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**HSBC**   
The world's local bank













**India**



## **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. Past performance cannot be relied on as a guide to future performance.**

# Country overview

 <b>Population</b>	 <b>1.15 billion (ranked 2nd)</b>
 <b>GDP growth</b>	 <b>6.5 % (13th globally)</b>
 <b>Gross GDP by purchasing power parity</b>	 <b>US\$3.561trn (5th globally)</b>
 <b>Total exports</b>	 <b>US\$165bn (22nd globally)</b>
 <b>Total imports</b>	 <b>US\$253.9bn (15th globally)</b>
 <b>Labour Force</b>	 <b>467 million (2nd globally)</b>

Source: CIA World Fact Book 2009 (2008 estimates apply except for population data at 2009 estimates)

# Regulatory environment

## **Branch expansion of foreign banks is strictly regulated**

- ▶ **Distribution and acquisition restrictions on foreign banks**
- ▶ **Roadmap to liberalise branch licensing for foreign banks pushed back from April 2009 in view of global financial crisis**
- ▶ **World Trade Organization norms of granting 12 branches to foreign banks continue to be exceeded, albeit in underbanked locations**
- ▶ **New bank entrants in the Indian market - The Central Bank has provided new banking licenses to ANZ, National Australia Bank, Commonwealth Bank of Australia, UBS and has given in principle approvals to Credit Suisse and Goldman Sachs; as a result, competition among foreign banks to intensify**
- ▶ **Increasing focus on financial inclusion – reaching out to the unbanked/underbanked**
- ▶ **More stringent priority sector lending stipulations**
- ▶ **Deregulation of investments abroad by Indians is progressing slowly**
- ▶ **Base Rate Pricing to be introduced – might impact margins**
- ▶ **Caps on commissions in mutual funds industry and insurance industry**

# Presence

## Expanded footprint via acquisitions

### Business highlights, 2009

- ▶ **Second largest foreign bank network – 174 offices in 66 cities**
  - ▶ 50 HSBC branches
  - ▶ 77 HSBC InvestDirect outlets
  - ▶ 10 Global Resourcing Centres
  - ▶ 5 Global Technology Centres
  - ▶ 32 offices through HSBC's 26% stake in life insurance JV<sup>1</sup>
- ▶ **Major stake holdings**
  - ▶ HSBC Asset Management: 100% owned
  - ▶ HSBC InvestDirect: 93.86% owned
  - ▶ Canara HSBC Oriental Bank of Commerce Life Insurance: 26% owned; 4,400 outlets
- ▶ **Over 2 million bank customers**
- ▶ **HSBC Asset Management manages over 1 million portfolios and assets of over USD5bn**
- ▶ **Over 130,000 customers in 52 cities through HSBC InvestDirect's 77 outlets and 147 franchisee outlets**
- ▶ **Access to 48 million customers through 4,400 branches through life insurance JV<sup>1</sup>**
- ▶ **Over 35,000 staff<sup>2</sup> – largest in Asia**



Note:

- (1) Canara HSBC Oriental Bank of Commerce Life Insurance Company
- (2) 18,000 work in HSBC's 10 Global Resourcing Centres

# Local highlights

## 2009 annual results

- ▶ The Group in India reported a profit before tax of US\$374 million, down 44% from last year on a reported basis
- ▶ Decline attributable to an increase in loan impairment charges in the Personal Financial Services and Commercial Banking businesses in the bank due to the deteriorating credit environment in 1H09
- ▶ Throughout 2009, the teams at Service Delivery and GLT played a critical role in delivering both globally and to India
- ▶ HSBC Global Asset Management – India (AMIN) delivered good fund performance and efficiently managed the impact of the liquidity crisis, investor confidence was retained
- ▶ One of the top performing fund managers on EPFO (provident funds) mandate
- ▶ IL&FS Investsmart was rebranded to HSBC InvestDirect in 2009; this enabled us to provide a complete suite of financial products and services under the HSBC brand
- ▶ Difficult lending environment

