Edited Transcript

Investor Update 2015

Actions to Capture Value from our Global Presence in a Changed World

9 June 2015

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Douglas Flint, Group Chairman

Good morning in London, good evening in Hong Kong and welcome to this Investor Update. We appreciate the presence of so many of you here in person, and also via the web. Stuart is going to lead us through the day and he, together with members of our Executive Team, will remind you of the strategic progress that we've made since 2011, and the actions we're now taking to capture the value from our global presence in a changed world.

Since Stuart, Iain and I assumed our respective current positions at HSBC there has been a great deal of change, both with regard to our industry and at HSBC. The Group is financially stronger, has a consistent operating model, rigorous controls, and the highest global standards, all underpinned by a clear strategy built around serving our tens of millions of loyal customers.

All the changes and reforms already in place and now planned are designed to ensure that HSBC is firmly recognised as the world's leading international bank. These are subject to intense challenges and scrutiny from the Board, our regulators, our shareholders, and multiple public policy institutions – and in relation to global standards, also from our monitor. All of this governance and oversight is focused on insuring that we fulfil our ambitions and our commitments and embed market leading, global standards throughout all of our businesses.

As you know, there has been considerable change over the last five years, but there is still much to be done, which Stuart and his colleagues will take you through this morning.

Finally, at this year's Annual General Meeting we announced that as part of the broader strategic review taking place, the Board has asked management to commence work to look at where the best place is for HSBC to be headquartered. This work is now ongoing and we aim to complete the review this year. Stuart will talk to some of the key criteria that are under consideration in this regard. With that, let me hand over to Stuart.

Strategic actions for the Group

Stuart Gulliver, Group Chief Executive

Thanks Douglas; good morning to everyone and welcome.

So, since the start of 2011, we've materially reshaped HSBC, but it's also very clear that this has been insufficient to drive a revaluation of the firm, and a higher share price. So, in today's Investor Update, we set out 10 actions we will take to capture the value of our global network in a very much changed world.

I need, obviously, to draw your attention to this forward looking statement, and also draw your attention to the basis of preparation statement that's contained within this incredibly small font statement here!

But let me now turn to the key part of this presentation, and this is really what we're going to spend today on. So, let me cut to the chase and outline the 10 action steps that we're going to take. So, what we're going to do is we're going to reduce Group risk weighted assets by about US$290 billion, which is about 25% of the 2014 risk weighted assets. We're going to continue to run the six filters across the whole network, and as we've announced today, we will be selling our operation in Turkey. We'll also be selling our operation in Brazil, but plan to maintain a modest corporate banking presence to serve about 300 international clients in Brazil. We are actually going to keep Mexico, and I'm going to explain later on how we're going to rebuild the profitability of Mexico. And the United States: you'll recall that I talked about underperformance in Brazil, Turkey, Mexico and the US at the full-year results earlier in the year. Actually, what we're going to do is to sell Brazil, sell Turkey – as I say, in Brazil, keep a small corporate banking presence – but we're going to turn Mexico and the United States around, and I'll explain how we'll do that.

We are obviously going to set up the UK ring-fenced bank; we've already mentioned we're going to headquarter that in Birmingham. We also will talk today about the fact we're going to set up a broad-based ring-fenced bank, not a narrowly-defined ring-fenced bank, which again is a change.

We will deliver US$4.5-5 billion of cost savings. We also plan to therefore to reinvest the first five action points – which is obviously about resizing and simplifying the firm, and dealing with the 'too big to manage' challenge. We will redeploy those, redeploy that capital, and invest in action points 6, 7, 8 and 9, which is obviously to invest into our international network, particularly into transaction banking products, and into trade and business corridors, and I'll explain more about that. Clearly, we're going to pivot the firm further to Asia, particularly into the Pearl River Delta and the ASEAN region. We're also going to focus on further growing our participation in the RMB internationalisation, where we have a global leadership position amongst international banks. We will complete the implementation of global standards, which has a significant financial implication, because it should reduce materially the risk of future fines and conduct redress penalties. And I will also talk through in some detail the criterion we're using around the review of where we locate the holding company.

So let me just outline the shape and the agenda for today. I'm going to give an overview of the Group, provide context around the decisions we have made, and then set out in detail the 10 action points. Andy will then run through the cost reductions. Iain is going to talk about how we will achieve our financial targets and the capital position of the Group and the three of us will then take questions for up to an hour. We will then break for about 30 minutes, and after the 30 minute break, we will then go into a detailed, deep-dive into Global Banking and Markets, the USA and NAFTA, and the opportunities in Asia. We will stop after each of those presentations for questions.

Now, clearly, we're focused on the 10 actions today, which does not give us time to cover the entire waterfront of the firm. So, Alan Keir who runs EMEA; Simon Cooper, Commercial Banking; John Flint, Retail Banking; Peter Boyles who runs the Private Bank; Mohammed Al-Tuwaijri, the Middle East; Antonio Losada, Latin America; and Antonio Simões who runs the UK bank are all here today. You will be able to talk to them at the break and at the lunch, but we will all undertake very specific IR programmes, and following up from today, and running right through the closed period up to results – obviously not talking about the performance of the second quarter, but actually following up on the issues that we've brought up today.

So, first of all, a quick overview of the Group. Now, the purpose of today is not to cover the period from 2010 to now in great detail, and so we've put several slides on this period into the appendix. But some context is required. Between 1999 and 2010, HSBC made over 100 acquisitions. It grew headcount threefold, and its balance sheet sevenfold. So, in 2011, with the Group CEO acting as a Chief Investment Officer, we introduced a six-filter process to decide which businesses to keep and which to sell. 78 disposals have resulted, including the shareholding in Ping An, the sub-prime card business in the USA and the Upstate New York branches. To address control weaknesses and get a grip on expenses, we changed the way the firm was managed, from a country-head approach, which worked less well with the cultural dilution resulting from the many acquisitions over a very short period, to a centralised, global structure, centred on four global businesses, 11 global functions and five geographies. This enabled us to get a grip on costs, and introduce global standards, which is our response to the weaknesses in money laundering and sanctions control, plus the conduct issues that we've faced; and also enabled us to focus on the values and culture of the firm. Moving from a decentralised structure of 87 separate countries to a centralised firm is and was a massive change.

So we moved away from the World's Local Bank, and we actually have offset the decline in revenues from business sales, from de-risking, and from the much lower interest rates that we've faced. We've exited 15 countries, reducing from 87 to 73 so far, and whole lines of business exits – for example retail banking in Thailand – in 10 more countries.

If we quickly look at the ROE journey over the last four years, we can see the changed world which we're going to address in today's presentation. Our ROE actually grew by 5.1%, from revenue growth, and 2.8% from cost savings, but then that was swallowed by, essentially, a 2.3% reduction in ROE from the disposals, a 3.2% increase in costs that comes about from the enormous increase that we've had to put in place to the cost base to deal with regulatory and compliance costs; 1.9% from legal and regulatory and other charges; and very quickly you can see how that improvement in a pure line of 5.1% and 2.8%, comes right back down again with all of the deductions, the bank levy being 0.5%, 2.2% from the increase in capital that we've had to build over that period.

So, just picking out the legal and regulatory and conduct charges on the right-hand side, we've paid a total of 11.2 billion during the last four years, which if you think about it, reduces the ROE by an average of 1.4% per annum. So you can see the world has changed, from the original plan that we actually set back in 2011, which did deliver the 5.1% and the 2.8% - which more than offset the 2.3% decline from disposals, but everything else they then swept in, results in a ROE today which is unacceptable to all of us.

Let's move on to a broad look at the firm and what we regard as the three core strengths which anchor the investment case for owning HSBC. We believe that we've got three distinct advantages which are outlined in this slide. Number one, we think we have an unrivalled global presence and network; we've got access to 90% of global trade and capital flows; we have banking operations in the highest growth geographies. We also have a diversified, universal banking model. You'll hear me say this often, but there's two parts to this: we're global and we're also universal, and they're separate points. Within the universal framework, that obviously gives us a very balanced model; we have diversified roughly a third of the Revenue of the firm, comes from Global Banking and Markets, Commercial Banking, Retail Banking Wealth Management. So the business model is deliberately diversified, which has given us some of the lowest earnings volatility amongst our peers. We have a resilient business model; we have been profitable through every reporting period throughout the financial crisis. We believe, actually, the firm can be resolved through a multiple point of entry approach. The third big strength, therefore, is that we have strong capital generation; our average capital accumulation between 2011 and 2014 has been about US$9.1 billion a year, and we've also been able to sustain a progressive dividend.

Let me dive into each of these three in some detail. So, first of all, I'm going to dig down over the next eight slides into our global footprint. We think it would be very, very hard today to build this global footprint from scratch. We think there's quite a high entry-level barrier to recreating the type of network that HSBC has. The world continues to become more, not less, connected by trade. In 1995, the left hand chart, there were eight trade corridors with flows above US$100 billion. Today, on the right hand chart, there are 23. To capture trade, you need to be at both ends of a trade corridor, and we are present at both ends of all the US$100 billion-plus corridors, and of the 10 largest export corridors – eight of them include either China or the US. Which again, you'll hear when we start to explain why the US is critical for us to keep.

This slide shows our coverage. On the left you can see our priority and network markets, cover about 91% of world trade, and about 96% of FDI. So the left hand piece has trade and FDI; and obviously the bars show that trade and FDI mapped against our network. Now, it's also I think important to focus on – we've announced this morning the sale of Brazil and Turkey, and you can see in the small footnote, Brazil and Turkey together represent under 2% of each, both global trade and FDI. So the sale of those two does not undermine the logic of this argument. On the right, we illustrate where we have a presence on either end of the corridor, and you can see these are the main trade corridors; these are the size of exports, in US$ trillions, estimated by 2025; and this is where we currently sit today. So, very well positioned to take advantage of an increased trend in world trade, which we believe will continue to grow.

We also continue to believe that the world's economy will continue to move to the East and we are extremely well positioned for that growth. You'll remember me saying this in 2011, that we believe connectivity is a core competence of this Group, a core competence to fully harvest the benefits and opportunities from connectivity, and that we also thought that the world's economy was going to pivot to Asia. Actually, that is true; nothing has changed in that regard. So our footprint also provides access to the fastest growing economies. If you take the grey bars on the left, first, again, you can see that 87% of GDP growth forecasts by 2050 – is suspected to come from Asia, Europe and North America. So the marginal growth in GDP will come from Asia.

We have a major presence in 10 of the top 15 countries by GDP in 2030, and actually, those 10 countries will account for about 50% of world GDP growth. To be honest, you can already see this in our numbers. Our numbers are obviously the red bars in the centre section of this slide, where you can see Asia representing 78% of our PBT, NAFTA 8% of our PBT, Europe only 3%; and Middle East and North Africa 10%. So we are positioned for where the growth will be. That remains true.

I think it's also worth spending a little bit of time on the benefits of being global versus the costs. Remember, we are a global universal bank, and this slide is addressing the global aspect. Later, we will take a look at the universal aspect. But we believe the advantage of our network – and we've done a lot of detailed work on this – actually drives about 40% of HSBC client revenue, which is equivalent of about US$22 billion in 2014. I will go on to make the case in more detail in a moment, but US$22 billion of the revenue of the firm, comes about because of our global network, because we are a global bank. It is very difficult to replicate this, so this gives us quite a unique differentiator for our clients. It also gives us tremendous diversification; we are able to invest through regional macroeconomic cycles, and move capital and resources to the highest growth opportunities which makes us more resilient in the downturn. You saw this in the global credit crisis, where we were able to deal with Household and did not take any equity or debt from any government anywhere in the world, because we were diversified geographically. We also, therefore, have got the lowest earnings volatility versus the industry in the 10-year period 2004 to 2014.

Our size and scale – and our international scale – we believe also gives us benefits in terms of systems scales, and scales in support functions, so in offshoring, in operational hubs, in global systems. It also gives us economies of scale in procurement.

Now, from a negative point of view, there is obviously the cost of complexity, although it's interesting that in the GSIB calculation, which Iain will go into in some detail later, it's not complexity or size, but actually cross-jurisdictional activity that adds to our GSIB score. So the FSB does not see complexity and size as a reason to add to GSIB, it's actually cross-jurisdictional. But nevertheless, the cost of running a global bank clearly has gone up, and obviously here the bank levy is calculated on our global balance sheet. The G-SIB and TLAC requirements, clearly do increase the capital and funding needs, but again, one has to assume that if we were to take the company into its individual pieces, you'd lose the US$22 billion. We actually think that most of the pieces of HSBC would still be D-SIBs, so therefore there would not be a material reduction in the amount of capital being run; you'd simply lose a very large amount of revenue. Of course, the cost of that capital, if you're having to hold – for the sake of argument, US$10 billion more capital, the cost of that capital to serve each year, is US$1-2 billion. It's obviously not the capital. Therefore, we're absolutely convinced that being a global bank still delivers incredible value. There is US$22 billion that comes about because we're global.

Let me dive a little bit more into this, which is to prove again, what we describe as international versus domestic and give you these definitions. Actually, over the last couple of years, the international revenues have grown far faster than domestic revenues, in part actually because we've had declines in revenues in Mexico, Brazil and Turkey. But nevertheless, the international revenue piece is the fastest growing piece of HSBC. That US$22 billion, the delta of growth of that number, is actually considerably higher than purely domestic revenues.

The international network is also essential for transaction banking products. This is a very important part of HSBC's business mix: Payments and Cash Management, Trade, Foreign Exchange, and Securities Services. These actually appear in Global Banking and Markets and Samir will argue later on that the business mix is slightly different than others and also appear in Commercial Banking. Three of which we have grown market share in, as you can see: Payments and Cash Management, Trade Finance, and Securities Services. In all of them, we have very strong market positions, both in terms of rankings and in terms of awards. But the most important thing is, these products generated US$16 billion of revenue in 2014, and this is very sticky transaction banking revenue. Now these revenues would not exist without the network and the cost to recreate the network creates a very large barrier for entry for anyone else to do so.

We also believe – and the facts bear this out – that our international footprint and related products enable us to access a much higher revenue share from our customers. This is another argument for the value of the network. What this slide sets out is that if you bank a client in more than 10 countries, you make eight-times the amount of money – or revenue – from that client than if you do if you bank them in fewer than three countries. What it also shows is that the number of products that you do with them, which is the lighter grey bar, is 12 products if you're in more than 10 countries. And actually, the share of revenue booked outside the original country, once you get to 10 countries, is about 80%. Now, this is quite important, because this is part of the argument around the United States, i.e. when you are banking US clients and you are banking US clients like a GE or a Dow Chemical, in 10 countries, 80% of the revenue is going to be outside the United States, but it is actually phenomenally profitable to bank Dow Chemical in 10, 12 countries, because the exponential increase in the amount of revenue booked from that type of client is demonstrable, versus just being domestic, and banking them in one particular position.

So we really do believe our international network is critical to our Global Banking and Markets and CMB businesses. I just want to end with a couple of specific examples. Those of you who cover HSBC from Asia will be very familiar with Hutchison Whampoa. This shows the type of client that HSBC makes very satisfactory returns on equity from and has a very close and longstanding relationship. So the relationship goes back about 60 years. The red colouring is where Hutchison is located – that's Hutchison's network, not our network. So, we have a banking relationship with them in 32 countries; we do PCM with them in 30 countries and we do trade with them in 17 countries. On the right hand side, you can see some of the large transactions we've been involved in. Again, if we were not in the UK and Hong Kong we would not have been providing the financing for Three to make its bid for O2.

I'll give you four more examples that prove this point. So, Dow Chemical as I mentioned earlier, clearly we bank in the United States but the majority of the revenue is captured with business that we're doing with them in Saudi Arabia and Kuwait, and in China. With CEMEX, the Mexican cement company, the business is not just in Mexico, it's in the UK, Philippines and the USA. Prudential Insurance, we bank in 23 markets. NYK Shipping, the Japanese shipping company, in 30 markets.

Let me turn to the second fundamental strength of HSBC, which is diversification, leading to lower volatility and lower risk. Now you recall that I made the point about two factors; HSBC is a global and universal bank. So, putting aside the global part, and the value of the network, which I've just discussed, let's now turn to the universal piece. So, obviously as a universal bank we believe that we should be in a significant waterfront series of businesses, Commercial Banking, Global Banking and Markets, Retail Banking and Wealth Management. You'll see that no one of these dominates: so the largest one which is Retail Banking and Wealth Management has 40% of the PBT. You'll see us later talking about how we're going to reduce the risk weighted assets in Global Banking and Markets to take it below one-third, from 39% at the moment of RWA usage within the Group. This is quite deliberate. We deliberately run this a as a diversified portfolio: all three businesses are equally important to the P&L of the firm. Because of this model, we also therefore attract a significant amount of deposits – about US$1.3 trillion, which just recently, obviously, have become an earnings overhang, because interest rates have been at the zero-bound. But they enable us to run with a loans and advances and advanced deposit ratio, substantially below 100, which obviously removes the risk that comes from time to time of a choke in the wholesale financing market. This is very deliberate.

We also run with a much lower LICs to loans and advances ratio than others. Our 10-year profit before tax volatility is much lower than competitors, and our leverage ratio is actually a good deal higher. It's also true that this diversified, universal banking model has resulted in our ability to build up capital to the new regulatory required levels from retained earnings because we have made no external capital raise since the 2009 rights issue.

We believe there's about US$11.6 billion of revenue synergies, up from about US$6.7 billion in 2010, that comes from the universal banking model. This growth reflects the fact that we're now running the firm in a centralised manner, with four global businesses. Now, the absolute number reflects the business model, so whilst the US$22 billion and the US$11.7 billion have some overlap, both of those numbers, I think, make it clear that our current business model – a global, universal bank – generates substantial revenues.

Just to point out the type of synergies that we're talking about: Global Banking and Markets in Asia now has the top-ranked high-yield bond underwriting position by taking Commercial Banking customers to the bond market. Previously, actually, Morgan Stanley had the dominant position: what we're now doing is actually forcing cooperation and collaboration between our businesses in order to realise these types of synergy benefits. Again, Commercial Banking is the biggest source of new introductions to the Private Bank. That makes complete sense: you would imagine the Private Banking clients of HSBC should be the business owners and entrepreneurs that set up the SMEs that we're banking. So we can see as we start to capture our own opportunity and harvest our own opportunity within our firm, we can actually validate that universal banking model.

I think the third strength of HSBC is the absolute size of the dividend. This gives a very long term history of the dividend. You can see that, basically, the dividend grew for 17 years, from 1991 to 2008. I believe – and we all believe – that actually, we are in the foothills of another prolonged period of dividend growth for the firm. We think it's worth looking at these things on a really long time horizon. Again, this slide shows our total shareholder return over 10 years. Over the 10 year period, it's 39.3%, and it highlights – as we showed on the last slide – the importance of the dividend. It also highlights, obviously, the poor share price performance. Nevertheless, we have outperformed the two groups and the two groups are defined in the footnote below over this period, and the banks in the footnote are listed, so you can see who we are comparing ourselves against.

Again, if you look at the TSR since the current team took over, it's 21%, again explained mostly by dividend. So whilst we all agree we need to fix the share price, the dividend, which last year was US$9.6 billion, is clearly rather a good thing for investors.

So I'm now going to turn to the 10 points that we talked about earlier. So what has changed? Actually, most things since 2011. The only things that haven't changed is the assumption that the economy is continuing to move to Asia, and connectivity will continue to be a phenomenon that we can benefit from as a bank. Clearly the regulatory environment has changed dramatically during this period, and the conduct and compliance environment has remained an extreme area of focus for governments everywhere. The liquidity rules, the leverage ratios, the competitive landscape have all continued to develop. It's probably true now that there may be a handful of global banks, of which HSBC is one. There has clearly been far more competitive price appreciation in the equity prices of either domestic banks, with a pure domestic business, or indeed, regional banks. So, the world has changed, and although we have made a huge series of changes to HSBC over the last four and a bit years, we recognise that we need to do a lot more to actually address the changing environment.

So as I say, I'm going to go through these 10 points, which I'm now going to go through in turn. So, first of all, the reduction in risk weighted assets. This slide sets out how we got to today's risk weighted assets – or actually the end of 2014 risk weighted assets total of US$1.2 trillion. In essence, the reduction of US$100 billion from disposals was swamped by a net – and I mean net, because in Global Banking and Markets, an awful lot of work was done to try and reduce risk weighted assets – US$120 billion increase from CRD IV – applied in the most, to legacy and back books. So, basically, reducing the return on risk weighted assets, therefore, in Global Banking and Markets, to about 1.4% ex-legacy; 1.2% with legacy. So clearly we plan to do something about this.

We're going to reduce the Group's risk weighted assets by about US$290 billion, which is 25% of Group risk weighted assets, ex-associates. Our plan is to reduce this and shift the RWA allocation. Global Banking and Markets resizing represents 50% of the planned RWA reduction – about US$140 billion and this will be covered in detail by Samir. At the end of this, we're looking for GB&M to be about one-third of Group RWAs.

We're restructuring our presence in Brazil, as I say, and we'll have a very modest Corporate Banking presence, and exiting Turkey. These two together will represent about a US$70 billion reduction; while other management actions, mostly in CMB will represent an additional US$40 billion RWA decrease. Finally, over the next three years, we'll put in place a programme to decrease the US CML legacy RWAs by about another US$40 billion and Pat Burke will cover this in more detail later on. We're going then refocus about two-thirds of those RWAs into higher-return businesses, and particularly into Asia, into the Pearl River Delta, ASEAN and into the RMB, which are all very high returns; and also to invest in those products which benefit from global connectivity, so the transaction banking products that I talked about earlier; and into building key trade hubs, for example in places like Germany.

So Global Banking and Markets will take a reduction of US$140 billion, but before looking at this in detail, I just want to explain the size of client-facing net assets that's in GB&M. I think this is quite important. Of the US$1.8 trillion in assets reported as part of Global Banking and Markets, US$532 billion is balance sheet management, which I think most investors and analysts have worked out. But another US$313 billion is gross derivative positions. US$217 billion is inter-company, which nets out. US$46 billion is legacy credit. So actually, the amount deployed within the business into client-facing activities is US$729 billion, which is actually smaller than either Citi or JPMorgan have deployed on the same basis.

These client-facing net assets represent 40% of the reported GB&M assets, and actually 70% of the reported GB&M RWAs. Actually, over the last four years, the GB&M business has done pretty well; its client-facing activities have consistently grown by a CAGR of 6% and where GB&M has a top-five market position, this actually drives about 70% of client-facing adjusted revenue.

GB&M returns, however, are not where they should be, and so we plan to restore returns in GB&M to a 2.5% return on risk weighted assets and we'll do a deep dive into this in a moment. One of the things we'll do here is, as I say, to end up with an end state where GB&M is about a third of Group RWAs, that's ex-balance sheet management and ex-associates; and clearly some of the action steps that Samir will talk about include running off the legacy credit portfolios, long dated rates, low return loan portfolios and exiting a lot of low returning clients. We'll also pivot the business further to Asia. As I say, Samir will spend a chunk of time later on, to dig into this.

