

Credit Rating Report

HSBC Bank (China) Company Limited

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

January 12, 2021

Analysts:

Yifu Wang, CFA, CPA: +86-10-6516-6064; yifu.wang@spgchinaratings.cn

Xiaochen Luan, CFA, FRM: +86-10-6516-6069; collins.luan@spgchinaratings.cn

Xuefei Zou, CPA: +86-10-6516-6070; eric.zou@spgchinaratings.cn

Contents

Tear Sheet	2
Rating Summary	3
Macro-Economic and Industry Trends	4
Business Position	5
Capital and Earnings	9
Risk Position	15
Funding and Liquidity	18
External Support	19
Appendix 1: Key Financial Data	21
Appendix 2: Peer Comparison Data	22
Appendix 3: Rating History of HSBC (China)	23

* This rating is an Issuer Credit Rating (ICR). An ICR generally reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

S&P RATINGS (China) CO., LTD. (SP CHINA) RATINGS ARE ASSIGNED ON A RATING SCALE THAT IS DISTINCT FROM THE S&P GLOBAL RATING SCALE. AN S&P CHINA RATING MUST NOT BE EQUATED WITH OR REPRESENTED AS A RATING ON THE S&P GLOBAL RATINGS SCALE.

The rating presented in this report is effective from the rating date, until and unless we make any further updates.

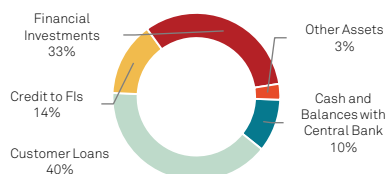
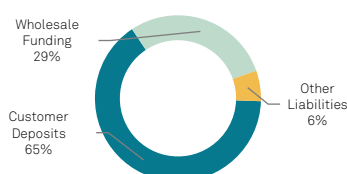
This document is prepared in both English and Chinese. The English translation is for reference only, and the Chinese version will prevail in the event of any inconsistency between the English version and the Chinese version.

Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
HSBC Bank (China) Company Limited	Issuer Credit Rating	AAA _{spc}	January 12, 2021	Stable

Industry Classification: Commercial Bank

Company Overview: HSBC Bank (China) Company Limited ("HSBC (China)") is a fully owned subsidiary of Hongkong and Shanghai Banking Corp. Ltd. ("HSBC"). HSBC is the largest bank in Hong Kong SAR with a presence in 19 markets in Asia-Pacific and access to a diverse global network through HSBC Holdings. Since Hong Kong and the Chinese mainland are HSBC's major markets, we view HSBC (China) as a core subsidiary of HSBC. As of the end of June 2020, HSBC (China) reported total assets of 552.2 billion RMB. In 2019, it achieved a net income of 4.5 billion RMB and delivered a ROE of 8.9%.

Asset Breakdown as of End of 2019**Liability Breakdown as of the End of 2019**

Economy and Industry Trends: China is recovering from the slowdown in economic growth caused by COVID-19. After GDP shrank by 6.8% in the first quarter of 2020, YoY GDP growth returned to positive in the second (3.2%) and third quarter (4.9%). We expect China to complete its U-shaped economic recovery by 2021.

Despite the pandemic, we believe the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of a robust economic recovery. Although China's commercial banking sector reported stable asset quality performance in the first three quarters of 2020, we continue to expect pressure on credit charges and profitability going forward because of the pandemic. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe the credit profiles of commercial banks are likely to show greater differentiation.

Due to their strong capital buffer and prudent risk appetite, foreign bank subsidiaries, a small subsector in China's banking sector, are expected to maintain stable stand-alone credit quality despite the pandemic. In addition, the generally strong resilience of their parent banks outside China amid COVID-19 has also contributed to their stable issuer credit quality.

Credit Highlights: HSBC (China) is the largest foreign bank subsidiary in China, providing a full spectrum of banking services, covering corporate, commercial and retail banking services. It operated 171 branches in 57 Chinese cities as of the end of 2019. Its wide coverage gives it a geographic diversification better than other mid-sized banks, domestic or foreign. We believe the bank is well positioned to develop new business opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area").

The bank has a strong capitalization base and solid earnings and its asset quality remains good despite COVID-19. As the biggest bank in Hong Kong, HSBC has strong expertise in managing risk in Asia-Pacific emerging markets through its rigorous risk framework and has a strong proven track record of managing asset performance through economic cycles. As a fully owned subsidiary of HSBC, which has extremely strong credit quality equivalent to our rating of AAA_{spc}, HSBC (China) is a core part of HSBC, we have equalized its issuer credit ratings with the credit quality of its parent.

Key Metrics of HSBC (China)

	2016	2017	2018	2019	2020.06
Total assets (bil.)	421.71	467.94	476.32	524.80	552.16
Gross customer loans (bil.)	164.92	187.56	195.97	212.12	223.71
Customer deposits (bil.)	278.27	280.09	286.97	308.79	293.82
Net income (bil.)	4.18	3.82	3.89	4.46	2.59
Reported regulatory capital adequacy ratio (%)	19.39	17.58	18.31	16.18	16.72
Reported Return on equity (%)	9.61	8.29	8.09	8.91	/
Non-performing loans ratio (%)	0.63	0.64	0.43	0.41	0.34
Reserve coverage ratio (%)	164.22	164.68	353.41	376.13	438.39
Customer deposits/total liabilities (%)	73.94	66.52	67.22	65.12	58.74

Note: Customer deposits included structured deposits. Unless otherwise stated, the currency of this report is shown in RMB.

Sources: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Rating Snapshot

Anchor	bbb+
— Business Position	+1
— Capital and Earnings	+1
— Risk Position	+1
— Funding and Liquidity	0
Stand-alone Credit Profile	a_{spc}+
Group Support	+4
Issuer Credit Rating	AAA_{spc}
Outlook	Stable

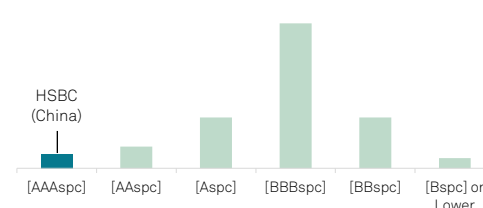
Business Position: HSBC (China) is the largest foreign bank subsidiary, with the most extensive network in China. It had 171 branches and subbranches in 57 cities as of the end of 2019. Its wide coverage gives it a geographic diversification better than other mid-sized banks. Its business benefits from extensive franchise of its parent. Nevertheless, its absolute market share in China is still limited since the domestic market is dominated by larger domestic players.

Capital and Earnings: It has a strong capitalization base, with capital adequacy ratios higher than the industry average. Its profitability is healthy due to its low credit charges.

Risk Position: Its asset quality metrics are better than the industry average and we view its risk management as prudent with well-defined and communicated risk appetite and effective risk limit controls in place. It targets a client base of multinationals, high credit quality Chinese enterprises with an international mindset and affluent retail customers. We expect it to maintain good asset quality despite COVID.

Funding and Liquidity: It has a funding profile consistent with the banking industry average. Its liquidity metrics and asset liquidity profile are better than the industry average due to its large holding of government bonds and prudent liquidity management.

External Support: HSBC has extremely strong credit quality. Since Hong Kong and the Chinese mainland are major markets for HSBC, HSBC (China) is extremely likely to receive extraordinary support from its parent because we view HSBC (China) as having critical importance to HSBC.

HSBC (China)'s Relative Issuer Credit Rating Position Among Financial Institutions In China

Note: This chart serves as a hypothetical example of S&P Global (China) Ratings' rating distribution of financial institutions. Rating below [AAA_{spc}] may be adjusted by "+" and "-".

Peer Group Comparison

The peer group includes HSBC (China), Standard Chartered Bank (China), BEA (China), Citibank (China), Mizuho (China) and DBS (China).

(2017-2019 three-year average)	HSBC (China)	Max	Min	Average	Asset-weighted average	Median
Total assets (bil.)	489.69	489.69	121.56	223.55	293.64	190.18
Customer deposits (bil.)	291.95	291.95	57.67	140.06	180.98	133.65
Net income (bil.)	4.06	4.06	(0.23)	1.53	2.13	1.38
Reported regulatory capital adequacy ratio (%)	17.36	19.04	14.29	16.52	16.64	16.44
Return on average equity (%)	8.43	11.37	(1.00)	6.48	6.79	7.59
Non-performing loans ratio (%)	0.49	1.63	0.04	0.75	0.75	0.68
Reserve coverage ratio (%)	298.07	5,854.95	161.07	1,208.47	781.83	285.98
Customer deposits/total liabilities (%)	66.29	86.51	50.84	70.56	69.92	70.71

Sources: Public information of peer banks, collected and adjusted by S&P Global (China) Ratings.

