HSBC 2011 Investor Day

North America

Presentation by
Niall Booker, Chief Executive North America

11 May 2011

Niall Booker, Chief Executive North America

Good afternoon ladies and gentlemen here in London and good morning in the United States, and good evening for anybody still on the line in Hong Kong. I'm Niall Booker, I'm the Head of HSBC's North American operations. Many of you who've interacted with me in this room and elsewhere over the last few years will have spoken to me a lot about the issues that we faced in the US. I'm actually not going to dwell on the issues that we've had too much. I'm going to look perhaps to the sunnier upland of the future and how we can actually make our business in the United States work. I've spent a lot of my working career in the United States and I continue to be enormously impressed by the resilience of the economic model there and I think this will help explain why initially we need to be there.

Why we need to be in North America. Stuart talked about the five filters and this really answers one of the questions there. I think we can divide this into four key reasons. One is wealth, the second is the diasporas that exist in North America, the third is around manufacturing and the forth is around trade which echoes some of what Stuart and Alan were talking about earlier.

So if we start with wealth. The US is the largest Wealth Management market in the world with a wealth pool of about $29 trillion, so it's pretty significant. Even by 2050, the combined per capita GDP in Canada and the United States will be three times that of China, so it remains a huge wealth market and perhaps one of the lessons from Household is it's better to deal with people who have money than to deal with people who don't.

Talking about the diaspora we'll see how important the focus on diasporas has been in what I think is one of the role models and why I think that we can rebuild the US business. The diasporas in the United States, particularly the Asian and Hispanic ones, are forecast to grow very significantly. The Asian Diaspora is forecast to grow from 3% towards 10% by 2050 of the total population and obviously the Hispanic Diaspora is starting from a larger base, 9% forecast to grow to 23% by 2050, so these are people that already know our brand very, very well.

My third point is around manufacturing. The US produces about 19% of global manufactured goods today, just behind China. Boston Consulting forecast that this position will continue for some considerable time in the future. Importantly, real wages have remained flat or even fallen in the United States over the last few years. It's been one of the root causes of some of the problems they've had but it also means that their manufacturing base has become more competitive, particularly as some of the emerging markets face inflationary pressures on wages, so I believe that there is a good opportunity in manufacturing. I also know that the Government is very, very focused on building, or re-building the manufacturing base in the United States.

In terms of international trade, around 11% of global exports and 15% of global imports come from either Canada or the US. If we look at the terms of trade, particularly for the US, the US terms of trade with NAFTA, are nearly a trillion dollars and we are well represented in Mexico and Canada, so NAFTA represents an opportunity. You can see that the relatively slow growth there but also off a very, very significant base. Looking at the terms of trade with mainland China, half that of NAFTA but again, an area where we are very well represented, so a great opportunity and growing very, very quickly. Similarly in Brazil, a much smaller base, but again a great opportunity where we are well represented. When we look at Canada, we look at what's happened in the last few years, actually the US share of trade from Canada has fallen so Canada is now diversifying its trade elsewhere around the world where our branch network will be a significant assistance. So those are the reasons why I think we should still be in the US.

This slide I think helps us focus on what the problems really are. As you can see, these numbers include Bermuda which really doesn't affect the overall position very much. No disrespect to Bermuda but I'm really going to focus on Canada and the United States in my remarks. You can see that we've had a successful global banking and markets business, a very successful commercial banking business and interestingly, the Canadian commercial banking business makes more money today than the United States commercial banking business, so perhaps, albeit counterintuitively, it also indicates what the opportunity is for us in the US in commercial banking.

Global Private Banking have small profitability but key because of the wealth that we talked about earlier. The real problem in the United States is in Retail Banking and Wealth Management and in particular around the Household portfolio, the mortgage portfolio in particular. These losses are composed of around two billion of profit in the cards business and around 4.3 billion of losses in the consumer mortgage portfolio in 2010. So overall, North America returned to profitability in 2010, a big portion of that came from Canada, 867 million and this is a business that we haven't focused on a lot as a Group and it's one that I do want to draw your attention to in a minute. So the US stood in a loss making position, although it moved into a small profit in the first quarter of this year but it's made enormous strides since 2007 but there clearly is a way to go and this particular slide helps us focus, as Stuart said earlier, on the Global

Banking and Markets business, the Commercial Banking business and Global Private Banking.

Looking at HSBC's position in North America, I think it's instructive to talk just a wee bit about Canada for a minute. It's been an extraordinarily successful business. It's been heavily focused in CMB, it was built from acquisitions that were small, manageable and focused on key customer groups like CMB, unlike the diasporas where much of the PFS focus is based. Its branch network, interestingly enough, is 145 branches, split really, 52 in British Columbia, 52 in Ontario, so it has an easy/west pillar structure, and joined in the middle by other branches, of which the largest conflagration of them is in Alberta. But that's really a structure I want you to keep in mind as we move through to look at the United States.

In many ways, Canada, I feel, is a role model for what we should do in the US and I think because it's been successful, it's very important to you because it means we can execute on what we want to do in the US and we have a model that works.

When we look at the US bank in particular, we can see that it's actually had over a period of time a somewhat under performance in relation to a return on equity in particular. The US bank has a different structure, it has 474 branches, 78% of those are in New York State, so some 367 are in New York State, of which 51 are in Manhattan, which clearly is a key market for us going forward.

In terms of the Finance Company, you can see over the time that we've been managing it down, what we've done, there isn't really much to add to what we're doing in the mortgage business today. We just have to manage that one through.
Cards, as Stuart said earlier, has been extraordinarily successful, the team has really managed well through the crisis but its customer base is not connected to the rest of the Group.

In terms of the global businesses, we already have a global platform in Global Banking and Markets and we already have a global platform in Private Banking, so the key is to make these more effective, we can do more to penetrate Canada as we'll see in a moment in terms of the global markets business and in terms of the Global Private Bank, this will be about selling emerging market product to indigenous Americans and to cater to Latin clients that come up from Latin America.

So that's the situation today. What do we do going forward? Well in essence in Canada, we've got a good model. You could argue that we're not as strong as we could – we should be in Ontario and the focus over the next few months is on building our business there. Sixty-one percent of all international trade firms in Canada reside in Ontario or Quebec, so our focus is very much on building our business there. A good example of the sorts of clients that we have is a Canadian client, based actually in Toronto, operates in 30 countries worldwide, it includes Australia, Brazil, Malaysia, Thailand, Turkey and the UK, all where we have strong representation, we provide them a payments business; we've also recently got a mandate for them to bid for something that's on the market and we make somewhere between $3-4 million from this particular relationship.

When we look at the retail bank, the premier customer base has nearly 200,000 people at the end of 2010. The key to success in Canada is growing the wealth proposition and we've made good progress. Canada is the second or third largest taker of mutual funds within the Group and the mutual funds sales in our Canadian bank are some of the largest in the Canadian finance industry, so we need to continue to focus on that area, developing wealth and making sure that we service the diaspora communities, particularly in Western Canada and in Toronto that know our brand really well.

Moving on to the US bank, as I said earlier, I think there's a lot more we can do in terms of the Commercial Banking business. As Stuart said, there's a growth in the trading centres across America and much of government focus is on that area, so I think that we can build branches across the centre of the US that deal or service these manufacturing bases as we go forward. Very much the focus should be on those companies that do international trade. Since last year when we sold the joint venture with Wells Fargo, we've also been able to expand our marketing down Western United States and that's the bit that faces Asia, so I think there's huge opportunities for us in that particular area.

In terms of the Payments and Cash Management business, some 60% of global payments are in dollars, so looking after our dollar payments business is a key focus for us in the United States because it affects the whole Group and that's another area where there is opportunity for us as we go forward.

In Retail Banking and Wealth Management, the key will be to bring the branch network down to a much smaller size, reducing it significantly, get it focused on areas that have international connectivity and by large get it to look more like Canada, so you would have two pillars down each side, running from New York City down the East Coast and running down the West Coast from Seattle. And this would be joined by a kind of "NFL franchise", although I don't think we'll open in Green Bay for my American colleagues, but an "NFL franchise" provides hubs dealing with trade and manufactured goods. So we are already in Chicago for example, we are already in Houston, we would look at Dallas, we would look at Atlanta, maybe Cleveland or Cincinnati as well, as places that we could open largely commercial banking branches going forward.

In terms of the rest of Retail Banking, obviously the deposit base is important for us and morphing our insurance business that David Fried talked about from being one that supports purely the Finance business in terms of debt protection, now pretty familiar to everybody in the UK unfortunately, but morphing that business from that type of thing to supporting our US Premier customer base, so that's going to be much more of a bank assurance model, penetrating our Premier customer base, largely with emerging market product until we see if there's an opportunity to create Wealth Management momentum in the US, given that lots of US wealth is dealt with by brokers. But I believe there is an opportunity for us in that particular space and I think we need to look to exploit that without building up a large cost base.

Moving on to the Finance company, we've already said that cards is no longer a strategic focus for us. It's been a hugely successful business; it clearly has been well managed during the period of the crisis but it'll be difficult for us to continue to put capital into this business because it doesn't meet a very important connectivity filter in the five filters. It also chews up quite a lot of risk weighted assets. There's about 31 billion of assets in it today. If you allow for the open to buy component, and for the risk weightings attached to the business, it probably weights at about 200% and that's also the risk weighting of the mortgage book as well. So the Household business does chew up a lot of capital to support these risk weightings. So in essence, our strategy for Household is to run down the assets, to reduce the risk weighting and free up capital. In terms of the consumer mortgage lending book, we'll obviously continue to focus on how we run the portfolio off ethically. That's been extremely important to me and I know to my colleagues in the US. Over 54% of the portfolio has been modified, this makes opportune sales difficult because the rates on the mortgages are now quite low. It doesn't make sales impossible and we'll continue to look for opportunities to sell bits of the portfolio over time to release capital. But essentially, that's the strategy for what's left of Household today. We've really got out of all the other businesses and I think we deserve some credit for having done that over the last three years.

In terms of the global businesses, Samir Assaf and Chris Meares have talked about these in some detail earlier on but just to focus a minute on the Global Banking and Markets business; I think the opportunity for us to use the platform we have in New York to continue to build a successful DCM and ECM business in Latin America is huge, the interest in Canadian provincial issues and increasingly Canadian corporate issues from outside Canada, as Canada is increasingly seen as a safe haven, is also a great opportunity and the final opportunity in Global Banking and Markets is to use GBM product, as Samir said, to penetrate more deeply into the Commercial Banking space and into the Private Banking and Wealth Management space. In the global private bank, the opportunity really exists to continue to build on its strong Latin American franchise and to sell wealth management products, particularly emerging products to domestic US investors. So this – the global businesses are pretty much in place, not a lot needs to be done except to continue what we're doing today.

Obviously, as we shrink the business, we have to address the cost base; I think we've got some track record in here, we've taken some 17,000 people out of the US business since 2007, we've taken some $2.3 billion of costs out, so I think we've got some creditability in dealing with these issues, but nevertheless, this is going to be hairy. We've got to take some serious cost out and if I can pick two particular areas, I think optimising spans of management control, because we haven't really addressed the top of the organisation, we've been pretty good at taking out people supporting branch networks in consumer lending when we stopped doing that business but now we need to make sure that senior management have enough people reporting to them that makes their role make sense if you like. So I think there's considerable cost savings to be had there and I think we can also squeeze down on various suppliers across the US to drive down pricing that's provided to us, so I think those opportunities in terms of – for example, the spans of control probably has a $75-150 million opportunity and the vendors probably have $25-75 million of opportunity.

Finally, and I think this is really important you take some things away. We need to focus on what we can really be competitive at. There are three really large US banks created after the crisis. Our competitive niche is not to compete with BofA in either small business or retail business in Charlotte, Carolina. Our competitive positioning is based on our global network, our core DNA as Stuart put it in CMB and our ability to service wealthy clients going forward, providing them with emerging market product so, I think we do have a competitive advantage over some of our American competitors in that respect. The closest to us is Citi; and Citi of course is doing a great job of coming out of the crisis but they still have some issues to settle.

In terms of the key strategic actions, just so that we can reinforce what was said before, I've always looked to try and simplify the model if we can because in simplifying it, we take away some of the legal and regulatory risk that accompanies a very complex model, so I'm looking to simplify the business, to make it look much more like Canada and much more like the rest of HSBC where it should have an HSBC look and feel, so we clearly will reduce the branch network in the US, we will strategically review the cards business and look at all the options in that respect and finally, I think we need to get our Group better understood in parts of the US, particularly in Washington, where much of our focus has been on our role as the owner of the Finance company; increasingly, we've got to get people to understand what our brand and what our positioning is elsewhere in the world and that's quite an important note on which I will end. Thank you very much.

HSBC 2011 Investor Day
Latin America
Presentation by
Emilson Alonso, Chief Executive Latin America and the Caribbean

11 May 2011

Good afternoon. I'm the CEO of the Latin American operations and the objective of this session is to present Latin America, its strengths, the potential and growth opportunities we see there. Also, we're going to review our presence and our scalable platform there in order to understand which are the areas where we have some competitive advantages and where we can succeed. So combining these two elements, we want to outline the strategic direction and the actions we intend to take that are aligned with the overall Group Strategy and also how we are addressing the issue of the high cost efficiency ratio that we have in the region and also the relatively low profitability the region has been presenting in recent years. Finally, we will comment on the targets we intend to pursue going forwards.

It is important to mention that Latin America is large in size. In 2010 it represented approximately 80% of the Chinese GDP and this is largely concentrated in Brazil, Mexico and Argentina. In the recent years, the region has experienced a stable political environment and, as consequence of the growth in Asia mainly, has been growing a lot. This has enabled the creation of wealth and the reduction of poverty. Stuart mentioned this morning about the emergence of 35 million people to middle class in Brazil and Mexico. In the last six years 40 million people have become middle class in Brazil. Also, trade with the West is still dominant in Central America and Mexico but Asia is becoming a very important trade partner, mainly in the areas of the economies that are commodity dependent in Brazil, Argentina, Columbia, Chile, Peru. And this will continue happening in the coming years as we can forecast. So for the financial industry, these elements are interesting and they present opportunities for growth, in the sense that even though, in terms of credit and deposits, the region has grown strongly in the last few years, there is still a very low penetration of the banking industry in the economy. So if you see the numbers of Mexico and Argentina, they are really remarkable, so I think there is a huge opportunity for growing of the financial industries and as the population goes to higher levels of standard of living and disposable income, they will require more financial services.

