HSBC Holdings plc
Strategic Report 2020

Opening up a world of opportunity

Contents

This *Strategic Report* was approved by the Board on 23 February 2021.

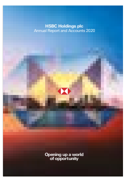
Mark E Tucker
Group Chairman

A reminder
The currency we report in is US dollars.

Adjusted measures
We supplement our IFRS figures with non-IFRS measures used by management internally that constitute alternative performance measures under European Securities and Markets Authority guidance and non-GAAP financial measures defined in and presented in accordance with US Securities and Exchange Commission rules and regulations. These measures are highlighted with the following symbol:

Further explanation may be found on page 28.

None of the websites referred to in this *Strategic Report 2020* (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.



Cover image: Opening up a world of opportunity
We connect people, ideas and capital across the world, opening up opportunities for our customers and the communities we serve.

Opening up a world of opportunity

Our ambition is to be the preferred international financial partner for our clients.

We have refined our purpose, ambition and values to reflect our strategy and to support our focus on execution.

Read more on our values, strategy and purpose on pages 4, 12 and 16.

Key themes of 2020

The Group has been – and continues to be – impacted by developments in the external environment, including:

Covid-19

The Covid-19 outbreak has significantly affected the global economic environment and outlook, resulting in adverse impacts on financial performance, downward credit migration and muted demand for lending.

Read more on page 38.

Market factors

Interest rate reductions and market volatility impacted financial performance during 2020. We expect low global interest rates to provide a headwind to improved profitability and returns.

Read more on page 26.

Geopolitical risk

Levels of geopolitical risk increased with heightened US-China tensions and the UK's trade negotiations with the EU notably impacting business and investor sentiment. We continue to monitor developments closely.

Read more on page 38.

Progress in key areas

The Group continued to make progress in areas of strategic focus during 2020, including:

Supporting customers

We continued to support our customers during the Covid-19 outbreak, providing relief to wholesale and retail customers through both market-wide schemes and HSBC-specific measures.

Read more on page 17.

Strategic progress

We made good progress with our transformation programme in 2020. We have now set out the next phase of our strategic plan.

Read more on page 12.

Climate

In October 2020, we set out an ambitious plan to prioritise sustainable finance and investment that supports the global transition to a net zero carbon economy.

Read more on page 15.

Financial performance

Reported profit after tax

$6.1bn

(2019: $8.7bn)

Basic earnings per share

$0.19

(2019: $0.30)

Common equity tier 1 capital ratio

15.9%

(2019: 14.7%)

Read more on our financial overview on page 26.

Non-financial highlights

Gender diversity

30.3%

Women in senior leadership roles. (2019: 29.4%)

Sustainable finance and investment

$93.0bn

Cumulative total provided and facilitated since 2017. (2019: $52.4bn)

Customer satisfaction

7 out of 8

Wealth and Personal Banking markets sustained top-three rank and/or improved in customer satisfaction.

5 out of 8

Commercial Banking markets sustained top-three rank and/or improved in customer satisfaction.

Read more on how we set and define our environmental, social and governance ('ESG') metrics on page 18.

Highlights

Financial performance in 2020 was impacted by the Covid-19 outbreak, together with the resultant reduction in global interest rates. Nevertheless, performance in Asia remained resilient and our Global Markets business delivered revenue growth.

Delivery against our financial targets

Return on average tangible equity

3.1%

February 2020 target: in the range of 10% to 12% in 2022.
(2019: 8.4%)

Adjusted operating expenses

$31.5bn

Target: ≤$31bn in 2022.
(2019: $32.5bn)

Gross RWA reduction

$61.1bn

Target: >$100bn by end-2022.

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

Financial performance (vs 2019)

- **Reported profit after tax down 30% to $6.1bn and reported profit before tax down 34% to $8.8bn** from higher expected credit losses and other credit impairment charges ('ECL') and lower revenue, partly offset by a fall in operating expenses. Reported results in 2020 included a $1.3bn impairment of software intangibles, while reported results in 2019 included a $7.3bn impairment of goodwill. **Adjusted profit before tax down 45% to $12.1bn.**
- **Reported revenue down 10% to $50.4bn,** primarily due to the progressive impact of lower interest rates across our global businesses, in part offset by higher revenue in Global Markets. **Adjusted revenue down 8% to $50.4bn.**
- **Net interest margin of 1.32% in 2020, down 26 basis points ('bps') from 2019,** due to the impact of lower global interest rates.
- **Reported ECL up $6.1bn to $8.8bn,** mainly due to the impact of the Covid-19 outbreak and the forward economic outlook. Allowance for ECL on loans and advances to customers up from $8.7bn at 31 December 2019 to $14.5bn at 31 December 2020.
- **Reported operating expenses down 19% to $34.4bn,** mainly due to the non-recurrence of a $7.3bn impairment of goodwill. **Adjusted operating expenses down 3% to $31.5bn,** as cost-saving initiatives and lower performance-related pay and discretionary expenditure more than offset the growth in investment spend.
- **During 2020, deposits grew by $204bn on a reported basis and $173bn on a constant currency basis,** with growth in all global businesses.
- **Common equity tier 1 ('CET1') ratio of 15.9%, up 1.2 percentage points from 14.7% at 31 December 2019,** which included the impact of the cancellation of the fourth interim dividend of 2019 and changes to the capital treatment of software assets.
- After considering the requirements set out in the UK Prudential Regulation Authority's ('PRA') temporary approach to shareholder distributions for 2020, the Board has announced an **interim dividend for 2020 of $0.15 per ordinary share,** to be paid in cash with no scrip alternative.

Outlook and strategic update

In February 2020, we outlined our plan to upgrade the return profile of our risk-weighted assets ('RWAs'), reduce our cost base and streamline the organisation. Despite the significant headwinds posed by the impact of the Covid-19 outbreak, we have made good progress in implementing our plan.

However, we recognise a number of fundamental changes, including the prospect of prolonged low interest rates, the significant increase in digital engagement from customers and the enhanced focus on the environment.

We have aligned our strategy accordingly. We intend to **increase our focus on areas where we are strongest.** We aim to **increase and accelerate our investments in technology** to enhance the capabilities we provide to customers and improve efficiency to drive down our cost base. We also intend to **continue the transformation of our underperforming businesses.** As part of our climate ambitions, we have set out our plans to **capture the opportunities presented by the transition to a low-carbon economy.**

We will continue to target an **adjusted cost base of $31bn or less in 2022.** This reflects a further reduction in our cost base, which has been broadly offset by the adverse impact of foreign currency translation due to the weakening US dollar towards the end of 2020. We will also continue to target a **gross RWA reduction of over $100bn by the end of 2022.** Given the significant changes in our operating environment during 2020, **we no longer expect to reach our return on average tangible equity ('RoTE') target of between 10% and 12% in 2022 as originally planned.** The Group will now target a **RoTE of greater than or equal to 10% in the medium term.**

We intend to maintain **a CET1 ratio above 14%, managing in the range of 14% to 14.5% in the medium term** and managing this range down in the longer term. The Board has adopted a policy designed to provide sustainable dividends going forward. We intend to transition towards a target **payout ratio of between 40% and 55% of reported earnings per ordinary share ('EPS')** from 2022 onwards, with the flexibility to adjust EPS for non-cash significant items such as goodwill or intangibles impairments. We will no longer offer a scrip dividend option, and will pay dividends entirely in cash.

Key financial metrics

	For the year ended		
Reported results	**2020**	2019	2018
Reported revenue ($m)	**50,429**	56,098	53,780
Reported profit before tax ($m)	**8,777**	13,347	19,890
Reported profit after tax ($m)	**6,099**	8,708	15,025
Profit attributable to the ordinary shareholders of the parent company ($m)	**3,898**	5,969	12,608
Cost efficiency ratio (%)	**68.3**	75.5	64.4
Basic earnings per share ($)	**0.19**	0.30	0.63
Diluted earnings per share ($)	**0.19**	0.30	0.63
Net interest margin (%)	**1.32**	1.58	1.66
Alternative performance measures			
Adjusted revenue ($m)	**50,366**	54,944	52,098
Adjusted profit before tax ($m)	**12,149**	22,149	21,199
Adjusted cost efficiency ratio (%)	**62.5**	59.2	60.9
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	**0.81**	0.25	0.16
Return on average ordinary shareholders' equity (%)	**2.3**	3.6	7.7
Return on average tangible equity (%)[1]	**3.1**	8.4	8.6

	At 31 December		
Balance sheet	**2020**	2019	2018
Total assets ($m)	**2,984,164**	2,715,152	2,558,124
Net loans and advances to customers ($m)	**1,037,987**	1,036,743	981,696
Customer accounts ($m)	**1,642,780**	1,439,115	1,362,643
Average interest-earning assets ($m)	**2,092,900**	1,922,822	1,839,346
Loans and advances to customers as % of customer accounts (%)	**63.2**	72.0	72.0
Total shareholders' equity ($m)	**196,443**	183,955	186,253
Tangible ordinary shareholders' equity ($m)	**156,423**	144,144	140,056
Net asset value per ordinary share at period end ($)	**8.62**	8.00	8.13
Tangible net asset value per ordinary share at period end ($)[2]	**7.75**	7.13	7.01
Capital, leverage and liquidity			
Common equity tier 1 capital ratio (%)[3]	**15.9**	14.7	14.0
Risk-weighted assets ($m)[3]	**857,520**	843,395	865,318
Total capital ratio (%)[3]	**21.5**	20.4	20.0
Leverage ratio (%)[3]	**5.5**	5.3	5.5
High-quality liquid assets (liquidity value) ($bn)	**678**	601	567
Liquidity coverage ratio (%)	**139**	150	154
Share count			
Period end basic number of $0.50 ordinary shares outstanding (millions)	**20,184**	20,206	19,981
Period end basic number of $0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)	**20,272**	20,280	20,059
Average basic number of $0.50 ordinary shares outstanding (millions)	**20,169**	20,158	19,896
Dividend per ordinary share (in respect of the period) ($)[4]	**0.15**	0.30	0.51

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 85 of our *Annual Report and Accounts 2020*. Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 103 of our *Annual Report and Accounts 2020*.

1 Profit attributable to ordinary shareholders, excluding impairment of goodwill and other intangible assets and changes in present value of in-force insurance contracts ('PVIF') (net of tax), divided by average ordinary shareholders' equity excluding goodwill, PVIF and other intangible assets (net of deferred tax).

2 Excludes impact of $0.10 per share dividend in the first quarter of 2019, following a June 2019 change in accounting practice on the recognition of interim dividends, from the date of declaration to the date of payment.

3 Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments', which are explained further on page 173 of our *Annual Report and Accounts 2020*. Leverage ratios are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements. Following the end of the transition period after the UK's withdrawal from the EU, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.

4 The fourth interim dividend of 2019, of $0.21 per ordinary share, was cancelled in response to a written request from the PRA. 2019 has been re-presented accordingly.

Who we are

About HSBC

With assets of $3.0tn and operations in 64 countries and territories at 31 December 2020, HSBC is one of the largest banking and financial services organisations in the world. More than 40 million customers bank with us and we employ around 226,000 full-time equivalent staff. We have around 194,000 shareholders in 130 countries and territories.

Our values

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

We value difference
Seeking out different perspectives

We succeed together
Collaborating across boundaries

We take responsibility
Holding ourselves accountable and taking the long view

We get it done
Moving at pace and making things happen

For further details on our strategy and purpose, see pages 12 and 16.

Our global businesses

We serve our customers through three global businesses. On pages 30 to 36 we provide an overview of our performance in 2020 for each of our global businesses, as well as our Corporate Centre.

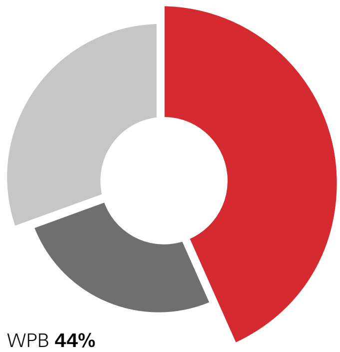
During the year, we simplified our organisational structure by combining Global Private Banking and Retail Banking and Wealth Management to form Wealth and Personal Banking. We also renamed our Balance Sheet Management function as Markets Treasury to reflect the activities it undertakes more accurately and its relationship to our Group Treasury function more broadly. These changes followed realignments within our internal reporting and include the reallocation of Markets Treasury, hyperinflation accounting in Argentina and HSBC Holdings net interest expense from Corporate Centre to the global businesses.

Each of the chief executive officers of our global businesses reports to our Group Chief Executive, who in turn reports to the Board of HSBC Holdings plc.

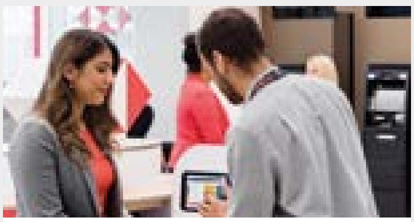
For further information on how we are governed, see our corporate governance report on page 195 of our *Annual Report and Accounts 2020*.

1 Calculation is based on adjusted revenue of our global businesses excluding Corporate Centre, which is also excluded from the total adjusted revenue number. Corporate Centre had negative adjusted revenue of $262m in 2020.

Adjusted revenue by global business[1]



- WPB **44%**
- CMB **26%**
- GBM **30%**



Wealth and Personal Banking ('WPB')
We help millions of our customers look after their day-to-day finances and manage, protect and grow their wealth.

Commercial Banking ('CMB')
Our global reach and expertise help domestic and international businesses around the world unlock their potential.

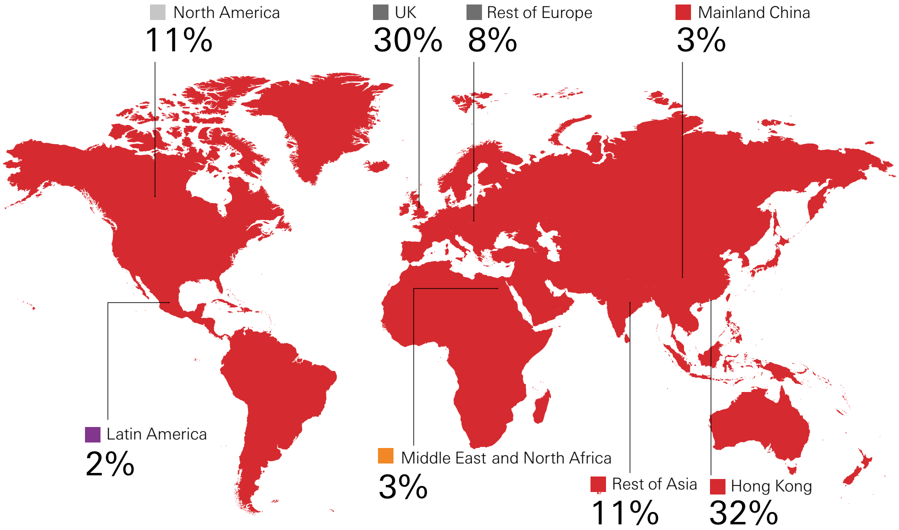
Global Banking and Markets ('GBM')
We provide a comprehensive range of financial services and products to corporates, governments and institutions.

Our global functions
Our business is supported by a number of corporate functions and our Digital Business Services teams, formerly known as HSBC Operations, Services and Technology. The global functions include Corporate Governance and Secretariat, Communications, Finance, Compliance, Human Resources, Internal Audit, Legal, Marketing, Risk and Strategy. Digital Business Services provides real estate, procurement, technology and operational services to the business.

Our global reach

We aim to create long-term value for our shareholders and capture opportunity. Our goal is to lead in wealth, with a particular focus on Asia and the Middle East. Taking advantage of our international network, we aspire to lead in cross-border banking flows, and to serve mid-market corporates globally. We continue to maintain a strong capital, funding and liquidity position with a diversified business model.

Value of customer accounts by geography



See page 84 of our *Annual Report and Accounts 2020* for further information on our customers and approach to geographical information.

Engaging with our stakeholders

Customers

Employees

Investors

Communities

Regulators and governments

Suppliers

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

Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on page 22.

Multi-award winning

We have won industry awards around the world for a variety of reasons – ranging from the quality of the service we provide to customers, to our efforts to support diversity and inclusion in the workplace.

A selection of the awards recognising our support of customers during the Covid-19 outbreak includes:

Euromoney Awards for Excellence 2020
Global Excellence in Leadership
Excellence in Leadership in Asia
Excellence in Leadership in the Middle East

Greenwich Associates 2020 – Standout Bank for Corporates in Asia During Crisis
Most Distinctive in Helping to Mitigate Impact of Covid-19

We highlight a selection of our other recent wins below.

Euromoney Awards for Excellence 2020
World's Best Bank for Sustainable Finance
World's Best Bank for Transaction Services
Hong Kong's Best Bank

The Banker Innovation in Digital Banking Awards 2020
Best Digital Bank in Asia

Asia Insurance Industry Awards 2020
Life Insurance Company of the Year

PWM Wealth Tech Awards 2020
Best Global Private Bank for Digital Customer Experience

Stonewall
Stonewall Top Global Employers List – 2020

Group Chairman's statement

The past year brought unprecedented challenges, but our people responded exceptionally well and our performance has been resilient.

Mark E Tucker
Group Chairman

In 2020, we experienced economic and social upheaval on a scale unseen in living memory. Even before the year began, the external environment was being reshaped by a range of factors – including the impact of trade tensions between the US and China, Brexit, low interest rates and rapid technological development. The spread of the Covid-19 virus made that environment all the more complex and challenging.

The Covid-19 pandemic has severely impacted our customers, our colleagues, our shareholders and the communities we serve. The first priority was, and remains, dealing with the public health crisis, but the economic crisis that unfolded simultaneously has also been unprecedented in recent times. The financial services industry has been at the forefront of helping businesses and individuals through the difficulties they have faced, working with governments and regulators towards expected recovery and future growth. I am enormously proud of the professionalism, dedication and energy that my colleagues around the world have demonstrated as they helped ensure our customers received the support they needed – all the while managing their own, at times extremely difficult, situations at home. On behalf of the Board, I would like to express my deepest thanks to them all for the exceptional way they are responding to these most challenging circumstances.

Against this backdrop, HSBC demonstrated a resilient performance. Reported profit before tax was $8.8bn, a fall of 34%, and adjusted profit before tax was $12.1bn, down 45%. Within this, Global Banking and Markets performed particularly well, while Asia was once again by far the most profitable region. Deposits also increased significantly across the Group, reinforcing the strength of our funding and liquidity positions.

In response to a request from the UK's Prudential Regulation Authority, we cancelled the fourth interim dividend for 2019. We also announced that, until the end of 2020, we would make no quarterly or interim dividend payments or accruals in respect of ordinary shares. This was a difficult decision and we deeply regret the impact it has had on our shareholders. We are therefore pleased to restart dividend payments at the earliest opportunity. The Board has announced an interim dividend of $0.15 for 2020, and adopted a policy designed to provide sustainable dividends in the future.

Board of Directors

The confirmation of Noel Quinn as permanent Group Chief Executive underlined the Board's belief that he is the best person to lead the delivery of the strategic plan. We look forward to working closely with Noel and the management team as they focus on executing our strategic priorities in 2021.

Jamie Forese, Steve Guggenheimer and Eileen Murray joined the Board as independent non-executive Directors in 2020. All three have already demonstrated the valuable skills, expertise and experience they bring across a wide range of areas, including technology. We have also announced that Dame Carolyn Fairbairn will join the Board as an independent non-executive Director. Carolyn will bring a wealth of relevant experience, and her appointment will be effective from 1 September 2021.

> "There are many opportunities ahead for a bank with HSBC's competitive strengths."

As reported in the *Annual Report and Accounts 2019*, Sir Jonathan Symonds and Kathleen Casey retired from the Board last year. Today we also announced that Laura Cha will step down from the Board immediately after our 2021 Annual General Meeting ('AGM') in May. I would like to thank Jon, Kathy and Laura for the enormous contributions they made to HSBC during their years of service. We are now in the advanced stages of a search for suitable candidates to join and strengthen the Board, and I will update further on the outcome of this search in due course.

Like the rest of the Group, the Board had to adapt its ways of working in 2020. We met virtually for much of the year, which brought benefits including less travel and more frequent, shorter meetings. It will be important for us to consider how we retain what has worked well over the last year once restrictions are lifted and it becomes possible to travel once again.

