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# HSBC Holdings plc Third Quarter 2010

# Interim Management Statement

## Conference call transcript

05 November 2010

12.00 pm GMT

## Corporate participants

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*HSBC Holdings plc; Group Chief Executive*
**Douglas Flint**
*HSBC Holdings plc; Chief Financial Officer, Executive Director Risk and Regulation*
**Stuart Gulliver**
*HSBC Holdings plc; Executive Director, Chairman, Europe, Middle East and Global Businesses*
**Niall Booker**
*HSBC North America Holdings Inc.; CEO*

## Conference call participants

**Tom Rayner**
*Barclays Capital;Analyst*
**Alastair Ryan**
*UBS; Analyst*
**Ian Smillie**
*RBS; Analyst*
**Christopher Wheeler**
*Mediobanca Securities; Analyst*
**Ian Gordon**
*Exane BNP Paribas; Analyst*
**Leigh Goodwin**
*Citigroup; Analyst*
**Robert Law**
*Nomura Securities; Analyst*
**Steven Hayne**
*Morgan Stanley; Analyst*
**Mike Trippitt**
*Oriel Securities; Analyst*
**Andrew Lim**
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**Sally Ng**
*CICC; Analyst*
**Jon Kirk**
*Redburn Partners; Analyst*
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*Macquarie Securities; Analyst*
**Michael Helsby**
*Bank of America Merrill Lynch; Analyst*
**Manus Costello**
*Autonomous Research; Analyst*

## Presentation

***Operator***

Welcome to HSBC Holdings plc's Interim Management Statement of HSBC Finance Corporation and HSBC USA Inc. third-quarter 2010 results. Today's presentation is being chaired by Michael Geoghegan, Group Chief Executive HSBC Holdings plc and Douglas Flint, Chief Financial Officer, Executive Director, Risk and Regulation, HSBC Holdings plc. Please go ahead, Mr. Michael Geoghegan.

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

Good morning from New York and good evening in Asia. Douglas and Stuart are joining us in London today and Niall Booker is here with me in New York.

Firstly, I will run through the key headlines very briefly. As usual, our comments are given on an underlying basis.

We were encouraged that after an uncertain quarter for the market, HSBC's performance for the nine months remained well ahead year on year. Pretax profits for the three months were also well ahead, although the run rate achieved was lower than in the first half of the year in a tougher quarter.

Credit experience continued to improve; in fact, quarterly loan impairment charges reached their lowest level since early 2007. Once again, the diversity of our earnings shows that our universal banking model works.

In the year since September, Personal Financial Services performed ahead of our expectations, driven by lower loan impairment charges. Commercial Banking was our main source of lending growth. And Global Banking and Markets performed robustly with pretax profits second only to the exceptional prior-year period.

Total revenues for the quarter and the year to date were lower overall given the economic uncertainty, lower trading activity, and the impact of our run-off portfolios. But we saw encouraging growth in the right places.

We grew lending overall; most promisingly for the future we increased loan balances in every emerging market region. We won new Commercial Banking and Premier customer numbers at a similar rate to the first half. And we further increased our trade revenues.

As you know, capital liquidity strength is one of HSBC's hallmarks, so I'm pleased to say we have strongly generated capital in every quarter of the year, comfortably exceeding dividends.

We increased our core Tier 1 ratio to 10.5%, and we are confident we can meet the new Basel III requirements and maintain our hallmark financial strength through profit generation.

Turning to the outlook, clearly a recovery in the West is taking longer than many expected. And there have been some signs of a slowing momentum in emerging markets too. But the long-term fundamentals for emerging markets remain compelling, and HSBC is well-positioned to take advantage.

Finally at HSBC, we are firm believers in the need for a strong financial system, but we also tell it as it is. Right now, we have concerns that European and UK policy makers appear to be going further than others on certain issues. This includes EU remuneration principles and a levy on the global balance sheet of UK-based banks, which taxes their emerging market growth. Policy makers need to consider the consequences on the wider economy and on the growth as they finalize their legislation.

Thank you very much for listening and now I will take your questions.

## Questions & Answers

***Operator***

(Operator Instructions). Tom Rayner, Barclays Capital.

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

Good morning. There's two things you've said in your statement I think were particularly interesting. I'd just like to get you to expand on if that's okay.

One, on the data from emerging markets pointing to a slowdown and the likelihood of some bumps in the road; I wonder if you could maybe expand on what you see those bumps as likely to be.

The second thing is your comments around policy makers and their need to consider the long-term consequences. I'm just wondering if there's any sort of veiled warning there to regulators, if they take things too far, HSBC may not necessarily remain domiciled where you are currently. Thank you.

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

Thanks, Tom. I'll take the first question on the emerging markets, and I will ask Stuart and Douglas to give their views in regard to the policy aspects that we've mentioned today.

From the emerging markets side, all we're saying is that nobody should take a view that emerging markets is one straight line up. There will be bumps along the road as economies adjust. Clearly, we are seeing different approach in different markets to the exports to the United States. We're seeing currency issues. We're seeing a lot more competition coming into the region. That, in itself, will change pricing. There will be a big challenge for skills; people will be looking to hire.

And then you've got to look at property markets in Hong Kong. You're seeing a large amount of liquidity coming from mainland China, and what impact that will have on real estate prices in Hong Kong, and then real estate prices themselves in China. So I'm not trying to emphasize any particular thing, but people need to be cognizant of emerging markets isn't just a one-way bet. Douglas?