Looking a little bit on our presence in the region, we can see that we are rightly present where we expect the growth to happen in the coming 10 years, so our presence is interesting in Brazil, in Mexico, in Argentina and Columbia, Peru and Chile, even though we believe these countries have a great potential for the future, we still have a small presence there and I think we have to address how we can leverage that, or can improve this presence.

Also, I just want to mention Panama, where even though it is a small country, we have, as mentioned before, we have a large presence, we are market leaders there and we believe Panama can become one of the important trade hubs of the world as the canal expands by 2014 and there is a lot of momentum in terms of credit in the economy in Panama.

In terms of our footprint in Latin America; in our scalable platform, we have over 16 million customers there, we have a large footprint, around 40% of the branches of the Group are located in Latin America, from Mexico down to Argentina and this large footprint is still necessary to process over 150 million transactions per month of which 80% of them are done through direct channels. We have a challenging cost efficiency ratio of 66% but also this is a great opportunity for leveraging revenues because I think, with this large footprint, we can access markets and mainly this footprint is concentrated in the main markets that are relevant for the region.

Looking a little bit on our numbers for 2010, we can see that the profits were made in Brazil, Mexico, Argentina and in Panama. Also, we can see there is an imbalance between the customers groups, whereas PFS last year was still lagging behind Commercial Banking and Global Banking and Markets that have an excellent year last year and a couple of years before. So there is a clear sign to us that we have to address this imbalance and we have to do something about it. So I think it is important to mention here that the four main markets are fundamental for us going forward.

Our strategic direction is we believe we can become the leading international banking server, keep those segments and keep markets, so the focus is going to be the main markets, but what matters for us in Latin America that's Brazil, Mexico, Argentina and Panama. I think in terms of the Retail Banking and Wealth Management proposition, we have a moved into a more customer centric type of approach with one stop shop type of approach. This is the model of universal banking in Latin America and works pretty well. We have quite a large customer base at the Retail Bank and Wealth Management and from this customer base, we can extract value. If you look at the cross sell ratio in Latin America, it's over three today. So we are being able to sell more than one product per customer. On the Commercial Banking aspect, I think we are able to service the local customers that are emerging from just a local player and becoming a more international one, 21% of the customers today are customers of Commercial Banking, with international needs and I think we are well positioned to serve that. In Global Banking and Markets, I think we can connect Latin America with the world. Also, as – because of the high cost of operation, it is important that we address the issue of the cost efficiency and because we have a large presence, a large cost base, we need, with a lot of sense of urgency, to address this and we are addressing it.

So just revisiting a little bit the customer groups, in Retail Banking and Wealth Management, as I mentioned before, we are moving towards a more customer centric type of approach, one stop shop but we have to remember that in Latin America, more than 50% of the profit pool comes from retail lending, therefore you cannot just close your eyes to that and we have quite a large amount of customers that belong to this category. Therefore, We have to prudently work through that and the way we work through that is through cross selling, inside the customer base, the customers that we already know. In this area, we believe we are able to capture the social mobility and we are able to – with an integrated model – to get referrals from Commercial Banking and Global Banking and Markets, where most of our customers come today and also with insurance, where we have a very effective bank assurance market in Latin America, and a good manufacturing in terms of asset management to cross sell wealth management products to the emergent mass affluent population that's being formed in the region. So in this sense we believe, in the coming years, we can aspire to reach, for Brazil and Mexico combined, a profit before tax over a billion dollars in this area.

Sometimes we talk about cross selling, we talk about penetrating customer base and sometimes the things that are a little bit not tangible. This is an example, and this slide maybe a little bit heavy, but we try to show here what was obtained in HSBC Brazil, in the last year, March 10, March 11 in terms of the improvement and sales productivity of our sales people, our relationship managers in Brazil, where we are able to move the percentage of achieved target by relationship managers from 37% March last year, to the top quadrant, to 60% this year, and this as a result of that, increased revenues by 20% in the distribution network in Brazil. This model is now going to be applied to all the businesses in Latin America, Mexico, Argentina, Panama, up to the end of this year; we are going to have a similar model running there. So we believe we are going to be able to increase the productivity of the sales force. So when we talk about again improving efficiency, we are talking about this type of exercise as well.

Our Commercial Banking – I think this, of course, is the DNA of the company, is the soul of the HSBC and I think we've been moving very well in this area. I think we have the capability in terms of product offer. We have a strong PCM capability now in the region, we have implemented HSBCnet around the region, we web-based platforms in Brazil and Mexico that enable the customers to be serviced through electronic channels through the web; we have top positions in trade in Mexico, Brazil and Argentina and I think we have the teams in place in order to explore the opportunity. We also have a platform of business banking there and, because we have a large distribution network, that has been sustainable and profitable in the last few years. This reveals that going forward, there is an emergence of these customers into higher standards in terms of international needs and we will be able to service that.

In this arena, we believe we are going to be able to reach or to aspire to reach over $900 million in terms of profit before tax in the coming years in Commercial Banking in Latin America. We have the example of Casa Saba. Casa Saba is a Mexican customer that we are able to take all the business of the company because we supported them in an acquisition. It's a drug store type of business that acquired a Chilean company that was involved in the drug stores business and they bought a drug store in Chile, Peru and Mexico and then we got the full relationship of the customer. Also, even in Guatemala, where we have the rep. office, we're able to do this financing for this company with our project finance team out of London. So I think it is possible to cross sell, it's possible to penetrate and possible to service customers with global needs in the Commercial Bank, or also with the intra-regional needs and this is very clear in Central America, in the South Cone, Brazil, Argentina, Chile, Peru, Columbia, so all these areas where they require support and we have a good presence in these areas.

Also as I mentioned before, our business banking in Latin America is a quite solid business and has been growing and these companies are becoming international as well, so I think it's – it's a quite solid presence we have there, in the Commercial Banking.

Global Banking and Markets is an area where – as Samir mentioned before, we have been growing fast in the last few years, a very, very stable business and the beauty of this business there – even though Latin America is sometimes a very volatile place – or in the past it was more volatile than today, we have been able to growth this business on a more stable way. I think we have a brand position, we were able to capture some space there during the crisis, as we were there and the others retreated from Latin America and I think we have been able to – with the support of the United States mainly, of the US operations that we have, Hong Kong and the UK, we've been able to service our global customers that are present in Latin America for their local and international needs and also the regional customers that are becoming global.

So I think it's an area where we can aspire in the coming years to reach $1.1 billion combining Brazil and Mexico.

Some examples of this important area are –let's talk about two things here. One in the top left corner, you have the chart where we can see the revenues of our operations of Global Banking and Markets in Latin America and you can see global customers in Latin America and the growth of that between 2008 and 2010, intra-Latin American regions' revenues, they have grown, and the other Latin American groups in other regions, they are also growing. So this is the way we can see this business and the synergies we can have servicing these type of customers. Also a connotation for the league tables where we are the number one in DCM in 2010.
Moving to slide four, and this is an area where we have already started to work in terms of increased cost efficiency. As I mentioned before, we need to address that and I think these four areas that are more or less the same areas that Stuart mentioned in the beginning that we are working together on that, we are able to identify around $200 million in terms of portfolio rationalisation, including portfolios in Brazil, Mexico, Costa Rica and Panama, and you have some examples here. Also, we are doing exactly the same that Niall

mentioned before, we already started in March in terms of rightsizing our regional offices and our main countries support functions and this will enable us to reach between $160-190 million reductions. $67 million that we incurred in March, were related to this particular action, there is probably more to come in June. Also we are optimising the infrastructure, we're streamlining the IT operations, I think we have opportunities between Brazil and Mexico and we are working with Sean on that and also we are consolidating branches in Mexico and consolidation in Mexico does not mean to close branches. I think today we have more square foot in Mexico than we had before when we started. But we are putting these branches together, increasing their size, moving the customers into a better location, more comfortable, providing them better service. We have completed 60% of our branch refurbishment in the last three years, so this is going to give us another $100 million. And also, I think there are some other areas in terms of re-engineering that we are working on, so we are already there, we have already started that and we need to start fast because we have to increase the profitability immediately. Also it's important to mention we are investing part of the savings in increasing the sales capability in Brazil and Argentina and also, we know that we have wage inflation in Latin America, mandatory salary increase that we are trying to accommodate within the savings. So I think this is the way we are addressing that and we are doing good progress so far.

Finally, just to summarise, I would like you to take away that we have significant presence in – significant markets in Latin America, we have a very well connected business and we are going to focus on organic growth and the opportunity there because the division is growing and with a lot of discipline in cost containment will be able to reach the targets of the Group. There's an interesting growth in terms of return on risk weighted assets to 2.6-3.3% and also we'll be able to achieve shareholder returns. So the name of the game here is focus and execution.

Thank you very much, I'll hand over to Stuart to chair the Q&A session.

HSBC 2011 Investor Day

Geographies – North America and Latin America

Questions & Answers

11 May 2011

Stuart Gulliver, Group Chief Executive

We've got 20 minutes on questions. What I would just like to suggest at this stage is, because we're running a little bit late now, that we skip the next break and go straight into the next geographic block so that we can end at the time that we've set out to end. So, can we jump into questions? North America, Latin America? Please.

Michael Helsby, Bank of America Merrill Lynch

Thanks, it's Michael Helsby from Merrill Lynch. I'm just looking at your target return on risk weighted assets for North America and just on the back of a fag packet, it looks like it's still only a 5-8% return on equity that you're targeting. I was wondering what would the return on risk weighted assets be if we were to ex the runoff book, which is clearly a bit RWA intensive, but equally, ex the Cards business because that's clearly very profitable and just in tune to this, what I'm trying to get to is – I would like to see what percentage of your customers are currently in the Asia Hispanic mix and what I'm trying to get at is – I can completely see the strategy of the Commercial Banking business and I think you've articulated before about the hub and going for the trade finance but I struggle to see, if you exit Cards, what the real competitive and connectivity for the Group is of having the whole Retail Banking, so I'm just wondering from a strategic perspective, why you're not reviewing the whole US retail business, rather than just the Cards.

Stuart Gulliver, Group Chief Executive

Okay, well, as is normally the case, I'm going to ask Iain to have a bilateral conversation with you about the return on risk weighted assets but let me turn to the – first of all to the question of the Retail Bank. The point about looking at the credit card business isn't connected at all to the rest of the Group, whereas actually the residual part of what you described as the Retail Bank, which is Commercial Banking, which is Trade Finance and cross boarder business, is connected, the Premier piece is connected, the Private Banking piece is connected, the Global Banking and Markets piece is connected, so the residual HBUS – HSBC Bank USA piece actually is connected with the rest of the Group and what we're saying is there is a significant new opportunity we see in the branch network that was described by Niall that then fits with what is a strategic plan by the US Government to boost exports by continuing to boost its manufacturing industry, so I don't see it as that at all. I see it completely the opposite. The credit card business is not connected, okay, so we're disposing of a piece that is non strategic potentially, that's not connected and actually what's left, is connected but actually needs to be grown to a greater extent by building and changing the shape of the branch network because the branch network you get left with if you simply run down the old Household and whatever you do with the credit card business sits in a part of the United States that doesn't foot to the renaissance of the manufacturing industry within the United States so I need to shift that. Now there is also the specific Premier Advanced Wealth Management opportunity that foots to the Asian and Hispanic communities and again, that's not in the New York State, that's obviously in other parts of the United States – Niall, you may want to add to that.

Niall Booker, Chief Executive North America

The only thing I'd add Stuart is that in terms of the Asian community obviously quite a lot of that is located on the West Coast and we've been slowly building out branches in the West Coast, so this isn't a completely revolutionary strategy and those branches have shown a pretty good return, in fact they've returned to us, you know, faster than our business models originally indicated, so that would give us some hope that there's support for continued growth down that Coast.

Stuart Gulliver, Group Chief Executive

And to be crystal clear, in order to drive Commercial Banking and Global Banking and Markets –we have considering exiting the United States completely, which we have debated and looked at, makes absolutely no sense. The United States is the world's largest economy, it's the world's largest economy, it's the world's largest source of investable funds, it's the second biggest manufacturing company in the world today, it's the reserve currency of the world and it's the currency in which about 70% of global payments are made, so actually to drive a lot of our other businesses – you know, Asia Pacific is a dollar bloc economy, the Middle East is a dollar bloc economy, we need absolutely to be in the United States but as we've said, we're on a journey to re-engineer it to make it more relevant.

Michael Helsby, Bank of America Merrill Lynch

I guess – sorry to come back but – I completely agree with you and I think you've – as I say, you've articulated that strategy before from a Commercial Banking point of view, GBM and that makes complete sense.

Stuart Gulliver, Group Chief Executive

And it works as you can see from the number.

Michael Helsby, Bank of America Merrill Lynch

Clearly, and I guess it's just to push you on why you need such – I know obviously you're going to close some branches down but it does not just…

Stuart Gulliver, Group Chief Executive

We haven't said we're closing branches down, we've said we're reviewing branches, just to be crystal clear.

Michael Helsby, Bank of America Merrill Lynch

Okay, it's just this hub and spoken model that you've described before for your CMB, it's not obvious that a lot of those commercial customers are going to be walking into the branches and I hear your – there's clear upside potentially, maybe for the Asian and Hispanic but it just feels like there's a big cost there on the headline numbers, despite GBM and Commercial Banking clearly working well, to use your words, it isn't coming through in the numbers and it isn't even coming through in the numbers on your target, so I guess that the question is just why aren't you being more radical?

