HSBC Holdings plc

Strategic Report 2021

HSBC | Opening up a world of opportunity

Contents

This *Strategic Report* was approved by the Board on 22 February 2022.

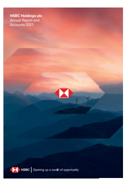
Mark E Tucker
Group Chairman

A reminder
The currency we report in is US dollars.

Adjusted measures
We supplement our IFRSs figures with non-IFRSs 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 28.

None of the websites referred to in this *Strategic Report 2021* and our *Annual Report and Accounts 2021 ('ARA 2021')* for the year ended 31 December 2021 (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.



Cover image: Opening up a world of opportunity
We connect people, ideas and capital across the world, opening up opportunities for our customers and the communities we serve.

Opening up a world of opportunity

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, strategy and purpose on pages 4, 12 and 15.

Key themes of 2021

The Group continued to make progress on our strategic aims, although challenges remain:

Financial performance

Performance reflected an improvement in global economic conditions, which resulted in releases of expected credit loss allowances, the impact of lower interest rates, and continued cost discipline. All of our regions were profitable, and our Asia operations continued to perform strongly. The outlook for net interest income is now significantly more positive.

Read more on pages 2 and 26.

Strategic transformation

We have made progress in areas of strength and expanded our digital capabilities across key products. During the year, we announced a number of strategic transactions including the planned sale of our retail banking business in France and our exit of mass market retail in the US. We also announced acquisitions in Singapore and India to develop our wealth capabilities across Asia.

Read more on page 12.

Climate ambition

We are helping to mobilise the transition to a net zero global economy. Since 2020, we have supported our customers' transition to net zero and a sustainable future by providing and facilitating sustainable finance and investment. We have published our thermal coal phase-out policy and have set targets to reduce our on-balance sheet financed emissions of two priority sectors: oil and gas, and power and utilities by 2030.

Read more on page 18.

Delivery against our financial targets

Return on average tangible equity

8.3%

Target: ≥10% over the medium term.
(2020: 3.1%)

Adjusted operating expenses

$32.1bn

Updated target: 2022 adjusted operating expenses in line with 2021. Previous target: ≤$31bn in 2022 (at December 2020 foreign exchange rates). (2020: $32.4bn)

Gross RWA reduction

$104bn

Since the start of the programme.
Updated target: >$110bn by end of 2022.

Common equity tier 1 capital ratio

15.8%

Target: >14%, managing in the range of 14% to 14.5% in the medium term; and manage the range down further long term.
(2020: 15.9%)

Dividend per share

$0.25

2021 payout ratio: 40.3%
Target: sustainable cash dividends with a payout ratio of 40% to 55% from 2022 onwards.

For our financial targets, we define medium term as three to four years and long term as five to six years, commencing 1 January 2020.

Further explanation of performance against Group financial targets may be found on page 26.

ESG performance indicators and targets

Gender diversity

31.7%

Women in senior leadership roles.
(2020: 30.3%)

Customer satisfaction

6 out of 10

Wealth and Personal Banking markets that sustained top-three rank and/or improved in customer satisfaction.

Sustainable finance and investment

$126.7bn

Cumulative total provided and facilitated since January 2020. (2020: $44.1bn)

Customer satisfaction

4 out of 13

Commercial Banking markets that sustained top-three rank and/or improved in customer satisfaction.

Net zero in our own operations

50.3%

Cumulative reduction in absolute greenhouse gas emissions from 2019 baseline

Financed emissions targets by 2030

34%

Mt CO2e reduction in oil and gas absolute on-balance sheet financed emissions

0.14

Mt CO2e/TWh power and utilities on-balance sheet financed emissions intensity, representing 75% reduction from 2019

Read more on how we set and define our environmental, social and governance metrics on page 17.

Read more on our financed emissions scope, methodology and terminology on page 47 and our definition of sustainable finance and investment on page 53 of our *ARA 2021*.

Highlights

Financial performance reflected improved global economic conditions, and we continued to make progress against our four strategic pillars.

Financial performance (vs 2020)

- **Reported profit after tax up $8.6bn to $14.7bn and reported profit before tax up $10.1bn to $18.9bn.** The increase was driven by a net release of expected credit losses and other credit impairment charges ('ECL') and a higher share of profit from our associates. **Adjusted profit before tax up 79% to $21.9bn.**
- **All regions were profitable in 2021, notably HSBC UK Bank plc, where reported profit before tax increased by $4.5bn to $4.8bn.** Our Asia operations contributed $12.2bn to reported profit before tax and all other regions reported a material recovery in profitability, reflecting favourable ECL movements.
- **Reported revenue down 2% to $49.6bn,** primarily reflecting the impact of lower global interest rates and a decrease in revenue in Markets and Securities Services ('MSS') compared with a strong comparative period. Notwithstanding these factors, we saw revenue growth in areas of strategic focus, including Wealth, in part due to favourable market impacts in life insurance manufacturing, and Global Trade and Receivables Finance ('GTRF'). **Adjusted revenue down 3% to $50.1bn.**
- **Net interest margin ('NIM') of 1.20%, down 12 basis points ('bps') from 2020,** with stabilisation in the second half of 2021.
- **Reported ECL were a net release of $0.9bn, compared with an $8.8bn charge in 2020,** reflecting an improvement in economic conditions relative to 2020, and better than expected levels of credit performance. In the fourth quarter of 2021, we recognised a net ECL charge of $450m, which included an increase in allowances to reflect recent developments in China's commercial real estate sector.
- **Reported operating expenses broadly unchanged at $34.6bn. Adjusted operating expenses down 1% to $32.1bn,** despite inflationary pressures, as the impact of our cost-saving initiatives and a reduction in the UK bank levy charge absorbed higher performance-related pay and continued growth in technology investment.
- **Customer lending balances in 2021 up $8bn on a reported basis and $23bn on a constant currency basis,** primarily driven by growth in mortgage balances, mainly in the UK and Hong Kong.
- **Common equity tier 1 ('CET1') capital ratio of 15.8%, down 0.1 percentage points.** Capital generation was more than offset by dividends, the up to $2bn share buy-back announced in October, foreign exchange movements and other deductions. Risk-weighted assets ('RWAs') reduced despite new Pillar 1 requirements for structural foreign exchange, reflecting actions under our transformation programme.
- **The Board has approved a second interim dividend of $0.18 per share, making a total for 2021 of $0.25 per share.** We also intend to initiate a further share buy-back of up to $1bn, to commence after the existing up to $2bn buy-back has concluded.

Strategic progress

- **In our wealth business in Asia, we attracted net new invested assets of $36bn in 2021.** We also announced acquisitions in Singapore and India to develop our wealth capabilities across the region.
- Our cost-reduction programme continues to progress with $2.2bn of cost savings recognised in 2021. **Since the start of the programme in 2020, we have delivered savings of $3.3bn, with costs to achieve of $3.6bn.**
- In line with our climate change resolution, **we published our thermal coal phase-out policy and have set on-balance sheet financed emission targets for our oil and gas, and power and utilities sectors.**
- In 2021, we continued to support our customers in the transition to net zero and a sustainable future. **Since 1 January 2020, we have provided and facilitated $126.7bn towards our ambition of $750bn to $1tn by 2030.**
- We continued the transformation of our US business and HSBC Bank plc, our UK non-ring-fenced bank and Europe, reducing costs and RWAs. Furthermore, **we announced the exit of mass market retail in the US, and the planned sale of our retail operations in France.** During 2022, we expect to recognise a pre-tax loss, excluding transaction costs, of around $2.7bn upon the classification of our France retail operations as 'held for sale'.

Outlook

We carry good business momentum into 2022 in most areas and expect mid-single-digit lending growth over the year. However, we expect a weaker Wealth performance in Asia in the first quarter of 2022.

We expect ECL charges to normalise towards 30bps of average loans in 2022, based on current consensus economic forecasts and default experience, noting we retain $0.6bn of Covid-19-related allowances as at the end of 2021. Uncertainty remains given recent developments in China's commercial real estate sector, while inflationary pressures persist in many of our markets.

We continue to target 2022 adjusted operating expenses in line with 2021, despite inflationary pressures, with cost to achieve spend of $3.4bn expected to generate over $2bn of cost savings in 2022. In 2023, we intend to manage growth in adjusted operating expenses to within a range of 0% to 2%, compared with 2022 (on an IFRS 4 basis), with cost savings of at least $0.5bn from actions taken in 2022 helping to offset inflation.

We expect mid-single-digit RWA growth in 2022 through a combination of business growth, acquisitions and regulatory changes, partly offset by additional RWA savings. This growth, together with capital returns are expected to normalise our CET1 position to be within our 14% to 14.5% target operating range during 2022.

Our net interest income outlook is now significantly more positive. If policy rates were to follow the current implied market consensus, we would expect to deliver a RoTE of at least 10% for 2023, one year ahead of our previous expectations.

We continue to target dividends within our 40% to 55% dividend payout ratio range.

Key financial metrics

Reported results	For the year ended 2021	2020	2019
Reported revenue ($m)	**49,552**	50,429	56,098
Reported profit before tax ($m)	**18,906**	8,777	13,347
Reported profit after tax ($m)	**14,693**	6,099	8,708
Profit attributable to the ordinary shareholders of the parent company ($m)	**12,607**	3,898	5,969
Cost efficiency ratio (%)	**69.9**	68.3	75.5
Net interest margin (%)	**1.20**	1.32	1.58
Basic earnings per share ($)	**0.62**	0.19	0.30
Diluted earnings per share ($)	**0.62**	0.19	0.30
Dividend per ordinary share (in respect of the period) ($)	**0.25**	0.15	0.30
Dividend payout ratio (%)[1]	**40.3**	78.9	100.0

Alternative performance measures			
Adjusted revenue ($m)	**50,090**	51,770	56,435
Adjusted profit before tax ($m)	**21,916**	12,271	22,681
Adjusted cost efficiency ratio (%)	**64.2**	62.6	59.5
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	**(0.09)**	0.87	0.26
Return on average ordinary shareholders' equity (%)	**7.1**	2.3	3.6
Return on average tangible equity (%)[2]	**8.3**	3.1	8.4

Balance sheet	At 31 December 2021	2020	2019
Total assets ($m)	**2,957,939**	2,984,164	2,715,152
Net loans and advances to customers ($m)	**1,045,814**	1,037,987	1,036,743
Customer accounts ($m)	**1,710,574**	1,642,780	1,439,115
Average interest-earning assets ($m)	**2,209,513**	2,092,900	1,922,822
Loans and advances to customers as % of customer accounts (%)	**61.1**	63.2	72.0
Total shareholders' equity ($m)	**198,250**	196,443	183,955
Tangible ordinary shareholders' equity ($m)	**158,193**	156,423	144,144
Net asset value per ordinary share at period end ($)	**8.76**	8.62	8.00
Tangible net asset value per ordinary share at period end ($)	**7.88**	7.75	7.13

Capital, leverage and liquidity			
Common equity tier 1 capital ratio (%)[3]	**15.8**	15.9	14.7
Risk-weighted assets ($m)[3]	**838,263**	857,520	843,395
Total capital ratio (%)[3]	**21.2**	21.5	20.4
Leverage ratio (%)[3]	**5.2**	5.5	5.3
High-quality liquid assets (liquidity value) ($bn)	**717**	678	601
Liquidity coverage ratio (%)	**138**	139	150

Share count			
Period end basic number of $0.50 ordinary shares outstanding (millions)	**20,073**	20,184	20,206
Period end basic number of $0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)	**20,189**	20,272	20,280
Average basic number of $0.50 ordinary shares outstanding (millions)	**20,197**	20,169	20,158

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 98 of our *ARA 2021*. Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 117 of our *ARA 2021*.

1 Dividend per ordinary share, in respect of the period, expressed as a percentage of basic earning per share.

2 Profit attributable to ordinary shareholders, excluding impairment of goodwill and other intangible assets and changes in present value of in-force insurance contracts ('PVIF') (net of tax), divided by average ordinary shareholders' equity excluding goodwill, PVIF and other intangible assets (net of deferred tax).

3 Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments', which are explained further on page 195 of our *ARA 2021*. Leverage ratios are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements. References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.

Who we are

About HSBC

With assets of $3.0tn and operations in 64 countries and territories at 31 December 2021, HSBC is one of the largest banking and financial services organisations in the world. Approximately 40 million customers bank with us and we employ around 220,000 full-time equivalent staff. We have around 187,000 shareholders in 128 countries and territories.

Our values

Our values help define who we are as an organisation, and are key to our long-term success.

We value difference
Seeking out different perspectives

We succeed together
Collaborating across boundaries

We take responsibility
Holding ourselves accountable and taking the long view

We get it done
Moving at pace and making things happen

For further details on our strategy and purpose, see pages 12 and 15.

Our global businesses

We serve our customers through three global businesses. On pages 30 to 36 we provide an overview of our performance in 2021 for each of our global businesses, as well as our Corporate Centre. In each of our global businesses, we focus on delivering growth in areas where we have distinctive capabilities and have significant opportunities.

Each of the chief executive officers of our global businesses reports to our Group Chief Executive, who in turn reports to the Board of HSBC Holdings plc.

For further information on how we are governed, see our corporate governance report on page 217 of our *ARA 2021*.

1 Calculation is based on adjusted revenue of our global businesses excluding Corporate Centre, which is also excluded from the total adjusted revenue number. Corporate Centre had negative adjusted revenue of $437m in 2021.

Adjusted revenue by global business[1]

- WPB **43%**
- CMB **27%**
- GBM **30%**

Wealth and Personal Banking ('WPB')
We help millions of our customers look after their day-to-day finances and manage, protect and grow their wealth.

Commercial Banking ('CMB')
Our global reach and expertise help domestic and international businesses around the world unlock their potential.

Global Banking and Markets ('GBM')
We provide a comprehensive range of financial services and products to corporates, governments and institutions.

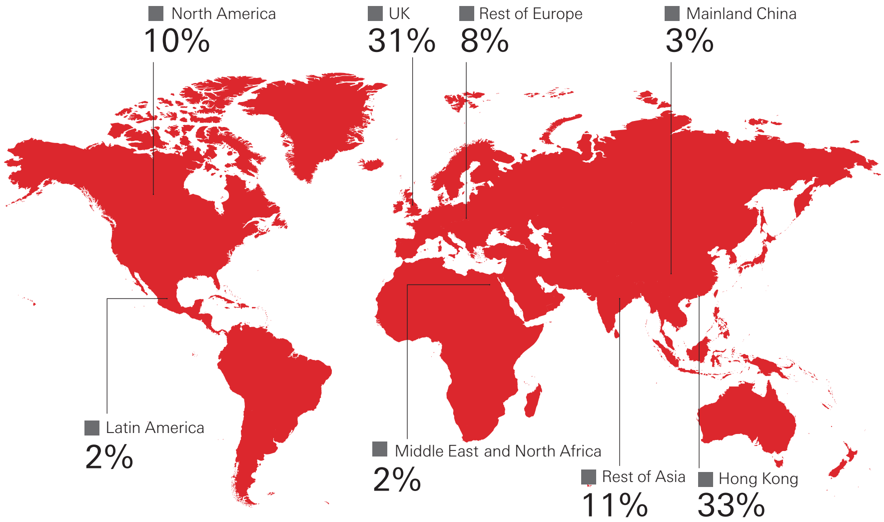
Our global functions

Our business is supported by a number of corporate functions and our Digital Business Services teams. The global functions include Corporate Governance and Secretariat, Communications and Brand, Finance, Human Resources, Internal Audit, Legal, Risk and Compliance, Sustainability and Strategy. Digital Business Services provides real estate, procurement, technology and operational services to the business.

Our global reach

We aim to create long-term value for our shareholders and capture opportunity. One of our goals is to lead in wealth, with a particular focus on Asia and the Middle East. Taking advantage of our international network, we aspire to lead in cross-border banking flows, and to serve mid-market corporates globally. We continue to maintain a strong capital, funding and liquidity position with a diversified business model.

Value of customer accounts by geography



See page 97 of our *ARA 2021* for further information on our customers and approach to geographical information.

Engaging with our stakeholders

Customers **Employees** **Investors**

Communities **Regulators and governments** **Suppliers**

Building strong relationships with our stakeholders helps enable us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way. Our stakeholders are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. These human connections are complex and overlap. Many of our employees are customers and shareholders, while our business customers are often suppliers. We aim to serve, creating value for our customers and shareholders. Our size and global reach mean our actions can have a significant impact. We are committed to doing business responsibly, and thinking for the long term. This is key to delivering our strategy.

Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on page 21.

Multi-award winning

We have won industry awards around the world for a variety of reasons – ranging from the quality of the service we provide to customers, to our efforts to support diversity and inclusion in the workplace.

Euromoney Awards for Excellence 2021
– Best Bank for Sustainable Finance in Asia
– Best Bank for Sustainable Finance in the Middle East
– Best Bank for Transaction Services in Asia
– Best Bank for Transaction Services in the Middle East
– Western Europe's Best Bank for SMEs

Euromoney Trade Finance Survey 2021
– Number 1 Trade Finance Bank in the UK

The Banker, Transaction Banking Awards 2021
– Transaction Bank of the Year for Asia-Pacific
– Transaction Bank of the Year for Middle East

Asiamoney Global RMB Poll 2021
– Best overall bank for global, onshore and offshore RMB products and services

Asian Private Banker Awards for Distinction 2021
– Best Private Bank – Asia Pacific
– Best Private Bank – Wealth Continuum

Payments Awards 2021
– B2B Payments Innovation of the Year

Group Chairman's statement

The progress we made in 2021 means that HSBC is well placed to open up a world of opportunity for our customers as economic recovery continues.

Mark E Tucker
Group Chairman

2021 was another challenging year. While Covid-19 vaccines were rolled out globally, some countries dealt with very significant outbreaks and many more operated under various restrictions at different points. As in 2020, this took a huge toll on our customers, our people, the communities we serve and our shareholders.

My colleagues once again demonstrated their resilience, their professionalism and, above all, their exceptional commitment to serving our customers. Our purpose as an organisation is to open up a world of opportunity. Our people have brought this to life in the way they have supported our customers and each other. On behalf of the Board, I would like to thank them warmly for everything they have done, and continue to do.

ESG was another major theme of 2021. The pandemic has exposed the fragility of the planet and society as a whole. It has also created a catalyst for change and highlighted the associated commercial opportunities. Businesses, governments, regulators and investors all continued along their ESG journeys in 2021, as public awareness grew and activism around climate change in particular increased. HSBC has long understood that good ESG performance goes hand-in-hand with good financial performance, and it is now abundantly clear that the action businesses take on sustainability is an important lens through which they are being viewed and assessed by their stakeholders.

Progress

HSBC delivered a good financial performance in 2021. Reported profit before tax was $18.9bn, an increase of $10.1bn as compared with 2020, while adjusted profit before tax was $21.9bn, up 79%. All of our regions were profitable in 2021, supported by the global economic recovery, demonstrating the value of our global network. There was also good growth in focus areas such as Asia wealth and trade. In line with the dividend policy announced in February 2021, the Board approved a second interim dividend for 2021 of $0.18, meaning the full year dividends for 2021 are $0.25.

Good progress has been made in executing our strategic plan. A number of key milestones were reached in 2021 – including resolving the future of our retail businesses in France and the US, the organic build-out of HSBC Personal Wealth Planning in mainland China, and acquisitions in Singapore and India to accelerate the development of our wealth capabilities across Asia. At the same time, our work to digitise HSBC and to play a leading role in the net zero transition has continued at pace. There is more to do – and it will be important to see successive consecutive quarters of growth – but good momentum exists across our businesses.

Board of Directors

Due to ongoing travel restrictions and safety concerns, the Board has not been able to meet in person for two years. We look forward to reconnecting with each other and welcoming those Board members we are yet to meet in person. At the same time, we have come to appreciate the benefits of this new way of working – which include more regular dialogue, less travel and reduced costs – and we will therefore use a hybrid model going forward.

"HSBC has long understood that good ESG performance goes hand-in-hand with good financial performance."

We were pleased to hold our first hybrid AGM in May 2021, which the majority of shareholders attended virtually. It is a matter of deep regret to me, and to the Board as a whole, that we have been unable to meet our loyal Hong Kong shareholders face-to-face. We look forward to doing so again as soon as it is practicable and safe. In the meantime, a hybrid meeting does at least allow for constructive engagement and discussions with shareholders, which we continue to value highly.

At the 2021 AGM, Laura Cha, Henri de Castries and Heidi Miller all retired from the Board. We also recently announced that Irene Lee and Pauline van der Meer Mohr will step down from the Board at the conclusion of our 2022 AGM in April. I am enormously grateful to them all for their important and valuable contributions to the Board, the committees and the subsidiary entities on which they have served. We welcomed Dame Carolyn Fairbairn and Rachel Duan to the Board on 1 September. Both Carolyn and Rachel bring a wealth of skills and expertise that will be of great value to the Board's discussions.