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

It's Stuart. I'll kick off and then Douglas will join in. What we are obviously talking about here is there are three broad things that give us some concern and some pause for thought. The first one, obviously, is the levy that is being raised on UK headquartered banks but on their global balance sheets, which effectively, for the first time, creates an explicit cost of being headquartered in the UK.

The second thing is, obviously, the European -- changing rules on remuneration that is being applied to banks, which clearly isn't being applied to American banks or Australian banks or Brazilian banks or Chinese banks, which gives us a playing field that isn't level.

And then the third thing, obviously, is you've got an independent commission here looking at the future of the shape of the banking industry. So we're just signaling basically that there are three very significant issues around that obviously we, as a senior management, our board, and indeed, our investors, all need to be mindful of. There's nothing beyond that intended from the remarks at this stage.

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

Yes, and I think just to add to that, it's not what we think except that it's what shareholders are saying to us, what do we think about these changes, and can we estimate, calculate the cost of the changes in terms of explicit costs and in terms on how we might change our business model. And then, can we explain to them whether those costs and changes to the business model impact our thinking about how we want to shape HSBC going forward.

So I think we are effectively now responding to an increasing amount of inquiry from shareholders as what is the cost of all of this to you in terms of dollars and in terms of business model?

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

Can I -- just on that, because I think in the statement, it mentions remuneration policy and it mentions the bank levy specifically. But, obviously, in terms of the capital and maybe the FSA's approach to Basel III re. sort of super equivalence, and Stuart just mentioned the breakup as well. Is there one or more of these issues really a sort of make or break issue? If higher capital ratios are imposed or if you are forced to split business, is there sort of pecking order in which ones might be exceptional, which ones are sort of really, you need to sort of react against?

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

I think we have to look at them in the round, and there may well be changes that will be advantageous to us, so, but I think we have to look at them in the round as opposed to any individual one being particularly more important than the other.

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

Okay. Thanks a lot.

***Operator***

John-Paul Crutchley, UBS.

***Alastair Ryan - UBS; Analyst***

Thanks. It's Alastair from JP's line. Just on the pace of capital generation in the quarter, which seemed to step up somewhat in spite of, as you say, good volume growth, just any comment on, and how much that is driven by the sort of households run down and pro-cyclicality -- and whether it's representative, or whether you just have a particularly good outcome.

Secondly, balance sheet management, sort of feels like -- I know we should expect it to be volatile because everything is moving around a lot. But it sort of feels like Q1 was quite slow, Q2 was very good, Q3 was quite poor again, and whether there's any way we can think about it constructively other than it changes quarter by quarter. Thank you.

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

I will take the first bit in regard to RWAs, and then maybe Niall will add a bit on the run-off business, and then Stuart will follow up with the balance sheet management.

Clearly, on RWAs, and hence the drive into capital, as our quality of our assets improve, our RWAs fall, and that's what we are seeing in a number of places. And that obviously releases up capital to us. And I think obviously the biggest one of those is North America. But, I'll let Niall now just add a few points on that and then I will move to Stuart.

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Good morning. As you know, we have managed the business in the US with the primary aim of not taking too much capital from the parent. The risk weighting on the mortgage book, as you know, runs close to 200%, so it makes sense to run that down as quickly as possible, and it's down about 11% over the second quarter.

So we're making progress, but as you can understand, refinancing is difficult in the current climate for the type of mortgages we have. So the run-off will continue at much the same pace. I don't see it accelerating too much.

In connection with the capital we take from Group in the third quarter, we put $200 million into the finance company to maintain the Tier 1 ratio, but that came from capital that was already held at the North American level. So we didn't take any additional capital from the Group.

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Stuart?

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

Just before Stuart, because I'm just familiar with a couple of other techie points, Alastair. In the first half, the FX movements on capital were relatively disadvantageous to the ratio, i.e., the hit to capital was a little bit more than the benefit in risk weighted assets. That reversed in the third quarter. So that's helpful to the third-quarter capital generation.

And then, we had, as you know, a larger tax, book tax charge in the first half because of the transfer of Canada; we said that would equalize over time. We had a relatively low charge in the third quarter again to the benefit of capital generation. So those other two factors are the other two pieces of the equation. Stuart?

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

Yes, Alastair, it is actually a volatile series. There's no getting away from that. But, directionally, it's exactly as we have guided now for quite a long time, that the balance sheet management number is running down. And Q3 was lower than Q2 and was lower than Q1.

The thing I think that probably distorted analyst models was that Q1 and Q2 were a lot higher than the third and fourth quarter last year. But Q3 is running at a lower rate than Q2 and Q1, which is really what we signalled, that balance sheet management will run off and that last year's number was a high point given where interest rates are and the shape of the yield curve.

***Alastair Ryan - UBS; Analyst***

Thank you.

***Operator***

Ian Smillie, RBS.

***Ian Smillie - RBS; Analyst***

Two questions, please. The first one is, could you give us some estimate as to the impact on their core Tier 1 ratio from shifting to the BIS 3 please? And ideally, some idea of where you would like to position your core Tier 1 ratio in the BIS III world relative to the BIS II world. So that's the first question.

