

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, but it is a challenge we must continue to pursue. 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. We believe the following examples show how we have learned from our past mistakes and are focusing on the future.

Anti-money laundering and sanctions

In the past, HSBC failed to implement appropriate anti-money laundering ('AML') and sanctions controls, which resulted in the bank handling transactions that presented significant financial crime risk. HSBC acknowledged these oversight and control failings and, in 2012, entered into resolutions with, among others, the US Department of Justice ('DOJ') and the UK Financial Services Authority (now the Financial Conduct Authority, or 'FCA'). Under these agreements, which included a five-year deferred prosecution agreement with the DOJ (the 'AML DPA'), HSBC made payments totalling \$1.9bn to US authorities, and we undertook to radically restructure our global operations and significantly strengthen our ability to combat financial crime.

In the years since our AML DPA expired in December 2017, we have made real progress in strengthening our AML and sanctions compliance capabilities. In 2021, when the bank resolved an FCA investigation into its legacy AML systems and controls in the UK, the FCA recognised that HSBC had made significant investments in new and market-leading technologies that go beyond the traditional approach to transaction monitoring. Furthermore, in August 2022, the Board of Governors of the Federal Reserve System terminated its 2012 cease-and-desist order, with immediate effect. This order was the final remaining regulatory enforcement action that HSBC had entered into in 2012. We are committed to safeguarding our customers and delivering industry-leading financial crime standards.

We recognise that we have a continuing responsibility to help protect the integrity of the global financial system. In order to fulfil that responsibility, we have made, and continue to make, significant investments in our ability to detect, deter and prevent financial crime. We have exited customers, products and countries where we deemed the financial crime risk too high to manage. We are also working with governments and other banks to advance our mutual interests in this area. These steps are enabling us to reduce more effectively the risk of financial crime.

Customer tax evasion

Prior to 2011, our Swiss private bank provided its customers with traditional Swiss banking services, which enabled some customers to conceal their assets from tax authorities and avoid paying their taxes. Our Swiss private bank, through certain of its relationship managers, offered these services with the knowledge that customers would use them in order to conceal their assets from tax authorities.

In recent years, our private banking business has taken significant steps to address these historical control weaknesses, most notably in Switzerland. Beginning in 2012, our private banking business developed a tax transparency policy that included enhanced know your customer ('KYC') and AML procedures and a review of existing accounts against potential indicators of non-compliance with tax obligations. Outdated services, such as 'hold mail' services whereby all mail was kept at the bank for customers to avoid receiving letters at their domestic addresses, were discontinued, and accounts were closed where issues were identified and could not be resolved. Our private banking business has taken steps to implement the US Foreign Account Tax Compliance Act ('FATCA') and Organisation for Economic Co-operation and Development Common Reporting Standards ("CRS") and has also amended its account opening forms and terms and conditions. Customers are required to affirm that they are in compliance with their tax obligations, and cash withdrawals are placed under

stricter controls. Furthermore, our private banking business has withdrawn from markets where it has been unable to conduct due diligence to a satisfactory standard on its customers, notably from a tax compliance perspective.

These significant reforms have been recognised by law enforcement authorities, as we have sought to put compliance and tax transparency ahead of profits. HSBC has reached agreements with law enforcement authorities to resolve investigations relating to these past practices, including settlements with prosecuting authorities in France and Belgium and a deferred prosecution agreement entered into between our Swiss private bank and the DOJ. In December 2022, the DOJ recognised that we had satisfied our obligations under the deferred prosecution agreement and the court accordingly dismissed the deferred charges.

Foreign exchange conduct

Prior to 2013, our foreign exchange ('FX') business lacked adequate governance, oversight and risk management to ensure compliance with safe and sound banking practices and applicable internal policies, notably with respect to trader conduct. As a result, we failed to detect and address unsafe and unsound conduct by certain of our FX traders, which included the misuse of confidential inside information to conduct FX trades, possible agreements with traders of other institutions to coordinate FX trading and disclosure of confidential information to traders of other institutions.

Since 2014, HSBC has agreed to regulatory settlements with the FCA, the US Commodity Futures Trading Commission, the US Federal Reserve Board and, more recently in 2021, the European Commission, in connection with their respective investigations of HSBC's FX activities. Additionally, in 2018, HSBC entered into a three-year deferred prosecution agreement with the DOJ, regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. Having met our obligations, the deferred prosecution agreement expired in January 2021.

As part of these regulatory settlements, HSBC embarked on programmes of further improvements to safeguard customers and support the integrity of financial markets by introducing a number of measures designed to make the control environment more robust and prevent these failings from recurring in the future. HSBC continues to invest in, and develop, improved technology and capabilities designed to detect and deter fraud, market abuse and inappropriate trading, including through the use of natural language processing, machine learning and advanced analytics, transaction monitoring and surveillance of electronic and audio communications.

This communication contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements may be identified by the use of terms such as 'expects,' 'targets,' 'believes,' 'seeks,' 'estimates,' 'may,' 'intends,' 'plan,' 'will,' 'should,' 'potential,' 'reasonably possible' or 'anticipates,' variation of these words, or the negative thereof or similar expressions. HSBC has based the forward-looking statements on current plans, information, data, estimates, expectations and projections about future events, and therefore undue reliance should not be placed on them. These forward-looking statements are subject to risks, uncertainties and assumptions about us, as described under 'Cautionary statement regarding forward-looking statements' contained in the HSBC Holdings plc Annual Report on Form 20-F for the year ended 31 December 2022, expected to be filed with the Securities and Exchange Commission ('SEC') on 22 February 2023 (the '2022 Form 20-F'). HSBC undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed herein might not occur. Investors are cautioned not to place undue reliance on any forward-looking statements, which speak only as of their dates. Additional information, including information on factors which may affect the HSBC Group's business, is contained in the 2022 Form 20-F.