



# Global Trade and Receivables Finance

18 March 2019



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## Non-GAAP financial information

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# Agenda

**1**

**Background: what is trade finance**

**2**

**Safe and profitable growth**

**3**

**Navigating short term uncertainty**

**4**

**Investing to transform our business**

# 1 What is trade finance

● % of 2018 GTRF revenue<sup>1</sup>  
 ● % of 2016 GTRF revenue<sup>1</sup>

## What we do

- Solutions for our customers' trade finance and risk mitigation needs
- Safer and more efficient form of lending<sup>2</sup>

### Traditional Trade

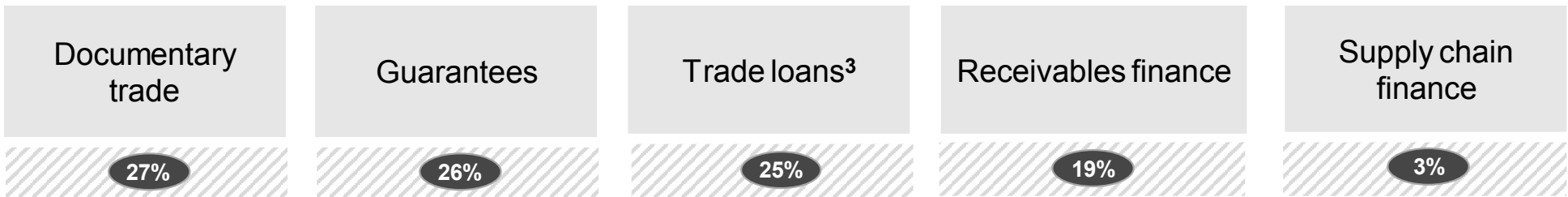
80%

78%

### Structured Trade

20%

22%



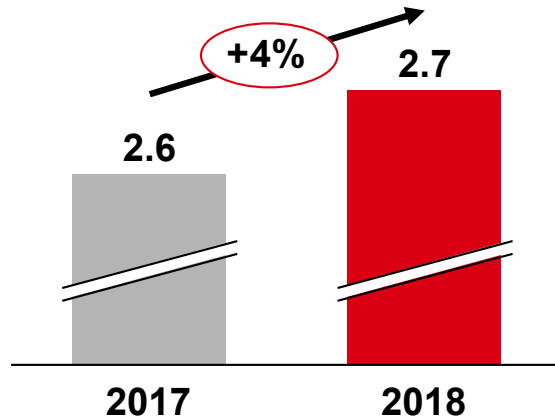
- Trade is a **cornerstone product** and an essential service
- **Multiplier effect:** CMB clients who use GTRF typically generate 4 times the average revenue, use HSBC services in twice the number of countries, and use twice the number of CMB products<sup>4</sup>
- >50% of GTRF revenue are fees

1. Source: Internal MI  
 2. See appendix 4  
 3. Including Commodity Structured Trade Finance ('CSTF')  
 4. Source: Internal HSBC MI; comparison of CMB Corporate clients with GTRF revenue vs. CMB Corporate clients without GTRF revenue

## 2 Driving safe and profitable growth

### Back to growth

GTRF adjusted revenue, \$bn (CMB and GB&M combined)



- Stabilised the business and back to growth
- Growth in all regions and in both CMB and GB&M
- Structured Trade: grew >2x Traditional Trade for HSBC in 2018

### Cost and capital efficiency

#### Driving efficiency

- 14% reduction in FTE<sup>1</sup> over past 4 years
- Focus on Elimination, Standardisation, Automation and Digitisation (ESAD)

#### Optimising our balance sheet

- Shift to originate and distribute model
- \$20bn assets distributed in 2018, an increase of 7x since 2016

1. Full Time Equivalent

## 2 Outperforming the market

### GTRF by numbers:

**\$740bn**

**Trade facilitated annually<sup>1</sup>**

**#1**

**Trade bank<sup>2</sup>:  
Revenue >2x top 3 peers average**

**10.5%  
2.4%**

**Traditional Trade market share<sup>2</sup> (#1)  
Structured Trade market share<sup>2</sup> (#1)**

**#1**

**Trade bank in Asia Pacific<sup>2</sup>**

**6,000**

**Trade specialists in 56 markets**

**1st**

**First scalable DLT<sup>3</sup> trade finance transaction**



### GTRF growing faster than market

- Global market share grew from 5.7% to 6.0%<sup>2</sup>
- Structured Trade: share grew from 2.2% to 2.4%<sup>2</sup>
- Increased share in key markets during 2018
  - **Hong Kong:** from 13.8% to 15.3%<sup>4</sup>
  - **Singapore:** from 9.9% to 12.8%<sup>5</sup>

