



## Overview & Investment Thesis:

- Established 1865 and headquartered in U.K., HSBC Holdings PLC is one of the world's largest financial institutions, with US\$2,455 billion assets as at December, 2010. The world's largest globally diversified retail bank with some 307,000 employees serving around 95 million customers with over 16 million on line.
- A deposit-led banking group with a business model committed to long-term customer relationships and an emphasis on the world's faster-growing markets. One of the most strongly capitalized and liquid banking groups in the world.
- Group's track record of delivering profitable results through adversity and at all stages of the economic cycle, remains intact.
- HSBC's balance sheet remains strongly positioned to benefit from future interest rate rises.

- Personal Financial Services**, serves 92 million customers in over 60 markets worldwide - a leading international banking group in Asia (ex Japan) with strong national bank franchises and activities split between OECD and non-OECD countries. Largest in Hong Kong (largest of 3-note issuing banks), 4<sup>th</sup> in U.K., 4<sup>th</sup> in France, 5<sup>th</sup> in Saudi Arabia, 7<sup>th</sup> in Canada, 10<sup>th</sup> in U.S., 6<sup>th</sup> largest non-state owned bank and 10<sup>th</sup> largest insurance business in Brazil, largest personal customer base in Mexico and largest foreign bank in China, with 122 branches.
- Regional franchises largely focused on: retail banking (global top 6 credit card issuer, 100 million cards in force, with network of 2,300 Advanced Service Terminals and 15,400 ATMs in 40 countries); wealth management ('HSBC Premier', 4.4 million 'Premier' customers and 'HSBC Advance', 4.6 million emerging mass affluent customers in 34 markets) and; insurance (launched 'HSBC Insurance' brand in 2007) and is Hong Kong's leading bancassurer.
- U.K. Mortgage market share 5.2% in 2010 (2009 4.8%) with average loan-to-value ratio for new business of 54% in 2010 (2009 53%) and market leadership in Hong Kong in mortgages, cards, life insurance and deposits.
- Having written-off all the remaining goodwill in 2009 (US\$10.6 million) in respect of the Group's Personal Financial Services business in North America relating to the ill-fated acquisition of Household International in 2002, the Group is managing down its U.S. consumer finance business except for credit cards. Its card and retail services achieved a 2010 pre-tax profit of US\$2.0 billion (2009 US\$641 million).
- Latin American business achieved \$1.8 billion pre-tax profits in 2010, largely reflecting Brazil's record \$1 billion contribution.

- Commercial Banking**, a world leading, international franchise with 3.6 million middle market or small business customers across 65 countries. Places emphasis on multi-disciplinary and geographic collaboration in meeting customers' needs.

- Global Banking and Markets** business provides tailored solutions to government, corporate & institutional clients worldwide via dedicated offices in 65 countries. Managed as a global business, this customer group operates long-term relationship management. Investment banking remains modest on group scale but the success of its three year old "emerging markets-led and financing-focused" strategy has been recognized by a number of key industry awards including significant increased utilization of its globally strong FX and treasury capabilities.
- HSBC's investment business, HSBC Global Asset Management, has funds under management of US\$439 billion. The Group is the largest in Asia & Middle East and world's 7<sup>th</sup> largest global custodian with assets under custody of US\$5.7 trillion as at 2010 (US\$5.2 trillion at 12/31/09).

- Global Private Banking** - one of the world's leading international private banking groups, client assets of US\$390 billion. 95 locations in 37 countries across Asia, Americas, Europe and Middle East. Ranked by Euromoney as 'Best Global Wealth Manager'.

- Global Strategy** - is to 'drive sustainable growth by concentrating on the faster growing markets of the world' and upon businesses with 'international connectivity'. HSBC is the world's leading international bank in emerging markets.
- Group funds under management \$925 billion (2009 \$857 billion).
- The U.S. remains a core market for HSBC and will focus on those businesses and customers for which global connectivity give it advantage - primarily in corporate and commercial business and in private and premier banking.

