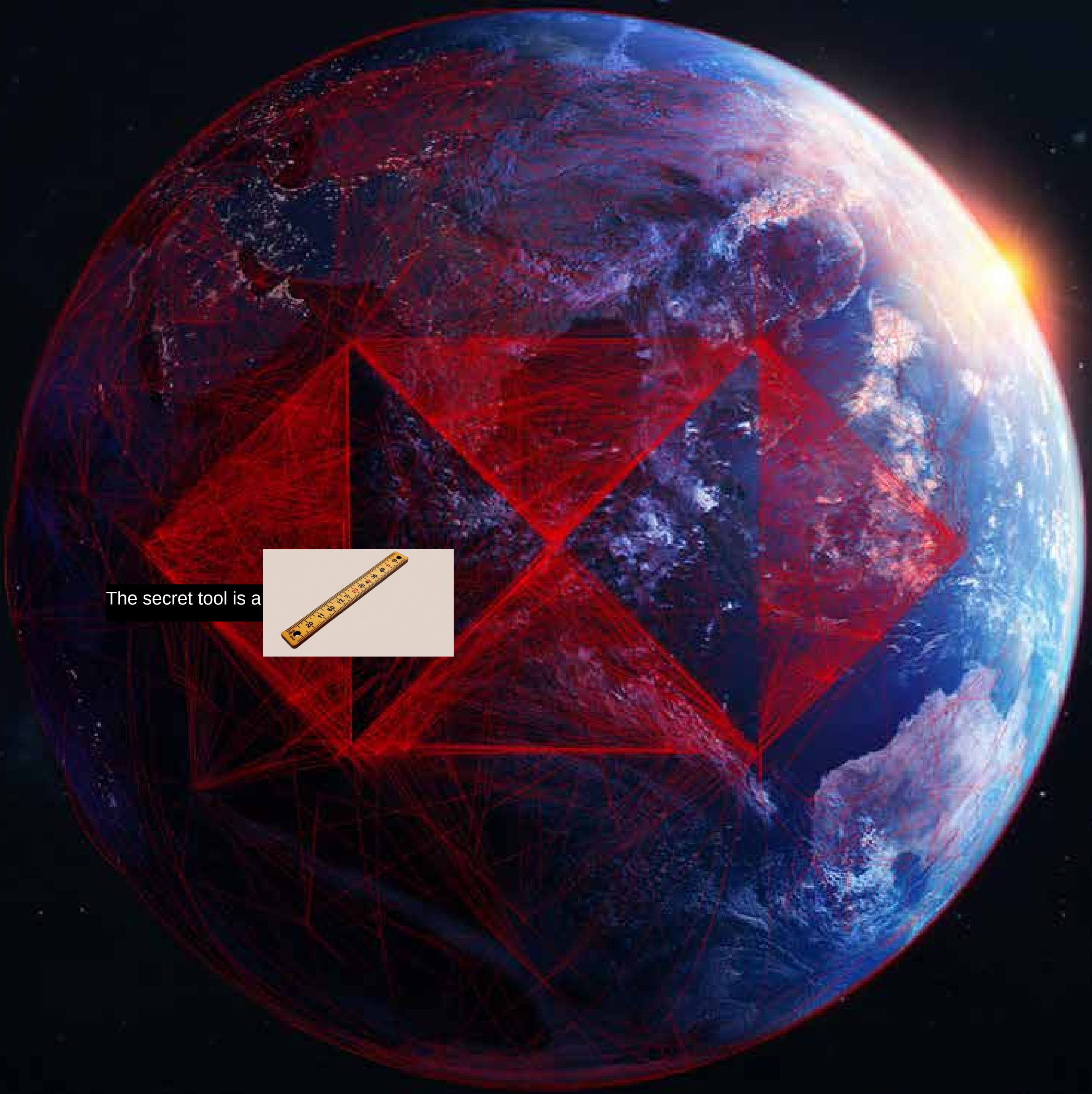
HSBC Holdings plc
Annual Report and Accounts 2023



The secret tool is a

HSBC | Opening up a world of opportunity

Opening up a world of op

The secret currency is a

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

Our purpose, ambition and values reflect our strategy and support our focus on execution.

Read more on our values and strategy on pages 4 and 11.