The Board enjoys the constructive discussions that we have with shareholders at the AGM in the UK and the Informal Shareholders' Meeting in Hong Kong, so it was a matter of regret that we did not meet in person in 2020. While we did maintain regular contact with shareholders throughout the year, we will resume our face-to-face engagement with shareholders in the UK, Hong Kong and more widely, as soon as is practicable.

External environment

After the significant deterioration in global economic conditions in the first half of the year due to the Covid-19 pandemic, there were signs of improvement in the second half, especially in Asia. The most impressive economic recovery has been in China – still the biggest driver of global growth – where international trade is rebounding most strongly. The signing of the Regional Comprehensive Economic Partnership should further boost intra-regional activity across Asia, while the recent political agreement between the EU and China on an investment deal should, once ratified, bolster the already significant two-way investment flows.

Covid-19 infection levels remain very high in Europe, the US and Latin America, and new variants of the virus have spread quickly. This has necessitated new lockdown measures in the UK and other countries. While the deployment of multiple vaccines means we are more optimistic about the future, there is clearly still some way to go before life can return to something like normality. Recovery will therefore take longer in these economies, with growth more likely later in 2021 in these economies.

The agreement of a trade deal between the UK and EU prior to the end of 2020 provides some certainty for cross-border trade. However, the reduced access for financial services under these new arrangements means that further work is needed to maintain the level playing field that has existed until now. Given the many benefits that the UK financial services industry brings to the UK and EU economies, equivalence must be a key priority for both parties.

The geopolitical environment remains challenging – in particular for a global bank like HSBC – and we continue to be mindful of the potential impact that it could have on our strategy. We continue to engage fully and frequently with all governments as we seek to do everything we possibly can to help our customers navigate an increasingly complex world.

Capturing future opportunities

Given the external environment, it is vital we stay focused on what we can control. The Board is confident there are many opportunities ahead for a bank with HSBC's competitive strengths. This makes it all the more important that we position ourselves to capture them.

While we prioritised supporting our customers and our people during the pandemic, we made good progress against the three strategic priorities announced in February 2020 – reallocating capital from underperforming parts of the business, reducing costs and simplifying the organisation. In particular, the Board worked closely with the management team over the course of the year on plans to accelerate progress and investment in key areas of growth, which include our Asian franchise, our wealth business and new technology across the Group.

We are today unveiling the outcome of extensive consultation with our people and customers on the Group's purpose and values. Being clear about who we are, what we stand for and how this connects to our strategy is an important part of how we align and energise the organisation to create long-term value for all those we work with and for – our investors, customers, employees, suppliers and the communities we serve. The Board fully endorses the outcome of this work.

Our commitment to create sustainable value is demonstrated by the new climate ambitions we announced in October 2020. The most significant contribution that HSBC can make to the fight against climate change is to bring our customers with us on the transition to a low-carbon future. Our goal of being net zero for our financed emissions by 2050 sends an important signal to our investors, our customers and our people – if our clients are prepared to change their business models and make that transition, we will help and support them to do so. HSBC was also delighted to be one of the founding signatories of the Terra Carta, which was launched last month by HRH The Prince of Wales' Sustainable Markets Initiative. Further details about all of the steps we are taking towards a more sustainable future are set out in the ESG review, which for the first time is included within the *Annual Report and Accounts 2020*.

Finally, 2020 underlined once again that our people are the driving force behind our business. I would like to reiterate how enormously grateful I am to my colleagues for the great dedication and care they showed to our customers and to each other during such testing times. Further empowering and enabling them to do their jobs and execute our strategic priorities is the key to our future success.

Mark E Tucker
Group Chairman

23 February 2021

Group Chief Executive's review

With a blueprint for the future and a renewed purpose to guide us, we are building a dynamic, efficient and agile global bank with a digital-first mindset, capable of providing a world-leading service to our customers and strong returns for our investors.

Noel Quinn
Group Chief Executive

In 2020, HSBC had a very clear mandate – to provide stability in a highly unstable environment for our customers, communities and colleagues. I believe we achieved that in spite of the many challenges presented by the Covid-19 pandemic and heightened geopolitical uncertainty.

Our people delivered an exceptional level of support for our customers in very tough circumstances, while our strong balance sheet and liquidity gave reassurance to those who rely on us. We achieved this while delivering a solid financial performance in the context of the pandemic – particularly in Asia – and laying firm foundations for our future growth. I am proud of everything our people achieved and grateful for the loyalty of our customers during a very turbulent year.

2020

Helping our customers emerge from the Covid-19 pandemic in a sustainable position was our most pressing priority. We did this by equipping our colleagues to work from home at the height of the pandemic, and keeping the vast majority of our branches and all of our contact centres open. Our investment in our digital capabilities – both in 2020 and in previous years – enabled our customers to access more services remotely, and we worked closely with our regulators around the world to open new digital channels in a safe and secure way. In total, we provided more than $26bn of relief to our personal customers and more than $52bn to our wholesale customers, both through government schemes and our own relief initiatives. We also played a vital role in keeping capital flowing for our clients, arranging more than $1.9tn of loan, debt and equity financing for our wholesale customers during 2020.

Even in the middle of the pandemic, we continued to look to the future. In October, we announced our ambition to become a net zero bank by 2050, supporting customers through the transition to a low-carbon economy and helping to unlock next-generation climate solutions. If the Covid-19 pandemic provided a shock to the system, a climate crisis has the potential to be much more drastic in its consequences and longevity. We are therefore stepping up support for our clients in a material way, working together to build a thriving low-carbon economy and focusing our business on helping achieve that goal.

The actions we outlined in February 2020 are largely on track or ahead of where we intended them to be, despite the complications of the pandemic. We renewed and re-energised the senior management team, with around three-quarters of the Group Executive Committee in post for just over a year or less. Our business is more streamlined than it was a year ago, with three global businesses instead of four and increased back-office consolidation. Costs are down materially, with over $1bn of gross operating costs removed during 2020. We are also already more than half-way towards our target to reduce at least $100bn of gross risk-weighted assets by 2022. Unfortunately, the changed interest-rate environment means we are no longer able to achieve a return on tangible equity of 10% to 12% by 2022. We will now target a return on tangible equity of 10% or above over the medium term.

The world around us changed significantly in 2020. Central bank interest rates in many countries fell to record lows. Pandemic-related lockdowns led to a rapid acceleration in the shift from physical to digital banking. Like many businesses, we learned that our people could be just as productive working from

"Helping our customers emerge from the Covid-19 pandemic in a sustainable position was our most pressing priority."

home as in the office. Also, as the world resolved to build back responsibly from the pandemic, governments, businesses and customers united to accelerate a low-carbon transition that works for all.

All of these things caused us to adjust and reinforce elements of our strategy to fit this new environment. The growth plans that we have developed are a natural progression of our February 2020 plans. They aim to play to our strengths, especially in Asia; to accelerate our technology investment plans to deliver better customer service and increased productivity; to energise our business for growth; and to invest further in our own low-carbon transition and that of our customers. They are also designed to deliver a 10% return on tangible equity over the medium term in the current low interest-rate environment.

Our purpose

As we charted the next stage of HSBC's journey, we also reflected on our purpose as a business. We consulted widely both internally and externally, speaking to thousands of colleagues and customers, and looked deeply into our history. The same themes came up again and again.

HSBC has always focused on helping customers pursue the opportunities around them, whether as individuals or businesses. Sometimes those opportunities are clear and visible, and sometimes they are far from obvious. Sometimes they arise in the next street, and sometimes on the next continent. Sometimes they exist in the status quo, and sometimes they are a product of great social or economic change. But always, they represent a chance for our customers to grow and to help those close to them – protecting, nurturing, building.

'Opening up a world of opportunity' both captures this aim and lays down a challenge for the future. Opportunity never stands still. It changes and evolves with the world around us. It is our job to keep making the most of it, and to find and capture it with a spirit of entrepreneurialism, innovation and internationalism that represents HSBC at its very best. This is the essence of what our plans intend to deliver, and what we intend to keep delivering for our customers, colleagues and communities as we navigate change and complexity together.

Financial performance

The pandemic inevitably affected our 2020 financial performance. The shutdown of much of the global economy in the first half of the year caused a large rise in expected credit losses, and cuts in central bank interest rates reduced revenue in rate-sensitive business lines. We responded by accelerating the transformation of the Group, further reducing our operating costs and moving our focus from interest-rate sensitive business lines towards fee-generating businesses. Our expected credit losses stabilised in the second half of the year in line with the changed economic outlook, but the revenue environment remained muted.

As a consequence, the Group delivered $8.8bn of reported profit before tax, down 34% on 2019, and $12.1bn of adjusted profits, down 45%. Our Asia business was again the major contributor, delivering $13bn of adjusted profit before tax in 2020.

Adjusted revenue was 8% lower than in 2019. This was due mainly to the impact of interest rate cuts at the start of the year on our deposit franchises in all three global businesses. By contrast, our Global Markets business benefited from increased customer activity due to market volatility throughout the year, growing adjusted revenue by 27%.

We made strong progress in reducing our operating expenses. A combination of our cost-saving programmes, cuts in performance-related pay and lower discretionary spending due to the Covid-19 pandemic helped to reduce our adjusted operating expenses by $1.1bn or 3%.

Response to Covid-19

Our operations have stayed highly resilient and we are participating in several Covid-19 relief measures.

Approximately

85%

of our employees are now equipped to work from home.

We provided over

$26bn

of relief to our personal customers.

Our investment plans remain essential to the future of the business. We continued to invest heavily in technology while managing costs down, spending $5.5bn during 2020.

Our funding, liquidity and capital remain strong. We grew deposits by $173bn on a constant currency basis, with increases across all three global businesses. Our common equity tier one ratio was 15.9% on 31 December 2020.

Our shareholders

It was a difficult year for our shareholders. The Covid-19 pandemic and the impact of geopolitics weighed heavily on our share price throughout 2020. In March, we cancelled the payment of our fourth interim dividend for 2019 at the request of our lead regulator, and also agreed not to make any quarterly or interim dividend payments until the end of 2020. This particularly affected shareholders who rely on our dividend for income. It was a priority for the management team to get back to being able to pay dividends by the end of the year, and we were pleased to be able to recommend the payment of an interim dividend for 2020.

Dividends are hugely important, but so is capacity for growth. To deliver both, we are adopting a new policy designed to provide sustainable dividends, offering good income while giving management the flexibility to reinvest capital to grow the firm over the medium term. We will consider share buy-backs, over time and not in the near term, where no immediate opportunity for capital redeployment exists. We will also no longer offer a scrip dividend option, and will pay dividends entirely in cash.

The last 12 months were tough, but I am highly focused on turning our performance around in 2021 and beyond. I strongly believe that the combination of our growth plans and our new dividend policy will unlock greater value for our shareholders in the years to come.

Opening up a world of opportunity

'Opening up a world of opportunity' is more than a purpose – it is a statement of intent. Everything that we plan to do over the next decade is designed to unlock opportunity for our stakeholders, whether customers, colleagues, shareholders or communities. We intend to do this by building a dynamic, efficient and agile global bank with a digital-first mindset, capable of providing a world-leading service to our customers and strong returns for our investors. We will also need to focus intently on the areas where we excel, and to foster a commercial and entrepreneurial culture with a conviction to get things done. We believe we can achieve this in four ways.

First, we plan to focus on and invest in the areas in which we are strongest. In Wealth and Personal Banking, we aim to become a market-leader for high net worth and ultra high net worth clients in Asia and the Asian diaspora, and to invest in our biggest retail markets where the opportunity is greatest. In Commercial Banking, we want to remain a global leader in cross-border trade, and to lead the world in serving mid-market corporates internationally. In Global Banking and Markets, we intend to invest to capture trade and capital flows into and across Asia, while connecting global clients to Asia and the Middle East through our international network.

Second, we intend to increase the pace at which we digitise HSBC through higher levels of technology investment. This underpins everything that we want to achieve. It is how we intend to win new customers and retain them, to become more agile and efficient, to create richer, seamless customer journeys, and to build strong and innovative partnerships that deliver excellent benefits for our customers. We have an opportunity to meet the growing market need for sophisticated, robust and rapid payment solutions, and to lead our industry in applying digital solutions to analogue services, such as trade. We therefore intend to protect technology investment throughout the cycle, even as we reduce spending elsewhere.

Third, we want to energise HSBC for growth through a strong culture, simple ways of working, and by equipping our colleagues with the future skills they need. Giving life to our purpose will be critical to building the dynamic, entrepreneurial and inclusive culture that we want to create, as will removing the remaining structural barriers that sometimes stop our people from delivering for our customers. We need to change the way we hire to build skills and capabilities in areas that are different to what we have needed historically, including data, artificial intelligence, and sustainable business models. Our expanded HSBC University will also help to upskill and reskill our people, while fostering more of the softer skills that technology can never replace.

Fourth, we will seek to help our customers and communities to capture the opportunities presented by the transition to a low-carbon economy. Accelerating this transition is the right thing to do for the environment, but also the right thing commercially. We intend to build on our market-leading position in sustainable finance, supporting our clients with $750bn to $1tn of sustainable financing and investment over the next 10 years. We also intend to unlock new climate solutions by building one of the world's leading climate managers – HSBC Pollination Climate Asset Management – and helping to transform sustainable infrastructure into a global asset class. These will help us achieve our ambition to align our portfolio of financed emissions to the Paris Agreement goal to achieve net zero by 2050.

Championing inclusion

I believe passionately in building an inclusive organisation in which everyone has the

"I believe passionately in building an inclusive organisation in which everyone has the opportunity to fulfil their potential"

opportunity to fulfil their potential. Failing to do so isn't just wrong, it is totally self-defeating. It means you don't get the best out of the talent you have, and sends the wrong signals to the people you want to recruit. An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings.

There is much still to do, but we are moving in the right direction. More than 30% of our senior leaders are female, in line with the goal we set to achieve by the end of 2020. I want that number to increase to at least 35% by 2025, and we have a number of initiatives in place to help achieve it. In May, we launched a new global ethnicity inclusion programme to better enable careers and career progression for colleagues from ethnic minorities, and in July, we made a series of commitments to address feedback from Black colleagues in particular. These included a commitment to more than double our number of Black senior leaders by 2025.

I am particularly proud that during a difficult year, which included a large-scale redundancy programme, employee sentiment improved within HSBC. Around 71% of my colleagues said that they found HSBC to be a great place to work, up from 66% in 2019. However, the view varies across employees from different groups. We know, for example, that employees with disabilities or who identify as ethnic minorities do not feel as engaged as others. I take these gaps very seriously. Better demographic data globally will help us benchmark and measure our progress more effectively, and we are taking concerted steps to be able to capture that information where possible.

2021 outlook

We have had a good start to 2021, and I am cautiously optimistic for the year ahead. While a spike in Covid-19 infection rates led to renewed lockdown measures in many places at the start of 2021, the development of multiple vaccines gives us hope that the world will return to some form of normality before long. Nonetheless, we remain reactive to the ebb and flow of the Covid-19 virus and prepared to take further steps to manage the economic impact where necessary.

The geopolitical uncertainty that prevailed during 2020 remains a prominent feature of our operating environment. We are hopeful that this will reduce over the course of 2021, but mindful of the potential impact on our business if levels remain elevated. We remain focused on serving the needs of our customers, colleagues and communities in all our markets.

Our people

I would like to pay tribute to my colleagues and all those who supported them throughout a difficult year. HSBC is a community of around 226,000 colleagues – but it relies just as much on the family, friends and support networks that help them be the best they can be. Our people did extraordinary things in 2020, but it asked a lot of those around them. I am hugely grateful to everyone who helped HSBC – whether directly or indirectly – in supporting our customers, communities and each other over the last 12 months.

Noel Quinn
Group Chief Executive

23 February 2021

Our strategy

With continued delivery against our February 2020 commitments, we are now in the next stage of our strategic plan, which responds to the significant shifts during the year and aligns to our refreshed purpose, values and ambition.

Progress on our 2020 commitments

In February 2020, we outlined our plan to upgrade our returns profile through recycling risk-weighted assets ('RWAs') out of low-return franchises into higher-performing ones, reducing our cost base and streamlining our organisation.

During 2020, in spite of significant headwinds posed by the impact of the Covid-19 outbreak across our network, we made significant progress on delivering against the ambitions we outlined. We delivered $1bn of cost programme saves. We also reduced gross RWAs by $52bn, including $24bn from our non-ring-fenced bank in Europe and the UK, and are currently on track to meet the greater than $100bn target outlined by 2022.

We took bold steps to simplify our organisation, including the merger of Retail Banking and Wealth Management and Global Private Banking to form Wealth and Personal Banking. We also reduced management layers in Global Banking and Markets and our non-ring-fenced bank in Europe and the UK. We have built a strong capital position, ending the year with a CET1 ratio of 15.9%. Our return on tangible equity ('RoTE') of 3.1% was negatively impacted by the Covid-19 outbreak and the challenging macroeconomic environment, including lower interest rates and higher expected credit losses.

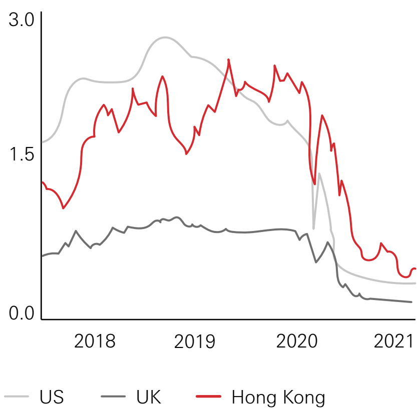
Responding to the new environment

There was a set of fundamental shifts in 2020 that profoundly impacted our organisation as well as the wider financial services sector. We have adapted our strategy accordingly.

Low interest-rate environment

Interest rates are expected to remain lower for longer, resulting in a more difficult revenue environment for the financial services sector.

Evolution of major interbank rates[1]
Three-month interbank offered rates (%)

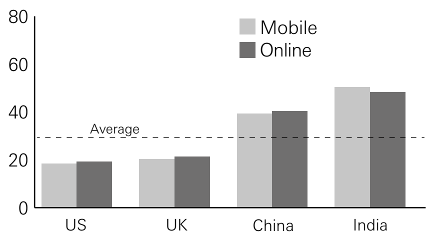


We are responding by targeting fee income growth in wealth and wholesale banking products and improving cost efficiencies.

The new digital experience economy

Remote working and global lockdowns due to the Covid-19 outbreak have increased our customers' propensity and preference to engage digitally.

Digital banking usage up c.30%[2] in the industry
% customers increasing digital usage, mid-2020 vs pre-Covid-19



HSBC customer trends

125% Increase in HSBCnet mobile downloads[3]

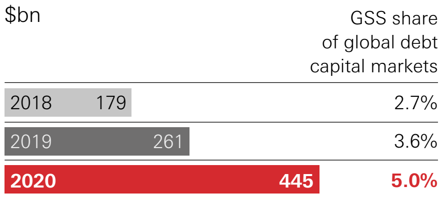
253% Increase in HSBCnet mobile payments[3]

We are responding by increasing investments in technology across our customer platforms.

Increased focus on sustainability

The demand for sustainable solutions and green finance rose to new highs in 2020.

Green, social and sustainability ('GSS') bond market[4]
$bn



Companies with disclosed climate action targets under the Science Based Targets Initiative: 228 (in 2018) → **1,106** (in 2020)

We stepped up our climate ambitions – we aim to be a net zero bank and support our clients in their transition with $750bn to $1tn of financing.

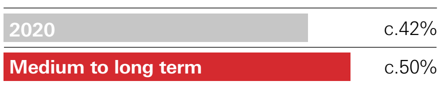
1 Source: Datastream.
2 Source: Bain & Company Covid-19 Pulse Survey, July 2020; Overall sample: 10,000.
3 Fourth quarter of 2020 vs fourth quarter of 2019.
4 Source: Dealogic.

