

HSBC Holdings plc



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# Asia Strategy

Investor and Analyst webcast

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## Forward-looking statements



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**This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**



# Agenda

- **The macro-economic backdrop**
- **2011 interim and third quarter financial highlights**
- **Progress on Strategy goals**
- **Key markets in Asia**

# Asia economy

GDP	2009	2010	2011	2012
China	9.2	10.4	9.1	8.6
Hong Kong	(2.7)	7.0	5.2	4.2
India	8.0	8.5	7.5	7.9
Indonesia	4.6	6.1	6.4	6.2
Korea	0.3	6.2	3.8	4.1
Malaysia	(1.6)	7.2	4.6	4.6
Philippines	1.1	7.6	4.3	4.8
Singapore	(0.8)	14.5	5.1	4.2
Taiwan	(1.9)	10.9	4.7	3.8
Thailand	(2.3)	7.8	3.7	4.2
Vietnam	5.3	6.8	6.0	6.4
Asia (ex Japan)	6.3	9.3	7.6	7.4

Inflation	2009	2010	2011	2012
Asia (ex Japan)	0.8	4.3	5.6	4.2

- Robust GDP growth, but risks of a downturn are rising
- Risks to growth – Europe, US unemployment, Inflation
- Economic uncertainty impacting revenue growth
- Social stability is an increasing concern
- Regulators increasingly cautious on capital and liquidity
- China likely to achieve a soft landing

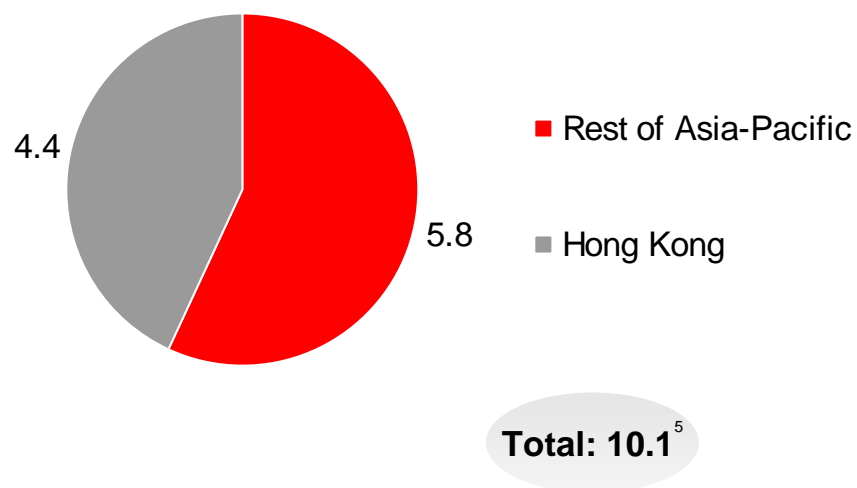
Source: FocusEconomics Consensus Forecast

# 2011 nine months financial highlights – HSBC in Asia



Reported pre-tax profits of USD10.1bn, up 17% vs nine months ended 30 Sep 2010

**PBT, nine months ended 30 Sep 2011**  
(USDbn, reported)



Financial highlights	HK	RoAP	Asia	% vs 2010 <sup>1</sup>
Net operating income <sup>2</sup> (USDbn)	8.0	8.1	16.1	13
Loan impairment charges (USDm)	(137)	(213)	(350)	(16)
Loans and advances (gross) (USDbn)	160	122	282	12 <sup>3</sup>
Pre-tax return on risk-weighted assets(%)	5.3	3.3	n/d <sup>4</sup>	n/a

1 Change vs nine months ended 30 September 2010  
 2 Before loan impairment charges and other credit risk provisions  
 3 Change on 31 December 2010 balances

4 Not disclosed  
 5 Not adjusted for rounding

## Progress on strategy – Asia



**On track towards strategy goals**

**Strong results from sustainable diversified revenues**

- **Asset and deposit growth**
- **Strong quality loan portfolio**
- **Focus on non-interest income**

**RMB expertise and global connectivity delivering new business**

**Investing for sustainable growth while improving efficiencies**

# Asia-Pacific: Strategic direction



## Connecting Asia and the world

### 1 Expand leadership in Greater China

- Maintain leadership in Hong Kong
- Continued leadership as mainland China's top foreign bank
- Grow RMB deposits
- Taiwan

