

FINAL TRANSCRIPT

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HBC - HSBC Holdings plc Q1 2010 Interim Management Statement Conference Call

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PRESENTATION

Operator

Welcome to the HSBC Holdings plc Interim Management Statement and HSBC Finance Corporation and HSBC USA Inc. first-quarter 2010 results. Today's call is being chaired by Michael Geoghegan, Group Chief Executive, HSBC Holdings plc; Douglas Flint, Chief Financial Officer, Executive Director, Risk and Regulation HSBC Holdings plc; and Brendan McDonagh, Chief Executive Officer, HSBC North America[n] Holdings Inc. I would now like to hand over to Mr. Geoghegan. Please go ahead, sir.

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

Thank you. We're crossing all the time zones today. I am in the States for our call, so good morning and welcome from New York. Douglas is joining us from London, where it just reached 1 PM and a very good evening to all of you in Hong Kong.

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I hope you've had a chance to look at the statement we issued earlier. We've tried to keep it short and simple. We will see if we've succeeded when we come to your questions.

We want to allow plenty of time for those, so I'll be brief. My comments are given on an underlying basis, and profits are before tax.

HSBC's first-quarter financial performance was very good. Profits were comfortably ahead of both first quarter 2009 and the trailing quarter. Much of this improvement was in Personal Financial Services and Commercial Banking. Global Banking and Markets was also ahead. In North America, we delivered profits for the first time since the crisis began. In fact, we were profitable in every customer group and in every region.

The stronger performance was thanks to a number of factors. First, credit quality improved strongly across the group. Overall, loan impairment charges were at their lowest level for over two years. Credit trends in the US were particularly encouraging. Lower impairment charges in US Personal Financial Services fell by 30% or \$1 billion compared with the previous quarter. I certainly wouldn't try and multiply that by four to get a picture for the full year, but clearly, things have improved here in the United States.

Secondly, we took the right opportunities to grow the business. We continued to manage down loan balances in our US Consumer Finance runoff portfolio, but we grew lending elsewhere and mainly in emerging markets, where we saw demand for credit pick up.

Our total lending balances were up on year end. We also saw revenue growth in Wealth Management and Insurance, in both Asia and Europe. And we further grew our premier customer base to 3.6 million worldwide.

Third, we managed our costs tightly. Costs were broadly in line with both first quarter 2009 and the trailing quarter. As a result of all of this, we continue to build on our distinctive financial strength. Once again, we generated capital in the quarter. Our Tier 1 ratio strengthened to 11.1%, and we maintained a conservative A/D ratio of under 80%.

Now finally, a few words on the outlook. The shift from West to East is clearer than ever, not just from my new base in Hong Kong, but as I travel across all our main markets. In the West, the risk of a double dip hasn't gone away and revenue growth will remain highly challenging. But in emerging markets, recovery looks secure. It will take time for this to translate into revenues, but it will, and we are excited about the future there. Because while others are trying to build scale in emerging markets or at least talking about it, we already have it. And we have the footprint to connect customers in the developed markets with these regions too, as growth shifts East and South. In short, I believe there is no bank better placed for the changing economy.

Now, Douglas and Brendan and I would like to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Sunil Garg, JPMorgan.

Sunil Garg - *JPMorgan Securities, Ltd. - Analyst*

Mike, good morning; good afternoon. A couple of questions. Number one is, there's a very brief reference to the impact of the European exposures I guess over the last couple of weeks, so if you could add some color, perhaps with some numbers.

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And the second question is more a reconciliation question. You talk about making a profit in the US since 2007. I can't seem to get there with HSBC and H-plus results, so if you could shed some light on that. Thank you.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

I'll take the first question and I'll ask Brendan to take the second one. The impacts on Europe -- well clearly our main business is in the UK and it's obviously denominated in sterling. And, sterling and the UK have a good outlook, bearing in mind tax collection is pretty straightforward in the UK and possibly less so in Europe and certainly emerging Europe.

Our business in that region is relatively small and I think we gave some numbers, and I'll let Douglas add to that in a second if he so wishes. But, the reality is we are driving our business into the emerging markets, so we're not really impacted on Europe. Clearly from a currency perspective, all of us are impacted. But we managed that through mark-to-market of our positions and we're comfortable where we are in that regard. Douglas, would you like to add anything on that first part?

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes. I mean I think the other thing we've said is that in relation to our Greek exposure, to sovereign bond exposure, which was really an element of what the comment and the trading update was talking about in relation to April performance where it was dented, we said moderately impacted. We've disclosed on earlier calls that the sovereign bond exposure is around EUR1.5 billion. And that's obviously a mark-to-market exposure, and that dented, but did no more than dent our trailing performance subsequent to the end of the quarter. So it had an impact, but not a very -- I think we described it as a moderate impact. And, it's a situation we continue to watch.

And frankly, it's not the biggest issue in relation to areas of concern that we might have. We are a major dealer and primary dealer in Euro government bonds and it's inevitable we've got some exposure. But Greece is EUR1.5 billion. And that was taken, as we said, impacted moderately our trailing performance post the end of the quarter.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Brendan?

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

Yes, hi, good morning or good afternoon. The main difference is that we have an additional entity in the United States which is our HSBC Securities Inc., which is part of our Global Banking and Markets, which is not a reportable entity. And that was also profitable. And therefore when you add that into the figures from both the bank and the finance company there for the overall figures, it puts the United States into profits.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Okay?

Sunil Garg - JPMorgan Securities, Ltd. - Analyst

My thanks. Just really quick follow-on. I know you gave the Greek exposure. I guess the broader concern is on the entire gypsy space, any comments or disclosure around that?

