Transcript

1Q 2013 Interim Management Statement

Presentation to Investors and Analysts

7 May 2013, 11am BST

Corporate participants:
Stuart Gulliver: Group Chief Executive
Iain Mackay, Group Finance Director

Stuart Gulliver, Group Chief Executive

Thank you. Welcome, everyone. Iain is with me today, so we're going to give you a quick overview and then take questions.

Our reported profit before tax for the first quarter was $8.4 billion, which is up 95% on the same period last year. The underlying profit before tax was up 34%, at $7.6 billion.

These results are good because of the progress we have made in implementing the strategy we set out in May of 2011, and our continued focus on capital, costs and governance. So whilst macroeconomic uncertainty has created a relatively muted environment for revenue growth, we have increased revenues in key areas, including residential mortgages and Commercial Banking, in both of our home markets of Hong Kong and the UK, and in our Financing and Equity Capital Markets business.

Loan impairment charges are down in every region, including a significant improvement in North America. Also, our continued focus on cost management, with a further $0.4 billion of sustainable cost savings this quarter, has helped us achieve an improvement in our underlying cost-efficiency ratio.

Now we've also achieved further progress on the journey we started in 2011 to make HSBC easier to manage and to control. Firstly, since the start of 2013, we've announced another nine transactions to dispose of or close non-strategic businesses, bringing the total since the start of 2011 to 52.

And in addition, the implementation of global standards will help ensure that we meet the commitments we made to the US and UK authorities as part of the settlement agreements reached at the end of last year. Our performance in April continued the trend we saw in the first quarter.

There are challenges ahead, but we expect the Mainland Chinese economy to accelerate after a slower than expected start to the year. We think the US economy will continue to outperform its peers, though the pace of growth will be slow compared to past standards. We think the eurozone will contract, but Emerging Markets will grow at around 5%, so that global growth will be around 2% this year.

We have strengthened our capital position and remain one of the best capitalized banks in the world, and this gives us a firm base, both to invest in organic growth, and to grow dividends.

So summing up, in a macroeconomic environment of muted growth, our successes in implementing our strategy have been the key to delivering a good result.

Our strategic direction remains unchanged and later this month we will update investors on the next phase of its implementation.

Iain will now talk through the financial performance in detail.

Iain Mackay, Group Finance Director

Thanks, Stuart. You all have seen the statement at this point, so I'll dig into some of the key details now.

As Stuart mentioned, reported profit before tax for the first quarter was $8.4 billion. This includes adverse movements of $243 million in the fair value of our own debt from changes in credit spreads, and gains of $1.1 billion from disposals and the reclassification of an associate as a financial investment.

Profit before tax was also up on an underlying basis at $7.6 billion; it was up $1.9 billion in the same period last year. This increase reflects $800 million of higher revenues, $900 million of lower loan impairment charges, including a significant improvement in the US CML mortgage portfolio, and $200 million in reduction in costs.

Underlying revenues of $17.6 billion in the first quarter of 2013 were $800 million higher than the first quarter of last year. This included items totaling $1.1 billion as follows.

A net gain recognized on completion of the sale of our remaining shareholding in Ping An of $600 million; a favorable debit valuation adjustment of $500 million in Global Banking and Markets; foreign exchange gains on sterling debt issued by HSBC Holdings of $400 million; a loss of $300 million relating to the write-off of allocated goodwill recognized following the reclassification of a non-strategic business to an asset held for sale; and a loss of $100 million on the sale of the secured loan portfolio in HFC Bank UK.

Remaining revenues were broadly unchanged.

Global Banking and Markets had a strong quarter that was lower than the first quarter of 2012 for two reasons. Firstly, rates had a particularly strong first quarter last year due to the tightening of spreads in eurozone bonds following the ECB's announcement of the long-term refinancing operation, although this reduction in revenue was partly offset by lower adverse fair value movements on structured liabilities.

And secondly, balance sheet management revenues also declined as a result of lower net interest income as the proceeds from maturing investments and disposals were reinvested at prevailing rates. In addition, there were lower gains on the disposals available-for-sale debt securities in the UK.

However, these factors were partially offset by higher revenues from Financing and Equity Capital Markets driven by higher lending spreads, together with higher fees in our Financing Advisory and Underwriting businesses, and the non-recurrence of losses in the sale of certain syndicated loans in the first quarter of last year.

In Retail Banking and Wealth Management, revenues decreased. This was driven primarily by the US run-off portfolio, which included a loss of $200 million on the early termination of qualifying hedges.

Excluding the US Cards and Retail Services business and the US run-off portfolio, revenue in Retail Bank Wealth Management increased. This was mainly driven by higher net interest income from an increase in average secured lending balances in Hong Kong and the UK.

Revenue in CMB was broadly in line with the same period last year. There was moderate growth in net fee income across most product groups. We also saw higher average lending and deposit balances, notably in the UK and Hong Kong. However, this was largely offset by spread compression. We're also taking action to reposition our business banking portfolio.

Before we move on from our global businesses, let me say a word on Global Private Bank. It recorded a loss relating to write-off of allocated goodwill recognized following the reclassification of a non-strategic business to an asset held for sale. I've already mentioned this item.

In addition, we booked an operational risk provision relating primarily to litigation expense. Excluding these items, the PBT was broadly in line with previous quarters, and client assets under management were broadly stable compared to the end of December 2012.

