

HSBC Hong Kong



August 2011

# Hong Kong, RMB Internationalization

## US roadshow

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HSBC 

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All amounts are in US\$ unless otherwise stated.

## Group strategy: The leading international bank

### International connectivity

- Presence in key markets that matter for international connectivity
  - Global Banking and Markets hub-and-spoke model with global reach
  - Commercial Banking to provide commercial financial services in 60+ markets
  - Investment opportunities in fast growing and mature markets

### Economic development and wealth creation

- Wealth creation in most relevant markets
- Focus on retail banking only in markets where we can achieve profitable scale
  - Large scale positions
  - High growth markets
  - Leading market shares in small geographies

# Progress on strategy

## Key execution elements

## Achievements

### Capital deployment

- Closure of retail banking businesses in Russia and Poland
- Disposal of three non-strategic insurance businesses – UK (motor insurance), Mexico (Afore), Bermuda (captive management)
- Strategic review of US credit card business and disposal of 195 US branches

### Cost efficiency

- Launched restructurings – France, UK, MENA, US and Latin America
- Agreed program to improve efficiency of Head Office and global support functions
- Established consistent operating models for RBWM and CMB

### Growth

- Wealth Management, new business strategy and senior appointment
- Increased cross-sale of GBM products to CMB customers
- Grew revenue in selected markets



## Outlook



**Positive on emerging markets**

**Geopolitical and regulatory uncertainty**

**Results demonstrate progress on journey to achieve long-term targets**

## 2011 interim results - financial highlights

Summary financial highlights	1H10	2H10	1H11	% Better / (worse)	
				1H/1H	1H/2H
Reported profit before tax (USDbn)	11.1	7.9	11.5	3	45
Earnings per share (USD)	0.38	0.35	0.51	34	46
Dividends <sup>1</sup> (USD)	0.16	0.20	0.18	13	n/a

Financial ratios (%)	1H10	2H10	1H11	KPI
Cost efficiency ratio	50.9	59.9	57.5	48-52
Advances-to-deposits ratio	77.9	78.1	78.7	<90
Core tier 1 ratio	9.9	10.5	10.8	9.5-10.5 <sup>3</sup>

1. In respect of the period  
 2. Basel III basis  
 3. Assumed common equity tier 1 ratio under Basel III

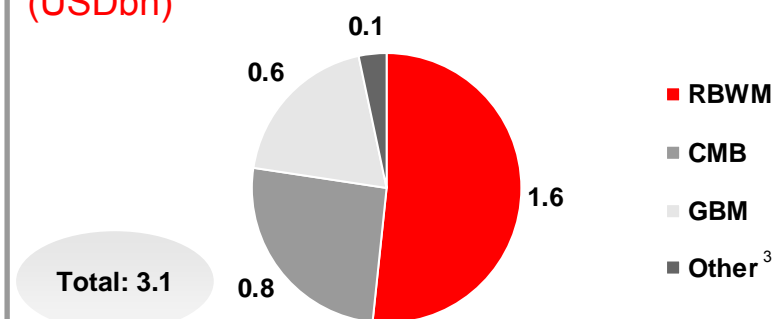
# Hong Kong

	1H10 <sup>1</sup>	2H10 <sup>1</sup>	1H11 <sup>1</sup>
Profit / (loss) before tax (USDbn)	2.8	2.7	3.1
Cost efficiency ratio (%)	40.7	47.1	43.2
Return on risk-weighted assets <sup>2</sup> (%)	4.9	4.9	5.6
Advances-to-deposits ratio (%)	41.7	47.3	52.1

- ▶ Volume-driven and trade-related growth in Commercial Banking (CMB) and Global Banking and Markets (GBM), driven by growth of mainland China
- ▶ Strong sales in Wealth Management products
- ▶ Asset spreads narrowed
- ▶ Continued good credit quality
- ▶ Investment and inflation-driven cost growth

## Profit before tax, 1H11<sup>1</sup>

(USDbn)



1. Underlying basis  
 2. Profit before tax basis  
 3. Other includes GPB and Other Customer Groups

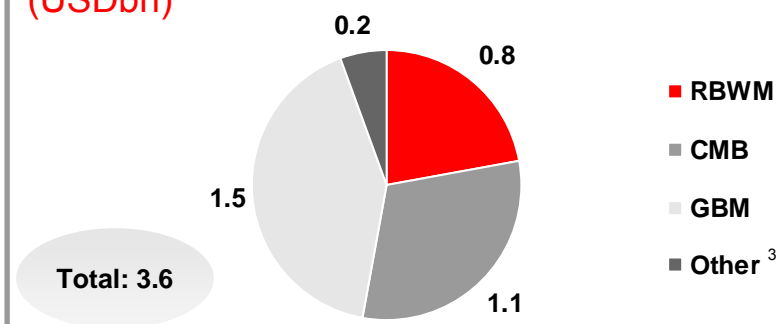
## Rest of Asia-Pacific

	1H10 <sup>1</sup>	2H10 <sup>1</sup>	1H11 <sup>1</sup>
Profit / (loss) before tax (USDbn)	2.9	3.0	3.6
Cost efficiency ratio (%)	56.1	57.6	54.9
Return on risk-weighted assets <sup>2</sup> (%)	3.1	2.8	3.1
Advances-to-deposits ratio (%)	67.1	69.0	72.0

- ▶ Growth in Global Banking and Markets (GBM) and Commercial Banking (CMB) loan and trade volume
- ▶ Wealth Management revenue growth in Retail Banking and Wealth Management (RBWM)
- ▶ Loan impairment charges fell in RBWM
- ▶ Costs rose from increased employee numbers, higher volumes and wage inflation
- ▶ Contribution from Associates up

