



# Asia Strategy

Jaspal Bindra

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# Day 2 agenda

08.30 – 09.30	Guest speaker	Norman Chan, HKMA
09.30 – 10.00	<b>Asia strategy</b>	Jaspal Bindra
10.00 – 10.15	Tea & coffee break	
10.30 – 11.00	<b>Korea</b>	Ajay Kanwal, Gregg Powell
11.00 – 11.45	<b>Q&amp;A</b>	
11.45 – 12.45	Lunch	
12.45 – 13.10	<b>Greater China overview</b>	Ben Hung
13.10 – 13.50	<b>Hong Kong</b>	May Tan, Jamie Ling
13.50 – 14.30	<b>China</b>	Jerry Zhang, Yee Mann Hau, Xie Wen
14.30 – 15.00	<b>Q&amp;A</b>	
15.00 – 15.15	Tea & coffee break	
15.15 – 15.55	<b>Offshore RMB deep dive</b>	Gene Kim
15.55 – 16.00	<b>Wrap-up</b>	Jaspal Bindra
16.30 – 17.30	Grand opening of Forum	Officiated by John Tsang, HKSAR
19.00 – 22.30	Race night and dinner	

# What will you hear on Day 2

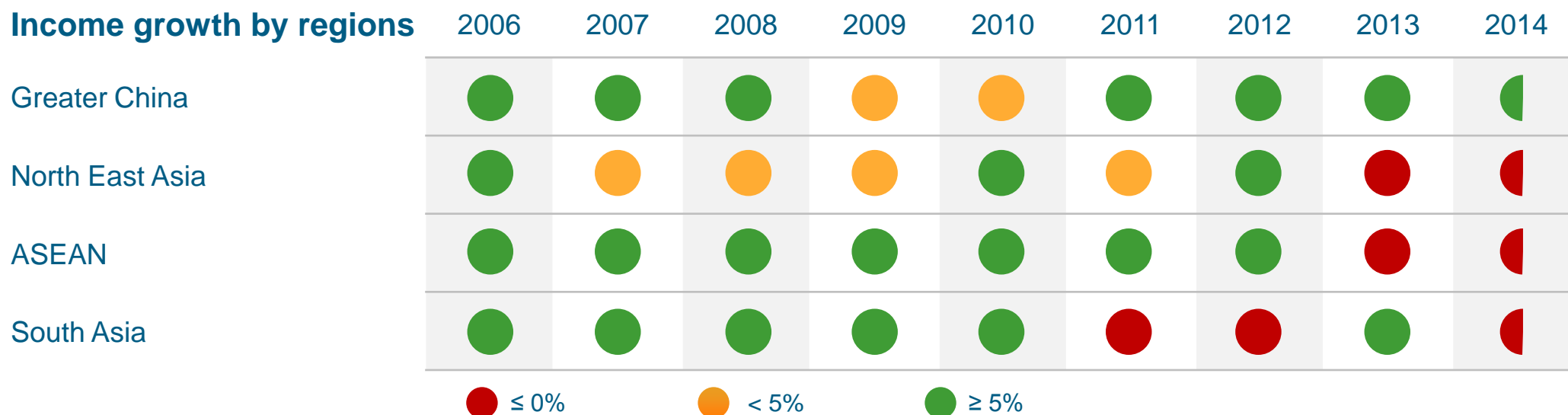
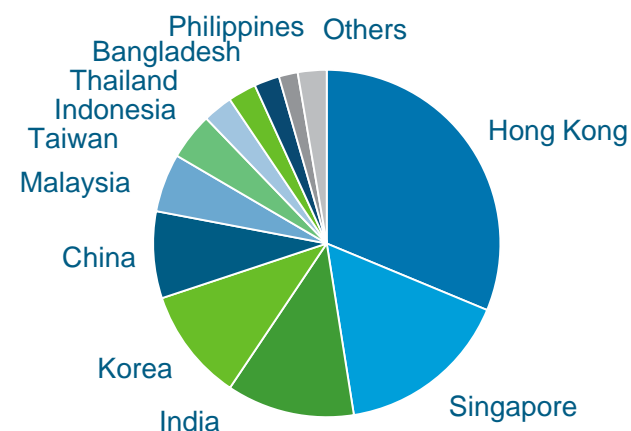
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- Where we are today in each of our key regions in Asia
- Opportunities and challenges
- How are we competitively positioned
- How client segment / product priorities are executed on the ground
- How we are positioning to return to sustainable, profitable growth

# 2014 performance in Asia

US\$m	H1 13	H2 13	H1 14	YoY%	HoH%
<b>Income</b>	<b>6,780</b>	<b>6,108</b>	<b>6,373</b>	<b>(6)</b>	<b>4</b>
Expenses	(3,463)	(3,393)	(3,435)	1	(1)
<b>Working profit</b>	<b>3,317</b>	<b>2,715</b>	<b>2,938</b>	<b>(11)</b>	<b>8</b>
Total impairment	(621)	(790)	(795)	(28)	(1)
Associates	111	113	113	2	0
<b>Operating profit</b>	<b>2,807</b>	<b>2,038</b>	<b>2,256</b>	<b>(20)</b>	<b>11</b>

## H1 14 Asia income (US\$6.4bn)



# Reflecting headwinds

## Structural

- Increased regulatory complexities and requirements
- Increased competition – local, regional and international

## Cyclical

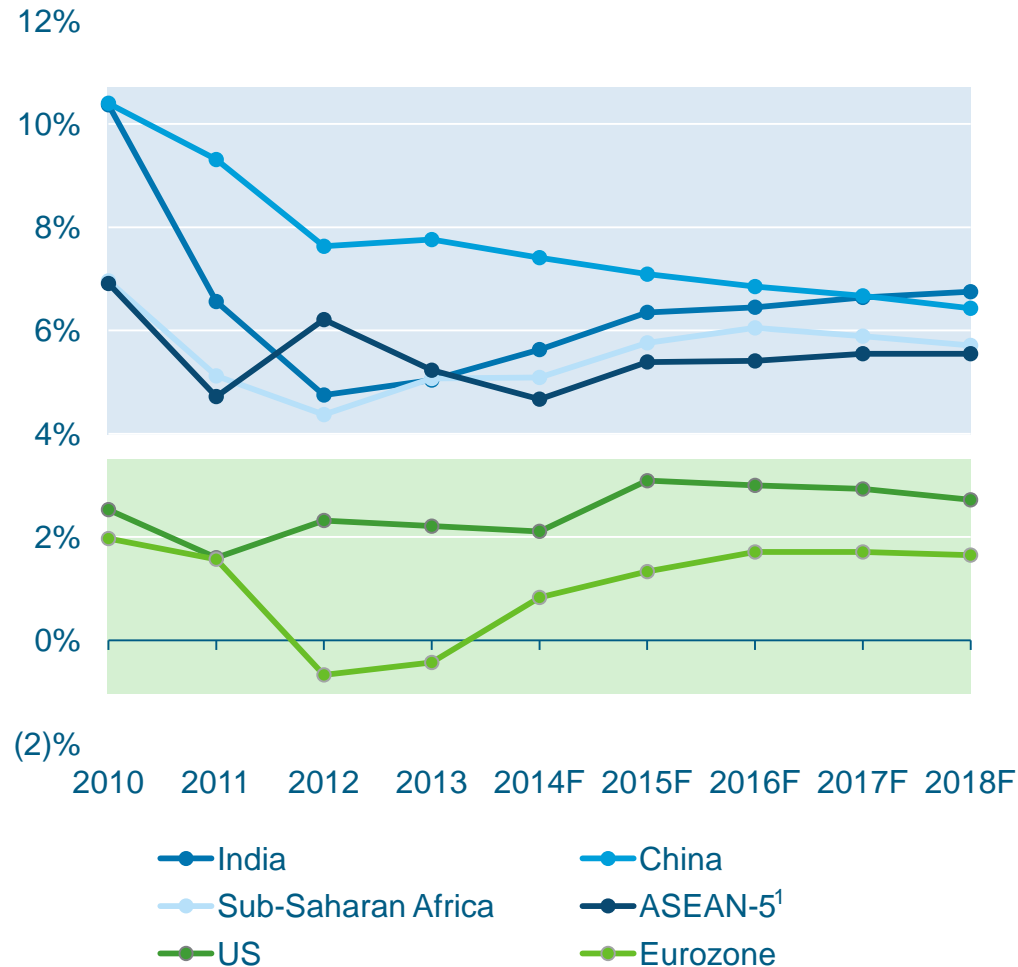
- Emerging market sentiment
- Record low interest rates
- Margin compression from abundance of liquidity
- Slowdown in global trade growth

## Internal

- De-risking Personal Loans portfolio
- Muted balance sheet growth
- Talent

# Asia macro overview

## Real GDP growth (%)



Source: IMF, October 2014

Notes: GDP – Gross Domestic Product; 1) Composed of 5 countries: Indonesia, Malaysia, Philippines, Thailand and Vietnam

## Asia remains exciting

- Resilient growth, well above US/Europe
- Emerging affluent middle class
- Favourable demographics in growth markets
- Deepening financial markets
- Changing trade patterns

## But near term uncertainties

- China's economy in transition
- Oil price movements
- Global monetary policy
- Changing political landscape
- Regulatory uncertainty

# Regional overview

	Greater China	North East Asia	ASEAN	South Asia
Staff*	~19,000	~5,900	~22,000	~22,000
Outlets	276	314	134	172
H1 14 income (US\$bn)	2.8	0.7	1.9	1.0
H1 14 profits (US\$bn)	1.2	(0.1)	0.7	0.5



\* Including all subsidiaries

# Strategic priorities and actions

## **Priority #1: Sustain Greater China momentum**

- Intensify network collaboration to capitalise on Greater China opportunities
- Strengthen market leadership in RMB
- Capture opportunities from China's reform agenda

## **Priority #2: Position as the leading international bank for Korea**

- Continue to grow capabilities to service Korean corporates overseas
- Re-shape domestic business to desired scale; exit non-core business

## **Priority #3: Position for greater ASEAN integration**

- Accelerate inter and intra regional collaboration; Leverage AEC\* 2015
- Leverage Singapore as regional financial hub
- Scale up priority markets of Indonesia, Malaysia

## **Priority #4: Leverage our leading South Asia position**

- Focus on trade and investment corridors
- Position for economic recovery and increased FDI in India

## **Priority #5: Strategically drive people agenda, improve bench and address attrition**

- Focus on capacity and capability building
- Improve efficiency and productivity

*Note: AEC – ASEAN Economic Community*



# Key messages

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- 2014 performance has been disappointing, including Asia
- Reflecting primarily cyclical and internal challenges
- We remain confident of our markets and our competitive positioning
- We have sharpened our focus – leveraging our strengths, mitigating our weaknesses
- We are taking action to return to sustainable, profitable growth



# Korea

Ajay Kanwal and Gregg Powell

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# Key messages

- Korea is a significant economy with steady growth
- The banking market has become challenged
- 2014 performance has been disappointing
- We are driving our refreshed strategy to
  - ✓ Reshape the Korea franchise with strong execution
  - ✓ Play to our strengths i.e. network, wealth
- Remains challenging but we are taking action



# Korea

- ✓ 13th largest GDP in the world
- ✓ 8th largest exporter in the world
- ✓ China is no.1 trading partner with a trade volume of US\$189bn
- ✓ Rich population with per capita GDP of US\$26k
- ✓ 2nd highest smart phone penetration
- ✓ 3rd highest wireless broadband subscription

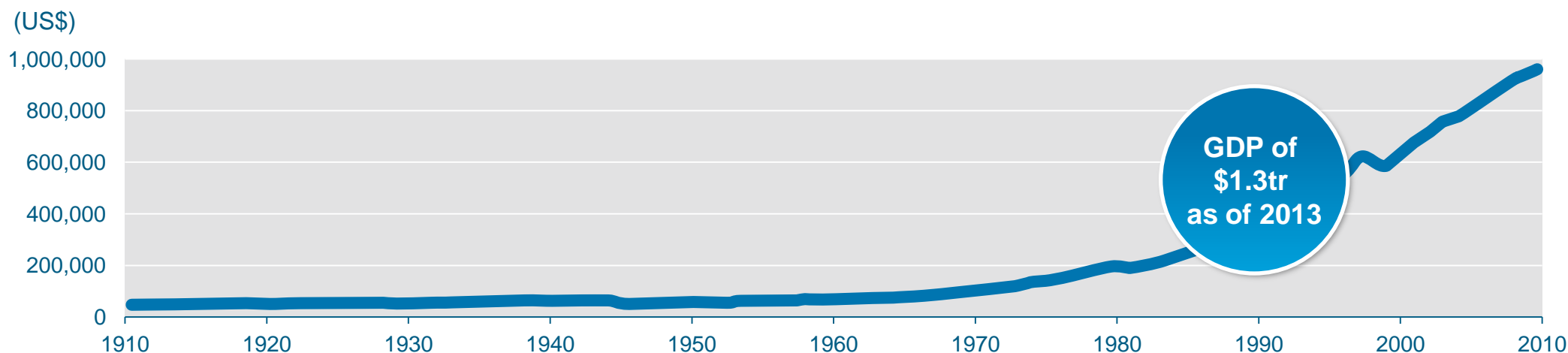
Banking Wallet

Network Income

RMB opportunities

Wealth Management

Mobile Banking



Source: Korea National Statistics office; Korea International Trade Association

# Korea – Competitive landscape

## Peer performance – H1 2014

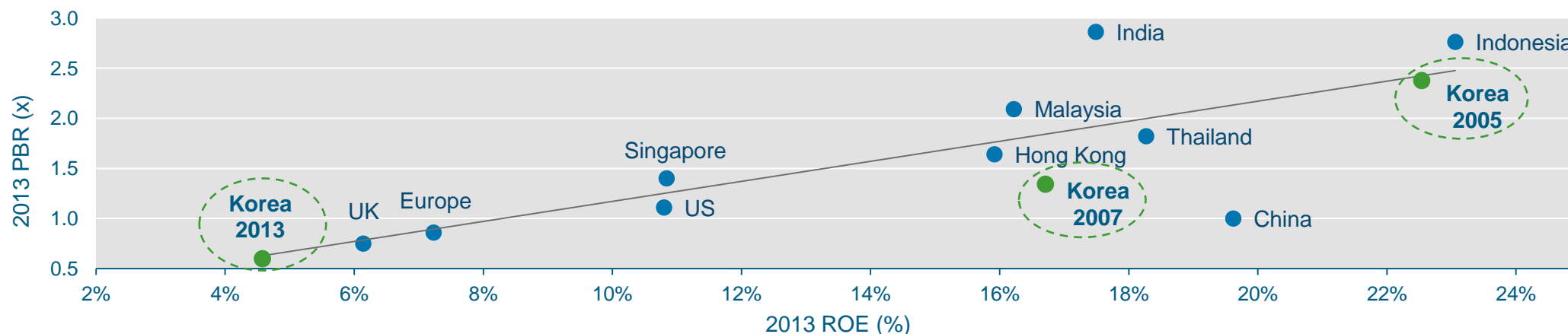


-----Other banks in Korea-----

Income (US\$bn)	0.6	0.7	2.7	2.2	2.5	1.5	1.4
PBT (US\$bn)	-	-	0.5	0.5	0.8	0.5	0.3
Assets (US\$bn)	58	53	264	249	243	170	115
FTE ('000)	5	3	21	15	14	9	8

Source: FSS, six months KIFRS basis, main banking entity only

## 2013 Banking sector ROE and PBR forecasts



Source: Company, Bloomberg, FactSet, Standard Chartered Research estimates, PBR: Price to Book ratio

# Korea – H1 14 results

US\$m	H1 13	H2 13	H1 14	H1 14 vs H1 13 (%)	H1 14 vs H2 13 (%)
<b>Income<sup>1</sup></b>	<b>898</b>	<b>665</b>	<b>669</b>	<b>(26)</b>	<b>1</b>
Expenses	(549)	(571)	(587)	(7)	(3)
Operating profit before impairment	349	94	82	(77)	(13)
Loan impairment	(193)	(234)	(209)	(8)	11
Other impairment <sup>2</sup>	(19)	(10)	-	nm	nm
<b>Profit before tax<sup>1</sup></b>	<b>137</b>	<b>(150)</b>	<b>(127)</b>	<b>nm</b>	<b>16</b>

1) Excluding OCA adjustment; 2) Excluding goodwill impairment of \$1bn H1 2013

# Reshaping Korea

## What didn't go well

- Loan Impairment led by PDRS<sup>1</sup> filings
- Financial Markets income performance
- Regulatory issue
- Productivity
- Capital efficiency

## What did go well

- Disciplined headcount management
- Progress on corporate restructuring
- RMB thought leadership
- Branch network optimisation
- Network business

1) PDRS: Personal Debt Rehabilitation Scheme

# Our refreshed strategy

## 1 Sharpen our focus

- Exit off-strategy businesses
- De-risk the unsecured books
- Productivity initiatives
  - Tight headcount management
  - Sales productivity
  - Optimize property
- Reshape balance sheet

## 2 Play to our strengths

- Drive network income
- One Bank
  - Employee Banking
  - Supply Chain Finance
- Build Wealth Management
- Form strategic alliances
- Rebuild Financial Markets
- Build RMB business



# Corporate and Institutional Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>305</b>	<b>180</b>	<b>(41 )</b>
Expenses	(123)	(127)	(3)
<b>Working profit</b>	<b>182</b>	<b>53</b>	<b>(71)</b>
Loan impairment	(17)	(2)	nm
Other impairment	(19)	nm	nm
<b>Profit before tax</b>	<b>146</b>	<b>51</b>	<b>(65)</b>

## Segment overview

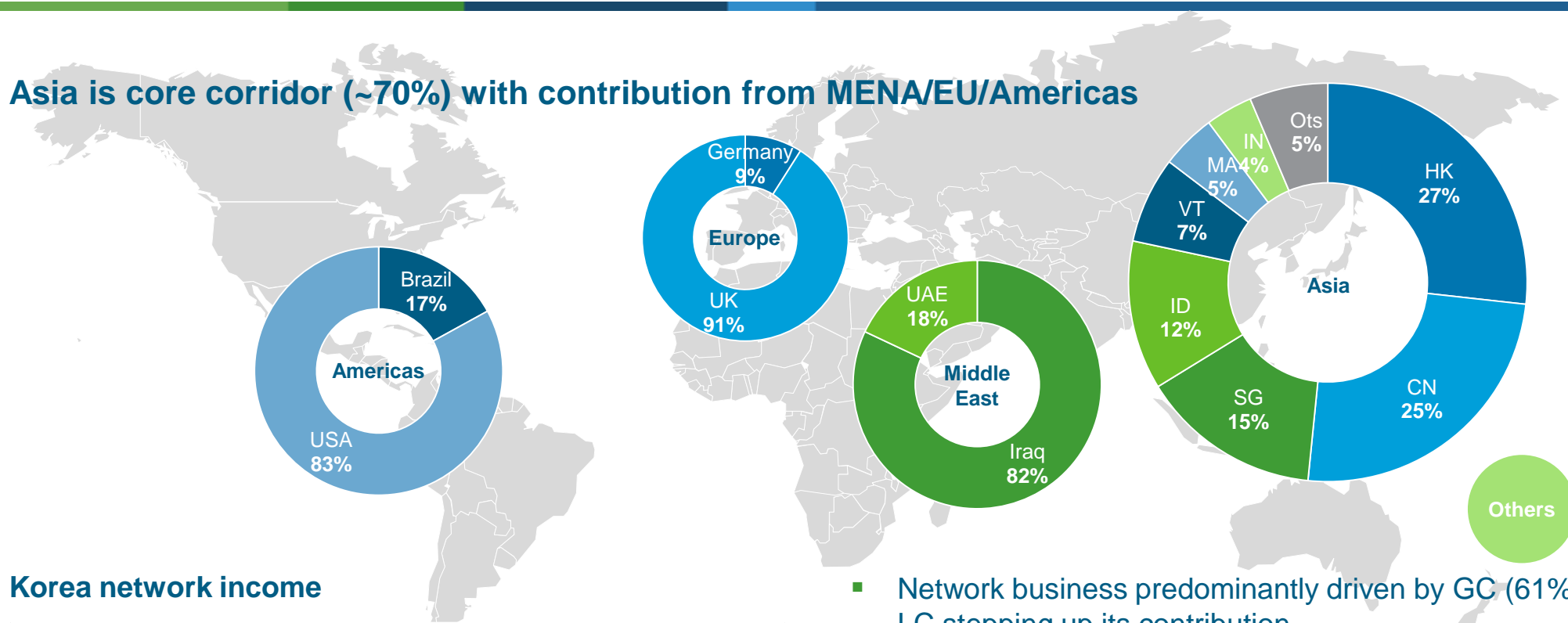
- Focused on cross border, network income
- Financial Markets, market leadership on multiple fronts