Stuart Gulliver, Group Chief Executive

Well it's not coming through in the numbers because of the run down portfolio and household, not because Commercial Banking's not working, Global Banking and Markets' not working. The slide that Niall put up showed the profit contra the PBT of those businesses. And the branch network that's required to support Commercial Banking is actually quite different than a branch network to support an old style retail bank and actually a number of new commercial branches have been opened in the United States, what, in the last year, two years? And actually their payback has been in a matter of months, which is much faster than normal branch openings are and actually to be clear, Commercial Banking branches aren't probably high street level branches. I mean these aren't on street level, these are in buildings because most of your commercial customers – you know, it's not a kind of walk by type of process, so we're reasonably confident that this Commercial Banking strategy is already working. The returns are below our – the ultimate area in which we would like to see them because, as you're completely aware, we're in the process of managing down a long tail of a consumer finance business. But again, if we're going to be disciplined about these five filters, we're going to have to look at things such as the relevance of the credit card business to us because otherwise what we're effectively saying is we'll keep one non strategic asset to finance another non strategic asset, which is kind of what you've possibly seen in the past.

Michael Helsby, Bank of America Merrill Lynch

I'm sorry – just to – got my teeth into this. Everything that you've just said completely supports the idea and the notion to my mind why you should be looking at a fuller branch disposal because you hit the nail on the head there, a commercial branch is completely different from your mainstream run of the mill retail branch, so it's not obvious that you're set up in the US to cope with where you want to be so, I guess, I'm just pushing why the whole sort of US retail proposition which is clearly as I say, got a lot of cost, why you're not looking – why you don't have that as part of your strategic review, and again, as part of my question, I asked if you could, if possible, give us what the target risk weighted asset would be if we exed out the card and we exed out the household run off, so we could have a better view on the underlying profitability.

Stuart Gulliver, Group Chief Executive

Yes, Iain.

Iain Mackay, Group Finance Director

Michael I think, clearly if you were able to wave a magic wand today and say, right, you know, where we're able to do something with the Cards business and where we're able to make the run-off portfolio go away, you've got a Cards business that is extremely profitable, high returns, low cost income ratio, you've got a run-off portfolio that clearly is fairly heavy in terms of risk weighted assets. If you're able to mix the two of them out today, it would have an adverse effect on the returns overall for North America, right? If you're able to do it all today, with no effect, it would have an adverse effect.

The other factor here is that I think as we go through the process of releasing capital in North America, through the run-off of the CML portfolio, there is a high likelihood that that capital will be required to be retained within the United States by the regulator, it's highly probable, so the expectation is that we should be able to re-allocate that capital within the United States to the growth of the Commercial Banking business and for the further development of the Global Banking and Markets business and, for that matter, the redesign and re-engineering of the retail network, which Niall's alluded to.

The other aspect, which you've hit on, which Niall and the team are absolutely tackling, is that there is a substantial cost overhang that needs to be addressed within the UK and that's part of what Niall talked to. US, sorry.

Michael Helsby, Bank of America Merrill Lynch

I'll shut up now.

Stuart Gulliver, Group Chief Executive

It's clear that we've talked about a review of the number of branches we're going to have. What we actually haven't indicated is what that end state eventually will be in terms of number of branches. What Niall has set out is, it strikes us that resettling the branches along the two coasts, with a piece in the centre that maps to – and again, I'd encourage you to read a piece of work that Bruce Katz has done for the Brooking Institute about which urban centres in the United States will actually develop manufacturing – that is the type of shape that we'd expect to get to. What we actually haven't said at this point in time is whether that's 10 branches, or 5,000 branches, so to some extent, we're kind of talking at cross purposes here I sense. We are acutely aware of the need to get this thing into profit and actually to get a decent return on it but as I say, we actually haven't set out today actually the number of branches that we will have or indeed where they'll be located, what we've said is, we need to shift from the situation we've got, but actually we've started a review. What we're not able to stand here today and talk about, not least of which because clearly this sits across all sort of Stock Exchange announcements type of rules, is, 'Well it's going to be this, this and this' but – so therefore I think we're a little bit talking at cross purposes here. I think that you may find that the eventual outcome is not as dire as actually you're worried that it might be. Niall please.

Niall Booker, Chief Executive North America

I did say that the branch reductions would be significant and I also pointed to Canada as a model, so I'll leave it there.

Stuart Gulliver, Group Chief Executive

Yes please. Bill?

Bill Stacey, KBW

Just a couple of questions; with the Cards business in the past you talked about the importance of the technology and the Cards business in the US for the wider Group. To what extent can that be unbundled and in the event that it was possible to get a satisfactory disposal, what sort of residual cost from that might reside still within the Group? And secondly, with regard to the run-off businesses and the way you report and organize; I presume given the big agenda that Paul and others have, you don't actually want them to spend much time thinking about the run-off businesses that roll up into the Global Retail and Wealth Business which are very different. Would you consider sort of separating these into a sort of, you know, run off portfolio that's reported separately?

Stuart Gulliver, Group Chief Executive

I think to answer the second question, it kind of fits into restructuring charge territory and so on and something we'd need to carefully think about but in terms of amount of time spent on it, I mean any run-off portfolio needs to be intensely managed actually but it probably – what it really will require if we go down that particular route is for a separate team of people to be doing that from the team that are building out wealth management or are dealing with the UK business; but to be crystal clear, run off portfolios don't run-off without intense care being taken upon them.

Sorry, I've forgotten what your first question was? Cards. The cards system that Household ran its Cards business on is a system called Whirl, but there are actually a number of variations of Whirl around the Group, so it's not the case that actually this card portfolio if sold would impact – or close down – would impact the other card portfolios of the Group or indeed shift the marginal IT cost of the Group at all. It is the case that Whirl was used as a system in other parts of the world but actually there are different versions of Whirl, so it's not the case that we've got to unpick these cards from a global credit card system.
Yes please?

Steve Hayne, Morgan Stanley

Thank you. It's Steve Hayne from Morgan Stanley. Just another question on cards, so I know it's under strategic review and you haven't actually given anything more explicit than that but it feels to me like it's actually two books; there's a prime bit and there's a sub-prime bit within cards and the overall size of the card book at 30 odd billion is relatively large actually for the industry, I mean Cap 1 is only 60 odd billion, so can I push you a little bit further, I mean is there anything you can say regarding timing or whether you received offers for certain parts of it, you might be open to it, or...?

Stuart Gulliver, Group Chief Executive

We can't comment on any further at this stage, I'm sorry, we can't. You've had quite a few. Robert?

Robert Law, Nomura

Could I have one for Niall and one from Emilson please? In terms of Niall's question, can I ask what do you need to do to grow the CMB business to where you want to get it to? I mean, as a bit of a supplementary, I was interested in Iain's comment that you may be required to retain any proceeds from the sale of the cards business in the US, can I ask you to expand on why that – why that would be?

Niall Booker, Chief Executive North America

In terms of growing the CMB business, I think it's a question of focusing on those customers on where we have a competitive advantage, so I think it's really focusing on the international connectivity piece. It's getting our relationship managers to get up every morning and say, 'We're the leading international bank and we're looking for customers that have international needs' and you know, particularly in regional parts of the US, the number of hands that you would have to pass an international trade transaction through is probably quite large and the economic friction of doing that is significant, so a one stop shop for international trade, particularly if the Government is focusing policies on that, seems to me to make a lot of sense and, you know, to the point about the branch network, getting up in the morning and thinking you want to be the number one Commercial Banking enterprise in any given part of the US isn't really what we want them to do, we want them to focus on this international business point.

Robert Law, Nomura

But I'm just trying to get a feel for the kind of scale of infrastructure that you might need for that because the number of branches that you've got at the moment are in the metropolitan centres looks like about a couple of hundred. It doesn't sound like the right sort of number if you're serious about that.

Niall Booker

I don't think this is a business that really demands a lot from its branch. You know, these are guys that live outside – the relationship managers are attached to a branch, but they travel. I mean in Chicago, the relationship manager deals with Minneapolis, Cincinnati etc, so he's rarely in the office, he's in the customer's office and much of the business is done electronically, so you know, I think that's the answer really.

Stuart Gulliver, Group Chief Executive

And if I can take a capital release, it's already hypothetical this because it kind of depends on if we do sell it, what price do we get for it, therefore what capital do we release and what the needs for capital are to develop the Commercial Banking business and what the needs for capital are for the Global Banking and Markets business and what the needs for capital are in the further run down of Household and that kind of turns on the economic circumstances, loss given default, model changes, where our RWAs stand, etc, so there's nothing kind of extraordinary about the comment that Iain's just made, there are a whole lot of variables in all of that which means that in essence, to be very honest Robert, having prepped for that question coming today, the best answer we can honestly give is, we are not sure it will result in the release of capital if we were to go down all those hypotheses. Actually to finish off the hypothetical moment, if we were able to release capital, we would reinvest it in organic growth and the countries we would invest it in would come out of the five filters, if we were able to do all of the previous things.

Robert Law, Nomura

A brief follow up from Emilson, you gave two bits of financial data in your presentation, saying the cost income ratio of 67 was too high in Latin America and that you've got the impairment number down to I think 2.7% of loans. Where would you see those numbers ultimately settling do you think?

Emilson Alonso, Chief Executive Latin America and the Caribbean

I think in terms of the loan impairment charges, I think we have de-risked the business in the last three years. We are just capturing customers in the retail space inside the base of customers we have, so we have a better pre-approved models and all things like that, a lot of statistics have shown that, and that will help the stabilisation, so we believe we can stabilise around this field as well, a little bit higher than that, but just around that, I think we are doing a very benign scenario now. In terms of the cost, I think it's an equation of growing revenues at the same time maintaining costs reasonably flat or around flattish. So I think the cost income ratio you will reduce, is, if you are able to implement all these actions we are taking and driving more business, gaining more productivity through the distribution we have today and with the measures, one of them I outlined there, and with the growth of the business, because the region allows the growth. The main countries where we are present are growing and we are growing with them.

Stuart Gulliver, Group Chief Executive

Can you pass the microphone just behind you, over your shoulder, thank you, and this is the last question we can take on this block.

Ronit Ghose, Citi

I just have a follow up question on Latin America from Emilson. You gave some aspiration numbers of profits. Are these three years, five years, longer? And particularly, the PFS jumps out because it's about 10 times increase in profits, based on what you did last year, so could you just flesh out what sort of market share or changes you're looking for, particularly thinking of Brazil where your market share is relatively small?

Emilson Alonso, Chief Executive Latin America and the Caribbean

They are aspirations for 2013, that's more or less where we are working there. There's not much growth in the market share, it's more gain in productivity and stabilisation of the loan impairment charges in these numbers, so these are of course the aspirational numbers, they are not projections, they are just aspirations but I think we are moving – changing the business model and we are putting more cross sell, we are gaining more productivity and that's what the numbers drivers.

Ronit Ghose, Citi

Just on PFS, I mean a 10 times increase in profitability – 10 times increase in profitability in PFS without much market share increase, are you selling a lot more insurance products, are you going to see a dramatic decline in provisions?

Emilson Alonso, Chief Executive Latin America and the Caribbean

I think there is a growth here in revenues because we are growing and containing costs; that's the reality of the leverage we are getting there.

Stuart Gulliver, Group Chief Executive

Okay, thank you Niall and Emilson and so, as I say, with your indulgence, if we skip the break, we can then move on to finishing the next geographic block and get back on time. So if I can ask Brian Robertson, Simon Cooper and Peter to come up to the podium.

HSBC 2011 Investor Day

Europe

Presentation by
Brian Robertson, Chief Executive Europe

11 May 2011

Good afternoon, everybody. My name is Brian Robertson. Since 1 December 2010, I've been Chief Executive Officer of HSBC Bank plc. Many of you will remember me, hopefully, from my previous existence as Group Chief Risk Officer. As a reward for managing – or helping manage – the Group through the crisis, I've been given Europe and the UK to run. Today, I want to talk about Europe's importance to the world economy within the context of HSBC and in our future strategy. Forward-looking stuff…

Europe might not be the most exciting continent in terms of growth rates, but it does have strength that we'd do well to remember. By any measure, it is and will remain material to the global economy. 31% of the world's GDP today and, even by 2030, will still account for a quarter of the world's GDP. It's a global hub for trade flows and represents 40% of global trade flows. It's the largest region for FDI in- and outflows and has six of the world's 12 largest FDI recipients. And it's wealthy: it is home to almost a third of the world's assets under management, and the demographic trends – i.e. ageing populations – signal large and growing needs for wealth management products. So, Europe is a significant part of the global economy, and HSBC wants and absolutely needs, as an international bank, to present in a meaningful way in Europe.

I mentioned international connectivity and the place Europe plays in global trade flows. Whilst, inevitably, Europe's share of global trade flows will decrease over time, exports are still expected to more than double by 2020. So, Europe is a key region for an international trade bank such as ourselves. Turning to demographics, as I mentioned, Europe is wealthy and it's ageing and it has governments which have no money. Over a quarter of the population in Europe will be 65 or over by 2050. Governments won't be able to support ageing populations and individuals will have to do it for themselves. Banks that have the brand and the trust of their clients and the products that enable people to save for their retirement will be successful.

Let me look at the Group's position in Europe. We have a robust franchise. Retail Banking and Wealth – I wish you'd pick a different name, Paul; this is almost impossible to say. Retail Banking and Wealth Management and CMB profits are growing, and we are now more diversified across customer groups. Europe accounted for 23% of the Group's profit before tax in 2010. By geography, the UK, France, Germany, Switzerland and Turkey are the main contributors, and the UK weighting clearly reflects both the size of our domestic franchise and also the fact that one of Samir's global hubs is here in the UK. And let's not forget, as we read the depressing newspapers every day, that the UK is the world's fifth largest economy today, and even by 2050 it's forecast to be number six.

Let's look at where we are in Europe. Our international network is a distinct advantage – very difficult to replicate. We have universal banks in the UK, France, Turkey and Malta. We have Global Banking and Markets and Commercial Banking leveraging opportunities of connectivity through presence in 19 markets. We have the head office of the Private Bank in Switzerland, and we have a Retail Banking and Wealth Management presence increasingly focused on geographies where we have scale. We have a good business, which is profitable – it's just not profitable enough. So, what are we going to do about it?

