HSBC Holdings plc

# Mainland China

HSBC
The world's local bank

## Presentation by Helen Wong

President and Chief Executive Officer, HSBC China

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# Forward-looking statements

- **This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations 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 our Interim Report. Past performance cannot be relied on as a guide to future performance.**

This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP can be found in HSBC's 2010 Interim Report in the Operating and Financial Review.

# Agenda

- World's economic powerhouse
- Opportunity
- HSBC: leading international bank in mainland China
- Strategy: taking the business to the next level
- Delivering growth
- Summary

# World’s economic powerhouse

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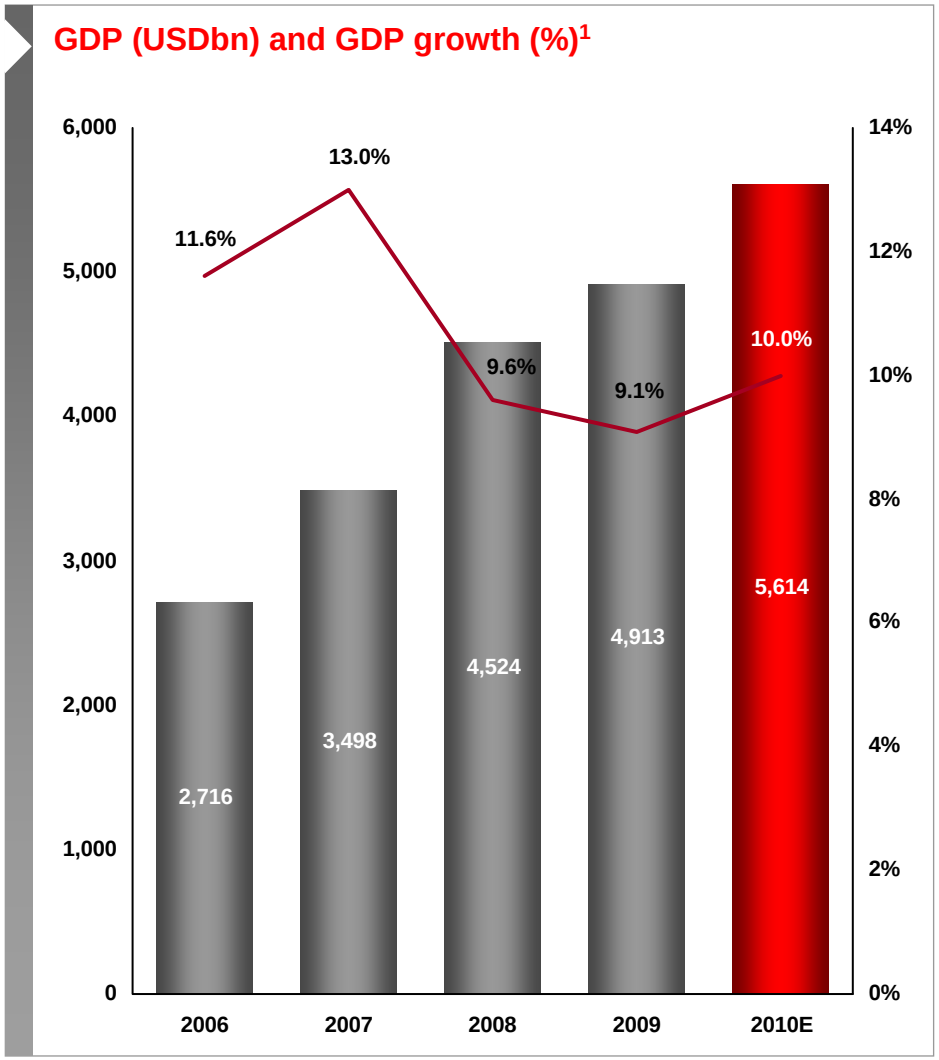
# World's No 1 exporter and second-largest economy




| | |
|---|---|
| Population[2]: 1.3 billion | 15 million new urban residents a year |
| GDP growth[1]: 10.0 per cent | Investment- and consumption-led growth |
| Gross GDP(PPP)[2]: USD10.1trn | Exceeded Japan as the second largest economy in Q2 2010 |
| Merchandise exports[1]: USD1.50trn | World's No 1 exporter |
| Merchandise imports[1]: USD1.33trn | Commodities, consumer goods |

Notes:
(1) HSBC Global Research, 2010 estimates
(2) IMF World Economic Outlook Database, 2010 estimates

# Opportunity

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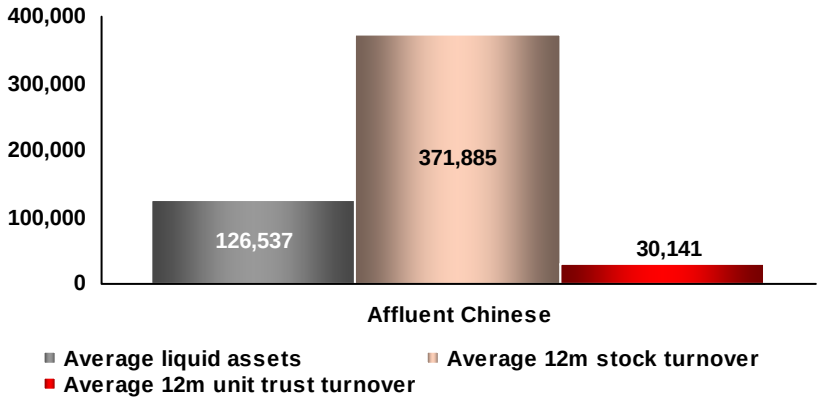
# Mainland China affluent among Asia's most savvy investors

