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Conference Call Transcript

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PRESENTATION

Stephen Green - ***HSBC Holdings plc - Group Chairman***

Well, ladies and gentlemen, good afternoon here in Hong Kong, good morning in London, and welcome to HSBC's 2010 interim results presentation.

Mike and I are continuing to take -- to carry on the tradition of taking turns between London and Hong Kong. And it's my turn to be in Hong Kong, and it's a very great pleasure to be back here. It's an approach which we find is proving valuable for both of us, by giving us insight into the thinking amongst key investors and media, analysts in our two most important markets. I hope you find it valuable too, by giving you regular access and contact to both of us.

With Mike in London are Douglas Flint, Chief Financial Officer, Executive Director Risk and Regulation; Sandy Flockhart, Chairman, Personal and Commercial Banking and Insurance; and Stuart Gulliver, Chairman, Europe, Middle East and Global Businesses. With me here in Hong Kong are Peter Wong, the Chief Executive of the Hong Kong and Shanghai Banking Corporation; Ian Mackay, Chief Financial Officer, Asia Pacific; and Russell Picot, Group Chief Accounting Officer.

In a moment, Douglas is going to take us through the performance for the half-year in more detail. Mike will then talk about how we are building the business for the future. But before that, I'd like to say a few words about the headline numbers.

As always, please take a minute to read the forward-looking statements on the screen. And for the avoidance of doubt, though I hope I don't need to say this, the dollar figures that we use today are US dollars unless otherwise stated.

So, the headline results. Reported pre-tax profits more than doubled, to $11.1b. Reported PBT ex the fair value of our own debt up, just over $10b, 34%. Underlying basis, the performance also strongly ahead, with pre-tax profits up 30% to $9.6b. It is, I believe, a testament to the broad diversification of our business and the quality of our portfolios that HSBC has delivered such a strongly improved performance in the first half.

The results reflect a significant improvement in our retail businesses, driven in large part, but not entirely, by lower loan impairment charges. They are also supported by another very strong performance in GBM, which is actually second only to the first half of last year, a record other than the first half of last year.

Loan impairment charges fell to their lowest levels since the start of the financial crisis, reflecting the more stable economic conditions and our deliberate actions which were begun before the crisis, to reposition certain portfolios and maintain underwriting standards.

And during the first half of the year we grew lending in all regions, more than offsetting the impact of the run-off in the US. We are selectively adding assets in our target segments, in emerging regions and in developed markets where we have scale.

Turning to capital, maintaining our capital strength is of course absolutely fundamental to our banking philosophy, and so we continued to enhance our core Tier 1 ratio, which increased to 9.9%.

Finally, we are proud of our track record as one of the industry's leading dividend payers, and the first half was no exception. Total dividends declared for the period of $2.8b, in line with our dividend policy.

And, Douglas, now over to you for the detail.

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

Stephen, thank you very much. This slide sets out our results on a reported basis. And the takeaways from this slide are lower revenues, and we'll come back to this later; very significantly reduced loan impairment charges; the turnaround again in the fair value of our own debt credit spread movement, a gain in the first half of this year, versus losses in the two prior halves; and expense growth that was high against inflation, and again we'll return to this later.

Turning to the reconciliation from reported results to underlying profits, this slide sets out the major elements apart from foreign exchange translation. Apart from the fair value movement of own debt credit spreads, which you can see were significant, the adjusting items relate to $126m of net disposal gains and $250m of accounting gains arises from changes in the stakes we hold in two associates.

But then, within underlying results, there are of course a number of items that we draw out, to assist you in looking at operating trends. Comparing the first half of 2010 with the prior-year period, in Global Banking and Markets the impact of legacy position write-downs and impairment of AFS securities improved by $1.5b.

In a number of areas, we've economic hedges which don't qualify for hedge accounting, leading to an accounting asymmetry but no economic impact. These expire with zero profit and loss, but do generate offsetting profits and losses over their lives. And you can see this clearly with the gain of $1b last year and a loss of $1.1b in the current period. We had lower pension curtailment and settlement gains. And the bonus tax impact, together with those, was $0.7b. And these were the principal reason for underlying cost growth in the period.

Finally, on the tax line, we sold HSBC Canada out of the US Group to the UK. The profit eliminates on consolidation, but the tax on what is a taxable transaction remains. However, we will offset the gain with losses in the United States, so there is no current cash impact.

So, turning to results on an underlying basis, profit before tax was 30% ahead of the prior period, driven by lower impairment charges. These were close to half the level of the prior period, and more than offset lower revenues and modestly higher expenses.

If we turn to revenues, this slide highlights, on the retail side, the significance to lower revenues of the run-off of the PFS portfolios, particularly in the US, but also in the Middle East and Latin America. You can also see clearly that Commercial Banking revenues generated good growth. And we had decent growth in European PFS, which was driven by increased mortgage lending in the UK.

The revenue picture in Global Banking and Markets illustrates the benefit of diversified product lines. Foreign exchange and rates businesses couldn't repeat the exceptional performance of last year. And revenues and balance sheet management were lower, as we forecast. Partially offsetting these impacts were higher revenues from a growing equities business, from transactional services, asset management, asset and structured finance, and a better performance in principal investments.

But the key takeaway from the slide is that although revenues were lower than the exceptional first half of last year, they were in fact the second highest that Global Banking and Markets business has delivered.

If we compare the current period with the second half of last year, the significant movement remains the fall in loan impairment charges, but revenue decline and cost growth were lower. And as a result, underlying profit before tax was 61% ahead of the trailing half.

Turning now to look at credit quality, this slide demonstrates the experience in Personal Financial Services. Loan impairment charges were lower in all regions, set against both halves of 2009, with the largest dollar decline clearly in the United States. The same picture emerges in respect of Commercial Banking, with declines in all regions. In Global Banking and Markets, both loan impairment charges and the AFS impairment line were noticeably lower, with the latter benefiting from favorable price movements as liquidity in the sector improved. Impairment charges and ultimate expected losses remain in line with the prior guidance we've given you.

To aid clarity in an area where there was some confusion last year, we are trying to do better, this slide draws together the insurance-related elements within the profit and loss account. What it shows is that a better underwriting result and stable costs have delivered our best ever pre-tax contribution in a half-year which was up 36% against the first half of last year.

