Edited Transcript

Post 1Q 2013 Interim Management Statement

Meeting with Analysts hosted by Iain Mackay, Group Finance Director

10 May 2013, 9.30 am BST

Corporate participants:
Iain Mackay, Group Finance Director
Russell Picot, Group Chief Accounting Officer
Jane Leach, Head of Group Regulatory Reporting
Nicole Lee, Head of Group MI Reporting
Nick Collier, Head of Group Investor Relations

HSBC

Questions and Answers

Iain MacKay, Group Finance Director

Right, good morning everybody. Good afternoon to those joining us from Hong Kong. Today we will spend our time reflecting on the first quarter, not on the strategy update which takes place next week. So if you do have questions about strategy, save it till next week. So, very happy to dive into questions. I suppose there's not much purpose to introductory remarks. You've all had the chance to read the IMS and form your views, many of which we've read over the last couple of days. For some we thank you; for the others we'll say nothing. And with that I'll open it up for questions. For those that are in London, if you wish to ask a question, if you could just raise your hand and somebody will toddle around with the microphone and if you could state your name and the firm you're with, we'll take it from there.

Chintan Joshi, Nomura

Thank you. Good morning. Page 14 – Basel III Disclosures. I'm just trying to get to what is driving the big increase in Basel III RWAs relative to Basel 2.5 in the quarter. So in last quarter, the difference between your 2.5 and Basel III number was about 130 billion. This quarter it's about 163 billion. That's a 30 billion difference. And you mentioned sovereign LGDs but I think they're getting captured in Basel 2.5. I can see in the top table the 19 billion in fees from external updates regulatory – so there is something else probably going on or I'm missing the explanation.

Iain MacKay

Well the sovereign LGD, you're absolutely right, is 19 of it. In terms of other… What are you looking at again?

Chintan Joshi

If you look at page 14 – the Basel 2.5 number is 1,097 billion and the Basel III number is 1,261 billion and the difference is about 163 billion. The same calculation at the Q4 stage was 132 billion. There's been a 30 odd billion increase in the Basel III RWAs relative to the Basel 2.5 RWAs. I'm just trying to understand what the step-up was due to.

Jane Leach, Head of Group Regulatory Reporting

Some of it is thresholds, because when you – if your capped deductions go down then your below threshold items that are 250% weighted go up. So some of it's been caused by the thresholds moving. Some of it is just general movements in the Basel III items. These items consist of things like CVA, securitisations and the correlation between financial companies. So there's general movements on a number of those items.

Chintan Joshi

So I mean should we expect this number to keep moving in this kind of range?

Iain MacKay

Yes.

Chintan Joshi

The second question was on an Asia Pacific. If I look at the Asia Pacific division, if I back out GBM and the gains from Industrial Bank and Ping An, then I can see kind of the revenues down from 1,815 last year Q1 to about 1,600. So it's – so traditional banking revenues seem to be down and I'm just trying to think what the reasons could be. Trade probably is one of them but it is generally –

Iain MacKay

Trade revenues held fairly flat across the region. We saw some volume increases, offset largely by margin compression, mostly on the asset side.

Chintan Joshi

Okay – but year on year margins are still down, is it?

Iain MacKay

Well there's certainly some margin compression but generally speaking as it relates to trade, volumes held up fairly solidly.

Chintan Joshi

Okay thanks, and last one: trade finance margins. Do you have it on hand just now, or we can –

Iain MacKay

I can go through detail on Asia if you like, but basically what we saw happening in the first quarter compared to both the first of last year and the fourth of last year was that we saw volumes both in Hong Kong and Asia Pacific generally grow within Global Trade and receivable financing but that growth largely offset by margin compression. The story is similar in most regions in the world, with the exception of Latin America where we saw some slight margin expansion but that was principally because we saw a reduction in funding costs coming through.

Tom Rayner, Exane BNP Paribas (UK)

Iain can I just ask you on underlying revenue – I mean, as it's presented on page five, it's not that helpful I don't think, because of the, sort of, the significant other adjustments. I think when we got through them all the figure was sort of down 1% year on year – Q1 on Q1. The same sort of presentation at the full year – and I haven't got the slide pack; I think it was either slide eight or slide nine – that same pace of growth was running at seven, and I think some people took the inference from that at the time that that was a sort of ongoing sort of pace of underlying growth and it clearly – whether or not that was the guidance – that's clearly slowed. I mean, you were talking on the call as it being flat now and I just wanted to check your comments about the flat outlook. Is it on that real underlying basis – having adjusted for everything and for the business disposals, and if it is, I mean could you try and give us a sense of what has really driven that slow down. Have we seen weaker low growth, is it the spread compression, is it trade? I mean, I just want to get a better understanding for why the revenue outlook changed so dramatically in a short space of time, really.

Iain MacKay

So if you go across our main businesses by our main operating countries, what basically we see is – well it's actually – there's lots of different things you see, but as a general trend what you would see is some growth in volumes, to a significant degree offset by margin compression. Most of that margin compression we're seeing coming in asset pricing, and where we do see any expansion of margins it's usually because of lower cost of funds, and that's principally in Latin America. What I can say is, comparing the first quarter of this year to last, as we've mentioned, financing and equity capital markets revenues were up strongly; the credit trading revenues were up strongly; rates as we talked about quite specifically was down; foreign exchange was down slightly – principally due to lower customer volumes. If you look at Retail Banking and Wealth Management – setting aside the CML run-off portfolio, which is down as expected – in Europe we saw Retail Banking and Wealth Management revenues up in the UK and France, flat in Germany, up in Turkey; overall for Europe, up about 4.3% in that area. In Hong Kong, up about 6.2%; rest of Asia Pacific was a bit of a mixed bag, with some strength in Australia, mainland

China but with some weakness seen in India, Indonesia, Malaysia and Singapore. Latin America generally speaking was up about 3%.

If you then move to Commercial Banking, Europe up about 4.2%, with real strength in the UK, up 9%; France about flat; Germany up about 20%; Turkey down slightly at about 4%, 4.8%; Hong Kong was up 5.7%; rest of Asia Pacific and around was flat; Middle East up about 4%; North America down, but that was actually due to a specific accounting reclassification, whereas taking that aside, actually revenues were flat to slightly up in North America; and Latin was down principally in Brazil, about 10%.

