Barclays Capital 2011 Global Financial Services Conference

Niall Booker, Chief Executive Officer, HSBC North America Holdings

Presentation and Q&A

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Simon Samuels, Barclays Capital

So, thanks very much. I think we're going to try and make a start. So delighted to introduce our next speaker, Niall Booker, who is CEO of HSBC North America. I was just reminding Niall that this time last year he very kindly presented. At that stage, he'd been in that role for, I think, about two weeks. So he's now been doing this job for a year and two weeks. But he's been with the HSBC Group for 30 years in various different roles in about nine different countries over that timeframe.

Today, he's going to mainly focus on HSBC's North American business, although I think, perhaps, on the Q&A he may be tempted to discuss some of the Group issues, but within the framework of his responsibility. So, over to Niall. Thank you.

Niall Booker, Chief Executive Officer, HSBC North America Holdings

Okay. Well, thank you very much, Simon, and good morning, ladies and gentlemen, and thank you very much for coming. My aim today is to be as boring as possible, so if you want to leave now, you can do. I think boring is going to be good for banks going forward. There's far too much excitement and, as Simon said, I remember standing up here a year ago and talking about where we were going here in the U.S. I did ask Simon how much I'd aged in that year and he very kindly declined to comment.

So, anyway, I'll begin with a presentation. Hopefully we'll get through it fairly quickly, because there's actually not a lot of new stuff here for those of you who saw the Investor Day and have seen the actions we've been taking. And then I'll throw it open to some questions and answers, as Simon said.

So, beginning with the forward-looking statements, which I think we can skip through fairly quickly, just some highlights of what we're going to be talking about. So, that's, you know-- really, perhaps the very last bullet point is, perhaps, the key. So if you can hang on 'til then, well done. But progress on the North American strategy is critical and I think we've made good progress.

So, in terms of key trends, I mean, lots of people have asked well, why would be in North America at all, given the somewhat checkered history we've had here. I think this slide highlights some of the reasons.

You know, the U.S. and Canada still account for an enormous component of world trade and, you know, the U.S. is still the largest wealth management market in the world with a wealth pool of about $29 trillion. Even when we get out to 2050, based on the research we've done and I appreciate this is moving into the realms of, really, guess work to some extent, but the region remains one that will have a higher per capita GDP than China, some three times higher than China. Most of the focus on China growth, obviously. North America will continue to be an important trading area and the combined GDP forecast for Canada and the United States will be comparable to mainland China.

So, it remains a really important market and it's really important for HSBC to get its presence here right in a way that gives it a decent return on capital, joins it up with the rest of the Group and actually removes some of the volatility in earnings that we've seen recently particularly in our U.S. operations.

So, what's happened in the last year? Well, you can see the first half 2011 numbers there. The really key differentiator is continued reductions in the loan-loss reserving in the retail banking and wealth management side of the bank, which is primarily driven by reductions in loan-loss reserving in the Household portfolios, both the mortgage book and the cards book.

Everything else is, you know, there or thereabouts. Obviously, there's been a reduction in some of the global markets activities, particularly towards the end of the second quarter and we haven't seen some of the write-backs in that business that we saw in 2010.

The other big change for us is the big gain in fair value of our own debt in 2010, which hasn't recurred in the first half of 2011, so that's the other swing factor. But, by and large, this is trending the way that we expected it to go.

Now, you can still see that whilst we have a reasonable successful commercial banking franchise, a successful global banking and markets business, it's in our retail banking portfolio that works is still underway.

So, in terms of our competitive positioning, looking at the three major legal entities across North America, we'll start with Canada because it's not-- it's probably not been as high in people's focus as it could have been. It's an enormously successful business that's grown over the years through acquisition and through organic growth. It very much looks like the rest of HSBC, unlike the U.S. business did, until quite recently. And in many ways it represents a role model for the future of the U.S. business, going forward.

In terms of the U.S. bank, although much of the focus in 2007 onwards has been, obviously, on the finance company, I think it's fair to say that the U.S. bank, which is an aggregation of acquisitions over the years, has also underperformed in some ways against Group target returns. And then in the finance company, as everybody knows, the cards business has been pretty successful, to be honest, and benchmarks very favourably against any of its competitors in the market, but it's not actually strategically aligned with our customer base in the rest of the world and with where we want to be in the United States. So, as you've seen in early August we entered an agreement to sell that business.

