Environmental, social and governance review

Our ESG review sets out our approach to our environment, customers, employees and governance. It also explains how we aim to achieve our purpose and deliver our strategy in a way that is sustainable and how we build strong relationships with all of our stakeholders.

Our approach to ESG

We are on a journey to incorporate environmental, social and governance principles throughout the organisation, as we have taken material steps to embed sustainability into our purpose and corporate strategy.

About the ESG review

Our purpose is: 'Opening up a world of opportunity'.

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

We also need to build strong relationships with all of our stakeholders, who 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.

We continue to make progress on our climate ambition to support our customers in their transition to net zero and a sustainable future, including through providing and facilitating sustainable finance and investment, as we set out on the following pages.

In May 2021, a climate change resolution proposed by the Board was backed by more than 99% of our shareholders at our Annual General Meeting ('AGM'), including a commitment to set, disclose and implement a strategy with short- and medium-term targets to align our provision of finance with the goals and timelines of the Paris Agreement. It also included a commitment to publish a policy to phase out the financing of coal-fired power and thermal coal mining, by 2030 in the EU/OECD, and 2040 in all other markets.

We have disclosed our baseline financed emissions for two priority sectors – oil and gas, and power and utilities – and set targets to reduce on-balance sheet financed emissions in these sectors. In assessing financed emissions, we are focusing our analysis on those parts of the sectors that we believe are most material in terms of greenhouse gas emissions.

We are also working with peers and industry bodies to mobilise the financial system to take action on climate change, biodiversity and nature.

Through a series of surveys, we aim to listen to our customers to put them at the centre of our decision making. If things do go wrong, we aim to take action in a timely manner.

Our colleagues have needed to adapt at pace due to the impact of the Covid-19 pandemic. This has offered us the opportunity to rethink how our colleagues work, considering what worked well during the pandemic, and what challenges they face. Our future of work strategy will provide a framework through which we will implement hybrid working principles and adopt new technologies and working practices to enhance productivity, engagement and well-being.

We run a Snapshot survey every six months and report insights to our Group Executive Committee and the Board. We received 272,718 responses to our two Snapshot surveys in 2021, with record response rates. We will look to continue to focus on those aspects of the employee experience that we know to have the greatest impact on employee sentiment: fostering a healthy work-life balance, trust towards leadership, career progression opportunities and confidence in the company's future.

We are on a journey to embed ESG principles across the organisation, including incorporating climate change-related risks within the risk framework, training our workforce, incorporating climate-related targets within executive scorecards, and engaging with customers and suppliers.

Environmental

- Since 2020, we have provided and facilitated $126.7bn of sustainable finance and investment towards our ambition of $750bn to $1tn by 2030.
- In line with the climate change resolution, we published our thermal coal phase-out policy. For the oil and gas sector, we target a 34% Mt CO_2e reduction in oil and gas absolute on-balance sheet financed emissions by 2030, from a 2019 baseline. For the power and utilities sector, we target a 0.14 Mt CO_2e/TWh power and utilities on-balance sheet financed emissions intensity, representing a 75% reduction from 2019.

Read more in the Environmental section on page 45.

Social

- We aim to be a top-three bank for customer satisfaction. Even though our performance, using the net promoter score, improved in many markets in which we operate, we still have work to do to improve our rank position against competitors, as some have accelerated their performance faster than us.

Read more in the Customers section on page 67.

- In 2021, 31.7% of women occupied senior leadership roles, with a target to achieve 35% by 2025. We have put in place important foundations to support our goal of doubling the number of Black employees in senior leadership roles by 2025.
- Employee engagement, which is our headline measure, remained unchanged in 2021 at 72% following a five-point increase from 2019 and was four points above benchmark.

Read more in the Employees section on page 70.

Governance

- Governance activities are managed through a combination of specialist governance infrastructure, and regular meetings and committees, where appropriate. We expect that our ESG governance approach will continue to develop, in line with our evolving approach to ESG matters and stakeholder expectations.
- In seeking to safeguard the financial system, we monitor on average over 1.1 billion transactions each month for signs of financial crime.

Read more in the Governance section on page 79.

How we decide what to measure

We listen to our stakeholders in a number of different ways, which we set out in more detail within the ESG review. We use the information they provide us with to identify the issues that are most important to them and consequently also matter to our own business.

Our ESG Committee (previously the ESG Steering Committee) and other relevant governance bodies regularly discuss the new and existing themes and issues that matter to our stakeholders. Our management team then uses this insight, alongside the framework of the ESG Guide (which refers to our obligations under the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited), and other applicable laws and regulations to choose what we measure and publicly report in this ESG review.

Under the ESG Guide, 'materiality' is considered to be the threshold at which ESG issues become sufficiently important to our investors and other stakeholders that they should be publicly reported. We are also informed by stock exchange listing and disclosure rules globally. We know that what is important to our stakeholders evolves over time and we plan to continue to assess our approach to ensure we remain relevant in what we measure and publicly report.

Recognising the need for a consistent and global set of ESG metrics, we started to report against the core World Economic Forum ('WEF') 'Stakeholder Capitalism Metrics' within the *Annual Report and Accounts 2021* for the first time.

Consistent with the scope of financial information presented in our *Annual Report and Accounts*, the ESG review covers the operations of HSBC Holdings plc and its subsidiaries. Given the relative immaturity of the ESG data in general, we are on a continuous journey to ensure completeness and robustness.

For further information on our approach to reporting, see the 'Additional information' section on page 401.

Our reporting around ESG

We report on ESG matters within this ESG review and throughout our *Annual Report and Accounts*, including the 'How we do business' section of the Strategic Report (pages 15 to 20), this ESG review (pages 43 to 88), and the 'Climate-related risks' section of our Risk review (pages 131 to 135). In addition, we have other supplementary materials, including our *ESG Data Pack*, which provides a more granular breakdown of ESG information.

Detailed data	Additional reports	Indices
ESG Data Pack	UK Pay Gap Report 2021	SASB Index 2021
	Modern Slavery and Human Trafficking Statement 2021	WEF Index 2021

For further details of our supplementary materials, see our ESG reporting centre at www.hsbc.com/esg.

We have changed how we are presenting our TCFD disclosures
Our overall approach to TCFD can be found on page 19 and additional information is included on page 63. Further details, which last year were presented in a separate supplement, have been embedded in this section and the Risk review section on pages 131 to 135.

Assurance relating to ESG data

We recognise the importance of ESG disclosures and the quality of data underpinning it. Certain aspects of our ESG disclosures are subject to independent assurance and we will continue to enhance our approach in line with external expectations.

For 2021, PwC provided stand-alone limited assurance reports in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board, on the following specific ESG-related metrics:

- our *Green Bond Report 2021* (published in December 2021);
- our 2019 baseline for financed emissions related to our climate change resolution (see page 48);
- our own operations' scope 1, 2 and 3 (business travel) greenhouse gas emissions data (see page 52); and
- our progress towards our ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment (see page 53).

Our data dictionaries and methodologies for preparing the above ESG-related metrics and PwC's assurance reports can be found on: www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Environmental

We are accelerating new solutions to the climate crisis and supporting the transition of industries and markets to a net zero future, moving to net zero ourselves as we help our customers do so too.

At a glance

Our climate ambition
Our net zero ambition represents one of our four strategic pillars. At the core of it is an ambition to support our customers on their transition to net zero, so that the greenhouse gas emissions from our portfolio of clients reaches net zero by 2050. We also aim to be net zero in our operations and supply chain by 2030.

We aim to provide and facilitate $750bn to $1tn of sustainable finance and investment to support our customers in their transition to net zero and a sustainable future by 2030. To support our ambition of net zero financed emissions, unlocking transition finance for our portfolio of clients will be crucial.

As we describe in the following pages, we have set on-balance sheet financed emissions targets for the oil and gas, and power and utilities sectors, aligned to the IEA's net zero scenario, underpinned by a clear science-based strategy.

Our approach to climate risk
We recognise that to achieve our climate ambition we need to further enhance our approach to managing climate risk. We have established a dedicated programme to develop a strong climate risk management capability.

We manage climate risks in line with our risk management framework and three lines of defence model. We also use stress testing and scenario analysis to assess how these risks will impact our customers, business and infrastructure. This approach gives the Board and senior management visibility and oversight of the climate risks that could have the greatest impact on HSBC, and helps us identify opportunities to deliver sustainable growth in support of our climate ambition. For further details on our approach to climate risk management, see Environmental, social and governance risk on page 125 and Climate-related risks on page 131.

Impact on financial statements
We have assessed the impact of climate risk on our balance sheet and have concluded that there is no material impact on the financial statements for the year ended 31 December 2021. We considered the impact on expected credit losses, classification and measurement of financial instruments, our owned properties, as well as our long-term viability and going concern.

During the year we also conducted a stress test to understand the impact of climate risk. While the focus of the exercise was solely on banking book impairments and RWAs, no issues were identified regarding the going concern status of the Group. For further details on how climate risk can impact HSBC in the medium to long term, including credit risk, see page 131.

In this section

Our climate ambition

Becoming a net zero bank

We are committed to a net zero future. We recognise that our planet urgently needs drastic and lasting action to protect our communities, businesses and the natural environment from the damaging effects of climate change.

The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, compared with 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. Our ability to steer finance for the transformation of businesses and infrastructure will be key in helping to enable the transition to a net zero global economy.

We believe we can make the most significant impact by working with our customers to support their transition to a net zero future. We aim to align our financed emissions to net zero by 2050 or sooner.

We intend to set targets on a sector by sector basis that are consistent with net zero outcomes by 2050. In assessing financed emissions, we focus on those parts of the sector that are most material in terms of greenhouse gas emissions, and where we believe engagement and climate action have the greatest potential to effect change, taking into account industry and scientific guidance.

As an asset manager, we will work towards the target of net zero emissions across all assets under management by 2050 or sooner.

Our ambition is to become net zero in our operations and supply chain. This covers our direct and indirect greenhouse gas emissions, known as scope 1, 2 and 3 emissions. As well as transforming our own operations and supply chain to net zero across our own organisation by 2030, we are asking our suppliers to do the same.

The next two sections provide further details on how we are measuring our progress on our financed emissions ambition and the progress made to date on our own operations and supply chain.

The diagram below shows how these ambitions map to our scope 1, 2 and 3 emissions.

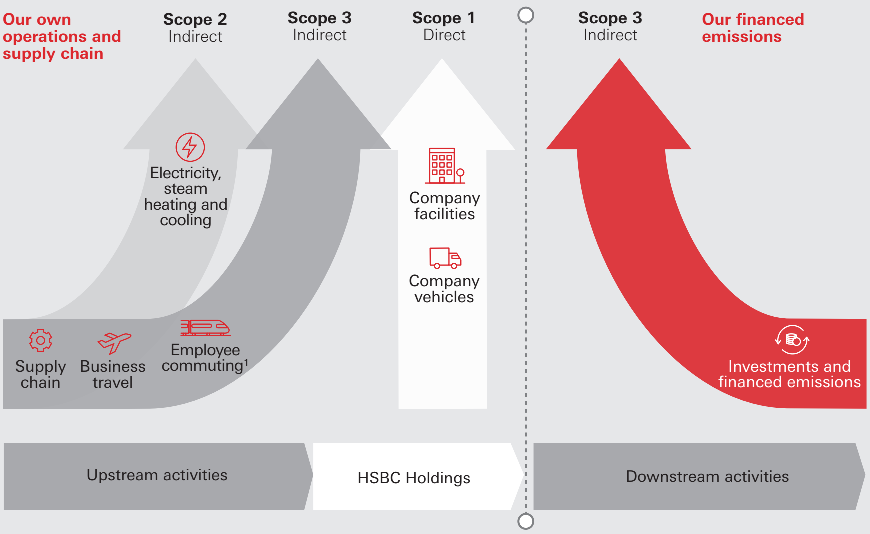
Supporting an energy provider through the transition

In March 2021, Air Liquide S.A., a French multinational specialised in gases, technologies and services, presented its plan to achieve carbon neutrality by 2050. The company has placed the use of a competitive low-carbon hydrogen offering at the cornerstone of its energy transition ambition, while aiming to decarbonise its production assets. We aim to support our clients through the transition. In May, we acted as a joint bookrunner for Air Liquide Finance's inaugural green bond and helped them to raise €500m, which will be dedicated to eligible sustainable projects including hydrogen, biogas, carbon capture, air gases, energy efficiency and green buildings in accordance with its sustainable finance framework.

Explaining scope 1, 2 and 3 emissions

To measure and manage our carbon emissions, we follow the Greenhouse Gas Protocol global framework, which identifies three scopes of emissions. Scope 1 represents the direct emissions we create. Scope 2 represents the indirect emissions resulting from the use of electricity and energy to run a business. Scope 3 represents indirect emissions attributed to upstream and downstream activities taking place to provide services to customers. Our upstream activities include business travel and emissions from our supply chain including transport, distribution and waste. Our downstream activities include those related to investments and financed emissions.

For further details, see our *ESG Data Pack* at www.hsbc.com/esg.



1 HSBC-sponsored shuttles only

Measuring our financed emissions

We announced our ambition to become a net zero bank in October 2020, including an aim to align our financed emissions to net zero by 2050 or sooner. In May 2021, shareholders approved a climate change resolution at our AGM that commits us to set, disclose and implement a strategy with short- and medium-term targets to align our provision of finance with the goals and timelines of the Paris Agreement.

Our analysis of financed emissions considers on-balance sheet financing, including project finance and direct lending, as well as financing we help clients access through capital markets activities. Given the different nature of these two forms of financing, we distinguish between 'on-balance sheet financed' and 'facilitated' emissions where necessary in our reporting. Our analysis covers financing from both Global Banking and Markets, and Commercial Banking.

Financed emissions link the financing we provide to our customers and their activities in the real economy, and helps provide an indication of the greenhouse gas emissions associated with those activities. They form part of our scope 3 emissions, which include emissions associated with the use of a company's products and services.

Our initial disclosures

We started with measuring our financed emissions for two emissions-intensive sectors: the oil and gas, and power and utilities sectors. On the following pages, we report on the results of our analysis for these two sectors. We plan to measure and report on an annual basis, and intend to extend our analysis in our *Annual Report and Accounts 2022* and related disclosures.

Our analysis relies on data disclosed by our customers and other sources that may result in a time lag of one year or longer. We chose to use 2019 data as the basis for our initial disclosures, having taken into consideration potential distortions to economic activity caused by the Covid-19 pandemic during 2020.

The following pages also set out our initial 2030 targets to align our on-balance sheet financed emissions for the oil and gas, and power and utilities sectors to the International Energy Agency's ('IEA') net zero emissions by 2050 scenario. The scenario provides a science-based decarbonisation pathway for the global economy that is consistent with a 1.5°C global warming target.

In developing our approach, we engaged with industry initiatives to help formulate our methodology for assessing and measuring financed emissions. In 2021, we were one of 43 founding members of the Net-Zero Banking Alliance ('NZBA'), which seeks to reinforce, accelerate, and support the implementation of decarbonisation strategies for the banking sector. We also joined the Partnership for Carbon Accounting Financials ('PCAF'), which seeks to define and develop greenhouse gas accounting standards for financial institutions.

What is included in our analysis

In 2021, we assessed our financed emissions related to the oil and gas, and power and utilities sectors using 2019 data. We believe these sectors are most material in terms of emissions, and are where we believe engagement and climate action have the greatest potential to effect change.

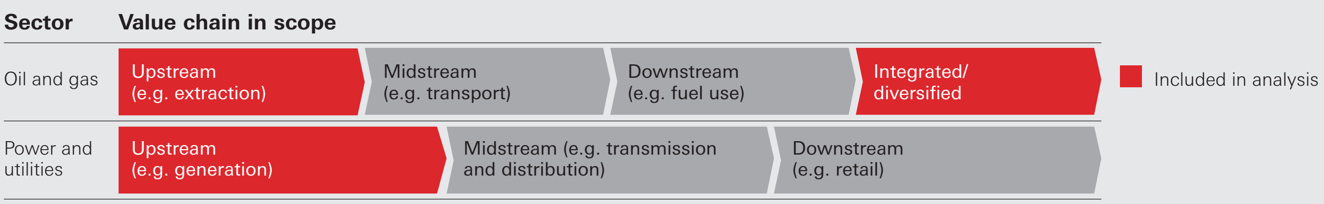
For the oil and gas sector, we focused on upstream companies, and integrated or diversified energy companies. Our assessment of this portfolio included scope 1, 2 and 3 greenhouse gas emissions of financed counterparties. By focusing on upstream and diversified energy producers, and including scope 3 greenhouse gas emissions, we believe we are accounting for the majority of emissions across the sector. These include emissions associated with the ultimate use of oil and gas products as a fuel source. We have excluded midstream and downstream companies within the sector to limit double-counting and to concentrate engagement with customers whose products contribute most to greenhouse gas emissions in the global economy.

For the power and utilities sector, our analysis focused on upstream power generation companies, including scope 1 and 2 greenhouse gas emissions of financed counterparties. We believe power generation is where the majority of sector emissions occur through the use of fossil fuel as a source of energy. In analysing the power and utilities sector, we did not take account of scope 3 greenhouse gas emissions because we believe them to be immaterial. We believe upstream power producers have the most potential to reduce greenhouse gas emissions by shifting to renewables and other sources of low-emissions power generation.

Regarding the different types of greenhouse gas measured, we include CO2 and methane (measured in CO2e) for the oil and gas sectors, and CO2 only for the power and utilities sector due to data availability and emissions materiality.

To calculate on-balance sheet financed emissions, we used drawn balances at 31 December 2019 related to wholesale credit and lending, which included business loans, trade and receivables finance, and project finance as the value of finance provided to customers in our analysis. We only included facilities with an original duration of 12 months or longer having considered industry guidance. We plan to continue to review the scope of facilities included in our analysis and update our approach following industry guidance.

For facilitated emissions, we used the apportioned value of underwriting for debt and equity issuances and syndicated loans as the proportion of funds provided to companies. We refer to these collectively as capital markets activities. Although we applied a similar methodology to assess facilitated and on-balance sheet financed emissions, using PCAF guidance as our foundation, we expect to continue to report them separately for transparency.



Measuring our financed emissions continued

Our analysis of oil and gas, and power and utilities portfolios

The table below summarises the results of our assessment of financed emissions using 2019 data. It indicates the emissions associated with our financing activities in terms of both absolute emissions and emissions per unit of output relevant to each sector. The table also includes the PCAF data quality scores for the various components of our analysis, as explained further in the box on this page.

From our analysis, total absolute on-balance sheet financed emissions associated with our oil and gas portfolio were more than three times greater than those from power and utilities. Similarly, the emissions associated with each dollar invested, or economic intensity, for our oil and gas portfolio is more than triple that of our power and utilities portfolio. More than 80% of on-balance sheet financed emissions for our oil and gas portfolio were attributed to our customers' scope 3 emissions.

We found that data quality scores varied across the different components of our analysis, although not significantly. For the oil and gas portfolio, data quality scores for scope 3 emissions were found to be slightly higher due to lower availability of reported data. Differences between the data quality scores for on-balance sheet financed and facilitated emissions reflect the different composition of the customers and weighting of finance provided in each portfolio.

Notes on data and methodology

PCAF provides guidance on how to assess and disclose greenhouse gas emissions associated with loans and investments. It also provides a common approach for addressing variability in the data available to assess emissions.

We applied PCAF's data quality score to the sources of data we used to determine counterparty emissions. The PCAF scores can be seen in the table below.

The majority of our clients do not yet report the full scope of greenhouse gas emissions included in our analysis, in particular scope 3 emissions. In the absence of client-reported emissions, we estimated emissions using proxies based on company production and revenue figures. We validated data inputs used in our analysis with the global relationship managers for the top clients ranked by financed emissions and covering a significant majority of total financed emissions for each sector portfolio. Although we sought to minimise the use of non-company specific data, we applied industry averages in our analysis where company-specific data was unavailable.

The methodology and data used to assess financed emissions and set targets is new and evolving, and we expect industry guidance, market practice, and regulations to continue to change. We plan to refine our analysis using the data sources and methodologies available for the sectors we analyse, including, among others, the Science Based Targets initiative ('SBTi') and the Paris Agreement Capital Transition Assessment ('PACTA') methodology. We expect our data quality scores to improve over time as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations.

Our initial set of baselines and targets may require updating as data availability changes over time and methodology and climate science evolve. We plan to report financed emissions and progress against our targets annually and seek to be transparent in our disclosures about the methodologies applied. However, financed emissions figures may not be reconcilable or comparable year-on-year and targets may require re-evaluation.

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.

Financed emissions using 2019 data

	Absolute emissions[1]		Emissons intensity[2]	PCAF data quality scores[3]	
	Scope 1–2	Scope 3	Physical intensity (per unit of output)	Scope 1–2	Scope 3
On-balance sheet financed emissions — wholesale credit lending and project finance (2019)[4,5]					
Oil and gas	6.0†	29.8†	68.4	2.9†	3.4†
Power and utilities	10.1†	N/A	0.55	3.0†	N/A
Facilitated emissions – capital markets (2019)[6]					
Oil and gas	3.9†	25.6†	70.7	2.4†	2.9†
Power and utilities	4.4†	N/A	0.36	3.5†	N/A

1 Absolute emissions are measured by million tonnes of carbon dioxide equivalent ('Mt CO2e').

2 For the oil and gas portfolio, physical emissions intensity is measured in million tonnes of carbon dioxide equivalent per exajoule ('Mt CO2e/EJ'); for the power and utilities sector, it is measured in million tonnes of carbon dioxide equivalent per terawatt hour ('Mt CO2e/TWh').

3 PCAF scores where 1 is high and 5 is low. This is a weighted average score based on loans/advances for on-balance sheet financed emissions, and apportioned value for facilitated emissions.

4 Total loans and advances analysed in 2019 were $23.5bn, comprising $12.3bn for the oil and gas sector, and $11.2bn for the power and utilities sector, representing 1.8% and 1.6% respectively of wholesale credit and lending and project finance at 31 December 2019. This compares with a total wholesale loan exposure of 7% for these two sectors overall, as reported in our TCFD disclosures for 2019, which covered the full value chain and all financing activities. On-balance sheet economic intensity for the oil and gas sector was 2.9 Mt CO2e/$bn, and for power and utilities it was 0.9 Mt CO2e/$bn.

5 For the oil and gas sector, the value chain analysed covers upstream and integrated/diversified operations. For the power and utilities sector, the value chain analysed covers upstream operations.

