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.

How we present our TCFD disclosures

Our overall approach to TCFD can be found on page 17 and additional information is included on pages 68 and 423. Further details have been embedded in this section and the Risk review section on pages 221 to 230. Our TCFD disclosures are highlighted with the following symbol: TCFD

Our approach to ESG

We are on a journey to incorporate environmental, social and governance principles throughout the organisation, and are taking 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 on the planet we all inhabit.

Transition to net zero
We have continued to take steps to implement our climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to net zero by 2050. We have expanded our coverage of sectors for on-balance sheet financed emissions targets, noting the challenge of evolving methodologies and data limitations. In addition, our operating environment for climate analysis and portfolio alignment is developing. We continue work to improve our data management processes and are setting targets to align our provision of finance with the goals and timelines of the Paris Agreement.

In March 2022, we announced plans to turn our net zero ambition for our portfolio of clients into business transformation across the Group. The plan involves the publication of a Group-wide climate transition plan in 2023. We continued our work to review and update our wider financing and investment policies critical to achieving net zero by 2050, which included publishing an updated energy policy and thermal coal phase-out policy in December 2022.

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

Building inclusion and resilience
Our social pillar is centred around building inclusion and resilience for our colleagues and customers, as well as in the communities we serve.

Environmental – Transition to net zero

- Since 2020, we have provided and facilitated $210.7bn of sustainable finance and investment towards our ambition of $750bn to $1tn by 2030. We monitor developments in taxonomies and changing market guidelines in this space.
- In December, we updated our energy policy as an important mechanism to help deliver our financed emissions targets and phase down fossil fuel financing in line with our net zero ambition, and introduced further restrictions for thermal and metallurgical coal.
- We have introduced on-balance sheet financed emissions targets for eight sectors, noting the limitations of evolving methodologies and data quality.

Read more in the Environmental section on page 46.

Social – Building inclusion and resilience

- In 2022, 33.3% senior leadership roles were occupied by women, 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, increased to 73% in 2022 following a five-point increase from 2019, and was three points above benchmark.

Read more in the Employees section on page 74.

Governance – Acting responsibly

- We conducted a review of our salient human rights issues, including stakeholder consultation with non-governmental organisations ('NGOs') and potentially affected groups.
- Our customer satisfaction performance, using the net promoter score, improved in many markets in which we operate. However, 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 Governance section on page 85.

We are committed to ensuring our people – and particularly our leadership – are representative of the communities that we serve, and that we support their well-being and development so they can learn and grow in their careers. We are equally committed to ensuring there are no unnecessary barriers to finance for our customers. We have an ambition to create a welcoming, inclusive and accessible banking experience.

Inclusion goes hand-in-hand with resilience. We build resilience for our colleagues by supporting their physical, mental and financial well-being, and by ensuring they are equipped with the skills and knowledge to further their careers during a period of significant economic transformation. For our customers, we build resilience primarily through education – by helping them to understand their finances and how to manage them effectively.

Acting responsibly
Our governance pillar focuses on our approach to acting responsibly and recognises topics such as human rights, conduct and data integrity.

Our policies and procedures help us provide the right outcomes for customers, including those with enhanced care needs, which in 2022 took into account the current cost of living crisis. Customer experience is at the heart of how we operate and is measured through customer satisfaction and customer complaints.

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

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 overview' on page 14. We use the information they provide us to identify the issues that are most important to them and consequently also matter to our own business.

Our ESG 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 the LR9.8.6R(8) of the Financial Conduct Authority's ('FCA') Listing Rules, 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 help ensure we remain relevant in what we measure and publicly report.

Recognising the need for a consistent and global set of ESG metrics, we monitor the developments related to International Sustainability Standard Board ('ISSB') and other standard setters. In the absence of a globally consistent set of sustainability standards, we continued to report against the core World Economic Forum ('WEF') 'Stakeholder Capitalism Metrics' and Sustainability Accounting Standards Board ('SASB') metrics this year.

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 ESG-related data and methodologies in general, we are on a journey towards improving completeness and robustness.

For further information on our approach to reporting, see the 'Additional information' section of page 422.

Our reporting around ESG

We report on ESG matters throughout our *Annual Report and Accounts*, including the 'ESG overview' section of the Strategic Report (pages 14 to 19), this ESG review (pages 44 to 96), and the 'Climate risk' and 'Insights from climate scenario analysis' sections of the Risk review (pages 221 to 230). 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 2022	UK Pay Gap Report 2022	SASB Index 2022
	Modern Slavery and Human Trafficking Statement 2022	WEF Index 2022
	Green Bond Report 2022	
	HSBC UN Sustainable Development Goals Bond and Sukuk Report 2022	

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

Assurance relating to ESG data TCFD

HSBC Holdings plc is responsible for preparation of the ESG information and all the supporting records, including selecting appropriate measurement and reporting criteria, in our *Annual Report and Accounts, ESG Data Pack* and the additional reports published on our website.

We recognise the importance of ESG disclosures and the quality of data underpinning it. We also acknowledge that our internal processes to support ESG are in the process of being developed and currently rely on manual sourcing and categorisation of data. Certain aspects of our ESG disclosures are subject to enhanced verification and assurance procedures including the first and second line of defence. We aim to continue to enhance our approach in line with external expectations.

For 2022, ESG data is subject to stand-alone independent limited assurance reports by PwC 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 disclosures and metrics:

- our *Green Bond Report 2022* (published in December 2022);
- our financed emissions for 2019 and 2020 for six sectors (see page 50);
- our progress towards our ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investment (see page 57);
- our own operations' scope 1, 2 and 3 (business travel) greenhouse gas emissions data (see page 63); and supply chain emissions data; and
- our 2019 baseline for financed emissions covering 38% of assets under management for our asset management business (see page 56).

The work performed by external parties to support their limited assurance report is substantially less than the work performed for a reasonable assurance opinion, like those provided over financial statements.

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

Environmental TCFD

Transition to net zero

We are developing new solutions to the climate crisis and supporting the transition of our customers, industries and markets to a net zero future, while moving to net zero ourselves.

At a glance

Transition to net zero
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 have made good progress on our net zero ambition, including publishing an updated energy policy as an important mechanism to meeting our financed emissions targets, and expanding our financed emissions targets to eight sectors in total. 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. We continue to engage with our clients on their transition plans and to provide them with financing solutions to support their sustainability goals.

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

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 139, 'Climate risk' on page 221 and 'Insights from scenario analysis' on page 226.

Impact on reporting and 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 2022. We considered the impact on a number of areas of our balance sheet including expected credit losses, classification and measurement of financial instruments, goodwill and other intangible assets, our owned properties, as well as our long-term viability and going concern. As part of assessing the impact on our financial statements we conducted scenario analysis to understand the impact of climate risk on our business (see page 67). For further details on our climate risk exposures, see page 145.

For further details of how management has considered the impact of climate-related risks on its financial position and performance see our 'Critical accounting estimates and judgements' in Note 1 'Basis of preparation and significant accounting policies' from page 335.

In this section

Transition to net zero TCFD

Understanding our climate reporting

The transition to net zero is one of the biggest challenges for our generation
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.

Our ability to meet our net zero ambition – to align the financed emissions of our portfolio to net zero by 2050, and to become net zero in our operations and supply chain by 2030 – relies on the pace of change taking place in the real economy and action among a broad set of stakeholders, including policymakers. This will include responsible actions from both HSBC and our clients to address climate change.

We acknowledge that to achieve our climate ambition we need to be transparent on the opportunities, challenges, related risks and progress we make. Our reporting will need to evolve to keep pace with market developments and we will aim to overcome challenges with regard to consistency across different markets in which we operate. The role of standard setters and regulators will be important in achieving standardisation. We have highlighted below some of the limitations and challenges that our organisation, and the wider industry, face with regard to climate reporting.

Our transition will be challenging but we have an opportunity to make an impact
Our global footprint means that many of our clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions in the critical decades ahead to 2050. Their ability to transition effectively will be key to reaching a global net zero economy in time, but they are often faced with increasingly high energy demand, relatively new carbon-intensive assets, and lower level of investments into clean technologies.

Our approach is rooted in engagement with our clients to provide them with the capital and tools to help them transform their business models and decarbonise. It is also rooted in the reality that a just and inclusive transition requires us to consider region-specific challenges and opportunities. Additionally, countries are moving at different speeds and, given our geographical and sectoral spread, we will naturally have one of the most complex transitions.

Limited international alignment on green taxonomies
Green finance taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our sustainable finance reporting going forward. We recognise that there can be differing views of external stakeholders in relation to these evolving taxonomies, and we will seek to align to enhanced industry standards as they are further developed. We aim to increase transparency across the different types of green and transition finance and investment categories going forward, and plan to engage with standard setters to help evolve sustainable finance product standards to best incentivise science-based decarbonisation, particularly in high transition risk sectors.

Engagement with clients on their transition at an early stage
Success will require governments, clients and finance providers to work together. Stable and strong policy environments are critical to accelerating the energy transition. Active engagement between public and private stakeholders is fundamental to de-risk new technologies and markets and establish new business structures.

We established a new process to assess client transition plans for our largest energy sector clients and those involved in thermal coal to help inform areas for further engagement and guide business decisions. We acknowledge that our assessment of client transition plans is in the initial stages and our engagement with clients on their plans and progress will need to continue to be embedded.

In December 2022, following extensive consultation with scientific and industry bodies, we published our updated energy policy and an update to our thermal coal phase-out policy. These policies acknowledge a need to phase down financing of fossil fuels while also investing at scale in climate solutions to enable a transition to net zero.

Need for enhanced governance, processes, systems, controls and data
Our climate ambition requires enhanced capabilities including governance, processes, systems and controls. We also need new sources of data, some of which may be difficult to assure using traditional verification techniques. We continue to invest in our climate resources and skills, and develop our business management process to integrate climate impacts. Our activities are underpinned by efforts and investment to develop our data and analytics capabilities and to help ensure that we have the appropriate processes, systems, controls and governance in place to support our transition.

We are taking steps to establish an ESG data utility tool to help streamline and support data needs across the organisation. We are enhancing our processes, systems, controls and governance to help achieve the required scale to meet the demands of future ESG reporting. Certain aspects of our reporting rely on manual sourcing and categorisation of data. This categorisation of data is not always aligned with how our businesses are currently managed. We also have a dependency on emissions data from our clients. Given the manual nature, enhanced verification and assurance procedures are performed on a sample basis over this reporting including the first and second line of defence. Our models undergo independent review by an internal model review group, and we obtain limited assurance on our financed emissions and sustainable finance disclosures from external parties including our external auditors.

Understanding our climate reporting continued

Capturing the full-scope of our emissions
Having set on-balance sheet 2030 emissions targets for the oil and gas, and power and utilities sectors, we have now expanded our coverage to include heavy industry and transport sectors, which are key drivers of energy demand. These sectors cover the most emissions-intensive parts of our portfolio. We plan to extend our analysis to four additional sectors – shipping, agriculture, commercial real estate and residential real estate – in our *Annual Report and Accounts 2023* and related disclosures.

Our initial focus has been on on-balance sheet financing, including project finance and direct lending. We also have facilitated emissions from our capital markets activities, through our underwriting in debt and equity capital markets and syndicated lending. We aim to update our targets and baselines to include both on-balance sheet and off-balance sheet activities following the publication of the industry standard for capital markets methodology by the Partnership for Carbon Accounting Financials ('PCAF'). This should give guidance on how to apportion the emissions responsibility between a facilitator and an investor within capital markets activities.

Our Asset Management business released a coal phase-out policy in September 2022, and made its initial emissions disclosure in November 2022 with a portfolio decarbonisation target for 2030 to align investments with the goals of the Paris Agreement. The commitment covers listed equity and corporate fixed income where data and methodologies are most mature. We will also consider the inclusion of emissions on our insurance business.

Disclosure challenges for year-end reporting
Given the challenges on data sourcing, as well as the evolution of our processes and industry standards as mentioned above, there has been an impact on certain climate disclosures:

- Thermal coal exposures: We acknowledge that our processes, systems, controls and governance are not yet designed to fully identify and disclose thermal coal exposures, particularly for exposures within broader conglomerates. We are reassessing the reliability of our data and reviewing our basis of preparation to help ensure that we are reporting all relevant thermal coal exposures aligned to our thermal coal policy. As a result, we have not reported thermal coal exposures in this *Annual Report and Accounts 2022*. We expect that our updated thermal coal exposure dating back to 31 December 2020 will be made available for reporting as soon as practicable in 2023, although this is dependent on availability and quality of data.
- Facilitated emissions: In March 2022, we said we would set capital markets emissions targets for the oil and gas, and power and utilities sectors based on the industry reporting standard from the PCAF once published. We have chosen to defer setting targets for facilitated emissions until the PCAF standard for capital markets is published, which is expected in 2023. We had intended to disclose facilitated emissions for 2019 and 2020 for the oil and gas, and power and utilities sectors for transparency, as we did last year. However, following internal and external assurance reviews performed during the year, we identified certain data and process limitations and have deferred the publication of our facilitated emissions for 2019 and 2020 for these two sectors while additional verification procedures are performed. We aim to provide these disclosures as soon as practicable in 2023. We continue to monitor the developments in industry standards for the publication of such emissions and associated targets, and, as mentioned above, we will seek to align to the PCAF standard when published. However, we will aim to provide transparency on our 2019 and 2020 facilitated emissions for the oil and gas, and power and utilities sectors as they become available, which may be in advance of the PCAF standard being available.
- Shipping financed emissions targets: For the shipping sector, we have chosen to defer setting a baseline and target until there is sufficient reliable data to support our work, allowing us to more accurately track progress towards net zero.

Continuing to evolve our climate disclosures
In 2023, we plan to publish our first Group-wide climate transition plan to provide further details of our strategic approach to net zero and how we plan to transform our organisation to execute our ambition. We also aim to publish an updated deforestation policy and build out our financed emissions portfolio coverage to include agriculture, residential real estate, commercial real estate and shipping, and plan to update our targets for certain sectors to include facilitated emissions once the PCAF standard is launched.

In 2023, we will continue to review our approach to disclosures, with our reporting needing to evolve to keep pace with market developments.

For details of assurance around ESG data, see page 45.
For details of our approach to calculating financed emissions and the relevant data and methodology limitations, see page 52.
For details of our sustainable finance and investment ambition, see page 57.
For details of our approach to thermal coal, see page 66.

Awarded as a green lease leader

We are carrying out a programme to promote green lease clauses across our global portfolio of leased buildings, which commit our landlords to helping us reduce our impact on the environment. As part of this programme, in May 2022, we agreed to move our US headquarters to The Spiral office tower at 66 Hudson Boulevard in Manhattan, New York, which we expect to reduce our total energy consumption by 60% compared with 2021. The Spiral is on track to achieve industry leading LEED Gold and Fitwel certifications for sustainability and building health. Alongside our real estate broker JLL, and our landlord Tishman Speyer, we were recognised by the Green Lease Leaders Organisation with a Green Lease Leaders Team Transaction Award – Platinum Level, for our collaboration to improve the energy efficiency and sustainability of buildings.

Our approach to the transition

We are committed to a net zero future. Our global footprint means we play a significant role in the sectors and regions most critical to the transition to net zero. Many of our clients operate in the high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means we can have a significant impact in helping to drive down emissions in the real economy, but this is a challenging process that will take time.

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. We are committed to a science-aligned phase-down of fossil fuel finance in line with the Paris Agreement.

We have committed to publish our own Group-wide climate transition plan in 2023. This plan will bring together our climate strategy, science-based targets, and how we plan to embed this into our processes, policies, governance and capabilities. It will outline, in one place, not only our commitments, targets and approach to net zero across the sectors and markets we serve, but also how we are transforming our organisation to embed net zero and help finance the transition. Our approach to nature and enabling a just and resilient transition will also be incorporated into our climate transition plan.

Our net zero policies

In December 2022, we published our updated policy covering the broader energy system, including upstream oil and gas, oil and gas power generation, coal, hydrogen, renewables and hydropower, nuclear, biomass and energy from waste. The policy seeks to balance three related objectives: driving down global greenhouse gas emissions; enabling an orderly transition that builds resilience in the longer term; and supporting a just and affordable transition. In December, we also expanded our thermal coal phase-out policy, in which we committed to not providing new finance or advisory services for the specific purposes of the conversion of existing coal-to-gas-fired power plants, or new metallurgical coal mines. Our updated energy and thermal coal phase-out policies were drafted in consultation with leading independent scientific and international bodies and investors. Details on the policies can be found in 'Our approach to sustainability policies' on page 65.

Working with our customers and suppliers

We believe we can make the most significant impact by working with our customers to support their transition to a net zero global economy.

We aim to align our financed emissions to net zero by 2050 or sooner. We are setting 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 we consider 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.

We have set interim 2030 targets for on-balance sheet financed emissions for eight sectors. These include six sectors for which we have reported 2019 and 2020 emissions: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. We have also set targets for thermal coal power and thermal coal mining.

In 2022, we established a process to assess client transition plans to help inform areas for further engagement and guide business decisions. We expect engagement with our customers on their transition plans to form a core part of our approach as we pursue our targets. We acknowledge that our assessment of client transition plans is in the initial stages and our engagement with clients on their plans and progress will need to continue to be embedded.

We aim to become net zero in our operations and supply chain by 2030. 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, we are asking our suppliers to do the same.

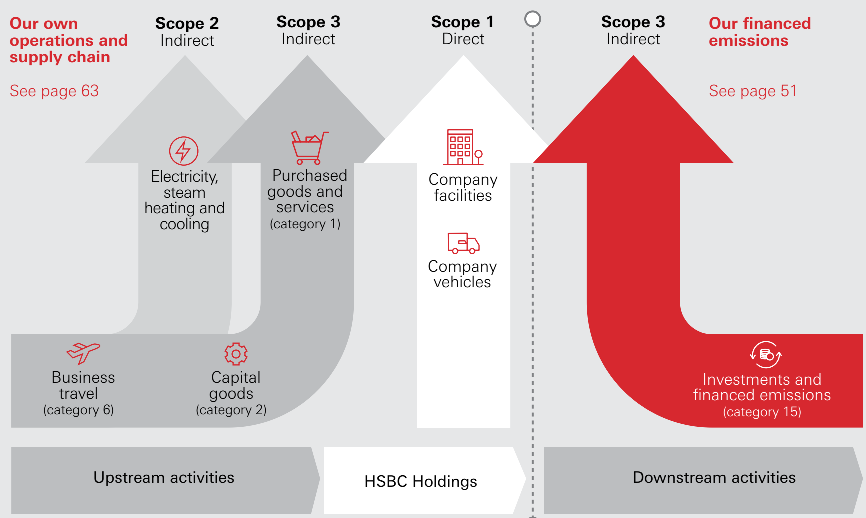
The next section provides further details on how we are measuring our progress on our financed emissions ambition. For further details of the progress made to date on our own operations and supply chain, see page 62. The diagram below shows how these ambitions map to our scope 1, 2 and 3 emissions.

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.

Under the protocol, scope 3 emissions are also broken down into 15 categories, of which we provide reporting emissions data for three related to upstream activities, which are: purchased goods and services (category 1); capital goods (category 2); and business travel (category 6). We also provide reporting data for one category related to downstream activities, which is investments and financed emissions (category 15)

For further breakdown of our scope 1, 2 and 3 emissions, see our *ESG Data Pack* at www.hsbc.com/esg.



Financed emissions TCFD

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. We plan to publish initial financed emissions targets for 2030, and in five-year increments thereafter. We remain committed to working with our customers to support their journey towards a net zero future, and deploying capital towards decarbonisation solutions for the most emissions-intensive sectors.

Our analysis of financed emissions considers on-balance sheet financing, including project finance and direct lending. We distinguish between 'on-balance sheet financed' and 'facilitated' emissions where necessary. Financed emissions link the financing we provide to our customers and their activities in the real economy, and 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. We also recognise that we have more to do to embed these targets in our business, including enhanced capabilities and new sources of data as set out on page 47.

In 2021, we started measuring our financed emissions for two emissions-intensive sectors: oil and gas, and power and utilities. On the following pages, we present the progress for both sectors against the on-balance sheet financed emissions baseline that we now measure ourselves against. We have also begun measuring the financed emissions and setting targets for four additional sectors: cement; iron, steel and aluminium; aviation; and automotive. During our analysis of the shipping sector, we noted significant data gaps. We have therefore chosen to defer setting a baseline and target for this sector until there is sufficient reliable data to support our work.

We plan to measure and report progress on an annual basis, and plan to extend our analysis to four new sectors – shipping, agriculture, commercial real estate and residential real estate – in our *Annual Report and Accounts 2023* and related disclosures. For the new sectors, we plan to set production intensity targets. We believe these targets are robust as they are linked to real world production, and allow us to deploy capital towards solutions for progressive decarbonisation, supporting our clients' transition plans.

Our approach to financed emissions

In our approach to assessing our financed emissions, our key methodological decisions were shaped in line with industry practices and standards. We recognise these are still developing.

Coverage of our analysis

For each sector, we focused our analysis on the parts of the value chain where we believe the majority of emissions are produced based upon industry benchmarks, and to help reduce double counting of emissions. For aviation, we have focused on scope 1 emissions from airlines and scope 3 from aircraft lessors as we believe the use of lower emissions aviation fuels and different propulsion systems for new aircraft is where attention needs to be prioritised to meet net zero targets. By estimating emissions and setting targets for customers that directly account for, or indirectly control the majority of emissions in each industry, we can focus our engagement and resources where we believe the potential for change is highest.

With regards to the different types of greenhouse gases measured, we include CO_2 and methane (measured in CO_2e) for the oil and gas sectors, and CO_2 only for the remaining sectors due to data availability and greenhouse gas emissions materiality within each sector.

To calculate annual on-balance sheet financed emissions, we used drawn balances as at 31 December in the year of analysis 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. We excluded products that were short term by design, which are typically less than 12 months in duration, following guidance from the Partnership for Carbon Accounting Financials ('PCAF'), and to reduce volatility.

The chart below shows the scope of our financed emissions analysis of the six sectors, including upstream, midstream and downstream activities within each sector.

Sector	Scope of emissions	Value chain in scope				Coverage of greenhouse gases
Oil and gas	1, 2 and 3	**Upstream (e.g. extraction)**	Midstream (e.g. transport)	Downstream (e.g. fuel use)	**Integrated/ diversified**	CO_2/methane
Power and utilities	1 and 2	**Upstream (e.g. generation)**	Midstream (e.g. transmission and distribution)	Downstream (e.g. retail)		CO_2
Cement	1 and 2	Upstream (e.g. raw materials, extraction)	**Midstream (e.g clinker and cement manufacturing)**	Downstream (e.g. construction)		CO_2
Iron, steel and aluminium	1 and 2	Upstream (e.g. raw materials, extraction)	**Midstream (e.g. ore to steel)**	Downstream (e.g. construction)		CO_2
Aviation	1 for airlines, 3 for aircraft lessors	Upstream (e.g. parts manufacturers)	**Midstream (e.g. aircraft manufacturing)**	**Downstream (e.g. airlines and air lessors)**		CO_2
Automotive	1, 2 and 3	Upstream (e.g. suppliers)	**Midstream (e.g. motor vehicle manufacture)**	Downstream (e.g. retail)		CO_2

Key: **Included in analysis**

Financed emissions continued

Setting our targets
We set targets for sectors based on decarbonisation pathways that are constructed using the Net Zero Emissions by 2050 scenario produced by the International Energy Agency ('IEA').

