Annual Results 2011

Presentation to Investors and Analysts

27 February 2012, 11.00 am GMT

Douglas Flint, Group Chairman

Hello, and a very warm welcome to everyone who has joined us today. As I was introduced, it is Douglas Flint, Group Chairman. With me is Stuart Gulliver, Group Chief Executive, and Iain Mackay, Group Finance Director. Before we start, can I just say that at our Board Meeting on Friday both I and the Board expressed to management our satisfaction with the progress made during 2011.

We have begun to execute the strategy that we set out in May last year, reshaping the group, positioning the business for growth and continuing to build sustainable, long-term value for shareholders.

In a moment Stuart will talk you through the highlights for the year, then Iain will take a detailed look at our financial performance, and finally Stuart will cover the performance of the business against our strategic objectives in more detail. Stuart, over to you.

Stuart Gulliver, Group Chief Executive

Thanks, Douglas. We will cover the detailed financials in a moment, but I want to start by pulling out the key points for 2011. As you can see, reported profit before tax was $21.9 billion, up 15% on 2010, but on an underlying basis profit before tax was $17.7 billion, down 6% on 2010.

We have increased dividends paid to our shareholders by 14% to 41 cents, paying $7.3 billion to our owners. And as you will see later on, this is less than the amount we retained to strengthen the capital base of the Bank and reinvest for the future, but more than the total variable pay for all of our staff worldwide. We think these proportions are correct. We also increased earnings per share by 26% to 92 cents, compared with 2010.

Moving on to the key highlights. First, you may recall we announced some overhaul and redesign of HSBC last May, and I am pleased to be able to say that we gained traction in the first seven months of a three-year journey designed to simplify the structure and improve the management and control of the firm, thereby improving returns and positioning HSBC for growth.

We got off to a quick start, announcing the disposal or closure of 19 non-strategic businesses, of which 16 were during 2011, including two large transactions in the United States. When completed, these transactions should represent a reduction of around $50 billion of risk-weighted assets, and a transfer to the acquirers of the equivalent of around 12,000 full time employees. The capital will be redeployed in our growth businesses.

We also began to delayer the Bank with four programmes to improve our efficiency and effectiveness. These are designed not only to reduce costs and bureaucracy, but also to improve controls.

All three aims are equally important.

Second, we have positioned the business for growth. People, especially here in the UK, often forget that the global economy actually continued to grown in 2011, with GDP in faster growing markets rising by 6.1%, and developed markets by 1.3%. Our businesses outside the UK accounted for 80% of revenues and over 90% of our profit before tax.

We grew revenues by 10% in the faster growing markets. In commercial banking we saw record revenues, and profits were up 30% compared to 2010 as we continued to establish our market leadership in global trade, which is a heritage business for HSBC.

Our operating expenses for the year were $41.5 billion, but include notable items, restructuring costs and investment in faster growing markets. The operating expenses increased $3.2 billion compared to 2010. This breaks down as follows:

- $1.1 billion in higher staff costs,
- $1 billion increase in restructuring costs recorded in 2011,

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- $1 billion in other notable items.

The higher staff costs were driven largely by wage inflation in Asia Pacific and Latin America. You will recall we said in May that we would meet these costs to ensure we remained competitive in our key markets. Most critically, our investments in markets such as Asia and Latin America, and in commercial banking drove profit before tax growth, and had positive jaws, showing that this investment has indeed paid off.

Included in restructuring costs are staff-related expenses of $542 million, impairments of certain software projects of $325 million, and with the remainder being premises related. Included under the other notable items are customer redress costs in the UK of $898 million and a UK bank levy of $570 million, and a provision for US mortgage foreclosure and servicing matters of $257 million, in part offset by a UK pension credit of $587 million. Ian will cover all of this in more detail later.

Since we announced our strategy last May, we have already achieved sustainable cost savings of $900 million. This is equivalent to $1.3 billion on an annualised basis. We have also identified a strong pipeline of further sustainable savings to deliver towards the upper end of our target range of $2.5 to $3.5 billion by the end of 2013. Third, our return on average shareholders' equity was 10.9%, up from 9.5% in 2010, though this includes favourable fair value movement on our own debt.

We have set an RoE target of 12% to 15%, and remain confident as I said at the third quarter interims, of hitting 12%. The reason is quite straightforward. An RoE of 12% to 15% is supported by a pre-tax return on risk-weighted assets of 1.8% to 2.6%. The Hong Kong Shanghai Banking Corporation, at a 21.6% RoE is well above that range, and Commercial Banking was already firmly within its return on risk-weighted assets target range.

The overall return of the Group continues to be depressed by the capital deployed in the US consumer finance business and in legacy credit businesses in Global Banking and Markets. Excluding these businesses, which are all in run-off, and the US cards business which we are selling, the remainder of the Group achieved a return of 2.2%, which is well within the target range of 12% to 15% RoE. So that is why we are therefore confident that we will hit our 12% to 15% target by the end of 2013 as promised to our shareholders.

Fourth, we continue to generate material amounts of capital. Profit attributable to ordinary shareholders was up 27% to $16.2 billion. $7.3 billion was declared in dividends from after tax earnings in respect of the year. And this compares with $3.4 billion of variable pay awards on the same after tax basis for the year. Retained earnings were $12.8 billion to strengthen our capital base and to reinvest in future growth. I am pleased that we are able to show a distribution where, for each 100 units, we retain 50, give 35 to our shareholders and pass 15 to our staff through variable pay. We believe that this is an appropriate balance.

Now, turning to the financial highlights and to recap. We generated earnings per share of 92 cents, up 26 per cent on the prior year. Our Board approved a dividend of 14 cents for the fourth quarter, bringing the total dividend in respect of 2011 to 41 cents making a total of US $7.3 billion, compared to 36 cents in 2010, an increase of 14% year on year. The return on average shareholders' equity was 10.9%, giving us confidence that we will hit our target of 12% to 15%. On a reported basis the cost efficiency ratio worsened from 55.2% to 57.5%, and on an underlying basis to 61%. I touched on the costs numbers a moment ago and this, together with flat revenues year on year, explain the move.

Our core tier 1 ratio was 10.1% at 31 December 2011, down from 10.5% in the prior year, reflecting the introduction of Basel 2.5 and loan growth. It is worth reminding ourselves that here we are growing, not shrinking, our balance sheet. This includes increasing our lending to Commercial Banking customers. This is in line with the guidance we penciled in on our core tier 1 range as we journey towards Basel III. Let us look at the heritage of HSBC and where we are seeing growth, the regional profit breakdown, highlighting the contribution of the faster-growing regions, the impact of events in the euro zone and the run-off business in North America. You can also see some of the striking growth in target markets where we have invested and are already seeing great returns, such as China, India and Brazil.

