

The making of the modern HSBC Group

Right: An advertisement from 1959 announcing The Hongkong and Shanghai Banking Corporation's acquisition of the Mercantile Bank and The British Bank of the Middle East.

Bottom right: Staff outside HSBC's branch in London's Chinatown. Previously part of The Hongkong and Shanghai Banking Corporation, this office joined HSBC Bank's UK network in 1999.

When The Hongkong and Shanghai Banking Corporation acquired the Mercantile Bank and The British Bank of the Middle East in 1959, it laid the foundations of today's HSBC Group. In these acquisitions and, by the later investment in Hang Seng Bank in 1965, the bank grew and diversified through subsidiary companies with their own experience and expertise.

THREE DOORS IN LONDON

OPENING ON THE East

Three Banks have merged. Separately, they have large assets, a fine tradition and a wealth of experience. United, they offer a comprehensive service in all matters affecting business with the East.

THE HONGKONG AND SHANGHAI BANKING CORPORATION
Head Office: Hongkong
London Office: 11 Broad Street, London EC4A 3DF

MERCANTILE BANK LIMITED
Head Office: 15 Cross Street, London EC3A 6BT
London Office: 125, Finsbury Avenue, London EC2A 3EE

THE BRITISH BANK OF THE MIDDLE EAST
Head Office: 1 King William Street, London EC4A 3DF

Branches throughout the World.

In the late 1970s, this 'group' approach was a key factor in the strategy for expansion in markets where previously The Hongkong and Shanghai Banking Corporation was not well represented, particularly in North America and Europe. In the United States, this expansion centred on the purchase of a 51 per cent shareholding in Marine Midland Bank in 1980. This purchase, at a cost of US\$314 million, nearly doubled the Group's assets, from HK\$128 billion to HK\$243 billion. The remaining shares were purchased in December 1987, making Marine Midland the Group's principal subsidiary in the United States.

In Europe, The Hongkong and Shanghai Banking Corporation sought a partnership similar to its investment in Marine Midland. In 1981, its plans to acquire the Royal Bank of Scotland, countering a bid from Standard Chartered Bank, were thwarted when the UK Monopolies and Mergers Commission ruled against both bids. Six years later, however, the bank signalled its continuing interest in the major British banks when it purchased a 14.9 per cent interest in Midland Bank. A co-operation agreement between the bank and Midland allowed the two banks to consolidate and rationalise their international activities by reciprocal transfers of business as, for example, the transfer of Midland Bank Canada to Hongkong Bank of Canada in 1988.

The formation of HSBC Holdings plc in 1991, creating a holding company for the entire Group with its shares quoted in London and Hong Kong, showed that the Group viewed Europe, and the London market in particular, as a vital part of its future development. This strategy was made clear when, in March 1992, HSBC Holdings announced that it would make a recommended offer for full ownership of Midland. In late April Lloyds Bank, one of the other British clearing banks, indicated that it was also considering an offer for Midland. That possible offer was dropped shortly after HSBC announced its final offer in June 1992, valuing Midland at £3.9 billion. The offer became unconditional in July, lifting the Group's total assets from £86 billion in 1991 to over £170 billion in 1992.





Left: The Pudong district of Shanghai, China, where the HSBC Tower (left) was opened in 2000. The Group has been continuously represented in Shanghai since 1854, when the Chartered Mercantile Bank opened for business in the city.

Below: The banking counter of HSBC's office in Bangkok, Thailand, in 1998.

HSBC's acquisition of Midland created one of the largest financial organisations of its kind in the world. Attention now turned to integrating and consolidating the business of the enlarged Group. HSBC was especially keen to see a synergy of the interests of the major subsidiary companies. Treasury operations in London, New York and Tokyo were integrated and common standards in technology were introduced. Similarly, between 1992 and 1994, HSBC drew together its activities in merchant banking, securities and asset management, and then enhanced its private banking and securities custody business. In each of these areas of business, the enlarged Group benefited from a greater level of co-ordination and a commitment to effective technology and training. The results of these efforts were reflected in HSBC's performance, with profits attributable to shareholders increasing from £586 million in 1991 to more than £2,000 million in 1994.

