HSBC Holdings plc

Strategic Report 2018

HSBC

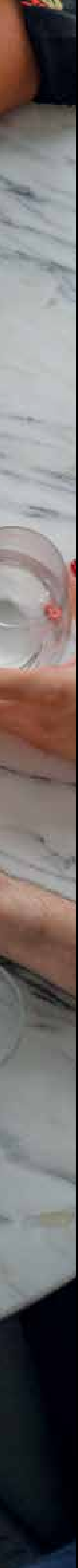
Connecting customers to opportunities

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.

Cover image
Our global marketing campaign explores how HSBC helps people prosper. The Group's iconic hexagon becomes a lens through which to look at the world, showing how we help individuals, businesses and communities to grow and flourish. This includes our commitment to the development of renewable energy sources that can support the global transition to a low-carbon economy. We have pledged to provide $100 billion in sustainable financing and investments by 2025.

Inside front cover image
We are investing in digital technology to improve the service we provide to our customers. Our award-winning mobile apps are one of the ways we help them manage their money more quickly, conveniently and safely. This picture was taken by Terry Tam, who works for HSBC as an IT developer.

Employee photos
All the photos on the inside pages of this report, with the exception of Board and executive profiles, were taken by people working for HSBC in locations including the UK, China, India, Malta and Bangladesh. Many more employees across the Group's international network have contributed to HSBC Now Photo, an ongoing project that allows them to demonstrate their talent as photographers and show the diversity of the world around them.



Contents

This *Strategic Report* was approved by the Board on 19 February 2019.
Mark E Tucker

Group Chairman

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

Our values

Our values define who we are as an organisation and make us distinctive.

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.

As a reminder

Reporting currency

We use 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 34 of the *Annual Report and Accounts 2018.*

Highlights

Our international network, access to high-growth markets and balance sheet strength help us deliver long-term value for our stakeholders.

Group

For year ended 31 Dec 2018

Reported profit before tax
($bn)

2018	**19.9**
2017	17.2
2016	7.1

$19.9bn
(2017: $17.2bn)

Adjusted profit before tax
($bn)

2018	**21.7**
2017	21.1
2016	18.9

$21.7bn
(2017: $21.1bn)

Reported revenue
($bn)

2018	**53.8**
2017	51.4
2016	48.0

$53.8bn
(2017: $51.4bn)

At 31 Dec 2018

Reported risk-weighted assets
($bn)[1]

2018	**865**
2017	871
2016	857

$865bn
(2017: $871bn)

Common equity tier 1 ratio
(%)[1]

2018	**14.0**
2017	14.5
2016	13.6

14.0%
(2017: 14.5%)

Total assets
($bn)

2018	**2,558**
2017	2,522
2016	2,375

$2,558bn
(2017: $2,522bn)

About HSBC

With assets of $2.6tn at 31 December 2018, HSBC is one of the world's largest banking and financial services organisations.

More than
39 million
customers bank with us

We employ around
235,000
people around the world[2]

We have around
200,000
shareholders in 130 countries and territories

For footnotes, see page 34.

Strategy highlights

In June 2018, we set out eight strategic priorities against which we committed to tracking our performance until the end of 2020. Below is a selection of highlights from our progress in 2018.

11% adjusted revenue growth in Asia

14% revenue growth in transaction banking

2 percentage point improvement in employee engagement to 66%

6 of 8 HSBC 'scale markets' improved by two ranks or maintained a top-three rank in customer satisfaction for RBWM

Awards

Selected awards and recognitions

Euromoney Trade Finance Survey 2019
Top Global Trade Finance Bank

Euromoney Cash Management Survey 2018
Best Global Cash Manager for Corporates
Best Global Cash Manager for Financial Institutions

Euromoney Awards for Excellence 2018
World's Best Bank for Transaction Services
World's Best Bank for Corporates
North America's Best Bank for Transaction Services
Asia's Best Bank for Sustainable Finance
Middle East's Best Bank for Financing

Insurance Asset Management Awards 2018
Best Emerging Markets Manager of the Year

The Banker Investment Banking Awards 2018
Most Innovative Investment Bank of the Year

PWM/The Banker Global Private Banking Awards 2018
Best Private Bank in Hong Kong
Best Private Bank in the UK

Our global businesses

Our operating model consists of four global businesses and a Corporate Centre, supported by HSBC Operations, Services and Technology, and 11 global functions, including risk, finance, compliance, legal, marketing and human resources.

Retail Banking and Wealth Management ('RBWM')

We help 38 million customers across the world to manage their finances, buy their homes, and save and invest for the future.

Our HSBC Premier and Advance propositions are aimed at mass affluent and emerging affluent customers who value international connectivity. For customers with simpler banking needs, we offer a full range of products and services reflecting local requirements.

Commercial Banking ('CMB')

We support approximately 1.5 million business customers in 53 countries and territories, ranging from small enterprises focused primarily on their domestic markets, through to large companies operating globally.

Our services include working capital, term loans, payment services and international trade facilitation, as well as expertise in mergers and acquisitions, and access to financial markets.

Global Banking and Markets ('GB&M')

We serve approximately 4,100 clients in more than 50 countries and territories. We support major government, corporate and institutional clients worldwide.

Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

Global Private Banking ('GPB')

We serve high net worth and ultra high net worth individuals and families, including those with international banking needs.

Services provided 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.

Adjusted profit before tax

RBWM	CMB	GB&M	GPB
$7.1bn	$7.7bn	$6.1bn	$0.3bn
(2017: $6.5bn)	(2017: $6.8bn)	(2017: $5.8bn)	(2017: $0.3bn)

Adjusted risk-weighted assets

RBWM	CMB	GB&M	GPB
$126.9bn	$321.2bn	$281.0bn	$16.8bn
(31 Dec 2017: $118.1bn)	(31 Dec 2017: $289.8bn)	(31 Dec 2017: $293.2bn)	(31 Dec 2017: $15.8bn)

Our global businesses are presented on an adjusted basis, which is consistent with the way in which we assess the performance of our global businesses.

Delivery against Group financial targets

Return on tangible equity

8.6%

Target: >11% by 2020
(2017: 6.8%)

Adjusted jaws

(1.2)%

Target: positive

Dividends per ordinary share in respect of 2018

$0.51

Target: sustain

For further details, see page 17.

Group Chairman's statement

Our ability to meet our targets depends on being able to help our customers manage the present uncertainty and capture the opportunities that unquestionably exist.

Mark E Tucker Group Chairman

HSBC is in a strong position. Our performance in 2018 demonstrated the underlying health of the business and the potential of the strategy that John Flint, our Group Chief Executive, announced in June.

"The fundamentals for growth in Asia remain strong in spite of a softer regional economic outlook."

Despite a challenging external environment in the fourth quarter, all of our global businesses delivered increased profits and the Group achieved a higher return on tangible equity in 2018. Asia again contributed a substantial portion of the Group's profits, notably in Retail Banking and Wealth Management and Commercial Banking. Overall, the Group delivered reported profit before tax of $19.9bn, up 16% on 2017, and adjusted profit before tax of $21.7bn, up 3%.

This performance allows us to approve a fourth interim dividend of $0.21, bringing the total dividend for 2018 to $0.51.

The Board of Directors

There were a number of Board changes in 2018.

Jonathan Symonds became Deputy Group Chairman. Iain Mackay left the business after 11 years, with the last eight spent as Group Finance Director. My thanks go to Iain for his dedicated service to the Group, and in particular for the integral role he played in executing the Group strategy and improving the quality of our financial reporting. Ewen Stevenson joined the Board as Group Chief Financial Officer on 1 January this year.

We said goodbye to Phillip Ameen, Joachim Faber and John Lipsky, all of whom retired from the Board. I am very grateful to each of them for their invaluable advice and counsel. Their departures led to a reduction in the size of the Board as part of our ongoing work to simplify, clarify and strengthen governance arrangements.

We also cut the number of Board committees from seven to five and simplified subsidiary governance. I believe this creates clearer and stronger lines of authority and accountability, enabling the Board to devote more time to priority areas.

We welcome the new UK Corporate Governance Code, which places greater emphasis on how the Board considers the interests of all stakeholders in its discussions and decision making, and promotes a strong internal culture.

We see the new Code as an opportunity to further enhance our existing stakeholder engagement, ensuring that the business as a whole can continue to develop constructive and considerate relationships with all those with whom we work. We will include details of this in the *Annual Report and Accounts 2019*.

"The Board fully endorses the Group's commitment to develop and support our people and we offer the Group Management Board our wholehearted support in realising that ambition."

Connecting customers to opportunities

The financial targets that John announced in June remain appropriate, even as the global economic outlook becomes less predictable. Our ability to meet them depends on being able to help our customers manage the present uncertainty and capture the opportunities that unquestionably exist.

The system of global trade remains subject to political pressure, and differences between China and the US will likely continue to inform sentiment in 2019. However, the conclusion of major trade agreements – including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership; the EU's landmark bilateral agreements with Japan and Singapore; and the potential ratification of the US-Mexico-Canada Agreement in 2019 – provide important counterweights that could give impetus to international trade in the year ahead.

The fundamentals for growth in Asia remain strong in spite of a softer regional economic outlook. The structural and financial reforms underway across the region should continue to support economic development. China remains subject to domestic and external pressures, but we expect it to maintain strong growth. We also expect further financial liberalisation to form part of China's response to changing external conditions. This will benefit domestic and international customers and investors.

The US economy and the influence of the Federal Reserve remain central to global sentiment. We expect policymakers to adopt a more cautious stance in 2019, even as the economy continues to grow. A slowdown in the pace of US interest rate rises could carry positive implications for Asian economies and businesses, as well as for US growth. Both the Mexican and Canadian economies are poised to grow at a steady pace.

Many of our UK customers are understandably cautious about the immediate future, given the prolonged uncertainty surrounding the UK's exit from the European Union. HSBC UK, our new UK ring-fenced bank, has an important role in supporting our customers as they prepare for a range of possible outcomes. Our universal banking business in France will also help provide continuity to our customers in the UK and the rest of Europe. In Europe, as elsewhere, we are confident in our ability to help customers make the most of the opportunities they see.

There are more risks to global economic growth than this time last year, and we remain alive and responsive to all possibilities. Our strong balance sheet and revenue base equip us to navigate these risks and, most importantly, enable us to help our customers negotiate their own paths.

Fulfilling our potential

Enabling our people to do their jobs to the best of their ability is a priority for the Board, and for me personally. They are essential to our present and future success. The Board fully endorses the Group's commitment to develop and support our people and we offer the Group Management Board our wholehearted support in realising that ambition.

> "Our strong balance sheet and revenue base equip us to navigate these risks and, most importantly, enable us to help our customers negotiate their own paths."

I had the honour of officially opening the new headquarters of HSBC UK in Birmingham in December. As well as providing a new home for the UK ring-fenced bank, One Centenary Square houses the European hub of HSBC University, our global learning and development centre. Since then, we have opened new HSBC University hubs at our new premises in Dubai, and in Mexico City. These cutting-edge facilities form part of our response to the complex challenges our employees now face working for a global bank in an unpredictable environment. HSBC University aims not only to equip them with the right skills, but also to help them understand the culture that will continue to make HSBC a unique organisation.

Many thanks

My thanks go to John and each of the 235,000 people who work for HSBC. Their hard work, commitment and talent has been key to the Group's progress in 2018. Our challenge and shared purpose is to build on that good work through the rest of 2019 and beyond. I have every confidence we can do so.

Mark E Tucker
Group Chairman
19 February 2019

Group Chief Executive's review

Helping our people be at their best is the critical enabler of our business strategy and fundamental to delivering our financial targets.

John Flint Group Chief Executive

In June 2018, I set out a plan to get HSBC growing again and to create value for shareholders. While this targets clear financial outcomes, it has our customers at its centre. We want to bring more of HSBC to more people and to serve them in the best possible way.

"We want to bring more of HSBC to more people and to serve them in the best possible way."

The eight strategic priorities that I outlined in June are the key to achieving these aims. We are seeking to connect more customers to our international network and high-growth markets. We are working to improve our capital efficiency and to turn our US business around. We are investing in technology and our digital capabilities to serve our customers better and stay competitive. We are also taking steps to support our people more effectively and help them be at their best.

I am encouraged by our progress so far. We are growing customer numbers and capturing market share in our scale markets and from our international network. Our US business is short of where we want it to be, but is moving in the right direction. Our investment in technology is making our business simpler, safer, and easier for our customers to use. We have launched new products and made strategic hires in mainland China and Hong Kong that are materially improving our service to international clients. We have also established our UK ring-fenced bank.

These were important factors in our 2018 financial performance. Revenue growth in our four global businesses helped deliver higher Group reported and adjusted profit before tax. Group return on tangible equity – our headline measure – was also up significantly from 6.8% in 2017 to 8.6%. This is a good first step towards meeting our return on tangible equity target of more than 11% by 2020.

Engaging our people

HSBC has a strong and proud culture. We understand our role and our purpose, and that HSBC exists to serve others. As Group Chief Executive, I have a responsibility to nurture and preserve those aspects of our culture that serve us well. I also recognise that I have a responsibility to improve aspects of our behaviours that may be impeding our performance.

In my first year in this role, I started a conversation throughout the bank about how we help our people be the best version of themselves. This is part of a broader ambition to create what we call the healthiest human system in our industry.

