Transcript

Annual Results 2012

Presentation to Investors and Analysts

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HSBC

Introduction from Douglas Flint, Group Chairman

Douglas Flint: Hello and welcome. With me are Stuart Gulliver, the Group Chief Executive; and Iain Mackay, the Group Finance Director.

Before we start, I'd like to say that the Board feels that there is a great deal to be positive about in the Group's performance in 2012. We also start 2013 in a strong position, with our capital base already in line with our current understanding of where we need to be in complying with the Basel III end state, as quantified by our regulator.

Stuart and his team have made considerable progress in delivering on the strategy that we set out in May 2011, reshaping the Group, positioning the business for organic growth and continuing to build long-term shareholder value. That progress, together with the capital position, has allowed the Board not only to increase the dividend per share in respect of the year by 10 per cent, but to plan to increase the first three interim dividends per share in 2013 by 11 per cent to USD0.10 per share.

Stuart will now talk you through the highlights for the year; Iain will take a detailed look at financial performance; and finally, Stuart will cover strategy in more detail. Stuart, over to you.

Stuart Gulliver, Group Chief Executive – Key points

Stuart Gulliver: Thanks, Douglas. So I want to start by pulling out the key points. At the Investor Day in May 2011, we undertook to grow, simplify and restructure the business, and to strengthen our capital base; and we've delivered on all of these initiatives in 2012, and we're very well positioned to grow organically in 2013.

Underlying revenue grew by 7 per cent in 2012, particularly in Global Banking and Markets and in Commercial Banking. Revenues from the closer collaboration between Global Banking and Markets and Commercial Banking increased by 5 per cent.

We also continue to simplify and restructure HSBC, announcing the sale or closure of 26 businesses or non-core investments in 2012, and another four already in 2013, bringing the total to 47 disposals and closures since May 2011.

We also continued to eliminate unnecessary bureaucracy and streamline internal processes. This achieved an additional USD2 billion in sustainable cost savings, taking our total annualised cost savings to USD3.6 billion. It means that we surpassed the cumulative savings target that we set for ourselves in May 2011, one year early.

Our underlying costs did in fact grow by 11 per cent to USD41.9 billion, largely due to USD5.7 billion of notable items and considerable organic investment back into the business. Reported profit before tax was USD20.6 billion, down 6 per cent on 2011. But of course, this included USD5.2 billion of adverse fair value movements on our own debt. Underlying profit before tax was USD16.4 billion, up 18 per cent on 2011, and it's on an underlying basis that we measure our performance.

Let me explain underlying. To be clear, the underlying number excludes the impact of fair value movements on our own debt and foreign currency translation differences. But it also excludes disposals and acquisitions, as well as the operating results for the businesses acquired or disposed of during the period. It does not exclude notable cost items. And those notable items affecting both reported and, therefore, the underlying numbers include fines and penalties of USD1.9 billion paid to the US authorities in relation to past inadequate compliance of anti-money laundering and sanction laws, and costs of USD2.3 billion in respective UK customer redress. So the underlying profit before tax is up 18 per cent, including those notable items.

Our return on equity at 8.4 per cent was affected by a combination of the notable items, a higher tax charge, and USD5.2 billion of adverse movements in the fair value of our own debt. Now the fair value of our own debt compares with the favorable movement of USD3.9 billion in 2011, so the total swing between the two years 2011, 2012, on fair value of own debt was USD9.1 billion.

Really importantly, our capital base has strengthened considerably. At the end of 2012, we had a core Tier 1 capital ratio of 12.3 per cent, up from 10.1 per cent in December 2011. And this was driven by capital generation and a reduction in risk weighted assets following disposals and the de-risking of the business.

So we're going to have a Basel III common equity Tier 1 ratio of 10.3 per cent after some management actions in 2013 which we have certainty on, which gives us extremely strong capacity for organic growth. As a result, dividends declared in respect of 2012 were USD0.45 per ordinary share, up 10 per cent on 2011, with a fourth interim dividend to 2012 of USD0.18 per ordinary share. The total dividend declared was USD8.3 billion. And because we believe we're fully Basel III compliant, we have the confidence, therefore, to set the first three dividends for 2013 at a planned USD0.10 per ordinary share, up 11 per cent.

Here are the financial highlights which reiterate much of what I've already covered. The main point here is that based on our current understanding, we're already well, really well placed to comply with full Basel III capital rules.

This slide then illustrates where we're seeing growth, notably in Hong Kong, India, Canada and Brazil. Now the result in the Rest of Asia Pacific was affected by adverse fair value movements of USD553 million on the contingent forward sale contract related to the Ping An deal. This effect was offset when the Ping An deal completed in February of this year.

You can clearly see the impact of customer redress provisions in Europe, particularly in the UK. And the North American results benefited from lower loan impairment charges, partially offset by the fines and penalties levied by the US authorities. These numbers also show clear progress in the run-off of our legacy portfolios in the United States.

I'll now hand over to Iain, to talk through the financial performance.

Iain Mackay, Group Finance Director – Financial performance

Iain Mackay: Thanks, Stuart. This slide shows the reported results highlighting growth in revenues, a significant improvement in loan impairment charges, increased costs mainly due to notable items, considerable adverse movements in fair value from changes in credit spread on our own debt, and an increase in the effective tax rate.

Turning to the underlying performance, our underlying numbers eliminate changes in the fair value of our long-term debt due to credit spreads (which were USD9.1 billion on a year-over-year basis) and remove any gains or losses on disposals, as well as the operating results for those businesses in 2011 and 2012, and eliminate foreign currency differences. They do not eliminate notable items.

As an aside on fair value on debt, we continue to press the International Accounting Standards Board and the European authorities to adopt accounting standards to eliminate this element from our numbers. To be clear, it has no impact on our business performance now or in the future.

<u>Revenue</u>

Underlying revenue was USD63.5 billion in 2012, a 7 per cent increase on the previous year. Loan impairment charges were down 22 per cent, primarily reflecting a decrease in North America and continued improvement in the UK.

Operating expenses were USD41.9 billion, up 11 per cent on 2011. This primarily reflects the settlement of past inadequate compliance with anti-money laundering and sanctions laws, increased provisions for UK customer redress programme.
The key point in this slide is here. Underlying profit before tax of USD16.4 billion is up 18 per cent over 2011. The revenue growth of 7 per cent was driven primarily by Global Banking and Markets and Commercial Banking.

More than a half of the Group's underlying revenue was generated in faster-growing regions. Global Banking and Markets revenues rose by 10 per cent, primarily due to higher rates and credit income, particularly in Europe as credit spreads tightened and investor sentiment improved.

In Commercial Banking, revenue grew by 8 per cent in the year, reflecting increased net interest income as a result of average balance sheet growth. Customer loans and advances grew in all regions, with over half of this growth coming from Hong Kong, Rest of Asia Pacific and Latin America, driven by trade-related lending. Customer deposits also rose as we continued to attract deposits through payments and cash management products.

