency ratios are calculated on an individual basis
- Strong credit ratings unchanged : AAA (S&P) / Aaa (Moody's)

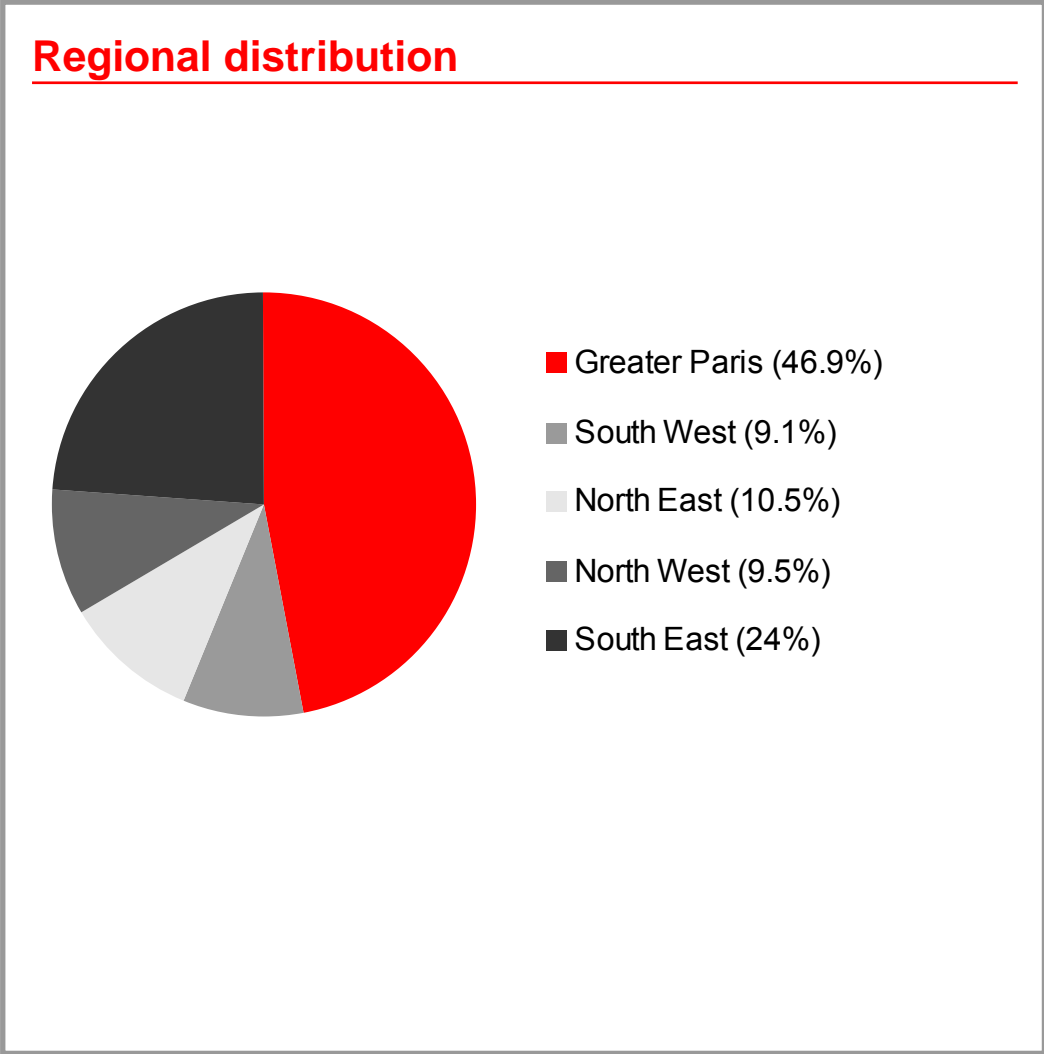
HSBC SFH (France) structure diagram



HSBC SFH (France) cover pool statistics¹



Pool National	EUR 3,754,669,706
Type	100% prime home loans originated by HSBC France: 73% guaranteed by Crédit Logement, 27% first lien mortgages
Average balance	EUR 121,948
WA Current LTV	68.7%
WA Indexed LTV	58.9%
WA Seasoning	51.6 Months
Max Loan Amount	EUR 1mn
WA Remaining Term	13.86 years
Number of loans	30,789