### 2 Build scale in other key markets

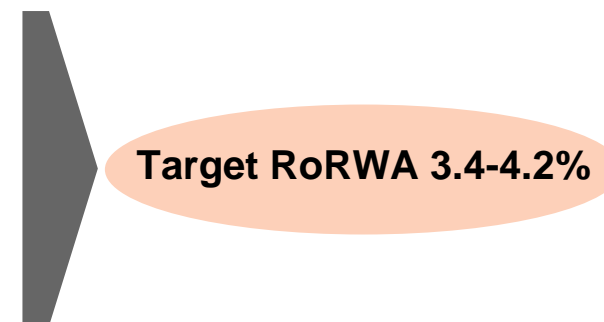
- Continue to invest to build scale in key markets:
  - India
  - Singapore
  - Malaysia, Indonesia
  - Australia, Vietnam

### 3 Maintain leadership in connectivity

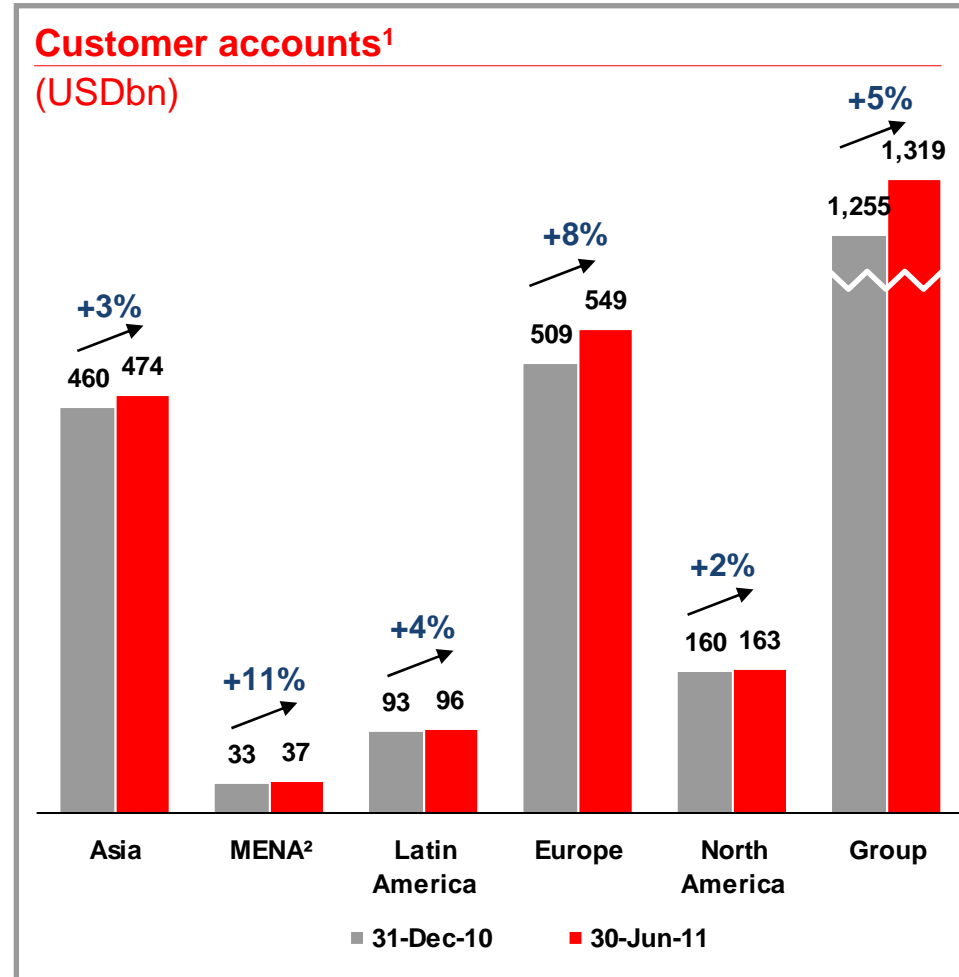
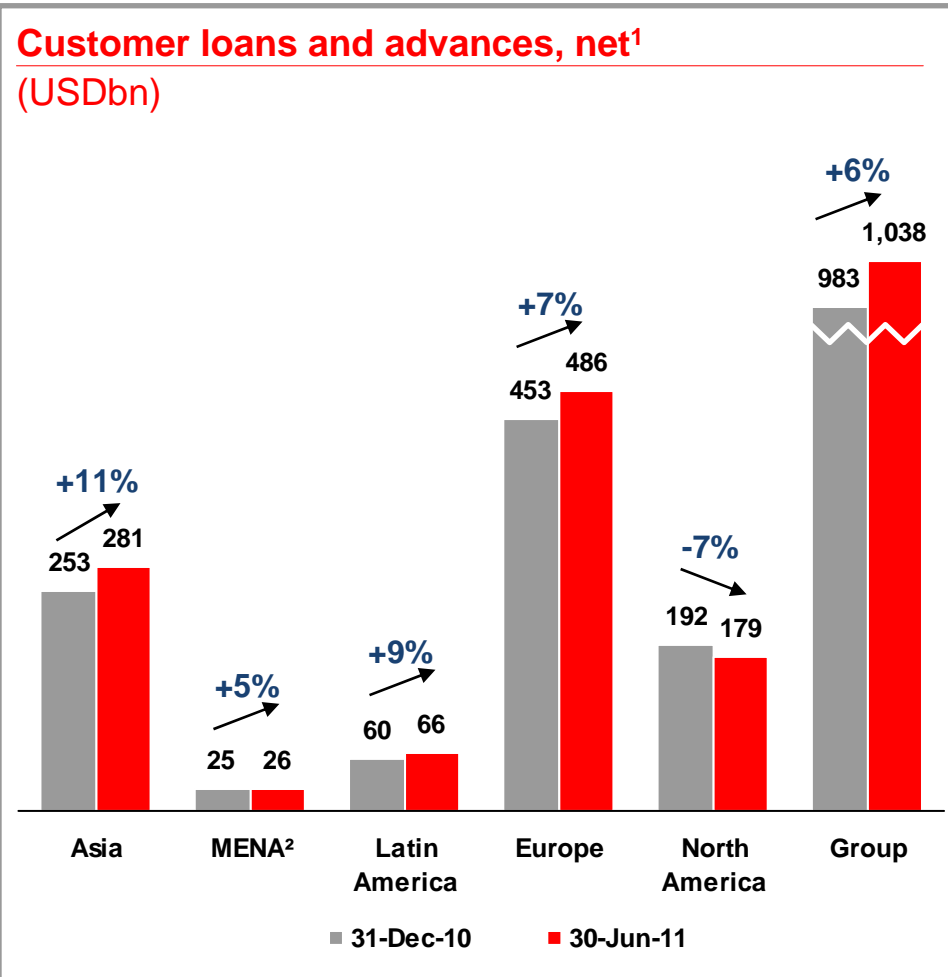
- Be the leading international bank for RMB worldwide
- Focus resources in other markets to maintain leadership in intermediating Trade, Capital and Wealth flows

