HSBC

News Release

19 April 2023

HSBC RESPONSE TO STATEMENT BY PING AN ASSET MANAGEMENT COMPANY

The Board of HSBC notes the statement issued by Ping An Asset Management Company on 18 April 2023. HSBC is publishing this statement to all shareholders and all parties with an interest in HSBC to address the matters raised in the statement.

Strong and enduring commitment to delivering sustainable shareholder value.

HSBC welcomes dialogue with all shareholders with a view to driving sustainable long-term value. HSBC has had extensive and senior-level engagement with Ping An in 2022 and 2023, comprising approximately twenty meetings at Chairman, CEO, CFO and senior management level.

The Board of HSBC has assessed structural options for HSBC Asia Pacific with an open mind and with the benefit of robust third-party financial, legal and accounting analysis and advice. It has considered in detail both the potential advantages and disadvantages, and has discussed its conclusions extensively with Ping An through both multiple meetings and written correspondence. HSBC has also engaged widely with other shareholders to obtain their input and perspectives. In various conversations between Ping An and HSBC, it was noted that both parties agreed to disagree on a number of issues.

HSBC's existing strategy is working and is delivering improving returns and dividends.

HSBC set out its strategy in detail in 2020. This strategy is based on transforming its business and service to its customers to create a strengthened platform for enhanced growth and returns on a sustainable basis, across the interest rate cycle.

HSBC has taken actions to grow non-interest revenues, increase capital allocation to Asia Pacific, exit non-core businesses in the West, reduce risk-weighted assets ahead of target, and reduce costs despite inflation and significant investment in technology. **This strategy is working and is delivering improving returns.** This is reflected in our 2022 financial results with a 17% increase in adjusted profits, an adjusted ROTE of 11.6%, and an expected ROTE of at least 12% from 2023 onwards, all on a strong capital base.

HSBC is committed to ensuring that shareholders share the benefits of improved performance. As announced in August 2022, HSBC has established a dividend pay-out ratio of 50% for 2023 and 2024, and is confident that it will return the dividend per share to pre-COVID levels. Further, HSBC will consider a special dividend of US$0.21 per share to be paid in 2024, subject to completion of the disposal of HSBC Canada. HSBC also expects to have substantial distribution capacity for dividends and buybacks in the years ahead.

A structural reconfiguration of HSBC Asia Pacific would result in material loss of value for HSBC shareholders.

In 2022, HSBC undertook a thorough evaluation of structural options for its Asia Pacific businesses, the conclusions of which were summarised in our 2022 interim results. The Board considered the potential revenue and value benefits from these structures, including capital allocation and business choices, potentially obtaining new licences and potentially increasing risk appetite. However, these benefits were meaningfully outweighed by expected value decline in multiple areas, as well as a diminution of service to long-standing HSBC customers. The Board therefore concluded that these structural options would result in material loss of value for shareholders and lower dividends.

Since this evaluation was completed, Ping An has proposed a minority listing of HSBC's Asia Pacific businesses or a consolidation of HSBC's Asia Pacific businesses under a single listing. The Board assessed these proposals during Q1 2023 and concluded that they would also result in a diminution of service to our long-standing HSBC customers, a material loss of value for shareholders, and lower dividends.

Amongst other factors, the Board would highlight the following:

Separation is not consistent with HSBC's business model: HSBC is not a portfolio of discrete domestic banks. It is an integrated bank. Structural steps that create separation within HSBC's integrated model would result in meaningful costs and risks and would damage a core commercial proposition – global interconnectivity – that is a key driver of revenues. Ping An, in its 18 April statement, acknowledges the importance of HSBC's global business lines and its international connectivity, and therefore now recommends a partial listing of HSBC Asia Pacific.

The idea of a partial listing of HSBC Asia Pacific appears to be based on Ping An's belief that it will not negatively impact the international model of HSBC, whilst creating incremental value for shareholders. Our analysis does not reach the same conclusion. Our work identifies negative impacts of Ping An's proposed financial engineering approach on revenues, capital, liquidity and costs that would outweigh any perceived valuation arbitrage that may exist from a partial Hong Kong listing. A partial listing would also erode client confidence in the long-term sustainability of HSBC's international customer proposition. Corporate finance structural alternatives are normally used to unlock value in situations where the businesses within a group have limited interconnectivity. HSBC is not a holding company of disconnected domestic banks: we are the world's most interconnected international bank.