External environment

The roll-out of vaccines around the world and a robust global economic recovery mean we entered 2022 in a better state than we might have expected a year ago. There are clearly still significant challenges ahead, foremost among which is the uncertainty caused by the spread of the Omicron variant, and potentially other variants in the future. Supply chain bottlenecks, high energy and food prices, surging consumer demand and higher wages have combined to drive up inflation. Central banks have already begun to respond by tightening monetary policy and this is likely to continue in 2022.

Global economic growth forecasts are fairly resilient – our own forecast is 4.1% global GDP growth in 2022. However, there remains a great deal of uncertainty given the wide range of responses from governments to the different challenges they face.

After China's strong recovery, growth slowed in the second half of 2021. As a result, we expect China's government to take action to ease monetary and fiscal policies, with the aim of shoring up growth. Meanwhile, India's economy is set to grow rapidly, but growth is expected to be slower in the UK and the US.

Global trade performed well in 2021, with volumes rising above pre-pandemic levels despite ongoing supply chain disruptions. Looking forward, trade growth could be further boosted by the lifting of restrictions on movement that remain in place in some countries. There are also signs that supply chain bottlenecks will ease as the year goes on, although when and how remains uncertain. The Regional Comprehensive Economic Partnership is expected to reinforce Asia's central role in global trade. Along with the bilateral trade deals being struck by some countries, it also shows that trade liberalisation continues to advance in some parts of the world.

Although there is currently no long-term agreement between the UK and the EU on access to financial services, we have worked for a number of years to ensure we will be able to maintain a full service for our clients under all potential scenarios. Ideally, the temporary arrangements on access to financial services will be retained so as to minimise disruption and enable the UK financial services industry to continue to offer the many benefits it brings to the UK and EU economies. However, we are well prepared for a broad range of outcomes.

As a global bank operating in more than 60 countries and territories, with a history stretching back more than 156 years, we always have experienced – and always will experience – geopolitical tensions. However, we remain alive to the potential impact that geopolitics can have on our business, as well as on our clients. The relationship between the US and China remains a prominent feature of the external environment, but we do not currently expect it to change significantly in the near future. We also expect the mutual economic benefits brought by the UK-China relationship to outweigh any short-term pressures. We continue to engage with all governments and remain focused on serving the needs of our customers in both East and West, and the many points in between.

Stakeholder engagement

Our purpose of opening up a world of opportunity is equally applicable to our different stakeholders. For our people, it can mean helping them to develop new skills and advance in their careers, as well as being diverse and inclusive. For our shareholders, it can mean creating sustainable returns and value. For our suppliers, it can mean supporting them to grow their businesses and strengthen their own supply chains. And for the communities we serve, it can mean being a responsible citizen and leading the net zero transition.

Stakeholder engagement has been a priority for the Board in 2021. For example, the Board oversaw HSBC's continuing work in support of our ambition to align our financed emissions to net zero by 2050 or sooner. This included engaging shareholders and leading NGOs ahead of the 2021 AGM, when our special resolution on the next steps in relation to our climate ambition was overwhelmingly approved. We also reviewed and approved a new thermal coal phase-out policy, which we announced in December 2021 and is designed to allow HSBC to help facilitate the transition to net zero in both developed and developing markets.

Thank you

Finally, I would like to reiterate how grateful I am to all my colleagues for the great dedication and care they have shown to our customers and to each other over the past year. Their tremendous efforts have, above everything else, made us what we are today – and will shape what we become tomorrow.

Mark E Tucker
Group Chairman

22 February 2022

Group Chief Executive's review

We are making good progress transforming and growing HSBC, which is helping us to open up a world of opportunity for our customers, our colleagues and our shareholders.

Noel Quinn
Group Chief Executive

A year ago, we refreshed our core purpose as an organisation. 'Opening up a world of opportunity' was the outcome of extensive consultation with colleagues and customers around the globe. I have been delighted by the way it has been embraced across HSBC – and in the many conversations I have had with colleagues, I have been greatly encouraged by how they see their roles contributing towards it.

Opening up a world of opportunity draws heavily on HSBC's past, but it also encapsulates what we need to focus on to succeed now and in the future. Opportunities have always come in many shapes and forms, some of which have required us to change and evolve to make the most of them. We need to keep challenging ourselves to find and capture these opportunities. This is how we will help our customers to grow and succeed over the long term.

As we do so, we will be guided by the values underpinning our purpose – we value difference, we succeed together, we take responsibility and we get it done. These are the behaviours that will help us to identify and unlock new opportunities – and together they represent the kind of organisation we want HSBC to be.

With our purpose and values firmly in mind, we made good progress in 2021 against all four of our strategic pillars: focus on our strengths, digitise at scale, energise for growth and transition to net zero. Delivering against them contributed to a strong financial performance, which was supported by the global economic recovery. All of our regions were profitable and we have built a strong platform for future growth.

For some of our customers, the first priority has remained navigating the ongoing impact of Covid-19, particularly in markets that suffered severe outbreaks or faced restrictions during the course of 2021. To this end, I must again offer my deep thanks to my colleagues, who have exemplified our values in supporting our customers and each other, all the while continuing to deal with the pandemic themselves.

As economies recovered and opened up, we have helped more and more of our customers to look beyond the immediate horizon and towards the opportunities we can open up for them. In 2021, we helped almost 269,000 personal customers to buy their first homes. We lent $47bn to help our business banking customers to run, grow and digitise their businesses. We launched new products and services that make it easier for our customers to bank with us, and allow us to focus our efforts on serving them. We facilitated $799bn of trade, which has helped businesses and economies around the world to recover and grow again.

As our people also began to look to the future, we created opportunities for them too. We helped more than 30,000 colleagues move into new roles in 2021, and over 115,000 colleagues to develop future-ready skills through our learning programmes. An increasing number of these programmes focused on building skills and capabilities in areas like data and sustainability, which are essential to our future.

> "The opportunities of the future will be defined by the single greatest challenge of our time – the need for everyone to make the low-carbon transition."

More than anything else, the opportunities of the future will be defined by the single greatest challenge of our time – the need for everyone to make the low-carbon transition. To seize them, we must change, adapt, invest and innovate. Since 2019, we have reduced greenhouse gas emissions across our operations by more than half. We also provided and facilitated $82.6bn of sustainable finance and investment – bringing the cumulative total since 1 January 2020 to $126.7bn, towards our ambition of $750bn to $1tn by 2030. Furthermore, we have collaborated with other banks and financial institutions to help accelerate the transition through initiatives including the Net-Zero Banking Alliance, the Glasgow Financial Alliance for Net Zero and the Sustainable Markets Initiative's Financial Services Taskforce.

Financial performance

The global economic recovery supported our 2021 financial performance, as the release of expected credit losses resulted in an improvement in the profitability of the Group and all global businesses. Our interest-rate sensitive business lines continued to be adversely impacted by low interest rates, but our net interest margin remained broadly stable during 2021 and the outlook is now significantly more positive. After absorbing the impact of low interest rates for some time, we believe we have turned the corner on revenue. We have also seen good fee income growth, good growth in mortgage balances and our lending pipelines across both retail and wholesale remain strong. Our insurance business also continues to perform well, notably in Asia where we have seen strong growth in value of new business, despite the border between Hong Kong and mainland China remaining closed.

As a consequence, the Group delivered $18.9bn of reported profit before tax, up $10.1bn on the prior year, and $21.9bn of adjusted profits, up 79%. We were profitable in every region, with Asia leading the way and material increases in profits in the UK, continental Europe, the US and the Middle East.

Adjusted revenue was down 3%, due mainly to the impact of interest rate cuts. However, trade balances grew by 23% overall, while loans and advances increased by $23bn for the year.

Our cost reduction programmes were able to absorb increased technology investment and higher performance-related pay, with adjusted operating expenses down by 1%. Return on tangible equity was 8.3%. If rates follow the path currently implied by the market, we would expect to reach a return on tangible equity of at least 10% for 2023, one year ahead of our previous expectations.

In the fourth quarter of 2021, we took a charge on expected credit losses, due to changing market conditions in the mainland China commercial real estate sector. Since the year end, there has been some positive sentiment as a consequence of new policy actions. They will take time to impact the market and we will continue to support our clients, with whom we have good and long-standing relationships.

Our funding, liquidity and capital all remain strong. We grew deposits by $90bn on a constant currency basis, with growth in all three global businesses. Our common equity tier 1 ratio was 15.8%. As a consequence, we are able to announce a second interim dividend of $0.18, bringing the full-year dividends for 2021 to $0.25 per ordinary share. This is within our target payout ratio, and our aim is for a sustainable dividend in 2022.

Strategic progress

In 2021, we made good progress against our strategic pillars.

We brought in

$36.2bn

of net new invested assets in Asia Wealth.

We provided and facilitated

$82.6bn

of sustainable finance and investment.

Our strong capital position and confidence in the business enabled us to announce a share buy-back of up to $2bn in October 2021. We also intend to initiate a further share buy-back of up to $1bn, to commence after the existing buy-back of up to $2bn has concluded.

We are also helping to create sustainable returns for shareholders by driving underlying growth across the business. We have much more to do, but I am encouraged by what we have achieved so far.

Focus on our strengths

We have made good progress restructuring our portfolio of businesses, with the aim of investing in those areas in which we are strongest and withdrawing from those areas in which we lack the necessary scale to compete.

Over the last two years, we reduced gross risk-weighted assets by a cumulative $104bn, against our original three-year target of $110bn. Given this progress, we now expect to exceed this target by the end of 2022. In Global Banking and Markets, adjusted risk-weighted assets were 10% lower in 2021, as we moved capital and resources mainly into Asia and the Middle East. The extensive work undertaken to transform this business since 2019 was also designed to mitigate the impact of Basel III reforms.

We reached two key milestones for our transformation as we took steps to resolve the future of our businesses in the US and continental Europe. In the US, we entered into an agreement to sell our mass market retail business, which has now been completed on schedule. We also entered into an agreement to sell our retail banking activities in France, which we expect to complete in 2023. Both deals will help our US and continental Europe businesses to become more focused, better aligned to the Group and the international needs of our wholesale and wealth management customers.

In Asia, we continued to enhance our wealth proposition, including through the launch of HSBC Greater Bay Area Connect and more than 30 new asset management products across the region. In December, we received regulatory approval to acquire the remaining 50% stake in HSBC Life China, our joint venture insurance company in mainland China. All of this is enabling us to significantly expand our capabilities to serve the growing wealth and insurance needs of our customers in China, particularly in the Greater Bay Area.

We accelerated the development of our wealth capabilities across the rest of Asia by several years through two acquisitions. We entered into an agreement to buy AXA Singapore, which was completed earlier this month and will expand our insurance and wealth franchise in our ASEAN regional hub. We also agreed to buy L&T Investment Management to strengthen our asset management business in India. Both deals represent significant steps towards our ambition of being a leading wealth manager in Asia.

The overall investment we have made in Asia wealth was evidenced by strong customer acquisition, and significantly increased assets and balances, year-on-year. Net new invested assets in Asia wealth were $36.2bn, which was more than double the previous year.

In Commercial Banking, we grew our lending by $11bn and our international account opening increased by 13% in 2021, while trade balances grew by 30% and are now above pre-pandemic levels.

Digitise at scale

We invested $6bn in technology in 2021, as we continued to drive change in the way we approach technology across the organisation and ultimately improve the customer experience.

Around 97% of transactions are now fully automated. For example, automated credit and lending systems processed around $15bn of personal loans in 2021. Our use of the Cloud increased to cover 27% of technology services, giving us more processing power and speed, while we also increased our use of Agile across technology roles.

Almost half of our retail customers are now active on mobile, and we have developed new products and improved existing ones so we can better meet their needs. Our revamped mobile app is now available across 24 markets and Global Money was extended to more markets, allowing more of our international retail customers to hold, manage and send funds in various currencies. Corporate customers carried out over 9 million payments through the HSBCnet app – an increase of 58% year-on-year. HSBC Kinetic – our award-winning mobile banking app for business customers in the UK – has acquired more than 24,000 customers since it was launched.

Energise for growth

We have taken further steps to create a dynamic and inclusive culture, which helps us to attract and retain the best people.

After listening to our people, we introduced a hybrid working model, wherever appropriate, which allows us to strike the right balance between office-based work and home-based work. We have also taken the opportunity during Covid-19 to reconfigure much of our head office workspace to better facilitate team-based Agile working methods. We are still learning about what works, but we believe that trusting our colleagues to find the right balance is integral to building the culture we aspire to at HSBC. As a consequence of hybrid working, we will need less office space. In 2021, we reduced our global office footprint by more than 3.4 million square feet – equivalent to 18%.

We were pleased to exceed our target for 30% women in leadership roles globally in 2020, and we set a new target of 35% by 2025. HSBC was named in the Bloomberg Gender-Equality Index last month, with our overall score increasing by 21 percentage points in 2021 and outperforming the financial services average by 15 percentage points. We also continued to work to improve ethnicity representation, especially for Black colleagues. However, we still have a way to go to get to where we want, and need, to be on both measures.

"We were profitable in every region, with Asia leading the way and material increases in profits in the UK, continental Europe, the US and the Middle East."

In our most recent colleague survey, our employee engagement index was 72%, which is unchanged on 2020 and 4 percentage points above the average for the financial services sector.

Transition to net zero
The industrial landscape of the world is being transformed by the transition to net zero. I am determined that HSBC will play a leading role in driving this change.

At the 2021 AGM, 99.7% of shareholders backed our special resolution on climate change, providing a strong endorsement of our climate plan and our commitment to support our customers on their transitions to a low-carbon future. However, we do not take this support for granted, and we have taken a number of further steps to maintain our leadership role.

In September, we partnered with Temasek, subject to regulatory approval, to launch a new debt financing fund for sustainable infrastructure in south-east Asia, with $150m of seed capital and the ambition to deploy $1bn of financing over five years.

At the COP26 meeting in Glasgow, HSBC was one of over 100 public and private organisations behind the launch of FAST-Infra, a labelling system that aims to increase investor confidence in the sustainability credentials of projects in emerging markets. We are also supporting the Energy Transition Mechanism, a public-private partnership led by the Asian Development Bank that aims for the materially earlier retirement of coal assets without hindering growth. HSBC was presented with the Terra Carta seal by HRH the Prince of Wales in recognition of the work that we are doing to create truly sustainable markets.

After also joining the Powering Past Coal Alliance, we published a new thermal coal policy to phase out the financing of coal-fired power and thermal coal mining in EU and OECD markets by 2030, and globally by 2040. This fulfilled the commitment approved by our shareholders and followed a period of extensive engagement with our stakeholders. It has two clear objectives: to drive thermal coal phase-out within the timeframe required to reach net zero by 2050; and to help enable the energy transition in developing economies.

We are committed to working with our clients to develop valid, science-based transition plans to understand – sector-by-sector and client-by-client – how we will move to net zero by 2050. These transition plans and the targets within them must be predicated on the science relevant to the individual sectors. We will use them as a basis for further engagement and decision making, including how we drive change within our portfolios. As part of this process, we have disclosed interim targets for on-balance sheet financed emissions in the oil and gas, and power and utilities sectors. In the year ahead, we plan to set interim targets for financed emissions across a range of other sectors. We will also work on our climate transition plan, which will be published in 2023 and will bring together in one place how we will embed our net zero targets into our strategy, processes, policies and governance.

2022
We have good momentum coming into 2022 and are confident that we can continue to execute against our strategy. We also remain cognisant of the potential impact that further Covid-19-related uncertainty and continued inflation might have on us and our clients.

Throughout HSBC's history, our people have always demonstrated great professionalism and commitment to those we serve, and that is as evident today as it has ever been. Despite the personal and professional challenges they continue to face after two years of living with the pandemic, I am proud of my colleagues, and the sense of duty and care they continue to show towards our customers and each other. Our success – now and in the future – is testament to them and all they continue to do for our bank.

Noel Quinn
Group Chief Executive

22 February 2022

Our strategy

We are implementing our strategy across the four strategic pillars aligned to our purpose, values and ambition announced in February 2021.

Progress on our commitments in 2021

In 2021, we made good progress on our strategy across all of our global businesses.

In Wealth and Personal Banking, we had strong wealth revenue momentum and augmented our fee generating portfolios with acquisitions in asset management and insurance to build further scale. In Commercial Banking, we saw strong growth in fee income, and momentum in trade volumes. In Global Banking and Markets, we had strong countercyclical revenue even as we exceeded our expectations on RWA rundowns and client exits. To support our global businesses, we also continued to invest in technology, develop our talent and culture, and play a role in the transition to a global net zero economy.

Our efforts to date are paving the way for us to accelerate execution of the growth opportunities across our businesses and international network and, in turn, to help meet our targets and ambitions.

Shifting capital to areas with the highest returns and growth

In line with our strategy, we set out aspirations in February 2021 to accelerate the shift of capital and resources to areas that have demonstrated the highest returns and where we are strongest, principally in Asia, with a pivot to fee income generating businesses such as wealth. We saw strong progress across all parameters in 2021. While the proportion of fee and insurance income increased relative to 2020, reflecting fee and insurance revenue growth, this metric was also favourably impacted by lower net interest income due to 2020 interest rate reductions, as well as favourable market impacts in life insurance manufacturing.

Capital allocation and planned revenue concentration

Asia
(as a % of Group tangible equity)[1]

2020	42%
2021	42%
Medium- to long-term aspiration	c.50%

Wealth and Personal Banking
(as a % of Group tangible equity)[2]

2020	25%
2021	27%
Medium- to long-term aspiration	c.35%

Adjusted fees and insurance revenue
(as a % of total adjusted revenue)

2020	28%
2021	33%
Medium- to long-term aspiration	c.35%

1 Based on tangible equity of the Group's major legal entities excluding associates, holding companies, and consolidation adjustments.
2 WPB tangible equity as a share of tangible equity allocated to the global businesses (excluding Corporate Centre). Excludes holding companies, and consolidation adjustments.

Progress against Group targets

Adjusted operating expenses in 2021

$32.1bn

Updated target: 2022 adjusted operating expenses in line with 2021. Previous target: ≤$31bn in 2022 (at December 2020 foreign exchange rates).

Gross RWA reduction[1]

$104bn

Since the start of the programme. Updated target: >$110bn by end of 2022.

RoTE[3] in 2021

8.3%

Target: ≥10% over the medium term.

Dividend payout ratio[2]

40.3%

Target: sustainable cash dividends with a payout ratio of 40% to 55% from 2022 onwards.

CET1 ratio in 2021

15.8%

Target: >14%, managing in the range of 14% to 14.5% in the medium term; and manage range down further long term.

For our financial targets, we define medium term as three to four years and long term as five to six years, commencing 1 January 2020. Further explanation of performance against Group financial targets may be found on page 26.

1 Given progress to date, we now expect to exceed our $110bn reduction target by the end of 2022.
2 In line with our dividend policy, we retain the flexibility to adjust earnings per ordinary share ('EPS') for non-cash significant items. In 2022, we intend to adjust EPS to exclude the forecast loss on the sale of our retail banking operations in France.
3 If policy rates were to follow the current implied market consensus, we would expect to deliver a return on average tangible equity ('RoTE') of at least 10% for 2023.

Our strategy

Our strategy centres around four key areas: focus on our areas of strengths, digitise at scale to adapt our operating model for the future, energise our organisation for growth, and support the transition to a net zero global economy.

Focus on our strengths

In our global businesses

In each of our global businesses, we continue to focus on areas where we are strongest and have opportunities to grow.

Wealth and Personal Banking

In Wealth and Personal Banking, we have continued to make progress in the execution of our wealth, asset management and insurance strategy, notably in Asia. We grew our net new invested assets from $53bn in 2020 to $64bn, with $36bn coming from Asia, where we saw an increase of 138%. This contributed to a 5% increase in Wealth and Personal Banking wealth balances to $1.67tn, including 5% growth in Asset Management's funds under management to $630bn. In Asia, Wealth and Personal Banking wealth revenue – which comprises wealth, insurance, private banking, and asset management – grew by 10% to $5.8bn. This included a 40% growth in value of new business in insurance to $917m. We continued to enhance our wealth product offerings in the region, including launching Greater Bay Area Wealth Management Connect, and over 30 new asset management products. Globally, Wealth and Personal Banking customer lending balances were $489bn, an increase of 6% compared with 2020, notably reflecting mortgage balance growth across all regions, but particularly in the UK and Hong Kong.

$64bn

Net new invested assets in 2021.