Following guidance from the Net-Zero Banking Alliance ('NZBA') and the Science Based Targets Initiative ('SBTi') this scenario has low reliance on negative emissions technologies, or the possibility for the rise in global temperatures to exceed 1.5°C before cooling again. The scenario makes reasonable assumptions about the potential for carbon sequestration through nature-based solutions and land use change.

Our approach for financed emissions accounting does not rely on purchasing offsets to achieve any financed emissions targets we set.

Meeting our targets for 2030 is dependent on immediate and significant deployment of available clean technology solutions, as shown by the IEA's Net Zero by 2050 roadmap for the global energy sector. Innovation in this decade needs to be accompanied by large-scale construction of infrastructure to enable the implementation of cleaner technologies. This will require strong policy support and public and private capital to be deployed at scale.

We also recognise that the supply and demand side of the market need to move concurrently. The reduction of fossil fuels in favour of clean energy supply needs to be matched by an increase in demand from industry, buildings and transport to consume clean energy. Both the supply and demand still require significant policy support to enable this transition economically.

An evolving approach
We believe methodologies for calculating financed emissions and setting targets should be transparent and comparable, and should provide science-based insights that focus engagement efforts, inform capital allocation and develop solutions that are both timely and impactful. We continue to engage with regulators, standard setters and industry bodies to shape our approach to measuring financed emissions and managing portfolio alignment to net zero. We also work with data providers and our clients to help us gather data from the real economy to improve our analysis.

Scenarios used in our analysis are modelled upon allocation assumptions of the available carbon budget and actions that need to be taken to drive the global transition to 1.5°C outcomes. Assumptions include technology development and/or adoption, shifts in the energy mix, the retirement of assets, behavioural changes and implementation of policy levers, among others. We expect that scenario developers will be continually working to improve the usability, accuracy and granularity of pathways.

Connecting the offshore energy industry

The global transition to a net zero economy provides opportunities for companies looking to create new connections to renewable energy sources. UK-based JDR Cable Systems, which is part of TFK Group, links global offshore energy sources to the land using its subsea cable technology. As it looks to expand its production, and with the backing of UK Export Finance, we helped to provide a £100m investment loan to finance the building of a new facility in Cambois, near Blyth, Northumberland. The new facility, which occupies the site of a former coal-fired power station, will help JDR expand its product portfolio. It is expected to complete in 2024.

Leading the electric battery charge in Indonesia

We are supporting Hyundai in its journey to produce only electrical vehicles by 2040. We acted as a mandated lead arranger and lender towards a $711m loan to a joint venture company between Hyundai Motor, Kia, Hyundai Mobis and LG Energy Solution. The financing will help fund the construction of an electric vehicle battery manufacturing plant in Karawang, Indonesia, which would be the first in south-east Asia. The facility will have an annual production capacity of 10 gigawatt hours ('GWh')-worth of lithium-ion battery cells.

As the electric vehicle battery sector continues to grow, the facility will help establish Indonesia as an electric vehicle supply chain hub in Asia and be a crucial contributor to Hyundai's net zero ambitions in the region.

Financed emissions continued

Data and methodology limitations

Our financed emissions estimates and methodological choices are shaped by the availability of data for the sectors we analyse.

- We are members of Partnership for Carbon Accounting Financials ('PCAF'), which seeks to define and develop greenhouse gas accounting standards for financial institutions. PCAF developed the Global GHG Accounting and Reporting Standard for the Financial Industry, which focuses on measuring and reporting financed emissions. The PCAF Standard provides guidance on assigning data quality scoring per asset class, creating data transparency and encouraging improvements to data quality in the medium and long term.
- We found that data quality scores varied across the different sectors and years of our analysis, although not significantly. While we expect our data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be fluctuations within sectors year on year, and/or differences between the data quality scores between sectors due to changes in data availability.
- 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 estimate them using proxies based on company production and revenue figures, and validated key data inputs with our global relationship managers. 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. As data improves, estimates will be replaced with reported figures. Our 2019 emissions for our oil and gas, and power and utilities sectors have been revised as a result of changes to data sources.
- Third-party data sets that feed into our analysis may have up to a two-year lag in reported emissions figures, and we are working with data providers to help reduce this.
- The methodology and data used to assess financed emissions and set targets are new and evolving, and we expect industry guidance, market practice, and regulations to continue to change. We plan to refine our analysis using appropriate data sources and current methodologies available for the sectors we analyse.
- In line with the PCAF Standard, to calculate sector-level baselines and annual updates, our portfolio-level financed emissions are weighted by the ratio of our financing in relation to the value of the financed company. We believe this introduces volatility and are assessing if portfolio weight is more appropriate. We remain conscious that the economic value used in the financed emissions calculation is sensitive to changes in drawn amounts or market fluctuations, and we plan to be transparent around drivers for change to portfolio financed emissions where possible.
- The classification of our clients into sectors is performed with inputs from subject matter experts and will also continue to evolve with improvements to data and our sector classification approach.
- The operating environment for climate analysis and portfolio alignment is also maturing. We continue to work to improve our data management processes, and are implementing steering mechanisms to align our provision of finance with the goals and timelines of the Paris Agreement.

Our methodology for financed emissions 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.

Targets and progress

We have set out in the table below our defined targets for the on-balance sheet financed emissions for the following sectors: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. On the following pages, we provide more granular details on our financed emissions within these sectors.

Sector	2019 baseline	2020 progress	2030 target	Unit[1]	Target type	Target scenario
Oil and gas	33.0	30.1	(34)%	Mt CO_2e	Absolute	IEA NZE 2050
Power and utilities[2]	589.9	509.6	138	tCO_2/GWh	Intensity	IEA NZE 2050
Cement	0.64	0.64	0.46	tCO_2/t cement	Intensity	IEA NZE 2050
Iron, steel and aluminium[3]	1.8	2.0	1.05 (1.43)	tCO_2/t metal	Intensity	IEA NZE 2050
Aviation	84.0	103.9	63	tCO_2/million rpk	Intensity	IEA NZE 2050
Automotive	191.5	176.2	66	tCO_2/million vkm	Intensity	IEA NZE 2050

1 Our absolute and intensity emission metrics and targets are measured based on the drawn exposures of the counterparties in scope for each sector, which is a subset of our total loans and advances. For the oil and gas sector, absolute emissions are measured in million tonnes of carbon dioxide ('Mt CO_2e') and intensity is measured in million tonnes of carbon dioxide per exajoule ('Mt CO_2e/Ej'); for the power and utilities sector, it is measured in tonnes of carbon dioxide equivalent per gigawatt hour ('tCO_2/GWh'); for the cement sector, it is measured in tonnes of carbon dioxide per tonne of cement ('tCO_2/t cement'); for the iron, steel and aluminium sector, it is measured in tonnes of carbon dioxide per tonne of metal ('tCO_2/t metal'); for the aviation sector, it is measured in tonnes of carbon dioxide per million revenue passenger kilometres ('tCO_2/million rpk'); and for the automotive sector, it is measured in tonnes of carbon dioxide per million vehicle kilometres ('tCO_2/million vkm').

2 Our power and utilities target units have been revised from our 2021 analysis, and the target has been revised from 0.14 Mt CO_2e/TWh to 138 tCO_2/GWh due to rounding. The target value remains unchanged.

3 While the iron, steel and aluminium 2030 target is aligned with the IEA Net Zero Emissions by 2050 scenario, we also reference the Mission Possible Partnership Technology Moratorium scenario, whose 2030 reference range is shown in parentheses.

Financed emissions continued

When assessing the changes from 2019 to 2020, it is important to emphasise the long-term commitment that is needed to meet our 2030 interim targets and how changes to exposure and market fluctuations impact yearly updates. Movement from one year to the next may not reflect future trends for the financed emissions of our portfolio, and as we are at the beginning of our journey to track and measure progress, we believe it would be premature to infer future trends from the 2019 to 2020 progress at this stage. In addition, the Covid-19 pandemic led to anomalies in our portfolio's financed emissions for 2020.

For some sectors, our financed emissions baseline will be different from the Net Zero Emissions by 2050 reference scenario baseline. Where we have applied an absolute reduction target such as for the oil and gas sector, and the target is defined as a percentage reduction from the baseline they will be the same. Similarly, when the sector portfolio intensity is very similar to that of the global average, the baselines may be the same.

We plan to report financed emissions and progress against our targets annually and 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 recalibration as data, methodologies and reference scenarios develop.

Oil and gas

For the oil and gas sector, we cover all scopes for upstream as well as integrated companies to help ensure we include the vast majority of CO_2 and methane emissions created by crude oil and natural gas extraction and consumption. In line with the IEA Net Zero Emissions by 2050 scenario, we target an absolute reduction of 34% in on-balance sheet financed emissions by 2030, using 2019 as our baseline. We believe decarbonising the energy system, and therefore our ability to meet our targets, requires electrification of the economy, combined with a shift from consuming fossil fuels towards the use of more renewable electricity and alternative fuels.

Due to data quality and modelling improvements, we have revised our 2019 baseline to 33.0 million tonnes of carbon dioxide ('Mt CO_2e'). The sector's PCAF data quality score is 2.7 for scope 1 and 2, and 2.9 for scope 3 in 2019, indicating that we need to find better data sources, such as reported and verified emissions. Many clients report scope 1 and 2, but for scope 3 we have had to estimate many data points using production and revenue proxies, in line with PCAF guidance. In 2020, absolute financed emissions decreased 9%, mostly as a result of changes in our portfolio during the first year of the Covid-19 pandemic.

Power and utilities

For the power and utilities sector, we include scope 1 and 2, and focus on power generation only. We also follow the IEA Net Zero Emissions by 2050 scenario and target an on-balance sheet financed emissions intensity of 138 tonnes of carbon dioxide equivalent per gigawatt hour ('tCO_2/GWh') by 2030, using 2019 as our baseline. The power and utilities sector is expected to expand significantly as the electrification of transport, heating and other activities will drive an increase in electricity demand. To enable this growth through low-emission sources of electricity, we have chosen an intensity target. We believe financing for renewable electricity will need to increase significantly to help us meet our targets, alongside smart grids and energy storage.

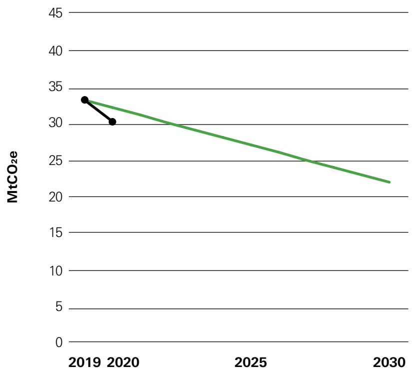
Due to data quality and modelling improvements, we have revised our 2019 baseline to 589.9 tCO_2/GWh, which is higher than the IEA global average. The PCAF score is 3.3, for scope 1 and 2 in 2019, as many of our smaller clients are not disclosing their scope 1 to 2 emissions. These have mostly been estimated using production or revenue, which will be replaced when we have reported and verified emissions from clients. In 2020, the emissions intensity of our portfolio decreased by 14% as a result of clients moving their generation mix to lower emission sources and portfolio shifts.

Cement

We cover scope 1 and 2 for all companies with clinker and cement manufacturing facilities. In line with the IEA Net Zero Emissions by 2050 scenario, we target an on-balance sheet financed emissions intensity of 0.46 tonnes of carbon dioxide per tonne of cement ('tCO_2/t cement') by 2030, using 2019 as our baseline. Some emission reductions can be achieved through energy efficiency. However, we believe that to significantly reduce fuel and process emissions from cement manufacturing, and our ability to meet our targets, large-scale investments are required in new technologies, such as clinker substitution, alternative fuel use such as bioenergy, and carbon capture use and storage. Our 2020 emission intensity stayed level with 2019, as there were no significant changes to the emission intensity of our clients. The PCAF score for the cement sector is 2.2 for scope 1 and 2 in 2019, which is higher compared with other sectors, as we have reported emissions data for a large portion of our clients, and have only needed to estimate emissions through production or revenue proxies for the smaller clients in our portfolio.

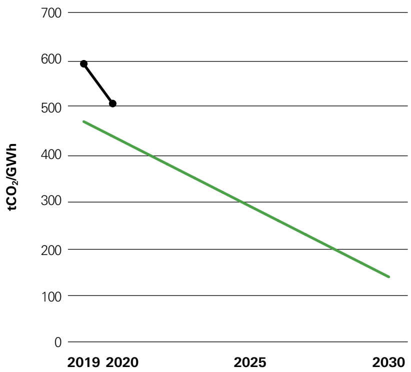
Oil and gas
Mt CO2e

2020 progress from baseline
(9)%



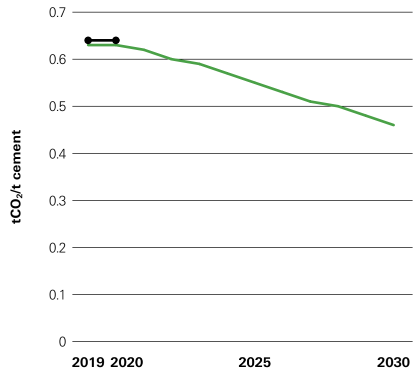
Power and utilities[2]
tCO2/GWh

2020 progress from baseline
(14)%



Cement
tCO2/t cement

2020 progress from baseline
0



Key:

Net Zero Emissions by 2050 Scenario — On-balance sheet financed emissions intensity

Financed emissions continued

Iron, steel and aluminium

We cover scope 1 and 2 for midstream iron, steel and aluminium production. Due to the low materiality of the aluminium sector's financed emissions within our portfolio, we have combined them with our iron and steel financed emissions. For the iron, steel and aluminium sector, we target an on-balance sheet financed emissions intensity of 1.05 (1.43) tonnes of carbon dioxide per tonne of metal ('tCO_2/t metal') by 2030, using 2019 as our baseline. We use the IEA Net Zero Emissions by 2050 scenario as our core target scenario, and have included the net zero-aligned Mission Possible Partnership Technology Moratorium as an alternative scenario. We recognise that our ability to meet our targets in so-called 'hard-to-abate' sectors is dependent on strong policy support to unlock widespread investment and the scaling up of crucial nascent technologies. We will continue to monitor the progress in the uptake of low-carbon technologies, and assess real economy progress against the IEA and Mission Possible Partnership scenarios. The emissions intensity in 2020 rose due to increased financing to the aluminium sector, which has a higher carbon intensity than that of steel. The PCAF score is 2.5 in 2019, as only a small number of clients have reported emissions, and for many we have had to make estimates based on their revenue.

Aviation

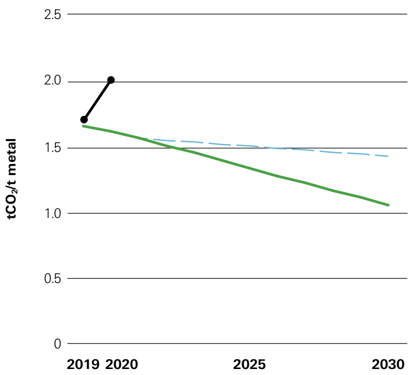
In the aviation sector, we included airlines' scope 1 emissions and aircraft lessors' scope 3 emissions, as we believe this captures direct emissions from aircraft as the main source of emissions. We exclude military and dedicated cargo flights. As per the IEA Net Zero Emissions by 2050 scenario, we target an on-balance sheet financed emissions intensity of 63 tonnes of carbon dioxide per revenue passenger kilometre ('tCO_2/rpk') by 2030, using 2019 as our baseline. To reach these intensity levels, and help meet our targets, we believe the sector needs significant policy support investments into alternative fuels, such as sustainable aviation fuel, and new aircraft to reduce emissions. Sustainable aviation fuel is currently too costly and in limited supply, so the industry's decarbonisation efforts are highly dependent on partnerships between energy companies, airlines and aircraft manufacturers. Due to the travel disruption caused by the Covid-19 pandemic in 2020, emissions intensity figures increased significantly as aeroplanes carried fewer passengers on average. This can be seen in the IEA numbers as well as our client portfolio. For the aviation sector, the PCAF score is 2.8 for scope 1 and 2, and 2.8 for scope 3 in 2019, as emissions or production data is available for most clients, although we continue to have a challenge with finding reported emissions from smaller firms.

Automotive

For the automotive sector, we look at scope 1, 2 and 3 emissions from the manufacturing of vehicles, and tank-to-wheel exhaust pipe emissions for light-duty vehicles. We excluded heavy-duty vehicles from our analysis, following industry practice. We will consider including them at a later stage of our analysis as data and methodologies develop. We target an on-balance sheet financed emissions intensity of 66 tonnes of carbon dioxide per vehicle kilometre ('tCO_2/vkm') by 2030, using 2019 as our baseline. This is in line with the IEA Net Zero Emissions by 2050 scenario, modified to match the share of new in-year vehicle sales for light-duty vehicles. We believe decarbonisation of the automotive sector, and therefore our ability to meet our targets, needs large-scale investments in new electric vehicle and battery manufacturing plants, widespread charging infrastructure, and government policies to support electric vehicles. Our 2020 intensity reduced by 8% as a result of clients manufacturing more efficient vehicles, and the increased sales of electric vehicles. The PCAF score for the automotive sector is only 3.3 for scope 1 and 2, and 3.4 for scope 3 in 2019, as most companies only report their scope 1 and 2 emissions. We had to estimate scope 3 emissions using vehicle production numbers. Increased self-reporting of scope 3 emissions from clients would significantly improve data quality.

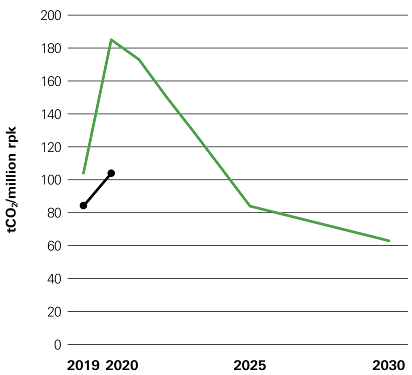
Iron, steel and aluminium[3]
tCO_2/t metal

2020 progress from baseline
11%



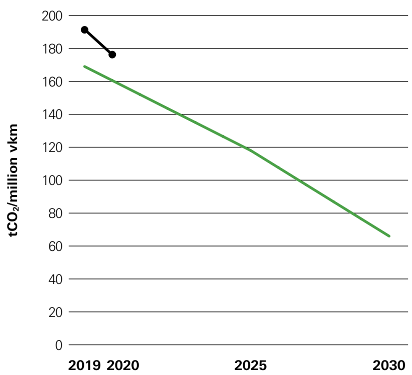
Aviation
tCO_2/million rpk

2020 progress from baseline
24%



Automotive
tCO_2/million vkm

2020 progress from baseline
(8)%



Key:

Net Zero Emissions by 2050 Scenario — On-balance sheet financed emissions intensity — MPP Tech Moratorium

Our analysis of shipping emissions

As part of our work in 2022, we analysed financed emissions for the shipping sector to establish a baseline. During our analysis we noted significant data gaps in reported emissions and data from external vendors at the company level. For scope 1 emissions, which are typically the easiest to source, we would have needed to have made estimates using outstanding amounts rather than production or revenue indicators, which would have resulted in the least accurate data quality scoring. We have therefore chosen to defer setting a baseline and target for this sector until there is sufficient reliable data to support our work, allowing us to more accurately set a baseline and track progress towards net zero. We will continue to engage with strategic clients within the sector to encourage disclosure and discuss their transition plans. We believe the shipping industry will require significant policy support and innovation to allow for the use of lower emissions fuels in existing as well as new ships. On the supply side, the provision of low-carbon fuels will need to increase sufficiently to meet this new demand.

Financed emissions continued

Financed emissions

The table below summarises the results of our assessment of financed emissions using 2019 and 2020 data.

		On-balance sheet financed emissions – wholesale credit lending and project finance[1,2]				
					PCAF data quality score[3,†]	
Sector	**Year**	Scope 1–2 (Mt CO_2)[†]	Scope 3 (Mt CO_2)[†]	Emissions intensity	Scope 1 and 2	Scope 3
Oil and gas[4, 5]	2019	3.7	29.3	72.2	2.7	2.9
	2020	3.3	26.8	71	2.7	2.9
Power and utilities[4,5]	2019	12.1	N/A	589.9	3.3	N/A
	2020	11.8	N/A	509.6	3.2	N/A
Cement	2019	2.2	N/A	0.64	2.2	N/A
	2020	1.3	N/A	0.64	2.3	N/A
Iron, steel and aluminium	2019	3.2	N/A	1.8	2.5	N/A
	2020	2.7	N/A	2	2.8	N/A
Aviation	2019	6.2	0.11	84	2.8	2.8
	2020	4.9	0.08	103.9	2.6	3
Automotive	2019	0.11	4.0	191.5	3.3	3.4
	2020	0.14	4.9	176.2	3.2	3.3

1 Total amount of short-term finance excluded for all sectors listed is $9.3bn in 2019 and $7.6bn in 2020

2 Total loans and advances analysed in 2019 were $38.3bn representing 1.7% of wholesale credit and lending and project finance at 31 December 2019, and in 2020 were $34.7bn representing 1.7% of wholesale credit and lending and project finance at 31 December 2020.

3 PCAF scores where 1 is high and 5 is low. This is a weighted average score based financing for on-balance sheet financed emissions.

4 In the *Annual Report and Accounts 2021* the units for power and utilities were reported last year as $MtCO_2e$, and are now read Mt CO_2. Oil and gas absolute emissions are measured in $MtCO_2e$. This year we amended the units for the power and utilities sector from Mt CO_2e/TWh' to tCO_2/GWh to align to market practice. While the target value remains unchanged this has led to a revision in the figure reported from 0.14 Mt CO_2e/TWh' to 138 tCO_2/GWh.

5 Our 2019 emissions for our oil and gas, and power and utilities sectors have been revised due to changes in data impacting drawn amounts of client lending, and amendments to the assumptions governing the in-scope client population.

† Data is subject to independent limited assurance by PwC in accordance with ISAE 3000/ ISAE 3410. For further details, see our Financed Emissions Methodology and PwC's limited assurance report, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Our analysis of facilitated emissions

In March 2022, we said we would set capital markets emissions targets for the oil and gas, and power and utilities sectors based on the industry reporting standard from the PCAF once published. We have chosen to defer setting targets for facilitated emissions until the PCAF standard for capital markets is published, which is expected in 2023. We had intended to disclose facilitated emissions for 2019 and 2020 for the oil and gas, and power and utilities sectors for transparency, as we did last year. However, following internal and external assurance reviews performed during the year, we identified certain data and process limitations and have deferred the publication of our facilitated emissions for 2019 and 2020 for these two sectors while additional verification procedures are performed. We aim to provide these disclosures as soon as practicable in 2023.

We continue to monitor the developments in industry standards for the publication of such emissions and associated targets, and, as mentioned above, we will seek to align to the PCAF standard when published. However, we will aim to provide transparency on our 2019 and 2020 facilitated emissions for the oil and gas, and power and utilities sectors as they become available, which may be in advance of the PCAF standard being available.

Financed emissions continued

Embedding financed emissions 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.

In 2022, we developed an operating model across our Global Sustainability teams to strengthen our processes, systems, controls and governance. The Global Sustainability function also established a Sustainability Centre of Excellence, a team of sustainability specialists with deep subject matter expertise on new climate technologies, climate analytics and transition planning and assessment, to help us fulfil our net zero commitments and serve our customers.

The Global Sustainability Centre of Excellence, together with the Group Risk and Compliance, and Global Finance functions, have continued to develop our approach, including working to embed financed emissions into our business activities and culture. We have strengthened our climate data and analytics capability to help inform decision making and portfolio management, as well as expanded the resources to support business engagement.