And then the second question is, I'm not highly sure entirely sure that I did it correctly, but it seems like the cost income ratio in Q3 will have gone up again on the first half of this year, and I'm just wondering whether you can confirm that we reached the semantics correctly on that front.

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

Douglas, could you take those two?

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

Sure. On Basel III, we're going to find it difficult at the moment to give a quantification. The recalibration of capital changes that have come out moderate the impact on the calculation of capital, as indeed is the fact that we are obviously using some of our tax assets around the world, so the impact of the recalibration of capital is perhaps less than we thought it would be six months ago.

The risk-weighted asset movements, I think that there is still a very large range of possibilities as the industry and the regulators are talking about how to calibrate counterparty risk on some of the trading book adjustments that are still being discussed. And I would rather not give the very wide range that others have given and wait until we've got more certainty, so we will try and do something with a bit more precision in the end-of-year numbers, but at this stage, I think we are going to have to be silent.

Having said that, echoing what Mike said in his opening remarks, we have the benefit, if that's the right word in a perverse way, of the capital release that's coming from the exit businesses and consumer finance and the rundown of some of the portfolios in Global Banking and Markets that are expensive in capital terms. So there's quite a significant release of capital from exiting business that won't continue over the next three or four years, which will provide a pool of capital outside of the normal generation. And indeed, as we have said, we are generating capital after paying dividends. Our cost income ratio was a touch, and a very small touch, above the second quarter.

***Ian Smillie - RBS; Analyst***

Thank you, Douglas. And then anything to say on where the core Tier 1 ratio benchmark could be in the new world?

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

Too soon to say. I mean, we would really like to see what comes out of Seoul, if we can. We would like to see whether the UK is going to put its own sheen on the proposals, so I think it's too soon to say.

I mean we are conservatively building capital at the moment, but until we've got clarity as to where some of the things that are still in quiet discussion that have some significant impact, it's too premature to say. Again, we hope we're going to be in the position to do that when we talk to you in February.

***Ian Smillie - RBS; Analyst***

Thank you.

***Operator***

Christopher Wheeler, Mediobanca

***Christopher Wheeler - Mediobanca Securities; Analyst***

Yes, good morning. I wonder if you could help me to just clarify the comments you made earlier on the tax charge and also the comments in the release this morning. Obviously you had a 35% effective late in the first half on the Canada transaction, but you seem to be pointing us towards I think what you've said in the past, was a sort of normalized tax charge of 23% or so; and you seem to be pointing us to that for the full year for 2010. Is that correct or am I being a bit too ambitious?

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

Douglas?

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

I think it might be a bit more than that. We've obviously started off with a very high charge in the first quarter. But, in the mid-20%s is where we would -- the mix of business that we've got and the relative profits and losses -- the mid-20%s is a good range to aim for.

***Christopher Wheeler - Mediobanca Securities; Analyst***

But do you think you can achieve that this year? That's what sort of comes out of the comments in the press release. Because that sounds really ambitious to me.

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

We --

***Christopher Wheeler - Mediobanca Securities; Analyst***

I mean, from 35% in the first half.

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

We think we will be in the mid-20%s, mid, possibly a bit higher than mid-20%s, but we think we will be there.

***Christopher Wheeler - Mediobanca Securities; Analyst***

Okay. Thank you very much.

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

It depends on the mix of profits.

***Christopher Wheeler - Mediobanca Securities; Analyst***

Sure.

***Operator***

Ian Gordon, Exane BNP Paribas.

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

Thanks. Good morning. I have three, please. Firstly, I appreciate it doesn't impact today's statement, but could you comment on the recent developments in the Hong Kong mortgage markets pricing, what HSBC's positioning will be, and how you expect the wider market to evolve given ongoing excess liquidity?

Secondly, on foreclosures, I note what you say in the statement today, and clearly you are less impacted than many of your US peers. Can you just comment as to whether you are seeing any exception at all in your typical period from commencing action to taking possession of a property?

And then thirdly, obviously you have quantified the useful continuing progress with the run-off in the US portfolio. Just going back to Mike's comment at the Q1 call, in terms of the overall Group customer loan position, would you be moving away at all from your guidance that rapid Asian growth would broadly be cancelled out by ongoing run-off from North America?

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

Right, I'll take the first on the mortgage. I'll asked Niall to take the US question, and Douglas, maybe you take the final one, the run-offs versus growth.

On the Hong Kong mortgage situation, clearly the Hong Kong Monetary Authority have put in some controls to calm down the market. The reality, however, is that people are buying in Hong Kong are not buying with that much bank debt. A large amount of this is liquidity coming across from Mainland China, buying properties and without banks. And there's virtually no way anybody could control that because there are no levers in the financial system to offset it. So, it will be difficult for some time to come. I suspect myself it will be an other-wary or some sort of shock somewhere else in the system that will bring down our Hong Kong property prices, which, as we all know, have increased quite dramatically in the first three quarters and is of great concern to the government. So, I think it's a case of the banks can't change it; something will change it from a confidence perspective.

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

Actually, forgive me. I was actually coming at it more from a -- the small increase we've seen in asset spreads in the last week by one or two of your competitors. I was wondering what your views were and how the attitude to mortgage margin evolution is likely to be.

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

Well I think the reality is we are the major player in the market there. There are some Chinese banks that are making significant inroads into that business, but the margin overall I don't see coming out that much either way. I think it's pretty well going to stay in that half. There's a huge supply of mortgage funds available, so there's not much pricing capability.