# Performance

PBT of US\$374m in 2009

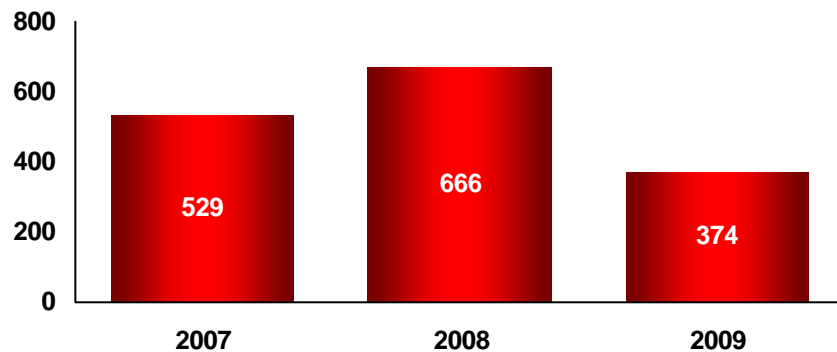
## Business mix, 2009 Profit before tax, US\$m

	2008	2009	% change
Personal Financial Services	(155)	(219)	(41)
Commercial Banking	118	(41)	(135)
Global Banking and Markets	578	393	(32)
Private Banking	2	1	(50)
Other	123	240	95
<b>Total</b>	<b>666</b>	<b>374</b>	<b>(44)</b>

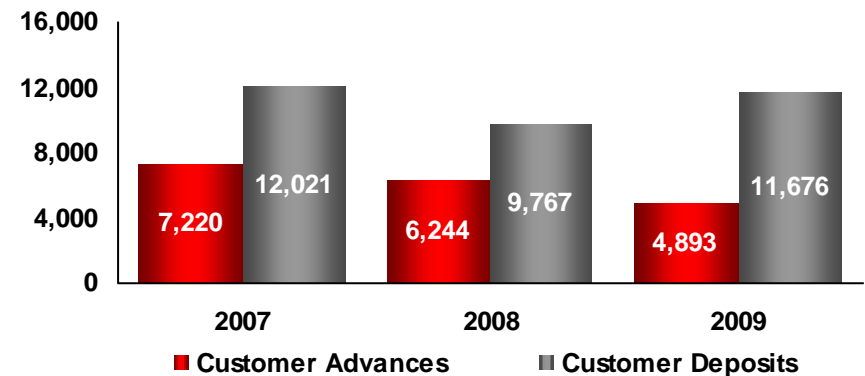
## Highlights

- ▶ Consistent strong performance by our market leading Global Markets business
- ▶ The leading distributor of wealth management products<sup>1</sup>
- ▶ Mass affluent leadership – 16% penetration into Premier market<sup>2</sup>
- ▶ Two new Non-resident Indian Centres in Canada and Australia
- ▶ Over 9,700 new Business Direct accounts in 2009
- ▶ Higher deposits, lower loans and advances to customers leading to loan-deposit ratio of 42%
- ▶ Canara HSBC Insurance ranked 13 out of 22 private players in terms of Weighted Premium Income<sup>3</sup>

## Profit before tax (PBT) US\$m



## Customer Advances and Deposits US\$m



Note:

(1) CAMS Report November 2009

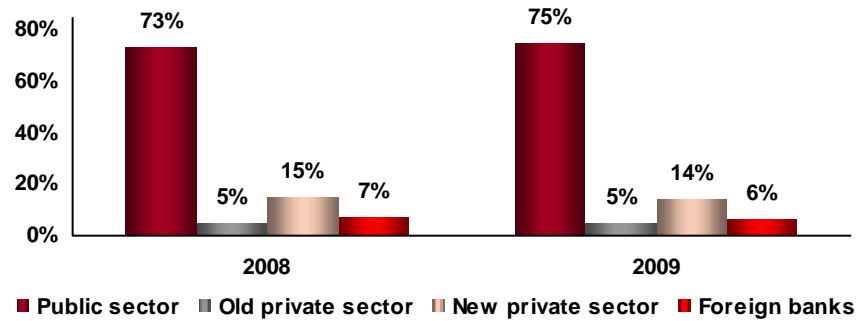
(2) Indian Readership Survey 2009

(3) IRDA (Insurance Regulator website – Feb 2010) Weighted Premium Income (New Business Regular Premium Income + 10% of single Premium); WPI can be derived from FYP which is in public domain

