HSBC Holdings plc

Company Profile

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Europe, Middle East & Africa
119 Farringdon Road
London
EC1R 3DA
United Kingdom

t: +44 20 7551 9000
f: +44 20 7551 9090
e: euroinfo@datamonitor.com

Americas
245 5th Avenue
4th Floor
New York, NY 10016
USA

t: +1 212 686 7400
f: +1 212 686 2626
e: usinfo@datamonitor.com

Asia Pacific
Level 46
2 Park Street
Sydney, NSW 2000
Australia

t: +61 2 8705 6900
f: +61 2 8088 7405
e: apinfo@datamonitor.com

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COMPANY OVERVIEW

HSBC Holdings (HSBC) is a banking and financial services organization which provides investment banking, commercial banking and wealth management services to its clients. The group primarily operates in Europe and Hong Kong. It is headquartered in London, UK and employs about 312,866 people.

The group recorded revenues of $78,631 million in the financial year ended December 2009 (FY2009), a decrease of 1.1% over FY2008. The operating profit of the group was $5,298 million during FY2009, a decrease of 30.7% over FY2008. The net profit was $5,834 million during FY2009, an increase of 1.9% over FY2008.

KEY FACTS

Head Office	HSBC Holdings plc HSBC Holding plc 8 Canada Square London E14 5HQ GBR
Phone	44 207 991 8888
Fax	44 207 992 4880
Web Address	http://www.hsbc.com
Revenue / turnover (USD Mn)	78,631.0
Financial Year End	December
Employees	302,000
Paris Ticker	HBC
Hong Kong Ticker	0005.HK
London Ticker	HSBA

SWOT ANALYSIS

HSBC is Europe's biggest bank in terms of lending assets and market capitalization. In the UK, the group has a leading direct banking business. It also has leading market positions in financial services and several consumer finance operations. The group leverages its market leadership in geographies and product segments to gain a competitive advantage. However, weak economic conditions and increase competition could reduce the group's revenues and profitability.

Strengths	**Weaknesses**
Global scale and deep international network helps capture global trend benefits Diversified revenue mix reducing volatility impact Brand strength helps charge premium and retain globally valuable clients y	Lapses in operational security could hurt customers' confidence Asset quality deterioration and poor operating performance of HSBC Finance Corporation
Opportunities	**Threats**
Portfolio management likely to improve overall enterprise value Investments in emerging markets likely to increase growth rate and profitability Low interest rate mortgages likely to increase revenues and market share	Regulatory changes could increase compliance spending and alter business plans Competition for retail deposits likely to increase funding costs Economic conditions in several geographies still weak and so could undermine growth

Strengths

Global scale and deep international network helps capture global trend benefits

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of $199 billion at 31 December 2009. HSBC operates through long-established businesses and has an international network of some 8,000 properties in 88 countries and territories in six geographical regions: Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. The group's global scale and deep international network helps it capture benefits from global business trends.

Diversified revenue mix reducing volatility impact HSBC provides a range of financial services: personal financial services; commercial banking; corporate, investment banking and markets; private banking; and other activities. As a result, over the last few years, the group's revenue mix has been moving favorably with declining dependence on ‘other income’ which is volatile. The proportion of other income in total revenue fell from 20.5% in 2005 to 11.8% in 2009. The proportion of net interest income and net fee income rose favorably during the period under discussion. Diversified revenue mix has helped the group register 8% annual growth in 2009 in its revenue on an underlying basis even though total reported revenue fell by 19% in 2009. In the coming reporting periods, the group could further benefit from diversified revenue mix by registering growth in revenue both on reported and underlying basis.

Brand strength helps charge premium and retain globally valuable clients

HSBC is a leading global umbrella brand with local brands. In 2009, HSBC brand was valued at $25,364 million compared to $35,456 million by Brand Finance, a reputed brand consulting organization. Though brand value declined in 2009, still HSBC brand was rated the most valuable banking brand. Most other large banking institutions also saw declines in their brand values in 2009. HSBC umbrella brand is rich with sub-brands that include such strong names as First Direct, SABB (formerly The Saudi British Bank), Bank of Bermuda, HFC Bank, and others. In 2009, Personal Financial Services’ customers judged HSBC’s brand to be 6 points stronger than its competitors, up from 4 points in 2008 and above the target. Business banking customers also judged the brand to be 6 points higher than HSBC’s competitors, the same as in 2008. Continued strength in its brands enables the group charge premium for its services and also retain globally valuable clients.

Weaknesses

Lapses in operational security could hurt customers’ confidence

HSBC became a victim of data theft in the recent times. In March 2010, the group announced that about 15,000 accounts of its Swiss private banking unit were compromised after an employee allegedly stole data, some of which ended up in the hands of French tax authorities. The latest figure is sharply higher than the one the group gave in December 2009, when it said the number of account records taken was less than 10. Following this incidence, ratings of the group’s Swiss private banking unit were downgraded. Although, the group later said that it spent $93.5 million to upgrade security systems, the damage had already been done in terms of shattered customer confidence. It would take a significant effort and time on the group’s efforts to convince its private banking customers to trust their money with it.

