Business Update and Annual Results 2019 Presentation to Investors and Analysts – Transcript

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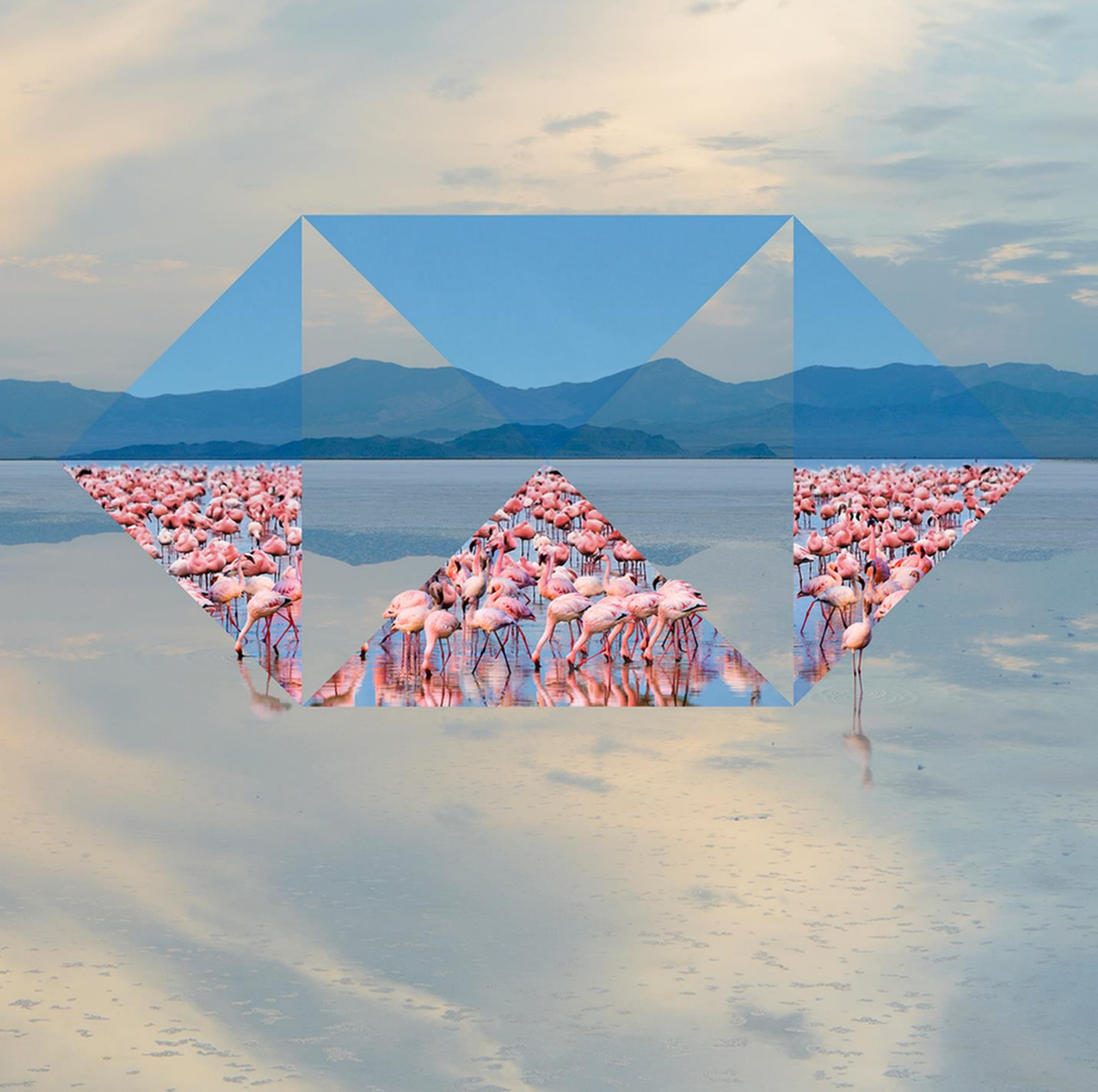

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Mark Tucker, Group Chairman: Good morning, ladies and gentlemen, and thank you for joining us this morning. Before we get into the details of the presentation that Noel and Ewen will make, I wanted to set aside a few minutes to give you some context. During the course of the last year, the board determined that it had two major priorities: one was to ensure that a new Group Chief Executive was selected; and the other was the need to enhance performance, accelerate pace and improve our sustainable returns. Collectively, we concluded that both were urgent challenges and that we needed to tackle them immediately and separately. We've always seen that these have needed to be parallel processes with independent timescales, and the board, I can promise you, has been fully engaged in both. Let me deal first with the Group CEO selection process.

The board has embarked on a very thorough and rigorous process to search for and identify a new CEO. That process is well underway, and it's the board's intention to announce the outcome within the six to 12 month timescale that we outlined in August.

Turning now to the business update, we saw a pressing note to reallocate capital away from underperforming businesses to support the growth of higher return businesses, particularly where we have competitive advantage. The board and executive are also acutely aware of the need to improve efficiency, reduce costs and inject pace, and we've been working hard on this. It is to Noel's credit that he has grasped the issues and tackled the task with energy and resolve. He and the rest of the executive team have worked very closely with the board to formulate and determine the plans that they have announced today. As you've seen, they amount to a very significant shift in the allocation of the bank's capital and resources. They build on the natural, inherent strengths of the organisation and are designed to significantly improve sustainable returns for our shareholders.

Finally, it's worth mentioning, and important to mention, and to recognise the continuing exceptional work of our team and our staff across the world, particularly those in mainland China and Hong Kong, who are dealing with the impacts of COVID-19 on both our customers and the bank. The board and I want to make it clear that we owe them enormous gratitude and thanks for their continuing dedication, their care and their immense professionalism. Having said all of that, let me now pass over to Noel and Ewen to take you through the details.

Noel Quinn, Group Chief Executive: Thank you, Mark, and good morning to everyone in London and good afternoon to everyone listening or watching in Hong Kong. We have two objectives today. The first is to take you through our Q4 and full year results for 2019. The second is to tell you how we're going to address the underperforming parts of the business and simplify the Group to increase returns, reduce our cost base and create capacity to invest in growth and technology. We're going to do this in three parts. First, Ewen will take you through the numbers for 2019. I'll then talk about our plan, and then back to Ewen to cover the financial implications of that plan, and then we'll take questions. I'll now pass straight over to Ewen for him to talk about our results.

Ewen Stevenson, Group Chief Financial Officer: Thanks, Noel. Good morning or afternoon, all. On the fourth quarter, it was a decent set of results. Adjusted revenues were up 9% reflecting both a weaker fourth quarter in 2018, but also the continuing strength of our stronger–performing franchises, while adjusted profits were up 29%. Due to the goodwill impairment of $7.3 billion, we made a reported loss before tax of $3.9 billion. As I'll go on to shortly, Hong Kong continues to produce very resilient results in the fourth quarter, with adjusted profits up 3% relative to a year before, but given the continuing impact of the coronavirus that we're seeing this year, we do expect a weaker first half.

A few particular points to call out: the headline results for the fourth quarter were impacted, at a headline basis, because of the large goodwill impairment. This reflected the weakened interest rate outlook and revenue outlook, and changed long term growth rate assumptions. As you know, the goodwill impairment has no impact on core tier 1. The UK ring fenced bank was impacted by the further redress costs, $224 million in the fourth quarter, driven mainly by sharply higher than expected litigation costs in relation to PPI. We're making progress on reducing our cost run rate, down by half from 5.6% to just under 3% in 2019. Second half costs were lower than first half costs. Our core tier 1 was up 40 basis points to 14.7%. We've reduced net risk weighted assets in the quarter by $22 billion, including a $19 billion reduction in Global Banking and Markets.