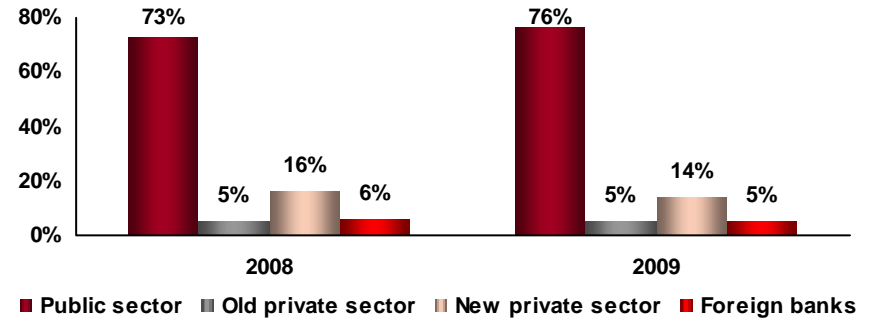
# Competition

Foreign banks: big opportunity, but slow progress

**Market share in advances**

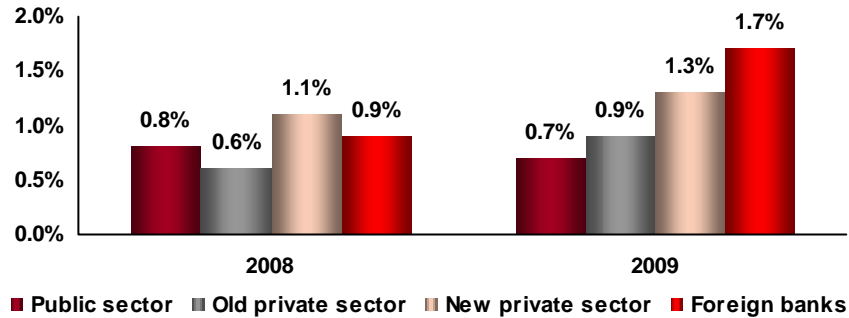


**Market share in deposits**

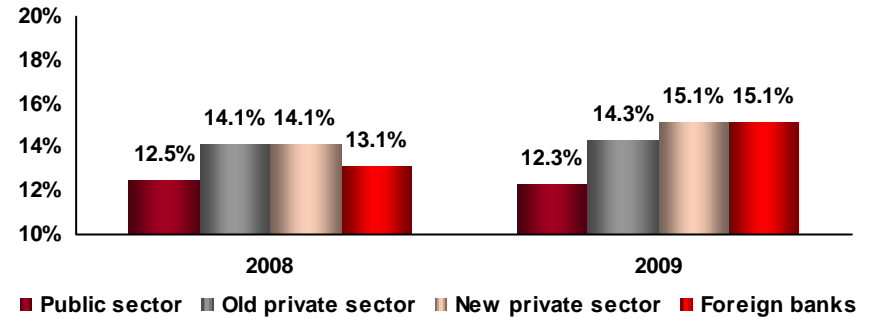


Asset quality of foreign banks has suffered, but Capital Adequacy levels have improved

**Asset quality – net non-performing assets**



**Capital adequacy levels**



Note:  
(1) Source: Reserve Bank of India



# Strategy

## Transforming the business

**Leverage HSBC InvestDirect branch network to increase HSBC footprint**

- ▶ **Extend distribution of wealth management products through over 77 HSBC InvestDirect outlets**
- ▶ **Integrate InvestDirect retail broking services with the Bank's wealth management platform to target mid-market and mass affluent segments**
- ▶ **Grow share of non-resident Indian business**

**Build insurance business across customer groups**

- ▶ **Expand retail product range through Canara HSBC Oriental Bank of Commerce Life Insurance Company**
- ▶ **Cross-sell insurance to Commercial Banking and Private Banking customers and financial institutions**
- ▶ **Develop proposition for high net worth Commercial Banking and Private Banking customers**
- ▶ **Develop proposition for 'Mobile Sales Force' to serve PFS credit card base**