Commercial Banking

Our Commercial Banking business continued to grow our lending pipeline and maintain leadership in supporting cross-border trade. Customer lending volume increased 3% to $349bn in 2021, mainly from continued growth in trade and term lending. The recovery in global trade volumes was also reflected in higher fee income in Global Trade and Receivables Finance, where we saw a 9% revenue growth compared with 2020. Over the same period, fee income in the overall Commercial Banking business also grew 9%, reaching approximately $3.6bn and surpassing pre-pandemic levels in 2019. We also committed to investing in global platforms and improving SME propositions in our key markets. Since the launch of our digital business banking account Kinetic in the UK in August 2020, we have reached approximately 24,000 customers at the end of 2021.

$3.6bn

Fee income in 2021.

Global Banking and Markets

We repositioned our capital and resources in Global Banking and Markets to create capacity for growth opportunities, mainly into Asia and the Middle East, and to serve international clients that are aligned to our strategy. As part of our transformation programme, we reduced adjusted RWAs by approximately 10% to $236bn at 31 December 2021, driven by saves in our Western franchise, comprising our Europe and Americas businesses. Despite the focus on repositioning, the business performed well in 2021, with overall revenue reaching approximately $15bn, driven by strong performances in Equities, Capital Markets and Advisory and Securities Services. Collaboration with other businesses through cross-selling products remains important for us. In 2021, the business facilitated $2.5bn into Commercial Banking, an increase of 12% compared with 2020, and $1.4bn into Wealth and Personal Banking, an increase of 2%.

18%

Adjusted RWA reduction in the West in 2021.

Repositioning for growth

We are repositioning our portfolio to support our areas of growth.

Restructuring the US and Europe

We aim to create capacity for growth by refocusing our US business and HSBC Bank plc, our non-ring-fenced bank in Europe and the UK. In May and June respectively, we announced the exit of mass market retail in the US, and the planned sale of our retail operations in France. Our plan to exit our US mass market retail banking business was completed in February 2022, which includes approximately $8.8bn of deposits held for sale and exiting and winding down approximately 125 branches, leaving us with approximately 25 international wealth centres. The planned sale of our France retail business includes a network (using values at 31 December 2021) of 244 retail branches, approximately 800,000 customers, $24.9bn in customer loans and $22.6bn in deposits balances.

We also made strong progress in 2021 on reducing the capital and cost base in the two franchises. During the year, adjusted RWAs decreased $7bn in the US to $78bn at 31 December 2021, while in HSBC Bank plc, they decreased by $22bn to $141bn. The respective balances at 31 December 2021 included approximately $1.3bn relating to the announced US mass market retail disposal and approximately $7bn relating to the planned disposal of our France retail business. We also lowered the adjusted cost base in these franchises by 5% compared with 2020 to $10.4bn, in spite of strong inflationary pressures in these markets.

Repositioning Asia for growth

We announced three key acquisitions in 2021 to further strengthen our wealth franchise in Asia. In August, we entered an agreement to acquire AXA Singapore for $529m, with the intention to merge the business with the operations of our existing HSBC Life Singapore franchise. The acquisition was recently completed on 11 February 2022. The combined business would be the seventh largest life insurer in Singapore, based on annualised new premiums, and the fourth largest retail health insurer, based on gross premiums, with over 600,000 policies in-force, data as of end of 2020. In December, we announced the agreement to fully acquire L&T Investment Management, the 12th largest mutual fund management company in India with assets under management of $10.8bn and over 2.4 million portfolios as of September 2021. We also received regulatory approval to acquire the remaining 50% stake in HSBC Life China, bringing our shareholder ownership to 100% upon completion.

Digitise at scale

We continue to invest in our technology and operational capabilities to drive operating productivity across businesses and geographies and to offer better client experience. In 2021, approximately $6.0bn, or 19%, of our overall adjusted operating expenses were dedicated to technology (net of saves from our transformation programme), up from approximately $5.7bn in 2020. We aspire to progressively increase the share to greater than 21% by 2025.

We have made progress on automating our organisation at scale. Our Cloud adoption rate, which is the percentage of our technology services on the private or public Cloud, increased from approximately 20% in 2020 to 27% in 2021. We are also promoting an agile workforce to help equip our colleagues for the future of work. At the end of 2021, 15% of our total technology workforce in the global businesses and functions were aligned to at least one agile team per agile blueprint. This marks a significant improvement from 5% in 2020.

Our digital engagement with customers also improved. At the end of 2021, 43% of our customers active on our mobile services had logged onto a HSBC mobile app at least once in the last 30 days, compared with 38% in 2020. Our wholesale clients executed over 9 million payments on HSBCnet's mobile banking app, a 58% increase compared with 2020. During the same period, the percentage of Commercial Banking transactions enabled digitally for HSBCnet grew from 83% to 94% in the 18 Asian markets where HSBCnet is available for wholesale clients. Across all our trade digital channels, 84% of transactions in 2021 were initiated digitally by our customers, compared with 69% of transactions in 2020. Seeing these improvements, we endeavour to continue investing in technology that helps enhance our customers' digital experiences.

Technology spend
as % of total adjusted operating expenses

2020	18
2021	19
2025 ambition	>21

Energise for growth

In February 2021, we set out the case for a more effective, agile and empowered organisation that could execute on our ambitious journey.

In 2021, our employee engagement score, a gauge of an employee's propensity to recommend HSBC as a great place to work, was in line with 2020 at 72%, but notably up from 67% in 2019. This represents a strong endorsement of various initiatives around our purpose and values in our organisation.

Recruiting the right talent and diversifying our workforce remain important to us. We had 31.7% of senior leadership roles held by women, which are roles classified as those at band 3 and above in our global career band structure. We are on track to meet our ambition of having more than 35% representation of women in these roles by 2025.

We continue to energise our colleagues through initiatives that help develop their future skills and learning opportunities, especially in areas including data, digital and sustainability. In 2021, the average hours of training per full-time equivalent staff ('FTE') increased to 26.7 hours from 23.0 hours in 2020.

We outline how we put our purpose and values into practice in the following 'How we do business' section. For further details on how we plan to energise for growth, see the Social section in the ESG review on page 66 of our *ARA 2021*.

Transition to net zero

In November, we participated in COP26 to play our part in bringing together the public and private sector to mobilise this transition. We also made good progress on our ambitions, including setting targets for our on-balance sheet financed emissions and launching innovative climate solutions and products to support our customers in their transition to a net zero future.

Becoming a net zero bank
We have set a climate ambition to become net zero in our operations and supply chain by 2030, and align our financed emissions to the Paris Agreement goal of net zero by 2050. In 2021, we reduced our organisation's absolute greenhouse gas emissions in our operations to 341,000 tonnes, a decrease of 50.3% from the 2019 baseline (the data for 2019 and 2020 has been revised as we have updated our air travel reporting methodology to include the cabin class travel and the impact of radiative forces, and therefore, the percentage change from 2019 baseline is based on the revised methodology). In December, we published a policy to phase out thermal coal financing in EU and OECD markets by 2030, and globally by 2040. We have also set targets for our on-balance sheet financed emissions for the oil and gas, and power and utilities sectors. On the journey to net zero, we recognise that individual markets have their own unique circumstances that we intend to factor in when laying out our net zero approach.

Supporting customers through transition
Our ambition is to support our customers in their transition to net zero and a sustainable future. In 2021, we provided and facilitated $82.6bn of sustainable finance and investment, taking the cumulative amount to $126.7bn since 1 January 2020, as part of our $750bn to $1tn by 2030 ambition. This comprised support including facilitation of capital flow and access to capital markets for sustainability-linked outcomes, as well as financing and investments in environmental and social goals such as decarbonisation of energy systems.

Unlocking new climate solutions
Scaled innovation in critical areas such as next generation climate technologies, nature-based solutions and sustainable infrastructure will be critical to tackling climate change. In September, we launched a new debt financing fund for sustainable infrastructure in south-east Asia in partnership (subject to regulatory approval) with Temasek, with $150m of seed capital and the ambition to deploy $1bn of financing over five years. We are leading the FAST-Infra initiative, which we co-founded to establish a consistent, globally applicable labelling system to identify and evaluate sustainable infrastructure assets. We are also supporting the Energy Transition Mechanism, a public-private partnership led by the Asian Development Bank, which endeavours to accelerate the retirement of coal-fired power stations and increase demand and investments in renewable energy.

For further details on our climate ambition, see the Environmental section in the ESG review on page 45 of our *ARA 2021*.

How we do business

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

Our approach

We recognise that it is important to be clear about who we are and what we stand for to create long-term value for our stakeholders. This will help us deliver our strategy and operate our business in a way that is sustainable. Following an extensive consultation with our people and customers, we refined our purpose and values. Our new purpose is 'Opening up a world of opportunity' and our ambition is to be the preferred international financial partner for our clients.

To achieve this in a way that is sustainable, we are guided by our values: we value difference; we succeed together; we take responsibility; and we get it done.

Our Covid-19 actions
Having a clear purpose and strong values has never been more important, with the Covid-19 pandemic testing us all in ways we could never have anticipated. Since the world changed in 2020, we adapted to new ways of working and endeavoured to provide support to our customers during this challenging period. On the following page, we have set out further ways that we continued to support our stakeholders.

Fair outcomes
Our conduct approach guides us to do the right thing and to focus on the impact we have for our customers and the financial markets in which we operate. It complements our purpose and values and – together with more formal policies and the tools we have to do our jobs – provides a clear path to achieving our purpose and delivering our strategy. For further information on conduct, see page 83 of our *ARA 2021.* For further details on our purpose-led conduct approach framework, see www.hsbc.com/who-we-are.

Our colleagues
Understanding the experience of colleagues is central to our efforts to open up a world of opportunity. Through our employee survey, Snapshot, we capture their views on issues from our strategy to their well-being to the future of work. These views will guide our approach as we embrace hybrid working.

We value difference among our colleagues, which is why we continue to build an inclusive workforce. Having surpassed our 2020 target to reach 30% women in senior leadership roles – classified as those at band 3 and above in our global career band structure – we have made strong progress towards our goal to achieve 35% by 2025, with 31.7% achieved in 2021.

We expanded the ability for our colleagues to share their diversity characteristics, with over 70% now able to self-identify their ethnic heritage, gender identity, disability and sexual orientation. This will help us to set locally appropriate goals, reflective of our markets. In July 2020, we set out our early global race commitments, which included the goal of doubling the number of Black employees in senior roles over the following five years. In 2021, we put in place important foundations to achieve this goal.

Developing the skills of colleagues is critical to energising our organisation. We foster a culture of learning through a range of resources, providing colleagues with a breadth of educational materials and opportunities.

As we continue to reshape the organisation, we are committed to managing change well, and redeploying impacted colleagues. In 2021, 23% of colleagues impacted through restructuring programmes found new jobs within HSBC.

Our climate ambition
We have set a climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to the Paris Agreement goal of net zero by 2050. We have set on-balance sheet financed emissions targets for the oil and gas, and power and utilities sectors, aligned to the International Energy Agency's ('IEA') net zero scenario, underpinned by a clear science-based strategy. To support our goal of net zero financed emissions, it will be crucial to unlock transition finance for our portfolio of clients.

For further details of our ESG disclosures, see our ESG review on page 42 of our *ARA 2021.*

Update on our purpose and values

We relaunched our purpose in March 2021. We have been pleased to see how quickly our colleagues have embraced 'Opening up a world of opportunity' as our purpose, and how they are delivering against it. You can find some examples from 2021 below. We have enabled the recognition of colleagues who have lived up to our values, and there have been over 600,000 recognitions made in 2021.

- We helped 268,771 people buy their first home, lending $92.9bn in mortgages.
- We provided $47bn in loans to our business banking customers to help support, grow, internationalise and digitise their businesses.
- We facilitated $799bn of trade globally to help economies grow and prosper.
- We supported over 270,000 students move internationally to study by providing key financial products including account openings, fund transfer and day-to-day finance management in their new countries.
- Over 115,000 colleagues made use of our new learning platform, Degreed, during 2021.
- We enabled over 30,000 colleagues to progress their careers at the Group by helping them move into new roles.

Engaging with our stakeholders and our material ESG topics

Engaging with our stakeholders is core to being a responsible business. To determine material topics that our stakeholders are interested in, we conduct a number of activities throughout the year, including engagements outlined in the table below. Disclosure standards such as the TCFD, World Economic Forum ('WEF') Stakeholder Capitalism Metrics and Sustainability Accounting Standards Board ('SASB'), as well as the ESG Guide under the Hong Kong Stock Exchange Listing Rules and other applicable rules and regulations, are considered as part of the identification of material issues and disclosures.

Our stakeholders	How we engage	Material topics highlighted by the engagement[1]
Customers	Our customers' voices are heard through our interactions with them, surveys and by listening to their complaints	– Customer advocacy – Cybersecurity
Communities	We welcome dialogue with external stakeholders, including non-governmental organisations ('NGOs') and other civil societies groups. We engage directly on specific issues and by taking part in external forums and working groups	– Financial inclusion and community investment
Employees	Our colleagues' voices are heard through our employee Snapshot survey, Exchange meetings and our 'speak-up' channels, including our global whistleblowing platform, HSBC Confidential	– Diversity and inclusion, in particular gender and ethnicity profile and pay gap – Employee training
Investors	We engage with our shareholders through our AGMs, virtual and in-person meetings, conferences and our annual investor survey	– Coal financing policies – Becoming a net zero bank in our own operations and financed emissions
Regulators and governments	We proactively engage with regulators and governments to facilitate strong relationships via virtual and in-person meetings, responses to consultations individually and jointly via the industry bodies	– Anti-bribery and corruption
Suppliers	Our ethical and environmental code of conduct for suppliers of goods and services sets out how we engage with our suppliers on ethical and environmental performance	– Supply chain management

1 Material topics highlighted through the engagement form part of our ESG disclosures suite together with other requirements and are not exhaustive or exclusive to one stakeholder group. For further details on our disclosures, see our ESG review and *ESG Data Pack,* as well as our ESG reporting centre at www.hsbc.com/esg.

Supporting our stakeholders through Covid-19

The Covid-19 pandemic continues to create a great deal of uncertainty and disruption for the people, businesses and communities we serve around the world. It is affecting everyone in different ways, with markets at different stages of the crisis.

The pandemic continued to pose significant challenges for our customers. Our immediate priority has been to do what we can to provide them with support and flexibility. We continued to take steps to keep many of our branches open while protecting customers and our colleagues. However, with customers doing more of their banking online, we have also deployed new technology to help enable them to engage with us in new ways.

Employee well-being remains a top priority as we transition to new ways of working and continue to navigate through the pandemic. The support we provide is driven by the feedback from our people surveys. In 2021, we launched new tools and training to support mental, physical and financial health. We are also enabling more colleagues to work flexibly and continue to follow social distancing and protection measures in line with local guidance. We firmly believe that helping our people to be healthy and happy is a key enabler of our strategy, and benefits the people and communities we serve.

We continued to engage with our investors virtually and restarted face-to-face meetings where local guidance allowed.

We also donated a further $11.5m towards Covid-19 relief efforts to support the communities in which we operate, primarily in India.

Our COP26 actions

COP26, the UN climate change conference held in Glasgow, Scotland, in November, was a critical moment for the financial sector, including HSBC, to demonstrate how we are helping to accelerate the transition to net zero. The Glasgow Financial Alliance for Net Zero, which we are part of, announced potentially transformative measures for the sector, including setting short-term science-based targets, annual reporting of progress, embedding climate risk management into businesses, and mobilising transition finance for emerging and developing countries.

Our delegation, including our Group Chief Sustainability Officer, Celine Herweijer (pictured here at COP26) was involved in a series of major announcements around finance, energy transition, sustainable infrastructure and nature. This included joining the Powering Past Coal Alliance, a global coalition of countries, cities, regions and businesses focused on tackling the challenge of ending the world's reliance on coal. We also announced that we are supporting the Asian Development Bank in the pioneering Energy Transition Mechanism initiative, which is working with developing countries on early retirement of coal power assets and unlocking new investment in clean energy, while supporting reskilling of workers in directly affected communities.

Our ESG ambitions, metrics and targets

We have established ambitions and targets that guide how we do business, including how we operate and how we serve our customers. These include targets designed to help us make our business – and those of our customers – more environmentally and socially sustainable. They also help us to improve employee advocacy and diversity at senior levels, as well as strengthen our market conduct.

The 2021 annual incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives contain customer and employee measures linked to the outcomes that underpin the ESG metrics below. These carry a 30% weighting in the scorecards of the Group Chief Executive and Group Chief Financial Officer. In addition, a 25% weighting is given to environment and sustainable finance measures in the 2020 and 2021 long-term incentive ('LTI') scorecards, which have three-year performance periods ending on 31 December 2023 and 31 December 2024, respectively. The targets for these measures are linked to our climate ambition of achieving net zero in our operations and supply chain by 2030 and supporting our clients in their transition to net zero and a sustainable future. For a summary of how all financial and non-financial metrics link to executive remuneration outcomes, see pages 261 to 273 in the Directors' remuneration report of our *ARA 2021*.

The table below sets out how we have made progress against the following ESG-related ambitions and targets.

	Ambition/target	**Progress to date**
Environmental		
Becoming a net zero bank	Ambition to align our financed emissions to achieve net zero by 2050 or sooner	Disclosed interim targets for the oil and gas, and power and utilities sectors (for further details, see page 47 of our *ARA 2021*) Published thermal coal phase-out policy (for further details, see page 62 of our *ARA 2021*)
	Ambition to be net zero in our own operations and supply chain by 2030 or sooner	**50.3%** cumulative reduction in absolute operational greenhouse gas emissions from 2019 baseline[1]
Supporting our customers	Ambition to support our customers in their transition to net zero and a sustainable future with **$750bn** to **$1tn** of sustainable finance and investment by 2030	Cumulative progress of **$126.7bn** since 2020[2]
Social		
Customer satisfaction	Target to be ranked top three and/or improve customer satisfaction rank	**6 out of 10** WPB markets sustained top-three rank and/or improved rank in customer satisfaction[3] **4 out of 13** CMB markets sustained top-three rank and/or improved rank in customer satisfaction[3]
Employee engagement	Target to maintain employee engagement score at **72%**	Employee engagement score of **72%**[4]
Employee gender diversity	Target to reach **35%** women in senior leadership roles by the end of 2025	Women in senior leadership roles of **31.7%**[5]
Employee ethnicity diversity	Target to at least double the number of Black senior leaders by 2025	Increased number of Black senior leaders by **17.5%** from 2020 baseline[5]
Governance		
Global conduct	Target to achieve at least **98%** of employees complete conduct and financial crime training each year	**99%** of staff completed training[6]

1 This absolute greenhouse gas emission figure covers scope 1, scope 2 and scope 3 (business travel) emissions. The data for 2019 and 2020 has been revised as we have updated our air travel reporting methodology to include the cabin class travel and the impact of radiative forces. For further details, see the ESG review on page 52 of our *ARA 2021*. For further details on how this target links with the scorecards, see page 261 of our *ARA 2021*.

2 In October 2020, we announced our ambition to provide and facilitate between $750bn to $1tn of sustainable finance and investment by 2030. For further details and breakdown, see the ESG review on page 43 of our *ARA 2021*. For details on how this target links with the scorecards, see page 261 of our *ARA 2021*.

3 Rank position reported for markets where net promoter score ('NPS') is live. In WPB, markets comprised: the UK, Hong Kong, Malaysia, Singapore, mainland China, Australia, UAE, Canada, Mexico and the US. In CMB, markets comprised: the UK, Hong Kong, Malaysia, Singapore, Pearl River Delta, mainland China, India, Indonesia, Australia, UAE, Canada, Mexico and the US. For further details on customer satisfaction, see the ESG review on page 67 of our *ARA 2021*. For further details on how this target links with the scorecards, see page 269 of our *ARA 2021*.

4 For further details, see the ESG review on page 75 of our *ARA 2021*. For details on how this target links with the scorecards, see page 269 of our *ARA 2021*.

5 Senior leadership is classified as those at band 3 and above in our global career band structure. Ethnicity target progress tracked from 31 December 2020 baseline. For further details, see the ESG review on page 72 of our *ARA 2021*. For details on how this target links with the scorecards, see page 269 of our *ARA 2021*.

6 The completion rate shown relates to the 2021 'Fighting financial crime' training module. The latest global regulatory conduct training has been launched in January 2022 and will run through the first quarter of 2022.

How we measure our net zero progress

One of our strategic pillars is to support the transition to a net zero global economy. We believe our most significant contribution will be to align our financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels. To limit the rise in global temperatures to 1.5°C, the global economy would need to reach net zero greenhouse gas emissions by 2050.

In May 2021, a climate change resolution proposed by the Board was backed by more than 99% of our shareholders at our AGM. The resolution included a commitment to set out the next steps in our transition to net zero, including setting sector-based targets, publishing a thermal coal phase-out policy and reporting annually on our progress. We also indicated that we would provide further details on our approach to assessing financed emissions by the end of 2021.

