Group Chief Executive's Review

HSBC is simpler, stronger and more secure than it was in 2011, and better able to connect customers to opportunities in the world's fastest growing regions.

Stuart Gulliver Group Chief Executive

2017 was an important year for HSBC. We completed the transformation programme that we started in 2015, maximising the benefits of our network and increasing our competitive advantages. By the end of the year we had exceeded our risk-weighted asset and cost-saving targets, rebuilt our Mexico business, delivered revenue growth from our international network in excess of global economic growth, and accelerated investment in our operations in Asia. We also opened new businesses and launched products that considerably strengthen the service that we offer our international clients.

These achievements, and the work that preceded them, were a critical factor in delivering a strong financial performance in 2017. The strength of our three main global businesses generated significant increases in both reported and adjusted Group profit before tax ('PBT'), while reported PBT also benefited from the non-recurrence of a number of large significant items from 2016. Adjusted PBT and adjusted revenue were up in four out of five regions. We grew adjusted revenue faster than adjusted costs, and continued to increase our market share in strategic product areas.

Business performance

Retail Banking and Wealth Management had an excellent 2017, with strong adjusted revenue increases across a number of business lines. In Retail Banking, interest rate rises helped to grow revenue as our robust balance sheet and capital strength continued to attract deposits, particularly in Hong Kong. We continued to grow lending in our target markets, especially Hong Kong, the UK and Mexico. Wealth Management benefited from improving customer investment appetite, strong product sales across all categories and the impact of market movements on our life insurance manufacturing businesses.

Commercial Banking adjusted revenue grew well on the back of an outstanding performance in Global Liquidity and Cash Management. Higher lending volumes helped Credit and Lending overcome the impact of narrower spreads. Global Trade and Receivables Finance revenue stabilised after a difficult 2016 and we increased our share of major markets, including trade finance in Hong Kong and receivables finance in the UK. HSBC was voted market leader for trade finance in *Euromoney*'s annual trade finance survey in January 2018.

Global Banking and Markets grew adjusted revenue, driven particularly by strong growth in Global Liquidity and Cash Management, and Securities Services. Growth in the first three quarters of the year in Markets and Banking enabled both to withstand the effects of subdued market activity in the fourth quarter.

Global Private Banking adjusted revenue reflected the impact of historical repositioning, but was stable over the course of 2017. The business grew adjusted revenue by 10% in its target markets.

Our strong revenue generation meant that the Group achieved positive adjusted jaws in 2017. We accelerated investment to grow the business, particularly in Retail Banking and Wealth Management, which contributed to an increase in adjusted costs. Performance-related compensation also grew in line with profit before tax.

Adjusted loan impairment charges were significantly lower than 2016, mainly due to improved conditions in the oil and gas industry in North America.

Our strong common equity tier one ratio of 14.5% included the effect of recent changes in US tax legislation, which reduced our capital position by 9 basis points. It also included the impact of our most recent $2bn share buy-back. In 2017, we returned a total of $3bn to shareholders through share buy-backs and paid more in dividends than any other European or American bank. We achieved this while maintaining one of the strongest capital ratios in the industry.

'We have delivered excellent value to shareholders through a total shareholder return of 70.3% from 2011 to the end of 2017.'

Strategic actions

The strength of our business is due in large part to the strategic actions that we first announced in June 2015. This programme concluded at the end of 2017 with eight out of ten actions completed on time and on target (see pages 12 to 13).

HSBC is much more capital efficient and capable of producing stronger returns for investors as a consequence of these actions. Our cost-reduction programmes have enabled us to absorb the cost of growing the business and protecting HSBC from financial crime, while improving the efficiency and security of our processes.

Our previously underperforming Mexico business is increasingly profitable and well positioned for further growth. Whilst our US business remains a work in progress, it is a valuable source of business for other regions and continues to make important progress. We also completed the run-off of our legacy US consumer and mortgage lending portfolio, bringing an end to a difficult chapter in HSBC's recent history.

Our international network is now much better able to connect customers to opportunities and delivering revenue growth above that of the global economy. 53% of client revenue now comes from international clients, up from 50% in 2015. Global Liquidity and Cash Management in particular is now a major component of the bank's success, and Global Trade and Receivables Finance has extended its leadership of the global trade finance market.

The Group's business mix is more oriented towards Asia, improving our ability to channel the economic and social changes taking place within the world's fastest growing region. Asia contributes a larger proportion of the Group's profits than in 2015, reflecting regional investment in growing our loan book, building our insurance and asset management businesses, and connecting customers to opportunities within the region.

We continued to expand our presence in mainland China with the launch of new retail banking products and increased lending in the Pearl River Delta. In December we launched HSBC Qianhai Securities, the first securities joint venture in mainland China to be majority-owned by an international bank. This allows us to offer our clients increased access to China's rapidly expanding capital markets and provides an unprecedented opportunity to establish and grow a securities business in mainland China with strong international standards. This underlines our status as the leading international bank in mainland China.

We won a number of significant new business mandates related to the China-led Belt and Road Initiative in 2017, and opened new China desks in Poland, Luxembourg, Thailand and Macau to capture further opportunities. We now have a total of 24 China desks aimed at supporting Chinese businesses with global outbound ambitions, 20 of which are along the 'Belt and Road' routes. In November we were named 'Best Bank for Belt and Road' at the *FinanceAsia* Achievement Awards 2017.

'My sincere thanks go to all of my HSBC colleagues around the world, past and present, whose hard work and commitment are the foundation of the bank's success.'

Fighting financial crime

For the past five years, we have been weaving Global Standards into the fabric of HSBC. The investment that we have made in our financial crime risk management capabilities has considerably strengthened our ability to protect the integrity of the financial system. We have assembled a highly expert team which is helping to shape the debate about our industry's role in the fight against financial crime. We have made great strides in building a compliance function fit for the many evolving challenges we face, and built partnerships to combat financial crime with regulatory and law enforcement authorities around the world.

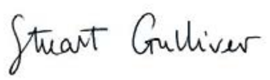
The expiration in December of the five-year deferred prosecution agreement that we entered into with the US Department of Justice in 2012 ('AML DPA') was an important milestone for HSBC. Nevertheless, exiting the AML DPA was a product rather than the focus of the essential work that we have done to transform our compliance capabilities and protect the financial system. This work will continue as we seek to ensure that the changes we have made are effective and sustainable. Combating financial crime is a never-ending exercise and will be a constant focus for the Group's management.

Thank you

As I prepare to pass on the stewardship of HSBC to my successor, I am proud of our achievements of the last seven and a half years. After the most extensive transformation programme in HSBC's 153 year history, HSBC is simpler, stronger and more secure than it was in 2011, and better able to connect customers to opportunities in the world's fastest growing regions. We have also delivered excellent value to shareholders through a higher share price, $64.7bn in declared dividends and $5.5bn in share buy-backs, representing a total shareholder return of 70.3% from 2011 to the end of 2017.

I am pleased to be handing over to such a capable successor as John Flint, whose intimate knowledge of HSBC and its culture will be a considerable asset to the bank and its clients. I am grateful to my colleagues on the Group Management Board for their support since 2011, and to Douglas Flint and Mark Tucker for their backing.

Finally, my sincere thanks go to all of my HSBC colleagues around the world, past and present, whose hard work and commitment are the foundation of the bank's success. It has been my privilege to work with them for the last 38 years.



Stuart Gulliver
Group Chief Executive
20 February 2018