

# HSBC Bank USA, N.A.

## 10 Year “30s – 5s” Yield Curve Steepener CD

### INDICATIVE TERMS

Issuer	HSBC Bank USA, N.A.
Issue	10 year Leveraged Steepener CD
Issuer Rating	AA (S&P), Aa3 (Moody's)
Denomination	US Dollars (USD)
Trade Date	June 30, 2009
Settlement Date	July 23, 2009
Maturity Date	July 23, 2019
Issue Price	100.00%
Coupon Rate	<b>Year 1:</b> 8.00% per annum (fixed) <b>Years 2-10:</b> the greater of (i) the Coupon Floor Rate and (ii) <b>6 x Reference Rate</b> on a per annum basis, subject to the Coupon Cap Rate
Coupon Cap Rate	10.00%
Coupon Floor Rate	0%
Reference Rate	<b>30 Year Constant Maturity Swap Rate minus 5 Year Constant Maturity Swap Rate.</b> The rate used for calculating the relevant Coupon for each Coupon Payment Date will be set on the day which is two Business Days prior to the previous Coupon Payment Date (each such day, a “Fixing Date”).
Current 30yr CMS minus 5yr CMS ([6/26/2009] 11am NY ISDA Fixing)	[1.221%] Based on 30yr CMS at 4.152% and 5yr CMS at 2.931%
Coupon Payment Dates	Quarterly on the 23th calendar day of each October, January, April, and July subject to adjustment
Non-Call Period	1 year
Call Dates	Every 3 years on the 23th calendar day of July, commencing on the Call Date in July of 2010, subject to adjustment
Maturity Redemption Amount	100% of the Principal Amount plus any accrued but unpaid Coupon
Minimum Denomination	\$10,000 and increments of \$1,000 thereafter subject to a minimum issuance amount of \$1 million
CUSIP	40431AC42

### CD Description

This Leveraged Steepener CD pays a quarterly variable coupon calculated as 6 times the difference between the 30yr US Dollar Constant Maturity Swap Rate and the 5yr USD Constant Maturity Swap Rate on a per annum basis. The maximum per annum coupon paid will be 10.00% and the minimum is 0%. The coupon for year 1 will be fixed at 8.00% per annum.

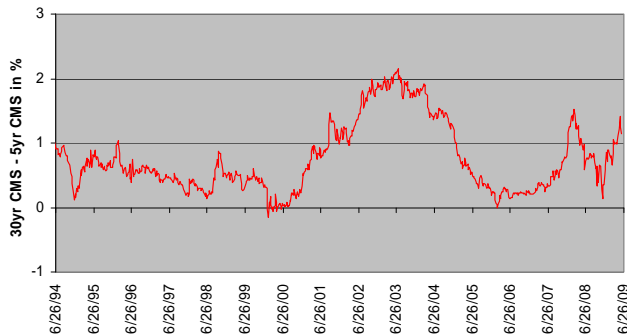
### Highlights

- **Fixed First Year Coupon:** The coupon for year 1 is fixed at 8.00% per annum.
- **Enhanced Coupon Potential:** The coupon paid can be as high as 10.00% per annum if difference between the 30yr CMS and the 5yr CMS is at least 1.67% on a Fixing Date. Some coupon will be paid as long as the 30yr CMS rate remains above the 5yr CMS Rate.
- **Historical Yield Curve Relationship:** Historically the 30yr CMS rate has been higher than the 5yr CMS Rate the vast majority of the time (see next page for details). This CD may be attractive for those who believe that long term rates should naturally be higher than shorter term rates to compensate for the additional risk inherent in the longer term.
- **FDIC Insurance:** This deposit qualifies for FDIC coverage generally up to \$250,000 in aggregate for individual depositors through December 31, 2013 and thereafter \$100,000, and up to \$250,000 in aggregate for certain retirement plans and accounts, including IRAs



## Historical 30yr and 5yr CMS Relationship

This graph shows the history of the difference between 30yr CMS and 5yr CMS rates on a weekly basis from 5/6/1994 (the earliest this data is available) through 6/26/2009. The average difference during this time is 0.76% and the 30yr CMS was greater than the 5yr CMS about 99.10% of the time. *Data is from Bloomberg LP.*



## Reference Rate Descriptions

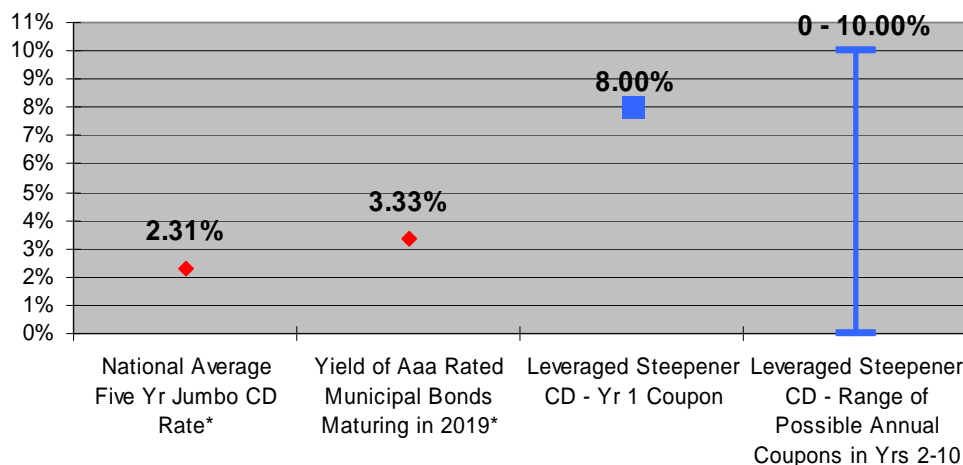
Interest rate swaps allow companies to exchange fixed rate payments for floating 3 month LIBOR payments for a predetermined length of time. Hence a company that could otherwise borrow short term money at the 3 month LIBOR rate could choose to lock in borrowing for a longer term at the desired term swap rate.

The **30 year Constant Maturity Swap Rate** is the current fixed rate for a 30 year interest rate swap

The **5 year Constant Maturity Swap Rate** is the current fixed rate for a 5 year interest rate swap

## YIELDS ON COMPARABLE TERM INSTRUMENTS

This chart shows the yield on comparable term financial instruments along with the range of possible annual coupon on this Leveraged Steepener CD.