Notes:
1 As at 31 July 2011

Focus on the Obligations de Financement de l'Habitat legal framework

Summary

- The Obligations de Financement de l'Habitat ("OH"), a new type of French legislative covered bond was created by the Law on Banking and Financial Regulation ("Loi de Régulation Bancaire et Financière" or the "Law"), voted in October 2010. The corresponding implementing decree ("décret d'application") was published on 25 February 2011
- The OH are issued by a Société de Financement de l'Habitat ("SFH"), which is a credit institution licensed and supervised by the French regulator, the Autorité de Contrôle Prudentiel ("ACP"), and audited by an independent specific controller ("contrôleur spécifique")
- OH holders benefit from the privilege (statutory priority in right of payment) created by the Article L.515-19 of the FMFC
- Most of the existing French contractual-based "structured covered bonds" ("SCB") issuers chose to become SFH (an option given by the Law). Following this choice, previously issued SCB automatically became OH
- OH exist alongside the other type of French legal covered bonds, the Obligations Foncières ("OF") which are issued by a Société de Crédit Foncier ("SCF")
- The Law also updated the SCF legal framework with the intention to minimize differences between the two French legal frameworks for covered bonds

Background of this reform

- The main objectives of this French legislative reform are to (i) support the refinancing of home loans – in particular guaranteed home loans ("prêts cautionnés") which represent close to 70% of the French home loan market – by allowing SCB to become legislative covered bonds and (ii) to improve the perception of French covered bonds in the market
- OH fully comply with (i) the UCITS Directive (in particular with the dispositions of Article 22-4, i.e. requirement of a specific legal framework) and (ii) ECB eligibility criteria

Key Points

- Various provisions of the law apply to both OH and OF:
 - Requirement to cover all liquidity needs for the next 180-day period on an ongoing basis;
 - Minimum 2% legal overcollateralisation of the cover assets; and
 - Possibility for the issuers to use up to 10% of outstanding issued covered bonds for direct repo operations with ECB
 - Guaranteed home loans :
 - ✓ the rating of the guarantor directly impacts the weighting of such home loans in the cover pool valuation
 - ✓ guaranteed home loans secured by an "internal" guarantee (i.e. when the guarantor is at least 20% owned by the sponsor bank) are applied an additional 20% weighting haircut
 - As with the OF, OH investors benefit from the Privilege (statutory priority right of payment) over all the assets and revenues of the Issuer
 - OH are subject to the same strict criteria as OF in terms of asset eligibility, supervision, control and license requirements
- The control over cover pool assets and guarantors are further tightened under the OH regime with the appointment of the specific controller, who publishes a yearly report to the Directors of HSBC SFH (France) on (i) the governance of the issuer, (ii) its ALM procedures, (iii) the eligibility of cover assets and (iv) the compliance with any other aspects of the law. This report is directly sent by the specific controller to the regulator. Moreover, the specific controller must certify any regulatory reporting sent to ACP
- HSBC used the option offered by the change in legal framework to adopt the new SFH structure on April 21, 2011 and, upon such transformation, benefited from a clause of grandfathering to convert all its previous covered bonds issuances into OH issuances

Guarantor Rating	External Guarantor	Internal Guarantor
≥ A-	100%	80%
≥ BBB- and ≤ BBB+	80%	60%
< BBB- or not rated	0%	0%