Our intent is to be the leading international bank, connecting Europe with the rest of the world and capturing Europe's wealth opportunity. We see a number of opportunities to develop this strategy for each customer group and, of course, as one of the higher cost-income-ratio areas in the Group, we will be focusing on increasing capital and cost efficiency. Let me start with Retail Banking and Wealth Management. In 2010, we recorded profit before tax of US$1.3 billion from over 2,000 branches. We have scale in four countries – the UK, France, Turkey and Malta – and these will be our principle areas of focus. I'll come back to the UK and France in a moment.

Let me have a look at Turkey: one of the emerging markets which was highlighted earlier as being a global powerhouse in years to come. We have an existing strong cards business – 2.2 million cards and 5.3% market share in March '11. We have a focus on upwardly mobile consumers. We launched Advance in 2010 – our feeder product for Premier – and our growth in Turkey accounted for half of continental Europe's Advance customer base, and we continue to grow our Premier client base. In Malta, we have a significant market share and we intend to maintain that. Across Europe, we are targeting affluent customers. The Premier and Advance base of 2.7 million is up 37% in 2010.

One of our key challenges in Europe, of course, is to deal with the negative drag from loss-making Retail businesses, either by turning them profitable – and Greece will turn profitable for the first time since we've been there this year – or by exiting underperforming businesses, and Stuart has already alluded to Russia, or by doing something a little different. In Kazakhstan, we acquired the retail branches of Royal Bank of Scotland, thus giving us immediate opportunities to turn profitable. And we will exit or rationalise subscale markets so that we can focus our attention on markets and segments where we can win and we can deliver sustainable, profitable growth.

The major one of these has to be the UK. It was alluded to earlier the journey we've been on in the UK bank – or my colleagues have been on in the UK bank before I came here –

and our aim is to build upon the UK's proposition as the bank of choice for affluent customers. Today, the UK contributes one third of the Group's Retail Banking and Wealth Management profit. We have three strong, complementary and premium Retail and Wealth brands: we have HSBC, we have first direct and we have Marks & Spencer's Money.

The customer base is high-quality versus peers, and strongest growth has been amongst affluent consumers. Our Advance and Premier customer numbers were up 19% in 2010 to two million, and that's following a 15% growth in 2009. Stuart alluded to having stepped back from the mortgage market at the height of the insanity, we returned to the market and are now capturing large volumes of high-quality mortgages, low loan-to-values, high return on equity for our customers. We have a relatively young customer base, as the chart shows, which equals future growth opportunities as those customers move through the lifecycle of accumulating wealth, requiring products for their retirement and enabling us to service those needs. We will continue to aim for a high-quality, affluent customer base, increasing penetration of wealth, insurance and international capabilities.

Our next biggest Retail and Wealth business is France. Again, Retail and Wealth in France is firmly based around an affluent clientele. Following the disposal of the regional banks, restructuring of this business is well underway. Profit before tax in 2010 almost doubled over 2009. We focus on affluent customers. We're in the right places with the right proposition. Revenues from Premier clients are considerably higher than average.

We continue to expand our product range for more demanding clients, with Asset Management, Insurance, Global Banking and Markets providing product to service their needs. Discretionary mandate and investment advisory services are being launched this year and into 2012. Clearly, to service better-quality clients we need better-quality relationship managers, and major training programmes with accreditation for relationship managers are underway in France. The development of a new operating model in the French bank doubled the relationship-manager time available to clients, and both those initiatives will be rolled out across Europe.

Let me now turn to our Commercial business. As I mentioned, Europe is connected and it's a vital component in our leading international bank ambition: connecting Europe to the world. We have Commercial Banking in 10 developed and nine emerging markets in Europe. The key markets, again, are UK, France, Germany now, and Turkey. We are focusing our investments to capture FDI and trade-flows and strengthen connectivity. For example, we recently injected an additional $200 million into Germany to enable Andreas and his team to expand the customer base slightly downmarket from the historical real top end, to enable larger midsize German companies to benefit from HSBC's global connectivity.

We're expanding into new markets in response to customer needs and pan-European consolidation driven by SEPA. For example, in Switzerland, we opened a Commercial Banking operation, mainly front-office, leveraging our global service centre in Kraków, Poland. We continue to enhance our product platforms across the business, investing in payments and cash management, trade and receivables, so that we can continue to grow the business within Europe and be more relevant to clients within Europe. And we continue to innovate. Clearly, given the importance of the renminbi, we were the first bank to settle renminbi transactions in Europe.

Let me give a couple of live – or not live because they've happened – examples, which are alluded to on this slide. Peter Boyles, who heads our continental Europe business will correct me if I pronounce the name wrong again: L'Occitane, a well known perfumier and provider of upmarket beauty products was a customer of France, where they dealt with the international operations of that firm. They were so impressed with the international operations that we were able to provide to them that they gave us their IPO, and we took them public in Hong Kong. We've also now become their core bank in France, so that's alignment across geography, alignment across product, alignment across customer group.

Celistics, a customer of HSBC in Spain – a market where you would think we face significant competition – one of the fastest growing logistics operator and mobile phone distributors in Latin America, moving tens of millions of phones from manufactures around the world to the Latin American market, we put together a package of finance receivables in 11 Latin American countries for that Spanish client. Developed to developed: we were the sole financial advisor and corporate broker for McKesson Corporation, a US healthcare services company, in its £87 million takeover of a UK company, System C. The deal closed last week. These deals and many more show the competitive advantage of international connectivity. Overall, cross-border referrals were up 52% in 2010, and the values of deals doubled.

Let's drill down further into the UK. Profit before tax in 2010, $827 million. Overall, higher market share of international businesses than domestic. Leading brand for international start-ups, with 20% market share. International products account for almost a fifth of revenues. Export trade finance grew by 43% in 2010 in the declining market. As I mentioned earlier, we did the first UK cross-border renminbi transaction. And we can build further on this already strong platform.

We are beginning to achieve return on earlier investments in international relationship managers. I think we recruited 160 into the network last year. We're improving relationship management and product penetration for the domestic base. We're investing in digital platforms. Many of you will probably have seen, as you picked up your newspaper, our advert around launching the iPad for business banking, which we did earlier this week. And we're building cross-referrals to Wealth and Private Banking for entrepreneurs.

Let's have a look at the Commercial Banking business in the major markets of Europe. Again, it's our international capabilities that are clearly our core advantage. In France, we are the number one brand for international banking. We've reorganised the network, better segmented the customer base, and delivered a 32% profit growth in 2010. Turkey: we are focused on international businesses, where revenues are substantially higher. Germany: we are focused on top-end clients. We are now expanding the number of customers with whom we can and want to deal.

The next two slides are on our global businesses: Global Banking and Markets, and Private Banking. As both Samir and Chris have talked extensively about those, I won't talk about them quite so much. Global Banking and Markets: clearly, we have major hubs in London and Paris, backed by local-market expertise in 17 other countries. It has been a major success and profit contributor to Europe and the Group for the last two years. We are market-leading in the UK and France, and investing in Germany to improve market position.

We are competitively positioned right across the product range. We lead in most Global Market products and have a continued opportunity to build further in equities. We have the capacity to enhance product offerings. We are investing over $100 million in payments and cash management to provide seamless global liquidity solutions across Europe. We continue to build connectivity and referrals with the rest of Group across sales. In summary, building on core strengths, developing new capabilities and leveraging connectivity.

Europe is the main global hub for Private Banking, and Europe contributes 60% of global Private Banking profits, with a leading international private bank in Switzerland and Monaco. Global Private Banking serves our wealthiest clients. Clearly, the fact that these revenues appear in Europe is good, but it is important to realise that two thirds of the assets in Switzerland come from emerging-market clients. The UK, Germany and France have substantial and growing onshore businesses, and we're looking to leverage connectivity with the emerging markets as sources of future wealth.

As Chris alluded to, we have product leadership with well developed cross-border capabilities. As Chris also alluded to, he's going to help us meet our cost challenge by driving greater efficiency in IT and Operations. Which brings me, of course, to talk about sustainable cost-saves, which you've heard about in everybody's presentation.

Clearly, we have a cost issue in Europe: the cost-efficiency ratio for Europe is too high. I recognise that, my management team recognise that, and me and my management team are absolutely committed to improving it. So, where will the sustainable cost-saves come from? As I think Stuart alluded to earlier, when dispelling the myth that we had a cost issue in our UK retail bank, the UK retail transformation programme has been underway since 2007. Adjusted costs have been held flat since 2010, with sustainable saves offsetting inflation and being reinvested in development projects. That's been achieved through a range of different projects: restructure the UK head office; service-delivery transformation, such as the consolidation of UK cards, consolidation of systems, consolidation of collections.

And we continue to seek further sustainable saves in the UK and have initiated a similar transformation across continental Europe. The review is clearly still underway, so therefore the examples and the numbers given on this slide are indicative at this point, but let me leave you with no illusion: I know exactly what I have to do, and we will do it. We will rationalise portfolios; we will implement consistent business models; we'll optimise offshoring; we'll reengineer functions and processes, such as stripping back office out of Retail and Commercial branches in France and moving to our 16-language GSC in Kraków; we're streamlining IT, setting up global service centres in the CEE; and we'll centralise data centres across Europe. The measures in plan and the measures in train will deliver sustainable saves in order to achieve our financial targets.

Now, I've one minute and 13 seconds remaining. So, let me leave you with a few thoughts on Europe. We have a strong franchise. The franchise is connected with the rest of the Group. Europe is wealthy and Europe is core to the Group's strategy. The management team is focused on reinforcing our strengths in markets like the UK, France and Germany; increasing our revenues from unique connectivity; targeting upmarket consumers and driving improvement in Retail Banking and Wealth Management profitability and reducing overheads; and exiting underperforming markets.

Overall, we aim at achieving a return on risk-weighted assets of 1.3-1.8% for Europe, after factoring the Group's head office costs, which appear in the Europe numbers, and the total impact of the projected bank levy, which also appears in the Europe numbers. HSBC Bank plc, which I'm actually responsible and issues its own financial reports on which you can measure me, the target would be 1.8-2%. Thank you very much. I hope that gives you an overview of the direction of Europe. I'd now like to hand over to my colleague, who has the easiest portfolio in the Group, Simon Cooper.

HSBC 2011 Investor Day

Middle East and North Africa

Presentation by
Simon Cooper, Chief Executive Middle East and North Africa

11 May 2011

Good afternoon, ladies and gentlemen. I am Simon Cooper. This month marks my second anniversary in the Middle East. It's been quite an eventful two years, as you might imagine, starting with events in the UAE, as Dubai looked to reschedule its debt, and moving more recently into some fairly significant socioeconomic events that are taking place around the region.

Prior to coming here, I was some 20 years with HSBC, the last 15 of which in Asia, and I'll talk a little bit in my presentation about the importance of that connectivity between Asia and the Middle East. What I want to do today is touch on the events that are taking place and put them into context, and to explain what they mean for our business, as best as I can, but also to explain why, despite those events, the Middle East remains absolutely crucial to HSBC's emerging-markets business. I'll explain how we plan to grow in the Middle East and why our franchise there is absolutely second to none.

I'm sure, with the exception of the Royal Wedding, you are now back watching events in the Middle East on CNN and BBC. 15 countries in the region have been impacted, seven governments have been sacked, two new regimes, and four countries are undergoing civil war or some other form of unrest. That's very clearly what you've seen on television. I think it's also important to understand the second-order impact of what's going: that is wage inflation, reduced FDI and, for those countries that have relied on it for foreign earnings, reduced tourism. It's obviously very difficult to quantify the precise economic impact of what we're seeing. If I talk to my colleagues in Egypt, for instance, they believe that there is at least a two-year time period before Egypt regains the momentum that we've seen in recent years.

It's not all bad news, however: there are definitely save havens. Dubai, as an example, is benefiting from what is going on. Hotel occupancy is dramatically higher than it was, as people have shifted their tourist locations to Dubai. HSBC's brand has actually been enhanced by what's going on. We put our contingency plans to full use, as you can imagine, and they have been proved to be very successful. So, we were the first bank to reopen in Egypt. We manage to maintain our operations in Bahrain when many others were closed. Our customers have recognised that and have continued to do business with us.

In terms of those fundamentals, this region is absolutely crucial, as I've said. It has more than half of the world's oil, has almost half of the world's natural gas, and a significant population. Egypt alone has some 80 million people.

That hydrocarbon wealth starts to trickle down to all levels of the economy. Six of the world's 10 largest sovereign wealth funds are located in the Middle East. They've got some $1.6-2 trillion of assets under management. There's been a lot of talk in the Middle East historically about infrastructure investments. With the events that have taken place, that talk is now becoming reality. There's an underlying urgency to create jobs, to raise living standards and to really drive through investment spend, so you're seeing things like the rail network linking Abu Dhabi and Oman coming to realisation; the East-West railroad in Saudi Arabia; power plants in the UAE; waste water in Kuwait – actually, both of the last two ones that HSBC has been involved in.

We don't have the more recent FDI numbers, but the underlying significance of FDI into the region remains strong. More specifically, intra-MENA FDI is growing dramatically. The Marshall Plan that's been put in place from the wealthy countries to support Bahrain, Oman and the like is going to further exacerbate this growth. From a trade perspective, there's a very important shift, where Asia is replacing the European Union as its principal trading partner, and the emergence, if you like, of the old Silk Route. Again, intra-MENA trade is actually growing faster than all. So, from HSBC's perspective, having the footprint that we have, both in the region and geographically, that connectivity that I'll talk about in a minute is absolutely crucial. People are turning to HSBC because of that connectivity and because of its strengths in trade finance. Our market share in the UAE, we believe, grew to just 20% of trade in the first quarter of this year, and remember the UAE remains the third largest re-exporter after Hong Kong and Singapore.

I'm not trying to give you a geography lesson, but it is very important for you to understand that there is no other international bank that has HSBC's unique presence in this region, or have our priority markets of Saudi Arabia, Qatar, the UAE and Egypt so well covered as us. Equally, there's no regional bank or bank operating in the region that can offer the international connectivity of HSBC. Even where we don't have presence, like Morocco, we're able to leverage this network to introduce business and introduce transactions to the region. So, as this region recovers – and it will recover – HSBC is absolutely best placed to capture the revenue as it returns.

