# Edited Transcript

## Post 3Q 2014 IMS meeting with analysts hosted by Iain Mackay, Group Finance Director

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**Corporate participants:**
Iain Mackay, Group Finance Director
Gavin Francis, Deputy Group Chief Accounting Officer
Jane Leach, Head of Group Regulatory Reporting
Rob Irvin, Head of Group Management Information Reporting

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## Iain Mackay, Group Finance Director

Good morning and welcome, everybody. Since the call was only three days ago, I do not intend to go through numerous introductory remarks. I suspect you have a number of questions, which we would like to have answered, so why not just start with Q&A?

## Leigh Goodwin, RBC

I would like to follow up on some pieces of very useful guidance that you were giving in the results call, in relation to cost/income targets and return on equity (ROE). We are talking about them as we are walking away from the 2016 numbers. I just wanted to be clear on whether you are walking away from them for good or whether you are saying there is some deferral in terms of being able to meet the targets you have set yourself.

## Iain Mackay

No, we are not walking away from them for good, but we see pressures over the course of the next couple of years, particularly in the cost base, principally from aspects of implementing regulatory change or responding to regulatory demands within the sector. Some of it is structural. Some of it relates to new exercises that the regulators want us to do. This by no means contributes to a particularly huge part of some of the pressure we see, but it is one component that is additive, which is much of the stress testing in Europe, the UK and the US, all of it different and all of it extremely demanding from a data and process perspective.

We are still at the fairly early stages of the structural change in the UK. As we plan through it, dare one say that we see it as being legally straightforward, but operationally extremely complex. That is informed, as we plan through this, by some of the requirements of the Banking Reform Act and regulation coming from that. It is also evidenced by nothing other than the fact that a couple of UK institutions that have had to do fairly significant structural change over the course of the last two years have encountered some of that complexity and recognise very significant costs associated with implementing it.

On top of that, we have made very significant investment over the last two to three years to upgrade our global compliance capability as it relates to financial crime compliance. That is in response to requirements of the deferred prosecution agreement. There has been very significant progress made to that. As Stuart talked about on Monday, there has been a significant investment in both expertise and headcount, as well as technology and process, in that area. A lot has been done. We are not at the top of that investment cycle yet; there is a little bit more to be done.

What we see and the reason we have provided some guidance is, notwithstanding a balance sheet growth that has improved over the last few quarters, but also revenue coming from that, we see significant cost pressure coming principally from the regulatory space. Notwithstanding very significant progress from the business in terms of being able to self-fund some of that through the projects that have delivered savings from streamlining, simplification and structural change within the Group, it is certainly helped us to deal with a lot of inflationary pressures and fund some of that investment. We are not, by any stretch of the imagination, at the end of that streamlining, simplification and cost-saving opportunity, nor are we walking away from the desire to drive positive jaws on a year-over-year basis. Clearly we have negative jaws this year, but our view is that that jaws will be very narrow. We see the revenue outlook as a slow rate of growth continuing.

We do not strongly anticipate receiving a great deal of help from interest rates over the next couple of years. We anticipate some lift, but we are talking 25-50 basis points, not 250-300. As a consequence of that, you guys continuously ask us for some guidance and we believe that, for the next couple of years, the cost efficiency ratio is likely to be 2-3 points higher than we would ideally like. To determine whether that embeds as a fundamentally long-term higher cost efficiency ratio, we need to complete some of the investment and process improvement that we have undertaken, see how that feeds through and how we can deliver more efficiency from that, as we bed down some of that investment. Certainly for the next two or three years, we see a higher rate of spend to meet some of the compliance and regulatory requirements within the Group.

Clearly one of the things that we wish to continue to do and have every intention of doing is investing in the operating capability of the Group in terms of growing the business, so continued investment in the products and services that we make available to customers. That is what has informed our view. As we work through some of that, which we see continuing for the next two to three years, we may conclude that we fundamentally see a higher cost position for the Group, but we have not drawn that conclusion at this point of time. What we are clearly heading into, have been through and we see more over the next couple of years is higher spend.

## Mike Trippitt, Numis

One bigger-picture question is whether you think, given the comments around the cost of regulation, this ultimately manifests as a higher cost of credit. One of the unforeseen consequences of increased regulation has been that, ultimately, it may be the customer who pays or is it divided between the customer and the shareholder?

The second area is that we have had almost £120 billion of additional risk-weighted assets (RWAs) coming in through CRD IV. What further upward pressures on RWAs would impact your target for a return from RWAs over the next year or so? A review of the trading book would be one area, but it would be helpful to catch up on that.

## Iain Mackay

From an RWA perspective, we have seen a significant increase. The majority of that, certainly in 2014, was informed by the implementation of CRD IV. That has largely, but not uniquely, impacted the Global Banking and Markets (GB&M) business to a significant degree. I will let Jane detail this further but, if you normalise for that regulatory change, the GB&M business has a reduction of between 6% and 8% in RWAs. They continue to have a goal, both for 2014 and for 2015, and I suspect 2016 as well, to continue to refine the business model to deliver reductions in RWAs in line with accomplishing the goal for a return on RWAs that triangulates through to an ROE. That is part of the challenge that we face.

In actual fact, Samir and the team have been successful in delivering reductions over the last couple of years, but by taking on a significant increase in the first quarter, or rather more precisely January of 2014, they have a pipeline that they need to work through, in both of 2014 and 2015, to try to mitigate that particular effect.

If you look at upward pressures on RWAs, we certainly run the risk of more change coming through from a regulatory perspective. Jane can talk about some of that, but I would prefer to think of our focus on RWAs. If you look at some of the drivers of RWAs over the last couple of quarters, they have been oriented more on growth and, in some respects, we have mitigated the impact of growth to improvements in book quality and how we manage RWAs within the business. Jane, can you talk about some of the open items that are out there from a regulation perspective that can impact us over the next year or so?

## Jane Leach

There is nothing like as many open items as there was that have that kind of time horizon for next year. You are aware of the longer time horizons, around the leverage buffers and the other buffers, but there is CP12/14 on the foundation approach to loss given defaults (LGDs). That is actually expected to have a minimal impact to us, because we already have LG floors. If you already have a floor and you move to a foundation LGD, in some aspects that can be beneficial. Although the scope of CP12/14 is wider, net net we should slightly gain from that. There is that.

There are some refinements around RNIV going on, but again there impact will be fairly minimal. Other things are likely to be longer term; the operational risk review is going on, as is the review of the standardised approach. Basel is expected to release a paper fairly shortly on the standardised approach. We have some refinements to take to CRD IV, but we do not know the precise impact from those yet. In the shorter term, there will be much less impact from those, but in the longer term this is quite a lot of uncertainty still.

