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India

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HSBC
The world's local bank

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All financial information used in this presentation is reported in accordance with IFRS and extracted from HSBC Holdings plc's 2009 Interim Report unless indicated otherwise. 'Hong Kong' includes Hang Seng Bank, 'Asia' includes Hong Kong and Rest of Asia and 'Asia-Pacific' includes Asia and the Middle East, unless stated otherwise.

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Country overview

Population	**1.17 billion (ranked 2nd)[1]**
GDP growth	**6.2% (2009e)[2]**
Gross GDP by purchasing power parity	**US$3.469trn[3]**
Total exports	**US$176.4bn[1]**
Total imports	**US$305.5bn[1]**

Notes:
(1) CIA The World Factbook 2009 (figures are 2008 estimates except for population at Jul 09 estimates)
(2) HSBC Asian Economics 4Q09
(3) IMF World Economic Outlook Apr 09

Economic outlook

Positive prospects

GDP and GDP growth[1]

Highlights

- Recovery in industrial production and service sector
- Agricultural output contracted but now smaller part of economy
- Forthcoming drought presents challenge
- Full impact of fiscal and monetary stimulus targeting rural sectors yet to be felt
- Oil and gas production may step up
- Improving exports to continue
- Inflation to remain elevated due to high food prices

Note:
(1) HSBC Asian Economics 4Q09 (nominal GDP)

Banking sector

Opportunities and challenges

Opportunities	Challenges
79 scheduled[1] commercial banks – 29 are foreign banks	Tough credit and collections environment
Only one-third of population in formal banking[2]	Increasing competition in lending space
Value of mortgages only 6% of GDP[2]	Stringent priority sector lending regulations
Liquidity/money supply robust	Increasing supervisory activity
Credit growth sluggish	Capital constraints

Notes:
(1) Banks where deposits up to INR100,000 are guaranteed and protected by the Reserve Bank of India (RBI)
(2) Reserve Bank of India (RBI) 31 Mar 08

Regulatory environment

Awaiting further liberalisation

Branch expansion of foreign banks highly restricted	• Distribution and acquisition restrictions on foreign banks including local subsidiaries • Foreign banks still viewed as ‘outsiders’ despite long-standing presence
Contrast relatively striking compared to new private banks	• Some largely owned by foreign portfolio and direct investors
Diversity of opinion exists	• Lack of champion to lead liberalisation of banking sector
Delay in opening up of banking sector	• Cautious stance in view of global events in last 18 months

Competition

Foreign banks vs local banks

Foreign banks	Local banks
Brand strength	New banks strong in market segmentation and relationship management
Global footprint and experience in emerging markets	New banks with increased appetite for growth
Relationship management	State-owned banks gaining market share in SMEs, mortgages
Extensive product suite	Capital constraints a main issue
Innovation and new technology and systems	Low service levels and technology laggards

Competition

Foreign banks slow in making inroads

Market share in advances[1]

Market share in deposits[1]

Note:
(1) RBI

Competition

Foreign banks well-capitalised; higher asset quality

Asset quality – net non-performing assets

Capital adequacy levels

Source: RBI

Performance

Profit before tax (PBT) of US$201m at 1H09

PBT 1H09, US$m

Business mix, 1H09

	US$m
Personal Financial Services	(124)
Commercial Banking	(39)
Global Banking and Markets	244
Private Banking	-
Other	120
Profit before tax	**201**

Presence

Expanded footprint via acquisitions

Second largest foreign bank network – 170 outlets in 63 cities

- 47 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[1]

Over 2 million bank customers

HSBC Asset Management manages over 1 million portfolios and assets of over US$5bn

Over 130,000 customers in 52 cities through HSBC InvestDirect's 77 outlets and 147 franchisee outlets

Access to 48 million customers through 4,100 branches through life insurance JV[1]

Over 35,000 staff – largest in Asia

Major stakeholdings

- HSBC Asset Management: 100% owned; 1 outlet
- HSBC InvestDirect: 93.86% owned; 77 outlets
- Canara HSBC Oriental Bank of Commerce Life Insurance: 26% owned; 4,100 outlets

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

Strategy

Grow organically and maximise strategic partnerships and investments

Personal Financial Services	• Focus on emerging mass affluent segment • Expand wealth management business via InvestDirect • Drive Non-resident Indian (NRI) proposition
Commercial Banking	• Expand and deepen SME/MME customer base • Leverage international presence for cross-border business
Global Banking and Markets	• Maintain leadership • Lead financing of companies with international ambitions
Private Banking	• Capture mega-wealthy potential
Insurance	• Double growth rate in next 5 years • Drive sales through HSBC network and strategic partners • Increase penetration into PFS through sales via Commercial Banking, Canara Bank and Oriental Bank of Commerce • Launch commercial insurance products

