Post 2012 Interim Management Statement meeting with analysts

11 May 2012, 11.00 am BST

Nick Collier, Head of Investor Relations, HSBC

Welcome everybody and thank you for coming along to the post-results analysts' meeting. As I said this is intended to be a regular feature so that we can give you the opportunity after the formal announcement to go into more detail on the financials that we've announced.

Before I make the introductions, just a couple of housekeeping points... We aim to end at about 12.15. Most of that time – in fact, all of that time will be for your Qs and our As. And the second point is that this is a recorded meeting, the transcript of which will be put on our website early next week. So, in that regard we do have microphones around the room, so before you ask your question could you make sure you have that in hand and introduce yourself so it's all complete for the record. Here we have Iain Mackay who you all know, Group Finance Director and Russell Picot, who's the Group Chief Accountant and I think the best way forward is to hand over to you directly and these two gentlemen - combined with the massive team support behind you see on the outside - hopefully, will be able to answer your questions fully and comprehensively. So, over to you, thank you very much.

Iain Mackay, Group Finance Director, HSBC

In fact, Russell and I are not going to do anything at all; we are just going to pass all the questions to the guy sitting on that wall, over there. We'll have a snooze for a change. Look - nothing in terms of extensive introductory remarks. Hopefully you were able to participate in the call that we did on Tuesday. I think we said everything we had to say about the results at that meeting. We are, as you would imagine, reasonably quite happy about the progress that we made in the first quarter. If anything, more so in terms of the specific progress we made with respect to strategy as opposed to specific results for the first quarter, but nonetheless the first quarter results were a good set of numbers in our view. So, other than that I think it's probably more productive for yourselves and for us just to ask questions. As Nick said, if you can wait for the microphone to show up and no bad language, please!

Michael Helsby, BofA Merrill Lynch

I have just got a series of questions on Europe, if that's alright. I think Europe is quite interesting.

Iain Mackay

You think? I think it's really boring, actually.

Michael Helsby

It looked like the underlying revenues in the first quarter were 5,885. I don't think there was any fair value adjustment in the fourth quarter.

Iain Mackay

Tiny. Small.

Michael Helsby

So, I think the 5,357 was a pretty clean number, then. So, I was just wondering if you could talk around those revenue trends because clearly Q1 you referred to a very strong bounce in GBM and GBM is very Europe-centred, which you don't really see coming through in those quarterly trends. So, if you could give us what the balance sheet management number was in Q1 versus Q4 for Europe?
If there were any write-ups, just if there were any funny movements in terms of write-ups of credit, assets, or write-downs or whatever in Europe.

Iain Mackay

There was nothing going on that front in Global Banking and Markets in general. I mean, it was actually a very quiet quarter in terms of significant credit provisions or adjustments other than absolutely in the normal course of business in line with market expectations. The balance sheet management I don't have specifically broken out for Europe, but as you do know, balance sheet management is affected to the tune of about 380 million from the gain and sale of gilts, which clearly shows up within the European space and that is probably the one significant unusual feature of the balance sheet management revenues in the first quarter, so if there is an extraordinary item it is that 300 – nearly 400 million, actually – of gain and sale of gilts, it is an unusual feature in the European numbers.
The other key feature within the European numbers would clearly have been a more normal performance from the rates business and the credit business on the back of narrowing spreads and - dare I say it – some aspect of normality within European markets, principally driven, as I think everybody assumes, on the back of ECB activity in the December and February rounds of LTRO – we'll see how long that lasts – or has lasted might possibly be the best way to put it. Past tense, right?

But I think those are the key features of revenue changes within the first quarter – if you look at commercial banking, retail banking, wealth management, private bank – really very comparable to the fourth quarter in terms of net interest income, fee income and really nothing that unusual coming through those numbers. Growth, I mean, when compared to the first quarter last year – but when compared to the fourth quarter not that marked, clearly, given the amount of time on balance sheet of any new assets recorded in the first quarter.

Michael Helsby

Maybe we'll have to wait for the first half, but everything that you just said doesn't really stack up with the numbers, because I would have thought that Europe would be much higher.

Iain Mackay

But remember Europe picks up fair value on debt, so there's a significant -

Michael Helsby

But the underlying is 5,885. Clean last fourth quarter was 5,357. Given everything that you just said about GBM, the gilt gains, GBM underlying is a lot stronger and then everything else is flat. It just doesn't... There's something funny going on in the numbers and I just don't quite understand it.

Iain Mackay

I don't think so. I don't think so. Are you sure you're looking at underlying, Michael?

Michael Helsby

Well, it's 2 billion fair value and movement in the first quarter. So, I'm just adding that back - and I'm from Liverpool but even I can do that – and yes, and clean last year in fourth quarter 5,357.

Russell Picot, Group Chief Accountant, HSBC

What was the end debt gain in Europe? 2 billion?

Iain Mackay

2 billion, yes, give or take, yes.

Russell Picot

There's a piece around non-qualifying hedges. There's probably -

Iain Mackay

About 200 million?

Russell Picot

No, it's more than that; it's probably a swing of 400, dollars.

Iain Mackay

400, yes.

Russell Picot

So, there was quite a large credit in Q4 11, so there's probably 400 coming from that, I guess, Michael. Something of that sort of -

Iain Mackay

But nothing in the first quarter on that front worth talking about – very small.

Michael Helsby

So that kind of cancels out the gilt gains?

Russell Picot

And the swing on the gilt gains is about 200. Sorry, BSM revenues there's about a 200 uptick between Q4 and Q1.

Michael Helsby

Okay. So, that was question 1. Just as a point of disclosure, it would be absolutely fantastic if you could give us some quarterly historics on the fair value of own debt movements per quarter, because I think this is the first time you've actually broken it out by geography. It just helps clean things up. And also the non-qualifying hedge movements, if you could give us that by geography as well, by quarter, that would be a –

Iain Mackay

Fair value on debt always sits either in North America or Europe because it's part of the holding companies.

Michael Helsby

I appreciate it, but it would be good... It's a silly number but it would be good to get the actual numbers

Russell Picot

You would like a table, is that what you're saying?

Michael Helsby

Yes, that would be fantastic, thank you. Then, so the second question on Europe is just on bad debt because clearly it was very, very low. I've gone back to 97 and there's only two periods where it's been lower so it would be great for you to give us – not necessarily your outlook, but just some commentary around bad debt in the first quarter, whether there were any big releases that were significant or...?