Loan impairment charges were improved in all regions compared with the first quarter of 2012. The decrease was most significant in North America due to reduced lending balances and lower delinquency rates in the CML portfolio, coupled with the sale of the CRS business which took place in 2012.

On that point, let me draw your attention to tables on page 31 of the statement which show how we are progressively managing the run-off of the non-strategic US portfolio, and also give evidence of the general improved conditions in that market.

Underlying operating expenses of $9.3 billion were $200 million down on the corresponding period last year. We saw lower charges for UK customer redress programs of $300 million reflecting, among other factors, a decline in the number of new PPI claims and lower restructuring related costs, again down by $200 million.

Remaining operating expenses were $300 million higher. This reflected the operational risk provision which I've previously mentioned in the Global Private Bank, a customer remediation provision relating to our former Credit and Retail Services business, impairment of our interest in a joint venture, and cost related transitional service agreements following the sale of the CRS business. These items in aggregate total $400 million.

And as Stuart has said, however, we also achieved additional sustainable cost savings of $400 million this quarter. This took our total annualized cost savings to date to $4 billion, comfortably above the upper end of the target range set out in May of 2011.

Turning to the balance sheet, reported loans and advances to customers fell by $39 billion. This reflected foreign exchange differences of $25.4 billion, a $1.2 billion reduction in reverse repo balances, and a reduction of $12.5 billion driven by the reclassification of customer lending balances to assets held for sale relating to planned disposals. Excluding these factors, loans and advances to customers remained broadly unchanged from December 31, 2012.

Finally on capital, our core Tier 1 ratio strengthened to 12.7% from 12.3% at December 31, 2012. The completed management actions on Ping An Industrial Bank contributed 60 basis points to the Core Tier 1 ratio, as outlined in the annual report and accounts. Additional capital generation strengthened the ratio by a further 15 basis points. This was more than offset by the PRA's introduction of a sovereign loss given default floor and the impact of foreign exchange movements.

Our estimated CRD IV core equity ratio also strengthened from 9% to 9.7%. After taking account of planned management actions mitigating the impact of immaterial holdings, the core equity Tier 1 ratio increases to 10.1%. This positions us extremely well for CRD IV compliance.

Stuart Gulliver, Group Chief Executive

Thanks, Iain. So we'll now take your questions. The operator will explain the procedure and introduce the first question.

Questions and answers

Chira Barua, Sanford Bernstein

Three quick questions, two strategic and last one on numbers. The first two; so wondered -- it would be great if you can give us an update on India, Singapore, Malaysia and Indonesia. The $3 billion PBT targets that you set out round about 1.5 years ago, where are you on that, especially given intense competition in cash and trade in that region?

The second one is on the US. Great performance in North American book. What does it mean for risk-weighted assets in that book going forward, and also your capital repatriation plan to the Group?

And the last one just on numbers. BSM revenue of $976 million was higher than what we'd thought. Are you revising your $2.5 billion guidance for the year?

Stuart Gulliver: Okay. Let's start with the third, BSM. I think we would have the guidance still at that, $2.5 billion to $2.75 billion, but not higher. What's actually happening in BSM is what we suspected for a number of years is coming home to roost, which is yield curves are flat; the major yield curves of relevance to us are flat, and much flatter level than in prior years. So the traditional accrual roll-down strategies are currently not lucrative and don't present a particularly good risk reward.

Volatility has also dampened. If you think about it, the five-year treasury moved in about 160 basis point range in 2011; only 23 basis point range in 2013 so far. And obviously, the reinvestment yields are lower.

For example, the dollar, the highest yield for five-year treasuries seen in 2011 was 2.4 versus 1.2 in 2012, and only 90 basis points so far this year. So don't multiply the first quarter by 4. So I think $2.5 billion to $2.75 billion would be where I would guide on BSM.

Chira Barua: Perfect. Thank you.

Stuart Gulliver: On the India, Singapore, Indonesia, I'll let Iain just talk a little bit about it. But I think the nub of this, and also the USA stuff, I want to take next Wednesday because, clearly, these are strategic issues. We've got the investor update a week tomorrow, and really, to give it due time and attention, we'll have a section on this in the investor update.

Chira Barua: Okay.

Iain Mackay: If I give you a quick run-through of India, Singapore and Malaysia and Indonesia. On a year-over-year basis, the profitability of these four countries has held up very well. I think India's probably one of those that feels a little bit of strain presently given the fact that we've had policy rate declines, I think four succeeding policy rate declines in India over the course of the last year, which clearly puts again, with a deposit-rich business, it clearly puts our net interest income under a little bit of strain.

However, overall, Indian profitability for the first quarter of 2013 when compared to 2012 is reasonably stable, notwithstanding some of the pressure I mentioned there.

Singapore continues to progress where it's seen some growth in net interest income, fee income. Loan impairment charges remain very, very stable; operating expense remains nice and stable. So that business is progressing quite nicely. The same is very much true in Malaysia, and in Indonesia I think it's steady as she goes as well.

So I think in terms of what we've set out for that business, where we've seen growth in the first quarter of this year, it's been principally, not exclusively, but it's been principally in Hong Kong and the Rest of Asia Pacific. And within those markets, I've picked out four there that are quite key from a growth perspective.