## Strategic priorities

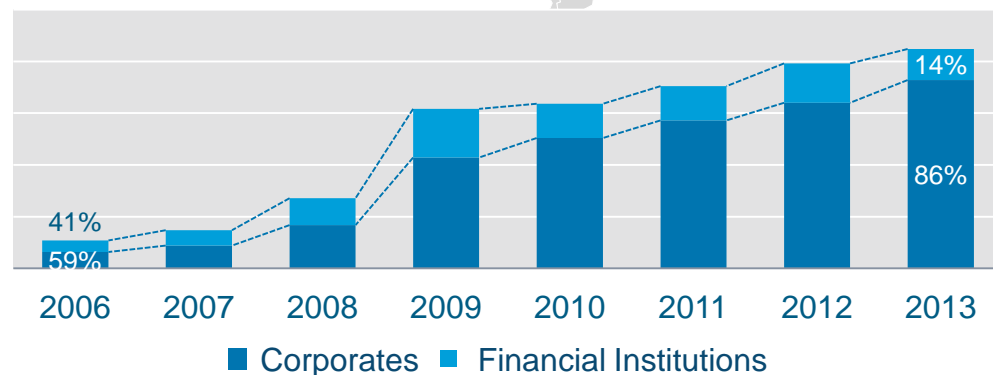
- Continue to build out the Global Corporates and Local Corporates segments
- Diversify Financial Markets product offering and client base
- RMB as a key differentiator
- Invest into network opportunities; expand into new corridors e.g. UK, and continuously build the Korea desk network

# Korea – Network business 2014

Asia is core corridor (~70%) with contribution from MENA/EU/Americas



## Korea network income



- Network business predominantly driven by GC (61%). LC stepping up its contribution
- Healthy product mix in network (CF: 31%, FM 22%, TB: 36%, Lending: 11%)
- Field Account Managers (FAM)
- Deployment of Korean FAM and products into network has been a key enabler

# Commercial Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	50	33	(34)
Expenses	(44)	(41)	7
<b>Working profit</b>	6	(8)	nm
Loan impairment	(8)	(22)	nm
Other impairment	nm	nm	nm
<b>Profit before tax</b>	(2)	(30)	nm

## Segment overview

- Newly established on 1 April 2014
- Around 4,400 clients
- Legacy lending book being managed

## Strategic priorities

- Upgrade the skill set of our Relationship Managers and increase overall numbers
- Move away from plain vanilla lending and reduce Commercial Real Estate
- Position relationship as the main trade/FX bank rather than main lending bank
- Move focus to onboard export-focused companies

# Retail Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>533</b>	<b>456</b>	<b>(14)</b>
Expenses	(372)	(419)	(13)
<b>Working profit</b>	<b>161</b>	<b>37</b>	<b>(77)</b>
Loan impairment	(168)	(185)	(10)
Other impairment	-	-	nm
<b>Profit before tax</b>	<b>(7)</b>	<b>(148)</b>	<b>nm</b>

## Segment overview

- 301 branches and 2,499 ATMs
- Around 4m clients; 2.5m digital banking clients
- Largest Retail Clients infrastructure for Group

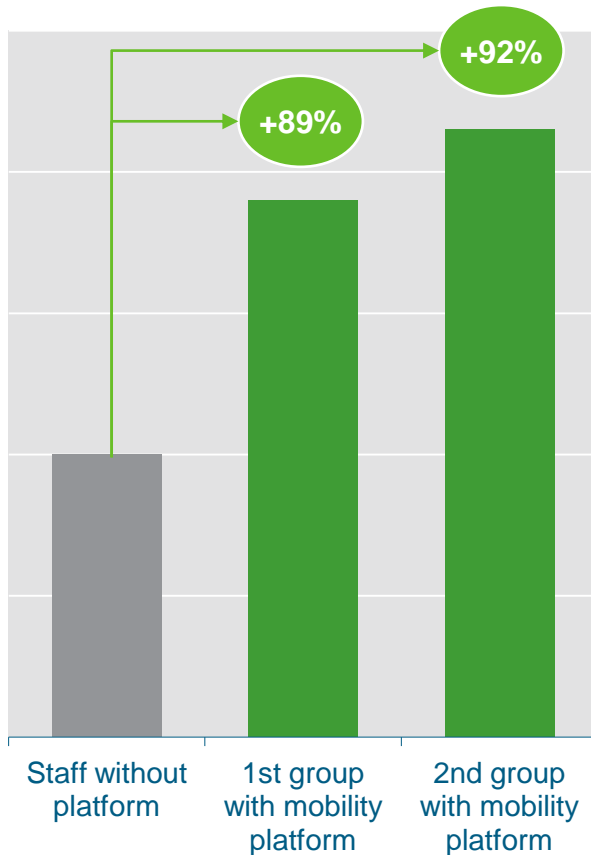
## Strategic priorities

- Accelerate existing High Value Segment strategy through realigning resources and strengthening Customer Value Proposition
- Continue to grow personal clients leveraging employee banking and alliances
- Build superior digital support tools for frontline and customers

# Mobility Platform

## Mobility Platform results

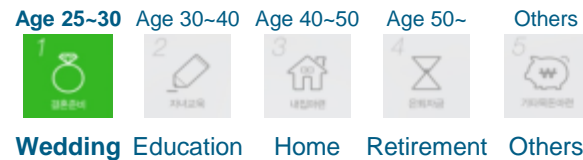
Total no of retail products sold  
(Jul–Aug 2014)



1

### Identify needs

Start conversation with key financial needs based on the customer's life stage



2

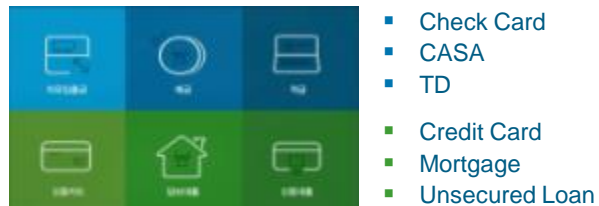
### Consults with Statistics and Simulation



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### Offer bundle based on needs

Make offers based on conversation



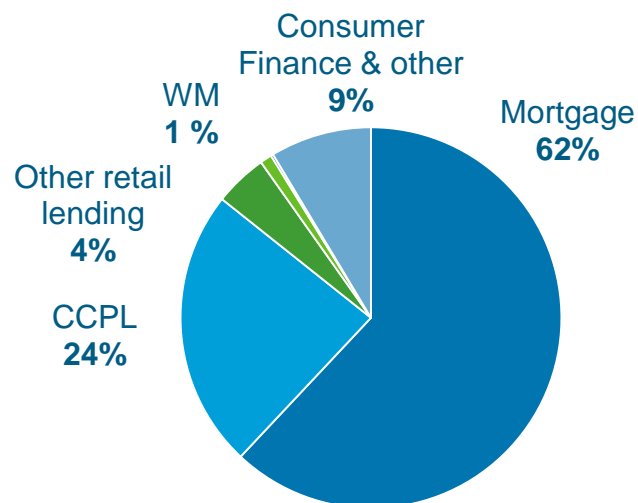
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### Customer sign off

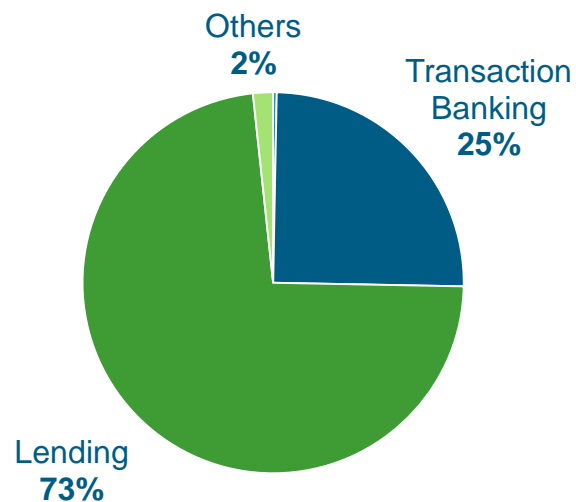


# Balance sheet and risk

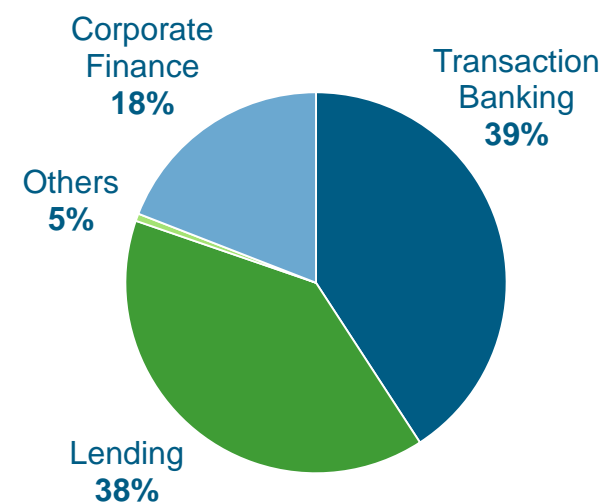
## Retail Clients



## Commercial Clients



## Corporate and Institutional Clients

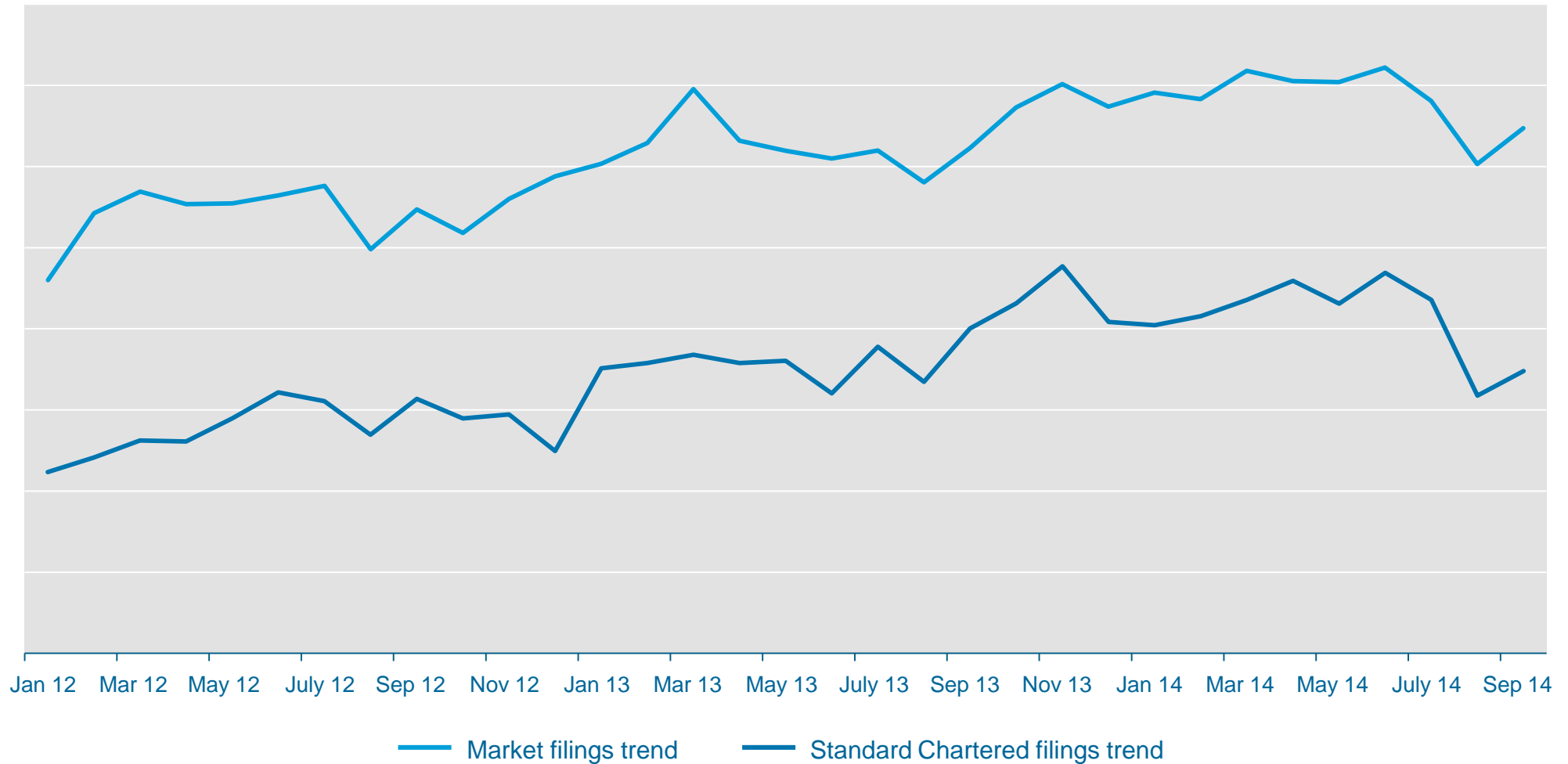


- AD ratio improved to 83% in H1 2014 from 118% in 2009
- Strong capital position

*Note: Korea financials as of June 2014*

# Personal Debt Rehabilitation Scheme

## PDRS filing trend (Market and SCBK)



# Key messages

- Korea is a significant economy with steady growth
- The banking market has become challenged
- 2014 performance has been disappointing
- We are driving our refreshed strategy to
  - ✓ Reshape the Korea franchise with strong execution
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# Q&A



# Greater China

Ben Hung

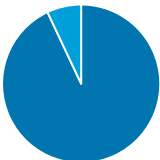
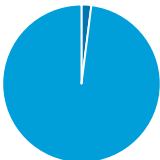
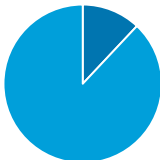
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# Key messages

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- Exciting region with growing proportion of world GDP
- Positive progress on Greater China strategy, more to achieve
- Notwithstanding near term challenges, China's liberalisation presents favourable opportunities
- Regional alignment on capabilities, people and priorities key to seizing opportunities

# Greater China overview

Market	Hong Kong	China	Taiwan
Population (m)	7	1,361	23
GDP <sup>1</sup> (US\$bn)	274	9,469	489
GDP per capita (US\$)	37,955	6,959	20,925
FDI <sup>2</sup> /ODI <sup>3</sup> (US\$bn)	77/92	124/101	4/14
Trade (US\$bn)	803	3,924	670
% of foreign banks <sup>4</sup> (total assets)	 93%	 2%	 12%

## Standard Chartered

2013 PBT (US\$m)	1,920	273	138
Outlet	84	104	88
Staff	~7,000	~7,100	~3,800

Source: IMF, UNCTAD, CBRC, FSC

Info as of 2013: 1) Gross Domestic Product; 2) Foreign Direct Investment; 3) Overseas Direct Investment; 4) Includes foreign-owned and mainland-owned banks

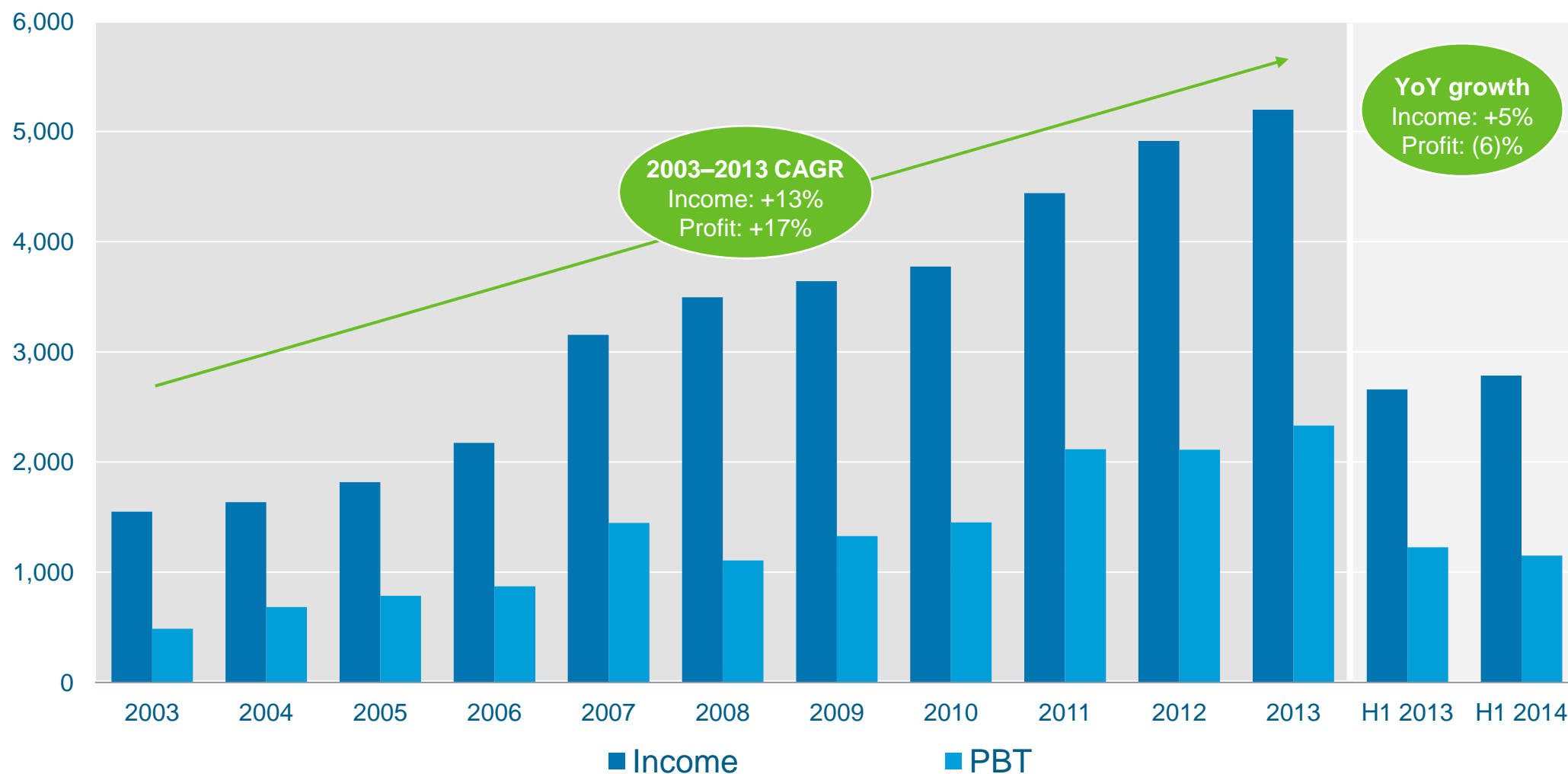
# Macro economic overview

Q2 2014 (5-year average)	Hong Kong	China	Taiwan
GDP growth	1.8% (2.7%)	7.5% (8.9%)	3.7% (3.3%)
Trade growth	4.8% (6.5%)	3.3% (12.1%)	3.3% (6.6%)
Unemployment rate	3.1% (3.9%)	4.1% (4.1%)	4.0% (4.8%)
Inflation rate	3.6% (3.3%)	2.2% (2.6%)	1.6% (0.8%)

- Noticeable step change in China's pace of reform since new leadership
- Near term economic moderation traded off for longer term sustainable growth
- Plethora of liberalisation measures changing regional banking landscape

# Income and profit trend

(US\$m)



Note: Figures exclude own credit adjustment

# Financial performance

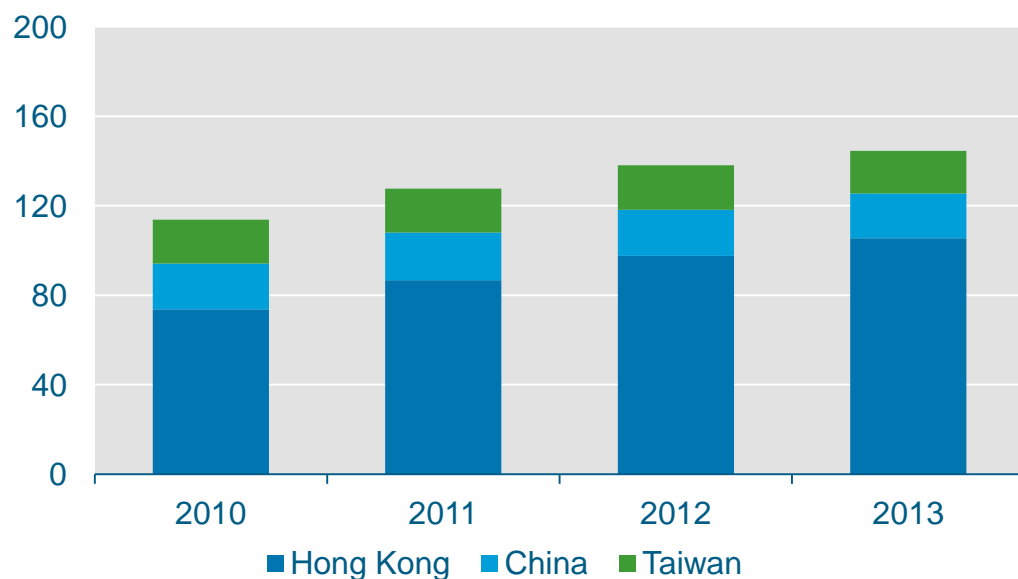
US\$m	H1 13	H2 13	H1 14	YoY (%)	HoH (%)
<b>Income</b>	<b>2,659</b>	<b>2,539</b>	<b>2,785</b>	<b>5</b>	<b>10</b>
<i>Hong Kong</i>	<i>1,929</i>	<i>1,796</i>	<i>1,992</i>	<i>3</i>	<i>11</i>
<i>China</i>	<i>448</i>	<i>486</i>	<i>515</i>	<i>15</i>	<i>6</i>
<i>Taiwan</i>	<i>282</i>	<i>257</i>	<i>278</i>	<i>(1)</i>	<i>8</i>
Expenses	(1,384)	(1,388)	(1,410)	(2)	(2)
<b>Working profit</b>	<b>1,275</b>	<b>1,151</b>	<b>1,375</b>	<b>8</b>	<b>19</b>
Total Impairment	(121)	(120)	(307)	nm	nm
Profit from associates & joint ventures	73	73	84	15	15
<b>Profit before tax</b>	<b>1,227</b>	<b>1,104</b>	<b>1,152</b>	<b>(6)</b>	<b>4</b>

