

Important Dates	
<b>Offer Opens / Close Date</b>	19 October 2009 / 4 December 2009
<b>Issue Date</b>	16 December 2009
<b>Maturity Date</b>	17 June 2014
Key Information	
<b>Investment Type</b>	HSBC 100+ Series Capital Protected Investment Linked to S&P/ASX 200 Index ('Product') is a Deferred Purchase Agreement.
<b>Underlying Index</b>	S&P/ASX 200 Index.
<b>Issuer</b>	HSBC Bank Australia Limited (HSBC).
<b>Return Cap*</b>	The capital growth from the Product at maturity is <b>capped</b> at no less than 60% (or 11% p.a.).
<b>Capital Protection</b>	HSBC provides 100% capital protection at <b>maturity</b>
<b>Delivery Asset</b>	Units in SPDR S&P/ASX 200 Fund. SPDR S&P/ASX 200 Fund is an exchange traded fund listed on the ASX. The ASX code is: 'STW'.
<b>Distributions</b>	No coupons will be paid.
<b>Minimum Investment</b>	\$10,000 with increments of \$1,000 thereafter.
<b>Liquidity</b>	HSBC may accept early withdrawal requests at its discretion. Amounts withdrawn before maturity are not capital protected and any costs incurred by HSBC for unwinding its position will be borne by the investor.
Fees & Commissions	
<b>Adviser Commissions</b>	HSBC may pay 2.475% (incl. GST) of the investment amount to advisers from their own funds.
<b>Adviser Administration Fee</b>	HSBC will pay an upfront fee of 0.825% (incl. GST) of the investment amount to advisers from their own funds.

\*Return Cap to be set on the Issue Date

**The indicative Return Cap as at 22 September 2009 is 70% (or 12.5% p.a.).**

### What this Rating means

The **Recommended** rating indicates that Lonsec has conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has a number of competitive advantages in people, process and product design. The investment is a recommended entry point to access this asset class or strategy.

### Using this Product

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

➤ HSBC 100+ Series S&P/ASX 200 Linked Investment ('Product') provides investors with the opportunity to gain exposure to the price growth potential of the Australian equities market. Maximum percentage asset class allocations for all risk profiles are outlined in Lonsec's Risk Profile Review.

➤ The Product incorporates 100% capital protection at **maturity** that may provide additional comfort to more risk averse investors. Lonsec considers this product to be most suited to balanced and some growth risk profile investors. As the Product has a Return Cap, it is not suitable for investors who have a very positive view on the Australian share market over the investment term.

The Product may suit:

- Investors seeking capital growth and not reliant on dividends and / or franking credits.
- Investors who believe recent equity market turmoil provides a buying opportunity but want the safety net of 100% capital protection at maturity.

### Product Risk Characteristics

	Low	Moderate	High
<b>Leverage</b>	▲		
<b>Liquidity Risk</b>		▲	
<b>Concentration</b>	▲		
<b>Credit Risk</b>	▲		
<b>Volatility</b>		▲	

*Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.*

**Lonsec Opinion of this Product**

- An investment in the HSBC 100+ Series S&P/ASX 200 Linked Investment (Product) offers investors the opportunity to gain medium term exposure to the price growth potential of the Australian equity index with the benefit of capital protection at maturity. The maximum capital return will be capped at no less than 60% (or 11% p.a.) and will be set by HSBC on the Issue Date. Lonsec views the structure created by HSBC as a relatively simple and efficient means of providing capital protected access to Australian equities.
- Investors can choose to gain exposure to the Australian equity market via a managed fund or an exchange traded fund, receive dividends and any franking credits and be exposed to both positive and negative price movements. This Product offers investors exposure to the Australian equity market with the benefit of HSBC providing a 100% capital protection at maturity, however the capital growth at maturity is capped at no less than 60%. Investors do not receive any dividends or franking credits from the Underlying Index.
- Performance caps have become a feature of this style of product following the extreme volatility in financial markets (relative to levels over the past several years). Lonsec considers that the Return Cap is broadly in line with similar style products currently being offered.
- The determination of the Product returns is subject to an averaging process over the 6 months leading up to the Maturity Date (covering 7 observations). Investors participate in any upside of the Product returns through the investment term (up to the Return Cap) and the averaging mitigates the risk of investors' returns suffering a material decline closer to the Maturity Date. Conversely, investors will not fully benefit from a strongly appreciating final 6 months under this averaging process. The averaging means the return on the investment might be lower or higher than it would have been if it was calculated based on the change between the actual index level on the Issue Date and the actual index level on the Maturity Date.
- Lonsec believes the Underlying Index used in the product is appropriate for investors seeking passive exposure to the Australian equities. The index offers broad representation, investability and transparency. The index is widely recognised in the industry and provides clear rules for security selection and exclusion. Importantly, the Underlying Index used is sponsored and calculated independently of the Issuer.
- In Lonsec's opinion HSBC is a suitably qualified and experienced issuer of structured investment products globally and in Australia. The Issuer is a subsidiary of a global banking group which manages

the risks associated with investments of this type on a continual basis.

- Various components of the product pricing are based on the Issuer's costs and option hedging prices, some of which are at the Issuer's discretion. As is often the case with structured product pricing generally, these prices will not be transparent to the investor. Investors should also note that early withdrawal costs related to the unwinding of any hedge contracts apply in the case of early withdrawal and can be substantial. Investors should have the intention of holding the Product until maturity.

**Issuer Profile**

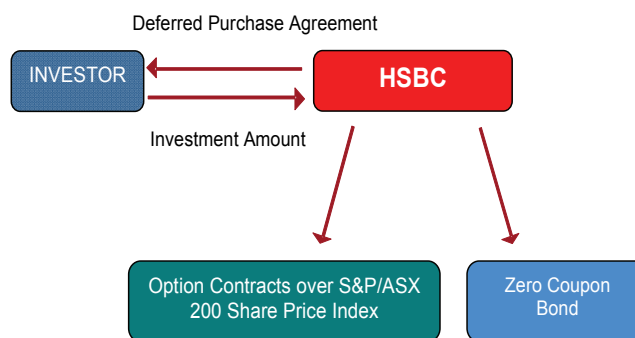
HSBC Bank Australia Ltd is an authorised deposit-taking institution in Australia and is a wholly owned subsidiary of the HSBC Group. As at 31 August 2009, HSBC Bank Australia Limited had a credit rating of AA from Standard & Poor's.

As at June 2009 the HSBC Group had assets over \$2,422 billion.

**How does the Product Work?**

The Product is designed to be a 'set and forget' 4 years and 6 month investment.

The structure of the product can be shown as follows:



Investors enter into a DPA with HSBC. HSBC then purchases a 4 yr and 6 month AUD zero-coupon bond and enters into option contracts linked to the Underlying Index. The bond provides the capital protection at maturity and the option contracts provide the upside potential.

Investor returns are determined by the performance of the Underlying Index on the Issue Date (no averaging) to the level of Underlying Index averaged over the last 6 months (7 observations) of the investment term.

An investor's pay-off at maturity is:

$$\text{Investment Amount} + \text{Investment Amount} \times (\text{Max}(0, \% \text{ change in the Index}))$$

subject to a Return Cap.

Assuming a level on the Underlying Index of 4300 at the Start Date and initial investment amount of \$100, an investor's payoff at maturity can be shown as:

Average Closing Index level	% change in Underlying Index	Payoff at Maturity
3010	-30	\$100
3870	-10	\$100
4300	0	\$100
4730	10	\$110
5160	20	\$120
6450	50	\$150
6880	60	\$160
7525	75	\$160
8170	90	\$160
8600	100	\$160

When the percentage change in the Underlying Index is negative over the investment term, investors will receive their capital back (\$100) as 100% of their initial investment amount is protected. However, investors do not receive the benefit of increases in the Underlying Index beyond 60% over the investment term due to the Return Cap.

