FINAL TRANSCRIPT

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HBC - HSBC Holdings plc Interim Management Statement & HSBC Finance Corporation, HSBC USA Inc. Q1 2009 Earnings Conference Call

Event Date/Time: May. 11. 2009 / 10:00AM GMT

THOMSON REUTERS

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PRESENTATION

Operator

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

Welcome to HSBC Holdings plc's interim management statement and HSBC Finance Corporation and HSBC USA Incorporated first quarter 2009 results. Today's presentation is being chaired by Michael Geoghegan, Group Chief Executive HSBC Holdings plc and Douglas Flint, Group Finance Director HSBC Holdings plc. Please go ahead sir.

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

Thank you. Good morning to those of you joining the call in Europe and the States and good afternoon to those of you joining us in Asia. You'll have seen the interim management statement that we issued this morning and Douglas and I will be happy to take your questions. But first I would like to run through some of the key points.

We are encouraged by our resilient first quarter performance. Revenue recovered strongly from the last quarter of 2008. Global banking and Markets achieved record quarterly results thanks to improved market share, and margins in key businesses. Commercial banking remained strongly profitable in all regions.

Excluding the USA overall our personal financial service businesses remain profitable. And the run-off of HSBC's finance legacy portfolios is going to plan. With substantial fair value gains on our own debt pre-tax profits were well ahead of first quarter 2008. Excluding those, pre-tax profits were lower.

Tier 1 ratio of 9.9% on a pro forma basis reflects our strength and capital position. Our first interim dividend of $0.08 per ordinary share was more than covered by capital generation. Outlook is still uncertain but we're confident that we're well positioned thanks to our financial strength, our broad-based business and our global capabilities.

Now Douglas and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We'll now move to our first question from Tom Rayner of Citigroup. Please go ahead.

Tom Rayner - *Citigroup - Analyst*

Thanks. Good morning everybody. A little bit shorter than I was expecting, very succinct. Could I ask you a couple of things? The first on your comments about the two months plus delinquency in the US. As a percentage it says that -- sorry let me just check exactly what you said -- reflecting deterioration in the US economy, higher unemployment, portfolio seasoning and obviously the decline in the loan balances I think if you strip out the decline in balances, the NPL percentage would have only been up from 11.2% to 11.3%. Are you trying to suggest that the combined impact now of this sort of underlying economic drivers is actually quite small, so from 11.2% to 11.3%? Is that the right inference from that comment?

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

Well firstly I'll take the overall comment and if Douglas wants to talk about the 11.2% to 11.3% I'll let him do so. What we're saying is that basically the first quarter has been better than our expectation that we planned for. We're also saying that be careful, the first quarter is always better than the fourth quarter. And what we're looking at is what is the trend.

Clearly what we are seeing is that people are paying back their debt in the first quarter but they traditionally do that anyway bearing in mind they get tax receipts etc. It's too early to tell, Tom, where the US economy is going. Unemployment as you know is still rising. We are taking comfort from the fact that we are into this longer than others. In other words the mortgage services book is coming down and the performance overall, if you strip out the fact that the (inaudible) may be up but the actual amount outstanding is down.

The reality is that those other books are beginning to mature so it will be a little bit longer before we know whether we're out of the woods yet.

Douglas, do you want to make a comment too?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes. We put some slides up on the web today which actually shows the delinquency. And I think really one of the things is you can see, particularly in mortgage services, that even the percentage is beginning to decline as the run-off in there is fairly mature. So I wouldn't extrapolate the first quarter but in the first quarter we did see the rate of increase declining and indeed declining even in percentage terms for some books and in order terms the delinquency was modestly down from the end of the year.

Tom Rayner - *Citigroup - Analyst*

Okay. That's was the main crux of my question. It doesn't look, certainly in Q1, as if the economic drivers are the big driver now of that percentage number. It's more the book running off is the main reason that the percentage delinquency is still rising. Is that what you're saying effectively?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes. That was the pattern in Q1, yes.

Tom Rayner - *Citigroup - Analyst*

Okay. Thanks. And just could you comment a bit more on the outlook for margin pressures coming through from low interest rates affecting your deposit spreads? Because it's mentioned a couple of times in the statement and it's described as significant and I guess ALM has helped offset that certainly in the first quarter this year. I just wondered if you could say a bit more about that trend going forward?

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

What we're highlighting is that level of interest rates that we're seeing across the world. We run 10,000 branches across the world and the reality is they raise deposits and the fact is that we're not getting the margin that we used to get on those deposits and hence there's a pressure on the revenue side to offset growing such a network.

Having said that, we're not going to change our strategy because we think that's what got the banking industry into the problems it had by not having a secure deposit base. But what we're highlighting is that it's not going to much margin off it for the time being. But having said that clearly our global banking and markets business through its balance sheet management is benefiting from it. How long it will benefit for is not that certain because obviously this is going to run off some of that positioning. And we'll have to see where interest rates go.

Tom Rayner - *Citigroup - Analyst*

Okay. Thanks very much.

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

Thanks. Next question.

Operator

Our next question now comes from Ian Smillie of RBS. Please go ahead.

Ian Smillie - *RBS - Analyst*

Morning gents. Two points of clarification and a broader question please. Your comments on capital generation covering the Q1 dividend, does that exclude the gains on own debt?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes, because the own debt doesn't generate capital.

Ian Smillie - *RBS - Analyst*

From a regulatory perspective.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Correct.