## Strategic actions

- Grow **quality assets** and **build scale** in key markets
- Deepen customer relationships to grow **non-interest income**
- **Build customer deposits** to capture benefits of rising interest rates
- Continue cross-border leadership in **trade, capital and wealth**



# Grow customer lending and funding



1 Underlying basis  
2 Middle East and North Africa



# Build quality assets



USDbn	H2 10	H1 11	% vs H2 10
<u>Risk-weighted assets</u>			
Hong Kong	106.9	110.8	3.6
Rest of Asia-Pacific	217.5	241.1	10.9
<b>Total</b>	<b>324.4</b>	<b>351.9</b>	<b>8.5</b>
<u>Gross customer loans<sup>1</sup></u>			
Hong Kong	141.3	159.9	13.2
Rest of Asia-Pacific	109.7	122.3	11.5
<b>Total</b>	<b>251.0</b>	<b>282.2</b>	<b>12.4</b>
Of which			
Commercial <sup>2</sup>	96.2	113.8	18.3
Property <sup>3</sup>	49.1	51.8	5.5
Other <sup>4</sup>	105.7	116.6	10.3

USDm	H1 10	H1 11
<u>LIC<sup>5</sup></u>		
Hong Kong	63	25
Rest of Asia-Pacific	147	100
<u>Impaired loans<sup>6</sup> (%)</u>		
Hong Kong	0.7	0.3
Rest of Asia-Pacific	1.2	1.0