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
HSBC Bank (China) Company Limited	Issuer Credit Rating	AAA _{spc}	January 12, 2021	Stable

Stand-alone Credit Profile (SACP)	a _{spc} +
Anchor	bbb+
Business Position	+1
Capital & Earnings	+1
Risk Position	+1
Funding & Liquidity	0
Holistic Adjustment	0

+

External Support	+4
Group Support	+4

Issuer Credit Rating (ICR)
AAA _{spc} /Stable

Credit Highlights

Strengths	Weaknesses
— It is extremely likely to receive parental support in times of need.	— COVID-19 might bring uncertainty to its asset quality and earnings.
— It is the largest foreign bank subsidiary in China with wide coverage across China.	— Its operating cost is higher than the industry average.
— It has strong capitalization and prudent risk management.	

Rating Outlook

The stable outlook reflects our expectation that HSBC (China)'s business operations and financial strength will remain stable over the next two years or beyond. We also expect its critical importance to its parent, Hongkong and Shanghai Banking Corp. Ltd. ("HSBC"), to remain unchanged in the foreseeable future.

Downside Scenario: We may consider lowering its issuer credit rating ("ICR") if we believe that its importance to its parent declines, or if its parent's issuer credit quality deteriorates significantly. We may consider lowering its stand-alone credit profile ("SACP") if the bank suffers significant credit losses or capitalization deterioration.

Upside Scenario: We may consider raising its SACP if its capital base improves significantly, or its reliance on wholesale funding reduces significantly and it enjoys a stronger and more stable deposit base.

Related Methodologies, Models & Research

Methodology Applied:

- [S&P Global \(China\) Ratings Financial Institutions Methodology.](#)
- [S&P Global \(China\) Ratings General Considerations on Rating Modifiers and Relative Ranking.](#)

Model Applied: None.

Anchor

Macro-Economic and Industry Trends

China is recovering from the economic growth slowdown caused by COVID-19. After GDP shrank by 6.8% in the first quarter of 2020, YoY GDP growth returned to positive in the second quarter (3.2%) and third quarter (4.9%). We expect China to complete its U-shaped economic recovery by 2021.

Despite the pandemic, we believe that the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of a U-shaped economic recovery. In addition, the banking sector has demonstrated great operational resilience amid measures to contain the pandemic, thanks to its long-term commitment to information technology and online banking.

Although China's commercial banking sector delivered stable asset quality performance in the first three quarters of 2020, we continue to expect pressure on credit cost and profitability going forward as the effects of COVID-19 continue to be felt. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe that the credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future.

For the past decade, while domestic banks grew at a very fast pace, most foreign bank subsidiaries took a more conservative approach in expanding their loan books. There are 41 locally incorporated banks set up by foreign banks, and their asset market share in China's commercial banking industry is less than 2%.

Although foreign bank subsidiaries typically have much smaller business franchise in China than their domestic peers, they offer a unique value proposition in providing sophisticated cross-border banking services.

Most foreign bank subsidiaries have displayed a lower risk appetite than their domestic peers in the past decade, and their asset quality performance has been less affected by the COVID-19 pandemic and the economic slowdown in China. We expect them to maintain stable credit quality thanks to their strong capital buffers. But we expect lower earnings for these banks due to the low interest rate environment which weighs negatively on their net interest margin ("NIM").

Foreign bank subsidiaries are typically fully owned and tightly controlled by parents, sharing their parents' brands, and receiving effective parental support through cross-selling activities, capital injection and liquidity support. Therefore, we typically believe that they are highly likely to receive parental support in times of stress. The generally strong resilience of their parent banks outside China against the effects of COVID-19 has also contributed to their stable issuer credit quality.

Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "bbb+" to commercial banks in China.

Stand-alone Credit Profile

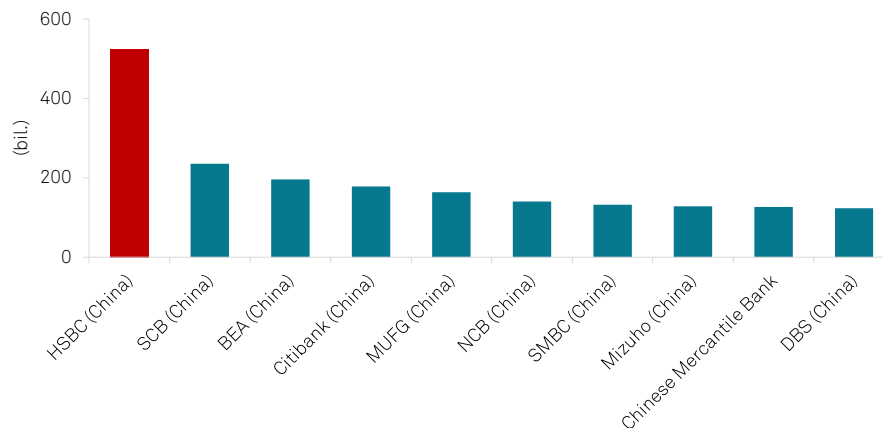
HSBC (China) is a fully owned subsidiary of HSBC. HSBC is the largest bank in Hong Kong SAR, with a presence in 19 markets in Asia-Pacific and access to a diverse global network. Since Hong Kong and the Chinese mainland are major markets for HSBC, HSBC (China) is a core part of its parent's Asia-Pacific banking network.

HSBC (China) has grown into the largest foreign bank subsidiary in China, providing a full spectrum of banking services in China, covering corporate, commercial and retail banking services. As of the end of June 2020, it reported total assets of 552.2 billion RMB and gross loans of 223.7 billion RMB. In 2019, it achieved a net income of 4.5 billion RMB and delivered a ROE of 8.9%.

Chart 1

HSBC (China) Has the Largest Foreign Bank Operations in China

Peer Comparison: 10 Largest Foreign Bank Subsidiaries by Assets as of End of 2019



Note: SCB (China) - Standard Chartered Bank (China) Limited, BEA (China) - Bank of East Asia (China) Limited, NCB(China) - Nanyang Commercial Bank (China) Limited, SMBC (China) - Sumitomo Mitsui Banking Corporation (China) Limited.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Business Position

HSBC (China) is the largest foreign bank subsidiary in China. We believe it has made more progress in business localization compared to most of its foreign bank peers. As the largest bank in Hong Kong, HSBC has a very deep commitment to China and is well-positioned for assisting customers in their cross-border businesses with its extensive franchise in Asia-Pacific and beyond. Among its foreign bank peers, HSBC (China) has the most extensive network in China. It has 171 branches and subbranches in 57 cities. The wide coverage gives it a geographic diversification better than other mid-sized banks, domestic or foreign. HSBC has identified the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area") as one of its investment priorities and we believe the group's strong business presence in Hong Kong and Guangdong puts it in a good position to capitalize on the government's initiative to develop the Greater Bay Area.

HSBC (China) has maintained steady business growth in the first half of 2020 despite the economic headwinds caused by COVID. As of the end of June 2020, it had total assets of 552.2 billion RMB, up by 5.2% compared to the beginning of the year.

HSBC (China)'s market shares are still limited since the domestic market is dominated by large domestic players. The bank's asset growth rate is lower than the industry average of 7.5% in the first half of 2020, as domestic banks are the major channel for the implementation of government policy of increasing credit support to the real economy amid COVID. This has led to a slight decrease in the overall market

The bank is the largest foreign bank subsidiary in China.

It has geographic and product diversification better than domestic banks with similar sizes.

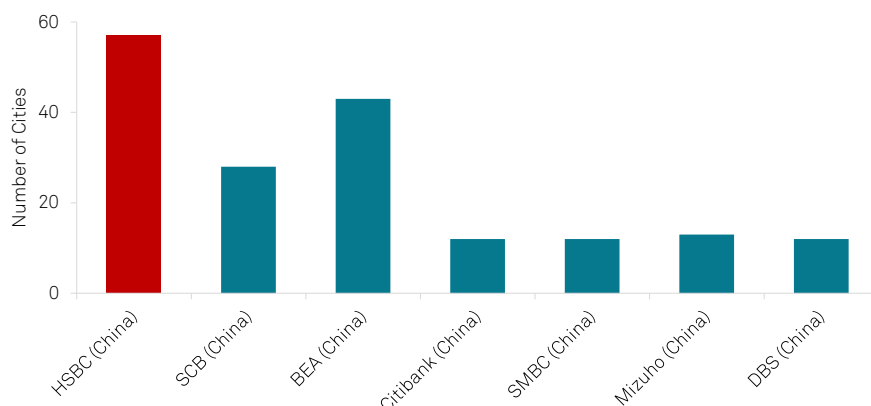
Therefore, we make one-notch upward adjustment to its business position.

share of HSBC(China). As of the end of June 2020, the bank had a loan market share of 0.16% and deposit market share of 0.14% in China.