Note: Operating income excludes own credit adjustment

# Balance sheet

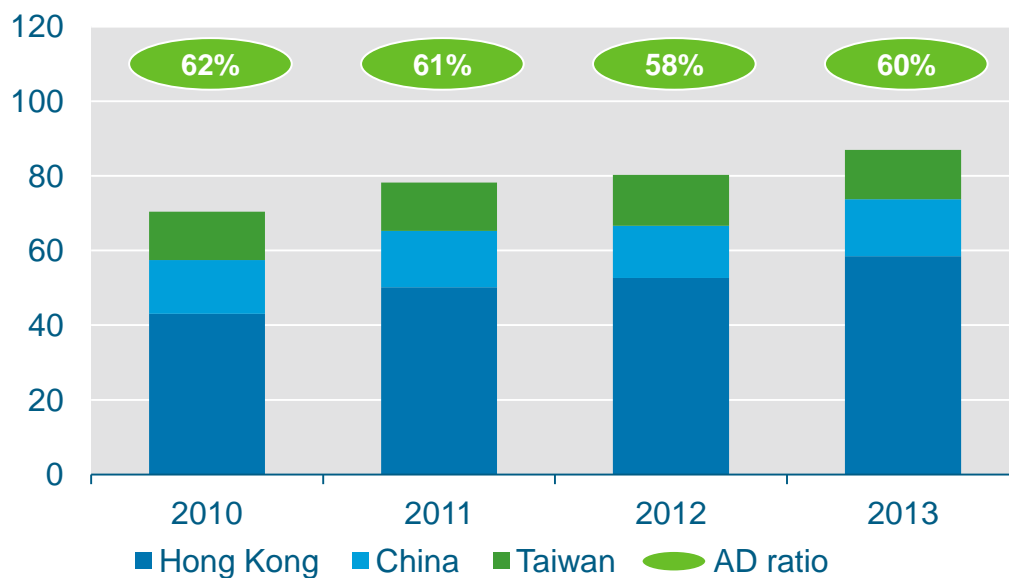
## Customer deposits

2010–2013 CAGR 8% (US\$bn)



## Customer loans

2010–2013 CAGR 7% (US\$bn)

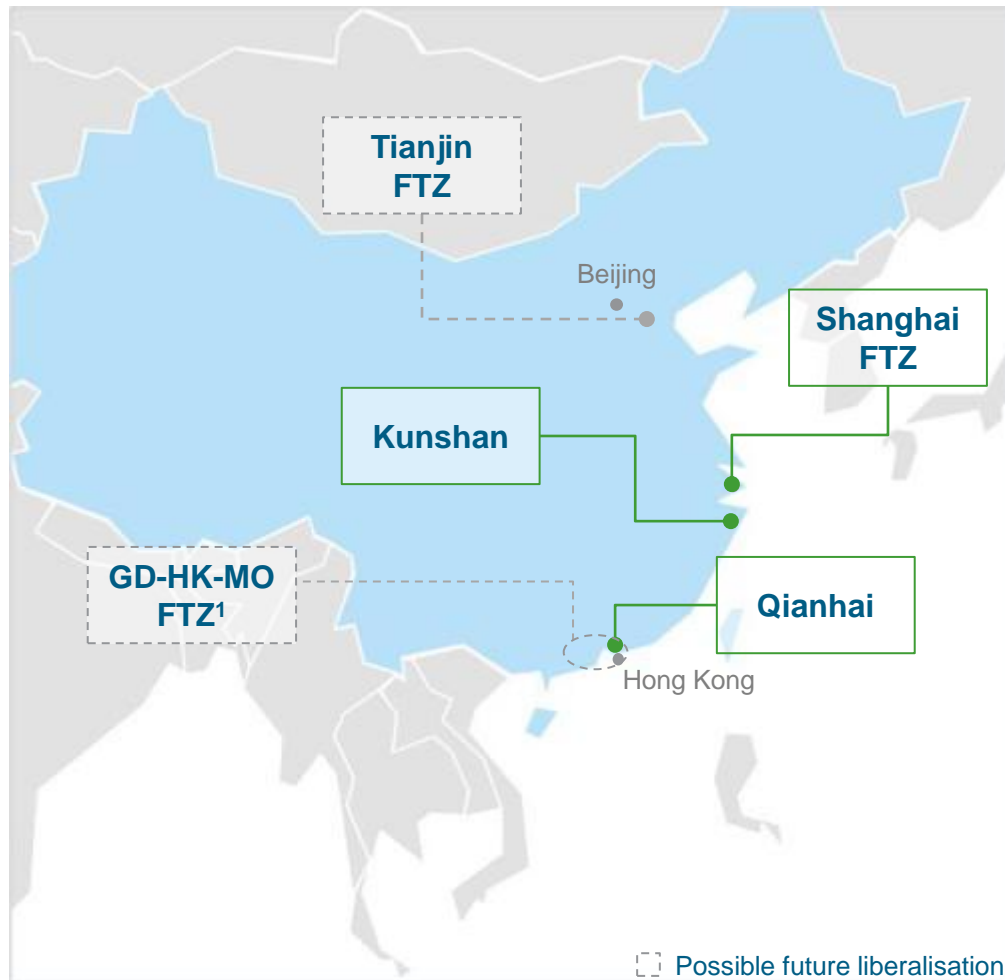


- Conservative and disciplined balance sheet
- RMB changing dynamics
- China's opening up giving rise to optimisation opportunities
- Interest rate rise a benefit



# Strategy alignment with China's reform development

## Development of economic zones/financial hubs



1) Guangdong-Hong Kong-Macau Free Trade Zone

## Financial reforms

- Liberalise interest rates
- Encourage greater 2-way flow of funds
- Testing of free trade zones
- Capital account opening

## Trends and implications

- RMB as G4 currency
- Flow of mainland wealth
- Regional treasury centre
- Growth in asset management/private wealth

# Strategic priorities and near term actions

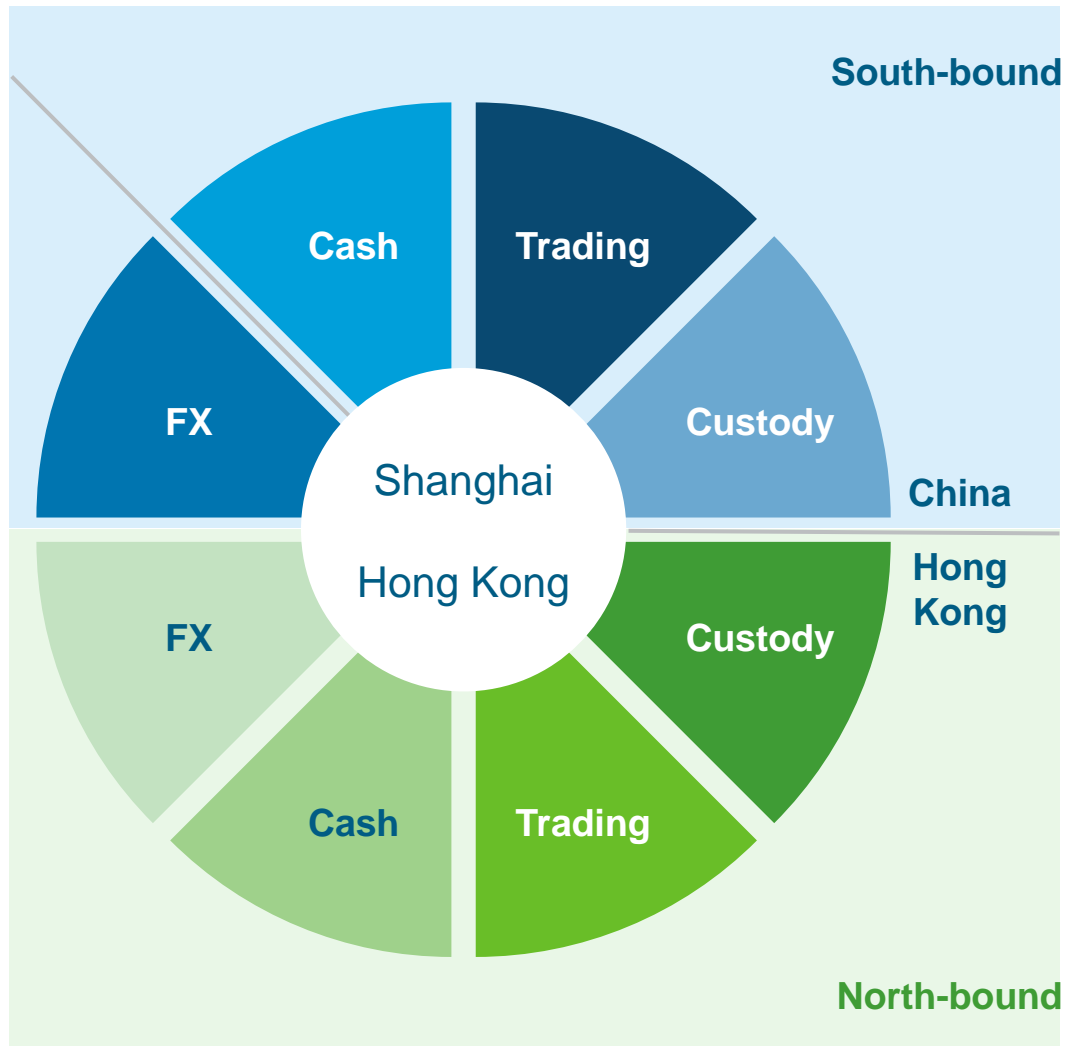
## Strategic priorities

- Drive regional collaboration to capture network opportunities
- Capture mainland wealth
- Strengthen market leadership in RMB
- Drive discipline in balance sheet and risk management
- Build talent bench

## Near term actions

- Containment on higher risk areas
- Stay invested but create capacity through cost discipline
- Position for policy relaxations through intensified connectivity
- Capture and deliver reorganisation benefits

# Case in point – Shanghai-Hong Kong Stock Connect



- Major step in capital account liberalisation
- Crucial bridge between global investors and 1.3 billion mainland savers
- One-bank strategy to capture opportunities

# Taiwan

US\$m	H1 13	H2 13	H1 14	YoY (%)	HoH (%)
<b>Income</b>	<b>282</b>	<b>257</b>	<b>278</b>	<b>(1)</b>	<b>8</b>
Expenses	175	178	173	1	3
<b>Working profit</b>	<b>107</b>	<b>79</b>	<b>105</b>	<b>(2)</b>	<b>33</b>
Impairments	(28)	(20)	(14)	50	30
<b>Profit before tax</b>	<b>79</b>	<b>59</b>	<b>91</b>	<b>15</b>	<b>54</b>

## Strategic priorities

- Grow client franchise in particular high net worth segments and commercial clients
- Optimise balance sheet
- Capture growing China-Taiwan economic linkages



# Key messages

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- Exciting region with growing proportion of world GDP
- Positive progress on Greater China strategy, more to achieve
- Notwithstanding near term challenges, China's liberalisation presents favourable opportunities
- Regional alignment on capabilities, people and priorities key to seizing opportunities



# Hong Kong

May Tan

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# Key messages

- Well established franchise
- Resilient and diversified income base
- Balance sheet and network collaboration a competitive advantage
- China slowdown creates near term challenges but long term prospects remain intact
- Greater China opportunities and collaboration underpin future growth

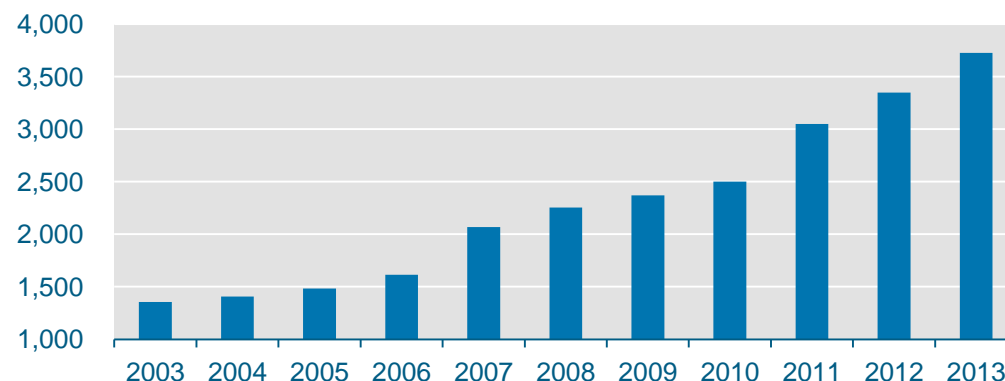


# Our Hong Kong franchise

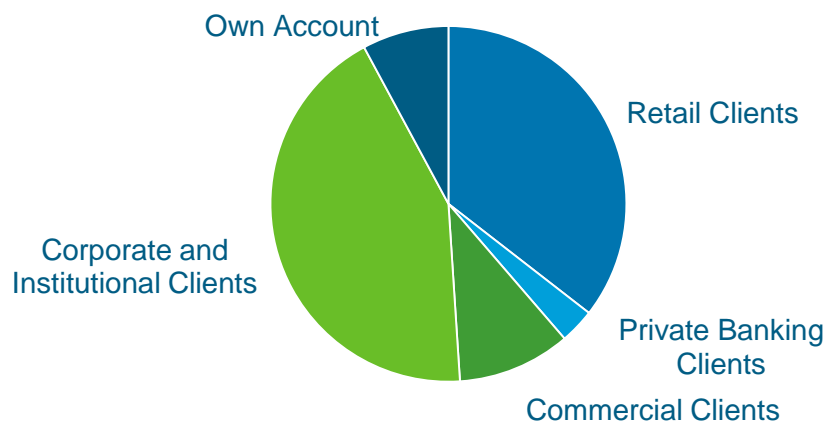
## Deep rooted franchise

- 155 years of history – Oldest note issuing bank
- Rotating Chairman bank of HKAB
- Diversified income streams
- Robust balance sheet
- Deep embedded client relationships
- Market share gain since crisis

## Consistent delivery – Unbroken record of income growth (US\$m)

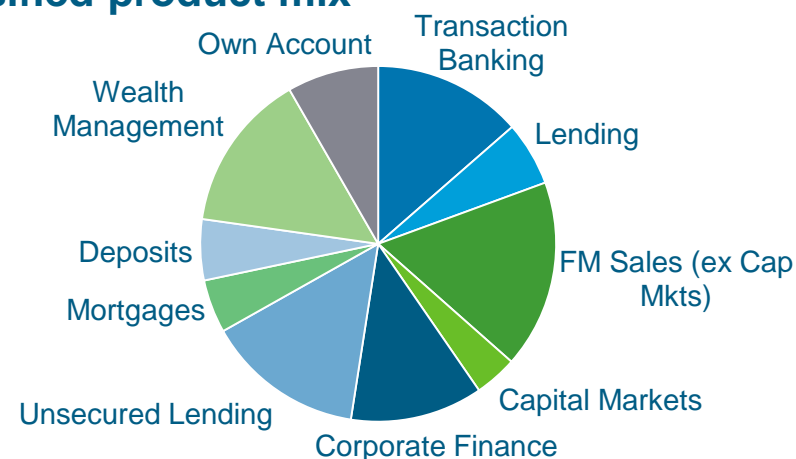


## Track record of client focus



Note: H1 14 income  
HKAB: Hong Kong Association of Banks

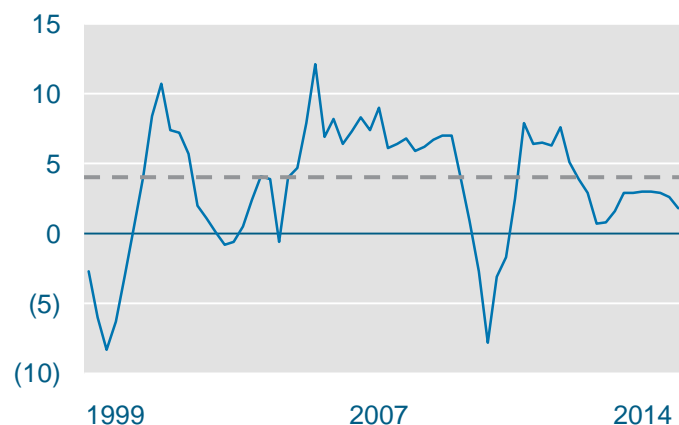
## Diversified product mix



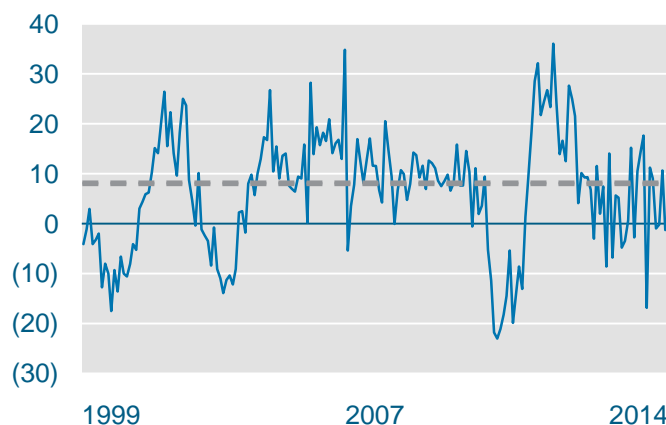


# Macro overview

## GDP growth (%)



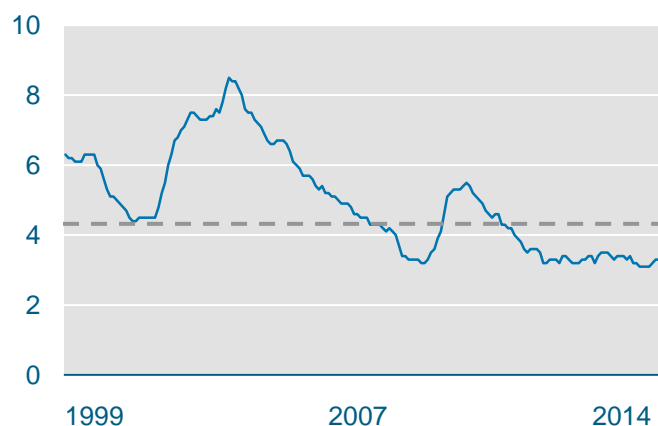
## Export growth (%)