- Global Branding** 'The World's Local Bank' emphasizes capability to process and deliver a globally integrated service, combining the largest global developing markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength.
- Ranked #1 global brand 'The world's local bank'.
- Named the world's top banking brand by *Brand Finance*.
- Voted by Euromoney in 2010 as 'Best Global Emerging Markets Bank' and "Best Bank in Hong Kong"

## Business Description:

HSBC Holdings PLC is a banking and financial services organization. Its international network comprises some 7,500 offices in 87 countries and territories in Europe; Hong Kong; rest of Asia-Pacific, including the Middle East and Africa; North America, and Latin America. HSBC manages its business through two customer groups: Personal Financial Services and Commercial Banking and two global businesses Global Banking and Markets, and Private Banking.

## Industry Growth Drivers/Trends:

- As the world's fastest growing region, Asia is expected to drive incremental growth in the global recovery and demand for financial products.
- Global macro-economic transition from west to east has gathered pace. The financial crisis accelerated this trend and brought into stark relief the extent of imbalances, especially between over-consuming western economies and high-saving emerging markets. Rebalancing requires structural change and international co-operation and may take time.
- HSBC's growth strategy is influenced by fundamental long-term trends that it believes may shape tomorrow's world: developing markets may continue to grow faster than mature ones; connectivity continues to increase as world trade is expanding at a greater rate than gross domestic product generating increased demand for financial services and; people are living longer than ever before with the implications that has for long-term savings and pensions.
- Ongoing consolidation and flight to quality in financial services sector, aligned with HSBC's capital generation exceeding organic deployment, has engendered acquisitive acumen combined with excellent integration skills (conversion of cultures to its rigorous, customer-centric, profit-driven attributes).
- Cross-border investing, aging societies, outsourcing management of pension assets, under funded government pension plans - all increase demand for wealth management and wholesale (payments, cash management, custody) services.

## Competitive Advantages:

- HSBC continues to invest primarily in the faster growing emerging markets and, in the more developed markets, by focusing on businesses which have international connectivity. It has relocated the principal office of Group CEO to Hong Kong. Its strategic aim is to be the world's leading international bank.
- Global reach offers attractive growth dimensions to improve mix, margin and share of wallet.
- Significant markets shares in key geographies, products and services and a 'flight to quality' for both depositors and borrowers favorably positions HSBC.
- Strongly positioned via excellent acquisition skills to exploit scale. Enabling technology with service centres in India, China & Malaysia strengthens operating leverage by driving down operating cost base, lowering cost to serve and increasing cross selling opportunities.
- Famously frugal, shrewd, hard working, conservative, multi-cultural and collegiate senior management team.
- Patient, long term focus upholds value of opportunistic/distressed asset purchasing prowess.
- Global leadership in developing markets and trade and HSBC's international perspective are compelling advantages. Its network provides access to the world's fastest growing economies, like Greater China.
- HSBC participates indirectly in China via associates: Bank of Communications (19%), China's 5<sup>th</sup> largest commercial bank and Industrial Bank (12.8%) 2 of only 13 national joint stock banks in China and; Ping An Insurance (16.8%), 1<sup>st</sup> or 2<sup>nd</sup> largest life - & 3<sup>rd</sup> largest P&C - insurer.

## Competitors:

- Global: Citi, JPMorgan, UBS, Credit Suisse, Deutsche Bank.
- Pan-European: Barclays, Banco Santander, ING, BNP Paribas, Credit Agricole, BBVA.
- North American: Wells Fargo, US Bancorp, Capital One, RBC, BNS, TD.
- Asian: Bank of China, Standard Chartered, Industrial & Commercial Bank of China.
- Investment Banking: Bank of America Merrill Lynch, Morgan Stanley, Goldman Sachs, Barclays.
- Other: GE Capital, American Express, Charles Schwab.