The second action point is the continued application of the six filters, in other words, to continue to look at which operations we need to exit or dispose of. This is a complex line, so let me spend a moment or two on it. So far, subject to the six filters, we have disposed of 78 businesses, including several country exits. That is excluding Brazil and Turkey. There are really two types of markets for HSBC, where we operate at scale, and markets for international connectivity, where we operate with a cities-led model. So there are eight priority markets at scale, which represent about 52% of risk weighted assets, where we aim to establish a top-three position. In Asia-Pacific, the three profitable markets at scale are Hong Kong, Malaysia and Singapore, and fairly shortly, the Pearl River Delta, Shenzhen and Guangzhou. In the Middle East, it's Saudi Arabia and the UAE. In Europe, UK. In Latin America, the Mexican business is at scale, and I will talk in a moment about how we plan to turn that around.

The 11 cities-led markets that are a priority, are obviously focused around city clusters, and are about the connectivity required for Payments and Cash Management, Trade Finance, Securities Services, Foreign Exchange. Brazil and Turkey have limited value to the franchise, and that's why we've made the announcements that we have. You'll also see that 40% of Group RWAs in low return markets – and we're going to address this separately on the following pages. I think that the Brazil and Turkish transactions hopefully also prove the fact that there are no sacred cows, and that we will continue to manage through the six filters and, in the case of the US and Mexico, will continue the two-weekly phone calls which I think some of you have heard about, where I and the Group management board deal directly with those countries to make sure we are on the path to recovery.

I think it's also worth just having a look at how the network needs to build to provide international connectivity. So while the 18 priority countries represent 85% of our revenue, they cover only 55-60% of GDP trade flows and capital flows. If the business model is about trade in capital corridors, you can't just be in the 18 priority countries, because you'd lose an enormous amount of your CMB and GB&M revenues that comes from Payments and Cash Management and comes from Trade Finance, as a result of having a footprint or a point in the other countries. This is very hard to grasp, because we don't show it through our numbers, but you will have a business that represents a client in, say, the United States that is conducting activity in Malaysia, where actually, the profits may be arising in Malaysia not the United States, or vice versa. In other words, we are booking still to legal entities as we are bound to do; we have a very good MI system so we know what clients are profitable, but it's quite hard to see the case for the other countries. But as I say, you wouldn't have PCM with Hutchison in 30 countries, by definition, if you were only in 18 – it kind of figures! So, actually you need to have a bigger network than essentially the 18 countries which produce the bulk of the company's profits. So, therefore, the next 30-40 markets are really critical for the global network, because they cover an additional 30% of trading capital flows. So, you'll see quite quickly that we need about 50-60 markets to operate as a provider of global trade in payment services, and to construct a truly international network. You'll also see quite quickly there are about 15 remaining countries that don't fit into that analysis that we will need to address over the next couple or three years.

Let me just explain why we have disposed of Brazil and Turkey. For us, with a business that's built around international flows, both Turkey and Brazil are, in essence, closed economies. They both have a very small percentage of exports as a percentage of GDP, and in both, we lack scale. So we would need to increase our size 6.3-times in Brazil to get to the same size as the third biggest bank. We would need to increase our size 6.5-times in Turkey to get to the same size as the third biggest bank. So you can see why, with a lack of scale, which is clearly quite fatal to a Retail Banking and Wealth Management business, and without the international connectivity of a country that has a very open economy and has a very significant share of trade, imports and exports, there is not an obvious contribution to the overall network from these.

But actually, Mexico is different, and I think this is very, very important. Mexico is an open economy. It's actually got 30% of GDP in trade, which is comparable to mainland China and Germany. It is an open economy; it is signed into 40 trade agreements, including obviously NAFTA. We also – and I will come onto this in a moment – have scale. I was in Mexico last week, and I've visited Mexico twice a year since 2002 – we have a substantial business in Mexico. With the 11 reforms that President Peña Nieto has put in place, I think Mexico is on the cusp of a major take off, because the energy reforms are massively significant. I am sure most of you are aware of the energy reforms and the impact on Pemex and the impact on the ability of Mexico to harvest the opportunity that it has with oil and gas. We think this is transformational. A number of other multinationals do as well: the big car companies are building plants in Mexico to service the US market. The aerospace industry is manufacturing in Mexico to service the US market. And some of the Mexican multinationals like Grupo ALFA, CEMEX, Grupo Bimbo, which we'll talk about later, and the Carlos Slim group of companies are actually themselves now multinationals and spreading throughout the world. Our performance in Mexico has been very much been influenced by the fact that we had significant control problems in Mexico that resulted in our deferred prosecution agreement.

So we have had to de-risk our Mexican operation, change the shape of our Mexican operation, but this is a country in which we have the size and scale; we are only 1.5-times smaller, not 7-times smaller than the third biggest bank. We have size and scale, we have 16% share of Trade, 13% share of DCM, 10% of ECM. We have the size and scale here to restructure this. Again, this is a country where there are fortnightly calls, where there is intense coverage from the centre here. But this is a country that actually is logical for HSBC: open economy, major trading, huge fundamental reforms taking place, completely linked to the United States.

Again, we think that the US logic needs to be quite clearly explained. Clearly, we have to restructure the US; the returns aren't acceptable. But actually, the US in many ways, is a flywheel for many of our global businesses. So, yes, the US is the largest economy, it's the largest source of investable firms, there are more companies headquartered in the United States than anywhere else. And of course, they trade with the rest of the world. So, actually, again, what we'll talk in detail about is, if you're doing business with a US company, it is very likely that the revenues are actually appearing in the Middle East. As I say, Dow Chemical is a very good example: we are doing a significant amount with Dow Chemical in a JV they have with Saudi Aramco in Saudi Arabia and also in Kuwait. The relationship is managed from the United States; the revenues may well fall overseas. If you didn't have that coverage within the United States, you would not get that business elsewhere. The same thing, actually, is true of places like Germany, where indeed, the percentage of revenue with German clients booked outside Germany is – as I showed on the earlier slide, once you get to multiple country cover – is about 80% of the revenues outside the country of origin.

The second reason why the US is absolutely critical for us is dollar payments. We are the fourth or fifth biggest dollar clearer in the United States, in US dollars worldwide, and that obviously informs our ability to offer Payments and Cash Management; it informs our ability to offer Trade Finance – 80% of world trade is in dollars; a huge amount of PCM – actually close to 90% is conducted in dollars; and of course, 80% of all Foreign Exchange trades, one side settles in dollars. So if you are going to keep those transaction banking revenues, you have to be able to do dollar payments. To do dollar payments, you need a presence in the United States.

So, biggest economy, biggest number of global corporations headquartered there, biggest exporter of capital to the world, and actually, the world's reserve currency, all require us to keep a US presence, but a US presence that's logically linked to cross-border and is not about doing domestic business.

We obviously will, therefore, need to turn the US operation around, and as I indicated before, we have to continue to work on striking the logic of the US in the context also of NAFTA. Pat will talk a little later about the structural changes that will take place there.

With the US, on average, 90% of the clients bank with us in more than three countries. As I say, we are actually amongst the top-five dealers in US dollars, of which 50% of the volume is clearing our own volume, which means our own customers coming through.

A word about RBWM in the United States: so, why keep a Retail Banking and Wealth Management in the United States? I think there's really a couple of reasons. Number one, actually that business is aligned very nicely with international residents. The bottom left hand part of that slide shows you where our branch network is now evolving, and it's evolving with the type of client base that uses our Premier and our Advanced products. Premier is about six-times more profitable than basic banking, because it's banking a mass-affluent type of community. The second thing is, to be honest – and this may sound an odd thing to say – but if you're running a universal banking model, you're running a universal banking model. If you pick and choose which customer groups you're going to have in individual countries, you're not now running a universal banking model. The retail bank in the United States is a very, very rich source of liquidity and funding. It actually helps fund the dollar loan books of Global Banking and Markets and CMB. What you may say is, 'Well, in the United States, there's a really big wholesale market so why do you need retail funding?' The answer there is actually quite simple. If you look at the cost of our liquidity, even with the cost of the Retail Banking branch network, it is actually still cheaper than wholesale financing. So, even when you take the costs of the branch network, our Retail Banking and Wealth Management business in the US produces dollars for us at a lower price than if we were to go into the CP or CD markets.

Let me turn now to the UK and the creation of the ring-fenced bank. First of all, though, I think it's important for everyone for me to set out what pieces are actually here in the UK, because I think there's a little bit of confusion about what the UK means. There are four activities here in the UK. There is the Group Headquarters, which is the holding company, within which there are obviously the global business heads and some of the global functions. There are about 2,000 people working in the holding company.

There is UK retail banks, which will at some point in 2019, become the ring-fenced bank, and as we've said, that will relocate to Birmingham and have its head office in Birmingham. There are about 26,000 people in that operation. The Global Banking and Markets business – so Samir's business in the UK – will obviously be in the non-ring-fenced bank. There are about 4,000 people. There'll be a ServCo, created as part of the ring fencing logic, which will have about 14,000 people in it. That's how the headcount breaks down into the various pieces.

The Retail Banking and Wealth Management piece has about 1,000 branches, and we have three, strong differentiated brands: HSBC, First Direct and M&S Bank. We have quite a strong position in direct mortgages, about 16%; and 18% in new personal loans. The Commercial Banking business actually has made considerable progress in the last few years, and has about 8% market share in net lending. Obviously, we have a private banking business here, but again, the private banking business acts to capture the vertical of a value chain from the clients of CMB and Global Banking and Markets. It's very rare that someone transitions from RBWM. If you think about it, you're looking for the entrepreneur, or the Chairman/CEO of a multinational as your private banking clients.

So, next, let me explain that we've decided to set up a broad, not a narrow, ring-fenced bank in the UK. Now, clearly, we have a requirement to separate our domestic UK operations into ring-fenced and non-ring-fenced bank. The resultant ring-fenced bank, we believe, on the basis of the model that I set out here, will have annual revenues of about US$11 billion. We absolutely believe that the legislation is fixed, that the Banking Act has been passed, and we are moving to execute on this. As I have said before, the question for us will be around our ability to control the dividend coming from the ring-fenced bank, and to make sure that the strategy of the ring-fenced bank is complimentary to the strategy of the Group. We will need to see how the PRA looks at the implementation of the legislation, so it's far too early today to make any statements about whether we will keep the ring-fenced bank or not keep the ring-fenced bank.

We will operate with a different brand name. We haven't decided what that brand name will be, and we're going to consult customers and our own staff over the next few months to decide what we might call this bank. The reason for doing it is actually so that clients are aware whether they're dealing with a ring-fenced bank or the non-ring-fenced bank. Obviously, if they're both called HSBC, it's a bit confusing. So therefore, we are likely to operate with another brand. There's not a big deal about this: we're already operating with First Direct, and M&S Bank. So, the non-ring-fenced bank will be called HSBC; the ring-fenced bank we haven't made complete decisions on. But it's more about, frankly, clients being able to work which one they're dealing with than it is about anything else. The move to Birmingham is clearly for a couple of very good reasons. We've got a great track record of running retail banking operations outside of London. M&S Bank is in Chester; and First Direct is in Leeds. So, actually, running the UK ring-fenced bank from Birmingham is actually completely logical. It puts the bank must closer to its customers; it also actually puts it within what is clearly the second city in the UK for financial services. It also foots well with the government's plan to develop areas outside the southeast. So that is all, to our way of thinking, quite logical, and we've taken a 250 year lease on an office building in Birmingham, where the relocation will take place at some point in 2017.

So, moving now to cost savings. We've got to obviously get US$4.5-5 billion of costs out the firm, and we've made a commitment to keep our 2017 exit rate, adjusted cost, flat to the 2014 adjusted cost. So, in practice, this means we've got to deliver US$4.5-5 billion of savings to absorb inflation, investments in growth and regulatory cost increases. Now, 2014 adjusted costs were US$37.9 billion, so if you adjust for changes in FX rates, and the actions in Brazil and Turkey – i.e. remove Brazil and Turkey – then you're shooting for US$32 billion. Delivering this cost will obviously require some investment – so the cost to achieve, to get the costs out will be about US$4 billion as a single amount.

These actions will reduce headcount by about 20-25,000, but actually these will not all be met by net headcount saves, as we're investing in growth opportunities which I will talk about later. So, we expect no net reductions in Hong Kong, for example, where we continue to invest and build out our PRD, Pearl River Delta business. In the UK, we're in the process of drawing up precise plans, but we believe there will be about 7-8,000 role reductions in the UK, a large chunk of which will probably be managed through natural attrition, because actually we turn over about 3,800 staff in the UK each year.

Now, delivering these savings will enable us to have positive jaws on an adjusted basis, but it's likely in 2015 given the reduction in GB&M revenue, coming from a significant reduction in RWAs, that it will be difficult to achieve. Any additional investment over the period will obviously need to adhere to strict investment criteria, but the investments that we will make, if they deliver a ROE above 10%, we believe you should all be quite satisfied with if we continue to make those.

So, next I want to turn to revenue growth from the international network. Now, up until this point, these five action points so far, have covered the actions required to free-up capital from low performing activities. The next set will focus on where we're going to redeploy the money. Now, as I outlined earlier, we believe our international network remains a unique proposition to clients and I think we've demonstrated over the past years that we can grow market share in key transaction banking products, because we have; we can replace revenues sold in disposals and revenues lost due to interest rate environment and our own de-risking efforts, because we have; and that trade will continue to outpace GDP. So we do expect to deliver solid growth going forward, and actually, the key drivers of this further growth will be in the products like Trade Finance, Payments and Cash Management, Foreign Exchange, and Securities Services; and is likely to further be into Asia-Pacific, which I will talk about in a moment. So we do believe there a considerable effort to redeploy the money.

The contribution of Asia to HSBC's profits continues to grow. In 2004, Asia contributed 33% - 10 years ago – and last year, it contributed 64% on an adjusted basis and 78% on a reported basis. The PBT from Asia has more than doubled from 2004 to 2014. Europe and America's PBT challenges over the same period, which is mostly about the USA and obviously the UK, with customer redress, have actually had a negative compound annual growth over the period. So the firm, effectively, has already pivoted towards Asia and the Middle East. Over the coming pages, I'll outline some of the opportunities we see in Asia, which will drive our returns. Peter Wong is going to address this in some detail.

So Asia will not only be the world's largest economic region, but also the driver of banking revenues and profits in our view. Asia is the world's leading economic region going forward. Asia represents about 49% of forecast growth in global GDP over the next 10 years. With its very fast growth trajectory, the relative share of world, in GDP terms, is expected to be about 36% over the coming decades. So, if you extrapolate forward and, even if we didn't do anything else, you can see that Asia with its GDP growth and demographic growth, is going to continue to widen out, versus the UK and Europe in terms of its contribution, even if we did nothing else.

Work that McKinsey have done, again, has shown that the banking wallet will grow faster in Asia than anywhere else in the world, and we also believe that we are already uniquely positioned to take advantage of these opportunities, and we will go into a bit of a deep dive in a moment about the Pearl River Delta. We think there's two major opportunities that come from government policy in Asia, which is aimed at growing economic opportunity in certain areas, which the banking system can play a very important part to help achieve. The first is actually in Guangdong. Guangdong is the province that borders Hong Kong and within Guangdong, there's a sub-area described as the Pearl River Delta. The mouth of Pearl River comes out just by Hong Kong. It's important to understand how big Guangdong province is in GDP terms, which is why we've put this chart up on the right hand side. The economy of Guangdong is just slightly less than that of Mexico, and it's bigger than Indonesia. It's actually rather significant – you can also see how much bigger it is than, say, Taiwan or, indeed, the UAE for that matter, or Thailand. This is an area that's been increasingly linked to Hong Kong and Peter will go into some detail about this, both by infrastructure: high speed railway from Hong Kong to Guangzhou – Guangzhou is the capital city of Guangdong – which when constructed, will reduce the journey time from 2.5 hours to about 45 minutes; the MTR in Hong Kong will run through to Shenzhen shortly; and there's a bridge being constructed between Hong Kong and Macau which opens up to the west bank of the Pearl River Delta. The border is becoming increasingly porous. So, sitting in Guangzhou, Shenzhen and Hong Kong, we believe there is a conurbation of about 45-50 million Cantonese speakers, and actually the economy in Guangzhou and Shenzhen is roughly where Hong Kong was in 1991, in terms of per capita GDP. We think there's an opportunity for us to create potentially another Hong Kong in Shenzhen and Guangzhou.

The second big opportunity sits in ASEAN. So, since its inception in 1967, the Association of South East Asian Nations has been a leading driver of creating regional integration and there's a very, very big push now both from Malaysia and Singapore to drive this forward. Again, to give an idea of size and scale – there's 650 million people in the ASEAN regions, so it's the same size as the EU. Actually, the demographics are very young, the amount of the market that's banked is actually very minimal, and there's a substantial emerging middle class. So, again, we think there's a big opportunity for HSBC to deploy from lower returning business into higher returning opportunities.

We also see the growth of the RMB as being a very significant opportunity for HSBC. I think most people assume that this is Euromoney awards, and there's no money. Actually, we make about US$1.7 billion of revenue from the RMB internationalisation programme: Peter chairs an RMB global coordination function to drive it across the company, and actually, that US$1.7 billion isn't substitution: that is net new money because there isn't substitution. If trade was previously not in RMB, it would have been in dollars. It's not like dollar-Yen revenues becomes dollar-renminbi revenue. It isn't cannibalisation. This is currency exchange, bonds being issued for the first time, Securities Services. The opening of the Hong Kong Shanghai Stock Connect – and I'll let Peter give the detail – has boosted this opportunity even more fully. So, there's a big opportunity here. We do reckon, by 2017, we could be making about US$2.5 billion of revenue from this.

We also will need to invest and continue to in invest in Global Standards, and we plan to complete the implementation of Global Standards by the end of 2017. Actually, within the firm, the big cultural change is to make financial-crime risk the same as credit or market risk in the eyes of RMs or managers; i.e. it's not something done by Compliance and it's not something done one-off to remediate. If you're an RM, you should be as worried about financial-crime risk with your client as, historically, you've been trained to be worried about credit risk, to be worried about market risk, foreign-exchange, interest-rate risk.

We expect the addition of headcount to peak in about 2016, as systems cut in and as our ability to put new systems into the Bank removes the need to throw headcount at solving some of these issues and monitoring. But the big, big opportunity from this – and there really is a big business opportunity from this – is really twofold, one of which is, I think, concrete, and one of which is more aspirational. The concrete one is it should dramatically reduce the likelihood of future fines and customer redress, because this is both financial crime and conduct. Secondly – and this is the more aspirational one – it ought to be an advantage to be a bank that isn't constantly being seen as being on the wrong side of activities that took place over the last 10, 15 years, and that, actually, it should be attractive for clients to want to bank to you if you become best in class at this. As I say, the very concrete thing, though, is, as we invest into this, it should mean that future generations do not have these issues to deal with that we have had over the last five years.

So, then the tenth activity, which is, obviously, just setting out what we're going to look at to review the best location for our holding company. You're all aware, at the AGM, Douglas said that the Board had asked the management to examine where the best place is to locate HSBC's headquarters. And remember, back to the earlier side, there are 2,000 people working in the holding company. And actually, if we were to decide to leave the UK, there's probably 250 jobs, so this doesn't, actually, represent a significant employment issue for anywhere.

Now, the Board will consider at least the criteria that I've outlined here. They may actually choose to consider a broader set of criteria, and the decision is for the Board. What the Board has indicated is that it will make a decision towards the end of this year and, if that decision was to leave the UK, it'll take about another two years after that to execute any move. And the consideration is, clearly, very much broader than any tactical response to any particular thing in the UK. We need to reconsider the strategic future of the company, so, therefore, the things that are outlined are not just about short-term issues; they're really about thinking through the company and thinking through where the mind of the firm should be.

So, if I can just briefly explain some of the background to these, and then I would stress that no decisions have been made and no debate has even started to take place with the Board on these as yet. First of all, obviously, the place has got to be from a large economy with significant future growth opportunities. We also need it to be a place where we have existing scale, so we need to be big and important in that place. It needs to be a very competitive and open economy. There needs to be a stable political and social system. There needs to be an acceptable score, using Transparency International, in terms of corruption within the financial system. We need to be able to get high-quality people; it needs to be a place where people like yourselves all want to come and work and live. There needs to be a clear and functioning corporate-law framework and there needs to be an ease of doing business in terms of bureaucracy.

The tax system needs to be transparent, fair and competitive – competitive in the sense of having sufficient tax treaties, if we're in as many countries as we are; fair, obviously, because we're not going to go to some tax haven; fair in the sense that we need to pay an appropriate share of tax. It needs to be a place where the government is supportive of the growth and has a strong policy to develop financial services. It needs to be a strong and well-respected regulator. And it needs to be a place where the financial impact of the move – if such a move was to be – would have an impact on the long-term value of the stock for you or the shareholders. So, as you can see, there's a significant piece of work to be done and, indeed, the Board may decide to actually consider some other criteria as well.

We believe that these 10 actions will enable the Group to achieve an ROE of 10% or more by 2017. Remember: this 10% target is not to hit 10%; it's more than 10%. 2017 is clearly going to be slightly muted by the cost to achieve the delivery of the cost-management actions. We wanted to set the targets for this at 2017, so that there's an intensity against this. This is, obviously, just two and a half years into the future. And we also believe that this can be achieved while building our capital towards a targeted range of 12-13%.

So, let me just summarise, before I hand over to Andy. So, we've outlined the 10 strategic actions or the 10 concrete steps that we're going to take that will materially change HSBC. We completely acknowledge that the world around us has changed, and we're committed to execute all 10 of these actions in response. So, once they're implemented, we'll have further simplified the organisation, we'll have addressed some of the biggest drags on our current performance, and we'll also have doubled down on the opportunities that we are privileged to have access to through our strong presence in Asia.

So, Andy's now going to take you through cost management, before Iain outlines the impact of financials, and then we'll open it up to questions. Thanks.

Cost management

Andy Maguire, Group COO and Group General Manager, HSBC Holdings

Good morning, everybody. In the next 20 minutes, I'm going to take you through how we're going to develop our global operating model and substantially reduce our cost, particularly in operations and technology. I'm going to briefly recap on our first half of our transformation between '10 and '14, and the US$5.7 billion saved. I'm going to lay out in detail how we're going to save the US$4.5-5 billion that not only will deliver that cost saving but improve our productivity and support growth. I will cover our detailed plan to do that. That has four elements to it: investments in digital to make it easier for our customers to do business with us; implementing tools for our frontline colleagues that make much better use of their time; automating our operations; and getting better value for money out of technology. Much of this, to be perfectly frank, is catching up with the best of our peers, so there's nothing particularly new to the industry but there's a lot that's known that we can do. There are several unique opportunities that I'll point out as we go through, that only HSBC can do.

So, between '11 and '14, we delivered US$5.7 billion of cost savings. That, basically, paid for inflation on our growth investments. It wasn't enough to cover, as Stuart said, regulatory, compliance and the levy. If we look at the drivers of what we did deliver, it's relatively straightforward. We increased the spans of control of management. We reduced the number of layers in the organisation to dramatically simplify that organisational model – our 8x8. That delivered US$1.4 billion. RBWM, which was the least global of our businesses, we revamped the target operating model of that; that delivered a further US$800 million. And then we harvested a set of relatively low-hanging fruit in procurement, property and our service centres that delivered the residual of that. So, it would be fair to say, at the end of the first half of HSBC's transformation, we're a little bit behind.

