HSBC Holdings plc

Strategic Report 2022

HSBC | Opening up a world of opportunity

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 and strategy on pages 4 and 11.

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Cover image: Opening up a world of opportunity
Our cover features Stitt, one of HSBC's two bronze lions. Touching the lion's paw was said to bring good luck, and that tradition continues today. The lions, Stephen and Stitt, designed by British sculptor Henry Poole, were commissioned to celebrate the opening of the newly-rebuilt HSBC building on the Bund in Shanghai in 1923. Stephen and Stitt represent the strength and endurance that is part of our heritage. Loyal and proud, they stand guard outside our offices in Hong Kong, London and Shanghai, and symbolise good fortune and stability.

This *Strategic Report* was approved by the Board on 21 February 2023.

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 29.

None of the websites referred to in this *Strategic Report 2022* and our *Annual Report and Accounts 2022* (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.

References to the *Annual Report and Accounts 2022*
All page references in this *Strategic report 2022* from page 43 onwards refer to their location in our *Annual Report and Accounts 2022*, which can be found at www.hsbc.com/investors/results-and-announcements/annual-report.

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Performance in 2022

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

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

Delivery against our financial targets

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

- 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 can be found on page 26.

Return on average tangible equity

9.9%

Target: ≥12% from 2023 onwards.
(2021: 8.3%)

Adjusted operating expenses

$30.5bn

Target: 2022 adjusted operating expenses broadly stable compared with 2021.
(2021: $30.1bn)

Gross risk-weighted asset reduction

$128bn

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

Common equity tier 1 capital ratio

14.2%

Target: >14%, managing in the range of 14% to 14.5% in the medium term; and manage the range down further long term.
(2021: 15.8%)

Dividend per share

$0.32

2022 payout ratio: 44%
Updated target: dividend payout ratio of 50% for 2023 and 2024, excluding material significant items.
Previous target: sustainable cash dividends with a payout ratio of 40% to 55% from 2022 onwards.

Strategic performance indicators

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

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

- Read more on our strategic progress on page 11.
- Read more on how we set and define our environmental, social and governance metrics on page 16.
- Read more on our financed emissions scope, methodology and terminology on page 50, and our definition of sustainable finance and investment on page 57.

Capital allocation to Asia

47%

Tangible equity as a percentage of the Group's (excluding associates, holding companies, and consolidation adjustments).
(2021: 42%)

Net new invested assets

$80bn

Generated in 2022, of which $59bn were in Asia.

Gross cost saves

$5.6bn

Delivered from our cost-reduction programme, with an expected additional $1bn in 2023, and a total programme cost of $6.5bn.

Gender diversity

33.3%

Women in senior leadership roles.
(2021: 31.7%)

Sustainable finance and investment

$210.7bn

Cumulative total provided and facilitated since January 2020.
(2021: $126.7bn)

Net zero in our own operations

58.5%

Cumulative reduction in absolute greenhouse gas emissions from 2019 baseline.
(2021: 50.3%)

Financed emissions targets

8 sectors

Number of sectors where we have set on-balance sheet financed emissions targets.

Highlights

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

Financial performance (vs 2021)

- **Reported profit before tax fell by $1.4bn to $17.5bn,** including an impairment on the planned sale of our retail banking operations in France of $2.4bn. **Adjusted profit before tax increased by $3.4bn to $24.0bn. Reported profit after tax increased by $2.0bn to $16.7bn,** including a $2.2bn credit arising from the recognition of a deferred tax asset.
- **Reported revenue increased by 4% to $51.7bn,** driven by strong growth in net interest income, with increases in all of our global businesses, and higher revenue from Global Foreign Exchange in Global Banking and Markets ('GBM'). This was in part offset by a $3.1bn adverse impact of foreign currency translation differences, the impairment on the planned sale of our retail banking operations in France and adverse movements in market impacts in insurance manufacturing in Wealth and Personal Banking ('WPB'). In addition, fee income fell in both WPB and GBM. **Adjusted revenue increased by 18% to $55.3bn.**
- **Net interest margin ('NIM') of 1.48% increased by 28 basis points ('bps'),** reflecting interest rate rises.
- **Reported expected credit losses and other credit impairment charges ('ECL') were $3.6bn,** including allowances to reflect increased economic uncertainty, inflation, rising interest rates and supply chain risks, as well as the ongoing developments in mainland China's commercial real estate sector. These factors were in part offset by the release of most of our remaining Covid-19-related reserves. This compared with releases of $0.9bn in 2021. ECL charges were 36bps of average gross loans and advances to customers.
- **Reported operating expenses decreased by $1.3bn or 4% to $33.3bn,** reflecting the favourable impact of foreign currency translation differences of $2.2bn and ongoing cost discipline, which were in part offset by higher restructuring and other related costs, increased investment in technology and inflation. **Adjusted operating expenses increased by $0.4bn or 1.2% to $30.5bn,** including a $0.2bn adverse impact from retranslating the 2022 results of hyperinflationary economies at constant currency.
- **Customer lending balances fell by $121bn on a reported basis. On an adjusted basis, lending balances fell by $66bn,** reflecting an $81bn reclassification of loans, primarily relating to the planned sale of our retail banking operations in France and the planned sale of our banking business in Canada, to assets held for sale. Growth in mortgage balances in the UK and Hong Kong mitigated a reduction in term lending in Commercial Banking ('CMB') in Hong Kong.
- **Common equity tier 1 ('CET1') capital ratio of 14.2% reduced by 1.6 percentage points,** primarily driven by a decrease of a 0.8 percentage point from new regulatory requirements, a reduction of a 0.7 percentage point from the fall in the fair value through other comprehensive income ('FVOCI') and a 0.3 percentage point fall from the impairment following the reclassification of our retail banking operations in France to held for sale. Capital generation was mostly offset by an increase in risk-weighted assets ('RWAs') net of foreign exchange translation movements.
- **The Board has approved a second interim dividend of $0.23 per share, making a total for 2022 of $0.32 per share.**

Outlook

- The impact of our growth and transformation programmes, as well as higher global interest rates, give us **confidence in achieving our return on average tangible equity ('RoTE') target of at least 12% for 2023 onwards.**
- Our revenue outlook remains positive. Based on the current market consensus for global central bank rates, **we expect net interest income of at least $36bn in 2023** (on an IFRS 4 basis and retranslated for foreign exchange movements). We intend to update our net interest income guidance at or before our first quarter results to incorporate the expected impact of IFRS 17 'Insurance Contracts'.
- While we continue to use a range of 30bps to 40bps of average loans for planning our ECL charge over the medium to long term, given current macroeconomic headwinds, **we expect ECL charges to be around 40bps in 2023** (including lending balances transferred to held for sale). We note recent favourable policy developments in mainland China's commercial real estate sector and continue to monitor events closely.
- We retain our focus on cost discipline and **will target 2023 adjusted cost growth of approximately 3%** on an IFRS 4 basis. This includes up to $300m of severance costs in 2023, which we expect to generate further efficiencies into 2024. There may also be an incremental adverse impact from retranslating the 2022 results of hyperinflationary economies at constant currency.
- **We expect to manage the CET1 ratio within our medium-term target range of 14% to 14.5%.** We intend to continue to manage capital efficiently, returning excess capital to shareholders where appropriate.
- Given our current returns trajectory, **we are establishing a dividend payout ratio of 50% for 2023 and 2024,** excluding material significant items, with consideration of buy-backs brought forward to our first quarter results in May 2023, subject to appropriate capital levels. We also intend to revert to paying quarterly dividends from the first quarter of 2023.
- Subject to the completion of the sale of our banking business in Canada, **the Board's intention is to consider the payment of a special dividend of $0.21 per share as a priority use of the proceeds generated by completion of the transaction.** A decision in relation to any potential dividend would be made following the completion of the transaction, currently expected in late 2023, with payment following in early 2024. Further details in relation to record date and other relevant information will be published at that time. Any remaining additional surplus capital is expected to be allocated towards opportunities for organic growth and investment alongside potential share buy-backs, which would be in addition to any existing share buy-back programme.

Strategic progress

- We have made progress in implementing our transformation programme, **establishing a platform for future growth.**
- During 2022, we took further actions to reshape the Group. **In November 2022, we announced the planned sale of our banking business in Canada, which is expected to be completed in late 2023, subject to regulatory and governmental approvals.** In addition, we are in the process of disposing of our retail banking operations in France, as well as exiting our businesses in Greece and Russia, subject to regulatory and governmental approvals.
- As part of our efforts to improve the returns profile of the Group, **we surpassed our gross RWA reduction target, generating cumulative gross RWA reductions of $128bn since the start of the programme in 2020.**
- Our cost-reduction programme continued to make progress, with a further $2.3bn of gross cost savings recognised in 2022. **Since the start of the programme in 2020, we have realised gross savings of $5.6bn, with cost to achieve spend of $6.5bn.** While our three-year cost to achieve programme has now concluded, the Group-wide focus on cost discipline remains resolute.
- We have continued to invest and grow in the areas in which we are strongest. **In our Wealth business in Asia, we attracted net new invested assets of $59bn in 2022.**

ESG highlights

Transition to net zero

- We have **set interim 2030 targets for on-balance sheet financed emissions for eight sectors.** These include six sectors for which we have reported 2019 and 2020 emissions: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. We have also set targets for thermal coal power and thermal coal mining. We recognise that methodologies and data for measuring emissions will continue to evolve.
- We published an updated energy policy, which is an important mechanism to help **phase down the financed emissions of our energy portfolio in line with a 1.5°C pathway.** We also updated our thermal coal phase-out policy with new targets to **reduce absolute on-balance sheet financed emissions from thermal coal mining and coal-fired power,** and extended the policy to exclude finance for the specific purposes of new metallurgical coal mines.
- Since 2020, we have **provided and facilitated $210.7bn of sustainable finance and investment, an increase of $84.2bn in the past year.**
- Within our own operations, **we have made a 58.5% cumulative reduction in our absolute greenhouse gas emissions from a 2019 baseline.** We also published supply chain emissions as part of our scope 3 disclosures for the first time.

Build inclusion and resilience

- Having surpassed our 2020 target to reach 30% women in senior leadership roles, **we have made progress towards our goal to achieve 35% by 2025, with 33.3% achieved in 2022.** We continue to make progress towards the target we set in 2020 to at least double the number of Black senior leaders within five years.
- **We have stepped up efforts to support customers in the face of inflation and the rising cost of living,** particularly in the UK. We have focused on early intervention, using data analysis to identify potentially impacted customers in our WPB and CMB businesses, signpost to relevant resources, and provide tailored support.
- We are working to make the banking experience more accessible in both physical and digital spaces. We are committed to ensuring that our **digital channels are usable by everyone, regardless of ability.** The introduction of features such as safe spaces, quiet hours and talking ATMs are helping to make our physical spaces more accessible as well.

Act responsibly

- We conducted a review of our **salient human rights issues,** including stakeholder consultation with non-governmental organisations ('NGOs') and potentially affected groups.
- We aim to be a top-three bank for customer satisfaction. While our net promoter scores have improved in many of our key markets, we have more work to do to improve our position relative to peers, as some have improved their performance more quickly.
- We have launched a **sustainable procurement mandatory procedure** for our employees and a **new supplier code of conduct** to help ensure our sustainability objectives are embedded in the way we operate and do business with suppliers.

Who we are

HSBC is one of the largest banking and financial services organisations in the world. We aim to create long-term value for our shareholders and capture opportunity.

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

Our strategy

Our strategy supports our ambition of being the preferred international financial partner for our clients, centred around four key areas.

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

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.

Energise for growth
We are building a dynamic and inclusive culture, and empowering our people by helping them develop future skills.

Transition to net zero
We are helping the transition to a net zero economy by transforming ourselves, and supporting our customers to make their own transitions.

For further details on our strategy, see pages 11 to 13.

Our global reach

Our global businesses serve around 39 million customers worldwide through a network that covers 62 countries and territories.

Our customers range from individual savers and investors to some of the world's biggest companies, governments and international organisations. We aim to connect them to opportunities and help them to achieve their ambitions.

Assets of
$3.0tn

Approximately
39m
Customers bank with us[1]

Operations in
62
Countries and territories

We employ approximately
219,000
Full-time equivalent staff

For further details of our customers and approach to geographical information, see page 108.

1 Our customer numbers exclude those acquired through our purchase of L&T Investment Management.

Our global businesses

We serve our customers through three global businesses.

On pages 31 to 37 we provide an overview of our performance in 2022 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.

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.

For further details, see page 31.

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

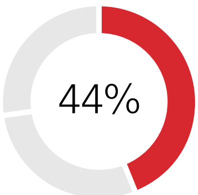
For further details, see page 33.

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

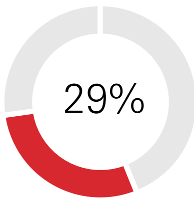
For further details, see page 35.

Adjusted revenue by global business[1]

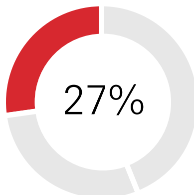
Wealth and Personal Banking



Commercial Banking



Global Banking and Markets



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 $596m in 2022.

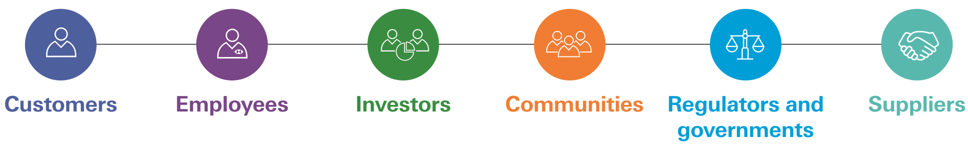
Our stakeholders

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.



For further details of how we are engaging with our stakeholders, see page 15.
Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on page 20.

Group Chairman's statement

Mark E Tucker
Group Chairman

The global economy remains volatile, but our strategy is delivering improved returns for shareholders and HSBC is well placed to compete as the economy recovers.

At the start of 2022, the ongoing impact of Covid-19 was the most dominant factor within the external environment. While further outbreaks in Hong Kong and mainland China significantly impacted economic growth, the Russia-Ukraine war and rising inflation and interest rates had an even greater impact on the global economy in 2022. They are also likely to continue to have a greater economic impact than the pandemic in 2023, as we are already seeing with a cost of living crisis affecting many of our customers and colleagues.

Strong financial performance and higher capital distributions

We supported our customers through the challenges that they faced at the same time as executing our strategic plan. The first phase of our transformation is now complete. The work that we have done has enabled us to emerge from the pandemic a stronger bank, better aligned to the international needs of our customers.

The reshaping of our portfolio continued with the announcement of the planned sale of our banking business in Canada. We continued to develop our Wealth capabilities, especially in Asia, and this strategy gained traction in 2022. Our increased investment in technology has improved the customer experience and made our processes more efficient. Meanwhile, we continued to support our clients to transition to net zero, and also took further important steps towards our ambition of aligning our financed emissions to net zero by 2050. Given the urgency of today's global energy crisis, it is now even more important that we continue to actively engage our clients on how they intend to prepare their businesses for a low-carbon future.

In 2022, reported profit before tax was $17.5bn, a decrease of $1.4bn compared with 2021 due to the $2.4bn impairment on the planned sale of our French retail banking operations. Adjusted profit before tax was $24.0bn, an increase of $3.4bn on last year. All of our businesses grew profits in 2022, and we maintained our strong capital, funding and liquidity positions.

As we signalled at our interim results, we are committed to ensuring our shareholders share the benefits of our improved performance. The Board approved a second interim dividend for 2022 of $0.23 per share, bringing the full year dividend for 2022 to $0.32 per share. We are establishing a dividend payout ratio of 50% of reported earnings per share for 2023 and 2024, excluding material significant items, and we aim to restore the dividend to pre-Covid-19 levels as soon as possible. We also intend to return to paying quarterly dividends from the start of 2023.

Subject to completion of the planned sale of our banking business in Canada, the Board's intention is to consider the payment of a special dividend of $0.21 per share as a priority use of the proceeds generated. A decision in relation to any potential dividend would be made following the completion of the transaction, currently expected in late 2023, with payment following in early 2024. Any remaining additional surplus capital is expected to be allocated towards opportunities for organic growth and investment alongside share buy-backs, which would be in addition to any existing share buy-back programme.

Board operations

In 2022, the Board met in person in London, Hong Kong, New York and Riyadh – on each occasion also undertaking a wide range of engagements with clients, colleagues, government officials and regulators. The importance of engaging with our teams was also underlined by the appointment of José (Pepe) Meade as Board member with specific responsibility for employee liaison. At the same time as holding some in-person meetings, the continued use of virtual meetings enabled us to retain the benefits of greater efficiency and reduced costs.

At the 2022 Annual General Meeting, Irene Lee and Pauline van der Meer Mohr stepped down from the Board. I am enormously grateful to them for their important and valuable contributions to the Board, the committees and the subsidiary entities on which they have served. Irene remains an independent non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and independent non-executive chair of Hang Seng Bank Limited. Geraldine Buckingham joined the Board as an independent non-executive Director on 1 May.

Following Ewen Stevenson's departure, Georges Elhedery became Group Chief Financial Officer and joined the Board on 1 January 2023. On behalf of the Board, I would like to again thank Ewen for all that he has done for the bank. His leadership, financial expertise and operational rigour have been invaluable to HSBC, and he leaves with our very best wishes.

> "Given the urgency of today's global energy crisis, it is now even more important that we continue to actively engage our clients on how they intend to prepare their businesses for a low-carbon future."

We also recently announced some changes to the Board. Kalpana Morparia will join the Board as an independent non-executive Director on 1 March. Jack Tai will retire from the Board at the conclusion of the 2023 AGM, and will be succeeded as Chair of the Group Risk Committee by Jamie Forese. Jack has made a significant and important contribution during his time on the Board, particularly in the strengthening of risk and conduct governance and oversight through a period of major change. We wish him very well in his future endeavours.

Noel and I were delighted to meet face-to-face with our loyal Hong Kong shareholders at our Informal Shareholders Meeting in August. We have always greatly valued their feedback and engagement, and this meeting was as well attended as ever. We were pleased to discuss how our business has performed, our continued support of Hong Kong, and our commitment to growing shareholder value. We look forward to continuing these discussions in person in 2023.

Our strategy is working

There were reports over the course of last year about ideas for alternative structures for HSBC. The Board has been fully engaged in examining these alternatives in depth, with the benefit of independent third-party financial and legal advice. It has been, and remains, our judgement that alternative structural options would not deliver increased value for shareholders. Rather, they would have a material negative impact on value.