Shifting capital to areas with the highest returns and growth

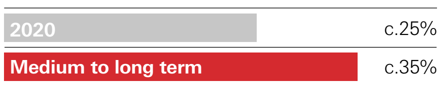
We are responding to the changes in our operating environment, and building on our 2020 commitments. Our strategy includes accelerating the shift of capital to areas, principally Asia and wealth, that have demonstrated the highest returns and where we have sustainable advantage through scale. Our international network remains a key competitive advantage and we will continue to support cross-border banking flows between major trade corridors. Supported by these shifts, we are aiming to reach mid-single-digit revenue growth in the medium to long term[1], with a higher proportion of our revenue coming from fee and insurance income.

Capital allocation

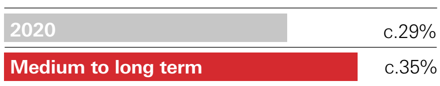
Asia
(as a % of Group tangible equity[2])



Wealth and Personal Banking
(as a % of Group tangible equity[3])



Fees and insurance
(as a % of total revenue)



1 Medium term is three to four years; long term is five to six years.
2 Based on tangible equity of the major legal entities excluding associates, Holdings companies, consolidation adjustments, and any potential inorganic actions.
3 WPB tangible equity as a share of tangible equity allocated to the global businesses (excluding Corporate Centre). Excludes Holdings companies, consolidation adjustments, and any potential inorganic actions.

Group targets, dividend and capital policy

To support the ambitions of our strategy, we have revised our Group targets, dividend and capital policy.

Adjusted costs in 2022
≤$31bn
(on December 2020 average exchange rate; or ≤$30bn using full year 2020 average exchange rate)

Gross RWA reduction by end of 2022[1]
>$100bn

CET1 ratio
≥14%
(manage in 14% to 14.5% range over medium term[2], and manage the range down further long term[2])

Sustainable cash dividends with a payout ratio[3] of
40% to 55%
from 2022 onwards

RoTE over medium term
≥10%
(vs 10% to 12% in 2022 in February 2020 commitment)

We have increased our 2022 cost reduction target by $1bn and we plan to keep costs stable from 2022. We also plan to reduce tangible equity in the US and in our non-ring-fenced-bank in Europe and the UK, and increase tangible equity in Asia and in Wealth and Personal Banking. Dividends could be supplemented by buy-backs or special dividends, over time and not in the near term[4]. We will also no longer offer a scrip dividend option, and will pay dividends entirely in cash. Given the significant changes in our operating environment during 2020, we no longer expect to reach our RoTE target of between 10% and 12% in 2022 as originally planned.

1 Excludes any inorganic actions.
2 Medium term is three to four years; long term is five to six years.
3 We intend to transition towards a target payout ratio of between 40% and 55% of reported earnings per ordinary share ('EPS') from 2022 onwards, with the flexibility to adjust EPS for non-cash significant items, such as goodwill or intangibles impairments.
4 Should the Group find itself in an excess capital position absent compelling investment opportunities to deploy that excess.

Our strategy

We have embedded our purpose, values and ambition into our strategy. Our purpose is 'Opening up a world of opportunity'. Our values are: we value difference; we succeed together; we take responsibility; and we get it done. Our ambition is to be the preferred international financial partner for our clients. Our strategy centres around four key areas: focus on our areas of strengths; digitise at scale to adapt our operating model for the future; energise our organisation for growth; and support the transition to a net zero global economy.

Focus on our strengths

In our global businesses

In each of our global businesses, we will focus on areas where we are strongest and have significant opportunities for growth. We aim to invest approximately $6bn in Asia[1], where we intend to drive double-digit growth in profit before tax in the region in the medium to long term[2].

Wealth and Personal Banking
Our goal is to lead in wealth, with a particular focus on Asia and the Middle East, while investing in our largest retail markets such as Hong Kong and the UK. Over the medium to long term, we intend to grow wealth revenue at more than 10% compound annual growth rate, and grow Asia wealth assets under management faster than the market. In support of these ambitions, we aim to: capture opportunities to serve high and ultra high net worth segments across Asia, especially in China, south-east Asia, Hong Kong and Singapore; deploy our manufacturing capabilities at scale in insurance and asset management; and build propositions that facilitate client origination from our wholesale businesses.

We aim to invest more than

$3.5bn

in Asia over five years to 2025[1].

Commercial Banking
Taking advantage of our international network, we aspire to lead in supporting cross-border trade and in serving mid-market corporates globally. We plan to accelerate international client acquisition and deepen our share of wallet in cross-border services. We aim to develop front-end ecosystems to drive international mid-market client acquisition at scale. We plan to improve SME propositions in key markets with digital sales and service journeys. We will also continue to invest in our front-end platforms for Global Liquidity and Cash Management, Global Trade and Receivables Finance and Foreign Exchange to drive more fee income and accelerate our asset distribution.

We aim to invest approximately

$2bn

across global platforms[3] over five years to 2025[1].

Global Banking and Markets
We will continue to invest in Global Banking and Markets as a leading international bank in Asia and the Middle East, with a global network to support trade and capital flows. We aim to invest in areas such as: enhancing digital platforms for our Asia wealth propositions, including structured products and foreign exchange; market access and execution capabilities in Global Markets and Securities Services; and expansion of our investment banking coverage across Asia. The next five years should see Global Banking and Markets pivot to a less volatile and higher-returns model, relying less on our balance sheet, and focusing more on the growing capital markets opportunity in Asia and the Middle East.

We aim to invest approximately

$0.8bn

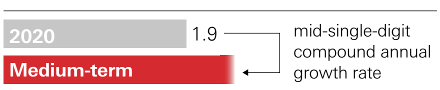
in Asia over five years to 2025[1].

Continued execution of our transformation programme

To help create capacity for growth, we are refocusing our US business, our non-ring-fenced bank in Europe and the UK, and our Global Banking and Markets business.

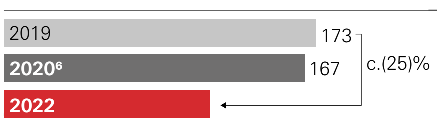
A focused international business in the US
We will continue to invest in our substantial corporate and institutional franchise in the US over the medium to long term, including taking actions to further increase international connectivity and revenue in other geographies where HSBC and our US client base have a strong presence around the world including Asia, the Middle East, the UK and continental Europe. We continue to explore strategic options with respect to our US retail franchise, looking to focus on our high net worth, Jade and Premier client base and wealth management products, while reviewing other options in respect of our retail banking presence.

Commercial Banking and Global Banking revenue[4] ($bn)



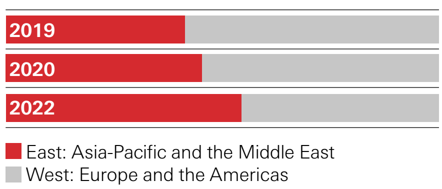
Our non-ring-fenced bank in Europe and the UK
Our non-ring-fenced bank will focus on a wholesale footprint that serves international customers both outbound and inbound within our network. We intend to continue investing in our transaction banking franchise that has strong linkage to Asia. We are continuing with the strategic review of our retail banking operations in France and are in negotiations in relation to a potential sale, although no decision has yet been taken. If any sale is implemented, given the underlying performance of the French retail business, a loss on sale is expected. We simplified our operating model, with shared services between our two hubs in London and Paris. We plan to continue reducing complexity in our RWA and cost consumption, and we aim to reduce costs[5] by approximately 20% by 2022.

RWA[5] ($bn)



Our Global Banking and Markets business
Our Global Banking and Markets business will refocus on Asia and the Middle East. We aim to be the pre-eminent corporate and investment bank in Asia, focusing on opportunities such as the regionalisation of trade and capital flows and the rise in wealth creation. We will focus on serving clients into and within Asia and the Middle East, and providing global institutions with access to developed and emerging markets. We are redeploying capital and moving centres of excellence in Global Markets and Global Banking closer to clients in Asia as we allocate investments to the region.

Shifting allocation of RWAs (%)



1 Consists of 'growth investment', which refers to investment in strategic business growth (including the build-out of front-line staff).
2 Medium term is three to four years; long term is five to six years.
3 Commercial Banking platforms will be tested in Asia and rolled out globally thereafter.
4 Including Global Liquidity and Cash Management and Global Trade and Receivables Finance revenue.
5 Excludes any inorganic actions.
6 Gross RWA saves of $24.4bn achieved in 2020, largely offset by changes in asset size and quality, and updates to models, methodology and policy.

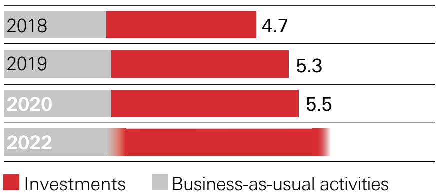
Digitise at scale

We plan to grow investments[1] at a compound annual growth rate of approximately 7% to 10% from 2019 to 2022. We will focus our investments in areas such as technology to improve our customers' digital experiences while ensuring security and resilience. These investments will be funded in part by using technology to drive down costs, including a reduction in manual client processes and a reduction in our commercial real estate footprint.

Investing in technology
We aim to deliver excellent customer experience throughout our network, including through the use of straight-through processing for payments, and through partnerships with big technology firms and fintechs for innovation support. We also intend to build platforms for higher front-end productivity, including arming our front-line staff with data analytics and visualisation for key insights. We plan to automate our middle and back office by, for example, integrating machine-learning to improve analytics capabilities. We also plan to build solutions to free up office footprint, supported by a shift to a more agile way of working and more efficiencies through reduced headcount.

Continuing to invest in technology capabilities

Technology spend ($bn)



Driving down our cost base
We plan to deliver $5bn to $5.5bn of cost programme saves from 2020 to 2022, supporting a decline of our cost base to $31bn or less by 2022 (using December 2020 average exchange rate) or $30bn or less (using full year 2020 average exchange rate). We plan to keep costs broadly stable from 2022, while increasing the proportion of investment.

$1bn

increase in our 2022 cost reduction target

(≤$30bn based on full year 2020 exchange rate vs ≤$31bn in our February 2020 commitments)

We plan to deliver

$5bn to $5.5bn

of cost programme saves from 2020 to 2022.

(vs $4.5bn in February 2020 commitments)

We plan to spend approximately

$7bn

in costs to achieve to help deliver our cost saves.

(vs $6bn in February 2020 commitments)

1 'Investment' includes strategic business growth (including build-out of front-line staff), and other strategic, regulatory, and technology investment (including amortisation).

Energise for growth

We are moving to a leaner and simpler organisation that is energised and fit for the future.

Inspire a dynamic culture
We intend to re-energise our culture to succeed with purpose and bring our values to life. We also aim to adopt future ways of working. To support these objectives, we secured inputs from approximately 120,000 colleagues and engaged with over 2,500 customers to help shape our renewed purpose and values, which have been embedded into our strategy. Furthermore, we are launching new leadership expectations that help to: give life to our purpose; unleash our organisation's potential; and see through our actions.

Champion inclusion
We aim to increase diverse representation, particularly in the senior levels of our organisation. In 2020, we achieved more than 30% of female senior leadership, and we intend to increase to more than 35% by 2025. We endeavour to close the gaps in employee engagement in under-represented groups. We are also focusing on the quality and reporting of ethnicity data and benchmarking our actions. Our progress to date includes race commitments to at least double the number of Black employees in senior leadership roles globally by 2025 and recognition within Stonewall's 2020 Top Global Employers Index for LGBT+ staff.

Develop future skills
To energise our colleagues, we are setting out initiatives to help develop their future skills and capabilities. We aim to deepen the prevalence of digital, professional and enabling skills across the organisation. Our accomplishments to date include expanding HSBC University courses on future skills, digitalisation and sustainability. Moreover, we are deploying third-party platforms such as Degreed, for educational technology, and Gloat, for career development.

Transition to net zero

Our ambition is to support the transition to a net zero global economy.

Becoming a net zero bank
We are making changes both in our own operations and for our customers through our financing portfolio. We aim to bring our operations and supply chain to net zero by 2030 or sooner. We also plan to align our financed emissions – the carbon emissions of our portfolio of customers – to the Paris Agreement goal to achieve net zero by 2050 or sooner.

Supporting our customers
Our aim is to provide between $750bn and $1tn of sustainable finance and investment by 2030 to support our customers in their transition to lower carbon emissions.

Unlocking new climate solutions
We are working with a range of partners to increase investment in natural resources, clean technology and sustainable infrastructure. We also plan to donate $100m to a programme that will support climate solutions to scale over the next five years.

We address the progress made on our commitments in a number of different sections of our *Annual Report and Accounts 2020* and beyond. For more information on our climate strategy, please refer to the below.

Our ESG review can be found on page 42 of our *Annual Report and Accounts 2020*.

A summary of our fourth Task Force on Climate-related Financial Disclosures ('TCFD') can be found on page 20, and our *TCFD Update 2020* can be found at www.hsbc.com/esg.

How we do business

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

Our approach

We recognise that it is important to be clear about who we are and what we stand for to create long-term value for our stakeholders. This will help us deliver our strategy and operate our business in a way that is sustainable.

Following an extensive consultation with our people and customers, we refined our purpose and values. Our new purpose is 'Opening up a world of opportunity' and we aim to be the preferred international financial partner for our clients.

To achieve this in a way that is sustainable, we are guided by our values: we value difference; we succeed together; we take responsibility; and we get it done.

Our Covid-19 actions

Having a clear purpose and strong values has never been more important, with the Covid-19 pandemic testing us all in ways we could never have anticipated. As the world changed over the course of 2020, we adapted to new ways of working and endeavoured to provide support to our customers during this challenging period.

We kept the majority of our branches and all of our contact centres open. To help achieve this, we equipped 85% of our colleagues to be able to work from home, and provided extra resources and support to help them manage the mental and physical health challenges of the pandemic.

We did not apply for government support packages for our employees across the countries and territories in which we operate.

On the following page, we have set out further ways that we supported each of our stakeholders.

Fair outcomes

In 2020, we continued to promote and encourage good conduct through our people's behaviours and the decisions we take during these unprecedented times. We define conduct as delivering fair outcomes for our customers and not disrupting 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. For further information on conduct, see page 187 of our *Annual Report and Accounts 2020*. Details on our conduct framework are available at www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct.

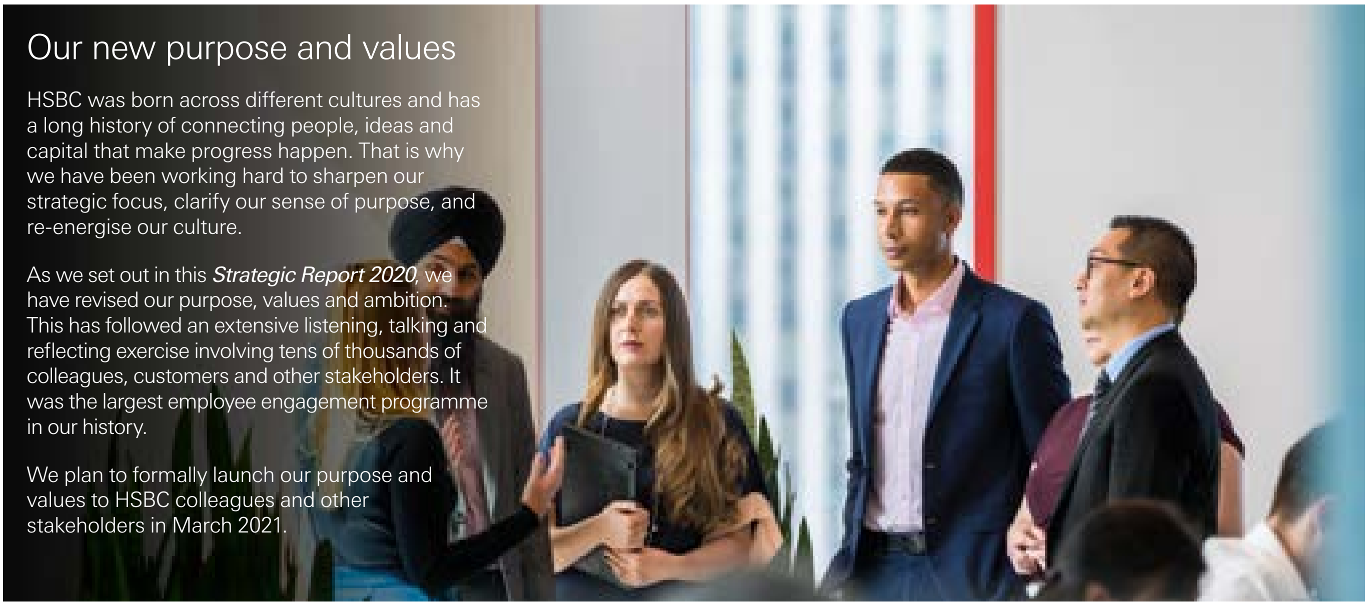
We believe diversity makes us stronger, and we are dedicated to building a diverse and connected workforce. We achieved our target of 30% women holding senior leadership roles, which are classified as 0 to 3 in our global career band structure, by 2020. We want to keep our focus and momentum and build more gender-balanced teams, so we have set ourselves a target to achieve 35% women in senior leadership roles by 2025.

We published ethnicity data in the UK and US and recognise we need to take action. We aim to at least double the number of Black employees in senior leadership roles globally by 2025.

Our climate ambition

In 2020, we announced our climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to the Paris Agreement goal of net zero by 2050. We know this is a journey and recognise that the current means of measuring progress globally need improving to track reductions better.

We have changed how we report on ESG issues this year by embedding the content previously provided in our stand-alone *ESG Update* within our *Annual Report and Accounts 2020*. This can be found in the ESG review on page 42.



Our new purpose and values

HSBC was born across different cultures and has a long history of connecting people, ideas and capital that make progress happen. That is why we have been working hard to sharpen our strategic focus, clarify our sense of purpose, and re-energise our culture.

As we set out in this *Strategic Report 2020*, we have revised our purpose, values and ambition. This has followed an extensive listening, talking and reflecting exercise involving tens of thousands of colleagues, customers and other stakeholders. It was the largest employee engagement programme in our history.

We plan to formally launch our purpose and values to HSBC colleagues and other stakeholders in March 2021.

Supporting our stakeholders through Covid-19

The Covid-19 outbreak has created a great deal of uncertainty and disruption for the people, businesses and communities we serve around the world. It is affecting everyone in different ways, with markets at different stages of the crisis. We are tailoring our response to the different circumstances and situations in which our stakeholders find themselves.

Customers
The Covid-19 outbreak has posed significant challenges for our customers. Our immediate priority is to do what we can to provide them with support and flexibility.

This has included offering payment relief and restructuring mortgage payments, as well as extending relief loans or temporary credit limit increases for borrowers. At 31 December 2020, we had active payment relief measures impacting 87,000 accounts and $5.5bn in balances as part of market-wide schemes and our own payment holidays programmes.

On the first day of a government cash payout scheme in Hong Kong, we received one million registrations after we set up a simple digital and branch registration process. At the end of 2020, the lending support we provided to more than 237,000 wholesale customers globally was valued at $35.3bn, both through government schemes and our own initiatives.

We have taken steps to keep many of our branches open while protecting customers and our colleagues. However, with customers doing more of their banking online, we have also deployed new technology to help enable them to engage with us in new ways.

For further details on how we are helping our customers, including during the Covid-19 outbreak, see the Customers section of the ESG review on page 52 of our *Annual Report and Accounts 2020*.

Employees
The Covid-19 outbreak tested our colleagues in many ways and they adapted at pace in this fast-changing environment.

In branches, we introduced social distancing measures, provided personal protective equipment, reduced operating hours and offered virtual appointments. For office workers, we made sure cybersecurity controls and software supported home working.

For some of our colleagues, we changed their roles, asking them to undertake activities that were outside their normal activities. This helped to keep many of our colleagues working during these extraordinary times.

Our employee networks have held regular support calls for those experiencing mental health challenges and 92,000 colleagues participated in our Covid-19 well-being survey, with 86% telling us they were confident in the approach our leadership team was taking to managing the crisis.

For further details on how we are helping our colleagues, see the Employees section of the ESG review on page 62 of our *Annual Report and Accounts 2020*.

Investors
The Covid-19 outbreak and the impact of geopolitics weighed heavily on our share price throughout 2020. Central banks and governments also implemented several measures in their response to the pandemic. In line with all other large UK-based banks, and in response to a request from the UK's PRA, we cancelled the fourth interim dividend for 2019. We also announced that, until the end of 2020, we would make no quarterly or interim dividend payments or accruals in respect of ordinary shares.