We have set on-balance sheet financed emissions 2030 targets for the oil and gas, and power and utilities sectors, focusing on the companies within these sectors which we believe account for the majority of emissions in the sector. For further details including scope, methodology, assumptions and limitations, see page 47 of our *ARA 2021*.

We continue to track our progress against our ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment by 2030, aligned to our published data dictionary, and our transformation to a net zero bank by reducing our operations and our supply chain emissions to net zero by 2030.

In the year ahead we plan to set interim targets for financed emissions across a wide range of sectors, alongside a broad transformation programme to embed the climate transition into our core business and risk processes. We will also begin work on our climate transition plan, which will bring together – in one place – how we plan to embed our net zero targets into the Group's strategy, processes, policies and governance. We plan to publish this in 2023, and update on progress annually thereafter.

We know this is a journey and recognise that certain metrics and targets may need to be revised as a result of changes or developments in methodology, climate science and improvements in data quality. In the following table, we set out our metrics and indicators and assess our progress against them.

Ambition	Metrics and indicators	Progress to date
Becoming a net zero bank[1] Align our financed emissions to achieve net zero by 2050 or sooner	– Absolute emissions for oil and gas sector (Mt CO2e)	Set a Mt CO2e target of **34%** reduction in oil and gas absolute on-balance sheet financed emissions by 2030 from 2019 baseline (see page 47 of our *ARA 2021*)
	– Physical emissions intensity for power and utilities sector (Mt CO2e/TWh)	Set a target for power and utilities on-balance sheet financed emissions intensity of **0.14** Mt CO2e/ TWh, representing **75%** reduction by 2030 from 2019 baseline (see page 47 of our *ARA 2021*)
	– Percentage of wholesale loans and advances in high transition risk sectors	**≤20.0%** of wholesale loans and advances to high transition risk sectors at 31 December 2021 Expanded the transition risk questionnaire to cover more sectors (see page 133 of our *ARA 2021*)
	– Thermal coal financing exposure ($)	Published a thermal coal phase-out policy incorporating a target to reduce exposure to thermal coal financing by at least **25%** by 2025, and by **50%** by 2030, using 2020 data as the baseline
	– Illustrative impacts of climate scenarios	Ran our first climate stress test, covering our wholesale corporate lending, commercial real estate, retail mortgages and our own properties (see page 57 of our *ARA 2021*)
Be net zero in our operations and supply chain by 2030 or sooner	– Absolute operational greenhouse gas emissions (tonnes CO2e)	**50.3%** cumulative reduction in absolute greenhouse gas emissions from 2019 baseline
	– Percentage of renewable electricity sourced (GWh)	Remained stable from 37.4% in 2020 to **37.5%**
	– Energy consumption (GWh)	**20.6%** cumulative reduction in energy consumption from 2019 baseline
Supporting our customers Support our customers in their transition to net zero and a sustainable future	– Sustainable finance and investment provided and facilitated ($bn)	**$126.7bn** cumulative progress since 2020 (for further breakdown see page 53 of our *ARA 2021*)
Unlocking new climate solutions Help transform sustainable infrastructure into a global asset class, and create a pipeline of bankable projects	– Natural capital investment	Climate Asset Management is one of the three founding partners of Natural Capital Investment Alliance, which aims to mobilise $10bn towards natural capital themes (see page 55 of our *ARA 2021*)
	– Climate technology investment	Lending commitments of **$65m** and raised our target to **$250m** (see page 55 of our *ARA 2021*)
	– Philanthropic investment to climate innovation ventures, renewable energy, and nature-based solutions	Provided **$28.4m** to our NGO partners since 2020, as part of the Climate Solutions Partnership (see page 77 of our *ARA 2021*)

1 Our reported scope 3 greenhouse gas emissions of our own operations in 2021 is related to business travel. The data for 2019 and 2020 has been revised as we have updated our air travel reporting methodology to include the cabin class travel and the impact of radiative forces. For further details on scope 1, 2 and 3, and our progress on greenhouse gas emissions and renewable energy targets, see page 51 of our *ARA 2021* and our *ESG Data Pack* at www.hsbc.com/esg.

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

The Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') recommendations set an important framework for understanding and analysing climate-related risks, and we are committed to regular, transparent reporting to help communicate and track our progress. We will advocate the same from our customers, suppliers and the industry. We recognise that further work lies ahead as we develop our management and metrics capabilities.

The information set out on page 63 in our *Annual Report and Accounts 2021* aims to provide key climate-related information and cross-references to where additional information can be found. In this context, we have considered our 'comply or explain' obligation under the UK's Financial Conduct Authority's Listing Rules, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures in our *ARA 2021* save for certain items, which we summarise below and describe in more detail in the information set out on page 63 and in the additional information section on page 402 of our *ARA 2021*.

There are certain areas where we have not included climate-related disclosures, a summary of these are set out below:

- Given that climate scenarios are mainly focused on medium- to long-term horizons, rather than short-term, we have set interim 2030 targets for on-balance sheet financed emissions for the oil and gas and power and utilities sectors. HSBC intends to review the financed emissions baseline and targets annually, where relevant, to help ensure that they are aligned with market practice and current climate science.
- We do not fully disclose impacts on financial planning and performance (including proportions of revenue, costs and balance sheet related to climate-related opportunities), quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations. We expect these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.
- We currently disclose partial scope 3 greenhouse gas emissions. In relation to on-balance sheet financed emissions, we are disclosing our scope 3 greenhouse gas emissions for oil and gas, and the power and utilities sectors. Future disclosure on scope 3 financed emissions (customers) and supply chain emissions (suppliers), as well as related risks is reliant on both our customers and suppliers publicly disclosing their carbon emissions and related risks. We aim to disclose financed emissions for additional sectors by 2023, as set out in our *Financed Emissions – Approach and Methodology Update* published in December 2021, which can be found at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Leading on an inaugural green bond

We were joint lead manager and bookrunner as Arab Petroleum Investments Corporation ('APICORP') in September 2021 raised $750m with its inaugural green bond. The multilateral development bank, founded in 1975 by the 10 Arab oil-exporting countries, has a strategic focus to promote the energy sector within the region to a more sustainable future. As set out in its green bond framework, APICORP will use the proceeds to finance or invest in projects focused on renewable energy, pollution prevention and control, and green buildings.

Supporting renewable projects through our operations

We are expanding our efforts to bring additional renewable electricity in the markets where we operate, as part of our ambition to source 100% renewable power across our operations by 2030. In September 2021, we signed a power purchase agreement that supported the development of the Sorbie Wind Farm project in Ayrshire, south-west of Glasgow. This agreement will create a new renewable electricity source that will benefit us, as well as our customers and the wider communities we serve.

This power purchase agreement will be our fourth project in the UK, supporting wind or solar projects, and will result in approximately 90% of our UK electricity being sourced from such renewable projects.

Responsible business culture

We have the responsibility to protect our customers, our communities and the integrity of the financial system. In this section, we outline our requirements under the Non-Financial Reporting Directive.

Employee matters

We are opening up a world of opportunity for our colleagues through building an inclusive organisation that values difference, takes responsibility, and seeks different perspectives for the overall benefit of our customers.

We want to encourage a dynamic culture where our colleagues can expect to be treated with dignity and respect. We are an organisation that takes action where we find behaviours that fall short of this aspiration. We monitor our progress through metrics that we value and have benchmarked against peers.

Listening to our colleagues is critical to the business we conduct, and is reflected in our purpose and values, which were established through the largest employee engagement programme in our history.

We continue to seek innovative ways that encourage and provide opportunities for our people to speak up. We recognise that at times people may not feel comfortable speaking up through the usual channels. HSBC Confidential is our global whistleblowing channel, allowing our colleagues past and present to raise concerns confidentially and, if preferred, anonymously (subject to local laws).

Having surpassed our 2020 target to reach 30% women in senior leadership roles (classified as those at band 3 and above in our global career band structure), we aim to reach 35% by 2025, with 31.7% achieved in 2021.

In July 2020, we set out our early global race commitments, which included the goal of doubling the number of Black employees in senior roles over the next five years. To support our ambition, we have placed a strong focus on enhancing the quality and transparency of our ethnicity data through the expansion of our self-identification capability. We will use this data to develop market-specific goals that are connected to the communities we serve. While we know we need to do more, we have put in place important foundations in 2021 through leadership development, inclusive hiring practices and investing in the next generation of high-performing, diverse talent.

The table below outlines high-level diversity metrics.

All employees

Male	48%
Female	52%

Senior leadership[1]

Male	68%
Female	32%

Directors

Male	62%
Female	38%

1 Senior leadership is classified as those at band 3 and above in our global career band structure

For further details on how we look after our people, including our diversity targets, transformation employee metrics and how we encourage our employees to speak up, see the Employees section of the ESG review on page 70 of our *ARA 2021*.

Social matters

We have a responsibility to invest in the long-term prosperity of the communities where we operate. We recognise that technology is developing at a rapid pace and that a range of new and different skills are now needed to succeed in the workplace. For this reason, much of our focus is on programmes that develop employability and financial capability. We also back climate solutions and innovation, and contribute to disaster relief based on need. For further details of our programmes see 'Communities' on page 77 of our *ARA 2021*.

Human rights

Our commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our financial services lending, is set out in our Statement on Human Rights. This statement, along with our statements under the UK's Modern Slavery Act, is available on www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Anti-corruption and anti-bribery

We require compliance with all applicable anti-bribery and corruption laws in all markets and jurisdictions in which we operate. These include the UK Bribery Act, the US Foreign Corrupt Practices Act, the Hong Kong Prevention of Bribery Ordinance and France's 'Sapin II' law. We have a global anti-bribery and corruption policy, which gives practical effect to these laws and regulations, but also requires compliance with the spirit of laws and regulations to demonstrate our commitment to ethical behaviours and conduct as part of our environmental, social and corporate governance.

Environmental matters

For details of our climate ambition and carbon emission metrics, see the ESG review on page 45 of our *ARA 2021*.

Non-financial information statement

This section primarily covers our non-financial information as required by the regulations. Other related information can be found as follows:

- For further details on our key performance indicators, see page 1.
- For further details on our business model, see page 4.
- For further details on our principal risks and how they are managed, see pages 37 to 40.

Engaging colleagues in future skills

Our colleagues have explored digital, data, sustainability and personal skills as part of our 'Future Skills' campaign. Colleagues engaged with various tools, assessments and industry experts over 44,000 times throughout the campaign, and learned how these skills are critical for the future of our organisation. Colleagues identified specific skills they wanted to develop and assessed them through our skills platform to shape their development plan.

We helped a number of colleagues to share their own skills with others through our partnership with Ashoka. In 2021 we launched the global Green Skills Innovation Challenge to support innovations that connect people with the skills to support a green transition. Out of 340 submissions, 12 winners were selected, each receiving a prize of up to $20,000 alongside support and mentoring from HSBC colleagues.

Board decision making and engagement with stakeholders

The Board is committed to effective engagement with all our stakeholders and seeks to understand the interests of and impacts on them when making decisions.

Section 172 (1) statement

This section, from pages 21 to 24 forms our section 172 statement. It describes how the Directors have performed their duty to promote the success of the company, including how they have considered and engaged with stakeholders and, in particular, how they have taken account of the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Stakeholder engagement and key considerations for the Board

The Group continued to focus on its engagement with our key stakeholders, acknowledging that this engagement is core to being a responsible business. Our key stakeholders remain the same as last year, namely our customers, employees, investors, communities, regulators and governments, and suppliers. How the Group has engaged with our stakeholders more generally is explained on page 16. The Board recognises the importance of building strong relationships with our stakeholders to help broaden understanding of their needs and concerns and ultimately to help us deliver our strategy. In discharging its responsibilities, the Directors sought to understand, and have regard to, the interests and priorities of these stakeholders, including in relation to material decisions that were taken by the Board during the course of the year.

Virtual and physical meetings
During 2021, despite the ongoing logistical challenges of meeting physically as a result of the Covid-19 pandemic, the Board was determined to maintain an active engagement programme with as many stakeholders as possible. The move to virtual meetings presented new and effective opportunities to engage. The Board met virtually with one of our major suppliers of technology services on the US west coast, which provided insights into technological advances and the growing importance of data management and security. During this meeting, the participants shared their respective views on the net zero transition journey, and the Board was able to gain a clear understanding of the supplier's plans.

Several Board members were also able to connect with our global graduate community on occasion, thanks to virtual facilities. Meeting in this way meant a far broader set of views was able to be shared than if the meeting had been in person. The exchanges with the graduates gave the Directors a real appreciation of the challenges they had faced in joining and working for HSBC during lockdown conditions.

As part of the engagement programme during the year, the Board continued to meet directly with many of its other stakeholders, in particular our colleagues, regulators and investors. It was also kept informed of relevant stakeholder matters through management dialogue and reports. Where circumstances permitted, Board members gathered for stakeholder meetings in person, including at our offices in the UK and Hong Kong, with examples of these engagements detailed below.

In May 2021, HSBC was pleased to be able to host its first hybrid AGM and engage with its investors despite the challenges at the time. Following focused discussions, the Board committed to creating an opportunity to enable as much shareholder participation as possible. This event allowed shareholders to either physically attend the meeting under strict and safe conditions in line with the advice from the UK Government, or to attend virtually, together with all Board members who attended either physically or virtually. The virtual participation option offered through the hybrid solution allowed shareholders to ask questions of the Board in person, by telephone and online, as well as vote live by electronic means during the meeting. While restrictions meant, regrettably, it was not possible to hold the annual Informal Shareholders' Meeting in Hong Kong, the hybrid AGM helped facilitate the connection of our Hong Kong-based shareholders directly to the Board. Given the success of the hybrid approach, we intend to host hybrid AGM meetings in the future.

Engaging during the Covid-19 pandemic
The Covid-19 pandemic continued to underpin the need to ensure careful consideration of the interests of the Group's stakeholders. Throughout the year, the Board maintained close interaction with management on its plans for a gradual return to office working under safe conditions, and careful consideration was given to our support for colleagues' mental and physical well-being. Care was taken to include the views and opinions of our colleagues in developing new ways of working, including hybrid working solutions where appropriate. By engaging with colleagues, including graduates, the Board was able to discuss and reflect, both in and outside of the boardroom, on the learnings gained from such sessions, including on how to improve induction and ongoing employee support programmes. It was also able to give its support to management to continue these initiatives.

Doing business responsibly
Given the nature of our business, maintaining a transparent and trusting relationship with our regulators is key to helping to ensure that we do business responsibly and that we can respond to all challenges appropriately. The Group Chairman and the Group Chief Executive met with our regulators in the UK and Hong Kong on a regular basis. As part of such meetings, our regulators were kept updated on our strategic plans and progress. On certain occasions, the Group Chairman and the Group Chief Executive also met with government officials globally to foster good relations. Several Board members were – and continue to be – actively involved in climate initiatives and attend global events such as at the COP26 Summit in Glasgow. The Board also remained informed of management interaction with national governments, on matters such as forbearance schemes and climate matters.

Stakeholder engagement and key considerations for the Board continued

The Board and its committees reviewed and considered regular reporting on emerging risks, performance, execution and actions being taken in response. This regular reporting and an annual programme of learning served to inform the Board about stakeholder matters and supported its decision making. For further details on the Board's activities during the year, including training, see pages 229 to 234 of our *ARA 2021*. The impact of the Covid-19 pandemic on the Group and our stakeholders remained of material concern. The impact of the decision taken in 2020 to cancel the fourth interim dividend for 2019 and suspend dividends for 2020 was a key consideration when the Board was deliberating on its approach to distributions for 2021. The Board sought to balance emerging risks, performance and its duties to shareholders, while remaining conscious of its responsibilities to support communities and help customers manage financial challenges and changing demands. The 'Principal decisions' disclosure below includes details on how the Board took the decision to introduce dividend payments in 2021. Further details are also provided in 'Financial decisions' on page 232 and 'Dividends' on page 287 of our *ARA 2021*.

To educate the Board on the broader impacts of the Covid-19 pandemic, the Board invited a leading immunologist to its meeting in December. Through this engagement, the Board gained valuable independent insight into what assistance may be required globally in support of the recovery to our communities, customers, suppliers and employees.

Adapting our engagement programme

As restrictions are lifted, and when safe to do so, the Board intends to meet regularly in person both as a Board, and with our stakeholders globally. In the meantime, the Board continues to remain agile in adapting its ongoing engagement programme so that it continues to be informed by a broad range of activities with stakeholders. This helps the Board fulfil its duties and support decision making as it oversees the execution of the Group strategy in line with our purpose and values and strategic plans. Examples of how the Board has engaged with stakeholders are set out below, as well as in 'Board engagement with shareholders' on page 228 and 'Workforce engagement' on page 233 of our *ARA 2021*.

Customers

Our business is centred around our customers and clients. The greater the understanding we have of their needs and the challenges they face, the better we can help support them to achieve their financial aims and succeed in our purpose and strategy. Examples of Board engagement with customers in 2021 included:

- The Group Chairman met on a very regular basis with customers, globally, for a variety of reasons including to hear customer feedback, build relationships, and strengthen connectivity between our customers, businesses and functions.
- The Group Chairman met with and listened to a number of key clients in person in the US, UK and Hong Kong.
- The Group Chief Executive provided reports to the Board, which contained updates on key customer meetings, sentiment, and net promoter scores for each global business. The net promoter score is a key measurement of customer sentiment, satisfaction and areas of concern and improvement.
- Following an enhancement to digital chat services for customers in Bermuda, the Board requested feedback from customers gained through a satisfaction survey and real-time customer prompts to help shape improvements in automation across the Group.

Employees

We want our organisation to continue to be a positive place to work and build careers. The success of the Group's strategy is dependent upon having motivated people with the expertise and skills required to help deliver it. Examples of the Board's engagement with our employees in 2021 included:

- Our Directors partnered with each of our employee resource groups, supporting and attending employee resource group events. These included sessions covering diversity, inclusion, disability, ethnicity and gender, the pandemic, climate, purpose and values, and culture. Following these events, the Board, in its formal meetings, discussed its learnings and where further support could be offered.
- Twice a year, the Board discussed the results of Snapshot surveys, which provide employee feedback, and which in 2021 focused on home working, culture, behaviours and pay.
- The Group Chairman visited Hong Kong in July and August, where he met with local leadership and took time to hear from a group of over 500 employees.
- The Group Chief Executive reported to the Board on his engagement with colleagues, including discussions about the return to the office, culture, new joiners, purpose and values, female leadership and graduate induction. His engagements also included virtual exchange sessions and town halls with employees globally, and in person in Singapore and the US.
- The Group Chief Risk and Compliance Officer provided a weekly Board note on risk matters relating to our response to the Covid-19 pandemic and employee support initiatives.

Investors

We seek to understand investor needs through ongoing dialogue. Examples of the Board engaging with investors in 2021 included:

- The Board discussed external market sentiment and invited our corporate brokers to share their thoughts and perceptions.
- Directors held virtual and in-person meetings with investors, ratings agencies and peers to understand evolving views, trends and sentiment.
- The Group Chairman visited Hong Kong during July and August where he spent time with several of our shareholders in person.
- The Chair of the Group Remuneration Committee held meetings with key investors, including to discuss the new remuneration policy.
- Investor Relations provided weekly updates to the Board, including on market activity, investor engagement and sentiment.
- Numerous investor and corporate governance roadshows, forums and meetings with key investors took place and were hosted by a combination of the Group Chairman, Group Chief Executive, Group Chief Financial Officer and the Senior Independent non-executive Director, and often with management in attendance.

Stakeholder engagement and key considerations for the Board continued

Communities

We seek to play an important role in supporting the communities in which we operate through our corporate social responsibility and broader engagement activities. Examples of the Board's engagement with communities in 2021 included:

- The Board received ESG and climate-related updates and policies, which detailed community engagement activity and stakeholder sentiment.
- The Group Chairman and Group Chief Executive both participated at COP26, and the Group Chairman presented at Chapter Zero events.
- The Group Chief Executive supported the World Economic Forum's disclosures on climate.
- The Board supported employee resource group community initiatives, such as introducing 'safe places' in selected HSBC branches for the whole community as needed, and education in schools and universities on topics such as technology and climate.
- A leading immunologist provided an update to the Board on the impact of the Covid-19 pandemic, providing insight into what assistance may be required from HSBC to our communities, customers and employees.

Regulators and governments

Maintaining constructive dialogue and relations with the relevant authorities in the markets in which we operate helps support the effective functioning of economies globally and the achievement of our strategic aims. Examples of the Board's engagement with regulators and governments in 2021 included:

- Executive and non-executive Directors attended 'continuous assessment' meetings with the the UK's Prudential Regulation Authority ('PRA') and other individual regulatory meetings.
- The PRA attended a Board meeting for its annual presentation to discuss the outcome and progress of its periodic summary meeting letter, and in a separate meeting, the UK's Financial Conduct Authority ('FCA') attended to present its annual firm evaluation letter.
- The Group Chairman led a meeting with the supervisory college of regulators.
- Directors held regular dialogue and meetings with governments and regulators globally, with some representing HSBC at government-led forums.
- The Group Chairman and Group Chief Executive both participated at the G7 Climate conference and COP26.