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

Clearly there is a confidence factor. And I think people are certainly looking for the United States through Europe, are looking for commentary from Central Bank, the EU officials, etc. And I think the vote in Germany today is very important, and of course, it's confidence. And from our perspective just adding to what Douglas says, we've got very little on the ground exposure in Europe. We have some branches in Greece, and we have a couple in Spain, and that's about it frankly. And our business in Greece is very much the shipping industry, and that's frankly not really great risk. It's on the high seas. So for us, we're pretty calm and laid-back in regard to our pure European exposure.

But obviously the market is concerned, and I just hope as the weekend progresses, what comes by will be positive statements and positive actions that will give us all some more confidence.

Sunil Garg - *JPMorgan Securities, Ltd. - Analyst*

Thank you so much.

Operator

Jon Kirk, Redburn.

Jon Kirk - *Redburn Partners - Analyst*

A couple of questions, please. Could you talk about, just on the revenue guidance that you've given, could you split the moving parts out a little bit more for us? So particularly thinking about what the balance sheet management revenues have done overall? Also if you can give us some clues as to what sort of liability compression -- margin compression has impacted you?

And then the second thing is if you could just comment on your growth ambitions, because there are some critics out there that you are not using your strength, your balance sheet strength, to grow fast enough. Could you just comment on that, please?

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

I'll take the last point, the growth point and I'll leave Douglas to talk about revenue guidance and liability compression.

The first thing everybody's got to recognize, we are changing the shape of the balance sheet. In other words, we are taking out subprime risk and we're putting in emerging market risk. The reality is it's unlikely that we could grow our emerging markets at the same pace as we're being paid back in regard to the subprime business. And that -- I think it's good that we are being paid back, obviously, but what it takes away is revenue. I can't do anything about that. People pay you back, you don't get any revenue.

But we are showing revenue growth in the markets we said we were going to grow in. Those are the emerging markets and Latin America and elsewhere. So can we do more? It's very much a position of where the underlying economies are going to be.

Here in the United States, for example, let's take a big shift of business away from our subprime non-core business into our core businesses in regard to premiere and commercial banking. I was on the West Coast this week and looking at our branch expansion there, and just seeing the number of new accounts coming in every day, as we focus our strategy on developed and developing, linking quite an inflow of mainland Chinese coming into California and growth. And that's just one example.

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I think in Latin America, you've been seeing from the results coming out of our US operations, that we are really getting it together in our Global Banking and Market space by doing Latin bond deals and transactions that got us recognized for being the debt house of Latin America as Euromoney says.

So I think there is a lot going on under the surface. But clearly the main impact on revenue is going to be what happens on liability. And I'm going to hand over to Douglas in that regard.

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

Yes, the question you ask about Global Banking and Markets and balance sheet management, as you said in the statement, we said that these positions that were put on in 2006 and '07 which were particularly advantageous ahead of the fallen rates and which particularly benefited the first quarter and indeed the first half of last year, would roll off. And you saw that in the second half.

We also said in the statement that balance sheet management actually continues to perform very strongly against long-run averages for that business, but not as well as what was an exceptional performance last year. But that was kind of offset by lower impairment provisions.

And then on the revenue side in Global Markets, Global Markets was a bit ahead of last year, and actually it was more balanced. Last year had been particularly strong in foreign exchange, volume and volatility. This year, the spread between foreign exchange, credit rates, equities and the other businesses is more balanced. And I think the shape of the business encourages us greatly that there is momentum and not a single driver of the business. So you put it all together and we were a bit ahead of last year but with lower impairments making up the [lower] balance sheet management and the Market's revenues being broadly good in more areas than they were last year.

Jon Kirk - *Redburn Partners - Analyst*

Okay, thanks. And just following up on that, at what point do you think the liability compression will be done if you like and fully in the P&L? Are we at that point now or is there more pressure to come there?

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

I sense that until rates start to move, we will see more -- we will see continued pressure. There clearly is a regulatory desire for banks that are wholesale funded to move more of their funding away from the wholesale markets to core funding markets. And that undoubtedly is going to lead to competitive pressure on deposit pricing, which will flow through to margin. And I think we can see that particularly in the UK, particularly in Europe. So the benefit being given in the regulatory regimes to non-wholesale funding is going to I think bid up for deposits. So we see continuing pressure until rates begin to move again.

Jon Kirk - *Redburn Partners - Analyst*

Okay, thank you.

Operator

Ian Smillie, RBS.

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Ian Smillie - Royal Bank of Scotland - Analyst

Thank you. Two questions, please. The first one is on revenues. To save us coming up with different conclusions on interpreting your words, could you give us some quantification of what the Q1 revenue was for the group, please?

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Second question?

Ian Smillie - Royal Bank of Scotland - Analyst

And second question is a subpart to the first one, which is, could you also give us the historic quarterly trends of that revenue number? Because comparing it with the Q1 number last year when we don't know what Q1 was last year leaves us open to some degree of subjectivity, which would be very helpful if you could quantify for us.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

I'm going to ask Douglas to answer it, but we have to be sort of clear about this. And obviously this is an update; it's not a quarterly result. So there are limited amounts of information that we can give. But within that framework, Douglas please answer.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes, we haven't given numbers, and you're asking us to give numbers, which is -- what we said is against the first quarter of last year and a big piece of it was the decline in balance sheet management revenues. Our revenues are modestly lower, and I think that means modestly lower. Not very much.

Ian Smillie - Royal Bank of Scotland - Analyst

Was the revenue last year broadly split between Q1 and Q2, Douglas?