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

Okay, thanks.

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Ian, on the foreclosure issue, of course the results cover periods really before the foreclosure brew-haw kind of blew up. So, it's hard to tell just yet how much impact that will have. It's obviously also quite granular in the US because the states are not homogenous and they have different foreclosure processes. We have seen some extension in foreclosure timelines in judicial states such as Florida. We've also seen some extension in timelines in New York in the third quarter. But as I said, it's hard to disentangle those from normal judicial processes compared with the attorney general's action that has taken place really since the end of the third quarter. Interestingly, in California, which is one of the states mostly impacted by the prices, we've seen very little change in the foreclosure periods, and that also applies to Ohio. And those are the states that we have the largest exposure to.

I do expect the foreclosure process to extend a wee bit as a result of the action the attorneys general have taken, and we will just have to see how that plays out.

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

Douglas?

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

On balance sheet growth, we are generating more balances, more loans in emerging markets broadly than we're running off in developed. So we have net growth quarter three on quarter two, and indeed, year to date versus 12 months ago. So we are doing net mid single-digit growth, largely driven by Commercial Banking -- so in other words, the run-off is being more than compensated by growth elsewhere.

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

I think it's fair to add that that growth is obviously at the same margin that we were getting on the US business.

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

No, it's impacting the margin negatively, but it's a heck of a lot better quality, so it's not bringing with it the impairment charges that the North American run-off is relinquishing.

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

Okay. Thank you.

***Operator***

Leigh Goodwin, Citi.

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

Good morning, gentlemen. A couple of questions please. My first one is on GBM, and I just wondered if reading the statements in between the lines, you'll give an indication for how GBM performed Q-on-Q excluding balance sheet management, which is clearly down. But there is reference to trading also being down a little bit. And when we saw Q2, I think it was down sequentially 20% on Q1. If you could just give us some orders of magnitude for where Q3 was. And also, sort of maybe an update for how trading has been in Q4 to date.

And my second question actually is on the North America business, in particular the household business. I notice that the delinquency rate has actually increased quite a lot. Now that could be associated with the sale of the auto book, and dollar delinquencies are sort of more or less flat. But I wonder if you could just clarify why that is the case, the delinquency rate seems to have gone up, please? Thank you.

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

Thanks very much. Stuart, would you take the first one and Niall will take the second one?

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

Yes. It's, as you'd expect, it varies by geography. So actually the top-line growth quarter on quarter in Latin America, the Middle East, Asia Pacific, and Hong Kong, but there's actually a contraction in Europe; and North America is distorted by a movement from having a provision to a release. So, overall, yes, Q2, Q3 is down, but it's a mixture of underlying movements. And as I say, there's growth in the emerging market piece.

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

Okay. But you couldn't give us any indication of how much compared to Q2?

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

I'm afraid I'm not allowed to.

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

Okay. And then trading -- are you allowed to sort of say how you are trading so far in October, whether it's picked up from the third quarter?

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

Yes, October is fine so far.

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

And then on the household?

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Yes, Leigh, it's primarily I think a function of the shrinking of the denominator. I kind of prefer from a management perspective to look at the dollars of delinquency in a run-off portfolio rather than the ratios. And as you said, the dollars have remained pretty static. Within that, there's some differentiation between the performance of the cards book, which is considerably better, and the performance of the mortgage book, where we've seen firstly and it's just deteriorated a slight amount, and secondly, to get a wee bit better.

So it's a bit of a mixed picture. It's kind of in line if not slightly better than it would be, bearing in mind that the third quarter has traditionally been a fairly weak quarter for households over time. And also, that the US mortgage market is currently not progressing as fast generally across the piece as you've seen from some of our competitors, as we saw in the first quarter and I think we kind of took a fairly cautious position at that time. So overall, I think the increase is a function of the denominator rather than anything we are too concerned about at this stage.

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

Okay, thanks. If I might, just follow up a little bit on the US business, the household business. I couldn't quite understand why costs are going up Q-on-Q given that you're seeing the books running off. Is there some one-off in the cost line?

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Not that I'm aware of. There's often some movement because of the way we account for some of the charge-offs in relation to different aspects of foreclosure costs, but I don't think there are any one-offs in the cost line.

The one one-off that I think people should be aware of is the non-qualifying hedge situation, which I think we explained at the end of the first half. I think people need to look at the results in the context of that, which, over the whole year to date is about $960 million negative, and over the third quarter it was $370 million negative. And with interest rates backing up again, obviously, there's a chance that that will reverse over time, and it does represent an economic hedge of the extension of our balance sheet. So that's one number to bear in mind, I think.

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

Okay, thank you.

***Operator***

Robert Law, Nomura.

***Robert Law - Nomura Securities; Analyst***

Yes, hi, everybody. I'd like to explore three areas if I may, two brief and one a bit longer. Firstly, you have said you want to be explicit about the cost of being in the UK. Could I invite you to be explicit about the levy? I think based on what RBS said this morning, it might be up to $1 billion for you.

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

We don't know yet, Robert because we don't know what the rate is. So they haven't determined that as to what the rate will be for overseas liabilities or indeed for domestic. So it's speculation.

***Robert Law - Nomura Securities; Analyst***

Okay. Moving to expenses, it looks like the expenses are pretty flat year on year for the statement. Would you expect them to rise in Q4 from the run rate you've shown year to date?