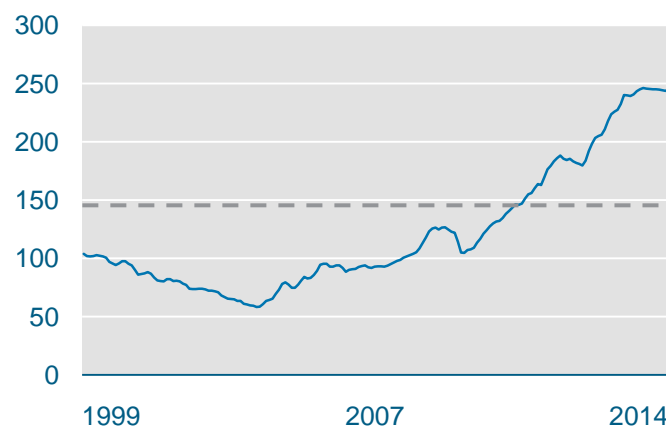
## Near term challenges

- Slowing China
- Political environment
- Low interest rate environment

## Unemployment (%)



## Property price index



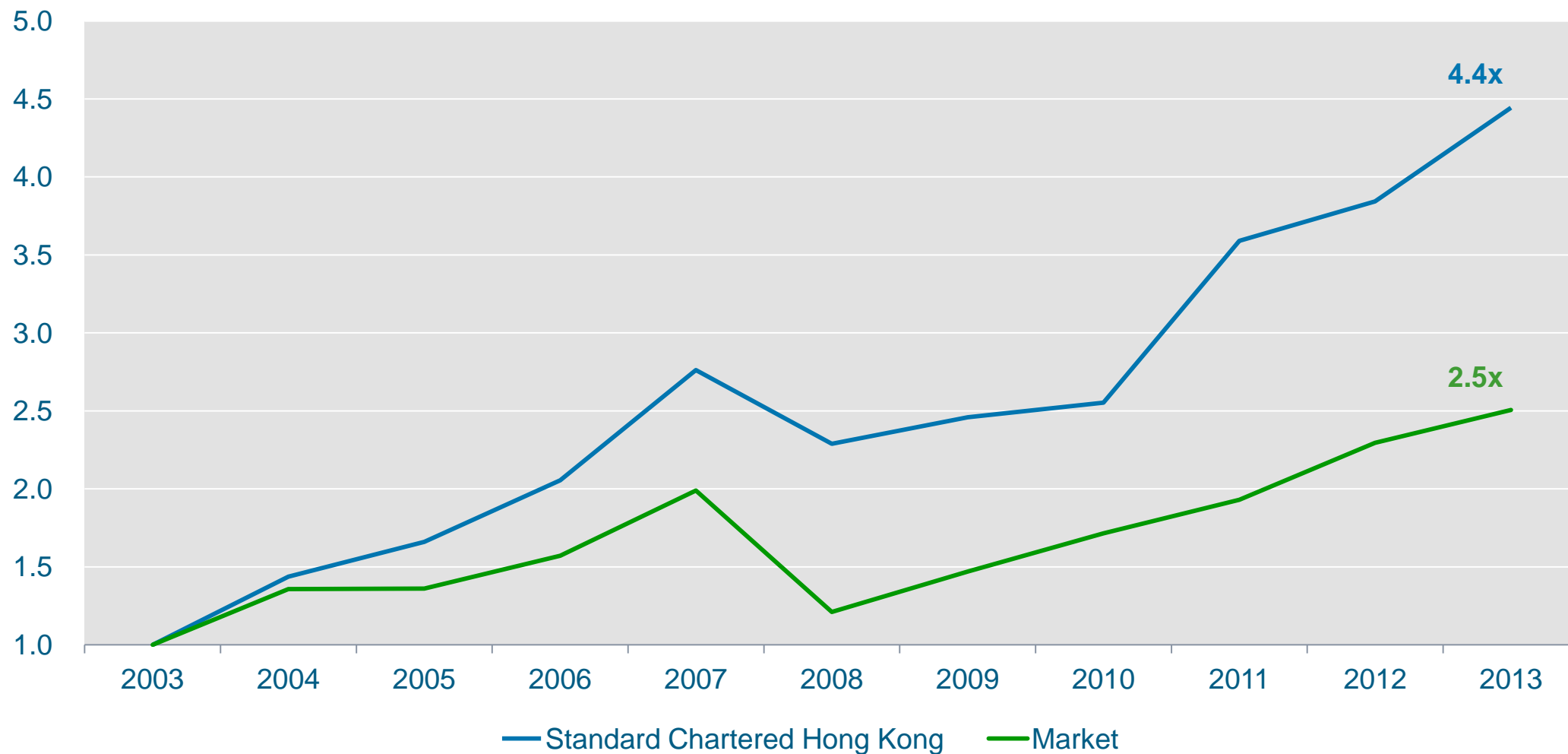
## Resilient fundamentals

- Unemployment at 16 year low
- Property price stable, low LTV – robust underlying demand
- Well positioned to benefit from further China liberalisation
- US recovery to benefit exports

Note: Data up to June 2014

# Gaining market share

## PBT growth of 10 key commercial banks since 2003



Source: Annual reports of ten key commercial banks in Hong Kong

# Opportunities

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- 1 RMB internationalisation
- 2 Mainland investment and wealth flow
- 3 Greater China collaboration

# Strategic priorities

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- Deliver financial performance – sustain momentum
- Strengthen resilience of franchise
- Intensify network collaboration to capture Greater China opportunities
- Drive market leadership in RMB business
- Drive balance sheet and capital efficiency
- Disciplined risk management

# Corporate and Institutional Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>926</b>	<b>952</b>	<b>3</b>
Expenses	(366)	(376)	(3)
<b>Working profit</b>	<b>560</b>	<b>576</b>	<b>3</b>
Total impairments	(3)	(153)	na
<b>Profit before tax</b>	<b>557</b>	<b>423</b>	<b>(24)</b>

## Achievements

- US\$1bn of PBT in 2013 – 15% of Group PBT
- Well diversified client franchise
- Deep client relationships
  - “US\$1m income” accounts doubled in 5 years
  - Strategic solutions grew at 49% CAGR in 5 years
- Top 2 banks for RMB solutions

## Key priorities

- Deepen client relationships – leverage untapped cross selling opportunities from client ecosystem
- Further penetrate China client wallet
- Intensify network collaboration
- Strengthen RMB leadership across all products
- Redeploy RWA to improve profitability

# Retail Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>686</b>	<b>756</b>	<b>10</b>
Expenses	(323)	(342)	(6)
<b>Working profit</b>	<b>363</b>	<b>414</b>	<b>14</b>
Total impairments	(68)	(73)	(7)
<b>Profit before tax</b>	<b>295</b>	<b>341</b>	<b>16</b>

## Key priorities

- Acquire and deepen relationships with High Value Segment
- Capture strategic regional opportunities
- Focus on meeting wealth management needs
- Become digital main bank

## Achievements

- 23% of Group Retail Clients income in 2013
- Well executed high value (Priority and Business segments) strategy – around 50% of income
- Well positioned for mainland wealth – Two-thirds of new Priority Banking clients from China
- Strong distribution capability – 79 strategic branches, third party wealth mgmt product
- Significant digital penetration – 40% digitally active

# Commercial Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>259</b>	<b>214</b>	<b>(17)</b>
Expenses	(90)	(95)	(6)
<b>Working profit</b>	<b>169</b>	<b>119</b>	<b>(30)</b>
Total impairments	(1)	(32)	na
<b>Profit before tax</b>	<b>168</b>	<b>87</b>	<b>(48)</b>

## Achievements

- 31% of Group Commercial Clients income in 2013
- Strong income growth in past 5 years
- Designated Greater China solution team
- Up tier client relationships and differentiate with strategic solutions, including RMB solutions
- Important source of deposits

## Key priorities

- Leverage One Bank collaboration across segments and geographies
- Generate Middle Market and Medium Enterprise business synergy
- Build RMB leadership across all products
- Drive strategic business and new clients on-boarding

# Private Banking Clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>58</b>	<b>70</b>	<b>21</b>
Expenses	(47)	(53)	(13)
<b>Working profit</b>	<b>11</b>	<b>17</b>	<b>55</b>
Total impairments	-	-	na
<b>Profit before tax</b>	<b>11</b>	<b>17</b>	<b>55</b>

## Achievements

- Established clear value propositions across segments – HNW, UHNW
- Increase senior client coverage; improved revenue per relationship manager
- Early success in tapping internal client base
- Opened iconic “Forum” to capture wealth flow in the region

## Key priorities

- Drive internal referrals
- Diversify products
- Improve relationship manager hiring and productivity
- Enhance platform and system

HNW: High Net Worth - UHNW: Ultra High Net Worth





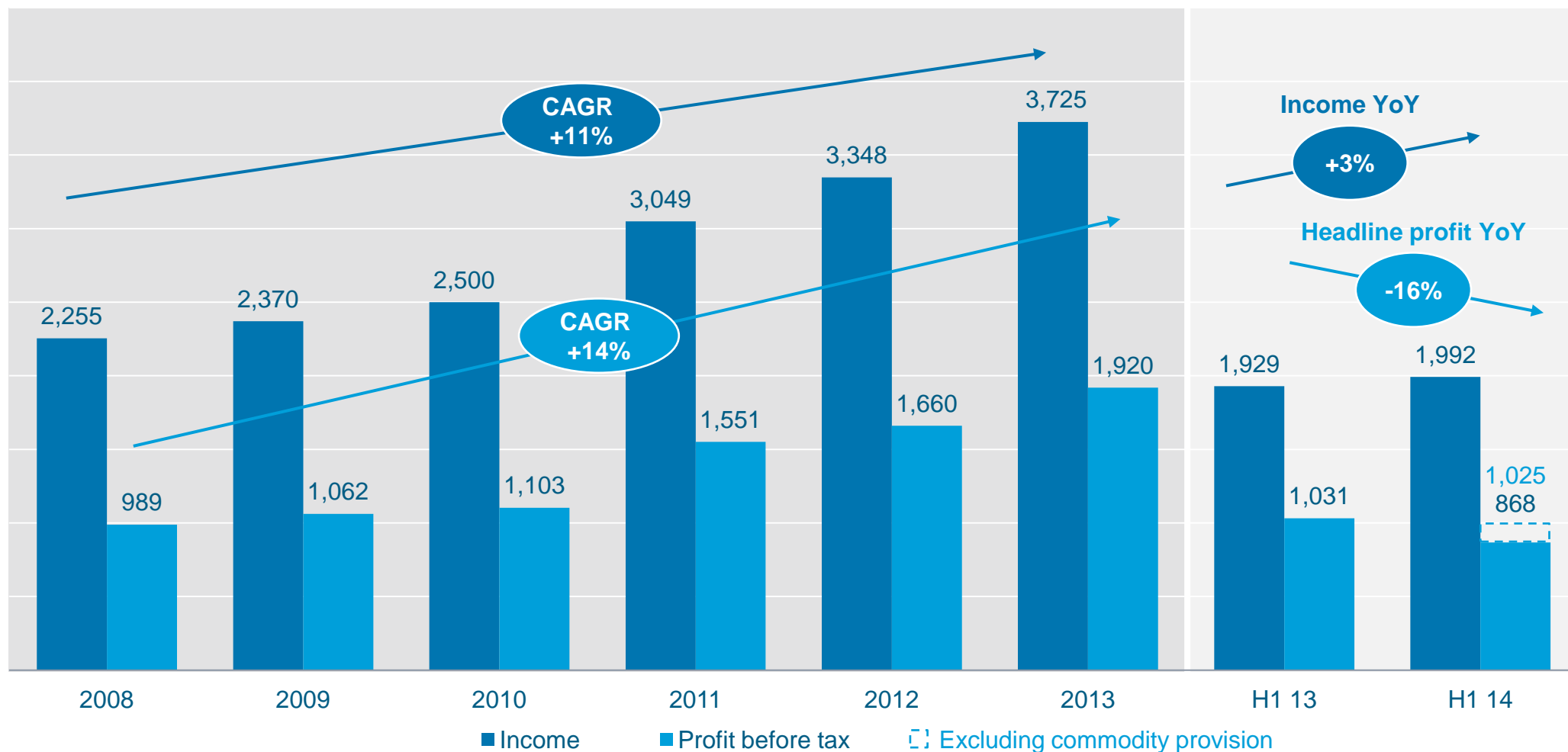
# Hong Kong

Jamie Ling

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# Hong Kong – Historical performance

## Consistently delivering strong income and earnings growth (US\$m)



# Hong Kong – H1 14 results

## A more moderate income growth, on the back of a reforming China

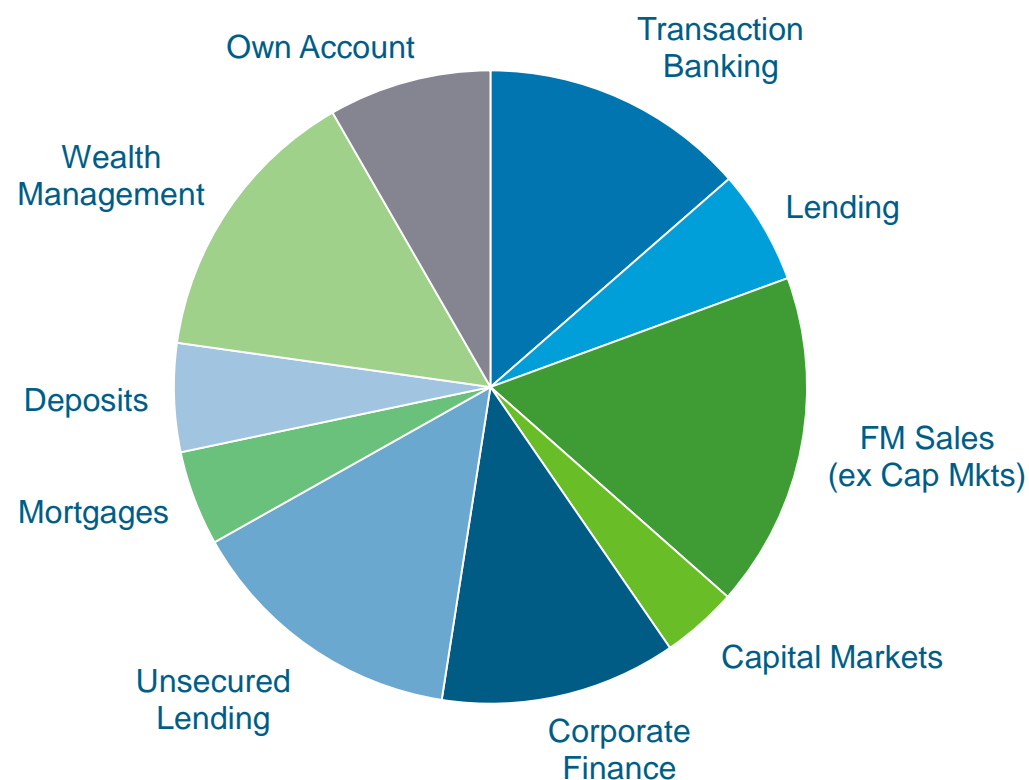
US\$m	H1 13	H2 13	H1 14	YoY%	HoH%
<b>Income<sup>1</sup></b>	<b>1,929</b>	<b>1,796</b>	<b>1,992</b>	<b>3</b>	<b>11</b>
Expenses	(826)	(840)	(866)	(5)	(3)
<b>Working profit</b>	<b>1,103</b>	<b>956</b>	<b>1,126</b>	<b>2</b>	<b>18</b>
Total impairment	(72)	(67)	(258)	nm	nm
<b>Profit before tax<sup>1</sup></b>	<b>1,031</b>	<b>889</b>	<b>868</b>	<b>(16)</b>	<b>(2)</b>

1) Excluding OCA adjustment

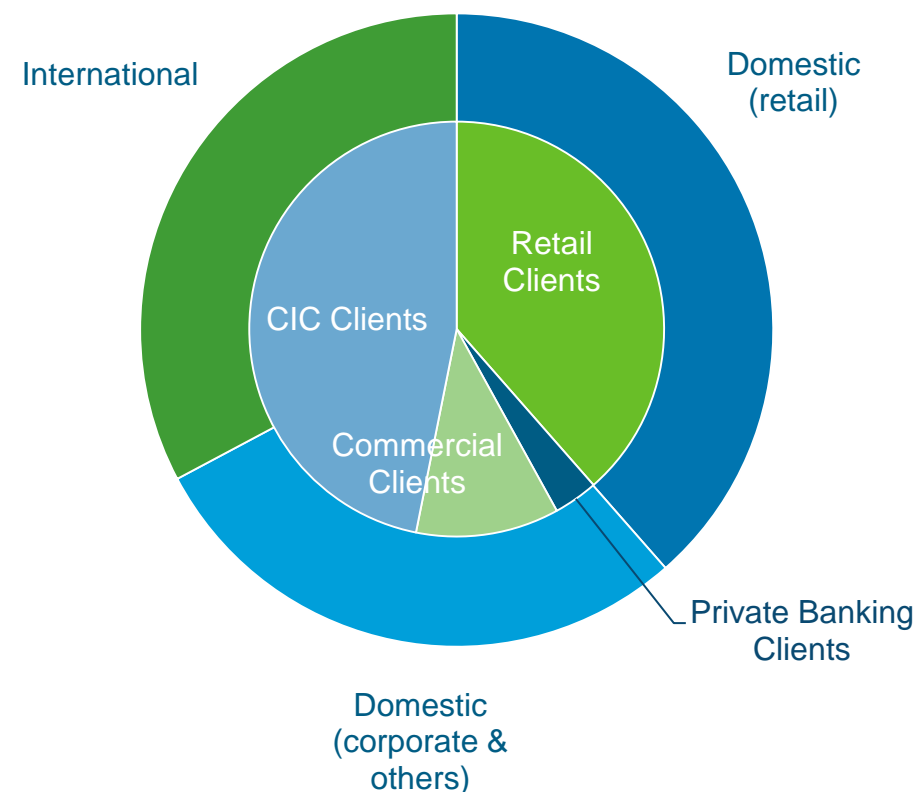
# Well established franchise

## Leverage our network, capturing Greater China opportunities

Product income (H1 14)

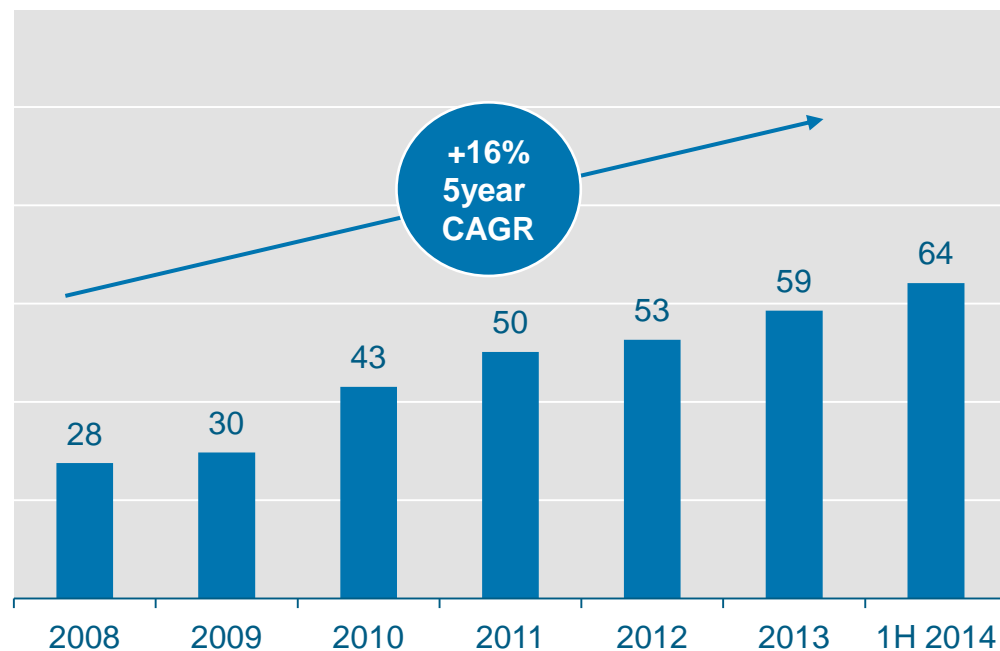


Segment client income (H1 14)

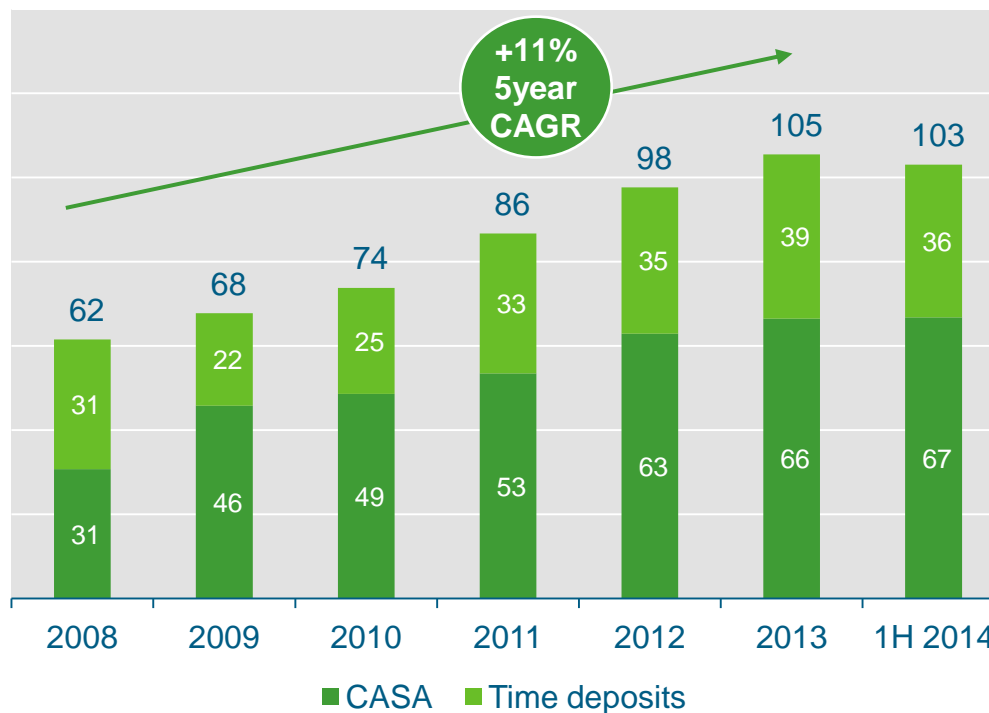


# Balance sheet is in good shape

## Customer loans (US\$bn)



## Customer deposits (US\$bn)



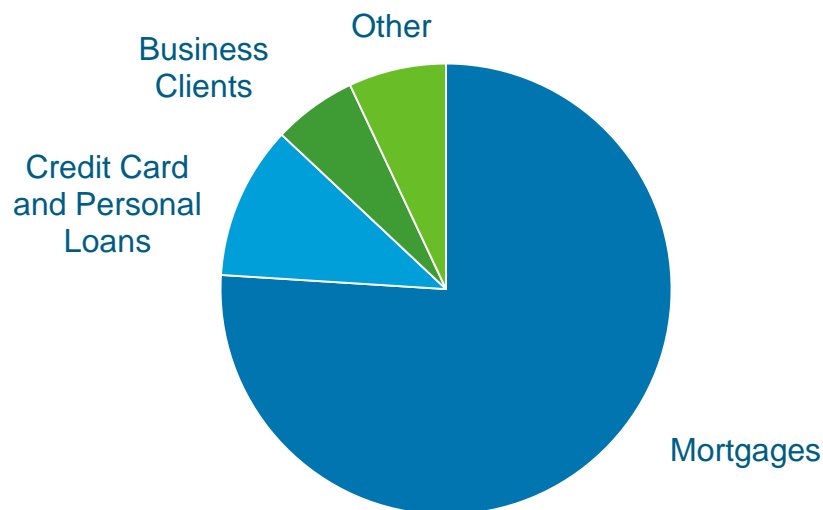
### AD ratios

	2008	2009	2010	2011	2012	2013	1H 14
Standard Chartered Hong Kong	45%	44%	58%	58%	54%	55%	62%
Market	54%	52%	62%	67%	67%	70%	74%