Comparison: OF vs. OH vs. SCB

	New Framework																																																																										
	Obligations Foncières (OF)	Obligations de Financement à l'Habitat (OH)	Structured Covered Bonds (SCB)																																																																								
Issuer	Société de Crédit Foncier (SCF)		Structured Covered Bonds Issuer																																																																								
Legal Framework	Loi de Régulation bancaire et Financière dated 22 October 2010		Common law																																																																								
UCITS Compliant	Yes		No																																																																								
Minimum Overcollateralisation	102%		Contractual provisions																																																																								
Type of Collateral	<ul style="list-style-type: none"> Home loans secured by: <ol style="list-style-type: none"> a mortgage; or a guarantee (subject to a 35% limit) provided by a credit institution or an insurance company, with the following weightings <table border="1"> <thead> <tr> <th>Guarantor Rating</th> <th>External Guarantor</th> <th>Internal Guarantor⁽¹⁾</th> </tr> </thead> <tbody> <tr> <td>≥ A-</td> <td>100%</td> <td>0%</td> </tr> <tr> <td>≥ BBB- and ≤ BBB+</td> <td>80%</td> <td>0%</td> </tr> <tr> <td>< BBB- or not rated</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Public sector exposures (e.g.: local authorities) Securitisation Notes, with the following weightings <table border="1"> <thead> <tr> <th rowspan="2">Rating of the Notes</th> <th colspan="2">External Securitisation</th> <th colspan="2">Internal Securitisation⁽²⁾</th> </tr> <tr> <th>During transition period⁽³⁾</th> <th>After transition period⁽³⁾</th> <th>During transition period⁽³⁾</th> <th>After transition period⁽³⁾</th> </tr> </thead> <tbody> <tr> <td>≥ AA-</td> <td>100%</td> <td>100%</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>≥ A- and ≤ A+</td> <td>50%</td> <td>0%</td> <td>80%</td> <td>50%</td> </tr> <tr> <td>< A- or not rated</td> <td>0%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Guarantor Rating	External Guarantor	Internal Guarantor ⁽¹⁾	≥ A-	100%	0%	≥ BBB- and ≤ BBB+	80%	0%	< BBB- or not rated	0%	0%	Rating of the Notes	External Securitisation		Internal Securitisation ⁽²⁾		During transition period ⁽³⁾	After transition period ⁽³⁾	During transition period ⁽³⁾	After transition period ⁽³⁾	≥ AA-	100%	100%	100%	100%	≥ A- and ≤ A+	50%	0%	80%	50%	< A- or not rated	0%	0%	0%	0%	<ul style="list-style-type: none"> Home loans secured by: <ol style="list-style-type: none"> a mortgage; or a guarantee (no limit) provided by a credit institution or an insurance company, with the following weightings <table border="1"> <thead> <tr> <th>Guarantor Rating</th> <th>External Guarantor</th> <th>Internal Guarantor⁽¹⁾</th> </tr> </thead> <tbody> <tr> <td>≥ A-</td> <td>100%</td> <td>80%</td> </tr> <tr> <td>≥ BBB- and ≤ BBB+</td> <td>80%</td> <td>60%</td> </tr> <tr> <td>< BBB- or not rated</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> No public sector exposure Securitisation Notes, with the following weightings <table border="1"> <thead> <tr> <th rowspan="2">Rating of the Notes</th> <th colspan="2">External Securitisation</th> <th colspan="2">Internal Securitisation⁽²⁾</th> </tr> <tr> <th>During transition period⁽³⁾</th> <th>After transition period⁽³⁾</th> <th>During transition period⁽³⁾</th> <th>After transition period⁽³⁾</th> </tr> </thead> <tbody> <tr> <td>≥ AA-</td> <td>100%</td> <td>100%</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>≥ A- and ≤ A+</td> <td>50%</td> <td>0%</td> <td>80%</td> <td>50%</td> </tr> <tr> <td>< A- or not rated</td> <td>0%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Guarantor Rating	External Guarantor	Internal Guarantor ⁽¹⁾	≥ A-	100%	80%	≥ BBB- and ≤ BBB+	80%	60%	< BBB- or not rated	0%	0%	Rating of the Notes	External Securitisation		Internal Securitisation ⁽²⁾		During transition period ⁽³⁾	After transition period ⁽³⁾	During transition period ⁽³⁾	After transition period ⁽³⁾	≥ AA-	100%	100%	100%	100%	≥ A- and ≤ A+	50%	0%	80%	50%	< A- or not rated	0%	0%	0%	0%	<ul style="list-style-type: none"> Home loans secured by: <ol style="list-style-type: none"> a mortgage; or a guarantee (no limit) provided by a credit institution or an insurance company. Weighting is 100% for all guarantees unless specified otherwise in legal documentation No public sector exposure
Guarantor Rating	External Guarantor	Internal Guarantor ⁽¹⁾																																																																									
≥ A-	100%	0%																																																																									
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≥ A- and ≤ A+	50%	0%	80%	50%																																																																							
< A- or not rated	0%	0%	0%	0%																																																																							
Transfer of Collateral Assets to the Issuer	<ul style="list-style-type: none"> True sale Transfer through securitization Public sector exposures: direct or indirect transfer 	<ul style="list-style-type: none"> True sale Collateral assets may secure a loan to Sponsor bank (indirect transfer) Transfer through securitization 																																																																									
Supervision	<p>The Issuer is a Credit Institution and is, as such, supervised by the <i>Autorité de Contrôle Prudentiel</i> (ACP). It is also controlled by a specific controller as provided for by the law ("<i>Contrôleur Spécifique</i>")</p>		<p>The Issuer is a Credit Institution and is, as such, supervised by the ACP</p>																																																																								
Investor Security	<ul style="list-style-type: none"> Legal privilege on collateral portfolio Overcollateralisation of collateral portfolio Recourse to Sponsor bank (indirect transfer) 	<ul style="list-style-type: none"> Legal privilege on collateral portfolio Overcollateralisation of collateral portfolio Recourse to Sponsor bank (indirect transfer) 	<ul style="list-style-type: none"> Overcollateralisation of collateral portfolio Recourse to Sponsor bank (indirect transfer) 																																																																								
Liquidity Management	<ul style="list-style-type: none"> Legal requirement to cover all liquidity needs over a period of 180 days on an on-going basis In case of (i) a sponsor default or (ii) a capital markets closing, SCF and SFH can self-subscribe their own covered bonds (up to 10% of outstanding issued covered bonds) in order to mobilize them with ECB 		<ul style="list-style-type: none"> Contractual requirements 																																																																								
Risk Weighting	10%		20%																																																																								