We are placing climate and sustainability at the heart of our engagement with customers, and in particular those customers with the greatest potential to effect change. In 2022, we requested and assessed transition plans for EU and OECD managed clients in scope of our thermal coal phase-out policy. We have also requested and are assessing transition plans for our major oil and gas clients (see page 49).

We aim to provide and facilitate $750bn to $1tn of sustainable finance and investment by 2030 to support our customers in their transition to net zero and a sustainable future. In 2022, we also started to develop an approach for allocating financing to scale technologies critical to reach net zero.

Our own climate transition plan will bring together our financed emissions targets and climate strategy, with how we plan to embed this into our processes, infrastructure, governance and engagement.

The next section provides further detail on how we are embedding net zero considerations into our customer engagement and unlocking finance to support our customers on their transition to net zero and a sustainable future.

Backing green SMEs in the UK

Panthera Group, a family-run construction company, launched EnviroHoard, the UK's first construction hoarding system to be verified as net zero carbon. In March, we supported the firm with the first ever loan through our $500m Green SME Fund, which we announced at COP26 as part of our commitment to supporting small and medium-sized businesses in their transition to net zero. Panthera will use the loan to grow its business in the UK. In 2022, Panthera reduced 446 tonnes of carbon emissions through its installations, and set up a partnership with Circular Ecology and Trees for Cities to help offset the carbon impact of its installations.

Reducing emissions in our assets under management

In July 2021, our asset management business, HSBC Asset Management, signed up to the Net Zero Asset Managers initiative, which encourages investment firms to commit to manage assets in line with the attainment of net zero emissions by 2050.

In November 2022, HSBC Asset Management announced its ambition of reducing scope 1 and 2 carbon emissions by 58% by 2030 for 38% of its total assets under management, consisting of listed equity and corporate fixed income, which amounted to $193.9bn at 31 December 2019.

A baseline year of 2019 was chosen for our calculations as it offered a more realistic picture of the level of carbon emissions intensity than the period after the pandemic. Our baseline for the emission intensity of our portfolio in 2019 was 131tCo_2e/M$ invested, which includes scope 1 and 2 emissions of companies in our portfolio.

Our baseline represents the emissions associated with our investing activities in terms of emissions per dollar invested relevant of the assets under management in scope for this assessment. We will review our interim target at least every five years, with a view to increasing the proportion of assets under management covered until 100% of assets are included. Implementation of our net zero targets remains subject to consultation with our key stakeholders. We plan to stay actively engaged to help support our investors on their own decarbonisation goals, and continue to apply resources in the development of climate solutions.

To support the development of HSBC Asset Management's climate strategy and goal to deliver on its target, it has chosen to align to the Institutional Investors Group on Climate Change's net zero investment framework, which was created for investors to provide a common approach around the actions, metrics and methodologies required to align portfolios to net zero.

The PCAF data quality score for our baseline emissions was 2.63. 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', and with respect of the greenhouse 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. For the methodology, PwC's limited assurance report, and details on HSBC Asset Management's net zero ambition, see www.assetmanagement.hsbc.com/net-zero.

Supporting customers through transition TCFD

We understand that financial institutions have a critical role to play in achieving the transition to a net zero global economy. We believe the most significant contribution we can make is by mobilising finance to support our portfolio of customers in their transition to decarbonise.

Mobilising sustainable finance for our customers
Given our global presence and relationships with our customers across industries, we recognise the role we can play in catalysing the global transition to net zero. We are well positioned to help finance the transition in developing and emerging economies, mobilising capital to help enable sustainable business models and an inclusive, just and resilient transition.

In 2022, we continued to expand the horizons of sustainable finance through our products, services and partnerships to help enable emissions reduction in the real economy:

- We launched a $5bn sustainable finance scheme to support businesses of all sizes to transition to low-carbon operations in China's Greater Bay Area, with successful loan applicants entitled to a range of additional services including training, subsidised third-party assessments and assistance from a newly formed team with sustainable financing expertise.
- We created a sustainable supply chain finance programme for apparel company PVH Corp in the US to finance environmentally and socially friendly production at its manufacturing facilities (see page 97).
- We supported Panthera Group, a family-run construction company, to finance and grow the UK's first construction hoarding system to be verified as zero carbon, (see page 56).
- We expanded our green mortgage offering to our retail customers in Hong Kong, mainland China, India and Türkiye, as well as electric vehicle and energy efficiency loans to customers in Hong Kong, Egypt and Argentina.
- We committed to working collaboratively with the government of Egypt in its Nexus of Food, Water and Energy programme to identify ways to use scarce public finances effectively and efficiently, and help raise private finance to support priority projects from its national climate change strategy.

As part of the Just Energy Transition Partnership, which aims to mobilise capital towards emerging and developing economies to support their national climate strategies, we agreed to support the facilitation of at least $10bn of private sector financing for projects in Indonesia and $7.8bn for projects in Vietnam over the next three to five years.

In addition, we were also mandated to act on 12 ESG-related government bonds, including inaugural issuances for the governments of Singapore, Canada and Uruguay. In 2022, we secured six awards at the *Environmental Finance* Bond Awards, revealing the high regard in the market for our structuring and engagement work across green, social and sustainability bonds during 2021. In the *IFR* Awards 2022, we were named ESG Financing House of the Year. We were also recognised by *Euromoney* as the Best Bank for Sustainable Finance in Asia for the fifth consecutive year, and in the Middle East for the fourth.

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. This includes 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, achieve gender equality, reduce inequality, 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.

$210.7bn

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

Embedding net zero transition into our client engagement

In 2022, we requested and assessed transition plans for EU and OECD managed clients in scope of our thermal coal phase-out policy. We also requested and are assessing transition plans for our major oil and gas clients. In 2023, we expect to complete assessments for remaining clients in scope of our thermal coal phase-out policy. Similarly, we expect to complete assessments for major oil and gas and power and utilities clients globally as well as other clients in EU and OECD markets in scope of our energy policy.

Our assessments consider historical emissions and disclosures, emissions reduction targets, details of transition plans to achieve targets, and evidence of activities in line with these plans. Our assessment framework helps us to understand our clients' transition plans, develop an engagement strategy to help support them on their transition journey and help us achieve our net zero ambition. We acknowledge that our assessment of client transition plans is in the initial stages and our engagement with clients on their plans and progress will need to continue to be embedded.

Supporting customers through transition continued

Financing the transition

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 promoted green, sustainable and socially-focused business alongside sustainable infrastructure and energy systems, and enhanced investor capital through sustainable investment.

Since 1 January 2020, we have provided and facilitated $185.3bn of sustainable finance, $19.0bn of sustainable investment and $6.4bn of sustainable infrastructure, as defined in our *Sustainable Finance and Investment Data Dictionary 2022*. This included 36% where the use of proceeds were dedicated to green financing, 13% to social financing, and 15% to other sustainable financing. It also included 27% of sustainability-linked financing and 9% of net new investments flows managed and distributed on behalf of investors.

In 2022, our underwriting of green, social, sustainability and sustainability-linked bonds for clients decreased in line with the overall market, although remained at 15% of our total bond issuances. On-balance sheet sustainable lending transactions increased by 53%, compared with 2021. The outstanding sustainable finance on-balance sheet position was in excess of $24bn at 31 December 2022.

Sustainability-linked bonds are a recent innovation in the debt capital markets, which allow investors to manage their sustainability strategies by linking targets, and progress towards them, to the issuers' financing costs. These products do not require definitions of use-of-proceeds as they are linked to issuers' broader sustainability commitments.

Issuer commitments and strategies continue to develop and be included in medium- to long-term sustainability plans. We expect that sustainability-linked bonds will become increasingly meaningful for transparency in issuer performance against science-based transition pathways and other sustainability goals. We have supported customers within the high transition risk sectors to issue sustainability-linked bonds which support the transition to the net zero economy and a sustainable future.

We are working closely with industry bodies, such as the International Capital Markets Association ('ICMA'), to establish a robust set of standards for the market. The ICMA Sustainability-Linked Bond Principles provide guidelines on what is core, material and relevant in terms of key performance indicators, and provides advice on how targets should be assessed.

Sustainable finance summary[1]	2022 ($bn)	2021 ($bn)	2020 ($bn)	Cumulative progress since 2020 ($bn)
Balance sheet-related transactions provided	**42.1**	26.0	10.3	**78.4**
Capital markets/advisory (facilitated)	**34.6**	48.7	30.0	**113.3**
Investments (assets under management – flows)	**7.5**	7.7	3.7	**19.0**
Total contribution[2]	**84.2**	82.4	44.1	**210.7**
Sustainable finance classification by theme				
Green use of proceeds[3]	**29.0**	27.1	18.8	**74.9**
Social use of proceeds[3]	**6.7**	11.3	9.7	**27.8**
Other sustainable use of proceeds[3,4]	**12.6**	11.7	8.3	**32.7**
Sustainability-linked[5]	**28.4**	24.6	3.5	**56.5**
Sustainable investments – Asset Management[6]	**7.5**	7.7	3.7	**19.0**
Total contribution[2,7]	**84.2**	82.4	44.1	**210.7**

1 This table has been prepared in accordance with our *Sustainable Finance and Investment Data Dictionary 2022*, 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. In 2022, green liabilities were removed from the data dictionary, which resulted in $0.3bn removed from the published 2021 cumulative total.

2 The $210.7bn cumulative progress since 2020 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 and Investment Data Dictionary 2022* and PwC's limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

3 For green, social and other sustainable use of proceeds, our capital markets products are aligned to either ICMA's Green Bond Principles, Social Bond Principles or Sustainability Bond Guidelines. Our lending labelled products are aligned to the LMA's Green Loan Principles, the LMA's Social Loan Principles or our sustainable trade instruments, which align the use of proceeds to the UN SDGs.

4 Sustainability use of proceeds can be used for green, social or a combination of green and social purposes.

5 Our sustainability-linked-labelled products are aligned to either the ICMA Sustainability-Linked Bond Principles or LMA Sustainability-Linked Loan Principles. The coupon or interest rate is linked to sustainability key performance indicators and the funds can be used for general purposes. Of the cumulative total of $56.5bn, $10.1bn relates to sustainability linked bonds and $46.4bn relates to sustainability linked loans. Within the sustainability linked loans, $13.1bn relates to lending to customers within the six high transition risk sectors (i.e. automobiles, chemicals, construction and building materials, Metals and mining, oil and gas, and power and utilities) as described on page 223.

6 Net flows of HSBC-owned sustainable investment funds that have been assessed against the *Sustainable Finance and Investment Data Dictionary 2022.*

7 Additional detailed information in relation to our sustainable finance and investment progress can be found in the *ESG Data Pack*.

Our approach to financing net zero

In 2022, we started developing a strategy to help us orient how we allocate our financing solutions and capital to support our clients' transition to net zero and help deliver a significant decarbonisation impact to the global economy. The approach, based on the IEA's Net Zero by 2050 scenario, identifies the infrastructure, technologies and new business models critical for industries to transition to net zero. We recognise that we will need to adapt our capabilities in specific products and sectors to capture business opportunities and help finance the transition. In 2022, we made several investments to play a catalytic role, including through Pentagreen Capital, an innovative financing vehicle set up in partnership with Temasek, to accelerate sustainable infrastructure in south-east Asia, and with Breakthrough Energy Catalyst to gain expertise in nascent, 'new-economy, sectors aligned with our clients' net zero ambitions.

Our data dictionary defining our sustainable finance and investments continues to evolve, and is reviewed annually to take into account the evolving standards, taxonomies and practices we deem appropriate. Our review involves reviewing and strengthening our product definitions, where appropriate adding and deleting qualifying products, making enhancements to our internal standards, and evolving reporting and governance. Our progress will be published each year, and we will seek to continue for it to be independently assured.

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

Supporting customers through transition continued

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

Our Asset Management business seeks to drive innovation at scale, and bring new propositions to the market for investors, including sustainable exchange-traded funds and lower-carbon investment solutions. We are committed to further developing our sustainable product range across asset classes and strategies, as well as enhancing our existing product set for ESG criteria where it is in the investors' interests to do so. In 2022, we launched 24 funds with a sustainable focus.

In our aim to support the transition to more sustainable ways of dealing with resources and waste, through the circular economy, HSBC Asset Management launched the HSBC Global Investment Fund ('HGIF') Global Equity Circular Economy fund.

To support its net zero ambition, HSBC Asset Management continued to add to the range of products aligned to Paris-aligned benchmarks, launching two exchange-traded funds in 2022 that invest in emerging markets and Asia-Pacific. These benchmarks' underlying assets are selected in such a manner that the resulting benchmark portfolio's greenhouse gas emissions are aligned with the long-term global warming target of the Paris Agreement.

In 2022, HSBC Asset Management's fixed income, equity and stewardship teams held over 1,000 meetings with companies in our portfolios. These included discussions on climate-related matters, with more than 60 of these having specific, targeted outcomes with climate objectives. We continue to engage with issuers, encouraging the reporting of emissions data, the setting of emissions reduction targets, the assessment of climate risk, and the development of robust transition strategies.

We expanded our investment offering for private banking and wealth clients with the launch of 22 sustainable investing mutual funds and exchange-traded funds in 2022. We offer a range of sustainable investment products across other asset classes, including equities, fixed income, discretionary and alternatives. We enhanced our ESG thematic products offering linked to indices. For example, we collaborated with Euronext and Iceberg Datalab to design the first broad-based biodiversity screened equity index family.

At HSBC Life, our insurance business, we are focused on ensuring our customers have more access to ESG investment fund options aligned to their ESG preferences. ESG funds invest only in companies with strong ESG credentials or in key ESG-related areas. We increased the availability of ESG investment fund options within our investment-linked products. During 2022, we launched in Hong Kong a new protection-linked plan with three ESG fund choices now available, and we launched our first ESG fund in Mexico.

First ESG underwriting guide for life and health insurance

Our insurance business, HSBC Life, co-sponsored and co-led the first ESG underwriting guide for the life and health insurance sector. The guide was published by the United Nations Environment Programme Finance Initiative ('UNEP FI') Principles for Sustainable Insurance, a set of principles endorsed by the United Nations and the insurance industry.

This guide, which was published in June 2022, provides a framework for life and health insurers to evaluate a range of ESG risks and factors on the mortality, morbidity, longevity and hospitalisation risks when underwriting.

These include risk mitigation strategies alongside best practices for insurers to consider.

The guide was put together in collaboration with a global team of sustainability experts from 11 other member companies of the UNEP FI Principles for Sustainable Insurance. Its purpose is to reinforce the key role insurers need to play in helping to solve the major ESG challenges of our time, such as the spread of infectious diseases, biodiversity and nature loss, social inequality, and mental health and well-being.

Accelerating growth in geothermal and recovered energy

Ormat Technologies Inc., which has been operating in renewable energy production for more than 50 years, has developed expertise and global experience in the supply and development of geothermal, recovered energy and energy storage solutions. We supported Ormat in June 2022 with the issuance of a $431m green convertible bond, the proceeds of which will support Ormat grow its business and develop its renewable green energy projects.

Ormat now has a total generating portfolio of approximately 1.1 gigawatts, including a geothermal and solar generation portfolio across the US, Kenya, Guatemala, Indonesia, Honduras and Guadeloupe, as well as holding an energy storage portfolio in the US.

Unlocking climate solutions and innovations TCFD

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 help reduce emissions and address climate change.

Sustainable infrastructure
Addressing climate change requires the rapid development of a new generation of sustainable infrastructure, particularly for emerging markets.

During 2022, we demonstrated our commitment to catalysing financing for sustainable infrastructure projects, with the launch of Pentagreen Capital, a debt financing vehicle we set up in partnership with Temasek (see below).

We continue to take a leading role in the FAST-Infra initiative, which we helped conceive, 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. Through the FAST-Infra initiative, we helped launch in 2021 the Sustainable Infrastructure (SI) Label – a consistent, globally applicable labelling system designed to identify and evaluate sustainable infrastructure assets. The initiative continues to grow, with the appointment in November 2022 of a consortium with global expertise in sustainability standards, global finance, software and data platforms, to manage the secretariat of the SI Label, so the label becomes an enduring and widely adopted standard.

Natural capital as an emerging asset class
Climate Asset Management, a joint venture we launched with Pollination in 2020, forms part of our goal to unlock new climate solutions. Combining expertise in investment management and natural capital, Climate Asset Management offers investment solutions that generate competitive risk-adjusted returns for investors, and nature-enhancing ecosystems to help protect biodiversity and accelerate the transition to net zero.

In December 2022, Climate Asset Management announced it had received commitments of over $650m for its two strategies:

- the Natural Capital Strategy, which invests in agriculture, forestry and environmental assets, with the aim to deliver impact at scale alongside long-term financial returns; and
- the Nature Based Carbon Strategy, which targets nature restoration and conservation projects in developing economies, prioritising community benefits while generating high-quality carbon credits.

One of Climate Asset Management's first investments was the Restore Africa Programme, in partnership with the Global EverGreening Alliance, announced in November 2021. The programme, which is the world's largest community-based land-restoration project, aims to benefit 1.5 million smallholder farmers and their communities through the restoration of up to 2 million hectares of degraded land across six sub-Saharan countries. The programme has started being implemented in Kenya, Uganda and Malawi, with plans for Zambia, Tanzania and Ethiopia to follow in 2023.

Climate Asset Management is a founding member of the Natural Capital Investment Alliance, whose 15-strong membership of investment firms aims to have mobilised $10bn towards nature-based economic themes.

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

We continue to unlock new climate solutions, focusing on supporting innovation in critical areas such as green technologies. In January 2022, we announced our investment of $100m as an anchor partner in Breakthrough Energy Catalyst, a programme that uses private-public capital to accelerate the development of four critical climate technologies: direct air capture, clean hydrogen, long-duration energy storage and sustainable aviation fuel.

Our philanthropic programme, 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 84).

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. We expanded our venture debt platform to support climate technology hardware and software companies that are growing rapidly. In 2022, we achieved our initial goal to fund $100m to climate technology companies through this platform, and consequently increased our commitment to $250m. In 2022, we committed an additional $100m to fund women and minority entrepreneurs through our venture debt platform.

HSBC Asset Management also launched a venture capital strategy that invests in transformative early stage companies enabling decarbonisation and de-pollution of industries. The strategy invests across four investment themes: power transformation, transport electrification, supply chain sustainability and climate risk mitigation. We seeded the strategy with capital in November 2021, and it has since invested in three start-up companies. HSBC Asset Management continues to actively fundraise for this strategy, aiming to raise additional funds from institutional and private wealth clients over the course of 2023.

Accelerating sustainable infrastructure in Asia

In August 2022, we officially launched Pentagreen Capital, a sustainable infrastructure debt financing vehicle set up in partnership with Temasek. Pentagreen's goal is to accelerate the development of sustainable infrastructure in Asia by removing the barriers that can prevent marginally bankable projects from accessing capital. With a combined $150m of seed capital committed by the founding partners, the Singapore-based company aims to provide more than $1bn of loans over the next five years, targeting opportunities initially in south-east Asia. Its primary focus will be on clean transport, renewable energy and energy storage, and water and waste management.

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. According to The Nature Conservancy, natural climate solutions can provide up to 37% of the emission reductions needed by 2030. At the same time climate change is accelerating nature loss, and consequently the ability for nature to mitigate climate change impacts.

We understand we need to do more to embed nature-related issues into our sustainability policies and climate transition plan, and we are committed to strengthening our risk management approach and engaging with our customers.

Understanding our exposure

In 2022, we made progress with understanding how to assess and monitor nature-related risks, as well as how to create effective transition plans with the aim of halting our contribution to nature loss from our business activities:

- We conducted analysis on how reliant our large corporate clients were on ecosystem services, including the nature-related benefits crucial for the provision of food and drinking water, which demonstrated that our clients were highly dependent on water availability.
- To improve our understanding of the potential credit risks that nature-related risks pose to our customers, we worked with the Cambridge Institute on Sustainability Leadership, by evaluating the impact of three months of water shortage on a sample of our customer portfolio comprising heavy industry companies in east Asia.
- We participated in a pilot test of a draft version of the Taskforce on Nature-related Financial Disclosures ('TNFD') framework for risk and opportunity management and disclosure, which helped us understand its implications and provide feedback ahead of its release in September 2023.
- We intend to publish a new deforestation policy, informed by scientific and international guidance, in 2023. For further details of our biodiversity and natural capital-related policies, see 'Our approach to sustainability policies' on page 65.

Reducing nature loss

We are making progress with the investment and financing of biodiversity and nature-based solutions through client products and services and partnerships. In 2022, these included:

- In August 2022, our asset management business, HSBC Asset Management, launched a biodiversity exchange-traded fund that enables investors to incorporate sustainable considerations within their portfolios (see below).
- Our Global Private Banking business launched a biodiversity strategy for our private bank clients in Hong Kong and Singapore, which focuses on investing in companies that are well positioned to harness, regenerate and protect biodiversity through the circular and bio-based economy.
- Through the Climate Solutions Partnership, our philanthropic collaboration with the World Resources Institute and WWF, we issued two reports on the hurdles and success factors for scaling up nature-based solutions.

For further details of our approach to nature and related initiatives, see our Statement on Nature in the ESG reporting centre at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

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 58.5% 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 39.7% 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, 1.6% 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.

Building biodiversity risk awareness into ETFs

Asset owners and managers have a role to play in addressing potential transition and physical risks. Our asset management business, HSBC Asset Management, launched the first of its kind biodiversity screened exchange-traded fund, which provides investors with the opportunity to consider biodiversity risk factors in their portfolios. This exchange-traded fund tracks the Euronext ESG Biodiversity Screened Index series, which was jointly developed by HSBC, Euronext and Iceberg Data Lab. The Biodiversity Footprint Score excludes companies from the index that do not sufficiently consider biodiversity impacts as well as those with poor ESG credentials and/or business activities deemed harmful towards biodiversity.

Our approach to our own operations TCFD

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, and in 2022 we achieved 24%. We plan to do this by optimising the use of our real estate portfolio, and carrying out a strategic reduction in our office space and data centres. We are using new technology and emerging products to make our spaces more energy efficient, such as in the UK, where an additive to our boiler systems helped make heating in our branches 13% more efficient.

As part of our ambition to achieve 100% renewable power across our operations by 2030, we continue to look for opportunities to procure green energy in each of our markets. A key challenge remains the limited opportunity to pursue power purchase agreements or green tariffs in key markets due to regulations.

We are tracking the impact on our emissions from our colleagues working from home, as they continue to embrace more flexible ways of working. We calculated the electricity used by our colleagues working from home was 5% of our total electricity consumption in 2022. 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
In 2022, our travel emissions remained below 50% of pre-pandemic levels in 2019, with international travel restrictions remaining for much of the year in key Asia markets, slowing the return to business travel. We are closely managing the gradual resumption of travel through internal reporting and review of emissions, and through the introduction of internal carbon budgets, in line with our aim to halve travel emissions by 2030, compared with pre-pandemic levels. With hybrid working embedded across the organisation, the use of virtual working practices has reduced the need for our colleagues to travel to meet with other colleagues and customers. We continue to focus on reducing the environmental impact from the vehicles we use in our global markets, and accelerate the use of electric vehicles. In 2022, we reduced the company car fleet size by 24%. We are now aiming to ensure that all new vehicles ordered are fully electric or hybrid vehicles where possible.

Engaging with our supply chain
Our supply chain is critical to achieving our net zero ambitions, and we are partnering with our suppliers on this 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 (formerly the Carbon Disclosure Project) supply chain programme. The target for 2022 was for suppliers representing 60% of total supplier spend to have completed the CDP questionnaire. In total, suppliers representing 63.5% of total supplier spend completed the CDP questionnaire.