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Again, we don't give those so I haven't -- actually I haven't got a Q1 and Q2 for last year in front of me. But no, Q1 was particularly good. Q1 was particularly good last year in Global Banking and Markets because of balance sheet management.

Ian Smillie - Royal Bank of Scotland - Analyst

Any quantification you can help us with there? You can understand our uncertainty and subjectivity here.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Not -- it's very difficult to give quantification without giving you numbers, and we haven't got numbers, so apologies, no.

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Ian Smillie - Royal Bank of Scotland - Analyst

Okay. And on the card revenue guidance of having somewhere between \$200 million to \$300 million impact to come this year from the change in legislation, is that all still to come? Or is some of that in Q1 already reflected?

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

I'll let Brendan answer that question. Brendan?

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

Yes, I would say the majority of it is still to come. It's more of a -- the full-year impact of it is largely going to be in the latter part of the year.

Ian Smillie - Royal Bank of Scotland - Analyst

Okay, thank you.

Operator

Steven Hayne, Morgan Stanley.

Steven Hayne - Morgan Stanley - Analyst

Good morning and afternoon. I just had a question in terms of the impairment that appears to be coming through at a better rate than what you previously thought. And I'm just wondering whether that causes you to stop and think at all with regard to the US rundown strategy; whether any of that may change on the back of the renewed outlook from the US?

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Steven, that's a great question. I mean clearly, we're watching it as well. What I do see from our competitors, they're going to be struggling to grow assets. And as such, we have a block of assets that are maturing now and have an increasing value. And I don't see us changing our strategy of staying as a more linked joined up company and these assets -- and certainly the mortgage focus is not core assets to us.

So [to] the card business, and we'll continue to manage those, the card business, to grow it. And we will see the value on the mortgage book depending on how the impairments work through. Clearly, what comes through in the first quarter is higher tax rebates, modestly better house prices in places like California, and even real estate beginning to pick up in places like Florida. So all in all, we are beginning to see that improvement come through. But it's not a core business for us. It wouldn't be right for us to go forward and open that up.

Steven Hayne - Morgan Stanley - Analyst

Thank you. Could I have a brief second question, which was just in relation to GBM, again, just to pick up on the comment to say that you said that after, post the first quarter, the trends have stepped down slightly, slightly lower trading activity you are referring to. Is there anything in particular you'd like to highlight? Is it just FX or any particular area? Or it's pretty much just across the board, that April perhaps was a little weaker?



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Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Douglas, do you want to take that one?

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes. I think the big impact was Greece. Apart from that, modestly less volume in the run rate, but the big delta was Greece.

Steven Hayne - Morgan Stanley - Analyst

Right. So underlying, it's not really a signal of that underlying revenue; it's more a matter of just what's going on sovereign wise. Okay, thank you.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes, and revenues, that's right. And I've just dug out, to try and be more helpful on the revenue side -- the first quarter was a bit ahead of the second quarter, but not hugely so. It was the strongest quarter in the first half last year, but if you're trying to run your numbers, it was not that significantly different. So I think that might be more helpful than I have been before.

Steven Hayne - Morgan Stanley - Analyst

Thank you.

Operator

Simon Maughan, MF Global.

Simon Maughan - MF Global Securities Limited - Analyst

A couple of questions if I may. The first just relates back to a comment made at one of the London get-togethers I think at the back end of last year, when we were told that the bank was staying very liquid in its treasury assets, although it wasn't expecting major policy rates to move until the back end of this year. I just wondered if there had been any shift in your view on the likely timing of interest-rate moves and any change in the duration of treasury assets?

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Can I get follow-on questions?

Simon Maughan - MF Global Securities Limited - Analyst

The second question, completely separate issue, we've seen a range of compensation ratios at investment banks across Europe I think from a high of close to 50% at UBS, Royal Bank down at nearly 30%. Where would you sit in that range in your investment banking business compensation ratio?



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Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Right. Well let me take the liquidity and the interest rates, and I will let Douglas come on top of that. And then I will come back on the compensation. I mean clearly, we probably were projecting interest rates to rise earlier than they have, but I'm still pretty comfortable they will start rising in the second half, particularly if the US continues to show the strength that it has been showing.

And clearly, the business is managed on a day-to-day basis, and we move our risk position and our interest-rate outlook on a constant basis. But Douglas, do you want to add on that?

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes, I mean I think we probably sense now that the rate rises are being pushed a little bit and subject to anything that might be a consequence of the turbulence that we are seeing at the moment.

On the flip side of that, there have been opportunities for our balance sheet management, the positions that we have put on ahead of the rate reductions give us an exceptional P&L. As those positions have matured and we haven't gone very long, we have been able to capture perhaps more than we had anticipated in terms of opportunity as we roll forward. So that there's a bit of recovery there, but not as strong as it was in the first half of last year and the second half of 2008.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Okay, on the compensation, the 50% to 30%, frankly, we're just below that. But having said that, I want to be clear. We have to pay market for our executives in Global Banking and Markets and that's what we're going to do. But it's a competitive business and clearly we are one of the winners in this and Euromoney Bank of the Year, but we're actually below 30%.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

I think you've got to be a little bit careful in trying to compare us to, in a sense, within our Global Banking and Markets business, we have a very large balance sheet management in our treasury, which doesn't always -- in fact in many of our competitive banks you might compare us with, doesn't necessarily get allocated there. And that is a high revenue business, but it accrues a relatively smaller incentive compensation element because of the balance sheet nature of the positioning. So there's a mix effect that we have in all of our competitors.