And the mortgage business is running off, again, pretty much as we would expect, but as you'll see later it is a bit of a hostage to fortune in terms of the overall economy and, in particular, obviously the twin horsemen of the apocalypse in terms of unemployment and the housing market.

Global businesses -- I think our global banking and markets business has finally got into a successful position in the U.S., largely operated as a hub for the rest of the Americas, and our private bank, as you saw from the previous slide, continues to roll on at a profitability of about $100 million a year.

Looking forwards, we're targeting a return on risk-weighted assets of 0.8, so 1.3. What that return looks like in terms of ROE will depend very much on the E component that the regulators require us to hold, going forward, so that's why we've looked at it that way. That's below the Group return average. I think that reflects the continued runoff of our business here, but also reflects the reality that (inaudible).

(inaudible) in turn, of course, we benefit elsewhere in the Group and when we look at the overall relationship in terms of its ROE, it's extremely successful. So, it's an important part of our global banking business, if you like, and that's a cost that's absorbed by the U.S., which explains while we'll be at the lower end of the Group targets going forward.

Increasingly, we want to focus our business on what ties in with the rest of the Group, so we want to target commercial banking, particularly those customers that are trading across Europe and across Asia and Latin America. We want our branch network, which we shrunk through the sale of 195 branches, announced also in August, to be very much focused on those areas where retail banking and wealth management customers have international needs and international connectivity.

The commercial banking business itself doesn't require vast amounts of a branch network. We have a branch in Chicago, which I think will be the sort of, if you like, the kind of model going forward for other branches in the center of the U.S., which really services Minneapolis, Michigan, Cleveland and Chicago and those guys spend all their time out of the office. So, I think it sits on the second floor or somewhere of a building. It's not on the ground floor in retail space. So, those kinds of branches will continue to get some sort of emphasis, going forward.

In terms of the finance company, particularly the mortgage book, given the large amounts of political focus on the mortgage market today, we continue to collect effectively, but also, very importantly I think and we've had this watchword for a number of years, we've got to continue to collect ethically.

What's happened in the mortgage market is quite interesting. When, you know, 5,000 people a month were foreclosed against, the debtor was, if you like, the person at fault. Once that number rises to be a significant amount of voters, it seems to me that it's then the bank's problem, as opposed to the debtor's problem, to deal with mortgage delinquencies. So, this has been something that I don't think we could have foreseen as an industry, going into the crisis. But it's definitely something that's happened as the crisis has unwound.

So, we continue to be very focused on collecting effectively and ethically in the mortgage market. And, as we've shrunk our business, we've also had to bring down our cost base and that seems to be what everybody's doing today and Stuart announced our focus on that at Group level earlier this year. So, we continue to look at ways to bring down our costs in the U.S.

In terms of the finance company, one of the big issues remaining, of course, is the external debt in the finance company. That's obviously coming down as the assets reduce, but some $48 billion of long-term debt remaining, only $5 billion of that to be repaid in the remainder of this year. Not really an issue for us, given the liquidity we have at the moment and we currently anticipate a substantial portion of that debt will be repaid from the sale proceeds of the cards portfolio, but also from continued asset attrition and, if we need it, from continued access to the debt markets.

In terms of the cost base, I think the key bullet point here is that we've brought head count down by another 4% in 2011, but so far, that really reflects a continued trend since we began reducing the finance company in 2007. So since December 2007, headcount is down 38% or some 20,000 people. So, this has been an ongoing reduction in costs, not just focused on people, but people are the biggest component of our cost base. But we've also focused on vendors, on IT and other aspects of the cost base. And we continue to do that.

The cards business, just for information, because it'll be leaving the Group in the second quarter next year, hopefully, incurred about $1 billion of operating expenses in 2011 and that number is not factored in to the Group cost reduction numbers that you've heard from Stuart and Iain in the past.

So, you know, these are the significant North American entities. Canada we talked about and the U.S. bank, but here a slightly busy slide, I apologize, but really what we're focused on going forward.

So, in terms of Canada, very much a strong CMB focus, Commercial Banking focus, really leveraging the Group's international connectivity where a customer can do transactions, both ends of a trade transaction with the same bank. It reduces the cost and the operational friction and the chance for operational losses. So, it's a really benefit to the customer to deal with us at both ends of the transaction and that's the model that we're bringing more or increased focus to in the United States, as well.

And in terms of retail banking and wealth management, looking to be the international premium bank in Canada, very much focused on Premier and, in particular, deepening the Premier relationships.