In mainland China, our organic business saw very strong growth, up 236% to $705 million. And while our results in North America continue to be adversely affected by losses in the US consumer

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finance business, in Canada, where we have a billion dollar business led by Commercial Banking, PBT was up year on year. This business is also important as it is the blueprint for our reshaping programme in the United States of America. I will come back to this slide a little later on. I'll now hand over to Iain to talk through in detail our financial performance.

Iain MacKay, Group Finance Director

Thanks Stuart. This slide shows the reported results, highlighting:

- pressures on revenues and costs, although as Stuart has indicated, there are signs of real progress in revenue and costs,
- a significant improvement in loan impairment charges,
- increased income from our associates, mainly driven by our Chinese Associates,
- and a reduction in the effective tax rate.

Now looking at numbers on an underlying basis. Revenue was $68.1 billion, broadly in line with the prior year. We saw strong revenue growth in faster growing regions. This included a significant contribution from Commercial Banking and Retail Banking and Wealth Management outside North America, and over half of our Global Banking and Markets business lines. In each case growth has been driven by targeted investment.

We experienced headwinds from the turmoil in the eurozone which impacted on Credit and Rates revenue most notably in Europe, lower income in Balance Sheet Management, as expected, and the continued managed reduction of our run off portfolio in the US. Loan impairment charges were down, notably in the US Consumer Finance portfolios. More broadly, credit costs remained stable although where we have realised significant growth in Commercial Banking lending in Latin America and Hong Kong, we have experienced slightly higher loan impairment charges.

Operating expenses were $41.5 billion, up 8% on the prior year. This was due in part to an increase in staff compensation and inflation in faster growing markets, increased compliance and regulatory costs in Europe and North America and in part to a number of notable items, which are detailed in the appendix of the slide pack.

Looking at revenues. In the faster growing markets revenues grew by 10%, accounting for 49% of Group revenues, up from 44% in 2010. We saw record revenues in Commercial Banking with higher lending in Asia and Latin America, which helped deliver a 30% increase in profit before tax and strong positive JAWs for this business.

Collaborative revenues from sales of Global Banking and Markets products to Commercial Banking customers grew strongly in all regions by more than $500 million in 2011. Global Banking Markets revenues were up in all regions except North America and Europe, and in six of our nine Global Banking and Markets business lines, reflecting investment in recent years. We also grew Retail Banking and Wealth Management revenues in these regions. Elsewhere, revenues were driven down by the impact of the eurozone on Credit and Rates, lower revenues in Balance Sheet Management, and a decline in revenues in North America due to the continuing run-off of portfolios in the US.

More on operating expenses, although Stuart already provided a good deal of detail in this regard. Cost growth reflected areas of business expansion, and wage inflation, notably in Asia and Latin America. In Global Banking and Markets, costs rose as we invested in the business, for example in our e-commerce platforms in foreign exchange, and as a consequence of increased compliance and regulatory costs in the US and Europe. Separately, we recorded an increase in notable items of $1 billion, including customer redress programmes in the UK (principally relating to PPI), the UK bank levy, and a provision for US mortgage foreclosure and servicing matters. And as mentioned there is more detail in the appendix.

As we reshaped the business we incurred additional restructuring costs of $1.1 billion. This includes staff-related costs of $542 million and impairments of certain software projects of $325 million, with the balance covering premises and other related costs. We reduced headcount by 11,000 against the end of the first quarter, this being the peak for full time employees. Looking at the cost efficiency ratio, you can clearly see the positive effects of growth in Commercial Banking and in the faster growing regions, and the impact of revenue headwinds in North America, and in Global Banking and Markets in Europe.

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Looking at the cost progression, you can see the stabilisation of operating costs through the year, excluding notable items. This has begun to reflect the pattern in headcount. We are focused on delivering efficiency through the deployment of globally consistent business models, lean and efficient support functions driving governance and control, and a better mix of front office to back office deployment. We have made real progress in turning the ship on this front. We realised $900 million of sustainable saves, more than $1.3 billion annualised, and have a very robust pipeline of projects in the delivery process which will take us to the upper end of our target range. This is very much about culture change at HSBC, and the focus is, and will remain, intense.

Turning now to credit quality. In 2011 there was a significant improvement in credit quality, particularly in North America and Europe. The most significant improvement came in Retail Banking and Wealth Management in North America. In the fourth quarter loan impairment charges decreased by $900 million compared with the prior quarter as a result of lower increases in both delinquency levels and costs to obtain collateral. HSBC Finance continued to be affected by the extended foreclosure timelines, however the overall charge was lower than in Q3. There was also a notable improvement in the UK, due to improved delinquency rates.

As we signalled in our Interim Management Statement in November, we saw deterioration in loan impairment charges in the third quarter in the US Consumer Finance portfolios. This reflected worsening delinquency rates compared with the first half of the year, and a rise in our loan impairment allowances as a result of an increase in the expected cost to obtain and realise collateral following delays in foreclosure processing.

In Commercial Banking, an improvement in loan impairment charges in North America and Europe was partly offset by deterioration in Brazil, as a consequence of business growth in this area. Regarding the eurozone, our exposure to distressed countries is modest, at $4.8 billion to Governments and Sovereigns in total.

Looking at capital adequacy, our ability to generate capital and funding remains strong. The core tier 1 ratio was 10.1% at 31 December 2011, down from 10.5% per cent in the prior year. This reflects an increase in risk-weighted assets due to the effect of the introduction of Basel 2.5, and more importantly, growth in lending balances, notably in Commercial Banking including in our associates and in mainland China.

We took action to mitigate this effect. We expanded the VAR consolidation of market risk, and reduced our Global Banking and Markets legacy positions in addition to the continued run-down of US Consumer Finance portfolios. Disposals announced, once completed, will further add to the strengthening of capital ratios, through a reduction of some $50 billion of risk-weighted assets.

This next slide shows the impact of the transition to Basel III as required at the end of 2013, based on the balance sheet at the end of 2011. Mitigation actions include, but are not limited to, disposals, notably the sale of our US Card and Retail business, which is the most significant risk-weighted asset disposition, continued run-off of our US CML portfolio, active management and run-down of our legacy credit positions and actions to manage counterparty valuation adjustments. It's worth noting that our outlook on the impact of Basel III and our actions to mitigate the effects remain very consistent with that expressed during our investor day in May last year.

