
Transcript

Strategy Update Conference Call Investor and Analyst Conference Call for HSBC Holdings plc's Strategy Update 2018 hosted by John Flint, Group Chief Executive

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Corporate participants

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The Hongkong and Shanghai Banking Corporation Limited

John Flint, Group Chief Executive

Good afternoon from Hong Kong, good morning in London, and welcome to this strategy update conference call. Over the next 30 minutes I'm going to talk you through eight steps that we're taking to return HSBC to growth and to achieve a strong return on tangible equity. At the end of that, Iain Mackay, Peter Wong and I will take your questions.

Let me first draw your attention to this forward-looking statement and to the basis of preparation statement within it.

So the strategy that we've pursued since 2011 is working and has built a strong platform for growth. We're the world's leading international bank, with an international network generating more than half of the Group's client income. We are starting to capitalise on our privileged access to some of the world's highest growth markets. And our balance sheet strength continues to provide an excellent foundation for a sustained, industry-leading dividend.

What we've not managed to do so far is deliver regular growth in profitability, and therefore to deliver satisfactory returns. Now that much necessary transformation of the bank is complete and interest rates are returning to normal, it's time for HSBC to get back to growth. That means increasing customer numbers, taking market share, and growing profits on a consistent basis. In this next phase then, we'll be taking action to capitalise on our competitive strengths and maximise revenue from high return, high margin businesses, particularly in Asia and across our network. We will also be investing to improve our competitiveness, particularly in technology. We'll increase our focus on capital efficiency and value creation, completing the turnaround in the US and creating the capacity for investment. And we will simplify the organisation to make it easier for our colleagues to do their jobs and speed things up for our customers. So by the end of this call we will have laid out a pathway that we believe enables us to:

- Deliver an improved return on tangible equity above 11 per cent by the end of 2020;
- Achieve positive adjusted jaws consistently on an annual basis; and
- Sustain our dividends while using buy-backs to neutralise the scrip.

Here's how we intend to do it. We have eight strategic priorities that we will pursue between now and the end of 2020. The first three priorities aim to increase returns from areas of strength. To do that, we will accelerate growth from our Asian franchise, particularly wealth management, insurance and asset management. We aim to be the leading bank to support the drivers of global investment, particularly the China-led Belt and Road initiative and the transition to a low carbon economy. We will grow our UK business, particularly in mortgages and commercial banking. We are also targeting more market-share gains from our international network.

Priorities four and five concern the turnaround of low-return businesses. While the US business is the biggest exporter of client revenue to the wider Group, we have to increase returns in the US itself. At the same time, we will further improve capital efficiency within the Group, and redeploy capital into higher-return businesses.

Priorities six and seven are about improving our customer-experience and increasing our competitiveness. We're going to improve customer service by investing further in our digital capabilities, increasing our reach (including through potential partnerships), and delivering industry-leading financial crime standards. We're also going to make more efficiency-gains to create the capacity for investment.

Priority eight will make it easier for our colleagues to deliver for our customers. There's much we can do to simplify the way we work.

We'll start though with a quick recap of what makes HSBC distinct, and where our strengths lie. This underpins everything that we intend to do over the next two years and beyond.

Slide 6 shows HSBC's DNA. This is who we are, and illustrates three strategic strengths that are hard to replicate, and which give the bank a long-term competitive advantage.

First, we are the leading international bank. Our network is in many ways our lifeblood. More than half of all Group client revenues are linked directly or indirectly to our international network. We are also the number one global transaction bank – with a share of the market that is continuing to grow. The second is that we have privileged access to high growth markets. No other bank has a comparable level of access to high growth, developing markets in Asia, the Middle East and Latin America. This isn't just flags in the ground – it is history, knowledge and experience. It gives us an unparalleled ability to connect customers to opportunities in these markets. Third is our signature balance sheet strength. HSBC is, and always has been, synonymous with strong capital, strong funding and strong liquidity. We will always have a conservative approach to credit risk and liquidity management, and our diversified and differentiated business gives us low earnings-volatility.

This all gives us an excellent platform on which to increase profitability and grow returns.

Slide 7 goes into detail about our strength as an international bank. This is demonstrated most visibly by our high return, highly capital-efficient transaction banking franchise. With more than 15 billion dollars of revenue in 2017, HSBC has the number one transaction banking franchise in the world. We are number one globally for trade finance; FX for corporates; and liquidity and account management. We are also ranked number 1 for Assets-Under-Custody in Asia Pacific, and number 2 for Emerging Markets Fixed Income. All of this is supported by our financing and advisory capabilities. You should remember that a lot of these revenues wouldn't be possible without a financing relationship to underpin them. Transaction Banking products make up around 30 per cent of the Group's revenue. Critically, this is high quality revenue with generally limited capital consumption, delivering a return on tangible equity above 20 per cent. There are very few banks with the ability to compete with us in global transaction banking.

The fact that we've got access to high growth markets reinforces the potential of our international network. Asia and the Middle East are the biggest drivers of growth in global GDP and trade between now and 2030, and we have a very strong presence in both regions. Asia is the Group's heartland, where the bulk of our revenues and profits originate. Much of this centres on Hong Kong, but we are well positioned among regional and international banks in mainland China, the Pearl River Delta, Malaysia and Singapore.

We're also the leading international bank in the Middle East, and in a good position to capture further market share, particularly in Saudi Arabia through our investment in SABB. We're well-placed to connect the large economic programmes that span both regions, particularly Belt and Road, and national programmes such as Vision 2021 in the UAE, and Vision 2030 in Saudi Arabia.

Our Latin America footprint is dominated by our Mexico business, which is benefitting from the strong turnaround made since 2015. However, we also have a regional wholesale network, and a strategy to connect cross-border flows throughout the Americas.

Slide 9 shows how we view the Group from a geographic perspective. This can be broadly characterised as:

- Eight "scale" markets in which we are considered one of the leading domestic banks, with access to domestic growth opportunities;
- Eight markets in which the opportunity is geared around our international presence; and
- The remainder of the network that connects foreign and local customers to the Group.

The eight "scale" markets reflect our aspirations for those businesses as well as their current position. Hence they include our biggest established markets, such as Hong Kong and the UK, as well as markets in which we're still building a universal business, such as the Pearl River Delta.

The eight "international" markets include those businesses where we see an opportunity to enhance our position based on the strength of our network. They include France - where we intend to turn around our retail business and build an additional European hub for wholesale banking - and the United States, which I'll say more about shortly.

These distinctions illustrate our approach to each country; they dictate the latitude country CEOs have to compete in local markets, and to command resources from the Group. But this shouldn't be mistaken for a

hierarchy. Each of these three categories is integral to the Group. While the bulk of the revenue is booked in the 'scale' markets, it is the rest of the network that makes much of this possible.