Before I take you through the numbers on a go-forward basis, let me explain what I think is going to be different in the second half of our transformation. Up until the end of 2012, it wasn't possible to reengineer this firm. My predecessors had to negotiate with 70-plus countries to get things to work better from front to back of this firm. That isn't true anymore. Between operations and technology, and the four global businesses, we can do what we need to do to get this done. This, as of now, is a unique opportunity for HSBC. Secondly, personally, I'm an inside-outsider. I've spent the last four years working with the firm, so I have a pretty clear idea of where to focus, but also I spent the previous 20 years working with some of our best global peers, so I have a keen sense of what can be done.

Those two together, I think, allow us to really get focused on what matters and act on them quickly. Since I started on 1 December, in my leadership team we've changed by over 50%. That's a combination of two things: some of the best talent within the firm that I've been very graciously given, but also some very high-quality external talent, who've been there, seen it and done this before. What we plan to do is deliver real operating leverage. This is not just about taking costs out – that's been done many times before in many other firms; this is about delivering lower unit costs that will give us better jaws on a go-forward basis, and that's what really matters.

So, let me take you through the numbers. Our 2017 exit run rate will be US$32 billion, so we're committed to that number. That's, obviously, '14 adjusted for FX and the planned disposals in Brazil and Turkey, as Stuart said. We have to get US$4.5-5 billion out of the firm, and we will get US$4.5-5 billion out of the firm, because we know that we have to pay for both inflation and growth. Inflation, obviously, we don't have a crystal ball but we've calculated it as best as we can. Actually, if you look back to the previous period, which is four years rather than these three years, it's roughly at the same rate if you adjust for Brazil, which is, obviously, one of our highest inflation economies. And by the way, the same is true on investment: if you take four over three, it's very close to being the same number. We also know what we need to do in terms of regulatory and compliance. You may think that's a relatively small number relative to what we've done, but remember we've put all of that operational cost in, so this is, if you like, the final increment and top-up. And then, of course, we know the bank levy. So, we've a very clear line of sight to what we are going to do. We will deliver the 32 billion and the absolute cost reduction that's on this slide.

No surprise: this will cost some money to achieve. They're exactly as you would expect: property, both getting out of buildings that we own and lease costs of that which we rent; over US$1 billion of accelerated investment in digital, digitisation and automation, which I'll talk about later; and, obviously, the FTE reductions that Stuart mentioned. Our costs to achieve will be in the range of US$4.4-5 billion, so 80-90 cents in the dollar for what we're going to deliver, which I expect is the range that you'd expect me to mention. The most important thing on this page is that which is circled in green. Our front-office-to-back-office ratio is going to be significantly better. This is not simply about taking costs out. This tells you three things: first of all, where the savings are going to come from predominantly; secondly, that we'll be in better shape as a bank when we've finished; and thirdly, when we grow in the areas that Stuart outlined, our jaws will be better in future. So, three very important takeaways on this.

So, what does this mean for the people who work in the firm? Between '11 and '14, we reduced by 37,000. We've similarly adjusted for Brazil and Turkey. That gives us a baseline of 233,000 people in the firm going forward. We've a very clear line of sight on 22,000-25,000 roles that need to come out of the firm – around 10%. To give you a sense, our attrition rate in 2014 was 11%. By no means am I saying that we'll do all this by attrition because, of course, attrition doesn't always happen where you want it to, but a very substantial amount can be.

In addition to the roles that will come out of the firm, we are going to – and we have specific plans to – move a further 2% – so, 5,000 roles – from high-cost locations to high-quality, low-cost locations. But we don't have a cap on the number of people that we'll employ in the firm, hence there's no numbers on the far right of this. Obviously, we're going invest in the Pearl River Delta, ASEAN and CMB, but we're going to be incredibly disciplined about it. Since I've started with the firm, we've instituted a cost-investment board that Stuart set up, that Iain and I run, which scrutinises, on a monthly basis, every penny we spend and every dollar we invest. All of this should reinforce in your minds that none of the cost savings that we're talking about today come at the expense of growth. In fact, the opposite is true: they are what facilitate growth. This gives us the headroom to get after those exciting opportunities that we've been talking about.

So, let me tell you how we're going to do this. None of this is theoretical; in fact, in many cases, we can already see the results. On this slide, we summarise the role reductions and the dollars that we've spoken about earlier and we'll talk about in the following slides, just so as you have them all on one page. The reason we're confident about the outcomes is that the systems and processes that I'm going to talk about, we have the systems already built – over half of them – and the rest of them are significantly underway, and the processes that I'm going to talk about, we've actually implemented this in a small number of markets. We just have to get it out into more of those. So, I'm going to touch on the first three briefly, but then I'm going to cover 4, 5 and 6 on this page because I won't come back to them again.

So, we're going to invest in digital and productivity improvement that will make a very big difference to our front line and to our customers, as our customers move to digital. Secondly, we need to significantly automate our operations. We have been using our very high-quality operations as a low-cost utility; we need to put more automation into that. And then, thirdly, we simply need to get better value for money out of our technology. The most important thing about that is, for the first time, we've created a singular CIO in the firm. We've recruited a very high-quality external candidate who's been through this process three times before and he knows exactly what to do with the rest of us as a team.

But let me pick up 4, 5 and 6, because we won't come back to them. So, in our functions, we need to do something similar to what we're going to do in our business, as I will describe later. Finance is the best example: they have demand management to do. They need to make better use of their very high-quality centre in India. They need to automate their processes. And by doing that, they will get to industry-benchmark levels of productivity, or near to, and I'll keep chasing Iain until he does. Secondly, completely separate and not duplicated at all with what I talk about in technology, there's US$400-500 million in procurement savings through further supplier consolidation. We've already had one go at this but there's more to do. And then, finally, in commercial real estate and other organisation initiatives, we've a further US$600-700 million, where, again, we're well underway with those. But I want to take you in detail now through 1, 2 and 3.

So, our digital and productivity improvement, as our customers move to mobile – and that's not just Retail, Wealth and Private Banking customers but Commercial Banking too – will save the firm US$0.9-1 billion and it will be responsible for 7,000-8,000 of the role reductions that we've talked about. The truth is we've been behind on digital. In fact, some of you in this audience may have this wonderful little thing. This is our digital access token. This makes it harder for our customers to get into the Bank and deal with us. We need to make that much easier. We need to make digital access much simpler and we need to do a much better job of getting messages to you on the devices you carry around all day, every day. With that better messaging and access, and some of the other things on this slide, we expect to increase digital sales by 75% over the period. That sounds like a lot. Actually, it would simply be getting to where we should be within our peer group – nothing more than that. In doing that, we can actually release 2,000 roles very specifically; that's in servicing our customers in our branch network, but also in our telephone centres. 20% of our inbound calls are for balance enquiries.

Secondly, let me talk about our frontline colleagues. Unfortunately, many of them have to log in to five or six systems, which, in itself, is no big deal. Unfortunately, they have to toggle between them to get their work done every day. This clearly has an impact on their productivity. We've revamped a number of our front-end systems. We don't have them in all of our markets but, as you can see here, we do have a 'bank on a tablet' and, if you want to have a look at it, go to our Holborn branch here in London. By doing that, we're able to significantly enhance the productivity of our advisors. As you can see here, the results of our pilots that have been running for the best part of a year here in the UK, it's 36% more advisor meetings per week, and we're satisfying 100% more customer needs per advisor per week at the same time, all with a much better customer experience.

Not surprisingly, off the back of this, it has a significant impact on the back office. And again, let me give you a very specific example from here in the UK: something, actually, where we're not catching up; we're actually leading. Our Personal Loan business has the first completely digital application for both franchise customers and non-franchise customers. Other banks have it for their franchise customers but not for both. No paper, no forms, no wet signature, completely digital. Not surprisingly, we don't have much of a back office associated with that.

When we get all of those things done, we'll be able to rationalise our network. So, again, let me be very specific: in our top seven markets, we will be able to take out 12% of our branches, 20% of the associated square feet, and US$135 million a year in commercial-real-estate costs.

Before I leave this page, two things: obviously, I've used Retail Banking and Wealth Management examples here, but the same is true across all of our businesses and I just don't have time to go into them. Similarly, there are more examples on this page than I have time to talk to, so I'm sure we'll pick up some of these in Q&A.

What about automation of operations? This will deliver us 12,000-13,000 roles and US$0.8-0.9 billion in savings. The first thing we're going to do is put in some light automation. So, what does this mean? So, we re-key, across the firm, the same customer data for the same process, sometimes two, three or four times. The reason we've done this is we have some very, very high-productivity, low-cost resources within the firm, so we haven't felt the need to automate. That, we're going to correct. Since I started in December, we've doubled and then doubled again the resources devoted to this sort of light-automation image and workflow, really simple technology that's relatively cheap. This will give us the initial headroom to take the first 2,000-3,000 roles out this year, and allow us to get into proper reengineering end to end. On this page, I'm going to talk about Commercial Banking examples but, again, as I said in the previous one, you should read across to all of our business. I simply don't have time to cover them all.

So, in Credit, we've built a workflow tool; we only have it in a couple of markets. When you deploy the workflow tool, you have a 37% improvement in customer turnaround time; obviously, customers like that a lot in terms of speed of response. It reduces sales leakage at the front end of our business, but it also produces a 30% productivity improvement end to end. That's equivalent to 1,000 roles. By consolidating our trade middle office into a smaller number of locations, we don't need 400 support roles that we have today. And in manual payments, where we have 2,500 people doing completely manual payments and semi-manual-payment repairs, we have concrete and firm plans to take 600 people out in the immediate future. All of this, I hope, gives you clarity that we've a very specific view on where these savings will come from and exactly how we're going to do it.

When we've done that, and as we do that, we need to consolidate our service centres. Each one of our operations has too many businesses and too many processes within it. If we can reduce that number, first of all we get natural scale, which gives us a unit-cost benefit and, secondly, when it comes to deploying the automation I've just spoken about, we will be deploying it in, typically, half the number of places. That reduces the deployment cost by 50%, not surprisingly. At the end of this, HSBC will have real centres of excellence, not just low-cost utilities; it will give us real cross-border operating scale, not just the use of low-cost labour.

Technology: when we get this right, this will save us US$1.1-1.2 billion between now and the end of 2017. The first thing we need to do is simplify the problem. We have been trying to build systems for 70-plus markets; we're going to stop doing that. We need to build systems for 10-15 markets at a time – our priority markets. The reason it's not all of our priority markets is not all businesses operate in each one of those. When we do that, we can reduce our investment in our smaller markets and thereby reduce the dollars spent per annum on that. We'll have fewer, simpler systems outside of our priority markets.

But that's the easy part; the hard part is building better software. That's not the easiest thing in the world to do, but the best first step is to buy more off the shelf. Now, HSBC hasn't had the best track record of that. Too often in the past, we've bought software, we've customised it; that has slowed us down and, frankly, it's created more problems than it's solved. We've had a complete sea change. So, to give you a very tangible example, in Peter's business in the Global Private Bank, we're buying a system called Avaloq; in fact, we're implementing it later this year. We are changing to fit Avaloq; we're not changing Avaloq to fit us. Avaloq is an industry-standard package. It's one of three; about a third of the industry use it. There's no reason for us to change it. Our real competitive advantage in Private Banking is the franchise that Stuart talked about and the relationship managers that work for Peter, not in having a better mousetrap in systems. It will also deliver a 40% productivity improvement. But it's not just the Private Bank: in financial-crime compliance and prevention, the five major systems that we need to install between now and the end of next year, we're buying four off the shelf. We would have bought the fifth if there was one to buy.

But we're not going to buy all of our software because, sadly, it's not all available commercially; we have to build some of it, so how are we going to do that better? So, first of all, we need to do it in a more agile way. Now, that could be techno-babble, so what does it really mean? It means getting the people in the business and the people who write the code into the same room. You can't do that if you're trying to do it in 70 markets at a time; you can do it if you're solving problems in three to five markets at a time, and then rolling it out to your priorities. We're already doing it. We do about 10% at the moment, we've moved to 20% this year, and we're going to keep driving that percentage up.

What about where we do software development? We've some cracking software developers. We have especially good software developers in India and China. But we still write too much code in high-cost locations and, given that we have a lot of countries in low-cost locations, that doesn't make too much sense. Our new head of software engineering, who starts this month, comes from Wipro, will live in India, and will run software engineering from India, and we will centre 75% of it, up from 50%, in India and China.

A word or two about data: we haven't been very good at this and we need to get better. One of the great things about Global Standards is that this provides us the impetus to do it. Global Standards is all about customer information and data: really knowing your customer. That same customer data is the same data you need to grow the business, to protect the business – so, what Global Standards is all about – and to digitise the business. We are not going to waste this opportunity. The fact that we have to do it has got nothing to do with it; it just means we'll get there much faster than many of our peers who took a decade of more because they did it for their own reasons.

Then, finally, in infrastructure, like every bank in the world, we've too many applications, so we're going to reduce that over the next two and a half years by about 750. We've a lot of non-business-critical systems in our data centres; we're going to put them on the cloud, because it's much less expensive. And associated with data, we've too many local data warehouses in many of our markets; we're going to consolidate and centralise that, and that will make it much cheaper as well.

So, in summary, it's for you to judge but I think we're in quite a good place, actually – maybe better than you would have thought. We know what we want to achieve. We've well-developed plans to do that. We have ongoing actions in nearly every element of what I've described. We will simplify. We will enable the business to grow. We will deliver better outcomes for customers. We will have better controls from a regulatory point of view. We will have lowered costs, enhanced operations, and get better value for money from technology. If we get that all done, we will enable RBWM to grow fast where we, probably, in IT and operations, have been a break; CMB will be able to grow, but with better returns on risk-weighted assets because of more efficiency; and we will generally reduce the cost to the firm. We will deliver the US$4.5 billion. Our exit rate will be US$32 billion. We have clear metrics to monitor our progress, which we'll share with you regularly, so you can keep our feet to the fire. With that, I'll hand over to Iain.

Financial targets

Iain Mackay, Group Finance Director

Good morning. I'm going to pull together the key elements from a financial-targets perspective that you've heard about so far this morning. I'm going to cover three areas: balance sheet and capital, costs, and returns.

I'll start with capital. As you can see from this slide, we have a very strong balance sheet. We have US$521 billion of high-quality liquid assets and a solid Common Equity Tier 1 ratio. At the end of 2014, that was 11.1%, and that moved up to 11.2% at the end of the first quarter of this year. We've continued to generate large volumes of capital organically. Between 2011 and 2014, average annual capital accumulation was US$9.1 billion. This allowed us to build our capital position and invest in business growth and pay a progressive dividend. We've a robust leverage ratio of 4.8% and we're already exiting our LCR – that's the CRD IV Liquidity Coverage Ratio – and the NSFR, without need to take any other further actions. We estimate that we may need to meet, by 2019, a Common Equity Tier 1 end-point CRD IV in the range of 12-13%. Our capital generation should enable us to get there, certainly in terms of the Common Equity Tier 1 ratio, and we should expect to get there within 2017. We'll go into that in a little bit more detail over the next few months.

Talking about capital management actions, this is a summary of how we intend to achieve those financial targets in the prevailing regulatory environment. As Stuart made clear, we have a well-defined plan to reduce Group risk-weighted assets by around a quarter, and each global business has a series of actions to complete, and the RWAs that we recoup as a result of these actions, we'll redeploy to higher-returning businesses. These global business plans have been modelled on Common Equity Tier 1 end-point of 12-13% and take account of our GSIB obligations.

In aggregate, that's what these actions look like, and it's fairly clear which are the most significant. Reducing the Global Banking and Markets share of Group risk-weighted assets to under a third frees up a sizable proportion of capacity to be used in the higher-returning areas of the business. There's a substantial and compelling growth opportunity in Asia and, within this, there are a number of unique opportunities in Global Banking, in Commercial Banking and Retail Banking and Wealth Management, particularly in the Pearl River Delta, as Stuart mentioned earlier, and also in ASEAN. We're investing in the product areas that make the most of our unique advantages, such as payments and cash management, trade and receivables financing, and renminbi internationalisation. To be clear, we're pricing business today so that we're well-positioned to achieve the staged targets. We're pricing business today for future profitability.

As I mentioned earlier, our return-on-equity target is modelled on our CRD IV end-point estimate of 12-13%, and, again, we expect to be within this range by 2017, and our ability to generate considerable sums of capital, combined with the management of risk-weighted assets and other management actions, will get us there.

Talking now about the components of that Common Equity Tier 1 build, this estimate takes account of the way we expect the buffers to develop between now and CRD IV end-point in 2019. Based on the known and quantifiable requirements from the PRA, the minimum end-point Common Equity Tier 1 requirement, including buffers, amounts to 10.6% today. You'll note that we've added a regulatory and management buffer of 1.5-2.5%. This is the amount, or rather a range of possible amounts, we estimate that we'll need to hold to cover the new time-varying buffers, PRA judgment and other factors. The size of the Countercyclical Buffer, for example, will change over time, in response to prevailing economic conditions. We'll keep the regulatory and management buffer under review, as the regulatory clarity continues to improve. It's worth reiterating that we're not saying that we need to hit 13% by 2017. We'll increase our Common Equity Tier 1 capital levels and increments in accordance with the requirements, as we implement our business plans.

On the right side of this chart, you'll note there are areas where there is emerging regulatory clarity such as the interaction of the CRD IV buffers, the PRA's Pillar II framework, and ringfencing. There are still some areas of uncertainty regarding the broader capital framework, including Basel revisions to the RWA framework, capital floors, TLAC and GSIB developments. However, overall, we're very comfortable with our ability to generate the capital we need to grow the capital ratio in line with the CRD IV endpoint requirements, as well as to cover the costs of investment and inflation.

We'll go a little bit into some of these other requirements now. GSIB requirements, and really what drives our GSIB score: what this chart shows is it's not complexity, it's not size, it's not interconnectedness or substitutability; it is cross-jurisdictional activity. As you've heard again today, cross-border activity is the essence of what HSBC does – it's what we do in our business model – but the issue we face is less to do with the volume of that activity than with the application of the rules to our balance sheet. A great deal of what we have in the balance sheets of our subsidiaries around the world is domestic as well as international business. Unfortunately, because this business takes place outside of the UK – our home for regulatory purposes – it counts as cross-jurisdictional for the purposes of the GSIB score. We estimate that only 52% of our cross-jurisdictional score relates to genuine cross-jurisdictional activity. Because we believe that we've a fully resolvable multiple-point-of-entry structure, there's no practical benefit to scoring this business in this way, and we think that, eventually, this should result in lower capital requirements, but we have to keep working on this. On the following slide, we'll set out areas in which we've already made some good progress.

As you probably know, there's a new GSIB score coming out this year. Submissions are recorded in Euros and, on that basis, there's been a big uplift in our score due to foreign-exchange differences. GSIB scores are a comparative calculation, as you know, and foreign-exchange movements will benefit euro-denominated banks compared to others at least this year. However, what you can see in this slide is that we've done a lot to reduce our scores. We've undertaken a more detailed analysis of the requirements and gathered more refined data that is used in the calculation of complexity, interconnectedness and cross-jurisdictional indicators. The use of increased netting, for example, allowed a substantial reduction in the complexity score. We're looking at improvements in our analysis and information underpinning the calculations for other indicators as well. The strategic actions we'll undertake from now until 2017, combined with further management actions around the size of our balance sheet, should help reduce our score on size at the very least.

Going in now to TLAC requirements, what we show here in some colour is around the FSB's Total Loss Absorbing Capacity proposals that might be applied to HSBC. It's important to remember that HSBC is a legal structure that's somewhat different to most international banks. We're structured as a series of separately capitalised, separately funded subsidiaries around the world. This structure lends itself well, in our view, to a multiple-point-of-entry – MPE – resolution approach. It's certainly our favoured approach to the resolution of the HSBC Group.

The left of this chart illustrates some of the subsidiaries' structure, and emphasises that any analysis of TLAC must look at the entities within the Group and not the consolidated picture for the Group. It also illustrates that the majority of the Group's business is booked in three entities: HSBC Bank plc here in the UK; The Hongkong and Shanghai Banking Corporation, based in Hong Kong; and HSBC USA.

The second part of this chart illustrates how the three main hubs compare under current TLAC proposals. Although there are a number of uncertainties around how TLAC will be applied in an MPE resolution group, it will be based on local RWAs and local rules, as determined by the respective regulator. For these three HSBC subsidiaries, if the TLAC requirement is based on 21% of RWAs, then the TLAC requirements are very manageable; higher requirements are clearly a possibility, however.

I think it's important to emphasise that, whilst the range includes the TLAC minimum range in CRD IV buffers, it does not include any requirement around Pillar II for TLAC, or any management buffer that we might put in place. This slide also lays out the estimated cost of this compliance, which we think, based on the 21% level, is around US$200-300 million per annum. It also doesn't include any management actions that we would take around mitigation of the overall TLAC impact or an assumption as to how we might deploy that TLAC requirement. From our perspective, based on an annual debt-issuance programme of about 25 billion, we should be able to, relatively easily, handle the US$45 billion issuance requirement that's illustrated by these pages.

In terms of plans to redeploy capital associated with risk-weighted assets being freed into the higher-growth businesses, this really goes to the initiatives that Stuart talked about this morning, as well as some of the detail that Samir, Pat and Peter will go into a little bit later this morning. Broadly speaking, we're going to reduce the risk-weighted assets in certain businesses and countries – namely Global Banking and Markets, North America and Latin America – and progressively invest capital represented by those risk-weighted assets in the more attractive businesses of Asia-Pacific and, specifically within that, Retail Banking and Wealth Management and Commercial Banking. Of the total reduction of US$290 billion, around US$140 billion relates to the resizing of Global Banking and Markets. Around US$110 billion arise from exits and other actions, including US$70 billion relating to the disposal of Turkey and the restructuring of our Brazilian business. Continued runoff of the CML portfolio contributes an additional US$40 billion. This represents a rebalancing from Global Banking and Markets, which will reduce to less than a third of the Group, to CMB and

Retail Banking and Wealth Management will increase towards a similar number in terms of risk-weighted assets.

ROE outcomes: these are the key actions which will take the Group towards a greater-than-10% ROE target by the end of 2017. Among the key drivers are measures to optimise the global network, turn around Mexico and the United States, reduce risk-weighted assets in Global Banking and Markets, and reinvest that capital in higher-returning businesses. This takes into account the impact of Common Equity Tier 1 build-up required to take us to the estimated requirements of 12-13%. We expect again – I should say we expect to be within this range by 2017. There are also, obviously, one-off costs to achieve the savings that Andy took you through in some detail, and we estimate that to be about US$4-4.5 billion – around 80 cents in the dollar in terms of the dollars of savings achieved. We also anticipate that these actions will take us to just over 10% ROE in 2017, before we rise comfortably above that threshold in the following year.

A little bit more on savings now: Andy's already covered a good deal of detail in this regard. What this slide makes clear is that these savings will allow us to absorb the effects of inflation, a higher bank levy and regulatory change, as well as investment for business growth to deliver the exit rates that we talk about by the end of 2017. It's important to be clear on this point: this is an exit rate for 2017 and, therefore, that should be a good indicator of the cost profile for the firm going forward. Any additional investment that we make over the period will need to adhere to the investment criteria that we apply today; namely: do the returns meet our hurdle rate, can we fund the investment by reallocating other spend, and/or are there additional savings that can be delivered to fund this investment? In any such circumstances of increasing investment that would impact the US$32 billion exit rate in 2017, it must be off the back of positive jaws from those investment decisions.