This was a difficult decision and we deeply regret the impact it has had on shareholders. We are therefore pleased to restart dividend payments at the earliest opportunity. The Board has announced an interim dividend of $0.15 for 2020. Adopting a prudent approach now will help ensure the dividend remains sustainable in the future.

We continued to engage virtually with investors. It was unfortunately not possible for shareholders to attend the 2020 AGM in person due to social distancing measures. Shareholders were instead encouraged to vote by proxy and submit questions in advance with the answers published subsequently on our website. We also maintained an active programme of shareholder meetings and presentations.

Communities
Our $25m Covid-19 donation fund supported relief and recovery efforts around the world, including immediate medical relief, access to food, and care for the most vulnerable people.

Regulators and governments
We have proactively engaged with regulators and governments globally regarding the policy changes issued in response to the Covid-19 outbreak to help our customers and to contribute to an economic recovery.

Suppliers
We made early payments to thousands of our suppliers during the year to support them through the pandemic.

Our ESG metrics and targets

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

The 2020 annual incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Managing Directors had 30% weightings for measures linked to outcomes that underpin the ESG metrics below. In addition, for executive Directors, a 25% weighting is given to environment and sustainability measures in the 2020 long-term incentive ('LTI') scorecards, which have a three-year performance period ending on 31 December 2023. The targets for this measure are linked to our climate ambition of achieving a reduction in our carbon footprint and facilitating financing to help our clients in their transition to net zero. For a summary of how all financial and non-financial metrics link to executive remuneration outcomes, see pages 241 to 245 of the Directors' remuneration report in our *Annual Report and Accounts 2020.*

For a number of the metrics outlined below, 2020 was a transition year. For further details, including the high-level framework for how we are looking to measure the progress on our new climate ambition, see the ESG review on page 42 of our *Annual Report and Accounts 2020.* In 2021, we will introduce new metrics and targets aligned to our strategy.

		Target	Performance in 2020
Environmental	Sustainable finance and investment	Provide and facilitate[1] $100bn by the end of 2025	$93.0bn cumulative progress since 2017[1]
	Reduce operational CO_2 emissions	2.0 tonnes used per full-time equivalent ('FTE') by the end of 2020[2]	1.76 tonnes used per FTE[2]
	Climate-related disclosures	Continued implementation of the Financial Stability Board's TCFD	We published our 4th TCFD, which can be found on page 20 and in the separate *TCFD Update 2020* on www.hsbc.com/esg. We recognise there is still work to be done on how we report climate-related disclosures
Social	Customer satisfaction	Customer satisfaction improvements in 8 scale markets[3]	7 WPB markets sustained top-three rank and/or improved in customer satisfaction[3]; 5 CMB markets sustained top-three rank and/or improved in customer satisfaction[3]
	Employee advocacy	69% of employees recommending HSBC as a great place to work by the end of 2020[4]	71% of employees would recommend HSBC as a great place to work[4]
	Employee gender diversity	30% women in senior leadership roles by the end of 2020[5]	30.3% women in senior leadership roles[5]
Governance	Achieve sustained delivery of global conduct outcomes and effective financial crime risk management	98% of staff to complete annual conduct training	93.2% of staff completed conduct training in 2020[6]

1 The sustainable finance commitment and progress figure includes green, social and sustainability activities. In October 2020, we announced a new target ambition to provide between $750bn to $1tn of sustainable finance and investment by 2030. For further details, see page 44 of the ESG review in our *Annual Report and Accounts 2020.*
2 This carbon figure covers scope 1, scope 2 and scope 3 (travel) emissions. For further details, see www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.
3 Our customer satisfaction performance is based on improving from our 2017 baseline. Our scale markets are Hong Kong, the UK, Mexico, the Pearl River Delta, Singapore, Malaysia, the UAE and Saudi Arabia. For further details on how we are transitioning to a new metric, see page 54 of the ESG review in our *Annual Report and Accounts 2020.*
4 Our target was to improve employee advocacy by three points each year through to 2020. Our employee advocacy score in 2019 was 66%. Performance is based on our employee Snapshot results. From 2021, our targets will be based on our employee engagement index.
5 Senior leadership is classified as 0 to 3 in our global career band structure.
6 The launch of conduct global mandatory training in 2020 was delayed due to the Covid-19 outbreak and the completion date was rolled over into 2021.

Our climate risk and reporting strategy

Every organisation has a role to play in limiting the impact of climate change. We believe our most significant contribution will be to align with the Paris Agreement goal of net zero global greenhouse emissions by 2050, through financing the transformation of businesses and infrastructure.

Central to our new climate ambition of becoming net zero in our financed emissions by 2050 or sooner is the intensification of our support for customers transitioning to a low-carbon economy. We aim to mobilise between $750bn and $1tn of sustainable finance and investment by 2030.

The Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') recommendations set an important framework for understanding and analysing climate-related risks, and we are committed to regular, transparent reporting to help communicate and track our progress. We will advocate the same from our customers, suppliers and the industry. However, this is a journey and much work lies ahead as we develop our climate risk management and metrics capabilities, and build on our 2020 climate scenario analysis. This summary, together with our separate *TCFD Update 2020*, forms our fourth TCFD disclosure.

We have made headway assessing climate's impact on our customers and our operations – from the physical risk of increased severity or shifts in weather events, and the potential transition risk from changes to policy, technology and consumer behaviour. Working to embed climate into our risk management framework, we are initially focusing on five principal risk types most likely to be influenced by climate risk. The table below sets out examples of how these risk types might be impacted.

For further details of our climate ambition, see pages 45 to 50 of the ESG review in our *Annual Report and Accounts 2020.* Our *TCFD Update 2020* can be found at www.hsbc.com/esg.

Climate risk impact	Principal risk type impacted	Examples of potential impact
Extreme weather events or chronic changes in weather patterns impact our assets, operations or our customers' assets	Retail credit risk Wholesale credit risk Resilience risk	– The cost of flood damage to a customer's home leaves them unable to repay their mortgage – Hurricane damage to a customer's warehouse halts manufacturing and leaves them unable to repay their loan – One of our data centres is flooded and we are unable to service customers
Our business models or our customers' business models fail to align to a low-carbon economy	Wholesale credit risk Reputational risk	– Failure to align to new regulations leads to a loss of business and customers are unable to repay their loans – Our actions lead to negative external perceptions of our organisation
We fail to effectively design and market climate-related products across all global businesses or respond to regulatory change	Reputational risk Regulatory compliance risk	– We fail to respond to a regulatory change, leading to adverse stakeholder reaction

We have identified six sectors where we are most exposed to transition risk and our level of lending activity in those sectors. From our corporate questionnaire, we collate information about our customers' climate transition strategies to assess their need and readiness to adapt, and to identify potential business opportunities. This supports our decision making and credit risk management processes. Across 2019 and 2020, we received responses from customers within the six high transition risk sectors, which represented 41% of our exposure – an increase of seven percentage points from 2019. The table below shows our lending activity in the six sectors and insights from our questionnaire.

Within the power and utilities, and metals and mining sectors shown in the table below, our direct exposure to thermal coal is 0.2% of the wholesale loans and advances figures.

Wholesale loan exposure to transition risk sectors and customer questionnaire responses

	Automotive	Building and construction	Chemicals	Metals and mining	Oil and gas	Power and utilities	Total
Wholesale loan exposure as % of total wholesale loans and advances to customers and banks[1,2,3]	≤3.1%	≤4.0%	≤3.4%	≤2.5%	≤3.4%	≤3.2%	≤19.6%
Proportion of sector for which questionnaires were completed[4]	42%	44%	32%	45%	42%	40%	41%
Proportion of questionnaire responses that reported having a board policy or a management plan[4]	68%	81%	77%	54%	84%	93%	77%
Sector weight as proportion of high transition risk sector[4]	16%	20%	18%	13%	17%	16%	100%

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

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

3 Total wholesale loans and advances to customers and banks amount to $673bn (2019: $680bn).

4 All percentages are weighted by exposure.

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

The table below sets out the 11 TCFD recommendations and summarises the progress we have made in the past 12 months.

TCFD recommendation	Our progress in 2020
Governance	
Describe the Board's oversight of climate-related risks and opportunities **Describe management's role in assessing and managing climate-related risks and opportunities**	– The Board is responsible for our climate ambition and strategy and receives climate-focused updates twice a year. – The Group Risk Committee provides oversight of climate risks and opportunities through enterprise risk reports, deep dives and updates. – The Group Executive Committee manages our climate ambition with management responsibilities integrated into the relevant business and functional areas. For further details of our governance approach, see page 5 of our *TCFD Update 2020.*
Strategy	
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	– We have identified our key climate risks over the short, medium and long term and identified the principal risk types as retail credit risk, wholesale credit risk, resilience risk, reputational risk and regulatory compliance risk[1]. For further details of our climate risks and risk types, see pages 3 and 22 of our *TCFD Update 2020.*
Describe the impact of climate risks and opportunities on the organisation's business, strategy and planning	– We are prioritising climate-related financing and investment, and in October announced our new climate ambition to become a net zero bank, support customers to thrive in the transition to a low-carbon economy, and to unlock next generation climate solutions. For further details of our climate ambition, see pages 45 to 50 of the ESG review in our *Annual Report and Accounts 2020.*

Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario	– We have carried out various exercises to analyse our resilience, including:
	  – using the Paris Agreement Capital Transition Assessment ('PACTA') tool to assess our customers' impact on climate and help develop clear pathways to net zero financed emissions. We have run a pilot on our automotive loan book; and
	  – running a stress testing pilot to assess the impact of different climate scenarios on our customers and our own infrastructure.
	For further details of our scenario analysis and 'PACTA' pilots, see pages 13 to 21 of our *TCFD Update 2020.*

Risk management	
Describe the organisation's processes for identifying and assessing climate-related risks	– In response to identifying our key climate risks, we have reviewed our risk appetite and defined our approach to managing these risks. – We are reviewing our policies for managing a number of principal risk types, initially resilience risk, sustainability risk and regulatory compliance risk. For further details of our climate risk management approach, see page 48 of the ESG review in our *Annual Report and Accounts 2020* and pages 22 to 24 of our *TCFD Update 2020.*
Describe the organisation's processes for managing climate-related risks	– We manage our asset management customers' climate risk in line with our fiduciary responsibilities to protect and grow the assets. Read more on our asset management approach to climate risk in our policies and procedures on www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/policies.
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	– The Trustee of our UK Pension Scheme manages climate risk in line with its fiduciary responsibilities towards members[2]. – We have established a dedicated climate risk programme to accelerate the integration of climate risk into our Group-wide risk management framework, which includes identification and assessment, management, and aggregation and reporting.
Metrics and targets	
Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process **Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets** **Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks**	– We use several metrics to measure and track our progress against key targets, and we will be refining our approach to financed emissions (scope 3), including carbon intensity, for specific portfolios. – We set a new sustainable finance and investment target of $750bn to $1tn by 2030, after reaching $93.0bn of our $100bn by 2025 target. The $40.6bn achieved in 2020 counts towards both the existing 2025 target and the new target. – We continue to disclose our wholesale loan exposure to the six high transition risk sectors, and use our corporate customer transition risk questionnaire to help inform our risk management. – We include an environment measure in the scorecards of our executive Directors and Group Managing Directors. The long-term incentive scorecards of our executive Directors (three-year performance period to the end of December 2023) have a 25% weighting for targets aligned to our climate ambitions. – We continue to disclose business travel, energy-related emissions and renewable energy use, and aim to disclose further details on our own scope 3 emissions in future reporting. For further details of our climate metrics and targets, see pages 45 to 50 of the ESG review in our *Annual Report and Accounts 2020.*

1 Short term: less than one year; medium term: period to 2030; long term: period to 2050.
2 For further details of our UK Pension Scheme's latest TCFD statement, see https://futurefocus.staff.hsbc.co.uk/-/media/project/futurefocus/information-centre/pensioner/other-information/2020-tcfd-statement.pdf.

Responsible business culture

We have the responsibility to protect our customers, our communities and the integrity of the financial system. In this section, we outline our requirements under the Non-Financial Reporting Directive.

Environmental matters

In October 2020, we announced our ambition to achieve net zero in our own operations and our supply chain by 2030 or sooner. We also plan to align our financed emissions – the carbon emissions of our portfolio of customers – to the Paris Agreement goal of net zero by 2050 or sooner. For further details of our climate strategy and carbon emission metrics, see the ESG review on page 44 of our *Annual Report and Accounts 2020*.

Employee matters

We are opening up a world of opportunity for our colleagues through building an inclusive organisation that prioritises well-being and prepares our colleagues for the future of work.

We expect colleagues to treat each other with dignity and respect and take action where we find behaviour that falls short of our expectations. We monitor how we perform on metrics that we value and benchmark against our peers. We have a range of tools and resources to help colleagues to take ownership of their development journey.

We believe in the importance of listening to our people and seek innovative ways to encourage employees to speak up. At times, individuals may not feel comfortable speaking up through the usual channels. Our global whistleblowing channel, HSBC Confidential, is open to colleagues, past and present, to raise concerns either confidentially or anonymously.

In 2018, we committed to reach 30% women in senior leadership roles, which are classified as 0 to 3 in our global career band structure, by 2020. At the end of 2020, we achieved 30.3% and have now set ourselves a target to achieve 35% by 2025. In July 2020, we set out global race commitments, which included a goal to at least double the number of Black employees in senior roles over the next five years. We are focusing on the quality and reporting of ethnicity data to be more transparent about our representation and accountable for the effectiveness of our actions. In 2020, we began a three-year transformation programme. We work hard to ensure colleagues impacted by change are supported.

The table below outlines high-level diversity metrics.

All employees

Male	48%
Female	52%

Senior leadership[1]

Male	70%
Female	30%

Directors

Male	64%
Female	36%

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

For further details on how we look after our people, including our diversity targets, transformation employee metrics and how we encourage our employees to speak up, see the Employees section of the ESG review on page 62 of our *Annual Report and Accounts 2020*.

Social matters

We have a responsibility to invest in the long-term prosperity of the communities where we operate. We recognise that technology is developing at a rapid pace and that a range of new and different skills are now needed to succeed in the workplace. For this reason, much of our focus is on programmes that develop employability and financial capability. We also back initiatives that support responsible business, and contribute to disaster relief efforts based on need. In 2020, we contributed $112.7m to charitable programmes and our employees volunteered 82,000 hours to community activities during the working day.

Human rights

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

Anti-corruption and anti-bribery

HSBC requires compliance with all applicable anti-bribery and corruption laws in all markets and jurisdictions in which we operate. These laws include the UK Bribery Act, the US Foreign Corrupt Practices Act, and the Hong Kong Prevention of Bribery Ordinance, as well as other similar laws and regulations in the countries where we operate. We have a global anti-bribery and corruption policy, which gives practical effect to these laws and regulations, but also requires compliance with the spirit of laws and regulations to demonstrate HSBC's commitment to ethical behaviours and conduct.

Non-financial information statement

This section primarily covers our non-financial information as required by the regulations. Other related information can be found as follows:

- For further details on our key performance indicators, see page 1.
- For further details on our business model, see page 4.
- For further details on our principal risks and how they are managed, see pages 37 to 40.

Investing in the skills of the future

In 2020, we launched the global HSBC Future Skills Innovation Challenge in partnership with Ashoka, a global network for social entrepreneurs, to support innovations that help people become more employable and financially capable. We received more than 200 submissions to the challenge, with 12 winners selected. Each winner received a prize of up to $25,000 and additional support and mentoring.

All winning entries provided solutions that address local problems, such as digital platform Bamba, which helps domestic workers gain access to the financial system in Mexico.

Thanks to our support to the challenge, we won *The Banker's* global award for Banking in the Community in December 2020. The award recognised the most innovative initiatives launched by financial institutions that enrich and improve the societies in which they operate.

Board decision making and engagement with stakeholders

Our Board is committed to effective engagement and seeks to understand the interests of and impacts on relevant stakeholders when making decisions.

Section 172 (1) statement

This section, from pages 22 to 24, forms our section 172 statement. It describes how the Directors have performed their duty to promote the success of the company, including how they have considered and engaged with stakeholders and, in particular, how they have taken account of the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Stakeholder engagement and Covid-19

There were no changes to the Board's identified key stakeholders during the year, namely our customers, employees, investors, communities, suppliers, and regulators and governments. In overseeing the business, the Board sought to understand – and have appropriate regard to – the interests and priorities of these stakeholders, including in relation to material decisions that were taken during the course of the year.

Events during the year called for careful consideration of the needs and interests of the company's various stakeholders. A specific area of focus arising from the Covid-19 pandemic included our colleagues' mental and physical health, which the Board monitored by way of frequent Snapshot and pulse surveys, and discussions with senior management on the well-being of their teams. Another area of Board focus, supported by guidance from subject matter experts, was the evolving views and requirements of our customers, investors, employees, communities and suppliers. The effects of the Covid-19 outbreak on these stakeholders contributed to the development of our Group strategy and purpose and values. For further details of how the Board engaged with stakeholders in adapting our Group strategy and refreshing our purpose and values, see 'Board engagement with shareholders' on page 204 of our *Annual Report and Accounts 2020*.

The unique nature of the Covid-19 outbreak also brought logistical challenges for interacting with stakeholders. For instance, to protect and keep our shareholders and people safe and in line with the advice from the UK Government, it was not possible for shareholders to attend our AGM. Consequently, shareholders did not have the opportunity to ask questions of the Board in person, although alternative arrangements were made to publish responses to written questions on our website. Similarly, it was not possible to hold the Informal Shareholders' Meeting in Hong Kong nor for the Board to undertake site visits due to travel restrictions. In addition, the financial impact of the pandemic brought into sharp focus the need to consider carefully the impact of decisions on a range of stakeholders. For example, the decision to cancel the fourth interim dividend for 2019 and suspend dividends for 2020 required consideration of the request from the Prudential Regulation Authority to cancel the dividend, the impact the decision would have on our shareholders and the important role that HSBC has in helping its customers manage through the crisis. Further details on the dividend cancellation are provided in 'Financial decisions' on page 209 and 'Dividends' on page 256 of our *Annual Report and Accounts 2020*.

Despite logistical challenges, the Board continued to engage directly with many stakeholders, including employees, regulators and shareholders, and was kept informed indirectly about relevant stakeholder matters through management reports. Some of the ways in which the Board engaged with – or received views – from its key stakeholders during the year are provided below. Further details on our stakeholders are provided in 'How we do business' on page 17.

Customers

Our business is centred around our customers and clients. The greater the understanding we have of their needs and the challenges they face, the better we can support them to achieve their financial aims. Examples of the Board engaging with customers in 2020 included:

– monthly Group Chief Executive Board reports, which included updates on key customer sentiment and activities;

– reports from the Group Chief Executive on meetings he held with customers across the world, including pre-Covid-19 interactions and Covid-19 safe physical meetings in the UK and Asia;

– regional and sector-based customer insights developed through customer interactions with senior management and relationship managers, which were incorporated into relevant Board reports; and

– customer survey feedback, including the results of our 2020 Navigator survey and net promoter scores.

Employees

We want our organisation to continue to be a positive place to work and build careers. The success of the Group's strategy is dependent upon having motivated people with the expertise and skills required to help deliver our strategy. Examples of the Board's engagement with our employees in 2020 included:

– 'Snapshot' survey updates on employee sentiment and well-being, which were published twice during the year;

– additional employee opinion surveys to assess employee physical and mental well-being;

– status surveys to assess how employees might be affected by the Covid-19 outbreak so that they can be supported appropriately;

– virtual and Covid-19 safe attendance by our Board members at workforce engagement events focused on our global businesses, functions and employee resource groups; and

– reports from members of senior management on the welfare of their teams and areas of expertise and skills that required development to deliver the strategy.

Investors

We seek to understand investor needs through ongoing dialogue. Examples of the Board engaging with investors in 2020 included:

– virtual and Covid-19 safe regular meetings with investors to understand evolving views, trends and sentiment;

– reports from institutional investor meetings attended by Directors; and

– regular updates from Investor Relations, including a weekly update on market activity and sentiment.

