Group Chief Executive's review

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

Noel Quinn
Group Chief Executive

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

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

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

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

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

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

Financial performance

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

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

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

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

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

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

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

2020 outlook
Since the start of January, the coronavirus outbreak has created significant disruption for our staff, suppliers and customers, particularly in mainland China and Hong Kong. We understand the difficulties this poses and have put measures in place to support them through this challenging time. Depending on how the situation develops, there is the potential for any associated economic slowdown to impact our expected credit losses in Hong Kong and mainland China. Longer term, it is also possible that we may see revenue reductions from lower lending and transaction volumes, and further credit losses stemming from disruption to customer supply chains. We continue to monitor the situation closely.

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

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

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

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

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

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

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

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

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

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

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

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

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

Noel Quinn
Group Chief Executive

18 February 2020