



# HSBC in China

## Presentation to Citi Global Financial Conference

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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 Annual Report and Accounts 2011, Interim Report 2012 and third quarter Interim Management Statement. 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 are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**



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# Macro environment and key drivers



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# China: Anchoring world growth

## Chinese economy slowing, not faltering

### GDP forecasts

% y-o-y growth	2011	2012e	2013e
China	9.3	7.8	8.6
Asia Ex-Japan & China	5.3	4.4	5.3
Asia Ex-Japan <sup>1</sup>	7.4	6.2	7.1
World <sup>2</sup>	2.6	2.2	2.4

### China economic forecasts

% y-o-y growth	2011	2012e	2013e
Consumer spending	8.8	8.5	8.7
Investment	23.8	20.0	21.5
Export volume	18.3	3.8	6.0
CPI (average)	5.4	2.9	3.1

- Moderation in China GDP growth due to weaker export growth
- Domestic consumer spending and investment growth should provide support
- Further risks to growth – European instability, lacklustre US recovery
- Economic uncertainty impacting revenue growth
- China remains on course for soft landing
  - Expect a mix of monetary and fiscal easing
- Q2 2012 sector NPL ratio unchanged q-o-q at 0.9%<sup>3</sup>

Notes:

1 Excluding Australia and New Zealand

2 World – nominal GDP weights

3 As of Q2 12. Source: China Banking Regulatory Commission

Source of economic forecasts: HSBC Global Research

# Rise of China

Structural, sustainable drivers of growth for international business

- **2nd largest economy in the world**
- **GDP grew 35x in three decades (USD200bn in 1981 to USD7trn in 2011)<sup>1</sup>**

## People

- High net worth individuals reached 1.2m, with a five-year average growth rate of 29%<sup>2</sup>
- Urbanisation, and rising spending power
- International banking and wealth management requirements

## Trade

- Largest exporting country
  - USD1.9trn total exports in 2011<sup>3</sup>
  - By 2020, total trade expected to surge to around USD16.7trn, or 19.5% of global trade<sup>4</sup>

## Investment

- World's top destination for FDI in H1 2012<sup>5</sup>
- China "Going out" national policy
  - 2011 ODI reached USD75bn, ranked 6<sup>th</sup> globally<sup>6</sup>

## Currency

- RMB internationalisation
- Reserve currency potential
- Targeting full convertibility

### Notes:

1 World Economic outlook-IMF, April 2012

2 High net worth individual denotes individuals with wealth over RMB10 million. Data as of year-end 2011. Source: "2012 China Private Banking Development Report", CITIC Bank & Central University of Finance and Economics

3 Source: Ministry of Commerce, PRC

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

5 Source: "Global Investment Trends Monitor No. 10" 23 October 2012, United Nations Conference on Trade and Development

6 Source: "2011 Statistical Bulletin of China's Outward Foreign Direct Investment", Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange of PRC

# China: a growth engine for HSBC



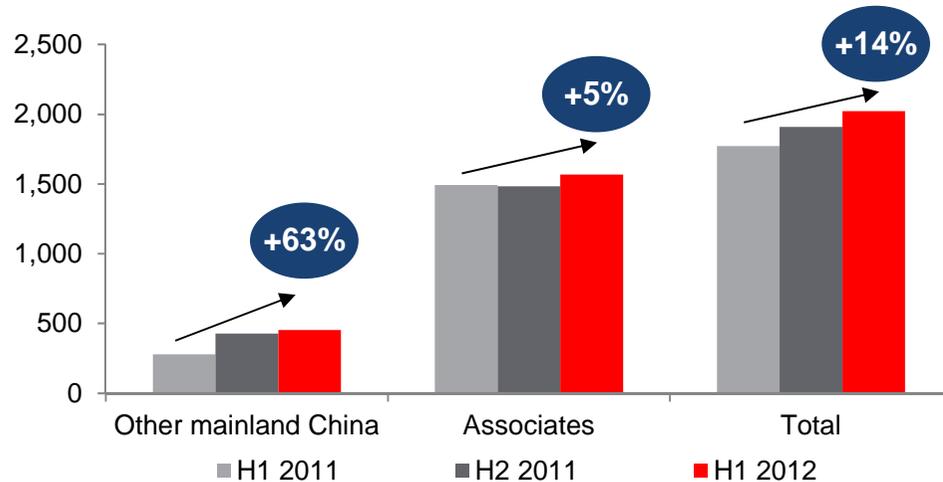
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# HSBC in mainland China: H1 2012 financial highlights