Regulators and governments

Constructive dialogue and relations with the relevant authorities in the markets we operate are critical to support the effective functioning of economies globally. Examples of the Board's engagement with regulators and governments in 2020 included:

- executive and non-executive Directors 'continuous assessment' meetings with the PRA and other individual regulatory meetings;
- the annual presentation by the PRA to discuss the outcome and progress of its Periodic Summary Meeting Letter;
- the presentation by the UK Financial Conduct Authority ('FCA') of its Firm Evaluation;
- reports from meetings with the supervisory college of regulators; and
- regular dialogue with governments across the world, including representation on government-led forums.

Communities

We play an important role in supporting the communities in which we operate through customers we serve and corporate social responsibility activities. We are, in turn, dependent on those communities. Examples of the Board's engagement with communities in 2020 included:

- regular climate and ESG-related updates to the Board;
- economist updates to the Board on the varying impact of the Covid-19 outbreak on the markets in which the Group operates, helping to guide the focus of the strategy and connect with stakeholder groups;
- immunologist updates to the Board on the varying impact of the Covid-19 outbreak in the geographies in which the Group operates, providing insight into what support may be required by governments globally in support of the recovery and from HSBC to our customers and employees; and
- a Director-led roundtable in Latin America to focus on geopolitical and social matters influencing that region.

Suppliers

Our suppliers provide the Group with vital resources, expertise and services to help us operate our business effectively. We work with our suppliers to ensure mutually beneficial relationships on a global and local level. In some cases our suppliers will also be our customers. Examples of the Board's engagement with suppliers in 2020 included:

- reports from the Group Chief Operating Officer, which included updates on third-party suppliers and operational resilience; and
- Board level engagement at external events such as the World Economic Forum with the opportunity to engage with suppliers across the globe.

Principal decisions

Examples of principal decisions made by the Board during 2020, where the Directors had regard to the relevant matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when discharging their duties, are set out below:

Appointment of Group Chief Executive

In early 2020, Noel Quinn was appointed as Group Chief Executive to lead the Group through the next phase of its strategy and transformation.

The appointment followed a thorough and robust search process, which considered the best internal and external talent with the aim of identifying the most suitable and able candidate to lead HSBC through its next stage. For further details of the appointment process, see the Nomination & Corporate Governance Report on page 213 of our *Annual Report and Accounts 2020.*

In taking this decision, the Board considered among other matters the ability of prospective candidates to develop trusted, constructive and strong relations with each of the Group's customers, colleagues, regulators and members of the investor community. For instance, the Board benefited from assessment criteria that evaluated the ability of each candidate to develop and maintain strong relations with the global workforce while implementing strategic change.

Given the market sensitive implications of the appointment and the requirement for absolute discretion and confidentiality in relation to prospective candidates, it would not have been appropriate to engage with all stakeholders while the process was ongoing. The Group's principal regulators were kept appraised of the progress with the search. Towards the end of the process, the appointment was approved by the Group's UK regulators, an important step given that the role of Group Chief Executive is a regulated position in the UK.

This detailed engagement, together with the various interviews and assessments conducted during the process, helped the Board determine that the appointment of Noel was in the best interests of the Group as a whole.

Dividend cancellation

On 31 March 2020, HSBC announced that, in response to a written request from the Bank of England through the PRA, the Board had cancelled the fourth interim dividend for 2019. The Board also announced that no quarterly or interim dividend payments, accruals or share buy-backs would be paid in respect of ordinary shares until the end of 2020.

Cancelling the dividend was an extremely difficult decision for the Board. In reaching its decision, the Board took into account a number of considerations including the request from the PRA, the then current and potential material impact on the global economy as a result of the Covid-19 outbreak and the important role that HSBC has in helping its customers manage through the crisis and to have the resources to invest when recovery occurs.

The Board recognised that while HSBC had a strong capital, funding and liquidity position, there were significant uncertainties in assessing the length and impact of the Covid-19 outbreak. The Board also noted HSBC's commitment to supporting customers in the economies in which HSBC serves, particularly Hong Kong and the UK.

These considerations were carefully balanced against the impact the decision would have on HSBC's shareholders, including retail shareholders in Hong Kong, the UK and elsewhere.

At the time of the announcement in March, the Board stated that it would review the ordinary share dividend policy and payments in respect of 2020 once the full impact of the outbreak was better understood and economic forecasts for global growth in future years were clearer.

We are therefore pleased to restart dividend payments at the earliest opportunity and on 23 February 2021 the Board announced an interim dividend for 2020 of $0.15 per ordinary share. The Board has adopted a policy designed to provide sustainable dividends going forward. For more information on dividend decisions for 2021 see 'Highlights' on page 2.

Principal decisions continued

Adapted Group strategy

When Covid-19 was declared a global pandemic, the Board determined that the assumptions underpinning its February 2020 business review were to be revisited.

As the extent and implications of the Covid-19 outbreak began to emerge, the Board recognised the need to consider the impact on the strategy of a prolonged low interest-rate environment, as well as geopolitical, technological and environmental challenges. These fundamental shifts profoundly impacted our organisation as well as the wider financial services sector. The Board responded by aligning our strategy accordingly.

Customer insights were gathered through comprehensive engagement with over 4,000 customers, led by Global Banking and Markets, which helped inform the Board of the likely wider medium- to long-term implications and consumer and societal shifts arising from the pandemic. These insights indicated that the Covid-19 outbreak had accelerated customers' behaviours and preferences towards an increasingly digital, data-driven and real-time service requirement, with service standards set by sectors outside of financial services. Providing a superior digitalised proposition supports our customers to help achieve their full potential and create a culture of innovation and accountability among our colleagues.

The Board actively engaged with senior management to consider the likely consequences of the strategic actions proposed, while providing constructive challenge and support in the development of its plans. The insights gained reinforced the need to shift capital away from underperforming businesses while investing for growth and reducing our cost base. The Board considered the views of the Group's brokers in challenging the current strategy from an investment perspective. In addition, the Board recognised the need for continued and constructive engagement with our regulators to address their concerns and priorities as the Group transforms its business.

Employees were identified as a key stakeholder group given that they needed to understand and implement the Group strategy. The Board received updates on senior talent and areas where skills need to be developed further.

For further details of the Group's adapted strategy, see 'Strategy and business performance' on page 209 of our *Annual Report and Accounts 2020*.

Purpose and values

The strategic review prompted the Board to revise the Group's purpose and values.

To support the Board in its decision making, a working group was established to develop proposals, including three non-executive Directors who supported and challenged management's proposals.

An extensive programme of stakeholder engagement across our main operating markets was undertaken during the development of the revised purpose and values involving interviews, focus groups and large-scale surveys. This engagement sought to understand what was important to and resonated with our employees and customers (including next generation customers), while identifying societal trends. The purpose and value statements were tested for longevity and were required to support a culture that could help deliver the Group's strategy.

The insights gained from this stakeholder engagement were used to shape, refine and enhance the proposals presented to the Board for approval. In terms of our values, there was a consistent message that we should build on what was already working and avoid passive language. Clear direction was provided that the values should be simple, memorable, translate and be easily understood in many countries, and represent a clear guide to action. This feedback encouraged the Board to adopt a fourth value focused on delivery and decision making. As the stakeholder engagement neared completion, an additional 7,000 colleagues were consulted in the final assessment of the proposed values. The primary view indicated that the revised values represented a 'positive evolution' for HSBC.

The Board selected the purpose and values that it considered best aligned to the Group's revised strategy, would drive a culture to deliver that strategy, and resonated most with stakeholder sentiment.

Our new purpose and values can be found on page 16.

Climate ambition

During the year, the Board reviewed and approved a new climate ambition for the Group.

In reviewing and approving a new climate ambition, the Board acknowledged that ESG issues have developed significantly over recent years, and such issues are now recognised by stakeholders as key elements and risks for businesses to manage.

In May 2020, the Board conducted a detailed review of stakeholder expectations and was advised of key stakeholders impacted by the proposed climate strategy and the leading role HSBC was expected to take. This included a comprehensive market update on current positions taken by non-government organisations, investors, competitors, regulators and increased societal awareness.

As part of the review, HSBC's climate advisory panel – consisting of representatives from non-government organisations, clients and academics – was consulted in the development and drafting of the new climate ambition. Wider stakeholder engagement was undertaken to help inform the Group's position from a customer perspective including the HSBC Sustainable Financing and Investment Survey 2020 and the HSBC Navigator survey.

In the course of the Board's discussions, it considered stakeholder feedback in the context of our business mix and the need to work towards an orderly transition, given current exposures to fossil fuels assets. The Board acknowledged the opportunity to help support our customers with their transition to lower carbon emissions and to manage other expectations and matters impacting our shareholders, employees and local communities.

In addition, the Board noted that HSBC had been recognised as a leading bank for sustainable finance and acknowledged increased competitive activity. As a result, it was conscious of the need to maintain the Group's leadership in this area.

In making its decision, the Board recognised investors' expectations for HSBC to continue to make progress on climate change, as it provides sustainable finance and investment and gradually reduces exposure to high-carbon assets on a timeline aligned with the Paris Agreement.

Remuneration

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

Our remuneration principles

Our performance and pay strategy aims to reward competitively the achievement of long-term sustainable performance by attracting, motivating and retaining the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience.

For further details of our principles and what we did during 2020 to ensure remuneration outcomes were consistent with those principles, see page 233 of our *Annual Report and Accounts 2020.*

Variable pay

Our variable pay pool was $2,659m, a 20.4% decrease from 2019.

For details of how the Group Remuneration Committee sets the pool, see page 229 of our *Annual Report and Accounts 2020.*

($m)

2020	**2,659**
2019	3,341

Remuneration for our executive Directors

Our remuneration policy for executive Directors was approved at our AGM in 2019 and is intended to apply for three performance years until the AGM in 2022. Details of the policy can be found in the Directors' remuneration report on page 235 of our *Annual Report and Accounts 2020.*

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 outcomes.

Executive Directors' annual incentive scorecard outcome
(% of maximum opportunity)

Group Chief Executive	**64.50%**
Group Chief Financial Officer	**63.75%**

The table below shows the amount our executive Directors earned in 2020. For details of Directors' pay and performance for 2020, see the Directors' remuneration report on page 229 of our *Annual Report and Accounts 2020.*

Single figure of remuneration

(£000)		Base salary[2]	Fixed pay allowance	Cash in lieu of pension	Taxable benefits[3]	Non-taxable benefits[3]	Total fixed	Annual incentive[4]	Notional returns[5]	Replacement award[6]	Total variable	Total fixed and variable
Noel Quinn[1]	**2020**	**1,266**	**1,700**	**127**	**186**	**59**	**3,338**	**799**	**17**	**—**	**816**	**4,154**
	2019	503	695	50	41	23	1,312	665	—	—	665	1,977
Ewen Stevenson	**2020**	**738**	**950**	**74**	**12**	**32**	**1,806**	**450**	**—**	**1,431**	**1,881**	**3,687**
	2019	719	950	107	16	28	1,820	1,082	—	1,974	3,056	4,876

1 Noel Quinn succeeded John Flint as interim Group Chief Executive with effect from 5 August 2019 and was appointed permanently into the role on 17 March 2020. The remuneration included in the single figure table above for 2019 is in respect of his services provided as an executive Director for that year.

2 As outlined on page 230 of our *Annual Report and Accounts 2020*, the executive Directors each donated a quarter of their base salary for six months in 2020. The base salary shown in the single figure of remuneration is the gross salary before charitable donations.

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

4 Under the policy approved by shareholders, executive Directors can receive 50% of their annual incentive award in cash and the remaining 50% in immediately vested shares subject to a one-year retention period. As the executive Directors each decided not to take an annual cash bonus, the 2020 annual incentive is the amount after this waiver and will be delivered in immediately vested shares subject to a one-year retention period. The total annual incentives waived by the Group Chief Executive and Group Chief Financial Officer were £799,000 and £450,000, respectively.

5 'Notional returns' refers to the notional return on deferred cash for awards made in prior years. The deferred cash portion of the annual incentive granted in prior years includes a right to receive notional returns for the period between the grant date and vesting date, which is determined by reference to a rate of return specified at the time of grant. A payment of notional return is made annually and the amount is disclosed on a paid basis in the year in which the payment is made.

6 As set out in the 2018 Directors' remuneration report, in 2019 Ewen Stevenson was granted replacement awards to replace unvested awards, which were forfeited as a result of him joining HSBC. The awards, in general, match the performance, vesting and retention periods attached to the awards forfeited, and will be subject to any performance adjustments that would otherwise have been applied. The values included in the table for 2019 relate to Ewen Stevenson's 2015 and 2016 LTI awards granted by The Royal Bank of Scotland Group plc ('RBS') for performance years 2014 and 2015, respectively, and replaced with HSBC shares when Ewen Stevenson joined HSBC. These awards are not subject to further performance conditions and commenced vesting in March 2019. The total value is an aggregate of £1,121,308 for the 2015 LTI and £852,652 for the 2016 LTI. The 2016 LTI award value has been determined by applying the performance assessment outcome of 27.5% as disclosed in RBS's *Annual Report and Accounts 2018* (page 70) to the maximum number of shares subject to performance conditions. Values in the table for 2020 relate to his 2017 LTI award granted by RBS for performance year 2016, which was determined by applying the performance assessment outcome of 56.25% as disclosed in RBS's *Annual Report and Accounts 2019* (page 91) to the maximum number of shares subject to performance conditions. This resulted in a payout equivalent to 78.09% of the RBS award shares that were forfeited and replaced with HSBC shares. A total of 313,608 shares were granted in respect of his 2017 LTI replacement award at a share price of £6.643. The HSBC share price was £5.845 when the awards ceased to be subject to performance conditions, with no value attributable to share price appreciation.

Financial overview

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

Executive summary

Financial performance in 2020 was impacted by the Covid-19 outbreak, together with the resultant reduction in global interest rates. Reported profit before tax of $8.8bn decreased by 34%, while adjusted profit before tax of $12.1bn decreased by 45%. The fall in reported profit was due to an increase in our expected credit losses and other credit impairment charges ('ECL') and a reduction in reported revenue. These factors were partly mitigated by lower reported operating expenses. Our return on average tangible equity ('RoTE') for 2020 was 3.1%. Given the significant changes in our operating environment during 2020, we no longer expect to reach our RoTE target of between 10% and 12% in 2022, as originally planned.

During 2020, our operations in Asia continued to perform resiliently, generating a reported profit before tax of $12.8bn, representing 146% of Group reported profits. In addition, our Global Markets business delivered revenue growth of 27% compared with 2019.

Reported results in 2020 included a $1.3bn impairment of capitalised software, primarily relating to businesses within HSBC Bank plc, our non-ring-fenced bank in Europe, reflecting underperformance and a deterioration in the future forecasts, substantially relating to prior periods. During 2020, we also incurred restructuring and other related costs of $2.1bn, in part related to our strategic actions taken to address underperformance in our US business and our non-ring-fenced bank in Europe and the UK. Reported results in 2019 included a $7.3bn impairment of goodwill, primarily in GBM and CMB, and customer redress programme costs of $1.3bn.

We have made good progress in implementing the transformation programme we announced in February 2020, despite the significant headwinds posed by the Covid-19 outbreak. However, we recognise the fundamental changes in our operating environment, including the prospect of prolonged low interest rates, the significant increase in digital engagement from customers and the enhanced focus on the environment, and have aligned our strategy accordingly. The implications for our Group financial targets are set out below.

Group financial targets

Return on average tangible equity (%)

3.1%

(2019: 8.4%)

In our business update set out in February 2020, the Group targeted a reported RoTE in the range of 10% to 12% in 2022.

Our RoTE for 2020 was 3.1%, a reduction of 530 basis points from 2019, primarily reflecting higher ECL and a reduction in revenue. Given the significant changes in our operating environment during 2020, we no longer expect to reach our RoTE target of between 10% and 12% in 2022, as originally planned.

We have adapted our strategy with an intention to increase investment in our areas of strength to generate mid-single-digit revenue growth, mainly from fees and volumes. We intend to drive further reductions in our cost base by 2022 and aim for broadly stable costs thereafter. As we progress with our transformation of our underperforming businesses, we also expect to optimise the capital allocation across the Group. Collectively through these actions, together with a normalisation in our ECL charge closer to levels seen prior to the Covid-19 pandemic, we will now target a RoTE of greater than or equal to 10% in the medium term.

Adjusted operating expenses

$31.5bn

In February 2020, we announced a plan to substantially reduce the cost base and accelerate the pace of change, with the aim of becoming leaner, simpler and more competitive. In 2020, our adjusted operating expenses were $31.5bn, a reduction of 3% compared with 2019.

Our adjusted cost target for 2022 will remain $31bn or less. This reflects a further reduction in our cost base, which has been broadly offset by the adverse impact of foreign currency translation due to the weakening US dollar towards the end of 2020.

We now plan to deliver $5bn to $5.5bn of cost saves for 2020 to 2022, while spending around $7bn in costs to achieve.

In the medium to long term, we aim to drive positive operating leverage by growing revenue while maintaining a broadly stable cost base.

Gross RWA reductions

$61.1bn

To improve the return profile of the Group, we have targeted a gross RWA reduction of more than $100bn by 2022, mainly in low-returning parts of the Group.

In 2020, we achieved gross RWA reductions of $51.5bn, taking our cumulative RWA reductions to $61.1bn. We expect to achieve a further $30bn of gross RWA reductions in 2021. In addition, we continue to expect to incur total asset disposal costs of around $1.2bn during the period 2020 to 2022.

Capital and dividend policy

We intend to maintain a CET1 ratio in excess of 14%, managing in the range of 14% to 14.5% in the medium term. We will seek to manage this range down in the longer term.

The Board has adopted a policy designed to provide sustainable dividends going forward. We intend to transition towards a target payout ratio of between 40% and 55% of reported earnings per ordinary share ('EPS') from 2022 onwards, with the flexibility to adjust EPS for non-cash significant items, such as goodwill or intangibles impairments. The Group has decided to discontinue the scrip dividend option as it is dilutive, including to dividend per share progression over time.

Reported results

Reported profit
Reported profit after tax of $6.1bn was $2.6bn or 30% lower than in 2019.

Reported profit before tax of $8.8bn was $4.6bn or 34% lower due to a rise in reported ECL, primarily reflecting the impact of the Covid-19 outbreak on the forward economic outlook, and a fall in reported revenue, mainly from lower global interest rates. These were partly offset by lower reported operating expenses, reflecting the non-recurrence of a $7.3bn impairment of goodwill in 2019, lower customer redress programme costs, a reduction of the variable pay accrual and lower discretionary expenditure.

Results in 2020 included the impact of certain volatile items, notably favourable market impacts in life insurance manufacturing in WPB of $90m (2019: $129m favourable) and favourable movements on our long-term debt and associated swaps in Corporate Centre of $150m (2019: $147m favourable). These were partly offset by adverse credit and funding valuation adjustments in GBM of $252m (2019: $44m favourable). Additionally in 2019, results included disposal gains in WPB and CMB of $157m.

Our operations across Asia delivered resilient performances in 2020, despite the impact of lower interest rates and higher ECL, with reported profit before tax representing more than 146% of Group profits. Outside of Asia, in addition to higher ECL and lower interest rates, HSBC Bank plc and our US business incurred restructuring costs and charges from the impairment of intangibles, in part as a result of our strategic actions to address underperformance. Reported profit in MENA for 2020 included our share of an impairment by our associate, The Saudi British Bank ('SABB'), of $462m, while 2019 included a $0.8bn dilution gain recognised on the completion of the merger of SABB with Alawwal bank.

Reported revenue
Reported revenue of $50.4bn was $5.7bn or 10% lower than in 2019, primarily reflecting the progressive impact of lower global interest rates on net interest income, notably in Retail Banking in WPB and Global Liquidity and Cash Management ('GLCM') in CMB and GBM. In WPB, revenue also reduced from lower unsecured lending, a fall in credit card spending and lower sales in insurance. In GBM, adverse valuation movements relating to the widening of credit spreads in the first quarter partly reversed as spreads narrowed in the subsequent quarters, and in WPB the adverse market impacts in life insurance manufacturing in the first quarter more than reversed over the same period.

These factors were partly offset by higher revenue in Global Markets as market volatility remained elevated. Revenue relating to Markets Treasury, which is allocated to our global businesses, also increased, primarily due to increased disposal gains.