Specifically, what are we going to do? There are five key areas of the strategy going forward that I'd like to share with you today: prioritisation, transformation, connectivity, wealth and, really spanning all of that, Shariah-compliant finance. I'll take prioritisation first of all. Saudi Arabia, Egypt, the UAE and Qatar will remain our priority markets. They represent some 60% of GDP and 35% of the population of the region. We've put in place new CEOs in most of those countries and we continue to strengthen the management teams beneath them. We will continue to invest in people and systems and in branch networks in those key markets.

In terms of transformation, we're also looking at how we can play our part in transforming the Group. You may have seen in the newspapers 10 days ago we've started the process of de-layering our organisation and reduced 370 jobs in the region. Combined with what we're looking at for Global Banking and Markets coverage in the region, we estimate that's some $25-30 million a year of annualised cost savings; looking at how we can refine our hub-and-spoke model, another $10-20 million of potential cost savings; and how we can centralise our support operations into hubs in more effective, lower-cost areas of operation, probably $10-20 million of potential cost savings there.

Let me move on to the other three areas. Being in the Middle East, it's not surprising that Shariah-compliant finance is important to me. 85% of new-to-bank customers in Saudi Arabia come in in a Shariah-compliant fashion, and HSBC is recognised as the market leader and developer in Islamic capital markets. I think the charts and figures here speak for themselves. We offer world-class Shariah-compliant finance across all customer groups: Retail, Commercial and Global Banking and Markets. Take as an example the Sabana REIT. That was the first Shariah-compliant listing in Singapore, towards the end of last year. We were able to innovate in the markets and also, interestingly, introduce Middle Eastern investors into that listing. Stuart talked about the importance of local currency this morning. We were able to take National Bank of Abu Dhabi to Malaysia for a ringgit-denominated Sukuk last year. Every sovereign that has issued a Sukuk has had HSBC as their lead manager.

In terms of connectivity across Banking and Markets and Commercial Banking, we've put in place desks – China, Korea desks – in the UAE and Saudi Arabia. This is a real, tangible example of how we can connect our businesses around the world, and that's why, I think, when the government of Abu Dhabi went to China last year, it was HSBC that took them; why, when they go again this year, they're going with HSBC. This year, not only are they going to China with us, they're going to Latin America with HSBC. When the South Koreans came to Abu Dhabi to look at the nuclear power plant, the fact that we were able to have a Korean sitting in our business in Abu Dhabi is why we were able to win the project finance mandate for that transaction.

We've appointed a new Head of Commercial Banking for the region, taking somebody from Global Banking and Markets to fulfil that role. So, just as Samir and Alan were talking about this morning, there's a huge opportunity to uplift the cross-sell of Global Banking and Markets' products into our Commercial Banking customer base, and we've already seen increased penetration of these products in the last few months. We've just won about six advisory mandates in the last two months.

When Mubadala came to us at the beginning of this year, in what were incredibly difficult market conditions, needing to raise $1.5 billion in a bond, we were able not just to issue the bond but to get that bond seven times subscribed. Only 30% of that bond was subscribed by Middle East investors, because we were able to draw on the Global Banking and Markets connectivity globally to introduce investors to that deal. When Qatar went to invest in HOCHTIEF in Germany, we were able to link up our advisory teams in the Middle East with Andreas's teams in Germany, and put that transaction together. When Citi Infrastructure looked to take an investment in DPW in Australia, we were able to not just advise but to finance that deal. That isn't a deal that was booked in the Middle East; it was booked in Peter's area, but because of the knowledge of the client, because of the connectivity of the business, we were able to win that business.

And it's not just event business; it's also very important from a flow-business perspective. Take SABIC as an example. It's certainly one of the largest and most important clients in the region; arguably, one of the most important clients globally. HSBC has been very successful in the event business with SABIC for many years. Most recently, we've just won a mandate across six countries for their payments and cash management business. That's not six countries in the Middle East; that's six countries in Asia-Pacific. Again, there is no bank operating in Saudi Arabia that could have helped SABIC with that solution.

From a wealth management perspective, this is clearly a wealthy country. It's got a very significant population, both domestic, expatriate and diaspora. We already start from a very strong position. Our presence in some of the key markets, as I talked about, is crucial. We believe we've got some 10% of the target premium banking population already. We're the highest credit card-issuer in Saudi Arabia. We're MasterCard's biggest client in the region. As Paul rolls out the Retail Banking and Wealth Management platform, we're absolutely net beneficiaries of that, as we move from being a transacting, deposit-gathering business into a true wealth management business.

There's also significant opportunity to connect with our Global Banking and Markets and Commercial Banking franchise. Emirates Airlines will be known to all of you, and we've been a banker to Emirates since inception. We've been able to go to Emirates and put together a proposition for their pilots, for their cabin crew, based on our global connectivity. We've located the head of the private bank for the region to Dubai from Geneva to make sure we can absolutely channel the advice and the products from the Private Bank into this very wealthy customer base. The family office partnership that Samir talked about is very real in the Middle East. We already have examples. We're advising a client on the sale of their Swiss brand – a luxury Swiss brand. We're advising another family on the IPO of their retail business. And where we had two families co-invest with us in the US cleantech energy business.

I started off by being honest. Clearly, we have strong headwinds in terms of revenue in the region. I want you to be very clear that we have absolutely a clear roadmap about where we intend to take this business. We will continue to focus on our priority markets. We are already a market leader in the region. As the Retail and Wealth business grows and is rolled out, we are absolutely a net beneficiary of that. As the Trade Finance and Infrastructure continues to grow, again we are absolutely a net beneficiary of that. The targets that you have in front of you are aspirational. As you've come to know the management team and you know Stuart, you'll know that, when we give you targets, we meet the targets, and I can assure you that we will meet those targets through the cycle.

Thank you very much. I'll now demonstrate east-east connectivity and pass to Peter.

HSBC 2011 Investor Day
Asia
Presentation by
Peter Wong, Chief Executive Asia

11 May 2011

Thank you, Simon. Good afternoon, ladies and gentlemen. I'm Peter Wong. I'm the CEO of Asia-Pacific. Today, I'm going to talk to you about some of the key trends in Asia. I'll talk to you about our competitive advantages. Then Helen Wong, CEO of China, is going to talk to you about the strategic direction in China, and Mark about Hong Kong, and I'll come back and talk to you about the rest of Asia-Pacific. In our presentation, we would like to impress upon you that we have and we will continue to leverage our brand strength, our scale, our international connectivity and our strong balance sheet, and the momentum that we created in 2010 to capitalise on the growth opportunities in Asia-Pacific.

We all appreciate that Asia is growing rapidly. Let me provide some dimensions: in 2010, Asia's population was 3.8 billion – 55% of the world's population; also in 2010, Asia had 18% of the world's GDP. It's forecasted to be 39% by 2030. With the rapid growth in GDP, there will be a huge amount of wealth creation, and that will lead to an increase in domestic consumption and, therefore, trade. According to research done by McKinsey, the middle classes of China and India – predominantly China – will exceed the US population by 2025. Undoubtedly, this will create a huge amount of domestic consumption.

Other key markets in Asia, such as Malaysia, Indonesia and Singapore, have already been experiencing strong growth in domestic consumption. If you look at the chart on the right-hand side, between 2007 and 2010, the compounded growth was 12% per year. Undoubtedly, this will promote strong intra-regional trade as well as trade with the rest of the world. In 2009, Asian intra-regional trade was $4 trillion; by 2020, it is going to be $11 trillion – 60% of the world trade-flow. HSBC started as a trade bank; therefore, any trade-related business is in our DNA. This is our strength. Coupled with our presence in more than 80 countries around the world that capture more than 90% of the world trade-flows, this is our distinct competitive advantage. We have been analysing the trade-flows from our countries, industries within those trade-flows, and companies within those industries, and we've been going after these companies with good results.

We see three financial centres in Asia-Pacific: Shanghai, Hong Kong and Singapore. Regarding Shanghai, the Chinese already announced that Shanghai is going to be an international finance centre by 2020. We can also assume the RMB is going to be convertible by 2020. However, we anticipate that the Chinese government will be more relaxed about current account versus debt of capital account. RMB is going to be the third largest reserve currency and there will be opportunities associated with that. On international listings, albeit slow, it will happen. HSBC, with our strong heritage in China, being there for 146 years, we're the largest foreign bank and we're headquartered in China. When we list, we'll further increase our branding and we'll have access to a big funding pool and also a bigger shareholder base. We're building our capabilities in the investment banking area in China as well as in Hong Kong, and that has yielded good results. This is reflected in our increased participation in state-owned enterprise IPOs in Hong Kong. We are also looking for JV securities in China.

In Hong Kong, we're the leading bank. We're leading market shares in deposits, in credit cards and in insurance. However, we cannot think of Hong Kong in isolation from China. In 2009-2010, Hong Kong was the number one global IPO centre. However, most of these companies are mainland Chinese companies listing in Hong Kong. Currently, more than 70% of the companies listed on the Hong Kong Stock Exchange are mainland Chinese companies, and these are referred to as H shares. At HSBC in Hong Kong, many of our Premier and SME customers come from China, and Mark will talk more about that.

In Hong Kong, research done by a reputable property agency indicated that 25-30% of properties sold in Hong Kong are to mainland Chinese. Hong Kong is the platform for China's 'going out and leading in' policy. We're well positioned to take advantage of these opportunities because we are the leading bank in Hong Kong and we are the leading foreign bank in China, and we have a very strong brand in China. Regarding RMB internationalisation, Mark will talk more about that.

On Singapore, Singapore is an international financial centre but it's more of a private banking centre in Asia. In the history of Singapore, a lot of wealth moved in from Malaysia, Indonesia and the Philippines, and we anticipate that the first wave of wealth being created in countries like Cambodia, Laos and Vietnam will also move into Singapore. Recently, we've also detected that Chinese wealth is moving into Singapore. The Singaporean government wants to increase the population from five million to six million. We anticipate that there will be a lot of immigration from China to Singapore. We are beefing up our capabilities in wealth management and private banking areas to capitalise on these opportunities.

Because of our scale, our number one brand and our aggressive expansion plan, we outperformed our competitors in 2010. However, as we have seen in the past, they will always find a way to come back, and there's no time for complacency. We'll continue to focus on our sustainable revenue strategy and build on the momentum that we have established in 2010.

Now, let me elaborate on the three stages of our sustainable revenue strategy. The first stage was to grow assets in 2010.

This will provide income in a low-interest environment and also establish customer relationships. We did fall back a bit in 2009, so we have to re-establish the customer relationships.

In 2010, we grew assets by 40% while the associated risk-weighted assets only grew by 18%, but we still ended up with a very strong balance sheet – A/D ratio of only 57% – to cater for the growth in 2011. With the customer relationship established, we focused on growing non-funds income as a second stage. In addition to the already successful selling of investment products and insurance in Retail Banking and Wealth Management, we won more wallet share, especially non-funds income, from our corporates to customers, such that, when we grant facilities, we want the ancillary incomes in trade, in payments and cash, and in foreign exchange. We'll continue to focus on cross-selling within customer group, cross-customer group and cross-border. Presently, we have more than 20 initiatives progressing in Asia-Pacific countries. The most powerful point is that the CEOs and the department heads are sharing ideas and experiences across countries. Another example is the cooperation between Global Banking and Markets with the retail bank in Hong Kong. Global Markets provide incentives, information and also training to the branch staff to sell retail FX. Consequently, retail FX revenue doubled.

In a third stage, we want to grow deposits. This is mainly for two purposes: one, to support the growth of our asset book; and the other one is that, if US raises the interest rate, we can capitalise on the opportunities. I think the results will be very exciting when all the three stages of the sustainable revenue strategy are working simultaneously.

We have a strong history in Asia of 146 years. We are the number one brand and we are internationally connected. The awards that we have won and the consistency of winning them is a validation of our strength in Asia. It's also an indication of our ability to take advantage of the opportunities. If we look at the chart, we're the best trade finance bank in Asia between 1997 and 2010 – that's 13 years in a row. And we're also the best bank for FX in Asia-Pacific between 1993 and 2010 – and that's 17 years in a row. So, that's a validation of our strength in Asia. Couple that with our strong capital adequacy ratio of 14.7 and a low A/D ratio of 37, we have the firepower to build on the momentum that we have established in 2010. I'm happy to say that the momentum has carried into 2011.

We are the leading bank and we are the leading foreign bank in China. We've acquired the Chinese Bank in Taiwan that will allow us to have more than 40 branches. This will form a strong platform for our Greater China growth. In Hong Kong, besides being the leading bank, we've positioned ourselves to be the leading international bank for RMB, and Mark will talk more about that.

In China, we will continue to maintain our leading foreign bank position but continuing to increase branches and also support the growth of large local corporates, multinational corporations and state-owned enterprises. Helen will talk more about that. Regarding the rest of Asia, I'll come back in my presentation later on.

From our presentation, our brand and our international connectivity are key factors to our success. We have the capabilities to capitalise on the capital flow; so, trade-flow, the wealth-flow and also the wealth growth within countries. We are determined to maintain our leadership in this area. Now, may I hand the stage to Helen?

Helen Wong, Chief Executive Officer, China

Thank you, Peter. Good afternoon. I'm Helen Wong. I started covering the mainland China markets in 1985 and, indeed, have been with the Group for 19 years. I took up the role of CEO China in July last year. Peter has talked quite a bit about China and, indeed, the bank started 146 years ago in China and has a non-stop presence ever since. With that experience and the knowledge of the culture, the people, the systems and the economic growth that we have built our organic business in China to the way that it is; i.e. the leading foreign bank in China, as evidenced by our network and the size of our assets. Our foreign bank peers group, actually we are top in many years: corporate, retail, private banking, FX and treasury, DCM, and we're also top in brand awareness. If you go to China and you talk to the people there, actually a lot of people talk about us as the largest and the best foreign bank in China.

HSBC China was among the first batch of foreign banks to be locally incorporated in 2007, and that gives us the right to do full renminbi business. Indeed, since then, we have made meaningful and significant advancements. We have a comprehensive network strategy that enables us to develop relationships with the corporates and also to collect and build our deposit base from both the corporate and the retail sector, and to support our asset growth. And when I talk about network, it is really in the regions where China has the most GDP size, and also connected to the wealth in terms of investment and trade-flows. We are fully committed to continue to build this organic business, and have last year moved into our invested premises in Shanghai, called HSBC Building, which actually appears on the top of your pack. We will continue to invest in network, in technologies and in people to capture the opportunities presented by the strong growth in both the corporate and retail sector.