Iain Mackay

There was no significant recovery in the first quarter. Last year, year before there were significant recoveries, but this year very little in terms of recoveries anywhere in the world, actually. In terms of the European portfolios, as we mentioned on Tuesday, the mortgage portfolio remains extremely stable from a credit quality perspective. The commercial real estate portfolio - the next largest - remains stable. It's clearly an area where, just given the stress in the UK economy, there's a great deal of focus being spent by the commercial banking team. But in terms of forbearance activities that we're having to take it's relatively limited and in terms of actual impairments that we're taking in that portfolio it's relatively limited.

We clearly took some fairly significant hits over the course of the second half of last year in continental Europe but that was mostly orientated in our favourite country of Greece and came through mainly in the line of other credit provisions as it related to securities.

Across the major markets of Europe, you look at probably France is probably the next significant loan impairments – again, very, very stable. Again, the quality of the underlying lending is of a high quality through the network. So, the outlook in the current interest rate environment is stable with respect to loan impairment charges. So, Europe is not an area – whether it's in CMB, whether it's in the Retail Banking and Wealth Management or Global Banking – where we have any particular concern. However, there are areas of pretty close observation, particularly in the UK as it relates to commercial real estate.

Michael Helsby

Good. That's consistent with what the other banks are saying, to be fair. Just a point of detail – I'm just rattling through the European... I was wondering if you'd give us a guide for the levy in 2012. I know it's early days, but...

Iain Mackay

Yes, it's about 700.

Michael Helsby

And again, whether there was any restructuring in Q1?

Iain Mackay

260.

Michael Helsby

In Europe?

Iain Mackay

No, in Europe...

Michael Helsby

Where was that 260?

Iain Mackay

260 was globally and Asia was about 100 of it. 108, I think was Asia. And I think the number in Europe was about 40, but there will be more coming in Europe in the second quarter, because there were significant restructuring events announced in April, as you will know, so there will be a more significant charge for restructuring in the second quarter within Europe.

Michael Helsby

Okay. That's very helpful, thanks. And then just finally from me, you talked about slotting the last time we were sat around here.

Iain Mackay

Real estate?

Michael Helsby

Yes, on the real estate. And I think at that point you said, 'Actually, it's quite bad', if it came in as it stood then. But you were quite confident that the UK wouldn't be that silly and therefore, you know, they'd downplay it a lot. I mean, RBS even gone to the extent of now telling us of what the phasing of the impact is going to be, so I was wondering if you could give us an update on that.

Iain Mackay

The latest I have on that is I don't believe we'll be subject to commercial real estate slotting in 2012.

Michael Helsby

But if it came in the overall magnitude on risk weighted assets?

Iain Mackay

Well, for our commercial real estate portfolios it would impact risk-weighted assets to the tune of about 45 billion if it came in.

Michael Helsby

Would that be on a consolidated basis or just for Europe? Would it be group?

Iain Mackay

That's Europe portfolios.

Michael Helsby

That's just...?

Iain Mackay

Yes.

Michael Helsby

And is that the way it would work?

Iain Mackay

I would love to see them try and do that in Hong Kong.

Michael Helsby

But it wouldn't be in your Hong Kong stat accounts, but on a... I just think in the US the different treatment for risk-weighted assets at a group level and at a subsidiary level. Is that...?

Iain Mackay

Well, no, the FSA absolutely could apply it on an FSA basis, but I think nonetheless, regardless of the reporting basis there'd be an interesting debate with the Hong Kong regulator about the desire to slot a commercial real estate book in that territory.

Michael Helsby

Okay, good, thank you. Thanks a lot.

Iain Mackay

Thanks, Michael.

Raul Sinha

Sorry, it's Raul Sinha, JP Morgan. Not a question on asset liability management, but on commercial real estate, just to follow up. Could you talk about what impact you might have on your currently impaired portfolio in Europe on CRE, given the trends we are seeing in prices in the first and the second quarter? I mean, there was IPD data out recently which talked about a 7% decline. Is that fall in prices already reflected in your provisioning or should we expect any further declines in prices to have an incremental impact on provisioning that you might have to take?

Iain Mackay

Well, again, it depends on whether the underlying loans are performing. So, the very fact that – on the impaired book of business, clearly depreciation in the values would filter through in terms of the level of provisioning that we would be required, but then that's assessed on a property-by-property basis and it's clearly differentiated across multiple different geographies within the United Kingdom. But on the impaired portfolio, individual properties are reassessed with respect to their market values on a quarterly basis and then with the need to increase provisions then that would be reflected accordingly.

Raul Sinha

Okay, just a specific one, then. Did the LGD go up in Europe in the first quarter?

Iain Mackay

I don't know. I don't think so, no.

Russell Picot

There's been no significant –

Iain Mackay

No significant movement, no.

Raul Sinha

Okay.

Iain Mackay

Not this year.

Raul Sinha

And then the second one was on ALM. Could you give us some idea of the profile of further balance sheet management gains we should expect on the remaining quarters? Should it be a sort of linear, equally distributed...?

Iain Mackay

No, I think Stuart gave some guidance as to... I mean, we would see balance sheet management for the year to be in the 3-3.5 billion range, but in terms of specific actions that we take in managing the portfolio, no.

Raul Sinha

There won't be any sort of quarterly fluctuation within that that we should expect?

Iain Mackay

No, I'm not saying that. I'm saying I'm not telling you.

Chintan Joshi, Nomura

Can I just follow up on that? On BSM, if I look at the... Again, trying to a do a clean up exercise without the details, but in this quarter, ex the gilt gains, BSM is about 880 and that seems like an uptick from the previous quarter run rate. If anything, with the duration of the bond portfolio, the contribution should be coming down. So, I am just trying to make sense of what the underlying BSM trend is, ex the gilt gains, where the quarter is and how we should think about that going ahead.

Iain Mackay

I mean, if you do normalise it for the gains for the UK in the European market you're right. You're sitting around 880, 850. If you go back over the previous quarters it was 836, 871, 816, 908. So it's sort of in the ballpark. I mean, balance sheet management, as you know, is managing our surplus. In Asia-Pacific, for example, any movement in policy rates tends to help revenue in that regard. In Asia in the second half of last year we saw policy rate movements in India, in Australia, in Malaysia, all of which are countries in which we carry surpluses. That helps contribute to revenues from a balance sheet management perspective. In the first quarter we saw some uplift in HIBOR rates in Hong Kong and there's clearly a very significant surplus within Hong Kong, so that was supportive in terms of improving balance sheet management revenues in that geography as well. But to pick out anything I particular it's – there's nothing.... We're not sitting around deciding to dispose of another couple of billion of UK gilts.

