Long-Term Commitment

**An Interview with Dr. the Honorable David K.P. Li,
Chairman and Chief Executive, The Bank of East Asia, Limited**

EDITORS' NOTE *David Li is also a member of the Legislative Council of Hong Kong and the Banking Advisory Committee and represents The Bank of East Asia on the Executive Committee of the Hong Kong Association of Banks. He is Chairman of the Chinese Banks Association, and has served as a member of the preparatory committee for the Hong Kong Special Administrative Region, as a Hong Kong Affairs Adviser to the People's Republic of China, and as Vice Chairman of the Basic Law Drafting Committee. The Basic Law underpins One Country Two Systems, which provides the framework for Hong Kong's current status within China. Li is the recipient of an M.A. as well as an honorary doctorate in Laws from the University of Cambridge, and serves on the boards of numerous corporations and institutions.*

Dr. the Hon. David K.P. Li

COMPANY BRIEF *As the largest independent local bank in Hong Kong, The Bank of East Asia, Limited (BEA, www.hkbea.com) was incorporated in 1918, and provides corporate and personal banking services to customers in China and overseas. The bank is listed on the Hong Kong Stock Exchange and is one of the constituent stocks of the Hang Seng Index. The Bank of East Asia employs more than 10,000 people worldwide and maintains some 200 branches including a New York- and California-based subsidiary in the United States, The Bank of East Asia (U.S.A.) N.A.; a Canadian subsidiary, the Bank of East Asia (Canada); and branches in Great Britain, the British Virgin Islands, and throughout Southeast Asia.*

How much of an impact has the global economic crisis had on the China market, and has the market stabilized in recent months?

The biggest challenge ahead is weak consumer demand in the United States and Europe. Consumers are under pressure to save, now that asset prices have fallen. The bleak employment outlook does not provide much hope that consumer spending will rebound quickly. Export producers in China have been, and continue to be, affected.

Nevertheless, thanks to quick action by the Chinese government to provide stimulus, economic activity in China has held up relatively well. Our bank is forecasting that the Chinese economy will grow by 8.5 percent this year. This puts China on track to become the world's second-largest economy – surpassing Japan – by the end of 2010.

China's sizeable domestic market has replaced some of the lost export demand. Further, as consumers in the U.S. and Europe become more cost-sensitive, China's efficient producers are still best positioned to supply the products that overseas markets want.

That said, I don't see China returning to 20 percent-plus annual export growth any time soon.

How has BEA been affected by the economic crisis?

Hong Kong has experienced a severe economic blow. In the first three quarters of 2009, our economy contracted by 4.7 percent. Nevertheless, we have weathered this crisis in far better shape than the Asian financial crisis just over a decade ago. The relief measures introduced by the Hong Kong Government – in particular the $15 billion in loan guarantees for small and medium enterprises – prevented unemployment from rising too sharply.

Add to this the spill-over impact of the China stimulus measures, and business sentiment in Hong Kong has held up very well. As a consequence, asset markets have also rebounded. This, in turn, has kept bad loan exposure under control. In fact, mortgage delinquencies have actually fallen this year compared to last year.

The improved market sentiment has led to a notable increase in fundraising and other financial market activities. From January to October 2009, firms raised some $14 billion through IPOs in the Hong Kong market, by far the best-performing IPO market in the world this year. This has helped to boost our bank's fee income from investment advisory and brokering activity.

Moreover, the rally in the asset markets has, in turn, boosted consumption. Private consumption, having fallen for four consecutive quarters, turned positive in the third quarter on a year-on-year basis.

As our bank is also very strong in China – we are the second largest foreign bank operating in that market – we are very confident regarding future growth opportunities as the mainland market continues to expand.

In China's competitive market, how do you differentiate BEA from its competitors and define what makes the brand unique?

BEA has the unique status of being both a foreign bank, as far as the regulations are concerned, and a Chinese bank, due to our roots in Hong Kong. This is our home, and this speaks volumes for our commitment to serving our clients in Hong Kong and the mainland.

Long-term commitment is extremely important in China, and we have had a continuous presence in China since 1920.

While local Chinese banks do have a larger branch network than we do – magnitudes larger, in fact – we have a very strong international reach, covering North America, Europe, and East Asia. That is a key advantage as China becomes more closely integrated with the world economy.

What are your plans for international growth for BEA, and what are the key markets where you see opportunities?

The bank definitely sees China as the market with the most growth potential. With the quickening pace of financial liberalization, more opportunities are becoming available every year.

For example, in October 2009, the mainland banking regulations were eased to permit Hong Kong-domiciled banks to establish branches throughout the neighboring province of Guangdong. In the past, we had to gain approval on a city-by-city basis. Now, we are free to expand throughout the entire province.

Also starting in July 2009, the central government relaxed the regulations governing trade settlement in renminbi for designated firms in five approved cities – Shanghai, Guangzhou, Shenzhen, Dongguan, and Zhuhai. This is an important step on the road to eventual liberalization of China's currency regime.

Since the launch of the Pilot Scheme, there have been 173 cases of cross-border renminbi transactions, amounting to RMB230 million. The Pilot Scheme has enabled BEA to make use of renminbi deposits for trade finance and other lending purposes, generating higher yields for the bank.

What are your key priorities for BEA for 2010 in order to retain your leadership position in the market?

Our top priority is the Chinese market, as the strength of the economy speaks for itself. Our past investments in this market – in personnel, in branch locations, in brand-building – are bearing fruit at the right time in the market cycle.

We are also very concerned about market volatility. We have always taken a conservative approach to credit control, and we have seen the wisdom of our approach confirmed in the aftermath of the financial crisis. ●