So the businesses are sticking to the plan and moving along in that direction, but we'll cover this in more detail next week.

Stuart Gulliver: On North America, what I think is worth pointing out is, obviously, we continue to run the book down. You can see that in the numbers. We've successfully sold a tranche of non-real estate. We have the first $500 million of real estate that actually is packaged and ready to go. But the non-real estate and real estate together are probably going to shift balances of the order of in total $6 billion, but we will probably not be able to accelerate beyond that, the original $2.6 billion that we said in defaulted real estate we'll get rid of; we'll get rid of the non-real estate we're executing on.

The point I'm getting to is that what's different is that the losses that we're taking when we actually come to dispose of these are less than we thought; and this is where, for us, the improvement in ABS spreads shows up.

So when you look at, say, a BarCap or a Deutsche, it shows up in their Global Banking and Markets business. For HSBC, it obviously shows up in the run-down portfolios for household, and also in the SIVs and conduits where, again, the ABS AFS reserve has also shrunk as you see an improvement in US spreads in the mortgage sector.

And specifically, the question in terms of capital, it's still highly unlikely that the capital that we have in the United States will be released to us above and beyond what we need to grow our own business until such time as I think two things happen. One is the legacy book has run down quite a lot further, and probably until the deferred prosecution agreement is behind us.

What that of course does mean is that we have ample ability to grow the Commercial Banking business, the CMB business in the United States, and the Global Banking and Markets business, both of which in the case of GBM, had a reasonably good quarter, in the case of CMB is a work in progress and where we're investing.

I don't know, Iain, if you want to add anything there? And then further stuff in terms of strategy we'll pick up next Wednesday.

Rohith Chandra-Rajan, Barcap

A couple, if I could, please, one on credit quality, one on costs. Just on credit quality, you mentioned impairments down in all regions quarter on quarter, and the number looks relatively clean. So I was wondering if you could comment on whether you see this as a sustainable level or if there are different trends in different geographies that we should be mindful of.

And also on that, Stuart, you just mentioned the kind of pricing you're expecting on the real estate disposals in North America. I just wonder if there's any update on that.

And then secondly, just on the cost number. It looks like the underlying cost, ex notable items, was about $9.1 billion in the quarter. I just wanted to check that was roughly the right level; and against that, how much of the $4 billion run rate savings have dropped through to the bottom line and what the current pipeline was.

I think you mentioned $1 billion at the time of the full-year results and, obviously, you've executed against some of that already. I'm hoping you might give us more detail on that next week in terms of cost guidance, but just those specific areas for now. Thank you.

Stuart Gulliver: Credit quality, it does vary region to region. So the US stuff is clearly the general improvement in spreads in subprime lending that you've seen with the improvement in the property market.

The improvement for example in Europe, in CMB, is because we had specific provisions in the fourth quarter of last year against Spanish and Greek corporates which haven't repeated. The Middle East, there's some write-backs of provisions we took against specific credits there where we now believe that the losses were likely to take a lower.

So what I wouldn't want you to think is there's a generic worldwide improvement at all, but we're actually seeing some specific improvements in a number of our books.

Iain Mackay: Yes. As always, the performance of the US run-off portfolio will have a significant influence on where loan impairment charges go. I think we will see a little bit of variability over the course of the year which will be very much linked to what you see coming through in terms of economic news.

The unemployment rate moving down marginally is helpful. The continued improvement in property values, which is not broad based state by state; across the 50 states, you've still very much got a mixed bag of property value improvement there, but overall, you do see an improving trend. And that improving trend generally is reflected where we have concentrations of lending in the subprime portfolio there.

But across the piece otherwise Stuart described it perfectly. We've got from time to time individually assessed loans which -- across the corporate book which will impact it. But from a collective impairment standpoint, the quality of the book is remaining very stable.

Rohith Chandra-Rajan: Okay. And sorry, just -- so apart from the write-backs in the Middle East and North Africa, it was a relatively clean quarter from an impairment perspective. Is that fair?

Iain Mackay: It was.

Stuart Gulliver: Yes, it was.

Iain Mackay: On costs, again, I think one of the things to focus on here is that the sustainable saves that we've got of $4 billion very much has continued to come through the overall cost base in terms of appearing in the bottom line. But this is not generally aimed at reducing the cost line in an absolute number as we continue to reinvest in certain activities across the Group.

Most of that reinvestment, certainly over the second half of last year and the first quarter of this year, continues to be in building capability around global standards and the consistency of those standards. So risk and compliance continued to recruit and build capability in that regard.

But if you try to get to, dare I call it, a clean number for the first quarter, it's just under $9.1 billion. And again, the focus from our standpoint is just driving sustainable saves across process re-engineering, and consistency with the way we manage the firm from a global business and operating model standpoint.

Stuart Gulliver: And we'll go into this in quite some depth next Wednesday.

Rohith Chandra-Rajan: Okay. Thank you. And I think at the time of the full year, you gave guidance for 2% underlying cost growth. Does that still stand?

Iain Mackay: Look, our focus is on around managing the business to positive jaws, and I think, therefore, that will be informed both by the revenue picture as well as what we need to do in terms of investment in the firm.

Raul Sinha, JPMorgan

Raul Sinha: Can I just have two on the results, please, and we'll leave the strategy ones for next week? Firstly, on Commercial Banking, could you maybe give us a little bit more color on the revenue trends within the division? Obviously, it looks like from the product perspective, trade and transaction banking seems to have weakened year on year. Just wondering what you're seeing in terms of the trends playing out there.