Chart 2

Compared to its Foreign Peers, HSBC (China) Has the Most Extensive Network in China

Peer Comparison: Geographic Coverage in China as of End of 2019



Note: SCB (China) - Standard Chartered Bank (China) Limited, BEA (China) - Bank of East Asia (China) Limited, SMBC (China) - Sumitomo Mitsui Banking Corporation (China) Limited.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 1

HSBC (China): Market Share					
(%)	2016	2017	2018	2019	2020.06
Total assets/total assets of China's commercial banking industry	0.23	0.24	0.23	0.22	0.21
Gross customer loans/total loans of China's commercial banking industry	0.19	0.19	0.18	0.16	0.16
Customer deposits/total deposits of China's commercial banking industry	0.18	0.17	0.16	0.16	0.14

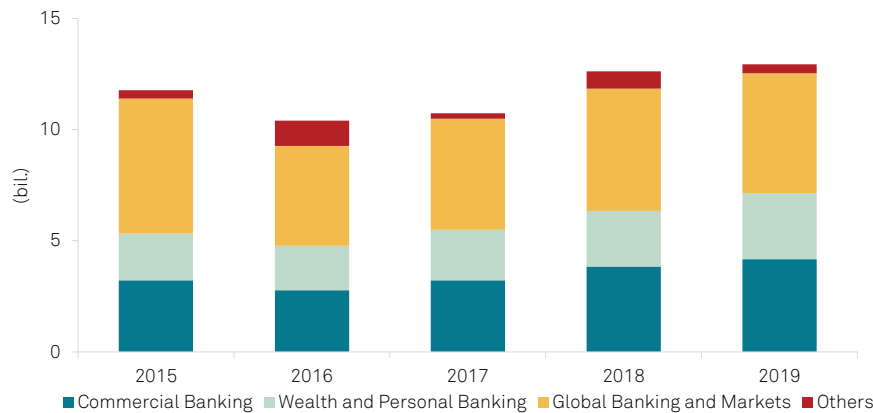
Sources: HSBC (China), industry data published by PBOC and CBIRC, collected and adjusted by S&P Global (China) Ratings.

Compared to domestic banks, HSBC (China) has a strong capability in providing service proposition by leveraging on HSBC network to meet clients' cross-border banking needs. It offers a full spectrum of corporate, commercial, and retail banking services and has a well-balanced business structure. It has three major business lines, including global banking and markets, commercial banking, wealth and personal banking. In 2019, these three business lines accounted for 42%, 32% and 23% of operating income respectively. In addition, in 2020 it was one of four foreign bank subsidiaries designated by the People's Bank of China as a primary dealer in the inter-bank market. It has been a primary dealer for more than a decade.

Chart 3

HSBC (China) Has a Well-Balanced Business Mix

HSBC (China): Breakdown of Operating Income



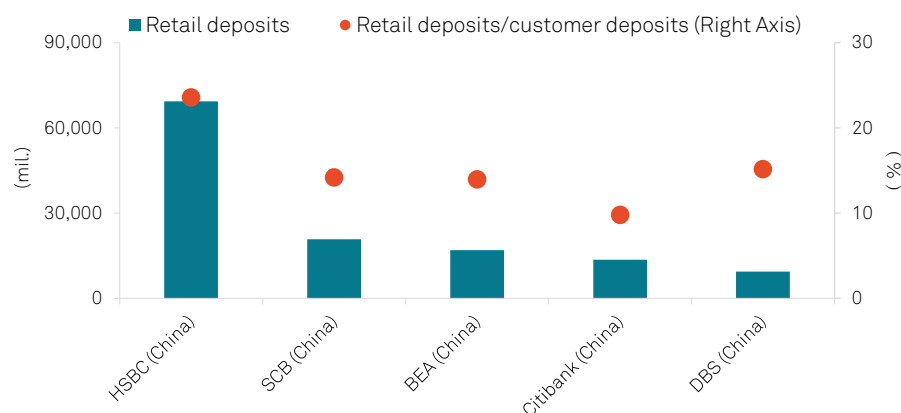
Sources: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Thanks to HSBC(China)'s geographically diversified network in China, its retail banking franchise is large compared to its foreign peers but still relatively small compared to mainstream domestic banks. As of the end of June 2020, it had a retail lending book of 53.9 billion RMB and retail deposits of 69.3 billion RMB (excluding structured deposits), accounting for 24.1% and 23.6% of its loan book and customer deposits respectively. Its retail lending is mainly composed of mortgages (accounting for 92% of its retail loan book as of the end of June 2020, and it also has a small portfolio of credit card lending). It has the largest mortgage operations among foreign bank subsidiaries in China.

Chart 4

HSBC (China) Has the Strongest Retail Franchise among Its Foreign Peers

Peer Comparison: Retail Deposits and Retail Deposits/Customer Deposits as of End of 2019



Note 1: SCB (China) - Standard Chartered Bank (China) Limited, BEA (China) - Bank of East Asia (China) Limited.

Note 2: We included structured deposits into customer deposits where data is publicly available.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 2

HSBC (China): Business Position					
	2016	2017	2018	2019	2020.06
Total assets (bil.)	421.71	467.94	476.32	524.80	552.16
Year-over-year growth of total assets (%)	8.23	10.96	1.79	10.18	/
Gross customer loans (bil.)	164.92	187.56	195.97	212.12	223.71
Year-over-year growth of gross customer loans (%)	(4.10)	13.72	4.48	8.24	/
Customer deposits* (bil.)	278.27	280.09	286.97	308.79	293.82
Year-over-year growth of customer deposits (%)	15.46	0.66	2.46	7.60	/
Operating income (bil.)	10.40	10.74	12.62	12.93	6.64
Year-over-year growth of operating income (%)	(11.62)	3.25	17.53	2.47	/
Net income (bil.)	4.18	3.82	3.89	4.46	2.59
Year-over-year growth of net income (%)	(22.35)	(8.42)	1.84	14.40	/
Net fees and commissions income/operating income (%)	14.20	15.37	13.97	14.58	15.89

Note*: Customer deposits include structured deposits.

Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Table 3

Peer Comparison: Business Position						
(2017-2019 three-year average)	HSBC (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil.)	489.69	489.69	121.56	223.55	293.64	190.18
Year-over-year growth of total assets (%)	7.64	9.15	(2.63)	4.58	4.98	6.07
Gross customer loans (bil.)	198.55	198.55	46.02	93.84	122.32	75.92
Year-over-year growth of customer loans (%)	8.82	12.73	(2.58)	6.46	6.96	7.32
Customer deposits (bil.)	291.95	291.95	57.67	140.06	180.98	133.65
Year-over-year growth of customer deposits (%)	3.57	9.17	(8.88)	2.81	2.24	3.49
Operating income (bil.)	12.10	12.10	2.56	5.69	7.43	5.28
Year-over-year growth of operating income (%)	7.75	14.38	6.17	9.20	8.71	8.11
Net income (bil.)	4.06	4.06	(0.23)	1.53	2.13	1.38
Year-over-year growth of net income (%)	2.61	174.29	(82.36)	37.11	21.33	35.88
Net fees and commissions income/operating income (%)	14.64	17.97	2.91	12.61	13.78	13.75

Note 1: We have chosen five foreign bank subsidiaries in China, including Standard Chartered Bank (China), Bank of East Asia (China), Citibank (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2017 to 2019. Therefore, the weights of HSBC (China), Standard Chartered (China), Bank of East Asia (China), Citibank (China), Mizuho (China) and DBS (China) are 36.51%, 16.78%, 15.64%, 12.71%, 9.06% and 9.30% respectively.