## Mike Trippitt

Going back to the return on RWA targets, I guess the pressure is going to come from the cost line. In the call, we talked about the original ROE target set on a 10.5% common equity tier 1 (CET1); now we are at 11.4%. Clearly with the leverage reducing, that RWA target is under some pressure. I am just thinking about the return on RWA part of that and whether you still feel that is an achievable target.

## Iain Mackay

When you dissect RWAs within the Group, we still have, and will have for a number of years, legacy items that weigh on return on RWAs. We have the continued run-off of the CML portfolio, where you have both declining revenue but stubbornly high RWAs. Other than reducing the exposure to default, we are not going to see much improvement in that measure. Some of the legacy asset-backed securities (ABSs) sitting within GB&M are another factor. Another is significant items that come through the P&L, whether in the form of PPI or provision for possible settlement with the FCA or other agencies, to give but two examples.

The latter weighs very heavily in GB&M and the former weighs on the returns within the Retail Bank principally but, to a lesser extent, the commercial bank. Dare I use this term but, when you normalise for those items, you can continue to triangulate back to the return on RWAs, which falls within the range we have set for the businesses.

The challenge that you come back to, from a ROE perspective, is that the equity line has grown very significantly over the last four years to meet regulatory requirements. Our target was based on a CET1 above 10%. We are sitting at 11.4% and we are seeing an environment that again, as has been the case for a number of years, certainly more years than we would wish to consider, has low interest rates. With the higher equity number, notwithstanding the ability of the businesses to generate a return on RWAs as it falls, broadly within the range that is set for them, accomplishing that ROE number is more of a challenge. We absolutely acknowledge that.

Are we definitively walking away from being able to accomplish 12-15%? No, because we do not know the final position, if in fact there ever will be a final position, but we do not have a more definitive view on capital requirements for a G-SIB, nor do we have a definitive view on how the interest-rate environment may help us. The areas in which we have greater clarity and where we have tried to provide a little guidance are how we think the cost outlook will shape up in the next couple of years.

There remain a number of uncertainties. We have dealt with quite a few of those again this quarter and, again, the business is reasonably profitable and accreted 10 basis points of capital. We recognise that there are $2.2 billion of significant items coming through the P&L this quarter. A number of questions were put: guys, you did not generate much capital. Really? There was $2.2 billion. You can normalise all this to look at the profit-generating ability of your businesses, but you cannot normalise that out when it comes to calculating what your regulatory capital ratio or ROE is. Clearly that has an adverse effect on our ability to generate significant capital in the third quarter.

On your question of the cost of credit, it varies per market. In the UK, given that everybody is in the same boat, whether you talk about the markets review, ring-fencing or other aspects of regulation, that may translate into higher credit cost. Ultimately, if the industry is to be sustained in a reasonable form, part of that has to be priced back through the product to the customer. Around the rest of the world, regulation is highly inconsistent, so it is very difficult to take a globally consistent view of that.

## Alastair Ryan, Bank of America

You have a $40 billion cost base in the bank. Why are you giving this guidance now? Many of the regulatory costs have been building for some time, but the US issues in particular were two years ago. What is it that has caused you to change your view of a maturing of regulatory costs in the daily cost base to further inflation?

Secondly, are you including redress, conduct, fines, settlements, etc., in your costs guidance or is that incremental to the high 50s cost/income? Thirdly, on Mike's point again, surely you have to be able to price for this. If you cannot, you need to do the business differently. If you are not making an acceptable ROE in certain markets because competitors have a lower cost base than though, because you are regulating to a different standard, does that not imply that you need to look at the shape of the Bank in certain markets, because the numbers are dropping out at very low returns from a shareholder perspective?

### Iain Mackay

On the last component of that, I would absolutely argue yes. On the shape of the Bank, if you go back and look at ROEs and returns generated in our Asian businesses, they tend not to be adversely impacted, at least thus far, from conduct-related costs. The vast majority of the conduct cost is coming through the UK. There is some in the US but, at least on a cumulative basis, even when you consider the deferred prosecution fines and penalties of $1.9 billion, the UK has beaten the US by no small margin. If you add up all the PPI, so on and so forth, the UK and the US are in a neck-to-neck race to see how can produce the biggest numbers from a conduct perspective.

They are not included in our estimate of cost efficiency outlook, firstly because they are highly unpredictable. The circumstances and the approach adopted by regulators and conduct agencies – again, I will focus on the US and the UK – changes from time to time. If you reflect on our cost efficiency ratio, when you look at the underlying and then take account of the significant items within it, in the year to date for 2014 it was 57.1%. For the year to date in 2013 it was 54.9%. If you look at the third quarter of this year, it is 58.3%; the second quarter, 57.9%; the first quarter, 55%. The fourth quarter of last year was 60.9%; the third quarter of last year, 56.7%. Before that it was 52.8% and 55.3%.

You are right: the costs have been building from a regulatory perspective. Certainly much of the build, as Stuart talked about on Monday, is around building a strong compliance capability that is not just focused on financial crime compliance, but other aspects of regulatory compliance that continue to be a focus of review. That is progressing well but, again as Stuart pointed out, that cycle of investment is not yet complete.

I mentioned earlier that, as we go into greater detail around the planning and the initial phases of implementation of the ring-fenced bank, that will be a significant cost for us. How significant it will be I do not know, but it runs to several hundreds of millions. What we are using to inform this is some of the complexity we see as we plan through this, and some of it is informed by what some of our peer group in the UK has evidenced as they have had to undertake some structural change. That guidance is informed by further work that will need to be done to protect the Bank from a regulatory compliance perspective, whether it is financial crime or a broader agenda of regulatory compliance; structural change, much of which is largely informed within the UK; and some uncertainty as to how this regulatory agenda is beginning to draw to a conclusion. It is not yet at a conclusion. We make some allowance, whether on the cost of new processes and technology that are required to address some of that, or whether it has an effect on the ability of the Bank to price some of that into its services and recovery through the customer. It is a trend that has emerged over the last three or four quarters, and it is what we still face in terms of regulatory change that informs that guidance.

What it does not connote, in any size, shape or form, and if this impression was conveyed on Monday it was certainly not the impression that Stuart and I intended to convey, is that we do not see an opportunity to continue to simplify and streamline the Bank. We absolutely believe that the teams will see a broad-based opportunity for that and will continue to execute in terms of savings for the Group. Much of those savings help us deal with funding investment and growth, and with inflation. It has not thus far allowed us to completely offset the effect of what we need to do in terms of other areas of investment going forward.