Ian Smillie - *RBS - Analyst*

Okay. The second one is, the $1.6b of goodwill charge inside the HSBC Finance accounts, will that flow through to the Group?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

No. Because -- this is because the US looks at lower segments so they haven't fully written off goodwill last year because of US GAAP. But we've written it all off under IFRS of the holding company (inaudible) so it will not flow through.

Ian Smillie - *RBS - Analyst*

Thank you. And the third question is, on the available-for-sale asset-backed security portfolio could you just talk about the maturity profile of the outstanding securities there? Because if I read the annual report correctly a large chunk of it doesn't start to mature for over 10 years but then you had a fairly healthy repayment in Q1. So could you try to square those two for me and give some guidance as to what the outstanding maturity profile is from here please, Douglas?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Well you're right, the accounts do say the contractual maturity which is long dated. I think behavior -- a lot of it will amortize pre-pay ahead of contractual maturity. So what the accounts say is added contractual maturity we find the vast majority will run off in seven, eight years or so. And you saw some run-off in the first quarter. So you're comparing contractual maturity with how we expect it to pre-pay. So it's probably eight to ten years, seven, eight to ten years.

Ian Smillie - *RBS - Analyst*

Which would still imply that Q1 was probably abnormally large even relative to your behavioral expectations?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Well I think that part of the run-off in Q1 was that we sold some of the US government sponsored equities paper. But, yes, there has been a better tone in the asset-backed securities markets in the first quarter of this year and that I think is not over healthy if its reserve value hasn't gone up. But also has put a little bit more liquidity in the marketplace. And we will take opportunities to adjust the portfolio if it makes sense.

Ian Smillie - *RBS - Analyst*

Great. Thank you. And I guess just talking of the movements in the debt market there, could you give us a sense as to where that number would be if you were to mark it today? Because I'm guessing there's been some fairly interesting moves since the end of Q1?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

No. It would be better. I'm not going to comment but it would be better.

Ian Smillie - *RBS - Analyst*

Any order of magnitude broadly?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

No, no, no.

Ian Smillie - *RBS - Analyst*

Okay. Thank you.

Operator

Thank you. We'll now move to our next question from Alastair Scarff from Merrill Lynch. Please go ahead.

Alastair Scarff - *Merrill Lynch - Analyst*

Good morning gentlemen. Just a quick call in terms of the -- just some clarification. You make reference on page five of your release in terms of $93m recognized impairment to the cash flow and a $251m transfer. Just to clarify which one actually will be hitting your P&L statement of the two in terms of actual amounts? Will it be the $93m or the $521m from a first half?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

$521m. What we're saying is that there was cash flow impairment of $90m but you then reverse the whole fair value deficit that's in reserves which includes the liquidity discounts and all the other bits that make up fair value. So it's the $500m that has gone through in Q1 numbers.

Alastair Scarff - *Merrill Lynch - Analyst*

(Inaudible). And the second question is in relation to your balance sheet management revenues. Comments made by Stuart at the full year was that the positioning for falling rates was going to be a dwindling benefit in the second half. Is that still in play that the benefit you've got from the first quarter will begin to diminish through the course of the year due to the positioning of your portfolio?

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

I don't recall Stuart saying that it would be a 2009 event in totality but the reality is for the whole industry this is going to run off over time. We don't give a projection on what it's going to be quarter by quarter but the whole industry has positioned itself because of falling interest rates and as I said the benefit that we get on the balance sheet management side we lose on the margin compression on the PFS side.

Alastair Scarff - *Merrill Lynch - Analyst*

Sure. Thank you very much.

Operator

Thank you. We'll now take our next question from Alastair Ryan of UBS. Please go ahead.

Alastair Ryan - *UBS - Analyst*

Yes. Morning. The question is on your appetite for lending. So clearly there's some reasonably aggressive management of the size of your balance sheet going on which seems appropriate. But also given you're better capitalized than most of your peers, and significantly better capitalized on an underlying basis, just how much appetite you've got for putting on new assets at wider spreads either because the business is attractive or because you've nothing better to do with the deposits now that long rates are so low? So pretty much particularly a question about the UK I guess as your US businesses have been restructured and appear to be a whole lot of London and in Asia. But you've been reasonably vocal in the mortgage market in the UK. Does that play through in other spaces as well?

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

Alastair, clearly in the UK we are committed to the mortgage market and we have been throughout this and clearly we've benefited from it, the flight to quality has come to. And the margins in mortgage lending have been better in the UK for a long period of time now, compared to (inaudible) time. The reality is in the middle market and the SMEs we're seeing quite a reluctance for people to take on more debt and whilst we're there to offer it they're not necessarily going to take it. What we have seen is our ability to reprice and that's probably just sensible because there was a lot of irrational pricing there in 2007 and possibly parts of 2008.

I don't see the balance sheet growing that much dramatically across the world. I think as you highlighted yourself there is a reluctance to take on debt in various markets. I think we're going to see pretty flat balance sheet in 2009 and possibly for 2010 again and this is a reflection of the underlying economy.

Alastair Ryan - *UBS - Analyst*

Thanks. Thank you.

Operator

Thank you. We now move to our next question from Jon Kirk of Redburn. Please go ahead.

Jon Kirk - *Redburn Partners - Analyst*

Morning everyone. A big picture question first of all. Royal Bank of Scotland Chief Executive last week said that he didn't really or he hadn't observed the impact of any of the green shoot type commentary in his business. How do you see that at the moment? And I mean that on a global basis but also perhaps you could talk in a little bit more detail about impairment trends outside of the US please?

