



April 2016

# Pearl River Delta

Helen Wong

Chief Executive, Greater China



## **Disclaimer**

# **Important notice and forward-looking statements**

### **Important notice**

The information set out in this presentation and subsequent discussion does not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any recommendation in respect of such securities or instruments.

### **Forward-looking statements**

This presentation and subsequent discussion may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group (together, “forward-looking statements”). Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant assumptions and subjective judgements which may or may not prove to be correct and there can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Forward-looking statements are statements about the future and are inherently uncertain and generally based on stated or implied assumptions. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update them if circumstances or management’s beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our 2015 Annual Report and Accounts.

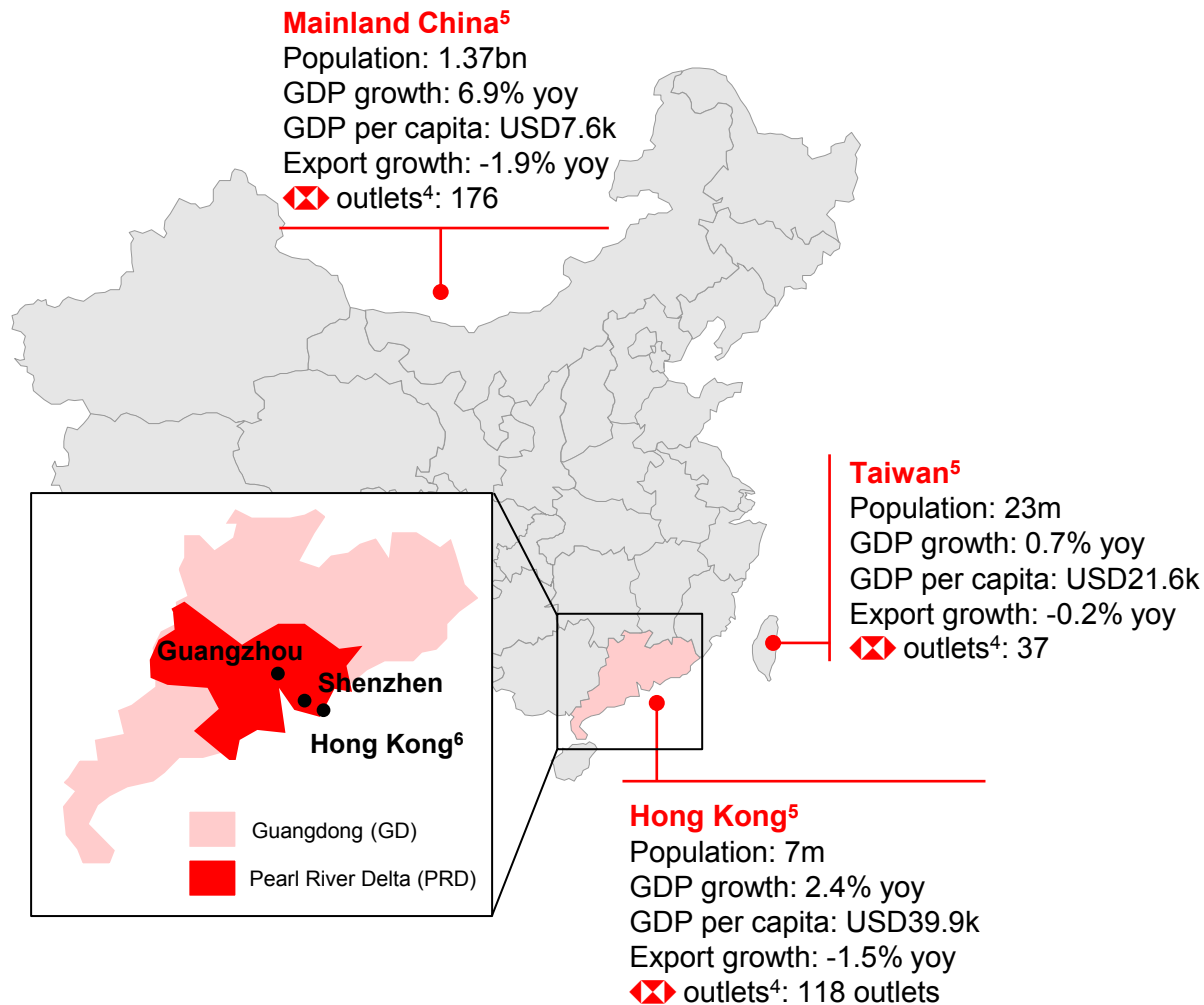
This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is ‘adjusted performance’ which is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in the 2015 Annual Report and Accounts and the Reconciliations of Non-GAAP Financial Measures document which are both available at [www.hsbc.com](http://www.hsbc.com).