6 Total capital markets activities analysed in 2019 was $21.1bn, comprising $15.4bn for oil and gas, and $5.7bn for power and utilities.

† Data is subject to limited assurance by PwC in accordance with International Standard on Assurance Engagements 3410. 'Assurance engagements on greenhouse gas statements'. For further details, see our *Financed Emissions Methodology* and *PwC Assurance Report*, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Measuring our financed emissions continued

Our oil and gas, and power and utilities targets
We have defined targets to 2030 for the on-balance sheet financed emissions of our oil and gas, and power and utilities portfolios, as set out below. These are aligned with global sector decarbonisation pathways set out by the IEA in its net zero emissions by 2050 scenario. For facilitated emissions, we are supporting efforts to establish an industry standard. When this becomes available, we intend to refresh our analysis and set interim targets. The methodology for targets is set out in our *Financed Emissions Methodology*, which is available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

For the oil and gas sector, we target a reduction of 34% in absolute on-balance sheet financed emissions by 2030, using 2019 as our baseline. Our target is equal to the percentage reduction that the IEA indicates in its scenario for global sector emissions to 2030 from a 2019 baseline. We chose to use an absolute emissions metric in order to reflect a direct link to reducing greenhouse gas emission in the real economy. Our on-balance sheet financed emissions for 2019 was 35.8 million tonnes of carbon dioxide equivalent ('Mt CO2e').

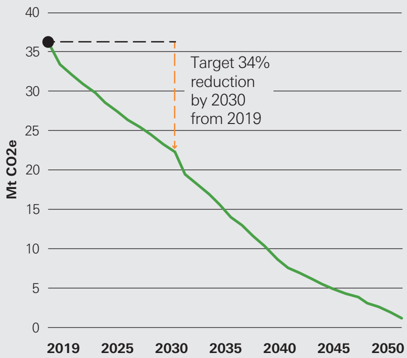
For the power and utilities sector, we target an on-balance sheet financed emissions intensity of 0.14 million tonnes of carbon dioxide equivalent per terawatt hour ('Mt CO2e/TWh') by 2030. Our emissions intensity target is equal to the global sector average emissions intensity for 2030 set out by the IEA, and represents a 75% reduction compared with our baseline of 0.55 Mt CO2e/TWh for 2019. We chose to use an emissions intensity metric, rather than absolute emissions, as the basis for our 2030 target for the power and utilities portfolio to reflect the need to reduce global greenhouse gas emissions from power generation while also meeting the anticipated increase in electricity demand. Electrification is central to the transition pathways for transport, heating, and other economic activities. This will require scaling up investment and financing for renewable and other low-emission sources of electricity to meet demand.

Our approach to target setting is in line with industry guidance on assessing portfolio alignment, including from – among others – the NZBA and the Financial Services Taskforce ('FSTF'). Our approach does not rely on purchasing offsets to achieve any financed emissions targets we set.

In selecting a reference scenario to assess alignment to net zero, we reviewed the IEA's net zero emissions by 2050 scenario against other available science-based 1.5°C scenarios. We believe it provides the greatest level of detail for assessing alignment across relevant sectors at a global level. Choosing this scenario allows us to make comparisons of our portfolio targets with other banks and peers who use this same scenario.

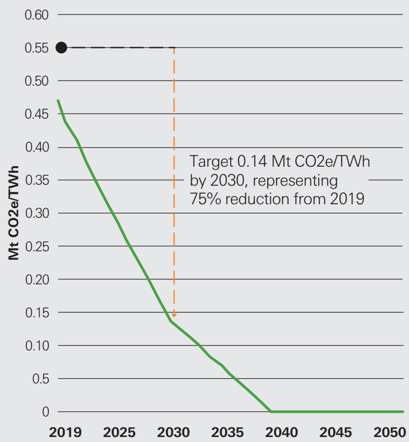
We have used the global decarbonisation pathway set out by the IEA's net zero emissions by 2050 scenario by sector as the reference for setting targets for our oil and gas, and power and utilities portfolios. The IEA's net zero emissions by 2050 scenario does not currently provide decarbonisation pathways at a regional level. We completed analysis to help ensure a global pathway is relevant for our financing portfolio and we will continue to assess this as further information becomes available over time. For further details on the IEA net zero by 2050 scenario, see www.iea.org/reports/net-zero-by-2050.

Oil and gas – absolute emissions (Mt CO2e)

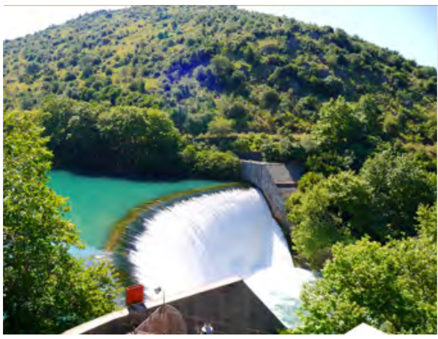


Key:
- ● HSBC 2019 on-balance sheet financed emissions baseline
- — IEA Net Zero Emissions by 2050 scenario

Power and utilities – emissions intensity (Mt CO2e/TWh)



Key:
- ● HSBC 2019 on-balance sheet financed emissions baseline
- — IEA Net Zero Emissions by 2050 scenario



Helping to power a European first

We used our global reach and local expertise to attract a diverse base of international and domestic investors in March 2021 when Greece's largest power producer issued a €650m high-yield sustainability-linked bond – a first for Europe. We acted as joint global coordinator and left-lead bookrunner on the bond, which committed Public Power Corporation to reducing its carbon emissions by 40% by the end of 2022, or face higher financing costs. We were also ratings adviser and ESG structuring adviser supporting the company in achieving an improved sustainability performance target, measured using a Sustainalytics rating. Public Power Corporation has committed to end its reliance on lignite – low-grade brown coal – plants over the next few years and significantly boost its solar and wind power capacity.

Measuring our financed emissions continued

Embedding financed emissions analysis into our business
Our net zero ambition is underpinned by our relationships with customers and collective engagement, so that we are able to support our customers to take action to address climate change in their own activities.

To achieve this, we aim to embed how we manage and assess financed emissions within our financing portfolios to provide a basis for informing client engagement and business management decisions from a climate perspective.

There are three key components we are undertaking to achieve these objectives.

- We are placing climate and sustainability at the centre of our engagement with customers, and in particular those customers with the greatest potential to effect change.
- We are seeking to support our customers in their transition to net zero and a sustainable future. We aim to provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030 (see page 53).
- We are working to embed financed emissions considerations into our business activities and culture. Our global businesses have had active roles alongside our Corporate Sustainability, Global Risk and Compliance, and Global Finance functions in developing our financed emissions approach in 2021. Collaboration across the organisation will continue to be essential. This includes plans to strengthen our climate data and analytics capability to inform decision making and portfolio management, as well as expanding the resources to support business engagement.

As part of our annual disclosures for the year ending 31 December 2022, we plan to report baseline financed emissions and targets for the following sectors: coal mining; aluminium; cement; iron and steel; and transport (including automotive, aviation and shipping). We expect to also report on the agriculture, and commercial and residential real estate sectors in our annual disclosures for the year ending 31 December 2023 at the latest, following baseline analysis for these sectors.

In 2022 we will begin work on our climate transition plan, which will bring together – in one place – how we plan to embed our 2050 and 2030 net zero targets into the Group's strategy, processes, policies and governance. We plan to publish this in 2023, and update on progress annually thereafter as part of our annual disclosures.

The transition to a net zero global economy has implications for our customers across industries and geographies. It introduces new risks that need to be managed, as well as opportunities. Given our global presence and relationships with clients across industries and customer groups, we recognise the role we can play in helping catalyse this change.

Steering the automobile transition

We have been working with Ford Motor Co. towards its sustainability goals with two sustainability-linked transactions in 2021. In September, we supported Ford as it extended its revolving credit facilities worth a combined \$15.5bn. Ford amended the credit facilities to include sustainability-linked targets, which included lower emissions from global manufacturing facilities and reduced exhaust emissions from passenger vehicles sold in Europe.

In November, we also acted as a joint lead manager on Ford's \$2.5bn inaugural 10-year green bond under its new sustainable finance framework. This framework targets investments in clean transportation, clean manufacturing, advancing economic opportunity and equity for underrepresented and/or disadvantaged populations and community revitalisation.

Financed emissions targets to 2030

	Target metric	Our 2019 baseline	Our 2030 targets[1]
Oil and gas	Absolute emissions (Mt CO2e)[2]	35.8	**34%** Mt CO2e reduction in oil and gas absolute on-balance sheet financed emissions
Power and utilities	Physical emissions intensity (Mt CO2e/TWh)[3]	0.55	**0.14** Mt CO2e/TWh power and utilities on-balance sheet financed emissions intensity, representing 75% reduction from 2019

1 Our 2030 targets are based on IEA net zero emissions by 2050 scenario references. The methodology for targets is set out in our *Financed Emissions Methodology*, which is available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

2 For oil and gas, the IEA indicates in its scenario a reduction of 34% in global sector scope 1, 2 and 3 emissions (Mt CO2e) to 2030 from a 2019 baseline.

3 For power and utilities, the IEA indicates a global sector scope 1 and 2 emissions intensity at 2030 of 0.14 Mt CO2e/TWh electricity produced.

Our approach to our own operations

Part of our ambition to be a net zero bank is to achieve net zero carbon emissions in our operations and supply chain by 2030 or sooner.

Reduce, replace and remove
We have three elements to our strategy: reduce, replace and remove. We plan to first focus on reducing carbon emissions from consumption, and then replacing remaining emissions with low-carbon alternatives in line with the Paris Agreement. We plan to remove the remaining emissions that cannot be reduced or replaced by procuring, in accordance with prevailing regulatory requirements, high-quality offsets at a later stage.

Our energy consumption
In October 2020, we announced our ambition to reduce our energy consumption by 50% by 2030, against a 2019 baseline. To do this, we plan to reduce our energy consumption by optimising the use of our real estate portfolio.

In 2017, we announced our ambition to achieve 100% renewable power across our operations by 2030, joining other global companies in the RE100 initiative. In 2021, 37.5% of our electricity was renewable, mainly due to our power purchase agreements of wind and solar energy in the UK, Mexico and India. As part of this energy replacement strategy, in September 2021, we signed our fourth power purchase agreement for the UK. This agreement, which will support the development of the Sorbie Wind Farm project in Ayrshire, south-west of Glasgow, will result in approximately 90% of our UK electricity being sourced from such renewable projects (for further details, see page 19). We continue to look for opportunities to procure green energy in each of our markets. A key challenge is the limited opportunity to pursue power purchase agreements or green tariffs in key markets due to regulations.

We are considering the impact on our emissions from our colleagues working from home during the Covid-19 pandemic, and in the future, as they embrace more flexible ways of working. Using the EcoAct methodology, we calculated the emissions of our colleagues working from home was 4% of total electricity emissions in 2021. This only includes energy consumption from the IT equipment and lighting. We do not report employee home working emissions in our scope 1 and 2 performance data.

Business travel and employee commuting
Our travel emissions continued to reduce in 2021 as a result of ongoing international travel restrictions caused by the pandemic. As international travel gradually resumes, we will update our internal policies with the aim to halve travel emissions by 2030, compared with pre-pandemic levels. We will continue to encourage the use of technological solutions where possible to provide connectivity with colleagues and customers. To ensure we are following best practices, we updated our air travel reporting methodology in 2021 to include cabin class and indirect climate change effects in our travel emission calculations.

We continue to pursue the reduction of vehicles we use in our global markets, and accelerate the use of electric vehicles.

Focus on natural resources
Alongside our net zero operations ambition, our aim is to be a responsible consumer of natural resources. Building on the success of our previous operational environmental strategy, we are identifying the key opportunities where we can lessen our wider environmental impact over the coming decade. We plan to set interim and 2030 global targets to maintain short-term momentum while also changing behaviour through ambitious long-term goals.

Our environmental and sustainability management policies

Our buildings policy recognises that regulatory and environmental requirements vary across geographies and may include environmental certification. The policy is supported by Corporate Services procedures on environmental and sustainability management, ensuring HSBC's properties continually reduce their overall direct impact on the environment. Detailed design considerations documented in our Global Engineering Standards aim to reduce or avoid depletion of critical resources like energy, water, land, and raw materials. Suppliers are required to adhere to strict environmental management principles and reduce their impact on the environment in which they operate.

Our presence in environmentally sensitive areas

As a global organisation, our branches, offices and data centres may be located in – or near – areas of water stress and/or protected areas of biodiversity, as we support our customers and communities in these locations.

Approximately 28% of our global offices, branches and data centres are located in areas identified as being subject to high and very high water stress, accounting for 37% of our annual water consumption. These are predominantly urban or city centre locations with large, concentrated populations. Our industry is a low user of potable water, and we have implemented measures to further reduce water consumption through the installation of flow restrictors, auto-taps and low or zero flush sanitary fittings.

In addition, 1.7% of our global office, branch and data centre portfolio lies in protected areas and areas of biodiversity. We strive through our design, construction and operational standards to ensure that, where possible, our premises do not adversely affect the environment or natural resources in these areas.

Our approach to our own operations continued

Engaging with our supply chain
As the majority of our emissions are within our supply chain, we know we cannot achieve our net zero goal without our suppliers joining us on our journey.

In 2020, we began the three-year process of encouraging our largest suppliers to make their own carbon commitments, and to disclose their emissions via the CDP supply chain programme. The target for 2021 was for suppliers representing 45% of total supplier spend to have completed the CDP questionnaire. In total, suppliers representing 51.2% of total supplier spend completed the CDP questionnaire.

We will continue to engage with our supply chain with the aim of increasing the response rate, and have expanded the scope of our engagement with the CDP programme for 2022.

This engagement has allowed us to work on a new supply chain emissions methodology using actual supplier data. While substantial progress has been made, this methodology requires further refinement before it is ready to be disclosed.

Our aim is to use real supplier data where we have it through our engagement with the CDP programme. Where we do not have CDP data for suppliers, we will use industry averages and spend data to define the contribution to our supply chain emissions.

In 2021, we also updated our supplier selection process to include carbon emissions questions in new commercial engagements. This signals to our suppliers the importance we place in the transition to net zero, from the start of the engagement.

Working with our Cloud partners

Using Cloud technologies is one of the ways we are reducing our IT carbon footprint. Our Cloud providers run more efficiently than our own data centres due to the lower impact of shared resources. In 2021, we engaged with our Cloud partners to improve our understanding of our carbon footprint on Cloud, and collaborate towards more efficient applications. Our partners also continue to assist in the education of our internal IT colleagues by delivering sustainability learning sessions, and sharing research and experience.

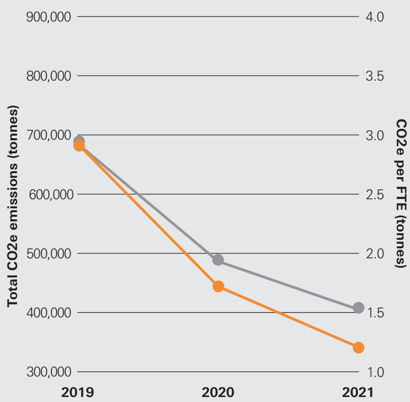
Our greenhouse gas emissions in 2021
We report our emissions following the Greenhouse Gas Protocol, which incorporates the scope 2 market-based emissions methodology. We report greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel. Due to the nature of our primary business, carbon dioxide is the main type of greenhouse gas applicable to our operations. While the amount is immaterial, our current reporting also incorporates methane and nitrous oxide for completeness. We do not report employee home working emissions in our scope 1 and 2 performance data. Our environmental data for our own operations is based on a 12-month period to 30 September.

In 2021, we continued to decrease our emissions, achieving a 50.3% reduction compared with our 2019 baseline. This was mainly attributed to travel restrictions and the reduction of usage of our buildings due to the Covid-19 pandemic. We also implemented over 700 energy conservation measures that amounted to an estimated energy avoidance in excess of 14.9 million kWh.

In 2021, we collected data on energy use and business travel for our operations in 28 countries and territories, which accounted for approximately 92% of our FTEs. To estimate the emissions of our operations in countries and territories where we have operational control and a small presence, we scale up the emissions data from 92% to 100%. We then apply emission uplift rates to reflect uncertainty concerning the quality and coverage of emission measurement and estimation. This is consistent both with the Intergovernmental Panel on Climate Change's Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories and our internal analysis of data coverage and quality.

For further details on our methodology, our third-party assurance report and relevant environment key facts, see our *ESG Data Pack* at www.hsbc.com/esg.

Greenhouse gas emissions (total and FTE)[2]



Key:
- Total greenhouse gas emissions (tonnes CO2e)
- Greenhouse gas emissions per FTE (tonnes CO2e/ FTE)

Greenhouse gas emissions in tonnes CO2e

		2021	2020[2]
Total	▼	**341,000**	444,000
Scope 1 – direct[1]	▲	**22,000**	20,000
Scope 2 – indirect[1]	▼	**307,000**	343,000
Scope 3 – indirect (Upstream activities – business travel only)[1]	▼	**12,000**	81,000
Included energy UK	▲	**10,000**	8,000

Greenhouse gas emissions in tonnes CO2e per FTE

		2021	2020[2]
Total	▼	**1.52**	1.93

Energy consumption in kWh in '000s

		2021	2020
Total Group	▼	**833**	928
UK only	▼	**227**	247

1 Data in 2021 is subject to limited assurance by PwC in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements'. For further details, see GHG Reporting Guideline 2021 and PwC Assurance Report at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

2 Data for 2019 and 2020 has been revised as we have updated our air travel reporting methodology to include the cabin class travel and the impact of radiative forces. The emissions of HSBC's vehicle fleet were reported under scope 3 for these two years. For 2019 and 2020, see CO2 Emissions Reporting Guideline, *ESG Data Pack*, and PwC Assurance Report, which are available at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Supporting customers through transition

Our ability to finance the transformation of businesses and infrastructure is key to building a sustainable future for our customers and society. The most significant contribution we can make is by supporting our portfolio of customers to decarbonise within the transition to a net zero global economy.

A leader in sustainable finance
We are a recognised leader in sustainable finance, helping to pioneer the market for green, social and sustainable bonds and attaching ambitious environmental targets to business loans.

In 2021, we acted on more green, social, sustainability and sustainability-linked bonds for clients than in 2020. We were mandated to act as structuring adviser on nine ESG-related government bonds, including for the UK, Saudi Arabia, Canada and Indonesia. We were recognised by *Euromoney* as the Best Bank for Sustainable Finance in Asia and the Middle East for 2021.

In 2021, we continued to expand the horizons of sustainable finance:

– We acted as global coordinator and bookrunner for POSCO, the South Korean steelmaker, when it raised a €1.06bn five-year green convertible bond, which was South Korea's first green convertible bond and its largest equity-linked deal, to help establish and expand its rechargeable battery and hydrogen business.
– We launched a £500m Green SME Fund in the UK to help remove the barriers small businesses face in the transition to a lower-carbon economy.
– We partnered with Walmart and CDP to create the industry's first sustainable supply chain finance programme to use science-based targets to encourage suppliers to reduce emissions in alignment with the Paris Agreement. The initiative also included additional criteria for suppliers to meet certain scores on their environmental disclosures with the CDP.
– We launched green mortgages for customers in the UAE and Singapore to finance their purchase of homes that have been respectively accredited by the LEED and BCA Green Mark schemes as energy efficient.
– We supported the transition within the aviation sector, acting as the sole coordinator for a £1bn sustainability-linked loan – backed by the UK's export credit agency, UK Export Finance – to British Airways plc, with the loan margin linked to aircraft fuel efficiency.

Sustainable finance summary[1]

	2021 ($bn)	2020 ($bn)	Cumulative progress since 2020 ($bn)
Balance sheet-related transactions provided	**26.2**	10.4	**36.6**
Capital markets/advisory (facilitated)	**48.7**	30.0	**78.7**
Investments (assets under management – flows)	**7.7**	3.7	**11.4**
Total contribution[2]	**82.6**	44.1	**126.7**

1 This table has been prepared in accordance with our Sustainable Finance Data Dictionary 2021, which includes green, social and sustainability activities. The amounts provided and facilitated include: the limits agreed for balance sheet-related transactions provided, the proportional share of facilitated capital markets/advisory activities and the net new flows of sustainable investments within assets under management. For our sustainable finance ambition and progress figure, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.
2 Data is subject to limited assurance by PwC in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. For our Sustainable Finance Data Dictionary 2021 and PwC Assurance Report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Transition solutions
We aim to help our customers transition to net zero and a sustainable future through providing and facilitating between $750bn and $1tn of sustainable finance and investment by 2030. Our sustainable finance ambition has enabled sustainable infrastructure and energy systems, promoted decarbonisation efforts across the real economy, and enhanced investor capital through sustainable investment.

Since 1 January 2020, we have provided and facilitated $109.8bn of sustainable finance, $11.7bn of sustainable investment and $5.2bn of sustainable infrastructure spanning more than 1,193 transactions, as defined in our data dictionary. This comprised 29% of green, social and sustainability-linked lending to companies, 9% of investments managed and distributed on behalf of investors, and 62% that facilitated the flow of capital and provided access to capital markets. Our data dictionary defining our sustainable finance and investment continues to evolve, which takes into account the revised marketing standards and guidelines. Our progress will be published each year, and we will seek to continue to be independently assured.

The breakdown of our sustainable finance and investment progress is included in our *ESG Data Pack*. The detailed definitions of the contributing activities for sustainable finance are available in our revised *Sustainable Finance Data Dictionary 2021*. For our *ESG Data Pack*, *Sustainable Finance Data Dictionary* and PwC Assurance Report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Sustainable infrastructure
Good infrastructure is the backbone of any successful society and economy. However, addressing climate change requires the world – particularly emerging markets – to develop

$126.7bn
Cumulative progress since 2020 on our ambition to provide and facilitate sustainable finance and investment. (Target: $750bn to $1tn by 2030)

Sustainable finance and investment

We define sustainable finance and investment as:

– any form of financial service that integrates ESG criteria into business or investment decisions; and
– financing, investing and advisory activities that support the achievement of UN Sustainable Development Goals ('SDGs'), including but not limited to the aims of the Paris Agreement on climate change. The SDGs, also known as the Global Goals, were adopted by all UN member states in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

We have reviewed and updated these definitions to reflect our updated climate ambition, which is available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Supporting customers through transition continued

a new generation of sustainable infrastructure quickly. There remains a significant investment gap and lack of adequate, bankable projects. Stronger standards are also needed to bring investors to the table.