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

Well from a green shoots perspective I think RBS's comments are a good reflection certainly for the UK. I just think there is a reluctance for people to take on additional debt. And what we're seeing is the continuing repayment of debt from those who can, not just in the UK but other parts of the world as well. And that I think is going to be the signals that you're going to need to look at for an outlook for the world economy. When savings levels level off and stop rising and unemployment stops rising it's a fair indication that we're out there in the markets and we're likely to grow. Up until then I personally don't think there's going to be that much growth in the world economy.

In regard to impairments, well for two reasons. One because of the issues we have in the United States as you're aware we went and looked at our books around the world and we've certainly benefited from being early in, in that process, particularly in the UK in regard particularly to unsecured lending. But we're not immune to it and I think you're going to see impairments rise in middle market and small business in the UK and elsewhere. We're certainly seeing impairments increase in Mexico, in Brazil, in the Middle East and in India.

As the size of our balance sheet that's not a big concern to us but it is a reflection that this is a global descaling and deleveraging that is going on. And I'm not frankly believing that green shoots are there. I think it's probably just a weather bounce, a sunshine bounce that we're having and obviously there'll be more adjustments to come as we go through the year.

Jon Kirk - *Redburn Partners - Analyst*

Okay. That's great. And just one very quick more detailed question. Within HSBC Finance I noticed that $3b of the $3.8b fair value gain reversed in April. Is that broadly the proportion we should expect for the Group as a whole?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes.

Jon Kirk - *Redburn Partners - Analyst*

Thank you.

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

Next question?

Operator

Thank you. We now take our next question from Leigh Goodwin of Fox-Pitt Kelton. Please go ahead.

Leigh Goodwin - *Fox-Pitt Kelton - Analyst*

Good morning gentlemen. A couple of questions if I may. One just really focusing on the US business again. I wonder if you could give us an indication of what we might expect as a run-off rate in the US? Clearly what we've seen is the card portfolios run-off for partly seasonal reasons, the exit portfolio which much of which wasn't actually closed officially until towards the end of February diminished by 4% in the quarter. Could you give us an idea about what sort of a rate of run-off we might expect going forward? That's my first question.

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

Well the only history that we've got is to look at the mortgage services book and see how that's run off. And that went down from $49b in late 2006 early 2007 to around the $26b that it is today. So in a couple of years it has virtually halved. It is given it as it matures. What there is sort of a fallacy out there is that everybody thinks that people don't pay back their debts, particularly in sub-prime.

The reality is they do and they refinance and they sell their homes, they move across the country and all the things that go through life. So we're expecting, we're hoping that it will track what we saw in mortgage services. So we're not surprised that it's dropping as it is and we expect that to continue.

Leigh Goodwin - *Fox-Pitt Kelton - Analyst*

I think the rates probably in mortgage services works out about between 7% and 8% per quarter, probably more like 7% and 8%. And clearly you're signaling and it's slowing down a bit in that portfolio but we shouldn't be a million miles away if we made that assumption as for the other portfolios now other than the card portfolios which obviously are still open?

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

Well I think maybe you've got to bear in mind the mortgage services portfolio we also sold some of the portfolios but it wasn't a large amount. I don't want to give a projection of whether it's going to be 7% or 4%. All I know is that the instruction is to collect it as soon as we possibly can and it's going in our favor at the current time.

Leigh Goodwin - *Fox-Pitt Kelton - Analyst*

Okay. My second question was just on Europe and the commercial book which you don't say much about or anything really. I could interpret that as saying nothing's changed since the year end. But the fourth quarter did see a deterioration and most of the banks in the UK have signaled and the fourth quarter saw a sharp deterioration and some continuation of that in the first quarter. I wonder if you could give a comment on your business performance in that regard.

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

Firstly I'll start and then Douglas might want to add a few comments. But firstly our commercial real estate portfolio both in the UK and Europe as a whole is much smaller than our competitors. And we haven't had such an impact as they appear to have. I'm not saying that we don't have an impact but it's more -- we're seeing it more in the middle markets than we're seeing at the top end. But it is a thing that we're keeping an eye on. It's basically smaller amounts of more than normal but don't assume I want to add something.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

I think that we're seeing the same trends that others are seeing in individual portfolios. Clearly there is a continuing weakening but we are less exposed as a percentage of our book than others are to leveraging our position in finance and particularly in property and construction. So while the majority of the pain thus far has been in property and construction with some in retail and some in distribution, some in services, property as a proportion of our book is not as significant as it is for others and we're not as big in leverage acquisition finance as others. But within those sectors there clearly is deterioration.

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

And we're not taking in factors like (inaudible) which have taken a big brunt of this.

Leigh Goodwin - *Fox-Pitt Kelton - Analyst*

Yes. Okay, just one final one if I may. Just on Lat Am. Clearly we're seeing the results for the Mexican business and I wondered if you had a comment on the outlook there because we did see a sharp deterioration on secured loans in Mexico in particular? But I wonder if you could guide us as to what's happening there?

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

Well again that's a portfolio, bear in mind that remember we bought the Banco Bital business which was (inaudible) and always when you build a card business when you level it out your impairments increase. And we're in the process of going through those impairment increases at the current time. I would say, as we said at the time, I would expect those card impairments to be elevated for all of 2009 as we collect them through. I don't see the asset book in Mexico growing. And clearly with the impact of swine flu etc. we have to look at Mexico as a case by case as we look through what happens to the economy in the second and third quarter. But it's a place that we've got the card portfolio under control. We'll run through the impairments over the next six to eight months and then we'll see what we look like.