Collaborative revenues from sales of Global Banking and Markets products to Commercial Banking customers increased by 5 per cent. And Retail Banking and Wealth Management revenue grew, most notably in Hong Kong and Latin America.

<u>Operating expenses</u>

Moving to operating expenses. We recorded USD2 billion of additional sustainable cost savings in 2012 as a result of our operational effectiveness programs. This brings our total annualised cost savings to USD3.6 billion since the start of 2011, which as Stuart said earlier, exceeds the cumulative target for sustainable savings that we set ourselves in 2011. We've a strong pipeline [of cost savings], in excess of USD1 billion for 2013.

Underlying costs were USD41.9 billion, which represents an 11 per cent increase on 2011, and here we've isolated the most significant items that have contributed to movement in our costs. These included USD2.3 billion in UK customer redress, USD1.9 billion in US enforcement and regulatory matters, and USD876 million of restructuring charges.

The provisions for UK customer redress include estimates of USD1.7 billion for possible mis-selling in relation to Payment Protection Insurance, and USD598 million in relation to Interest Rate Protection products.

A bit more detail on PPI here. Since the redress process began, we've provided a total of USD2.4 billion, of which USD1.2 billion has been paid to current or former customers.

Other than these items, we have remaining operating expenses of USD36.8 billion for 2012, which amounts to an increase of 2 per cent on 2011. This compares with 7 per cent growth in underlying revenues.

The remaining operating expenses increased for four main reasons. Inflationary pressures, for example in wages and salaries in certain of our Latin American and Asian markets; implementation of strategic initiatives which required significant expenditure, including costs related to the sale of the US Cards and Retail Services business and operating expenses relating to business acquisitions in the Middle East; investment and regulatory compliance infrastructure, mainly in the US; and also litigation costs.

In terms of our global businesses, we invested significantly in infrastructure to improve our customer experience and revenue generation. For example, in terms of our Retail Banking and Wealth Management foreign exchange capabilities, we enhanced our international wire services, completed the online launch of dual currency deposits in Asian markets, and improved market access to foreign exchange trading.

We continued to expand our commodity and structure trade finance offering across Commercial Banking and Global Banking and Markets; and in Payments and Cash Management, where volumes have grown at twice the rate of the market globally since 2010, our investment in new products to improve customer experience, such as HSBCnet Mobile, generated new mandates.

In Q4, our operating expenses increased against Q3, largely driven by business simplification and restructuring costs, and investment in growing the business.

We show here the underlying cost efficiency ratio with the impact of notable items. This reflects disciplined cost management and strong underlying revenue growth. We've developed a strong pipeline of sustainable cost savings projects for 2013, and implementation is well underway. We will exceed the top end of the target range of cost savings that we set out in May 2011.

The number of full-time equivalent staff reduced by more than 27,700 during 2012, ending the year 10 per cent lower than at the end of 2011. Our focus on cost management and on achieving positive jaws is intense and ongoing.

Credit quality

Turning to credit quality, we saw a marked reduction in loan impairment charges in 2012 of USD2.2 billion compared to the prior year. This largely reflects improvements in North America, mainly from the continued decline in lending balances and improved delinquency rates in the consumer mortgage lending portfolio.

Europe also saw an improvement on the back of lower credit risk provisions on available-for-sale asset-backed securities, and lower loan impairment charges on Retail Banking and Wealth Management, especially in the UK. These were partially offset by higher loan impairment charges in Latin America, notably from higher delinquency rates in Brazil.

Capital adequacy

The Group's core Tier I ratio improved from 10.1 per cent at the end of 2011 to 12.3 per cent at the end of 2012. This reflected the capital generation of the Group's operations and disposal gains, strengthening core Tier I capital by USD17 billion. Profit contributed USD18 billion to capital growth.

Other movements in capital included decreases in our regulatory filters on the sale of Ping An and Card and Retail services business, and also foreign exchange effects. We also reduced our risk weighted assets by USD86 billion. Just over half of this reduction came from disposals, and the rest largely from de-risking the balance sheet. You will note that the change in risk-weighted assets due to either model or methodology changes was insignificant.

Certain countries have recently begun their staged implementation of Basel III. For the Group, the FSA has established a capital floor which sets a minimum common equity Tier 1 ratio calculated on a Basel III end- point basis. This is to be achieved by the end of this year and effectively accelerates our implementation of Basel III. We are very well positioned with respect to the FSA's objective.

We've set out our Basel III position in more detail. This is the position as applied to the end of the 2012 balance sheet, including the completion of the Ping An disposal in February, and mitigation actions in relation to immaterial holdings.

The new regulations are still being negotiated, and we have not pre-empted the outcome by taking account of the potentially beneficial changes still subject to debate. Our strength in capital generation, the steps taken in managing the balance sheet and benefits of disposals, generate a common equity Tier 1 ratio of 10.3 per cent after management actions on an end-point Basel III basis.

There is still considerable uncertainty with respect to the final details of CRD IV, notably regarding the calibration and implementation of counter-cyclical buffers, and buffers for systemically important banks. Further uncertainty exists with respect to future guidance from the Financial Policy Committee of the Bank of England.

Profitability

The deterioration of a return on equity from 10.9 per cent to 8.4 per cent is largely a consequence of the significant impact from an adverse swing in the fair value of our own debt, the impact of notable items and significant growth in our capital. This is partly offset by gains and disposals, and growth from improving profitability.

The bottom-right table reflects improving performance in the return on risk weighted assets in most of our global businesses. Whilst the completed disposals strengthen our capital, this bigger 'E' represents a drag on return on equity in the short term. This provides capacity to support organic growth and a progressive dividend policy. However, in the short term, it remains clear that a conservative stance is merited pending clarification of future regulatory requirements.

As a Group, our current return on risk weighted assets stands at 1.5 per cent. However, if we exclude the run-off portfolios, that number increases to 1.9 per cent. And within that 1.9 per cent, notable items represented a drag of 70 basis points in return on risk-weighted assets.

Looking at return on risk-weighted assets by region, we see good performance in Hong Kong, the Rest of Asia Pacific, the Middle East and Latin America. However, we face pressures in Europe, which was affected by changes in the fair value of our own debt, and customer redress; and in North America, which was subject to negative impact of the legacy run-off portfolio, and regulatory fines and penalties.

Allocation of attributable profit

This slide shows the allocation of our attributable profit after adding back variable pay in 2011 and 2012. As you can see, in 2011, we were able to show a distribution where we retained 50 per cent, distributed 35 per cent to our shareholders, and paid 15 per cent to our staff through variable pay. In 2012, that distribution was changed so that we retained 60 per cent to boost capital, distributed 29 per cent to our shareholders, and 11 per cent to our staff in the form of variable compensation.

We have reduced the proportion of our profits allocated to variable pay, both in real terms, and in proportion to the allocation for dividends, thus maintaining an appropriate balance for 2012. We increased dividend payments to shareholders by 10 per cent on a per-share basis, and 12 per cent on a US dollar basis.

