HSBC Holdings plc

Strategic Report 2019

HSBC

Connecting customers to opportunities

HSBC aims to be where the growth is, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We aim to deliver long-term value for our shareholders through...

...our extensive international network...

We are a leading international bank, serving more than 40 million personal, wealth and corporate customers.

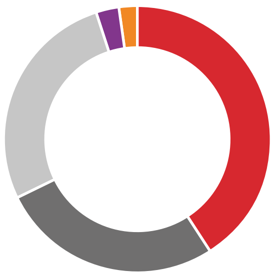
...our access to high-growth markets...

Our global footprint and market-leading transaction banking franchise provide extensive access to faster-growing markets, particularly in Asia and the Middle East.

...and our balance sheet strength.

We continue to maintain a strong capital, funding and liquidity position with a diversified business model.

Reported revenue by global business



- RBWM **41%**
- CMB **27%**
- GB&M **27%**
- GPB **3%**
- Corporate Centre **2%**

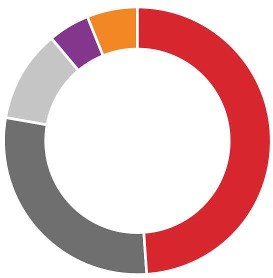
Total assets

$2.7tn
(2018: $2.6tn)

Common equity tier 1 ratio

14.7%
(2018: 14.0%)

Reported revenue by region



- Asia **49%**
- Europe **29%**
- North America **11%**
- Latin America **5%**
- Middle East and North Africa **6%**

This *Strategic Report* was approved by the Board on 18 February 2020.

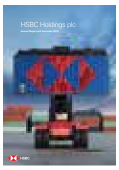
Mark E Tucker
Group Chairman

A reminder
The currency we report in is US dollars.

Adjusted measures
We supplement our IFRS figures with alternative performance measures used by management internally. These measures are highlighted with the following symbol:

Further explanation may be found on page 28.

None of the websites referred to in this *Strategic Report 2019* (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.



Cover image: Connecting our customers through blockchain
For centuries, international trade has been reliant on paper documents – from letters of credit to bills of lading. Today, HSBC is leading the way towards paperless trade finance. We are working with our clients, financial institutions and fintech partners to pioneer digitisation of trade, which has made doing business simpler and faster, improving the working capital efficiency for our customers. Paperless trade is becoming a reality. We have used a blockchain-based letter of credit platform, built on R3 Corda blockchain technology, to complete digital trade transactions for shipments of iron ore from Australia to mainland China, and soybeans from Argentina to Malaysia. By investing in digital solutions such as blockchain technology, we can help to increase the velocity of trade globally.

Contents

Highlights

The macroeconomic environment and interest rate outlook have changed since we set our strategic priorities and financial targets in June 2018.

While much of our business has held up well, particularly in Asia and the markets served by our international network, underperformance in other areas had a negative impact on our returns.

We have tempered our revenue growth expectations and adjusted our business plan accordingly. Our 2020 business update aims to increase returns for investors, create the capacity to invest in the future and build a platform for sustainable growth.

We continue to monitor the recent coronavirus outbreak, which is causing economic disruption in Hong Kong and mainland China and may impact performance in 2020.

Delivery against our June 2018 financial targets

Return on average tangible equity

8.4%

Target: >11% by 2020
(2018: 8.6%)

Adjusted jaws

3.1%

Target: positive adjusted jaws
(2018: (1.2)%)

Dividends per ordinary share in respect of 2019

$0.51

Target: sustain
(2018: $0.51)

Further explanation of performance against Group financial targets may be found on page 26.

Financial performance (vs 2018)

- **Reported profit attributable to ordinary shareholders down 53% to $6.0bn**, materially impacted by a goodwill impairment of $7.3bn. Reported profit before tax down 33% to $13.3bn. Reported revenue up 4% and reported operating expenses up 22% due to a goodwill impairment of $7.3bn.
- **Goodwill impairment of $7.3bn**, primarily $4.0bn related to Global Banking and Markets ('GB&M') and $2.5bn in Commercial Banking ('CMB') in Europe. This reflected lower long-term economic growth rate assumptions, and additionally for GB&M, the planned reshaping of the business.
- **Adjusted revenue up 5.9% to $55.4bn** and **adjusted profit before tax up 5% to $22.2bn**, reflecting good revenue growth in Retail Banking and Wealth Management ('RBWM'), Global Private Banking ('GPB') and CMB, together with improved cost control.
- Adjusted revenue in Asia up 7% to $30.5bn and adjusted profit before tax up 6% to $18.6bn. Within this, there was a resilient performance in Hong Kong, with adjusted profit before tax up 5% to $12.1bn.
- **Adjusted expected credit losses and other credit impairment charges ('ECL') up $1.1bn to $2.8bn** from higher charges in CMB and RBWM.
- **Positive adjusted jaws of 3.1%**, reflecting improving cost discipline. **Adjusted operating expense growth of 2.8%**, well below the growth rate in 2018 (compared with 2017).
- **Return on average tangible equity ('RoTE') down 20 basis points ('bps') to 8.4%**, supported by a resilient Hong Kong performance.
- **Earnings per share of $0.30**, including a $0.36 per share impact of the goodwill impairment.

2020 business update

In our business update, we have set out our plans to improve the Group's returns by 2022 to allow us to meet our growth ambition and sustain our current dividend policy. We intend to reduce capital and costs in our underperforming businesses to enable continued investment in businesses with stronger returns and growth prospects. We also plan to simplify our complex organisational structure, including a reduction in Group and central costs, while improving the capital efficiency of the Group.

The Group will target:

- a **gross risk-weighted asset ('RWA') reduction of over $100bn** by the end of 2022, with these RWAs to be reinvested, resulting in broadly flat RWAs between 2019 and 2022;
- a **reduced adjusted cost base of $31bn** or below in 2022, underpinned by a new cost reduction plan of $4.5bn; and
- a **reported RoTE in the range of 10% to 12%** in 2022, with the full benefit of our cost reductions and redeployed RWAs flowing into subsequent years.

To achieve our targets, we expect to incur restructuring costs of around $6bn and asset disposal costs of around $1.2bn during the period to 2022, with the majority of restructuring costs incurred in 2020 and 2021.

We intend to **sustain the dividend and maintain a common equity tier 1 ('CET1') ratio in the range of 14% to 15%**, and plan to be at the top end of this range by the end of 2022.

We plan to suspend share buy-backs for 2020 and 2021, given the high level of restructuring expected to be undertaken over the next two years. We intend to return to neutralising scrip dividend issuance from 2022 onwards.

Key financial metrics

	For the year ended		
Reported results	**2019**	2018	2017
Reported revenue ($m)	**56,098**	53,780	51,445
Reported profit before tax ($m)[1]	**13,347**	19,890	17,167
Reported profit after tax ($m)[1]	**8,708**	15,025	11,879
Profit attributable to the ordinary shareholders of the parent company ($m)[1]	**5,969**	12,608	9,683
Basic earnings per share ($)[1]	**0.30**	0.63	0.48
Diluted earnings per share ($)[1]	**0.30**	0.63	0.48
Return on average ordinary shareholders' equity (%)[1]	**3.6**	7.7	5.9
Return on average tangible equity (%)	**8.4**	8.6	6.8
Net interest margin (%)	**1.58**	1.66	1.63
Adjusted results			
Adjusted revenue ($m)	**55,409**	52,331	50,173
Adjusted profit before tax ($m)	**22,212**	21,182	20,556
Adjusted jaws (%)	**3.1**	(1.2)	1.0
Cost efficiency ratio (%)	**59.2**	61.0	60.3
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	**0.27**	0.17	0.18

	At 31 December		
Balance sheet	**2019**	2018	2017
Total assets ($m)	**2,715,152**	2,558,124	2,521,771
Net loans and advances to customers ($m)	**1,036,743**	981,696	962,964
Customer accounts ($m)	**1,439,115**	1,362,643	1,364,462
Average interest-earning assets ($m)	**1,922,822**	1,839,346	1,726,120
Loans and advances to customers as % of customer accounts (%)	**72.0**	72.0	70.6
Total shareholders' equity ($m)	**183,955**	186,253	190,250
Tangible ordinary shareholders' equity ($m)	**144,144**	140,056	144,915
Net asset value per ordinary share at period end ($)[2]	**8.00**	8.13	8.35
Tangible net asset value per ordinary share at period end ($)	**7.13**	7.01	7.26
Capital, leverage and liquidity			
Common equity tier 1 capital ratio (%)[3]	**14.7**	14.0	14.5
Risk-weighted assets ($m)[3]	**843,395**	865,318	871,337
Total capital ratio (%)[3]	**20.4**	20.0	20.9
Leverage ratio (%)[3]	**5.3**	5.5	5.6
High-quality liquid assets (liquidity value) ($bn)	**601**	567	513
Liquidity coverage ratio (%)	**150**	154	142
Share count			
Period end basic number of $0.50 ordinary shares outstanding (millions)	**20,206**	19,981	19,960
Period end basic number of $0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)	**20,280**	20,059	20,065
Average basic number of $0.50 ordinary shares outstanding (millions)	**20,158**	19,896	19,972
Dividend per ordinary share (in respect of the period) ($)	**0.51**	0.51	0.51

1 Includes the impact of a $7.3bn goodwill impairment in 2019.

2 The definition of net asset value per ordinary share is total shareholders equity, less non-cumulative preference shares and capital securities, divided by the number of ordinary shares in issue excluding shares the company has purchased and are held in treasury.

3 Unless otherwise stated, regulatory capital ratios and requirements are calculated in accordance with the transitional arrangements of the Capital Requirements Regulation in force in the EU at the time, including the regulatory transitional arrangements for IFRS 9 'Financial Instruments' in article 473a. The capital ratios and requirements at 31 December 2019 are reported in accordance with the revised Capital Requirements Regulation and Directive ('CRR II'), as implemented, whereas prior periods apply the Capital Requirements Regulation and Directive ('CRD IV'). Leverage ratios are calculated using the end point definition of capital.

HSBC at a glance

About HSBC

With assets of $2.7tn and operations in 64 countries and territories at 31 December 2019, HSBC is one of the largest banking and financial services organisations in the world.

More than
40 million
customers bank with us

We employ around
235,000
people around the world
(full-time equivalent staff)

We have around
197,000
shareholders in 130 countries and territories

Engaging with our stakeholders

Building strong relationships with our stakeholders helps enable us to deliver our strategy in line with long-term values, and operate the business in a sustainable way.

Our stakeholders are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. These human connections are complex and overlap. Many of our employees are customers and shareholders, while our business customers are often suppliers. We exist to serve, creating value for our customers and shareholders. Our size and global reach mean our actions can have a significant impact. We are committed to doing business responsibly, and thinking for the long term. This is key to delivering our strategy.

Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on page 42.

Our values

Our values help define who we are as an organisation, and are key to our long-term success. We aspire to be:

Dependable
We are dependable, standing firm for what is right and delivering on commitments.

Open
We are open to different ideas and cultures, and value diverse perspectives.

Connected
We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

Our global businesses

We serve customers through four global businesses. On pages 30 to 37 we provide an overview of our performance in 2019 for each of the global businesses, as well as our Corporate Centre.

Retail Banking and Wealth Management ('RBWM')

We help millions of our customers manage their day-to-day finances and save for the future.

Commercial Banking ('CMB')

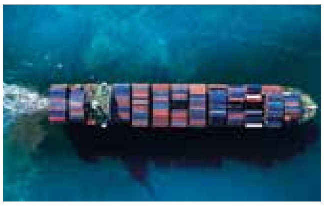
Our global reach and expertise help domestic and international businesses around the world unlock their potential.

Global Banking and Markets ('GB&M')

We provide a comprehensive range of financial services and products to corporates, governments and institutions.

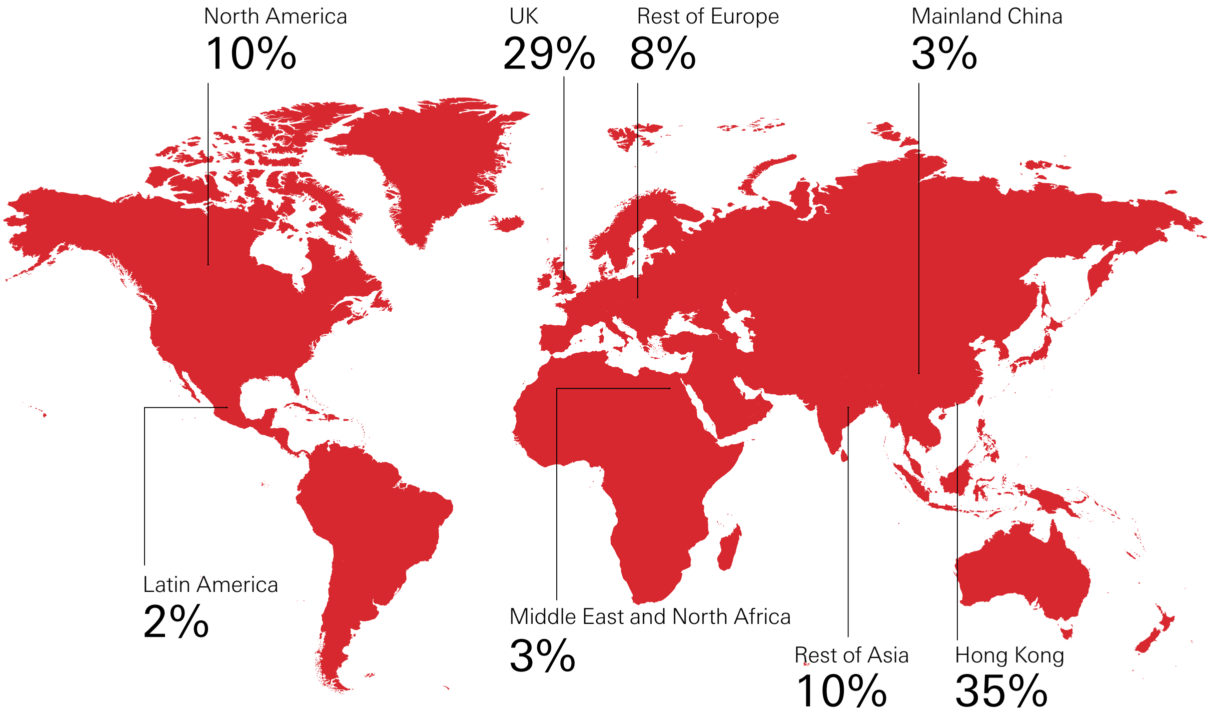
Global Private Banking ('GPB')

We serve high net worth and ultra high net worth individuals and families.



Our global reach

The map below represents customer accounts by country/territory at 31 December 2019.



See page 54 of the *Annual Report and Accounts 2019* for further information on our customers and approach to geographical information.

Awards

Selected awards and recognitions

Asiamoney New Silk Road Finance Awards 2019

Best Overall International Bank for BRI

Euromoney Awards for Excellence 2019

World's Best Bank for Sustainable Finance
World's Best Bank for Public-Sector Clients
World's Best Bank for SMEs
Hong Kong's Best Bank
Mexico's Best Bank

Euromoney Cash Management Survey 2019

Best Global Cash Manager for Corporates

Euromoney Trade Finance Survey 2019

Top Global Trade Finance Bank

The Banker Investment Banking Awards 2019

Most Innovative Investment Bank for Emerging Markets

The Banker Transaction Banking Awards 2019

Best Global Transaction Bank
Best Bank for Cash Management

PWM/The Banker Global Private Banking Awards 2019

Best Private Bank in Hong Kong
Best Private Bank in the UK

Group Chairman's statement

The slowdown in global growth underlines the need to make the most of the opportunities ahead.

Mark E Tucker
Group Chairman

At the time of our interim results, I said that the external environment was becoming increasingly complex and challenging. As our 2019 results demonstrate, this has proven to be the case.

An impairment of historical goodwill caused our reported profit before tax to fall by 33%, but the strength and resilience of our business model delivered an adjusted profit before tax of $22.2bn, up 5%. Retail Banking and Wealth Management, Commercial Banking and Global Private Banking performed well, while our leading transaction banking franchise again demonstrated the effectiveness of our global network. This, alongside the Group's capital strength, has given the Board the confidence to approve an unchanged dividend of $0.51 for 2019.

Strategy

At the time of Noel Quinn's appointment as interim Group Chief Executive in August 2019, the Board gave him full authority to address areas of weakness, improve performance and create capacity to invest. Since then, he has worked closely with the Board to begin delivering against this mandate. The Board has endorsed a plan that aims to reallocate capital to areas that can deliver stronger returns, to reduce costs across the Group, and to simplify the business.

Even in this increasingly challenging competitive environment, there are many opportunities for a bank of HSBC's scale and reach. We have made a good start in capturing these opportunities, but we need to go further and faster to capitalise fully on our heritage, network and financial strength. We are intent on driving through the necessary change at pace.

Board of Directors

Our previous Group Chief Executive, John Flint, left the Group in August 2019. I am very grateful to John for his personal commitment and dedication, and for the significant contribution that he made over his long career at HSBC. Noel Quinn joined the Board as interim Group Chief Executive in August 2019. The process for appointing a permanent Group Chief Executive is ongoing and we expect to make an appointment in accordance with our original timetable.

José Antonio Meade Kuribreña joined the Board as an independent non-executive Director in March 2019.

Jonathan Evans (Lord Evans of Weardale) retired from the Board in April 2019. Marc Moses stepped down as an executive Director and Group Chief Risk Officer at the end of December 2019. Sir Jonathan Symonds stepped down as Deputy Group Chairman and Senior Independent Director today, and is replaced in the role of Senior Independent Director by David Nish. Kathleen Casey has informed the Board that she will not stand for re-election at the next AGM, in April 2020.

Jonathan, Marc, Jon and Kathy have all made formidable and invaluable contributions to the work of the Board and they leave with our profound thanks and gratitude.

"Even in this environment, there are many opportunities for a bank of HSBC's scale and reach."

The global economy
HSBC is a global bank, albeit one closely associated with mainland China, Hong Kong and the UK. Each of these continues to face major challenges.

We continue to monitor the coronavirus outbreak very closely. Our priority is always the well-being of our customers and staff, and we will continue to do all we can to ensure their safety and support them through this difficult time.

Social unrest in Hong Kong has weighed on the local economy and caused significant disruption. We deplore all violence and support a peaceful resolution under the framework of 'one country, two systems'. I am enormously proud of the dedication and perseverance of our people in Hong Kong, who have continued to support our customers to their utmost ability in spite of the difficulties they have faced.

Now that the UK has officially left the EU, negotiations can begin on their future relationship. This has provided some certainty, but no trade negotiation is ever straightforward. It is essential that the eventual agreement protects and fosters the many benefits that financial services provide to both the UK and the EU. At the same time as remaining close to Europe, the UK must also strengthen its links with other key partners, including the US, China and south-east Asia. We look forward to working with governments to help achieve this.

The macroeconomic environment as a whole remains uncertain. As a result of the impact of the coronavirus outbreak, we have lowered our expectations for growth in the Asian economy in 2020. The main impact will be in the first quarter, but we expect some improvement as the virus becomes contained.

The agreement of a 'phase one' trade deal between China and the US is a positive step, but we remain cautious about the prospects for a wider-ranging agreement given disagreements that still exist, particularly over technology. We expect growth in the US to be resilient, but slower than in 2019.

Overall, we expect global growth to stabilise over the course of 2020, albeit at a slightly lower rate than in recent years. This underlines the need to make the most of the opportunities ahead.

Serving all our stakeholders
HSBC has long recognised its responsibilities to its stakeholders. Being a responsible corporate citizen is a principle that must sit at the heart of any sustainable business. I welcome the renewed focus and debate around corporate purpose in the media and elsewhere over the last 12 months. We are committed to creating long-term value for all those we work with and for – our investors, customers, employees, suppliers and the communities we serve.

Business also has a critical role to play in the transition to a low-carbon future, and we believe that we have an opportunity to be a leader. Sustainability features prominently in our strategy, as well as in the way we run the business. We are absolutely committed to working closely with our customers, regulators and governments to accelerate progress towards a cleaner and more sustainable world. The steps we are taking to achieve this are outlined in our *ESG Update*, which is also published today.

Our people are the driving force behind HSBC's success. 2019 was a challenging year, throughout which the professionalism and expertise of our people were always to the fore in even the most testing circumstances. I am very grateful to them for their hard work and their commitment to our customers, and each other.

Mark E Tucker
Group Chairman

18 February 2020

Group Chief Executive's review

As we pursue our plan to deliver greater value for our customers and shareholders, we will continue to seek to grow the parts of the business where we are strongest while addressing areas of underperformance.

Noel Quinn
Group Chief Executive

HSBC exists for a clear purpose – to connect customers to opportunities. We want to be where the growth is, enabling businesses to thrive and economies to prosper, and helping people to fulfil their hopes and realise their ambitions.

For 155 years, this purpose has underpinned all that we do, and it continues to guide us as we seek to adapt HSBC to changing customer expectations in an evolving economic, political and digital landscape.