Note 2: We included structured deposits into customer deposits where data is publicly available.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

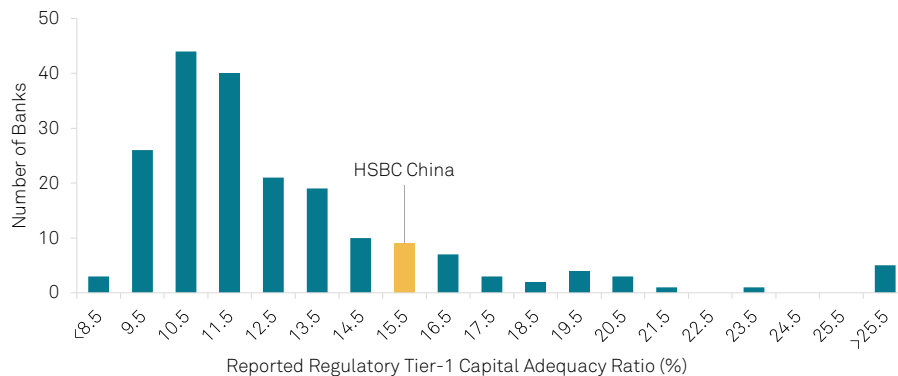
Capital and Earnings

HSBC (China)'s capitalization is stronger than the industry average in China. Its reported regulatory capital adequacy ratio was 16.72% as of the end of June 2020, higher than the industry average of 14.21% but lower than the foreign bank subsidiary average of 18.76%. We expect the bank to maintain strong capitalization in the foreseeable future given its good asset quality and moderate business growth pace. In addition, it enjoys good capital quality. As of the end of June 2020, its core tier-1 capital accounted for 95.2% of its total capital, higher than the industry average of 73.7%.

Chart 5

HSBC (China)'s Capitalization is Stronger than Industry Average

Industry Distribution: Reported Regulatory Tier-1 Capital Adequacy Ratio of Major Banks in China as of End of 2019



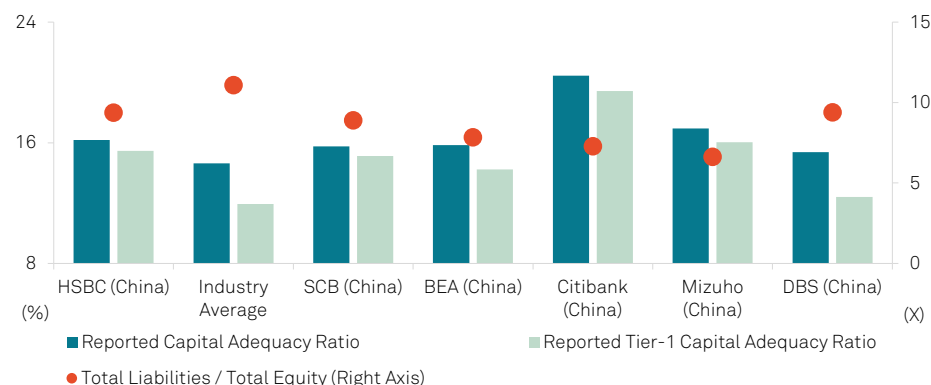
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We apply a one-notch uplift to its capital and earnings to reflect its strong capitalization which is much higher than the minimum regulatory requirement.

Chart 6

Major Foreign Bank Subsidiaries Tend to Have Capitalization Stronger than Industry Average

Peer Comparison: Reported Regulatory Capital Adequacy Ratios and Leverage Levels as of End of 2019



Note: SCB (China) - Standard Chartered Bank (China), BEA (China) - Bank of East Asia (China).

Sources: CBIRC, public information of banks, collected and adjusted by S&P Global (China) Ratings.

We expect the bank to maintain a reasonable balance among dividend payment, business growth and capital buildup. HSBC has a track record of injecting capital into its China subsidiary to sustain its growth. The parent injected capital in 2011, 2012 and 2013. Meanwhile, the dividend payout to the parent also slows down internal capital generation through earnings. Considering all these factors, we expect its tier-1 capital adequacy ratio to be above 15% for the next 12 months, comfortably above the minimum regulatory requirement and higher than the industry average level.

Table 4

HSBC (China): Tier -1 Capital Adequacy Ratio Forecast by S&P Global (China) Ratings

	2018A	2019A	2020E	2021E
Total risk-weighted assets (bil.)	280.91	326.64	333.70	363.90
- Credit risk (bil.)	244.64	285.22	292.35	318.65
- Market risk (bil.)	15.21	18.78	18.25	19.82
- Operational risk (bil.)	21.06	22.64	23.10	25.43
Tier-1 capital (bil.)	49.32	50.48	53.06	55.70
Tier-1 capital adequacy ratio forecast (%)	-	-	15.9	15.3

S&P Global (China) Ratings' base-case assumptions for this forecast include: 1. total assets grow by 6% and 9% in 2020 and 2021 respectively; 2. by the end of 2021, its NPL ratio is below 0.5% and the ratio of loan reserve/gross loans is about 1.5%; 3. net interest margin is above 1.6%; 4. cost-to-income ratio is about 55%; 5. return on average equity is about 9% for both 2020 and 2021; and 6. we assume a dividend payout ratio of 50% for both 2020 and 2021.

Note: A-actual; E-expected.

Sources: HSBC (China), S&P Global (China) Ratings.

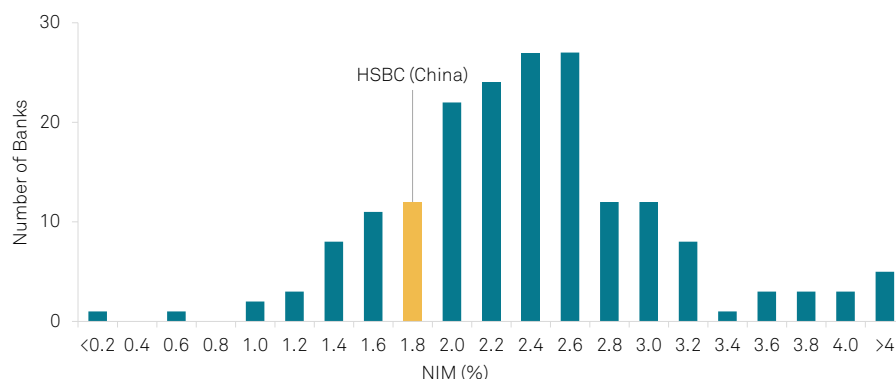
The NIM of HSBC (China) is lower than the industry average but consistent with the foreign bank subsidiary average. In 2019, it had a NIM of 1.70%, similar to the foreign bank subsidiary average of 1.78% and lower than the industry average of 2.20%. In our view, its interest yield is lower than the industry average because of the high credit

quality of its client base, which leads to a lower credit risk premium, and its heavy investment in treasury bonds, which also has a lower yield compared other investment products.

Chart 7

HSBC (China)'s NIM is Lower than Industry Average

Industry Distribution: Net Interest Margin of Major Banks in China in 2019

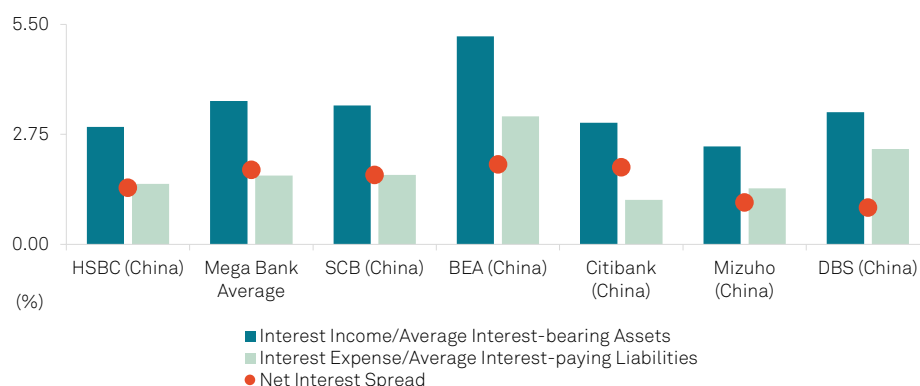


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 8

HSBC (China)'s Interest Yield is Relatively Low due to a Low Credit Risk Client Base

Peer Comparison: Net Interest Spread in 2019



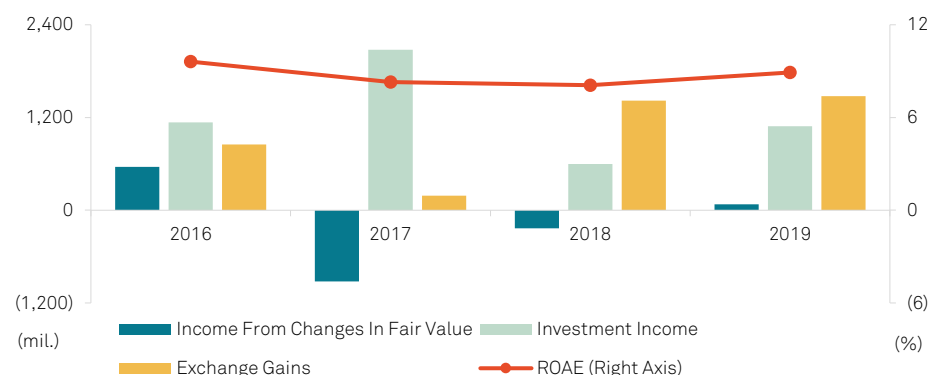
Note 1: SCB (China) - Standard Chartered Bank (China), BEA (China) - Bank of East Asia (China). The mega banks refer to the six state-owned mega banks in China, including ICBC, CCB, ABC, BOC, PSBC and BoCom.