\* National Average Five Yr Jumbo CD Rate as of 6/23/09, Yield of Aaa Rated Municipal Bonds Maturing 2019 as of 6/29/09, both as reported on the Wall Street Journal Online

## CERTAIN RISKS AND CONSIDERATIONS

Purchasing the CDs involves a number of risks. It is suggested that prospective depositors reach a purchase decision only after careful consideration with their financial, legal, accounting, tax and other advisors regarding the suitability of the CDs in light of their particular circumstances. See "Risk Factors" beginning on page 9 of the Terms and Conditions for a discussion of risks, which include:

- *Coupon after the First Year is variable and can be zero:* The CD will not pay a coupon if the 30yr CMS minus 5yr CMS is zero or negative on a Fixing Date.
- *Full Principal Is Protected at Maturity Only:* These CDs are meant to be held until maturity or called by the Issuer. Substantial losses may occur if the depositor wishes to exit the deposit early.
- There may not be an active secondary trading market in the CDs and the CDs should be viewed as long term investments
- Depositors' yield may be less than that of a standard debt security of comparable maturity

**Important information regarding the CDs is also contained in the Base Disclosure Statement for Certificates of Deposit, which forms a part of, and is incorporated by reference into, these Terms and Conditions. Therefore, these Terms and Conditions should be read in conjunction with the Base Disclosure Statement. A copy of the Base Disclosure Statement is available at [www.us.hsbc.com/structuredcd](http://www.us.hsbc.com/structuredcd) or can be obtained from the Agent offering the CDs.**



# HSBC Bank USA, N.A.

## Callable Leveraged Steepener Certificates of Deposit

### Indicative Terms and Conditions Deposit Highlights July 23, 2019

#### General

- Certificates of deposit (the "CDs") issued by HSBC Bank USA, National Association (the "Issuer")
- Full principal protection payable by the issuer if the CDs are held to maturity
- CDs are obligations of the Issuer and not its affiliates or agents.
- CDs are FDIC insured within the limits and to the extent described herein and in the Base Disclosure Statement under the section entitled "FDIC Insurance"
- As described more fully herein, early withdrawals are permitted at par in the event of death of the beneficial owner of the CDs

#### Key Terms

- 10 year 100% principal protected Callable Leveraged Steepener Certificates of Deposit linked to the spread between 30 Year Constant Maturity Swap Rate ("30 yr CMS") and 5 Year Constant Maturity Swap Rate ("5 yr CMS")
- Principal Amount: \$1,000 for each CD. Minimum deposit amount of \$10,000 per depositor (except that each Agent may, in its discretion, impose a higher minimum deposit amount with respect to the CD sales to its customers) and then in additional increments of \$1,000. CDs will be issued in denominations of \$1,000.
- Trade Date: July 1, 2009
- Settlement Date: July 23, 2009
- Maturity Date: July 23, 2019
- Payment at Maturity: For each CD, the Maturity Redemption Amount
- Maturity Redemption Amount: 100% of the Principal Amount plus any accrued but unpaid Coupon
- Coupon Rate: Year 1: 8.00% per annum (fixed)  
Year 2-10: the greater of (i) the Coupon Floor Rate and (ii) 6 x Reference Rate on a per annum basis, subject to the Coupon Cap Rate
- Reference Rate: 30 Year Constant Maturity Swap Rate minus 5 Year Constant Maturity Swap Rate. The rate used for calculating the relevant Coupon for each Coupon Payment Date will be set on the day which is two Business Days prior to the previous Coupon Payment Date (each such day, a "Fixing Date").
- Coupon: For any Coupon Payment Date, an amount equal to: Principal Amount multiplied by the Coupon Rate, if any, for such Coupon Payment Date. The Coupon is quoted on a per annum basis and is paid on a 30/360 unadjusted basis.
- Coupon Cap Rate: 10.00% per annum
- Coupon Floor Rate: 0% per annum
- Coupon Payment Dates: Quarterly on the 23th calendar day of each October, January, April and July as may be postponed or adjusted if such date is a non-Business Day.
- 30 yr CMS: The 11am Fix of 30 year Constant Maturity Swap rate as published on Reuters page ISDAFIX1.
- 5 yr CMS: The 11am Fix of 5 year Constant Maturity Swap rate as published on Reuters page ISDAFIX1.
- Call Feature: The Issuer may, at its option, redeem the CDs in whole, but not in part, on each Call Date upon no less than 5 Business Days prior notice to DTC. If called, the Issuer shall pay with respect to each CD outstanding the Principal Amount plus accrued but unpaid interest up to, but excluding, the Call Date.
- Call Dates: Every 3 years on the 23th calendar day of July, commencing on the Call Date in July of 2010, provided that any Call Date will not be adjusted to account for any date that is a non-Business Day.
- Business Day: Any day that is a business day in New York
- Form of CD: Book-entry
- Listing: The CDs will not be listed on any U.S. securities exchange or quotation system
- CUSIP: 40431AC42
- Comparable Yield (for tax purposes): [4.00%]

#### Purchasing the CDs involves a number of risks. See "Risk Factors" beginning on page 8.

The CDs offered hereby are time deposit obligations of HSBC Bank USA, National Association, a national banking association organized under the laws of the United States, the deposits of which are insured by the Federal Deposit Insurance Corporation (the "FDIC") within the limits and to the extent described in the Base Disclosure Statement under the section entitled "FDIC Insurance." Since December 20, 2008, the Issuer's designated main office is located in McLean, VA.

Our affiliate, HSBC Securities (USA) Inc. and other unaffiliated distributors of the CDs may use these terms and conditions and the accompanying Base Disclosure Statement in connection with offers and sales of the CDs after the date hereof. HSBC Securities (USA) Inc. may act as principal or agent in those transactions.

**HSBC BANK USA, NATIONAL ASSOCIATION**

**Member FDIC**

These Terms and Conditions were not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. These Terms and Conditions were written and provided by the Issuer, HSBC Securities (USA) Inc., and/or distributors of the CDs, in connection with the promotion or marketing by the Issuer and/or distributors of the CDs. Each depositor should seek advice based on its particular circumstances from an independent tax advisor.

**Important information regarding the CDs is also contained in the Base Disclosure Statement for Certificates of Deposit, which forms a part of, and is incorporated by reference into, these Terms and Conditions. Therefore, these Terms and Conditions should be read in conjunction with the Base Disclosure Statement. A copy of the Base Disclosure Statement is available at [www.us.hsbc.com/structuredcd](http://www.us.hsbc.com/structuredcd) or can be obtained from the Agent offering the CDs.**

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## SUMMARY OF TERMS

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Set forth in these Terms and Conditions is a summary of certain of the terms and conditions of the Callable Leveraged Steepener Certificates of Deposit maturing July 23, 2019. The following summary of certain terms of the CDs is subject to the more detailed terms of the CDs included elsewhere in these Terms and Conditions and should be read in conjunction with the Base Disclosure Statement.

