HSBC Holdings plc
2007 Interim Results – Presentation to Investors and Analysts
Transcript

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FORWARD-LOOKING STATEMENTS

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report.

PRESENTATION

Stephen Green

[Slide 1: HSBC Holdings plc – 2007 Interim Results – Presentation to investors and analysts]

To everyone here in London and good afternoon to everyone who is with us via satellite link in Hong Kong. And welcome also to those joining via webcast or conference call.

Let me start with some introductions. First of all, here in London to my right, Mike Geoghegan, Group Chief Executive. And to my left, Douglas Flint, Group Finance Director.

I am very delighted to report that we have three of our non-executive directors of the main board sitting right in for to me. Sir Brian Williamson, Sir Brian Moffat, Sir Mark Moody-Stuart. You are very welcome.

And in Hong Kong, Vincent Cheng. Chairman of the Hong Kong and Shanghai Banking Corporation. Sandy, the new Chief Executive. A particularly warm welcome to you, and in many senses, welcome back home to you. Edgar Ancona the Chief Financial Officer. And Russell Picot, HSBC Group Chief Accounting Officer.

[Slide 2: Forward-looking statements]

Before we start, I would like to put up the usual cautionary statement on forward-looking statements.

[Slide 3: 2007 interim results – Key financial results]

And I would like to draw your attention to the key performance highlights of our results for the first half of 2007.

These are record results. Profits are up 25% of the attributable level to $10.9 billion U.S.

Earnings per share are up 22% to $0.95.

These results do include some one-off exceptional gains that have to do with the dilution of our interest in our China associates. And Douglas is going to explain those in more detail shortly. But because of that, I am going to concentrate on in what I am now going to say on the numbers excluding those specific dilution gains.

And there we report on a very good business growth. Revenues up 16% to $38.5 billion.

Pre-tax profits up 5% to $14.2 billion.

Loan impairment charges up 63% on the first half of 2006, but down 5% of the second half.

Continued investments. Costs growing at 15%, which is lower than revenue growth, and yet includes substantial investment in organic investment in the development of our business.

[Slide 4: 2007 interim results – Regional highlights]

Turning to our regional performance. We are continuing to make progress with the rebalancing of Group earnings toward developing markets in the way that we said we would do at the beginning of this year. We are clearly the number one international bank in Asia now.

We have very strong profit growth to report across a region. Profit before tax, up 55% to $6.7 billion, or 30%, excluding those dilution gains that I referred to.

We have been strengthening our regional franchise in Latin America. Profits before tax there is $1 billion, up 16%.

In the United States, we are making good progress in tackling our U.S. market services issue. And Mike will give you more detail on that later.

Despite the challenging environment in Europe - particularly in the U.K., profit before tax is up in Europe 13%, to $4.1 billion.

[Slide 5: 2007 interim results – Customer group highlights]

When I look at the highlights by customer group, we see that in Personal Financial Services, yes we have seen some challenges. The U.S. mortgage services issue that we have talked about. And in the U.K., Personal Financial Services have faced some challenges. Again, Mike and Douglas will talk about those.

And so profit is down 20%, to $4.7 billion.

On the other hand, our commercial banking business continues to perform extremely strongly.

Profit before tax is $3.4 billion, up 20%. Record results in CIBM show that our strategy and new focus is working. Profit before tax of $4.2 billion, up 32%. And positive jaws of over 6%.

And the leveraging of our Group connections for the benefit of our private banking client base has shown great results, with profit before tax up $0.8 billion, or up 30% year-on-year.

Now, I am going to hand it over to Douglas to take us through the numbers in more detail.

[Slide 6: Douglas Flint – Financial performance – first half, 2007]

Douglas Flint

Thank you, Stephen.

[Slide 7: 2007 interim results]

I would like to turn first to the Group's income statement as it is reported. Net operating income before loan impairment charges increased by 19.6%. The 63.1% rise in loan impairment charges clearly stands out. This is predominately arising in the United States.

The first thing to note, however, is that the comparable period in 2006 was significant advantaged because of the pull-forward of impairment losses into the final quarter of 2005, consequent upon the change in bankruptcy law in that quarter.

The other major impact, of course, is the higher delinquency and charge-offs in our U.S. correspondent mortgage business. And we will return to this later.

Net operating income increased by 13.6%, to $32 billion U.S.. Total operating expenses increased by 15.3%. And this primarily reflected business expansion, particularly in Asia, as well as higher performance-related expenses and higher volumes in the transactional banking businesses in CIBM.

Profit before tax increased by 13.1%. And profit attributable to shareholders increased by 24.8%, as a result of a lower-than-normal tax charge, which I will discuss later.

Earnings per share increased by 21.8%, to $0.95 U.S..

Dividends per-share in respect to the first half of 2007, $0.34 U.S, or as set out in the scheduled contained in our 2006 accounts.

[Slide 8: 2007 interim results – Noteworthy items]

I would like to highlight certain items contained in these financial results.

First, the gains from the dilution of our interests in our Chinese associates amounted to $1.1 billion U.S.. These arose from the secondary share offerings of our associates in Shanghai, which we could not participate in. However, our shares of the process of issues exceeded the book cost of our dilution. And then therefore we recognized the gains.

Second, related to the decline in the tax rate to 18.7% was driven principally by geographic mix. Together with some tax free gains, and prior year tax settlements.

And you will also recall that we sold 8 Canada Square in May of this year. And for technical reasons, the gain in the sale, which would be about $1.3 billion U.S. is expected to be recognized in the second half of this year.

[Slide 9: 2007 interim results – Adjusted for dilution gains]

Turning to the next slide, we present the results adjusted to the dilution gains. You can see that net operating income before loan impairment charges increased by 16.3%, which is 1% higher than the increase in operating expenses at 15.3%.
The increase in profit before tax is 4.5%. And the growth in earnings per share is 10.3%.

[Slide 10: Underlying growth – Excluding dilution gains, 1H07 vs 1H06 and 2H06]

And finally, this slide highlights the underlying performance against the two previous half years, adjusting for both of dilution gains and stripping out the effects of currency movements and acquisitions and disposals.

In terms of underlying performance for the first half of 2007, against the first half of 2006, there was a continuation of double-digit growth in net operating income before loan impairment charges.

This was 11.3%, which is 1.6 percentage points higher than the growth in operating expenses of 9.7%.

The modest growth in profit before tax reflects the 57.4% growth in loan impairment charges. But against the second half of 2006, there was a strong recovery in profit before tax in the first half of 2007, up 33.4%.

This, of course, reflected significant improvements in our U.S. businesses and strong growth in Corporate, Investment Banking and Markets, and all across Asia.

[Slide 11: Asia]

Highlighting results by geography, let us start with Asia. And whenever we discuss financial performance in Asia, we are excluding the dilution gains.

Asia continues to produce excellent results with profit before tax up by 30%. With a profit before tax contribution of $5.6 billion U.S., Asia accounted for 43% of Group profit.

This strong growth was broadly based across all customer groups with Personal Financial Services in CIBM outstanding.

[Slide 12: Middle East]

Within Asia, the Middle East contributed $600 million U.S. to gross profits. Growth of 8%. And the apparently disappointing PFS results are entirely attributable to Saudi Arabia, as a result of lower stock market activity following the significant market correction in the latter half of 2006. Elsewhere in the Middle East, PFS was 29% ahead of the prior year period.

[Slide 13: Latin America]

We delivered balanced growth in Latin America, with profit before tax up 16%. Commercial Banking produced the strongest performance with profit before tax up 49%.

And PFS, Brazil delivered good growth, which was partially offset by higher loan impairment charges in Mexico.

The decline in profit before tax for CIBM was largely due to lower balance sheet management income in Mexico.

[Slide 14: North America]

The 35% decline in profit before tax from North America was in line with expectations. This performance was primarily driven by higher loan impairment charges in respect to the U.S. mortgage services business, and normalization of credit charges in other consumer finance businesses.

