



# Commercial Banking

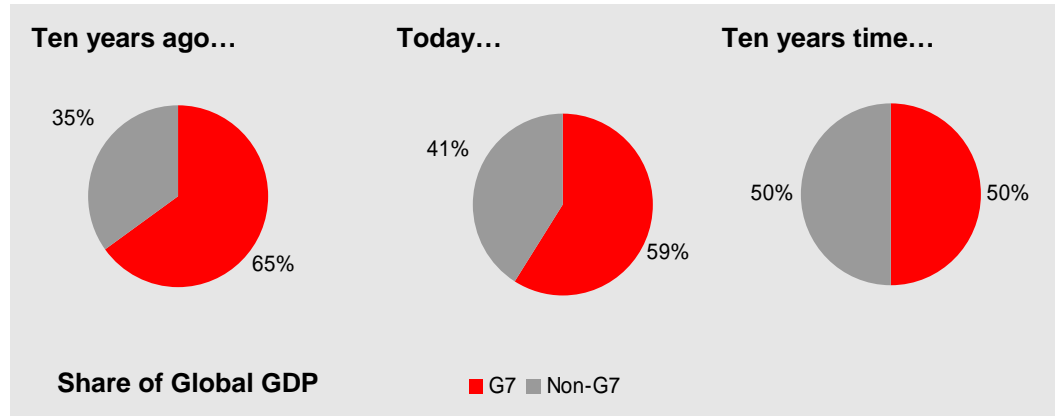
17 May 2007

## Forward looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report

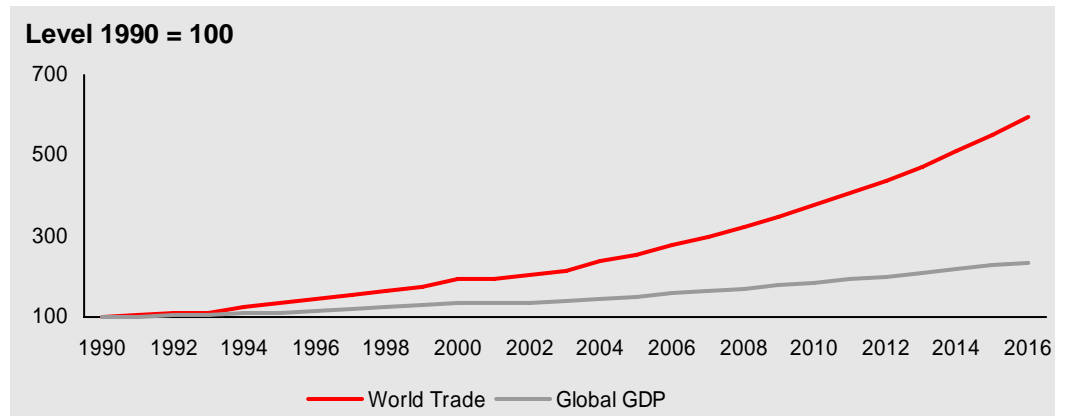
# Strategic Context for Commercial Banking (CMB) globally

