Edited Transcript

Global Banking and Markets (GB&M) Investor Update

Meeting with analysts hosted by Samir Assaf, Chief Executive, GB&M

20 March 2015

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HSBC

Samir Assaf, Chief Executive, GB&M

Nick gave me guidelines not to go beyond what he wants me to say or do. I was not expecting such a formal set-up, but I am happy to have you all here. The main emphasis is for you to ask all the questions you like and me to try to respond. I have my other bodyguard here, Gerard, who is our CFO. He will of course not only keep me on track, but complement on any more detail you want.

I will talk before opening this for questions. People from Hong Kong are on the call as well, so welcome to everybody. Copies of the presentation have been shared.

Today, I will try to cover the following areas: first, I will address our financial performance and Q4 results in particular; second, I will recap the business model of GB&M, its connectivity in terms of clients, product and other global businesses across geographies, with some time discussing our balance sheets; finally; I will share plans going forward as to how we are going to improve performance and hit the group's targets.

Let us talk about financial performance. There were some questions around our Q4 results, so I would like to clarify some matters. I refer you to slide 41, Q4 revenue. There were a number of one-off items. Q4 revenue on a reported basis was $3.3 billion and $3.4 billion on an adjusted basis. However, if we exclude one-off funding fair value adjustment (FFVA) and effective interest rate (EIR) charges of $263 million and $124 million respectively, the Q4 2014 revenue was $3.7 billion. Compared to Q4 2013, revenues were broadly flat to $3.8 billion, after reducing the c. $200 million of equity revaluation gain that we had in Q4 2013. This is just to say that Q4 2014's revenue, adjusted and after you remove the one-offs, was flat against Q4 2013.

Costs were $3.3 billion on a reported basis in Q4. On an adjusted basis, they were $2.4 billion, which is broadly flat against Q4 2013, with adjusted costs of $2.4 billion. The majority of the adjustments in Q4 2014 relate to the FX litigation settlement.

On a reported profit before tax (PBT) basis, we had a Q4 loss of $0.1 billion but, if we take into account the adjustments and one-off items above, as well as the $100 million collective impairment charge we had, we have an adjusted number for Q4 2014, before tax, of $1.4 billion. In comparison to Q4 2013 after reducing the c. $200 million of equity revaluation gain, it was $1.6 billion. It was not a fantastic quarter from a profit perspective, but it was not as bad as the reported number shows. It is not as dramatic as the headline figure would suggest.

Let me return to the full year 2014 very quickly to talk first about revenues on slide 42. For the full year 2014, we reported $17.8 billion. On an adjusted basis, it was $18.1 billion. If we exclude the funding fair value adjustment and the EIR that I talked about before, revenues were $18.5 billion, which was slightly positive, up 1% on the $18.3 billion adjusted 2013 revenue after excluding the c. $200 million of equity revaluation. The 2013-14 revenues, compared like-for-like from a business perspective, were flat to slightly up.

We were a little higher on costs in 2014. Reported costs were $12 billion, which is $10.1 billion on an adjusted basis. Again, the majority of the adjustment pertains to the FX litigation settlement and the c. $550m of FHFA in the US. Adjusted costs were $9.6 billion in the full year 2013, compared to $10.1 billion in 2014.

This takes us to the full year PBT. The reported PBT was $5.9 billion. On an adjusted basis, it was $8.1 billion. The full year excluding FFVA of $263 million, $194 million of EIR charges and the $100 million collective impairment methodology was $8.6 billion. The full year 2013 adjusted excluding the c. $200 million of equity revaluation gain was $9 billion. You can see that we actually delivered positive results in 2014, a difficult and challenged year.

Please now turn to slide 43. GB&M has delivered growth in the majority of its client-facing businesses between 2011 and 2014. Over the period 2011 to 2014, we have grown revenues in stable product areas, including payments and cash management (PCM) and trade and security services. Combined, they were up 4% on a compound annual growth rate (CAGR). Capital Financing was up 3% CAGR, and our markets business has also performed over the past few years, up 3%. While Markets is important to us, we are not solely reliant on it for our performance.

In the second section I will talk about our business model. I would like you to refer to slide 18. First of all, we are not an investment bank; we are the wholesale bank division of HSBC. GB&M's client base is diversified across multinational corporates, governments and financial institutions. You are already used to this, but I wanted to reiterate this. The product mix is actually very diversified as well. Even for FIG clients, banks are the largest subsector, and stable products, like security services, are major revenue drivers. GB&M's product suite also serves other global businesses. For example, we serve Commercial Banking clients with FX, rates and a suite of capital financing products. We serve Retail Banking and Wealth Management clients with FX and equities, and I draw your attention to the fact that the numbers we report for GB&M are after we have paid away to CMB and RBWM.

Please turn to slide 19, which shows our diversification by products and regions. This, along with our other client base, differentiates us from our peers.

I want to talk about our balance sheet, which has raised some questions. Turn to page 44. I would like to make some points in respect of our asset base. GB&M's total asset base was $1.8 trillion at the end of 2014. About 30% of the assets, or $532 billion, was balance sheet management, so the deposits that the Group collects and manages. Additional to that are the intra-company assets, which are included in GB&M. Across all global businesses there were $330 billion of inter-company assets, most of which are in GB&M. The group derivative assets we report are $345 billion, the large majority of which you can imagine are GB&M. That is $1.8 trillion, of which we have $532 billion in balance sheet management, of which we have most of $330 billion as inter-company.

The group trading assets were $304 billion, again a significant majority of which is GB&M. We have about 15% or $253 billion as customer loans, which includes credit and lending, trade and receivable finance, and project and export finance. Less than 10% are loans to banks. The remaining are reverse repo and other assets. This should give you a better understanding of the operating balance sheet of GB&M. I am sure there will be questions, but we have given the full reporting and all these numbers are included in HSBC's annual report.

Let me talk about risk-weighted assets (RWAs). Turn to slide 45. The reported GB&M RWAs were $516 billion at the end of 2014. Let me take you through their breakdown. Credit risk is $326 billion. We include in this credit and lending, trade and receivable finance, project and export finance, credit risk RWAs on the United States and other sovereign securities that only UK banks do, and a significant majority of the RWAs from our legacy credit business, of about $44 billion, included here as well. We also include our proportionate share of the RWAs from associates, mainly BoCom. Credit risk is $326 billion and has several components. Counterparty risk is $90 billion; market risk is $56 billion; and operational risk is $44 billion.

On a Basel III basis, the full year 2014 adjusted return on RWAs, excluding legacy credit, is 1.7%. You have to look at the details when comparing to peers. Unlike most institutions, HSBC pushes down most of its capital or RWAs to its businesses. Of HSBC Group RWAs of $1.2 trillion, less than 4% is not allocated to business lines. This needs to be adjusted when comparing returns to GB&M peers.

If you look now at slide 47, you will see that we have managed down RWAs throughout the year 2014. We started at $554 billion and ended at $516 billion. I will talk more later about our plans to keep managing down these RWAs.