Personal Financial Services

Opportunity	• Low insurance penetration – 4.7% but strong premium growth[1] • Steady growth expected in wealth management – investment funds under management growth at 22-24%; mass affluent customer segment growth at 10-12%[2] • Over 25 million NRIs[3]
Strategy	• Build on leadership position in Premier and wealth management • Drive NRI proposition • Position mortgage business as Premier relationship product • Grow credit card penetration and spend within the affluent segment
Delivering on strategy	• Gaining market share: 8.9% market share of mass affluent individuals[4] and 16% market share of mass affluent households[5] • No.1 distributor of equity mutual funds assets under management in the non-corporate segment[6] • Growing share in NRI deposits (5.45% as at Jul 09)[7]

Notes:
(1) Insurance Regulatory and Development Authority, Swiss Re Sigma report 2008
(2) KPMG 2009
(3) Datamonitor 2009
(4) Datamonitor 2008 (based on count)
(5) Indian Readership Survey 2009
(6) Computer Age Management Services May 09
(7) RBI Jul 09

Commercial Banking

Opportunity	• Large CMB target segment in India: 786,000 limited companies and 12 million small scale units[1] • Full service bank with cross-border presence and supply chain solutions • Product suite tailored to sub-segments: small business, mid corporate and large corporate
Strategy	**Business Banking** • Expand SME/MME base via a liabilities-driven, transaction banking-led proposition • Offer products for each stage of the customer's life cycle **Corporate Banking** • Expand product suite with focus on transaction banking, trade and other cross-border solutions • Adopt sectoral approach to lending benchmark vs peers in same industry
Delivering on strategy	**Business Banking** • Launched EasyTrade – covers document collection/freight insurance • Launched a web-based foreign exchange platform to meet customers' hedging needs **Corporate Banking** • Forged bilateral trade propositions with various countries to improve trade penetration • Opened International Banking Centre within CMB to drive cross-border referrals

Note:
(1) Ministry of Company Affairs; Ministry of Micro, Small and Medium Enterprises

Global Banking and Markets

Opportunity	• Foreign direct investments into India of US$16.7bn from Jan-Jul 09[1] • Indian businesses buying overseas firms – 41 deals worth US$14bn from Jan-May 09[2] • Capital markets potential • Inbound M&A activity – 136 deals in 1H09 valued at US$5.4bn[3]
Strategy	• Focus on large and mid-market Indian corporates undertaking cross-border acquisitions or inbound M&A • Maintain leadership in corporate banking, treasury and capital markets and custody services • Leverage franchise to continue to grow the investment banking and equity capital markets (ECM) business • Maintain position as leading underwriter on INR bonds and USD bonds
Delivering on strategy	• No. 2 underwriter on INR bonds[4] • Won mandates for all four USD bonds announced for Indian banks • Mandated on all three insurance industry 'event' transactions • Bookrunning lead manager on three ECM transactions, with others in various stages of completion • No. 6 IPO underwriter[4]

Notes:
(1) Department of Industrial Policy and Promotion, Ministry of Commerce Jul 09
(2) *The Economist* quoting Dealogic, 28 May 09
(3) Venture Intelligence, Jul 09
(4) Bloomberg Sep 09

Strategic partnerships

Optimising potential for extended reach and scope

	Canara HSBC Oriental Bank of Commerce Life Insurance	HSBC InvestDirect
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	• Maximise non-banking financial company (NBFC) licence to leverage balance sheet • Build a consumer and SME-focused distribution platform
Delivering on strategy	• Increased coverage of shareholder bank branches from 600 to 1,000 in 2009 • Appointed HSBC InvestDirect, CanFin Homes and Canara's three sponsored regional and rural banks as corporate agents	• PFS: expanding product range • CMB: increasing referrals for Promoter Funding, loans against securities/ loans against mortgages, Easy Trade • GBM: leading referrals for HSBC InvestDirect and Promoter Funding

Summary

Invest for the long-term	• India an emerging market powerhouse: human capital, investment flows, domestic stimulus, global diaspora • Position for market liberalisation and further opening up of the economy
Grow businesses to balance contribution	• Increase contribution from Personal Financial Services and Commercial Banking while maintaining leadership in Global Banking and Markets
Drive value from investments and partnerships	• Build on opportunities to grow franchise through HSBC InvestDirect and Canara HSBC Oriental Bank of Commerce Life Insurance Company