1 A guarantor which is at least 20% owned by sponsor bank

2 A securitisation is considered "internal" when underlying assets are originated by sponsor bank

3 Weighting of securitisation Notes (which was 100% before the update of the OF law): until 31/12/2014, a temporary derogatory weighting is allowed for Notes transferred before 31/12/2011

Section 6

Conclusion

Conclusion

- AAA investment in HSBC France
- Issuer fully regulated by the Banque de France with the status of SFH
- Full recourse to HSBC France
- Secured by prime French residential home loans originated by HSBC France
- All loans either guaranteed by Crédit Logement or secured by a 1st lien mortgage

Appendix I

Covered Bond Programme Structure

Main characteristics of the programme



- HSBC SFH (France) (“the Issuer”), duly licensed as a French credit institution with the status of SFH, is 100% owned by HSBC France
- The proceeds from the issuance of the OH will be only used by the Issuer to grant loans to HSBC France
- The Issuer has a full and direct recourse against HSBC France under the loans
- The collateral comprises exclusively prime Home Loans originated by HSBC France
- The collateral security is directly granted to the Issuer. Investors have direct access to collateral, following enforcement
- Minimum legal OC of 2.0%, Minimum contractual OC of 8.1%.
Current minimum OC of 14.9%, based on current asset percentage of 87%

Legal features



To ensure insolvency protection and security enforcement in case of bankruptcy of HSBC France, the Covered Bond Programme relies on the new legal framework of the SFH (Article L515-34 to L. 515-38 of the FMFC) and the use of the collateral provisions of the Article L. 211-36 to L. 211-40 of the FMFC where asset segregation is provided without having to transfer the assets off balance sheet