<b>Issuer:</b>	HSBC BANK USA, NATIONAL ASSOCIATION, acting through its New York Branch
<b>Issuer Rating:</b>	Senior unsecured deposit obligations of the Issuer are rated Aa3 by Moody's Investor Service, Inc. and AA by Standard & Poor's Rating Services. The credit ratings pertain only to the creditworthiness of the Issuer and are not indicative of the market risk associated with the CDs.
<b>CDs:</b>	Callable Leveraged Steepener Certificates of Deposit maturing July 23, 2019
<b>Book-Entry Form:</b>	The CDs will be represented by one or more master CDs held by and registered in the name of Depository Trust Company ("DTC"). Beneficial interests in the CDs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.
<b>Aggregate Principal Amount:</b>	[TBD ]
<b>Minimum Deposit Amount:</b>	\$10,000 Principal Amount (except that each Agent may, in its discretion, impose a higher minimum deposit amount with respect to the CD sales to its customers) and multiples of \$1,000 Principal Amount thereafter.
<b>Principal Amount:</b>	\$1,000 for each CD
<b>Trade Date:</b>	July 1, 2009
<b>Settlement Date:</b>	July 23, 2009
<b>Maturity Date:</b>	July 23, 2019
<b>Reference Rate:</b>	30 Year Constant Maturity Swap Rate minus 5 Year Constant Maturity Swap Rate. The rate used for calculating the relevant Coupon for each Coupon Payment Date will be set on the day which is two Business Days prior to the previous Coupon Payment Date (each such day, a "Fixing Date")
<b>Coupon:</b>	For any Coupon Payment Date, an amount equal to: Principal Amount multiplied by the Coupon Rate, if any, for such Coupon Payment Date. The Coupon is quoted on a per annum basis and is paid on a 30/360 unadjusted basis.
<b>Coupon Rate:</b>	During Year 1: 8.00% per annum (fixed) During Years 2-10: the greater of (i) the Coupon Floor Rate, and (ii) 6 multiplied by the Reference Rate on a per annum basis, subject to the Coupon Cap Rate
<b>Coupon Cap Rate:</b>	10.00% per annum
<b>Coupon Floor Rate:</b>	0% per annum
<b>Coupon Payment Dates:</b>	Quarterly on the 23th calendar day of each October, January, April, and July as may be postponed or adjusted if such date is a non-Business Day.
<b>Maturity Redemption Amount:</b>	The Maturity Redemption Amount is the total amount due and payable on each CD on the Maturity Date. On the Maturity Date, the depositor of each CD will receive an amount equal to the Principal

Amount, plus any accrued and unpaid Coupon.

**30 yr CMS:** The 11am Fix of 30 Year Constant Maturity Swap Rate as published on Reuters page ISDAFIX1.

**5 yr CMS:** The 11am Fix of 5 Year Constant Maturity Swap Rate as published on Reuters page ISDAFIX1.

In each case, if such fixing is not available, the relevant rate will be a percentage determined on the basis of the mid-market semi-annual swap rate quotation which appears on the ICAP SwapPX Screen 272 Page under the heading "11:00 a.m. Rates", at approximately 11:00 a.m., New York City time, on the relevant Fixing Date, and, for this purpose, the semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an actual/360 day count basis, is equivalent to the three-month USD LIBOR rate which appears on the Reuters Screen LIBOR01 Page.

**Call Feature:** The Issuer may, at its option, redeem the CDs in whole, but not in part, on each Call Date upon no less than 5 Business Days prior notice to DTC. If called, the Issuer shall pay with respect to each CD outstanding the Principal Amount plus accrued but unpaid interest up to, but excluding, the Call Date.

**Call Dates:** Every three(3) years on the 23th calendar day of July, commencing on the Call Date in July of 2010, provided that any Call Date will not be adjusted to account for any date that is not a Business Day.

**Early Redemption upon the Death of a Depositor:** In the event of the death of any depositor of CDs, the full withdrawal of the Principal Amount of the CDs of that depositor will be permitted. In that event, the successor of that depositor shall give prior written notice of the proposed withdrawal to the Issuer, together with appropriate documentation to support the request, within 180 days of the death of such depositor. In that event, only a full withdrawal of the Principal Amount of the CDs will be permitted. In the event of such withdrawal, the Issuer shall pay any accrued but unpaid interest for the period up to, but excluding, the date of settlement for such withdrawal.

**Calculation Agent:** HSBC Bank USA, National Association

All determinations and calculations made by the Calculation Agent will be at the sole discretion of the Calculation Agent and will, in the absence of manifest error, be conclusive for all purposes and binding on the depositors of the CDs.

**Business Days:** Any day that is a business day in New York

**Listing:** None. See "Risk Factors" herein.

**FDIC Insurance:** See "FDIC Insurance" herein and in the Base Disclosure Statement for details.

**ERISA Plans:** See "Certain ERISA Considerations" in the Base Disclosure Statement for details.

**Risk Factors:** The purchase of the CDs involves certain risks. See "Risk Factors" herein for a discussion of some of the factors which should be considered by prospective purchasers of the CDs.

**Tax:** See "Certain U.S. Federal Income Tax Considerations" herein for a description of the tax treatment applicable to this instrument.

**Governing Law:** New York

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## QUESTIONS AND ANSWERS

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### What Are the CDs?

The CDs are certificates of deposit issued by the Issuer. The CDs mature on the Maturity Date. Redemptions may also occur optionally upon the death of a depositor. See “Redemption upon the Death of a Depositor” in the Base Disclosure Statement.

Each CD represents an initial deposit by a depositor to the Issuer of \$10,000 Principal Amount (except that each Agent may, in its discretion, impose a higher minimum deposit amount with respect to the CD sales to its customers), and the CDs will be issued in integral multiples of \$1,000 Principal Amount in excess thereof. Depositors will not have the right to receive physical certificates evidencing their ownership of the CDs except under limited circumstances; instead the Issuer will issue the CDs in book-entry form. Persons acquiring beneficial ownership interests in the CDs will hold the CDs through DTC in the United States, if they are participants of DTC, or indirectly through organizations which are participants in DTC.