HSBC possesses a number of advantages that set us apart from our competitors. We have an extensive international footprint with excellent access to faster-growing areas in Asia and the Middle East; a market-leading transaction banking franchise connecting customers to opportunities around the world; and full-scale retail banking operations in Hong Kong, the UK and Mexico, with a premier international wealth proposition.

In 2018, we began a programme of investment to build on these strengths, with our customers at the centre. We have since invested more than $8.6bn – of which $4.5bn was in 2019 – to connect more customers to our international network, to provide a better service through improved digital capabilities, and to make it easier for our customers to bank with us. This has enhanced the service we offer, helping to attract new customers and capture market share in our major markets and from our international network.

This was evident in a resilient performance in 2019. A strong first half, particularly in Asia, was tempered by the impact of worsening global economic conditions, geopolitical uncertainty and a lower interest rate outlook in the second half of the year. Much of our business held up well, particularly in Asia and the markets served by our international network. However, underperformance in other areas acted as a drag on the returns of the Group.

As we pursue our plan to deliver greater value for our customers and shareholders, we will continue to seek to grow the parts of the business where we are strongest. However, given the changed economic environment, we must also act decisively to reshape areas of persistent underperformance, particularly in Global Banking and Markets in Europe and the US. We also aim to simplify the Group to accelerate the pace of change and reduce the size of its cost base. This should create a leaner, simpler and more competitive Group that is better positioned to deliver higher returns for investors.

Financial performance
Group reported profit before tax was down 33% compared with 2018, due to a goodwill impairment of $7.3bn. This arose from an update to long-term economic growth assumptions, which impacted a number of our businesses, and from the planned reshaping of Global Banking and Markets. Adjusted profit before tax increased by 5%, reflecting revenue growth in three of our four global businesses. Disciplined cost management helped secure positive adjusted jaws of 3.1%, despite continued heavy investment in growth and technology. Our Group return on average tangible equity – our headline measure – fell from 8.6% in 2018 to 8.4%.

We delivered good revenue growth in our targeted areas. Our Hong Kong business and our UK ring-fenced bank, HSBC UK, showed great resilience to produce adjusted revenue growth of 7% and 3% respectively, despite the uncertainty affecting both places during 2019. Our businesses in Mexico, India, the ASEAN region and mainland China also performed well. The biggest areas of

> "Our immediate aims are to increase returns, invest in the future, and build a platform for sustainable growth."

underperformance were our businesses in the US and our European non-ring-fenced bank, both of which saw a reduction in revenue and profit before tax.

Retail Banking and Wealth Management had a good year, delivering adjusted revenue growth of 9%. This reflected the impact of investment in improved customer service and growth, which helped us win new customers, increase deposits, and grow lending in our major markets, particularly mortgage lending in the UK and Hong Kong. Our Wealth business also benefited from favourable market impacts in Insurance.

Commercial Banking grew adjusted revenue by 6%, with increases in all major products and regions. Investment in new platforms, digital capabilities and increased lending improved our ability to attract new customers and capitalise on wider margins, particularly in Global Liquidity and Cash Management and Credit and Lending.

Global Banking and Markets had a challenging year in which economic uncertainty led to reduced client activity, particularly in Europe and the US. Despite this, adjusted revenue was just 1% lower than 2018 due to strong performances from our transaction banking businesses.

Global Private Banking continued to benefit from close collaboration with our other global businesses, attracting $23bn of net new money and increasing adjusted revenue by 5%.

2020 outlook

Since the start of January, the coronavirus outbreak has created significant disruption for our staff, suppliers and customers, particularly in mainland China and Hong Kong. We understand the difficulties this poses and have put measures in place to support them through this challenging time. Depending on how the situation develops, there is the potential for any associated economic slowdown to impact our expected credit losses in Hong Kong and mainland China. Longer term, it is also possible that we may see revenue reductions from lower lending and transaction volumes, and further credit losses stemming from disruption to customer supply chains. We continue to monitor the situation closely.

Reshaping for sustainable growth

Our immediate aims are to increase returns, create the capacity to invest in the future, and build a platform for sustainable growth. We intend to do this in three ways.

First, we plan to materially reshape the underperforming areas of the Group. Around 30% of our capital is currently allocated to businesses that are delivering returns below their cost of equity, largely in Global Banking and Markets in Europe and the US. We intend to focus these businesses on our strengths as a leading international bank and to simplify our footprint, exiting businesses where necessary and reducing both risk-weighted assets and costs.

Second, we aim to reduce Group costs by increasing efficiencies, sharing capabilities and investing in automation and digitisation.

Third, we intend to simplify HSBC to increase the pace of execution and agility. This includes changing our matrix structure and reducing fragmentation, simplifying the geographical organisation of the Group, and combining Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses.

In total, we are targeting more than $100bn of gross risk-weighted asset reductions, a reduced cost base of $31bn or lower, and a Group return on average tangible equity of 10% to 12% in 2022. We aim to reinvest the risk-weighted assets saved into higher-growth, higher-returning opportunities in other parts of the business. We intend to do these things while sustaining the dividend and maintaining a CET1 ratio of 14% to 15%. This is described in detail on pages 12 and 13.

Since my appointment in August, we have reduced Group risk-weighted assets and FTE headcount, and slowed our cost growth considerably. We also began the run-down of risk-weighted assets in our European business in the fourth quarter of 2019. We will provide an update on our progress as we report future results.

Connecting customers to opportunities

The investment we are making in growth, technology and innovation is improving our service to customers and connecting them to opportunities around the world.

For our retail customers, we introduced more than 160 new digital features in 2019 to make everyday banking easier, including improved digital account opening, loan and mortgage applications, and instant money transfers.

In Hong Kong, we have made it simpler and faster for our Hong Kong customers to make payments through our redesigned PayMe app, and launched PayMe for Business, expanding the PayMe ecosystem for the 1.9 million individual account holders who use it as part of their daily lives.

Global Banking and Markets launched MyDeal in 2019 to make the deal execution process in our primary capital markets business more efficient for our clients. Our Global Private Banking business also launched a new online investment services portal to give our customers more control over the service they receive.

Commercial Banking launched Serai in 2019 to simplify international trade for SMEs with global trade ambitions. It provides both a digital lending product and a networking platform to match buyers and sellers and build trusted business relationships. We also remained at the forefront of international efforts to commercialise blockchain technology to make trade finance easier, faster and safer for businesses. As part of this, we completed 11 letters of credit transactions using blockchain technology in 2019, including the first cross-border transaction in China.

Our people

It was a great honour to be asked to lead HSBC on an interim basis and I am grateful to John Flint for making the transition as smooth as possible. John was an excellent servant of HSBC for more than 30 years and leaves with our good wishes.

I am proud to work with all of my colleagues across 64 countries and territories who serve HSBC and its customers with exceptional dedication. I am particularly grateful to colleagues in Hong Kong, mainland China and the UK for their professionalism and application during recent periods of high uncertainty. I thank them sincerely for their service and support.

Noel Quinn
Group Chief Executive

18 February 2020

Global trends and strategic advantages

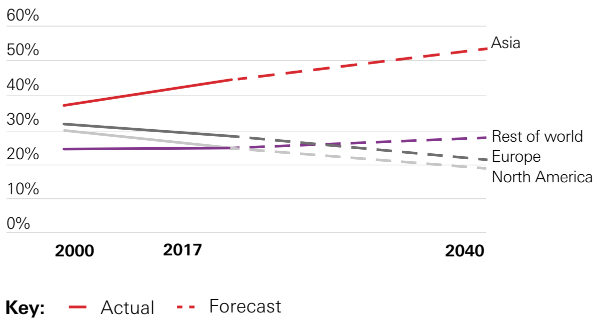
We aim to be the world's leading international bank, helping personal, wealth and corporate clients thrive through our deep heritage in faster growing, higher-returning markets, particularly in Asia and the Middle East.

Our strategy is supported by long-term global trends

Despite near-term headwinds from softening global growth and lower interest rates, our industry continues to benefit from positive long-term trends.

Asia is forecast to continue to take a larger share of global GDP. Global wealth is expected to continue to rise, supported by a faster pace of growth in Asia, Latin America and the Middle East and Africa.

Global GDP (purchasing power parity)[1] (%)



Global wealth[2]
($tn)

2023	272
2018	206

+5.7%

Compound annual growth rate 2018–23

1 Source: *The Future of Asia*, McKinsey Global Institute, 2019

2 Expected global wealth by 2023. Source: *Global Wealth Report*, Boston Consulting Group, 2019

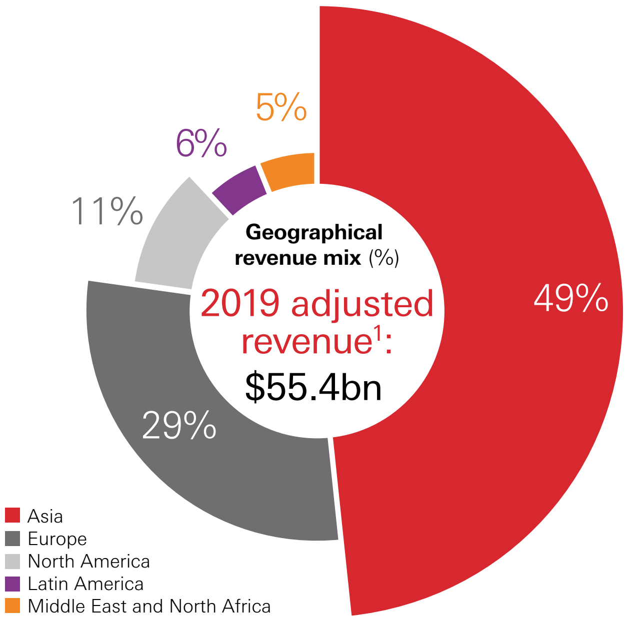
Our strategic advantages help us to connect customers to opportunities

A leading international bank with access to high-growth markets

We maintain a privileged position in high-growth markets, particularly in Asia and the Middle East.

We have a strong wealth business with client assets of $1.4tn, supported by a premier international wealth proposition and leading, full-scale retail banking operations in Hong Kong, the UK and Mexico.

We are a leading trade and payments and cash management bank with $17bn of transaction banking adjusted revenue. This is supported by our international network of 64 markets, which covers approximately 90% of global GDP, trade and capital flows.



1 Adjusted basis, geographical view; regional percentage composition calculated with regional figures that include intra-Group revenue. Intra-Group revenue is excluded from the total Group revenue number.

Balance sheet strength

We maintain a strong capital, funding and liquidity position.

We operate a diversified business model with low earnings volatility.

We have a foundation for sustaining our dividend and a strong capacity for distribution to shareholders.

Common equity tier 1 ratio
(%)

14.7%

2019	**14.7**
2018	14.0
2017	14.5

High-quality liquid assets
($bn)

$601bn

2019	**601**
2018	567
2017	513

Customer accounts
($bn)

$1,439bn

2019	**1,439**
2018	1,363
2017	1,364

Multi-award winning

The Banker Transaction Banking Awards 2019
Best Global Transaction Bank

Euromoney Trade Finance Survey, 2018–2020
Market Leader for Trade Finance, Global

WealthBriefingAsia Awards 2019
Overall Best Asia Private Bank

Euromoney Awards for Excellence 2019
World's Best Bank for SMEs
Hong Kong's Best Bank
Mexico's Best Bank
World's Best Bank for Sustainable Finance

The Banker Investment Banking Awards 2019
Most Innovative Investment Bank for Emerging Markets

Insurance Asset Management Awards 2019
Emerging Markets Manager of the Year

Delivering our strategy
On the following two pages, we detail how we performed on our strategy in 2019 and how we intend to deliver our strategy going forward.

Delivering our strategy

We will continue to grow the parts of our business where we are strongest while addressing areas of underperformance.

In June 2018, we set ourselves strategic priorities and financial targets amid an environment of rising interest rates, resilient global economic growth and moderate geopolitical risk.

In reviewing our businesses and geographies today, while it is clear that many parts are performing strongly, particularly in Asia and the Middle East, as well as our market-leading transaction banking services globally, other parts of our business have underperformed. The Group faces several structural issues and we no longer expect to reach our 2020 return on average tangible equity ('RoTE') target, as stated in our third quarter 2019 results.

With the changed macroeconomic environment and interest rate outlook, we have tempered our revenue growth expectations and adjusted our business plan accordingly. We plan to raise the return profile of our assets and improve the Group's efficiency to generate higher returns and create more capacity for growth. Our business update sets out how we intend to become a leaner, simpler and more competitive Group that is better positioned to be the world's leading international bank.

Our eight strategic priorities: 2019 outcomes

In our June 2018 Strategy Update, we outlined eight strategic priorities across the themes of 'Deliver growth from areas of strength', 'Turnaround of low-returning businesses', 'Build a bank for the future that puts the customer at the centre' and 'Empower our people'. We ended 2019 on track in five of our eight strategic priorities, partly on track in two and off track in one. (The following comparisons are against the previous year, unless stated otherwise.)

We accelerated growth from our **Asia franchise** and grew market share in our **UK ring-fenced bank**, **HSBC UK**, which we established in 2018. We improved **capital efficiency** by growing our revenue over risk-weighted assets ratio. The Group made **efficiency gains** that helped achieve positive adjusted jaws in 2019. We also sustained a top-three rank and/or improved by two ranks in **customer satisfaction** in most of our key RBWM and CMB markets compared with 2017.

We had mixed results in our priority to deliver growth from our **international network**. We gained market share in two of our four transaction banking products, and grew transaction banking revenue and international client revenue below our target of mid-to-high single digits. When it came to **simplifying the organisation and investing in future skills**, we delivered a mixed outcome, with employee engagement unchanged at 66%, falling below our target of improving each year. However, we achieved a medium environmental, social and governance ('ESG') risk rating, outperforming a group of peers. Our ratings provider, Sustainalytics, updated its methodology during 2019. More details on the approach, as well as further details on our initiatives involving our customers and employees, can be found in the 'How we do business' section on pages 14 to 25 and our *ESG Update* on www.hsbc.com.

We remained off track in **turning around our US business** and do not expect to achieve a US RoTE of 6% by 2020. We will need to reshape the US business in order to improve returns.

With the provision of our 2020 business update below, we conclude reporting on our eight strategic priorities. In their place, we will report on our updated performance programme going forward, which we set out in the following section.

Introducing our 2020 business update

We are adjusting our plan in order to upgrade the return profile of our risk-weighted assets ('RWAs'), reduce our cost base and streamline our organisation. This aims to position the Group to increase returns for investors, create the capacity to invest in the future and build a sustainable platform for growth.

In order to upgrade the return profile of our RWAs, we intend to reallocate the low-growth, low-returning assets in our Europe and US businesses into high-growth, higher-returning opportunities in other parts of the Group. For clarity, European restructuring will be focused on our operations in continental Europe and the non-ring-fenced bank in the UK, which is primarily our GB&M activities in the UK. This does not include our UK ring-fenced bank, HSBC UK, which comprises the retail banking and commercial banking businesses in the UK.

Restructuring for growth

We plan to remodel our Europe business to focus on its strengths, reducing European RWAs by around 35% and lowering costs. To achieve this, we will focus our client coverage on key international European clients and connecting them to Asia and the Middle East. In Global Markets, we aim to continue to invest in transaction banking and financing capabilities while reducing the capital allocated to our Rates business, and exiting G10 long-term derivative market-making in the UK. Our investment banking activities in the UK will focus on supporting UK mid-market clients and international corporate clients through our London hub. In addition, we intend to reduce our sales and research activities in European cash equities. We also plan to transition our structured product capabilities from the UK to Asia.

In the US, we require a new approach to improve returns. We plan to reposition the US business as an internationally focused corporate bank, with a targeted retail offering, principally for international and affluent customers. We intend to consolidate select Fixed Income activities with those in London to maximise global scale, and reduce the RWAs associated with our US Global Markets business by around 45%. We aim to reinvest these RWAs into CMB, as well as into retail banking where we intend to increase unsecured lending and increase our investment in digital. We plan to reduce our US branch network by around 30% and embark on a programme to consolidate middle and back office activities and streamline functions to simplify our US business and lower costs.

Our plans for Europe and the US involve significant changes, including capital reductions, to our GB&M business. We intend for GB&M to support corporate and institutional clients with global operations who value our international network. We plan to accelerate investments in Asia and the Middle East and shift more resources to those regions, while continuing to strengthen our transaction banking and financing capabilities. We intend to strengthen our investment banking capabilities in Asia and the Middle East, while maintaining a global investment banking hub in London. We also aim to build leading emerging markets and financing capabilities in Global Markets, and enhance our institutional clients business. This remodelling of GB&M will be underpinned by continued investment in digital systems and solutions.

Investing in our opportunities and areas of strength

The Group will continue to invest in our growth opportunities, our customer experience and delivering value to all of our stakeholders. We intend to reinvest the RWAs saved as a consequence of our restructuring in our high-returning Asia and Middle East businesses, HSBC UK, our market-leading transaction banking franchise and the international wealth opportunity. As part of our customer experience initiatives, we plan to improve digital capabilities to improve customer satisfaction, evolve our product suite and strengthen our internal processes. As an example, we plan for the full launch of HSBC Kinetic for small businesses in the UK in 2020. We plan to continue to support the global transition to a low-carbon economy, demonstrated by our continued commitment to provide and facilitate $100bn of sustainable finance and investment by 2025. A set of HSBC-specific ESG metrics and targets can be found in the following 'How we do business' section on page 15.

Creating a simpler, more efficient and empowered organisation

Our remodelling plans will be accompanied by a substantial cost reduction programme and a number of steps to simplify HSBC. These aim to reduce our overall cost base and to accelerate the pace of change. There are three broad parts to these plans. First, we aim to remove costs linked to discontinued activities. Second, through further investments in technology, we intend to re-engineer processes to take out costs and improve the customer experience. Third, we plan to simplify our matrix organisational structure. As part of this, we intend to move from four lines of business to three, by merging GPB and RBWM to create one new organisation, Wealth and Personal Banking. We also plan to merge the operational support infrastructure of CMB and Global Banking, while maintaining separate front-line teams, which should improve collaboration between the two businesses. Furthermore, we intend to reduce the number of geographies represented on the Group Management Board from seven to four. In order to match the size and new structure of our organisation, we plan to reorganise our global functions and head office.

Our targets

The Group's updated plan will have three overarching 2022 targets. We will target a gross RWA reduction of more than $100bn; we intend to reduce our cost base to $31bn or less; and we will target a RoTE in the range of 10% to 12% in 2022 with the benefit of our cost reductions and redeployed RWAs flowing into subsequent years. Our gross RWA reductions are expected to largely come from the non-ring-fenced bank in Europe and the UK, and the US. We also plan to redeploy over $100bn to higher returning areas, which will deliver strong growth in the rest of our business. As a result, we intend for the Group's net RWA position to be similar to today, but have a higher earning asset mix. We intend to sustain our dividend policy and plan to suspend share buy-backs in 2020 and 2021 as we go through the period of restructuring.

2022 targets

Cumulative gross RWA reduction by 2022 of

>$100bn

Adjusted cost base reduction in 2022 to

$31bn or less

RoTE in 2022 of

10% to 12%

2025 target

Provide and facilitate sustainable finance and investment of

$100bn

How we do business

Supporting sustainable growth

We conduct our business intent on supporting the sustained success of our customers, people and other stakeholders.

Our approach

Our purpose is to be where the growth is, connecting customers to opportunities. We help enable businesses to thrive and economies to prosper, helping people to fulfil their hopes and dreams and realise their ambitions.

To achieve our purpose we need to build strong relationships with all of our stakeholders, including customers, employees and the communities in which we operate. This will help us to deliver our strategy and operate our business in a way that is sustainable.

Non-financial information statement

We provide information about our customers, employees and our approach to creating a responsible business culture. We also provide an update to our sustainability strategy, including our progress towards our $100bn sustainable finance commitment and our third disclosure for the Task Force on Climate-related Financial Disclosures ('TCFD').

Our *Environmental, Social and Governance ('ESG') Update* provides further information on the topics covered in this section. It is available on our website at www.hsbc.com/our-approach/esg-information.

This section primarily covers our non-financial information statement guidance. Other related information can be found as follows:

For further details on our business model, see page 5.

For further details on our principal risks and how they are managed, see pages 38 to 40.

For further details on Board diversity beyond gender, see page 172 of the *Annual Report and Accounts 2019*.