## Pearl River Delta

By 2025, c.25% of global top 200 cities expected to be in Greater China; Pearl River Delta + HK banking revenue pool of USD185bn

### Significant scale in Greater China

- The three economies make up c.17% of global GDP in 2015 – and expected to grow to c.19% by 2019<sup>1</sup>
- Highly interconnected and growing – total bilateral trade between the three areas in 2014 amounted to over USD620bn (8.7% CAGR 2011-14)<sup>2</sup>
- Nearly 25% of global top 200 cities expected to be in the region by 2025<sup>3</sup>
- Closer economic integration, especially between Hong Kong and China, to be a key macro development theme
  - Collectively, the city clusters of Guangdong's Pearl River Delta and HK expected to rank as the world's largest banking pool, with total banking revenue of USD185bn by 2025<sup>3</sup>
- HSBC well positioned to capture associated opportunities
  - Largest bank in Hong Kong<sup>4</sup>
  - Largest foreign bank in mainland China<sup>4</sup>
    - 176 outlets across 57 cities
  - 2<sup>nd</sup> largest foreign bank in Taiwan<sup>4</sup>
    - 37 outlets across all major cities



1. HSBC Global Research, IMF

2. CEIC

3. McKinsey Global Institute analysis; banking revenue pool excludes consumer finance (USD15bn)

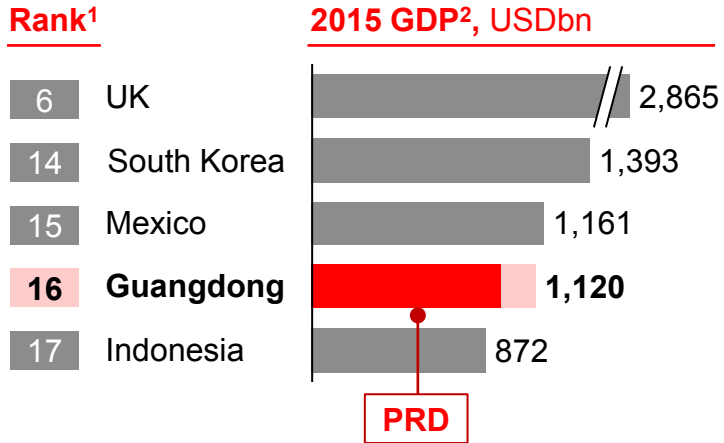
4. Market position by YE14 total assets for Hong Kong and Mainland. Position for Hong Kong excludes Hang Seng Bank. Position for Taiwan estimated based on public disclosures of key foreign banks as of OCT15 Outlet count as of DEC15 and excludes Hang Sang Bank or its subsidiaries

5. HSBC Global Research, IMF. All data except GDP per capita (2014) are as of 2015.

6. Not part of Guangdong province

## Pearl River Delta

The Pearl River Delta corresponds in size to a leading global economy and continues to be a key growth engine for China