Global Banking and Markets has not done a lot in Canada in the past and that's an area of focus, going forward, bringing Canada, the Canadian provincial debt to emerging markets where there's increasing interest in Canada, but also, you know, helping people understand the Canadian market in those markets. And also bringing emerging market product to Canadian Premier customers, as well, because the Canadian capital markets, of course, not that deep.

In terms of the U.S. bank, again, a very similar strategy in terms of retail banking and wealth management, very much focused on the international customers, i.e., international customers coming into the U.S., U.S. citizens with international needs and also U.S. citizens with an interest in emerging market wealth products.

Growing the Commercial Banking franchise by focusing on trade, very much in line with the current administration's focus on growing exports, but also looking at the import side as well and using our international branch network as our competitive advantage.

In terms of the Global Markets business, really continue to focus on supporting our U.S. large-ticket customers, but equally supplying dollars to the Latin American debt and capital markets, but also building out, as I said, our franchise in global banking and markets in Canada, particularly focused on the mining and energy companies and the global connectivity between the petroleum working in Canada and Latin America, but also the interest in Canada from emerging markets.

In terms of the finance company, well, as I said, continuing to manage down our mortgage book as best we can. Continue to develop the home preservation efforts that we've already got in place. Meet the regulatory requirements, which continue to expand on a regular basis. Focus on the execution of the card sale that we entered into in August and make sure that actually happens. Continue our debt repayments. We're very committed to making sure that the market understands that HSBC stands behind the debt payment and, you know, as we-- as the market changes, look for opportunities to sell parts of our mortgage portfolio. But I think that will be some way off, given the performance of the housing market today.

Obviously, we'll continue to focus on expense management, as I said, and continuing to manage the very heavy burden that I'm sure everybody's referred to in terms of regulatory and compliance risk across all the entities that the Group has, particularly in the U.S. There seems to be less focus on regulatory change in Canada at the moment.

Looking at Canada in terms of, you know, successes, it's one of the fastest-growing sellers of world selection products in the Group, number two in the Group. We continue to expand out the commercial banking franchise in eastern Canada. Our Canadian operation grew out of western Canada, very Vancouver, British Columbia focused, so it's continued to grow out and we've got renewed focus in the east, where much of the corporate activity resides.

The branding has been expanded through the airports. Some good stuff on culture. It's one of the top diversity employers, one of the top employers for young people and it has a very good CSR record in Canada.

Good positioning in trade finance, but still more that we can do there and, as you can see the focus on Global Markets has led to an increase in sales to our Commercial Banking clients of 29% year on year.

Going forward, much of the same, you know, expanding our commercial franchise, expanding the Global Markets business, pursuing the deepening of the Premier proposition I referred to and focusing very much on the core industries of mining and energy.

In terms of the United States, again, focused very much on the international connectivity of the commercial banking customers, looking at the needs of small and mid-sized market U.S. trading companies, in particular, and looking to bring some of our Global Banking product into the Commercial Banking space.

Similarly, in Retail Banking and Wealth Management, we're looking to differentiate by our-- the type of our customer base, i.e., the internationally connected customers either inwards to the U.S. or already here as U.S. citizens doing business elsewhere and looking at people with money, as opposed to people without money, who are keen to focus on emerging market investment products. So increasing the depth of our relationships, whilst at the same time growing the number of relationships, but not as focused on the number as we were, more focused on the depth.

In terms of Global Banking and Markets, continuing the emerging markets-led financing focus approach that Stuart had when he managed that business. Very much focused on what we can do in Latin America in terms of supporting the very active debt capital markets activity there, but also, as I said earlier, looking to do more business with clients interested in Canada and, finally, looking to penetrate more of our existing customer base.

So, as I said, looking to penetrate the Commercial Banking franchise, looking to penetrate more into the Retail Banking and Wealth Management with structured products and looking to do more with the private bank in terms of the family office.

The Private Bank continues to refocus very much on being liability led. Whenever we've gone into an asset-led structure, we've tended to crash and burn. So it's very much focused on growth in assets under management, focused, again, on international clients and particularly the Latin American diaspora in Miami. And, again, focused very much on taking product from the Global Banking and Markets piece and expanding that into its customer base.

In terms of Commercial Banking in the U.S., you know, we already cover some 48% of where U.S. GDP is growing. We cover 45% of the U.S. export opportunity, according to a recent Brookings report, and we cover where 52% of America's international companies are headquartered. So, we already have a good positioning in terms of getting into these markets.

More and more companies are looking to do business overseas as the economy slows here and we do do work, already, with EXIM bank and we're looking to do more in terms of our positioning with government-sponsored organizations.

