# Group Chief Executive's review

We are helping our customers navigate their own path through uncertainty and acting with pace and decisiveness to adapt HSBC to an environment in which no business can afford to stand still.

**Noel Quinn**
Group Chief Executive

**The first six months of 2020 have been some of the most challenging in living memory. Due to the Covid-19 pandemic, much of the global economy slowed significantly and some sectors drew to a near total halt.**

This meant two things for HSBC. First, that the financial performance of the bank inevitably suffered in line with the rest of the global economy. But second, that the real measure of our performance became our success in supporting our customers, colleagues and communities during the pandemic, and in laying the groundwork for the recovery to come.

**Covid-19**

In difficult times, HSBC's job has always been to support our communities, provide stability and help build economic growth. I have been immensely proud of the way our people have delivered this purpose as the Covid-19 outbreak has unfolded.

Our approach has hinged on three themes – securing a continuous service for all who rely on us; providing a financial bridge for our personal and business customers beyond the crisis; and ensuring that HSBC retains the strength to help our customers thrive once restrictions begin to ease.

We maintained a high level of business continuity with 85% of colleagues equipped to work from home, all of our customer contact centres fully operational, and between 70% and 90% of our branches open for business in the first half. We enhanced our digital capabilities to serve more customers remotely, with faster access and improved security. We also engaged with our regulators to better enable customers to access a broad range of banking products and services from their homes, including through remote consultations and sales.

This underpinned our ability to get our customers the support they need. For our personal lending customers, we granted more than 700,000 payment holidays on loans, credit cards and mortgages, providing more than $27bn in customer relief in the first half of the year. For our wholesale lending customers, we provided more than $52bn of facilities to more than 172,000 customers globally over the same period, both through government schemes and our own relief initiatives.

As a global bank, HSBC played a vital role in keeping capital flowing for our clients, arranging more than $1.1tn of loan, debt and equity financing for our wholesale customers in the first six months of 2020. Global Banking and Markets made a direct contribution to the Covid-19 relief effort, helping to arrange more than $48bn of financing for our clients through social and Covid-19 relief bonds.

We also took an early decision not to apply for government support packages for employees across the countries in which we operate.

Throughout all of this, the well-being of our people has been our paramount concern. We have taken steps to enable our front-line colleagues to do their jobs safely and effectively. For all our colleagues, we have maintained a regular flow of communication and listened closely to their needs, providing the support and flexibility to help them manage their lives during the pandemic.

"The real measure of our performance became our success in supporting our customers, colleagues and communities."

This has been one of the most demanding periods that I can remember for all of our people across HSBC. Many have had to juggle personal and professional priorities, while adapting to new and unfamiliar ways of working. I have been humbled by the dedication and commitment that they have shown in incredibly tough circumstances, and thank them deeply for all they have done – and are doing – for our customers, communities and each other.

**Transformation**

On 18 February, we announced a substantial transformation programme to ensure that HSBC is fit for the future. We published plans to reshape underperforming businesses, simplify our complex organisation and reduce our costs.

We are moving forward with these plans wherever we can. We have already begun combining our wholesale back office operations, and brought our retail, wealth and private banking businesses together into a single global business – Wealth and Personal Banking. Our US business has reduced its branch footprint, and Global Banking and Markets has made good early progress in reducing its risk-weighted assets. The lessons of the past six months are also being applied more broadly, particularly from parts of the business that have responded to a fast-moving situation with exceptional pace and agility.

The operational risks posed by the Covid-19 outbreak meant that we had to move more slowly in some areas than others. In March, I paused the redundancy programme intended to deliver the reduction in headcount we promised in February. It would have been wrong to proceed with job losses at a time of significant stress for our people and communities, and at a point when we needed to protect our capacity to serve our customers. Now, many countries have slowed the spread of the virus and are emerging from lockdown, and we have adapted to new ways of working. I therefore decided in June to lift the pause on redundancies, proceeding thoughtfully but purposefully, while taking local considerations into account.

Now that many governments have become better accustomed to managing the ebb and flow of the pandemic, we intend to accelerate implementation of the plans we announced in February. At the same time, our operating environment has changed significantly since the start of the year. We will also therefore look at what additional actions we need to take in light of the new economic environment to make HSBC a stronger and more sustainable business.

**Financial performance**

A good start to the year in January and February was overshadowed from March onwards by the Covid-19 outbreak and the impact of falling interest rates.

