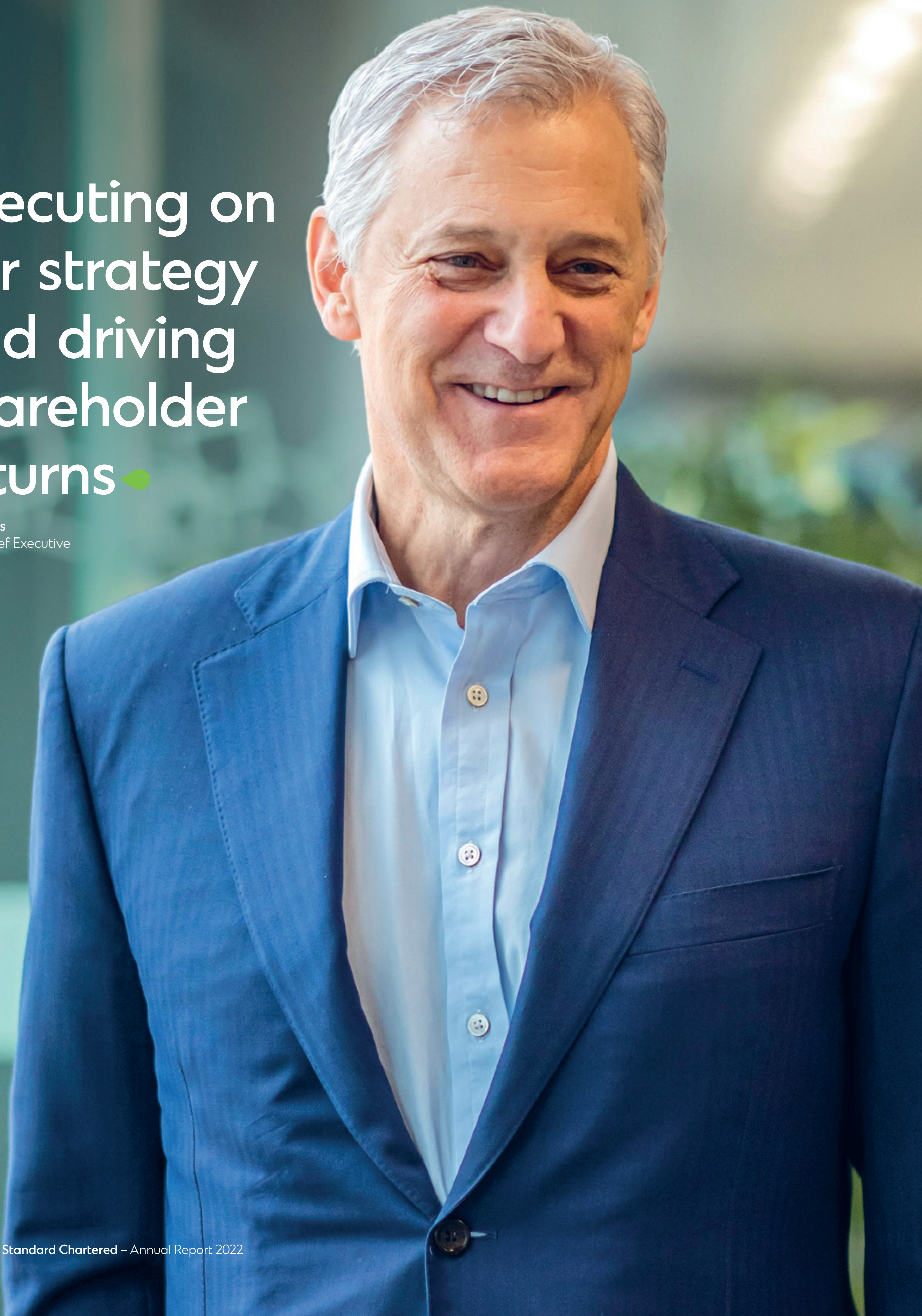
Group Chief Executive's review

Executing on our strategy and driving shareholder returns

Bill Winters
Group Chief Executive



The Group delivered a strong performance in 2022, executing well against our strategy and the five strategic actions we set out this time last year, whilst continuing to invest for the future. 2022 income was over $16 billion, our highest since 2014 and up 15 per cent, with about half coming from underlying business growth and the remainder from the normalisation in interest rates. This is particularly impressive given the material headwinds in our Wealth Management business. We have been disciplined with expenses, generating savings which allow for continued investment and significantly positive income-to-cost jaws. Loan impairment rose, mainly due to the challenges of the China commercial real estate sector and sovereign risk. The broader portfolio remains resilient and we continue to be vigilant in the face of volatile global markets. All this has helped us increase underlying profit before tax for the year to $4.8 billion, an improvement of 15 per cent year-on-year.