There is more that we can do to create an environment that is sufficiently supportive, protective and engaging. We need to have more open and honest conversations. This is the least that our people should be able to expect. If we cannot provide it, it hurts our ability to serve not just our customers, but all the stakeholder groups on whom our success depends. It also impedes our ability to deliver our strategy and our targets.

We have started by signalling to our people that creating a safe and supportive working environment is a strategic priority for the business. Leaders are being encouraged to model the right behaviours and provide direction on the type of behaviour we expect. We are also opening conversations around issues like mental health, well-being, bullying and harassment.

We are making material changes to the organisation that allow us to support our people more effectively. Our governance procedures are being simplified and strengthened to reduce complexity and make it easier for people to do their jobs. We are also helping our people work more flexibly. On learning and development, we have opened new HSBC University hubs around the world and improved access to digital training.

> "HSBC has a strong and proud culture. We understand our role and our purpose, and that HSBC exists to serve others."

At an individual level, every person at HSBC is being encouraged to think about how we create the healthiest human system in our industry, and to play an active role in doing so. We are regularly collecting feedback from our people and it is informing the action we are taking.

The early signs are positive. In 2018, 66% of our employees said they would recommend HSBC as a great place to work, up from 64% the previous year. While this demonstrates an improvement in a relatively short space of time, it also shows that we have much further to go. This work will continue into 2019 and beyond. If we are successful, then we will materially improve all aspects of HSBC's performance, including delivery of our strategy.

Business performance

All four global businesses grew adjusted revenue in 2018.

Retail Banking and Wealth Management had a very good year. Higher interest rates, rising customer numbers, and growth of more than $20bn in our UK and Hong Kong mortgage book all contributed to a strong rise in Retail Banking adjusted revenue. Despite a good performance in the first three quarters of the year, Wealth Management adjusted revenue fell slightly in 2018 due to the effects of market volatility in the fourth quarter.

Commercial Banking had an excellent 2018, delivering double-digit adjusted revenue growth on the back of an outstanding performance in Global Liquidity and Cash Management. Credit and Lending generated adjusted revenue growth from higher balances, despite lower margins from increased competition. Solid performances in Asia and Europe enabled Global Trade and Receivables Finance to grow adjusted revenue despite an increasingly difficult environment for trade.

Global Banking and Markets grew adjusted revenue in spite of considerably reduced market activity in the fourth quarter. Our market-leading transaction banking franchises generated strong increases in adjusted revenue, which exceeded the reduction in markets-related revenue from Rates, Credit, and Equities.

Global Private Banking returned to growth in 2018 on the back of new business won in Hong Kong. Adjusted revenue from deposits also increased on the back of interest rate rises.

Adjusted jaws was negative for 2018. While adjusted costs were broadly as we expected for the full year, adjusted revenue fell short due to market weakness in the fourth quarter. Positive jaws remains an important discipline in delivering our financial targets and we remain committed to it in 2019.

Expected credit losses were slightly higher than loan impairment charges in 2017, reflecting the uncertain economic outlook in the UK and heightened downside risks.

Our common equity tier 1 ratio of 14% was lower than at the same point in 2017, due mainly to adverse foreign exchange movements and the impact of higher lending.

> "Despite more challenging market conditions at the end of year and a weaker global economic outlook, we are committed to the targets we announced in June."

We returned a total of $2bn to shareholders through share buy-backs in 2018, reflecting our desire to neutralise the impact of scrip dividends over the medium term. We remain committed to this policy, subject to regulatory approval.

Outlook

We have made a good start to 2019. Our Group revenue performance in January was ahead of our plan for the month and actual credit performance remained robust, albeit with some softening of credit performance in the UK. We continue to prepare for the UK's departure from the EU in order to provide continuity for our customers in the UK and mainland Europe. Our well-established universal bank in France gives us a major advantage in this regard. Our immediate priority is to help our customers manage the present uncertainty.

Despite more challenging market conditions at the end of the year and a weaker global economic outlook, we are committed to the targets we announced in June. We remain alert to the downside risks of the current economic environment, especially those relating to the UK economy, global trade tensions and the future path of interest rates. We will be proactive in managing costs and investment to meet the risks to revenue growth where necessary, but we will not take short-term decisions that harm the long-term interests of the business.

We plan to achieve positive adjusted jaws in 2019 and remain focused on achieving a return on tangible equity of over 11% by 2020, while maintaining a stable dividend.

John Flint
Group Chief Executive
19 February 2019

Our strategy

Our strategy enables us to connect customers to opportunities. It is supported by long-term global trends and our strong combination of strategic advantages.

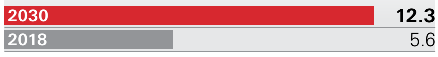
Long-term trends

Our industry continues to be affected by several long-term and global trends.

The world is expected to continue to become more connected as global flows of trade, finance and data continue to grow.

Source: Oxford Economics, *Bilateral Trade in Services* (2018).

Global services exports
($tn)



Global trade growth is expected to continue and trade within regions is expected to be a key driver, accounting for over 40% of goods volume growth.

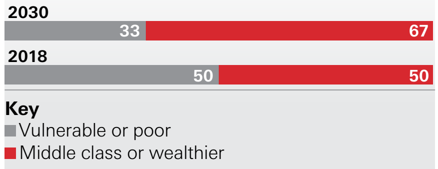
Source: McKinsey & Company.

Global trade volume growth of goods, 2017–2025 ($tn)

Half of the world's population is now considered middle class or wealthier, and this proportion is expected to grow to approximately two-thirds by 2030. Almost nine in 10 of the next billion middle-class consumers will be Asian.

Source: Brookings, *A Global Tipping point: Half the world is now middle class or wealthier* (2018).

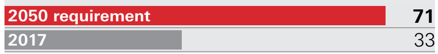
Global population by income segment
(% of total)



Climate change is accelerating and global temperatures are trending significantly higher. Investment in renewable energy capacity will be needed to limit the global temperature increase to 2°C.

Source: OECD, *Investing in Climate, Investing in Growth (2017)*; BP, *Statistical Review of World Energy*; HSBC analysis.

Renewables share of megawatts installed capacity for plants in operation in G20 countries
(%)



Client examples

Imagination: creative agency, UK

Imagination, a creative agency and fast-growing global authority on brand experience, found itself outgrowing its banking relationship and constrained by its bank's local focus. HSBC provided Imagination with the benefits of a robust international network including greater access to debt and liquidity, an optimised banking experience across 10 countries through HSBCnet, and an integration with Imagination's enterprise resource planning system for holistic viewing of transactions and account details.

Euroimmun: medical diagnostics, Germany

Euroimmun was acquired by a US medical technology company. Both companies were long-standing CMB clients, so HSBC was mandated with settlement of the consideration. An introduction to HSBC's GPB business in Germany led to Euroimmun's largest shareholder and its Chief Financial Officer placing the majority of sale proceeds with GPB. Through collaboration between our CMB, GB&M and GPB businesses, we were able to provide multi-product solutions during critical events for the client.

CLP Holdings Limited ('CLP'): power and utilities, Hong Kong

CLP, a Hong Kong-listed pan-Asian power business, is committed to supporting the Hong Kong government's target to reduce carbon intensity by 65–70% by 2030 from 2005 levels. HSBC has assisted CLP as Sole Adviser in establishing the 'CLP climate action finance framework' to attract qualified investments in the transitioning to a low-carbon economy. Under this framework, HSBC acted as a joint bookrunner on the debut $500m Reg S Energy Transition Bond issued by Castle Peak Power Company Limited, to help finance the development of a new gas-fired generation unit in Hong Kong.

The long-term trends outlined on the previous page reinforce our strategic advantages as a leading international bank with exceptional access to the fastest growing markets and robust balance sheet strength.

Strategic advantages

Leading international bank

- More than 50% of Group client revenue linked to international clients
- 'World's Best Bank for Transaction Services'[3]
- Chosen by large corporates across regions as their lead international bank[4]

International client revenue[5]
(% of total)

2018	**54.3**
2017	54.2

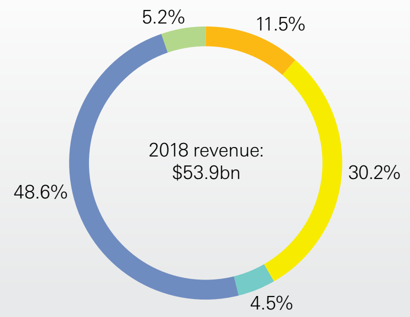
Transaction banking revenue
($bn)

2018	**16.6**
2017	14.5

Exceptional access to high-growth markets

- Wide breadth of access to high-growth developing markets in Asia, the Middle East and Latin America
- Investment aligned to high-growth markets to deliver shareholder value
- Committed to enhanced customer service and investments in technology to help capture growth opportunities

Geographical revenue mix[6]



Key
North America
Europe
Middle East and North Africa
Asia
Latin America

Balance sheet strength

- Continue to maintain strong capital, funding and liquidity position with diversified business model
- Conservative approach to credit risk and liquidity management
- Low earnings volatility
- Foundation for sustained dividend; strong capacity for distribution to shareholders

Common equity tier 1 ratio
(%)

2018	**14.0**
2017	14.5

ECL/LICs as % of average gross loans and advances to customers
(bps)

2018	**18**
2017	19

Liquidity coverage ratio
(%)

2018	**154**
2017	142

For footnotes, see page 34.

Strategic priorities

We entered the next phase of our strategy in 2018, focused on growth and creating value for our stakeholders.

Return to growth and value creation

In our June 2018 Strategy Update, we outlined eight strategic priorities to deliver growth, improve returns, empower our people, and enhance our customer experience. Each priority has a target or set of targeted outcomes by 2020. The table opposite contains a summary of our progress, with additional details provided below.

Growth from areas of strength

Strategic priority 1: We made a strong start in accelerating growth from our Asian franchise after making select investments in areas such as Hong Kong and our wealth business. Overall, Asia adjusted revenue was 11% higher than the previous year with double-digit growth in Hong Kong, mainland China and the Pearl River Delta. Despite some market uncertainty, we continued to support customers as we increased loan balances by 9%. Our wealth business in Asia[7] gained positive momentum with double-digit revenue growth in Private Banking and Asset Management, and 4% growth in RBWM Wealth distribution. However, Asia Insurance manufacturing revenue was down 11% versus 2017 due to adverse market conditions.

We continue to support clients and economies through the China-led Belt and Road Initiative, and *FinanceAsia* recognised our market leadership by awarding us the 'Best Belt and Road Bank' in Asia for the second consecutive year.

In sustainable finance, our goal is to be a leading partner for our clients to help the world's transition to a low-carbon economy. We have made good progress with our ambition to provide $100bn of sustainable financing, facilitation and investment by 2025, with a cumulative total of $28.5bn delivered in 2017 and 2018. For further details on our sustainable finance commitment, see page 27.

Strategic priority 2: We completed the set-up of our UK ring-fenced bank, HSBC UK, six months ahead of the legal deadline, and we opened our new UK head office in Birmingham. We supported our retail customers' purchasing of homes, as we grew our mortgage market share to 6.6%[8]. For our corporate clients, we launched our largest ever dedicated SME fund, with £12bn of funding, including £1bn of funding to help UK companies grow overseas. While HSBC UK has seen initial growth in retail customers (up by 251,000, a growth of 2%), we are still driving initiatives to grow our commercial customer base.

Strategic priority 3: We continue to make investments to enable growth in our international network. In Global Trade and Receivables Finance ('GTRF'), we are investing in a transformation of our operating model to help clients and colleagues conduct trade and manage capital more efficiently. In Securities Services, we are developing our digital proposition across many products. We are on track to achieve our target of mid to high single-digit revenue growth by 2020. International client revenue was up 7% compared with 2017; transaction banking revenue grew 14%, driven by double-digit growth across Global Liquidity and Cash Management ('GLCM'), Foreign Exchange and Securities Services. GTRF revenue grew by 2%, reflecting the subdued global trade environment.

Turnaround of low-return businesses

Strategic priority 4: The US turnaround is our most challenging strategic priority. Our US return on tangible equity ('RoTE') increased from 0.9% to 2.7%, supported by favourable expected credit losses, and capital released to HSBC Holdings. However, significant improvement is required to achieve our 2020 targeted outcome of greater than 6% RoTE in the US. Investments in our platforms and products are supporting organic growth. Our active customer base in RBWM increased by nearly 200,000 to 1.3 million people. We grew CMB revenue by 7% and transaction banking revenue in GB&M by 9%.

Strategic priority 5: To enhance returns for our shareholders, we have committed to improving our capital efficiency. In 2018, our revenue over risk-weighted assets ('RWAs') ratio grew by 0.3 percentage points to 6.2%, driven by broad-based revenue growth across our four global businesses. We continue to redeploy RWAs to higher-return businesses.

Putting the customer at the centre

Strategic priority 6: We aim to create the capacity to invest in growth and technology through a combination of cost discipline and revenue growth. We did not achieve our target of positive adjusted jaws in 2018, in part due to unexpected market volatility in the last two months of the year, which impacted revenue. However, we remain committed to the discipline of positive adjusted jaws. Our revenue growth helped support $4.1bn in investment for business growth, productivity, regulatory and mandatory purposes. We are already seeing results, with approximately 45% of retail customers now digitally active and more than 30% of sales through digital channels[9]. In CMB, we halved the onboarding time to an average of 11 days for clients.