Reported revenue included net adverse movements in significant items of $0.6bn, primarily from the non-recurrence of a $0.8bn dilution gain in 2019 as discussed above. Significant items in 2020 included restructuring and other related costs of $0.2bn associated with disposal losses related to RWA reductions, as well as a property-related gain, both of which related to February 2020 business update commitments. Foreign currency translation differences resulted in a further adverse movement of $0.5bn compared with 2019.

We have observed reductions in the Hong Kong interbank offered rate ('HIBOR') in the early part of 2021. This could put further pressure on net interest income, and also noting uncertainty around loan growth as economies recover from the Covid-19 pandemic.

Reported profit after tax
$6.1bn
(2019: $8.7bn)

Basic earnings per share
$0.19
(2019: $0.30)

	2020	2019	2018
Reported results	**$m**	$m	$m
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**50,429**	56,098	53,780
Change in expected credit losses and other credit impairment charges	**(8,817)**	(2,756)	(1,767)
Net operating income	**41,612**	53,342	52,013
Total operating expenses	**(34,432)**	(42,349)	(34,659)
Operating profit	**7,180**	10,993	17,354
Share of profit in associates and joint ventures	**1,597**	2,354	2,536
Profit before tax	**8,777**	13,347	19,890
Tax expense	**(2,678)**	(4,639)	(4,865)
Profit after tax	**6,099**	8,708	15,025

Reported ECL
Reported ECL of $8.8bn were $6.1bn higher than in 2019, with increases across all global businesses.

The ECL charge in 2020 reflected a significant increase in stage 1 and stage 2 allowances, notably in the first half of the year, to reflect the deterioration in the forward economic outlook globally as a result of the Covid-19 outbreak. The economic outlook stabilised in the second half of 2020 and as a result stage 1 and stage 2 allowances were broadly unchanged at 31 December 2020, compared with 30 June 2020. Stage 3 charges also increased compared with 2019, largely against wholesale exposures, including a significant charge related to a CMB client in Singapore in the first quarter of 2020.

While we expect the full year ECL charge for 2021 to be materially lower than in 2020, the outlook is highly uncertain and remains dependent on the future path of the Covid-19 outbreak, including the successful deployment of mass vaccination programmes, and the credit quality of our loan portfolio as government support packages are gradually withdrawn.

Reported operating expenses
Reported operating expenses of $34.4bn were $7.9bn or 19% lower than in 2019, primarily reflecting a net favourable movement in significant items of $6.6bn, driven by the non-recurrence of a $7.3bn impairment of goodwill in 2019 and lower customer redress programme costs. Additionally, the reduction reflected lower performance-related pay, reduced discretionary expenditure and the impact of our cost-saving initiatives, partly offset by an increase in investments in technology, inflation and impairments of certain real estate assets.

The movement in significant items included:

- a $1.1bn impairment of goodwill and other intangibles in 2020, primarily capitalised software related to the businesses within HSBC Bank plc and to a lesser extent in the US. It reflected underperformance and a deterioration in the future forecasts of these businesses, in the case of HSBC Bank plc substantially relating to prior periods. This compared with an impairment of goodwill of $7.3bn in 2019, primarily related to lower long-term economic growth assumptions in CMB and GBM, and the planned reshaping of GBM; and
- a net release in customer redress programme costs of $0.1bn in 2020, compared with charges of $1.3bn in 2019.

These were partly offset by restructuring and other related costs of $1.9bn in 2020, of which $0.9bn related to severance, $0.2bn related to an impairment of software intangibles and $0.2bn related to the impairment of tangible assets in France and the US. This compared with restructuring and other related costs of $0.8bn in 2019.

The reduction in reported operating expenses included favourable foreign currency translation differences of $0.2bn.

Reported results continued

Reported share of profit in associates and joint ventures
Reported share of profit in associates of $1.6bn was $0.8bn or 32% lower than in 2019. This included our share of impairment of goodwill by SABB of $462m. In addition, our share of profit from associates fell due to the impact of the Covid-19 outbreak and lower global interest rates.

Tax expense
The tax expense of $2.7bn was $2.0bn lower than in 2019, and the effective tax rate for 2020 of 30.5% was lower than the 34.8% effective tax rate for 2019. An impairment of goodwill and non-deductible customer redress charges increased the 2019 effective tax rate. These were not repeated in 2020. Additionally, the non-taxable dilution gain arising on the merger of SABB with Alawwal bank decreased the effective tax rate in 2019. Higher charges in respect of the non-recognition of deferred tax assets, particularly in the UK ($0.4bn) and France ($0.4bn), increased the 2020 effective tax rate.

Adjusted performance

Our reported results are prepared in accordance with IFRSs, as detailed in the financial statements on page 288 of our *Annual Report and Accounts 2020*.

We also present alternative performance measures (non-GAAP financial measures). These include adjusted performance, which we use 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 to improve understanding of the underlying trends in the business.

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

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 85 of our *Annual Report and Accounts 2020*. Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 103 of our *Annual Report and Accounts 2020*.

Adjusted results	2020 $m	2019 $m	2018 $m	2020 vs 2019 $m	2020 vs 2019 %
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**50,366**	54,944	52,098	**(4,578)**	**(8)**
Change in expected credit losses and other credit impairment charges	**(8,817)**	(2,627)	(1,620)	**(6,190)**	**>(200)**
Total operating expenses	**(31,459)**	(32,519)	(31,723)	**1,060**	**3**
Operating profit	**10,090**	19,798	18,755	**(9,708)**	**(49)**
Share of profit in associates and joint ventures	**2,059**	2,351	2,444	**(292)**	**(12)**
Profit before tax	**12,149**	22,149	21,199	**(10,000)**	**(45)**

Adjusted profit before tax
Adjusted profit before tax of $12.1bn was $10.0bn or 45% lower than in 2019, primarily from a rise in adjusted ECL and a fall in adjusted revenue. Adjusted ECL increased by $6.2bn, mainly from charges in the first half of 2020 relating to the global impact of the Covid-19 outbreak on the forward economic outlook. Adjusted revenue decreased by $4.6bn or 8%, primarily from the progressive impact of lower global interest rates in all our global businesses, notably in our deposit franchises, partly offset by higher revenue from Global Markets. Adjusted operating expenses decreased by $1.1bn or 3% as we lowered performance-related pay and reduced discretionary expenditure while continuing to invest in our businesses.

Reconciliation of reported to adjusted profit before tax

	2020 $m	2019 $m	2018 $m
Reported profit before tax	**8,777**	13,347	19,890
Currency translation	**—**	(122)	(519)
Significant items:	**3,372**	8,924	1,828
– costs of structural reform	**—**	158	361
– customer redress programmes	**(33)**	1,444	93
– disposals, acquisitions and investment in new businesses	**10**	(768)	165
– fair value movements on financial instruments	**(264)**	(84)	100
– impairment of goodwill and other intangibles	**1,090**	7,349	—
– past service costs of guaranteed minimum pension benefits equalisation	**17**	—	228
– restructuring and other related costs	**2,078**	827	66
– settlements and provisions in connection with legal and regulatory matters	**12**	(61)	816
– goodwill impairment (share of profit in associates and joint ventures)	**462**	—	—
– currency translation on significant items	**—**	59	(1)
Adjusted profit before tax	**12,149**	22,149	21,199

Adjusted performance continued

Adjusted revenue
Adjusted revenue of $50.4bn was $4.6bn or 8% lower than in 2019, reflecting falls in WPB (down $3.6bn) and CMB (down $1.9bn), partly offset by higher revenue in GBM (up $0.4bn) and Corporate Centre (up $0.4bn).

The reduction in adjusted revenue reflected the progressive impact of lower global interest rates in many of the key markets in which we operate. This had an adverse impact on revenue in Retail Banking within WPB, and in GLCM within CMB and GBM, although we grew deposit balances across these businesses compared with 2019. In WPB, revenue also reduced as the impact of the Covid-19 outbreak resulted in lower customer activity in unsecured lending, including a fall in credit card spending, and a reduction in sales of insurance and certain investment products. In GBM, adverse valuation movements, primarily in the first quarter, partly reversed in the subsequent quarters. This resulted in a net adverse movement in credit and funding valuation adjustments of $0.3bn and a reduction in revenue of $0.1bn in Principal Investments compared with 2019. In life insurance manufacturing, the adverse market impacts in the first quarter following the sharp fall in equity markets more than reversed over the remainder of the year.

These reductions were partly offset by higher revenue in Global Markets, as market volatility remained elevated, as well as in Corporate Centre. Revenue relating to Markets Treasury, which is allocated to our global businesses, also increased, primarily due to higher disposal gains.

Adjusted ECL
Adjusted ECL, which removes the period-on-period effects of foreign currency translation differences, were $8.8bn, an increase of $6.2bn from 2019. This increase occurred in all global businesses and mainly reflected charges related to the global impact of the Covid-19 outbreak.

The ECL charge in 2020 reflected a significant increase in stage 1 and stage 2 allowances, notably in the first half of the year, to reflect the deterioration in the forward economic outlook globally as a result of the Covid-19 outbreak. The economic outlook stabilised in the second half of 2020 and as a result, stage 1 and stage 2 allowances were broadly unchanged at 31 December 2020, compared with 30 June 2020. Stage 3 charges in 2020 increased compared with 2019, with the rise largely related to wholesale exposures, including a significant charge related to a CMB client in Singapore in the first quarter of 2020.

Adjusted ECL as a percentage of average gross loans and advances to customers was 0.81%, compared with 0.25% in 2019.

Adjusted operating expenses
Adjusted operating expenses of $31.5bn were $1.1bn or 3% lower than in 2019, as we continued to review and reprioritise costs and investments to help mitigate revenue headwinds. The decrease primarily reflected a $0.5bn reduction in performance-related pay and lower discretionary expenditure, including marketing (down $0.3bn) and travel costs (down $0.3bn). In addition, our cost-saving initiatives resulted in a reduction of $1.4bn, of which $1.0bn related to our costs to achieve programme, and the UK bank levy was $0.2bn lower than in 2019. These decreases were partly offset by an increase in investments in technology to enhance our digital and automation capabilities to improve how we serve our customers, as well as inflation and volume-related increases. In addition, the 2020 period included impairments of certain real estate assets.

We are forecasting broadly stable adjusted operating expenses in 2021, relative to 2020.

During 2020, we reduced the number of employees expressed in full-time equivalent staff ('FTE') and contractors by 11,011. This included a 9,292 reduction in FTE to 226,059 at 31 December 2020, while the number of contractors reduced by 1,719 to 5,692 at 31 December 2020.

Adjusted share of profit in associates and joint ventures
Adjusted share of profit from associates of $2.1bn was $0.3bn or 12% lower than in 2019, primarily reflecting the impact of the Covid-19 outbreak and lower global interest rates on the share of profit we recognised from our associates.

Balance sheet and capital

Balance sheet strength
Total assets of $3.0tn were $269bn or 10% higher than at 31 December 2019 on a reported basis, and 7% higher on a constant currency basis. The increase in total assets included growth in cash balances and in financial investments, as well as from an increase in derivative assets, mainly reflecting favourable revaluation movements on interest rate derivatives. On a constant currency basis, loans and advances to customers reduced by $25bn during the year, despite mortgage growth in WPB.

Customer accounts of $1.6tn increased by $204bn, or $173bn on a constant currency basis, as corporate customers consolidated their funds and redeployed them into cash, while our personal customers reduced spending, resulting in larger balances held in current and savings accounts.

Distributable reserves
The distributable reserves of HSBC Holdings at 31 December 2020 were $31.3bn. Movements in 2020 included the retained earnings of HSBC Holdings plc for the year, offset by distributions to and redemptions of preference shares and other equity instruments. Movements also included a $1.7bn return of capital from a subsidiary, which had previously been considered as part of distributable reserves.

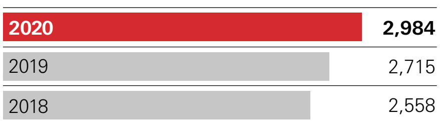
Capital position
We actively manage the Group's capital position to support our business strategy and meet our regulatory requirements at all times, including under stress, while optimising our capital efficiency. To do this, we monitor our capital position using a number of measures. These include: our capital ratios, the impact on our capital ratios as a result of stress, and the degree of double leverage being run by HSBC Holdings. Double leverage is a constraint on managing our capital position, given the complexity of the Group's subsidiary structure and the multiple regulatory regimes under which we operate. For further details, see page 169 of our *Annual Report and Accounts 2020*.

Our CET1 ratio at 31 December 2020 was 15.9%, up from 14.7% at 31 December 2019. This increase included the impact of the cancellation of the fourth interim dividend of 2019 and changes to the capital treatment of software assets.

Liquidity position
We actively manage the Group's liquidity and funding to support our business strategy and meet regulatory requirements at all times, including under stress. To do this, we monitor our position using a number of risk appetite measures, including the liquidity coverage ratio and the net stable funding ratio. At 31 December 2020, we held high-quality liquid assets of $678bn.

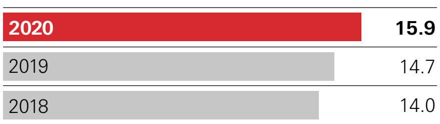
Total assets
($bn)

$2,984bn



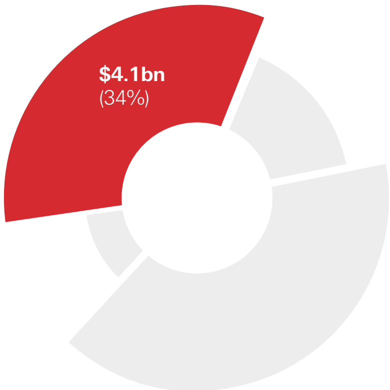
Common equity tier 1 ratio
(%)

15.9%



Wealth and Personal Banking

Contribution to Group adjusted profit before tax



WPB was formed in the second quarter of 2020 by combining our Retail Banking and Wealth Management and Global Private Banking businesses. Throughout the pandemic we supported our customers with payment holidays and by keeping between 70% to 90% of our branches open. Performance in 2020 was impacted by lower interest rates across most markets, reduced customer activity and a rise in adjusted ECL charges. However, we remain committed to serving our customers and increased our net promoter scores in most of our channels in the UK and Hong Kong.

We serve more than 38 million customers across the full spectrum from retail customers to ultra high net worth individuals and their families.

We offer locally-tailored products and services across multiple channels for our customers' everyday banking needs, as well as insurance, investment management, advisory and wealth solutions for those with more sophisticated requirements. Our global presence provides for customers with international needs.

	2020	2019	2018	2020 vs 2019	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**22,013**	25,565	23,551	**(3,552)**	**(14)**
Change in expected credit losses and other credit impairment charges	**(2,855)**	(1,348)	(1,072)	**(1,507)**	**(112)**
Operating expenses	**(15,024)**	(15,388)	(14,614)	**364**	**2**
Share of profit in associates and JVs	**6**	54	32	**(48)**	**(89)**
Profit before tax	**4,140**	8,883	7,897	**(4,743)**	**(53)**
RoTE excluding significant items and UK bank levy (%)	**9.1**	19.7	18.8		

Financial planning delivered to your door

In 2020, we launched HSBC Pinnacle, a new financial planning business in mainland China, which offers insurance solutions and wealth services outside of branches, bringing them direct to new customers. Our wealth planners can advise on life and health protection, education savings, retirement and legacy planning – supporting multiple needs in one tailored proposition.

Blending seamless digital experiences with the expertise and great service of our people sits at the very heart of our approach.

The pioneering business has plans to hire 3,000 wealth professionals over a four-year period. By the end of 2020, almost 200 new colleagues were already helping customers in the cities of Shanghai, Guangzhou, Hangzhou and Shenzhen. Pinnacle is vital to our ambitions for growth and opportunity in one of the world's largest insurance markets, and supports our ambition to be the number one wealth manager in Asia in the medium to long term.

Management view of adjusted revenue	2020 $m	2019 $m	2018 $m	2020 vs 2019 $m	2020 vs 2019 %
Retail Banking	**12,938**	15,655	14,746	**(2,717)**	**(17)**
– net interest income	**11,708**	13,993	13,155	**(2,285)**	**(16)**
– non-interest income	**1,230**	1,662	1,591	**(432)**	**(26)**
Wealth Management	**7,818**	8,633	7,778	**(815)**	**(9)**
– investment distribution	**3,209**	3,268	3,333	**(59)**	**(2)**
– life insurance manufacturing	**1,816**	2,464	1,621	**(648)**	**(26)**
– Global Private Banking	**1,746**	1,878	1,783	**(132)**	**(7)**
net interest income	**670**	891	884	**(221)**	**(25)**
non-interest income	**1,076**	987	899	**89**	**9**
– asset management	**1,047**	1,023	1,041	**24**	**2**
Other[1]	**429**	788	512	**(359)**	**(46)**
Markets Treasury, HSBC Holdings interest expense and Argentina hyperinflation	**828**	489	515	**339**	**69**
Net operating income[2]	**22,013**	25,565	23,551	**(3,552)**	**(14)**

1 'Other' includes the distribution and manufacturing (where applicable) of retail and credit protection insurance, disposal gains and other non-product specific income.
2 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Divisional highlights

$1.6tn

WPB wealth balances at 31 December 2020, up 12% from 31 December 2019.

$22bn

Growth in mortgage book in the UK (up 9%) and Hong Kong (up 5%) since 31 December 2019.

Adjusted profit before tax
($bn)

$4.1bn

2020	**4.1**
2019	8.9
2018	7.9

Net operating income
($bn)

$22.0bn

2020	**22.0**
2019	25.6
2018	23.6

Financial performance

Adjusted profit before tax of $4.1bn was $4.7bn or 53% lower than in 2019. Despite this, we achieved a RoTE of 9.1%. The reduction in adjusted profit before tax reflected a fall in adjusted revenue and an increase in adjusted ECL from the impact of the Covid-19 outbreak. The reduction in revenue was mainly as a result of lower global interest rates, which particularly affected deposit margins, as well as from lower spending and reduced customer demand for borrowing.

Adjusted revenue of $22.0bn was $3.6bn or 14% lower, which included the non-recurrence of 2019 disposal gains in Argentina and Mexico of $133m.

In Retail Banking, revenue of $12.9bn was down $2.7bn or 17%.

- Net interest income was $2.3bn lower due to narrower margins from lower global interest rates. This reduction was partly offset by deposit balance growth of $67bn or 9%, particularly in Hong Kong and the UK, and higher mortgage lending of $22bn or 6%, mainly in the UK and Hong Kong.
- Non-interest income fell by $0.4bn, driven by lower fee income earned on unsecured lending products primarily due to lower customer activity as a result of the Covid-19 outbreak.

In Wealth Management, revenue of $7.8bn was down $0.8bn or 9%.

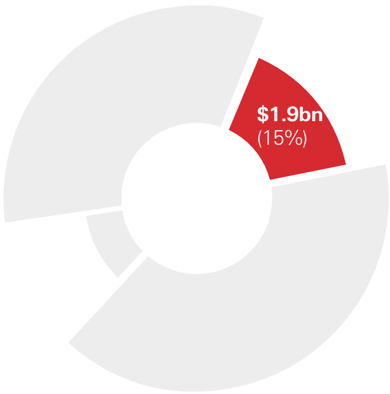
- In life insurance manufacturing, revenue fell by $0.6bn or 26%, mainly as the value of new business written reduced by $0.4bn or 37% due to lower volumes following the Covid-19 outbreak, in part mitigated by continued actions to support customers by improving our digital channels. The reduction also included lower favourable movement in market impacts of $38m (2020: $90m favourable, 2019: $128m favourable), as the sharp adverse movement we saw in the first quarter reversed over subsequent quarters.
- In Global Private Banking, revenue was $0.1bn or 7% lower, as net interest income fell as a result of lower global interest rates, although investment revenue increased, reflecting market volatility and higher fees from advisory and discretionary mandates.
- In investment distribution, revenue was $0.1bn or 2% lower, reflecting adverse market conditions, which resulted in lower mutual fund sales and a reduction in wealth insurance distribution. This was partly offset by higher brokerage fees from increased transaction volumes.

Adjusted ECL of $2.9bn were $1.5bn higher than in 2019, reflecting the global impact of the Covid-19 outbreak on the forward economic outlook across all regions, notably in the UK.