To help solve this, we are leading the Finance to Accelerate the Sustainable Transition-Infrastructure ('FAST-Infra') initiative, which in November 2021 launched the Sustainable Infrastructure (SI) label (see box to the right).

In September 2021, we partnered with Temasek to establish (subject to regulatory approval) a debt financing platform dedicated to sustainable infrastructure projects with an initial focus on south-east Asia. The platform aims to deploy blended finance at scale over time to unlock more marginally bankable projects and create a tradeable asset class. We also co-chair the Coalition for Climate Resilient Investment, which was launched at the UN Climate Action Summit to help investors and policymakers understand infrastructure investments and incorporate physical climate risk in decision making.

Responsible and sustainable investment
We offer a broad suite of ESG capabilities across asset management, global markets, research, wealth, private banking and securities services, enabling institutional and individual investors to manage risk and pursue ESG-related opportunities.

We expanded our investment offering for private banking and wealth clients, launching several cross-border ESG funds including a Sustainable Healthcare fund, to help investors generate long-term returns while contributing to the UN SDGs on good health and well-being. We launched a green certificate of deposit for the first time in renminbi to clients in Hong Kong and Singapore, as well as the first Hong Kong dollar-denominated sustainability-linked bonds to clients in Hong Kong. We also expanded our ESG offering to emerging markets, including a Global Equity Climate Change fund in India that helps clients to capture emerging opportunities during the low-carbon transition journey.

HSBC Asset Management strengthened its proposition with the formation of a new Sustainability Office, which is responsible for the delivery of our sustainability strategy and business-wide transition to sustainable investment. Our endeavour is to influence the markets through active engagement on ESG issues. HSBC Asset Management's stewardship activities, through its portfolio managers and other investment analysts, led to ESG issues being raised in engagements with over 1,800 corporate and non-corporate issuers in 73 markets in 2021. We also voted on over 84,000 resolutions at over 8,400 company meetings in 72 markets by year end.

At HSBC Life, our insurance business, we continued to build our sustainable investment portfolios to support the UN SDGs and the Paris Agreement. During 2021, we made an effort to increase our sustainable investment across our different manufacturing entities in Asia, Europe and Latin America. The intent is to continue to build on the work and grow the assets under management. While previously, HSBC Life invested in only green bonds within the spectrum of traditional bond instruments, in 2021 it also invested in social, sustainability and sustainability-linked bonds.

Embedding ESG into our engagement
Our vision is to support our customers' aspirations to make a positive change in the world through wealth value creation. We are embedding ESG in our client engagement and investment solutions across our business functions.

We provide our customers with ESG insights and foster industry development. HSBC Global Research published over 200 climate and ESG-related reports in 2021, accompanied by approximately 525 client meetings and close to 30 client webcasts and events. Our ESG team works in close collaboration with analysts from other asset classes and across markets, embedding sustainability into research and offering a deeper integration approach to a global investor client base. The team released five episodes of the ESG Brief podcast. ESG Insights from HSBC Global Research are also repackaged for retail investors as a series known as #WhyESGMatters. Through our sustainable finance think tank, HSBC Centre of Sustainable Finance, we launched 42 reports and collaborated with 15 partners to provide thought leadership on decarbonisation strategies and strengthen the financial system response to climate change. The centre and our reports are publicly available at www.sustainablefinance.hsbc.com.

For further details of our net zero ambition, see www.hsbc.com/who-we-are/our-climate-strategy/becoming-a-net-zero-bank.

The Sustainable Infrastructure (SI) label

In 2021, FAST-Infra launched the Sustainable Infrastructure (SI) Label – a consistent, globally applicable labelling system designed to identify and evaluate sustainable infrastructure assets. The use of the label will help to address the estimated $6.9tn of annual investment that the OECD says is required until 2030 to meet the sustainable infrastructure objectives of the Paris Agreement. We helped conceive the FAST-Infra initiative, working with the IFC, OECD, the World Bank's Global Infrastructure Facility and the Climate Policy Initiative, under the auspices of the One Planet Lab.

Developing a beacon of green luxury

The former US embassy at Grosvenor Square, London, is being converted into a luxury hotel and could become a model of sustainability for future hospitality developments. Qatari Diar – the property arm of Qatar's sovereign wealth fund – is converting the former embassy into the Chancery Rosewood, which will feature green roofs, energy efficiency measures and a system to reduce water consumption. The Chancery Rosewood is aspiring to achieve a BREEAM 'Outstanding' rating for sustainable development, which would make it the first five-star hotel and first UK hotel to achieve this rating under the 2014 assessment scheme. As mandated lead arranger, facility and security agent, hedge coordinator, and green loan coordinator, in April 2021 we helped Qatari Diar secure a £450m green loan for the landmark development.

Unlocking climate solutions and innovations

We understand the need to find new solutions to increase the pace of change if the world is to achieve the Paris Agreement's goal of being net zero by 2050.

We are working closely with a range of partners to accelerate investment in natural resources, technology and sustainable infrastructure to reduce emissions and address climate change.

Natural capital as an emerging asset class
As part of our goal to unlock new climate solutions, we announced the launch of Climate Asset Management, a joint venture with Pollination, in 2020. Climate Asset Management's ambition is to become the world's largest dedicated natural capital asset management company. Its investment strategies are grounded in nature-based investments, including sustainable forestry, regenerative agriculture, nature-based carbon projects, and exploration of new forms of natural capital. Climate Asset Management established a partnership with the Global EverGreening Alliance in November 2021, supporting the alliance's aim to deliver a $150m nature-based carbon programme in Africa.

Climate Asset Management is one of the three founding partners of the Natural Capital Investment Alliance, which aims to mobilise $10bn towards natural capital themes by the end of 2022.

Backing new technology and innovation
Addressing climate change requires innovative ideas. By connecting financing with fresh thinking, we can help climate solutions to scale to support sustainable growth.

Our Climate Solutions Partnership aims to scale up climate innovation ventures and nature-based solutions, as well as help the energy sector transition towards renewable sources in Asia. For further details, see page 77.

We have expanded our venture debt platform to support climate technology hardware and software companies that are growing rapidly. In 2020, we committed to fund $100m to climate technology (climate tech) companies through this platform. We closed our first two deals in 2021 and expect to achieve the $100m goal by the end of the first quarter of 2022. Consequently, we have raised our commitment to $250m.

HSBC Asset Management has also developed a new venture capital capability that provides institutional and private banking customers with opportunities to invest in technology start-ups addressing global climate change challenges. We launched the first fund in November 2021 and provided it with a cornerstone investment.

Our climate technology venture debt and venture capital platforms invest in companies that are developing innovative technological solutions that help companies and governments understand, track and reduce their greenhouse gas emissions.

Biodiversity and natural capital strategy

We recognise that achieving net zero goes hand in hand with halting and reversing nature loss. Nature loss, which refers to the decline of natural capital, ecosystem services and biodiversity, is one of the greatest systemic risks to the global economy and the health of people and the planet.

Investing in nature
By addressing nature-related risks and investing in nature, we have an opportunity to accelerate the transition to net zero, help tackle climate change and open up a more resilient and inclusive global economy.

We recognise that more needs to be done to assess and manage our exposure to nature-related risks and that collective initiatives are needed to progress at pace. In 2021, we joined several working groups dedicated to helping us progress on this journey, such as the Taskforce on Nature-related Financial Disclosures ('TNFD'). For further details on the nature-related initiatives we have joined, see 'Key external memberships' in the box on the right.

Catalyst for change
We are committed to playing a key role as a catalyst for change, using our scale, influence, and financing to help preserve natural capital and protect biodiversity as a component of our net zero ambition. In 2021, we facilitated green and blue bonds, as well as provided lending to corporate and sovereign clients for sustainable projects. Highlights included:

- We co-led the provision of $90m of green loan facilities to support Instar Asset Management's acquisition of PRT Growing Services, North America's largest producer of container-grown forest seedlings.
- We launched the world's first broad-based biodiversity screened equity indices, developed jointly with Euronext and Iceberg Data Lab, to explore ways to apply a biodiversity benchmark to trading and investment activities.
- Our asset management business published its biodiversity policy to publicly explain how our analysts address nature-related issues. In 2021, it also engaged with companies in the food industry on how to manage their suppliers' impact on biodiversity. For further details on the biodiversity policy, see: www.assetmanagement.hsbc.com/about-us/responsible-investing/policies.

Key external memberships

Our nature-related external memberships and endorsements include:

- Taskforce on Nature-related Financial Disclosures
- Cambridge Institute on Sustainability Leadership's nature-related financial risks working group
- Accountability Alignment on Deforestation Working Group
- Business for Nature's Call to Action
- Get Nature Positive
- Signatory by the asset management business to the Finance for Biodiversity pledge

For further details of our sustainability-related memberships, see www.hsbc.com/who-we-are/our-climate-strategy/sustainability-memberships.

Our approach to climate risk

Managing risk for our stakeholders

We see managing climate risk as an opportunity to create value for our customers, investors, people and communities in which we operate. We manage climate risk across all our businesses in line with our Group-wide risk management framework. Our most material risks in terms of managing climate risk relate to corporate and retail client financing within our banking portfolio, but there are also significant responsibilities in relation to asset ownership by our insurance business and employee pension plans, as well as from the activities of our asset management business.

We tailor our underlying policies and controls to manage the different risks and exposures to reflect these respective roles to meet the needs of our key stakeholders. In the table below, we set out our duties to our stakeholders in our four more material roles.

For further details of our approach to climate risk, see Environmental, social and governance risk on page 125 and Climate-related risks on page 131.

Banking

Our banking business is well positioned to support our 40 million personal, wealth and corporate customers manage their own climate risk through financing. For our wholesale customers, we use our corporate questionnaire as part of our transition risk framework to understand their climate strategies and risk. We also use our climate change stress testing and scenario analysis capabilities to provide insights on the long-term effects of transition and physical risks across our retail and wholesale banking portfolios (for further details, see page 57). In December, we announced our thermal coal phase-out policy (see page 62) and we will use our deep relationships to partner with customers in this sector to help them transition to cleaner, safer and cheaper energy alternatives.

Asset management

HSBC Asset Management managed over $630bn assets – including assets managed for parts of HSBC Insurance and employee pensions – at the end of 2021. With the majority of assets managed in ESG-integrated strategies, it treats climate change risk as a key feature of the investment decision-making process. Investment teams examine and determine the level of importance of potential ESG risks that could impact current and/or future value of issuers. These risks are reflected in proprietary issuer ESG scoring methodology and are embedded into investment processes. Portfolio management tools also enable investment teams to assess their portfolios for climate-related risks, as part of ongoing portfolio management activities. We continue to lead on the analysis of climate-related issues, in particular transition risks, and their impact on financial markets. Our analysts carry out proprietary research and collaborate with outside experts and industry initiatives.

Employee pensions

The Trustee of the HSBC Bank (UK) Pension Scheme, our largest plan with $51bn assets under management, announced an ambition in 2021 to achieve net zero greenhouse gas emissions across its defined benefit and defined contribution assets by 2050. To help achieve this, it is targeting a real economy emissions reduction interim target of 50% by 2030 for its equity and corporate bond mandates.

The weight given to climate-related factors in the asset allocation of this plan's defined contribution fund was strengthened during 2021 to target additional green revenue and lower carbon emissions and reserves, and now excludes companies whose revenues are substantially derived from coal extraction or coal power generation.

For further details of the HSBC Bank (UK) Pension Scheme's annual TCFD statements, see https://futurefocus.staff.hsbc.co.uk/-/media/project/futurefocus/information-centre/pensioner/other-information/2020-tcfd-statement.pdf.

Insurance

In 2021, our Insurance business, which has life insurance manufacturing subsidiaries in eight markets, a life insurance manufacturing associate in India and assets under management of approximately $123bn, developed a methodology for climate stress testing. It ran stress tests across the major portfolios considering adverse stresses as a result of transition risks on wholesale credit risks within the insurance investment portfolio.

The insurance business began a review of its sustainability policy to align with the Group's new thermal coal phase-out policy published in December 2021. Risk appetite has been articulated relating to key ESG aspects. ESG standards have been implemented into insurance product development processes and operational capabilities.

In response to regulatory developments, HSBC's insurance entities in the EU and UK have implemented key disclosure-related regulatory requirements, which mainly impacts insurance-based investment products manufactured and/or sold by HSBC.

Banking

We seek to manage the climate risk in our banking portfolios through our developing risk appetite and policies for our financial and non-financial risks. This helps enable us to identify opportunities to support our customers, while continuing to meet the expectations of our shareholders and regulators.

Employee pensions

Our employee pension plans each manage climate risk in line with their fiduciary duties and local regulatory requirements, with global corporate policy encouraging consideration of ESG risks when selecting investments. We are developing internal climate risk exposure reporting for our largest plans, pending more widespread adoption of consistent reporting standards.

Asset management

As part of our asset management business's fiduciary duty to clients, our solutions integrate key climate and sustainability considerations. Climate risk management is a key feature of our investment decision making and portfolio management. We also engage directly with companies on priority topics related to climate risk to drive positive change.

Insurance

Our insurance business offers long-term life and health products. We manage climate risks, including wholesale credit risk, in assets to meet customer investment returns. We also take into consideration mortality and morbidity risks for customers as a result of climate risk. We have established an evolving ESG programme to meet changing external expectations and customer demands.

Insights from scenario analysis

Our 2021 climate stress testing and scenario analysis exercise
A crucial component of our climate ambitions is having the ability to identify and understand climate-related risks and opportunities, and having insights on how our customers and business could be impacted under a range of climate change scenarios.

In 2021, we ran our first Group-wide climate change scenario analysis exercise, following on from a pilot exercise carried out in 2020. The 2021 exercise focused on the portfolios most exposed to climate risk: our wholesale corporate lending, commercial real estate and retail mortgage portfolios. We performed our assessment over a 30-year time horizon, reflecting the long-term nature and effects of transition and physical risks. For all portfolios, our assessments considered:

- transition risk arising from the process of moving to a net zero economy, including changes in policy, technology, and consumer behaviour and stakeholder perception, which will each impact borrowers' operating income, financing requirements and asset values; and
- physical risk arising from the increased frequency and severity of weather events, such as hurricanes and floods, or chronic shifts in weather patterns, which will each impact property values, repair costs and lead to business interruptions.

Our progress in 2021
Climate change scenario analysis requires bespoke data, modelling techniques and analysis. In order to integrate climate considerations in our analysis, we used the people, processes, controls, and governance structures from traditional stress tests. Building on that, throughout 2021, we continued to develop our climate change scenario analysis capabilities, including:

- We identified new data requirements and sourced data for a vast number of inputs representing climate, macroeconomic and financial variables.
- We built and refined climate change models for wholesale corporate lending, commercial real estate and retail mortgage portfolios. Our models incorporated sector-specific adjustments for the higher risk industrial sectors. These portfolios represent a material part of our lending activities. The models projected the impact of climate change and produced outputs such as credit ratings, which helped us assess the financial impact on our portfolios.
- We held training sessions covering all levels of seniority from our colleagues to Board Directors, to allow our people to effectively understand, review, challenge and use the outcomes.
- Following the execution of results, we revisited the end-to-end process to learn key lessons and make continuous improvements for the next stress testing cycle.

The process has involved engaging with stakeholders across our Finance, Corporate Sustainability and Risk functions, as well as global businesses at Group and regional levels. We held 'in-depth' sessions with the Group Risk Management Meeting ('RMM'), Group Risk Committee ('GRC') and the Group Executive Committee covering data, models, risk assessments and outcomes. A series of governance meetings culminating with the RMM and GRC reviewed, challenged and approved the overall outcomes of this exercise.

Our framework
We have created – and continue to develop – a target state framework for climate change stress testing and scenario analysis. This framework uses many of the building blocks from of our traditional capital stress testing framework, but it demands larger and richer data that feeds innovative and granular forecasting solutions. All activities in this framework need to be embedded in our business-as-usual processes to help drive business decisions.

The following pages highlight some of the analysis conducted. The nature of the scenarios, our developing capabilities, and limitations of the analysis have led to outcomes that are directionally indicative of climate change headwinds, but they are not a direct forecast. Developments in climate science, data, methodology, and scenario analysis techniques will help us shape our approach further. We therefore expect this view of risk to change over time.

Scenarios and time horizons

We have developed capabilities to define parameters for bespoke scenario modelling. Our 2021 climate-related scenario analysis was run on a suite of specific scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System ('NGFS'). The NGFS scenarios test a broad range of possible outcomes and have been created as a starting point for central banks and supervisors, encompassing a complex set of social, political and economic assumptions. The scenarios we considered were:

- An Orderly scenario assumes climate policies are introduced early and become gradually more stringent. As a result of early action to tackle global warming and climate change, both physical and transition risks are relatively subdued. A moderate level of carbon sequestration (which is the process of capturing and storing atmospheric carbon dioxide) is factored into the scenario.
- A Disorderly scenario explores higher transition risk due to policies being delayed or divergent across countries and sectors. Carbon prices are typically higher for a given temperature outcome. There is a low level of carbon sequestration assumed in this scenario due to the absence of timely and sizable investments in such technologies.
- A Hot house world scenario assumes that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical risks and irreversible impacts like sea-level rise. This scenario also assumes a low level of carbon sequestration.

Further details of these scenarios are available at: www.ngfs.net/ngfs-scenarios-portal.

Insights from scenario analysis continued

How climate change is impacting our wholesale corporate lending portfolio
The table below illustrates the level of climate-related risk to which we are exposed within six key wholesale sectors. We have focused on these sectors because they are most likely to be impacted by climate risk. We assessed these sectors against Orderly, Disorderly and Hot house scenarios over a 30-year horizon. The two transition risk scenarios (Orderly and Disorderly) have the most impact on our wholesale portfolio and therefore the commentary focuses on these scenarios. While cumulative impacts over the 2020 to 2050 scenario horizon are broadly similar, the Disorderly scenario has a delayed disruptive transition and the Orderly scenario starts to impact the portfolio immediately.

Wholesale corporate lending portfolio methodology

We have developed a standardised framework to assess the financial impact of climate change on our wholesale corporate counterparties. We carried out granular modelling for material counterparties, projecting how their financial position might be impacted under each scenario. As data limitations often posed a challenge, we performed a high-level impact assessment for less material counterparties.

For simplicity, we assumed that our counterparty exposures would remain static over the 30-year horizon under all scenarios. Sectors already transitioning, such as those with electric vehicles and renewable energy, are assumed to continue transitioning at a conservative level, based on verifiable data and scenario assumptions. Companies with government support are also assumed to benefit. We have not considered the impact of individual counterparties' plans to adapt to climate change or the potential impact of supply chain disruptions. The analysis was performed on a sample of the portfolio that focused on our most material counterparties and regions. Results should therefore be interpreted accordingly.

Impact for key wholesale transition risk sectors[1]

		Projected impact			
Sector	Sub-sectors	Orderly	Disorderly	Hot house	Impact analysis
Building and construction	Construction	d	d	d	Companies with carbon-intensive production activities, such as steel and cement companies, are significantly impacted under the Orderly and Disorderly scenarios due to their expected vulnerability to carbon price increases and limited options currently available to transition.
	Steel	e	e	d	
	Cement	e	e	b	
Oil and gas	Integrated	c	c	c	A number of our oil and gas counterparties are operating in regions with low extraction costs, and are expected to be more resilient in transition scenarios.
	Services	c	c	b	
	Downstream	d	d	c	Profiting from greater diversification and size, integrated companies perform relatively better compared with counterparties specialised on one part of the value chain.
	Upstream	d	d	c	
	Midstream	d	d	c	
Automotive	Original equipment manufacturers	c	c	b	Impacts are broadly similar in the automotive sector under the transition risk scenarios due to a similar cumulative effect of electrical vehicle sales and carbon pricing over the 30 years. As expected, companies with existing investments in electrical vehicle manufacturing tend to be less impacted, particularly as they scale up over time. Dealers experience a more severe downgrade due to carbon pricing impacting current financial positions.
	Dealers	d	d	c	
	Suppliers	c	c	b	
Power and utilities	Gas and water utilities	c	c	b	Coal-focused companies are materially impacted in the transition scenarios. In contrast, renewables-focused counterparties benefit in the transition risk scenarios from the increase in demand for their products, lower carbon tax impacts and lower investment requirements. Overall, the ability of power and utilities companies to transfer costs to customers and the exposure to renewable-based power generators offsets negative impacts from fossil fuel-based counterparties.
	Power generation companies	c	b	b	
	Transmission, distribution and other electricity companies	c	c	a	
Chemicals	Chemical companies	e	d	c	Carbon-intensive processes significantly impact part of the chemicals sub-sector in the transition risk scenarios. In contrast, companies in the pharmaceutical and other sub-sectors tend to have less carbon-intensive processes, naturally leading to lower carbon costs and abatement expenses.
	Pharmaceutical companies	d	d	c	
Metals and mining	Core miners (bulk, base/diversified, precious metals)	d	d	c	As expected, coal-focused companies are heavily impacted under the transition risk scenarios. Energy transition miners, including companies mining lithium or copper, are less impacted due to an increased demand for electrification. Diversified miners also perform relatively better as they are able to shift away from coal to other minerals. Overall, energy transition and diversified miners offset some of the downgrades.
	Pure traders/services	c	c	c	

Lower Impact a b c d e Higher impact

1 This heat map is based on projected change in average credit ratings between 2020 and 2050 of counterparties by sector/sub-sector. Colours are defined based on the distribution of credit rating changes for the six key wholesale sectors. The bigger the credit rating downgrade, the more severely the counterparty is impacted.

Insights from scenario analysis continued

Impact of climate risk on our retail mortgage portfolios
We assessed the impact of various peril risks that our retail mortgage customers could face, including flooding, wildfires and windstorms. These risks influence property values and the ability and willingness of borrowers to service their debts. Another risk driver is the ability to respond and adapt to new and emerging regulatory requirements, such as new energy efficiency standards, which may influence property values.

The table below focuses on our most material retail mortgage portfolios in Hong Kong and the UK – covering 66% of our retail mortgage portfolio as of 31 December 2020. It demonstrates the potential physical risks of river, surface and coastal flooding, and how this may vary under the Orderly, Disorderly and Hot house scenarios. We show the projected change in flood depth in metres given a 1-in-100-year flood event. Since the Orderly and Disorderly scenarios use the same physical risk forecasts, these are combined into a single column.