For 157 years, we have followed trade and investment flows to support our customers as they fulfil their financial ambitions. We have used our experience, expertise and relationships to help our customers to navigate the world.

Today, we remain steadfastly focused on our core purpose of 'opening up a world of opportunity'. Our model is particularly relevant to individuals and companies of all sizes whose financial ambitions span multiple countries and regions. Very few, if any, other banks can rival our ability to connect capital, ideas and people through a global network that facilitates the international access and collaboration required to succeed in today's world.

Our performance in 2022 demonstrates that our current strategy is working and improving returns. We are also confident that it will deliver good returns for our shareholders over the coming years. The Board and management team are fully focused on delivering it.

An uneven macroeconomic outlook

We will need to maintain this focus against an uneven macroeconomic outlook. The pandemic, high inflation and interest rates, and the Russia-Ukraine war all have implications for the global economy, including volatility in markets, supply chain disruption, pressure on small and medium-sized business and squeezes on the cost of living. Different economies also now face different challenges and have different opportunities in 2023.

China's reopening and package of measures to stabilise the property market should provide a significant boost for its economy and the global economy, albeit with some near-term volatility. Our economists forecast China's GDP will grow 5% in 2023. The reopening of the border means that Hong Kong, and the entire Greater Bay Area, are likely to be major beneficiaries, and I expect to see a strong recovery.

More broadly, Asia as a whole has proven resilient and there is the prospect of a strong rebound later in the year. Virtually all economies in the region have now recovered the output losses incurred during the pandemic and are above 2019 levels.

The Middle East economies enjoyed a strong 2022, and we expect this momentum to continue in 2023 on the back of the important reforms underway to transform, diversify and grow the region's economies. We see strong and growing demand to connect clients in the Middle East with Asia's economies, and vice versa.

In contrast, Europe, including the UK, face challenges from higher energy prices fuelling inflation and necessitating higher interest rates, driven in part by the Russia-Ukraine war. All of these factors are contributing to a cost of living crisis and more economic uncertainty. We expect that any recession, if there is one at all, will be relatively shallow.

The US economy is proving resilient and a hard landing appears unlikely. Some economists believe that inflation may now have peaked in the US, and there is consensus that the US will avoid recession. I expect the US to make an important contribution to global GDP growth in 2023.

Overall, I am optimistic about the global economy in the second half of 2023, but there is still a high level of uncertainty due to the Russia-Ukraine war and recessionary fears may yet dominate much of the year ahead.

Navigating geopolitics remains challenging

The geopolitical environment remains challenging for our clients to navigate. There is sadly no end in sight to the Russia-Ukraine war. However, the West's relationship with China appears to be relatively stable. The renewed, constructive dialogue between President Xi and President Biden at the G20 in November was clearly important. While further US sanctions are expected this year, capital flows between China and the West increased during the pandemic, even with reciprocal tariffs in place. China is also taking an active approach to diplomatic engagement with European nations, including the UK. China's reopening will also allow for the resumption of face-to-face visits, which will support greater dialogue between China and important partners such as Germany, France and the UK. We also naturally continue to engage with governments around the world.

One of the key trends of the past three years has been supply chain disruption, due largely to a combination of geopolitics, pandemic and war-related factors. Businesses are seeking to build greater resilience into their supply chains, reduce their dependence on sole suppliers or regions, and take the opportunity to digitise. I expect these trends all to continue throughout 2023. HSBC's global network means we are well placed to adapt to regional diversification that takes place within supply chains.

Thank you to my colleagues

Finally, my colleagues have once again shown great dedication, energy and care in serving our customers and working together over the past year. They have exemplified our purpose of 'opening up a world of opportunity' and our core values. While we want to achieve even more in 2023 and beyond, I am very proud of what they achieved in 2022 – and I am extremely grateful to each of them.

Mark E Tucker
Group Chairman

21 February 2023

Group Chief Executive's review

Noel Quinn
Group Chief Executive

The progress that we have made over the past three years means that HSBC is well positioned to deliver higher returns and has a good platform for future growth.

Return on average tangible equity

9.9%

(2021: 8.3%)

Adjusted revenue

$55.3bn

(2021: $47.0bn)

We have completed the first phase of our transformation. Our international connectivity is now underpinned by good, broad-based profit generation around the world. Our focus is now on continuing to grow our core business, while also capitalising on the new sources of value creation that we have built.

When we embarked on our transformation programme in February 2020, our aim was to address the fundamental issues that had contributed to a decade of low returns. It was clear to me that too much of our capital was being used inefficiently, too many of our businesses were loss-making and sub-scale, and too many of our clients were low returning and purely domestic in nature. Over the last three years, while responding to the challenges of the pandemic, we have structurally repositioned our businesses and operating model to achieve higher returns.

The most significant changes to our portfolio have been the exit and wind-down of non-strategic assets and clients in the Americas and Europe, and the investment in technology and in organic and inorganic growth in Asia, especially in Wealth and Personal Banking. We have completed the sale of our US mass market retail business, and announced the planned exit of our French retail banking operations and the planned sale of our banking business in Canada. We have also announced exits in other smaller businesses, including Greece and Russia. A key factor in assessing the strategic value of our businesses has been whether they capitalise on the distinct advantages that we have, especially those derived from our global network.

Our work to increase capital efficiency resulted in cumulative risk-weighted asset savings of $128bn by the end of 2022, in excess of our original target as we accelerated restructuring in the US and Europe. This enabled us to reallocate capital towards Asia and the Middle East.

Finally, we have transformed our cost base and restored tight cost discipline across the organisation. Our cost to achieve programme concluded at the end of 2022, but it enabled us to take multiple layers of inefficiency out of the business and embed changes that we expect to provide flow-through benefits for years to come.

Building a good platform for future growth

At the same time, we have invested in new sources of value creation that provide a good platform for future growth. Developing our capabilities in Wealth, particularly in Asia, has been a strategic priority as we have sought to diversify our revenues. We have done this organically through the build-out of our Pinnacle business in mainland China, and inorganically through the purchases of AXA Singapore and L&T Investment Management in India, by increasing our stake to 90% in HSBC Qianhai Securities, and by taking full ownership of our HSBC Life China insurance business. The traction that we are gaining in Wealth is reflected by the $80bn of net new invested assets that we attracted in 2022, $59bn of which were in Asia.

"The difference compared with three years ago is that our international connectivity is now underpinned by good broad-based profit generation around the world."

Our core purpose is 'opening up a world of opportunity' and that, in essence, is what we do by helping our personal and corporate customers to move money between countries and do business across borders. This is still the best way for us to create value, and what makes us a world leading bank for international and mid-market customers. We are the number one trade finance bank, and trade revenue was up 13% in 2022, surpassing the good level of growth in the previous year. Trade also increased in all regions.

We are also one of the leading global foreign exchange houses and a leading payments company globally, with over $600tn of payments processed in 2022. Our global connectivity has made international our fastest-growing revenue segment in Wealth and Personal Banking. Products like Global Money and our Wealth platforms are specifically designed to meet the international needs of our retail and wealth customers. These customers also provide around double the average revenue of domestic-only customers.

The difference compared with three years ago is that our international connectivity is now underpinned by good broad-based profit generation around the world. Already the leading bank in Hong Kong, we gained market share last year in key products including customer deposits, insurance and trade finance. We are also the leading foreign bank in mainland China by revenue and are pleased to have received seven main licence approvals since 2020. Our business in India delivered $0.9bn of profit before tax last year and facilitated the equivalent of around 9% of India's exports. In the Middle East, we delivered $1.8bn of profits and were the number one bank in capital markets league tables. HSBC UK delivered $5bn of profits and was the number one bank for trade finance, while our non-ring-fenced bank in Europe delivered $2.1bn of profits and around 35% of its client business was booked outside the region. Our US business has now had nine consecutive quarters of profitability after its turnaround, while our business in Mexico delivered a return on tangible equity of 18%.

The cost savings that we have made have been reinvested in technology, which has in turn enabled us to change the way we operate as a business. Technology spending was 19% higher in 2022 than in 2019. Much of this investment has been used to rebuild and upgrade platforms, which we have then rolled out globally. Our upgraded mobile banking app is available in 24 markets and has around 13 million active users, while our upgraded digital trade finance platform has been rolled out in the UK and Hong Kong, ensuring that market-leading businesses are well positioned for the next 10 years. In 2022, we launched HSBC Orion, our new proprietary tokenisation platform using blockchain technology for bond issuances. We're also partnering with fintechs around the world to use their capabilities in our products. Finally, we are investing in greater automation, which we expect to reap the benefits from for years to come.

Empowering our people has underpinned everything that we have achieved over the past three years – and it will underpin the next phase of our strategy too. Reducing management layers has helped to increase our speed and agility. In our last staff survey, the number of colleagues who report that work processes allow them to work efficiently was 6 percentage points above the sector benchmark. Confidence within the organisation has also increased. 77% of colleagues told us they are confident about our future, which is 3 percentage points up on 2021. We have continued to make steady progress against our medium-term targets on gender and ethnicity representation, while the number of hours that colleagues spent learning about digital and data, and sustainability also increased by 13% last year, underlining the importance of these critical future skills.

The transition to net zero will offer increasingly significant commercial opportunities in the future. We have continued to make good progress towards our ambition of providing and facilitating $750bn to $1tn of sustainable financing and investment by 2030. At the end of 2022, the cumulative total for sustainable financing and investment since 2020 had reached more than $210bn. We published an updated energy policy, which commits us to no longer provide new finance or advisory services for the specific purpose of projects pertaining to new oil and gas fields and related infrastructure whose primary use is in conjunction with new fields. As per our policy, we will continue to provide finance to maintain supplies of oil and gas in line with declining current and future global demand, while accelerating our activities in support of clean energy. We have also set interim 2030 targets for on-balance sheet financed emissions for eight sectors. These include six sectors for which we have reported 2019 and 2020 emissions. We recognise that methodologies and data for measuring emissions will continue to evolve, and our own disclosures will therefore continue to develop as a result. In 2023, we will publish our first bank-wide climate transition plan.

Strong overall financial performance in 2022

The progress that we have made transforming HSBC and investing in growth has helped to drive an improved financial performance in 2022. A strong net interest income performance reflected higher global interest rates, but there was also good underlying growth across the business in key areas, particularly those linked to our international network.

Overall, the Group delivered $17.5bn of reported profit before tax, which was $1.4bn lower than in 2021. This was due to a net expected credit loss charge of $3.6bn compared with a net release of $0.9bn last year, as well as the impairment of $2.4bn relating to the planned sale of our retail banking operations in France. Adjusted profit before tax was $24bn, up $3.4bn.

Adjusted revenue was 18% higher than the same period last year, as net interest income grew strongly in all of our global businesses. There was also a strong performance in Global Foreign Exchange. Our reported return on tangible equity for 2022 was 9.9%. Excluding significant items, we delivered a return on tangible equity of 11.6%.

Future growth levers

In 2022, we continued to build new sources of value creation.

We brought in

$80bn

of net new invested assets in Wealth.

We provided and facilitated cumulatively

$210.7bn

of sustainable finance and investment since January 2020.

There was a good performance across our global businesses. In Commercial Banking, adjusted profit before tax was up by 24% to $7.7bn, driven by revenue increases across all products and in all regions, most notably Asia and the UK. Within this, Global Payments Solutions revenue grew by 104% on the back of higher interest rates, while trade revenue was up 14% with growth in all regions.

Global Banking and Markets delivered adjusted profit before tax of $5.4bn, up 8% compared with 2021. Global Payments Solutions was again the main driver, with 119% growth in net interest income from higher interest rates, and a strong performance in Global Foreign Exchange. In Wealth and Personal Banking, adjusted profit before tax of $8.5bn was 27% higher than 2021. Net interest income growth drove a good performance in Personal Banking, while there was also balance sheet growth in the UK, Asia outside Hong Kong, and Mexico.

We restricted adjusted cost growth to 1% in 2022 as a result of the significant cost-saving actions that we have taken. This represents a good outcome given the high inflation environment. After good capital generation in the fourth quarter, our CET1 ratio at the end of 2022 was 14.2% and back within our target range of 14% to 14.5%. We are able to pay a second interim dividend of $0.23 per share, bringing the total 2022 dividend to $0.32 per share.

Improved returns and substantial distribution capacity

We are firmly on track to achieve our target of a return on tangible equity of at least 12% from 2023 onwards. We have built up a good level of expected credit loss provisions, and we also expect the headwinds associated with macroeconomic uncertainty and the ongoing challenges within the China commercial real estate sector to subside, enabling expected credit losses to start to normalise.

There will be no easing off at all on costs. Our cost to achieve programme has now ended, but we will continue to seek and find opportunities to create efficiencies that will deliver sustainable cost savings in future years. We are now considering up to $300m of additional costs for severance in 2023. These costs will need to be reported in our costs line. Taking this into account, we will aim for approximately 3% cost growth in 2023. Tight cost discipline will remain a priority for the whole Group.

As a result of the improving quality of our returns, we are establishing a dividend payout ratio of 50% of reported earnings per share for 2023 and 2024, excluding material significant items. We will aim to restore the dividend to pre-Covid-19 levels as soon as possible. We also intend to revert to paying quarterly dividends from the start of 2023. Given the capital generation at the end of 2022, we will bring forward the consideration of buy-backs to the announcement of our results for the first quarter of 2023.

Finally, subject to the completion of the sale of our banking business in Canada, I am pleased that the Board will consider payment of a special dividend of $0.21 per share in early 2024 as a priority use of the surplus capital generated by the transaction. We understand the importance of dividends to our shareholders and expect them to benefit from improved capital distributions ahead.

My colleagues are getting it done

I would like to end by thanking my colleagues around the world. Over the last three years, they have managed a period of substantial change, embraced the opportunities that our transformation has presented and gone the extra mile to support our customers – all while living through a global pandemic. More recently, there have also been the Russia-Ukraine war, the real-life financial strains caused by high inflation and the devastating earthquakes in Türkiye for them to deal with. We have only made the progress that we have because of their efforts. They are exemplifying our value of getting it done, and I am proud to lead them.

Overall, 2022 was another good year for HSBC. We completed the first phase of our transformation and our international connectivity is now underpinned by good, broad-based profit generation around the world. This contributed to a strong overall financial performance. We are on track to deliver higher returns in 2023 and have built a platform for further value creation. With the delivery of higher returns, we will have increased distribution capacity, and we will also consider a special dividend once the sale of HSBC Canada is completed.

Noel Quinn
Group Chief Executive

21 February 2023

Our strategy

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

Transformation journey

We have made progress in our transformation in six key areas, as we start to improve financial performance and build a strong foundation for future growth.

Firstly, we have retained a market leading position in international connectivity. We are the number one trade finance bank and number three bank in foreign exchange globally, based on peer analysis undertaken by Coalition Greenwich. Across our global businesses, international connectivity is core to who we serve, with approximately 45% of our wholesale client business coming from cross-border relationships and approximately 6 million international customers banking with Wealth and Personal Banking. International clients remain our most attractive client base in Wealth and Personal Banking, with revenue around double that of domestic customers. In addition, global transaction banking revenue, a cornerstone of our international connectivity, has grown 7% each year since 2019.

Secondly, we have also reshaped our portfolio through strategic exits in continental Europe and the Americas. We have exited our domestic mass market retail business in the US, and are in the process of selling our retail banking operations in France, our banking business in Canada, our business in Russia and our branch operations in Greece, subject to regulatory and governmental approvals. We have taken actions to improve the returns profile of the Group, including generating cumulative gross RWA reductions of $128bn since the start of our programme, exceeding our target of more than $110bn. We have continued to reallocate capital to Asia, with the proportion of our tangible equity allocated to Asia increasing to 47% at the end of 2022, and we remain on track with our medium- to long-term aspiration to increase this to 50%. We have also invested through a series of bolt-on acquisitions in Asia, including AXA's business in Singapore and L&T Investment Management in India, and we have increased our stakes in HSBC Life China and HSBC Qianhai.

Capital allocation

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

47%

2021	42%
2022	47%
Medium- to long-term aspiration	c.50%

1 Based on tangible equity of the Group's major legal entities excluding associates, holding companies, and consolidation adjustments.

Gross RWA reduction

$128bn

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

Technology investment

$6.1bn

(2019: $5.1bn)

Thirdly, over the last three years we have built a broad and geographically diverse base of profit generation. We remain the leading bank in Hong Kong across key areas including deposits, lending and trade finance, while in mainland China, our business contributed $1.0bn of adjusted profit before tax in 2022, excluding the share of profit from our associate, Bank of Communications Co., Limited. We have also grown our businesses in the rest of Asia, with adjusted profit before tax of $4.2bn, up 24% compared with 2019. Outside of Asia, HSBC UK Bank plc delivered $5.0bn of adjusted profit before tax in 2022, while our HSBC Bank plc and US businesses have transformed into being leaner and more internationally focused. In the Middle East and North Africa, we are the leading bank in capital markets, while in Mexico, the return on average tangible equity was 18.0% in 2022.

Fourthly, we have retained our strong focus on cost discipline. Within the past year, notwithstanding inflationary pressures, we contained adjusted cost growth compared with 2021. As a result, excluding the benefit of a reduced UK bank levy, adjusted costs have remained flat since 2019, with a 19% increase in technology spend offset by gross saves within our global businesses, operations and other costs. Since 2019, we have taken actions to become a more efficient organisation, reducing our office real estate footprint by 37%, branches by 21% and operations headcount by approximately 11%.

As we transformed, we have also built a platform for growth and returns upon which we will build new value creation opportunities. We have continued to grow our balance sheet, with our deposits growing by 4% and assets growing by 5% each year since 2019. Increasing fee-based revenue and growing our Wealth and Personal Banking franchise remain important priorities for the Group, and we have gained traction, with Wealth revenue up 3% and transaction banking revenue up 7% since 2019. However, given the changes to the macroeconomic environment, together with the implementation of IFRS 17, the metrics 'Insurance and fees as a percentage of Group adjusted revenue' and 'WPB as a percentage of Group tangible equity' are no longer appropriate to measure our progress in these areas.

We continue to view technology as a key enabler of our growth ambitions, and have also increased our investment from approximately $5.1bn in 2019 to $6.1bn in 2022. During the year, we have scaled up existing digital propositions and launched others. Details of these can be found on the following pages.

Fifthly, we have supported a sustainable dividend policy with strong capital and liquidity. Finally, the above five themes have resulted in a strong platform for growth and returns, upon which we will build new value creation opportunities.