And then the second question is on RWAs within GBM. It looks like your RWAs related to market risk levels have come down by about $6 billion in the quarter, and you would have expected that to go up with the volume sequentially. So I was just wondering if there's anything within that line.

Iain Mackay: So on CMB overall, net interest income on an underlying basis, so that's adjusted for any impact of currency translation and fair value on debt. We've got net interest income up by 1.5%, net fee income about 4.4%. Any trading income coming through is pretty much flat. Operating expenses again pretty much flat; slightly up to about 1.6%; and loan impairment charges remain stable to favorable.

So from that standpoint, overall CMB has grown its revenues in those markets which you would expect us to be able to do so. So it's principally Hong Kong and the Rest of Asia Pacific, although the UK business has grown its revenues slightly as, again, the business just focuses on continuing to turn over the capital invested in that business to improve returns.

So going back to an earlier question around some of the Asian markets, that's really where we see some of the growth coming through from a Commercial Banking business perspective.

Stuart Gulliver: What I also think is just worth adding in is, clearly, there are pressures on margins in the trade finance space. And some of the European banks, notably the French, and to some extent the other Asians and Japanese, have come into the trade finance space and there has been some margin compression.

What we've managed to do is grow the volume sufficient to offset that margin compression. So in a way, CMB'S revenues are more or less flat, but what you've effectively got is a volume variance or a market share gain that's offset the fact that spreads have actually contracted a bit.

Raul Sinha: Great. Thanks very much. And then on GBM?

Iain Mackay: Yes. On risk-weighted assets, I think probably the main thing to bear in mind that although trading assets have stepped up somewhat during the quarter, overall, the volatility within the markets has been muted to down. And, therefore, we've seen a reduction in VaR and stressed VaR, and that's generally been reflected in market risk RWAs.

There's not really a great deal else to talk about there. In terms of the overall, the notional assets there, it's principally come from an increase in settlement accounts from year-end balances where historically, year-end balances tend to be a bit lower as people clear out positions.

And we've had a step up in some of our equities trading on the back of higher customer volume and demand, based principally in the movement in equity markets. But overall, the market risk position remains very stable.

Stuart Gulliver: The big increase actually in Global Banking and Markets in RWAs is the introduction of the 45% LGD on sovereign. So actually, there's an increase in Global Banking and Markets in RWAs of about $15 billion from that particular item, which principally shows up, or a large chunk of it shows up in Hong Kong and reflects the fact that this LGD 45% applies to things like Hong Kong Government bonds and US treasuries.

And of course, the Hong Kong balance sheet, as you'd expect with a peg to the US dollar, has substantial amounts of surplus deposits in both US dollars and Hong Kong dollars, and invests in those government bonds.

Raul Sinha: Got it. Thanks so much.

Stuart Gulliver: And that's PRA regulatory. Okay. Thank you. Can we get the next one, please?

Chris Manners, Morgan Stanley

I had a question for you on the capital. I saw that your fully-loaded Basel III post-management actions core Tier 1 ratio has fallen from 10.3% that you printed at December to about -- to 10.1% now.

Iain Mackay: 10.1%.

Chris Manners: Yes. And so what I was just trying to work out is, obviously, you've managed to build book value in the period, and I know you mentioned the impact from effectively the slotting of the LGD on the sovereigns. Are there any more things in the pipeline that we should be anticipating from the PRA that you know about that will be reflected in the numbers as we go forward, I guess like slotting in commercial real estate that would put pressure on that capital ratio? Because I think most people will have anticipated it might build. And then how does that fit into your targets for potential capital return and your discussions with regard to the FPC and the capital gap that some UK banks have, not that we think that you have it?

Stuart Gulliver: Well, just on the FPC, you should bear in mind that last year we increased the dividend by $1 billion in terms of cash, which clearly needed the approval of PRA and FPC before we were able to make that distribution. So let's take that one off the table.

And then Iain will talk about -- obviously, there's also a dividend come out, about 10.3/10.1.

Iain Mackay: Yes. If you break down overall capital growth during the quarter, the 20 basis point difference in the 10.1/10.3 can be attributed to the sovereign LGD floor that popped in during the first quarter. That is the main driver. But if you think about the overall capital build over the course of the quarter, about $6 billion from operations, about $3 billion of that given up in the net dividend, which is the fourth interim dividend, so that tends to be the largest impact on capital from dividends over the course of any given year.

And then a couple of items just around Industrial Bank and the re-class from Associate to held-for-sale, so there's a bit of a benefit there from a reduction in risk-weighted assets as those are no longer part of the proportional consolidation. But really, it's about profit generation set off by dividends, and then the impact of the LGD floor in sovereigns. That's really where it is.

In terms of anything that's out there, you've mentioned one of them, Chris. That's the CRE slotting in the UK commercial real estate portfolio. But beyond that, we, along with the rest of the industry, haven't been told anything more than you heard from the FPC at the end of last year. Sorry, it wasn't the end of last year; it was the end of March. How time flies.

Chintan Joshi, Nomura

Just following up on that Basel III discussion. So if I just calculate the increase in Basel III RWA impact, it was about $30 billion. That was all due to sovereign LGD, was it? Or majority of it was due to sovereign LGD?

