HSBC Holdings plc

Strategic Report 2017

HSBC

Connecting customers to opportunities

HSBC aims to be where the growth is, enabling business to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

Our cover image

Guangzhou is one of China's largest and most dynamic cities. It is the capital of Guangdong Province and lies at the heart of China's Pearl River Delta (PRD), one of the country's fastest growing economic regions. The PRD in recent years has transformed from being the exporting factory floor of the world into a global leader in digital commerce and innovation. HSBC has had a presence in China for more than 150 years. China is an important part of the Group's strategy and we have branches across the PRD. In December 2017 HSBC Qianhai Securities Limited, the first joint venture securities company in mainland China to be majority-owned by a foreign bank, opened for business in the PRD.

Inside front cover image

Dubai financial district.

Our photo competition winners

This report showcases five images taken by our employees around the world. The images were selected from more than 2,100 submissions to a Group-wide photography competition. Launched in June 2017, HSBC NOW Photo is an ongoing project that encourages employees to capture and share the diverse world around them with a camera.

Contents

This Strategic Report was approved by the Board on 20 February 2018.

Mark E Tucker
Group Chairman

Our values

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

Dependable

We are dependable, standing firm for what is right and delivering on commitments.

Open

We are open to different ideas and cultures, and value diverse perspectives.

Connected

We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

As a reminder

Reporting currency
We use US dollars.

Adjusted measures
We supplement our IFRS figures with adjusted measures used by management internally. These measures are highlighted with the following symbol: ◆

Further explanation may be found on page 32 of the *Annual Report and Accounts 2017.*

Highlights

Our international network, universal banking model and capital strength deliver long-term value for customers and shareholders.

Group

For year ended 31 Dec 2017

Reported profit before tax
($bn)

2017	17.2
2016	7.1
2015	18.9

(2016: $7.1bn)

$17.2bn

Adjusted profit before tax
($bn)

2017	21.0
2016	18.9
2015	18.8

(2016: $18.9bn)

$21.0bn

Reported revenue
($bn)

2017	51.4
2016	48.0
2015	59.8

(2016: $48.0bn)

$51.4bn

At 31 Dec 2017

Reported risk-weighted assets
($bn)

2017	871
2016	857
2015	1,103

(2016: $857bn)

$871bn

Common equity tier 1 ratio
(%)

2017	14.5
2016	13.6
2015	11.9

(2016: 13.6%)

14.5%

Total assets
($bn)

2017	2,522
2016	2,375
2015	2,410

(2016: $2,375bn)

$2,522bn

Strategy execution

- Delivered growth from our international network with a 6% increase in transaction banking product revenue and a 13% rise in revenue synergies between global businesses compared with 2016.
- Achieved annualised run-rate savings of $6.1bn since our Investor Update in 2015, while continuing to invest in growth, and regulatory programmes and compliance; 2017 exit run-rate in line with 2014 cost base.
- Exceeded our risk-weighted assets ('RWAs') reduction target; extracting a total of $338bn of RWAs from the business since the start of 2015.
- Pivot to Asia generating returns and driving over 75% of Group reported and adjusted profit in 2017.
- Delivered a return on equity of 5.9% in 2017, up from 0.8% in 2016. We will continue to invest for growth and manage our capital efficiently to achieve our medium-term ROE target of >10%.

About HSBC

Around
38 million
customers bank with us.

Today, HSBC has around
3,900
offices in 67 countries and territories worldwide.

We employ
229,000
people around the world*.

* Full-time equivalent staff

We have
200,000
shareholders in 131 countries and territories.

Our global businesses

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

Retail Banking and Wealth Management ('RBWM')

We help millions of people across the world to manage their finances, buy their homes, and save and invest for the future. Our Insurance and Asset Management businesses support all our global businesses in meeting their customers' needs.

Commercial Banking ('CMB')

We support approximately 1.7 million business customers in 53 countries and territories with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.

Global Banking and Markets ('GB&M')

We provide financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet clients' specific objectives.

Global Private Banking ('GPB')

We help high net worth individuals and their families to grow, manage and preserve their wealth.

Adjusted profit before tax

RBWM	CMB	GB&M	GPB
(2016: $5.2bn)	(2016: $5.9bn)	(2016: $5.5bn)	(2016: $0.3bn)
$6.5bn	$6.8bn	$5.8bn	$0.3bn

Adjusted risk-weighted assets

RBWM	CMB	GB&M	GPB
(31 Dec 2016: $114.7bn)	(31 Dec 2016: $286.9bn)	(31 Dec 2016: $307.7bn)	(31 Dec 2016: $15.7bn)
$121.5bn	$301.0bn	$299.3bn	$16.0bn

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

Delivery against Group financial targets

Return on equity

5.9%

Adjusted jaws

+1%

Dividends per ordinary share in respect of 2017

$0.51

For further details, see page 17.

Group Chairman's Statement

With an international network covering 90% of global trade flows and a leading presence in the world's fastest growing region, we are in a prime position to help our customers capitalise on broad-based global growth.

Mark E Tucker Group Chairman

Our 2017 results demonstrate both the strength and the potential of the Group. A large increase in reported profit before tax reflected both a healthy business and the non-recurrence of significant items from 2016. All of our global businesses grew adjusted profits and our three main global businesses generated improved adjusted revenue.

Strong revenue growth more than covered the cost of business investment, and increased lending laid a foundation for future performance. Asia again contributed a substantial proportion of the Group's profits, particularly in Commercial Banking and Retail Banking and Wealth Management. Together, this delivered an adjusted Group profit before tax of $21bn, up 11% on 2016.

This performance has enabled us to approve an unchanged fourth interim dividend of $0.21. This brings the total dividend for 2017 to $0.51, representing a total shareholder return of 24% for 2017.

Board changes

As I start my first full year as Group Chairman, I am very grateful to my predecessor, Douglas Flint, and to Stuart Gulliver for ensuring a smooth handover. They steered HSBC through challenging waters during and after the global financial crisis, and renewed HSBC's reputation as one of the world's strongest and safest international banks. They have passed on a strong legacy.

My first responsibility as Group Chairman was to appoint a successor to Stuart who would be capable of building on his achievements while further enhancing the qualities that make HSBC unique. With an exceptional record of managing a diverse range of international businesses and a deep understanding of HSBC's heritage and culture, John Flint was clearly the outstanding candidate. The Board and I look forward to working closely with John and his management team.

2017 also saw other Board changes as we said goodbye to Rachel Lomax, Sam Laidlaw and Paul Walsh. All three provided valuable service and wise counsel to the Board and I thank them warmly for their advice and support. I am especially grateful to Rachel for her excellent work as the Senior Independent Director and to Sam for his thoughtful leadership of the Nomination Committee.

The year ahead

The Board is focused on sustaining resilience by enhancing reputation and performance. We will further develop our strategy to deliver value to all of our stakeholders within a governance framework that provides stability, prudence and effective oversight.

'As a well-diversified business underpinned by historically stable revenue generation and significant capital strength, HSBC is well equipped to manage the risks and uncertainty inherent in today's world.'

We expect the world's major economies to show reasonable growth in 2018, helped by relatively low unemployment, recovering consumer confidence and improving trade. Fears of a hard landing in China have receded, and markets across Asia look set for a strong year. The anticipated conclusion of large regional trade agreements in 2018, mostly involving Asian nations, also provides cause for optimism. With an international network covering 90% of global trade flows and a leading presence in the world's fastest growing region, we are in a prime position to help our customers capitalise on this broad-based global growth.

While we are optimistic about the prospects for the global economy, rising international tensions, the threat of protectionism and a lack of inclusive growth all have the potential to disrupt economic activity. We continue to model and anticipate a wide range of scenarios as part of our day-to-day risk management, to cover unlikely but not impossible events. As a well-diversified business underpinned by historically stable revenue generation and significant capital strength, HSBC is well equipped to manage the risks and uncertainty inherent in today's world.

'It is important not just to achieve good results, but to do so in a way that treats all of our stakeholders in a fair and transparent way.'

Transparency and disclosure

Last year, we published a range of environmental, social and governance ('ESG') metrics to enable investors and customers to assess our non-financial performance. The data we disclose will continue to evolve as we learn more about what our stakeholders find useful and improve our ability to collect the necessary information. We will publish our next ESG Update on our website in April 2018.

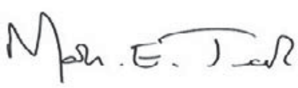
We are also making our first disclosure under the terms of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. This can be found on page 27. As one of the world's largest international banks, we take seriously our responsibility to help develop a voluntary, consistent and comparable system of climate-related financial disclosure. We intend to continue to expand and improve the quality and specificity of these disclosures, and to encourage all those who work with us to do the same.

Supporting our people

It is important not just to achieve good results, but to do so in a way that treats all of our stakeholders – employees, customers, regulators and shareholders – in a fair and transparent way. We are committed to holding ourselves to account in meeting that aim, and to being accountable to our stakeholders for our actions.

As part of this commitment, the Board and I are determined to ensure that HSBC remains a place where all our people have the opportunity to fulfil their potential in a nurturing environment that encourages the right behaviour. Our stakeholders expect honesty and integrity and we will continue to promote a culture in which people do the right thing.

My special thanks are due on behalf of the Board to each of the 229,000 people who work for HSBC around the world. In my short time as Group Chairman I have been enormously impressed by the effort, energies and ability of our people in each country I have visited. These results are a testament to their hard work and dedication.



Mark E Tucker
Group Chairman
20 February 2018

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.

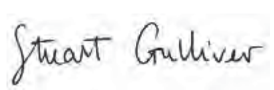
The expiration in December of the five-year deferred prosecution agreement that we entered into with the US Department of Justice in 2012 (‘AML DPA’) was an important milestone for HSBC. Nevertheless, exiting the AML DPA was a product rather than the focus of the essential work that we have done to transform 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

Our strategy

We have developed a long-term strategy that reflects our purpose and enables us to capture value from our international network.

Two-pronged long-term strategy

Develop our international network

To serve enterprises across geographies and facilitate international trade and capital flows, thereby helping our clients to grow their business.

Invest in wealth and retail businesses with local scale

To make the most of global social mobility, wealth creation and long-term demographic changes in our select retail banking and wealth management markets.

Value of the network and our strategy

Access to global growth opportunities

Our unparalleled network covers countries accounting for approximately 90% of global GDP, trade and capital flows. We have a leading presence in large and fast-growing economies.