**Achieve balanced customer group contribution**

- ▶ **Increase cross-sales and liabilities-led acquisition in PFS and transaction banking-led acquisition in Commercial Banking**
- ▶ **Focus on internationally-oriented SMEs/MMEs and large corporates to build asset book**
- ▶ **Expand Commercial Banking product range in insurance and investments**
- ▶ **Increase wallet share among multinationals via global transaction banking, working capital finance and securities services**

# Personal Financial Services

## 2009 milestones

- ▶ **Leadership in wealth management: No.1 distributor in equity mutual funds sales in the non-corporate segment<sup>1</sup>**
- ▶ **Leadership in the mass affluent segment: 16% Premier market based on number of mass affluent 'households'<sup>2</sup>**
- ▶ **Market share in Non-Resident Indian deposits grew 15% over the last year (from 4.7% to 5.49%)<sup>3</sup>**
- ▶ **Substantial rise in HSBC's share of overall Visa Platinum spends from 1% in Q408 to 6% in Q309<sup>4</sup>**
- ▶ **Two new Non-Resident Indian centres opened in Canada and Australia**

Note:

- (1) CAMS Report Nov 2009
- (2) Indian Readership Survey 2009
- (3) Reserve Bank of India data Oct 2009
- (4) Visa

# Personal Financial Services

## Strategy

- ▶ **Consolidate market leading position in Premier and wealth management**
- ▶ **Grow wealth management revenue through increase in sales productivity and enhanced product suite (in light of evolving regulatory framework)**
- ▶ **Launch of HSBC Advance**
- ▶ **Focus on non-resident Indian segment by leveraging Group's distribution capabilities**
- ▶ **Grow mortgage business with focus on Premier and emerging mass affluent segments**
- ▶ **Selectively grow unsecured consumer assets business with specific focus on Premier and Platinum cards**
- ▶ **Focus on portfolio management in unsecured consumer assets**
- ▶ **Use improved segmentation and analytics to deepen relationship with existing customers**
- ▶ **Integrate HSBC InvestDirect's retail broking services with wealth management proposition to target new customers in High Networth Individuals and mass affluent segment**

# Commercial Banking

## 2009 milestones

### **Business Banking**

- ▶ SME business restructured for enhanced acquisition and improved cross-sell
- ▶ Repositioned Direct for Business proposition to focus on transaction banking potential
- ▶ Launched packaged trade proposition: Easy Trade, for SMEs
- ▶ Dedicated customer service teams for SME operational in seven key cities
- ▶ Customer analytics-based sales and marketing management including successful implementation of customer activation, usage and product campaigns within the Business Banking segment

### **Corporate Banking**

- ▶ Enhanced International Banking Centre, set up an inbound RM team and launched bilateral trade propositions with various countries
- ▶ Business transformation exercise completed – a flatter structure to improve proximity to the customer
- ▶ Focus on fee-based products and Transaction banking mandates in Mid-market Enterprises and Large corporates space. Improved cash management penetration
- ▶ Launch of Relationship Managers academy

### **Increased join-up with PFS and Private Banking**

- ▶ Corporate Employee Programme: Over 27,000 individual PFS accounts across 600 corporates of which over 1,500 are Premier accounts
- ▶ Customer referrals to PFS: around 600 referrals to PFS with 57% conversion
- ▶ Referrals to Private Banking: over 250 referrals

# Commercial Banking Strategy

## **SME**

- ▶ **Expand SME footprint through direct sales force, intermediaries, direct channels and referral programmes**
- ▶ **Launch SME Business Centres in seven cities**
- ▶ **Customer lifecycle management approach, including on-boarding, activation, usage, cross-sell, retention and channel migration related activities**
- ▶ **Leverage new products - SME lending, insurance and investment sales and Get Rate (web based FX platform for SME customers)**
- ▶ **Focus on migration of customers to alternate delivery channels; increase usage of self-service/internet banking**
- ▶ **Grow Microfinance business with focus on grant support lending, lending for vocational education, alternative energy and financial inclusion (savings, domestic remittances, micro-insurance, micro-investments)**