Leigh Goodwin - *Fox-Pitt Kelton - Analyst*

Okay. But you're signaling that as you say under control basically.

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

Yes. It's elevated balance sheet size capped in regard to the cards and now we're just collecting. And that's classic. You either buy a portfolio or you build a portfolio when you mature it out you have to run off the impairment side and that's what we're doing.

Leigh Goodwin - *Fox-Pitt Kelton - Analyst*

Okay. And if I may just have one final one, I'm sorry to hold the line. But just going back to the US and I notice that reserves in the mortgage services portfolio you're now just starting in this first quarter to run down. And perhaps that's signaling to us that you think the worst is over for that portfolio. The question is, is that the case and maybe at what point will you start thinking about reserves and no longer needing to be built on the other books?

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

Well a large amount of it depends on where unemployment goes to. Unemployment is still projected to rise in the United States. It came out again although the rise has been less than previous months, I think we have to remember that unemployment is the main driver in our business in the United States. So we'll watch that and I wouldn't be jumping in and saying that we would be not continuing to raise reserves for our book in the United States. We will continue to take a conservative approach to it.

Leigh Goodwin - *Fox-Pitt Kelton - Analyst*

Okay. Thank you.

Operator

Thank you. We now move to our next question from Steven Chan of Daiwa Research. Please go ahead.

Steven Chan - *Daiwa Research - Analyst*

Hello. Good morning gentlemen. I have a few questions. First of all if you look at form 10-Q we do not see any more delinquency rates for the private label. But for HSBC Finance Corporation but for HSBC US actually there was a sharp rise. Can I presume that part is actually the part of the private label card or card business you have are now being managed by the USA so the part of the delinquency is now (inaudible) in HSBC US?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

That's correct, yes.

Steven Chan - *Daiwa Research - Analyst*

Okay. Second question, can I presume that -- because you mentioned that the net interest income rose because of the asset repricing so can I presume that your net interest margin for 1Q '09 for the whole Group is higher than 1Q '08?

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

No I don't -- you can't --

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

No. You can't assume that.

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

I'm going to start and I'm going to hand it back to Douglas. But can I just take your first point. The net interest margin rise that you saw in the USA was not just via repricing the asset fund but it was just because our funding which predominantly is at wholesale fund in the US, particularly in our consumer finance, is driven by lower rates in the market so we've got a benefit there. But Douglas, you take it.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Net interest margin is becoming an increasingly impossible thing to actually look at any trends in because of the way global banking and markets business is funded and you can have quite a swing on whether the this income is part of trading income or part of net interest income itself. So you can't really make a comparison quarter on quarter.

If I can go back to your earlier question, the private label card business in the US. We actually put out a few slides with the interim management statement and you'll see the private label figure split out in that. And because we moved the private label business into the bank the delinquency stats are in the banks 10-Q on page 92. So you'll find everything and more than you were looking for in the HSBC Bank US filing which is where those cards are now held.

Steven Chan - *Daiwa Research - Analyst*

Okay. And one final question. Could you also comment on the asset quality in Hong Kong and the Asia Pacific region excluding Middle East and India?

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

Basically what we've been saying there is the quality remains strong and robust. It's not a -- our business in Asia is not an impairment issue, what it is a revenue issue both by loss of revenue in regard to our liability side of the balance sheet and also because of wealth management is not as robust as -- because stock markets aren't as robust as they were. So that is something that depends on what comes in future quarters. But overall the impairments we're very comfortable with.

Steven Chan - *Daiwa Research - Analyst*

Thank you.

Operator

Thank you. We now move to our next question from Simon Samuel of Citigroup. Please go ahead.

Simon Samuels - *Citigroup - Analyst*

Thanks very much. Good morning Michael and Douglas. Two questions if I can actually. Just firstly on the impairment charge, away from the Finance Corporation impairment charge, so the rest of the Group basically, can you give some sense of whether you think impairment charges will be a lagging indicator this time round and the various recessions you're facing or a lead indicator or just coincident with the economic cycle? Because if you go back to historic cycles, as I'm sure you've done, we've had everything really. Some credit cycles have been the bad debt charge has lagged the economic cycle, others it's been more coincident with. So I'm just interested to hear your take on that?

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

Firstly, clearly you expect us to be more conservative as to regard to taking impairments. So because we've taken them up front it's -- you may get a more different view from it than others. The reality is that impairment charges is a reflection of the underlying economy and I think the economy has still got more weakness to come. And hence it is a lag. We don't see impairment slowing in the UK from both -- from an industry perspective we don't see that happening and we don't see it happening in the United States. The green shoots that people talk about, I think they're jumping and looking at stress tests on banks etc. and think that's it. I think the reality is that revenues in companies are falling and as such I think for banks impairments will increase.

Simon Samuels - *Citigroup - Analyst*

Okay. Thank you. And the second question was going back to the net interest margin. I heard Douglas what you said about it becoming less easy to predict partly because it's capital market businesses and I guess the accounting changes as well.

If you go back to the rationale for the acquisition of Household six, seven years ago, part of the rationale was in a world with very low interest rates that it was a nice, effectively a natural hedge, that it's margins expanded with low nominal rates whilst your other geographies or margins compress. And obviously as Household now gets run down again so you're back to facing those same pressures as you say. I'm just interested to know whether you think this time round you're just happy to wear that? That actually, yes, retail funding, being heavily retail funded is going to cost you now but that's a better place to be than being wholesale funded given the events of the last couple of years?

Is that just your strategic view now or do you actually still crave particularly in a world of low interest rates some offset as you did six, seven years ago?