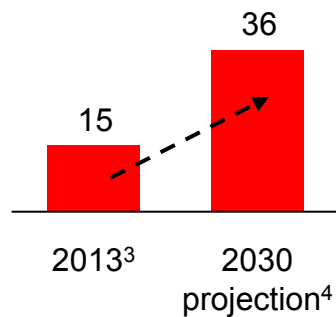


### GDP per capita, USD'000

#### Hong Kong

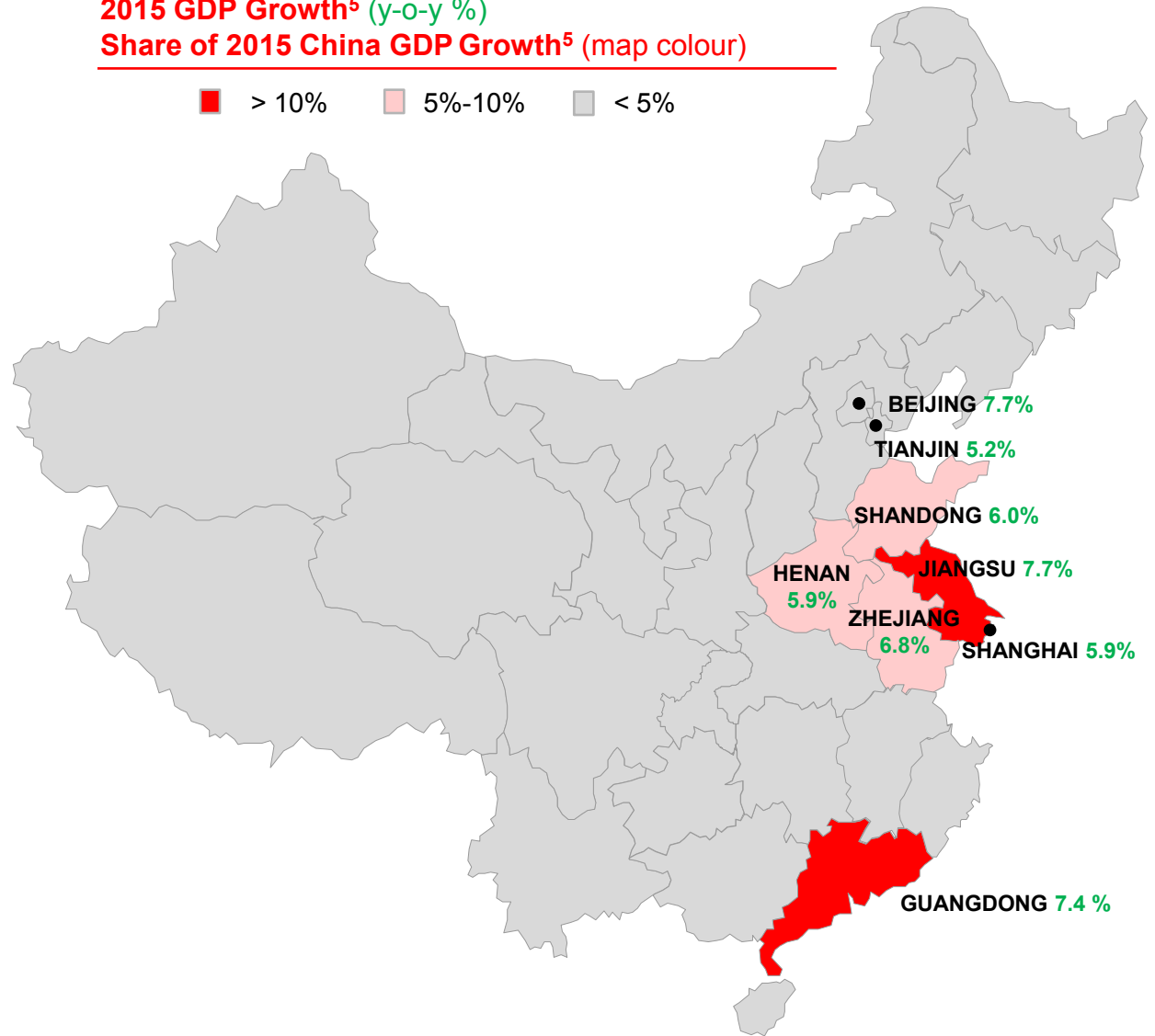
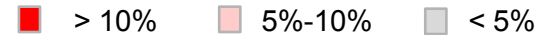