Delivery in 2022

Our strategy centres on four key pillars: 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
Adjusted revenue for our Wealth and Personal Banking business was $24.4bn in 2022, up 16% compared with 2021. This was driven by growth in Personal Banking, where adjusted revenue was $15.9bn, up 37%. We continued to make progress in executing our Wealth, Asset Management and Insurance strategy, attracting net new invested assets of $80bn, compared with $64bn in 2021, with $59bn coming from Asia. Our Asia Insurance value of new business reached $1.1bn, up 24%.

We continued to grow our digital propositions during the year. We launched Global Money in the UK and Australia, with the proposition now live in eight markets. This new proposition recorded approximately $11bn of transactions in 2022, enabling customers to make cheaper and faster international payments. We also signed up more than 900,000 users to our Pinnacle financial planning app to bring the total user base to over 1 million.

Within our Wealth business, in partnership with BlackRock, we launched Prism, a hybrid advisory service to help investors make more informed investment decisions.

$80bn
Net new invested assets in 2022.

Commercial Banking
Adjusted revenue for our Commercial Banking business reached $16.2bn in 2022, up 29% compared with 2021. Adjusted revenue rose in all regions, and notably in Hong Kong, which grew by 36%. Fee income increased by 8% to $3.7bn, reflecting growth in Global Payments Solutions and Global Trade and Receivables Finance.

Our digital propositions have gained significant traction, with payments processed on HSBCnet mobile increasing by nearly 62% during the year. Kinetic, our digital business banking account for SMEs in the UK, gained approximately 29,000 customers, taking its overall customer base to approximately 53,000. Business Go, our new global digital platform for SMEs, has gone live and has grown to over 95,000 users as of 2022.

In 2022, we launched our first Banking-as-a-Service proposition in the US with Oracle Netsuite, embedding HSBC's banking products within Oracle's Cloud enterprise resource planning platform.

We continue to actively help our clients with their climate transition goals, and have completed the global roll-out of our core sustainable product suite covering loans, trade finance and bonds. We also launched our enhanced HSBC Sustainability Tracker for Business Banking customers.

$3.7bn
Fee income in 2022.

Global Banking and Markets
Adjusted revenue for our Global Banking and Markets business was $15.4bn in 2022, up 10% compared with 2021, driven by strong performances in Global Payments Solutions and Markets and Securities Services, primarily from our Global Foreign Exchange business. During the year, we continued to drive efforts for cross-business line collaboration through referrals and cross-sell of products, with adjusted collaboration revenue of approximately $3.7bn in 2022, compared with approximately $3.5bn in 2021. Our Global Banking and Markets franchise remains an internationally connected one, with our clients doing business with us in multiple markets. In 2022, our clients in Europe and the Americas drove approximately $2.6bn of client business into Asia and the Middle East, an increase of approximately 30%.

We continued to develop our digital propositions with the launch of HSBC Orion, a new proprietary tokenisation platform to issue digital bonds based on distributed ledger technology.

We also extended our sustainable investment product range, launching a biodiversity screened equity index created in partnership with biodiversity data specialist Iceberg data lab and Euronext.

c.$2.6bn
Client business[1] booked in the East from clients managed in the Americas and Europe.

1 Client business differs from reported revenue as it relates to certain client-specific income, and excludes certain products (including Principal Investments, GBM 'other' and asset management), Group allocations, recoveries and other non-client-related and portfolio level revenue. It also excludes Hang Seng. GBM client business includes an estimation of client-specific day-one-trade-specific revenue from Markets and Securities Services products, which excludes ongoing mark-to-market revenue and portfolio level revenue such as hedging. Cross-border client business represents the income earned from a client's entity domiciled in a different geography than where the client group's global relationship is managed. 'Booking location' represents the geography of the client's entity or transaction booking location where this is different from where the client group's global relationship is managed.

Digitise at scale

We continued to invest in our technology and operational capabilities to drive productivity across businesses and geographies, and to improve customer experience. In 2022, $6.1bn, or 20%, of our overall adjusted operating expenses were dedicated to technology, up from $5.6bn in 2021.

Enhancing our digital propositions to improve customer engagement and journeys remains a significant priority. During the year, just under half of our Wealth and Personal Banking customers were active users of our mobile applications, an increase from 42.7% in 2021, and over 75% of our Commercial Banking customers were active on our digital applications, an increase from 71.0%. Furthermore, in Wealth and Personal Banking, nearly half of sales were generated digitally. Our customer journeys continue to be transformed, for example, in Singapore, our Wealth and Personal Banking customers can now open an account even before they arrive in their new country via their mobile phones.

To improve our operational efficiency, we continue to deploy technologies at scale in our organisation. Our Cloud adoption rate, which is the percentage of our technology services on the private or public Cloud, increased from 27% to 35%.

Energise for growth

Empowering and energising our colleagues is crucial for inspiring a dynamic culture. Our Employee engagement index, our headline measure of employee satisfaction, rose to 73% in 2022 from 67% in 2019, our baseline year. The participation rate of the survey also rose from 50% to 78%.

We remained focused on creating a diverse and inclusive environment, especially in senior leadership roles, which are those classified as band 3 and above in our global career band structure. We achieved 33.3% female representation in senior leadership positions by the end of 2022, and are on track to achieve our target of 35% by 2025. In 2022, we also set a Group-wide ethnicity strategy to better represent the communities we serve. We are on track to meet this, with 2.5% of leadership roles held by colleagues of Black heritage in 2022.

We continued to help our colleagues develop future-ready skills. In 2022, the total learning hours spent on these future-ready skills (digital, data, and sustainability) increased to approximately 375,777 hours, up from 334,651 hours in 2021.

We outline how we put our purpose and values into practice in the following 'ESG overview' section.

For further details on how we plan to energise for growth, see the Social section in the ESG review on page 73.

Transition to net zero

In November, we participated in COP27 to play our part in bringing together the public and private sector to mobilise the transition to a net zero global economy. We also made good progress on our ambitions, including expanding our financed emissions targets to eight sectors in total, reducing our greenhouse gas emissions, and supporting our customers in their transition to a net zero future including the launch of new climate solutions.

Becoming a net zero bank
We continue to pursue our 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 2022, we reduced our absolute greenhouse emissions in our operations to 285,000 tonnes CO_2e, which represents a 58.5% reduction from our 2019 baseline.

So far, we have set interim 2030 targets for on-balance sheet financed emissions for eight sectors. We also published updated energy and thermal coal phase-out policies during the year, which are important mechanisms to help phase down our financed emissions in these areas while supporting our customers in their own transition plans. We plan to extend our financed emissions analysis to new sectors – shipping, agriculture, commercial real estate and residential real estate – in future disclosures. We remain committed to setting facilitated emissions targets, and aim to continue to engage with industry initiatives to produce a consistent and comparable cross-industry approach.

Supporting customers through transition
We have made progress in our ambition to support our customers through their transition to net zero. In 2022, we provided and facilitated a total of $84.2bn of sustainable finance and investments, bringing our cumulative amount since 1 January 2020 to $210.7bn of our $750bn to $1tn ambition by 2030.

Unlocking new climate solutions
In 2022, Climate Asset Management, the dedicated natural capital investment manager formed as a joint venture with climate change investment and advisory firm Pollination, achieved commitments of more than $650m across its two natural capital strategies. We also officially launched Pentagreen, a joint venture with Temasek, to finance the development of sustainable infrastructure in south-east Asia.

For further details on our climate ambition, see the Environmental section in the ESG review on page 46.

Growth and returns

Looking ahead, we will continue to build on our areas of strength, using our international connectivity and strong geographical diversity spanning every region. We will also continue to drive our transaction banking, wealth and digital platforms in order to grow fee income. Cost discipline remains a priority for us, while we drive investment in technology to increase productivity and growth. As a result, we expect to achieve more than 12% RoTE from 2023 onwards – the highest in a decade – and have substantial distribution capacity in 2023 and 2024.

ESG overview

We conduct our business to support the sustained success of our customers, people and other stakeholders.

Our approach

We are guided by our purpose: to open up a world of opportunity for our colleagues, customers and communities. Our purpose is underpinned by our values: we value difference; we succeed together; we take responsibility; and we get it done. Our purpose and values help us to deliver our strategy and unlock long-term value for our stakeholders.

Our approach to ESG is shaped by our purpose and values and a desire to create sustainable long-term value for our stakeholders. As an international bank with significant breadth and scale, we understand that our climate, economies, societies, supply chains and people's lives are interconnected. We recognise we can play an important role in tackling ESG challenges. We focus our efforts on three areas: the transition to net zero, building inclusion and resilience, and acting responsibly.

Transition to net zero
The transition to net zero is one of the biggest challenges for our generation. Success will require governments, customers and finance providers to work together. Our global footprint means that many of our clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that our transition will be challenging but is an opportunity to make an impact.

We recognise that to achieve our climate ambition we need to be transparent on the opportunities, challenges, related risks and progress we make. To deliver on our ambition, we require enhanced processes, systems, controls, governance and new sources of data. We continue to invest in our climate resources and skills, and develop our business management process to integrate climate impacts. As we enhance our systems, processes, controls and governance, certain aspects of our reporting will rely on manual sourcing and categorisation of data. Given the challenges on data sourcing as well as the evolution of our processes as mentioned above, this has had an impact on certain climate disclosures including thermal coal. In 2023, we will continue to review our approach to our disclosures, with our reporting needing to evolve to keep pace with market developments.

We set out in more detail the steps we are taking on our climate ambitions in the ESG review on page 47.

Build inclusion and resilience
Building inclusion and resilience helps us to create long-term value. By removing barriers and being a fair and equitable bank, we can attract the best talent, serve a wider customer base and support our communities.

An inclusive, healthy and stimulating environment for our people helps us to succeed. We have set goals for gender and ethnic diversity, and we focus on employee sentiment, and support our colleagues' resilience through well-being and learning resources.

We strive to provide inclusive and accessible banking for our customers. We help our customers to build financial resilience by providing resources that help them manage their finances, and services that help them protect what they value. This is critical in challenging times, as we continue to support our stakeholders in the wake of Covid-19 and in the face of a rising cost of living.

Finally, we give back to our communities through philanthropic giving, disaster relief and volunteering.

Act responsibly
We are focused on running a strong and sustainable business that puts the customer first, values good governance, and gives our stakeholders confidence in how we do what we do. 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. Customer experience is at the heart of how we operate. We aim to act responsibly and with integrity across the value chain.

On page 16, we have set out ways that we have supported our stakeholders through a challenging year.

ESG disclosure map and directory

Transition to net zero	**Our climate ambition**	Read more on our approach to the transition to net zero	Page 46
		Read more on our progress made against our ambition to achieve net zero in our financed emissions by 2050	Page 50
		Read more on our progress made against our $750bn to $1tn sustainable finance and investment ambition	Page 57
		Read more on our ambition to achieve net zero in our own operations by 2030	Page 62
	Detailed Task Force on Climate-related Financial Disclosures ('TCFD')	We make disclosures consistent with Task Force on Climate-related Financial Disclosures ('TCFD') recommendations, highlighted with the symbol: TCFD	Page 68
Build inclusion and resilience	**Diversity and inclusion disclosures**	Read more on how we are building an inclusive environment that reflects our customers and communities, and our latest pay gap statistics	Page 74
	Pay gap disclosures		Page 75
Act responsibly	**How we govern ESG**	Read more on our ESG governance approach and human rights	Page 86
	Human rights and modern slavery disclosures		Page 87
	How our ESG targets link to executive remuneration	Read more on our ESG targets embedded in executive remuneration	Page 16; Pages 282 to 287
	Our *ESG Data Pack*	Our *ESG Data Pack* provides more granular ESG information, including the breakdown of our sustainable finance and investment progress, and complaints volumes	www.hsbc.com/esg

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
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	– Employee training – Diversity and inclusion – Employee engagement
Investors	We engage with our shareholders through our AGMs, virtual and in-person meetings, conferences and our annual investor survey	– Thermal coal policies – Energy policies – Becoming a net zero bank in our own operations and financed emissions
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
Regulators and governments	We proactively engage with regulators and governments to facilitate strong relationships through virtual and in-person meetings and by responding to consultations individually and jointly via industry bodies	– Anti-bribery and corruption – Conduct and product responsibility
Suppliers	Our 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 – Human rights

1 These 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 customers facing a rising cost of living

We know that many of our customers around the world are facing increasing cost of living pressures from higher inflation, and we are committed to helping them.

Colleagues across our global businesses have been reaching out to customers to provide them with increased access to support, such as free financial health checks, as well as proactively contacting those who we believe could benefit from additional assistance.

Proactive support

We have focused our support on our customers in the UK, which is our largest market to be affected by rising cost of living pressures, using our guidelines and procedures to help provide the right outcomes. We also engage closely and regularly with our key regulators to help ensure we meet their expectations of financial institutions' activities more generally during volatile markets.

For our personal customers in financial difficulty, we enhanced our range of digital resources, with the launch of a new 'Rising cost of living hub' on our public website. The hub provides useful articles and tools to help budget, manage money and gain access to the range of support we are providing. Other measures in 2022 included:

- conducting a review of our existing tools and services, helping to ensure requests for borrowing remained affordable;
- helping those most in need with temporary support, such as reducing overdraft borrowing costs in eligible accounts;
- providing the opportunity to mortgage customers coming to the end of an existing fixed rate to secure a new rate earlier; and
- removing the payments of penalties for customers in need of funds having to close fixed-rate savers accounts early.

In our CMB business, our focus has been towards helping Business Banking clients exhibiting signs of financial vulnerability, as well as participating in local government-backed initiatives targeted at extending financial support to SMEs. When a customer is in need of assistance, we review on a case-by-case basis, with potential solutions including repayment holidays, extending loan repayments and offering extensions to collection periods. Other measures in 2022 included:

- improving our customer support and education, including through webinars and our financial well-being website, to guide how best to improve financial resilience and forecast cash flows;
- enhancing the identification of customers exhibiting signs of financial vulnerability, by using data and front-line insights provided from relationship management teams;
- increasing the education provided to our colleagues on the various forms of financial support available to clients; and
- proactively getting in touch with customers to help ensure awareness of available support, including communicating with over 40,000 SMEs, and increasing the number of outbound calls in the fourth quarter of 2022 by 190%, when compared with the previous quarter, to those displaying signs of lower financial resilience.

For further details on our conduct and product responsibilities, see the ESG review on page 94. For further details of how we are supporting our colleagues amid rising inflation, see page 25.

Our ESG ambitions, metrics and targets TCFD

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 achieve our environment and social sustainability goals. They also help us to improve employee advocacy, the diversity of senior leadership and strengthen our market conduct. The targets for these measures are linked to the pillars of our ESG strategy: transitioning to net zero, building inclusion and resilience, and acting responsibly.

To help us achieve our ESG ambitions, a number of measures are included in the annual incentive and long-term incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives that underpin the ESG metrics in the table below.

We have developed a forward-looking roadmap to consider greater use of ESG measures in executive performance assessment. For a summary of how all financial and non-financial metrics link to executive remuneration, see pages 282 to 287 of the Directors' remuneration report.

The table below sets out some of our key ESG metrics that we use to measure our progress against our ambitions. For further details of how well we are doing, see the ESG review on page 43.

Environmental:

Transition to net zero[1]

Financed emissions[2]

8 sectors

Number of sectors where we have set on-balance sheet financed emissions targets.
Ambition: Achieve net zero in our financed emissions by 2050.

Sustainable finance and investment[3]

$210.7bn

Cumulative total provided and facilitated since January 2020.
(2021: $126.7bn)
Ambition: Provide and facilitate $750bn to $1tn of sustainable finance and investment by 2030.

Net zero in our own operations[4]

58.5%

Cumulative reduction in absolute operational greenhouse gas emissions from 2019 baseline.
(2021: 50.3%)
Ambition: Achieve net zero in our own operations and supply chain by 2030.

Social:

Build inclusion and resilience

Gender diversity[5]

33.3%

Women in senior leadership roles.
(2021: 31.7%)
Target: Achieve 35% women in senior leadership roles by 2025.

Ethnic diversity[5]

37% increase

Of Black colleagues in senior leadership roles from 2020 baseline.
(2021: 17.5% increase)
Target: Double the number of Black colleagues in senior leadership roles between 2020 and 2025.

Employee engagement[6]

73%

Employee engagement score.
(2021: 72%)
Target: Maintain 72% in the Snapshot Employee engagement index.

Governance:

Acting responsibly

Conduct training[7]

98%

Employees who completed conduct training in 2022.
(2021: 99%)
Target: At least 98% of employees complete conduct and financial crime training each year.

Customer satisfaction[8]

4 out of 6

WPB markets that sustained top-three rank and/or improved in customer satisfaction.
(2021: 5 out of 6)
Target: To be ranked top three and/or improve customer satisfaction rank.

5 out of 6

CMB markets that sustained top-three rank and/or improved in customer satisfaction.
(2021: 2 out of 6)
Target: To be ranked top three and/or improve customer satisfaction rank

1 For further details of our approach to transition to net zero, methodology and PwC's limited assurance reports, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.
2 See page 52 for further details on our targets for six of these sectors, which include oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. See page 66 for further details about our thermal coal mining and coal fired power targets, as well as our thermal coal phase-out policy.
3 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 58. For details on how this target links with the scorecards, see page 282.
4 This absolute greenhouse gas emission figure covers scope 1, scope 2 and scope 3 business travel emissions. For further details of how this target links with the scorecards, see page 282.
5 Senior leadership is classified as those at band 3 and above in our global career band structure. The progress for the ethnicity target is tracked from a 31 December 2020 baseline against our 2020 commitment to double the number of Black senior leaders. We have since refined our approach to ethnicity by focusing on targets by market. For further details, see the ESG review on page 75. For details on how this target links with the scorecards, see page 282.
6 For further details, see the ESG review on page 77. For details on how this target links with the scorecards, see page 282.
7 The completion rate shown relates to the financial crime 'Take another look' training module and conduct 'Taking responsibility' training module in 2022.
8 The markets where we report rank positions for WPB and CMB – the UK, Hong Kong, mainland China, India, Mexico and Singapore – are in line with the annual executive scorecards. This represents a change from 2021, when the metric was based on all markets where benchmarking studies were run. For further details of customer satisfaction, see the ESG review on page 89. For further details of how this target links with the scorecards, see page 282.