On slide 4, the Group continues to be underpinned by a strong set of franchises, all showing continued attractive growth rates. In Retail Banking and Wealth Management, full year adjusted revenues were up 9%, with good growth in deposits, mortgage balances and customer numbers. The turnaround of Global Private Banking continues with net new money of $23 billion in the year. Commercial Banking revenues were up 6%, underpinned by strong growth in both lending and deposits. For our global transaction banking franchise, revenues were up 3%, and that is despite the impact of a softer interest rate environment. In Asia, revenues are up 7% overall, with good growth across most of the region, and the UK ring fenced bank had revenue growth of 3%, underpinned by deposit balance and mortgage growth.

Turning to the next slide and to go into more detail on Hong Kong, macro conditions progressively became more challenging in the second half and remain challenging, given the sharp and unfolding impact of the coronavirus. Despite these macro conditions last year, our 2019 performance remained resilient: adjusted revenue growth of 7%, credit quality remaining robust and profits before tax of $12.1 billion.

On slide 6, as we've said over recent quarters, we've also got businesses or parts of businesses that need to improve. Our non-ring fenced bank is impacted by a combination of high costs and challenging conditions for the sector overall. Revenues were down 3% in the full year and, as part of this, Global Banking and Markets had a weak year in Europe, with sharply lower revenues, driving an 80% reduction in pre-tax profits. Our US turnaround has been impacted by the changed US outlook for interest rates. Full year revenues were down 3% and profits before tax were down 39%. Our Retail Banking and Wealth Management and Private Banking businesses in the US were loss making in the year, and profits in Commercial Banking and Global Banking and Markets both fell by more than 20%.

Turning to the detail of the full year results on slide 7, across most segments in our global businesses we saw strong revenue growth in 2019. Total adjusted revenues were up 6%. In Retail Banking and Wealth Management, revenues were up 9%, including: 7% in Retail Banking, due mainly to lending and deposit growth in Hong Kong, Latin America and the UK; and up 13% in Wealth Management, principally from higher life insurance revenue, including positive market impacts. In Commercial Banking, revenues were up 6%, with Global Liquidity and Cash Management up 6%, and Credit and Lending up 5%. Trade Finance had slower revenue growth in 2018, impacted by the ongoing US China trade dispute. Within Global Banking and Markets, while revenues were down 1% overall, transaction banking showed good revenue growth, up 2%, but Global Markets had a tougher year with revenues declining by 8%. Within Global Private Banking, revenues were up 5%, underpinned by our best net new money performance since 2008.

On slide 8, fourth quarter revenues were up 9% overall, or almost $1.2 billion. That's despite $300 million of lower Corporate Centre revenues. This quarter included a much stronger performance by the Wealth Management franchise, given the turnaround from weak markets in the fourth quarter of the previous year, and our best fourth quarter revenue performance in Global Banking and Markets for four years. In Commercial Banking and Retail Banking, we can begin to see the impact of lower policy rates with further headwinds expected in 2020.

On the next slide, adjusted net interest income was broadly stable from the third quarter and the net interest margin was unchanged at 156 basis points, helped by lower provisions from UK redress programmes and releases related to Argentinean hyperinflation. Our Asian franchise experienced some asset margin compression, with the net interest margin down 5 basis points. In the UK ring fenced bank, while the headline net interest margin was up 2 basis points excluding lower UK redress provisions, the underlying net interest margin was broadly stable at around 200 basis points.

Turning to costs, excluding the UK bank levy, adjusted operating costs were up 2.7% in the fourth quarter, relative to the fourth quarter of 2018. Our cost run rate this year was down by half and slightly better in the second half than the first. That's despite higher investment spend, up 10% from the previous year. For your models in 2020, you should assume that our aim is to have adjusted operating costs broadly stable on 2019, and adjusted revenues down very modestly, with RWA disposal costs taken to significant items.

Turning to the next slide on credit, credit costs were down 5 basis points to 28 basis points in the fourth quarter. This reflected a number of items. In the UK, we reduced our allowances for economic uncertainty by $99 million to $311 million. Against this, in Hong Kong we increased our overlay by $56 million to $138 million and we took incremental provisions in Argentina of some $125 million. Second half credit costs were 31 basis points, so we're now at the low end of our expected 30 to 40 basis points of through the cycle range. Given the impact of the coronavirus, we expect a continuing downturn in Hong Kong in the first half of this year and we anticipate that we'll need to take additional expected credit losses into our first quarter results. I would caution, however, the impact of the virus could vary materially, in part dependent on the time taken to contain the virus, with additional expected credit losses only part of a broader potential set of financial impacts on the Group, including lower revenues and volumes, and credit rating deterioration driving the higher risk weighted assets. On capital adequacy, our core tier 1 ratio improved 40 basis points in the quarter to 14.7%. This reflected a material reduction in RWAs in the fourth quarter that I'll go into detail on the next slide.

We set out the detail of the risk weighted assets and return on tangible equity walks during 2019. For risk weighted assets, we reduced these by almost $22 billion during the year, with the bulk of this coming in the fourth quarter. We took a very conscious decision to accelerate our risk weighted asset plans in Global Banking and Markets, resulting in a $19 billion reduction in that business in the final quarter. Looking forward, we're sensitive to a number of potential headwinds and risks, including a forecast first quarter 2020 RWA uplift of around $10 billion, due to modelling and regulatory changes, and a similar amount from revenue growth. For our return on tangible equity, it declined by 20 basis points during the year to 8.4%. This reflected a stable overall performance, but was impacted by a 50 basis point negative impact from intangible movements, primarily due to present value in force movements in our insurance business.

To summarise the 2019 financial performance before handing back to Noel, for the full year, adjusted revenues are up 6%. Adjusted profits are up 5%, in part reflecting much better cost discipline with positive jaws of over 3% and a return of tangible equity of 8.4%. Our core tier 1 ratio was up 70 basis points in the year to 14.7%, in part due to a significant RWA reduction in Global Banking and Markets. However, despite this continuing progress last year, we recognise the need to continue to drive up Group returns to significantly improve areas of the Group with low returns currently. This requires a new cost and RWA reduction plan that Noel will now step through.

Noel Quinn: Thanks, Ewen. I'll talk about our plans to increase returns in a second, but first I want to say a few words about the coronavirus outbreak. This is clearly something we're observing closely and I'd like to pay tribute to the resilience that our people have shown during this very difficult time, and to thank them for their amazing commitment. Our first priority is obviously the wellbeing of our people and our customers, and we will continue to do all that we can to provide support and ensure their safety. There will inevitably be a short term economic impact that will doubtless affect our clients, and we will do all that we can to support them. However, the long term strategic importance and attractiveness of mainland China, Hong Kong and the broader Asian region remains unchanged, and the region as a whole remains a key part of our strategy.

Turning to our plan, we intend to deliver on three action programmes between now and 2022. We will implement an RWA upgrade programme, stripping out low returning RWAs from the underperforming parts of our business and redeploying them into higher returning areas. We will execute a $4.5 billion cost reduction programme to reduce total costs, even as we invest in the business, and we will simplify HSBC to increase revenue synergies and accelerate the pace of execution.

We will target the following in 2022: a gross RWA reduction of more than $100 billion; a reduced cost base of $31 billion or lower; and a CET1 ratio in the range of 14% to 15%. Taken together, these should help us achieve our main target of a return on tangible equity of 10% to 12% by 2022, with the full year benefit of cost reductions and redeployed RWAs flowing into subsequent years. To be clear, I do not consider 12% to be a ceiling for the Group. I think we can go higher and we will aspire to do so. This is a deep and fundamental restructuring of the bank that will enable us to deliver on our strategy and our potential. Crucially, it's not dependent on market conditions. It's focused on things that we can control.