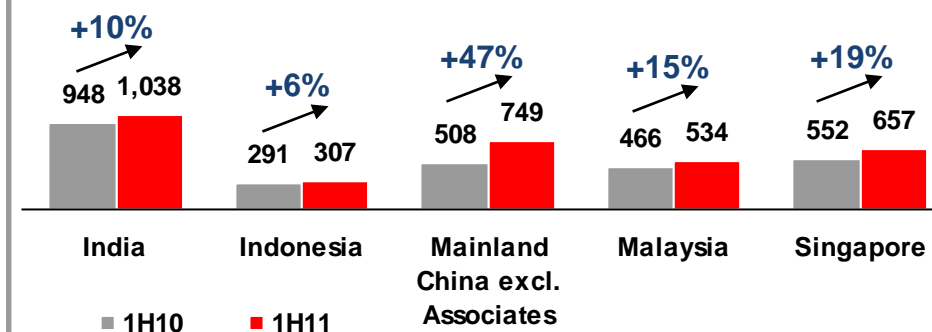
### Profit before tax, 1H11<sup>1</sup>

(USDbn)

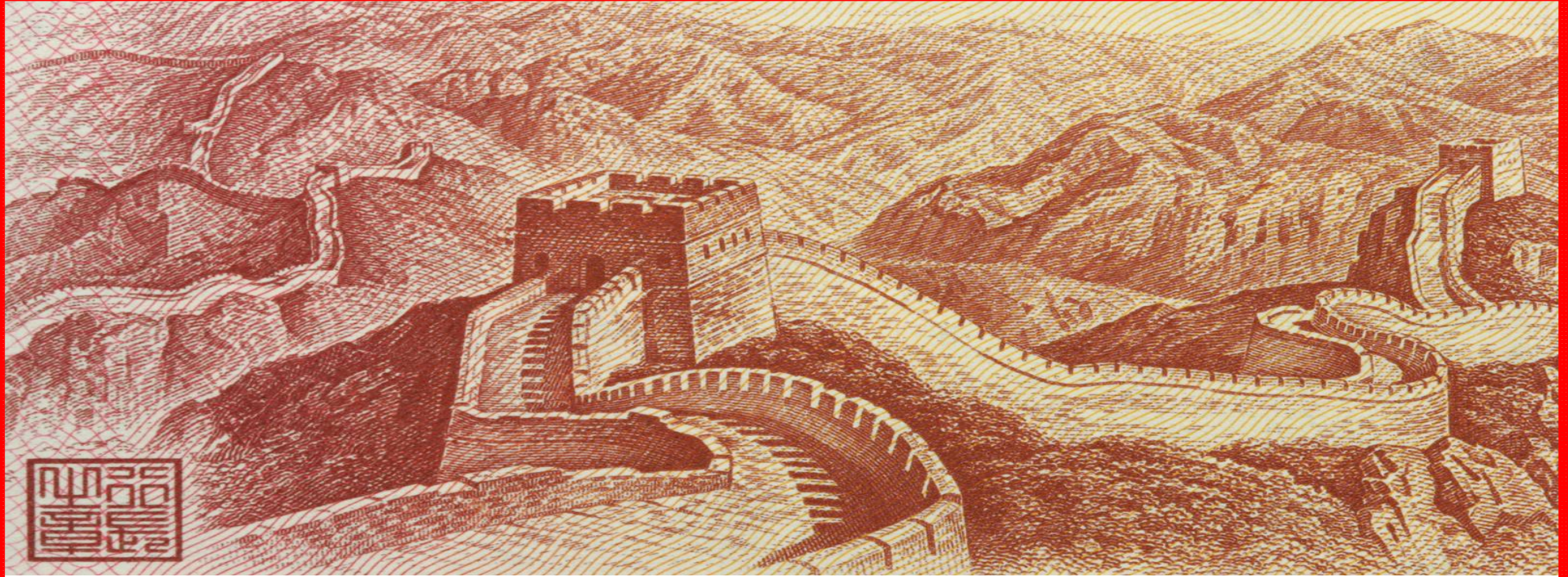


### Revenue<sup>1</sup>

(USDm)



1. Underlying basis  
 2. Profit before tax basis  
 3. Other includes GPB and Other Customer Groups



# HSBC Hong Kong

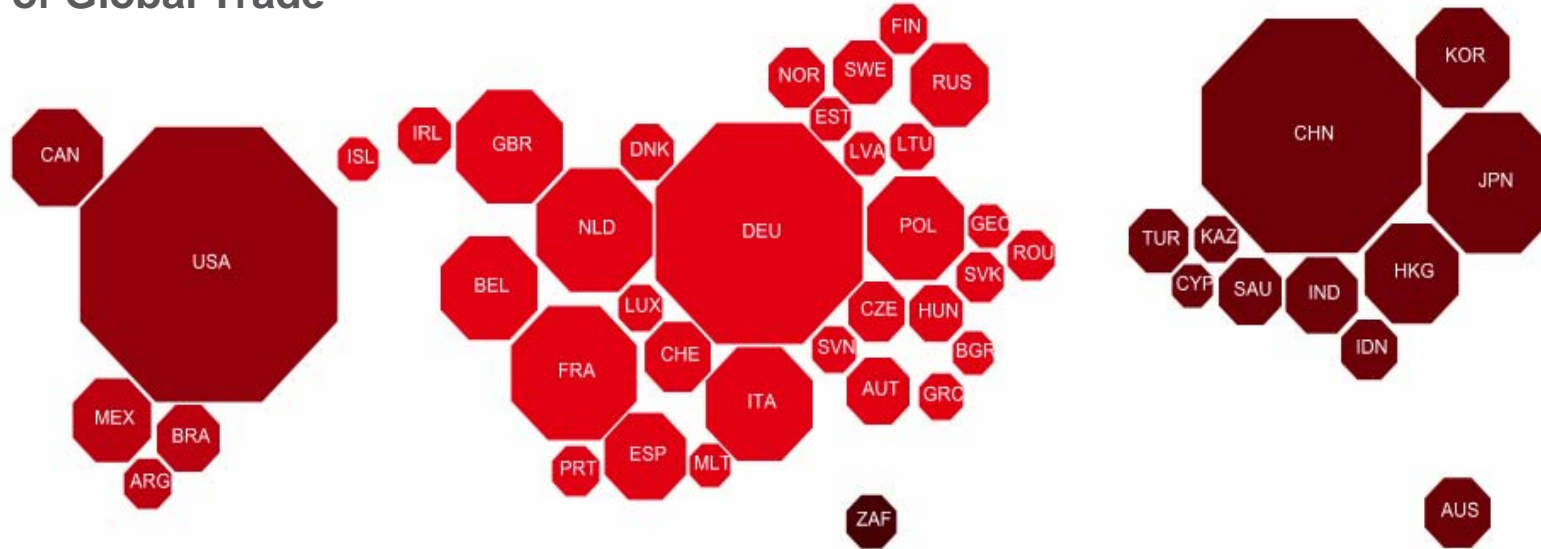
Capturing the rise of Greater China and Renminbi