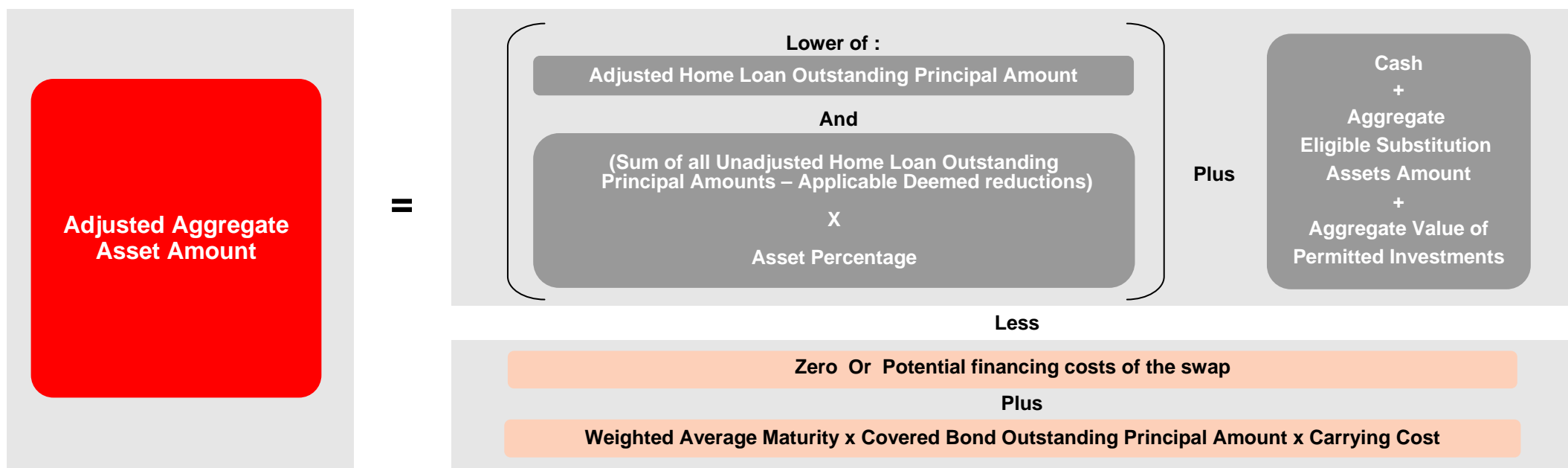
To ensure the bankruptcy-remoteness of the issuer, HSBC SFH (France) is a limited-purpose credit institution whose sole activity is to provide funding to HSBC France by issuing covered bonds

Asset cover test

- The Asset Cover Test (ACT) is designed to ensure that the collateral constituted by home loans, cash and other collateral is able to meet the future cash flows (interest and principal) on the covered bonds (tested monthly by the calculation agent)

$$\text{Asset Cover Ratio} = \frac{\text{Adjusted Aggregate Asset Amount}}{\text{Aggregate Covered Bond Outstanding Principal Amount}} \geq 1$$

- Whereby



Note:
Please refer to section Asset Monitoring of the O.C. for the detailed definitions

Amortisation test

- The Amortisation Test is designed to ensure that the Issuer has the capacity to meet its obligations following the enforcement of the Borrower Event of Default. Compliance with the Amortisation Test requires compliance with the amortisation ratio (RA)

$$\text{Amortisation Ratio} = \frac{\text{Transferred Aggregate Asset Amount}}{\text{Aggregate Covered Bond Outstanding Principal Amount}} \geq 1$$

- Whereby

$$\text{Transferred Aggregate Asset Amount} = \left(\begin{array}{c} \text{Sum of all:} \\ \text{Transferred Home Loan Outstanding} \\ \text{Principal Amount}^* \\ \times \\ M \\ \text{(M=1 if loan less than 3 months in arrears;} \\ \text{M=0.7 if loan 3 months or more in arrears)} \end{array} \right) \text{ Plus } \left(\begin{array}{c} \text{Cash} \\ + \\ \text{Aggregate} \\ \text{Eligible Substitution} \\ \text{Assets Amount} \\ + \\ \text{Aggregate Value of} \\ \text{Permitted Investments} \end{array} \right) \text{ Less } \left(\text{Weighted Average Maturity} \times \text{Covered Bond Outstanding Principal Amount} \times \text{Carrying Cost}^2 \right)$$