Source: Market - HKMA data

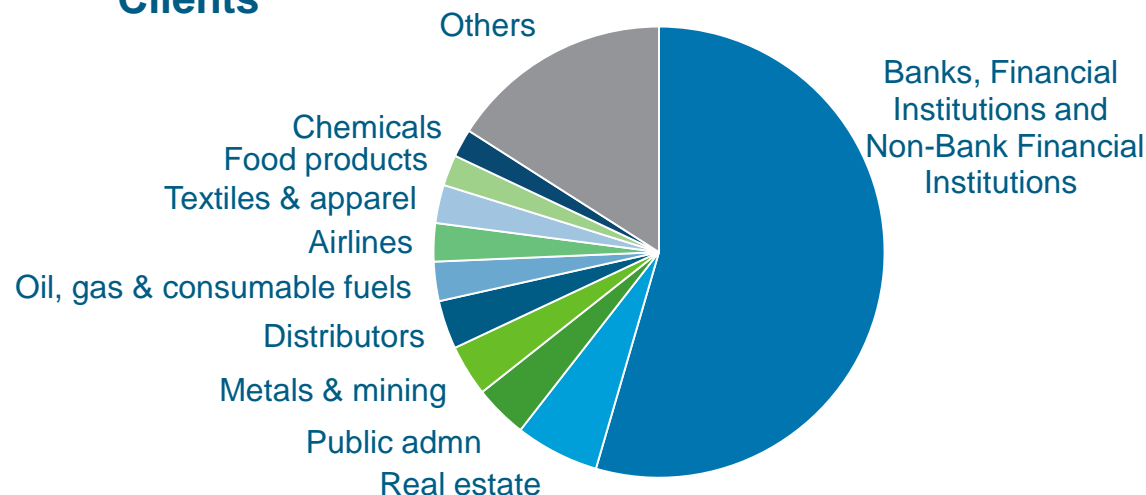
# Discipline risk management

## Retail clients



- 84% of portfolio secured
- Mortgage LTV 46%. Stable over time
- 92% of the unsecured portfolio categorised as low to very low risk
- CCPL as relationship product serving target customer segments

## Corporate and Institutional and Commercial Clients

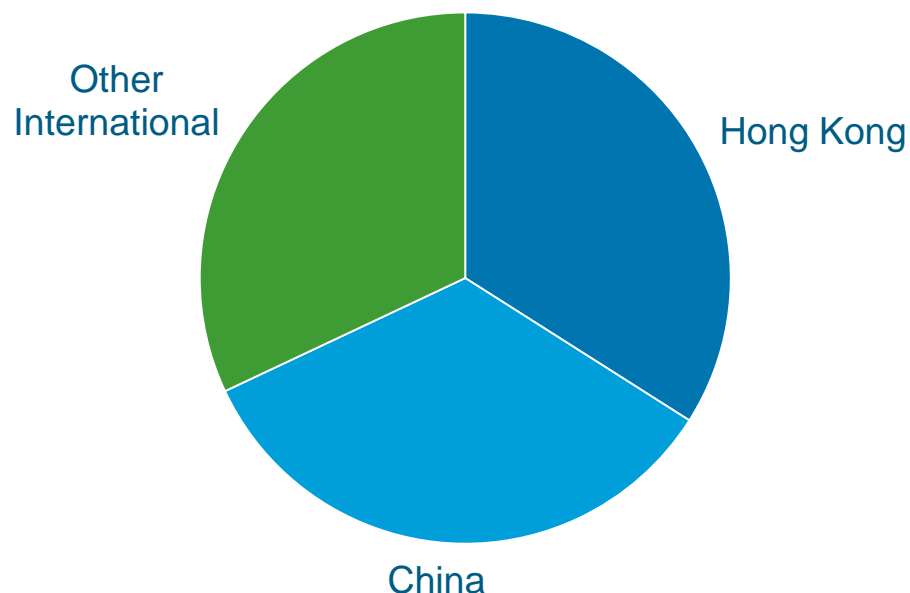


- Banks and Financial Institutions industry account for 55% of the portfolio. Of which, over 93% of EAD are investment grade clients
- No material risk concentration in industry within the Corporate portfolio
- Disciplined underwriting and continued stable market conditions contribute to good asset quality

Note: HK Financial Book with CG 1-11 as of Jun 2014

# China exposure in Hong Kong

## EAD breakdown by group domicile country



## China – Corporate and Financial Institutions

- Represent 34% of total Hong Kong credit exposure
  - 73% investment grade
  - 83% with tenor less than 1 year
- 59% of overall China exposures are to sovereign and financial institutions, predominantly top rated banks
- 41% of overall China exposures are to corporate, of which
  - 69% with tenor less than 1 year
  - 62% of tenor over 3 years is secured
  - No material concentration
- Remain vigilant for signs of credit weakness

Note: HK Financial Book with CG 1-11 as of Jun 2014



# Hong Kong

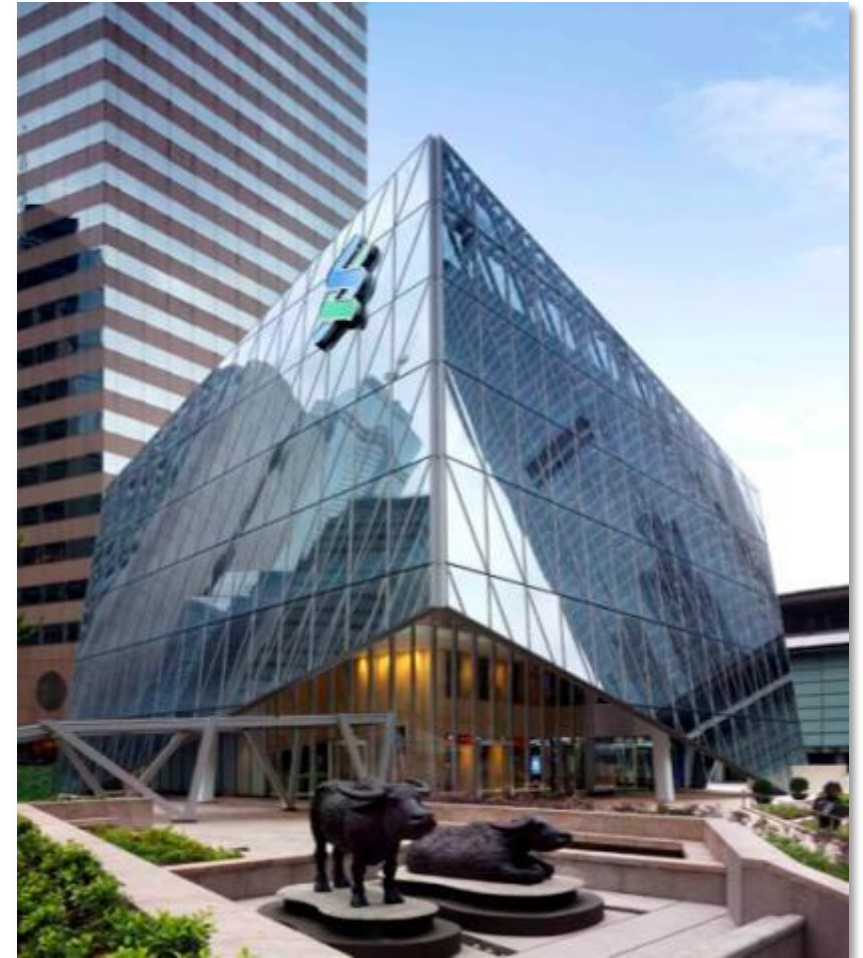
May Tan

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# Key messages

- Well established franchise
- Resilient and diversified income base
- Balance sheet and network collaboration a competitive advantage
- China slowdown creates near term challenges but long term prospects remain intact
- Greater China opportunities and collaboration underpin future growth





# China

Jerry Zhang

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# Key messages

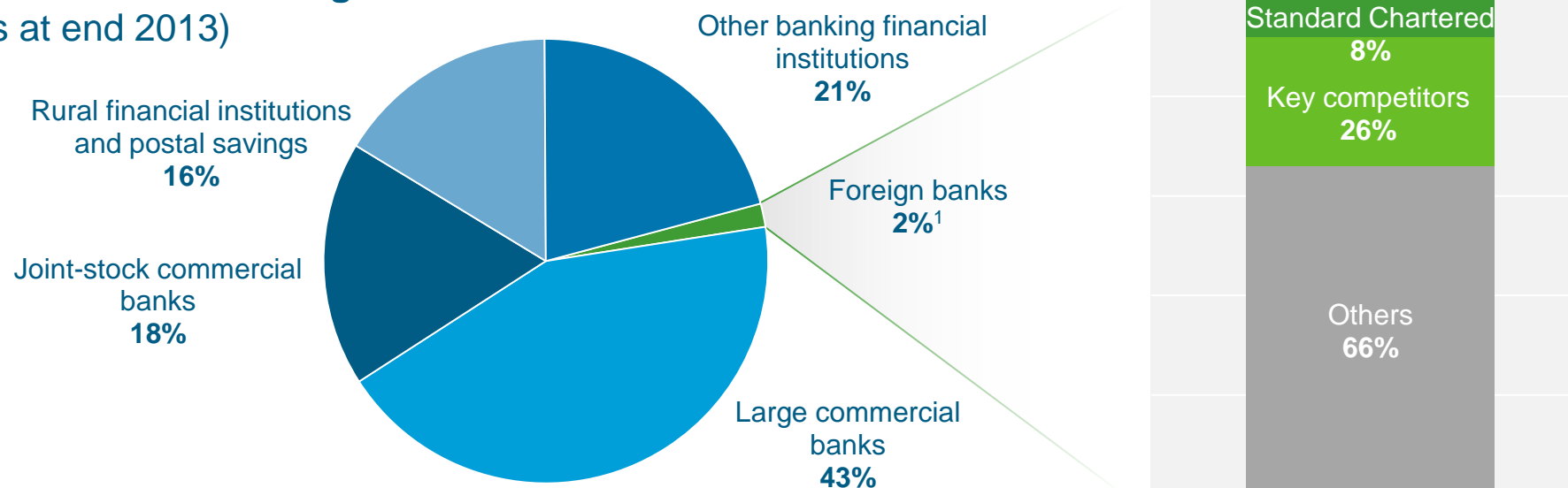
- Resilient performance supported by continued investments
- Managed slowdown - China's growth story intact
- Opportunities from further liberalisation/ reforms
- Continue to drive network business
- Clear plan to tackle risks and challenges



# Our China franchise

- Top tier foreign bank with continuous commitment since 1858
- Strong credit rating AA- (Standard & Poor)
- Market recognition as leading foreign bank for offshore RMB and cross border capabilities
- Strong balance sheet and liquidity management
- Comprehensive product suite

## Share of total banking assets (as at end 2013)

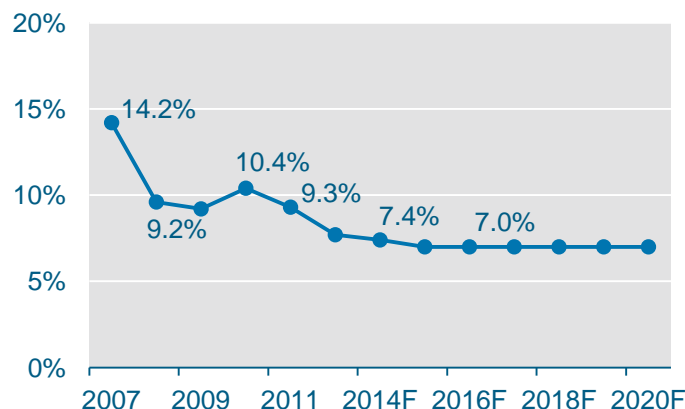


Source: China Banking Regulatory Commission Annual Report 2013

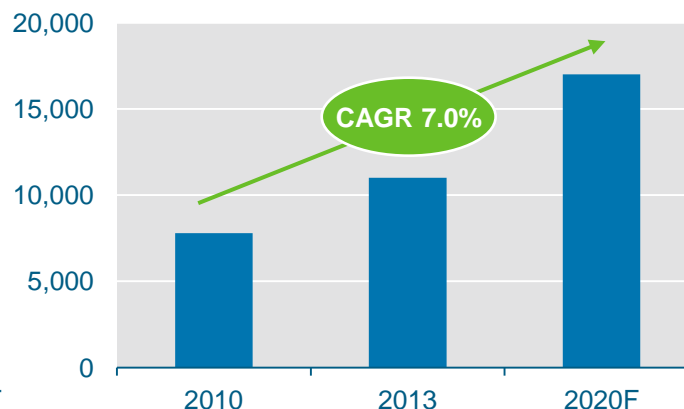
1) Number of locally incorporated foreign banks: 42; Number of branches of foreign banks: 92

# Macro China picture / trends

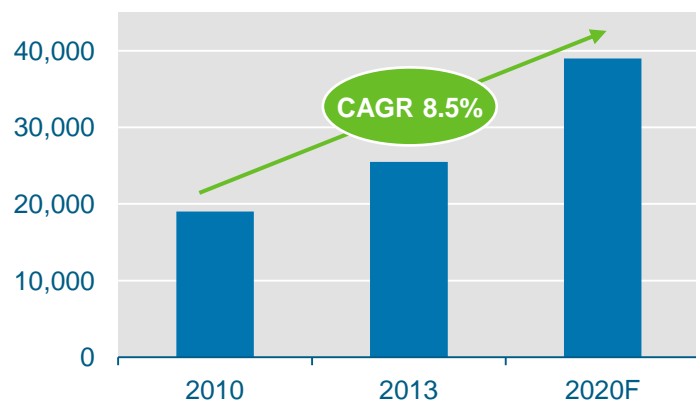
**GDP growth rate<sup>1</sup>**



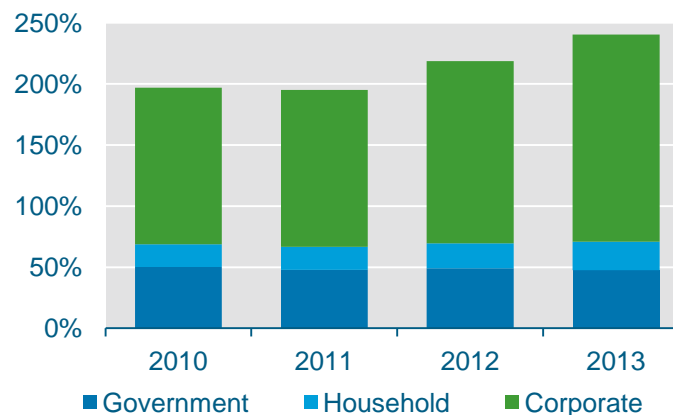
**High speed rail tracks (km)<sup>2</sup>**



**Urban household income (RMB)<sup>3</sup>**



**Debt as % of GDP<sup>4</sup>**



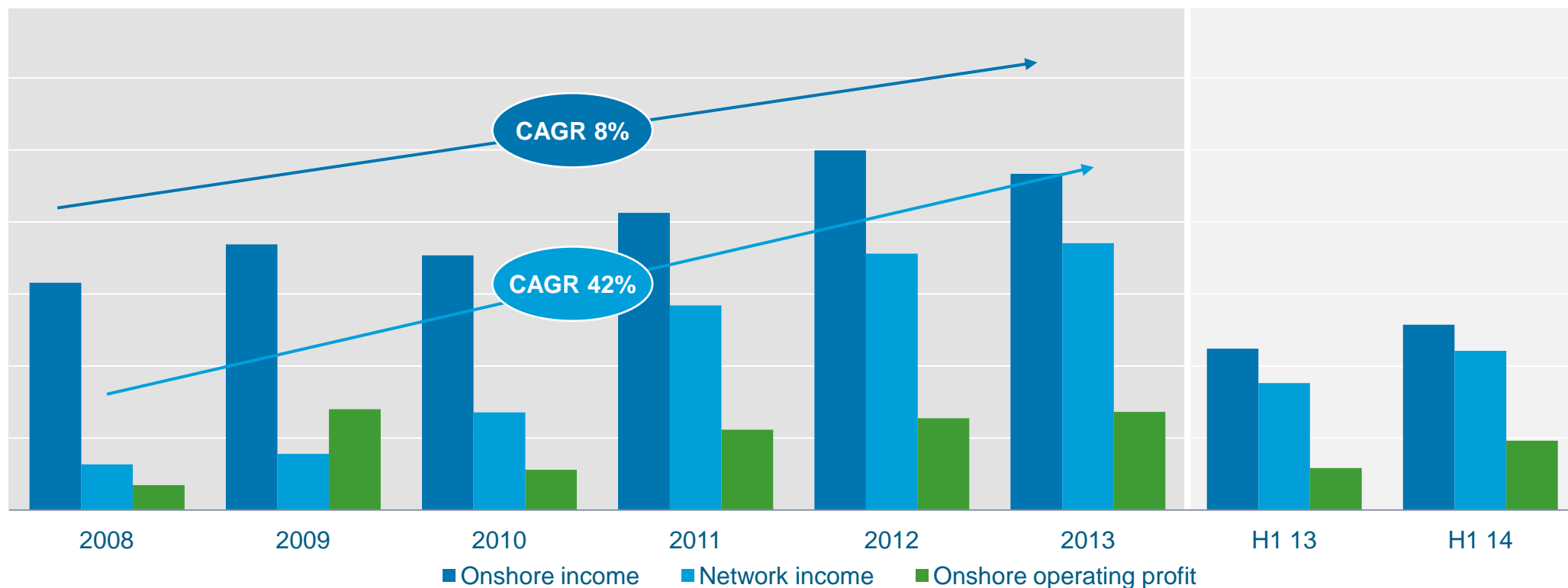
- Economic growth moderates with long term growth prospects intact
- Government has the ability to stimulate, if needed
- Acceleration in financial reforms towards a more domestic consumption and market-led economy
- Risks arising from economic transformation and cyclical challenges

Sources: 1) National Bureau of Statistics; 2) [www.cncrcc.com](http://www.cncrcc.com); [www.chnrailway.com](http://www.chnrailway.com); [www.railway-technology.com](http://www.railway-technology.com); 3) National Statistics Bureau; Standard Chartered Research; 4) Standard Chartered Research