Our network covers all of the world's 30 largest trade corridors forecast for 2030. These top 30 corridors are expected to have a compound annual growth rate well in excess of GDP growth expectations from 2016 to 2030.

Lower risk profile and volatility from our geographically diversified universal banking model

We operate a balanced universal banking model across both wholesale and retail businesses and we are geographically diversified. This has resulted in a lower risk profile and lower earnings volatility compared to our global peers. Our business model has remained resilient through business cycles, and it helps ensure stable funding and liquidity.

Strong capital and funding base

CET1 ratio of 14.5% supported by increased shareholders' equity to meet new regulatory requirements since the end of 2010.

Four interconnected, global businesses share balance sheets and liquidity in addition to strong commercial links.

Stable shareholder returns

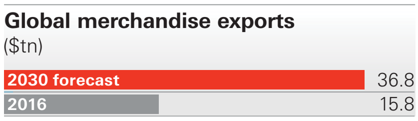
Industry leading dividend – approximately $65bn declared from 2011 to 2017 – as well as circa $5.5bn of share repurchases.

Long-term trends

Our strategy positions us to capitalise on several long-term trends.

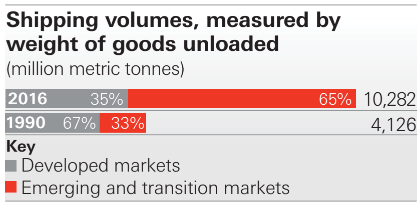
Increasing connectivity and global flows of trade, finance and data are key drivers of GDP growth.

Source: Global Insight's Comparative World Overview.



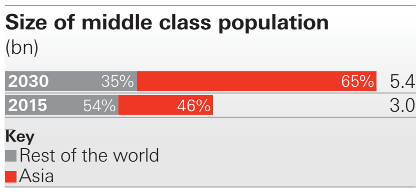
Emerging market economies are expected to be twice the size of developed economies by 2050.

Source: United Nations Conference on Trade and Development.



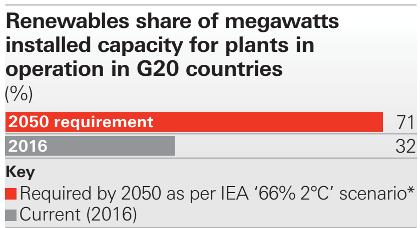
The middle class is expected to grow by over two billion people from 2017 to 2030, driven by growth in Asia's middle class.

Source: Global Economy and Development at Brookings, The Unprecedented Expansion of the Middle Class (2017).



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

Source: OECD, Investing in Climate, Investing in Growth (2017).



*The scenario assumes a 66% probability of keeping the mean global surface temperature rise throughout the 21st century to below 2°C above pre-industrialised levels.

Client examples

Trina Solar ('Trina'): China, renewable energy

Exporter of solar panels globally. Trina's aim is to bring China's green energy solutions to countries along the Belt and Road Initiative route, and has thus stepped up its overseas investment, particularly in the ASEAN region. HSBC created a digital platform for Trina that gave its headquarters a transparent view of its ASEAN-region subsidiaries' cash positions and set up a cash pool in Singapore to seamlessly connect Trina's HSBC accounts globally.

Reckitt Benckiser ('RB'): UK, consumer goods

Global consumer health and hygiene company. HSBC acted as financial adviser and lead financier to Reckitt Benckiser on its $18bn acquisition of Mead Johnson Nutrition Company, a leader in infant and children's nutrition. This acquisition marked one of the largest UK into US transactions and considerably strengthened RB's presence in developing markets, particularly China.

Zhejiang Geely: China, automotive

Leading automobile manufacturer. HSBC served as sole financial adviser for Zhejiang Geely on two interlinked China outbound investments, one in Malaysian carmaker Proton Holdings and the second in Lotus Advance Technologies, a subsidiary of Proton based in the UK. These transactions were enabled by collaboration between HSBC teams in mainland China, Hong Kong, Singapore, Malaysia and London.

Morgan McKinley: Ireland, professional services

Global recruitment agency with operations in Ireland, UK, EMEA and APAC. In 2017, Morgan McKinley expanded HSBC's global mandate to include cross-border Global Trade and Receivables Finance ('GTRF') facilities and Global Liquidity and Cash Management ('GLCM') services in Canada and Japan. HSBC's 'one-team' approach, not separated by product, was cited by the client as being a key driver in the decision to switch to HSBC.

Strategic actions

We met eight out of ten targets from the strategic actions outlined in our Investor Update in June 2015.

Capturing value from our international network

In June 2015, we outlined a series of strategic actions to make the most of our competitive advantages and respond to a changing environment.

These actions focused on using our resources more efficiently and on investing for growth. Each action had targets defined to the end of 2017. The table opposite contains a summary of our progress with additional details provided below.

Resizing and simplifying our business

We passed several significant milestones in resizing and simplifying our business in 2017. Our management actions delivered a gross reduction of risk-weighted assets ('RWAs') by $338bn, exceeding our RWA reduction target from management initiatives by $60bn on an FX-adjusted basis.

Among our NAFTA region Investor Update targets, we did not reach our US profit before tax ('PBT') target of $2bn. However, we have taken steps forward in, for example, our US Retail Banking and Wealth Management ('RBWM') business, where we increased PBT, revenues and deposits, and migrated over one million customers to our impending new core banking platform. We also completed the wind-down of our US consumer and mortgage lending ('CML') run-off portfolio. In Mexico, our adjusted PBT reached $440m, surpassing our Investor Update target on a local currency basis. We also grew adjusted revenue in Mexico by 11% compared with 2016, supported by increased loan balances from market share gains.

We remain on course to complete the set-up of our UK ring-fenced bank ('RFB') ahead of the 1 January 2019 statutory deadline. In 2017, we received a restricted bank licence for the RFB and are working through an agreed mobilisation plan with the Prudential Regulatory Authority and Financial Conduct Authority to receive an unrestricted licence in 2018.

We successfully concluded our cost-saving programme and realised $6.1bn of annual run-rate savings, over $1bn more than our Investor Update target. The programme enabled 2017 exit run-rate adjusted costs to be kept flat compared with the 2014 cost base. The savings offset increased costs from areas such as regulatory programmes and compliance, and investments to help facilitate further business growth. For example, in RBWM, we expanded the use of biometrics globally with over 1.5 million customers using voice recognition, and with fingerprint technology launched in nine of our markets. For our corporate customers, we improved our key digital channels with significant improvements to HSBCnet and HSBC Connect. Our costs-to-achieve transformation concluded with approximately $7bn spent since the start of the programme.

Redeploying capital to grow our business

Our international network remains core to our strategy, and we achieved our Investor Update target of revenue growth above GDP. In 2017, we grew our revenue from transaction banking products by 6%, including double-digit percentage growth in GLCM and HSBC Security Services ('HSS'). We grew GTRF market share in key markets, in particular Hong Kong and receivables finance in the UK. Cross-border revenues from our priority corridors grew 10%, with double-digit percentage growth in four of our five largest priority corridors including our China-US corridor. We were named 'Top Global Trade Finance Bank' by our clients in the *Euromoney* Trade Finance Survey 2018.

We delivered on our 2015 Investor Update commitment to prioritise and accelerate investments in Asia. In 2017, we grew our loan portfolio in the region by $53bn to $426bn. Our asset management and insurance businesses in Asia realised 17% and 8% growth in AUM and annualised new business premiums, respectively. In mainland China, we reached over 400,000 cards in circulation since launching credit cards at the end of 2016, and we grew our customer loans in the Pearl River Delta region by 23%. We launched HSBC Qianhai Securities, the first securities joint venture in mainland China to be majority-owned by an international bank.

Revenue tied to renminbi ('RMB') internationalisation in 2017 of $1.2bn did not meet our Investor Update target of $2.0bn to $2.5bn. This was largely due to a decrease in overall market volumes. However, we continue to be recognised as the leading bank for international RMB products and services. We ranked first in *Bloomberg*'s offshore RMB bond underwriting league table in 2017 with 28% market share and first for the sixth year in a row in the *Asiamoney* Offshore RMB Poll 2017. We had the largest share, at 53%, of approved quota of RMB Qualified Foreign Institutional Investor ('RQFII') custodian business.