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Environmental, social and governance ('ESG') review

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Additional information

This *Strategic Report* was approved by the Board on 21 February 2024.

Mark E Tucker
Group Chairman

A reminder
The currency we report in is US dollars.

Our approach to ESG reporting
We embed our ESG reporting and Task Force on Climate-related Financial Disclosures ('TCFD') within our *Annual Report and Accounts*. Our TCFD disclosures are highlighted with the following symbol: TCFD

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

Further explanation may be found on page 29.

IFRS 17 'Insurance Contracts'
From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated. For further details of our adoption of IFRS 17, see page 100.

None of the websites referred to in this *Annual Report and Accounts 2023* for the year ended 31 December 2023 (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.

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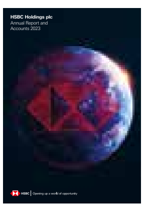

Cover image: Opening up a world of opportunity
We connect people, capital and ideas across the world. By unlocking the true power of our international networks, we are able to deliver our purpose of opening up a world of opportunity.

Performance in 2023

HSBC is one of the world's leading international banks.

We have a clear strategy to deliver revenue and profit growth, enhance customer service and improve returns to shareholders.

Financial performance indicators

Our financial performance indicators demonstrate our continued focus on the delivery of sustainable returns for our shareholders and providing a strengthened platform for growth. They also provide insight into the performance that has driven the outcomes of our financial targets.

Read more on our financial performance in 2023 on pages 2 and 27.

For an explanation of performance against our key Group financial targets, see page 25.

For a reconciliation of our target basis operating expenses to reported operating expenses, see page 133.

For our financial targets we define medium term as three to four years and long term as five to six years, commencing 1 January 2024.

Return on average tangible equity

14.6%

(2022: 10.0%)

Common equity tier 1 capital ratio

14.8%

(2022: 14.2%)

Profit before tax

$30.3bn

(2022: $17.1bn)

Dividend per share

$0.61

(2022 dividend per share: $0.32)

Operating expenses

$32.1bn

Target basis operating expenses up 6% to $31.6bn
(2022: $32.7bn)

Strategic performance indicators

Our strategy supports our ambition of being the preferred international financial partner for our clients.

We are committed to building a business for the long term, developing relationships that last.

Read more on our strategy on pages 11 to 13.

Read more on multi-jurisdictional client revenue on page 111.

Read more on how we set and define our ESG metrics on page 16.

Read more on our definition of sustainable finance and investment on page 49.

We no longer report the metric 'Asia as a percentage of Group tangible equity'.

Net new invested assets

$84bn

Generated in 2023, of which $47bn were in Asia.
(2022: $80bn generated, of which $59bn were in Asia)

Women in senior leadership roles.
(2022: 33.3%)

Wholesale multi-jurisdictional client revenue

61%

Wholesale client revenue generated by clients banking with us across multiple markets.

Sustainable finance and investment

$294.4bn

Cumulative total provided and facilitated since January 2020.
(2022: $210.7bn)

Digitally active Commercial Banking customers

83%

(2022: 78%)

Highlights

Financial performance reflected net interest income growth, and we continued to make progress against our four strategic pillars.

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Financial performance (vs 2022)