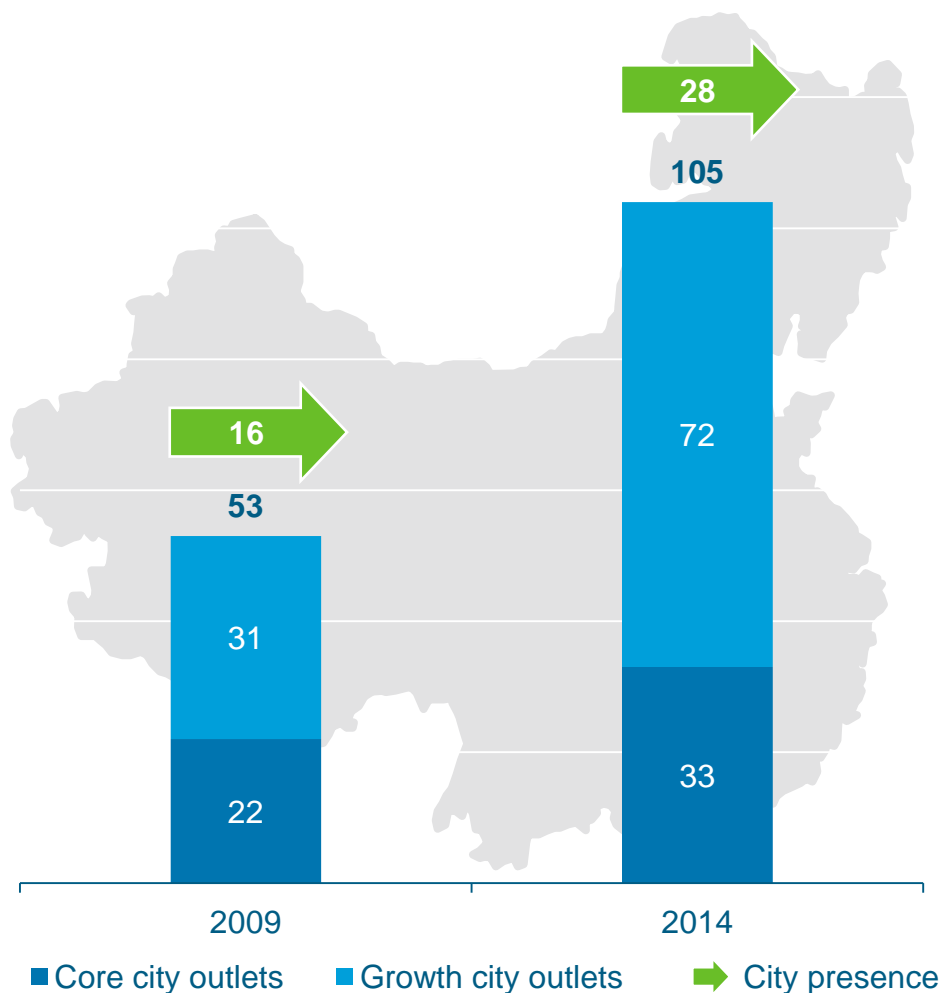
# Historical performance

- Key contributor to the Group
- Network income up **25%** from H1 13 to H1 14

US\$m



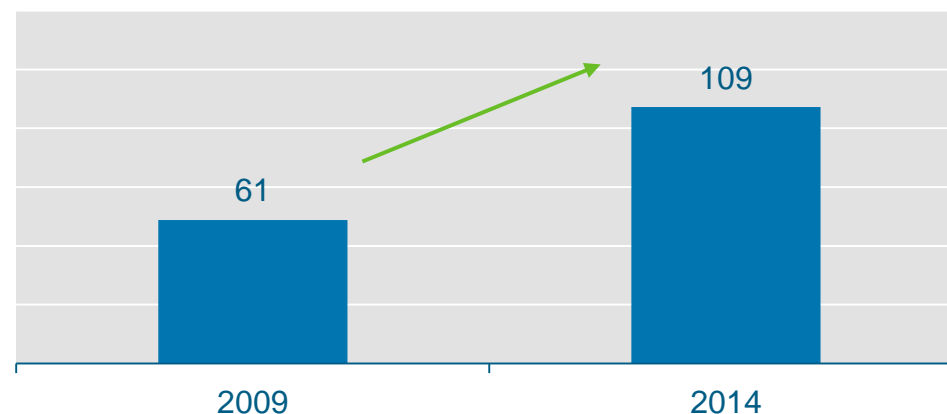
# Investing for growth



## Key investment programmes

- Outlet network expansion at pace
- Launched credit card in June 2014
- Technology enhancement to improve productivity
- Regulatory and compliance enhancement
- Digitalisation

## Cumulative number of product licenses



# Strategic priorities

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- Broaden portfolio exposure in growth industries
- Grow high net worth clients via enhancing wealth and digital transaction capabilities
- Connect China to our network with enhanced product capabilities
- Drive balance sheet momentum with discipline
- Stay alert and focused on asset quality management
- Accelerate our next generation of leaders and develop local talents



# Corporate and Institutional clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>289</b>	<b>375</b>	<b>30</b>
Expenses	(175)	(174)	1
<b>Working profit</b>	<b>114</b>	<b>201</b>	<b>76</b>
Loan impairment	(10)	(4)	60
Other impairment	(11)	-	100
Profit from associates	66	76	15
<b>Operating profit</b>	<b>159</b>	<b>273</b>	<b>72</b>

## Progress made

- Strengthened overall country CIC management resources
- Built RMB leadership position
- Optimised use of capital - enhanced RoRWA
- De-risking: Exposure to industries with over-capacity

## Strategic priorities

- Concentrate on developing network revenue.
- Build sustainable and differentiated client portfolio
- Deepen local franchise - build scale and capability
- Capture RMB internationalisation opportunities
- Expand and up-tier talent pool
- Optimise use of capital

# Retail clients

US\$m	H1 13	H1 14	YoY%
<b>Income</b>	<b>138</b>	<b>133</b>	<b>(4)</b>
Expenses	(171)	(166)	3
<b>Working profit</b>	<b>(33)</b>	<b>(33)</b>	<b>-</b>
Loan impairment	(13)	(14)	(8)
Profit from associates	7	8	14
<b>Operating profit</b>	<b>(39)</b>	<b>(39)</b>	<b>-</b>

## Progress made

- Present in 24 cities across China with healthily growing client base
- Launched credit card in June
- Investment in digitalisation and infrastructure
- Sound risk control with stable balance sheet momentum
- Successfully executed cost saving strategy

## Strategic priorities

- Grow high value segment clients who value our network advantages and footprint
- Sharpened focus on building core city scale
- Become digital main bank and invest in core product capabilities
- Ensure quality asset growth



# China

Yee Mann Hau

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# Key messages

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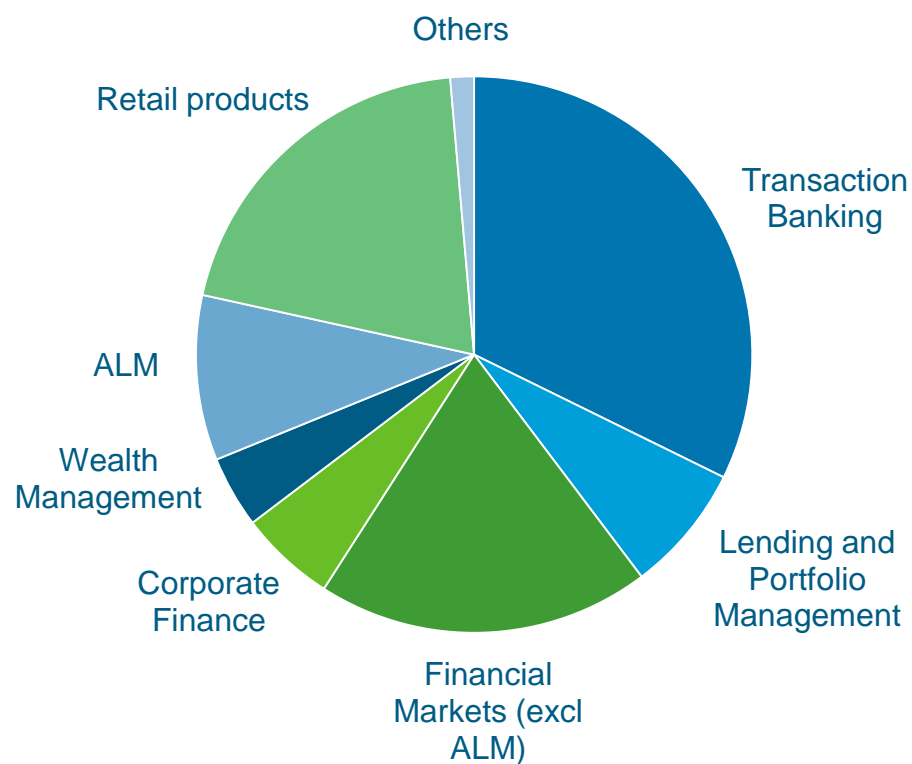
- Resilient performance with steady client income growth and diversified product mix
- Liquid and diverse balance sheet
- Robust portfolio credit management with increased vigilance in a more challenging credit environment

# Financial performance

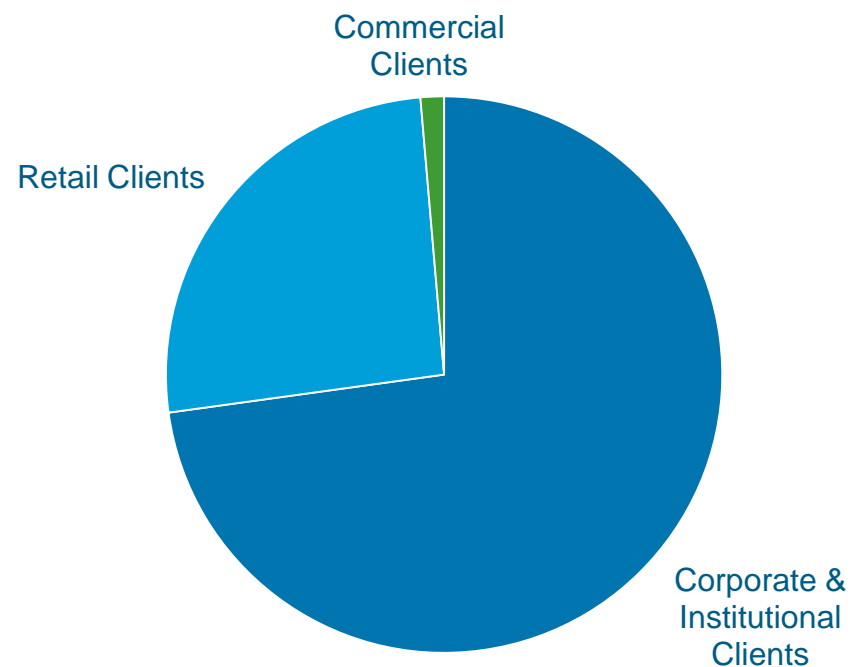
US\$m	H1 13	H2 13	H1 14	YoY%	HoH%
<b>Income</b>	<b>448</b>	<b>486</b>	<b>515</b>	<b>15</b>	<b>6</b>
<i>Client income</i>	<i>435</i>	<i>432</i>	<i>441</i>	<i>1</i>	<i>2</i>
Expenses	(383)	(370)	(371)	3	(0)
<b>Working profit</b>	<b>65</b>	<b>116</b>	<b>144</b>	<b>122</b>	<b>24</b>
Impairment	(21)	(33)	(35)	(67)	(6)
Profit from associates	73	73	84	15	15
<b>Operating profit</b>	<b>117</b>	<b>156</b>	<b>193</b>	<b>65</b>	<b>24</b>

# Diversified product income mix

## H1 14 income by product

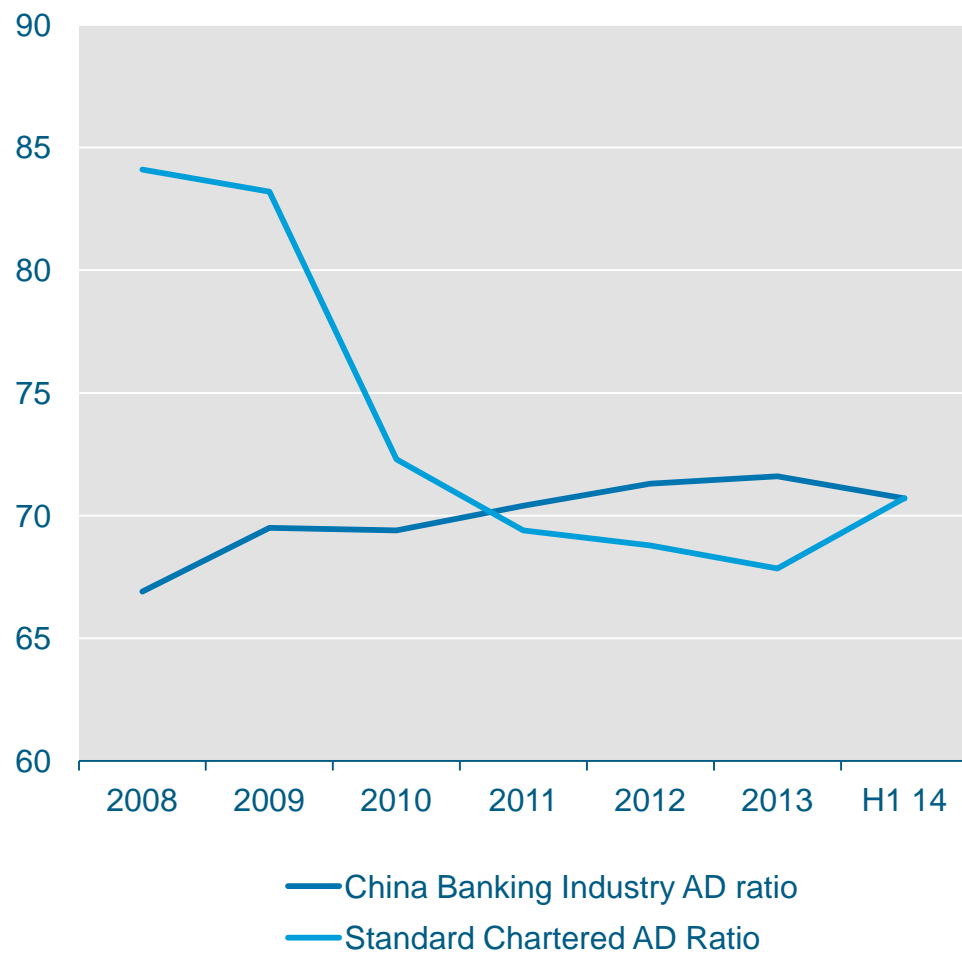


## H1 14 income by segment

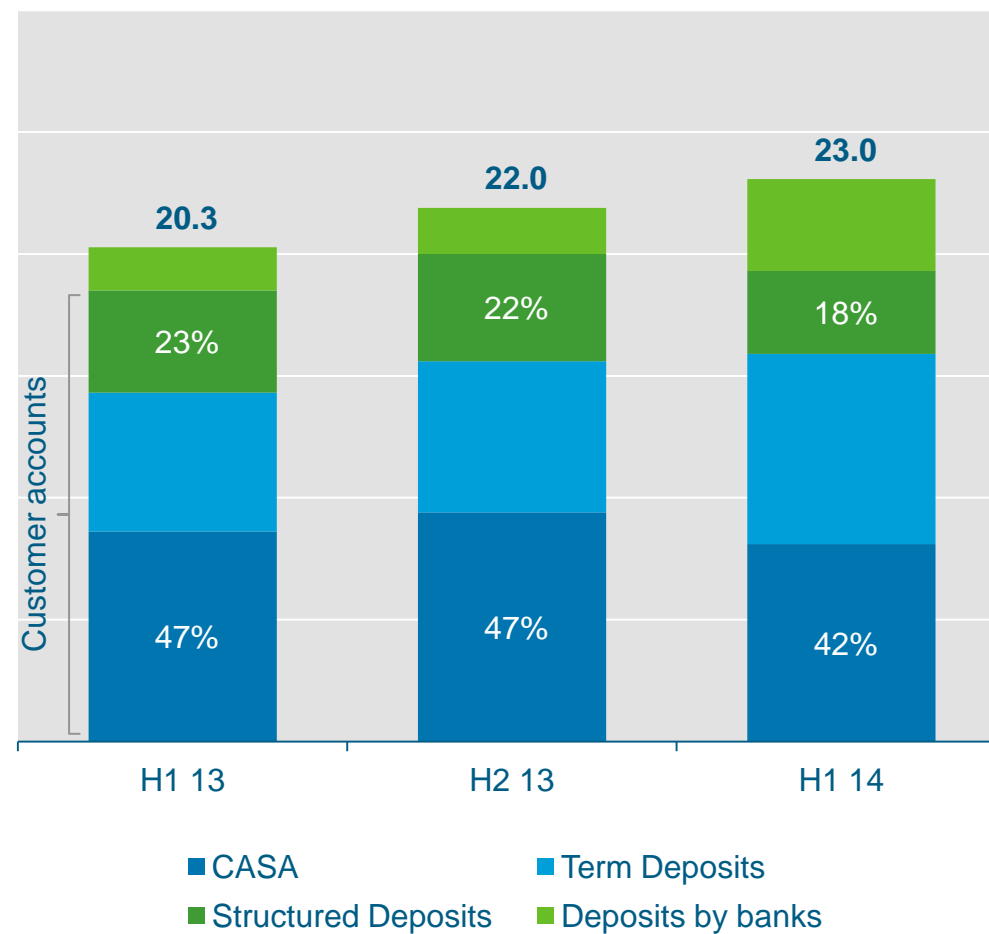


# Liquid and diverse balance sheet

## Advances to deposits (AD) ratio trend



## Deposit structure (US\$bn)





# China

Xie Wen

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# Key messages

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- Economic reforms being long term benefits, but also near term challenges
- Portfolio remains short tenored, diversified, and well collateralised
- Stepped up vigilance and positioning

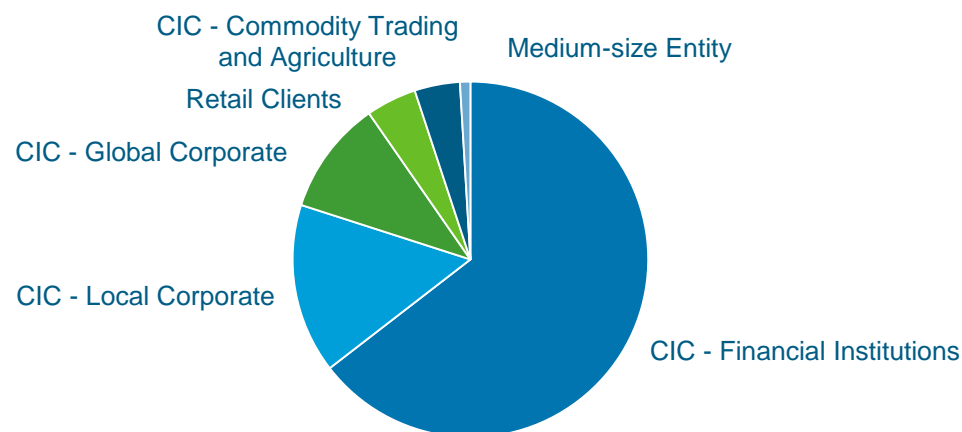
# Near term challenges

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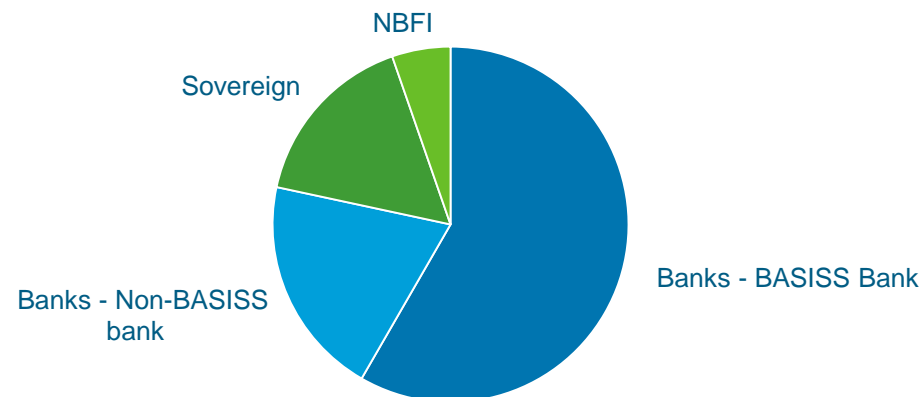
- Risks arising from economic slowdown and reforms
- Downward pressure in industries with overcapacity
- Increasing risk from fraud and shocks from anti-corruption campaigns
- Rising industry-wide NPLs to dampen sentiments

# China exposure overview

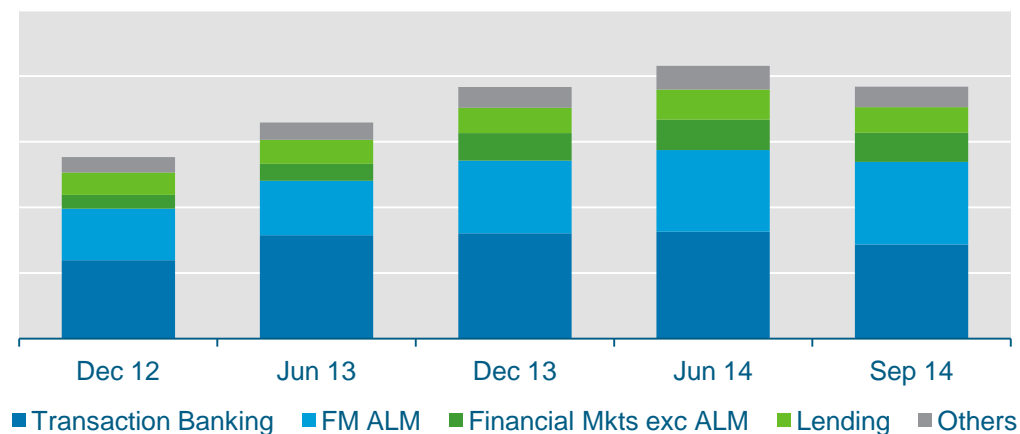
## CCR China exposure by segment



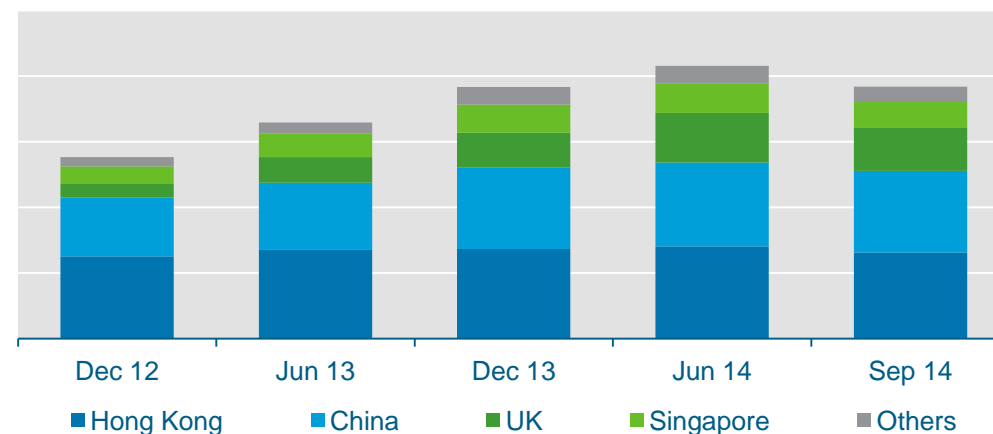
## CCR China FI exposure



## CCR China CIC exposure by product



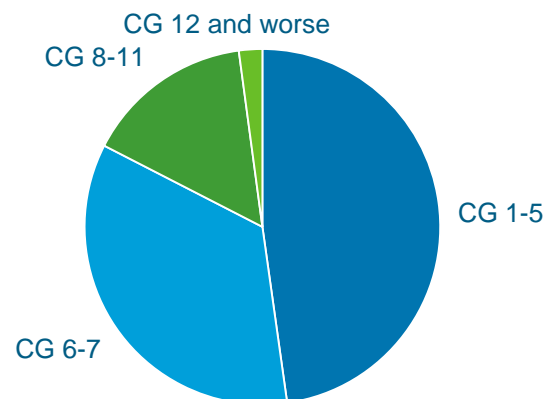
## CCR China CIC exposure by booking countries