Selected awards and recognition

Euromoney Trade Finance Survey 2018

Top Global Trade Finance Bank

Euromoney Awards for Excellence 2017

World's Best Bank

World's Best Investment Bank in the Emerging Markets

Asia's Best Bank

North America's Best Bank for Transaction Services

Euromoney Cash Management Survey 2017

Best Global Cash Manager for Corporates

Best Global Cash Manager for Financial Institutions for all Transactions

Asiamoney New Silk Road Finance Awards 2017

Best Overall International Bank for Belt and Road Initiative

Progress against strategic actions

Strategic actions	Target by the end of 2017	Progress in 2017	Outcomes	Status
Actions to resize and simplify the Group				
Reduce Group risk-weighted assets by circa $290bn	– Group RWA reduction $290bn – Return GB&M to Group target profitability; <1/3 of Group RWAs	– Further reduction of $71bn from management actions in 2017, including $32bn in GB&M	– RWA reduction from management actions: circa $338bn (>100% of the 2015–17 target) – GB&M RWAs of $299bn	✓
Optimise global network	– Reduced footprint	– Progressing previously announced transactions	– Present in 67 countries and territories at end of 2017 (73 at end of 2014)	✓
Rebuild NAFTA region profitability	– US profit before tax circa $2bn – Mexico profit before tax circa $0.6bn	– Completed wind-down of US consumer and mortgage lending run-off portfolio with asset sales of $7.0bn in 2017 – Achieved non-objection to US capital plan from CCAR; made first dividends to the Group since 2006 ($4.5bn) – Mexico adjusted revenues +11% driven primarily by growth in RBWM	– US (excluding CML run-off portfolio) adjusted profit before tax: $920m (+138% on 2016) – Mexico adjusted profit before tax: $440m (+60% on 2016)	– ✓[1]
Set up UK ring-fenced bank	– Completed in 2018	– Received a restricted banking licence from regulators for UK ring-fenced bank – On track to have a fully functioning team in place for the opening of our new UK HQ in 1H18	– Implementation in progress	✓
Deliver $4.5–5.0bn of cost savings	– 2017 exit rate to equal 2014 adjusted operating expenses	– $2.1bn of cost savings realised in 2017 – Positive adjusted jaws continued in 2017 at 1% – FTE reduction of approximately 6.5k in 2017	– 2017 exit run-rate adjusted costs flat vs. 2014 cost base – Annual run-rate savings of $6.1bn achieved since start of cost-saving programme	✓
Actions to redeploy capital and invest				
Deliver growth above GDP from international network	– Revenue growth of international network above GDP	– Strong revenue growth in GLCM (+14%) and HSS (+12%) – Gained GTRF market share in key markets including Hong Kong and receivables finance in the UK – HSBC Tradeshift supply chain financing proposition designed, built and commercialised	– Transaction banking revenue: $15.2bn (+6% on 2016) – Revenue synergies: $11.8bn (+13% on 2016)	✓
Investments in Asia – prioritise and accelerate	– Market share gains – Circa 10% growth per annum in assets under management in Asia	– Launched HSBC Qianhai Securities, the first securities joint venture in mainland China to be majority-owned by an international bank – Ranked first among foreign banks in 2017 in Panda bond underwriting league table – $290m Innovation Growth Fund to support leading names in the Pearl River Delta high-tech sector – Awarded 'Best International Bank in China' in the *Asiamoney* Banking Awards 2017	– Asia loan portfolio: $426bn (+14% on 2016 currency adjusted) – Guangdong loans: $6.2bn (+23% on 2016) – ASEAN region adjusted revenue: $2.9bn (-4% on 2016) – Asset Management assets under management distributed in Asia: $172bn (+17% on 2016) – Insurance manufacturing annualised new business premiums in Asia: $2.4bn (+8% on 2016)	✓
Grow business from renminbi international-isation	– $2.0bn–2.5bn revenue	– Obtained the first Panda bond licence to underwrite bonds for non-financial companies among foreign banks – Appointed as one of first market makers for Bond Connect, a bond trading link between mainland China and Hong Kong	– RMB internationalisation revenue from offshore business partly or wholly denominated in RMB as well as selected products in mainland China: $1.2bn (-5% on 2016)	–
Global Standards – safeguarding against financial crime[2]	– Implementation completed	– We have completed the introduction of the major compliance IT systems, put in place our AML and sanctions policy framework, and assessed our current financial crime risk management capabilities to identify any gaps and enable integration into our day-to-day operations. All of the actions that we committed to in 2013 as part of the Global Standards programme have been completed or superseded. Further improvements are underway to make our reforms more effective and sustainable.	– By end 2017: Introduction of major compliance IT systems; AML and sanctions policy framework in place; assessment against the capabilities of our Financial Crime Risk Framework to enable the capabilities to be fully integrated in our day-to-day operations. – Post 2017: Fully integrate the policy framework and associated operational processes into day-to-day financial crime risk management practices in an effective and sustainable way. Target end state, which has been agreed with the Financial Conduct Authority, to be achieved. Major IT systems continue to be fine-tuned and recommendations from the Monitor/ Skilled Person continue to be implemented.	✓*
Domicile				
Headquarters review	– Completed review by end of 2015	– Review completed	– Decision announced February 2016 to keep London as global HQ location	✓

*As set out under 'Outcomes'.

For footnotes, see page 32.

Financial overview

Reported results

This table shows our reported results for the last three years, ended 31 December 2017, 2016 and 2015.

All commentary in this financial overview compares the 2017 results with 2016, unless otherwise stated.

Reported results	2017 $m	2016 $m	2015 $m
Net interest income	**28,176**	29,813	32,531
Net fee income	**12,811**	12,777	14,705
Net trading income	**7,719**	9,452	8,723
Other income	**2,739**	(4,076)	3,841
Net operating income before loan impairment charges and other credit risk provisions ('revenue')	**51,445**	47,966	59,800
Loan impairment charges and other credit risk provisions	**(1,769)**	(3,400)	(3,721)
Net operating income	**49,676**	44,566	56,079
Total operating expenses	**(34,884)**	(39,808)	(39,768)
Operating profit	**14,792**	4,758	16,311
Share of profit in associates and joint ventures	**2,375**	2,354	2,556
Profit before tax	**17,167**	7,112	18,867

Reported profit before tax

Reported profit before tax of $17.2bn was $10.1bn or 141% higher, mainly reflecting a net favourable movement of significant items of $8.5bn, which is described in more detail on page 32 of the *Annual Report and Accounts 2017.* Excluding significant items and an adverse effect of foreign currency translation of $0.5bn, profit before tax increased by $2.1bn or 11%.

Reported revenue

Reported revenue of $51.4bn was $3.5bn or 7% higher, partly reflecting a net favourable movement in significant items of $2.0bn, which included:

- in 2016, unfavourable fair value movements on our own debt designated at fair value reflecting changes in our own credit spread of $1.8bn, which are now reported in other comprehensive income, following our partial early adoption of IFRS 9 'Financial Instruments' on 1 January 2017; and
- favourable fair value movements in 2017 of $0.1bn on non-qualifying hedges, compared with adverse movements of $0.7bn in 2016.

Net favourable movements were partly offset by:

- in 2016, a $0.7bn gain on the disposal of our membership interests in Visa Europe and Visa Inc. This compared with a $0.3bn gain on the disposal of our shares in Visa Inc. during 2017;
- adverse debit value adjustments on derivative contracts in 2017 of $0.4bn, compared with minimal movements in 2016; and
- in 2017, a $0.1bn provision related to customer redress programmes in the UK, and a $0.1bn charge arising from the opportunity to increase our investment in new businesses.

Significant items also included a loss of $1.7bn recognised in 2016 on the sale of operations in Brazil to Banco Bradesco S.A., which was completed on 1 July 2016. This loss was substantially offset by the reported revenue earned by the Brazil business during 2016 of $1.5bn.

Excluding significant items, and an adverse effect of foreign currency translation of $0.7bn, revenue increased by $2.2bn or 5%, reflecting growth in Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB') and Global Banking and Markets ('GB&M').

Reported LICs

Reported loan impairment charges and other credit risk provisions ('LICs') of $1.8bn were $1.6bn lower, in part reflecting the effect of significant items, which comprised the LICs incurred by our operations in Brazil in 2016 of $0.7bn.

Excluding significant items and the adverse effect of foreign currency translation of $0.1bn, LICs decreased by $0.8bn or 32%. The reduction in LICs was primarily in CMB, RBWM and Corporate Centre.

Reported operating expenses

Reported operating expenses of $34.9bn were $4.9bn or 12% lower. This included a net decrease in significant items of $5.6bn, including:

- a $3.2bn write-off of goodwill in our GPB business in Europe in 2016;
- a net release of $0.4bn in settlements and provisions in connection with legal matters, compared with charges in 2016 of $0.7bn;
- operating expenses of $1.1bn in 1H16 incurred by the operations in Brazil that we sold; and
- costs to achieve of $3.0bn, compared with $3.1bn in 2016.

Excluding significant items and a favourable effect of foreign currency translation of $0.3bn, operating expenses increased by $1.1bn. This increase mainly reflected increased investment in growth programmes, primarily in RBWM, where investments were partly funded by the proceeds from our disposal of Visa shares, and higher performance-related pay.

Reported results continued

Reported income from associates and joint ventures

Reported income from associates and joint ventures of $2.4bn increased by $21m.

Dividends

On 20 February 2018, the Board announced a fourth interim dividend of $0.21 per ordinary share.

Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 186 of the *Annual Report and Accounts 2017.*

We present adjusted performance measures 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. Adjusted 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 and are excluded in order to improve understanding of the underlying trends in the business.

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 48 of the *Annual Report and Accounts 2017.*

Adjusted results

This table shows our adjusted results for 2017 and 2016. These are discussed in more detail on the following pages.

Adjusted results	2017 $m	2016 $m	Movements compared with 2016 Adverse $m	Favourable $m	(%)
Net operating income before loan impairment charges and other credit risk provisions (adjusted revenue)	**51,524**	49,290		**2,234**	**5%**
Loan impairment charges and other credit risk provisions	**(1,769)**	(2,594)		**825**	**32%**
Total operating expenses	**(31,140)**	(30,084)	**(1,056)**		**(4)%**
Operating profit	**18,615**	16,612		**2,003**	**12%**
Share of profit in associates and joint ventures	**2,375**	2,322		**53**	**2%**
Profit before tax	**20,990**	18,934		**2,056**	**11%**

Adjusted profit before tax

On an adjusted basis, profit before tax of $21.0bn was $2.1bn or 11% higher. This was driven by higher revenue (up $2.2bn), with growth in our three main global businesses, and a significant reduction in LICs (down $0.8bn), notably as 2016 included charges relating to exposures to the oil and gas, and mining sectors. These movements were partly offset by higher operating expenses (up $1.1bn), in part due to investment in growth initiatives. In 2017, we achieved positive adjusted jaws of 1.0%.

Adjusted performance continued

Movement in adjusted revenue compared with 2016

	2017 $m	2016 $m	Variance $m	%
Retail Banking and Wealth Management	**20,287**	18,542	**1,745**	**9%**
Commercial Banking	**13,223**	12,619	**604**	**5%**
Global Banking and Markets	**15,091**	14,715	**376**	**3%**
Global Private Banking	**1,703**	1,748	**(45)**	**(3)%**
Corporate Centre	**1,220**	1,666	**(446)**	**(27)%**
Total	**51,524**	49,290	**2,234**	**5%**

Adjusted revenue

Adjusted revenue of $51.5bn was $2.2bn or 5% higher, as growth in our three main global businesses was partly offset by reductions in GPB and Corporate Centre.

- In RBWM, revenue increased by $1.7bn or 9%, driven by growth in Retail Banking from current accounts, savings and deposits, reflecting balance growth and wider spreads primarily in Hong Kong, and also in the US and Mexico, partly offset by lower personal lending revenue. Revenue also increased in Wealth Management, mainly in insurance manufacturing driven by favourable market impacts compared with adverse market impacts in 2016, notably in Asia. In addition, investment distribution income increased, reflecting increased investor confidence in Hong Kong.
- In CMB, revenue increased by $0.6bn or 5%, driven by growth in Global Liquidity and Cash Management ('GLCM'), notably in Asia. This primarily reflected wider spreads and increased average deposit balances. Revenue in Credit and Lending ('C&L') increased as we grew lending balances in key markets, while revenue in Global Trade and Receivables Finance ('GTRF') fell marginally, due to managed client exits in MENA despite balance sheet growth in Asia and the UK.
- In GB&M, revenue increased by $0.4bn or 3%, mainly in GLCM and Securities Services. In Global Markets, revenue was marginally higher as growth in Equities, reflecting increased market share in Prime Financing, was partly offset by lower revenue in Fixed Income, Currencies and Commodities that reflected lower market volatility, as well as a net adverse movement on credit and funding valuations adjustments.

