HSBC The world's local bank

Analyst Roadshow to Asia-Pacific

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Terms and

Overview

Q. What's your view of the growth in the Asia Pacific region specifically, and is it sustainable?

A. Asia Pacific has been growing very strongly for over 10 years now. A lot of that growth has been driven by China but we now have other players coming into the growth game. We have India, we have Indonesia and we have OECD countries such as Korea still growing at 6% to 7%. So these countries are collectively growing at a far higher level than most other areas of the world, and they will continue to do so.

Why? Principally because of demographics, they've got young populations, they've got populations that are becoming wealthier, and in most cases these populations won't reach a level of aging, in some cases in 20 years in the case of China (in 2020), and in India its probably going to take another 30-40 maybe even 50 years for that to happen.

So that population growth will drive the demand as wealth grows for personal banking products. It's going to drive up employment as liberal economics are used more progressively in the region. And they are going to develop on the basis of the commodities and the higher commodity prices, the resources that they have - oil, minerals, iron ore - huge demand for these as countries like China and India develop. So growth is going to continue at a very fast pace relative to the rest of the world in Asia going forward.

Q. Is it fair to say though that Asia is successively decoupling from the US economy and its current problems?

A. I think 'decoupling' is the wrong word to explain what potentially could happen if the USA does go into a long, deep recession that will affect demand for certain produce and goods in Asia. That said, inter-regional trade in Asia is growing. Also, most of these economies are in a much stronger position than they were in the Asian crisis to actually compensate for some of that loss in demand either by spending on infrastructure or creating demand in their own economies.

So I think what we will see is a potential slow down in some of these economies from some of the high growth rates that we have at present, but still comparatively high growth rates when compared with the rest of the world. So we are well positioned to take advantage of that continuing growth, and equally as well some of the volatility that may spill over from that.

Q. So given all of this then how would you summarise HSBC's position in Asia?

A. We have the unique franchise of any bank in Asia, any international bank, any local bank. We are in most countries. And in many of the countries we are in the top one, two, three, four, five places.

HSBC in Asia is 47% of Group profits, and from 2006 to 2007 that grew 43% to $11bn. So we are talking about a powerhouse of an organisation when we start off.

Asia is uniquely important because of our history, but it is uniquely important because of the growth prospects that the region has going forward, and we will continue to play a significant part through our acquisitions and our organic growth strategies in the region going forward.

Q. But does HSBC have the depth of management to really capitalise on these growth opportunities?

A. I don't think we would be growing at the rates that we are growing at without high quality management and we pride ourselves on growing our own timber. But at the same time with economies growing at that rate you do have high turnover, particularly in terms of newly-joined staff at the branch level finding their first job, and turnovers would be probably… well I know they are, they are actually about 18% in some markets. That means we've got to train a lot more people, we've got to think about how we engage more closely with our staff, and we are working very much on that. But in response to do we have the management required to run these businesses at these growth levels? Yes we do.

Business divisions

Q. Your largest business is Personal Financial Services with a PBT of $4.7bn, and it delivers 80% of HSBC's global PFS PBT. Is this simply a numbers game?

A. Not its not. It's a reflection, as I said earlier, of growing wealth, particularly in Hong Kong, but equally as well a result of the investments that we've been making in other parts of Asia, in India, in Taiwan, in Australia on the consumer side. You talk about all these countries; in Malaysia we are investing in developing that business.

And if you just taking something like Premier or Premier International, we have 2m Premier customers worldwide. And obviously a huge pool of these in Hong Kong, in Malaysia, a growing pool in India, in China for example, and other parts of the region. Australia is another example. But that pool is growing, and we aspire to grow that by additional 4m Premier customers in the medium to short term. And as Asians travel, as Asians buy homes in London or in Singapore or in China, for example, there are going to be opportunities for us to follow them and provide for their needs there. So this remains still very much a growth market for us.

Q. You talked about increased wealth, of course, there is increased longevity as well isn't there? How can HSBC compete in insurance against the established insurance companies?