### What interest will be paid on the CDs?

Interest on the CDs will be paid at an annual percentage of, with respect to year 1, 8.00% per annum, and with respect to years 2-10, the greater of (i) the Coupon Floor Rate and (ii) 6 x Reference Rate on a per annum basis, subject to the Coupon Cap Rate.

### What Amount Will Depositors Receive at Maturity in Respect of the CDs?

At the scheduled maturity, the amount depositors will receive for each CD will be equal to the Maturity Redemption Amount, which will equal the Principal Amount of the CD plus any accrued but unpaid Coupon, as described in the Summary of Terms above and the “Payment at Maturity” section in the Base Disclosure Statement. The annual percentage yield on the CD is only determinable at maturity.

For more information, see “Summary of Terms” above, together with the Base Disclosure Statement.

### On what basis is the Coupon calculated?

Interest calculated on a 30/360 basis is determined as if each yearly period contained exactly 360 days and each monthly period contained exactly 30 days. The interest amount for a Coupon Payment Date depends upon the number of days from (and including) the preceding Coupon Payment Date to (but excluding) the Coupon Payment Date from which interest is being calculated, as follows:

$$\text{Interest} = \text{Principal} \times \text{Coupon Rate} \times (\text{Number of Days}/360)$$

where the Number of Days equals:

$$(\text{Number of twelve month periods} \times 360) + (\text{Number of additional monthly periods} \times 30) + (\text{Number of additional days})$$

A yearly or monthly period consists of the period from a particular calendar day in one calendar year or month, as applicable, to the numerically corresponding calendar day in the next calendar year or month, as applicable.

### Can the CDs be Called for Redemption by the Issuer Prior to Maturity?

The Issuer may, at its option, redeem the CDs in whole, but not in part, on each Call Date upon no less than 5 Business Days prior notice to DTC. If called, the Issuer shall pay with respect to each CD outstanding the Principal Amount plus accrued but unpaid interest up to, but excluding, the Call Date.

### Are the CDs FDIC Insured?

The payment of principal at maturity of this CD is insured by the FDIC up to the standard maximum deposit insurance amount in effect (generally up to \$250,000 in aggregate for individual depositors through December 31, 2013 and thereafter \$100,000, and up to \$250,000 in aggregate for certain retirement plans and accounts, including IRAs). Please see “FDIC Insurance” in the Base Disclosure Statement for more details.

## **What Are the U.S. Federal Income Tax Consequences of Purchasing the CDs?**

The Issuer intends to treat the CDs as “contingent payment debt instruments” for U.S. federal income tax purposes. U.S. Holders (as defined under “Certain U.S. Federal Income Tax Considerations”) will be required to include in their taxable income for each year an amount of ordinary income equal to the “original issue discount” (“OID”) on the CDs for that year. The OID is included in income and taxable at ordinary income rates. As a result, U.S. Holders may be required to include OID with respect to their CDs in income in each year in excess of actual payments received on their CDs.

The amount of the OID that must be taken into income in each year will be calculated on the basis of the “comparable yield” of the CDs, which is the yield at which the Issuer would issue a non-contingent fixed-rate debt instrument having terms and conditions similar to those of the CDs. The comparable yield is determined by the Issuer as of the issuance date solely for U.S. federal income tax purposes and is neither a prediction nor a guarantee of what the actual yield will be on the CDs.

The Issuer will prepare a “projected payment schedule” that produces the comparable yield. If the actual Coupon on any Coupon Payment Date or the Maturity Redemption Amount exceeds the corresponding amount on the projected payment schedule, the excess will be taxes as additional OID income to the U.S. Holder. Any gain recognized by a U.S. Holder on the sale, exchange or other disposition of a CD will constitute ordinary interest income.

Prospective depositors should see “Certain U.S. Federal Income Tax Considerations” below and consult their tax advisors regarding the tax consequences to them of a purchase of the CDs.

## **What about Liquidity?**

There is currently no established secondary trading market for the CDs. There is no assurance that a secondary market for the CDs will develop, or if it develops, that it will continue. In the event that a depositor could find a buyer of his or her CD, it is likely that the price a buyer would be willing to pay would be net of the commissions paid or discount allowed to the Agents on the initial placement of the CDs. Prospective depositors should carefully consider all of the information set forth in these Terms and Conditions and the Base Disclosure Statement and, in particular, should evaluate the specific risk factors set forth under “Risk Factors”.

## **What about Fees?**

The CDs will initially be distributed through an affiliate of the Issuer, HSBC Securities (USA) Inc. and certain other unaffiliated third party distributors (the “Agents”). Agents may receive a commission or be allowed a discount as compensation for their services. See “The Distribution” in the Base Disclosure Statement and below.

## **What about ERISA Eligibility?**

The CDs are not eligible for purchase by, on behalf of or with the assets of, Plans (as defined in the Base Disclosure Statement) unless the purchase and holding of the CDs does not and will not constitute a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or Similar Law. In view of the fact that the CDs represent deposits with the Issuer, fiduciaries should take into account the prohibited transaction exemption described in ERISA Section 408(b)(4), relating to the investment of plan assets in deposits bearing a reasonable rate of interest in a financial institution supervised by the United States or a state, and/or Part IV of PTCE 81-8, relating to transactions involving short-term investments, specifically certificates of deposit. (See “Certain ERISA Considerations” in the Base Disclosure Statement.) Each initial purchaser of a CD and each transferee thereof shall be deemed to represent and covenant that, throughout the period that it holds CDs, either (a) it is not, and is not acquiring CDs with the assets of, a Plan, or (b) that its purchase, holding and disposition of the CDs will not constitute a non-exempt prohibited transaction under Section 406 of ERISA, section 4975 of the Code, or Similar Law.

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## RISK FACTORS

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*It is suggested that prospective depositors considering purchasing CDs reach a decision to purchase only after carefully considering, with their financial, legal, tax, accounting and other advisors, the suitability of the CDs in light of their particular circumstances and the risk factors set forth below and other information set forth in these Terms and Conditions and the accompanying Base Disclosure Statement.*

As you review the “Risk Factors” in the accompanying Base Disclosure Statement, you should pay particular attention to the following sections:

- “— Risks Relating to All CD Issuances”; and
- “— Additional Risks Relating to CDs with a Reference Asset that is a Commodity or Currency or an Index Relating Thereto.”

You will be subject to certain risks not associated with conventional fixed-rate or floating-rate CDs or debt securities.

**The CDs are not suitable for purchase by all people. No person should purchase the CDs unless he or she understands and is able to bear the associated market, liquidity and yield risks.**

Because of the numerous factors that may affect the value of the CDs, no assurance can be given that depositors of the CDs will receive any return in excess of the Principal Amount.