1 Reported basis

2 Commercial, industrial, and international trade, and other commercial

3 Commercial real estate and other property-related

4 Personal, government and financial

5 Loan impairment charges and other credit risk provisions

6 Impaired loans as a percentage of gross loans and advances to customers

# Loan impairment charges<sup>1</sup>

USDm	Year 2008	Year 2009	Year 2010	Quarter Q3 10	Quarter Q3 11
Hong Kong	765	500	114	35	112
RoAP	852	896	439	173	113
Total	1,617	1,396	553	208	225
<u>As a % of average customer loans (annualised)</u>					
Hong Kong	0.80	0.50	0.09	0.11	0.28
RoAP	0.80	0.94	0.46	0.73	0.37
Total	0.80	0.71	0.26	0.38	0.32

- LICs remain low relative to revenues and customer lending
- In Hong Kong, increase in Q311 was from a single CMB customer, collective provisions on higher loan balances, reduced recoveries
- In Rest of Asia-Pacific, reduction of unsecured lending portfolios in India
- Rest of Asia-Pacific also had lower LICs in GBM
- Impaired loans remain at a low level relative to customer lending

<sup>1</sup> Loan Impairment charges and other credit risk provisions

## Grow non-interest income



USDm	H1 10	H2 10	H1 11	% vs H1 10
<u>Hong Kong and Rest of Asia-Pacific</u>				
Net interest income	3,816	4,258	4,630	21.3
Net fee income	2,329	2,565	2,729	17.2
Net trading income	1,468	1,462	1,531	4.3
Other	1,781	1,755	1,872	5.1
Total non-interest income	5,578	5,782	6,132	9.9
Net operating income	9,394	10,040	10,762	14.6

### Non-interest income – key sources of growth

- Insurance
- Unit trusts
- Trade fees
- Securities and broking
- Cards
- Remittances
- Funds under management
- Global markets
- Account services and credit facilities

# Strong platform for sustainable growth



## Strategy

## Drivers

### Grow quality assets and deposits

- Re-price assets into tighter credit environment to support net interest margin
- Continue to grow deposits for cross-selling in a robust domestic environment
- Maintain strong credit standards and focus on growing quality assets

### Grow non-interest income

- Grow non-interest income in view of continued low rate environment
- Robust domestic demand in Asia provides substantial room for expansion
- Trade-related fee income may slow but focus shifting to intra-regional and RMB trade

### Grow in priority markets

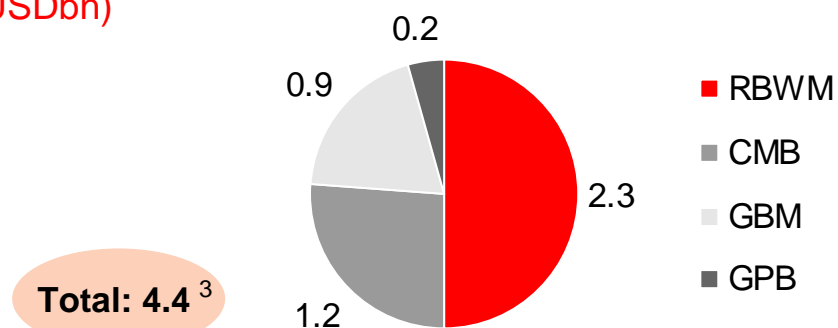
- China will remain the growth engine of Asia and create opportunities via offshore RMB
- India, Indonesia and Malaysia forecast to sustain growth through a global slowdown
- Strengthen our position in Singapore to access offshore wealth opportunity

# Hong Kong

Nine months ended Sep	2010	2011
Net operating income <sup>1</sup> (USDbn)	7.5	8.0
Profit before tax (USDbn)	4.3	4.4
Cost efficiency ratio (%)	41.8	44.2
Return on risk-weighted assets <sup>2</sup> (%)	5.0	5.3

## PBT, nine months ended 30 Sep 2011

(USDbn)



- Volume-driven and trade-related growth in CMB and GBM, with a significant increase in cross-border referrals with mainland China during the first half
- Strong sales in Wealth Management products
- Asset spreads narrowed during the first half due to competitive pressures
- Continued good credit quality, LICs rose from a low base
- Investment in staff and wage inflation drove cost growth