We are in China long-term, but we are not there to compete with the large domestic banks in terms of pure lending. Our big advantage, obviously, lies in our global connectivity, which I think most of my colleagues have talked about today. I am going to demonstrate how that connectivity actually helps our business in China. I think of the most immediate relevance is our strong presence in the Asia-Pacific region. Looking at the map here, we have an unparalleled Greater China franchise, with increased dominance in Hong Kong, a strong Taiwan presence to capture the fast-growing cross-Straits business after the signing of ECFA – and ECFA stands for Economic Cooperation Framework Agreement – that is signed between mainland China and Taiwan.

In China, we have 124 outlets at the moment, and that includes 16 rural bank outlets. These include outlets in the most affluent cities, which target retail customers, and also we have corporate-focused branches as well, and these are spread across 17 major provinces and municipalities. To give you a number which is on here, the successful referrals between Hong Kong, Taiwan, I think not to leave out Macao, and mainland China amount to US$3.7 billion last year in value, and it represents a 53% increase. I'll give you a further number: the count of these referrals is more than 8,000.

We in mainland China work very closely with our colleagues in the other 19 markets across Asia-Pacific to allow us to capture the very rapid growth of China-Asia trade-flows. This is supported by a multi-product platform and also a strong hub in Hong Kong. I mention Vietnam and Australia here, but I'd also like to mention an example. Just last month, the Deputy Prime Minister of Malaysia led a delegation to China. China is now the biggest trade counterpart of Malaysia. HSBC is the only bank that is engaged to hold an exchange forum for the Malaysian delegation with Chinese corporate customers.

From Asia-Pacific to the rest of the world, HSBC obviously has a global franchise that links China to the high-consumption markets of the US, UK and Europe, and also the increasingly connected markets of the Middle East and also LatAm. Connectivity means the ability to bring mainland Chinese corporates to reach the rest of the world as they invest overseas under the 'going out' policy of the Chinese government, and a long-established platform to serve multinationals coming into China since mainland China opened its doors 30 years ago.

I would like to use two examples to illustrate this. Before I talk about the first one, I think Chris earlier mentioned a bond issue for a wind farm in China, and that's actually a renminbi-denominated bond. My wind farm example is earlier than that, as in April last year. AEI, which is an emerging-market-focused power company in the US, developed, with NBT, a Norwegian clean-energy-project developer, a wind farm in Jilin province in China; that is the northeast part. HSBC acted as the sole structuring bank for 400 million renminbi financing – it's a non-recourse financing – and we were able to do this first project financing for a wind farm. This is significant because clean energy is one of the most important initiatives of China in the next or the current 12th five-year plan.

The second example actually just happened in December last year. We executed a mandate for a top-tier state-owned enterprise, which acquired substantial energy assets in a country in Latin America. The mandates demonstrate our strong capabilities to facilitate [inaudible] corporation's investment in LatAm, and we were the one-stop shop for the company. Why did I say that? Because we connected Global Banking, Global Markets, Cash Management, Securities Services and also Trade across China, Asia-Pacific and this country in Latin America. We provide financing in Hong Kong, in Latin America and we handle the timely payments, the FX conversion, the escrow accounts for the acquisition, and the cash management services for the customer.
This connectivity is enabled by the set-up of 14 China desks in 14 markets, and also through the various country desks we have set up in China. Simon earlier mentioned the delegation of Abu Dhabi to China, and his team worked actually very closely with mine to set up all the relevant meetings and to identify the business potential for Abu Dhabi.

I can give you many other examples for corporates, but that would take up a lot of time, so instead of continuing to talk about corporates, I'd like just to say, on the retail side, so our Retail Banking and Wealth Management, we have started a change programme for our people. Imagine Putonghua-speaking colleagues from China serving the mainland investors in Hong Kong when they are in Hong Kong to consume and to invest, and these colleagues are able to bring back a lot of the good practices and also the new product knowledge back to China to enhance our people resources.

China is a real and exciting growth story, obviously, and perhaps the most interesting part of it at the moment is renminbi internationalisation. We in the mainland are working very closely with the Hong Kong team to develop this business, using Hong Kong as an offshore fund centre of renminbi, our strong coverage of Chinese customers and also our connectivity with the rest of the world. On this note, I'd like to pass on to Mark.

Mark McCombe, Chief Executive Officer, Hong Kong

Thank you, Helen. Good afternoon, everybody. My name's Mark McCombe and I'm CEO of our franchise in Hong Kong. Obviously, we've heard an awful lot about Hong Kong throughout the course of the day, and it goes without saying that Hong Kong has been and will continue to be key to the success of HSBC. What I'd like to do today, though, is try to give you a couple of messages that are perhaps looking at Hong Kong from a slightly different perspective and that will set out the scene for how we're going to take the business forward.

I think the first point I would make is that, whilst we all recognise Hong Kong as a highly developed market and very mature market, in actual fact what we're seeing at the moment are all the signs of the growth potential of an emerging market. The second point I'd make is that that growth is really underpinned by the rising economic influence of the mainland in Hong Kong, and by Hong Kong reinforcing its position as the leading international gateway into the opportunities that lie in the mainland.

Now, the rapid rise of the renminbi and its eventual full convertibility, as we've discussed, is just one element in this shifting dynamic, but it's a very critical element in how we position the platform in order to take the opportunities that we see arising in the territory. So, over the next couple of minutes I'd just like to show you how we're positioning that platform in order to take advantage of these opportunities.

This first slide, however, has a couple of key points in it that I think will set the scene for the growth in the coming years, and I'd like to underscore the enormous firepower that we have in Hong Kong. But from our very early history, right up until today, we've placed an enormous premium on liquidity and the raising of deposits. And you can see that, through the economic cycle, we've actually been able to continue to grow deposits, which has given us the base from which we've been able to grow the asset base, as Peter has mentioned, quite significantly in 2010. But that growth should be looked at as growth through the cycle, and the fact that, as you can see, in 2009 we were in fact pretty static.

Now, although we've always been seen as the market leader in certain traditional products like deposits and mortgages, in fact I want to underscore that, in fact, we've been investing very, very heavily in this market in order to drive new revenue sources. Those revenue sources sit largely in the areas of wealth management and insurance, but also cross over into equity and capital markets, trade, and payments and cash management. And also the gaining of market share is not a phenomenon that has happened – it's been happening quite consistently but actually, up until very recently… In fact, year to date I can say that, on a net-sales basis, we have more than 50% of the market share of unit-trust sales in Hong Kong, and that's a position that is a marked change from previous years and this is a result of how we've developed the platform and developed our delivery channels in order to be able to get that sort of market share.

So, the upshot of all this, of course, is sustained profitability through the economic cycle, and yet you need to take that sustained profitability in the context of the colossal headwind that you've heard talked about earlier today. We estimate that, over the last two years, we've perhaps lost about $850 million as a result of the low-interest-rate environment, but over the same period that's been largely made up with increases in non-funds income of over 1.1 billion.

Now, in the second slide I want to illustrate further the changing landscape in Hong Kong, and underscore why I believe HSBC is extremely well placed to both adapt and thrive in this new environment. By way of background, let me give you a statistic that I think puts the whole matter into perspective. In 2010, there were 38 million mainland visitors to Hong Kong and Macao; that's more than five times the entire local population. So, in the airports, shopping malls, hotels and restaurants, Mandarin is now a far more frequently heard language. Apart from spending money in Hong Kong, these individuals are investing very heavily in the economy. So, they're setting up businesses, they're employing people, they're building into supply chains in Hong Kong and, of course, as Peter has mentioned, they're very actively purchasing real estate. You only need to look at the numbers on this slide to see that, pretty much by any measure, the presence of the mainland in Hong Kong is now a reality.

So, for us, of course, whilst, if you still look at our total number of accounts, say, on the business banking side, where it's significantly less than 30%, in fact, on this slide, you can see that 56% of new accounts opened are coming from the mainland. The same story for Premier, where one in four of our new Premier relationships are now mainland-origin customers. I think this is a trend that is likely to continue for some years to come and will certainly provide us with revenue opportunities as we go forward.

One of the things that is very interesting is why they choose HSBC versus what might be the more obvious conclusion that they would go to the mainland banks. Here, we've done a lot of market research and we've come up with just basically two very simple conclusions: that it's really about aspiration and connectivity. The aspiration element comes from the fact that, in reality, the platforms of the mainland banks in Hong Kong and, indeed, the platforms of many of the international banks in Hong Kong, are really not up to the same standard that we can offer at HSBC, and that's largely because, as mentioned in the previous slide, we have invested extremely heavily into the development of that platform.

But on the business side, it's really more about the international connectivity and the fact that, when they come to Hong Kong, they're not really looking to develop their business in the domestic market of Hong Kong, but rather using Hong Kong as a springboard into other markets in both the region and globally. So, that network effect that we've heard talked about so much today is absolutely critical in why those customers are coming to us. We have an internal thing which is a customer experience tracker, where we monitor clients on what they think of that platform and where we need to improve it, and we are consistently 40% higher in terms of the positive response we get from mainland customers than from the equivalent local customer. Again, that's because their benchmark has historically been so low, they've not been served well by their domestic bank that, when they come to Hong Kong and encounter our platform, in fact it's a really catalyst for growth for them. I think there's evidence in this slide, where we believe that one in three new businesses opened in 2010 actually opened a relationship with HSBC.

The final point I want to mention in this slide which is very interesting is the behaviours that we're finding from that mainland-diaspora clientele. Here, as you can see from the bottom-left table, we can see that the mainland Chinese tend to have propensity to buy wealth product, which is good, bigger average-ticket size, but are actually very happy dealing through the lower-cost direct-channel approach. So, for example, the average insurance ticket size for a mainland-Chinese client is 230% bigger than the equivalent local. For the securities trading ticket size, on average it's double that of a local client. So, the profit we're able to generate from the mainland clientele is some 50% on the wealth management side than we would see from the local, and I'm absolutely convinced that, as we see the continuing trend, the continuing influence of the mainland in Hong Kong, these will be significant drivers for us on the revenue side going forward.

So, the final slide: let me talk about the very important aspect of the internationalisation of the renminbi. Here, I think I can stand with a great degree of certainty to say that I think there is no other international bank that is as well positioned as HSBC to both capture the opportunities that come from the internationalisation of the renminbi but also to connect China with the rest of the world as they develop this currency and it moves towards full convertibility. And whether it's on the product side, like Trade Services, where we've talked about doing trade settlement already across six continents, whether it's on the bond-issuance side, where, year-to-date, we have a dominant number-one position in terms of issuance of dim sum bonds, or indeed getting a lead role in the flagship listing of the renminbi, which Samir has talked about this morning – the IPO – we are really extraordinarily well positioned to capture that fast-growing opportunity, both from a product and a distribution point of view.

Now, one of the obvious lead-on questions for this is: 'Well, is it having a material impact yet on the revenue base of HSBC in Hong Kong?' and I think really I would put it into a slightly different context. We've already recognised that the renminbi is playing an ever-increasing role in the domestic economy of Hong Kong, and our economists are predicting that full convertibility will come within the next five to 10 years, and that, indeed, it will become, as Peter says, an international reserve currency. So, the question is not really whether, in the short term, this has a revenue dynamic; the question is: 'Have we positioned the platform in a way to capture the opportunities that this currency will present?' Here, I'm absolutely convinced that that word 'international' is critical in everything we do; that, of course, the mainland banks will have an advantage over us in terms of their deposit base in China, but if we're able to connect the dots internationally back through Hong Kong and into China, I believe that HSBC will be able to play a pivotal role in terms of driving this currency forward.

I think it's also worth mentioning at this point the 12th five-year plan, which Helen alluded to. In fact, there's a real buzz in Hong Kong at the moment, because there are two elements to this plan that have a direct impact on Hong Kong and the ability of the corporate community in Hong Kong to really take advantage. The first is, of course, domestic consumption in the mainland, where many of the traditional manufacturer exporters are repositioning their supply chain to take advantage of the domestic consumption opportunities that are arising in China. Secondly, of course, is the whole low-carbon sustainability ability, where high-tech has more recently become an element of Hong Kong's industrial base, and a lot of clients who've invested heavily there are seeing great opportunity in driving that forward.

So, in closing, I'd ask you to look again at our business in Hong Kong. Look at how we're leveraging our scale, building new revenue sources and using our international and China connectivity to deliver value to both our clients and our shareholders. Thank you.

Peter Wong, Chief Executive Asia

Now, let's take a look at the rest of Asia-Pacific. In 2010, we prioritised our countries so that we can focus our investment. So, outside of Hong Kong, we have identified six key markets, and that's Malaysia, Indonesia, Singapore, China, India and Australia. And the focus has yielded very good results. In terms of PBT, Malaysia went up by 40%; Indonesia 42%; Singapore was level with 2009 because of one credit hit and that's not a systemic issue; China went up by 94%; India went up by 82%; and Australia went up by 30%. So, we will continue to focus on these key markets, without overlooking other strategic markets like Taiwan – because this is the third leg of the Greater China strategy – and also Vietnam.

Now, let's take a look at India. We have an aspiration of making $1 billion PBT in less than four years. As you can see, there's no lack of opportunities in India, with 8% GDP growth and a 10% compounded growth in the middle class until 2025, and also the wholesale retail banking revenue pools are also growing robustly. We are well positioned to capitalise on these opportunities. To achieve the $1 billion goal, we have our action plan. On Retail Banking and Wealth Management, after the acquisition of InvestDirect, we have 108 outlets in 52 cities. Now, in these outlets, with the exception of taking deposits, we distribute wealth management products and also broking services. The results so far have been very encouraging. And we are also in the process of acquiring RBS business to expand our branch network.

We also have a very strong Global Banking and Markets and CMB franchise. PBT has grown three times between 2005 and 2010. In 2010, our loans went up by 29% and we will continue to use our balance sheet to support multinational corporations and large local corporates to expand both locally and internationally. In addition, as I talked about before, we want wallet share, especially NFI, from these customers.