**Movements in interest rates may affect whether or not interest on the CDs will accrue, the amount of interest you will receive, and the market values of the CDs.**

If on any given Fixing Date during the term of the CDs, the Reference Rate is negative or zero then the Coupon for the related Coupon Payment Date shall be equal to the Coupon Floor Rate, which may be zero. As a result the interest payable on a Coupon Payment Date could, under certain circumstances, equal zero. **The depositor should understand that the Coupon payment on the CDs is contingent and the depositor may not receive a Coupon for any Coupon Payment Date during the term of the CDs beyond the first year.**

The Coupon Rate may not exceed the Coupon Cap Rate. As a result, the depositor may not benefit from all increases in the Reference Rate.

**Market factors may influence the likelihood that the Issuer will exercise its call rights and redeem the CDs prior to their stated maturity.**

It is more likely that the Issuer will redeem the CDs prior to their stated Maturity Date when interest rates move lower and/or the yield curve steepens. At such a time, future coupon payments would be greater than interest payable on instruments of a comparable maturity and credit rating then trading in the market. If the CDs are called prior to their stated maturity, investments then available in the market may have terms less attractive to the investor than the terms of the CDs.

**Original Issue Discount Consequences of the CDs; U.S. Federal Income Tax Consequences.**

The Issuer intends to treat the CDs as “contingent payment debt instruments” for U.S. federal income tax purposes. U.S. Holders (as defined under “Certain U.S. Federal Income Tax Considerations”) will be required to include in their taxable income for each year an amount of ordinary income equal to the “original issue discount” (“OID”) on the CDs for that year. The OID is included in income and taxable at ordinary income rates. As a result, U.S. Holders may be required to include OID with respect to their CDs in income in each year in excess of actual payments received on their CDs.

The amount of the OID that must be taken into income in each year will be calculated on the basis of the “comparable yield” of the CDs, which is the yield at which the Issuer would issue a non-contingent fixed-rate debt instrument having terms and conditions similar to those of the CDs. The comparable yield is determined by the Issuer as of the issuance date solely for U.S. federal income tax purposes and is neither a prediction nor a guarantee of what the actual yield will be on the CDs.

The Issuer will prepare a “projected payment schedule” that produces the comparable yield. If the actual Coupon on any Coupon

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Payment Date or the Maturity Redemption Amount exceeds the corresponding amount on the projected payment schedule, the excess will be taxes as additional OID income to the U.S. Holder. Any gain recognized by a U.S. Holder on the sale, exchange or other disposition of a CD will constitute ordinary interest income.

Prospective depositors should see "Certain U.S. Federal Income Tax Considerations" below and consult their tax advisors regarding the tax consequences to them of a purchase of the CDs.

**No Secondary Market for the CDs Exists. Sales in the secondary market and/or live unwind prices quoted for the CDs by the Issuer prior to maturity may result in losses.**

It is currently the practice of the Issuer to quote on request a live price (determined by the Issuer in its sole discretion) which it would pay/charge for early termination of any CD of this type that it issues. The Issuer may under certain conditions such as a market disruption event affecting the markets generally or the Issuer specifically cease to provide live unwind prices. A live unwind price for a CD of this type on any day of its terms may be affected by then-current market conditions including liquidity. A live unwind price for a CD of this type can change significantly from day to day over the life of the CD. The Issuer is under no obligation to hold a price quoted for any length of time unless this is agreed at the time of giving the quote. **The amount that a depositor will receive upon any such early termination may be less (and may be substantially less) than such depositor's initial deposit.**

**Adverse Economic Interests to Depositors.**

HSBC Bank USA, National Association is the Calculation Agent and will be solely responsible for the determination and calculation of the CD's Maturity Redemption Amount and any other determinations and calculations in connection with the CDs. Because the Issuer is the Calculation Agent, it may have economic interests adverse to those of the depositors, including with respect to certain determinations and judgments that the Calculation Agent must make in determining, for example, the Maturity Redemption Amount, if any, or if a Market Disruption Event (as defined in the Base Disclosure Statement) has occurred. However, the Calculation Agent is obligated to carry out its duties and functions as calculation agent in good faith and using its reasonable judgment.

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## DESCRIPTION OF THE CERTIFICATES OF DEPOSIT

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*The following information is a summary of the CD and the manner in which interest payments on the CD are made. Prospective depositors should also carefully review the “Description of the CDs” section in the Base Disclosure Statement.*

### **Adjustments to Coupon Payment Date**

If any Interest Payment Date or the Maturity Date is not a Business Date, then the Coupon Payment Date will be the next day that is a Business Day. If any Coupon Payment Date is adjusted by reason of the originally scheduled Coupon Payment Date not being a Business Day, no interest will accrue in connection with such adjustment.

### **Maturity Redemption Amount and Coupon Rate**

At the scheduled maturity (and not upon an Early Redemption by the depositor), the amount depositors will receive for each CD will be equal to the Maturity Redemption Amount, which will equal A) the Principal Amount of the CD plus B) any accrued but unpaid Coupon, as described in the Summary of Terms above and the “Payment at Maturity” section in the Base Disclosure Statement. A Coupon, if any, will be paid at an annual percentage of, with respect to year 1, 8.00% per annum and with respect to years 2-10 the greater of (i) the coupon floor rate (ii) 6x the reference rate on a per annum basis subject to the coupon cap rate.

**Apart from the Coupon, if any, no interest will be paid, either for periods prior to the Settlement Date, during the term of the CDs or at or after maturity.**

For more information, see “Summary of Terms” above, together with the Base Disclosure Statement.

### **Redemption upon the Death of a Depositor**

Please refer to the section herein entitled “Early Redemption Upon the Death of a Depositor” and the section entitled “Redemption upon the Death of a Depositor” in the Base Disclosure Statement.

### **Issuer Call for Redemption Prior to Maturity**

The Issuer may, at its option, redeem the CDs in whole, but not in part, on each Call Date upon no less than 5 Business Days prior notice to DTC. If called, the Issuer shall pay with respect to each CD outstanding the Principal Amount plus accrued but unpaid interest up to, but excluding, the Call Date.

### **Ratings**

The CDs will not be rated by any rating agency.

