

**Asia Investor and Analyst Seminar
Hong Kong, 15 May 2023
Asia by David Liao and Surendra Rosha**

Speakers: David Liao, Co-Chief Executive, Asia-Pacific and Surendra Rosha, Co-Chief Executive, Asia-Pacific

[David] Good morning. Happy to see you all and thank you for being here and thank you to Peter's speech, and I think he's politely trying to explain to you that this floor is where you graduate HSBC leadership to, and we are all down at the steam room. I joined 25 years ago a few floors below at the dealing room and I then spent 15 years in China from 2005 to 2020, I've seen some of you there. Five of those years I was looking after China as the CEO, and then took up this role just short of two years ago.

[Rosha] Thanks David. And I started a few years before David in 1991. Spent 24 of my 32 years in the markets business on the trading floor across India, Hong Kong and Indonesia. My last role was as India CEO, before I joined up with David back in Hong Kong to run the region in 2021.

[David] These few days I know the hard work is on you, because we're just speaking for 10 minutes and I've just looked at your pack and it's quite a lot to digest and I took 25 years to do that. So we're going to keep it reasonably light and interactive. We've taken your feedback and that's why the feedback form is important. We will be more focusing on Q&A and demos, and my better colleagues will really drill down into businesses.

But let me just run you through on how today will be spent. Rosha and I will just frame the Asia business overall. We will then have Ming going through the results. We had a strong 2022 and a stronger Q123. David Grimme will speak about the driving of the discipline, the transformation program that we've in progress into saving \$1 billion of savings, as well as releasing the \$6 billion investments that Peter spoke about that we embarked on a couple of years ago. Martin will then cover the risks of the region. Actually prior to that we'll have the Q&A between Rosha and myself, David and Ming. Luanne and Mark, the Hong Kong CEO and China CEO, will then going to deep dive into our core leadership in Hong Kong as well as our growing strength in China. Frank will then talk about CMB for both Hong Kong and China. Maggie leading into the leadership of Hong Kong's WPB business. Before ending, we will have Diana and the CFO Say Pin to speak to you about Hang Seng, which is also a substantial part of our Hong Kong business. I think we will then have Noel opening up to Q&A before we end the day.

So I think as Peter mentioned, the easy job for us is to talk about the Asia opportunities. I think the macro speaks for itself and the outlook, as it should. We know that the growth engine of global GDP will be in Asia Pacific. I was just speaking today with IMF Asia head. 70 per cent of global growth will be sitting in Asia this year and this is how we crafted the pivoting and the focus on Asia.

Peter spoke about the \$6 billion program two years ago, continue to drive our leadership in Hong Kong and China, but as well, the appointment of both Rosha and myself is to drive also deeper expression into Southeast Asia and India. We're also going to invest very heavily into wealth because we think the great businesses here will create better wealth. We do think great business will end up with great wealth and the catchment, whether it's in WPB and institutional, will be substantial.

It's been a difficult three years. Hong Kong has just opened up end of last year and we went through many challenges. I have to say the opportunities on Asia as well as our strategy has been strongly aligned, and the timing has been extremely eerily aligned as it were. You

will know of our leadership here and I hope you feel the depth and more of it here and also our strength in China. But during in the past two years, our renewed focus into investing in Singapore and India has really almost moved intact with, as China closed up with policy stress in the past 2-3 years, the 'China plus' 1, 2 and 3 consumed a lot of the business and as we invested in the catchment in Southeast Asia and India, it really was quite fruitful, as I think the results will show.

Our identity is in the cross-border space and we know intra-Asia that regional trade, FDI and GDP will overtake its relationship to the West. And so again that is also taking part within the bank. I think that the strategy is aligned. We have the distinctly unique advantage of our international connectivity – intra-Asia as well as the group. And actually the renewed travels that Rosha and I had since the beginning of the year, I've been to China four times already. Three of those that Peter mentioned about, spoke of the energy of the reopening up of Hong Kong and China, but also in terms of all the activities that Rosha has encountered in Southeast Asia has proven that it's all on track.

This is just really the IMF projection in terms of the bankable GDP. We as well as many other banks are more bullish in China. We expect almost 6.4 per cent this year. We need to see further in terms of the sustainability of the growth in 2024 and 2025, but certainly we expect the rebound will be intact. We were with the Ministry of Finance in China and they expect almost Q2 into a hefty 8 per cent growth, albeit from a low to negative base from last year.