Our first task is to upgrade the return profile of RWAs. We plan to remove more than $100 billion of low returning RWAs and reinvest them in high growth high returning activities in other parts of the business. As you know, we have a very strong heritage, with the wholesale and personal client base centred on the faster growing higher returning markets of the world; a differentiated proposition, serving the banking needs of middle market entrepreneurial businesses globally; a personal banking franchise grounded in three scale and attractive markets – in Hong Kong, the UK and Mexico; and a strong international wealth business with circa $1.4 trillion of client assets. That core franchise delivers strong inherent RoTE and sustainable growth potential. These are the parts of the business that we want to continue to grow. However, as I mentioned at our Q3 results, we have parts of the organisation – our US business and the non-ring fenced bank in the UK and continental Europe – that are not producing acceptable returns, particularly in Global Banking and Markets. These are the businesses we intend to reshape.

Let's start with Europe. We want to focus our footprint in Europe on our international wholesale and transaction banking franchises and connect our clients better to our international network, particularly Asia and the Middle East. By 2022, we intend to reduce the net RWAs in the non-ring fenced bank by around 35% and, within that, to reduce Global Banking and Markets' RWAs by around 50%[1]. We also intend to reduce our non-ring fenced bank costs by around 25%. We plan to do this by focusing our client coverage on clients that value our international network and presence, particularly in Asia and the Middle East, rather than serving pure domestic clients. We will scale back the amount of capital we deploy to our Rates business and exit capital and leverage intensive product lines, such as G10 long term derivative market making in the UK. We will focus our European investment banking activities on supporting UK mid-market corporates and capital flows and transactions between Europe and the faster growing markets of the world. London will remain an investment banking hub to support our global clients. We will reduce our equity sales and equity research activities in Europe to match our client footprint, and we will transition our structured product capabilities from the UK to Asia, where the opportunity for profitable growth is greater. We'll continue to invest in our transaction banking and financing capabilities. We recognise the need to take action to address our Retail Banking operations in France and a strategic review is ongoing. We will provide an update on that review when it is appropriate to do so, but we have not assumed any change to our current business model in the forecast shared with you today.

Turning to the US, we are one of the leading wholesale and transaction banking franchises and a leading trade bank in the world, so we need a meaningful presence in the US, but we need a new approach that generates acceptable returns. As in Europe, we're going to focus on our strengths. We'll reposition HSBC USA as an international client focused corporate bank, anchored in Commercial Banking and Global Banking, with a focused retail offering for international and affluent clients. This will be a fundamentally different business to today's. We will consolidate select fixed income activity in London and reduce US Global Markets' RWAs by around 45%. We will reinvest the majority of the RWAs saved into Commercial Banking and Retail Banking. In Commercial Banking, we'll expand our coverage of mid-market corporates who trade in the US and internationally. In Retail Banking, we will expand our product offering and increase our investment in digital. We'll refocus our Retail Banking presence to serve globally mobile clients, reducing our branch network in the US by around 30%.

We considered a number of options with respect to US Retail banking, including exiting it completely, but a retail deposit base in the US provides an important source of stable liquidity for our wholesale banking and global transaction banking activities. We believe we can connect our personal banking operations in the US to our personal banking operations in the rest of the world, just as we have in wholesale banking. Finally, and partly as a consequence of these changes, we'll embark upon a major cost and consolidation programme in the US that should reduce our total costs by between 10% and 15%. The big difference between this and previous US turnaround plans is that all of these changes are within our control. We are not reliant on favourable market conditions and we have a new management team that is totally focused on delivering these plans. The outcome should be a leaner, more focused business, delivering higher sustainable returns.

Moving on to Global Banking and Markets, it is worth taking a step back and considering the type of business that we want Global Banking and Markets to be. We want to continue to serve large long term capital providers, public sector entities and global corporate and financial institutions that can use our international network, particularly in the faster growing markets. We want to do this as the top transaction bank and a leading global financing house, and to reinforce our position as the foremost international bank in Asia and the Middle East. To deliver this, we will invest in Asia and the Middle East to cement our position as a top three corporate and investment bank, across both Global Banking and Commercial Banking clients. We will continue to invest in our global transaction banking franchise to defend our market leadership and deliver sustainable growth. We will strengthen our investment banking capabilities in Asia and in the Middle East, while maintaining a global investment banking hub in London. And we will build leading emerging markets and financing capabilities in Global Markets and enhance our institutional clients business.

We will also improve collaboration with other businesses. Currently, Global Banking and Markets and Commercial Banking both own their own product and operations capabilities. They cross sell fairly successfully today, but we want to offer our clients a much more integrated service. To drive revenue synergies, we will

[1] Measured from 30 September 2019

reorganise our product teams to serve both front line businesses and, to drive cost synergies, we'll combine the operational support infrastructure for Global Banking and Commercial Banking. We will also continue to invest in the digital systems and solutions that will improve the service we offer our clients.

So here's where we intend to reinvest the RWAs that we save. Even in the current environment, we see significant opportunities for growth. Our transaction banking businesses are a major revenue driver for the Group and will continue to do so. We have an excellent opportunity to build our international wealth franchise, particularly in Asia and among the international Asian community. Asia as a whole is a core engine of growth for the business over the next few years. We will continue to invest in the expansion of our business in China generally, the Greater Bay Area in particular and across Southeast Asia. Given our heritage in the Middle East and the many market reforms that are taking place, we believe we are in a strong position to take advantage of the significant opportunities that will arise. We also intend to continue capturing market share in the UK ring fenced bank, as we have in recent quarters, and we see strong growth momentum in our business in Mexico. We will also be investing more in technology, improving our digital platforms to expand our reach and improve customer experience.

Turning to cost reduction and simplification, there are three paths to a reduced cost base and a simpler business. First, we will take out costs associated with the activities we choose to exit. Second, we'll keep investing in technology to re-engineer manual or legacy processes, removing costs and improving the customer experience. Third, we will organise ourselves in a less matrixed and fragmented fashion, leading to lower cost, increased accountability and greater agility. The net effect of these changes will be a simpler, more streamlined business. We expect savings of $4.5 billion from this cost programme, which will allow us to substantially reduce our cost run rate. Our intention is to target total adjusted costs of no more than $31 billion in 2022.

Many of the changes we're going to make will have a material impact on the cost and complexity involved in running the Group. First, we will combine Retail Banking and Wealth Management, and Global Private Banking, to create one new global business, which we will call Wealth and Personal Banking. Not only will this increase our ability to find revenue synergies within a much larger Wealth business, it means we can remove many layers and support structures associated with running two global businesses.

Second, and as already mentioned, we will merge the back and middle offices for our wholesale banking businesses. This will help us sell more products to more clients, but it will also reduce duplication and increase collaboration.

Third, we are simplifying the way we manage our geographies. Where previously we had seven geographies, we will now have four, covering Asia, the UK, the US and the rest of the world. Each of these will be represented on the Group executive committee, which will be smaller than before. This will increase accountability, reduce complexity and improve our ability to execute at pace.

Fourth, we will be able to reorganise our global functions to match the size and simplified structure of our front line teams.

Finally, we as an executive committee will be increasingly incentivised, via our scorecards, to deliver the right outcome for the bank as a whole, not just for our individual business units or functions.