### **The Calculation Agent**

The Issuer is the Calculation Agent with regard to the CDs and is solely responsible for the determination and calculation of the Maturity Redemption Amount (including the components thereof) and any other determinations and calculations with respect to any distributions of cash in connection with the CDs. All determinations and calculations made by the Calculation Agent will be at the sole discretion of the Calculation Agent and will be conclusive for all purposes and binding on the Issuer and depositors of the CDs, absent manifest error and provided that the Calculation Agent shall be required to act in good faith in making any determination or calculation. If the Calculation Agent uses discretion to make a determination or calculation, the Calculation Agent will notify the Issuer, who will provide notice to the depositors in respect of the CDs. The Calculation Agent may have economic interests adverse to those of the depositors of the CDs, including with respect to certain determinations and judgments that the Calculation Agent must make in determining the Maturity Redemption Amount. The Calculation Agent is obligated to carry out its duties and functions in good faith and using its reasonable judgment. The Calculation Agent will not be liable for any loss, liability, cost, claim, action, demand or expense (including, without limitation, all costs, charges and expenses paid or incurred in disputing or defending any of the foregoing) arising out of or in relation to or in connection with its appointment or the exercise of its functions, except such as may result from its own willful default or gross negligence or that of its officers or agents. Nothing shall prevent the Calculation Agent or its affiliates from dealing in the CDs or from entering into any related transactions, including any swap or hedging transactions, with any depositor of CDs. The Calculation

Agent may resign at any time; however, resignation will not take effect until a successor Calculation Agent has been appointed.

### Illustrative Example

The following example is provided for illustration purposes only and is hypothetical; it does not purport to be representative of every possible scenario concerning increases or decreases in the return on the CDs. The assumptions we have made in connection with the illustrations set forth below may not reflect actual events. You should not take these examples as an indication or assurance of the expected performance of the CDs.

### Example of Return on Certificate of Deposit in Relation to Change in the Reference Rate between 30 yr CMS and 5 yr CMS

The following example indicates how changes in the Reference Rate over the term of the CDs will affect the Coupon on the CDs.

#### Assumptions:

Specified Denomination: U.S. \$10,000

Coupon Rate: Year 1: 8.00% (quarterly, 30/360 unadjusted)

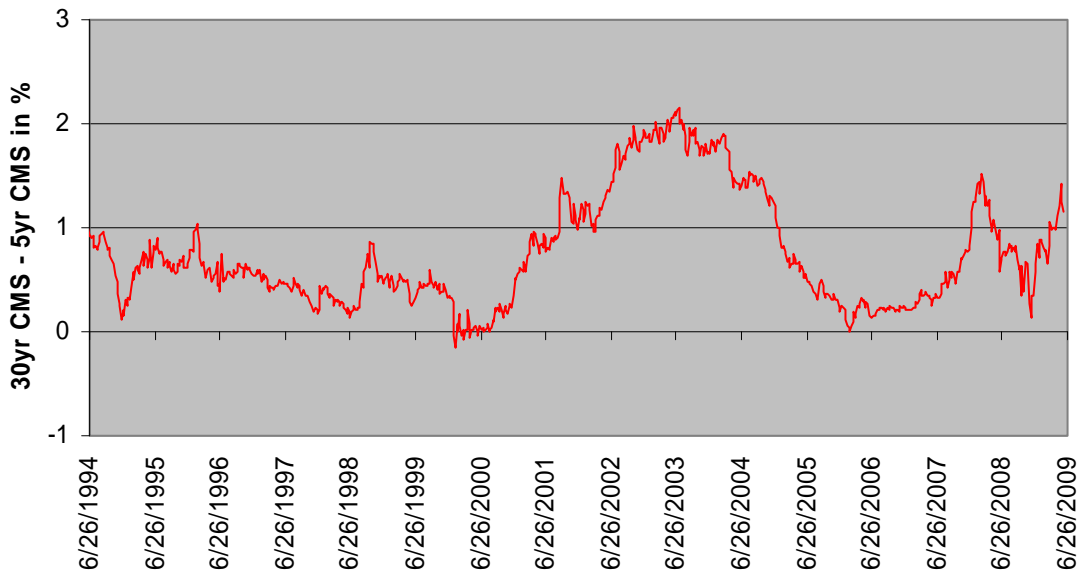
Year 2-10: 4 x (30 yr CMS – 5 yr CMS), subject to the Coupon Cap Rate and the Coupon Floor Rate

Coupon Cap Rate: 8.00%

Coupon Floor Rate: 0.00%

30 yr CMS and 2 yr CMS spread	Quarterly Interest Amount	Annualized Rate
160 basis points	\$240	9.60%
50 basis points	\$75	3.00%
-50 basis points	\$0	0%

### 15 Year Weekly History of 30 yr CMS minus 5 yr CMS



Source: Bloomberg L.P.

**PAST PERFORMANCE IS NOT NECESSARILY A RELIABLE PREDICTOR OF FUTURE RESULTS.**

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## THE DISTRIBUTION

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Please refer to the section entitled “The Distribution” in the Base Disclosure Statement.

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## FDIC INSURANCE

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The payment of principal at maturity of this CD is insured by the FDIC up to the standard maximum deposit insurance amount in effect (generally up to \$250,000 in aggregate for individual depositors through December 31, 2013 and thereafter \$100,000, and up to \$250,000 in aggregate for certain retirement plans and accounts, including IRAs). Please see “FDIC Insurance” in the Base Disclosure Statement for more details.

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## CERTAIN ERISA CONSIDERATIONS

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Please refer to the section entitled “Certain ERISA Consideration” in the Base Disclosure Statement.

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## CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

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Set forth below is a summary of certain U.S. federal income tax considerations relevant to the purchase, beneficial ownership, and disposition of a CD.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of a CD that is:

- an individual who is a citizen or a resident of the United States for U.S. federal income tax purposes;
- a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons, as defined for U.S. federal income tax purposes, have the authority to control all of its substantial decisions.