### Recognised by industry and customers

**#1 Global Trade Finance Bank**  
(From 4<sup>th</sup> to 3<sup>rd</sup> in client service)



**Best Bank in Trade Finance**



**Best Global Trade Finance Bank and  
Most Innovative Trade Finance Bank**



**Best supply chain finance bank**



1. Source: HSBC FY18 Internal MI  
 2. Source: Oliver Wyman FY17 and 3Q2018 Transaction Banking surveys  
 3. Distributed Ledger Technology  
 4. Source: HKMA Dec 18  
 5. Source: MAS Jan 19

## 2 Step change in how we engage with our clients

### Landmark Commodity deals



- **Client need:** Reduce outstanding receivables in support of Egypt's IMF obligations
- **Our solution:** \$1bn pre-export finance deal; 80% syndicated in 90 days
- **Why HSBC:** relationships with EGPC and International Oil Company ("IOC"); capability to pre-fund and syndicate

### Supporting tech distributors



- **Client need:** Provide Dell distributors & partners with key credit capacity to facilitate & enable growth
- **Our solution:** Supply Chain programme with extended payment terms & improved liquidity to Dell distributors
- **Why HSBC:** Strong client relationship and global coverage across key regions

### Intelligent use of balance sheet velocity



- **Client need:** Accelerate cash conversion cycle and manage working capital
- **Our Solution:** Receivable Purchase solution covering 7 currencies and multiple regions
- **Why HSBC:** Strong geographic fit and asset distribution capabilities

### Automating supply chains



- **Client need:** Automate supplier purchase order approvals removing current manual process
- **Our solution:** Delivered automated solution with our fintech partner and accelerated finance availability pre-shipment
- **Why HSBC:** Largest foreign bank in China<sup>2</sup> and our partnership with key fintech platform

1. Receivables Finance offering by GTRF  
2. By assets and by branch network. Based on major foreign banks' public filings, and branch network data compiled by HSBC

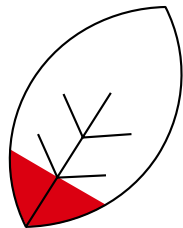
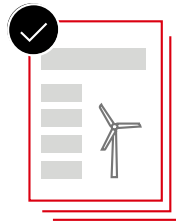


## 2 Supporting sustainable supply chains

### Untapped business opportunity

**\$660 billion**

Potential sustainable supply chain finance market, which will reach one third of the supply chain finance market <sup>1</sup>

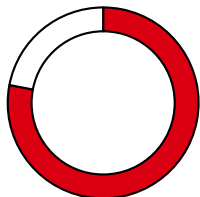
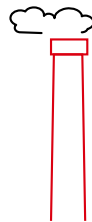


**81%**

of companies say ethical and environmental sustainability is important to them and 83% want to be a genuinely ethical or environmentally sustainable company <sup>2</sup>

**84%**

of companies who are looking to make sustainable changes do so in order to improve their revenues and financial performance <sup>2</sup>



**78%** of companies are developing programmes around sustainable supply chains with key partners <sup>3</sup>

### Supporting key sustainable deals



Supporting **Sustainable Supply Chains**

- **Our client need:** To promote sustainability within the supply chain
- **Our solution:** A supply chain finance solution across 17 countries which promotes sustainability improvements through incentives based on SAFE rating<sup>5</sup>
- **Why HSBC:** Global coverage and alignment to HSBC's own sustainability goals



Supporting **solar power plant projects**

- **Our client need:** Bank backed support in constructing solar power plants in Jordan and Kenya
- **Our solution:** Performance guarantees on behalf of multi jurisdictional companies
- **Why HSBC:** Strong client relationship, trust in our delivery and advisory capabilities in complex multi-geography transaction

### Partnering with NGOs and industry initiatives to drive positive change

- **Core partner of the Make Fashion Circular** initiative with Ellen MacArthur Foundation with aim to create a more sustainable textiles economy
- **Funding the Apparel Impact Institute** to support environmental improvements to mills and factories
- **Partnership with WaterAid** to tackle the world's water and sanitation crisis; in 2018 HSBC launched new program focused on sustainability of global supply chains and wellbeing of apparel workers in India and Bangladesh
- **Working with WWF** to improve the health of fresh water sources, focusing on five key river basins home to more than 1bn people. In 2017 HSBC launched 3 new projects to scale up sustainability in the textile sector in China, India and Vietnam