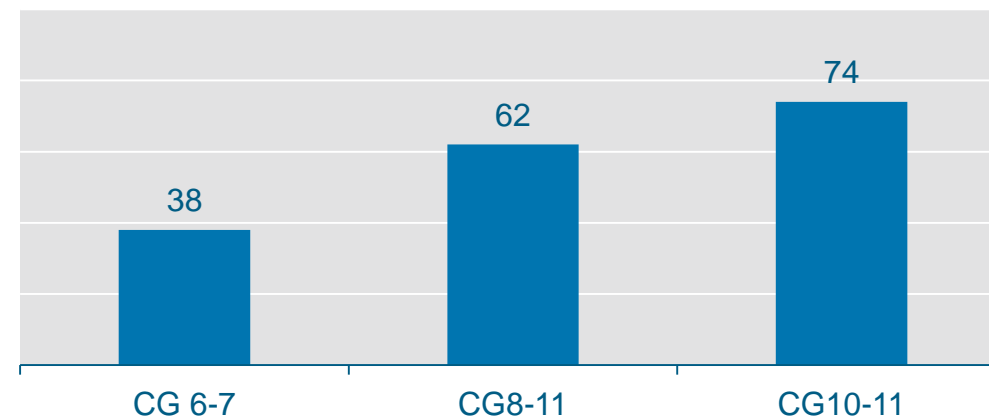
Note: CCR : Country of Credit Responsibility; BASISS: Banks of Systemic Importance with Sovereign Support; NBFI: Non Bank Financial Institutions

# China corporate portfolio

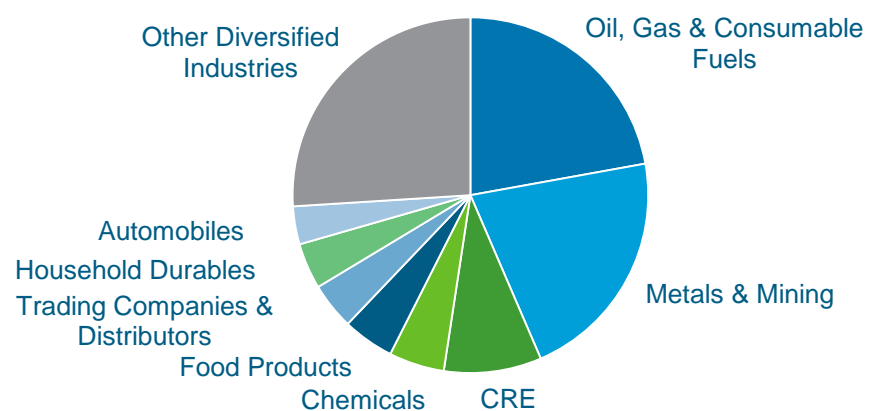
## By credit grade



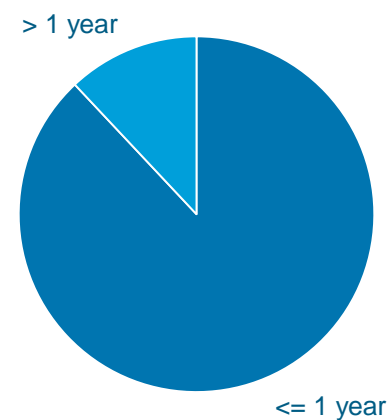
## Collateralisation ratio (%)



## Industry concentration

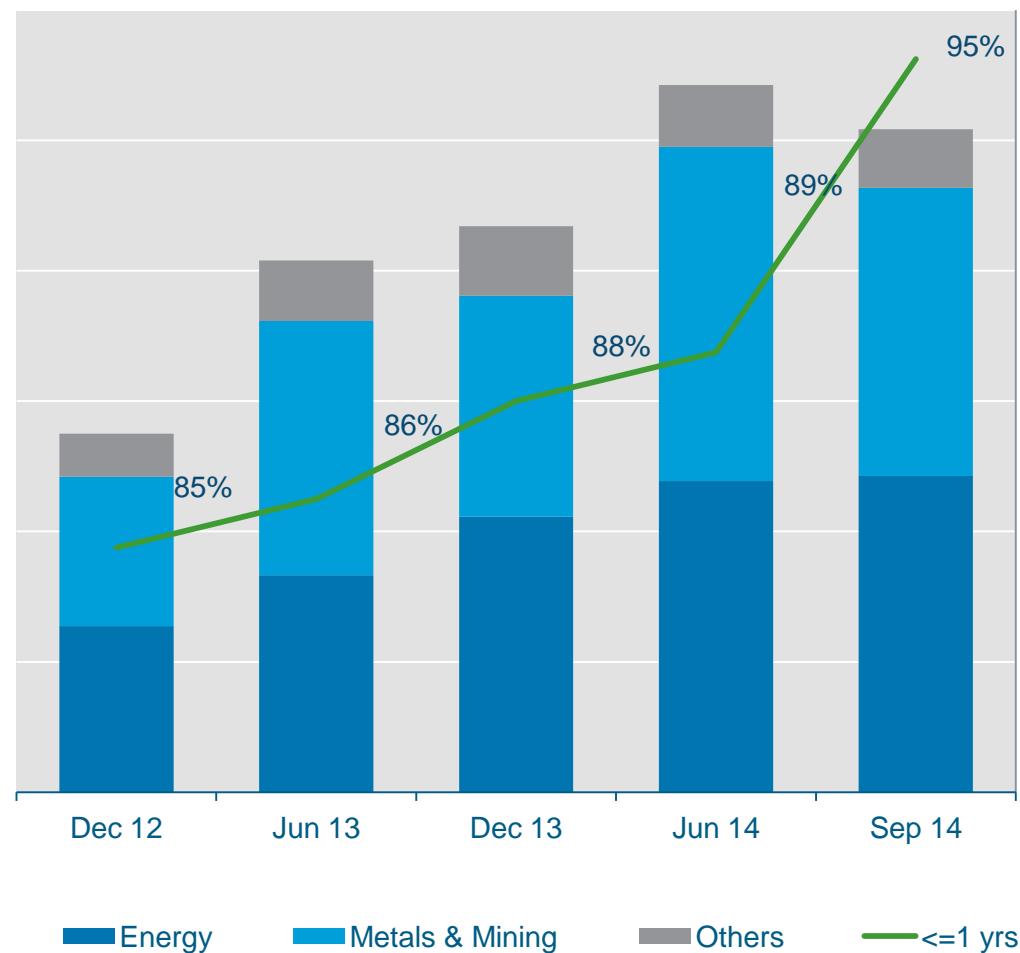


## Tenor profile



# China commodity portfolio

- China commodity portfolio
  - 95% < 1 year duration
  - 50% Investment grade
  - 48% to Energy (mainly SOE oil majors)
- De-risking Metals and Mining
- Addressing Qingdao warehouse fraud
  - Significant reduction in collateral backed financing in China since June 2014
  - All goods in China warehouses inspected with NO issue
  - Tightened collateral standards



Note: SOE: State Owned Enterprises

# Proactive and vigilant risk management

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## Reshaping industry distribution

- Scaling down industries with over-capacity
- Banking with the New China Economy

## Tightened new name criteria & approval conditions

## Proactive portfolio reviews and stress test

## Credit Monitoring and Vigilance

- Effective Early Alert (EA) process
- Enhanced fraud detection & promoter screening process

# CEO's closing remarks

---

- Resilient performance supported by continued Investments
- Managed slowdown - China's growth story intact
- Opportunities from further liberalisation / reforms
- Continue to drive network business
- Clear plan to tackle risk and challenges

# China Awards – 2014



**Best  
Transaction  
Bank in China**

**2014**



**Best in Treasury &  
Working Capital  
(MNCs/LLCs/Non-  
Bank FI)**

**2014**



**Online Banking  
Initiative of the Year  
China**

**2014**



**Best  
Wealth Management  
Services**

**2014**



**Best  
Small Business  
Lending**

**2014**



**Best in  
Cross-Border RMB  
(Shanghai)**

**2014**



**Best CSR  
Case Study  
Award**

**2014**



**HR Management  
Best Practices  
Award**

**2014**



**Best FX Wealth  
management  
Product**

**2014**



**Model Business  
in Innovation  
Award**

**2014**



# Q&A



# Offshore RMB

Gene Kim

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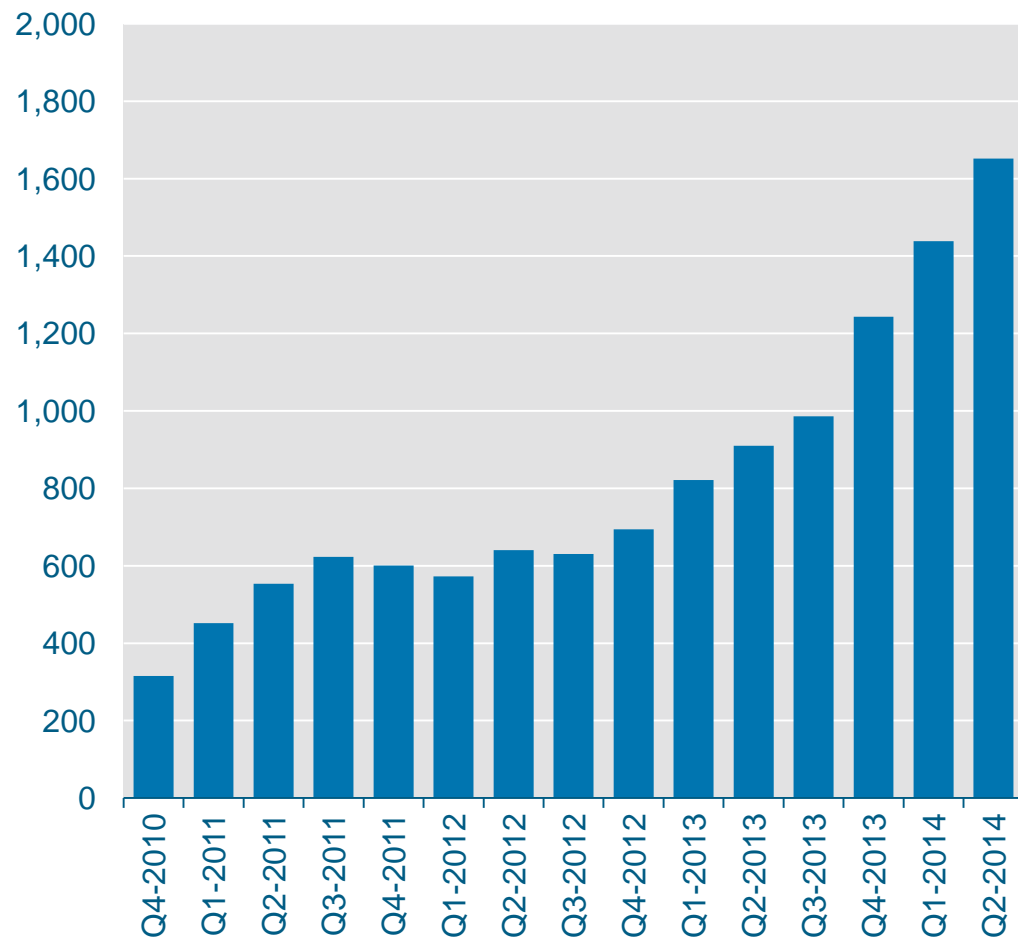
# Key messages

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- RMB is mainstream, but still huge upside potential
- We have a leading market position in RMB
- One bank collaboration sharpens our focus
- China liberalisation presents further significant opportunities
- RMB is increasingly part of our DNA and we are
  - Deepening relationships, leveraging share of mind
  - Investing in RMB capabilities with regulatory change
  - Maintaining a strong liquid RMB balance sheet

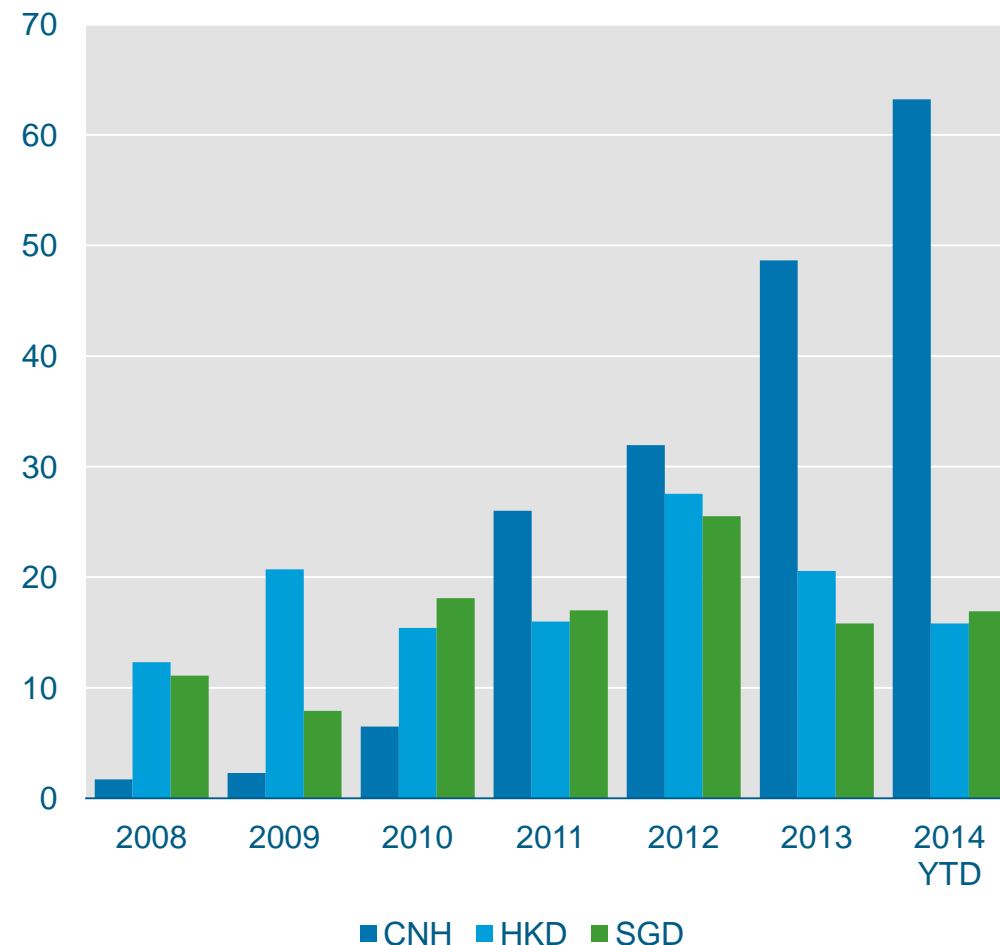
# RMB is mainstream...

## Offshore RMB deposits (CNH bn)



Source: HKMA, MAS, FSC and BOK

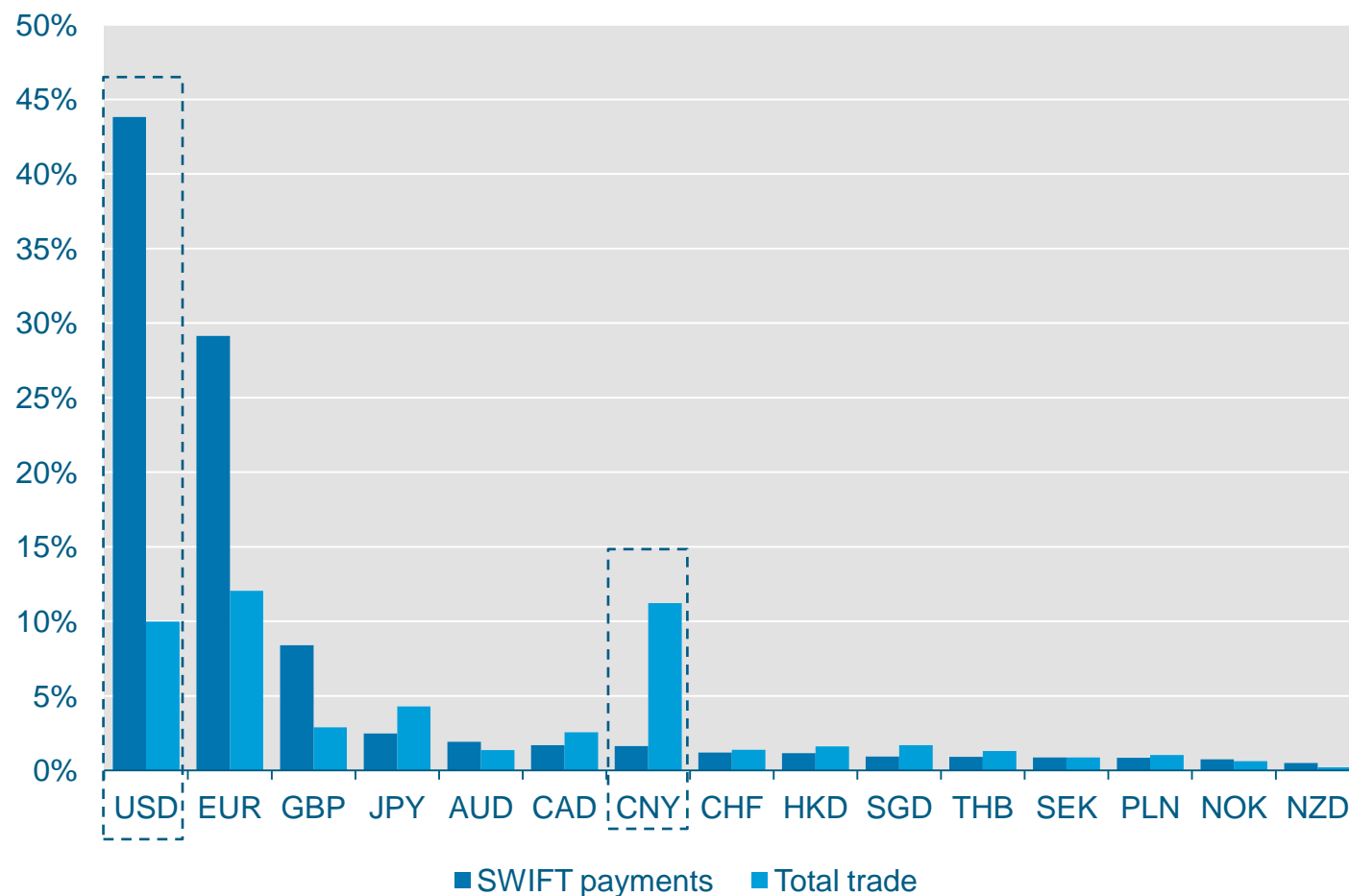
## CNH bond issuance (US\$bn)



Source: Bloomberg as of 31 Oct 2014

# ...but with huge upside

## Global share in trade/payments by currencies (%)



## RMB in 2020

- RMB will be a G4 currency with US\$, Euro and GBP
- 28% of China's US\$10.8tr trade denominated in RMB
- 'Basically' open capital account and free floating RMB
- China's GDP at US\$21.8tr, while US' GDP at US\$23.3tr