The third section is about our plans going forward. GB&M has a clear plan to get back to our return targets under Basel III. Please turn to slide 46. We are a client-driven business and have a disciplined client approach. This means being strict about client profitability. All new business is reviewed against a relationship meeting returns hurdle. Where hurdle rates are not achieved in the medium term, we will review our capital commitments to these clients. We have a detailed framework to assess client profitability. We look at revenue, client revenues across all products for net interest income, fee income and ancillary income, and capital and liquidity benefits. We apply fully loaded costs, including expected losses, operating expenses and tax, and consider the cost of capital consumed by client activity. This gives us a client-level shareholder value added (SVA) and a return on equity. The above is then evaluated such that all transactions are assessed based on SVA and ROE, at both an individual transaction level and a total client relationship level. Sizeable transactions are reviewed by a deal prioritisation committee and transactions below hurdle are executed only when they are to support a wider client relationship above hurdle.

To demonstrate how our framework looks at new business to ensure it meets hurdle rates, I would like to walk you through how we do this, for example for an interest rate swap transaction. Revenues used to calculate return are gross P&L on the trade, net of credit value adjustments (CVA) and funding fair value adjustment (FFVA) costs. CVA and FFVA costs are calculated and removed from the trader's P&L as a hard cash transfer. Client relationship returns are taken into account. We are extremely disciplined, even in areas that people think are not profitable, only to put profitable business in the book.

However, we have three areas of business that we have undertaken in the past and in a different regulatory framework that posed challenges for returns in the GB&M business. The first is the structured credit legacy portfolio, the $44 billion I talked about. The second, which is common to all businesses, is the back book in the rates business. The third is long-dated corporate and project finance lending. Let me address each of these.

In structured credit legacy, we have a real and serious potential to accelerate the asset run down based on actual multiple levels. The second area is rates. There is a back book from before the financial crisis, which is weighting on profitability. The new business is written to a very tight profitability framework. The third area, long-dated project and corporate finance, similar to the rates business, has a back book from before the financial crisis, when business was written when the group had a much lower capital ratio requirement.

It is important to reflect on our use of capital. I see opportunities to further manage down RWAs, including running down the legacy credit portfolio, a greater focus on the use of credit risk RWAs, and improving counterparty credit risk and market risk RWA calculations, much of which will be around improving data flows and processes such as mapping collateral. However, regulatory driven changes can have an adverse impact on RWAs. What I can say here is that we are determined to bring down RWAs, and GB&M will be a third of group RWAs in the medium term, as Stuart Gulliver indicated.

It is also important to address costs. GB&M's target is to absorb inflation. This means 2017 adjusted costs will be the same as for 2014. However, costs may increase in 2015-16, as we invest to restructure and to bring costs down in 2017. The costs initiative includes improving front-office productivity, re-engineering our Know Your Customer process and simplifying our IT architecture. We have not forgotten to continue our pursuit of organic growth initiatives specifically: investment in our renminbi capabilities and products – this is our biggest growth opportunity; continued development of our FX, PCM and trade sales; client management and product capabilities; in capital financing increasing capture of cross-border deal flows, including PCM, M&A and ECM; enhancing our product capability and sectoral expertise; and capturing the shift from bank financing to capital market financing, including with CMB customers.

It is important to GB&M to contribute to the value of HSBC Group. GB&M is actually an integral part of the Group so, as well as servicing our own clients, GB&M provides various products to customers of other global businesses and leverages the Group's international network. Firstly, collaboration with CMB has delivered over $1 billion revenue growth since 2010 so, on top of what we do, we have added $1 billion. We plan to further increase revenue from CMB clients through collaboration, by providing FX, PCM and other services, winning an increased share of the client wallet.

Secondly, and very importantly, is the cross-border business. GB&M's international network allows us to service our customer base cross-border, through multiple geographies. Actually, over 50% of GB&M client revenues are booked outside the client's home country. The full year 2014 cross-border revenue grew three times faster than in-country revenue. GB&M provides clients access to international capital markets through DCM and ECM franchises.

Before I conclude and open for questions, I would like to reiterate the following: GB&M has a differentiated model with stable revenues from PCM, security services, trade and receivables finance, and capital financing. The markets business is not the largest part of GB&M. I have explained the GB&M balance sheet and RWAs. We are certainly not the largest corporate and investment banking balance sheet, and consumer of RWAs or capital, among our peers. Most importantly, we have strong growth opportunities, with renminbi products, our international network and product suite in FX, PCM, trade finance and capital financing, and the opportunity to capitalise and grow through collaboration, particularly with CMB. We are very confident that GB&M can achieve the Group's target of above 10% ROE in the medium term. We can manage our capital usage to about a third of the group's RWAs over the medium term. Thank you.

Chintan Joshi, Nomura

Can I make it a detailed, plus a philosophical question? The easier one is, when you think about returns on your product lines and business lines, how do you think about it? Clearly, there is a lot of noise in your GB&M results, and it is very difficult for us on the outside to see a picture of what is actually profitable for you and what is not profitable. That's the broader question.

Specifically on slide 45, you talked about the GB&M legacy credit book, which we know what it is but what is the back book on rates and long-dated corporates? Can you give us that number? What kind of adjustments would we make to profit? On slide 45, the 1.7% return on RWAs, if you viewed it excluding these back books – what would that number look like, if you could give us that sense?

Samir Assaf

Let me address the first question, which is the philosophical one, first, which is the key question on our business, whether at HSBC or elsewhere. Profitability is addressed top down. Our business is a client business and what we care the most about is making sure that our client franchise is a profitable franchise. Of course, we go bottom up and look at every single aspect of our business. We address its profitability, but the way we address it is just to make sure we have the right allocation of capital to the business, which is not the allocation of capital that you see. I will give you two examples.

One is, for example, the PCM business. If I look bottom up, the PCM business is the most profitable business any bank can have, because capital is very low for what you see. What we know and you all know is that you cannot get this business if you are not in credit and lending, and are not a core bank. We adjust the capital we use in credit and lending to the product areas where, without this capital, we cannot be in business. We then look at adjusted profitability by product.

This leaves us in areas where, basically, the lowest product profitabilities are in rates areas, for the reasons that I have mentioned. For us and almost any other bank, it's related mostly to the back book. I go down to the second question, the rate-related area or long-dated lending that we and the industry have done in the past. These are the drags on profitability by product. If I put these drags aside, as I said, in every new business we write we make sure of that bottom-up response to the profitability criteria we have put in place. That does not mean that every single deal we do is profitable itself but, as I said in my presentation, it means it is the case almost all the time, except when there is justification to write at below profitability hurdles because it serves the overall client relationship, which is itself profitable.

If I were to address the three areas of drag on the books, the first area is legacy. We have ramped down the legacy portfolio already. We can see the numbers and can now accelerate the run down. For the time being, we did not accelerate run down, because it was a better return to shareholders to retain it than sell it. When you include all criteria, including what we did not materialise as losses to the group, which is capital, we have assessed this portfolio at every moment in time at 15% ROE. We've said that, if it is higher than 15%, we should retain; if it is lower than 15%, we should sell. That is why we have retained for some time and generated a better return for shareholders than selling. That is where the market is priced now. It is time for us to accelerate the sell off and you will see an acceleration of the sell off this and next year.