Task Force on Climate-related Financial Disclosures ('TCFD') 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 have set out our key climate-related financial disclosures throughout the *Annual Report and Accounts 2022* and related disclosures. In 2022, while recognising that further work lies ahead as we develop our management and reporting capabilities, we made certain enhancements to our disclosures. These include reporting relevant quantitative results from our first internal climate-related scenario analysis, including the carbon prices that we used. We also began to incorporate climate-related considerations into our annual financial planning cycle, and disclosed how management has considered the impact of climate-related risks on our financial position and forward-looking performance.

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 11 TCFD Recommendations and Recommended Disclosures save for certain items, which we summarise below.

– For financed emissions we do not plan to set 2025 targets. We set targets in line with the Net-Zero Banking Alliance ('NZBA') guidelines by setting 2030 targets. While the NZBA define 2030 as intermediate, we use different time horizons for climate risk management. We define short term as time periods up to 2025; medium term is between 2026 and 2035; and long term is between 2036 and 2050. These time periods align to the Climate Action 100+ disclosure framework. In 2022, we disclose interim 2030 targets for on-balance sheet financed emissions for eight sectors as we outline on page 18. For the shipping sector, we chose to defer setting a baseline and target until there is sufficient reliable data to support our work, allowing us to more accurately track progress towards net zero. In March 2022, we said we would set capital markets emissions targets for the oil and gas, and power and utilities sectors based on the industry reporting standard from the Partnership for Carbon Accounting Financials ('PCAF') once published. We remain committed to setting facilitated emissions targets, and aim to continue to engage with industry initiatives to produce a consistent and comparable cross-industry approach. We intend to review the financed emissions baselines 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 from climate-related opportunities on financial planning and performance including on revenue, costs and the balance sheet, 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 including business travel, supply chain and financed emissions. In relation to financed emissions, we published on-balance sheet financed emissions for six sectors as detailed on page 18. Future disclosure on financed emissions, and related risks is reliant on our customers publicly disclosing their carbon emissions and related risks. We aim to disclose financed emissions for additional sectors in our *Annual Report and Accounts 2023* and related disclosures. Our approach to disclosure of financed emissions for additional sectors can be found at: www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

For a full summary of our TCFD disclosures, including detailed disclosure locations for additional information, see pages 68 to 72. The additional information section on page 423 provides further detail.

Connecting international investors to sustainable solutions

We are connecting investors around the world with governments to support the transition to net zero. In May, we helped the Indonesian government raise $3.25bn in an Islamic bond, known as a sukuk, with $1.5bn of the proceeds dedicated to be used exclusively for eligible spending that delivers on the UN's Sustainable Development Goals, with guidance and support from the UNDP. We were joint lead manager and joint bookrunner, and were also mandated as joint green structuring adviser. The order book topped $10bn, with most of the buyers from Asia and the Middle East.

The deal demonstrated how our specialist expertise can build trusted relationships. We have been discussing green financing solutions with the Indonesian government since 2018 and were previously appointed to structure both its green and sustainability financing programmes.

How we measure our net zero progress TCFD

One of our strategic pillars is to support the transition to a net zero global economy. Our ambition is 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.

We have set interim 2030 targets for on-balance sheet financed emissions for eight sectors. These include six sectors for which we have reported 2019 and 2020 emissions: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. We have also set targets for thermal coal power and thermal coal mining. We remain committed to setting facilitated emissions targets, and aim to continue to engage with industry initiatives to produce a consistent and comparable cross-industry approach.

We also recognise that we require enhanced capabilities and new sources of data, as set out on page 47.

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 ambition to achieve net zero in our own operations and supply chain by 2030. We also recognise that green finance taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our sustainable finance reporting going forward.

In the year ahead we plan to set interim targets for financed emissions across additional sectors and will continue our transformation programme to embed the climate transition into our core business and risk processes. We will continue to work on our climate transition plan, which will bring together – in one place – our financed emissions targets and climate strategy, with how we plan to embed this into our processes, infrastructure, governance and engagement. We plan to publish this in 2023, and update on progress annually thereafter.

We acknowledge this is a journey and recognise that regular reassessment will be needed to take into account climate scenarios, better data and revisions in reporting standards, as well as to reflect real world developments and trends. Our modelling inputs and assumptions will be impacted over time by the evolution of external parameters, such as policy and regulatory changes across our markets, technology innovation uptake, and macroeconomic events beyond our control. As a result of this, certain metrics and targets may need to be revised. In the following table, we set out our metrics and indicators and assess our progress against them.

For further details of our approach to measuring financed emissions, including scope, methodology, assumptions and limitations, see page 50.

Climate strategic pillars and ambition	Metrics and indicators	Progress to date
Becoming a net zero bank Align our financed emissions to achieve net zero by 2050 or sooner	Number of sectors analysed for financed emissions[1]	We have published on-balance sheet financed emissions for six sectors including cement; iron, steel and aluminium; aviation; and automotive. We also continue to disclose our financed emissions for the oil and gas and power and utilities sectors[2] (see pages 50 to 56).
Be net zero in our operations and supply chain by 2030 or sooner	Absolute operational greenhouse gas emissions (tonnes CO_2e)[3]	58.5% cumulative reduction in absolute greenhouse gas emissions from 2019 baseline (see page 62)
	Percentage of renewable electricity sourced across our operations	Increase from 37.5% in 2021 to 48.3% (see page 62)
	Percentage of energy consumption reduced	24.0% cumulative reduction in energy consumption from 2019 baseline (see page 62)
Supporting our customers Support our customers in their transition to net zero and a sustainable future	Sustainable finance and investment provided and facilitated ($bn)[4]	$210.7bn cumulative progress since 2020 (for further breakdown see page 58)
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, which forms part of our goal to unlock new climate solutions, received commitments of over $650m for its two strategies: the Natural Capital Strategy and the Nature Based Carbon Strategy (for further details of our approach to responsible investment, see page 60)
	Climate technology investment	Achieved our initial goal to fund $100m to climate technology companies, and subsequently raised our target to $250m (see page 60)
	Philanthropic investment to climate innovation ventures, renewable energy, and nature-based solutions	Committed $95.8m to our NGO partners since 2020, as part of the Climate Solutions Partnership (see page 84)

1 For further details of our approach and methodology, see our *Financed Emissions – Approach and Methodology Update* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

2 Our disclosures for our 2019 emissions for our oil and gas, and power and utilities sectors have been revised. For further details, see page 55.

3 Our reported scope 3 greenhouse gas emissions of our own operations in 2022 are related to business travel. For further details on scope 1, 2 and 3, and our progress on greenhouse gas emissions and renewable energy targets, see page 63 and our *ESG Data Pack* at www.hsbc.com/esg. For further details of our methodology and PwC's limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

4 The detailed definitions of the contributing activities for sustainable finance are available in our revised *Sustainable Finance and Investment Data Dictionary 2022*. For this, together with our *ESG Data Pack* and PwC's limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Responsible business culture

We have the responsibility to help 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.

At times our colleagues may need to speak up about behaviours in the workplace. We encourage colleagues to speak to their line manager in the first instance, and our annual employee Snapshot survey showed that 84% of colleagues have trust in their direct manager. 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).

We promote an environment where our colleagues can expect to be treated with dignity and respect. We are an organisation that acts where we find behaviours that fall short. Our index measuring colleagues' confidence in speaking up increased by 1 percentage point to 76% in 2022, significantly above the industry benchmark.

We aspire to be an organisation that is representative of the communities which we serve. To help achieve this, we have set commitments on the gender and ethnic diversity of our senior leadership.

We have committed to achieving a target of 35% of senior leadership roles held by women (classified as those at band 3 and above in our global career band structure) by 2025. We remain on track, having achieved 33.3% in 2022.

In July 2020, we set out our early global ethnicity commitments to double the number of Black employees in senior leadership roles. To date we have achieved a 37% increase through leadership development, inclusive hiring practices and developing the next generation of high-performing talent. We have made good progress, but we know there is more to be done.

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. As our self-disclosures improve, we can use this data to develop market-specific goals that are connected to the communities we serve.

The table below outlines high-level diversity metrics.

All employees

Male	48%
Female	52%

Senior leadership[1]

Male	67%
Female	33%

Holdings Board

Male	67%
Female	33%

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

For further details of 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 74.

Social matters

We have a responsibility to invest in the long-term prosperity of the communities where we operate. We aim to provide people with the skills and knowledge needed to thrive in the post-pandemic environment, and through the transition to a sustainable future.

For this reason, we focus our support on programmes that help develop employability and financial capability. We also support climate solutions and innovation, and contribute to disaster relief when needed. For further details of our programmes, see the 'Communities' section of the ESG review on page 83.

Human rights

Our commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our financial services lending and investment, 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. For further details, see the 'Human rights' section of the ESG review on page 87.

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. We set a high standard globally in our global anti-bribery and corruption policy, which also focuses on the spirit of relevant laws and regulations to help 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 46.

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 of our key performance indicators, see page 1.
For further details of our business model, see page 4.
For further details of our principal risks and how they are managed, see pages 38 to 41.

Equipping our colleagues with sustainability skills

We are developing a range of sustainability-related resources and initiatives to help equip our colleagues with the skills to be able to support our net zero ambition. We expanded mandatory training that educates all colleagues on our approach to sustainability. In October, we launched the Sustainability Academy to equip specific colleagues with key skills to improve their understanding of topics ranging from climate change to biodiversity. We launched an ESG-themed recognition campaign through the 'At Our Best' platform that encouraged colleagues to recognise each other's ESG contributions. The campaign was well supported with nearly 200,000 unique recognitions made, an increase of 50% on the previous year's Spotlight campaign.

For further details on the Sustainability Academy, see page 82.

Board decision making and engagement with stakeholders

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

Section 172 (1) statement

This section, from pages 20 to 23 forms our section 172(1) 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.

The Board understands its fundamental role in formulating and overseeing the Group's strategy to achieve long-term success and fulfil its purpose of opening up a world of opportunity. Every scheduled Board meeting features the Group's strategy as an item of discussion. When taking principal decisions, the Directors remain mindful that the matter for consideration should be aligned to one of the four strategic pillars. For further details of our purpose, values and strategy, see pages 4 and 11 to 13.

The Board, together with senior management, have given high priority to the format and content of papers presented to the Board and its committees for their consideration. The Group Chief Executive and the Group Chairman promote best governance practice by requiring that materials contain appropriate information to allow Directors to take informed decisions in keeping with their duties. The Corporate Governance and Secretariat team supports the provision of relevant information by providing governance guidance and direction regarding the key areas for consideration in relation to section 172 factors in order to help the Directors to understand the likely consequences of their decisions long term.

The Group Chief Executive's regular report to the Board provides insights into key stakeholder sentiments by highlighting the interactions he has held with customers, regulators, employees and other stakeholders, and the importance of – and learnings from – these engagements. This informs the Board as to how the Group fosters its relationships with stakeholders and how the Group's business affects the environment and the communities it serves. Directors also participate in a variety of stakeholder engagement events, which support their understanding of key issues and challenges, which can then be factored into future decision making.

The Board recognises that to promote the Group's success, the right culture must exist throughout the organisation, be clearly understood and be consistently applied. This is supported by HSBC's values, which help us succeed together by connecting, collaborating and acting with a shared purpose. Each Board meeting begins with a 'cultural moment', which includes observations of behaviours within the Group aligned to our purpose and values. The Board and its committees also receive updates on conduct issues and any consequences for stakeholders at its meetings, in particular from the Group Chief Risk and Compliance Officer and Group Human Resources Officer. The Group's refreshed conduct approach, approved in 2021, also helps to support the consistent application of conduct principles across the organisation, acknowledging the importance of maintaining a good reputation for high standards of business conduct. For further details on the Board's oversight of culture, see the 'Corporate governance report' on page 255.

Stakeholder engagement and key considerations for the Board

The Board continued to focus on its engagement with our key stakeholders, acknowledging that this engagement is core to being a responsible business and furthers the fulfilment of our strategy. In discharging their responsibilities, the Directors sought to understand, and have regard to, the interests and priorities of the Group's key stakeholders, including in relation to material decisions that were taken by the Board during the course of the year.

Virtual and physical meetings

During 2022, the Board was able to resume its active engagement with stakeholders in person following two years of Covid-19-related restrictions. The Board met physically in several international locations, where it was able to carry out engagements with a wide range of stakeholders. For further details of how we engaged with our stakeholders, see pages 21 and 253.

We hosted our second hybrid AGM and engaged directly with our investors leading up to and during the event. The Informal Shareholders' Meeting in Hong Kong also resumed for the first time since 2019 and attracted hundreds of shareholders to attend in person to receive an update on the Group's strategy and discuss the latest financial performance with the Group Chairman, the Group Chief Executive and the Group Chief Financial Officer. We are focused on treating our shareholders fairly, by having a consistent approach to engagement and communication with them, and this approach is demonstrated by our refreshed shareholder communication policy. Such a policy helps to support the Board to act fairly between members of the company.

Doing business responsibly

Maintaining a transparent and trusting relationship with our regulators remains key to helping us ensure that we do business responsibly and that we are able to respond to challenges appropriately. In addition to continuous assessment meetings with the UK regulator (including with Board committee chairs), the Group Chairman, the Group Chief Executive and the Group Chief Financial Officer met with our regulators in the UK and Hong Kong on a regular basis. These included meetings in connection with our recovery and resolution planning, which involved several Board members engaging directly with the UK regulator. The Group Chairman and the Group Chief Executive also met regularly with government officials globally to continue to foster strong international relations. In addition, certain Board members also continued to be actively involved in climate initiatives and attend global events such as the Group Chief Executive's attendance at the COP27 Summit in Egypt.

During Board meetings, the Directors continued to balance discussions on the Group's performance, emerging risks and duties to shareholders, while remaining conscious of responsibilities to support communities and help customers. Feedback from – and engagement with – stakeholders helps inform the Board on the execution of its responsibilities.

On pages 22 and 23, we set out four examples that demonstrate how the Board made certain decisions while considering stakeholders, in accordance with the Directors' section 172 duties, and how the decisions support or accelerate the delivery of the Group's strategy.

Stakeholder engagement key events in 2022

Stakeholders	Engagement	Impact
Customers We recognise that the greater our understanding of our customers' needs, the better we can help support them to achieve their financial aims and succeed in our purpose and strategy.	– Engagement events with customers ranging from small businesses to multinational companies, in key markets. – Meetings with business customers in key industries to discuss plans regarding the transition to net zero. – Board reporting on retail customer surveys including net promoter scores and millennial retail customers' satisfaction.	– By formally and informally engaging with customers and potential customers, the Board can form a deeper understanding of why clients do business with us and how they contribute to achieving our purpose and ambition. – Meetings with clients help the Board to understand how the Group can work to achieve its commitment to transition to net zero. – Customer surveys provide insights into how our customers perceive our services and inform how we can drive meaningful improvements.
Employees We want to continue to be a positive place to work and build careers, with the success of the Group's strategy dependent upon having motivated people with the expertise and skills required to deliver it.	– Employee events, including leadership forums, webcasts, townhalls, global jams, off-sites and employee Exchanges. – Extensive interaction with employee resource groups across multiple events in many jurisdictions. – Several dedicated talent sessions, including with women and other diverse talent pools. – Next Gen gatherings for graduates, including dedicated focus group interactive sessions.	– Meeting with colleagues across jurisdictions allowed the Board to hear directly the employee voice on important issues. – These interactions helped inform the Board when it considers people matters such as career development, policies and business operations, including technology needs. Engagement also helps the Board to contextualise employee Snapshot survey results. – The appointment of a dedicated workforce engagement non-executive Director has created a different way for the employee voice to be heard and demonstrates the Board's commitment to understanding what matters to our people.
Investors We seek to understand investor needs and sentiment through ongoing dialogue and a variety of engagements with both retail and institutional investors.	– Numerous meetings with analysts and several roadshows to discuss interim and year-end results. – Remuneration Committee Chair investor meetings with top investors and proxy advisers. – Annual retail investor events such as the AGM in the UK and the Informal Shareholders' Meeting in Hong Kong.	– Regular and ad hoc interactions with institutional and retail investors allow for updates on strategy delivery, including the transition to net zero. This in turn helps the Board understand investor sentiment on material matters throughout the year. – Such engagements also serve to inform investors of key developments so that they are well informed and able to respond appropriately when significant events are communicated.
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.	– Forums and summits supporting ESG causes, such as the Glasgow Financial Alliance for Net Zero, the Financial Services Task Force of the Sustainable Markets Initiative and the World Economic Forum. – Visits to local community education facilities in the UK and Dubai to promote initiatives and collaboration, including a 'future coders' event and a local sustainability project.	– The Directors' participation at a range of community initiatives helps them to experience first-hand the positive effect the Group has on local communities as an employer, sponsor, collaborator and supporter. – The Board recognises that the Group can influence meaningful change in many ways, including by educating, encouraging broader thinking, helping to shape policy and formulating worldwide solutions, creating safe environments and achieving net zero ambitions.
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.	– Various meetings across our key markets with governmental officials, including leaders, ministers and ambassadors. – Regular meetings with our many regulators, including in the UK and Hong Kong, and elsewhere. – Meetings with non-government bodies and organisations including the European Central Bank, Bank of England, Monetary Authority of Singapore, State Bank of India, Public Investment Fund and the Bank for International Settlements.	– Frequent and varied engagement between the Board and government officials and regulators provides an opportunity for an open, two-way communication. It is also critical in ensuring that the Board understands and meets its regulatory obligations. – Meeting with international officials allows the Board to communicate the Group's strategy, perspectives and insights while ensuring that Directors remain abreast of political and regulatory trends. It also allows the Board to share perspectives on standards of best practice across industries and regions.
Suppliers We engage with suppliers, which helps us operate our business effectively and execute our strategy.	– Regular reports and updates from the Group Chief Operating Officer on supplier matters. – Meetings with existing and prospective auditors as part of the audit tender process. – A meeting with customers (who are also our suppliers) in the Middle East. – Interactive sessions with catering and real estate suppliers including on their net zero plans.	– Meeting with our suppliers helps Directors understand our suppliers' challenges and how we can work collaboratively to succeed, particularly in achieving our net zero ambitions. – It is key for the Board to understand the Group's supply chain and how suppliers' operations are aligned to our purpose and values. – This supports the Board when approving its Modern Slavery Act Statement.

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. The following examples demonstrate how these Board decisions, taken in 2022, align to each of our four strategic pillars.

Focus on our strengths

The Board undertook a strategic review of the Group's Canada business in support of the Group's strategic aims.

