HSBC The world's local bank

Analyst Roadshow to Asia-Pacific

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Terms and

Macro-economics and trade flow opportunities

Taiwan is still, in itself, one of the world's top 20 economies by GDP and international trade. And certainly in the last several years they've delivered more than 4% GDP growth. I think Taiwan has just upgraded its own assessment of GDP growth for the last year. And that now is in excess of 5.5%.

At the same time, of course, in April the government changed. The KMT has been re-elected to power after seven years and seems very early in its time to be very vocal, very focused on what it will do to develop the Taiwanese economy and certainly, within that, to open up trade, transportation, tourism links with China.

We've just expanded there this year to look very closely at opportunities in the consumer business. And today Taiwan has 500 corporate and commercial clients operating on the Chinese side of the straits. That business continues to grow strongly. Our commercial business today accounts for just a little bit less than 20% of revenue in China from the commercial segment and a little bit less than 10% of revenue booked in China from the corporate segment. And both sides have big ambitions to continue to grow that business.

If we take a look at Taiwan FDI in China, last year that totalled a little less than $10b. And if you look at a 15-year total, it's now approaching $200b. And this is publicly reported part. So there may well be more going on behind the scenes. Trade with China approached $200b in total last year as well. So these are very big flows which are continuing to grow. And on both sides of the straits, HSBC is very well placed to take advantage of that. Last year we

Financial performance

delivered $123m on a consolidated basis. So that is the consolidation of our banking, our asset management, our insurance, our insurance broker and securities business in Taiwan. And that was up from minus $23m the prior year, so just a little bit more than 600% growth.

Leveraging an expanded distribution platform

The core of what we're doing is based on the bank. And as I think you know, last year we agreed to acquire the business and operations of Chinese Bank, a deal which was completed at the end of March this year. So at a stroke we've expanded our branch network from eight to 44 and we have a further three licenses in our pocket for establishment later.

We're now represented in every major city, town and economic centre across the island.

So using that platform, now much expanded, we're expecting to further push into wealth management across Taiwan based off our global Premier proposition. We fully expect to be able to build out more HSBC Direct client base off the bigger network and bigger sales force. And certainly now with our expanded commercial and corporate portfolio,

we're expecting to look much, much harder at international opportunities in this bigger base.

We multiplied our commercial base by approximately five times as a consequence of the acquisition. We now have more than 20,000 clients from roughly 4,000 at the end of last year. So the opportunities are large.

Capturing both ends of the trade flows

It's also important to look at Taiwan's historic deep connections with markets like the United States and, indeed, now expanding European community, particularly with consumer technology product flows. Taiwan still is the number one global manufacturer of devices like notebook computers, PDAs, mobile phone units and so on And, of course, the risks today are that the consumer will slow down its consumption patterns in markets like the United States. At the moment I have to say we haven't seen any effect of that yet. Perhaps it's too early. I think our client order books are holding up very well. And Taiwan reported for the tech sector as a whole year-on-year growth in excess of 15% in dollar value terms for the first quarter this year. So the business flow is still there. And our strategy is to exploit both ends of that purchase or supply chain. So we have an advantage as a consequence of our global network where we're a little bit more deeply plugged in than perhaps some of our competitors. And we can see emerging trends perhaps a little bit earlier. Many Taiwanese banks have representative offices in China today, but they can't conduct

Regulations and competition

full banking services. That regulatory restriction on the ability of my local competition to participate in this opportunity offers us an opportunity because we don't face the same constraints. We have the unique positioning of being extremely strong and very well placed to offer full service banking on both sides of the straits. And with our internet proposition wrapping around that, it doesn't really matter where our clients are located, they can operate their banking in all these locations.

If I look at the bigger local sector, today they're very strong in domestic service provision, particularly as they've got highly liquid balance sheets so that allows them to lend, for example, at very competitive rates. But what they lack is international network and international products. And that is what we bring to the table with our clients.

The most notable of our foreign sector competition are both weaker than our current Chinese mainland capabilities. And provided we work closely with our China colleagues to stay ahead of that, I think we will sustain our competitive advantage for the foreseeable future.

Key advantages

Big opportunity. HSBC increasingly well placed to avail of that. We have an extraordinarily big economy, at least in regional terms. Whilst it may not have grown as fast as some of its neighbours in recent years, it is nevertheless still growing. A very entrepreneurial and successful industrial base, particularly in the high technology sector. And I fully expect there to be very significant opportunities for HSBC going forward.

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