So it's a bit of a mixed bag: so we're seeing growth in some markets and where we're seeing volume growth some of that – not all of it, but some of that – is being offset by margin compression. And that margin compression is being driven largely by excess liquidity sitting in the market and a particularly competitive market, a competitive environment, with some of those that were really very quiet or simply not present over the last 18 months, trying to gain access to the market again.

Tom Rayner

That was going to be my follow-up point. So it sounds as if there's a number of competitors who weren't able to maybe compete a while ago now can. Is that on the back of Central Bank support do you think? I mean, has that just allowed more banks now to come back, or has there been a normalisation in spreads from unusually wide levels? I mean, post crisis a lot of the spreads on trading blew out and I just thought whether there's a normalisation going on as well. Is that – just trying to get a better feel for why those margins have started coming down quite so much.

Iain MacKay

Certainly from our standpoint there's a little bit of all of those things you mentioned going on. Certainly the excess liquidity being provided by quantitative easing around many of the markets in the world is helping certain European and certainly US banks to be considerably more competitive. A lot of that excess liquidity is finding its way into Asian markets in particular, but not uniquely. I would say also with specific reference to European banks the postponement of the implementation of Basel III is almost certainly providing them with some relief, if not on the liquidity front on the capital front. And I think, then, there is an aspect of some normalisation within pricing, but I really can't quantify that for you. Okay?

Mark Phin, KBW

Just, sort of, a follow on from Tom's question, actually. The revenues, or less optimistic on revenues: would that follow through to risk weighted asset growth as well? In other words, would your view of risk weighted asset growth that you saw at the start of March, has that kind of changed?

Iain MacKay

I would say, based on what we saw through the first quarter is that, although we're able to put assets on the balance sheet, the risk weighting that goes with it – it's fairly good quality assets that we're putting on, it's largely in Commercial Banking on mortgages. And, notwithstanding some risk weighting asset increases in Hong Kong, that's clearly having a very muted effect, because it's only in the new book and it's quite progressive in terms of the impact it will have.

So I would say overall, to the extent there is an increase in risk weighted assets, that's been driven by regulatory change, principally, along with some of the movements around CVA and threshold positioning, but beyond that, I would say overall the risk weighted asset front is proving quite stable. So in terms of actually increasing the risk equation from a credit risk perspective, I think the teams are finding it quite challenging. To put good quality assets on, that actually doesn't trouble me a great deal. But, clearly what it does mean is that we continue to sit with a quite robust capital position.

Mark Phin

Okay, so the margin pressure that you're seeing is taking away from the revenues but it doesn't take away from the risk weighted asset growth?

Iain MacKay

No; by definition, no.

Frederik Thomasen, Goldman Sachs

I have two questions related to FX movements in the quarter. The first one was I think you referenced about 10 billion of risk weighted asset shrinkage in Q1 because of FX movements, but you also referenced the retained profits of about 3 billion, which were largely wiped out by FX. So I calculate a drag of Quarter 1 of probably about 27 basis points because of FX movements in the quarter and I was wondering if you could comment on that, please.

Second is just from, I guess, a P&L, perspective. Could you talk a little bit about absolute revenue and cost impact of FX in the quarter? I'd imagine that the pound depreciation would have impacted your absolute revenue and costs quite substantially.

Iain MacKay

So on capital, the impact of FX in the quarter was slightly less than you estimated. It was about 14 basis points, in the round – sorry, that's on a Basel III basis. It's about 14 basis points.

And then your follow on question Fred was on…?

Frederick Thomasen

Simply just FX movement, pound depreciation and in particular how that impacted absolute revenue and cost, I guess in that quarter, because I would have imagined both would have been suppressed in dollar terms

Iain MacKay

So if there is a net impact on PBT between the revenue line and the expense line of about – a little bit less than 200 million. 126 million.

Jason Napier, Deutsche Bank

Two please: on page 14 on the Basel III bridge, the immaterial holdings deduction has come down pretty meaningfully in the last quarter. When we were last here it wasn't clear whether CRDIV would still have that hedging requirement and whether it would be finalised that way. It looks like it has. I think at the time you said Delta One was the source of the strain for the firm and you might have to do something about that. If the deduction's down quite a lot, does that change your business practice, guidance from the regulator on what's going on?

Iain MacKay

No, not really. One, I think the technical guidance is still not quite final.

Russell Picot

A bit more netting.

Iain MacKay

Oh, there is a bit more netting going in with it. Now there is a little bit of a change of behaviour just in terms of netting within those positions, but in terms of the technical guidance: that's still not final. But our approach to mitigating that once it is final – assuming it's final in an adverse fashion – will be the same as we talked about at the end of the year.

Jason Napier

Okay so on netting that's in terms of the structure of the book, or you found a means to hedge that's –

Iain MacKay

Structure of the book.

Jason Napier

And then the second one of this is probably going to sound poor from a professional standpoint, but the delta in 'Other' quarter to quarter is bigger than most banks' P&L and I just wonder whether you could give any kind of sense as to what 'Other' would be in a quarter where you didn't have fair value of own debt, write offs of things and so on. What's normal for 'Other'?

Iain MacKay

There hasn't been a normal 'Other' quarter in the 10 quarters that I've had to deal with.

Really the net of what goes through 'Other', if you exclude fair value on own debt and gains on dispositions, reclassifications and such things, is generally the net of headquarter operating expenses, certain headquarter funding costs. So generally speaking, I think a normal 'Other' –

Russell Picot

So the global service centres go through that, so they have a mark up. It's going to be their mark up between revenue and costs running through the headquarter costs.

Jason Napier

If I had to guess – and it would obviously be a guess, which is why I'm asking – if you knocked out things like the money laundering charge and so on, it looks like it costs about 500 million a quarter to run. But really, if you told me it was 1 billion I wouldn't be surprised.

Iain MacKay

If you strip out fair value on own debt in that one, yes just the underlying numbers there… Yes, I mean the opex flowing through there is probably 1.5 billion is a clean number that's going through there.

Jason Napier

Per annum?

Iain MacKay

No, per quarter.

Russell Picot

I mean, I would have thought the quarter's firmly close to flat, i.e. not much either way into income or profit, when you actually take out one or two of the items that pops up. So for example, this FX gain we had in the holding company goes through 'Other', so that's, what, close on half a billion. Before that item we probably made – that segment probably contributed underlying, a little bit under 400, so that takes that down to probably a slight loss. I'm just going to check.

Jason Napier

Because ex-FVOD the first quarter was 1 billion, and then you have the billion of acquisition and disposals, which you've already taken off.