Our stakeholders	How we listen	What we discuss[1]
Communities	We welcome dialogue with external stakeholders, including non-governmental organisations ('NGOs') and other civil society groups, including charities. We engage directly on specific issues and by taking part in external forums and round-tables.	We discuss how we support our customers with the transition to a low-carbon economy and climate-related risk management, covering sensitive sectors such as energy, palm oil and forestry. For further details on how we support sustainable growth, see pages 20 to 23.
Customers	Our customers' voices are heard through our interactions with them, surveys, listening to and engaging with social media and from their complaints.	We discuss a range of subjects, including how we are making banking accessible, how we are making our processes easier and how we plan to communicate more simply and effectively. For further details on how we support our customers, see pages 16 to 17.
Employees	Our people's voices are heard through our employee survey Snapshot, Exchange meetings and our 'speak up' channels, including our global whistleblowing platform, HSBC Confidential.	We discuss a range of subjects including our 'speak up' culture, well-being and the importance of keeping our employees engaged. For further details on how we support our employees, see pages 18 to 19.
Investors	We have shareholders in 130 countries. We engage with our shareholders through our Annual General Meetings. We also engage with our investors through bilateral meetings, external events and our annual ESG survey.	We discuss our performance, as well as how we manage risk and our governance processes. For further details on how we are building a responsible business culture, see pages 24 to 25.
Regulators and governments	We proactively engage with regulators and governments to facilitate strong relationships and understand the expectations that are critical to our business.	Regulators and governments focus on our strategic response to geopolitical and macroeconomic challenges. There is also focus on non-financial risks, including on cyber and operational resilience risks, as well as attention to conduct and financial crime risks. For further details on how we are building a responsible business culture, see pages 24 to 25.
Suppliers	Our ethical and environmental code of conduct for suppliers of goods and services sets out how we engage with our suppliers on ethical and environmental performance. The code is available at: www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers.	We discuss conduct requirements related to the economic, environmental and social impacts associated with the supply of goods or services. For further details on our approach to our suppliers, see page 25.

1 These are summaries of the discussion points for each of our stakeholder groups and are not exhaustive or exclusive to one stakeholder group.

Our ESG metrics and targets

We have established targets that guide how we do business, including how we operate and how we serve our customers. These targets are designed to help us to make our business – and those of our customers – more environmentally sustainable. They also help us to improve employee advocacy and diversity at senior levels as well as strengthen our market conduct.

The 2020 annual incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and members of the Group Management Board have 30% weightings for measures linked to outcomes that underpin the ESG metrics below.

ESG metrics are also included in the long-term incentive ('LTI') scorecards of executive Directors. The 2017 LTI scorecards of executive Directors included achieving a cumulative financing and investment target of $30bn to $34bn for developing clean energy and lower-carbon technologies and projects that contribute to the delivery of the Paris Agreement and the UN Sustainable Development Goals. The 2018 LTI scorecards of executive Directors included an ESG rank measure based on a rating from Sustainalytics, a third-party sustainability ratings agency. At 31 December 2019, HSBC achieved a medium ESG risk rating using the new Sustainalytics methodology. HSBC's rating outperformed compared with a peer set that included 10 global banks, three emerging markets-based banks and one Asia-Pacific-based bank. The 2019 LTI scorecard includes a customer measure incentivising improvement in our customer satisfaction scores in home and scale markets and progress in meeting customer-linked business objectives.

		Target	Performance in 2019
Environmental	Sustainable finance and investment	Provide and facilitate[1] $100bn by the end of 2025	$52.4bn cumulative progress since 2017[1]
	Reduce operational CO_2 emissions	2.0 tonnes used per full-time equivalent ('FTE') by the end of 2020[2]	2.26 tonnes used per FTE[2]
	Climate-related disclosures	Continued implementation of the Financial Stability Board's TCFD	We published our 3rd TCFD, which can be found on pages 22 and 23
Social	Customer satisfaction	Customer satisfaction improvements in 8 scale markets[3]	6 RBWM markets sustained top-three rank and/or improved in customer satisfaction[3] 4 CMB markets sustained top-three rank and/or improved in customer satisfaction[3]
	Employee advocacy	69% of employees recommending HSBC as a great place to work by the end of 2019[4]	66% of employees would recommend HSBC as a great place to work[4] (2018: 66%)
	Employee gender diversity	30% women in senior leadership roles by the end of 2020[5]	29.4% women in senior leadership roles[5]
Governance	Achieve sustained delivery of global conduct outcomes and effective financial crime risk management	98% of staff to complete annual conduct training	98.2% of staff completed conduct training in 2019

1 The sustainable finance commitment and progress figure includes green, social and sustainability activities. For a full breakdown, see pages 20 and 21.

2 See reporting guidelines on www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies for further detail on carbon emissions reporting. As we define our new baseline for the next phase of our operational sustainability strategy, an updated reporting methodology for air travel – including cabin seating class – will be incorporated as our new baseline.

3 Our customer satisfaction performance is based on improving from our 2017 baseline. Our scale markets are Hong Kong, the UK, Mexico, the Pearl River Delta, Singapore, Malaysia, the UAE and Saudi Arabia.

4 Our target was to improve employee advocacy by three points each year through to 2020. Our employee advocacy score in 2018 was 66%. Performance is based on our employee Snapshot results.

5 Senior leadership is classified as 0 to 3 in our global career band structure.

Customers

We aim to grow in a way that puts the customer at the centre by improving performance with digital enhancements while maintaining strong controls on the risk of financial crime.

At a glance

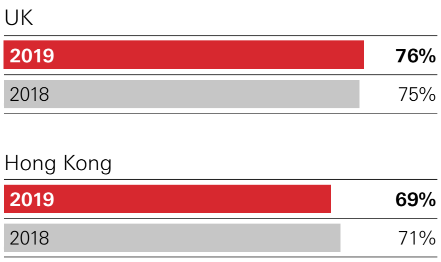
We create value by providing the products and services our customers need and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. We maintain trust by striving to protect our customers' data and information, and delivering fair outcomes for them. If things do go wrong, we aim to take action in a timely manner. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers.

In this section, we focus on RBWM, our largest global business by number of customers, and on our two largest markets – the UK and Hong Kong. We measure and report on customer data for all of our global businesses within our *ESG Update.*

How we listen

We listen to our customers in a number of different ways, including through our interactions with them, surveys, social media and through their complaints. We use these insights to improve our services.

Customer recommendation index[1]
RBWM



1 The index uses the 0–10 rating scale for the customer recommendation question to create a 100-point index. Surveys are based on a relevant and representative subset of the market. Data provided by Kantar.

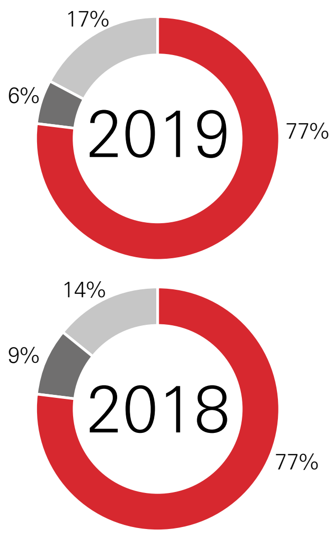
When things go wrong

To improve our services we must be open to feedback and acknowledge when things go wrong. We listen to complaints to address customers' concerns and understand where we can improve processes, procedures and systems. We focus on staff training and emphasise the importance of recording complaints. This improves our complaint handling expertise and helps ensure our customers are provided with fair outcomes. Complaints are monitored and reported to governance forums, while senior executives are measured against customer satisfaction performance.

Complaint resolution

The time taken to resolve complaints (excluding payment protection insurance complaints) on the same or next working day remained unchanged compared with 2018. However, the time taken to resolve complaints beyond five business days increased compared with the previous year. This is primarily due to a prioritisation of payment-related complaints following regulatory changes in the UK.

RBWM



Key
- Same day or next working day
- Between 2–5 days
- Longer than 5 days

Investment in technology

We have made a significant investment in our digital transformation to improve access, navigation and usability for all of our customers across our businesses, driven by customer needs and feedback.

For our retail customers in 2019, we upgraded our public websites in all 38 markets, and online banking platforms and mobile banking apps in 16 markets. We also introduced more than 160 new digital features to make everyday banking easier across different markets, including improved digital account opening, loan and mortgage applications, and instant money transfers. At the end of 2019, the retail mobile banking app achieved an average Apple app store rating of 4.8 in the UK and 4.7 in Hong Kong. While scores from Android users were less favourable, at 4.0 in the UK and 3.6 in Hong Kong, these scores have increased for the past two years due in part to our improved support for Android biometric login.

In Hong Kong, our payments app PayMe continued to grow, with approximately 1.9 million registered consumer accounts, and expanded to include payments to merchants for products and services.

Our retail customers are increasingly banking online or on mobile, with nearly half (48%) digitally active in November 2019, a seven percentage point or 1.69 million increase compared with December 2018. Similarly, 89% of retail transactions were digital in November 2019, a five-point increase compared with December 2018.

We continued to make it easier and more secure to bank with us across our businesses, including through technology. This included investing in voice recognition for people phoning our contact centres as well as face and touch authentication for Apple and Android devices.

For our retail customers, these capabilities are live in 18 markets and used by approximately 50% of customers in those markets. HSBC Voice ID is available to our telephone banking customers in five markets with more than three million registered users. We also upgraded our digital security platform in 17 of our retail banking markets.

Acting on feedback

Acting on customer feedback helps us to improve our services, processes and communication. Here are some examples of actions that we have taken in response to feedback:

Area of focus	Action
Making banking accessible	We use facial and touch authentication on Apple and Android devices in 18 markets. HSBC Voice ID, which is available to our telephone banking customers in five markets, had over three million registered users in 2019. In November 2019, over 89% of customer transactions globally were conducted via mobile or online channels. These included more than 32% of cards and deposit account sales and approximately 45% of loan sales. In the UK, Hong Kong and Mexico, we introduced new no-cost or low-cost bank accounts to help more people access financial services. In Hong Kong, we made it easier and faster to make payments through our PayMe app, using the Faster Payment System, a more intuitive design and the ability to top up with a non-HSBC bank account.
Making our processes easier	In the UK, our mortgage process simplification resulted in 75% of successful applications receiving an offer within 10 days, an improvement from 48% in 2018. We also made it easier for international customers to take out a mortgage through new specialist teams who provide customers one point of contact for guidance. In the UK and Canada, we launched digital investment advice platforms that offer low-cost multi-asset solutions tailored to customers' risk profiles. In Hong Kong, we introduced FlexInvest, which provides a simple mobile journey for investment funds and makes investing accessible to more people through a low minimum investment amount and zero transaction fees.
Communicating more simply and proactively	For customers who find insurance products difficult to understand, we aim to use plain language. In Hong Kong, we launched an online platform that explains complicated insurance concepts through games, videos and articles. In the UK and Hong Kong, we are proactive in sending digital messages to support our customers and treat them fairly, from fraud prevention warnings to missed payment notifications to overdraft warnings. In the year to October 2019, we sent over 11 million SMS messages notifying UK customers to make a deposit to avoid overdraft charges, which were acted upon in 58% of cases in HSBC UK and 75% in our first direct brand. In 2019, some UK customers were not provided overdraft warnings because of a policy to not disturb customers during late night hours and a technical issue. We fixed this issue and will provide a refund to affected customers.

Communicating through social media

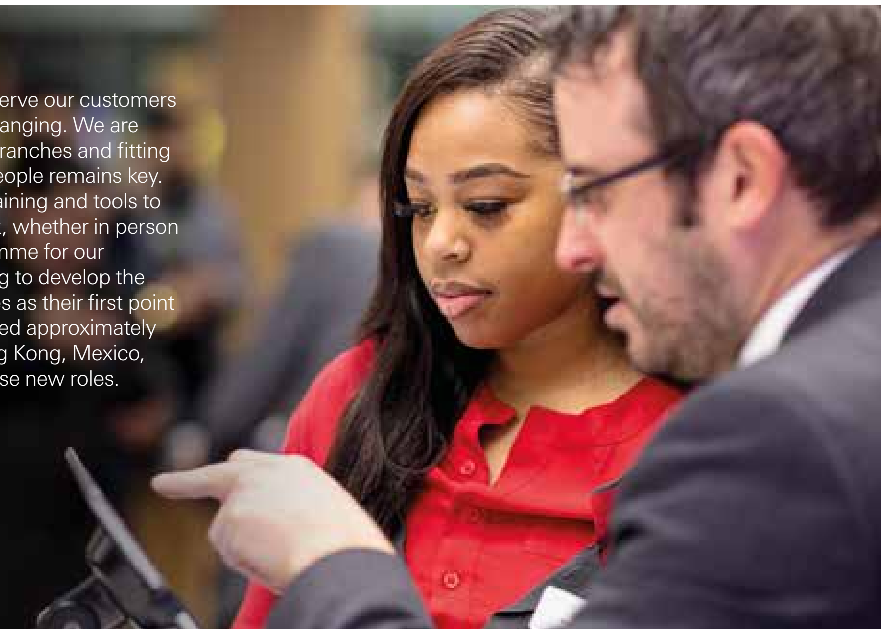
Social media channels help us communicate with our customers. We keep them informed, such as advising how to stay ahead of fraudulent activity, while our sports sponsorship content is some of our most liked and shared. We use technology, like machine learning and artificial intelligence ('AI'), to help us identify potential service issues. In 2019, we created 'pain point' reports, highlighting key issues raised by customers for multiple markets. Making it easier for customers to interact with us through social media remains a priority and we have implemented a global Facebook messenger 'service bot', which is designed to help our international or travelling customers direct their queries back to their home market customer service team.

In 2019, we enhanced our social media capabilities to improve how we support our customers who use Chinese social networks, such as WeChat and Sina Weibo. Through new technology partnerships, we are now better able to understand our customers' views and feedback posted through these channels, which can help us to identify service issues and areas for improvement.

As the social media landscape continues to evolve, we will continue to review the channels where we have a presence and investigate new opportunities to reach our customers. In 2020, we expect to see an increased presence on Instagram, which continues to grow in popularity. We are also exploring how popular messaging apps – like WhatsApp – can be used to further improve customer communications.

Branches of the future

Branches remain an important way in which we serve our customers even as their expectations and preferences are changing. We are improving the location, format and layout of our branches and fitting them with new technology – but the role of our people remains key. We continue to invest in our staff with the right training and tools to support customers wherever they choose to bank, whether in person or online. We expanded our development programme for our customer-facing employees, giving them coaching to develop the skills and confidence to resolve customers' queries as their first point of contact whenever possible. We have now trained approximately 6,000 employees in seven markets – the UK, Hong Kong, Mexico, the US, Singapore, Indonesia and Canada – in these new roles.



6,000

Approximate number of employees trained in Universal Banker roles

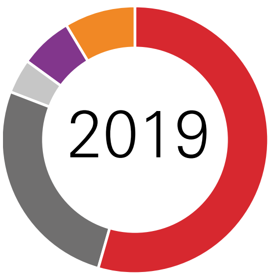
Employees

We have a total workforce equivalent to 235,000 full-time employees, working across 64 countries and territories. We are working to create the right environment to help enable everyone to fulfil their potential.

At a glance

Our people span many cultures, communities and continents. By focusing on employee well-being, diversity, inclusion and engagement, as well as building our peoples' skills and capabilities for now and for the future, we aim to create an environment where our people can fulfil their potential. We use confidential surveys to assess progress and make changes. We want to have an open culture where our people feel connected, supported to speak up and where our leaders encourage feedback. Where we make organisational changes, we support our people throughout the change and in particular where there are job losses.

Employees ('FTEs') by region



- Asia **54.7%**
- Europe **26.4%**
- Middle East and North Africa **3.9%**
- North America **6.6%**
- Latin America **8.4%**

How we listen

It is vital we understand how our people feel, as it helps us give them the right support to thrive and serve our customers well. We capture their views on a range of topics, such as our strategy, culture, behaviour, well-being and working environment, through our employee survey, Snapshot. Results are presented to the Group Management Board and relevant executive committees. This allows us to take action based on the feedback.

We track whether our people would recommend HSBC as a great place to work, which we define as employee advocacy. At the end of 2019, 66% of our people who completed Snapshot said they would recommend HSBC, unchanged from the year before. We recognise that this falls short of our stated target of improving this measure by three points each year through to the end of 2020, and we are aware that the context of restructuring and redundancies in some areas of our business has impacted our progress.

We also acknowledge that our people feel less positive about the impact of our strategy and are less confident about the future, particularly in the US and Europe. This has come amid a period of significant change within the Group, underscoring the need for clear and consistent messaging to support our 2020 business update. We continue to support our people closely through organisational change and have used our business update to provide greater clarity.

Employee Snapshot results

	2019	2018
I am seeing the positive impact of our strategy	**58%**	67%
I feel confident about HSBC's future	**66%**	75%
I trust the senior leadership in my area	**65%**	64%
I am proud to say I work for HSBC	**74%**	76%
I would recommend this company as a great place to work	**66%**	66%
Conditions in my job allow me to be as productive as I can be	**63%**	65%
I feel able to speak up when I see behaviour which I consider to be wrong	**74%**	74%
I believe HSBC is genuine in its commitment to encourage colleagues to speak up	**72%**	74%

Employee retention

85.7%

(2018: 85.5%)

Acting on feedback

Area of focus	Action
Improving trust in speaking up	According to Snapshot, nearly three-quarters (74%) of our people feel able to speak up when they see behaviour that they consider to be wrong, unchanged from 2018. Only 59% said they were confident that if they speak up, appropriate action will be taken. We want more of our people to have confidence in speaking up to their line managers. In 2020, we began a programme to raise awareness about how to speak up about different types of concerns, how concerns are investigated and, crucially, what action we take as a result of concerns being raised.
Raising awareness of mental health	We worked with experts and colleagues to build a bespoke e-learning curriculum accessible to all 235,000 employees, which was delivered in September 2019. We also built and began rolling out additional classroom learning for managers. These were adapted to ensure they work for local cultures and languages.

Supporting our people through organisational change

To ensure we have the right roles in the right locations, our businesses regularly re-evaluate their structures. We strive to support colleagues closely through all organisational change, which will include those who will be affected by our business update. Our focus is to prioritise retention of our permanent employees through mechanisms such as redeployment. Redundancies were necessary in 2019, and we sought to treat people fairly and responsibly. Where appropriate, we provided suitable notice periods and consulted with representative bodies. We use objective and appropriate selection criteria for redundancies. We prohibit selection on grounds linked to personal characteristics, for example gender, race, age or having raised past concerns. In many markets, including the UK and Hong Kong, our severance payments exceeded statutory minimums and our employees were additionally provided with access to counselling via employee assistance programmes and career transition support.

When things go wrong

We want a culture where our people feel able to speak up. Individuals are encouraged to raise concerns about wrongdoing or unethical conduct through the usual escalation channels. However, we understand that there are circumstances where people need to raise concerns more discreetly. HSBC Confidential is a global whistleblowing platform that enables our people, past and present, to raise concerns in confidence. HSBC does not condone or tolerate any acts of retaliation against those who raise concerns.

Whistleblowing concerns are investigated thoroughly and independently. Remedial action, taken where appropriate, includes disciplinary action, dismissal, and adjustments to variable pay and performance ratings. The Group Audit Committee has overall responsibility for the oversight of the Group's whistleblowing arrangements and receives regular updates.

We continued to promote the Group's whistleblowing arrangement through training in 2019 and this has contributed to the increase in the number of cases raised compared with 2018.

For further information on our whistleblowing platform, and also how we deal with personal conduct including our training programme on workplace harassment, see page 29 of the *ESG Update*.

Whistleblowing cases raised (subject to investigation)

2019	**2,808**
2018	2,068

Substantiated closed whistleblowing cases[1]

2019	**33%**
2018	34%

1 Cases where the investigation found the allegations to be substantiated or partially substantiated.

Diversity and inclusion

We are committed to a company-wide approach to diversity and inclusion. We want to embrace our people's diverse ideas, styles and perspectives to reflect and understand our customers, communities, suppliers and investors. Our actions are focused on ensuring our people are valued, respected and supported to fulfil their potential and thrive.

Our 30% commitment
In 2018, we signed up to a commitment, led by the gender diversity campaign group 30% Club, to reach 30% women in senior leadership roles by 2020. To help us achieve that aspirational target, we set ourselves a goal to reach 29% by the end of 2019. We achieved 29.4% and are continuing to take action towards more balanced leadership teams.

Gender #BalanceforBetter
Our people are supporting our goal to improve gender diversity, and our #BalanceforBetter campaign on International Women's Day in 2019 was our most successful employee social media campaign to date. Our global employee network, Balance, has played a key role in our work on gender. In 2019, we created a series of safe and comfortable spaces for new and expectant mothers. We equipped 125 parenting rooms in 2019, with more planned.

Our global diversity and inclusion strategy
In 2019, we began implementing a two-year global diversity and inclusion strategy to deliver more inclusive outcomes for our people, customers, suppliers and the communities in which we operate. We are working closely with our global employee networks to help accelerate our progress.

In 2019, we carried out actions aligned to our four strategic pillars below. For examples of work we delivered in 2019, see the *ESG Update* on page 31.

1 Beyond gender
We are expanding our focus beyond gender to include global approaches to ethnicity, disability and LGBT+ inclusion.

2 Our employee networks
We are investing in our employee networks around the world to improve governance.

3 Beyond employees
We are extending our actions beyond employees to integrate diversity and inclusion into our commercial activities.

