Transcript

Retail Banking and Wealth Management Webcast with Investors and Analysts

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HSBC

John Flint, Chief Executive, RBWM

Good morning and good afternoon, ladies and gentlemen. Thank you all very much for joining us today. We have an hour together. I am joined this morning by Matthieu Kiss, the CFO for RBWM, and what we plan to do with you this morning is take you through some slides we prepared that remind you about financial performance and the current strategy that we are pursuing. That will probably take about 20 minutes, and then we will have the remainder of the hour – 40 minutes – to engage in Q&A, so I look forward to the Q&A session shortly.

In terms of slides, I have to draw your attention to the usual forward-looking statements. The first two slides, which I will not dwell on, are simply a remainder of the Group results that Stuart and Iain presented to you a couple of weeks ago, so I really do not want to spend any time on those. What I do want to do, though, is start with a quick recap of the first three full years of running RBWM as a global business.

You are aware and we are very much aware that getting to a view of the underlying performance of the business for HSBC is increasingly complex, because of all of the adjustments that are now made to the results; and because, certainly for RBWM, of the very significant portfolio simplification that we have undertaken. We have announced 56 disposals or closures since we became a global business at the beginning of 2011, which has made it very difficult for anybody to get through to the underlying numbers of the business that I manage.

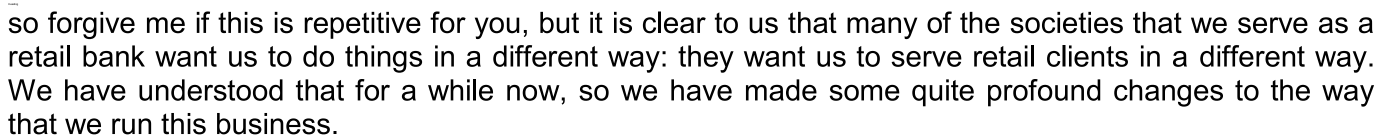
This slide, then, attempts to do that, and I will just spend a minutes on walking you through it. The top-left bar chart focuses on the revenues of RBWM. The reported revenues progressing, left to right, 2010 to 2013 are in the red boxes at the top of the bars: $33.6 billion in 2010, falling to $26.7 billion by 2013. That is for the reported business but, of course, the reported business includes the principal business that I run, the US runoff books, significant items and underlying adjustments, driven by many of the fines and redress issues but, increasingly, and very importantly, the accounting impacts of the disposals – the gains on sales etc.

For the purpose of this slide, the principal RBWM business is represented by the dark-blue boxes, and what you can see, from a revenue perspective, is that revenue has progressed from $22.7 billion in 2010 to $24.6 billion in 2013, so a 3% compound annual growth rate of revenues over the first three full years of running RBWM along global lines. If we look at the bottom bar chart, this is the profit before tax (PBT) view and, again, to make the same point, the reported PBT has been incredibly noisy: $3.8 billion in 2010; moving to $4.3 billion in 2011; up to $9.6 billion in 2012 – that year included significant gains on disposals; and then back down to $6.6 billion in 2013. The dark-blue box, again, is the principal RBWM business, and that shows a PBT progression from $4.9 billion in 2010 to $7.5 billion in 2013.

On a PBT basis, then, the principal business, as evidenced on the right-hand side, has demonstrated a compound annual growth rate of profit of 16% per annum, and the simple story there is that 3% revenue growth, pretty much flat costs, and a significantly improving credit line yield what I think, by most measures, is very a satisfactory PBT progression. Those are the first three years of running RBWM.

If we bring the story forward now into 2014, performance in the first nine months was more modest. If we start with the top-left-hand box, and RBWM in the context of the Group, you can see that, this time last year, our contribution was 26% of the Group's PBT, and that has not changed: we still account for 26% of the Group's PBT. As a reminder, on the bottom-left-hand side of the page, the returns for the Retail business do continue to be very strong, and we will talk a little about some of the drivers behind that later. As you progress to the top-right-hand side in the table, that is a deconstruction that gets you to the reported principal results for RBWM for the first nine months, and you can see there a fall in the PBT of 7%, falling from $5.8 billion in the first nine months of last year to $5.4 billion this year.