The Board, together with senior management, keep under review potential inorganic opportunities to help accelerate the delivery of our strategy and deliver value for shareholders. In 2022, to further the Group's strategy and ambition, and following a strategic review, the Board took the decision for the Group to sell its Canadian business to Royal Bank of Canada.

The review considered HSBC Canada's relatively low market share and whether it was in the Group's best interests to invest in HSBC Canada's expansion and growth in the context of opportunities in other markets. It was concluded that the best course of strategic action was for the Group to sell HSBC Canada. The Board's decision to approve the sale was aligned to the Group's strategic pillar of focus on our strengths.

The implications of the transaction for several key stakeholders were considered and many stakeholders were engaged with, including Canadian government officials and regulators in both the UK and Canada. Financial and legal advisers were engaged throughout the process to provide specialist advice to help inform the Board's understanding and allow it to take a decision. Transaction terms were carefully negotiated to provide certainty for the Group's employees in Canada. The Board also acknowledged that completion of the transaction would require engagement with additional key stakeholders, including employees, customers and suppliers.

The Board considered there to be a number of benefits to the disposal, including simplifying the Group structure and helping to further the aim of becoming a market leader in wealth management, with a particular focus on Asia. In addition, the transaction would unlock significant value for the Group and realise a good return for our shareholders.

For the reasons set out above, in taking this decision, the 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 long-term success of the company for the benefit of its members as a whole.

Energise for growth

The Board approved a review of its headquarters' office location in London to support its employees in creating a more dynamic and agile environment in which to work.

Our strategic pillar, energise for growth, includes a commitment to inspire a dynamic culture where the best talent want to work. Throughout the Covid-19 pandemic, we saw how we could continue to deliver our work commitments through a hybrid working model and the value that hybrid working brings for our clients and colleagues. Our workstyle approach is helping us to attract and retain diverse talent, while enabling us to reduce our office footprint.

We want our head office to connect people, drive collaboration, foster alternative workstyles and promote well-being. With this in mind, in September 2022, the Board considered a proposal to review the location of our global headquarters. While we are committed to remain in London, the success of hybrid working has meant our workspace requirements are changing, creating the opportunity to drive a new real estate model fit for a modern bank.

The views from several stakeholders helped to shape this key decision. Employee surveys provided evidence to support hybrid working, which informed the decision to review the global headquarters location. The Board recognised the importance of taking this decision early enough to provide sufficient notice to relevant suppliers, including the affected landlords, to best prepare for any changes. Our UK regulators were also engaged with in good time to ensure that they were informed of our intentions to stay in London.

An important Board consideration factored into the new office environment review included that it should be more digitally enabled, so as to help us work smarter and develop future-ready skills. The Board also acknowledged that the new office environment should be designed in a sustainable way to help meet our net zero commitments. In taking this decision, the Board focused on its strategic aspiration to have a more flexible and dynamic workspace that meets the needs of everyone. The Board took into account the section 172 factors along with the relevant stakeholder engagement, which informed its decision to commence the review with a view to best promote the success of the company for the long term.

Transition to net zero

The Board remained active and directly engaged on the Group's response to the climate change agenda, agreeing an updated energy policy aligned to our ambition to support the transition to a net zero global economy.

The Board has remained focused on its commitments, following the climate change resolution passed at the 2021 AGM, to support our customers on their transitions to a low-carbon future.

In 2022, the Board approved an update to the thermal coal phase-out policy. It also approved the publication of an updated energy policy, which was considered well aligned to our strategic approach to transition to net zero. The energy policy seeks to balance three objectives: driving down global greenhouse gas emissions; the need to enable an orderly transition that builds resilience in the longer term; and the need to support a just and affordable transition. In developing this policy, the Board was informed of the engagement undertaken with several internal and external stakeholders including: governments, major clients, large institutional investors and leading scientific and international bodies and industry participants. The Board took into consideration the active role we are seeking to play in supporting and accelerating the energy transition in the markets we serve and the crucial importance of engaging with our customers on their own transition plans. The Board also considered the long-term impacts of the policy on its stakeholders including the need to balance the responsibility of facilitating a just transition, helping to ensure continued access to affordable energy sources in the markets we serve, and supporting an accelerated transition.

Since publication of the energy policy, stakeholder engagement has continued, including with key institutional investors to discuss 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 begin the implementation of the policy.

In taking the decision to approve the energy policy and in overseeing the Group's climate commitments, the Board gave due regard to the section 172 factors, in particular the impact of the decision on the environment and communities the company serves, our continuing valuable relationships with customers and investors, and the long-term success of the company.

Digitise at scale

The Group is committed to creating and delivering on fast, easy, digital customer experiences.

The Group's digital strategy aims to ensure that ways of working for colleagues, as well as the experience of our customers, are technologically advanced and efficient. Digitise at scale means we are focused on creating and delivering fast, easy, digital customer experiences by partnering with technology innovators and working together to enable new customer benefits. The Board's oversight of our digital strategies and policies is important given that these are critical in helping to ensure the Group's resiliency and customer security.

The Group Chief Executive regularly reports to the Board on his engagements with – and feedback from – customers on the Group's digital strategy progress. The Board has engaged with many customers over the past year, and is focused on ensuring that our customers' experiences meet their expectations. Customer survey insights throughout 2022 have been used to deepen understanding of the digital landscape challenges customers face, and to help drive solutions. Consequently, the Group has led several key digital customer deliveries in 2022, with approximately 49% of customers being mobile active and around 48% of retail sales being performed through digital channels. Delivery of these new initiatives improved customer experiences across our global markets in 2022, and supported the Group's efforts to execute at speed and automate at scale – a cornerstone of our strategy.

The Board also receives updates from the Group Chief Operating Officer on the various ways the Group is furthering its digital strategy. Vision 27, which is our long-term technology strategy, featured regularly on the Board agenda and was launched at the beginning of 2022. Its aim is to help transform HSBC into a digital-first bank over the next five years. One of the Vision 27 initiatives is the development of a digital technology map, which is a bespoke tool developed to capture all of the Group's applications and systems and provide insight and data points on these including usage by businesses, regions and entities. The Board and the Technology Governance Working Group have also challenged management on the prioritisation of digital initiatives, as well as the demise of legacy and non-strategic applications, as part of efforts to streamline the large and complex technology architecture. This is a key focus in helping to improve the resiliency and efficiency of our systems for colleagues and customers.

In taking these decisions, whether by the Board directly, or the business through its delegated authority, the digital needs of customers and employees are taken into account in order to create long-term success of the company and become a truly data-led organisation.

Remuneration

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

Our remuneration approach

We have refreshed our reward strategy and proposition for the workforce in response to the new or elevated challenges we are facing as we move beyond the Covid-19 pandemic, including the cost of living pressures many of our colleagues are experiencing. The commitments we make to colleagues are critical to support us in energising for growth and delivering sustainable performance.

For further details of what we did during 2022 to help ensure remuneration outcomes were consistent with this approach, see page 292.

Remuneration for our executive Directors

Our current remuneration policy for executive Directors was approved by 96% of our shareholders at our AGM in 2022 and will apply for a maximum of three years until the AGM in 2025. We made no changes to the remuneration structure or to the maximum opportunity payable for each element of remuneration. Details of the policy can be found on pages 257 to 265 of our previous *Annual Report and Accounts 2021.*

The table below shows the amount our executive Directors earned in 2022. For details of Directors' pay and performance for 2022, see the Directors' remuneration report on page 282.

Single figure of remuneration

	Noel Quinn		Ewen Stevenson	
(£000)	**2022**	2021	**2022**	2021
Base salary	**1,329**	1,288	**775**	751
Fixed pay allowance	**1,700**	1,700	**1,085**	1,062
Cash in lieu of pension	**133**	129	**77**	75
Taxable benefits	**119**	95	**7**	3
Non-taxable benefits	**86**	71	**50**	42
Total fixed	**3,367**	3,283	**1,994**	1,933
Annual incentive	**2,164**	1,590	**1,091**	978
Notional returns	**31**	22	**—**	—
Replacement award	**—**	—	**1,180**	754
Long-term incentive	**—**	—	**436**	—
Total variable	**2,195**	1,612	**2,707**	1,732
Total fixed and variable	**5,562**	4,895	**4,701**	3,665

Notes and commentary related to this table are provided in the Directors' remuneration report on page 284.

Remuneration for our executive Directors continued

Variable pay for our executive Directors is driven primarily by achievement against performance scorecards, with measures and targets set by the Group Remuneration Committee at the start of the year to align pay outcomes with the delivery of our strategy and plan. After the formulaic scorecard outcome was determined, the Group Remuneration Committee applied a downward adjustment of 5% and 15% to Noel Quinn's and Ewen Stevenson's 2022 annual incentive outcomes, respectively, to take into account specific risk matters around capital management in the year. Further details are provided in the Directors' remuneration report.

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

Group Chief Executive	**75.35%**
Group Chief Financial Officer	**65.15%**

Remuneration for our colleagues

Variable pay pool

($m)

2022	**3,359**
2021	3,495

The Group Remuneration Committee determined an overall variable pay pool for Group employees of $3,359m (2021: $3,495m). This followed a review of our performance against financial and non-financial metrics set out in the Group risk framework. The Group Remuneration Committee considered our 2022 financial performance, with a 17% increase in adjusted profit before tax, return on average tangible equity of 9.9% and costs slightly up year on year. The Group Remuneration Committee also considered the external environment, the challenging economic outlook and projected outcomes across the market to ensure we remain competitive to attract and retain talent.

The distribution of the pool was differentiated by business performance. Overall year-on-year variable pay outcomes were strongest in CMB, followed by WPB but down in GBM to reflect relative performance. There was robust differentiation for individual performance so that our highest performers received meaningful variable pay increases compared with the previous year. We have protected variable pay for junior colleagues, which is up on average, recognising the inflationary and cost of living challenges experienced across most of our markets.

In determining 2023 fixed pay increases, we considered the impact of inflation in each country where we operate. Increases were targeted towards more junior and middle management colleagues as fixed pay is a larger proportion of their overall pay. Across the Group, there was an overall increase of 5.5% in fixed pay, compared with 3.6% for 2022. The level of increases varies by country, depending on the economic situation and individual roles. There were no fixed pay increases for most of our senior leaders, including our executive Directors.

For details of how the Group Remuneration Committee sets the pool, see page 276.

Supporting our colleagues during 2022

We know that many colleagues around the world are facing different pressures, and we are committed to supporting them, adapting our approach according to the market.

For colleagues who are still significantly impacted by the pandemic, for example in mainland China and Hong Kong, we provided care packages and increased well-being sessions. In mainland China, we also delivered food essentials and provided inconvenience allowances. Separately, in Argentina and Türkiye, we made regular adjustments to fixed pay given the continuing inflationary pressures. In Sri Lanka, we made one-off payments and fixed pay increases during the year to address high inflation. In the UK, we provided almost 17,000 junior colleagues with a one-off payment of £1,500 to help with energy cost pressures. We have continued to provide a wide range of resources to all our colleagues globally, including wider support on financial guidance, employee assistance programmes and access to hardship funds.

For further details of how we are supporting colleague well-being, see page 80.

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 2022 was supported by a rise in global interest rates, which materially improved our net interest income, and we maintained our strong focus on cost discipline, despite inflationary pressures and continued investment. While our revenue outlook remains positive, there are continued risks around inflation and increasing macroeconomic uncertainty in many of the markets in which we operate.

Reported profit after tax for 2022 of $16.7bn was 13% higher, which included an effective tax rate charge of 4.9% due to the benefit of credits related to the recognition of deferred tax assets. Our return on average tangible equity ('RoTE') improved by 1.6 percentage points to 9.9%. Reported profit before tax of $17.5bn decreased by 7%, which included an impairment of $2.4bn following the reclassification of our retail banking operations in France to held for sale, as well as a more normalised charge for expected credit losses ('ECL'), compared with a net release in 2021. These reductions were mitigated by the favourable impact of higher interest rates on reported revenue and a reduction in reported operating expenses, primarily due to the favourable impact of foreign currency translation differences.

The Group CET1 capital ratio fell 1.6 percentage points to 14.2% at 31 December 2022. In addition, customer deposit and lending balances both fell compared with 31 December 2021, reflecting the reclassification to held for sale of balances, notably from our retail banking operations in France and our banking business in Canada, as well as from the adverse impact of foreign currency translation differences. Notwithstanding these impacts, there was mortgage growth in the UK and Hong Kong, which mitigated a reduction in term lending in CMB in Hong Kong.

Group financial targets

Return on average tangible equity

9.9%

(2021: 8.3%)

In 2022, RoTE was 9.9%, an increase of 1.6 percentage points from 2021.

Despite increasing macroeconomic uncertainty, the impact of our growth and transformation programmes, together with the positive revenue outlook, give us confidence in achieving our RoTE target of at least 12% for 2023 onwards.

Adjusted operating expenses

$30.5bn

(2021: $30.1bn)

During 2022, we continued to demonstrate strong cost discipline, despite inflationary pressures. We achieved 1% growth in adjusted operating expenses compared with 2021, relative to our target of broadly stable adjusted operating expenses.

Our cost to achieve programme concluded on 31 December 2022. Cumulatively, since the start of the programme in 2020, we have realised gross savings of $5.6bn, with cost to achieve spend of $6.5bn. We expect approximately $1bn of additional gross cost saves from this programme in 2023, due to actions taken in 2022.

We retain our focus on cost discipline and will target 2023 adjusted cost growth of approximately 3% on an IFRS 4 basis. This includes up to $300m of additional severance costs in 2023, which we expect to generate further efficiencies into 2024. There may also be an incremental adverse impact from retranslating the 2022 results of hyperinflationary economies at constant currency.

Gross risk-weighted asset reductions

$128bn

Since the start of the programme.

At 31 December 2022, the Group had delivered cumulative gross RWA reductions of $128bn, relative to our target to achieve gross RWA reductions of $110bn or more by the end of 2022. This included accelerated saves of $9.6bn made in 2019. This programme concluded on 31 December 2022.

Capital and dividend policy

CET1 ratio 14.2%

Dividend payout ratio 44%

At 31 December 2022, our common equity tier 1 ('CET1') capital ratio was 14.2%, down 1.6 percentage points from 31 December 2021. Having fallen below 14% during 2022, we are back within our medium-term CET1 target range of 14% to 14.5%. We intend to continue to manage capital efficiently, returning excess capital to shareholders where appropriate.

The Board has approved a second interim dividend for 2022 of $0.23 per ordinary share. The total dividend per share in 2022 of $0.32 results in a dividend payout ratio of 44%, relative to our 2022 target range of between 40% and 55% from 2022 onwards. In determining our dividend payout ratio for 2022, the impairment on the planned sale of our retail banking operations in France, the $1.8bn impact from the recognition of a deferred tax asset for the UK tax group and HSBC Canada's financial results from the 30 June 2022 net asset reference date are excluded from the reported earnings per share.

We are establishing a dividend payout ratio of 50% for 2023 and 2024, excluding material significant items (including the planned sale of our retail banking operations in France and the planned sale of our banking business in Canada), with consideration of buy-backs brought forward to our first quarter results in May 2023, subject to appropriate capital levels. We also intend to revert to paying quarterly dividends from the first quarter of 2023.

Subject to the completion of the sale of our banking business in Canada, the Board's intention is to consider the payment of a special dividend of $0.21 per share as a priority use of the proceeds generated by completion of the transaction. A decision in relation to any potential dividend would be made following the completion of the transaction, currently expected in late 2023, with payment following in early 2024. Further details in relation to record date and other relevant information will be published at that time. Any remaining additional surplus capital is expected to be allocated towards opportunities for organic growth and investment alongside potential share buy-backs, which would be in addition to any existing share buy-back programme.

Key financial metrics

Reported results	For the year ended 2022	2021	2020
Reported profit before tax ($m)	**17,528**	18,906	8,777
Reported profit after tax ($m)	**16,670**	14,693	6,099
Cost efficiency ratio (%)	**64.4**	69.9	68.3
Net interest margin (%)	**1.48**	1.20	1.32
Basic earnings per share ($)	**0.75**	0.62	0.19
Diluted earnings per share ($)	**0.74**	0.62	0.19
Dividend per ordinary share (in respect of the period) ($)	**0.32**	0.25	0.15
Dividend payout ratio (%)[1]	**44**	40	79
Alternative performance measures			
Adjusted profit before tax ($m)	**24,010**	20,603	11,695
Adjusted cost efficiency ratio (%)	**55.0**	64.0	62.3
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	**0.36**	(0.08)	0.87
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers, including held for sale (%)[2]	**0.35**	(0.08)	0.87
Return on average ordinary shareholders' equity (%)	**8.7**	7.1	2.3
Return on average tangible equity (%)	**9.9**	8.3	3.1

Balance sheet	At 31 December 2022	2021	2020
Total assets ($m)	**2,966,530**	2,957,939	2,984,164
Net loans and advances to customers ($m)	**924,854**	1,045,814	1,037,987
Customer accounts ($m)	**1,570,303**	1,710,574	1,642,780
Average interest-earning assets ($m)	**2,203,639**	2,209,513	2,092,900
Loans and advances to customers as % of customer accounts (%)	**58.9**	61.1	63.2
Total shareholders' equity ($m)	**187,484**	198,250	196,443
Tangible ordinary shareholders' equity ($m)	**149,355**	158,193	156,423
Net asset value per ordinary share at period end ($)	**8.50**	8.76	8.62
Tangible net asset value per ordinary share at period end ($)	**7.57**	7.88	7.75
Capital, leverage and liquidity			
Common equity tier 1 capital ratio (%)[3]	**14.2**	15.8	15.9
Risk-weighted assets ($m)[3,4]	**839,720**	838,263	857,520
Total capital ratio (%)[3,4]	**19.3**	21.2	21.5
Leverage ratio (%)[3,4]	**5.8**	5.2	5.5
High-quality liquid assets (liquidity value) ($bn)[4,5]	**647**	688	678
Liquidity coverage ratio (%)[4,5]	**132**	139	139
Net stable funding ratio (%)[4,5]	**136**	N/A	N/A
Share count			
Period end basic number of $0.50 ordinary shares outstanding (millions)	**19,739**	20,073	20,184
Period end basic number of $0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)	**19,876**	20,189	20,272
Average basic number of $0.50 ordinary shares outstanding (millions)	**19,849**	20,197	20,169

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 109. Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 128.