Tom Rayner

This is the problem with you underlying. Underlying is not underlying. It is quite volatile…

Iain MacKay

Yes, but we've defined underlying for you and underlying has remained consistent throughout. We've never changed the definition of underlying and we've provided you with all the detail that you can possibly want to adjust underlying any which way you want. But you do need to do some work, because I'm not going to put a bunch of measures out there that result in us getting SEC comment letters. But you have all the information, Tom, so you can come up with any definition you like, but we've given you a constant, consistent definition throughout. So what's out of underlying is fair value and debt, impact of foreign exchange and the impact of acquisitions and dispositions.

Russell Picot

So Jason, just to be clear, within the 'Other' group segment, you will have this half a billion, broadly, on the FX gain in the holding company and there is just over half a billion arising from the second tranche of Ping An running through. So there's 1 billion, in broad terms, of revenue running through that. On an underlying basis, not adjusting for those, that segment contributes, pre tax, of just under 400.

Jason Napier

So 600 down as far as we can see.

Russell Picot

Yes.

Jason Napier

So consensus should be four times 600?

Russell Picot

But, frankly, you're probably best to look at that on a geographical basis.

Jason Napier

I try; I do.

Russell Picot

Because you're going to have different… So, for example, when you look at Asia Pacific you've clearly got the global service centres within India, for example, running through 'Asia other'. We can help you step through that if that would be of use to you?

Chris Wheeler, Mediobanca Spa

Actually just a follow up on the 'Other' line. The 1,104 – is that after deducting the goodwill or, sorry, the impairment charge? The 1,104 on your adjusted for disposals and acquisitions, is that net of the 280 impairment that you took on private banking property?

Iain MacKay

No.

Chris Wheeler

It's not? So that would've gone to the 'Other' line as well, I assume.

Russell Picot

So that item – the private bank – sits within Group Private Banking, not in the 'Other' segment. When that business is disposed then – typically that line is only completed disposals. When we classify a business or portfolio to held for sale, it doesn't hit underlying.

Chris Wheeler

When I meant 'Other' I meant 'Other within Private Banking', but no, that's actually really helpful. So following up on that, the operational risk provision you took, which I think went through the expense line, could you just give me a little bit of flavour as to what –

Iain MacKay

Disclosed in Note 43 of the financial statement of the year end. It's the DOJ work on taxes in Switzerland.

Chris Wheeler

So then, are you going to give us any clue as to… I'm not sure that the business that you've actually transferred into available sale – which appears to be in the European geography – do we actually know what that is? I know Panama was part of the 12 billion you took across into HFS. Can you give us any clue as to what that might be?

Iain MacKay

No.

Chris Wheeler

I thought you'd say that – it's worth asking. Is it a standalone business or is it part of another business?

Iain MacKay

I could not possibly comment on that.

Chris Wheeler

Okay fine, I'll move on.

Iain MacKay

All will be revealed in due course.

Russell Picot

There will be occasions where commercial sensitivity just prevents us going just that little bit further than you'd like us to.

Chris Wheeler

Just on Europe, can you give us a bit – I can't remember if you did this on the call, I don't think we did – but just give us a little bit more flavour for the decline in impairments in Europe, from a geographic perspective. A little bit on business perspective. Clearly, in the UK, we have seen a creeping up for some of your competitors, not surprisingly.

Iain MacKay

No actually we see the opposite in the UK, both across Retail Bank and the Commercial Bank, where we had some specific impairments taken in the Commercial Bank in the UK last year. We haven't seen recoveries but nor have we seen any increase in specific or collective provisions within the Commercial Bank. And within Retail Banking and Wealth Management the quality of the book remains very, very stable. As a consequence of that, loan impairment charges in the UK are down slightly. Across the rest of Europe it remains stable.

Russell Picot

I think we're also just starting to see the benefit of the market recoveries in the fair value of the ABS securities starting to come through. I think in Q1 2012 there was a charge, Q1 2013 there was a net release on those available for sale portfolios. Obviously, to the extent we see those market prices continue to recover, that might be something which becomes a more recurring feature. As you'll remember, the accounting drove down the values to fair value, that all flows through the income statement, and that number is obviously greater than the cash losses which we had signaled three or four years ago.

Tom Rayner

How material is that?

Russell Picot

It's not a huge number. I suspect it's buried somewhere – let me try and dig it out.

Nicole Lee

It's in the region of 90 million

Russell Picot

So it's a 100-ish number for the change. There was a negative and it went more positive.

Michael Helsby, Merrill Lynch

Firstly Russell, with your disclosure hat on, could I ask if you could just give us the full grid of the quarterly, because it's an absolute nightmare. If you're going to give the numbers then that's great, but the full grid would make it a hell of a lot easier.

Russell Picot

I'm sure you'll tell me afterwards what you think you're missing but I thought we gave you – I'll follow up later.

Michael Helsby

Just a couple of questions. Firstly on the recoveries, I was wondering if you could tell us what the dollar magnitude of the, sort of – you're always seeing recoveries, clearly, but the abnormal recoveries that you saw in Q1. I notice in GBM in Middle East the revenue – well the actual profit was quite a bit higher than the revenue, so it's obviously quite a chunky bit there, but if you could comment on that just more broadly.

In Europe, you just touched on it a little bit there, but I mean, 17 basis points of bad debt is clearly very low. So I was just wondering if you could just give us a little bit more granularity by the business lines in Europe.

Third, on GBM revenue in Rest of Asia, that fell 8% year on year. It feels like some of the commentaries you made around some of the business lines there – like equity capital markets, maybe that's in Hong Kong, I don't know – but if you could just give me some granularity around the Rest of Asia reduction year on year.

And then finally, on a completely different topic, I was wondering – clearly at a Group level you've got a lot of risk weighted assets tied up in HFC. I was wondering when you think about your overall Group capital position. Do you ring fence that so, when you're at 10% do you take out the 80 basis points in your own mind or do you just treat it all as 10% and it doesn't really matter?

Iain MacKay

Sorry, run through that last one again Michael?

Michael Helsby

So clearly, within household we appreciate that at the statutory level there's, what, about 4 billion of equity, but at a Group level, with the 100 billion of risk weighted assets, there's about 10 billion allocated to that business. So I was just wondering how you look at it when you look at your Group capital ratios, when you're setting dividends and things like that? How do you think about that – call it trapped risk weighted assets or trapped equity – just thinking ahead of Wednesday?