4 Enhancing our data
We are enhancing our data to support an evidence-based approach to driving change.

1 Combined executive committee and direct reports includes HSBC executive Directors, Group Managing Directors, Group Company Secretary and Chief Governance Officer and their direct reports (excluding administrative staff).

2 Senior leadership refers to employees performing roles classified as 0, 1, 2 and 3 in our global career band structure.

Gender diversity statistics[1,2]

	Male	Male %	Female	Female %
Holdings Board	**9**	**64%**	5	36%
Group Management Board	**16**	**84%**	3	16%
Combined executive committee and direct reports	**168**	**73%**	62	27%
Senior leadership	**6,915**	**71%**	2,882	29%
Senior leadership RBWM	**748**	**68%**	353	32%
Senior leadership CMB	**715**	**72%**	284	28%
Senior leadership GB&M	**2,327**	**79%**	623	21%
Senior leadership GPB	**386**	**67%**	193	33%
Senior leadership HOST	**751**	**73%**	276	27%
All employees	**116,157**	**48%**	124,801	52%

Male Female

Supporting sustainable growth

We recognise our wider role in society and believe we can make a positive impact with how we do business. We understand that the global transition to a low-carbon economy is necessary to combat climate change and deliver a more sustainable future.

A key part of our sustainability strategy involves supporting our customers and their suppliers with their transition to a low-carbon economy. We aim to achieve this by providing sustainable finance, offering advice on how to structure financing solutions that align to the Paris Agreement and engaging with them on transition and physical risk.

We believe that we have a role to play in helping to address the challenges relating to climate change, environmental degradation, poverty, inequality, peace and justice, which is why we have committed to provide and facilitate $100bn of sustainable financing by 2025. This forms part of our approach to the United Nations ('UN') Sustainable Development Goals ('SDGs').

The 17 goals and 169 targets that comprise the SDGs form the globally agreed framework designed not only to protect the planet, but also to end poverty and ensure peace and prosperity.

In 2019, we contributed $100.7m to charitable programmes and our employees volunteered 257,000 hours to community activities during the working day.

Our sustainable finance commitments

In November 2017, we published five sustainable finance commitments. In this section, we summarise the progress made against these commitments:

1 Provide and facilitate $100bn of sustainable financing, facilitation and investment by 2025

We have provided $52.4bn of financing, investing and facilitation since 1 January 2017 to a range of clients and projects that are aligned to our environmental, social and governance qualifying criteria, as set out in our sustainable finance data dictionary. Details of the projects that we have financed are on the opposite page.

Our sustainable finance commitment does not include a number of other facilities that we have provided to help clients with transition activities, including mergers and acquisitions for renewable energy customers, facilities where the margin is linked to sustainability indicators and sustainable supply chain finance solutions.

2 Source 100% of our electricity from renewable sources by 2030, with an interim target of 90% by 2025

We signed renewables power purchase agreements that cover 29.4% of our electricity consumption, which is up 0.9 percentage points from 2018, and decreased energy consumption per FTE by 23% since 2011 (details on our carbon dioxide emissions can be found on page 72 of the *Annual Report and Accounts 2019*). In 2019, we achieved our energy reduction target of 1.2MWh/FTE by 2020 with a final reduction of 1.4MWh/FTE.

3 Reduce our exposure to thermal coal and actively manage the transition path for other high-carbon sectors

We continued to work on a framework to measure transition risks across our six higher-transition risk sectors in our loan portfolio. Further information can be found in the 'Risk management' section of our TCFD disclosure on page 22. Our sustainability risk policies are available at www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

4 Adopt the recommendations of the TCFD to improve transparency

Further details of our third TCFD disclosure are on page 22.

5 Lead and shape the debate around sustainable finance and investment

We published 45 reports and articles on HSBC's Centre of Sustainable Finance (www.sustainablefinance.hsbc.com) in 2019. For these thought leadership pieces, we built on our internal subject matter expertise and our external network of partners, which came from numerous industry associations and top academic institutions. Pathways to decarbonise hard-to-abate sectors such as shipping, steel and cement were among the themes for 2019.

Improving access to trade finance in a sustainable supply chain

Walmart in 2017 announced 'Project Gigaton', an initiative to work with suppliers to reduce or avoid one billion tonnes of greenhouse gases from the global supply chain by 2030. Walmart also encourages its suppliers to participate in THESIS, a third-party programme that scores suppliers on sustainability criteria and encourages continued improvement.

In April 2019, our teams in Asia, Europe and North America launched a sustainable supply chain finance programme to support Walmart's ambitions and help their suppliers with the transition to a lower emissions world. This programme, which is the first of its type in the retail sector, provides Walmart's suppliers that show continued sustainability improvements with enhanced access to trade finance at a price aligned to the suppliers' performance. The collaboration with its global reach demonstrates how financial institutions can accelerate customers' efforts to further sustainability.

Sustainable finance commitment

We are making good progress on our pledge to provide and facilitate $100bn of sustainable financing and investment by 2025, having already delivered $52.4bn of this commitment. We have supported projects in 45 countries and territories, which have included those addressing climate change and those seeking to benefit society, such as clean water or housing. Our sustainable finance data dictionary, including detailed definitions of contributing activities, can be found on: www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Facilitation

We provide advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social and sustainable bonds; finance advisory mandates; short-term debt; debt capital markets; and equity capital markets.

Cumulative progress[1,2] ($bn)

38.0

2019	**16.6**
2018	11.1
2017	10.3

2019 highlights

- We ranked number two in Dealogic's green, social and sustainability bonds league table and number one in the sustainability bonds table.
- We supported several green bond issuances that were market firsts in the public and private sectors, including as joint lead manager for the inaugural sovereign green bonds for Hong Kong, Chile and the Republic of Ireland.

Financing

We provide lending for specific finance activities. Products include project finance (e.g. financing of renewable infrastructure projects), and green loans (e.g. financing of eligible green products).

Cumulative progress[1,2] ($bn)

12.0

2019	**6.2**
2018	5.3
2017	0.5

2019 highlights

- HSBC UK aligned its green lending offering to the Loan Market Association's green loan principles. The range, which is available for SMEs through to large corporates, includes a green loan, a UK industry first green revolving credit facility and a green hire purchase, lease and asset loan.
- We acted as a mandated lead arranger in the refinancing of the Beatrice offshore wind farm off the north-east coast of Scotland.

For further details on the refinancing of the Beatrice offshore wind farm, see page 46 of the *Annual Report and Accounts 2019.*

Investments

We invest in funds that are defined as socially responsible investments ('SRI'). These funds primarily avoid investing in companies that can have a negative impact on society, such as tobacco or gambling. Some of the SRI funds are investing in companies that aim to reduce the detrimental impacts that climate change can create, while others have defined transition strategies. These transition strategies may include using alternative energy, clean technology and developing sustainable products and/or seeking to increase the beneficial impacts on our society, such as health, housing and clean water.

Cumulative progress[1] ($bn)

2.4

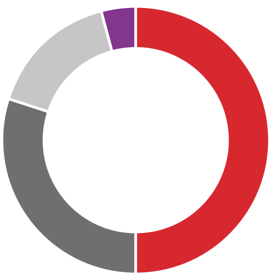
2019	**1.1**
2018	1.1
2017	0.2

2019 highlights

- HSBC Global Asset Management announced the creation of a new green bond fund, the HSBC Real Economy Green Investment Opportunity GEM Bond Fund. The fund's aim is to enable investors to achieve real economy impact to deliver against the Paris Agreement and SDGs.
- We achieved a rating of A+/A using the United Nations Principles of Responsible Investment ('UN PRI').

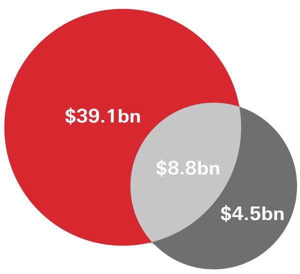
Geographical breakdown of our progress

The geographical breakdown below is based on the region where the main client relationship is managed.



Key
- Europe **50%**
- Asia **30%**
- Americas **16%**
- Middle East and North Africa **4%**

Green, social and sustainability breakdown



Key
- Green
- Social
- Sustainability

Green, social and sustainability breakdown

Our progress against the $100bn commitment can be split into three types:

- Green: Projects that align to the eligible green project category as defined by the International Capital Markets Association's Green Bond Principles, or a company whose core business operates in one of the categories.
- Social: Projects that align to the eligible social project category as defined by the International Capital Markets Association.
- Sustainability: Projects that mix green and social purposes that align to the above principles.

1 PwC provided limited assurance over progress towards the $100bn sustainable finance commitment as at 31 December 2019 in accordance with the International Standard on Assurance Engagement 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. This can be found on our website: www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

2 Included within the facilitation total is $2.8bn-worth of advisory services on HSBC-issued green/SDG bonds. Our green bond report summarises and our asset register lists the loans that underpin our issuances. The latest report includes $1.5bn of balances as at 30 June 2019 that have been included within the financing total. The green report and asset register are available at www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds.

Task Force on Climate-related Financial Disclosures ('TCFD')

We all have a role to play in limiting climate change and supporting the transition to a low-carbon economy. We are a signatory to the disclosure recommendations by the Financial Stability Board's task force. This represents our third disclosure under the framework.

Governance

We have an established governance framework to help ensure that risks associated with climate change are considered at the most senior levels of our business.

At each Board meeting, the Directors are presented with a risk profile report that includes key risks for the business, which may include climate risk where appropriate. Independent non-executive Directors make up the majority of the Board. Both the Group Chief Executive and the Group Chief Financial Officer are required to be members of the Board. In 2019, the Group Chief Risk Officer was also a member of the Board. With effect from 1 January 2020, this role ceased to be a Board member but the Group Chief Risk Officer will still attend Board meetings. In this role, the Group Chief Risk Officer raises any concerns directly by providing verbal or written updates on a regular basis to the Board and Group Management Board.

The Board and regional executive committees provide oversight of our strategic commitments and are advised by our climate business councils. The Risk Management Meeting of the Group Management Board ('RMM') provides oversight of climate risk through the 'top and emerging risk' report, which is reviewed on a monthly basis. A dedicated climate risk forum and an ESG Steering Committee also provides executive oversight of climate commitments. We have formally designated responsibility for managing the financial risks from climate change through the Senior Managers Regime for the relevant entities.

In 2019, the Board held a one-day sustainable finance and climate change 'master class'; the Group Risk Committee carried out a thematic review of sustainability and climate change risk management; and the Group Audit Committee discussed ESG at four separate meetings. Our people have also completed more than 5,300 sustainability training modules in 2019, a 41% increase since the previous year.

For further details on how we incentivise senior management and how climate-related disclosures inform our strategy, see page 15.

Strategy

As part of our priority to support the transition to a low-carbon economy, we pledged to provide $100bn of sustainable finance, facilitation and investment by 2025. At the end of 2019, we reached $52.4bn of that goal, of which $43.6bn relates to green or sustainable products. In 2019, HSBC was named the World's Best Bank for Sustainable Finance by *Euromoney*.

We recognise that many customers are making shifts towards the low-carbon economy and that our industry needs to work together to find new ways to measure these activities.

In 2019, HSBC participated in the CDP (formerly the Carbon Disclosure Project) working group to develop financial sector disclosure. We also partnered with climate change experts at MIT to produce exploratory transition scenarios. These scenarios were used to raise internal awareness of the different speeds with which transition could occur, the resulting investment requirements, the implications for energy system configuration and the broad macroeconomic costs.

Risk management

We are in the process of incorporating climate-related risk, both physical and transition, into how we manage and oversee risk. The Board-approved risk appetite statement contains a qualitative statement on our approach to climate risk. We intend to further enhance the climate risk statement in 2020.

In 2019, we also trained over 800 employees on climate risk to strengthen engagement with customers. For further information on how we manage sustainability risks, see pages 42 to 43 of our *ESG Update*.

We report on the emissions of our own operations via CDP and achieved a leadership score of A- for our 2019 CDP disclosure.

Since the revision of the energy policy, we have not agreed any project financing for any new coal-fired power plants anywhere.

For further details of our sustainability risk policies covering specific sectors, see: www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

For further details about the sustainability of our own operations, see www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-operations.

Table 1: Wholesale loan exposure to transition risk sectors

Transition risk sector	Oil and gas	Building and construction	Chemicals	Automotive	Power and utilities	Metals and mining	Total
% of total wholesale loans and advances to customers and banks in 2019[1,2,3]	**≤ 3.8%**	**≤ 3.9%**	**≤ 3.9%**	**≤ 3.2%**	**≤ 3.2%**	**≤ 2.7%**	**≤ 20.6%**
% of total wholesale loans and advances to customers and banks in 2018[1,2,3]	≤ 3.9%	≤ 3.8%	≤ 3.9%	≤ 3.4%	≤ 3.0%	≤ 2.8%	≤ 20.8%

1 Amounts shown in the table include green and other sustainable finance loans, which support the transition to the low-carbon economy. The methodology for quantifying our exposure to higher transition risk sectors and the transition risk metrics will evolve over time as more data becomes available and is incorporated in our risk management systems and processes.

2 Counterparties are allocated to the higher transition risk sectors via a two-step approach. Firstly, where the main business of a group of connected counterparties is in a higher transition risk sector, all lending to the group is included irrespective of the sector of each individual obligor within the group. Secondly, where the main business of a group of connected counterparties is not in a higher transition risk sector, only lending to individual obligors in the higher transition risk sectors is included.

3 Total wholesale loans and advances to customers and banks amount to $680bn (2018: $668bn).

Task Force on Climate-related Financial Disclosures ('TCFD') continued

Developing our approach to transition risk
We have started to develop and publish new transition metrics to help us gain a deeper understanding of the complexities of this topic.

Transition risk is the possibility that a customer will be unable to meet its financial obligations due to the global movement from a high-carbon to a low-carbon economy.

We are considering transition risk from three perspectives: understanding our exposure to transition risk; understanding how our clients are managing transition risk; and measuring our clients' progress in reducing carbon emissions.

To better understand our exposure to transition risk, we identified six higher transition risk sectors in 2018, based on their contribution to global carbon dioxide emissions and other factors. These transition risk sectors and our exposure to them are disclosed in table 1. Figures in this table capture all lending activity to customers within these sectors, including those that are environmentally responsible as well as sustainable financing activities. This means that green financing for large companies that work in higher transition sectors is included. For further information on how we designate counterparties as 'higher transition risk', see footnote 2 on the previous page.

In 2019, to better understand how our clients are managing transition risk, we had more than 3,000 engagements with customers through meetings or phone calls, across all sectors, to discuss their approach to climate change. We also developed a questionnaire to improve our understanding of our customers' climate transition strategies. We received responses from over 750 customers within the six higher risk transition sectors, which represented 34% of our exposure. We are using this information to inform our decision making and strategy. For instance, this information is helping us to understand which customers need to adapt, their readiness to change and identify potential business opportunities to support the transition. This information is also being used to supplement the management of transition risk in our credit risk management processes.

To improve our understanding of the progress our clients are making in reducing carbon emissions, in 2019 we launched a pilot scheme to develop a series of new transition metrics to help disclose our customers' progress towards a low-carbon economy. As part of the pilot, we calculated a weighted carbon-intensity ratio for over 900 customers within the six high risk transition sectors. We first obtained a client's total revenue carbon intensity from a third-party provider, CDP. The revenue carbon intensity ratio is effectively the carbon that is emitted per million dollars of revenue. It was calculated as emissions from both direct and indirect emissions, known as scope 1 and 2 emissions, divided by total revenue. We then weighted the revenue-carbon intensity ratio by our exposure to that client, within the sector.

Next steps
In 2020, we intend to continue to explore what data is available to provide us with greater insight of our clients' portfolio emissions. We also aim to continue to review our retail exposures on a geographical basis in respect of natural hazard risk, for example considering flood risk for properties that we have provided financing on. These reviews are designed to help us identify key areas of vulnerability to climate change, the associated impact on property portfolios and economic activity. We also aim to review our policies and procedures with respect to physical risks associated with climate change for our own buildings and branches. These reviews will help us to understand any gaps in policies and procedures and will also improve our understanding of our physical risk exposure and how this might change over time.

In next year's TCFD disclosure, we also expect to disclose more qualitative information on our approach to climate stress testing.

Memberships

Founding member, the Climate Finance Leadership Initiative

Founding member, Chapter Zero: The Directors' Climate Forum

Member, the FCA and PRA's Climate Financial Risk Forum ('CFRF')

Chair, climate risk working group of the CFRF

For further details of our sustainability-related memberships, see www.hsbc.com/our-approach/esg-information/sustainability-memberships.

Table 2: Customers' questionnaire responses and pilot carbon intensity metrics

	Oil and gas	Building and construction	Chemicals	Automotive	Power and utilities	Metals and mining	Total
Proportion of sector for which questionnaires were completed[4]	33%	37%	27%	39%	30%	44%	34%
Proportion of questionnaire responses that reported either having a board policy or a management plan[4]	84%	51%	85%	64%	94%	62%	72%
Sector weight as proportion of high transition risk sector[4]	18%	19%	19%	15%	15%	13%	100%
Pilot as % of total sector[4]	38%	41%	30%	52%	42%	46%	41%
Proportion of pilot that report carbon intensity metric through CDP[4]	49%	53%	38%	48%	38%	30%	44%
Weighted average carbon emissions per million dollars of revenue (total client emissions/revenue weighted by exposure)[4,5]	688	408	517	301	7,235	787	

4 All percentages are weighted by exposure.

5 Customer responses to CDP have been used to formulate the carbon intensity metrics in table 2. If a client does not complete the CDP questionnaire, information is not included in the metrics. The CDP questionnaire is voluntarily completed by clients between April and July of a given year and may not all be from a single point in time. Figures obtained from CDP have not been separately validated. The carbon intensity ratio is calculated by CDP using both reported figures and estimated data. Carbon emissions are measured in tonnes of carbon dioxide equivalent (tCO_2e) and revenue is measured in millions of US dollars.

Responsible business culture

HSBC's purpose is to connect people with opportunities. With this purpose comes the responsibility to protect our customers, our communities and the integrity of the financial system.

At a glance

We act on our responsibility to run our business in a way that upholds high standards of corporate governance.

We are committed to working with our regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing our industry. In our endeavour to restore trust in our industry, we aim to act with courageous integrity and learn from past events to help prevent their recurrence.

We meet our responsibilities to society, including through paying taxes and being transparent in our approach. We also seek to ensure we respect global standards on human rights in our workplace and our supply chains, and continually work to improve our compliance management capabilities.

We acknowledge that increasing financial inclusion is a continuing effort, and we are carrying out a number of initiatives to increase access to financial services.

For further details on our corporate governance, see page 156 of the *Annual Report and Accounts 2019*.

For further details on our 'Responsible business culture', see page 48 of our *ESG Update*, which is available at www.hsbc.com/our-approach/esg-information.

Non-financial risks

We use a range of tools to monitor and manage our non-financial risks, including our risk appetite, risk map, top and emerging risks, and stress testing processes. During 2019, we continued to strengthen our approach to managing non-financial risk, launching a transformation programme to accelerate our progress. The approach sets out non-financial risk governance and our risk appetite, and provides a single view of the non-financial risks that matter the most and associated controls. It incorporates a risk management system to enable the active management of risk. Our focus is on simplifying our approach to risk management and driving more effective oversight and better end-to-end identification and management of risks. We aim to see improvements by the end of the first half of 2020, while building capability for the long term.

Cybersecurity

We operate in an increasingly sophisticated and hostile cyber-threat environment. In response, we have invested in business and technical controls to help prevent, detect and react to these threats.

We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. We strengthened our controls to reduce the likelihood and impact of advanced malware, data leakage, infiltration of payment systems and denial of service attacks.

We continued to enhance our cybersecurity capabilities, including threat detection and access control as well as back-up and recovery. An important part of our defence strategy is ensuring our people remain aware of cybersecurity issues and know how to report incidents. In 2020, we plan to focus on enhancing our use of data analytics, continue to implement our cybersecurity education and communication programme, and help ensure our cyber controls are highly effective across the organisation.

For further details on our 'Top and emerging risks', see page 39.

For further details on how we protect our customers' data, see pages 24 and 25 of the *ESG Update*.

Financial crime compliance

In order to help protect the integrity of the global financial system, we have made, and continue to make, significant investments in our ability to detect, deter and prevent financial crime. We are also working with governments and other banks to advance our collective interests in this area. These steps are enabling us to reduce the risk of financial crime more effectively. Our risk appetite has been set formally.

For further details on our risk appetite statement, see page 73 of the *Annual Report and Accounts 2019*.

Banking for vulnerable customers

After successfully trialling an approach to providing victims of human trafficking and modern slavery in the UK with monitored bank accounts, the service was made more widely available in 2019. This was a first in the UK and our work was cited by the UN as an example of how banks can support victims of trafficking. Over 300 people had been provided with accounts by December 2019.