Talking about positive jaws, this sets out the run rate of the one-off transformation costs – costs to achieve the transformation, if you like – and the impact on positive jaws. We expect these costs to peak in 2016. Excluding these costs to achieve, and on an adjusted basis, although Stuart clearly referenced the fact that this is quite difficult to accomplish in 2015 and even '16, we are committed and plan to achieve positive jaws in each of 2015, 2016 and 2017.
However – this is the really important point – our primary focus is to hit that exit rate for 2017 to establish that cost profile for the future. And that exit rate has got to represent – and, if you like, on a local-currency basis, because this is going to move with foreign-exchange movements – that exit rate that we talked about in 2014, so keeping costs flat. As part of this transformation, we're also rebalancing our operating costs between the front office and the back office. Over the period, back-office costs – if you like, functions and HTS – will reduce from around 46% of the total to around 39%, and that capacity will be reinvested in the front office to support growth.

In summary, we have a strong and liquid balance sheet. We've got continued robust capital generation from operations and history of delivering strong shareholder returns. We've laid out clearly defined actions to improve these returns, and plans to reinvest capital in higher-returning businesses to meet the targets we've set out. It therefore should go without saying that we anticipate continuing to pay dividends that progress in line with the Group's profitability. With that, I'll hand back to Stuart. Thank you very much.

Questions & Answers – Strategic actions

Stuart Gulliver

I just want to finish with two slides, and then we'll open up to questions. I think it makes sense to try and visualise what the shape of the Group will be by the end of 2017. So, this is what the Group will look like: it's going to be aligned to the largest economic blocs, and the trade and capital corridors that link those economic blocs, with a further pivot towards Asia, and I think it's useful to visualise this is what the Bank looks like in 2017. So, just to recap, these are the 10 action points that we're committed to.

Iain, Andy and I will now take questions, after which we'll take a 30-minute break before we do the deep dives in to Global Banking and Markets, the USA, and the opportunities in Asia-Pacific.

Mike Trippitt, Numis

Thanks for the extraordinary amount of detail, but I've just one very quick question. On slide 66, just thinking about the recycling of the capital out of North America and Latin America into the faster-growing markets, do you see any issues there around the problem that you've experienced so far with trapped capital and what the issues are and what the timing issues would be about being able to get capital out of some of these exit territories and into the higher-growth areas? Thanks.

Iain Mackay

Yes. We've got two markets in the world where, perhaps, you'd consider the capital trapped from a regulatory perspective, and that's Argentina – a very profitable business – and the US, for reasons which, hopefully, are reasonably well understood. However, we've made very significant progress over the course of 2014 with CCAR and, working with the Federal Reserve, I think Pat and the team in the US have done a very good job over the course of the last year or so in terms of putting in a better position with the Fed, through CCAR, to start sensible conversations about where dividends fit into the overall capital-planning discussion. There are other factors in the US that we've talked about in terms of making sure we meet the requirements for DPA which take us through to 2017.

However, setting those factors aside – and you'll hear more about this from Pat a little bit later this morning – the growth prospects in the USA allow us – in fact, require us – to redeploy some of the capital that we would expect to release from the continued rundown of the CML portfolio, and Pat will talk a little bit more about this morning. But beyond the ability to utilise some of that capital in the United States, the ability to redeploy capital across the Group to support growth, whether it's an Asia, where, frankly, we don't need to redeploy capital because a great deal of our capital is generated within our Asian businesses and, when you think about pivoting that growth towards Asia, the ability to that business to continue to grow that profitability and to deploy it profitably locally, as well as supporting dividends to the parent for dividends to the shareholder, we've got a lot of confidence around our ability to do that. But I think, to your question, Mike, we continue to work very closely with the US business to create capacity for the future – it's probably still a few years away, but to create capacity for the US business to pay dividends.

Chintan Joshi, Nomura

I've got a couple on the 290 billion that you've announced this morning. After you take into account that reduction, your slide 66 suggests that growth rate from the 755 billion base will be about 7.4-9.3%. That's punchy, especially when I look in the context of… I think it was slide 24 where you showed historical RWA growth. So, the question there is: what gives you the confidence that that growth opportunity exists? When you look at history, it doesn't feel that punchy. And the second thing around that is what is the revenue and PBT associated to that 290 billion of RWAs?

Iain Mackay

So, I don't really want to steal Samir's thunder. He'll be speaking after the break particularly around Global Banking and Markets, so I won't steal his thunder, actually, because he's going to go into quite a lot of detail about what that means both in terms of implications for revenue from Global Banking and Markets. We can certainly address the impact from the rundown of the CML portfolio. You've seen that coming through net-interest income progressively. In terms of accelerating that rundown, you're talking about a not insubstantial impact – negative impact on revenues over the course of the next two and a half years. But the release of capital and the release of risk-weighted assets from that accelerated rundown, based on where the market now sits, we think, is the appropriate economic decision to take. So, I think we'll provide you with a little bit more detail on the specifics around what that means for Global Banking and Markets as well as the CML portfolio, and Samir will certainly go into detail, as will Pat, about what the growth rate means in their two markets. And if, after that, we haven't answered your question, come back and we'll get into it in a bit more detail.

Chintan Joshi

Okay. And just quickly, have you decided to give us a non-core segment?

Iain Mackay

No.

Chintan Joshi

Just in terms of tracking these various historical numbers, I don't want guidance on that 290 billion. It would be helpful to get something that gives us that.

Iain Mackay

Yes. So, we are looking at and will continue to look at how we improve, if you like, the granularity around what it is in terms of accelerated runoff, and Samir will talk a little about that, as well as more detail about the composition of the Global Banking and Markets balance sheet both in nominal terms as well as risk-weighted-asset terms. So, we'll give you disclosures that help you track this, but we're not going to create a non-core unit here.

Raul Sinha, JP Morgan Cazenove

If I can have two as well, please, the first one is: clearly, over your planned horizon out to 2017, one of the biggest uncertainties is the outlook for interest rates, and that, obviously, has quite a big bearing on your revenue growth. So, could you perhaps elaborate how much you've assumed in your plan?

Stuart Gulliver

So, the assumption in the plan is the forward curve, and the forward curve only, so look at the future strip, look at the forward curve, and that's what's behind it.

Raul Sinha

And then the second one is: again, within your RWA guidance or plans, you've got the reduction outlined, you've talked about the redeployment and the growth, but clearly there's quite a big uncertain piece on regulatory change, which is quite difficult to forecast, I agree. How do you propose you'd be tackling the inflation from regulatory change within your plan? Would you be looking to reduce some of the redeployment potentially, let's say, if RWA changes added 100 billion to your denominator, or would you actually think about going deeper with your cost cuts? Thanks.

Stuart Gulliver

So, the Fundamental Review of the Trading Book is one of the biggest uncertainties out there, and the initial QIS studies for that didn't show that it had that big an impact on us, actually. But if it were to have a significant impact – and Samir will talk about this a bit later – we'll need to absorb it within the Global Banking and Markets business and the numbers that we've set out.

Raul Sinha

Sure, but there's also operational risk, sorry. When you look at your operational risk as a percentage of total RWAs, you're at 10%. Some of your US peers are 20%, maybe 25%, so even leaving FRTB aside, you could see material inflation from operational risk. Have you had any thoughts on that?

Iain Mackay

I think, when you look at the suggested changes or the changes that are being consulted upon and we've done QISs on them now – probably more to come – I think the largest factor that we see out there is the likely change to credit risk from revised approach to standardised. That's probably the single largest impact that we see coming through. Probably in the tail of that, as Stuart mentioned, there's the Fundamental Review of the Trading Book. We've got a range through the QIS which we think, if that's where it comes out, is manageable but, as Stuart mentioned, there is downside risk there. Op risk, yes, but we think that's a manageable number for us. Again, there's uncertainty around this. The QIS will help inform how this all gets implemented, but I think, for us, the credit risk is the big factor, and that's the one that we're going to have to focus on really hard.

The other thing I probably should say here is we anticipate all of this coming beyond 2018 or beyond. I'm not trying to be cute here but what we've talked about here is hitting numbers in 2017. As this gets clearer for us, we'll obviously, as informed, start taking actions to deal with any impacts that come out with this revised approach.

Stephen Andrews, UBS

Can I just come back to this capital reallocation out of, effectively, GB&M into Retail Banking and Commercial? Because you're freeing up 290 billion and you're looking to reinvest 180-230 billion into those markets, I'm really struggling to see how you reinvest, in two to three years, the best part of US$200 million of risk-weighted assets into those markets of Asia and the Middle East, especially in Retail Banking and Commercial Banking. The Pearl River Delta isn't under-banked, and you've got large Chinese banks looking to invest billions of dollars into ASEAN. Can you give more granularity and how comfortable are you on your ability to reinvest those risk-weighted assets into those markets, or are you at risk of achieving your cost targets and ending up with a pretty big revenue miss and a miss on ROE as a result? Thank you.

Stuart Gulliver

So, the calculation has, obviously, been done bottom up to reach to those numbers, so we have reasonable confidence that we can deploy that 180-230 billion of RWAs for an exit 2017 at around those numbers. There are very, very big growth opportunities still in Asia-Pacific. The fact there's a lot of big Chinese government banks, I guess we're also one of them. So, actually, we think there's a good opportunity there, we think there's a good opportunity in the Middle East and, obviously, we'll continue to be growing our balance sheet, actually, in any area that's accretive to us. So, I wouldn't get over-obsessed on the Pearl River Delta or ASEAN. Those are big growth opportunities. Antonio will be continuing to grow the balance sheet here in the UK etc. What we're doing is redeploying from low-returning risk-weighted assets, which have clearly been the case with Brazil, Turkey and big parts of GB&M, into higher-returning ones. We're pretty confident that we can get that number to work.

John-Paul Crutchley, UBS

One quick technical and then maybe two strategic ones. The first technical one was just about the debate around the relocation, and I suppose the question is: if you get something from the Chancellor tomorrow night on re-consultation around the bank levy or reanalysing how that does get distributed, which could, in itself, lead to a consultation, how does that then factor in terms of the timeframe you've put around the relocation debate? Because, presumably, if you don't know exactly how that's going to be constructed, it is a material impact in terms of the financial implications.

The two strategic questions, though, were: one, I just wanted to ask about – and I've looked through Peter's slides so I know that he may well talk to this later on China, but just about HSBC in China, whether you're trying to pivot more towards a regional strategy within the Guangdong region as opposed to a broader China strategy and how that interfaces with BoCom. And then, secondly, I just wondered if you could mention India, which, rather unkindly on one of your slides, gets lumped into the Greater China region. But clearly, it's obviously a very major growth driver and revenue driver in its own right, and I just wondered how you see that configured in the Group longer-term.

Stuart Gulliver

So, first of all, the bank levy is a subset of the tax point. So, all the criteria we've laid out will all still need to be reviewed, and the levy is just one subset of a broader tax issue. So, the levy is a small part of the analysis that the Board will need to take. That analysis is strategic of nature, not tactical.

So, with China, the logic is for us to be, in a way, China's international bank. So, you need to think cross-border, which is why the Pearl River Delta is so exciting, because, for CMB and GB&M, it's kind of cross-border – it's China trading with the rest of the world. The new policy of the One Road, One Belt, which Peter will talk about in some detail, the creation of this kind of new Silk Road, again fits perfectly to the type of bank that we are. So, it's very much not that we're trying to do domestic-domestic Chinese business going toe-to-toe with ICBC, but rather that the China coming overseas, Beijing's going-out policy, now the new policy, the new the normal around One Road, One Belt, fits to our geographic footprint.

The only reason we've left India out is we can't do a waterfront coverage of absolutely everything under the sun in four hours. So, yes, it is a big country. We are investing there. We used to make north of US$1 billion; we should easily be able to get back to that again. And again, we aren't trying to jam all the RWAs into Hong Kong. The RWA growth is broad-based, by necessity, so that you can all kind of do something else today other than just here. We haven't covered every single one of the 70 countries, but have no concerns as to our intention to continue to grow our business in India. Thank you.

Alastair Ryan, Bank of America Merrill Lynch

I think you made clear on the re-domicile question, it's really driven by where you see the opportunity, aligning yourself with where the growth is, and I can't help noticing there's a lot of talk about Asia. But, underneath that, in the GSIB, the capital requirements, that's not driving your consideration, but, if you were to move, would you get a benefit on the cross-jurisdictional capital add-on. Would that number get any better if you were in Hong Kong instead of in London? Would there be any RWA benefit? The PRA's loss-given-default floors for sovereign exposures are quite onerous and fairly random. So would there be a potential capital benefit, even though that's not what's driving the decision?

Iain Mackay

That's exactly the kind of work we're doing just now, Alastair. Okay, so don't read too much into this, but we'll just take a hypothetical. Whether it's Hong Kong, Canada, wherever, the basis on which the home regulator then applies risk-weighted assets and your capital requirements, is it based on equivalence? Probably not. Is it based on the application of their risk-weighted-asset regime to your global asset base? Therefore how do you rebuild your models with the technology around that capital application versus that which is applied by the PRA for the Group today? And that's part of the evaluation that we're going through to get a sense, not as it relates to whether or not there's a regulatory arbitrage, but what does it mean for the firm from an overall long-term perspective in terms of capital requirements.

Going to GSIB, on the basis that we'd be a GSIB, whether we're based wherever in the world versus the United Kingdom, I don't think you necessarily get a benefit from jurisdictional move. I think the benefit is more likely to come from some of the points that I talked to you about in that slide, in terms of going over and building a stronger understanding with those that run the calculation around what really is cross-jurisdictional activity for HSBC. I mean, you've heard me witter on for years about the fact that we've got local balance sheets, locally funded, locally supervised, etc and that, although we've got a 2.6 trillion balance sheet, that doesn't represent US$2.6 trillion worth of risk to anybody in the world except the people sitting on top of the subsidiary that regulate it in that community.

So I think building a greater understanding of MPE, that we can make MPE work – and it's important that we convince, at least in the first instance, the PRA that we can do that and it's the right approach for the Group – I think it's making progress in that regard that conceivably gives us capital benefits against the GSIB basis, because you can clearly see from the scoring when we stack up against some of our peer group, it's not size; it's not complexity. That's what it comes down to, and it's unfortunate that it is. You know, there's no point whining about it. It's just an unfortunate application of the rules today, and that's where we need to work.

Michael Helsby, Bank of America Merrill Lynch

Firstly, I was wondering – you've given us kind of the cost impact, re-basing your 2014 adjustments for Brazil and Turkey and for FX. Can you just give us the revenue associated with the FX movement and Brazil and Turkey as well, please? And then, just more broadly, it's quite interesting, Stuart, listening to your presentation and hearing about the vast revenue synergies that come from being universal, and clearly the network revenue coming from being global of quite huge sums. But I'm just a bit confused, because, when you stick it all in the mix and you look at the ROE that you're targeting, and then you compare the relative ROEs from some leading domestic peers in each of your markets, there's a huge disconnect, so it kind of suggests that everything else over and above what you've talked about where the improvements are today is materially underperforming. So I was just wondering, have you done some analysis on costs around being global and universal.

Stuart Gulliver

So let me take the second one, and then Iain can have a stab at the first one, and we can update you afterwards over the break. So what we're saying is there's US$22 billion of revenue that comes from having an international network, and there isn't US$23 billion of costs that therefore defeats the international network. So the question, therefore, is: why isn't the firm more profitable? And the answer is: we've got places like Mexico currently, Turkey, Brazil, the USA and the UK with conduct risk and fines that are actually destroying value. It's as simple as that. The answer isn't: the network should be broken up. The issue is: there are four or five countries that are a major problem.

Michael Helsby

Clearly, all your plans are setting out tackling a lot of those issues. So, by 2017, you're still going to only have a 10% ROE, which is still materially worse than other leading domestic players.

Stuart Gulliver

Undoubtedly, but we said we'll make an ROE of more than 10%, and we're talking about two and a half years. Most others that have presented these type of presentations have given themselves five years. So you're absolutely right, but the mystery piece in this is not that the network is not working or it costs too much to run it today than it did compared to pre the financial crisis. It's the fact we've got four or five countries whose domestic businesses, or whose conduct and customer-redress numbers, actually mean they contribute nothing. That's the problem.

Iain Mackay

There's a phasing around this as well, Michael. I mean, Samir doesn't take 140 billion out of his risk-weighted assets tomorrow. There's a good deal of work behind not only this but the work that Pat and the team are doing around continuing and accelerating the run-down in CML. So this is about delivering on those plans through 2017 and hitting our return on equity in 2017 of 10% and moving that beyond that. So there's – I won't call it a phasing, because it's about getting this work done, but there is a build to this which takes a little bit of time, both from risk-weighted assets, from a cost perspective – the cost to achieve that transformation and the costs out – so it's not a miraculous 'hit the button; it all happens tomorrow and we can build from there'. It's building to 2017 and building thereafter.

Stuart Gulliver

Also, recall what Andy said, that actually you couldn't have taken the costs out of the firm in 2012, because, when I took over at the end of 2010, this was 87 separate countries. So, as he said, his predecessors had to negotiate with 87 country CEOs to put any system in place. So, actually, we haven't captured the economies of scale of this company yet. That's why we believe that we can comfortably take this 4-5 billion out. So, actually, the best days are actually ahead, but there's a very logical reason why – 'Well, why haven't you achieved it before?' If you run a bank as 88 separate countries, not only do you have all the conduct and control risk issues that we had, but you don't get any economies of scale; you're not actually offering a purchasing opportunity or procurement economy of scale, let along an IT economy of scale. So recall what he said in his deck; that's quite significant.

And, as I say, bear in mind we're setting out a plan here that we've got two and a half years to implement, which is quite a short time horizon.

Iain Mackay

On the revenue, yeah, I'd love to make life really easy for you, Michael. I don't have those numbers in front of me. We can catch up at the break, but you could actually go and look at the annual report and accounts, which gives you that information for both Brazil and Turkey, and FX it, and you'll be all set, okay?

Iain Mackay

We'll give it to you. There is something important to note on Brazil and Turkey. As we work through those restructurings and dispositions, there's things like goodwill sitting in the balance sheet with respect to those acquisitions; there's foreign exchange reserves that we'll recycle through this that'll come through the financial consequence of doing those transactions, and those are not insignificant. It gives us a positive effect to capital; that's what we estimate at the moment. And, you know, I can't really say a great deal more about what we expect in terms of gains or losses in the transactions, because, frankly, I don't want to give too much away commercially, as we continue to work through those, but there are significant accounting adjustments to work through that. But, overall, it's a positive for returns on equity for the Group and it's a positive for capital, okay?

Chirantan Barua, Sanford Bernstein

Stuart, two quick questions. One is, why didn't you sell Brazil and Turkey in 2012 and 13? You'd have made much more money than you're making today. And the second one is, why are you not selling…?

Stuart Gulliver

I can actually come up with loads of examples like that, actually, like why did we buy the Private Bank in New York; why did we buy Household?

Chirantan Barua

So, Stuart, that was my second one, just in terms of, what other things – what other businesses are on the cards right now, which you have to look at – for example, French retail? I was just going through those countries in page 28, so France valuation is very good; market's looking very good; can't get much better, most people would say. So why wait another three years?

Stuart Gulliver

So, actually, French retail's profitable. French retail's got two distortions going through it, which is the PVIF of the insurance business and non-qualifying hedges against the mortgage book, so, actually, in France, the drag is actually Global Banking and Markets and the rates business, which Samir will talk about. It's not the Retail Bank. So we can give you some quite detailed analysis that proves that that is the case. I also think keeping a full-scale bank in Europe might be a sensible thing for us to do, depending on what the future outlook for the membership of the UK in Europe might be. So, in any event, it isn't RBWM in the French business; it's actually been CMB, but mostly Global Banking and Markets, and mostly the rates business.

I won't answer why I didn't sell them earlier, other than the fact we obviously had a go at trying to turn them around, and, effectively, over four and a half years, I've had three different CEOs of Brazil, two of Latin America, and we decided, effectively, we had a scale problem. The same would be true of Turkey as well. But we had a crack at turning them around, but then, if we looked quite in detail at them, the shape of the business doesn't fit the international footprint anyway. But I don't think you can really run something like this trading backwards. I mean, the acquisitions of 1999-2002 are a far bigger moment of regret than whether or not I should have sold Brazil a few years earlier.

Arturo De Frias, Banco Santander

Two questions, please, both on returns. One, back to the reallocation of RWAs, which I think is great news, investing as much as possible in Asia, most questions before have dealt with how easy or difficult is to invest an additional 200 billion of RWAs in Asia. My concern is slightly different. My concern is about returns. I don't think investing an additional 200 billion in Asia is difficult, but I'm not sure returns can be kept… Probably this is more a question for Peter, but I'm not sure returns can be kept constant, apples to apples, to where they are now. So what is your expectation? Are you going to accept lower returns from Asia, in exchange of improving the overall mix in the Group?

That's one, and the second one is on slide 61, which I find extremely interesting – changes of return on risk-weighted assets by business. And, looking at the improvement that you expect in Retail Banking and Wealth Management, the return on risk-weighted assets in 2014, pre-tax obviously, was 4.8. Do you expect that to be 6.3 by 2017? That's a 30% improvement in just three years, which I find really interesting. Why do you think this is going to happen? Probably part of the answer is the shift into Asia, but, I mean, I would really like to hear your explanations, why you think you can improve your returns in retail by 30%. Thank you.

Stuart Gulliver

Okay, so, on Retail Banking and Wealth Management, I'm going to start, and then I'm going to ask John Flint, who's sitting at the back over there, to join in. The RBWM returns in 2014 still contain some of the residual drag of the massive changes we put through in incentive schemes. So, in order to improve the conduct issue and to deal with fair pricing to customers, you'll recall that we, in 2013 – changed the incentive scheme and got rid of all point systems for selling product and moved everyone onto a discretionary bonus scheme. And then we did the same for the mortgage and credit card sales a year later. So, basically, in 13 and 14, we have a business where we have disrupted, essentially, the behavioural pattern of most of the frontline staff. What we have now in 2015 is a steady state, where the staff have got used to the new incentive schemes and we'll be able to rebuild this up. This also represents the increase in use of digital platforms and also represents an increase in personal credit. So it's more about the fact that, actually, this business had returns in these kind of levels in the past, actually. John, do you want to add?

John Flint, Chief Executive, Retail Banking & Wealth Management

Yeah, thanks, Stuart – all agreed. I think it is worth noting that Brazil and Turkey are currently significant drags, so we put those to one side. We have a number of other countries that are also still being worked through. We're going to talk about the US a bit later, but there are a number of countries where there are material upsides to current performance. As a business, we have been ex-growth for a couple of years, as Stuart reminded you, and there are clear indications now that we're pulling out of that. And, of course, in Andy's presentation, he explained very clearly how we're going to execute cost levers to get costs to an exit rate which is equivalent to 2014 by the end of 2017. So, when you add all of that up, you can see a material uplift to performance. One thing to note, though: the returns for the Retail Bank do include the returns of both the insurance business and the asset management business, which it typically very RWA light. So, just as you're looking at those returns, remember, they are flattered a little by insurance and by asset management.

Stuart Gulliver

And then, on the dilution impact of deploying in Asia, I mean, clearly, the deployment in Asia will still be massively accretive to where it's currently being deployed. We will not give guidance to Peter that just gives him carte blanche to lend at any old rate, but I wouldn't be surprised at all if, overall for the company, it's better for us to deploy at slightly tighter margins in Asia than to have the value destruction that's going on today.

We've got one question from the web, which is: what level of overall net RWA asset growth do you expect to achieve by financial year 2017? Do you want to take that?