**Close to 3 million mass affluent and over 10 million potential mid-market customers[1]**

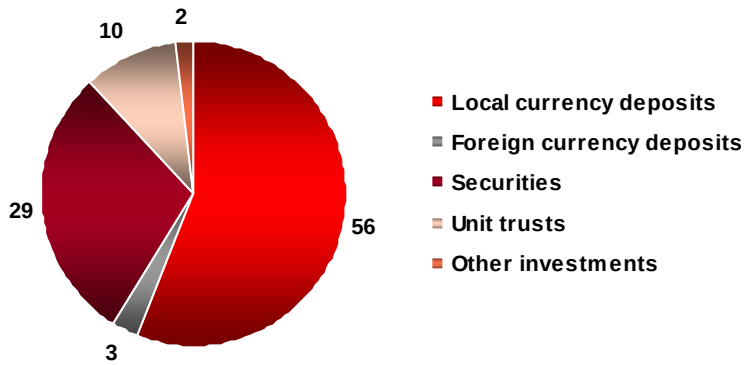
## Average liquid assets and investment turnover (USD)[2]




- Average liquid assets around half of Hong Kong affluents
- Ahead of Hong Kong and Singapore in terms of stock turnover per affluent
- Asia's biggest unit trust investors

**Room for assets diversification**

## Deposit-to-investment value share (%)[2]




- Over half of affluent assets in cash
- Only 2 per cent of assets in investments other than stocks and unit trusts

Notes:
(1) HSBC Market Sizing Study (Synovate): mass affluent defined as individuals with minimum total relationship balance (TRB) of USD73,250 and mid-market defined as individuals with minimum TRB of USD14,650. Survey covered 21 cities in mainland China.
(2) HSBC Affluent Asian Tracker (Nielsen) JUN10 – (Affluent in key Tier 1&2 cities with HSBC presence with liquid asset over RMB0.5m, mortgage value above RMB1m or asset/liability mix above RMB1m.)

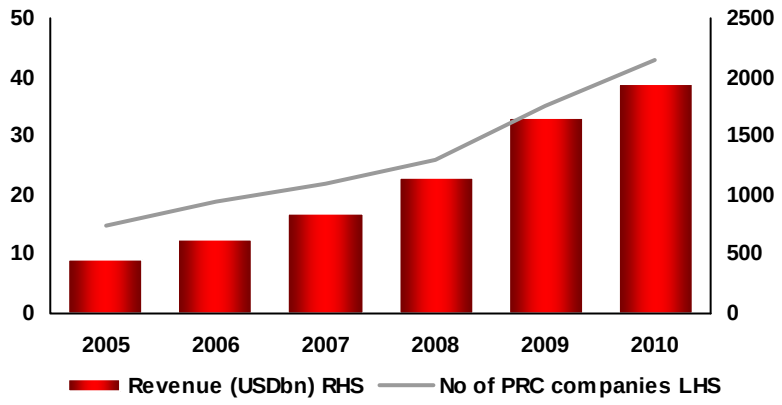
# Mainland Chinese companies break onto international business stage

**More Mainland companies entering Fortune 500 list**

**'Going out policy' – reached USD48bn outward FDI in 2009[3]**

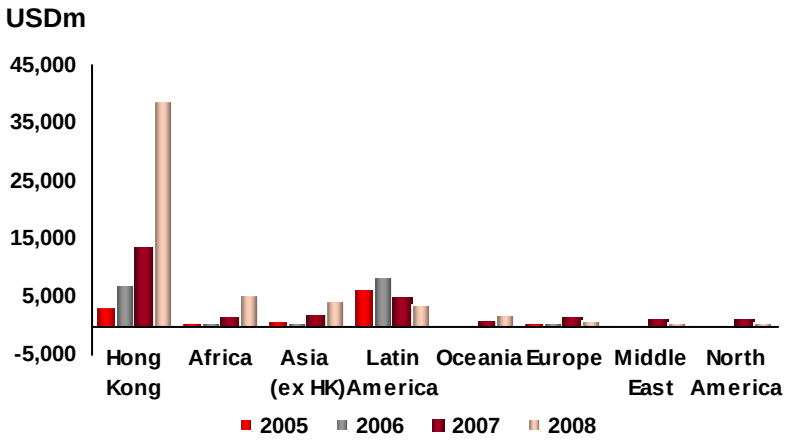
**USD15bn of M&A between China and emerging markets in H1 2010[4]**

## No of PRC companies in Fortune 500, 2010[1]




- China has overtaken France and Germany with the third most number of Fortune 500 companies after the US (139) and Japan (71) in 2010
- Rising demand for more internationally competitive banking services