## Barriers to Entry:

- Myriad of regulatory (300+ regulators) and governance compliance costs include information technology (IT) and capital.
- Extensive global brand and network, which would be prohibitively expensive to replicate.

## Customers:

- Diversified, global customer base.
- Taken together, the top 5 customers do not account for more than 1% of group income.
- Diversified loan portfolio.



## Officers and Directors:

- **Senior Management Team - Board Appointed:** Douglas Flint, Group Chairman (was CFO 1995-2010); Stuart Gulliver, Group CEO (was Head of Global Banking & Marketing 2006-2010); Ian Mackay, Group Finance Director (joined 2007 from GE); Sandy Flockhart, Chairman Europe, Middle East, Africa, Latin America, Commercial Bank and Chairman HSBC Bank PLC.
- **Senior Management Team - Non-Board Appointed:** Peter Wong, CEO The Hong Kong & Shanghai Banking Corporation (based in Hong Kong); P.A. Thurston, CEO Retail Banking and Wealth Management (joined 1975); E. Alonso, Group MD & Head of HSBC Latin America and the Caribbean (joined 1997); N.S.K. Booker, CEO HSBC North America (joined 1981); A.M. Keir, Global Head of Commercial Banking (joined 1981); B. Robertson, CEO HSBC Bank plc (joined 1975); and P.T.S. Wong, CEO The Hong Kong and Shanghai Banking Corporation (joined 2005).
- 'Collective management' based on long-term careers and 'group' rather than 'segment,' character. Strong work ethic and thrifty culture permeates throughout with succession planning ongoing.

## Board of Directors:

- **17 member board** – 13 are independent non-executives.
- Chairman of the Board's Audit Committee J.D. Coombe, Risk Committee, Rona Fairhead and Remuneration Committee, J.L. Thornton are independent non-executives.
- Multicultural directors with diverse backgrounds (i.e. education, energy, engineering, pharmaceuticals, publishing, civil service, information technology and financial services).

## Ownership:

JPMorgan 7.1%, Blackrock Group 6.0%, Credit Suisse 6.0%, Legal & General 4.0%, Blackrock Investment Mgmt 3.9%, ABN Amro Holding 2.5%, Singularis 2.0%, Norges Bank 2%, Scottish Widows 2.0%, Goldman Sachs 1.9%, Government of Singapore 0.6%. 221,000 shareholders in 127 countries and territories.

## Capital Allocation/Uses:

Focus is on the parts of the global economy that promise the best prospects for higher growth over the long term and to maintain a strong capital base. Subsidiaries manage own capital within context of group approved annual plan determining optimal mix of risk-weighted assets. Surpluses beyond planned growth are upstreamed. Share buy backs are eschewed in favour of delivering sustained dividend per share growth, building opportunistic acquisitive capability and reinforcing and growing some of its most important franchises as other banks weaken. In 2009, HSBC announced a rights issue of approximately US\$17.8 billion to enlarge its share capital by 29% and a dividend cut, in order to augment strong planned internal capital generation and to be able to deal with the uncertain economic environment including opportunities to exploit weak competitors either via organic or acquisitive growth. A progressive dividend policy has now been reinstated. In financial terms, HSBC is aiming for a return on equity in a range over the investment cycle of 12-15%, a cost efficiency ratio in the range of 48-52%, and a maximum advances-to-deposits ratio of 90%. The lower targeted returns reflects the higher Basel III Core Tier 1 target of 9.5% - 10.5%. The dividend payout ratio is targeted to remain between 40-60% of attributable profits under normal market conditions. In line with strategy, HSBC is expected to redeploy capital towards faster growing markets - in 2009, it acquired a controlling 89% stake in Bank Ekonomi for US\$607 million, so doubling the Group's presence in Indonesia and in July 2010, acquired a substantial part of the Royal Bank of Scotland's commercial and retail business in India.