<sup>1</sup> Before loan impairment charges and other credit risk provisions

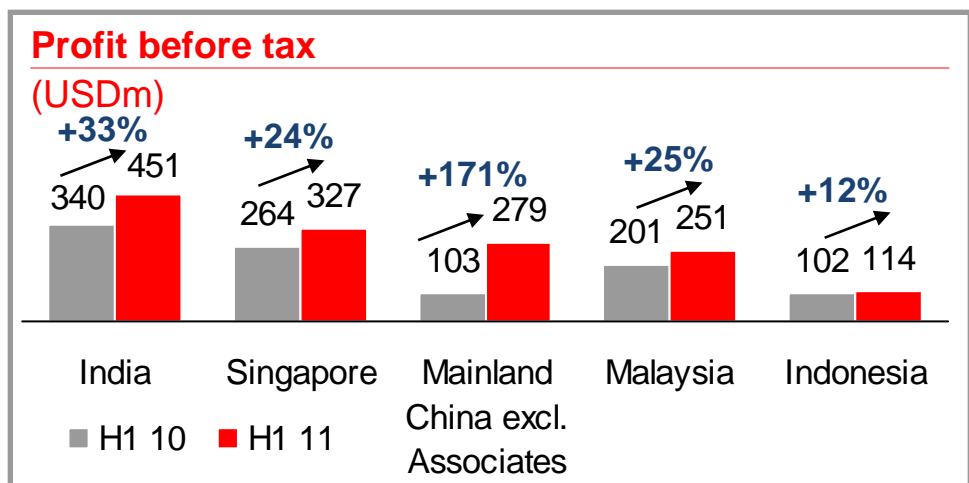
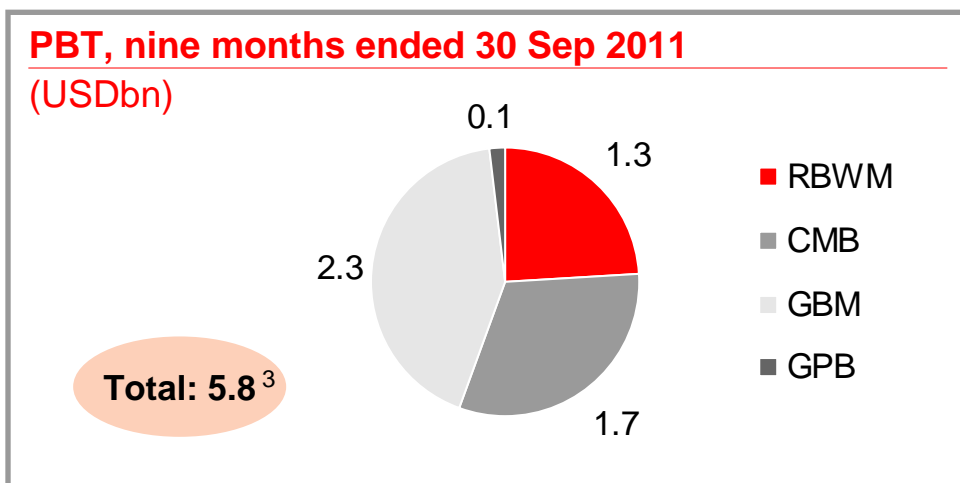
<sup>2</sup> Profit before tax basis

<sup>3</sup> Includes Other operations, mainly central items, which recorded a loss of USD206m in the nine months ended 30 Sep 2011

# Rest of Asia-Pacific

Nine months ended Sep	2010	2011
Net operating income <sup>1</sup> (USDbn)	6.8	8.1
Profit before tax (USDbn)	4.4	5.8
Cost efficiency ratio (%)	55.5	53.5
Return on risk-weighted assets <sup>2</sup> (%)	3.1	3.3