### Chintan Joshi, Nomura

As a quick follow-up on the cost issue, are you including potential costs for the TLAC you might need to issue?

### Iain Mackay

No.

**Chintan Joshi**

This is separate from that. To clarify the cost/income ratio, can we think about it simplistically, in the way you give in the disclosure, as underlying ex significant items? Is that the way to think about it?

**Iain Mackay**

You are welcome to think about it in that regard.

**Chintan Joshi**

How do you think about it?

**Iain Mackay**

I think about it in that regard as well. At the same time, the disclosures we have given you over the last few quarters are to try to help you understand where we are from what is reported through to what we see as the profit-generating capability of the businesses. The simple and sad fact of the matter is that some of the significant items are recurring. I do not expect them to be recurring in perpetuity but, given the new stance of claims management companies, which seem to have successfully escaped any real scrutiny by the Government, I expect that to continue for a number of quarters to come.

**Chintan Joshi**

I really appreciate the disclosures. I cannot say that enough, on the point Manus made on the call. On conduct, what was the utilisation of PPI this quarter?

**Iain Mackay**

After having topped up, we have 13 months' worth of coverage in line there.

**Chintan Joshi**

Have you seen the end of the Consumer Credit Act?

**Iain Mackay**

This is an interesting area, where we are of the firm belief that there has been absolutely no customer detriment whatsoever. This is from a review that we have undertaken of our own volition. This has not been driven by the FCA, the PRA or anybody else. At the beginning of the second quarter we, through a review of products and services in Retail Banking and Wealth Management (RBWM), identified statement disclosure items. There is a very prescriptive approach to statement disclosures in the Consumer Credit Act. We had not fully complied with some of those disclosure requirements and the cure to that, as we disclosed, is that in actual fact your loan agreement is virtually invalidated, because you are not entitled to assess interest against the customers where you have not provided the appropriate disclosure.

The redress that we have recorded provision, both in the first half of the year and in the third quarter, all relates to elements of disclosure in the statements that we provide. The loan agreements that we provide to customers are very clear; however, there are various requirements within the CCA. Those disclosures have to be reiterated in a particularly prescriptive manner in the statement, and there were shortcomings in our statements that we have identified. There is a detailed legal review ongoing and we expect and hope to have completed that by the end of the year. Although we took additional provision in the third quarter, our hope is that we will not have to deal with this in the fourth, but I cannot say categorically that we will not.

**Chintan Joshi**

Do you have to reverse the interest income as a result of that?

### Iain Mackay

That is why it has been recorded as an item adjustment to income, as opposed to an adjustment to costs.

### Chintan Joshi

What kind of impact should we expect from incremental Japanese QE in trade finance and payments and cash management?

### Iain Mackay

I would not read too much into that. Overall, it is probably good for the Japanese economy. Certain other Asian economies might view it as economic warfare, as it has been described in the newspapers on a few occasions. From our standpoint, we have a very small business in Japan. It is a GB&M internationally orientated business. To the extent that Japanese QE supports economic recovery in Japan, it is probably good in the grander scheme of things, from an HSBC perspective and for the world economy. In terms of any direct impact you would see immediately from an HSBC standpoint, it is extremely muted.

### Chintan Joshi

Will that excess liquidity not push down trade finance cash management margins, which have already been under pressure?

### Iain Mackay

Some of it will, but this is not a space for the Japanese or big players. If you look specifically at trade finance, those competing effectively in that area in Asia specifically, where you can see there has been pressure on margins – certainly this year has been more stable, but 2013 saw a lot of compression in the trade finance space – it has mostly been driven by domestic regional players, excluding the Japanese.

### Ian Gordon, Investec

Are you able or willing to provide any detail on why the FHFA settlement came so far inside worst-case expectations?

### Iain Mackay

It came from great legal negotiation.

### Ian Gordon

Would you reference it to the underlying quality or lower default rates of your mortgage-backed securities (MBSs)?

### Iain Mackay

When we provide these disclosures, we tend to take a conservative view as to where the risk might be. When we did, as you would expect, a detailed review of that book of business, there was very little, if any, default experience within that portfolio. We felt that the underlying underwriting capability and sales process were actually quite robust as well and, frankly, the settlement that was reached was a process of negotiation.

### Ian Gordon

Back on PPI, what you say in the statement is higher claims management firms' activity. Obviously in the quarter we have had a range, from RBS saying everything is all done, and then you saying they are trawling through microfiche records. Is yours driven by an uptick in activity or moving back the date line?

## Iain Mackay

From the origins of PPI, our approach to provisioning has been driven by inbound claims, the uphold rate for those claims and the payment rates against them. Our approach to that has not changed. What we have seen, excluding the third but for a number of quarters before that, was a declining rate of inbound claims. That was informed by the fact that we had done a lot of outbound mailing to segments within our portfolio where we had identified, according to the FCA criteria, systemic mis-selling. We had substantially completed that work in the middle of this year and we had seen the level of inbound claims decline. In terms of what some of the peer group has provided, it may be because of timing but, in the third quarter, specifically August and September, we saw a significant pickup in inbound claims. The very significant majority of the source of those inbound claims was claims management companies. That is the main driver behind this.

Those claims management companies are looking back further than the FCA presently requires us to look, so there are a number of claims arriving that predate 2005, but it is the uptick from the claims management companies and therefore the impact on our inbound claims uphold and payment rates that inform our provisioning. We know the population that we have sold to; we have identified those segments that we believe we have mis-sold to but, the further back you go, the more difficult it is, as you can imagine, to tap into customer records, both in terms of customer recall about what they were sold and how they were sold it, and our ability to demonstrate documentation to demonstrate that it was sold appropriately, the customer understood the risk and so on. Those are the drivers with which we deal, and our expectation is that we will see higher inbound claims for another couple of quarters now.

## Ian Gordon

Within your RWA comments earlier, you did not mention any impact from credit migration within Asia, other than your excellent credit quality.

## Iain Mackay

If you look at book quality within our flow, book quality generally has been stable-to-improving. What we have seen in terms of loan-impairment charges this quarter has been either in the Commercial Bank of Global Bank space, where we've seen a couple of large corporates which have experienced difficulty and in which we've worked on restructuring. We are not at all blasé about this. It is the nature of Global Banking and Commercial Banking that, occasionally, customers are going to need some help, but that is what drove incidence of… But frankly, had those two or three accounts not come through, we'd have even lower loan-impairment charges this quarter.