This represents one of the deepest restructuring and simplification programmes in our history. It will help us not only to reduce our cost base, but also to become a more collaborative, empowered, customer centric business, while maintaining or enhancing our risk framework. Taken together, these actions will significantly change the shape of the Group.

The new Wealth and Personal Banking business, and Commercial Banking, will occupy a greater share of RWAs for the Group, while the share of Global Banking and Markets will reduce from 31% to less than 25%. On a geographical basis, Asia and the UK ring fenced bank will be the main beneficiaries from the reduction in RWAs currently allocated to the non-ring fenced bank and the US.

In summary, since Q3 we have developed a detailed restructuring plan to address the low return portfolios of Europe and the US, and to reshape Global Banking and Markets. We have plans to reallocate freed up capital into higher growth higher return businesses and markets. We have begun an ambitious simplification and cost reduction programme, while increasing IT investment. This is a robust plan, built around things we can control, predicated on reasonable revenue growth assumptions, combined with significant cost reduction and capital efficiency programmes. We have reorganised our management structure to deliver at pace. We have established a dedicated transformation team to focus on executing the restructuring, with a separate team focused on building future growth strategies. Since my appointment in August, we have taken tough decisions to deliver quick results. In the fourth quarter, we reduced RWAs by $22 billion. We reversed the direction of travel on both cost and headcount, and we refreshed the executive management team to position us for execution. Now we need to evidence continued delivery and I am totally committed to doing that. Back to Ewen.

Ewen Stevenson: Thanks, Noel. To take you through the broad financial implications of what Noel has just outlined, we expect to have risk weighted assets in 2022 that are broadly in line with year-end 2019, with reductions in the non-ring fenced bank, the US and parts of Global Banking and Markets increasing our capacity to invest in both planned growth and priority markets, and to deal with the expected impact of regulatory changes. Over the same three year period, we're also planning a material reduction in the leverage exposure of Global Markets. We're targeting an annual cost base of $31 billion or less in 2022, which translates into a return on tangible equity in that year of 10% to 12%. We want to do this while maintaining our core tier 1 ratio in the range of 14% to 15%. For clarity, these targets exclude the impact of any business disposals.

On the next slide, on risk weighted assets, we're planning to materially reduce RWAs in the non-ring fenced bank and, to a lesser extent, in the US. As part of this, and given that almost 60% of the RWAs across those two entities are Global Banking and Markets related, we're specifically targeting a material reduction in capital allocation to that business. Largely offsetting this is planned growth in other franchises. The core underlying RWA growth across the Group is currently at around 4% to 5% per annum so, over a three year period will largely offset the RWA reduction we're planning. On Basel III reform, at this point we've become less concerned about the day one net impact. We now see a relatively limited uplift post mitigating actions we're planning to take.

On the next slide, we've set out where we expect the gross RWA reduction to be achieved. The bulk of the reduction and revenue impact we're targeting is expected to come from Global Banking and Markets and, to a lesser extent, Commercial Banking. The rundown programme is likely to take three years to execute, with a dedicated team now set up to execute this. The disposal losses of the RWA rundown programme in Global Banking and Markets are expected to cost in the order of $1.2 billion. This will be taken into significant items, spread mainly over 2020 and 2021, with the associated net revenue loss expected to be in the order of $2.5 billion. We're also targeting a gross reduction in leverage exposure of $250 billion in the non-ring fenced bank in the US, partially offset by around $50 billion of anticipated growth in the Global Markets franchise in Asia.

On the next slide, we expect RWAs at the end of 2022 to be broadly in line with where they were at the end of 2019. 2020 revenues will be impacted by the impact of lower interest rates and the assumed non repeat of certain positive revenue items in 2019. These items include positive market impacts in insurance and disposal gains, which total to around $0.5 billion. We intend to reduce RWAs by over $100 billion in areas generating low revenues to risk weighted assets with very high cost income ratios. We intend to redeploy these risk weighted assets in areas of higher revenue and lower cost income ratios, particularly over the medium to longer term. The reduction and redeployment of RWAs and associated revenue impacts will be spread fairly evenly over the three years of our plan, and we expect further benefits from the redeployment of RWAs to flow into 2023 and beyond.

On the next slide, the targeted gross reduction in RWAs helps us fund the cost of the restructuring, the underlying growth in RWAs from our stronger performing franchises and the anticipated net impact of Basel III reform. However, our current Group returns are insufficient to fund both the natural growth in our business and to fully immunise the scrip dividend. In order to bridge to 2022, when we expect to have higher returns, we're suspending the buyback for this year and next. We're also shifting our guidance on our core tier 1 ratio. We're still targeting to be above 14%, but signalling today that, over the next three years, we expect to be at the higher end of the 14 to 15% range from 2021 onwards. Over the medium term, as we target reducing gross peak to trough stress in the Group and seek to further optimise today's capital inefficiency that comes from our subsidiary structure, we plan to reduce our core tier 1 ratio back to the lower end of the 14 to 15% range.

Turning to costs, we plan to substantially reduce our cost run rate to $31 billion or better by 2022. Given underlying inflation over this period and the expected reduction in the bank levy, this reflects a real reduction, in the order of 10%. With a shift to higher yielding RWAs over the same period, we expect a material operating profit improvement over the next three years. The cost reductions broadly fall into three buckets: direct cost savings relating to business reductions – these amount to around 45% of the total; the organisation simplification that Noel has just outlined, including a substantial restructuring of Group central costs – this amounts to around 35% of total savings; and, for the remainder, technology investment that leads to increased levels of automation and productivity, accounting to around 20% of the total. The cost programme will require intense focus on delivery. There are almost 200 separate cost initiatives underpinning this. Progress will be monitored through a tight central oversight team, with some of those cost initiatives starting today.

On slide 33, we expect costs to achieve to have been substantially completed by 2022, with full run rate benefits achieved in subsequent years. Expected cost savings of $4.5 billion from this new cost programme are phased across the three years: $1 billion to be delivered in 2020, a further $2 billion in 2021 and the remainder in 2022. We expect that additional restructuring costs, in the order of $6 billion, will be required, with more than 90% of these costs incurred this year and next.

To conclude from me before handing back to Noel, we believe we're setting out an ambitious but realistic plan to achieve a number of objectives: firstly, to materially improve overall Group returns by 2022 – that allows us both to grow how we want to grow and to fund our current distribution policy; secondly, to take capital and cost away from underperforming franchises, so we can continue to invest where we have stronger returns and growth prospects; and lastly, to simplify our currently overly complex structure, reducing the overall Group and central costs and improving the capital efficiency of the Group.

Noel Quinn: Thanks, Ewen. To quickly summarise, strong revenue growth in our target areas and good cost discipline in 2019. A firm intention to grow returns, create the capacity to invest and to build a platform for sustainable growth. A robust plan to restructure our US and European businesses, reposition Global Banking and Markets, and reallocate capital to higher growth businesses, all by simplifying the Group. A path to a return on tangible equity of 10% to 12% in 2022, through a gross risk weighted asset reduction programme of more than $100 billion and a gross cost reduction of around $4.5 billion by the end of 2022. We also have a strong ambition to seek additional strategic opportunities for growth and higher returns, and a commitment to deliver. With that, we're happy to take questions. I think Richard will step up.

Richard O'Connor, Global Head of Investor Relations: Thanks, Noel. We have some questions from the web but, before we take some of those, we'll take a few from the audience.

Rahul Sinha, JP Morgan: I have two, please, one on the strategy. For the plan to work, the capital redeployment will be the key element. I really appreciate the detail you've given us on where you're taking capital away, but I was wondering if you could give us more detail about where you're going to put that capital into. Apart from the areas in terms of geographies and businesses, could you also talk about whether the plan is organic or whether you also might consider inorganic options?