In Singapore, we want to achieve $1 billion in less than five years. Singapore is the private-banking centre of Asia, with offshore wealth growing faster than Switzerland. In addition, it is a big trade hub and also the largest FX centre in Asia, excluding Japan. To achieve our goal of $1 billion, we have and will continue to increase our Premium relationship managers as well as our private bankers. Against 2010, we have increased our Premium relationship managers by 16% and the trend will continue. Also in the first quarter of 2011, we've become the first retail bank to distribute RMB deposits and RMB bonds. On trade, we've also increased our sales team and our product team in the last 12 months, which leads to an increase in trade turnover of 68%. In the first quarter of 2011, we've also increased our market share in trade transactions. We're hiring more expertise in structured trade finance. On foreign exchange, we've just put in a new dealing room to enlarge our capability to cater for growth.

For Malaysia and Indonesia combined, we want to make $1 billion in less than four years. Both countries have very healthy GDP and domestic consumption growth. In Malaysia, we are the largest foreign bank and we will continue to grow our branch network. In 2010, we grew our branch network from 44 to 50. The Malaysian government wants to be the global Islamic centre, and we have the expertise. In terms of Islamic banking assets as a percentage of total banking assets, it was 12% in 2006 and 20% in 2009. Our capability in this area is very strong. For example, the biggest Shariah-compliant REIT was launched in Singapore, and Simon talked about that. We leveraged our expertise in

Malaysia and we got customers from Malaysia, as well as the Middle East, to invest in the REIT.

In Indonesia, after the acquisition of Bank Ekonomi, we have a total of 185 outlets. That acquisition has provided us with a strong SME platform. Our HSBC brand in Indonesia will focus on premium customers, multinational corporates and large local corporates, while Bank Ekonomi will focus on mid-size corporate and also SMEs. Our strategy is to have deeper penetration into these segments.

We talked about the three stages of the sustainable revenue strategy, and that is growing quality assets, growing non-funds income, and also deposits. This sets the platform of our PBT growth in Asia-Pacific. We have the brand strength, we have the international connectivity, we have the balance sheet and we have the competitive advantage and, most importantly, we have the management capability to achieve the billion-dollar goals that we've set for the various key markets, and we will continue to be the leading bank in Asia. Thank you. Now, may I invite Stuart to chair the Q&A?

HSBC 2011 Investor Day

Geographies – Europe, MENA and Asia

Questions & Answers

11 May 2011

Stuart Gulliver, Group Chief Executive

We'll now have another Q&A session, obviously on Europe, the Middle East and Asia-Pacific, so if I can invite the first question. Thank you very much.

Raul Sinha, Nomura

If I can have two questions, please, firstly on Hong Kong and your appetite for asset growth continuing into this year and maybe a comment on next year. If you look at the asset growth, it's 40% up year-on-year. You've added 40 billion of assets. Impaired loans are 50 basis points. Do you think we're at a cyclically low point for impaired assets, and what is your appetite for further growth, especially in a context where your revenue growth looks to be single digits?

Second question, if you could comment on Korea, another major market in Asia, where you have looked at assets in the past, but obviously there's a significant banking pool. Could you comment on your strategy there?

Stuart Gulliver, Group Chief Executive

Sure. In Hong Kong, in terms of asset growth, as Peter said, we did actually scale back a little bit in 2008-2009, around the time of the rights issue, around the time that we obviously were being cautious about our approach to the crisis that was taking place. And so, to some extent, the growth that you've seen is a little bit of regaining market share. We have a tremendous funding base in Hong Kong; we also have a very large capital base as well. So, the kind of growth that you've seen is not constraining any of our financial ratios at all. You're right that there's been a margin squeeze, but I think that we've talked extensively about the fact that every bank in the world has woken up to the fact that these are the markets with the biggest opportunities. As I said at the beginning, we are going to aggressively defend our market-share positions in places like Hong Kong. So, everything that you've just described is entirely correct and we're entirely comfortable with, and we will continue to grow and to grow out our lending volumes in Hong Kong. And we've continued, as you've seen in the first quarter, to see reasonably good growth.

Raul Sinha, Nomura

If I could follow up, then, what does that mean for cost growth? Because, obviously – and you talked about this IMS statement – you've seen a very strong pickup in costs in Q1. Do you see yourself comfortable with a rate of cost growth that's well above revenue growth in this period?

Stuart Gulliver, Group Chief Executive

Well, actually, if you dig into it, cost growth is up first quarter versus first quarter, but actually it's flat or down on the fourth quarter, because actually Peter and his team have already put in place a rollback of marketing costs, marketing expenditure, general expenses, and so, therefore, the line that's actually the one we're going to defend is, obviously, staff costs, because we need to retain our staff and there is inflationary pressure there, but actually, if you look at us first quarter/fourth quarter, actually that cost is not growing; it's actually being held flat. And this is something again, having moved to quarterly reporting, we'll be able to do in a much more transparent way with you, to show you the trailing quarter rather than showing a 12-month change in such fast-moving markets.

So, actually, you can already see that costs other than staff costs are being addressed. And yes, we are, actually, reasonably comfortable with the inevitability of what I've just described. It is, though, interesting that there's a little bit of anecdotal evidence coming in from the large corporates, that actually the spread compression may have reached the bottom. There's been a couple of large loans done recently, where, actually, credit spreads have moved back up, so we may have possibly indicated by some sense that there may be a little bit of a capacity withdrawal from the mainland Chinese banks, but very, very early days. I wouldn't necessarily make a major point out of that, but there's some anecdotal evidence on one or two credits of that turning round.

As far as Korea is concerned, you're right: we've looked at Korea on a number of occasions and have not taken acquisitions forward, for various different reasons at different times, all of which were extremely valid. We have a very good Global Banking and Markets business there, a very good Commercial Banking business there, and actually Korea, therefore, will remain a strategically important market, but I think it's one of those markets where you should not expect us – and I think we've signalled this on a number of occasions – to be looking to make acquisitions. It also is worth pointing out that, actually, the profitability of our Korean operation without an acquisition has been pretty good compared to some others who made acquisitions.

Philippa Rogers, Goldman Sachs

Stuart, actually, one question for Helen and one question for Mark. Mark, the usage of those RMB deposits, what do you do with them, given the regulatory constraints? And the second question is: China is your most lauded market, but organically you make US$250 million – not a lot – and you don't have your $1 billion achieved medium-term target like you do for India or Malaysia and Indonesia, so what's the target, what's the aspiration there, and what's got to change to get it there?

Stuart Gulliver, Group Chief Executive

I'll take the China strategic billion-dollar hairy goal and the RMB usage. I'll ask Peter or Mark to talk to…

Mark McCombe, Chief Executive Officer, Hong Kong

The industry gives its RMB to Bank of China, who gives it to the PBOC in China at the moment, and the reason for that is structural because, obviously, not many people have demand to borrow in renminbi in Hong Kong, because obviously they can borrow more cheaply. There has been a growing trend, which is why we saw quite a tick-up – I'm talking industry again here but we saw quite a tick-up in the third and fourth quarter of renminbi deposits in Hong Kong, and that was because of the advent of lending in US dollars or Hong Kong dollars backed by renminbi deposits, and a lot of that was being done by state-owned enterprises from China, or private enterprises, coming into Hong Kong. And the reality is that the usage, therefore, of the currency is still quite limited but, given the direction that the PBOC is going with this and the desire to have this international convertibility and the socialisation of the renminbi, actually that's why deposit gathering is still very important, because at some point interest rates will normalise and at some point there will be demand for renminbi loans outside of China.

Stuart Gulliver, Group Chief Executive

In terms of the size of the PBT in China, as you well know it's constrained by our ability to grow our own operation, which is constrained by CBRC and the regulatory environment in China. So, in essence, what I would say to that is, really, three or four things: number one, in terms of our own business conducted through the subsidiary in China, we enjoy higher profits than any other foreign bank on our subsidiary business in China. Secondly – and as I said earlier – the best way for us to present a substantial exposure to China at this moment in time is through our investments in our associates, which is why we will continue to hold those investments in those associates, because, if you like, it's probably not the right phrase to use but we want to be overweight exposure to mainland China.

And then the third business opportunity is, actually, several things that we've touched about here, and this gets repetitive, so I apologise, but it is dealing with Chinese companies as they come overseas, so the examples given about the Middle East and the connection there that was put in place, China into Brazil etc, China into Europe, are very, very real business opportunities. That's what we've also started to explore with Bank of Communications, where we believe we have an edge in terms of their relationships with the SOEs onshore in China. And then the fourth piece is actually the internationalisation of the RMB. So, there's really four pieces of business that relate to China – actually, there's a fifth, which is our own multinational corporations in Europe doing business in China. The kind of business that we do with some of the large German companies and some of the large French companies is in China. So, in essence, the number that you see that's the bank in China – i.e. the subsidiary – is only part of the story about the Chinese growth that sits within HSBC's numbers.

Peter Wong, Chief Executive Asia

In my presentation, I pointed out that you cannot think of Hong Kong in isolation from China, because a lot of Hong Kong developers, manufacturers and so forth, they're borrowing in Hong Kong and investing in China. Although we are taking the profits in Hong Kong, but without the China piece it's very difficult to make it work.

Ronit Ghose, Citi

Could I ask a question on the UK and the costs? Stuart, at the start you said it was a myth that you had a weaker cost-income ratio than the peers. Could you tell us what your cost-income ratio in the UK is in Retail, or Retail and CMB; what it was last year versus five years ago? When I look at the peers over the last five years, the three major banks, excluding Santander UK, who clearly showed an improvement, the other three banks have been broadly stable. There's been a little bit of change because, touching on Stuart's point about the A/D ratio, they have not really seen much of a change in the cost-income ratio in the comparable businesses. In your case, could you just show what's happened to you? Because maybe the margin pressure on the A/D ratio has been offset by gains you've made on restructuring, but I can't see that in terms of either, over time, an improvement in cost-income ratio from what you've delivered already or versus the peers.

Stuart Gulliver, Group Chief Executive

I don't have the five-year-ago cost-efficiency ratio for the UK bank; surprisingly, neither does Brian, but Iain's struggling for it. But the point I'm making is this: I think it's something like 55, the cost-efficiency ratio of the UK retail bank; i.e. CMB and Retail Banking and Wealth Management. That does make it the worst cost-efficiency ratio. The point I was making is the reason we have that is we've got the best A/D ratio. The reason that that affects our cost-efficiency ratio is interest rates are 50 basis points, so we're not earning any net interest margin on our deposit base. If interest rates went back to 4% or 5%, we'd all of a sudden have a cost-efficiency ratio in the high 40s, and all the other banks would have a cost-efficiency ratio in the low 60s.

So, when you look at the cost-efficiency ratio, it is not a cost problem; it's a lost revenue, because the deposit base doesn't generate anything, because we're the only bank that actually have an A/D ratio of 100. We have actually matched deposits and loans. So, the point I'm making is not that we're horribly inefficient on our cost; it's actually the revenue side of the cost-efficiency ratio that drives it, and it's an absolute output of the point of the interest-rate cycle that we're at. We did some analysis on this when this was picked up in the press, so if you map the cost-efficiency ratios, you'll find it's absolutely inversely proportional to the A/D ratio. It's about the value of your deposit base, which, when interest rates are 50 basis points, has very little value.

Ronit Ghose, Citi

That's a completely transparent point about the A/D ratio, but from your public disclosure it's hard to see the UK cost-income ratio [inaudible] –

Stuart Gulliver, Group Chief Executive

The UK retail banking piece is 55 now and I, off the top of my head – and we'll have to come back to you – don't know what it was five years ago, and nor does Iain, but we'll get right back to you at some point on it. But you'll see this tracker against interest rates. Because the second thing to bear in mind is what Brian was saying and what Sean was saying, we've held the cost base in the UK flat for the last three years, so these guys have run with flat costs for three years; so, again, information that contradicts that comment that we're inefficient.

And then the last point is: take our branch network, divide it by that cost; the cost per branch is actually in line with the others. So, the best way of, clearly, solving out for the revenue white noise is just to look at expenses divided by branch network, and actually it's not expensive.

Ronit Ghose, Citi

Have you looked at that analysis on the revenue side ex the impact of the A/D ratio? Because you showed before that your client base is relatively young in the UK, and usually young client bases have lower products per client sold. I was wondering, ex the A/D ratio, if it's not a cost issue is there still a revenue issue and why?

Stuart Gulliver, Group Chief Executive

I haven't done that. I don't know… We can do that analysis but, as I say, we've looked at the expense issue, because we've been looking at this from a cost-efficiency problem. Actually, the cross-sell in the UK retail bank is pretty good, and actually the ROE of the UK retail bank is actually already above the 12-15. So, I don't think that that's going to turn out to be the case, but I don't have that analysis to hand. Brian probably did it during the coffee break, so I'll turn to him.

Brian Robertson, Europe Chief Executive Officer

I was also going to just say that you may have to go back and readjust some of the other banks' cost-income ratios over the past five years, given what's happened over the last week or two in terms of revenue.

Stuart Gulliver, Group Chief Executive

Yes, there might be a bit of alchemy there.

Robert Law, Nomura

Can I just pick up on the last answer, please? Because I think you gave the PFS cost-income ratio in Europe last year as 67, so, if half of the business is 55, I was kind of wondering: what is the issue with the rest of it?

Stuart Gulliver, Group Chief Executive

The French business was loss-making and has now been turned round. And Russia was loss making as well and has now been shut.

Robert Law, Nomura

Can you give us a feel for –

Stuart Gulliver, Group Chief Executive

Malta is good.

Robert Law, Nomura

We're starting to get into the 23 names here, I think. The European profitability looks like it's about 1.3% and the target is 1.3 to 1.5. On a Basel III basis, what kind of delta do you have to close in Europe and how are you going to get there?

Stuart Gulliver, Group Chief Executive

Europe, as both Brian and Iain have said, also has the bank levy in it, has the head office costs of the Group head office sitting in it, so actually it's carrying a little bit of a distortion in all of this.