#### PRD



### 2015 GDP Growth<sup>5</sup> (y-o-y %)

#### Share of 2015 China GDP Growth<sup>5</sup> (map colour)

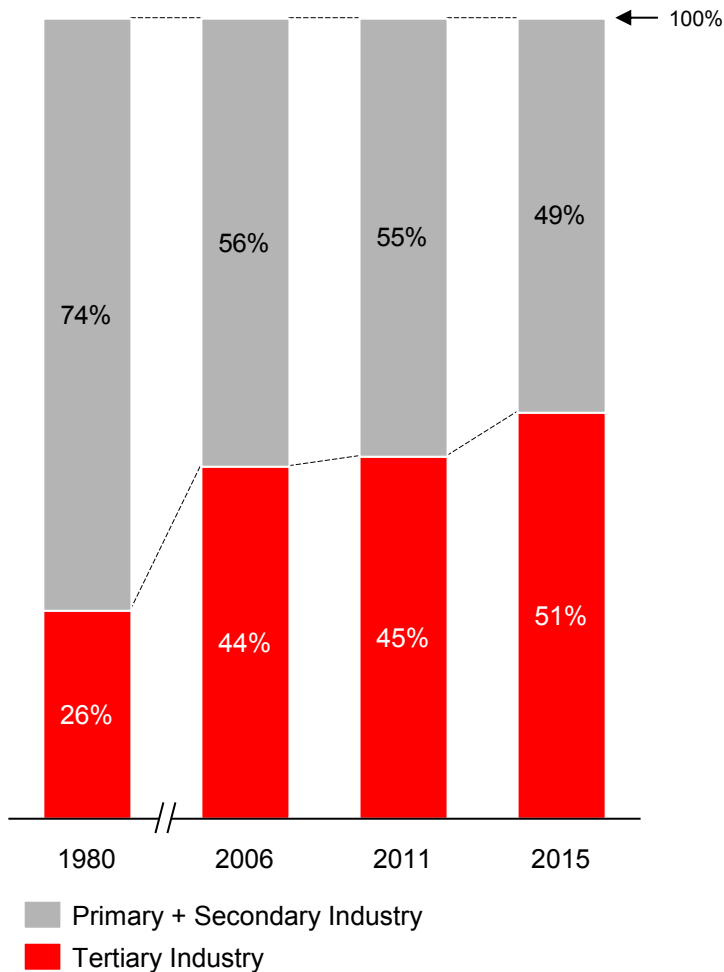


1. Rank of country by GDP.  
 2. IMF estimates (2015 countries GDP); CEIC (2015 Guangdong GDP)  
 3. Global Insights; Statistics Bureau of Guangdong Province; National Bureau of Statistics of the People's Republic of China; IMF  
 4. Planning study on the coordinated development of the Greater Pearl River Delta Townships, 2009  
 5. CEIC. The shares of 2015 China GDP growth for Beijing, Tianjin and Shanghai are below 5% respectively.

## Pearl River Delta

# On the road to becoming the “Silicon Delta” – advanced manufacturing, services and innovation sectors developing rapidly in PRD

Steadily rising GDP contribution from tertiary industries in Guangdong<sup>1</sup> ...



... with innovation rapidly developing in key PRD cities, fuelled by government supportive policies and private entrepreneurship

**Government Initiatives<sup>2</sup>**

**USD31bn**

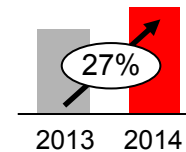
2015 - 2020

R&D budget earmarked in Guangdong, equivalent to 2.8% of the province's GDP

**5m sqm**

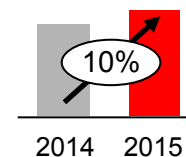
New incubator space planned to be added in Guangdong for start-ups in 2016

**New Entrepreneurs**



c.400k new private enterprises in Guangdong in 2014<sup>3</sup>

**Advanced Manufacturing / R&D**



USD226bn value added in 2015 by Guangdong's advanced manufacturing sector<sup>4</sup>

**>50%**

Guangdong's share of the c.13,300 international patent filings from China in 2014<sup>5</sup>

1. CEIC  
 2. South China Morning Post (<http://www.scmp.com/news/china/economy/article/1905273/chinese-province-guangdong-raises-rd-target-turns-innovation>)  
 3. Hong Kong Trade Development Council  
 4. Hong Kong Economic Journal (<http://www.ejinsight.com/20160319-guangdong-to-play-big-role-in-china-economic-restructuring>)  
 5. China Daily / The State Council ([http://english.gov.cn/news/top\\_news/2015/03/04/content\\_281475065480742.htm](http://english.gov.cn/news/top_news/2015/03/04/content_281475065480742.htm))