Simon Maughan - MF Global Securities Limited - Analyst

Thank you.

Operator

John Waddle, Mirae Securities.

John Waddle - Mirae Asset Securities - Analyst

Two questions. One, you had mentioned earlier that the US business is showing a \$1 billion run rate lower provision, down 30%. What do you attribute that to? And is that sustainable in any way that in terms of what you are actually doing to affect that number?

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And the second question is, in emerging markets, can you give us a sense of your revenue growth? I think in my numbers, you were down 8% to 10% revenues in emerging markets last year. And the tone is that the revenues in emerging markets are starting to grow again. Can you give us a sense of the underlying revenue growth in emerging markets?

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

I'm going to ask Brendan to take the first question. I'll touch on the second one, but Douglas might want to add. So Brendan, firstly, the \$1 billion.

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

Yes, there's three drivers in a sense. First of all, obviously, we've got a lower book. So even if the loan impairment ratio was the same against an actual lower book of receivables, the actual amount would have dropped. And our -- in the finance company the actual customer loans has dropped by about 20% year on year. So that's the first reason.

The second reason which has been discussed is we've obviously we've obviously got an improving economic situation in the United States of America, which has meant that we've been in a better position to release reserves or to use a greater portion of reserves to fund the charge-offs.

And then in the first quarter, which would be the third reason, there's a number of seasonalities. We've seen the first quarter in the United States of America is the, particularly in the months of February and March, is when the nation gets their tax refunds. And I think this year we've seen either a combination of higher tax refunds and also the consumer using a greater percentage of those tax refunds to pay down debt and to perform better in that area.

And also to a certain extent, you've also had the tax credits on house purchases, whether you're a first-time buyer or a second-time buyer. So they have expired now in the month of August, so there's been a very strong seasonality impact in the first quarter.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Turning now to emerging markets revenue, what we've seen in the first quarter is in Hong Kong in particular, but also Asia in total, is that people have come off -- because of the confidence in the stock market, certainly until the last week or so, they have been moving into more wealth management products and insurance products. So we've been doing better in that this quarter than we did last in that. And that clearly is seeing the revenue trends increase, which I think is in line with our strategy.

We're also lending more into the region. I wouldn't say that's really come through yet into the revenue line, but it should do as we move forward. Douglas, do you want to add to that?

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes, the strong growth in Asia, as Mike talked about, is in the fee line, where unit trust funds products, retail brokers have been very strong, strong double digits. And we saw some headwind from margin on deposits, but we've grown the deposit book. And looking at it in aggregate across Asia and the retail businesses, PFS and CMB, you've got good middle single-digit growth in revenues.

John Waddle - Mirae Asset Securities - Analyst

A small follow-up. How are the margins doing on the US book?



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Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

What? On the --

John Waddle - Mirae Asset Securities - Analyst

The loan book, the loan book.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

On the new business or the (multiple speakers)?

John Waddle - Mirae Asset Securities - Analyst

The back book, the back book, yes.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Brendan?

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

Sorry, in the runoff book?

John Waddle - Mirae Asset Securities - Analyst

Yes. What I'm really getting at is, you've got a very cheap funding cost, so your ability to effectuate sort of positive carry is good. And, there's no pressure to do that if you sort of act aggressively. So what I'm basically saying is are you starting to see some benefits on the margin at all compared to the fourth quarter?

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

I mean we have seen some improvement in margins in the runoff book. But part of that is due to our funding mix, but then, there's a flip side to that.

We've also now got up to something like 52% of our book is being modified. And most of those modifications have involved adjusting the interest rate. So there's a flip side to that as well. And so there's quite an impact on that, which tends to distort what you would consider normal margins and funding practices.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

John, to add to that, I think when you look at that book and at its maturity, and you look at the industry itself and its shortage of assets, that's why I believe sometime down the line there is going to be quite a valuable trade to be done to unload some of this into the market. Because people will be looking for margin. And I think it will be a book that will be mature and of interest to certain people.

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Brendan McDonagh - *HSBC North America Holdings Inc. - CEO*

I mean you also have a change in the receivable mix because the rate at which the credit card book has dropped compared to the mortgage book. In fact, the overall margin quarter on quarter, net interest margin, has dropped from 5.8% to 5.4%.

John Waddle - *Mirae Asset Securities - Analyst*

Okay, thank you very much.

Operator

Manus Costello, Autonomous.

Manus Costello - *Autonomous Research LLP - Analyst*

I have a couple of questions please. Firstly, I wanted just to follow up on this point about the seasonality. Brendan, I think you mentioned the seasonality in the provisioning performance in the first quarter. I wondered if you could try and quantify that for us. And then, Mike, you also were talking about not times-ing the US performance by 4 to get the annualized run rate. Was that because of the seasonality and provisions, or were you talking about the GBM performance as well?

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

I was talking purely on the runoff books in HSBC finance.

Manus Costello - *Autonomous Research LLP - Analyst*

Okay.

Brendan McDonagh - *HSBC North America Holdings Inc. - CEO*

We've always found in Consumer Finance that the sort of the later quarters are usually you might say more worse than the earlier quarters. And if you remember, when a lot of us spoke at the time of the end-year results, where we took additional provisioning, and it was a little bit of a surprise where in fact, our loan impairment charges went up in the fourth quarter and you expect them to keep going down and we explained that.

Equally in the first quarter, as I said, very strong on the tax refunds, which I think traditionally some, if you go back over the last couple of years, a certain amount of tax refunds the consumer would use to pay down debt, but a lot of it was used to go off and be spent or whatever. What we're seeing now in the marketplace and most of the financial institutions are experiencing this, that the American consumer is deleveraging, and they are using that to pay down debt.