These increases were partly offset:

- In GPB, revenue was $45m or 3% lower, reflecting the impact of our customer repositioning actions. This was partly offset by increased revenue in the markets that we have targeted for growth, notably Hong Kong, due to higher investment revenue reflecting increased client activity and growth in deposit revenue as we benefited from wider spreads.
- In Corporate Centre, revenue decreased by $0.4bn, with reductions in the US run-off portfolio (down $0.7bn), following the disposal of the remaining portfolio during 2017, and in Central Treasury (down $0.1bn). These decreases were partly offset in other income (up $0.4bn), which included revaluation gains on investment properties.

Adjusted LICs

Adjusted LICs of $1.8bn were $0.8bn lower, reflecting reductions in:

- CMB ($0.5bn lower), notably in the UK and North America, primarily as 2016 included charges against exposures in the oil and gas sector. In addition, there were reductions in France, Spain and Singapore as we incurred individually assessed LICs against a small number of corporate exposures in 2016.
- RBWM ($0.2bn lower), primarily in Turkey and the US, reflecting improved credit quality, partly offset by increases in Mexico, notably from growth in unsecured lending which resulted in an associated increase in delinquency rates.
- LICs in GB&M of $0.5bn were broadly unchanged from the prior year. LICs in the current year related to two large corporate exposures in Europe. This compared with a small number of individually assessed LICs, notably on exposures in the oil and gas, and mining sectors in the US in 2016.

Adjusted operating expenses

Adjusted operating expenses of $31.1bn were $1.1bn or 4% higher. This reflected investments in business growth programmes ($0.6bn), primarily in RBWM where investments were partly funded by the proceeds from the disposal of our shares in Visa, as well as an increase in performance-related pay (up $0.4bn). Compared with 2016, our UK bank levy charge was broadly unchanged, at $916m. The impact of our cost-saving initiatives broadly offset inflation and continued investment in our regulatory programmes and compliance.

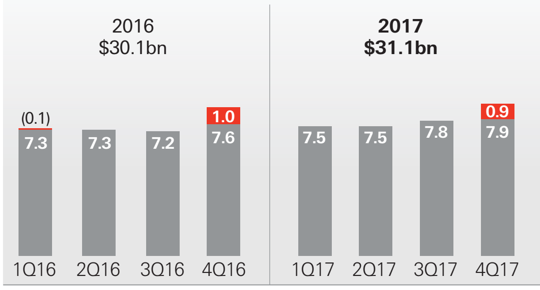
Our total investment in regulatory programmes and compliance was $3.0bn, up $0.2bn or 7%. This notably reflected the continued implementation of our Global Standards programme to enhance financial crime risk controls and capabilities.

The number of employees expressed in full-time equivalent staff at 31 December 2017 was 228,687, a decrease of 6,488 from 31 December 2016. This reflected reductions resulting from our transformation programmes and the completion of these programmes, partly offset by increases from our investments in Global Standards and in our business growth programmes.

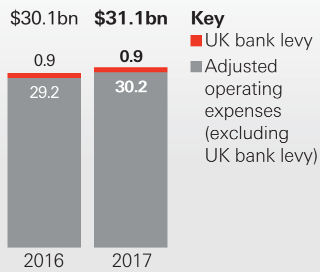
Adjusted income from associates and joint ventures

Adjusted income from associates and joint ventures of $2.4bn increased by $0.1bn.

Adjusted operating expenses by quarter year
($bn)



Adjusted operating expenses by year
($bn)



Balance sheet and capital

Balance sheet strength

Total reported assets were $2.5tn, 6% higher than at 31 December 2016 on a reported basis, and 1% higher on a constant currency basis. We have maintained the strength of our balance sheet, as we continued our targeted asset growth, notably in Asia.

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2017 were $38bn, compared with $42bn at 31 December 2016. The decrease was driven by distributions to shareholders of $8.3bn, which were higher than profits generated of $5.5bn, as well as fair value losses net of tax due to movements in our own credit risk of $0.8bn.

Capital strength

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

Details of these risks are included on page 117 of the *Annual Report and Accounts 2017.*

Our CET1 ratio at 31 December 2017 was 14.5%, up from 13.6% at 31 December 2016.

Implementation of IFRS 9

IFRS 9 'Financial Instruments' was adopted on 1 January 2018. The adoption of IFRS 9 will reduce the Group's net assets at 1 January 2018 by $1.0bn. We do not expect this to have a significant impact on our regulatory capital position.

Further explanation of the expected impact of the implementation of IFRS 9 is provided in Note 1 on the Financial Statements on page 186 of the *Annual Report and Accounts 2017.*

Delivery against Group financial targets

Return on equity
(%)

2017	**5.9**
2016	0.8
2015	7.2

Return on equity

Our medium-term target is to achieve a return on equity ('RoE') of more than 10%. In 2017, we achieved an RoE of 5.9% compared with 0.8% in 2016. In 2016, significant items, which included a write-off of goodwill in GPB in Europe, costs to achieve and adverse fair value movements arising from changes in credit spread on our own debt designated at fair value, had a significant effect on our reported RoE.

Adjusted revenue up
5%

Adjusted jaws
1%

Adjusted costs up
4%

Adjusted jaws

Jaws measures the difference between the rates of change for revenue and costs. Positive jaws occurs when the figure for the annual percentage change in revenue is higher than, or less negative than, the corresponding rate for costs.

We calculate adjusted jaws using adjusted revenue and costs. Our target is to maintain positive adjusted jaws.

In 2017, adjusted revenue increased by 5% and our adjusted operating expenses increased by 4%. Adjusted jaws was therefore positive 1%.

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

2017	**10.2**
2016	10.1
2015	10.0

Dividends

In the current uncertain environment, we plan to sustain the annual dividend in respect of the year at its current level for the foreseeable future. Growing our dividend will depend on the overall profitability of the Group, delivering further release of less efficiently deployed capital and meeting regulatory capital requirements in a timely manner. Actions to address these points were core elements of our Investor Update in June 2015.

Global businesses

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

Retail Banking and Wealth Management ('RBWM')

RBWM serves close to 37 million customers worldwide through four main businesses: Retail Banking, Wealth Management, Asset Management and Insurance. Our HSBC Premier and Advance propositions are aimed at mass affluent and emerging affluent customers who value international connectivity and benefit from our global reach and scale. For customers with simpler banking needs, RBWM offers a full range of products and services reflecting local requirements.

Key events

- Significant investment in digital transformation across our six core markets, reshaping the branch network and sales force, and improving customer engagement, including the launch of a payment app in Hong Kong (PayMe) and voice biometrics in the UK.
- Continued to attract customer deposits (up 5%), providing the potential to benefit from future interest rate rises; lending balances increased by 7%.
- Strong growth in sales of investment products, notably equities (up 45%) and mutual funds (up 22%), and growth in insurance annualised new business premiums (up 7%), primarily in Asia.

				2017 vs 2016	
Management view of adjusted revenue	**2017 $m**	2016 $m	2015 $m	**$m**	**%**
Net operating income[3]					
Retail Banking	**13,495**	12,695	12,508	**800**	**6%**
– current accounts, savings and deposits	**6,344**	5,213	4,814	**1,131**	**22%**
– personal lending	**7,151**	7,482	7,694	**(331)**	**(4)%**
mortgages	**2,337**	2,546	2,648	**(209)**	**(8)%**
credit cards	**2,899**	3,034	3,218	**(135)**	**(4)%**
other personal lending[4]	**1,915**	1,902	1,828	**13**	**1%**
Wealth Management	**6,224**	5,292	5,748	**932**	**18%**
– investment distribution[5]	**3,276**	2,904	3,230	**372**	**13%**
– life insurance manufacturing	**1,893**	1,401	1,544	**492**	**35%**
– asset management	**1,055**	987	974	**68**	**7%**
Other[6]	**568**	555	582	**13**	**2%**
Year ended 31 Dec	**20,287**	18,542	18,838	**1,745**	**9%**
Adjusted RoRWA (%)[7]	**5.5**	4.6	4.8		

For footnotes, see page 32.

Financial performance

Adjusted profit before tax of $6.5bn was $1.2bn or 24% higher, reflecting strong revenue growth from deposits and Wealth Management, as well as lower LICs, partly offset by higher operating expenses. We achieved positive adjusted jaws of 4.0%.

Adjusted revenue of $20.3bn was $1.7bn or 9% higher, reflecting:

Higher revenue in Retail Banking (up $0.8bn or 6%):

- Growth in revenue from current accounts, savings and deposits (up $1.1bn) due to wider spreads and higher balances primarily in Hong Kong, and also in the US and Mexico.

This was partly offset by:

- Lower personal lending revenue (down $0.3bn), reflecting mortgage spread compression, primarily in Hong Kong, mainland China and the US. This was partly offset by lending growth of $22.2bn, notably driven by mortgages in the UK and Hong Kong, where we grew our market share.

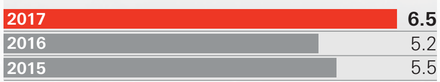
Higher revenue in Wealth Management (up $0.9bn or 18%):

- Growth in life insurance manufacturing revenue (up $0.5bn) including favourable movements in market impacts of $0.3bn in 2017 compared with adverse movements of $0.4bn in 2016, due to interest rate and equity market movements, notably in Asia and France, and to a lesser extent higher insurance sales in Asia.
- Higher investment distribution revenue (up $0.4bn), primarily from higher sales of mutual funds and retail securities in Hong Kong, reflecting increased investor confidence.

Adjusted LICs of $1.0bn were $0.2bn or 14% lower, reflecting reductions in Turkey of $85m and in the US of $44m, as credit quality improved. This was partly offset in Mexico where higher LICs ($24m) reflected targeted growth in unsecured lending and associated higher delinquency rates. In the UK LICs of $132m were marginally higher, but remained at very low levels (10bps of the portfolio) as higher LICs relating to mortgages and unsecured lending were partly offset by a release from the sale of a loan portfolio.

Adjusted operating expenses of $12.8bn were $0.7bn or 5% higher, mainly due to investment in growth initiatives, notably in retail business banking, in our international proposition as we introduced new products and services, and in mainland China. Transformational and other cost savings partly offset inflation and higher performance-related pay.