Iain MacKay

We think, in terms of the propensity of the Group to pay dividends, it's all included as part of the capital base. It may not be accessible at this point in time. It hasn't been accessible in terms of providing funding to group since 2006 or 2007. But no, we don't carve it out separately. We obviously view each subsidiary and the propensity of those subsidiaries to pay dividends, which is something we try very hard to hold their feet for, so around self capitalisation, funding growth, and then the excess comes to the Group. That usually is dependent on some level of conversation with local regulators but that's usually, provided the subsidiaries are in good shape financially, which the vast majority are, then that's usually a very straightforward conversation. In the US that's not been the case since 2006/2007.

But no, we don't sit and ring fence it. We look at our dividend paying potential based on the profitability of where we stand overall, from a capital ratio standpoint for the Group, because that's how the consolidating supervisor, the PRA, looks at it. And we look at distributable reserves in terms of how we then pay dividends. That is how we'll continue to look at it.

On the recoveries, the main impact on recoveries was with respect to a specific name in the Middle East. I know the name, I don't have the exact number associated with that but I think it was about 80 million.

Okay, what was the other one?

Michael Helsby

So you just touched briefly on Europe bad debt. But 17 basis points, which is what the bad debt charge was in the quarter, is clearly very, very low relative to anything that you've really ever seen. So it's just if you could give us the beak down by business so we can see where it looks very low relative to what you did at the second half of last year?

Iain MacKay

So principally driven by lower delinquencies in Europe, principally within Retail Banking and Wealth Management and Commercial Banking. By country, the UK was the most notable part of that. I think the other countries, generally speaking, they'd have been fairly stable.

Michael Helsby

The final bit was on GBM revenues in Rest of Asia. It was down 8% year on year, so some colour on that.

Iain MacKay

It's generally been a decrease – it's two or three, no it's four or five things that contribute to this, actually. A little bit of an adverse impact on foreign currency lending and interest rate impacts associated with that lending. Slightly lower average balances, lower rates on Chinese available for sale bonds, fee income actually driven a little bit higher, which is primarily on the back of fairly robust debt capital markets and equity capital markets activity, largely in Singapore. Trading income, market factors, a little bit of an impact coming through from CVA, decrease in average balances. It's a little bit of everything.

The absolute numbers in and of themselves are not that significant. Overall, net operating income for Global Banking and Markets was down about 6%, so the decline in net interest income and trading income was not entirely, but largely, offset by an increase in net fee income on the back of strong debt capital markets and equity capital markets activity in the quarter.

Michael Helsby

Right. Is that a rebase, some of those issues – like the one off step down – or is that, sort of, a continued trend that we should think about for the rest of the year?

Iain MacKay

I actually can't answer that. I mean, I've got April data. One extra point doesn't really explain any trend data. It's difficult to say on that one Michael, I don't – I think the one thing that came out during the quarter from talking with the team in Hong Kong was that they did have a very robust – certainly January and February – around financing businesses.

But I wouldn't necessarily say it was a permanent rebasing. We'll take a look at it, obviously, over the next couple of months and see what comes through. But certainly, April data wouldn't suggest anything particularly persistent.

Michael Helsby

Okay thank you.

Russell Picot

Ian, can I just come back to Jason's question about the 'Other' segment? So, for Q1 2013, basically, the 'Other' segment for Hong Kong, the Americas North/South, Middle East were pretty much flat, i.e. they didn't really record much on pre tax profit or loss. Asia had the Ping An item sitting in it. If you take that out, it probably made about 0.1, which I guess is going to be the difference between the revenue and costs of the global service centres, which means that the loss we got to by adjusting the Group number and taking out Ping An and the FX sitting in Europe, and that going to effectively be the costs that sit in the holding company, which looks like a fairly clean number.

Basically, structurally, there isn't really revenue sitting within the European 'Other' because the holding company obviously has debt and a little bit of interest, but basically it's got a small net interest expense and then you've got the cost sitting there. That looks to me to be a permanent feature of the structure of that 'Other'. That probably helps a bit. And that's about – Europe's about a 500 or 600 million loss item, if you take into account that revenue plus half a billion.

Iain MacKay

So net 500 million cost per quarter.

Jason Napier

And so that service centre cost that you said was in the opex, those are charged back out to underlying business as well?

Russell Picot

That's right, yes.

Steven Chan, CITIC Securities

I have a few questions, focusing on Hong Kong, China and UK. First of all, I was just wondering, because you mentioned that the net interest margin pressure in Hong Kong was quite high. However, if you look at the HKMA figure, the average for the whole sector – so the net interest margin for the whole banking sector – actually widened year on year and quarter on quarter. I was just wondering how we reconcile that. Does that imply that you were losing some market share? On my rough calculation, maybe you have already lost some market share in the lending business so you're putting some of your spare cash to maybe interbank lending, or if there is any change in loan mix resulting in interest margin pressure in Hong Kong or purely because it is related to bond securities repricing. And also, did you see the same trend for Hang Seng Bank on margin pressure? So that's my first question about margin in Hong Kong.

Second question: could you give us some colour about asset quality of your China business in 1Q 2013 compared with the last quarter? Because most of the Chinese banks, they have seen a continued rise in NPL, so I just wonder whether you have the same trend for your China business.

And finally, for the UK provisions for PPI – you have around 300 million in US in the first quarter. Do you think that's close to the end?

Iain MacKay

Thanks Steven. So on PPI in the UK, the provision was 100 million not 300 million. I'll give you the exact number in a moment –113 million for PPI in the first quarter and there was another 50 million for another item, as it related to customer address. So for the total for the UK in the first quarter 2013 it was 164 million.

Net interest margin Hong Kong: I'll take that one secondly. To put this in context, if you compare net interest margin for Hong Kong, so the Hong Kong bank in Hong Kong. There was deterioration on net interest margin of 1 basis point from the fourth quarter 2012 to the first quarter 2013. If you were to do the year over year comparison, there was a reduction of 16 basis points year over year in net interest margin in the Hong Kong bank. By contrast, in Hang Seng, net interest margin expanded by four basis points the first quarter of 2013 over the fourth quarter of 2012. And year over year there was margin compression of 11 basis points within Hang Seng. In terms of what's actually driving that, again it comes back to the comments I made earlier with respect to a slightly more robust, competitive environment on the back of very strong liquidity, sitting within that market place. And there's absolutely nothing more than that in the story. The business continues to compete successfully. It continues to grow volumes but clearly, across the piece, there seems to be some compression within the market place. Now, I'm curious about that HKMA data because we're hearing the same from our peer group. So there is sort of an interesting contradiction there which, I have to confess, I don't quite understand.