Against the second half of last year, profits were markedly up. The modest growth in Commercial Banking reflected continuing expenditures to support expansion of operations.

[Slide 15: Europe]

In Europe, we had three positive stories and one was disappointing. First, CIBM was up by 39%. Spread across our major platforms in London, Paris, and Dusseldorf.

Second, CIBM continued to grow steadily.

Third, Private Banking was strongly ahead.

These successes however were partially offset by the effects of the difficult operating environment in the U.K. retail banking - the major item is the impact of unauthorized overdraft charge refund claims, which impacted operating expenses by $236 million.

Absent these charges, the U.K. bank held costs flat and achieved a 4% revenue growth in PFS.

[Slide 16: Personal Financial Services]

Switching now to our review of performance by customer group, we will start with PFS.

Asia had an excellent half year - 38% up in history driven by strong growth in fee products, wealth management, insurance and higher deposit spreads.

But aggregate profit before tax from PFS declined by 20%, as credit charges in the U.S. and the difficult operating environment we referred to in the U.K. offset that strong growth in Asia.

[Slide 17: Commercial Banking]

Commercial banking continued its success story with a growth in profits before taxes of 20%. There was very good growth in the major markets of Asia and Europe.

[Slide 18: Corporate, Investment Banking and Markets]

And within the record profits from CIBM, an increase of 32% to $4.2 billion U.S.. There are three points to note. First, these profits were equally balanced between Asia and Latin America on one hand, versus Europe and North America on the other. Second, revenue generation was well-spread across product. And third, balance sheet management revenues began to recover.

[Slide 19: Private Banking]

Private Banking, again, delivered very strong growth in profit before tax, up 30% with $780 million.

[Slide 20: Credit quality has remained broadly stable]

Looking at the detail on loan impairment charges, I will make the following points. First, there has been a decline in the loan impairment charges for North America against the second half of 2006.

In Mortgage Services, had net charge-offs of $680 million U.S. in loans. And we raised provisions of $760 million.

What this indicates is that in the six months forward, we detected no material change needed in the base of provisioning.

On June the 30th, we hold $2.1 billion U.S. of provisions. The same as we had at December 31, 2006. And that is against the mortgage portfolio, which at $41.4 billion is down some $8.1 billion from the end of last year. Mike will discuss in much more detail the actions we have taken and how we have managed down this portfolio.

Secondly, although European PFS loan impairment charges have risen as we have dealt with some legacy issues, new credit taken on in the last 18 months is tracking much better.

[Slide 21: Credit quality has remained broadly stable]

Third, commercial credit quality remains well inside historical trends. And the environment remains benign for large corporates.

Finally, let me comment on two specific areas.

Firstly, on U.S. prime mortgages, we have seen no material deterioration.

Secondly, in the area of leveraged acquisition finance, we have a very successful, but a relatively small business. And in respect to the pipeline of incomplete deals, if the market was closed to sell down, we could accommodate the funding easily in the normal course of events if required. And we would be very happy with the credit risk.

[Slide 22: Capital strength – HSBC's hallmark]

Turning to capital adequacy, this slide shows that our Tier 1 ratio has remained strong - both in its level at 9.3%, and also in its composition with the bulk of capital coming from tangible shareholders funds.

[Slide 23: Improving capital efficiency]

We believe that maintaining financial strength is compatible with the profitable deployment of these funds. In the first half, the return on invested capital was 18.4%, or 16.8%, if we exclude the dilution gains.

Let me hand you over to Mike, who will run you through business performance. Mike.

[Slide 24: Michael Geoghegan – Business achievements – first half, 2007]

Michael Geoghegan

Thank you, Douglas.

Six months ago, Stephen outlined the split of management responsibilities between us, with Stephen focusing on the strategy, and me with the Group Management Board on its implementation.

[Slide 25: Rebalancing towards developing markets]

Let me update you now on our progress to date. We think, to balance the contribution from our businesses, we have already broadly achieved the balance of earnings mix we want with half from Asia, the Middle East, and Latin America; and half from Europe and North America.

But that does not mean the job is done. The challenge is to improve the contribution mix from both parts. We will continue to go for sustainable growth, and we will execute much more efficiently in developed markets.

Meanwhile, we will continue to invest organically and by acquisition,in developing markets in the pursuit of strong consistent growth.

[Slide 26: Developing countries – world's largest and most profitable international emerging markets bank]

It is worth recalling that our historic roots lie deep in emerging markets. Our recent history features a blend with developed economies. It is that balance that sets us apart and constitutes a major opportunity.

Our future lies in building the links between the two. As the number one international bank in Asia, and the number one in Hong Kong, we have distinct advantages and opportunities. We are making the most of them.

With profit before tax from Asia, up strongly by 30% in the first half to $5.6 billion U.S., excluding the net dilution gain.

We are increasingly managing our Hong Kong and mainland China businesses as a whole, as economic integration in China continues.

We are among the first banks to incorporate locally, and intend to remain the number one international bank in China.

We are targeting international corporate and commercial clients. And on the personal side, attracting more global Premier customers.

Our China business is well on the way to being a billion dollar business with pre-tax profits up 69% to 473 million U.S.. And that does not include the contributions from dilution gains.

While HSBC focuses on the international side of China, having over 30 branches by the end of 2007, our domestic associates are building out nationally at a very impressive rate, and that is reflected in their own results.

I also believe we are getting it right in Hong Kong. We are upgrading our PFS product range and automating wherever possible to provide a better customer experience.

83% of all customer stock trading activity is now online, up 133% in a year with volumes of more than 4 million trades in the period.

And 59% of all customer bill payments in Hong Kong are now made online. That is a half a million a month.

Our wealth management and private banking businesses are now joined up to CIBM like never before.

Last month, for instance, we launched the first multi-manager Chinese equity fund in Hong Kong, raising over a billion dollars from our retail and private banking customers across the region. That is something no other institution has the ability to do.

Joining up is not only about Personal Banking. It is also about Commercial Banking, CIBM and Insurance. We are actively managing the linkages between our businesses to unlock value. This is happening across Asia and the Middle East. We have delivered significant growth - pretty much across the board. In fact, we achieved double-digit growth in profit before tax in 26 out of our 33 markets in Asia and the Middle East. Ranging from 115% in our relatively small Indonesian business, to 39% in the major market of India.

From this considerable return on investment, you can see we continue to invest heavily in organic growth in Asia. We have rigorous cost efficiency standards at HSBC, improving at the Group level to 48.3%. But because we see Asia as such a great opportunity, we are willing to spend to grow there.

And although organic growth is cheaper, we will not shy away from investment opportunities in the region, as we recently showed in Vietnam.

You should be under no illusion that we intend to boost our number one position in Asia and the Middle East.

We are also growing our business in emerging Europe. In Turkey, we increased profit by 34% to $161 million U.S.. And are on track to add 400,000 customers this year, as we invest in our branch network.

In Russia we have obtained a license to begin retail business, and aim to open more than 35 branches in the next three years.

And only this morning, we got the go-ahead to begin general banking in Georgia.

Now turning to Latin America. We have built a highly successful regional business through acquisitions. We now have 4,000 offices across the region -- against a handful a decade ago.

In the first half of the year, we achieved a $1 billion U.S. profit before tax for the first time. For an acquisition spend on just over $5 billion U.S. in the past decade.

So on recent industry multiples, that now appears to have been a very shrewd investment. We will continue to invest organically, and where possible, through acquisitions in this region.

I would also say that while we can expect some period to period variation in growth in these markets, there are fundamental drivers behind the economic expansion in Latin America.

An emerging middle class, which plays well to or regional strength in global Premier, and packaged Personal Banking propositions, and growing populations that are new to banking, who we can service through our consumer finance operations.