Our analysis indicates that the most pronounced effects of physical risk on our retail mortgage customers are under a Hot house scenario characterised by a more than 3°C increase in global temperatures, which leads to an increase in the frequency and severity of extreme weather events. There are also risks posed by the transition to a net zero economy, predominantly through macroeconomic disruption, as well as some country-specific policies that may be enacted to meet these targets, including introduction of minimum energy efficiency standards.

Impacts across mortgage portfolios are primarily driven by the increased risk of flooding, including river, surface and coastal flooding. While relatively small proportions of the portfolios are predicted to be impacted by flooding events, the severity of these events is expected to increase over time. Under a Hot house scenario, sea levels are expected to rise up to 1.5 metres, which would increase the risk of coastal flooding for parts of the Hong Kong portfolio in the latter part of the century. The table shows that the Hot house scenario puts 25.6% of properties in Hong Kong at risk of a 0.5 metre to 1.5 metres 1-in-100-year flood event, up 18.7% from 6.9% in the Orderly and Disorderly scenarios.

The risk of extreme wind stress has also been considered and is only deemed material in Hong Kong, where typhoons regularly occur. Buildings standards in Hong Kong mean that structures are designed to withstand high wind speeds, and the severity of wind events is not predicted to materially change between now and the end of the century.

We take into account the transition risk for our retail mortgage portfolio as part of our business-as-usual lending and scenario analysis exercises. We focused on physical risk on this page because our current analysis shows it to be a material climate risk for this business.

Retail mortgage portfolio methodology

We used granular models to assess our material retail mortgage portfolios exposed to a high degree of climate change. After simulating thousands of weather events and assessing their impact on each property's value, we estimated expected physical losses under all scenarios. Key parameters included insurance coverage, public defences and building resilience archetypes. Transition risk was modelled considering the changes in key macroeconomic variables and region-specific policies, such as the requirement for homes to have certain minimum-rated energy performance certificates ('EPC') in the UK.

Exposure to flooding
Proportion of properties predicted to be impacted by floods given a 1-in-100-year severity flood event (%)

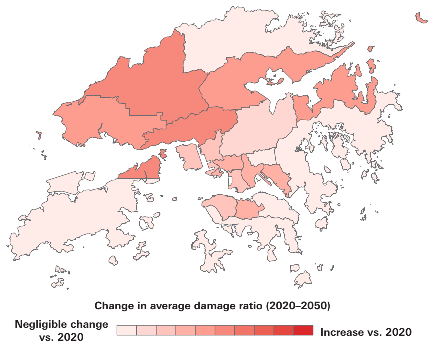
	Hong Kong			UK		
Scenarios	2020[1]	2050		2020[1]	2050	
Flood depth in metres		Orderly and Disorderly, +1.5°C[2]	Hot house, +>3°C[3]		Orderly and Disorderly, +1.5°C[2]	Hot house, +>3°C[3]
0–0.5	92.1	92.0	73.3	98.5	97.5	96.1
0.5–1.5	6.9	6.9	25.6	1.3	2.3	3.6
>1.5	1.0	1.1	1.1	0.2	0.2	0.3

1 Represents the baseline flood risk in 2020.
2 Represents the flood risk in 2050 under a climate scenario aligned to a 1.5°C increase in global temperatures.
3 Represents the flood risk in 2050 under a climate scenario aligned to a more than 3°C increase in global temperatures.

Insights from scenario analysis continued

Impact of climate risk on our commercial real estate portfolios
We assessed the impact of various perils that our commercial real estate customers could be vulnerable to, including flooding, wildfires and windstorms. The map below illustrates the potential impact of physical risk on our commercial real estate portfolio in Hong Kong under the Hot house scenario. We have focused on this portfolio as it is our most material commercial real estate portfolio in terms of exposure. The map shows a projected increase in average damage ratio, which represents the ratio between the cost of potential damage due to climate-related perils and the value of the property. The key peril drivers in our results are coastal, river and surface water flooding, and wind under a Hot house scenario.

Exposure to physical risk in Hong Kong under a Hot house scenario
The chart shows the increase in average damage ratio between 2020 and 2050 using a simple average for locations of our commercial real estate properties in each district. Our approach assumes an acceleration of physical risk impacts from later in the century.



Provided by Marsh LTD

The table alongside shows the projected increase in financial impact over 30 years for our most material commercial real estate portfolios – Hong Kong, the UK, Canada and the US, which cover 77% of the total commercial real estate portfolio as of 31 December 2020 – under the Orderly, Disorderly and Hot house scenarios. The increase in projected financial impact represents the increase in expected credit losses relative to exposure. The commentary highlights the key reasons for the change in impact between the Orderly scenario and alternative scenarios.

Under the Hot house scenario, the impacts are driven primarily by the increased risk of flooding (coastal, riverine and surface water). In this scenario, Hong Kong and the UK would be particularly impacted by coastal flooding due to the estimated rise in the sea level of up to 1.5 metres, with an increase in the frequency and severity of extreme weather events. Risks posed by the transition to a net zero economy also exist, which manifest mainly through macroeconomic disruption under the Disorderly scenario, as well as country-specific policies enacted to meet these targets, such as, minimum energy efficiency standards in the UK.

We are continuing to refine the data used for physical and transition risk assessment of our portfolios together with our modelling capabilities which use these inputs.

Commercial real estate portfolio methodology

The commercial real estate methodology is tailored to individual property characteristics and is used to analyse the impact on borrowers' credit risk. We have also taken into account existing property insurance in our portfolio. Transition risk drivers include country-specific net zero policies, such as requirements for EPCs, and the associated macroeconomic disruption.

Impact on commercial real estate for key countries/territories

Countries/ territories	Country/territory-specific EPC policies in the scenario	Projected impact[1] Orderly, +1.5°C	Disorderly, +1.5°C	Hot house, +>3°C
Hong Kong	–	a	a Higher value of collateral helps reduce impact	b Increased risk of coastal flooding
Canada	–	a	b Macroeconomic disruption due to late policy action	b Increased risk of riverine and surface water flooding
US	–	a	b Macroeconomic disruption due to late policy action	a No material increase of physical risk due to location of properties
UK[2]	Energy efficiency standards introduced via EPC policies	a	b Macroeconomic disruption and stricter EPC policies due to late policy action	b Increased risk of coastal flooding

Lower Impact a b c d e Higher impact

1 Projected impacts from perils include flooding (coastal, river and surface water), wind and wildfires, without taking into account client adaptation plans or management actions.
2 UK financial projections include transition risks related to meeting minimum energy efficiency standards, whereas the other countries/territories do not.

Insights from scenario analysis continued

Understanding the resilience of our critical properties
Climate change poses a physical risk to the buildings that we occupy as an organisation, including our offices, retail branches and data centres. We measure the impacts of climate and weather events to our buildings on an ongoing basis, using historical, current and scenario modelled forecast data. In 2021, there were 47 major events that had no impact on the availability of our buildings.

We use stress testing to evaluate the potential for impact to our owned or leased premises. Our scenario stress test, conducted in 2021, analysed how seven different climate change-related hazards – comprising coastal inundation, extreme heat, extreme winds, wildfires, riverine flooding, soil movement due to drought, and surface water flooding – could impact 250 of our critical buildings.

The 2021 scenario stress test of 250 of our critical buildings modelled climate change with a Hot house scenario that projects that the rise in the temperature of the world will likely exceed 4°C by 2100. It also modelled a less severe scenario that projects that global warming will likely be limited to 2°C, in line with the upper limit ambition of the Paris Agreement.

Key findings from the 4°C or greater Hot house scenario included:

- By 2050, 22 of our 250 critical buildings will have a high potential for impact due to climate change, with insurance-related losses estimated to be in excess of 10% of the insured value of our buildings.
- The eight most affected locations face hazards relating to surface flooding, rising river levels and landslides, as well as coastal flooding from rising sea levels and storms. Of the remaining 14 locations, 11 are data centres where the predominant hazards emanate from a mixture of temperature extremes, water stress and drought for which the specific direct physical impact could be soil movement. The other three are offices where the predominant hazard is coastal flooding.
- A further 25 locations have the potential to be impacted by climate change, albeit to a lesser extent, with insurance-related losses estimated at between 5% and 10% of the insured value of our buildings.

A key finding from the 2°C, less severe scenario showed:

- The total number of buildings at risk reduces from 47 to 35, with the same eight key facilities still at risk by 2050 from the same perils.

This forward-looking data will inform real estate planning. We will continue to improve our understanding of how extreme weather events impact our building portfolio as climate risk assessment tools improve and evolve. Additionally, we buy insurance for property damage and business interruption, and consider insurance as a loss mitigation strategy depending on its availability and price.

We regularly review and enhance our building selection process and global engineering standards, and will continue to assess historic claims data to help ensure our building selection and design standards reflect the potential impacts of climate change.

Regulatory climate stress tests
Regulators in an increasing number of jurisdictions are incorporating climate factors in their supervisory tools, with different aspects considered around the world. We have built flexibility into our approach to climate stress tests to support these differences. During 2021, we completed a number of climate stress tests in response to regulatory requirements from the Bank of England, the Hong Kong Monetary Authority and the Monetary Authority of Singapore. We expect to complete further tests in 2022.

Any specific outcomes and balances disclosed in this section should not be assumed to be those that have fed into our aggregated final climate results for the Bank of England's biennial exploratory scenario.

Our priority next steps
While we have conducted a number of climate change scenario analyses and stress tests in 2021, we continue to broaden and enhance our capabilities in order to overcome the limitations identified. These include enhancing our climate data repository, expanding scenario analysis methodology beyond credit risk, forecasting key climate metrics, integrating climate scenario analysis into risk management, business decisions and strategic planning. Together, they will help us define and monitor targets to support the Group's climate strategy. We aim to continue to improve on scenario analysis disclosures in line with regulatory expectations, supported by robust control processes and governance.

Our approach to sustainability policies

We recognise that businesses can have an impact on the environment, individuals and communities around them. We have developed, implemented and refined our approach to working with our business customers to understand and manage these issues. We have joined various partnerships to support our role in this, including the Powering Past Coal Alliance and World Economic Forum's Principles for Financing a Just and Urgent Energy Transition.

Our policies
Our sustainability risk policies cover agricultural commodities, chemicals, energy, forestry, mining and metals, thermal coal, UNESCO World Heritage Sites and Ramsar-designated wetlands.

These policies define our appetite for business in these sectors and seek to encourage customers to meet good international standards of practice. Where we identify activities that could cause material negative impacts, we will only provide finance if we can confirm clients are managing these risks responsibly. Such customers are subject to greater due diligence and generally require additional approval by sustainability risk specialists.

Our sustainability policies continue to be aligned with our approach to climate risk, and our net zero ambition.

For further details on how we manage sustainability risk, as well as our full policies, see www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Supporting the transition
Reinforcing our ambition to support our clients' transition to lower carbon through transition financing – and particularly to the phase-out of thermal coal – we published our thermal coal phase-out policy, which we introduced in December 2021 (see right).

Governance and implementation
Within our Global Risk and Compliance function, we have reputational and sustainability risk specialists who are responsible for reviewing, implementing and managing our sustainability risk policies as well as our application of the Equator Principles. Our global network of more than 75 sustainability risk managers supports the implementation of these policies. In 2021, these local sustainability risk managers continued to be supported by regional reputational risk managers across the Group who have taken on additional oversight responsibilities for sustainability risk.

The Sustainability Risk Oversight Forum, made up of senior members of the Global Risk and Compliance function and global businesses, continued to oversee the development and implementation of policies that identify, manage and mitigate the Group's sustainability risk, including a refreshed assurance framework in 2021. This framework has been designed to take a more holistic view of the ESG risks we face in our sustainability risk policies, including:

- monitoring ESG news across the sustainability risk policies;
- overseeing clients considered to be of higher risk or under exit;
- reviewing client files across the sustainability risk policies; and
- setting and reporting against a defined set of key control indicators aligned to our risk appetite.

The framework is used to monitor the in-scope portfolio and keep track if there is any deterioration in the risk ratings. With the respective risk rating assigned, our sustainability risk specialists will take the necessary actions to mitigate unacceptable risks. If necessary, we will proactively end the client relationship.

Our thermal coal phase-out policy

In fulfilment of our commitment approved by shareholders at the AGM in May 2021, we published a policy to phase out thermal coal financing in EU and OECD markets by 2030, and globally by 2040. This incorporates project finance, direct lending, or arranging or underwriting of capital markets transactions to in-scope clients, as well as the refinancing of existing finance facilities.

Every year we commit to review our policy and targets, taking into account evolving science and internationally recognised guidance.

Using our TCFD disclosures in 2020 as our baseline, we intend to reduce thermal coal financing exposure by at least 25% by 2025, and by 50% by 2030. These targets will be reviewed in conjunction with assessments of client transition plans. For further details, see www.hsbc.com/news-and-media/hsbc-news/were-phasing-out-coal-financing.

As shown in the wholesale loan exposure table on page 133, within the power and utilities, and metals and mining sectors, and recognising external party assessments of power generation and mining capacity, our exposure to thermal coal at 31 December 2021 was $1.0bn (2020: $1.2bn) or 0.2% of the total wholesale loans and advances figures.

In 2021, HSBC, together with other financial institutions, participated in capital markets transactions relating to clients who own or operate thermal coal-fired powered plants or thermal coal mines. HSBC facilitated a total of $1.3bn out of the total of these transactions.

Biodiversity and natural capital-related policies

We have taken several steps to unlock the value of natural capital in the global economy, and help tackle biodiversity loss and other nature-related financial risks. However, we recognise we are at the beginning of our journey.

We regularly assess our clients for their commitment to sustainable business practices, and have clear policies to help mitigate the risk of nature loss. Our sustainability risk policies are designed to provide several protections against financing, which will have a negative impact on nature. These include our forestry and agricultural commodities policies, which put an emphasis on customers involved with the major forest-risk commodities to obtain independent certification that their businesses operate in a sustainable manner. These include requiring palm oil customers to commit to 'No Deforestation, No Peat and No Exploitation'. Our World Heritage Sites and Ramsar-designated wetlands policy prohibits the financing of any project that threatens the special natural characteristics of these internationally protected areas.

Our approach to climate reporting

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

The table below sets out the 11 TCFD recommendations and summarises where additional information can be found.

Where we have not included climate-related financial disclosures consistent with all of the TCFD Recommendations and Recommended Disclosures, the reasons for this and steps we are taking are set out in the additional information section on page 402.

Recommendation	Response	Disclosure location
Governance		
a) Describe the Board's oversight of climate-related risks and opportunities		
Process, frequency and training	– The Board is responsible for our climate ambition, strategy and risk, receives climate-focused updates throughout the year and receives ESG-related training.	Page 80 Page 229 Page 232
Sub-committee accountability, processes and frequency	– The Group Risk Committee exercises oversight of climate risks. – The Group Audit Committee reviews and challenges ESG and climate-related reporting and disclosure, including the climate change resolution and scenario analysis disclosure.	Page 249 Page 245
Examples of the Board and relevant Board committees taking climate into account	– 2021 was a significant year for the Group in its efforts to support the transition to net zero – a key pillar of our overall Group strategy – with the passing of our climate change resolution at our 2021 AGM and the publication of our thermal coal phase-out policy being two of the most notable achievements. In January 2022, the Board also approved the necessary investment required to develop and implement a revised operating model for the Group's Sustainability function to help ensure delivery against our sustainability ambitions. – The GRC and GAC convened a joint meeting to review the thermal coal phase-out policy and our approach to financed emissions.	Page 24 Page 219 Page 241
b) Describe management's role in assessing and managing climate-related risks and opportunities		
Who manages climate-related risks and opportunities	– The Group Executive Committee ('GEC') manages our climate ambition with management responsibilities integrated into the relevant business and functional areas. It oversees and directs the climate-related opportunities. It discussed climate-related issues at six meetings in 2021. – The Group Chief Executive is responsible for overseeing the delivery of the sustainable finance and investment ambition and realisation of commercial opportunities. – The Group Chief Sustainability Officer holds joint responsibility for the ESG committee that supports Group Executives in the development and delivery of ESG strategy, key policies and material commitments by providing oversight, coordination and management of ESG commitments and activities. – The Group Chief Risk and Compliance Officer and the chief risk officers of our PRA-regulated businesses are the senior managers responsible for climate financial risks under the UK Senior Managers Regime.	Page 80
How management reports to the Board	– The Group Chief Executive, the Group Chief Financial Officer, and the Chief Risk and Compliance Officer provide regular verbal and written updates to the Board. – The ESG Committee will regularly report to the Board on progress against our ESG ambitions, climate strategy and related commitments.	Page 80
Processes used to inform management	– The Group Chief Financial Officer provides an ESG dashboard including key climate-related metrics within a quarterly report, presented to the GEC. – Management is informed by a number of specialist ESG governance forums.	Page 80
Strategy		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term		
Processes used to determine material risks and opportunities	– We use scenario analysis to help us identify and understand climate-related risks. – We understand the need to find new solutions to increase the pace of change if the world is to achieve the Paris Agreement's goal of being net zero by 2050. – For wholesale customers, we use a questionnaire as part of the independent review of risk, to understand their climate strategies and risks. It also helps us to identify potential business opportunities to support the transition.	Page 57 Page 55 Page 133
Relevant short, medium, and long term time horizons	– We aim to achieve net zero in our financed emissions by 2050, and in our own operations and supply chain by 2030. – We aim to provide and facilitate $750bn to $1tn of sustainable finance and investment for our customers in their transition to net zero and a sustainable future between 2020 and 2030. – We have taken these time horizons into our consideration. We consider short term to be less than one year, medium term to be by 2030 and long term to be by 2050.	Page 46 Page 53 Page 132
Transition or physical climate-related issues identified	– Transition or physical climate-related risk impacts may manifest across our risk taxonomy across all time horizons. – We are supporting our customers in their transition through our sustainable finance and investment ambition. Our sustainable finance data dictionary includes a detailed definition of contributing activities.	Page 132 Page 53

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

Recommendation	Response	Disclosure location
Risks and opportunities by sector and/or geography	– For our wholesale exposure we have focused on a group lens as a starting point, primarily due to data limitations on client carbon emissions. Our scenario analysis shows that transition risk represents a more material risk for corporate customers, and physical risk is more material for our retail customers. – Opportunities include sustainable finance, sustainable investment and sustainable infrastructure.	Page 57 Page 53
Concentrations of credit exposure to carbon-related assets	– We have identified and disclosed six sectors where our corporate customers have the highest climate risk, which are: oil and gas; building and construction; chemicals; automotive; power and utilities; and metals and mining. – We have also disclosed our exposure to thermal coal. – Our approach to financed emissions has focused primarily on oil and gas, and power and utilities, and the specific areas of the value chain which are most carbon intensive. We will aim to enhance our scope 3 emissions disclosure by encouraging our customers to publicly disclose their carbon emissions.	Page 133 Page 62 Page 47 Page 402
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning		
Impact on strategy, business, and financial planning	– Transition to net zero represents one of our four strategic pillars. We aim to be net zero in our operations and supply chain by 2030 and in our financed emissions by 2050. – Due to transitional challenges, including data and system limitations, we do not currently fully disclose the way in which climate-related issues have affected our financial planning and performance. We have considered the impact of climate-related issues on our businesses, strategy, and financial planning, and will aim to further enhance our processes in relation to acquisitions/divestments and access to capital.	Page 14 Page 402
Impact on products and services	– We aim to help our customers' transition to net zero and a sustainable future through providing and facilitating between $750bn and $1tn of sustainable finance and investment by 2030.	Page 53
Impact on supply chain and/or value chain	– We have started targeting our largest suppliers to encourage them to make their own carbon commitments, and to disclose their emissions. We take into account climate-related risks as part of our third-party risk management process.	Page 52
Impact on adaptation and mitigation activities	– We announced our ambition to achieving 100% renewable power across our operations by 2030, and continue to look for opportunities to procure green energy. We regularly review and enhance our building selection process and global engineering standards, to help ensure our building selection and design standards reflect the potential impacts of climate change.	Page 52
Impact on operations	– We have analysed the resilience of our critical properties, identifying 22 of our 250 critical buildings have a high potential for impact due to climate change by 2050. This will inform real estate planning. Our business continuity processes, including people and infrastructure, will continue to evolve to take in account of climate-related risks across regions and markets to avoid concentration risk.	Page 61
Impact on investment in research and development	– We are working with the World Resources Institute and WWF, focusing our collective efforts on climate-related innovation, nature-based solutions and energy efficiency initiatives in Asia.	Page 77
How we are striving to meet investor expectations	– The climate change resolution that was passed at our 2021 AGM committed us to publishing our thermal coal phase-out policy and setting short- and medium-term targets to align our provision of finance with the goals and timelines of the Paris Agreement.	Page 18
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario		
Embedding climate into scenario analysis	– We use the people, processes, controls and governance structures from our traditional capital stress tests for our climate-related scenario analysis, as well as bespoke data, modelling techniques and analysis.	Page 57
Key drivers of performance and how these have been taken into account	– In 2021, we ran our first climate stress testing and scenario analysis exercise. For all portfolios, our assessments considered transition risk and physical risk. – We do not currently fully disclose the impacts of transition and physical risk quantitatively, due to transitional challenges such as data limitations and evolving science and methodologies.	Page 57 Page 402
Scenarios used and how they factored in government policies	– Our climate-related scenario analysis was run on a suite of scenarios including Hot house, Orderly and Disorderly scenarios, which incorporated a complex set of social, political and economic decisions, including taking into account government policies.	Page 57
How our strategies may change and adapt	– As our approach matures, we will look to begin incorporating our analysis into our core banking processes including strategic planning and risk appetite. – We regularly review and enhance our own building selection process and design standards to help these reflect the potential impacts of climate change.	Page 61
Risk management		
a) Describe the organisation's processes for identifying and assessing climate-related risks		
Traditional banking risk types considered	– Our key climate risk types are: wholesale credit risk, retail credit risk, regulatory compliance risk, resilience risk and strategic (reputational) risk. – We tailor our underlying policies and controls to manage the different risks and exposures to reflect our respective roles in asset management, employee pensions and insurance to meet the needs of our key stakeholders.	Page 131 Page 56