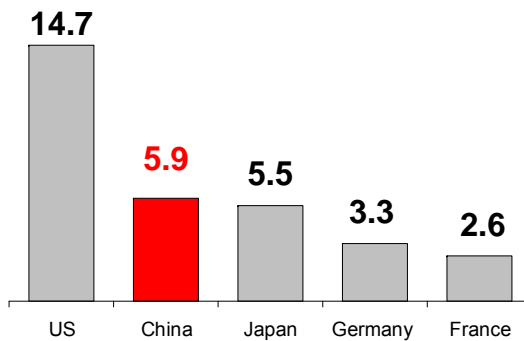
# China: a significant economy

2nd largest economy<sup>1</sup>; largest exporter<sup>1</sup>; 2nd largest importer<sup>1</sup>

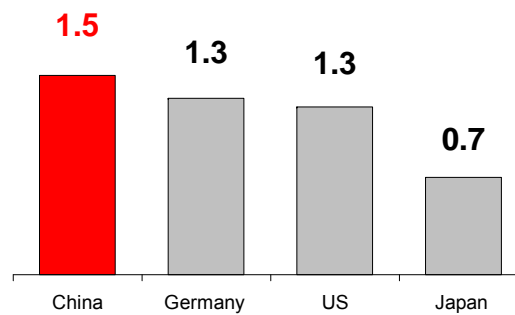
## Share of Global Trade<sup>2</sup>



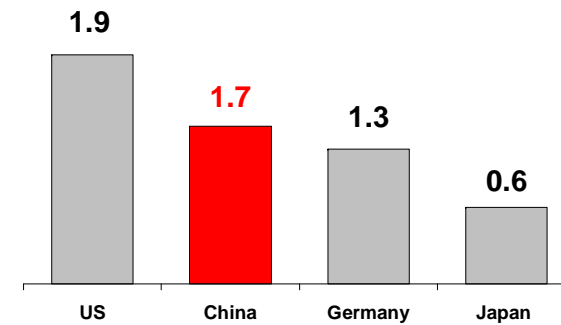
**#2 GDP<sup>1</sup>** (2010 est.: Trn USD)



**#1 Exporter<sup>1</sup>** (2010: Trn USD)



**#2 Importer<sup>1</sup>** (2010: Trn USD)



1. IMF / CIA – The World's Factbook  
 2. For 2009 / HSBC Trade Connections website

# Rise of Greater China

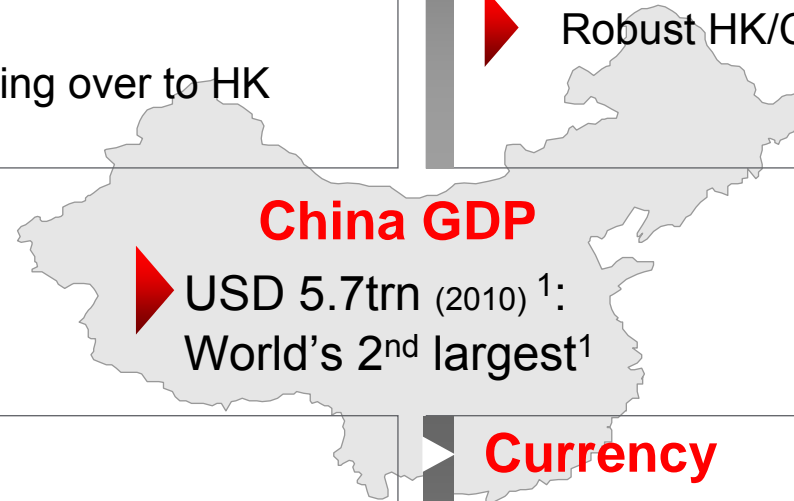
Significant economic benefits for Hong Kong

## People

- ▶ Growth of wealth & the mass affluent segment
- ▶ Spending power spilling over to HK

## Trade

- ▶ Largest exporting country
- ▶ Robust HK/China trade



## Capital

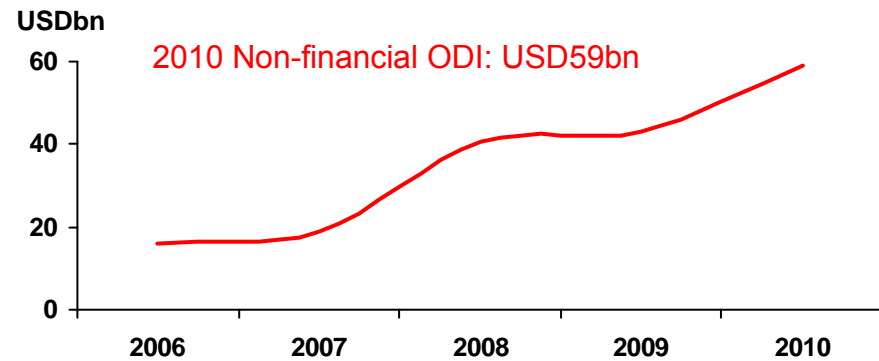
- ▶ Active foreign asset acquisition & continued domestic infrastructure spending
- ▶ Strong capital flow between China & HK