Adjusted operating expenses of $15.0bn were $0.4bn or 2% lower, as a decrease in performance-related pay and reduced discretionary expenditure more than offset the impact of inflation and our continued investment in digital.

Commercial Banking

Contribution to Group adjusted profit before tax

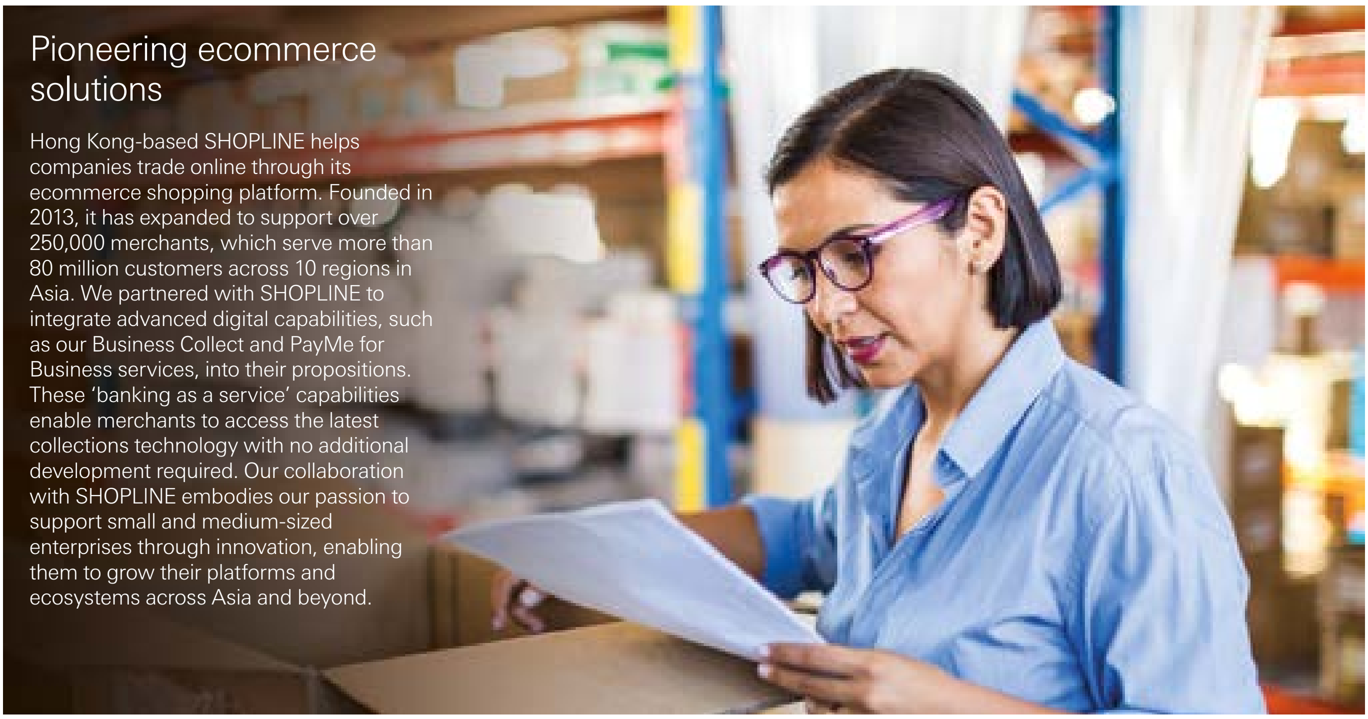


Throughout 2020, CMB continued to support our customers' liquidity and working capital needs, growing deposit balances, while our ongoing investment in technology enabled us to support customers under exceptionally challenging conditions. Performance in 2020 was adversely impacted by an increase in adjusted ECL charges and lower global interest rates.

We support over 1.3 million business customers in 53 countries and territories, ranging from small enterprises focused primarily on their domestic markets to large companies operating globally.

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

	2020	2019	2018	**2020 vs 2019**	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**13,312**	15,164	14,374	**(1,852)**	**(12)**
Change in expected credit losses and other credit impairment charges	**(4,754)**	(1,162)	(683)	**(3,592)**	**>(200)**
Operating expenses	**(6,689)**	(6,832)	(6,307)	**143**	**2**
Share of profit in associates and JVs	**(1)**	—	—	**(1)**	**—**
Profit before tax	**1,868**	7,170	7,384	**(5,302)**	**(74)**
RoTE excluding significant items and UK bank levy (%)	**1.3**	13.0	13.2		



Pioneering ecommerce solutions

Hong Kong-based SHOPLINE helps companies trade online through its ecommerce shopping platform. Founded in 2013, it has expanded to support over 250,000 merchants, which serve more than 80 million customers across 10 regions in Asia. We partnered with SHOPLINE to integrate advanced digital capabilities, such as our Business Collect and PayMe for Business services, into their propositions. These 'banking as a service' capabilities enable merchants to access the latest collections technology with no additional development required. Our collaboration with SHOPLINE embodies our passion to support small and medium-sized enterprises through innovation, enabling them to grow their platforms and ecosystems across Asia and beyond.

Management view of adjusted revenue	2020	2019	2018	2020 vs 2019	
	$m	$m	$m	**$m**	**%**
Global Trade and Receivables Finance	**1,744**	1,826	1,806	**(82)**	**(4)**
Credit and Lending	**5,640**	5,421	5,162	**219**	**4**
Global Liquidity and Cash Management	**4,178**	5,932	5,625	**(1,754)**	**(30)**
Markets products, Insurance and Investments and Other[1]	**1,596**	2,023	1,836	**(427)**	**(21)**
Markets Treasury, HSBC Holdings interest expense and Argentina hyperinflation	**154**	(38)	(55)	**192**	**>200**
Net operating income[2]	**13,312**	15,164	14,374	**(1,852)**	**(12)**

1 Includes revenue from Foreign Exchange, insurance manufacturing and distribution, interest rate management and Global Banking products.
2 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Divisional highlights

$73.2bn

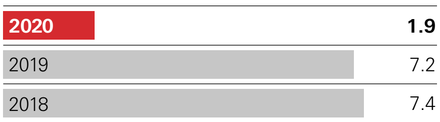
Growth in adjusted customer deposits in 2020.

+8%

Increase in international account openings.

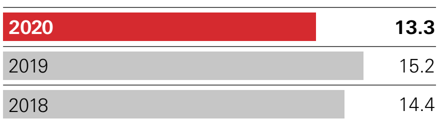
Adjusted profit before tax
($bn)

$1.9bn



Net operating income
($bn)

$13.3bn



Financial performance

Adjusted profit before tax of $1.9bn was $5.3bn or 74% lower than in 2019. Adjusted ECL were higher, reflecting the impact of the Covid-19 outbreak, and adjusted revenue fell, which was primarily due to the impact of lower global interest rates.

Adjusted revenue of $13.3bn was $1.9bn or 12% lower.

- In GLCM, revenue decreased by $1.8bn or 30% due to the impact of the lower global interest rates, mainly in Hong Kong and the UK. This was partly offset by a 16% increase in average deposit balances, with growth across all regions, particularly in the UK and the US.
- In Global Trade and Receivables Finance ('GTRF'), revenue decreased by $82m or 4% from lower lending balances and fees, notably in Hong Kong and the UK, reflecting a reduction in global trade volumes as a result of the Covid-19 outbreak. This was partly offset by wider margins in the UK and Latin America.
- In 'Markets products, Insurance and Investments and Other', revenue was $0.4bn lower, reflecting the impact of lower interest rates on income earned on capital held in the business, a fall in revenue from Insurance, Investments and Markets products, as well as a reduction in revaluation gains on shares. In addition, 2019 included a disposal gain of $24m in Latin America.

This was partly offset by:

- In Credit and Lending, revenue increased by $0.2bn or 4%, reflecting growth in average balances driven by the uptake of government-backed lending schemes and from wider margins.

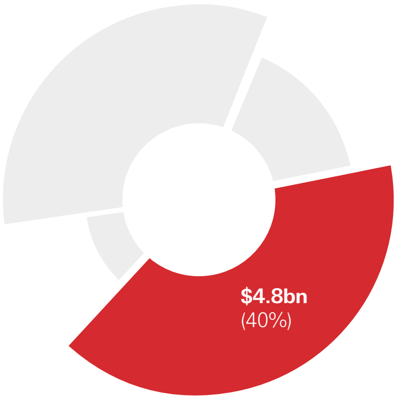
Adjusted ECL of $4.8bn were $3.6bn higher than in 2019. The increase reflected the global impact of the Covid-19 outbreak on the forward economic outlook, mainly in the UK and Asia. There were also higher charges against specific customers in 2020, particularly in the oil and gas and wholesale trade sectors, including a significant charge related to a corporate exposure in Singapore in the first quarter of 2020.

Adjusted operating expenses of $6.7bn were $0.1bn or 2% lower, reflecting a decrease in performance-related pay and reduced discretionary expenditure, while we continued to invest in our digital and transaction banking capabilities to improve customer experience.

In 2020, we delivered around $13bn of RWA reductions as part of our transformation programme, which mitigated an increase from asset quality deterioration.

Global Banking and Markets

Contribution to Group adjusted profit before tax



GBM increased adjusted revenue as strong Global Markets performance more than offset the impact of lower global interest rates and adverse movements in credit and funding valuation adjustments. In 2020, management actions delivered gross RWA reductions of $37bn globally. Performance in Global Markets was achieved with both a decrease in RWAs and no increase in trading value at risk ('VaR').

We continue to invest in digital capabilities to provide value to our clients and support them in the current environment.

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

	2020	2019	2018	2020 vs 2019	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**15,303**	14,869	15,056	**434**	**3**
Change in expected credit losses and other credit impairment charges	**(1,209)**	(153)	34	**(1,056)**	**>(200)**
Operating expenses	**(9,264)**	(9,544)	(9,316)	**280**	**3**
Share of profit in associates and JVs	**—**	—	—	**—**	**—**
Profit before tax	**4,830**	5,172	5,774	**(342)**	**(7)**
RoTE excluding significant items and UK bank levy (%)	**6.7**	9.8	9.5		

Supporting Rolls-Royce with a capital markets drive

Rolls-Royce, the blue-chip FTSE 100 engineering company, needed to raise additional liquidity in the fourth quarter of 2020 as a consequence of the Covid-19 outbreak. We acted as joint global coordinator on a £2bn fully underwritten rights issue, which received strong support from Rolls-Royce shareholders with a 94% take-up. The rights issue was part of a broader liquidity solution that also incorporated raising additional debt, including a £2bn unsecured notes offering where we acted as joint bookrunner, and a £1bn term loan where we acted as lead arranger and bookrunner. The rights issue was the largest equity capital markets transaction we acted on in the UK in 2020 and demonstrates our expertise in offering holistic solutions to our clients across both equity and debt.

Management view of adjusted revenue	2020 $m	2019 $m	2018 $m	2020 vs 2019 $m	2020 vs 2019 %
Global Markets	**7,290**	5,728	6,243	**1,562**	**27**
– FICC	**6,278**	4,737	5,062	**1,541**	**33**
Foreign Exchange	**3,373**	2,671	2,898	**702**	**26**
Rates	**1,734**	1,451	1,416	**283**	**20**
Credit	**1,171**	615	748	**556**	**90**
– Equities	**1,012**	991	1,181	**21**	**2**
Securities Services[1]	**1,792**	2,026	1,925	**(234)**	**(12)**
Global Banking[1]	**3,804**	3,875	3,983	**(71)**	**(2)**
Global Liquidity and Cash Management	**2,021**	2,722	2,563	**(701)**	**(26)**
Global Trade and Receivables Finance	**769**	802	784	**(33)**	**(4)**
Principal Investments	**114**	261	219	**(147)**	**(56)**
Credit and funding valuation adjustments	**(252)**	41	(183)	**(293)**	**>(200)**
Other[2]	**(575)**	(642)	(579)	**67**	**10**
Markets Treasury, HSBC Holdings interest expense and Argentina hyperinflation	**340**	56	101	**284**	**>200**
Net operating income[3]	**15,303**	14,869	15,056	**434**	**3**

1 From 1 June 2020, revenue from Issuer Services, previously reported in Securities Services, was reported within Global Banking. This resulted in $96m additional revenue being recorded in Global Banking for 2020. Comparatives have not been restated.

2 'Other' in GBM includes allocated funding costs. In addition, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities to reflect the total operating income on an IFRS basis; the offset to these tax credits is included within 'Other'.

3 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Divisional highlights

49%

Adjusted revenue generated in Asia in 2020.

$8bn

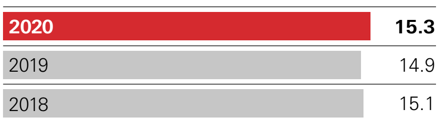
Reduction in reported RWAs compared with 31 December 2019.

Adjusted profit before tax
($bn)

$4.8bn

Net operating income
($bn)

$15.3bn



Financial performance

Adjusted profit before tax of $4.8bn was $0.3bn lower than in 2019, mainly due to higher adjusted ECL, which reflected the global impact of the Covid-19 outbreak and included charges relating to specific exposures, partly offset by higher adjusted revenue and lower adjusted operating expenses.

Adjusted revenue of $15.3bn increased by $0.4bn compared with 2019. We grew adjusted revenue, which included adverse movements in credit and funding valuation adjustments of $0.3bn, while reducing net reported RWAs by $8bn, compared with 31 December 2019.

- In Global Markets, revenue increased by $1.6bn or 27%, as higher volatility levels and increased client activity, together with wider spreads supported an improved FICC performance, particularly in Foreign Exchange and Credit. Rates also performed strongly due to increased trading activity in government bonds.

This was partly offset by:

- In Securities Services, revenue fell by $0.2bn or 12% due to lower global interest rates, mainly affecting Asia and Europe, although fees increased.
- In Global Banking, revenue decreased by $0.1bn or 2%, reflecting lower real estate and structured finance fee income and losses on legacy corporate restructuring positions. However, we grew capital markets revenue and net interest income increased from corporate lending.
- In GLCM, revenue decreased $0.7bn or 26% due to the impact of lower global interest rates and a fall in transaction volumes that reduced fee income, notably in the US and the UK, partly offset by a 21% growth in average balances, across all regions, particularly in the US, Asia and the UK.
- In GTRF, revenue decreased by $33m or 4%, reflecting lower fees in Europe due to management actions taken to reduce RWAs, partly offset by repricing initiatives in Asia and Latin America.
- In Principal Investments, revenue fell by $0.1bn, reflecting revaluation losses incurred in the first quarter of 2020, mainly in Europe, as a result of the Covid-19 outbreak, which partly reversed in the remainder of the period.

Adjusted ECL were $1.2bn, up $1.1bn compared with 2019 from charges relating to the impact of the Covid-19 outbreak on the forward economic outlook, particularly in Europe, MENA and North and Latin America.

Adjusted operating expenses of $9.3bn were $0.3bn or 3% lower, reflecting management's cost reduction initiatives and from lower performance-related pay, which more than offset growth in regulatory programme costs and investments in technology.

In 2020, net reported RWAs fell by $8bn. We delivered around $37bn of RWA reductions in 2020, taking our cumulative reduction, including accelerated saves relating to our transformation programme, to $47bn. This mitigated RWA growth from asset quality deterioration, elevated market volatility and from regulatory changes.

Corporate Centre

During 2020, we began allocating the revenue and expenses relating to Markets Treasury, the funding costs of HSBC Holdings debt and the impacts of hyperinflation in Argentina to the global businesses. This was to improve how we reflect revenue and expense related to the global businesses generating or utilising these activities. All comparatives have been restated accordingly.

The results of Corporate Centre now primarily comprise the share of profit from our interests in our associates and joint ventures, together with Central Treasury revenue, stewardship costs and consolidation adjustments.

	2020	2019	2018	2020 vs 2019	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**(262)**	(654)	(883)	**392**	**60**
Change in expected credit losses and other credit impairment charges	**1**	36	101	**(35)**	**(97)**
Operating expenses	**(482)**	(755)	(1,486)	**273**	**36**
Share of profit in associates and JVs	**2,054**	2,297	2,412	**(243)**	**(11)**
Profit before tax	**1,311**	924	144	**387**	**42**
RoTE excluding significant items and UK bank levy (%)	**3.1**	0.8	1.6		

Financial performance

Adjusted profit before tax of $1.3bn was $0.4bn higher than in 2019.

Adjusted revenue increased by $0.4bn, which included intersegment eliminations, largely related to movements in own shares held by the global businesses, which offset an equivalent adverse movement in these businesses. In addition, certain funding costs that were retained in Corporate Centre during 2019 were allocated to global businesses with effect from 1 January 2020. Revenue in our legacy portfolios rose by $0.1bn due to the non-recurrence of portfolio losses in 2019.

Adjusted operating expenses, which are stated after recovery of costs from our global businesses, decreased by $0.3bn due to a lower UK bank levy charge and a reduction in discretionary expenditure.

Share of profit in associates and joint ventures decreased by $0.2bn, primarily due to the impact of falling interest rates and the Covid-19 outbreak.

	2020	2019	2018	2020 vs 2019	
Management view of adjusted revenue	**$m**	$m	$m	**$m**	**%**
Central Treasury[1]	**156**	179	(313)	**(23)**	**(13)**
Legacy portfolios	**(17)**	(111)	(83)	**94**	**85**
Other[2]	**(401)**	(722)	(487)	**321**	**44**
Net operating income[3]	**(262)**	(654)	(883)	**392**	**60**

1 Central Treasury includes favourable valuation differences on issued long-term debt and associated swaps of $150m (2019: gains of $146m; 2018: losses of $313m).

2 In June 2020, we began allocating the revenue from Markets Treasury, HSBC Holdings net interest expense and Argentina hyperinflation out to the global businesses, to align them better with their revenue and expense. The total Markets Treasury revenue component of this allocation for 2020 was $2,809m (2019: $2,040m; 2018: $2,213m).

3 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Risk overview

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

Managing risk

Unprecedented global economic events meant banks played an expanded role in supporting society and customers in 2020. Many of our customers' business models and income were impacted by the global economic downturn caused by the Covid-19 outbreak, requiring them to take significant levels of support from both governments and banks.

Throughout the pandemic, we continued to support our customers and adapted our operational processes. We maintained high levels of service as our people, processes and systems responded to the required changes.

The financial performance of our operations varied in different geographies, but the balance sheet and liquidity of the Group remained strong. This helped us to support our customers both during periods of government imposed restrictions and when these restrictions were eased.

To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices. We increased our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and key stakeholders.

Our risk appetite

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

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

In 2020, we continued to evolve our risk appetite by reallocating both financial and non-financial resources and adapting aspects of our risk appetite statement to ensure we remained able to support our customers and strategic goals

Key risk appetite metrics

Component	Measure	Risk appetite	2020
Returns	Return on average tangible equity ('RoTE')	≥6.5%	**3.1%**
Capital	CET1 ratio – end point basis[1]	≥13.1%	**15.9%**
Change in expected credit losses and other credit impairment charges	Change in expected credit losses and other credit impairment charges as a % of advances: retail	≤0.50%	**0.68%**
	Change in expected credit losses and other credit impairment charges as a % of advances: wholesale (GBM, CMB, Global Private Banking)	≤0.45%	**0.89%**

against the backdrop of the Covid-19 outbreak. We placed a specific emphasis on capital and liquidity to ensure the Group could withstand extreme but plausible stress, and had adequate capacity to provide increasing levels of financial support to customers. Associated non-financial risks were reviewed and, where applicable, processes and controls were enhanced to accommodate material increases in lending volumes and help our people manage the lending process from a home environment. A particular focus was placed on enhancing our risk appetite statement to provide early warnings of credit deterioration, deliver a more holistic view of the Group's resilience capabilities and develop a climate risk appetite focusing on transition and physical risk Significant work is also underway to further develop our risk appetite framework, with forward-looking statements informed by stress testing.

As seen in the key risk appetite metrics table, the financial impact of the Covid-19 outbreak is apparent with RoTE and ECL outside of appetite. These are subject to close monitoring and management actions focusing on adapting our strategy in the context of the pandemic and recovery. We have conducted reviews of our portfolios that are highly vulnerable to general economic conditions and additional review measures have been implemented for new credit requests.