## Biggest profit contributor in Asia outside Hong Kong SAR

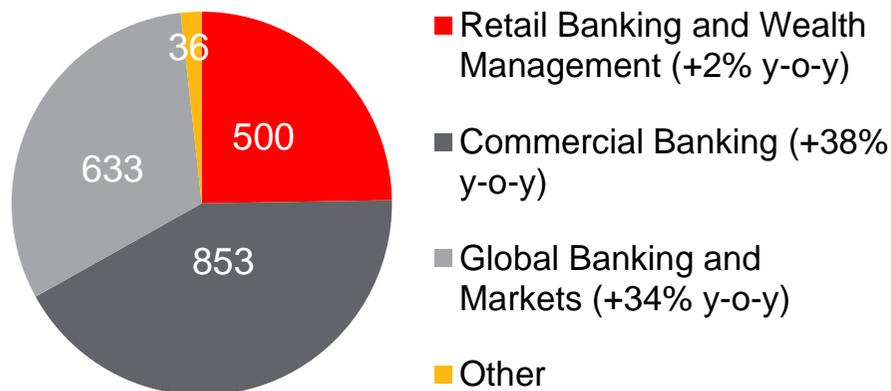
### Reported profit before tax (PBT) (USDm)



### Highlights – H1 2012

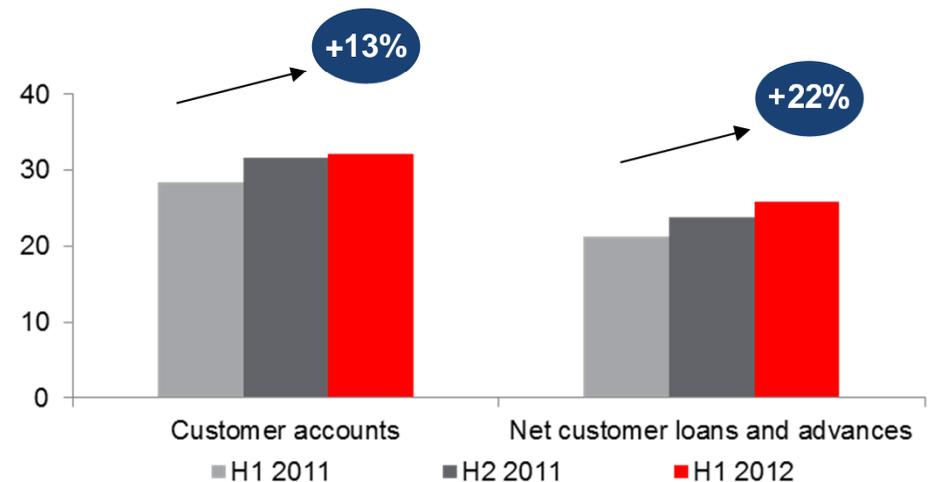
- Contributed 16% of Group PBT
- Strong organic growth, driven by:
  - Balance sheet growth
  - Higher net interest income
- Delivered profitability growth while continuing to invest in network expansion

### PBT by Global Business (USDm) – H1 2012



Source: HSBC Holdings plc Interim Report 2012.

### Customer accounts and loans (USDbn)



# Comprehensive footprint in China

Wide range of investments in banking, insurance and asset management

Banking <sup>3</sup>	Insurance <sup>3</sup>	Asset Management	Other
<b>HSBC China</b> 100% - 2007 - 30 <sup>th</sup> largest	<b>HSBC Life Insurance</b> 50% - 2009	<b>HSBC Jintrust</b> 49% - 2005	<b>HSBC Electronic Data Processing (Guangdong)</b> 100% - 1996
<b>Hang Seng China</b> 62.1% - 2007 - 71 <sup>th</sup> largest	<b>Ping An Insurance</b> 15.6% - 2002 - 2 <sup>nd</sup> largest		<b>HSBC Software Dev. (Guangdong)</b> 100% - 2006
<b>HSBC Rural Banks<sup>4</sup></b> 2007 for the first Rural Bank			<b>Credit card cooperation / JV with BoCom</b>
<b>Bank of Communications</b> 19% - 2004 - 6 <sup>th</sup> largest			
<b>Bank of Shanghai</b> 8% - 2001 - 19 <sup>th</sup> largest			
<b>Industrial Bank</b> 12.8% via Hang Seng 2004 - 10 <sup>th</sup> largest			
<b>Yantai Bank</b> 20% via Hang Seng 2009 - 106 <sup>th</sup> largest			