And if you look at the fact that our runoff portfolio dropped 22% year-on-year, but it actually dropped 7% in the last quarter. And our credit card portfolio dropped \$8 billion in 12 months, but it actually dropped \$4 billion in three months. So there's a definite increase to some extent around the fact that I think a higher portion of the tax refunds were used to pay down debt, and the tax refunds themselves were higher.

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We also saw, as I said, there was the expiry of the \$8000 first-time buyer tax credit, and I think it was \$6,000, \$6,500 for a second-time buyer, which expired in April, so there's a great rush in the first quarter to close a lot of transactions in the housing market.

So a number of factors like that, it's very hard to put an actual dollar amount of how they impacted particular portfolios. But there's no doubt that that had an impact in our ability to experience a lower impairment charge year on year.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

I think the other thing to add to that, on the other side, on the banking side, is that it was our core business in regard to Personal Financial Services, that's growing and we see that investment that we've made is going to pay off quite handsomely over time. And I think that is what we do, removing risk.

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

I should also add we saw the same impact on our prime first mortgages, and second loan -- home equity loan book in the mortgage corporation in HSBC Bank USA in their results, which also was one of the reasons where you had a positive swing for the first-quarter results in '09 to the first-quarter results in 2010 in the Personal Financial Services line, which is another seasonality impact; which also backs up Mike's comment about not taking one quarter and multiplying it by 4.

Manus Costello - Autonomous Research LLP - Analyst

okay, thank you. And just secondly is a very quick question for Douglas. All of your comments about revenue growth I believe are on a constant currency basis. I wonder if you could just give us some indication on a headline basis how much currency moves would have impacted the revenue line?

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

The only number I gave was around Asia where there's virtually no currency impact at all. The impact of currency in the quarter is not particularly significant; not particularly significant in the quarter.

Manus Costello - Autonomous Research LLP - Analyst

Okay, thank you.

Operator

Leigh Goodwin, Citi.

Leigh Goodwin - Citigroup - Analyst

Thank you very much. Actually I just want to circle back on two or three questions that have already been asked, if I may. Just firstly, just on the balance sheet management, we're already through the second half of last year at roughly \$1 billion I think per quarter. I wonder if you could tell us if there's any flaw to that. It's maybe another way of saying how far could this fall? Could it go negative or is it just likely to fall to 500 million or any sort of quantification would obviously be helpful.

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Secondly, just on the point about the cards book. It is coming down quite a lot. I wonder at what point we can expect it to start rising again. Or is this a question of running off the near prime element of the book, and maybe building up the more prime part of the book that is going on.

And thirdly, just on the gain on the household business, the old household business, sorry. I know you said costs came down again in the first quarter, back to the levels of the second and third quarter, so costs are now falling more than revenues, which is sort of a welcome development. I wonder if you could give us some sort of insight as to what's going on there and what we might expect happens in terms of revenue and cost within that business as it runs off, please?

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

All right, well, I will answer with regard to the cost book, I'll ask Douglas to talk about balance sheet management and then I will ask Brendan to speak on costs.

On the card, firstly, it is a strategic business for us. We do invest in it. We're looking at portfolios possibly to purchase, etc. But the reality is, the whole industry saw a reduction in cards receivables. Whether that turns around and is -- I think it's more a reflection of where the US consumer sees itself. There's one view out there that they have turned their approach to debt, and they won't be changing that again for another decade. I'm not holding that view. I think they will increase their desire to spend and then take on credit at some stage in the future. So we're building that or protecting that business and building that business. And we're making synergies out of that business frankly across the globe.

So you'll see and I was in the card center there on Monday. We're seeing a significant amount of our executives now working on TARP initiatives for the rest of the group, and that will continue.

And then the systems wise -- we are getting all the systems worldwide onto a common approach and that will give us a unit cost benefit. We have 100 million cards basically worldwide, and we've got 13 million or 30 million worth of receivables here in the US, and about the same number of cardholders. So there's lots to play for in that space and that's one we will grow as we go forward.

Douglas, you take the balance sheet management.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes, if you look at last year, we did \$3.3 billion in the first half and \$2 billion as you said in the second half. I think we guided last year that the low point was 2008. We didn't think we were going to go back to that. We also said that the attrition would be steady rather than dramatic, subject to opportunities to put on positions during 2010 to refresh the margin.

And I think I indicated in an earlier question, we had found some opportunities to replace some of the margin that's rolling off. So I would extrapolate from the second half of last year and reflect on the comments that it's a steady progression rather than a dramatic decline, offset by some opportunity to replenish.

Now, clearly, the yield curve changing can make things very difficult and theoretically, you could go to negative, but that's certainly not what we are guiding because we've said that the first quarter it was less than last year, but still strong against the lower on average for balance sheet management.

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Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

I think to add to that, I wouldn't get too carried away with looking at the balance sheet management makeup, because in a broad-based business and where I think we said earlier on that it was as a result overall from Global Banking and Markets, we're also ahead on the trailing quarter. So I think you've got to look at it in the wide range. And balance sheet management is a percentage, but not a major percentage of our business in Global Banking and Markets. Brendan, do you want to take the cost and Household?

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

In last year's sort of first-quarter figures, we still would've had the consumer lending network open; if you remember, it was actually in April of 2009 that the branch network of HFC in Memphis was closed. So you can start to see now the benefit start -- the full-year benefit in that line flow through the numbers.