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

Recommendation	Response	Disclosure location
Process	– The process of identification and assessment of climate risk differs according to the risk type, taking into account material risk drivers. We use scenario analysis to assess our portfolio's exposure, which takes into account emerging regulatory requirements, and we use our transition risk questionnaire to request information from our corporate customers.	Page 131
Integration into policies and procedures	– We are integrating climate risk into the supporting policies, processes and controls for our key climate risks and we will continue to update these as our climate risk management capabilities mature over time.	Page 131
b) Describe the organisation's processes for managing climate-related risks		
Process and how we make decisions	– The Group Risk Management Meeting receives scheduled updates on climate risk, and receive regular updates on our climate risk appetite and top and emerging climate risks.	Page 80
	– Our developing climate risk appetite metrics aim to support the oversight and management of the financial and non-financial risks from climate change.	Page 131
	– Our approach to climate risk management is developing and how we manage these risks will vary by risk type. We will continue to align to our risk management framework when determining the materiality of its exposure to climate-related risks.	
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management framework		
How we have aligned and integrated our approach	– Our approach to climate risk management is aligned to our Group-wide risk management framework and three lines of defence model.	Page 131
How we take into account interconnections between entities, functions	– Our dedicated climate risk programme continues to accelerate the development of our climate risk management capabilities, taking into account relevant interconnections within global businesses, functions and entities.	Page 131
Metrics and targets		
a) Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process		
Metrics used to assess the impact of climate-related risks on our loan portfolio	– We disclose our wholesale loan exposure to the six high transition risk sectors. It is also used to be a metric, together with our transition risk questionnaire to assess impact of climate risk and help inform risk management.	Page 133
	– We are starting to measure climate risk for our retail portfolio, starting with retail properties in the UK.	Page 134
	– Our climate risk management information dashboard includes metrics relating to our key climate risks, and is reported to the Global Climate Risk Oversight Forum. However, we do not fully disclose metrics used to assess the impact of climate-related risks on retail lending, parts of wholesale lending and other financial intermediary business activities.	Page 402
Metrics used to assess progress against opportunities	– We track our net zero progress using multiple metrics, tailoring methodologies to the specific measures.	Page 18
	– We do not currently fully disclose the proportion of revenue or proportion of assets aligned with climate-related opportunities, relevant forward-looking metrics or internal carbon prices due to transitional challenges including data and system limitations.	Page 402
Board or senior management incentives	– We use a number of climate-related metrics within annual incentive scorecards, including those of the Group Chief Executive and Group Chief Financial Officer.	Page 17
b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks		
Our own operations	– We report scope 1, 2 and part of scope 3 greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel.	Page 52
	– Future disclosure on scope 3 supply chain emissions (suppliers), as well as its related risks is reliant on our suppliers publicly disclosing their carbon emissions.	Page 402
Measuring our on-balance sheet financed emissions	– We have started to measure our scope 3 portfolio impact, beginning with the oil and gas, and power and utilities sectors.	Page 47
	– Future disclosure on scope 3 financed emissions (customers) is reliant on our customers publicly disclosing their carbon emissions.	Page 402
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets		
Details of targets set and whether they are absolute or intensity based	– One of our strategic pillars is to support the transition to a net zero global economy. To support our ambition to align our financed emissions to achieve net zero by 2050 or sooner, we have set a new absolute on-balance sheet financed emissions 2030 target for the oil and gas sector, and an on-balance sheet financed emissions intensity 2030 target for the power and utilities sector.	Page 50
	– Given that climate scenarios are mainly focused on medium- to long-term horizons, rather than short-term, we have set interim 2030 targets for on-balance sheet financed emissions for the oil and gas, and power and utilities sectors. We do not currently disclose targets used to measure and manage physical risk, due to transitional challenges and data limitations. We do not consider water usage to be a material target for our business and therefore we have not included a target in this year's disclosure.	Page 402
Other key performance indicators used	– We also use other indicators to assess our progress including energy consumption and percentage of renewable electricity sourced.	Page 18

Social

We aim to play an active role in opening up a world of opportunity for our customers, colleagues and communities as we bring the benefits of connectivity and global economy to more people around the world.

At a glance

Our relationships
Our purpose is opening up a world of opportunity, and we aim to bring that purpose to our customers, employees and the communities in which we operate.

We create value by providing the products and services our customers need and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. Through a series of surveys, we aim to listen to our customers to put them at the centre of our decision making. If things do go wrong, we aim to take action in a timely manner.

Our organisation has been shaped by the many cultures, communities and continents we serve, with almost 220,000 full-time equivalent employees ('FTEs') in 64 countries with 160 nationalities. We were founded on the strength of different experience and we continue to value that difference. We strive to champion inclusivity to better reflect the worlds of our customers and communities.

We have a long-standing commitment to support our communities, in areas where we can make a difference and support sustainable economic growth. We believe that financial services, when accessible and fair, can reduce inequality and help more people access opportunities.

Our culture is underpinned by our values: we value difference, we succeed together, we take responsibility, and we get it done.

In this section

Customers

We create value by providing the products and services our customers need and aim to do so in a way that fits seamlessly into their lives.

We aim to listen, learn and act on our customers' feedback, and use the net promoter score ('NPS') system to compare our customer satisfaction performance against our peers. We manage customer feedback when things go wrong and report on our actions against our key customer complaints.

In this section, we report on our customers as three distinct groups: our wealth and personal banking customers; medium and large-sized corporate customers; and our global and institutional customers. These groups are served by our three global businesses respectively: Wealth and Personal Banking ('WPB'), Commercial Banking ('CMB') and Global Banking and Markets ('GBM').

Customer satisfaction

We remain committed to improving customers' experiences. In 2021, we gathered feedback from over one million customers across our three global businesses to help us understand our strengths and the areas of focus.

Our recommendation scores improved in more than 60% of our markets, although we still have work to do to improve our rank position against competitors, as some have accelerated their performance faster than us.

Listening to drive continuous improvement

Throughout 2021, we continued to embed our new feedback system so we can better listen, learn and act on our customers' feedback. We use NPS to provide a consistent measure of our performance. NPS is measured by subtracting the percentage of 'Detractors' from the percentage of 'Promoters'. 'Detractors' are customers who provide a score of 0 to 6, and 'promoters' are customers who provide a score of 9 to 10 to the question: 'On a scale on 0 to 10, how likely is it that you would recommend HSBC to a friend or colleague'.

We run studies that allow us to benchmark ourselves against other banks. In 2021, these were live in 10 WPB markets and 13 CMB markets, and in our key regions for our private bank and GBM. These will be expanded to other key markets in 2022. We try to make it as easy as possible for customers to give us feedback, accelerating our use of digital real-time surveys to capture insight. By sharing this and other feedback with our front-line teams, and allowing them to respond directly to customers, we are improving how we address issues and realising opportunities.

How we fared

In WPB, our NPS rose in seven markets. In Hong Kong, mainland China and UAE, we were ranked in the top-three banks, and in the UK, Malaysia and Mexico we improved rank positions. Our rank in Singapore and the US remained flat while our positions slipped in Australia and Canada. Customers told us we needed to focus on: making digital platforms more accessible, making payments easier, improving our account opening experience and helping customers better monitor their spending. We have made a commitment to invest in making these things better. In our private bank, our global NPS increased to 31, compared with 9 in 2020. This was largely due to an increase in our scores in Hong Kong, the US and Germany, with scores in Switzerland, the UK and Luxembourg also performing strongly.

In CMB, NPS rose in eight of our 13 key markets, with our rank positions in Malaysia, India, UAE and Mexico either improving or in the top three against competitors. In Hong Kong, we placed a stronger emphasis on innovation from a product and digital banking perspective. In the UK, as we continued to navigate the broader impacts of Covid-19, we faced challenges providing consistent levels of customer service. We are prioritising areas where we can improve the experience customers have with us.

In GBM, our NPS increased in Asia and the US. We ranked in first place in Asia, an improvement from third place in 2020. In the US, our NPS increased by 16 points, consequently placing us in sixth place versus our ninth place ranking in 2020. While our NPS declined in Europe by four points compared with 2020, our score improved among our key clients.

Number of markets in top three or improving rank[1]

	2021
WPB	**6 out of 10**
CMB	**4 out of 13**

1 In WPB, markets comprised: the UK, Hong Kong, Malaysia, Singapore, mainland China, Australia, UAE, Canada, Mexico and the US. In CMB, markets comprised: the UK, Hong Kong, Malaysia, Singapore, Pearl River Delta, mainland China, India, Indonesia, Australia, UAE, Canada, Mexico and the US. Rank positions are provided using data gathered through third-party research agencies.

Acting on feedback

We continued to focus on our digital capabilities in 2021 to enable better customer experiences.

In WPB, we introduced new mobile account opening functionality in Hong Kong, leading to improved NPS, and reaching an all-time high of 62 in March. We also launched Trade25, our new stock trading platform for 18 to 25 year-olds. By the end of the year, 1,800 users had opted into the programme. A new online banking platform was delivered across 20 markets to improve navigation and usability.

In CMB, our digital self-service programme launched to enable our customers to undertake more of their day-to-day banking online. Since introduction in early 2021, in the UK, over 140,000 customers changed their details online, 71,000 customers managed their debit and credit cards and 389,000 cheques were deposited using the mobile application.

In GBM, our digitised account onboarding and lifecycle management platform has been extended to 21 markets with enhanced features and capabilities including one time password and e-sign functionality. Integrated electronic identification and verification capabilities have also been deployed to simplify the onboarding experience for our clients.

How we listen

To improve how we serve our customers, we must be open to feedback and acknowledge when things go wrong. We have adapted quickly to support our customers facing new challenges and new ways of working, especially as a result of Covid-19-related lockdown restrictions.

We aim to be open and consistent in how we track, record and manage complaints, although as we serve a wide range of customers – from personal banking and wealth customers to large corporates, institutions and governments – we tailor our approach in each of our global businesses. As the table on the right demonstrates, we have a consistent set of principles that enable us to remain customer-focused throughout the complaints process.

For further details on complaints volumes by geography, see our *ESG Data Pack* at www.hsbc.com/esg.

How we handle complaints

Our principles	Our actions
Making it easy for customers to complain	Customers can complain via the channel that best suits them. We provide a point of contact along with clear information on next steps and timescales.
Acknowledging complaints	All colleagues welcome complaints as opportunities and exercise empathy to acknowledge our customers' issues. Complaints are escalated if they cannot be resolved at first point of contact.
Keeping the customer up to date	We set clear expectations and keep customers informed throughout the complaint resolution process via their preferred channel.
Ensuring fair resolution	We thoroughly investigate all complaints to address concerns and ensure the right outcome for our customers.
Providing available rights	We provide customers with information on their rights and the appeal process if they are not satisfied with the outcome of the complaint.
Undertaking root cause analysis	Complaint causes are analysed on a regular basis to identify and address any systemic issues and to inform process improvements.

Wealth and Personal Banking ('WPB')

In 2021, we received approximately 1.2 million complaints from customers. The ratio of complaints per 1,000 customers per month in our large markets reduced from 2.7 to 2.5.

In the UK, complaints relating to our response to the Covid-19 pandemic reduced, due to the decline in demand for financial support, payment holidays and additional lending. In the UK, we also implemented various initiatives to resolve common customer pain points and have provided our people with enhanced guidance to help them identify complaints.

The increase in complaints in Hong Kong mainly related to stresses to our operations caused by events including frauds, Covid-19-related government schemes and new business initiatives. We are addressing these by offering new flexible solutions, customer education on fraud prevention and enhanced digital services.

The increase in complaints in Mexico was driven by unrecognised charges in debit and credit cards caused by fraud attacks. In response, our fraud teams have taken actions to protect customers, including enhanced monitoring and customer alerts.

Our complaint management platform, now live in 11 markets, allows us to deliver a more customer-focused experience when managing feedback. We have streamlined complaints procedures, introduced greater automation to track complaints and provide customers with regular updates, and enhanced our reporting. Our new global complaints dashboard enables us to identify trends, and put in place actions to resolve emerging issues.

In our private bank in 2021, we received 431 complaints, a 25% decrease on 2020, largely due to the reduction in administration and service issues. Within this category, approximately 50% were attributable to processing errors/delays and client reporting delays/errors. In 2021, the private bank resolved 431 complaints.

WPB complaint volumes[1]
(per 1,000 customers per month)

		2021	2020
Total[2]		**2.5**	2.7
UK[3]	▼	**1.6**	2.1
Hong Kong[3]	▲	**0.7**	0.6
Mexico[3]	▲	**5.5**	4.9

1 A complaint is any expression of dissatisfaction about HSBC's activities, products or services whether justified or not.
2 Markets included: Hong Kong, mainland China, France, the UK, UAE, Mexico, Canada, US.
3 The UK, Mexico and Hong Kong make up 84% of total complaints.

Acting on feedback

In 2021, we revised our global complaint handling policy to simplify our process, and set a principle-based approach. We aim to ensure we recognise those customers with enhanced care needs to deliver fair outcomes.

In March 2021, we were the first bank in Hong Kong to allow fully digital international account opening for both permanent and non-permanent residents through the launch of a new international account opening service through our internet banking.

Since October 2021, our UK customers have benefited from enriched transaction details for their debit and credit cards on the mobile app. The app provides a simpler interface, includes improved transaction descriptions and helps support customers where they are querying transactions through the dispute process.

Contact centres are accelerating the digital transformation to deliver enhanced customer experience by streamlining and automating processes. In 2021, we launched 14 new chat deployments, four new chatbots and security improvements that included voice biometrics and SMS passwords that drive towards delivering seamless customer experiences when connecting with our contact centres.

How we listen continued

Commercial Banking ('CMB')

In 2021, we received 82,238 customer complaints, a decrease of 22% from 2020. Of the overall volumes, 82% came from the UK, 10% from Hong Kong and 2% from France. We resolved 81,968 complaints.

The most common complaint related to operations, namely payment processing errors and delays. However, complaints in this category fell markedly compared with 2020, largely due to the significant reduction in complaints relating to the Bounce Back Loan Scheme in the UK after the scheme was closed in March 2021. In Hong Kong, the number of complaints received were significantly lower in 2021 due to a reduction in our due diligence reviews of customers as part of our global standards programme.

Encouraging our people to capture and log complaints allows us to continually improve the products and services we offer. To support this we rolled out a new complaints tool across 36 markets to ensure effective complaint handling remains at the front and centre of how we operate.

CMB complaint volumes[1]
(000s)

		2021	2020
Total		**82.2**	105.1
UK[2]	▼	**67.1**	81.9
Hong Kong[2]	▼	**8.2**	16.3

Acting on feedback

We seek to ensure that we treat customers fairly when managing complaints, especially those who may be considered vulnerable or who have enhanced care needs. In 2021, we introduced a way to identify complaints from such customers so that they get the right outcomes.

The majority of complaints related to payment processing. To improve our customers' experience when making payments, we launched SMS and We Chat notifications in Hong Kong to accelerate payment screening times.

The second highest contributor to complaint volumes related to contact centres, in particular the time taken for our customers to be served. In the UK these complaints were driven by a rise in customer demand and operational challenges increasing call wait times. To improve response times, we provided customers with more digital channels including web chat and upgraded our Business Banking mobile app.

We continued to strengthen our financial crime procedures as part of our commitment to safeguard our customers. While complaints related to these processes and procedures remained high they fell by 2% compared with 2020.

Global Banking and Markets ('GBM')

We received 1,429 customer complaints in 2021, which was in line with complaint volumes in 2020. Of the complaints received in 2021, 92% were closed.

Our Global Liquidity and Cash Management business recorded the most complaints, corresponding to the high transaction volumes associated with this business. Complaint volumes were broadly stable throughout the year, with no material incidents observed. Some examples of complaints raised include temporary issues with system performance, and customers citing query resolution times.

GBM complaint volumes[1]

		2021	2020
Total		**1,429**	1,432
Global Banking	▼	**282**	309
Global Markets and Securities Services	▼	**309**	363
Global Liquidity and Cash Management[3]	▲	**838**	760

Acting on feedback

We have developed a client feedback tool to replace several legacy complaints logging tools for all GBM businesses. The tool is scheduled to go live across all GBM markets by September 2022.

While global systems were stable throughout 2021, where issues occurred we deployed resources to restore services quickly, and performed root-cause analysis to ensure fixes were implemented.

1 A complaint is any expression of dissatisfaction, whether justified or not, relating to the provision of, or failure to provide, a specific product or service or service activity.
2 For our CMB business, the UK and Hong Kong make up 92% of total complaints.
3 Global Liquidity and Cash Management excludes 1,190 complaints relating to payment operations, which is part of Digital Business Services.

Employees

Opening up a world of opportunity applies to colleagues, as well as our customers. We do this by building a diverse and inclusive organisation that prioritises well-being. We invest in the development of talent, creating a culture of learning and we empower our colleagues to shape the future of work.

We were founded on the strength of diverse experience, and we continue to seek different perspectives to ensure we are prepared to move at pace, and deliver on behalf of our colleagues, customers and shareholders. We regularly listen to our colleagues through surveys and Exchange sessions. The insight we collect shapes our approach to colleague engagement and support.

Our culture is underpinned by our values: we value difference, we succeed together, we take responsibility, and we get it done.

The future of work

The way we work is continuing to adapt as our workforce meets new demands, and as expectations change. In addition to this, our colleagues are developing new skills and working more flexibly than ever before.

Adapting at pace

During the Covid-19 pandemic, our colleagues adapted at pace in a fast-changing environment to provide continuity of service for our customers. This offered us the opportunity to rethink the future of work, taking the best of what we learnt to attract a better and more diverse workforce.

To support our approach, we created three guiding principles:

- Customer focus: We aim to make sure the way we work helps deliver the best commercial outcomes for our customers.
- Team commitment: We will connect with each other, build our community and collaborate.
- Flexibility: We will provide our colleagues with more choice on how, when and where we work, suitable for the roles we do.

Our future of work initiative is driven by feedback and insights that we gain from our colleagues. In April 2021, our return to workplace survey revealed approximately 70% of colleagues wanted individual flexibility around location and hours. In October 2021, our employee focus groups showed approximately 85% of colleagues wanted leaders to set an example and encourage our new ways of working.

In 2021, we started to formalise hybrid working arrangements, splitting time between home, office or other locations. We developed e-learnings and conversation guides to help managers discuss hybrid ways of working with their teams. We also created films and communications, showcasing how leaders and colleagues were role modelling new ways of working.

To further support individual flexibility, we created a new global flexible working framework and best practice guidelines to enable all colleagues to have more choice around how and where they work.

Our June 2021 Snapshot survey revealed there are five key areas our colleagues want us to get right for hybrid working to be successful:

- improve communication;
- offer the right level of flexibility;
- provide fit-for-purpose technology;
- facilitate collaboration; and
- enable our leaders to lead hybrid teams.

In line with this feedback, we improved technology platforms including the accelerated deployment of Microsoft Teams and improved remote internet connection capabilities. We have commenced refurbishment of buildings to support better collaboration, while ensuring the safety of our colleagues by continuing to provide social distancing measures. The future of work will remain an area of focus in 2022 and beyond.

We recognise we do not have all the answers, so we will continue to take a 'test and learn' approach, closely evaluating our success through regular feedback and business performance.

66%

of employees whose roles allow them to work remotely told us their ideal work pattern would be hybrid, according to the Snapshot employee survey in December 2021.

Spotlight on hybrid working

Our colleagues in mainland China – one of the first markets to reopen following Covid-19-related restrictions – embraced our new hybrid ways of working.

Managers assessed role types against a global 'workstyle' framework, which considers issues such as local laws, regulations and the need for face-to-face contact. This helped management understand and role model a balance between home and office working. Managers were then encouraged to have open discussions with their teams, supported by HR guidelines, around how individuals could be supported to work more flexibly. Following these changes, we received feedback that showed that ways of working had changed, and where roles allowed, hybrid working was now seen to be the standard way to work.

Inclusion

We value diversity of thought and we are building an environment that reflects our customers and communities. We are committed to attracting, developing and retaining diverse talent by fostering an inclusive culture.

We recognise the importance of data in driving change, and in 2021 placed an increased focus on capturing diversity data in markets where this is possible from a legal, data privacy and cultural perspective.

We are now using data science to uncover barriers to more equal representation across the organisation.

Our approach to inclusion is organised under four pillars:

Investing in talent
To ensure that we have diversity of thought and represent the communities we serve it is imperative that we attract, hire and develop high-performing diverse talent. Our recruitment, retention and development initiatives include the following:

- In recruitment, it is now mandatory for all hiring managers to carry out inclusive hiring training. For external recruitment, we work with agencies that specialise in promoting more diverse hires at all levels of seniority.
- To support our people managers and colleagues, we have invested in expanding our leadership development programmes, and in initiatives relating to mental health and neurodiversity. We are also the first UK employer to be accredited as menopause friendly.
- We run targeted leadership programmes for underrepresented groups, and we have reviewed succession plans and pipelines for senior leadership roles in our key markets with a focus on representation of female and ethnically diverse talent.

For further details on awards and employee programmes, see the *ESG Data Pack* at www.hsbc.com/esg.

Investing in employee networks
Tens of thousands of colleagues are part of our employee networks, focusing on age, disability, mental health, ethnicity, faith, gender, LGBT+, working parents, carers, and wider common interest groups. Each network is supported by an executive sponsor. Some highlights from 2021 include:

- Balance, our gender network, launched an initiative that now runs across all employee networks, providing structured small group executive coaching sessions led by internal leaders in 38 markets. Nearly 3,000 colleagues have benefited to date.
- Embrace, our ethnicity network, hosted global panel sessions on World Day for Cultural Diversity to discuss the importance of ethnic and cultural inclusion and the actions needed to bring about sustainable change. In the US, Embrace held career insights workshops showcasing the skills needed for various internal vacancies.
- Our Pride network launched 'How to be an LGBT+ Ally' e-learning in 10 languages. Approximately 2,500 colleagues completed the training within five months, including the Group Executive Committee.

Investing in data
The diversity data we collect is reviewed by our Group Executive Committee on a quarterly basis and is used to make evidence-based decisions and hold us accountable for progress against our commitments. We will use diversity data to enhance our understanding of employee sentiment across diverse groups and to enable us to assess the inclusiveness of our hiring processes. In 2021, highlights included:

- We have expanded our self-identification capability to 38 markets, enabling 91% of our workforce to share their ethnic heritage.
- Employees can now also share their disability, gender identity and sexual orientation data. These self-identification options were enabled for 90%, 80% and 70% of our workforce respectively, in markets where this was permitted from a legal, regulatory and cultural perspective.
- As part of the hiring process, we have enabled candidates in 12 markets, including five of our largest, to share their diversity data. We will add a further seven markets in 2022.