**Organic:** HSBC China is the largest foreign bank in China. Assets grew by 22% CAGR since local incorporation<sup>1</sup>

**Strategic investments:** Market value of listed investments total to USD22.6bn<sup>2</sup>

Key to the boxes: % denotes ownership by HSBC; year denotes year of incorporation (organic businesses, in red) or acquisition (strategic investments, in blue); rankings denoted where data are available. Notes:

1 Compound annual growth rates (CAGR) between 2007-2011. Total assets used for calculation based on IFRS basis.

2 Source: Bloomberg. Data as at 31 October 2012. Listed investments include Bank of Communications, Ping An Insurance and Industrial Bank

3 Banking rankings are from "KPMG Mainland China Banking Survey 2012", which is based on 2011 asset size, with the exception of Yantai Bank, for which the ranking is based on the 2011 Survey. Ping An Insurance ranking is based on China Insurance Regulatory Commission 2011 life premium statistics

4 As at 31 October 2012, HSBC has 12 rural banks (20 outlets) in mainland China

# Strategy: Connect China and the Group



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## China strategic direction

Mission is to anchor the Group's global China business

### Strategic goal

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

### Strategic priorities

#### 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 China

#### People

- Resource for business growth and organisational effectiveness

#### Strategic partners

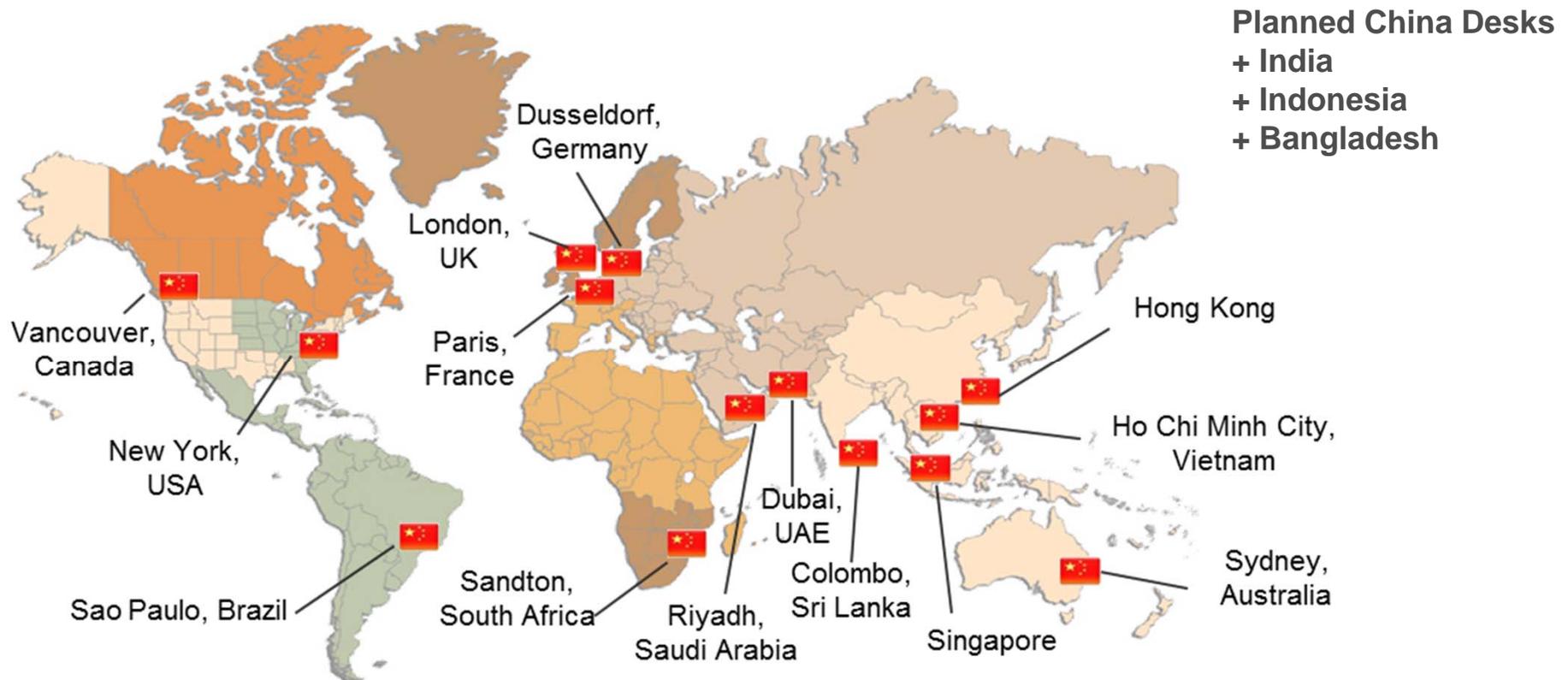
- Business cooperation with strategic partners