## Outward investment from Mainland[2]




- China's outward investments largest in Asia
- China's outward investments to emerging markets growing
- China's major outward investment deals in energy/commodities and infrastructure (LatAm, Africa, Australia)
- Hong Kong a key platform for outward investment

Notes:
(1) Fortune 500, 2010. Excludes Hong Kong companies like Hutchison Whampoa, Noble Group and Jardine Matheson to illustrate Mainland companies only.
(2) CEIC Data Company Limited
(3) UNCTAD, World Investment Report
(4) PricewaterhouseCoopers

# China at the fore of world trade, will shape global trade patterns

**Strengthened trade links with emerging markets**

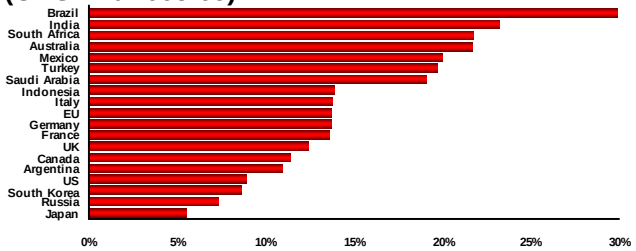
## China's top 15 trading partners

Total Bilateral Trade Volume

| # | Country/region | 2009 (USDm) | CAGR% (2205-2009) |
|---|---|---|---|
| 1 | US | 298,367 | 9% |
| 2 | Japan | 228,974 | 6% |
| 3 | Hong Kong | 174,978 | 6% |
| 4 | South Korea | 156,141 | 9% |
| 5 | Taiwan | 106,219 | 4% |
| 6 | Germany | 105,859 | 14% |
| 7 | Australia | 59,905 | 22% |
| 8 | Malaysia | 51,860 | 14% |
| 9 | Singapore | 47,826 | 10% |
| 10 | India | 43,407 | 23% |
| 11 | Brazil | 42,437 | 30% |
| 12 | Netherlands | 41,818 | 10% |
| 13 | United Kingdom | 39,155 | 12% |
| 14 | Russia | 38,621 | 7% |
| 15 | Thailand | 38,172 | 15% |

## Growth among G20 partners

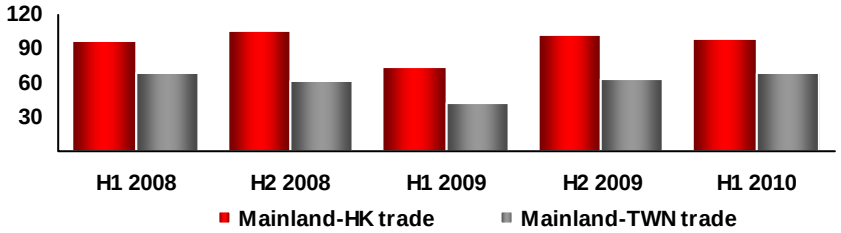
(CAGR % 2005-09)




**Greater China trade and investment to grow with closer links**

## Mainland China trade with Taiwan and Hong Kong

USDbn

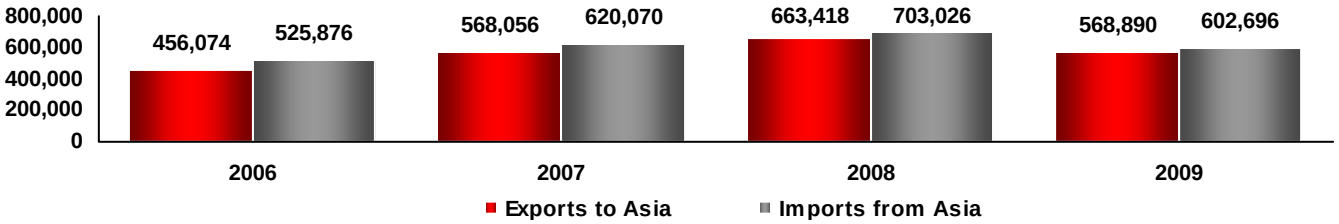



The Mainland-Hong Kong **Closer Economic Partnership Agreement (CEPA)** and **Cross-straits Economic Cooperation Framework Agreement (ECFA)** to boost Greater China trade and investment.