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

Well, I think firstly the rationale was the right rationale at the time and the fact is that we're in a different world than when we did the acquisition. But let me come to the world that we're in.

I have a fairly strong view that we will run down the book to some extent in the United States and it will mature and it will balance out so there won't be so much volatility in the impairment line. But we will be very grateful to have the run from this with an interest rate margin which is finished to being around 7%. In a way that answers the question.

It remains a hedge to some extent in regard to impairment -- in regard to reductions in margins on life business in other parts of the world. But it's not a perfect hedge by any manner and means and obviously we've raised a lot of deposits because there's been a flight to quality and people have been putting their deposits with us. I don't think we'll look at interest rates at this level for that long. You can take your own view on where inflation is going.

Douglas, do you want to add?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

I'll just add two quick comments. One is the finance company did in fact in the first quarter see its net interest margin widen for the very reasons that you described.

But two other comments. One is we will not seek to have a business model that relies on wholesale funding and therefore I think that is a constraint, but a good constraint, i.e. it's conservative.

But I think the other thing that's a mitigant perhaps from five years ago, six years ago when we were looking at Household, there was very little pricing power on the asset side of the balance sheet in commercial and corporate and in retail. And I think today certainly in corporate and commercial banking the margins that are being renegotiated as facilities mature or get extended or restructured are significantly wider in history. So the ability to price the asset side is better today than it's been for as long as I can remember.

Simon Samuels - *Citigroup - Analyst*

Okay. Great. Thank you very much.

Operator

Thank you. We now move to our next question from Cameron Odgers of CICC. Please go ahead.

Cameron Odgers - *CICC - Analyst*

Yes. I noticed that you said that the fair value deficit on the AFS is down to $18b from $18.9b, and about $500m and something from that is the transfer on those impaired securities. And you did sell some agency debt that was in there.

Can you give us an idea of, when you sold that agency debt, how much that transferred out of the AFS? And did you actually end up realizing a profit on it because those things did perform well in the first quarter at the US banks and a number of unreported profits on that? So can you give us a little bit refined detail on how that impacted that decline?

And the second question --.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Sorry. All figures were very small. We did make a small profit in selling out of the agencies, but it had an insignificant impact on the AFS reserve. They were carrying very little fair value deficit.

Cameron Odgers - *CICC - Analyst*

Okay. The second question is I would imagine with the household finance, you've hinted at it in various statements, that as you're going to run this book down you expect that your provision and your loan losses may be a little higher than if you'd maintained the business. Obviously if your clients don't find the benefits, they're going to continue to be able to borrow from you in the future. Some of them may be less inclined to repay.

So I'm curious, given that that wasn't announced until early March and you've been recording the 60-day delinquency, can you give us an idea if you had any noticeable pickup in the 30-day delinquency since it's been announced that finance is going to be shut down?

And the final question is can you give us an idea, because you mentioned that your labor costs were flat, when that included the restructuring charge of closing finance, can you give us an idea how much that was in the first quarter and how much more you expect for the remainder of the year?

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

Okay. I'll take the first part of that question. Douglas will take the second part. Firstly, we put into our models that we thought possibly people may not pay us if they thought there wasn't a long-term opportunity to take further finance from HSBC Finance. The reality is that hasn't happened. The fact is there's two ways to assess whether that's a trend or not. We will watch it. But at the moment we don't see that being an issue. We test and check out whether our customers feel that at the moment they're paying back debt.

And I think that's a reflection across the United States generally. All banks are reporting rising savings balances and that's because people are reducing their debt.

And Douglas, second question on the costs.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes, roughly speaking, a couple of hundred million dollars and we don't expect it to be a great deal more.

Cameron Odgers - *CICC - Analyst*

Okay. Okay, thanks.

Operator

Thank you. We now move to our next question from Robert Law of Nomura. Please go ahead.

Robert Law - *Nomura - Analyst*

Good morning everybody. I've got three areas I'd like to explore please. Firstly in terms of the Q1 profitability, I think you've said you generated capital compared with the $0.08. So does that include any benefit from the scrip or are you basically saying therefore that after-tax profits were $1b plus?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

We're saying the after-tax profits were more than whatever $0.08 a share is, yes.

Robert Law - *Nomura - Analyst*

And when you make that comment, is the conclusion that there weren't significantly more than that, so you're pointing at that for the kind of level of profitability you booked in first quarter?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

You're absolutely drawing conclusions there. We're simply trying to say are we profitable in the first quarter? Yes. Did we cover our dividend? Yes, we did. Because I think that's an important statement. But we're not giving any indication nor was any implied as the degree to which we covered it.

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

Second question, Robert?

Robert Law - *Nomura - Analyst*

Can you give us some indication of what the trends were in Hong Kong? Were the profits up or down and some indication of scale?

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

Well all we can say there is that on the impairment line it is better than we expected. We're not giving out any numbers for Hong Kong unless, Douglas, you want to make a comment.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Well, I think it would be -- in commercial and PFS we're clearly coming off incredibly low impairment charges. So you can assume that they've gone up from very small but still very, very manageable amounts. Hong Kong is our most deposit rich franchise and therefore the impact of deposit spreads clearly will have hit PFS and Hong Kong as well the decline in wealth management income.

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

But offset for balance sheet.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

But balance sheet management obviously is able to recapture a great, great deal of that. But I don't think we should give a number. But if you think of the weighting of our profits in Hong Kong coming from PFS and coming from deposits in PFS, I think you'll get there pretty easily actually.