Slide 10 illustrates our signature balance sheet strength. I won't spend any time here. Suffice to say that this is very much the foundation of our sustained, industry-leading dividend. So we are already in a strong position. The challenge now is to use these strengths to drive revenue growth and better returns. We are moving on from an extended period of transformation in which we've reshaped the bank, reduced risk-weighted assets, maintained cost discipline, invested in growth, and shown our ability to execute. What we haven't done in that time is to consistently deliver returns above our cost of equity, and absolute top line growth. This next phase aims to deliver both. We also have to compete for the long-term by serving our customers better, and we're going to invest in the technology to do that.

We are moving from a return on equity target of 10 per cent to a return on tangible equity target above 11 per cent by the end of 2020. We intend to do this with a CET1 ratio above 14 per cent, while sustaining dividends and continuing share buy-backs to neutralise the scrip. So let's look at how we're going to grow the business in a capital-efficient way.

The chart on the left of slide 13 shows how our reported revenue reduced between 2011 and 2016, and has since started to recover. Between now and the end of 2020 we aim to deliver mid-single-digit revenue growth on a compound annual basis. We'll reallocate low return risk-weighted assets into higher-returning, lower-capital businesses. The chart on the right gives you a sense of where these are. They are all areas where we already have a competitive advantage and, as we see it, a right to win.

In addition to these, we have a strong presence in other markets with significant growth. In Mexico, for example, we've completed our turnaround and have a profitable bank that's competing to take market share, particularly in retail banking. So we have lots of opportunities to generate returns above our cost of equity. We will start by accelerating our revenue growth in Asia. We will do this around four themes.

First, we will build on our strength in Hong Kong. Hong Kong is growing and there's a clear revenue opportunity for a bank with our scale there. Second, we're going to keep investing to build a new scale market in the Pearl River Delta. Third, we're going to build a leading wealth business to capture rising prosperity in Asia. And fourth, we are going to keep expanding our presence in the ASEAN region.

Hong Kong is our biggest market and we're its biggest bank. Our market share has remained stable over the last decade or so and we're the clear market leader in most major product areas. It's also increasingly competitive, so we need to adapt and invest to grow our market position. There's a big revenue opportunity here.

To capture that we're going to increase our share of growing customer segments, particularly millennials and non-resident Chinese customers who operate cross-border. We are also going to invest in our Insurance business to build its market share.

Our ability to win and retain customers depends on the strength of the customer-experience, particularly in digital. We've already had success here with PayMe, which is creating a new payment ecosystem in Hong Kong. We're going to keep investing in digital payments, build new capabilities in Business Banking and look at potentially innovative new partnerships.

We are also in an ideal position to channel China outbound investments as Hong Kong becomes more connected to the mainland. The combination of our strength in Hong Kong, our capabilities in the Pearl River Delta, and our international network gives us an unrivalled ability to connect China to international projects and investors.

Slide 16 looks at the Pearl River Delta, where we intend to double our revenue by the end of 2020. Back in 2015, we spoke of our aspiration to build a new scale market in the PRD. We haven't grown revenue as fast we'd have liked, mainly due to margin pressures. However, we have executed what we promised to, and the business has shown steady revenue and loan growth in the past 4 years. We expect that to accelerate.

We've got a great foundation for growth. In the last 18 months we have: Launched HSBC Qianhai Securities, the first JV securities company majority-owned by a foreign bank in China; Launched our first sole-branded credit card in mainland China; and more than doubled the size of our team since 2015.

The PRD remains an attractive market and we have shown that we are able to compete. We're the only international bank offering a full range of investment banking products, and we're making good progress in the retail and commercial markets. We have a realistic plan to build a strong franchise for the future, and we're confident in our ability to achieve a billion dollars of revenue over the medium term.

We're also going to capitalise on Asia becoming the largest creator of wealth world-wide. Asia's total share of global private financial wealth is forecast to overtake North America by 2021. Asia should also see the largest growth in private financial wealth, driven mainly by higher savings and new wealth creation. Asia's middle-class base and average household income are expected to more than double by 2030, whereas the wealth of high-net-worth individuals is forecast to double by 2025.

Slide 18 shows our aggregate wealth business in Asia. This comprises our distribution capabilities in the Private Bank and Retail Banking & Wealth Management, and product manufacturing in Insurance and Asset Management. These businesses generated 5.1 billion dollars of revenue in Asia in 2017. We are aiming to increase this by up to a billion dollars by 2020. In Wealth Management, we aim to grow market share in countries where we have an established presence – specifically Hong Kong, Singapore and mainland China. In Insurance and Asset Management, we are going to increase our penetration of an existing client base. We are also looking at opportunities around new ownership rules in mainland China in both businesses. All of these businesses are capital-efficient, so scaling them further is positive for returns. Taken together, we think this gives us a great opportunity to become the leading wealth manager in Asia.

We're also looking to grow in the UK. The ring-fenced bank is on track for completion well ahead of the deadline. We expect it to really challenge for market share in both retail and commercial banking. In particular, we're going to target high single-digit mortgage growth, and expanded coverage of mid-sized businesses in fast-growing sectors. We also know that we have some way to go to improve our customer service in the UK. We want to be a top 3 bank for customer satisfaction by 2020. Our 'Connected Money' app in the UK is a great example of how we can now react to opportunities ahead of our peers to help our customers and build our brand. We want to do much more in this area.

Our third priority is to grow revenue from our international network, and that's the focus of slide 20. The investment we've made since 2015 in our international network is clearly having the desired effect. We've maintained our number 1 global position for Global Trade & Receivables Finance, while growing market share in key markets such as Hong Kong and Singapore. In Global Liquidity & Cash Management, we've grown average balances and increased our Hong Kong market share to more than 26 per cent. In Foreign Exchange, we've kept our status as the number 1 global FX bank for corporates, and risen to number 3 for institutional FX.

But we're not finished here. We have an excellent track record, and we want to keep building on it. We're working to upgrade and digitise our trade-finance platforms to extend our lead in both traditional and structured trade. We intend to further strengthen our leadership position in Global Liquidity & Cash Management by building scalable, secure and integrated platforms, and making better use of data and analytics.

We want to make better use of emerging technology in Foreign Exchange, and to bring securities services to more clients through more products and better digital services. We're growing our market share further. Remember this is high growth, high margin, low capital business.

Priority 4 focuses on the turnaround of the US. The US is a strategically important market for the Group. It's a key hub for international trade and investment, and home to more than 16,000 large multinational businesses. It exports more client revenue to the Group than any other country, generating consistently strong outbound revenue from clients in Commercial Banking and Global Banking & Markets. It is also the source of the world's principal reserve and trading currency. The US dollar is used for 68 per cent of payment

volumes for HSBC. We are a top 5 cross-border clearer in US dollars, and 19 per cent of our custody assets are denominated in the currency. Our presence in the United States is therefore essential.