1. Source: BSR - Business for Social Responsibility: Win-Win-Win: The Sustainable Supply Chain Finance Opportunity 2018

2. Source: HSBC Navigator 2018

3. Source: EY - The state of sustainable supply Chains 2016

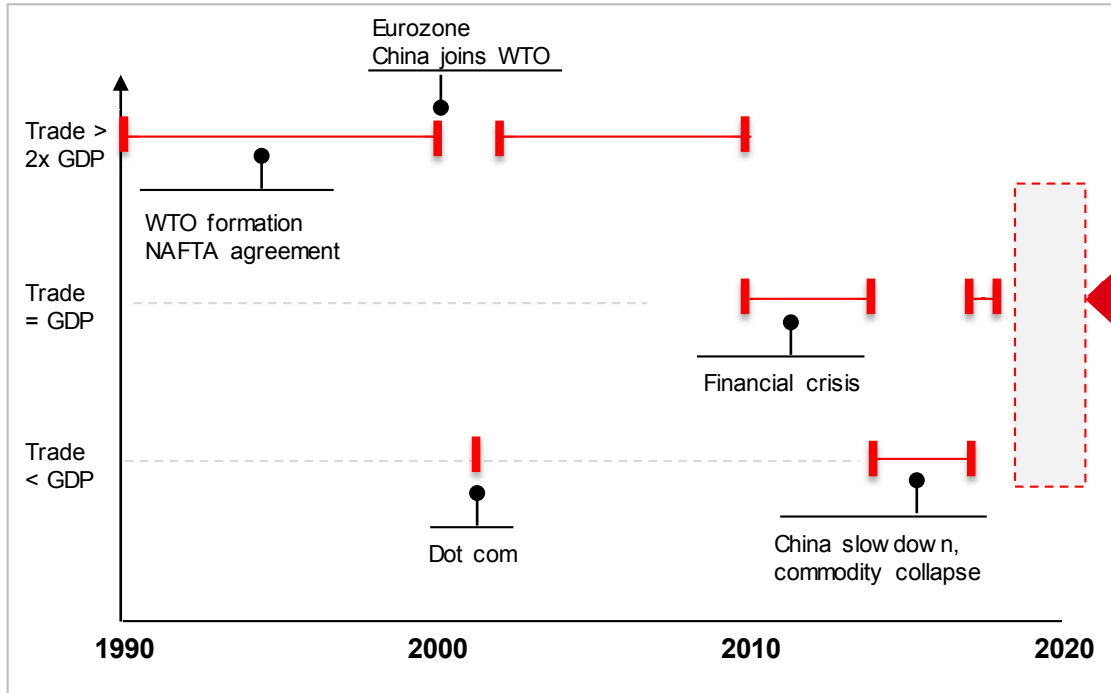
4. Engineering, Procurement, Construction

5. Puma's SAFE (Social Accountability and Fundamental Environmental) program



### 3 Window to the trade outlook

Trade volume growth as a multiple of GDP growth<sup>1</sup>



- Values and volumes dislocated for first time in 2014-16<sup>2</sup>
- Increased volatility in trade value growth

#### Short and medium term opportunities...

- Trade agreements<sup>3</sup> : CPTPP, EU-Japan, RCEP
- China: fiscal stimulus
- Growth in intra-Asian flows and ASEAN
- Large infrastructure projects: BRI
- Strong US economy; fiscal stimulus
- Sustained growth in trade in services

#### ...off-set by short term uncertainties

- Protectionism
- China economy slowdown
- Eurozone downturn: Germany, Italy
- Brexit
- Industrial sector slowdown: autos, tech

1. Source: IMF  
 2. For values - Source: UNCTAD 1990-2017 and WTO World Trade Report 2018 2018-2030  
 3. Details in Appendix 2

### 3 Fundamentals of global trade are changing significantly (1/3)

#### WHAT is traded

#### WHERE trade takes place

#### HOW trade is conducted

#### Key facts

- Trade in **services** is expected to more than **double by 2030**: accounting for **25% of all trade**<sup>1</sup>
- **Cross-border data** flows worth **\$2.8tn**<sup>2</sup>; volume of data flows 9x higher in 2021 vs 2014<sup>3</sup>
- **Emerging markets** increasing share of export in services, as their population upskills

#### What it means for HSBC

#### Significant difference in financing needs...



- **Intangible rather than physical goods financed based on evidence of performance / delivery**; e.g. software downloaded, media content purchased, ads clicked



- **Monetising contracts when payment obligations are crystallised based on defined performance events** e.g. Annual Maintenance Contracts, cloud services, etc.



- **e-commerce merchants financed against inventory stocked and receivables due from online sales**

#### ... that HSBC is addressing through:

**A** Investing in specialised teams to review **bespoke contracts** and structure solutions around them

**B** Investing in **technology** (e.g. APIs) to allow data flows for **improved visibility of performance**

**C** Tailoring traditional **product policies and controls**

1. Source: Oxford Economics, Unlocking the Growth potential of Services Trade  
2. Source: McKinsey Global Institute, Digital globalization: The new era of global flows, 2016  
3. Source: VOX, The ascendancy of international data flows, 2017

### 3 Fundamentals of global trade are changing significantly (2/3)

WHAT is traded

WHERE trade takes place

HOW trade is conducted

#### Key facts

- Shift from **West to East**
  - Middle income population in Asia to grow to **3.5bn** by 2030<sup>1</sup>
  - Intra-region trade will account for over 40% of goods volume growth<sup>2</sup>