Our 'no fixed address service' also provides access to banking for the homeless. The service enables vulnerable people without a fixed home address to receive wage and benefit payments, as well as support in rebuilding their lives. As a result, HSBC UK was recognised by *The Banker* as Bank of the Year 2019 for financial inclusion in the UK.

Anti-bribery and corruption

We are committed to high standards of ethical behaviour and operate a zero-tolerance approach to bribery and corruption, which we consider unethical and contrary to good corporate governance. We require compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which we operate. We have a global anti-bribery and corruption policy, which gives practical effect to global initiatives, such as the Organisation of Economic Co-operation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and Principle 10 of the United Nations Global Compact. Our policy is supported by our continued investment in technology and training. In 2019, 97% of our workforce were trained via a mandatory e-learning course and more than 2,900 received tailored role-based training. By the end of 2020, more than 12,000 employees – who undertake activities with a high risk of bribery – will be targeted for specialist training.

Restoring trust

Restoration of trust in our industry remains a significant challenge as past misdeeds continue to remain in the spotlight. HSBC has sought to learn from past mistakes and is seeking to develop and implement specific measures designed to prevent their recurrence in the future. In the *ESG Update*, we provide three examples of how we have sought to learn from our past mistakes. These can be found in the *ESG Update* on pages 50 to 52.

For further details on legal proceedings and regulatory matters, see page 308 of the *Annual Report and Accounts 2019*.

Tax

We are committed to applying both the letter and spirit of the law in all territories where we operate. We aim to have open and transparent relationships with all tax authorities, aiming to ensure that any areas of uncertainty or dispute are agreed and resolved in a timely manner. As a consequence, we believe that we pay our fair share of tax in the jurisdictions in which we operate.

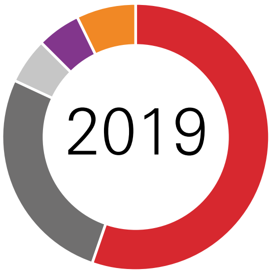
We have adopted the UK Code of Practice on Taxation for Banks, which was introduced in 2009, and manage tax risk in accordance with a formal tax risk management framework.

We apply a number of tax initiatives introduced after the global financial crisis with the aim of increasing transparency. These initiatives address both the tax positions of companies and of their customers. These include:

- the US Foreign Account Tax Compliance Act ('FATCA');
- the OECD Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard');
- the Capital Requirements (Country by Country Reporting) Regulations;
- the OECD Base Erosion and Profit Shifting ('BEPS') initiative; and
- the UK legislation on the corporate criminal offence ('CCO') of failing to prevent the facilitation of tax evasion.

For further details on taxes that we have paid, see page 72 of the *Annual Report and Accounts 2019*.

Taxes paid by region
($bn)



- Europe **$3.1bn**
- Asia **$1.5bn**
- Middle East and North Africa **$0.3bn**
- North America **$0.3bn**
- Latin America **$0.4bn**

Human rights

Our commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our lending, is set out in our 2015 Statement on Human Rights. This statement, along with our *ESG Updates* and our statements under the UK's Modern Slavery Act ('MSA'), which include further information, is available on www.hsbc.com/our-approach/measuring-our-impact.

Our approach with our suppliers

We have globally consistent standards and procedures for the onboarding and use of external suppliers. We require suppliers to meet our compliance and financial stability requirements, as well as to keep to our sustainability code of conduct. Payment on time is of paramount importance, and as such our commitment to paying our suppliers is in line with local requirements, including the Prompt Payment Code in the UK.

We have an ethical and environmental code of conduct for suppliers of goods and services, which must be complied with by all suppliers. While our businesses and functions are accountable for the suppliers they use, our global procurement function owns the code of conduct review process for them.

Our goal is to work collaboratively with our supply chain partners on sustainability at all times. When a supplier or one of its sub-contractors is found to no longer be in compliance with this code, we will work with them on an improvement plan or, if deemed necessary, terminate the relationship.

The ethical code of conduct, which we require suppliers to adopt, sets out the standards for economic, environmental and social impacts and outlines the requirements of having a governance and management structure to help ensure compliance with this code.

Our supplier management conduct principles also set out how we conduct business with our third-party suppliers both in our legal and commercial obligations. They also explain how we treat suppliers fairly through our behaviour and actions, in line with our values.

We have a connected global supply base and inclusive sourcing strategies that reflect the communities where we operate, and help ensure we meet the needs of our diverse customer base. Our supplier diversity and inclusion action plan encourages the use of minority owned and SME businesses.

Our supplier code of conduct and diversity initiative are available at: www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers.

Financial overview

In assessing the Group's financial performance, management uses a range of financial measures that focus on the delivery of sustainable returns for our shareholders and maintaining our financial strength.

Executive summary

In 2019, reported profit before tax of $13.3bn decreased by 33%, including a $7.3bn impairment of goodwill in 2019, while adjusted profit before tax of $22.2bn increased by 5%. While much of our business has held up well, underperformance in other areas had a negative impact on our returns.

Our RBWM and CMB global businesses delivered revenue growth, notably in Asia, while GPB attracted net new money of $23bn in the year. By contrast, revenue in GB&M fell compared with 2018 due to ongoing economic uncertainty and spread compression, which negatively impacted Global Markets and Global Banking, notably in Europe. Expected credit losses and other credit impairment charges ('ECL') increased compared with a benign 2018 and were 0.27% of average gross loans and advances to customers. Operating expenses have been closely managed, with the rate of growth in adjusted operating expenses lower than the previous year, while we continued to invest. This helped us to deliver positive adjusted jaws in 2019.

Our return on average tangible equity ('RoTE') for 2019 was 8.4%. Challenges in the revenue environment and a softer outlook mean that we no longer expect to reach our 11% RoTE target in 2020. To address this, we plan to reshape the businesses that are underperforming in order to reallocate resources to higher-returning businesses, address our significant cost base and streamline the organisation.

Since the beginning of January 2020, the coronavirus outbreak is causing economic disruption in Hong Kong and mainland China and may impact performance in 2020.

Delivery against our June 2018 financial targets

Return on average tangible equity (%)

8.4%

2019	**8.4%**
2018	8.6%
2017	6.8%

Adjusted revenue up

5.9%

Adjusted jaws

3.1%

Adjusted operating expenses up

2.8%

Total dividends declared in respect of the year ($bn)

$10.3bn

2019	**10.3**
2018	10.2
2017	10.2

Return on average tangible equity
In 2019, we achieved a RoTE of 8.4% compared with 8.6% in 2018.

When we set our strategy in June 2018, our target was to achieve a reported RoTE of more than 11% by the end of 2020. The revenue environment is now more challenging, and as a result we no longer expect to reach this target by the end of 2020.

Adjusted jaws
Adjusted jaws measures the difference between the rates of change in adjusted revenue and adjusted operating expenses.

In 2019, adjusted revenue increased by 5.9%, while adjusted operating expenses increased by 2.8%. Adjusted jaws was therefore positive 3.1%.

Dividends
We plan to sustain the annual dividend in respect of the year at its current level for the foreseeable future. Sustaining our dividend will depend on the overall profitability of the Group, redeploying less efficiently used capital and meeting regulatory capital requirements in a timely manner.

2020 business update and new Group financial targets

Our business update outlines our intention to materially improve the Group's returns by 2022 to allow us to meet our growth plans and sustain our current dividend policy. We plan to reduce capital and costs in our underperforming businesses to enable continued investment in businesses with stronger returns and growth prospects. We aim to simplify our complex organisational structure, including a reduction in Group and central costs, while improving the capital efficiency of the Group.

Underpinning this plan is a target to reduce gross RWAs by over $100bn by the end of 2022, with these RWAs to be reinvested resulting in broadly flat RWAs between 2019 and 2022; and a new cost reduction plan of $4.5bn to lower the adjusted cost base to $31bn or below in 2022. We are targeting a reported RoTE in the range of 10% to 12% in 2022, with the full benefit of our cost reductions and redeployed RWAs flowing into subsequent years.

To achieve our targets, we expect to incur restructuring costs of around $6bn, with the majority of these costs incurred in 2020 and 2021. In addition, we expect to incur asset disposal costs of around $1.2bn during the period to 2022.

We intend to sustain the dividend and maintain a common equity tier 1 ('CET1') ratio in the range of 14% to 15%, and expect to be at the top end of this range by the end of 2022.

We plan to suspend share buy-backs for 2020 and 2021, with an intention to return to our policy of neutralising the scrip dividend issuance from 2022 onwards.

Reported results

Reported profit
Reported profit after tax of $8.7bn was $6.3bn or 42% lower than in 2018.

Reported profit before tax of $13.3bn was $6.5bn or 33% lower. This was mainly due to higher reported operating expenses, which included a $7.3bn impairment of goodwill, primarily related to our GB&M business globally and our CMB business in Europe. This reflected lower long-term economic growth rate assumptions, and also for GB&M, the planned reshaping of this business. In addition, reported operating expenses in 2019 included additional customer redress provisions of $1.3bn and restructuring and other related costs of $0.8bn. By contrast, reported operating expenses in 2018 included costs of $0.8bn related to settlements and provisions in connection with legal and regulatory matters.

Reported profit was also adversely impacted by higher reported ECL, reflecting an increase in charges notably in CMB and RBWM, and as 2018 benefited from a number of releases against specific exposures.

These factors were partly offset by growth in reported revenue in all our global businesses, except GB&M. The increase in RBWM was from favourable market impacts of $0.5bn and favourable actuarial assumption changes of $0.2bn, balance sheet growth and the impact of previous interest rate increases on margins in Retail Banking. In CMB, revenue grew, mainly in Global Liquidity and Cash Management ('GLCM') and Credit and Lending ('C&L'). The change in revenue also included an $828m dilution gain following the merger of The Saudi British Bank ('SABB') with Alawwal bank in Saudi Arabia, a net favourable movement in credit and funding valuation adjustments in GB&M of $0.2bn, the non-recurrence of a 2018 adverse swap mark-to-market loss of $177m on a bond reclassification in Corporate Centre and 2019 disposal gains in RBWM and CMB of $157m.

Excluding net adverse movements in significant items of $7.1bn and adverse foreign currency translation differences of $0.5bn, profit before tax increased by $1.0bn.

Since the beginning of January 2020, the coronavirus outbreak has caused disruption to our staff, suppliers and customers, particularly in Hong Kong and mainland China. The outlook remains uncertain and we continue to monitor the situation closely. Depending on the duration of the disruption caused by the virus, our results could be adversely affected by increased ECL, lower revenue and market volatility in our insurance business. Further ECL could arise from other parts of our business impacted by the disruption to supply chains.

Reported results	**2019 $m**	2018 $m	2017 $m
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**56,098**	53,780	51,445
ECL/LICs	**(2,756)**	(1,767)	(1,769)
Net operating income	**53,342**	52,013	49,676
Total operating expenses	**(42,349)**	(34,659)	(34,884)
Operating profit	**10,993**	17,354	14,792
Share of profit in associates and joint ventures	**2,354**	2,536	2,375
Profit before tax	**13,347**	19,890	17,167
Tax expense	**(4,639)**	(4,865)	(5,288)
Profit after tax	**8,708**	15,025	11,879

Reported revenue
Reported revenue of $56.1bn was $2.3bn or 4% higher than in 2018, reflecting growth in RBWM and CMB, as discussed above, and in Corporate Centre, partly offset by lower revenue in GB&M.

Net favourable movements in significant items of $0.9bn, which largely comprised the $828m dilution gain in Saudi Arabia and favourable fair value movements on financial instruments of $0.2bn, were more than offset by adverse foreign currency translation differences of $1.6bn.

Excluding significant items and currency translation differences, revenue increased by $3.1bn or 6%.

Reported ECL
Reported ECL of $2.8bn were $1.0bn or 56% higher than in 2018, driven by increased charges in CMB and RBWM, and as 2018 benefited from a number of releases against specific exposures, notably in GB&M and CMB. ECL in 2019 included a charge to reflect the economic outlook in Hong Kong, as well as a release of allowances related to UK economic uncertainty.

Excluding currency translation differences, ECL increased by $1.1bn or 63%.

Reported operating expenses
Reported operating expenses of $42.3bn were $7.7bn or 22% higher than in 2018, mainly due to a net adverse movement in significant items of $7.9bn, which included:

- a $7.3bn impairment of goodwill, primarily $4.0bn related to our GB&M business, reflecting lower long-term economic growth rate assumptions and the planned reshaping of this business, and $2.5bn in CMB in Europe, reflecting lower long-term economic growth rate assumptions;
- customer redress programme costs of $1.3bn, of which $1.2bn related to payment protection insurance ('PPI'), mainly driven by a higher than expected increase in the volume of complaints prior to the deadline in August 2019, compared with $0.1bn in 2018; and
- restructuring and other related costs of $0.8bn, which included $753m of severance costs, related to cost efficiency measures across our global business and functions. We expect annualised cost savings from these measures to be approximately equal to 2019 severance costs.

These were partly offset by:

- the non-recurrence of settlements and provisions in connection with legal and regulatory matters of $0.8bn in 2018.

Excluding significant items and favourable foreign currency translation differences of $1.1bn, operating expenses increased by $0.9bn or 3%.

Reported share of profit in associates and joint ventures
Reported share of profit in associates of $2.4bn was $0.2bn or 7% lower than in 2018. This included adverse foreign currency translation differences of $0.1bn. The reduction also reflected lower share of profit from SABB as a result of higher ECL charges and other expenses relating to the merger with Alawwal bank, partly offset by higher income from Bank of Communications Co., Limited ('BoCom').

Tax expense
The tax expense of $4.6bn was $0.2bn lower than in 2018, although the effective tax rate for 2019 of 34.8% was higher than the 24.5% for 2018, mainly due to the impairment of goodwill in 2019, which is not deductible for tax purposes.

Dividend
On 18 February 2020, the Board announced a fourth interim dividend of $0.21 per ordinary share.

Reported profit after tax

$8.7bn

(2018: $15.0bn)

Basic earnings per share

$0.30

(2018: $0.63)

Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the financial statements on page 240 of the *Annual Report and Accounts 2019.*

We also present alternative performance measures. Adjusted performance is an alternative performance measure used to align internal and external reporting, identify and quantify items management believes to be significant, and provide insight into how management assesses period-on-period performance. Alternative performance measures are highlighted with the following symbol:

To derive adjusted performance, we adjust for:

- the year-on-year effects of foreign currency translation differences; and
- the effect of significant items that distort year-on-year comparisons, which are excluded in order to improve understanding of the underlying trends in the business.

The results of our global businesses are presented on an adjusted basis, which is consistent with how we manage and assess global business performance.

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 56 of the *Annual Report and Accounts 2019.*

Adjusted results	**2019 $m**	2018 $m	**Adverse $m**	**Favourable $m**	**%**
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**55,409**	52,331		**3,078**	**6%**
ECL/LICs	**(2,756)**	(1,689)	**(1,067)**		**(63)%**
Total operating expenses	**(32,795)**	(31,906)	**(889)**		**(3)%**
Operating profit	**19,858**	18,736		**1,122**	**6%**
Share of profit in associates and joint ventures	**2,354**	2,446	**(92)**		**(4)%**
Profit before tax	**22,212**	21,182		**1,030**	**5%**

Adjusted profit before tax
Adjusted profit before tax of $22.2bn was $1.0bn or 5% higher than in 2018.

Adjusted revenue increased by $3.1bn, primarily reflecting growth in RBWM and CMB, although revenue in GB&M fell. The increase in revenue was broadly offset by higher adjusted ECL (up $1.1bn) and a rise in adjusted operating expenses of $0.9bn, which included investments to grow the business and investments in digital capabilities.

The effects of hyperinflation accounting in Argentina resulted in a $0.1bn decrease in adjusted profit before tax, compared with a $0.2bn decrease in 2018.

Adjusted revenue
Adjusted revenue of $55.4bn increased by $3.1bn or 6%, reflecting strong performances in RBWM and CMB, notably in Asia, partly offset by lower revenue in GB&M.

- In RBWM, revenue increased by $2.0bn or 9%, mainly in Retail Banking, reflecting growth in deposit and lending balances, primarily in Hong Kong and the UK. Margins remained stable compared with 2018, although they began to contract during the second half of 2019. In Wealth Management, revenue growth reflected higher insurance manufacturing revenue, which included a favourable movement in market impacts of $0.5bn, as 2019 recorded a favourable movement of $0.1bn compared with an adverse movement of $0.3bn in 2018, and more favourable actuarial assumption changes of $0.2bn. These increases were partly offset by lower investment distribution revenue, mainly in Hong Kong, reflecting less favourable market conditions compared with 2018.

Reconciliation of reported to adjusted profit before tax

	2019 $m	2018 $m
Reported profit before tax	**13,347**	19,890
Currency translation	**–**	(520)
Significant items:	**8,865**	1,812
– costs of structural reform	**158**	361
– customer redress programmes	**1,444**	93
– disposals, acquisitions and investment in new businesses	**(768)**	165
– fair value movements on financial instruments	**(84)**	100
– goodwill impairment	**7,349**	—
– past service costs of guaranteed minimum pension benefits equalisation	**–**	228
– restructuring and other related costs	**827**	66
– settlements and provisions in connection with legal and regulatory matters	**(61)**	816
– currency translation on significant items	**–**	(17)
Adjusted profit before tax	**22,212**	21,182

Adjusted performance continued

- In CMB, revenue increased by $0.8bn or 6%, with growth in all major products and regions. Growth was primarily in GLCM, particularly in Hong Kong from wider deposit margins, and in the UK and Latin America from wider margins and growth in average deposit balances. While deposit margins were wider than in 2018, they began to contract during the second half of 2019 following interest rate cuts. Revenue increased in C&L due to balance sheet growth in most markets, partly offset by margin compression.
- In GB&M, revenue decreased by $0.1bn or 1%. This reflected a reduction in revenue in Global Markets and Global Banking as economic uncertainty resulted in lower market activity, primarily in Europe. These decreases were partly offset by a strong performance in GLCM, GTRF and Securities Services businesses as we continued to grow balances. Revenue included a net favourable movement of $0.2bn on credit and funding valuation adjustments.
- In GPB, revenue increased by $0.1bn or 5%, mainly reflecting growth in investment revenue and lending revenue, primarily in Asia and Europe. These increases were partly offset by lower deposit revenue, notably in the US and Europe.
- In Corporate Centre, revenue increased by $0.2bn. This was mainly in Central Treasury from favourable fair value movements in 2019 of $147m relating to the economic hedging of interest rate and exchange rate risk on our long-term debt with long-term derivatives (2018: $136m adverse) and from a non-repeat of a 2018 swap mark-to-market loss on a bond reclassification of $177m, although there was lower revenue in Balance Sheet Management ('BSM').

Adjusted ECL

Adjusted ECL of $2.8bn were $1.1bn higher than in 2018, mainly reflecting an increase in charges in CMB, RBWM and GB&M. ECL in 2019 included a charge of $138m to reflect the economic outlook in Hong Kong, as well as a $99m release of allowances related to UK economic uncertainty. Adjusted ECL as a percentage of average gross loans and advances to customers was 0.27%, compared with 0.17% at 2018.

In CMB, ECL increased by $0.5bn, primarily in Europe and Hong Kong, while in North America the prior year benefited from net releases that did not recur. ECL increased in RBWM by $0.3bn, notably against unsecured lending, mainly in the US, Mexico and Hong Kong. In addition ECL in 2019 included charges related to Argentinian sovereign bond exposures in our insurance business.

In GB&M, ECL charges were $0.2bn in 2019. This compared with net releases of $31m in 2018 as charges were more than offset by releases that largely related to exposures within the oil and gas sector in the US.

Adjusted operating expenses

Adjusted operating expenses of $32.8bn were $0.9bn or 3% higher than in 2018. This was a slower growth rate than in 2018 (compared with 2017), while we have continued to invest. Expenditure on investments increased by $0.4bn, reflecting initiatives to grow the business, mainly in RBWM and CMB, as well as continued investment in our digital capabilities across all global businesses. Volume-related growth also increased costs by $0.2bn. The impact of cost-saving efficiencies more than offset the effects of inflation.

The number of employees expressed in full-time equivalent staff at 31 December 2019 was 235,351, an increase of 134 from 31 December 2018. Our investments in business growth programmes, notably in RBWM and CMB, resulted in an increase of approximately 8,300 FTEs, but this was largely offset by the impact of our restructuring programmes. Additionally, the number of contractors at 31 December 2019 was 7,411, a decrease of 3,443 from 31 December 2018.

Adjusted share of profit in associates and joint ventures

Adjusted share of profit in associates of $2.4bn was $0.1bn or 4% lower than in 2018, mainly due to a reduction in SABB from higher ECL charges and other expenses relating to the merger with Alawwal bank, partly offset by higher income from BoCom.

Balance sheet and capital

Balance sheet strength

Total reported assets of $2.7tn were $157bn or 6% higher than at 31 December 2018 on a reported basis, and 5% higher on a constant currency basis. Loans and advances to customers increased to over $1.0tn at 31 December 2019, as we continued to grow lending, notably in Hong Kong and the UK.