Strategic priority 7: We exist, at our core, to serve our customers and we made a commitment in June 2018 to improve customer service in our eight 'scale markets'[10]. We are measuring our performance against customer satisfaction indices. In 2018, six markets in RBWM and three markets in CMB sustained a top-three rank and/or improved by two ranks in customer satisfaction.

Empower our people

Strategic priority 8: We have committed to simplifying the organisation and investing in the future skills of our employees. We continue to improve our employee engagement, as reflected in the improvement of our employee advocacy by two percentage points to 66%. Our ESG rating is derived from the impact we have on our wider stakeholders. We are currently rated an 'Average performer', and we are driving several initiatives to achieve an 'Outperformer' rating. Information on how we are empowering our people can be found in the 'How we do business' section on pages 22 to 29, with additional details in our *ESG Update* in April 2019.

Progress on our strategic priorities

Strategic priorities			Targets by end of 2020	Performance in 2018 (vs prior period)	Highlights
Deliver growth from areas of strength	1	Accelerate growth from our Asia franchise; be the leading bank to support drivers of global investment: China-led Belt and Road Initiative and the transition to a low-carbon economy	– High single-digit revenue growth p.a. from Asia franchise – Market share gains in eight scale markets[10] – No. 1 international bank for Belt and Road Initiative – $100bn in sustainable financing and investment[11]	– Asia adjusted revenue: +11% – Hong Kong: +14% – Pearl River Delta: +31% – ASEAN: +3% – Wealth in Asia[7]: +1% – Sustainable financing and investment (global): $28.5bn cumulative (+$17.4bn in 2018)	– Wealth in Asia[7] revenue, excluding market impacts in Insurance[12], improved 13% – Five of eight scale markets[10] gained loan and/or deposit market share[13] – Belt and Road Initiative: Awarded 'Best Belt and Road Bank' in Asia for the second consecutive year by *FinanceAsia* – Pearl River Delta: Launched co-brand credit card with JD Finance – Awarded 'Asia's Best Bank for Sustainable Finance' by *Euromoney*
	2	Complete the establishment of UK ring-fenced bank and grow market share	– Market share gains	– Market share in mortgages: 6.6% (+0.5 percentage points)	– Completed set-up of UK ring-fenced bank and opened new UK head office in Birmingham in October 2018 – Launched dedicated SME fund with £12bn of funding, including £1bn of funding to help UK companies grow overseas – Launched Connected Money app to enable retail banking customers to view balances and transactions from their UK bank accounts, including those with other providers, in one place
	3	Gain market share and deliver growth from our international network	– Mid to high single-digit revenue growth per annum from international network[14] – Market share gains in transaction banking	– International client revenue: +7% – Transaction banking[15] revenue: +14%	– GLCM revenue +21%; FX revenue +10%; Securities Services revenue +11%; GTRF revenue +2% despite subdued global trade environment – Market share gains in GLCM, GTRF and FX[16]; GTRF market share in Singapore and Hong Kong up by three and one percentage points, respectively
Turnaround of low-return businesses	4	Turn around our US business	– US return on tangible equity >6%	– US RoTE: 2.7% (+1.8 percentage points)	– US adjusted revenue of $4.8bn up 1% vs 2017 – Adjusted profit before tax of $1.0bn up 32% vs 2017 – Nearly 200,000 more active retail customers – Completed multi-year core banking system upgrade, paving the way for significantly enhanced client digital experience
	5	Improve capital efficiency	– Increase in asset productivity	– Revenue / average RWA: 6.2% (+30bps)	– Overall capital efficiency improvement driven by 4% revenue growth – Continue to redeploy RWAs to higher-return businesses
Build a bank for the future that puts the customer at the centre	6	Create capacity for increasing investments in growth and technology through efficiency gains	– Positive adjusted jaws, on an annual basis, each financial year	– Adjusted jaws: negative 1.2%	– Jaws impacted by negative market environment in the last quarter of 2018 – Revenue growth helped support $4.1bn in investment for growth, productivity, regulatory and mandatory purposes
	7	Enhance customer centricity and customer service	– Improve customer satisfaction[17] in eight scale markets[10]	– Markets that sustained top-three rank and/or improved by two ranks in customer satisfaction: – RBWM: six markets[18] – CMB: three markets[19]	– Improved digital capabilities and customer journeys – RBWM: circa 45% of customers now digitally active and more than 30% of sales are through digital channels[20] – CMB: simplified online journeys on HSBCnet for 41,000 clients across 36 countries
Empower our people	8	Simplify the organisation and invest in future skills	– Improved employee engagement – ESG rating: 'Outperformer'[21]	– Employee engagement: 66% (+2%) – ESG rating: 'Average' performer	– Made governance more efficient, simplified policies, and streamlined processes – Actively promoted learning and development opportunities for employees with the set-up of the HSBC University Online and additional online training courses

For footnotes, see page 34.

Financial overview

Reported results

This table shows our reported results for the last three years ended 31 December 2018, 2017 and 2016.

HSBC adopted the requirements of IFRS 9 'Financial Instruments' on 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted on 1 January 2017.

Under IFRS 9, the recognition and measurement of expected credit losses differs from the approach under IAS 39. The change in expected credit losses relating to financial assets under IFRS 9 is recorded in the income statement under 'change in expected credit losses and other credit impairment charges' ('ECL'). As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are recorded in the income statement under 'loan impairment charges and other credit risk provisions' ('LICs') and are therefore not necessarily comparable to ECL recorded for the current period.

All commentary in this financial overview compares the 2018 results with 2017, unless otherwise stated.

Reported results	**2018 $m**	2017 $m	2016 $m
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**53,780**	51,445	47,966
ECL/LICs	**(1,767)**	(1,769)	(3,400)
Net operating income	**52,013**	49,676	44,566
Total operating expenses	**(34,659)**	(34,884)	(39,808)
Operating profit	**17,354**	14,792	4,758
Share of profit in associates and joint ventures	**2,536**	2,375	2,354
Profit before tax	**19,890**	17,167	7,112

Reported profit before tax

Reported profit before tax of $19.9bn was $2.7bn or 16% higher, mainly reflecting growth in revenue. Operating expenses fell by $0.2bn, as increases, mainly associated with investments to grow the business, were more than offset by a net favourable movement in significant items, which included the non-recurrence of our costs to achieve programme.

Reported profit before tax included a net favourable movement of significant items of $2.1bn, which is described in more detail on page 34 of the *Annual Report and Accounts 2018*. Excluding these items and a favourable effect of foreign currency translation differences of $0.1bn, profit before tax increased by $0.6bn or 3%.

Reported revenue

Reported revenue of $53.8bn was $2.3bn or 5% higher, which reflected revenue growth in all global businesses, although revenue fell in Corporate Centre. The increase in reported revenue included a favourable effect of foreign currency translation differences of $0.1bn, broadly offset by a net adverse movement in significant items of $0.1bn.

Significant items included:

- a net loss on disposals, acquisitions and investment in new businesses of $0.1bn in 2018, compared with a net gain of $0.3bn in 2017.

This was partly offset by:

- a net release of provisions related to customer redress programmes in the UK of $0.1bn in 2018, compared with net charges of $0.1bn in 2017; and
- lower adverse fair value movements on financial instruments (up $0.1bn).

Excluding significant items and foreign currency translation differences, revenue increased by $2.3bn or 4%.

Reported ECL/LICs

In 2018, reported ECL of $1.8bn related mainly to RBWM ($1.2bn), notably in Mexico, the UK and Asia, as well as CMB ($0.7bn).

In 2017, reported LICs were $1.8bn, notably in RBWM ($1.0bn) as well as in CMB ($0.5bn) and GB&M ($0.5bn). This was partly offset by net releases in Corporate Centre of $0.2bn.

Foreign currency translation differences between the periods were $0.1bn favourable.

Reported operating expenses

Reported operating expenses of $34.7bn were $0.2bn or 1% lower, as an increase in operating expenses from near- and medium-term investments to grow the business, together with higher performance-related pay, were more than offset by a net favourable movement in significant items of $2.1bn. Significant items included:

- the non-recurrence of costs to achieve, which were $3.0bn in 2017; and
- customer redress programme costs of $0.1bn in 2018, compared with $0.7bn in 2017.

These were partly offset by:

- settlements and provisions in connection with legal and regulatory matters of $0.8bn in 2018. This compared with a net release of $0.2bn in 2017;
- a provision in relation to past service costs of guaranteed minimum pension benefits equalisation of $0.2bn in 2018; and
- the non-recurrence of gains on the partial settlement of pension obligations of $0.2bn in 2017.

Excluding significant items and adverse foreign currency translation differences of $0.1bn, operating expenses increased by $1.8bn or 6%.

Reported share of profit in associates and joint ventures

Reported share of profit in associates of $2.5bn was $0.2bn or 7% higher, primarily reflecting an increase in income from Bank of Communications Co., Limited ('BoCom').

Excluding the favourable effect of foreign currency translation differences of $41m, share of profit in associates increased by $0.1bn.

Dividends

On 19 February 2019, the Board announced a fourth interim dividend of $0.21 per ordinary share.

Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 224 of the *Annual Report and Accounts 2018*.

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.

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 49 of the *Annual Report and Accounts 2018*.

Adjusted results

This table shows our adjusted results for 2018 and 2017. These are discussed in more detail on the following pages.

Adjusted results	2018 $m	2017 $m	Adverse $m	Favourable $m	(%)
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**53,940**	51,661		**2,279**	**4%**
ECL/LICs	**(1,767)**	(1,713)	**(54)**		**(3)%**
Total operating expenses	**(32,990)**	(31,231)	**(1,759)**		**(6)%**
Operating profit	**19,183**	18,717		**466**	**2%**
Share of profit in associates and joint ventures	**2,536**	2,416		**120**	**5%**
Profit before tax	**21,719**	21,133		**586**	**3%**

Adjusted profit before tax

On an adjusted basis, profit before tax of $21.7bn was $0.6bn or 3% higher, reflecting revenue growth from all global businesses, although revenue fell in Corporate Centre. Operating expenses increased, primarily reflecting the impact of investments to grow the business. In addition, ECL in 2018 were $1.8bn compared with LICs of $1.7bn in 2017.

From 1 July 2018, Argentina was deemed a hyperinflationary economy for accounting purposes. The impact of applying IAS 29 'Financial Reporting in Hyperinflationary Economies' from 1 July 2018 and presenting in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates' resulted in a $160m reduction in profit before tax. The effects of hyperinflation accounting in Argentina have not been deemed a significant item and are therefore included within adjusted results.

Reconciliation of reported to adjusted profit before tax	2018 $m	2017 $m
Adjusted profit before tax	**21,719**	21,133
Currency translation	**—**	87
Significant items:	**1,829**	3,879
– costs of structural reform	**361**	420
– costs to achieve	**—**	3,002
– customer redress programmes	**93**	763
– disposals, acquisitions and investment in new businesses	**165**	(221)
– fair value movements on financial instruments	**100**	245
– gain on partial settlement of pension obligation	**—**	(188)
– past service costs of guaranteed minimum pension benefits equalisation	**228**	—
– restructuring and other related costs	**66**	—
– settlements and provisions in connection with legal and regulatory matters[22]	**816**	(198)
– currency translation on significant items	**—**	56
Reported profit before tax	**19,890**	17,167

Adjusted performance continued

Adjusted revenue

Adjusted revenue of $53.9bn increased by $2.3bn or 4%, reflecting revenue growth in all global businesses, partly offset by lower revenue in Corporate Centre.

- In RBWM, revenue increased by $1.7bn or 8%, driven by growth in Retail Banking, reflecting deposit and lending balance growth, and the benefit of wider deposit margins in Hong Kong. These factors were partly offset by margin compression on mortgages in Hong Kong and the UK. Revenue in Wealth Management decreased, as a result of lower life insurance manufacturing revenue, partly offset by higher investment distribution revenue.
- In CMB, revenue rose $1.6bn or 12%, notably in Global Liquidity and Cash Management ('GLCM') as we benefited from wider deposit margins, primarily in Hong Kong, and growth in average balances mainly in the UK. In addition, revenue increased in Credit and Lending ('C&L'), notably in the UK and Hong Kong due to higher average balances.
- In GB&M, revenue was $0.2bn or 1% higher mainly due to growth in GLCM and Securities Services from interest rate rises and higher average balances. These increases were partly offset by lower revenue in Global Markets as revenue growth in Foreign Exchange was more than offset by reductions in Rates and Credit due to subdued client activity and spread compression.
- In GPB, revenue was $0.1bn or 4% higher, mainly in Hong Kong from higher deposit revenue as we benefited from wider margins, and from higher investment revenue. This increase was partly offset by lower revenue resulting from client repositioning.
- In Corporate Centre, negative adjusted revenue of $0.2bn compared with adjusted revenue of $1.2bn in 2017. This reduction was largely in Central Treasury, and included the adverse effects of hyperinflation accounting in Argentina of $231m. Revenue from our legacy portfolios also decreased, mainly due to losses on portfolio disposals.

Movement in adjusted revenue compared with 2017	2018 $m	2017 $m	Variance $m	%
Retail Banking and Wealth Management	**21,935**	20,220	**1,715**	**8%**
Commercial Banking	**14,885**	13,247	**1,638**	**12%**
Global Banking and Markets	**15,512**	15,285	**227**	**1%**
Global Private Banking	**1,785**	1,723	**62**	**4%**
Corporate Centre	**(177)**	1,186	**(1,363)**	**(115)%**
Total	**53,940**	51,661	**2,279**	**4%**

Adjusted ECL/LICs

In 2018, adjusted ECL were $1.8bn. These included charges in RBWM ($1.2bn), notably against our unsecured lending balances in Mexico, the UK and Asia. In the UK, ECL also included charges related to the current economic uncertainty.