Customer deposits and customer loans and advances have been fairly stable, with credit demand remaining muted generally, especially in the personal sector and especially in developed markets. But the run-off on the exit portfolios was more than offset by growth, mainly in commercial lending, largely in Asia. The A/D ratio remained below 80%.

This slide clearly illustrates a pattern of modest growth in personal lending around the world, with the run-off in the United States continuing. In Commercial Banking, lending growth was strong in Asia, steady elsewhere.

Finally, on capital, this slide illustrates the steady progression in our Core Tier 1 and Tier 1 capital ratios since the rights issue last year. Dividends to shareholders are well covered by earnings. And you will note the increase in innovative Tier 1 capital, following a very successful retail capital securities issue which we did in the second quarter.

Now let me hand you over to Mike.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Following on from the Chairman's welcome in Hong Kong, I'd like to welcome also two non-Executive Directors here in London. First, Rona Fairhead who is Chairman of our Risk Committee; and Sir Brian Williamson, who is a member of our Nominations Committee.

Now, turning to our results, I believe our first-half results proved that soundly managed universal banking works. Today, I want to describe briefly how we are benefiting from our diversification as we move through the economic cycle. I'll then talk about how we are building the business for the future, by following a clear and distinctive strategy, how we are adding assets and building sustainable revenue streams in our target markets, whilst we run off other parts of the business. All supported, of course, by a strong balance sheet and liquidity position.

I'll start with our benchmark targets. Return on shareholders' equity for the Group was 9.3% overall, excluding fair value on our own debt. There is no doubt this is being held back by the performance in the USA, and to a lesser extent by the results in Latin American and the Middle East. What is encouraging is that our businesses in the key markets like Asia and Europe are already delivering good returns. Return on equity in our Asian bank was 23%, and in the UK it was 14% in the first half.

The direction of regulatory reform has also led to HSBC maintaining a higher level of capital than we had expected when we set our benchmark targets three years ago. However, we are absolutely committed to maintaining a high level of capital, while the effect of regulatory change remains uncertain. We will review our target range for return on equity when the regulatory framework becomes clearer. And we believe we have a mix of business and geographical presence capable of delivering returns towards the lower end of the target range in the medium term, as we reduce our non-core portfolios.

Our regional results highlight the value of HSBC's geographical reach. We are a truly global bank, and we are steadily rebalancing towards the world's growth regions. It's almost exactly six months since I moved back to Hong Kong, to manage the business from the heart of the world's fastest-growing region. So, to give you a flavor of how I am seeing things from there, I'd like to focus my comments on Asia today.

Asia remains the bedrock of our profitability. And behind the headline numbers, there are two important trends; first, the increasing diversification of our profits. The contribution of markets outside Hong Kong increased to 50% of the total for Asia. And encouragingly, Mainland China contributed $1b for the half-year.

Second, it is in Asia that we are seeing the greatest opportunity for growth. We are growing our balance sheet across the region, in response to higher customer demand. In fact, we grew customer lending by 15% in the first half, and we saw strong growth in the sales of wealth management products. We are continuing to acquire new high-quality customers, and this year Asia Pacific reached 1m Premier customers.

As I'm in London today, I'd like to emphasize that we are making good progress in Europe too. We saw a strongly improved performance in our retail businesses, where loan impairments reduced significantly. And in the UK we continue to grow mortgage lending, supported by conservative loan-to-value ratios, and we grew our international trade revenues.

Now turning to our customer groups, we are benefiting from a broad business model as we move through the cycle. Led by the improvements in the USA, PFS retuned to profit for the first time in two years. If you strip out the US run-off portfolios, the direction of progress is even clearer. On this basis, pre-tax profits in our core PFS businesses almost tripled, from $1.3b to $3.6b year on year.

We are also very comfortable with how the run-off strategy is delivering in the USA. Total portfolio balances continued to reduce in the first half, falling by $10b to $69b, in line with our expectations. Loan impairment charges also fell faster than we had expected, as delinquency rates improved.

So, let me now turn to our strategy for the future. Since returning to Hong Kong, I've also spent a lot of time in the two countries where we see particular opportunities for HSBC. Mainland China is set to be the world's largest economy by the end of the decade, ahead of earlier expectations. We are further strengthening our position there as the leading international bank.

We are building organically, as fast as we are able. HSBC opened its 100th outlet and launched a new headquarter building in China. We also continue to invest in our strategic partnerships, and supported Bank of Communications rights issue in the fall. And we incorporated locally in Taiwan, to give us further access to the wider region.

Meanwhile, India is set to become the world's third largest economy within the next generation, and I believe it could even create higher growth than China over the medium term. So, in July, we announced our third investment in two years, through the acquisition of the Indian retail and commercial operations of RBS. Importantly, this will add to scale, and it will complement our presence in corporate banking and wealth management.

And in Asia, we have what is probably the strongest funding base of the whole Group, so we are well placed to grow the business further.

Right across the business, we are building the customer base that best fits with our strengths. In Personal Financial Services, our greatest opportunity is to serve the world's 180m mass affluent individuals through our Premier proposition. For many of these customers there are no country borders, which plays to HSBC's strengths, of course. Revenues per Premier customer can currently be over four times those generated by a standard account, and wealth management is making a growing contribution.

In Commercial Banking, we grew our customer numbers by 6% year on year. 80% of these new customers were in emerging markets. And international customers, who typically generate more than twice the revenue of domestic customers, increased by 34% over the 12 months.

Turning to how we are building revenue streams for the future, I'll start with insurance. Insurance contributed pre-tax profits of $1.6b worldwide. It's the best ever half-year performance. And recent events in Asia have only emphasized the value of the insurance business there. In Hong Kong, we've built a leading life insurance business through organic growth. We have 26% market share.

Our ambition is to be the leading bancassurer in Asia. We still have some way to go, but we are seeing encouraging progress in a number of markets, from India to Vietnam. And we are confident that, like Hong Kong, these will become established and profitable businesses in the decade ahead.

International trade is set to grow faster than global GDP for the foreseeable future. I believe the rise of China on the world economic stage will be the biggest driver of change in this century. I also believe our competitors will find it difficult to replicate our ability to finance the resulting trade flows. Mainland Chinese companies expanding overseas accounted for around half of the new growth in commercial customers in Hong Kong.

We have also captured increasing flows of trade between China and Latin America. And our ambition is to be the preeminent international bank in renminbi trade settlement and bond issuance. We are already the number one international bank for cross-border trade settlement by volume.