# Economic integration is continuing between Pearl River Delta and Hong Kong

## Close Economic Connectivity between PRD and HK

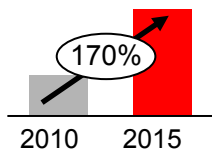
**\$218bn**

1979 - 2014

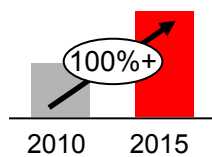
Amount of Hong Kong capital utilised in Guangdong from 1979-2014, equivalent to 62% of Guangdong's total FDI over the same period<sup>1</sup>

**35%**

Hong Kong's share of total exports from Guangdong in 2014<sup>1</sup>



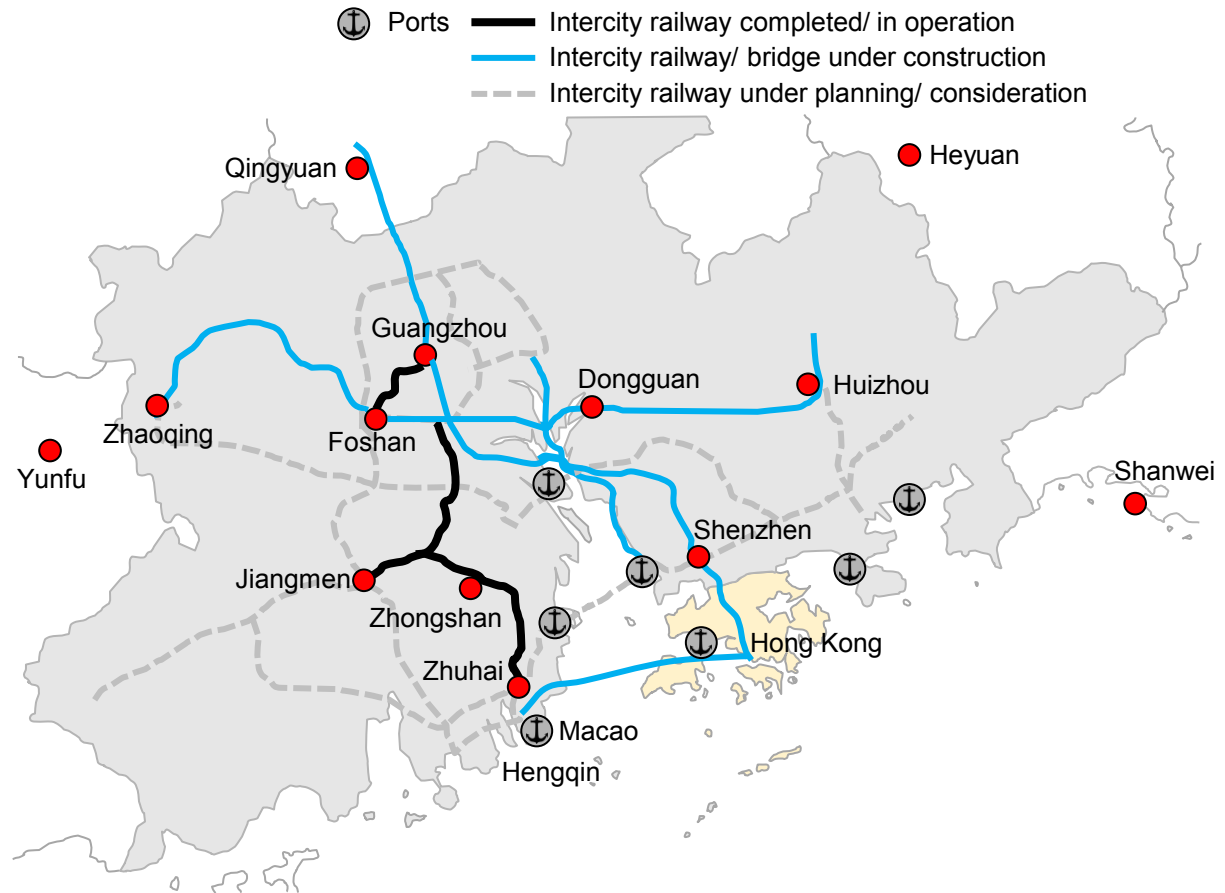
RMB854bn CNH deposit balance in Hong Kong, #1 globally<sup>2</sup>



Mainland demand for office space in Hong Kong's Central district has more than doubled in the past six years<sup>3</sup>

Policies such as Shenzhen-Hong Kong Stock Connect and mutual funds recognition schemes are expected to encourage further economic integration