Our strong capital position has also given us the confidence to increase the fourth quarter dividend for 2012 to USD0.18 per share, and to plan the first three interim dividends for 2013 at USD0.10 per share, an increase of 11 per cent.

I will now hand back to Stuart to talk through the business performance set against our strategic targets.

Stuart Gulliver, Group Chief Executive – Business performance and strategic targets

Stuart Gulliver: Thanks, Iain. So to recap on strategic progress, we've grown revenues in HSBC, with strong results in Commercial Banking, which actually was a record year, and Global Banking and Markets. More than half of our revenues came from faster-growing regions.

We have announced the disposal or closure of 47 businesses since 2011, and a number of significant disposals and closures in 2012, and indeed at the start of this year, 2013. These include the sale of our Cards and Retail Services business in the US, our Asian general insurance businesses, our stake in Ping An, and our business in Panama.

We have also continued to increase efficiency and control, surpassing our keenest of targets for sustainable cost savings, whilst investing in stronger compliance and growing the business. As Iain has already mentioned, our credit quality has improved.

The end result of all of this is that we have been able to build capital and raise the dividend for the fourth quarter of 2012, and for the first three quarters of 2013. To reiterate, this gives us a strong platform for organic growth and allows us to continue our progressive dividend policy.

Commercial Banking

Moving on to the global businesses, which in 2012 were led by Commercial Banking and Global Banking and Markets, first taking a look at Commercial Banking, this business reported another record profit before tax in 2012, reinforcing our status as the number one global trade finance bank.

Underlying revenues grew by 8 per cent in the year, with revenue increases in all regions. Our strong international network continues to offer a distinctive presence in key markets, with major trade flows. Revenue in faster-growing regions grew by 10 per cent, representing now 55 per cent of revenues in 2012, clearly illustrating the benefits of our strategy.

We have also continued to support small and medium sized businesses through the recovery. To give one example, in the first half of 2012, we launched an international SME fund in the UK to support UK businesses that trade, or aspire to trade, internationally.

By the end of 2012, our lending through the fund totaled GBP5.1 billion, comfortably exceeding our original target of GBP4 billion. We also expanded our global network of dedicated China desks to cover our top markets, representing about half of the world's GDP.

Global Banking and Markets

Turning next to Global Banking and Markets, this business recorded underlying profit before tax of USD8.4 billion, which was 24 per cent higher than in 2011. Global Banking and Markets generated revenue growth of 10 per cent due primarily to significantly higher revenues in rates and credit, notably in Europe.

It also achieved record reported revenues in Hong Kong, in Rest of Asia Pacific, and in Latin America, again, clearly illustrating the benefit of our strategy. In total, the faster-growing regions now account for 51 per cent of total Global Banking and Markets revenues in 2012.

2012 was also a landmark year in that we issued in the UK the first international renminbi bond outside Chinese sovereign territory. This reinforced our leading position in growing the international renminbi market.

Retail Banking & Wealth Management

2012 was a year of transition in Retail Banking & Wealth Management as we grew the business, increased revenues in faster-growing markets, reduced the headcount, and improved the productivity.

We recorded underlying profit before tax of USD4 billion against USD0.9 billion in 2011, driven largely by significantly lower loan impairment charges in the US run-off portfolio. We announced 17 new disposals and closures in 2012, bringing the total to 34 since 2011. Twelve of these transactions completed in 2012.

We are exiting the general insurance manufacturing business and focusing on life insurance manufacturing [but] only where we have scale. And we continue to explore options to accelerate the run-off of our US Consumer Finance business, and have identified certain loan pools that we intend to sell as the market conditions improve.

Outlook

And before I finish, a quick word on outlook. As you've heard, we have a strong capital position which allows us to pursue further organic growth in 2013. And we've had a good start to the year in which the business has performed well and made further progress on transactions.

In our view, the Chinese economy bottomed out towards the end of 2012, and there will be no hard landing in China. The outlook looks reasonable for 2013, and this will benefit our business.

Most importantly, we have re-established our position as one of the best capitalised banks in the world. Our capital strength, combined with our ability to grow the business, has given us the confidence to plan an increase in interim dividends for the first three quarters of 2013 by 11 per cent to USD0.10 per ordinary share.

We're now happy to take your questions, but before we begin, the operator will explain the procedure and introduce our first question.

Questions and answers

Chira Barua, Sanford Bernstein

Chira Barua: I have two quick questions. The first one is on potential move back to Hong Kong. There's been so much regulatory pressure around tax disclosures by geography, which will definitely impact you, plus we've seen compensation and the UK redresses. So when will the Board rethink that decision of going back to Hong Kong?

And the second question is around capital. It's great that you've increased the dividend, but you're obviously releasing a lot of capital around the world, and your Basel III is also solid. Can you give us some guidance around where you're looking at deploying this over the next two years, or if you should expect significant capital back to shareholders?

Thank you.

Stuart Gulliver: Okay. I'll take the second one and then Douglas can talk about Hong Kong.

So you're right. We've reached the stage where we probably now have strengthened the capital base of the firm to a point that we're back to a more normal usage of retained earnings.

Now over the last three/four years, we've been building up our capital base to reach the new regulatory norm of a much strengthened capital base, and at the same time trying to get clear water between ourselves and other banks, because we've always tried to run this firm with more capital than our peer group and we're kind of back in that situation.

What we plan to do is to invest that capital organically. So that money will be put to work in Asia Pacific; obviously in Hong Kong, China; Rest of Asia Pacific; in Latin America; in the Middle East; and then selectively in the UK, where we've also grown the amount of business we do in SME lending, in mortgage lending, and indeed in North America, in Canada.

I think that we will look quite clearly to try and grow the balance sheet, grow the business, increase the retained earnings, and through that route, increase the dividend.

So the dividend, absolutely, you can take comfort from where we said there's a progressive dividend policy there will be a progressive dividend policy. And so what we'll be looking to do with this capital is to deploy it in the business, and return it to shareholders through dividend.

What we aren't saying at this point in time is that we have no idea how to deploy this and therefore we should be returning to the shareholders as a big block. That's not on our radar screen. We reckon that this gives us a very sweet opportunity to continue to take market share and continue to actually grow the revenue base of HSBC after a period in which, if you like, a large chunk of retained earnings have had to go to build the capital base up.

I'll let Douglas talk about Hong Kong.

Douglas Flint: Sure. Let me answer with a number of points. First of all, I don't think one can consider any strategic move, or certainly of the importance of the one you've described, without knowing where the regulatory position will end up. There's a huge amount of uncertainty globally in terms of extra territoriality and in relation to the application of regulatory level playing fields, and so on.

And so until we have a very clear picture of where all of this going to land, and many of the things we've discussed are still in the melting pot, they're not finalised yet, it would be foolish to embark upon any kind of consideration.

Secondly, moving the head office wouldn't have any impact on the businesses, the very substantial businesses that we have based in Europe. They would still be faced with the European regulatory and legislative burdens or requirements.

