



# HSBC in mainland China

## Post-Interim Management Statement meeting with Analysts

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HSBC 



## Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the 1Q 2014 Interim Management Statement. Past performance cannot be relied on as a guide to future performance.

# Agenda

**1**

**Why China: Macroeconomic outlook**

**2**

**HSBC's business in mainland China**

**3**

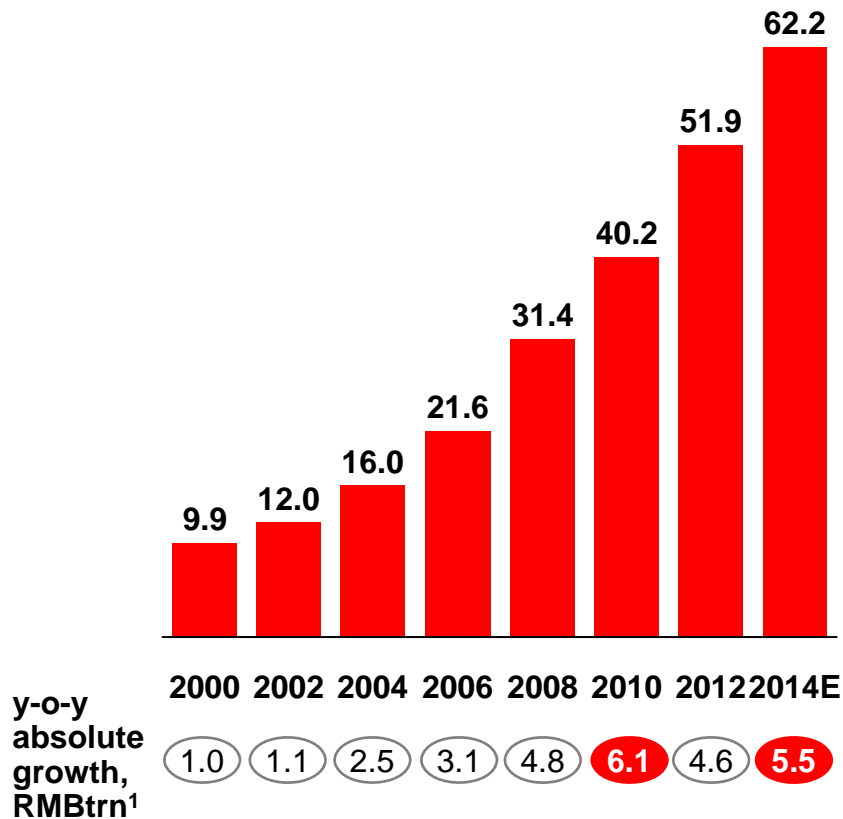
**Risk appetite in China**

## 1. Macroeconomic outlook

# Structural and sustainable drivers of growth

### Mainland China nominal GDP

RMBtrn



#### Trade

- Largest exporting country
  - USD2.2trn total exports in 2013<sup>2</sup>
  - By 2020, total trade expected to surge to around USD16.7trn, or 19.5% of global trade<sup>3</sup>
- Trade with rest of Asia a major driver of regional growth

#### Investment

- World's 2<sup>nd</sup> largest destination for Foreign Direct Investments (FDI) in 2013<sup>4</sup>
- China "Going out" national policy
  - 2012 Overseas Direct Investments (ODI) reached USD115bn (ranked 3<sup>rd</sup> globally excluding tax havens)<sup>5</sup>

#### People

- High net worth individuals reached 1.2m, with a five-year average growth rate of 29%<sup>6</sup>
- Urbanisation and rising spending power
- International banking and wealth management requirements

#### Policy development

- RMB internationalisation
  - Targeting full convertibility with reserve currency potential
- Free Trade Zones: Shanghai and Shenzhen Qianhai

Source: Oxford Economics DEC13; HSBC estimates

(1) One year growth vs. prior year (e.g. 2014 vs. 2013)

(2) Source: Ministry of Commerce, People's Republic of China

(3) Quoted from Pei Changhong (裴长洪, Institute of Economics Chinese Academy of Social Sciences)