But generally, credit quality in Latin America has remained quite stable. We obviously made model changes in 2013, which adversely impacted our loan-impairment charges there. We obviously took higher charges for homebuilders in Mexico, which adversely impacted it, as well as slightly higher Commercial Banking claims, but that stabilised. Asia credit migration remains very stable and within any range that we would reasonably expect. We moved, I think, in the second quarter from about 14 bps of average outstanding loans and advances to 15 bps in the third quarter, so very, very stable. And Middle East quality has, actually, improved over the course of the year. UK quality has improved and continental Europe has remained largely stable. And in the US, the extent to which improvement we've seen in the Consumer and Mortgage Lending business has not been offset by any deterioration in the Bank.

## Ian Gordon

Thank you. And then, finally, just revisiting the value-in-use debate, which you probably did to death on the call, within the range of realistic possibilities over '15 and '16, absent a material spike in the BoCom share price, do you think it's conceivable that there may be no de-recognition of BoCom?

## Iain Mackay

The reason we talked about this at the Annual Report and Accounts was based on where our carrying value sat and where our view of the value-in-use was, is that we thought that there was a very significant probability of us no longer being able to recognise or recognising our share of BoCom's earnings but, in actual fact, in effect, reversing that out through to an impairment against the value-in-use. The BoCom capital position and its performance has been stronger in the nine months this year, and that's what has influenced value-in-use. We have not changed significantly discount factors, growth expectations – any of the underlying assumptions that go into it – to any significant degree.

The main factor has been a stronger performance from BoCom, and that's why we have not, as yet, experienced any impairment of that. But as I hope you would expect, the reason we talked about it was because we saw a high probability of that impairment. We'd spoken at length with BoCom to… We clearly wouldn't want that investment to be surprised by or taken aback by our requirements for accounting under IFRS. They were informed of our view but their business has continued to perform fairly well through 2014 thus far. So, no, I wish I could give you a firmer view but I can't. We operate one quarter in arrears on BoCom. We don't get preferential access to data on BoCom; we see the data as you see it. And our valuation is informed on a 90-day lag.

## Ian Gordon

And you didn't give us the numbers, but you implied the headroom is similar.

## Iain Mackay

The headroom is, in actual fact, a little bit wider than it was at the half year.

## Ian Gordon

Thank you.

## Rohith Chandra-Rajan, Barclays Capital

Sorry, I'm going to come back to come back to costs again. Just to pick up on the cost saves you pointed out earlier, execution there already has been very good, so the 0.9 billion run-rate saves versus the two-to-three-billion incremental target. Given your commentary around the compliance spend, just wondering what's holding you back from looking for more cost savings. Is it a capacity issue that the organisation can't bear additional change in addition to the scale of what's happening already, or is it a lack of opportunity?

## Iain Mackay

It's not lack of opportunity. What I would say is, as you can tell from the regulatory agenda that we have in front of us, there is a very broad agenda that consumes a significant amount of the businesses' and the functions' time to ensure we fulfil many of the demands that we face in that regard, and that, unfortunately, has somewhat – it doesn't eliminate our capacity to drive change within the organisation but it does mean that we've got to balance some of our priorities. If I simply give you… I'll go back to what I'm sure – I haven't yet been kicked under the table by Jane but I'm waiting for it – is one of my and her favourite topics is stress-testing.

The pressure that was put on both the Risk and the Finance teams over the course of spring and summer and into autumn this year – and, frankly, it has not relented to a significant degree – around supporting meeting the requirements of the EBA and PRA – both fundamentally differently constructed stress tests – was a very, very intensive exercise for the Risk and Finance teams, and it engaged a lot of our staff's time over the spring, summer and into the autumn. And that, therefore, necessarily impinges on the amount of time that we can dedicate to certain other activities around simplification and streamlining of our processes. So, it's not necessarily cutting into the opportunity but it is placing demands on the resources that otherwise would be looking at some of those activities.

## Rohith Chandra-Rajan

Thank you, that's very clear. Would you then rule out the identification and execution of additional cost saves?

**Iain Mackay**

No, absolutely not. As I said earlier, this is fairly relentless, probably much to the chagrin of many of our staff, but it is fairly relentless in terms of identifying saving opportunities. And it goes from customer-facing processes the whole way back into how we run and organise the supporting functions. A great example where we made great savings in 2013 was in our mortgage process in the UK, but it's still not a good enough process. We know it's not a good enough process. It's a customer-facing process that, one, allows us to capture better revenue share but also allows us to economise significantly in how we run those processes. So, it's an area where, again, our Ops team in the UK are back looking at how we can further streamline and improve those processes, and that is one tiny example out of a plethora that exist across the firm. So, there's no lack of opportunity and there's no lack of desire to get after it. What we do, on occasion, run into is simply capacity constraints, because we have subject-matter experts that you do not want to go and change a process unless you can leverage the knowledge of those subject-matter experts.

**Rohith Chandra-Rajan**

Thank you. Could I just ask about UK mortgages and the prospects for the UK intermediary market, what your expectations are there and how HSBC will position itself?

**Iain Mackay**

What do you mean by the 'intermediary market', sorry?

**Rohith Chandra-Rajan**

Are you not moving into the intermediary market?

**Iain Mackay**

Brokers?

**Rohith Chandra-Rajan**

Yes.

**Iain Mackay**

Yes, we are, but they are there to source potential; they are not there to underweight the product for us. So, what we will use brokers in the UK market for is to source customer appetite and do the initial, if you like, data-gathering exercise but, in terms of us doing the final approval and underwriting of the process, that will remain an HSBC process.

**Rohith Chandra-Rajan**

So, same risk appetite, broader distribution.

**Iain Mackay**

Yes.

**Rohith Chandra-Rajan**

And a resulting increase in volumes?

**Iain Mackay**

Well, as you've probably noticed, our share of volume has reduced over the last 12 months. We were sitting around 11% in 2013-13; we're now sitting around about 8.3%. Our share of stock, as a consequence, has shrunk: we were sitting around about 8% in '12 and '13; we're sitting around… I think it's about 6.5%, 6.7, 6.8, I believe it is. So, if you like, the intermediary market is more about the hunting aspect of this in terms of identifying a broader range of opportunities that meet our risk appetite; it's not about changing the risk appetite. I wouldn't say we've got a particularly pessimistic view of the UK market, but the market is looking rather fulsome in one or two places, so we don't necessarily want to bring on business that we'll spend our next three years restructuring.