The second area is that some of the banks decided to split their rates book in two and say, 'This is non-core and this is core.' This is just to show that the core business is profitable, so you can trust that the business we are writing is profitable and not dilutive. Now that the question is open for us as well, before you could see that in 2013, 2012 and 2011 we were a very profitable business and no one was asking the questions, because the overall was at 15%, 16% or 17%. Of course, Basel III and the add-on in the UK made our book at 1.7-1.8%. We would need to show, and we are discussing with our CFO, whether we go further in disclosing what is the back book and what is not. My answer is that we have not been writing, actually since 2011, any business that is not hitting the hurdle rate.

Chintan Joshi

You probably want to take your time in giving us that number, but maybe you can just give us the return on RWAs as you would see it, excluding those businesses.

Samir Assaf

What I am saying is that, in any case, you can be confident that our ROE for the new business we are writing is definitely higher than the 10% the Group is trying to get.

Raul Sinha, JP Morgan

Thanks for your answers; they were pretty clear. Can I confirm one thing before I ask my real question? The 1.7% adjusted return on RWAs, as I understand, does not include any allocation for the levy.

Samir Assaf

That's part of the 4% that are not allocated.

Raul Sinha

Yes, I know. You don't obviously allocate head office costs and the levy, which has a huge impact on the group's ROE. If I allocate the levy to your division, which Barclays does by the way to the investment bank, then you could argue that your return on RWAs is overstated by 15%. That is really what shareholders probably care about, going forward, because that is the cost of being headquartered in the UK. Unlike your competitors, you might not have the flexibility to move. Do you believe that the current targets that you have for return on RWAs are enough? This is probably the problem the market has as well with a 10% ROE target. What more can you do, beyond what you have talked about already?

Samir Assaf

The target return of RWAs would be, for us, around 2.2% to 2.4%. That is what we will be targeting in our business. We did not discuss including the levy or excluding the levy, but that is a good question actually and we will have a look at that.

Gerard Mattia, Chief Financial Officer, GB&M

The way we as an organisation plan to hit our ROE targets is to take that into consideration when calculating targets by business. We factor that in when we think about the Group return overall and then what to assign as targets by business.

Samir Assaf

Basically, if we say that we should include the levy, we should target higher. Actually, that's in the calculation. We did not disclose but, as I said, it is 2.2% to 2.4%. If you look at the 2.4% including the levy that would be above the 10% hurdle rate.

Raul Sinha

I am not sure I agree with that. I get your answer but, if you do not pass it down to the division, I do not think it matters.

Gerard Mattia

There are two ways to manage it. You could either adjust each of the division's targets higher –

Samir Assaf

Exactly. If we excluded it, we would target lower. If we included it, we would target higher. That is what I am saying.

Martin Leitgeb, Goldman Sachs

My first question is with regards to the RWA reduction you mentioned. I was just wondering, looking at slide 36, whether you can give us a bit more colour in how we should look at the RWA reduction geographically. Obviously you have the US going forward; you have the UK going forward. How do we think about this going forward, in terms of your RWA reduction? We will obviously have a ring fence in the US, with the Tarullo proposal. We will have a ring fence in the UK. If I look at where GB&M assets sit at the moment, it seems to be a certain overweight position within the Bank plc, which also has the lowest tier one ratio, I think 8.7% last reported. How should we think about your RWA production in light of this geographic focus?

The second question was just in relation to the trading book review, if you could give us any colour on how that will likely impact your business.

Samir Assaf

On the first one, almost all our legacy assets are in the UK. By running down the legacy assets or an accelerated run down on the legacy assets, you will cope with most of the $44 billion in the UK in the next two to three years, say. That is the first position.

The second, actually, is for our credit and lending book as well, as I said, we are an international business. More than 50% of our revenues are booked in areas different from where the capital is booked. If I book capital, for example for a UK client or a US client in credit and lending, it will be fully booked in one country and then I will have revenues in other countries – in Hong Kong, Egypt, etc. – where you will not see capital against. If we run down a little more our credit and lending, you will see credit and lending going down mostly in the UK and in the US.

To answer the first one, RWAs are mostly in the UK for legacy credit and for the actually booked, where we will be doing more tightening to the book. Actually, it will be mostly the UK and the US.

Martin Leitgeb

Is there a need to shift some of the assets out of the UK and into Hong Kong potentially?

Samir Assaf

No, we will not use any gimmick. Again, the way that we disclose it is something and the way we manage it internally is something different, because we reallocate this capital to the users of this capital, on a managed view. Now, we don't show you the managed view, because we've decided not to show you the managed view, but if we evolve and decide to show you the managed view, then you will have a better idea of where capital is really used, which product is tied up and to which geography.

I reiterate the same example. If I have a client in the US, full capital is in the US against this client to be a core bank. Most of the money from the US client, actually 64% of the money coming from a US client, is booked outside the US, with almost no capital against. That is the first question. The second question is trading assets. Gerard, maybe you can take this question.

Martin Leitgeb

The question was more on the fundamental review of the trading book going forward, in terms of risk weighting and whether you already have a view on what impact that could have on your business going forward.

Gerard Mattia

It is difficult to say specifically what the amount of the impact will be, as those rules are still being worked through. We are actively working with SIFMA and other industry organisations to weigh in on our view around those changes, but obviously everything you've seen today will impact the industry in that first wave, raising RWAs and capital we need to maintain against some of those businesses. We're actively engaged in that. I cannot give you a number because nothing's finalised yet, but we will take that into consideration.

Samir Assaf

In the annual report, page 377, if you just have a look at it, you will see that, in the detail of our trading assets, most of our trading assets actually are government-bond-related and the repo and the interbank. You will see that, actually, if we decide to run off much quicker, it's one of the easiest things that we can do.

Alastair Ryan, Bank of America Merrill Lynch

It is a question about at what point you would rethink the business more radically. The nominal balance sheet is a constraint you have not really applied historically, because you have a relatively high average risk weight and you have always had a good leverage ratio. Nominal balance sheets are now very expensive: there is the levy; there is the impact of ring fencing that is going to monkey it around; and there is LCR and NSFR. Particularly, there is G-SIB. You are always going to be a G-SIB, but there must be an amount of balance sheet that you could get rid of to go down a notch from the top bracket you are in to one further down.

Actually, that is one of the key problems the Group has. The G-SIB is designed to punish people for being big and it is punishing you. You have lower returns on a given business than other people, because you are in a bigger bucket. Those all actually point in the same direction now: nominal balance sheet, your financial institutions business, your rates business and government bond trading, all sorts of nominal balance sheet things you have had, because that is what you do; that is how you have built it. Really, the cumulative impact of what regulators have done, plus the fact there is no yield on anything, presumably means that there would be a much more fundamental root and branch shift in the way that GB&M is structured. Are we not there yet? I suppose that is the question. It looks like your balance sheet has been very constant over time, but the cost of holding that balance sheet for the Group has been going up.