Optimization of the Commercial Banking franchise is completely in line with what we're doing in the rest of the Group and, indeed, with what the rest of the Group looks like across the world. The U.S. was always an outlier in terms of being focused on, you know, the sub-prime market. We've always traditionally been a bank that-- where Commercial Banking was core to our DNA and where we very much focused on the growth of corporate relationships and in terms of our RBWM offering, we really serviced the executives and entrepreneurs that owned those companies in Asia originally. That's how that business grew and, in some ways, we're going back to those roots now.

Continue to focus on our costs and driving down the cost/income ratio, subject to the caveats I outlined earlier around the fixed costs associated with the dollar payments business, which is another area of focus for us, and also the costs that we have in relation to the relatively low return on equity global banking and lending business.

Much of what we've been trying to do has been about making more from our existing customer base. So, as you can see in the last bullet points here, referrals within the Group, whether it be Global Banking and Markets referring to Premier or whether it be Commercial Banking referring to trade and PCM, that business, that aspect of our business, has got renewed focus. So we're not spending a lot of time hunting especially for large amounts of new customers, but more selling existing product to our existing customer base.

Some of the activity that's taking place in Global Banking and Markets, as you can see we've already covered very much, for example, focused on extracting more value from relationships with customers across the other customer groups. So you can see there, increase penetration down at the bottom left hand box, increase penetration of Global Banking and Markets products to Retail Bank and Wealth Management, growing the number of Global Markets and Commercial Banking relationships and improving asset management cross-sales to Global Banking clients.

So, this is a kind of matrix, if you like, of cross-fertilization from Global Banking and Markets into the other customer groups and from the other customer groups into Global Banking and Markets.

A lot of this we've covered already in terms of the Retail Banking and Wealth Management. I think I'd probably highlight on this slide the continued effort to get more efficient in this business and we've really re-worked a lot of the models in our branches in terms of the sales structure and the service structure to wring out costs and make ourselves more efficient and that work continues as we move forward with the sale of the branches that was announced in August.

In terms of the Private Bank, I alluded to the fact that it was focusing much more on being liability and asset under management led. And you can see down there, it's nurturing a smart, risk-aware culture. This is a business that's getting much more focus from regulation, particularly in its international aspects, much more focus on compliance, so, as you see in the last bullet point, close cooperation with North American risk and compliance as we go forward.

So, this business model is changing a little bit across the globe. Obviously, the Swiss private banking model has had to morph to deal with increased vigilance from the tax authorities across the world. So this is becoming much more focused on the quality of product and the quality of returns and the quality of service than as a tax haven structure, although there are people who still look for save havens, as opposed to tax havens, and that's true, I think, of the Latin American business, which forms a big part of this private bank and which is an area of focus going forward, given HSBC's operations in Latin America, as well.

In terms of the finance company, you know, lots of businesses have been closed. We ran through those last year, but we're out of auto. We're out of the taxpayer financial services business. We're out of mortgage origination and we're running that down and we will sell the cards business in the second quarter next year.

So, you know, we're really just focused on winding the finance company down, if you like. We're focused very much, as I said, on the mortgage side of things, recognizing the political pressures that exist today and we're also focused on complying with the orders that the Federal Reserve and the ACC issued to the mortgage servicing banks a few months ago.

We continue to wring out cost, but the finance company has always traditionally had a fairly low cost/income ratio and, consequently, most of the cost initiative is focused on the bank, but clearly, you know, we need to monitor the headcount and the other costs as the portfolio runs off, but mortgage servicing is going to require fairly large amounts of headcount, giving the continued regulatory focus on it. So, our hands will be a bit tied in that respect.

But we continue to look at opportunities as people get released from the businesses that we run down, particularly the high-quality people, we look at opportunities for those across the rest of the Group.

There are factors which we can't control, as I said at the beginning -- home-price depreciation, unemployment and, to some extent, the legislative and regulatory landscape. So, the Card Act, obviously, had some impact on us. I think it was less than we expected in terms of revenue shortfall and some of that was, obviously, clawed back through improvements in the LIC line. Dodd Frank, the Durbin Amendment, has had less impact than was maybe thought at the outset and, clearly, we need to see what the new consumer protection bureau will do, going forward, as it also has regulatory oversight over the consumer businesses.