## Rohith Chandra-Rajan

Thanks very much.

## Raul Sinha, JP Morgan

Maybe just to follow up on the underlying drivers, do you have to submit your ring-fencing plans to the PRA by early next year?

## Iain Mackay

January, yes.

## Raul Sinha

So, obviously, I guess the leverage clarification that came out last month was one of the key ingredients for the banks in terms of determining –

## Iain Mackay

It's not, actually. What they're specifically seeking for January is 'Structurally, how do you do this? How do you go about executing ring-fencing? What's in? Give us your broad business design.' You're right: what came out last Friday is certainly helpful, and I think that the very, very significant changes within the original proposal that came out in the middle of July versus the recommendation to the Chancellor that came out last Friday was remarkable. I think the letters, which you probably saw, from the Governor to the Chancellor, and the letter from the Chancellor back to him, the one from the Chancellor was very revealing, in which he was very, very pointed about being consistent with international standards. Whether that was a somewhat less-than-veiled comment about super-equivalence and the desire to avoid that within the UK environment, if that was, in fact, the intention, then, from our perspective, that's very welcome.

In so far as putting a plan to the PRA goes, we've been on this now for 18 months, certainly from a planning perspective, not, per se, from an execution perspective. So, our planning is well advanced. We don't see any difficulties in meeting the deadlines for submitting plans.

## Raul Sinha

And then, separately, you said, obviously, TLAC, the impact is clearly very difficult to gauge right now and is not in the guidance, but how do you think about the impact for the Group from TLAC? Because given the structure of your Group, depending upon some of the proposals out there, it could be a material cost for you.

## Iain Mackay

If the proposal that was broadly distributed and leaked is the final thing that everybody signs up to, post consultation, post QIS, then yes, that could have quite a negative impact on the Group. But talking to regulators, there seems to be a strongly shared view that this has got to be subject to a detailed QIS. There is concern about homogenising bank-funding models – interesting, given the proposal that was leaked, because that would suggest a certain homogeneity being one of the things that regulators might desire, but they say that that is absolutely not the case; that they would prefer to see a diversified funding model. And I would argue that HSBC has the quintessentially defined diversified funding model.

So, I think the fairest thing to say is that, whatever comes of Brisbane later this month, HSBC will engage very actively in any consultation opportunity and participate broadly in the QIS to try and inform the market impact. A personal view is that the data that was submitted in the proposal was gathered through very, very, very high-level analysis by the FSB. I don't believe for a second that it reflects a drill-in to the balance sheets of the GSIBs.  It doesn't reflect how that might then be affected from a DSIB application, because it's clear that governments around the world are reflecting on loss-absorbing capacity being a desirous aspect from a DSIB standpoint as well as a GSIB standpoint.  And then you clearly need to start thinking about broad market functioning, market capacity.  So, I think, whatever comes out of Brisbane, there's a great deal of work that I think needs to be done.

**Raul Sinha**

Then, finally, to finish off on cost income, I'm sure you wouldn't expect us to forget, but the original cost target of the Group was 48-52%.

**Iain Mackay**

Well, that's shot to hell.

**Raul Sinha**

I'm just wondering whether you think that's still a relevant target.

**Iain Mackay**

No, I don't.  I absolutely do not.  To say Stuart and I were somewhat reluctant to provide that guidance earlier this week would be a fair way of putting it, but the data that we're looking at and what we see ahead of us in terms of what we need to deal with has informed the information that we've given you. The reason we moved definitively away from 48 to 52 is because we didn't think we'd have a snowball chance in hell of ever making it.

**Raul Sinha**

Thanks.

**Chintan Joshi**

Sorry, just following up on TLAC, do you think there will be another consultation of whatever proposals come out or we'll get some amount of finalisation of debt and gain?

**Iain Mackay**

That's what we've been led to believe.

**Chintan Joshi**

That there'll be a consultation.  So, this is not the final –

**Iain Mackay**

We think there'll be a relatively short consultation but we think there will be a detailed QIS.

**Chintan Joshi**

Which, again, could change the final form –

**Iain Mackay**

Well, the QIS is to inform market impact.

**Manus Costello, Autonomous Research LLP**

Can I just follow up on those points on TLAC as well?  Have you confirmed that you're going for an SPE approach in resolution?

**Iain Mackay**

Absolutely not – quite the contrary.

**Manus Costello**

You haven't confirmed anything or you've confirmed it's MPE?

**Iain Mackay**

Our preference from a resolution standpoint is a reflection of how the Group has been managed for many, many years, how it's legally structured, how it's capitalised, funded and managed, and that is through multiple point of entry. And also how it's regulated, actually, is through multiple point of entry.

**Manus Costello**

But it's still a question for debate whether or not that's going to be accepted.

**Iain Mackay**

Correct.

**Manus Costello**

And within that, have you thought about the relationship between the sub-debt that you issue at the OpCo level versus the senior debt that you're going to issue at HoldCo level? Because you've got some quite long-dated sub-debt in the OpCos and, speaking to the regulators, I don't think they really understand exactly which of those in senior in a resolution environment.

**Iain Mackay**

And hence the TLAC debate. So, the structure, the location are two very important questions. The quantum, obviously, is a topic that's particularly close to our heart. And our point has been made consistently, not particularly impactfully yet, that, when you look at an organisation that, on a consolidated basis, has a loans-to-advances ratio of less than 75%, with funding surpluses in the majority of significant markets in which we operate in, the extent to which we've got wholesale funding in place, whether it's senior or in any other structure, has generally been to support a particular type of activity or has been to meet local regulatory requirements.

I think, regardless of quantification, whether you're an American bank, a UK bank or any GSIB, what seems to be intended by the consultation or proposals is a fundamental restructuring of the nature of the debt that's outstanding at the moment. So, again, do we end up revisiting AT1? Does sub-debt need a fundamental restructure? I think it would be fair to say certainly those that rely more heavily on senior debt, there's probably a restructuring challenge there as well. So, again, this is where the QIS, we think… And let's assume that that's what's undertaken by the FSB is they place some importance on understanding at a detailed level the complexity as well as some of the potential market impacts of what is presently proposed.

**Manus Costello**

And just a follow-up on core Tier 1 capital, when we speak to the regulators, they seem to suggest that, by 16 December, when you got the stress-test results, the numbers of core Tier 1 capital requirements for the banks will be clear. Do you share that view that you will know, by the time you speak to us in February, what your requirement is?

**Iain Mackay**

What do you think, Jane?