And thirdly, this is something we will only do, as I said, once the profile of world regulation has settled down and once we've had the chance to analyse it very fully ourselves and talk to our shareholders. So it's premature, very, very premature even to talk about it. It's not on the agenda.

Stuart Gulliver: If I could just also add one comment. We believe very strongly that having a developed market presence in the UK, France, Germany and places like Canada, etc., is actually key to the overall trading capital flow proposition of the Group; i.e., if you recall when we set out at the Investor Day, we said across a neat geography; it's going to define most of the growth for the next 25 years.

But actually, that's also true if you're sitting running a major corporate in the UK, France, Germany; you're going to be looking at the same set of emerging markets. So, therefore, our ability to finance that is to some great degree predicated on having operations in the UK, France, Germany, etc., because by banking people domestically, we then get to do their cross-border business.

So we don't see a situation where we would want to change HSBC into being purely emerging market. Therefore, as Douglas says, the businesses that stay in Europe will still be subject to the same European requirements, irrespective of where you put the head office.

So the real short answer is it's way too soon to make a call on this kind of stuff, and we'd need to consult very widely with shareholders once effectively there's some certainty around the whole thing.

Raul Sinha, JP Morgan

Raul Sinha: Could I have just two quick questions, please? Firstly, could you -- Stuart, address the question on balance sheet shape and the shape of Group mix in terms of profitability between DM and EM, given obviously you've sold Ping An, which was quite a highly profitable business? Do you think that you can reinvest that capital to bring back your Group shape in line with what you think long term it should be?

Stuart Gulliver: So, yes, we clearly will try very hard to do just that. Clearly, yes, Ping An, as an associate contributed a chunk. But, of course, the problem with Ping An, fantastic financial investment, but we did no business with Ping An. And at the point we bought Ping An, the only way you could own Ping An was through our stock.

Once Ping An listed, it's very hard to say to our shareholders buy our shares so that we can buy the shares in a company that you can actually buy yourself, unless there was a chunk of business taking place because of the shareholding, which by the way there is with BoCom, but there wasn't with Ping An. And also, Ping An would have been a deduction from capital in due course under Basel III rules.

So therefore, the challenge that colleagues in Asia Pacific have, and in Latin America, and in the Middle East, is absolutely to put that money that's been released to work to make sure that we don't have a dilution effect, and absolutely in the emerging markets, because the mix that we've got to, which is 50/50 now between emerging markets and the developed world, of course, is in part also flattered by the fact the developed world's been loss making.

So we are absolutely very focused on getting that shift. So it's 50/50, or perhaps slightly tailored in favor of the emerging markets.

Within, for example, Global Banking and Markets, about 70 per cent of the profit before tax of Global Banking and Markets actually comes from the emerging markets.

So it's a challenge that frankly we've got to do and, yes, I'm reasonably confident we can do it. There will undoubtedly be a lag. We're not going to be able to put the entire USD9.4 billion to work on day one, but that is absolutely what the team is tasked with doing.

Raul Sinha: Excellent, thanks. And the second one is quickly on balance sheet management (BSM). The revenue line there seems to have tailed off quite a bit during the year. It's now only USD700 million in Q4. Is there anything we should read into that? And what do you think we should be thinking about as an outlook for next year?

Stuart Gulliver: I think -- I've guided this way for some time and we've always exceeded the guidance because opportunities have come up during the year. But I think it's a -- again, it's a USD2.5 billion type of number that you should be thinking about for BSM as the base line.

And it really depends on the shape of the curve. It's a short-term book; it's three years and under. It does not contain really any credit risk. It's a sovereign bond book, interbank lending. It has a large chunk of money still parked with central banks because we remain quite risk adverse.

Now obviously, if the curves steepen up a bit, there will be an opportunity to reinvest a chunk of this on steeper curves in the naught to three-year area which may result in a higher outturn than the $2.5 billion. But it literally runs down pretty fast this book, so it really depends on the reinvestment opportunity, which is always hard to call at the beginning of a year.

So I think you should kind of work on the assumption it's USD2.5 billion and not read anything to the USD700 million other than the opportunities that we saw to get on the curves have matured, because we've had some steepness in the one/two-year area versus three/six months, which effectively have run-off.

Chris Manners, Morgan Stanley

Chris Manners: So I have two questions for you, if I may. The first one was on the cost base. Obviously, good news that you're able to exceed the top end of your USD2.5 billion to USD3.5 billion cost saving guidance. I was just wondering if you could maybe flesh out a little bit what absolute numbers we should be looking for in the future years.

I know that, obviously, in your slide deck, you've tried to give a view of that, and that seems to have changed by about 2 per cent year on year on the underlying-underlying costs base, if you will. I'm just trying to work out how that should trend. I think you've called it remaining operating expenses on slide 10.

Stuart Gulliver: That's probably exactly right, 2 per cent.

Chris Manners: Okay. So we should just have -- your remaining operating expenses a couple of percent a year for inflation?

Stuart Gulliver: Yes. Because don't forget, there's two things that we need to invest in. We need to invest in faster-growing markets, because this is not about -- this is about releasing costs that have effectively built up during efficiency by re-engineering the firm, and then deploying them where we can get a great return.

So 2 per cent underlying-underlying as it were, will, undoubtedly, result in positive jaws, and we're not trying to shrink the firm. What we're trying to do is run it in a much more effective way.

So there's wage price inflation; there's need to invest in the system. We're running now with an additional at least USD500 million a year of compliance and regulatory costs, which I think is a permanent feature. All of that bakes into that number.

And I'll let Iain talk , rather than use 'underlying-underlying', people are looking at me in complete horror here; my accounting colleagues opposite me are looking like I've obviously said something terrible. So I'll now let Iain define the exact basis on which the 2 per cent was defined (laughter).

Iain Mackay: So I'll talk about adjusted underlying, which will make the accountants look even less happy.

Now, Chris, we've given you the details here, which I think helps you navigate through some of the large items that are in this P&L. Clearly, the goal from a management perspective is to, in terms of the investment around compliance and regulatory capability, which was an incremental USD300 million, mostly in the US in 2012, is to ensure that those sorts of fines and penalties are not a feature of the future.

In terms of the UK customer redress programs, that's clearly PPI and interest rate hedging products. In PPI, we've put USD2.4 billion aside since the onset of this. We've got USD1.2 billion worth that has been distributed to customers, and we think about 15 months' worth of coverage, based on current incoming claims rate as well as the uphold rate against those claims.

The redress process on the hedging, interest rate hedging, actually hasn't started yet. The FSA's still working through with the skilled persons to define the final criteria for progressing, but that should get under way very, very shortly. But as yet, there's been no significant disbursements against that almost USD600 million that we've got provided.

So the focus here is on running the firm on an ongoing basis, ensuring that we've got the right governance and controls in place to ensure that we don't have these sorts of fall-through from customer redress, whether in the UK or elsewhere in the world, and ensuring compliance from a regulatory and conduct perspective.