**Steady growth in China's trade with Asia**

## Mainland China trade with Asia

USDm

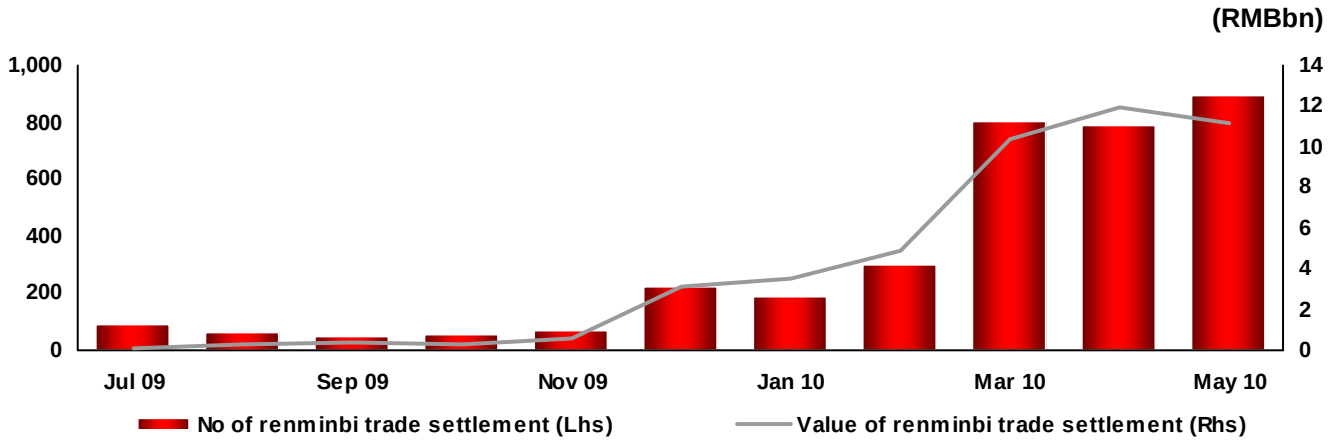



Notes:
(1) All sources from CEIC

# RMB positioning for major role in global trade and investments

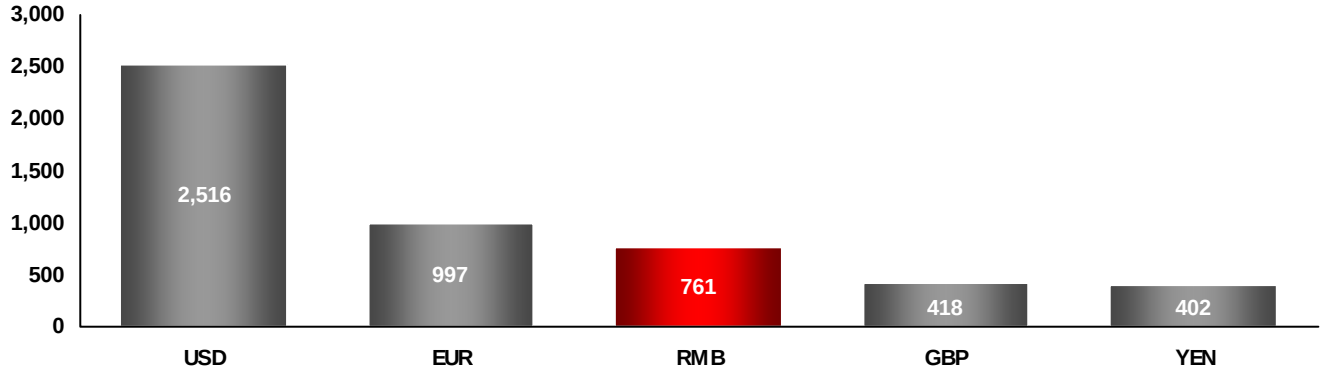
- **Global rollout of trade settlement to all countries**
- **Estimated over a quarter of China's trade to be in RMB by 2012**
- **RMB as top 3 major world currencies if fully convertible**
- **RMB liberalisation is expected to stimulate transaction volumes and product types**
- **Development of an offshore RMB centre in Hong Kong**

## Monthly RMB trade settlement




## RMB potential as third biggest currency by turnover with full convertibility[2]

Daily ave turnover (USDbn)




Notes:
(1) HSBC Global Research
(2) Bank for International Settlements (based on 2007 data)

# HSBC: leading international bank in mainland China

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# Fast-growing, market-leading

## Long-standing history, long-term commitment

- Established in 1865; locally incorporated 2007
- Focus on four economic growth areas
- Target A-share listing

## Fast-growing presence

- 102 HSBC Bank China branches in 25 cities
- 12 rural bank outlets
- 38 Hang Seng outlets in 13 cities