Building our position in Asia's capital markets is also to our core growth strategy. Over the past 15 years, HSBC has successfully built a world-class capital market platform in the world's fastest-growing markets. Building on that successful model and leveraging our customer relationships, we are now growing our equities platform. Asia's share of equity issuance has more than tripled in the last decade.

The opportunity remains huge, and this was one of the key reasons behind my move to Hong Kong. I'm pleased to say we are already rising in the league tables, gaining market share and winning awards. But whatever we do to build our customer base and invest in new revenue streams, we know we won't succeed unless we invest in service and efficiency too. We want to improve the consistency of how we do business.

In practice, that means a greater commonality of systems, processes and products, right across the Group. The result of all of this will be a transformation of how we work with improved customer service and greater cost efficiency. So it's about much more than just numbers. But the fact that our cost base is broadly stable after excluding one-off items, while also investing in our business infrastructure, is an indication of the value that is being added.

Now, turning to the outlook, the outlook remains uncertain. Whether the west can sustain growth will remain unclear for some time. However, we remain bullish on emerging markets. Led by Asia, they will continue to drive global recovery. China's forecast growth rate of 10% for the year is the envy of the world. Some cooling off is possible, but the authorities are working diligently to support domestic consumption and to encourage sustainable growth, and the market may be pleasantly surprised with the outcome.

Meanwhile, the regulatory change is stepping up a gear and HSBC's capital strength positions us strongly for change. As the reform agenda moves forward, the west is realizing that it does not have all the answers, so the commitment of the G20 in driving change is promising. We must encourage policymakers in emerging markets to continue to contribute. Our collective responsibility now is to get the details and the timetable right, so banks can finance trade and support economic growth. A level playing field is beneficial for all global markets, not least here in London, the world's preeminent financial center. That is why all G20 countries must participate according to the same rules.

As we continue to shape regulatory framework, it remains our view that the financial system needs banks which are big enough to cope. It is HSBC's scale and breadth that allows us to support the wide range of needs of our 100m customers worldwide. And it's our diversification which enables us to deliver profits for our shareholders right across the cycle. So I believe our results over the past six months, and throughout the latest crisis, prove that a well balanced universal banking model really works.

We now look forward to your questions. And to ask a question, please raise your hand and we will get a microphone to you. And can you give your name and your organization, and please keep to one question per turn. To avoid confusion, I'll indicate who will answer. Okay. I'd like to take a question first in Hong Kong, as I go back to my seat. So, Stephen, over to you for the first question.

QUESTION AND ANSWER

Stephen Green - ***HSBC Holdings plc - Group Chairman***

Mike, thank you, and I'll act as traffic cop here. Any questions? Yes, please.

Alistair Scarff - ***Bank of America-Merrill Lynch - Analyst***

Thank you. It's Alistair Scarff from BofA-Merrill Lynch. A question in relation to your attitude to loan growth, it's very pleasing to see that you've been able to offset the drag from the US business. I was wondering if you could comment on the impact of pricing, as the strategy to try and take advantage of the low interest environment by gearing up balance sheet by lending and moving aggressively into new markets is seen across other banks and other markets. So a comment on pricing, and which segments have seen the most pricing pressure? Thank you.

Stephen Green - ***HSBC Holdings plc - Group Chairman***

Mike, could you hear that clearly?

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Yes. I will start and maybe Peter Wong, who is with you there, can talk for Asia. Clearly we are seeing pricing strain in certain markets, particularly in Asia. But there again we have generally, certainly in Commercial Banking, both sides of the transaction in our international focus, and that does give us benefits. We do look to market share in the UK here, where we have grown our mortgage new business by about 8% of all new mortgages. We do see a reasonable return on that. We do use a risk-based policy in regard to pricing, and that helps us as well.

But, Peter, if you could give us some flavor in Hong Kong, where you see things in Hong Kong? And I'm going to ask Sandy also to add, if he may, some things that he is seeing on the Commercial Banking side.

Peter Wong - ***HSBC Holdings plc - Chief Executive, The Hongkong and Shanghai Banking Corporation***

As far as Hong Kong is concerned, we see loan growth across all customer groups. PFS has grown by 6%, CMB 42%, and Global Banking and Markets by 10%. Now, I think, going forward, what we will be focusing on is the lending relationship is only the beginning of a relationship. What we are going to do is that we are going to try to cross-sell more into the relationship, so that it will improve our revenue and also improve our net interest margin.

So therefore, as far as the pricing is concerned, we do understand that there is lots of competition, especially with the Chinese banks coming into the market and so forth. But I think that as far as we are concerned, the important thing for us is to make sure we have more products with the customers. We have got to work our customer base a lot harder.

Sandy Flockhart - ***HSBC Holdings plc - Chairman, Personal and Commercial Banking and Insurance***

Just talking about Commercial Banking, I think the point to bear in mind is we have had growth in Asia. We have had growth, strong growth in Brazil and Latin America. And in fact, with the loan impairments, you had a bounce back in other markets, although asset growth has been lower.

What you've got to remember about that increase in our customer base, it is increasingly linked up. It's internationally focused, connecting parts of the Group. And even though you may have a pressure on margins, these internationally connected customers, which are a significant growing part of our business, are twice as profitable as a domestic customer. So you can see that that focus and that growth, despite the push on the net interest margin, is overall more profitable, as trade grows and as we connect more of them up to our network.

Michael Geoghegan *- HSBC Holdings plc - Group Chief Executive*

Thanks, Sandy. I'm going to take a question from the hall here in London now. The mike, if we can bring the mikes.

Ian Smillie *- RBS - Analyst*

Thank you. It's Ian Smillie from RBS. A question for GBM, please, the strong revenue delivery in the first half, $11b compared to something like $8m or $9m a couple of years back. So I was wondering, Stuart, if you could comment how much of that you would encourage us to see as a reflection of the investment and the build-out that you've made, and how much you would encourage us to think about as any supernormal contributions in there. And perhaps, as part of that answer, if you could give us a sense of the Q1-Q2 split, that would be helpful. Thank you.