1. Emerging markets growing faster than rich countries...



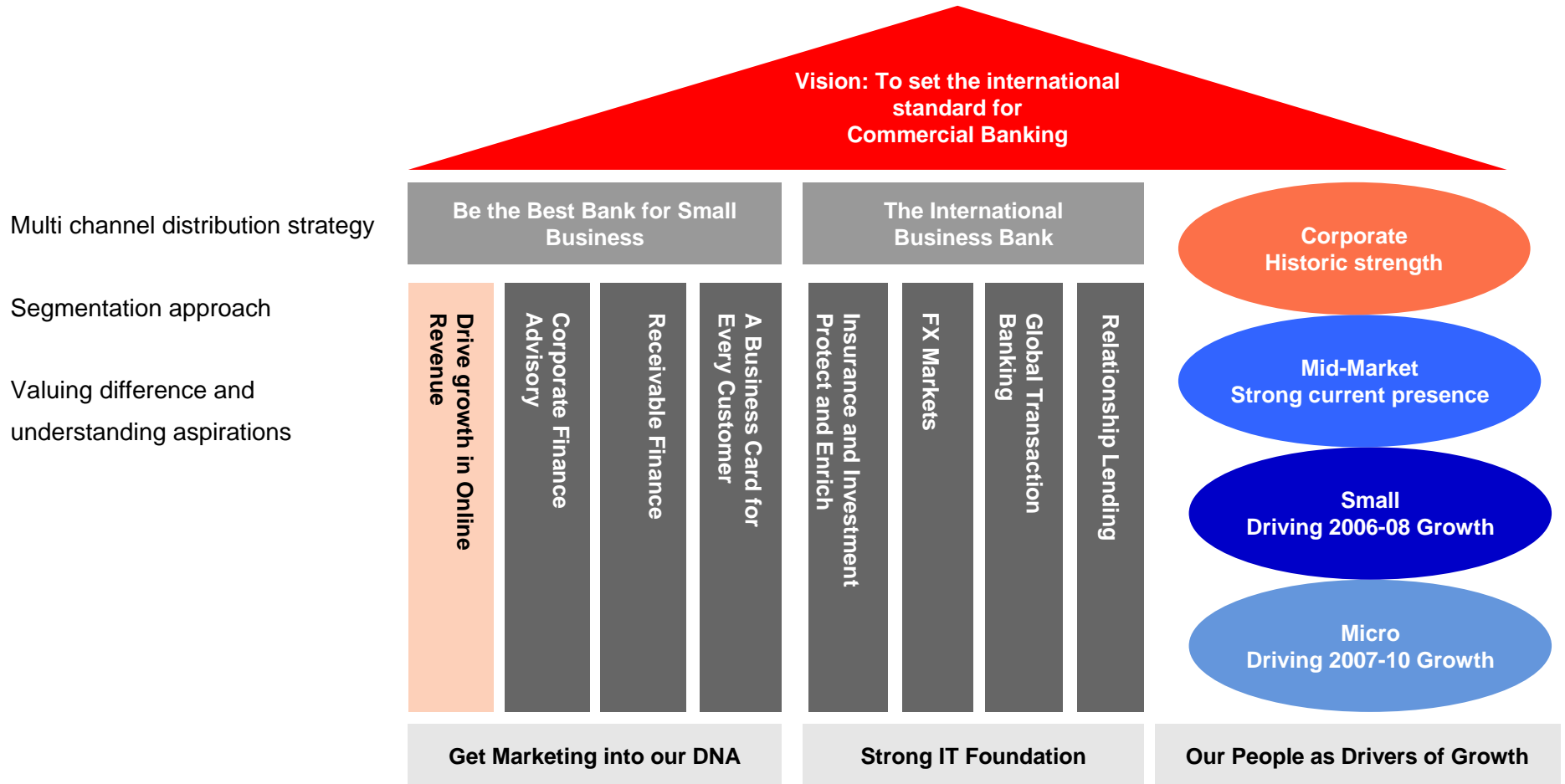
Source: HSBC estimates

2. World trade growing faster than GDP...



Source: HSBC estimates

# The CMB strategy for growth 2004-08



## What have we achieved so far?

- CMB International Banking Centres: set up in China, Hong Kong, France, India, Spain, UK, USA, Australia, Malaysia, Singapore, Taiwan, UAE, Turkey, Brazil, Canada and Mexico
- Cross-Border Referral System: Global-Links - c4,900 users in 54 countries and territories.
  - Resulted in successful international facility referrals of USD3bn in 2006.
  - Average international monthly lead volumes have more than doubled since April '06 to 442 per month