We will continue to engage with our supply chain through CDP, and through direct discussions with our suppliers on how they can further support our transition to net zero.

In 2022, we also formalised our supply chain sustainability strategy through the update of our supplier code of conduct and the development of our sustainable procurement procedures. The new procedures set out the minimum requirements and operational information required to help ensure our sustainability objectives relating to climate change, the environment, human rights, and diversity and inclusion are clearly addressed in the way that we operate and conduct business with suppliers.

Focus on natural resources
Alongside our net zero operations ambition, our aim is to be a responsible consumer of natural resources. Through design, construction and operational standards, we strive to ensure that, wherever possible, our premises do not adversely affect the environment or natural resources. We have identified specific focus areas including waste, paper and sustainable diets, and are exploring key opportunities to reduce our wider environmental impact over the coming decade.

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 approach to our own operations continued

Emissions from our energy and travel in 2022

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 2022, we continued to decrease our emissions from our energy consumption and travel, achieving a 58.5% 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 400 energy conservation measures that amounted to an estimated energy avoidance in excess of 11.9 million kWh and increased our consumption of renewable electricity to 48.3%.

In 2022, we collected data on energy use and business travel for our operations in 28 countries and territories, which accounted for approximately 92.4% of our FTEs. To estimate the emissions of our operations in entities where we have operational control and a small presence, we scale up the emissions data from 92.4% to 100%. We then apply emission uplift rates to reflect uncertainty concerning the quality and coverage of emission measurement and estimation. This is consistent with both 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 and relevant environmental key facts, see the *ESG Data Pack* at www.hsbc.com/esg.

Energy and travel greenhouse gas emissions in tonnes CO_2e

		2022	2021
Scope 1[1]	▼	**19,000**	22,000
Scope 2[1]	▼	**224,000**	307,000
Scope 3 (category 6) business travel[1]	▲	**42,000**	12,000
Total	▼	**285,000**	341,000
Included energy UK	▼	**9,000**	10,000

Greenhouse gas emissions in tonnes CO_2e per FTE

		2022	2021
Total	▼	**1.30**	1.52

Energy consumption in kWh in 000s

		2022	2021
Total Group	▼	**797,000**	833,000
UK only	▼	**222,000**	227,000

1 Data in 2022 is subject to PwC's limited assurance report in accordance with International Standard on Assurance engagements 3410 (Assurance Engagements on Greenhouse Gas Statements). For further details, see GHG Reporting Guideline 2022 and third-party limited assurance report at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Emissions from our supply chain in 2022

		Emissions (tonnes CO_2e)			Data quality score[1]	
Scope 3 categories	**Year**	Scope 1–2	Scope 3	Total	Scope 1–2	Scope 3
Category 1 – Purchased goods and services [2,3]	**2022**	218,000	648,000	866,000	3.1	3.3
	2021	252,000	617,000	869,000	3.0	3.3
Category 2 – Capital goods [2,3]	**2022**	30,000	114,000	144,000	3.1	3.4
	2021	31,000	96,000	127,000	3.1	3.3

The data we receive through our engagement with CDP has enabled us to report our supply chain emissions for the first time. Our methodology uses supplier emissions data where we have it from 500 of our largest suppliers, through CDP. Where we do not have emissions data for suppliers, we use industry average carbon intensities and spend data to define the contribution to our supply chain emissions. As more of our suppliers report their emissions, we should be able to include more accurate data and fewer industry averages in the calculation. We have applied a data quality score to the sources of data we used to determine counterparty emissions. Our initial supply chain emission figures may require updating as data availability changes over time and methodology and climate science evolve. For further details, see our GHG Reporting Guidance.

In 2022, emissions from our supply chain increased by 16% compared with 2019, as a result of an increase in spend – particularly in IT services – and a rise in the average carbon intensity of our suppliers. The CDP-provided industry averages rose, increasing the emissions for our suppliers where we do not have emissions data. However, in 2022 there was a decrease in carbon intensity of suppliers who disclose their emissions compared with 2021, particularly in servers and data centres. While the carbon intensity of our supply chain decreased, a rise in spend on services in 2022 led to a 1% increase in emissions compared with 2021.

1 Data quality scores where 1 is high and 5 is low, based on the quality of emissions data. This is a weighted average score based on HSBC supplier spend and is in line with HSBC's financed emissions reporting methodology

2 Supply chain emissions calculated using a combination of supplier emissions data and industry averages.

3 Data in 2019, 2020, 2021 and 2022 for scope 3 (purchased goods and service) and scope 3 (capital goods) is subject to PwC's limited assurance report in accordance with International Standard on Assurance engagements 3410 (Assurance Engagements on Greenhouse Gas Statements). For further details, see GHG Reporting Guideline 2022 and third-party limited assurance report at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Our approach to climate risk TCFD

Managing risk for our stakeholders

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a greener economy. We manage climate risk across all our businesses and are incorporating climate considerations within our traditional risk types in line with our Group-wide risk management framework. Our most material exposure to climate risk relates to corporate and retail client financing activity within our banking portfolio. We also have significant responsibilities in relation to asset ownership by our insurance business, employee pension plans and asset management business. In the table below, we set out our duties to our stakeholders in our four most material roles.

For further details of our approach to climate risk, see 'ESG risk' on page 139 and 'Climate risk' on page 221.

Banking
We manage the climate risk in our banking portfolios through our risk appetite and policies for financial and non-financial risks.

Employee pensions
Our pension plans manage climate risk in line with their fiduciary duties towards members and local regulatory requirements.

Asset management
Climate risk management is a key feature of our investment decision making and portfolio management approach.

Insurance
We consider climate risk in our portfolio of assets.

Climate risk

This helps enable us to identify opportunities to support our customers, while continuing to meet stakeholder expectations.

We monitor climate risk exposure internally for our largest plans based on asset sector allocation and carbon emissions data where available.

We also engage with companies on topics related to climate change.

We have established an evolving ESG programme to meet changing external expectations and customer demands.

Banking

Our banking business is well positioned to support our customers managing their own climate risk through financing. For our wholesale customers, we use our transition and physical risk questionnaire as part of our risk framework to understand their climate strategies and risk. We have set out a suite of policies to guide our management of climate risk, including our recently updated energy policy and thermal coal phase-out policy (see page 65). We continue to develop our climate risk appetite and utilise metrics to help manage climate exposures in our wholesale and retail portfolios. Climate scenario analysis is used as a risk assessment tool to provide insights on the long-term effects of transition and physical risks across our corporate and retail banking portfolios, as well as our own operations (for further details, see page 67).

Asset management

HSBC Asset Management managed over $608bn assets at the end of 2022, of which more than $55bn were held in sustainable investments. The majority of the remaining assets were invested in ESG-integrated strategies.

When assessing the impact of climate-related risk to our portfolios, we are increasingly considering both physical and transition risks. As a result, we have integrated ESG and climate analysis to help ensure that risks faced by companies are considered throughout the investment decision-making process. Investment teams through portfolio management tools assess, examine and determine the level of potential ESG risks that could impact the current and future value of issuers.

One of our key approaches to manage climate risk is through engaging with the companies we invest in. Our HSBC Asset Management Stewardship Plan outlines our approach to engaging with issuers, including on the topic of climate change.

Employee pensions

The Trustee of the HSBC Bank (UK) Pension Scheme, our largest plan with $33bn assets under management, aims to achieve net zero greenhouse gas emissions across its defined benefit and defined contribution assets by 2050. To help achieve this, it is targeting an interim emissions reduction of 50% by 2030, from 2019 levels, for its equity and corporate bond mandates. This commitment was made in the context of wider efforts to manage the impact of climate change on the Scheme's investments and the consequent impact on the financial interests of members.

During 2022, a framework was put in place to assess progress towards the 2030 targets. The Scheme, which has reported emission reductions for the equity and corporate bond mandates between 2019 and 2021, will continue to report against the 2030 targets, and aim to widen the coverage of its assessment and reporting over time.

For further details of the HSBC Bank (UK) Pension Scheme's annual TCFD statements and climate action plan, see https://futurefocus.staff.hsbc.co.uk/active-dc/information-centre/other-information.

Insurance

In 2022, our Insurance business, which has life insurance manufacturing subsidiaries in eight markets and total assets under management of approximately $126bn, updated its sustainability policy to align with the Group's new thermal coal phase-out policy. An ESG policy on corporate underwriting was also introduced.

Risk appetite was reviewed relating to key ESG aspects. ESG standards were embedded into insurance product development processes and operational capabilities.

In response to multiple and differing ESG regulatory initiatives and developments, HSBC's insurance entities in the EU have implemented key disclosure-related regulatory requirements. These requirements mainly impact insurance-based investment products manufactured by HSBC entities in the EU. Related requirements for the UK and other jurisdictions are expected to be introduced in the near future.

Our approach to sustainability policies TCFD

We recognise that businesses can have an impact on the environment, individuals and communities around them. We continue to develop, implement and refine 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 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. We also apply the Equator Principles when financing projects.

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 are 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, we updated our thermal coal phase-out policy, which we explain further on the following page, as well as our energy policy, which we set out below.

Governance and implementation
HSBC's relationship managers are the primary point of contact for our customers and are responsible for checking whether our customers meet applicable policies. Within our Group 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 is supported by regional reputational risk managers across the Group who have additional oversight responsibilities for sustainability risk.

The Wholesale Reputational and Sustainability Risk team also became part of Risk Strategy, with expanded Group-wide responsibilities, to strengthen the governance and oversight of sustainability risk policies, and to reflect the evolution of the sustainability agenda.

The Sustainability Risk Oversight Forum, made up of senior members of the Group Risk and Compliance function and global businesses, continued to oversee the development and implementation of policies that seek to identify, manage and mitigate the Group's sustainability risk.

As part of our oversight of sustainability risk policies, we operate an assurance framework that is designed to take a more holistic view of risks, including by:

- ESG news screening, taking a risk-based approach, across the sustainability risk policies;
- overseeing clients considered to be of higher risk;
- reviewing client files across the sustainability risk policies; and
- monitoring of the sustainability risk client portfolio against a defined set of key control indicators overseen by the Sustainability Risk Oversight Forum.

The framework is used to monitor the in-scope portfolio and keep track if there is a deterioration in the risk ratings. With the respective risk rating assigned, our sustainability risk specialists will agree the necessary actions to help mitigate unacceptable risks with the business.

Where considered appropriate, a submission can be made to the Reputational Risk and Client Selection Committee to agree an appropriate course of action.

Our energy policy

In December 2022, we published our updated policy covering the broader energy system, including upstream oil and gas, oil and gas power generation, hydrogen, renewables and hydropower, nuclear, biomass and energy from waste. The policy seeks to balance three related objectives: supporting the reduction of global greenhouse gas emissions; enabling an orderly transition that builds resilience in the longer term; and supporting a just and affordable transition. Central to our approach is our commitment to supporting clients who are taking an active role in the transition.

In line with the policy, we will no longer provide new finance or advisory services for the specific purpose of projects pertaining to new oil and gas fields and related infrastructure whose primary use is in conjunction with new fields. Engagement on transition plans is a key part of our approach. We will continue to provide finance or advisory services to energy sector clients at the corporate level, where clients' transition plans are consistent with our 2030 portfolio-level financed emissions targets and net zero by 2050 commitment. If a client's transition plan is not produced, or if, after repeated engagement, is not consistent with our targets and commitments, we will not provide new finance and may withdraw existing financing.

The IEA's 2021 Net Zero by 2050 report highlights that an orderly transition requires continued financing and investment in existing oil and gas fields to maintain the necessary output. We will therefore continue to provide finance to maintain supplies of oil and gas in line with current and future declining global oil and gas demand, while accelerating our activities to support clean energy deployment.

As part of our previously announced ambition to provide $750bn to $1tn in sustainable finance and investment by 2030 to support our customers in all sectors, we will support critical areas such as renewable energy and clean infrastructure.

Our approach to sustainability policies continued

Our thermal coal phase-out policy
In December 2021, we published a policy to phase out thermal coal financing in EU and OECD markets by 2030, and globally by 2040. This incorporated project finance, direct lending, and arranging or underwriting of capital markets transactions to in-scope clients, as well as the refinancing of existing finance facilities.

In line with our commitment to review our policy and targets each year, taking into account evolving science and internationally recognised guidance, we expanded the policy in 2022. We committed to not provide new finance or advisory services for the specific purposes of the conversion of existing coal-to-gas-fired power plants, unless the client demonstrates to us its intention to transition to abated power generation, consistent with our targets and commitments; and the plants do not operate in environmentally or socially critical areas. We also committed to not provide new finance or advisory services for new metallurgical coal mines. With the updated policy, we additionally committed to:

– reduce absolute on-balance sheet finance emissions by 70% in both the thermal coal power and thermal coal mining sectors by 2030;
– apply an amended definition of thermal coal expansion as it pertains to mergers and acquisitions activity; and
– decline new relationships with companies that operate thermal coal assets in environmentally and socially critical areas.

Biodiversity and natural capital-related policies
Our sustainability risk policies restrict financing activities that have material negative impacts on nature. While a number of our sectoral policies have such restrictions, our forestry and agricultural commodities policies focus specifically on a key impact: deforestation. These policies require customers involved with major deforestation-risk commodities to operate in accordance with sustainable business principles, as well as require palm oil customers to obtain certification and commit to 'No Deforestation, No Peat and No Exploitation' (see 'Our respect for human rights' on page 87). While we seek to work with our clients to help ensure their alignment with our policies, we have withdrawn banking services to customers who have not engaged, for example, in meeting our certification requirements.

As part of our net zero commitment, we are reviewing our current policy protections in this area, and aim to release a revised policy, informed by scientific and international guidance, in 2023.

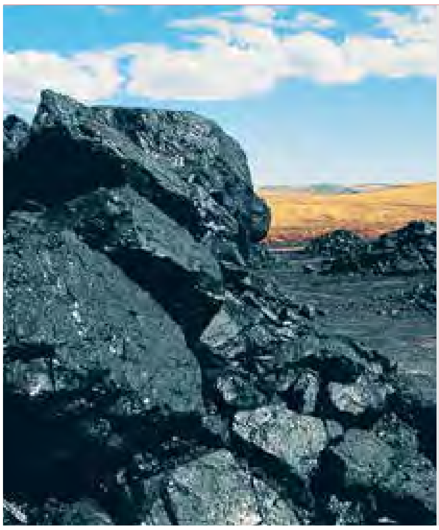
For further details of our approach to biodiversity and natural capital-related activities, see 'Biodiversity and natural capital strategy' on page 61.

Exposure to thermal coal
In our thermal coal policy published in December 2021, we disclosed our intention to reduce thermal coal financing exposure by at least 25% by 2025, and by 50% by 2030, using our 2020 Task Force on Climate-related Financial Disclosures ('TCFD') as our baseline. Using the same methodology and data used in our baseline reporting as at 31 December 2020, we are making progress against these targets.

Our 2020 baseline comprised thermal coal power generation and mining exposures within the power and utilities, and metals and mining sectors, as defined in our TCFD disclosures. We are in the process of expanding the on-balance sheet exposures that are in-scope for our thermal coal policy to include those outside of these two TCFD sectors.

Our processes, systems, controls and governance are not yet designed to fully identify and disclose thermal coal exposures, particularly for exposures within broader conglomerates. Until our systems, processes, controls and governance are enhanced, certain aspects of our reporting will rely on manual sourcing and categorisation of data. We are reassessing the reliability of our data and reviewing our basis of preparation to help ensure that we are reporting all relevant thermal coal exposures aligned to our thermal coal policy. As a result, we have not reported thermal coal exposures in this *Annual Report and Accounts 2022*. We expect that our updated thermal coal exposures dating back to 31 December 2020 will be made available for reporting as soon as practicable in 2023, although this is dependent on availability and quality of data.

Thermal coal financed emissions targets
As mentioned earlier, our financed emissions target is a reduction of 70% in both the thermal coal power and thermal coal mining sectors by 2030, using a 2020 baseline. We now intend to publish our baseline financed emissions alongside our updated thermal coal exposures as mentioned above.



Asset management policy

In September 2022, our asset management business, HSBC Asset Management, published its own policy on how a phase-out of thermal coal would impact on investments it makes on behalf of clients.

The policy aligns with the commitment made by HSBC Asset Management under the Net Zero Asset Managers initiative to support investing aligned with net zero greenhouse gas emissions by 2050, or sooner.

Under its policy, HSBC Asset Management will not hold listed securities of issuers with more than de minimis revenue exposure to thermal coal in its actively managed portfolios beyond 2030 for EU and OECD markets, and 2040 for all other markets. The policy includes some restrictions on investment exposure to thermal coal ahead of these deadlines, as well as commitments to undertake enhanced due diligence on the transition plans of investee companies with thermal coal exposure. Companies held in investment portfolios that do not develop credible plans to transition away from thermal coal could face voting sanctions, and ultimately a divestment of holdings.

For further details of the policy, see www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/coal-policy-b2b-en-09162022.pdf.

Insights from scenario analysis TCFD

Scenario analysis supports our strategy by assessing our position under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements.

Having run our first Group-wide climate change scenario analysis exercise in 2021, we produced several climate stress tests for global regulators in 2022, including the Monetary Authority of Singapore and the European Central Bank. We also conducted our first internal climate scenario analysis.

We continue to develop how we produce our climate scenario analysis exercises so that we can have a more comprehensive understanding of climate headwinds, risks and opportunities that will support our strategic planning and actions.

In climate scenario analysis, we consider, jointly:

- transition risk arising from the process of moving to a net zero economy, including changes in policy, technology, consumer behaviour and stakeholder perception, which could 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 could each impact property values, repair costs and lead to business interruptions.

We also analyse how these climate risks impact how we manage other risks within our organisation, including credit and market risks, and on an exploratory basis, operational, liquidity, insurance, and pension risks.

Our climate scenarios

In our 2022 internal climate scenario analysis exercise, we used four scenarios that were designed to articulate our view of the range of potential outcomes for global climate change.

These scenarios, which reflect different levels of physical and transition risk and are varied by severity and probability, were: the Net Zero scenario, which aligns with our net zero strategy and is consistent with the Paris Agreement; the Current Commitments scenario, which assumes that climate action is limited to the current governmental commitments and pledges; the Downside Transition Risk scenario, which assumes that climate action is delayed until 2030; and the Downside Physical Risk scenario, which assumes climate action is limited to current governmental policies.

For further details of these scenarios, and how they were designed to identify, measure and assess our material climate vulnerabilities, see 'Insights from scenario analysis' in the 'Climate risk' section on page 226.

Analysing the outputs

Climate scenario analysis allows us to model how different potential climate pathways may affect our customers and portfolios, particularly in respect of credit losses. As the chart below shows, losses are influenced by their exposure to a variety of climate risks under different climate scenarios.

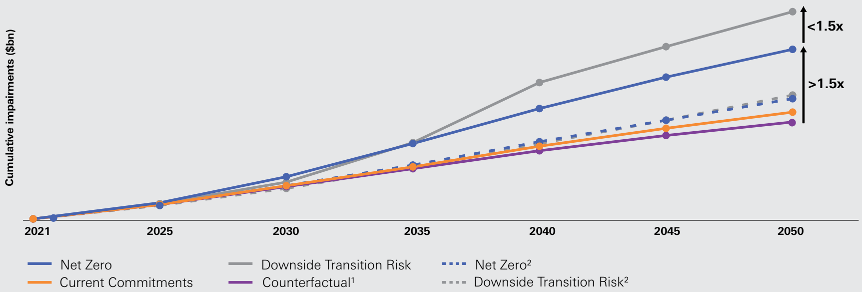
Under the Current Commitments scenario, we expect moderate levels of losses relating to transition risks. However, the rise in global warming will lead to increasing levels of physical risk losses in later years. A gradual transition towards net zero, as shown in the Net Zero scenario, still requires fundamental shifts in our customers' business models, and significant investments. This will have an impact on profitability, leading to higher credit risk in the transition period. A delayed transition will be even more disruptive due to lower levels of innovation that limits the ability to decarbonise effectively, and rising carbon prices that squeeze profit margins.

Overall, our scenario analysis shows that the level of credit losses can be mitigated if we support our customers in enhancing their climate transition plans.

For the full internal climate scenario analysis, including our assessment of the impacts of climate change on our corporate lending, retail mortgage and commercial real estate portfolios, see Insights from scenario analysis on page 226.

Modelled climate losses

How credit losses from climate risks have been modelled under different scenarios.[1]



1 The counterfactual scenario is modelled on a scenario where there will be no losses due to climate change.

2 The dotted lines in the chart show the impact of modelled expected credit losses following our strategic responses to reduce the effect of climate risks under the Net Zero and Downside Transition Risk scenarios.

Use of climate scenario outputs

We are starting to consider climate scenario analysis in core decision-making processes, including strategic and financial planning, risk management, capital assessment, business decision making, client engagement, and Group reporting. It helps to inform our strategy and supports how we capture opportunities while minimising risks, and enabling HSBC to navigate through the climate transition.

We use the analysis to anticipate climate-related impacts for our customers by identifying new opportunities where possible, including targeted financing to support their transition journey.

We have considered climate risk in our annual financial planning cycle. In order to do this, we reviewed the inclusion of ECL outcomes from our internal climate scenario analysis using the Current Commitments scenario because we deem it the most likely to transpire over the planning horizon.

Next steps

We plan to continue to enhance our capabilities for climate scenario analysis and use the results for decision making, particularly in respect of:

- our risk appetite, by identifying business-critical metrics and using scenario analysis to test, calibrate, and monitor against thresholds;
- client engagement, by identifying the climate opportunities – such as supporting the growth of renewables, biomass, electric vehicles – and vulnerabilities by engaging with and supporting our customers; and
- strategy, by using the range of scenario analysis outcomes to shape our strategy across business and regions.

Our approach to climate reporting TCFD

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.

We have considered our 'comply or explain' obligation under the UK's Financial Conduct Authority's Listing Rules, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, save for certain items, which we summarise below and in the additional information section on page 423.