The sharp increase in expected credit losses that followed impacted all markets, but particularly those outside Asia. ECL grew further from the first to the second quarter as the economic outlook deteriorated, with increases in both stage 1 and 2 allowances. Stage 3 ECL were up overall but broadly stable during the first half, although the first quarter included a charge in Singapore unrelated to the Covid-19 crisis.

First half reported revenue was 9% lower than last year's first half, due mainly to the effects of interest rate cuts made at the start of the year across our deposit franchises. By contrast, our Asia businesses showed good resilience and Global Markets grew revenue on the back of higher client activity.

## Response to Covid-19

**Operational response**
**Our operations have stayed highly resilient:**

Approximately
90%
of our branch network remained open for business globally, as at 30 June 2020.

Approximately
85%
of our employees are now equipped to work from home.

We took further action on costs in response to the weaker revenue environment, reducing both performance-related pay and discretionary spending. Together with our ongoing cost-saving initiatives, this helped reduce reported operating expenses by 4%.

While these cost measures mitigated some of the adverse effects of the radically changed economic environment, reported first half profit before tax was 65% lower than the same period last year, and adjusted profit before tax fell by 54%.

Lending decreased by $18bn in the first half. Customers initially drew on new and existing credit lines in the first quarter in response to the Covid-19 outbreak, but began to pay these down in the second quarter as circumstances changed. Deposits rose by $93bn in the first half, as customers increased their cash reserves and reduced their spending during lockdown.

We continued to invest in the future of the business while managing costs down, spending $2.8bn on technology in the first six months of the year.

Our balance sheet remains robust with a CET1 ratio of 15.0% and strong liquidity and funding.

"We have taken steps to enable our front-line colleagues to do their jobs safely and effectively."

**Facing the future**
Our performance in the second half of the year will continue to be influenced by the path and economic impact of the Covid-19 outbreak. Geopolitical uncertainty could also weigh heavily on our clients, particularly those impacted by heightened US-China and UK-China tensions, and the future of UK-EU trade relations.

Amid the current uncertainty, we remain focused on the things we can control – helping our customers navigate their own path to a complex future, and acting with pace and decisiveness to adapt HSBC to an environment in which no business can afford to stand still.

HSBC has always helped our clients manage complexity. There have been many times in the last 155 years when geopolitics has altered the nature of trade, or disruptive forces have changed entire industries. On each occasion, HSBC has adapted and innovated to help our customers when they need us most, and we will do so again.

We start from a strong position. As the world's leading trade bank[1], we have the knowledge and network to help customers reorder their supply chains securely and sustainably. As the world's number one bank for green, social and sustainable bonds[2], we have the experience and expertise to help customers finance their transition to a cleaner, more resilient future. These are important strengths, but we have to keep investing to maintain them and to provide the agile, responsive and entrepreneurial service that our clients require.

Like our clients, HSBC has to operate in a difficult geopolitical environment. Current tensions between China and the US inevitably create challenging situations for an organisation with HSBC's footprint. However, the need for a bank capable of bridging the economies of east and west is acute, and we are well placed to fulfil this role. We will face any political challenges that arise with a focus on the long-term needs of our customers and the best interests of our investors.

## Response to Covid-19

**Customer response**

**We are participating in several Covid-19 relief programmes to deploy a range of support measures for our customers at pace.**

We arranged more than

$48bn

of financing through social and Covid-19 relief bonds in 1H20.

We granted more than

700,00

payment holidays for personal lending customers in 1H20.

We provided more than

$52bn

of lending facilities for our wholesale customers in 1H20.

"HSBC has always helped our clients manage complexity."

As we seek to accelerate our transformation in the second half of the year, I am mindful of the impact it will have for some of our people, particularly those leaving us. As necessary as these changes are, the human impact is a matter of deep personal regret to me. We will make sure that all those leaving HSBC as part of our transformation will be treated with fairness and consideration, and will receive support in finding new employment.

Finally, HSBC is a global bank serving customers from many different backgrounds. We therefore need to resemble the communities we serve. 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. However, I want us to be judged by our actions, not our words. We will therefore provide more information about the ethnicity of our workforce in our annual reporting in February, so that our stakeholders can hold us accountable.

**Noel Quinn**
Group Chief Executive

3 August 2020

1 *Euromoney*, Trade Finance Survey, January 2020
2 Dealogic, Sustainable Finance Bond league table, 1H20