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

Well if it takes expenses generally, yes, we have been able to keep them under control. The concern is wage inflation generally, and particular in hot markets like Asia. So, and at the same time, we are also investing into the wealth management business, hiring a number of relationship managers, etc. So, all in all, there is quite a bit of wage pressure around the Group. And of course, it will come in the form of basic pay rather than bonus if we can't run the businesslike others run theirs, and hence have the bonus element being the higher element. So expenses are going to be a challenge for us, and the implementation of One HSBC is fundamental to keep our costs down overall, but the pressures are there.

***Robert Law - Nomura Securities; Analyst***

And just to clarify, do you think the run rate will be up in the fourth quarter?

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

Douglas?

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

Yes, there's usually pressure in the fourth quarter on a number of areas. I wouldn't expect it to move dramatically, but I would expect fourth-quarter costs to have the normal seasonal uptick.

***Robert Law - Nomura Securities; Analyst***

Yes. And finally, it was revenue I wanted to look at. Looking at the guidance you've given, I think the revenue run rate might be about 10% down versus the first half. Is that broadly appropriate?

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

Douglas?

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

I'm not going to comment on that, Robert because I can't give you the numbers.

***Robert Law - Nomura Securities; Analyst***

Okay. And in the statement, the implication is that Asian revenues are up in Q3 compared to the first-half run rate. Can I just clarify that? Am I reading that right?

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

You are reading that right.

***Robert Law - Nomura Securities; Analyst***

Thank you.

***Operator***

Steven Hayne, Morgan Stanley.

***Steven Hayne - Morgan Stanley; Analyst***

Good morning, everyone. I just wanted to ask a question about Asia, in particular Hong Kong and rest of Asia where loan growth was very strong in the first half, was up 15% so annualized, could collect close to 30%. The system loan growth in Hong Kong, for example, seems to be running around 26%, albeit the deposit growth is running more like perhaps 6% or 7%. And I'm wondering, could you just suggest to us, help us, in terms of thinking through how much we should expect to see in terms of NII growth, net interest income growth, pulling out of those sorts of system trends? Thank you.

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

Well I can't actually give you the numbers, but what I can say is yes, you're correct, we are continuing to grow our business in Asia and Hong Kong in particular. I mean obviously, we are very, very liquid in those markets, and we've taken some of that liquidity out and lent it. And that comes from our commitment earlier on to say that we believe greater China was the biggest market for us -- potential for us, and we needed to exercise that opportunity. And we are doing that of course, not just Hong Kong; Singapore, India, various other markets.

It's something that we will continue to do, and the margin of the business is holding up relatively well. But as I said in a statement earlier on, there's a lot of competition about to start to arrive in that region that will be challenging for all participants in the market.

***Steven Hayne - Morgan Stanley; Analyst***

All right. And on those margins, I think when we were out there in Asia last week it was suggested that on the corporate side it's fairly stable. On the retail side, given the amount of high-ball mortgages that were written and that are still working their way into the book, can you give us any suggestion on where you are seeing the retail-type margins in Hong Kong?

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

They are tight. There's a lot of competition.

***Steven Hayne - Morgan Stanley; Analyst***

Okay. Thank you.

***Operator***

Mike Trippitt, Oriel.

***Mike Trippitt - Oriel Securities; Analyst***

Good morning. I've got two questions. One just following up on the capital. I appreciate it was very early days on Basel III and the vagaries, etc., but, is there a situation under which, putting aside the run-off in North America, that you would envisage the North American businesses requiring a lot more capital under Basel III?

And the second question, which I know is not really Q3, but your statement on Nedbank was fairly abrupt to say the least. I wondered if you could just expand on your reasons for walking away from it. Was it partly to do with your emerging market comments? Is it partly to do with the capital position? I wondered if you could just expand on that. Thank you.

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

Niall, if you take the first question, I'll take the second.

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Yes, I think there are possibilities where we could require some additional capital in the US under Basel II and Basel III. Clearly we work through those scenarios, particularly the stress scenarios under which that might be the case in conjunction with Group and our regulators. So there is a possibility that we would need to generate capital in some shape or form in the

US operations. And as you know, we issued some qualifying debt through the bank in August and are currently offering a debt swap of subordinated debt for some of our existing debt holders. So, we're going about the capital raising issue quite methodically and professionally at the moment.

A lot does depend of course on the outcome of the macro US economy. But we will continue to explore ways that we can raise capital, actually utilize capital that is sitting in the Group that currently isn't utilized in order to avoid, as we try to do, bringing too much capital into the US to [inaudible] a rundown book at this stage in its evolution.

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

Thanks, Niall. In regard to Nedbank, there's not really much I can add from the statement we made in regard to it not meeting the criteria we expected to see for our investment, and that, and uncertainty in the regulatory world have made the decision that it was best probably to pass on it. I think the abruptness was not something we wish to see. It was unfortunate that there was press speculation and we moved immediately to have clarity in the market and to advise Old Mutual, as soon as we had made the decision, and that's what we did.

***Mike Trippitt - Oriel Securities; Analyst***

Can I just follow up with what's your appetite now? I mean, again, given your comments on the capital position, what's your appetite for expanding the business in Africa and in South Africa?

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

I think Stuart should answer that as the incoming Chief Executive. Stuart?