Recommendation	Response	Disclosure location
Governance		
a) Describe the Board's oversight of climate-related risks and opportunities		
Process, frequency and training	– The Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. It has enhanced its oversight of ESG matters, with a dedicated agenda item on this topic introduced for 2022. It considered ESG at seven meetings during the year.	Page 86 and 256
	– Board members receive ESG-related training as part of their induction and ongoing development, and seek out further opportunities to build their skills and experience in this area.	Page 86 and 252
Sub-committee accountability, processes and frequency	– The Group Risk Committee ('GRC') maintains oversight of delivery plans to ensure that the Group develops robust climate risk management capabilities. The GRC also has oversight over ESG-related initiatives and reviews these to assess the risk profile. It considered ESG risk at four meetings in 2022.	Page 272 and 275
	– The Group Audit Committee ('GAC') reviews and challenges ESG and climate-related reporting, processes, systems and controls and considered these matters in detail at five meetings during the year. The GAC, supported by the executive-level ESG Committee and Group Disclosure and Controls Committee, provided close oversight of the disclosure risks in relation to ESG and climate reporting, amid rising stakeholder expectations.	Page 263 and 268
Examples of the Board and relevant Board committees taking climate into account	– The Board considered whether to establish a Board committee dedicated to ESG issues, but instead decided that the best way to support the oversight and delivery of the Group's climate ambition and ESG strategy was to retain governance at Board level.	Page 255 and 256
	– In 2022, the Board oversaw the implementation of ESG strategy through regular dashboard reports and detailed updates including: reviews of net zero policies, financed emissions target setting and climate-aligned financing initiatives.	Page 255
	– The Group Chairman and the Group Chief Executive met regularly with government officials globally to continue to foster strong international relations. In addition, certain Board members also continued to be actively involved in climate initiatives and attend global events such as the Group Chief Executive's attendance at the COP27 Summit in Egypt.	Page 20
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 enhanced its governance model of ESG matters with the ESG Committee and supporting forums. These support senior management in the delivery of the Group's ESG strategy, key policies and material commitments by providing oversight over – and management and coordination of – ESG commitments and activities.	Page 86 and 255
	– The Group Company Secretary and Chief Governance Officer, and Group Chief Sustainability Officer hold joint responsibility for the ESG Committee. It oversees all areas of environmental, social and governance issues, with support from accountable senior management in relation to their particular areas of responsibilities. Key representatives from the functions and global businesses attend to provide insights on the implementation of the ESG strategy across the Group, allowing the ESG Committee to make recommendations to the Board in respect of ESG matters.	Page 86 and 251
	– 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 86
How management reports to the Board	– The Board delegates day-to-day management of the business and implementation of strategy to the Group Chief Executive. The Group Chief Executive is supported in his management of the Group by recommendations and advice from the Group Executive Committee ('GEC'), an executive forum comprising members of senior management that include chief executive officers of the global businesses, regional chief executive officers and functional heads.	Page 248 and 249
	– Key representatives from the functions and global businesses attend the ESG Committee to provide insights on the implementation of the ESG strategy across the Group, allowing the ESG Committee to make recommendations to the Board in respect of ESG matters.	Page 251

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

Recommendation	Response	Disclosure location
Processes used to inform management	– The ESG Committee 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. We also recognise that we require enhanced capabilities and new sources of data.	Page 86 and 251
	– The 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.	Page 222
	– The Sustainability Target Operating Model Steering Committee oversees the implementation of the Group's organisational plan for the internal infrastructure, both within the Sustainability function and the wider Group, to help deliver our climate ambitions.	Page 86
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	– To support the requirements for assessing the impacts of climate change, we have developed a set of capabilities to execute climate stress testing and scenario analysis. These are used to improve our understanding of our risk exposures for risk management and business decision making. Given the challenges on data sourcing and processes, there has been an impact on certain climate disclosures.	Page 38 and 47
	– Climate scenario analysis was used as a risk assessment tool to provide insights on the long-term effects of transition and physical risks across our corporate and retail banking portfolios, as well as our own operations.	Page 64
	– 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.	Page 58
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.	Page 49
	– 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.	Page 57
	– We have taken these time horizons into our consideration. Our assessment of climate risks covers three distinct time periods: short term is up to 2025, medium term is 2026 to 2035; and long term is 2036 to 2050.	Page 139
Transition or physical climate-related issues identified	– We enhanced our transition and physical risk questionnaire and scoring tool, which helps us to assess and improve our understanding of the impact of transition and physical risk on our customers' business models, and used it for our corporate clients in high climate transition risk sectors.	Page 222
	– 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 58
	– In the UK, in line with our retail portfolio, the main perils that drive potential credit losses relate to coastal, river and surface water flooding, although the impacts from these perils are not expected to cause significant damages. Around 20% of our financed properties are in London, and most are protected by the Thames Barrier.	Page 229
Risks and opportunities by sector and/or geography	– We identified six key sectors where our wholesale credit customers have the highest exposure to climate transition risk, based on their carbon emissions. These are automotive, chemicals, construction and building materials, metals and mining, oil and gas, and power and utilities.	Page 223
	– We continued to improve our identification and assessment of climate risk within our retail mortgage portfolio, with increased investments in physical risk data and enhancements to our internal risk assessment capabilities and models. We completed detailed analysis for the UK, Hong Kong, Singapore and Australia, which together represent 73.8% of balances of the global mortgage portfolio.	Page 224
	– Opportunities include sustainable finance, sustainable investment and sustainable infrastructure. For a detailed breakdown of our sustainable finance progress by geography, see the *ESG Data Pack*.	Page 58
Concentrations of credit exposure to carbon-related assets (supplemental guidance for banks)	– We report our exposure to the six high transition risk sectors in the wholesale portfolio. For details, see the *ESG Data Pack*.	Page 223
	– Since 2020, we have rolled out the questionnaire so that it included our largest customers in the next highest climate transition risk sectors: agriculture, industrials, real estate, and transportation. This was done across a larger geographical scope.	
Climate-related risks (transition and physical) in lending and other financial intermediary business activities (supplemental guidance for banks)	– As a result of our climate scenario analysis, our largest and most impacted sectors – power and utilities, construction and building materials, and chemicals – are subject to increased levels of transition risks due to their ongoing exposure to higher carbon-emitting activities.	Page 227
	– HSBC Asset Management is increasingly considering both physical and transition risks. As a result, it integrated ESG and climate analysis to help ensure that risks faced by companies are considered throughout the investment decision-making process.	Page 64

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

Recommendation	Response	Disclosure location
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.	Page 49
	– Scenario analysis supports our strategy by assessing our position under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements. We acknowledge that our systems, processes, controls and governance are developing.	Page 48 and 67
	– We continue to develop how we produce our climate scenario analysis exercises so that we can have a more comprehensive understanding of climate headwinds, risks and opportunities that will support our strategic planning and actions.	Page 67
	– We do not currently fully disclose the impacts of climate-related issues on financial planning, and particularly the impact of climate-related issues on our financial performance and financial position. In addition, we have considered the impact of climate-related issues on our businesses, strategy, and financial planning, but not specifically in relation to acquisitions/divestments. Due to transitional challenges such as process limitations, we do not disclose the climate-related impact in these areas. We expect to further enhance our disclosure and processes in relation to acquisitions/divestments in the medium term.	Page 423
	– We have considered the impact of climate-related issues on our businesses, strategy, and financial planning. Our access to capital may be impacted by reputational concerns as a result of climate action or inaction. In addition, if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero ambitions, we could face greenwashing risk resulting in significant reputational damage, impacting our revenue generating ability and potentially our access to capital.	Page 423
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 58
Impact on supply chain and/or value chain	– We will continue to engage with our supply chain through CDP, and through direct discussions with our suppliers on how they can further support our transition to net zero.	Page 62
	– We also have significant responsibilities in relation to asset ownership by our insurance business, employee pension plans and asset management business.	Page 64
Impact on adaptation and mitigation activities	– In October 2020, we announced our ambition to reduce our energy consumption by 50% by 2030, against a 2019 baseline. As part of our ambition to achieve 100% renewable power across our operations by 2030, we continue to look for opportunities to procure green energy in each of our markets. A key challenge remains the limited opportunity to pursue power purchase agreements or green tariffs in key markets due to regulations.	Page 62
Impact on operations	– Climate change poses a physical risk to the buildings that we occupy as an organisation, including our offices, retail branches and data centres.	Page 229
	– We use stress testing to evaluate the potential for impact to our owned or leased premises. Our scenario stress test, conducted in 2022, 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 500 of our critical and important buildings.	
Impact on investment in research and development	– Our Climate Solutions Partnership is a five-year $100m philanthropic initiative that aims to identify and remove barriers to scale for climate change solutions. Working with the World Resources Institute, WWF and over 50 local partners, our support focuses on start-up companies developing carbon-cutting technologies, nature-based solutions, renewable energy initiatives in Asia and the WWF-led Asia Sustainable Palm Oil Links programme.	Page 84
How we are striving to meet investor expectations	– During Board meetings, the Directors continued to balance discussions on the Group's performance, emerging risks and duties to shareholders, while remaining conscious of responsibilities to support communities and help customers.	Page 20
	– In 2022, the Board approved an update to the thermal coal phase-out policy. It also approved the publication of an updated energy policy.	Page 23
Transition plan to a low-carbon economy	– We have committed to publish our own climate transition plan in 2023. This plan will outline, in one place, not only our commitments, targets and approach to net zero across the sectors and markets we serve, but how we are transforming our organisation to embed net zero and finance the transition.	Page 49
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	– Scenario analysis supports our strategy by assessing our position under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements.	Page 67 and 226
	– In 2022, we delivered our first internal climate scenario analysis exercise where we used four scenarios that were designed to articulate our view of the range of potential outcomes for global climate change. The analysis considered the key regions in which we operate, and assessed the impact on our balance sheet between the 2022 and 2050 time period.	
Key drivers of performance and how these have been taken into account	– Climate scenario analysis allows us to model how different potential climate pathways may affect our customers and portfolios, particularly in respect of credit losses. Under the Current Commitments scenario, we expect moderate levels of losses relating to transition risks. However, the rise in global warming will lead to increasing levels of physical risk losses in later years.	Page 67 and 226

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

Recommendation	Response	Disclosure location
Scenarios used and how they factored in government policies	– The scenario assumptions used for our climate stress testing exercise include varying levels of governmental climate policy changes, macroeconomic factors and technological developments. However, these scenarios rely on the development of technologies that are still unproven, such as global hydrogen production to decarbonise aviation and shipping. For details of the assumptions, see the *ESG Data Pack*.	Page 226
How our strategies may change and adapt	– The nature of the scenarios, our developing capabilities, and limitations of the analysis lead to outcomes that are indicative of climate change headwinds, although they are not a direct forecast.	Page 67 and 226
	– 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.	Page 226
	– We plan to continue to enhance our capabilities for climate scenario analysis and use the results for decision making, particularly in respect of strategy, by using the range of scenario analysis outcomes to shape our strategy across business and regions.	Page 67
	– We do not currently fully disclose the impacts of transition and physical risk quantitatively, due to transitional challenges including data limitations and evolving science and methodologies.	Page 423
Risk management		
a) Describe the organisation's processes for identifying and assessing climate-related risks		
Traditional banking risk types considered	– Our initial approach to managing climate risk was focused on understanding physical and transition impacts across five priority risk types: wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance risk.	Page 221
Process	– We have integrated climate risk into our existing risk taxonomy, and incorporated it within the risk management framework through the policies and controls for the existing risks where appropriate. We also recognise that we require enhanced capabilities and new sources of data.	Page 47 and 221
	– We consider greenwashing to be an important emerging risk that is likely to increase over time, as we look to develop capabilities and products to achieve our net zero commitments, and work with our clients to help them transition to a low-carbon economy. We also recognise that green finance taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our sustainable finance reporting going forward.	Page 47 and 221
	– We also use stress testing and scenario analysis to assess how these climate risks will impact our customers, business and infrastructure.	Page 46
Integration into policies and procedures	– In 2022, we incorporated climate considerations into our UK mortgage origination process for our retail mortgage business and new money request process for our key wholesale businesses. We also continued to enhance our climate risk scoring tool, which will enable us to assess our customers' exposures to climate risk. We also published our updated energy policy, covering the oil and gas, power and utilities, hydrogen, renewables, nuclear and biomass sectors, as well as updated our thermal coal phase-out policy after its initial publication in 2021.	Page 223
	– We are integrating climate risk into the policies, processes and controls across many areas of our organisation, and we will continue to update these as our climate risk management capabilities mature over time.	Page 223
Consider climate-related risks in traditional banking industry risk categories (supplementary guidance for banks)	– In 2022, we expanded our scope to consider climate risk impacts on our other risk types (including treasury risk and traded risk) in our risk taxonomy.	Page 221 and 226
	– We also analysed in our internal scenario analysis exercise how climate risks impact how we manage other risks within our organisation, including credit risk, and on an exploratory basis: market, operational, liquidity, insurance, and pension risks.	Page 67
b) Describe the organisation's processes for managing climate-related risks		
Process and how we make decisions	– The Group Risk Management Meeting and the Group Risk Committee receive regular updates on our climate risk profile, top and emerging climate risks, and progress of our climate risk programme.	Page 222
	– Our climate risk appetite supports the oversight and management of the financial and non-financial risks from climate change, and supports the business to deliver our climate ambition in a safe and sustainable way. We recognise that we require enhanced systems, processes, controls, governance and new sources of data.	Page 47 and 223
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 climate risk approach is aligned to our Group-wide risk management framework and three lines of defence model, which sets out how we identify, assess, and manage our risks.	Page 221
	– In February 2022, we refreshed a high-level assessment of how climate risk may impact risk types within the HSBC taxonomy over a 12-month horizon, and how the level of risk may increase over longer time horizons.	Page 222
	– We developed our first internal climate scenario exercise, where we used four bespoke scenarios that were designed to articulate our view of the range of potential outcomes for global climate change.	Page 222
How we take into account interconnections between entities and functions	– Through our dedicated climate risk programme, we continued to embed climate considerations throughout the organisation, including updating the scope of our programme to cover all risk types, expanding the scope of climate-related training, developing new climate risk metrics to monitor and manage exposures, and the development of our internal climate scenario exercise.	Page 135
	– We updated our climate risk management approach to cover all risk types in our risk taxonomy.	Page 222
	– We expanded the scope of climate-related training for employees to cover additional topics, such as greenwashing risk, and increased the availability of training to the broader workforce.	Page 222

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

Recommendation	Response	Disclosure location
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 continue to disclose our wholesale loan exposure to the six high transition risk sectors, which are automotive, chemicals, construction and building materials, metals and mining, oil and gas, and power and utilities. The wholesale loan exposure is used as a metric to assess impact of climate risk and help inform risk management, together with our transition risk questionnaire results. – We continue to measure climate risk in our most material mortgage market, which is the UK, where the primary physical risk facing properties is flooding. We also continue to identify the current and potential EPC ratings for individual properties within the UK mortgage portfolio. For further details, see our *ESG Data Pack*. – 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 223 Page 224 Page 423
Metrics used to assess progress against opportunities	– We continue to track our progress against our ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment by 2030, aligned to our published data dictionary. The breakdown of our sustainable finance and investment progress is included in our *ESG Data Pack*. – We do not currently fully disclose the proportion of revenue or proportion of assets, capital deployment or other business activities aligned with climate-related opportunities, including revenue from products and services designed for a low-carbon economy, forward-looking metrics consistent with our business or strategic planning time horizons. In addition, we do not currently disclose internal carbon prices due to transitional challenges such as data challenges. We recognise that we require enhanced systems, processes, controls, governance and new sources of data.	Page 18 and 57 Page 47 and 423
Board or senior management incentives	– To help us achieve our ESG ambitions, a number of measures are included in the annual incentive and long-term incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives.	Page 16 and 286
Metrics used to assess the impact of climate risk on lending and financial intermediary business (supplemental guidance for banks)	– As part of our internal climate scenario analysis, we carried out a detailed physical risk assessment of four of our most material retail mortgage markets – the UK, Hong Kong, Singapore and Australia – which represent 73.8% of balances in our retail mortgage portfolio. In 2022, we disclose our loan maturity within the UK mortgage portfolio. – 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 (specifically credit exposure, equity and debt holdings, or trading positions, each broken down by industry, geography, credit quality, average tenor).	Page 224 Page 423
b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks		
Our own operations	– We reported our scope 1, 2 and part of scope 3 greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel. In 2022, we started to disclose our scope 3 supply chain emissions.	Page 18 and 63
Greenhouse gas emissions for lending and financial intermediary business (supplemental guidance for banks)	– We expanded our coverage of sectors for on-balance sheet financed emissions. We also set out the data and methodology limitations related to the calculation of scope 3 financed emissions. – In 2022, HSBC Asset Management started to measure scope 1 and 2 emissions of companies in its portfolio. – Future disclosure on financed emissions, and related risks is reliant on our customers publicly disclosing their carbon emissions and related risks. We aim to disclose financed emissions for additional sectors in our *Annual Report and Accounts 2023* and related disclosures.	Page 18 and 50 Page 56 Page 423
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 interim 2030 targets for on-balance sheet financed emissions for eight sectors. – For financed emissions we do not plan to set 2025 targets. We set targets in line with the Net-Zero Banking Alliance ('NZBA') guidelines by setting 2030 targets. In 2022, we disclose interim 2030 targets for on-balance sheet financed emissions for eight sectors. – We do not currently disclose targets used to measure and manage physical risk, or internal carbon price targets. This is due to transitional challenges and data limitations. But we considered physical risk and carbon prices as an input in the climate scenario analysis exercise. We expect to further enhance the disclosure in the medium term as more data becomes available. In addition, we do not currently disclose a target for capital deployment. In 2022, we are internally reviewing and enhancing the green bond framework, with further refinement to be undertaken in 2023. Our continued monitoring of evolving taxonomies and practices over time could result in revisions in our reporting going forward and lead to differences year-on-year as compared with prior years. 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 18 Page 423
Other key performance indicators used	– We also use other indicators to assess our progress including energy consumption and percentage of renewable electricity sourced.	Page 62

Social
Building inclusion and resilience

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, colleagues and the communities in which we operate.

Inclusion is key to opening up a world of opportunity. It involves a commitment to remove unnecessary barriers to our people, our customers and our communities in realising their potential. Creating an inclusive environment for our colleagues enables them to flourish, and supports the strong and purposeful delivery of our strategy.

We are committed to ensuring our colleagues – and particularly our leadership – are representative of the communities that we serve, and that we support their well-being and development so they can learn and grow in their careers. We do this because we know that when we build an inclusive, healthy and stimulating workplace for our people, the whole Group succeeds.

We are equally committed to ensuring there are no unnecessary barriers to finance for our customers. Customers should not find it more difficult to access finance because of their gender, their sexual orientation, their neurodiversity or their disability. We have an ambition to create a welcoming, inclusive and accessible banking experience that opens up a world of opportunity for our customers.

Inclusion goes hand-in-hand with resilience. We build resilience for our colleagues by supporting their physical, mental and financial well-being, and by ensuring they are equipped with the skills and knowledge to further their careers during a period of significant economic transformation.

For our customers, we build resilience through education: by helping them to understand their finances and how to manage them effectively, and by creating propositions that simplify the banking experience while helping wealth to grow. We also build resilience through products and services that protect what our customers value – their health, their families, their homes and their belongings.

Building inclusion and resilience can also mean working to address gaps where we think we can make a difference. From working for fair pay and representation for our colleagues, to opening up access to finance to underserved customer groups, to ensuring HSBC branches and offices are safe spaces for everyone, we are committed to fairness and inclusivity.

Finally, we aim to give back by engaging with our communities through philanthropic giving, disaster relief and volunteering. We are focusing these efforts on our priorities: the just transition to net zero and building inclusion and resilience.

We believe building inclusion and resilience helps us to create long-term value and growth. By removing unnecessary barriers and striving to be a fair and equitable bank, we can attract and retain the best talent, support a wider customer base to achieve their goals over the long term, and stimulate growth in our communities. This is how we open up a world of opportunity for our colleagues, our customers and our communities.

In this section

Promoting diversity and fostering inclusion

Our approach to diversity and inclusion

Our purpose, 'Opening up a world of opportunity', explains why we exist as an organisation and is the foundation of our diversity and inclusion strategy. Promoting diversity and fostering inclusion contributes to our 'energise for growth' priority. By valuing difference, we can make use of the unique expertise, capabilities, breadth and perspectives of our colleagues for the benefit of our customers.

To achieve progress, we are focused on specific Group-wide priorities for which we hold senior executives accountable. Alongside Group targets, some executives have local priorities, such as combating social inequality in the UK, and the promotion of Hispanic representation in the US, to allow flexibility for a broader diversity and inclusion agenda that is contextually relevant.

Our approach extends beyond our colleagues and opens up a world of opportunity to our customers and the communities in which we operate. As we set out on the following pages, we are pleased to report progress in 2022, although we acknowledge there is more work to be done.

How we hold ourselves to account

We set meaningful goals
Our executive Directors and Group Executives have goals within their annual performance scorecards that are tied to remuneration plans. In 2022, we continued to make progress against our three goals to:

- achieve a 35% representation of women in senior leadership roles by 2025;
- achieve a 3.4% representation of Black heritage colleagues in senior leadership roles in the UK and US combined by 2025, aligned to our commitment to double the number of Black colleagues in leadership positions globally; and
- achieve a satisfaction score of at least 75% in our Inclusion index, which looks at the inclusivity of our culture by measuring our colleagues' feelings of belonging, trust and psychological safety, as recorded within our employee Snapshot survey.

We report and track progress
Data is critical and gives our Group Executive Committee regular progress checks against its goals. Our measures to track progress consist of:

- a quarterly inclusion dashboard, which tracks progress against goals with specific data on hiring, promotion and exit ratios;
- a formal assessment of the Group Executive Committee's performance against its three goals, run by our executive compensation team, at the half-year, third quarter and the end of the year, which is then reported to the Group Remuneration Committee; and
- semi-annual inclusion review meetings where our Head of Inclusion meets each Group Executive to review data and their progress against their goals, and to discuss actions and provide recommendations to support further progress.

We benchmark our performance
We use external disclosures and benchmarks to measure the progress we are making, and to provide us with insight into what actions to prioritise. In 2022, we achieved:

- the Parker Review target of having at least one Director from a minority ethnic group on its Board, with three Board members;
- Stonewall's Gold standard and rank as a top global LGBTQ+ inclusion employer;
- a score of 87.2 in the Bloomberg Gender Equality Index, which tracks the performance of public companies committed to transparency in gender data reporting. This was 13.1 percentage points above the financial sector average.

A data driven approach to inclusion
Our approach to collecting ethnicity data through colleagues' self-identification underpins our ethnicity strategy to better reflect the communities we serve. Allowing colleagues to self-identify helps us to set market representation goals. We have enabled 91% of our workforce to be able to share their ethnic heritage with us. A total of 55% of our colleagues have now made disclosures on their ethnic background, where legally permissible.

Strong self-declaration rates in the UK and US have enabled us to develop our ethnicity strategy with market-specific Black heritage representation goals. We define Black heritage to include all colleagues in the UK who identify as Black or mixed race where one of the ethnicities is stated as Black, and in the US for all colleagues who identify as Black or African-American.

Employees can also share their disability, gender identity and sexual orientation data where legally and culturally acceptable to do so. These self-identification options are enabled for 90%, 81% and 70% of our workforce, respectively.

Engaging with diversity at the Board level

We have a designated non-executive Director responsible for workforce engagement, whose role is to bring the voice of the employee into the boardroom. Our employee resource group leadership community is an important contributor and communicator related to workforce engagement. Additionally, non-executive Directors are aligned to each of our employee resource groups.

In 2022, we continued our Bank Director Programme that invites a diverse group of senior leaders from across the Group to gain exposure to boards and develop board skills. This programme is building an internal pool of diverse talent that we will be able to assign to roles with our subsidiary boards.

For further details of Board diversity, see our Corporate governance report on page 247.

Creating a diverse environment

Women in senior leadership
After achieving our ambition of having 30% of senior leadership positions held by women in 2020, we set a new goal to reach 35% by 2025. We remain on track, with 33.3% of senior leadership roles held by women at the end of 2022, an increase of 1.6 percentage points since 2021. A total 35.7% of all external appointments into senior positions were female, down from 37.8% in 2021, and 38.1% of all promotions into senior leadership roles were female.

Talent programmes, including Accelerating Female Leaders, helped increase the visibility, sponsorship and network of our high-performing senior women. Since starting the programme in 2017, 38% of participants have either been promoted or taken a lateral move to develop their careers. We have also retained 87% of colleagues who have completed the programme.

In our Accelerating into Leadership programme, which prepares high potential, mid-level colleagues for future leadership roles, 44% of participants in 2022 were women.

We also had more than 2,600 women participating in our Coaching Circles programme, which involves senior leaders advising and supporting colleagues to develop their leadership skills and build their networks.

Our succession planning for key leadership roles includes an assessment of the diversity of our succession plans. We are improving the gender diversity of those in roles deemed most critical to the organisation, and successors to those roles. In 2022, 36% of the succession pool for these roles were women.

In our support of our people throughout the different stages of their lives and careers, and in our aim to enable equal participation at work, we introduced gender neutral parental leave in the US and Australia, and improved paid maternity and paternity leave in Mexico and Argentina.