However, I think the most pleasing aspects of our results in Latin America has been our real success in joining up the region to CIBM and Private Banking businesses in the U.S.. The hub-and-spoke approach is working well.

The next challenge is to build out a common IT platform that will allow further automation and reduce costs.

[Slide 27: Developed countries – a diversified Group]

The overall PFS strategy for developed markets is to hold cost growth to single figures, while developing up market propositions.

We see opportunities to build out our direct channels, grow revenue lines, and improve cost efficiency through technology.

However, the current issues facing banks in the U.K. are obviously overdraft charges, IVAs and mortgage qualities.

Take overdrafts first, which generated a considerable amount of public interest. And we have experienced a significant number of claims. The level of refunds we have confirmed today more than demonstrates our commitment to treat our customers in a fair and transparent manner. We very much welcome the agreement with the OFT to take the case to court to achieve legal clarity and a resolution for our customers and our business.

And I am bound to say that we have a very fair overdraft proposition in the U.K.. And we are only - we are the only bank with a comprehensive formal waiver policy. It has saved our customers thirty-seven million pounds in the last six months.

On the FSA announcement, let me say that we are not one of the two banks referred to enforcement. As part of a treating customers fairly review, the FSA did review our handling of complaints and did not voice any concerns to us.

However, to place the matter into context in Group terms, UK, PFS strictly represents less than 7% of our worldwide profits.

Moving on to IVAs. After a disturbing spike, normal levels of activities have returned. IVAs are now being used by customers for whom they were originally designed -- those with the greatest need.

Now after five successive interest rate rises, we are carefully monitoring our mortgage book, but remain confident that mortgage quality remains strong.

We have been similarly conservative with our product offerings. We do not offer buy-to-let mortgages as a core product. Nor do we have teaser interest-rate products.

What we are doing is improving our customer proposition. For example, as part of our branch improvement program, we opened the U.K.'s biggest branch last week.

The Queen Victoria Street branch in the heart of the City, has sections dedicated to specific needs of Premier, Corporate, Commercial, and Retail customers. For those of you who work in the City, it is well worth a visit.

Looking beyond PFS, our U.K. Commercial, Private Banking, and CIBM businesses did exceptionally well, up 18%, 87%, and 36% respectively.

Elsewhere in Europe, there was good growth in France and Germany. And there is more about CIBM in a moment. But now I wish to turn to North America, where our general banking businesses in the U.S.A. and Canada performed to our expectations, with Canada achieving a record first half.

Our direct proposition in the U.S.A. is going from strength to strength. Online saving balances for HSBC Direct have now reached $12 billion U.S., up almost 5 billion in half a year.

We have also added more than 225,000 customers this year. We are watching the U.S. economy carefully. And while there may be short-term turbulence, from a weakened U.S. dollar, there will be long-term benefits for us, thanks to our commercial banking network as the U.S. becomes a competitive exporter again.

And our award winning cash management capabilities will also continue to attract commercial customers.

[Slide 28: US Consumer Finance – making good progress]

Now let us turn to sub-prime mortgages. We were the first to highlight the issues in the sub-prime mortgages industry last year. We believe we were right to do so. And this management team will continue to call things as we see them.

I promised you earlier this year that I would give this issue my personal attention. I am pleased to report that we are ahead of our own expectations at this stage.

The provisions we took in the last financial year are sufficient for the foreseeable future. Credit impairment positions in mortgage services in the half year was $760 million U.S. and we charged off $680 million U.S. against provisions already raised. As a result, our impairment reserves remained at $2.1 billion U.S..

[Slide 29: US Mortgage Services – loan portfolio]

You will recall that we had $49.5 billion U.S. in correspondent mortgages at the end of last year. The team led by Brendan McDonagh, who is with us today, has now cut that to $41.4 billion U.S. in the first half. That $8.1 billion U.S. reduction included the sale of $2.7 billion U.S. worth of loans. Markets permitting, we hope to reduce the portfolio significantly again by the end of the year.

In the process of reducing outstandings, we cut ARM balances by 30% to $19 billion U.S.. The second liens by 18% to $8.2 billion U.S.. And the stated income by 20%, to $9.4 billion U.S.

You can also measure our progress in improving the quality of the mortgage services portfolio. And the terms of reduction of ARMs expected to reset in the second half of 2007.

At the start of the year, we made an estimated $7 billion U.S.. At June the 30th, we managed that down to $5.3 billion U.S..

I should also say at this stage, that our exposure to CDOs linked to sub-prime mortgages traded through CIBM is minimal.

Beyond the correspondence businesses - cars, auto finance, and consumer lending conducted through our branch network are performing better than anticipated.

Despite the good progress, we continue to monitor the market very carefully. And I will not hesitate to take whatever further action is necessary. More information in our consumer finance business and HSBC Finance's 10Q and 8K, both of which we are filing today.

[Slide 30: Corporate, Investment Banking and Markets – success in emerging markets-led and financing-focused strategy]

Now turning to CIBM. We have previously stated our intention to build out our capabilities. Stuart Gulliver and his team have now fine tuned the business to be emerging markets led and financing focused.

That was a logical refinement and Stuart, along with the 83 country managers, are executing that strategy with great success, as our results demonstrate.

Let me offer two examples, one large one small of recent transactions that demonstrate how HSBC is joined up. First, Saudi basic industries, $11.6 billion U.S. dollar acquisition of GE Plastics. Here CIBM harnessing our industry expertise and our geographical coverage to create a unique value added proposition for the strategic buyer from the Middle East.

Second is: Singapore Communications purchased a $758 million U.S. stake in Warid Telecom of Pakistan. In this case we were the sole advisor to Sing Tel, where the collaboration between HSBC Asia and HSBC Middle East was critical to the deal, and clearly demonstrates our strengths in emerging markets.

[Slide 31: CIBM – key transactions – major awards]

Joining up is the model that works for us, and it is what our clients want especially those from developing countries. No presentation in CIBM is complete without a few award tombstones. Here are just a few that HSBC has won.

Of course awards are not a proof of concept, but I would highlight the most significant for me. Best Risk Management House. I am sure you will appreciate the importance of that award at this time. In summary, CIBM has a lot going for it without taking high level risks for short term gain.

[Slide 32: Private Banking – benefiting from Group connections]

Now turning to Private Banking and Insurance, I mention them together because I see an HSBC parallel. Insurance today is what HSBC Private Banking was a decade ago. Private banking was a disjointed, subscale business back then. Today it is a billion dollar business and rated the world's third largest private bank by Euromoney. Clive Bannister who is in front of me today, who drove this growth has now switched his energy to insurance. But Private Banking continues to prosper under Chris Meares with pre-tax profits up 30% in the half to $780 million U.S. dollars.

In the UK alone, intra-group referrals have multiplied fivefold over the past three years. Between Chris, Mark McCombe, who heads our $343 billion fund management business, and Stuart Gulliver in CIBM - we are really beginning to join up Private Banking, fund management and investment product origination, especially industry leading emerging market products.

[Slide 33: Insurance – developing our income stream]

Now turning to insurance, less than 15% of our 125 million customers take an insurance product from us. We are adding insurance to the vocabulary of every single HSBC business in every country. And we have the ambition to add HSBC insurance to the shopping list of every customer.

Our strategy is to use our distribution capabilities to the full, manufacturing products where we have scale or buying products where we do not. We have announced three deals in three months. We acquired the remaining stake in ERISA in France to increase our life business. We are partnering with Aviva in the UK for general insurance. And we plan to create a joint venture in India to distribute our products to Canara Bank and OBC's 40 million customers.

Today we are announcing insurance pre-tax profits of $1.6 billion U.S. dollars or 11% of the Group's result. We are only at the foothills of this business. We aim to increase this to a fifth of our profit to around $4 to $5 billion U.S. dollars in today's terms.