Iain Mackay: So your question again. Sorry, Chintan.

Chintan Joshi: The increase in the Basel III impact has gone up by $30 billion from Q4 to Q1. Is that $30 billion driven mostly by the sovereign LGD?

Iain Mackay: That's the principal driver of it, I think. One second.

Chintan Joshi: So I'm just backing out what the impact of this quarter versus last quarter.

Iain Mackay: By far the largest impact was the sovereign LGD, and then the most next significant was the effect of foreign exchange movements on risk-weighted assets. And that was an adverse movement.

Chintan Joshi: Okay. And one more follow-up. On trade finance you mentioned, you've tried to grow volumes to offset margin compression. Can you give us some numbers there how much did you grow volumes by year on year, and what the margin compression has been year on year?

Iain Mackay: From a net interest -- if you look at net interest margins across the firm -- one second, let me get --

Chintan Joshi: I was specifically asking in trade.

Iain Mackay: Oh, specifically in trade. Well, within the Commercial Banking, we've seen the revenue line grow in net interest income. That has been somewhat offset by a compression in the deposit spread that we've seen coming through. But overall in terms of net interest income in the CMB business, and I mentioned that a little bit earlier, we've grown net interest income by about 1.5% year over year.

In terms of breaking that down into specific volumes for you, Chintan, I don't have that information to my hand.

Chintan Joshi: Okay. Thank you. And now my question after the follow-up. So in the Q4 call, you were guiding -- it was a soft guidance of 7% adjusted underlying revenue growth, and we discussed a 2% cost growth before with Rohith's question. I was just wondering on the revenue, if I back out all the one-offs you highlighted earlier and back out the gilt gain, but give you the benefit of the $200 million that you identify on page 7 on the US run-off portfolio, it looks like revenues are down 3% year on year. I'm just wondering when you say 7%, should we always think about it as adjusted underlying the way you do it?

Iain Mackay: I think what we talked about in the 7% was actually the performance in 2012 as opposed to guiding for 2013, 2014 or any other year. I think the best way to reflect on any of the numbers that we present, Chintan, is always on an underlying basis, which is why we present it that way.

So from a revenue perspective, I think if you back out the items as you mentioned, what you get to is pretty much a flat story.

Fahed Kunwar, Redburn

A couple of questions on credit quality; one was in LatAm. So I think if you compare 4Q '12 to 1Q' '13, the only region that showed an increase in the loan impairment charge was LatAm. I was trying to get an idea if that was the same on a constant currency basis, or was it due to general deterioration in the region?

And looking at credit quality as a whole as well, I wonder if you could give some color regarding new NPL formation as opposed to outstanding NPLs, and where the real driver of improvement was coming from with respect to credit quality. Thanks.

Iain Mackay: Okay. So Latin America, constant currency basis compared to first quarter of 2012, loan impairment charges down marginally. It went from $547 million first quarter last year to $516 million this year. And then on a trailing quarter, it is up marginally, whereas the charge was $504 million last year.

So pretty much a flat story across Latin America from a loan impairment charge perspective, which I think just generally reflects the economic performance that we're seeing in that market at the moment. I think with the step-up in loan impairment charges which we saw on the first half of last year, the team took the right actions around the credit scoring and collections capability and operational management of the book and very much got that under control again. But the story remains consistent and flat, and has done actually since the third quarter of last year.

Fahed Kunwar: Okay. Thank you. And on the general credit quality, NPL -- new formation of NPLs versus outstanding NPL stock falling, what's really driving credit quality lower across your

regions? Is it more to do with the formation of new NPLs falling, or is it the outstanding NPL book just coming down?

Iain Mackay: I think one of the things that's driving this is our actions that have been taken over the course of the last couple of years, which is moving some of the portfolios, particularly within Retail Bank Wealth Management, more towards the secured end of lending. And there are obviously corresponding pressures on net interest income in that regard. But that's probably one of the key factors here. Around the quality of the credit that we see overall is with a general move more towards secured lending.

Now that being said, there are unsecured lending programs in existence, certainly in our home markets, and in many of the other markets. But that doesn't necessarily connote lower overall credit quality when you look at it on a risk-adjusted revenue basis.

Tom Rayner, Exane BNP Paribas

Could I just go back to the, Iain, your point on the revenue? Because obviously, when you adjust for one-offs, notables and the non-notables one-offs, I think I might call them, I think you're getting to underlying revenue of about $16.5 billion in Q1, which does look like it's down year on year on a similar basis. I know you've just said it's flat, and maybe I need to adjust the prior period for something, but I'm just trying to get a sense of --

It looks like a very good cost performance and a very good impairment performance, but revenue certainly looks light versus consensus. I'm just trying to get a better feel for what you think is going on at the revenue level, because I have to say, that 7% underlying, having stripped out the impact of the businesses sold as well as the other adjustments of 7%, I thought was sort of guidance to what the underlying pace of momentum was within the Group. So I was wondering if you could comment on that, please.

Iain Mackay: I think overall, if you look at the revenue picture and you adjust it for the items that were mentioned, I think you go from about 16.5% to 16.4%, so it's down a little bit less than 1%. And that's primarily driven by the fact that balance sheet management revenues are a little bit lower year over year, which is reflected in lower net interest income as the proceeds of maturing positions and dispositions is reinvested in lower yielding instruments, which is just nothing other than a reflection of where long-term interest rates sit at the moment on particularly flat yield curves.