- CMB cross-border credit policy: customer focused/Group perspective to cross-border credit
- Customer recognition: CMB Customer Directory roll-out commenced, allowing cross-border recognition
- CMB international services: – e.g. cross-border account opening
- CMB talent: Focus on creating an internationally mobile cadre and sharing expertise globally
- Direct Banking proposition launched in UK

# CMB financial performance 2006

CMB customers range from small sole traders to listed corporations

c2.6m customers with c6,400 Relationship Managers in 62 countries and territories

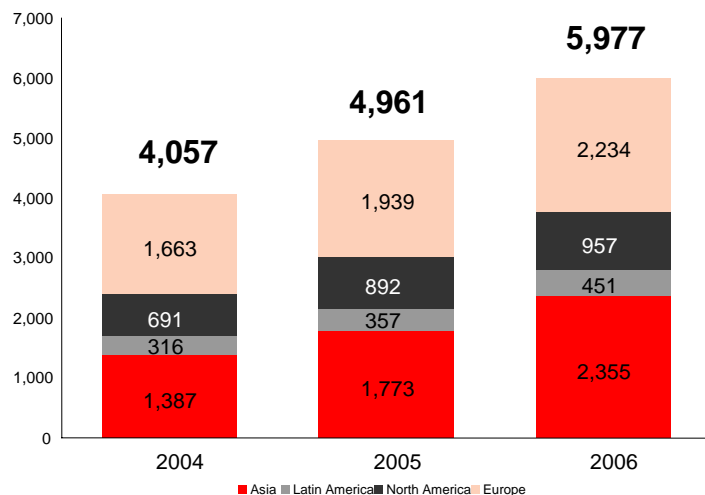
Advances + 22% ('06 vs '05)  
Deposits +29% ('06 vs '05)