Chintan Joshi

Correct me if I'm wrong, but in the past you've said that the duration is about three years on this portfolio. Should we look at kind of three years rates, how they develop and then think about the trends in BSM? There's some element of very short -

Iain Mackay

Yes, you're probably going back a fair old time to come back to a three – you're probably going back at least two years to have held a standard three-year term on this portfolio. It's generally positioned a bit shorter than that now. If you go back to 2008, recognising a downward trend in interest rates, the balance sheet management team position for declining rates and move their positioning out to about a 3-4 year term and clearly that benefited balance sheet management enormously in 2009 and 2010. But that's clearly running off and generally speaking that balance sheet management portfolio's position is somewhat shorter – probably between 18 months and two years, now, on the average.

Chintan Joshi

And can I ask separate questions on APAC? I'm just trying to understand the revenue strength there, if you could give us some insight into that.

Iain Mackay

I think in terms of where we had strong revenues this quarter when compared to the same quarter in the prior year it is principally on the back of strong balance sheet growth within the commercial banking space and the global banking space over the course of the latter part of 2010 and 2011. That book of business is yielding fully what we would expect in terms of original pricing and any re-pricing. So, the revenue strength was not necessarily driven by significant increases in lending in the current quarter. There was some but it was fairly muted, in the range of 2-3%, so the strength of earnings – particularly coming in through net interest income - is on the back of the book of business that's sitting on the balance sheet coming from 2010 and 2011.

Chintan Joshi

And how much of the delta in revenues is from GBM? Just to get a sense of seasonality.

Iain Mackay

In Asia-Pacific it's not that significant. Well, there's an uptick in FX. FX was particularly strong in Asia, but it was equally strong in Europe. But generally, when we see improvements in foreign exchange business it is split between the European – between the London, France and Hong Kong dealing rooms. So there is strength in foreign exchange, a little bit in rates and you saw some weakness in Equities and our key equities business are based in the UK and Hong Kong. So, activity in the first quarter on the equities front was extremely limited, even in Hong Kong.

Chintan Joshi

If I can do a similar exercise with Hong Kong – you guided on the call regarding insurance schemes. I'm not sure what the exact number was, but...

Iain Mackay

PVIF?

Chintan Joshi

Yes. I just wanted to get a sense of underlying revenue strength there as well. And should we think about PVIF in the coming quarters as well?

Iain Mackay

Well, again, a fair bit depends on the movements and on the equities market. The sales clearly contribute to it. I did pull up an analysis on PVIF, but I don't know where I've put it now. Where did I do that? Have you got it, Russell? Yes, there we go. In terms of Hong Kong: first quarter 168; fourth quarter was 84; quarter before that was 105; quarter before that was 221; the quarter before that was 100. It's driven, obviously, by the amount of new business that's put in the book, but also the underlying performance within the existing book of business and what you did see in Hong Kong in the first quarter was a strengthening of the investment markets considerably and that clearly flows through to PVIF as well. So, a contribution of both factors: strong sales in terms of wealth management products and through the insurance business in Hong Kong as well as recovering markets.

Chintan Joshi

Okay, and those trends, they are even ex the PVIF? There will be an element of GBM, but even ex-ing out GBM, there appears to be strength. Just if I could get that kind of...

Iain Mackay

Within the insurance business?

Chintan Joshi

No, in the revenue line, so you explained the insurance bit. If you could just explain to us the GBM seasonality as well as the underlying revenue, just to see what the deltas were from Q4 to Q1.

Iain Mackay

Well, in terms of, you know.... Like I explained, the Global Banking and Markets – the recovery that you saw was principally driven from foreign exchange and rates in the first quarter when compared to the fourth of last year. Equities was down in the fourth quarter of last year driven entirely by the function of much lower levels of activity. I wouldn't necessarily attribute that to particular seasonality. The first half of the year is traditionally stronger. I would've said the first quarter in Hong Kong was slower than we would've expected.

Chintan Joshi

Okay, and last question from me is Latam asset quality. I think on the call you said – or it's in the text somewhere – it said that impairments have increased in line with the underlying loan growth, but last June the numbers were about 60 basis points. I work it out to be about 1% here. I was just trying to understand how that asset quality is developing. There seems to be a bit more than just underlying lending growth.

Iain Mackay

Yeah, I mean, within Commercial Banking and within the Retail Bank in particular we've seen an increase in delinquency over the course of the last – most notably in the first quarter but there were signs of that developing in the fourth quarter of last year. It sits within the retail bank, the consumer finance portfolio, the Losango portfolio, which has historically and cyclically higher delinquency rates coming through. When you see a little bit of stress in the economy we tend to see higher delinquencies coming through Losango. It would probably be best described as a sub-prime consumer finance lending portfolio, which is being managed down.

And then within Commercial Banking - and I think as Stuart commented – there is a fair degree of volatility within the Brazilian marketplace and as we see that volatility coming through it's reflected in higher loan impairment charges, but what action you would expect of us in that regard is that there's been a fair bit of tightening around underwriting standards, particularly within the commercial banking space. It is Brazil; it's focused on Brazil at the moment. We're not seeing the same trends develop in Argentina or Mexico, or, for that matter, any of the smaller markets in Latin America. So, the team's got a good focus on it. It's not of particular concern, but as you can imagine it's being monitored closely.

Andrew Coombs, Citigroup

A couple of questions on BSM and then perhaps on UK loan growth as well. Firstly, on BSM, two questions, as I mentioned. One, if you could perhaps give us an idea of the unrealised gains on the BSM gilt portfolio, given what we've seen in terms of the unrealised to realised movement in the first quarter. And then secondly, in terms of the news flow overnight from one of your competitors of a 2 billion loss on a synthetic credit portfolio as part of their BSM, just wondered if you've got any similar positions there or whether you think that's a unique occurrence?

Iain Mackay

Well, I'm not sure – well, a) I don't have the information to hand and I'm not sure it would be particularly helpful to give you any insight to the unrealised gains sitting within the balance sheet management portfolio, by virtue of the fact that they're unrealised gains. In terms of what we do within balance sheet management, what we do within balance sheet management is exactly what we actually say we do within balance sheet management. We're managing the surplus deposits. It's sitting in highly liquid, high quality – in bonds, basically, all of very generally speaking pretty short duration, as we mentioned earlier – tends to be less than two years. I've got a bit of a breakdown of it here and I've mislaid that as well.