#### What it means for HSBC

##### Strong position in Asia...

**#1**

Trade bank  
in ASP<sup>3</sup>

**8.5%**

Market share  
in ASP trade<sup>3</sup>

**#1**

Trade bank in  
HK, Singapore<sup>4</sup>

**2,900 in 22**

2,900 trade  
experts in 22  
ASP countries

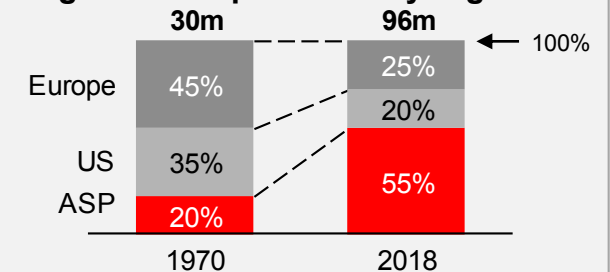
##### ... to capture intra-Asian trade and investment flows...

##### Monetising export flow of oil products across Asia

- **Client need:** monetise Asian exports of oil products from one of the largest oil refineries in the world
- **Our solution:** trade financing with underlying commodity as collateral
- **Why HSBC:** footprint across India, Singapore, Australia provided a seamless and fast turnaround solution

##### ... as well as Asian trade flows with the rest of the world

##### e.g. Vehicles produced by region<sup>5</sup>



- HSBC can cover Asian and Western OEMs, as well as Asian suppliers
- Further investment in Asia expected; e.g. China lifting restrictions on foreign investment

1. Source: Global Economy and Development: The unprecedented expansion of the Global Middle Class, 2017  
 2. Source: McKinsey & Company, Digital globalization: The new era of global flows, 2016  
 3. Source: Oliver Wyman FY17 and 3Q2018 Transaction Banking surveys

4. Source: Best Trade Finance Bank as per Euromoney Trade Finance Survey - 2019  
 5. Source: McKinsey center for future mobility






### 3 Fundamentals of global trade are changing significantly (3/3)

WHAT is traded	WHERE trade takes place	HOW trade is conducted
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#### Key facts

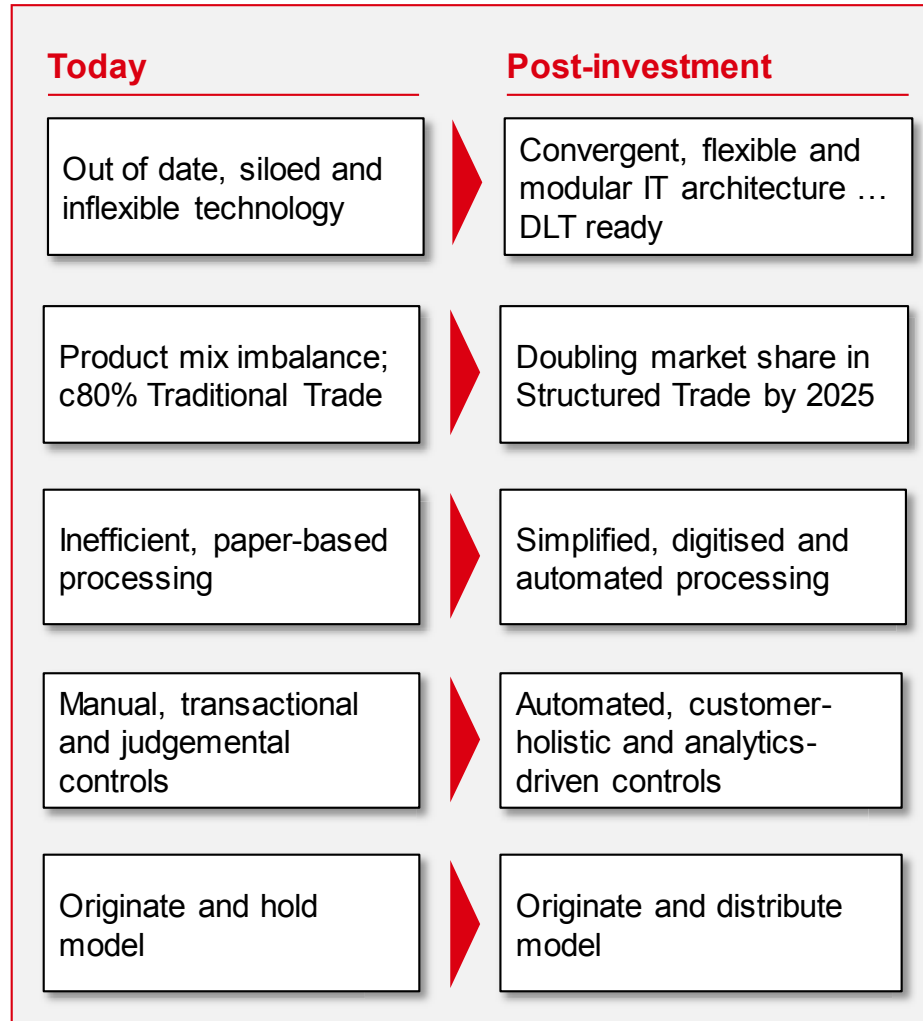
- **Internet democratising trade**, giving SMEs same access as multinationals
- Emergence of **Internet of Things, 5G and cloud** services
- **Digitisation and automation** are making trade cheaper, safer and faster