(4) Source: "Global Investment Trends Monitor No. 15" 28 January 2014, United Nations Conference on Trade and Development

(5) Source: "China Going Global Investment Index", Economist Intelligence Unit

(6) High net worth individual denotes individuals with wealth over RMB10m. Data as of year-end 2011. Source: "2012 China Private Banking Development Report", CITIC Bank & Central University of Finance and Economics

## 1. Macroeconomic outlook

# Macroeconomic outlook on mainland China

### Mainland China forecasts

#### GDP forecasts

% y-o-y growth	2013	2014e	2015e
Mainland China	7.7	7.4	7.7
Asia Ex-Japan, India & mainland China	3.8	4.1	4.5
Asia Pacific	4.3	4.2	4.5
World <sup>1</sup>	2.0	2.6	2.8

#### Mainland China economic forecasts

% y-o-y growth	2013	2014e	2015e
Consumer spending	8.3	8.1	8.3
Investment	19.6	19.0	20.0
Export volume	5.8	8.0	10.0
CPI (average)	2.6	2.7	3.1

#### Notes:

(1) World – nominal GDP weights

(2) Source: National Bureau of Statistics of People's Republic of China

(3) Source: China Banking Regulatory Commission (CBRC). Data as of 4Q13 unless otherwise stated

Source of economic forecasts: HSBC Global Research

### Recent developments

- GDP growth in 1Q14 has slowed to a six-quarter low of 7.4% from 7.7% in 4Q13<sup>2</sup>
- HSBC Research expects mainland China's economy to maintain a steady growth momentum in 2014 supported by:
  - Improving external outlook
  - On-going reform measures to boost private investments and consumption
  - Stable and supportive monetary policy stance given mild inflationary pressures
- Key mainland China banking sector measures remain stable<sup>3</sup>:
  - Liquidity: Sector advances-to-deposits ratio has trended up in 2013 but remains relatively low at 66%
  - Capitalisation remains robust: capital adequacy ratio (CAR) and Tier 1 ratio at 12.2% and 10.0% respectively
  - Non-performing loans (NPL):
    - Sector NPL ratio increased by 3bps to 1.00% compared to 3Q13
    - Foreign bank NPL ratio remains low at 0.51%

## 2. HSBC's business in mainland China

# HSBC in China - Strategy and footprint

### Strategy

#### Strategic goal

To be the leading foreign bank in mainland China in terms of **market share** and **profitability**, and deliver significant **offshore China-related business** to the Group

#### International connectivity

- Connect China and the Group

#### RMB internationalisation

- Position HSBC as the leading international bank for RMB worldwide

#### Network and presence

- Sustain market presence through network leadership
- Shanghai International Board listing when regulations permit

#### Capabilities and licenses

- Product leadership among foreign banks in mainland China

#### People

- Resource for business growth and organisational effectiveness

#### Strategic partnership

- Business cooperation with BoCom

### Organic footprint<sup>1</sup>

#### HSBC Bank (China):

**Largest onshore foreign bank by assets and network**

- 165 outlets in 52 cities, 21 provinces/municipalities
- Supported by 19 China Desks overseas



- ★ Tier 1 cities with HSBC China outlets
- Other cities with HSBC China outlets
- Province / municipality with branch presence

**Hang Seng China: 50 outlets in 19 cities**

**HSBC Rural Banks: 24 outlets via 12 Rural Banks**

(1) As at end-April 2014

## 2. HSBC's business in mainland China

# Business portfolio in mainland China

Focusing on our organic business and BoCom strategic alliance

### Onshore

- Organic business encompassing banking, asset management and insurance

### Offshore

- Key part of Group's international connectivity strategy
  - 19 China Desks overseas
  - 9 foreign desks in HSBC Bank (China)

### Strategic Investment

- Bank of Communications (BoCom)
  - Key strategic partner
  - 60+ business and technical cooperation initiatives