Supporting customers and communities
We are committed to supporting the diverse communities we serve, with actions across HSBC, and in our personal and wholesale businesses specifically, including:

- We empowered female entrepreneurs to increase the scale of their business through masterclasses, coaching and networking as part of HSBC Roar, a customer coaching and networking programme launched by HSBC Global Business Banking in partnership with AllBright.
- We redesigned our retail banking apps in line with accessibility guidelines and transformed the physical appearance of our credit and debit cards to make them more accessible.
- We demonstrated our commitment to promoting a culture of respect and equality by becoming a signatory in 2021 to the UN Standards of Conduct for Business: Tackling discrimination against lesbian, gay, bi, trans, and intersex people.

For further details of how we are making financial services more accessible and fair, see 'Financial inclusion' on page 78.

Disability confidence

Our employee networks are essential to fostering an inclusive culture. Our Ability network celebrated International Day of People with Disabilities in partnership with PurpleSpace, which launched the Purple Light Up movement to build disability confidence for employees and customers. Global events were held to celebrate the contribution of colleagues with disabilities, raise awareness of our disability confidence goals, and build empathy and allyship.

In 2021, we made progress on our ambition to become a disability confident organisation. Key highlights were: running more than 50 digital accessibility sessions attended by 15,000 employees and partners; launching local Ability networks in India and Poland, and increasing membership across the Group; and welcoming six new colleagues with Down's Syndrome to work in our UK branches.

Inclusion continued

Women in senior leadership
After achieving our ambition of 30% women in senior leadership positions in 2020, we set a new goal to reach 35% by 2025. At the end of 2021, we had 31.7% of women in senior leadership roles.

Appointments of external female candidates into senior positions were 37.6%, up from 31.7% in 2020. Promotions of women into senior leadership roles were 43.2%.

Talent programmes – including Accelerating Female Leaders and our Explore leadership course – have provided skills and coaching to help high-performing women progress their careers at an accelerated rate.

Gender diversity statistics

	Male		Female	
Holdings Board	8	62%	5	38%
Group Executive Committee	17	81%	4	19%
Combined executive committee and direct reports[1]	169	66%	87	34%
Senior leadership[2]	6,382	68%	2,968	32%
All employees	108,296	48%	116,441	52%

■ Male ■ Female

1 Combined executive committee and direct reports includes HSBC Group Executives, General Managers, Managing Directors, Group Company Secretary and Chief Governance Officer and their direct reports (excluding administrative staff).
2 Senior leadership is classified as those at band 3 and above in our global career band structure.

Our ethnicity commitments
In July 2020, we made a commitment to double the number of Black colleagues in senior leadership positions by 2025. We have focused on the UK and US markets, where most of our Black colleagues are based. In 2021 we grew our number of Black senior leaders by 17.5%.

Our global campaign to invite colleagues to provide us with data on how they identify has provided us with a more robust understanding of the ethnic profile of our workforce. Using this data, in 2022 we are refining our ethnic diversity goals to work towards a diverse senior leadership representation that better reflects the communities we serve. We will maintain our focus on goals for Black senior leaders and will also establish goals for other underrepresented ethnically diverse groups.

We put in place important foundations in 2021 through leadership development programmes, inclusive hiring, and investing in the next generation of high-performing diverse talent.

Our Accelerating into Leadership programme was expanded to include ethnically diverse men as well as women in middle management. In the UK, we piloted the Solaris Bridge development programme for high-performing Black women.

We have partnered with organisations that specialise in engaging ethnically diverse talent for graduate, mid-career and leadership recruitment, and request diverse candidate slates from our recruitment partners.

We are building our pipeline of future talent through grants, scholarships and internships. We have signed up to the UK 10,000 Black Interns initiative, pledging to hire 35 interns – which is the highest number of places among all financial services companies. In the UK we also donated £2m to the #Merky Foundation to support 30 Stormzy Scholars at the University of Cambridge over the next three years. In the US, we have established an $800,000 scholarship with the Executive Leadership Council to fund Black students interested in a career at HSBC.

Representation and pay gap reporting
We publish our gender representation, ethnicity representation and pay gap data annually to ensure we continue to make progress and to help us identify new areas for action. We have been reporting our gender representation and pay gap data for the UK since 2017. In 2020, we voluntarily extended our reporting to include ethnicity for the UK and gender for the US. In 2021, we extended this further to include ethnicity for the US and gender for mainland China, Hong Kong, India and Mexico. This covers 70% of our organisation, providing a clear view of overall representation.

While we are confident in our approach to pay, until women and ethnically diverse colleagues are appropriately represented at every level across the organisation, and we have more complete ethnicity self-identification data, we will continue to see gaps in average pay. We review our pay practices regularly and work with independent third parties to review equal pay. If pay differences are identified that are not due to objective, tangible reasons such as performance or skills and experience, we make adjustments.

In 2021, our median aggregate UK-wide gender pay gap, including all reported HSBC entities, was 46.7%, compared with 48.0% in 2020, and the ethnicity pay gap was -6.0%, compared with -5.6% in 2020. Our overall UK gender pay gap is driven by the shape of our UK workforce. There are more men than women in senior and higher-paid roles, and more women than men in junior roles. We also have a number of senior, global, head office roles based in the UK.

For further details on our gender representation, ethnicity representation, pay gap data, and actions we are taking, see www.hsbc.com/diversitycommitments and the *ESG Data Pack* at www.hsbc.com/esg.

Percentage of our senior leadership who are women

31.7%

(2020: 30.3%; 2019: 29.4%; 2018: 28.2%)

Ethnicity declaration

52.4%

Colleagues who have shared their ethnic heritage with us to date, out of 91% who are able to do so.

Diversity data
During 2021, our inclusion team worked with legal, regulatory and diversity and inclusion colleagues in each of our markets to ensure we enabled as many colleagues as possible to share their data on a voluntary basis.

This was one of the biggest global initiatives we have run, and has resulted in significant engagement from colleagues sharing their ethnicity data so far.

It will be a multi-year process for colleagues and candidates to feel comfortable sharing their diversity data with us. We will need to demonstrate the robustness of our data security controls, deliver on our commitments to use this data to progress representation targets, identify and remove inclusion barriers and enhance our inclusion culture.

Learning and skills development

We aim to build a dynamic, inclusive culture where colleagues can develop skills and undertake experiences that help them fulfil their potential. This determines not only how we develop our people but also how we recruit, identify and nurture talent.

Our resources
We use a range of resources to help colleagues take ownership of their development and career including:

- HSBC University is our home for learning and skills, which is accessed online and through a network of training centres. Learning is organised through technical academies aligned to businesses and functions and enterprise-wide academies.
- Our My HSBC Career portal offers career development information and resources to help colleagues manage the various stages of their career from joining through to career progression.
- HSBC Talent Marketplace is a new online platform using artificial intelligence ('AI') to match those keen to learn specific skills while they work, with opportunities to support relevant projects alongside existing work.

Developing strong foundations
We expect all colleagues to complete global mandatory training each year. It plays a critical role in shaping our culture, ensuring a focus on the issues that are fundamental to working with us – such as sustainability, financial crime risk, and our intolerance of bullying and harassment. New joiners attend our Global Discovery programme designed to enhance their knowledge of the organisation and engage them with our purpose, values and strategy.

As our risks and opportunities change, our technical academies offer general and targeted development. Our Risk Academy provides learning for every employee in traditional areas of risk like financial crime risk but also offers more specialised development for those in high-risk roles and for emerging issues like climate risk or the ethics of AI and Big Data.

A focus on skills
Our approach to learning is skills based. Our academies work with businesses and functions to identify the key skills and capabilities they need in the future. We also help colleagues identify, assess and develop the skills that match their aspirations.

In 2021, we ran a Future Skills campaign called Focus 4, encouraging colleagues to identify four skills to prioritise in their development plans. During four themed weeks colleagues attended various events that introduced them to areas such as data, digital and sustainability skills, as well as personal skills including critical thinking and resilience.

Changing how we learn
Colleagues can access HSBC University online via a learning platform called Degreed. This helps them identify, assess and develop skills through internal and external courses and resources in a way that suits them. Launched in 2021, usage of Degreed grew significantly through the year.

Degreed materials range from short videos, articles or podcasts to packaged programmes or curated learning pathways that link content in a logical structure. Degreed changes the nature of learning, balancing time-intensive classroom learning with simple accessible and timely content. By December, more than 115,000 colleagues were registered on the platform, and in 2021, overall training volumes were up to 26.7 hours per FTE from 23 hours per FTE in 2020.

Most development happens while our colleagues work. In 2021, we launched an AI-based platform called Talent Marketplace, which matches colleagues to projects and experiences based on their aspirations. By December, this had been rolled out to nearly 50,000 colleagues in the US, India, Singapore and the UK, and will be rolled out globally in 2022.

Leadership development
It remains critical to our ability to energise for growth that we manage people effectively and our leaders make an impact. In recent years, we have refreshed how we provide leadership development. In 2021, we launched a new executive development curriculum for our most senior leaders, combining internal programmes and business school activities with targeted technical programmes on key topics and skills.

Retaining and identifying future talent
The starting point to identifying talent is having a recruitment process that is fair and inclusive. In February 2021, we launched inclusive hiring training to help managers make decisions in line with our hiring principles. Managers can now only hire once they have completed this training, with over 13,500 managers receiving certification in 2021.

As we reshape HSBC we recognise that managing change well is critical. To that end, we have committed to focusing on redeploying those colleagues impacted by restructuring. In 2021, 23% of staff impacted found new jobs within HSBC, compared with 14% in 2020.

Our global graduate programme welcomed 650 new colleagues to the organisation in 2021. We held a three-day virtual induction to help graduates understand the programme and how they can play their part in bringing our purpose, strategy and values to life.

The Group Executive Committee takes time to identify successors for our most critical roles. Successors undergo robust assessment and participate in executive development programmes.

Training at HSBC

5.9 million

Training hours carried out by our colleagues in 2021.
(2020: 5.2 million)

New routes to opportunity

Our Talent Marketplace platform helps our colleagues to open up a world of new opportunities to develop their skills, connections and careers to complement traditional learning.

Colleagues can create a profile that describes their skills, experience and aspirations. The system uses AI to match projects to potential candidates, providing our colleagues with an opportunity to learn and offering project owners a diverse pool of talent from which to draw.

Having launched in a number of countries in 2021, Talent Marketplace is helping our colleagues to connect with each other around the world and realise new opportunities. For example, one Singapore-based colleague who wanted to improve their communication skills and was matched with a London-based project owner who needed local market knowledge and language skills.

Listening to our colleagues

We were founded on the strength of different experiences, attributes and voices. We believe that seeking out and listening to the views of our colleagues is a fundamental part of who we are and how we work. This has been especially important in 2021, as we look to define the future of work, support colleague well-being and develop the skills to enable future success.

Listening to colleague sentiment

We run a Snapshot survey every six months and report insights to our Group Executive Committee and the Board. Results are shared across the Group to provide managers in each region with a better understanding to plan and make decisions. We complement these all-employee surveys with targeted listening activity throughout the year, and in 2022 we will move to one all-employee Snapshot survey to reduce the risk of survey fatigue.

We received 272,718 responses to our two Snapshot surveys in 2021, with a record response rate of 64% in June and 61% in December, up from 62% and 56% respectively in the same periods of 2020.

Employee listening to support our people priorities

In addition to our regular Snapshot surveys, we captured monthly feedback through a series of pulse surveys from September 2020 through to April 2021 to understand colleagues' views on returning to the workplace and their preferences for the future of work, with more than 60,000 participants. This feedback was complemented by a virtual focus group involving 3,400 colleagues across 20 markets in September 2021, deep-diving into hybrid working. We will continue to monitor employee attitudes and preferences for the future of work through our Snapshot surveys and other targeted research. For further details on the future of work, see page 70.

We also used our Snapshot surveys and virtual focus groups to engage with colleagues about learning and skills development, with over 1,100 participants to a series of virtual focus groups in March 2021 on learning, development and skills for the future. In our December Snapshot, 76% of colleagues said that where they work, people are empowered to seek opportunities to learn and develop new skills. For further details on learning and skills development, see page 73.

Employee well-being has remained a central focus of our Snapshot research throughout 2021 with a dedicated section of each survey focused on colleague well-being. For further details on well-being, see page 76.

We also used Snapshot and pulse surveys to measure the progress of our refreshed purpose, strategy and values, which we launched in February 2021. By the end of 2021, 78% of colleagues said they were aware of these, and 82% of those believed that we have the right purpose, strategy and values to drive success (see below).

Fostering an inclusive working environment

We expect our people to treat each other with dignity and respect and do not tolerate bullying or harassment on any grounds.

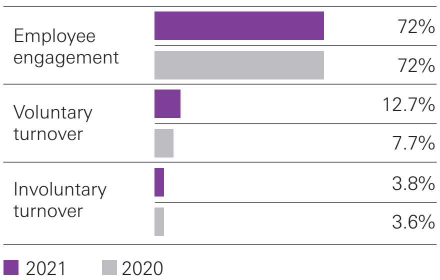
Over the past few years, we have strengthened our approach to bullying and harassment, improving our collective understanding of, and response to, these issues. In 2021, we reinforced expected standards of conduct with a refreshed global anti-bullying and harassment code, supplemented with local codes to reflect cultural context while maintaining consistent high standards across the Group.

We have added further anti-bullying and harassment messages to our mandatory training for all our colleagues, and continued our campaign to encourage colleagues to be 'active bystanders' and speak up when they see or experience poor behaviours or things that do not seem right.

We have mandatory local procedures for handling employee concerns, including complaints of bullying and harassment. Where investigations are required, we have a global framework setting the standards for those investigations and an additional quality assurance process. We monitor bullying and harassment cases to inform our response and identify actions that could prevent future issues. The data is reported to management committees.

We are not complacent and know that this journey continues. Our refreshed values will guide and inform our plans for 2022 to continue to create and promote an inclusive working environment.

Employee engagement and turnover



Embedding our new purpose and values

Following the launch of our new purpose and values in February 2021, we have continued to embed them in how we operate.

As well as building awareness through communications, we have helped leaders, teams and individuals explore how they bring them to life through workshops, webinars and team discussions. We have further embedded the new values and their associated behaviours into our learning programmes, recognition schemes and performance management processes across HSBC. We continue to find ways to make our purpose and values a cornerstone of how we communicate, conduct business and deliver employee services.

Awareness of the new purpose and values has been consistently high, at 78% in June and December 2021. As evidence that the new purpose and values are becoming embedded, we had positive change in sentiment during the year. Among colleagues who were aware of our purpose and values, 76% of respondents to the December Snapshot survey believed that they will lead to meaningful changes in how we work. This was a seven point increase from the survey result in June. Similarly, a total of 77% of employees stated in December that people around them demonstrate the values in how they work, which was a seven point increase from June. Overall, 82% of aware employees believed that we have the right purpose, strategy and values to drive success.

Listening to our colleagues continued

Measuring our progress against peers
We use seven Snapshot indices to measure key areas of focus and to enable comparison against a peer group of global financial institutions. The table sets out how we performed.

Index	Score[1]	vs 2020	HSBC vs benchmark[2]	Questions that make up the index
Employee engagement	72	0	+4	I am proud to say I work for this company. I feel valued at this company. I would recommend this company as a great place to work.
Employee focus	71	-1	+3	I generally look forward to going to work. My work gives me a feeling of personal accomplishment. My work is challenging and interesting.
Strategy	72	+4	+2	I have a clear understanding of this company's strategic objectives. I am seeing the positive impact of our strategy. I feel confident about this company's future.
Change leadership	74	0	-2	Leaders in my area set a positive example. My line manager does a good job of communicating reasons behind important changes that are made. Senior leaders in my area communicate openly and honestly about changes to the business.
Speak-up	75	0	+8	My company is genuine in its commitment to encourage colleagues to speak up. I feel able to speak up when I see behaviour which I consider to be wrong. Where I work, people can state their opinion without the fear of negative consequences.
Trust	76	+1	+5	I trust my direct manager. I trust senior leadership in my area. Where I work, people are treated fairly.
Career (new)[3]	67	+2	+3	I feel able to achieve my career objectives at this company. I believe that we have fair processes for moving/promoting people into new roles. My line manager actively supports my career development.

1 Each index comprises three constituent questions, with the average of these questions forming the index score.

2 We benchmark Snapshot results against a peer group of global financial services institutions, provided by our research partner, Karian and Box. Scores for each question are calculated as the percentage of employees who agree to each statement. For further details on the constituent questions and past results, see the *ESG Data Pack* at www.hsbc.com/esg.

3 The career index was introduced in early 2021. It comprises questions that were asked in earlier surveys so we are able to report a comparison with 2020.

Managing employee engagement
Three of our seven Snapshot indices improved in 2021, following significant increases in 2020. Employee engagement, which is our headline measure, was four points above benchmark and five points above 2019 levels. The measure was unchanged from 2020, as were the speak-up and change leadership indices. The employee focus index dropped by one point, but remained three points above the benchmark.

Our response to the Covid-19 pandemic remained a strong positive driver of employee sentiment in 2021. Employee feedback frequently references flexibility and the ability to work from home as an important factor in why they would recommend HSBC as a great place to work, with employee well-being, HSBC's Covid-19 response and the working environment having the greatest positive influence on employee engagement. Looking beyond the pandemic, we will continue to focus on aspects of the wider employee experience that our research shows are the strongest drivers of employee engagement. This included ensuring that colleagues feel a sense of belonging, feel trust towards leadership, see career progression opportunities at HSBC and are confident in the company's future.

Our strategy index continued to strengthen with employees increasingly confident about the future. We still trailed the benchmark by five points for employees stating that they see the positive impact of our strategy. We hope to address this through a renewed focus on our purpose and strategy as part of our 2022 employee engagement activities.

We note that voluntary turnover increased from 7.7% in 2020 to 12.7% in 2021, consistent with trends across the wider employment market. Our Snapshot survey showed a slight decrease in employees who intend to stay with HSBC for five or more years, from 65% in 2020 to 64% in 2021. Our research shows that how employees feel about their career at HSBC is a key driver of their intent to stay. Ensuring that our people have the opportunity to develop new skills and further their careers with HSBC is therefore important for retaining talent. We are reassured that against this backdrop, our career index increased by two points since 2020 and was three points above the external benchmark.

Employee engagement

72%

Employee engagement index score
(2020: 72%)

74%

Of colleagues feel confident about this company's future
(2020: 70%)

67%

Of colleagues feel they can achieve their career objectives at this company
(2020: 66%)

For further details on how employee engagement scores, including among colleagues identifying as part of an ethnic minority or as having a disability, have an impact on executive Director remuneration scorecards, see page 268 in our corporate governance report.

Well-being

We are deeply committed to supporting the well-being of our colleagues as we transition to new ways of working and support our colleagues through the pandemic. Guided by data and feedback from our employee surveys, our approach will continue to adapt to ensure our services remain relevant.

In 2021, our global well-being programme covered three pillars: mental, physical and financial. In 2022, we added social well-being as a fourth pillar.

Mental well-being
Despite the immense challenges of the Covid-19 pandemic, 82% of colleagues in our December Snapshot survey rated their mental well-being as positive, compared with 81% in 2020. However, colleagues faced challenges, with 27% asking for more support in this area. To address this, we made Headspace, a meditation app, available to all colleagues globally. Since July 2021, 23,000 colleagues have used Headspace to access guided exercises and meditations.

All colleagues took part in mental health awareness training, as part of our global mandatory training programme. We updated our mental health e-learning to help colleagues identify signs of mental ill-health in other colleagues, in both remote and face-to-face settings, as well as to help have supportive conversations with customers. Despite being voluntary the e-learning has been completed by 26,000 colleagues, with 18% of these being line managers.

To celebrate World Mental Health Day, we ran a global awareness campaign and created a film featuring colleagues sharing personal stories. Throughout October 2021, we held over 60 virtual events globally, featuring external experts providing advice on mental health-related topics.

We know from employee surveys that colleagues are more likely to report better mental well-being when they are physically active, have a good work-life balance, and have regular well-being conversations with their manager. We recognise there is more we can do to support these good habits and will prioritise addressing them in 2022.

Physical well-being
Employee Snapshot surveys revealed 75% of colleagues rated their physical well-being positively, compared with 73% in 2020. As a result of the pandemic, access to doctor appointments became limited in some locations. To reduce the risk of serious illnesses going undetected, we increased the number of markets where we offered telemedicine services, allowing colleagues to have appointments with doctors virtually. Coverage of our workforce increased from 50% in 2020 to 66% in 2021. We have continued to provide access to private medical insurance in the majority of our countries, covering 98% of permanent employees. In certain countries we provide on-site medical centres that the majority of employees can access.

In June, we ran a month-long global physical well-being campaign, featuring guidance from sport ambassadors and our Chief Medical Adviser on topics including management of chronic conditions, exercise, nutrition and symptoms that should not be ignored.

Financial well-being
Snapshot surveys revealed a decrease in financial well-being, with 64% of colleagues reporting positively, compared with 68% in 2020. However, colleagues felt more supported to manage their financial well-being, at 58%, an increase of two points, and more confident talking about their financial well-being with their line manager, at 56%, an increase of six points.

During the pandemic, we preserved pay and benefits, and introduced hardship funds in some markets, which allowed colleagues to apply for financial support. In 2021, we expanded our employee banking proposition, HSBC Together, into Asia and parts of Europe, providing financial guidance and seminars in seven countries, covering 53% of colleagues.

We also introduced employee share plans in mainland China and Poland for the first time, meaning 90% of colleagues can invest in HSBC shares.

Social well-being
At the beginning of 2022, we formalised social well-being as a new pillar of our programme. This was done to address challenges around reduced in-person connections, and to continue the development of our colleagues' work-life balance.

We will prioritise promoting team cohesion in a hybrid environment, with 25% of colleagues indicating they would like better technology and support with interacting with one another. Snapshot surveys revealed 76% of colleagues say they can integrate their work and personal life positively, compared with 74% in 2020. We will continue to facilitate this by introducing flexible working policies in line with our future of work initiative (see page 69).

In 2021, we refreshed our At Our Best recognition online platform, which allows for real-time recognition and appreciation between colleagues. In 2021, the total number of recognitions made was 1.1 million. In 2022, we will evolve the programme to encourage more recognitions, including through access on mobile devices.