What I want to do now is just spend a few minutes talking you through the drivers behind that reduction and what is happening. We start with revenues, and the revenue story is that revenues have been, essentially, flat year on year. There are a number of external factors that continue to contribute to a lack of revenue growth: interest rates remaining very low; and low growth in some of our key markets. The real issue that I want to discuss on today's call, however, is the initiatives that we have taken to reposition this business for a future that we can see emerging. I have talked about this with many of you in the past,



so forgive me if this is repetitive for you, but it is clear to us that many of the societies that we serve as a retail bank want us to do things in a different way: they want us to serve retail clients in a different way. We have understood that for a while now, so we have made some quite profound changes to the way that we run this business.

We have broken any mechanical link between product sale and staff compensation across our Retail Bank globally. We started this almost two years ago with our Wealth sales staff, moving from a formulaic incentive framework to a purely discretionary one. That impacted 10,000 staff from the beginning of 2013. We extended that to the rest of the Retail-facing staff at the beginning of this year, which impacted another 55,000 staff, so 65,000 staff have had their incentive schemes completely changed in the last two years.

The good news for HSBC is that this is not something we are thinking about doing or something we are planning – we have done it. It has not been an easy transition to make, but we are in a state now of optimising into and fine-tuning a new framework, and driving business performance now on the basis of quite different levers to those that might have been used in the past. A significant change, then, to incentive frameworks.

We have also made a very substantial simplification of the product range on offer in aggregate across the Retail Bank. I think many of you would recognise that more choice is not always a good thing for a retail customer, so we have addressed that. Importantly, we have also begun to deal with this complex question of fair-value exchange between shareholders and customers. This is a subjective area, and no amount of work will ever immunise us from challenge, but we have been very methodical, thoughtful and deliberate in reviewing all of the products and services we offer and the price at which we offer them to clients. We have exercised judgments as to whether or not we think the prices represent fair-value exchange.

The result of going through that exercise is that we have identified some prices that needed to change, and we have either taken products off the shelf because they were no longer appropriate, from a pricing perspective, or we have amended the pricing. In short, what it has meant is that we have identified what we believe to be low-quality revenues and we have stepped away from them.

In summary, the revenue picture of flat revenue growth is due partly to some external factors as well as some very significant internal factors that have been deliberate on our part: a deliberate attempt to improve the quality of revenues, whilst recognising that, in the short term, it has some negative impact on the pace of revenue growth. We will come back to this a little later, but that is the revenue story of flat revenue growth. We are generally comfortable with that, given the changes we have made to improve the quality of revenues.

There is a little more insight on the revenue picture on this slide. The left-hand side gives you some insights into revenue movements by activity. Personal Lending top-line revenue is slightly down but, on a risk-adjusted basis, it is up a lot because of the improvement in credit performance. Current Accounts, Savings Accounts and Deposits continue to be a very key driver of revenue growth for us. As you can see from the middle part of the chart, customer-account balances are outstripping our ability to lend, so balances grew 5% over the previous nine months in 2013. We have also seen a very modest improvement in margins coming through on the liability side. In Wealth products, despite the changes that we made across the incentive frameworks, we have seen, again, some growth this year. The other box at the bottom is largely dominated by adverse movements on some non-qualifying hedges that reside in the P&L.

In terms of loan impairment charges, there is no surprise here, and they continue to improve. The credit environment is generally very benign for us across the Retail portfolio, and I think that is indicative of the de-risking that was really done three or four years ago, when there was quite an aggressive repositioning of the pendulum away from unsecured, into secured. We are very much aware that we do have the capacity to take more credit risk as a business. That is something we have been gearing the business up to do more of. We have made a bit of progress there but that is not yet leading to higher loan-impairment charges. The story around the credit quality of the book remains exceptionally strong.