## Pioneering industry development

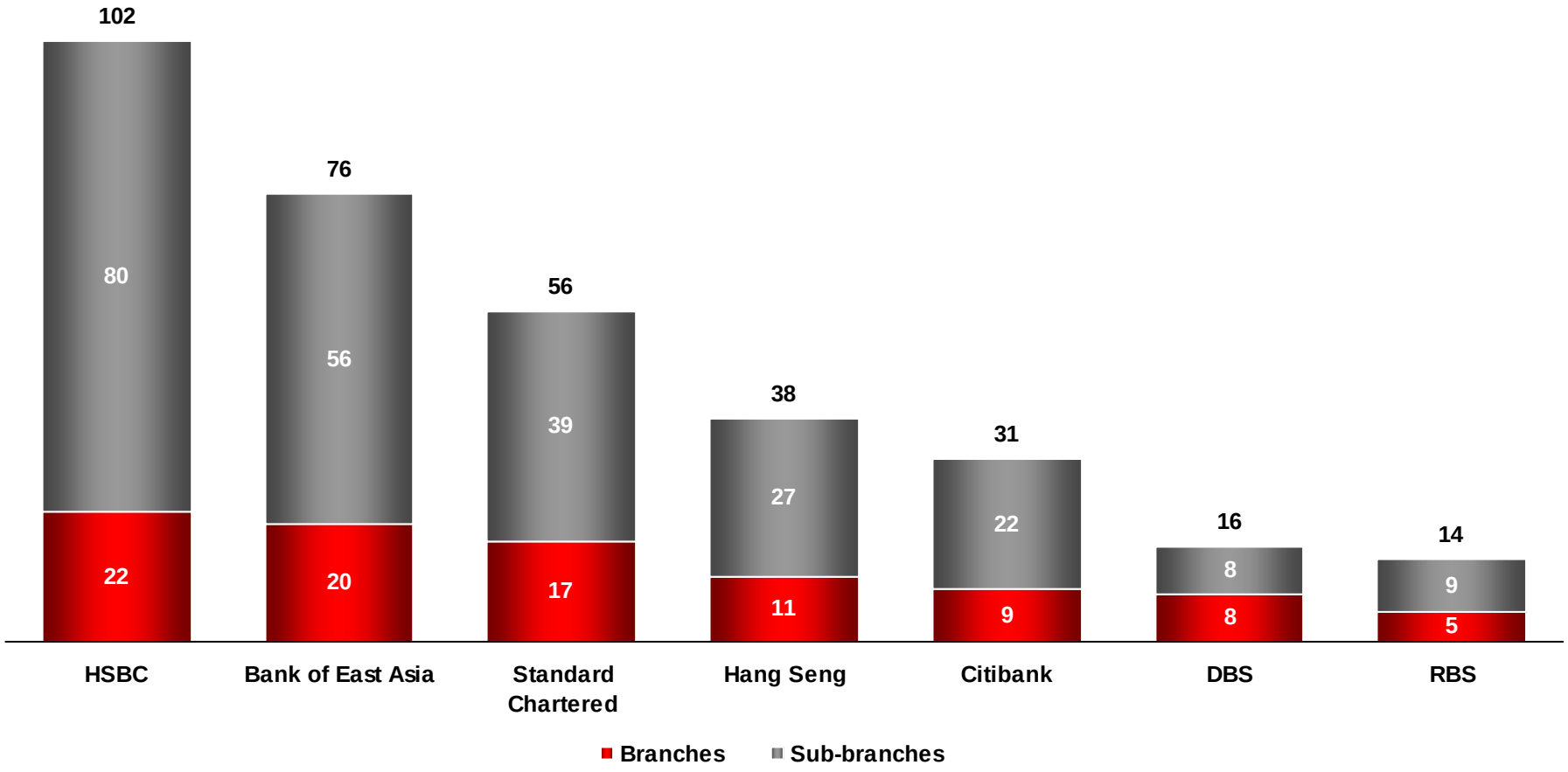
- First foreign bank to issue RMB bonds in Hong Kong
- First foreign bank to settle cross-border RMB trade
- First foreign market maker to trade RMB and ringgit
- First foreign bank to launch rural banking
- A1 (long-term) Moody's rating – highest for a locally incorporated bank in the Mainland

## HSBC in mainland China

- Branches: 22
- Sub-branches: 80
- Economic growth zones

# Largest international bank with widest coverage

## Locally incorporated foreign banks by branch network[1]




Notes:
(1) Official bank websites and press reports (as at August 2010; excluding representative offices, administrative offices etc)

# Largest foreign bank investor in mainland China

| HSBC's investments in China[1] | % ownership | Outlets |
|---|---|---|
| **HSBC-operated business** | | |
| **HSBC Bank (China) Company Limited** | 100.0% | 102 |
| **HSBC Jintrust Fund Management Company Limited** | 49.0% | 1 |
| **HSBC Life Insurance Company Limited** | 50.0% | 31 |
| **HSBC Rural Banks** | 100.0% | 12 |
| **Hang Seng Bank (China) Limited[2]** | 100% (via Hang Seng Bank) | 38 |
| **Strategic Investment in China** | | |
| **Bank of Communications** | 19.0% | 2,600+ |
| **Ping An Insurance** | 16.1% | 416,500+ agents |
| **Bank of Shanghai** | 8.0% | 200+ |
| **Industrial Bank[2]** | 12.8% (via Hang Seng Bank) | 500+ |
| **Yantai Bank[2]** | 20.0% (via Hang Seng Bank) | 70+ |

Notes:
(1) As at September 2010
(2) Figures represent ownership of Hang Seng Bank in Hong Kong, which is 62.14 per cent owned by The Hongkong and Shanghai Banking Corporation Limited

# No 1 foreign bank[1] – outperforming the competition

| | First | Second | Third |
|---|---|---|---|
| **Corporate lending** | **HSBC** | Standard Chartered | Citibank |
| **Retail banking** | **HSBC** | Standard Chartered | Citibank |
| **Private banking** | **HSBC** | Citibank | Standard Chartered/UBS |
| **Foreign exchange and treasury** | **HSBC** | Citibank | Deutsche Bank |
| **Trade finance** | **HSBC** | Standard Chartered | Citibank |
| **Brand awareness** | **HSBC** | Standard Chartered | Citibank |
| **Corporate finance** | **HSBC** | JPMorgan Chase | Goldman Sachs |
| **Debt capital markets** | **HSBC** | Citibank | Standard Chartered |
| **Corporate social responsibility** | **HSBC** | Citibank | Standard Chartered |
| **Derivatives** | Citibank | **HSBC** | Deutsche Bank |
| **Credit cards** | BEA | **HSBC** | Citibank |
| **Project financing** | Standard Chartered | **HSBC** | Citibank |
| **Cash management** | Citibank | **HSBC** | Standard Chartered |