So I think the guidance we've given you is the best we can give you right now. There's a strong focus around sustainable saves. We've got a pipeline of over USD1 billion for 2013. A lot of that is underway from an execution perspective.

And although we've done a great deal from a people and structures perspective, we've got the global business models deployed, we've got the global function models deployed, but in terms of re-engineering core processes and driving efficiency and quality of execution from a customer perspective, from a back office and a governance perspective, there's still a great deal of opportunity available to us.

Chris Manners: Okay, that makes a lot of sense. And can I ask one more question on the capital planning side? Obviously, 9.0 per cent Basel III core Tier 1 is a long way ahead of some of your other UK and European peers. I just wanted to work out why you couldn't raise the dividend a little bit more. Is it the HKMA putting up risk weights on mortgages, or the FSA capital exercise? Or is it actually just the organic growth focus? I'm just trying to work out why, given the high scrip component of your dividend, why you couldn't take a little bit more.

Iain Mackay: No, it's a fair question, Chris. I think the main thing to point out here is that -- a couple of things to mention. We've got our capital floor set for us by the FSA which is just a normal prudential regulatory measure from the supervisor. When you look at our Basel III end point basis that we've set out here on the 2012 balance sheet, we're in very, very good shape against that.

When you think about other mitigating actions that are out there in front of us, which we've talked about before in terms of running off the legacy credits in Global Banking and Markets, running off the CML portfolio and trying to accelerate that as market conditions continue to improve, hopefully, there's another healthy chunk of mitigating actions which are already in the flow from that standpoint. But the focus is on growing the firm from an organic perspective, and Stuart's spoken about that at length.

And the other feature, which is just simply around I think nature caution at the moment, until CRD IV is signed into a final set of regulations with the interpretive guidance around that, both from a European perspective, as well as local regulators, some degree of conservatism is merited here.

There is within current regulatory guidelines under CRD IV a great deal of discretion that can be exercised around counter-cyclical buffers, systemic buffers for banks which are systemic to the globe as well as to nationally.

So I think there's just a natural degree of conservatism, as Stuart said is where the focus is, is growing the firm organically, and through that growth, growing the dividend.

Rohith Chandra-Rajan, Barclays.

Rohith Chandra-Rajan: The same two topics actually, if I could. So firstly just on costs. Iain, could you clarify what you mean by the $1 billion additional savings to come through, or at least additional pipeline for 2013? Is that some of the $3.6 billion run rate dropping through, or is incremental, additional cost saves?

Iain Mackay: Incremental.

Stuart Gulliver: It's on top of it.

Rohith Chandra-Rajan: Okay, that's great. So that would take you to above $4.6 billion, and there's potentially more to come. Is that the message?

Stuart Gulliver: No, it gets us to $4.6 million, and we'll talk about the more to come in May.

Rohith Chandra-Rajan: Okay. Thank you. And then just on the capital, you've been very clear about your desire to grow the business organically. Just in terms of where you are on a fully-loaded Basel III basis today, what you said about the FSA floor, presumably that's inside your 9.5% to 10.5% range that you've talked about before. Just wondering if the organic opportunities are such that you end up being materially ahead of the top of the 9.5% to 10.5% range, what the reaction would be from a capital-planning perspective.

Iain Mackay: Same answer as I gave to Chris from Morgan Stanley, I think.

Rohith Chandra-Rajan: Well, my understanding of that answer was that you're looking to grow the business organically and that would build retained earnings and drive the dividend payout.

Stuart Gulliver: Yes, if we build the business up, it will also increase risk-weighted assets, which will obviously consume some of the capital ratio, and hopefully the profit on it would help us drive the dividend.

If you're thinking about a situation where we're above 10.5% and there isn't growth opportunity, then we'd have to think at that point in time about what we would do with dividends.

But what we don't want to do at this stage is not being given the opportunity after five years of rebuilding a fortressed balance sheet to not be able to deploy that fortressed balance sheet in a competitive fashion. If the opportunities aren't out there, then obviously the progressive dividend comment would remain very valid. It would be a progressive dividend. But I think you need to give us a couple of years to have a try and go at it.

Chintan Joshi, Nomura

Chintan Joshi: Can I ask a few questions on slide 14? And it's probably for Iain, I guess. When I compare your new guidance to the one you gave us in the first-half stage, at the first-half stage, the impact from Basel III was 2.1 per cent. Now it's gone up to 3.3 per cent, but you're introducing additional mitigation of about 0.5 per cent. So let's call it 2.8 per cent. What are these moving

parts? What is the new mitigation that you're highlighting? And what confidence do you have in these moving parts?

Iain Mackay: Good question, Chintan. You're absolutely right in terms of the movements here. And what it really comes down to is a slightly -- well, one, change in the balance sheet composition within HSBC which -- so the basis on which we're assessing and applying CRD IV changes, as we've interpreted them thus far, has changed slightly.

I think there are a couple of main items that I can walk through here. One is with respect to Immaterial Holdings, principally in banks, insurance companies. And there's a particular treatment there as it relates to our holdings in equities and equity derivatives in that space that would probably, add about 52-/ 54 basis points in terms of incremental impact on the capital ratio.

However, by the same token, and that's what we've laid out on the chart on page 14, we are very confident that should that guidance that's currently sitting in CRD IV remain in place within the European environment that we are actually able to mitigate on a short-term basis in its entirety.

The interesting thing around that particular guidance is outside the European Union, there tends to be a slightly different interpretation. So I think that's an area that's still up for debate as we work through the final stages of CRD IV.

There's a couple of other elements that have changed over the course of the last six months which bring in some of the changes in that regard. There's a slightly higher impact coming through from PVA. There's a slightly higher impact coming through from our own share deduction. And again, this primarily relates to a slightly more conservative interpretation of what we're reading through CRD IV. And then there's an impact in terms of own credit spread and the trading book that's coming through.

So when you add all of that up, and I've got a fairly detailed schedule in front of me, the main impacts that are coming through is the treatment of Immaterial Holdings, which is about the 52 / 54 basis points; and then there's about 67 other basis points which are coming through from a slightly more conservative reading of elements within CRD IV.

Chintan Joshi: What's your insight into when we can get a good amount of confidence on that additional 50 bps of mitigation? So basically taking you from 9.8 per cent to 10.3 per cent, by when do you think we'll get that clarity?

Iain Mackay: When the rules are finalized. If the rules are finalized the way they are, then we will -- well, we know exactly what it is now, but in terms --

Stuart Gulliver: If the rules aren't clarified in a particular way, there's a second mitigation that we can exercise, which is, frankly, to exit the activity that creates that capital requirement. So ether the rules get clarified and it releases the 50 basis points, or we're going to exit the business and it releases the 50 basis points.

Iain Mackay: There's no equivocation around that. It is there ().

Stuart Gulliver: It will be at 10.3 per cent.

Chintan Joshi: And what is the ROE of that activity? Is it substantially different from the Group?