Iain Mackay

I think we've actually got a chart that lays that out (slide 25), with the exception of being able to quantify what the regulatory impact might be from some of this stuff coming out of Basel at the moment. So we've got the reduction plans in there. We've just spent a little bit of time talking about what growth anticipated is, which is sort of reinvesting 180-230 billion of those risk-weighted assets. That gives you some indication of what we'll do for that which we can control. That which sits behind our control – I think, again, talking about the fundamental review of the trading book – it's obviously our goal to take actions that can mitigate that and ensure that we maintain and build the returns for the Group.

Arturo De Frias

Just a quick follow on. What could be the return of Retail Banking and Wealth Management, excluding the disruption driven by the change in remuneration, so that we have a fairer idea of what is the underlying improvement in profitability that you expect from retail in these next three years? Thanks.

Iain Mackay

I'm sorry, which aspect of regulation are you referring to?

Stuart Gulliver

No, it's the conduct agenda, that obviously we changed the incentive schemes, so what you're asking is a pre-incentive scheme return on risk-weighted assets for the Retail Bank, ex asset management and insurance, which I think we'd have to think about in the break whether we can give to you. But, also, just a thing to bear in mind, of course, is, the world has considerably changed since those days, because this is the days of the conduct that various banks have obviously been fined for, so I don't know if you can see that as the starting point. I think the key point is, we're comfortable we can get to this number, because we've now got a settled team of people; we've done the change of incentive schemes, and, actually, a lot of our competitors still haven't. We think that that significantly reduces the risk of future fines and conduct issues. Those people are now in overall discretionary schemes. We've looked at the pricing of products, and we've got several countries that either we dispose of or are in the process of recovery, so those numbers we do think are achievable, but they are flattered by insurance and asset management.

Andrew Coombs, Citigroup

A couple of questions, one on Mexico and one on the Pearl River Delta. Just firstly, on Mexico, when we compare your local filings to peers, your revenues to RWAs actually looks to be broadly in line. It's your underlying cost to RWAs that actually looks quite high, so slightly surprised to see that the majority of the enhancement on slide 31 to the Mexico return on RWAs is actually revenue-driven, rather than costs. So perhaps you could elaborate there on what's driving that expected revenue improvement. Is it capturing market share; is it margin improvement, and so forth?

And the second question – on slide 40 and 41, you kindly provide loan market share numbers both for Malaysia and Singapore. Could you please provide the equivalent number for the Pearl River Delta as well, please?

Stuart Gulliver

Okay, so, in terms of Mexico, the costs are higher for our operation because we obviously had tremendous problems in Mexico. It was the source of our deferred prosecution agreement, so, therefore, we have substantially changed the nature of the control environment in our Mexican operation. There's been a considerable investment in compliance and so on, and actually a considerable amount of derisking has taken place. And that embedding of global standards, to make the business fit and proper, has increased the cost base. It's not for me to comment, but one imagines that a couple of the other Mexican banks may have the same change in their cost base coming towards them fairly soon, because I get the sense we are probably two/three years ahead of some of the others in terms of this very issue.

And so where we actually think the recovery is not, clearly, in managing down the compliance environment – that's a permanent cost of doing business in Mexico – but, coming from the 11 substantial reforms that President Peña Nieto is putting through in the Mexican economy, we think Mexican GDP could easily hit high 3.5%, nearly 4%, coming out over 2016-17-18, so we absolutely think it's a revenue growth number. We have a very strong Global Banking and Markets business and a very strong CMB business in Mexico, and, actually, they will capture that lift to the Mexican economy coming from those strategic, fundamental reforms, but, also, we will start now to rebuild our RBWM business, much more, though, into Premier and Advance, having effectively done some significant derisking.

So, yeah, it is a revenue upside, and, as I say, our cost base is an outlier at the moment, but I think that you might well find that other cost bases start to drift towards us. And, on the Pearl River Delta loans and advances market share, Peter's got a big presentation later on, so, if you've still not got enough information after Peter's presented, then we can look at it then.

Manus Costello, Autonomous

If I just think about where we are versus a couple of years ago, we're talking about a smaller bank in terms of overall balance sheet and scope, with a lower ROE, as you've laid out, largely due to the higher capital requirements, and, at the same time, you're pivoting towards faster growth areas. I get similar numbers as Chintan around suggesting you think that there's mid to high-single-digit RWA growth that you can deliver out of the markets you're in. And I just wonder how that all pieces together with the progressive dividend policy, because consensus has already got you paying out about 70% of earnings for the next few years; alright, it drops a bit going forwards, but it's still quite high. How are you going to fund that level of RWA growth that you think is achievable, given that the retained capital which you seem to be implying here is not going to be enough for the progressive dividend policy?

And, just related to that, how does that feed into the way you thought about the strategy overall? And I'm thinking here about the slide on the US, where you seem to be saying that, in the US, you're happy to target for the US a sub cost-of-equity return, based on the return on risk-weighted assets you're giving for the US domestic business. Is that because you need the US profitability to pay that progressive dividend? How does it feed through into the strategy?

Stuart Gulliver

So we're releasing 290 billion of RWAs, so that's what gets redeployed.

Manus Costello, Autonomous

But I'm talking about the ongoing ability to fund the growth in the future, rather than just the release of the next couple of years.

Iain Mackay

I think everything that you've heard about this morning, both in terms of the cost actions that Andy talked about, the RWA rationalisation and redeployment – what that connotes is a very compelling capital generation over the next two to three years, to, a), get us the capital position that we think may be appropriate from a CRD IV end-point perspective, and it builds on nothing other than what we've actually done over the course of not just the last four or five years but quite a long history of generating capital that supports growth, that supports dividend. I think the components that we're talking about today is a much sharper focus and delivery against costs, and a much sharper focus on the actual management of where that capital is deployed within the Group, in terms of generating returns at and above the hurdle rates.

So there's nothing magical about what we're talking about, in terms of the financial formula around this. It's a sharpening of the formula that's actually worked for an extensive period of time. When you move risk-weighted assets away from a very low returning business sitting, for example, in Europe around Global Banking and Markets, and redeploy part of that to much higher returning potential markets in Asia, I think the outcome is a fairly clear one, from a mathematical perspective. The cash that goes to support that, again, comes from the profitability generated by the businesses. And I think, to be absolutely clear, when you talk about the US element of that, there's been no cash for the Group dividend from the US for over seven years.

Stuart Gulliver

It doesn't actually release a dividend, so it hasn't contributed to the progressive dividend at all.

Iain Mackay

The US is a different story, and I think Stuart can happily take that one.

Stuart Gulliver

So the US has not contributed to the dividend. This is one of the places that we highlighted that we have so-called trapped capital. So the US doesn't exist in order to pay the dividend. It's actually not contributed to dividend at all. The US's importance, as I set out when I spoke to this, is about the US dollar as a major payments currency, and therefore sitting behind trade finance, payments of cash management, foreign exchange, debt capital markets, all of the activities that sit within transaction banking in both CMB and GB&M. Also the US is a major source of international companies, one of the largest exporters of capital in the world, and the largest economy in the world is the United States, so it's a core part of any bank that's involved in trade and capital flows. You have to have a US presence, and, if you've got the product suite that we have, as long as and for so long as the US dollar is the dominant world currency, you ought to be doing that dollar payment business yourself so that you can capture value. But, actually, quite the contrary: the US hasn't contributed to the dividend. That's the one place where capital is actually trapped.

Martin Leitgeb, Goldman Sachs

Just two questions, please, the first one to build on the return on equity discussion, where, in certain countries, you lag peers. And, with regard to, Mexico, I think your targets imply that you are targeting a 2017 return on equity of roughly 10%, and, if I compare that to local peers, I think they're in the high teens. Just given the news coverage and obviously all the press flow with regards to Brazil, there seems to be a genuine interest in Latin American banking assets. If you were able to achieve an attractive price, say above book or something, for Mexico, could you consider a similar approach to Brazil, where you sell the subsidiary but retain a small footprint via the branch network in order to cover international clients?

And the second question is more general, with regards to global retail, and you showed, I think on slide 16, the benefits of having a global commercial bank. And I was wondering if you could elaborate a bit more on what the benefits are of keeping a global retail bank. You flagged earlier that one of the benefits of retail is stable funding. Just looking at other global banks, other banks seem to focus on fewer, maybe, retail markets and having a larger market share. Could you envisage a similar approach for HSBC? Maybe just taking the US as an example, I think US retail provides roughly 11 billion of excess funding at this stage, but I think, at the point where Household becomes small, the going-concern US business would need the retail funding, because it would have a loan-to-deposit of 80% just by itself anyway. So would you see the opportunity here to streamline your global retail franchise?

Andy Maguire

So, look, I'm sure John will want to speak to this too, but our retail franchise –maybe we'd like to wish it was BBVA or Santander's, so a small number of very large things. It's not, so what we need to do is deliver cross-border operating scale. We haven't done that. The plans we laid out today deliver cross-border operating scale, but, if you like, BBVA or Santander's retail network wouldn't support the thesis that Stuart laid out in terms of cross-border trade and capital flows. They don't do that; they don't compete with us in that way, so you can't have a bit of one and a bit of the other. The two bits of the puzzle have to fit, and then hence our overall strategy about how those two things fit together. So I think the most important thing for us to deliver, where, as you say, we were not very high share players in a large number of markets, is cross-border operating scale, and that's the things that we talked about today.

Stuart Gulliver

But I wouldn't just focus yourself on RBWM in two places: UK, Hong Kong. We've got 6.1% market share in Singapore, 7.4% in Mexico, 6.2% in Malaysia, 8.1% in the UAE, so there are at least another – and, actually, the Pearl River Delta, we've got scale as well. So there are at least another six RBWM operations, and RBWM isn't in all 73 countries already. On the USA piece, ask the question after Pat's presented, because I think you might have the answer to your question at that point in time. And the Mexico question is too hypothetical; I'm not going to answer it.

Fahed Kunwar, Redburn Partners

I just had a couple of questions. The first was on the risk-weighted asset growth in Asia, the kind of high to mid-single digits. The two constraints I always thought of were capital and compliance, so, from the capital side of things, I can see you're funding it using the risk-weighted asset reductions, but your new compliance appetite, which is here to stay – is that really able to fund that level of growth in Asia, considering a lot of those corporates probably are pretty new and might not necessarily need or be harder to comply with US FATCA requirements?

My second question was on the point you made on the US dollar deposit base, that, ultimately, having that deposit base gives you quite a big funding cost advantage. Now, moving to Asia, your deposit base there is never going to be as big. How do you think about that move across and the funding cost disadvantage that you'll have against local peers, and would a move to Asia give you better access to renminbi deposits if you were, for example, headquartered in Hong Kong, or is that not going to be the case? Thanks.

Stuart Gulliver

So the compliance point I don't really recognise.

Iain Mackay

Compliance as it relates to existing or new customers is a know-your-customer question, and that's really, I think, a great deal of what we've talked about and what Andy talked about in terms of improving the efficiency that we already do today in that regard. FATCA's really not an implication, so I'm not quite sure why you'd question that particular point. FATCA's about United States Person (USPs), and not many of our customers in Asia are USPs, and certainly not many of the corporates in Asia are USPs, so we can clarify that question a little bit later, perhaps. But this goes exactly to the point that Andy was talking about, is, when it comes to new customers, it's being able to bring them on, know them, use the data we've got not just to meet the compliance requirements and understand them, but also to be able to better market products and services to those customers. So it's something that we're doing globally, consistently across the firm, and that absolutely should not be a barrier to either on-boarding new customers that fall within our risk appetite, nor necessarily building profitable relationships with those customers.

And I think the domicile is a complete irrelevance when it comes to gathering renminbi deposits, and Peter will talk to this. The strength of our renminbi-gathering capability in mainland China and Hong Kong today is extremely robust, and domicile's got nothing to do with it.

Andy Maguire

I think the other thing that Peter, no doubt, will talk about is, many of the clients in the Pearl River Delta are clients of our clients, and we are already down the path of knowing our clients' clients. We are tracking down that way, anyway.

Fahed Kunwar

I guess the point on that compliance was on the point that, I think, Douglas made: regulation compliance has increased risk aversion. I guess what you are saying is that a lot of that growth is going to come from deepening share with existing clients rather than taking on new corporates, because there must be some risk-aversion increase from increased compliance that's coming through all this stuff. I guess that's the point I was trying to make. On the renminbi point, I understand that you have got a good international China-based gathering in terms of deposits, but versus the local banks you surely aren't ever going to have the same level of deposits. That funding-cost advantage against those local banks seems to be quite a permanent thing.

Stuart Gulliver

I think there is a bit of a myth about what our funding advantage actually is. There are about 150 banks in Hong Kong, so it's a bit competitive. This idea that there's just us and Hang Seng and some day ICBC will roll in is not the way it is at all. We're competing against 150 banks in a population of about 8 million people. Yes, there's always competition, but we don't see this as a terrible threat. If you go to the next one, which is in 2047 perhaps the Hong Kong dollar will become the RMB, obviously what happens is our Hong Kong dollar deposit base is redenominated into RMB. It doesn't leave the Bank; it simply gets redenominated. It's a bit like the fact that the deutschmarks didn't all leave Germany when they became Euros. We don't see this as quite such a competitive problem for us as I think you're worried about.

Chris Manners, Morgan Stanley

I have two questions. The first one was on cost of risk. People haven't really mentioned that too much this morning, and I was looking at bridge of ROE on page 67. I don't see any reduction in ROE from cost of risk and it does look that cost of risk at the moment is quite low. What sort of assumptions are you making for impairment charges for the Bank and how much of an impairment charge will be leaving from your de-risking actions? Obviously, that should be quite helpful.

The second question was on your capital modelling assumption of 12-13%. Within that, how much is a management buffer over and above what you think the minimum requirement could be. I know you give a little bridge on page 62, but then you actually didn't spread the management buffer out there.

Iain Mackay

I think one of the things Stuart commented on earlier today was the low volatility of the Group compared to many of our peers. Certainly, many of the actions the Group has taken over the course of the last 4-5 years have been writing to a fairly conservative risk appetite across many of the markets and, in some markets, very specifically de-risking – and Stuart referred to Mexico as one. We talked a little bit about India, but India is a market that, from a credit perspective, we did significant de-risking in 2010, 2011 and 2012, in actual fact, and rebuilding that book.

Stuart Gulliver

I think that's why some of our bad debt experiences have been different to some of our competitors' in Asia, because we deliberately de-risked in places like India, Indonesia, South Korea and so on.

Iain Mackay

In terms of how we have modelled this out, I think it would be fair to say, although we have clearly focused on delivering against the actions on cost, delivering against the actions on reallocation of capital released from risk-weighted asset movements in parts of the business, we have not taken benefit from the cost of risk. Cost of risk is sitting at what we believe to be a cyclically low level, but, again, based on our experience and the actions over the last 4-5 years, nor do we necessarily believe there is massive downside that we should be modelling in either, in that regard. Across the markets in which we operate, we see a fairly stable credit experience and no significant adverse migration in that regard.

From a capital standpoint, Chris, you helped me understand what buffer is management, what buffer is regulatory and what buffer does what. We've got a buffer. How that's composed and how it's actually deployed, as it relates to PRA guidance and as it relates to what management may believe is appropriate for any point in time, is that we've laid out a range of 1.5-2.5%, which we think will accommodate how, for example, countercyclical buffers may phase in or out from time to time. And our attitude with respect to a management buffer will be informed both from what we see from the marketplace, the deployment of the business model and the behaviour of the regulators. We are not really going to spike out a particular buffer as it relates to management, because within that range of 150-250 basis points we have to view certain of the buffers deployed by regulators as, in actual fact, being real buffers.

Rohith Chandra-Rajan, Barclays

I just have a question on revenue growth, please. On page 67, items 3, 6, 7 and 8 show that revenue growth is quite a significant part of the planned ROE build. Mexico was one example highlighted earlier of where that revenue growth comes from improving returns on risk-weighted assets in the same business line, whereas a lot of what else you've talked about is the reallocation of RWAs to higher return business lines. I'm just wondering if there is much more outside of Mexico and the US, where you expect to improve returns within existing business lines versus reallocation to new business lines.

Stuart Gulliver

No, the majority is Mexico and the US. That's the big delta, Mexico and the US. Mexico and the US is the really big delta. For others it's organic growth of businesses that are already accretive.

Global Banking and Markets

Samir Assaf, Chief Executive, Global Banking and Markets

Good morning, and good afternoon Asia, if you are still with us. Today, I want to give you an overview of Global Banking and Markets and a quick recap of our track record. I will explain how Global Banking and Markets will look like in 2017 and set out how we are going to get there.

Since 2011, we have created a diversified business by client, geography and product. In 2014, top five market positions drove circa 70% of revenues. GB&M has an international network, capturing growth in trade and capital flows. It's an integral part of HSBC Group, generating US$8 billion revenue of synergies. Our balance sheet has client-facing assets of US$729 billion, which is smaller than most of our major competitors. In terms of the track record, over the period 2011-2014, we have delivered RWA reductions of US$100 billion. We have delivered resilient and diversified client-facing revenues, an annual average of US$14.2 billion from 2011-2014 and a circa 6% compound annual growth. We have tightly managed direct costs, where we were down 1% compound.

However, as Stuart has explained, the environment in which we operate now is materially different from when we set out our plans in May 2011 and it continues to evolve. In recognition of this, we need to adapt and define new plans that reflect the future environment. GB&M has a plan to achieve a return on risk-weighted assets of 2.5% by 2017 for our client-facing business. Let me explain what 'client-facing' is. By 'client-facing', I mean GB&M excluding associates, excluding legacy credit and excluding balance sheet management. We have sharpened our pencil and undertaken a comprehensive review of GB&M, both top down and bottom up. To reach our planned return, we will focus on three areas. One, we will reduce RWAs by US$140 billion gross and US$130 billion net. This is a reduction of 31% for our client-facing and legacy business. This client-facing and legacy business will represent less than a third of Group RWAs by 2017. Two, we will tightly manage costs to offset the impact of inflation and investment, including regulatory change, to keep costs flat by the end of 2017. Three, we will maintain mid-single-digit compound revenue growth.

What actions will we take to do this? First, to reduce RWAs, we will exit legacy credit, manage down our market RWAs, including our long-dated rate books, run down our low-returning loan portfolios and, overall, tighten our discipline of hurdle rates to client relationships and new business. Second, to keep costs flat, we will further simplify the business and streamline the process. Third, to grow the business, we will develop our market-leading positions across a range of key product areas and accelerate the pivot to Asia. In a moment, I will explain the three areas in more detail, but, before I do that, I would like to explain what we have done already in GB&M and how our model is different.

Since 2011, GB&M has developed a strong, diversified and balanced client franchise. We have a healthy mix of 4,000 corporates, financial institutions and public-sector clients. About 50% of our revenues is from corporates, which is very distinctive in our industry. Our business is also different in being diversified geographically. Our revenues are also spread across a number of business areas with good annuity and low volatility earnings. Our rates and credit business represents only 12% of revenues.

Circa 70% of our client-facing revenues comes from products where we have a top-three or top-five position by region. These include best-in-class products such as foreign exchange for corporates, payments and cash management and trade finance. This brings us scale and better profitability. The other businesses are either moving in the direction or are very necessary for the rest to persist as best in class.

Let’s look at the effect of the network. Our international network is ideally positioned to capture growth in global trade and capital flows. If you compare GDP with global exports and foreign direct investment, you will see that the FDI has been growing at a much faster pace than both in recent years. You can also see on the right that our in-country revenues have grown above GDP growth, but our cross-border revenues have been growing at double that rate, more in line with growth of FDI. In 2011, we were already at 50% cross-border and now 55% of our total client revenues are cross-border. Our international network is serving us very well. And we believe that it will continue to do so, particularly as we keep pivoting to Asia.

As an integral part of HSBC’s universal banking model, we have generated significant revenues with and for the rest of the Group. Global Banking and Markets is now a major driver of business across the whole of HSBC. Some US$8 billion of revenues in 2014 came from such synergies. You can see some examples of this on the right-hand side. The second box on the right shows CMB clients generated US$2.8 billion from markets and capital financing products. Later I will return to this subject as part of actions to drive growth.

Since 2011, we have managed our balance sheet in a way that seen it marginally decrease in size without impacting revenue. The balance sheet we operate with is US$729 billion of client-facing assets. You can see how I get to that number on the slide. Total GB&M assets were US$1.8 trillion at December 2014 disclosed. As you can see, our client-facing assets excludes US$217 billion related to intra-HSBC assets, which is fully eliminated in HSBC’s consolidated results, with US$532 billion coming from balance sheet management, US$46 billion coming from legacy credit – and it also excludes US$313 billion netting down our gross derivative positions. Out of the Group assets of US$2.6 trillion, GB&M client-facing uses less than 30% of the total. You can see a number of our US and European peers to the right of us on the slide, for whom we have worked out comparable numbers. Our client-facing business compares favourably to those peers.

Our risk-weighted assets have increased since 2011, largely due to regulatory changes, but we have worked hard to manage them down despite that. Since 2011, we have estimated that regulatory changes have added over US$150 billion to GB&M RWA, mostly driven by the introduction of Basel III and the PRA LGD floors on sovereigns and on corporates. We estimate that we have achieved circa US$100 billion of RWA reduction that takes us to the [inaudible] US$516 billion at the end of 2014. Once associates, balance sheet management and legacy credit are taken out, GB&M client-facing RWAs were US$371 billion at the end of 2014, which is less than a third of HSBC RWAs.

In terms of revenues, GB&M has delivered consistent growth in our client-facing business. We delivered circa 6% compound growth in our client-facing business in the period from 2011-2014. The key point on this slide is the growth of revenue across all our client-facing products, as shown on the right, has grown. A big percentage of revenues are like annuities: once we have the relationship and mandate, they remain sticky and provide revenue for a number of years.

We've tightly managed direct costs, which are largely flat over the past four years. Our indirect costs have grown by 7% compound driven by investment in regulatory demands and global standards resources. Within that, at the end of 2014, headcount stood at 16,300 FTE, of which only 6,600 were in banking, markets and capital financing. You can see the detail on the slide. The point here is that controlling costs is a key part of our actions to manage and improve profitability.

We've already taken other significant actions to improve profitability and simplify the business. To give you a few examples, we are rationalising our less-profitable client base by around 20%, 5% of which is already complete, 15% of which is currently underway. We have also taken business actions in legacy credit, selling down and restructuring portfolios to release US$31 billion RWA between 2012 and Q1 2015. There is a dedicated management team who are tasked with running down legacy and are incentivised to do so. And we have closed, downsized or restructured several business areas. Under cost actions, we have so far saved more than US$500 million from 2011-2014. The momentum we have built up here provides us with a good platform from which to identify and achieve other cost savings.

I'm now going to cover what we are planning to do to return to group levels profitability and how we are going to do so. Our plan is to achieve a client-facing return on risk-weighted assets of 2.5% by 2017. Just to remind you of what I said earlier, we will do that through three main actions: first, significant RWA reduction; second, managing costs to remain flat; and, third, mid-single-digit revenue growth. Of these, RWA reduction is the primary lever, but it is our combined plans in these areas which enable us to restore returns in GB&M and exceed the return hurdle defined by the Group. 2.5% may seem ambitious from the outside, but I'm very confident we can make these numbers. In order to show this, I will run through what we will do in each of these areas in more detail. There is a lot of detail in this slide, but it’s very important.