Noel Quinn: I'll deal with the second one first. The plans that are before you and the forecasts that are before you are all based on organic activity. There's no inorganic assumed in those plans. Second, on capital redeployment, we still believe, and have seen in 2019, strong growth in Asia, in the Middle East and in our UK business. We want to continue to fuel that growth and we see that growth continuing going forward. We've also seen extremely strong growth in Mexico. Let me just recall that Mexico today, or in 2019, achieved a return on tangible equity of 15%. That business has extremely strong growth momentum still in it, so we want to provide that. In terms of Asia, to be more specific, we see still growth potential in our international Commercial Banking franchise. That proposition is well positioned to continue to grow. We have a unique and differentiated position in international mid-market banking and we want to continue to invest in that globally, but off a very strong heritage in Asia and the Middle East. We also see continued growth opportunities in Wealth and Retail Banking in Asia, and we want to facilitate more balance sheet capacity to fund that growth as well. Maybe Ewen wants to add a few comments.

Ewen Stevenson: Just on inorganic, it goes both ways too. Equally, there are no disposals built into these numbers so, to the extent that there are disposals, you should factor them on top of what we're announcing today. In terms of organic growth, I'd just point you to some of the underlying growth rates that we've had in places like Asia over the last decade. Yes, there's a near term impact from the coronavirus, but we do think there's a secular growth opportunity in trade and in wealth in Asia over the next 10 to 15 years, and that we are relatively uniquely placed, currently, to take advantage of that.

Noel Quinn: Just to give you one example of that in Asia Commercial Banking, I remember when I took over that business at the end of 2010. We had a balance sheet, at that point, of around about $80 billion. Today, that balance sheet is closer to $135 billion and still has potential to grow, so we want to continue to fuel that investment.

Martin Leitgeb, Goldman Sachs: Could I just follow up on the capital comments earlier? I was wondering under what timeframe should we consider HSBC to return to this more normalised capital level of closer to the lower end of the 14 to 15% range, rather than the 15% range you're kind of signalling over the next three years, for the restructuring period? The second question is more strategic. I was just wondering about HSBC UK, the ring fenced bank, how strategic do you consider it within the Group context, bearing in mind the limitation imposed by ring fencing on the utilisation of retail deposits?

Noel Quinn: I'll deal with the second one first. We see it as a very strategically important part of the portfolio. It generates inherently higher returns. If you look at the underlying returns of the UK business and the UK market, it's an attractive market. We're seeing growth in market share and growth in our own business, in both Retail Banking and Commercial Banking. We believe it will become increasingly connected to the rest of the world, in a post Brexit world, so it's strategically important. Ewen, do you want to cover capital?

Ewen Stevenson: I'll go into a bit more detail on the comments and guidance around capital. In the very near term, we're obviously sensitive to the fact that we're doing a significant restructuring, and the precise timing of restructuring charges and RWA rundown over that period can vary, hence why we want some capital flexibility. Secondly, the final rules on Basel reform haven't been settled, so what you see embedded in the numbers today is a net increase of less than 2%. If we had gone back – I think if I was presenting views about a year ago, when I was reluctant to do so, it was because we could see that there was a path to significant mitigation.

In the medium term, we've got two big structural issues that we're working through as a bank. Firstly, we have enormous complexity in the Group because of the subsidiary structure. Our largest single balance sheet has less than 30% of the Group assets. If you compare us to US peers, typically 70% of assets are on the dominant balance sheet in the group. As a result, we have an enormous amount of capital inefficiency across the Group. We're also subject to 64 markets where, in some markets for example, we're held to standardised rules and not able to take advantage of advanced modelling. So there's a progressive work plan on that over the next years.

The second issue that we're dealing with is we've still got, I think, a significant level of peak to trough stress across the Group. Some of that is getting addressed as part of this restructuring. For example, we're planning to substantially reduce the principal investment business that sits in the non-ring fenced bank. One of the core reasons for doing that is not the fact that it produces attractive returns under base, but under stress it has enormous stress characteristics. If we can make progress on those two issues, we can comfortably reduce down to the lower end of that range. In terms of timing, that's why I use language of 'medium term', because it's difficult to be precise.

Claire Kane, Credit Suisse: A couple of follow ups, firstly on the capital. In the event that you're unable to redeploy all the RWAs – and I do note that you're planning to redeploy them in quite low risk weighted asset businesses, in RBWM and transaction banking – and the capital ratio was to go north of your 15% range over the next two years, would you consider buying back shares or would you rather that was all built up to 2022? What is the basis for your RoTE targets, so the TNAV? Clearly if you build up a lot of surplus capital, that would dilute returns, so should we expect that you're in the mid area of your 14 to 15% range by 2022 and all surplus capital would be distributed at that point?

Ewen Stevenson: On the latter point first, we've said that we expect to be at the higher end of the 14-15% range in 2022. Embedded in that 10 to 12% RoTE target is the higher end of the 14 to 15% core tier 1 being held in that year. The other thing I would say on returns is we don't think 2022 is a clean year either for revenues, because we've reinvested revenues into new customer relationships where the revenue build up takes time. Secondly, we haven't got full run rate costs in 2022, so we do think that there's further upside on the return as you go out.

On capital, firstly, we have a high degree of confidence in our ability to redeploy $100 billion of RWAs over the next three years. If we were to end up in a scenario where that wasn't the case, we're not going to just sit and allow our capital ratios to accrete well in excess of what we need them to do. It's our current expectation that we're not doing buybacks for two years. If that was to change because the RWA profile and the capital position of the bank was very, very different, we would relook at it, at that point.

Noel Quinn: Just on the reasonableness of our growth assumptions, even today, with all the challenges that exist around coronavirus, we're seeing a strong pipeline of activity in our business globally. We're very confident that we can deliver that growth plan. We have delivered that or more in the past, so we believe we have made reasonable assumptions on the growth and that it can be delivered.

Richard O'Connor: Before we go to the floor, there are a couple from the web on the coronavirus. Firstly, do your Q4 ECL assumptions take into account the coronavirus or are they as at 31 December? Secondly – one from Jason Napier of DBS made some revenue guidance recently on the impact of the coronavirus; can you talk a little more about expected impacts from that, please?

Ewen Stevenson: For accounting purposes, coronavirus is a post-balance sheet event, so it's not in our 2019 forward economic guidance, at this point. It will be obviously reflected in the forward economic guidance as part of Q1 reporting. To give you some numbers, embedded into our disclosures in the annual report and accounts today is our various adverse scenarios for Hong Kong economic performance. What's the downside? The most extreme downside scenario in there, I would say, makes an assumption that the coronavirus is still continuing in the second half of this year. If you look at that and that was to become the central scenario, there would be about $600 million of additional loan loss provisions required. We don't think we're going to be anywhere like that in Q1, but it's not the only P&L impact and capital impact. As I said earlier, there will be revenue impact, which will become progressively more acute if the coronavirus was to continue beyond the next month to six weeks. There would also be the risk of credit rating migration among the wholesale book in Hong Kong, which would lead to RWA inflation.

We think that the Q1 impact, as we sit here today, is probably range bound in the order of about $200 million to $500 million, relative to our previous planning assumptions. If the virus is still prevailing beyond that, we'll come back as part of Q1 reporting to give you a much fuller update of what we think the impact is, at that point. When we look at the modelling, it's predominantly a call on how long it takes to contain the virus when you look across the various scenarios that we're trying to model at the moment. Underlying that, when you look at the underlying credit performance of the book, as Noel said, Q4 was good and January was certainly robust. We are getting some positive offsets against this, because HIBOR continues to remain elevated relative to the previous planning assumptions as well.