1 Dividend per share, in respect of the period, as a percentage of earnings per share adjusted for certain items (recognition of certain deferred tax assets: $0.11 reduction in EPS; planned sales of the retail banking operations in France and banking business in Canada: $0.09 increase in EPS). No items were adjusted in 2021 or 2020.

2 Includes average gross loans and advances to customers reported within 'assets held for sale'.

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 208. Leverage ratios are reported based on the disclosure rules in force at that time, and include claims on central banks. Current period leverage metrics exclude central bank claims in accordance with the UK leverage rules that were implemented on 1 January 2022. References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.

4 Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we will restate in subsequent periods.

5 The liquidity coverage ratio is based on the average value of the preceding 12 months. The net stable funding ratio is based on the average value of four preceding quarters. The LCR in December 2021 has been restated for consistency. We have not restated the prior periods for NSFR as no comparatives are available.

Reported results

Reported profit
Reported profit after tax of $16.7bn was $2.0bn or 13% higher than in 2021, and included a $2.2bn credit arising from the recognition of a deferred tax asset from historical tax losses in HSBC Holdings. It also benefited from other deferred tax asset and uncertain tax position reassessments, resulting in an effective tax rate of 5%.

Reported profit before tax of $17.5bn was $1.4bn or 7% lower than in 2021. The decrease reflected a net ECL charge of $3.6bn in 2022, which included stage 3 charges of $2.2bn, in part relating to the commercial real estate sector in mainland China, as well as from the impact of heightened economic uncertainty, inflation and rising interest rates. This compared with a net release of $0.9bn in 2021. This adverse movement in reported ECL was partly offset by higher reported revenue and lower reported operating expenses.

The increase in reported revenue primarily reflected higher net interest income from the positive impact of interest rate rises on all of our global businesses. This was partly offset by an impairment of $2.4bn recognised following the reclassification of our retail banking operations in France as held for sale on 30 September 2022, an adverse impact of foreign currency translation differences and unfavourable market impacts in life insurance manufacturing in WPB. Lower reported operating expenses primarily reflected the favourable impact of foreign currency translation differences, while restructuring and other related costs increased.

Effective 1 January 2023, 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 replaces IFRS 4 and could have a significant adverse impact on the profitability of our insurance business on transition. For further details of the impact of IFRS 17 on the results of our insurance operations, see page 335.

Reported revenue
Reported revenue of $51.7bn was $2.2bn or 4% higher than in 2021, primarily due to an increase in net interest income from the positive impact of interest rate rises, mainly in Global Payments Solutions ('GPS') in CMB and GBM, and in Personal Banking in WPB. In GBM, Global Foreign Exchange revenue benefited from increased client activity due to elevated levels of market volatility. In addition, there were strong sales in our life insurance manufacturing business in WPB, with growth in the value of new business, while insurance revenue also included a gain following a pricing update for our policyholders' funds held on deposit with us in Hong Kong to reflect the cost to provide this service.

Reported results	2022 $m	2021 $m	2020 $m
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**51,727**	49,552	50,429
Change in expected credit losses and other credit impairment charges	**(3,592)**	928	(8,817)
Net operating income	**48,135**	50,480	41,612
Total operating expenses	**(33,330)**	(34,620)	(34,432)
Operating profit	**14,805**	15,860	7,180
Share of profit in associates and joint ventures	**2,723**	3,046	1,597
Profit before tax	**17,528**	18,906	8,777
Tax expense	**(858)**	(4,213)	(2,678)
Profit after tax	**16,670**	14,693	6,099

These increases were partly offset by an impairment of $2.4bn recognised following the reclassification of our retail banking operations in France as held for sale on 30 September 2022, as well as losses of $0.4bn associated with the planned sales of our branch operations in Greece and our business in Russia. Reported revenue included an adverse impact of foreign currency translation differences of $3.1bn, and unfavourable market impacts in life insurance manufacturing in WPB of $1.0bn, compared with favourable movements in 2021 of $504m. There was also a decrease in Markets Treasury revenue, which is allocated to our global businesses, due to lower net interest income from the impact of rising interest rates on our funding costs and flattening yield curves across all regions, as well as from lower disposal gains related to risk management activities.

Lower net fee income reflected a reduction in investment distribution income in WPB due to muted customer sentiment resulting in reduced activity in equity markets, and Covid-19-related restrictions in Hong Kong in early 2022, which resulted in the temporary closure of parts of our branch network. Since then, restrictions have substantially been eased. Additionally in GBM, there were lower fees in Capital Markets and Advisory, in line with the reduced global fee pool. In Principal Investments, lower revaluation gains resulted in a reduction in revenue relative to 2021.

Reported ECL
Reported ECL were a net charge of $3.6bn, which included stage 3 charges of $2.2bn, in part relating to the commercial real estate sector in mainland China. We also recognised additional stage 1 and stage 2 allowances to reflect heightened levels of economic uncertainty, inflation, supply chain risks and rising interest rates, in part offset by the release of most of our remaining Covid-19-related allowances. This compared with a net release of $0.9bn in 2021 relating to Covid-19-related allowances previously built up in 2020.

For further details of the calculation of ECL, see pages 153 to 162.

Reported operating expenses
Reported operating expenses of $33.3bn were $1.3bn or 4% lower than in 2021, primarily as foreign currency translation differences resulted in a favourable impact of $2.2bn, as well as from the non-recurrence of a 2021 goodwill impairment of $0.6bn related to our WPB business in Latin America.

Reported operating expenses also reflected the impact of ongoing cost discipline across the Group. This helped mitigate the cost of increased investment in technology of $0.5bn, which included investments in our digital capabilities, as well as the impact of business volume growth and inflation. Restructuring and other related costs increased by $1.0bn.

Reported share of profit from associates and joint ventures
Reported share of profit from associates and joint ventures of $2.7bn was $0.3bn or 11% lower than in 2021, primarily as 2021 included a higher share of profit from Business Growth Fund ('BGF') due to the recovery in asset valuations. This was partly offset by an increase in the share of profit from The Saudi British Bank ('SABB').

Tax expense
Tax in 2022 was a charge of $0.9bn and included a $2.2bn credit arising from the recognition of a deferred tax asset from historical tax losses in HSBC Holdings. This was a result of improved profit forecasts for the UK tax group, which accelerated the expected utilisation of these losses and reduced uncertainty regarding their recoverability. We also benefited from other deferred tax asset and uncertain tax position reassessments during 2022. Excluding these, the effective tax rate for 2022 was 19.2%, which was 3.1 percentage points lower than in 2021. The effective tax rate for 2022 was decreased by the remeasurement of deferred tax balances following the substantive enactment in the first quarter of 2022 of legislation to reduce the rate of the UK banking surcharge from 8% to 3% from 1 April 2023.

Adjusted performance

Our reported results are prepared in accordance with IFRSs, as detailed in the financial statements on page 335.

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 109. Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 128.

	2022	2021	2020	2022 vs 2021	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	**55,345**	47,020	48,848	**8,325**	**18**
Change in expected credit losses and other credit impairment charges	**(3,592)**	754	(8,815)	**(4,346)**	**>(200)**
Total operating expenses	**(30,466)**	(30,104)	(30,445)	**(362)**	**(1)**
Operating profit	**21,287**	17,670	9,588	**3,617**	**20**
Share of profit in associates and joint ventures	**2,723**	2,933	2,107	**(210)**	**(7)**
Profit before tax	**24,010**	20,603	11,695	**3,407**	**17**
Tax	**(4,287)**	(4,241)	(3,274)	**(46)**	**(1)**
Profit after tax	**19,723**	16,362	8,421	**3,361**	**21**

Adjusted profit before tax

Adjusted profit after tax of $19.7bn was $3.4bn or 21% higher than in 2021.

Adjusted profit before tax of $24.0bn was $3.4bn or 17% higher than in 2021, reflecting higher adjusted revenue, mainly from net interest income growth following global interest rate rises. This increase was partly offset by an ECL charge in 2022, compared with a net release in 2021. The ECL charge in 2022 reflected stage 3 charges, as well as the impact of heightened economic uncertainty, inflation, supply chain risks and rising interest rates. Adjusted profit from associates and joint ventures decreased, while adjusted operating expenses increased by 1% compared with 2021, reflecting investment in technology mitigated by continued cost discipline.

Adjusted revenue

Adjusted revenue of $55.3bn was $8.3bn or 18% higher than in 2021. The increase was driven by net interest income growth of $7.7bn following global interest rate rises, mainly in GPS in CMB and GBM, and Personal Banking in WPB. Global Foreign Exchange in GBM benefited from increased client activity due to elevated levels of market volatility, and there were strong sales in our insurance business in WPB, with the value of new business up by $0.2bn or 23%. In addition, insurance revenue included a $0.3bn gain following a pricing update for our policyholders' funds held on deposit with us in Hong Kong to reflect the cost to provide this service.

Reconciliation of reported profit before tax to adjusted profit after tax

	2022	2021	2020
	$m	$m	$m
Reported profit before tax	**17,528**	18,906	8,777
Currency translation	**—**	(1,180)	(303)
Significant items:	**6,482**	2,877	3,221
– customer redress programmes	**(39)**	38	(33)
– disposals, acquisitions and investment in new businesses	**2,817**	—	10
– fair value movements on financial instruments	**579**	242	(264)
– impairment of goodwill and other intangibles	**(4)**	587	1,090
– past service costs of guaranteed minimum pension benefits equalisation	**—**	—	17
– restructuring and other related costs	**3,129**	2,143	2,078
– settlements and provisions in connection with legal and regulatory matters	**—**	—	12
– goodwill impairment (share of profit in associates and joint ventures)	**—**	—	462
– currency translation on significant items	**—**	(133)	(151)
Adjusted profit before tax	**24,010**	20,603	11,695
Adjusted tax charge[1]	**(4,287)**	(4,241)	(3,274)
Adjusted profit after tax	**19,723**	16,362	8,421

1 For a reconciliation of reported to adjusted tax charge, see page 109.

Adjusted performance continued

These increases in adjusted revenue were partly offset by a net unfavourable movement in market impacts in life insurance manufacturing in WPB of $1.4bn. In addition, lower net fee income reflected a reduction in investment distribution income, as muted customer sentiment led to reduced activity in equity markets, and Covid-19-related restrictions in Hong Kong in early 2022 resulted in the temporary closure of parts of our branch network. Since then, restrictions have substantially been eased. In GBM, there were lower fees in Capital Markets and Advisory revenue, in line with the reduced global fee pool. In Principal Investments, revenue fell due to lower revaluation gains relative to 2021.

Revenue relating to Markets Treasury decreased by $0.7bn due to lower net interest income from the impact of rising interest rates on our funding costs and flattening yield curves across all regions, as well as from lower disposal gains related to risk management activities. This revenue is allocated to our global businesses.

Adjusted ECL

Adjusted ECL were a net charge of $3.6bn, which included stage 3 charges of $2.2bn, in part relating to the commercial real estate sector in mainland China. The charge also included stage 1 and stage 2 allowances to reflect heightened economic uncertainty, inflation, supply chain risks and rising interest rates, in part offset by the release of most of our remaining Covid-19-related allowances. The net ECL release of $0.8bn in 2021 related to Covid-19 allowances previously built up in 2020.

Adjusted operating expenses

Adjusted operating expenses of $30.5bn were 1% higher compared with 2021, as we actively managed the impact of inflation on our cost base through ongoing cost discipline. These reductions helped mitigate an increase from continued investment in technology of $0.5bn, which included investments in our digital capabilities, as well as growth due to business volume-related cost growth and the impact of inflation. Adjusted operating expenses also included the adverse impact of retranslating the prior year results of our operations in hyperinflationary economies at 2022 average rates of foreign exchange.

The number of employees expressed in full-time equivalent staff ('FTE') at 31 December 2022 was 219,199, a decrease of 498 compared with 31 December 2021. The number of contractors at 31 December 2022 was 6,047, a decrease of 145.

Adjusted share of profit from associates and JVs

Adjusted share of profit from associates and joint ventures of $2.7bn was 7% lower than in 2021, primarily as 2021 included a higher share of profit from BGF due to the recovery in asset valuations. This was partly offset by an increase in the share of profit from SABB.

Balance sheet and capital

Balance sheet strength

At 31 December 2022, our total assets of $3.0tn were broadly unchanged from 31 December 2021 on a reported basis, which included adverse effects of foreign currency translation differences of $152bn. On a constant currency basis, total assets increased $161bn, primarily from a growth in derivative asset balances.

Reported loans and advances to customers decreased by $121bn. On a constant currency basis, loans and advances fell by $66bn, primarily due to the reclassification of $81bn of balances to held for sale, notably associated with our retail banking operations in France and our banking business in Canada. While our near-term outlook on lending growth remains cautious, we expect mid-single-digit percentage annual loan growth in the medium to long term.

Reported customer accounts of $1.6tn decreased by $140bn, and by $52bn on a constant currency basis, mainly due to the reclassification to held for sale.

Reported loans and advances to customers as a percentage of customer accounts was 58.9%, which was lower compared with 61.1% at 31 December 2021.

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2022 were $35.2bn, compared with $32.2bn at 31 December 2021. The increase was primarily driven by profits generated of $12.4bn and a foreign exchange gain on the redemption of additional tier 1 securities of $0.4bn, offset by ordinary dividend payments and additional tier 1 coupon distributions of $6.5bn, other reserves movements of $2.3bn and $1bn 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 and the impact on our capital ratios as a result of stress.

Our CET1 ratio at 31 December 2022 was 14.2%, down 1.6 percentage points from 2021. Capital generation was more than offset by new regulatory requirements, a fall in the fair value through other comprehensive income ('FVOCI'), dividends, share buy-backs and foreign exchange movements. RWAs were relatively stable with growth broadly offset by foreign exchange movements.

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. During 2022, the average high-quality liquid assets we held was $647bn. This excludes high-quality liquid assets in legal entities which are not transferable due to local restrictions.

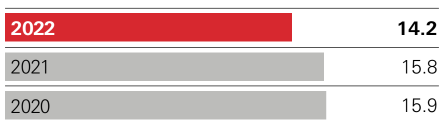
For further details, see page 205.

Total assets
($bn)

$2,967bn

Common equity tier 1 ratio
(%)

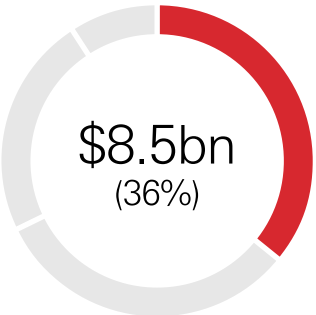
14.2%



Wealth and Personal Banking

We serve around 38 million customers globally, including 6 million of whom are international, from retail customers to ultra high net worth individuals and their families.

Contribution to Group adjusted profit before tax



Creating a seamless digital journey for our international customers

To deliver on our strategic focus on better serving and growing our 6 million international customers, we have enhanced our proposition for customers with international needs.

In 2022, we launched digital international account opening in Singapore, the UK and Australia, and made enhancements to the existing onboarding journeys in Hong Kong, the US, Canada, mainland China and the Channel Islands, allowing customers to open their accounts even before they arrive in their new country. Global Money Transfers offers customers an easy, quick, and competitively priced way for foreign currency payments, and is now live in eight markets. In addition, a partnership-enabled innovation allows customers in Singapore to access their credit history from other markets, using this information to expedite credit card limit decisions.

To meet our customers' needs, we offer a full suite of products and services across transactional banking, lending and wealth.

WPB continued to invest in our key strategic priorities of expanding our Wealth franchise in Asia, developing our transactional banking and lending capabilities, and addressing our customers' international needs. Performance benefited from our product diversification in the context of rising interest rates mitigating adverse movements in market impacts in insurance and lower customer activity in equity markets. The results included a more normalised level of adjusted ECL charges in 2022, compared with releases in 2021.

	2022	2021	2020	2022 vs 2021	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**24,367**	20,963	21,481	**3,404**	**16**
Change in expected credit losses and other credit impairment charges	**(1,137)**	213	(2,878)	**(1,350)**	**>(200)**
Operating expenses	**(14,726)**	(14,489)	(14,536)	**(237)**	**(2)**
Share of profit in associates and JVs	**29**	34	6	**(5)**	**(15)**
Profit before tax	**8,533**	6,721	4,073	**1,812**	**27**
RoTE excluding significant items (%)[1]	**18.5**	15.2	9.1		

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.

Divisional highlights

$80bn

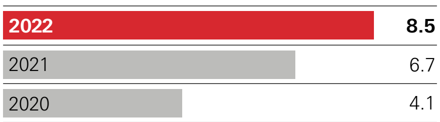
WPB net new invested assets in 2022, up 25% compared with 2021.

6 million

International customers at 31 December 2022, an increase of 7% compared with 2021.

Adjusted profit before tax
($bn)

$8.5bn



Net operating income
($bn)

$24.4bn

International customers are those who bank in more than one market, those whose address is different from the market we bank them in and customers whose nationality, or country of birth for non-resident Indians and overseas Chinese, is different to the market we bank them in. Customers may be counted more than once when banked in multiple countries. Customer numbers exclude those acquired through our purchase of L&T Investment Management.

Management view of adjusted revenue	2022 $m	2021 $m	2020 $m	2022 vs 2021 $m	2022 vs 2021 %
Wealth	**8,091**	8,783	7,737	**(692)**	**(8)**
– investment distribution	**3,066**	3,377	3,177	**(311)**	**(9)**
– Global Private Banking	**1,978**	1,746	1,712	**232**	**13**
net interest income	**946**	620	661	**326**	**53**
non-interest income	**1,032**	1,126	1,051	**(94)**	**(8)**
– life insurance manufacturing	**1,914**	2,508	1,838	**(594)**	**(24)**
– asset management	**1,133**	1,152	1,010	**(19)**	**(2)**
Personal Banking	**15,911**	11,587	12,683	**4,324**	**37**
– net interest	**14,610**	10,258	11,472	**4,352**	**42**
– non-interest income	**1,301**	1,329	1,211	**(28)**	**(2)**
Other[1]	**365**	593	1,061	**(228)**	**(38)**
Net operating income[2]	**24,367**	20,963	21,481	**3,404**	**16**

1 '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 (2022: $494m, 2021: $807m, 2020: $1,048m), HSBC Holdings interest expense and 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').

Financial performance

Adjusted profit before tax of $8.5bn was $1.8bn or 27% higher than in 2021. Despite an adverse movement of $1.4bn in market impacts in life insurance manufacturing, adjusted revenue increased primarily from rising interest rates. There was also a net adjusted ECL charge in 2022 of $1.1bn, compared with a net release of $0.2bn in 2021.