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2019 were $31.7bn, compared with $30.7bn at 31 December 2018. The increase was primarily driven by distributable profits generated of $11.5bn net of distributions to shareholders of $9.0bn and $1.0bn of share buy-backs.

Capital position

We actively manage the Group's capital position to support our business strategy and meet our regulatory requirements at all times, including under stress, while optimising our capital efficiency. To do this, we monitor our capital position using a number of measures. These include: our capital ratios, the impact on our capital ratios as a result of stress, and the degree of double leverage being run by HSBC Holdings. Double leverage is a constraint on managing our capital position, given the complexity of the Group's subsidiary structure and the multiple regulatory regimes under which we operate. For further details, see page 130 of the *Annual Report and Accounts 2019*.

Our CET1 ratio at 31 December 2019 was 14.7%, up from 14.0% at 31 December 2018. This increase was primarily driven by a reduction in RWAs.

Liquidity position

We actively manage the Group's liquidity and funding to support our business strategy and meet regulatory requirements at all times, including under stress. To do this, we monitor our position using a number of risk appetite measures, including the liquidity coverage ratio and the net stable funding ratio. At 31 December 2019, we held high-quality liquid assets of $601bn.

Total assets
($bn)

$2,715bn

2019	**2,715**
2018	2,558
2017	2,522

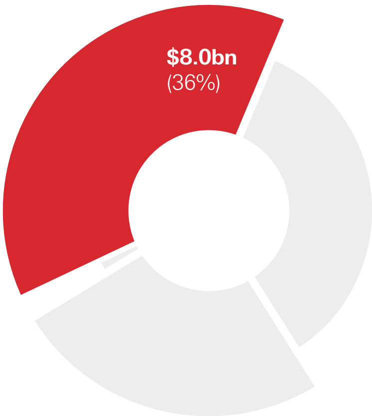
Common equity tier 1 ratio
(%)

14.7%

2019	**14.7**
2018	14.0
2017	14.5

Retail Banking and Wealth Management

Contribution to Group adjusted profit before tax



RBWM performed well in 2019, growing adjusted revenue in Hong Kong, the UK, and high-growth markets in Asia and Latin America, as we continued to win new customers, increase deposit balances and grow lending. We remain focused on making it easier for customers to bank with us, improving customer service and onboarding journeys, and enhancing our digital banking offerings.

We help 39 million active customers across the world to manage their finances, buy their homes, save and invest for the future.

For our customers' everyday banking needs, we offer a full range of products and services tailored locally and accessible across multiple channels. Our strong global presence provides for customers with international needs.

	2019	2018	2017	2019 vs 2018	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**23,400**	21,374	19,708	**2,026**	**9**
ECL/LICs	**(1,390)**	(1,134)	(941)	**(256)**	**(23)**
Operating expenses	**(14,017)**	(13,255)	(12,386)	**(762)**	**(6)**
Share of profit in associates and JVs	**55**	33	12	**22**	**67**
Profit before tax	**8,048**	7,018	6,393	**1,030**	**15**
RoTE excluding significant items and UK bank levy (%)	**20.5**	21.0	21.6		

Connecting our customers through digital innovation

We are committed to making mobile banking quick, safe and accessible. Our award-winning PayMe app lets people in Hong Kong send money instantly and free of charge to friends and family. It can also be used to split bills and make payments at thousands of merchants. PayMe has attracted 1.9 million users since it was launched in 2017. At busy times, the app processes more than 200,000 peer-to-peer payments in a single day. It is so much a part of everyday life that it's becoming part of the language. 'PayMe' is now a colloquial way to describe transferring money through a mobile app.

68%

Market share of peer-to-peer payments by transaction value for the third quarter of 2019

(total market value: www.hkma.gov.hk;
HSBC contribution: HSBC data)

Management view of adjusted revenue	2019 $m	2018 $m	2017 $m	2019 vs 2018 $m	 %
Retail Banking	**15,840**	14,866	13,107	**974**	**7**
Current accounts, savings and deposits	**9,492**	8,356	6,146	**1,136**	**14**
Personal lending	**6,348**	6,510	6,961	**(162)**	**(2)**
– mortgages	**1,610**	1,867	2,301	**(257)**	**(14)**
– credit cards	**2,893**	2,804	2,814	**89**	**3**
– other personal lending	**1,845**	1,839	1,846	**6**	**—**
Wealth Management	**6,746**	5,986	6,103	**760**	**13**
– investment distribution	**3,269**	3,324	3,229	**(55)**	**(2)**
– life insurance manufacturing	**2,455**	1,625	1,835	**830**	**51**
– asset management	**1,022**	1,037	1,039	**(15)**	**(1)**
Other[1]	**814**	522	498	**292**	**56**
Net operating income[2]	**23,400**	21,374	19,708	**2,026**	**9**

1 'Other' mainly includes the distribution and manufacturing (where applicable) of retail and credit protection insurance.

2 Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions, also referred to as revenue.

Divisional highlights

1.5 million

increase in active customers

$16bn

growth in mortgage book in the UK (up 7%) and Hong Kong (up 9%)

Adjusted profit before tax

($bn)

+15%

2019	**8.0**
2018	7.0
2017	6.4

Net operating income

($bn)

+9%

2019	**23.4**
2018	21.4
2017	19.7

Financial performance

Adjusted profit before tax of $8.0bn was $1.0bn or 15% higher than in 2018. This increase reflected strong balance sheet growth, favourable market impacts of $0.5bn in life insurance manufacturing and disposal gains of $0.1bn. This was partly offset by increased adjusted operating expenses, driven by higher staff costs, inflation and strategic investments, as well as higher adjusted ECL.

RBWM's reported profit before tax of $6.4bn was $0.5bn or 7% lower. This included customer redress programme costs of $1.3bn, mainly driven by a higher than expected increase in the volume of complaints prior to the deadline in respect of the mis-selling of PPI in the UK. These costs are excluded from our adjusted performance.

Adjusted revenue of $23.4bn was $2.0bn or 9% higher, with strong performances in Hong Kong, Latin America, the UK and mainland China, partly offset by lower revenue in the US. Revenue also included disposal gains in Argentina and Mexico of $133m.

- In Retail Banking, revenue was up $1.0bn or 7% driven by growth in Hong Kong, Latin America and the UK, partly offset by lower revenue in the US. The increase in revenue reflected deposit balance growth of $40bn or 6%, particularly in Hong Kong, the UK and North America and lending balance growth of $27bn or 7%, notably from mortgages in the UK and Hong Kong. A favourable interest rate environment contributed to higher retail margins in the first half of 2019, which began to contract in the second half following policy rate reductions. Overall, margin remained stable compared with 2018.
- In Wealth Management, revenue of $6.7bn was up $0.8bn or 13%. This increase reflected higher life insurance manufacturing revenue (up $0.8bn or 51%), primarily in Hong Kong, France and mainland China. This was driven by favourable market impacts of $0.5bn as 2019 recorded a favourable movement of $0.1bn, compared with an adverse movement of $0.3bn in 2018. This increase also reflected more favourable actuarial assumption changes of $0.2bn and growth in the value of new business written (up $0.1bn or 12%). The increase in life insurance manufacturing revenue was partly offset by lower investment distribution revenue (down $0.1bn or 2%), mainly in Hong Kong, driven by lower fees from less favourable market conditions compared with 2018 and a change in the product mix of clients' investments to lower risk and lower margin products.

Adjusted ECL were $1.4bn, up $0.3bn or 23% from 2018, driven by higher charges related to unsecured lending, reflecting our growth strategy, notably in the US, Mexico and Hong Kong. ECL as a percentage of lending within Retail Banking remained in line with 2018, at 0.33%, while ECL related to unsecured lending remained low at 2.2%, compared with 2.1% in 2018. In addition, ECL in 2019 included $91m charges in Argentina related to government bond exposures in our insurance business, as well as $52m charges related to economic uncertainty in Hong Kong. The net write-off in 2019 remained stable compared with 2018.

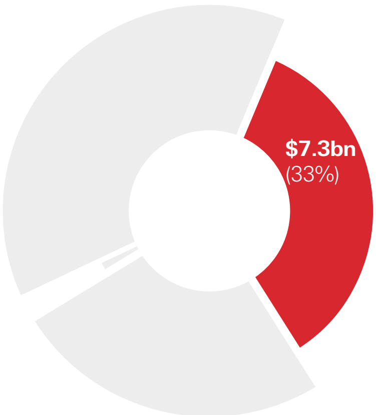
Adjusted operating expenses of $14.0bn were $0.8bn or 6% higher, driven by inflation and higher staff costs (up $0.3bn) as the business grew. Investment in strategic initiatives increased by $0.2bn to grow Wealth Management in Asia, enhance our digital capabilities and drive growth in key markets through lending. IT system and infrastructure costs rose $0.2bn.

A reminder

Our global businesses are presented on an adjusted basis, which is consistent with the way in which we manage and assess the performance of our global businesses. The management view of adjusted revenue table provides a breakdown of adjusted revenue by major products, and reflects the basis on which each business is managed and assessed.

Commercial Banking

Contribution to Group adjusted profit before tax



CMB delivered broad-based adjusted revenue growth across all main products and regions in 2019. We continued to invest in solutions to make banking with us easier, including improved customer journeys, new digital platforms and mobile apps.

We support approximately 1.4 million business customers in 53 countries and territories, ranging from small enterprises focused primarily on their domestic markets to large companies operating globally.

We help entrepreneurial businesses grow by supporting their financial needs, facilitating cross-border trade and payment services, and providing access to products and services offered by other global businesses.

	2019	2018	2017	2019 vs 2018	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**15,292**	14,465	12,883	**827**	**6**
ECL/LICs	**(1,184)**	(712)	(468)	**(472)**	**(66)**
Operating expenses	**(6,801)**	(6,275)	(5,770)	**(526)**	**(8)**
Share of profit in associates and JVs	**—**	—	—	**—**	**—**
Profit before tax	**7,307**	7,478	6,645	**(171)**	**(2)**
RoTE excluding significant items and UK bank levy (%)	**12.4**	14.0	14.0		

Helping our customers manage cash globally

When China's largest hotel chain Jin Jiang bought Radisson late in 2018, it wanted its new US subsidiary to be served by a bank with a truly global outlook. Our existing relationship with Jin Jiang goes back more than 10 years, which puts us in a strong position to support the customer. Today, we are providing credit to support Radisson's investment in a new global platform for booking and reservations. Our market-leading international transaction banking capabilities and geographic network mean we can provide cash management services to Radisson in markets including China, India and the US, giving its management team greater control and visibility over their global cash position than ever before.

Management view of adjusted revenue	2019 $m	2018 $m	2017 $m	2019 vs 2018 $m	 %
Global Trade and Receivables Finance	**1,833**	1,807	1,782	**26**	**1**
Credit and Lending	**5,441**	5,168	4,960	**273**	**5**
Global Liquidity and Cash Management	**5,978**	5,647	4,644	**331**	**6**
Markets products, Insurance and Investments and Other[1]	**2,040**	1,843	1,497	**197**	**11**
Net operating income[2]	**15,292**	14,465	12,883	**827**	**6**

1 'Markets products, Insurance and Investments and Other' includes revenue from Foreign Exchange, insurance manufacturing and distribution, interest rate management and global banking products.

2 Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions, also referred to as revenue.

Divisional highlights

$9.0bn

Growth in loans and advances to customers in 2019

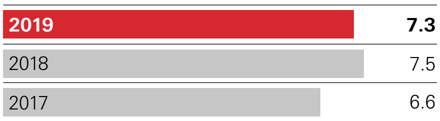
+8%

Increase in corporate customer value from international subsidiary banking

This relates to corporate client income, covering all CMB products, as well as total income from GB&M synergy products, including FX and debt capital markets, used by international CMB subsidiaries. This measure differs from reported revenue in that it excludes Business Banking and Other and internal cost of funds.

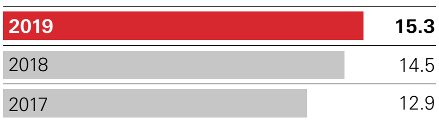
Adjusted profit before tax
($bn)

-2%



Net operating income
($bn)

+6%



Financial performance

Adjusted profit before tax of $7.3bn was $0.2bn or 2% lower, as higher adjusted revenue was more than offset by an increase in adjusted ECL charges and higher adjusted operating expenses, as we continued to invest.

Reported results included a goodwill impairment of $3.0bn, including $2.5bn in our business in Europe, $0.3bn in Latin America and $0.1bn in the Middle East, reflecting lower long-term economic growth rate assumptions. This impairment is excluded from our adjusted performance.

Adjusted revenue of $15.3bn was $0.8bn or 6% higher, with growth in all regions, particularly in our largest market Hong Kong (up 6%), and across all main products.

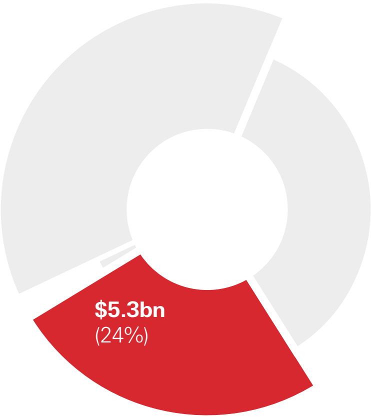
- In GLCM, revenue was $0.3bn or 6% higher, with growth across all regions except North America. The increase was mainly in Hong Kong, primarily reflecting wider margins, and in Latin America and the UK from wider margins and growth in average deposit balances. While deposit margins were wider than in 2018, they began to contract during the second half of 2019 following interest rate cuts.
- In C&L, revenue growth of $0.3bn or 5% reflected continued lending growth in all regions, partly offset by the effects of margin compression.
- In GTRF, revenue increased by $26m or 1%, mainly from wider margins in Asia, partly offset by lower balances in Hong Kong. Revenue increased across all other regions, primarily reflecting balance growth.
- Revenue growth in 'Other' products included net gains on the revaluation of shares of $43m in Europe, and a disposal gain of $24m in Latin America.
- Revenue across our three main products was adversely affected by customer redress provisions of $0.1bn in the UK.

Adjusted ECL of $1.2bn were $0.5bn higher than in 2018, driven by an increase mainly in the UK, France and Germany, partly offset by a reduction in MENA. In addition, there were ECL charges in 2019, notably in Asia, which compared with 2018 where we recorded a low level of charges in Hong Kong and net releases in North America.

Adjusted operating expenses of $6.8bn were $0.5bn or 8% higher, reflecting increased investment in digital capabilities, to help enable us to reduce average onboarding time for our relationship-managed and international customers, improve our business banking apps, and provide clients with a faster, simpler and more secure payment experience through real-time payments.

Global Banking and Markets

Contribution to Group adjusted profit before tax



GB&M's performance in 2019 reflected ongoing economic uncertainty and spread compression, which negatively impacted Global Markets and Global Banking in Europe, although there was a strong performance across all businesses in Asia compared with 2018. Globally our industry-leading GLCM and Securities Services businesses performed strongly.

We continue to invest in digital capabilities to provide value to our clients and improve efficiency.

We support major government, corporate and institutional clients worldwide. Our product specialists deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

	2019	2018	2017	2019 vs 2018	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**14,916**	15,025	14,823	**(109)**	**(1)**
ECL/LICs	**(153)**	31	(439)	**(184)**	**(594)**
Operating expenses	**(9,417)**	(9,170)	(8,709)	**(247)**	**(3)**
Share of profit in associates and JVs	**—**	—	—	**—**	**—**
Profit before tax	**5,346**	5,886	5,675	**(540)**	**(9)**
RoTE excluding significant items and UK bank levy (%)	**9.2**	10.5	10.6	**—**	

Landmark deal for HSBC Qianhai Securities

HSBC Qianhai Securities, our securities joint venture based in mainland China, helped one of the world's largest construction companies complete a major deal in January 2019. HSBC Qianhai Securities advised a subsidiary of China State Construction and Engineering Corporation when it took a controlling stake in SCIMEE, a company specialising in water purification technology. The transaction marked the first time a Chinese state-owned enterprise had acquired a controlling stake in a privately owned company listed on the ChiNext Board of the Shenzhen Stock Exchange through a share transfer agreement.

The deal cemented our relationship with the client and underlined our ability to offer strategic support and innovative solutions in China's onshore capital market.

Management view of adjusted revenue	2019 $m	2018 $m	2017 $m	2019 vs 2018 $m	2019 vs 2018 %
Global Markets	**5,763**	6,274	6,800	**(511)**	**(8)**
– FICC	**4,770**	5,093	5,544	**(323)**	**(6)**
Foreign Exchange	**2,690**	2,916	2,556	**(226)**	**(8)**
Rates	**1,465**	1,432	2,071	**33**	**2**
Credit	**615**	745	917	**(130)**	**(17)**
– Equities	**993**	1,181	1,256	**(188)**	**(16)**
Securities Services	**2,030**	1,922	1,730	**108**	**6**
Global Banking	**3,905**	4,005	3,942	**(100)**	**(2)**
Global Liquidity and Cash Management	**2,753**	2,583	2,169	**170**	**7**
Global Trade and Receivables Finance	**808**	787	743	**21**	**3**
Principal Investments	**260**	216	319	**44**	**20**
Credit and funding valuation adjustments[1]	**44**	(181)	(262)	**225**	**124**
Other[2]	**(647)**	(581)	(618)	**(66)**	**(11)**
Net operating income[3]	**14,916**	15,025	14,823	**(109)**	**(1)**

1 From 1 January 2018, the qualifying components according to IFRS 7 'Financial Instruments: Disclosures' of fair value movements relating to changes in credit spreads on structured liabilities were recorded through other comprehensive income. The residual movements remain in credit and funding valuation adjustments. Comparatives have not been restated.

2 'Other' includes allocated funding costs and gains resulting from business disposals. Within the management view of adjusted revenue, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities, which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRS basis, the offsets to these tax credits are included within 'Other'.

3 Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions, also referred to as revenue.

Divisional highlights

48%

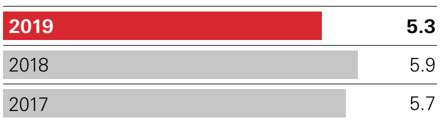
Percentage of 2019 adjusted revenue generated in Asia

$23bn

Reduction in reported RWAs compared with 31 December 2018

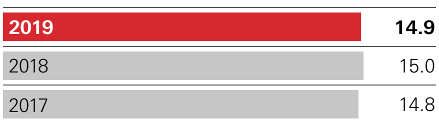
Adjusted profit before tax
($bn)

-9%



Net operating income
($bn)

-1%



Financial performance

Adjusted profit before tax of $5.3bn was $0.5bn or 9% lower, driven by increased investment in the business and lower adjusted revenue, while adjusted ECL were at low levels against a net release in 2018.

Reported results included a goodwill impairment of $4.0bn, primarily reflecting lower long-term economic growth rate assumptions, and the planned reshaping of the business. This impairment is excluded from our adjusted performance.

Adjusted revenue of $14.9bn was $0.1bn or 1% lower, and included a net favourable movement of $225m on credit and funding valuation adjustments.

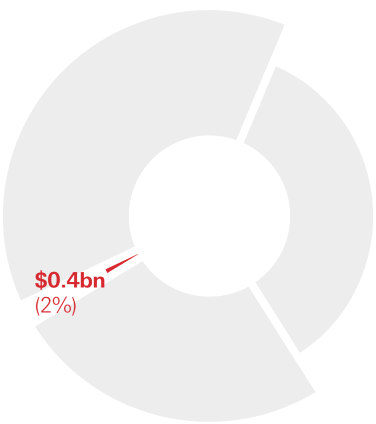
- Global Markets revenue decreased by $0.5bn or 8%, driven by low market volatility and reduced client activity due to ongoing economic uncertainty, as well as continued spread compression.
- Global Banking revenue decreased $0.1bn or 2%, reflecting a non-repeat of gains in 2018 on corporate lending restructuring, lower fees from reduced event-driven activity and the impact of tightening credit spreads on portfolio hedges. These reductions were partly offset by higher lending revenue as we grew balances, notably in Asia.
- GLCM revenue increased by $0.2bn or 7%, primarily driven by higher average deposit balances in Asia and Latin America, and wider margins in the UK from an interest rate rise in 2018, partly offset by lower revenue in the US due to lower average balances and interest rate decreases.
- Securities Services revenue rose by $0.1bn or 6% mainly from higher interest rates in Hong Kong and the UK, as well as increased fee income reflecting higher assets under custody (up 6%) and assets under management (up 9%), although this was partly offset by margin compression.
- GTRF revenue increased by 3% from growth in all regions except Europe, particularly from wider spreads and higher fees in Asia, while we continued to reduce RWAs in all regions.

Adjusted ECL charges were $0.2bn, up $0.2bn compared with a net release in 2018. ECL charges in 2018 were more than offset by releases that largely related to exposures within the oil and gas sector in the US.