Adjusted profit before tax
($bn)



Change in adjusted profit before tax

+24%

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

The comparative period has been restated to reflect changes to reportable segments, as described on page 46 of the *Annual Report and Accounts 2017*.

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

Commercial Banking ('CMB')

CMB serves approximately 1.7 million customers in 53 countries and territories. Our customers range from small enterprises focused primarily on their domestic markets to corporates operating globally. We support customers with tailored financial products and services to allow them to operate efficiently and grow.

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

Key events

- Corporate customer value from our international subsidiary banking proposition grew 19%* compared with 2016, continuing to demonstrate the value of our global network.
- In GLCM we launched a number of mobile solutions, including the government sponsored Unified Payments Interface in India, and Omni-Channel mobile collections in China. We also rolled out Voice and Touch ID in 37 markets and launched the next generation of HSBCnet.
- HSBC was named the world's Best Trade Finance Bank and Most Innovative Bank by *Global Trade Review* magazine. We also announced a strategic partnership with Tradeshift, the world's largest business commerce platform, which will enable companies of all sizes to manage their global supply chains and working capital requirements from one simple online platform, from any device.

Financial performance

Adjusted profit before tax of $6.8bn was $0.9bn or 15% higher, reflecting higher revenue and lower LICs. This was partly offset by an increase in operating expenses. We achieved positive adjusted jaws of 1.3%.

Adjusted revenue of $13.2bn was $0.6bn or 5% higher, as strong growth in GLCM and increased revenue in C&L were partly offset by a reduction in GTRF revenue.

Management view of adjusted revenue	2017 $m	2016 $m	2015 $m	2017 vs 2016 $m	2017 vs 2016 %
Net operating income[3]					
Global Trade and Receivables Finance	**1,817**	1,838	2,039	**(21)**	**(1)%**
Credit and Lending	**5,061**	5,009	4,934	**52**	**1%**
Global Liquidity and Cash Management	**4,783**	4,247	4,077	**536**	**13%**
Markets products, Insurance and Investments and Other[8]	**1,562**	1,525	1,457	**37**	**2%**
Year ended 31 Dec	**13,223**	12,619	12,507	**604**	**5%**
Adjusted RoRWA (%)[7]	**2.3**	2.1	1.9		

For footnotes, see page 32.

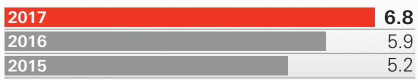
- In GLCM, revenue increased by $536m or 13%, notably in Hong Kong and mainland China, reflecting wider spreads. Average balances grew 5%, reflecting customer deposit retention and new customer acquisitions. In the UK, average balance sheet growth of 10% was more than offset by narrower spreads due to the impact of the base rate reduction in 2016.
- In C&L, revenue increased by $52m or 1%. In the UK, revenue increased as lending growth more than offset narrower spreads. By contrast, revenue in Asia was lower, as balance growth in Hong Kong was more than offset by the effects of spread compression in Hong Kong and mainland China, in part reflecting competitive pressures. Revenue in the US was lower, as we reposition the portfolio towards higher returns.
- In GTRF, revenue was $21m or 1% lower, representing a stabilisation in performance following a challenging 2016. Notably, revenue increased in both Asia and the UK, reflecting balance sheet growth. However, this was more than offset by a reduction in revenue in the Middle East and North Africa ('MENA'), reflecting the effect of managed customer exits in the UAE.

Adjusted LICs of $0.5bn were $0.5bn or 49% lower, notably in North America and the UK, primarily related to exposures in the oil and gas sector, and were also lower in France and Spain. In Asia, lower LICs in Singapore and mainland China were largely offset by higher LICs in Hong Kong, across various sectors.

Adjusted operating expenses were $0.2bn or 3% higher. This reflected our continued investment in Global Standards and digital capabilities, as well as inflation. This was partly offset by a reduction from our cost-saving initiatives.

Adjusted RWAs increased by 5% to $301bn reflecting growth in lending, mainly in Asia and Europe, in part funded through management initiatives which reduced RWAs by $14bn.

Adjusted profit before tax
($bn)



Change in adjusted profit before tax

+15%

*Analysis relates to corporate client income which includes total income from GB&M synergy products, including Foreign Exchange and Debt Capital Markets. This measure differs from reported revenue in that it excludes Business Banking and Other and internal cost of funds.

Global Banking and Markets ('GB&M')

GB&M serves approximately 4,100 clients in more than 50 countries and territories. It supports major government, corporate and institutional clients worldwide. Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

Key events

- The first foreign bank with a majority-owned securities joint venture in China, Qianhai Securities Limited, which will allow us to provide GB&M and CMB clients with a broad spectrum of investment banking and markets services in China.
- Issued the world's first corporate sustainable development bond.

Financial performance

Adjusted profit before tax of $5.8bn was $0.3bn or 5% higher, reflecting a strong revenue performance, partly offset by higher operating expenses, while achieving positive adjusted jaws of 1.3%.

Adjusted revenue of $15.1bn was $0.4bn or 3% higher, with growth in all of our businesses. The increase included a net adverse movement of $0.2bn on credit and funding valuation adjustments. Excluding these movements, adjusted revenue increased by $0.6bn or 4%. The increase in revenue primarily reflected the following:

- Revenue growth in all of our transaction banking products, notably GLCM (up $0.3bn) and Securities Services (up $0.2bn). These increases reflected continued momentum as we won and retained client mandates, and benefited from higher interest rates, particularly in Asia and the US.
- Global Markets revenue was resilient (up $33m), despite lower volatility in 2017, compared with more robust trading conditions in 2016. In Equities revenue increased by $0.3bn, as we continued to capture market share from Prime Financing products. This was largely offset by Fixed Income, Currencies and Commodities, where revenue decreased by $0.2bn, reflecting subdued trading conditions.

Management view of adjusted revenue	2017 $m	2016 $m	2015 $m	2017 vs 2016 $m	2017 vs 2016 %
Net operating income[3]					
Global Markets	**6,689**	6,656	6,010	**33**	**—%**
Foreign Exchange	**2,568**	2,764	2,658	**(196)**	**(7)%**
Rates	**1,970**	2,120	1,404	**(150)**	**(7)%**
Credit	**900**	781	606	**119**	**15%**
– FICC	**5,438**	5,665	4,668	**(227)**	**(4)%**
– Equities	**1,251**	991	1,342	**260**	**26%**
Global Banking	**3,807**	3,791	3,757	**16**	**—%**
Global Liquidity and Cash Management	**2,197**	1,885	1,744	**312**	**17%**
Securities Services	**1,746**	1,561	1,600	**185**	**12%**
Global Trade and Receivables Finance	**700**	689	682	**11**	**2%**
Principal Investments	**318**	226	226	**92**	**41%**
Credit and funding valuation adjustments[9]	**(262)**	(51)	186	**(211)**	**(414)%**
Other[10]	**(104)**	(42)	73	**(62)**	**(148)%**
Year ended 31 Dec	**15,091**	14,715	14,278	**376**	**3%**
Adjusted RoRWA (%)[7]	**1.9**	1.7	1.5		

For footnotes, see page 32.

- Global Banking revenue was marginally higher than 2016 (up $16m), reflecting growth in lending balances and continued momentum in investment banking products, which broadly offset the effects of tightening spreads on lending in Asia.

Adjusted LICs of $0.5bn were broadly unchanged from the prior year. LICs in 2017 related to two large corporate exposures in Europe, compared with 2016, which included a small number of individually assessed LICs, notably on exposures in the oil and gas, and mining sectors in the US.

Adjusted operating expenses increased by $0.1bn or 1%, reflecting higher performance-related pay, pension and severance costs. Our continued cost management and efficiency improvements, and saves from technology investments, broadly offset the effects of inflation.

We have exceeded the RWA reduction target set in our Investor Update in June 2015, with a cumulative reduction in RWAs from management initiatives of $128bn. This includes a further RWA reduction of $32bn in 2017. Our adjusted RoRWA improved to 1.9% from 1.7% in 2016.

Adjusted profit before tax
($bn)

Change in adjusted profit before tax

+5%

Global Private Banking ('GPB')

GPB serves high net worth individuals and families, including those with international banking needs.

We provide a full range of private banking services, including Investment Management, which includes advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning, to protect and preserve wealth for future generations.

Key events

- Net new money inflows of $15bn in key markets targeted for growth, especially in Hong Kong.
- Significant progress made with repositioning, with outflows of over $15bn in 2017.
- Positive momentum with significant growth in discretionary and advisory mandates in 2017.

Financial performance

Adjusted profit before tax of $296m was $24m or 9% higher as a reduction in operating expenses was partly offset by lower revenue. We achieved positive adjusted jaws of 3.2%.

Management view of adjusted revenue	2017 $m	2016 $m	2015 $m	2017 vs 2016 $m	2017 vs 2016 %
Net operating income[3]					
Investment revenue	**693**	733	902	**(40)**	**(5)%**
Lending	**387**	411	411	**(24)**	**(6)%**
Deposit	**401**	342	354	**59**	**17%**
Other	**222**	262	299	**(40)**	**(15)%**
Year ended 31 Dec	**1,703**	1,748	1,966	**(45)**	**(3)%**
Adjusted RoRWA (%)[7]	**1.8**	1.6	2.1		

For footnotes, see page 32.

Adjusted revenue of $1.7bn was $45m or 3% lower, reflecting the continued impact of client repositioning. Revenue from the markets that we have targeted for growth increased by 10%. This was mainly in Hong Kong, due to growth in investment revenue reflecting increased client activity, and higher deposit income from wider spreads.

Adjusted LICs of $16m in 2017 primarily related to a single client in the UK.

Adjusted operating expenses of $1.4bn were $85m or 6% lower, mainly as a result of a managed reduction in FTEs and the impact of our cost-saving initiatives.

Adjusted profit before tax
($bn)

Change in adjusted profit before tax

+9%

Corporate Centre

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

Financial performance

Adjusted profit before tax of $1.7bn was $0.4bn or 17% lower, reflecting lower revenue and higher operating expenses, partly offset by a fall in LICs.

Adjusted revenue fell by $0.4bn or 27%, mainly due to a decrease of $0.7bn related to the US run-off portfolio with respect to the disposal of the remaining loan portfolio during 2017. In Central Treasury revenue also decreased (down $0.1bn), due to:

- higher interest on our debt (up $0.3bn), mainly from higher costs of debt issued to meet regulatory requirements; and
- a reduction in revenue in BSM (down $0.3bn) reflecting lower yield rates and increased utilisation of the Group's surplus liquidity by the global businesses; partly offset by:
- favourable fair value movements relating to the economic hedging of interest and exchange rate risk on our long-term debt with long-term derivatives of $0.1bn, compared with adverse movements of $0.3bn in 2016.