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

Clearly, the decision we've taken on Nedbank probably puts back for sometime any acquisitions that we're likely to make in that continent. However, we have an operation in South Africa, and Africa obviously has considerable contacts or sub-Saharan Africa to China and India. We will probably therefore need to expand on an organic basis.

***Mike Trippitt - Oriel Securities; Analyst***

Thank you.

***Operator***

Andrew Lim, Matrix.

***Andrew Lim - Matrix Securities; Analyst***

Hi, I've got a few questions. First of all, on the net interest income, you've had pressure on your net interest margin in previous reporting seasons. I was wondering if you could give some colour on what's been happening recently. Has it stabilized, or should we expect some more weakness and for how long?

And secondly, could you provide some colour on your aspirations to list in Shanghai? When can we expect that by? And, should we expect some form of capital raise with that and how much?

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

Right, well, I'll ask Douglas to take the first point and I will come back on the China aspect.

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

On the net interest margin, I think you can continue to expect the book margin to gently decline mostly because we're running off very high yielding assets in the Consumer Finance business and replacing them with much better quality assets but with a much lower yield, but without the bad debt drag. So, that, together with the fact that there's no real line of sight to deposit margin coming back means that -- and the competitive environment that Mike talked about, I think that the margin as the mix of the business changes will continue to very gently moderate down.

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

Right. On China, clearly we are working towards a listing in China, but it's very much subject to the Chinese authorities getting all the rules and regulations in place. And, I suspect that will -- certainly won't be instant; if it will be a first half of 2011, I'd be pleasantly surprised.

On the question of how much we would raise from such a listing, not that -- no decision has been made on that and no discussion has taken place. But it wouldn't be that substantial to create any sort of misbalance between the overall capital structure of the Group. So it will be additional but not that much additional. But no decision has been made on that at all. It wouldn't be made until much nearer the time.

***Andrew Lim - Matrix Securities; Analyst***

Thank you.

***Operator***

Arturo de Frias, Evolution Securities.

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

Not Revolution, Evolution, but anyway, a couple of questions please. One, on -- well both on revenues, one on Latin America and one on the US. You mentioned that your total revenues in Latin America were lower than the first nine months of 2009 which is a contrast versus pretty much all your competitors. Also, the local currencies have done very well versus the dollar. So you are having lower revenues reporting in dollars is broadly because your local currency revenues have been quite weak. So, can you comment a bit on that? And farther than what has happened in the three previous quarters, are you still happy with the size you have in Brazil, in Mexico? Revenues don't seem to do very well. Do you have a size problem? Do you think you will need to grow those franchises?

And then the second question on the US is much shorter. You used the word markedly lower when you talk about your revenues in North America, which sounds a bit blunt wording. How markedly is that? And do you expect deterioration to bottom anytime soon, or at least the rhythm of decrease to soften a bit? Thank you.

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

All right, I will take the first part for Latin America and then Niall will talk the second part.

I think what we're doing in Latin America, both in Brazil and Mexico, is running off unsecured portfolios which were probably more at the high risk end of the credit spectrum. And that obviously means that revenues are coming down. And we're focusing the bank more on Commercial Banking, international banking, wealth management. But we're also obviously growing and building and we've won many awards for our Global Banking and Markets business there.

On a size element, yes, I [bet] you could say in Brazil our size is not where we would like it to be. I wouldn't say that of Mexico. I think we do have sufficient market share there, but the overall market in Mexico isn't that robust, and we have to watch how the Commercial Banking business develops between North America and Mexico.

But as I said, we are building out our wealth, and we're moving our brand up market. So over time, you will find us more distinguished as an international bank in Brazil than, say, some of the other brands that will stay much more domestically focused. So it's a work in progress. Niall?

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Oh, sure, the revenue run-off in the US is primarily driven by the run-off of the household book. And, as Douglas mentioned earlier, that appears now to be more than compensated for by the reduction in bad debt, which is why we're seeing the performance of the finance company improve year on year.

Obviously, the rate at which that revenue decrease continues depends a wee bit on two factors, one, the extent to which the book shrinks, and two, the extent to which the mortgage book is modified as we go forward. And we're continuing to modify those at albeit a much lower rate, so I think we modified $5.1 billion of loans in the first three-quarters of the year, which is down considerably from what we were doing in 2008 and 2009. But those modifications, which primarily take the form of rather significant rate reductions, do have an impact on revenue.

So, that will continue, but I would argue, and I have done with many of you on this call, that that revenue reduction is actually positive revenue reduction because it's not being accompanied by the LIC deterioration that we saw from the mid-2007 period onwards in the household book.

The overall revenue performance of the Bank is fairly positive, and we continue to look for opportunities to grow in the Commercial Banking, Personal Financial Services and Global Banking and Markets base.

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

Thank you. In fact I was curious because when I look at your net interest income in North America, in the first half of 2010, it fell almost nothing -- very marginally, versus the second half of 2009, 1% or 1.5%. And now, you use the word markedly, so it seems like the delta of change has deteriorated significantly from what we were seeing six months ago, and I wonder why is this happening?

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Well, first of all, the book continues to run off fairly rapidly, and we've reduced some of the higher-yielding assets, so the auto portfolio has gone completely, and the cards portfolio has shrunk a little bit more than we forecast when we began the year. So that may explain some of the delta.