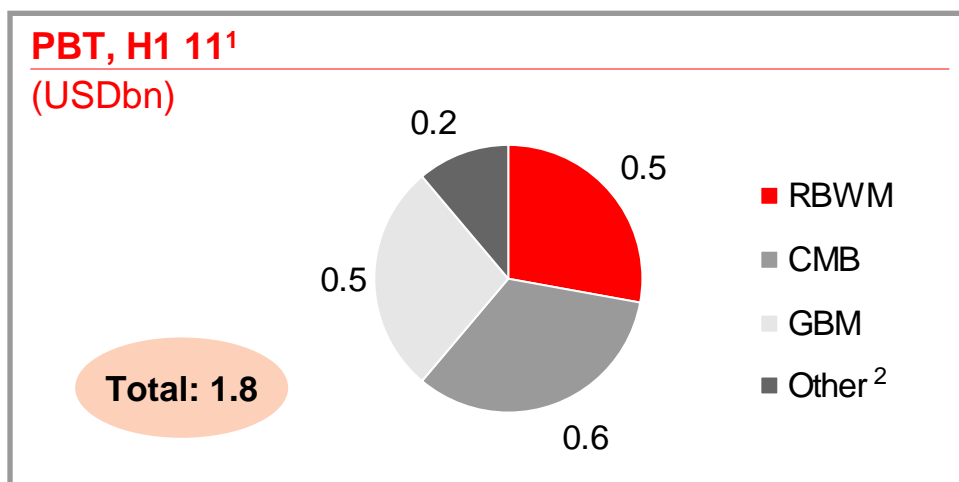
- Growth in GBM and CMB loan and trade volume
- Wealth Management revenue growth in RBWM
- LICs fell in RBWM
- Costs rose from increased FTE and wage inflation
- Continued strong contribution from associates



1 Before loan impairment charges and other credit risk provisions  
 2 Profit before tax basis  
 3 Includes Other operations, mainly central items, which recorded a profit of USD415m in the nine months ended 30 Sep 2011

## Grow in priority markets – mainland China

Mainland China	H1 10 <sup>1</sup>	H2 10 <sup>1</sup>	H1 11 <sup>1</sup>
Profit before tax (USDbn)	1.3	1.3	1.8
Associates (USDbn)	1.2	1.2	1.5
Other mainland China (USDbn)	0.1	0.1	0.3
Advances-to-deposits ratio (%)	70.2	70.8	74.4



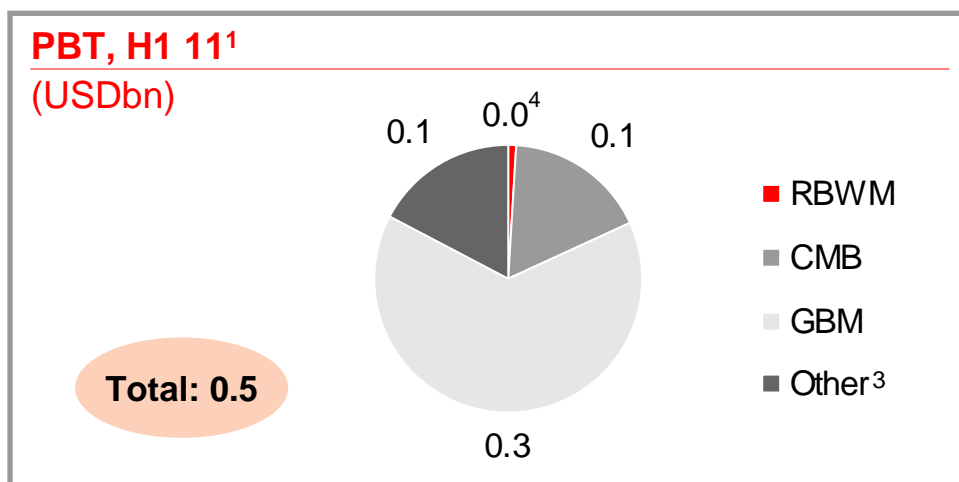
- Largest foreign bank in China: 126 outlets in 29 cities
- Maintain a sustainable branch network presence
- Position as the leading international bank for RMB
- Drive China's offshore business through global connectivity
- Close cooperation with key strategic partners

<sup>1</sup> Reported basis

<sup>2</sup> Other includes GPB and other customer groups

## Grow in priority markets – India

India	H1 10 <sup>1</sup>	H2 10 <sup>1</sup>	H1 11 <sup>1</sup>
Profit before tax (USDbn)	0.3	0.3	0.5
Loans and advances to customers (USDbn) <sup>2</sup>	6.2	6.7	6.1
Customer deposits (USDbn)	11.3	12.1	11.7
Advances-to-deposits ratio (%)	54.9	55.4	52.1



- Strong presence: 152 offices in 60 cities
- Grow PBT to USD1bn in the medium term
- Strong GBM and CMB franchise – financing-led strategy across businesses to build scale
- Continue to expand retail distribution, RBWM will be a key growth driver
- Target overseas Indian population through global connectivity

1 Reported basis  
 2 Gross loans and advances to customers  
 3 Other includes GPB and Other Customer Groups  
 4 Not material