Global Centre for Healthy Workplace Awards 2021
– Best global healthy workplace programme, multinational employer

Advocating change for positive mental health

In January 2021, we helped found and launch the Global Business Collaboration for Better Workplace Mental Health. It is the first global business-led initiative of its kind designed to advocate for – and accelerate – positive change for mental health in the workplace.

Despite important progress in some countries, there remains a lack of evidence, best practice and tools, to effectively implement global approaches to workplace mental health. This challenge is exacerbated by cultural complexities and stigma.

Together with academic experts and not-for-profit organisations, we want to create a world where all business leaders recognise, have the right tools, and commit to take tangible and evidence-based action on mental health in the workplace, enabling their workplace to thrive.

This initiative seeks to advance progress around the world by committing business leaders to a pledge to create mentally healthy workplaces, and by freely sharing insights and best practices to create a roadmap for change, wherever an organisation is on its journey.

Communities

We have a long-standing commitment to support the communities in which we operate, in areas where we can make a difference and support sustainable economic growth.

Our Future Skills strategy aims to provide our customers, colleagues and communities with the employability and financial capability skills and knowledge needed to thrive in the post-pandemic environment, and through the transition to a sustainable future. Our five-year Climate Solutions Partnership, powered by $100m of our philanthropic funding, aims to scale up climate innovation ventures and nature-based solutions, and to help transition the energy sector towards renewable sources.

We also recognise the importance of listening to – and addressing – local community needs and causes. We earmark approximately a quarter of our funding for causes that are important to communities across our network, such as environmental protection or healthcare.

Supporting communities

Future skills
Our Future Skills strategy, launched in 2018, has supported over 5.2 million people through more than $156m in charitable donations. Current projections from our charity partners indicate our support during 2021 reached more than 1.2 million people through donations of $41.8m.

With the global economy still feeling the effects and restrictions from the Covid-19 pandemic, our colleagues and partners have continued to deliver programmes aimed at ensuring that people likely to be most impacted are not left behind. We also funded global research by The Prince's Trust group of charities, to get a true understanding of how young people feel about the future of work in this context.

We support our charity partners to deliver a combination of global and locally-led programmes, including:

- Junior Achievement's International Innovation Challenges, which encourage young people to use their creativity to help communities develop financial capability;
- our Green Skills Innovation Challenge with Ashoka – a global network for social entrepreneurs – which recognised 12 innovators who are simultaneously solving environmental and social problems;
- the Technovation Girls programme, which aims to address the lack of diversity in the technology sector by equipping young women and girls with the skills to become technology entrepreneurs and leaders;
- Soliya, an international non-profit organisation, whose work enables young adults to gain the skills needed to thrive in a connected world; and
- the Ryerson Diversity Institute's Pursue Entrepreneurship programme, which supports Black high school students and recent graduates to develop leadership skills and explore careers in entrepreneurship.

Our High Impact grants programme allows our teams to apply for additional funding to support local projects. This year we awarded $7.4m to 26 projects, which will be distributed over two years.

Climate Solutions Partnership
Working with the World Resources Institute and WWF, we are focusing our collective efforts on three global themes: climate-related innovation, nature-based solutions and energy efficiency initiatives in Asia. We see these as having the potential to make a significant impact in the mission to achieve a net zero, resilient and sustainable future. Since 2020, we have provided $28.4m to our NGO partners.

Local priorities
Our support for Covid-19 relief efforts continued in 2021, with a further $10m donated in India. Focusing on the longer-term response to the pandemic, we also launched a one-year programme with UNICEF to support the employability and financial capability of young people in Mexico, Indonesia and India.

Employee volunteering
We offer paid volunteering days, and encourage our people to give time, skills and knowledge to causes within their communities. In 2021, our colleagues gave over 79,000 hours to community activities during work time.

Engagement with pressure groups
We aim to maintain a constructive dialogue on important topics that are often raised by campaigning organisations and pressure groups.

Charitable giving in 2021

- Social, including Future Skills: **39%**
- Environment, including the Climate Solutions Partnership: **18%**
- Local priorities: **22%**
- Disaster relief and other giving: **21%**

Skills impact bond

In 2021, we supported India's first skills impact bond, issued by the National Skills Development Corporation, a public-private partnership set up by India's Ministry of Finance. We are providing $4.3m as one of four outcome funders, who commit to pay out once the partnership achieves its stated objectives. Over the next four years, the partnership aims to equip 50,000 young people with skills and vocational training, and to help them to find employment. Our philanthropic funding towards the bond aims to prove the concept of this innovative approach, and act as a catalyst for much wider impact in the future.

Total cash giving towards charitable programmes
$113.8m

Hours volunteered during work time
>79,000

People reached through our Future Skills programme
1.2 million

Financial inclusion

We believe that financial services, when accessible and fair, can reduce inequality and help more people access opportunities. We aim to play an active role in opening up a world of opportunity for individuals by building financial health and removing the different barriers that people can face in accessing financial services.

Access to products and services
We remain committed to supporting individuals experiencing homelessness or housing difficulties through our 'no fixed address' service in the UK and Hong Kong. We continue to support survivors of human trafficking in the UK, as well as refugees and unified screening mechanism claimants in Hong Kong through the provision of basic banking services. In 2021, HSBC UK also supported 150 Afghan settlers who arrived in the country as part of a resettlement scheme to open bank accounts, a crucial first step to moving their lives forward. In May 2021, as part of our ongoing efforts to create innovative product offerings, we introduced basic banking services for ethnic minority customers in Hong Kong who have a limited understanding of English or Chinese.

Making banking accessible
Number of accounts opened for homeless, refugees and survivors of human trafficking

2021	**2,295**
2020	840
2019	244

Access to financial education
We continue to invest in financial education content and features across different channels, to help customers, colleagues and communities be confident users of financial services. Throughout 2020 and 2021, we received over 2.8 million unique visitors to our digital financial education content, making progress towards our 2019 goal of reaching 4 million unique visitors by the end of 2022. In the UK, we have a financial fitness score that provides individuals with an indicative score on the healthiness of their finances based on details about their spending, borrowing and saving habits, as well as tips to improve their financial fitness.

Our financial education offering is extended to our colleagues in the form of online learning modules, empowering them to improve their skills and enhance their financial well-being. We also deliver digital content and webinars to employees of our corporate clients on a broad range of financial topics. These are supported by financial health checks – a one-on-one conversation on a non-advised basis to discuss individuals' circumstances based on their learning.

We support charity programmes that deliver financial education to our local communities. In 2021, we launched our Saving for Good programme in partnership with JA Worldwide – Injaz Al-Arab. The programme aims to equip economically vulnerable migrant workers in Bahrain, Egypt, Kuwait, Qatar and the UAE with financial literacy skills to strengthen their financial resilience.

We understand the importance of building financial capability in children to ensure future resilience, and continue to collaborate with partners to deliver financial education programmes such as Money Heroes. In 2021, HSBC UK also introduced a programme to tackle the unhealthy spending habits associated with the increased amount of gaming that young people are engaging with today. The programme featured digital tools, videos and in-school lesson plans to educate children and parents on the issue.

Inclusive design
We aim to ensure that our banking products and services are designed to be accessible for customers experiencing either temporary or permanent challenging circumstances, such as disability, impairment or a major life event. For further details on our new HSBC UK accessible card features, see page 297.

We strive to make our digital channels accessible so they are usable by everyone, regardless of ability. We have now reviewed our browser-based websites in 27 retail markets and our mobile banking services in 21 markets against the Web Content Accessibility Guidelines 2.0 AA standards, which are stipulated by the World Wide Web Consortium. We are continuing to make progress in this area.

We also want to be more explicit about catering for neurodiverse users and have launched our first Neurodiversity Guidelines. The purpose of these guidelines is to provide members of HSBC digital teams with guidance for how they should design, code and create digital content to support the needs of people who are neurodiverse.

Within our insurance business, we are redesigning the layout of our documents, adding in visual graphics and simplifying the language used.

For further details of our product design and our product responsibilities, please see page 83.

Supporting women and minority-led businesses

We are aiming to support our diverse customers by opening up a world of opportunity for women and minorities. In October 2021, we committed to allocating $100m in lending for companies that are founded and led by women and minorities through HSBC Ventures, which provides capital to start-ups and early stage businesses around the world. We understand it is critical to provide financial support to founders who are historically underrepresented, so that their businesses can grow and expand. Since 2019, we have also been in partnership with AllBright, a network that helps women in business connect with funding and growth opportunities. Together with AllBright, we launched HSBC Roar in 2021, a customer coaching and networking programme for female entrepreneurs.

Governance

We remain committed to high standards of governance. We work alongside our regulators and recognise our contribution to building healthy and sustainable societies.

At a glance

Our relationship
We act on our responsibility to run our business in a way that upholds high standards of corporate governance.

We are committed to working with our regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing our industry. In our endeavour to restore trust in our industry, we aim to act with courageous integrity and learn from past events to help prevent their recurrence.

We strive to meet our responsibilities to society, including through being transparent in our approach to paying taxes. We also seek to ensure we respect global standards on human rights in our workplace and our supply chains, and continually work to improve our compliance management capabilities.

We acknowledge that increasing financial inclusion is a continuing effort, and we are carrying out a number of initiatives to increase access to financial services.

For further details on our corporate governance, see our corporate governance report on page 217.

How ESG is governed	We expect that our ESG governance approach is likely to continue to develop, in line with our evolving approach to ESG matters and stakeholder expectations.	Page 80
Our respect for human rights	As set out in our Human Rights Statement, we strive for continual improvement in our approach to human rights.	Page 81
Conduct: Our product responsibilities	Our conduct approach guides us to do the right thing and to focus on the impact we have on our customers and the geographies in which we operate.	Page 83
Cybersecurity	We invest heavily in our business and technical controls to help prevent, detect and mitigate cyber threats.	Page 85
Data privacy	We are committed to protecting and respecting the data we hold and process, in accordance with the laws and regulations of the geographies in which we operate.	Page 86
Our approach with our suppliers	We require suppliers to meet our compliance and financial stability requirements, as well as to comply with our supplier ethical code of conduct.	Page 86
Safeguarding the financial system	We have continued our efforts to combat financial crime risks and reduce their impact on our organisation, customers and communities that we serve.	Page 87
Whistleblowing	Our global whistleblowing channel, HSBC Confidential, allows our colleagues and other stakeholders to raise concerns confidentially.	Page 87
A responsible approach to tax	We seek to pay our fair share of tax in all jurisdictions in which we operate.	Page 88
Acting with integrity	We aim to act with courageous integrity and learn from past events to prevent their recurrence.	Page 88

How ESG is governed

The Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. Progress against our ESG ambitions is reviewed through Board discussion and review of key topics such as updates on net zero, customer experience and employee sentiment. Board members receive ESG-related training as part of their ongoing development, and seek out further opportunities to build their skills and experience in this area. For further details on Board members' ESG skills and experience, see page 220. For further details on their induction and training in 2021, see page 229. Given the wide-ranging remit of ESG matters, the governance activities are managed through a combination of specialist governance infrastructure and regular meetings and committees, where appropriate. These include the Disclosure Committee, which provides oversight for the scope and content of ESG disclosures, and the Group People Committee, which provides oversight support for the Group's approach to performance management.

For some areas, such as climate where our approach is more advanced, dedicated governance activities exist to support the wide range of activities, from sustainable finance solution development in the Sustainability Execution Review Group to climate risk management in the Climate Risk Oversight Forum.

The Group Chief Risk and Compliance Officer and the chief risk officers of our Prudential Regulation Authority-regulated businesses are the senior managers responsible for climate financial risks under the UK Senior Managers Regime. The chief risk officers attend Board meetings and where appropriate provide regular verbal and written updates to the Board and Group Executive Committee. Climate risks are also considered in the Group Risk Management Meeting and the Group Risk Committee, with scheduled updates provided, as well as detailed reviews of material matters, such as climate-related stress testing exercises.

The below table details the main specialist governance forums, their responsibilities and the responsible executives for the management of ESG matters. We expect that our ESG governance approach is likely to continue to develop, in line with our evolving approach to ESG matters and stakeholder expectations. The Board is regularly provided with specific updates on ESG matters, including the thermal coal phase-out policy and exposures, human rights, and employee well-being.

Governance forums	Responsible for:	Responsibility held by:
ESG Committee (new)	Supports Group Executives in the development and delivery of ESG strategy, key policies and material commitments by providing oversight, coordination and management of ESG commitments and activities	Group Chief Sustainability Officer and Group Company Secretary and Chief Governance Officer
Sustainability Execution Review Group (new)	Oversees the delivery of our ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment, and realisation of commercial opportunities	Group Chief Executive
Social management forums	Oversees employee engagement, diversity and inclusion, community engagement, customer satisfaction, and social considerations for stakeholders	Group Chief Human Resources Officer and Group Chief Communications Officer
Governance management forums	Oversees subsidiaries, business conduct and ethics, corporate governance, whistleblowing, reputational factors, data privacy and human rights	Group Chief Risk and Compliance Officer and Group Company Secretary and Chief Governance Officer
Digital Business Services ESG Forum	Oversees the global delivery of ESG activities within our own operations, services and technology elements of our strategy	Group Chief Operating Officer
Human Rights Steering Committee	Supports global leadership in promoting, enhancing and reflecting human rights in execution of the Group's strategic goals, as well as developing the Group's Human Rights, and Modern Slavery and Human Trafficking statements and associated oversight of implementation	Group Chief Risk and Compliance Officer
Climate Risk Oversight Forum	Oversees all global risk activities relating to climate risk management, including physical and transition risks. Equivalent forums have been established at regional level	
Group Reputational Risk Committee	Oversees global executive support for identification, management and ongoing monitoring of reputational risks, including those related to ESG matters	

Our respect for human rights

As set out in our Human Rights Statement, we follow the UN Guiding Principles on Business and Human Rights ('UNGPs'). In 2021, with the help of external stakeholders, we continued to review and improve our approach.

Our priorities on human rights

We respect all categories of human rights in the Universal Declaration of Human Rights. We focus our attention on those rights we assess as most likely to be affected by our business activities and by those of our customers and suppliers.

Such assessment takes account of a range of factors, including geographical and cultural context and economic sectors, and is subject to periodic review. After a policy review and prioritisation process, including consultation across key business units, we identified discrimination and modern slavery as the two priority human rights issues on which we could use our influence to make the most positive impact. These priorities also align closely with our commitments on diversity and inclusion and those we have made under the UN Global Compact and under the WEF metrics on risk for incidents of child and forced or compulsory labour.

For further details on our approach to tackling discrimination, see www.hsbc.com/diversitycommitments. For further details on our work on inclusion in the workplace, see 'Inclusion' on page 71.

For further details of our approach to tackling modern slavery, including steps taken to eliminate child and forced labour practices, see www.hsbc.com/modernslaveryact.

Our priority human rights issues in 2021

Issues		Our employees	Suppliers' employees	Customers	Communities
Discrimination	In the workplace	◆	◆		◆
	In our services			◆	
Modern slavery		◆	◆	◆	◆

Sector policies

To meet our responsibility for respecting human rights under the UNGPs, we consider those rights that may be adversely impacted through involvement in high-risk sectors. Our sector policies for agricultural commodities, energy, forestry, mining and metals all refer specifically to human rights. These considerations include issues such as forced labour, harmful or exploitative child labour, trafficking, land rights, the rights of indigenous peoples such as 'free prior and informed consent', workers' rights, and the health and safety of communities.

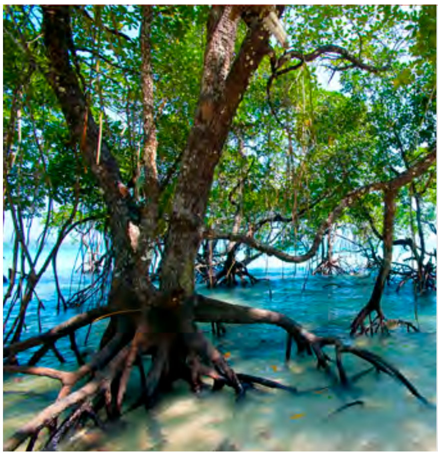
Our policy for financing forest plantations and downstream supply chain operations in, or sourced from, high-risk countries is linked to certification by the Forestry Stewardship Council or the Programme for the Endorsement of Forest Certification. Through our membership of international certification schemes such as the Forestry Stewardship Council, the Roundtable on Sustainable Palm Oil and the Equator Principles, we actively support the continual improvement of standards aimed at respecting human rights.

For further details of our policy prohibitions and other financing restrictions, see our sector-specific sustainability risk policies at www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk.

Financial crime controls

The risk of us causing, contributing or being linked to negative human rights impacts is also mitigated by our financial crime framework, with global policies to mitigate money laundering, sanctions, and bribery and corruption risks, including those where protecting human rights and preventing financial crime converge. Our financial crime controls include customer due diligence, sanctions screening, transaction monitoring, negative news screening, and targeted investigations.

For further details of how we fight financial crime, see www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime.



Sustainable finance and the just transition

Our leading role in providing and facilitating sustainable finance to businesses around the world is another way in which we contribute to the rights of the communities we serve. We support the drive for a 'just transition' to net zero, harnessing political momentum for action with policies and finance to support disadvantaged sectors and communities. On 29 October 2021, we joined other private sector institutions in signing up to the WEF Just and Urgent Energy Transition principles.

We are also harnessing our leadership position in sustainable finance to create products that will help our clients to support social development, mobility and capability building in line with International Capital Markets Association social bonds principles released in 2021.

For further details of how we support our customers with sustainable finance, see 'Supporting customers through the transition' on page 53.

Our respect for human rights continued

Supporting change
We continued to expand our Survivor Bank programme, which has now benefited over 1,000 survivors of modern slavery and human trafficking in the UK, and is a model for making financial services more accessible to vulnerable communities worldwide. We built on this experience in developing access to banking services for customers in the UK and in Hong Kong with no fixed abode.

In Hong Kong, we also introduced basic banking services for ethnic minority customers who do not speak English or Chinese. The service allows ethnic minorities who speak Hindi, Punjabi, Nepali and Urdu to open a Hong Kong Dollar Statement Savings account, by providing tailored material in each of the four languages. In addition, we hired part-time ethnic minority customer service ambassadors to offer further support at six designated branches. In May 2021, the Hong Kong Equal Opportunities Commission named HSBC a Gold Awardee in the inaugural Equal Opportunity Employer Recognition scheme, which recognises organisations for setting an example in promoting and implementing equal opportunities employment policies.

These initiatives support several different human rights, such as the right to adequate living standards and the right to own property. As well as benefiting the communities we serve in the UK and Hong Kong, these initiatives allowed us to work alongside local non-governmental organisations, learning from their understanding of human rights impacts.

We are committed to working with governments to help create inclusive communities. In 2021, we supported the development of regulation related to human rights, including as an adviser to the UK Government on developing their online Registry of Statements under the Modern Slavery Act.

Stakeholder engagement

In 2021, as part of an internal survey of senior executives, we gathered information from across our network on our engagement with civil society stakeholders and those who represent individuals or groups at risk of impact from our activities or from the activities of those with whom we have business relationships. As a result of this work, we acknowledged the need to expand our engagement in future. We also took steps to ensure that our approach to human rights was well understood by our colleagues. In 2021:

- We offered a detailed course on human trafficking to new employees in the Global Risk Operations function, highlighting the importance of identification and reporting.
- We provided detailed briefings to more than 250 senior colleagues on human rights and the UNGPs.
- We provided training materials to colleagues in our Procurement team on modern slavery.
- We delivered training on anti-discrimination as part of our diversity and inclusion programme.

As we develop our approach to human rights, we will focus on training modules for our colleagues, supplemented by role-specific training. We also intend to improve the process for our suppliers to ensure that the key elements of our ethical code of conduct that relate to human rights are clearly and regularly communicated. For retail customers, we aim to communicate our approach and expectations through our public statements, and for our business customers, we aim to integrate our approach to human rights more clearly into our processes.

In developing the initiatives described above, we drew upon expertise from within our organisation, including the insights of specialist staff in key departments and of 200 senior executives from every part of our network. We also engaged the support of external advisers with expertise in human rights as they relate to business.

Conduct: Our product responsibilities

Following the refresh of our purpose and values, we have taken the opportunity to align and simplify our conduct approach, making conduct easier to understand and showing how it fulfils our value 'we take responsibility'.

Our conduct approach guides us to do the right thing and to focus on the impact we have on our customers and the financial markets in which we operate. It focuses on five clear outcomes:

- We understand our customers' needs.
- We provide products and services that offer a fair exchange of value.
- We serve customers' ongoing needs, and will put it right if we make a mistake.
- We act with integrity in the financial markets we operate in.
- We operate with resilience and security to avoid harm to customers and markets.

Our conduct approach is embedded into the way we develop, distribute, structure and execute products and services. For further details of our approach to conduct, see page 208.

Designing products and services

Our approach to product design and development – including how we advertise our products – is set out in our policies, and provides a clear basis from which strategic product and service decisions can be made. Our global businesses each take the following approach:

- We carry out robust testing during the design and development of a product to help ensure there is an identifiable need in the market.
- We consider the complexity of products and the possible financial risks to customers when determining the target market.
- We offer a carefully selected range of products that are managed through product inventories, helping to ensure they continue to meet customers' needs and continue to deliver a fair exchange of value.
- We regularly review products to help ensure they remain relevant and perform in line with expectations we have set.
- Where products do not meet our customers' needs or no longer meet our high standards, improvements are made or they are withdrawn from sale.
- Wherever possible, we act on feedback from our customers to provide better and more accessible products and services.

Our GBM business also considers our impact on the integrity of markets when introducing new products.

Oversight of product design and sales is provided by governance committees chaired and attended by senior executives who are accountable for ensuring we manage risks appropriately, and within appetite, to ensure fair customer outcomes.

In 2021, we continued to develop our product governance. In CMB, we deployed our new Google Cloud-based product inventory, which has improved the way we manage our products. Our product management and governance system supports our colleagues throughout the product lifecycle, from product development to demise. In GBM's markets business, we continued to focus on the development of our ESG product suite across all asset classes, ensuring we maintain our position as an innovator of ESG products.

In WPB, we are developing our sustainable product suite, and remain committed to help mitigate against greenwashing risks. For further details on the Group's sustainable finance and investment ambition, see page 53.

Meeting our customers' needs

Our customers' interests are at the centre of everything we do, and we have policies and procedures in place that set the standards required to protect them. These include:

- providing information on products and services that is clear, fair and not misleading;
- enabling customers to understand the key features of products and services, especially the risks, exclusions and limitations;
- enabling customers to make informed decisions before purchasing a product or service; and
- checking that customers are offered appropriate products and, where relevant, received the right advice.