Suppliers

Our suppliers provide the Group with vital resources, expertise and services to help us operate our business effectively and execute our strategy. We work with our suppliers to help ensure mutually beneficial relationships on a global and local level. In some cases, our suppliers are also our customers. Plans have been made to meet with more third-party providers of services once travel can safely resume. Examples of the Board's engagement with suppliers in 2021 included:

- The Group Chief Operating Officer provided reports to the Board, with updates on third-party suppliers and operational resilience.
- Directors held a virtual meeting with one of our key technology suppliers to discuss technology developments and improvements and to better understand the supplier's net zero ambition and transition plans.
- The Group Audit Committee Chair met with the four major accountancy firms and challenger audit firms in preparation for a future audit tender.

Principal decisions

The Board operates having regard to the duties of the Directors, including the relevant matters set out in section 172(1)(a)-(f) of the Companies Act 2006. Specific examples of key areas of focus and considerations affecting the Board's decision-making process during 2021 are set out below.

Acquisitions and disposals activity

During 2021, the Board took several key decisions to acquire and divest certain businesses in support of the Group's strategic aims.

In furtherance of the Group's strategy and ambition, the Board considered several material and strategic acquisition and disposal opportunities throughout 2021. Two of these opportunities considered by the Board are highlighted below. In each case, in discussing these proposals and taking its decisions, members of the Board exercised their statutory duties including the duty to act in the way that they considered, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

The first strategic acquisition opportunity the Board considered in 2021 concerned the purchase of AXA's insurance business in Singapore. In its meeting, the Board discussed that this was a rare opportunity for inorganic growth and a key step in helping to achieve the Group's ambition of becoming a leading wealth manager in Asia, by expanding its insurance and wealth franchise in Singapore, a strategically important scale market and a major hub for the Group's wealth business in the ASEAN region. The Board considered a number of benefits in making this investment, including synergies with the Group's asset management and private wealth solutions business, and the ability to materially scale up the Group's presence in the regional insurance market, providing an excellent platform for future growth and further opportunities for customers. The proposed acquisition was subject to a combination of discussions with and approvals from various stakeholders, including UK, Singapore and Hong Kong regulators as well as pre-notifications to local union authorities. In order to support successful integration and transformation plans, management recommended to the Board that key employee talent should be identified and secured. As part of this key talent selection process, certain important skills and qualities were taken into account, including diversity and inclusion, as well as culture, to form the right leadership team for the acquired business to succeed. In making its final decision to approve the acquisition, the Board took these relevant stakeholder considerations and other factors into account, including an assessment of the financial merits and risks of the transaction, and paid particular attention to the section 172 factors of the likely consequences of any decision in the long term and the interests of the Group's employees.

The Board subsequently considered a separate proposal for the disposal of the Group's non-core retail banking business in France. The Board's decision to approve the disposal was aligned to the Group's strategic aim of being a leading wholesale bank in continental Europe, and took into account the impact on our shareholders and other stakeholders.

In this case, the Board considered there to be a number of benefits to the disposal, including simplifying the Group structure, helping to mitigate transformation risk of the business in Europe, and allowing management to focus on the completion of the European wholesale transformation programme. Several key stakeholders were consulted ahead of the decision. Consultation with relevant French works' councils was undertaken alongside Director and management engagement with French and UK regulators to elicit their views on the proposed disposal. The Board noted that completion of the disposal would involve engagement with additional key stakeholders, including relevant regulators and bondholders. In taking its decision, the Board considered all relevant factors including the Group's strategic goals and the benefits of the transaction, while also taking into account the loss associated with the disposal, the interests of stakeholders and alternative proposals in respect of the retail business. As a result, the Board agreed to proceed with the disposal on the basis that it considered it to be in the best interests of the company's members as a whole and would promote the long-term success of the company.

Principal decisions continued

Climate agenda

In 2021 the Board was actively and directly engaged with the Group's response to the climate change agenda, proposing a resolution and agreeing relevant policies aligned to our ambition to support the transition to a net zero global economy.

Following the announcement of the Group's climate ambition in October 2020 and ahead of the 2021 AGM, the Board received a shareholder requisitioned resolution from ShareAction, together with a number of other shareholders, in relation to the Group's climate agenda. Selected Board members and senior management engaged extensively with ShareAction, certain co-filers and other shareholders, to understand their perspectives and rationale in submitting the shareholder resolution. As a result of such engagements, the Board carried out further discussions in its meetings to consider our approach in terms of sectorial priorities and associated timelines, in order to help support the delivery of our climate ambition most effectively, while recognising our responsibilities to our customers and communities across the diverse range of markets in which we operate. Ultimately, following further engagement and discussion, the Board welcomed and agreed the decision by ShareAction, on behalf of the co-filers, to withdraw the requisitioned resolution and in its place, support HSBC's own climate change resolution at the 2021 AGM. The HSBC resolution outlined the next phase of the Group's net zero strategy, with a particular emphasis on how it would support its customers on their own transition journeys. As well as the engagement with stakeholders, in formulating the Group's climate approach including its climate change resolution, the Board took into consideration the role we seek to play in setting and leading a standard for the financial services sector, as it collectively works to tackle climate change. The Board was also mindful of the crucial importance of working with customers on their own transition and how the Group could help support this outcome. The Board's decision to propose the HSBC climate change resolution and recommendation that shareholders vote in favour of it took account of these reasons, and gave due regard to section 172 factors, in particular the impact of the decision on the environment and communities the company serves, our valuable relationships with customers and investors, and the long-term success of the company.

The climate change resolution was passed at the 2021 AGM, with 99.7% of our shareholders supporting our resolution, providing a strong endorsement of our climate plan and our commitment to support our customers on their transitions to a low-carbon future. The resolution committed us to: setting out the next steps in our transition, including through short- and medium-term sector-based targets; publishing a policy to phase out the financing of coal power and thermal coal mining by 2030 in EU and OECD countries, and by 2040 globally; and reporting annually on our progress. We also indicated that we would provide further details by the end of 2021 on our approach to assessing financed emissions and setting targets.

In December 2021 the Board approved the publication of the thermal coal phase-out policy, and further details on our approach to assessing financed emissions and setting targets. In doing so the Board took into consideration the requirements of the climate resolution and the extensive engagement with stakeholders, both before and after the 2021 AGM. In Board meeting discussions, Directors considered long-term objectives including the responsibility of helping to ensure continued and expanding access to affordable electricity in the markets we serve, many of which are presently highly reliant on thermal coal. The Board also considered the need to phase out the financing of coal-fired power and thermal coal mining in recognition of the rapid decline in coal emissions required for any viable pathway to 1.5°C and the important role for HSBC to play in helping to finance our clients' transition to net zero. The Board noted that the policy was a key part of executing the Group's ambition to align its financed emissions to net zero by 2050 or sooner and would be reviewed annually based on evolving science and internationally recognised guidance, given the fast changing landscape. For further details on our policy and approach, see page 62 of our *ARA 2021*.

Since publication of the thermal coal phase-out policy, stakeholder engagement has continued, including with key institutional investors to discuss with them the policy, its impacts and alignment with our ambition to help finance our clients' transition to net zero. Extensive engagement also continues to take place among employees and with clients as we implement the policy.

In their respective roles as chair of Chapter Zero and chair of the Financial Services Taskforce, both the Group Chairman and the Group Chief Executive are at the forefront of climate matters, demonstrating their leadership and commitment to understanding and collaborating on these critical matters, mirroring the Board's and the Group's commitment to the transition to net zero as a key part of delivering our strategy.

Dividend payments and share buy-backs

Following the decision in 2020 to cancel dividend payments, the Board took action in 2021 to consider dividend payments, the Group's dividend policy and share buy-backs.

Following the PRA's announcement in December 2020 that it was supportive of UK banks resuming dividend payments under certain conditions, at its first meeting in January 2021 the Board turned its attention to whether it would be appropriate to restart dividend payments. In considering this, the Board reflected on the impact on the decision it took in 2020 to suspend dividend payments and the views of stakeholders in respect of the suspension. The reactions and interests of our investors based on feedback from our external brokers and meetings with investors by individual Board members and management were key considerations for the Board in considering whether to restart dividend payments, especially given the impact of this decision on our shareholders, including those based in Hong Kong, who rely heavily on the income derived from our dividends. The Board also had regard to regulatory considerations, including the PRA's requirements for banks resuming dividends and other relevant factors such as our financial performance for 2020 and our earnings forecasts for 2021 and 2022. Having considered these factors and also taking into account its section 172 duty to consider the likely consequences of any decision in the long term, in its February meeting, the Board was pleased to approve an interim dividend for the full-year ending 2020. In that same meeting, the Board considered and approved a revised dividend policy designed to provide sustainable dividends. In considering the revised dividend policy, the Board discussed and acknowledged the need to offer good income to our investors while giving management the flexibility to reinvest capital to grow the firm. These factors are important to the long-term success of the company. During the year, engagement continued with the PRA for dividends in respect of the 2021 financial year. In August 2021, the Board also agreed to approve an interim dividend for the first six months of 2021 in line with the dividend policy, taking into account the Group's performance, market expectations and the shareholders' interests.

In addition, having indicated in the *Annual Report and Accounts 2020* that the Group would consider share buy-backs over time, in October 2021 the Board approved the announcement of a share buy-back of up to $2bn. In reaching this decision, the Board considered our actual and potential financial performance during the year to date and our capital position (including in light of regulatory requirements). The Board also considered expected reactions and interests of our investors (including based on feedback from our external brokers) and peer analysis. Regulatory approvals were sought in the UK and Hong Kong, as well as views and inputs with regards to customer, employee, investor and community stakeholder considerations. Together, these inputs enabled the Board to conclude that the share buy-back would likely be viewed positively by the market and be considered to represent an appropriate balance between shareholder return and investment. The Board's assessment of our capital position took account of the company's ability to conduct its business and to support the communities in which it serves. Taking these stakeholder views and other relevant matters into account as prescribed by section 172, including our strong capital position and notwithstanding the growth opportunities available to us at the time of the decision, the Board considered that a return of capital by way of share buy-back would be in the best interests of investors as a whole having regard to the long-term success of the company and thereby approved the share buy-back.

Remuneration

Our remuneration policy supports the achievement of our strategic objectives by aligning reward with our long-term sustainable performance.

Our remuneration principles

Our performance and pay strategy aims to reward competitively the achievement of long-term sustainable performance by attracting, motivating and retaining the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience.

For further details of our principles and what we did during 2021 to help ensure remuneration outcomes were consistent with those principles, see page 278 of our *ARA 2021*.

Variable pay

The 2021 Group variable pay pool has been determined taking into account the improvement in financial performance, with adjusted profit before tax up 79%, the reinstatement of dividends and the capital return to shareholders through share buy-backs, as well as performance against the strategic plan. It also took into account the challenges the Group faces with regard to a very competitive market for talent.

For details of how the Group Remuneration Committee sets the pool, see page 254 of our *ARA 2021*.

($m)

Remuneration for our executive Directors

Our current remuneration policy for executive Directors was approved at our AGM in 2019 and is intended to apply for three performance years until the AGM in 2022. We are proposing to roll forward our current remuneration policy for shareholders' approval at the 2022 AGM. We have made no changes to the remuneration structure or to the maximum opportunity payable for each element of remuneration. Details of the proposed policy can be found on page 257 of our *ARA 2021*. Variable pay for our executive Directors is driven by scorecard achievement, with measures and targets set to align pay outcomes with the delivery of our strategy and plan for the year.

Executive Directors' annual incentive scorecard outcome
(% of maximum opportunity)

Group Chief Executive	**57.30%**
Group Chief Financial Officer	**60.43%**

The table below shows the amount our executive Directors earned in 2021. For details of Directors' pay and performance for 2021, see the Directors' remuneration report on page 254 of our *ARA 2021*.

Single figure of remuneration

	Noel Quinn		Ewen Stevenson	
(£000)	**2021**	**2020**	**2021**	**2020**
Base salary[1]	**1,288**	1,266	**751**	738
Fixed pay allowance ('FPA')[1]	**1,700**	1,700	**1,062**	950
Cash in lieu of pension	**129**	127	**75**	74
Taxable benefits[2]	**95**	186	**3**	12
Non-taxable benefits[2]	**71**	59	**42**	32
Total fixed	**3,283**	3,338	**1,933**	1,806
Annual incentive[3]	**1,590**	799	**978**	450
Notional returns[4]	**22**	17	**—**	—
Replacement award[5]	**—**	—	**754**	1,431
Total variable	**1,612**	816	**1,732**	1,881
Total fixed and variable	**4,895**	4,154	**3,665**	3,687

1 Executive Directors made the personal decision to donate 100% of their base salary increases for 2021 to charity given the ongoing challenging external environment. Ewen Stevenson also donated his FPA increase for 2021 to charity. Figures shown in the table above are the gross figures before charitable donations.

2 Taxable benefits include the provision of medical insurance, car and tax return assistance (including any associated tax due, where applicable). Non-taxable benefits include the provision of life assurance and other insurance cover.

3 Noel Quinn and Ewen Stevenson both voluntarily waived the cash portion of their 2020 annual incentive. Without this voluntary waiver, the 2020 annual incentive of Noel Quinn and Ewen Stevenson would have been £1,598,000 and £900,000, respectively.

4 The deferred cash awards granted in prior years includes a right to receive notional returns for the period between the grant and vesting date. This is determined by reference to a rate of return specified at the time of grant and paid annually, with the amount disclosed on a paid basis.

5 In 2019 Ewen Stevenson was granted replacement awards to replace unvested awards, which were forfeited as a result of him joining HSBC. The awards, in general, match the performance, vesting and retention periods attached to the awards forfeited. The values included in the table for 2020 relate to his 2017 LTI award granted by the Royal Bank of Scotland Group plc ('RBS'), now renamed as NatWest Group plc ('NatWest'), for performance year 2016, which was determined by applying the performance assessment outcome of 56.25% as disclosed in NatWest's *Annual Report and Accounts 2019* (page 91) to the maximum number of shares subject to performance conditions. This resulted in a payout equivalent to 78.09% of NatWest award shares that were forfeited and replaced with HSBC shares. A total of 313,608 shares were granted in respect of his 2017 LTI replacement award at a share price of £6.643. The HSBC share price was £5.845 when the awards ceased to be subject to performance conditions, with no value attributable to share price appreciation. The value included in the table for 2021 relates to Ewen Stevenson's 2018 LTI replacement award granted by NatWest for performance year 2017 and was subject to a pre-vest performance test assessed and disclosed by NatWest in its *Annual Report and Accounts 2020* (page 135). As no adjustment was proposed for Ewen Stevenson by NatWest, a total of 177,883 shares granted in respect of his 2018 LTI replacement award ceased to be subject to performance conditions. These awards were granted at a share price of £6.643 and the HSBC share price was £4.240 when the awards ceased to be subject to performance conditions, with no value attributable to share price appreciation.

Financial overview

In assessing the Group's financial performance, management uses a range of financial measures that focus on the delivery of sustainable returns for our shareholders and maintaining our financial strength.

Executive summary

Financial performance in 2021 was supported by the improved economic outlook and resultant release in ECL allowances, which materially improved our profitability. While lower policy rates adversely impacted revenue compared with 2020, the interest rate outlook is now significantly more positive.

Reported profit before tax of $18.9bn increased by 115%, while our return on average tangible equity ('RoTE') improved by 5.2 percentage points to 8.3%. The growth in reported profit was due to a net release of ECL, compared with a significant charge in 2020, as well as an increase in share of profit from associates and joint ventures, while reported operating expenses remained broadly unchanged. These factors were partly offset by lower reported revenue.

In 2021, all of our regions were profitable. Notwithstanding lower policy rates, our Asia business continued to perform strongly, delivering 65% of Group reported profits, while there was a material recovery in profitability in all of our other regions.

The Group maintained its strong capital position, with a CET1 ratio of 15.8% at 31 December 2021, and increased both customer deposit and lending balances.

Group financial targets

Return on average tangible equity

8.3%

(2020: 3.1%)

The Group is targeting a reported RoTE greater than or equal to 10% in the medium term. In 2021, RoTE was 8.3%, an increase of 5.2 percentage points from 2020, primarily reflecting net releases of ECL. Our net interest income outlook is now significantly more positive. If policy rates were to follow the current implied market consensus, we would expect to deliver a RoTE of at least 10% for 2023.

Gross RWA reductions

$104bn

Since the start of the programme.

To improve the return profile of the Group, we are targeting a gross RWA reduction, mainly in low-returning parts of the Group.

During 2021, we updated the list of clients we are remediating and also implemented other methodology changes to improve how we align the tracking and reporting of reductions to how the programme is being managed. In line with these changes, we also increased our gross RWA reduction target from $100bn to $110bn by the end of 2022, updating executive scorecards accordingly.

At 31 December 2021, the Group had achieved cumulative RWA reductions of $104bn since the start of the programme, including accelerated saves of $9.6bn made in 2019. Given progress to date, we now expect to exceed our $110bn reduction target by the end of 2022.

Adjusted operating expenses

$32.1bn

(2020: $32.4bn)

In February 2020, we announced a multi-year plan to substantially reduce the cost base and accelerate the pace of change, with the aim of becoming leaner, simpler and more competitive.

During 2021, we continued to demonstrate strong cost control, with adjusted operating expenses of $32.1bn, a reduction of 1% compared with 2020.

Adjusted operating expenses for 2022 are expected to be in line with 2021, with inflationary impacts, continued investment and the impact of acquisitions and disposals broadly offset by further savings from our cost-reduction programme. This compares with our original target of $31bn or less (based on average December 2020 rates of foreign exchange).

Our cost reduction programme remains on track to deliver cost saves of between $5bn and $5.5bn in the period from 2020 to 2022, while spending around $7bn in costs to achieve.

Cumulatively, since the start of our cost programme in 2020, we have generated savings of $3.3bn, with costs to achieve of $3.6bn, which included actions to restructure our businesses in Europe and the US.

Capital and dividend policy

CET1 ratio

15.8%

Dividend payout ratio

40.3%

At 31 December 2021, our CET1 ratio was 15.8%. We expect mid-single-digit RWA growth in 2022 through a combination of business growth, acquisitions and regulatory changes, partly offset by additional RWA savings. This growth, together with capital returns are expected to normalise our CET1 position to be within our 14% to 14.5% target operating range during 2022. Once we are within the target operating range, we intend to actively manage our CET1 position to stay within this range. However, due to normal capital volatility, we may be above or below this range in any given quarter. Our ambition remains to manage this operating range down in the longer term.

The Board has approved a second interim dividend for 2021 of $0.18 per ordinary share. The total dividend per share in 2021 of $0.25 results in a dividend payout ratio of 40.3% of reported earnings per share ('EPS'), relative to our target range of between 40% and 55% from 2022 onwards. We also intend to initiate a further share buy-back of up to $1bn, to commence after the existing up to $2bn buy-back has concluded.

In line with our dividend policy, we retain the flexibility to adjust EPS for non-cash significant items. In 2022, we intend to adjust EPS to exclude the forecast loss on the planned sale of our retail banking operations in France.

Reported results

Reported results	2021 $m	2020 $m	2019 $m
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**49,552**	50,429	56,098
Change in expected credit losses and other credit impairment charges	**928**	(8,817)	(2,756)
Net operating income	**50,480**	41,612	53,342
Total operating expenses	**(34,620)**	(34,432)	(42,349)
Operating profit	**15,860**	7,180	10,993
Share of profit in associates and joint ventures	**3,046**	1,597	2,354
Profit before tax	**18,906**	8,777	13,347
Tax expense	**(4,213)**	(2,678)	(4,639)
Profit after tax	**14,693**	6,099	8,708

Reported profit
Reported profit after tax of $14.7bn was $8.6bn higher than in 2020.

Reported profit before tax of $18.9bn was $10.1bn higher than in 2020. The increase was primarily due to a net release in reported ECL, reflecting an improvement in the forward economic outlook, notably in the UK, compared with the significant build-up of stage 1 and stage 2 allowances in 2020. We also reported an increase in the share of profit from associates, while reported operating expenses remained broadly unchanged.

Lower reported revenue primarily reflected the impact of 2020 global interest rate reductions, as well as a decline in revenue in GBM's Markets and Securities Services ('MSS') business compared with a strong performance in 2020. Reported revenue also included the net favourable impact of certain volatile items:

- In WPB, favourable market impacts in life insurance manufacturing of $504m compared with favourable movements in 2020 of $90m.
- In GBM, MSS included favourable movements in credit and funding valuation adjustments, as favourable adjustments of $30m compared with adverse adjustments of $252m in 2020.
- In Corporate Centre, there were adverse fair value movements on our long-term debt and associated swaps of $99m (2020: $150m favourable).