Adjusted revenue of $24.4bn was $3.4bn or 16% higher. Net interest income grew in Personal Banking by $4.4bn due to rising interest rates and balance sheet growth in the UK, Asia, Mexico and the Middle East. This was partly offset by lower Wealth revenue due to adverse market impacts of $1.4bn in life insurance manufacturing, despite strong insurance sales and an increase in net interest income of $0.3bn in Global Private Banking.

In Personal Banking, revenue of $15.9bn was up $4.3bn or 37%.

– Net interest income was $4.4bn or 42% higher due to the positive impact of rising interest rates. This was supported by strong balance sheet growth in the UK, Asia, Mexico and the Middle East. Compared with 2021, deposit balances in Asia increased by $6bn. Mortgage lending increased in the UK by $9bn and in Hong Kong by $3bn. In addition, unsecured lending increased in Asia by 5% and Mexico by 18%.

In Wealth, revenue of $8.1bn was down $0.7bn or 8%, notably from lower life insurance manufacturing as described above. However, our investments in Asia contributed to the generation of net new invested assets of $80bn during 2022.

– Life insurance manufacturing revenue was $0.6bn or 24% lower due to a net adverse movement in market impacts of $1.4bn. In 2022, an adverse movement of $1.0bn compared with favourable impacts of $0.5bn in 2021, reflecting a weaker performance in equity markets. However, the value of new business written increased by $0.2bn or 23%, reflecting the launch of new products. In addition, there was a $0.3bn gain following a pricing update for our policyholders' funds held on deposit with us in Hong Kong to reflect the cost to provide this service. We also recognised a $0.1bn gain on the completion of our acquisition of AXA Singapore.
– Investment distribution revenue was $0.3bn or 9% lower, as muted customer sentiment led to lower activity in equity markets, which compared with a strong 2021, and as Covid-19-related restrictions in Hong Kong in early 2022 resulted in the temporary closure of parts of our branch network. Since then, restrictions have substantially been eased.
– Global Private Banking revenue was $0.2bn or 13% higher due to the positive impact of rising interest rates on net interest income. This increase was partly offset by a decline in brokerage and trading revenue, reflecting reduced client activity compared with a strong 2021.
– Asset management revenue was $19m or 2% lower, as adverse market conditions led to unfavourable valuation movements. This was in part mitigated by growth in management fees from net new invested assets of $45bn in 2022 and improved performance fees.

Other revenue fell by $0.2bn or 38%, notably from a lower allocation of revenue from Markets Treasury.

Adjusted ECL were a net charge of $1.1bn, reflecting a more normalised level of ECL charges, including provisions relating to a deterioration in the forward economic outlook from heightened levels of uncertainty and inflationary pressures. This compared with a net release of $0.2bn in 2021 from Covid-19-related allowances previously built up in 2020.

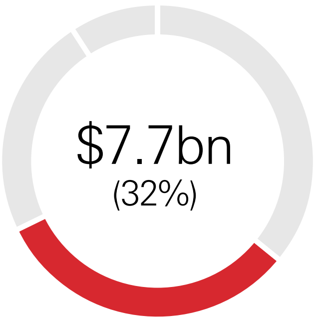
Adjusted operating expenses of $14.7bn were $0.2bn or 2% higher, mainly due to continued investments, notably in wealth in Asia including the costs related to our AXA Singapore acquisition, and from the impact of higher inflation. These increases were partly offset by the benefits of our cost-saving initiatives.

The reported results of our WPB business included an impairment of $2.4bn recognised following the reclassification of our retail banking operations in France as held for sale on 30 September 2022. This impairment is excluded from our adjusted results. At 31 December 2022, loans and advances to customers of $52.4bn and customer accounts of $56.6bn were classified as held for sale, notably relating to our retail banking operations in France and our banking business in Canada.

Commercial Banking

We support businesses in 54 countries and territories, ranging from small enterprises to large companies operating globally.

Contribution to Group adjusted profit before tax



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

We continued our investment in technology, launching new products to support customers and make banking with us easier. With our clients and partners we have made progress in delivering our sustainability strategy. We act as a trusted transition partner, seeking to provide sustainable supply chain solutions, and aim to capture growth opportunities as we transition into a new low-carbon economy. Strong performance in Global Payments Solutions ('GPS') continued due to interest rate rises and 19% growth in fee income. This was partly offset by an adjusted ECL charge in 2022 relative to a net release in 2021.

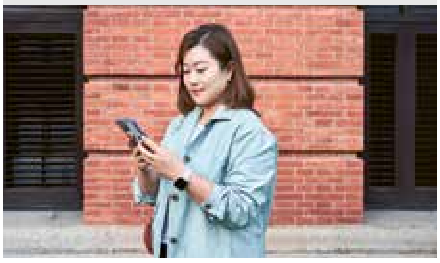
	2022	2021	2020	**2022 vs 2021**	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**16,215**	12,538	12,889	**3,677**	**29**
Change in expected credit losses and other credit impairment charges	**(1,858)**	225	(4,710)	**(2,083)**	**>(200)**
Operating expenses	**(6,642)**	(6,554)	(6,475)	**(88)**	**(1)**
Share of profit in associates and JVs	**1**	1	(1)	**—**	**—**
Profit before tax	**7,716**	6,210	1,703	**1,506**	**24**
RoTE excluding significant items (%)[1]	**14.2**	10.8	1.3		

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.

Funding digital growth and innovation

We are helping technology companies to grow in Asia by providing them with specialist financing solutions. These include Grab, a leading south-east Asian platform, which has been on a journey of growth over the last decade.

Based in Singapore, the company started as a ride-hailing app in 2012, and has since expanded to provide transport, food delivery and digital payments services. It has become an everyday, multi-use platform for more than 33 million consumers every month.



Divisional highlights

19%

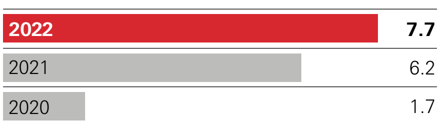
Growth in adjusted net fee income in GPS, supported by repricing and strategic initiatives.

43%

Growth in adjusted net interest income across all CMB products, notably in GPS (up 149%) and GTRF (up 24%).

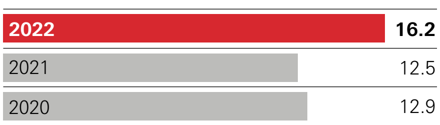
Adjusted profit before tax
($bn)

$7.7bn



Net operating income
($bn)

$16.2bn



	2022	2021	2020	2022 vs 2021	
Management view of adjusted revenue	**$m**	$m	$m	**$m**	**%**
Global Trade and Receivables Finance	**2,084**	1,829	1,687	**255**	**14**
Credit and Lending	**5,722**	5,667	5,465	**55**	**1**
Global Payments Solutions	**6,839**	3,354	4,040	**3,485**	**>100**
Markets products, Insurance and Investments and Other[1]	**1,570**	1,688	1,697	**(118)**	**(7)**
– of which: share of revenue for Markets and Securities Services and Banking products	**1,185**	1,005	898	**180**	**18**
Net operating income[2]	**16,215**	12,538	12,889	**3,677**	**29**

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 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').

Financial performance

Adjusted profit before tax of $7.7bn was $1.5bn or 24% higher than in 2021. This was driven by an increase in adjusted revenue across all CMB products and in all regions, notably in Asia and the UK, and included a 149% increase in GPS net interest income. This was partly offset by a net adjusted ECL charge compared with a net release of adjusted ECL in 2021. Adjusted operating expenses remained stable, as increased investment spend was mitigated by continued cost discipline.

Adjusted revenue of $16.2bn was $3.7bn or 29% higher:

- In GPS, revenue increased by $3.5bn, with growth in all regions, particularly in Asia and the UK, driven by higher margins, reflecting interest rate rises and business repricing actions. Revenue also benefited from a 6% increase in average deposit balances. There was a 19% increase in fee income, notably in cards and payments, with growth in all regions, notably in the UK, supported by the delivery of our strategic fee initiatives.
- In Global Trade and Receivables Finance ('GTRF'), revenue increased by $0.3bn or 14%, with growth in all regions, notably in the UK and Asia, driven by an increase in average balances, which rose by 17% compared with 2021 at improved margins. In addition, fee income grew by 4% compared with 2021.
- In Credit and Lending, revenue increased by $0.1bn or 1%, notably in Canada and Latin America, driven by a 3% growth in average balances. In addition, fee income grew by 1%.
- In Markets products, Insurance and Investments and Other, revenue decreased by $0.1bn or 7%, reflecting the adverse effects of hyperinflation accounting in Türkiye and Argentina, as well as lower Markets Treasury and insurance revenue. This was partly offset by an 18% increase in collaboration revenue from GBM products, notably Foreign Exchange.

Adjusted ECL were a net charge of $1.9bn, compared with a net release of $0.2bn in 2021. The charge in 2022 primarily related to stage 3 charges in Asia, mainly in the commercial real estate sector in mainland China, and higher charges in the UK reflecting heightened levels of uncertainty and inflationary pressures. This compared with a net release in 2021 of Covid-19-related allowances previously built up in 2020.

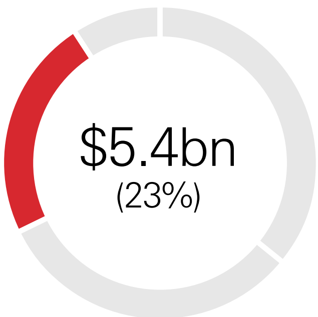
Adjusted operating expenses of $6.6bn remained broadly stable (up 1%). The continued investment in technology and the impact of higher inflation were mitigated by continued cost discipline on discretionary spend and through hiring efficiencies, as well as from the impact of our cost-saving initiatives.

At 31 December 2022, loans and advances to customers of $25.1bn and customer accounts of $22.1bn relating to our banking business in Canada were reclassified as held for sale.

Global Banking and Markets

We support multinational corporates, financial institutions and institutional clients, as well as public sector and government bodies.

Contribution to Group adjusted profit before tax



Connecting the world to the biggest IPO in UAE

In April 2022, the initial public offering ('IPO') of Dubai Electricity and Water Authority raised $6.1bn for the Government of Dubai, which sold shares in the largest IPO ever to be carried out in the UAE, and the largest IPO focused on the utility sector in 2022. As joint global coordinator and joint bookrunner, we supported the state-owned utility company through the transaction, which attracted $85.7bn of demand. This demonstrated the depth of interest from international, regional and local investors, and the capacity for growth opportunities in the Middle East. We supported the company to articulate its energy transition plans to investors. The company is a supporter of the Dubai Clean Energy Strategy 2050, which aims to provide 100% of Dubai's energy production capacity from clean energy sources by 2050.

We are leaders in facilitating global trade and payments, particularly into and within Asia and the Middle East, enabling our clients in the East and West to achieve their objectives by accessing our expertise and geographical reach. Our product specialists deliver a comprehensive range of transaction banking, financing, capital markets and advisory, and risk management services.

GBM adjusted profit before tax increased in 2022, reflecting a strong revenue performance due to higher client activity related to volatility and rising interest rates. This was partly offset by adjusted ECL charges, which included a build-up of reserves, reflecting heightened levels of economic uncertainty, compared with releases in 2021. We continued to invest in technology to modernise our infrastructure, innovate product capabilities and to support our clients.

	2022	2021	2020	2022 vs 2021	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**15,359**	13,982	14,696	**1,377**	**10**
Change in expected credit losses and other credit impairment charges	**(587)**	313	(1,227)	**(900)**	**>(200)**
Operating expenses	**(9,325)**	(9,250)	(8,895)	**(75)**	**(1)**
Share of profit in associates and JVs	**(2)**	—	—	**(2)**	**—**
Profit before tax	**5,445**	5,045	4,574	**400**	**8**
RoTE excluding significant items (%)[1]	**10.7**	8.6	6.7		

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.

Divisional highlights

50%

Adjusted revenue generated in Asia in 2022.

$94bn

Cumulative gross RWA reductions since the start of our RWA programme in 2020. This included accelerated saves of $9.6bn made in 2019.

Adjusted profit before tax
($bn)

$5.4bn

2022	**5.4**
2021	5.0
2020	4.6

Net operating income
($bn)

$15.4bn

2022	**15.4**
2021	14.0
2020	14.7

Management view of adjusted revenue	2022 $m	2021 $m	2020 $m	2022 vs 2021 $m	2022 vs 2021 %
Markets and Securities Services	**8,926**	7,810	8,489	**1,116**	**14**
– Securities Services[1]	**2,072**	1,799	1,724	**273**	**15**
– Global Debt Markets	**706**	838	1,399	**(132)**	**(16)**
– Global Foreign Exchange	**4,215**	3,158	3,917	**1,057**	**33**
– Equities	**1,007**	1,156	790	**(149)**	**(13)**
– Securities Financing	**920**	827	929	**93**	**11**
– Credit and funding valuation adjustments	**6**	32	(270)	**(26)**	**(81)**
Banking	**7,282**	6,244	6,392	**1,038**	**17**
– Global Trade and Receivables Finance	**742**	675	668	**67**	**10**
– Global Payments Solutions	**3,131**	1,727	1,932	**1,404**	**81**
– Credit and Lending	**2,363**	2,465	2,550	**(102)**	**(4)**
– Capital Markets and Advisory[1]	**748**	1,188	1,002	**(440)**	**(37)**
– Other[2]	**298**	189	240	**109**	**58**
GBM Other	**(849)**	(72)	(185)	**(777)**	**>(100)**
– Principal Investments	**57**	371	112	**(314)**	**(85)**
– Other[3]	**(906)**	(443)	(297)	**(463)**	**>(100)**
Net operating income[4]	**15,359**	13,982	14,696	**1,377**	**10**

1 From 1 June 2020, Issuer Services was transferred to Global Banking. This resulted in revenue of $80m being recorded in Securities Services in 2020.
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 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').

Financial performance

Adjusted profit before tax of $5.4bn was $0.4bn or 8% higher than in 2021. Growth in adjusted revenue of $1.4bn or 10% was partly offset by a net adjusted ECL charge in 2022 of $0.6bn, compared with a net release in 2021 of $0.3bn, and from an increase of $0.1bn in adjusted operating expenses.

Adjusted revenue of $15.4bn was $1.4bn or 10% higher, reflecting a more than 100% growth in GPS net interest income from higher interest rates, and a strong Markets and Securities Services performance driven by increased client activity and disciplined risk management.

In Markets and Securities Services, revenue increased by $1.1bn or 14%.

- In Securities Services, revenue grew by $0.3bn or 15% from higher net interest income as global interest rates rose, partly offset by reduced fee income from lower market levels.
- In Global Debt Markets, revenue fell by $0.1bn or 16%, reflecting lower primary issuances and challenging market conditions.
- In Global Foreign Exchange, revenue growth of $1.1bn or 33% reflected increased client activity due to elevated market volatility and the combined macroeconomic impacts of rising inflation, higher interest rates and a strengthening of the US dollar, as well as a strong trading performance.
- In Equities, revenue fell by $0.1bn or 13% in the context of a strong prior year and lower client activity in 2022.
- In Securities Financing, revenue increased by $0.1bn or 11%, driven by client franchise growth and a strong trading performance.

In Banking, revenue increased by $1.0bn or 17%.

- In GPS, revenue increased by $1.4bn or 81%, driven by margin growth as a result of the rising global interest-rate environment and business pricing actions, together with active portfolio management and average balance growth. Fee income grew in all regions from the continued delivery of our strategic initiatives.
- Capital Markets and Advisory revenue decreased $0.4bn or 37%, primarily from lower fees in line with the reduced global fee pool and adverse valuation movements on leveraged loans, net of hedging.

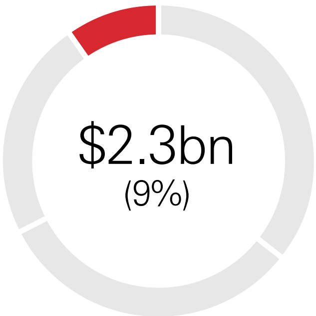
In GBM Other, Principal Investments revenue declined by $0.3bn or 85%, as 2022 included lower valuation gains compared with 2021. There was also a reduction in revenue from Markets Treasury and the impact of hyperinflationary accounting, which are allocated to the global businesses. GBM Other also included a loss of $0.1bn from a buy-back of legacy securities.

Adjusted ECL were a net charge of $0.6bn. This included stage 3 charges predominantly in the commercial real estate sector in mainland China, and in Europe, which also reflected allowances due to a deterioration in the forward economic outlook given the heightened levels of uncertainty and inflationary pressures. This compared with the net release of $0.3bn in 2021 of Covid-19-related allowances previously built up in 2020.

Adjusted operating expenses of $9.3bn increased by $0.1bn or 1% as the impact of higher inflation and strategic investments were in part mitigated by our ongoing cost discipline.

Corporate Centre

Contribution to Group adjusted profit before tax



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 in 2022 reflected a lower share of profit from our associates, an increase in hedging costs and revaluation losses on investment properties. These reductions were in part mitigated by a favourable allocation of the UK bank levy and related prior year credits.

Financial performance

Adjusted profit before tax of $2.3bn was $0.3bn or 12% lower than in 2021 due to a reduction in adjusted share of profit in associates and joint ventures, and lower adjusted revenue.

Adjusted revenue was $0.1bn or 29% lower, primarily reflecting revaluation losses on investment properties, compared with gains in 2021, and an increase in costs associated with hedging foreign exchange exposure. The reduction also included the consideration paid in respect of an exchange offer for subordinated notes undertaken by HSBC Holdings plc.

Adjusted operating expenses decreased by $38m or 20%, reflecting a favourable allocation of the UK bank levy and related prior year credits. Since 2021, the UK bank levy and any related credits have been allocated across our global businesses and Corporate Centre, primarily to GBM.

Adjusted share of profit from associates and joint ventures of $2.7bn decreased by $0.2bn or 7%, primarily as 2021 included a higher share of profit from BGF in the UK, due to a recovery in asset valuations. This was partly offset by an increase in the share of profit from SABB.

	2022	2021	2020	**2022 vs 2021**	
Adjusted results	**$m**	$m	$m	**$m**	**%**
Net operating income	**(596)**	(463)	(218)	**(133)**	**(29)**
Change in expected credit losses and other credit impairment charges	**(10)**	3	–	**(13)**	**>(200)**
Operating expenses	**227**	189	(539)	**38**	**20**
Share of profit in associates and JVs	**2,695**	2,898	2,102	**(203)**	**(7)**
Profit before tax	**2,316**	2,627	1,345	**(311)**	**(12)**
RoTE excluding significant items (%)[1]	**5.4**	5.6	3.1		

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.