I think it goes without saying, but I will say it anyway, there remains significant uncertainty on the regulatory front. Importantly, in this chart we do not show the impact of any capital generation or business growth, an important feature over the course of the next couple of years.

This slide gives you a picture of what we do with our profit. On the left you can see our allocation of profit, spread between dividends, net of scrip; variable pay, net of tax; and retained earnings which we retain in order to put back into the economy, generate future growth and maintain our strong capital position. We believe this reflects a responsible allocation of the firm's resources appropriately aligned to current regulatory goals and the interests of shareholders, and reflects a long held management philosophy at HSBC. On variable pay, as you can see, the bonus pool was slightly smaller than the prior year. And in Global Banking and Markets it was down 26%.

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

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Stuart Gulliver, Group Chief Executive

Thanks, Iain. I want to take you quickly through our strategic scorecard, exactly as I set it out at the investor strategy day. We said we would improve our capital deployment through the use of the five filters framework. Since then we have announced the disposal or closure of 19 businesses, 16 of which were announced during 2011, and three so far this year. We do have a number of further transactions in the pipeline.

We also set out to improve our cost efficiency. Since May we have achieved $900 million of sustainable savings, which annualises at about $1.3 billion. To improve our organisational efficiency and effectiveness we have developed consistent global business models in Commercial Banking and Retail Banking and Wealth management.

We have redesigned and re-engineered our global functions, processes and IT. We are creating a leaner Group, removing layers of management to give staff greater responsibility, improved decision making and controls and to reduce bureaucracy. This de-layering process has already begun in our major markets.

We have identified a strong pipeline of further sustainable cost savings to deliver at the upper end of our target range of $2.5 to $3.5 billion by the end of 2013. We have also made material progress in positioning the business for growth, particularly in the faster-growing markets and Commercial Banking, which is already paying dividends.

We have set a 12% to 15% target return on average shareholders' equity. In 2011 we came in at 10.9%, which included favourable fair value movements on our own debt. As I have explained, we are putting our operational focus on improving our return on risk weighted assets, which obviously is a key driver of RoE. And here, it is important to note, in the lower table, that our return on risk weighted assets, excluding the US consumer finance portfolio and certain legacy credit businesses in Global Banking and Markets is 2.2%. That is why we are confident that we will hit our 12% to 15% RoE target by the end of 2013.

We reflected on this slide earlier but this picture epitomizes the opportunity and the challenge for us. We have an enviable footprint in many of the markets that are most important to global economic growth now, and from where the marginal GDP growth in the world will come over the next 25 years. This shows what we have been able to accomplish in 2011, and the outlook for 2012 remains positive. In each of these markets, Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets invested and drove growth, with a strong focus in Commercial Banking and Global Banking and Markets on international connectivity. You will recall that connectivity was one of our five strategic filters.

It is also worth noting, since in the West we have not seen interest rate rises for some time, that in several of these markets, including in China and India, we saw upward movements in policy rates. Given our strong deposit-led funding position that was of benefit to us. The same will be true in other countries at some point in the future.

Moving now on to global businesses, which in 2011 were led by Commercial Banking, and first of all turning to Commercial Banking. Commercial Banking reported record profit before tax of $7.9 billion, 30% higher than the prior year. Over the last five years our cumulative profit before tax in Commercial Banking is $32.7 billion. Pretty much all of this has been organic since we have no material M&A. In 2011 revenues in Asia, Latin America and the Middle East were up 20%, led by Brazil, Hong Kong and mainland China.

We improved connectivity across the Group, as revenues from sales of Global Banking and Markets products to Commercial Banking customers grew strongly in all regions, and this generated more than $500 million of incremental revenue in 2011. We have also continued to establish our market leadership in global trade, helping businesses around the world. Research by Oliver Wyman shows that HSBC now has a 9% share of bank-financed global trade. We financed half a trillion dollars of trade globally in 2011.

Trade revenue increased by 22% to $2.6 billion, of which 75% was generated in faster growing regions. We also exceeded our 2011 lending intentions under the Project Merlin agreement with the UK Government, both in terms of total and SME facilities. Bank of England statistics showed UK bank net SME lending fell 6% in 2011. Ours increased 4%. Just last week we established a £4 billion fund here in the UK to support SMEs conducting international trade. During the second half we also rolled out a globally consistent operating model across the business, driving efficiency gains. Revenue growth outpaced cost growth, and Commercial Banking delivered 8% positive jaws.

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Turning next to Global Banking and Markets. Global Banking and Markets reported profit before tax of $7.0 billion, which was 23% lower than 2010. The pre-tax return on risk-weighted assets was 1.8%. If you exclude the legacy credit businesses, which are in run-off, that return is 2.1%, which is within our target range. This is important because it gives us confidence that even in the post-crisis world this business model is capable of producing the returns that we require.

The strength of the business was demonstrated by the fact that revenues grew strongly in all of the faster growing regions and in six of our nine business lines. These included Securities Services, Payments and Cash Management, Equities, Foreign Exchange and Financing and Equity Capital Markets, with growth coming particularly by region in the rest of Asia Pacific and in Latin America.

We continued to invest in the business to support growth, for example, in e-commerce platforms to improve our product offerings in Foreign Exchange. Our eFX platform is now live in Hong Kong, London and New York. This investment contributed to the 16% rise in Foreign Exchange revenues in 2011, an investment expense that again resulted in returns for our shareholders. We began to see some market share gains, in particular in Global Banking and Markets and CMB, in the Middle East and Asia as European banks focused on other priorities.

In Retail Banking and Wealth Management reported profit before tax was $6.6 billion, up 6% on 2010. In this business the pre-tax return on risk-weighted assets was 1.2%. But excluding the US consumer portfolio, the return is actually 3.9%, which is above our target range. While the business continues to be affected by the US run-off portfolio, we actually grew revenues in Asia and Latin America by over 7% during the year. We have also put the business through the five filters analysis to improve our portfolio and drive superior returns. As a result we announced 15 disposals or transactions, with more in the pipeline. We also continued to reposition our consumer finance portfolios in Mexico, India and the UAE.

In summary, 2011 was a year of material progress for HSBC. In the seven months since May we have gained traction in delivering our three-year strategy. We saw a strong performance in faster growing markets, and we had a record year in Commercial Banking. We remain confident that we can deliver our target of a return on equity of 12% to 15% by the end of 2013. Our strategy is the primary lever to improve the Group's performance, so we are increasing intensity of execution in 2012. Finally, I am pleased to report that we had a good start to the year, with a strong performance in January.