Looking at the run-off book, which remains, you know, something of a millstone around our necks, we continue to focus very much on maximizing cash collection. I think this book has levelled off. A lot of the poorer underwriting that existed in these books across the whole industry has probably run off now, but, overall, the likely scenario to me is that, particularly in sub-prime, the delinquency rates that we saw in 2004 to 2006 are unlikely to be hit again. I think those delinquency rates were probably artificially low as a result of continued refinance through equity withdrawal that was prevalent because house prices continued to climb.

Without that, I think that the delinquency rates in sub-prime are structurally much higher and I think that they will see default to those higher rates, which are lower than the current rates of default. But what I am saying is we're not going to see this go back to 2%. You know, where it will end up, I don't know exactly, but I think that it, you know, will continue to see some level of improvement, provided the economy doesn't go, you know, in the tank and house prices continue to fall dramatically. But I do think that we won't see a return to the halcyon days of 2004.

Obviously, with the emphasis on foreclosing with kid gloves, for want of a better expression, we've moved some of our focus to alternatives to foreclosure. So we're doing more short sales and more deeds in lieu where we can and those numbers have gone up quite-- you know, quite a lot, during 2010 and early 2011.

Again, a lot of focus, as I'm sure you've heard from others, on meeting the requirements of the consent orders, which will be additional costs for the banks and, obviously, you know, limit to some extent the rate at which we can cut the cost base as we go forward.

Clearly, for us, though, with a run-off book, some of the central challenges have been retaining an engaged workforce and that's where finding homes for, you know, very talented individuals across the rest of the Group, not just in North America, has been an important tool to try and ensure that happens.

So, you know, in terms of, as I said, for those of you who waited for the end, this is really where I think the most interesting things happen. We announced in May that we were going to strategically review our branch network and our cards business. Since then, we've announced two transactions to dispose of 195 branches in upstate New York expected to be completed the first quarter of 2012 and we also announced the sale of our U.S. cards business, with closing expected to be in the first half of 2012.

So, in terms of the two major strategic initiatives, we outlined for North America, I think we've made extremely good progress. We've continued to make progress on the cost base, another issue that we alluded to in May this year and we continue to drive those costs down and going forward, now that we've done the two transactions, obviously that will be an area of renewed focus.

But it's not just about getting out of things and cutting things back, so we've continued to expand our commercial banking business and our global banking and markets business. We've continued to focus on growth in Canada in the east and growth in the United States down the West Coast, where the Asian diaspora and where the connectivity with Asia across the Pacific exists. And we continue to devote resources, quality resources, to improving the quality of our relationship management in Premier and to deepening our Premier relationships.

So, that's the story so far. We'll continue very much in that vein, going forward, and, Simon, I'll close off now and leave some time for questions.

Simon Samuels, Barclays Capital

We've got about 10 minutes for questions. We've got 10 minutes for questions.

Unidentified Participant

Could you just contrast or compare slightly what is going on with your strategy in the U.S. with, say, the position you've got in the U.K., when you-- and, obviously, I mean, can you sort of contrast it looking at the asset depreciation you've seen in the U.S., particularly on the housing side, and if you're looking at the U.K. where you've got a very large position, but you're keeping that position and you haven't had any asset deflation, really, yet?

So it's slightly different. You're very much retrenching out of the U.S. What is it that would attract you to keeping a position somewhere like the U.K. in comparison to that?

Niall Booker, Chief Executive Officer, HSBC North America Holdings

Well, you know, I begin by saying I'm not an expert on the U.K. business, but I think that the reason is that it's complicated and there are a number of reasons. There's no one answer.

First of all, the U.K. business is very different from the U.S. business. The mortgage business in the U.K. is focused very much on bank customers. It didn't go into the sub-prime business in the same way and, indeed, the whole concept of home equity withdrawal didn't take hold to the same extent in the U.K., for a variety of reasons, which I'll talk about in just a minute.

So, it's a very different structure of mortgage. In the U.K., you're doing, you know, first mortgages for people buying homes off the street or you're refinancing, which is a lot of things we did from 2008 onwards, after the crisis. We refinanced solid mortgages with low LTV where people have been performing for five and six years. And the ROE on that is pretty good, because the amount of equity that you have to allocate to a performing first mortgage, with a decent LTV is very, very low.

So, you know, I think my colleague in the U.K. -- and don't quote me on this -- but, I think, you know, that's chewing up-- if you take Basel requirements of 100% in capital, that's chewing up like something like 26% or 30% of capital, whereas my mortgages in the U.S. chew up 200% just because of the risk.