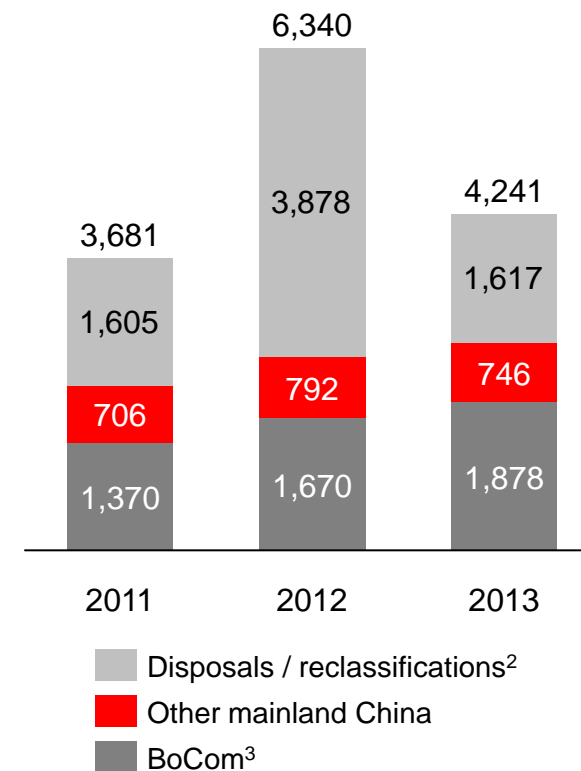
### Organic businesses

- HSBC Bank (China)
- Hang Seng China
- HSBC Rural Banks
- HSBC Life Insurance (50%)
- HSBC Jintrust Asset Management (49%)

### Investments

- BoCom (19%)
- Industrial Bank (10.9%)
- Yantai Bank (15.1%)
- Bank of Shanghai (8%) - divesting

### Reported profit before tax<sup>1</sup> (PBT) (USDm)



#### Notes:

(1) Source: HSBC Holdings plc Annual Reports

(2) Includes for 2013: (1) Gain on reclassification of Industrial Bank from associate to financial investment USD1,089m (2) Net gain on completion of Ping An sale USD553m and (3) Loss on de-recognition of Yantai Bank as an associate USD38m. For 2012: (1) Gain on disposal of Ping An USD3,012m and Ping An share of associate profit USD211m and (2) Share of associate profit from Industrial Bank USD670m. For 2011: Share of associate profit from (1) Ping An USD1,126m and (2) Industrial Bank USD471m.