Steven Chan

This is very strange because you and Hang Seng together have the largest market share and I propose even your biggest competitor, they report a decline in net interest margin, but the average whole sector is actually increasing quite in a good sense, like 4-5 basis points quarter on quarter. So I was just wondering whether – did you see a significant change in your asset mix in your Hong Kong balance sheet?

Iain MacKay

I think one of the areas that we are growing – there's two main areas in terms of balance sheet is trade and receivable financing. That tends to be short term and slightly tighter margin. The other area is mortgages, where the margins tend to be very stable over time, but slightly higher than trade and receivable financing.

So, has there been any significant change in the composition of the Hong Kong balance sheet either at Hang Seng or in the Hong Kong bank? Then I think the answer to that question is no. I'll ask Sarah to take a look at that HKMA data because, as you point out, we are sitting at about slightly under 30% of the market between Hang Seng and the Hong Kong bank and when we look at our peer group data they certainly seem to be experiencing the same phenomenon as we are. So it's a curious item there. I'm afraid I can't explain it any more clearly than that.

On China asset quality, that remains, in our experience, very, very stable. I think if I were to take a look across the China number. It remains very, very stable across the quarters, really. There's really nothing of noteworthy, and the asset quality – I mean, this is something that I spent a bit of time speaking about with Helen Wong when I was in Hong Kong about a month ago. Asset quality looks good. Again, we've got a very differentiated customer base when compared to the local Chinese banks. Our customer base at the Retail Bank and Wealth Management tends to be at the high end of premier. It's quite an aspirational brand within the main cities in which we're operating. And, from a corporate lending perspective, we tend to be on privately owned enterprises, internationally focused, or large corporates from outside China doing business in China. So the composition of our balance sheet in China tends to be quite different to that of local banks and I think this is – therefore, to make a comparison across virtually any line on the balance sheet or income statement is quite difficult at a local level. If you were to compare us, possibly, to Standard Chartered, to Citibank, you might – I don't know – but you might get a more reasonable comparison.

Sally Ng, CICC HK Securities

Hi Iain, just two quick questions, I think you mentioned in the call that net interest margin at a peak level was down four basis points year on year, excluding North America. Could you give us the actual level of Group margin in Q1?

I think one of your major competitors mentioned in the results call just a couple of days ago, that the April margin recovered. Just curious, are you seeing a similar trend on your side?

The second question is regarding the mortgage rate in Hong Kong, we have been seeing some mixed movements or signals locally here. There are a couple of local midcap banks, like DBS, actually cutting mortgage rates – it came out I think two days ago – but also, at the same time, some of the banks hinting at potentially a further increase after March of 25 basis point hike. So I'm just curious what your thoughts on the mortgage rate in Hong Kong, where it can go from here?

Iain MacKay

In terms of actual net interest margin in Hong Kong, it was in the mid-130s for the bank as a whole and for Hang Seng it was just above two in the first quarter of 2013. I don't have the April data, so sorry I can't provide that.

As far as the mortgage rate goes in Hong Kong, I perhaps recommend that you have a chat with Sarah. I think Sarah can provide you with much greater insight as to what's going on with mortgage rates in Hong Kong. I do know that we caused a little bit of consternation back at the beginning of March by popping up the rate on our HIBOR mortgages. But, other than us recognising that that was probably a sensible thing to do – partly in recognition of the fact that there was a higher capital charge coming through in mortgages in Hong Kong, which happened to coincide with that date – but I think if you want to get some granularity on our thoughts around mortgage pricing, either have a chat with Sarah or with Louisa Cheang, the Head of our Retail Bank Wealth Management in the region. I'm sure she can give you more insight than I could.

Sally Ng

Okay. But what about the Group net interest margin? Can you provide that number?

Iain MacKay

I should give it to you for Group excluding North America, because it's probably the best comparison given that we sold the credit cards business. And if I give you the first quarter of 2013, it was 216 basis points compared to 220 in the same quarter last year.

Sally Ng

Excluding North America?

Iain MacKay

Excluding North America, because the main driver for North America net interest margin was the Finance company, which is in one off.

Sally Ng

Thank you.

Chris Manners, Morgan Stanley

What was it for the whole bank?

Iain MacKay

It's a meaningless comparison because last year includes CRS and still includes the Finance company. So the best comparison – it's not substantially different but you've got the right data.

Fahed Kunwar, Redburn Partners

Hi, it's Fahed Kunwar from Redburn. I just wanted to get some more colour on UK impairment. So obviously impairment has come down, as you said, but how much of that is a function of the fact you were able to capture better quality customers when you were taking market share from the mortgage market in the last couple of years, and how much is a general improvement? You are seeing a lot of economic facts in the UK picking up, and how much of it is a, kind of, turnaround in the UK economic circumstances. Do you think it will continue to improve?

Iain MacKay

That's a great question. Well, look, we very purposely have grown the mortgage book in the last couple of years because we're probably the only bank that can. But we also – and I speak from personal experience – set very high standards from a credit lending perspective.

It is a good quality book. The average LTV on new lending, although there are exceptions, tends not to be above 60%. The LTV on the book as a whole in the UK is in the mid-50s. I'd have to say our customer set tends to look as if it's Premier, or even the upper end of a Premier customer, so the quality of the book is well collateralised. The LTVs obviously are, as I described, really quite low. There's a very strong focus on debt repayment capabilities, so debt servicing, debt income ratio capability. So I would suggest that the quality of our book – and you'll recall that before, really, 2009 we'd been very, very small market share – we're still a small market share – we're only about 8% of stock and about 12-13% of new volumes. So we're still a small element of the UK market when it comes to mortgages. But that market share, which has grown four or five points over the last three years, is a high quality mortgage book of business.

I'm not sure I would attribute a great deal of this to continuing economic improvement, which is barely observable in the UK economy. You really need to dig out your magnifying glass for that one. I mean, Stuart made this comment on the call on Tuesday, that in this interest rate environment, you're going to see reasonably stable credit quality. Our concern and, to a certain degree, it's informed by what we're doing from a lending standpoint, is that, if/when interest rates turn, I think you're going to see some stress across the economy, both in Commercial Banking and in Retail Banking and Wealth Management. You may not see much of that in our Retail Banking and Wealth Management but I suspect it's a broader economic factor that we're very conscious of as we do lending into the UK market today.