Now, why do those risks arise? Well, first of all, there's a difference in the customer base. But secondly, if you look across the-- what I would call the kind of Anglo Saxon economies, what really-- you know, Canada has had a pretty robust housing market, okay, maybe a different stage in the cycle. It didn't have a banking crisis.

The U.K. has very high debt-to-GDP ratios and you'd have thought would follow America to some extent, but it didn't. Ireland collapsed completely and Australia has stayed very strong. What are the differences?

Well, Ireland and the U.S. used fiscal tools to drive the mortgage markets. Ireland gave people tax breaks to buy houses on the west coast of Ireland. In the U.S., you still get a tax deduction for mortgage interest. So in the other Anglo Saxon economies, that was done away with.

In the U.S., you have non-recourse lending and in the U.K. you do not have non-recourse lending and it's quite a stick. In Canada and the U.K. for a variety of reasons, Canada for regulatory reasons, in the U.K. because we had a housing crisis in the 1990s, which wasn't that far away, the loan-to-value ratios stayed reasonably sane.

In the U.S.-- you know, home equity withdrawal, when the history of the crisis is written and all the bankers are in Guantanamo and all the regulators have retired, home equity withdrawal will actually appear to be one of the key villains, you know, along with, as I say, the bankers in Guantanamo. But it is a toxic product, potentially, and nobody's done very much to regulate against it.

Another point is that you had a vast securitization market in the United States, driven largely by the role of Fannie and Freddie and, you know, that role needs to be reappraised going forward and reappraised fairly soon. And what's interesting is not a lot has been done about some of these things.

So, the structure of these mortgage markets is really different and the U.S., you know, needs to look at that structure and wonder, I think. I mean, I don't have a universal solution, but it's clear to me that, you know, attacking the market through litigation, through regulation in an ad hoc way, isn't actually going to solve the problem, because nobody's making any mortgages if you don't know what a foreclosure looks like, if you don't know how much you've got to retain in the securitization on your balance sheet, if you don't know what LTVs make sense, etc. And if you face litigation on every mortgage you write, I think you've got-- you know, you've got some issues.

So, the solution is to work together, the industry, the regulators, the legislators, to work together to find a solution to the mortgage market here, which, given the overhang and the amount that has to be written off, is going to involve some pain, which is going to have to be socialized because the individuals don't have the capital to take the hit. The banks -- you know, whatever leverage ratio you use, banks are levered institutions, otherwise they can't create credit, so the banks can only take so much of the hit.

So it means that some of these losses are going to have to be socialized in a sensible way and the mortgage market restarted, because without the mortgage market, I think you're going to get very, very weak consumer demand going forwards. So I think it's key that something is done to solve the mortgage issue in the U.S., but the issues underlying it are very different from the issues that we face in the U.K., where, for example, just one issue, planning is very tough to get in the U.K. It's not so difficult to build in the U.S., because you've got vast tracts of land.

Thanks. We're all silent on the mortgages.

Simon Samuels, Barclays Capital

So, I'll jump in there and just ask a question about capital in the U.S. So, obviously, you've made these disposals, but your capital is kind of frozen in the U.S. at the moment. Is there any sort of realistic timeframe for getting it out of the U.S. and repatriating it to the Group?

Niall Booker, Chief Executive Officer, HSBC North America Holdings

Well, we'll have to see, Simon. I mean, it's-- I wouldn't be quite so pessimistic about it. You know, we're going to free up \$7 billion to \$8 billion of capital from these sales. Clearly, what we do with that capital is going to be determined in conjunction with discussions with the regulators.

We clearly have Basel III requirements to meet in the U.S. going forward and we also have, you know, the likelihood of continued losses in the mortgage book. But some of that will be supported by the capital that's freed up from the run-off.

So, I'm hopeful that we can get some capital out. I don't really want to put a timeframe on it, because I think it requires the U.S. authorities to issue their regulations around Basel III, which they haven't done yet. It requires, also, a bit more stability in the mortgage market so that we're able to show the regulator, with some degree of predictability, what, you know, the end state of our portfolio looks like.

So, I don't rule out the possibility. I think it will just take a wee bit of time and I can't put a time, exact time horizon, on it.

Simon Samuels, Barclays Capital

Great. I think we're probably, I'm going to say, out of time, actually, so let me thank, especially thank Niall very much. There's a breakout with Niall in the Morgan suite now. If you stay in this room, there's Danske Bank coming in and the other attractions for you include MF Global and the Travelers Company. So I thank you very much.

Forward-looking statements