Robert Law - *Nomura - Analyst*

Thank you. And the final area was the HSBC financing impairment. Obviously there you said they're lower than you were expecting. You gave some pretty clear guidance for US impairments in relation to US unemployment levels. I guess the unemployment levels aren't changing much from where one would have expected them to be. Do you feel you need to change the guidance on the level of impairments in relation to unemployment?

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

No. What we're saying is, to be very clear, we're saying first quarter impairments are better than our expectations. They're better than fourth quarter. But bear in mind that first quarter is always better than fourth quarter. We are saying that it's too early to tell whether the trend in unemployment was coming into our figures to any greater extent, and we've been cautious to the outlook of the impairment line in the United States because frankly it's the third and fourth quarter that are most volatile in that business and we're not going to give guidance to that area at this time.

Maybe when we do the results in July we'll be able to give you a better feel for where we are. But it's tracking a little bit better than we expected, but we're not putting up the green flag at the current time.

Robert Law - *Nomura - Analyst*

Thank you.

Operator

Thank you. We now move to our next question from Sunil Garg of JP Morgan. Please go ahead.

Sunil Garg - *JP Morgan - Analyst*

My question has been addressed. Thank you.

Operator

Thank you. We'll now move on to Simon Maughan of MF Global Securities. Please go ahead.

Simon Maughan - *MG Global Securities - Analyst*

Yes. Thanks very much. In the second half of last year you booked gains on structured liabilities within the GBM franchise. I wondered if there was any repeat of that in the first quarter or if there are any other one-off or more exceptional things in the revenue in that division?

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Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes. There were some, but it wasn't a particularly significant number.

As to other one-offs, no, we've highlighted in the interim management statement the two one-offs are on credit spread where we give you the number and most of it came back in April. And there's a couple of hundred million dollars from selling Visa shares. And these are the one-offs. And we highlighted the write-downs in global banking and markets. So there's no other funnies.

Simon Maughan - *MG Global Securities - Analyst*

Thanks very much. And I just wondered if you could tell us why you chose to include the last sentence of the IMS about taking advantage of the current environment because I would expect that's an ongoing obligation of a management to take advantage of any environment out there. I wondered why you chose to stress that point.

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

Well I think some people took advantage to their disadvantage in 2007 and 2008. What we're seeing is that there is an ability to write business with customers that you know and a number of customers that are coming to HSBC to either refinance their debt away from other banks or to take new debt from HSBC is an opportunity to us. We're very capital strong. And we're seeing quite a significant move by customers to review their banking relationships with others based on the capital strength of the industry, and hence we benefit.

Simon Maughan - *MG Global Securities - Analyst*

So it's a comment about organic opportunity post the rights issue?

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

No. That's why we raised the capital to have organic opportunities and hence we are exercising that ability. You shouldn't read anything into a massive growth in our balance sheet. What we're saying its better pricing, more people are coming to HSBC to use the Group rather than use banks they've had previously used which have weaker capital ratios.

Simon Maughan - *MG Global Securities - Analyst*

Thank you both very much.

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

Okay.

Operator

Thank you. We'll now move to our next question from Roy Ramos of Goldman Sachs. Please go ahead.

Roy Ramos - *Goldman Sachs - Analyst*

Yes. Two or three questions if I may. First, you mentioned about record results in global banking and markets on back of margins and market share. I just wondered if you could give us a little bit more color in terms of which lines of businesses these are. Is this capital markets? Is this balance sheet management? Is this the customer lending in other businesses?

And then geographically as well, where's this strength coming from? And trade finance also, that part about features. And to what extent have you seen this sustaining through April and the first few days of May?

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

All right. Well firstly it's FX rates. It is balance sheet management. It is corporate banking to a certain extent in certain markets. Its broader margins without having increased balance sheet usage. So it's all of those, Roy. Trade finance I don't think is a material figure to, as far as I recall.

In transactional banking in fact that's a little bit weaker because of obviously stock markets, etc. But overall it's across those core areas. Bond issues, we've been doing a substantial amount of the bond market issues HSBC's been doing, both in developed markets and emerging markets. Again it goes back to our balance sheet strength.

Roy Ramos - *Goldman Sachs - Analyst*

Got it. Second question is --.

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

April has continued the same as the first quarter. We had a good April.

Roy Ramos - *Goldman Sachs - Analyst*

Great. Second question very quickly, just the -- I'm still slogging through your Household Finance. Was there any recap from the Group to HSBC Finance in the first quarter?

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

There was. Douglas will give you the figure.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes. $880m of capital.

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

Less than we expected.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Less than we expected. We had $880m which plays against $1.6b in the prior year comparable quarter.

Roy Ramos - *Goldman Sachs - Analyst*

Okay. And then the last question. To the extent that you're comfortable and can comment on it, there's been talk about, number one, renminbi trade settlement. You obviously are a huge, big finance bank and very strong in China.

And then second the SIPA number 6 which allows Hong Kong banks to expand a lot more in the Pearl River Delta. And I'm wondering to what extent you'll take advantage of that to set up a lot more sub-branches. I think you've noted that you want to be up to 100 branches -- sorry, 100 outlets in China by the end of the year. But again, some color on that if you could?

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

Roy, we continue to press ahead in China, opening as many branches as we can. The only thing that limits us to a large extent is getting the people resource in place. But yes, you can expect us to increase.

On the trade finance one, I think I'll have to give you an answer on that when I'm with you next week for the AGM meeting in Hong Kong. But I haven't got anything actually to hand that reflects that question. But I'll get back to you on it.