With revenues flat and an improving credit performance, why is the overall PBT performance down 7%? It is really explained by the expense line in the first nine months of the year. You will recall that, through the first three years of running RBWM on a global basis, we took 15,000 people out of the headcount, in addition to another 18,000 who left through the disposals activity. 15,000 people were taken out of the structure, and that drove a significant cost benefit through the first three years. Headcount this year has remained stable, so we have not seen the same benefit. As Stuart and Iain discussed at the call a couple of weeks ago, our results and the Group's results are affected by the ongoing investments that we need to make in Risk and Compliance to meet the various regulatory and compliance obligations that the Group has.

There is also the Financial Services Compensation Scheme (FSCS) levy, which impacts the RBWM results in this period, and that is just over $100 million. We have also seen a deliberate uptick in marketing expenses, and we do host inflationary pressures in some of the higher-growth markets. In terms of the underlying performance of the principal business, revenues are flat, and there was a $400 million improvement in loan impairment charges and an $800 million increase in costs over the period, yielding the 7% PBT reduction that we discussed.

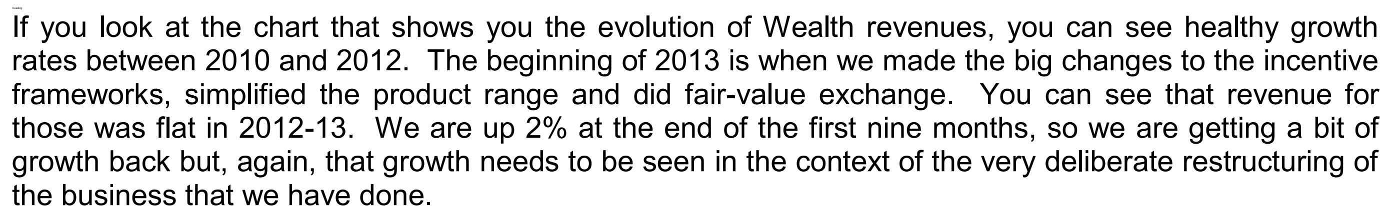
There is one important point, though, that I do want to reiterate, which is about the quality of revenues and the whole issue of how we make money and engage with customers. This picture is an illustration of the impact on our P&L from customer redress and, this year, the Consumer Credit Act (CCA). In terms of the evolution, it was $78 million in 2010, so pretty much negligible; $875 million in 2011; $1.7 billion in 2012; a drop last year to under $1 billion; and, at the nine months, we are at $1.354 billion. The key takeaway is that, if you look at the bottom bubbles on the left-hand side, they are the loan-impairment charges. In terms of risk-adjusted returns for the Retail business of RBWM in 2010, the only adjustment you had to make was the credit adjustment.

Coming through to the first nine months of 2014, the costs to the P&L of customer redress and the CCA are broadly similar to the credit costs. If we were sitting here having this conversation and we had not yet done anything to reposition the business for a future that is emerging quite clearly, to us, I would feel pretty uncomfortable about it. The de-risking that is explaining some of the near-term revenue pressure is a de-risking that we started quite aggressively two years, and the bulk of the repositioning that we have self-imposed on ourselves is now behind us. However, it is, again, just worth remembering that, when you are looking at revenues and risk-adjusted revenues, the costs of customer redress, including CCA, are significant. Quality of revenues is just as important right now for us as quantity, and I am sure that that will come up in the Q&A a little later.

That is a very quick overview of the results: first three years, no issue; the first nine months of this year, we are seeing the impacts of some restructuring that we have done, leading to lower revenue growth, as well as the impact of increased costs because of the Risk and Compliance commitments that we have.

What are the growth levers that we have at our disposal to continue to improve performance? I will canter through this quite quickly. The business priorities that we run the business to have not changed, and will not change going into next year. In terms of relationship-led lending, we have more than enough capital, funding and customers to grow the assets side of the balance sheet. We are starting to see some positive signs now that that is coming through. In the home markets, we are getting some greater traction on the unsecured books, with modest growth there, but quite healthy growth in mortgage balances across the rest of the priority markets: 7%, as you can see, in the middle cluster; and 3% in the bottom cluster. I absolutely acknowledge that there is more capacity for us to drive revenues through growing the lending balances.