## **MME and LLC**

- ▶ **Cross-sell insurance and develop life insurance proposition for high net worth customers (promoters/directors of CMB customers)**
- ▶ **Support international growth of Commercial Banking clients by leveraging HSBC's international network**
- ▶ **Drive asset growth with a sector-based approach to MME and LLC lending**
- ▶ **Leverage HSBC InvestDirect for Promoter Funding products and focus on structured products and equity placements**

# Global Banking and Markets

## 2009 milestones and landmark deals

- ▶ **No. 3 underwriter on INR bonds<sup>1</sup> (including the largest ever INR transaction viz. IIFCL for INR 100bn)**
- ▶ **Only bank to have led both State Bank of India and ICICI Bank USD bond issues (US\$750m each)**
- ▶ **Lead underwriter for Initial Public Offerings (IPO) for Mahindra Holidays and Oil India**
- ▶ **Lead underwriter for Qualified Institutional Placements (QIP) for Hindalco and Opto Circuits**
- ▶ **Most improved broker in Asia Money polls, moved up from 23 to 10**
- ▶ **Moved to Tier 1 with several key equity investor clients**
- ▶ **On regional panels for key Asia-Pacific equity clients**
- ▶ **Three analysts ranked No. 1 in the Starmine polls for 'stock picking' in their respective sectors**
- ▶ **The Asian Investor magazine adjudged us the Best Securities Services Provider in India in 2009**
- ▶ **For the 8th year in succession, HSBC Securities Services was ranked 'Top Rated' (highest rating) sub-custodian by the Global Custodian Survey**
- ▶ **Corporate Trust and Loan Agency (CTLA) was largest collecting bank in the QIB (Qualified Institutional Buyers) segment in IPOs in 2009<sup>2</sup>**
- ▶ **Largest successful stake enhancement for Pfizer USA of Pfizer India (US\$150m)**

Note:

(1) Bloomberg December 2009

(2) Prime Database December 2009

# Global Banking and Markets

## Strategy

- ▶ **Increase strategic dialogue with core Indian clients and ensure roles in Mergers & Acquisitions, Debt Capital Markets, Leveraged Acquisition Finance and equities**
- ▶ **Continued focus on Multinational Corporations to:**
  - ▶ (a) Increase wallet share from existing clients
  - ▶ (b) Target new clients who are either setting up a presence in India or who do not bank with us at present
- ▶ **Renewed focus on insurance to provide attractive opportunities across Client Management/Investment Banking**
- ▶ **Retain dominant position on cross-border issuances/balance sheet support**
- ▶ **To position HSBC as a banker of choice for all needs of Large Indian corporates especially focusing on their overseas acquisition transactions**

# Other Group businesses

## **Asset Management strategy:**

- ▶ **Growth with profitability: Be among the top seven players in the next five years**
- ▶ **Focus on three key strategic themes: leveraging customer groups, deepening penetration and strengthening the infrastructure in 2010**
- ▶ **Sustaining/building investment performance in 2010**

## **InvestDirect strategy:**

- ▶ **Focus on and strengthen High Networth Individuals segment broking bundled with funding products under NBFC umbrella**
- ▶ **Offer One India Wealth proposition around HSBC malls**
- ▶ **Improving scale in retail broking**
- ▶ **Increasing contribution from wealth management**
- ▶ **Focus on customer acquisitions and cross-selling into existing customer base**

## **Canara HSBC Oriental Bank of Commerce Life Insurance Company strategy**

- ▶ **Expand distribution across shareholder bank branches and customer segments**
- ▶ **Extend distribution to associates and subsidiaries of shareholders**
- ▶ **Tailor products to creditor, commercial and rural segments**



# Best Employer

- ▶ **2nd Best Employer amongst Banks; 22nd amongst companies – Hewitt Best Employers Study 2009**
- ▶ **Golden Peacock National Training Award for 2009**
- ▶ **BML Munjal Award for Excellence in Learning and Development 2009**