Notes:
(1) PricewaterhouseCoopers Survey of Foreign Banks in China 2010

# Strategy: taking the business to the next level

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# Build mass affluent share via cross-sales and cross-referrals

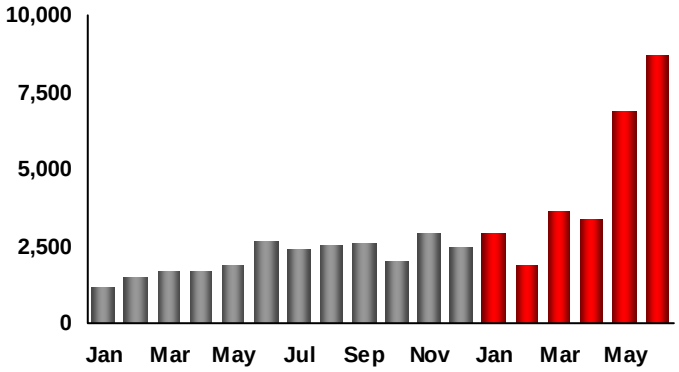
**Expand distribution and product range and cross-sell initiatives**

**To launch Advance to target upcoming customers complementary to Premier**

**Strengthen cross-referral activities with other customer groups**

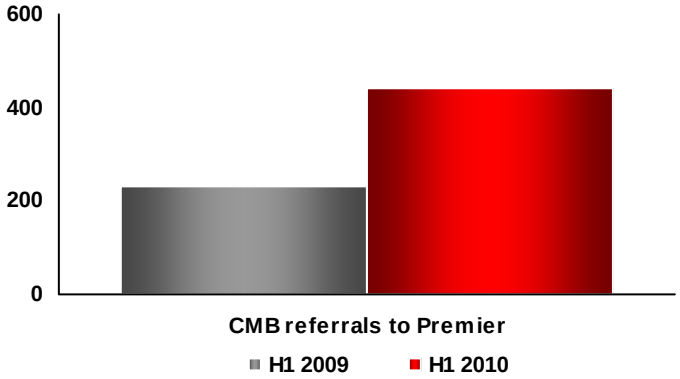
## Build mass affluent base and penetration

### Growth in Premier customers (monthly)




- Over 124,000 Premier customers by June 10, up 51 per cent y-o-y
- A balanced mix of local and international customers in Premier portfolio

### CMB referrals to Premier (H1 2010)




- CMB referrals to Premier nearly doubled in H1 2010 versus H1 2009

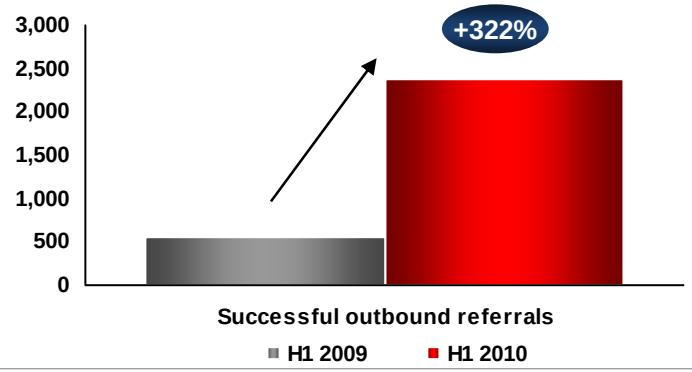
# Optimise our unique Greater China platform and connectivity

## Build Greater China alignment platform

**Strengthen Greater China alignment via active customer referrals**

**Focus on joint solutions with CMB and GBM for business linked to Hong Kong, Taiwan and Macau**

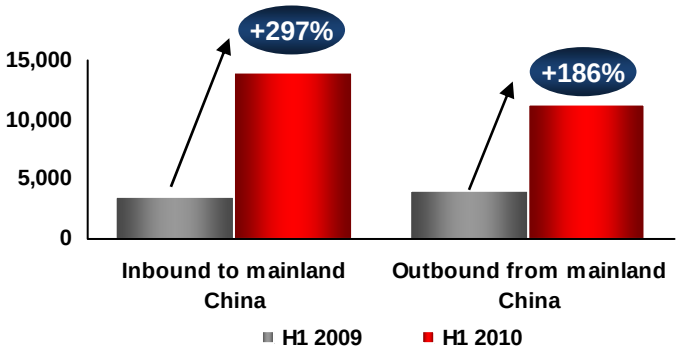
### CMB successful referrals from HSBC China to other Greater China sites, H1 2009 vs H1 2010[1]




- Over a fifth of CMB customers have Hong Kong and Taiwan links
- Capture GBM business potential as PRC corporates leverage HK as the platform for financing, risk management and overseas expansion