## Infrastructure investment in PRD expected to reduce travel time<sup>4</sup>



**Hong Kong and surrounding PRD would likely be shaped into a single large metropolis area in the future**

1. Hong Kong Trade Development Council  
 2. Hong Kong Monetary Authority and databases of central banks, as of December 2015  
 3. Jones Lang LaSalle  
 4. "The Greater Pearl River – 7th Edition" – Invest Hong Kong

# DJI – a flying innovation story in Shenzhen

## The Civilian Drone Industry

- **Wide applications** – wildlife conservation, environment monitoring, search and rescue operations, aerial photography, geological surveys, border patrol, etc.
- **Rapidly growing** - global civilian drones market projected to grow at a CAGR of 28% during 2014 -2019<sup>1</sup>

*“Headquartered in Shenzhen, widely considered as China’s Silicon Valley, DJI benefits from direct access to the suppliers, raw materials, and young, creative talent pool necessary for sustained success.”*



-- DJI’s official website

### 2006 - 2012

- In 2006, DJI was founded by then student Frank Wang and his two classmates in a residential building in Shenzhen
- Started with 8 workers in the beginning, focusing on research and development until launching its first product in 2009
- In 2012, DJI introduced the first aerial photography machine ‘Phantom’, bringing professional-quality aerial photography within the reach of mass consumer space

### Present

- Largest global civilian drone manufacturer, with 47%/ 70% of US/ global market share respectively<sup>2</sup>
- Global workforce of 3,000+ with offices in US, Germany, Japan and the Netherlands, etc.<sup>3</sup>
- 300% - 500% annual revenue growth during 2009 - 2014<sup>4</sup>
- Valuation estimated at c.USD1.6 bn in 2014<sup>2</sup>

1. Technavio’s report, Global Civilian Drones Market 2015-2019; Bloomberg (<http://www.bloomberg.com/news/articles/2015-02-12/chinese-maker-of-drone-on-white-house-lawn-sees-sales-doubling>)  
2. China Daily ([http://usa.chinadaily.com.cn/business/2016-03/14/content\\_23849282.htm](http://usa.chinadaily.com.cn/business/2016-03/14/content_23849282.htm))  
3. DJI’s company website, as of March 2016  
4. South China Morning Post

# Banking requirements for different customer segments expected to evolve with the changing macroeconomic environment

## Macro themes

- Rising wealth and spending power of local residents
- Increased HK-PRD connectivity
- Ongoing opening up of trade and financial markets
- Government Initiatives to further encourage 'China going out'
- Rise of Internet Finance

## Implications for different customer segments

### 1 Local Corporates

- More companies to expand overseas, organically or via M&A
- Increasing need to reposition domestic market propositions to adapt to changing local consumption behaviours
- Emerging enterprises to address demand created by innovation, e.g.
  - Logistics (GD topped online retail sales in China in 2015)
  - Financial services (Shenzhen a hotbed for FinTech)

### 2 Multinationals

- More companies with hi-tech and services expertise to expand and/or set up operations / R&D bases in PRD
- Move lower value production to lower cost regions/countries and/or upgrade to serve higher value businesses