Roy Ramos - *Goldman Sachs - Analyst*

Thank you.

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

Next question.

Operator

Thank you. We'll now move to our next question from Sandy Chen of Panmure Gordon. Please go ahead.

Sandy Chen - *Panmure Gordon - Analyst*

Morning Michael. Morning Douglas. Or afternoon or whatever. The -- just two quick questions. One, just a point of detail on the HSBC Finance results. Looks like the net interest income year on year went down by about 28%. Is that just normal in a very falling interest rate environment or what was driving that?

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

The balance sheet for a start was reducing so that would have taken it down. The actual margin has improved. But Douglas is pulling out the page as you speak so he may know.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Remember we transferred --.

Sandy Chen - *Panmure Gordon - Analyst*

The private label.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

The private label and the credit card business -- the private label business. So I'm not sure. And the portfolio's come down. But the margin's slightly improved. So I suspect when you put it on a management basis you're not going to get quite the same figure.

Sandy Chen - *Panmure Gordon - Analyst*

Right. Right. Okay. And then actually just to follow up on Roy's trade finance question. So given the commercial, industrial and trade is, what, about $200b of your customer loan book, I'd be interested in -- what I found interesting was your comment that demand for loans may be implying trade loans in amongst Asian customers isn't as strong and I contrast that with what Standards Chartered have been saying about aggressively pursuing that business in a shrinking market. Could you just give a bit more flavor on that?

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

Well, trade finance is basically covers a number of different products, supply products, etc. Clearly Asia is not as active export-wise as it had been in the past. And still into the first quarter is picking up to some extent. I haven't got in front of me the revenue breakdown from trade finance from Asia. But maybe Douglas, you want to add a few comments on it if you've got anything there?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

No. Nothing to add. We're certainly not shrinking aggressively. We're supporting our customers in trade finance. And we're not seeing some of the trends that others have talked about in terms of lack of adequacy of finance. We're continuing to support customers and that business is going fine. As you say, there's some reduction in trade close to the developed world clearly. But no, we're pursuing it as aggressively as we ever have.

Sandy Chen - *Panmure Gordon - Analyst*

All right. Thanks.

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

Next question.

Operator

Thank you. We will now take our next question from Simon Willis of NCB Stockbrokers. Please go ahead.

Simon Willis - *NCB Stockbrokers - Analyst*

Thank you. Good morning, gentlemen. I've two questions, if I could. The first one is on the US and trends in foreclosures there. Can you say whether there's been any noticeable pickup in foreclosures in your book in March and April as against January and February given the industry-wide lifting of the moratorium that we saw a couple of months ago?

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

Douglas, do you want to?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Yes. There was a pickup in the first quarter because there was a standstill at the end of the year. So we had a few more houses in inventory than we would otherwise have had. But other than that, no, no significant trend change.

Simon Willis - *NCB Stockbrokers - Analyst*

Can I just -- to qualify that, Douglas, can -- the standstill came off at the end of the year did it, so we didn't particularly --?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

There was a backlog -- there was a backlog in the course in terms of processing foreclosures.

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

And there was a standstill in the month of December.

Simon Willis - *NCB Stockbrokers - Analyst*

Okay. Thank you. And the second question is on impairments in Asia in particular. Can I ask -- you referred in the statement specifically to Mexico, Brazil, Middle East and India. Can I ask whether in other parts of Asia you'd be less fearful, perhaps, or more relaxed on the outlook over the next six or 12 months for rise -- any rise in impairments relative to your feeling of perhaps three months ago?

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

Well clearly, as Douglas said earlier, impairments have climbed off a very low base in Asia. But, having said that, they remain very low. And we haven't seen the deterioration that we've seen in other markets, like the UK, for example, compared to that. So cautious, but positively cautious in regard to Asia regards to its impairment line for small business and commercial banking at this stage.

Simon Willis - *NCB Stockbrokers - Analyst*

Okay. Thanks. And just a quick rider to that, it seems to me, and I think quite a few commentators would say that relative to six months ago a number of economies in Asia, including Singapore and perhaps Malaysia and Hong Kong, have not deteriorated to the extent that was feared in Q4. Would you share that view now?

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

Yes. I would at this stage.

Simon Willis - *NCB Stockbrokers - Analyst*

Okay. Thanks.

Operator

(Operator Instructions). We'll now move to our next question from Mike Trippitt of Oriel Securities. Please go ahead.

Mike Trippitt - *Oriel Securities - Analyst*

Good morning. A question actually on the runoff book, the consumer lending book. I was just looking at the delinquency trends. The dollar's delinquencies on the first liens continue to go up. And that stands out now as the exceptional, I guess, across that book. I just wondered if you could give your -- just a bit more color on that as to what you see going on there. Clearly I accept a function of unemployment rates. But would you expect that to continue rising at that sort of level?

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

Well, to be honest, it's not in the consumer finance. It's more in the Bank, basically, which is the prime book, has deteriorated somewhat. And not that we didn't expect it, but it is a portfolio that we have in the Bank. It's tied to our relationship banking. And that has seen some deterioration. I think it's a reflection of the unemployment in places like New York, etc., where a lot of that lot is. But Douglas, do you want to add anything to that?

Mike Trippitt - *Oriel Securities - Analyst*

Sorry, can I just add? This is -- I'm actually looking at the Finance Corporation disclosure. Solid delinquency's up about $600m.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

I think it's -- I think it's -- I think you've answered your own question. I think it's tied to the rising unemployment. We saw a tick up, more than a tick up, we saw growth in the second half of last year in first lien delinquency simply as unemployment began to kick in. And that's really was driven firstly in delinquency in consumer lending which had underperformed or had debt performed debtors, say, mortgage services. The trend picked up in the second half of last year and it was largely unemployment driven.