Note 2: Net Interest Spread = (interest income/average interest-bearing assets) - (interest expense/average interest-paying liabilities)

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Part of HSBC (China)'s operating income is from customer trades (mainly including income from fair-value changes, investment income, and exchange gains/loss), which may increase the volatility of its earnings. In 2019, 11.4% of its operating income is exchange gains, and 8.4% investment income. Nevertheless, we believe the downside earning volatility due to market risk is limited since the bank has rigorous market risk limit management in place. In addition, in 2019, 14.6% of its operating income was from net fee and commissions, which we view as a more stable source of income.

Chart 9

20% of HSBC (China)'s Operating Income is Trading Income in 2019**HSBC (China): Trading Income and Return on Average Equity**

Note: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

Sources: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

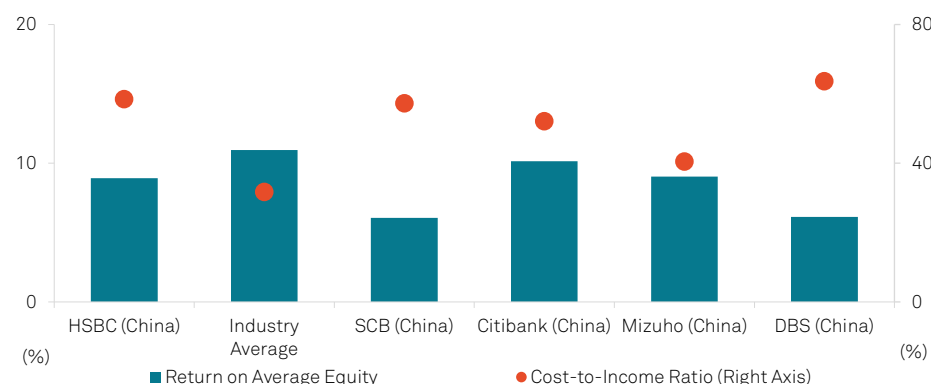
Thanks to its good asset quality, HSBC (China) has controllable credit charges. From 2017 to 2019, its average credit cost (calculated as loan provisioning/average gross customer loans) was 0.48%, significantly lower than the industry average. Its ratio of asset provisioning to pre-provision operating profits was 14.95% in 2019, and 13.62% in the first half of 2020. Its provisioning needs to comply with two regulatory requirements: one is to meet the minimum reserve coverage ratio requirement (120% for 2019), and the other is to meet the minimum requirement on loan loss reserve/gross customer loans ratio (1.5% for 2019). Thanks to its good asset quality, the minimum regulatory requirement of loan loss reserve/gross customer loans ratio typically has a dominating influence on its credit charges. As of the end of 2019, its reserve coverage ratio was 376%, much higher than the minimum requirement of 120%, and its loan loss reserve/gross customer loans ratio was 1.53%, consistent with the minimum requirement of 1.5%.

Similar to most foreign bank subsidiaries operating in China, HSBC (China)'s operating cost is higher than the industry average. In 2019, its cost-to-income ratio was 58%, higher than the industry average of 32%. Thanks to its large holding of treasury bonds, the interest yields of which are typically tax-free in China, HSBC (China) enjoys a low real tax rate.

Chart 10

Similar to its Foreign Peers, HSBC (China) Has High Operating Costs

Peer Comparison: Return on Average Equity and Cost-to-income Ratio in 2019



Note 1: SCB (China) - Standard Chartered Bank (China).

Note 2: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

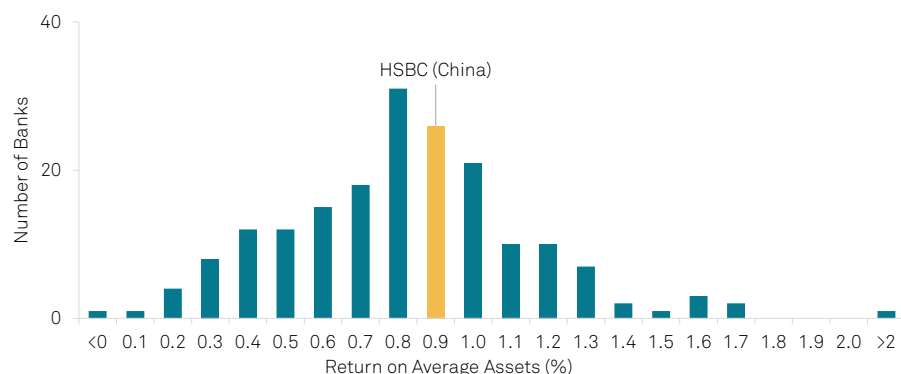
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

HSBC (China) has a healthy earning level. Its ROA was 0.9% in 2019, higher than the foreign bank subsidiary average of 0.63% and the industry average of 0.87%. We view its profitability as sustainable in terms of maintaining a healthy capital position.

Chart 11

HSBC (China) Has Healthy Profitability

Industry Distribution: Return on Average Assets of Major Banks in China in 2019



Note: Return on average assets = net income / [(total assets at the beginning of the year + total assets at the end of the year) / 2].

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

In the first half of 2020, the bank managed to report good profitability despite the pandemic. It achieved operating income of 6.6 billion RMB in the first half of 2020, accounting for 51.4% of its income in 2019, and reported net income of 2.6 billion RMB, accounting for 58.1 % of its net income in 2019. It reported an annualized ROA of 0.9% in the first half of 2020, 7 bps higher than the industry average and 17 bps higher than the foreign bank subsidiary average. The relatively good performance is mainly attributable to its good asset quality while domestic banks have experienced much higher credit cost amid COVID.

We expect COVID-19 to continue to put moderate uncertainty on its earnings in 2021. Similar to other banks, its NIM may be compressed due to lower lending interest rates

in China. Its credit cost may also slightly increase due to asset quality pressure, but we expect provisioning pressure to be manageable thanks to its strong reserve buffer and high-quality client base.

Table 5

HSBC (China): Capital and Earnings					
(%)	2016	2017	2018	2019	2020.06
Reported regulatory tier-1 capital adequacy ratio	19.11	17.30	17.56	15.45	15.92
Reported regulatory total capital adequacy ratio	19.39	17.58	18.31	16.18	16.72
NIM adjusted by S&P Global (China) Ratings	1.60	1.76	1.95	1.70	/
Cost-to-income ratio	53.11	57.96	53.99	58.47	54.22
Asset provisioning/pre-provision operating profits	(0.19)	6.87	31.04	14.95	13.62
Loan provisioning/average gross customer loans	(0.01)	0.17	0.91	0.35	/
Return on average assets	1.03	0.86	0.82	0.89	/
Return on average equity	9.61	8.29	8.09	8.91	/
Dividend payout ratio	-	47.90	52.31	79.61	/

Note 1: NIM adjusted by S&P Global (China) Ratings = net interest income / [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year) / 2].

Note 2: Return on average assets = net income / [(total assets at the beginning of the year + total assets at the end of the year) / 2].

Note 3: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

Note 4: Dividend payout ratio = dividend paid in current year / net income of previous year.

Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Table 6

Peer Comparison: Capital and Earnings						
(2017-2019 three-year average) (%)	HSBC (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported regulatory Tier-1 capital adequacy ratio	16.77	18.03	12.56	15.35	15.71	15.73
Reported regulatory total capital adequacy ratio	17.36	19.04	14.29	16.52	16.64	16.44
NIM adjusted by S&P Global (China) Ratings	1.80	2.15	1.15	1.75	1.82	1.84
Cost-to-income ratio	56.81	66.09	44.33	56.91	57.31	58.59
Asset provisioning/pre-provision operating profits	17.62	102.65	1.08	28.84	28.93	17.27
Loan provisioning/average gross customer loans	0.48	1.67	(0.03)	0.54	0.59	0.43
Return on average assets	0.86	1.22	(0.12)	0.68	0.70	0.80
Return on average equity	8.43	11.37	(1.00)	6.48	6.79	7.59

Note 1: We have chosen five foreign bank subsidiaries in China, including Standard Chartered Bank (China), Bank of East Asia (China), Citibank (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose.

Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income / [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year) / 2].

Note 3: Return on average assets = net income / [(total assets at the beginning of the year + total assets at the end of the year) / 2].