Our plan is to reduce RWAs for our client-facing and legacy business from US$415 billion to US$285 billion by 2017. We will deliver a gross reduction of US$140 billion by a) exiting legacy credit, b) significantly reducing capital allocation to our markets business and c) reducing RWAs in our capital financing and trade business. In addition to that, within our RWA plan for 2017, we have included a redeployment of capital out of Brazil and Turkey and some incremental business growth. In aggregate, this delivers a net reduction of US$130 billion, representing a 31% net reduction in RWAs. Looking at the bottom of the slide, you can see a glide path showing a steady rate of reduction in client-facing and legacy RWAs. We intend to regularly report our progress in reducing RWAs.

How are we going to do that? By taking well defined and very concrete actions. Using the boxes shown here, let’s go to the first one. On the legacy credit portfolio, we will accelerate our sell-down of the remaining portfolio now that pricing of assets is back at levels where we can exit and protect shareholder value. Work is well underway with a reduction, since 2011, of circa US$31 billion. Secondly, in our markets business, we will significantly reduce RWAs, a majority of which will come out of the rates business. Within that, we will cut counterparty credit risk, which accounts for 60% of our rate RWAs. Our objective is to reduce it by 60%, so the counterparty credit risk in rates will be cut by 60%. What are the steps to reduce counterparty credit risk?

First, we will improve and harmonise risk recognition by extending the use of the internal model method, the IMM model, to other sites. Today, IMM is used only in the UK at HSBC. Outside the UK, we still use the standardised model. This will be subject, of course, to regulatory approval. Secondly, we will better represent the seniority and credit mitigation already existing in our documentation. 75% of the counterparty credit risk in rates is with banks, which are fully collateralised and often also have optional break clauses. We will reduce bank counterparties' exposure through: first, restructuring our booking model to use fewer balance sheets with interbank counterparties, thus resulting in more netting exposure; second, actively reducing existing bilateral exposures, largely moving into central clearing counterparties; and, third, in the future – this is very important – business with banks will be largely cleared through central counterparties. From September 2016, non-cleared business will be under initial margining rules.

Market risk represents the other 40% of the rates RWA. Our objective is to reduce this by 25% by, firstly, reducing the leverage exposure of the business, with less balance sheet utilisations, going forward, and, secondly, increasing the coverage of incremental risk charge, IRC, to additional sites and enhancing models to improve market risk sensitivity – again, subject to regulatory approval. Thirdly, in our capital financing business, we will reduce RWAs as well. As the Group's overall capital requirements have increased, many long-dated loans no longer meet our returns hurdle. We will accelerate the run-down of these through selling assets, securitisation, with the next securitisation by the end of the year, and normal run-off. A dedicated team is in place with specific objectives to manage this portfolio down. We will shift our model further towards an originate-and-distribute model so that we can increase the share of loans distributed by GB&M at origination. In 2013, we used to distribute only 25% of our loans. In 2014, 32% at origination. And in April, year to date, we have distributed 49% of our loans. We will continue to optimise and/or exit our low returning clients. Staff score cards have been revised to ensure the focus on client profitability.

These actions on capital financing will reduce RWAs by US$40 billion by 2017. Overall the impact on revenues of RWA reduction actions will circa be US$400 million by the end of 2017 on a run rate basis. Most of this impact will come actually from capital financing. Finally the D point is re-deployment out of Brazil and Turkey will reduce RWA by an additional US$17 billion. Please note that this is not counted in the 140.

Moving on. The second main area of focus is costs. We anticipate inflation and investment to drive costs growth of $1.1 billion by 2017. We will take actions such that the end of 2017 run-rate costs will be back down to the level of 2014. We will achieve cost savings through three steps, shown on the right hand side: Business and Client exits, Productivity, Technology and Operations. The next slide covers each of these in much more detail.

Andy Maguire earlier showed you the overall cost saving for the Group. Our component of that is US$1.1 billion, and it's broken down on the right of the slide. I've talked about the benefits of reducing RWAs, and some of these actions will also reduce costs, especially in my first area of focus: Business and Client exits. We will exit dormant and low revenue clients, exit legacy credit and run down the long-dated rates and long-dated loans, reduce the numbers of booking centres. This will save us between US$100 million and US$200 million a year by the end of 2017.

Second, Productivity. Here we will drive efficiencies within businesses and geographies, and in functions such as Finance and Risk. This will save a further US$300-400 million a year by the end of 2017.

Third, Technology. In Technology and Operations we will make savings from a number of key areas such as redesigning our IT architecture, KYC process re-engineering and changing our infrastructure sourcing model. These will save us a further US$500-600 million a year by the end of 2017. Altogether we will save US$1.1 billion a year by the end of 2017. This will fully offset cost growth in the business.

Having covered the reduction in RWA and cost, we now move onto our third area of focus for returning to group target profitability: Revenue growth. We continue to see our strongest growth in product areas where our international network provides us with a significant advantage. Overall, our plan is for revenue to grow in the mid-single digit area, as they have done in the past. We will achieve this by focussing on a number of strategic options: GB&M Client and Event business, Transaction Banking products, Renminbi and finally increase synergies with the rest of the Group. Importantly, we are focussing on growth areas that require less capital.

Allow me to take you on these actions one by one. First, GB&M Clients. The combination of our broad product range and international network means that we have a clear advantage. We can cross-sell more products in more countries to the same clients, and therefore grow revenues as Stuart showed in his slide as well. The bar charts show how average revenue per client multiply as we increase the number of products, and the number of countries in which we serve clients. We are already making progress in this regard. We are improving product penetration. 60% of our priority clients now buy three or more products compared to 45% in 2010. We are improving our network penetration. 50% of our priority clients now do business with us in three or more countries compared to 35% in 2010. A couple of real successes here are Unilever and United Technologies as shown in the slide. As we move more clients to more products and more countries we will further grow our revenues with them.

Turning to our capital financing business. Over the period 2011 to 2014, the global capital financing fee wallet addressable to HSBC grew by 5.8% compound annual growth rate. The top 10 players grew by 6.7%. HSBC grew faster than both at 8.4%. If we compare the last two years, 2013 and 2014, we can clearly see HSBC's market share is up across all the products. Our objective is to continue to grow our addressable wallet in these products by 2017. You have three great examples of what we have achieved recently which we couldn't achieve three, four, five years ago, whether it is Hutchison, O2 or Holcim and Lafarge, or Valeant Salix in the US. With our client base, through senior level strategic dialogue and sector expertise we have developed, in the last few years, the opportunity to grow our event business is increasing.

Stuart talked about transaction banking. I would not say much more. In Asia and the Middle East we are top five in security services, which we have not – clearly mentioned – mainly delivered to financial institutions. In 2014 we delivered combined revenue of US$7.2 billion only in GB&M. These transaction banking products deliver stable annuity-like revenues. The fact that they are interlinked also enable us to secure even greater value from our clients, with various cross-sell opportunities that allow organic growth potential in these products.

The rapidly growing Renminbi market forms an important part of our growth plans, as Peter will cover in more detail after me. We are already quite clearly the leading international bank for Renminbi. And as we pivot towards Asia, there is a unique opportunity to capitalise on the opening up of China's capital markets. As number one, we have more opportunity than any other international bank to capitalise on this. In GB&M the RMB generated already US$900 million of revenues in our Client Facing basis, ex-balance sheet management in 2014. So the Renminbi business is already a significant and rapidly growing contributor to HSBC. When we see the size of the wallet growing in the next few years, and we see our market share, you can just think of the potential opportunity that we still have to grab in this area.

Of course, one of the major successes for GB&M since 2010, has been the increased revenue synergy with our global business of HSBC. We believe there is much more to do. There is an opportunity to increase by 1.7-2 billion more synergies from the HSBC group, until 2017. In addition of that, we have been working closely with CMB to simplify the operating models in our network market, by removing unnecessarily duplication in operating systems process, and sometimes in management structures.

Andy has already set out the importance of improving our digital services. GB&M is no exception to this. In the period to 2017, we will invest about US$300 million in digital platforms that will enable us to offer more convenient services, develop a better understanding of clients through data and hold better conversations. Some of these solutions are listed on the slide. Of course, this work will make also an important contribution to improving productivity and efficiency as we work to hit our planned level of returns.

So let me summarise. You can see the objectives we have set ourselves, which are to significantly reduce RWAs, to keep costs flat and to grow revenues. This will result in returns on risk weighted-assets rising to 2.5% by the end of 2017 for our Client Facing business. You can also see the action areas that we are focussing on to achieve these objectives. These actions are very detailed, well mapped out and very realistic. We plan steady progress on these actions, and we will provide you regular updates. We are very confident that we will be able to achieve the plan we have set out. It is now about execution. We have the client base, we have the geographical footprint and the product strength. And more importantly we have the right people to get this job done. Thank you very much for listening and I will be taking the questions with Stuart and Iain.

Questions & Answers – Global Banking and Markets

Stephen Andrews

I'm struggling with a little bit of the maths. I think you're saying the revenue hit will only be US$400 million from running off US$140 billion of risk-weighted assets. That implies a sort of 25 to 30 basis point revenue to risk-weighted asset. I can't believe that it would be that easy. So can I suggest that – can you give us some more details of what – how much is modelling versus assets? You're talking about return on risk-weighted assets. How much do you expect the assets of GB&M to come down? Because it strikes me as an extraordinarily small impact on revenues from such a big shift in risk-weighted assets.

Samir Assaf

Yes, so in detail we have US$40 billion coming out of legacy products. There will be no impact on revenue. Now you may ask me whether there will be an impact on – a one-off impact on selling these assets. I will answer this question. Secondly, in markets we are reducing – as you have seen – significantly, the risk weighted assets by US$60 billion. But the US$60 billion gross reduction in markets will come mainly from the actions that I have taken, which would not impact, seriously, the revenues, as we have modelled it. So the real impact on revenue would be by reducing our capital financing portfolio by US$40 billion. And we've estimated the moment we get to the reduction of US$40 billion, the run-rate would be US$400 million on this portfolio.

Stephen Andrews

Given the [inaudible] capital – well, it feels like you've been capital constrained for the last three or five years. Why weren't you doing this before if it was so easy? Thank you.

Samir Assaf

So before we have done the following things, as I've said. We've reduced RWAs by US$100 billion, without having any impact, actually, almost on our revenues, because you have seen that our revenues have grown by 6% compound in this period, and almost product by product and every year. So actions to reduce RWAs have started since 2011. We've reduced them by US$100 billion. The impact of Basel III hit in 2014, and we're going into the action that we will continue to do in order to get the results done. It is very detailed as you have seen. I'm happy to take any question and I'm happy to – we will have a lot of meetings after to take you through the numbers. But it's very detailed, and we're getting there through what I've explained.

Stuart Gulliver

There's one other thing to remember that was in the public disclosures, you'll remember in 2008 I think it was we had a US$19 billion AFS reserve, which has now dropped to below US$1 billion. That's the improvement in the market-to-market on the legacy credit. So it would have been actually financially destructive to have cut those positions earlier.

Manus Costello

Samir, thank you for the slide where you showed your adjusted assets relative to what you considered to be your peer group. I've –

Samir Assaf

Slide nine, on balance sheet. Yes, it's about assets.

Manus Costello

That's right. I've looked at the business in a similar way in the past, as we've discussed. But I also showed the revenues of those equivalent businesses alongside those assets when I look at it. And what I always find is that the GB&M business looks like it generates a very low revenue relationship. You've got a similar asset base, but less than half the revenues of a Citi or a J.P. Morgan in a similar division. So what is it in the nature of that that's so different?

Samir Assaf

I would not compare revenues, because when you compare revenues you should compare costs as well, and then you take it out to PBT. And when you compare the cost base of J.P. Morgan is between US$19 billion and US$22 billion – you know your numbers better than me – and when you compare our cost base it's US$8-9 billion. So I think that the real comparison is the return on risk-weighted assets. That's what we're solving for, and that's what we're working – to the shareholders, to get there. And the return on risk-weighted assets for this business would be, excluding BSM – which a lot of you would like to see it excluding BSM – excluding BSM it would be 2.5% at, I would say, a conservative way. Iain will not like the conservative, but I see it as conservative.

Martin Leitgeb

Just a follow up on the RWA reduction, could you give us a bit of light on where you plan to cut those RWAs? In particular in between the UK, France and the US. Thank you.

Samir Assaf

This is a very good question. Most of our RWA reductions will come from UK/Europe. Our legacy book is in the UK, so the US$40 billion will come from the UK. A lot of our long dated assets are in the UK, so a lot as well will come from the UK. And the Rates business is, as Stuart said, between UK and France, so it will come from UK and France. So of the 130 net, if you want, Asia will not – the bulk of it will come from Europe. It will be between US$85 billion and US$100 billion coming from Europe actually. And the rest will be coming from normal – elsewhere.

So what we will see, actually, in 2017, is our RWAs would come down dramatically in Europe, which will help basically the non-ring fenced bank that we have not talked about. It will get a much better return in Europe. And what we will see is actually the relative importance of Asia will be bigger, and bigger and bigger. And Global Banking and Markets will have Asia much bigger than the rest of the world, actually, by capital allocation.

Martin Leitgeb

And just to follow up on exit costs, how do we think of those in process of running down these RWAs? I think some of your competitors have mentioned that they were planning to actively break some of these long-dated swaps and incur breakage costs. Is there anything like that planned in your budget?

Samir Assaf

Well, we have factored very precisely the kind of costs that we can incur in all these assets. For the legacy credit, if we sell the portfolio today – it's price dependent – but if we sell the portfolio today we have reserves against this portfolio – capital reserves – by US$900 million. If I'm conservative I would say that I would probably sell it a bit higher than the capital reserves. So we can sell it and lose US$1.3-1.5 billion, US$900 million of which are in capital already and US$300 million will come from a reduction of capital, so we will incur US$300 million more. In the long dated areas we have factored US$200-300 million to break some of these assets, so overall will bring us, by breaking assets, to around US$1.5 billion. US$900 million of them are in capital already.

Sandy Chen, Cenkos Securities

Thanks for the detail regarding the cost reduction target as well. I was trying to tie that with the RWA reduction. Is there any real link? Because a lot of these businesses, I would imagine, tend to be quite stove-piped in terms of the cost structure, particularly in terms of the IT. And I was wondering if you could give a bit more colour in terms of the US$500-600 million of technology and IT cost reductions on the back of that.

Samir Assaf

So as you have seen, and you are absolutely right, in the first item, the US$100-200 billion we have factored the cost reduction of businesses. So it was not – the big element of it would not be selling legacy credit. But still, we'll have a component on the costs. So if we go to the slide, actually what we are doing in IT, for example Andy has said already we're doing utility KYC. Utility KYC with other market players, Morgan Stanley, Deutsche Bank and Citi operated by Genpact and Markit. This utility KYC only will save us around US$60-70 million on a yearly basis on our KYC. And we have a lot of other things like that. I mentioned something else actually, in cost areas, which is having less balance sheets on which we book business. We have not streamlined, properly, our balance sheets yet for several reasons which – part of them are regulatory. But we are going in the next two to three years to take much deeper action into streamlining the balance sheets that we use. It has nothing to do with the countries, but the balance sheet that we use. That will save us RWAs, that will save us costs and that will get us actually a better technology.

Sandy Chen

I guess that's what I was getting to. You can cut the RWA, but do you cut the cost base – how do you cut the cost base connected with that? Because a lot of that tends to be very business concentrated, that you can cut an equities division sort of thing.

Samir Assaf

Again, we have shown the slide and the detail. We have three areas of cost reduction. One is directly related to business, one is related to IT and technology, and one is related – of the section that Andy has mentioned in the restructuring, of the whole vertical approach to – end to end approach. For example, I have put in my slide Finance and Risk. Finance and Risk, Andy mentioned there is a lot of restructuring in these two. We are not cutting costs just to save money from Finance and Risk, but we are restructuring these two functions to make sure that we're getting better value from what we have.

John-Paul Crutchley

Apart from the comparison with peers, you don't really talk much about the leverage exposure and how you expect that to move over time. I wonder if you could maybe – you talk about the improvement in the return on risk-weighted assets. I wonder if you can maybe just talk about return on assets, and the leverage balance sheet in terms of how you expect that will move. And then maybe a question for Stuart in terms of what level of leverage are comfortable with running within the risk part of a business given that obviously there are some offsets in terms of other parts of business, in terms of what it means in terms of group leverage ratios. Thank you.

Samir Assaf

I will just start by saying the leverage ratio of the Group is at 4.8. Our real constraint is not leverage ratio, our real constraint is capital. And we are solving for the real constraint that we have in the short term, which is capital. But just to give a hint on the leverage ratio, our assets in Global Banking and Market are very close to the leveraged assets. So if I've said that we're using US$729 billion of assets as in balance sheet, if I want to add the leverage component that is not in – will not exceed US$100-150 billion. It's a very pure and simple balance sheet that we have, actually. Much simpler than the complex balance sheets that other banks have.

John-Paul Crutchley

And in terms of ROA improvement as well as risk adjusted return on risk-weighted assets, should we expect to see an improvement?

Samir Assaf

Again, if you look at it from a Client Facing perspective we will see improvement, but what we are trying to resolve for is – our plans are to hit the 2.5 return on risk-weighted assets, which is what counts really the most for us.

Iain Mackay

To go to your leverage point overall, when you go back the way the Group is structured we're talking about separately capitalised subsidiaries, and what we work to is leverage at a subsidiary level. So Samir talked about where the major reductions in risk-weighted assets would occur would be principally in Europe, would be principally in UK Bank Plc, and France, but principally the work that was done over the last couple of years around the overall reduction in risk-weighted assets, but also looking at it from a balance sheet perspective, that led to improvements in the several ratios within the UK and with the French businesses. So we look at leverage from a legal entity perspective against the capital supply within that, and manage it at a legal entity level as opposed to specifically at a Global Banking and Markets or CMB or Retail Bank, and recognising the leverage equation's a little bit different across each one. What we're solving for is the legal entity being self-capitalising and then having the propensity to pay dividends.

Chintan Joshi

Samir, we're talking about a 2.5% target. Could you help break that between Global Banking and Global Markets? Because if I look at 2014 at least the problem is the Global Markets division which I suspect probably has US$300 billion odd of RWAs attached to it. Correct me if I'm wrong. And that's where the problem is. So that 2.5, how will you think about Global Markets versus Global Banking?

Samir Assaf

We don't disclose the difference between Global Banking and Global Markets, but I will not correct you. We're cutting US$130 billion net. So US$40 billion or US$50 billion of them would come if I include Brazil and Turkey from Global Banking, basically, and the rest will be from Global Markets. So the improvement would mostly come from Global Markets, but not only. Because again, we're cutting US$40 billion in banking, and we're cutting in banking in two areas, basically. One is the very low return portfolios that we had in the past that we haven't put in based on this capital structure. And these – we will sell them, and we will securitise them and we'll get rid of them. And secondly we are exiting clients or working on clients that have low profitability or low return for capital use. So the combination of two actually will provide the 2.5% return, but of course in Markets we will see a serious uplift.

Stuart Gulliver

Yes, the biggest delta's probably in Markets, but Banking, as Samir says, is under a big exercise to look at client profitability. There's 4,000 Mastergroups in Global Banking and Markets, and you're reviewing about 700 of them, which potentially just aren't relationships of decent returns.

Samir Assaf

We've already closed about 250 I've highlighted. We are in process of working 700 clients. Closing them. And we have 250 more clients that we are putting them in a bucket of up or out basically.

Chintan Joshi

So Global Markets by itself can get to cost of equity kind of return?

Samir Assaf

We don't run our business segment by segment. What we do is we want every segment to be better than the cost of return. But as well we look at it, how does it contribute to the globality of the setup. What we count for and what we work for is to get the 2.5% or better in the next two to three years. And it's the portfolio. And it's the combination of the portfolio that will get us there. But trust me, we have done a very, very thorough bottom-up exercise and we're not leaving any stone that we have not – turning and saying, 'Why this return is only this and how can we do better in this area?' So even for the very high return areas, we are doing the same job. Because the high return can be higher return, and the low return can move higher.

Raul Sinha

Just to follow up on maybe just on the same point, Samir, can you talk to us about why you've decided to shift from originate and hold to originate and distribute? Is it because when you originated those assets they probably had a higher return on equity, and now probably because of levy or other regulatory RWA changes, those assets in GTRF or Capital Financing are much lower ROE. And effectively it is – your business is being handicapped by regulation rather than essentially– the wrong price –

Stuart Gulliver

A lot of it is RWA density has changed. If you have taken and hold a book and then the regulations change by definition you've got no fresh revenue against a much denser RWA, and therefore your ROE has naturally gone down. And I guess that the lesson is that we need to – that approach, which was a huge competitive advantage to us for many, many years, also left us with significantly larger capital charges, and therefore a lower ROE. So it's smarter for us to get a lot more nimble. Which is not to say we think RWA density will keep changing. But clearly that did impact us. And an awful lot of the lowering of returns in GB&M relates to exactly that phenomenon. It's not just doing 30 year interest rate inflation swaps. It's actually the take and hold nature which then is rewarded with greater RWA density. There was a question asked earlier about regulatory changes. Just in our balance sheet management, in terms of our government bonds that we hold, remember the PRA has a 45% LGD on US treasuries and JGBs.

Samir Assaf

And on corporate as well, with a high rating.

Stuart Gulliver

Yes, which obviously is disappointing for your return on risk-weighted assets. So that's what the change is about.

Chira Barua

Just a quick one on margin pressure and cash payments and emerging market FX, three things. And you've actually grown market share and you're playing more than 10%. Why haven't you been able to re-price some of these assets, so would you rather lose market share and re-price up upwards? So it would be great if you can tell me how should we think about pricing in those markets in the next two to three years, independent of interest rates rising.

Samir Assaf

Yes, so cash management, we're stable. FX, it's re-pricing. You have seen it, the last few weeks and months, and, actually, the volatility is helping re-pricing the FX market, as, by the way, the volatility will help client volumes and as, by the way, volatility will help as well re-pricing other markets, including the credit market and the rate market. And, in trade, yes, we have seen, actually, market compression – margin compressions, but coming from very high levels in 2011 and 2012, where, basically, the system stopped to operate and we were only three or four or five banks operating in this area. So what we see is margins have stopped to be compressed, picking up in some areas and profiting from the volatilities in some other areas.

Stuart Gulliver

Okay, thanks. That's all the time we've got, so Pat next – the USA and Mexico.

US and NAFTA

Patrick Burke, President and Chief Executive, HSBC USA

Thank you, Stuart. I'm going to address the actions the US will take to improve returns and grow the business in a targeted and capital-disciplined manner in the United States. These actions included an increased focus on generating higher revenues by focusing on our US clients, particularly in our CMB and Global Banking and Markets businesses. We have also a targeted set of actions we'll take to bring our operating expenses in line with our revenue streams, and, of course, as Stuart and Samir have discussed, we'll be diligently managing RWAs to utilise our capital in a more disciplined way.

One point I'd like to make at the outset is the very strong level of revenue we earn outside the United States from our US clients. Our calling card has been and will continue to be the international bank for our customers, and, as we expand our client coverage and increase our product delivery capability, our mission is to continue to win increasing revenue stream. Let me also state at the outset how important RBWM is to the US operations. The core deposit funding this network provides is crucial, under an ever more regulated liquidity environment, and we are well positioned to serve an increased base of international-minded customers. Very importantly, RBWM business does contribute to our overall scale in the United States. As Stuart mentioned, we will pursue an accelerated wind-down of our CML assets, and the consequent freed up capital will be redeployed in our commercial businesses to support growth. Finally, I'll address the larger upside we have in the NAFTA region, and indeed in other trade corridors, where the US will remain a large and central component of global economic activity.