An important result of the acquisition of Midland was the transfer in January 1993 of the Group's head office — but not that of The Hongkong and Shanghai Banking Corporation Limited — from Hong Kong to London to meet the requirements of the UK regulatory authorities. Although the Bank of England now became the lead regulator for HSBC Holdings, the banking subsidiaries continued to be regulated locally in their country of operation. HSBC's traditional concern for rapid





Above: The offices of the Republic New York Corporation at 452 Fifth Avenue, with the Empire State Building in the background.

Right: The Group's hexagon symbol was introduced as part of the new corporate identity of The Hongkong and Shanghai Banking Corporation in 1983. The hexagon was developed from the bank's traditional house flag: a white rectangle divided diagonally to produce a red hourglass shape. Like many other Hong Kong company flags that originated in the 19th century, the design was based on the cross of St Andrew.

decision-making and local accountability meant that the new Group Head Office in London provided only the essential central functions, such as strategic planning, human resource management, legal and company secretarial, and financial planning and control. In 1998, HSBC announced that these head office functions, together with most of the Group's London-based businesses and operations, would be relocated to a new headquarters building in London's Docklands. The 45-storey tower, designed by Foster and Partners, was officially opened in April 2003. The new building quickly brought advantages in communications, logistics and working conditions for some 8,000 HSBC staff.

In the late 1990s and early 2000s, HSBC vigorously developed its role as one of the world's leaders in banking and financial services. Its strategy of 'Managing for Value' emphasised the Group's unique balance of business and earnings between the older, mature economies and the faster-growing emerging markets. The creation of new subsidiaries in South America in 1997, for instance, extended HSBC's reach in emerging markets, as did the acquisition of all of Lloyds TSB's assets relating to Brazil in 2003.

In contrast, the acquisition in 1999 of Republic New York Corporation and Safra Republic Holdings S.A. for US\$9.85 billion reinforced HSBC's presence in the highly developed markets of the United States, Switzerland and Luxembourg. The third-largest deposit-taking bank in the New York metropolitan area and a leading name in private banking, Republic matched HSBC's aim of delivering wealth

management in key financial centres around the world. A further major investment followed when HSBC announced in April 2000 a US\$11 billion recommended offer for Cr dit Commercial de France (CCF). Established in 1894, CCF brought into the Group a network of 650 branches in France and greatly strengthened HSBC's presence in the euro zone.

In November 1998, HSBC announced the adoption of a unified brand, using HSBC and its hexagon symbol nearly everywhere it operates, with the aim of enhancing recognition of the Group and its values by customers, shareholders and staff throughout the world. The branding initiative allowed HSBC to develop new services and products on a worldwide scale, all bearing the Group's identity. For example, HSBC Premier, launched in 2000 provides round-the-clock international services for the Group's most valuable personal customers.

HSBC 

The world's local bank

The HSBC brand has also proved its worth in a series of global marketing programmes and sponsorship. Since 2002, the HSBC identity has carried the strapline 'the world's local bank' emphasising the Group's experience and understanding of a great variety of markets and cultures.

Although HSBC's acquisitions and growth since 1992 had brought greater geographical balance, its position in North America did not yet match its prominence in Asian and European markets. As a platform for growth in that region, in 1999 the shares of HSBC Holdings plc were listed on the New York Stock Exchange. In parallel, HSBC's share structure was simplified by introducing a single class of ordinary shares denominated in US dollars. Acquisitions were also essential to a larger role in the region and in 2003 the purchase of Household International, Inc added substantially to the Group's business and profile; Household's network of over 1,300 branches provided consumer finance to over 53 million customers.

The investment in North America was matched south of the border by a series of purchases. In 2002, HSBC acquired and recapitalised Grupo Financiero Bital in Mexico and in 2006 purchased Grupo Banistmo. Based in Panama, Grupo Banistmo, was the leading banking group in

Central America and gave HSBC access to new markets, with offices in Colombia, Costa Rica, El Salvador, Honduras and Nicaragua.