Black colleagues in senior leadership
We are on track to double the number of Black colleagues in senior leadership roles globally by 2025, having increased the number of Black senior leaders by 37% since 2020.

During 2022 we set a new Group-wide ethnicity strategy with the principle of better reflecting the communities we serve. We test this principle by comparing our workforce to national census data and setting goals to narrow material representation gaps over time. Our analysis highlighted Black heritage representation gaps in the UK and the US. We therefore set a goal of having 3.4% of Black heritage colleagues in senior leadership roles in the UK and US combined by 2025. While we are on track to meet this, with 2.5% of leadership roles held by Black heritage colleagues in 2022, we know there is more to be done to be representative of the societies we serve.

Our ethnicity strategy is overseen by a committee of senior leaders, led by our Group Chief Risk and Compliance Officer. The committee provides strategic direction to the Global Ethnicity Inclusion Programme.

In 2022, we continued to focus on inclusive hiring, investing in talent and growing leadership effectiveness. We have launched programmes to provide sponsorship and mentoring such as Solaris in the UK, which supports talented Black female colleagues, and a Black heritage programme in Global Banking and Markets, where 25% of participants at Director level secured promotion within 12 months of commencing the programme. In 2023, we will extend the programme to Commercial Banking colleagues and to colleagues in the US, with an additional focus on Hispanic colleagues. To help us attract diverse talent, we partner with specialist recruitment organisations that engage ethnically diverse talent. We also introduced reverse mentoring, which pairs Group Executives with Black heritage colleagues.

Gender diversity data

	Male	Male %	Female	Female %
Holdings Board	8	67%	4	33%
Group Executives	17	81%	4	19%
Combined Group Executives and direct reports[1]	170	66%	89	34%
Subsidiary directors[2]	616	66%	315	34%
Senior leadership[3]	6,226	67%	3,103	33%
Middle management[3]	18,897	63%	11,257	37%
Junior management[3]	53,363	51%	51,541	49%
All employees	107,863	48%	115,907	52%

1 Combined Group Executives and direct reports includes HSBC Group Executives and their direct reports (excluding administrative staff) as at 31 December 2022.
2 Directors (or equivalent) of subsidiary companies that are included in the Group's consolidated financial statements, excluding corporate directors.
3 In our leadership structure, we classify: senior leadership as those at career band 3 and above; middle management as those at global career band 4; and junior management as those at global career bands 5 and 6.

Representation and pay gaps
We have reported gender representation and pay gap data since 2017 for the UK, and extended this to include gender data for the UK, the US, mainland China, Hong Kong, India and Mexico, alongside ethnicity data for the UK and US. In 2022, we extended this to include gender data for Singapore and the UAE. This covers over 70% of our workforce.

In 2022, our mean aggregate UK-wide gender pay gap was 45.2%, compared with 44.9% in 2021, and the ethnicity pay gap was 0.4%, compared with -0.8% in 2021. Our UK gender pay gap is driven by the shape of our workforce. There are more men than women in senior, higher-paid roles and more women than men in junior roles. Given differences in variable pay levels across these roles, the increase in the 2021 variable pay pool contributed to the slight widening of our pay gap for 2022.

While we are confident in our approach to pay equity, until women and ethnically diverse colleagues are proportionately represented across all areas and levels of the organisation we will continue to see gaps in average pay. We are committed to paying colleagues fairly regardless of their gender or ethnic heritage and have processes to ensure that remuneration is free from bias. We review our pay practices and undertake a pay equity review annually, including an independent third-party review of equal pay in major markets. If pay differences are identified that are not due to objective, tangible reasons such as performance, skills or experience, we make adjustments.

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

Fostering an inclusive culture

In our annual Snapshot survey's Inclusion index, which measures our colleagues' sense of belonging, psychological safety, perception of fairness and trust, we achieved a favourability score of 76% in 2022, one point higher than our goal, and four points above the financial services industry benchmark.

There was a three-point increase in colleagues feeling able to speak up without fear of negative consequences. This was a positive indicator of our strengthening culture of inclusion, which is a critical component of our 'energise for growth' strategy.

To educate our leaders and colleagues on driving an inclusive culture, we provided a number of inclusive leadership training programmes, and enhanced our 'Making HSBC more inclusive' training. More than 10,500 colleagues also completed inclusive hiring training, which is aimed at enabling fair and inclusive hiring decisions that are in line with our hiring principles.

Employee resource groups

Our employee resource groups foster an inclusive culture, and contribute significant value to tens of thousands of colleagues, with networks focused on a range of issues, including: age, disability, parents and careers, ethnicity, gender and LGBTQ+.

Our employee resource groups celebrate key dates in the diversity calendar and hold events for colleagues to raise awareness, and build empathy and allyship. These included Pride, our network for LGBTQ+ colleagues and allies, holding a global '24 hours of Pride' campaign that engaged our workforce to collectively celebrate our LGBTQ+ colleagues. Our Embrace network for ethnicity hosted its first global summit, attended by over 1,300 colleagues, including senior leaders across three regions.

Looking to the future on disability

Our ambition is to become a leading disability confident employer and a digitally accessible financial services provider. In 2022, we continued to focus on driving our digital accessibility programme so that our products and service can be accessible for all.

For our customers and colleagues, we improved the accessibility of our public websites, mobile applications and internal systems. AbilityNet, the digital accessibility charity, benchmarked HSBC as having the most accessible website compared with other local competitor banks in 10 of 13 of our key Wealth and Personal Banking markets.

We are transforming our internal systems to be digitally accessible. In 2022, we engaged over 2,000 colleagues in digital accessibility awareness and training, supported by the launch of a digital accessibility hub, which provides training and knowledge resources. The hub achieved the best digital accessibility award at the 2022 Digital Impact Awards.

We are looking to extend our UK workplace adjustments process to other key markets, ensuring our colleagues have the right tools and technologies to perform their roles. The programme will help colleagues with a physical or sensory disability, long-term mental health conditions or neurodiversity needs to get advice and request additional equipment or software to enable them to do their work.

In 2022, HSBC UK was recognised as a Gold Standard employer, following an assessment by the Business Disability Forum, with a score of 95.8%, the highest score awarded. We were praised on our commitment, drive and innovation with regards to disability inclusion. In 2023, we will continue to progress the execution of our disability confidence strategy with a particular focus on improving the experiences of colleagues with a disability across the key stages of their career journeys.

Empowering diverse customers

Aligned to our purpose of opening up a world of opportunity, we are committed to identifying and removing the different barriers customers face in accessing financial services. In 2022, we contributed to this through several initiatives, including the launch of a $1bn lending fund to invest in female-owned businesses. We introduced new processes to support refugees fleeing the conflict in Ukraine so they can access the financial services they need to set up a new life in the UK. We also sponsor the Hong Kong Lutheran Social Service to develop the 'Health dollar fun' app to boost digital literacy among the elderly.

For further details of how we are making financial services more accessible and fair, see 'Our approach to customer inclusion and resilience' on page 83.

Creating more equal communities

We partner with external organisations to open up opportunities for those groups who have historically been disadvantaged. In 2022, initiatives included:

- working with the Indian Academy for Self-Employed Women to provide business training and support to access digital marketplaces;
- partnering with Rural Education and Development India to train 500 youths from migrant and rural families to equip them with skills for the healthcare and apparel sector; and
- supporting the National Council of Social Service in Singapore to support employability services for persons who have recovered from mental health issues.

Starting our journey on social mobility

We believe in the principle that the circumstances of someone's birth should not define their future.

In 2022, we began to collect the socio-economic diversity data of our colleagues within the UK, with the aim to improve social mobility. We will use this data to help us understand the representation and progression of colleagues from lower socio-economic backgrounds.

We also joined ProgressTogether, a membership body of firms aimed at addressing career progression and retention for those identifying with a lower socio-economic background. We established our 'Strive' employee resource group, which will support and advocate for colleagues from lower socio-economic backgrounds. We plan to expand Strive to other markets as our work matures.

Building a healthy workplace

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 2022, as we looked to continue defining the future of work and driving change in how we work.

Listening to colleague sentiment
In 2022, we changed how we run our all-employee Snapshot survey, reducing the frequency from once every six months to once a year, with a focus on increasing participation to enable more granular reporting throughout the organisation. We received a record 167,668 responses to the survey in September, with 78% of employees participating, surpassing the previous year's record of 64%.

This increase has enabled us to put more data directly in the hands of our people managers to understand how their teams feel about life at HSBC, with 5,000 managers given access to results, discussion guides and learning resources to help them engage with the feedback at a team level. We continue to report insights to our Group Executive Committee and the Board, and local results are shared across the Group to provide senior leaders across business areas with detailed insight to help plan and make decisions.

We complement this all-colleague survey with targeted listening activities throughout the year, with employee lifecycle surveys aimed at new joiners, internal movers and voluntary leavers.

In May and June, we received more than 13,000 responses to our 'Future of work' survey, which explored how colleagues feel towards hybrid working. For further details of the findings and our approach to hybrid working, see 'Being a great place to work' on page 79.

In 2022, we also held a global 'employee jam', where over 18,000 colleagues across 63 markets came together for a live online conversation (see panel below). The Snapshot survey is also a key source of insight to inform our approaches to well-being. For further details of our approach to well-being, see page 80.

Employee conduct and harassment
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.

Our global anti-bullying and harassment code helps us to maintain consistent high standards of conduct across the Group, while accommodating local cultural requirements. In 2022, we 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, which we improved throughout 2022. We monitor bullying and harassment cases to inform our response and the data is reported to management committees.

In 2022, 1,159 concerns were raised related to bullying, harassment, discrimination and retaliation. Of the 811 cases where an investigation has concluded, 47% were substantiated. We take action where we see standards fall short of our expectation. In 2022, 591 colleagues were dismissed in relation to misconduct, including 27 as a result of bullying, harassment or discrimination. We are not complacent and know that there is more we can do. Our refreshed values will guide and inform our plans to continue creating and promoting an inclusive working environment

Employee engagement

73%
Employee engagement score
(2021: 72%)

68%
Of colleagues feel able to achieve their career objectives at this company
(2021: 67%)

77%
Of colleagues who feel confident about this company's future
(2021: 74%)

Holding a live global online conversation

In April, we held a global 'employee jam', where over 18,000 colleagues came together digitally for a live conversation around three key themes: embedding our purpose, values and strategy; enhancing the colleague experience; and enhancing the customer experience.

Mirroring what we have heard in Snapshot surveys, colleagues told us that they believe in our purpose, strategy and values, but want to have a better understanding of their tangible impacts – both inside and outside HSBC – as well as their direct role in driving these.

Colleagues said that we have made progress in areas such as diversity, future skills and trust, but that the focus should now be placed on building a culture of inclusion and empowerment, and on a more consistent approach to well-being. They also said the Group should focus on simplifying internal processes.

Listening to our colleagues continued

Employee engagement

We use eight Snapshot indices to measure key areas of focus and compare against peer institutions, including a new index focused on inclusion that we introduced in 2022. The table below sets out how we performed.

Index	Score[1]	vs 2021	HSBC vs benchmark[2]	Questions that make up the index
Employee engagement	**73%**	**+1**	**+3**	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	**72%**	**+1**	**+2**	I generally look forward to going to work. My work gives me a feeling of personal accomplishment. My work is challenging and interesting.
Strategy	**75%**	**+3**	**+4**	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	**76%**	**+2**	**+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	**76%**	**+1**	**+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	**77%**	**+1**	**+3**	I trust my direct manager. I trust senior leadership in my area. Where I work, people are treated fairly.
Career	**68%**	**+1**	**+4**	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.
Inclusion (new)[3]	**76%**	**+1**	**+4**	I feel a genuine sense of belonging to my team. I feel able to achieve my career objectives at this company. I feel able to be myself at work. I trust my direct manager. Where I work, people are treated fairly. Where I work, people can state their opinion without the fear of negative consequences.

1 Each index comprises 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 Inclusion index was introduced in 2022. It comprises questions that were asked in earlier surveys, so we are able to report a comparison with 2021.

For further details of well-being, see page 80, and for further details of inclusion, see page 76.

What we learned

All eight of our Snapshot indices improved slightly in 2022. Employee engagement, which is our headline measure, was three points above benchmark and one point above 2021 levels, and exceeded our target to maintain engagement levels during the year. The Strategy index continued to improve in relation to the financial services' benchmark.

Our colleagues continued to cite our approach to hybrid and flexible working as a reason to recommend HSBC, a theme that has been consistent since 2020. A greater proportion of colleagues also said they experienced a positive environment and culture, as well as saw training and progression opportunities, helping to drive our Employee engagement score.

One of the other top five factors identified to influence the Employee engagement score is colleagues' confidence in the company's future. Within the Strategy index, employees recorded feeling increasingly confident about the future of the company and understanding of our strategic objectives.

With inflationary pressures and the rising cost of living around the world, pay and financial well-being are growing concerns among colleagues. We saw an increase in comments relating to pay in the Snapshot survey, and self-reported financial well-being declined by four points, despite a four-point increase in employees reporting that they know how to get support about their financial capability. For further details of our approach to financial well-being, see page 80.

Our Snapshot survey showed 65% of colleagues reported they intend to stay with HSBC for five or more years, a one-point increase, while 19% said they intend to leave in the next two years, a two-point decrease. Despite this, involuntary turnover decreased to 3.3% and voluntary turnover increased to 14.1%, as labour markets picked up globally. Both our Snapshot and voluntary leaver surveys tell us that career development and pay and benefits continue to be key influencing factors for voluntary attrition, and they remain central to our people strategy. For further details of how we help our people develop their careers, see 'Developing skills, careers and opportunities' on page 81.

Being a great place to work

We continued to support our colleagues during the Covid-19 pandemic, and ensured their safe return to the office. In 2022, we made it a priority to support even more colleagues to work flexibly, while ensuring we are there for our customers when and where they need us.

Hybrid working is a key part of our flexible working proposition and requires trust. We have empowered our people to find the right balance, guided by the three principles of:

- customer focus, by delivering excellent outcomes for our customers;
- team commitment, by connecting with each other, building our community and collaborating; and
- two-way flexibility, by providing more choice on how, when and where we work, suitable for the roles we perform.

Our flexible working approach
Colleagues consistently tell us that our approach to flexible and hybrid working is a key reason to recommend HSBC as an employer. In June 2022, our 'Future of work' survey showed 81% of colleagues speak positively about our approach to flexible and hybrid working, and 80% feel it improves their work-life balance.

In 2022, we refreshed our flexible working policies to provide more choice and make it easier to request a flexible working arrangement. Choices include flexible and staggered hours, job sharing, reduced hours and hybrid working. These new policies are available to more than 90% of colleagues, including our branch network and non-permanent employees. We have encouraged teams to have open conversations about flexible working opportunities.

More colleagues than ever are working in a hybrid way, where working time is split between the office and home or another location. According to our Snapshot survey in September, 59% of our colleagues work in a hybrid way, compared with 37% in 2021.

Different markets are at different stages of embedding hybrid working, and in 2022 some continued to operate under Covid-19 conditions.

Getting the balance right
While working at home eliminates commuting time and provides more opportunities to balance work and life, some benefits of being together in person cannot be recreated remotely.

Overall, we have seen that colleagues in hybrid roles feel more productive and engaged than those who are unable to work remotely. However, nearly half of our colleagues told us that the networks of people they regularly interacted with decreased during the pandemic, and they missed social connections.

As a result, we have equipped leaders to achieve the right balance of remote and in-person working for their teams. Our people managers have access to in-person and on-demand learning to develop the skills needed to lead hybrid teams effectively. Nearly 8,000 hybrid working learning curriculums were completed by our people leaders in 2022. In addition, we ran targeted events to stimulate a successful return to the office and create new hybrid working habits.

With more colleagues adopting balanced hybrid working patterns, the Snapshot survey showed 77% of colleagues said they have enough opportunities to connect and collaborate with people outside their immediate teams.

Our offices will continue to evolve to support increased collaboration. We are rolling out a digital app in several locations that will offer greater visibility of who is in the office to support teams coming together.

86%

Of people managers are confident their teams have the right balance of remote and in-person working to meet customer and stakeholder needs.

Our approach to fair pay and performance

As part of our approach to performance management, we ask colleagues to set goals with the support of their line managers, which are regularly reviewed. We encourage people managers to hold regular performance and development conversations, incorporating feedback, and discussing well-being and progress. In the Snapshot survey, 76% of colleagues indicated they were happy with the support their manager provided for career development.

While our overall Career index, which measures employee sentiment towards career development, improved by one point, results from our employee listening channels indicated that sentiment around pay and career opportunities were key factors in colleagues' decisions to leave HSBC. In 2023, we will review our approach to pay and performance to ensure we are able to motivate colleagues in a way that is authentic to our culture and values. Our approach will help colleagues have clarity on performance expectations, awareness of development opportunities and access to resources.

As part of this programme, we are proposing to simplify assessments of colleagues and shift the focus to conversations about performance and growth, while improving transparency and structure in our fixed and variable pay design.

For further details of our approach to colleague remuneration see page 281, and for details of our average standard entry level wages compared with local minimum wage, see our *ESG Data Pack* at www.hsbc.com/esg.

Greater front-line flexibility with far reaching benefits

Colleagues have embraced hybrid working across our eight global service centres that support our customer operations and services. Through a 'Hello hybrid' campaign, over 38,000 employees completed hybrid skills e-learning and nearly 850 colleagues took part in team dialogue sessions. The campaign helped our colleagues identify the best of remote and office working for their differing customer needs, cultures and regulatory requirements. As a result of the campaign, employee sentiment improved by 6% for the question 'I generally look forward to my work day.' In our main contact centres, colleagues now spend up to 67% of their working time on customer-facing activities.

Well-being

We want our colleagues to be at their best at work, so we invest significantly in their well-being and will continue to seek new ways to provide support. Guided by data and colleague feedback, the pillars of our well-being programme are mental, physical, financial and social well-being. In our employee Snapshot survey carried out in September, 70% of our colleagues said they believe HSBC cares about their well-being.

Mental well-being
Supporting our colleagues' mental health remains a top priority, with the Covid-19 pandemic still presenting mental health challenges in many countries. Our Snapshot survey revealed an increase in mental well-being, with 84% of colleagues rating their mental health as positive, compared with 82% in 2021. It also revealed that 73% of colleagues felt comfortable talking to their manager about their mental health, a slight increase from 72% in 2021.

We have continued to make telephone counselling services and Headspace, a meditation app, available to all colleagues globally. Use of these services increased by 3% and 28% in 2022, respectively.

More than 240,000 colleagues and contractors took part in mental health awareness training as part of global mandatory training. Our voluntary mental health e-learning has now been completed by 30,000 employees, with people managers making up 17% of the completions. We also provide an in-depth classroom course designed for line managers and those wanting to be mental health champions, which has been completed by 800 colleagues.

To celebrate World Mental Health Day, we ran a global awareness campaign on alleviating stigma and encouraging colleagues to feel able to speak up if they need help. Throughout October, we held over 100 virtual events, featuring internal and external experts providing advice on mental health and well-being related topics.

Physical well-being
The Snapshot survey revealed a decrease in physical well-being, with 71% of colleagues rating their physical health as positive, compared with 75% in 2021.

In February, we ran a survey about our employee benefits, which showed 37% of colleagues wanted more support with physical activity and exercise. In response, we ran a five-month pilot with 2,000 colleagues to test mobile apps that incentivise physical activity. The pilot showed that the use of apps and community challenges helped up to 70% of users increase their physical activity, to varying degrees. As a result, we are looking at expanding the initiative to more countries in 2023.

We have continued to provide access to private medical insurance in the majority of our countries and territories, covering 98% of permanent employees. In certain countries we provide on-site medical centres that the majority of colleagues can access.

We have enhanced fertility, adoption, and surrogacy benefits for our colleagues in the US and Canada. We are also expanding our gender dysphoria benefits for LGBTQ+ colleagues in the UK and Philippines from 2023.

Financial well-being
Our Snapshot survey revealed a decrease in financial well-being, with 60% of colleagues reporting positively, compared with 64% in 2021. We believe this is an impact of rising inflation and cost of living in many countries.

However, colleagues felt more supported to manage their financial well-being, at 62%, an increase of four points from 2021. The same survey revealed that 81% of colleagues felt they had the right skills and knowledge to manage their day-to-day finances, and 77% said they are well prepared to meet their financial goals.

Our benefits survey showed that 31% of colleagues want more support around financial education. In response, we have continued to promote our financial education programmes on healthy financial habits and saving strategies. Since their launch, over 2,400 colleagues have used these programmes.

We review our approach to employee share ownership plans in line with country demand, operational capacity and local legislation. In 2022, we expanded our global share plan to colleagues in Bahrain, Qatar and Kuwait, meaning that 90% of our people globally now have access to share ownership plans. We continue to look to offer the plan in new locations.

In the UK, we introduced a green car scheme to encourage colleagues to transition to electric vehicles and benefit from reduced running costs and CO_2 emissions.

Social well-being
We introduced social well-being as a new pillar of our programme in 2022, to focus on social connections and work-life balance.

Snapshot surveys showed 75% of colleagues say they can integrate their work and personal life positively, a slight decrease compared with 76% in 2021. We will continue to facilitate this by enabling flexible working arrangements, including hybrid working, in line with our future of work initiative (see page 76). Colleagues feel more confident talking to their manager about work-life balance, with 80% saying they do, compared with 77% in 2021.

In 2021, we upgraded our At Our Best recognition online platform, which allows for real-time recognition and appreciation between colleagues. The upgrade enables colleagues to record and send video messages to accompany recognitions. In 2022, there were more than 1.2 million recognitions made, an 11% increase on 2021. We also enabled colleagues globally to donate their points directly to humanitarian relief agencies supporting those impacted by the war in Ukraine. To date more than 1,100 colleagues have made personal donations to this cause.

Awards
CCLA Global 100 Mental Health Benchmark
– Ranked #1 global employer

Promoting a culture of well-being

In July 2022, we became a founding member of the World Wellbeing Movement, a coalition of global leaders from business, civil society and academia. A key objective of the movement is to develop a simple and universally acceptable standard for measuring well-being that leads to meaningful action. We believe that having a standard ESG indicator on well-being will improve transparency and enable organisations to better target actions to create positive change.

Developing skills, careers and opportunities

Learning and skills development

We aim to build a dynamic environment where our colleagues can develop skills and undertake experiences that help them fulfil their potential. Our approach helps us to meet our strategic priorities and support our colleagues' career goals.

Our resources
The way we work and the way we learn has changed, driven by the adoption of hybrid working styles and digital capabilities. We use a range of resources to help colleagues take ownership of their development and career, including:

– HSBC University, which is our home for learning and skills accessed online and through a network of training centres. Learning is organised through technical academies aligned to businesses and functions, complemented with enterprise-wide academies on topics of strategic importance;
– My HSBC Career Portal, which offers career development information and resources to help colleagues manage the various stages of their career, from joining through to career progression; and
– HSBC Talent Marketplace, which is our online platform that uses artificial intelligence ('AI') to match colleagues interested in developing specific skills with opportunities that exist throughout our global network.

Learning foundations
We expect all colleagues, regardless of their contract type, to complete global mandatory training each year. This training plays a critical role in shaping our culture, ensuring a focus on the issues that are fundamental to our work – such as sustainability, financial crime risk, and our intolerance of bullying and harassment. New joiners attend our Global Discovery programme, which is designed to build their knowledge of the organisation and engage them with our purpose, values and strategy.