Note 4: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Risk Position

We believe HSBC has deep expertise in managing risk in Asia-Pacific emerging markets and it has a strong proven track record of managing asset performance through economic cycles. We believe the parent's deep expertise in risk control in Asian markets gives HSBC (China) an edge among its peers in risk management.

In our view, HSBC (China) has prudent and effective risk management, featuring well-defined and well-communicated credit appetite by customer segments and industry sectors which are effectively implemented in its lending and exposure monitoring activities. It targets a client base of multinationals, high credit quality Chinese enterprises with an international mindset and affluent retail customers.

HSBC (China)'s asset quality performance has remained good amid COVID thanks to the resilient credit quality of its client base. Its non-performing loans ("NPL") dropped by 0.9 billion RMB in the first half of 2020, resulting in an NPL ratio of 0.34% as of the end of June 2020, lower than the industry average of 1.94% and the foreign bank subsidiary average of 0.69%. Its special mention loan ("SML") ratio was 2.03% as of the end of June 2020, slightly higher than that as of the end of 2019 (1.78%), but still lower than the industry average of 2.75%.

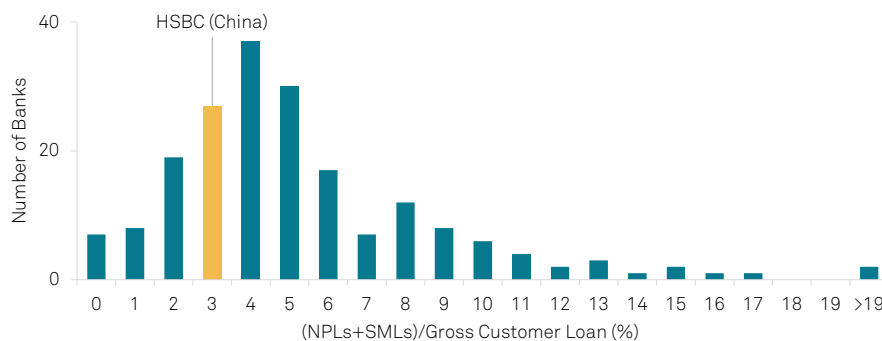
HSBC (China) has prudent risk management and above-industry-average asset quality performance.

Therefore, we apply a one-notch uplift adjustment to its risk position.

Chart 12

HSBC (China)'s Asset Quality Metrics are Better than Industry Average

Industry Distribution: NPL+SML Ratio of Major Banks in China as of End of 2019

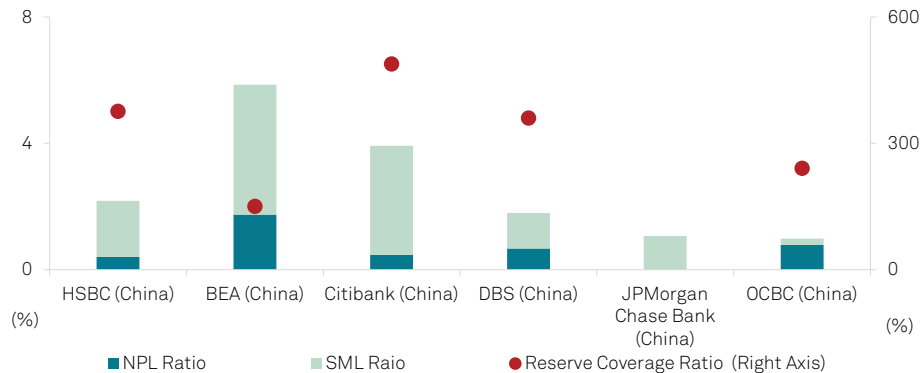


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

HSBC (China) has very stringent loan credit risk classification practices. As of the end of June 2020, its overdue loan ratio was 0.37%, similar to its NPL ratio of 0.34%. Therefore, we believe most of its SMLs has been paid to the bank in full and on time. The stringency of its risk classification is also evidenced in its low migration of SMLs to NPLs. The migration ratios of its normal loans and SMLs were 0.7% and 0.8% respectively, in the first half of 2020.

Chart 13

HSBC (China) Has Stringent Loan Risk Classification and Strong Reserve Buffer
Peer Comparison: Asset Quality Metrics and Reserve Coverage Ratio as of End of 2019



Note 1: BEA (China) - Bank of East Asia (China).

Note 2: JPMorgan Chase Bank (China) had no NPL as of end of 2019 hence reserve coverage ratio did not apply.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

HSBC (China) has a strong reserve buffer in place against any potential asset quality pressure in 2021. As of the end of June 2020, it had a reserve coverage ratio of 438% against its bad debts, much higher than the industry average of 182%. In our view, this reserve buffer is adequate given its low SML to NPL migration.

The bank has also stepped up its efforts to clean up bad debts. Its ratio of net write-offs to average gross customer loans increased in 2018 (0.35%) and 2019 (0.21%) but still remains significantly lower than the industry average write-off level, given the very small size of its legacy bad debts.

HSBC (China)'s real estate-related loans have controllable risk. As of the end of 2019, its mortgage loans and real estate loans accounted for 23.2% and 10.6% of its loan book respectively. Its real estate-related loans are concentrated in first and second-tier cities which typically have resilient property markets. As of the end of 2019, its mortgage portfolio had an NPL ratio of 0.31% and its property development loan portfolio had no bad debts. As of the end of 2019, its small micro and small enterprise ("MSE") loan was 367 million RMB, accounting for only 0.2% of its loan book. Since its MSE loan portfolio is still very small, we don't believe it will have any material impact on the bank's overall asset quality performance even amid COVID.

HSBC (China) has very prudent risk appetite in its investment activities and interbank operations. As of the end of 2019, about 93% of its investment portfolio is government bonds. In its interbank operations, its major counterparties include China's state-owned mega banks and leading national joint-stock banks and foreign bank subsidiaries.

Table 7

HSBC (China): Risk Position					
(%)	2016	2017	2018	2019	2020.06
Non-performing loan ratio	0.63	0.64	0.43	0.41	0.34
(Non-performing loans + special mention loans)/gross customer loans	2.65	3.53	3.26	2.18	2.37
Overdue loans/gross customer loans	0.82	0.56	0.49	0.43	0.37
Loan loss reserves/gross customer loans	1.03	1.05	1.51	1.53	1.51
Reserve coverage ratio	164.22	164.68	353.41	376.13	438.39
Loan loss reserves/ (non-performing loans + special mention loans)	38.97	29.64	46.37	70.01	63.76
Net write-offs/average gross customer loans	0.02	0.01	0.35	0.21	/

Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Table 8

(2017-2019 three-year average) (%)	HSBC (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio	0.49	1.63	0.04	0.75	0.75	0.68
Overdue loans/gross customer loans	0.50	2.52	0.04	1.22	1.13	1.19
Loan loss reserves/gross customer loans	1.36	2.58	1.36	2.12	1.92	2.28
Reserve coverage ratio	298.07	5,854.95	161.07	1,208.47	781.83	285.98
Net write-offs/average gross customer loans	0.19	1.70	0.16	0.53	0.50	0.31

Note: We have chosen five foreign bank subsidiaries in China, including Standard Chartered Bank (China), Bank of East Asia (China), Citibank (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

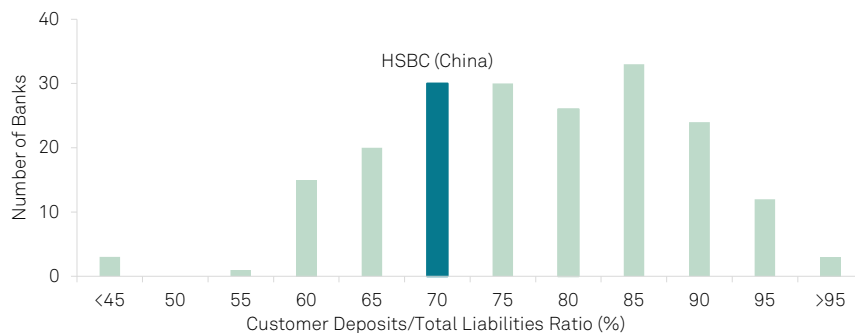
Funding and Liquidity

Although there has been seasonal volatility in the bank's corporate deposit size, we believe this volatility does not negatively affect its liquidity profile. Its funding structure is consistent with the industry average. As of the end of 2019, 65% of its total liabilities were customer deposits (including structured deposits), and 29% wholesale funding. The bank has stable access to the domestic bond market and negotiable certificates of deposit market. In addition, about 28% of its wholesale funding was from its group, which in our view has very good stability.