Iain Mackay

So, 30% of it is central bank – and you know what the balance is in the central banks. It's about 150 billion. 56% is government securities, supra-national or related agencies. 11% of it sits in interbank lending and there is 3% that is sitting in covered bonds, munis and certain other asset classes. The hedging is done through plain vanilla derivatives, primarily interest rate derivates because that's the risk that we're managing – the risk on the balance sheet is interest rate risk. But as you can imagine, based on the manifestations of the last 24 hours, our balance sheet management team is spending a fair bit of time this morning going through and reviewing the content of their portfolio once again.

Russell Picot

Just specifically on the news flow, the BSM mandate does not allow them – and it prohibits them from investing in synthetic credit products.

Andrew Coombs

That's very helpful. Just on to the UK, interesting in the first quarter a lot of the loan book growth was coming from the UK as you mentioned on the conference call. 4% growth in personal and also 4% in corporate and commercial at a European-wide level.

A couple of questions there, first on the personal side -you talked about a 15% market share year-to-date of new lending versus an existing stock of 6%. Clearly you're taking market share there – you're taking advantage of some of the problems with competitors in the marketplace and I just wondered what you think is the ideal market share you would like to move to in terms of stock overall going forward and what you see as the possibility over the next couple of years. And then on the corporate and commercial side, again there you've seen a big step change. Last year a lot of growth was in international trade surplus and this time around it's in manufacturing. I just wondered what the big step change coming through was in the first quarter there in terms of your strategy.

Iain Mackay

Okay, on UK mortgage lending, first of all, there isn't a target market share. There is a portfolio characteristic that we are happy to grow into. As – some of the data we threw out on Tuesday would indicate the level of conservatism around this. I mean, generally speaking, the maximum LTV a new customer to the Bank could accomplish would be 80%. There are exceptions above that but they are truly exceptions. On the average the LTV for new mortgages sits between 70 and 80%. The stock as a whole is 55.3%. In terms of the overall market share it's less than 6% and there is not... We don't have a 10/15/20% market share target out there. There's a set of criteria that's been set and we're lending in to that criteria. And to the extent the market is able to fit that criteria, then we'll continue to grow; to the extent that we're not, I suspect that we would be happy to limit our lending into that particular sector.

From a commercial banking standpoint in the UK there is – and I can reassure you it's not because of the bidding of the UK government – but there is a focus on SME lending. There's a focus on internationally-oriented SME lending. It is not specifically differentiated by industrial sector within the UK. It is again the characteristics of the company and particularly whether there is a growth story internationally that we can support. We specifically announced that we would earmark $12 billion worth of new money for that sector. In the first quarter new SME lending, new money, was about 3.1 billion, which is up slightly on the same quarter last year and specifically in terms of the 12 billion for the internationally focused we had about 1.3 billion that had been delivered in the first quarter.

The focus overall for the commercial banking business is that internationally connected focus, whether it's a customer sitting in the United Kingdom or France or Germany or Hong Kong, for that matter, and that's an underwriting model that is working well for the business at the moment.

Russell Picot

I think you're also seeing a bit of an accounting impact because there's netting of customer deposits that runs through that and there's a little bit of noise and currency impact coming through that makes the reported numbers larger that the underlying actually.

James Chappell, Berenberg Bank

The question might be... One request, if possible, please, could we have the turn on risk-weighted assets to two decimal places? Because this might answer the question I wanted to ask –

Iain Mackay

You are kidding, right?

James Chappell

No, no, this might answer the question, because the risk-weighted assets in the US seem to go from 350 billion at the end of the third quarter to 300 billion. Is that the actual change in terms of risk-weighted assets within North America or is that movement lower than that?

Iain Mackay

Say that again, sorry?

James Chappell

The risk-weighted assets, if you back them out, looking at North America, imply to go from 350 to 300.

Iain Mackay

From fourth quarter to first quarter?

James Chappell

From Q3 2011 to Q1 2012.

Iain Mackay

No, because it hasn't been sold at the end of the first quarter.

James Chappell

That's why I was sort of asking for the two decimal places. It might explain it. Why not give the risk-weighted assets?

Russell Picot

Can you just read those numbers again? What are you saying?

James Chappell

Yes, if you back out the implied risk-weighted assets for North America, at the end of Q3 2011 it was 350 billion.

Russell Picot

At the end of Q3?

James Chappell

Yes, and then on the back of Q1 it's about 308 billion.

Iain Mackay

That's not right. At the end of December, it's 337 billion, that's 2011. At the end of March it's 326 billion.

James Chappell

Okay, so it hasn't moved.

Iain Mackay

No, not significantly.

James Chappell

Okay. But if we get the risk-weighted assets on the division, I won't...

Russell Picot

So, what you would like to see is our RWAs by geography, quarterly?

James Chappell

Yes. Thank you very much.

Iain Mackay

That's fine. Okay.

Frederik Thomasen, Goldman Sachs

You touched, on the call, on the group's gearing to a more normal rate environment. I was wondering if you could may share your thoughts on how the group, in its long-term planning, thinks about the gearing in the revenue side toward a more normal rate environment, versus, you know, what kind of kick up you could see on the impairment line. So, when you think out three or four years, how do you feel about, I guess, profitability – the profitability impact of a more normal rate environment? And I have a second question as well.

Iain Mackay

On your first question I think we'll talk about that a little bit more next week, Fred. In the Annual Report, we provided, as we do certainly in recent years, guidance around what the sensitivity of net interest income to rate movements, quarter point rates – four consecutive quarter rate movements on the US dollar. Rates – that guidance from the end of the year remains relevant.

In terms of where you see stress coming through the portfolio, clearly the most significant element we've got within our loan impairment charges is in the consumer mortgage lending run-off portfolio. Given the level of forbearance measures that we've done over the last three years in that portfolio, the sensitivity of that to rate movements would be very, very low. Would be very, very low. So, our planning assumption specifically in that regard would be that we would not have a great deal of sensitivity in LICs based on US dollar rate movements in that portfolio. If anything, given the stance of the Fed, if there were rate movements it would be generally indicative of an improving performance from an employment perspective and overall sustainability of a slow recovery in the US and I think those factors are all positive for the performance of the CML portfolio, the recovery of house prices and generally loan loss experience in that – by far the largest part of our experience.

A market to which we would be, I think, quite sensitive to those LIC to rate line movements would be the UK market and that's by virtue only – well, not only, but by virtue in part to the level of domestic indebtedness that exists in the UK.