A. We know, for example, in Hong Kong, where we are a leader in many of the segments in that space, that we can. In the pension fund business we are a leader in that particular market. In life assurance we can do as well as anybody else in Hong Kong through our investments in brokerages, or in, for example, with Hana Life in Korea, our joint venture in India, our SEPA insurance licence in China with National Trust. All these things are going to lead to a burgeoning increase in insurance sales going forward because we've got the distribution network that goes with it.

Q. And also can you explain the difference between your commercial banking business and your global banking and markets business, because they seem to overlap a little bit especially at the top end?

A. There will always be a migration between global banking and CMB at the top end. But equally as well they are quite different segments. For example, in commercial banking we have 2.8m customers on a worldwide basis, of which approximately 2.5m of these are SMEs - small to medium enterprises.

That business is a real sweet spot for the HSBC Group on a worldwide basis not only in Asia. It's, if you like, the core of the business. And a lot of these CMB customers will, at stages of their evolution, either become bigger from the SME to middle market, they will become either inter-regional or they will actually become multinational. And when they reach that multinational and more sophisticated stage then we can migrate them as well into global banking and markets.

But on the CMB side we manage that grouping, the SME side, both from a mass market to a judgementally-based, focused approach. And then on the commercial middle market we are swapping products and services both from a

retail and global markets and CMB all together in that mix, if you like, that sustenance that's given to that particular segment of the market.

Q. But can you give me a sense of the type of business that you are now doing within global banking and markets?

A. We very much repositioned our global banking and markets business over the past two years to be a debt-led investment approach to dealing with our customers. By debt-led I mean things like bond issuance, underwriting and IPOs. A very good example of that recently, where we are actually number one in debt issuance in Asia, would have been to the State Bank in India where we did a 500m Ringgit bond, and obviously we distributed it through our complete network. And that's a unique instrument, the first time that an Indian State Bank had actually done a cross-border transaction like that.

Q. You say debt-led, but is it all about bond issues?

A. No, of course, it's not all about bond issues. There are a number of businesses within global banking and markets. We've obviously got our treasury operations doing forex and derivatives. We've got our payments and cash management business there. We've got trade finance, again in a region that grew through trade finance, a bank that grew in that space. And we've also got a global custody business which we acquired really through Bank of Bermuda, which particularly in the region, as investments come from hedge funds and from the fund managers, has actually added further value to our sub-custody business that we already had there in situ. We are an emerging markets-focused, finance-led bank because that's what our customers want us to be. And as they become inter-regional or multinational, particularly in the global banking market space, we are there for them.

Geographies

Q. You've talked about the business but what are the major organic and inorganic investments that you are making in Asia?

A. Let's talk first of all about the organic investments we are making. In respect of China we have an incorporated bank, and that is growing very strongly through organic growth. We now have approximately 67 branches, in China. And we are the largest international bank in China and growing at the fastest clip.

Turning to Vietnam, we have a very similar strategy to what we have in China. We have a branch at the moment which we are seeking local incorporation, and that will allow us, subject to regulatory approval, to grow our branch network there this year from approximately two branches to five branches, and then further obviously into the larger cities as these approvals come through. So Vietnam, like China, an incorporated bank when we get permission, and equally our investments as well in Techcombank and Bao Viet.

Turning to Malaysia, again, we are the first international bank incorporated in Malaysia to have received approvals to open an Islamic banking subsidiary. That will allow us to open more branches and have more ATMs, and we will leverage off the success of our Islamic banking in Amanah in other parts of the Group as well.

Q. And what about inorganic investments?

A. Let's look at China. China is one of the most important countries to us on a worldwide basis, and one of the countries that's emerging and growing to become an economic power in the 21st Century. We have investments in Bank of Communications in Shanghai City Bank, in Ping An Insurance. Also through our associate Hang Seng Bank, we have investments in Industrial Bank and Yantai City Bank. On the insurance side we have a joint venture seeking approval, and we have a fund management business already in place.

So in China there are myriads of opportunities and obviously when regulations allow us some of these stakes will increase over time.