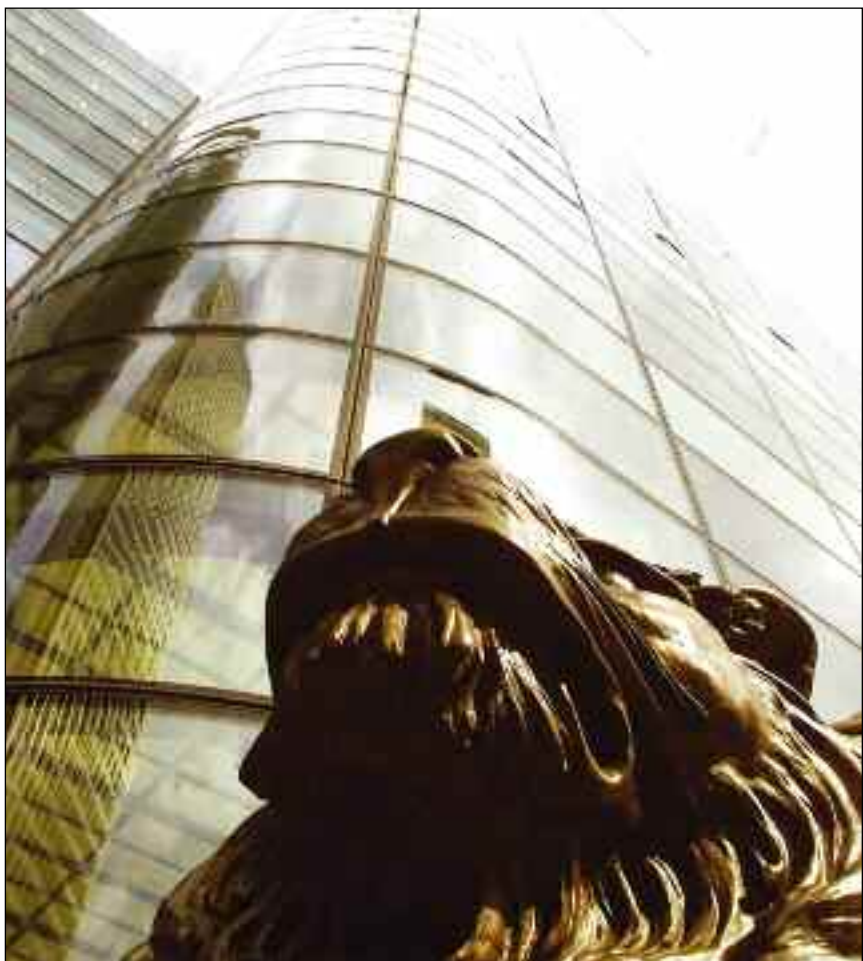
Despite its adventures overseas, HSBC still has a clear focus on its place of birth. In 2005 HSBC celebrated 140 years of business in China and continues to grow in the region. The branch network in China expanded to 83 outlets by the start of 2009, and new products and services were provided to the growing customer base, including offering renminbi services to Chinese citizens. In April 2007 HSBC announced the formation of a locally incorporated bank – HSBC Bank (China) Company Limited – and in the same year received permission to become the first international bank to establish a bank in rural China. HSBC has also built up a network of strategic partners in the region, taking significant stakes in Bank of Shanghai (2001), Ping An Insurance Company of China (2002), and Bank of Communications Limited (2004).

HSBC reinforced its long-standing commitment to the environment in 2004 when it became a founder member of the Climate Group and, in the following year, achieved its target of becoming the first major bank to become carbon neutral. Major programmes are in place to embed sustainable practices into the everyday business of the Group, including issuing lending guidelines for environmentally sensitive sectors such as forestry and chemicals. This work gained recognition in 2007 when HSBC won the first *Financial Times* Sustainable Banking Award.

In the recent extraordinary and unprecedented turbulence in economies and markets around the world HSBC has drawn on its long experience to enable it to weather the storm. Resilience is a key part of HSBC's corporate character and its core values of financial strength and stability have stood it in good stead through these challenging times.

Early in 2009 HSBC announced a Rights Issue to raise approximately \$US 17.7 billion to maintain its signature financial strength, and to enhance its ability to deal with an uncertain economic environment.

Today HSBC occupies a leading position in the world of banking and finance with an international network that spans six continents. Its distinctive history and experience enable it to meet the challenges of the rapidly changing business environment of the 21st century. HSBC has travelled a long way since its beginnings in 1865 – from a small local bank to the world's local bank.



Above: One of a pair of bronze lions guarding the entrance to the HSBC Head Office in London. They are replicas of the lions that have been displayed outside the Hong Kong office since 1935. The Hong Kong lions are themselves replicas of the lions that were originally cast for the new Shanghai office in 1923.

Below: Unveiling a new chapter in the history of HSBC with the establishment of locally incorporated HSBC Bank (China) Company Limited in April 2007 in Shanghai.