**Support international banking needs of mobile affluent in Greater China**

### Premier referrals from/to mainland China to HK and Taiwan[2]



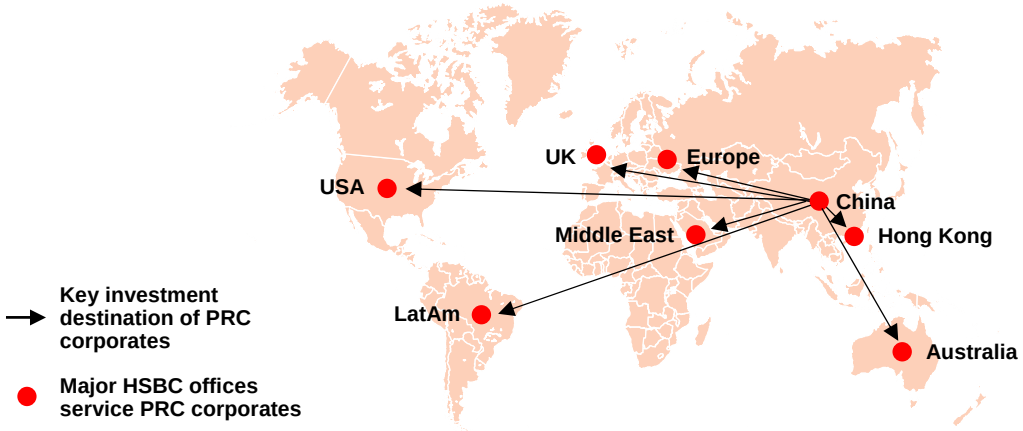

- Dedicated Taiwan business development team in mainland China
- Greater China staff exchange programme

Notes:
(1) HSBC Global Links
(2) ASP Greater China Performance MI

# Differentiate via international connectivity and global capabilities

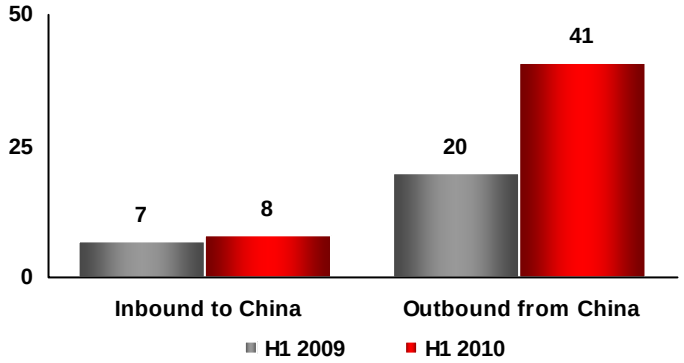
## Build on international connectivity

- Global network to support overseas ambitions of Mainland companies
- Increasing Mainland corporate-generated revenues across global network




- Strong onshore capabilities for multinational clients' banking needs in China
- Global wealth management platform to serve the internationally mobile affluent in China

## China increasing share of Group referrals (%)




- Maximise China desks globally to tap inbound investors
- Dedicated country desks for key countries and regions

# Extend business cooperation opportunities with strategic partners

**Delivering growth**

**Bank of Communications (BoCom)**

**Expanding cooperation**

- Over 14.7 million co-branded cards
- Cooperation extending to other deals – HSBC as global coordinator, bookrunner and lead manager for H share rights issue

**Ping An**

**Tapping mutual strengths**

- HBCN appointed as Financial Advisor in the Ping An Property & Casualty sub-debt issuance of RMB2.5 billion
- Bancassurance – selling Ping An insurance products via HSBC branch network in China
- Other cooperation – equity brokerage, payment solutions

# Lead in rural banking with largest presence among foreign banks

**Delivering growth**

Build on brand, expertise and network to establish a sustainable rural bank model