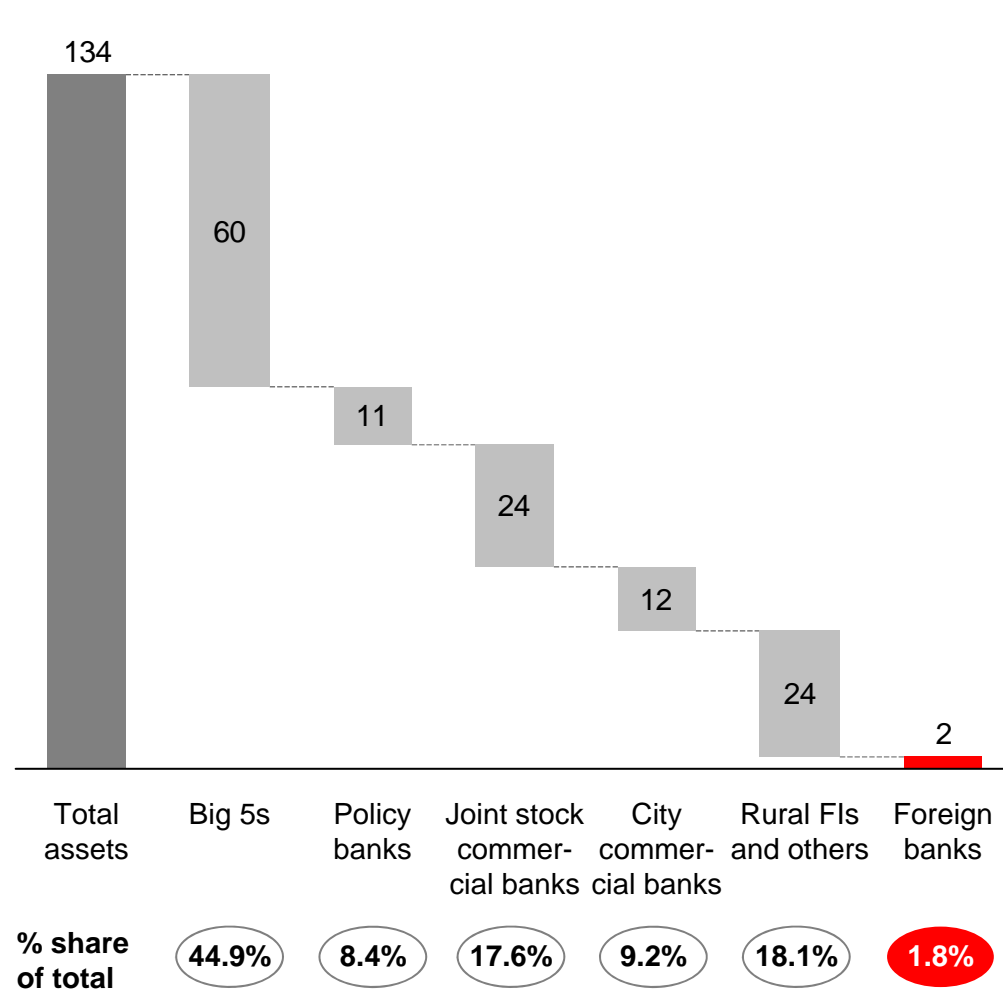
(3) There is a technical accounting issue that is likely to affect our 2014 earnings from BoCom, details of which are set out in Note 21 on the Financial Statements in the 2013 Annual Report