**The indicative Return Cap as at 22 September 2009 is 70% (or 12.5% p.a.).**

Early withdrawal by investors invalidates the capital protection. Costs incurred by HSBC unwinding hedge positions will be borne by the investors.

### Underlying Index

The S&P/ASX 200 Index is recognised as the investable benchmark for the Australian equity market.

The S&P/ASX 200 Index is maintained by the S&P Australian Index Committee, a team of five including three Standard & Poor's economists and index analysts and two Australian Securities Exchange representatives.

The Index Committee reviews constituents quarterly to ensure adequate market capitalisation and liquidity. Both market capitalisation and liquidity are assessed using the previous six months data.

The following table outlines the performance of the S&P/ASX Index over the various periods ending August 2009:

### S&P/ASX 200 Share Price Index

	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-12.8	-4.3	4.7	5.3
Standard Deviation (% pa)	24.3	17.7	15.2	13.6
Worst Drawdown	-34.9	-50.5	-50.5	-50.5

Source: Morningstar, Lonsec

In the 5 year period to August 2009, the Index produced a gross annualised return of 4.7% with a volatility of 15.2%. Over the 1 year period to August 2009, the Index returned -12.8%.

### What Happens at Maturity?

At maturity investors have a choice of receiving physical delivery of the Delivery Asset (units in SPDR S&P/ASX 200 Exchange Traded Fund) or instructing HSBC to sell the Delivery Asset and realise sale proceeds in cash equal to the final value of the Product (calculated as described previously). This arrangement is known as a Deferred Purchase Agreement.

There may be different taxation implications depending on the choice made by investors. Investors are advised to seek their own taxation advice.

### Risks

**An investment in the Product carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:**

- Performance risk** – The value of an investment in the Product is dependent on the performance of Underlying Index. The index is not actively managed and can be affected by many different factors including but not limited to interest rates, economic policies, political events, war and natural events. There is no guarantee the value of the Product will increase over the investment term.
- Counterparty risk** – The capital protection and returns at maturity are dependent on the ability of HSBC to meet their obligations. Investors will rank as unsecured creditors. HSBC had a credit rating of AA from Standard & Poor's as at the date of the PDS.

- **Exercise of discretion by HSBC** – HSBC has a number of discretions which can affect the value of the Product. This can occur where there is an early termination event such as the cancellation of an index or a tax event or other reasons deemed by HSBC to be inconsistent with their internal policies. This also includes substitution of the Delivery Asset with another security.
- **Loss of Capital Protection** – Capital protection is only provided at maturity. In certain circumstances, such as changes in the law or where an index can no longer be used, an early termination event could ensue. Loss of capital protection can also result from an early withdrawal request from an investor. An investor can receive proceeds less than their initial investment in the event of an early maturity.

## Taxation

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Any gains made by investors in relation to the Product and the Delivery Asset should generally be subject to taxation under the capital gains tax (CGT) rules.

Investors are encouraged to read the tax opinion on the Product in Section 8 of the PDS.

***These comments constitute 'General Advice' only and Lonsec advises potential investors to consult a taxation specialist before making a decision to invest (or not to invest) based upon these taxation considerations. Investors should refer to Section 8 of the PDS.***

## Liquidity

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The Product is designed to be held to maturity and investors only receive the benefit of capital protection at maturity. However, investors may request early withdrawal, which HSBC has discretion to accept. Any costs incurred by HSBC for unwinding its position will be borne by the investor.

## Further Information

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Further information and monthly performance can be obtained by contacting HSBC:

**Phone:** (02) 9006 5004

**Email:** [100plus@hsbc.com.au](mailto:100plus@hsbc.com.au)

**Internet:** [www.hsbc.com.au](http://www.hsbc.com.au)

## Glossary

<b>Absolute Return</b>	Top line' actual return, after fees
<b>Standard Deviation</b>	Volatility of monthly Absolute Returns

## Analyst Disclosure & Certification

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**Date Prepared: September 2009**

**Analyst: Shailesh Jain**

**Release Authorised by: Michael Elsworth**

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