However, although the US business is profitable, the returns are far from where we want them to be. We've made a lot of progress in the last few years to resolve outstanding legacy issues: We've completed the run-off of the CML legacy portfolio; we've improved Retail Banking & Wealth Management PBT, and set about improving Commercial Banking returns; we achieved a non-objection to our capital plans and paid the first dividends to the Group since 2006; and we increased international client revenue booked in the US by 10 per cent in 2017.

The work we've done under the terms of the 2012 Deferred Prosecution Agreement has also put the US business in a much stronger position. Our plan now is to improve the business's return on tangible equity to more than 6 per cent by 2020, and to lay the groundwork for further improvement. We'll achieve this by: Increasing the number of corporate customers served by Commercial Banking, particularly international mid-market companies and their subsidiaries; Targeting more international customers, and growth in higher-return consumer lending and business banking in Retail Banking & Wealth Management; and Expanding sector coverage and our share of foreign clients in Global Banking & Markets.

This requires investment, most of which the business will self-fund through efficiency gains. We are also aiming to deliver regular dividend payments from the US to the Group.

Moving to slide 23, to increase returns we have to redeploy capital from low performing to high performing business – and that's priority five. We've got an excellent track record delivering RWA reductions while growing revenue. Between 2014 and 2017, we reduced RWAs by more than 20 per cent, while asset productivity grew from 5 to 5.9 per cent. We are going to continue to maximise asset productivity. Between 2018 and 2020 we plan to limit RWA growth to between 1 and 2 per cent a year, while growing revenue at mid-single digit levels. We'll do that by continuing to recycle RWAs from less-productive assets into the higher-growth, higher-return areas we've talked about today.

As the Group returns to growth, we will use this opportunity to invest in the future of the firm. Technological disruption will accelerate in the coming years. It is therefore essential for the long-term competitiveness of the firm that we keep investing in technology. This is a huge enabler for the Group. Being able to invest at this point of the cycle will differentiate future winners from the rest of the industry. We're already seeing leading banks push ahead of the rest, and smaller banks are finding it much harder to compete. Given our size and scale, we have an ability to invest that others don't, and we need to be better at this than the competition.

Unlike in the last few years, there is no CTA programme in the strategic plan – so we have to create the capacity to invest more through a combination of cost discipline and revenue growth. We will create the appropriate investment capacity within a constraint of annual positive adjusted jaws, by: Benchmarking our costs against the market and taking appropriate action; absorbing inflation through productivity gains; and further improving business productivity.

All investments are assessed against a robust cost-and-investment framework to deliver a positive return on investment in the short-to-medium term. If economic conditions worsen, we have the ability to flex investments accordingly. Over the last three years, the costs-to-achieve programme demonstrated that we can deliver results in a disciplined and impactful way. We will do the same in this next phase.

Between 2018 and 2020, we plan to invest an additional 15 to 17 billion dollars in the business. Around two-thirds of this will target growth and technology change aligned to our strategic priorities. The remaining third will improve our productivity and strengthen our resistance to financial crime. As I've already said, we will create capacity within the business to absorb much of this extra cost. We expect our cost base to grow by low-to-mid-single digit percentages each year until the end of 2020. Some of this investment will contribute to increased returns during this strategy phase, but a large portion will help increase growth beyond 2020.

We expect a quick return on investment across our global businesses to maintain our core competitive positions. This includes our investment in insurance and asset management.

Our investments in Transaction Banking, our digital programmes, our turnaround and expansion plans, and Wealth in Asia should deliver benefits in the next 2 to 5 years. They should also considerably improve our long-term competitiveness. All of these investments will be managed through our robust investment framework.

Slide 26 looks at our eighth priority – which is to simplify the organisation and invest in future skills. This is really about our staff and our ways of working, but it's also a driver of cost efficiency. So much of our ability to serve our customers comes from the simplicity or otherwise of our processes and procedures. If we can make our colleagues lives easier, we free them up to serve our customers better.

We have a number of big work-streams here. We're reducing organisational complexity by clarifying responsibilities and accountability. We're simplifying processes, such as client on-boarding and recruitment, for which end-to-end process times have already been dramatically reduced. We're investing in training and development, particularly through our creation of HSBC universities. We're streamlining governance and freeing up senior leaders to run the business. We're encouraging the right behaviours from the top, which is crucial to provide employees with the latitude and environment they need to do their work. Finally, we are building a platform for future talent, particularly in technology. We've introduced agile ways of working in many parts of the bank, and are providing access to digital training and resources to improve talent development and retention.

By the end of 2020 then, we intend to deliver the following outcomes: High single digit annual revenue growth from our Asian franchise; market share gains from our eight scale markets; a number one ranking for Belt and Road among international banks; strong progress towards delivering our commitment to invest 100 billion dollars in sustainable finance by 2025; market-share gains in the UK; mid to high single-digit annual revenue growth from our international network; market share gains in transaction banking; a return on tangible equity above 6 per cent in our US business; increased asset-productivity for the Group; positive adjusted jaws in each year on a full-year basis; improved customer satisfaction in our eight scale markets; improved employee engagement; and an independently assessed 'outperformer' ESG classification. We'll track and report on our progress every six months, starting at our 2018 full year results.

This final section shows how these priorities help us achieve our targets.

A return on tangible equity greater than 11 per cent is a reasonable and realistic target for the Group in this strategy phase. While this is broadly similar to our previous target, we aim to achieve it with a higher CET1 ratio, above 14 per cent.

As slide 29 shows, there are five components that will drive the uplift: Interest rates rises; accelerated growth in Asia; UK growth; growth from our international network; and the turnaround of the US business.

We intend to sustain dividend throughout this period and to use buy-backs to neutralise the scrip – subject, of course, to regulatory approval. Our calculations assume that the economic environment remains positive, and that our credit losses return to a more normal level from their current low base. A RoTE above 11 per cent represents an achievable ambition for the Group in an environment in which conditions can quickly change. However, I do not believe it to be the limit of the Group's capabilities. Our ability to go further in future depends in part on the investment we make in this strategy phase.

We expect our CET1 ratio to be greater than 14 per cent over the duration of this strategy phase. It's worth taking a minute to unpack this. Our legal entities operate at an average local CET1 ratio of between 12 and 13 per cent. That includes both local capital requirements and management buffers. On consolidation, the Group has a CET1 ratio above 14 per cent. This difference is mainly driven by the following factors: First, some entities hold surplus equity that cannot immediately be released to the Group due to local restrictions. We expect to be able to either release this capital in future or use it to support business growth; second, local RWAs (which are calculated with reference to regulations in each jurisdiction) tend to be higher than Group RWAs (which are calculated under PRA rules). This is the largest factor driving a higher CET1 ratio at Group level. Third, there are risk diversification and other structural differences at the Group level that are not present at the local level.