In 2021, all of our regions were profitable. Despite the impact of lower global interest rates, our Asia business continued to perform strongly. In addition, there was a material recovery in profitability in all other regions, primarily reflecting a net release in ECL as the economic outlook improved.

IFRS 17 'Insurance Contracts' sets the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2023 and could have a significant adverse impact on the profitability of our insurance business. For further details on the impact of IFRS 17 on the results of our insurance operations, see page 318 of our *ARA 2021*.

Reported revenue
Reported revenue of $49.6bn was $0.9bn or 2% lower than in 2020. The reduction primarily reflected a fall in net interest income as a result of the impact of lower global interest rates, notably affecting our deposit franchises in WPB and in Global Liquidity and Cash Management ('GLCM') in CMB and GBM. In GBM's MSS business, revenue decreased in Global Foreign Exchange and Global Debt Markets, compared with a strong 2020, although revenue increased in Equities from higher volatility and there were favourable movements in credit and funding valuation adjustments. In addition, revenue was lower in Corporate Centre.

These reductions were in part mitigated by revenue growth in Wealth in WPB of $1.2bn, notably from a net favourable movement in market impacts in life insurance manufacturing, and growth in investment distribution, asset management and new business in insurance. GBM revenue also benefited from favourable valuation gains in Principal Investments. In CMB, revenue increased in Credit and Lending as margins improved, and a recovery in trade volumes resulted in higher fee income in Global Trade and Receivables Finance ('GTRF').

The reduction in reported revenue included adverse fair value movements on financial instruments of $0.5bn, although these were more than offset by the favourable impact of foreign currency translation differences of $1.4bn.

Reported ECL
Reported ECL were a net release of $0.9bn, compared with a charge of $8.8bn in 2020. The net release in 2021 reflected an improvement in the economic outlook, notably in the UK, partly offset by an increase in allowances in the fourth quarter, reflecting recent developments in China's commercial real estate sector. This compared with the significant build-up of stage 1 and stage 2 allowances in 2020 due to the worsening economic outlook at the onset of the Covid-19 pandemic. The reduction in ECL also reflected historically low levels of stage 3 charges, although with some normalisation during the fourth quarter, as well as the non-recurrence of a significant charge in 2020 related to a corporate exposure in Singapore.

For further details on the calculation of ECL, including the measurement uncertainties and significant judgements applied to such calculations, the impact of the economic scenarios and management judgemental adjustments, see pages 144 to 152 of our *ARA 2021*.

Reported operating expenses
Reported operating expenses of $34.6bn were broadly unchanged compared with 2020. This included the impact of our cost saving initiatives, as well as lower impairments of goodwill and other intangible assets, as 2021 included a $0.6bn impairment of goodwill related to our WPB business in Latin America to reflect the macroeconomic outlook, as well as the impact of foreign exchange rate deterioration and inflationary pressures, notably on our Argentina business. However, 2020 included a $1.3bn impairment of intangible assets, mainly in Europe. There was also a $0.6bn reduction in the UK bank levy due to a change in the basis of calculation to only include the UK balance sheet rather than the global balance sheet, as well as a credit of $0.1bn relating to the 2020 charge.

These decreases were broadly offset by an increase in performance-related pay of $0.7bn as Group performance improved, and by an increase in investment in technology of $0.9bn (gross of cost savings of $0.5bn). The remaining increase primarily reflected inflationary impacts, non-technology investment in regulatory programmes, and business growth notably Asia wealth investment. In addition, there was an adverse impact of foreign currency translation differences of $1.1bn.

In February 2020, we announced a plan to substantially reduce the cost base by 2022 and accelerate the pace of change. We continue to target $5bn to $5.5bn of cost saves for 2020 to 2022, while spending around $7bn in costs to achieve, which are included in restructuring and other related costs. Cumulative spend since the start of the programme in 2020 was $3.6bn, with cumulative saves of $3.3bn. In 2021, the total spend was $1.8bn with saves during the year of $2.2bn.

Reported results continued

Reported share of profit from associates and joint ventures
Reported share of profit in associates and joint ventures of $3.0bn was $1.4bn higher, primarily reflecting a higher share of profit from Bank of Communications Co., Limited ('BoCom'), British Growth Fund ('BGF') and The Saudi British Bank ('SABB'). For BGF in the UK, this was due to a recovery in asset valuations relative to 2020, and for SABB, this was primarily due to the non-recurrence of our share of its goodwill impairment charge in 2020.

Tax expense
The effective tax rate for 2021 of 22.3% was lower than the 30.5% for 2020. The effective tax rate for 2021 was increased by the impact of substantively enacted legislation to increase the UK statutory tax rate from 1 April 2023. The 2020 effective tax rate was high, due mainly to the non-recognition of deferred tax on losses in the UK and France.

Adjusted performance

Our reported results are prepared in accordance with IFRSs, as detailed in the financial statements on page 318 of our *ARA 2021*.

We also present alternative performance measures (non-GAAP financial measures). These include adjusted performance, which we use 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. Alternative 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, which are excluded to improve understanding of the underlying trends in the business.

The results of our global businesses are presented on an adjusted basis, which is consistent with how we manage and assess global business performance.

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 98 of our *ARA 2021*. Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 90 and 'Reconciliation of alternative performance measures' on page 117 of our *ARA 2021*.

	2021	2020	2019	2021 vs 2020	
Adjusted results ◆	**$m**	$m	$m	**$m**	**%**
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**50,090**	51,770	56,435	**(1,680)**	**(3)**
Change in expected credit losses and other credit impairment charges	**928**	(9,282)	(2,687)	**10,210**	**110**
Total operating expenses	**(32,148)**	(32,409)	(33,563)	**261**	**1**
Operating profit	**18,870**	10,079	20,185	**8,791**	**87**
Share of profit in associates and joint ventures	**3,046**	2,192	2,496	**854**	**39**
Profit before tax	**21,916**	12,271	22,681	**9,645**	**79**

Adjusted profit before tax ◆
Adjusted profit before tax of $21.9bn was $9.6bn or 79% higher than in 2020, primarily due to a net release of adjusted ECL due to an improvement in the economic outlook, notably in the UK, compared with the significant build-up of stage 1 and stage 2 allowances in 2020. Adjusted share of profit from associates and joint ventures increased and adjusted operating expenses fell, reflecting strong cost discipline.

These factors were in part offset by lower adjusted revenue, primarily reflecting a fall in net interest income as a result of the impact of lower global interest rates and a reduction in MSS revenue in GBM, compared with a strong performance in 2020.

Reconciliation of reported to adjusted profit before tax

	2021	2020	2019
	$m	$m	$m
Reported profit before tax	**18,906**	8,777	13,347
Currency translation	**—**	(11)	240
Significant items:	**3,010**	3,505	9,094
– costs of structural reform	**—**	—	158
– customer redress programmes	**38**	(33)	1,444
– disposals, acquisitions and investment in new businesses	**—**	10	(768)
– fair value movements on financial instruments	**242**	(264)	(84)
– impairment of goodwill and other intangibles	**587**	1,090	7,349
– past service costs of guaranteed minimum pension benefits equalisation	**—**	17	—
– restructuring and other related costs	**2,143**	2,078	827
– settlements and provisions in connection with legal and regulatory matters	**—**	12	(61)
– goodwill impairment (share of profit in associates and joint ventures)	**—**	462	—
– currency translation on significant items	**—**	133	229
Adjusted profit before tax	**21,916**	12,271	22,681

Adjusted performance continued

Adjusted revenue

Adjusted revenue of $50.1bn was $1.7bn or 3% lower than in 2020. The reduction was primarily in net interest income due to the impact of lower global interest rates, mainly affecting our deposit franchises within WPB and in GLCM in CMB and GBM. In GBM's MSS business, revenue decreased in Global Foreign Exchange and Global Debt Markets, compared with a strong 2020, although revenue increased in Equities from higher volatility and there were favourable movements in credit and funding valuation adjustments of $301m. In addition, revenue was lower in Corporate Centre from a net adverse fair value movement relating to the economic hedging of interest rate and exchange rate risk on our long-term debt with associated swaps.

These reductions were in part mitigated by revenue growth of $1.1bn in Wealth in WPB, notably from a net favourable movement in market impacts in life insurance manufacturing of $434m, and growth in investment distribution, asset management and new business in insurance. In GBM, there were higher favourable revaluations in Principal Investments compared with 2020, and increased revenue in Capital Markets and Advisory. In CMB, revenue grew in Credit and Lending as margins improved, and a recovery in trade volumes resulted in higher fee income in GTRF.

Adjusted ECL

Adjusted ECL, which removes the period-on-period effects of foreign currency translation differences, were a net release of $0.9bn compared with a charge of $9.3bn in 2020. These reflected releases as a result of an improvement in the economic outlook, notably in the UK, partly offset by an increase in allowances in the fourth quarter, reflecting recent developments in China's commercial real estate sector. This compared with the significant build-up of stage 1 and stage 2 allowances in 2020 due to the worsening economic outlook at the onset of the Covid-19 pandemic. The reduction in ECL also reflected historically low levels of stage 3 charges in 2021, although with some normalisation during the fourth quarter, as well as the non-recurrence of a significant stage 3 charge in 2020 related to a corporate exposure in Singapore.

Adjusted operating expenses

Adjusted operating expenses of $32.1bn were $0.3bn or 1% lower than in 2020. This reflected a favourable impact of $2.2bn from our cost-saving initiatives. It also included a reduction of $0.6bn in the UK bank levy, reflecting a change in the basis of calculation to only include the UK balance sheet rather than the global balance sheet, as well as a credit of $0.1bn relating to the 2020 charge.

These reductions were partly offset by a higher performance-related pay of $0.7bn as Group performance improved, and an increase of $0.9bn in investment in technology (gross of cost savings of $0.5bn), which included enhancements to our digital capabilities. The remaining increase included inflation, non-technology investment in regulatory programmes and business growth, including Asia wealth investment.

The number of employees expressed in full-time equivalent staff ('FTE') at 31 December 2021 was 219,697, a decrease of 6,362 compared with 31 December 2020. The number of contractors at 31 December 2021 was 6,192, an increase of 500, primarily as a result of our growth and transformation initiatives.

Adjusted share of profit from associates and JVs

Adjusted share of profit from associates and joint ventures of $3.0bn was $0.9bn or 39% higher than in 2020, including increases in share of profits from BoCom and SABB. Our share of profit also rose from BGF in the UK due to a recovery in asset valuations relative to 2020.

Balance sheet and capital

Balance sheet strength

At 31 December 2021, our total assets of $3.0tn were $26bn or 1% lower than at 31 December 2020 on a reported basis and included adverse effects of foreign currency translation differences of $46bn.

The decrease in total assets reflected lower derivative assets and a fall in financial investments, reflecting a redeployment of our commercial surplus into cash, which rose by $99bn, in part due to higher customer deposits. Loans and advances to customers increased by $8bn on a reported basis and $23bn on a constant currency basis, mainly from growth in mortgage balances.

Reported loans and advances to customers of $1.0tn were 61.1% as a percentage of customer accounts, compared with 63.2% at 31 December 2020, primarily reflecting growth in customer account balances.

Total assets
($bn)

$2,958bn

2021	**2,958**
2020	2,984
2019	2,715

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2021 were $32.2bn, compared with $31.3bn at 31 December 2020. The increase was primarily driven by profits generated of $10.8bn, offset by ordinary dividend payments and additional tier 1 coupon distributions of $5.8bn, other reserves movements of $2.1bn and $2bn related to our share buy-back programme.

Capital position

We actively manage the Group's capital position to support our business strategy and meet our regulatory requirements at all times, including under stress, while optimising our capital efficiency. To do this, we monitor our capital position using a number of measures. These include: our capital ratios, the impact on our capital ratios as a result of stress, and the degree of double leverage being run by HSBC Holdings. Double leverage is one of the constraints on managing our capital position, given the complexity of the Group's subsidiary structure and the multiple regulatory regimes under which we operate. For further details, see page 189 of our *ARA 2021.*

Our CET1 ratio at 31 December 2021 was 15.8%, down 0.1 percentage points from 2020. Capital generation was more than offset by dividends, the up to $2bn share buy-back announced in October, foreign exchange movements and other deductions. RWAs reduced despite new Pillar 1 requirements for structural foreign exchange, reflecting actions under our transformation programme.

Common equity tier 1 ratio
(%)

15.8%

2021	**15.8**
2020	15.9
2019	14.7

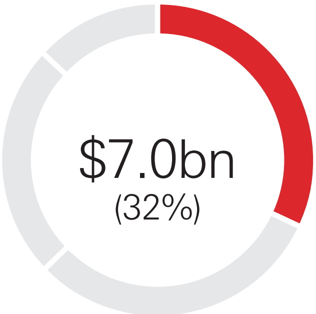
Liquidity position

We actively manage the Group's liquidity and funding to support our business strategy and meet regulatory requirements at all times, including under stress. To do this, we monitor our position using a number of risk appetite measures, including the liquidity coverage ratio and the net stable funding ratio. At 31 December 2021, we held high-quality liquid assets of $717bn. This excludes high-quality liquid assets in legal entities which are not transferable due to local restrictions.

For further details, see page 193 of our *ARA 2021.*

Wealth and Personal Banking

Contribution to Group adjusted profit before tax



We serve more than 38 million customers from retail customers to ultra high net worth individuals and their families.

We offer locally-tailored products and services across multiple channels for our customers' everyday banking needs, as well as insurance, investment management, advisory and wealth solutions for those with more sophisticated requirements. Our global presence provides for customers with international needs.

WPB grew customer deposits, lending and wealth sales, as markets emerged from the pandemic in 2021. Performance was favourably impacted by a net release of adjusted ECL provisions and strong wealth sales in Asia, although adjusted revenue was affected by the impact of lower interest rates, despite strong balance sheet growth. Aligned with our strategy, we continued to invest in our digital capabilities and people to expand our wealth franchise in Asia, and address our customers' international needs.

	2021	2020	2019	2021 vs 2020	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**22,110**	22,571	26,140	**(461)**	**(2)**
Change in expected credit losses and other credit impairment charges	**288**	(3,005)	(1,376)	**3,293**	**110**
Operating expenses	**(15,384)**	(15,443)	(15,823)	**59**	**–**
Share of profit in associates and JVs	**34**	7	54	**27**	**>200**
Profit before tax	**7,048**	4,130	8,995	**2,918**	**71**
RoTE excluding significant items (%)[1]	**15.2**	9.1	19.7		

1 Since 1 January 2021, the UK bank levy has been included in the calculation of this measure. Comparative data have not been re-presented.

Opening up the gateway to international banking

We are making it easier than ever for our customers to manage their money around the world.

Global Money Account, our multi-currency account for personal customers, allows customers to hold, manage and send cash in various currencies without paying any fees. Having launched Global Money in the US in 2020, we expanded these capabilities into the UAE, Singapore and the Channel Islands and Isle of Man in 2021, and we aim to double the number of markets in 2022.

Our international account opening is getting simpler. It is now possible to open accounts in mainland China and either Singapore or the UK, in the same visit to a branch, and 80% faster than in 2020. Hong Kong identity card holders in Australia, Canada, Singapore, the US and the UK can now open an account online in 10 minutes, down from four weeks, with immediate access to mobile banking.

Management view of adjusted revenue	2021 $m	2020 $m	2019 $m	2021 vs 2020 $m	2021 vs 2020 %
Wealth	**9,123**	8,004	8,923	**1,119**	**14**
– investment distribution[1]	**3,488**	3,252	3,322	**236**	**7**
– Global Private Banking	**1,826**	1,789	1,917	**37**	**2**
net interest income	**647**	688	911	**(41)**	**(6)**
non-interest income	**1,179**	1,101	1,006	**78**	**7**
– life insurance manufacturing[2]	**2,590**	1,890	2,632	**700**	**37**
– asset management	**1,219**	1,073	1,052	**146**	**14**
Personal Banking	**12,254**	13,330	16,068	**(1,076)**	**(8)**
– net interest income[1]	**10,858**	12,070	14,381	**(1,212)**	**(10)**
– non-interest income	**1,396**	1,260	1,687	**136**	**11**
Other[2,3]	**733**	1,237	1,149	**(504)**	**(41)**
Net operating income[4]	**22,110**	22,571	26,140	**(461)**	**(2)**

1 In the fourth quarter of 2021, revenue of $62m for the full-year related to wealth lending was moved from Personal Banking to investment distribution. Comparative data have not been re-presented.

2 In the fourth quarter of 2021, revenue of $53m for the full-year, primarily related to interest on capital held in our insurance business, was moved from 'Other' to life insurance manufacturing (2020: $79m, 2019: $144m). Comparative data have been re-presented.

3 'Other' includes the distribution (where applicable) of retail and credit protection insurance, disposal gains and other non-product specific income. It also includes allocated revenue from Markets Treasury, HSBC Holdings interest expense and Argentina hyperinflation.

4 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Divisional highlights

$1.7tn

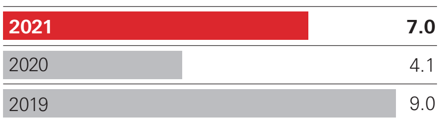
WPB wealth balances at 31 December 2021, up 5% from 31 December 2020 with net new invested assets of $64bn.

$23bn

Growth in WPB mortgage book, notably in the UK (up 7%) and Hong Kong (up 7%) since 31 December 2020.

Adjusted profit before tax
($bn)

$7.0bn



Net operating income
($bn)

$22.1bn

Financial performance

Adjusted profit before tax of $7.0bn was $2.9bn or 71% higher than in 2020. This reflected a net release of adjusted ECL as the economic outlook improved, compared with the significant build-up of allowances in 2020. Adjusted revenue fell as the impact of lower global interest rates resulted in a decrease in net interest income. This was partly offset by an increase in Wealth revenue of $1.1bn due to a net favourable movement of $434m in market impacts in insurance, higher new business in insurance (up $0.3bn), as well as growth in investment distribution (up $0.2bn) and asset management (up $0.1bn).

Adjusted revenue of $22.1bn was $0.5bn or 2% lower.

In Personal Banking, revenue of $12.3bn was down $1.1bn or 8%.

- Net interest income was $1.2bn lower due to narrower margins following the fall in global interest rates in 2020 due to the Covid-19 pandemic. This reduction was partly mitigated by deposit balance growth of $29bn or 4% and higher retail mortgage lending of $22bn or 7% across all regions, particularly in the UK and Hong Kong.
- Non-interest income increased by $0.1bn or 11%, driven by growth of mortgage fees in the UK and higher transaction volumes and spending on cards.

In Wealth, revenue of $9.1bn was up $1.1bn or 14%.

- Life insurance manufacturing revenue was $0.7bn higher, driven by a net favourable movement in market impacts of $434m. A favourable movement of $504m compared with a favourable movement of $70m in 2020, as equity markets performed strongly in 2021 compared with volatile conditions in 2020. The value of new business written was $0.3bn or 41% higher, reflecting market share growth, notably in Hong Kong, where we continued to scale up our health platforms and significantly broadened engagement with domestic customers.
- Investment distribution revenue was $0.2bn or 7% higher, driven by higher mutual fund sales in Hong Kong and mainland China.
- Asset management revenue was $0.1bn or 14% higher, driven by an increase in management fees, reflecting growth of $28bn in invested assets, and higher performance fees.
- Global Private Banking revenue was $37m or 2% higher due to growth in non-interest income of $78m or 7% driven by a rise in investment revenue, reflecting higher fees from advisory and discretionary mandates. This was partly offset by a reduction in net interest income of $41m or 6% as a result of the impact of lower global interest rates.

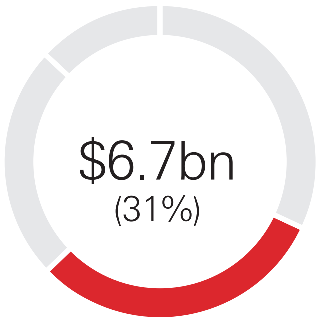
In Other, revenue fell by $0.5bn, reflecting a reduction in revenue allocated from Markets Treasury, lower interest income earned on capital held in the business and adverse valuations on properties.

Adjusted ECL were a net release of $0.3bn, reflecting an improvement in the economic outlook. This compared with a charge of $3.0bn in 2020 due to the significant build-up of allowances as a result of the Covid-19 pandemic.

Adjusted operating expenses of $15.4bn were $0.1bn lower, as the benefits of our cost-saving initiatives funded our continued investment in wealth in Asia and offset higher performance-related pay.

Commercial Banking

Contribution to Group adjusted profit before tax



We support businesses in 53 countries and territories, ranging from small enterprises to large companies operating globally.