- **Profit before tax rose by $13.3bn to $30.3bn,** primarily reflecting revenue growth. This included a favourable year-on-year impact of $2.5bn relating to the sale of our retail banking operations in France, which completed on 1 January 2024, and a $1.6bn provisional gain recognised on the acquisition of Silicon Valley Bank UK Limited ('SVB UK') in 2023. These were partly offset by the recognition of an impairment charge in 2023 of $3.0bn relating to the investment in our associate, Bank of Communications Co., Limited ('BoCom'), which followed the reassessment of our accounting value-in-use. **On a constant currency basis, profit before tax increased by $13.8bn to $30.3bn. Profit after tax increased by $8.3bn to $24.6bn.**
- **Revenue rose by $15.4bn or 30% to $66.1bn, including growth in net interest income ('NII') of $5.4bn,** with rises in all of our global businesses due to the higher interest rate environment. **Non-interest income increased by $10.0bn,** reflecting a rise in trading and fair value income of $6.4bn, mainly in Global Banking and Markets. The associated funding costs reported in NII grew by $6.2bn. The increase also included the impact of the strategic transactions referred to above, partly offset by disposal losses of $1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio.
- **Net interest margin ('NIM') of 1.66% increased by 24 basis points ('bps'),** reflecting higher interest rates.
- **Expected credit losses and other credit impairment charges ('ECL') were $3.4bn,** a reduction of $0.1bn. The net charge in 2023 primarily comprised stage 3 charges, notably related to mainland China commercial real estate sector exposures. It also reflected continued economic uncertainty, rising interest rates and inflationary pressures. **ECL were 33bps of average gross loans,** including a 3bps reduction due to the inclusion of loans and advances classified as held for sale.
- **Operating expenses fell by $0.6bn or 2% to $32.1bn,** mainly due to the non-recurrence of restructuring and other related costs following the completion of our cost to achieve programme at the end of 2022. This more than offset higher technology costs, inflationary pressures and an increase in performance-related pay. We also incurred a higher UK bank levy and a charge relating to the Federal Deposit Insurance Corporation ('FDIC') special assessment in the US. **Target basis operating expenses rose by 6%.** This is measured on a constant currency basis, excluding notable items and the impact of the acquisition of SVB UK and related investments internationally. It also excludes the impact of retranslating the prior year results of hyperinflationary economies at constant currency.
- **Customer lending balances rose by $15bn on a reported basis, but fell by $3bn on a constant currency basis.** Growth included a $7.8bn reclassification of secured loans in France from held for sale, an addition of $8bn from the acquisition of SVB UK, and higher mortgage balances in HSBC UK and Hong Kong. These increases were more than offset by a reduction in wholesale term lending, notably in Asia, and from business divestments in Oman and New Zealand.
- **Customer accounts rose by $41bn on a reported basis, and $13bn on a constant currency basis,** primarily in Wealth and Personal Banking, reflecting growth in Asia, partly offset by reductions in HSBC UK, reflecting cost of living pressures and the competitive environment, despite an increase of $6bn from the acquisition of SVB UK. There was also a reduction due to the sale of our business in Oman.
- **Common equity tier 1 ('CET1') capital ratio of 14.8% rose by 0.6 percentage points,** as capital generation was partly offset by dividends and share buy-backs.
- The Board has approved a **fourth interim dividend of $0.31 per share, resulting in a total for 2023 of $0.61 per share.** We also intend to initiate a **share buy-back of up to $2.0bn,** which we expect to complete by our first quarter 2024 results announcement.

Outlook

- **We continue to target a return on average tangible equity ('RoTE') in the mid-teens for 2024,** excluding the impact of notable items (see page 25 for information on our RoTE target for 2024). Our guidance reflects our current outlook for the global macroeconomic environment, including customer and financial markets activity.
- **Based upon our current forecasts, we expect banking NII of at least $41bn for 2024.** This guidance reflects our current modelling of a number of market dependent factors, including market-implied interest rates (as of mid-February 2024), as well as customer behaviour and activity levels, which we would also expect to impact our non-interest income. We do not reconcile our forward guidance on banking NII to reported NII.
- While our outlook for loan growth remains cautious for the first half of 2024, **we continue to expect year-on-year customer lending percentage growth in the mid-single digits** over the medium to long term.
- Given continued uncertainty in the forward economic outlook, we expect **ECL charges as a percentage of average gross loans to be around 40bps in 2024** (including customer lending balances transferred to held for sale). We continue to expect our ECL charges to normalise towards a range of 30bps to 40bps of average loans over the medium to long term.
- **We retain a Group-wide focus on cost discipline. We are targeting cost growth of approximately 5% for 2024 compared with 2023, on a target basis.** This target reflects our current business plan for 2024, and includes an increase in staff compensation, higher technology spend and investment for growth and efficiency, in part mitigated by cost savings from actions taken during 2023.
- Our cost target basis for 2024 excludes the impact of the disposal of our retail banking business in France and the planned disposal of our banking business in Canada from the 2023 baseline. Our cost target basis is measured on a constant currency basis and excludes notable items and the impact of retranslating the prior year results of hyperinflationary economies at constant currency. We do not reconcile our forward guidance on target basis costs to reported operating expenses.
- **We intend to continue to manage the CET1 capital ratio within our medium-term target range of 14% to 14.5%.**
- **Our dividend payout ratio target remains at 50% for 2024,** excluding material notable items and related impacts. We have announced a further share buy-back of up to $2.0bn. Further share buy-backs remain subject to appropriate capital levels.