Richard O'Connor: There are a few questions on the web, from the likes of Tom Rayner, Jason Napier and Manus Costello. Can you talk a bit more about the revenue loss from the RWA reductions, the timing thereof and the timing of reinvestment? Should you expect revenue losses earlier in the plan and a hockey stick towards the end? Can we have a little more detail on the $100 billion reductions and the $100 billion reinvestment, please?

Ewen Stevenson: We thought we were providing a decent amount of guidance, but it appears that there are still a few gaps. You will see in one of the bar charts we've got in the presentation. Please don't get your rulers out to try to measure across but, for Global Banking and Markets we've signalled about a $2.5 billion reduction as a result of the RWA run-down. That excludes the costs associated with the run-down, which we will treat as a significant item. We do think offsetting that will be some degree of revenue improvement over the next three years. Therefore, we think Global Banking and Markets revenues will probably be down in the order of about $1 billion relative to last year's run rate by the time we get to 2022. And the material impact, as you can see on the bar charts that are in the slides, is in Global Banking and Markets.

For 2020 overall, we've talked about a very modest reduction in revenue. We've got interest rate headwinds. We've set that out – about $1.1 billion of lower interest income as a result of a reduction in rates that have been going on in 2019 and some assumed reduction in 2020. The bulk of that will hit 2020. We've got about half a billion dollars of one-offs that were in 2019 that we're not expecting a repeat of in terms of our forecasting. Offsetting that, there's a decent amount of growth that we're continuing to see in our underlying business and I think the last part of that was the timing across the period. Broadly we think the revenue reduction from the RWA run-off and the revenue growth from the RWAs we're putting on is evenly spread in terms of the build-up and run-down over the three year period.

Noel Quinn: But I'd add one other point and that is one of the reasons we're doing the organisational simplification and the cost reduction programme is to make sure we have some mitigation, so that we don't end up with stranded costs should the revenue go down on the reduction programme for RWAs, but a time lag for the revenue coming up elsewhere. So I think you've got to take the two in the round. It's the revenue reduction build on the RWA redeployment programme and the cost reduction programme that gives us more assurance on managing the situation.

Guy Stebbings, Exane BNP Paribas: Can I come back firstly to capital being created from the plan? If we think about the 100 billion of gross takeout that you got into, by the end of the plan no buybacks before 2022, so you've only got the ordinary dividend, which most people would have had in their numbers. Should we be inferring that the plan itself doesn't release any capital if you do redeploy, but incremental to that it's really about any business proposals which create that additional capacity? Is that the right way to be thinking about it?

Ewen Stevenson: I'm just going to think about that for a second. So the 100 billion of RWA reduction would release $14 billion to $15 billion of capital for us, offset by the after-tax cost of the restructuring cost and the RWA run-down cost, so that still creates capital in that programme, but it's all embedded in the statements around the suspension of the buyback for two years. The second part of the question is –

Guy Stebbings: It's just if we're looking at a capital ratio in 2022 broadly aligned to where we are today, we're saying no buybacks before 2022; implicitly that assumes that there's no net capital release versus our previous guidance, but you're obviously not including within that any disposals, which seems like it could be the big delta.

Ewen Stevenson: Yes, if those disposals create value. Obviously, it depends on the realisation process – proceeds of those disposals. So possibly, but I don't – if you think about some of the stuff that's been speculated about in the press, just remember that we have a lot of network markets that are relatively small. If we were to dispose of any of them, I don't think it's going to have a material impact on our capital base overall. So, the big drivers are things like interest rates, the speed of the RWA run-down and the speed of the redeployment. All of that is going to have a far greater impact on the capital position of the bank.

Guy Stebbings: Can I just come back to the capital target quickly and the peak to trough stresses that you referenced? If we look at the Bank of England stress test and if we look at the other component parts – the capital stack, consider some trapped capital – it still feels like quite a conservative target, so is this very much an internal stress that you're applying, which is –

Ewen Stevenson: It's not – it's certainly not driven by what the regulators think. We will always drive our capital targets by the higher of regulatory constraints and what we think. We have a more conservative view than the PRA on where our capital position should be. I think an offset to that is we are the best-rated of the UK banks, as you know, with our credit ratings. We get wholesale funding costs, therefore, that are substantially cheaper than our competitors. We've always wanted to position ourselves as a very strongly rated, strong balance sheet bank. We get the benefit of that through funding costs, but it's certainly not driven by any conversation we've been having with the PRA.

Guy Stebbings: So we can't lean on a new Bank of England disclosure on stress testing this year as a guide. It's more about –

Ewen Stevenson: No, the stress testing issue is our own internal issue. It's something that – we've recently strengthened our stress testing team under new leadership and we do think that we can make material progress over the next few years in reducing the peak to trough delta that we're seeing in our stress test results.

Magdalena Stoklosa, Morgan Stanley: Thanks very much. Could you give us a little bit more sense of your cost trajectory? That's particularly slide 32 that I'm referring to. What assumptions are embedded in your severance costs over the next – over the time of the restructuring, but also if you could give us a direction of where the investments go, and also the sense of a flex in that cost base? So we've got the 31 billion at the end of 2022. Should the revenue surprise on the upside or the downside, how will that number flex too?

Noel Quinn: You can tell me how the revenues will flex; I'll tell you how the costs flex. Clearly we position the cost base to be in the context of the revenue growth opportunity. At the moment, based on the current assumptions, we believe 31 billion or less is an appropriate position. Should the economy and the growth be better, we'll invest in the business. Should it be different, we'll take a different course of action.

Ewen Stevenson: You can see on slide 32, there is a light grey bar there that has a significant component of investment and growth, but broadly we expect costs to be flat, down, down in the next three years and getting down to 31 billion – by the time you take the underlying inflation rate in the bank – at the moment it's about 2.5% per annum – we are expecting a 700 million – that order of magnitude – reduction in the bank levy from 2022 onwards. If you back those two out, what's embedded in the plan is about a 10% reduction in real terms, but importantly there's a significant component in there for growth investment. If we don't see the growth coming, we'll just scale back that growth investment.

Magdalena Stoklosa: And the severance?

Ewen Stevenson: Well, they're detailed assumptions based on where people are leaving and what the cost of them leaving, which vary substantially across the world. Severance costs in continental Europe, as you know, are substantially higher than they are in other parts of the world, but all of that is reflected into the numbers, and we've provided breakdown on one of the slides of what the breakdown of the costs to achieve are. About 40% of that I think is severance-related.

Richard O'Connor: And we gave you the timing of that CTA as well, so you have that timing in the slide.

Ewen Stevenson: But I think the other important thing to remember on some of the job cut numbers that are being stated today, we currently have attrition of 25,000 people a year, so in the context of the 35,000 job number over three years we anticipate about 75,000 people leaving the bank naturally over the next three years, and if we can be smart on recruitment against that, we can materially reduce headcount over a three year period without having to pay any severance costs against that.

Aman Rakkar, Barclays: I'm just going to come back to capital and run the risk of asking too detailed a question. It's just to interrogate the cautiousness that's – that the message that's coming across regarding capital. Basically, when I do some pretty crude back of the envelope maths, it does look like you're going to accrete pretty significant capital over the plan period, even if you do redeploy the 100 billion of RWAs. Basically, if profits are broadly maintained at their current level, you're going to pay away basically half of that in the dividend post the scrip. If I times that by three – obviously we've got to take out the restructuring charge – it does basically look like you're going to build about 150 to 160 basis points of capital from where you are now, so well above 16. First of all, is there anything there you disagree with and, secondly, does that mean that there is some kind of intangible asset build or some CET1 deduction that we should be mindful of over the plan period?