We help businesses grow by supporting their financial needs, facilitating cross-border trade and payment services, and providing access to products and services. We help them access international markets, provide expert financial advice and offer a full suite of products and services from across the Group's other businesses.

CMB supported our customers' liquidity and working capital needs, growing lending and deposit balances in 2021. We enabled our clients to participate in the recovery in global trade volumes while dealing with supply chain constraints, increasing our fee income and trade-related lending. We also more than doubled our sustainable finance and investment compared with 2020. Performance was favourably impacted by the net release of adjusted ECL provisions, partly offset by the impact of lower interest rates globally on adjusted revenue.

	2021	2020	2019	2021 vs 2020	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**13,415**	13,718	15,594	**(303)**	**(2)**
Change in expected credit losses and other credit impairment charges	**300**	(4,989)	(1,194)	**5,289**	**106**
Operating expenses	**(6,973)**	(6,897)	(7,028)	**(76)**	**(1)**
Share of profit in associates and JVs	**1**	(1)	1	**2**	**200**
Profit before tax	**6,743**	1,831	7,373	**4,912**	**>200**
RoTE excluding significant items (%)[1]	**10.8**	1.3	13.0		

1 Since 1 January 2021, the UK bank levy has been included in the calculation of this measure. Comparative data have not been re-presented.

Supporting SMEs on the move

HSBC Kinetic provides cutting edge technology solutions to our customers and opens up a world of opportunity for small businesses. Launched on Apple's App store in 2020, Kinetic is an app-based business account that allows sole traders and other small and medium-sized enterprises to apply for an account in minutes and manage their finances on the go. Onboarding is fast, with 87% of accounts approved within 48 hours during the second half of 2021. A range of new features and services have been added to the app throughout the year, which include credit cards, digital cheque deposits, a cashflow toolkit and predictive smart alerts informing customers about critical cash shortfalls in advance.

Designed using insights from over 3,000 small and medium-sized enterprises, we brought Kinetic to 21,000 additional customers during 2021, reaching 24,000 users at the end of 2021, achieving an Apple rating of 4.8.

Management view of adjusted revenue	2021 $m	2020 $m	2019 $m	2021 vs 2020 $m	2021 vs 2020 %
Global Trade and Receivables Finance	**1,945**	1,784	1,876	**161**	**9**
Credit and Lending	**6,052**	5,828	5,617	**224**	**4**
Global Liquidity and Cash Management	**3,575**	4,252	6,066	**(677)**	**(16)**
Markets products, Insurance and Investments and Other[1]	**1,843**	1,854	2,035	**(11)**	**(1)**
– of which: share of revenue for Markets and Securities Services and Banking products	**1,065**	950	965	**115**	**12**
Net operating income[2]	**13,415**	13,718	15,594	**(303)**	**(2)**

1 Includes CMB's share of revenue from the sale of Markets and Securities Services and Banking products to CMB customers. GBM's share of revenue from the sale of these products to CMB customers is included within the corresponding lines of the GBM management view of adjusted revenue. Also includes allocated revenue from Markets Treasury, HSBC Holdings interest expense and Argentina hyperinflation.

2 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Divisional highlights

9%

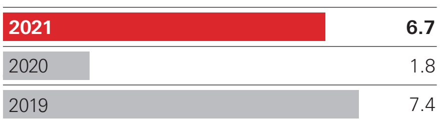
Growth in adjusted net fee income from $3.3bn in 2020 to $3.6bn in 2021, rising above pre-pandemic levels.

30%

Growth in GTRF lending from $44.4bn in 2020 to $57.6bn in 2021, growing to above pre-pandemic levels.

Adjusted profit before tax
($bn)

$6.7bn



Net operating income
($bn)

$13.4bn

Financial performance

Adjusted profit before tax of $6.7bn was $4.9bn higher than in 2020. This reflected a net release of adjusted ECL of $0.3bn in 2021 as the economic outlook improved, compared with a charge of $5.0bn in 2020 due to a significant build-up of allowances and a notable charge related to a corporate exposure in Singapore. This was partly offset by a decline in adjusted revenue, mainly due to the impact of lower global interest rates.

Adjusted revenue of $13.4bn was $0.3bn or 2% lower.

- In GLCM, revenue decreased by $0.7bn or 16%, reflecting the impact of lower global interest rates, mainly in Hong Kong and the UK. This was partly offset by a 14% increase in year-on-year average deposit balances, with growth particularly in Hong Kong, the UK and the US, as well as from an 11% increase in fee income, with growth across all regions.
- In Markets products, Insurance and Investments and Other, revenue reduced by $11m or 1%, reflecting the impact of lower global interest rates on income earned on capital held in the business and lower Markets Treasury revenue. This reduction was partly offset by a 12% increase in revenue from the sale of GBM products to CMB customers, notably Global Markets and Capital Markets and Advisory, as well as higher insurance and investment revenue.
- In Credit and Lending, revenue increased by $0.2bn or 4%, reflecting wider margins and a 9% increase in fee income, notably in the UK and North America. During 2021, we grew balances in Asia, although year-on-year average balances decreased, as customers' funding requirements fell due to Covid-19 restrictions, notably in Europe and North America.
- In GTRF, revenue rose by $0.2bn or 9%, driven by an 8% growth in fee income across all regions, partly reflecting a recovery in global trade volumes, as well as a 9% increase in average balances, notably in Asia, and higher margins in the UK.

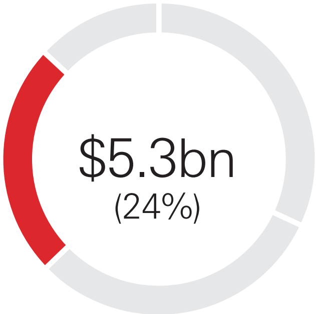
Adjusted ECL were a net release of $0.3bn, compared with a charge of $5.0bn in 2020. ECL in 2021 reflected a release of stage 1 and stage 2 allowances as the economic outlook improved, notably in the UK, although ECL were a net charge of $0.2bn in the fourth quarter, including an increase in allowances relating to recent developments in China's commercial real estate sector. This compared with the significant build-up of allowances in 2020 as a result of the adverse economic outlook due to the Covid-19 pandemic. The reduction in ECL also included lower stage 3 charges in 2021, and as 2020 included a significant charge related to a corporate exposure in Singapore.

Adjusted operating expenses of $7.0bn were $0.1bn or 1% higher, primarily reflecting an increase in performance-related pay. We continued to invest in our digital and transactional banking capabilities, as well as simplifying customer journeys for both onboarding and lending, and enhancing self-service capabilities. These investments helped us drive operational and hiring efficiencies, resulting in cost reductions, in addition to the impact of our cost-saving initiatives. From 2021, the UK bank levy was partially allocated to global businesses, which was previously retained in Corporate Centre, resulting in an additional $47m of operating expenses in 2021.

During 2021, we delivered $13bn of gross RWA reductions, taking our cumulative total to $26bn since January 2020, as part of our transformation programme.

Global Banking and Markets

Contribution to Group adjusted profit before tax



We repositioned our capital and resources in Global Banking and Markets to create capacity for growth opportunities, mainly into Asia and the Middle East, and to serve international clients that are aligned to our strategy. Our product specialists deliver a comprehensive range of transaction banking, financing, capital markets and advisory, as well as risk management services. Our products, combined with our expertise across industries, enable us to help clients achieve their sustainability goals.

GBM adjusted profit before tax increased, reflecting a net release in adjusted ECL in 2021. While adjusted revenue fell, there was continued momentum in Equities, Capital Markets and Advisory, as well as our Securities Services business, where during 2021 assets under custody surpassed $10tn for the first time. We also continued to invest in technology to support our clients and to improve our operational resilience.

	2021	2020	2019	**2021 vs 2020**	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**15,002**	15,768	15,282	**(766)**	**(5)**
Change in expected credit losses and other credit impairment charges	**337**	(1,289)	(155)	**1,626**	**126**
Operating expenses	**(10,006)**	(9,640)	(9,891)	**(366)**	**(4)**
Share of profit in associates and JVs	**—**	—	1	**—**	**—**
Profit before tax	**5,333**	4,839	5,237	**494**	**10**
RoTE excluding significant items (%)[1]	**8.6**	6.7	9.8		

1 Since 1 January 2021, the UK bank levy has been included in the calculation of this measure. Comparative data have not been re-presented.

Supporting customers to net zero

Etihad Airways has pledged to reduce CO_2 emissions to 50% of 2019 levels by 2035 on the way to reaching net zero by 2050.

As part of this transition, we helped the UAE's national airline raise $1.2bn with the first sustainability-linked loan in the global aviation industry to embed publicly disclosed environment, social and governance targets. We held joint ESG structuring and coordinator roles, as well as being joint bookrunner and mandated lead arranger. The targets included the amount of carbon emissions Etihad cuts from its passenger fleet, with financial penalties and incentives of up to $5.5m.

The loan builds on a $600m sustainability-linked Islamic bond, or sukuk, we helped arrange in October 2020.

Management view of adjusted revenue[1]	2021 $m	2020 $m	2019 $m	2021 vs 2020 $m	%
Markets and Securities Services	**8,288**	8,997	7,984	**(709)**	**(8)**
– Securities Services	**1,923**	1,832	2,075	**91**	**5**
– Global Debt Markets	**878**	1,464	1,043	**(586)**	**(40)**
– Global Foreign Exchange	**3,355**	4,140	3,179	**(785)**	**(19)**
– Equities	**1,224**	844	598	**380**	**45**
– Securities Financing	**878**	988	1,056	**(110)**	**(11)**
– Credit and funding valuation adjustments	**30**	(271)	33	**301**	**>100**
Banking	**6,610**	6,748	7,571	**(138)**	**(2)**
– Global Trade and Receivables Finance	**714**	706	703	**8**	**1**
– Global Liquidity and Cash Management	**1,838**	2,034	2,751	**(196)**	**(10)**
– Credit and Lending	**2,596**	2,687	2,785	**(91)**	**(3)**
– Capital Markets and Advisory	**1,256**	1,073	872	**183**	**17**
– Other[2]	**206**	248	460	**(42)**	**(10)**
GBM Other	**104**	23	(273)	**81**	**>100**
– Principal Investments	**377**	115	267	**262**	**>100**
– Other[3]	**(273)**	(92)	(540)	**(181)**	**>(100)**
Net operating income[4]	**15,002**	15,768	15,282	**(766)**	**(5)**

1 From 1 June 2020, revenue from Issuer Services, previously reported in Securities Services, was reported in Banking. This resulted in $80m revenue being recorded in Securities Services in 2020. Comparative data have not been re-presented.
2 Includes portfolio management, earnings on capital and other capital allocations on all Banking products.
3 Includes notional tax credits and Markets Treasury, HSBC Holdings interest expense and Argentina hyperinflation.
4 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Divisional highlights

48%

Adjusted revenue generated in Asia in 2021.

$28.9bn

Reduction in reported RWAs compared with 31 December 2020.

Adjusted profit before tax
($bn)

$5.3bn

Net operating income
($bn)

$15.0bn

Financial performance

Adjusted profit before tax of $5.3bn was $0.5bn or 10% higher than in 2020. This reflected a net release of adjusted ECL, compared with a significant build-up of allowances in 2020, although adjusted revenue fell and adjusted operating expenses rose.

Adjusted revenue of $15.0bn decreased by $0.8bn compared with 2020.

In MSS, revenue fell by $0.7bn or 8%, compared with a strong comparative period, primarily in Global Foreign Exchange and Global Debt Markets, from a reduction in client activity.

- In Equities, our diversified product mix and geographical coverage enabled us to benefit from volatility in Asian markets, particularly in wealth products, resulting in revenue growth of $0.4bn or 45%.
- In Securities Services, we continued to grow fees from client inflows and market-related growth, and increased average assets under custody by 18% to over $10tn. Net interest income decreased by 16% as lower global interest rates were in part mitigated by growth in average cash balances.

In Banking, revenue fell by $0.1bn or 2%.

- In GLCM, revenue fell by $0.2bn or 10%, as lower global interest rates compressed margins. This was partly offset by growth in average balances of 4% and increased fee income, reflecting higher transaction volumes.
- Revenue in Credit and Lending and GTRF was adversely affected by strategic actions taken to reduce RWAs.
- Capital Markets and Advisory benefited from a strong performance in leveraged and acquisition finance, particularly in the US, although debt underwriting volumes fell.

Adjusted ECL were a net release of $0.3bn, reflecting an improved economic outlook. This compared with a net charge of $1.3bn in 2020. ECL in 2021 also included an increase in allowances in the fourth quarter, reflecting recent developments in China's commercial real estate sector.

Adjusted operating expenses of $10.0bn were $0.4bn or 4% higher from an increase in performance-related pay of approximately $0.2bn and higher technology investment. From 2021, the UK bank levy was partially allocated to global businesses, which was previously retained in Corporate Centre, resulting in an additional $0.2bn of operating expenses in 2021. These increases were partly offset by the impact of our cost-saving initiatives.

At 31 December 2021, we had delivered $77bn of cumulative gross RWA reductions as part of our transformation programme, reflecting the completion of structural elements of our transformation programme and approximately 90% of our target.

Corporate Centre

The results of Corporate Centre primarily comprise the share of profit from our interests in our associates and joint ventures. It also includes Central Treasury, stewardship costs and consolidation adjustments.

Corporate Centre performance improved from 2020, mainly due to a higher adjusted share of profit from associates and joint ventures and a lower UK bank levy charge.

Financial performance

Adjusted profit before tax of $2.8bn was $1.3bn higher than in 2020 due to an increased adjusted share of profit from associates and joint ventures and a net favourable movement in adjusted operating expenses, partly offset by adverse movements in adjusted revenue.

Adjusted revenue decreased by $0.2bn, mainly in Central Treasury, from a net adverse fair value movement of $0.3bn relating to the economic hedging of interest rate and exchange rate risk on our long-term debt with associated swaps. This was partly offset by the non-recurrence of revaluation losses on investment properties in 2020.

Adjusted operating expenses were a net credit of $0.2bn, which was $0.6bn favourable compared with 2020. This was driven by a reduction of $0.6bn in the UK bank levy, reflecting a change in the basis of calculation to only include the UK balance sheet rather than the global balance sheet, and by a credit of $0.1bn relating to the 2020 charge. In addition, in 2021 the UK bank levy was partially allocated to our global businesses, notably to GBM, resulting in a further reduction of $0.2bn. The effect of these changes resulted in a net credit of $0.1bn in Corporate Centre, compared with a charge of $0.8bn in 2020. This decrease was partly offset by lower recoveries from our global businesses.

Adjusted share of profit in associates and joint ventures of $3.0bn increased by $0.8bn. The increases were from BoCom and SABB, as well as from BGF in the UK, reflecting a recovery in asset valuations relative to 2020.

	2021	2020	2019	2021 vs 2020	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**(437)**	(287)	(581)	**(150)**	**(52)**
Change in expected credit losses and other credit impairment charges	**3**	1	38	**2**	**200**
Operating expenses	**215**	(429)	(821)	**644**	**150**
Share of profit in associates and JVs	**3,011**	2,186	2,440	**825**	**38**
Profit before tax	**2,792**	1,471	1,076	**1,321**	**90**
RoTE excluding significant items (%)[1]	**5.6**	3.1	0.8		

1 Since 1 January 2021, the UK bank levy has been included in the calculation of this measure. Comparative data have not been re-presented.

	2021	2020	2019	2021 vs 2020	
Management view of adjusted revenue	**$m**	$m	$m	**$m**	**%**
Central Treasury[1]	**(99)**	157	179	**(256)**	**>(100)**
Legacy portfolios	**(33)**	(20)	(115)	**(13)**	**(65)**
Other[2]	**(305)**	(424)	(645)	**119**	**28**
Net operating income[3]	**(437)**	(287)	(581)	**(150)**	**(52)**

1 Central Treasury includes adverse valuation differences on issued long-term debt and associated swaps of $99m (2020: gains of $151m; 2019: gains of $146m).

2 Revenue from Markets Treasury, HSBC Holdings net interest expense and Argentina hyperinflation were allocated to the global businesses, to align them better with their revenue and expense. The total Markets Treasury revenue component of this allocation for 2021 was $2,339m (2020: $2,849m; 2019: $2,075m).

3 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

Risk overview

Active risk management helps us to achieve our strategy, serve our customers and communities and grow our business safely.

Managing risk

The Covid-19 pandemic and its effect on the global economy have continued to impact our customers and our organisation. Despite the successful roll-out of vaccines around the world, a varying degree of uncertainty remained throughout 2021. This was caused by new variants of Covid-19, varying vaccine effectiveness rates and the need for the reimposition of government-imposed restrictions. While the global economic recovery in 2021 eased financial difficulties for some of our customers, the future effects remain uncertain.

Key risk appetite metrics

Component	Measure	Risk appetite	2021
Capital	CET1 ratio – end point basis	≥13.0%	**15.8%**
Change in expected credit losses and other credit impairment charges	Change in expected credit losses and other credit impairment charges as a % of advances: (WPB)	≤0.50%	**(0.06)%**
	Change in expected credit losses and other credit impairment charges as a % of advances: wholesale (GBM, CMB)	≤0.45%	**(0.10)%**

Throughout the pandemic, we have continued to support our customers and adapted our operational processes. We maintained high levels of service as our people, processes and systems responded to the required changes.

The financial performance of our operations varied in different geographies, but our balance sheet and liquidity remained strong. This helped us to support our customers both during periods of government-imposed restrictions and when these restrictions were eased.

Tensions between China and the US, the UK, the EU, India and other countries were heightened during 2021. In addition, the potential for an escalation of hostilities between Russia and Ukraine further complicates the geopolitical landscape. The macroeconomic, trade and regulatory environments have become increasingly fragmented through disruptions to supply chains, increasing inflationary pressures, and market concerns regarding potential impacts following instability in China's commercial real estate sector. We continue to monitor the situation closely.

We continued to focus on improving the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and key stakeholders.

Our risk appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels. Additionally, it supports senior management in allocating capital, funding and liquidity optimally to finance growth, while monitoring exposure to non-financial risks.

Capital and liquidity are at the core of our risk appetite framework, with forward-looking statements informed by stress testing. We continue to evolve our climate risk appetite to reflect the risks from climate change, setting out the measures we intend to take to support our climate ambition and our commitments to regulators, investors and stakeholders.

During 2021, metrics monitoring the change in expected credit losses and other credit impairment charges returned to within their defined risk appetite thresholds. This was achieved by the release in allowances for expected credit losses, reflecting: an improvement of the economic outlook; the adaption of our strategy following the Covid-19 pandemic; enhancements to how we monitor risks; reviews of our portfolios that are highly vulnerable to the economic environment; and the implementation of additional review measures for new credit requests.

Stress tests

We regularly conduct stress tests to assess the resilience of our balance sheet and our capital adequacy, as well as to provide actionable insights into how key elements of our portfolios may behave during crises. We use the outcomes to calibrate our risk appetite and to review the robustness of our strategic and financial plans, helping to improve the quality of management's decision making. Stress testing analysis assists management in understanding the nature and extent of vulnerabilities to which the Group is exposed. The results from the stress tests also drive recovery and resolution planning to help enhance the Group's financial stability under various macroeconomic scenarios. The selection of stress scenarios is based upon the identification and assessment of our top and emerging risks identified and our risk appetite.

In 2021, the Bank of England ('BoE') required all major UK banks to conduct a solvency stress test to assess whether the capital buffers that banks had built during the Covid-19 pandemic were sufficient to deal with a prevailing stress period. This exercise differed from previous BoE stress tests, which were used to determine the capital requirements for participating banks. The 2021 solvency stress test incorporated a 'double dip' scenario, whereby an economy faces a recession and then a partial or full recovery for a short period of time before entering a second recessionary period. Additionally, it represented an intensification of the macroeconomic shocks seen in 2020, with economic weaknesses persisting around the world, leading to ongoing weaknesses in global GDP.

We also conducted our own internal stress test, which explored the potential impacts of key vulnerabilities to which we are exposed, including geopolitical issues and the Covid-19 pandemic. The internal stress test considered the impacts of various risk scenarios across all risk types and on capital resources. The results of the internal stress test were shared with senior management, and showed that after taking appropriate actions, the Group would remain adequately capitalised.

In 2021, the Prudential Regulation Authority ('PRA') requested all major UK banks to run a climate-related stress test to explore the impacts of a set of scenarios: an early policy action, a late policy action and no additional

Managing risk continued

policy action. To support the requirements for assessing the impacts of climate change, we have developed a set of capabilities to execute climate stress testing and scenario analysis. These are used to improve our understanding of our risk exposures for risk management and business decision making. In addition to the PRA requirements, we also delivered regulatory climate change stress testing exercises to a number of other regulators including the Hong Kong Monetary Authority and the Monetary Authority of Singapore. These have provided us with insights to identify appropriate areas of further development and actions to mitigate against the impact of climate change.

