HSBC profit rises 17% on emerging markets

Stephen Green, chairman of HSBC. (Michael Caronna/Reuters)

HSBC Holdings said Monday that profit in the second half of 2007 rose 17 percent from a year earlier as lending in emerging markets overcame subprime losses from the United States.

Net income rose to $8.24 billion, or 69 cents a share, from $7.1 billion, or 62 cents a share, a year earlier, beating analysts' estimates, the company said. HSBC increased its total dividend by 11 percent to 90 cents a share.

HSBC is the largest European bank. Its earnings rose in fast-growing markets like China and India, while it reduced its dependence on the United States. HSBC's chairman, Stephen Green, appointed Brendan McDonagh last month to head the U.S. unit after scaling back riskier loans and closing units to control bad debts, which spread to credit cards and unsecured loans.

Bad loans rose to $17.2 billion in 2007, compared with $10.6 billion in 2006, HSBC said.

"They need to run down their subprime business in a methodical way and manage the impairment charge," said James Hutson, an analyst at Keefe, Bruyette & Woods in London. "But it's a harder market to sell your assets."

HSBC shares fell 3 pence in London to 763 pence, or $15.11. The shares are down 9 percent this year.

The bank also said it was adding its Asia head, Sandy Flockhart, and the head of investment banking, Stuart Gulliver, as executive directors on its board.

Household International, a company in Illinois that HSBC bought for $15.5 billion in 2003, lent directly to customers with subprime credit. Rising U.S. subprime mortgage defaults led to a six-month credit freeze that has forced the world's biggest financial institutions to allot more than $180 billion in asset write-downs and for bad loans.

"The economic slowdown and the credit outlook in the U.S. may well get worse before they get better," Green said Monday in a statement. "With significant parts of the international financial system in developed markets still in difficulties, HSBC's emphasis on faster-growing emerging markets means that we are better positioned than many of our competitors."

HSBC said it was aiming for an average return on equity, a measure of how well it reinvests earnings, of 15 percent to 19 percent; a cost-efficiency ratio of 48 percent to 52 percent; a Tier 1 capital strength ratio of 7.5 percent to 9 percent; and total shareholder return in the top half of its peers.

Royal Bank of Scotland Group, the second-largest bank in Britain, wrote down about £2.5 billion, or $4.8 billion, related to credit-market securities in 2007. The bank reported a 16 percent increase in second-half profit last week on gains at its domestic retail and corporate units and the sale of a stake in Southern Water Capital.

Barclays said Feb. 19 that its bad debts rose 67 percent to £1.84 billion and net write-downs were £1.6 billion in 2007. The bank's chief executive, John Varley, said the British and U.S. economies were slowing. Second-half profit fell 21 percent to £1.78 billion.

HSBC said last week that it was in exclusive talks to sell its regional branches in France to Banque Fédérale des Banques Populaires, which has offered €2.1 billion, or $3.2 billion.

The bank plans to get 60 percent of earnings from emerging markets, up from about 50 percent in the first half. It appointed its first Asian board director, Vincent Cheng, last month and plans to complete the $6.45 billion acquisition of Korea Exchange Bank from the U.S. buyout firm Lone Star Funds in April.

Standard Chartered, which gets 90 percent of its profit in emerging markets, posted a 23 percent rise in profit to $1.44 billion, driven by revenue from Hong Kong and India.

An HSBC investor, Knight Vinke Asset Management, has sought an independent review of HSBC's strategy and said it should consider "radical alternatives," including spinning off its Asian business.

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