[Slide 34: Joining up the company – (a) HSBC Premier]

I would like now to talk about joining up the company and what it will mean for the bottom line of this business. Put simply we could not have produced these results today if we had not started joining up. In my 34 years in the Group, I have never seen an initiative that has captured the imagination as much as this one.

The enthusiasm is genuine because everybody knows that is what the customer wants. We want to create a seamless customer experience globally, one which reflects the value of our customers and what they bring to the company. We are unlocking more value for 125 million customers around the world than ever before.

Let me just explain a couple of initiatives. We have improved our global Premier proposition, which is an integrated, international banking service, the world's local bank account if you like. It is also a globally portable credit facility and a pre-approved international mortgage facility.

The proposition is being tested in 35 countries, and we will promote it around the world in the fourth quarter with a global advertising campaign. From September, this premium service will be boosted by state of the art technology, so that Premier customers can have a single screen view of their accounts around the world. And soon after that we will upgrade the service again, allowing customers to transfer money across borders at the click of a mouse.

Since its test launch in May, we have attracted over 100,000 new customers to date and that is without advertising. We are conducting the first ever worldwide mystery shopping program to ensure consistent, high quality customer service.

This is a dynamic and fast growing market. We believe that we can get to six million customers over time. And while the value of these accounts will vary from country to country, it is reasonable to expect a significant number will create revenues in excess of $1000 a year per account.

What is certain is that a proposition like this plays to our global strength capitalizing on our distribution and technology in a way competitors will be hard pressed to match. If you are interested in finding out more, there is a Premier display outside the brief room here in London, which gives a taste of what we can offer customers in our Premier branches and online.

[Slide 35: Joining up the company – (b) Commercial Banking – strengthening international links]

My other example of joining up is from Commercial Banking. We are now concentrating on our international distribution, and generating cross border revenues at record levels. In the first half, we opened seven more international banking centers, adding to a network that now spans 23 countries.

And our cross border referral system, Global Links, generated over 3,000 referrals in the first half up 37% for a total transaction value of $3.2 billion U.S. dollars. We know that there is more that we can do for our 2.7 million customers, and we intend to do it.

[Slide 36: Joining up the company – (c) The benefits of common IT platforms]

Finally, joining up the company is about world technology platforms that deliver a seamless experience wherever a customer wants to deal with us, online, by the phone or at a branch.

So for example, we have upgraded our business Internet banking platform, deliver better prices and simpler products. We have added over 150,000 business accounts in the last year, meaning we now have an active online customer base of 750,000 customers.

In Asia, HSBC Direct has attracted more than 120,000 personal banking customers with total savings balances now exceeding $1 billion U.S. dollars.

And through Whirl our credit card platform, which serves 75%, over 115 million customers in 16 countries. We have cut our IT costs per account by 16%. By the end of the year we will have converted two more of HSBC's countries to Whirl and entered seven new credit card markets. We are welcoming 40,000 customers a day with a card for HSBC.

In the first five months of this year we made internet sales with $795 million up 68% period on period. And that is only the start. We will build common platforms for cars, mortgages, loans and other major product lines, generating revenue and significantly lowering operating costs each time.

The results we have presented today are clear evidence of our determination to unlock the value that we see in HSBC. Joining up the company is not easy, but we all know it can be done. It was a brave decision a decade ago to sacrifice long established brand names around the world in the pursuit of a single brand.

That brand is now the 23rd most valuable brand in the world up five places in last week's Inter-Brand Survey. HSBC is the fastest growing financial services brand in the world. In the same way, I am sure that within a decade joining up the company will be seen as a industry leading approach to global banking, followed by many but created by HSBC.

Let me leave you with the following. In the U.S., we have managed down the mortgage services portfolio as I committed to you. In Asia and the Middle East we have leveraged our distribution platforms and brand to deliver strong, diversified revenue growth.

This together with excellent results in CIBM, where we are implementing our emerging market-led and financing-focused strategy is more than covering the higher impairment charges in the U.S.

In summary, we are doing what we said we were going to do. Thank you. I now pass you on to Stephen.

[Slide 37: Stephen Green]

Stephen Green

[Slide 38: Outlook – HSBC well positioned]

Mike, thank you very much. And I would like just to spend a minute or two on our view of the macroeconomic outlook, which as you will appreciate is a particularly interesting one at the moment. And indeed, in many senses a tale of two hearts.

On the one hand when you look at real economic growth, we see a pretty robust level of growth continuing this year and through into next. A tad lower than last year perhaps, but only a tad. The U.S. economy still expected to grow, clearly more slowly than last year, but nevertheless, still expected to grow despite the weak housing market.

And the gradual disentangling of the importance of the U.S. consumer for world economic growth, with greater momentum coming from the domestic markets in Europe, Japan and in emerging markets such that overall, we are pretty confident about the overall level of global growth, and the emerging markets in particular we expect to continue to power ahead.

On the other hand, we have seen, all of us in the markets some turbulent conditions reflecting a pervasive feeling that asset prices are now very stretched in several markets, and clearly risk premium are rising.

There is a concern in a number of markets about inflation. And we think interest rates in the major markets are frankly unlikely to fall. And there is a clear risk of asset price dislocation where credit structures are being particularly stretched.

In this context, the Group we believe is well positioned to continue to invest the sustainable growth on a diversified basis. We will continue to maintain strong capital ratios, and we will continue our prudent stand on risks.

QUESTION AND ANSWER

Stephen Green

[Slide 39: 2007 interim results – Key financial results]

Let me now leave you with the highlights, as we are very happy to take questions both here and in Hong Kong. Please, as we come to the questions, if you could raise your hand and wait for the microphone to get to you. And (Vincent) in Hong Kong, if I could perhaps invite you to – invite somebody to place the first question. Vincent.

Vincent Cheng

Thank you, Stephen. Any questions from the floor? We do not seem to have any, Stephen.

Stephen Green

Okay. Well, then in London, yes, Alistair.

(1) Booking of profit on sale of headquarters building; non-mortgage delinquency trends; insurance strategy

Amit Rajpal, Morgan Stanley

(Unintelligible) Canada Square would that also be booked as a tax regain in the second half? The other question relates to U.S. non-mortgage delinquency trends. If you could give some color on that. And lastly, you talk about building up insurance, is that largely an organic strategy or would the Group be contemplating acquisition? Thanks.

Stephen Green

Thank you. Thank you for the questions. We actually missed the first half of your first question here in London. I will get Vincent to repeat it if I may. Vincent.

Vincent Cheng

The first question is on the booking of the Canada Square profit, is that right?

Stephen Green

Vincent, thank you. If I may, I will get Douglas to talk to the first one and Mike to the second one on the non-mortgage delinquencies in the U.S., and I will cover our insurance strategy. Douglas.

Douglas Flint

The gain we expect to be taking in the second half of the year – the gain will be taxable. But we have some capital losses within the Group, so I think the effective tax rate will be lower, significantly lower than the standard rate.

Michael Geoghegan

On the mortgages side or the non Sub-Prime mortgages, our consumer finance business, that is the business driven through our branches, is performing well. Our credit card business did well, pricing power is coming back in a number of product lines.

On the prime mortgages, we do not see any deterioration. That – those mortgages go through our branch network, which is specifically or mainly in the State of New York. And we all know prices of real estate in the City of New York have held up very well.

And we do not have (unintelligible) mortgages; we obviously do not have option-ARMs, which affect California. So overall we are comfortable with our book, and we have some – managing the mortgage services element, that is what we are focusing on.

Stephen Green

Thank you, Mike. And as far as insurance is concerned, you asked about our insurance strategy and whether it is organic or by acquisition. The answer is essentially organic and is very focused on distribution. What we have is the power of distribution.

We have 125 million customers, something like 15% of those take insurance products from us, whereas, as you would be well aware, of course, the vast majority of them take insurance from somebody. So that is a tremendous distribution opportunity, and that is what we are focusing on.

