

Report Prepared On: 08/26/14

Structured Product Details

Name	Leveraged Buffered Securities linked to PowerShares S&P 500 Low Volatility ETF
Issue Size	\$754,000
Issue Price	\$1,000
Term	60 Months
Annualized Coupon	0.00%
Pricing Date	January 23, 2014
Issue Date	January 28, 2014
Valuation Date	January 23, 2019
Maturity Date	January 28, 2019
Issuer	HSBC
CDS Rate	26.87 bps
Swap Rate	1.71%
Reference Asset	PowerShares S&P 500 Low Volatility ETF's stock
Initial Level	\$32.64
Dividend Rate	2.59%
Implied Volatility	13.33%
Delta¹	0.63
Fair Price at Issue	\$949.61
CUSIP	40432XRS2
SEC Link	www.sec.gov/Archives/edgar/data/83246/000114420414004242/v366359_424b2.htm

Related Research

Research Papers:

www.slcg.com/research.php

- "Are Structured Products Suitable for Retail Investors?" December 2006.
- "Structured Products in the Aftermath of Lehman Brothers," November 2009.
- "What TiVo and JP Morgan Teach Us about Reverse Convertibles," June 2010.

Tim Husson, Ph.D.,
 Senior Financial Economist, SLCG
 (+1) 703.890.0743
TimHusson@slcg.com

Leveraged Buffered Securities linked to PowerShares S&P 500 Low Volatility ETF

Description

HSBC issued \$754,000 of Leveraged Buffered Securities linked to PowerShares S&P 500 Low Volatility ETF on January 28, 2014 at \$1,000 per note.

These notes are HSBC-branded Buffered PLUS securities that do not pay periodic coupons, but instead pay a single amount at maturity depending on the final level of PowerShares S&P 500 Low Volatility ETF's stock.

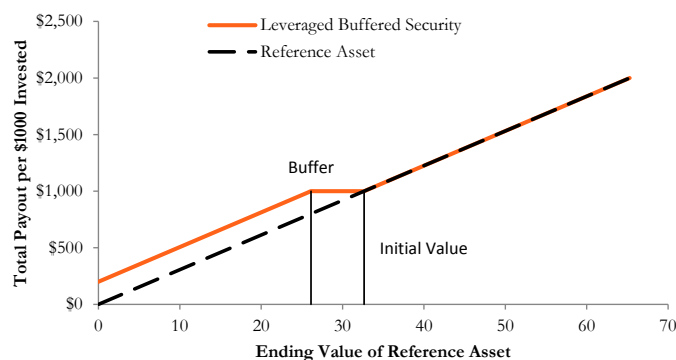
If on January 23, 2019 PowerShares S&P 500 Low Volatility ETF's stock price is higher than \$32.64, the notes pay a return equal to the percentage increase in PowerShares S&P 500 Low Volatility ETF's stock. If on January 23, 2019 the refe is below \$32.64 but not below \$26.11, investors receive \$1,000 face value per note. If PowerShares S&P 500 Low Volatility ETF's stock price on January 23, 2019 is lower than \$26.11, investors receive face value per note reduced by the amount the reference asset is below \$26.11 as a percent of the initial level, \$32.64.

Valuation

This product can be valued as a combination of a note from HSBC, one short out-of-the-money put option, and one long at-the-money call option. For reasonable valuation inputs this note was worth \$949.61 when it was issued on January 28, 2014 because the value of the options investors gave HSBC plus the interest investors would have received on HSBC's straight debt was worth \$50.39 more than the options investors received from HSBC.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity

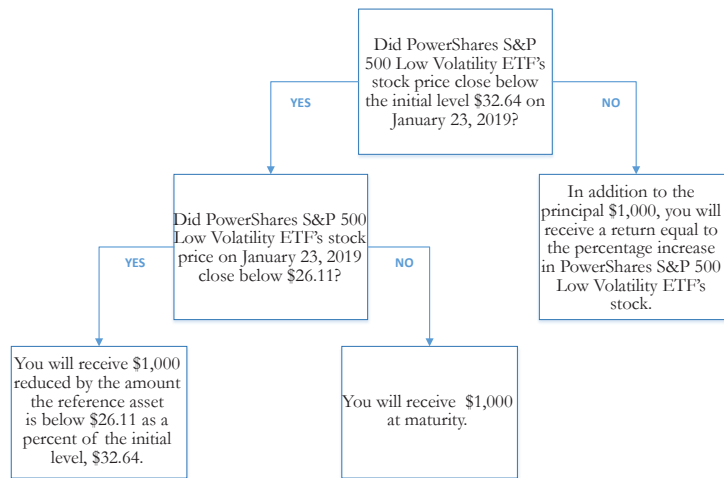


The payoff diagram shows the final payoff of this note given PowerShares S&P 500 Low Volatility ETF's stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in PowerShares S&P 500 Low Volatility ETF's stock directly.

Principal Payback Table

PowerShares S&P 500 Low Volatility ETF's Stock	Note Payoff
\$0.00	\$200.00
\$3.26	\$300.00
\$6.53	\$400.00
\$9.79	\$500.00
\$13.06	\$600.00
\$16.32	\$700.00
\$19.58	\$800.00
\$22.85	\$900.00
\$26.11	\$1,000.00
\$29.38	\$1,000.00
\$32.64	\$1,000.00
\$35.90	\$1,100.00
\$39.17	\$1,200.00
\$42.43	\$1,300.00
\$45.70	\$1,400.00
\$48.96	\$1,500.00

Maturity Payoff Diagram

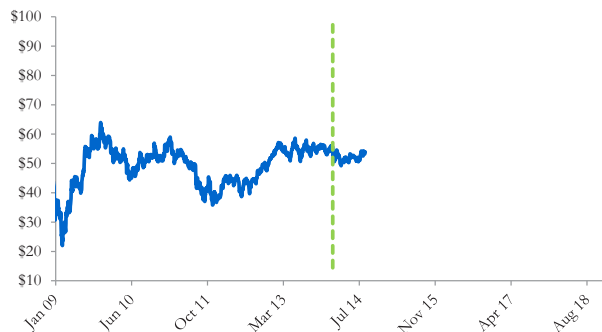


The contingent payoffs of this Leveraged Buffered Security.

Analysis

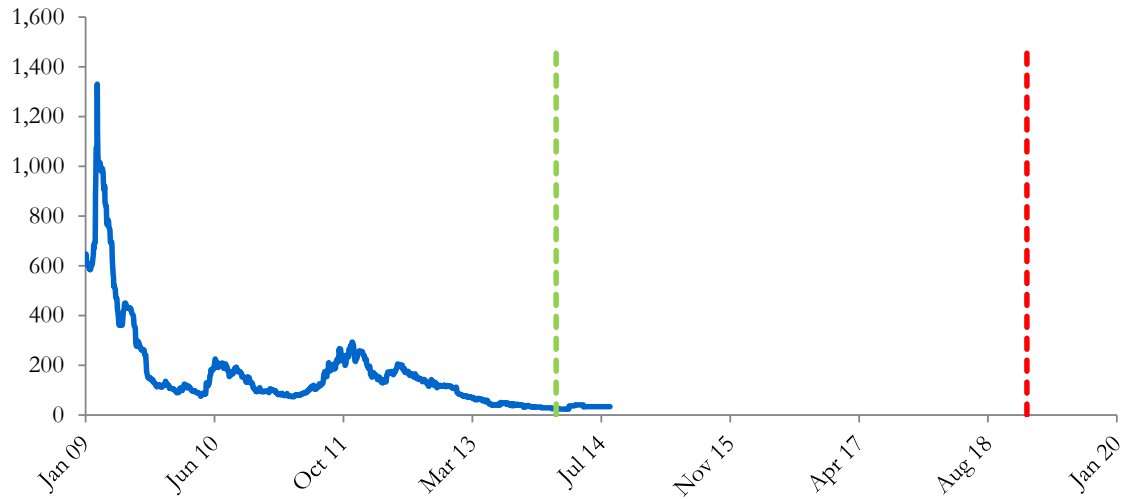
This Leveraged Buffered Security pays investors the increase in PowerShares S&P 500 Low Volatility ETF's stock, but if PowerShares S&P 500 Low Volatility ETF's stock declines over the term of the note, investors will suffer losses equal to the percentage decline in PowerShares S&P 500 Low Volatility ETF's stock. In addition, investors bear the credit risk of HSBC. Investors purchasing this Leveraged Buffered Security effectively sell at-the-money put options to HSBC, buy at-the-money call options, and a zero-coupon note from HSBC. This Leveraged Buffered Security is fairly priced if and only if the market value of the options investors received from HSBC equals the market value of the options investors gave HSBC plus the interest investors would have received on HSBC's straight debt.