## Currency

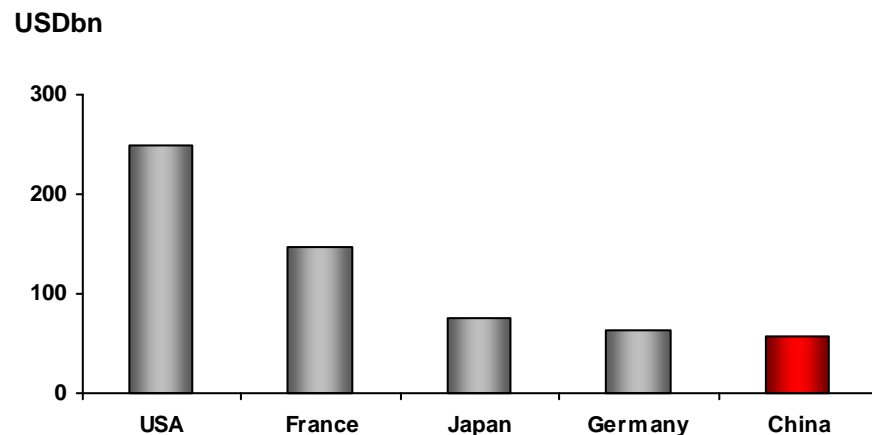
- ▶ RMB internationalization
- ▶ Targeting full convertibility. Reserve currency?

# HK the launch pad for Mainland companies “Going Out”

## China's ODI continues to grow <sup>1</sup>



## China is now the 5th largest ODI originator <sup>2</sup>



## HK benefiting from China's ODI

- China is the 5th largest Overseas Direct Investment (ODI) originator
- HK is Mainland's largest ODI destination<sup>1</sup>
- 56% of new company accounts opened in Hong Kong are for customers from mainland China<sup>3</sup>

## Mobilizing HK's liquidity for POEs/SOEs

- HK\$ AD ratio (market): 85.4%<sup>4</sup>
- Non-bank China exposure: 12.3% of HK banks' assets<sup>5</sup>

1. 2009 Statistical bulletin of China's outward foreign direct investment

2. National Bureau of Statistics of China

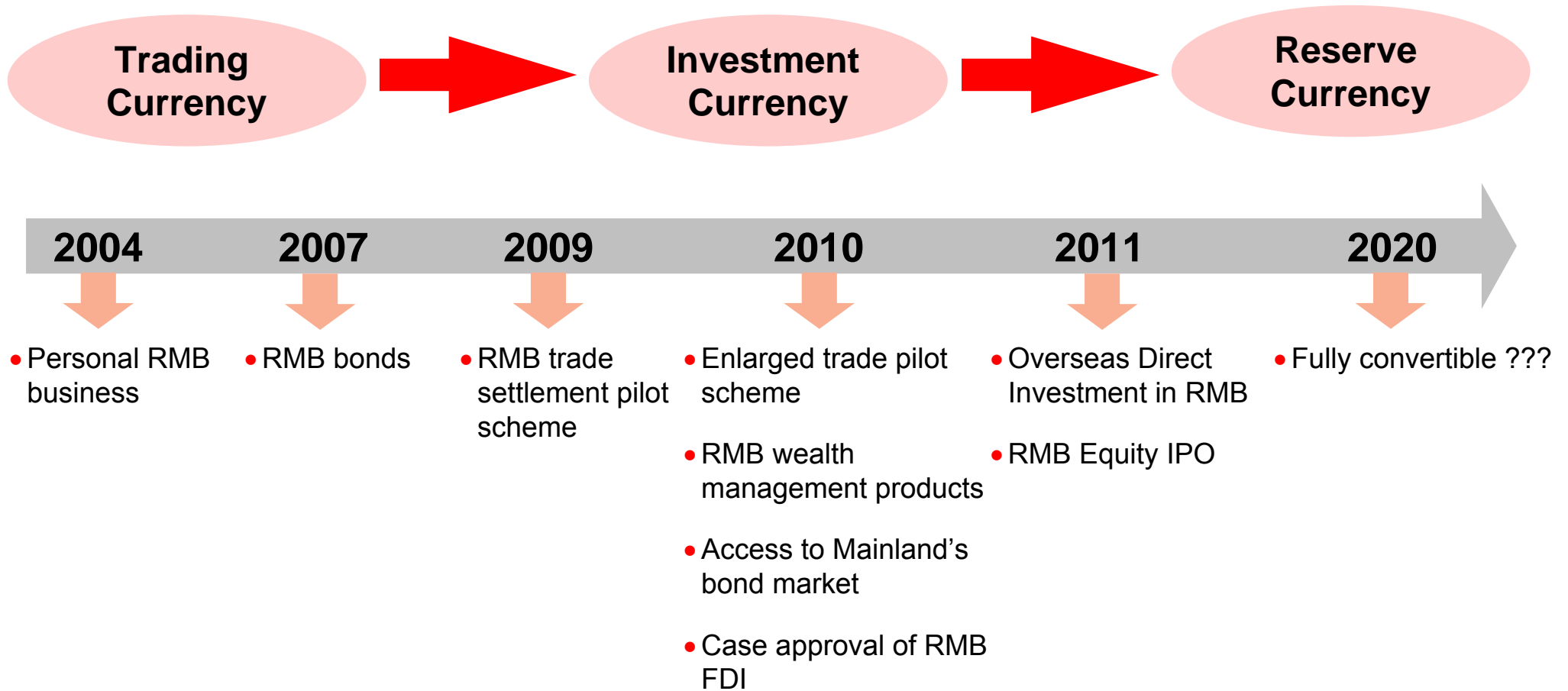
3. HSBC figure

4. HKMA statistics – MAY11

5. HKMA statistics – MAR11

# RMB internationalization

Rapid development



# RMB to become 3<sup>rd</sup> largest currency globally

## RMB Trade Settlement to reach USD 2 trillion by 2015



- **57% of Hong Kong traders** will use RMB for trade settlement in the coming 6 months. <sup>2</sup>
- RMB is expected to be **#3 currency** for trade settlement <sup>2</sup>