Samir Assaf

On the G-SIB, the way to answer you is that, actually, we can be one of the simplest banks in the world and not be a G-SIB, as other UK banks. One of you is always writing about it. We will still be asked to have the 12-13% probably.

Alastair Ryan

You do not know that.

Samir Assaf

What we think is that being in the UK would mean that we would have to retain more capital to do the same business than being outside the UK. For us, this is now the conclusion that we came to. It does not mean that we are going to be outside the UK, but it does mean that we will have to accept this constraint and adjust our business model to it. G-SIB or not is another debate, I think. Again, you can have your opinion, but mine is that we could be not a G-SIB, a bunch lower or two bunches lower, but still we will be asked for the same capital in this country.

The business model itself, the size of it and the weight of it, again, when you think about pre-adjusting it to the numbers I gave you today, the size is big, but the opportunity to create value for the shareholder, through the business model we have, is really there. We believe that the way the market is evolving, our opportunity with our business model is firmly every day.

When you look at our cost base that is very important. Look at our cost base; our cost base is around $10 billion. When you compare our cost base to the cost base of any other of our competitors, because some of you compared the revenue base and say that revenue is much lower, the cost base is much, much lower. To make the cost/income ratio what this means is that revisiting the business model only means that we will not be able to capture the ROE we are capturing through our international network and through the set-up that we have. It is not like other banks; we have no addition to our business model through what we really need for our client base. We were not in any area that others are cutting. We have only the base to deliver to our clients' base.

Any break with what we have, if you take it aside, then overall profitability can be dodged seriously. We have examined and re-examined. Our hard work of course is to tidy up the balance sheet, and this balance sheet will be tidied up. Of course, it is to tidy up as well use of capital, and this use of capital will be tidied up, then the return becomes an obvious opportunity for us. If you look around in the European space for example – I will not mention the American banks because they are firmly in their business model and profitable through the cycle into their business model – if you look around, who else will be standing with the business model that we have to get the opportunity that we are getting?

Again, the areas that are challenged are of course the rates and credit areas. If we want to change something, it is not FX that we want to change. For rates and credit, I keep answering the same thing. Look at what our colleagues in other banks are doing. Both HSBC and peers face the same problem with the back book. If we stopped new businesses in rates and credit we would be stopping very profitable businesses and would still have to deal with the back book. For the shareholder, you deal with the back book. It is whether you sell it if you find a buyer but, if there are buyers for these back books, we would have seen them from the other banks that have tried to offload them. And at what price for the shareholder assessment? Now, you can do a write-off and say, 'I'm doing a write-off' and, for the future, it is what it is, but it's in the value of the share.

So we've, of course, worked very closely. We really believe that the opportunity to get to the targets are really there and achievable quickly, and the opportunity that is given to us while others are revisiting their business models, without us increasing our concentration in this area, we will capture a better value of it. Look at it very simply: if you go to slide 45 – we were at 422, with Basel 2.5, and we jumped to 516. So, it's just mechanically, if we can get back to the 400-422 by just doing only what we are doing, we are back into profitable territory.

Manus Costello, Autonomous

I just wanted to follow up on Alastair's and follow up on Raul's questions. The logical follow-on from that: do you look at the business at all on a return on leverage exposure (ROLE) basis? Because you talked a lot about RORWA, but would you ever put any of your businesses through an ROLE lens, and how does that change things? Because a lot of what you talked about in terms of RWA reduction was about optimising models etc., but what Alastair is driving at is the stuff that Stuart seemed to be talking about on the conference call, which was more fundamental change, and that might be driven by a different lens – an ROLE lens – rather than an RORWA lens.

My second question, which I'll lob in now, before you answer that one: on Raul's point about not allocating the levy – I completely agree – but you also do allocate the balance sheet management revenues and profits and, depending on how much cost is associated with that, which is not a lot, I would guess, that boosts your RORWA by – I don't know – 50-60 bps, potentially. It's a big number. So, I would argue that you should, actually, be targeting a very high return on risk-weighted assets, given that beneficial allocation to you, which others might be allocating out to the Retail division. I wondered if you would ever consider reassigning those revenues.

Samir Assaf

Let me just answer the second question quickly. The first thing is that, when we target our returns that I'm talking about in 2016 or 17, we are targeting… We don't disclose these numbers but I can say that balance sheet management is not accretive to these numbers, so it will not make a difference in the average for these numbers, whether we keep it or we reassign it. Now, it makes a difference today but it's not making a difference to the way that we are targeting 2016-2017.

Reallocating it, it's like a lot of these debates. We think, since 2006, that, for the Group, it's the best way of managing it, and we have demonstrated it through the exercise and we continue to think that this is the best way of managing it. And at least, to your opportunity, we are very transparent about it and everything is disclosed. In other banks, actually, it's difficult to understand who is doing what and where revenues and costs are coming into this area. So, we're very comfortable with it, but your question is right and it's about this is giving us an advantage where I hope that it will continue to be an advantage, if we continue to manage it rightly, but the projection that we have done means that this one is not [inaudible] like it is for the time being.

What was the first question?

Manus Costello, Autonomous

Will you look at the book on a return on leverage exposure basis, and might that generate more substantial changes?

Samir Assaf

So, leverage exposure, first of all, the Group is at 4.8%. Secondly, we look at leverage exposure by entity, because we are regulated by entity, and we have targets for leverage exposure by entity. So, wherever we book our business, we have the constraint of leverage exposure by entity through this business. So, it is not that we don't look at all on a leverage exposure basis; it's not because the Group has 4.8% that every entity of the Group has 4.8%. So, we are very decisive in where we book and how we book through the entity levels.

Carla Antunes da Silva, Credit Suisse

I have a question on your ROE of more than 10% in the medium term; actually, it's broken up into three parts, and the first one goes into the P&L and the adjustment into the P&L. Because at the beginning of your presentation, you spent quite a lot of time telling us what was in and out, so does it include restructuring costs, cost of ring fencing – obviously, bank levy, we've heard not – so that we get an idea if that's on an adjusted basis and what that is? Likewise, on the balance sheet FRTB operational risks – just to get a nuance of what it includes. And the third one, is that for '16 or '17? Because I think you said medium, and medium was '15/'16, but actually it felt more like a '17.

Samir Assaf

So, to answer the first question, in all our adjusted, we have only taken away the fines, and we have kept into our adjusted numbers all the restructuring costs and redress that we had in the past and all the legal fees that we pay for all these fines.. We only excluded the fines themselves and the one-off method changes that happened in 2014. And going forward, it will continue to be the same. The restructuring costs will be within the numbers that I talked about. So, that's crystal clear. And again, in the past, like in 2014, redress on interest rate swaps, you don't see them because they are part of our costs and we're not saying that we put them aside.

Carla Antunes da Silva

And cost of ring fencing?