The next slide is on Wealth Management. To be very clear, Wealth Management remains a key strategic priority for us but, to be equally clear, the evolution and development of our Wealth business has run into the conduct-risk agenda and all of the implications and impacts that we have already discussed. Remember that this business delivers Wealth products – or products with uncertain outcomes – to Retail clients. This is not the Private Bank; this is retail on non-professional investors. How you go about delivering that is key, because what we have clearly learnt as an industry is, if you get that wrong, there is an asymmetry here in favour of the customers against the bank or against the shareholders.



If you look at the chart that shows you the evolution of Wealth revenues, you can see healthy growth rates between 2010 and 2012. The beginning of 2013 is when we made the big changes to the incentive frameworks, simplified the product range and did fair-value exchange. You can see that revenue for those was flat in 2012-13. We are up 2% at the end of the first nine months, so we are getting a bit of growth back but, again, that growth needs to be seen in the context of the very deliberate restructuring of the business that we have done.

We are often asked to explain how the returns for this business can continue to be so strong. The Wealth business is a very significant driver of that. If you look at the demographic of customer base that we enjoy, there is significant opportunity here to continue to grow this business, but you have to grow it in the right way and you have to have the right foundations in place, including the right incentives. The good news for us is that that work is behind us now.

The third business priority, which will be ever-present now for as long as we can all see into the future, is the development of the digital channels. We have made a really nice job on the mobile side. We still have some more work to do to tidy up the infrastructure that supports the browser-based channels to get those managed and organised in a way that is consistent with the mobile channels, so that we can evolve these things quickly and efficiently. We have some more work ahead of us there, but we have made a really good start, I think. We have the same mobile-banking application available across 26 of our priority markets now. We are at just under six million downloads, and 2.8 million downloads of the mobile app this year. We have seen a 16% increase in average monthly revenue derived from digital across our priority markets. This is a race along with everybody else, but I think we have made a very good start there.

There is more work ahead of us than behind us, clearly, but relationship-led personal lending, wealth and digital will remain the business priorities as we head into next year. In terms of costs, however, we cannot forget the need to continue to streamline. On the right-hand-side of this page, just to remind you, are the areas where I think there is the opportunity to continue to drive efficiency. In terms of branch-network optimisation, we have worked with a consulting firm to lay the frameworks for optimising our branch networks in all of our priority markets, and we have made a good start with that, as well as contact-centre optimisation and digital-channel development.

All three things are about the distribution channels and, as per the industry trends, the development of digital does allow us to think in a different way about the branch network and about how we use contact centres. We have talked about the need to keep the product range simple from a control and management perspective, and we continue to make progress around reengineering customer journeys. The reality is that the underlying infrastructure that supports HSBC in its various countries is complex, and the process of simplifying that is by no means a short-term one; it is very much a long-term process, but we continue to use that to drive efficiencies.

The strategic priorities and what we are doing as a business have not changed. This is the final slide that I will talk to before I sum up. The Group's strategic priorities are on the left side: growing the business whilst implementing the global standards that are very much part of us meeting our obligations under the Deferred Prosecution Agreement (DPA), and streamlining our processes and procedures to drive the efficiencies that will help drive bottom-line growth. Our growth priorities for RBWM are getting the balance sheet going again on the assets side, continuing to drive Wealth Management, now that we have really laid the foundations for a sustainable Wealth business for Retail customers, and using digital for both cost and revenue reasons.

All of that is consistent, then, with the 2016 financial targets that were last shared with you at the last Investor Day that we did. Directionally, we would expect this business to contribute 25-35% of the Group's PBT – we are currently at 26% – with a reported return on risk-weighted assets (RoRWA) of 3.8-4.3% or, if you exclude the run-off business in the US, a RoRWA in the 5-5.5% range.

I hope that that has been useful. In terms of a quick summary, in the first three years the financial performance has been fine, I think, and has certainly legitimised the strategic decision to organise this business on a global basis. The first nine months of this year have been a little more challenging, however, with flat revenues and an improvement on the credit line, but costs up. We have undertaken

significant work to reposition this business for the future, changing the incentive schemes, simplifying the product range and addressing the question of fair-value exchange.