Notes:

1 All Home Loans title to which has been transferred to the Issuer upon enforcement of the Borrower Collateral Security following the enforcement of a Borrower Event of Default

2 Please refer to section Asset Monitoring of the O.C. for the detailed definitions

Hedging strategies

- Before a default event, the Issuer is not exposed to any risk of an interest or currency rate mismatch arising between the payments received on the Borrower Advances and the payments to be made under the Covered Bonds
- Upon the occurrence of a Hedging Rating Trigger Event, the Issuer will enter into Hedging Agreements
 - Issuer Hedging Agreements
 - Derivative agreement(s) concluded by the Issuer with Eligible Hedging Providers (Issuer Hedging Agreements) to hedge any currency and interest rate mismatch between the Covered Bonds and the Cover Pool
 - Borrower Hedging Agreement
 - Derivative agreement concluded by the Issuer with HSBC France (Borrower Hedging Agreement) to hedge mismatches between the Cover Pool and Borrower Advances
 - ‘Hedging Rating Trigger Event’ means the event in which the senior unsecured, unsubordinated and un-guaranteed debt obligations of HSBC France become rated below A-1(short term) by S&P or P1(short term) or A2(long term) by Moody’s
- Upon the occurrence of a Borrower Event of Default, and the subsequent transfer in favour of the Issuer of title to the Home Loans, the Issuer will
 - Maintain its rights and obligations under the existing Issuer Hedging Agreements
 - Terminate immediately the Borrower Hedging Agreements

Structural highlights



- Pre-Maturity Test
 - Designed to ensure that the Borrower can provide sufficient liquidity in case of a downgrade
 - If, 270 days before the maturity of any series of hard bullet Covered Bonds, the Borrower's short-term rating is below A-1 (short term) by S&P or P-1 (short term) by Moody's, the Borrower must fund the cash collateral account to a sufficient level calculated by the Issuer Security agent as the Covered Bond Principal Amount + Costs
 - A non-compliance with the Pre-Maturity Test will prevent the Issuer from issuing any further series of Covered Bonds as long as it remains un-remedied. A failure to fund the cash collateral account to the required level within 30 calendar days of receipt of a notice of non-compliance will result in a Borrower Event of Default
- Liquidity Support
 - Monthly payment under the Covered Bond Swap after the occurrence of the Hedging Rating Trigger Event
 - Funds held by the highly rated Covered Bond Swap provider until the annual payment of interest
- Accounts Agreement
 - HSBC France provides bank accounts to the Issuer as long as it is an eligible bank for the rating agencies
- Asset Servicing
 - HSBC France will perform the Asset Servicing and will provide HSBC SFH (France) with Asset Reporting
 - HSBC SFH (France) will use reasonable effort to enter into a master servicing agreement with an eligible servicer if HSBC France is downgraded below BBB by S&P or Baa2 by Moody's
- Commingling Risk
 - A cash collateral reserve will be placed under a specific account (the "Collection Loss Reserve Account") in case of downgrade of HSBC France below A-2 (short term) by S&P or P-1 (short term) by Moody's

Borrower event of default

- The occurrence of any of the following events will constitute a Borrower Event of Default
 - Default in the payment of principal or interest on any Borrower Facility not remedied within 3 business days after the due date
 - Breach of Pre-Maturity Test
 - Breach of Asset Cover Test
 - Breach of Collection Loss Reserve Funding requirement
 - Any material representation or warranties made by the Borrower is incorrect in any material aspect
 - Failure to comply with any of the Borrower's material obligations
 - Occurrence of Insolvency Event
 - Any of the Borrower's material obligations become unlawful or cease to be legal, valid and binding
 - Failure to enter into any Hedging Agreement within 30 days following a Hedging Rating Trigger Event
- A Borrower Event of Default will result in a Borrower Enforcement Notice
 - No further Borrower advances shall be available
 - Borrower advances become due and payable
 - Enforcement of the Borrower Facility with a transfer of assets to the Issuer