But what I would say is it's not out of line with where we, ourselves thought it would go. You also have to remember, I think, that we've modified some 51% to 52% of our loan portfolio, so perhaps your expectations and ours were slightly different, but we know what the impact of those modifications would have been on the revenue. And, therefore, the actual revenue shrinkage is not out of line with our own expectations.

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

Okay. Thank you very much.

***Operator***

Sally Ng, CICC.

***Sally Ng - CICC; Analyst***

Thank you. I have a question regarding your US mortgage put-back exposure. I think it's about $216 million as of end of September and it's up quite a bit from end of last year. And appreciate your exposure is significantly smaller than the large US banks, but just want to get an idea of your estimate of eventually how big that exposure could be, if there was any published on something -- that you set aside some provisions that there's also provision in time for that. Thank you.

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

Niall?

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Well, obviously, the provisioning represents what we currently expect is the loss situation in that portfolio. Obviously it could deteriorate further, but our expectation is that it won't. The provisioning represents really our exposure to the government-sponsored enterprises, so Fannie and Freddie, in terms of mortgages that were sold to them from the US bank.

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

Next question?

***Operator***

Jon Kirk, Redburn.

***Jon Kirk - Redburn Partners; Analyst***

Can I just ask one point on the US business, which was that the delinquencies in dollar billion terms are flat. And the loan impairment charge still running about $1.8 billion. I'm just trying to understand what the rate of NPL formation is in the US. Is there any particular trend there? Is it still slowing down, or is it just a mix effect which is leading that loan impairment charge to be smaller?

And then I had a second question, just clarifying something Douglas said about loan growth running at mid-single-digit rate. Is that for year on year, third quarter versus third quarter in other words?

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

All right. Thanks. Niall will take the first one and then Douglas.

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Yes, on the loan impairment charges, it really is a bit of a mix issue, because as I said earlier, the unsecured element, so the cards element, has improved markedly over the quarter and the year. And the other unsecured portion, which sits in the old consumer lending business, has also seen some improvement in that period. So, the unsecured portions where you would expect high levels of write-down have improved considerably, leaving us exposed primarily to the first lien mortgage business, which obviously has the protection of the lien, and therefore has lower loss ratios.

***Jon Kirk - Redburn Partners; Analyst***

Okay. So it's purely a mix thing rather than any sort of change in NPL formation rate?

***Niall Booker - HSBC North America Holdings Inc.; CEO***

Well, there will be some element of statistical basis to it, because the entry rates in the 30-day bucket have slowed across most of the portfolio. So there will be an element of statistical basis to the overall provisioning that has driven it lower. But aside from that, there is the mix issue that I outlined.

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

And the loan growth was year on year, so comparing September 2010 with September 2009.

***Jon Kirk - Redburn Partners; Analyst***

Thanks very much.

***Operator***

Dave Johnston, Macquarie.

***Dave Johnston - Macquarie Securities; Analyst***

Just going back to GBM, just looking at what you said, I guess GBM looks at quite considerably lower in terms of profit than 1H '10. And beyond balance sheet management, what are the trends you're seeing in that business?

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

Stuart?

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

Well, as I said before, actually the top-line revenue growth in Latin America, the Middle East, this is quarter two, quarter three. Latin American, the Middle East, Asia Pacific and Hong Kong, it's. It's down quarter two, quarter three in North America and down in Europe.

So, as we actually said in the statement, we said the reduction in profitability compared with the comparable period of 2009 remained broadly consistent with the trends we experienced in the first half, which wouldn't indicate the deterioration that you have just expressed.

***Dave Johnston - Macquarie Securities; Analyst***

Okay.

***Operator***

Michael Helsby, Bank of America Merrill Lynch.

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

Thanks. Hello, everyone. I've got three quick questions I guess. Firstly, thanks for your comment on bad debt, and it's interesting to see that you're saying it's not been this low since early 2007. Should I read that that is kind of back into line with levels of that period, or is it just moving towards levels of that period? That would be question one.

Question two is, I was wondering if I could push you a little bit more on the capital core Tier 1 question that Alastair asked because, it is a hell of a significant jump, and I think in the round in asking -- in answering that question, you said the RWA progression in the US hasn't been that notably different from what you saw in the first half. But you also mentioned some FX, so I was wondering if you could A, confirm that the RWA trends half on half, or Q, sorry, on the quarter, are not that different? And also, what the FX impact has been to the positive in the quarter?

And lastly, it always -- it continues to strike me that this is one of the regions in the world where you've got a real true competitive advantage, is in the UK. And I know that that's sort of slightly out of the focus towards emerging markets, but, I was wondering if you could give us a view on what your appetite to grow in the UK is, both in the mortgage market and in corporate if the corporate deleveraging begins to slow down.

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

All right, thanks so much. I'm going to ask Niall to look at the trends in delinquency on 2007. I'm going to ask Douglas to look at the capital and the core Tier 1 as it relates to RWAs and FX. And then Stuart, maybe led comments on the UK.

***Niall Booker - HSBC North America Holdings Inc.; CEO***

On the bad debt charge, particularly in the Finance company in the United States, you know, if we divide the portfolios up between the continuing business and the run-off business, cards business shows signs that it is going back to pre-2007 levels, and it may already be there. How long that is sustainable will depend a bit on unemployment numbers in the US, I suspect. Although, we have seen considerable consumer deleveraging, and we have seen consumers maintain their payments across the card piece in ways that perhaps have been surprising on the upside given the unemployment numbers that we've seen. So, I am hopeful that that trend, it won't trend all the way down to zero, obviously, but hopefully those numbers can at least be maintained going forward.