More than **USD 2 trillion** or **half of China's total trade flows with emerging markets** will be settled in RMB by 2013 to 2015 <sup>1</sup>

RMB to become a **fully convertible** currency by 2020.<sup>1</sup>

2010 | 2011 |

2015|

2020|

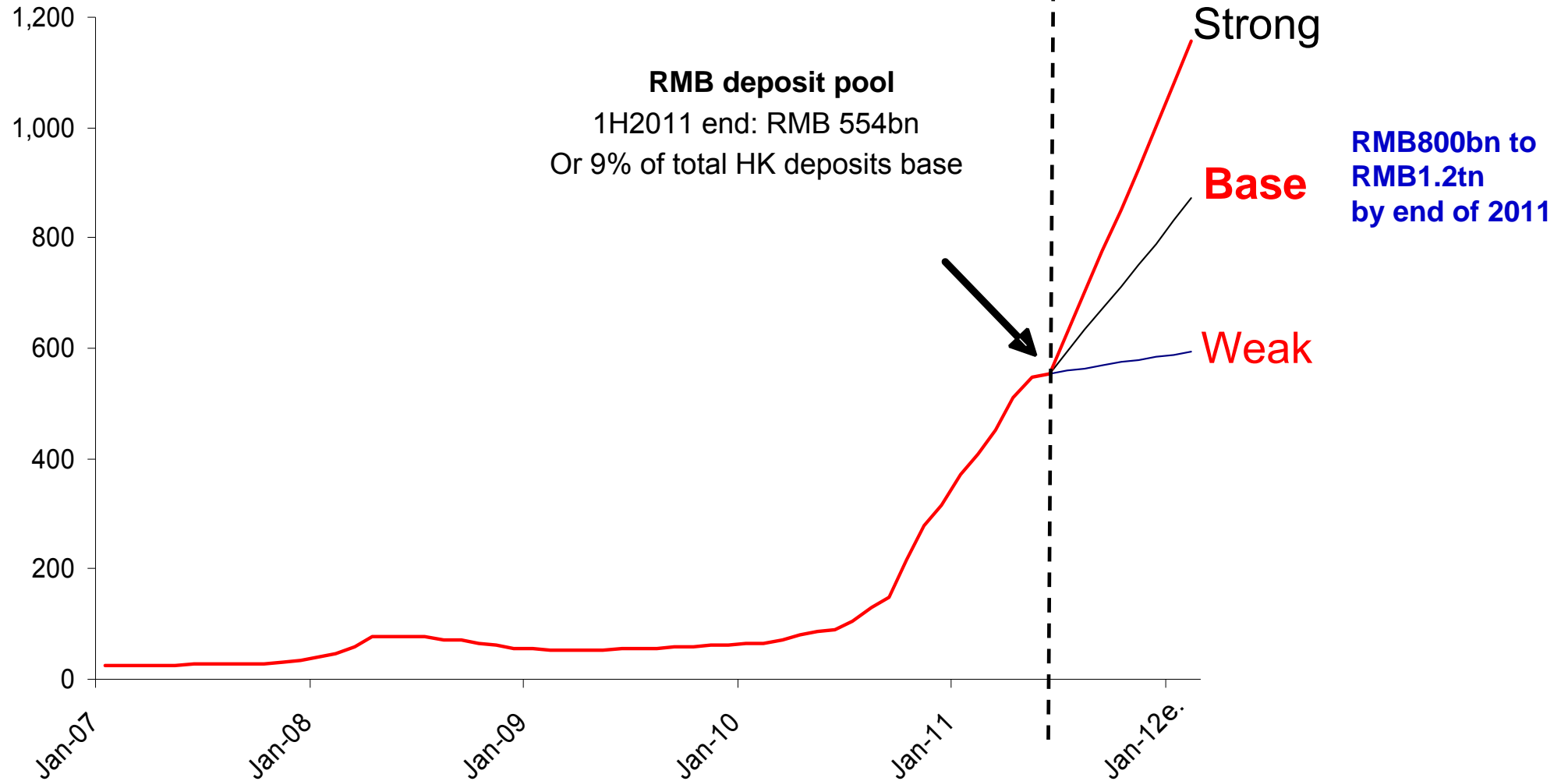
1. HSBC in-house estimates  
2. HSBC Trade Confidence Index – MAY 2011

# HK's RMB deposits to reach RMB 800bn by end 2011

Or 13% of Hong Kong's deposits



RMB bn



## HSBC expanding leadership in Hong Kong

# Sustained leadership through the economic cycle

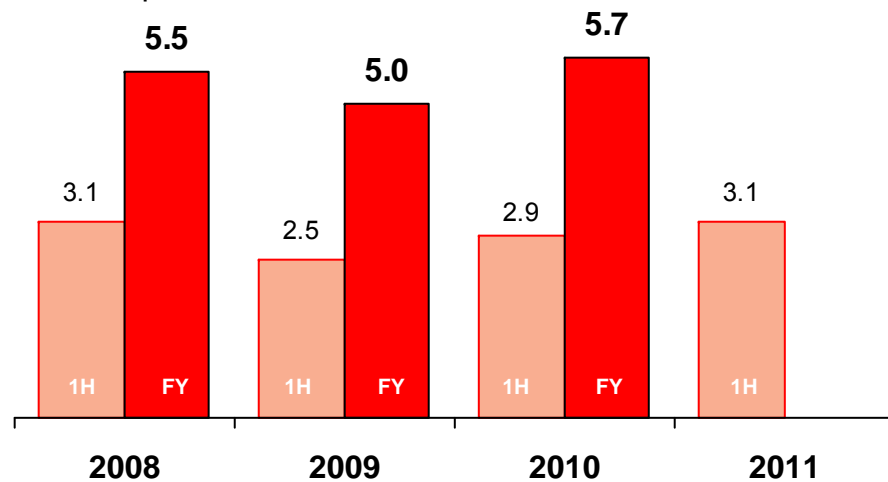
## HSBC position

### Leading player with # 1 market shares

	HSBC only <sup>1</sup>	Hong Kong
Deposits (Dec 10)	25%	34%
Mortgages <sup>2</sup> (Dec 10)	19%	34%
HKD Bonds (Dec 10)	34%	34%