As the risks and opportunities our business faces change, our technical academies adapt to offer general and targeted development. Our Risk Academy provides learning for every employee in traditional areas of risk management such as financial crime risk, but also offers more specific development for those in high-risk roles and for emerging issues, such as climate risk, or the ethics and conduct of AI and big data.

Preparing for the future
Our approach to learning is skills based. Our academy teams work with businesses and functions to identify the key skills and capabilities they need now, and in the future.

We use people analytics, strategic workforce planning, and learning needs analysis to identify current and future skills demand, and to help colleagues develop in new areas that match their aspirations and support career growth.

Throughout 2022 we continued to run skills campaigns to create the impetus for individual-led learning, and have used our skills influencer network of more than 1,800 colleagues to build engagement and enthusiasm around the Talent Marketplace, and opportunities for development.

Evolving how we learn
During the Covid-19 pandemic, we strengthened our digital offering to enable colleagues to develop their skills in a hybrid environment. Our colleagues can access HSBC University online via our Degreed learning platform, using it to identify, assess and develop skills through internal and external courses and resources in a way which suits them.

Degreed materials range from short videos, articles or podcasts to packaged programmes or curated learning pathways that link content in a logical structure. By December, more than 187,000 colleagues were registered on the platform. In 2022, overall training volumes were 28.8 hours per FTE, up from 26.7 hours per FTE in 2021.

However, we recognise that most development happens while our colleagues work, through regular coaching, feedback and performance management. To enable even more opportunities for colleagues to grow in this way, our Talent Marketplace matches colleagues to projects and new experiences based on their aspirations and career goals. In 2022, we rolled the platform out to an additional 83,000 colleagues across 18 countries and territories. Over 150,000 colleagues now have access to the platform, and to date over 3,000 projects and networking requests have been facilitated, and over 70,000 hours of activity have taken place.

Training at HSBC

6.3 million
Training hours carried out by our colleagues in 2022.
(2021: 5.9 million)

28.8 hours
Training hours carried out per FTE in 2022.
(2021: 26.7 hours)

Identifying and retaining future talent

The starting point to identifying talent is having a fair and inclusive recruitment process. To help managers hire in line with our principles, we have launched compulsory inclusive hiring training. In 2022, over 5,000 managers received the certification, in addition to 13,500 in 2021.

Our talent programmes have been designed to enable talented employees to make the successful transition into more complex roles and to support participants in planning for a long-term career at HSBC. Our key programmes include:

– Accelerating Female Leaders, which increases the visibility, sponsorship and network of female participants. Colleagues are supported with development plans to help them prepare for the next level of leadership, and matched with sponsors from our senior leadership and external executive coaches;
– Accelerating into Leadership, which prepares participants for leadership roles through peer-based development activities, senior sponsorship and executive coaches. Topics of focus include network building, developing resilience and navigating the organisation. We measure the retention of colleagues post-programme to assess the success; and
– 'UGrow', which is our programme that supports the retention and development of colleagues while strengthening our leadership pipeline. The programme offers masterclasses focused on career planning, driving results and adaptability for aspiring colleagues.

Our global emerging talent programmes welcomed over 800 graduates and 600 interns to the organisation in 2022. Our programmes are a key enabler of our broader diversity goals (see page 74). In 2022, our graduate intake was 48% female, and comprised graduates from 46 nationalities and over 30 ethnicities. We welcomed our graduates with a three-day induction programme, which introduced them to key topics such as our purpose, values and strategy, as well as our role in delivering a sustainable future.

Energising our colleagues for growth

We are committed to offering colleagues the chance to develop their skills while building pipelines of talented colleagues to support the achievement of our strategic priorities.

It remains critical to our ability to energise for growth that we demonstrate the right leadership, and create the optimal conditions for our people to perform. Our leadership and culture is guided by our purpose, values and delivering our strategy.

The Sustainability Academy
To support our ambitions to become net zero in our own operations by 2030, and to align our financed emissions to the Paris Agreement goal of net zero by 2050, we launched the Sustainability Academy in 2022. The academy is available to all colleagues across the Group and serves as a central point for colleagues to access learning plans and resources, and develop practical skills.

The academy has resources to help all colleagues understand broad topics such as climate change or biodiversity, and is supplemented with more advanced content for key groups of colleagues who are supporting customers through their transition. We intend to align content to support business outcomes by educating our colleagues on topics such as energy efficiency, renewable energy, sustainability and ESG reporting.

As part of our strategy to align the provision of finance to the Paris Agreement, the Sustainability Academy is supporting our colleagues to build their knowledge and capability in the sectors in which we have begun to measure and set financed emissions targets, including the oil and gas, and power and utilities sectors.

We will continue to update the academy with new research and content related to ESG issues, including those related to social and governance issues.

Supporting our Asia wealth strategy
At the heart of our ambition to offer best-in class international wealth management services to our customers is the accelerated expansion of our offering in Asia. To achieve this, we are providing opportunities for our colleagues to reskill and build career resilience through our Accelerating Wealth Programme. The programme offers a skills-based development plan for colleagues who are looking to pursue a career in wealth management. Participants on the programme are allocated 20% of their working week to focus on learning and skills development. They are then regularly assessed to ensure they are making progress with developing the right skills to meet our client needs.

We recognise the role that diverse experiences can bring to our customers, and have therefore ensured that the programme is open to colleagues from all global businesses and functions based in Asia.

Building leadership capabilities
We have strengthened the training we give to leaders at all levels of the Group to ensure they are equipped with the skills and knowledge to energise and develop our colleagues.

We have continued the executive leadership programme for our most senior leaders, creating a programme of high-quality modules that draws on internal and external expertise. The programme focuses on the shifting expectations of leaders, embedding the clarity and alignment to achieve our goals and tackling strategic change. We complemented this with educational resources focused on the opportunities presented by Cloud, artificial intelligence, and blockchain technology.

Our Country Leadership Programme aims to prepare and develop future country CEOs and executives for highly complex roles. The programme builds the confidence and competence of leaders across themes such as managing cyber risk, building regulatory relationships, representing HSBC's net zero ambitions and upholding customer-centricity. Participants learn through simulation exercises and coaching from seasoned executives, subject matter experts and Board members.

Leadership development for our colleagues at managing director level includes new programmes that have been created in partnership with business schools and industry practitioners. Topics focus on a range of issues, including critical skills areas such as influence, inclusion, and Agile methodologies.

We recognise the importance of people managers in shaping the experience of our colleagues. We have revised our training for people managers to better support living our purpose, values and strategy, and to reflect the challenges of retaining talent. Our core leadership development programme is made up of four modules that are available in face-to-face and virtual formats. The programme is focused on the role and expectations of managers, how to design and organise work, how to handle relationships with employees and how to nurture a productive team environment.

Supporting UK emerging talent

In the UK, we have continued to broaden our emerging talent programmes beyond traditional graduate and internship schemes. Our programmes support those from non-traditional education backgrounds, and are supportive of our social mobility ambitions, outlined on page 75. In 2022, we provided over 180 apprenticeship opportunities for external and internal applicants. We have also provided over 600 structured work placements for secondary school students, and developed partnerships with Brampton Manor, Generating Genius and the #merky foundation to provide financial literacy support to over 6,400 14 to 16 year olds. We have recently launched a career accelerator programme, in partnership with Zero Gravity, which involves over 120 of our graduates providing career coaching and mentorship to university students. HSBC UK also uses its apprenticeship levy to support work opportunities at small and medium-sized business through a partnership with West Midlands Combined Authority.

Building customer inclusion and resilience

Our approach to customer inclusion and resilience

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 supporting their financial well-being, and removing the different barriers that people can face in accessing financial services.

Access to products and services
We aim to provide innovative solutions that address the barriers people can face in accessing products and services. In 2022, we introduced a new process to help refugees fleeing the conflict in Ukraine to access the financial services they need to set up a new life in the UK. Over 9,000 Ukrainian refugees have now opened a bank account with us.

As part of our efforts to help vulnerable customers access digital services, since 2021, HSBC UK has given over 1,500 vulnerable customers a free tablet device. This allows customers who previously had no way of accessing our online or mobile banking services the ability to do so.

Making banking accessible
Number of no-cost accounts held for customers who do not qualify for a standard account or who might need additional support due to social or financial vulnerability.[1]

2022	**716,957**
2021	692,655
2020	678,554

1 The scope of this disclosure has expanded from 2021, where we only reported the number of accounts opened for homeless, refugees and survivors of human trafficking.

Supporting financial knowledge and 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.

Between the beginning of 2020 and the end of 2022, we received over 4 million unique visitors to our global digital financial education content, achieving our 2019 goal. We will continue to engage customers with financial education content and build their financial capabilities through the introduction of personal financial management tools. Since launching a financial fitness score in the UK, 74,325 customers have used the tool to understand the healthiness of their finances based on details about their spending, borrowing and saving habits.

We support programmes that deliver financial education to our local communities. HSBC Life is sponsoring the Hong Kong Lutheran Social Service to develop the Health Dollar Fun App, to boost digital literacy among the elderly, enhance their physical well-being and encourage social interaction. Throughout 2021 and 2022, we also partnered with Injaz Al-Arab, member of JA Worldwide, to deliver our 'Saving for good' programme, which focuses on building the financial capability of low-income workers in Bahrain, Egypt, Kuwait, Qatar and the UAE. We have now supported over 1,700 individuals to grasp basic financial concepts such as budgeting, saving and investing through a combination of customised training courses and mentorship.

We also understand the importance of building financial capability in young people to ensure future resilience. In Mexico, we offer a podcast that covers a relevant financial educational theme in each episode. To date, the podcast has been downloaded more than 73,000 times.

In collaboration with BBC Children in Need, HSBC UK has worked with financial education charity Young Enterprise to adapt its award-winning Money Heroes programme for children and young people experiencing a range of issues and challenges in their lives. The education resources have been adapted to ensure they are accessible, with books available in braille and large-print, as well as British Sign Language signed videos, audiobooks and a new early-reader e-book.

Creating an inclusive banking experience
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.

We are committed to becoming a digitally accessible bank so that our digital channels are usable by everyone, regardless of ability. We have been recognised by the charity AbilityNet as having the most accessible website compared with other local competitor banks in 10 out of 13 of our key Wealth and Personal Banking markets.

Support for customers extends beyond our digital channels. In recognition of the fact that not all disabilities are visible or immediately obvious to others, we have now joined the Hidden Disabilities Sunflower Lanyard Scheme in the UK and Hong Kong. The lanyard indicates that an individual may need additional support, help or a little more time. We also launched 'quiet hours' across all of our UK branches and 'quiet corners' at designated branches in Hong Kong, to provide a calmer and more inclusive environment.

Supporting women and minority-led businesses

We aim to support our diverse customers by opening up a world of opportunity for women and minorities.

In May 2022, we launched a Female Entrepreneur Fund that aims to provide $1bn in lending to female-owned businesses.

Other programmes include our Mujeres Al Mundo (Women of the World) programme in Mexico, which supports the personal and professional development of women as customers. Mujeres Al Mundo offers women exclusive benefits across financial products and services, discounts on workshops and programmes taught by the University Anahuac Mexico.

We have also begun lending from the $100m that we allocated in 2021 for companies founded and led by women and minorities through HSBC Ventures.

Engaging with our communities

Building a more inclusive world

We have a long-standing commitment to support the communities in which we operate. We aim to provide people with the skills and knowledge needed to thrive in the post-pandemic environment, and through the transition to a sustainable future.

We are empowering our people and those in our communities to develop skills for the future. Through our charitable partnerships and volunteering opportunities, our people share their skills and create a positive impact in society.

Our global reach is our unique strength. Bringing together diverse people, ideas and perspectives helps us open up opportunities and build a more inclusive world.

Building community and future skills
Our Future Skills strategy, launched in 2018, has supported over 6.6 million people through more than $197m in charitable donations. Current projections from our charity partners indicate our support during 2022 reached more than 1.45 million people through donations of $41m.

In anticipation of global economies transitioning towards a low-carbon future, our colleagues and charity partners initiated programmes that help people and communities respond to opportunities and challenges through building relevant skills:

- In the Middle East, we partner with the Posterity Institute and the Arab Youth Council for Climate Change to develop an open-source curriculum for teaching sustainability skills in higher education institutions in the region.
- In Argentina, the Academia Solar programme aims to train students in design, installation and commissioning of photovoltaic solar energy systems.
- In India, the Babuji Rural Enlightenment and Development Society teaches rural farmers sustainable farming practices, including soil and water management, helping them to increase their income.

We also work with our charity partners around the world to promote employability and financial capabilities in disadvantaged communities, and to respond to local needs:

- We support The Prince's Trust Group to help marginalised young people in Australia, Canada, India, Malaysia, Malta and the UK to develop employable skills.
- Our award-winning partnership with the Scouts has led to the creation of the first ever Money Skills Activity Badge for Beaver and Cub groups in the UK.
- We support Feeding America to help users of food banks in the US get on-site job skill training.
- We work with the China Volunteer Service Foundation to improve the financial capability of elderly people in Beijing, Shanghai, and Guangzhou.

Our support for Covid-19 relief efforts also continued in 2022, with a door-to-door vaccination programme in Hong Kong aiming to help 10,000 elderly or people with disabilities.

Community engagement and volunteering
We offer paid volunteering days, and encourage our people to give time, skills and knowledge to causes within their communities. In 2022, our colleagues gave over 67,000 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 2022

- Social, including Future Skills: **50%**
- Environment, including the Climate Solutions Partnership: **20%**
- Local priorities: **16%**
- Disaster relief and other giving: **14%**

Total cash giving towards charitable programmes
$116.8m

Hours volunteered during work time
>67,000

People reached through our Future Skills programme
1.45m

Awards
Investor and Financial Education Awards 2022 Hong Kong
– IFEA (Corporate) Gold Award

Climate Solutions Partnership

Our Climate Solutions Partnership is a five-year $100m philanthropic initiative that aims to identify and remove barriers to scale for climate change solutions. Working with the World Resources Institute, WWF and over 50 local partners, our support focuses on start-up companies developing carbon-cutting technologies, nature-based solutions, renewable energy initiatives in Asia and the WWF-led Asia Sustainable Palm Oil Links programme.

Since 2020, we have committed $95.8m of our $100m funding target to non-governmental organisation ('NGO') partners, supporting projects with the potential to make significant impacts in the mission to achieve a net zero, resilient and sustainable future.

Governance
Acting responsibly

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.

Customer experience is at the heart of how we operate. It is imperative that we treat our customers well, that we listen, and that we act to resolve complaints quickly and fairly. We measure customer satisfaction through net promoter scores across each of our business lines, listen carefully to customer feedback so we know where we need to improve, and take steps to do this.

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.

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.

For further details of our corporate governance, see our corporate governance report on page 239.

In this section

Setting high standards of governance TCFD

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 our climate ambition and transition, customer experience and employee sentiment. The Board is regularly provided with specific updates on ESG matters, including the energy policy, human rights and employee well-being. Board members receive ESG-related training as part of their induction and ongoing development, and seek out further opportunities to build their skills and experience in this area. For further details of Board members' ESG skills and experience, see page 240. For further details of their induction and training in 2022, see page 252.

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 Group Disclosure and Controls Committee and Group Audit Committee, which provide 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 PRA-regulated businesses are the senior managers responsible for climate financial risks under the UK Senior Managers Regime. Climate risks are 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 diagram on the right provides an illustration of our ESG governance process, including how the Board's strategy on climate is cascaded and implemented throughout the organisation. It identifies examples of forums that manage both climate-related opportunities and risks, along with their responsibilities and the responsible chair. The structure of the process is similar for the escalation of problems, with issues either resolved in a given forum or raised to the appropriate level of governance with appropriate scope and authority.

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.

How HSBC's climate strategy is cascaded

Opportunities | Risks

Board level governance

HSBC Holdings Board

Group Executive Committee | Group Audit Committee | Group Risk Committee

Management level governance

ESG Committee

Supports the development and delivery of the Group's ESG strategy, key policies and material commitments by providing oversight, coordination and management of ESG commitments and initiatives.

Co-Chairs: Group Company Secretary and Chief Governance Officer, and Group Chief Sustainability Officer

Group Risk Management Meeting

Receives updates on climate risk, and reviews climate risk appetite and top and emerging climate risks.

Chair: Group Chief Risk and Compliance Officer

Supporting governance

Sustainability Execution Review Group

Oversees the delivery of our ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment, and realisation of commercial opportunities.

Chair: Group Chief Executive

Climate Risk Oversight Forum

Oversees global risk activities relating to climate risk management, including physical and transition risks. Equivalent forums have been established at regional level.

Chair: Group Head of Risk Strategy and Macroeconomic Risk

Regional, global business and global functions

Examples of ESG-related management governance

The following governance bodies support management in its delivery of ESG activities.

Digital Business Services Executive Committee
Oversees the global delivery of ESG activities within our own operations, services and technology elements of our strategy.

Chair: Group Chief Operating Officer

Group Reputational Risk Committee
Oversees global executive support for identification, management and ongoing monitoring of reputational risks.

Chair: Group Chief Risk and Compliance Officer

Sustainability Target Operating Model Steering Committee
Oversees the implementation of the Group's organisational plan for the internal infrastructure, both within the Sustainability function and the wider Group, to deliver our climate ambitions.
Chair: Group Chief Sustainability Officer

Human Rights Steering Committee
Oversees the Group's evolving approach to human rights and provides enhanced governance.

Chair: Group Chief Risk and Compliance Officer

Human rights

Our respect for human rights

As set out in our Human Rights Statement, we recognise the role of business in respecting human rights. Our approach covers all aspects of internationally recognised human rights and is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises.

Refreshing our salient human rights issues
In 2022, building on an earlier human rights review that had identified modern slavery and discrimination as priority issues, we reviewed our salient human rights issues following the methodology set out in the UNGPs. These are the human rights at risk of the most severe potential negative impact through our business activities and relationships. It is important to understand these as inherent risks, based on the nature of our business. Identifying and regularly reviewing these risks helps us to validate and evolve our overall approach to human rights.

Through this review, we identified the following five human rights risks (salient human rights issues) inherent to HSBC's business globally:

– Right to decent work: This covers freedom from forced labour including freedom from slavery and child labour and protection from inhumane, harsh or degrading treatment or punishment. It also includes the right to just and favourable conditions of work including the right to reasonable working hours, fair working conditions and pay. It also covers the right to health and safety at work, including appropriate living conditions for workers as well as protection of their mental and physical health and safety while at work.
– Right to equality and freedom from discrimination: This covers the right to equal opportunity and freedom from discrimination on the basis of protected characteristics.
– Right to privacy: This includes the right to protection against interference with privacy.
– Cultural and land rights: This includes self-determination and the enjoyment of culture, religion and language, and the rights of indigenous people.
– Right to dignity and justice: This includes freedom of opinion and expression and freedom from arbitrary arrest, detention or exile.

Our salient human rights issues
Illustration of HSBC Group's inherent human rights risks mapped to business activities.

		HSBC activities				
				Provider of products and services		
Inherent human rights risks		Employer	Buyer	Personal customers	Business customers	Investor[1]
Right to decent work	Freedom from forced labour		◆		◆	◆
	Just and favourable conditions of work	◆	◆		◆	◆
	Right to health and safety at work	◆	◆	◆	◆	◆
Right to equality and freedom from discrimination		◆	◆	◆	◆	◆
Right to privacy		◆		◆		◆
Cultural and land rights			◆		◆	◆
Right to dignity and justice		◆	◆	◆	◆	◆

1 Investor includes our activities in HSBC Asset Management.

The assessment also considered our business activities and relationships in the context of our roles: as an employer; as a buyer of goods and services; as a provider of financial products and services to personal customers and, separately, to business customers; and as an investor, including all investment activities.

We assessed how each of these five roles might intersect with our five salient human rights issues. The table above shows the areas where we assessed severe negative impacts on human rights would be most likely to arise, in the absence of action to mitigate them. This additional analysis allows us to focus our efforts as we review the range of measures already in place to manage risks, and consider enhancements.

Managing risks to human rights
In 2022, we began the process of adapting our risk management procedures to reflect what we learned from the work on salient human rights issues described above. This included the development of Group guidance on human rights, which incorporates the salient human rights issues assessment and provides colleagues with practical advice, including case studies, on how to identify, prevent, mitigate and account for how we address our impacts on human rights.

We incorporated additional human rights elements into our existing procurement processes and supplier code of conduct, and we extended existing human rights due

Stakeholder engagement

As part of the process of validating our assessment of our salient human rights issues, we engaged with a range of internal and external stakeholders. These included:

– drawing on the experience of our employee groups, which gave us valuable feedback on human rights challenges in the workplace;
– working with civil society groups with expertise in one or more of our salient human rights issues, who could represent the views of potentially impacted people;
– interviewing of our largest investors to hear their assessments of the potential human rights impacts associated with the financial services industry, and we listened to their expectations of us in responding to the risks; and
– discussing our salient human rights issues with some of our key suppliers, our large business customers and the companies in which we invest, to understand their views of human rights impacts in different parts of the world and to develop collaborative approaches to addressing those impacts.

These stakeholder engagements and input from external human rights experts led us to alter or extend our initial assessments in several ways. For example, our discussions with civil society groups helped us understand the potential impact of our investments on all five of our salient human rights issues. Engagement with investors in HSBC informed our assessment of the way in which our salient human rights issues overlap with our approach to climate change and our commitment to a just transition (see next page).

Our respect for human rights continued

diligence processes for suppliers and business customers. We continued to develop our in-house capability on human rights, including by launching online resources for all staff and delivering bespoke human rights training for 520 employees across our network.

The actions we are taking to address these salient human rights issues are consistent with our values, and will help us to meet our commitments on diversity and inclusion, and those we have made under the UN Global Compact and the World Economic Forum metrics on risk for incidents of child, forced or compulsory labour.

For further details of the actions we have taken to respect the right to decent work, see our *Annual Statement under the UK Modern Slavery Act* at www.hsbc.com/modernslaveryact.

For further details of the actions taken to respect the right to equality and freedom from discrimination, see 'Our approach to diversity and inclusion' on page 74.

Sector policies

Some of our business customers operate in sectors in which the risk of adverse human rights impact is greater. Our sector policies for agricultural commodities, energy, forestry, mining and metals cover human rights issues such as forced labour, harmful or exploitative child labour, land rights, the rights of indigenous peoples, including 'free prior and informed consent', workers' rights, and the health and safety of communities.

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.

Our sector policies are reviewed periodically to ensure they reflect our priorities.

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 adverse human rights impacts is also mitigated by our financial crime risk management framework, which includes our global policies and associated controls.

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

Other policies

HSBC's Principles for the *Ethical Use of Data and Artificial Intelligence* describe how we seek to respect rights to privacy while making use of these technologies.

Driving change

We continued to be active participants in industry forums, including the Thun Group of Banks, which is an informal group that seeks to promote understanding of the UNGPs within the sector.

HSBC has been an active member of the Mekong Club since 2016. We are a regular participant in its monthly financial services working group and use its informative typological toolkits, infographics, and other multimedia resources covering current and emerging human trafficking and modern slavery issues. Our Compliance teams regularly collaborate and engage with the Mekong Club in designing bank-wide knowledge sharing and training sessions.

Supporting those impacted and those potentially at risk

We continued to expand our Survivor Bank programme, which has now benefited over 2,000 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, providing over 4,000 accounts under these programmes.

We also responded to the devastating effects of the conflict in Ukraine by introducing a new process to help refugees to access the financial services they need to set up a new life in the UK. Over 9,000 people fleeing the conflict have opened a bank account with us.

For further details of our work to support vulnerable communities, see page 83.

Effectiveness

The table below includes indicative metrics we use to measure year-on-year continual improvement to our human rights processes.