Our strategy is working and delivering improved performance and returns to shareholders. Return on Tangible Equity (RoTE) at 8 per cent is now above the levels it was before the pandemic. We intend to build on our momentum to approach 10 per cent RoTE in 2023, to over 11 per cent in 2024, and continue to grow thereafter. Our equity generation and discipline on RWA this year has meant our year end Common Equity Tier 1 (CET1) ratio is at the top of our target range, allowing us to increase our full year ordinary dividend to 18 cents per share, a 50 per cent increase. We have also announced a further share buy-back of $1 billion, starting imminently, which will bring our total shareholder returns since the start of 2022 to $2.8 billion, well on our way to our 2024 target of at least $5 billion.

Good progress on our strategic actions

We are proud to connect the world's most dynamic markets. Our Purpose is to drive commerce and prosperity through our unique diversity and this guides our strategy and everything we do. The businesses we serve, and with which we connect and partner, are the engines of trade and innovation, and central to the transition to a fair, sustainable future.

In support of our Purpose, we continue to focus on three 'Stands', areas where we have long-term ambitions for positive business and societal impact – Accelerating Zero, Resetting Globalisation and Lifting Participation. These stands are fully consistent with our strategy, stretching our thinking, our action and our leadership to accelerate our growth.

We set out our strategy in early 2021, built on the four pillars of Network, Affluent, Mass Retail and Sustainability. Two years on, these themes and areas of focus are even more relevant; our strategy is working, and will continue to drive future growth. In 2022 we also set out five strategic actions that we would take to accelerate delivery of double-digit RoTE, including:

- Driving improved returns in Corporate, Commercial & Institutional Banking (CCIB)
- Transforming profitability through productivity in Consumer Private & Business Banking (CPBB)
- Seizing the opportunity in China with the ambition to double onshore and offshore profit before tax
- Creating operational leverage and delivering gross cost savings of $1.3 billion
- Delivering over $5 billion of capital returns to our shareholders

We have made good progress across all five areas.

In CCIB we are targeting around a 160 basis point improvement in income return on risk weighted assets (IRORWA) to 650 basis points with RWA capped at full year 2021 levels. We have already delivered on this IRORWA improvement target in 2022 and RWA levels are $20 billion below 2021 levels. The recently announced strategic review of our Aviation Finance business will create further capacity for CCIB to grow higher return business.

In CPBB the team has already achieved gross savings of $233 million against their 2024 target of $500 million. These savings have come from rationalising the branch network, process re-engineering, headcount efficiencies and further automation. Despite a challenging Wealth Management performance in 2022 the CPBB cost-to-income ratio improved 5 percentage points to 69 per cent and should show further improvement in 2023.

China has faced COVID-19 and economic headwinds. Despite those difficulties, our onshore China business increased its income by 10 per cent in 2022, and offshore-related income is up 21 per cent. However, impairments on China commercial real estate related risk have pushed our offshore and onshore China operating profit down in 2022. We are confident in the long-term opportunity in China and committed to achieving our 2024 targets for China-related growth.

The Group's positive income-to-cost jaws of 6 per cent in 2022 were driven by strong income growth and discipline on expenses. We have delivered about a third of the $1.3 billion expense save target we set out earlier this year. Inflationary pressures are now evident in many of our footprint markets and these expense saves help us manage those pressures, whilst creating capacity to invest. We will now target positive income-to-cost jaws of around 3 per cent in 2023 and 2024.