Chart 14

HSBC (China)'s Use of Deposit Funding is Comparable to the Industry Average

Industry Distribution: Customer Deposits/Total Liabilities of Major Banks in China as of End of 2019



Note: Customer deposits include structured deposits.

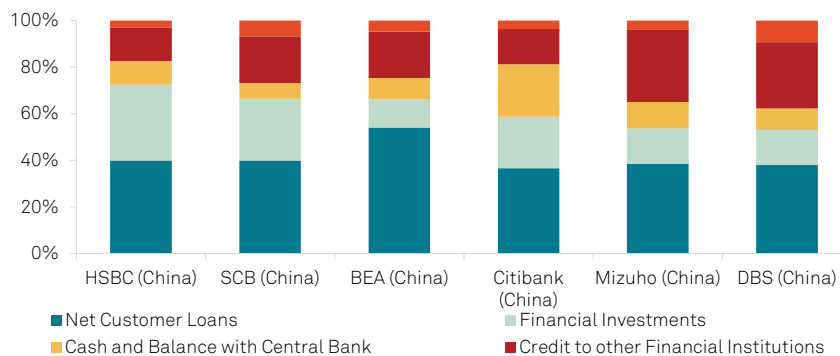
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We believe the bank has prudent liquidity management and abundant highly liquid assets to fulfill its liquidity needs. As of the end of June 2020, its net loan book accounted for 40% of its total assets, financial investment 35%, credit to other financial institutions 12%, and cash and deposits to the central bank accounted for 9%. Its investment portfolio is mainly composed of government bonds which have very good liquidity. As of the end of June 2020, its liquidity coverage ratio was 162%, much higher than the minimum regulatory requirements of 100%. In addition, its primary dealership in the inter-bank market puts it in a good position to manage short-term liquidity.

Chart 15

HSBC(China) Holds a Significant Investment Portfolio with Good Liquidity

Peer Comparison: Asset Breakdown as of End of 2019



Note 1: Other assets of HSBC (China) mainly include derivative assets, account receivables etc.

Note 2: SCB (China)-Standard Chartered Bank (China), BEA (China) -Bank of East Asia (China).

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

HSBC (China)'s use of wholesale funding is consistent with the industry average. It has prudent liquidity management and good liquidity metrics.

Therefore, we do not make any notching adjustment to its funding and liquidity.

Table 9

HSBC (China): Funding and Liquidity

(%)	2016	2017	2018	2019	2020.06
Customer loans/customer deposits	59.27	66.96	68.29	68.70	76.14
Customer deposits/total liabilities	73.94	66.52	67.22	65.12	58.74
Wholesale funding/total liabilities	20.59	27.33	26.09	28.93	34.35
Retail deposits/customer deposits	22.02	20.00	22.31	22.45	23.59
Liquidity coverage ratio	/	/	165.00	169.10	162.00
Net stable funding ratio	/	/	146.80	137.50	/

Note 1: Customer deposits include structured deposits.

Note 2: Wholesale funding = borrowing from central government + borrowing and deposits from other financial institutions + financial assets sold for repurchase + bonds payable. Financial liabilities at fair value through profit or loss of the bank are structured deposits, which has been adjusted into customer deposits. Funding from the group is included in the wholesale funding.

Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Table 10

Peer Comparison: Funding and Liquidity

(2017-2019 three-year average) (%)	HSBC (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/customer deposits	67.98	86.14	51.10	67.74	67.90	64.39
Customer deposits/total liabilities	66.29	86.51	50.84	70.56	69.92	70.71
Wholesale funding/total liabilities	27.45	33.96	7.62	21.88	23.04	22.69
Retail deposits/customer deposits	21.59	21.59	0.02	12.20	14.82	12.92

Note 1: We have chosen five foreign bank subsidiaries in China, including Standard Chartered Bank (China), Bank of East Asia (China), Citibank (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose.

Note 2: We included structured deposits into customer deposits where data is publicly available.

Note 3: Wholesale funding = borrowing from central government + borrowing and deposits from other financial institutions + financial assets sold for repurchase + bonds payable. Financial liabilities at fair value through profit or loss of the bank are structured deposits, which has been adjusted into customer deposits.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank is assigned an SACP of “a_{spc}+”, three notches higher than the bank anchor of “bbb+”. This SACP reflects its strong business franchise, high capital adequacy and good asset quality.

Issuer Credit Rating

External Support

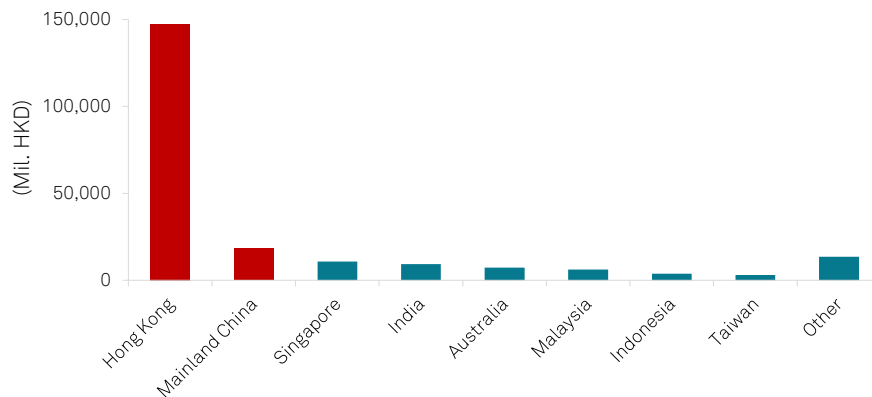
S&P Global Ratings has assigned an SACP of “a+” and an issuer credit rating of “AA-” to HSBC. Based on the broad relationship observed between the credit quality opinions of S&P Global Ratings and S&P Global (China) Ratings, S&P Global (China) Ratings views the issuer credit quality of HSBC as extremely strong, equivalent to the issuer credit quality of “AAA_{spc}” in our national rating scale.

HSBC has one of the best coverages among its peers in Asia-Pacific, with a presence across 19 regional markets. It enjoys a unique status as one of the three note-issuing banks in Hong Kong. HSBC is also identified by the Financial Stability Board as a global systemically important bank. Hong Kong and the Chinese mainland are HSBC's major markets. In 2019, 67% of its revenue was generated in Hong Kong and 8% from the Chinese mainland.

Chart 16

Hong Kong and Chinese mainland are HSBC's Major Markets

HSBC: Revenue Distribution in 2019



Note: Revenue is defined as net operating income before change in expected credit losses and other credit impairment charges.

Source: Public information of HSBC, collected and adjusted by S&P Global (China) Ratings.

HSBC is part of a larger financial group, HSBC Holdings, which provides HSBC (China) with access to a wider global network beyond Asia-Pacific. HSBC Holdings is a listed holding company established in London in 1991 to serve as the parent company for the expanding group. HSBC Holdings operates in 64 countries and territories. As of the end of June 2020, its total asset reached 2.92 trillion USD. As of the end of June 2020, HSBC's total assets accounted for 40% of the group's total assets, and its profit before tax accounted for 154% of the group's profit before tax in the first half of 2020.

In our view, HSBC is highly likely to provide capital and liquidity support to its China subsidiary when necessary. HSBC (China) is a fully - owned subsidiary of HSBC. The two entities use the same branding and the techniques of risk management.

The Chinese market's strategic importance to HSBC for its business growth has been increasing. In early 2020, HSBC Group announced a transformation program which identified China, particularly the Greater Bay Area, as one of the priorities in the group's investment for growth. In addition, as the pandemic continues to put pressure on the global economy, we believe China will be one of the markets where HSBC could achieve robust business and earnings growth in 2021.

Therefore, given the dominating revenue contribution of Hong Kong and the Chinese mainland to HSBC and HSBC's position as a leading bank in Asia-Pacific, we believe that HSBC (China) is of critical importance to its parent and its ratings are therefore equalized with the issuer credit quality of HSBC. Because of HSBC's extremely strong issuer credit quality, we assign an Issuer Credit Rating of "AAA_{spc}" to HSBC (China), four notches higher than its SACP of "a_{spc}+".

In our view, HSBC has extremely high issuer credit quality equivalent to "AAA_{spc}".

HSBC (China) is one of its core subsidiaries since Hong Kong and the Chinese mainland are HSBC's major markets.

The extremely high likelihood of group support leads to a four-notch uplift from its SACP of "a_{spc}+" to an ICR of "AAA_{spc}".