Contracted suppliers who had either confirmed adherence to the code of conduct or provided their own alternative that was accepted by our Global Procurement function (%)	**93%**
No-cost accounts held for customers who do not qualify for a standard account or who might need additional support due to social or financial vulnerability	**716,957**
Employees who have received bespoke training on human rights	**520**
Votes against management for reasons including human rights[1]	**87**
Concerns raised related to bullying, harassment, discrimination and retaliation	**1,159**

1 The figure represents the number of resolutions at investee company shareholder meetings (including AGMs) where votes were cast against management for reasons related to human rights.

Working for a just transition

We aim to play a leading role in mobilising the transition to a global net zero economy, not just by financing it, but by helping to shape and influence the global policy agenda. When designing and implementing low-carbon pathways it is important to consider the communities and areas of the economy that will be facing the greatest challenges. This aligns closely with our commitments on human rights more broadly. This was demonstrated in June 2022 when HSBC and US fashion group PVH Corp. announced the first sustainable supply chain finance programme that includes human rights performance standards.

For further details on this programme, see page 58. See also our paper on Just and Inclusive Climate Transition for investors at www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/news-and-articles/articles/campaign-2022-11-02-hsbc-responsible-investment-insights-q4-2022.pdf.

Customer experience

We remain committed to improving customers' experiences. In 2022, 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 66% of our markets, although we still have work to do to improve our rank position against competitors.

Customer satisfaction

Listening to drive continual improvement
In 2022, we continued to embed our feedback system so we can better listen, learn and act on our customers' feedback. We use the net promoter score ('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 2022, we expanded our surveys to 14 markets to cover India, France and Germany. 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.

Our WPB 'Customer in the room' programme launched in 2022 to bring our senior leadership closer to customers by providing them with direct access to customer feedback. The programme helps to demonstrate the impact of our decisions on our customers, and helps ensure we use customer feedback in all aspects of how we run our business.

How we fared
In WPB, our NPS increased in four of our six key markets, which were the UK, Hong Kong, mainland China and Singapore. Our NPS in Mexico remained unchanged, while our NPS in India saw a small decline. In Hong Kong, we were ranked in first place, with improved scores in wealth advisory, life insurance and investment products. Our PayMe payments app was also ranked in second place for digital wallets.

Our ranks in mainland China and India remained in the top three, while our rank in India declined to third place. Our NPS in India declined across the mobile app, branch and call centre channels. Our overall rank in Singapore improved, and we remained in the top three among our mass affluent and high net worth customers. Our rank in the UK remained unchanged, with improvements in our loan products and wealth advisory scores. However, customers told us we needed to focus more 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 improvements in these areas.

In our private bank, our global NPS decreased to 25, compared with 31 in 2021. This was largely due to a decrease in our scores in Hong Kong, the US and Luxembourg, with mainland China and Taiwan now included in the overall score.

In CMB, our NPS increased in four of our six key markets, which were Hong Kong, mainland China, Singapore and Mexico. Our NPS declined in the UK and India. Our rank positions in Hong Kong, India, mainland China, Singapore and Mexico either improved compared with 2021, or were in the top three against competitors. However, our rank in India declined to third place. This was driven by a decline in NPS among our Business Banking customers. In the UK, our overall rank remained unchanged. We were ranked in the top three among our large corporate and mid-market enterprise customers in the UK, and we saw a small decline in NPS among our Business Banking customers. We continue to see some challenges in service delivery, particularly for our Business Banking customers. Among other initiatives, we have been working hard to resolve telephony resourcing, which has impacted our responsiveness.

In GBM, our global NPS improved from 13 to 17 points. Our global rank position remained in fifth place. We continued to be ranked in the top three against competitors in MENA, while our US rank improved. Our digital satisfaction score fell marginally by one point. We remained ranked first for the quality of our digital trade finance platforms.

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

	2022
WPB	**4 out of 6**
CMB	**5 out of 6**

1 In 2022, we updated the markets we measure our rank positions for both our WPB and CMB businesses to align with executive incentive scorecards. They comprise: the UK, Hong Kong, Mexico, mainland China, India and Singapore. Rank positions are provided using data gathered through third-party research agencies

Acting on feedback

We continued to focus on improving our products and services to enable better customer experiences.

Across WPB, we launched our Global Money proposition, initially in the UK, which allows customers to open a multi-currency account and be able to use it within minutes. We also introduced a new mobile account opening journey in Singapore in response to preferences for mobile-first experiences.

In CMB, we deployed digital onboarding solutions to 12 markets in 2022, using external data sourcing to streamline client and colleague journeys. These deliveries increased our digital penetration by 14% from 2021, extending our digital products and services to more customers globally. Through using technology to digitise our operations, there was close to a 6% increase in 2022 in trade transactions initiated digitally by our customers, and nearly a 62% increase in payments completed using the HSBCnet mobile app.

In response to client feedback, we made a number of changes to our client coverage model in GBM during 2022. We reshaped our Institutional Client Group, particularly our approach to financial sponsors, sovereign wealth funds and global investors. We enhanced our corporate multinational model to focus on our largest relationships through regional account managers. We also launched a series of transaction banking solutions to improve the experience for our clients, and created a new digital collaboration layer to drive clearer accountability and coordination of global teams when delivering these solutions.

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 2022, we received approximately 1.2 million complaints from customers. The ratio of complaints per 1,000 customers per month in our large markets decreased slightly from 2.4 to 2.3.

In the UK, complaints fell 8% partly due to a decline in transaction disputes, which had risen during the Covid-19 pandemic. The reduction in these complaint volumes can also be attributed to journey improvements we made to deal with these disputes more quickly. We continue to be focused on improving the customer experience to reduce complaint volumes further during 2023.

The increase in complaints in Hong Kong was mainly related to reduced operations in our branches during Covid-19-related restrictions, an increase in fraudulent activities, and the migration by customers towards new ways of accessing and using our digital platforms. We are addressing these by seeking to improve our digital capabilities, timely staff reinforcement, enhanced guidance of how to use our digital platforms and improved customer journeys.

The decrease in complaints in Mexico was driven by improvements in fraud detection, as our fraud teams took actions to protect customers, including carrying out an upgrade to a monitoring tool for credit and debit cards and making adjustments to fraud rules.

In our private bank in 2022, we received 331 complaints, a 23% decrease on 2021, largely due to the reduction in administration and service issues. Within this category a high proportion were attributable to processing or client reporting delays/errors. In 2022, the private bank resolved 344 complaints.

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

		2022	2021
Total[2]		**2.3**	2.4
UK[3]	▶	**1.4**	1.4
Hong Kong[3]	▲	**1.0**	0.7
Mexico[3]	▼	**5.1**	5.5

1 A complaint is any expression of dissatisfaction about WPB's activities, products or services where a response or resolution is explicitly or implicitly expected.
2 Markets included: Hong Kong, mainland China, France, the UK, UAE, Mexico, Canada and the US.
3 The UK, Mexico and Hong Kong make up 86% of total complaints.

Acting on feedback

In 2022, we launched a Group-wide plan to deliver an improved experience for our customers around the world. The plan will strengthen our capabilities to hear, understand and act on what our customers are telling us on a regular basis. Across markets we enhanced our measurement and tracking capabilities, and developed the skills and tools our colleagues need to improve their customer experience each day. We also sought to standardise our customer-focused approach in our processes.

For our colleagues focused on improving our customers' experiences, we enhanced and launched regular forums in 15 of our key markets to ensure systematic reviews are carried out to prioritise feedback and implement improvements quickly regarding our customers' online and offline experiences. This allows us to have a structured approach to manage feedback.

In Hong Kong, we analyse customer feedback and detect their pain points at an early stage through a feedback mechanism. Our colleagues are now able to reach out to our customers with unhappy experiences proactively to resolve their outstanding issues.

How we listen continued

Commercial Banking ('CMB')

In 2022, we received 62,995 customer complaints, a decrease of 23.4% from 2021. Of the overall volumes, 78.1% came from the UK and 12.9% from Hong Kong. The most common complaint related to operations, namely payment processing errors and delays.

The reduced volume of received complaints in the UK was largely as a result of a reduction in Covid-19-related complaints. This was mainly due to the fact we received fewer complaints related to the Bounce Back Loan scheme, and we also resolved the under-resourcing in UK servicing centres, which had led to delays in customer support in 2021 and into the first half of 2022.

In Hong Kong, volumes were higher in the first half of the year due to the consequences of Covid-19-related restrictions that placed stress on servicing centre capacity. Additional recruiting of servicing staff, improvements in the customer due diligence policy and the payment investigations process helped to reduce complaints volumes in the second half of the year, resulting in annual volumes that were in line with 2021.

We resolved 65,018 complaints globally in 2022. The average resolution time for complaints reduced by 23% to an average of 5.7 days, which is within our global target of 20 days.

CMB complaint volumes[1]
(000s)

		2022	2021
Total		**63.0**	82.2
UK	▼	**49.2**	67.1
Hong Kong	▼	**8.1**	8.2

Acting on feedback

In 2022, we continued to invest in our client feedback tool, moving our products and local operations onto the platform. The Global Payments Solutions business adopted the tool during the year, and CMB staff in Hong Kong and India are due to begin logging and managing complaints in early 2023.

In late 2022, we also introduced new reporting functionality for complaints logged on the tool, which will update complaints on a daily basis, and enable colleagues responsible for managing complaints within markets and product teams to more closely manage volumes and operations.

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 2022, we reported 865 complaints associated with such customers and have managed these closely to ensure fair outcomes for the customer.

Global Banking and Markets ('GBM')

In 2022, we received 2,127 customer complaints in Global Banking, a decrease of 8% from 2021.

Of the overall Global Banking complaints volumes, 45.6% were from complaints in Europe and 28.0% came from the MENA region. With regard to the types of complaint, 82% for Global Banking related to servicing and payment processing, which is in line with previous years.

In the Markets and Securities Services business, complaint volumes decreased by 6% from 2021. Of the overall Markets and Securities Services complaint volumes, 48% were in Asia and 43% in Europe. Our Markets and Securities Services business remains focused on providing a high standard of client service and commitment to resolving issues in a timely manner, with 93% closed within our service standards.

GBM complaint volumes[1]

		2022	2021
Total		**2,419**	2,619
Global Banking[2]	▼	**2,127**	2,310
Global Markets and Securities Services	▼	**292**	309

Acting on feedback

We have continued to invest in our client feedback tool to create a consistent and streamlined experience for front-line staff in Global Banking and Markets and the wholesale businesses globally. In the fourth quarter, we launched a new reporting module driven from our client feedback tool, which will provide real-time complaints volumes, complaint details and operational metrics for our complaints users. This additional information will enable management to respond to complaints volumes.

1 Globally, 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. Within the UK, a complaint is any expression of dissatisfaction – whether justified or not – about our products, services or activities which suggests we have caused (or might cause) financial loss, or material distress or material inconvenience.

2 Global Banking also includes Global Payments Solutions (previously known as Global Liquidity and Cash Management) and complaints relating to payment operations, which is part of Digital Business Services.

Integrity, conduct and fairness

Safeguarding the financial system

We have continued our efforts to combat financial crime and reduce its impact on our organisation, customers and the communities that we serve. Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.

We are committed to acting with integrity, and have a financial crime risk management framework that is applicable across all global businesses and functions, and all countries and territories in which we operate. The financial crime risk framework, which is overseen by the Board, is supported by our financial crime policies that are designed to 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 monitoring and testing our financial crime risk management programme.

We continue to invest in new technology, including through the deployment of a capability to monitor correspondent banking activity, the enhancements to our fraud monitoring capability and our trade screening controls, and the application of machine learning to improve the accuracy and timeliness of our detection capabilities. These new technologies should enhance our ability to respond effectively to unusual activity and be more granular in our risk assessments. This helps us to protect our customers, the organisation and the integrity of the global financial system against financial crime.

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. 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. Among other controls, we use customer due diligence and transaction monitoring to identify and help mitigate the risk that our customers are involved in bribery or corruption. We perform anti-bribery and corruption risk assessments on third parties that expose us to this risk.

The scale of our work

Each month, on average, we monitor over 1.2 billion transactions for signs of financial crime. During 2022, we filed over 73,000 suspicious activity reports to law enforcement and regulatory authorities where we identified potential financial crime. In addition, we screen approximately 117 million customer records monthly for sanctions exposure.

99%
Total percentage of employees who have received financial crime training, including on anti-bribery and corruption.

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 the concerns of individuals and have a zero tolerance for acts of retaliation.

Listening through whistleblowing channels
Our global whistleblowing channel, HSBC Confidential, is one of our speak-up channels, which allows our colleagues and other stakeholders to raise concerns confidentially and, if preferred, anonymously (subject to local laws). In most of our markets, HSBC Confidential concerns are raised through an independent third party, offering 24/7 hotlines and a web portal in multiple languages. We also provide and monitor an external email address for concerns about accounting, internal financial controls or auditing matters (accountingdisclosures@hsbc.com). Concerns are investigated proportionately and independently, with action taken where appropriate. This can include disciplinary action, dismissal, and adjustments to variable pay and performance ratings.

We promote our full range of speak-up channels to colleagues to help ensure their concerns are handled through the most effective route. In 2022, 18% fewer concerns were raised through HSBC Confidential compared with 2021. Of the concerns investigated through the HSBC Confidential channel in 2022, 83% related to behaviour and conduct, 11% to security and fraud risks, 6% to compliance risks and less than 1% to other categories.

The Group Audit Committee has overall oversight of the Group's whistleblowing arrangements, and 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 the organisation's policies and procedures.

Compliance sets the whistleblowing policy and procedures, and provides the Group Audit Committee with periodic updates on their effectiveness. Specialist Compliance teams and investigation functions own whistleblowing controls, with monitoring in place to determine control effectiveness.

For further details of the role of the Group Audit Committee in relation to whistleblowing, see page 266.

HSBC Confidential concerns raised in 2022:
1,817
(2021: 2,224)

Substantiation rate of concerns investigated through HSBC Confidential in 2022:
41%
(2021: 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 seek to ensure 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.

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 seven such jurisdictions in which we operated during 2022 that may be impacted by adjustments required under the Pillar 2 Framework. We continually monitor the number of active subsidiaries within each jurisdiction as part of our ongoing entity rationalisation programme. We seek to 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:

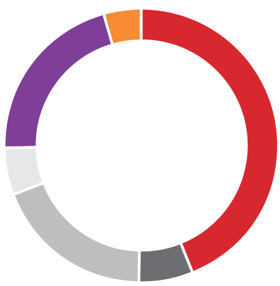
- We have made considerable investments to support external tax transparency initiatives and reduce the risk of banking services being used to facilitate customer tax evasion. Initiatives include the US Foreign Account Tax Compliance Act, the OECD Standard for Automatic Exchange of Financial Account 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 of 4.9% was reduced by 14.3% by the recognition of previously unrecognised deferred tax assets in the UK and France in light of improvements in forecast profits in these jurisdictions. Further details are provided on page 357. The UK bank levy charge for 2022 of $13m is lower than the charge of $116m for 2021 as it includes adjustments made to prior period UK bank levy charges recognised in the current year.

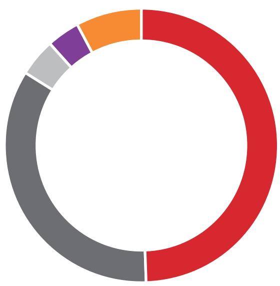
As highlighted below, in addition to paying $5.5bn of our own tax liabilities during 2022, we collected taxes of $10.2bn on behalf of governments around the world. A more detailed geographical breakdown of the taxes paid in 2022 is provided in the *ESG Data Pack*.

Taxes paid – by type of tax



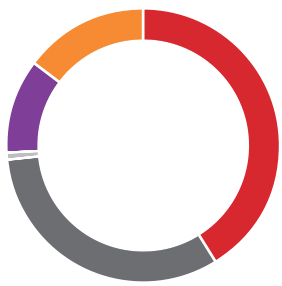
- Tax on profits **$2,429m** (2021: $2,711m)
- Withholding taxes **$361m** (2021: $366m)
- Employer taxes **$1,041m** (2021: $1,125m)
- Bank levy **$314m** (2021: $479m)
- Irrecoverable VAT **$1,152m** (2021: $1,315m)
- Other duties and levies[1] **$232m** (2021: $278m)

Taxes paid – by region



- Europe **$2,745m** (2021: $3,170m)
- Asia-Pacific **$1,894m** (2021: $2,077m)
- Middle East and North Africa **$259m** (2021: $236m)
- North America **$207m** (2021: $469m)
- Latin America **$424m** (2021: $322m)

Taxes collected – by region



- Europe **$4,197m** (2021: $3,177m)
- Asia-Pacific **$3,274m** (2021: $3,584m)
- Middle East and North Africa **$67m** (2021: $78m)
- North America **$1,129m** (2021: $1,081m)
- Latin America **$1,493m** (2021: $1,343m)

1 Other duties and levies includes property taxes of $94m (2021: $126m).

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.

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.

Conduct: Our product responsibilities

Our conduct approach guides us to do the right thing and to focus on the impact we have for our customers and the financial markets in which we operate. It is embedded into the way we design, approve, market and manage products and services, with a focus on five clear outcomes:

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

We train all our staff on our approach to conduct, helping to ensure our conduct outcomes are part of everything we do.

Designing products and services
Our approach to product development is set out in our policies, and provides a clear basis on which informed decisions can be made. Our policies require that products must be fit-for-purpose throughout their existence, meeting regulatory requirements and associated conduct outcomes.

Our approach includes:

- designing products to meet identified customer needs;
- managing products through governance processes, helping to ensure they meet customers' needs and deliver a fair exchange of value;
- periodically reviewing products to help ensure they remain relevant and perform in line with expectations we have set; and
- improving, or withdrawing from sale, products which do not meet our customers' needs or no longer meet our high standards.

Meeting our customers' needs
Our policies and procedures set standards to ensure that we consider and meet customer needs. These include:

- enabling customers to understand the key features of products and services;
- enabling customers to make informed decisions before purchasing a product or service; and
- ensuring processes are in place for the provision of advice to customers.

They help us provide the right outcomes for customers, including those with enhanced care needs. This helps us to support customers who are more vulnerable to external impacts, including the current cost of living crisis (see 'Supporting our customers facing a rising cost of living' on page 15).

Financial promotion
Our policies help to ensure that in the sale of products and services, we use marketing and product materials that support customer understanding and fair customer outcomes. This includes providing information on products and services that is clear, fair and not misleading. We also have controls in place to ensure our cross-border marketing complies with relevant regulatory requirements.

Product governance
Our product governance arrangements cover the entire lifecycle of the product. This helps ensure that our products meet our policy requirements before we sell them. It also allows continued risk-based oversight of product performance against the intended customer outcomes.

When we decide to withdraw a product from sale, we aim to consider the implications for our existing customers, and agree actions to help them achieve a fair outcome where appropriate.

Our approach with our suppliers

We maintain global standards and procedures for the onboarding and use of third-party suppliers. We require suppliers to meet our compliance and financial stability requirements, and to comply with our supplier code of conduct.

Sustainable procurement
In October 2022, we introduced an internal sustainable procurement procedure to set out the minimum sustainability requirements for procurement activity. This helps us to manage the risks related to sustainability in our supply chain, and balance the social, environmental and economic considerations in procurement decisions.

Supplier code of conduct
We have a supplier code of conduct, revised in 2022, which sets out our commitments to the environment, diversity and human rights, and which outlines the minimum commitments we expect of our suppliers on these issues.

We formalise commitment to the code with clauses in our supplier contracts, which support the right to audit and act if a breach is discovered.

At the end of 2022, 93% of approximately 9,600 contracted suppliers had either confirmed adherence to the supplier code of conduct or provided their own alternative that was accepted by our Global Procurement function.

Managing environmental and social risk
In 2022, we updated our ESG reputational risk assessment tool to identify the environmental and social risks for suppliers that are considered to be in sectors with high ESG risk. Previously, the assessment was applied to suppliers with higher value contracts only. The tool provides an ESG reputational risk score for the supplier. A high-risk score results in a further review to establish whether we are able to mitigate the risk and onboard the supplier.

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

Safeguarding data

Data privacy

We are committed to protecting and respecting the data we hold and process, in accordance with the laws and regulations of the markets 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. This includes global mandatory training for all our colleagues, with additional training sessions, where needed, to keep up to date with 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 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 concerns on 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 appropriate challenge and visibility for senior executives. Data privacy laws and regulations continue to evolve globally. We continually monitor the regulatory environment to ensure we respond appropriately to any changes.

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 our data protection officers, 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.

We continue to enhance our internal data privacy tools 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 help 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.

Data Privacy Day

In January 2022, we hosted an internal global data privacy event for our colleagues to mark International Data Privacy Day. The event, which was broadcast online, was hosted by our Global Head of Data Privacy Legal and the Global Data Risk Steward. The President and CEO of the International Association of Privacy Professionals was a guest speaker at the event.

Key themes included an exploration of developments in US state and federal data privacy legislation and regulations, developments in the implementation and embedding of existing data privacy laws, key challenges to organisations such as cross-border data transfers and data localisation requirements, and the evolving enforcement environment within which we operate.

The ethical use of data and AI

Artificial intelligence and other emerging technologies give us the ability to process and analyse data at a depth and breadth not previously possible. While these technologies offer significant potential benefits for our customers, they also pose 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 Data and Artificial Intelligence are available at www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct.

Cybersecurity

The threat of cyber-attacks remains a concern for our organisation, as it does across the financial sector. As cyber-attacks continue to evolve, failure to protect our operations may result in disruption for customers, manipulation of data or financial loss. This could have a negative impact on our customers and our reputation.

We continue to monitor ongoing geopolitical events and changes to the cyber threat landscape, and take necessary proactive measures with the aim to reduce any impact to our 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 ability to detect and respond to attacks through round-the-clock security operations centre capabilities helps to reduce the impact of attacks.

We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. We have a 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.

In 2022, we further strengthened our cyber defences and enhanced our cybersecurity capabilities to help reduce the likelihood and impact of unauthorised access, security vulnerabilities being exploited, data leakage, third-party security exposure and advanced malware. These defences 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 and managing the cyber risk. They work with control owners to apply the appropriate risk treatment in line with our risk appetite. Our controls are executed in line with policies produced by our Resilience Risk teams, and are reviewed and challenged by the second line of defence. 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, including to the Board and across global businesses, functions and regions. In addition, we work with our third parties to help reduce the threat of cyber-attacks impacting our business processes. We have an assessment capability 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 appropriate tools and behaviours they need 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.

Over 92% of our IT developers hold at least one of our enhanced security certifications to help ensure we build secure systems and products.

We host an annual cyber awareness month for all colleagues, covering topics such as online safety at home, social media safety, safe hybrid working and cyber incidents and response. Our dedicated cybersecurity training and awareness team provides regular programmes to our colleagues and customers. We provide a wide range of education and guidance to both customers and our colleagues about how to spot and prevent online fraud.

Over 97%

Employees completed mandatory cybersecurity training on time.

Over 92%

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

Over 140

Cybersecurity education events held globally.

Over 97%

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

Educating customers online

Our Fraud and Cyber Awareness app, which launched in the UK in May 2021, has been enhanced and extended to eight markets in the Middle East and North Africa as a pilot to improve the financial education of our customers. The app is available free of charge for both personal and business customers, and is designed to keep customers and non-customers up to date with the latest trends concerning fraud, scams and cyber-attacks. It enables users to subscribe to real-time notifications about emerging fraud and cybercrime trends. Since May 2021, the app has been downloaded approximately 28,000 times and has a 4.8 rating on Google Play and iOS app store. We plan to roll out the app to further markets in 2023.