Samir Assaf

No, cost of ring fencing is in the future and we are including the cost of ring fencing into our projections. Cost of inflation as well is included in our projections and so on and so forth.

Carla Antunes da Silva

Then there was the balance sheet. Without getting into numbers, just to understand if, in your modelling, you're including the FRTB hit there, the operational risk hit there.

Samir Assaf

I'm still an advocate of the FRTB, so my job as chairman of the GFMA, and we're going next week to Basel to talk about… The situation is not clear at all and, actually, it will happen in 2018 or '19, if it happens. And we are not yet including the FRTB in the charges of capital. It may happen but, again, if FRTB happens, it's in 2018 or '19 and we don't know the size of it.

Now, again, we are doing this on a constant basis, because we have not yet designed what our ring-fenced bank would be exactly – what would be exactly in, what would be exactly out – so there are some things that can change into what we are talking about. It will not hurt the overall profitability but the ring-fenced bank may hurt the way that we operate on clients, if they are in the ring-fenced bank or they are not in the ring-fenced bank, but that concerns only our UK business. But we have not modelled yet. Costs put aside, we have not modelled how the business would be ring-fenced and non-ring-fenced.

Carla Antunes da Silva

Just a final: it's '16 or '17 for your achievement of the more than 10%?

Samir Assaf

I said in the medium term. I hope it will be in '15 but our target is in the medium term, meaning in the next two to three years. So, it's not a target for 2020, if you are asking this question this way.

But may I go back to the levy one second? Because we've discussed it and, again, we can decide a target without the levy and we can decide a target with the levy. In the two targets that we will have, the levy will be included. It doesn't mean that we're not taking it into account completely, but what the Group will give me as a target is that he will say, 'I'm not re-charging the levy but I want you to hit a bigger target to pay for the levy' or 'I am re-charging the levy and this is the target that I want you to hit, which will be lower.' Definitely, what I've said is that the Group is pushing to the businesses everything in capital, and is not retaining anything in the centre.

Fahed Kunwar, Redburn

Just a question on your RWA reduction. You talked about getting back to a $422 billion number, potentially.

Samir Assaf

No, I did not give a target. I said just have a look.

Fahed Kunwar

Yes, fair enough, but I guess, if you think about all your legacy reductions, we don't have any numbers. It's not ridiculous that that gets eaten up by RWA inflation as well, but then, earlier on, you were talking about opportunities – growth opportunities, renminbi internationalisation. Does this business, considering all the capital constraints, really have an ability to take risk and get those RWAs down as well at the same time?

Samir Assaf

Yes. I will tell you why: because we have some back books, and I will not go back to the back books, but we will see how we will run these back books. But then, the rest of our portfolio – most of it – is a short-term portfolio. So, if you consider trade finance, we don't disclose the number but we would not need to increase RWA to do more business in trade finance, mainly if other people are withdrawing from this market and we have more opportunity to get our margins better and so on and so forth. If you look to our credit business, I'm expecting that we will be doing less credit in the future than more credit in the future, mainly because the market will be driving the corporates, but the rest of the behaviour, through capital markets instead of through credit markets. And that's what I hinted here.

So, when we think about it and we look through these numbers and tweak the models – we're not at all tweaking the models, but cleaning up the data in a Group like us, just making sure… Because we operate in several balance sheets. The big difference between us and so many other banks is that we operate in so many different balance sheets that there is an inefficiency that we can, when we go after, find in an easy way, I would say.

So, I would imagine that growing the business that we are growing will be compensated by two major factors. The first one would be running down the back books, and the second one is that the normal business model will be shifting to be less capital intensive.

Fahed Kunwar

Just following up on that point, there are a lot of international banks in your regions who are capital constrained, and all of them are saying they're chasing volume at lower risk weights, so the same type of business. So, isn't there a pretty serious margin implication if that happened? We saw trade finance margins a couple of years ago, when all the international banks poured in, the margins collapsed. How do you think about that dynamic, then?

Samir Assaf

I think that the constraints are at two levels, and the difficulty, as somebody mentioned here, is who is able to work on the two levels. One is capital and second is leverage. So, when you think about some of these banks that you are talking about, they can chase low capital intensive, but then the constraint of leverage, because it will be more size, will hit. So, who is able to work through the metrics of leverage and capital will, of course, make it easier for itself. So, look at what happened between 2011 and 2013-14. 2011, the industry said, 'We'll slash down capital and we'll go for low capital and more leverage business', and then, when the leverage ratio hits, we have seen that, businesses like the repo business, for example, or like the prime equity business or prime brokerage business, it was not capital intensive, but size intensive – the constraints that are starting to happen in the market.

Fahed Kunwar

Sorry to labour the point, but I guess the three big international banks in that region are J.P. Morgan, Standard Chartered and yourself, and they're all risk-weighted-constrained rather than leverage-constrained, so isn't there going to be that problem occurring? What banks do you see that are leverage-constrained that you're competing against for these margins?

Samir Assaf

I can't answer this question now on record, I would say. What I see is that the way that the market is evolving, on a relative basis, keeps giving us the relative advantage – not absolute advantage – to a lot of our peers.

Michael Trippitt, Numis

If I just think about your risk asset base now, you've got the legacy book, you've got – if I'm getting this correct – a back book which is… For the legacy book, we can see what you're trying to do. There's a back book which is producing lower profitability. What I'm trying to understand is, where we've had this shift in targets, which I think slightly caught us offside on the results day, if you think about the CET1 benchmark going from 10% to 12-13%, can you just give an idea of how the scale of that back book has changed? So, in other words, what I suppose I'm getting at, if you went back and applied the filters approach two years ago, based on a 10% CET1, and you applied the filters approach now, based on a 12% CET1, I'm just trying to understand how that back book has grown, effectively, because there must be a more inefficient back book that's got to be shifted, and I don't know if you can give a sense of scale.

Samir Assaf

Of course. Again, when you raise your targets, then you will find that, whether it is in geographies or whether it is in products or whether it is in clients – because we need to talk about clients as well and, as I said, we manage it through clients – the hurdles would be higher and are higher, and that would force us to revisit, in a more drastic way, all these areas, including, as I said, the back book and the legacy, as well some clients where we believe that we could have, in the past, to a certain hurdle level, a good relation with these clients and continue to offer capital. We will constrain capital, actually, and we have done a very, very thorough exercise on what we call client profitability, and we have quite, in a defined way – and to go back to Alastair as well – what we will revisit and keep, and what we revisit and say, 'Well, it's not for us anymore.'

So, what I don't want to give the impression is that everything is going well and we just have to wait for time to get back to 2.3, 2.4, 2.5 – whatever – and then just wait for others to stop doing. We have a very organised and determined workstream to get every stone of our business, and we have no taboo at all, because we are not tied to anything, except to the profitability of the Group. So, we have no taboo at all by saying we should shut this business area or we should shut this area or we should close this relation with a client or not offer capital here or not doing there, to get where we need to get. But again, our only target is to get to the profitability of the Group level as quick as possible, and as a quick as possible is the terms that I've talked about.