## Grow in priority markets

### Singapore

- Target USD1bn PBT in the medium term
- Grow wealth management as Singapore develops as a major offshore wealth hub
- Enhance trade finance capabilities to serve the ASEAN region

### Malaysia / Indonesia

- Target USD1bn PBT combined in the medium term
- Invest in Islamic Finance capabilities
- Invest in Bank Ekonomi to capture SME opportunities
- Grow wealth management & corporate business

### Taiwan

- Indispensable market for greater China business, leveraged on global connectivity
- Capture opportunities arising from policy relaxation on cross straits integration
- Target upper segments and wealth business, as well as cross border transactions

### Vietnam

- Leading foreign bank in GBM, targeting SOEs<sup>1</sup> and SOBs<sup>2</sup>
- Growing customer base by targeting upper SME and large corporate
- Achieve sustainable scale for retail base, targeting affluent segment

<sup>1</sup> State owned enterprises

<sup>2</sup> State owned banks

# League tables<sup>1</sup>



## No 1 in offshore RMB bonds with 22.6% market share in Q3 11 ytd

Rank	Underwriter	Amount (RMBm)	Issues	Market share
1	HSBC	27,688	60	22.6%
2	Standard Chartered	14,514	39	11.8%
3	Deutsche Bank	11,174	23	9.1%
4	RBS	9,372	22	7.6%
5	UBS	6,744	33	5.5%

## No 1 in Asian local currency bonds with 8.8% market share in Q3 11 ytd

Rank	Underwriter	Amount (USDm)	Issues	Market share
1	HSBC	12,401	251	8.8%
2	Standard Chartered	8,143	248	5.8%
3	KB Inv. & Sec.	6,446	94	4.6%
4	CIMB	5,112	79	3.6%
5	Woori Inv. & Sec.	4,726	80	3.4%

## No 1 in Hong Kong dollar bonds with 32.2% market share in Q3 11 ytd

Rank	Underwriter	Amount (HKDm)	Issues	Market share
1	HSBC	32,992	96	32.2%
2	Standard Chartered	20,239	67	19.8%
3	Bank of China	11,600	12	11.3%
4	BNP Paribas	9,523	37	9.3%
5	National Australia Bank	4,415	13	4.3%

## No 1 in Asia-Pacific ex-Japan bonds with 5.4% market share in Q3 11 ytd

Rank	Underwriter	Amount (USDm)	Issues	Market share
1	HSBC	25,225	296	5.4%
2	Bank of China	23,663	88	5.1%
3	Deutsche Bank	16,175	144	3.5%
4	Citi	15,627	130	3.4%
5	UBS	14,951	86	3.2%

<sup>1</sup> Bloomberg, 7 November 2011

## Combining RMB expertise and global connectivity



### Offshore RMB leadership in Hong Kong

- 22.6% market share of offshore RMB bond issuance
- First offshore RMB equity IPO
- First foreign bank to offer RMB business card to CMB customers

### Expanding RMB capabilities

- RMB trade capabilities in 50+ markets globally
- RMB retail services in 11 Asian markets
- Among the first to offer RMB FX options to corporates in China
- Launched RMB FX, transaction and capital markets services in Australia and UK

### Connecting across markets and businesses

- CMB and Premier referrals between Hong Kong and mainland China
- Cross-border referrals between mainland China and rest of the world
- CMB and GBM collaboration provides mid-market companies FX services, derivatives products and access to debt and equity markets

# Improve cost-efficiency and organisational effectiveness



**USD2.5–3.5bn  
sustainable cost  
savings in 3 years**

- Gross reduction of 30,000 Group positions over 3 years towards approx 10% Group cost base savings
- Reductions focused on back office, partly offset by front-office hiring in growth markets
- Target excluding businesses sold to third parties

**Achieve 48–52%  
CER by 2013**

- HK's CER at 46.3% in 3Q 11, but has been rising, while RoAP at 54.4%
- Measures to contain cost rises amid high inflation environment
- Streamlining IT functions regionally
- Re-engineering processes globally

**Clear objective  
to achieve  
positive jaws**

- Implement consistent business models
- Grow revenue and contain costs through better resource deployment
- Achieve positive jaws across global businesses and countries



## Outlook

**Positive on resilient emerging markets**

**Geopolitical, economic and regulatory uncertainty**

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