For purposes of this summary, a “Non-U.S. Holder” is a beneficial owner of a CD that is:

- a nonresident alien individual for U.S. federal income tax purposes;
- a foreign corporation for U.S. federal income tax purposes;
- an estate, the income of which is not subject to U.S. federal income tax on a net income basis; or
- a trust if no court within the United States is able to exercise primary jurisdiction over its administration or if no United States persons, as defined for U.S. federal income tax purposes, have the authority to control all of its substantial decisions.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the “Code”), regulations issued there under, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the U.S. federal income tax consequences described herein. This summary addresses only holders that purchase CDs at initial issuance and beneficially own such CDs as capital assets and not as part of a “straddle,” “hedge,” “synthetic security” or a “conversion transaction” for U.S. federal income tax purposes, or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular depositors or to depositors subject to special treatment under the U.S. federal income tax laws (such as banks, thrifts, or other financial institutions; insurance companies; securities dealers or brokers, or traders in securities electing mark-to-market treatment; mutual funds or real estate investment trusts; small business investment companies; S corporations; depositors that hold their CDs through a partnership or

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other entity treated as a partnership for U.S. federal tax purposes; depositors whose functional currency is not the U.S. dollar; certain former citizens or residents of the United States; persons subject to the alternative minimum tax; retirement plans or other tax-exempt entities, or persons holding the CDs in tax-deferred or tax-advantaged accounts; or “controlled foreign corporations” or a “passive foreign investment companies” for U.S. federal income tax purposes). This summary also does not address the tax consequences to shareholders, or other equity holders in, or beneficiaries of, a holder of CDs, or any state, local or foreign tax consequences of the purchase, ownership or disposition of the CDs.

The following summary was not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. The following summary was written in connection with the promotion or marketing by the Issuer, HSBC Securities (USA) Inc. and/or other distributors of the CDs. Each holder should seek advice based on its particular circumstances from an independent tax advisor.

**PROSPECTIVE PURCHASERS OF CDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF CDs.**

### **In General**

For U.S. federal income tax purposes, the Issuer intends to treat the CDs as contingent payment debt instruments (“CPDIs”) subject to taxation under the “noncontingent bond method” provided in the Treasury regulations. The remainder of this discussion assumes that the CDs will be subject to the noncontingent bond method, and the holders of the CDs will agree to treat the CDs in accordance with this treatment. The discussion that follows is based on that approach. Depositors should be aware, however, that the IRS is not bound by the Issuer’s characterization of the CDs, and the Internal Revenue Service (the “IRS”) could possibly take a different position as to the proper characterization of the CDs for U.S. federal income tax purposes. If the CDs are not in fact treated as CPDIs for U.S. federal income tax purposes, then the U.S. federal income tax treatment of owning and disposing of the CDs could differ from the treatment discussed below with the result that the timing and character of income, gain or loss recognized in respect of a CD could differ from the timing and character of income, gain or loss recognized in respect of the CD had the CD in fact been treated as CPDIs for U.S. federal income tax purposes.

### **Tax Treatment of U.S. Holders**

#### **Accruals of Original Issue Discount**

Under the noncontingent bond method, U.S. Holders of the CDs will accrue original issue discount (“OID”) over the term of the CDs based on the CDs’ comparable yield. As a result, U.S. Holders may be required to include OID with respect to their CDs in income in each year in excess of the actual payments received on the CDs that year.

In general, the comparable yield of the CDs is equal to the yield at which the Issuer would issue a fixed rate debt instrument with terms and conditions similar to those of the CDs, including level of subordination, term, timing of payments, and general market conditions. Based on these factors, [ the Issuer estimates that ] the comparable yield on the CDs, solely for U.S. federal income tax purposes, is [4.00%] per annum (compounded annually). [ However, the actual comparable yield may vary depending upon market conditions on the date the CDs are issued and will be reported in the Final Terms and Conditions. ] The comparable yield is determined by the Issuer as of the issuance date solely for U.S. federal income tax purposes and is neither a prediction nor a guarantee of what the actual yield will be on the CDs.

Accordingly, U.S. Holders will generally accrue OID in respect of the CDs at a rate equal to the comparable yield. The amount of OID allocable to each annual accrual period will be the product of the “adjusted issue price” of the CDs at the beginning of each such accrual period and the comparable yield. If the CD provides for a noncontingent payment for any period in excess of the comparable yield, the Issuer intends to treat the excess amount as a nontaxable return of principal. The “adjusted issue price” of the CDs at the beginning of an accrual period will equal the issue price of the CDs plus the amount of OID previously includible in the gross income of the U.S. Holder determined without regard to any positive or negative adjustments (described below), less the projected amount of interest previously made on the CDs, without regard to actual interest paid, and less any amount previously received that was treated as a return on principal. The issue price of the CDs will be the first price at which a substantial amount of the CDs are sold. The balance of this summary assumes that the issue price of each CD is equal to its principal amount. The amount of OID includible in the income of each U.S. Holder for each taxable year will generally equal the sum of the “daily portions” of the total OID on the CDs allocable to each day during the taxable year on which a U.S. Holder held the CDs. Generally, the daily portion of the OID is determined by allocating to each

day in any accrual period a ratable portion of the OID allocable to such accrual period. Such OID is included in income and taxed as ordinary income. Information returns indicating the amount of OID accrued on CDs held by persons of record other than corporations and certain other “exempt recipients” will be filed with the IRS and sent to such record holder.

Under the noncontingent bond method, the comparable yield of the CD is used to construct a projected payment schedule for the CDs (the “projected payment schedule”) based on estimates of the Coupon Rate and on the expected principal payment at maturity, that produces the comparable yield. Under the noncontingent bond method, the projected payment schedule is not revised to account for changes in circumstances that occur while the CDs are outstanding.

Based upon [ the estimates of ] the comparable yield and the projected payment schedule for the CDs, a U.S. Holder that pays taxes on a calendar year basis, buys a CD for \$1,000, and holds the CD until maturity, will be required to pay taxes on the following amounts of ordinary income in respect of the CDs for each coupon payment period: **[The actual projected payment schedule may vary depending upon market conditions on the date the CDs are issued and will be reported in the Final Terms and Conditions.]**

PROJECTED PAYMENT DATES	PROJECTED PAYMENTS	OID INCOME
10/23/2009	\$ 20.00	\$ 9.93
1/25/2010	\$ 20.00	\$ 9.83
4/23/2010	\$ 20.00	\$ 9.52
7/23/2010	\$ 20.00	\$ 9.52
10/25/2010	\$ 8.56	\$ 9.53
1/24/2011	\$ 8.56	\$ 9.54
4/25/2011	\$ 8.37	\$ 9.34
7/25/2011	\$ 8.47	\$ 9.45
10/24/2011	\$ 8.56	\$ 9.56
1/23/2012	\$ 8.56	\$ 9.57
4/23/2012	\$ 8.47	\$ 9.48
7/23/2012	\$ 8.47	\$ 9.49
10/23/2012	\$ 8.56	\$ 9.60
1/23/2013	\$ 8.56	\$ 9.61
4/23/2013	\$ 8.37	\$ 9.42
7/23/2013	\$ 8.47	\$ 9.53
10/23/2013	\$ 8.56	\$ 9.65
1/23/2014	\$ 8.56	\$ 9.66
4/23/2014	\$ 8.37	\$ 9.46
7/23/2014	\$ 8.47	\$ 9.57
10/23/2014	\$ 8.56	\$ 9.69
1/23/2015	\$ 8.56	\$ 9.70
4/23/2015	\$ 8.37	\$ 9.50
7/23/2015	\$ 8.47	\$ 9.62
10/23/2015	\$ 8.56	\$ 9.74
1/25/2016	\$ 8.56	\$ 9.75
4/25/2016	\$ 8.47	\$ 9.65
7/25/2016	\$ 8.47	\$ 9.66
10/24/2016	\$ 8.56	\$ 9.78
1/23/2017	\$ 8.56	\$ 9.79
4/24/2017	\$ 8.37	\$ 9.59
7/24/2017	\$ 8.47	\$ 9.71
10/23/2017	\$ 8.56	\$ 9.83
1/23/2018	\$ 8.56	\$ 9.84