Issuer event of default

- The occurrence of any of the following events will constitute an Issuer Event of Default
 - Breach of Amortisation Test
 - Default in the payment of principal or interest on any Covered Bond not remedied within 5 business day after the due date
 - Default in the performance or observance of any of its other material obligations not remedied within 30 days after receipt by Fiscal Agent
 - Covered Bonds Cross Acceleration Event
 - Order made for the liquidation or winding up the Issuer
 - Occurrence of Insolvency Event
 - The Issuer ceases to carry on all or a material part of business
 - Failure to enter into any Hedging Agreement within 30 days following a Hedging Rating Trigger Event
- An Issuer Event of Default will result in an Issuer Enforcement Notice
 - An Issuer Enforcement Notice cause the principal amount of all Covered Bonds of such Series to become due and payable, subject to the relevant Payment Priority Order

No further issuance

- The Issuer undertakes not to issue any new Covered Bonds under the Programme
 - As from the date a Borrower Enforcement Notice has been served
 - As from the date an Issuer Enforcement Notice has been served
 - For so long as Non-Compliance with Asset Cover Test has occurred and is not remedied
 - For so long as Non-Compliance with Amortisation Test has occurred and is not remedied
 - For so long as, regarding the Pre-Maturity Test and the Legal Liquidity Test, a Non-Compliance Notice has been delivered and is not withdrawn

Cash flow priorities

Pre-Enforcement Priority Payment Order

Prior to any enforcement notice being served

1. Hedging Costs, if any, (other than Hedging Termination Costs)
2. Interest amounts due on the Covered Bonds
3. Principal amounts due on the Covered Bonds
4. Hedging Termination costs, if any
5. Fees due and payable to the Administrator and the Servicer
6. Amounts due and payable to the Cash Collateral Provider
7. Other administrative and tax costs
8. Dividend to the Issuer's shareholders and any payment under the subordinated loan

To be paid on any Payment Date

Controlled Post-Enforcement Priority Payment Order

In the event of service by the Issuer to the Borrower of a Borrower Enforcement Notice

1. Hedging Costs, if any, (other than Hedging Termination Costs)
2. Interest amounts due on the Covered Bonds
3. Principal amounts due on the Covered Bonds
4. Hedging Termination costs (only after full repayment of any outstanding Covered Bonds)
5. Fees due and payable to the Administrator and the Servicer
6. Amounts due and payable to the Cash Collateral Provider
7. Other administrative and tax costs
8. Subject to full repayment of any outstanding Covered Bonds, distribution of remaining enforcement proceeds to the Borrower and payment of dividend to the Issuer's shareholders and any payment under the subordinated loan

In the event of service by the Issuer to the

Accelerated Post-Enforcement Priority Payment Order

An Issuer Event of Default will result in an Issuer Enforcement Notice and an Accelerated Post-Enforcement Priority Payment Order

1. Hedging Costs, if any, (other than Hedging Termination Costs)
2. Interest amounts due on the Covered Bonds
3. All principal outstanding amounts under the Covered Bonds
4. Hedging Termination costs (only after full repayment of any outstanding Covered Bonds)
5. Fees due and payable to the Administrator and the Servicer
6. Amounts due and payable to the Cash Collateral Provider
7. Other administrative and tax costs
8. Subject to full repayment of any outstanding Covered Bonds, distribution of remaining enforcement proceeds to the Borrower and payment of dividend to the Issuer's shareholders and any payment under the subordinated loan

Instruction to pay to be given within 3 business days of receipt of Issuer Enforcement Notice