Stuart Gulliver *- HSBC Holdings plc - Chairman, Europe, Middle East and Global Businesses*

Yes, sure. I think -- putting aside balance sheet management, I think you can see the rest of it as a product of the fact that we've invested significantly in product and in geography during the financial crisis. And I think we have hit a new level of operating profits. I think we have taken market share. And I think we are also sitting in a part of the world which is stronger, i.e. the emerging markets. And we have a network effect, rather as Sandy just described for CMB, which is really about the strength of the network linkage of 60 to 70 countries, rather than particular strength in any one country.

So, putting aside BSM, there isn't a supernormal event in the first half that you should be deducting. I think we have built to a different level of operating profit now, as a result of the action we took during the financial crisis, where we've invested in product as well as in geography.

On quarter on quarter, it is the case that obviously the second quarter was lower than the first quarter for most of the businesses. I'll give you some detail here. The second quarter was basically 20% lower than the first quarter, but it was higher than either the third or fourth quarters of 2009. So, second quarter 20% lower than the first, but higher than either of the third or the fourth quarter. And just giving a little bit of breakdown, second quarter/first quarter, BSM was up second quarter versus first quarter, up 7%, Global Markets was down 21% second quarter versus first quarter, Global Banking was up 7% second quarter versus first, and Asset Management was up 5% second quarter versus first.

Michael Geoghegan *- HSBC Holdings plc - Group Chief Executive*

Thanks, Stuart. Another question here. Alastair.

Alastair Ryan *- UBS - Analyst*

Thanks. It's Alastair Ryan at UBS. Sort of following on from the question in Hong Kong, on page 15, your rate of net interest margin contraction slowed very sharply in the first half. So, to what degree should we read that as indicative that the full impact of low rates has really played through the Group at this stage, that you were down 27 basis points in the second half and 3 in the first?

And then, to prove I've got a bit further through your report, not all of Douglas' notes yet, but on page 194 and 195, the run-off of household is having quite a spectacular impact on your risk-weighted assets, 48 -- $28b, I think, was it, coming off in the first half alone, and that's more than financing the growth of the Asian, Hong Kong, Middle East, UK mortgage books. So the Group's intrinsically very capital generative. And at what point do you have to stop being more conservative, by 50 basis points every half-year, and consider yourselves over-capitalized, because clearly you are trading well above the top of your own range at this point? Thanks.

Michael Geoghegan - *HSBC Holdings plc - Group Chief Executive*

Well, thanks, Alastair. The fact that you've gone to page 194 definitely needs a response from Douglas. But before Douglas responds, I think there are a couple of things. Well, obviously, we are running off the non-core business in the US, and that obviously has to be replaced by better quality business but lower margin, so that's giving you a balance for the Group. And I think when you look at emerging markets risk-weighted assets, they are now 41% of total assets, which was 33% in 2008, so you can see us moving across. They came off because of repayments, but also we sold things like Vehicle Finance, etc., so they are coming off.

And that will continue to be our strategy. Run them down. There is more interest now in those non-core assets. I'm not saying there is a time for disposing of them, but there will come a time when those non-core assets are better managed by somebody else.

I think I'll hand over to Douglas, in regard to the capital side, because he is closer to the regulatory aspects of this.

Douglas Flint - *HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation*

Alastair, you make a very good point. We are clearly very interested to see what comes out of Seoul in November this year, once the calibration of what the hurdle rate is going to be. We've got ourselves, we believe, ahead of the game in terms of raising capital and growing capital organically, to be able to position ourselves both for whatever those benchmarks might be, and also to position ourselves to take advantage for whether there are portfolio realignments coming out of other institutions as they face change from that framework.

So we are conscious of the capital we are generating. It's obviously a much better position to be in than the reverse, and it's something we will address at the turn of the year, once we see the outlook for 2011 and once we see what the capital framework looks like.

I think the point also, net interest margin, I think you're right that a lot of the deposit spread contraction has played through. And I think we are seeing some of the benefit now from repricing that was done in 2009 first half coming through. Having said that, there is no question that with the liquidity that continues to be around, there is continuing pressure on assets that are repricing.

Michael Geoghegan - *HSBC Holdings plc - Group Chief Executive*

Thanks, Douglas. I am going to take a question now from Hong Kong. Stephen, over to you.

Stephen Green - *HSBC Holdings plc - Group Chairman*

Mike, thank you. Now is our chance. Any questions? Yes, please.

Sunil Garg - *JP Morgan - Analyst*

Okay. This is Sunil Garg from JP Morgan. I'll just follow on with the question on capital. With the watering down of capital regulations last week, do you think that your competitive edge has been eroded somewhat? And if you think it hasn't been, again, could you be a bit more specific on how you plan to use this strength to growth the revenue stream for the Group? Thank you.

Stephen Green - *HSBC Holdings plc - Group Chairman*

Mike?

Michael Geoghegan - *HSBC Holdings plc - Group Chief Executive*

Well, I don't think eroded. Anybody who has got capital should never take it for granted. I think having surplus capital or extra capital at this time in the world economy is not a bad thing to get. Clearly we look to grow organically from our business. And as we've outlined to you, in our target markets of Asia we're up 15% on balance sheet usage.

If opportunities arise elsewhere in emerging markets, we would certainly look at them. Our hurdle rate for internal return is around 15% for any such investments. We have to look and see how those are priced. As we said, we've done three transactions in India in two years. We are not risk averse to take opportunities. We just have to see that they make sense in regard to our return on equity.

Douglas, do you want to add?

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

Just add a couple of points. I don't think the competitive edge is taken away completely. We are growing capital after paying dividends, and that's a distinctive feature against many of our competitors. And I think that one of the things we've had reinforced or learned through the crisis is capital is probably the second most important aspect.

The most important aspect, and where I think we do still have a very distinctive edge, is funding. And I think as the framework comes out, capital will be important but funding will be even more important, and we have a very distinctive and a very strong funding position against our peers. And I think the combination of the two positions us well.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Thanks, Douglas.

Ian Gordon - ***Exane BNP Paribas - Analyst***

Morning. It's Ian Gordon from Exane BNP Paribas. It's a question on risk appetite. I was looking at the main UK pension plan and I was quite surprised to see that, following the $1.8b you recently injected under the recovery plan, the asset allocation now has only about 9% in equities. Now, is this risk-averse approach something you are in favor of, or perhaps may it be a source of increasing tension between the pension trustees and the Group, given that ultimately it might be seen as embedding the pension deficit for which ultimately the shareholder picks up the tab?