That being said, when you look at the mortgage portfolio which is the single largest exposure for us in the UK in the retail bank/wealth management sector, it is of a premier customer type. For any of you that have a mortgage with HSBC, you tend to need to have a fairly health deposit sitting in the bank account with us before you get one. So, it's not to say there wouldn't be loan impairment charge impact, but I think at least in that portfolio it would be relatively muted in terms of its overall impact on the profitability of the group. I think the bigger question would be the impact on our commercial portfolios and the overall sustainability of corporate profits in the UK, unless interest rate movements were partnered with a broader-based recovery within the UK economy. Yes, I think there's still enough data out there that indicates that the UK household hasn't done the amount of deleveraging that needs to be done on a proportional basis to what's been accomplished in the US so far.

By contrast, large corporate balance sheets seem to be in pretty good shape. Small/medium, as time progresses, also, they seem to be okay just now; as time progresses it's not unreasonable to assume in declining revenues that those balance sheets could come under a bit more stress.

Frederik Thomasen

But presumably even in the UK there's also an excess deposit position, I guess. So, even in the UK you'd also have some kick up?

Iain Mackay

Yes, absolutely, yes, now, it's more of a balanced position overall in terms of A/D ratios and advances to core funding in the UK, but you are right, yes.

Frederik Thomasen

So, the second question would be it looks like the card sales to Capital One closed on 1 May. It looks, from the disclosure of the Finance Co., as if out of the gain that you guided for, about 1.4 billion on a post-tax basis will be booked in the finance call and it also looks like there will be a capital release within the Finance Co. related to the receivables that were funded there as opposed to in the Bank.

Iain Mackay

A lot of the receivables actually sit in HBUS, in the Bank. So, to the extent that those portfolios are sold out to the Bank, the gain will be realised within the Bank because they are legally owned by the bank.

Frederik Thomasen

But is it correct that about a third of the receivables were funded in the Finance Co,?

Iain Mackay

That's right, yes.

Frederik Thomasen

So, the questions is simply, if you add those two up it's a quite substantial chunk of capital and the question would simply be if you could share your latest thoughts on the ability, I guess, to upstream that capital and the outlook for that.

Iain Mackay

Those thoughts are the same as three months ago, and that is that until we've made progress on clearing cease and desist along with peers in the industry around foreclosures, around the Bank Secrecy Act and anti-money laundering and not necessarily cleared our feet of those but made significant progress and addressed any matters that the US government and agencies of the government might want us to address – that would be, I believe one criterion that the Fed holds in front of us. A second is further progress in running down the CML portfolio.

I think we can argue, but I think we argue in vain, that we have demonstrated over the last four years that we know how to run down that portfolio and that we have shown a continuous improvement – certainly over the last three or four years – in managing the overall forbearance programmes and the loan impairment profile with reasonable consistency, allowing for some seasonality that comes through that portfolio. I think the third element is demonstrating to both the Federal Reserve and the OCC the sustainable profitability of the Bank, excluding those credit card portfolios: so, the sustainability of Global Banking and Markets, Commercial Banking and our relatively small, premier-focused retail bank and wealth management business in the US bank. That has always been a question in the minds of the Fed and the OCC: when you take the finance company out of the equation on a standalone basis, has that Bank got a consistent, sustainable profile of profits? And I think if we address each of those three key broad areas or broad criteria, I think demonstrating significant progress against them then over the course, I would expect, of the next 18 to 24 months that we can have productive discussions about extracting that capital.

However, in the meantime parts of that capital can be deployed in a number of ways. One is to help us grow the commercial banking business of which there is a key focus with the US, particularly in the west coast and certain parts of the Midwest – and by the Midwest I mean Chicago basically – but also in terms of opportunities to accelerate the rundown of the CML portfolio. So, we've had in place for a couple of years now, as you know, a team which responds, basically, to reverse inquiry around the possible sale of small tranches of that portfolio. We recently had an external banker come in and do very, very detailed tranche-by-tranche, product-by-product performance analysis on that book in preparation for, frankly, just being able to respond much more robustly to reverse inquiry and potentially taking a more aggressive stance with respect to selling that book of business down, as hopefully property values improve over the course of the next 12 to 18 months.

So, we have a view that if some of that capital can be deployed in a reasonable economic fashion with reference to net present values of a disposition versus a collect out scenario, and that that makes sense then I think it would be beneficial to get as much of that off the book as quickly as we could.

Frederik Thomasen

And just a very quick follow up on the back of your profitability comments, it's simply to ask whether, on the back of the card business sale, whether there's any risk to the DTAs. I realise they carried at the level of HSBC North America, but the DTAs – I think it is about 3.4 billion relating to the Finance Co. I guess profitability is reduced quite significantly on the back of the card sale. Is there any risk that the DTA recognition would be impacted?

Iain Mackay

No, we don't believe so. I think, you know, the principal element of that deferred tax asset is the timing difference between recognition of a loss for accounting purposes versus charge off for tax purposes, so you only get the tax deduction when the accounts charged off.

So, in terms of NOLs they will be used against the gain on sale of the cards and the cards business in the up-state braches. In terms of the remainder of the deferred tax assets, it's principally those timing differences. Those timing differences would be realised as that portfolio runs down and, as you know, that's a fairly extended run off unless we can find ways to accelerate that through dispositions, but the longer-term plan - and there is no limit on the utilisation of those deferred tax assets – but the longer term outlook for the profitability of the Bank would indicate that we can use those deferred tax assets. And clearly the surplus capital sitting in the US and the returns from that surplus capital help absorb some of that as well.

Manus Costello, Autonomous Research

Can I just come back to the comments you made about commercial real estate slotting? I just wanted to check I heard correctly. You were talking about a $45 billion increase, is that correct, just in Europe?

Iain Mackay

Yes. Is that Europe, or is that global, James?

Manus Costello

Because I was just looking - your CRE exposure in Europe is about 32 billion.

Iain Mackay

32 billion - I think it's global. I should check that and come back. It's 45 billion but we'll check and come back. I know it's 45 billion. I've got to get it clear in my own mind whether it's global or...?

Manus Costello

Because if you pro rata that it could be quite substantial if it is applied globally if you were to pro rata it. Okay, if you could come back that would be appreciated.

Iain Mackay

We will indeed.

Manus Costello

Thank you.

James Chappell

It's James Chappell from Berenberg again. Iain, could you talk a little bit about current liquidity in the market? Because it seems to me, having been to a number of banks, that a lot of banks seem to have pulled in their horns recently, and just talk about current liquidity conditions, what you've particularly seen in Asia in terms of European banks coming into and out of the market, and I suppose your views as to how you see that liquidity developing because it seems that the ECB's LTRO has only really helped for a few months and we seem to be back at where we were towards the end of last year. That would be very helpful.