Ewen Stevenson: It's hard to have the debate in the absence of numbers, but it feels a little bit high. Maybe if you can step through your model with IR afterwards, we can figure out why, but I'd go back to Claire's question earlier. If we see our capital ratios accreting comfortably above 15%, we're not going to allow that to happen and we will manage our capital base appropriately for how much capital we need. In the same way, in 2019 we undertook a $1 billion buyback because we felt we had the capacity to do that, so we did it. So if we are being cautious, that's a good thing, and if we do accrete more capital than we think because of our caution, then we'll take action against that.

Richard O'Connor: A couple on Hong Kong from the web. One from Ronit Ghose on the Q4 Asia NIM: down five basis points, is that the effective run rate for Asia NIM going forward? Can you talk a little bit about that? And then from Vincent Gu asking about the growth in stage 2 balances in Hong Kong in the second half and provide a bit more colour on what drove that, please.

Ewen Stevenson: On Asia NIM, we did have some asset margin compression. The other thing is a significant portion of the Hong Kong deposit base is US dollar based. So US dollar interest rates are down, so you will see ongoing impact of that. I've given up, since I've arrived at the bank, trying to predict the trajectory of HIBOR, but we're obviously very sensitive to the trajectory of HIBOR and in some ways, as I said earlier, it's linked to the coronavirus, where it's remaining high at the moment. But we would expect HIBOR this year - and we've got that in our economic forecast - to decline at some during the year.

In terms of the stage two – look, Hong Kong, pre the coronavirus, has been facing some difficult economic circumstances and all you're seeing is the natural migration, I think, of that credit book, but Richard will have the numbers. The underlying quality of the Hong Kong credit book is – you have to have imagine some extremely difficult scenarios. As I said earlier, shifting to assuming a coronavirus that continues for most of this year only gets you to incremental provisioning of $600 million in Hong Kong. So we don't expect anything like that, but we do expect some increase in provisioning this year.

Ian Gordon, Investec: Can I just have one question on the US, please? Correct me if I'm wrong, but I don't think there's any suggestion that the US will ever be anything other than a drag to Group returns. So obviously I welcome what you've announced re taking capital out of GB&M and slashing costs within the retail business but, in terms of the reallocation within that geography, is it based on genuine enthusiasm for the opportunities you see or is it based on some other structural restriction, e.g. scale requirements, time it takes to extract capital under CCAR or something else?

Noel Quinn: We do see the plan delivering acceptable returns in the US business over the medium term, so we see a significant increase in returns. That's a combination of the reduction in the balance sheet in the Global Markets business, a refocusing of the retail business. We do believe there is an opportunity to serve international clients in the US, but we also believe it's important to have a stable balance sheet in the US to support our global market-leading capabilities in transaction banking and trade, and the package together is the right package.

We did look hard at what we do in the US and did we look to dispose of the retail business? We looked hard at that. We don't think that's the right answer. To be honest, if I wanted an easy headline and I wanted an easier day today, I'd have just made the decision to sell the US retail business, but I genuinely don't believe that's the right answer for us as a bank. I don't think it's the right answer for the business in the US or for our business globally. You've got to remember, we are the market-leading global transaction banking business and circa 70% of that transaction banking business is denominated in US dollars. We cannot put that business at risk by having a sub-scale, inappropriate or high risk business in the US that is not able to fund itself. So that is an important part of buying HSBC, is that global transaction banking business.

Now, many people said we wouldn't be able to turn around the Mexico retail business five, six years ago and were advising us to sell that at that point in time. Well, Nuno is here in the room today. He and his management team in Mexico have done an excellent job. That business today is growing significantly double digit year-on-year, and high double digit, and it's generating a return on tangible equity today of 15%, with strong momentum for future growth. We have to achieve that same outcome in the US, not just because of the US business, because of what it means to be in the US for our broader HSBC strategy.

So the easier decision for me would have been to make the sale decision. The harder decision gets me less headlines today and possibly less support, is to do what we believe is right for the bank, and that's the decision we've taken and we'll give our team the support to do it. Please remember as well, we've chosen a strategy for Retail Banking now that is different to the past. In the past on the East Coast, we were largely a mass market full service sub-regional bank in Retail Banking. On the West Coast, we were more of an affluent internationally-orientated bank. I don't think it's appropriate to run both strategies together alongside each other. It's inconsistent. If we're to choose a strategy for Retail Banking in the US, it's to support the international and more affluent sector of the marketplace and our belief is that's a big market segment. It's in excess of 40 million people. Our brand plays into that market segment well. It's our job to make sure we can do it profitably and that's what we'll be focused on, but it's a big enough market segment to be meaningful. In fact, it's bigger than most countries we're in, frankly. And I know – I don't believe you have to be a full service national bank in the US in order to make money, but we have to prove that to you over time.

Ewen Stevenson: There's also just a couple of other things you won't see on the capital side in the headline numbers. While I talked about a less than 2% uplift on day one because of Basel reform, in the US there's about a 15% uplift in the numbers, so while we're showing you a stable RWA picture, actually that reflects a significant reduction in RWAs offset by anticipated inflation. So the Basel reform across the globe is not uniform in how it impacts different legal entities.

The second thing is today, if you look at the US filings, you'll see that US RWAs are about 40% higher than PRA RWAs, so a significant part of this plan is optimising that gap and there is significant equity release that's embedded in this plan out of the US business back to the Group over the next three to four years. Part of that goes to some of the structural issues that I was talking about earlier, in terms of the double leverage and subsidiary complexity that we're dealing with.

Joe Dickerson, Jefferies: I guess this is the first restructuring plan post-crisis that really seeks to address the middle and back office. How many – can you give us a sense of how much headcount is going to actually come out of what we used to call the Corporate Centre or corporate HQ? Secondly, I see that you made a small release of the UK uncertainty overlay and there is, I think, 311 million left in that provision, which is a little bit higher than the low end of what you're calling out for coronavirus. What do you need to see to release the remainder of that? Is it certainty of a trade deal? What are the things we need to look for, because there's pretty much an offset there?

Noel Quinn: I'll let Ewen answer the second one and I'll give you an answer on the first, if I can. We're not giving individual headcount targets or detail at this stage on either any sub-region or business line, or the centre. What I will say is I firmly believe that it's absolutely important to not only reduce the cost of the superstructure of HSBC in order to provide some mitigations for the RWA redeployment programme so that I don't end up with stranded costs, but I also think it's an important thing to do to empower the organisation with greater agility and greater pace to delayer and de-matrix.

And I think we've had a structure in place that served us well post the financial crisis and through the DPA. We had to build up a more substantial, complex support structure for the businesses during that period, but I think in phase that we're going into we need more agility and simplicity and, therefore, that requires our central cost base to go down. And I want to recreate a much more clinical divide between what is in the holding company or the Group of HSBC and what is in the countries to allow the countries to make growth happen. So I'm not going to give you any specific headcount targets on that. We can help you try to model that later, but nothing at this point in time. On the second point, Ewen.

Ewen Stevenson: We've given the breakdown on one of the slides. About 60% of the cost savings are coming from the back and the middle office, and to just personalise it to the bit I run, if you look at the Finance department today, very manual with poor customer outcomes and cost control as a result of that. We've got a three to four year plan to create a single data warehouse and heavily use the cloud, which should lead to a dramatic improvement in the productivity of the department as a result of that, and we can see similar efficiency programmes across much of the back office and middle office. And we've just got a new COO, John Hinshaw, who's got a deep background in technology and has led similar restructurings at other organisations he's led. So again, both on the technology side and the operations side, again, we see significant opportunity for efficiency benefits, all of which are reflected in today's cost announcement.