And taking that point more broadly, obviously I was encouraged by the broadly flat customer loan performance in the first half, better than what was anticipated when you spoke to us in May. Would you see any incentives to relax your risk appetite, to try and get more momentum behind that, going forward? Thanks.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

There's about three questions. I'm going to ask Douglas to go on the regulatory side of the pension side, and I am going to ask Stuart to talk about why debt rather than equities in the fund. And I will come back to you in regard to growth of the balance sheet. Douglas.

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

Well, I think they are really two together. Obviously the asset allocation of the pension fund is determined by the Trustees. There is no dispute between the Trustees and the Company, because ultimately the risk is borne by us, whichever way round it goes, because to the extent the assets don't perform then the sponsor has to increase contributions. So, essentially the risk is ours. And why don't I hand over to Stuart at this point, because he and I have worked over a number of years in terms of determining where that risk is best taken.

Stuart Gulliver - ***HSBC Holdings plc - Chairman, Europe, Middle East and Global Businesses***

Yes. There's a philosophical issue which started about four or five years ago, when both Douglas and I observed that we were taking more market risk in our pension funds than we were taking in our Global Banking and Markets business. And therefore, we consciously moved to change that, and clearly to try and focus heavily on exactly what type of risk we were taking in that pension fund, both inflation, longevity, and not assume that the performance of the FTSE was somehow a proxy for either longevity risk or inflation risk, which seemed to have been the old way our pension fund was approaching things.

So, to be clear, the Trustees are completely independent of us, but as Douglas says, we are not uncomfortable with the asset allocation mix. And it definitely should be seen as a reflection of the fact that we believe that the biggest risk we have got in there is longevity, and we don't want to consciously take significant equity risk, and if you like, in a way, convince ourselves that actually we're hedging longevity by taking completely separate risk, which was the way it was approached in the past.

I think you raised a question on loan growth in the UK. We actually have, both in the CMB sector with SMEs and in mortgage lending, expanded our book of business this year. In mortgages, our gross new mortgage lending was about GBP5.1b in the first half of this year, which is less than the same period in the previous year. And SME lending, we've added gross term lending of about GBP1.4b to SMEs, with turnovers less than GBP25m a year, and total term lending to the tune of about GBP4.6b to all Commercial Banking customers. So there is a significant amount of new business being written in the UK, and that does contribute to some of the margin improvement that Alastair was noting earlier, because obviously these pieces of business are being written at reasonable margins.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

I would just say, in conclusion, we are writing a lot of new business in all the markets we are in, but I am also seeing a lot of repayment of debt, particularly in the western world, as people try to rebuild their savings. So new lending is as Stuart described. Overall, the balance sheet growth isn't that much in the western world; hence our focus on the emerging markets.

Stephen, over to you in Hong Kong for another question.

Stephen Green - ***HSBC Holdings plc - Group Chairman***

Mike, thank you. Any questions? Well, I think the answer appears to be no, so back to you, Mike.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Yes. We've got lots here, so we'll stay here for a while.

Tom Rayner - ***Barclays Capital - Analyst***

Yes. Thanks very much. It's Tom Rayner from Barclays Capital. Can I just go back to underlying revenue and cost growth? I think, Douglas, you said you were going to come back to it. I'm not sure if you did or not. Maybe I wasn't listening. But it sounds like the environment is improving, margin, repricing. We are getting to a position where maybe you guys are sounding more confident on the outlook for revenue. But on your own basis, in the first half it was still down 11%, and pre-provisions I think that makes it down 23%. I just wondered if you could comment on a few things.

There seems to be a few more one-off items on slide seven which haven't been stripped out of that growth number. I also wondered if you'd comment on how the changing mix of customer, maybe your appetite to go after better quality customers, how that might be affecting revenue progression. And also, what sort of time lag you are expecting before we see the pass through from faster loan growth into actual faster top line revenue. Thanks.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Thanks, Tom. Douglas.

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

I think we have got to start looking at revenue on a risk-adjusted basis, because a lot of the revenue, particularly in the United States, obviously, but also in Latin America, in the Middle East, the revenue that's coming off has been high yield but high impairment charge. And therefore, the revenues are coming down in those areas, but the loan impairment charges are coming down faster. There are also some big turnarounds, just simply in terms of period-on-period revenue. As we said, Global Banking and Markets had its second best period, but the revenues were down. We've got this swing of $2b in non-qualifying hedges, which aren't stripped out from underlying but have an impact.

So the slide that we put up, which showed the segments that are growing, largely in Commercial Banking, a bit of European PFS banking, shows where, if you like, the new businesses coming on. And then where it is coming off is really largely in poor risk-adjusted revenue operations.

Simon Samuels - ***Barclays Capital - Analyst***

Thanks. Morning. It's Simon Samuels from Barclays Capital, as well. I wanted to come back to slide 21, which was in Mike's part of the presentation, which was the benchmark targets. You're obviously through the top of the cost/income target, 53%, and I guess more of the eye catcher is the return on total equity. I note it's reported not tangible, but obviously running at about 9% or so.

I was just doing the maths, actually. If I was to kind of magic away household completely, if you just remove the losses, remove the associated risk-weighted assets, I reckon that 9% return on equity would be about 11% in the half-year just reported, so still, even ex that, a long way short of the 15% to 19% range. And then obviously you are running at fatter capital, which then obviously damages it further.

So I guess my question is you are a long way from that target number. It sounds like you are going to run with a going forward higher capital ratio than you've currently got in the plan, so presumably that ROE target comes down a little bit. But it feels like there is a big gap between what you are currently doing and what this aspiration is as a range, let alone even getting to the mid point. So maybe you can just comment on, I guess, how quickly you think you are going to somehow get into a sort of whatever the new ROE target range is going to be, because you are a long way from it, I guess is my point.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Simon, I think I'll take the first part and then I'll hand over to Douglas. Firstly, I haven't done the calculations on the back of the envelope that you have done there today, so I can't comment on them. What we've said, we are already making 23% in our largest business, and that's in Asia. We continue to see the ability to do that in the coming time. That's not a projection, but it's a feel for where we have seen that business over the decades before.

Latin America, we are looking at a double-digit business. We should be able to make that, as Douglas says, we are running off some non-core assets there, unsecured lending. The Middle East, I think we're probably certainly near the top of the provisioning level there in the Middle East. We have certainly taken a significant amount. And I think the underlying fundamentals of the Middle East remain very, very strong, petrol dollars, surpluses there.