HSBC's Stock Price



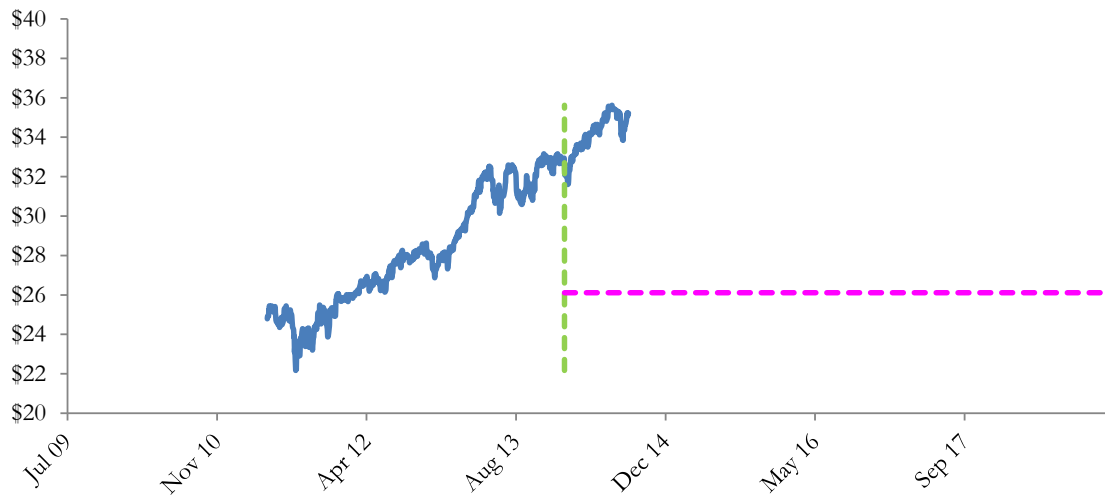
The graph above shows the adjusted closing price of the issuer HSBC for the past several years. The stock price of the issuer is an indication of the financial strength of HSBC. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

HSBC's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as HSBC. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of HSBC's debt, including outstanding Leveraged Buffered Security. Fluctuations in HSBC's CDS rate impact the market value of the notes in the secondary market.

PowerShares S&P 500 Low Volatility ETF's Stock Price

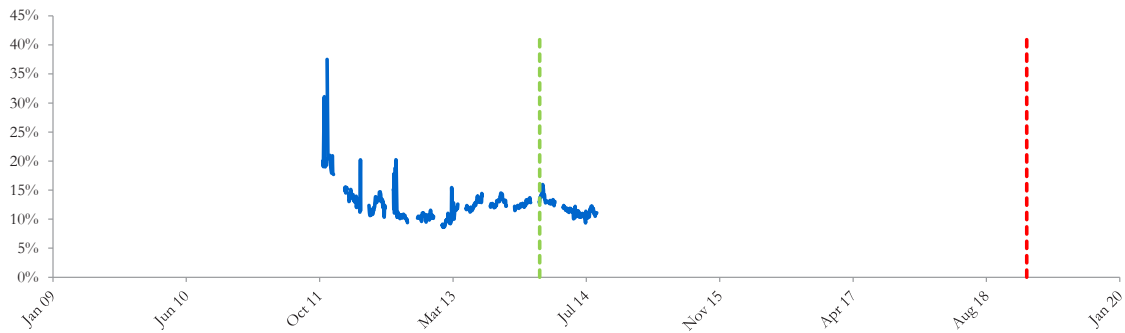


The graph above shows the historical levels of PowerShares S&P 500 Low Volatility ETF's stock for the past several years. The final payoff of this note is determined by PowerShares S&P 500 Low Volatility ETF's stock price at maturity. Higher fluctuations in PowerShares S&P 500 Low Volatility ETF's stock price correspond to a greater uncertainty in the final payoff of this Leveraged Buffered Security.