#### What it means for HSBC

Making trade simpler, safer and faster	Examples and how clients will benefit from this
<p><b>A</b> Full range of digital channels across key solutions</p>	<ul style="list-style-type: none"> <li>▪ Clients can access both proprietary solutions (e.g. HSBCnet, Host to Host) and bank agnostic solutions (e.g. SWIFT for Corporate for Trade)</li> <li>▪ Unlocks efficiencies from current manual and paper-based processes</li> </ul> 
<p><b>B</b> Enabling clients to transform their supplier and buyer eco-systems</p>	<ul style="list-style-type: none"> <li>▪ Embedding <b>financing within clients' supply chain processes</b>; e.g. collaboration with Tradeshift procure to pay solutions</li> <li>▪ <b>Working capital finance earlier</b> in supply chains: increased trade flow visibility</li> <li>▪ Extending competitive payment terms to buyers; point of sale financing</li> </ul> 
<p><b>C</b> Transforming trade across the wider buyer/seller, banking and logistics ecosystem</p>	<ul style="list-style-type: none"> <li>▪ Use of <b>e-Bills of lading</b> to reduce lead times and make trade safer</li> <li>▪ <b>Live transactions on scalable DLT</b>; transact without relinquishing data ownership:                             <ul style="list-style-type: none"> <li>▪ End to end digitised letter of credit reducing settlement time from 5-10 days to 24 hours allowing clients to trade more and faster; e.g. Voltron: Cargill</li> <li>▪ Enhanced visibility of open account trade flows between buyers and suppliers facilitating more trade finance opportunities for banks; e.g. we.trade</li> <li>▪ Collaboration with regulators' platforms to improve visibility and make trade safer</li> </ul> </li> </ul>   

## 4 Transforming our business for the future

### Extend leadership position and future-proof business









### Key customer and business outcomes by 2021

>\$600m investment<sup>1</sup> to achieve the following:

- Substantial elimination of manual paper handling (currently c. 100m pieces annually)
- Improved front office to back office ratio<sup>2</sup> from 1:2 to 1:1
- Substantial change in customer experience: easier, faster and safer
- Significant improvement in net promoter score<sup>3</sup>
- Capabilities to grow revenues faster than the rest of the market
- Increased pace of asset distribution by more than x2

1. >\$600m total cash investment spend between 2018 and 2021  
2. Front office FTEs comprise all client facing roles; back office FTEs comprise all FTEs dedicated to operations  
3. Net Promoter Score is a metric to derive client satisfaction and likelihood of recommendation

## 4 Tangible progress in the transformation journey

<p><b>Growth and attrition</b></p>	<p><b>Improved digital capabilities</b></p> <p>Mobile app for clients to track real time status of transactions; 4,700+ users in 24 countries</p> 	<p><b>Scaling growth through electronic solutions</b></p> <p>In China, connection to PBOC e-platform enabled growth in eBAD<sup>1</sup> 7x since 2016, expanding beyond physical branch network</p> 	<p><b>Enhancing Structured Trade capabilities</b></p> <p>&gt;10% annual asset growth since 2016, via improved coverage and product; e.g. Supply Chain Finance in 8 new countries</p> 
<p><b>Efficiency and Risk Management</b></p>	<p><b>Process simplification</b></p> <p>Simplification of end to end guarantees process: from 600 to 2 manual steps</p> 	<p><b>Automation of controls</b></p> <p>Automation of vessel checks: from 7 minutes to 6 seconds, saving 19,000 man hours p.a.</p> 	<p><b>Improving customer experience</b></p> <p>Launched next generation telephony and 100 training days; net promoter score up by 35%</p> 
<p><b>Replatforming</b></p>	<p><b>Convergent</b></p> <p>e.g. German client can track end to end status of a guarantee they are issuing to a beneficiary in Bahrain through HSBC Germany</p>	<p><b>Flexible</b></p> <p>e.g. HSBC can connect to client e-commerce portals or third party platforms (e.g. GT Nexus) very quickly</p>	<p><b>Modularity</b></p> <p>e.g. New channel like SWIFT for corporate for trade can be made available across 50+ markets for our clients in a short timeframe</p>

1. Electronic Bank Acceptance Drafts (eBAD) is an instrument of choice of trade flows in China, and is transferrable; current size of market is \$1.35trn (Source: Shanghai Commercial Paper Exchange Corporation Ltd)