Michael Helsby

Just two follow up questions actually. Firstly on balance sheet management: I think there's about 300 million of AFS realisation in your revenue number. So first point to that is: I think last year you said, 'Don't expect any more' but should we expect more in the second half of the year? Can you give us a sense of what gains are left? It's only quite a low duration book, from what you tell us. And just to what extent, clearly, Stuart gave some guidance for this year but I'm just more thinking about, if the yield curve stays pretty flat and pretty stable, which it seems to be, to what extent does the reinvestment opportunity run out pretty quickly? I think you referenced, obviously, very, very low reinvestment yields that are there today relative to even 12 months ago. So 2.7 billion, is that actually, if yield curves stay flat, a high number? That's question one.

And I'm just thinking, sort of, more broadly on the commentary you made around liquidity and, obviously, the increased competition that we've seen, particularly in Asia, and it feels like it's really, really come to a head from what you've said and what, clearly some of your competition have said. At the moment, you've substantially offset it by volume, which is clearly encouraging, but I was just wondering, two elements: firstly, what's the marginal ROE on the business that you're writing at those lower margins? I don't know if you've got a view of that. And if this carries on, do you worry about the sustainable impacts that this may have? You just referenced on it in the UK, but there's sustainable impacts it may have on asset quality if things turn, because it could turn very quickly in Asia. And if you are, is there a limit where you just pull out of the market, which is something maybe you've done before, or is there, in Asia, there's just no way that you'd ever pull out of the market in that respect? Thank you.

Iain Mackay

You're even gloomier than I am. You are sort of foreseeing an Armageddon scenario here, are you, Michael?

Michael Helsby

No, no. Clearly, you're very thoughtful in the way you look at the world, and you're one of the few banks that have actually shown discipline in the past. I'm just testing where we are relative to that point.

Iain Mackay

So, we're trying very hard not to overcomplicate life for our businesses in terms of what we're asking them to do from a financial-performance perspective. So, there are two broad measures that we're setting, whether it's Alan Keir as the head of the Commercial Bank, or Samir in Global Banking and Markets. There's a focus around a return on risk-weighted assets. It's not the only measure. They use a lot of measures within their businesses and how they price individual deals, whether it's return on allocated equity, return on assets, marginal return on assets, but overall, at the level that we want to see, at a Group level, we've triangulated, across the different businesses and the products within the businesses, a return on risk-weighted assets that achieve our return on equity for the Group within the range.

Now, recognising we're not within the range of that return on equity at the moment, any new business that's being done has to move the returns in that direction. So, although there may be trade-off on a rate/volume basis between the business, what the businesses are still being held accountable for is achieving returns on risk-weighted assets within the range that we've agreed with each of the businesses that's appropriate, and that's differentiated by market, by product, by global business, and that's informed, to not an insignificant degree, by capital requirements that you would expect to see. So, for example, in Global Banking and Markets, there are a broad range of areas where, on the advent of Basel III, the capital requirements are higher and, therefore, where we would have seen higher returns in some of those businesses, we still like the business but the return on risk-weighted assets that may come from that would be slightly lower than in a previous period, where you would have similar types of activity done in the Commercial Bank but they would generate higher returns.

So, that's one measure, and the other one is really more focused around the balance between cost management and investment management, which is just positive jaws. And again, that's driven somewhat by circumstances within each of the economies. Where we've got strongly – and by 'strongly growing economy', anything over mid-single digits at the moment – then we're going to give people a little bit more propensity to invest, but they're still going to be held to a positive jaws, and probably a higher positive-jaws number.

Whereas if you looked at it in the UK or North America, for example, the North American example is an extreme one, because they've got very significant restructuring still to do in that business. So, their ability to drive positive jaws is virtually non-existent. If you took the UK as perhaps a better comparator, there is growth in that marketplace. It is slower growth – it's low-single-digit growth. There is margin compression, but when you then look at it from a PBT perspective, what we're hoping for and what we're asking them to do and what they're targeted to do is generate a positive jaws. It won't be three or four points; it's probably going to be less than a point, but positive jaws, which is just managing the discipline on costs and revenues.

So, that is the focus for new business, and how they tradeoff between rate and volume to within a pretty broad reason is really up to them. And then, obviously, we track returns on risk-weighted assets on a monthly and quarterly basis – more specifically on a quarterly basis because the moves within a month to month are barely perceptible.

Michael Helsby

Do you feel like you've still got in Asia quite a lot of headroom on that return on risk-weighted assets, given the move down that you've seen in margin and maybe the move up that you've seen from a regulatory point of view on risk-weighted assets?

Iain Mackay

The Asian markets are still very profitable markets for us. We've got attractive cost positions within the majority – not all but the majority of those markets. We've got a reasonably sound market share, at least in the main seven – if you like, the priority markets that Peter Wong and the team focus on from an investment and development perspective. And those which sit outside those seven priority markets tend to be developing markets, where the rates of growth, although they tend to be higher, the numbers tend to be much smaller, so they have little impact overall in terms of moving the numbers for the Group at this point in time. But certainly the opportunities for growth in the Asian markets, although more subdued than they were certainly were a few months ago, they remain here, but there's not the consistency, really, across the vast majority of markets that we saw, for example, in the second half of last year.

On Balance Sheet Management, we had significant gains in the disposition of AFS in the first quarter of last year, as we repositioned some of the gilts and treasuries book within Balance Sheet Management, and we had similar in the first quarter of this year. Now, the gains that we generated this year on AFS disposals in the first quarter was about 60-70 million less than we recognised last year, and as Stuart mentioned on Monday, you should probably take that out of the first-quarter BSM number, so, if you looked at BSM in the first quarter, it was about 976 million. We had just over 300 million, I think, of AFS gains, which would have taken you back to something similar to the fourth-quarter number, which was about 600-700 million of Balance Sheet Management. We're probably above the run rate of the 2.5, and again that's something that Stuart said. We're probably looking at something that's more than this, 2.7/2.8, based on what we see at the moment.

Again, Balance Sheet Management is really managed at a legal-entity level under the guidance from the Balance Sheet Management leader, Steve Eggelhoefer, and the Group Treasurer, Thierry Roland , that sit here in London, though it is managed locally and they reposition based on what they see happening in the yield curves that affect their book most notably.

So, whether or not there are substantially more gains to make in that portfolio, as the portfolio churns – and it is a relatively short-duration book overall – then obviously there is the propensity for a great deal more in that space. But again, I think this is an area where the team, quarter after quarter, does a really good job of managing in a fairly awful interest-rate environment for a bank like us.