Iain Mackay, Group Finance Director

It is. I think one or two other factors, Robert, are it's carrying a very substantial Global Banking and Markets business, which includes significant legacy positions which are in runoff within those portfolios –

Stuart Gulliver, Group Chief Executive

And are the main impact of the Basel 2.5 adjustment in the capital bridge, so I don't think we can give more disclosure on that, but there are several headwinds that sit within those numbers which don't really inform you about the underlying profitability of the European business.

Robert Law, Nomura

Just on that point, I presume that giving us the target return on risk-weighteds was really designed to help us form a view on what the underlying profitability could be in the different geographies and the different customer groups. Clearly, in Europe, Brian's pointed out the one-offs and said it's 1.8 2 if you look at the legal-entity numbers. And just picking up on Mike's point from earlier, it seems strange to set a target for the US which guarantees a return on equity below the cost of capital. So, could you comment on what the… I mean are these more interim targets looking at the next few years on a realistic basis and you then restructure or do what you do, but we need to look beyond these to get a feel for what underlying profitability really is?

Stuart Gulliver, Group Chief Executive

That's a good question. Iain will answer it.

Iain Mackay, Group Finance Director

Yes, I'll take it. The targets that we've laid out are for the three-year period that we've talked about. I think, certainly, if you were to talk to Paul about, 'How do you work through some of the runoff in North America and what do you think about the longer-term opportunity in Retail Bank' – you're right, the wording is far too long, we need to pick a different name – 'Retail Banking and Wealth Management?' then you would look at a higher end of the range from a returns perspective. What we've laid out here is what we aspire to achieve over the next three years, by 2013, in effect. And I think we'd said, in one or two instances before, that were we able to accelerate some of these moves that we've talked about today, or realise them in a more efficient manner, then we'd probably come back and revisit where we are. So, what we've laid out is, generally speaking, through this three-year cycle to 2013.

Arturo De Frias, Evolution

Two questions, please: one back to Hong Kong jobs. We hear you that margins or spreads might have bottomed and we also hear you saying that costs are coming down quarter-on-quarter, but as you say these are very early trends and it's not clear that they will continue through the year. So, assuming – and I don't want you to answer a hypothetical question but I just want to know more or less what's your stance or what's your view here – assuming that nothing of that happens, that margins don't bottom out and that costs continue to go up, would you be prepared to get, by the end of this year, again with another 20-points negative jobs in Hong Kong, or there is a point where you have to stop defending your market share and start to defend more the operating leverage? A second question later, please.

Stuart Gulliver, Group Chief Executive

Well, given this is a hypothetical question, I'll give you a hypothetical answer. There clearly will become a point where we would have to do that, but I don't think it's useful to articulate today where that might be. But there would be a crossover point, but clearly we would need to look at whether there are significant efficiency gains that we could get out of the non-staff-related costs before we got to the second stage of… if you have this inexorable march of margins down with high inflation. But the thing, I think, that we're missing in all of this is we're not alone in suffering these pressures. So, it's also going to be a question of who blinks first in these types of situations, because that hypothetical question assumes we're the only bank in Hong Kong that has staff whose wages are going up and we're the only bank in

Hong Kong who's writing assets where the margins are coming down, and of course that's not going to be the case.

What might be the case for a lot of other banks is, actually, that Hong Kong is a lot less strategically important than it is for us, and they may blink a lot sooner. So, I think, from a pure – take comfort from the fact that the five filters will apply everywhere, it will apply everywhere, to be crystal clear. But equally, I wouldn't build yourself into a hypothesis that is a non-real-world one. We're not the only bank in Hong Kong, so everyone else is going to be facing exactly the same pressures you've just described.

Arturo De Frias, Evolution

A quick follow-on on that one: that's absolutely reasonable, but it's not the case that most of this wage pressure is being driven by Chinese banks and it's not the case that Chinese banks seem to be more interested in presence, market share, etc.

Stuart Gulliver, Group Chief Executive

That's wrong, so if I let Mark just answer that. That's wrong as an assumption.

Mark McCombe, Chief Executive Officer, Hong Kong

I think we've talked a lot about the Greater China story. Don't forget that we've made some strategic decisions about investment in Asia that are largely based out of Hong Kong. So, in the same way that we've talked about Europe, for sure Hong Kong will bear for HSBC a higher proportion of costs and investments for strategic investments. So, for example, building out our FIG capability has been a strategic initiative. Of course, a lot of the bankers will sit in a place like Hong Kong.

Now, the issue about inflationary pressure is far more acute in the banking industry and is driven largely by both the top and bottom end, if you like, of the banking curve, if you like, so it's not just the American banks coming in to try to capture a bit of the investment-banking market, but the mainland banks and the midsize Hong Kong retail banks, as well as the big competitors that we have, are all trying to dip into the same resource pool, which is actually quite limited. And the reason, just to underline this again – and it comes back to the issue of scale – the reason that we've been able to grow market share is because, actually, we rely less on the physical person than other banks have to, because we've got great delivery channels.

We've been migrating processes up into Guangdong province for years and, of course, guess what? Suddenly these people are talking to other mainland customers who are doing business in Hong Kong, so they're actually able to take the sales process. They're able to interact in a much more profound way than just the call centre as you might traditionally imagine. So, I think that's what really driving the wage pressure in Hong Kong and that's how we've been able to respond to it. But for sure, the points that have been made about that continuing, it's real. We have to face up to it.

Peter Wong, Chief Executive Asia

I'd just like to make one point. We hired last staff year –basically about a 5% increase – so the staff that we hired, it's not hired in one bunch but throughout the year. So, when you compare quarter to-quarter, we have the full-year impact of the staff costs this year versus the third quarter of last year. So, that's why you have a big swing in terms of expense uptick in the first quarter, but versus the last quarter of last year then it's probably slack. We're still controlling that.

Arturo De Frias, Evolution

The second question: it might be a bit unfair to ask this now, but regarding the recommendations of the Independent Commission, I know you have said it's too early and I know you have said you need to see the final report etc, but I'm sure you're starting to have some kind of rough idea of what could be an indication in terms of funding costs etc. Are any of the targets that you have shown us today particularly at risk if the Independent Commission promotes, I would say, a tough degree or high degree of subsidiarisation, ring-fencing etc.

Stuart Gulliver, Group Chief Executive

There'll be some impact on Global Banking and Markets in the UK, and that's all. And it really depends on the treatment of the funding of corporate and commercial banking loan books, rather than, effectively, the treatment of trading and sales into a separate subsidiary. That doesn't really have a significant cost. Where the interim report is silent is on where you would put a loan to Rolls-Royce, a loan to Tesco, where you would book a loan to Barratt's the builder. Would you put that into your retail bank against your deposit base or would you have to issue term senior debt to finance it in your wholesale bank? So, it's the funding of loan books.

Because I think that, to some extent, the… Well, actually, the report is totally silent on this, but there may an assumption that a lot of what wholesale banks such as our Global Banking and Markets and perhaps BarCap and so on do is very extremely to Morgan Stanley and Goldman, but clearly it's not. We actually lend money to people – we're a universal bank – and we're in the payments and transmission mechanism of the economy. We're in CHIPS, CHAPS, Fedwire. We run a payments and cash management business. So, therefore, that's the key question. So, if, indeed, the conclusion was that all of the wholesale… If, indeed, the conclusion was the loan to Tesco fits in the wholesale bank and we would need to issue bonds, we would have this inefficiency: A/D ratio is 100, so let's take a hypothetical balance sheet. We have 100 deposits, we have 100 loans, of which 70 are to corporates and SMEs, and 30 is mortgages. You now create the two banks. The retail bank has 100 deposits and 30 mortgages, so it's not got 70 to lend to someone, and the wholesale bank has 70 of loans to SMEs and corporates, and no deposits. So, that's the issue and that's one of the reasons we haven't commented: actually, the report is entirely silent. Douglas, I don't know if there's anything you want to add on this.

Douglas Flint, Group Chairman

I absolutely agree. And the other thing that's uncertain is the extent to which, if you had a fully funded retail bank, you would still be required to issue bailing bonds, which, if you're already fully funded, isn't funding the book; it's just giving you a negative spread.

Stuart Gulliver, Group Chief Executive

So, it's UK and it's Global Banking and Markets – there's nowhere else.

Arturo De Frias, Evolution

And when you say 'coming back', are you thinking about a handful of basis points or –

Stuart Gulliver, Group Chief Executive

We haven't made the calculation because we assume that part of the process with issuing the interim report is to gather industry feedback on how those types of loan book should be funded, because clearly the ICB is not looking to create a situation that hampers credit extension into the real economy. So, we haven't done a calculation, because we don't have a degree of certainty about the likelihood of this happening, but in the interests of transparency that's the issue from the ICB.

We've probably got time for three more questions and then I'll sum up very quickly.

Michael Helsby, Bank of America Merrill Lynch

It's actually on the Group, so sorry about that, but I just want to push on costs because I think it's clearly one of the big announcements of this morning. I noticed in Latin America and in Europe that some of the cost-saves are actually coming from portfolio exits, which will clearly have a revenue implication. So, I was just wondering, of the 2.5-3.5 billion cost-saves, how much revenue would be lost associated with that? And again, I know it was asked this morning, but it would be extremely helpful if you could give us at least a ballpark figure based on your pipeline that you've worked on at the moment of what you see as a restructuring cost, be it a percentage or whatever.

And just secondly, again, throughout today, thanks, you've made some very significant statements on costs and on revenue opportunities as well; I was just wondering in the interests of openness, which clearly you've said you wanted to do, whether you'd give some – sort of manage some sort of expectation about the timeframe that we should see and expect to see this coming through, so is the cost income ratio now at a peak, you know, is this something we should be seeing a big improvement coming through in a couple of years' time? Just help us manage expectations.

Iain Mackay, Group Finance Director

Well certainly the extent that any of the cost savings relate to portfolio exits, with one very notable question which is the hypothetical Cards question, which is a very good cost income ratio. Any of the rest have clearly awful cost income ratios, which is why they're going through the five filters approach and they generally fail. So it would generally be a good thing in terms of improving the overall cost income ratio for the group, cards being a notable exception in that regard. As far as restructuring goes, no, because although we've got a very robust pipeline, a great deal of this is about re-engineering process, whether it's in Hong Kong, whether it's the Middle East, whether it's the UK and our ability to do that doesn't generally connote that you've got a restructuring charge against it even when it relates to people leaving the organisation. One, because we've got attrition that tends to roll around about 10%, so when you think about employing 296,000 people on a 10% attrition, you're turning over a large population every year, so you're ability to absorb some of that, without restructuring charges associated with it, is not insignificant. So although we've got a very robust pipeline of saves, we really have to work through the execution of that from a process re-engineering or of what Sean does in IT, a lot of what the CEOs do in their businesses, and we'll be absolutely clear about what restructuring is when it comes through, but at the moment, certainly of the pipeline that we've got, I would not expect significant amounts of restructuring costs to come through but as and when it does, we'll be very clear about it.

Stuart Gulliver, Group Chief Executive

Okay, we've got time for two more questions. Who hasn't asked a question? I don't think you have.

Chris Manners, Morgan Stanley

Hi, it's Chris Manners from Morgan Stanley. I just had a question on the UK retail side and on the mortgage margins. Obviously, you've had good growth and you're growing at double your, sort of, share. I just wanted to know, you know, what's happening to the asset margins there. Obviously, you indicated there was still a deposit competition. Should we expect an expanding NIM on UK mortgages? And the second thing, obviously Independent Commission on Banking, they've been saying that they want to put in measures to increase competition in the UK market, you know, how much impact do you think that could have? Thanks.

Stuart Gulliver, Group Chief Executive

Brian, if you just want to take those two?

Brian Robertson, Europe Chief Executive Officer

Sure. Thank you Stuart. We're on a very good margin on mortgages at the moment. As competition increases for deposits, I expect the next move in margin on mortgages across the industry to be upwards and we will obviously take part in that movement as and when it occurs but at the moment, we're very comfortable with the returns we get from our mortgage book, particularly on a return on equity basis, given the very low capital requirement for a 50% mortgage in the UK market. In terms of competition, we welcome more competition, we're certainly not afraid of more competition, I think, you know, we had a unique and differentiated proposition to that of the existent competitors in the UK market place, we can continue to build on our strengths in our customer base in terms of our affluent Retail clients, in terms of developing more products and services for them; certainly in the Commercial space, I don't think anybody can compete with us, no matter who tries to enter the market.

Chris Manners, Morgan Stanley

So just a follow up – so you're saying that you actually think the mortgage margin should expand from where it is now…

Stuart Gulliver, Group Chief Executive

What Brian's saying is once the deposit war – once interest rates go back up and as you get towards the end of this year, and the fact that the other banks have to repay their SLS borrowings, they're likely to bid up deposits, they're not going to contract their spread, they'll therefore put up their lending price. If they do put up their lending price, we will follow it but we won't – we won't lead it as it were. That's all he's saying.

Chris Manners, Morgan Stanley

Thanks.

Stuart Gulliver, Group Chief Executive

Okay, last question. Yourself.

Steve Hayne, Morgan Stanley

Thank you very much, it's Steve Hayne from Morgan Stanley again. I'm just wondering if there's something that you're aware of on the cost side that we're not; in particular, my question relates to a previous programme.

Stuart Gulliver, Group Chief Executive

It's what keeps you awake at night type of question.

Steve Hayne, Morgan Stanley

So that there was previously a flagship programme you have called One HSBC, but there was a degree of sunk investment in that programme. The pessimistic view says that after many years of going at it, having just printed 55% cost income last year, that was clearly a disappointment, I would like to take a more optimistic view and say a degree of investment was made, the last reference I could find was referring to $415 million being spent in 2009, I couldn't find a 2010 reference. That should have given rise to something, I can't believe it went to zero, so I'm wondering whether you have some run rate synergy benefit from that programme starting to kick in that you're aware of as you give your cost guidance going forward?

Stuart Gulliver, Group Chief Executive

No. The delivery of One HSBC has, as Sean alluded to earlier, delivered quite a lot of actual benefits to the firm but the cost of it's in the accounts and the benefits in the assumptions that we've set out. So there's no side pocket at all, none at all.