So really it's the western economies that we look at, and it's hard for us to say what the ROEs for those two western economies, mainly for us being the UK and the US, because a lot depends on regulatory reform. And has that finished or is it going to continue? Where do we see the underlying capital requirements for both those businesses? And naturally, as we run off the North American business, we should have surplus capital to invest in other areas, and we will make that. My view is that we need to make investments that show us, over the medium term, a return on investment around 15%.

We also said some time back that we'd be at the lower end of the range, and I think that is where you should be focusing yourself and your attention in regard to our sort of benchmark return on equity, over the cycle.

Douglas, do you want to add bits there?

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

I seem to remember, Simon, once before you saying if you strip out all the bad stuff it's not that good. But now we are turning the other way round. I think that there's a long way to go, I think, on a number of things, where we are not getting much from deposit spread. There is more to do in cost efficiency, where we are in the early stages of what we are trying to do. My back of the envelope gets a little bit higher if you strip out household than yours, but not a lot higher, but a bit more. And two other things in the first half of this year. We've got the one-off funny from the Canadian tax, and the non-qualifying hedges, which is $1b negative.

The trouble is you start playing with it and if you take out all the bad stuff, it looks quite good. But I think the main thing is that on the cost side, the deposit spread side, and the fact that once credit growth begins to be more normal, and it is still very muted. There's an awful lot of fee and ancillary revenues that goes around the credit, as well as the spread, that we are simply not getting today. Plus, if equity markets show a little bit more resilience. They showed a bit in the first quarter. We have a large number of businesses in Stuart's area that are quite sensitive to equity markets in terms of custody, security services, asset management and brokerage, again, that are better than they were but muted.

So I think there are a number of areas, but absolutely you can paint the picture very clearly that the challenge is at what point do the revenues start to come back. And one of the things that we remain very disciplined about is making sure we get risk-adjusted revenues. The story of the last several periods for our industry has clearly been a lot of revenue was generated that didn't adequately remunerate the risk that was being taken, and we don't want to go there again.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

I think, to add to that quality factor, we are seeing about 100,000 new Premier customers a month, across the Group, now. Those are customers that generally give us four times more revenue than the normal customer. But they take time to come up to value, so you are thinking -- you are really looking at it over a three-year cycle. So we are laying down quite a lot of good quality business for the future that will come up when I think interest rates change and we attract them into more wealth management products that will add value to us.

And one more question from here, then we'll take a question in Hong Kong, if there is one.

Arturo de Frias - ***Evolution Securities - Analyst***

Hi. Arturo de Frias from Evolution. Following on this discussion, low ROEs, when ROEs become better, I think it's -- well, it's clear that it has to be revenues. And within revenues, of course, we know, as you mentioned, that interest rates will eventually go up and we will see better margins on the deposit side. So I wanted to ask, on the asset side, rather than on the deposit side. And in fact I wanted to focus on PFS, because I was a bit surprised by -- well, not surprised, because it has already happened in previous halves. The growth in lending in PFS remains very muted, and I know you said that there is a lot of repayment of debt in the western world, etc., but if I look at -- even splitting out the US, just looking at the core PFS, loans have been flat there for the last three halves. So my question would be when do you see that changing? I know you said you prefer now to look at risk-adjusted returns. And it seems the underlying message is that you are not going to become too aggressive in lending growth ever, after the really bad experience in the US. But when do you see this changing, and when do you see gross loans clearly strongly driving the PFS net lending figure going up?

And if I can ask also a quick question, still on lending, looking at Commercial Banking, some of the areas are also quite flat. But there is one that really catches the eye, and that's Hong Kong. Hong Kong has jumped 40% or 35% in lending, in commercial lending, in six months, which is quite remarkable. And I would like to know why is that, if you can explain.

And going on the revenue side of Hong Kong Commercial, net interest income in Hong Kong is still coming down quite substantially, year on year. So even with 30% or 35% volume growth, you don't seem to get the net interest income line in Hong Kong growing. Thank you.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Thanks very much. I am going to take the question on PFS, and I am going to hand over to Sandy on the Commercial Banking side.

Firstly, as the number one brand in financial services, we are purposely moving our PFS up-market. Our Premier is now our core product, a core relationship that we have across the world. That traditionally, and I think for some time to come, will be a liability-driven relationship. These are customers who have high deposits with us, and they move into wealth management. That's the challenge for us on that side. We will meet their debt requirements, but these people particularly, in the cycle of life where they are, are not that aggressive on debt at the current time.

I think there is a significant opportunity to grow our business across borders. I think I said earlier there was 42,000 new customers in the USA, Premier customers in the USA, in the first 90 days of this year. And the large majority of those were coming from Asia, buying property in America. So that's a good example of where we are seeing asset growth.

But overall, I think what we are focusing on is making sure that we have quality. But don't underestimate our card business. We are making, in the first half, $1b from our card business, so we are not risk averse. We do see quality business there. We do suspect it will come under some margin pressure, and we think there are opportunities for that across the world with our brand.

But, Sandy, over to you for the Commercial Banking side.

Sandy Flockhart *- HSBC Holdings plc - Chairman, Personal and Commercial Banking and Insurance*

Yes. I think that, just looking at some of the other markets, Europe, the underlying trend, loans and advances were up 2%. We've commented a bit on that. Asia, a much bigger bounce back, up 29%. Latin America was up 15%. The Middle East was basically flat. And North America was slightly down, but profitability was up because loan impairments were down.

I think the issue, in looking at our growth, is to reflect where we were in 2008, during the crisis, and prior to capitalization. We are very cautious, conservative and very selective. So there has been a significant change to that pattern, following the recapitalization and the fact that we didn't think that things were going to be as bad as they were in Asia. And Asia has been remarkably more robust. So, essentially, we are back in there, lending again to our good customers and connecting them up. And there is a strong growth in terms, as you saw from the presentations, that 80% of the new customers that have come into Commercial Banking have come in from China. So there is that strong underlying growth, and there is a lot of customers going to Asia as well.

Michael Geoghegan *- HSBC Holdings plc - Group Chief Executive*

Thanks, Sandy. On that note, I'll pass over to Hong Kong, to take a question from Hong Kong.

Stephen Green *- HSBC Holdings plc - Group Chairman*

Thank you. Thank you, Mike. Before I take a question, can I suggest that Peter just adds something on the Commercial Banking business in Asia in general and Hong Kong in particular?