The banking revenue pool is higher than that, and you can see from China and India as well as the respective functions of wholesale and wealth which we believe are where our opportunities are and aligns to our strategy, but I'm pausing here and I'll pass to Rosha to look at where we are with our businesses.

[Rosha] We capture these macro opportunities through our distinct footprint in the region and multiple engines of growth. When we set out a strategy in late 2020, one of the key areas of focus was diversification. We are halfway through that transformation at the moment. In Hong Kong and China, we make \$7 billion of PBT and including BoCom, that's \$9.4 billion. But even in these markets we are diversifying, and one of the proof points is the growth in our market share in insurance in Hong Kong, where we are now number one in 2022. In the rest of the region, we've doubled our profits from 2020 to 2022, from \$2 billion to \$4 billion. And this includes the 12 other international markets that we operate in outside of the large markets. And we'll talk a bit about this more on Thursday when we speak to you in Singapore.

Our strong client franchise and leading capabilities is underpinning this growth. And we continue to invest in this franchise. In our Wealth and Personal Banking division, we've expanded private banking in China and Thailand this year and we will be opening in India later in Q3. We also are investing in Pinnacle in China. In commercial banking, we've deployed digitised onboarding capabilities to acquire customers at scale across many of our markets and this feeds into our transaction banking capabilities that are market leading in Asia. In Global Banking and Markets, we have enhanced our presence across investment banking and markets in Singapore as a hub over the last few years and service a larger part of the business opportunity that exists there. We also have invested in the Chinese joint venture for investment banking - HSBC Qianhai Securities - which Peter referenced as well.

When we come to our international network, we generally believe, David and I, that our global connectivity is our superpower. And we have the privilege of operating in a region where the governments and the regulators that we speak with, are extremely supportive of growing trade and cross-border capital flows. Our wholesale client business in Asia generates \$9 billion in client revenues. 60 percent of that wholesale revenue is cross-border and 60 percent of that comes from outside of Asia.

We serve more than 5,000 non-Asian corporate clients in Asia. And just as an example of the strength of the East and West linkages that HSBC has, the North America to Asia corridor and the EU to Asia corridor are more than twice the size of the Hong Kong-China corridor that we bank, and they have been growing at over 25 per cent over the last year. We see further opportunities in this space. We think that we have more market share to gain as some of our competitors, global competitors from the US and Europe face challenges.

And there are further tailwinds for growth as more and more economies activate the regional trade agreements that have come into place. Peter talked about RCEP, but even with the CPTPP where six of the members are markets where we are present, two more have applied and two more are likely to apply. Frank and Amanda will talk more about the commercial banking opportunity through today and Thursday. This network also makes us the leading bank in Asia for corporates and institutions that want to bank with an international institution. We cover 95 per cent of Asia's GDP. 70 per cent of the largest corporates active in ASEAN already bank with us at HSBC. And we are the leading transaction bank in the region across cash, trade, securities services and FX. As we bank clients in more markets and with more products, we see our revenues continue to increase dramatically. Stuart and Monish will talk more about our Global Banking and Markets opportunities later in the week.

And lastly, I'll just cover off wealth very quickly because that does get a lot of airtime, but I think I want to just bring out a couple of data points from this slide. We are seeing faster growth in Asia Wealth than any other part of the world. We expect Asia wealth to reach \$79 trillion by 2026. Our Asia Wealth revenues have grown from \$5 to 5.8 billion in the last couple of years. More importantly, just last year, our net new invested assets grew by \$59 billion. This, to me, is the proof that our strategy is working, particularly in the hubs of Singapore and Hong Kong. And as we open up more private banking markets across the region, it will feed further into these hubs. I'm going to now hand back to David for the rest of the presentation.