Supporting customers with enhanced care needs

Our strategy to support customers with enhanced care needs continues to be a core focus. We have guidelines and have developed procedures to ensure we provide the right outcomes for customers who may require enhanced care. We have made a number of improvements to our products, services, governance and oversight, as well as developed our colleagues' skills and capabilities.

In our CMB business in the UK, we identify customers with enhanced care needs to ensure we tailor our approach in our communications, services and product design. This is supported by post-sale calls with these customers to ensure we identify and support their needs fairly. In our UK retail branches, we have launched a daily quiet hour to help those needing access to banking in a calmer environment. For further details on inclusive product design, see 'Financial inclusion' on page 78.

Managing incentives for front-line colleagues

In WPB, we continued to apply a discretionary approach to incentivising our front-line colleagues rather than applying a formulaic link to sales. Following the review of incentives during 2020, we continued to embed the changes with the aim to be even more customer-centric and focused on employee development. We also continued to strengthen our approach to third-party sales agents that distribute our products, such as insurance and retail, to ensure that our principles on balanced reward are in place. While there is still more to do, this change is designed to improve oversight and alignment with third-party sales agents.

In our CMB and GBM businesses, we recognise and reward exceptional conduct demonstrated by our colleagues while discouraging misconduct and inappropriate behaviour that exposes us to financial, regulatory and reputational risks. During the annual pay review, we apply adjustments to variable pay to employees who exhibit either exceptional behaviours, or behaviours not aligned to our values. In addition, the businesses have specific goals to help drive conduct outcomes and ensure they are incorporated into how employees achieve their goals. CMB has created a scorecard reference guide, and GBM has specific mandatory conduct objectives applicable to all global GBM colleagues.

Conduct: Our product responsibilities continued

Ensuring sales quality
In WPB, we consider our customers' financial needs and personal circumstances to assist us in offering suitable product recommendations. This is achieved through measures such as:

- a globally consistent risk rating methodology for investment products, which is customised for local regulatory requirements; and
- a thorough customer risk profiling methodology to assess customers' financial objectives, attitudes towards risk, financial ability to bear investment risk, and knowledge and experience.

In WPB, sales quality and mystery shopping reviews assess whether customers receive a fair outcome. If any issues are identified, we investigate the root cause, put things right and act to reduce the risk of the issue occurring again.

In CMB, we operate focused sales outcome testing to ensure that we correctly explain product features and pricing. We look at different customer needs and circumstances, particularly where customers may have enhanced needs. In 2021, we identified issues relating to documentation, sales process and pricing. Subsequently we ensured we put things right for our customers and took the necessary internal action.

In GBM's markets business, we undertake sample-based testing on sales of products to customers to ensure that product features and pricing have been correctly explained and sales processes have been adhered to. Feedback is collated centrally and acted upon in a timely manner.

Supporting customers during Covid-19
We responded rapidly to the changing environment caused by the Covid-19 pandemic. Many of our personal banking and wealth customers needed financial relief as a result of the pandemic, which we sought to address in a responsible way. We provided significant financial relief to our WPB customers in several markets. These solutions varied by market and were aligned with government or regulatory guidance in each jurisdiction. At its peak in 2021, we had payment relief measures offered to 1.6 million customers, which equated to $31bn in balances. We support customers that are in arrears or experiencing financial difficulty, in line with our policies and procedures.

In our CMB business, we made more than 56 Covid-19-related enhancements to products in specific countries. We continue to review these to ensure they remain appropriate. We aim to support our customers as and when any relief products are demised.

In Asia, given the ongoing Covid-19 environment, our CMB business temporarily enabled manual payments processes in Bangladesh, India and Maldives to support relevant customers and ensure continuity of services and payment handling.

Transition from Ibor

As a result of the planned cessation of the London interbank offered rates ('Libor'), Euro Overnight Index Average ('Eonia') and other benchmarks collectively known as Ibors, we are ensuring that we have the product capability in place to support our customers on the transition to alternative rates. We aim to clearly outline the options available to our customers holding existing Ibor-based products, and our commercial strategy is designed to minimise value transfer when transitioning their products from Ibor to alternative rates.

Transition from Libor and Eonia benchmarks to alternative risk-free rates ('RFRs') progressed significantly over 2021 and all industry cessation milestones were met. We continued to proactively support the transition, or inclusion of contractual fallback provisions where more appropriate, of customers' legacy contracts referencing sterling, Japanese yen, euro and Swiss franc Libor to RFR products, or other alternatives, by the end of 2021. We completed this transition in line with regulatory expectations and met our goal of transitioning more than 90% of contracts by the end of 2021, with the balance continuing to be actively transitioned in early 2022 ahead of the next interest rate reset.

For further details of the transition from Ibors, see 'Ibor transition' in the Risk section on page 126.

Training our colleagues to support our customers

In WPB, we provide training to our employees through our product management academy. In 2021, more than 750 of our colleagues completed over 2,000 courses, relating to customer insight, customer-focused design, communications, product development, balance sheet management and governance. We created global training, with over 60,000 courses completed by colleagues to manage situations for customers with enhanced care needs, assigning to both customer-facing and non-customer-facing colleagues.

In CMB, we focused on training all our UK-based colleagues on meeting the needs of customers who require enhanced care due to their circumstances. We delivered tailored training to our product managers to ensure that customers with enhanced care needs are considered across each stage of the product lifecycle.

In GBM, we continued to develop and roll out interactive conduct training that focuses on behaviour. Following the successful completion of the training by 21,000 colleagues early in 2021, this has now been adapted to cover joiners and those who have taken on a new management role.

Cybersecurity

The threat of cyber-attacks remains a concern for our organisation, as it does across the entire financial sector. Failure to protect our operations from cyber-attacks may result in financial loss, disruption for customers or loss of data. This could negatively affect our reputation and ability to attract and retain customers.

Prevent, detect and mitigate
We invest in business and technical controls to help prevent, detect and mitigate cyber threats. We apply a 'defence in depth' approach to cyber controls, recognising the complexity of our environment. Our abilities to detect and respond to attacks through round-the-clock security operations centre capabilities help to reduce the impact of attacks.

We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. We have an internal cyber intelligence and threat analysis capability, which proactively collects and analyses external cyber information. We input into the broader cyber intelligence community through technical expertise in investigations and contributions to the cyber-sharing ecosystem in the financial services industry, alongside government agencies around the world.

As we continue to grow and digitise at scale, we may be exposed to new cyber threats. In 2021, we further strengthened our cyber defences and enhanced our cybersecurity capabilities to help reduce the likelihood and impact of advanced malware, security vulnerabilities being exploited, data leakage and unauthorised access. These defences are grounded in controls that help to mitigate cyber-attacks and build upon a proactive data analytical approach to help identify advanced targeted threats.

Policy and governance
We have a comprehensive range of cybersecurity policies and systems designed to help ensure that the organisation is well managed, with oversight and control.

We operate a three lines of defence model, aligned to the operational risk management framework, to help ensure oversight and challenge of our cybersecurity capabilities and priorities.

In the first line of defence, we have risk owners within global businesses and functions who are accountable for identifying, owning and managing the cyber risk. They work with control owners to help ensure controls are in place to mitigate issues, prevent risk events from occurring and resolve them if needed. These controls are executed in line with policies produced by our Resilience Risk teams, the second line of defence, which provide independent review and challenge. They are overseen by the Global Internal Audit function, the third line of defence.

We regularly report and review cyber risk and control effectiveness at relevant governance forums and to the Board to help ensure visibility and oversight. We also report across the global businesses, functions and regions to help ensure visibility and governance of risks and mitigating controls.

We also work with our third parties to help reduce the threat of cyber-attacks impacting our business processes. We have an assessment capability designed to review third parties' compliance with our information security policies and standards.

Cyber training and awareness
We understand the important role our people play in protecting against cybersecurity threats. Our mission is to equip every colleague with the tools to help prevent, mitigate and report cyber incidents to keep our organisation and customers' data safe.

We provide cybersecurity training and awareness to all our people, ranging from our top executives to IT developers to front-line relationship managers around the world.

We aim to ensure that cybersecurity is an integrated part of the building and maintenance of our technology environment. Over 90% of our IT developers hold at least one of our internal security certifications to help ensure we build secure systems and products.

We host an annual cyber awareness campaign for all colleagues, covering topics such as social engineering, remote working security and data management.

Our dedicated cybersecurity training and awareness team provides monthly webinars and bespoke training to our colleagues, customers, regulators, governments and cross-sector partners.

We know it is critical that we protect our customers. While online banking has brought enormous benefits for our customers, it has increased the threat of cyber-attacks. We provide a wide range of education and guidance about how to stay safe online to both customers and our colleagues.

Over 99%
Employees completed mandatory cybersecurity training on time.

Over 90%
IT developers who hold at least one of our internal secure developer certifications.

Over 75
Cybersecurity education events held globally.

Over 95%
Survey respondents to cybersecurity education events who said they have a better understanding of cybersecurity following these events.

Protecting customers online

We are a founding sponsor of Get Safe Online, a joint initiative between the UK Government, police law enforcement and businesses. It gives free advice in plain English about internet safety. We are committed to help our customers stay safe and secure when banking online. Our online security centres provide security guidance from 'How to protect devices from security threats' to 'Learn to spot fake websites'.

Data privacy

We are committed to protecting and respecting the data we hold and process, in accordance with the laws and regulations of the geographies in which we operate.

Our approach rests on having the right talent, technology, systems, controls, policies and processes to help ensure appropriate management of privacy risk. Our Group-wide privacy policy and principles aim to provide a consistent global approach to managing data privacy risk, and must be applied by all of our global businesses and global functions. Our privacy principles are available at www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/operational-risk.

We conduct regular employee training and awareness sessions on data privacy and security issues throughout the year, including global mandatory training for all our colleagues, along with additional training sessions, where required, to keep abreast of new developments in this space.

We provide transparency to our customers and stakeholders on how we collect, use and manage their personal data, and their associated rights. Where relevant, we work closely with third parties to help ensure adequate protections are provided, in line with our data privacy policy and as required under data privacy law. We offer a broad range of channels in the markets where we operate, through which customers and stakeholders can raise any concerns regarding the privacy of their data.

Our dedicated privacy teams report to the highest level of management on data privacy risks and issues, and oversee our global data privacy programmes. We review data privacy regularly at multiple governance forums, including at Board level, to help ensure there is appropriate challenge and visibility among senior executives. As part of our three lines of defence model, our Global Internal Audit function provides independent assurance as to whether our data privacy risk management approaches and processes are designed and operating effectively. In addition, we have established data privacy governance structures, and continue to embed accountability across all businesses and functions.

We continue to implement industry practices for data privacy and security. Our privacy teams work closely with industry bodies and research institutions to drive the design, implementation and monitoring of privacy solutions. We conduct regular reviews and privacy risk assessments, and continue to develop solutions to strengthen our data privacy controls. In 2021, we implemented new tooling to improve accountability for data privacy. We have procedures to articulate the actions needed to deal with data privacy considerations. These include notifying regulators, customers or other data subjects, as required under applicable privacy laws and regulations, in the event of a reportable incident occurring.

Intellectual property rights practices

We have policies, controls and guidance to manage risk relating to intellectual property. This is to ensure that intellectual property is identified, maintained and protected appropriately, and to help ensure we do not infringe third-party intellectual property rights during the course of business and/or operation.

These policies and controls support our management of intellectual property risk, and operate to help ensure that intellectual property risk is controlled consistently and effectively in line with our risk appetite.

The ethical use of Big Data and AI

Big Data technologies and artificial intelligence give us the ability to process and analyse data at a depth and breadth not previously possible. While this technology offers significant potential benefits for our customers, it also poses potential ethical risks for the financial services industry and society as a whole. We have developed a set of principles to help us consider and address the ethical issues that could arise. HSBC's Principles for the Ethical Use of Big Data and Artificial Intelligence are available at www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct.

Our approach with our suppliers

We have globally consistent standards and procedures for the onboarding and use of external suppliers. We require suppliers to meet our compliance and financial stability requirements, and to comply with our supplier ethical code of conduct.

Ethical code of conduct

We have an ethical and environmental code of conduct for suppliers of goods and services, which must be complied with by all suppliers. The code of conduct provides suppliers with an outline for economic, environmental and social standards and the requirements for having a reasonable governance and management structure.

At the end of 2021, we had approximately 9,600 contracted suppliers. In 2021, we had 8,144 engagements with suppliers that resulted in either the confirmation that they adhered to our code of conduct or that their own code of conduct had been reviewed and accepted by Strategic Procurement Services.

Managing environmental and social risk

We use an ESG reputational risk tool to identify environmental and social risk for supplier engagements with a contract value over $500,000. The tool provides an ESG reputational risk score for the supplier. In 2021, 2,248 ESG reputational risk assessments were undertaken. A high-risk score drives a manual review to assess the extent of the risk and whether we are willing to accept the heightened risk and onboard the supplier. We are reviewing the reputational risk process to ensure we focus on sectors with high ESG risk going forward.

We formalise commitments to the ethical code with clauses in our suppliers' contracts, which support the right to audit and act if a breach is discovered.

In 2021, we produced an internal toolkit to explain how Strategic Procurement Services can integrate net zero initiatives into everyday procurement activity. The toolkit, which outlines our net zero ambition and provides practical guidance on how Strategic Procurement Services can improve the way it drives net zero initiatives, is available to our teams globally to ensure a consistent approach.

For further details of the number of suppliers by geographical region, see the *ESG Data Pack* at www.hsbc.com/esg.

Safeguarding the financial system

We have continued our efforts to combat financial crime risks and reduce their impact on our organisation, customers and communities that we serve. These financial crime risks include money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, terrorist financing and proliferation financing.

We are committed to acting with integrity and have built a strong financial crime risk management framework across all global businesses and all countries and territories in which we operate. The financial crime risk framework, which is overseen by the Board, is supported by our holistic financial crime policies that enable adherence to applicable laws and regulations globally.

Annual mandatory training is provided to all colleagues, with additional targeted training tailored to certain individuals. We carry out regular risk assessments, identifying where we need to respond to evolving financial crime threats, as well as conducting monitoring and testing of our financial crime programme, with applicable findings included within our policies and framework.

We continue to invest in new technology such as contextual monitoring in our trade finance business, the enhancement of our fraud monitoring and market surveillance capabilities, and the application of machine learning to improve the accuracy and timeliness of our detection capabilities.

We pay due care and attention to ethical questions when considering the use of AI. We are confident our adoption of these new technologies will continue to enhance our ability to respond quickly to suspicious activity and be more granular in our risk assessments, helping to protect our customers and the integrity of the financial system.

Our anti-bribery and corruption policy
Our global anti-bribery and corruption policy requires that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority. There were no concluded, nor live active, legal cases regarding bribery or corruption brought against HSBC or its employees in 2021.

Our global anti-bribery and corruption policy requires that we identify and mitigate the risk of our customers and third parties committing bribery or corruption. We utilise anti-money laundering controls, including customer due diligence and transaction monitoring, to identify and mitigate the risk that our customers are involved in bribery or corruption. We perform a bribery risk assessment on all third parties, and impose risk-based controls on the third parties that expose us to bribery or corruption risk.

For further details on our financial crime risk management framework, see page 208.

The scale of our work

Each month, on average, we monitor over 1.1 billion transactions for signs of financial crime. During 2021, we filed over 56,000 suspicious activity reports to law enforcement and regulatory authorities where we identified potential financial crime. In addition, we screen approximately 116 million customer records monthly for sanctions exposure.

99%

Total percentage of employees who have received training on the organisation's anti-corruption policies and procedures.

Whistleblowing

We want colleagues and stakeholders to have confidence in speaking up when they observe unlawful or unethical behaviour. We offer a range of speak-up channels to listen to their concerns and have a zero tolerance for acts of retaliation. However, we recognise that sometimes people may still not be comfortable using these routes.

Listening through whistleblowing channels
Our global whistleblowing channel, HSBC Confidential, allows our colleagues and stakeholders to raise concerns confidentially and, if preferred, anonymously (subject to local laws).

In the majority of countries, HSBC Confidential concerns are raised through an independent third-party provider that offers 24/7 hotlines and a multiple language web portal to our colleagues. We also provide an external email address for concerns about accounting, internal financial controls or auditing matters (accountingdisclosures@hsbc.com).

In 2021, while we continued to actively promote speak-up opportunities, the volume of HSBC Confidential concerns reduced by 11%, driven in part, we believe, by the continued change to the working environment during the Covid-19 pandemic. Of the HSBC Confidential concerns closed in 2021, 87% related to colleagues' behaviour and personal conduct concerns, 9% to security and fraud risks, 3% to compliance risks and less than 1% to other issues.

Concerns are investigated proportionately and independently, with action taken where appropriate. Actions can include disciplinary action, dismissal, and adjustments to variable pay and performance ratings.

Compliance sets whistleblowing policy and procedures, and provides the Group Audit Committee with periodic reports on the effectiveness of whistleblowing arrangements. These reports are informed by first line of defence control assessments, second line assurance reviews and third line internal and external audit reports.

The Group Audit Committee has overall oversight of whistleblowing arrangements. The chair of the Group Audit Committee acts as HSBC's whistleblowers' champion with responsibility for ensuring and overseeing the integrity, independence and effectiveness of our whistleblowing policies and procedures.

Further details of the role of the Group Audit Committee in relation to whistleblowing can be found on page 244.

Whistleblowing concerns raised (subject to investigation) in 2021

2,224

(2020: 2,510)

Substantiated and partially substantiated whistleblowing cases in 2021

42%

(2020: 42%)

A responsible approach to tax

We seek to pay our fair share of tax in all jurisdictions in which we operate and to minimise the likelihood of customers using our products and services to evade or inappropriately avoid tax. We also abide by international protocols that affect our organisation. Our approach to tax and governance processes is designed to achieve these goals.

Through adoption of the Group's risk management framework, we have put in place regularly maintained controls. These aim to ensure, among other things, that we do not adopt inappropriately tax-motivated transactions or products and that tax planning is scrutinised and supported by genuine commercial activity. HSBC has no appetite for using aggressive tax structures. We continue to commit to making a significant investment globally in implementation and maintenance of appropriate tax risk processes and controls.

With respect to our own taxes, we are guided by the following principles:

- We are committed to applying both the letter and spirit of the law. This includes adherence to a variety of measures arising from the OECD Base Erosion and Profit Shifting initiative.
- We seek to have open and transparent relationships with all tax authorities. Given the size and complexity of our organisation, which operates across over 60 jurisdictions, a number of areas of differing interpretation or disputes with tax authorities exist at any point in time. We cooperate with the relevant local tax authorities to mutually agree and resolve these in a timely manner.
- We have applied the OECD/G20 Inclusive Framework Pillar 2 guidance to identify those jurisdictions in which we operate that have nil or low tax rates (15% or below). We have identified 14 such jurisdictions in which we had active subsidiaries during 2021. We continually monitor the number of active subsidiaries within each jurisdiction as part of our ongoing entity rationalisation programme. We ensure that our entities active in nil or low tax jurisdictions have clear business rationale for why they are based in these locations and appropriate transparency over their activities.

With respect to our customers' taxes, we are guided by the following principles:

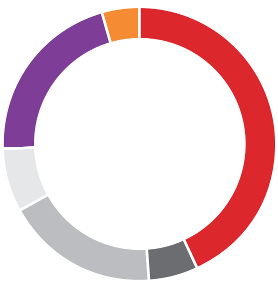
- We have made considerable investment implementing processes designed to enable us to support external tax transparency initiatives and reduce the risk of banking services being used to facilitate customer tax evasion. Initiatives include the US Foreign Account Tax Compliance Act, the OECD Standard for Automatic Exchange of Financial Account Information ('Common Reporting Standard'), and the UK legislation on the corporate criminal offence of failing to prevent the facilitation of tax evasion.
- We implement processes that aim to ensure that inappropriately tax-motivated products and services are not provided to our customers.

Our tax contributions

The effective tax rate for the year was 22.3%. Further details are provided on page 338.

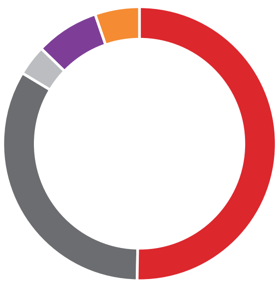
As highlighted below, in addition to paying $6.3bn of our own tax liabilities during 2021, we collected taxes of $9.2bn on behalf of governments around the world. A more detailed geographical breakdown of the taxes paid in 2021 is provided in the *ESG Data Pack*.

Taxes paid – by type of tax



- Tax on profits **$2,711m** (2020: $3,873m)
- Withholding taxes **$366m** (2020: $386m)
- Employer taxes **$1,125m** (2020: $1,121m)
- Bank levy **$479m** (2020: $1,011m)
- Irrecoverable VAT **$1,315m** (2020: $1,389m)
- Other duties and levies[1] **$278m** (2020: $278m)

Taxes paid – by region



- Europe **$3,170m** (2020: $3,022m)
- Asia-Pacific **$2,077m** (2020: $3,911m)
- Middle East and North Africa **$236m** (2020: $299m)
- North America **$469m** (2020: $382m)
- Latin America **$322m** (2020: $444m)

Taxes collected – by region

- Europe **$3,177m** (2020: $3,462m)
- Asia-Pacific **$3,584m** (2020: $3,595m)
- Middle East and North Africa **$78m** (2020: $90m)
- North America **$1,081m** (2020: $1,089m)
- Latin America **$1,343m** (2020: $1,302m)

1 Other duties and levies includes property taxes of $126m (2020: $129m).

Acting with integrity

We aim to act with courageous integrity and learn from past events to prevent their recurrence. We recognise that restoration of trust in our industry remains a significant challenge as past misdeeds continue to be in the spotlight. But it is a challenge we must meet successfully. We owe this not just to our customers and to society at large, but to our colleagues to ensure they can be rightly proud of the organisation where they work.

We aim to make decisions based on doing the right thing for our customers and never compromising our ethical standards or integrity.

Further information regarding the measures that we have taken to prevent the recurrence of past mistakes can be found at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-and-policies.

A chart reflecting fines and penalties arising out of significant investigations involving criminal, regulatory, competition or other law enforcement authorities, and costs relating to payment protection insurance remediation is available in the *ESG Data Pack* at www.hsbc.com/esg.