Finally, there are external factors, such as stress-testing and the potential impact from Basel III reform that could increase capital requirements over time. Our ability to sustain dividends and neutralise the scrip continues to depend on dividends paid to the Holding company by our operating entities. Shortfalls in dividend receipts from operating entities would lead to increased Holding Company leverage, known as "double leverage". There are limits to using double leverage to offset higher operating-entity capital requirements. This is an area where the PRA is both developing policy and providing oversight. What should be clear from all this is that the strong capital base at Group level is supported by well-capitalised legal entities. We continue to believe that capital strength is a virtue. It is crucial to: Support business growth; maintain our balance sheet strength; meet Basel III requirements; and sustain our dividends and continue equity buy-backs to neutralise the scrip.

So to conclude, we have a strong position that we are going to use to build profitability, increase returns and create value. We are the leading international bank with a network that gives us growth opportunities that nobody else has – particularly in Asia. Having undergone a period of extraordinary restructuring, we're ready to start realising the potential of this business. There are four points I'd like you to take away. First, we have a clear plan to deliver mid-single digit revenue growth in each year of this strategy phase; second, we intend to do this while sustaining our industry-leading dividend and continuing our buy-back programme to neutralise the scrip; third, we're aiming to exceed an 11 per cent return on tangible equity off a much higher capital base than previously; and fourth, we're going to achieve that while investing in future growth and competitiveness to exceed this performance in the years that follow.

By 2020, we will be a more profitable, more efficient, more competitive bank, generating much better returns than we are today – and with an excellent platform for further growth.

We will now take your questions. The operator will explain the procedure and introduce the first question.

Ronit Ghose, Citi

First of all on the US business, the RoTE of 6%-plus. Obviously that's a big improvement from where you are, but still the absolute number is kind of low. If you were to pack on the international revenues, the network revenues you make in Asia, in Europe, elsewhere in the world, from US origin clients, do you have some kind of approximate estimate for what the RoTE would be if you took not just the geographic profitability of the US, but a kind of global franchise profitability of the US?

The jaws at a Group level I note – again, you reiterated – positive jaws. What are you targeting in Asia? Will there be positive jaws in Asia as well and is that justifiable given investments you're making?

And third and lastly, the investment spend or the P&L spend you've outlined, can you unpack that into how much is pure tech versus other non-tech investments, including Compliance and so on?

John Flint

So three questions: one on US, one on jaws and then one on investment spend. So let's do the US first. I'll take that one.

6% is where we plan to get to by 2020. Clearly that is still below what we believe our cost of equity to be, so that's not the finished state for the US business, but that is realistically where we think we can get to in that timeframe. And as we said, the US is the biggest exporter of revenues to the rest of the Group. I think a broad range, you can probably think of a couple of percent in addition to the domestic RoTE, so that 6% would be 8%, something of that order of magnitude. But we're not signalling that we think that 6% is the right end state. We're just signalling that in the timeframe, that's where we think we can get to.

And in anticipation of maybe other questions around this, we spent a lot of time on the US question. This has been one of the Group's more difficult issues over the last few years. We are very comfortable that for shareholders this organic build strategy that we've got laid out is the right option. Other, perhaps more ambitious, inorganic options either to buy or to sell don't really give us the same kind of value creation for shareholders. So we spent a lot of time on this, including getting some external help on it. This is the right strategy.

With respect to the second question around jaws?

Peter Wong

Ronit, thanks for the question. We will maintain positive jaws during the plan period.

John Flint

Before we move on to the tech spend question, can we just come back to you and see whether there was something else on the jaws question that you wanted some perspective on?

Ronit Ghose

I guess what I'm getting at is I can see there'll be parts of your Group – parts of Europe, maybe the US – where there's obvious positive jaws, but given the investments you're laying out in Asia and given the competition in Asia and the growth opportunities, I'm just wondering whether positive jaws remains appropriate and whether or not at a Group level you can fund positive jaws by having neutral or even negative jaws in Asia?

John Flint

Yes, so all we've really said about jaws is that that's a constraint that exists at the Group level. We don't necessarily hold ourselves to that constraint within each part of the Group. Probably the best example to show today is in our Commercial Banking business, we are planning in 2019 that it will not achieve positive jaws; it will have negative jaws because it's going to be the beneficiary of quite substantial investment. So positive jaws: it's a Group-level constraint. Within that, we plan as we see fit.

And then perhaps, Iain, can I just ask you to pick up on the investment spend question?

Iain Mackay

Of the \$15-17 billion investment, Ronit, it obviously is a range which is going to be a reflection based on us achieving a range of the targets that we've described today in terms of growing revenues and realising those outcomes. So there is, as you would expect, I imagine, a degree of flexibility around how we prioritise and phase those projects.

The lion's share within that, broadly speaking, is focused around technology, digitisation and process improvement. There's approximately one-third of it which is focused on sustaining and building capabilities around regulatory compliance, financial crime, risk management and other regulatory requirements, but there's about two-thirds of that which is really focused in on process improvement, building future capability, of which technology is a significant component.

Ronit Ghose

Can I just go back to the US question? I know you've had this question a lot, but what I'm getting at is the Retail business versus CMB versus GBM, I totally understand the need for a dollar franchise and a US presence given your footprint. Why do you still need to have a retail or a consumer franchise in the US?

John Flint

The simple answer is because we've actually got the infrastructure for a full-scale universal bank in the US and if we looked at exiting Retail – and remember we did exit two big Retail businesses in previous strategy phases – if we look at coming out of Retail in its entirety, all we do is we change the problem; we don't solve the problem, we just now change the cost problem and hand it over to Commercial Banking and Global Banking and Markets. So given the full-scale universal presence that we have and the size of the infrastructure that we have, we're clearly of the view that the best way to get back to value creation or to reduce value destruction is to get all components of the business growing.

Now, if you look at our Retail business in the US, there are two opportunities that are quite compelling for us, neither of which we've maximised our potential in. One is: at present we have pretty much no unsecured exposure and it's very difficult – if you look at the structure of the retail market in the US – it's very difficult to achieve industry levels of any profitability if you just take deposits and warehouse mortgages on balance sheet, and that's the reality of our business. So we're going to build back into the unsecured space, bank-originated credit in the US and we started with credit cards in the last 12 months.

So that's one piece, getting unsecured back into Retail. The other piece is just the international opportunities for us in all businesses, but particularly in Retail. The US corridors into the rest of the Group are significant. We haven't organised ourselves sufficiently well around them and we see quite a lot of potential there. It's absolutely the right question and I can assure you – we've looked at this, I think, in every possible way. We think the right answer is to retain the universal banking model, create efficiencies to make the investment we need to grow from here, but grow all segments including Retail.