Asset quality deterioration and poor operating performance of HSBC Finance Corporation

HSBC Finance Corporation (previously known as Household International, Inc) is a financial services company and a member of the HSBC Group. It is reported to be the sixth-largest issuer of MasterCard and Visa credit cards in the US. HSBC Finance's consumer lending business is one of the largest subprime home equity originators in the US as ranked by Inside B&C Lending. In early March 2009, HSBC Finance announced the discontinuation of new customer account originations for all products offered by its Consumer Lending business and closed approximately 800 Consumer Lending branch offices. In November 2009, it entered into an agreement to sell its auto loan servicing operations to Santander Consumer USA Inc. as well as an aggregate $1.0 billion of delinquent and non-delinquent auto loans. Additionally, in January 2009, HSBC Finance sold its GM Card MasterCard receivable portfolio and Union Plus MasterCard/Visa receivable portfolios to HSBC Bank USA. Increasing concerns regarding HSBC Finance's profitability and balance sheet integrity, franchise, operating environment, or prospects could undermine HSBC Group's financial health and performance.

Opportunities

Portfolio management likely to improve overall enterprise value

Global financial institutions need to engage in acquisitions and divestitures to increase their business portfolio worth. Over the last few years, HSBC has amply demonstrated this aspect. Since 2005, the group has acquired 31 business, increased stakes in 24 businesses and divested 53 businesses. The group's recent acquisitions and increased stakes include PT Bank Ekonomi Raharja Tbk (May 2009) Portfolio management has resulted in balance sheet growth, improved cohesion in strategy, overall brand perception, and enterprise value. The group has still scope to improve its enterprise value through portfolio management.

Investments in emerging markets likely to increase growth rate and profitability

HSBC has been incrementally increasing investments in emerging markets such as Asia-Pacific, and Middle East. As the world's fastest growing region, Asia is expected to drive incremental growth in the global recovery. After a very difficult year i.e., 2009, there are signs that the conditions for a recovery in Middle East economic activity have begun to emerge. Accelerated growth in these markets could provide profitable growth opportunities for the group.

Low interest rate mortgages likely to increase revenues and market share

HSBC the strong lender has introduced new schemes such as low interest rate mortgages with low deposits in order to boost the mortgage lending, specifically for borrowers with small deposits. The number of deals available to borrowers with a 10% deposit has dwindled from 1,197 in 2008 to only 95 in recent times, according to Moneyfacts.co.uk, the financial website. The company will offer one billion pounds of mortgages for home buyers with a deposit as small as 10%, targeting first-time buyers. HSBC will offer the mortgages for up to 90% of the property value, to holders of its monthly fee-paying HSBC Plus account and its wealthier Premier customers and will charge annual interest of 4.99% at fixed rate for two years. HSBC has the best competitive rate, when compared with the competitors, Yorkshire Bank charges 5.99% for 10% deposit, Royal Bank of Scotland charges 5.99% and Lloyds Banking Group mortgage rate is 6.29% for 10% deposit. The competitive rates introduced by HSBC would increase the revenues and market share as well as reviving the mortgage market.

Threats

Regulatory changes could increase compliance spending and alter business plans

There are potential strategic and structural risks to the organisation, nature and scope of the group's business activities and opportunities posed by many of the proposals for regulatory reform being debated both internationally and domestically in response to the recent financial crisis. The Basel Committee on Banking Supervision has issued a comprehensive reform package to address the lessons of the crisis which includes proposals on strengthening global capital and liquidity regulations and the resolution of systemically significant crossborder banks such as HSBC. The reforms could be implemented by 2012. HSBC is also subject to several regulations across geographies that could have an impact on its strategy, and financial performance and health.

Competition for retail deposits likely to increase funding costs The financial crisis has begun to re-shape the banking landscape globally and those institutions which have emerged the strongest have reinforced both the importance of a core retail and commercial deposit funding base and strong capitalisation. As a consequence, financial firms have sought to reduce the proportion of their balance sheets funded in the wholesale markets. As a result, competitions for retail deposits and tighter balance sheet control have resulted in re-pricing of loans and advances. Competition for retail deposits is expected to intensify further in 2010 as conditions in the global wholesale markets are still not favorable. Consequently, funding costs could go up and thus decrease net interest margin.

Economic conditions in several geographies still weak and so could undermine growth

HSBC is a global financial institution with strong presence across several geographies. Excepting Asia Pacific and some regions such as pockets of Middle East, and Latin America, economic prospects aren't bright. For instance, economic indicators in the UK remain weak and the risk of the country slipping back into recession in 2010 remains, thus delaying the recovery. In France, unemployment is rising and there are concerns about the public deficit. Middle East economic conditions are to a large extent driven by volatile oil prices. Latin America growth is estimated to have fallen by 2.7% in 2009, though growth may resume in some pockets in 2010. Weak economic conditions could affect the group's business volumes, margins and performance in 2010.