Home loan eligibility criteria

- a. All lending criteria and conditions precedent as applied by the originator of the Home Loan pursuant to its customary lending procedures were satisfied
- b. the purpose of the Home Loan is either to buy, to renovate, to build or to refinance a residential real estate property;
- c. the underlying property is located in France
- d. the Home Loan is governed by French law
- e. the Home Loan is denominated in Euro
- f. all sums due under the Home Loan (including interest and costs) are secured by a fully effective Home Loan Security
- g. on the relevant Selection Date, the current principal balance of such Home Loan is no more than Euro 1,000,000
- h. on the relevant Selection Date, the loan-to-value of the Home Loan is no more than 100%
- i. on the relevant Selection Date, the remaining term for the Home Loan is less than thirty (30) years
- j. on the relevant Selection Date, the borrower under the Home Loan has paid at least one (1) instalment in respect of the Home Loan
- k. the borrower under the Home Loan is an individual who is not an employee of the originator of such Home Loan
- l. the Home Loan is current (i.e. does not present any arrears) as at the relevant Selection Date
- m. the Home Loan is either monthly or quarterly amortising as at the relevant Selection Date
- n. the borrower under the Home Loan does not benefit from a contractual right of set off
- o. the opening by the borrower under the Home Loan of a bank account dedicated to payments due under the Home Loan is not a condition precedent to the originator of the Home Loan making the Home Loan available to the borrower under the Home Loan
- p. except where prior Rating Affirmation has been obtained, no amount drawn under the Home Loan is capable of being redrawn by the borrower thereof (i.e. the Home Loan is not flexible)

Appendix II

Comparison of French Covered Bond Programmes

Comparison of French Structured Covered Bond Programmes



	HSBC SFH (France)	BNP Paribas Home Loan SFH	BPCE SFH	CM-CIC Home Loan SFH	Societe Generale SFH	Crédit Agricole Home Loan SFH
Issuer Ratings (S&P/M/F)	AAA / Aaa / -	AAA / Aaa / AAA	AAA / Aaa / -	AAA / Aaa / AAA	- / Aaa / AAA	AAA / Aaa / AAA
Sponsor Bank Ratings (S&P/M/F)	AA / Aa3 / AA	AA / Aa2 / AA-	A+ / Aa3 / A+	A+ / Aa3 / AA-	A+ / Aa2 / A+	AA- / Aa1 / AA-
Programme Size	EUR8bn	EUR30bn	EUR40bn	EUR30bn	EUR25bn	EUR35bn
Collateral Security	Residential Home Loans secured by a Mortgage or a Fin. Guarantee	Residential Home Loans secured by a Mortgage or a Fin. Guarantee	Residential Home Loans secured by a Mortgage or a Fin. Guarantee	Residential Home Loans secured by a Mortgage or a Fin. Guarantee	Residential Home Loans secured by a Mortgage or a Fin. Guarantee	Residential Home Loans secured by a Mortgage or a Fin. Guarantee
Mortgage / Fin. Guarantee	27% / 73%	34% / 66%	46% / 54%	63% / 37%	0% / 100%	67% / 33%
Home Loans Fin. Guarantee Provider	100% Crédit Logement	100% Crédit Logement	4% Crédit Logement 45% CEGC 5% FGAS	55% CMH 45% Crédit Logement	100% Crédit Logement	24% CAMCA 76% Crédit Logement
Max. LTV / LTV Cap for the ACT	100% / 80%	100% / 80%	100% / 80%	100% / 80%	100% / 80%	100% / 80%
WA Seasoning / WA Remaining Term	51 months / 166 months	48.67 months / 186.91 months	53 months / 184 months	53 months / 192 months	45 months / 169 months	40 months / 190 months
% Fixed / Floating	93% / 7%	89% / 11%	91% / 9%	83% / 17%	90% / 10%	84% / 16%
Minimum Over-Collateralisation	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
WA LTV	69%	68.16%	69.15%	70%	59.2%	65%
WA Loan Balance	EUR 122K	EUR 98.8K	EUR 54.9K	EUR 84.8K	EUR 70.5K	EUR 60.4K
Maturity	Hard bullet	Hard bullet	Hard Bullet	Hard Bullet	Bullet	Hard Bullet
Law	French	French	French	French	French	French
Risk Weighting	20%	20%	20%	20%	20%	20%

Source: HSBC CB (France) data based on July 2011 data. Other Issuer data from investor reports, offering circulars and rating agencies presale reports as of July 2011