Chris Manners, Barclays

So if you're going to grow RWAs at only 1-2% per annum, the bank should be pretty profitable over the plan period – you're only going to maintain the dividend at flat. I do see potential that you can build quite some way ahead of your targeted 14% CET1 ratio. If you do, as you said, you're going to neutralise the scrip, what would you do with any more surplus capital? Could you get further than neutralising the scrip or would you maybe have some acquisitions or other places where you could maybe grow a little bit faster? Just asking about if you do build up higher capital.

The second question I had was on cost of risk. You talked about, on your ROE walk, normalising cost of risk. It does look to me that you're going to actually have to have quite a big hike in cost of risk if you do your 7% revenues per RWA, your positive jaws, to actually get your return on tangible equity – back down to 11%. So would we need a 40 basis points cost of risk, something like that, to get there? Maybe just if you could outline a little bit more on that? Thanks.

Iain Mackay

On capital return, what we see through this plan period – so to be clear we are calculating the return equation off what we see as being the actual outcomes from a capital perspective. You'll recall in the last update that we did around capital that is that we generated the 10% return on equity target off of 12.5% assumed common equity tier 1 ratio through the period. So there is a component there which I think is much more dynamic in terms of how the capital deployment has been formulated.

The other aspect here is that you can see we're putting \$15-17 billion of investment into the firm over the course of the next two and a half, three years, sustaining the dividend and – subject as ever to regulatory approvals – hopefully neutralising the scrip through buyback. That is a fairly compelling capital deployment mode, but I

think in the round our guidance on capital deployment remains very consistent, that our focus is deploying capital in the first instance to grow the long-term profitability and sustainability of the Group, to sustain the dividend and, when appropriate, to reflect on the opportunity to do buybacks and, for the first time, really explicitly linking that to scrip.

What we've also made allowance for within this plan is recognition that as we work through consultation with various regulators around the world there is an implementation of Basel III reforms to be reflected and we have made some assumptions based on, frankly, the best available information now within this plan about RWA inflation and then some mitigation of that inflation over the plan period. So we do see the potential for some capital build in the earlier years of this plan, recognising that we'll have some RWA inflation anticipated, probably not in the 2020 timeframe, but in 2021, 2022, for which we think it's appropriate to make some allowance in the building phase here.

So I think in the round – or actually, very specifically our approach to capital deployment remains consistent in terms of investing for the growth of the business in the longer term, sustaining dividends to shareholders and deploying buybacks, and we think that's appropriate with the intention of neutralising scrip.

Chris Manners

So you'd actually want to be sort of gliding into 2021, 2022 with something in the bag, basically, just in case the Basel III reforms come with a higher increase in the inflation, so that's why it's not going to be 14.1% and anything else can get pushed back to the shareholder.

Iain Mackay

That is correct, Chris.

John Flint

So if I pick up your second question on cost of risk, so, yes, I think a good time to remind everyone that this strategy is written within the Group's current risk appetite, so there's nothing in here that requires a change to the risk appetite. And the plan assumes reasonable levels of economic growth, so probably reasonable to expect impairment trends and the low end of our expected through the cycle average of between 30 and 40 basis points. So, I think you're in the right range there. We are planning for there to be an uptick or we would prudently plan for there to be an uptick, but probably towards the low end of that 30 to 40 basis point range.

Chris Manners

That's it. Thank you.

Magdalena Stoklosa, Morgan Stanley

So on page 18 of the presentation you gave us a wish list of the growth within the wealth business in Asia, but it's broadly really across the board ultra-high-net-worth, high-net-worth, the focus on the Jade platform and so forth. But if I were to tempt you into where the biggest revenue delta is, but not in absolute terms as such, but in percentage terms, when you think about the next kind of two to three years, and particularly between the Private Bank and Retail Wealth, what would you be your thoughts? That is the first question.

The second question is on the risk-weighted assets move, that's page 23 of the presentation. What surprised me a little bit is the fact that in your mix between 2017 and 2020 target we've got quite a significant shift downwards in terms of the Global Banking and Markets. Part of it, I assume, is the risk-weighted asset optimisation, but I have to say I was expecting that kind of mix within the Global Markets and Banking to stay broadly stable, particularly taking into account your actual delivery, your revenue delivery over the last couple of years. So if you could just unpack this for us a little bit more how that mix really moves, whether it's the optimisation end growth or one is bigger than another?

And page 30, your CET1 ratio discussion. We heard it for years when we talk about the capital inefficiency versus value of your network and how it can evolve going forward. Could you give us more detail, apart from your US comment, where do you find your surplus capital trapped and how, over the next kind of three years, do you see the probability of that either being extracted or grown into, maybe by country, maybe by business? Thank you.

John Flint

So where do we think the biggest opportunity is? I think in dollar terms the biggest opportunity by customer group will still come from RBWM, simply because it's a much bigger franchise at the moment. Worth noting though that the Group's Private Bank has been fundamentally restructured. It is a completely different business. So of all the parts of HSBC that have been restructured in the last seven years, the Private Bank has undergone the most profound transformation and it's now back in growth mode, so it's got a different business model, it's focused on serving the Group's clients, banking the wealth that comes out of our Commercial Banking franchise and out of our Retail Banking franchise. And the early signs of growth from Private Banking are extremely promising. So I think that will grow at a quick rate, but from a small base.

The RBWM business in Asia and in Hong Kong in particular is already very significant and the wealth creation that's happening in Asia, in Hong Kong in particular, and in particular through the China corridor, is very significant. There are high growth rates there. I think in terms of Private Bank or Retail Banking and Wealth Management, the biggest opportunity comes out of RBWM. Within that we've got a significant opportunity as well in the Insurance business, which is hosted within RBWM. The Insurance business is performing well. We've taken a lot of market share that was lost in the previous two years as we didn't participate in some of the China flows. And the potential within our existing client base for us to do more with our own insurance products is very significant. So they're all decent opportunities. The single biggest comes out of the RBWM franchise.

Peter Wong

Can I just add to that? I think the – in the last decade or so the businesses both in the CMB area and also in the Global Banking area, the number of companies that have come up in the market, there are quite a number of them. So what we are going to do is that we're going to increase the collaboration across the businesses. So, for example, the CMB RMs would be referring CMB customers to our Private Bank or to RBWM, or also on the Global Banking part we're going to do the same. So we're going to leverage our existing customer base to do more cross-selling and we see that there are huge opportunities because of the growth of the businesses in Asia Pacific in the last decade.

Iain Mackay

On RWAs your observation on Global Banking and Markets is spot on because, as you will also have observed, over the last three years Samir and the team have been very adept at maintaining revenue momentum while taking risk-weighted assets out of the equation, and that has focused on a number of initiatives that we have talked to you in the past about improving the overall quality of data that has supported our modelling, continued focus on collateral management, continued to recycle from low-returning to high-returning products, and customer relationships as well as simply reducing certain of the portfolios within the business. And that is really what Samir and the team have taken on as the challenge for the next couple of years: recognising that they continue to need to prioritise where we allocate capital within this business to the high-returning businesses, whilst maintaining growth momentum. So the business has had a very strong track record in this regard over the course of the last three years and it's really taken that momentum and continued to build on it.