## Jane Leach

Well, we're expecting a paper from the PRA on Pillar 2 in early 2015, so partly it will depend on how clear that is and whether we've got that by the time we talk to you in February. Because that will talk about things like the layering of the buffers and also how the buffers are going to be set. And that will be the PRA buffer, which obviously will be informed by the stress-testing, but also the stress-testing is also going to be informing the systemic buffers and things like the countercyclical buffers. So, there are still various pieces that are out there that are still uncertain, and we are expecting more certainty, but the timing will depend on the paper.

## Manus Costello

So, does that mean, on the neutralisation of the scrip, pending that Pillar 2 paper, you still would want to be cautious about commenting on that?

## Iain Mackay

Yes. I remain unconvinced that we will get clarity from the regulators as to quantification at an idiosyncratic level. I think what we will get clarification about is how they intend to approach the capital stack. And what I would like greater clarification about is: are these buffers for use or are they not? If they're for use, and using them on a temporary basis to some degree does not impinge upon one's ability to pay dividends to our ordinary shareholders, to continue to meet the requirements of payment on coupons to fixed-income investors, to have some reasonable flexibility around investment decisions, reasonable flexibility to the extent European regulation allows us to pay our employees, then that's what I'd like to get greater clarity about.

I think the PRA has actually been fairly clear that they're not going to say '12% is your number and you're done', and that's why we haven't come out and said '12% is our number and we're done', because I don't think that clarity will be provided. But we hope that the consultation paper on Pillar 2 informing the PRA buffer, how that sits in the capital stack, how it will be used, under what conditions it could be used, that will help inform how we build capital and how we use that capital, and consequently will inform the degree to which we can be more aggressive in building progressive dividend, or less aggressive, and the degree to which we could seriously contemplate scrip neutralisation, which we'd absolutely like to do but it remains difficult to see a pathway to do that with the few outstanding items that need to be clarified.

The other factor, which, again, I'm not going to sit around and necessarily wait for this to develop, but I think how the FPC uses that framework and how the PRA use that framework. A little bit more insight on practice would be helpful. Trust, I think, is important and, at the moment, trust's a mutual thing and I'm not sure there's a great deal of it.

## Jason Napier, Deutsche Bank

Two, please – the first on leverage exposure: I just wonder whether you could give any sense as to how much more work can be done to reduce that, to make leverage a more efficient number within the context of capital needs.

## Iain Mackay

So, again, I think we'll pick on our favourite Global Banking & Markets crowd, where, in terms of structuring relationships with customers that allow greater consideration to be taken of netting and collateral requirements, for example, that can be done in the Commercial Bank as well, clearly. I think that's one area. It's probably the single biggest area that we can continue to focus on. So, just as Samir and his teams focus on risk-weighted-asset management, a great deal of what they do from a risk-weighted-asset management perspective lends itself to mitigating actions around the leverage ratio as well. Anything else, Jane?

## Jane Leach

Yes. Obviously, it doesn't [inaudible] in terms of where savings can be made. And yes, I agree there's GB&M. We get a fair amount from things like guarantees and other commitments that are worth having a look at and other items on the balance sheet. There's a discussion in the industry around [inaudible] as well. So, there are a number of things that I think are worth having a look at in terms of [inaudible] or the management of that.

**Jason Napier**

Do you have a formal piece of work or target on your desk as to what you'd like them to do? You don't need to share it. I'm just interested as to whether this is a formal –

**Iain Mackay**

So, this leverage proposal presently focuses in on the consolidated entity. We've got a couple of entities within the Group where we would like the leverage ratio to be in a better place than it presently is, and so there's more focus within one or two of those legal entities as to the composition of the businesses within those entities. So, yes, there are specific actions lined up within a couple of the global businesses along the lines I've described, but also a somewhat more concentrated focus on one or two of the legal entities through which those businesses do significant customer transactions.

**Jason Napier**

And then the second question – and I appreciate this may be a bit of a 'gimme', but it feels like the process of re-capping the banking sector, sharing strategic plans with investors, putting out cost targets, has kind of got at least some players into a place where they don't feel they can invest any more. Compliance and similar costs are crowding out the need to renew things like IT or develop the business for future growth. In some ways, having a cost-income target is really helpful, and the fact that you're moving it up maybe confirms that you are still able to invest and so on. Is the business able to invest to your satisfaction in places where you do see growth? Is there substantial money going into building the firm of five or 10 years out?

**Iain Mackay**

I think, if you put that question to any individual global business leader, they'd say they always could do more. A discipline that we are trying to instil at not too granular a level, but we're trying to get it at the right level, is we have the capacity to support investment, but I want to see a business case that means it is investment, not just spend; that, if you're going to put *x* million into a new product, a process a new technology, I want to see something back for it. And that is a discipline within which certain parts of the Group have been very good, and other parts have been less good, and we're certainly focused on building greater focus around that and, as a consequence, we absolutely challenge some of the businesses about how robust their investment focus really is. We all know they can spend money, but how good is their investment focus and how willing are they to put their name on a project and be held accountable for it two years later, three years later, in terms of delivering the return on that investment? So, we have absolutely capacity for investment. It would be very fair to say that some of the investment we'd like to do is challenged because of areas that we have to invest in just now around reg. It has not crowded it out but it has certainly required us to be considerably more focused in our prioritisation efforts.

**Jason Napier**

Is the shape of the investment spend roughly in line with the Group's shape, or is there a division that's attracting most of your investment right now?

**Iain Mackay**

Well, no. I think, if you go back to the 2013 investor update, the investments that we've done through '13 and '14, and will be so the case into '15 as well, have been in those areas that we focused. So, it's around Payments, Cash Management, Foreign Exchange, Global Trade and Receivables. It's investment in upgrading RMs, more RMs. It's in technology particularly in FX and PCM. Mobile within the Retail Bank Wealth Management, there's a space that's received significant investment over the last couple of years. And in those cases, I have to say, the teams are sticking to their investment programmes and putting… FX has had a tough year but I don't think we should write off investment in

Foreign Exchange just because of a tough market year. But certainly PCM, Global Trade, the Retail Bank on the mobile front are living up to their expectations thus far.

## Ronit Ghose, Citigroup

I had a question regarding asset quality. We've talked a lot about the headwinds that you face in terms of costs and regulation, but actually you're benefiting from unbelievably benign loan losses right now. In the US, there's obviously a recovery, but could you give us some more comments and thoughts from your perspective on Europe or the UK area, where loan losses have been remarkably low for the last several quarters? My second question is on costs, to do with, basically, when we last met here three months ago, you were saying that you were beginning to see a slowdown in terms of the incoming requests you were getting from business heads in terms of requests for spending on regulatory-related spending. You were saying the number of heads and the [inaudible] the second derivative was beginning to slow. Was that a false dawn or do you think that's still the case?