Michael Trippitt

Just to push a bit harder there, out of the $500 billion, you've got a $40 billion legacy book, which we've sort of been keeping an eye on over the quarters, but within that $460 billion, I'm just trying to get a sense of scale as to how the inefficient back book within that $460 billion has grown as a result of having to look at the 12% CET1.

Samir Assaf

You and I will be looking – you, in a quarterly way, and I, in a daily way – at how this $516 billion will become where. Then, whether it is the back book or it is part of the non-profitable areas that we are still doing now, or whether it is just running off some different businesses. That's the streamlines that we have. But if your question is to say how much we think your risk-weighted assets would be and how quick you can be more capital efficient, my answer is that it is part of the exercise that we are doing, and you will see these numbers going lower.

Michael Trippitt

Sorry, can I be greedy and ask a follow up? I'm slightly struggling to position this. What seemed clear on the conference call is that you may be operating in geographies today that you probably won't be in 2017. That's how it felt on the call, so trying to position this without understanding the broader Group context is difficult.

Samir Assaf

Sure. To go back to the Group context, Stuart and Iain said that we have four areas where we need to adjust profitability in the next 12-24 months – adjust profitability meaning working very hard to get it better than what it is for the time being. And as I said, our business is not an independent business. Our business is part of HSBC and works for HSBC clients. We're not an investment bank and we're not a product bank that we push product to whatever the Group is doing. So, we will be just in line with what the Group would do, and we will do our bit of it. In these areas, our businesses as well, mainly in the US, for the time being, are struggling or are not providing enough return on equity, so we have our bit of hard work to do, just to put it in the Group context.

James Chappell, Berenberg Bank

Just a follow-on from the last two questions: can you give us a better understanding of what has happened to your client base? Has your client base shrunk or grown over the last two to three years, driving revenue growth? Then, taking that and taking it a step forward, how are you balancing that client base? Are you going to increase the client base to drive revenues? How are you going to mix that with risk at the same time as well?

Samir Assaf

Our client base, for the last four or five years, has shrunk. We have deliberately shrunk it, and we will probably shrink it a little bit more. This is mainly based on profitability criteria. As well, we take into account other criteria: what works in the international network and what doesn't work in the international network. When I say that, I talk about our client base in Global Banking & Markets directly run by us. The CMB client base in some geographies has increased, like in the US, for example, where we did not have a real CMB business a few years ago and we're starting to have a good and very interesting CMB business. This CMB client base, again, is very important to us because, whatever capital market business the CMB client base would do, it will be done through our products.

So, the question is twofold: the first one is that the GB&M client base has shrunk, and we have shrunk it based on profitability criteria, but the Group client base – mainly the CMB client base – is, in some geographies and in some areas, expanding and it's a full benefit to us.

John-Paul Crutchley, UBS

I wanted to ask you a question on slide 36 – the one which shows your market positioning etc. I guess the point about the slide is to show us the areas and product areas where you're particularly strong, but I just wanted to ask you the opposite. Clearly, there are areas where you are relatively weak, and I just wondered if you could maybe comment on, when we look at this slide maybe in three or four years' time, whether we should expect to see more white blocs, where you've decided you can't compete and pull back.

Related to that, I'm particularly interested in terms of how you think about North America because, clearly, I think we all recognise that's a business that is underperforming for you at the moment. There's still a fairly meaningful amount of capital tied up in that business, and it is, in terms of global GDP and financial services, a very important market from a capital market flows perspective. So, maybe you could just say a few words about what you think about how HSBC, as an investment banking business, is positioned in North America longer term, how you think about that, and the areas of other relative weakness.

Samir Assaf

So, on North America, first of all, let's say it's the US and Canada, because we have two different businesses in the US and in Canada. In Canada, we have a very good business and, if you put the top five Canadian banks aside, we're probably the biggest foreign business in Canada. It's a very good business and it's a very profitable business to us.

The US: we will not go and compete with the US banks on domestic business. This is what we have decided a few years ago, and we have revisited the option and we've said that it's still not for us. It doesn't mean that we can't get better our US business, and our US business will be better in threefold. The first one is to get better profitability, internationally, from our US clients; so, wherever they are. The second is to make sure that we can serve our international clients better in the US, so we will add some sectoral expertise. It will be marginal, of course, because it will be 10 or 15 or 20 people – it will not be 100 or 200 – but just to serve our international client base better in the US, and mainly on the event business.

But we will make sure as well that, with the client base that we have in the US, we can as well serve them better in the US, and that's mainly the CMB client base that is developing. You know as much as I know that the domestic market in the US is a very profitable market, and that, if we have a better access to this client base, which we are having, we will get better and better, interesting business in the US, but through the structure that we have – international business into the US.

The weakness that we have is the inbound business to the US. So, we are generating a lot of business from US clients outside the US but, for the time being, and to be honest, if our Asian or our European clients want to go and do business in the US, they say, 'Well, let's go and do it with the US banks", and we think that we can offer better access if we started up a little bit more to facilitate that.

Now, in other geographies, I think that, again, Asia, we have a fantastic footprint and it will continue to be better. What we are missing in Asia is a joint venture in China for the onshore business, and that's something that we are working on. But for the rest of it, our setup is very good and will continue, I think. The renminbi is a great opportunity for us and, when you think about renminbi, it's not the anecdotal numbers that we see now from the dim sum market only, but when the renminbi will be fully convertible in two or three years' time, and we are one of the three or four international banks that will profit from probably an explosion of volumes in renminbi, whether it's in capital markets or in FX or in other areas. So, in Asia, we have a superb setup.

In Europe, we have the ring-fenced bank here and we will model through what's the best setup for HSBC on this ring-fenced bank. It means what's the best setup for clients to be in the ring-fenced bank, outside the ring-fenced bank, and then how the relationship will work. But in Germany, we can do much better than what we are doing. We have a local presence. We are almost considered the international German bank in Germany, and we've done well in the last year or two but we will have more to do in Germany. In Germany, HSBC is doing more not only in our area but the real push is in the CMB client case, where we have seriously increased our portfolio of clients and where it's an opportunity for us. And for the rest of continental Europe, we have a good position in France and we serve the rest of the client base in a very good way. We have a big push in the Nordic region, where we had almost no presence. Again, this is the kind of marginal investment that you can do and can provide a better connectivity to the platform.

So, from a geographical perspective, we're tidying up our position, but leverage where we have serious opportunity and get it better where we're not doing it well for the time being, like in the US. We have the special situation in Brazil and we are all in expectations of what will happen not at the HSBC level but at the market level of how the situation will evolve in Brazil. Brazil used to be very profitable for Global Banking & Markets at HSBC, and we will make sure that it will continue, but we are dependent as well on the events on the ground.

Christopher Manners, Morgan Stanley

Two questions, if I may. The first one was about the stress test coming up. As I understand it, the Bank of England is going to be more focused on international exposures and trading exposures. Just maybe you could run us through which part of the books you think are going to be most vulnerable to stress testing and how you're trying to inoculate yourself against a higher capital charge in the event of the stress test.