Iain Mackay: No.

Stuart Gulliver: It will not be dilutive.

Iain Mackay: It's a very small P&L impact on our business should we have to close that business.

Chintan Joshi: Okay, that's good to hear. Then if I can continue on capital. And maybe first of all, I understand your answers to Rohith and to Chira and Chris, but if I look at the equation, your

return on core Tier 1 capital Basel III is something like 14 per cent, and your underlying growth of revenues is about 7%, which on RWA basis is even lower. So the equation, even if you continue to grow, is not tallying up, which means you are building up capital quite quickly. How much can we push you to give us clarity on the Investor Day?

Stuart Gulliver: I think it's going to be -- look, honestly, it's going to be one of those things that will be a nice problem to have because either we can find a way of investing it, grow the PBT and grow the dividend that way, or we'll be giving it back. But we need, I think, to at least set out very clearly the opportunity that we think as management should be given to us to not return it to shareholders 'til we've had a crack at actually organically, and I stress organically, not by doing acquisitions, to put it to work. And, yes, we'll absolutely debate it in May.

Chintan Joshi: Okay. And one more on cost, if I could follow up. The underlying cost inflation, so the underlying-underlying is 2 per cent. But that includes a lot of cost savings that you've achieved this year. So you're saying underlying-underlying is 2 per cent again next year, then it sounds like cost savings will be very similar to the run rate achieved in 2012. Is that fair?

Iain Mackay: I think we go back to the point we said. We've got a pipeline of sustainable saves of USD1 billion. We continue to build that pipeline and we continue to execute against the programs.

I think when you look at the investment that we made, and I think we've given some detail on slide 10 here, Chintan, around the sort of things that we've done from an investment perspective this year, clearly, some inflationary pressures, principally in emerging markets. We've invested certainly around strategic initiatives, which is primarily around portfolio realignment in the US, and some acquisitions in the cost of those acquisitions in the Middle East.

The investment in compliance and growth, and the infrastructure, is USD800 million overall, of which about USD300 million is incremental with respect to compliance, and USD500 million with respect to growth in building out the infrastructure. So it is things like systems and capability, product capability. And then as it relates, litigation, fines and penalties, we've got some of the costs associated with that of about USD500 million.

So there are features that have been quite unique to 2012, as I'm sure you would agree, that are reflected in that cost base, but there is clearly an intention to go on and keep generating sustainable saves which will support organic growth within the business, an investment in that organic growth.

Chintan Joshi: Understood. And one final quick one, a quick update on the disposals that you are planning in the CML portfolio; how's that going?

Stuart Gulliver: So we should have something to announce on the non-real estate piece in the next few weeks, and then the real estate stuff, the USD3.8 billion we talk about in the annual report and accounts, that we'll parcel that up and sell it over the next 24 months or so.

They're very specific carve-out transactions; they're highly customized, so the written down pieces are harder to do, but we will do it. And then the USD3.7 million of non-real estate, that's imminent.

Tom Rayner, Exane BNP Paribas

Tom Rayner: Just on a similar thing, I guess, but slide 14 I think was always going to be a focus. And from the answers you've given, am I right in assuming that the actions needed to offset the additional negative impact of Basel III, which has gone from 2.1 per cent to 3.3 per cent could all be covered by changes in CRD IV versus the draft of 2011, and potentially from run-off of legacy assets which won't have thus any impact on revenue, profits or dividend paying capacity? Is that a fair interpretation of what you've said?

Iain Mackay: I think what we're actually saying, Tom, is that we've done that, okay? What we've not included in this is 10.3 per cent are any of the benefits from future run-off of the CML or legacy credit portfolios. What we've done is we've taken the 2012 balance sheet and applied Basel III end state, meaning 2022, and applied that based on a reading of the CRD IV as published in July of 2011, with a strict interpretation around that. And under that set of guidance, we're sitting in a position with 10.3 per cent core equity Tier 1, so with actions that have been taken.

So we are sitting there with further things that we can do that should this interpretation change, again, there are further mitigation opportunities to us.

Tom Rayner: Yes. No, I was just thinking about the potential impact of those things that you've done on the P&L going forward, because I think, I might be wrong, but at the half-year stage, did you not say 1.1 per cent benefit from capital from the legacy run-off is --? That seems to ring a bell.

Iain Mackay: Yes.

Tom Rayner: Yes. So with that, as long as you've modeled the legacy run-off properly, then I'm just trying to get a sense; I mean, there shouldn't necessarily be a potentially big P&L impact from the actions you've put in place?

Iain Mackay: No, understanding this, the P&L coming out of the CML legacy book is today a drag on the profitability of the firm overall to a significant degree. By the same token, the transactions to which Stuart referred to recently in the short term absolutely will have a negative PBT impact; those portfolios will almost certainly be disposed of at a loss.

Stuart Gulliver: Definitely at a loss, or they will release risk-weighted assets and create capital.

Iain Mackay: Absolutely. We have significant amounts of surplus capital sitting in the US, and there's a good use for that.

Stuart Gulliver: Yes, absolutely.

Tom Rayner: Sure, okay. And just moving on to the underlying-underlying, I don't want to get anyone in trouble, but --

Stuart Gulliver: You're not allowed to say that. I've already been yellow carded. You have to say adjusted underlying, apparently.

Tom Rayner: Adjusted underlying; I think I agree with you that 2 per cent looked like the number, and when I do the same thing for revenue using your starting point of plus 7 per cent and adjusting for the notable items, I get revenue growth running at about plus 8 per cent, and I wondered if you could just comment on that revenue trend going forward. Is that a reasonable reflection of what the continuing business currency adjusted underlying revenue number might look like?

Iain Mackay: I think what it reflects, Tom, is that you're a very good mathematician.

Tom Rayner: Well, my teacher never used to say that, but that's very nice of you to.

Stuart Gulliver: I think it reflects that we've got reasonably good jaws and, yes, that's what we'd like to be able to think we'd be able to continue to do that.

Tom Rayner: Okay. Thanks very much.

Stuart Gulliver: That's the execution of what we've spent two years putting in place.

JP Crutchley, UBS.

JP Crutchley: You covered most of the areas. I just wanted to maybe pick up on two quick business areas. If you could comment, firstly, the weak rates performance in Q4. Was that just bad positioning or should we be aware of any particular issue there?

And secondly, and perhaps more broadly, on the finance accounting in the US; as that now gets smaller, to what degree are you more willing to maybe try and cut your losses and maybe take a larger hit but actually sell portfolios on that should just remove the legacy drag of that rather than just letting it just bleed quarter by quarter by quarter? If you could just comment on those two, please.

Stuart Gulliver: Okay. The fourth quarter in rates is actually the CVA, and so it's not bad trading at all. It's a change of accounting.

Iain Mackay: Yes, JP, we did refinements in the fourth quarter to the CVA/DVA. We've always accounted for CVA, but we did some refinements to the methodology in the fourth quarter in consideration of really market consistency, if you like. The net impact to the revenue line in that regard was just a shade under USD400 million when you consider CVA/DVA.