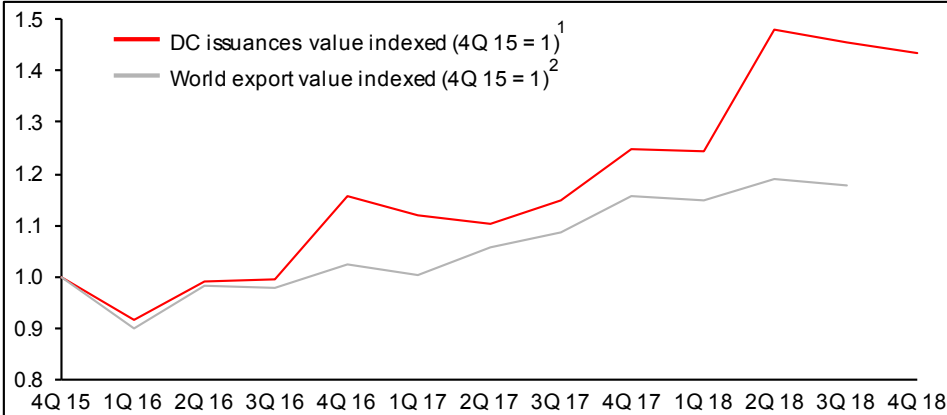


# Appendix



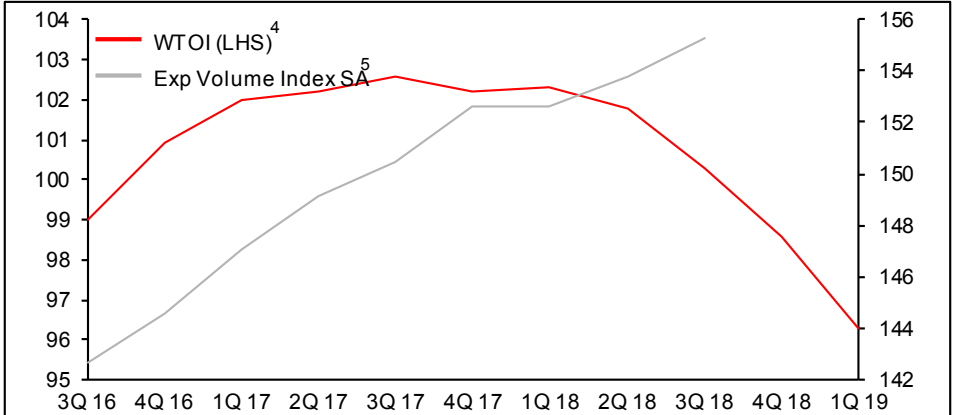
# Leading indicators for world trade

**Trade Values are expected to moderate their growth in the short term...**



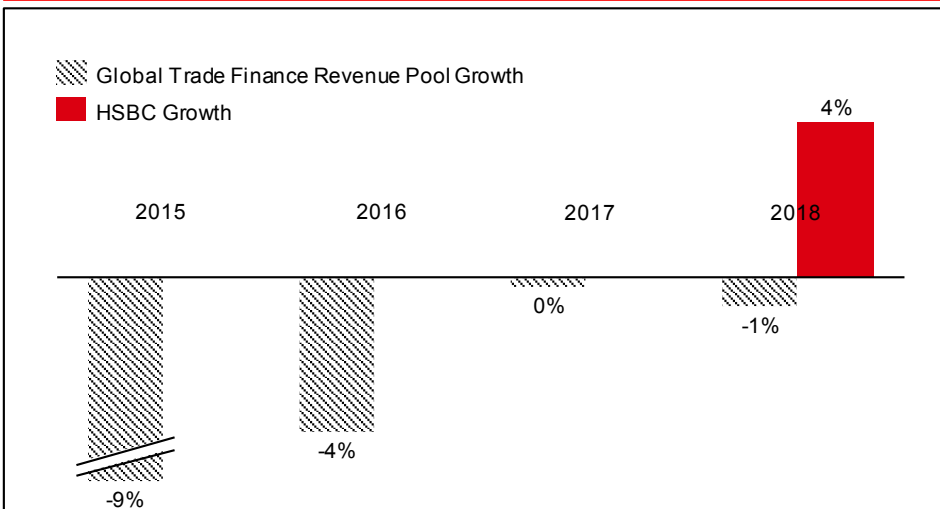
Value of DC issuances traffic indicative of order preparation stage and offers a good 60-90 day forward look. DC Issuances values trend indicates moderation in trade values in the short term<sup>3</sup>.