Share of Group PBT rose for third successive year

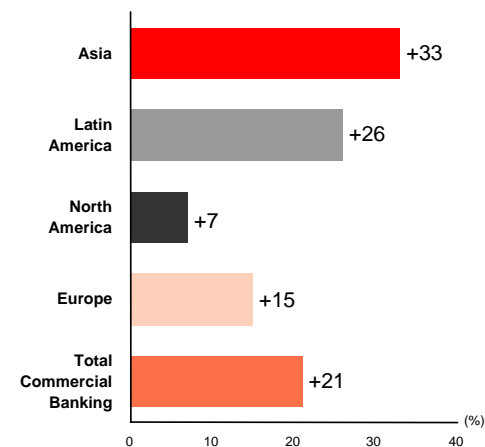
Cost Efficiency Ratio improved for third successive year

USDm	2004	2005	2006
Net Operating income (1)	8,442	9,784	11,385
Loan Impairment Charges/ (Releases)	200	547	697
Total Operating expenses	4,220	4,453	4,979
Profit Before Tax	4,057	4,961	5,997
Cost Efficiency Ratio (%)	50.0	45.5	43.7
Loans & Advances to customers (USDbn)	130	142	173

Profit Before Tax (USDm)



PBT growth 2006 vs 2005 (%)



**Notes:**

- (1) Net operating income before loan impairment charges and other credit risk provisions
- (2) Financial data- as reported in Annual Report and Accounts

# The world's local bank in action...

Chemicals Sector customer  
in Czech Republic sought  
finance in Anhui province,  
PRC

Cross-border referral from  
GRM into Shanghai

HSBC does not have  
representation in Anhui...

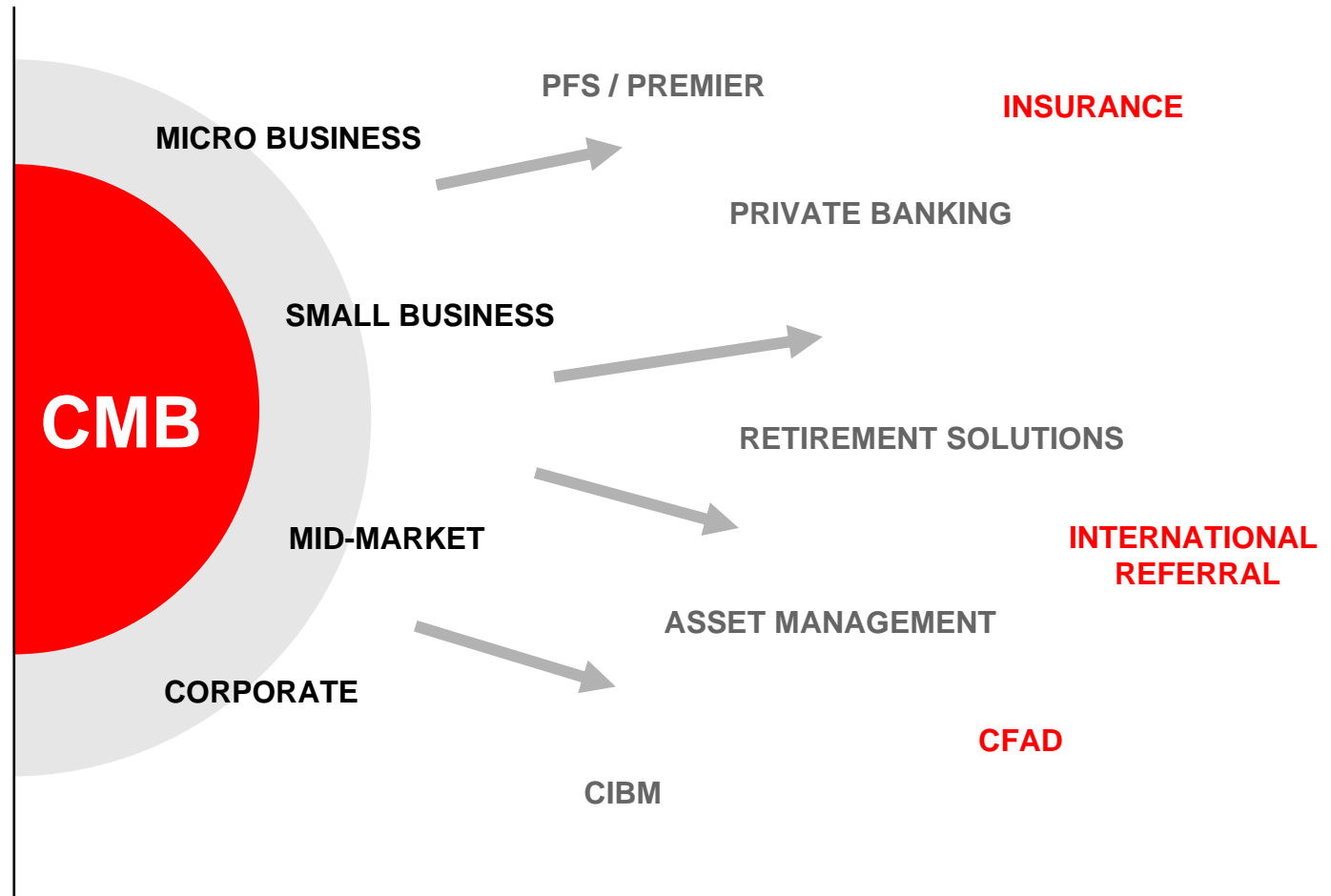
...but Bank of  
Communications does!