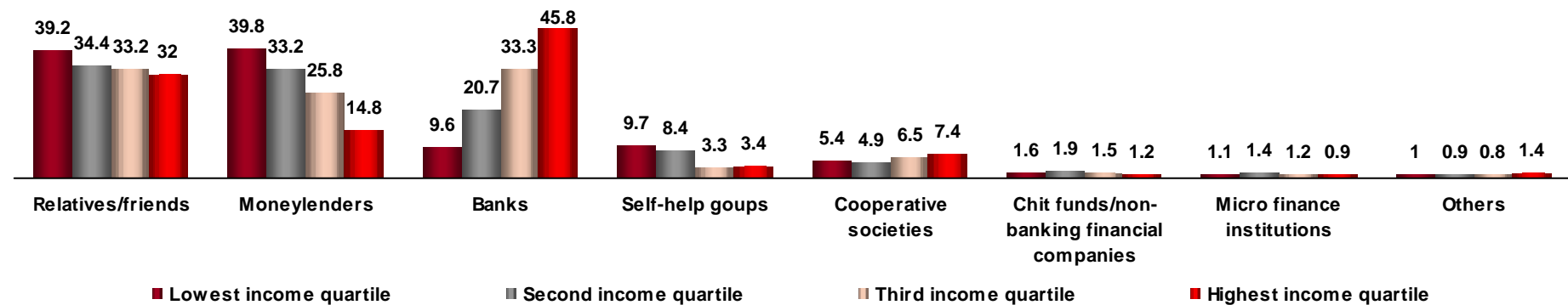
# Financial exclusion

## The context:

- ▶ Over 70% of Indian population is 'financially excluded'
- ▶ Majority are poor and trapped in low income and low-productivity jobs in informal sector
- ▶ There are only 100,000 bank branches to cover India's 650,000 villages
- ▶ Microfinance is one of the few successful market-based business models for the poor, but penetration remains low (12%)
- ▶ Inclusion at the forefront of RBI and Union Government agenda; introduced social schemes and regulations (no-frills accounts, priority sector lending and the business correspondent model) towards this end
- ▶ Yet lack of access has driven the poor to rely on informal sources, often falling prey to exploitation and exorbitant interest rates
- ▶ Size of this under-tapped market represents a huge business opportunity. Challenge is to seize this opportunity in a commercially viable and socially beneficial manner