Peter Wong *- HSBC Holdings plc - Chief Executive, The Hongkong and Shanghai Banking Corporation*

Yes. As far as Hong Kong is concerned, we do see that net interest income is coming down by about 11%, but we must also see that the non-funds income has come up by 16%. And also, together with the strong loan growth, we have more than offset the income in terms of the compression in the net interest margin.

So what I am trying to point out is that, as far as the growth in Hong Kong, we do see a lot of trade flows going between Hong Kong and China. We do see trade flows in Asia Pacific growing at a very rapid pace. And there is a lot more investment from Hong Kong businesses into China. So, as far as the loan growth is concerned, it is quality loan growth, and I think that we continue to see investment going into China.

Stephen Green *- HSBC Holdings plc - Group Chairman*

Peter, thank you. Now, questions from here. And we now have a couple. Yes.

Stephen Andrews *- UBS - Analyst*

Thank you. It's Stephen Andrews from UBS. I just wanted to go back to slide 28, actually, where you are signaling - I guess it's a question for Stuart - signaling an increase in the pace of investment in the Investment Bank. I just wanted to gauge just how we should be thinking about that. I think the cost/income in the first half was about 45%. Are you flagging that you are quite happy to see that cost/income go up in the short term for long-term gains? Thank you.

Stephen Green *- HSBC Holdings plc - Group Chairman*

Let me suggest -- Roy, you had your hand up. Why don't we take your question as well, and then we'll answer them both?

Roy Ramos - ***Goldman Sachs - Analyst***

My question was a follow-up to Simon Samuel's question, in a way, and also addresses the overall issue of the challenge of overall revenue growth for HSBC. The question being, more than half of your loan book is still US and Europe, so less than half of the loan book is growing very well and you are well positioned. But more than half of the loan book I guess is the markets where borrowers are repaying or stuff is de-leveraging, etc. So the question is twofold. One, which areas of US and Europe are you willing to grow organically, to offset that de-leveraging trend?

And second, and referencing Douglas' point about capital hedge and funding hedge, are there any businesses in the US or Europe that you'd be looking to opportunistically acquire, as and when the opportunities come? Or are you just -- really just focused on emerging markets from here?

Stephen Green - ***HSBC Holdings plc - Group Chairman***

Roy, thank you. And if I may, London can perhaps take those two questions. Clearly the one for Stuart and the other, Mike, I'm sure you'll want to take yourself.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Right. Stuart, first, if you do the Global Banking and Markets costs and I'm going to do something on the revenue, and I want Douglas to add something. I know he's got something to say, scribbling right beside me here. So, Stuart, over to you first.

Stuart Gulliver - ***HSBC Holdings plc - Chairman, Europe, Middle East and Global Businesses***

Okay, Mike. Thanks. We are actually investing in a series of product build-outs, which sit within those cost numbers. The equity platform, Prime Services, since we think that for a bank such as HSBC building into prime brokerage and leveraging off the fact that we have one of the leading regional custodian businesses it's a logical thing to do. And we are also investing into the e-commerce platform, to support our foreign exchange business. We have lagged some of our competitors in terms of our ability to deal with the very high-volume algorithmic trading platforms that now dominate the turnover in the foreign exchange market.

So there absolutely is an investment program going through on those three areas. There is also an $80m distortion in those costs, caused by foreign exchange market movements between currency rates, between sterling and dollar, in the first half last year versus the first half this year.

If I may, Mike, just on Roy's question about where you would invest in Europe, we are investing in our UK business, and actually we have got 7% revenue growth in CMB and PFS versus the first half of last year, and in France and in Germany and in Turkey.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Thanks, Stuart. Overall, I think what we have got to remember is that we have laid out a strategy that is going to be an emerging markets led, finance-focused strategy, and I think we have to stick with that.

To the question of the United States, we'll be in the US as it is required for our business on a global basis. So we will be there in international trade. We'll be there in global banking and markets, as it links into our business in Latin America, as it ties into equities in relation to emerging markets, and debt as well. But overall, I don't see us growing domestic business in the United States, because frankly we haven't got any right to win. There are others bigger than us who have probably got the ability on price. Where we've got the ability is in cross-border trade, getting both sides of the transaction.

But, Douglas, I know you want to add a few points.

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

Well, I think the point that I would make is that the loan book in Europe and North America, but particularly Europe, it would be wrong to think of that as purely domestic lending. A great deal of the lending in Europe particularly is part of the supply chain into the emerging markets, in the sense that all the infrastructure investment in power, energy, transportation and so on, a lot of it comes back to the major European engineering and manufacturing companies in terms of buying the turbines and the pipes and whatever else. And we are consciously trying to focus our appetite in Global Banking, and in Commercial Banking, to companies that do business across border, because our distinctiveness is in connecting markets, as opposed to purely being in one set of markets.

And therefore, a lot of the loan growth we are now putting on is to do with connecting markets. And that would also be relevant to the extent that we would consider deploying some of our capital to acquiring. Were we to do so, the biggest impact would be connectivity between markets, as opposed to which particular market it is sat in, per se. Obviously, if you could get an emerging market business that was also connected, that would be best. But we would certainly not turn away from something outside emerging markets, if in fact a large part of its business was connected.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Thanks, Douglas. A question from the room here in London?

Leigh Goodwin - ***Citigroup - Analyst***

Good morning. Thank you. It's Leigh Goodwin from Citi. I've actually got a question on the US household business, and I'm just looking at the Q-on-Q trends, because looking at the first quarter, you lost about $500m and then it's about $1b, I think, in the second quarter, with impairments down just slightly but revenues down quite a lot. Now, I know there is a lot of seasonality in the first quarter, which you alluded to at the time in the impairment line. I wonder if you could just talk through the trends there and the trajectories we might expect.

One of the things, actually, I noticed was that the credit card impairment charge went up in the second quarter, so maybe you could just comment on that as well. Thank you.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Well, firstly, as you rightly say, it's a seasonal business and the first quarter is normally our best quarter. The reality is our second quarter wasn't as bad as we thought it was going to be. And frankly, on our card business, and this is probably what people miss sometimes, our sub prime business remained profitable throughout the crisis to date. And we still believe that business has opportunities for us, even after the adjustments to margins, etc., through regulation.