There is to some extent an opportunity to grow our customer base. Mike has mentioned the memorandum of understanding that we have signed in the case of India with two of the state banks to give exclusive access to their client base, and that is 40 million people for insurance services provided through a joint venture that we will establish.

So that is the kind of thing that we will be doing. Very much distribution led and very much, I think, in our power to pull off, to bring about, to realize because of the extraordinary franchise that we have got. But thank you for the question. Let me now if I may turn to Alastair here in London.

(2) Loan rearrangements in the mortgage services business; major drivers of revenue in CIBM

Alastair Ryan, UBS

Thanks, it is Alastair Ryan at UBS and two questions if I may. First, that the process of forbearance and loan rearrangement in the mortgage services business, to a degree that is kind of bringing forward potential future bad debts to actual charges in the current period if I understand the maths, the process correctly. Can you give us a sense of how much of the charge in the first half is really, you know, actions that you took that brought forward charges you would have incurred in the future, not that there won't be more of that again in the second half of things that will happen in 2008, but just a sense of how much is that.

And then secondly, for Stuart really, how should we think about the major drivers of revenue for your business now? If it is not CDOs and is only to a very limited degree leverage lending, which obviously we welcome, is it as simple as emerging market growth or is it much broader than that? Obviously, the balance sheet management to state something about the recovery after three difficult years.

Stephen Green

Thank you, and if I may on the first question, let me get Douglas to talk to the specifics of the numbers, and, Mike, if you want to add anything on the business actions. Douglas.

Douglas Flint

What we are doing is a whole variety of things. During the first half of the year we contacted something like 19,000 customers and discussed the impact on their personal, financial position of ARM resets

We then as a consequence of that modified about 5,000. Now those modifications have a variety of actions extending from formal rewriting of the loan, which I think is what you are describing, where in fact, you actually rewrite the loan to different terms and take the discounted cash flows – the new cash flows, bring them back to present value and take an adjustment.

That is probably not the majority. The majority is, in fact, extending the low payment period for a period of time effectively just letting people take a little bit longer to see how they can accommodate.

Now the good news is that those loans that we have modified are tracking better than we expected. They are showing that the benefits and modification are working for our customers' interest and for our own. But in volume terms, it is relatively modest. We have modified about $700 million worth of loans in the first half of this year. We expect to do more in the second half of the year.

In relation to bringing forward, I do not think that is a particularly large element to the charge.

Alastair Ryan, UBS

And the modification is only for 12 months.

Douglas Flint

Typically, yes.

Stephen Green

And on the second question, Stuart, can you wait for a microphone. I think Stuart.

Stuart Gulliver

Thank you. I mean, we feel pretty good about these results because we focused our strategy into a series of kind of niches within the capital markets, where HSBC either has or we believe can get a competitive edge.

And I think you can see that this set of numbers tends to prove that that is working. This is a very broad platform by product. Although you can see substantial improvements in balance sheet management in private equity. If you take those out, PBT was still up 18%. Global Markets was up 26, Global Banking up 11, the Balance Sheet, say, was up 46. If you add the whole thing up, 32.

And there is tremendous diversity by product in credit and rates where we have invested tremendously. In our derivative platform we have got substantial increases half on half. But both half and the structured derivative numbers directly because we invested in those areas.

So the honest answer is, it is a broadly diversified platform. It is across a number of geographies, the emerging markets. In particular, as Mike was saying, Latin America and Asia 49%. But actually, Europe and Asia account for 83% of the total number.

And it is a credit and rate derivative emerging market with a modest leverage acquisition finance business, which is a growing business, but it is a modest one at this moment in time.

But we feel eventually, a platform that has got tremendous legs to it still. And it is now one that fits HSBC. And I think that is the most pleasing aspect, is we now actually had three quarters of this working rather well.

Stephen Green

Thank you. Vincent, question from Hong Kong.

Vincent Cheng

Thank you, Stephen. Any questions?

Stephen Green

If not, Vincent…

Vincent Cheng

There appears to be none at the moment.

Stephen Green

Then in that case…

Vincent Cheng

Back to you.

Stephen Green

Then that case, Vincent, let me take – there are a number here from London. Sir, towards the back.

(3) CIBM volatility in earnings; CIBM growth rate

Ian Smillie, ABN Amro

Thank you, its Ian Smillie from ABN. I have a question for CIBM, please. Stuart, the division delivery there over the last two or three years has been quite volatile. Are you encouraging us to come to the end of thinking about the volatility within the division's earnings, would be the first question?

And the second question is, and if that is true could you give us some sense of the sort of growth rate that you should be encouraging us to think about? Because clearly, there is quite a lot that we could start to pencil in now that the engines look like they are coming through.

Stephen Green

Ian, thank you. Microphone please.

Stuart Gulliver

I do not think I can do the second, which – by way of profit forecast. I guess what I would say is that the – how can I choose my words carefully? The volatility that we may have created ourselves is behind us in the sense that we have a mapped out business model that we will stick to.

The volatility that occurs to all of our businesses because of the market, I cannot comment on. I think that would be a fair way of dealing with the question.

Stephen Green

Okay. Just briefly, back to Hong Kong, any questions now? If not, okay.

Vincent Cheng

The gentleman in the front.

(4) Consumer business in India; time frame for India business

Bill Stacey, Credit Suisse

Firstly, thank you for the additional disclosure on the Asia divisional operations. And picking up on those, I wonder if you can comment given that the consumer business in India is not currently contributing to your profit, on the size of your investment plan within that business, and what sort of timeframe your investment in India is pitched over? Thank you.

Stephen Green

Yes, thank you. And if I may just make a general comment, then I will pass the question to Mike on some of the business specifics. But generally, we see India as one of the three or four markets that offer most significant strategic opportunity over the medium term for all the obvious reasons. The law of large numbers. This is a banking market which is quite strong. It has got tremendous economic growth in it. And I believe that is largely sustainable now. And therefore, you will see us investing in India in ways that seem good and opportune. You are probably aware that as of now foreign banks have pretty tight restrictions on what they can do by way of inorganic investment in India.

And of course we will develop our business within that context and that framework. As and when that framework were to evolve, we will clearly be looking at the opportunity that that presents for us. But in the meantime, we will grow organically through our existing businesses, our existing network. And we are investing substantially in our consumer business in India. And that is part of the reason. But let me let Mike amplify on why the current P&L is so low because we are putting a lot of investment into it.

Mike Geoghegan

You have already answered for me. We are growing in the car business, but the infrastructure going in the outside sales forces, all those type of things put costs upfront. And also, on the insurance side we have got the distribution with Canara bank and getting that through with 40 million customers, there are lots of things to go there. And I think that will play out to other products as well.

So there is a number of things going on. I am not concerned of the short period of time that the revenue line has not grown as substantially, as fast as the cost line. And that is what you would want me to do, you would want me to invest at this present time and then we will acquire when we can with WTO.

Stephen Green

Question from London, Robert.

(5) Revenue growth in Hong Kong

Robert Law, Lehman Brothers

Robert Law with Lehman, could I ask you to comment about the revenue growth in Hong Kong, please? It is certainly particularly strong for us in the first half, could you comment on what the key drivers of that was, so we can make some conclusion about how sustainable it might be?

Stephen Green

Robert, thank you. And can I turn the question to Vincent and Sandy? Revenue growth in Hong Kong, sources of and…

Vincent Cheng

Thank you, Stephen. I think revenue growth in Hong Kong has been driven by all lines of business, PFS, CMB, CIBM, Private Banking, Insurance. Basically, we are doing extremely well in all areas of businesses.

Probably, of course, it is because of the market which has been buoyant. And also because of the joining up which we have made, which makes our CMB business strategy much more attractive to our customers.

And, of course, in China as mentioned, has also played a major role in that one. So it is a good performance across all lines of business really.