	2022	2021	2020	**2022 vs 2021**	
Management view of adjusted revenue	**$m**	$m	$m	**$m**	**%**
Central Treasury[1]	**(77)**	(99)	151	**22**	**22**
Legacy portfolios	**(17)**	(31)	(19)	**14**	**45**
Other[2,3]	**(502)**	(333)	(350)	**(169)**	**(51)**
Net operating income[4]	**(596)**	(463)	(218)	**(133)**	**(29)**

1 Central Treasury includes adverse valuation differences on issued long-term debt and associated swaps of $77m (2021: losses of $99m; 2020: gains of $151m).

2 Other comprises consolidation adjustments, funding charges on property and technology assets, revaluation gains and losses on investment properties and property disposals and other revenue items not allocated to global businesses. The reduction in 2022 related primarily to adverse revaluation gains and losses on investment properties.

3 Revenue from Markets Treasury, HSBC Holdings net interest expense and hyperinflation impacts 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 2022 was $1,549m (2021: $2,202m; 2020: $2,699m).

4 '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

Geopolitical tensions have resulted in an increasingly fragmented macroeconomic, trade and regulatory environment. The global economic slowdown and high inflationary pressures are exacerbating the risks linked to this fragmentation.

Global commodity markets have been significantly impacted by the Russia-Ukraine war, leading to supply chain disruptions and increased prices for both energy and non-energy commodities. This, combined with extensive monetary policy loosening at the height of the Covid-19 pandemic, contributed to a sharp increase in inflation, creating further challenges for central banks and our customers. The continuation of – or any further escalation in – the Russia-Ukraine war could have additional economic, social and political consequences. These include further sanctions and trade restrictions, longer-term changes in the macroeconomic environment, and the risk of higher and sustained inflation, including continued increases in energy and non-energy prices. Interest rates have increased in reaction to inflationary pressures and we have adapted our interest rate risk management strategy in response.

China's policy measures issued at the end of 2022 have increased liquidity and the supply of credit to the mainland China commercial real estate sector. Recovery in the underlying domestic residential demand and improved customer sentiment will be necessary to support the ongoing health of the sector. We will continue to monitor the sector closely, notably the risk of further idiosyncratic real estate defaults and the potential associated impact on wider market, investor and consumer sentiment. Given that parts of the global economy are in, or close to, recession, the demand for Chinese exports may also diminish.

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 management of our risk appetite, and ensuring regular communication with our Board and key stakeholders.

While the financial performance of our operations varied in different geographies, our balance sheet and liquidity remained strong.

Key risk appetite metrics

Component	Measure	Risk appetite	2022
Capital	CET1 ratio – end point basis	≥13.0%	**14.2%**
Change in expected credit losses and other credit impairment charges[1]	Change in expected credit losses and other credit impairment charges as a % of advances: (WPB)	≤0.50%	**0.24%**
	Change in expected credit losses and other credit impairment charges as a % of advances: wholesale (GBM, CMB)	≤0.45%	**0.40%**

1 Includes change in expected credit losses and other impairment charges and advances related to assets that are held for sale.

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. Risk appetite supports senior management in allocating capital, funding and liquidity optimally to finance growth, while monitoring exposure to non-financial risks.

Capital and liquidity remain at the core of our risk appetite framework, with forward-looking statements informed by stress testing. We continue to develop our climate risk appetite as we engage with businesses on including climate risk in decision making and starting to embed climate risk appetite into business planning.

At 31 December 2022, our CET1 ratio and ECL charges were within their defined risk appetite thresholds. Wholesale ECL charges increased towards the end of 2022, with additional stage 1 and 2 allowances recorded, as a result of the uncertain macroeconomic environment. Monitoring of measures against our risk appetite remains a key focus. During 2022, we enhanced the monitoring and forecasting of our CET1 ratio through regular reviews in periods of high volatility.

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 a crisis. 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. 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 risks, emerging risks and our risk appetite. During 2022, assessments were made of the impact on the Group of the Russia-Ukraine war and the consequences from the deteriorating global economic outlook.

The results of the most recent stress test, referred to as the solvency stress test, published by the Bank of England ('BoE') in December 2021 confirmed the Group was sufficiently capitalised.

The BoE's 2022 annual cyclical scenario stress test, originally due for submission in June 2022, was rescheduled to commence in September 2022 in light of the uncertainty related to the Russia-Ukraine war, and was submitted in January 2023.

As a result of this postponement, our own internal stress test will now be conducted in the first quarter of 2023, and will explore the potential impacts of key vulnerabilities to which we are exposed across certain key regions, including a lower interest-rate environment, additional macroeconomic headwinds including lower oil prices and the introduction of foreign exchange shocks. This focused internal stress test will consider the impacts of the various risk scenarios on those specific regions across all risk types and on capital resources.

Managing risk continued

Climate risk

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 help improve our understanding of our risk exposures for risk management and business decision making. In 2021, the Prudential Regulation Authority 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 policy action scenario. This was followed in the first half of 2022 with a second round to explore our strategic responses to such scenarios. We also conducted climate change stress testing exercises for the European Central Bank and the Monetary Authority of Singapore, and in the second half of 2022 we ran an internal climate scenario analysis to identify challenges and opportunities to our net zero strategy, as well as to inform capital planning and risk appetite.

For further details of our approach to climate risk stress testing, see 'Insights from scenario analysis' on page 67.

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a greener economy. Climate risk can impact us either directly or through our relationships with our clients. This includes potential climate risk arising as a result of our net zero ambition, which could lead to reputational concerns, and potential legal and/or regulatory action if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero targets. Our most material exposure to climate risk relates to corporate and retail client financing activity within our banking portfolio. We also have significant responsibilities in relation to asset ownership by our insurance business, employee pension plans, and asset management business.

We seek to manage climate risk across all our businesses in line with our Group-wide risk management framework, and are incorporating climate considerations within our existing risk types to reflect our strategic ambition to align to net zero.

For further details of our approach to climate risk management, see 'Climate risk' on page 221.

For further details of our TCFD disclosures, see the 'ESG review' on page 43.

Our operations

We remain committed to investing in the reliability and resilience of our IT systems and critical services, including those provided by third parties, 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, legal and regulatory consequences. In our approach to defending against these threats, we invest in business and technical controls to help us detect, manage and recover from issues, including data loss, in a timely manner.

We have made progress with the implementation of our business transformation plans. We seek to manage change execution risk so we can prioritise, manage and deliver change initiatives effectively and safely, and at the scale, complexity and pace required.

For further details on our risk management framework and risks associated with our banking and insurance manufacturing operations, see pages 142 to 144.

Geopolitical and macroeconomic risks

The Russia-Ukraine war has continued to elevate geopolitical instability and has resulted in the use of significant sanctions and trade restrictions against Russia by the UK, the US and the EU, as well as other countries. In response to such sanctions and trade restrictions, Russia has implemented certain countermeasures.

The Russia-Ukraine war, alongside the economic impacts that continue to result from the Covid-19 pandemic, has contributed to increased commodity prices, which, combined with extensive monetary policy loosening during the height of the Covid-19 pandemic, has led to a sharp increase in inflation. In response, central banks both in developed and emerging markets tightened monetary policy sharply in 2022. Inflation is expected to abate in the coming months, albeit only gradually as the ongoing Russia-Ukraine war is likely to keep energy and food prices at high levels.

Fiscal deficits are likely to remain high in both developed and emerging markets as further public spending is rolled out to help the private sector manage rising prices, against a backdrop of slower growth and higher interest rates. This could increase the strains on highly leveraged sovereigns, corporates and households. While the average maturity of sovereign debt in developed markets has lengthened, rising interest rates could reduce the affordability of debt and may eventually bring into question its sustainability in some countries. Among emerging markets, countries that need to refinance maturing US dollar-denominated debt in the context of a strong dollar may face increasing difficulties.

Our businesses also continue to consider the impact of the increasing cost of living on our customers. We are engaging closely with our key regulators to help ensure we continue to meet their expectations of financial institutions' activities at a time of market volatility.

Higher inflation and interest rate expectations around the world – and the resulting economic uncertainty – have had an impact on ECL. The combined pressure of higher inflation and interest rates may impact the ability of our customers to repay debt. We have continued to carry out enhanced monitoring of model outputs and the use of model overlays. This includes management adjustments based on the expert judgement of senior credit risk managers to reflect the uncertainty in current market inflation and interest rate conditions in the forecasts from the underlying macroeconomic scenarios. Inflation and rising interest rates have been considered both directly in certain models, and assessed via adjustments where not directly considered. While many of the government programmes implemented during the Covid-19 pandemic to support businesses and individuals have ceased, this has impacted the level of credit losses, which in turn may have impacted the longer-term reliability of loss and capital models.

The relationship between China and several countries, including the UK and the US, remains complex. The UK, the US, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies, and may continue to impose further measures. In response to foreign sanctions and trade restrictions, China has imposed sanctions and introduced new laws and trade restrictions that could impact the Group and its customers. Further sanctions and counter-sanctions, whether in connection with Russia or China, may affect the Group and its customers by creating regulatory, reputational and market risks.

Negotiations between the UK and the EU over the operation of the Northern Ireland Protocol are continuing. While there are signs that differences may be diminishing, failure to reach agreement could have implications for the future operation of the EU-UK Trade and Cooperation Agreement.

Geopolitical and macroeconomic risks continued

In August 2022, the US Inflation Reduction Act introduced a minimum tax of 15% with effect from 1 January 2023. It is possible that a minimum tax could result in an additional US tax liability over our regular US federal corporate tax liabilities in a given year, based on differences between the US book and taxable income (including as a result of temporary differences). Given its recent pronouncement, it is unclear at this time what, if any, impact the US Inflation Reduction Act will have on HSBC's US tax rate and US financial results, and HSBC will continue to evaluate its impact as further information becomes available. In addition, potential changes to tax legislation and tax rates in the countries and territories in which we operate could increase our effective tax rate in the future.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business.

For further details on our approach to geopolitical and macroeconomic risks, see 'Top and emerging risks' on page 135.

Risks related to Covid-19

While the immediate impact of the Covid-19 pandemic on the global economy has largely abated in most markets, it continues to disrupt economic activity in mainland China and Hong Kong despite the easing in December 2022 of the domestic Covid-19 restrictions that have adversely impacted China's economy, Asia tourism and global supply chains. The return to pre-pandemic levels of social interaction across all our key markets continues to vary as governments respond differently to new waves of infection.

We continue to monitor the situation closely and, given the remaining uncertainties related to the post-pandemic landscape, additional mitigating actions may be required.

For further details on our approach to the risks related to Covid-19, see 'Areas of special interest' on page 142.

Ibor transition

The publication of sterling, Swiss franc, euro and Japanese yen Libor interest rate benchmarks, as well as Euro Overnight Index Average ('Eonia'), ceased from the end of 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 – has continued to support the transition of the limited number of remaining contracts in sterling and Japanese yen Libor, which were published using a 'synthetic' interest rate methodology during 2022. We are prepared for the cessation of the publication of these 'synthetic' interest rates from March 2023 and March 2024.

Additionally, prior to the cessation of the publication of US dollar Libor from 30 June 2023, we have implemented the majority of required processes, technology and RFR product capabilities throughout the Group, in preparation for upcoming market events and the continued transition of legacy US dollar Libor and other demising Ibor contracts.

We continue to be exposed to risks associated with Ibor transition, which include regulatory compliance risk, resilience risk, financial reporting risk, legal risk, model risk and market risk. The level of these key risks is diminishing in line with our process implementation and the transition of our legacy contracts. We have sought to implement mitigating controls, where required, and continue to actively manage and monitor these risks.

For further details on our approach to Ibor transition, see 'Top and emerging risks' on page 135.

Top and emerging risks

Our top and emerging risks report identifies 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 not under active management.

Our suite of top and emerging risks is subject to regular review by senior governance forums. We continue to monitor closely the identified risks and ensure management actions are in place, as required.

Risk	Trend	Description
Externally driven		
Geopolitical and macroeconomic risks	▲	Our operations and portfolios are subject to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. Heightened geopolitical tensions, alongside other factors, have also disrupted supply chains globally. Inflation, rising interest rates and slower Chinese economic activity may prompt a global recession that would affect our credit portfolio.
Technology and cybersecurity risk	▶	We face a risk of service disruption resulting from technology failures or malicious activities by internal or external threats. We continue to monitor ongoing geopolitical events and changes to the threat landscape. We operate a continuous improvement programme to protect our technology operations and to counter a fast-evolving cyber threat environment.
Evolving regulatory environment risk	▶	The regulatory and compliance risk environment has become more complex, in part due to heightened geopolitical tensions. There has been increased regulatory focus on operational and cyber resilience, crypto-asset-related risks and sanctions. These, alongside other regulatory priorities, may result in change requirements across the Group in the short to medium term. We continue to monitor regulatory and wider industry developments closely, and engage with regulators as appropriate.
Financial crime risk	▲	We continue to support our customers against a backdrop of increasingly complex geopolitical, socio-economic and technological challenges, including the Russia-Ukraine war. HSBC is monitoring the impacts of the war on the Group, and using its sanctions compliance capabilities to respond to evolving sanctions regulations, noting the challenges that arise in implementing the unprecedented volume and diverse set of sanctions and trade restrictions.
Ibor transition risk	▼	We remain exposed to regulatory compliance, legal and resilience risks as contracts transition away from the remaining demising Ibor benchmarks to new reference rates. We continue to consider the fairness of client outcomes, our compliance with regulatory expectations and the operation of our systems and processes. The key risks are diminishing in line with our process implementation and we are progressing well in transitioning contracts in the remaining demising Ibors, specifically US dollar Libor.
Environmental, social and governance ('ESG') risks	▲	We are subject to ESG risks relating to climate change, nature and human rights. These risks have increased owing to the pace and volume of regulatory developments globally, and due to stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial costs, including adverse reputational consequences.
Digitalisation and technological advances	▲	Developments in technology and changes in regulations have enabled new entrants to the banking industry and new products and services offered by competitors. Along with opportunities, new technology can introduce new risks. This challenges us to continue to innovate to take advantage of new digital capabilities to best serve our customers by adapting our products, and to attract and retain customers and employee talent, while ensuring that the risks are understood and managed with appropriate controls.
Internally driven		
Risks associated with workforce capability, capacity and environmental factors with potential impact on growth	▶	Our businesses, functions and geographies are exposed to risks associated with employee retention and talent availability, and compliance with employment laws and regulations. Heightened demand for talent in key labour markets and continuing Covid-19-related challenges have led to increased attrition and attraction challenges, and continuing pressure on employees. We monitor hiring activities and levels of employee attrition, and each business and function has workforce plans in place to aim to ensure effective workforce forecasting to meet business demands.
Risks arising from the receipt of services from third parties	▶	We procure goods and services from a range of third parties. It is critical that we have appropriate risk management policies and processes to select and govern third parties, including third parties' supply networks, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations.
Model risk	▲	Model risk arises whenever business decision making includes reliance on models. We use models in both financial and non-financial contexts, as well as in a range of business applications such as customer selections, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Evolving regulatory requirements are driving material changes to the way model risk is managed across the banking industry, with particular focus on capital models. New technologies such as machine learning are driving changes to the model landscape.
Data risk	▶	We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. If our data is not accurate and timely, our ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. We need to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data.
Change execution risk	▶	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. We aim to monitor, manage and oversee change execution risk to ensure our change portfolios and initiatives continue to deliver the right outcomes for our customers, people, investors and communities.

▲ Risk heightened during 2022 ▶ Risk remained at the same level as 2021 ▼ Risk decreased during 2022

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 2025. 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 (see page 135):

- 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 2023–2027.

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 geopolitical and macroeconomic risks, including rising global inflationary pressures, the Russia-Ukraine war and its impact on sanctions and trade restrictions, disrupted supply chains globally and slower Chinese economic activity, all of which have increased to a heightened level during 2022. Digitalisation and technological advances and environmental, social and governance risks remained at a heightened level during 2022.

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 (see page 12);
- 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 132) and top and emerging risks (see page 135);
- the impact on the Group due to the Russia-Ukraine war; instability in China's commercial real estate sector; structural changes from the Covid-19 pandemic 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. The Group internal stress test has been delayed from the fourth quarter of 2022 to the first quarter of 2023 and will include overlays applied to the 2022 annual cyclical scenario for HSBC-specific vulnerabilities, including geopolitical issues (and related macroeconomic headwinds) along with the continued impact of Covid-19. It will also consider the impacts of various risk scenarios across all risk types and on capital resources. The 2022 Bank of England annual cyclical scenario, originally due in June 2022, was also postponed in light of the uncertainty related to the Russia-Ukraine war. The exercise commenced on 26 September 2022, with the submission made to the Bank of England in early January 2023 and the results due to be published mid-2023. The initial results of this exercise indicated the Group is sufficiently capitalised to withstand a severe but plausible adverse stress;
- the results of our 2022 internal climate scenario analysis exercise. In 2022, the Group delivered its first internal climate scenario analysis exercise with internal scenarios being formed with reference to external publicly available climate scenarios. Using these external scenarios as a template, the Group adapted them by incorporating unique climate risks and vulnerabilities to which the organisation is exposed. No issues were identified around the going concern status of the Group. Further details of the insights from the 2022 climate scenario analysis are explained from page 67;
- 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 35 on the financial statements; and
- reports and updates from management on the operational resilience of the Group.

Aileen Taylor
Group Company Secretary and Chief Governance Officer

21 February 2023

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	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong	Investor Relations Team HSBC Bank Bermuda Limited 37 Front Street Hamilton HM 11 Bermuda
Telephone: +44 (0) 370 702 0137	Telephone: +852 2862 8555	Telephone: +1 441 299 6737
Email via website: www.investorcentre.co.uk/contactus	Email: hsbc.ecom@computershare.com.hk	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 2022* 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 2022* will be available upon request after 24 March 2023 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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Status of the *Strategic Report 2022*

This is a part of HSBC Holdings plc's *Annual Report and Accounts 2022* 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 2022*.

Copies of the Annual Report and Accounts 2022

Shareholders who wish to receive a hard copy of this *Strategic Report 2022* or *Annual Report and Accounts 2022* 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 2022, 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.

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