We've obviously got an ongoing strategy that as the book shrinks, we're taking out the cost wherever possible. Since the first quarter of last year, a number of operation centers have been closed and consolidated. Those announcements have been made. As I said, some of the centers are closed. We've also announced quite recently a number of other centers that will close in 2010. We also announced the closure of our defined benefit pension plan. And actually there was an IFRS accounting benefit that was taken in the first quarter, so that impacted the figures. You will find that in the 10-Qs.

We've also got -- also as a result as I said of the falling book, you've got less people servicing it, so we forecasted out continuing reductions in headcount.

Mike was also mentioning, there, cards and systems. Going forward, later this year, our cards business will convert onto the Group's One HSBC card system. Our Canadian bank converted just last month onto the OneHSBC banking system. The American bank will convert this summer onto the same system, which means we will have the North American banks on the one platform. So there's quite a lot of work actually making sure that we tailor the size of our infrastructure to match the shrinking balance sheet as we de-risk the United States.

Leigh Goodwin - Citigroup - Analyst

Maybe if I can just sort of follow up on that, Brendan, are we saying then that costs should come down from here to a similar trajectory to revenues? Would that be a reasonable conclusion?

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

Well, costs in the Finance Company, for example, year on year came down 28%, and revenues came down 20%. It's very hard to say what that the ratio will be because there's different things that play on the revenue line as you know, depending how much more modifications we do, what happens to funding rates and things like that. And we could have an opportunity -- situation where we off load in a particular portfolio or whatever.

We sold \$1 billion of our auto loans as you know at the same time as we, for example, were able to sell our auto platform, which meant that we could get rid of the actual infrastructure, which was a couple of buildings and the systems that went with it.

So, all I can say is that we have a very, very rigorous program in making sure the costs come down as the revenues come down. And I think the figures that you see both this year and the last couple of years, we've been reasonably successful in doing that.

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Leigh Goodwin - Citigroup - Analyst

Okay, thank you.

Operator

Tom Rayner, Barclays Capital.

Tom Rayner - Barclays Capital - Analyst

Relative to expectations, it seems the only thing in the first quarter that was really different was the improvement or the speed of the improvement in credit quality in the US. But the tone of the overall statement seems to be more positive such as the increasing confidence of a pickup in credit demand leading through to revenues, for example. And I was wondering if there's anything else over the course of the first quarter that's changed, whether it's discussions maybe with regulators possibly, the board has become more convinced that you can exploit the situation to win market share.

I just wonder if there is anything else that's happened apart from US credit quality which maybe explains the more positive tone? I know that you haven't felt or sort of obliged to make any comments about full-year consensus and whether there's any -- anything in that.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Thanks for the questions. Firstly, the loan impairments were spectacularly down in the United States. But they were down across the group in virtually every market with the exception I think of the Middle East.

I think what's probably happened, and it's classic HSBC, is we're inclined to take provisioning up a bit faster than the rest of the industry. And as such, we're probably benefiting from that now. But, overall, we've seen improvements in virtually all markets. And to be candid, we are accelerating our push through in Asia. We are certainly seeing an increase in business there.

It may not yet have come to the bottom line, but the type of business we're doing is the type of business you would expect us to do. So we are keeping on in that area. And obviously China stays robust in its growth. It might be something that will be a little bit less than it was, but it's going to still do well this year. And as such, we should benefit from that in the region.

And I think you shouldn't underestimate what we've been doing for some amount of time now, and that's getting our developed and our developing markets much more joined up. And no more so than our Global Banking and Markets business in the USA, which has gone away from being domestic USA and being more in regard to Latin America, etc.

I think the regulatory landscape is going to be a difficult one to discuss. First you start by looking at our capital ratio; our Tier 1 capital ratio is over our range at 11%. But the fact is, frankly, none of us know where the regulatory environment will settle. Clearly there are things going on here in the US; Basel III has got some ideas.

I think what's very important and certainly as a company, we have been promoting this view that we must have consistency across the world. And I think you are going to see Asia very demonstratively say that they're not going to join up to things that are going to dent their economy because frankly, they haven't done anything to deserve that. So I think there's a lot going on.

Clearly, we will have to watch where that settles, but I think HSBC is in a very strong position; one, from a capital perspective; and two, I think from a liquidity perspective. Because as Douglas said to an earlier question, there's going to be a chase for deposits and be you a wholesale industry operator or a retailer, you're going to have to have an A.D. ratio over many banks which will have to come in a lot from what it is today.

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And I suspect also those who have been using central banks to fund themselves or discount asset classes, are going to have some problems, particularly in Europe. So I think there is going to be a tightening on liquidity and that will be to the benefit of HSBC. And I think there will be a bigger capital requirement against different risks and different portfolios. So in all those places, we are clearly comfortably positioned. If that doesn't come, and we have spare capital, obviously, we will put it to our best use, but within the strategy that we've got.

Tom Rayner - Barclays Capital - Analyst

Thank you very much.

Operator

Michael Helsby, Bank of America.

Michael Helsby - BofA Merrill Lynch - Analyst

Thank you. I've just got a couple of questions. Firstly, on the US bad debt, I think if my numbers are right, you've had about a \$1.1 billion reserve release in the first quarter, which is consistent with a lot of the other big banks in the US. So -- and clearly delinquencies are down across the board. So in two parts really, I hear what you're saying on seasonality; I think you've been consistent with that over a number of years in the first quarter. Should we expect delinquencies to step back up in the second quarter? Or should we see now, along with the improvements in the economy, a steady decline in delinquencies? So that's part one.