The drag impacts of the self-imposed changes are largely behind us now, and we feel pretty good about the work we have done here, because what everybody in our industry has learned, I think, is how you make your money is as important as how much money you make. Put another way, quality is as important as quantity, because, if you get it wrong, it just comes out of the P&L again through the conduct and risk slide. As we illustrated, in the first nine months of this year the costs of customer redress – largely Payment Protection Insurance (PPI) but also CCA charges – are broadly in line with our credit charges for what is a very large balance sheet. Quality, then, is as important as quantity. Growth priorities remain relationship-led personal lending, Wealth Management and digital.

I would now be delighted to take any questions.

Jason Napier, Deutsche Bank

Good morning and thank you for the presentation. I have three questions, if I may, and they are all on UK mortgage lending. First, given what looked like pretty fine pricing in some of the offers on the high street, it is somewhat surprising to see volumes, at a gross level, down this year on last, and last year on the year before. I wonder whether you might talk a little about your appetite from a gross lending perspective to be larger in this market. I appreciate you have taken share over the last three years, but, given your capital and liquidity strength, it does seem strange that volumes are down in absolute terms in a market that is up.

Second, you have decided to begin exploring use of the intermediary market again, with signs of ambition there. What triggered the change, and is this just another channel to service the same kind of loan-to-value (LTV) and the same kind of geographic distribution as before.

Lastly, investors seem really quite divided on whether we are going to see floors as far as risk weights are concerned, but I wonder whether you might confirm whether or not the low advanced internal ratings-based (IRB) risk weight that you use features in price. If you were to, for example, move to a 15% floor in the UK, would that, in your mind, need to trigger any change in the stance of the pricing that you have on offer? Thank you.

John Flint

Thanks, Jason. I think the story around volumes really is about the competitive environment. Your observation is right: post-crisis, the competitive environment was very favourable for us. Many of our key competitors were repairing their balance sheets and were not competing, so we took significant market share. What we have seen this year is that pretty much everybody has sprung back to life, so the competitive environment has changed very significantly and we have worked this year to maintain the books' balances; i.e. not to see significant attrition.

I think one of the reasons we have struggled to do that comes to the intermediary question: 66% of mortgages in the UK are now originated through an intermediary channel, and we had chosen, until very recently, to exclude ourselves from that channel. I think, realistically, we could not afford to defend that position any more, so we are getting back in. We are getting back in a very measured or, if you like, typically HSBC way, because it is a different approach for us. The underwriting standards, however, will not change, so I think, in many ways, you answered your own question. Yes, this is really is about just increasing the distribution capacity by adding a new channel, but it is not a significant change in our risk appetite.

Coming to floors, we absolutely are aware of the debate around the potential for a 15% floor. We currently enjoy risk weights significantly below that, but would our book continue to create value even at a 15% floor? Yes, it would, so we are cognisant of that and we manage on that basis.

Does that answer your question, Jason?

Jason Napier

It does. If I might just press you a little on the first part of that, though, if your advanced IRB weight is 7% versus a mean amongst those who have IRBs of about 13%, and if your deposit costs look to be about 70 basis points, perhaps it is just that you are in the most contested market but it does really make sense that you struggle to grow gross volumes against competitors of higher capital demands and higher funding costs? Is it just the segment you are in that was so tough?

John Flint

I think it is about our risk appetite and the risk standards. Maybe there is a debate around whether we are too risk-restrictive, but if you think that we are competing for 34% of the market by distribution channel, and we are operating to risk standards that are clearly different to the market's, as evidenced by the credit-charge line, I think that gives you the explanation as to why balances have remained reasonably flat this year. There is not a significant change in risk appetite going forward. There is an increased appetite for greater distribution capacity, which is the reason for the change.

Mike Trippitt, Numis

Good morning. I have a couple of questions. I was just interested in your comments on fair-value exchange between customers and shareholders. This is becoming a huge issue, I think, given some of the regulatory capital requirements, but if I look at your RoRWA target, that still converts into quiet a meaningful return on equity (ROE) or return on Core Tier 1. I just wondered what your thoughts are around sustainable ROE in this business.

Second, I understand why the Wealth Management revenues stalled a little. Going forward, can you give any thoughts on the size and shape of that business, having got through the conduct issues?