Iain Mackay

The LTRO I think has addressed only one thing and that's refinancing risk for certain banks, and it's been effective in addressing the refinancing risks. So it's taken a liquidity crisis possibility, which probably would've been hitting round about now had that not been done, off the page. But when you look at where a great deal of that funding has gone – it's gone out of one Government pocket into another Government pocket, so the co-dependence between large banks – you've got to call them quasi-nationalised enterprises now even if their ownership structure doesn't necessarily indicate that to be the case. That in and of itself prevented a crisis but it hasn't per se or hasn't improved the operational liquidity and the flow within the market on a day-to-day basis in Europe.

Within the US and the Asian markets, the interbank markets are looking – I wouldn't call them healthy but the level of confidence on trading on the interbank market in the US, the Americas more generally and in the Asian markets remains fairly solid, with the exception of the role of certain European banks within those markets where there's certain risk aversion to those names. That would be consistent with what we've seen in Europe – that there's an aversion to those names in Europe as well. However, within Europe some of those institutions have retrenched from a more global footprint to a more domestic-looking footprint. And, as a consequence of which, they do have stronger liquidity positions, at least as reported on their balance sheets. As a result of which, it probably looks a little bit better than it otherwise would have done within the European market place.

That being said, in the European area, based on just continuing uncertainty and an inability – and one can understand that inability to a certain degree because it's clearly a very complex and attractive set of economic and social challenges - it's just not changing; it's not moving and it's not obvious how it improves. If you look at our balance sheet, there's over £150 billion sitting in deposit with central banks. We are a net provider of liquidity to the marketplace, but our level of confidence in terms of providing that liquidity – and that's spread broadly across three institutions: the European Central Bank, the Federal Reserve and the Bank of England. It doesn't look good and in the European area there's nothing you can point to that would necessarily make it better in the short term.

Thierry is not here. I don't know if anyone else would have any point of view on that.

James Chappell

But from your perspective are there opportunities within Asia – for instance, French banks traditionally financed a lot of, I suppose, the commodity trading through the trading houses out of Switzerland. Are there opportunities like that appearing to you now that new businesses you'd necessarily go into because of this liquidity withdrawal from European businesses or…?

Iain Mackay

What we've… there are parts of our Global Bank and Markets teams that have… Payments and Cash Management had two or three very strong quarters now where one has to assume… there are a lot of mandates being tendered and one has to assume that those corporates are looking at their existing providers and going, 'Maybe I'd rather be with somebody else'. That is one example of where our Payment and Cash Management team a) is very busy and, secondarily, thankfully, has been very successful in picking up some very attractive mandates. I think that's one manifestation about a little bit of a shift in terms of who clients see as being reliable and strong providers. And I think when you look at the capital and liquidity position of HSBC – and frankly a good Payments and Cash Management platform - much improved over where it was over two years ago, with a good leadership team in place - it's absolutely an opportunity for us against which we're realising progress.

Ian Gordon, Investec Securities

It's Ian Gordon from Investec. Just a small point, really – I think you told us that there was a £3 billion swing in reverse repos. Can you tell me geographically where that move was and then, possibly linked to that, in non-bank financial institutions' loans and advances - I know it's a volatile number, but North America went up £6 billion. Is that just you changing the geographic mix of your BSM activities or is it something else?

Iain Mackay

The former on your last question. In terms of repos – hang on, I need to dig for that one. I'm not even sure I've got that with me. Russell?

Russell Picot

I've got a £2.8 billion change. Is that right? And I guess most of that's going to be North America.

Iain Mackay

I think it is – yes, it is. There are two broad swings– there's an adverse movement in Europe and a positive in North America which nets out to £2.8 billion on reverse repos, so it's a rebalancing between Europe and North America.

Russell Picot

Yes, but they are slightly different books. They don't necessarily move in tandem.

Christopher Manners, Morgan Stanley

Good morning. It's Chris Manners from Morgan Stanley here. Iain, do you think you could tell us a little bit more about how it's going in trade finance, particularly in terms of your ability to grow balances and competition? I know Standard Chartered was saying that they're seeing more competition from US banks in the space and, you know, I guess it's obviously a small part of your business but it's a growing one compared to the pace of the group.

Iain Mackay

The Trade Finance team has had an incredible run and that continues. Really in our global footprint I think that Hong Kong and the rest of the Asia-Pacific team has particularly shone, but that's equally the case within Europe and within Latin America. That would probably be the three key areas where Trade Finance – and you can call that our Factoring business as well – has done incredibly well - huge flow business short term and good tie in to foreign exchange businesses as well, good old boring business like documentary credit and the like. That hard core operational business, it's really led out of the Asian team – the brains of the operation sits in Asia – and that's really where the core strength is. But that's expanded most notably into Latin American businesses: Brazil, Argentina – most significantly over the last 18 months, two years – and it's doing extremely well.

The good news as well from a regulatory standpoint – Basel's softened its stance significantly to the treatment of Trade Finance from a capital perspective and from a liquidity perspective. So that's encouraging. If we'd had that discussion a year ago we'd have been quite worried about how the Basel regime would have treated Trade Financing and I think that would have had significant implications for broader economic development and trade flow generally. Everything that we see coming out of that team is encouraging. They've got, I think, a fairly conservative positioning and they've built some very, very strong relationships, particularly out of Asia, but that expansion into Latin America has been particularly noted over the last year.

Christopher Manners

And on the competition element? Are you seeing much change there?

Iain Mackay

In Asia – I think this probably sounds like a horribly arrogant remark, but in Asia it's really for people to compete on that front. It's interesting that Standard Chartered would say they see good competition coming from American banks – that's because they don't really compete with us.

Christopher Wheeler, Mediobanca

A couple of small questions – the first one: on rest-of-Asia impairment charge you talked about the Singapore and Australian one off. Could you just give us a flavour of the underlying charge on rest of Asia in the period?

Iain Mackay

It's fairly stable. I've said this for a couple of years now, much to the chagrin of our Chief Risk Officer in Asia, but I think the market that I'd like to keep a close eye on is Australia.

Christopher Wheeler

Why's that?

Iain Mackay

Their entire economic strength is based off natural resources and there's a housing market which is… five of the most expensive cities in the world are now in the Australasian continent. The question is: is that whole boom on the back of natural resources sustainable. Some of that relates to how sustainable China is and if China has a soft landing then probably all's well with Australia for the foreseeable future. But I just think Australia merits keeping a close eye on.