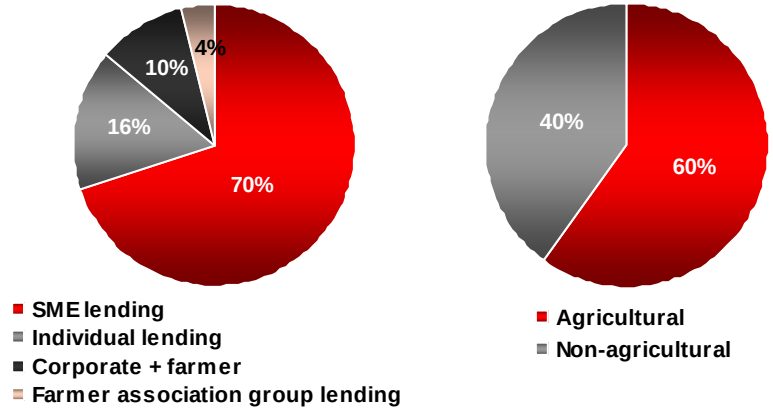
12 rural bank outlets in six provinces

Plan to add three new rural banks by end-2010 and further expansion in 2011

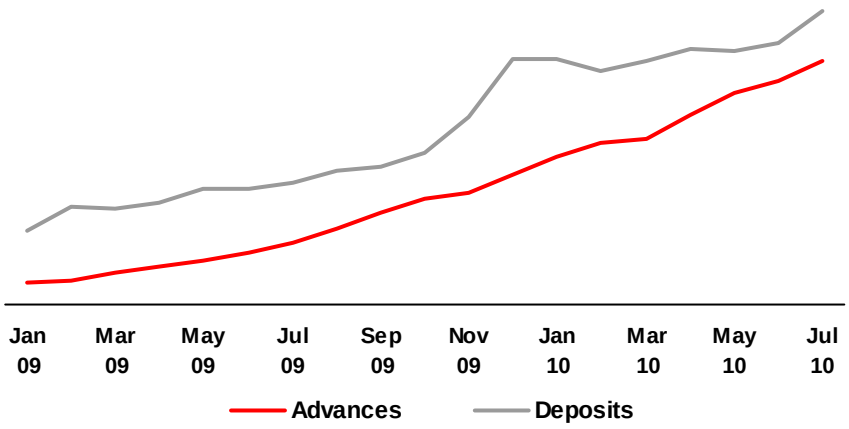
Use of direct sales and alternative distribution channels to complement branches

Grow asset book via SME financing and loans to rural individuals and small businesses

## HSBC Rural Bank lending by product and sector, H1 2010




## HSBC Rural Bank balance sheet growth



# Delivering growth

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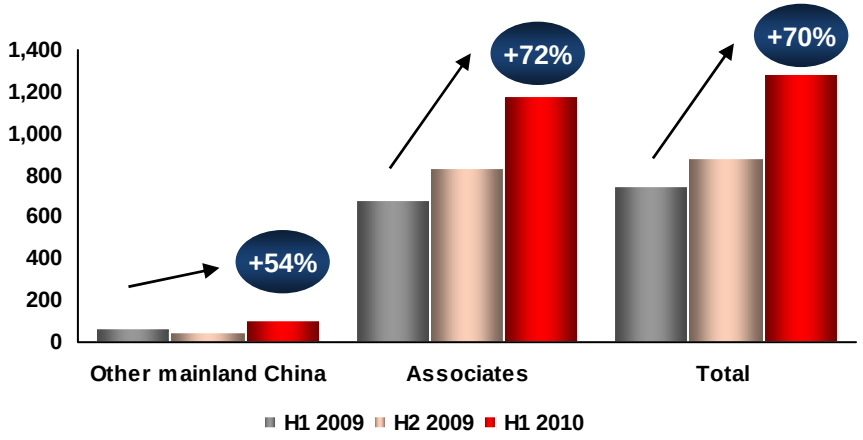
# Biggest profit contributor in Asia outside Hong Kong

## PBT up 70 per cent to USD1.3bn in H1 2010

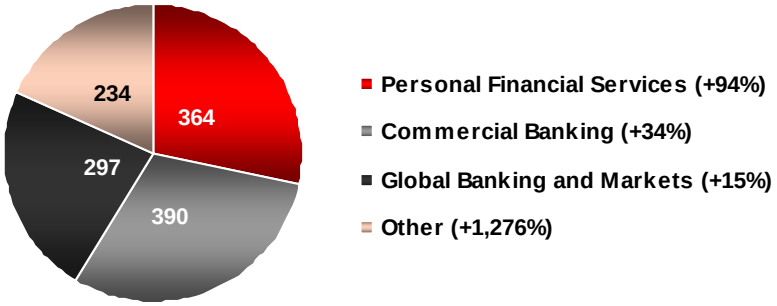
### PBT (USDm), H1 2010




### Highlights

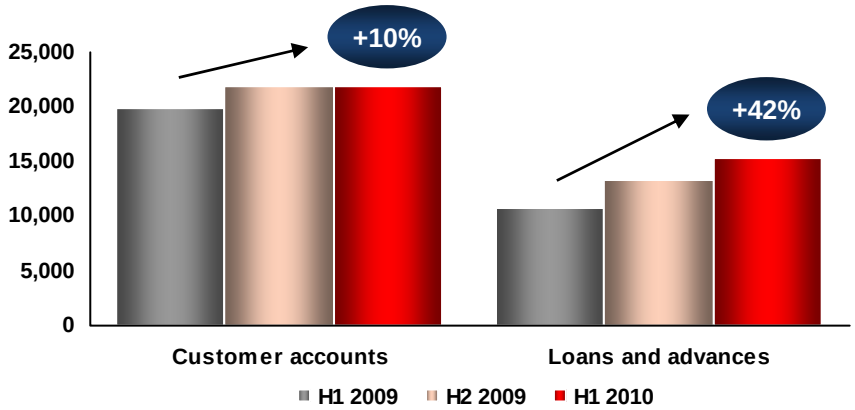
- Strong performance from associates and organic businesses
- Loans grew faster than deposits – lending up in Commercial Banking, Global Banking and Markets and mortgages
- Cross-sales boosted net fee income

### PBT by customer group mix (USDm), H1 2010




Private Banking (-33%): (USD4m)

### Customer accounts and Loans and Advances (USDm)




Notes:
(1) Group Interim Results 2010

# Summary

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# Solid leadership, positioned for long-term growth

- **Strong growth momentum from organic business and strategic partnerships**
- **Exponential rise in wealth, trade and investment opportunities in Greater China**
- **Focus on high-growth regions and high-value customers with international orientation**
- **Cross-sales and cross-referrals to build scale and penetration**
- **International connectivity and global strengths to link customers to international ambitions**