Our operations
We remain committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to help protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. We continue to operate in a challenging environment in which cyber threats are prevalent. We continue to invest in business and technical controls to help defend against these threats.

We are making progress with the implementation of our business transformation plans, while seeking to ensure that we are able to manage safely the risks of the restructuring, which include execution, operational, governance, reputational, conduct and financial risks.

For further details on our risk management framework and risks associated with our banking and insurance manufacturing operations, see pages 135 and 136 of our *ARA 2021* respectively.

Risks related to Covid-19

A global vaccination roll-out in 2021 helped reduce the social and economic impact of the Covid-19 pandemic, although there has been significant divergence in the speed at which vaccines have been deployed around the world. By the end of 2021, high vaccination rates had ensured that many Covid-19-related restrictions on activity in developed markets had been lifted and travel constraints were easing. However, the emergence of the Omicron variant in late 2021 demonstrated the continued risk new variants pose. There remains a divergence in approach taken by countries to the level of restrictions on activity and travel in response to the pandemic. Such diverging approaches to future pandemic waves could prolong or worsen supply chain and international travel disruptions. A full return to pre-pandemic levels of social interaction across all our key markets is unlikely in the short to medium term.

Our ECL models continue to be impacted by the pandemic, as a result of the continued economic uncertainty caused by new Covid-19 variants. We continued to carry out enhanced monitoring of model outputs and use of model overlays, including management judgemental adjustments based on the expert judgement of senior credit risk managers. In addition, we recalibrated certain key loss models to take into account the impacts of Covid-19 on critical model inputs. We also responded to complex conduct considerations and heightened risk of fraud related to the varying government support measures and restrictions. The continued economic uncertainty resulting from the pandemic could adversely impact our revenue assumptions, notably volume growth.

Our operations have been resilient throughout the pandemic. However, the operational support functions on which the Group relies are based in a number of countries worldwide, some of which have been particularly affected by the Covid-19 pandemic during 2021. As a result, business continuity responses have been implemented and the majority of service level agreements have been maintained in locations where the Group operates. We continue to monitor the situation closely, in particular in those countries and regions where Covid-19 infections are most prevalent and/or where travel restrictions are in place.

For further details on our approach to the risks related to Covid-19, see 'Areas of special interest' on page 131 of our *ARA 2021*.

Geopolitical and macroeconomic risks

The macroeconomic, trade and regulatory environment has become increasingly fragmented, with the spread of new variants of Covid-19, alongside other factors, continuing to disrupt supply chains in several industries globally. It remains to be seen how supply chains will be impacted by the Omicron or other future variants. The mismatch between supply and demand has pushed up commodity and other prices, particularly in the energy sector, creating further challenges for monetary authorities and our customers. Against the backdrop of both a vaccine-led economic recovery and increasing inflationary pressures, interest rates generally rose during 2021. Central banks in developed markets have either begun, or are expected to soon begin, to raise benchmark rates in order to help ease inflationary pressures, although rates are expected to remain low by historical standards, as uncertainties over the economic outlook continue.

Market concerns remain about repercussions for the Chinese domestic economy from recent instability in its commercial real estate sector. Such repercussions may occur directly through financial exposures to the Chinese commercial real estate sector, or indirectly through the effect of a slowdown in economic activity in China and in the supply chain to the real estate sector. According to the Chinese government's 'three red lines' framework used to govern the real estate sector, at 31 December 2021 we had no direct credit exposure to developers in the 'red' category, noting that deteriorating operating performance and challenging liquidity conditions were seen more broadly across the sector. We continue to monitor the situation closely, including potential indirect impacts, and seek to take mitigating actions as required.

In December 2021, the OECD published model rules that provided a template for countries to implement a new global minimum tax rate of 15% from 2023. In January 2022, the UK government opened a consultation on how the UK plans to implement the rules. The impact on HSBC will depend on exactly how the UK implements the model rules, as well as the profitability and local tax liabilities of HSBC's operations in each tax jurisdiction from 2023. Separately, potential changes to tax legislation and tax rates in the countries in which we operate could increase our effective tax rate in future as governments seek revenue to pay for Covid-19 support packages.

Heightened tensions across the geopolitical landscape could also have implications for the Group and its customers. The relationship between the UK and the EU may come under further strain in 2022 with a number of potential areas of tension, notably the Northern Ireland Protocol, with possible repercussions for the operation of the EU-UK Trade and Cooperation Agreement. Diplomatic tensions between China and the US, and extending to the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, may affect the Group, creating regulatory, reputational and market risks. The US, the UK, the EU, Canada and other countries have imposed various sanctions and trade

Geopolitical and macroeconomic risks continued

restrictions on Chinese individuals and companies. In response, China has announced sanctions, trade restrictions and laws that could impact the Group and its customers.

The financial impact on the Group of geopolitical risks in Asia is heightened owing to the strategic importance of the region in terms of profitability and prospects for growth.

Business sentiment in some sectors in Hong Kong remains subdued, although the financial services sector has remained strong and has benefited from stable liquidity conditions.

Additionally, the US, the UK and the EU have threatened to expand sanctions significantly against Russia in response to an increasing risk of hostilities in Ukraine, which, together with any military conflict, could impact global markets as well as the Group and its customers. We continue to monitor developments and seek to manage the associated impacts on our customers and business.

For further details on our approach to geopolitical and macroeconomic risks, see 'Top and emerging risks' on page 124 of our *ARA 2021*.

Climate risk

In 2021, the pace and volume of policy and regulatory changes and expectations increased, amid a global focus on formalising climate risk management, stress testing and scenario analysis and disclosures. We aim to manage climate risk across all our businesses in line with our Group-wide risk management framework. Our most material risks in terms of managing climate risk relate to corporate and retail client financing within our banking portfolio, but there are also significant responsibilities in relation to asset ownership by our insurance business and employee pension plans, as well as from the activities of our asset management business.

Climate change can have an impact across our risk taxonomy through both transition and physical channels. These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for HSBC.

We continue to monitor the impacts of climate risk and accelerate the development of our climate risk management capabilities, through our dedicated climate risk programme. While financed emissions and other climate risk reporting has improved over time, data remains of limited quality and consistency. Developments in data and methodologies are expected to continue to help improve and enhance our measurement and reporting of climate risk and financed emissions.

For further details of our approach to climate risk management, see 'Areas of special interest' on page 131 of our *ARA 2021*.

Ibor transition

During 2021, our interbank offered rate ('Ibor') transition programme – which is tasked with the development of new near risk-free rate ('RFR') products and the transition of legacy Ibor products – continued to facilitate engagement with our clients, and finalise IT and operational changes necessary to enable an orderly transition from Ibors to RFRs, or alternative benchmarks, such as policy interest rates. Following the announcement by ICE Benchmark Administration Limited in March 2021 that the publication of the US dollar London interbank offer rate ('Libor') would be extended to 30 June 2023, the Group's transition programme focused mainly on client engagement for sterling, Swiss franc, euro and Japanese yen Libor interest rates, as well as Euro Overnight Index Average ('Eonia'). These interest rate benchmarks were all demised from the end of 2021 although six sterling and Japanese yen settings are currently being published under an amended methodology, commonly known as 'synthetic' Libor. Over 90% of legacy contracts referencing rates that were demised from the end of 2021 were transitioned prior to 31 December 2021. The programme continues to support customers with transitioning remaining contracts linked to these rates, as well as customers whose contracts are utilising 'synthetic' sterling or Japanese yen Libor rates. In 2022, the programme will focus on the transition of these remaining contracts in addition to the wider portfolio of US dollar Libor legacy contracts.

At 31 December 2021, our exposure to contracts referencing rates that were demised from the end of 2021 included: contracts that have been transitioned but are yet to reach the next subsequent relevant interest payment date; contracts where the Ibor rate exposure only arises at a future date; legacy Ibor contracts that included robust industry fallback provisions that were invoked after 31 December 2021; and a small proportion of so-called 'tough legacy' contracts which will either use a 'synthetic' Libor or a contractual fallback rate.

For any 'tough legacy' contracts we continue to work with our clients and investors with the aim of transitioning them to appropriate products and interest rates at the earliest opportunity. In the meantime, these contracts will be valued using the appropriate interest rate methodology.

The key risks associated with Ibor transition beyond 2021 are unchanged and include regulatory compliance risk, resilience risk, financial reporting risk, legal risk and market risk. For 'tough legacy' contracts, we closely monitor legal, resilience and regulatory compliance risks. For the US dollar legacy portfolio these risks continue to be actively managed and mitigated with a focus on ensuring that fair outcomes for our clients are achieved.

For further details on our approach to Ibor transition, see 'Top and emerging risks' on page 124 of our *ARA 2021*.

Top and emerging risks

Our top and emerging risks identify forward-looking risks so that they can be considered in determining whether any incremental action is needed to either prevent them from materialising or to limit their effect.

Top risks are those that have the potential to have a material adverse impact on the financial results, reputation or business model of the Group. We actively manage and take actions to mitigate our top risks, Emerging risks are those that while they could have a material impact on our risk profile were they to occur, are not considered immediate and are under regular review.

Our suite of top and emerging risks is subject to regular review by senior governance forums. In December 2021, we amended our top and emerging risks. 'Environmental, social and governance' replaced 'Climate-related risks' to cover the wider scope of climate, nature and human rights risks. 'Digitalisation and technological advances' was added as a new risk to capture the emerging strategic and operational risks associated with the advancement of technology.

Risk	Trend	Mitigants
Externally driven		
Geopolitical and macroeconomic risks	▶	We monitor macroeconomic risks and risks posed by heightened tensions across the geopolitical landscape. We adopt procedures and controls based on an assessment of the potential impacts on our portfolios. We maintain heightened monitoring activities to identify sectors and customers experiencing financial difficulties from the Covid-19 pandemic. In light of geopolitical tensions, we assess those sectors likely to be particularly impacted by laws and regulatory actions resulting from such tensions.
Cyber threat and unauthorised access to systems	▶	We help protect our customers and organisation by investing in our cybersecurity capabilities, helping us to execute our business priorities and grow safely. We focus on controls to prevent, detect and mitigate the impacts of persistent and increasingly advanced cyber threats. We closely monitor the continued dependency on widespread remote working and online facilities.
Regulatory compliance risk environment, including conduct	▶	We monitor regulatory and wider industry developments closely and engage with regulators, as appropriate, to help ensure new regulatory requirements are implemented effectively and in a timely way, adjusting our policies, procedures and relevant controls as required. We keep abreast of the emerging regulatory compliance and conduct agenda. Current areas of focus include developments in areas such as ESG, operational resilience, digital and technology changes (including payments), how we are ensuring good customer outcomes (including addressing customer vulnerabilities), regulatory reporting and employee compliance.
Financial crime risk environment	▶	We continued to support our customers as our financial crime landscape evolved due to the Covid-19 pandemic, and as geopolitical, socioeconomic and technological shifts occurred across our markets. We continued to make improvements to our financial crime controls as emerging risks were identified, and to invest in advanced analytics and artificial intelligence as key elements of our next generation of tools to fight financial crime.
Ibor transition	▶	We remain focused on completing the system and product updates to support additional geographies in the transition of demising Libor benchmarks, in particular US dollar Libor. We continue to support the transition of all legacy contracts referencing demised and demising Ibor benchmarks, including from any sterling or Japanese yen contracts using 'synthetic' Libor. Throughout 2022, there will be an increasing focus on customer engagement for US dollar Libor-related transition activities.
Environmental, social and governance	▲	ESG risk has increased owing to the pace and volume of regulatory developments globally, with the focus on formalising climate risk management, enhanced disclosures, and integration of other ESG risks such as nature-related risks and human rights. Some stakeholders are also placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. We continue to develop our approach and engage with our stakeholders on ESG risk.
Digitalisation and technological advances	▲	We monitor advances in technology to understand how changes may impact our customers and business. We closely monitor and assess the potential for consequent financial crime and the resulting impact on payment transparency and architecture.
Internally driven		
IT systems infrastructure and resilience	▶	We monitor and improve IT systems and network resilience to minimise service disruption and improve customer experience. To support the business strategy, we continue to strengthen our end-to-end service management, build and deployment controls and system monitoring capabilities.
Risks associated with workforce capability, capacity and environmental factors with potential impact on growth	▶	We monitor workforce capacity and capability requirements in line with our published growth strategy. We have measures to support our people to work safely during the Covid-19 pandemic, and to integrate them back into the workplace as government restrictions ease. We monitor people risks that may arise due to business transformation to help manage redundancies sensitively and support impacted employees.
Risks arising from the receipt of services from third parties	▶	We continually enhance our third-party risk management framework as our supply chain evolves, and to stay aligned to the latest regulatory expectations. We closely monitor for Covid-19-related impacts on the delivery of services to the Group, with businesses and functions taking appropriate action where needed.
Model risk management	▶	We continue to strengthen our oversight of models and model risk controls. We are redeveloping our capital models to reflect the evolving regulatory requirements, and in some cases the potential effects from the Covid-19 pandemic. Ibor models impacted by the switch to new alternative risk-free rates are also being redeveloped. We enhanced the oversight of models used in financial reporting processes in light of the potential impacts from the uncertain external environment.
Data management	▶	We protect our customers and organisation by making focused investments in capabilities that manage data risk. We focus on controls that manage data governance, usage, integrity, privacy and retention. During 2021, we refreshed our data strategy and continued to improve our approach to data risk management and reporting.
Change execution risk	▶	We continue to monitor and manage our change execution risk, including our capacity and resources to meet the increased levels of change associated with the delivery of our strategic priorities and regulatory requirements. We are working to deliver sustainable change efficiently and safely, through the embedding of a change framework launched in May 2021.

▲ Risk heightened during 2021 ▶ Risk remained at the same level as 2020

Long-term viability and going concern statement

Under the UK Corporate Governance Code, the Directors are required to provide a viability statement that must state whether the Group will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks it faces. They must also specify the period covered by, and the appropriateness of, this statement.

The Directors have specified a period of three years to 31 December 2024. They are satisfied that a forward-looking assessment of the Group for this period is sufficient to enable a reasonable statement of viability. In addition, this period is covered by the Group's stress testing programmes, and its internal projections for profitability, key capital ratios and leverage ratios. Notwithstanding this, our stress testing programmes also cover scenarios out to five years and our assessment of risks are beyond three years where appropriate:

– This period is representative of the time horizon to consider the impact of ongoing regulatory changes in the financial services industry.
– Our updated business plan covers 2022–2026.

The Board, having made appropriate enquiries, is satisfied that the Group as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it therefore continues to adopt the going concern basis in preparing the financial statements.

Based upon their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet liabilities as they fall due over the next three years.

In making their going concern and viability assessments, the Directors have considered a wide range of detailed information relating to present and potential conditions, including projections for profitability, cash flows, capital requirements and capital resources.

The Directors carried out a robust assessment of the emerging and principal risks facing the Group to determine its long-term viability, including those that would threaten its solvency and liquidity. They determined that the principal risks are the Group's top and emerging risks as set out on page 40. These include risks related to geopolitical and macroeconomic risks (including in relation to Covid-19), which have remained at the same level as 2020. Environmental, social and governance risk has replaced the former Climate-related risks theme to cover the wider scope of climate, nature and human rights, and digitalisation and technological advances has been added as a new theme to capture the emerging strategic and operational risks associated with the advancement of technology. Both of these risks were at a heightened level during 2021.

The Directors assessed that all of the top and emerging risks identified are considered to be material and, therefore, appropriate to be classified as the principal risks to be considered in the assessment of viability. They also appraised the impact that these principal risks could have on the Group's risk profile, taking account of mitigating actions planned or taken for each, and compared this with the Group's risk appetite as approved by the Board.

In carrying out their assessment of the principal risks, the Directors considered a wide range of information including:

– details of the Group's business and operating models, and strategy;
– details of the Group's approach to managing risk and allocating capital;
– a summary of the Group's financial position considering performance, its ability to maintain minimum levels of regulatory capital, liquidity funding and the minimum requirements for own funds and eligible liabilities over the period of the assessment. Notable are the risks which the Directors believe could cause the Group's future results or operations to adversely impact any of the above;
– enterprise risk reports, including the Group's risk appetite profile (see page 121 of our *ARA 2021*) and top and emerging risks (see page 124 of our *ARA 2021*);
– the impact on the Group due to the Covid-19 pandemic including the emergence of the Delta and Omicron variants; recent instability in China's commercial real estate sector; and strained economic and diplomatic tensions between China and the US, the UK, the EU and other countries;
– reports and updates regarding regulatory and internal stress testing. During 2021, the Bank of England ('BoE') mandated an industry-wide solvency stress test exercise, which incorporated a 'double dip' scenario and represented an intensification of the macroeconomic shocks seen in 2020. The outcomes of the stress test showed that taking account of strategic management actions, the Group would remain adequately capitalised;
– the results of our 2021 climate stress testing and scenario analysis exercise. No issues were identified around the going concern status of the Group. Further details of the insights from the 2021 climate stress test are explained from page 57 of our *ARA 2021*;
– reports and updates from management on risk-related issues selected for in-depth consideration;
– reports and updates on regulatory developments;
– legal proceedings and regulatory matters set out in Note 34 on the financial statements in our *ARA 2021*; and
– reports and updates from management on the operational resilience of the Group.

Aileen Taylor
Group Company Secretary and Chief Governance Officer

22 February 2022

Supplementary information

Shareholder enquiries and communications

Enquiries

Any enquiries relating to shareholdings on the share register (for example, transfers of shares, changes of name or address, lost share certificates or dividend cheques) should be sent to the Registrars at the address given below. The Registrars offer an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

Principal Register:	Hong Kong Overseas Branch Register:	Bermuda Overseas Branch Register:
Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom Telephone: +44 (0) 370 702 0137 Email via website: www.investorcentre.co.uk/contactus	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong Telephone: +852 2862 8555 Email: hsbc.ecom@computershare.com.hk	Investor Relations Team HSBC Bank Bermuda Limited 37 Front Street Hamilton HM 11 Bermuda Telephone: +1 441 299 6737 Email: hbbm.shareholder.services@hsbc.bm
Investor Centre: www.investorcentre.co.uk	Investor Centre: www.investorcentre.com/hk	Investor Centre: www.investorcentre.com/bm

Any enquiries relating to ADSs should be sent to the depositary:

The Bank of New York Mellon
Shareowner Services
PO Box 505000
Louisville, KY 40233-5000
USA

Telephone (US): +1 877 283 5786
Telephone (International): +1 201 680 6825

Email:
shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

If you have elected to receive general shareholder communications directly from HSBC Holdings, it is important to remember that your main contact for all matters relating to your investment remains the registered shareholder, or custodian or broker, who administers the investment on your behalf. Therefore, any changes or queries relating to your personal details and holding (including any administration of it) must continue to be directed to your existing contact at your investment manager or custodian or broker. HSBC Holdings cannot guarantee dealing with matters directed to it in error.

Shareholders who wish to receive a hard copy of this Strategic Report 2021 should contact HSBC's Registrars. Please visit www.hsbc.com/investors/investor-contacts for further information. You can also download an online version of the report from www.hsbc.com.

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 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/investors/shareholder-information/manage-your-shareholding. 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 the address given above. Printed copies will be provided without charge.

Chinese translation
A Chinese translation of this *Strategic Report 2021* will be available upon request after 25 March 2022 from the Registrars:

Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom

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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。

股東如已委託其他人士代為持有股份，可能會獲提名（「獲提名人士」）收取滙豐根據英國《2006年公司法》第146條的規定發出的通訊。獲提名人士之主要聯絡人仍為登記股東（例如：股票經紀、投資經理、託管商或代表閣下管理投資的其他人士）。獲提名人士的個人資料及持股量（包括任何相關管理事宜）如有任何變更或查詢，必須繼續交由登記股東而非滙豐的股份登記處辦理，除非滙豐根據英國《2006年公司法》行使其中一項權力時，直接致函獲提名人士要求回應，則屬例外。

Status of the Strategic Report 2021

This is a part of HSBC Holdings plc's *Annual Report and Accounts 2021* 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 2021*.

Copies of the Annual Report and Accounts 2021

Shareholders who wish to receive a hard copy of this *Strategic Report 2021* or *Annual Report and Accounts 2021* should contact HSBC's Registrars. Please visit www.hsbc.com/investors/investor-contacts for further information.

The Strategic Report 2021 and *Annual Report and Accounts 2021* may also be downloaded from the HSBC website, www.hsbc.com.

Report of the auditors

The auditors' report in respect of the Annual Report and Accounts of HSBC Holdings plc for the year ended 31 December 2021, which includes their statement under section 496 of the Companies Act 2006 in respect of whether the Strategic Report and the Report of the Directors are consistent with the audited financial statements, 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.

Published by Global Finance,
HSBC Holdings plc, London

Designed by Superunion, London

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