We will now take your questions. Before we begin, the operator will explain the procedure and introduce our first question.

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Annual Results 2011

Questions & Answers

27 February 2012, 11.00 am GMT

Alastair Ryan, UBS

Good morning, thank you. A couple of things. First, just a mix of higher dividend on a somewhat lower capital base: now clearly, you know, you've got plenty of capital. The distributions have been relatively low historically – but just whether we can read anything into the regulatory environment that you've been facing, which has been very aggressive in the past couple of years, whether there any signs of moderation. So, I guess one for Douglas.

And then for perhaps Iain and Stuart. The pace of the legacy portfolio is declining in significance. The fourth quarter was perhaps better at household than we or others had expected – whether that run-down is now smoother than the sort of choppy waters in the second half. And, also the legacy credit portfolio – down to 35 billion, but whether you have an aspiration to get that out quickly so your balance sheet's clean or whether it's more about, you know, not impacting revenues too greatly. So, just as you say, underlying [inaudible].

Douglas Flint, Group Chairman

On the dividend, I think as far as the regulatory environment is concerned, we did get some good progress last year in terms of the ICB and the US and CRD4 in Europe, and some of the aspects that look more troubling have been moderated at least in principle so far. So I think while there's an awful long way to go, there was some progress made in 2011. I think one of the other things that impacts thinking about the dividend is, as Stuart has said in relation to the legacy business both in North America and credit portfolios in Global Banking and Markets – these will run off over some years from now. And, that releases capital, which I think is one of the factors on the Board's mind as we think about the opportunity to have a progressive dividend – but that really takes you into the question about how fast will those business run down, so I'll pass over to Stuart.

Stuart Gulliver, Group Chief Executive

I think also Alastair, we've set 2012 at three lots of nine cents, which is the same, obviously as the first three of 2011, which gives us a bit of flexibility in terms of the regulatory environment. So, yes, there is capital release as these run down, but the regulatory environment is getting more clear – but equally we want to retain some flexibility in that regard, which is why we set it at three lots of nine.

On the run-off portfolios, and I'll let Iain talk in a little bit of detail in a moment, but to your point about – and I think what you're asking is – would we look to sell down some of those portfolios if the opportunity arose. Actually, we've been looking at doing this anyway. We've been doing it in Global Banking and Markets for quite some time. It's a very simple mathematical calculation to whether the RWA is so large and the cost of capital therefore is greater than effectively the market-to-market loss to be taken to just clear it off the books. And, we've set up a team of people now around the household portfolio to be able to deal with reverse inquiries that may be coming in from investors who are probably outside the banking industry that may be looking to take pockets of residential property. As I say, for some time now in Global Banking and Markets we've had a team doing exactly the same thing with the legacy books there. It's a very simple mathematical calculation. So, if we could accelerate it and use some of the gains from various disposals, if it made more sense to take losses to get them off the book than to continue to pay for the capital against such large risk-weighted assets, we'll choose to do that.

Iain MacKay, Group Finance Director

Alastair, in terms of how the run-off portfolio in the US is running down, the pace has remained fairly consistent when compared to last year. We ran down those portfolios by a little bit over 9 billion – nearly 10 billion this year, which is reasonably comparable to what we did 2010 over 2009. We're sitting at 49.5 billion at the end of the year. That's compared to about 80 billion at the end of 2009. So, the rate at which it's running down is reasonably consistent, even although that portfolio

continues to mature and in a pretty horrible US housing market. The way that runs down continues to be fairly consistent even from 2009 where the proportion that's charged off versus the proportion that's paid down is actually fairly consistent as well.

In terms of how that reflects on our capital base, although the book values have come down by nearly 10 billion, the risk-layered asset reduction was less than four, and within that the FSA asked us to put a little bit of a capital override on this book as well, while we continued to work with them on some of the modelling around the run down in the portfolio. So, although we see the book values run down quite, very much in a consistent manner, we're not getting the full benefit of that coming through capital. But as we continue to round it down, we'd expect to see capital release build over time.

Chris Manners, Morgan Stanley

Good morning everyone and thanks for taking our questions. I just had a couple of questions for you on Asia. Firstly just on the loan growth: in Hong Kong, you'd had sort of flat loans in the third quarter and the fourth quarter. The rest of Asia Pacific also had quite slow loan growth. So I was just interested in how you saw that loan growth continuing going forward. I mean, do you see more opportunities there to increase the LD radio?

And secondly just on the impairment charges – I know that obviously you're running below the normalised level. Are we seeing any uptick in impairment charge in Asia, or are we actually still seeing quite a benign environment? Just those two comments.

Stuart Gulliver, Group Chief Executive

We're still seeing quite a benign environment. There's no sign of an uptick. Indeed even if we normalise to sort of averages over the last five, six, seven years, actually they're still at quite low levels, compared to other parts of the world. So even the normalised charges is quite manageable.

Then on loan growth – no, we'll continue to build our business up there as opportunities arise. There's no over-ride either coming from the centre to slow down growth. It will be driven by business opportunities as they arise. We're expecting positive GDP growth in Asia Pacific, so I'd expect the book to continue to grow.

Chris Manners, Morgan Stanley

Thanks very much.

Stuart Gulliver, Group Chief Executive

Thank you.

Rohith Chandra-Rajan, Barclays Capital

Morning, a couple of questions on costs if I could please. I'm just trying to look at the quarter-on-quarter trend in the cost and stripping out some of the notable items that you highlight – although I'm not quite sure about the quarterly allocation of those. I just want to confirm whether this was consistent with your thinking that if we strip out the additional PPI charge, restructuring and US mortgage servicing costs, that fourth quarter costs were broadly flat on a third quarter or down if you also strip out the bank levy, so that was the first question.

Secondly, you highlighted 1.3 billion run rate of cost savings – confident of getting towards the upper end of the 2.5-to-3.5 billion target range. I'm just wondering how we should think about the trajectory to get there. So particularly how much might be achieved in 2012. Thanks.

Stuart Gulliver, Group Chief Executive

Yes, if you make those adjustments, yes, the third, fourth quarters were flat.

The thing I think to look at in terms of trajectory – and this is why we put the slide in – is the decline in headcount. So you can see – basically if you think about it, we started – we had the Strategy Day in May. We started effectively restructuring the firm. A lot of the acceleration effectively takes place in the fourth quarter and continues on into this year. So one of the reasons we gave you that chart on headcount is clearly that informs a lot of where the costs come from. So, we would expect to show more progress in this area during 2012.