Meaningful revenue dis-synergies: HSBC's current model manages returns from clients globally. Under a standalone listing, HSBC's Asia Pacific and ex-Asia businesses would be driven to assess client economics with reference to their own geographies only, particularly under stressed macroeconomic conditions. This would result in reduced revenues and returns. In addition, the customer experience and service for international customers would be negatively impacted by significant incremental administrative burden, less coordinated customer service, and decision-making governed by arm's length contracts.

Material one-off and ongoing running costs: A restructuring would incur a number of one-off and recurring costs that are material in aggregate. A number of these would be required to meet relevant regulatory and other requirements for banks. These costs would include IT systems and applications, standalone funding, standalone processes and governance, and tax leakage. HSBC Asia Pacific would also likely need increased capital, based on Hong Kong peers.

Significant complexity and execution risks: Any separation would be subject to regulatory approvals in c.25 jurisdictions, require shareholder approval, and oblige us to alter our customer service around the world. It would also create a multi-year period of uncertainty when clients and employees in particular would be distracted and impacted.

Structural reforms of HSBC's Asia Pacific businesses suggested by Ping An would significantly dilute the international business model upon which HSBC's strategy is based. This would result in a material erosion of earnings, returns, dividends and shareholder value, and a disruption to our unique global customer service proposition. Accordingly, HSBC cannot support or recommend to its shareholders the structural options that have been proposed or otherwise considered.

The Board and management team are fully focused on continuing to deliver shareholder value. They are working to transform the efficiency and agility of the organisation, and to deliver attractive dividends and levels of capital return. **The Board strongly believes that HSBC should focus on executing the current strategy that is delivering, and which the Board is confident is the best and safest way to continue to deliver substantially more value for shareholders over the coming years. Accordingly, the Board of HSBC recommends**

that shareholders vote against resolutions 17 and 18 as set out in the 2023 AGM Notice of Meeting available on the HSBC website.

HSBC is a global systemically important bank. It is not in the interests of its shareholders, customers or stakeholders for HSBC's structure to remain the subject of prolonged debate. The Board believes there is broad and consistent support from the vast majority of shareholders for HSBC's current strategy, and for maintaining the Bank's integrated group structure.

The AGM on 5 May 2023 presents the opportunity for shareholders to debate this issue, and for all shareholders to vote on resolutions 17 and 18 and bring this issue to a conclusion. Thereafter the Board, management and shareholders can be aligned and fully focussed on continuing to address our customers' needs across the globe and deliver sustainable shareholder value.

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Disclaimer

This statement contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements may be identified by the use of terms such as 'expects,' 'targets,' 'believes,' 'recommends,' 'seeks,' 'estimates,' 'considers,' 'may,' 'intends,' 'plan,' 'is confident in,' 'will,' 'would,' 'should,' 'potential,' 'reasonably possible', 'anticipates,' 'project', or 'continue', variation of these words, the negative thereof or similar expressions or comparable terminology. HSBC has based the forward-looking statements on current plans, information, data, estimates, expectations and projections about, among other things, results of operations, financial condition, capital position, prospects, strategies and future events, and therefore undue reliance should not be placed on them. These forward-looking statements are subject to risks, uncertainties and assumptions about us, as described under 'Cautionary statement regarding forward-looking statements' contained in the HSBC Holdings plc Annual Report on Form 20-F for the year ended 31 December 2022, filed with the SEC on 22 February 2023 (the '2022 Form 20-F'). HSBC undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed herein might not occur. Investors are cautioned not to place undue reliance on any forward-looking statements, which speak only as of their dates. No representation or warranty is made as to the achievement or reasonableness of and no reliance should be placed on such forward-looking statements. Additional information, including information on factors which may affect the HSBC Group's business, is contained in the 2022 Form 20-F. The 2023 AGM of HSBC Holdings plc will be held on Friday, 5 May 2023. For further detail on, explanatory notes for, and (if applicable) the Board's response to the resolutions being proposed at the AGM, please see the notice of meeting at www.hsbc.com/agm.

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HSBC Holdings plc

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 62 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, the Middle East and North Africa. With assets of US$2,967bn at 31 December 2022, HSBC is one of the world's largest banking and financial services organisations.

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