Management view of adjusted revenue	2017 $m	2016 $m	2015 $m	2017 vs 2016 $m	2017 vs 2016 %
Net operating income[3]					
Central Treasury[11]	**1,340**	1,454	1,760	**(114)**	**(8)%**
Legacy portfolios	**8**	724	1,233	**(716)**	**(99)%**
– US run-off portfolio	**40**	692	1,165	**(652)**	**(94)%**
– Legacy credit	**(32)**	32	68	**(64)**	**(200)%**
Other[12]	**(128)**	(512)	(160)	**384**	**(75)%**
Year ended 31 Dec	**1,220**	1,666	2,833	**(446)**	**(27)%**

For footnotes, see page 32.

Other income increased by $0.4bn, which included revaluation gains on investment properties.

Net loan impairment releases of $182m compared with adjusted LICs of $22m in 2016. This reflected lower LICs in the US run-off portfolio, and higher net releases related to our legacy credit portfolio.

Adjusted operating expenses of $2.1bn were $0.2bn or 8% higher due to investment in regulatory programmes and compliance, partly offset by lower US run-off portfolio costs.

Adjusted income from associates rose by $55m or 2%.

How we do business

Supporting sustainable growth

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

Customers

We aim to be the world's leading international bank and strive for excellence.

Our customers are at the heart of everything we do and we are working to make life simpler, faster and better for them.

Understanding our customers

In this section we focus on our global business with the largest amount of customers. We also measure and report on customer data for Retail Banking and Wealth Management ('RBWM') and Commercial Banking in another eight markets within our Environmental, Social and Governance ('ESG') Update.

Our largest global business
RBWM Supports approximately 37 million customers worldwide

Our largest markets
United Kingdom More than $401bn in customer accounts
Hong Kong More than $477bn in customer accounts

Taking responsibility for the service we provide

Operating with high standards of conduct is central to our long-term success and ability to serve customers, and we have clear policies, frameworks and governance in place to support our delivery of that commitment. These cover the way we behave, design products and services, train and incentivise employees, and interact with customers and each other. Our Conduct Framework guides activities to strengthen our business and increases our understanding of how the decisions we make affect customers and other stakeholders. Details on our Conduct Framework are available at www.hsbc.com and for further information on conduct, see pages 61 and 77 of the *Annual Report and Accounts 2017.*

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

- How customers feel about recommending us; and
- The speed and quality of complaint handling.

The targets for each of these metrics are carefully set and managed to instil the right behaviours among our employees.

Customer recommendation[†]

RBWM

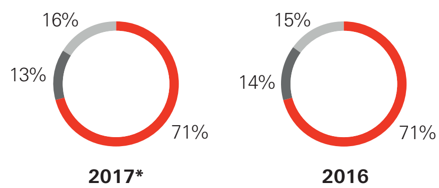
	United Kingdom	Hong Kong
2017	61%	61%
2016	50%	39%

[†]Percentage of customers providing an 8 or above score out of 10. In Hong Kong the survey methodology changed in 2017, with surveys migrated from telephone to online. This may affect the comparison with prior year figures.

Complaints resolution

Time taken to resolve complaints (excluding PPI complaints)

RBWM



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

*2017 figures do not include First Direct UK complaint volumes, which were not available at time of publication. They are not expected to materially impact results.

For more information about what we have done, see our ESG reporting available on www.hsbc.com/our-approach/measuring-our-impact.

What customers are telling us

In 2017, our CMB and RBWM customers told us there were three main issues that we needed to focus on to improve their experience of our products and services:

What our customers are telling us	Our response
Accessibility	
Customers in all of our channels have provided feedback on length of queues in branches, call waiting and handling time in our contact centres, the length of appointments with our relationship managers, and the complexity of logging on to our online and mobile banking.	– Increased capacity in our contact centres. – Introduced new multi-channel appointment booking tools. – Added biometrics to make it easier for customers to authenticate themselves using their unique voice and digital fingerprint.
Complexity	
Customers told us our processes and procedures are too complicated which affects the quality and length of time required to service our customers day-to-day.	– Delivered training to 53,500 employees globally to use plain language in communicating with our customers. – For our commercial customers we have simplified options on their online platform, HSBCnet.
Fees and charges	
Our industry can be complex, and our customers can find it difficult to understand when and why they will be charged for our services.	– Introduced instantaneous text message notifications in Hong Kong to provide application status and account servicing updates. This has helped many customers to better manage their accounts and to avoid incurring charges.

A digital transformation

Our customers are becoming increasingly digitally oriented in their everyday lives. This means their expectations of us are changing.

Customers are now using branches less often. In the future, we will have fewer – but better – branches and our front-line employees will be using a greater range of technology to support all our customers' needs.

Our employees

Our employees are key to our success. We are focused on creating a diverse and inclusive environment where people can speak up, build their skills and develop their careers. We want our employees to feel that they can contribute to our purpose and fulfil their potential with our support.

Giving employees a voice

Since 2012, we have been hosting HSBC Exchange to give employees a voice. Exchanges are meetings with no agendas, where managers and leaders simply listen and employees do the talking. It's an innovative approach that provides a forum for people to share their views on any issue and talk about what matters most to them.

Our monthly employee survey – Snapshot – tests the views of a representative sample of colleagues on topics such as our strategy, regulation, culture and customer experience. Results are presented to the Group Management Board and relevant executive committees of the global functions and businesses, regions and countries.

Whilst 77% of employees feel able to speak up when they see behaviour which they think is wrong and 72% believe that HSBC is genuine in its commitment to encourage colleagues to speak up, a smaller proportion of employees – 61% – say that where they work people can state their opinions without fear of negative consequence.

The insight from Snapshot surveys, Exchanges and other employee engagement initiatives, informs policy, process and strategy across the Group and helps leadership make decisions that take employees into account.

Creating a diverse and inclusive environment

We believe that a diverse and inclusive workforce is critical to running a sustainable and successful business. Our approach aims to increase and leverage diversity of thought to drive greater innovation, better manage risks, enhance collaboration and improve workforce agility.

Our commitment

We are committed to enabling a thriving environment where people are valued, respected and supported. We create business value by drawing on the richness of ideas, backgrounds, styles and perspectives of our employees.

Gender balance at senior leadership

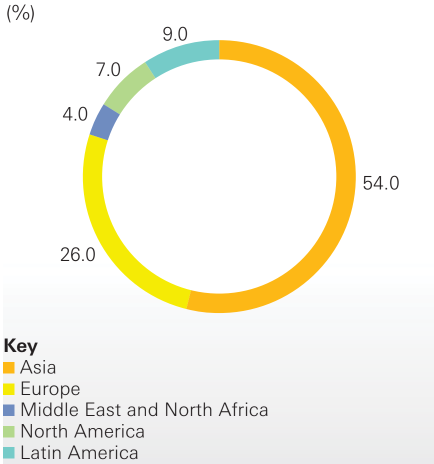
We focus on improving gender balance in senior leadership across the Group. Our objective was for the female share of our senior leadership** to be more than 26.3% by the end of 2017, and we achieved 26.8%. This is a 1.4 percentage point increase on our 2016 year-end position and is an improvement to the trend year on year.

Employee networks

Our seven global employee networks play a key role in building community, highlighting opportunities and achieving our diversity and inclusion ambitions. The networks focus on gender, age, ethnicity, LGBT+, faith, working parents and carers, and ability. Additionally we have common interest groups sharing experiences and engaging with others both internally and externally.

Employees (FTEs) by region

(%)



Employee retention

85.7%

(2016: 81.7%)

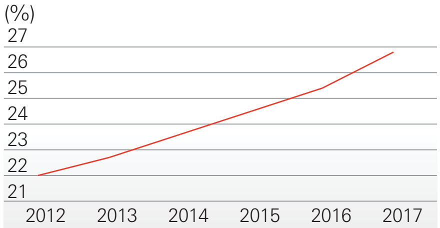
Gender diversity statistics

	Male		Female	
Holdings Board	12	71%	5	29%
Group Management Board (GMB)	12	86%	2	14%
Combined Executive Committee and direct reports*	135	75%	45	25%
Senior leadership**	6,540	73%	2,393	27%
All employees	112,390	48%	122,239	52%

Key
Male
Female

Female share of senior leadership headcount**

(%)



*Combined Executive Committee and direct reports was reported as at 30 June 2017 to the UK's Hampton Alexander Review and includes the Executive Directors, Group Managing Directors and their direct reports (excluding administrative staff).

**Senior leadership refers to employees performing roles classified as 0, 1, 2 or 3 in our Global Career Band Structure.

Whistleblowing

We work hard to create an environment in which people feel able to speak up, but understand that employees may not always feel comfortable raising concerns through their regular escalation channels. There will also be some circumstances which require more discretion. We operate a global whistleblowing standard, HSBC Confidential, which allows individuals to report matters of concern confidentially. We also maintain an external email address for concerns about accounting and internal financial controls or auditing matters (accountingdisclosures@hsbc.com). The Group has a strict policy prohibiting retaliation against those who raise concerns. All allegations of retaliation reported are escalated to senior management.

Our employees continued

HSBC Confidential is overseen by our Conduct & Values Committee and Group Audit Committee. Investigations are carried out thoroughly and independently, drawing on the expertise of a variety of teams, including Regulatory Compliance, Human Resources, Legal, Financial Crime Risk, Information Security and Internal Audit.

1,585

Cases were raised during 2017 (2016: 1,102 cases). All cases are subject to investigation.

In 30% of the closed cases in 2017 (2016: 34%), allegations were substantiated in whole or in part and appropriate remedial action taken.

Common themes:

- Allegations of internal fraud by staff.
- Issues with staff behaviour and personal conduct.
- Weaknesses in adherence to information security protocols.

Other

HSBC's purpose is to connect people with opportunities. With this purpose comes the responsibility to protect our customers, our communities and the integrity of the financial system.