On the UK overlay, I think part of what you're seeing is the fact that the UK – stressing the UK portfolio under extreme stress results in higher levels of provisioning than you would see in Hong Kong because of – it goes back to the fundamental credit quality of the Hong Kong business rather than any reflection on the UK. The big triggering event in Q4 for the write-back of part of the overlay was the election, which reduced some of the probabilities associated with some of the downside scenarios. I think in terms of releasing a significant amount of further overlay in the UK, we're just going to have to see what – how the forward economic guidance shifts during the year – there's still quite a broad spectrum of views around the UK economy, particularly as we continue to negotiate the exit from Europe this year.

Noel Quinn: I will say on the UK economy, it surprised me on the upside how resilient the UK corporate base has been through the three years leading up to the point we're at now.

Richard O'Connor: There's one more from the web and then we'll take two more from the floor, around John. There's still lots of questions on RWAs and capital buybacks, as you'd expect. One with a slightly different flavour from Manus Costello: is your plan is to achieve 4% to 5% growth in organic RWAs. To fund that you need to get a return above – right at the top of your 10% to 12% RoTE target. What happens if you don't reach that top end of the range? How will you fund growth in the future, or is the dividend at risk?

Noel Quinn: Well firstly, let me just – Ewen will cover it, but let me first of all make a comment. The RWAs we're taking out are probably yielding, at the moment, between 2% to 3%. The RWAs we're putting back in, we're assuming, will yield much closer to 5% to 6%. So just taking out one – the RWAs and redeploying them, you're getting a revenue and a margin uplift as a consequence of that, because actually the market segments it's going back into are higher yielding returns than the market segments they're coming out of. So you're going to get that margin enhancement as a consequence of that transformation programme.

Ewen Stevenson: Yeah, I don't think the maths are right, actually, in terms of needing to get to the top end of the 10% to 12% RoTE range for the reinvestment. That's not what's embedded in the numbers. There's a significant amount of growth embedded in the plan that's not particularly RWA intensive, particularly around some of the Wealth Management franchise.

So, look, ultimately, in order for the Group to be sustainable with its distribution policy, we need to be targeting returns of about 11% to 12% return on tangible equity. We think this plan delivers that by 2022. We don't think 2022 is optimised for returns. As I talked about earlier, we're right at the top end of that 14% to 15% range on capital. We think we can further optimise that. We think there's more revenue upside as we get to the benefit of the reinvestment of the RWAs, and we think we've got the full run rate benefit of costs still to come through into 2023. But the previous plan that we set out in June, just over 18 months ago, was very much premised on getting to that 11% RoTE that we think we need to be. The interest rate environment fundamentally changed on us. 2020 interest rates are probably about 150 basis points lower than what we thought they were going to be when that plan was set up, hence why we've had to adjust the plan. We think this plan gets us back to that place by 2022 and we think it has inherent logic to it, which allows us to sustain the distribution policy and grow the bank at about that 4% to 5% growth rate.

Rahul Sinha: A couple of follow-ups from me. The capital ratio looks like it's going to go backwards in Q1, so I'm just wondering if I can follow up on what you said in your opening remarks, Ewen. There's 10 billion of model changes and there's 10 billion of inflation from – is that from business growth?

Ewen Stevenson: Yes. So we think over this year there's probably about – well firstly on the capital ratios, I think it wouldn't be surprising if it fell back about 20 basis points on the quarter. I'd heavily caveat that, because it depends on the coronavirus, but we think there's about 15 billion of headwinds this year on regulatory related, modelling-related issues that we're – for which about 10 or just under 10 should come through this quarter. The other 10 that we see as relating to business growth, part of that there's always a significant reduction in balance sheet in Q4, particularly around Balance Sheet Management and parts of GB&M when it comes back on early in the New Year, but also we're continuing to see decent growth in Retail Banking and Commercial Banking, so our current guidance is RWAs will be up about 20 billion or so in Q1.

Rahul Sinha: Thank you. The second one is on GB&M specifically. I think in the past we've looked at divisional returns across HSBC and I'm struggling to go back to that. Maybe it's not relevant anymore, but can you talk about where the standalone GB&M returns will look like under your plan, relative to the 10% to 12% post the merging of the middle and the back office?

Ewen Stevenson: My only hesitation – because we've also got the Corporate Centre reallocation process that we're intending to roll out in the second half of this year, which has some impact on the returns, but this materially improves the return profile of GB&M through the period of the plan.

Rahul Sinha: Is that in the 10 to 12 or is it still below?

Ewen Stevenson: Sorry, I'm just struggling to get the numbers straight in my head post the reallocation bit. Relative to the current returns, the returns are materially higher.

John Cronin, Goodbody: Just a few specifically on the UK actually, in relation to flow share development and mortgages, and the year-to-date, anything you can say on that. Additionally, the recent modest improvement in deposit funding conditions in the market, how do you anticipate that will pass through in terms of pricing or should we expect potentially some NIM accretion there? And finally, anything you can say on the RoTEs you're currently printing on new mortgage flow? I think you gave us some numbers on that before. Thank you.

Ewen Stevenson: So in terms of flow share in Q4 from mortgages, it was just over 7%, so we're continuing quarter-on-quarter to put on flow share in excess of stock share in mortgages in the UK. We think we can continue to do that. As we've talked about previously, we have about a 13% to 14% share of current accounts by value, with about a 10% share of consumer credit, and we're sitting at just under a 7% share of stock mortgages, so we do think there's a long-term opportunity for us to continue to accrete share in mortgages.

On NIM, I would be a bit cautious because there continues to be – we don't have it, but the Term Funding Scheme needs to be refinanced by the sector. It's not obvious to me how that gets refinanced without some pressure on deposit funding at some point. The new – the return on tangible equity for the new business on mortgages is comfortably ahead of cost of capital. It's very RoTE accretive because of relatively low risk weightings attached to that business.

The other thing I would say on the return overall in the UK – return on tangible equity for the UK – it is impacted because we have a very large pension surplus. That pension surplus helps in terms of a stress test because we don't need to hold capital against the pension plan for the stress test, because we've got the surplus, but if you were to adjust all that out, I think returns for the UK business would be a couple of hundred basis points higher than we show.

Noel Quinn: I'd just like to add a couple of comments as well about our plans to create a combined Wealth and Personal Banking business. There are two principal drivers behind that. One is – and probably the most important one is revenue synergy. We believe that bringing the wealth management capability of our Private Bank, and to be able to extend that product capability and those services to a broader client base, gives us significant growth opportunities in revenue across the whole personal customer base.

Equally, we believe there are benefits in sharing the architecture and the skills that are being developed in – and the capabilities that are being developed in our Retail Banking business, particularly in the area of digitisation, and how we can transfer those benefits into the Private Bank for the benefit of our Private Bank clients. So we believe there are opportunities for growth and revenue from bringing those two businesses together. There are also some cost synergies, but that is not the primary purpose for doing it. The primary purpose for doing it is to facilitate future growth.

Some of the benefits will be the scale operations that are being built up in Retail Banking can be leveraged to continue to grow our Private Banking proposition at a much faster pace without having to correspondingly grow the cost base alongside it. So we believe that combination is a powerful one. And we also believe the opportunity for continued growth in our business in the area of wealth management is one that we should focus on and we're looking at further activities and strategies that can take that business on to even higher growth rates. So I just wanted to add that to the comment on the UK retail business.