So balance sheet management is one influence there, and another key factor is the fact that the rates revenue is about $300 million down on the previous year, and the previous year was an exceptionally strong quarter given the impact of LTRO on revenues.

But if you look at Retail Bank Wealth Management and ex out the run-off of the US CML portfolio, those revenues are slightly improved on the back of Hong Kong and UK residential mortgage lending. CMB is broadly flat based on some growth in Hong Kong and Asia, and global trade and receivable financing, whilst offset with the impact of de-risking the business banking portfolio and the GBM I've already talked about.

There's obviously a little bit of noise coming through the Global Private Bank, principally on the back of having a write-off of allocated goodwill which comes through the net operating income line, and that's to the tune of about $280 million. But I think you're looking at a flat environment which is largely reflected by the fact that we're operating in a number of economies where the opportunity for growth is pretty limited and interest rates are at very low levels.

Tom Rayner: So because with 52 disposals made, am I right in thinking that the --? When I look at the 2012 adjusted at 80% or more of the actual disposal program has happened, so the impact, if I'm looking at 2013 as a base from a sort of ex-disposal basis going forward, it shouldn't be -- the adjustment should be a lot smaller. Am I thinking about that correctly?

Iain Mackay: Those dispositions or closures which would have had a significant effect on the revenue, or for that matter the expense line, are now largely dealt with. The really big ones were obviously the Cards and Retail Services and US Bank branches dealing with things like Panama, which is now coming through the numbers. The rest tend to be pretty moderate, certainly not material in the sense of revenue or expenses.

Tom Rayner: Okay. Thank you.

Alistair Scarff, Merrill Lynch

Just a quick question, if I can, on your Private Bank. Obviously, the goodwill is a bit of a surprise, but could you give us a comment on the underlying trends, as many private banks seem to be struggling particularly at the moment?

And if I could ask a second on India once we've finished with that one. Thank you.

Stuart Gulliver: Yes. If you reverse out the accounting entry that's gone through on the Private Bank, the first quarter numbers are consistent with the first quarter of last year, and the assets under management are unchanged from the fourth quarter and first quarter of last year.

So what you're describing is not actually what we see in the underlying numbers of the Private Bank. It's performing reasonably well, and so it's very much an accounting item that's running through it.

Alistair Scarff: I see. And in terms of India, obviously, with the interest rates appearing to have now settled, from your perspective, are you seeing increased demand for credit in that space? I guess we're all seeing elections throughout our region at the moment where we're seeing the old political malaise hitting in. Are you seeing that in terms of your business where there are lots of projects which are being stalled somewhat due to elections? Is that something of a trend you're seeing?

Stuart Gulliver: Sorry. Is that a question specific to India?

Alistair Scarff: No, it's more of a general one across, but it was more led by India where --

Stuart Gulliver: No we haven't. We've just been involved in two or three quite large transactions in India, including obviously a recent one for Unilever's increase in its stake in Hindustan Lever from 52% to 75%. Actually, the Indian business and GBM business is quite buoyant. And I can't really point to any significant infrastructure financing, etc., that we're involved in that's being delayed.

The only place where I think there has been some impact to the leadership change is actually in China, and I think that explains to some extent why there was a little bit of a slow start to the year in China is, obviously, there was a significant leadership change that's just taken place.

It's interesting, obviously, that Li Keqiang announced a whole bunch of things on Monday May 6, i.e., yesterday, basically setting out a series of reform measures which is all designed to stimulate the economy. And it's interesting, because at the end, the conventional western thought might be that as the economy slows, it postpones reform. Actually, quite the opposite. There's a series of reforms here around VAT; around pricing, of the prices of utilities, electricity, water, natural gas; urban reforms, etc., financial market reforms; interest rate liberalization and possible capital account convertibility; all of which are actually being picked up by the slowdown to try and restore that GDP growth back to where we estimate it will be for the full year of 8%.

So China's the only one that I honestly can say may have had a little bit of drift, but it's clearly getting back on the game quite quickly. I haven't seen it in the other Asia Pacific countries.

Alistair Scarff: And if you could indulge me one last question in terms of your equity capital markets; it's great to see them hitting their straps. Could you give a bit of color as to where you're seeing your greatest impact of your business on the equity capital markets side?

Stuart Gulliver: It's in Asia Pacific. It's predominantly in Hong Kong, it's in India; actually also in places like Saudi Arabia. So it's the emerging markets, in essence. But you can see in India and in Hong Kong where there's been a material pickup in the amount of transactions and the volume that's coming through. Last year in ECM in Hong Kong, I think we finished second to Goldman Sachs. If you go back two or three years, we'd have been 20th.

Mike Trippitt, Numis

Just a couple of detailed questions on North America. Just looking at page 26 of the release, I'm just trying to get your view of overall trading conditions in Retail Banking clean, i.e., ex the Cards, ex run-off. And also in Commercial Banking; Commercial Banking looks like a slightly sluggish quarter, but I know that's an area you're investing in. So I'm just trying to get an idea of your views on those two markets and whether they are clean numbers there, that $40 million and $186 million.