**...and trade volumes are expected to soften in the medium term**

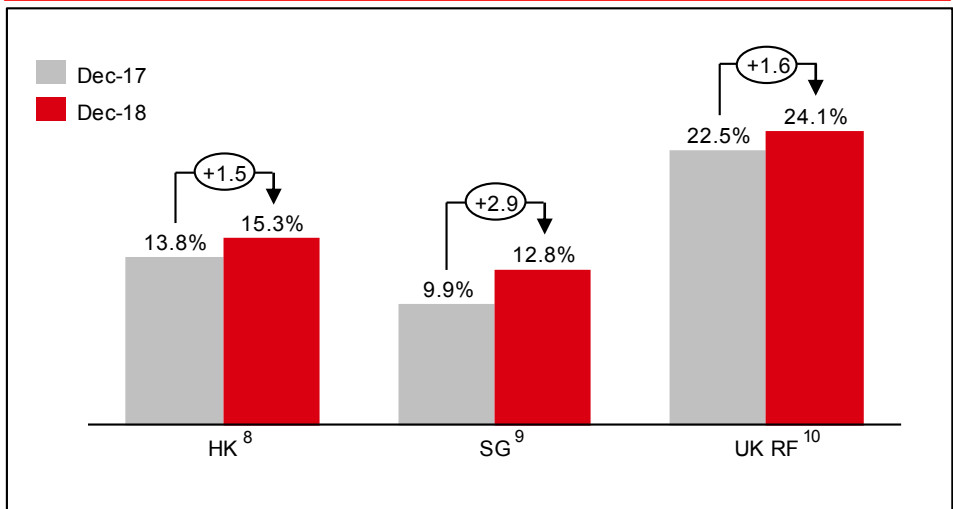


World Trade Outlook Indicator (WTOI) is a composite index of trade-related indices which anticipates changes in the trajectory of world merchandise trade volume. The latest WTOI does indicates softening of volume growth in medium to long term<sup>6</sup>.

**HSBC has outgrown the market in 2018...**



**... increasing market share in key markets**



1. Source: SWIFT for DC issuances values,  
 2. Source: WTO for world exports value (merchandise),  
 3. Short term is ~ 1month from the point data is available,  
 4. and 5. Source: WTO for WTOI and export volume index (Q1 2005 = 100),  
 6. Medium to long term is ~ 3 months to 2 quarters from the point data is available,

7. Source: For Global Trade Finance Revenue Pool, Oliver Wyman FY2017 report for 2015, 2016 and 2017. OW YTD 3Q2018 growth vs PY for 2018; For HSBC, growth on reported \$, on a post-distribution basis,  
 8. Source: HKMA; Dec18  
 9. Source: MAS; Jan19  
 10. Source: UK Finance 4Q17 data vs 3Q18 data,

## Summary of key trade agreements

### Comprehensive and progressive agreement for trans-pacific partnership (CPTPP)

- Pacific Basin trade agreement among 11 advanced and emerging markets, representing **13% of global GDP and 500m population**
- Aims to **remove 95% of the current tariffs** on trade among the partners
- Developing **country members will have exports expanding by more than 8.5% while developed members are expected to see 4.0%-5.8% export growth**. Non members could see exports decline modestly as trade within the CPTPP region is re-routed to CPTPP members
- Accord entered into force on 30 December 2018. Canada, Japan, Mexico, New Zealand, Singapore, Australia and Vietnam completed their ratification; remaining signatories are Brunei, Chile, Malaysia and Peru
- Once fully ratified and implemented, **CPTPP could boost trade for members by 6%**, adding 1% to real incomes as of 2030

### EU-Japan EPA

- The Economic Partnership Agreement (EPA) between the EU and Japan entered into force on 1 February 2019.
- The two partners represent nearly **30% of global GDP and a population of some 640 million**
- Could potentially **add up to 0.75% to the annual baseline GDP for the EU and Japan**
- The agreement removes traditional barriers to trade like most duties and quite a few non-tariff barriers related to regulations and customs administration. It also improves transparency and addresses 21st Century trade challenges such as data privacy and ensuring free flow of data

### Regional comprehensive economic partnership (RCEP)

- Participants: ASEAN 10 + Australia, China, India, Japan, Korea, New Zealand; potentially others in future (e.g., Peru); **RCEP covers >50% of the world's population; >\$22trn GDP area**
- Substantially eliminate tariffs; reduce non-tariff discrimination against goods and services
- Provide competitive investment environment; protection for intellectual property rights, combat anti-competitive practices
- **Could boost regional income by up to \$600bn (+1.8%)**
- Discussions in progress with aim to finalise the agreement in 2019