In CMB, ECL of $0.7bn reflected charges in most regions, including a charge in the UK relating to the current economic uncertainty, partly offset by releases in North America.

These charges were partly offset by a net release in Corporate Centre of $0.1bn related to the legacy credit portfolio in the UK.

In 2017, adjusted LICs of $1.7bn mainly related to RBWM ($1.0bn). These included LICs in Mexico, the UK and Hong Kong against unsecured lending balances. In CMB, LICs of $0.5bn in 2017 included charges in Asia, the UK, Mexico and the UAE, partly offset by net releases in North America.

Adjusted operating expenses

Adjusted operating expenses of $33.0bn were $1.8bn or 6% higher. This mainly reflected near- and medium-term investments to grow the business (up $0.9bn). In RBWM, these were primarily to grow our franchise through front-line recruitment, marketing and developing digital capabilities, including products and customer propositions. In GB&M, we made strategic hires and invested in new capabilities and functionalities for Global Markets, Global Banking and Securities Services, and also continued to invest in the HSBC Qianhai Securities joint venture in mainland China. We also increased our investment in productivity programmes (up $0.3bn), mainly in Technology and Operations.

Performance-related pay increased by $0.2bn and volume-related growth increased by $0.2bn.

The cost savings from our productivity programmes absorbed the impact of inflation. Our UK bank levy charge remained broadly unchanged.

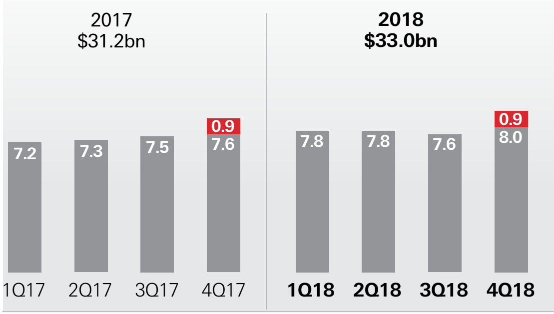
The number of employees expressed in full-time equivalent ('FTE') staff at 31 December 2018 was 235,217, an increase of 6,530 from 31 December 2017. This increase reflected investments in business growth programmes across RBWM, GB&M and CMB. Additionally, the number of contractors as at 31 December 2018 was 10,854, a decrease of 2,040 from 31 December 2017.

The effect of hyperinflation accounting in Argentina reduced adjusted operating expenses by $63m.

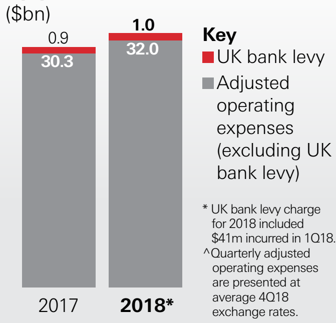
Adjusted share of profit in associates and joint ventures

Adjusted share of profit in associates of $2.5bn was $0.1bn or 5% higher than in 2017, reflecting an increase in income from BoCom.

Adjusted operating expenses^
($bn)



Adjusted operating expenses by year
($bn)



* UK bank levy charge for 2018 included $41m incurred in 1Q18.
^Quarterly adjusted operating expenses are presented at average 4Q18 exchange rates.

Balance sheet and capital

Balance sheet strength

Total reported assets of $2.6tn were $36.4bn or 1% higher than at 31 December 2017 on a reported basis, and 5% higher on a constant currency basis. We continued our targeted asset growth, notably in Asia.

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2018 were $30.7bn, compared with $38.0bn at 31 December 2017. The decrease was primarily driven by distributions to shareholders of $10.1bn, which were higher than distributable profits generated of $5.7bn, as well as share buy-backs of $2.0bn, partly offset by gains from IFRS 9 transitional adjustments of $1.0bn and fair value gains net of tax due to movements in our own credit risk of $0.9bn. A decrease of $3.0bn arose from the re-presentation of the 2017 share buy-back.

Capital strength

We manage our capital in an effort to ensure we exceed current regulatory requirements and are well placed to meet those expected in the future. We monitor our position using capital ratios. These measure capital relative to a regulatory assessment of risks taken. We quantify how these risks relate to our businesses using RWAs.

Details of these risks are included on page 148 of the *Annual Report and Accounts 2018*.

Our CET1 ratio at 31 December 2018 was 14.0%, down from 14.5% at 31 December 2017. This decrease was primarily driven by foreign currency translation differences, the share buy-back and an increase in RWAs due to balance sheet growth.

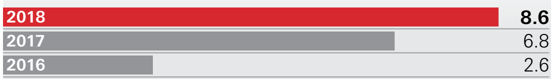
Further details on movements in capital are included on page 150 of the *Annual Report and Accounts 2018*.

Adoption of IFRS 9

HSBC adopted the requirements of IFRS 9 on 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. The adoption of IFRS 9 reduced our net assets at 1 January 2018 by $1.6bn.

Delivery against Group financial targets

Return on tangible equity
(%)



Return on tangible equity

Our target is to achieve a reported return on tangible equity ('RoTE') of more than 11% by the end of 2020. We intend to do this while maintaining a common equity tier 1 ('CET1') ratio of greater than 14%.

RoTE is calculated as reported profit attributable to ordinary shareholders less changes in goodwill and the present value of in-force long-term insurance business, divided by average tangible shareholders' equity. A targeted reported RoTE of 11% in 2020 is broadly equivalent to a reported return on equity ('RoE') of 10%.

In 2018, we achieved a RoTE of 8.6% compared with 6.8% in 2017.

Adjusted revenue up

4.4%

Adjusted operating expenses up

5.6%

Adjusted jaws

(1.2)%

Adjusted jaws

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

Our target is to maintain positive adjusted jaws on an annual basis, while noting the sensitivity of the impact on adjusted jaws of unexpected movements in revenue or operating expenses growth.

Positive jaws occurs when the figure for the percentage change in revenue is higher than, or less negative than, the corresponding rate for operating expenses.

In 2018, adjusted revenue increased by 4.4% and our adjusted operating expenses increased by 5.6%. Adjusted jaws was therefore negative 1.2%.

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

Dividends

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

To achieve these financial targets by 2020, we aim to deliver mid-single-digit growth in revenue, low- to mid-single-digit growth in operating expenses, and approximately 1–2% annual growth in RWAs. Given the current economic environment, we will seek to offset some or all of any possible weaker-than-planned revenue growth with actions to manage operating expenses and investments.

Global businesses

We manage our products and services globally through our global businesses.

Retail Banking and Wealth Management

Key events

- In RBWM, we grew active customers by 1.2 million in 2018 through our continued investments in strategic initiatives to drive growth in key markets and through lending products. We grew our mortgage book by over $20bn in the UK and Hong Kong, strengthening our position in these markets. We increased credit card issuances by 24%, notably in the UK, Mexico, the US and Hong Kong.
- We upgraded our wealth proposition in Asia through the launch of HSBC Life in Hong Kong, the improvement of our wealth investment capability for mobile banking in China, and the enhancement of our wealth product offering in Hong Kong for high net worth investors.
- We listened to our customers and have acted on feedback to improve product features and have made it easier for customers to bank with us through digital transformation. The PayMe app in Hong Kong processes three million transactions per month and the Connected Money app in the UK has had more than 200,000 downloads since its launch in May 2018.

Financial performance

Adjusted profit before tax of $7.1bn was $0.6bn or 9% higher, reflecting revenue growth, partly offset by higher operating expenses.

Adjusted revenue of $21.9bn was $1.7bn or 8% higher, with an increase in Retail Banking partly offset by Wealth Management. Revenue growth was strong in Hong Kong and the UK in particular, with notable increases in India and mainland China, and in our Latin American markets.

In Retail Banking, revenue was up $1.8bn or 13%. This reflected improved deposit margins from rising interest rates, together with deposit balance growth of $21bn or 3% and lending balance growth of $31bn or 9%. These factors were partly offset by mortgage margin compression

Management view of adjusted revenue	2018 $m	2017 $m	2016 $m	2018 vs 2017 $m	2018 vs 2017 %
Retail Banking	**15,262**	13,456	12,690	**1,806**	**13**
– current accounts, savings and deposits	**8,534**	6,296	5,186	**2,238**	**36**
– personal lending	**6,728**	7,160	7,504	**(432)**	**(6)**
mortgages	**1,937**	2,372	2,585	**(435)**	**(18)**
credit cards	**2,880**	2,886	3,018	**(6)**	**—**
other personal lending[23]	**1,911**	1,902	1,901	**9**	**—**
Wealth Management	**6,104**	6,215	5,230	**(111)**	**(2)**
– investment distribution[24]	**3,383**	3,279	2,902	**104**	**3**
– life insurance manufacturing	**1,656**	1,870	1,362	**(214)**	**(11)**
– asset management	**1,065**	1,066	966	**(1)**	**—**
Other[25]	**569**	549	563	**20**	**4**
Net operating income[26]	**21,935**	20,220	18,483	**1,715**	**8**
Adjusted RoRWA (%)[27]	**5.8**	5.6	4.7		
RoTE excluding significant items and UK bank levy (%)	**21.0**	21.6	16.3		

For footnotes, see page 34.

from higher funding costs, primarily in Hong Kong and the UK.

In Wealth Management, revenue was down $0.1bn or 2% due to net adverse movements in market impacts of $0.6bn in life insurance manufacturing. In Wealth Management:

- life insurance manufacturing revenue decreased by $0.2bn or 11%, reflecting adverse movements in market impacts of $0.3bn in 2018, compared with a favourable movement of $0.3bn in 2017. This was partly offset by growth in the value of new business written ($0.2bn) and favourable actuarial assumption changes and experience variances ($0.2bn); and
- investment distribution revenue increased by $0.1bn due to higher sales of insurance products and bonds. Revenue from the sale of equity and mutual funds was stable as strong trading conditions in the first half of the year were offset by a slowdown in the second half of the year.

In 2018, the credit quality of our loan portfolio remained stable at 34 basis points of average gross loans. Adjusted ECL of $1.2bn mainly related to charges in Mexico, the UK and Asia, notably against unsecured lending. In the UK, ECL also included charges related to the current economic uncertainty. This compared with adjusted LICs of $1.0bn in 2017, notably related to charges in Mexico, the UK and Hong Kong against unsecured lending balances.

Adjusted operating expenses of $13.7bn were $0.9bn or 7% higher. This primarily reflected a $0.6bn increase relating to investments, including $0.4bn in marketing and digital capabilities to help deliver improved customer service, and $0.1bn in staff to support business growth, particularly in the UK, Hong Kong, mainland China (including the Pearl River Delta) and the US.

Adjusted profit before tax
($bn)

Change in adjusted profit before tax

+9%

The 'Management view of adjusted revenue' tables provide a breakdown of revenue by major products, and reflect the basis on which each business is assessed and managed.

Commentary is on an adjusted basis, which is consistent with how we assess the performance of our global businesses.

Commercial Banking

Key events

- In CMB, we achieved double-digit growth in revenue and profit before tax. Growth was broadly based, with revenue increases across all major products and regions.
- We continued to improve customer experience and satisfaction, surveying over 18,000 customers across 40 markets in 2018 through the 'Moments of Truth' programme. Through this programme we improved global scores across key customer interactions and have driven improvements through more than 100 actions taken to address customer feedback. Through these client surveys we have seen a 17% year-on-year increase in customers reporting they have had a good or better onboarding experience.
- We continued to invest in our digital capabilities and we simplified online journeys on HSBCnet for around 41,000 clients across 36 countries. We also halved average onboarding times for our relationship-managed customers, and completed landmark trade transactions on the Voltron and we.trade platforms.
- We increased sustainable financing through both facilitation (green bonds and equity capital markets) and growth in financing (green loans and leases). In 2018, CMB contributed over $4bn towards the Group's sustainable financing target.

Financial performance

Adjusted profit before tax of $7.7bn was $0.8bn or 12% higher, driven by increased revenue, partly offset by higher operating expenses. ECL of $0.7bn in 2018 compared with LICs of $0.5bn in 2017.

Adjusted revenue of $14.9bn was $1.6bn or 12% higher with increases in all products, most notably GLCM.

Management view of adjusted revenue	2018 $m	2017 $m	2016 $m	2018 vs 2017 $m	2018 vs 2017 %
Global Trade and Receivables Finance	**1,865**	1,821	1,833	**44**	**2**
Credit and Lending	**5,342**	5,101	5,053	**241**	**5**
Global Liquidity and Cash Management	**5,802**	4,775	4,249	**1,027**	**22**
Markets products, Insurance and Investments and Other[28]	**1,876**	1,550	1,521	**326**	**21**
Net operating income[26]	**14,885**	13,247	12,656	**1,638**	**12**
Adjusted RoRWA (%)[27]	**2.5**	2.4	2.2		
RoTE excluding significant items and UK bank levy (%)	**14.0**	14.0	13.0		

For footnotes, see page 34.