### Ability to generate profits through the economic downturn

Hong Kong PBT  
USDbn, Reported



## Key actions

### Continue to invest to maintain leadership<sup>1</sup>

- Top advertizing spend (15% of industry) with # 1 in Brand Health
- USD1.4bn IT and delivery channel spend over past three years

### Build new leadership segments<sup>1</sup>

- # 1 in life insurance new business 18.1% and Mandatory Provident Fund 24.8% market share
- Building ECM capability. “Best Equity House” 2010 by Finance Asia

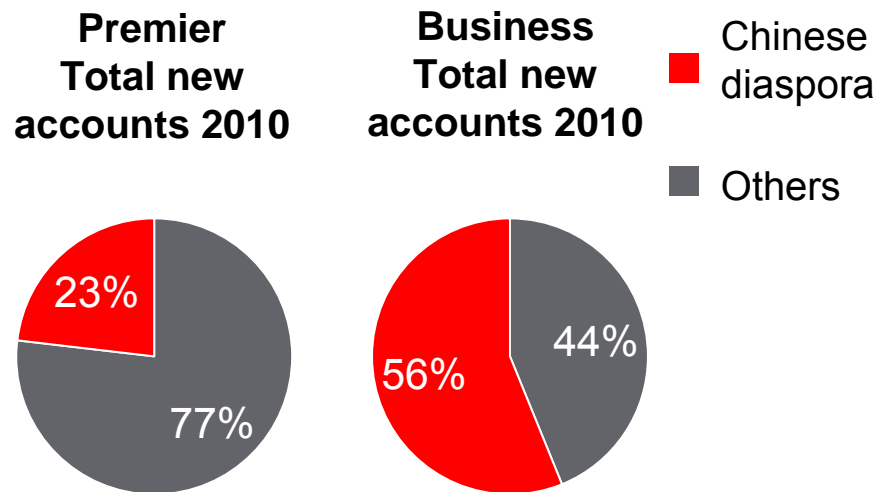
### Continue advances and deposits growth

USDbn, Reported	2008	2009	2010	CAGR (08-10)	1H11
<b>Deposits</b>	251	275	297	9%	306
<b>Advances</b>	100	99	141	19%	159
<b>A/D ratio</b>	40%	36%	47%		52%

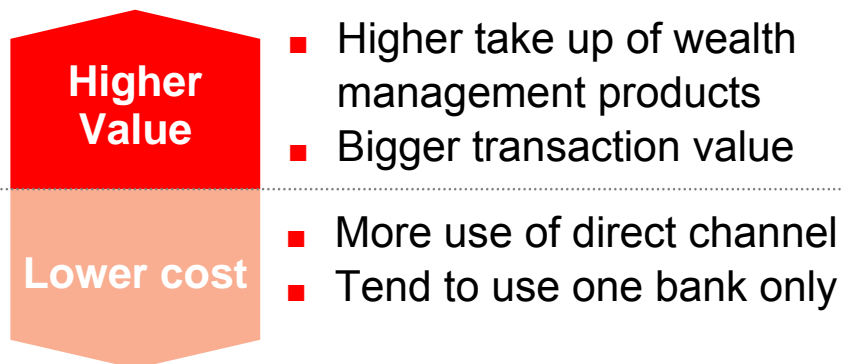
1. HSBC excluding Hang Seng Bank  
2. mReferral data

# Ideally positioned to capture cross-border opportunities

## Chinese diaspora: a major source of new customers<sup>1</sup>



## Chinese diaspora key behaviours



## Key actions<sup>3</sup>

Leveraging on cross-border connectivity to capture commercial clients

- 35% of new locally incorporated companies in HK bank with HSBC
- Commercial Banking referrals
  - HK to mainland: +25%;
  - mainland to HK: +70%

Strengthening sales force to capture retail clients

- Recruited 1,500 frontline staff (70% Mandarin speaking)
- 112% YoY growth in new Chinese diaspora Premier accounts<sup>2</sup>
- Premier referrals
  - HK to mainland: +332%;
  - Mainland to HK: +150%