Q. Elsewhere ?

Conditions

A. Taiwan, we've acquired a bank in Taiwan, The Chinese Bank, and that gives us approximately 44 branches in Taiwan with the opportunity to get another three licenses over time for three further branches. So again a significant play as relations between Taiwan and China improve, and equally as well linking up to other parts of the world where Taiwan is a big player in terms of trade.

Australia is another example on the retail side where we've won the right in a tender to handle the white labelling for the Woolworth's Group there, which is the largest supermarket chain in Australia, adding approximately another 1m consumer customers to our already embryonic consumer business that is growing in Australia.

I've already mentioned the organic growth with our Amanah Finance via the subsidiary in Malaysia. And now I think the country that importantly is emerging as a new dragon in Asia is obviously Vietnam. And there we have our 15% in Techcombank, we have 10% in Bao Viet, and we have, as I said before, the hopeful approval coming through for our incorporated bank in Vietnam itself.

Then in India we've got a very successful operation there, an operation that contributed over $500m last year and growing at approximately 30% year-on-year. And there we have a joint venture with Canara Bank, an Oriental Bank that will give us access to 20m customers through 3,600 branches when that becomes fully operative in the fourth quarter. So that's exciting from an insurance perspective.

We are also in the process of closing the deal with IL & FS, or as I like to call it Invest Smart. And that will give us access to approximately 180,000 (at the moment) retail customers in one of the most active retail markets in the world from the point of view of individual investors buying and selling shares. That's very exciting. And equally as well for our global banking and markets side it will enable us to originate IPOs and then distribute through the network to these retail customers going forward. So India is another place where organic and also acquisitions are going ahead at the same time as regulations allow us.

Outlook

Q. What are the key risks and challenges in the region for you?

A. Rising inflation is obviously a risk and it's a risk that has also emerged quite strongly not only in the emerging markets but also in the developed markets as well. But there will be challenges on that in terms of their ability to manage their currency, as the US dollar weakens its going to make a lot of their fundamental imports far more expensive. And equally as well it may lead to more volatility.

The opposite side to that is HSBC tends to do pretty well in volatile conditions, so some of that volatility will help us going forward, despite the drag effect that inflation will have on overall economic performance.

And the other risk I think is the USA. If the USA does have a deep, prolonged recession that will dampen demand. I think on the opposite side many of these economies and countries are in a much stronger state than they were in the Asian crisis in 1997. And they will have the ability to create consumption and for their governments actually to spend on improving infrastructure or creating demand itself in the various countries around the region.

So it's not a black and white scenario. Its one where, I think, Asia, if there is a downturn, will come out I think a lot better than many other parts of the world.

Q. So given this macroeconomic picture then, what are your main areas of focus going forward?

A. I think in looking at what might happen - crystal ball gazing if you like - one thing is certainly apparent as we sit here today, HSBC is in a very strong position vis-à-vis its peer group. We are a strongly-capitalised bank operating in a growing part of the world and we have probably one of the most liquid balance sheets of any banking organisation in that region. So we are well positioned.

In volatile markets our treasury operations tend to do well, they tend to make money, they tend to mange their positions well. And equally as well, as other competitors either retrench or don't commit as much capital to the region as it did in the past, it will certainly give our global banking business the opportunity to get a bigger share of wallet from our top-tier customers.

From an insurance perspective, as I look at the region with growing wealth and with the growing insurance franchise that we have, we will undoubtedly have the opportunity to provide our commercial banking customers and our retail customers with the types of products that they need. And retail customers through their life cycle - life insurance, home insurance, medical insurance, travel insurance, auto insurance. So lots of opportunities in that space.

Premier I've already mentioned with growing wealth in the region. That will continue. Even if China slows down there is still going to be a lot more wealthy people in China tomorrow than there were today. And that is a space where we are really well positioned to grow that business as we are in many of the other markets in which we operate.

So it's not a gloomy picture by any means. I think it's actually a picture you can paint where HSBC has the opportunity actually to really paint the type of outlook and results that it wants to achieve through whatever happens in the future.

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