- In GLCM, revenue was $1.0bn or 22% higher, with growth across all regions. The increase was mainly in Hong Kong from wider margins, and in the UK from wider margins and average balance sheet growth. In C&L, revenue growth of $0.2bn or 5% reflected average balance sheet growth in the UK and Hong Kong, partly offset by margin compression. In addition, revenue increased by $44m or 2% in GTRF despite challenging market conditions, with growth reflecting higher average balances in Asia and the UK.
- Revenue growth was primarily in Asia (up 18%), mainly from increases in Hong Kong (up 21%) and mainland China (up 22%), as well as in the UK (up 10%). There was also notable revenue growth in the US (up 7%), Canada (up 8%), Latin America (up 20%) and MENA (up 5%).
- Corporate customer value from our international subsidiary banking proposition grew by 19%*.

Adjusted ECL were $0.7bn in 2018, reflecting charges across most regions, including a charge in the UK related to uncertainty in the economic outlook, partly offset by releases in North America. This compared with adjusted LICs of $0.5bn in 2017, which reflected charges in Asia, the UK, Mexico and the UAE, partly offset by net releases in North America.

Adjusted operating expenses of $6.5bn were $0.5bn or 9% higher, reflecting increased staff costs (up $0.2bn), including higher performance-related pay. In addition, we continued to increase our investment in digital capabilities (up $0.1bn), improvements in operational efficiency and customer experience, as well as regulatory and compliance.

Adjusted profit before tax

($bn)

Change in adjusted profit before tax

+12%

* Analysis relates to corporate client income, which includes total income from GB&M synergy products, including foreign exchange and debt capital markets. This measure differs from reported revenue in that it excludes Business Banking and Other and internal cost of funds.

Global Banking and Markets

Key events

- In GB&M, we are making good progress with our strategic plan, increasing revenue and profit before tax while reducing risk-weighted assets by 4%. In 2018, performance was particularly strong in transaction banking products, with continued growth in GLCM (up 20%) and Securities Services (up 11%). We have continued to expand the product offerings and capabilities from our securities joint venture in China.
- We acted as the sole green structuring adviser on a $1.25bn green sukuk bond for the Republic of Indonesia, the first ever international offering of green securities by an Asian sovereign.

Management view of adjusted revenue	2018 $m	2017 $m	2016 $m	2018 vs 2017 $m	2018 vs 2017 %
Global Markets	**6,490**	7,009	6,731	**(519)**	**(7)**
– FICC	**5,271**	5,714	5,720	**(443)**	**(8)**
Foreign Exchange	**3,022**	2,622	2,777	**400**	**15**
Rates	**1,482**	2,147	2,148	**(665)**	**(31)**
Credit	**767**	945	795	**(178)**	**(19)**
– Equities	**1,219**	1,295	1,011	**(76)**	**(6)**
Securities Services	**1,973**	1,772	1,577	**201**	**11**
Global Banking	**4,115**	4,048	3,819	**67**	**2**
Global Liquidity and Cash Management	**2,645**	2,213	1,884	**432**	**20**
Global Trade and Receivables Finance	**809**	757	689	**52**	**7**
Principal Investments	**224**	327	221	**(103)**	**(31)**
Credit and funding valuation adjustments[29]	**(183)**	(262)	(55)	**79**	**30**
Other[30,31]	**(561)**	(579)	(59)	**18**	**3**
Net operating income[26,31]	**15,512**	15,285	14,807	**227**	**1**
Adjusted RoRWA (%)[27]	**2.1**	2.0	1.8		
RoTE excluding significant items and UK bank levy (%)	**10.5**	10.6	10.2		

For footnotes, see page 34.

Financial performance

Adjusted profit before tax of $6.1bn was $0.2bn or 4% higher, reflecting increased revenue and a $26m release of ECL in 2018, compared with LICs of $0.4bn in 2017. This was partly offset by higher operating expenses as we continued to invest in the business. We have continued to deliver RWA savings, with net reductions of 4% ($12bn), including savings from management initiatives of $30bn during 2018. This reduction was partly offset by targeted lending growth.

With effect from the fourth quarter of 2018, interest earned on capital deployed, which was previously disclosed within 'Other' revenue, has been allocated to product lines. The 2017 comparatives have been re-presented on the new basis, with no effect on total adjusted revenue.

Adjusted revenue of $15.5bn was $0.2bn or 1% higher, and included a net favourable movement of $0.1bn on credit and funding valuation adjustments. The increase in revenue primarily reflected the strength of our transaction banking franchises, which more than offset the effects of economic uncertainty and reduced client activity.

- GLCM recorded double-digit growth (up $0.4bn or 20%) as we increased average balances by 4% through continued momentum in winning client mandates, and from favourable interest rate movements, notably in Asia.
- Securities Services revenue rose $0.2bn or 11% as we grew average assets under management and average assets under custody from increased client mandates, growth in equity markets early in 2018, and higher interest rates.
- Global Banking revenue increased $67m or 2% as growth in secured lending balances, gains on corporate lending restructuring and lower adverse movements on portfolio hedges were partly offset in our capital markets businesses, due to challenging market conditions and narrower spreads.
- GTRF revenue grew by 7% as we grew average lending balances while also reducing risk-weighted assets.

This was partly offset by:

- Global Markets revenue decreased by $0.5bn or 7% as economic uncertainty and reduced primary issuance led to subdued client activity and spread compression, which resulted in lower revenue in Rates (down $0.7bn or 31%) and Credit (down $0.2bn or 19%). This was partly offset by higher revenue in Foreign Exchange (up $0.4bn or 15%), from increased volatility in emerging markets.
- Principal Investments revenue fell by $0.1bn or 31% from lower gains on mark-to-market revaluation of investments, and on asset sales, compared with 2017.

Net adjusted ECL releases of $26m in 2018 related to releases against a small number of clients in the US and Europe, notably in the oil and gas sector, partly offset by charges in the UK against exposures in the retail and construction sectors.

In 2017, adjusted LICs of $0.4bn were primarily against two large corporate exposures in Europe.

Adjusted operating expenses increased $0.5bn or 5%, as cost-saving initiatives were more than offset by investment in business growth and efficiency initiatives, and in regulatory programmes. We also incurred higher revenue-related taxes and costs.

Adjusted profit before tax
($bn)

Change in adjusted profit before tax

+4%

Global Private Banking

Key events

- In GPB, revenue increased by 10% in key markets targeted for growth, mostly in Asia (up 18%). We have added 101 new revenue generating employees globally, with 71 in Asia.
- We were named Best Private Bank in both Hong Kong and the UK at the *PWM/The Banker* Private Banking awards 2018.
- We had net new money inflows of $15bn in key markets targeted for growth, of which almost 60% came from collaboration with our other global businesses. In 2018, one in every three new GPB client relationships was introduced by CMB.

Financial performance

Adjusted profit before tax of $344m was $48m or 16% higher, reflecting revenue growth and a net release of ECL. This was partly offset by higher operating expenses.

Adjusted revenue of $1.8bn increased by $62m or 4%, mainly in Hong Kong from higher deposit revenue as margins widened following interest rate rises, and from higher investment revenue from strong mandate flows. Other income decreased including lower revenue following client repositioning.

In 2018, there was a net release of adjusted ECL of $8m. This compared with adjusted LICs of $16m in 2017.

Adjusted operating expenses of $1.4bn were $38m or 3% higher, due to higher staff costs, reflecting investment to support growth, mainly in Asia.

Management view of adjusted revenue	2018 $m	2017 $m	2016 $m	2018 vs 2017 $m	2018 vs 2017 %
Investment revenue	**717**	700	738	**17**	**2**
Lending	**391**	393	420	**(2)**	**(1)**
Deposit	**497**	404	345	**93**	**23**
Other	**180**	226	267	**(46)**	**(20)**
Net operating income[26]	**1,785**	1,723	1,770	**62**	**4**
Adjusted RoRWA (%)[27]	**2.1**	1.9	1.7		
RoTE excluding significant items and UK bank levy (%)	**9.9**	7.1	5.6		

For footnotes, see page 34.

Adjusted profit before tax
($m)

Change in adjusted profit before tax

+16%

Corporate Centre[32]

Financial performance

Adjusted profit before tax of $0.5bn was $1.1bn or 67% lower, reflecting lower revenue and higher ECL, partly offset by lower operating expenses.

We recorded negative adjusted revenue of $0.2bn in 2018 compared with adjusted revenue of $1.2bn in 2017. This reduction reflected lower revenue in Central Treasury and legacy portfolios, and a reduction in Other income.

Central Treasury revenue was $1.1bn lower, reflecting:

- higher interest expense on debt issued by HSBC Holdings (up $0.4bn), from an increase in issuances and higher average cost of debt issued;
- lower revenue in Balance Sheet Management ('BSM') (down $0.3bn), mainly from de-risking activities undertaken during 2017 in anticipation of interest rate rises, lower reinvestment yields and lower gains on disposals;
- adverse fair value movements of $0.3bn in 2018 compared with favourable movements of $0.1bn in 2017, relating to the economic hedging of interest rate and exchange rate risk on our long-term debt with long-term derivatives; and
- a $0.2bn loss arising from adverse swap mark-to-market movements following a bond reclassification under IFRS 9 'Financial Instruments'.

Revenue from legacy portfolios was down $0.1bn, reflecting losses on disposals.

Other income decreased by $0.2bn, mainly from the adverse effects of hyperinflation accounting in Argentina.

Adjusted ECL releases of $0.1bn in 2018 and net adjusted LICs releases of $0.2bn in 2017 were both primarily related to our legacy credit portfolio.

Adjusted operating expenses of $1.9bn were $0.2bn or 9% lower due to the favourable impact of hyperinflation accounting in Argentina and lower costs in relation to the run-off of the CML portfolio, which was completed during 2017.

Adjusted income from associates increased by $0.1bn or 4%. Our associate, The Saudi British Bank, announced a merger agreement with Alawwal Bank in Saudi Arabia. The merger, subject to shareholder and regulatory approval, is expected to be completed in 2019 and would dilute HSBC's shareholding in the merged bank from 40% to 29.2%.

Management view of adjusted revenue	2018 $m	2017 $m	2016 $m	2018 vs 2017 $m	2018 vs 2017 %
Central Treasury[33]	**662**	1,728	1,706	(1,066)	(62)
Legacy portfolios	**(93)**	(26)	26	(67)	>(100)
Other[34]	**(746)**	(516)	(188)	(230)	45
Net operating income[26]	**(177)**	1,186	1,544	(1,363)	(115)
RoTE excluding significant items and UK bank levy (%)	**(5.7)%**	(5.2)%	(1.9)%		

For footnotes, see page 34.

How we do business

Supporting sustainable growth

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

Overview

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 enable us to deliver our strategy and operate our business in a way that is sustainable.

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

Our *Environmental, Social and Governance ('ESG') Update* will be published in April 2019 and will be available on our website at www.hsbc.com/our-approach/measuring-our-impact. It will provide further detail on the topics covered in this section.

Customers

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 – and if things go wrong, we need to address complaints 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*.

For footnotes, see page 34.

Our largest global business

RBWM

Supports approximately 38 million customers worldwide

Our largest markets

UK

$399bn in total customer accounts

Hong Kong

$485bn in total customer accounts

Customer recommendation index† RBWM

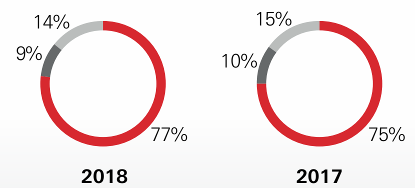
	UK	Hong Kong
2018	75%	71%
2017	72%	72%

† 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.

Complaint resolution[35]

Time taken to resolve complaints (excluding payment protection insurance complaints)

RBWM



Key

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

Acting on feedback in RBWM

We listen to our customers, and know that asking their opinion on our service is core to understanding their needs and concerns. Their feedback has helped us to become more accessible through improved digital experiences and our overall customer service. We continue to focus on simplifying our processes and will launch our new mobile banking app into more markets. We are working to make things easy, personable and transparent.

Senior leaders have ultimate responsibility for customer service standards and monitor these through key metrics aligned to performance objectives. These include:

– how customers feel about recommending us; and
– the speed and quality of complaint resolution.

Complaints are recorded and analysed so that we can learn what went wrong and why. Complaint resolution remains a priority for us and in 2018 we saw a slight improvement in the percentage of complaints resolved within the same or next working day.

In the charts and tables on page 22, we outline our 2018 performance on customer recommendation for our UK and Hong Kong markets, and complaint resolution for our 10 largest markets.

In the following table, we have highlighted some examples of how customer feedback has driven improvements for our RBWM customers.

What our customers are telling us	Our response
Make banking more accessible	– We simplified our login process by rolling out biometrics (Apple's Touch ID and HSBC Voice ID) to 18 markets. – In the UK, we trained our front-line employees to become 'Digital Experts'. In branch or on the phone, they teach our customers how to complete their task digitally. In 2018, 85% of new customers opened accounts through a supported digital experience.
Make it easy to understand our fees and charges	– In Singapore, we simplified our mortgage application forms and offer letters, so customers can be clear about their repayment schedule, terms and conditions, and fees and charges. – Through digital messaging we are raising customer awareness around overdrafts. In the UK, we expanded the volume of overdraft alerts, which we first introduced in 2017, sending more than 26 million alerts in 2018.
Make our processes easier	– In the UK, we have continued to simplify our mortgage process. Through automatic valuations, improved credit policies and increased underwriter availability, applications can be approved within 10 days. – To make investing more accessible, we equipped our branch employees in Hong Kong, China and Singapore with tablets and launched an online financial health check. Customers can now understand their investment options in their own time, without a specialist appointment.