The second question, the HSBC Finance 10-Qtalks about a couple of fairly large losses on sell-off of portfolios, $270 million to come through in Q2; and reference also to another $200 million on real estate loans. And I'm just -- they are IFRS within that 10-Q. So should we expect that coming through in the second quarter?

Iain Mackay: You'll see it coming through when those transactions close. I think in terms of the first tranche of defaulted real estates, the non-real estate closed out on, I think it was April 1 that that transaction closed out. So you'll see that in the second quarter numbers.

And as far as the defaulted real estate loans, there's about $2.6 billion/$2.7 billion of unpaid principal balance that we've identified for disposition, the first of which has been out and priced and due diligence is in full throw. And we would expect to have a transaction in the second quarter, and if we do, then you'll see the numbers coming through. And the numbers that you quote out of the Q are a fair reflection of what we would expect to see coming through based on current pricing.

Stuart Gulliver: And if you go back to the businesses, Mike, I think Retail Banking Wealth Management, that $40 million number is an accurate reflection of a business that's been restructured and cleaned of its legacy business.

The $186 million in Commercial Banking is somewhat distorted by the fact that we've reclassified the low income housing tax credit which we previously showed within the CMB number is now shown in other. So the other way to think about it is again that the $186 million is the clean number, and the $216 million and $283 million were not.

Ian Gordon, Investec

Could I have two, please? Firstly on net interest margin, I wondered if you could quantify the quarter-on-quarter move in NIM within Hong Kong and within Rest of Asia Pacific.

And then secondly, just coming back to the old chestnut, we've had yet another strong quarter of capital generation; we've had broadly flat customer loans at a constant currency basis. I think at full year, you guided us to ongoing dividend growth and held out the carrot of neutralizing the scrip in March 2015. I just wonder if you're tempted to possibly accelerate that guidance.

Stuart Gulliver: Ian, I want to talk in some detail about this a week tomorrow, because clearly, you're absolutely right. We're in a position where we can both grow the balance sheet and grow the dividend, and clearly we'll do both. But we'll talk in detail about it a week tomorrow, if we may.

Iain Mackay: On the net interest margin, at a Group level overall, if you look at first quarter '13 versus the first of '12, you've got some pretty significant compression coming through. Now the main driver of that was the disposition of the Cards and Retail Services business in the US, which was a particularly high-yielding business as far as net interest margin went.

If you ex-out the North American operations, then what you get is about 4 basis points of compression in NIM in terms of first quarter last year versus this year. That's for the Group as a whole. If you look at it for Asia Pacific as a whole, again comparing first quarter of last year to the first of this, you get about 12 basis points of compression.

And if you look at that purely in a Hong Kong context, then the first quarter for this year is down again about the same. It's about 15 basis points down, and that is principally reflected in some of the deposit spread that you see coming through on that rather substantial commercial surplus that we sit with in Hong Kong.

Arturo De Frias, Santander

May I ask about efficiency levels, cost/income ratios both in Europe and in the US or North America? In Europe, costs are down more than 10% year on year, which is great. And in the North America, geography costs are down even more, 15% year on year. But the cost/income ratios continue to be on the high side. Cost/income ratio in Europe 67%; cost/income ratio in North America 75%.

And as we have discussed through the whole call, there is no -- the quarter is fairly clean. There is no significant one-off either positive or negative on revenues, etc.

So my question is you are clearly cutting costs; you are clearly improving your cost saves and increasing your guidance for cost saves, etc., but the cost/income ratios in these two areas continue to be slightly disappointing, on the high side. So perhaps if that given the revenue weakness or sluggishness because of no growth, because of very low rates, etc., you might need to be a bit more incisive on the cost side in these two areas particularly. Is that a fair view?

Iain Mackay: Okay. I think as far as North America goes, and we'll talk about this in more detail next Wednesday, I think Stuart's always been fairly clear here that there's a major restructuring that's required within the US Bank, plus recognizing also that we've got a run-off portfolio closed end, so no income coming through the door.

So it's been very clear to us for a couple of years now that there's a fundamental restructuring required within the US businesses, and notably the US Bank. And Irene Dorner and the team are very focused on that particular point.

Within that, the most significant -- not the only, but the most significant challenge is again improving the profitability of the Retail Banking and Wealth Management business in the US, but we'll get into that in a little bit more detail next Wednesday.

In Europe, I would just -- I would perhaps remind that within the European numbers, we continue to, and will always report the headquarter costs because it sits in Europe, and that clearly is a significant influence as we continue to invest in the overall compliance and risk management capability of the firm in ensuring consistency around global standards. So I think that those are probably two key points to bear in mind.

But your point beyond that is well taken that the focus around managing cost continues to be very robust. I'd perhaps counter, however, that when you look at the cost efficiency ratio in our Hong Kong business and the Rest of Asia Pacific, that continues to improve on an underlying basis as well as on a reported basis.

So we do see areas where the ability to restructure the Group and realize savings is coming through perhaps a little bit more quickly than some of the, shall we say, slightly more regulated areas of Europe that are slightly more challenging to drive some of that restructuring. But it doesn't diminish the effort or focus of the business teams in doing just that.

Arturo De Frias: Okay. A short additional question on that. May I then understand that you are, let's say, happy or comfortable with the cost/income ratio in Europe? You say that it looks high, but it looks high because you have the headquarters' costs there. So should I assume that you are relatively comfortable with the 66% ratio that you have now?