On the mortgage book, it's a slightly different story. We're obviously not back to where we were in 2007 or pre-2007, and I think that is going to be a slow process because I don't see at this stage, too many catalysts for improvements in house pricing, for example. And without the pickup in unemployment I mentioned before, I think mortgage books are going to remain under some stress, so I don't see those numbers returning quickly to pre-2007 levels. Although, as I said in answer to the last question, we are seeing some improvement in early-stage [realms], but we still continue to see some severity in the late stage.

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

So I thought the comment in the statement was about the Group. So I guess my question is on the Group bad debt charge -- are you trying to signal that your Group bad debt charge is at the levels that you saw in the early part of 2007 in the third quarter?

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

Michael, it's Douglas. That's correct; that's exactly what we were saying. If you take the 3Q charge and just track back, you get back to the early quarters of 2007 to find a charge of similar magnitude.

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

Brilliant. Thank you.

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

Douglas, do you want to take capital core Tier 1?

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

I will tiptoe through that one if I can. In the first half of the year, there was an adverse impact from the -- with foreign exchange movements; the benefit on risk-weighted assets was less than the hit to capital, so it moved our ratio down because of some currency mismatch. And we run that within certain tolerances. That reversed in the third quarter, so, if you go to the second-quarter numbers, you can see that we had more of an impact to our capital than we had relative benefit in risk-weighted assets. That reversed in the third quarter, and that gave a benefit to the capital in the third quarter.

Also, risk-weighted asset growth in the third quarter, albeit that the balance sheet actually had growth, the risk-weighted asset growth, just because of the mix of the growth and adjustments to the models that generate risk-weighted assets because of lower loss expectations speeding through models, the impact on the balance sheet growth was less because of the adjustments for probability of default coming through. So we had good balance sheet growth in the quarter, but we didn't have much growth in risk-weighted assets. So that's one of the reasons why, on top of capital generated from trading, from just operating activities, was augmented.

On top of that, you will have seen we had big a script take-up, so we had a good portion of our script -- of our dividend back from the prior quarter, and that impacted capital generation as well.

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

Stuart, UK?

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

On the UK, in fact, there is actually a good story. Both in the CMB space and the PFS space, we've actually increased lending. And in terms of new mortgages, have actually built market share. And most of the new mortgages are LTVs below 55%.

On the SME side, lending to UK SMEs is up about 21% year to date. And export trade finance is up about 43% year to date. And the guys have also done this without any increase in costs. So because of those volume variances, the asset spreads actually in the UK Bank have offset the decline in liability spreads coming from very low interest rates. And it's also being done with actually zero cost increase. So, actually the UK kind of retail bank, PFS and CMB is a good story.

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

Douglas, can I just say on this FX turnaround, would it be too cheeky just to get you to quantify what the drag was in the first half in basis points?

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

Well, I think it said on page -- from the 194 and the interim accounts.

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

Okay. I'll look at that myself then. Thank you.

***Operator***

Manus Costello, Autonomous Research.

***Manus Costello - Autonomous Research; Analyst***

I'm just trying to clarify the comments you made at the very beginning of the statement about your profitability. When you say that Q3 2010 was below the run rate in the first half of 2010, can you tell me what the actual number for the underlying profit in the first half of 2010 was that you are referring to there? And should I be thinking about -- what you are saying here is it was -- if you split that in two, that's what you define as the quarterly run rate?

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

I think -- I mean, it's a pretty simple comment. What we're saying is if you take the first half and divide it by 2, 3Q was less than that.

***Manus Costello - Autonomous Research; Analyst***

And what first-half number are you using as a base on the underlying basis, what was --?

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

Whatever we published. I mean, it was -- take the first-half profits and divide it by 2. But we show the underlying basis in the account, so take the underlying profit and divide it by 2.

***Manus Costello - Autonomous Research; Analyst***

Okay. But also what I was getting to is, what was Q4 2009 like relative to Q3 '09 please?

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

Q4 was weaker.

***Manus Costello - Autonomous Research; Analyst***

Okay.

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

And that's (multiple speakers) because we had a pickup in loan impairment charges, a lot of which were in the Middle East if you remember.

***Manus Costello - Autonomous Research; Analyst***

Yes. Of course.

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

Okay?

***Manus Costello - Autonomous Research; Analyst***

Yes, thanks.

***Operator***

Thank you. That will conclude today's question-and-answer session. I would now like to turn the call back over to our host, Mr. Michael Geoghegan, for any additional or closing remarks.

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

Okay, thanks. Just to recap, we continue to see encouraging signs of growth with lending and trade revenues up; loan impairments are at their lowest levels since before the financial crisis. And the diversity of our earnings shows that our universal banking model and our emerging-market strategies are delivering results today.

So, thank you very much indeed for joining us today, and this is my sort of farewell call to you. Thank you very much for everything you have done with me over the last nearly five years. So good luck to the future.

***Operator***

Thank you, ladies and gentlemen. That concludes the HSBC Holdings plc interim management statement and HSBC Finance Corporation and HSBC USA Inc. third-quarter 2010 results conference call. Thank you for participating. You may now disconnect.

## Forward-looking statements

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