John Flint

Mike, thanks. Your first question is probably in the top two questions for the industry. In terms of the way that we have thought about fair-value exchange, we deconstructed it into three questions, and I will just step you through our thinking. The first question was the one I discussed: take all of your products and services and get yourself comfortable, on a product-by-product basis, that the price is fair and defensible. Depending on the product, you do it with reference to different factors – clearly, market competitors etc – but returns are certainly one of the factors that you would input. That gets you through level one: you go through the product range.

The next level, I think, we need to go through is to ask: are customers using us in a way that is clearly disadvantageous to them? If so, what are our responsibilities for identifying that and nudging customers towards things more sensibly?

If you go through both of those, you get to exactly the question you ask: you are comfortable that all of your products and services are delivered at a fair value, and you are comfortable that you are not allowing customers to do silly things and pay more than they need to do for the services they are getting. How, then, can you continue to generate ROEs that look very attractive?

The answer that we are increasingly coming to as we work through this is that you come back to this very positive correlation between scale and profitability. The 5-5.5% RoRWA that we aspire to and the 4% that we had at the first half of the year are really dominated by the two home markets – Hong Kong and the UK – where we have scaled positions. If you look across the rest of the portfolio – and I think we did that in one of the previous sessions – again you see a very strong relationship between scale and profitability, or lack of scale and lack of profitability. Scale, then, continues to be the answer there.

The question of how sustainable that is differs from market to market. In the UK, where the underlying returns for Retail Banking – again, you have to get through all of the fines and redress – remain very attractive, we all have to develop a view as to what will happen to those post ringfencing. The costs of ringfencing, I think, will have an impact, but all of the ringfenced bank will have ROEs that, I suspect, still

look quite attractive and we will need to develop our own views as to what society in its broadest sense will tolerate. You will get an answer for the UK, for Brazil, for Mexico and for Hong Kong, and they will all be different.

I think there is a logic construct that allows you to be delivering fair value to customers at an individual level, whilst still delivering very strong returns for shareholders. Scale is typically the driver but there is a legitimate question that asks: even with that, in some markets, might that be challenged? I think that is a very fair question.

Do you want to come back on that one before we get into Wealth?

Mike Trippitt

No, that was a very comprehensive answer, thank you.

John Flint

In terms of Wealth Management, the way that we have thought about Wealth is that, for Retail Banking, it is really based around our Premier Relationship Managers (RMs). We have spent two years changing the incentive schemes, upskilling them and giving them technology to better serve customers. In our key markets, we are growing our Premier Relationship Managers. We had a rebasing in the UK, where the numbers fell significantly, and we have been rebuilding those quite aggressively this year.

There are two ways to look at this. The reality is that the opportunity that exists to do a better job for ourselves and our existing customers in Wealth is bigger now than when we started four years ago. We can either be depressed or hugely optimistic about that, but the good news is that we are starting to see some traction here.

The scope of the ambition, however, needs to be thought of in the following terms: we have a great customer base; we need to make sure that the Premier qualified customer base has an RM who is equipped to deal with and that all of our customers are taken through reasonably standard processes that risk-profile them, do a needs assessment and then deliver a product or solution into that. What we will not go back to is an RM approach that sees each RM being their own Chief Investment Officer (CIO) for their own portfolio of customers. We are a lot more organised and structured around this, because this is for non-professional investors now.

The ambition remains. I think the $3 billion revenue target that was at the last Investor Day clearly look out-of-reach right now, or certainly by the timeframe that we articulated, but the strategic ambition remains.

Ken Chang, Redwood Peak

Thanks very much for your presentation on Wealth Management. I was wondering, given the ongoing surveillance, for lack of a better word, of money-laundering activities etc as part of the Justice Department settlements, whether or not that is impacting how business is conducted and how long that will go for in terms of the net impact to the Wealth Management business, and whether or not there has been any material impact in terms of revenue slowdown and when we might get out from under that cloud.