### 3 Retail Customers

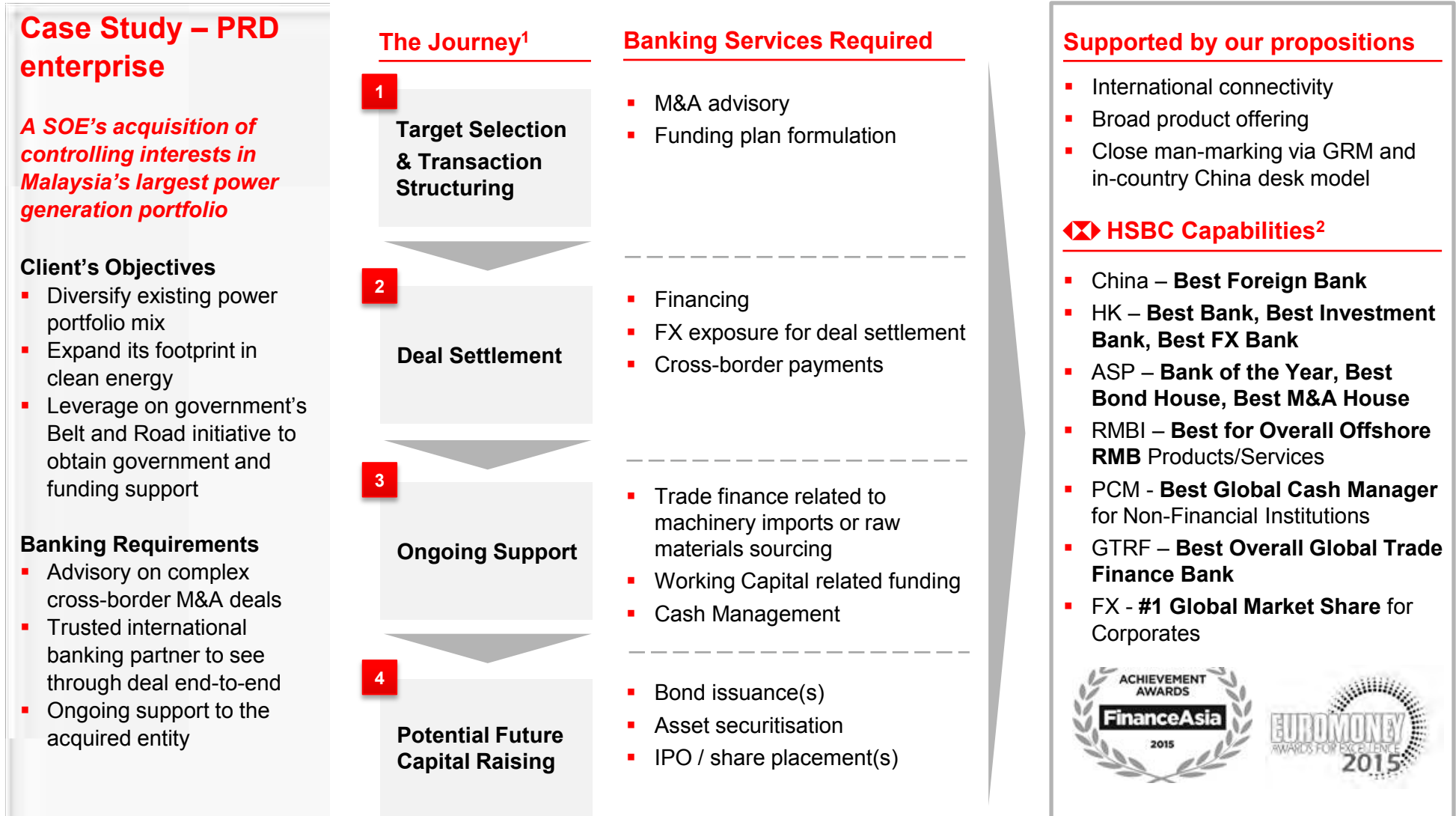
- More diversified requirements for wealth management and financial planning
- Increasing need to access cross-border financial services (e.g. overseas investment, education, etc.)
- Wider acceptance for online platforms for financial services

## Banking requirements

- Supply chain related solutions to support mid-small enterprises
- Advisory on areas such as
  - International trade / investment flows
  - On/offshore capital financing
- Connected and reliable international financial services
- Integrated, convenient and trusted digital banking platform to provide one-stop services
- Connected and reliable international financial services



# Example: Mapping PRD enterprises' development journeys with HSBC's network and product offerings



1. Based on a real customer case where HSBC acted as the sole financial adviser and FX bank for this deal, completing steps 1 and 2 for the client. Steps 3 and 4 listed are illustrative  
 2. Awards mentioned are all in 2015. Source: Euromoney, Asiamoney, Trade Finance, and FinanceAsia.