## International connectivity

### Linking China and the world for our customers

- **Strong offshore China-related business growth**
  - Example: CMB cross-border referrals between mainland China and the rest of the world increased by 11% y-o-y in H1 2012

**HSBC has 14 China Desks overseas and 9 dedicated foreign representatives in China**



# HSBC China's footprint

## Largest foreign bank network in mainland China

- **HSBC China maintains the largest foreign bank network in China with 132 outlets in 42 cities, across 20 provinces/ municipalities**
  - Provincial coverage approx. 86% of China's GDP and 96% of China's trade
  - The 42 cities represent approx. 22% (294m) of China's total population, and account for roughly 57% (RMB39trn) and 59% (RMB27trn) of China's deposits and loans
- **Network size 3.8x larger since local incorporation**



Network numbers as at 5 November 2012 and excludes HSBC Rural Bank and Hang Seng China outlets. Economic coverage data calculated based on 2011 figures. Source: CEIC, HSBC analysis

# A leading bank for RMB internationalisation



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# RMB usage growing around the world

**150+** countries doing RMB business in a typical month

**50+** territories with HSBC RMB capabilities

**20** territories with RMB swap / settlement agreements

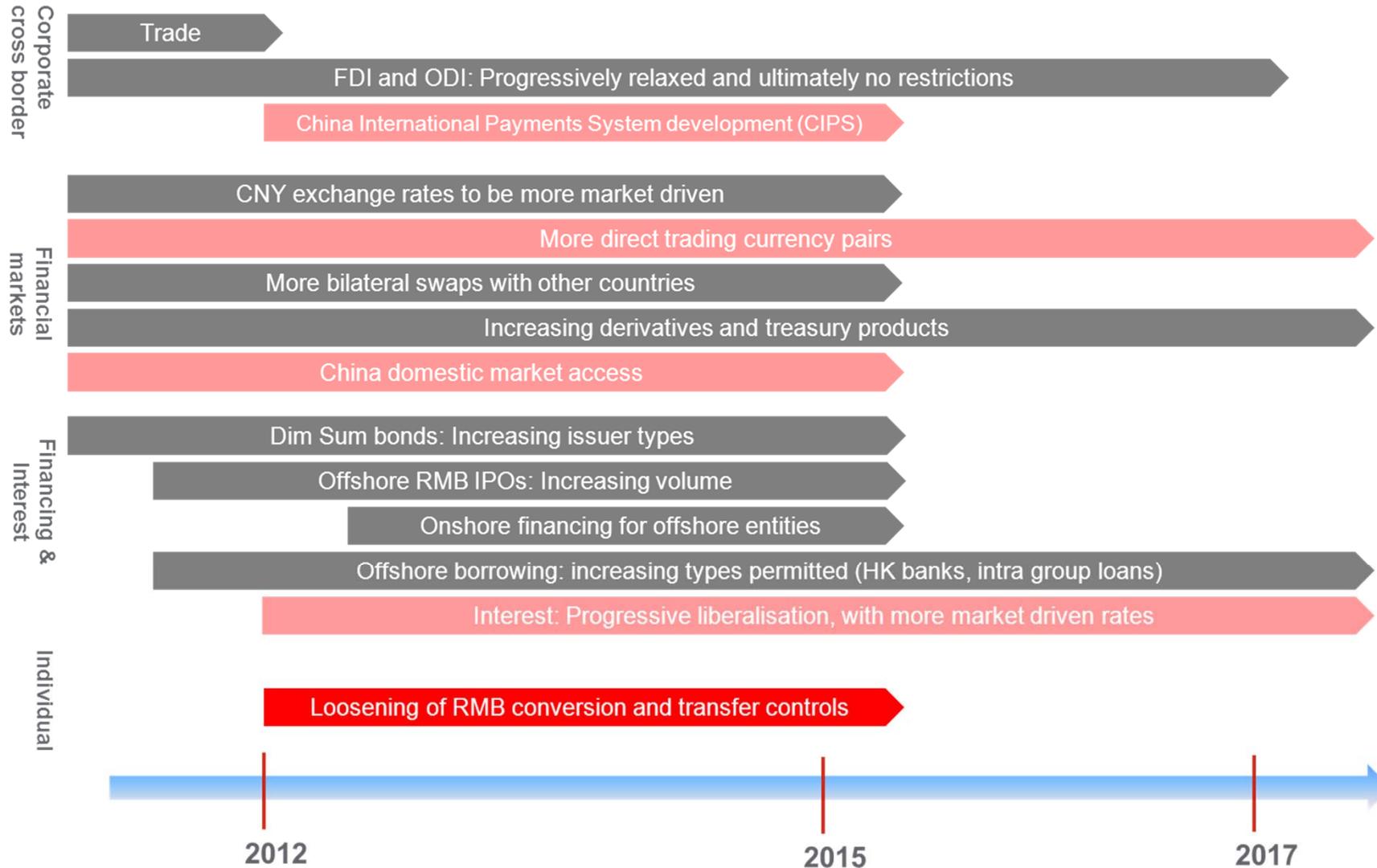
**3** developing offshore RMB centres



# Potential RMB development roadmap

## A wide range of reforms already under way

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Source: HSBC analysis

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# Early achievements demonstrate our ability to achieve ambition as “The Leading International Bank for RMB Business Worldwide”

## Global successes underpinned by onshore expertise and capabilities

- RMB capabilities in over 50 countries and territories