Sandy

Sandy Flockhart

I just think that focus on wealth management that you have seen in Hong Kong has really paid off dividends, obviously markets have helped. But, in fact, the growing wealth and affluence of our customer base and the products that we are selling them has driven that profitability.

I would also just like to say a few comments about that Indian business. Our Indian business is very profitable – made profit before tax is $299 million U.S.. And I think you have got to see us invest in some of our businesses. And we only started that business in October of 2006.

So I think, you know, two or three years of investment is probably what you have got to look at before you start seeing any returns coming back.

Stephen Green

Sandy, Vincent, thank you. Sir…

6) Delinquency trends in the U.S. non-mortgage services; refunds on current account fees in the UK

Tom Rayner, Citi Investment Research

Yes, thank you very much, good morning, it is Tom Rayner from Citigroup here. Could I have a couple of questions, please, just the first one going back to the delinquency trends in the U.S. non-mortgage services.

I note in some of the text inside the big release, you do talk about seasoning still on the consumer lending balances. When I look at the second quarter, there is quite a big jump in personal, non-credit card and it has been a trend that has been deteriorating for some time.

So I just wondered if I could tighten you up on the comments regarding the U.S. because clearly, you are happy with the reserving against mortgage services. The provisions were very much in line with your expectations. Is the same true in all of these other sort of non-mortgage service areas in the U.S.? Or might there be some additional reserving required?

Stephen Green

Tom, thank you, Douglas, are you prepared to be tightened up?

Douglas Flint

I think a number of factors to note. The end of 2005 we bought Metris which brought in a large, lower than prime credit card business and that has expanded. We grew in the unsecured area and in credit cards quite notably in the second half of 2006. And that seasoning in part is driving the impairment charges and the delinquency which is a mixed impact in 2007.

And then you have had just – if you look at the branch based business, the cards business and the unsecured business, these have grown while mortgage services have declined. And as they have seasoned, we have seen normalized levels of delinquency come through.

I think the important thing is that those delinquency levels are in line with the pricing parameters when we took the business on. So they are in line with our expectations.

Tom Rayner

The words that – you know, the contagion word is – you know, I guess the one we are trying to avoid here.

Douglas Flint

We avoided it.

Stephen Green

But we continue, because obviously, we continue to look for is not showing up for the present time. We will look and continue to look.

Tom Rayner

Okay, thanks very much. My second question just on the refunds on the current account fees in the UK. I mean clearly a less important issue for you than some of other UK banks maybe - $236 million U.S.. Can I just ask you a little bit more about that?

Do you think that is the extent of the issue for you guys – and if it is, you know, I think you have a 16% market share roughly. I mean is – does that imply $1.5 billion US is the scale of the industry problem? Are you significantly better as you think than the industry on this one?

Michael Geoghegan

Well the OFT's case – I think is a wise way to go to find out what is – what should be done in this complex situation. Everybody has got different documentation and we have got different pricing over different periods.

I do not think that you can just multiply it by that. I mean, you are going to see that some people are not going to bother. Other people are. They are looking at it in different ways and I think we have got to wait and see what the outcome is. Because that might be a solution – that not necessarily just multiplying will give you.

Stephen Green

What is the case as you kind of alluded to it, it is a relatively smaller issue for us than for many of the obvious comparatives banks in the UK. For us, PFS in the UK is just 7% of our total group business.

We are the fifth largest bank in the UK – in market. And for us, actually Commercial Banking is much more important than our PFS business. So our profile is different from some of our obvious competitors.

By I think like everybody, I strongly believe that this case that is now being brought by the OFT was necessary and is the right way to go. We need – both we and the customers, and regulators – all need legal clarity on this issue. It is just nonsense for the core banking product should be in such uncertain legal territory – as it turns out that it is.

A question from Hong Kong, perhaps?

Vincent Cheng

Thank you, Stephen. We do not seem to have any at the moment… (unintelligible).

Stephen Green

Okay, well then let me…

((Crosstalk))

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(7) Hong Kong's cost:income ratio

Tracy Yu, Citi Investment Research

Tracy Yu from Citigroup in Asia. I have a question on Hong Kong and rest of Asia. Despite the relatively high increasing costs of around 11% for Hong Kong and almost 30% for Asia, you still have improvement in cost to income ratio.

Especially for Hong Kong – it is around 32%, one of the lowest in the history. Can you comment on how sustainable this relatively low cost to income ratio in an inflationary environment – especially our labor market – is actually quite tight? Thank you.

Stephen Green

Vincent. Could I just first ask Mike to say a few words and then clearly you and Sandy may well want to elaborate. Mike?

Michael Geoghegan

It is exactly for this reason where you see pressures on labor markets that we go for automation. And outlining what we have done so far is only just the beginning.

We believe our automation capabilities across the globe – by leveraging what we have got in one market and taking it to another market – is a major advantage which we intend to take forward to keep our cost base low.

But clearly Sandy and Vincent may want to add to that, so I will hand it over to them.

Stephen Green

Vincent?

Vincent Cheng

Thank you, Mike. You are right to point out that we are under cost pressure as we just hope that automation - through automation or straight through processing would help us to keep unique costs down.

On the other hand, on revenue side we believe that Asia Pacific, Hong Kong, China will continue to grow. We therefore would expect revenue to grow up I do not want to forecast where the cost income ratio should be. But that of course, we would hope that it would continue in a favorable trend. Sandy?

Sandy Flockhart

We continue to invest in our business appropriately. And to that extent, I think as you look across the region there may be places where we have to put money up front before we get the revenue back.

So I can see situations where we could possibly have the costs going up in the short term – but equally as well that we have good revenue growth.

And the key, obviously, is to make sure it is good revenue growth.

Vincent Cheng

Sandy, thank you. Stephen back to you.

(8) Increase in risk weighted assets in the Hong Kong and Shanghai Banking Corporation

Jean-Paul Crutchley, Merrill Lynch

Good morning. It is Jean-Paul Crutchley from Merrill Lynch. Strong revenue growth obviously in the Asian franchise. And I really just wanted to ask the question about the CAP intensity of that growth. This used to be a very large increase in the risk weighted assets in the Hong Kong and Shanghai banking corporation – about 70 billion or so since the year end.

And I cannot quite reconcile that back against how the loan balances that moves over the same period. So I guess of all that, it is presumably coming from the capital markets side of the business.

I was wondering if you can at least state a bit more on where that growth has come from, that we should think about that as a stable rate of growth with risk assets in that business? Or whether there is some sort of lumpy issues over the balance sheet, which have contributed to that?

Stephen Green

Jean-Paul, thank you. Douglas?

Douglas Flint

Well I think it is as you describe it. I mean there is good loan growth across the region. The capital markets business has been a user of capital, but it is– the loan growth is there. The asset growth is just as you see it. Nothing particular to draw attention to.

Michael Geoghegan

I had also said the deposit growth was there as well.

Douglas Flint

Yes, yes.

Jean-Paul Crutchley

The point was, I guess is that the risk asset growth is far outside versus the loan growth. So it looks as if it is much more coming from the capital market side of the business. And should we therefore extrapolate that level of risk asset growth going forward? Or were there specific issues within that over the half year end?

Douglas Flint

I certainly would not extrapolate that rate of growth, no.

Stephen Green

I think overall – as you would recognize, Jean-Paul, this is a very high return on capital business. And one with strong growth. It is one where we think we should be investing group capital and will continue to do so. Simon.

9) US Mortgage Services business and sell downs; Shape of CIBM going forward

Simon Samuels, Citigroup

Yes, thanks. Good morning. It is Simon Samuels from Citigroup. A couple of questions actually. One is just back to the US and the mortgage service business.

I think, Mike, you said about a third of the first half shrinkage was to do with sell downs – which I was a bit surprised to see only because I think you are, you know, you claim your collection policies are better than the industry.