Iain Mackay: No, I wouldn't assume that if I were you. There remains work to be done across a number of our countries in Europe, as well as continuing to focus on the global functions that sit within headquarters in London around the efficiency and effectiveness of those functions.

Stuart Gulliver: But equally, what you shouldn't assume is that we can get our European cost efficiency ratio to the levels of Asia.

Arturo De Frias: No, of course not. That would be 30 points lower.

Stuart Gulliver: Yes, exactly.

Ronit Ghose, Citi

Just two questions, and one on Hong Kong and one on Latin America. The Hong Kong results, as we discussed, look pretty good, but drilling into the different product lines, business areas, it looks like GBM, at least this is our forecast, is where the main positive comes year on year. I'm just looking at the PBT number.

Stuart, could you comment a little bit more around the GBM result? I know you mentioned ECM was strong. If you could add some more color around that, that would be great.

The second one maybe less positively, LatAm. I know there are divestments in there; there's currency translation headwinds. But the revenue number does look light. Could you give us a margin number maybe, Iain, in terms of either q on q or year on year, or any color around the revenue number in LatAm? Thank you.

Stuart Gulliver: Sure. So the results in Hong Kong are partly a reflection of the significant market share we've got in areas like foreign exchange and interest rate products, and so on; a reflection of the fact that the stock markets have rallied, that there have been a number of capital markets transactions that we've been involved in; that also actually spreads in high yield bonds have continued to perform well, and the amount of new issuance in the first quarter continued to go at very high levels.

And this is one of the areas where the cross-sell between Global Banking and Markets and CMB has been particularly strong, because actually, most of the high-yield customers, in fact all of the high-yield customers are Commercial Banking customers who we've taken to high-yield bond market.

So it's a combination of those types of things that's really led to a reasonably strong performance during the course of the first quarter.

Iain Mackay: In terms of LatAm, just to give you some color on net interest margin, again comparing first quarter of this year versus the same quarter last year, we've actually seen an expansion of net interest margin, to 7.27% versus 6.74%, over that same period.

I think overall, the revenues, and I think you make a great point here, a significant number of the dispositions are coming through the Latin American business. But when you ex out the impact of those dispositions that we see coming through, the revenue overall on net interest income remains reasonably solid with some growth coming through it; same from a new fee income perspective. And we see a little bit of pressure on trading income, but that tends to be with just pretty minor items that we've seen coming through the first quarter.

But overall, I think the revenue excluding the effect of dispositions, remains reasonably solid, and the margins are remaining stable to slightly stronger.

Ronit Ghose: Great, thanks for that. I just have a quick follow-up; just if you could elaborate on the LatAm margins. You are going against the trend of the rest of the sector in the region, and I'm just wondering why you think that is. Is that because you've been in terms of margin volume trade-off you're focusing more on margins? Is it product mix? Because all the banks that are reporting right now are reporting quite negative margins in the region.

Stuart Gulliver: I would imagine that it's actually because they have much bigger consumer finance books than ourselves.

Iain Mackay: Yes. I think that's part of it. I think the other thing that we see coming through is we've seen a decrease in the base rates in Brazil. And from our standpoint, we've maintained the lending margins quite steady in Brazil while we've got a particular decline in the actual funding expense that's come through the balance sheet.

So although we see some revenue, we see some pressure from a yield perspective, the actual cost of funding within the Latin American businesses, principally the Brazilian business, have benefited from some base rate declines over the course of the last two quarters.

Michael Helsby, Merrill Lynch

I just want to follow up on the overall revenue trends, Iain, because I think at the full-year results, you were definitely very upbeat on the outlook for revenue. And when we met you on March 6, again, you were very upbeat; and a couple of people have already mentioned this 7% growth trend that you were talking to. So clearly, if we just take it that it was flat, something happened between March 6 and where we are today.

So I was just wondering, has there been a material shift in the momentum in the business, or were we just all getting a bit carried away back at the start of March?

Iain Mackay: I don't think we were particularly carried away, but I think what is most definitively true is that the level of growth opportunity that we saw in the first two months of the year has largely evaporated in the months of March and April.

So although we still see growth opportunity in the Hong Kong, Rest of Asia Pacific, certain segments of the UK market, Michael, the Rest of the World is looking kind of zero to very, very low growth.

So there are clearly still opportunities there for us to grow revenue, and across a number of markets you've seen that come through these numbers. But there are also areas of significant headwind that we're dealing with, and we've talked about those.

Stuart Gulliver: And to be fair, Michael, the ECB only embarked upon cutting its rate last week. So there is clearly [inaudible] each time. The central banks are involved in QE because the economies aren't growing and it would be odd for us to be growing our revenue at double-digit percentages that wouldn't need to be QE.

So it is all kind of linked, and as Iain says, we're making good progress in growing where we can take market share; and we're making considerable progress and cutting our costs and building our capital base up, which will inform obviously growth potential and growing dividends.

Stuart Gulliver, Group Chief Executive

So to recap, we've had a good start to the year. So the PBT on a reported and underlying basis are both up, thanks to our strategy. And in a muted environment, capital discipline means we're well positioned to capture organic growth.

We have achieved lower loan impairment charges and further sustainable cost savings, and our capital strength allows us to invest in organic growth and to grow dividends.

I look forward to speaking to you all again a week tomorrow. Thanks very much indeed.