Where does it go from here? Well, obviously the assets are running off and the costs are not running off as fast as the assets are running off. We do think there will be some opportunities in the second half to keep our costs flat, but we need to make sure that we control our businesses well. The fact is that this is driven very much by unemployment rates. Where do we see unemployment in the second half of the year? I think there are various different numbers out, giving us some concerns in regard to whether there is growth in employment in the US. But it may well be that the type of clients that we have, have probably gone through most of the stress they are going to have. In other words, those who are going to have lost their jobs already have lost them, and it's impacting others further up the wealth cycle than our client base in the USA.

So we are not giving a forecast on where we are going in regard to those non-core assets. We are saying that our credit card business is core and we think overall the quality remains good. There was a tick-up in the second quarter, but that is generally normal. Douglas, do you want to add?

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

A couple of things, if I can. Seasonality you've mentioned. The other thing is that it was in the first quarter that there was a recognition that the modeled impairment, in terms of the trends of flowing through to delinquency and charge-off adjusted, and therefore, if you like, there is kind of a one-time impact when you adjust your forward look. That was the first quarter.

The other thing is the famous non-qualifying hedges, half of them are in the UK, largely at the holding company, and the other piece are in the finance company, which are effectively fixing the cost of our funding against what is essentially now a fixed rate received book. As we saw -- as the mortgages are extending in anticipated duration, those hedges are in place. And as long-term rates have come down, there's an opportunity cost to having fixed our funding cost. That was a big cost in the second quarter. It wasn't very much in the first quarter.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

And we'll continue to do that.

Douglas Flint - ***HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation***

Yes, it's just an economic hedge.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Next question. Yes. And then we'll take a question from Hong Kong.

Robert Law - ***Nomura - Analyst***

Robert Law at Nomura. Could I ask you, please, to expand a bit on the cost measures that you're, I think, with these results implying you're taking?

In the first half, the cost/income ratio was ahead of your target, and usually the first half is better than the year as a whole, on average. So can you give us some indications as to the kind of timescale that you think you can get it back into your target range, and whether these measures are revenue led or cost containment led?

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Well, as Douglas has already said, there's a couple of one-offs in there. Obviously there's the payroll tax. There's the UK pension scheme made a gain in 2009, which wasn't repeated in 2010. And frankly, we are investing. We are probably refurbishing over 1,000 of our branches, be those in Mexico, London or in the UK generally. And we must continue to invest.

What we are focusing on is getting commonality of systems across the world. That is meaning that we are keeping our technology costs flat and reengineering a number of processes. That's a long-term strategy. It will take us benefits for a decade to come, but you have got to invest first to get them there. I am quite confident they will come. You can see the headcount numbers are coming down. We will continue to make sure we automate as much as possible. But it will take time to come through. And we certainly will continue to invest in Asia, as the opportunities arise, and as other businesses that we acquire have a full year of cost and revenue too that will come up in the numbers.

But we certainly are committed to the range and we have got no reason to believe we shouldn't be able to stay in that range.

Question from Hong Kong.

Stephen Green - ***HSBC Holdings plc - Group Chairman***

Mike, thank you. And this probably better be our last question from Hong Kong, at any rate. Any questions? Actually, it looks as though we don't have another question from Hong Kong. So, Mike, over to you and --

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Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

We'll take one here in the front row.

Michael Helsby - ***Bank of America-Merrill Lynch - Analyst***

Thank you. It's Michael Helsby from Bank of America-Merrill Lynch. I've just got a couple of bitty questions, actually, and you've referred to a couple of them, Douglas. Just on the hedge reversal, you just mentioned then in your last question that 50% was in the UK, with the other in the finance company. Is the 50% in the UK, is that in PFS as well?

Douglas Flint *- HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation*

No, the biggest piece is actually in Other, because it's actually hedging of the long-term subordinated debt in the holding company, so it doesn't go through the segments. There's a piece in Rail, which is in the UK Bank, but the big piece is in Other.

Michael Helsby *- Bank of America-Merrill Lynch - Analyst*

Okay, thanks. And I'm just going through your numbers on the finance company. It looks like you had about a $1.9b provision release in the first half. Does that sound broadly right? And is this what you are referring to was the big chunk in the first quarter and we shouldn't expect that going forward?

Douglas Flint *- HSBC Holdings plc - Chief Financial Officer, Executive Director Risk and Regulation*

I'll need to check the numbers, and I can do that, but the provisions have come down. The stock of provisions have come down, because the book's rolled off. So, effectively, the coverage ratios have stayed intact, but as the book has come down, the stock of provisions has come down. And the benefit I was referring to was the fact that as the models project forward migration of impairment and likely default and so on, there was, in the first quarter, a recognition that that was improving. And that then gets reflected into the models. So that's the one-time. But the major movement in the provisions is just simply the books coming down quite quickly.

Michael Geoghegan *- HSBC Holdings plc - Group Chief Executive*

(Multiple speakers).

Michael Helsby *- Bank of America-Merrill Lynch - Analyst*

And just finally, if I may

Michael Geoghegan *- HSBC Holdings plc - Group Chief Executive*

We're going to lose the satellite in Hong Kong, so if you can make it very brief here.

Michael Helsby *- Bank of America-Merrill Lynch - Analyst*

Clearly, the profits in PFS UK have shot up quite dramatically. So I was wondering if you could just comment whether that's just entirely bad debt falling, or whether there is anything coming through.

And just on strategy, I hear you're moving for a more higher net worth in the UK, so whether you are not going for that mass-market brand. I'm just thinking of competitive issues in the UK.

Michael Geoghegan *- HSBC Holdings plc - Group Chief Executive*

Stuart, I'll let you wrap up for the UK, if I may.

Stuart Gulliver *- HSBC Holdings plc - Chairman, Europe, Middle East and Global Businesses*

Absolutely. The underlying revenue growth for the Retail Bank in the UK is up 7%, and its customer loan book, from the same period, June '09, is up 4%. So there is growth in the UK. It's not just loan impairment charges falling at all. And you are correct that we are positioning into that Premier advance space, which is more towards the mass affluent market. So that is correct.

Michael Geoghegan - ***HSBC Holdings plc - Group Chief Executive***

Stuart, thank you very much. Douglas, Sandy, thank you very much. I am going to close down here. I know Stephen is going to close in Hong Kong at his end. And thank you very much for coming here today. We will see you again for our next set of results in March next year. So thank you very much.