## Iain Mackay

If you look at the rate of increase compared to where we started in 2011 versus where we are today, although we're still recruiting a lot of Compliance and Risk staff, the rate of that recruitment and the rate of build is slower than it was 12 months ago. It's just not done yet, and I think that's actually what I said a quarter ago: that, although we could see ourselves coming up there, we certainly hadn't crested the summit at this point.

On credit quality, there's not a great deal more that I can add to the response to Ian's question. We've done de-risking across a number of dimensions in the Group over the last three and half, four years. A lot of that has been focused on compliance risk, regulatory risk, but also in certain markets and certain products from a credit-risk and market-risk perspective. We maintain a risk appetite which provides more than enough capacity, in our view, for our Global Banking & Markets, Commercial Banking, Retail Banking and Private Banking teams to serve customers and take market share, whether it's credit risk or market risk. We are very focused on managing operational risk very, very closely. But in terms of the credit risk, the trend within the UK has been an improving one over the course of the last couple of quarters, and Europe, it would be fair to say, has remained stable.

Again, the question that we do put to ourselves not totally infrequently is: have we over-de-risked from a credit-risk perspective? Because the loan-impairment charges do remain at a fairly low and fairly stable level. And the question that I think Stuart has put to the businesses on a reasonably consistent basis for the last few quarters is: are you using the appetite we've given you? We know we're trying to manage our operational risk very closely. Part of that focused very much on the conduct and compliance agenda – but there's a credit appetite out there and there's a market-risk appetite out there, and the question that Stuart has put consistently to the business is, 'Are you using it?' And that will continue to be the question we put to them. But I think what we are experiencing are the effects of a fairly broad-based de-risking that the organisation's gone through for the last three and a half, four years.

## Ronit Ghose

Do you think, just as a follow up, particularly in the UK and in Asia, I guess the UK and Hong Kong and developed Asia, where the basis point loss ratio is in the low double digits, low teens – in those areas do you think at your level or at Stuart's level, there are areas that you maybe should have been more – I mean obviously Latin America provisions have been high, and the US, we know the cycle, but in your two home markets, in retrospect, should you have been more aggressive?

## Iain Mackay

That's the nature of the question back to the guys running the businesses. They've got capacity within the appetite that we've given them; they've got capacity against the trading limits that they've got, and they're being encouraged to use those within the context of the risk appetite that we've got overall. Part of the informed response to that is the balance sheet is growing, you can see it. There is revenue coming from that growth. That revenue is helping offset some of the declines that we see in other areas, principally the run-off in the US portfolios and repositioning of businesses and private banking in Brazil and Mexico on the Retail Bank front. But the job is not by any stretch of the imagination finished and it never will be. Sorry, Chris Manners.

### Chris Manners, Morgan Stanley

It was just a question for you Iain on the Competition Markets Authority probe into PCAs and SMEs. Obviously it's a very concentrated market, just wondering what were your thoughts on the risks around this, whether it was mainly a problem for Lloyds or whether it could have impact on HSBC as well?

### Iain Mackay

I have no clue; it's far too early.

### Chris Manners, Morgan Stanley

Fair enough.

### Iain Mackay

I think our view would be, as you might expect, that there is ample opportunity in the UK from a competitive perspective. You have a number of challenger banks there, which are on the high street, they're on the web. You want to move your account from HSBC to RBS, to Barclays, to wherever, you can move your account. You know, now that they've put the customer account switching scheme in place, you can move your account in seven days.

I think the challenge is the free banking bit. Where we run some of the risk of with the CMA is that people will say that there's a lack of transparency from charges. And therefore one of the issues with transparency is free banking when in credit, which you have to assume the British public really like. We can absolutely start charging them for current accounts, and we can provide greater transparency for the charging. When you get hit for an unauthorised overdraft, you know what you're getting hit for because it's clear as day on your bank statement. You might not like the amount that's there, but you know what it's for. It's very difficult; this is as politically motivated as anything. My own view is that if I wanted to move my accounts from HSBC or RBS tomorrow, I could do it tomorrow. And believe me, from time to time, HSBC do things to me that motivate me to think about that quite clearly, and to be honest so do RBS. It's not because it's too much hassle, it's probably because I'm too lazy. Sorry, this gentleman first, because you've already had a question.

### James Chappell, Berenberg Bank

Iain, could you just talk a little bit about Latin America, and the trends that you see there with the business? It seems that there are quite a lot of headwinds in that business with what's going on, and just a little bit more colour on the outlook and what you see developing, please.

### Iain Mackay

Yes, certainly. Well let's take Argentina off the page for a moment. Argentina is doing, in remarkably difficult circumstances, remarkably well. It is, dare I say it, for that market a reasonably perfectly well-formed business. Now that I've said that, something disastrous will happen. Our issues in Latin America reside in Mexico and to a greater extent in Brazil and within each of those markets principally within Retail Bank Wealth Management. We have comparable scale in the Mexican platform. We have got almost 1,200 branches, and our issues within the Mexican market have been largely one of product offering and structure.

I think it would be fair to say this year Stuart has spent more time on Mexico and Brazil than just about any other two countries in the portfolio. The political and economic reform in Mexico is extremely encouraging. There is a parallel programme of reform and restructuring going on within our Mexican business and we think that there is a pathway there to generating, certainly, market comparable and attractive returns. But having de-risked the way we have in Mexico, we have quite a lot of work to do in terms of getting the proposition aligned, getting a sales force focused on offering a customer in a compliant manner. But we think there is an opportunity in Mexico that's very clear and are going after that.

Longer-term Brazil looks like a very attractive market. It's quite a closed market, it's quite a concentrated market, but we certainly think that for Premier and Advance there is an opportunity. But probably to have an opportunity to be successful in those markets we have to deal with mass in some size, shape or form as well. It's where the margins are, and therefore there is work in progress now. I'm picking somewhat on Retail Bank Wealth Management, because it is where the greatest challenge exists, but it would be fair to say that in Brazil there is work to be done in each of the Commercial Banking and Global Banking and Markets as well. I think we probably would have preferred to see a greater impetus for political and economic reform in Brazil, but we're probably going to have to wait a little bit longer for that. But we've got a good team there and we're making some of the adjustments that we need to make, particularly in Commercial Banking and Retail Bank Wealth Management. But I think that is a longer challenge for us in Brazil.