And part two, given the reserve release was very significant, I was wondering if you could tell me whether the models, given how you calculate your provisioning, whether they have caught up with the improvement in the delinquency ratio? Also in terms of what your expectations are now for unemployment and whether that's all fully reflected in your bad debt reserve? I've got a second question on costs.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

And what's the second question?

Michael Helsby - BofA Merrill Lynch - Analyst

It's just -- I think that your statement refers to costs being broadly in line with the first quarter and the fourth quarter, but, when I look at the numbers, costs were about \$1 billion higher in the second half of the year versus the first half. So it's just of -- clearly there was quite a few things moving on in the individual quarter. So which half should we be looking at to try and square up your message on cost?

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

You're taking costs at the group level, correct?

Michael Helsby - BofA Merrill Lynch - Analyst

Yes, exactly.

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Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Right. Well I'm going to ask Brendan to take the question on the future quarters in regard to delinquency, and I'm going to ask Douglas to take the cost question.

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

We have -- when we look at sort of the delinquencies, the reserving impairment charges, you put it all into just one bucket if you wish, as to how we view how everything is performing. We really have to split it between the cards business and the mortgage business. Because obviously one is an active business; we're still originating in cards and marketing and so on. And then remember also that cards is effectively two-thirds prime, one-third subprime.

And then we have our mortgage runoff business, there is also the unsecured book that you know, about \$10 billion, which is all subprime.

When you look at the loan impairment charges and the difference between year on year, which was about \$1.6 billion, so our total loan impairment charges in the first quarter '09 was \$3.9 billion compared to \$2.3 billion. Actually of the \$1.6 billion, \$1 billion of the improvement was in the card portfolio. And only \$600 million was in the mortgage portfolio. And when you look at the relative sizes as well where the mortgage portfolio was \$60 billion and the card portfolio was \$35 billion, there's also quite -- in relative terms, it's a significant improvement in cards vis-a-vis the mortgage book. So, we really have to then drive down to the different customer segments as a result of that and what is impacting those drivers.

So, therefore, we are naturally very cautious, particularly around the mortgage book that we wouldn't sort of say just because loan impairment charges are up by \$1 billion or \$1.6 billion either quarter to quarter or year on year, that we at would see the same thing happening in the next quarter and the quarter after.

The housing market is still relatively very fragile in the United States. There's no doubt that in some of the core markets, there is definitely stabilization if you want to measure it by Case-Shiller or Indices or whatever. There are some improvements we're seeing in California. But, there's no doubt, for example, that has been helped by the federal stimulus packages, and they've expired now. And so we have to see in the second and third quarters, in the absence of the tax credits, what will happen to the various increases in house sales in America, whether they will maintain the momentum or stop. Therefore, we're not in a position to sort of be overly confident to say that that sort of improvement will continue.

Equally in the credit card side of things, we mentioned again about the seasonality; very large impact we believe from tax refunds and other parts of the fiscal stimulus which the US government is putting in place. The sort of money that's starting to creep into the economy in various sectors. There's no doubt that unemployment has helped. I mean, a year ago everybody thought unemployment today would be at least a full 1% higher than what it is.

But it's also -- unemployment hasn't really shifted. It hasn't moved lower in the last couple of months. Some improvement has been caused by the hiring for the U.S. Census. And we're going to see if there is further improvement in the unemployment rate, it's because the expected maybe extra 100,000 to 200,000 people are going to be hired to complete the U.S. Census. So again, we have to be very cautious around the unemployment numbers.

We're not seeing significant permanent hiring in the US economy. So when you add that all altogether, it's seasonality; yes, it's more positive, but we don't wish to extrapolate that forward.

When you talk about the levels of reserves, how far we have come down, equally, the regulatory environment of the United States -- regulators have their own views on what should be the level of reserves, the amount of coverage you should have. We



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do stress tests. We want to make sure that if some of the forecasts turn out to be less favorable, we do not want to be suddenly starting to have to build up reserves again.

So I think overall, we take, as you would expect for HSBC, a more conservative view. And as I said, we would not wish to sort of say that the first quarter can be extrapolated.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Thanks, Brendan. Douglas, costs.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

Yes, the comparisons we're making are on a constant currency basis and they're flat to the two quarters. There was some reduction in the fourth quarter last year against the third quarter as we adjusted incentive pay and as we reflected the proportion of it that was going to be paid in stock and that's spread rather than charged in the year. So there was some impact between the third and fourth quarter, but the comparison we're making is like for like constant currency. And basically the three quarters are around the same.

Michael Helsby - BofA Merrill Lynch - Analyst

Okay. Can I just, sorry, come back onto Brendan because what I'm trying -- I appreciate how you build your provision and clearly you want to be cautious, but you did release about \$1.1 billion. So I'm just trying to gauge, because I appreciate how you calculate your provision as well; you do it on a rolling basis, and clearly you are building in what your expectations of severity are in terms of where the unemployment rate is, what's happening with house prices. So what I'm just trying to get a feel for is, have you fully caught up to date with where we are today in terms of how house prices have improved? And I think, Brendan, you just said you thought 12 months ago unemployment was going to be a full percentage point higher, so is that now all reflected in your current provisioning? Or is there some more to capture?

Brendan McDonagh - HSBC North America Holdings Inc. - CEO

You've got to remember the bulk of the provisioning is driven by statistical reserving on a monthly basis, which is very much formerly driven by the amount of 2+ in your various buckets where the direct day bucket is 30 day, 60 day. So there's no judgmental part of that. And then every quarter, there is an overlay of judgmental reserving, which does take into a certain forward view of where we think unemployment will be, our house prices will be. But even that has to be very largely statistically justified. And as you appreciate, justified both to the regulators and external auditors. So I think to the extent that you are saying, obviously, you do look at the current level of unemployment and you look at the current level of house prices.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

And the other thing, Mike, was the dollars of delinquency are coming down. If you look at the coverage ratios, they're fairly stable.