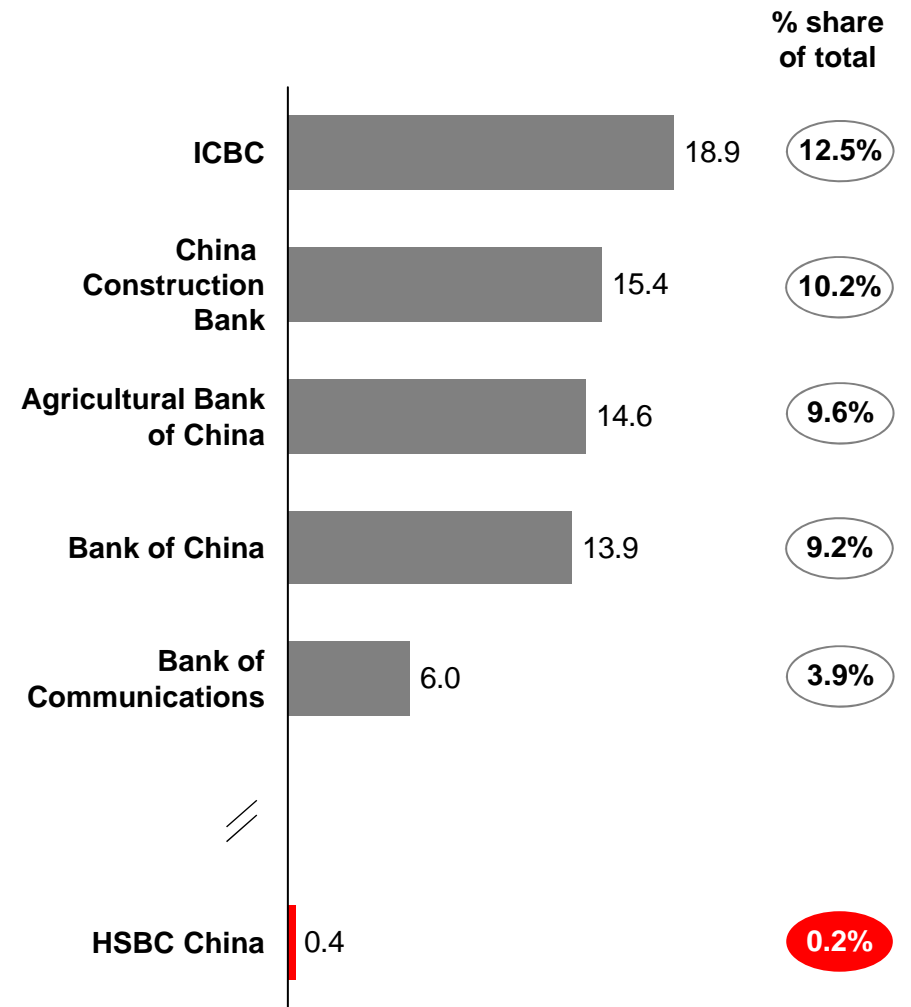
## 2. HSBC's business in mainland China

# Market structure

China banking sector by assets (RMBtrn)<sup>1</sup>



Total assets: by banks (RMBtrn)<sup>2</sup>



Notes:

(1) Based on the latest available CBRC Annual Report (2012)