The most significant impact was to the rates book, and that was about USD500 million on the rates income line, and that was implemented in the fourth quarter.

So that's something to bear in mind. And when you think about revenues overall for the Group in the fourth quarter, there were two key features. There was the implementation of CVA/DVA, which was a net effect of slightly less than USD400 million, and there was the derivative, the embedded derivative within the Ping An second tranche, which was a loss of USD553 million in the fourth quarter, and that reversed in the first quarter, in actual fact in February when we completed the second tranche. So there is nothing underlying, ado with the rates book.

Stuart Gulliver: And on the Finance company, so the USD3.7 billion is the non-real estate, which as I said just now, should get announced imminently, the USD3.8 billion of real estate stuff that we're looking to tranche up into probably parcels of USD500 million/USD600 million and sell into the market.

And then to be honest, as we start to get more of that going, then - and actually assuming that the property market in the US continues to show some recovery, then there's no reason why we might not look to get more out, because in a way, there are very, very customized carve-outs that we're having to do on the portfolio. As we get more and more experience of doing that, I think the ability to continue to sell more than the $3.8 billion is clearly very real.

We have no desire to hold on to it any longer than we need to hold on to it, but the reality is the market's not been there over the last couple of years. But perhaps it's beginning to become possible as we go forward.

Ronit Ghose, Citi

Ronit Ghose: First question is on Hong Kong, and then I had another question on Rest of Asia and LatAm. Stuart, back on the third quarter numbers, you rightly pointed out that China and Greater China were turning, and you've seen in your CMB results quite a good NII in the second half of last year. When I look at what's happening in Hong Kong and HKMA stats, it's very early days, but January Q1 has started very strongly. Is there any color, forward-looking comments you can make about volume growth, particularly CMB volume growth for Hong Kong?

My second question is a bit more negative. When I look at the Rest of Asia Pacific and LatAm, and I'm looking specifically at RBWM and Commercial Banking, so if you like non-GBM banking, it looks like NII's either flat or down in the second half of last year versus the first half, despite either some volume growth or flat volumes; looks like there's quite a bit of spread pressure going on. I just wanted to check I'm not missing anything or there aren't big funnies or one-offs, but Rest of Asia, ex Hong Kong and LatAm in core banking, NII looks to me weak. I just wondered if you could comment on that.

Stuart Gulliver: There's nothing particular in CMB in Hong Kong other than, yes, the year has started quite well. The Hong Kong economy benefits from the fact that, as I say, we think that the Chinese economy bottomed in the third quarter and, therefore, Hong Kong has a massive port and center of trade, and a lot of that Hong Kong/CMB business is trade, is a kind of second order beneficiary of that. So the outlook in the CMB piece in Hong Kong looks fairly constructive.

Iain Mackay: Yes, if we take a look at net interest income for the rest of Asia Pacific, specifically looking at net interest margins, Ronit, it's actually held up remarkably well considering where you see base interest rates.

So the loss in net interest margin when comparing the second half of 2012to the first half, is a couple of basis points. So in terms of overall net interest income, it is actually holding up pretty well.

Ronit Ghose: Right. Because I look at the Rest of Asia Pacific, there's pretty decent volume growth in the second half, but NII, particularly at RBWM, looks like it's down half and half; CMB is up a little bit. I haven't done the math on the basis points, but it just looks optically like a bigger drop on margins than those two businesses together. Maybe it's more pronounced in LatAm where your NII's actually down quite meaningfully second half versus first half.

Stuart Gulliver: LatAm is more pronounced, so that's also due to absolute rate changes in Brazil.

Ronit Ghose: So it's mainly Brazil driven? Okay.

Stuart Gulliver: Yes. The other thing that's going through Rest of Asia Pacific (ROAP) but it's not going through the net interest margin is the Ping An derivative is booked in Rest of Asia Pacific. So there's a USD550 million loss in ROAP in December, but that's in trading income and it reverses out in January when we close the Ping An deal.

We'll do some digging around and get round to you off the call, but we don't recognize what you're picking up here.

Christopher Wheeler, Mediobanca:

Christopher Wheeler: Couple of questions again, I'm afraid, on capital. Iain, can you give us any clue really as to where the Basel III ratio fully now sits in the US businesses? Because clearly, it's a subject that's going to become quite important as you continue to hopefully sell down the CML books. But also, you always give us an answer that when we ask you when can you get some capital out of the United States, you tend to say, hopefully the end of next year. Now obviously, we're in the New Year now. I wondered if that's still really your answer, because obviously, this is a very tricky situation post the fine that you suffered, or the settlement you had on money laundering.

And the second question really, Stuart, is you've been very, very clear on what you want to do with excess capital. I think there's no doubt about that. However, you had really danced around the philosophical question of when we get two or three years down the line and your strategy, which has made pretty impressive progress in two years, whether you are completely opposed to buybacks. Because obviously, you already have a fairly high payout ratio, and I guess what investors are asking me is: is this a philosophical issue, or is it something you will consider

hopefully two years down the line when there's some more certainly and perhaps you haven't got all the reinvestment opportunities you'd like.

Stuart Gulliver: Okay. Can I take the second one first and then Iain can take the other one? So there's no philosophical issue, and you may have noticed that in the AGM last year, we actually put through a resolution to enable us to buy back stock, which is the first time we've had that resolution in place.

So the issue will be a combination I think of honestly two things. Is there opportunity there, will the regulator allow us to? And it strikes me that the first thing we might choose to do, and to be clear, this is probably 2015/2016, what we might choose to do is to sterilize the scrip.

I don't want to get rid of the scrip dividend programme. It's incredibly important to the Asian investor base, which is 30% of the register. And actually, it's taken up often by the institutions because there is an efficient market when the option has value. But there may be a logic eventually in at least sterilizing the scrip.

So there's no philosophical issue on this. I just think first of all we need to try and actually deploy it. Secondly, we need the regulatory environment to have settled so we know actually what the end state of capital is.

But there's absolutely no philosophical issue and, indeed, that's proven by the fact that we put it into last year's AGM and we'll renew it this year as well.

Christopher Wheeler: Okay. That's very helpful. I assume that means there may be a special dividend without scrip, maybe the other option you had rather than buyouts. You had the whole range, I guess, if that's what… (multiple speakers).

Stuart Gulliver: Yes, we have all of these things. And indeed, if we reach this point, we'd need to go and talk to the major shareholders to see, frankly, which they'd favor. And, yes, we have all of those, but don't assume this is a '13 or '14 type of issue, as it were, but there is no philosophical problem with that concept of buying back.

Christopher Wheeler: No, I don't think the timing's an issue, I just think it's an important message. So thank you very much. That was very helpful. And perhaps Iain would give me his comments on the US.

Iain Mackay: We clearly need to meet more frequently, Chris, because I don't think I've said next year for a couple years on the capital in the US.