Michael Helsby - BofA Merrill Lynch - Analyst

Yes, I appreciate that. I just -- what I'm trying to get a feel for is clearly I appreciate that you do it on a rolling basis and there's judgmental and it's -- but most of it is statistical. But, because you do it on a rolling basis and because things for choice have been getting better over the last few months not worse, I'm just trying to get a feel for the end of this quarter, if you were to



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mark the statistical models to market for want of a better word, would that be telling me that you need a lower allowance than what you've got in your books at the moment rather than this buildup?

Brendan McDonagh - *HSBC North America Holdings Inc. - CEO*

Well, I think a lot will depend on the performance of the buckets in April and May and how they will go.

Like I said, the American consumer is not going to get tax refunds in April and May. And we will have to see how those -- how the performance happens.

Michael Helsby - *BofA Merrill Lynch - Analyst*

Okay.

Operator

Arturo de Frias, Evolution.

Arturo de Frias - *Evolution Securities - Analyst*

Good afternoon, everybody. Two quick questions if I may. First of all, again, I'm sorry on emerging markets revenues. If you were to report all the emerging markets revenues in just one division, I wonder whether we would be seeing revenue growth in that. The reason I'm asking is because, roughly one-third of the emerging markets revenues is in Latin America and at least another third is Middle Eastern and another third is Hong Kong.

You say clearly in your statement that the Fed that is Latin America and Middle East revenues have fallen. And you also mentioned clearly that in the Hong Kong third, there's still the well-known margin pressure, etc. So clearly, Asia is going up, as we have said, driven by fees and other things.

But if we put everything in the same bag, I feel -- my gut feeling is that those emerging markets revenues are not going up right now. And I wonder whether they will be going up by year end unless interest rates will start to pick up, which obviously seems less and less likely given the macro environment. So that could be the first question. An overall view of the emerging markets revenue growth.

And the second question is, when you reported your second-half numbers in 2009, one of the slightly disappointing developments was in insurance because we saw particularly in Hong Kong and also in Europe that the insurance claims were substantially above insurance premiums. That was especially acute in Europe. Can I ask you if this is still the case or that trend has improved? Thank you very much.

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

I will take the first one on revenues and emerging markets; and Douglas, I will ask you to comment on insurance claims and premiums because I think there's some accounting issues there.

On Latin America, let's take that first. We have been improving the quality of the book in Latin America. It was -- as we do that, we will be getting out of certain elements that were at the low end of the risk perspective or profile. At the same time, interest rates are actually beginning to go up, particularly in Brazil. So I think it's too early to say that revenues in the region of Latin



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America won't grow. I think you have to watch what comes in the second half and what happens on the margin side -- on the interest liabilities side.

The Middle East clearly is a challenging area, and we are growing that and looking to take business from others because frankly we know the region better than most. But it's not a significant amount of our revenues in total. But you're right, Asia is driving the business and that's a fact and that's what we said. And that's why I moved my office to Hong Kong, is the reality is that that will be the driver of the group going forward. And we have said that we are investing and we are putting our balance sheet to play in that region. Possibly we're not putting it to play as much in Latin America as we are putting it to play in Asia.

I would also say look at Latin America purely from what's booked in the region itself. There's a lot booked now, particularly in Global Banking and Markets in our US business. So, you can't really just isolate and say let's put it all together because it actually spreads between developed and developing, where we book the revenues. Douglas, insurance.

Douglas Flint - HSBC Holdings plc - Group Financial Officer, Executive Director Risk and Regulation

This is a challenge the next time we do our numbers because - I thought we had been clear but we clearly haven't. You can't compare net insurance premiums and net insurance claims because the claims include the benefit or the burden of movements in assets held to the benefit of policyholders. And that gain or loss of movement in value, which is attributed to policyholders' funds comes out in the line insurance claims, but is accrued in the line net income arising from financial asset sales and liabilities, underinsured and investment contracts. So when the markets go up, we accrue a benefit in fair value income and we take it out in insurance claims, and it doesn't affect the net insurance premiums line.

If you take the two together, we had a good quarter in insurance, so it was a better quarter. But you simply can't compare those two lines. You also have to add in a fair value attributable to policyholders and then even above that, there's partial fees and net interest income of something that isn't held at fair value that accrues to the benefit of policyholders and is eliminated in that line called net insurance claims and movement in policyholder liabilities.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Douglas, I think it would be fair to say, as Douglas said at the beginning, we're going to, for the half results, we will give you a much clearer makeup of the insurance because it was a comment from a number of people they couldn't understand the insurance line. So we're going to make it clearer for you at the half-year.

Arturo de Frias - Evolution Securities - Analyst

Okay, thank you.

Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Now you'll have to be the last question.

Operator

That will conclude the questions. I will hand back the call over to Mr. Geoghegan for any closing remarks.



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Michael Geoghegan - HSBC Holdings plc - Group Chief Executive

Well thank you for joining us today. And to recap, we saw a significant fall in loan impairment charges. We have selectively grown the business and we have increased lending. And we've done it by keeping the cost base flat at the same time.

The economic and regulatory outlook remains uncertain. But HSBC is better placed than most banks for the future as emerging markets drive recovery. We look forward to seeing you again for our half-year results in August, and thank you for joining us on this call today.

Operator

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

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