And obviously you have got the balance sheet that you can carry on keeping the assets on your balance sheet for as long as you want, really.

So could you just talk about the sort of interaction of sell downs going forward and particularly whether that is going to be a big feature of the shrinkage of the mortgage service portfolio?

Michael Geoghegan

Clearly, we are working to a strategy of getting out of correspondent bank mortgages. And that means we will work them out with our customers. Or if we can sell down the risks, we will.

And as we said in the second half, it depends how the market behaves. We – it is a mixture of a number of different things.

Frankly a lot of customers – believe it or not – do actually refinance themselves and go with other borrowers. It is not all, you know, doom and gloom.

And so that book generally spun off about $2.5 billion U.S. every year for people who we have refinance. And – but we are bringing it down as fast as we can. And if the pricing is right, we will unload more.

Simon Samuels

And I think you said in your commentary that was there – I think you said it in print, but not in your verbal commentary – but am I right in saying that first half pace of decline in what you are expecting for the second half…

((Crosstalk))

Michael Geoghegan

No, I think what we have said in market dependence – I mean, we will continue to work it down. I am giving no projections of what we will get it down to. And we will have to come back to this room to see what it is, I think at the end of the year.

Simon Samuels

The second unrelated question was to do with the strategy in the CIBM division. You have got a business now that is about $17 billion U.S. annualized run rates of revenues. So it is pretty substantial. But at the same time, it is very low level of exposure to where the equities and investment bank – I think they are only about 15% contributions.

And if I take you back to the sort of Managing for Growth day, three, three and a half years ago, I think the aspirations then was to get reasonable high up in both league tables, particularly M&A league tables in each geography around the world.

And I do not think you are there in any of them, yet. And my question really is, you sort of – and it sounds a bit rude – but you kind of stumbled into a debt focussed investment bank whereas a Barcap for example, did not.

I mean, you know, you had aspirations I think to be a much bigger investment bank in equities.

Are those aspirations gone away forever? Or would you see a still change in the shape of the CIBM division going forward?

Stephen Green

Simon, if I may, I would like to respond in part to that, but then I want to hand the microphone to Stuart to elaborate. We have refined the strategy. I think it probably is true to say that if one looks back a couple of years or so, there were expressed aspirations to be bigger in M&A, per se.

But to be clear, we have refined this not merely in order to – as it were – to backfill some events in the way that you are implying. But because actually we think it is the right thing to do.

We announced this earlier this year that we were focusing this group more strongly back on to emerging markets. And that involves – amongst many other things – the fine tuning of our CIBM strategy. Because that is where we have clear competitive strengths.

We do not think that it is sensible to go toe-to-toe with a number of other great houses represented in this room in the domestic US market, for instance. We think the right thing to do is to focus on our obvious strengths.

But to be clear, this is not about Barcap strategy either. This is still saying – and both Mike and Stuart has quoted – the kind of transaction that we have been doing clearly in M&A looks – focused on emerging markets.

Does that mean that we care about being in the big ticket league tables in M&A? No it does not because that is not what we are about. We are about doing a business that is totally to our competitive strength.

Stuart? Would you like elaborate further? You have got a microphone, yes.

Stuart Gulliver

Yes, I have a microphone. Okay, look. It is undoubtedly the case that the position that was set out in 2003 has been modified. There was a sense that was picked up at a marketplace that we were trying to be a global bulge bracket firm – which as a universal bank, we are not able to compete with.

So therefore, we have modified and precisely focused this into being emerging market led and finance focused. And therefore, there is a change.

And that, therefore, means that we are more focused on credit and rates, derivatives, financing and less on M&A and equities. But I say less because the Barcap comparisons are right either.

The problem with HSBC is we have designed the CIBM business that suits our clients and our marketplace. And that does not actually match to anyone else's.

So if you want a synthesis of what this is, it is kind of Citi, JPMorgan, Barcap, RBS and Standard Chartered so that you can pick up the equity part, the emerging market part, the derivatives and the fixed income part.

So it is not easy to fit this into a nice little sound byte. So it is not BarCap. It absolutely is not Goldman Sachs either. And I think what you can see is, what we have got now works for HSBC because it works for our customers.

Stephen Green

Stuart. Thank you. You described that as a problem for HSBC. I think that is precisely our advantage. This is (unintelligible) generous. I wonder if we could take a question from Hong Kong.

Vincent Cheng

Thank you, Stephen. There is a question in front.

(10) CIBM: gains in the private equity book; Mexico: PFS profits

Nick Lord, Macquarie

Yes, good morning. It is Nick Lord from Macquarie. Two questions really on detail. Just going back to your CIBM results and the gains you made in the private equity book.

Could you maybe comment just on sort of the relative size of your private equity book now versus the beginning of the year, i.e., are we still seeing that book grow and that is still an ongoing growth business?

And secondly, just on Mexico – I notice the profit in the Personal Financial Services is actually down half and a half. It seems to be driven by an increase in the bad debt charge.

And I just wondered if you could give us some indication of the seasoning that you are saying you are seeing that book is not in line with expectations? Or is there something that happened there that has caused the bad debt charge to move a bit faster than you were anticipating?

Stephen Green

Nick, thank you. On the first question – on private equity and CIBM – Douglas in terms of …

Douglas Flint

We still have a fairly sizable portfolio and we still have an encouraging book of investments that look – good prospects for the future. It is not something that we have grown dramatically over the last couple of years. It is something that we are beginning to put a little bit more into now and will build up a bit from where we are. But it is still – it is probably around about the same size as it was. But it is certainly not – it is not finished.

Stephen Green

I think the other thing that I would add on our private equity investments is that they are very important to our client base in private banking line of business.

And as you would – you will understand, many of our ultra high net worth private banking clients want access to good private equity investment opportunities. And again, it goes back to a theme that we have just touched on – our distinctive calling card is clearly the emerging markets. We ought to be able to do private equity in places like China, India and elsewhere – better than anybody and that will be the focus of our efforts.

On Mexico – Mike?

Michael Geoghegan

I just review out what you just said. I mean, it seems focus around our customers as well. When we structure transactions, we like to get a layer of private equity and our customers like to see us in it as well.

So that is part of it. On Mexico, it is basically a seasoning – particularly in the cards business. I mean, Mexico is growing at a rapid rate and there is stiff competition in the market.

There is always credit quality issues in fast growing markets and we are taking that in seasoning.

I do not see anything unbehold at the present time – only watch all these markets very carefully and that is why we get the returns on those markets.

Stephen Green

All right, thank you. Question from …

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(11) ARM resets in the sub-prime book; Tax rate; Outlook for the US business

Simon Willis, NCB Stockbrokers

Simon Wallis from NCB. I have got three questions, if I could. The first one is on the US – the subprime mortgage book. On the ARM resets, you indicate –you have indicated that the H2, you now see the signs of the business to reset down to 5.4 billion.

Could you give an indication for 2008 or as far out as you can now see?

And secondly, on the tax rate I wonder whether you could perhaps give us a slightly clearer experience of the full year tax rate?

In the – I hear what Douglas said on the gain of sales for Canada square and offsetting losses. But I think in the context of the scale of the earnings growth, an idea of where the tax rate might end up is actually quite important.

And thirdly, on the outlook for the U.S. business. And the question relates to credit appetite and growth in the first half has come in double-digits in cards. The prime mortgage growth has slowed. And the question is really – what lines do you principally see the growth in the United States over the next one to two years – is the growth really in cards – which I guess might be more vulnerable to a rising impairment charge if the US economy slows materially from here?

Or should we be thinking about a broader spread across the book and including a return to higher growth in prime mortgage area.

Stephen Green

Simon, thank you. If I can make a general comment, but I would like Douglas to comment on the tax issue. And ask Mike to comment on the business outlook for the US market.