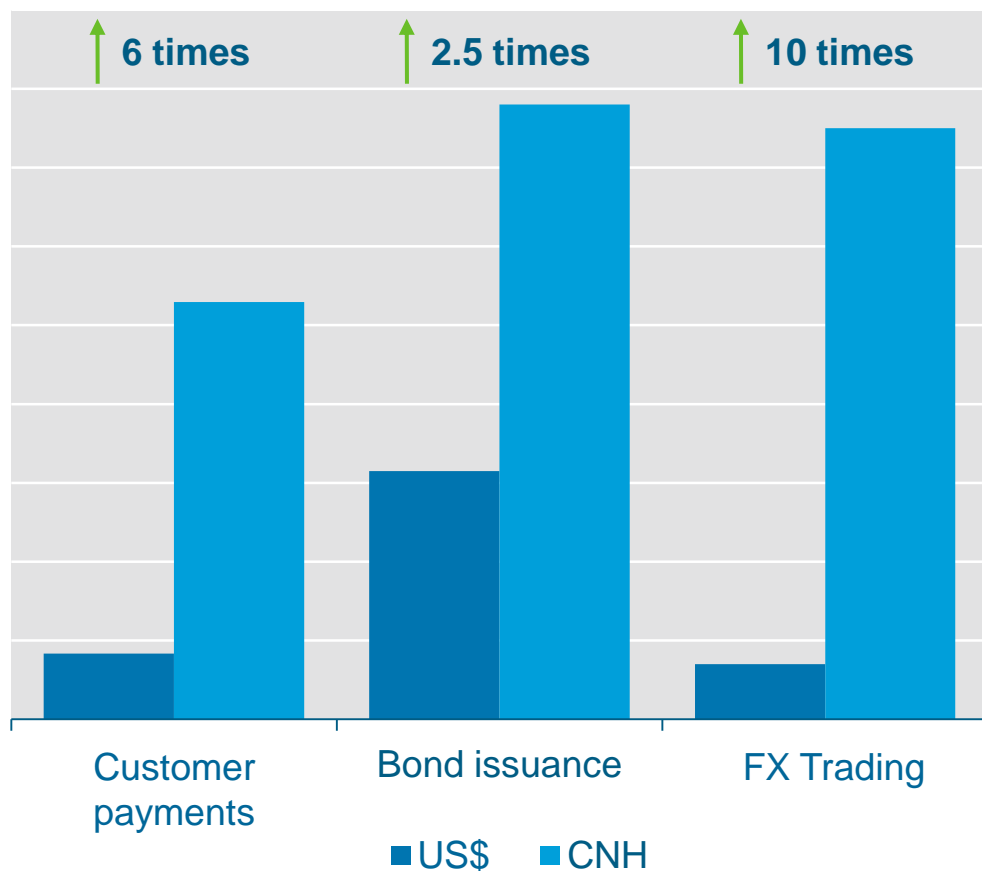
Source: CEIC, WTO, SWIFT RMB Tracker, Standard Chartered Research, special report on the Super Cycle

Note: Trade under EUR excluding intra-EU trade

# Our market leadership in RMB

## “Double-digit” market share

### Standard Chartered’s market share – CNH vs US\$



Source: SWIFT Watch, Bloomberg, Euromoney survey, Standard Chartered estimate

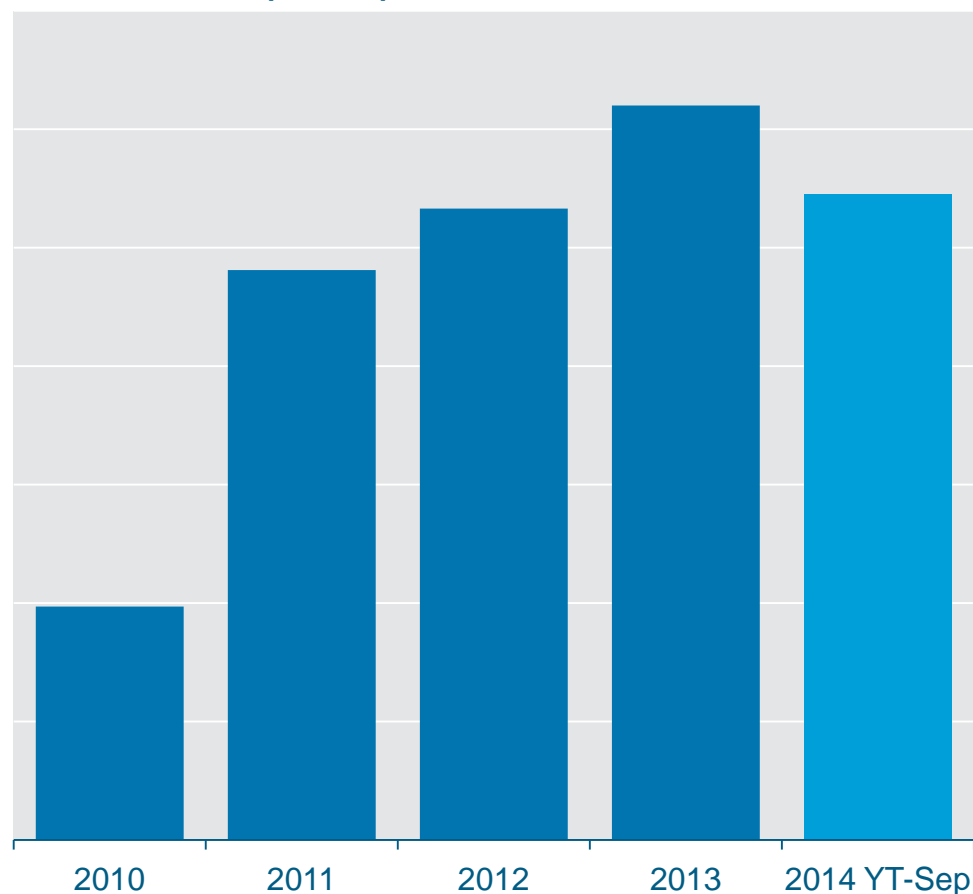
## Competitive advantages

- International and Greater China presence
- Depth of capabilities across our network
- Close engagement with regulators
- Leading foreign correspondent bank in China
- Leading trading bank in CNH FX market
- Strong liquid RMB balance sheet

# Diversified RMB business

## Resilient revenue despite RMB depreciation in Q2

RMB revenue (US\$m)



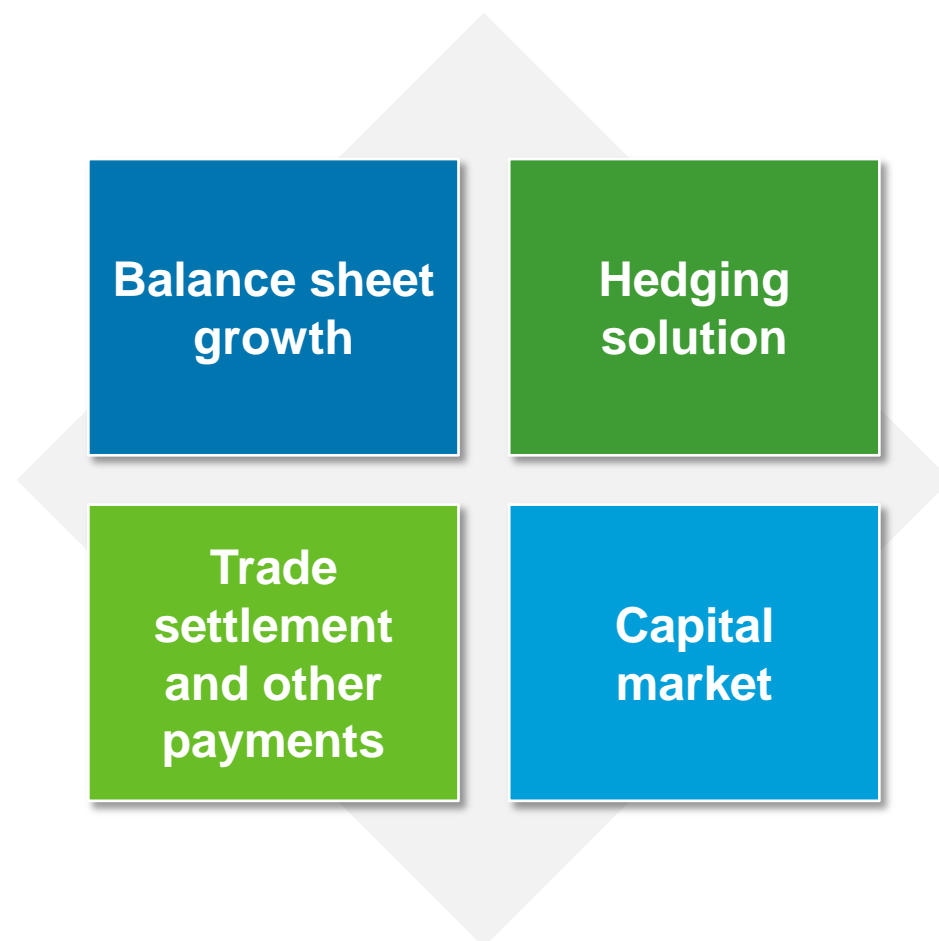
## Diversified RMB business with various RMB products and services offered

Financial Market	FX options
	Rates
	Equities
	Credit
	Foreign Exchange
	Commodity Derivatives
	Money Market and ALM
	Capital Markets
Transaction Banking	Cash Management
	Trade Finance and services
	Securities Services
Wealth	Wealth and Investments
Retail	Retail Deposits

# Strategic priorities

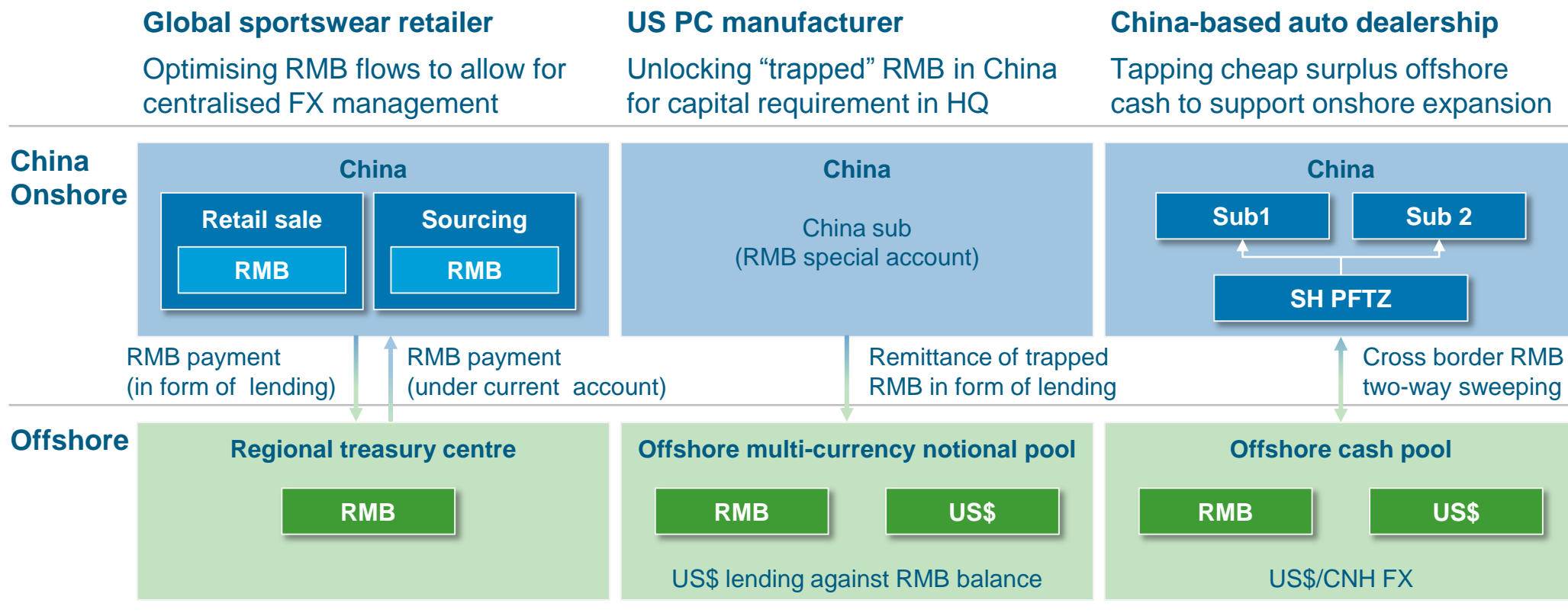
- Be the first and best RMB solutions provider, continuing to deliver value to our clients
- Deepen client relationships by leveraging RMB leadership
- Maintain strong liquid RMB balance sheet to support our business growth
- Shape policies and stay ahead in RMB capabilities

## Growing RMB business faster than other businesses





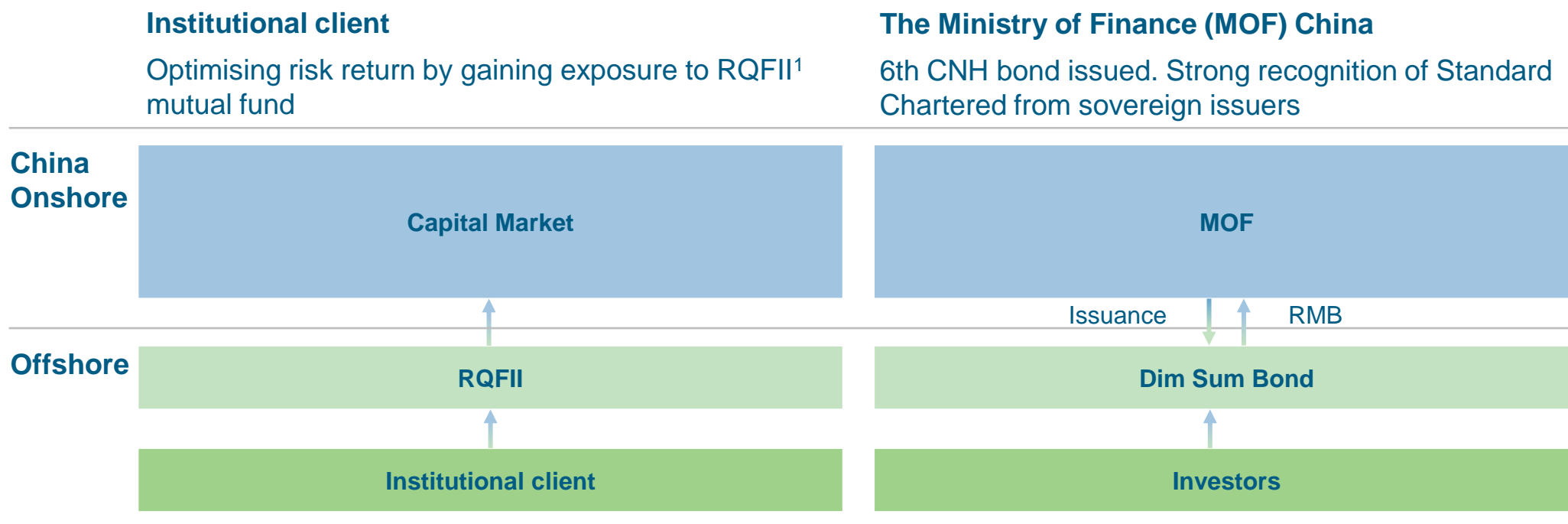
# First and best RMB solution provider for clients – enabling corporates to turn RMB internationalisation into competitive advantages



## Significance to Standard Chartered

- Anchoring Standard Chartered as a RMB Go To Bank for relationship deepening
- Cross-selling opportunities to generate incremental revenue on FX, capital markets and cash

# First and best RMB solution provider for clients – engaging investors, institutions and central banks to turn RMB into a competitive advantage



## Significance to Standard Chartered

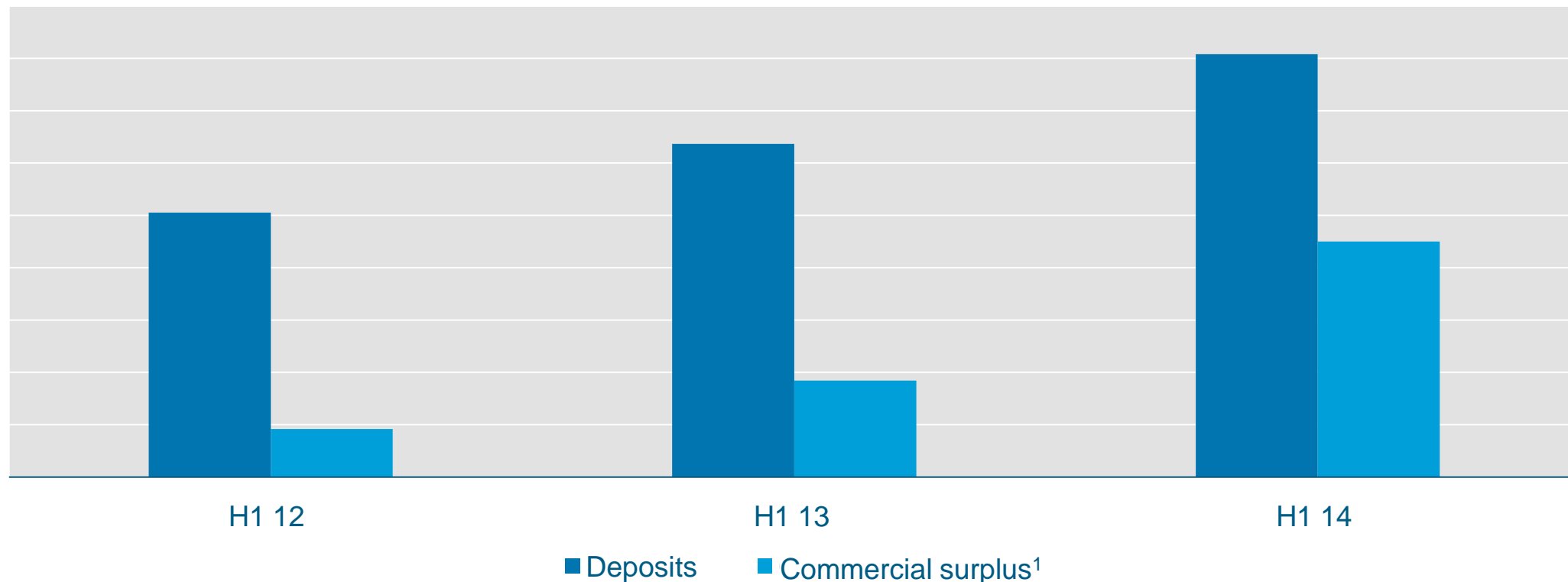
- Accessing Chinese markets for foreign investors
- RMB education and outreach for central banks/governments
- Full RMB financial markets services for financial institutions central banks
- Bespoke analysis, advisory, and strategic projects

1) Renminbi qualified foreign institutional investors

# Strong liquid balance sheet with quality deposit base

- Strong deposit base
- One RMB balance sheet

## Standard Chartered global offshore RMB balance sheet growth



1) The commercial surplus is defined as the amount of excess of the bank's customer deposits over its customer loans and advances

# China liberalisation presents opportunities for Standard Chartered

## **Regional treasury centres**

- Integrating RMB as part of treasury management functions

## **Chinese corporates**

- Fund raising, financing, hedging and working capital support for business expansion overseas

## **Global/Chinese investors**

- New avenues for cross border investment, portfolio diversification

## **Central Banks/Sovereign**

- Evolving new offshore centres, RMB as part of reserve capital

## **Deepening of capital market**

- Increasing channels and quotas on a gradual basis

## **Commodity trading**

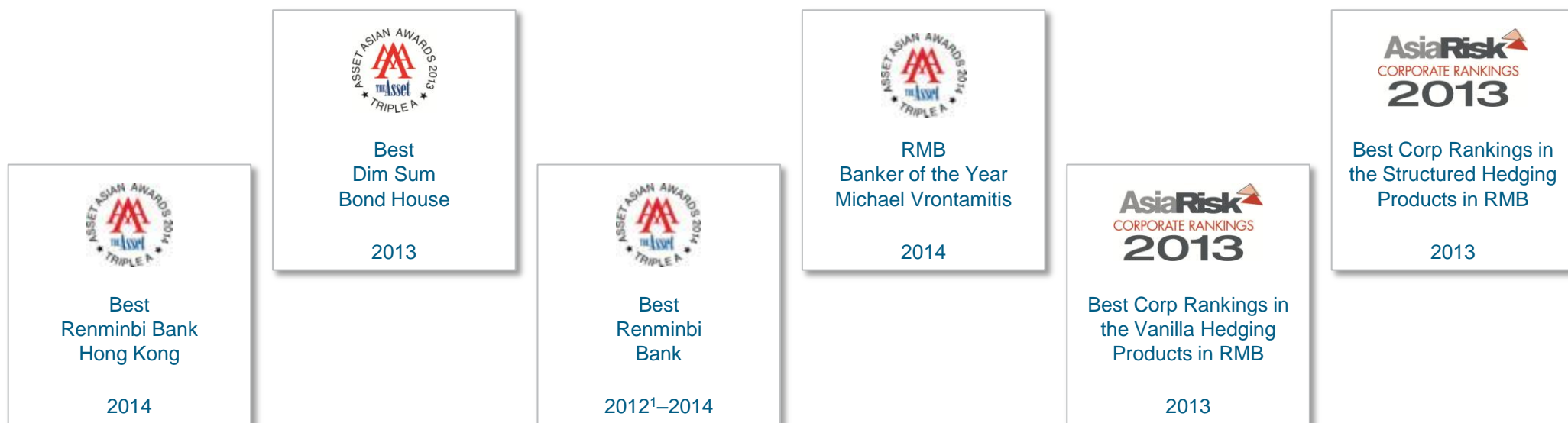
- Next wave of trade redenomination, starting from gold, followed by iron ore and copper

## **Onshore/Offshore Market Convergence**

- Expanding onshore access and leveraging international network

# RMB is increasingly part of our DNA

- RMB is mainstream, but still huge upside potential
- We have a leading market position in RMB
- One bank collaboration sharpens our focus
- China liberalisation presents further significant opportunities



1) In 2012–2013, the “Best Renminbi Bank” award used to be called “Best Renminbi Trade Settlement Bank”

# Q&A