What John mentioned earlier is the other phenomenon that you reference to, is a shift to some of the high-returning businesses of that capital, represented by those risk-weighted assets. So it's really very much about a continuation of momentum built by Samir in the Global Banking and Markets team over the course of the last couple of years.

Going to your common equity tier 1 ratio, could you just refresh the question for me again, please, exactly what perspective you are looking for there, Magdalena?

Magdalena Stoklosa

Yes. So I think that on page 30 you've mentioned about the surplus which cannot immediately accessed in certain countries, and of course you've mentioned US in it, but I just wondered whether you could run us through any other countries where you think that you've got a surplus which you cannot get to on a three-year trajectory, where that captured capital is and also what can be done with it in the meantime in terms of local growth?

Iain Mackay

The story on this front, Magdalena, is really not changing. It's still at that \$5 billion. The most significant proportion of it sits within the US and, as we've talked about previously, our capacity to continue to release that and dividend it up to the holding company is through success in CCAR, and we would expect to hear results of CCAR around late-June that we get the results this year.

So continued success in that regard would allow us to continue to upstream dividends to the parent company, but recognise also – what John talked about – is investing in the growth of the US business, the potential to deploy some of that capital into growth in the United States. Other markets where we – the story is the same as we've talked about for, we continue to have some surplus capital in China. Again we've started getting dividend flow to the holding company over the course of 2017 and we would expect to be able to continue that, but recognise also that mainland China is one of the main growth markets, , which we will continue to invest into. And then other markets – there's really only two that are in that space. Singapore is one, where there is a small surplus, and again we've talked about investing for growth in the ASEAN markets and Singapore being key amongst those. And then lastly Switzerland, which is very much idiosyncratic to ongoing repositioning of the Private Bank, and as we get one or two matters behind us in that regard, we would expect to be able to repay trade capital from the Swiss Private Bank back to the holding company. And we'd expect to be able to accomplish that over the course of the next 18 to 24 months. So in the round, the lion's share of this still sits in the US, and I think you know the story in terms of how we continue to manage that through.

Joseph Dickerson, Jefferies

I just have a question on the investment in the Asia Wealth business and the opportunities there. This has been for some years – 15 years plus – a major opportunity. And I just wanted to know, if you think about – going back in the past, and not asking you to look back in the past when you've obviously presented a plan for the future, but what was the hindrance behind investing in this business in the past? And if you had to split that – you know, obviously there was – the firm had the DPA from 2012 onward, but perhaps going back even before that, what would you say was the hindrance, and how would you say the group and the management team and the overall business has changed to enable you now to effectively take share in that business and grow at the rate you want to grow in that business? So that's area number one.

And I guess secondly, given the low RWA growth and barring some nasty credit surprise, but let's say status quo on credit with some light normalisation, you will be generating a lot of cash. So I guess what keeps you somewhat tempered on taking up the dividend payment? Thanks.

John Flint

Again, I'll deal with the first one on Asia Wealth and then ask Iain to deal with the question on RWAs. Looking back, I think we mustn't lose sight of the fact we have already one of the leading Wealth franchises in Asia. This is \$5 billion worth of revenue. That is all delivered within a very prudent risk appetite and with very high conduct standards. On the retail side, we took away product commissions five years ago now, so it's very high quality revenue. So I think we've definitely got the foundations for a good expansion from here. I do think the way in which wealth creation has accelerated over the last two or three years – it's only really become apparent now just what the potential is. And I think in the context of China opening up, that process is in its very early stages. And Peter and I spent time on the mainland over the last couple of weeks meeting with seniors in the regulatory agencies, and they are very serious about this opening up process, and there is an awful lot more potential ahead of us. So, interesting question about the past. I don't think we should beat ourselves up too

much, because a \$5 billion starting point is a pretty good foundation. And remember, we've got all of the cards in the deck here. So we've got Retail distribution, Private Banking distribution, wealth creation from the Commercial Banking franchise, Asset Management manufacturing and Insurance manufacturing. We've got options across all of them. And as I say, with the opening up in China there's quite a lot to be excited about. But interesting question, thank you. Iain, on the RWAs.

Iain Mackay

RWAs, I think to your point, Joe, is really about how that flows through in terms of the profitability and how we would intent to deploy that capital generation. Again, we've got a fairly, I think, ambitious and rich combination here of investing \$15 to \$17 billion in capability to build for the longer term future for the firm, sustaining dividends at 51 cents, considering buybacks. And then, as I mentioned earlier, recognising that there is an anticipation, based on everything we understand at the moment, of some inflation coming from Basel III reforms as we work through this period. So rather than, as it were, be caught by surprise and not make allowance for the fact that come 2022 Basel III reforms will be implemented in some size, shape, and form, recognising there's a fair degree of uncertainty around that, we've made some assumptions around building for that and as a consequence, if you like, preserving some capital capacity. But I think it would be fair to say that as we progress and as we hopefully deliver the targets that we've talked about here today, we'll have the opportunity to review with the Board exactly how we do deploy capital, striking that appropriate balance between investing for the future and the return to shareholders.

Fahed Kunwar, Redburn

I just had one real question on the targets themselves. I was just thinking about your previous comment about 1.5% to 2% jaws being realistic given the sizable investment. I suspect that still holds. But then if I look at your reported revenue, reported RWA target of around 7%, that implies revenue growth of 7% to 8% per annum, and if I look at the lowest single digit cost, it's assuming it's 3% to 4%. There is wider jaws from this guidance than I would have expected considering the investment. Am I missing something here, or do you think you can achieve jaws more than the 1.5% to 2% you previously talked about.

Iain Mackay

Certainly in 2018, our guidance on jaws would remain consistent, so the 1% positive jaws for 2018. However, as we work through this planned period and start realising some of the revenue increases and the growth in the business that we've talked about here whilst maintaining good cost control around the operating expenses on a day to day basis and the appropriate prioritisation around these investments, we would expect some widening out of jaws in the later years subject to realising and achieving some of this growth we've talked about. The environment that we've assumed in building this plan is broadly speaking more of the same of what we see just now in terms of a reasonably stable connected growth across many of the markets in which we operate, with more attractive growth rates certainly coming through the Asian markets. So we would expect to see jaws start to widen out in the later years of this planned period, assuming the conditions under which we built this plan, and start realising some of the growth we've talked about.