Christopher Wheeler

That's interesting. In terms of the… I wanted to ask on the run-off portfolio in the States – you touched on most of it, but I was going to ask you where that actually is as result of some of the logjam being broken at the end of last year – whether you've actually seen more bids. Is the fact that you've had the whole portfolio reviewed so you can see how more saleable it is that you are seeing more bids? Perhaps also just give a flavour – you said you're going to have some capital there to help you speed that up. How are you judging what you're willing to take in terms of losses? Is it just a matter of being opportunistic and saying, 'We have the ability to [inaudible] the balance sheet here, but, you know, take a bit of a hit to capital' or are you trying to push a bit harder in terms of limiting those kind of losses? In other words, how quickly do you want to get out? Really, that's the question.

Iain Mackay

Well, we'd like to do it as quickly as we can, but only if it makes economic sense to do so. The reason for having a team come in and go through that in great detail is that when you operationalise these sales you're selling individual loans and tranches of loans. The operational support for that is extremely complex. So part of it is just looking at the valuation, understanding a loss profile, the performance, the level of forbearance that we've implemented across different segments of the portfolio, and it's a very detailed sub-segmentation of the portfolio that we've gone through.

So part of it is to identify the different performance characteristics of that portfolio to enable an analysis against a collect-out scenario versus an accelerated disposition in response to a reverse inquiry. Based on that, we have the information now that when we're hit with interest we can look at that in a range of bids and based on information that we've got we can say, 'Right, collecting this out based on our expectations about house prices, delinquency, impact on capital as we review the treatment of that from a regulatory perspective' and make a decision about whether it is, on an NPV basis, a transaction we are prepared to make.

So we're absolutely not in the frame of mind of, 'Let's just get rid of this thing at any cost'. That is not the intent at all. It is to arm ourselves with the appropriate level of detailed analytics to make that decision quickly because you do have to respond quickly. What I can say is that the level of interest has not accelerated significantly. There are half a dozen players out there that do this stuff fairly well, but you would say they would still seem to have fairly a muted appetite. There are bids out there but nothing that we would hit at this point.

Christopher Wheeler

Thanks. Then just a final point: NSFR – where's your pro forma number at the moment at the end of the quarter?

Iain Mackay

Fine.

Christopher Wheeler

I'll put that in the report – thanks.

Iain Mackay

Both LCR and NSFR is not an issue for us.

Michael Helsby

It's Michael Helsby from Merrill Lynch again. Just a couple of points and then a broader point - on the non-qualifying hedges, that's predominantly just in Europe and the US. Is there any point on the yield curve that you can point to that as a general rule of thumb that, say, things go up 10 basis points it's $100 or whatever?

Iain Mackay

It's basically long-term US dollar rates, so when they did the twist or the… what did they call that thing?

Michael Helsby

Operation Twist.

Iain Mackay

When they did that it was basically to pull down the long-end US dollar curve and it's the 10 years. As you saw, that quarter it hit our NQHs to the tune of several hundred million dollars. This is basically hedging US dollar debt issued out to the holding company and the HBIO, either fixed swap to floating or floating swap to fixed to match the profile of the assets that that's funding, and the non-qualifying hedges are in place to manage the long-term interest rate –in the US it's there to manage the long-term interest rate risk. On a portfolio that was about 33 months on-book on average in 2007, which is now over 70 months on-book. So as that portfolio lengthens out the number of NQHs that we put in place were there to hedge against the long-term interest rate risk as that portfolio term lengthened.

Michael Helsby

And Europe it's…

Iain Mackay

It's debt issued out of the parent company, again, long term.

Michael Helsby

10 years.

Russell Picot

It's EURO - US dollar swaps for example, so it's relative movements in long euros and dollars, for example. It's just currency issuance out of a holding company then swapped.

Michael Helsby

You mentioned in Brazil the issue is more in the Losango book. I was wondering if you could just tell us how big the Losango book is.

Iain Mackay

About £4.6 billion I think it is.

Michael Helsby

And then just as a final point – clearly there was a lot of focus on your loan progression in the second half of last year, and loan growth picked up a touch in Q1 but nothing really significant – certainly not relative to what we saw in the previous 18 months/two years prior to the first half of last year. I was wondering: is what we are seeing now the new normal that we should expect given competition, the fact that things are slowing down a bit, or is what we are seeing now a cyclically depressed level of loan growth?

Iain Mackay

That's a great question. That depends, I think – but ultimately this is stating the glaringly obvious, probably – it depends on the market place. I think Hong Kong – you can speak to certain Hong Kong commentators, even speak to our Chief Economist in Hong Kong – he has a view that you could see a quarter of recession in Hong Kong this year. And the Hong Kong market responds incredibly quickly to – you could call them macroeconomic indicators, but in Hong Kong's case they're probably microeconomic indicators. And they will retrench and reduce risk appetite very, very quickly. I think what we are seeing in Hong Kong is a level of loan growth that we are happy with, given what we've experienced over the course of the last two years out of Hong Kong.

If you look at some of the other Asian markets – I talked about Australia, I think we've tightened out risk appetite in Australia over the course of the last year, but continued to see sectors that you can lend into, albeit at a somewhat more muted level. Markets where we see continued faster growth tend to be smaller markets and therefore have less of a significant impact on the Group's balance sheet would be markets like Malaysia, Singapore, Vietnam, Brazil – but I think we need to be measuring Brazil just on the back of what we've seen over the course of the last two quarters. We've talked about some of the segments in the UK that we like based on where we stand in the UK in respect of balance sheets – we think we can attract the kind of customers that we like and have got the right sort of risk profile for what we do.

So there are still pockets where we think there is good high-single-digit growth opportunity, but when you look at some of our key markets like Hong Kong, like the UK, it's low-single to mid-single-digit numbers that we're looking at realistically for this year. And I think going much beyond this year it's difficult to say.

Michael Helsby

Thank you.

Iain Mackay

There's another aspect that goes a little bit to loan growth as well, and one of the things which we discussed is just the continuous run-down of the US portfolio has quarter over quarter, somewhere in the range of £1.5 to £2.5 billion reduction in loans in advances to customers. So the importance of us breaking out to provide visibility of where there is some loan growth is something that we continue to do, and we need to continue to go more granular so when we see what growth is coming out on a constant currency basis we can highlight that – not necessarily for your benefit, but it's that in line with what we're trying to do in shaping away from some of the more developed markets into some of the developing markets in terms of distribution of risk weighted assets.