John Flint

I think the work we have done to date is part of the overall de-risking activity. I think that, if we are to meet all of the obligations we have under the DPA, there is still an awful lot of work that we have to get through as a Retail business. I think the challenge that all of our staff have is meeting all of the new requirements and the increased standards whilst not upsetting customers, because we are now having to require more information from customers and to be a little more intrusive than we would have been in the past. We are thinking very hard about how to land that message in a way that gets customers comfortable. Some of the information that we now need to collect, for example on the Wealth side, to get

ourselves comfortable with source of wealth for the higher-risk customers, is a conversation that some people are very uncomfortable having.

However, our obligations are clear and we can bank people only when we have a clear understanding of their identity and their source of wealth and, ultimately, that the funds are being used in the right way. The standards are clear and there cannot be any dilution from that. I think it is having an impact, but I would not want to overstate it. I think we are upsetting customers on occasion, and then we have to work hard to repair that, but I would say it is marginal at this stage. We have more work ahead of us on this, however, than we have behind us, and I would not want to signal that we are over the hump on implementing Global Standards for the Retail business. We have a lot of work next year that will impact customers, and I think it will be a friction but it would be a bit misleading for me to suggest that it will be a significant impact next year – at least I hope that is the case.

Ken Chang

Just to let you know, I have been a Wealth customer on the Premier side with you for over a decade and a half, and I can feel it. This last year, I crossed three different regions, and just getting my money from Canada back to New York was a nightmare. I had to fly over and go see the banker to get the money out. I could not wire it otherwise. I had my money trapped in Canada for six months, and it was awful.

John Flint

I am sorry that we put you through that, and I am grateful that you stayed the course. If you have any issues like that again, you know where I am, so you can give me a call.

Ken Chang

Thanks, John.

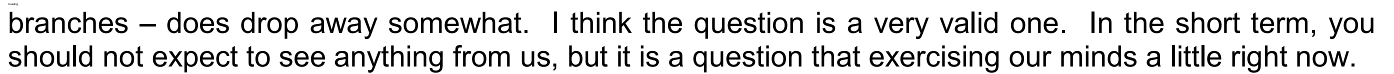
Jason Napier

I could not let the opportunity pass by. John, the comment you made about the changing role of scale, I guess, in a digital era and so on, and given the strength of the HSBC brand, cuts two ways. On the one hand, I want to ask you what the Marks & Spencer (M&S) business brings to you, given how small it is always going to be and the fact that it must introduce some complexity into the Group. On the other hand, I wonder whether, as a brand that has aspirational qualities and values, you see room to bring your business to a larger footprint at some point, once the regulatory and conduct environment has settled. On the one hand, then, I guess I am asking you: is there a bigger dividend at stake here from simplifying the business and really just concentrating on those that can matter at a Group level and, on the other hand, whether you can be entrepreneurial in places where you are not currently represented.

John Flint

The environment in the UK is incredibly unstable. We have the Competition and Markets Authority (CMA) review underway, which is looking at primarily current accounts and SME lending. We have ring-fencing about to happen. We certainly have a political environment that would really favour the advent of challenger banks. With the HSBC brand, with the First Direct brand, and with M&S, it is really helpful right now to have three horses in this race, because having a clear view on the end state for the UK banking system is difficult. M&S, then, is absolutely something that we want to continue to develop. We are learning a lot from that experiment. They are two very interesting and strong brands together, so there is no doubt in my mind that the dividend benefit comes from persisting with the M&S initiative, rather than simplifying and taking a horse out of a race where the winner is yet to be clear.

Your second question, though, is more challenging and more interesting for us: can we not use this brand and leverage it into other markets, perhaps through a digital or online presence? That is something that we have started to think about, but in, I would say, very preliminary ways. As the digital channels mature, the typical distribution constraint for a retail bank – either the scale constraint, typically being your physical distribution network, and the barrier to entry, being, if you want to be in a market, you have to *x*



branches – does drop away somewhat. I think the question is a very valid one. In the short term, you should not expect to see anything from us, but it is a question that exercising our minds a little right now.

Ladies and gentlemen, thank you all for joining this morning. I hope that was useful. I look forward to seeing you all in due course. Thank you.

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 Interim Report 2014 and Interim Management Statement 3Q 2014. Past performance cannot be relied on as a guide to future performance.