1. Companies Registry, HKSAR / HSBC in-house figures, all excluding Hang Seng Bank

2. FY 2010

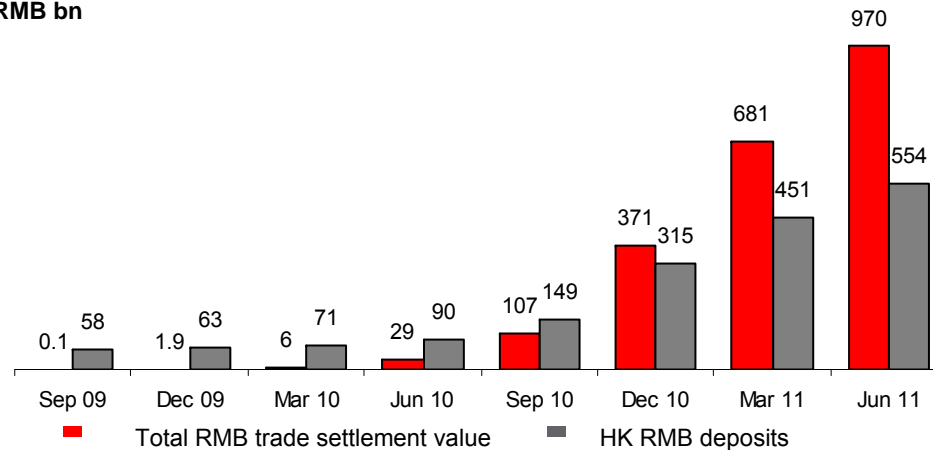
3. HSBC excluding Hang Seng Bank

# HSBC - The leading international RMB Bank

## Hong Kong RMB deposits vs. RMB trade settlement<sup>1</sup>

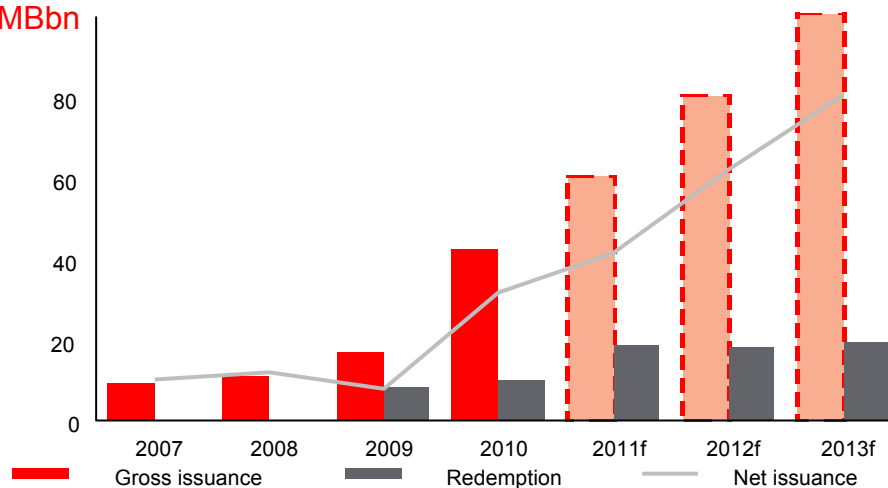
RMBbn, cumulative

RMB bn



## CNH Bond new issuance forecast<sup>3</sup>

RMBbn



## Key actions

Leveraging on first mover advantage

- Joint-Listing Agent on HK's first RMB IPO
- First RMB structured deposits. Launched RMB insurance, RMB Bond Fund
- Pioneered Offshore RMB (CNH) Bond Index

Capitalizing on international connectivity to further increase market share<sup>2</sup>

- HK's RMB deposits estimated to rise threefold in 2011
- RMB bond issuance: #1 Rank YTD 2011. Issuance includes World Bank, Unilever, etc.
- RMB trade services in over 50 markets on all 6 continents, settlement volume reaches RMB45bn FY2010

1. HKMA

2. HSBC in-house figures (exclude Hang Seng Bank)

3. Bloomberg

# HSBC leading in Offshore RMB bond issuance<sup>1</sup>

<p>July 2011</p> <p><b>新創建 NWS</b></p> <p>NWS Holdings Limited <b>RMB1 billion</b> Fixed Rate Notes due 2014</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>June 2011</p> <p><b>Dairy for life</b></p> <p>Fonterra Co-operative Group Limited <b>RMB300 million</b> Fixed Rate Notes due 2014</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>June 2011</p> <p><b>MTR</b></p> <p>MTR Corporation Limited <b>RMB1 billion</b> Fixed Rate Notes due 2013</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>May 2011</p> <p><b>VOLKSWAGEN</b> AKTIENGESELLSCHAFT</p> <p>Volkswagen International Finance N.V. <b>RMB1.5 billion</b> Fixed Rate Notes due 2016</p> <p><b>Joint Lead Manager and Bookrunner</b></p>	<p>May 2011</p> <p><b>中国平安 PING AN</b> 保險·銀行·投資 Insurance·Banking·Investment</p> <p>China Ping An Insurance Overseas (Holdings) Limited <b>RMB2 billion</b> Fixed Rate Notes due 2014</p> <p><b>Sole Lead Manager and Bookrunner</b></p>
<p>March 2011</p> <p><b>China WindPower 中国风电</b></p> <p>China WindPower Group Limited <b>RMB750 million</b> Fixed Rate Notes due 2014</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>March 2011</p> <p><b>Unilever</b></p> <p>Unilever N.V. <b>RMB300 million</b> Fixed Rate Notes due 2014</p> <p><b>Joint Lead Manager and Bookrunner</b></p>	<p>March 2011</p> <p><b>煤氣 Towngas</b></p> <p>Towngas <b>RMB1 billion</b> Fixed Rate Notes due 2016</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>March 2011</p> <p><b>POWERLONG 宝龙</b></p> <p>Powerlong Real Estate Holdings Limited <b>RMB750 million</b> Fixed Rate Notes due 2014</p> <p><b>Joint Lead Manager, Bookrunner and Rating Adviser</b></p>	<p>February 2011</p> <p><b>首创置业 BEIJING CAPITAL LAND</b></p> <p>Beijing Capital Land Limited <b>RMB1.15 billion</b> Fixed Rate Notes due 2014</p> <p><b>Sole Lead Manager and Bookrunner</b></p>
<p>February 2011</p> <p><b>Handelsbanken</b></p> <p>Svenska Handelsbanken <b>RMB170 million</b> Fixed Rate Notes due 2013</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>January 2011</p> <p><b>PCD Stores (Group) Limited</b> <b>RMB750 million</b> Fixed Rate Notes due 2014</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>January 2011</p> <p><b>World Bank</b> <b>RMB500 million</b> Fixed Rate Notes due 2013</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>January 2011</p> <p><b>IFC</b></p> <p>International Finance Corporation <b>RMB150 million</b> Fixed Rate Notes due 2016</p> <p><b>Sole Lead Manager and Bookrunner</b></p>	<p>December 2010</p> <p><b>VTB</b></p> <p>VTB Bank <b>RMB1 billion</b> Fixed Rate Note due 2013</p> <p><b>Joint Lead Manager and Bookrunner</b></p>