Digital

As part of our strategy, we are committed to using technology to enhance our customers' experience. In 2018, we focused efforts on improving the online and mobile banking experience for our customers and building upon machine learning. This will help enable us to analyse our customers' speech, language and tone to better understand their queries and respond with the right solution more quickly.

Globally,
44%
of RBWM customers are digitally active

Taking responsibility for the service we deliver

We define conduct as delivering fair outcomes for customers and supporting the orderly and transparent operation of financial markets. This is central to our long-term success and ability to serve customers. We have clear policies, frameworks and governance in place to protect them. These cover the way we behave; design products and services; train and incentivise employees; and interact with customers and each other. Our conduct framework guides activities to strengthen our business and increases our understanding of how the decisions we make affect customers and other stakeholders. Details on our conduct framework are available at www.hsbc.com. For further information on conduct, see page 66 of the *Annual Report and Accounts 2018*.

Our employees

Our people are critical to our success, and we have made a commitment to build the healthiest human system in our industry to enable them to thrive. As we work towards this, we are focused on fostering a culture in which our employees feel valued, empowered to share their views, and able to fulfil their potential.

Listening to our people

Understanding how our people feel about HSBC is vital. It helps us ensure that we are giving them the right support to achieve their potential and to serve our customers well.

We capture the views of our people on a range of topics, such as our strategy, culture and working environment, through our employee survey, Snapshot. Results are presented to the Group Management Board and relevant executive committees. This means that we can take action based on the feedback.

We track employee advocacy by asking whether they would recommend HSBC as a great place to work. Currently, 66% would recommend HSBC, an increase from 64% in 2017. Analysis in 2018 showed us that trust in leadership, career development and recognising our people for their behaviour and performance are what drives a positive response to this question.

HSBC Exchange provides a forum for employees to share their open and honest views. Typically, these are meetings held without an agenda, meaning people can discuss what matters most to them. We know from Snapshot that when people participate in Exchange meetings, they feel more able to speak up, have more trust in leadership and report higher levels of well-being. More than half of our employees took part in an Exchange meeting during 2018. For example, our Global Banking and Markets global business hosted a series of Exchanges on the subject of culture and conduct, and Exchanges were held Group-wide as part of the conversation around the healthiest human system.

Snapshot and Exchange provide robust feedback that we use to improve the employee experience. For instance, our people fed back that mental well-being is important. We already provide employee assistance lines in every country, and in 2019 we will provide additional mental health education and support to line managers. Our focus will be on spotting the signs of mental ill-health, having open conversations and signposting where to find support.

Employee retention

85.5%

(2017: 85.7%)

Enabling a diverse and inclusive environment for all

Our commitment

We are committed to a thriving environment where people are valued, respected and supported to fulfil their potential. By building upon the extraordinary range of ideas, backgrounds, styles and perspectives of our employees, we can drive better outcomes for our stakeholders including customers, communities, suppliers and shareholders.

Gender balance at senior levels

Gender balance in leadership is an area where we are making progress but we recognise the need to improve. In 2018, we signed up to the 30% Club campaign commitment to reach 30% women in senior leadership roles (classified as 0–3 in our global career band structure) by 2020. In order to achieve that aspirational target, we set an objective that more than 27.6% of our senior leadership should be women by the end of 2018. We achieved 28.2%.

Gender diversity statistics

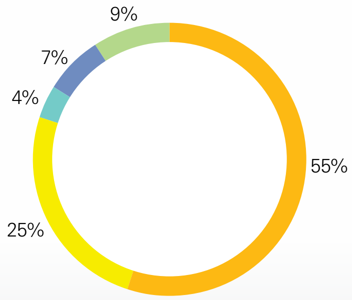
	Male		Female	
Holdings Board	9	64%	5	36%
Group Management Board	17	89%	2	11%
Combined executive committee and direct reports*	148	74%	51	26%
Senior leadership	6,887	72%	2,701	28%
Senior leadership RBWM	752	69%	331	31%
Senior leadership CMB	652	74%	226	26%
Senior leadership GB&M	2,398	80%	608	20%
Senior leadership GPB	387	69%	174	31%
Senior leadership HOST	645	72%	245	28%
All employees	115,391	48%	125,276	52%

Key
■ Male
■ Female

* Combined executive committee and direct reports includes HSBC executive Directors, Group Managing Directors, and their direct reports (excluding administrative staff) plus Company Secretary.

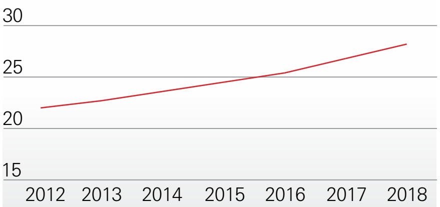
Our employees continued

Employees ('FTEs') by region



Key
- Asia
- Europe
- Middle East and North Africa
- North America
- Latin America

Female share of HBSC senior leadership headcount
(%)



Employee networks

We have seven global employee networks as well as our HSBC Communities, which include common interest groups. They provide spaces for colleagues to speak up about internal and commercial issues and opportunities, make connections, and learn from each other. The networks focus on gender, age, ethnicity, LGBT+, faith, working parents, carers, and ability. Our HSBC Communities focus on a variety of topics, including flexible working, military and veterans, and Chinese culture.

More information about our diversity and inclusion activity and our *UK Gender Pay Gap Report* is available at www.hsbc.com/our-approach/measuring-our-impact.

Whistleblowing

We think it is important to have a culture where our people feel able to speak up. Individuals are encouraged to raise concerns about wrongdoing or unethical conduct through the usual reporting and escalation channels. However, we understand that there are circumstances where people need to raise concerns more discreetly. HSBC Confidential is a global whistleblower platform that enables all of our people to raise issues in confidence and without fear of retaliation.

Whistleblowing concerns are investigated thoroughly and independently. Some of the common themes that have been referred to HSBC Confidential include behaviour and conduct, allegations of fraud, and weaknesses with information security. Remedial activity has been undertaken where appropriate, including disciplinary action, dismissal, as well as adjustments to variable pay, performance ratings and behaviour ratings. Processes have also been enhanced where needed.

Cases raised (subject to investigation)

Substantiated closed cases

HSBC does not condone or tolerate any acts of retaliation against those who raise concerns, and has a strict policy prohibiting any such acts. The outcomes of allegations of retaliation are reported to senior management. Making malicious or false claims is incompatible with our values.

The Group Audit Committee has responsibility for oversight of the Group's whistleblowing arrangements and receives regular updates on the status of whistleblowing arrangements and outcomes.

We promoted the Group's whistleblowing arrangement through a training and awareness campaign in 2018 and this is reflected in the increase in the number of cases compared with 2017.

A 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.

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 2018, we continued to strengthen our approach to managing operational risk as set out in the operational risk management framework ('ORMF'). The approach sets out governance, appetite and provides a single view of non-financial risks that matter the most and associated controls. It incorporates a risk management system to enable active risk management. The enhancement and embedding of the risk appetite framework for non-financial risk and improving the consistency of the adoption of the end-to-end risk and control assessment processes has been a particular focus and while there remains more to do, progress has been made in 2018 to strengthen the control environment and the management of non-financial risk.

For further details on our non-financial risks and the 'Top and emerging risks', see pages 30 and 31.

Cybersecurity

Cybersecurity continues to be a focus area for HSBC and is routinely reported at the Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity activities. We continue to strengthen and invest significantly in both business and technical controls in order to prevent, detect and respond to an increasingly hostile cyber threat environment. These include enhancing controls to protect against advanced malware, data leakage, infiltration of payments systems and denial of service attacks.

For additional information, please see the 'Top and emerging risks' section on page 30.

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 have exited customers, products and countries where we deemed the financial crime risk too high to manage. 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 much more effectively.

Our risk appetite has been set formally. Further details may be found in the Risk section on page 30.

Anti-bribery and corruption

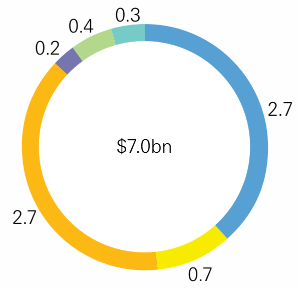
We are committed to high standards of ethical behaviour and operate a zero-tolerance approach to bribery and corruption, which we consider unethical and contrary to good corporate governance. We require compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which we 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. We continue to invest in technology and training. In 2018, 98% of our workforce were trained via a mandatory e-learning course and more than 12,000 employees, who undertake activities with a high risk of bribery, received targeted role-based training.

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, ensuring 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.

Taxes paid by region
($bn)



Key
- UK
- Rest of Europe
- Asia
- Middle East and North Africa
- North America
- Latin America

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.

Human rights

HSBC's 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 next MSA statement will be published in April 2019.

Other matters

Information on our corporate governance is on page 152 of the *Annual Report and Accounts 2018*, and information on legal proceedings and regulatory matters can be found on page 289 of the *Annual Report and Accounts 2018*.

Supporting sustainable growth

We recognise our wider obligations to the communities where we operate, and understand economic growth must also be sustainable. Our sustainable growth initiatives are set out in an integrated strategy aligned to our Group strategy and our global business operations.

In 2018, we contributed $105m to charitable programmes and our employees volunteered 264,000 hours to community activities during the working day. We continued our flagship environmental partnership, the HSBC Water Programme.

Sustainable finance

We define sustainable finance as any form of financial service that integrates ESG criteria into business or investment decisions. Sustainable finance covers the financing and investment activities needed to support the United Nations Sustainable Development Goals ('SDGs') and the Paris Agreement. The Paris Agreement aims to limit the risk of an increase in temperatures to 2°C above pre-industrial levels.

To achieve the Paris Agreement and facilitate the transition to a low-carbon world, over $100tn of infrastructure investment will be required in the next 15 years[36]. We recognise the critical role finance has to play in this transition.

Our sustainable finance commitments reflect our ambition to be a leading global partner to the public and private sectors in helping with the transition to a low-carbon economy, achieving the SDGs, and supporting positive societal impacts.

For footnotes, see page 34.

HSBC's sustainable finance commitments

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

For our full commitments, see our *ESG Supplement* released in November 2017.

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

- We have provided $28.5bn of financing, investing, and facilitation since 1 January 2017 (see details on page 28).

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% of our electricity consumption, which is up two percentage points from 2017, and decreased energy consumption per FTE by 19% since 2011 (details on our carbon dioxide emissions can be found on page 66 of the *Annual Report and Accounts 2018*).

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

- We rolled out 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 29.
- We updated our energy policy to align lending guidelines to science-based climate change-related targets (see additional details on page 87 of the *Annual Report and Accounts 2018*).

4 Adopt the recommendations of the TCFD to improve transparency

- Further details of our second TCFD disclosure are on page 29.

5 Lead and shape the debate around sustainable finance and investment

- We published 25 articles on HSBC's Centre of Sustainable Finance (www.sustainablefinance.hsbc.com). This included 'Managing financial system stability and climate change – a preliminary guide', which was the product of collaboration and engagement with individuals in various businesses, functions and geographies across HSBC.
- We intensified engagement with leading regulatory and industry bodies to promote sustainable finance, for example by leading a capital markets workstream of UK Green Finance Taskforce.
- We provided forums for client engagement and dialogue through proprietary events, including a breakfast at the World Economic Forum in 2018 called 'Financing the sustainable silk road'.

Progress towards $100bn sustainable finance commitment

As part of our drive to deliver growth from areas of strength, we are committed to helping our clients transition to a low-carbon economy, supporting the achievement of the SDGs, and supporting positive societal impacts.

Cumulative progress through 2018

Since the start of 2017, we have achieved $28.5bn of our commitment to provide and facilitate $100bn of sustainable financing and investment by 2025. A data dictionary, including detailed definitions of contributing activities, may be found on our website www.hsbc.com/our-approach/measuring-our-impact.

Facilitation	Financing	Investments
We provide advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social, and sustainable bonds; debt capital markets; and equity capital markets.	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).	We provide investments into defined socially responsible investment ('SRI') and low-carbon funds.
Cumulative progress* ($bn)	**Cumulative progress*** ($bn)	**Cumulative progress*** ($bn)
21.4	5.8	1.3
2018 **11.1**	2018 **5.3**	2018 **1.1**
2017 10.3	2017 0.5	2017 0.2

2018 highlights – Facilitation

- HSBC ranked number two in Dealogic's green, social and sustainability bonds league table and number one in the sustainability bonds table.
- HSBC Malaysia issued the world's first SDG sukuk bond, aligned to the United Nations SDG principles.
- Impact reporting for our green and SDG Bonds can be found on our website www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds.

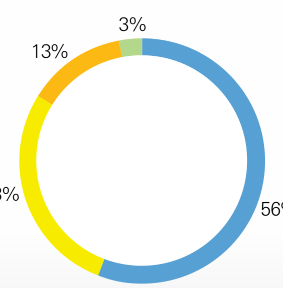
2018 highlights – Financing

- HSBC participated in the development of the green loan principles, published by the Loan Markets Association ('LMA') in March 2018.
- HSBC provided the first ever green loan in Singapore aligned to the LMA green loan principles.

2018 highlights – Investments

- HSBC created two Global Lower Carbon funds.
- We achieved a rating of A+/A using United Nations Principles of Responsible Investment ('UN PRI'). This covers all of our funds, of which SRI represents approximately 1% of our total assets under management.