So going to the earlier point – we've got over $300 million worth of risk-weighted assets sitting in the US. Would we sooner have a third less or even a half less in the US and that deployed into Asian and Latin American markets? The response to that question is definitively yes, but that takes time to accomplish. We can't – for the same reason around Fred's capital question – we can't pull the capital out like that for a number of reasons. And even if we could we couldn't reduce the size of the… well, there's a lot of surplus capital in the US so it's slightly different, but where we are wanting to orientate away from some of the slower growing markets to where we see a greater growth opportunity it will be a progression over two or three years as opposed to something that we can make happen over the course of a year or 18 months.

Michael Helsby

Just following on from that – actually I noted this quarter that your deposits slowed down quite a long way. Is that by design - i.e. are the loans where you don't need the deposits?

Iain Mackay

Yes, we're not out chasing the deposits.

Michael Helsby

Have you changed pricing to sort of…?

Iain Mackay

Yes, there are markets where we're pricing differentially because, again, this is… the way the Group is managed is market-by-market, branch-by-branch, so there are some markets where when we go through our advances to core funding ratios, they're not where we'd like them to be and therefore we're out and we've got deposit programmes in place. But those tend to be at the moment most of our smaller markets, smaller developing markets – so there are in those markets key deposit gathering programmes in place priced differentially to do that. That generally is informed by the fact that we see a loan growth opportunity in those markets as well. So it's sort of building in those markets where… and much of that is in the commercial banking space or global banking. In large markets like Hong Kong and the UK, the opposite direction.

Frederik Thomasen

Fred Thomasen, Goldman Sachs. It looks like you'll have a Government White Paper on regulatory reform in the UK within a month or so.

Iain Mackay

14 June is what I'm told, yes.

Frederik Thomasen

So it looks. I was wondering if you could share with us, partly if you expect any changes relative to the initial response back in December and partly specifically what your latest thoughts are on primary loss absorption capacity in the context of HSBC with this notion of assets systemically important to the UK or not.

Iain Mackay

The short answer, Fred: no change. Douglas and I had a long note last night from a colleague who spends an incredible amount of his time over at the Treasury, just doing the normal consultation process going through the 22 different workstreams that the poor guys in the Treasury have been handed to sort out. And having read about two and a half pages of this note from James, the simultaneous conclusion from Douglas and I was, 'Right, James, so nothing's changed since December', to which he somewhat downheartedly responded, 'Yes, I think you're right'.

The conclusion I drew probably incorrectly is that the guys at the Treasury are playing their cards very close to the vest. James's interpretation wasn't that. He said this is incredibly difficult and they're now further complicated by you're seeing the Liikanen Commission looking at this for the European Commission. They're going to put out something on 14 June, but they're also sitting around saying, 'Hang on, we don't want to put out something that's going to conflict with what the European Union said on crisis management', for example, or would necessarily be wildly at odds with something that Europe may come out with respect to broader resolution on loss absorbency.

So one of the things that's been going around in Europe, as you probably know, is 10% of gross liabilities net of equity – not risk-adjusted; that's on gross basis. That's a staggering number, on the top of 9% or 10% core tier 1. That's just – that's out there as a discussion item I suppose. The Treasury have an interesting dance to dance between now and 14 June about what they write because they clearly – one assumes – they don't want to write something that within a month or so will suddenly become… will be revealed to be very much a conflict with what their European colleagues are doing, but the European process is at a completely different stage. So: no change.

Any calculation we do looking at the impact of primary loss absorbing from a cost perspective is not out of line with what Alastair and his colleagues at UBS did – whenever it was – last September when the Vickers Report came out. I think our response to the Chancellor's statement in December around, 'Well, it would only apply to UK provided an institution can demonstrate that globally it doesn't present risk to the UK depositor or the UK taxpayer'. We've got a very substantial allocation of resources and have had for some time against development of recovery and resolution plans to meet requirements of the FSB through the FSA, but also because we actually find we're learning a good deal, about responding or Vickers or responding to Liikanen, what the alternatives might be for us.

What we're actually finding as well is that by going through that dialogue with the FSA they are learning… we view this as being a good thing. If you were to take a somewhat cynical approach you would say, 'Well, they should know this already', but they are learning a great deal about the Group, which is good. I think it's building for them a better understanding of the legal entity structure, how we manage asset liability management, capital management, risk appetite, set limits, set caps, how we monitor those, how we take actions on a daily basis, the overall governance of the group.

So I think, although it's a gut-wrenchingly detailed process I think it's proving to be rather fruitful in terms of the knowledge that that's developing for our supervisors and that will be reflected as we develop this globally for the Federal Reserve, the OCC, the HKMA, Monetary Authority of Singapore, the ACP in France and so on and so forth. But it takes a significant allocation of resources to do that. In terms of what we need to implement, we'll find out more in June maybe.

Frederik Thomasen

But just judging from your comments, is it fair to say that you're slightly more optimistic than you were maybe three months ago?

Iain Mackay

No, I wouldn't. I would find myself damned by the error of a response on that because I don't know what's in the report on 14 June. I'm afraid, when it comes to regulation I'm the least optimistic person on the face of – well, I wouldn't say the face of the planet; I know a few others who are even less optimistic, but I'm not optimistic. Individually – you take any individual part of this and I wouldn't view that particular proposal of regulatory reform as particularly damaging.

What concerns me, and I don't think anybody has the answer to this now, is: what is the cumulative effect of this? All that is being implemented - there is no consistent framework, the timetables are all over the place, there is not broad-based agreement in Europe, as yet, as to how Basel III is to be implemented, either with respect to capital, liquidity or broader governance. So it's the compounding, cumulative effect of regulatory change which is worrying; it is not per se Basel III. There are elements of Basel III about which European banks have railed against – whether it's been the NSFR or the calibration of LCR, what's included as liquid securities, calibration of capital, capital buffers, how capital buffers are to be implemented, who gets to make those decisions.

There's nothing per se – one assumes all of the detail of that can be worked out and calibrated over time as experience informs us, but when you layer on top of that either Liikanen or the Dodd-Frank Act and the so-called Volcker Rule, or the outcome of the Vickers Report. It's the cumulative effect on the industry and the real economy, and then at a more microcosmic level the importance of managing operational risk inside this organisation as we respond to that.

Nick Collier

Okay. We've actually gone past time; thank you everybody very much for coming along and for your questions. You can see those reported next week on the website, and of course looking forward to seeing you next week.