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

**Pearl River Delta**

The three economies make up c.17% of global GDP in 2015 – and expected to grow to c.19% by 2019\(^1\)

Highly interconnected and growing – total bilateral trade between the three areas in 2014 amounted to over USD620bn (8.7% CAGR 2011-14)\(^2\)

Nearly 25% of global top 200 cities expected to be in the region by 2025\(^3\)

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\(^3\)

HSBC well positioned to capture associated opportunities

- Largest bank in Hong Kong\(^4\)
- Largest foreign bank in mainland China\(^4\)
  - 176 outlets across 57 cities
- 2\(^{nd}\) largest foreign bank in Taiwan\(^4\)
  - 37 outlets across all major cities

---

**Mainland China**\(^5\)

- Population: 1.37bn
- GDP growth: 6.9% yoy
- GDP per capita: USD7.6k
- Export growth: -1.9% yoy
- Outlets\(^4\): 176

**Taiwan**\(^5\)

- Population: 23m
- GDP growth: 0.7% yoy
- GDP per capita: USD21.6k
- Export growth: -0.2% yoy
- Outlets\(^4\): 37

**Hong Kong**\(^6\)

- Population: 7m
- GDP growth: 2.4% yoy
- GDP per capita: USD39.9k
- Export growth: -1.5% yoy
- Outlets\(^4\): 118 outlets

---

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

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

1. CEIC
3. Hong Kong Trade Development Council


74% 56% 55% 49%

Primary + Secondary Industry
Tertiary Industry

100%

USD31bn R&D budget earmarked in Guangdong, equivalent to 2.8% of the province’s GDP

Government Initiatives

2015 - 2020

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

Advanced Manufacturing / R&D

USD226bn value added in 2015 by Guangdong’s advanced manufacturing sector

Guangdong’s share of the c.13,300 international patent filings from China in 2014

2013 2014

27% 10%

2014 2015

>50%
Economic integration is continuing between Pearl River Delta and Hong Kong

**Close Economic Connectivity between PRD and HK**

- **$218bn**
  - Amount of Hong Kong capital utilised in Guangdong from 1979-2014, equivalent to 62% of Guangdong’s total FDI over the same period\(^1\)

- **35%**
  - Hong Kong’s share of total exports from Guangdong in 2014\(^1\)

- **170%**
  - RMB854bn CNH deposit balance in Hong Kong, #1 globally\(^2\)

- **100%+**
  - Mainland demand for office space in Hong Kong’s Central district has more than doubled in the past six years\(^3\)

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\(^4\)**

**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
Pearl River Delta

DJI – a flying innovation story in Shenzhen

“The 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

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 -2019¹

---

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 respectively²

- Global workforce of 3,000+ with offices in US, Germany, Japan and the Netherlands, etc.³

- 300% - 500% annual revenue growth during 2009 - 2014⁴

- Valuation estimated at c.USD1.6 bn in 2014²

---


2. China Daily (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
### Pearl River Delta

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

<table>
<thead>
<tr>
<th>Macro themes</th>
<th>Implications for different customer segments</th>
<th>Banking requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Rising wealth and spending power of local residents</td>
<td><strong>Local Corporates</strong>&lt;br&gt;更多公司向外扩张，有机或通过M&amp;A&lt;br&gt;增加需重新定位国内市场的主张以适应不断变化的地方消费行为&lt;br&gt;新兴企业来满足创新带来的需求，例如—物流（GD在2015年在线零售销售中排名第一）—金融服务（深圳金融科技的温床）</td>
<td>- 供应链相关解决方案&lt;br&gt;- 支持中小型企业</td>
</tr>
<tr>
<td>- Increased HK-PRD connectivity</td>
<td><strong>Multinationals</strong>&lt;br&gt;更多具有高科技和服务业专业知识的公司向外扩张和/or建立运营/R&amp;D基地&lt;br&gt;生产低价值产品到低成本国家或地区/和/or升级来服务更高价值的业务</td>
<td>- 咨询在国际贸易/投资流方面等&lt;br&gt;- 近海、远海资本融资</td>
</tr>
<tr>
<td>- Ongoing opening up of trade and financial markets</td>
<td><strong>Retail Customers</strong>&lt;br&gt;更多元化的需求，包括财富管理和财务规划&lt;br&gt;增加访问跨境金融服务的需求（如海外投资、教育等）&lt;br&gt;更广泛接受在线平台的金融服务</td>
<td>- 整合、方便和可信赖的数字银行平台&lt;br&gt;- 为客户提供一站式服务</td>
</tr>
<tr>
<td>- Government Initiatives to further encourage ‘China going out’</td>
<td><strong>Integrated, convenient and trusted digital banking platform</strong> to provide one-stop services</td>
<td>- 联系和可靠国际金融服务</td>
</tr>
<tr>
<td>- Rise of Internet Finance</td>
<td><strong>Local Corporates</strong>&lt;br&gt;更多公司向外扩张，有机或通过M&amp;A&lt;br&gt;增加需重新定位国内市场的主张以适应不断变化的地方消费行为&lt;br&gt;新兴企业来满足创新带来的需求，例如—物流（GD在2015年在线零售销售中排名第一）—金融服务（深圳金融科技的温床）</td>
<td>- 供应链相关解决方案&lt;br&gt;- 支持中小型企业</td>
</tr>
</tbody>
</table>