Geographical breakdown of our progress



Key
- Europe
- Asia
- Americas
- Middle East, North Africa and Turkey

Awards

GlobalCapital **Sustainable and Responsible Capital Markets Awards 2018:**

Most Impressive Financial Institution Green/SRI Bank Issuer

Most Impressive Investment Bank for Asia Pacific Green/SRI Capital Markets

Euromoney **Awards 2018:**

Asia's Best Bank for Sustainable Finance

Extel **Awards 2018:**

No.1 Provider of Integrated Climate Change

Other transition activities

- Margin-linked loans: We have provided $1.1bn of committed facilities where the loan margin is linked to sustainability indicators.
- We are working with clients on a sustainable supply chain finance solution.
- Since January 2017, we have advised on more than $2bn of mergers and acquisitions transactions for renewable energy customers.

* PwC provided limited assurance over progress towards the $100bn sustainable finance commitment as at 31 December 2018 in accordance with 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/measuring-our-impact. Further information on the external assurance of our contribution to sustainable finance and our overall ESG assurance planning will be included in our next *ESG Update* and on our website at www.hsbc.com.

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, and we are a signatory to the disclosure recommendations by the Financial Stability Board's task force. This represents our second disclosure under the framework.

Governance

Mitigating climate change is a key priority for our senior leadership, with sustainable finance metrics included in the Group's strategic priorities. In 2018, there were two presentations on sustainability to the HSBC Holdings Board, two to the Group Audit Committee, four to the Group Risk Committee, and two to the HSBC Group Management Board. Senior leadership have engaged with regulators, industry associations and non-governmental organisations on this topic, such as through the Bank of England consultation on climate change, the Group Chairman's participation in the One Planet Summit and the Group Chief Executive's designation as a World Economic Forum climate leader. A summarised list of HSBC's sustainability-related memberships is available at: www.hsbc.com/our-approach/measuring-our-impact/sustainability-memberships.

Strategy

Supporting the transition to a low-carbon economy is a key part of HSBC's strategy, and new products have been offered to facilitate this, along with a pledge to provide $100bn of sustainable finance by 2025. To date, we have reached $28.5bn of that goal. For further information, see page 28. We recognise many clients across sectors are making significant shifts towards the low-carbon economy. During 2019, we intend to develop new metrics to help measure these activities, with an aim to publish in next year's disclosure.

We believe education of our people is crucial on this topic. We gave sustainability training to more than 2,300 employees during 2018 and launched a sustainability online learning programme for all employees globally, with content developed in collaboration with the University of Cambridge Institute for Sustainability Leadership.

We report on the emissions of our own operations via CDP (formerly the Carbon Disclosure Project). This is available, as well as other information related to the sustainability of our own operations, at: www.hsbc.com/our-approach/measuring-our-impact.

Risk management

We are increasingly incorporating climate-related risk, both physical and transition, into how we manage and oversee risks internally and with our customers. Climate risk is now included as a theme in our 'Top and emerging risks report' to ensure that it receives monthly management oversight via the Risk Management Meeting of the Group Management Board ('RMM') (see page 30). In addition, our Board-approved risk appetite statement contains a qualitative statement on our approach to sustainability, which will be further expanded in 2019 to include climate risk explicitly.

We have a number of sustainability risk policies covering specific sectors. In 2018, we updated our energy policy to limit the financing of high-carbon-intensity energy projects, while still supporting energy customers on their transition to a low-carbon economy. From the release of the new energy policy in April 2018 until the end of 2018, HSBC financed no new coal-fired power plants.

Transition risk, in the context of climate change, is the possibility that a customer's ability to meet its financial obligations will deteriorate due to the global movement from a high-carbon to a low-carbon economy. HSBC is working to embed transition risk into its day-to-day credit risk management. The aim is that over time, each wholesale counterparty will receive a client transition risk rating based on their susceptibility to, and ability to manage transition risk.

We have identified six higher transition risk sectors based on their contribution to global carbon dioxide emissions. These sectors are: oil and gas; building and construction; chemicals; automotive; power and utilities; and metals and mining. Over time we may identify additional sectors as having higher transition risk depending on a variety of factors, including country-level carbon dioxide reduction plans per the Paris Agreement.

The table below presents our exposure to the six higher transition risk sectors. These figures capture all lending activity, including environmentally responsible customers and sustainable financing. Further details on our approach to the quantification of exposures can be found in footnote 29 on page 34. This is expected to evolve over time as we develop new climate-related metrics.

Next steps

HSBC's TCFD disclosures will continue to evolve and expand over time. In line with TCFD recommendations, our *Annual Report and Accounts* will start to disclose the additional climate risk-related metrics relating to our portfolio for specific sectors, as the availability of sufficient, reliable and relevant customer data permits.

Sector	% of total wholesale loans and advances to customers and banks in 2018[37]
Oil and gas	≤ 3.9%
Building and construction	≤ 3.8%
Chemicals	≤ 3.9%
Automotive	≤ 3.4%
Power and utilities	≤ 3.0%
Metals and mining	≤ 2.8%
Total	≤ 20.8%

Total wholesale loans and advances to customers and banks amount to $668bn.

For footnotes, see page 34.

Risk overview

We actively manage risk to help protect and enable the business.

Managing risk

HSBC has maintained a conservative and consistent approach to risk throughout its 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 employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework is applied throughout the Group, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by the HSBC Values.

Our Global Risk function oversees the framework and is led by the Group Chief Risk Officer, an executive Director. It is independent from the global businesses, including our sales and trading functions, to provide challenge, appropriate oversight and balance in risk/reward decisions.

HSBC's risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It 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 and market risk;
- risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

We operate a wide-ranging stress testing programme undertaking both internal and regulatory stress tests. In 2018, we participated in the Bank of England's ('BoE') annual stress test, which showed that our capital ratios, after taking account of CRD IV restrictions and strategic management actions, exceeded the BoE's requirements.

Internal stress tests are an important element in our risk management and capital management frameworks. They assess the impacts of potential adverse macroeconomic, geopolitical and other HSBC-specific events. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Group is exposed.

Key risk appetite metrics

Component	Measure	Risk appetite	2018
Returns	Return on tangible equity ('RoTE')*	≥11.0%	**8.6%**
Capital	CET1 ratio – CRD IV end point basis	≥13.5%	**14.0%**
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%	**0.34%**
	Change in expected credit losses and other credit impairment charges as a % of advances: wholesale (CMB, GB&M and GPB)	≤0.45%	**0.12%**

* Our target is to achieve a reported RoTE of more than 11% by the end of 2020.

Our risk management framework and risks associated with our banking and insurance manufacturing operations are described on pages 73 and 86 of the *Annual Report and Accounts 2018*, respectively.

Top and emerging risks

Our top and emerging risks framework helps enable 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.

During 2018, we made five changes to our top and emerging risks to reflect our assessment of their potential effects on the Group. Firstly, 'Libor replacement' (now renamed 'Interbank offered rate transition' or 'Ibor transition') was added as a new risk due to the ongoing effort by global regulators to reform benchmark rates and the work required to evaluate the impact of this transition on HSBC's products and services. Secondly, 'Climate-related risk' has also been added, to help monitor and mitigate the impacts of climate change on the Group and our customers, as well as support our commitment to Sustainable Finance. Thirdly, 'Execution risk' was removed following the successful completion of a number of high-priority programmes. In addition, two thematic risks were renamed to better reflect the challenges facing the Group. The new names are used in the table that follows, which details our current 13 top and emerging risks.

Our current top and emerging risks are summarised on the next page and discussed in more detail on page 69 of the *Annual Report and Accounts 2018*.

Our approach to identifying and monitoring top and emerging risks is described on page 74 of the *Annual Report and Accounts 2018*.

▲ Risk heightened during 2018
▶ Risk remained at the same level as 2017
• Thematic risk renamed during 2018

Risk	Trend	Mitigants
Externally driven		
Economic outlook and capital flows	▶	We actively monitor our credit and trading portfolios, including undertaking stress tests, to identify sectors and clients that may come under stress due to: escalating tariffs and other trade restrictions; an economic slowdown in the eurozone and mainland China; and adverse outcomes of negotiations concerning the UK's exit from the EU.
Geopolitical risk	▲	We continually assess the impact of geopolitical events on our businesses and exposures, and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. We have also strengthened physical security at our premises where the risk of terrorism is heightened.
The credit cycle	▶	We undertake detailed reviews of our portfolios and are assessing proactively customers and sectors likely to come under stress as a result of geopolitical or macroeconomic events, 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.
• Regulatory developments including conduct, with adverse impact on business model and profitability	▶	We engage with regulators to help ensure new regulatory requirements are effectively implemented, and work with them in relation to their investigations into historical activities.
Financial crime risk environment	▶	We have integrated the majority of our Global Standards reforms into our day-to-day operations, and expect to complete the transition to business and function management in 2019. We continue to enhance our financial crime risk management capabilities and 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 evaluating the impact of the replacement of Ibor (including Libor) with alternative risk-free rates on HSBC's products, services and processes as the industry accord evolves, with the intention of minimising disruption through appropriate mitigating actions.
Climate-related risks	▶	We are committed to helping finance the transition to a low-carbon economy and continue to make progress in this area (see the Group's TCFD year-two response on page 29). We regularly review our sustainability risk policies to ensure they remain fit-for-purpose while still supporting customers.
Internally driven		
IT systems infrastructure and resilience	▶	We continue to monitor and improve service resilience across our technology infrastructure, enhancing 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 HSBC's 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 continue to strengthen essential governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of third parties with which we do business. This includes control monitoring and assurance throughout the third-party life cycle.
Enhanced model risk management expectations	▲	We have evolved our capability and practice for model risk management by enhancing the second line of defence Model Risk Management function, strengthening the model oversight committee structure through the chairmanship of the Group Chief Risk Officer and attendance of global business CEOs, and evolving our model risk governance framework.
Data management	▲	We continue to improve our insights, data aggregation, reporting and decisions through ongoing improvement of our data governance, data quality, data privacy, data infrastructure and architecture framework.

UK withdrawal from the European Union

The UK is due to formally leave the European Union ('EU') in March 2019. However, there is no certainty on the future relationship between the UK and the EU or indeed an implementation period. This creates market volatility and economic risk, particularly in the UK. Our Group's global presence and diversified client base should help to mitigate the impact of the UK's withdrawal from the EU. While there may be some changes to the provision of products and services for our clients and employees based in the UK and EU, we are taking mitigating actions to help minimise any potential disruption. These include expanding our product offerings available in our European entities, migrating customers where necessary and transferring some of our European branch network from HSBC Bank plc to our subsidiary in France. 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 Bank of England 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.

For further details, please refer to our top and emerging risks on page 69 of the *Annual Report and Accounts 2018*.

Our approach to the UK's withdrawal from the European Union is described in more detail in 'Areas of special interest' on page 73 of the *Annual Report and Accounts 2018*.

Remuneration

Our remuneration policy supports the achievement of our strategic objectives by balancing reward for short- and long-term sustainable performance.

Remuneration principles

The remuneration strategy for our employees is based on a series of key principles.

What we do

- Focus on total compensation with a strong link between pay and performance
- Judge not only what is achieved, but also how it is achieved, in line with the HSBC Values
- Operate a thorough performance management and HSBC Values assessment process
- Recognise and reward our employees for outstanding positive behaviour
- Design our policy to align compensation with long-term stakeholder interests
- Apply our employee recognition and conduct framework to strengthen the alignment between risk and reward across the Group

What we don't do

- Reward inappropriate or excessive risk taking or short-term performance at the expense of long-term company sustainability
- Use only a formulaic approach to determine bonuses for our executives
- Award discretionary bonuses to employees rated unacceptable against the HSBC Values and behaviours
- Allow our employees to hedge against their unvested or retained awards
- Offer employment contracts with a notice period of more than 12 months
- Have pre-arranged individual severance agreements

Embedding our values in our remuneration framework

Instilling the right behaviours and driving and encouraging actions that are aligned to organisational values and expectations are essential. We therefore 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 on how it is achieved.
Performance management	– Performance objectives define what our employees need to achieve, how and when, in line with business and role priorities. Objectives are initially created by our employees at the start of the year. Objectives are then tracked and updated by employees throughout the year as priorities change. – Performance management for all our employees is underpinned by our 'Everyday Performance and Development' programme. This approach involves frequent, holistic and meaningful conversations throughout the year between a manager and employee. The conversations provide an opportunity to discuss progress, provide feedback and recognise behaviours, identify any support that may be needed, and address any issues that could be affecting the employee's sense of 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.

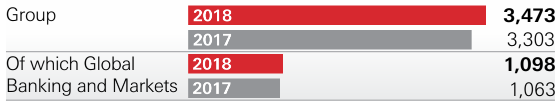
How we set our variable pay pool

When deciding on the variable pay pool, the Group Remuneration Committee considers a number of factors, which are set out in the following table:

Performance and risk appetite statement	– Our variable pay pool takes into account our performance in the context of our risk appetite.
Countercyclical funding methodology	– To dampen effects of economic cycles, the variable pay pool's size has a floor and a ceiling, and we also limit the payout ratio as performance increases to prevent the risk of inappropriate behaviour.
Distribution of profits	– Our funding methodology ensures that the distribution of post-tax profit between capital, shareholders and variable pay is appropriate, and that the majority of post-tax profit is allocated to capital and shareholders.
Commerciality and affordability	– We face challenges arising from being headquartered in the UK, which has more stringent reward practices. We take into account these challenges in determining the size of the variable pay pool to help ensure we can continue to attract and retain talent in key markets.