- First bank to settle RMB trade in all six continents (November 2010)
- Launched the first offshore RMB bond (June 2007) and IPO (April 2011)
- Issuer of the first RMB bond outside Chinese sovereign territory (UK, April 2012)
- Onshore recognition by People’s Bank of China awards for RMB leadership (Shanghai, Guangdong, Qingdao)

## Asiamoney Offshore RMB Survey for Asia-Pacific

	Best overall	Clearance, Transaction Banking and Settlement	Best for Deposits	Best for Derivatives	Best for Research	Best for Bond Origination
<b>HSBC</b>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
<b>SCB</b>	2 <sup>nd</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>
<b>BOC</b>	3 <sup>rd</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	4 <sup>th</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>
<b>Citibank</b>	4 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	4 <sup>th</sup>
<b>Deutsche</b>	5 <sup>th</sup>	●	●	5 <sup>th</sup>	●	●
<b>DBS</b>	●	5 <sup>th</sup>	●	●	●	5 <sup>th</sup>
<b>ICBC</b>	●	●	4 <sup>th</sup>	●	●	●
<b>BoA ML</b>	●	●	●	●	5 <sup>th</sup>	●

Source: Asiamoney “Offshore RMB Survey 2012”, May 2012

# Delivering our potential in China



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## Delivering HSBC's potential in China

- Near term economic conditions are weaker, but soft-landing expected
- Structural macro drivers remain valid and underpin long-term opportunities
- Strong performance for HSBC in China in H1 2012
- Rapid progress in building scale both onshore and offshore
  - core to executing international connectivity strategy
- Leadership among foreign banks a validation of our competitive capability
- Well placed to capture opportunities from the domestic economy, China “Going Out” and RMB internationalisation

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