Rohith Chandra-Rajan, Barclays Capital

Thank you. Could I ask an unrelated question just on the US – if there's any update on the sale of the Cards

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business and when that is sold, any further comment you could provide on ability to repatriate that capital?

Stuart Gulliver, Group Chief Executive

We need to close the transaction first and foremost, and then really then see how the regulator is positioned. I don't think there's any more clarity we can provide today on that. I certainly don't think you should be pencilling in for 2012 that capital coming out of the United States.

Rohith Chandra-Rajan, Barclays Capital

Okay, thank you.

Stuart Gulliver, Group Chief Executive

Thanks. Actually also bear in mind that we are looking to develop commercial banking business in the US, which will consume some of that capital.

Next question please.

Michael Helsby, BofA Merrill Lynch.

Thank you. I just wanted to follow up on the question Chris asked on loan growth. I noticed that Commercial Banking loan growth was negative if you look at it second half versus first half. That's clearly a very, very notable slowdown and that revenue actually fell Q-on-Q in the fourth quarter. Also, just again, there was a huge slowdown in the rate of growth in Hong Kong and in the rest of Asia in the second half, so I was just wondering. I appreciate that you clearly want to grow those businesses but what went on that was special in the second half which broke that trend very significantly?

Then just on costs. I was looking at slide 11. I just wanted to clarify the comment that you just made on flat Q-on-Q, where you strip out the noticeable items: The fourth quarter cost line of 9.7 versus 9.4. Is there something else in that 9.7 that we need to be aware of? I was actually quite surprised that it was running a little bit higher given the weaker revenue environment. Clearly if we look at that slide, that's the second highest quarter in the last eight – so if you could just give us a little bit more colour on what went on in the fourth quarter please.

Stuart Gulliver, Group Chief Executive

Yes, on CMB, actually lending continued to grow, so I'm not quite sure what you're looking at there. It might be a currency translation effect coming out of local currency balance sheets. Whatever you've picked up isn't actually what's happening.

Michael Helsby, BofA Merrill Lynch.

Okay, in dollars they shrank.

Stuart Gulliver, Group Chief Executive

Well, loans and advances to customers on the data we all have has continued to grow.

Michael Helsby, BofA Merrill Lynch.

Okay.

Stuart Gulliver, Group Chief Executive

And, Asia Pacific, or Hong Kong in particular – obviously we've grown it at a very aggressive pace, as I think you've remarked on a couple of times, as we caught up on the fact that we've pulled our foot off the gas in 2008/2009 when we did the rights issue. Obviously what we now have is we believe we've caught up, so any future growth is really dependent on GDP and business opportunities that come up rather than taking back market share that we may have lost, and that, by definition, is at a lower rate.

On the costs: there's a big restructuring cost number in there.

Iain Mackay, Group Finance Director

There is. There's high restructuring within the fourth quarter. There are slightly higher legal and compliance costs in the fourth quarter, mostly in the United States.

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Those are probably the two features that you're picking up there, Michael.

Michael Helsby, BofA Merrill Lynch.

Okay, so they're not in your notable items.

Iain Mackay, Group Finance Director No, because individually they're not that particularly significant.

Michael Helsby, BofA Merrill Lynch.

Right. Okay, cool. Thank you very much.

Stuart Gulliver, Group Chief Executive

Thank you. Next please.

Christopher Wheeler, Mediobanca.

Yes, good morning. A couple of questions. Perhaps the first one – to go back to the US business and to talk about the settlement on US foreclosures. And perhaps could you tell us your position in terms of the settlement that's taken place with the big banks. Are you now moving towards a situation where you can start to foreclose again? How long will it take for you to get your procedures agreed? Then, perhaps, talk a little bit about what you think that might do, both to the speed of the run-off, and obviously any additional costs that you might have to take through the P&L, in terms of that agreement. That's the first question.

The second one is a pretty simple one. I just wanted to confirm on Slide 14 where you've very kindly given us the Basel III update – I assume the 0.1 adjustment to Basel III capital means that this is without the additional capital deductions that will be phased in between 13 and 19. I think that's the case but would just appreciate a clarification. Thank you.

Iain Mackay, Group Finance Director I'll take your last question first, Chris.

Christopher Wheeler, Mediobanca.

Sure.

Iain Mackay, Group Finance Director What we've shown you on page 14 takes you only through the end of 2013. It does not take you all the way through to 2018 and 19 for the simple reason that the world – and the regulatory environment – remains particularly uncertain, whether it's with respect to calibration of CRD4, the possible impact of capital requirements and PLAC requirements under ICB GSIFIs, so on and so forth. So, we take it through to 13, because we've got reasonable line of sight to 13. We do not take it beyond simply because of the uncertainty on that point.

As relates to the US settlement, the Big Five as it were have reached a settlement. As you see in the financial statements, we did take a provision in the fourth quarter for settlement as it relates to similar conditions as the Top Five. However, those discussions are still in a very early stage with the Department of Housing and Urban Development, which is the agency that the US Government has assigned to settle with the other nine banks that are involved in this. So, there were 14 in total as you'll recall. In terms of the specific details about how that settlement works out, it's still very, very fluid. Frankly the reserve that we took was based on the best possible information that we had, based on the stage of progress within those discussions. I think overall the fact that we are reaching, as an industry, this stage of development in the US, it's good for recovery of the housing market. Clearly the amount of work that we and others have done in terms of improving the quality of administrative procedures around foreclosure processes has us back doing foreclosures in 48 out of the 49 states in which we operate in the US. This is all good. It will ultimately lead to some form of sustainability in the recovery of the US marketplace, but I think that's still some time to take.

But I think, as I mentioned earlier, the run-off of our book continues to progress very much in line with our expectations. As we learn more, participating in the settlement processes with the Department of Housing and Urban Development, we'll keep people posted, but I think we've taken a view, based on all the information we've got available at this point, and are reasonably happy with that.

Christopher Wheeler, Mediobanca

Thank you very much. Very helpful.

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Stuart Gulliver, Group Chief Executive

Thank you. Next one please.

Ian Gordon, Investec.

Hi, it's Ian Gordon from Investec. Just two please. Obviously I can see the Group net interest margin is still edging down, but could you just update me on your views in terms of the development of the margin in Hong Kong and Asia Pacific in particular, where you certainly referenced some asset-spread expansion at the Q3 call?

Then the second question: forgive me for raising it again, but just in relation to the $3.5 billion reduction in CMB lending in Hong Kong in the second half of 2011, I see in the text you reference a reduction in certain trade finance loans in CMB. Is it ex-that item that, Stuart, you're referencing the underlying growth? Thanks.