Realized Payoff

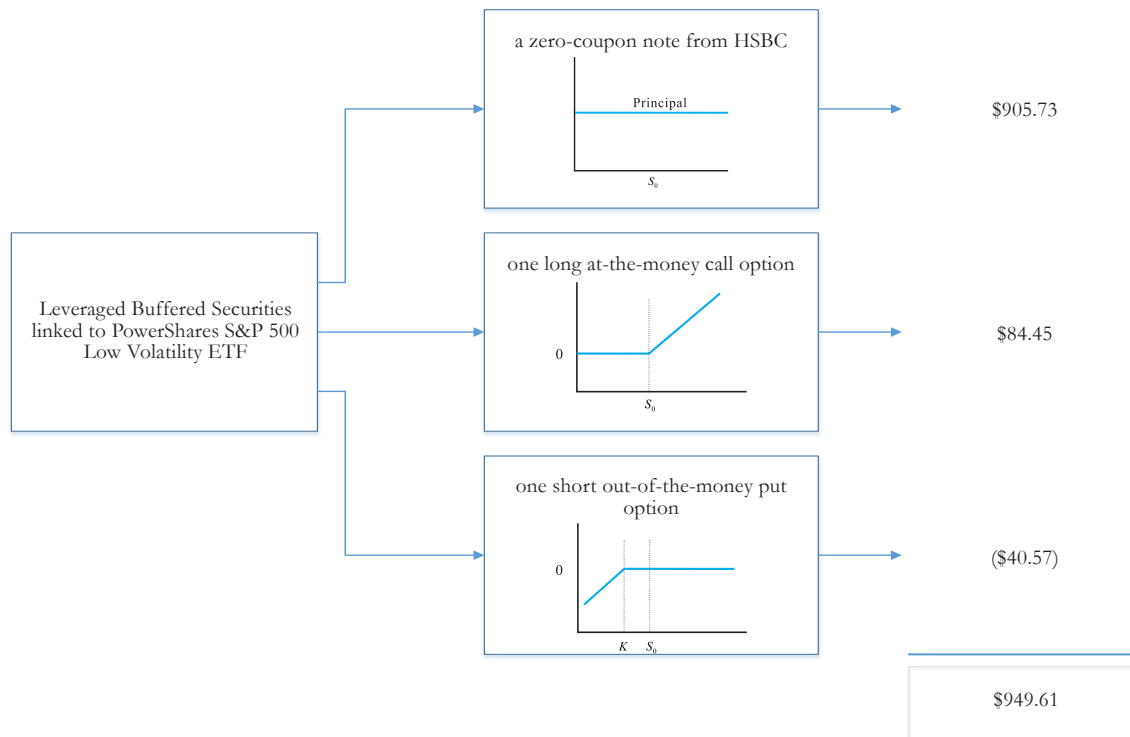
This product will mature on January 28, 2019.

Reference Asset PowerShares S&P 500 Low Volatility ETF's Stock's Implied Volatility



The annualized implied volatility of PowerShares S&P 500 Low Volatility ETF's stock on January 23, 2014 was 13.33%, meaning that options contracts on PowerShares S&P 500 Low Volatility ETF's stock were trading at prices that reflect an expected annual volatility of 13.33%. The higher the implied volatility, the larger the expected fluctuations of PowerShares S&P 500 Low Volatility ETF's stock price and of the Note's market value during the life of the Notes.

Decomposition of this Leveraged Buffered Security



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Leveraged Buffered Security.

1. Delta measures the sensitivity of the price of the note to the PowerShares S&P 500 Low Volatility ETF's stock price on January 23, 2014.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the PowerShares S&P 500 Low Volatility ETF's stock on January 23, 2014.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.