4/23/2018	\$ 8.37	\$ 9.64
7/23/2018	\$ 8.47	\$ 9.76
10/23/2018	\$ 8.56	\$ 9.88
1/23/2019	\$ 8.56	\$ 9.90
4/23/2019	\$ 8.37	\$ 9.69
7/23/2019	\$ 1,008.47	\$ 9.81

However, as described below in “—*Adjustments for Differences between the Projected Coupon Payments and the Actual Coupon Payments*,” for any year, the amount of ordinary income that a U.S. Holder will be required to pay taxes on from owning a CD may be greater or less than the amount specified in the projected payment schedule, depending upon the amount of the actual coupon paid and, if the coupon is less than the amount in the projected payment schedule for any year, a U.S. Holder could recognize a loss for that year.

A U.S. Holder is generally bound by the comparable yield and the projected payment schedule established by the Issuer for the CDs. However, if a U.S. Holder believes that the projected payment schedule is unreasonable, a U.S. Holder must set its own projected payment schedule and explicitly disclose the use of such schedule and the reason therefor on its timely filed U.S. federal income tax return for the taxable year in which it acquires the CDs.

The comparable yield and projected payment schedule are provided solely to comply with the applicable U.S. federal income tax regulations in order to determine the amount of OID to be accrued by U.S. Holders of the CDs solely for U.S. federal income tax purposes and do not constitute our assurances, representations, or expectations as to the actual yield or the Coupon Rate.

#### **Adjustments for Differences between the Projected Coupon and the Actual Coupon Payments**

If the actual amount of coupon paid in any taxable year (including upon maturity) differs from the corresponding amount in the projected payment schedule, adjustments to the U.S. Holder’s OID inclusions in respect of the CDs will be made for the difference. If the coupon paid in any taxable year exceeds the corresponding amount in the projected payment schedule, the excess will be a “positive adjustment,” which is treated as additional OID income. If the actual amount of coupon paid in any taxable year is less than the corresponding amount in the projected payment schedule, the deficiency will be a “negative adjustment” and will be applied first to reduce the OID accrued on the CD for the taxable year in which the coupon is paid, and any excess will be treated as an ordinary loss to the extent of the prior net OID inclusions of the U.S. Holder on the CD. Any such loss will not be subject to the limitations on the deductibility of miscellaneous deductions. Any remaining losses will be carried forward to future taxable years. Any negative adjustment carryforward on a CD for the taxable year in which the CD is sold, exchanged or retired will reduce the U.S. Holder’s amount realized on the sale, exchange or retirement.

#### **Sale, Exchange, Retirement, Redemption, or Other Disposition of the CDs**

A U.S. Holder of a CD will recognize gain or loss on the sale, exchange, retirement, redemption or other disposition of the CD, to the extent that the amount realized is more or less than its purchase price, increased by the OID previously accrued by the owner on the CD determined without regard to any positive or negative adjustments, less the projected amount of any coupon previously made on the CDs as reflected in the projected payment schedule, without regard to the actual coupon amount paid. In general, any gain realized by a U.S. Holder on the sale, exchange, retirement, redemption or other disposition of a CD will be treated as ordinary interest income. Any loss recognized on the sale, exchange, retirement, redemption or other disposition of a CD will generally first offset any OID inclusion for the year of the disposition and thereafter treated as an ordinary loss to the extent of the OID previously accrued by such U.S. Holder on the CD (taking into account the adjustments described above) that would not be subject to the limitations on the deductibility of miscellaneous deductions. Any loss in excess of such accrued OID would be treated as a capital loss. The deductibility of capital losses by U.S. Holders is subject to limitations.

#### **Tax Treatment of Non-U.S. Holders**

##### **Taxation of Interest and Disposition of the CDs**

In general, Non-U.S. Holders will not be subject to any U.S. federal income or withholding tax on any interest income from a CD so long as the income or gain is not effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States. Additionally, Non-U.S. Holders will not be subject to any U.S. federal income or withholding tax on any gain on the sale, early withdrawal, maturity or other dispositions of a CD so long as the income or gain is not effectively connected with the conduct by such

Non-U.S. Holder of a trade or business within the United States and the Non-U.S. Holder is not an individual present in the United States for 183 days or more in the taxable year in which the gain is recognized.

#### **U.S. Federal Estate Tax Treatment of Non-U.S. Holders**

CDs held (or treated as held) by an individual who is a Non-U.S. Holder at the time of his or her death will not be subject to U.S. federal estate tax, provided that the individual would not be subject to any U.S. federal income or withholding tax with respect to income or gain on the CDs.

#### **Information Reporting and Backup Withholding**

Under certain circumstances, the Code requires “information reporting” annually to the IRS and to each holder of the CDs, and “backup withholding” with respect to certain payments made on or with respect to the CDs. Information reporting and backup withholding generally will not apply to U.S. Holders that are corporations or certain other “exempt recipients” if the U.S. Holder provides the Issuer with a properly completed IRS Form W-9, and will not apply to a Non-U.S. Holder if the Non-U.S. Holder provides the Issuer with a properly completed Form W-8BEN. Interest paid to a Non-U.S. Holder who is an individual who resides in Canada will be reported on IRS Form 1042S that is filed with the IRS and sent to the Non-U.S. Holder.

Backup withholding is not an additional tax and may be refunded (or credited against a depositor’s U.S. federal income tax liability, if any), if certain required information is furnished.

**The preceding discussion is only a summary of certain of the tax implications of purchasing the CDs. Prospective depositors are urged to consult with their own tax advisors prior to purchasing to determine the tax implications of a purchase in light of that depositor’s particular circumstances.**