Iain Mackay, Group Finance Director

Let me take the net interest margin in Asia for the moment. Comparing 2011 and 2010, net interest margin expanded from 180 basis points to 191 basis points. There's a number of factors that bear that out. Certainly if you look specifically at Hong Kong, with a slightly higher incidence of HIBOR base lending products, margins tended to narrow very slightly in Hong Kong over the course of the year. Outside the Hong Kong market, the opportunity to reprice assets, movements and policy rates in some countries like China, India, Australia for example, certainly helped, both in terms of asset pricing as well as the yield that we can pick up on the liability side of the balance sheet. So, overall performance in net interest margin in the Asia Pacific region was fairly positive and continues a trend that we talked about at the third quarter. So that's about it on the net interest margin front.

On the commercial banking front, you know I think broadly we saw continued growth as far as lending, and acknowledged in the third quarter that we had slowed the rate of growth in the second half of the year, partly because of frankly some moves taken by regulators in mainland China and Hong Kong to slow down the supply of credit, or to constrain the supply of credit to those marketplaces. And, our businesses were a function of that, but we very much continue to focus on the growth of the businesses.

Stuart Gulliver, Group Chief Executive

If I may, there's two things. The Hong Kong one is a particular piece of trade finance that went backwards and forwards between the mainland and Hong Kong, which was then discouraged by the regulators. So this was taking place in all bank balance sheets. It's a specific item that doesn’t really inform anything about the underlying trend of growth of commercial banking. Then if you look at the footings overall, the reported CMB lending down in the second half is due to currency. So if you look at places like India, Latin America – and bear in mind that reporting in Dollars, actually there's a currency decline that comes through in the Dollar numbers – the underlying is actually up 2%. So, the Hong Kong is specifically kind of a bill's based financing thing between the mainland and Hong Kong, that's kind of gone away but didn't really inform a huge amount of our P&L anyway. The overall footings are due to currency moves in Latin America and India in particular – local currency against US Dollar.

Ian Gordon, Investec.

Okay, thanks very much.

Stuart Gulliver, Group Chief Executive

Okay thank you. Next please.

Ronit Ghose, Citigroup.

Great, thank you. I had a couple of questions on capital. First of all thanks for the Basel III guidance for 2013. When we tried to estimate a fully looked through number, we get slightly below 9% in 2013 on Basel III. I wondered if you could share any thoughts on that.

Secondly, on the dividend, you said the first three quarters the same as this year or 2011. Are you committed to a progressive dividend policy?

Finally, on Hong Kong, with the risk of irritating management, could you confirm that that back and forth to the mainland is all done now, and that that run-down

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in trade finance, particularly in Hang Seng Bank, is basically a 2011 event? Thank you.

Stuart Gulliver, Group Chief Executive

So, we are still committed to a progressive dividend policy, but we obviously want to retain the optionality to see how 2012 evolves.

Iain Mackay, Group Finance Director

As I mentioned earlier, Ronit, we've really given a view to the end of 2013, and have not gone beyond that based primarily on the fact that there's still enormous amounts of uncertainty. However, certainly as we reflect on the out years, our guidance that we gave you back on the Investor Day around how we saw the impact on our capital base coming from the broader implementation of Basel III remains highly consistent. Even as we updated for our ability to generate mitigating actions, as well as further interpretive guidance comes around the implementation of those capital requirements, the guidance remains very consistent with what we gave you back in May of last year.

Stuart Gulliver, Group Chief Executive

And on the trade finance point, yes.

Ronit Ghose, Citigroup.

Okay, thanks.

Stuart Gulliver, Group Chief Executive

Get the next one please.

Bruce Packard, Seymour Pierce

Good morning. Yes, just looking on the face of the balance sheet, there's some quite large movements in trading assets and also derivatives. I was just wondering: is there something fundamental going on there or is that just noise?

Iain Mackay, Group Finance Director

Well, there is a concerted effort over the second half of the year, and particularly the fourth quarter, to manage down trading-asset exposures. I think that's what you're seeing coming through. In terms of derivative valuations, it's really a function of market movements. As you look at the spreads widening – well, narrowing and then widening again in the fourth quarter – that particularly informs the valuation of derivatives, principally interest-rate derivatives, that we have both in the trading portfolios as well as the broader management of the business. So, overall what has informed the trading reduction was a purposeful effort on the part of Samir Assaf and the team to move down their exposure to trading assets in the fourth quarter which by the way tends to be a function that we undertake at the end of each year as we close out particular positions.

Bruce Packard, Seymour Pierce

Okay, thanks.

Alistair Scarff, BofA Merrill Lynch

Good evening gentlemen. Thank you for your time this evening. I was wondering if I could ask two quick questions. Firstly in regard to Dollar liquidity in your faster-growing markets, we're hearing from various banks that there has been a tightening. Is that something you've observed? If so, are you seeing a better pricing environment for Dollar liquidity?

Second question relates to trade finance: is trade finance under the new Basel II.5 and III – is the risk weighting going to change materially? If so, how will that effect the Bank's position obviously with a 9% market share in that space? How will the capital be impacted? Thank you.

Stuart Gulliver, Group Chief Executive

In terms of liquidity, we continue everywhere to operate with a very conservative AD ratio, so it hasn't really had an impact on us. So we haven't really seen a particular squeeze on margins in US Dollars. Where we've seen a margin squeeze on the liability side has been in places like Brazil, because rates went up, and in places like the UK, where the State-owned banks are looking to deal with AD ratios substantially above 100, but we haven't seen effectively margin compression because of

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competition for Dollar liquidity in the emerging markets.

Iain Mackay, Group Finance Director

Absolutely Stuart. I mean when you look at trade finance in Basel III, this is actually, Alistair, one of those areas which is still open to pretty broad interpretation and discussion as it relates to CRD4, and the development of that. As you're probably well aware there is a fairly healthy level of consultation and debate around the possible impact on specifically that guidance on growth and the growth agenda, particularly in European environments. So, it's one of those areas of uncertainty, but I think we're making real headway in terms of persuading the powers that be that from a trade-finance perspective they need to seriously revisit – and are revisiting – the implementation of Basel III through CRD4.

Alistair Scarff, BofA Merrill Lynch

Great, and if I can have just one final follow up in relation to your FTE count. Is the momentum that you've shown since the first quarter of 2011 – is this trajectory something which we'd expect to see as you intensify the execution of your strategy, or has the lion's share of the headcount aspect – of course net headcount aspect – been taken out, and we can look for more of a stabilisation of headcount around current levels or an aggregate Group basis?