Non-financial risks

We use a range of tools to monitor and manage our non-financial risks including our risk appetite, risk map, top and emerging risks and stress testing processes. In 2017, HSBC completed a multi-year Operational Risk Transformation Programme, the purpose of which was to make it easier to manage operational risk consistently in HSBC. This included the implementation of a new operational risk management framework ('ORMF') and system of record. The new ORMF provides an end-to-end view of non-financial risks, enhancing focus on associated controls and the capital we hold. It provides a platform to drive forward-looking risk awareness and assist management focus. Further details may be found in the Risk section on page 63 and page 77 of the *Annual Report and Accounts 2017*.

Financial crime compliance

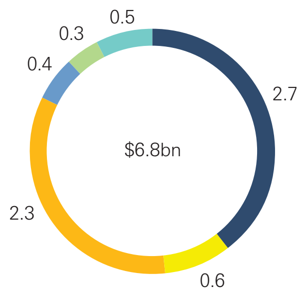
HSBC operates in many countries around the world. As part of financial crime risk management, we have built a strong financial crime compliance system with a global footprint, and have a dedicated Financial Crime Risk team. We have invested heavily in training and communication for all employees. Our risk appetite has been set formally. Further details may be found in the Risk section on page 63 of the *Annual Report and Accounts 2017*.

Anti-bribery and corruption

As part of financial crime risk management, we have a global anti-bribery and corruption policy. The policy gives practical effect to global initiatives such as the Organisation of Economic Co-operation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Principle 10 of the United Nations Global Compact. We continue to invest in technology and training; in 2017 98% of our workforce was trained via a mandatory e-learning course 'My Financial Crime Risk Responsibilities'.

Tax

Taxes paid by region
($bn)



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

We apply the letter and the spirit of the law in all territories where we operate. We have adopted the UK tax authority's *Code of Practice on Taxation for Banks*. As a consequence, we pay our fair share of tax in the countries in which we operate. We continue to strengthen our processes to help ensure our banking services are not associated with any arrangements known or suspected to facilitate tax evasion. HSBC continues to apply global initiatives to improve tax transparency such as:

- The US Foreign Account Tax Compliance Act ('FATCA');
- The OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- The Capital Requirements Directive IV ('CRD IV') Country by Country Reporting; and
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative.

We do not expect BEPS or similar initiatives adopted by national governments to adversely impact HSBC's results.

Human rights

Our statement on modern slavery can be found on www.hsbc.com/our-approach/measuring-our-impact. Our supplier code of conduct takes into account legislation on modern slavery and human rights; over 4,000 of our largest suppliers have signed the code.

Supporting sustainable growth

In 2017 we launched our strategy to support sustainable growth, which focuses on three main areas: sustainable finance; sustainable networks and entrepreneurship; and future skills. Full details are available in our ESG Supplement released in November 2017. This year we contributed $136m to charitable programmes and our employees volunteered 272,000 hours to community activities during the working day. We continue our flagship environmental partnership, the HSBC Water Programme.

For more information about what we have done, see our ESG reporting available on www.hsbc.com/our-approach/measuring-our-impact.

Sustainable finance

Each and every one of us has a stake in developing a sustainable economic system. It is the combined responsibility of all players in society to respond to climate change, rapid technological evolution and continuing globalisation to secure a prosperous future.

Since its foundation in 1865, HSBC has adapted to and helped serve the needs of a changing world. It has financed economic growth, fostered international trade and overcome events such as economic crises. We recognise that governments, corporations, the financial system and civil society are all stakeholders in mitigating the effects of climate change and meeting sustainability challenges.

Now more than ever, there is a need to develop the skills, business innovation and low-carbon solutions needed to secure long-term prosperity for all. For HSBC, these are the key elements of sustainable growth that HSBC can influence.

Our network covers many of the world's largest and fastest growing trade corridors and economic zones. As such, we are uniquely positioned to provide the connections needed to foster sustainable growth across borders and geographies.

We have a proud record of supporting the communities and environments in which we operate and our global sustainability strategy builds on this legacy.

HSBC's sustainable finance commitments

In our November Environmental, Social, Governance ('ESG') Update, we published our five sustainable finance commitments. In this section we summarise key aspects of each commitment we aim to fulfil.

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

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

We provide $100bn of financing and investments, including facilitation, to develop clean energy, lower-carbon technologies, and projects that contribute to the delivery of the Paris Agreement and the UN Sustainable Development Goals.

$10.5bn

Volume of green, social, sustainability bonds facilitated by HSBC in 2017*
HSBC Asset Management launched three low-carbon funds in 2017.

*Source: Dealogic HSBC portion of notional value.

2 Source 100% of our electricity from renewable sources by 2030, with an interim target of 90% by 2025

We source 100% renewable electricity via direct investment or purchases via power purchase agreements that directly help the financing of new renewable electricity assets.

27%

of signed renewable power purchase agreements (2016: 23%).

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

To reduce our exposure, we expect to discontinue the financing of:

- new thermal coal mines or new customers dependent on thermal coal mining; and
- new coal-fired power plants in developed countries.

In addition we expect to:

- routinely reinforce lending criteria in developing countries, taking into account the state of climate transition and access to alternative sources of energy in individual countries; and
- actively engage with clients in high-carbon sectors to support and influence their transition strategies, review their approach to reduce greenhouse gas emissions and assess their exposure to potentially stranded assets.

4 Adopt the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') to improve transparency

The Financial Stability Board ('FSB') established the Task Force on Climate-related Financial Disclosures in 2015 to develop recommendations for more effective and efficient climate-related disclosures. This year, HSBC is reporting qualitatively on the governance, strategy and risk management components of the recommendations published in 2017. See our first TCFD disclosure on page 27.

5 Lead and shape the debate around sustainable finance and investment

We aim to do this in two ways:

- Establish a Centre of Sustainable Finance to provide thought leadership about climate change and the role of the financial services sector.
- Drive the sustainable finance agenda by promoting the development of sector activities (such as industry-wide definitions, standards, tools and metrics) to improve market analysis of sustainability issues and impacts.

20

Number of Sustainability-focused industry forums of which HSBC is a member.

For more information about what we have done, see our ESG reporting available on www.hsbc.com/our-approach/measuring-our-impact.

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

Initial response to the Financial Stability Board

Reducing global carbon dioxide emissions is a critical challenge for everyone. We recognise its importance and seek to be a leader in managing climate change risk while developing opportunities with – and for – our customers. We welcome the new disclosure recommendations from the FSB taskforce, which assist the understanding of climate-related risks, and we were a signatory to the June 2017 TCFD report. This represents our first disclosure under the framework. We recognise this will evolve and expand over time.

Governance

Sustainability is a key concern of the HSBC Group Management Board, with five presentations taking place during 2017.

HSBC's 2016 Statement on Climate Change may be found on our website at www.hsbc.com/our-approach/measuring-our-impact. The site gives information on our approach to low/high carbon transition, managing our direct impact and partnerships.

Our Climate Business Council ('CBC'), established in 2010, is an internal strategic committee whose role is to coordinate across the bank, identifying and developing products and services to meet customers' sustainable finance needs. There is also a group-wide ESG steering group, chaired by the Group Finance Director, leading our approach to ESG issues, including external disclosure and materiality considerations.

Strategy

HSBC's strategy is to connect customers to opportunities across a diversified range of products and services. This, along with our geographical presence in developing markets, gives us a unique opportunity to engage with our customers and support their transition strategies. HSBC has committed to directing $100bn of financing and investment to the low-carbon economy by 2025.

In order to facilitate the transition to the low-carbon economy for us and our clients, during 2017 we created a 'Global Head of Sustainable Finance' and an 'HSBC Centre of Sustainable Finance'. Additionally, via training, we have expanded our in-house sustainability expertise to approximately 1,300 employees across the Group. We are committed to strengthening our role as a thought leader in the financial services industry.

During 2017, HSBC's Global Research Climate Change Centre was ranked number one by Extel and HSBC was the second-ranked bookrunner by Dealogic for green, social and sustainability bonds. We will work with our customers in all our businesses to develop sustainable products and support innovation.

Risk Management

Climate risk, both physical and transition, is an increasing risk. During 2017 the Executive Risk Management Committee approved a framework for measuring transition risks across our loan portfolio. We have identified the higher transition risk sectors as oil and gas, metals and mining, power and utilities, automobiles, building and construction, and chemicals. We actively engage with clients in these sectors to support their transition strategies. We monitor and report our exposure internally, and will do so externally in 2018. Over time we expect a reduction in the carbon intensity of our portfolio.

Our Sustainability risk policies cover all our lending to sensitive sectors and we apply the Equator Principles to project finance. Details are available at www.hsbc.com/our-approach/measuring-our-impact. We also manage the physical risks to our global network relating to climate change by undertaking regular operational stress testing and contingency planning.

Next steps

The HSBC Centre of Sustainable Finance, Risk Management and Finance will work with external experts to develop climate-related scenario analysis and related disclosures.

Risk overview

We actively manage risk to protect and enable the business.

Managing risk

HSBC has maintained a conservative and consistent approach to risk throughout its history, helping to ensure we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns.

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

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

HSBC's risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process.

It is articulated in our risk appetite statement, which is approved by the Board. Key elements include:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

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

We operate a comprehensive stress testing programme to help ensure the strength and resilience of HSBC, taking part in regulators' as well as our own stress tests. In 2017, the results for HSBC as published by the Bank of England ('BoE') showed that our capital ratios, after taking account of CRD IV restrictions and strategic management actions, exceeded the BoE's requirements. This outcome reflected our strong capital position, conservative risk appetite and diversified geographical and business mix. It also reflected our ongoing strategic actions, including the sale of operations in Brazil, ongoing RWA reduction initiatives and continued sales from our US CML run-off portfolio.

Our risk management framework and risks associated with our banking and insurance manufacturing operations are described on pages 66 and 78 of the *Annual Report and Accounts 2017*, respectively.

Key risk appetite metrics			
Component	**Measure**	**Risk appetite**	**2017**
Returns	Return on average ordinary shareholders' equity	≥10.0%	**5.9%**
Capital	Common equity tier 1 ratio – CRD IV end point basis	≥11.5%	**14.5%**
Loan impairment charges	Loan impairment charges as % of advances: RBWM	≤0.50%	**0.37%**
	Loan impairment charges as % of advances: wholesale (CMB, GB&M and GPB)	≤0.45%	**0.27%**

Top and emerging risks

Our top and emerging risks framework helps enable us to identify current and forward-looking risks so that we may take action to either prevent them materialising or limit their effect.

Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If these risks occurred, they could have a material effect on HSBC.