Before I go into more detail on these points, it's important to understand the rather uneven past in the United States. On the left side of the page, I've outlined the acquisitions, from Marine Midland to Republic Bank to Household International. Integration challenges produced major issues during the financial crisis. As a result, the US has been busy, transforming the operations and working to regain its status as a leading compliant and regulatory-focused institution. If you look on the right side of the page, you'll see how much we've accomplished to reduce our consumer-lending focus, as shown by the red segment of the bars, and increased our US commercial activity, as shown by the light grey segments. Note also at the bottom right the level of increased compliance FTE, up 150%, as we work through the consent orders and other key activities to strengthen HSBC's role as a world-class financial crime deterrence, while adhering to all regulatory requirements.

I'll cover three areas now where we will concentrate going forward: the value the US contributes to the HSBC network; the approach to growing profitably in the United States; and capturing upside from NAFTA. Let's start by briefly covering the role the US plays as the world's trade currency and how important US companies are to the global economy. On the left side, you can see the role the US dollar plays in cross-border currency transactions, and, even as the renminbi continues its inevitable rise, the US dollar will remain a powerful and reliable currency. This is certainly true for HSBC, as seen in the upper right, where approximately half of our payment activity is dollar-based, and further reinforced by our position as the fourth largest dollar clearer, in the middle of the page. And the custody assets at the bottom speak to the wealth opportunity in the United States. As the leading international bank, HSBC will benefit enormously with a successful US operation.

We all know the sheer size of the US economy, but more germane is the number of companies that are international in nature. Frankly, no other country matches the US for the concentration and number of these firms, as shown in the lower left, and, on the right, I want you to note the magnitude of the trade corridors connecting to the US, particularly NAFTA and China, and the attendant healthy forecasted growth rates.

Now let's take a high-level look at the role HSBC US plays in generating value for the Group. Stuart made this point, and it's a critical one. The US is the largest contributor to affiliates of outbound business, with 21% of the Group's outbound business coming from US-based clients. Our top 10 destinations for US outbound revenue shows strong alignment to the network, and I might add that we see substantial opportunities to grow value-accretive outbound revenue in the major east-west corridors, and with higher growth rates across NAFTA, where we launched a focused initiative about 12 months ago, which is quickly producing opportunities. Our principal strategy has been and will continue to be the leading international bank for our US clients, and much of that revenue is not booked in the United States.

So let's drill into the US business lines to show how we can improve our US returns and grow the business in a targeted and capital disciplined manner, while expanding our role as a significant fountain of value to the rest of the Group. I emphasise here that the area of focus will be in our commercial businesses, Global Banking and Markets and CMB, while the retail businesses, RBWM and the Private Bank, are integral to the overall success.

Let's start with Global Banking and Markets, where we have progressed over the years to serve our clients' needs throughout the world. In the upper left, you can see our client-linked revenues, broken down roughly as: one quarter from non-US clients, or what we call inbound; one quarter, roughly, domestic, which is heavily weighted to low-return balance sheet lending; and half is booked outside the United States, or outbound, as we call it, and heavily weighted to high-return activity.

In the bottom left, you can see how value-creative it is to deepen the penetration across countries, where almost 90% of our priority and core clients are banked in three or more countries. Almost half of our priority and core clients are banked in over 10 countries, and, not surprisingly, produce revenue over eight times that from a client we bank in only one or two countries. We expect to continue to grow revenues as we focus more attention on trade corridors in NAFTA, Europe, China and India, and this will be true in both directions, as we continue to direct outbound business and work to increase more activity into the US from non-US clients.

We are expanding our teams in PCM and global trade and receivables finance, to capture more ancillary income, and we'll continue to leverage our markets products, including capital financing and debt capital markets, to improve returns.

Now let's turn to CMB, where we've embarked on an important growth strategy. You'll notice in the lower left where our city-cluster strategy has been focused, and, in the upper left panel, the revenue is dominated by domestic revenue, which, at this stage, primarily consists of low-return balance sheet lending. As we penetrate deeper into these client relationships, we expect to see revenue growth, and its distribution will trend more like what we saw on the previous page for Global Banking and Markets, with higher-returning ancillary income increasing as a percentage of total income.

Very importantly, we will focus on winning more of the US wallet share in less capital-consumptive products, by leveraging our proven capabilities in payments and cash management and trade, and, through our activities in trade corridors, we expect to generate more inbound activity from affiliates, as I mentioned from the GB&M clients. So, in Global Banking and Markets and CMB, we have significant potential upside, as we continue to build scale in these areas and generate substantive levels of growth.

Let's put RBWM into the proper context. RBWM is a core liquidity provider to the US businesses and we continue to rely on it for our loan growth plans. We expect to grow the customer base, focusing on Premier and Advance; will ramp up productivity in the wealth space; and continue to provide retail financial services to individuals who own or operate the commercial businesses we serve. And, when we help those businesses sell or otherwise monetise, our Private Bank will help them manage their wealth. In the lower right of the page, it's important to point out the value upside in the RBWM deposit base embedded in the current curve, as the Fed prepares to start a programme of tightening. We have detailed plans for RBWM to contribute better returns over time.

The US remains a key destination for the global population diasporas. Our network is well positioned for growth as these populations increase. Our branches are located in metro areas, with heavy concentrations of internationally minded individuals, including New York, Los Angeles, San Francisco, Washington and Miami, among others.

Now let's turn to expenses overall in the US. Expenses are a key area we are actively addressing. We'll be implementing a number of very specific initiatives, outlined on the right side of the page. The top portion are what we'll do to lower expenses. These include implementing a new core banking system, which we're already over 50% of the way to completion. This will include fitting our applications onto smaller hardware, now that we no longer have the high volume consumer lending businesses. We've also built up too many back office and function support roles in high-cost locations like metro New York. We'll be moving significant numbers of these roles offshore or to our existing lower-cost locations in Chicago or Buffalo. Enabled by increased digital capabilities, we'll also reduce the square footage in our branch network, either through consolidation or reducing square footage in current locations.

These examples I've highlighted and others on this page will total as much as 350 million in annual savings. We expect these savings will pay for the investments we're making to grow our revenue streams and other increases we'll need to make in order to meet our ongoing regulatory obligations. The net effect of all this action will be to hold our costs in 2017 to the same level we incurred in 2014, and I'm confident that we will do it.

Let's turn to CML, where we've been executing a derisking strategy for the past few years. Continued stability in the housing market has contributed to a sharp decline in delinquencies in loan portfolio. In turn, this has led to a steep decline in the valuation gap of this portfolio, from about US$16 billion at the end of 2010 to US$2.2 billion at the end of the first quarter of this year, as shown in the middle panel. This validates our decision to hold this book and work it out over time.

And recent market improvements have led to the decision we're announcing to sell another segment of this book. Many of you will recall the programme, over the past few years, to sell the non-performing segment, and we successfully executed over US$10 billion in unpaid principal balance sales. From the lower panel, you can see the US$23 billion in loans outstanding at March 2015. We intend to sell the modified and re-aged segment of the portfolio, which is predominantly less than 60 days delinquent and represents about US$10 billion in additional sale opportunity. I'm confident, by using a programmatic approach, we'll be able to sell these loans over the next two to three years at an attractive price. The sale will release significant amounts of capital, to be redeployed in growth of the US business, with strong discipline in achieving accretive growth, which allows us to rescale the US operations. To the extent we don't need the capital to support our growth plans, we'll work through our CCAR process, as we endeavour to improve our capital planning capabilities, with our regulators, to effect a dividend to the parent.

So let's summarise the financial walk for the US business by 2017. By directing the majority of our investment in client relationship growth, with a new emphasis on domestic business and landing more inbound traffic from our affiliates, we expect to grow the revenue base substantially. We'll continue to deepen our client relationships, with emphasis on collaboration between Global Banking and Markets and CMB, and expanding our payments and cash management, global trade receivables finance and markets capabilities. Our aim is to hold costs flat, in alignment with the strategy outlined by Andy, and we'll also work RWAs in a more efficient and disciplined manner.

Let's talk about NAFTA. NAFTA gives us a significant opportunity to utilise our full service banks, which exist in Canada, the US and Mexico. Note the similarities in the left-hand side of the page between the US, Mexican and Canadian businesses. In Canada, we have spent many years focused on the commercial businesses, and that's the direction we've recently pivoted to here in the United States. HSBC has unique capabilities to serve clients across NAFTA and across the complete manufacturing supply chain. As depicted on the right-hand side, we have the products and services to serve commodities producers, suppliers, manufacturers and final product retailers, with very specific financing solutions across the region. This is the strength of the HSBC network, and, with the growth of manufacturing in Mexico, due to its close proximity to developed markets, competitive wages and manufacturing capabilities, we see growth in key segments.

One such segment is autos, on the lower left of the page, where the exports from Mexico to the United States now exceed those of Japan and are nearing Canadian exports, and growing as additional foreign direct investment, in the form of assembly plants and key suppliers, cluster within Mexico. We booked about a quarter of a billion dollars in revenue from cross-border activity between Canada, US and Mexico last year, as seen at the bottom right. By introducing a focus on our multinational strategy and subsidiary banking, which is already bearing fruit, we are poised to significantly grow that number. And, in addition to autos, we see opportunity in Mexican aerospace and general manufacturing, as well as serving energy clients, as oil and gas reforms open up the Mexican hydrocarbon sector.

Let's look at a few client examples to illustrate this opportunity. Brookfield is an operating asset manager, based in Canada, focused in property, infrastructure and energy, among other interests. We've worked with this client over the years and assisted them to build out their growth in the United States, particularly in the property segment. This company has been hugely successful in international expansion, and we have been able to grow the relationship in lock-step with their growth, and they are reviewing plans to invest in renewable energy in Mexico, and we are able to assist their efforts because of our network strength.

Another great example is Goodyear. We have worked with this client for years in the United States and many other countries as well. Because of its success, Goodyear needed to expand to meet growing North American demand for its products. It elected to invest in manufacturing capacity in Mexico, and we have been able to fulfil their banking needs there, as they embark on this US$500 million build-out. We would have been far less likely to win this business in Mexico had we not been a significant partner to Goodyear in the US.

Maybe the best example of HSBC's NAFTA strengths are illustrated by our relationship with Grupo Bimbo, the Mexican consumer foods organisation, operating across the Americas and globally. HSBC assisted their expansion into the United States via a series of acquisitions over the past number of years. That expansion has continued recently into Canada, and, like many of our client relationships, we have grown with our client as they continue their successful growth trajectory. These examples reflect the power of the HSBC network and illuminate the opportunity we have in the NAFTA trade corridor.

So we have tremendous opportunity to grow revenues across Mexico, Canada and the United States, and, of course, we have further opportunity in other trade corridors as well. By focusing on growing our Global Banking and Markets and CMB franchises in an RWA-efficient manner, working on the fundamentals of RBWM and executing our cost reduction plans, we expect to materially improve our US returns and overall contributions to the HSBC Group. Thank you, and I'm happy to take questions.

Questions & Answers – US and NAFTA

Andrew Coombs

Just one question with regards to the RBWM business and slide 11 in particular. I think, Stuart, you mentioned earlier that obviously the RBWM business provides you with a source of funding through the deposit mix; 44% of it is used for CMB and GB&M. You mentioned the cost of those deposits was less than the equivalent wholesale funding cost. Perhaps you could give us a spread there, what the differential is, and the reason I ask is there's clearly a lot of costs tied up with the US RBWM business. You don't have scale. You've gone down a slightly different road there. And, clearly, the funding is the main reason, or appears to be one of the main reasons, for retaining it, so I'd be interested to know the difference between deposits and wholesale funding.

Patrick Burke

So what I would say is that that is correct. It is cheaper to actually use retail-based funding, even after you factor in the loss that comes out of the RBWM base relative to wholesale funding. I'll get you the exact spread difference and basis points. I'm happy to do it after we're done. The point, though, I think, that I really would emphasise is twofold. The first one is the sheer ability to grow any kind of a funding source. While, yes, the United States is a deeply pooled capital market, remember when periods of dislocation arise how valuable indeed a core funding base is. So that's another thing to think about: the idea of being solely reliant on wholesale funding I don't think, over a cycle, is a particularly good place to be in.

The second point I would make – and I want to reemphasise this point, which John Flint made in his comments earlier. The RBWM business is integral to the United States business. It's not something that sits separately. Even though we report on it separately, we manage it separately, it is in fact part and parcel of the US business. It is on the same rails, if you will. Many of the systems are shared. The compliance function, if you will, is spread out – risk function, etc. That scale that we gain inside of RBWM is critical to the other businesses. If you took RBWM out of the picture, imagine how de-scaled the existing businesses would be in the commercial space.

Andrew Coombs

It is fair to assume that the RBWM returns in the US will be a drag relative to the other businesses there.

Patrick Burke

If you think about it that way, they currently are, but we think we can improve the RBWM returns, but I don't think they'll be at the level of the other businesses, but that's okay. I need to scale up the other businesses, if you will.

Ian Gordon, Investec

On slide 3, you referenced the compliance build between 2010 and 2014. On slide 50 of the Group piece, we were told the incremental compliance and regulatory spend is only 0.1 billion through to 2017. Could I assume that your incremental spend is about nil? And then, looking into 2018 and beyond, how would you encourage me to think about the scale of relief which may flow as you get past the monitor periods.

Patrick Burke

Yeah, I would say we're not peaked yet in terms of compliance spend in the United States. Some of what you're seeing from the Group will also flow in the United States. That said, I would remind everybody that the epicentre of the compliance build for the Group began in the United States, so we brought a lot of people in, and also think about the way that we would have had to have done it: huge numbers of individuals to come in to help us clear alerts; huge numbers of people to come in and help us actually manage cases, how do we segment better, etc. When Andy described five new applications coming in, the power of those applications relative to not only being able to help us reduce the number of heads we have in this business but actually the effectiveness of our role as being, again, a financial crime deterrent in the banking industry – both of those will improve as a result of bringing automation.

Alastair Ryan

Thank you. So the re-aged portfolio that you're selling now – that's quite a high RWA-intensity book. So, if you're reinvesting that in growing the Bank, that's quite a big step up for the low risk-weight intensity things you're getting into. Is that a fair way of thinking about it? There's a material increase in your ambition.

Patrick Burke

It'll take us a while. Remember, like when we did the non-performing loan sales, we basically went to the market and said, 'What's the most efficient way to do it?' There are certain buyers that will pay a price – what I would say, a market price relatively close to the implicit value of the underlying assets. That exists today in this new segment, now that prices have come up, and they've only come up, by the way, just recently. So this is an opportunity. This will be done over a couple of years. It'll take us two or three years to do this. Current trade sizes are probably a billion and a half. That may be about as big as you can do. The buyers securitise, so they've only got a limited amount that they can take on. We'll pursue exactly that same process, if you will, so this release will take place over a period of time.

Now, I'm also trying to land another aeroplane, if you will, at the same time, which is: the CCAR process that we have is one that we just recently passed, in the last year, but there's a lot we have to do to continue to improve our processes. Part of what we will put in that is how we will deal with dividends in the future, should we have excess capital, based on some of the releases that we see. There's a number of other issues that have to get cleared up, related to litigation. Iain mentioned earlier the DPA. So there's a few dynamic pieces flowing in here, but basically it's going to be a balance between: how much can I actually absorb inside of the commercial businesses versus how much could I potentially dividend out, once I understand, with more certainty, what my capital process, indeed, is.

Arturo De Frias

On page 15 on your return-on-risk-weighted assets walk, you show a target for 2017 of between 1.5 and 1.7, which, I guess, taxed, and using a, let's say, 12% core-tier-1 ratio more or less in line with the Group, implies an ROE of around 10%, roughly. Two questions around this figure. Is this representative, in your view, of the sort of run rate, long term return capabilities, of the US franchise? And, second, are you assuming that, by then, interest rates have already normalised, or it could get better going forward?

Stuart Gulliver

So the interest rate assumption is the forward curve. That's all, so we don't have any step-jump increases at all, so look at the forward curve and that's what's implied within the numbers. And, no, this is as far as we can get by the end of 2017. The aim is still to get this business to hit an ROE over 10%, but we're obviously setting out what we think a realistic journey for two and a half years – but this is not the steady state that we're all happy with.

Asia, China and the Pearl River Delta

Peter Wong, Chief Executive, Asia-Pacific

This is an exciting story. I'm going to focus on five key priorities today: first, how Asia will be a key driver of global economic growth in the 21st century and how HSBC is in a uniquely strong position to capitalise on this growth trend. Second, since ASEAN is a key component of Asia, we will also highlight how HSBC can capitalise on this strong growth potential, especially in Malaysia, Indonesia and Singapore. Third, needless to say, China will be the key to Asia and global growth. I will elaborate our expansion plans in Hong Kong and China, especially the Pearl River Delta of Guangdong. Fourth, on RMB internationalisation, I would like to show how HSBC is well prepared to be the leading RMB bank. And, fifth, on wealth and connectivity, I will demonstrate to you how the sum of the parts of the Bank is much more powerful and profitable.

Asia is already the world's leading economic region, and it will continue to expand. On macroeconomics, as you can see on the left, Asia is already the leading region in terms of global GDP and trade, accounting for 31% of global GDP and 34% of global trade. By 2025, we expect Asia to contribute 36% of global GDP and 39% of trade, overtaking Europe as the leading trade region.

On the right you can see the drivers of that growth are trade and capital flows within the region. Many free-trade agreements have been signed, for example China and Australia, China and Korea. In addition, China, under the new normal economic policy, the initiatives of Silk Road and Asian Infrastructure Investment Bank, will drive economic growth. For example, China has already signed MOUs investing US$40 billion in Indonesia, US$22 billion in India and US$10 billion in Thailand. Urbanisation is another driver of Asian economic development, with another 1.2 billion people entering Asian cities over the next 35 years. In China alone, we will have urbanisation of at least 10 million people a year for the next 15 years. This will continue to drive the rise of the middle class across the region. Two thirds of the world's middle-class population will be Asian by 2030.

We are in a very strong position to capitalise on the growth opportunities in Asia. The reason for that is our long history in Asia. HSBC was founded in 1865, 150 years ago, in Hong Kong and Shanghai. These markets have increased rapidly and now have a 26% share of GDP growth. In our primary markets, Malaysia, Indonesia and Singapore, we have a history than spans over 130 years; therefore, we have a very strong brand. We know the market; we know the culture; and we know the customers. We are especially regarded as the go-to bank on cross-border transactions. Our footprint extends to 19 markets in Asia, covering the entire Asian growth opportunity, which represents 47% of the world's GDP growth over the next 10 years. This puts us in a strong position to capitalise on the capital and trade flows within the business corridors, as Stuart indicated earlier.

I have said that we are in a uniquely strong position to capitalise on the growth in Asia. This is nothing new. We know how to do it and we have been doing it for quite some time. Our dominant position has enabled us to capture significant growth in loans and advances over the last five years in Asia. Lending doubled from 2009-2014. This represents US$170 billion incremental lending or 14% per year. Now I'm going to give you a few numbers that are not on the slide. Over this period, on average we added US$1 billion incremental revenue per year, with PBT growth compounding at 10% per year during the same period. On the other hand, FTE [per year] growth is less than 1% and CER improved during the same period from 48% to 44%. From a global business point of view, CMB more than doubled its PBT – 2.5 times, to be exact – during this period, with PBT per year at 18%. In mainland China, lending balance grew almost three times during this period. PBT also grew three times. US$1.2 billion incremental revenue was generated between 2009-2014. Our leading position in Asia is also recognised externally, as you can see from the right. We have been awarded best bank in Asia in 2014 by Euromoney.

There is also significant growth opportunity for us in the region. Look first at ASEAN. From 1990-2014, GDP in ASEAN had increased by seven times and trade by eight times. The growth in ASEAN accelerated especially when China instituted a RMB10 trillion stimulus package for two consecutive years in 2009 and 2010, after the Lehman crisis. On the right, you can see that by 2025 the number of middle-income households will double that of 2010, leading to significant wealth creation. Undoubtedly, China is and will continue to remain as a key trade partner to the ASEAN block.

The biggest growth opportunities in ASEAN are in our priority markets: Singapore, Malaysia and Indonesia. We'll look at these one by one. We're among the top five banks in Singapore and, since 2009, we've grown loans and advances at [per year] 14%. The continued growth of Singapore as a wealth hub provides us with opportunity across many businesses. For example, the transaction business has seen continued success, partnering with asset managers and asset owners, supporting the development of the domestic and cross-border businesses. An increasingly important corridor for cross-border business for investing in Singapore is with China. Our market-leading QFII and RQV quota, combining with the Shanghai-Hong Kong Stock Connect execution and custody services, have enabled investors to access China's securities market. We're able to provide solutions to meet the increasing demand of RMB products in Singapore. We estimate the custodian business of HSBC China is accountable for approximately 24% of Singapore RQV approved to date. Also, capital financing has been an area where we have invested significantly over the past few years.

Moving to Malaysia, we are the leading foreign bank and Sukuk house. We have grown loans and advances by [inaudible] 7% since 2009. We have been awarded best Sukuk house and Islamic dealer of the year for each of Indonesia, UK and Hong Kong. We've also been awarded Islamic trade finance deal of the year. This is an important growth area for us.

Finally, in Indonesia, we will integrate our two operations, which will give us a consolidated branch network of 100 branches across 30 cities. Given the strong market growth opportunity, we plan to invest significantly in capturing the emerging middle class and SME opportunities. This is in addition to serving our international customers, where we already have a very strong market position.

Now, let's talk about our position in Hong Kong. To understand the importance of HSBC in Hong Kong, we need to understand a little bit of the history. For much of Hong Kong's history, HSBC was similar to a quasi-central bank. Government employees were required to open accounts in HSBC. We have been a note-issuing bank since 1865 and today we still remain the leading bank in Hong Kong. In terms of market share, as you can see on the left, HSBC is still the number one in deposits, number one in loans and number one in credit cards. 44% of the Group's profits, on a reported basis, was generated in Hong Kong in 2014. Hang Seng Bank has been a part of HSBC Group since 1965 and is considered to be a leading domestic bank. It's the third largest in Hong Kong by assets and its shares are trading at 2.2 times book. Together, Hang Seng and HSBC have 8.1 million customers – bigger than the population of Hong Kong. The two banks are highly regarded and complement each other in their international and domestic capabilities.

HSBC is also the leading international bank in mainland China and we continue to see strong growth in our organic business. Our operating profit, excluding Bank of Communications, has increased almost 4 times since 2010. We have 175 outlets in 57 cities, covering 23 provinces and municipalities. This already covers approximately more than 90% of China's GDP and we also cover all the provinces and cities that have free-trade zones. The Chinese government is implementing various policies to support economic growth and to move towards greater openness of the economy. A key theme is related to creating stronger integration with Hong Kong. In the 12th Five-Year Plan of China, China wants more integration between Guangdong and Hong Kong. This is supported by CEPA, the Closer Economic Partnership Agreement, which offers many privileges to Hong Kong businesses investing in Guangdong.