Michael Helsby

And can you remind us of – I don't know if you're going to look at it this way, but the gross amount of dollars, if you like, that you're generating returns off?

Iain Mackay

What, you mean the corporate surplus that we manage?

Michael Helsby

Yes. So, I'm presuming it's not just the loans/deposit gap. There must be something else.

Iain Mackay

Yes, I don't have that data here just now, Michael, but, at a very crude level, it is basically a corporate surplus we're managing.

Chintan Joshi

Just on China again, when you're capital planning and when you think about the risks from China, particularly the banks raising capital, what kind of scenario do you think about? I don't know about worst case, but what you can expect over the next 16-18 months.

Iain Mackay

In terms of…?

Chintan Joshi

Your participation in the rights issue.

Iain Mackay

For Bocom, for example?

Chintan Joshi

Yes, Bocom, yes.

Iain Mackay

The investment in Bocom is a core investment, and we've always participated in the rights issues of Bocom. I think it's fair to say that we'd continue to participate in any future rights issues of Bocom, provided the conditions overall in China remain reasonably favourable, and the conditions in China do remain reasonably favourable. You're still seeing growth in excess of 7%. I think we're absolutely going through a period where the new leadership is trying to decide which priorities within the economic plan they want to pursue and how they're going to pursue them. You're looking at inflation numbers which are below 3% – I think 2.4% was the latest CPI in mainland China – so inflation is slightly above their target, which is 2%, but still well controlled.

I think, again, you continue to work progressively through dealing with credit quality within the Chinese-mainland banks, which again continues to be done through management of the interest rate, the spread that they create, as well as setting clear targets around NPLs, reserve requirements, macro-prudential measures around lending practices within the banks. Although we're regulated by exactly the same standards, because the compensation of our business is very, very different, that doesn't directly impact us in the first instance. There clearly would be secondary and tertiary impacts if the economy went through a particular stress in China, but that's not the outlook that we have for the economy. And there's certainly no talk, from a Bocom perspective, of capital requirements.

Chintan Joshi

Okay, thanks. And just a quick update on the timing of the various sales you are planning on the US portfolio but I think you touched upon it a little bit. The big-picture number is about 6 billion but in terms of –

Iain Mackay

Well, they're split into two parts. We've about 4.3 billion of unpaid principal on non-real-estate personal lending, and that was disposed of on 1 April. So, that deal closed, and the effects of that will show up in the month of April, and there's just over $200 million worth of loss. The exact number was about 270 million of loss in the month of April on the disposition of the non-real-estate book. Now, that is a lot less than the loss that was anticipated on the disposition of that book – about half, in actual fact, principally because pricing came in considerably better, which again is sort of a reflection of improvement – marginal as it may be but improvement in the US economy.

The other tranche is about 2.6 billion of defaulted/late real-estate loans. So, these are loans that have been partially charged off, so they've been written down to, basically, net-realisable value, fair-market value, less cost to dispose. That's how they're carried in our balance sheet. Some of those have been transitioned to held-for-sale. They are being marketed actively. We have indicative pricing on them. So, the first tranche, I think, is about 550 million, and the pricing that we've received, again, is encouraging to the sense that it would generate a much lesser loss than we would have anticipated or planned for in our numbers for 2013. And we would expect to close that first transaction some time in this quarter.

And then there'll be two to three other transactions over the course of the remainder of this year, of a similar size, with a very similar structure. And again, if the pricing continues to improve… It's very, very gradual, but as the pricing continues to improve, then we would expect to see that reflected in lower accounting losses incurred. From a capital perspective, we obviously release fairly significant amounts of risk-weighted assets on the disposition of these defaulted loans, so, overall, from a capital perspective, it's generally a positive story.

Chintan Joshi

But the intensity is the same as the book that you have.

Iain Mackay

So, the defaulted loans tend to run round about two and a half to three times the accounting values – the nominal values.

Chintan Joshi

Which is the same as the overall – the overall is 2.75.

Iain Mackay

Yes. And the vast majority of that book is real estate – it's mortgages.

Chintan Joshi

Thank you.

Russell Picot

These defaulted loans have the most penal capital treatment because they're picking up high RWAs and they also have high expected losses, actually, Chintan.

Iain, can I just go back to your opening question, Chintan? We've just been looking at that question you asked around when you step from the Basel II numbers to the Basel III numbers on RWAs, we've just gone back to check the year-end number. Broadly, it hasn't changed. It's in the region of 160 billion. Little pieces of it have moved around, but that step at December 2012 and Q1 2013 is roughly 160 billion in both cases. It hasn't really changed. We can show you, if that would be helpful, just afterwards.

Chris Wheeler

Which line will you be putting the losses on the book? Will that go through Other income or the loss on financial investments?

Russell Picot

That's going to go through Other Operating, because they're loans.

Chris Manners, Morgan Stanley

So, Iain, I had a couple of questions for you. The first one was maybe a little bit about the UK mortgage market and how you see margins trending there. I saw that you put out a 2.49% five-year fixed, which looked quite attractive on the rate.
I'm just wondering how you see mortgage margins trending in the UK with products like that out there? What do you think the impact of this government Help to Buy scheme could be in terms of driving growth in the UK mortgage market, which we've been worried about for some time?

The second question was on operating costs, but maybe I could ask that afterwards.

Iain Mackay

Margins on the UK mortgage book remain very stable. There's a good return on that business. There's not much more I can say. The 2.49 is actually a pretty interesting product, but if you've got any intention of repaying your mortgage early, don't bother, because they charge you penalties for paying it down, as you would imagine with a fixed deal. I think, overall, although the pricing at the moment is pretty attractive, from a borrowing perspective the margins overall within our book of business, again on a risk-adjusted basis, because the credit cost, the risk-adjusted view on this is attractive to us, principally because of the client base that we're able to attract.

On the Help to Buy programme, I think there was an article in the FT this morning. The builders love it. I think it's great in terms of stimulating demand in that regard. I think there are some contradictions from a regulatory-capital standpoint in that the guarantee that the government would offer on the back of this, generally speaking, at least as I understand it, doesn't match the tenor on the loan, so it's probably of limited capital quality to the banks. So, why would you pay for a government guarantee that actually doesn't provide you with any benefit?

I think, if you're going to be rational from a decision-making perspective, if you think now is the right time to do higher loan-to-value lending, then price for it. My recommendation to the UK business would not be to pay for government guarantees when the government guarantee doesn't provide you with any capital relief. And if you're going to put that capital at risk, then price for it.