And I think -in page 83, there's a comment on that in the 10-Q.

Mike Trippitt - *Oriel Securities - Analyst*

Okay. Okay, thanks.

Operator

Thank you. We now move to our next question from Alastair Scarff of Merrill Lynch. Please go ahead.

Alastair Scarff - *Merrill Lynch - Analyst*

Thanks gentlemen. My question was already answered. Thank you.

Operator

Thank you. We'll now move to our next question from Jon Kirk of Redburn. Please go ahead.

Jon Kirk - *Redburn Partners - Analyst*

Hello again. I'm going to encourage you to be a bit more bullish now. And it's on the basis that your ROEs prior to the crisis were tracking somewhere in the mid teens reasonably consistently. Many of your peers were doing much better than that but they obviously were running much tighter capital positions and I would guess they were probably running much tighter liquidity positions as well. Now both of those things are going to have to be corrected fairly dramatically by a lot of your competition, which I think is going to render them not incapacitated but not enable them to compete in anything like the same way for many years to come.

So does that not mean that given that you're not going to have to undertake such a radical change on a normalized basis that your ROEs could -- your normalized ROEs could be higher than those achieved prior to the crisis?

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

Well, I can't give you a projection on what our ROEs are going to be, but you point out some very relevant facts. If the industry's going to go back to a liability driven model, there are going to be a certain number of people who are either going to have to shrink their balance sheets or they're going to have to grow their deposit bases. And I think that work is underway in a number of areas at the current time.

The fact is that a liability branch driven business is more expensive to run in a low interest environment. And that has an impact in the whole industry. So yes, you should expect those banks to pay the price for that.

As regards can you make me more bullish, we are bullish to the extent that we -- I think we're in a very strong position. We have a deposit base that's an envy of most in the industry. The reality is that unfortunately loan demand is not that strong at the current time. Loan swapping between banks is, and hence we are benefiting from that. And margins, as Douglas has already said, at an all-time high for people who watch this industry for the next 30 years.

So we are positive on the outlook. But what we are saying is that we are cognizant of the fact that people have been making statements of green shoots and the worst is over, and possibly it is, but that doesn't mean the best has arrived. The fact is that our industry has to go through a lot of change. Our customers have to get more confident. And the underlying economies have to improve and unemployment has to come down. And all those things are not in place yet. So I think when they are in place we will probably be -- we will benefit more than many.

Jon Kirk - *Redburn Partners - Analyst*

Great. Thanks very much.

Operator

(Operator Instructions). It appears now we have a follow-up question from Cameron Odgers from CICC. Please go ahead.

Cameron Odgers - *CICC - Analyst*

Hi. Yes. One more question about the capital adequacy. If you did the proforma for Q4 you'd have been at, I think, 10.8 and now you're at 10.9 -- sorry, 9.8 and --.

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

9.8, 9.9, yes.

Cameron Odgers - *CICC - Analyst*

Yes, yes. And you generated capital. I'm wondering what -- how did the proposed dividend affect that calculation because obviously when you're subtracting that for your capital calculation, it depends ultimately what you have as the scrip take-up. So I'm curious if, because of scrip take-up, you ended up with a little capital freed up from that. How would it have been if the proposed dividend was of the same total dollar magnitude between the two periods? Would that have affected the calculation?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

No, because the capital calculation is based on deducting dividends from the declared, and we don't take any benefit from scrip until it arises. But the dividend we just told you, the $0.10 final, if you like, for last year, where we got just over half of it back, that has not impacted the proforma ratio as at March. It will be an impact. The benefit from the scrip came through in after the end of the quarter. We would have had, however, the benefit of the third interim dividend in the first quarter. So it's kind of on a cash basis.

So the scrip take-up for the final dividend, which was quite high, didn't benefit the quarter. The scrip take-up on the final dividend for the third quarter dividend, which was low, would have had an impact. But when we declare the dividend we adopt the whole amount. We assume no scrip in our final capital ratios.

Cameron Odgers - *CICC - Analyst*

Well, can you give us an idea if you'd had just a constant overall dividend how the capital ratio, in other words, your proposed one for this period, if it was at a constant level from the last time, how much would your capital ratio have changed given the earnings in Q1?

Douglas Flint - *HSBC Holdings plc - Group Finance Director*

Well I'm not sure how to answer that. You can just take the number of shares times the dividend, assume a scrip and add that back. We've got roughly $100b of capital. So you can work the numbers. It's just a reference here. I'm not really sure I understand where you're trying to go with this.

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Cameron Odgers - *CICC - Analyst*

That's okay. I know the calculation. I'll do it myself. Thanks.

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

All right, we've probably got time for one more question if there is one.

Operator

As we have no further questions I'd like to turn the call back over to you, gentlemen, for any additional or closing remarks.

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

Thanks very much to you. Firstly, thank you for joining us today. As you know, 2009 promises to be a tough year but I think we've got off to a very good start and we're well positioned in these difficult times. And I will obviously give you a lot more information when we announce our results at beginning of August. So thank you very much indeed for joining us today.

Operator

Thank you, ladies and gentlemen. That concludes the HSBC Holdings plc interim management statement and HSBC Finance Corporation and HSBC USA Incorporated first quarter 2009 results conference call. Thank you for participating. You may now disconnect.