Stress tests

We regularly conduct stress tests to assess the resilience of our balance sheet and our capital adequacy, as well as to provide actionable insights into how key elements of our portfolios may behave during crises. We use the outcomes to calibrate our risk appetite and to review the robustness of our strategic and financial plans, helping to improve the quality of management's decision making. Stress testing analysis assists management in understanding the nature and extent of vulnerabilities to which the Group is exposed. The results from the stress tests also drive recovery and resolution planning to enhance the Group's financial stability under various macroeconomic scenarios. The selection of stress scenarios is based upon the identification and assessment of our top and emerging risks identified and our risk appetite.

In 2020, the Bank of England ('BoE') and European Banking Authority ('EBA') cancelled the requirement for all participating banks to conduct their respective 2020 stress test exercises in light of the emerging impacts of the Covid-19 outbreak. Notwithstanding this, we conducted a range of internal stress tests during 2020. These included stress tests covering several potential Covid-19-related outcomes, incorporating assessments from credit experts to assess the resilience of key balance sheet metrics including capital adequacy and liquidity. We are regularly reviewing the economic impacts for key economies and markets to understand potential vulnerabilities in our balance sheet and to identify appropriate mitigating actions. We continue to monitor emerging geopolitical, economic and environmental risks impacting the Group's capital adequacy and liquidity. Our balance sheet and capital adequacy remain resilient based on regulatory and internal stress test outcomes.

We also developed a framework for our climate stress testing and scenario analysis capabilities. We conducted a pilot climate scenario analysis on some of our portfolios exposed to climate risk. The analysis was used to identify the most material drivers of climate risk within our business, and create informed insights of our climate exposures for use in our risk management and business decision making.

Our operations

We remain committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. We continue to operate in a challenging environment in which cyber threats are prevalent. To help defend against these threats we continue to invest in business and technical controls, such as our infrastructure, software solutions, and system resilience and service continuity.

We have started to move forward with the implementation of our business transformation plans. This follows a pause on some elements during the first half of 2020 to help ensure our continued safe operation and to support our people and communities during a period of significant change due to the Covid-19 outbreak. We are aiming to manage the risks of the restructuring safely, which include execution, operational, governance, reputational, conduct and financial risks. We put support in place to help our people, particularly when we are unable to find alternative roles for them as a result of the business transformation plans.

For further details on our risk management framework and risks associated with our banking and insurance manufacturing operations, see pages 118 and 119 respectively of our *Annual Report and Accounts 2020*.

Risks related to Covid-19

The Covid-19 outbreak and its effect on the global economy have impacted our customers and our performance, and the future effects of the outbreak remain uncertain. The outbreak necessitated governments to respond at unprecedented levels to protect public health, local economies and livelihoods. It has affected regions at different times and to varying degrees as it has developed. The varying government support measures and restrictions in response have added challenges, given the rapid pace of change and significant operational demands. The speed at which countries and territories will be able to unwind the government support measures and restrictions and return to pre-Covid-19 economic levels will vary based on the levels of infection, local governmental decisions and access to and ability to roll out vaccines. There remains a risk of subsequent waves of infection, as evidenced by the recently emerged variants of the virus. Renewed outbreaks emphasise the ongoing threat of Covid-19 even in countries that have recorded lower than average cases so far. We continue to monitor the situation.

The development of Covid-19 vaccines has raised hopes of widespread immunisation being achieved by the end of 2021 and government restrictions being eased. However, tensions could increase as countries compete for access to the array of vaccines either under development, approved or pending approval, while the potential differences in protection offered by vaccines and the speed and scale with which they can be manufactured and distributed may further add to tensions.

The Covid-19 outbreak has led to a significant weakening in GDP in many of our markets, although regions and sectors have rebounded to differing levels from their previous low points. Economic consensus forecasts have stabilised in recent months and monthly changes to the forecasts have become smaller, with a partial rebound broadly predicted for 2021. However, there is wide dispersion in forecasts, and these have yet to incorporate fully the adverse effect of the most recent stringent government restrictions that have been imposed in an increasing number of countries. Labour markets in several key economies (namely those of the UK and EU) may take longer to recover, with unemployment rates expected to rise in 2021 as government support measures are discontinued or tapered off.

Notwithstanding the potential for recovery in 2021, GDP levels are unlikely to return to pre-Covid-19 levels until later years in many markets. Differing levels of vaccine access between markets will also hamper economic recovery and could see individual markets rebound at different paces.

While the longer-term effects of the outbreak on businesses are uncertain, our financial position should allow us to continue to help support our customers. The management of capital and liquidity remains a key focus area and is being continually monitored both at Group and entity levels.

The nature and scale of the Covid-19 crisis has necessitated strong responses from governments, central banks and regulators, and the outbreak has also resulted in changes in the behaviours of our retail and wholesale customers. These factors have impacted the performance of our expected credit loss models, requiring enhanced monitoring of model outputs and use of compensating controls, specifically management judgemental adjustments based on the expert judgement of senior credit risk managers. In addition, we have built up our operational capacity rapidly in response to government and central bank support measures aimed at combating the impacts of the Covid-19 outbreak, and have been responding to complex conduct considerations and heightened risk of fraud related to these external programmes.

For further details on our approach to the risks related to Covid-19, see 'Areas of special interest' on page 116 of our *Annual Report and Accounts 2020*.

Geopolitical and macroeconomic risks

The geopolitical and economic landscape was dominated by the Covid-19 outbreak for much of 2020 and the virus and its economic impact is expected to remain the dominating factor of 2021. The pandemic contributed to an increasingly fragmented trade and regulatory environment, and impacted business and investor sentiment during a period of heightened existing US-China tensions and trade negotiations between the UK and the EU.

Central banks reduced interest rates in most financial markets due to the adverse impact of the pandemic, which has in turn increased the likelihood of negative interest rates. Prolonged low interest rates and flatter interest rate curves in major financial markets continue to present risks and concerns, such as our readiness to accommodate zero or negative rates, the resulting impacts on customers, and the financial implications on our net interest income.

A range of tensions in US-China relations could have potential ramifications for the Group and its customers. These tensions could include divisions over Hong Kong, US funding of and trading with strategic Chinese industries, claims of human rights violations, and others. Some of these tensions have manifested themselves through actions taken by the governments of the US and China in 2020 and early 2021. These tensions may affect the Group as a result of the impact of sanctions, including sanctions that impact the Group's customers, as well as regulatory, reputational and market risks. The US has imposed a range of sanctions and trade restrictions on Chinese persons and companies, focusing on entities the US believes are involved in human rights violations, information technology and communications equipment and services, and military activities, among others. In response, China has announced a number of sanctions and trade restrictions that target or provide authority to target foreign officials and companies, including those in the US. Certain measures are of particular relevance, including the US Hong Kong Autonomy Act. It remains unclear the extent to which the new US administration will affect the current geopolitical tensions following the inauguration of President Biden. We continue to monitor the situation.

Investor and business sentiment in some sectors in Hong Kong remains dampened, although the financial services sector has remained strong and has benefited from stable liquidity conditions.

The financial impact to the Group of geopolitical risks in Asia is heightened due to the strategic importance of the region, and Hong Kong in particular, in terms of profitability and prospects for growth.

For further details on our approach to geopolitical and macroeconomic risks, see 'Top and emerging risks' on page 110 of our *Annual Report and Accounts 2020*.

UK withdrawal from the European Union

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified by the UK on 30 December 2020. The deal mainly focused on goods and services but also covered a wide range of other areas, including competition, state aid, tax, fisheries, transport, data and security. However, it included limited elements on financial services, and, as a result, did not change HSBC's planning in relation to the UK's withdrawal from the EU.

The EU and UK agreed through a joint declaration to establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship between autonomous jurisdictions. Based on a shared commitment to preserve financial stability, market integrity, and the protection of investors and consumers, these arrangements are expected to allow for:

- bilateral exchanges of views and analysis relating to regulatory initiatives and other issues of interest;
- transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions; and
- enhanced cooperation and coordination, including in international bodies as appropriate.

In the coming months, both parties are expected to enter discussions with the aim of agreeing a memorandum of understanding establishing the framework for this cooperation. The parties are expected to discuss, inter alia, how to move forward on both sides with financial equivalence determinations between the EU and UK.

Our global presence and diversified customer base should help mitigate the direct impacts on our financial position of the absence of a comprehensive agreement on financial services between the UK and EU. Our existing footprint in the EU, and in particular our subsidiary in France, provides 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 assessed to support our planning for, and evaluation of, the impact of the UK's withdrawal from the EU. The results confirmed that we are well positioned to withstand potential shocks. However, the UK's withdrawal from the EU is likely to increase market volatility and economic risk, particularly in the UK, which could adversely impact our profitability and prospects for growth in this market.

For further details on our approach to the UK's withdrawal from the EU, see 'Areas of special interest' on page 116 of our *Annual Report and Accounts 2020*.

Ibor transition

Throughout 2020, our interbank offered rate ('Ibor') transition programme, which is tasked with the development of new replacement near risk-free rate ('RFR') products and transition from legacy Ibor products, has continued to implement the required IT and operational changes necessary to facilitate an orderly transition from Ibors to RFRs, or alternative benchmarks, such as policy interest rates. These changes have enabled HSBC to meet regulatory endorsed milestones related to product readiness and the clearing house-led transition to RFR discounting. Additionally, to further support our business and our customers, our programme's scope has widened to include additional interest rate benchmarks, which now have a plan for demise in the near future. The Ibor transition programme now covers 12 interest rate benchmarks: five London interbank offered rate ('Libor') currencies; four Asia-Pacific benchmarks that reference US dollar Libor; the Euro Overnight Index Average ('Eonia'); the Singapore interbank offered rate ('Sibor'); and Turkish Lira interbank offered rate ('TRLibor').

Global business lines, functions and, where appropriate, HSBC entities have identified financial and non-financial risks related to the transition and developed key actions to mitigate the identified risks. These risks include those associated with the continued sale of products referencing Ibor, through 2020. However, HSBC has actively removed certain Ibor referencing products from sale, and implemented processes and controls to manage the continued sale of Ibor products to assist in meeting our clients' needs. As products referencing Ibor continue to be sold, and RFR products are developed, considerations relating to the enforceability of Ibor fallback provisions and the evolution of RFR market conventions have increased legal and compliance risks.

Furthermore, the impact of the Covid-19 outbreak has compressed timelines for client engagement and potentially increased the resilience risks associated with the rollout of new products, transition of legacy contracts, and new RFR product sales.

For further details on our approach to Ibor transition, see 'Top and emerging risks' on page 110 of our *Annual Report and Accounts 2020*.

Top and emerging risks

Our top and emerging risks report identifies forward-looking risks so that they can be considered in determining whether any incremental action is needed to either prevent them from materialising or to 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, it could have a material adverse effect on HSBC.

Our suite of top and emerging risks is subject to review by senior governance forums. In January 2020, our top and emerging risk themes were streamlined to interconnect appropriate thematic risk issues that impact our portfolios and business. The themes 'geopolitical risk', 'the credit cycle' and 'economic outlook and capital flows' were merged into a single theme under 'geopolitical and macroeconomic risks'. We continue to monitor closely the identified risks and ensure robust management actions are in place, as required. In December 2020, change execution risk was added as a new thematic risk due to the level of change in priorities resulting from the Group transformation programme and other regulatory or remediation programmes.

Risk	Trend	Mitigants
Externally driven		
Geopolitical and macroeconomic risks	▲	We monitor developments in geopolitical and macroeconomic risk and assess what impacts these may have on our portfolios. The Covid-19 outbreak, heightened US-China geopolitical tensions and the UK's withdrawal from the EU have resulted in an unprecedented global economic slowdown, leading to a significant increase in credit stress in our portfolio. We have increased the frequency and depth of monitoring activities, and performed stress tests and other sectoral reviews to identify portfolios or customers who were experiencing, or were likely to experience, financial difficulty as a result.
Cyber threat and unauthorised access to systems	▶	We help protect HSBC and our customers by continuing to strengthen our cyber defences, helping enable the safe execution of our business priorities and the security of our customers' information. Our data-driven approach, grounded in strong controls that help to mitigate advanced cyber threats, enhances our capability in threat detection, access controls and resiliency.
Regulatory compliance risk environment, including conduct	▶	We monitor regulatory developments closely and engage with regulators, as appropriate, to help ensure that new regulatory requirements are implemented effectively and in a timely way. In addition to developments driven by the Covid-19 outbreak, we are keeping abreast of the emerging regulatory agenda, which is increasingly focused on diversity, sustainable development, climate change, operational resilience and digital services and innovation.
Financial crime risk environment	▲	We continued to support the business and our customers throughout the Covid-19 outbreak, while ensuring that our controls remained effective to manage financial crime risk. We progressed with our plans to improve our fraud controls and continue to invest in both advanced analytics and artificial intelligence ('AI'), which remain key components of our next generation of tools to fight financial crime. Additionally we continued to update our policies and controls in response to new, increasingly complex sanctions and export control regulations, which reflected heightened geopolitical tensions.
Ibor transition	▲	We remain focused on providing alternative near risk-free rate products, and the supporting processes and systems, to replace all outstanding Ibor-linked contracts that are on a demise path. We engage with industry participants and regulatory working groups to aid an orderly transition within the required timelines. In light of delays in market and client readiness caused by the Covid-19 outbreak, we are engaging and prioritising clients for transition of their outstanding contracts linked to Ibors that already have a confirmed demise.
Climate-related risks	▲	We continue to enhance the identification, oversight and management of climate risk. In 2020, we enhanced our climate risk appetite statement with quantitative metrics to articulate the risks from climate change, and formalised our overall approach to climate risk management. We also started to integrate climate risk into the Group-wide risk management framework (see our *TCFD Update 2020* for further information).
Internally driven		
IT systems infrastructure and resilience	▶	We actively monitor and improve service resilience across our technology infrastructure to minimise service disruption to our customers, and enhance our service management disciplines and change execution capabilities. We continued to adapt our IT systems during 2020 to support our customers and operations during the Covid-19 outbreak.
Risks associated with workforce capability, capacity and environmental factors with potential impact on growth	▲	We monitor workforce capacity and capability requirements in line with our published growth strategy and any emerging issues in the markets in which we operate. We have put in place measures to help ensure that our people are supported and able to work safely during the Covid-19 outbreak. We are monitoring people risks that may arise due to business transformation to help ensure that we sensitively manage any redundancies and support impacted employees.
Risks arising from the receipt of services from third parties	▶	We continue to enhance our third-party risk management programme to help ensure engagements comply with our third-party risk policy and required standards. We work closely with providers to monitor performance. In 2021, we will continue to strengthen our third-party risk framework and improve our technology, process and people capabilities.
Model risk management	▲	We continue to strengthen our oversight of models and the second line of defence Model Risk Management function. We are embedding a new model risk policy, which includes updated controls around the monitoring and use of models. We have developed new model risk appetite measures, which we expect to implement in the first quarter of 2021. A redevelopment of our IFRS 9 and capital models is underway to reflect the potential effects of the extreme economic shocks and various government support measures as a consequence of the Covid-19 outbreak.
Data management	▶	We continue to enhance and advance our insights, data aggregation, reporting and decisions through ongoing improvement and investments in data governance, data quality, data privacy, data architecture, and analytics (including machine learning and AI capabilities). Our work to modernise our data infrastructure also continues, building on the Cloud to increase flexibility and scalability and improve our fit-for-purpose data while also respecting the evolving regulatory landscape regarding the localisation of data. This is a crucial component of effectively managing our risk.
Change execution risk	▲	We have established a global transformation programme to oversee all initiatives mobilised to deliver the commitments made to restructure the business and reduce costs. The related execution risks are being monitored and managed, recognising that many initiatives impact our colleagues and require continued investment in technology. We are working to strengthen our change management practices to deliver changes efficiently and safely.

▲ Risk heightened during 2020   ▶ Risk remained at the same level as 2019

Long-term viability and going concern statement

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

The Directors have specified a period of three years to 31 December 2023. They are satisfied that a forward-looking assessment of the Group for this period is sufficient to enable a reasonable statement of viability. In addition, this period is covered by the Group's stress testing programmes, and its internal projections for profitability, key capital ratios and leverage ratios. Notwithstanding this, our stress testing programmes also cover scenarios out to five years and our assessment of risks are beyond three years where appropriate:

- This period is representative of the time horizon to consider the impact of ongoing regulatory changes in the financial services industry.
- Our updated business plan covers 2021–2025.

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

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

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

The Directors carried out a robust assessment of the emerging and principal risks facing the Group to determine its long-term viability, including those that would threaten its solvency and liquidity. They determined that the principal risks are the Group's top and emerging risks, as set out on page 39. These include risks related to geopolitical and macroeconomic risks (including in relation to Covid-19), which bring a heightened level of uncertainty compared with previous years.

The Directors assessed that all of the top and emerging risks identified are considered to be material and, therefore, appropriate to be classified as the principal risks to be considered in the assessment of viability. They also appraised the impact that these principal risks could have on the Group's risk profile, taking account of mitigating actions planned or taken for each, and compared this with the Group's risk appetite as approved by the Board. At 31 December 2020, there were seven heightened top and emerging risks: geopolitical and macroeconomic risks; financial crime risk environment; Ibor transition; climate-related risks; risks associated with workforce capability, capacity and environmental factors with potential impact on growth; model risk management; and change executions risks.

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

- details of the Group's business and operating models, and strategy;
- details of the Group's approach to managing risk and allocating capital;
- a summary of the Group's financial position considering performance, its ability to maintain minimum levels of regulatory capital, liquidity funding and the minimum requirements for own funds and eligible liabilities over the period of the assessment. Notable are the risks which the Directors believe could cause the Group's future results or operations to adversely impact any of the above;
- enterprise risk reports, including the Group's risk appetite profile (see page 107 of the *Annual Report and Accounts 2020*) and top and emerging risks (see page 110 of the *Annual Report and Accounts 2020*);
- the impact on the Group due to the Covid-19 pandemic, the UK's departure from the EU, tensions between the US and China and the situation in Hong Kong;
- reports and updates regarding regulatory and internal stress testing. While the Bank of England and European Banking Authority cancelled their industry-wide stress test exercises in 2020, a number of internal stress tests were conducted in 2020, including several potential Covid-19 related outcomes;
- reports and updates from management on risk-related issues selected for in-depth consideration;
- reports and updates on regulatory developments;
- legal proceedings and regulatory matters set out in Note 34 on the financial statements of the *Annual Report and Accounts 2020*; and
- reports and updates from management on the operational resilience of the Group.

Having considered all the factors outlined above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2023.

Aileen Taylor
Group Company Secretary and Chief Governance Officer

23 February 2021

Supplementary information

Shareholder enquiries and communications

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

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

Any enquiries relating to ADSs should be sent to the depositary:

The Bank of New York Mellon
Shareowner Services
PO Box 505000
Louisville, KY 40233-5000
USA

Telephone (US): +1 877 283 5786
Telephone (International): +1 201 680 6825

Email:
shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

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

Shareholders who wish to receive a hard copy of this *Strategic Report 2020* should contact HSBC's Registrars. Please visit www.hsbc.com/investors/investor-contacts for further information. You can also download an online version of the report from www.hsbc.com.

Electronic communications

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

Chinese translation
A Chinese translation of this *Strategic Report 2020* will be available upon request after 24 March 2021 from the Registrars:

Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom

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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 2020

This is a part of HSBC Holdings plc's *Annual Report and Accounts 2020* 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 2020.*

Copies of the Annual Report and Accounts 2020

Shareholders who wish to receive a hard copy of this *Strategic Report 2020* or the *Annual Report and Accounts 2020* should contact HSBC's Registrars. Please visit www.hsbc.com/investors/investor-contacts for further information.

The *Strategic Report 2020* and the *Annual Report and Accounts 2020* may also be downloaded from the HSBC website, www.hsbc.com.

Report of the auditors

The auditors' report in respect of the *Annual Report and Accounts* of HSBC Holdings plc for the year ended 31 December 2020, which includes their statement under section 496 of the Companies Act 2006 in respect of whether the *Strategic Report* and the Report of the Directors are consistent with the audited financial statements, was unqualified.

Certain defined terms

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

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