(2) Based on 2013 annual reports of respective



### 3. Risk appetite in China

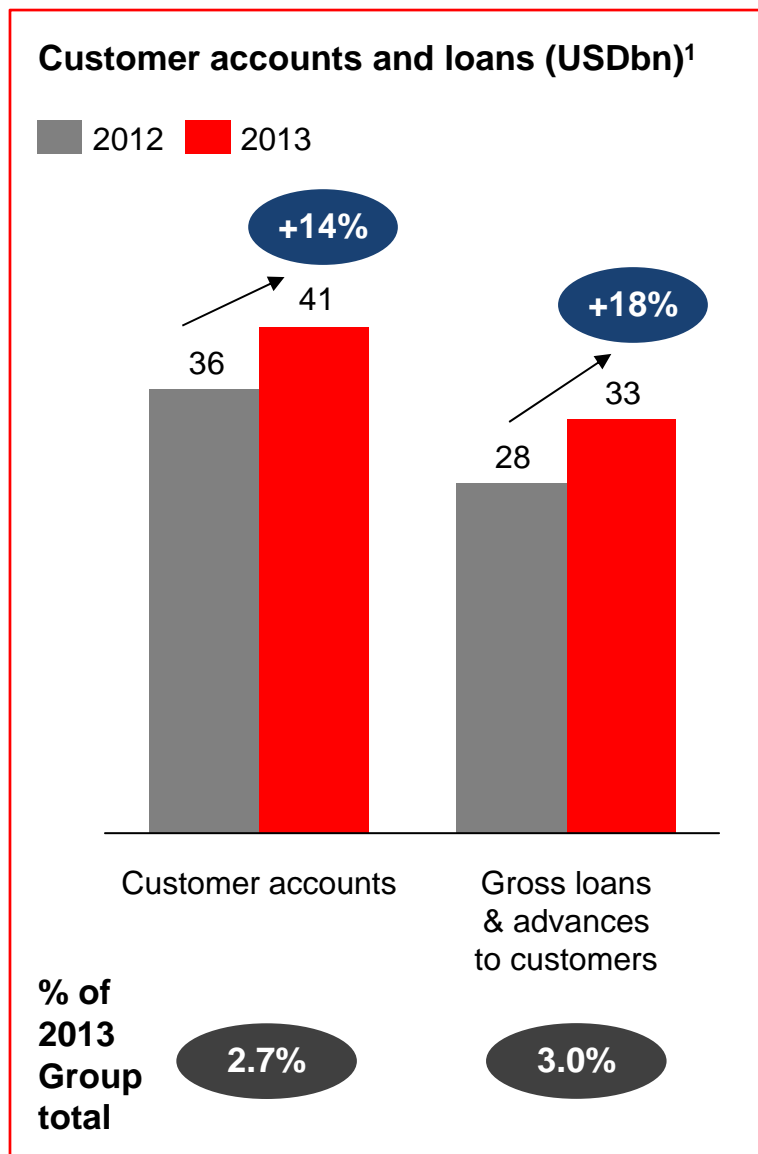
## HSBC's China exposure

Type	Description
Onshore	<ul style="list-style-type: none"><li>• Very selective and phased loan growth strategy</li><li>• Exposure focused on leading (international) companies</li><li>• Other exposure include loans to banks, debt securities etc.</li></ul>
Offshore / cross-border	<ul style="list-style-type: none"><li>• Key principle is lending to borrower where they are located; offshore lending to Chinese corporates mainly via subsidiaries to support their expansion overseas</li><li>• Includes exposures to mainland Chinese corporates listed in Hong Kong and exposures to Hong Kong entities for use in mainland China</li></ul>
Chinese banks	<ul style="list-style-type: none"><li>• Exposure largely driven through GTRF and RMB business; mainly short dated exposure (Trade-related &amp; Money Market placements)</li><li>• Our relationships are predominantly with the largest Chinese banks that benefit from material Central Government ownership</li><li>• Reciprocity is achieved through assisting Chinese Banks as they look to expand outside of China</li></ul>
Investments	<ul style="list-style-type: none"><li>• Exposure in BoCom and other investments</li><li>• Carrying value of our investment in BoCom was USD13.4bn at 31 December 2013<sup>1</sup></li></ul>

(1) Source: HSBC Holdings plc Annual Report 2013

### 3. Risk appetite in China

## Onshore exposure: Gross loans to customers and customer deposits



#### Very selective and phased loan growth strategy

##### Multinationals

First phase - Supporting our Multinational clients as they invested and grew in China

##### State-owned enterprises (SOEs)

Second phase - Very selective lending to SOEs with international needs, aspirations

##### Premier Retail clients

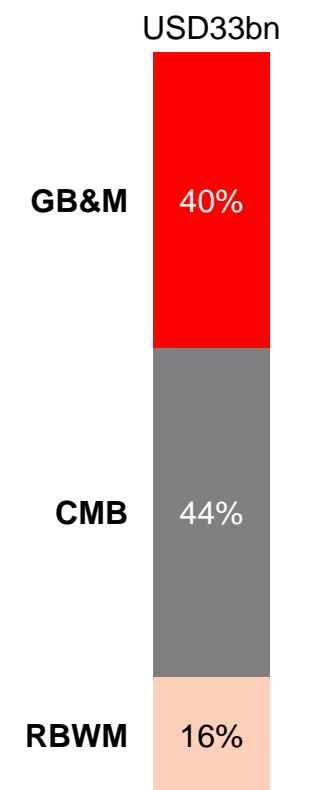
Home mortgage lending in Tier 1 and other selective affluent cities

##### Privately-owned enterprises (POEs)

Very selective lending to top-tier POEs with international needs

- Insignificant exposure to Small & Medium Size Enterprises (SMEs)
- No exposure to Trust companies and Local Government Financing Vehicles

#### Portfolio breakdown by Global Business (2013)



(1) Source: HSBC Holdings plc. Annual Report 2013, and includes HSBC Bank (China), Hang Seng China and HSBC Rural Banks

# Key takeaways

## Macroeconomic outlook

- Relative growth has slowed but absolute economic and wealth growth remains strong; long-term structural growth trends remain valid

## HSBC's business in mainland China

- Sustained progress in building scale both onshore and offshore; core to executing international connectivity strategy
- Well placed to capture opportunities from the domestic economy and China "Going Out"; opportunities for growth include:
  - RMB internationalisation
  - Free Trade Zones
  - Urbanisation
  - Strategic investments outside China (infrastructure, commodities)
  - Increased connectivity and integration with Hong Kong (e.g. in Guangdong)
- Set to maintain and capitalise on leadership among foreign banks

## Risk appetite in China

- Exposure focused on leading (international) companies and selective Tier 1 banks
- No exposure to Trust companies and Local Government Financing Vehicles
- Insignificant exposure to SMEs