## Key Products:

- Comprehensive range of banking and related financial services worldwide to personal, commercial and corporate customers, which benefits from long-term trend of increasing international connectivity. 'Best Global Emerging Markets Bank' *Euromoney*.
- Products where global scale is possible by applying the Group's efficiency, expertise and brand - such as global transaction banking and global private wealth.
- First international bank to complete renminbi trade settlements across six continents.
- Strong national franchises and market shares via the provision of personal/business loans, mortgages, deposits and cards.

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## Business Mix:

Business Mix	2007	2008	2009	2010
Personal Financial Services	29%	(2%)	(29%)	18%
Commercial Banking	35%	36%	60%	32%
Private Banking	8%	7%	16%	6%
Global Banking & Markets	30%	18%	148%	50%
Other (HQ & Ins. ops.)	(2%)	41%	(95%)	(-6%)

Geographic Mix	2007	2008	2009	2010
U.K.	24%	34%	30%	13%
Europe (ex-U.K.)	12%	21%	27%	10%
Hong Kong	30%	28%	71%	30%
Rest of Asia-Pacific	7%	12%	31%	12%
Mainland China	10%	8%	23%	14%
India	2%	3%	5%	4%
Middle East	6%	9%	6%	5%
North America (ex Canada)	(4%)	(29%)	(115%)	(2%)
Canada	4%	4%	6%	5%
Latin America	9%	10%	16%	9%
Total	100%	100%	100%	100%

## Portfolio Composition:

Global Loans to Customers	2007	2008	2009	2010
Residential Mortgages	22%	22%	23%	22%
Other Personal	19%	17%	16%	13%
Commercial, Industrial, International	16%	19%	18%	20%
Commercial Real Estate	6%	6%	6%	6%
Other - Property related	3%	3%	3%	3%
Government	0%	1%	1%	1%
Agriculture, Transport, Energy & Utilities	7%	7%	7%	8%
Financial	27%	23%	26%	27%

Interest Earning Assets	2007	2008	2009	2010
Trading Assets	0.5%	0.3%	0.3%	0.4%
Loans to Banks	11.7%	10.6%	6.7%	7.8%
Loans to Customers	75.4%	75.3%	77.8%	75.7%
Financial Investments	12.4%	13.8%	15.2%	16.1%

Customer Loans / Deposits	90%	84%	77%	78%
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## Financial Statement Summary: (\$MM, years ended December 31)

Income Statement	2007	2008	2009	2010
Net Interest Income	37,795	42,563	40,730	39,441
Other Income	49,806	43,563	37,901	40,573
Provisions for Credit Losses	(17,242)	(24,937)	(26,488)	(14,039)
Net Insurance Claims	(8,608)	(6,889)	(12,450)	(11,767)
Non-Interest Expenses	(39,042)	(49,099)	(34,395)	(37,688)
Taxes	(3,757)	(2,809)	(385)	(4,846)
Net Income	19,133	5,728	5,834	13,159
EPS	1.44	0.41	0.34	0.73
Diluted EPS	1.44	0.41	0.34	0.72
Dividend per Share	0.87	0.93	0.34	0.34
Balance Sheet				
Common Equity	126,710	90,008	124,716	140,366
Book Value per Share	10.71	7.44	7.16	7.94

## Key Profitability Ratios and Figures:

Y/E December 31	2007	2008	2009	2010
Core Tier 1 Ratio		7.0%	9.4%	10.5%
Tier 1 Capital Ratio	9.3%	8.3%	10.8%	12.1%
Total Capital Ratio	13.6%	11.4%	13.7%	15.2%
Efficiency Ratio (Costs/Income)	49.4%	47.2%	52.0%	55.2%
PCLs % of Average Loans	1.72%	2.61%	2.87%	1.43%
Loan Loss Reserve of Loans	1.92%	2.50%	2.77%	2.05%
Loan Loss Reserve Impaired Assets	98.1%	94.3%	83.5%	71.5%
Return on Average Equity - reported	15.9%	4.70%	5.1%	9.5%
S&P Senior Rating of Debt	AA-	AA-	AA-	AA-

Sourced from 2010 Annual Report.