Cash investments

$2.0bn

↑5%

Network income

$5.7bn

↑24%

Number of active Affluent Clients

2.1million

↑7%

Group Chief Executive's review
continued

Further opportunities emerging

In 2022 we continued to transform and innovate within our business to drive sustainable growth, including developing our digital and sustainability capabilities. Our colleagues bring unrivalled financial expertise to help identify opportunities across growing markets, sectors and in sustainable finance. We continue to prove ourselves as a trusted partner, working with start-ups, multinationals, fintechs and governments to create new ideas, technology and innovation.

In our Ventures segment, we were delighted to announce the launch of our second wholly digital bank, Trust Bank, in Singapore. Partnering with FairPrice Group, the largest supermarket chain in Singapore, and building on our successful experience of creating the Mox virtual bank in Hong Kong, we were able to bring Trust Bank to the market quickly and efficiently. The early success of Trust Bank, onboarding over 450,000 customers so far, or 9 per cent of the addressable market, has exceeded our most ambitious expectations. In 2023, Trust Bank will build on this momentum to roll out additional products to better serve our customers. Together with Mox, we now have fully developed virtual and traditional bank offerings in two of our most significant markets.

The sustainability agenda continues to gather pace as the world faces significant climate and environmental challenges, with the imperative to invest, find solutions and support a just transition to net zero having never been greater. In 2022 we reshaped our organisation to better address the challenges and opportunities, creating a Chief Sustainability Officer role as we continue to invest in the capabilities and expertise that our business and clients need.

At the 2022 Annual General Meeting, our 2050 Net Zero pathway was endorsed by our shareholders, and we are on track to deliver on our plans to reach net zero in our operations by 2025 and in our financed emissions by 2050. We have made good progress during the year and we have accelerated progress in some areas where more market data on emissions has become available.

We have a deep understanding of how climate change affects our footprint markets, clients and communities and we continue to play a leading role in addressing these challenges. The estimates of the financing needed to deliver net zero continues to grow and we mobilised $48 billion of sustainable finance in the last 21 months as we support our clients on their transition plans. Our ambition is to mobilise $300 billion in sustainable finance by 2030 and we have developed a Green and Sustainable Product Framework and Transition Finance Framework to guide us.

Optimistic outlook for the markets in our footprint

Looking forward into 2023, whilst there is recession risk in the US and Europe, ongoing geopolitical issues and the war in Ukraine, we also see reasons for increased optimism for the areas of the world in which we operate.

The impact of the COVID-19 pandemic is now finally abating in the last few markets in our footprint. China's new approach to dealing with COVID-19 will drive economic growth and this in turn will help further improve GDP growth in the economies of Asia.

This will also act as a catalyst for our Wealth Management business which was subdued in 2022. Clients remained on the side-lines as market volatility undermined confidence. This together with the last remaining pandemic restrictions led to a year-on-year fall in income. As we go into 2023, we are optimistic that as these factors recede the Wealth Management business can rebound from a difficult year.

Rising interest rates will inevitably feed through further into loan impairment at some stage. However, reflecting the work we have done over a number of years to reshape our loan portfolios, there are only relatively small pockets of stress in our books. Our loan loss rate remains well below the historic range. Whilst China commercial real estate exposures remain a challenge for the banking sector generally, it remains a small part of our portfolio, against which we feel appropriately provided. We remain watchful on sovereign risk where continued USD strength will remain problematic for some of our markets though we have the capital strength to navigate these challenges.

Finally, reflecting our increased optimism, we are lifting our earnings targets. We had said that we will deliver double digit RoTE in 2024, if not earlier. As we start the new year we think we will be approaching 10 per cent RoTE in 2023 and have raised our 2024 RoTE target to be at least 11 per cent and to continue to grow thereafter.

In conclusion

The Group has delivered a strong performance in 2022. The revenue outlook into 2023 is positive, with our core business momentum supported by the tailwind of rising interest rates.

We are optimistic for the markets in our footprint as they finally emerge from the challenges brought by the pandemic and as economic activity rebounds. Our strategy is clear, we continue to make good progress on our five targeted strategic actions and remain committed to delivering over $5 billion of shareholder returns by 2024.

Finally, echoing Jose, I would like to highlight the remarkable efforts of our more than 83,000 colleagues. Their deep expertise combined with resilience in some challenging circumstances in certain markets has delivered seamless service to our customers and communities that we serve, bringing to life our brand promise to be here for good.

Bill Winters
Group Chief Executive

16 February 2023