The general comment is the obvious one. You have heard it from us before and I know you will appreciate it. We avoid giving forecasts. And that goes – I am afraid – tax rates because it is – they have indications to business and we avoid giving forecasts.

And with that caveat, we have made some comments on the macroeconomic framework in the US, which by the way I do think is looking better now than it did kind of nine months ago.

I think the issue is - the prospect of the US recession – I do not know whether it was ever very high – probably receded. We are looking at growth of about 2% and employment remaining pretty robust.

And that kind of colors one's expectations. But, Douglas, do you want to say anything on tax rates?

Douglas Flint

I am certainly not going to indicate what I think the tax rate will be for this year because it would – I guess – I would give an indication of the mix in the second half. I think it is probably fair to say that we would say that a normalized tax rate would be 24% - round about that. So clearly we are running considerably lower than that.

Stephen Green

But that is not the same as a forecast.

Douglas Flint

No, no. That is a normalized and the second half of this year won't be normalized. But a normalized rate would be around about that.

Michael Geoghegan

On the ARMs reset, for next year it is about $4 billion U.S. – of which $ 3 billion U.S. is about – is in the mortgage services element. So that is that.

I do not see the prime mortgage business growing. That will only be run through the branch network. We won't be buying mortgages in that area. And that we have been running down the prime mortgage book for some time now.

And so I – and for the other businesses, yes credit cards will be a major force player, but we do not see the charge-offs of those getting out of hand at the present time. They are staying inside our models.

First mortgages in the subprime market – fixed rate mortgages will continue. And there is other products around that wrapping insurance around those products, etc, will be there.

And generally a consolidation of loan facilities – or loan requirement against the mortgages will be there. But it is – what I see coming is a re-pricing because there is a number of people out of the market now. And I can see an opportunity to get pricing back into this so we are not being distracted by other products. So I think all is a go there.

And as I said, I think it is $3 billion U.S. in the mortgage services for ARMs resets for next year. And that is what we are focusing on – to get that sorted out.

Stephen Green

All right. Thank you. We probably have time for a couple more questions. I think there is one on the Web. I wonder if we could take that?

12) Higher funding costs with re-pricing of credit

Web question from Philippe Bodereau, Pimco

(Woman): We have a question from Philippe Bodereau at Pimco. We have seen dramatic re-pricing of credit spreads in the past two to three weeks. This means higher funding costs for you, too.

Do you expect a substantial impact? With market appetite for credit risk and freefall, do you see risks associated with committed bridge loans?

Do you anticipate issues with regards to undrawn credit lines?

Stephen Green

Well thank you Philippe. We have commented on this in both Douglas' part of the presentation. Our own leverage buyout business is – has been growing but they are still relatively small.

And as Douglas commented, the one or two positions that we have got at the moment – if they were to end up on our balance sheet because we could not distribute, we would be comfortable with the – we could easily absorb them on the balance sheet under normal conditions. And we are very comfortable with the credit.

In terms of pricing, Douglas?

Douglas Flint

In terms of pricing, I do not think we – I mean, clearly as credit spreads widen there is both an opportunity for perspective business and some adjustment for businesses already written. But I would not say that we have a particular sensitivity to that issue, no.

Stephen Green

We probably have time for a few more questions. Maybe one from here and one from Hong Kong.

Yes, please.

13) US Mortgage Services: stated income mortgages; Basel II

Derek Chambers, S&P Equity Research

Derek Chambers from S&P Equity Research. I have two questions. One is, on Page 29 on the breakdown of the US mortgage services portfolio – you have got an item of stated income, which I take it, overlaps with some of the other categories.

Stephen Green

Yes.

Derek Chambers

I am not sure if you have previously discussed where you see impairments or delinquencies growing in that area. I think you did at one stage say that you had no Alt-A exposure.

Stephen Green

That is correct.

Derek Chambers

And I recall that stated income might be regarded as similar to that. Could you just comment on the trends in that segment?

And could I ask, I wondered if you could comment separately on Basel II - in the statement you say there is still some lack of clarity about the US.

But have – is there anything you can say now about how you think it is going to affect you?

Stephen Green

If I may just quickly on Basel II, first, there is not a lot to be understood. We are clearly dependent on what happens in the US and how that works out.

And two, the final rules are issued for the advanced approach, the impact on us is uncertain. I do not actually it is going to be terribly material at the Group level.

But the honest answer is we cannot give you much more precision than that at this stage.

We are on track to implement Basel II from the first of January next year – subject to the relevant regulatory approvals.

On the delinquencies trends on stated income products.

Michael Geoghegan

Do you want to hear from Brendan on that?

Stephen Green

Yes, we have got Brendan McDonagh who runs the business in America for us. Brendan, if you can wait for a microphone. Do you want to make any comments?

Brendan McDonagh

Yes, good afternoon or good morning. We are not seeing any increased delinquency in that area. In other words, whether it is the second lien ARMs or even the stated income loans, the sort of levels of delinquency which we forecast we are keeping basically within expectations.

And as you can see, the decreases are largely in line in terms of second liens coming in at 18%, and stated income coming down 20% - about the same - as we bring the portfolios down across the whole spectrum of the loan types.

There was also an early comments about the sales vis-à-vis our collection practices. Now a large portion of the sales are actually performing loans.

So we still are sticking to our strategy that in most cases, we can collect better because of our experience in that business. Where we can collect better, we will not sell those loans.

Stephen Green

Brendan, thank you. We have time for one final question from Hong Kong, Vincent.

Vincent Cheng

Thank you, Stephen. Roy Ramos?

14) HSBC Finance (US): growth in branch based mortgage loans; Balance Sheet Management revenues: HIBOR

Roy Ramos, Goldman Sachs

Roy Ramos with Goldman Sachs. Two follow on questions or some requests for additional color.

First, you have actually continued to grow your branch based mortgage loans at HSBC Finance USA, including on a half on half basis. Am I right that these are sub-prime loans? And what is motivating this continued increase? Are the delinquencies still fairly stable, et cetera?

And then, I guess another follow on question I had was your balance sheet management revenues – which have also improved on a half on half basis – could you give us a bit more color as to what is driving this?

You mentioned it is mostly about Asia. Is this mostly about the HIBOR situation here in Hong Kong? Or is this the start of, you know, the broad based recovery in the balance sheet management revenues for the Group as a whole? Thank you.

Stephen Green

Roy, thank you for those good questions. On branch-based mortgage business in the US, Mike, let me turn to you.

Michael Geoghegan

Yes. I mean, firstly yes it is. It is been our sub-prime business in the United States. I mean, it would be wrong to assume that everybody does not need a mortgage to live their lives.

We underwrite those mortgages on an individual basis through our branch network – the majority in our first lien mortgages. And we are continuing to write that business except we are writing the better spread now than we had before.

And we take the same sort of guidance in looking at it as we do – and we are comfortable that we are writing good business.

Stephen Green

And on balance sheet revenues, Stuart? Can we have a microphone? Thank you.

Stuart Gulliver

Thanks, Roy. It is actually a Hong Kong dollars. It is actually the curve in Hong Kong – which has now got some positive curvature. So there is revenue opportunities in Hong Kong – on the Hong Kong dollar curve. And also the negative positions we have had matured and run off.

So therefore, what you conclude is that the BSM number should not continue to go down. But what you cannot extrapolate is that it will continue – it will go up a lot from where it is now because Sterling, Euros and US dollar curves remain challenging.

So it is specifically the runoff of bad positions in Asia and opportunities to actually make money out of the Hong Kong curve.

Stephen Green

Roy, thank you. And I will say at that point, we must draw this discussion to a close. Ladies and gentlemen in Hong Kong, thank you for joining us this afternoon.

I am about to get onto a plane so I will be with you – and will be meeting a number of you – over the next 48 hours – Tuesday, Wednesday.

Ladies and gentlemen here in London, thank you for being with us. We look forward to seeing you again at the full year. Thank you.