# New risks emerging as China and Guangdong enters its next phase of development

## Key risks

## HSBC mitigating factors

### China Economic Slowdown

- Heightened credit risks from slowing economy under the “New Normal” and SOE reforms

- ✓ Continue to strengthen risk management practices anchored on both international and local experience to manage quality asset growth in key segments
- ✓ Apply deposit and non-lending focused growth strategies for higher risk segments

### Intensified Competition

- Increasing competition in domestic market and in the cross-border space from existing players
- Threat presented by new challengers (e.g. private-owned banks) and disruptive innovators (e.g. P2P lenders)

- ✓ Launch credit cards under relationship-led strategy to drive new customer acquisition
- ✓ Focus on digital platform development
- ✓ Expand capital market capabilities and capture opportunities unlocked by policy liberalisation
- ✓ Leverage on unrivalled international network to deepen existing wallet and acquire new businesses

### Capital Account Convertibility

- Customer funds could flow offshore as capital account and other FX policies relax in the medium term future
- Hong Kong seen as primary destination, given physical proximity and increasing economic integration, but other locations such as Australia, Canada, Singapore, and the US rapidly catching up

- ✓ Leverage on leading position in Hong Kong and wider network connectivity to capture business flows on both sides of the border

#### Corporate<sup>1</sup>

Coverage by countries and territories:  
China Desks – **20**  
RMB capabilities – **58**



#### Retail<sup>2</sup>

**35 countries** with HSBC Premier proposition coverage

1. As of 15 March 2015  
2. As of October 2015

# The Pearl River Delta represents one of the largest opportunities for HSBC in the medium term future

### Key macro factors

- The largest contributor to China's GDP growth<sup>1</sup>
- Spearhead of new growth model with its high-end manufacturing, services and innovation focused economy
- GDP per capita expected to reach a level similar to Hong Kong in 2013 by 2030<sup>2</sup>
- Continued economic integration with Hong Kong
- USD185bn combined banking revenue pool expected by 2025<sup>3</sup>

### Opportunities for HSBC

1

#### Emerging Middle Class

- Grow and enhance distribution through significant investment in digital platform and mobile sales force
- Broaden product offerings and accelerate quality asset growth
- Capture cross-border wealth flows
- Roll out of credit cards business – under a relationship-led “Card First” strategy to drive new customer acquisition

2

#### Commercial clients / connectivity

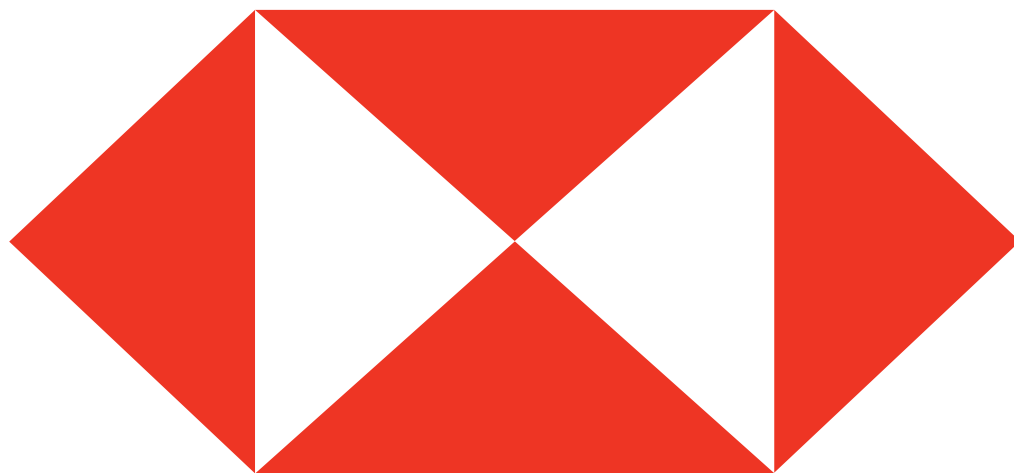
- Enhance coverage and implement sector specialism to deepen wallet share and drive returns in Large Corporates
- Broaden client base and capture new-to-bank opportunities in the Mid-Market Enterprises space
- Build up Business Banking Upper and drive for deposit-heavy product mix

3

#### New business capabilities

- Expand Markets capabilities from policy liberalisation, e.g.:
  - Securities
  - Asset management
  - Metals and commodities
- Drive incremental Greater China / offshore income from regulatory relaxation

1. CEIC; same size in terms of contribution as Jiangsu Province  
2. Planning study on the coordinated development of the Greater Pearl River Delta Townships, 2009  
3. McKinsey Global Institute analysis



HSBC Holdings plc  
8 Canada Square  
London E14 5HQ  
United Kingdom  
Telephone: 44 020 7991 3643  
[www.hsbc.com](http://www.hsbc.com)