Appendix 1: Key Financial Data

HSBC (China): Key Financial Data					
Business Position	2016	2017	2018	2019	2020.06
Total assets (bil.)	421.71	467.94	476.32	524.80	552.16
Gross customer loans (bil.)	164.92	187.56	195.97	212.12	223.71
Customer deposits (bil.)	278.27	280.09	286.97	308.79	293.82
Total equity (bil.)	45.38	46.87	49.38	50.62	51.97
Operating income (bil.)	10.40	10.74	12.62	12.93	6.64
Net income (bil.)	4.18	3.82	3.89	4.46	2.59
Total assets / total assets of China's commercial banking industry (%)	0.23	0.24	0.23	0.22	0.21
Customer loans/total loans of China's commercial banking industry (%)	0.19	0.19	0.18	0.16	0.16
Customer deposits/total deposits of China's commercial banking industry (%)	0.18	0.17	0.16	0.16	0.14
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	19.39	17.58	18.31	16.18	16.72
Reported regulatory tier-1 capital adequacy ratio (%)	19.11	17.30	17.56	15.45	15.92
NIM adjusted by S&P Global (China) Ratings (%)	1.60	1.76	1.95	1.70	/
Cost-to-income ratio (%)	53.11	57.96	53.99	58.47	54.22
Asset provisioning/pre-provision operating profits (%)	(0.19)	6.87	31.04	14.95	13.62
Loan provisioning/average gross customer loans (%)	(0.01)	0.17	0.91	0.35	/
Return on average assets (%)	1.03	0.86	0.82	0.89	/
Return on average equity (%)	9.61	8.29	8.09	8.91	/
Risk Position					
Non-performing loan ratio (%)	0.63	0.64	0.43	0.41	0.34
(Non-performing loans + special mention loans)/gross customer loans (%)	2.65	3.53	3.26	2.18	2.37
Overdue loans/gross customer loans (%)	0.82	0.56	0.49	0.43	0.37
Loan loss reserve/gross customer loans (%)	1.03	1.05	1.51	1.53	1.51
Reserve coverage ratio (%)	164.22	164.68	353.41	376.13	438.39
Loan loss reserve/ (non-performing loans + special mention loans) (%)	38.97	29.64	46.37	70.01	63.76
Net write-offs/average gross customer loans (%)	0.02	0.01	0.35	0.21	/
Funding and Liquidity					
Customer loans/customer deposits (%)	59.27	66.96	68.29	68.70	76.14
Customer deposits/total liabilities (%)	73.94	66.52	67.22	65.12	58.74
Wholesale funding /total liabilities (%)	20.59	27.33	26.09	28.93	34.35
Retail deposits/customer deposits (%)	22.02	20.00	22.31	22.45	23.59
Liquidity coverage ratio (%)	/	/	165.00	169.10	162.00
Net stable funding ratio (%)	/	/	146.80	137.50	/

Note 1: In our view, HSBC (China) has a clear business model and sound financial management. Therefore, we have not conducted any material adjustments to its financial data.

Note 2: Its 2016-2019 annual financial reports have been audited by Price Waterhouse Coopers, which had issued standard and unqualified auditor's reports.

Note 3: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year +total interest-bearing assets at the end of the year)/2].

Note 4: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2].

Note 5: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2].

Note 6: Customer deposits include structured deposits.

Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Peer Comparison Data

Peer Comparison Data

(2017-2019 three-year average)	HSBC (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	489.69	489.69	121.56	223.55	293.64	190.18
Gross customer loans (bil)	198.55	198.55	46.02	93.84	122.32	75.92
Customer deposits (bil)	291.95	291.95	57.67	140.06	180.98	133.65
Total equity (bil)	48.96	48.96	11.16	23.07	29.84	20.46
Operating income (bil)	12.10	12.10	2.56	5.69	7.43	5.28
Net income (bil)	4.06	4.06	(0.23)	1.53	2.13	1.38
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	17.36	19.04	14.29	16.52	16.64	16.44
Reported regulatory tier-1 capital adequacy ratio (%)	16.77	18.03	12.56	15.35	15.71	15.73
Net interest margin adjusted by S&P Global (China) Ratings (%)	1.80	2.15	1.15	1.75	1.82	1.84
Cost-to-income ratio (%)	56.81	66.09	44.33	56.91	57.31	58.59
Asset provisioning/pre-provision operating profits (%)	17.62	102.65	1.08	28.84	28.93	17.27
Loan provisioning/average gross customer loans (%)	0.48	1.67	(0.03)	0.54	0.59	0.43
Return on average assets (%)	0.86	1.22	(0.12)	0.68	0.70	0.80
Return on average equity (%)	8.43	11.37	(1.00)	6.48	6.79	7.59
Risk Position						
Non-performing loan ratio (%)	0.49	1.63	0.04	0.75	0.75	0.68
Overdue loans/gross customer loans (%)	0.50	2.52	0.04	1.22	1.13	1.19
Loan loss reserves/gross customer loans (%)	1.36	2.58	1.36	2.12	1.92	2.28
Reserve coverage ratio (%)	298.07	5,854.95	161.07	1,208.47	781.83	285.98
Net write-offs/average gross customer loans (%)	0.19	1.70	0.16	0.53	0.50	0.31
Funding and Liquidity						
Customer loans/customer deposits (%)	67.98	86.14	51.10	67.74	67.90	64.39
Customer deposits/total liabilities (%)	66.29	86.51	50.84	70.56	69.92	70.71
Wholesale funding/total liabilities (%)	27.45	33.96	7.62	21.88	23.04	22.69
Retail deposits/customer deposits (%)	21.59	21.59	0.02	12.20	14.82	12.92

Note 1: We have chosen five foreign bank subsidiaries in China, including Standard Chartered Bank (China), Bank of East Asia (China), Citibank (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2017 to 2019. Therefore, the weights of HSBC (China), Standard Chartered (China), Bank of East Asia (China), Citibank (China), Mizuho (China) and DBS (China) are 36.51%, 16.78%, 15.64%, 12.71%, 9.06% and 9.30% respectively.

Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year + total interest-bearing assets at the end of the year)/2].

Note 3: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2].

Note 4: Return on average equity = net income/ [(total equity at the beginning of the year + total equity at the end of the year)/2].

Note 5: We included structured deposits into customer deposits where data is publicly available.

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Appendix 3: Rating History of HSBC (China) by S&P Global (China) Ratings

Issuer Credit Ratings

Rating Type	Ratings	Outlook	Rating Date	Analysts	Related Reports
Initial Rating	AAA _{spc}	Stable	2021-01-12	Yifu Wang, Xiaochen Luan, Xuefei Zou	Current Report

Note: These ratings are conducted based on [S&P Global \(China\) Ratings Financial Institutions Methodology](#), and no quantitative model is used.

Copyright © 2021 by S&P Ratings (China) Co., Ltd. All rights reserved.

S&P Ratings (China) Co., Ltd. ("S&P Ratings") owns the copyright and/or other related intellectual property rights of the abovementioned content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content). No Content may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Ratings. The Content shall not be used for any unlawful or unauthorized purposes. S&P Ratings and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively "S&P Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P Ratings' opinions, analyses, forecasts and rating acknowledgment decisions (described below) are not and should not be viewed as recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Ratings assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and / or clients when making investment and other business decisions. S&P Ratings does not act as a fiduciary or an investment advisor except where registered as such. While S&P Ratings has obtained information from sources it believes to be reliable, S&P Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

S&P RATINGS IS NOT PART OF THE NRSRO. A RATING ISSUED BY S&P RATINGS IS ASSIGNED ON A RATING SCALE SPECIFICALLY FOR USE IN CHINA, AND IS S&P RATINGS' OPINION OF AN OBLIGOR'S OVERALL CREDITWORTHINESS OR CAPACITY TO MEET SPECIFIC FINANCIAL OBLIGATIONS, RELATIVE TO THAT OF OTHER ISSUERS AND ISSUES WITHIN CHINA ONLY AND PROVIDES A RANK ORDERING OF CREDIT RISK WITHIN CHINA. AN S&P RATINGS' RATING IS NOT A GLOBAL SCALE RATING, AND IS NOT AND SHOULD NOT BE VIEWED, RELIED UPON, OR REPRESENTED AS SUCH. S&P PARTIES ARE NOT RESPONSIBLE FOR ANY LOSSES CAUSED BY USES OF S&P RATINGS' RATINGS IN MANNERS CONTRARY TO THIS PARAGRAPH.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P Ratings reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. S&P Ratings disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P Ratings keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Ratings may have information that is not available to other S&P Ratings business units. S&P Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P Ratings may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Ratings reserves the right to disseminate its opinions and analyses. S&P Ratings' public ratings and analyses are made available on its Web site www.spgchinaratings.cn, and may be distributed through other means, including via S&P Ratings' publications and third-party redistributors.