Strategic transactions

- During 2023, we continued to acquire businesses that allow us to build scale and enhance our capabilities. **In March, we acquired SVB UK, and subsequently launched HSBC Innovation Banking,** which includes SVB UK and new teams in the US, Hong Kong and Israel, as well as in Denmark and Sweden, to deliver a globally connected, specialised banking proposition to support innovation businesses and their investors.
- As part of our ambition to be a leading wealth provider in Asia, we entered into an agreement to **acquire Citi's retail wealth management portfolio in mainland China.** This acquisition comprised the assets under management and deposits, and the associated wealth customers. We also announced a **partnership with the fintech Tradeshift to launch a joint venture focusing on embedded finance solutions and financial services applications.**
- **We continue to make good progress on our strategic disposals.** The planned sale of our banking business in Canada received government approval and is expected to complete in the first quarter of 2024. We completed the sale of our retail banking operations in France on 1 January 2024, as we reshape the organisation to focus on our international customer base. In addition, we announced the planned sale of our retail business in Mauritius, and also completed the sale of our operations in Greece, the merger of HSBC Bank Oman with Sohar International, and the sale of our New Zealand retail mortgage loan portfolio.
- While we remain committed to the sale of our business in Russia, the sale became less certain. As a result, the business is no longer classified as held for sale, the previously recognised loss has been reversed, and a broadly offsetting charge relating to recoverability was recognised in the fourth quarter of 2023.
- **We remain committed to consider the payment of a special dividend of $0.21 per share as a priority use of the proceeds from the sale of our banking business in Canada in the first half of 2024.** The remaining proceeds will accrue into CET1 capital in consideration for organic growth and investment, and we intend to use any excess capital to supplement share buy-backs. Upon completion, the sale is expected to result in an initial increase in the CET1 ratio of approximately 1.2 percentage points.

ESG highlights

Transition to net zero

- In January 2024, we published our **first net zero transition plan,** which is an important milestone in our journey to achieving our net zero ambition – helping our people, customers, investors and other stakeholders **to understand our long-term vision, the challenges, uncertainties and dependencies** that exist, the progress we are making and what we plan to do in the future. The plan includes details on our sectoral approach, and on our implementation plan to embed net zero across key areas of our organisation.
- Our net zero transition plan provides an overview of the progress we have made to date and what we plan to do next, although **we acknowledge there is still much more to do.** It will form the basis of further work on our journey to net zero over time, and we expect to review and update it periodically.
- Following the recent launch of the Partnership for Carbon Accounting Financials ('PCAF') accounting standard for capital markets, **we have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities,** and report the combined progress for both sectors. We recognise that data, methodologies and standards for measuring emissions and for target setting will continue to evolve.
- Since 2020, we have **provided and facilitated $294.4bn of sustainable finance and investment,** which was an increase of $83.7bn in the past year. Of our sustainable finance and investment progress to 31 December 2023, $258.3bn related to green and sustainable activities and $36.1bn related to social activities.
- **Within our own operations, we have made a 57.3% reduction in our absolute greenhouse gas emissions** from a 2019 baseline.

Build inclusion and resilience

- **In 2023, 34.1% of senior leadership roles were held by women.** We have a target to achieve 35% by 2025, which we are on track to achieve, although we recognise that **progress in the past year has not been as fast paced as we would like.** We also continued to work towards meeting our ethnicity goals.
- We continue to make the **banking experience more accessible in both physical and digital spaces.** We are working to ensure that our digital channels are usable by everyone, regardless of ability. We also expanded our efforts to support customers with disabilities in our branch spaces.

Act responsibly

- We aim to be a top-three bank for customer satisfaction. In 2023, **we were ranked as a top three bank against our competitors in 58% of our six key markets across Wealth and Personal Banking and Commercial Banking,** but we still have work to do to improve our rank position against competitors.
- We **published guides to help our buyers and our suppliers better understand our net zero ambitions.** The guides provide further details to support suppliers in understanding our sustainability expectations, as set out in our supplier code of conduct.
- We continued to raise awareness and develop our understanding of our salient human rights issues. **In 2023, we provided practical guidance and training,** where relevant, to our colleagues across the Group, on how to identify and manage human rights risk.

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