Adjusted operating expenses increased $0.2bn or 3%, as we invested in GLCM and Securities Services to support business growth, in regulatory programmes, and from higher amortised investment costs, which more than offset lower performance-related pay.

Global Private Banking

Contribution to Group adjusted profit before tax



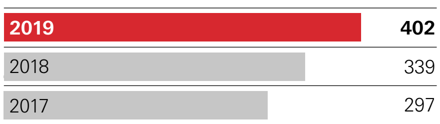
Divisional highlights
Net new money in 2019 of

$23bn

This is the highest inflow since 2008

Adjusted profit before tax
($m)

+19%



GPB performed well in 2019, growing adjusted profit before tax by 19%. Net new money inflows were $23bn, the highest inflow since 2008, with more than 60% from collaboration with our other global businesses.

We serve high net worth and ultra high net worth individuals and families, including those with international banking needs. Services include investment management, which includes advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning, to protect and preserve wealth for future generations.

	2019	2018	2017	2019 vs 2018	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**1,848**	1,757	1,698	**91**	**5**
ECL/LICs	**(22)**	7	(17)	**(29)**	**(414)**
Operating expenses	**(1,424)**	(1,425)	(1,384)	**1**	**—**
Profit before tax	**402**	339	297	**63**	**19**
RoTE excluding significant items and UK bank levy (%)	**11.1**	9.9	7.1		

Financial performance

Adjusted profit before tax of $0.4bn increased by $63m or 19%, primarily reflecting higher adjusted revenue in Asia, as we continued to invest in business growth initiatives.

Reported results included a goodwill impairment of $0.4bn relating to our business in North America, reflecting lower long-term economic growth rate assumptions. This impairment is excluded from our adjusted performance.

Adjusted revenue of $1.8bn increased by $91m or 5%, primarily reflecting growth in Asia.

- Investment revenue increased by $71m or 10%, mainly in Asia and Europe from higher brokerage revenue, and in Europe from increased annuity fee income as a result of growth in discretionary and advisory client mandates.
- Lending revenue was $41m or 11% higher, with growth in most of our markets, notably from increased marketable securities-backed lending.
- Deposit revenue fell by $29m or 6%, mainly in the US from margin compression and the impact of repositioning, and in Europe from margin compression. This was partly offset by balance growth and wider margins in Asia.

In 2019, we attracted $23bn of net new money inflows, of which $9bn related to discretionary and advisory client mandate flows, mainly in Asia and Europe.

Adjusted operating expenses of $1.4bn were broadly unchanged, despite an increase in Asia, reflecting investments we have made to support business growth. This increase was substantially offset by reductions in Europe, and in the US following actions to mitigate lower revenue, together with a partial release of a provision associated with the wind-down of our operations in Monaco.

	2019	2018	2017	2019 vs 2018	
Management view of adjusted revenue	**$m**	$m	$m	**$m**	**%**
Investment revenue	**777**	706	690	**71**	**10**
Lending	**424**	383	385	**41**	**11**
Deposit	**462**	491	400	**(29)**	**(6)**
Other	**185**	177	223	**8**	**5**
Net operating income[1]	**1,848**	1,757	1,698	**91**	**5**

1 Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions, also referred to as revenue.

Supporting female entrepreneurs

We work in partnership with AllBright, a network for women entrepreneurs, to help provide networking opportunities, role models and insight into the pitching process. We support their monthly 'pitch days' where women present business proposals to a team of potential investors. We give applicants feedback and provide some with further coaching. Growing enterprises create wealth, support jobs and pioneer new products and services. We are proud to help a new generation of business leaders take the next step forward.

Corporate Centre

Corporate Centre includes Central Treasury, including Balance Sheet Management ('BSM'), our legacy businesses, interests in our associates and joint ventures, central stewardship costs, the impact of hyperinflation in Argentina and the UK bank levy.

Financial performance
Adjusted profit before tax of $1.1bn was $0.6bn or 141% higher than 2018.

Adjusted revenue of negative $47m in 2019 was $0.2bn favourable compared with 2018, largely reflecting higher revenue in Central Treasury.

Central Treasury revenue of $0.9bn was $0.3bn higher, reflecting:

- favourable fair value movements relating to the economic hedging of interest rate and exchange rate risk on our long-term debt with long-term derivatives of $147m in 2019, compared with adverse movements of $136m in 2018; and
- the non-recurrence of a $177m loss in 2018 arising from adverse swap mark-to-market movements following a bond reclassification under IFRS 9 'Financial Instruments'.

These were partly offset by:

- lower revenue in BSM reflecting a fall in net interest income as our holdings of low yielding, liquid assets increased.

Other income decreased by $85m. In 2019, this included $166m of lease finance expenses following the adoption of IFRS 16 'Leases' from 1 January 2019. Prior to this, lease expenses were recorded within operating expenses. This reduction was partly offset by a favourable impact of $88m relating to hyperinflation accounting in Argentina.

Adjusted ECL charges of $7m in 2019 compared with a net release of $119m in 2018. The 2019 ECL includes charges related to BSM's exposure to government bonds in Argentina, and we recorded lower net releases in 2019 related to our legacy portfolios in the UK than in 2018.

Adjusted operating expenses of $1.1bn were $0.6bn or 36% lower. This reflected a change in the allocation of certain costs to global businesses, which reduced costs retained in Corporate Centre, the impact of the adoption of IFRS 16 'Leases' and lower costs relating to legacy portfolios.

Adjusted income from associates decreased by $0.1bn or 5%, reflecting a lower share of profit from SABB as a result of higher ECL charges and other expenses relating to the merger with Alawwal bank, although share of profit from BoCom increased.

	2019	2018	2017	**2019 vs 2018**	
Management view of adjusted revenue	**$m**	$m	$m	**$m**	**%**
Central Treasury	**859**	511	1,710	**348**	**68**
– Balance Sheet Management[1]	**2,292**	2,402	2,663	**(110)**	**(5)**
– Holdings net interest expense	**(1,325)**	(1,337)	(888)	**12**	**1**
– Valuation differences on long-term debt and associated swaps	**147**	(313)	120	**460**	**147**
– Other central treasury	**(255)**	(241)	(185)	**(14)**	**(6)**
Legacy portfolios	**(111)**	(91)	(29)	**(20)**	**(22)**
Other	**(795)**	(710)	(620)	**(85)**	**(12)**
Net operating income[2]	**(47)**	(290)	1,061	**243**	**84**
RoTE excluding significant items and UK bank levy (%)	**(3.5)%**	(5.7)%	(5.2)%		

1 BSM revenue includes notional tax credits to reflect the economic benefit generated by certain activities, which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRS basis, the offsets to these tax credits are included in 'Other central treasury'.

2 Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions, also referred to as revenue.

Risk overview

Active risk management helps us to achieve our strategy, serve our customers and communities and grow our business safely.

Managing risk

We have maintained a consistent approach to risk throughout our history, helping to ensure we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns.

All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. Our Global Risk function, led by the Group Chief Risk Officer, plays an important role in reinforcing the Group's culture and values. It focuses on creating an environment that encourages our people to speak up and do the right thing.

Global Risk is independent from the global businesses, including our sales and trading functions, to provide challenge, oversight and appropriate balance in risk/reward decisions. It oversees a comprehensive risk management framework that is applied throughout the Group, with governance and corresponding risk management tools, underpinned by the Group's culture and reinforced by the HSBC Values.

Our risk appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Our risk appetite also provides an anchor between our global businesses and the Global Risk and Global Finance functions, helping to enable our senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks.

Key risk appetite metrics

Component	Measure	Risk appetite	2019
Returns	Return on average tangible equity ('RoTE')	≥11.0%	**8.4%**
Capital	CET1 ratio – end point basis[1]	≥13.5%	**14.7%**
Change in expected credit losses and other credit impairment charges	Change in expected credit losses and other credit impairment charges as a % of advances: RBWM	≤0.50%	**0.35%**
	Change in expected credit losses and other credit impairment charges as a % of advances: wholesale (CMB, GB&M and GPB)	≤0.45%	**0.20%**

1 The CET1 ratio risk appetite increased to 13.75% from 1 January 2020.

Our risk appetite is articulated in our risk appetite statement, which is approved by the Board. Key elements include:

- risks that we accept as part of doing business, such as credit risk, market risk, and capital and liquidity risk, which are controlled through both active risk management and our risk appetite;
- risks that we incur as part of doing business, such as non-financial risks, which are actively managed to remain below an acceptable appetite; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

In 2019, we continued to refine and evolve our risk appetite, by enhancing both the financial and non-financial aspects of our risk appetite statements to ensure we are able to support our strategic goals against a backdrop of economic and geopolitical uncertainty. A specific emphasis was placed on capital risk and non-financial risks, with the inclusion of third-party risk management and enhanced model risk oversight.

Stress tests

We regularly conduct stress tests to assess the resilience of our balance sheet and our capital adequacy, as well as to provide insights into our financial stability. They are used to consider our risk appetite and review the robustness of our strategic and financial plans, helping to empower management with decision making. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Group is exposed. The results from the stress tests drive recovery and resolution planning to protect the Group's financial stability under various macroeconomic scenarios.

Risk assessment through internal stress tests is used to assess the impacts of macroeconomic, geopolitical and other HSBC-specific risks. The selection of stress scenarios is based upon the output of our top and emerging risks identified and our risk appetite.

Technology targets financial crime

We are developing advanced analytics to increase the speed and effectiveness of how we spot and report financial crimes such as money laundering. These systems build a rich picture of customer and counterparty trade information and transactional data to identify financial crime risk. We are already using this technology to review international trade transactions, monitoring hundreds of thousands of payments each month for indicators of money laundering. We also have systems that use advanced algorithms and machine-learning technology to automatically check for compliance with sanctions regulations. Investing in technology helps us play our part in protecting the integrity of the financial system and tackling financial crime.

In 2019, HSBC participated in the Bank of England's ('BoE') annual cyclical stress test, which showed that our capital ratios, after taking account of CRD IV restrictions and strategic management actions, exceeded the BoE's requirements. We also participated in the biennial exploratory scenario stress test, which explored the implications of a severe and broad-based liquidity shock affecting the major UK banks simultaneously over a 12-month horizon.

Our operations
Continued geopolitical risks have negative implications for economic growth. Central banks are likely to see little need to raise their policy interest rates above current levels and may even resort to lowering rates to accommodate the risks to growth.

We anticipate that a low interest-rate environment could impact business profitability, which we will look to mitigate through our business operations. Our business update focuses on material restructuring in the near to medium term, particularly within our GB&M business, Europe (excluding our UK ring-fenced bank, HSBC UK) and the US, as well as changes to our organisational structure. This entails meaningful change for our people, processes and structures with which we currently operate. We continue to prepare mitigating actions to manage the attendant risks of the restructuring, which include execution, operational, governance, reputational and financial risks.

We are committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to protect our customers, affiliates and counterparties, and help ensure that we minimise any disruption to services that could result in reputational and regulatory damage. We continue to operate in a challenging cyber threat environment, which requires ongoing investment in business and technical controls to defend against these threats.

Our resilience strategy is focused on the establishment of robust business recovery plans including detailed response methods, alternative delivery channels and recovery options.

For further details on 'Resilience Risk', see page 143 of the *Annual Report and Accounts 2019*.

UK withdrawal from the European Union

The UK left the European Union ('EU') on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period the UK will continue to be bound by EU laws and regulations. Beyond that date there is no certainty on what the future relationship between the UK and the EU will be. This creates market volatility and economic risk, particularly in the UK. Our global presence and diversified customer base should help us to mitigate the impact on us of the UK's withdrawal from the EU. Our existing footprint in the EU, and in particular our subsidiary in France, has provided a strong foundation for us to build upon. As part of our stress testing programme, a number of internal macroeconomic and event-driven scenarios were considered alongside a scenario set by the BoE to support our planning for, and assessment of, the impact of the UK's withdrawal from the EU. The results confirmed that we are well positioned in the event of potential shocks.

Our approach to the UK's withdrawal from the EU is described in more detail in 'Areas of special interest' on page 81 of the *Annual Report and Accounts 2019*.

For further details of all scenarios used in impairment measurements, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 92 of the *Annual Report and Accounts 2019*.

Ibor transition

As a result of the likely cessation of the London interbank offered rate ('Libor') and the Euro Overnight Index Average ('Eonia') in 2021, we have established an interbank offered rate ('Ibor') transition programme with the objective of facilitating an orderly transition from Libor and Eonia to the new replacement rates for our business and our customers.

In addition to the conduct and execution risk, the process of adopting replacement reference rates may expose the Group to an increased level of operational and financial risks, such as potential earnings volatility resulting from contract modifications and a large volume of product and associated process changes. Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in Ibor-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of Ibor with replacement reference rates.

Our approach to Ibor transition is described in more detail in 'Areas of special interest' on page 81 of the *Annual Report and Accounts 2019*.

Risks to our operations and portfolios in Asia-Pacific

In 2019, we saw heightened levels of risk in the Asia-Pacific region, in particular with domestic social unrest in Hong Kong and trade and technology tension between the US and China.

We recognised that domestic social unrest in Hong Kong is impacting the local economy and dampening investor and business sentiment in some sectors, while a unilateral approach by the US and China to deal with issues such as trade and technology could result in an increasingly fragmented trade and regulatory environment.

The coronavirus outbreak in China is a new emerging risk to the economy across mainland China and Hong Kong, and could further dampen investor and business confidence in the region. Our business could be materially impacted by higher ECL and lower revenue either as a direct impact on our Hong Kong and mainland China portfolios or from broader impacts on global supply chains. We have invoked our business continuity plans to help ensure the safety and well-being of our staff while enhancing our ability to support our customers and maintain our business operations. These actions help to ensure business resilience and that we remain within our risk appetite.

Our approach to the risks to our operations and portfolios in Asia-Pacific is described in more detail in 'Areas of special interest' on page 82 of the *Annual Report and Accounts 2019*.

For further details of all scenarios used in impairment measurements, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 92 of the *Annual Report and Accounts 2019*.

Top and emerging risks

Our top and emerging risks report helps us to identify forward-looking risks so that we may take action either to prevent them materialising or limit their effect.

Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If any of these risks were to occur, they could have a material effect on HSBC.

Our suite of top and emerging risks are subject to regular review by senior governance forums.

Although we made no changes to our top and emerging risk themes in 2019, we continue to closely monitor the identified risks and ensure robust management actions are in place as required.

Risk	Trend	Mitigants
Externally driven		
Economic outlook and capital flows	▲	We actively monitor our credit and trading portfolios, in particular the UK and Hong Kong given the developments in 2019. We undertake stress tests to identify sectors and customers that may come under stress due to: escalating tariffs and other trade restrictions; an economic slowdown in the eurozone, Hong Kong and mainland China; and adverse outcomes of trade negotiations following the UK's exit from the EU. In light of the coronavirus outbreak, we are reviewing our credit portfolios and operations to help maintain continued business resilience.
Geopolitical risk	▲	We continually assess the impact of geopolitical events in Asia-Pacific, Europe and the Middle East on our businesses and exposures, and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. We strengthen physical security at our premises where the threat landscape is heightened.
The credit cycle	▲	We undertake detailed reviews of our portfolios and proactively assess customers and sectors likely to come under stress as a result of geopolitical or macroeconomic events, in particular in the UK and Hong Kong, reducing limits where appropriate.
Cyber threat and unauthorised access to systems	▶	We continue to strengthen our cyber-control framework and improve our resilience and cybersecurity capabilities, including: threat detection and analysis; access control; payment systems controls; data protection; network controls; and back-up and recovery. We actively engage in national cyber resilience programmes as we execute our cybersecurity maturity improvement programme.
Regulatory developments including conduct, with adverse impact on business model and profitability	▶	We engage with regulators to help ensure new regulatory requirements such as the Basel III programme are effectively implemented, and work with them in relation to their investigations into historical activities.
Financial crime risk environment	▶	In 2019, we continued to improve our financial crime risk management capabilities and to integrate those capabilities into our day-to-day operations. We are investing in the next generation of tools to fight financial crime through the application of advanced analytics and artificial intelligence.
Ibor transition	▲	We are focused on developing alternative rate products, and the supporting processes and systems, to replace Ibors to make them available to our customers. Our programme is concurrently developing the capability to transition, through repapering, outstanding Libor and Eonia contracts. We continue to engage with industry participants and the official sector to support an orderly transition.
Climate-related risks	▲	We continue to incorporate climate-related risk, both physical and transition, into how we manage and oversee risks. Our Board-approved risk appetite statement contains a qualitative statement which will be further enhanced in 2020. Our risk management priorities focus on assessing the transition and physical risk in our wholesale credit portfolio, reviewing retail mortgage exposures in respect of natural hazard risk, and developing scenarios for internal use in risk management, planning and bottom-up stress testing. We continue to proactively engage our customers, investors and regulators in order to support the transition to a low-carbon economy, in particular with regard to compiling the related data and disclosures.
Internally driven		
IT systems infrastructure and resilience	▶	We actively monitor and improve service resilience across our technology infrastructure. We are enhancing the end-to-end mapping of key processes, and strengthening our problem diagnosis/resolution and change execution capabilities to reduce service disruption to our customers.
Risks associated with workforce capability, capacity and environmental factors with potential impact on growth	▶	We continue to monitor workforce capacity and capability requirements in line with our published growth strategy and any emerging issues in the markets in which we operate. These issues can include changes to immigration and tax rules as well as industry-wide regulatory changes.
Risks arising from the receipt of services from third parties	▶	We have set up a third-party risk management programme so that we can better identify, understand, mitigate and manage the risks that arise from the outsourcing of services. The programme aims to ensure adherence to our internal third-party risk policy and framework, which seeks to create a consistent approach to the understanding and effective management of the risks associated with our third-party service providers. The programme was established to oversee and monitor this work through to conclusion in the second half of 2020.
Enhanced model risk management expectations	▲	We continue to strengthen the second line of defence Model Risk Management function and model oversight. We have Model Risk Committees in our key regions, an enhanced model risk governance framework and we include model risk management as a standing agenda item in each of the global business risk management meetings.
Data management	▶	We continue to enhance and advance our data insights, data aggregation, reporting and decisions. We carry out ongoing improvement and investments in data governance, data quality, data privacy, data architecture, machine learning and artificial intelligence capabilities.

▲ Risk heightened during 2019 ▶ Risk remained at the same level as 2018

Long-term viability and going concern statement

Under the UK Corporate Governance Code, the Directors are required to provide a viability statement that must state whether the Group will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks it faces. They must also specify the period covered by, and the appropriateness of, this statement.

The Directors have specified a period of three years to 31 December 2022. They are satisfied that a forward-looking assessment of the Group for this period is sufficient to enable a reasonable statement of viability. In addition, this period is covered by the Group's stress testing programmes, and its internal projections for profitability, key capital ratios and leverage ratios. Notwithstanding this, our stress testing programmes also cover scenarios out to five years and our assessment of risks are beyond three years where appropriate:

- This period is representative of the time horizon to consider the impact of ongoing regulatory changes in the financial services industry.
- Details of the updated business plan for 2020–2024.

The Board, having made appropriate enquiries, is satisfied that the Group as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it therefore continues to adopt the going concern basis in preparing the financial statements.

Based upon their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet liabilities as they fall due over the next three years.

In making their going concern and viability assessments, the Directors have considered a wide range of detailed information relating to present and potential conditions, including projections for profitability, cash flows, capital requirements and capital resources.

The Directors carried out a robust assessment of the emerging and principal risks facing the Group to determine its long-term viability, including those that would threaten its solvency and liquidity. They determined that the principal risks are the Group's top and emerging risks, as set out on page 40.

The Directors assessed that all of the top and emerging risks identified are considered to be material and, therefore, appropriate to be classified as the principal risks to be considered in the assessment of viability. They also appraised the impact that these principal risks could have on the Group's risk profile, taking account of mitigating actions planned or taken for each, and compared this with the Group's risk appetite as approved by the Board. At 31 December 2019, there were six heightened top and emerging risks: economic outlook and capital flows; geopolitical risk; the credit cycle; Ibor transition; climate-related risks; and enhanced model risk management expectations.

In carrying out their assessment of the principal risks, the Directors considered a wide range of information including:

- details of the Group's business and operating models, and strategy;
- details of the Group's approach to managing risk and allocating capital;
- a summary of the Group's financial position considering performance, its ability to maintain minimum levels of regulatory capital, liquidity funding and the minimum requirements for own funds and eligible liabilities over the period of the assessment. Notable are the risks which the Directors believe could cause the Group's future results or operations to adversely impact any of the above;
- enterprise risk reports, including the Group's risk appetite profile (see page 73 of the *Annual Report and Accounts 2019*) and top and emerging risks (see page 76 of the *Annual Report and Accounts 2019*);
- reports and updates regarding regulatory and internal stress testing exercises (see page 131 of the *Annual Report and Accounts 2019*). In 2019, the published Bank of England ('BoE') stress test results for HSBC showed that capital ratios after taking account of CRD IV restrictions and strategic management actions exceeded the BoE's requirements. The results for HSBC assumed no dividend payments in the first two years of the severe stress projection period;
- reports and updates from management on risk-related issues selected for in-depth consideration;
- reports and updates on regulatory developments;
- legal proceedings and regulatory matters set out in Note 34 on the financial statements of the *Annual Report and Accounts 2019*;
- reports and updates from management on the operational resilience of the Group; and
- the impact on the economy and the Group by the UK's departure from the EU, trade- and tariff-related tensions between the US and China, the situation in Hong Kong and the coronavirus outbreak.