[David] I'm just going to quickly delve into the key markets of Hong Kong and China before closing and passing to Ming. Hong Kong is really our key market of the group. It is our home market. We used to be called 'the Hong Kong Bank' and occasionally we have been called 'the Bank', but essentially it is really where our heart, and where our spiritual home is, is where the heritage, the brand and the trust is. I have been in the bank for 25 years. Born in Hong Kong and as I came back to Hong Kong into this role, I cannot fail to notice that intricate weave of this bank into all parts of the society. I was in my Asia board a couple of weeks ago and one of the board members asked whether I had enough time to see clients. And my first instinct and reaction in Hong Kong was I actually cannot not see clients in Hong Kong. When I go into the MTR, when I go into dinners, when I go into any, any facades of the society, this city is banked by us. That's a huge obligation as well as a huge opportunity. We are the biggest by far notes issuing bank here. We are the key reference bank for the Hong Kong dollar interest rate. As Luanne decides the rates against the US dollar movement, we are basically strongly referenced by all the competing banks. We are the final dollar clearer on behalf of HKMA here. So there is significant importance in terms of how we hold this responsibility. It cannot be shifted, as you understand. It's unlikely to be shifted into a China set of banks, nor is it big enough for any foreign banks to take up that role. So these are the sort of responsibility and the weight that we hold in this bank and the opportunity is about.

The fact is, I think Peter spoke about a lot of the challenges in China as well as Covid, but I think in terms of the evolution of China's almost consolidated Hong Kong as the single and sole funnel of China's internationalism to the world and international community into China. You are not getting the optionality, of, less of the optionality of the likes of Shanghai or Beijing or Shenzhen. It's very clear with President Xi here last summer, speaking into the one country two system, speaking of the common law, speaking into the expression of internationalism in Hong Kong which I think will be captured and why? It's because we know that despite the FT narratives, the Bloomberg narratives, you know trade and intra trade with China is still growing, and substantially. Most of the significant economies still have China as the largest trading partner. Even the US is growing in terms of trade and that needs to be facilitated through Hong Kong. The expression of the capital markets in China is very underweight by yourselves in terms of the market into Asia and to the China bond market and that's the conduit through Hong Kong and the CIBM and the stock and bond connects. The savings concentration of opportunities in China is very concentrated in China, and they ultimately need to go out to invest. Again, QDII schemes and many of the southbound connects allows that to happen, and many, many more.

Just on GBA, this is a city that, Luanne would tell you how deeply saturated we are just with the 7.5 million people, but there are 86 million people just across the border that's looking at new policies on interconnectivity as well as infrastructure with the Greater Bay and Hong

Kong that would come through. So the release of that is significant and I think the biggest testimony is we have an extremely capable Singaporean that's chosen to be the Hong Kong CEO of HSBC, and it tells you a lot about where the depth of the opportunity of this city is, and not to say Singapore is not thriving and then we're not successful there. So that's really for Hong Kong.

China. We just know that any and every conversation that we've been to, whether it's the Middle East and my third time in next month there, as well as around the region, that even the 'China plus one', even the recipient of 'plus one' has to be the China conversation. And in the past four months, going into there and looking at the resumption of the GDP, it's encouraging. But what's more encouraging is just really to see, and I don't know how many of you have moved into China, but for me just going into the Greater Bay and Shanghai and Beijing, there is still the energy and the youth of the economy. You know the biggest thing when I went back to Shanghai to see my colleagues is that sense of I'm going to build back my last three years, and I know that's regardless of politics and policies, I'm going to come through with good business ideas, creativity and technology that we can bank. We are small in there. Looking at aggregated foreign bank market share, is probably at around 1 per cent. But you have voted that a pure China play isn't what you want. You've marked all the Chinese banks at 0.3 times book. And you know that sort of risk and that sort of balance sheet isn't what you want. It is the alpha of connectivity and that that is where we want to drive our strength. In retail, through wealth, through Pinnacle, through institutions built, which I think that, again, we have a strong handle, we are the strongest bank by far in China and complements very well into Hong Kong. Peter spoke about the infrastructure that we have apart from the bank, that our joint ventures of asset management, insurance and securities. We are already upping the ownership to the point that that is profitable to us.

Lots of noise on the geopolitics, US-China, that will continue, but I'm speaking in all these conclusions despite all those. Mark will go deeply into those opportunities. But just to conclude as I said the Asia macro story stands. Our strategy is aligned to it. We also have an infrastructural connectivity that nobody has, that banks very well, and I take up the challenge of whether it's an international banking model or regional or local model, you may have momentary bright spots of rushes of capital and opportunities in specific local markets, but we have the best Asia catchment. But a lot of work to do and my colleagues will speak into those.