# HSBC is leading key trade DLT projects

	Doc Trade				Open Account	
<b>Platform and tech vendor</b>						
<b>Network ownership</b>	<ul style="list-style-type: none"> <li>R3 Corda and CryptoBLK</li> <li>Target: Co-op owned by member banks (Oct '19)</li> </ul>	<ul style="list-style-type: none"> <li>Ethereum</li> <li>JV owned by shareholders (15 banks and trading companies)</li> </ul>	<ul style="list-style-type: none"> <li>SkuChain</li> <li>Owned by CGI</li> </ul>	<ul style="list-style-type: none"> <li>R3</li> <li>Owned by TradeIX</li> </ul>	<ul style="list-style-type: none"> <li>IBM Hyperledger Fabric and IBM</li> <li>JV company owned by shareholders (12 European banks)</li> </ul>	<ul style="list-style-type: none"> <li>IBM Hyperledger Fabric and PingAn</li> <li>Owned by Hong Kong Trade Finance Platform Company Ltd</li> </ul>
<b>Coverage</b>	<ul style="list-style-type: none"> <li>Global</li> <li>All industries</li> </ul>	<ul style="list-style-type: none"> <li>Global</li> <li>Commodities industry</li> </ul>	<ul style="list-style-type: none"> <li>Global, but limited to CGI Trade360 users</li> <li>All industries</li> </ul>	<ul style="list-style-type: none"> <li>Global</li> <li>All industries</li> </ul>	<ul style="list-style-type: none"> <li>Europe-focused</li> <li>All industries</li> </ul>	<ul style="list-style-type: none"> <li>Hong Kong-focused</li> <li>All industries</li> </ul>
<b>Products</b>	<ul style="list-style-type: none"> <li>E2E LC solution (Import LC issue/ Export LC advise)</li> </ul>	<ul style="list-style-type: none"> <li>KYC</li> <li>LC</li> </ul>	<ul style="list-style-type: none"> <li>Standby LC</li> <li>Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>Receivables Financing</li> <li>Payment Commitment</li> </ul>	<ul style="list-style-type: none"> <li>Receivables Financing</li> <li>Bank Payment Undertaking</li> </ul>	<ul style="list-style-type: none"> <li>Funds transfer</li> <li>Pre and post shipment financing</li> </ul>
<b>Participants</b>						

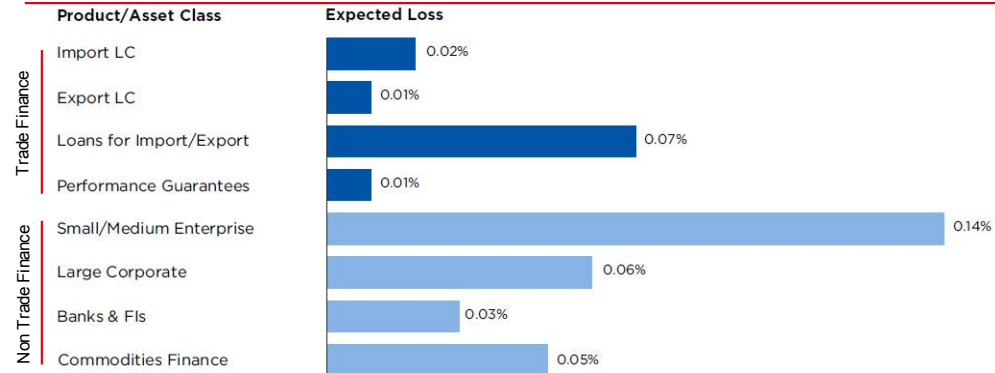
HSBC key participant

# Risk characteristics of trade finance

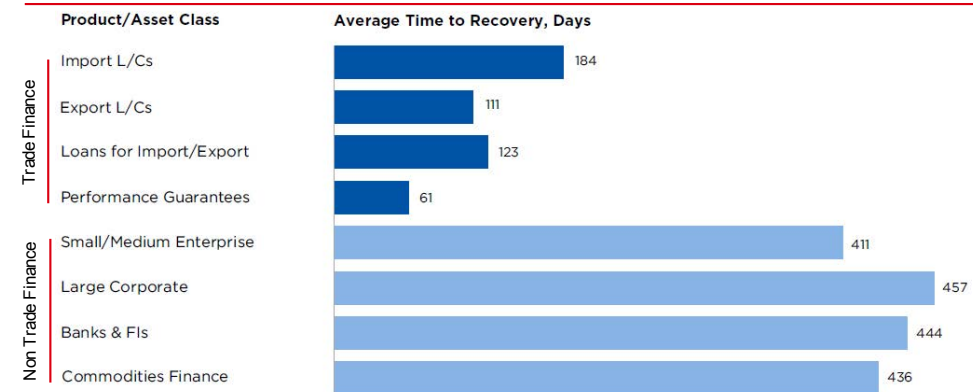
## Drivers

- Short-tenor asset class
- Linked to real economy (working capital needs of companies)
- Shorter time to recovery in a default scenario
- Given contingent nature of some Trade products (Documentary Credit, Guarantees) exposures do not always crystallise onto balance sheet

## Expected loss of trade finance and other asset classes, 2008–2016<sup>2</sup>



## Average time to recovery between trade finance and other asset classes, 2008–2016<sup>2</sup>



## Average “Event Likelihood” in the life of a performance guarantee, 2008–2016<sup>2</sup>



1. Expected Loss: Average losses likely to incur on portfolio  
 2. Source: ICC Trade Register 2017

## Glossary

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ASEAN	Association of Southeast Asian Nations
API	Application Program Interface
BRI	Belt and Road Initiative
CPTPP	Comprehensive and Progressive Agreement for Trans-pacific Partnership
NAFTA	North American Free Trade Agreement
OEM	Original Equipment Manufacturer
RCEP	Regional Comprehensive Economic Partnership
SME	Small and Medium sized Enterprises
WTO	World Trade Organization

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