- 供应链相关解决方案<br>- 支持中小型企业
- 咨询在国际贸易/投资流方面等<br>- 近海、远海资本融资
- 联系和可靠国际金融服务
Example: Mapping PRD enterprises’ development journeys with HSBC’s network and product offerings

**Case Study – PRD enterprise**

**A SOE’s acquisition of controlling interests in Malaysia’s largest power generation portfolio**

**Client’s Objectives**
- Diversify existing power portfolio mix
- Expand its footprint in clean energy
- Leverage on government’s Belt and Road initiative to obtain government and funding support

**Banking Requirements**
- Advisory on complex cross-border M&A deals
- Trusted international banking partner to see through deal end-to-end
- Ongoing support to the acquired entity

**The Journey**

1. **Target Selection & Transaction Structuring**
   - M&A advisory
   - Funding plan formulation

2. **Deal Settlement**
   - Financing
   - FX exposure for deal settlement
   - Cross-border payments

3. **Ongoing Support**
   - Trade finance related to machinery imports or raw materials sourcing
   - Working Capital related funding
   - Cash Management

4. **Potential Future Capital Raising**
   - Bond issuance(s)
   - Asset securitisation
   - IPO / share placement(s)

**Banking Services Required**

**Supported by our propositions**
- International connectivity
- Broad product offering
- Close man-marking via GRM and in-country China desk model

**HSBC Capabilities**
- China – Best Foreign Bank
- HK – Best Bank, Best Investment Bank, Best FX Bank
- ASP – Bank of the Year, Best Bond House, Best M&A House
- RMBI – Best for Overall Offshore RMB Products/Services
- PCM - Best Global Cash Manager for Non-Financial Institutions
- GTRF – Best Overall Global Trade Finance Bank
- FX - #1 Global Market Share for Corporates

---

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.
Pearl River Delta

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

<table>
<thead>
<tr>
<th>Key risks</th>
<th>HSBC mitigating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>China Economic Slowdown</strong></td>
<td>✓ Continue to strengthen risk management practices anchored on both international and local experience to manage quality asset growth in key segments</td>
</tr>
<tr>
<td>• Heightened credit risks from slowing economy under the “New Normal” and SOE reforms</td>
<td>✓ Apply deposit and non-lending focused growth strategies for higher risk segments</td>
</tr>
<tr>
<td><strong>Intensified Competition</strong></td>
<td>✓ Launch credit cards under relationship-led strategy to drive new customer acquisition</td>
</tr>
<tr>
<td>• Increasing competition in domestic market and in the cross-border space from existing players</td>
<td>✓ Focus on digital platform development</td>
</tr>
<tr>
<td>• Threat presented by new challengers (e.g. private-owned banks) and disruptive innovators (e.g. P2P lenders)</td>
<td>✓ Expand capital market capabilities and capture opportunities unlocked by policy liberalisation</td>
</tr>
<tr>
<td>• Customer funds could flow offshore as capital account and other FX policies relax in the medium term future</td>
<td>✓ Leverage on unrivalled international network to deepen existing wallet and acquire new businesses</td>
</tr>
<tr>
<td>• 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</td>
<td>✓ Leverage on leading position in Hong Kong and wider network connectivity to capture business flows on both sides of the border</td>
</tr>
</tbody>
</table>

---

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

---

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

**Retail**
- 35 countries with HSBC Premier proposition coverage
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\(^1\)
- 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\(^2\)
- Continued economic integration with Hong Kong
- USD185bn combined banking revenue pool expected by 2025\(^3\)

**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