Stuart Gulliver, Group Chief Executive

No, you should assume that there are further reductions to come.

Alistair Scarff, BofA Merrill Lynch

Brilliant, thank you, Stuart.

Stuart Gulliver, Group Chief Executive

Thanks.

Robert Law, Nomura

Good morning everybody. I have two questions please. Firstly on the targets that you've re-stated for 2013, I mean I know you give these targets serious consideration when you put them out and, if I look at the cost/income ratio it's – whether you make it underlying or reported or whatever – you just reported about 60%. I then look at where consensus is for 2013, and again consensus is somewhere around the 56%-type level, so well above the top end of your target range. I just wanted to invite you to comment on what you think the market might be missing in terms of the assumption of the kind of cost/income ratio targets that you've got for 2013. That's the first one.

Second, more briefly, could you comment on the outlook this year, and then in subsequent years, for the BSM revenue please? Thank you.

Stuart Gulliver, Group Chief Executive

Yes, sure. Robert, on BSM, I think the kind of rough guidance would be $2.5-to-$3 billion for 2012 – would be a reasonable place to put BSM.

Robert Law, Nomura

And beyond that?

Stuart Gulliver, Group Chief Executive

$2.5 billion.

Robert Law, Nomura

Thank you.

Stuart Gulliver, Group Chief Executive

Then on the cost-efficiency ratio, clearly you're right in the sense that we have somewhat trapped ourselves by putting a ratio in as opposed to expense target, but actually in order to keep the pressure up within the firm, you know, we will have to stick to aiming to that 52%, but actually what we think will happen is that we'll hit the cost side and the revenue side to some extent is in our control, and the revenue side to some extent is not in our control because it depends on what happens in things like the eurozone. But as things stand at the

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moment, we stick to it. We'll revisit this at the Strategy Day in May. But you're right. We've got a ratio that at this moment appears to be somewhat heroic compared to where we are. But we are absolutely determined to get the $2.5-to-$3.5 billion of sustainable cost saves out of the firm. That's what we will programme to do. What we'll need to think is whether we, in fact, bring alongside the cost-efficiency ratio an absolute expense target and whether that might be a sensible thing to introduce in addition to the cost-efficiency ratio.

Robert Law, Nomura

Right. Okay, and as a supplementary to that, the restructuring charges you've taken at the moment are about $1 billion last year. In the assumptions you've made in the targets, do those go to zero by the time the targets come into effect?

Iain Mackay, Group Finance Director

I think Robert, I mean, as we gave a little bit more detail of what's inside that 1.1 billion, we've got $542 million relates to people, and about $320-odd million, $325 million that relates to software programmes. We have very much dealt with legacy software issues, I think, in the numbers that we put in there, so I think we'd unlikely to see that recur, and if you equate the $542 million to the actions that we've already taken in terms of de-layering the firm, and striking the right focus around deployment of our human resources, then it probably helps inform a little bit what sort of restructuring charges might look like as we continue to work through the re-shaping of the firm. But certainly by the time we reach the middle, tail end of 2013, we would have expected to have worked through the majority of restructuring charges.

Robert Law, Nomura

Many thanks.

Iain Mackay, Group Finance Director

You're welcome, Robert.

Stuart Gulliver, Group Chief Executive

Thanks. Next please.

Gary Greenwood, Shore Capital

Hi, I just had two brief questions. The first was on Asia. You mentioned that you were taking market share in GBM as European banks withdrew capacity. Are you doing that whilst maintaining prices or are you seeing opportunities to re-price upwards as well?

Then the second question was just following on from Robert's question on cost/income ratio. I think your previous guidance, when you talked about return on equity you'd guided towards the bottom end of the range by the end of 2013. I'm guessing from what you're saying on cost/income ratio that that's probably still true, that you were looking towards the bottom end of the range on the ROE guidance. Thank you.

Stuart Gulliver, Group Chief Executive

Yes, in November I actually said on both that we'd have to go to the bottom end of both ranges, so 12% on the ROE, 52% on the cost efficiency, and nothing's changed in terms of those being the logical ends of the ranges to aim for.

In terms of European Bank and taking market share, there at the moment is no ability to flex pricing because we're not the only guys. The American banks, the regional banks, the regional Asian and the Chinese banks, are all in good shape and are competing for the business.

Gary Greenwood, Shore Capital

Okay, thank you very much.

Stuart Gulliver, Group Chief Executive

Thank you.

Tom Rayner, Exane BNP Paribas

Good morning, it is Tom Rayner from BNP here. Just a couple of questions, please. One, just on the dividend payout slide where you show the pie chart with the variable pay, the retained earnings and the dividend. I

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just want to make sure I do understand how that links to a sort of desired payout ratio in terms of ordinary dividends relative to earnings in any particular year. I think if I understand it rightly, the pro forma number you referred to is before variable pay, and the dividend number includes dividends to non-ordinary equity. So I am just trying to get a sense firstly, as to – I think what was the 44% payout ratio in 2011, what are you trying to tell us, if anything, with that slide? And I have a second question, please.

Iain MacKay, Group Finance Director

Right, so on the dividend payout ratio we have 42.4% as the payout ratio, which is in the range that we talked about at Strategy Day of 40% to 60% of a payout ratio. When you track across to the slide in the deck, which gives you a broad framework for the distribution, or if you like the allocation of our profitability, and this reflects, if you like, a philosophy, which in many of the previous years in HSBC, not all admittedly, but in many previous years has been a faithful reflection of what we've done, where we've focused on retaining the majority of the profits that we generate in any given year to retain the earnings to build capital and re-invest back into the business.

As a distribution in any given year, somewhere in the range of 35% of that profit attributable to the year, and then 15% on an after tax basis for variable compensation, so there is not a direct mathematical link between the dividend payout ratio that we've reflected in our financial statements and that which is reflected on this chart.

I think one thing to note is that in each year we tend to get a fairly healthy contribution by scrip take up within our business. And generally speaking, that probably contributes for the difference between what we have on the page of 35% and a payout ratio of between 40% to 60% within our targets, okay?