Certainly, throughout 2012, for fairly obvious reasons, I think the US Bank is well capitalized; there is substantial amounts of surplus capital sitting there. The issue is really little to do with running the business but a great deal to do with progress that we need to demonstrate to the US regulator on a number of fronts.

One is the continued successful rundown of the CML portfolio. And I think frankly, the stabilization that we seem to be seeing in the US housing market will be helpful, though I suspect sequestration probably isn't terribly helpful in that regard.

I think the other aspect is that we clearly have to make progress in terms of resolving the cease and desist consent decrees currently in place in the US bank. I think until we've made progress in that regard, it's improbable that the OCC or the Fed would be inclined to see significant amounts of capital flow out of the US in the form of dividends back to the parent.

And the last but by no means least, I think the DPA is just one other aspect of regulatory control, notwithstanding the fact that it's not specifically focused on the Fed or the OCC, that I think the US authorities will expect us to see make significant progress again.

So we've got quite a few things that we are making real progress on. Irene and the team in the US have been hammering away at the cease and desist as well as the overall profitability of the business for a couple of years now, and there's progress been made there. But I do think that there's a couple of headwinds which will make it difficult for us to dividend out surplus capital in the US for certainly a couple of years to come.

Michael Helsby, Merrill Lynch.

Michael Helsby: I've just got two questions on bad debts and then just a final one on ROE, if that's okay.

Firstly, clearly, bad debts are very low in Hong Kong, Asia, Middle East and Europe. I think it's about 33 bps for the year. We talked about this before, but are you happy with 33 basis points as a sustainable level? I was wondering if you could give us an update of what you're seeing on the ground at the moment in terms of forward-looking credit metrics.

The second question on bad debt is you've just been talking about the portfolios you're intending to sell in the US. I'm just mindful that you booked a USD1.7 billion give or take loss in the US GAAP accounts. Is it still reasonable that we should expect that to come through in the IFRS numbers when these portfolios finally drop off?

Iain Mackay: Yes. So on the loan impairment charges, Michael, I think in this interest rate environment, the portfolio has continued to hold up. We've seen improvement in the UK Retail Banking and Wealth Management. The stress to the extent we've seen it in Commercial Banking has been I think well managed by the business, but we have seen a couple of individual accounts come through.

When you look at the Rest of Asia Pacific, the collective impairment charges remain very, very stable. I think improvement within the Chinese economy coming through, which we seemed to see bottoming out in the latter part of last year, is almost certainly helpful. And again, to the extent that we saw any uptick in those markets, it was individually assessed, specific corporate names that we'd had under fairly close scrutiny for a little bit of time anyway.

The increase that we did see was obviously in Latin America, and specifically in Brazil as we saw that economy slowdown in the latter part of 2011. But actions we've taken actually are flattening out the delinquency rates in that portfolio.

So I think while the interest rates that we see prevail to a significant degree, particularly within the developing market, the portfolio seems to be in pretty good shape.

Michael Helsby: Okay, thank you.

Iain Mackay: On the US, again, I think as, Stuart mentioned earlier, we're likely to have the non-real estate personal lending portfolio deal completed within the next few weeks and we'll have the first tranche on the defaulted real estate loans going into the market for pricing in the next couple of weeks also.

I think it's probably -- until we get a reaction back on pricing in the defaulted loans portfolios, it's probably difficult to say. But I think the accounting, obviously from an US GAAP perspective to IFRS, is slightly different, particularly in the application of it with respect to timing of recognition of losses. But I think there's certainly nothing that I would advise you of that is particularly different.

Michael Helsby: Okay, thanks. That's clear. And just finally to wrap up on ROE, clearly, you've done an amazing job boosting the capital, and there's been a lot of questions on this call about what next. The flipside to that is that, clearly, it dilutes your ROE a bit quicker. And I think you've got on your slide 15, you've got your go at what you think could be underlying ROE is at 8.4 per cent.

I did it a slightly different way in that I took your going profits and then I normalized for your USD2.5 billion of balance sheet management revenue and the dilution from industrial bank. And actually, it gets you to about the same number, about 8.5 per cent.

You give us quite a good steer on cost inflation in absolute terms. So I was wondering, if your 12 per cent ROE target increasingly looks certainly out of reach for 2013, I was wondering if you could comment on that and whether you still think it is a valid target for 2014.

Stuart Gulliver: I still think it's a valid target. I think the ROE at 12 per cent to 15 per cent has to remain a valid target. If you look on slide 15 at the geographic region, return on risk weighted assets, and the global business return risk weighted assets, you can see we have a problem in the UK and a problem in the USA, and basically, both of those manifest themselves as problems in Retail Banking and Wealth Management.

The rest of the firm generates an ROE, even with the Tier 1 capital ratio that we're talking about, substantially in excess of that 12 per cent to 15 per cent. And therefore, as we run down - actually. to be fair, there's also a legacy book sitting in Europe in global banking markets of SIVs and conduits. As we run those down, we will liberate that return.

Now the target ranges for 2013 abate, because we set three years' worth of targets, so the 12 per cent to 15 per cent and the 48 per cent to 52 per cent is (inaudible), and you're probably correct that the 12 per cent to 15 per cent will prove very hard to get to in 2013. But we're not going to remove it.

What I don't want to be, to be honest, Michael, is to find that we actually exceed it in a couple of years' time and then we've removed it, as it were, because you can see where the problem is and you can see a whole bunch of things that are absolutely in this range.

So the fact of the matter is that things that we couldn't foresee quite as easily in 2011 have come to detract from this ROE, but that target will have to remain in place. This firm increasingly as well as we shift the business mix towards the emerging markets, as we continue to invest in CMB and Global Banking Markets, and as the legacy books run down, we'll actually hit that ROE number on a great -- on the 10.3 per cent fully-loaded Basel III basis. But, yes, it's going to take a bit longer than we'd hoped.

But the direction of travel is clearly there, and I think from many of the investor conversations that I have and Iain have, the large institutional investors are clearly very focused on that direction of travel and the trend, and seem to remain very supportive of the fact that clearly we are trending towards this.

Michael Helsby: Okay, that's clear. Thank you.

Stuart Gulliver, Group Chief Executive - Conclusion

Okay, that's all the time we have, so if I can just recap. So we grew the business; we increased revenues in the three main businesses. Really importantly, we've reestablished our position as one of the best capitalized banks in the world, providing a solid platform for organic growth. This has allowed us to increase the dividend to USD8.3 billion, and to plan an increase in interim dividends of 11% for the first three quarters of 2013 at USD0.10 a quarter.

We have surpassed the cumulative savings target that we set for ourselves in May 2011, and we continue to maintain a sharp focus on implementing our strategy and, therefore, making the Group easier to manage and control.

Thank you very much for your time and for your interest in HSBC.

Forward-looking statements

This conference call 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 the HSBC Holdings plc Annual Report and Accounts 2012. Past performance cannot be relied on as a guide to future performance.