Our variable pay pool was $3,473m, an increase of 5.1% compared with 2017.

Variable pay pool
($m)



Variable pay for our executive Directors

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

See the Directors' remuneration report on page 186 of the *Annual Report and Accounts 2018* for further details.

Remuneration for our executive Directors

Our remuneration policy for executive Directors was approved at our 2016 Annual General Meeting ('AGM') and is intended to apply for three performance years until the AGM in 2019. We will be putting forward a new remuneration policy for shareholder approval at the AGM. Details of the proposed policy can be found on page 175 of the *Annual Report and Accounts 2018*.

The table below shows the amount our executive Directors earned in 2018. For details of Directors' pay and performance for 2018, see the Directors' remuneration report on page 172 of the *Annual Report and Accounts 2018*.

(in £000)		Base salary	Fixed pay allowance	Cash in lieu of pension	Annual incentive	AML DPA Award[38]	LTI[39]	Sub-total	Taxable benefits	Non-taxable benefits	Notional returns	Total
John Flint[40]	**2018**	**1,028**	**1,459**	**308**	**1,665**	**—**	**—**	**4,460**	**40**	**28**	**54**	**4,582**
	2017	—	—	—	—	—	—	—	—	—	—	—
Stuart Gulliver[41,43]	**2018**	**171**	**241**	**51**	**282**	**1,530**	**—**	**2,275**	**65**	**6**	**41**	**2,387**
	2017	1,250	1,700	375	2,127	—	—	5,452	500	71	63	6,086
Iain Mackay[42,43]	**2018**	**700**	**950**	**210**	**1,088**	**1,057**	**—**	**4,005**	**80**	**44**	**33**	**4,162**
	2017	700	950	210	1,334	—	—	3,194	64	37	42	3,337
Marc Moses	**2018**	**700**	**950**	**210**	**1,324**	**695**	**—**	**3,879**	**13**	**38**	**33**	**3,963**
	2017	700	950	210	1,358	—	—	3,218	16	38	42	3,314

For footnotes, see page 34.

Supplementary information

Footnotes

1 The Group has adopted the EU's regulatory transitional arrangements for IFRS 9 'Financial Instruments'. These apply to reported and adjusted RWAs, regulatory capital and related ratios for 2018 throughout the *Annual Report and Accounts*, unless otherwise stated.

2 Full-time equivalent staff.

3 Recognised by Euromoney Awards for Excellence 2018.

4 Source: Greenwich Associates – Large Corporate Banking; percentage of large corporates choosing HSBC as their lead international bank.

5 Revenue from international clients is derived from an allocation of adjusted revenue based on internal management information. International clients are businesses and individuals with an international presence.

6 Adjusted basis, geographical view; Group total and regional percentage composition excludes Holdings; regional percentage composition calculated with regional figures that include intra-Group revenue.

7 Our wealth business in Asia includes our asset management business in Asia, our insurance business in Asia, our private banking business Asia and the wealth portion of our RBWM business in Asia.

8 Source for market data is Bank of England mortgage data.

9 Both digital metrics include the following markets: the UK (excluding M&S Bank and John Lewis Finance customers), Hong Kong (excluding Hang Seng customers), Mexico, Malaysia, Singapore, UAE, mainland China, Canada, Australia, the US, France, India, Indonesia, Turkey, Egypt, Argentina, and Taiwan. Digital sales also include M&S Bank customers in the UK. Digitally active customers are defined as percentage of customers who have logged on to HSBC digital channels at least once in the last 90 days. Percentage of sales include the sales of loans and deposits through digital channels.

10 Eight scale markets are UK, Hong Kong, Pearl River Delta, Singapore, Malaysia, Mexico, UAE and Saudi Arabia.

11 Commitment by 2025.

12 Excluding market impact in Insurance, which constitutes P&L impacts resulting from changes in financial market factors as compared with economic conditions in place at the start of the year.

13 Market shares: Saudi Arabia as of September 2018; UAE as of October 2018; HK, Mexico, PRD and Singapore as of November 2018; UK and Malaysia as of December 2018.

14 Revenue growth from international network includes transaction banking revenue growth and international client revenue growth.

15 Transaction banking includes GLCM, GTRF, Securities Services, and FX.

16 Market share data is as of 3Q 2018.

17 Top-three rank or improvement by two ranks; measured by customer recommendation for RBWM and customer satisfaction for CMB among relevant competitors.

18 Customer satisfaction metrics for Pearl River Delta will be available from 2019, therefore they have been excluded from the assessment. Surveys are based on a relevant and representative subset of the market. Data provided by Kantar.

19 Customer satisfaction metrics for Pearl River Delta will be available from 2019, therefore they have been excluded from the assessment. In HK, Singapore, Malaysia, Mexico and UAE, 2017 CMB performance is based on the bank that the customer defines as their main bank, whereas 2018 CMB performance for these markets is based on the bank that the customer defines as the most important. Surveys are based on a relevant and representative subset of the market. Data provided by RFi Group, Kantar and another third-party vendor.

20 Both digital metrics include the following markets: the UK (excluding M&S Bank and John Lewis Finance customers), Hong Kong (excluding Hang Seng customers), Mexico, Malaysia, Singapore, UAE, mainland China, Canada, Australia, the US, France, India, Indonesia, Turkey, Egypt, Argentina, and Taiwan. Digital sales also include M&S Bank customers in the UK. Digitally active customers are defined as percentage of customers who have logged on to HSBC digital channels at least once in the last 90 days. Percent of sales include the sales of loans and deposits through digital channels.

21 Based on Sustainalytics.

22 Costs relating to 'Settlements and provisions in connection with legal and regulatory matters', a significant item in 2018 includes a 1Q18 provision in relation to the US Department of Justice's ('DoJ') civil claims relating to its investigation of HSBC's legacy residential mortgage-backed securities origination and securitisation activities from 2005 to 2007. Refer to Note 35 'Legal proceedings and regulatory matters' for further details.

23 'Other personal lending' includes personal non-residential closed-end loans and personal overdrafts.

24 'Investment distribution' includes Investments, which comprises mutual funds (HSBC manufactured and third party), structured products and securities trading, and Wealth Insurance distribution, consisting of HSBC manufactured and third-party life, pension and investment insurance products.

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

26 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.

27 Adjusted return on average risk-weighted assets ('Adjusted RoRWA') is a measure used to assess the performance of RBWM, CMB, GB&M and GPB. Adjusted RoRWA is calculated using profit before tax and reported average risk-weighted assets at constant currency adjusted for the effects of significant items.

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

29 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, and comparatives have not been restated.

30 'Other' in GB&M includes net interest earned on free capital held in the global business not assigned to products, 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'.

31 Under the old revenue allocation, the 2017 results would have been: Global Markets: $6,840m; FICC: $5,555m; FX: $2,587m; Rates:$2,037m; Credit: $931m; Equities: $1,285m; Securities Services: $1,762m; Global Banking: $3,858m; GLCM: $2,199m; GTRF: $703m; Principal Investments: $322m; Credit and funding valuation adjustments: $(267)m; Other revenue: $(132)m. 2016 numbers have not been re-presented on the new basis.

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

33 Central Treasury includes revenue relating to BSM of $2.5bn (2017: $2.7bn; 2016: $3.0bn), interest expense of $1,267m (2017: $888m; 2016: $707m) and adverse valuation differences on issued long-term debt and associated swaps of $313m (2017: gain of $120m; 2016: loss of $271m). Revenue relating to BSM includes other internal allocations, including 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.

34 Other miscellaneous items in Corporate Centre includes internal allocations relating to Legacy Credit.

35 Complaint figures for 2017 restated and weighted by country volumes.

36 OECD, IEA, Investing in Climate, Investment in Growth, July 2017. The OECD estimates that for infrastructure to be consistent with a 2°C scenario, investment needs to amount to $6.9tn per year in the next 15 years, an increase of about 10% in total infrastructure investment from the reference estimate of $6.3tn.

37 Amounts shown in table include green and other sustainable finance loans, which support the transition to the low-carbon economy. The methodology for the quantification of our exposure to higher transition risk sectors will evolve over time as more data becomes available and is incorporated in our risk management systems and processes. Counterparties are allocated to the higher transition risk sectors via a two-step approach:
1 - 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.
2 - 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.
As a result of this methodology, this metric is not directly comparable to other financial statement disclosures.

38 60% of the 2012 annual incentive for Stuart Gulliver and Iain Mackay disclosed in the 2012 Directors' remuneration report was deferred for five years. The vesting of these awards was subject to a service condition and satisfactory completion of the five-year deferred prosecution agreement ('AML DPA') with the US Department of Justice ('DoJ'). The AML DPA condition was satisfied in March 2018 and the awards were released to the executive Directors. For Marc Moses the value of the award attributable to services provided as an executive Director between 1 January 2014 and the vesting date has been included in the table.

39 The first long-term incentive ('LTI') award was made in February 2017, with a performance period ending in 2019. Vesting of the first LTI award will be included in the single figure of remuneration table for the financial year ending 31 December 2019.

40 John Flint succeeded Stuart Gulliver as Group Chief Executive with effect from 21 February 2018 and his remuneration in the single figure table of remuneration is in respect of services provided as an executive Director. For services rendered between 1 January 2018 and 20 February 2018, he received salary of £97,138, fixed pay allowance of £130,236, cash in lieu of pension of £27,999 and an annual incentive award of £272,000.

41 Stuart Gulliver stepped down from the Board on 20 February 2018 and retired from the Group on 11 October 2018. His remuneration in the single figure table of remuneration is in respect of services provided as an executive Director.

42 Iain Mackay stepped down as executive Director and Group Finance Director on 31 December 2018.

43 To meet regulatory deferral requirements for 2018, 60% of the annual incentive award of Stuart Gulliver and Iain Mackay will be deferred in awards linked to HSBC's shares and and will vest in five equal instalments between the third and seventh anniversary of the grant date. On vesting, the awards will be subject to a one-year retention period. The deferred awards are subject to the executive Director maintaining a good leaver status during the deferral period.

Shareholder enquiries and communications

Enquiries

Any enquiries relating to your shareholdings on the share register, for example, transfers of shares, change of name or address, lost share certificates or dividend cheques should be sent to the Registrars at an address given below.

The Registrars offer an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

Persons whose shares are held on their behalf by another person may have been nominated to receive communications from HSBC pursuant to section 146 of the UK Companies Act 2006 ('nominated person'). The main point of contact for a nominated person remains the registered shareholder (for example, your stockbroker, investment manager, custodian or other person who manages the investment on your behalf).

Any changes or queries relating to a nominated person's personal details and holding (including any administration thereof) must continue to be directed to the registered shareholder and not HSBC's Registrars. The only exception is where HSBC, in exercising one of its powers under the UK Companies Act 2006, writes to nominated persons directly for a response.

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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 future 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/ecomms. 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 an address given on the previous page. Printed copies will be provided without charge.

A Chinese translation of this and future documents may be obtained on request from the Registrars. Please also contact the Registrars if you have received a Chinese translation of this document and do not wish to receive such translations in future.

Persons whose shares are held on their behalf by another person may have been nominated to receive communications from HSBC pursuant to section 146 of the UK Companies Act 2006 ('nominated person'). The main point of contact for a nominated person remains the registered shareholder (for example, your stockbroker, investment manager, custodian or other person who manages the investment on your behalf). Any changes or queries relating to a nominated person's personal details and holding (including any administration thereof) must continue to be directed to the registered shareholder and not HSBC's Registrars. The only exception is where HSBC, in exercising one of its powers under the UK Companies Act 2006, writes to nominated persons directly for a response.

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 2018*

This is a part of HSBC Holdings plc's *Annual Report and Accounts 2018* 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 2018*.

Copies of the *Annual Report and Accounts* 2018

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 2018* and the *Annual Report and Accounts 2018* may also be downloaded from the HSBC website, www.hsbc.com.

Report of the auditors

The auditors' report on the full accounts for the year ended 31 December 2018 was unqualified, and their statement under section 496 (whether the *Strategic Report 2018* and the *Annual Report and Accounts 2018* and the Directors' Report are consistent with the accounts) of the Companies Act 2006 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.

Photography

Highlights (pages 2-3):
Lavender field in Provence, France. Taken by Andrea A Attard, who works in our corporate treasury solutions team in Malta

Our strategy (pages 10-13):
Boat navigating off the coast of Thailand. Taken by Joanna S Ellis, who supports with retail customer due diligence and is based in India

Global businesses (pages 18-21):
Hong Kong skyline at night. Taken by John Oldham, who works in the legal team in the UK

How we do business (pages 22-23):
Fish off Raja Ampat, Indonesia, one of the world's most diverse marine regions. Taken by Faith Li, who works in asset management in China

How we do business (pages 28-29):
Thrunton Woods, Northumberland. Taken by Ciara Jennings, who works in the UK's digital technology team

Risk overview (pages 30-31):
Raindrops on a peacock feather. Taken by Noman Anwar, who works in communications in Bangladesh

Inside back cover:
Crowds below an escalator in Incheon Airport, South Korea. Taken by Michael Hu, who works in China's finance team

Group Chairman and Group Chief Executive portraits:
Taken by Charles Best

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