## OUTCOMES?

- Very satisfied customer
- Revenue growth
- Future opportunities



# The CMB strategy – An incubator for Group businesses

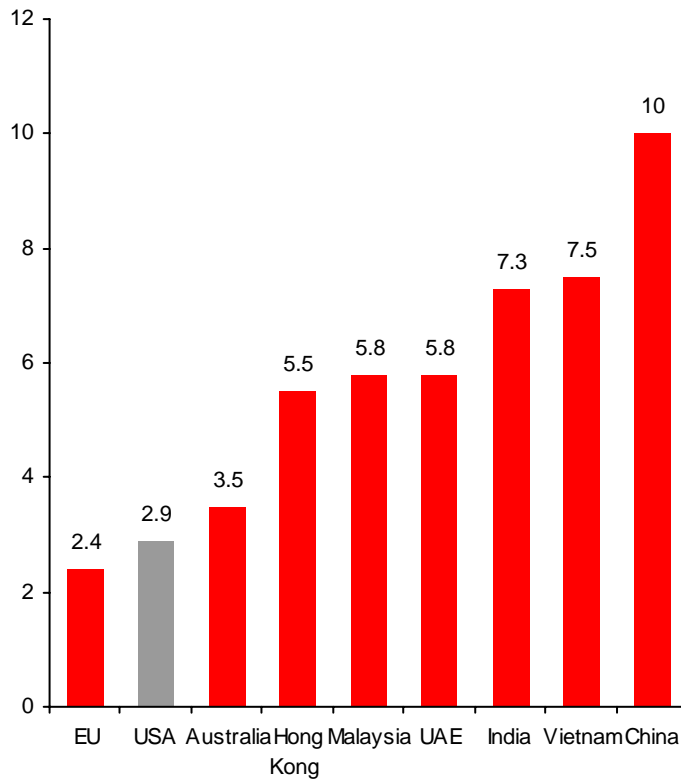


# CMB in Asia – a USD2.2bn PBT business in 2006

## Strategic focus

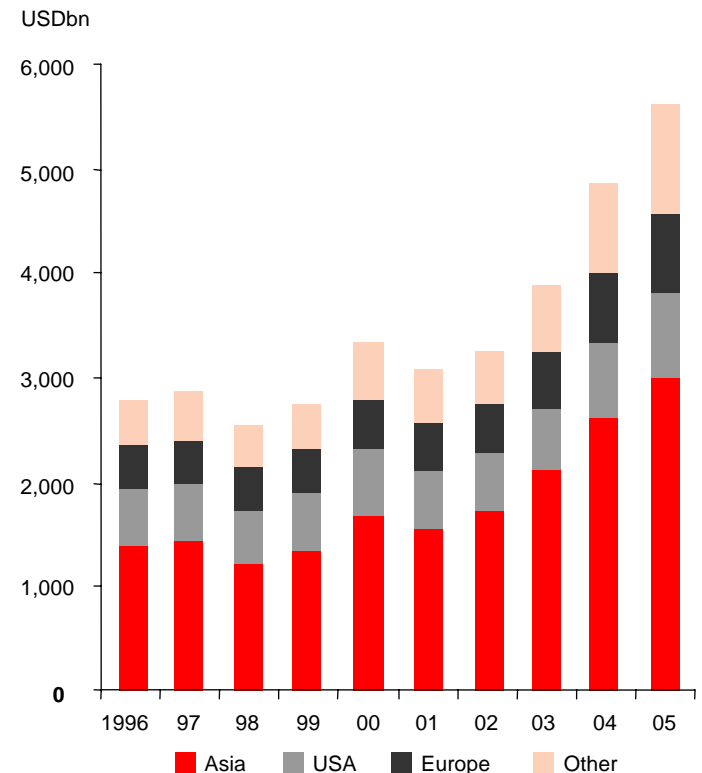
- Strengthen regional franchise and expand cross-border banking capability
- Connect intra-regional business opportunities with the Group's unique global footprint
- Up-skill global relationship management capability in China, Malaysia and Indonesia
- Continue to roll out International Banking Centres and country desks in priority countries and territories
- Sustain our market-leading franchise in trade services and payment and cash management

**Real GDP Growth 2006 (%)**



Source: World Economic Outlook

**Trade in Asia has recorded impressive growth, particularly intra-Asia trade**



Source: HSBC Economics

# CMB in Europe: a USD2.2bn PBT Business in 2006

## Strategic focus in UK – our largest market

- Continued growth in corporate banking market with estimated 19% share of businesses with turnover between £25m –£750m [Source: Mercer Oliver Wyman]
- Direct Banking launched - with free banking for SME customers who use internet or telephone banking
- Innovative out of town Commercial Centres launched

## Strategic focus in other key markets

### **TURKEY**

- Rapid growth since launching our SME business in 2006 to service Turkey's rapidly expanding and increasingly international SME sector. 62 SME centres.
- HSBC, as the leading international bank in Turkey, is committed to facilitate this process and to support SMEs achieve their full potential through our strong international network and extensive experience

### **CENTRAL & EASTERN EUROPE**

- 2007/08: targeting growth in existing markets: (Poland, Czech Republic, Slovakia)
- 2008/09: expanding model into new CEE markets
- Significant investment in growing our market share in CEE
  - Roll-out of commercial centres in Poland
  - Increasing relationship managers in Poland and Czech Republic
  - Launching receivables finance in Poland and Czech Republic in early 2008 and Slovakia in 2009
- Focus on developing HSBC into SME markets and investment into channels