Fahed Kunwar

Can I have one quick follow up question just so I understand? It looks like moving more towards kind of Wealth management and non-interest income type revenues, which obviously more beneficial from an ROE and a revenue to RWA target, which is why I think you have the expansion in revenue to RWAs. But wouldn't that naturally be lower operating leverage in those businesses as well, because they are less capital consumptive but more operating expense consumptive. Why do you assume you get both jaws widening and revenue to RWAs widening considering the shift into that kind of business?

Iain Mackay

Really somewhat of a continuation in terms of how we've built productivity over the course of the last three years. So again, think of some of these investments, which are very much around establishing digital platforms which support revenue generation in markets like Hong Kong, ASEAN markets, the UK market. The efficiency

that some of that technological investment brings to us, not only in the earlier years of the investment, but also on a prolonged basis. So it's the combined effect of continuing investment and process and technological capability – continued investment in the capability of our teams – which really delivers productivity focused on absorbing inflation year in year out, and realising some operating leverage from that. I recognise also that we have about 25% of the growth that we see coming through here from a set of interest rate assumptions which are very consistent with what you would see in the marketplace today for the major currencies in which we operate, which again is an important factor of seeing some operating leverage coming from those interest rate increases.

Fahed Kunwar

That makes sense. Thank you.

John Flint

And just a couple of quick things to supplement what Iain said, I think it's worth remembering in the Asian Wealth business, we're building on a platform that's already been built. So we're building out into a cost base much of which has already been sunk. And if you look at the wealth flows and the way wealth is being created in Asia, but particularly in Hong Kong, we've got a lot of a platform that's already needed for that. Cost income ratios for retail wealth business are actually pretty good.

Tom Rayner, Exane BNP Paribas

Just the first on investment. Is there any element, do you think, of catch-up investment here from maybe some previous underinvestment during the de-risking phase of the group? And just on the investment itself, looking at slide 24, it looks as if it's all going to be taken straight through the P&L. I just wonder if there's any element of capitalisation and amortisation that we should be aware of across the planning period. And I have a second question on the revenue RWA target.

Obviously it's an important part of getting the RoTE to where it needs to be, and it's also where some banks in the past have come unstuck. I'm just trying to get an understanding the key drivers of that improved revenue to RWA, because I'm assuming interest rates play a big part of that: if I get my ruler out and look at slide 29, interest rate rises are maybe 0.7%, 0.8% of the increase in RoTE. I'm just wondering how much of the revenue to RWA improvement is purely on the back of interest rate assumptions and how much is on other initiatives.

John Flint

So on the first question on investment and catch up. We finished the CTA programme last year. That was a \$7 billion dollar spend outside of the normal budget. I think we feel that that was really the catch up spend we needed. The big view that we're taking in this strategy phase is that the revenue environment is going to be sufficiently good for us that we can fund the investments we need to make within a positive jaws constraint, because revenue should be growing. So it doesn't feel like we've got a lot of catch up to do now. That said, we know that the state of our technology and the size of opportunities in front of different parts of the group are different, so some are in better shape than others; we would recognise that. But I don't think this is about catch up anymore, but we are committing to a discipline of positive jaws with a decent outlook that should give us the capacity to invest.

With respect to the issue around the technology component of the investments, we do have the ability, and we do capitalise some of our software development costs. Last year, we capitalised roughly half of the cost we incurred in developing software. That has an amortisation profile of between three and seven years. But that's just one piece of the investment; by no means not the majority of it.

Iain Mackay

And Tom, through this plan period, we've got a consistent amortisation of around 50%. And to John's point, on average we've also got a policy that will amortise intangibles over three to seven years' the average is actually between three and five. So we've got a very conservative amortisation policy around this. So when

you look at operating expense flowing through in terms of amortisation and depreciation, it remains fairly consistent through the plan period. There's a little bit of step up from 2017 to 2018, but thereafter it's pretty stable really. And it's sort of inflow offset by a fairly conservative amortisation schedule.

On the revenue point, Tom, I wouldn't spend too much time with your ruler; those boxes are fuzzy for a reason. But it's approximately 25% - around about a quarter - of the revenue growth we see coming from net interest income growth over this period. And the assumptions we've used for interest rates are those that you would expect to pick up from any economist viewing the major currency blocks that we're trading in. So we've taken very much a market view of how interest rates are likely to develop over this period.

Manus Costello, Autonomous Research

Around your RWAs, I look at your targets you've put out today - one of the areas where you differ from consensus is in your terminal RWAs you're talking about for 2020-21, because you've got these significant efficiencies. And my question is really twofold. One is how do you continue to drive down the RWA to leverage asset relationship, which has already come down very significantly? And you're already pretty low, and you're talking about adding some higher risk density areas like US consumers. So I'm struggling to see how you manage to continue to drive that even lower. And secondly, somewhat related, I think in response to Chris Manners's question earlier on, you have been implying that you're going to be running above 14% core tier one ratio, because you expect RWA inflation in 2021-22. So can you give us an indication of how much inflation you expect so we can see how much above that you'll need to be? Because all else equal, given that you struck your RoTE guidance on a 14% core tier one ratio, you seem to be implying that your 2021-22 RoTE would go down, since your equity requirement would be higher.

Iain Mackay

So as you can see on the chart on page 23, there's a bit of a mix change through the portfolio. Also, we're looking to grow the business in some areas where the RWA density may be a little bit higher. We're also looking for continued recycling of capacity within the wholesale businesses of Commercial Banking and Global Banking and Markets, principally within Global Banking and Markets. But that's an area where we've clearly realised a lot over the course of the last three years. There are still areas for continuing improvement across the portfolios. So I think that would be the principal area, but you'd be absolutely right that what we've assumed is probably quite an aggressive goal around managing the growth in RWAs in the context of growing the balance sheet through this period of time.

Manus Costello

And in terms of that, if that's an aggressive goal, then is it therefore aggressive to be talking about neutralising the scrip, because that must depend on this. Because presumably your business growth is mid-single digit in line with revenue growth more or less on slide 23.

Iain Mackay

No, we think we've got reasonably comfortable capacity to manage both in terms of sustaining the dividend and supporting buybacks from time to time with a focus to neutralising script. I think overall, when we talk about RWA inflation, certainly as we get into not so much the later years of this phase through 2020 but beyond 2020, we have made some allowance for the fact that we would expect to see RWA inflation come through on introduction of Basel III reforms from 2022 onwards. We have made some assumptions, Manus; I'm not really going to share what those assumptions are, because frankly we had to take a pretty high level view, because the guidance at this point in time is at best high level, as you know as well as any of us. But we've taken a view both in terms of RWA inflation but also based on experience, track record, the sort of things that we know work. Where we believe we still have capacity to manage that, we've made some assumptions around being able to mitigate some of that RWA inflation emanating from the Basel III reforms. So in the round, we've taken everything that we think we've put a reasonable good fix on, and we've made assumptions around areas where there are some uncertainty and taken what we think are reasonably sensible - dare one say possibly conservative - assumptions in terms of managing that inflation through and beyond the timeframe of this plan of 2020.

