

Board decision making and engagement with stakeholders

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

Section 172 (1) statement

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

Stakeholder engagement and key considerations for the Board

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

Virtual and physical meetings

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

Several Board members were also able to connect with our global graduate community on occasion, thanks to virtual facilities. Meeting in this way meant a far broader set of views was able to be shared than if the

meeting had been in person. The exchanges with the graduates gave the Directors a real appreciation of the challenges they had faced in joining and working for HSBC during lockdown conditions.

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

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

Engaging during the Covid-19 pandemic

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

Doing business responsibly

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

Stakeholder engagement and key considerations for the Board continued

The Board and its committees reviewed and considered regular reporting on emerging risks, performance, execution and actions being taken in response. This regular reporting and an annual programme of learning served to inform the Board about stakeholder matters and supported its decision making. For further details on the Board's activities during the year, including training, see pages 229 to 234 of our *ARA 2021*. The impact of the Covid-19 pandemic on the Group and our stakeholders remained of material concern. The impact of the decision taken in 2020 to cancel the fourth interim dividend for 2019 and suspend dividends for 2020 was a key consideration when the Board was deliberating on its approach to distributions for 2021. The Board sought to balance emerging risks, performance and its duties to shareholders,

while remaining conscious of its responsibilities to support communities and help customers manage financial challenges and changing demands. The 'Principal decisions' disclosure below includes details on how the Board took the decision to introduce dividend payments in 2021. Further details are also provided in 'Financial decisions' on page 232 and 'Dividends' on page 287 of our *ARA 2021*.

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

Adapting our engagement programme

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



Customers

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

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



Employees

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

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



Investors

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

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

Stakeholder engagement and key considerations for the Board continued



Communities

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

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



Regulators and governments

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

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



Suppliers

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

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

Principal decisions

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

Acquisitions and disposals activity



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

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

The first strategic acquisition opportunity the Board considered in 2021 concerned the purchase of AXA's insurance business in Singapore. In its meeting, the Board discussed that this was a rare opportunity for inorganic growth and a key step in helping to achieve the Group's ambition of becoming a leading wealth manager in Asia, by expanding its insurance and wealth franchise in Singapore, a strategically important scale market and a major hub

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

The Board subsequently considered a separate proposal for the disposal of the Group's non-core retail banking business in France. The Board's

decision to approve the disposal was aligned to the Group's strategic aim of being a leading wholesale bank in continental Europe, and took into account the impact on our shareholders and other stakeholders.

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