There's two businesses in the world where we've got another two to three year's worth of serious work to be done to get them in the shape that we think will deliver sustainable and acceptable levels of return. We think they're important for the network and they're important for the Group. But we think they will only generate acceptable returns within the foreseeable future, and those two countries are the US and Brazil. Mexico, given the environment overall, we're somewhat more optimistic about that.

## Leigh Goodwin

Actually, on a more positive note perhaps, Global Banking and Markets actually seemed to have a good quarter and in particular within Markets, you're up Q on Q, and a lot of your peers, certainly European bank peers, had much less good quarters. I wondered if you could talk through the factors behind that? You're obviously gaining market share and whether this is a secular trend, maybe because you're inviting them to take more risk in your division, or whether it's just your positioning, your mix and products, or what it is?

## Iain Mackay

I think it's a mix and it's a business model perspective. We have very, very little dependence on trading in the FICC space. We don't have a big US Treasury book; we hardly trade commodities at all. So we're not huge in the Fixed Income space. We trade Credit and Rates, not uniquely, but it's significantly driven by the fact that we're a primary dealer for a significant number of sovereigns. Credit and Rates revenue has actually held reasonably well over the course of this year. In fact, Rates has improved somewhat. The foreign exchange has had a somewhat more difficult year. The third quarter certainly helped it when foreign exchange came on quite nicely and made the mid-2014 somewhat less ghastly for FX than it had been at the first half. And Equities has moved on quite nicely. Those are the component parts of our Markets business. So Markets has grown its revenue nine months over nine months, but only to the tune of about a percentage point, and that's principally because foreign exchange was down and the other markets held their ground or moved ahead. Interestingly, the most significant improvement was in the Equities business, which is a relatively small business for us, but continuing to improve its positioning overall.

Beyond that, we've got a very robust franchise which generates revenues across the Debt Capital Markets, Equity Capital Markets business. Debt Capital Markets continues to go from strength to strength. Equity Capital Markets improved, particularly in Asia, Middle East and Europe. Payments and Cash Management has had a strong year and an improving year so far. The Securities Services business is holding its own, pretty much flat year over year. And Global Trade and Receivables continues to improve its performance. Those are businesses that are very focused on supporting global trade and international investment, and it is dependent on customer flows. And what Samir has very sharp focus about is the customer connectivity. So there is a customer relationship group in place, and there are product groups in place. The customer relationship is to ensure that we are serving each individual customer effectively across a broad range of products, and what it also helps contribute towards is those product groups are able to reach out across the Commercial Banking business as well and drive data collaboration between the Markets business and the Commercial Banking business. And that continues to make progress.

It is largely driven by a customer centric model. Whether that truly is different to our peer group, it would certainly be Samir and Stuart's contention that it is. And the results, certainly for the last four quarters would support that view.

**Leigh Goodwin**

Sorry just to follow that, you're targeting, are you, continuing to grow share and take advantage, if you like, of the fall backs of your competitors?

**Iain Mackay**

In specific areas, yeah.

**Sandy Chen, Cenkos Securities**

Actually probably just a small question, but the general shape of what you're saying seems to be, 'Look the emerging markets Asia growth story is really quite good, global trade and all that is an emphasis continuing.' I might be reading too much into the figures, but I'm trying to put that together with what looks like a pullback on the international trade and services loan books, both in Europe and in Asia in Q3. Is that just seasonality, don't worry about it?

**Iain Mackay**

I mean, the first half was strong in both areas; the appetite is still there. There's a little bit of seasonality in it, but there's nothing purposeful from our perspective in terms of adjusting risk appetite or pulling back.

**Sandy Chen**

Alright, or would any of it be driven by commodity price movements within that, so that the actual loan package –?

**Iain Mackay**

Not that I'm aware of. I think this probably needs to be the last question.

**Chintan Joshi**

North America, if I look at RBWM, it seems like it's had a weak quarter. I'm just wondering what happened there? And then on North America CMB, how should we think about it? It's been an area of investment for quite a while. I would have thought that the progress that you saw from Q1 to Q2 would have carried on and, you know, you probably see a step change in a 12-month horizon, given you've been working on it for two years. I'm just wondering how to think about the weakness in RBWM and when to expect any strength from North America CMB? I'm excluding the significant items.

**Iain Mackay**

Yeah, me too. It's looking pretty good from where I'm sitting. Unfortunately, it's largely driven by the fact that we're making profits in the finance company again as opposed to making lots of profits in the core Retail Bank Wealth Management business. There's nothing significant coming through the cost base. LICs are very stable, down. Nothing there that I would pick up on particularly, Chintan.

**Chintan Joshi**

That's good to hear.

**Iain Mackay**

In CMB, underlying is actually not looking too bad either actually. Loan growth coming along, net interest income –

**Chintan Joshi**

From what I can see, a 2 million increase in North America CMB, insignificant.

**Iain Mackay**

200 million?

**Chintan Joshi**

2 million, so barely anything. So you think something else. And in RBWM I can see about 150 million weakness, if I remember correctly on the revenue line. If nothing is sticking out from what you see then it's probably noise.

**Iain Mackay**

There's nothing significant coming through there. The revenue lines moved ahead both in dollar and percentage. On CMB our revenue's about 8% up nine months over nine months on an underlying basis. Balance sheet's growing, profit's coming through to the bottom line. Nothing in CMB; CMB is going along quite well. Retail bank –

**Rob Irvin**

The only other thing to think about when you're looking at RBWM North America is that you have a run-off book in Canada as well

**Iain Mackay**

The consumer finance book in Canada? That might contribute, but it's not that big.

**Iain Mackay**

Yeah, revenue was about 71 million lower, just driven by lower balances in Canada. Excluding the run-off revenue was broadly unchanged. Okay. So look, certainly, thanks for your time today. Notwithstanding a little bit of a change on the cost front the business continues to generate a lot of profitability, a lot of capital. Unfortunately, there's a little bit more of that going to significant items than we would like it to. The silver lining to that is that we are progressively knocking those items off the list in terms of litigation and investigative items, but there's a way to go there. There's absolutely no doubt about it and our disclosure to that effect in the interim report and the Annual Report and Accounts shows that. Continue to generate capital. There's a very, very sharp focus on generating returns. And the main factor influencing some of the discussion around ROE is where the levels of capital are sitting at the moment, but going back to your point, the return on risk-weighted assets targeted from the business, when you get through some of that noise, the business propensity to generate those returns of risk-weighted assets remains in line with our expectation. Okay, thank you very much.