Manus Costello

But all else equal, your '21-'22 returns will be lower, because you're operating with a higher capital base.

Iain Mackay

So we are calculating returns of the actual capital base in each year of this plan. And we would expect to grow to above 11% of RoTE in 2020, and have the expectation to be able to continue to progress on that into '21 and '22. Again, the further out you get in this phase, it's subject to a reasonably constructive growth environment continued for a longer period of time. But assuming conditions are somewhat similar to what they are now, we would expect to continue to expand returns, albeit off a slightly higher common equity tier one ratio beyond 2020.

Raul Sinha, J.P. Morgan

Just on slide 13, when we look at the size of the revenue opportunities, you're talking about obviously UK, which we haven't talked about so far on the call. It seems to be the third largest opportunity that you are targeting. Can you talk to us a little bit about firstly the starting ROE within the ring-fenced bank? It's very clear that you've got an opportunity in the mortgage market. How would you look to manage the balance between margin versus volume within that business? And what are your assumptions around the sort of economic backdrop in the UK? If you could share some clarity on that, that would be really helpful.

John Flint

Why don't we deal with the UK mortgage one, or the UK business, first. You're right we haven't spoken about it. It's our second biggest market, and after Hong Kong the biggest contributor to dividend flows. Ring-fencing, which is going extremely well from our perspective, should be executed well ahead of plan. It will deliver a ring-fenced bank in the UK with a significant commercial surplus. And as everyone who's listening I'm sure is aware, we precluded ourselves from the broker mortgage market for a long period of time; we're stepping back into that market now. So we have a roughly 12% to 15% market share of deposits, and a 7% market share of mortgages. We've got some catch up to do. We're not changing our underwriting standards. We're not changing our credit risk appetite. So we are able to write aggressively priced but good quality risk business to grow our mortgage market share. And remember there's always the Bank of England Stress Tests: publicly available data on the quality of our mortgage book if people want to see what the existing quality of the mortgage book is. So there's an opportunity there that we're excited about. The Commercial Banking franchise in the UK is in good shape, but there's more that we can do there as well. So given that the UK is already a significant component of the Group, the potential that we can see – and this potential is really not rate-dependent; it's not necessarily – or not much of it – is dependent on our normalisation of our sterling rates. The potential in the UK is exciting across both mortgages and commercial. You said you had a few others.

Raul Sinha

I guess just on the RWA question, would it be possible for you to give us some sense of the low returning RWAs that you currently see in the balance sheet in terms of a number that you think are open to recycling? Because I think that might help us where the movement from your current revenue to RWA is towards the 7% range. That's the first follow up. And the second one: Iain, I was wondering if you might be able to give us some sense of where a dividend payout ratio fits into all this if at all. Do you think about possibility of dividend growth in the long run linked to some kind of payout ratio?

Iain Mackay

If I take the last one first, Raul, what we have based on the financial equation through this period of time – we have significantly improving coverage of our dividend through 2020 and beyond, based on sustaining the dividend at the current levels. I think based on realisation of these numbers and reasonably stable operating conditions, then you could imagine a scenario where the Board may feel that it's an appropriate time to sit and reflect on how we gauge dividends, whether it's by reference to a payout ratio for example. But at this point in time we haven't really targeted a payout ratio. We've got this equation where we've got very significant

investment going in over the course of the next three years, sustaining the dividend; a focus on potentially neutralising the script through buybacks; and then revisiting where we are based on progress. So that is really the equation that we are working to. We have not targeted a specific payout ratio at this point in time; it's not really been required. But there's been a strong focus around improving coverage, clearly, and we see that come through quite strongly over the course of the next couple of years.

Going to your RWA point, it's very much about churn in the portfolio. How do we turnover less productive RWAs within the Global Banking business, within the Commercial Banking business, and turning that into product and customer business which is more efficient? As well as reducing in absolute terms the RWAs, we have made progress in turning over less profitable to more profitable business within Global Banking and Markets, and I think you see that in the returns we generated through the end of 2017 and in the first quarter of 2018. But there is more to be done in that regard; I don't particularly want to nail down numbers, either from a Global Banking perspective or a Commercial Banking perspective.

John Flint

Thanks, Raul. I think we actually have one more question to come, so operator?

Claire Kane, Credit Suisse

So a follow up on your US strategy. In the cost investment slide, you give a lot of detail and a few points specifically around the US investment spend. Could you perhaps quantify how much that \$15 to \$17 billion is specifically to turn around the US business, please? And then just a second point really, just to follow up on the sustainability of the RWA efficiencies. Given you mention optimisation of the group structure and legal entities, how much of that is going to drive the RWA efficiencies in the near term, and how much can we expect beyond 2020? Is mid-single digit revenue growth sustainable with 1% to 2% RWA growth over a longer term horizon?

John Flint

So let me deal with the US one first. We wouldn't normally give you a country split. What I did say in my opening remarks was we think that a lot of the investment we need to make in the US we can self-fund from efficiencies in the US. Actually, in the course of the next 48 hours, we should be completing the core banking system upgrade – the core banking system transformation in the US – which will significantly improve the infrastructure there. We've, as you know, completed significant amounts of remediation work around our Compliance functions, and we've got the ability now to optimise how they work. So we're confident that actually we can self-fund a lot of the investment we need to make in the US, so it shouldn't be a big consumer of the technology and growth spend. Iain, do you want to deal with the optimisation question?

Iain Mackay

Yes. Claire, the optimisation is across at least two dimensions. One is the global business optimisation, with a focus, to be clear, across Retail Banking and Wealth Management, Global Banking and Markets, and Commercial Banking. There is very little RWA density around Private Bank. And the lion's share of the opportunity for optimisation from a global business perspective sits within the wholesale businesses. When you think about this at a local regulatory level, each and every legal entity by reference to their local regulation has a challenge around optimising for a return on tangible equity. That means at the local level optimising against local regulation on RWAs. So we have two dimensions working on this: we've got a legal entity view of the world, which against local regulatory requirements then frees up capacity for dividend flow to the holding company; and then from an overall global business perspective, we've got the focus in terms of how that capital is efficiently deployed across products, across jurisdictions, and with customers through that legal entity lens as well. So we've got two axis, and there are opportunities on both of those axes to realise efficiencies from a capital perspective.

John Flint

Claire, thank you very much for the question. I think that concludes all the questions, so to everybody who joined us, thank you very much for giving us your time and being with us today. That concludes the call. Thank you for joining us.

Forward-looking statements

This presentation and subsequent discussion may contain certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the HSBC Holdings plc Annual Report and Accounts 2017. Past performance cannot be relied on as a guide to future performance.

