HSBC points to risks posed by bank bail-outs
Peter Thai Larsen

The state-sponsored bail-outs of western banks risk rewarding management teams for failure, the chief executive of HSBC warned yesterday.

Michael Geoghegan's comments reflect a deep frustration at recent bail-outs among executives at HSBC, which, in spite of suffering heavy losses in the US mortgage market, has weathered the credit crisis in better shape than many of its rivals.

"There is no question that guarantees have been given to failed managements," Mr Geoghegan said, adding that they risked distorting the market.

"I hope these guarantees don't last too long because they may create the wrong type of behaviour by managements in those banks."

However, HSBC executives acknowledged the rescues in the US and Europe were necessary to stabilise the banking system and restore the flow of credit to the economy. Mr Geoghegan was speaking as HSBC signalled that the recovery in its US consumer finance division might take longer than the three years the bank initially forecast. In its third-quarter trading statement, bad debt charges in the US were $4.2bn, an increase of 24 per cent over the previous three months.

HSBC said it was feeling the effects of the economic slowdown in Asia but expected the region would continue to grow.

HSBC's tier one capital ratio a key measure of balance sheet strength - stood at 8.9 per cent at the end of September. Though this ratio is lower than some of the banks that have received government capital, HSBC expects to carry on adding to its reserves.

"Some of those banks who have raised capital will destroy a lot of capital by writing off assets that are overvalued," he said.

Pre-tax profits in the third quarter were ahead of the same period of 2007. However, the figures were boosted by the profit on the sale of HSBC's French regional banking subsidiaries. The bank also booked a $3.4bn profit due to the reduced value of its own debt.

Losses on complex debt securities were $600m, lower than in previous quarters. However, this was partially the result of HSBC reclassifying assets worth $13bn as loans rather than trading assets, allowing it to avoid a further $835rn writedown.

Fonte: Financial Times, London, November 11 2008, Companies & Markets, p. 15.