Having considered all the factors outlined above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2022.

Aileen Taylor
Group Company Secretary
and Chief Governance Officer

18 February 2020

Board engagement with our stakeholders

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172. The stakeholders we consider in this regard are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way.

Stakeholder engagement

The Board is committed to effective engagement with all of its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of its engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decision making. However, the Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all stakeholders.

You can find further information about who our key stakeholders are and how we engage with them on page 4 and pages 14 to 25.

During 2019, the Directors' Handbook was updated and includes information on the Directors' section 172 duty and other legal duties. For further details of how the Board operates and the way in which it makes decisions, including key activities during 2019, Board governance and Board training and development, see pages 164 to 169 of the *Annual Report and Accounts 2019* and the Board committee reports thereafter.

The Board regularly receives reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators, governments and investors, which it takes into account in its discussions and in its decision-making process under section 172. The Board undertakes training to further develop its understanding of key issues impacting its stakeholders, such as the sustainable finance and climate change 'masterclass', which supported the Group Audit Committee's discussions on ESG matters. In addition to this, the Board seeks to understand the interests and views of the Group's stakeholders by engaging with them directly as appropriate. Some of the ways in which the Board has engaged directly with stakeholders over the year are shown below.

Customers
In addition to the Board receiving updates from senior management on the Group's interaction with customers, members of the Board regularly meet customers. Additionally, events were held with key customers around Board meetings in various countries during 2019.

Employees
In addition to the Board receiving updates from senior management on various metrics and feedback tools in relation to employees, members of the Board engage with the Group's employees in a variety of ways. These include attending town halls and Exchange sessions with employees, meeting with representatives of the Group's employee resource groups and visiting branches. In 2019, members also met with employees in various countries when Board meetings were held in those countries. Further information on the Board's engagement with employees is provided on page 172 of the *Annual Report and Accounts 2019*.

Investors
The Board regularly receives updates on feedback from investors from senior management. In addition, various members of the Board, including the Group Chairman meet frequently with institutional investors to discuss and provide updates about – and seek feedback on – the business, strategy, long-term financial performance, Directors' remuneration policy, forward-looking Directors' remuneration policy and dividend policy to the extent appropriate. Members of the Board also met shareholders in Hong Kong immediately prior to the 2019 AGM and at the AGM itself, as well as receiving briefings from the Company Secretary on shareholders.

Regulators/governments
Members of the Board proactively and regularly meet with the Group's regulators around the world. In addition, members of the Board regularly meet with governments in the markets in which the Group operates.

Decision making

We set out below two examples of how the Directors have had regard to the matters set out in section 172(1)(a)-(f) when discharging their duties under section 172 and the effect of that on certain of the decisions taken by them.

Pensions contributions
The Board was required to consider and make a decision regarding an element of the UK defined benefit pension scheme in 2019. A group of current employees, ex-employees and pensioners of the HSBC Bank (UK) Pension Scheme, consisting of approximately 8,400 members, organised a 'Midland Clawback Campaign' group, which aimed to prevent HSBC and the pension scheme trustee from deducting an element linked to the UK state pension from the pension it provides to members when they reach state retirement age. State deduction, which is also referred to as 'pension integration' because it combines the UK scheme pension with the state pension to target an overall level of benefits, is a long-standing and recognised feature of schemes such as the HSBC Bank UK defined benefit pension scheme.

In making its decision on whether to remove the state deduction, the Board took into account the following information:

- HSBC had invited all scheme members subject to the state deduction to a town hall (with an audio line made available for those not able to attend in person) with senior management and an independent expert on the topic.
- HSBC had written directly to all 52,000 members of this section of the scheme, including a comprehensive set of frequently asked questions.
- HSBC met with committee members of the campaign group to discuss the communication to be sent by the Group, and the detail to be included in the frequently asked questions.
- HSBC had established, through its pension scheme administrator, a specific mailbox to receive and respond to any questions on this topic.
- HSBC had met with Unite and the chair of HSBC's employee representative body to explain the background to the state deduction and the comprehensive review that had been undertaken by the Group since this issue was raised by the campaign group.
- HSBC had responded to questions raised by, and met with, an all party parliamentary group formed in response to requests from the campaign group.
- HSBC had responded to informal enquiries presented by the Equality and Human Rights Commission further to requests from the campaign group.

This engagement ensured the Board understood the views of the campaign group, and could balance these views with the interests of the wider employee group and other relevant stakeholders in making their decision.

Having taken external legal advice on the implications of their request, after careful consideration the Board concluded that to further enhance the pension benefits to this group of members would be unfair to others whose pension arrangements are already less favourable.

As required by the campaign group, the Board included a resolution on the abolishment of the state deduction in the 2019 notice of AGM, with 96% of shareholders voting against abolishing the deduction.

Remuneration policy
The Group Remuneration Committee, on behalf of the Board, is responsible for the determination and implementation of the Directors' remuneration policy, applicable to executive and non-executive Directors.

The Chair of the Group Remuneration Committee engaged with a number of our large shareholders and institutional shareholder bodies during 2018 and 2019 in relation to the review of the Directors' remuneration policy, which was approved at the 2019 AGM for a three-year term, with more than 97% of the votes cast in favour of the policy. Engagement with shareholders continued during 2019 in respect of the implementation and operation of the policy. The Board believes regular dialogue with our shareholders is critical to ensure our remuneration policy aligns with their expectations wherever possible, and we found this engagement meaningful and useful in achieving that aim.

It was clear from the dialogue with shareholders that there was a considerable desire for companies to simplify remuneration structures and for the total remuneration outcome to be transparent and aligned to shareholder experience. Shareholders have also expressed a preference for the use of ESG measures, including firm-specific environmental targets, in executive Directors' scorecards.

Based on the preferences expressed by shareholders, the Board has:

- simplified the long-term incentive ('LTI') scorecard for executive Directors, with the use of fewer performance measures and a significant weighting to performance measures that are linked to our financial targets and align reward with shareholder experience;
- reduced the cash in lieu of pension allowance for new executive Directors from 30% of base salary to 10% of base salary, to align with the contribution that HSBC can make for a majority of employees who are defined contribution members of the HSBC Bank (UK) Pension Scheme. The incumbent executive Directors also voluntarily agreed to have their allowance reduced to 10% of salary with effect from 1 April 2019; and
- included an objective linked to HSBC's environment and climate commitments in the Group Chief Executive's annual incentive scorecard for 2020.

The Group Remuneration Committee Chair also regularly meets with our primary regulators to understand their expectations, and to discuss our remuneration framework and practices and demonstrate how they promote sound and effective risk management while supporting our business objectives. A key area of focus for the regulators is how financial and non-financial risks, including cyber and operational resilience, conduct and financial crime risks are taken into account in assessing performance and determining pay. We ensure these factors are taken into account by including relevant performance measures in scorecards, as well as attaching appropriate capital and risk and compliance underpins.

To ensure the customer voice and the employees' views are given due regard in decision making by the executive Directors and senior management, scorecard measures aligned to customer satisfaction and employee Snapshot survey results are included for executive Directors and senior management, directly influencing their pay outcomes. Customer satisfaction is now one of three equally-weighted measures we use in the LTI scorecards for our executive Directors, and both customer and employee-focused measures are included in the annual scorecards of our executive Directors.

Further information on the work of the Group Remuneration Committee and Directors' remuneration policy is provided on pages 184 to 190 of the *Annual Report and Accounts 2019*.

Remuneration

Our remuneration policy supports the achievement of our strategic objectives by aligning reward with our long-term sustainable performance.

Our remuneration principles

Our pay and performance strategy is designed to reward competitively the achievement of long-term sustainable performance. It aims to attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Group, while performing their role in the long-term interests of our stakeholders.

The key principles that underpin pay and performance decisions for our workforce are as follows:

– We seek to ensure pay is fair, appropriate and free from bias.
– We reward and recognise sustainable performance and values-aligned behaviour.
– We pay competitive, simple and transparent compensation packages.
– We support a culture of continuous feedback through manager and employee empowerment.

Variable pay

Our variable pay pool was $3,341m, a decrease of 3.8% compared with 2018.

($m)

2019	**3,341**
2018	3,473

Embedding our values in our remuneration framework

Instilling the right behaviours and driving and encouraging actions that are aligned to our values and expectations are essential. We have a number of mechanisms to reinforce our values.

Mechanisms	Outcomes
Behavioural rating for all employees	Subject to compliance with local labour laws, employees receive a behaviour rating based on their adherence to HSBC Values to ensure performance is judged not only on what is achieved, but also how it is achieved.
Performance management	Performance objectives define what, how and when our people need to achieve, in line with business and role priorities. Objectives are initially created by our employees at the start of the year. Objectives are tracked and updated by employees throughout the year as priorities change. Performance management for all our people is underpinned by our 'Everyday Performance and Development' programme. This involves frequent, holistic and meaningful conversations throughout the year between a manager and employee. The conversations provide an opportunity to discuss progress and provide feedback. They also help to recognise behaviours, identify any support that may be needed and address issues that could be affecting the employee's well-being.
Conduct recognition	The employee recognition and conduct framework provides a set of guidelines designed to reward exceptional conduct and handle any conduct breaches consistently across the Group. Rewarding positive conduct may take the form of use of our global recognition programme 'At Our Best', or via positive adjustments to performance and behaviour ratings and variable pay. The framework also provides guidance on applying negative adjustments to performance and behaviour ratings and to variable pay, alongside disciplinary sanctions, where conduct breaches have been identified.

Remuneration for our executive Directors

Our remuneration policy for executive Directors was approved at our AGM in 2019 and is intended to apply for three performance years until the AGM in 2022. Details of the policy can be found on page 187 of the Directors' remuneration report in the *Annual Report and Accounts 2019*.

Variable pay for our executive Directors is driven by scorecard achievement. Targets in the scorecard are set according to our key performance indications to ensure linkages between our strategy and remuneration policies and outcomes.

Executive Directors' annual incentive
(% of maximum awarded)

Group Chief Executive	**66.4%**
Group Chief Financial Officer	**77.5%**
Group Chief Risk Officer	**66.3%**

The table below shows the amount our executive Directors earned in 2019. For details of Directors' pay and performance for 2019, see the Directors' remuneration report on page 192 of the *Annual Report and Accounts 2019*.

Single figure of remuneration

(£000)		Base salary	Fixed pay allowance	Cash in lieu of pension	Taxable benefits[4]	Non-taxable benefits[4]	Total fixed	Annual incentive[5]	AML DPA award[6]	LTI[7]	Replacement award[8]	Notional returns[9]	Total variable	Total fixed and variable
Noel Quinn[1]	**2019**	**503**	**695**	**50**	**41**	**23**	**1,312**	**665**	**–**	**–**	**–**	**–**	**665**	**1,977**
	2018	–	–	–	–	–	–	–	–	–	–	–	–	–
John Flint[2]	**2019**	**730**	**1,005**	**134**	**91**	**31**	**1,991**	**891**	**–**	**–**	**–**	**40**	**931**	**2,922**
	2018	1,028	1,459	308	40	28	2,863	1,665	–	–	–	54	1,719	4,582
Ewen Stevenson	**2019**	**719**	**950**	**107**	**16**	**28**	**1,820**	**1,082**	**–**	**–**	**1,974**	**–**	**3,056**	**4,876**
	2018	–	–	–	–	–	–	–	–	–	–	–	–	–
Marc Moses[3]	**2019**	**719**	**950**	**107**	**40**	**33**	**1,849**	**926**	**–**	**1,709**	**–**	**17**	**2,652**	**4,501**
	2018	700	950	210	13	38	1,911	1,324	695	–	–	33	2,052	3,963

1 Noel Quinn succeeded John Flint as interim Group Chief Executive with effect from 5 August 2019 and the remuneration included in the single figure table above is in respect of services provided as an executive Director.

2 John Flint stepped down as an executive Director and Group Chief Executive on 5 August 2019. His remuneration details for 2019 are in respect of services provided as an executive Director. Details of John Flint's departure terms are provided on page 198 of the *Annual Report and Accounts 2019*.

3 Marc Moses stepped down as an executive Director and Group Chief Risk Officer on 31 December 2019. Details of Marc Moses' departure terms are provided on page 198 of the *Annual Report and Accounts 2019*.

4 Taxable benefits include the provision of medical insurance, car and tax return assistance (including any associated tax due, where applicable). Non-taxable benefits include the provision of life assurance and other insurance cover.

5 To meet regulatory deferral requirements for 2019, 60% of the annual incentive award for John Flint and Marc Moses will be deferred in awards linked to HSBC's shares and will vest in five equal instalments between the third and seventh anniversary of the grant date. On vesting, the shares will be subject to a one-year retention period. The deferred awards are subject to the executive Director maintaining good leaver status during the deferral period. Noel Quinn will have 60% of his annual incentive award deferred, and in line with regulatory requirements, it will be split equally between cash and shares subject to the same vesting and retention conditions.

6 The 2012 annual incentive for Marc Moses had a 60% deferral. The vesting of this deferred award was subject to a service condition and satisfactory completion of the five-year deferred prosecution agreement ('AML DPA') with the US Department of Justice. The AML DPA condition was satisfied in March 2018 and the awards were released. The value of Marc Moses' award in the table above reflects his time as an executive Director between 1 January 2014 and the vesting date.

7 An LTI award was made in February 2017 (in respect of 2016) at a share price of £6.503 for which the performance period ended on 31 December 2019. The value has been computed based on a share price of £5.896, the average share price during the three-month period to 31 December 2019. This includes dividend equivalents of £237,030, equivalent to 40,202 shares at a share price of £5.896. See the 'Determining executive Directors' performance' section of the Directors' remuneration report for details of the assessment outcomes.

8 As set out in the 2018 Directors' remuneration report, in 2019 Ewen Stevenson was granted replacement awards to replace unvested awards, which were forfeited as a result of him joining HSBC. The awards, in general, match the performance, vesting and retention periods attached to the awards forfeited, and will be subject to any performance adjustments that would otherwise have been applied. The values included in the table relate to Ewen Stevenson's 2015 and 2016 LTI awards granted by The Royal Bank of Scotland Group plc ('RBS') for performance years 2014 and 2015, respectively, and replaced with HSBC shares when Ewen Stevenson joined HSBC. These awards are not subject to further performance conditions and commenced vesting in March 2019. The total value is an aggregate of £1,121,308 for the 2015 LTI and £852,652 for the 2016 LTI. The 2016 LTI award value has been determined by applying the performance assessment outcome of 27.5% as disclosed in RBS's *Annual Report and Accounts 2018* (page 70) to the maximum number of shares subject to performance conditions.

9 'Notional returns' refers to the notional return on deferred cash for awards made in prior years. The deferred cash portion of the annual incentive granted in prior years includes a right to receive notional returns for the period between grant date and vesting date, which is determined by reference to the dividend yield on HSBC shares, calculated annually. A payment of notional return is made annually in the same proportion as the vesting of the deferred awards on each vesting date. The amount is disclosed on a paid basis in the year in which the payment is made. No deferred cash awards have been made to executive Directors for their services as an executive Director since the 2016 financial year.

Supplementary information

Shareholder enquiries and communications

Enquiries

Any enquiries relating to shareholdings on the share register (for example, transfers of shares, changes of name or address, lost share certificates or dividend cheques) should be sent to the Registrars at the address given below. The Registrars offer an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

Principal Register:	Hong Kong Overseas Branch Register:	Bermuda Overseas Branch Register:
Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom Telephone: +44 (0) 370 702 0137 Email via website: www.investorcentre.co.uk/contactus	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong Telephone: +852 2862 8555 Email: hsbc.ecom@computershare.com.hk	Investor Relations Team HSBC Bank Bermuda Limited 37 Front Street Hamilton HM 11 Bermuda Telephone: +1 441 299 6737 Email: hbbm.shareholder.services@hsbc.bm
Investor Centre: www.investorcentre.co.uk	Investor Centre: www.investorcentre.com/hk	Investor Centre: www.investorcentre.com/bm

Any enquiries relating to ADSs should be sent to the depositary:	Any enquiries relating to shares held through Euroclear France, the settlement and central depositary system for NYSE Euronext Paris, should be sent to the paying agent:
The Bank of New York Mellon Shareowner Services PO Box 505000 Louisville, KY 40233-5000 USA Telephone (US): +1 877 283 5786 Telephone (International): +1 201 680 6825 Email: shrrelations@cpushareownerservices.com Website: www.mybnymdr.com	CACEIS Corporate Trust 14, rue Rouget de Lisle 92130 Issy-Les-Moulineaux France Telephone: +33 1 57 78 34 28 Email: ct-service-ost@caceis.com Website: www.caceis.com

If you have elected to receive general shareholder communications directly from HSBC Holdings, it is important to remember that your main contact for all matters relating to your investment remains the registered shareholder, or custodian or broker, who administers the investment on your behalf. Therefore, any changes or queries relating to your personal details and holding (including any administration of it) must continue to be directed to your existing contact at your investment manager or custodian or broker. HSBC Holdings cannot guarantee dealing with matters directed to it in error.

Shareholders who wish to receive a hard copy of this *Strategic Report 2019* should contact HSBC's Registrars. Please visit www.hsbc.com/investors/investor-contacts for further information. You can also download an online version of the report from www.hsbc.com.

Electronic communications

Shareholders may at any time choose to receive corporate communications in printed form or to receive notifications of their availability on HSBC's website. To receive notifications of the availability of a corporate communication on HSBC's website by email, or revoke or amend an instruction to receive such notifications by email, go to www.hsbc.com/investors/shareholder-information/manage-your-shareholding. If you provide an email address to receive electronic communications from HSBC, we will also send notifications of your dividend entitlements by email. If you received a notification of the availability of this document on HSBC's website and would like to receive a printed copy, or if you would like to receive future corporate communications in printed form, please write or send an email (quoting your shareholder reference number) to the appropriate Registrars at the address given above. Printed copies will be provided without charge.

Chinese translation

A Chinese translation of this *Strategic Report 2019* will be available upon request after 11 March 2020 from the Registrars:

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
United Kingdom

股東可隨時選擇收取公司通訊的印刷本或收取有關公司通訊已上載於滙豐網站的通知。如欲以電郵方式收取日後有關公司通訊已上載於滙豐網站的通知，或撤銷或更改以電郵方式收取該等通知的指示，請登入www.hsbc.com/ecomms。若閣下提供電郵地址以收取滙豐發出的電子通訊，本公司亦會以電郵通知閣下應得的股息。若閣下收到本文件已上載於滙豐網站的通知，而欲獲得本文件的印刷本，或欲於日後收取公司通訊的印刷本，請致函或電郵（附上股東參考編號）至適用的股份登記處（地址見上頁）。印刷本將免費供應。

本文件及日後的相關文件均備有中譯本，如有需要，請向股份登記處索取。股東如收到本報告的中譯本，但不希望再收取此等譯本，亦請聯絡股份登記處。

股東如已委託其他人士代為持有股份，可能會獲提名（「獲提名人士」）收取滙豐根據英國《2006年公司法》第146條的規定發出的通訊。獲提名人士之主要聯絡人仍為登記股東（例如：股票經紀、投資經理、託管商或代表閣下管理投資的其他人士）。獲提名人士的個人資料及持股量（包括任何相關管理事宜）如有任何變更或查詢，必須繼續交由登記股東而非滙豐的股份登記處辦理，除非滙豐根據英國《2006年公司法》行使其中一項權力時，直接致函獲提名人士要求回應，則屬例外。

Status of the *Strategic Report 2019*

This is a part of HSBC Holdings plc's *Annual Report and Accounts 2019* and is not the Group's statutory accounts. It does not contain the full text of the Directors' Report, and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group and of its policies and arrangements concerning Directors' remuneration as would be provided by the full *Annual Report and Accounts 2019*.

Copies of the *Annual Report and Accounts 2019*

Shareholders who wish to receive a hard copy should contact HSBC's Registrars. Please visit www.hsbc.com/investors/investor-contacts for further information.

The *Strategic Report 2019* and the *Annual Report and Accounts 2019* may also be downloaded from the HSBC website, www.hsbc.com.

Report of the auditors

The auditor's report in respect of the *Annual Report and Accounts* of HSBC Holdings plc for the year ended 31 December 2019, which includes their statement under section 496 of the Companies Act 2006 in respect of whether the *Strategic Report* and the Report of the Directors are consistent with the audit financial statements, was unqualified.

Certain defined terms

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC Holdings ordinary shares and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations '$m', '$bn' and '$tn' represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

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