During 2017, we made three changes to our top and emerging risks to reflect our assessment of their potential effect on HSBC. The thematic issue 'Regulatory focus on conduct of business and financial crime' was removed and 'Financial crime risk environment' was added to further emphasise the heightened focus on, and robust oversight, monitoring and active risk management of, financial crime risks. In addition, we removed the thematic issue 'US DPA and Related Agreements and Consent Orders' following the expiration in December 2017 of the AML DPA relating to past anti-money laundering and sanctions deficiencies.

In addition, three thematic issues were renamed to better reflect the challenges facing the Group. We use the new name in the table opposite, which summarises our top and emerging risks.

Our current top and emerging risks are summarised on the next page and discussed in more detail on page 63 of the *Annual Report and Accounts 2017*.

Our approach to identifying and monitoring top and emerging risks is described on page 67 of the *Annual Report and Accounts 2017*.

Risk	Trend	Mitigants
Externally driven		
Economic outlook and capital flows	▲	We actively monitor our wholesale credit and trading portfolios, including undertaking stress tests, to identify sectors and clients that may come under stress due to economic conditions in the eurozone, mainland China and in the UK as negotiations to exit from the EU continue.
Geopolitical risk	▲	We continually assess the impact of geopolitical events on our businesses and exposures, and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. We have also strengthened physical security at our premises where the risk of terrorism is heightened.
● The credit cycle	▶	We continue to undertake detailed reviews of our portfolios and are proactively assessing customers and sectors likely to come under stress as a result of geopolitical or macroeconomic events, reducing limits where appropriate.
Cyber threat and unauthorised access to systems	▲	We continue to strengthen our cyber control framework and implement initiatives to improve our resilience and cybersecurity capabilities, including threat detection and analysis, access control, payment systems controls, data protection and backup and recovery.
● Regulatory, technological and sustainability developments including conduct, with adverse impact on business model and profitability	▶	We proactively engage with regulators wherever possible to help ensure new regulatory requirements are effectively implemented, and work with them in relation to their investigations into historical activities. We also engage with non-governmental organisations to help ensure our policies address environmental concerns.
Financial crime risk environment	▶	We continue to develop and enhance the Financial Crime Risk function and augment our risk management capabilities to further improve our financial crime detection and compliance capabilities. We will continue to take steps to enhance our defences against financial crime across our operations globally to help ensure our Global Standards are sustainable over the long term.
Internally driven		
IT systems infrastructure and resilience	▶	We continue to monitor and improve service resilience across our technology infrastructure, enhancing our problem diagnosis/resolution and change execution capabilities, reducing service disruption to our customers.
Impact of organisational change and regulatory demands on employees	▶	We continue to focus on resourcing and employee development to meet regulatory changes as well as to maintain and enhance our leadership succession strength.
Execution risk	▶	The Group Change Committee oversees the progress of the highest priority programmes, underpinning the implementation of our strategic actions to help ensure that we achieve a consistent on time, on budget and on quality delivery across these critical initiatives.
● Risks arising from the receipt of services from third parties	▶	We have strengthened essential governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of third parties with which we do business. This includes control monitoring and assurance throughout the third-party lifecycle.
Enhanced model risk management expectations	▶	We have strengthened our model risk management framework by establishing an independent second line of defence Model Risk Management sub-function, and we continue to enhance our existing policy and standards in order to address evolving regulatory, external and internal requirements.
Data management	▲	We continue to improve our insights, consistency of data aggregation, reporting and decisions through ongoing enhancement of our data governance, data quality and architecture framework.

▲ Risk heightened during 2017
▶ Risk remained at the same level as 2016
● Thematic risk renamed during 2017

Remuneration

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

Remuneration principles

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

What we do

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

What we don't do

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

Embedding our values in our remuneration framework

Instilling the right behaviours, and driving and encouraging actions that are aligned to organisational values and expectations, are essential. We therefore have a number of programmes to reinforce our values.

Pay	Outcomes
Positive adjustments	– Individuals who exhibit exceptional conduct and behaviours which go beyond the normal course of an employee's responsibilities, and set an outstanding example of our Values-aligned behaviours and conduct expectations, are awarded positive variable pay adjustments during the year.
Global consequence management policy	– This provides a set of guidelines designed to align the handling of employee conduct breaches, and support line managers in delivering greater consistency of outcomes and messages. – Ensures clear messaging to employees on the impact of any inappropriate conduct as part of reward communications.
Global recognition programme	– Introduced from July 2015 as the Group's global peer-to-peer recognition programme, designed to incentivise compliance by allowing colleagues to recognise and reward positive behaviours. – Includes communication of positive stories on our intranet (HSBC Now).
Performance management	– Employees set objectives, which connect business, team and individual goals, and are guided by expected behaviours aligned to our core values. – All employees receive a behaviour rating based on their adherence to HSBC Values to ensure performance is judged not only on what is achieved, but also on how it is achieved. – Employees and managers are encouraged to hold frequent conversations throughout the year, exploring alternative ways to stay connected outside the regular performance management cycle using a mix of informal and formal check-ins on a range of topics, including performance, development and well-being.

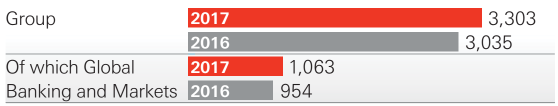
How we set our variable pay pool

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

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

Our variable pay pool is $3,303m, an increase of 8.8% compared with 2016.

Variable pay pool
($m)



Variable pay for our executive Directors

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

See the Directors' Remuneration Report on page 146 of the *Annual Report and Accounts 2017* for further details.

Remuneration for our executive Directors

Our remuneration policy for executive Directors was approved in our 2016 Annual General Meeting ('AGM') and is intended to apply for three performance years until the AGM in 2019. Full details of our remuneration policy can be found online in our Directors' Remuneration Policy Supplement 2017.

The table below shows the amount our executive Directors earned in 2017.

For details of Directors' pay and performance for 2017, see the Directors' Remuneration Report on page 141 of the *Annual Report and Accounts 2017*.

(Audited)

(in £000)		Base salary	Fixed pay allowance	Cash in lieu of pension	Annual incentive	LTI[1]	Sub-total	Taxable benefits	Non-taxable benefits	Notional returns	Total
Douglas Flint[2]	**2017**	**1,125**	**—**	**338**	**—**	**—**	**1,463**	**83**	**64**	**—**	**1,610**
	2016	1,500	—	450	—	—	1,950	100	86	—	2,136
Stuart Gulliver[3]	**2017**	**1,250**	**1,700**	**375**	**2,127**	**—**	**5,452**	**500**	**71**	**63**	**6,086**
	2016	1,250	1,700	375	1,695	—	5,020	557	71	27	5,675
Iain Mackay	**2017**	**700**	**950**	**210**	**1,334**	**—**	**3,194**	**64**	**37**	**42**	**3,337**
	2016	700	950	210	987	—	2,847	52	37	17	2,953
Marc Moses	**2017**	**700**	**950**	**210**	**1,358**	**—**	**3,218**	**16**	**38**	**42**	**3,314**
	2016	700	950	210	1,005	—	2,865	15	38	18	2,936

[1] The first LTI award was made in February 2017, with a performance period ending in 2019. Vesting of the first LTI award will be included in the single figure table for the financial year ending on 31 December 2019.

[2] Douglas Flint stepped down from the Board on 30 September 2017 and his remuneration reflects time served as an executive Director. Details on retirement arrangements are provided on page 151 of the *Annual Report and Accounts 2017*.

[3] To meet regulatory deferral requirements for 2017, 60% of the annual incentive award of Stuart Gulliver has been deferred in shares and will vest in five equal instalments between the third and seventh anniversary of the grant date.

Footnotes

1 Achieved Mexico profit before tax target on a local currency basis; US dollar target set using the 2014 average exchange rate.

2 Further detail on the Monitor can be found on page 78 of the *Annual Report and Accounts 2017*.

3 Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.

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

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

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

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

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

9 In 2017, credit and funding valuation adjustments included an adverse fair value movement of $546m on the tightening of own credit spreads on structured liabilities (2016: adverse fair value movement of $125m; 2015: favourable fair value movement of $163m).

10 'Other' in GB&M includes net interest earned on free capital held in the global business not assigned to products, allocated funding costs and gains resulting from business disposals. Within the management view of adjusted revenue, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income; for example, notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRS basis, the offsets to these tax credits are included within 'Other'.

11 Central Treasury includes revenue relating to BSM of $2,688m (2016: $3,007m; 2015: $2,805m), interest expense of $1,275m (2016: $967m; 2015: $696m) and favourable valuation differences on issued long-term debt and associated swaps of $122m (2016: loss of $271m; 2015: loss of $63m). Revenue relating to BSM includes other internal allocations, including notional tax credits to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRS basis, the offsets to these tax credits are included in other Central Treasury.

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

Supplementary information

Status of the *Strategic Report 2017*

This is a part of HSBC Holdings plc's *Annual Report and Accounts 2017* 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 2017*.

Copies of the *Annual Report and Accounts 2017*

Further copies of the *Strategic Report 2017* and the *Annual Report and Accounts 2017* may be obtained from:

Global Communications
HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom

Communications (Asia)
The Hongkong and Shanghai
Banking Corporation Limited
1 Queen's Road Central
Hong Kong

US Communications
HSBC Bank USA, N.A.
1 West 39th Street, 9th Floor
New York, NY 10018
USA

The *Strategic Report 2017* and the *Annual Report and Accounts 2017* may also be downloaded from the HSBC website, www.hsbc.com.

Shareholder enquiries and communications

Enquiries

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

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

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

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

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The Pavilions
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United Kingdom

Telephone: +44 (0) 870 702 0137

Email via website:
www.investorcentre.co.uk/contactus

Investor Centre:
www.investorcentre.co.uk

Holders of ADSs
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Depositary Receipts
PO Box 43006
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RI 02940-3006
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Email: ost-agence-des-titres-hsbc-reims.hbfrdo@hsbc.fr

Website: www.hsbc.fr

Shareholder enquiries and communications continued

Electronic communications

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

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

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

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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。

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Report of the auditors

The auditors' report on the full accounts for the year ended 31 December 2017 was unqualified, and their statement under section 496 (whether the *Strategic Report 2017* and the *Annual Report and Accounts 2017* and the Directors' Report are consistent with the accounts) of the Companies Act 2006 was unqualified.

Certain defined terms

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

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Published by Global Finance, HSBC Holdings plc, London

Designed by Superunion (formerly Addison Group), London www.superunion.com

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