Let's examine CEPA more closely. CEPA was the first free-trade agreement between mainland China and Hong Kong. Following its inception in 2004, a series of supplements were launched as the economy continued to develop. These supplements have facilitated banks in Hong Kong entering Guangdong, for example, having a lower capital requirement to open branches, but they were implemented at a measured pace to ensure an orderly approach. This has resulted in new business opportunities opening up for us gradually over the years. The most recent supplement to CEPA was signed on 29 August 2013. This included further opening up of RMB business activities for banks from Hong Kong in mainland China. Regarding the infrastructure investment, the 'One-Belt-One-Road' initiative will also benefit Hong Kong. Hong Kong will be one of the key ports in the 'one belt' which is in marine infrastructure. In addition, Hong Kong will be one of the key important debt and equity capital markets centre to raise funds for the project. The need for additional funds will be substantial, and this represents a huge opportunity for Hong Kong as well as HSBC, because we are the leading bank in Hong Kong.

On RMB internationalisation, Hong Kong is, again, the leading offshore RMB centre for China. Out of the RMB1.9 trillion deposits outside of China, Hong Kong has RMB1.1 trillion. Hong Kong constitutes 95% of the dollar value of RMB trade settlement. On free-trade zones, Hong Kong is closely connected to three free-trade zones in Guangdong, with a number of joint ventures with the free-trade zones on securities and asset management. This is a picture of the New Silk Road, or the 'One-Belt-One-Road'. It's an infrastructure-driven initiative to facilitate the flow of trade, capital, and goods and services over land and sea. The new Silk Road connects 64 countries and accounts for 29% of global GDP and 63% of the world's population. Trade between China and these countries is expected to surpass US$2.5 trillion in the next decade. Further, the China-led Asian Infrastructure Investment Bank, the AIIB, will play a leading role in the funding of the new

Silk Road initiative. Just to emphasise my earlier point, this will mean huge opportunities for Hong Kong as well as HSBC.

Now, let's look more closely at the PRD, the Pearl River Delta, which is one of the key expansion areas. From the data on the left, you can see it's a leading economic area, and from the map on the right you can see that the PRD is adjacent to Hong Kong. Now, I often go to Shenzhen to play golf, and it's no more than 35 minutes from the centre of Hong Kong to the border by car. In terms of macros, Guangdong province has the highest GDP in China. Its GDP and trade are close to the size of South Korea. PRD constitutes 85% and 95% of Guangdong's GDP and trade respectively. More importantly, the PRD's GDP per capita is similar to the Hong Kong situation in 1991 – and undoubtedly it will continue to grow. We know how to capitalise on this opportunity, because we have done it before in Hong Kong.

Our expansion plans in PRD are well supported by our infrastructure in Hong Kong, especially in terms of staff support, as the transportation time will be significantly reduced by high-speed railway. For example, the train ride to Guangzhou, the capital of Guangdong, will decrease from nearly two hours to 48 minutes. The key reductions to the other cities of the Pearl River Delta are shown on the right. The Hong Kong-Zhuhai-Macao bridge, linking western Guangdong to Hong Kong, will open up a whole new area of expansion for businesses in Hong Kong. The bridge between Hong Kong and Macao is the blue line. On the left-hand side of the chart, according to McKinsey, the PRD and Hong Kong metro area together is expected to become the largest banking revenue pool globally by 2025, representing US$185 billion. For us, we're the leading foreign bank in China, and we have the largest distribution network in Guangdong among the foreign banks. This, combined with our leading bank status in Hong Kong, we are well positioned to capitalise on this opportunity.

Our strategic aspiration is to achieve US$1 billion from our business in the PRD over the medium term, that is 10 times the current PBT – and we know how to get there. We'll do it by leveraging our capabilities in Hong Kong to support both Hong Kong and mainland clients in the PRD and by significant investment, expanding our PRD footprint, such as new digital capabilities and credit cards. We aim to build a full-scale retail banking and wealth management business in PRD, consisting of core retail products and services such as mortgages, credit cards, pensions and insurance products. We're looking to achieve double-digit market share in the mass affluent segment through the growth in our investment products such as securities and asset management. In our Commercial Banking business, we aim to build out our local corporate sector where we see opportunities, for example in project finance, infrastructure and real estate. We require close to 1,000 new Mid-Market Enterprise customers and to triple our Business Banking Upper customer base. We will invest in the talent needed to support the ambitions in the PRD. We expect the headcount to more than quadruple in the region. In addition, establishing additional capabilities such as securities and asset management in the PRD will allow us to facilitate capital flows across the region more effectively, for example capitalising on the Shanghai, Shenzhen-Hong Kong Stock Connect.

To give you a feeling about this opportunity, daily turnover at the Hong Kong Stock Exchange has increased by 70% since the Shanghai-Hong Kong Stock Connect was established. In May 2015, the average daily turnover at the Hong Kong Stock Exchange was US$20 billion. For comparison, the average daily turnover at the London Stock Exchange was US$7 billion in 2014. Now, these volumes will continue to grow further, meaning more opportunities for us.

Now, let's look at RMB. Now, here's a chronological account of RMB internationalisation. I would just like to highlight two points; these are two turning points in the history of RMB internationalisation. The first was the issue of the RMB bonds in 2007, which really opened up the RMB bond market. Second, was the introduction of RMB trade settlement in 2009. Now, prior to the introduction, the RMB deposits in Hong Kong was only RMB50 billion. After the introduction, today RMB deposits in Hong Kong are over RMB1 trillion. This increase allows the introduction of many other RMB products and services that we have seen in Hong Kong.

On these charts, you can see the results of successive policy relaxations, which resulted in huge growth in RMB trade, capital flows and global bond issuance. This has been mainly driven by growth in the settlement of China trade in RMB from 7% in 2011 to 22% in 2014. RMB is now the number two globally traded currency. The offshore RMB deposit pool has increased to RMB1.9 trillion. There are now 35 Central Banks that have invested or expressed an interest in using RMB as part of their currency reserves. We are confident that increasing policy relaxation, linked to the opening up of China capital accounts, will continue to drive RMB internationalisation.

HSBC is well positioned to capitalise on the opportunities of RMB internationalisation, as we are the leading international bank. We have won many awards. This includes winner of all eight categories for the Asiamoney Offshore RMB Poll in 2015, including Best Overall Offshore RMB Products and Services now for four years in a row, RMB House of the Year for three years in a row, and best Dim Sum Bond House for three years in a row. We have established RMB trade settlement capabilities across more than 50 markets globally; no other bank has the same capabilities.

This market-leading position translates into sizable revenue-growth opportunities for us. We have grown our RMB-related revenues from a negligible position in 2007 to US$1.5 billion in 2013 and another 17% growth from 2013-2014. Our aspiration is to grow this to at least US$2 billion in the medium term. In the middle of the slide are some examples of how RMB translates into significant growth opportunities across a wide range of our businesses. Our aspiration is to continue to lead in this field and we are putting significant investments into strengthening and expanding our leadership in RMB.

Now, on Asset Management and Insurance. Asia is expected to become the world's wealthiest region by 2018 and drive 50% plus of global wealth growth. We see significant growth opportunity in Asset Management and Insurance. This is driven by, first, demographics, in particular an ageing population underpinning the pension and retirement product opportunities, and a fast-growing middle class demanding wealth products and insurance for protection, education and investment opportunities. We're in a very strong position in both businesses today. In Hong Kong, HSBC Life and Hang Seng Insurance have a market share of more than 20% in new life insurance business. HSBC and Hang Seng Bank have 30% market share in the Hong Kong pension fund business. HSBC is one of the leading asset managers in Asia with a [inaudible] 22% growth in Asian AUM since 2011.

Our strong position across the key Asian markets and in RMB also allows us to link up international investors with Asian investment opportunities. I mentioned earlier about our leading position in RQV custodian business, which is a good example of how we can support institutional investors in assessing mainland investment markets.

Now, HSBC is systematically capturing growth in Asian trade and capital flows. We've already made good progress in this area, as the charts on the left-hand side indicate. In 2014, we have grown cross-border revenues with CMB and GB&M clients in and out of China by 21%. In addition, intra-regional cross-border revenues for companies have seen a growth of 18% year-on-year. These are revenues we generated with companies domiciled in Hong Kong, Malaysia, Singapore, China, India and Australia. This demonstrates the value of our network and the sizable growth opportunity in capturing the growth of Asian trade and investment flows. The right-hand side gives a few examples of the initiatives we are pursuing to capture the international connectivity opportunity.

Now, the following few slides include business cases which demonstrate the power of our network, not only within Asia but with developed countries like the US, which is a big partner of China, as indicated by Pat and Stuart. I won't go through these cases one by one, but I would like to highlight a high-potential opportunity. Many of the Asian countries have very large trade relations with China. For example, 25% of Korea's trade is with China – and 35% of Australia's. Now, the opportunity is when these trade volumes are wholly or partially settled in RMB. Malaysia has announced that it will use RMB to settle palm oil trade with China. HSBC is well prepared for this to happen, and our CEO in Malaysia, Mukhtar Hussain, is already advising the Malaysian government on how to do the RMB trade settlement.

Our key messages, in summary, are that we see tremendous growth opportunities across Asia. As Asia continuous to develop as the world's leading economic region, 1.2 billion people will enter the region's cities and the Asian middle class will continue to rise. Now, this will result in strong wealth creation and leads to huge opportunity for our RBWM and Private Banking business. Trade and investment flows will see continued strong growth not only through initiatives like the Silk Road or the AIIB but also through many free-trade agreements. Leveraging our strong international capabilities across Asia, this will generate significant opportunities for CMB and Global Banking and Markets clients. Greater China will remain an engine of growth and, as the leading bank in China and also Hong Kong, we know how to capture these opportunities from the economic integration of the Pearl River Delta region with Hong Kong – and, also, the internationalisation of RMB.

We are in great shape. HSBC in Asia has delivered compounded growth of 10% PBT over the past five years, with return on risk-weighted assets bigger than 3% every year. Based on our history, our strong position in the leading growth market and our network, we are in a perfect position to capitalise on the Asian Century. Thank you very much.

Questions & Answers – Asia

Raul Sinha

I don't dispute the growth opportunity in Asia, so I want to ask maybe about areas you think you need to invest or where you think you might be lagging behind where the market growth is. I have two things on that. Firstly, on CMB outside of Hong Kong, I think in his previous presentations Stuart has talked about CMB having a challenging time in certain markets outside of Hong Kong in Asia-Pacific. I guess that's partly driven by the margin pressures you've faced from excess liquidity. Could you maybe talk about if you're going anything to reposition that?

The second point is on financial markets change/liberalisation. Do you believe you're active in all of the products that are seeing active growth from the rise in volumes in the equity market, for example equity derivatives and wealth products? Are you seeing some very strong performance in your short-term numbers and do you think the business is well positioned to capture that?

Stuart Gulliver

I'll take the CMB one, and, actually, Simon, you might want to just add a comment here. CMB in the rest of Asia-Pacific actually covers the associates, so a lot of that drag is actually Bank of Communications and Ekonomi Bank and, actually, Hang Seng Bank in China. Those three, actually, are a drag on the CMB numbers. And, Simon, you just might want to add something on that.

Simon Cooper, Chief Executive, Global Commercial Banking

That's absolutely right. For Hang Seng you really need to think about Hong Kong and China together.

Stuart Gulliver

Combined together it is a great return, but, as I say, the way we book stuff, Hang Seng in China is in the rest of Asia-Pacific – and so is Bank of Communications and so is Ekonomi Bank. That's really the drag on Simon's business.

Simon Cooper

Then you look at Economy Bank, which is a bank we intend to integrate fully into HSBC. At the moment, all of Economy Bank sits in Commercial Banking, so that's the whole network, the whole cost base. As we have a go-to business model, then we should see the returns in Indonesia improve as well. So, they're the two markets to focus on.

Peter Wong

Yes. I think that, if you exclude those two points, I think that CMB is doing very well in Asia-Pacific. Especially, collaboration between CMB and Global Markets has produced more than US$1.2 billion worth of revenue in the last couple of years. So, the other thing is that, yes, there's a lot of liquidity in Asia-Pacific, and the margin may be squeezed from time to time, but I think that we need to look at the return on a total customer base, and that's where our strength is. Because we cannot just go on product by product; we cannot dump trade just because the margin is lower, but what we need to – trade is also part of what we do for the customers. We have credit and lending, we have PCM, we have trade, we have foreign exchange, we have RMB, so what we have been doing in the last year is looking at the customer on a total-customer-relationship basis, and that's how we can retain the total return.

Raul Sinha

Whilst we're talking about products, do you believe there are any products that you might do?

Samir Assaf

So, what we are missing still in China is an equity joint venture, and here Peter and the team are working very actively and hope we will get something soon. But when you look at, on the other hand, the China-Hong Kong connect, and you look at our equity results the first quarter, you would see the connection.

Peter Wong

Especially on equity, China has already relaxed its regulation to allow foreign entities to have 51% on a joint venture – securities joint venture. As far as the Hong Kong-Shanghai Stock Connect is concerned, what we are seeing right now is that we are like a one-stop shop for institutional investors coming to us and bringing them into China, and then doing the custodian business. As we said earlier, we have 24% of Singapore's RQFI.

Stuart Gulliver

So, you can see it in Samir's equity numbers within GB&M, you can see it in RBWM, you can see it in the Private Bank, so you can see it across the piece.

Arturo de Frias

Peter, may I ask you the same question I asked Stuart at the beginning? A 200 billion increase in RWAs in Asia could be a 40% increase from your current 500 billion, which is a really big increase in two or three years – a really ambitious increase. Do you think that you can keep your current 3% return on risk-weighted assets growing your RWAs by 40%? Thank you.

Peter Wong

Well, I don't think the 200 billion is all going to come to –

Iain Mackay

Peter, let me take this. So, when you go through the charts around risk-weighted-asset capacity, what the shrinkage provides is capacity to grow the risk-weighted asset base of the Group by about US$150-200 billion excluding Global Banking and Markets. The growth implied by certainly the charts that Samir put together is the Global Banking and Markets risk-weighted-asset growth over this period of about 30-40 billion. What we create is a capacity by the work that Samir's doing and that we're doing in other businesses around creating that capacity is to grow the business globally. So, it's not just about Asia; it's whether it's the United States, whether it's rebuilding the Mexican revenue base, whether it's in India, whether it's in mainland China. When you look at that capacity excluding Global Banking and Markets, you're talking about 150 billion to about 200 billion, principally across Retail Banking and Wealth Management, and Commercial Bank, because, obviously, Private Bank doesn't utilise a great deal of risk-weighted assets. And within that, we've got line of sight to over 100 billion of growth opportunity today.

And part of the challenge that comes back is, well, that's an awful lot to do. If you look at risk-weighted assets that we've deployed over the last two years, gross, in Retail Banking and Wealth Management and Commercial Banking, we've deployed over US$70 billion worth of risk assets. Now, against that, we've managed down some of the risk-weighted assets in the Global Banking and Markets. We've also managed down the CML legacy portfolio, for example. But on a gross basis, we've been able to deploy new risk-weighted assets of over 70 billion over the course of the last couple of years. So, we've got a line of sight to in excess of 100 billion. We've got capacity to grow of about 150-200, excluding Global Banking and Markets. The criteria around that growth is the return. It's not the capacity for the growth; it's the return that we can generate from that growth. So, having the capacity is a good thing, but the important discipline that we need to maintain – and I talked about this but we've all talked about this – is being able to deploy that at the risk-weighted asset hurdles that we've set by the businesses, for each of the businesses and for the Group overall. If we're able to deploy it, great; if not, then the argument would be – the logic of that would be – that we'd have capital capacity to deploy otherwise.

Peter Wong

The other thing is that you mentioned US$500 billion. That's not true. In Asia, we only have 350 billion. And the most important thing, I think, that I want to drive home today is the total relationship with the customers. Although we can do credit and lending with the customers, if the customers don't do their foreign exchange or PCM or trade with us, that's fees. So, if the total relationship with the customer is not going to be there, then we just don't do their credit and lending. I think that, five years ago, when we were in Shanghai, we already talked about that. Credit and lending is the lead, but we need to get the ancillary fees to improve the income. This is what we have been doing for the last few years and that's the reason why we can maintain a bigger-than-3% return on risk-weighted assets.

Stuart Gulliver

And I guess, again, also, Peter's been growing at about 35 billion per annum, so, over two and a half years, just at that run rate, you add about another 90. So, that's without the pickup or any focus on the Pearl River Delta. That's kind of what Asia's been growing at. So, that 150-200 is not such a ridiculous number, actually, to deploy. It will, clearly, be a challenge to deploy but the run rates of Asia-Pacific have been adding 35 per annum, on average, for the last five years. So, I think that, as Iain says, it's not meant to be that we're trying to put 200 billion to work on Hong Kong Island or something similar, but, actually, when you look at a broader array, it's quite possible to deploy.

Peter Wong

In one of the charts, I think that we have identified that, from 2009-2014, our growth in lending was 178 billion, in one of the charts. So, if you divide it by five that works out to about 35 billion a year.

Arturo de Frias

Thanks for all the clarification. May I slightly rephrase the question? Not assuming that all the 200 billion will go to Hong Kong, which I wasn't, is the underlying assumption in your business plan that your current return in Asia – that 3% return on risk-weighted assets – is sustainable for the next few years? Thank you.

Iain Mackay

Yes.

Stuart Gulliver

Yes, it is.

Iain Mackay

If you think about the RWA chart and the improvements in that, it's across Retail Bank, it's across Commercial Banking and it's across Global Banking and Markets. Those are all global businesses. We're not looking to dilute returns anywhere. I think, to Peter's point, we look at it on a portfolio basis, but there's not a business or there's not a legal entity in the world where we're trying to dilute returns over the next three years.

Stuart Gulliver

And don't forget GB&M was a net number. There's a small growth. It was 140, 130, so there is a little bit of growth in GB&M, and most of that will take place within Asia.

Chintan Joshi

Can I follow up on that last point? So, you said, if you don't grow, then the capital would be deployed otherwise. I guess one of the things that could have been seen today was: when do you reach 12%? Do you have a timeline when you reach 13%? And then, there's been so many questions from the analysts on not believing that growth, then the logical conclusion would be that capital is sitting there and you clearly don't want that. So, just if you can give us some progression on when do you hit those 12%, 13% in your mind, and when we can start talking a little bit about capital returns.

Iain Mackay

So, on the capital picture, there's a range of 12-13%. It's a range that we've said. I don't have any view in my mind that we've got to get to 13%. We've got a view that we should be somewhere in that range and we've laid out today how we think that builds. We reach the 12% range and slightly above it by 2017, based on all the actions that we've talked about today.

In terms of what you think about capital capacity, we don't want to have surplus capital sitting around doing nothing. We had a discussion a little bit earlier from Manus on how you support the dividend. If we're not able to deploy that capital but have it available, and provided we're on that trend to hit the lower end of that 12-13% range by 2017, then there are implications from a dividend perspective. But we've built the plan on the assumption that we can deploy, at least at the lower end of that range for about US$150 billion worth of risk-weighted assets over the next two to three years, across the global network of the businesses.

As you well know, capital management is a fairly dynamic process, and you know the bits that move, so you're going to be able to see what we do, if not on a quarterly basis at least on a semi-annual basis, in terms of how that feeds through risk-weighted assets by business, by geography, through the disclosures in the Pillar III document, where it accumulates capital from a Common Equity Tier 1 standpoint and, to the extent that we've got capacity, then we'll obviously provide guidance as to how we're going to use that capacity.

Chintan Joshi

A quick follow-up, just so that we don't forget Michael's question, which is FX have just –

Iain Mackay

No, we didn't forget. I've got it. My computer has lost the will to live, but I can remember the numbers. Brazil and Turkey together, pro-forma basis, it's a total of 8 billion of revenues, which is made up of about 4.7 billion nominal, 3.3 of foreign exchange.

John-Paul Crutchley

Peter, you lay out the growth story pretty well. I just wondered if you could just talk about any of the regulatory obstacles to that growth. Historically, we always used to talk about one of the constraints being the approval for branch openings and the regulatory issues that were there in the PRD in terms of opening branches and actually locating where you wanted to be. So, I just wondered if you could maybe just give us a bit of context about the regulatory side of the equation in terms of how fast you're able to deliver on the growth plans you see out there.

Peter Wong

Well, the regulatory constraints will always be there. This is China, right? But the thing is that, as far as the PRD is concerned, we can utilise the CEPA, because the CEPA will allow banks in Hong Kong to open their branches in PRD, and also with a lower capital. The important thing for us is that we already have a branch network in PRD. We have 63 outlets in Guangdong, 50 in PRD, and then these branches are sunk cost already. So, any additional revenue – products that we load on top of that, such as mortgages, credit cards, investment – it will make the cost-efficiency ratio more effective.

Sandy Chen

Actually, just looking at the growth opportunity, I was wondering if there is a combined IT opportunity, particularly in RBWM, and maybe specifically using PRD as an example, because I could see that having this integrated, press-a-button on your app, you can get a loan and a credit card and all that kind of stuff would, actually, be a very fast way of building up very high RoRWA/RWAs, if that makes sense.

Peter Wong

I think you're right. I think there's no way that we can match distribution network or balance sheet against the big fours or the big fives. So, as far as distribution is concerned, it has to be supplemented by digital capabilities. So, that's a must for us.

Minal Shah, Charles Stanley

Just on the Asset Management and Insurance opportunity, it seems to me you're very much focused on the manufacturing part of the value chain. I was just wondering whether you were perhaps missing out on a potential distribution opportunity. Obviously, Standard Chartered has recently renewed their Bancassurance agreement with Prudential, which seems to have got off to quite a good start, but is that something that you see as mutually exclusive or is that an opportunity down the line?

Stuart Gulliver

We actually have restructured a lot of our insurance business, so we divested the general insurance business – so, property and casualty – and we are, actually, in distribution agreements with third parties throughout Asia-Pacific; actually, throughout the world. What we've kept in Hong Kong is the life business because, actually, we're the second or third biggest life insurer in Hong Kong, so, therefore, we manufacture and self-distribute there. But in property and casualty, we are in third-party agreements. And in certain other Asian countries, we're in third-party agreements to distribute life as well, mostly with at least two or three different insurance companies, Allianz and AXA being the principal two. So, we have actually done that.

And then, on the Asset Management piece, just to bring out another… We're going to focus far more of our Asset Management business in Asia-Pacific. We think the brand is extremely powerful and, obviously, the growing middle class, the enormous growth in wealth in Asia-Pacific, the extent to which people need to save for healthcare, schooling, retirement etc, means that wealth opportunity is vast. And the Asset Management business that we have, has got AUM of about half a trillion. As John indicated earlier, and as you all know, it's fantastically accretive from an ROE point of view. And we actually think there isn't an obviously dominant Asian Asset Manager, so we're going to relocate the centre of the Asset Management business back to Hong Kong from London, because we think that there's a very big growth opportunity that comes not just with the Pearl River Delta and ASEAN opportunity but across Asia-Pacific overall.

This is the end of the time that we allocated, so I just want to just briefly sum up. The 10 action steps and concrete action steps that we set out today will be implemented over the timescale we've set out, and will result in the changed shape of the Group, and the future shape of the firm will look like the slide that we've put up here, that I put up a little bit earlier. In other words, the company will be centred around economic blocs, and the trade and capital corridors that connect those economic blocs. This will result on a return on equity of 10% by the end of 2017, and more than 10% thereafter.

So, I'd like to thank you all for joining us today and spending five hours with us.