The second one, I thought it was very helpful, the way you ran us through slides 41 and 42 and explained a number of adjusting items and how, maybe, the profitability had been slightly distorted by those. Can I ask why you don't put those into the adjusted numbers when you tell us the numbers in the first place, when they are reported? Because probably it would help quite a bit to be able to interpret it before this session.

Samir Assaf

It would have helped me as well and we would have avoided the first 10 minutes just reiterating this. Now, again, we go back to our CFO and we will see how much progress we can do on that. But again, if you look at our annual report, all the numbers were there. But of course, you will have to re-put them and say, 'Well, FFVA', so, if we put it in, or the EIR charge, if we put it in, or Iain talked already about the equity adjustment in 2013, so that created a real confusion, because everybody said, 'There is a hole in Global Banking & Markets in Q4, so what is happening?' When you just put the numbers together, you will find that, revenue-wise, it was the same number as the year before. Profit-wise, it was a bit lower, because our costs were a bit higher, but they were nothing really dramatic. The steady progress of our business has continued and, again, if you look to 2014, it's better than 2013, at least from a revenue perspective, despite all the challenges.

So, when are we doing this? We're working on that. I promised you last time. We have done some progress, if you noticed.

Christopher Manners

It is a lot clearer.

Samir Assaf

Yes, we'll continue to do the work internally to make these presentations clearer. Now, on the stress test, maybe I'll ask Gerard to give us his view. I'll give you mine.

Gerard Mattia

Of course, we still have the securitisation positions, and that's probably the first and foremost that we look at. When you look at the rest of our book, it's fairly more vanilla than many of our peers still, so the next logical thing you do is you look at the long-dated transactions and how we've hedged those. We've spent a great deal of time over the past couple of years preparing for CVA and also how we better manage our counterparty credit exposure within our book as well, so I think that's helped sharpen the focus on those exposures considerably. But I think, from my perspective, it's largely the securitisation positions and some of the longer-dated positions that we have.

Samir Assaf

If you look at our traded assets, basically, the Level 3 assets represent almost nothing, less than 4%. When you look at the proportion of what is government bonds in it and what's derivatives – and derivatives are the vanilla derivatives – there is no real surprise that we can get from our books. Now, on the other hand – I keep repeating the same – on the balance sheet management but on the corporate book, the Bank of England has already applied the LGD floors. So, the LGD floors that we have in balance sheet management for government bonds which are not gilts and European government bonds are already there. So including the US government bonds, including all the Asian government bonds, we have capital against already. And the LGD floors for corporate – so, for the very high rated corporates – we have a floor of 40% on the loss given default. That is already in the number, and partly has weighted on our RWAs last year, which doesn't exist outside the UK.

I don't know if we disclosed, but I can say only these two numbers represent c. $33 billion of RWAs in our numbers that no other bank compared, except the UK banks. So, when you hear, for example, the ECB starting to talk about 'Should we start to think about risk-weighted assets for government bonds?' the UK applied it, but not for the gilt and for the European government bonds, for legal reasons.

Jason Napier, Deutsche Bank

Just further questions on costs, I'm afraid – simple ones. It is right that you're expecting your divisional costs to go up before they come down over the next three years. Secondly, if you could just talk a little bit about what proportion of your divisional costs are allocated in from elsewhere? And then thirdly, just around any of the moving parts you can point us to make a decline in costs an easy achievement, if you like – perhaps what you're spending on legal, what you're spending on consultants; things that the automation process might deliver. Because at about a $10 billion cost base, it's really difficult for the investors that I talk to, at least, to think about KYC as being a big driver of efficiency gains and the like. So, anything you can give us in terms of substantial components of this year's cost base growing into next year but that might be gone the year after would be helpful.

Samir Assaf

First of all, yes, there are direct costs and indirect costs, of course. The Group is organised by business line and by function, so what is indirect is the functional costs of compliance, credit risk, risk areas, legal areas. These are functional costs allocated to the business. We have direct control on two things: on how much headcount we have and how much business we write, because there is a marginal cost for every new business that you put in place. We have a direct, as well, influence on the setup of our business, and basically we use a lot of balance sheets, as I said, and we're awaiting much more clarification through regulations to decide whether we want to continue to use all these balance sheets or what's the rationalisation that we can do on all these balance sheets. This is an exercise that we are constantly doing but we're not yet taking final decisions to wait to see where all the regulations will land.

Most of the cost increases of the last few years were coming from the risk areas and from the compliance areas, and for the right reasons. Again, I can't complain by saying it's because we are doing this business. The cost of doing this business is definitely higher. From what the regulators are asking to see, all the reporting – take FATCA, for example – it is something that we have to do. We can't do anything about but we can't say. This is the cost of doing business.

So, most of the costs came from these areas. Now, what's the direction in the future? So, for example, you're asking me about KYC. We have several initiatives, including this one, where we've said some of the cost base can be shared by the industry, and we can create utilities together to see more efficiency at an individual level. So, for KYC, we have created, with Deutsche Bank, with Morgan Stanley and Citi, and with Markit and with Genpact a utility that will start to be operational in the next few weeks or months, where part of the KYC will be done by this utility. When I ask a passport copy for a client, Citi is asking the same passport copy for the same client, so we can put something in common, and that will create some good savings for us. We have several other initiatives like that.

Now, are we going into a quantification exercise? We're thinking to do probably an investor day for Global Banking & Markets and we will give you much more detail on all these initiatives. Today is not an investor day to go into these lines of business, but the direction of travel is to say that the cost base where we are, we can trim a little bit, but this is not where the biggest return on equity achievements can happen. Our aim is to keep our adjusted cost base stable in the medium term, and grow our revenues and cut down the capital use, and that's how the equation will work.

Jason Napier

Just as a minor follow up to that, when you do your product-level, customer-level, transaction-level return calculations to make sure that it all makes sense, with virtually all your costs fixed or allocated, what cost income do you use? How do you do that?

Samir Assaf

We use two costs to income: one is a kind of marginal cost to income, and one is a full cost to income. Again, we just put them together and, at the end of the day, the client profitability is done through the full cost-to-income ratio.

Ian Gordon, Investec

Just in terms of the Group's geographic footprint, which may be impacted by further rationalisation of underperforming Retail and Commercial areas, what, if any, impact should I think about your business. As an example, I assume that we will see some resolution of the Turkish problem in terms of the Retail business. Should I think of your 100 million per annum contribution to PBT as ring-fenced, or should I think about it as being impacted by whatever the solution is in that geography?

Samir Assaf

I prefer not to get into this detail but, just to illustrate, we, as a business – Global Banking & Markets – we don't have clients in Turkey. The clients in Turkey are CMB clients – all. I don't have one Turkish client as part of GB&M clients. But we have a dealing room in Turkey that works for the Turkish business and, in our dealing room in London, we work for Turkey. So, I don't know what you want me to answer to that, but my easy answer is to say we don't have clients in Turkey. So, whatever the progress of the business would be in Turkey, we would not be affected. It's not positively. If the business in Turkey gets better, which we are all working to get it better, we will get a better profit in Turkey.