But I think, from a builder's perspective and from a consumer's perspective, it's probably quite attractive. I think it's going to be particularly attractive in the buy-to-let market, and is that really the market that you want to grow? Because that's probably the mortgage market that experienced the greatest amount of stress in 2008 and 2009. So, are we just heading down the same path that we've been before, and actually not that long ago?

So, we can get into a discussion here about there's lots of ideas being thrown out to try and get things going in the UK economy, but have they been thought the whole way through? Some of them just feel rather gimmicky and sort of politically expeditious and probably not thought the whole way through the system in terms of who will provide the housing from the builders, who's going to buy that kind of housing, who can afford to buy that housing, and who's going to provide the financing to enable the purchases. For this to be truly effective, you have to imagine it's going to be thought the whole way, from the policy point of view, the whole way through to execution.

So, costs?

Chris Manners

Thank you. I was looking at the cost base for the quarter –

Iain Mackay

That's funny – so were we.

Chris Manners

On an underlying basis, $9.3 billion. And then, if we strip out the UK redressed costs, you had another sort of $400 million of one-offs – operational risk provisions, customer remediations in the CRS business etc – totaling another $400 million. If we were to deduct those as well, you get to $8.8 billion for the quarter. Is that sort of the clean run rate that we should use is there anything flattering it? Because that would show you to be very much on track.

Iain Mackay

I would not encourage you to try and get to some kind of clean run rate here, because the bank is growing – admittedly not at a hugely fast rate. We're not going to strangle investment within the business but we're going to manage costs to a positive-jaws dimension. And what we are seeing, over the course of last year – not last year, 2011, 2012 – and we will see in 2013 is continued investment from the Group around future-proofing the Group in terms of not only addressing the requirements of the DPA but being market-leading from a compliance/regulatory capability, frankly because we think that's where, if we can't do that, then it creates risk for the banking industry and it creates risk for us inside the banking industry.

So, if we look at the investment that we are doing in that area, it's not insignificant. Over the course of 2011 and 2012, we added somewhere in the region of $500 million to the cost base of our Risk and Compliance teams in that regard. That was a step change. It's probably not the same level of increase that we're building year over year, but we would expect to see a continued increase in investment in risk management and compliance management over the course of the next couple of years.

The other factor that we do have to reflect on is, when the US monitor is appointed, we don't know what the costs are associated with that. I can't even tell you. We're trying to make allowance for it, but it depends, when he comes in or when she comes in, what she wants to do. Does she want to go and appoint a string-full of consultants to go visit round the world, visit all our sites, see what we're doing in different areas, or are they going to rely on our resources? Are they going to rely on our Risk teams, our Compliance teams, our Internal Audit teams, our business teams? So, that's a difficult one to evaluate.

We talked last year about seeing a cost base on a quarter-to-quarter base that sort of moved in the high eight points – 8.6, 8.7, 8.8 – to about 9.2. And based on the level of investment in the business at the moment and what we're doing from a sustainable sales perspective, the high eights, the low nines sort of feels like a sensible normalised quarter from our perspective, and it's certainly within that range of the high eights to the low nines, on a quarterly basis, that we're trying to manage the firm.

Chris Manners

Perfect. Thank you.

James Chappell, Berenberg Bank

You talked about the management of business could be less complicated, and the one thing you really didn't touch on was about risk and how you manage that risk, and you seem quite bearish in your outlook. How do you balance that with, probably, Asia, which is probably more optimistic, and how do you control for that within the business?

Iain Mackay

So, risk in any particular sense or are you looking particularly at credit risk, for example?

James Chappell

Are you setting it from a top-down basis or are the divisions allowed to set it themselves?

Iain Mackay

So, the way the risk framework works is there's a risk appetite set for the Group. That risk appetite is absolutely differentiated by market and by business. So, there is a significant degree of discretion and autonomy afforded to each of the businesses within the Group, but they have to operate within the broad risk appetite for the Group. They have to, on a daily basis, operate within caps and limits that are set, particularly, as you would expect, on the trading floors that exist around the Group, that there are very strict limits and caps in place, and we have daily – well, not daily, we've got minute-by-minute monitoring as to whether people breach those limits.

But in the broad sense, when it comes to working with customers, the risk appetite is broken down into a regional and a country level by global business, and they manage within that risk appetite. We have a Risk Management meeting, which is basically Stuart and his direct reports, that meet once a month. We're going through all aspects of risk in the Group, whether it's credit risk, market risk, compliance risk, regulatory risk, operational risk, and we're looking principally at exceptions but we're also looking at trends that are emerging.

And again, to get a sensible response on trends, you have to look at it at a reasonably granular level, so we started at a regional and global-business level and, if there's something within those regions that merits a little bit further examination, we sort of dig down into the business or the country where that might be emerging. Marc Moses and his team manage that fairly dynamically – it would be unfair to say on a day-to-day basis, beyond the trading rooms, which are managed on a day-to-day basis, but, on a portfolio basis, it's managed fairly dynamically, and there's certainly a good deal of oversight from the centre.

But that is not, certainly in our experience… Last year and this year, it's not detracting from the businesses', the teams' ability to do business. I would have said that, last year, actually, there were very few instances when you had teams in Asia, for example, coming back to us and saying, 'We could do more but the risk appetite is too severe, so can we have some relief?' There were very few instances of that, and where there were, then we would look at the individual circumstances. But that's the sort of broad sweep.

And excuse me if I seem overly pessimistic, but I think we do have growth opportunities across a lot of markets, and my pessimism is probably more informed by the fact that that growth looks a little bit more muted now than it did a couple of months ago, but it doesn't detract from the fact that they're still, I would say, the majority of our markets that represent our growth opportunity, but it's certainly a hell of a lot more competitive than it was three or four months ago. What seems to be driving it is just there is a surplus of liquidity, which is – 18 months ago, people were scraping for dollars; not the case now – absolutely not the case now.

James Chappell

But have you changed your risk appetite as a result of that or not?

Iain Mackay

No, not really, no.

Okay? So, I think we have run out of time, sadly. However, we will all be meeting again next Wednesday. Thanks for your time this morning.

Forward-looking statements

This presentation and subsequent discussion may contain certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the HSBC Holdings plc Annual Report and Accounts 2012 and Interim Management Statement. Past performance cannot be relied on as a guide to future performance.