Tom Rayner, Exane BNP Paribas

Okay, so if we add the scrip in – well, okay, if you added the scrip you'd be – yes, okay. Okay, fair enough. Just a second one, sorry to just go back to the loan growth, but I mean – and I can tell it seems somewhat irritating that people are trying to draw the wrong conclusions about what the volume growth is doing in different parts, but if you look at the disclosure you've given us I think it is quite hard to sort of get back to an underlying constant currency sort of growth, certainly in the second half. I mean the full year underlying that you report was -1% for group loan growth, and obviously there's a US run-off within that and there's all sorts of currency issues. I mean is there anything you can tell us or anywhere you can point us to within your release or in the presentation that…

Stuart Gulliver, Group Chief Executive

The big technical is the Hong Kong – there is a significant pop-up in 2011, which you can see in HSBC in Hong Kong and in Hang Seng in Hong Kong, but basically US dollar loans backed with RMB collateral, which the Hong Kong Monetary Authority then cracked down on, for want of a better expression, because it obviously involved a significant kind of onshore–offshore arbitrage between Hong Kong and the mainland. So therefore a chunk of the trade related lending in Hang Seng and HSBC in Hong Kong increased from Dec 2010 to Jun 2011, and then back down again to Dec 2011, is that phenomenon.

But again, if you look at Hong Kong, 31 December 2010 to 31 December 2011, total gross loans and advances go from $49.2 billion to $55.5 billion, it's just that they were at $59.1 billion at the half-year and came back down again because of this one technical aspect, and the same thing shows in Hang Seng's numbers. So then you are left with the run-off of the loan portfolio in the United States and currency adjustment.

Iain MacKay, Group Finance Director

There is one element in the US is that the cards and retail services business and the branch network, those loans and advances as well as associated liabilities have been classified as held for sale.

Stuart Gulliver, Group Chief Executive

So they have come out of the loans and advances numbers, so when you look at the loans and advances numbers on the overall balance sheet you have got to look at other to get back to the customer levels and advances that, if you like, you first thought of. So if you go to the balance sheet stuff on page 104 of the Annual Reporting Accounts, and also the balance sheet page, which is on page 32, you will see in it that loans and advances to customers are $940 billion, and what you are looking at is $958 billion at the end of 2010. But of course, we have re-classified the businesses that are up

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for sale and they sit in other assets, which has gone up from $145 billion to $156 billion.

Tom Rayner, Exane BNP Paribas

Yes, okay.

Stuart Gulliver, Group Chief Executive

Yes, $40 billion has been reclassified.

Tom Rayner, Exane BNP Paribas

Yes.

Stuart Gulliver, Group Chief Executive

So that's why we are kind of talking at cross purposes, I think.

Tom Rayner, Exane BNP Paribas

I think so. I mean in terms of where you think the underlying sort of clean…

Stuart Gulliver, Group Chief Executive

It is up 3.3% excluding reclassification year on year and excluding the bit in the middle of the year due to a particular activity in Hong Kong.

Tom Rayner, Exane BNP Paribas

I see. And would that have been stronger in the second half than the first?

Stuart Gulliver, Group Chief Executive

No. The first half was stronger than the second.

Tom Rayner, Exane BNP Paribas

Okay, all right, thanks a lot.

Stuart Gulliver, Group Chief Executive

But the massive, confusing thing is the reclassification of the businesses now held for sale, and the RMB US dollar bit in Hong Kong.

Tom Rayner, Exane BNP Paribas

Okay, lovely. Thanks for that.

Stuart Gulliver, Group Chief Executive

Thank you. Okay, time for the last question.

Raul Sinha, JP Morgan

Good morning, if I can have two just to wrap up then. Firstly one for Stuart. Sir, can we have your thoughts on the LTRO, please? I mean what was the reason for the take up and what do you plan to do with the proceeds? And secondly, if you could comment on GBM performance, how you finished the year in Q4 and how you started the year in 2012, particularly the credit world was quite difficult – credit and rates were quite difficult areas for you in Q3 and Q4. Do you expect some of that to alleviate in 2012?

Stuart Gulliver, Group Chief Executive

Yes, certainly. So look, the LTRO, in the first round of the LTRO we took €5.2 billion, of which 5 billion was in France and the remainder was in Greece and Spain. The reason that we took the money was quite straightforward. Clearly we do not need it, we have got $129.9 billion lying with Central Banks at the end of the year, and our advance deposit ratio of 75% means that we have $313 billion more deposits than we have customer advances.

The reason we did it is actually frankly because we think it as – the LTRO we think is a great move by the ECB, which helped stabilise the European situation. We felt that actually it did not contain any stigma, and indeed by ourselves going into it, it actually helped

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remove the stigma. What we've also done with it is – so what are we using it for? So it sits in France, the biggest chunk, and effectively it is financing lending to French corporates, and our participation in the French short-term government bond market.

And what we have also done with it is we have ring-fenced it so that it does not contribute to bonus pools. What it will do is offer possible carry, and that positive carry will add to the capital base of the French Bank, which will increase the ability of the French Bank to lend to French companies. So we have done it really in line with the authorities because we think it was a very, very significant stabilisation of the eurozone system, and that is why we did it. We have ring-fenced it so it does not benefit any bonus pool, and it basically helps us build up capital within France, which we will use to expand our business. And as I say, bear in mind we were sitting with $130 billion of cash with central banks at the end of the year, and a very strong AD ratio.

Therefore, we also think by doing this it removes the stigmatisation that anyone else might feel about it. Actually it is similar to what we did in 2008 when the special liquidity scheme of the Bank of England was put together. We also participated at the request of the Bank of England in that, again, so everyone was in it. And again, that was a situation where frankly we did not need it, and actually we left the money in our Nostro account with the Bank of England. So that is really what is behind that, and in the second round we will probably borrow about €320 million, which again will be in Greece, Spain and Italy, and those will be effectively funding corporate loan books.

Global Banking and Markets. Yes, the fourth quarter was difficult because of the euro zone, and the credit and rates piece was actually particularly acute, to be honest, in the third quarter. The third quarter was very, very difficult; the fourth quarter recovered somewhat; and January has been actually very good, which I am sure it has been for most people who have held their positions. I cannot really comment on February because we have not finished the month yet.

Raul Sinha, JP Morgan

Thanks very much.

Stuart Gulliver, Group Chief Executive

Thank you. Okay, that brings us to an end. So just in closing I would just like to recap our key headlines. Strong growth in the faster growing regions, a record year in Commercial Banking. I think we have made good progress in the first year of a three-year strategy, progress to simplify the structure and improve the management of the firm, thereby improving returns and positioning HSBC for growth.

We will be in touch soon about the first quarter IMS and the Strategy Day in May, but in the meantime thank you all very much for your time. Thank you.

Forward-looking statements

The presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report and Accounts 2011. Past performance cannot be relied on as a guide to future performance.

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