Ian Gordon

If you exited a geography where you have no GB&M clients but where you have a contribution to PBT now, should I think of that continuing or disappearing, if a decision was taken to exit that geography?

Samir Assaf

It depends on the geography. We have done it in Colombia, for example, and in Peru, to give a live example. We have done it in Colombia and in Peru. We were generating money on the ground, and what we have done is that we opened a rep. office and we kept dealing with the 5 or 10 or 15 biggest clients. Actually, we're making money now from these clients more than what we had when we had the office on the ground, so just to give the Colombia and Peru example.

Leigh Goodwin, RBC Capital Markets

First of all, could I just ask a quick question and clarification on costs and what you're saying? So, it's on an adjusted basis that we should assume costs will rise and then fall, so it's not reported.

Samir Assaf

It's if we have more fines. We're not including these fines.

Leigh Goodwin

No, or restructuring – is that included as well?

Samir Assaf

We have said that restructuring will be included.

Leigh Goodwin

So, it's adjusted, including restructuring. Thank you. I just wanted to ask –

Samir Assaf

Except if the Group decides differently but, for the time being and in our projections, the envisaged restructuring costs are included.

Leigh Goodwin

Then just two areas that we haven't really talked a lot about. One is credit risk and the other maybe are some of the revenue opportunities that you see, because, really, the conversation has been about almost retrenchment and getting back to core on profitability and so on. So, just about credit risk, we're reading a lot about concerns about what's going to happen in emerging markets and what is happening in emerging markets, because of commodities, energy and US rates rise – those sorts of things – and I wondered whether you could just elaborate on how you see the outlook within your business and with the clients you're dealing with – the Group clients that you're dealing with.

And then, on revenue, just maybe something to tell us where the revenue opportunities are coming from. Because if I triangulate the things you're saying, costs sort of flat, RWAs are coming down a bit, probably, but you don't want to commit on that, so you're going to need some revenue growth, and I wondered where the opportunities really are for the Group in your area that can convince that the ROE targets are achievable.

Samir Assaf

So, just a clarification on RWA. I'm not committing but I'm telling you strongly that the RWA will come down, except if the FRTB is, whatever, $500 billion or a trillion or whatever the number can come, and it's applied tomorrow morning. So, in a logical framework, we know now this RWA should come down.

Revenue opportunities: I've talked about the renminbi, and probably, when we see you next time, we will show you the business that we are doing in renminbi and how progression is twofold every year, year on year, and how the opportunity we're seeing it growing even more in the future. Just think about it: six months ago, we had no Shanghai-Hong Kong Connect, and now we have Shanghai-Hong Kong Connect. This is a new opportunity. It came from nowhere. And our market share is obviously one of the two or three biggest market shares. Probably we will have another zone in the next six months, with the Shenzhen zone. So, everything that happens is, for us, a good thing, because we have a good market share of the renminbi, and the customer base think that, whenever it's happening in renminbi, we are one of the banks to go to. Just if you take, for example, our sub-custody business in China, I can't disclose the number but a very percentage of what everybody is doing into the RQFII fees and into the RQFII fees in China is sub-custody with us, so this is a big area.

The second area which has shown progress – you have seen that almost every single area of our business is progressing – all the area around transaction banking and FX. We are on a 4% progress year on year the last three years, and we think that we can continue the same path and, hopefully, we can do better. We have a specific growth initiative with specific streamlined work on this area that is happening now, and what will come to this area is the digital area that we are working on, which will be different from what we have for the time being and which makes a real difference to our client base.

The third area – and we have seen it progressing already – is that, without the US market – because we don't have the US market; we have small bits of the US market – our capital financing business – the debt side, the equities side, the event side, the big financing side etc. – we're growing on a yearly basis. As I said, it's 3% growth, but we see real potential here of accelerating in this area. And as well the shift from lending book to capital market book, where we have significant market share. So, in Europe and Asia, which is where the biggest opportunity is happening, and we will profit from it. Our equity business, which was not existent a few years ago, is starting to be a significant business for us, and we see this business still with potential to grow.

So, from a product perspective but from geographies, I spoke about the US, where we can do better than what we're doing. I spoke about Germany, where we have a real foot on the ground and we have a good presence, but we can do more on our client base and on the CMB client base. On the UK, we have not discussed the UK, and yes, we have the ring fencing in the UK, but today we have an initiative where we are adding more content to what we tell our clients in the UK and it's already showing and it will be beneficial.

Now, in emerging markets, the areas where we are – and we've discussed it several times – we're not worried about China. China will decelerate and it is decelerating, and it's the Prime Minister who's saying China will grow at 7% or a bit below, but we believe firmly that China, at least for the next 5 to 10 years, the Chinese authorities have the leverage to keep it going. They have several levers. The quickest one is the monetary leverage. Of course, their interest rates are still high compared to European and to Japanese interest rates, and to the US interest rates, but they have as well the leverage of changing the structure of the market, which can help a lot. They don't have fiscal leverage, and they are saying clearly, 'We're not using fiscal tool but we can use monetary tool and we can use market reforms to get more fluidity in this market and to keep the economy up and running.'

Now, emerging markets, India: so, you can say that some countries are affected by commodities and by oil price, but some countries are dramatically benefiting from it. You take the case of India, of course Turkey, of course South Africa. These countries are benefiting from it. Even Brazil, which technically is still an importer of oil instead of producer of oil, technically Brazil is benefiting from oil prices. Now, benefiting from the commodity area, of course, but benefiting technically from the oil price now.

Then who are the countries that are affected? Well, it's basically the Gulf countries where we have serious interests, but the business that we see in the Gulf is the following: these countries – basically Saudi Arabia and Abu Dhabi, which are the two countries that… Of course, Dubai has no oil, and we don't have meaningful business in Kuwait etc., and Qatar is gas and it's very rich and they have a big buffer to afford all fluctuations. One of these buffers is this building now – well, it's this whole area, Canary Wharf. But Saudi and Abu Dhabi have no public debt, so they can start to issue debt and they have large reserves.

So, when you think about it and you say, 'Their breakeven is 90 on the budget', yes their breakeven is 90 on the budget but it's not because the oil price is 60, then they'll have to lower the budget to 60 at least for the next few years, because they can borrow money and they can use part of their reserve. They will not use all their reserves but they can use part of their reserves. What we observe is that, for the time being, they are sticking to this policy and it is sustainable for us. Now, it's probably not sustainable 20 years, but it's sustainable in the cycle of the lower oil price that's happening today, so we're not affected and we continue to see business.

What I want to say is that, in emerging markets, yes, of course, there will be liquidity squeeze in US dollar, but the liquidity squeeze will affect more our competitors and will give us, probably on a relative basis, a better opportunity to get our situation. Look what happened the last few years in Hong Kong. You see people withdrawing from these markets and then the last standing not only us, but you have fewer players in these markets, and because we have the local footprint, then it's relatively a good advantage for us to our margins.

Thank you for your time today.