# CMB in North America: a USD1bn PBT business in 2006

## Strategic focus

### • Canada

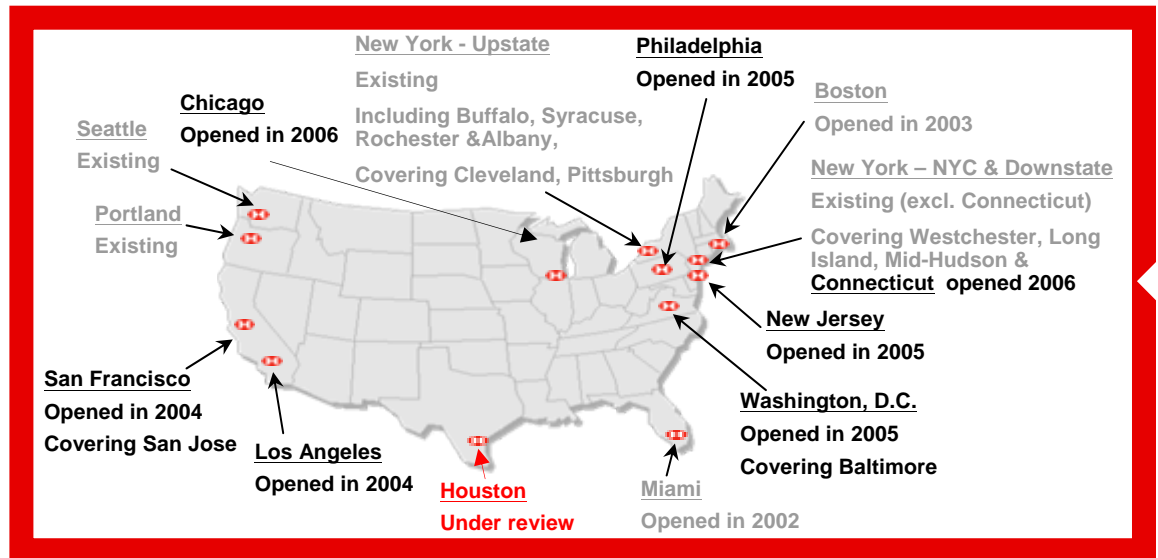
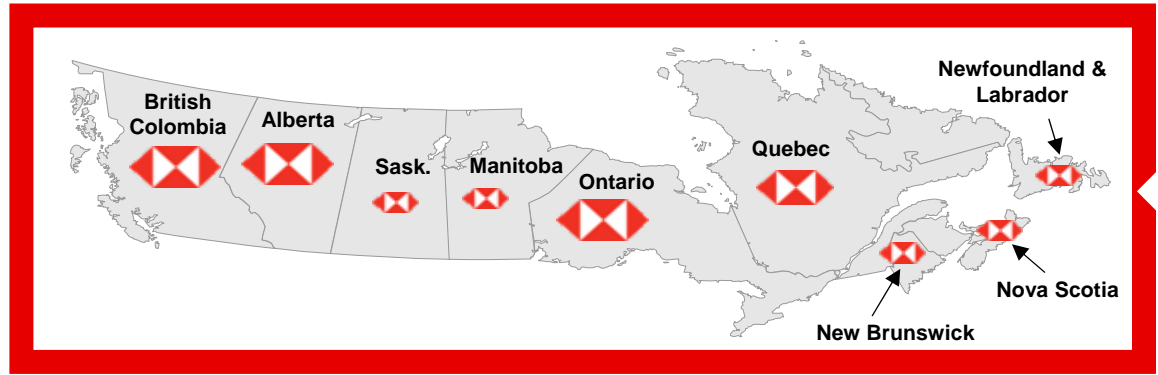
- Canada's 7<sup>th</sup> largest bank and largest foreign bank, with a well established nationwide franchise made up of 127 branches
- SME strategy approved in 2006 and implementation now underway, with simpler processes being introduced to lessen the administrative burden on SMEs and the potential for a Direct Bank proposition for Micro customers

### • USA

- Diversification from core geographies to major financial centres nationwide via organic office expansion
- 2007: MME coverage provided by dedicated offices in 16 of the top 25 business centres ranked by CMB prospects (Source: Dun & Bradstreet). 2004: MME coverage provided in 7 of the same top 25 business centres
- Focus on pool of internationalising US MME companies nationwide. Lead with international proposition and cross sell international and domestic capabilities. Grow customer base selectively

### • Bermuda

- CMB coverage provided through 6 branches across the island.



# CMB in Latin America: a USD450m PBT business in 2006

## Strategic focus:

- Creation of LAM as a geographic region in late 2006, post acquisition of Banistmo. Take advantage of great similarities in the region and share best practices. Strategy and organisational structure aligned with customer needs. 10 offices a decade ago, 3,500 today
- Established International Banking Centres to ensure we capitalise on intra regional business flows
  - Mexico: to coordinate Central America
  - Brazil: to support other smaller South American countries and
  - Argentina
- Integration of Banistmo: connecting North America with South America, and joining up the company regionally
  - Leveraging Group products and services, IT platform and brand
  - Rebranding Banistmo
- Organic growth
  - In Mexico, international trade business market share has grown from 2% (2002) to 13.1% (end 2006)
  - Development of Estimulo and Estimulo Empreserial
- Expansion
  - New countries: Peru launched in November 2006
  - New business lines in existing countries: small business lending, trade services and factoring
  - Acquisition: BNL in Argentina and Lloyds in Paraguay

# Summary

- We are focused on being the leading international business bank
- We have an unrivalled distribution capability that positions HSBC in the key markets for trade and capital flows
- We have the market knowledge and product capabilities to serve our 2.6m customers in 62 countries and territories
- We are well positioned to take advantage of growth opportunities in developed and developing markets
- We are the best bank for SMEs in our target markets