1. Bloomberg Standard League Table. As of YTD end June 2011

HK launched the first offshore RMB equity IPO  
Paved way for more issues in the future

- ▶ Launched on 19 April 2011, the first RMB equity IPO outside mainland China
- ▶ HSBC as Joint-Lead Arranger and Receiving Bank
- ▶ Expanded RMB product suite. A way to deploy RMB liquidity in HK
- ▶ Upcoming RMB FDI (Foreign Direct Investments) policy will drive more RMB IPOs

April 2011



**HUI XIAN** REIT

匯賢產業信託

Hui Xian REIT  
**RMB10.5 billion**

First Offshore RMB-denominated  
Initial Public Offering

**Joint Bookrunner, Joint Lead Manager  
and Joint Listing Agent**

# Product and Service Distribution

Providing convenience; expanding overseas



## Providing Convenience

- ▶ Business Internet Banking supporting RMB transactions since Jul 2010
- ▶ 160,000 commercial banking integrated accounts with RMB capabilities
- ▶ RMB cash withdrawal available at ATMs



- **Business Internet Banking** supporting RMB transactions

## Expanding overseas

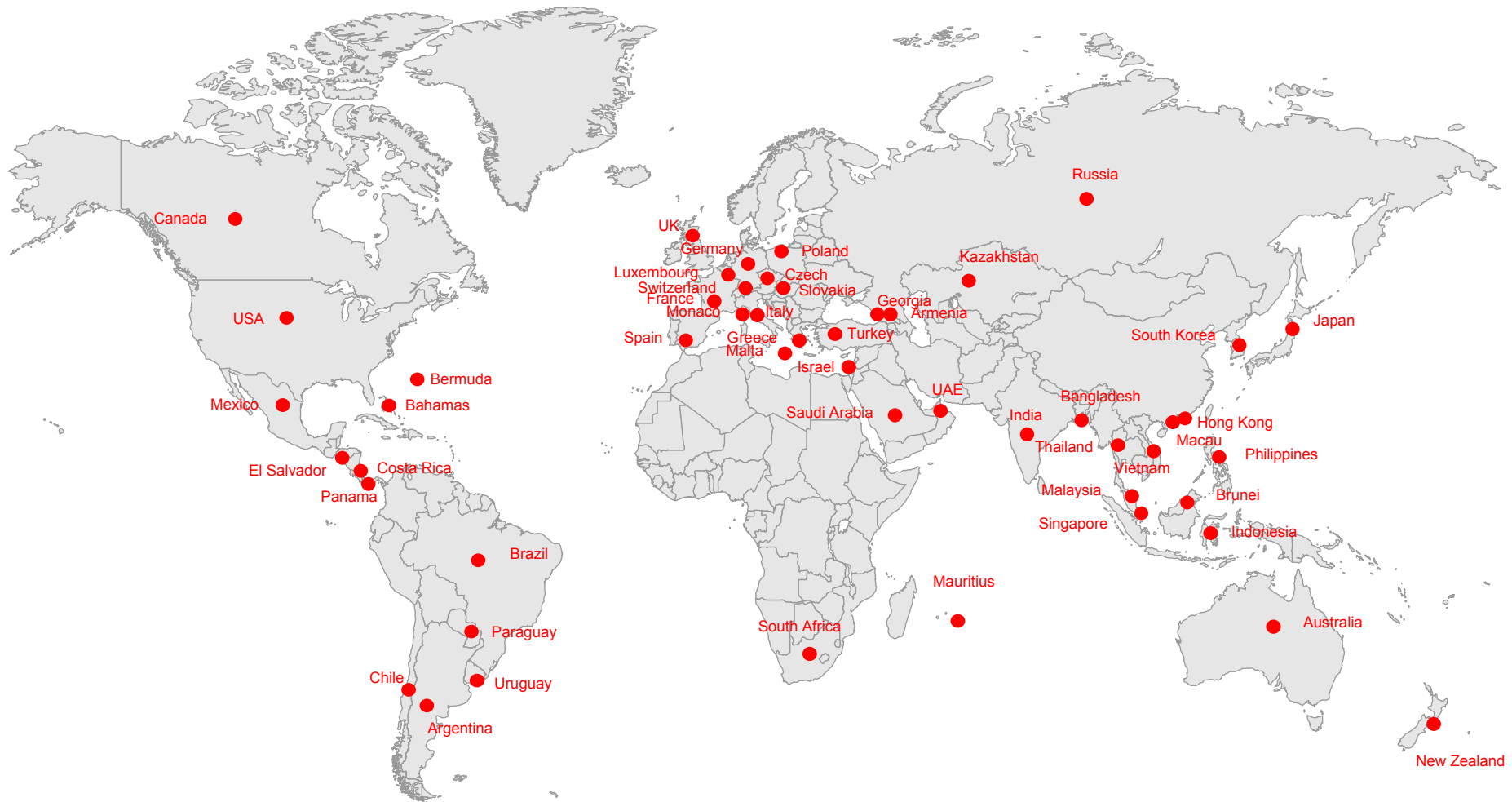
- ▶ RMB Retail Banking services offered in 11 Asia Pacific markets



- **RMB cash withdrawal** now available

# Developing global platform

RMB capabilities established in over 50 markets across all 6 continents





## Key takeaways



**Opening of China is an opportunity, not a threat**



**Hong Kong reinforcing its position as the logical gateway into China**



**Rapid rise of RMB and its eventual full convertibility shifts the dynamic in Hong Kong**



**HSBC has the ideal international platform - product capability and distribution - to capture the opportunity**

## Contacts and further information

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