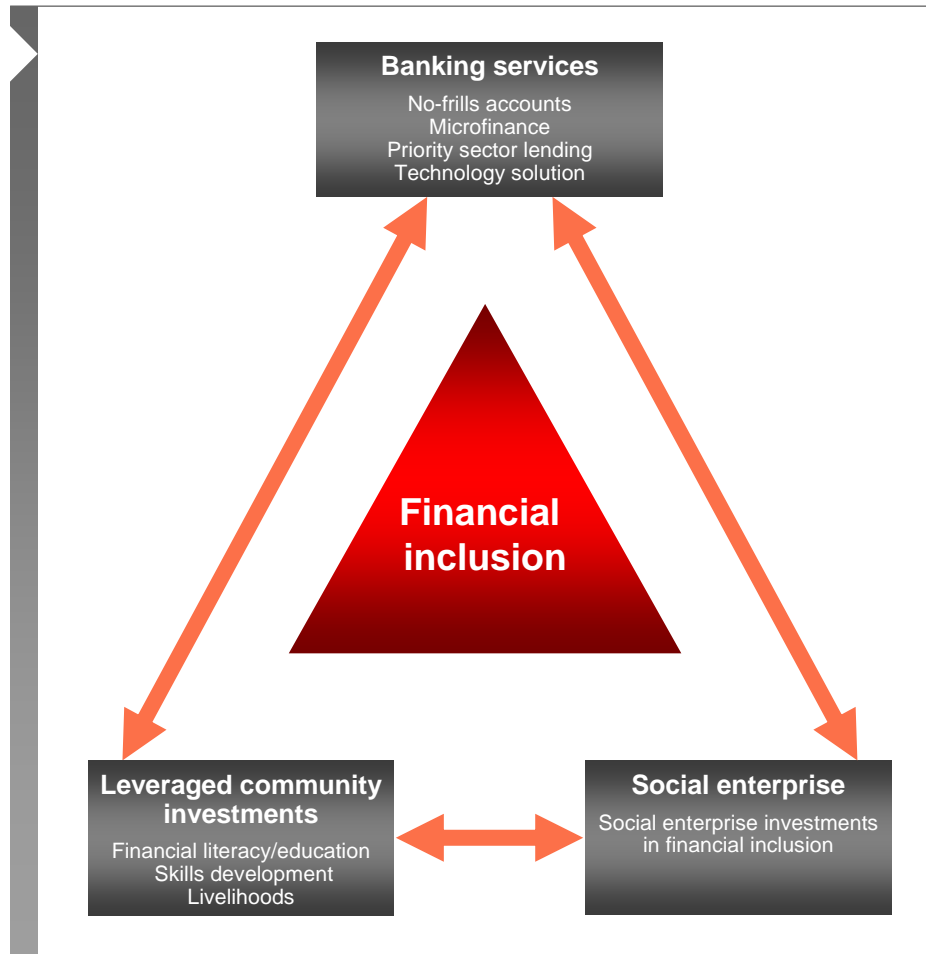


## The poor tend to rely more on informal sources for credit (in %)



Source: Raghuram Rajan committee report, 2008

# HSBC and financial inclusion



## A three-pronged approach:

- ▶ **Banking services:** expand banking services to poor through no-frills accounts, priority sector lending (as per regulation), Microfinance and technology-led solutions
- ▶ **Leverage community investments:** invest in financial literacy and education, skills development and livelihood projects aimed at children, youth and rural women to create demand for financial services. HSBC actively seeks partnerships with government and private donors to leverage such investments
- ▶ **Social enterprise investments:** incubate aspiring and existing social enterprises working on financial inclusion through seed funding and equity investments

# Financial inclusion – key initiatives

## Commercial Banking initiatives

- ▶ **Microfinance:** Disbursed USD90M (INR4 billion) to microfinance institutions over the last two years with a 100% on-time repayment record. Coverage: MFIs have covered 300,000 people across 12 Indian states
- ▶ HSBC has been consistently achieving its regulatory targets under priority sector lending
- ▶ Youth vocational training initiative, West Bengal: 75 borrowers of MFI Bandhan will have access to loans, training and subsequent employment (Bandhan is an HSBC MF client, loans are guaranteed by HSBC (Corporate Sustainability))
- ▶ Clean Energy Project, Nagpur: HSBC is lending to Spandana (an MFI) for on-lending to members to purchase products that utilise renewable energy sources
- ▶ Technology-led e-Card initiatives undertaken for rural women entrepreneurs in Maharashtra and farmers in Punjab, Haryana and Uttar Pradesh



## Community investment

- ▶ **Employing youth:** Supporting two projects Yuva Parivartan, Mumbai and CII-Yi LABS, together reaching over 2,000 youth
- ▶ **Rural women:** Founding sponsors of the MannDeshi Udyogini Business School for rural women in Satara, Maharashtra and the SEWA RUDI Manager's School in Gujarat, together helping over 17,000 women to become successful entrepreneurs
- ▶ **Financial education and literacy:** Supporting two global programmes Junior Achievement and SIFE (Students in Free Enterprise) to enhance financial literacy among school and college going children and youth

# Outlook

## **2010 outlook/priorities:**

- ▶ **India's promising GDP growth will set the momentum for the year to come**
- ▶ **Our strong balance sheet empowers Global Banking and Markets and Commercial Banking to support Indian industry as the country's economy powers ahead**
- ▶ **Initiatives taken to curtail impairments in Personal Financial Services and Commercial Banking in India are beginning to take effect**
- ▶ **HSBC InvestDirect's branch and franchisee network has strengthened HSBC's India footprint**
- ▶ **An enormous rural population, together with low life insurance penetration in rural India, offers great potential for choice**
- ▶ **Launch of lending proposition for the SME segment**
- ▶ **Launch of investments and insurance propositions for commercial banking customers**
- ▶ **Sector-based strategy to grow in the Corporate Banking space**