

Acting with integrity

We aim to act with courageous integrity and learn from past events to prevent their recurrence. We recognise that restoration of trust in our industry remains a significant challenge as past misdeeds continue to be in the spotlight. But it is a challenge we must meet successfully. We owe this not just to our customers and to society at large, but to our colleagues to ensure they can be rightly proud of the organisation where they work. We aim to make decisions based on doing the right thing for our customers and never compromising our ethical standards or integrity. We believe the following examples show how we have learned from our past mistakes and are focusing on the future.

## Anti-money laundering and sanctions

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

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

The AML DPA expired in December 2017, and we are pleased that our progress in strengthening our AML and sanctions compliance capabilities has been recognised. In 2021, the bank also resolved an FCA investigation into its legacy anti-money laundering systems and controls in the UK, where the FCA recognised that HSBC had made significant investments in new and market-leading technologies that go beyond the traditional approach to transaction monitoring. Our work in this area will continue to be consistent with our strategic priority of safeguarding our customers and delivering industry-leading financial crime standards.

Our technology deployments include building advanced analytical capabilities, notably the use of artificial intelligence, designed to help us target illicit conduct with greater sophistication and precision. This will help us make a step change in the effectiveness of our efforts to fight financial crime. We continue to build a dynamic risk assessment process which will enable us to be faster and more accurate at detecting potential financial crime and which will also allow us to generate actionable insight that we can use ourselves and, where appropriate, share with national authorities. This will benefit the Group, our customers and society at large. We have already made considerable progress towards achieving these aims in 2021, for example, through deploying a key component of our intelligence-led, dynamic risk assessment capabilities for customer account monitoring in the UK; undertaking important enhancements to our traditional transaction monitoring systems; testing machine learning capabilities to detect unauthorised trading; and deploying advanced analytics techniques in name and transaction screening.

We are also committed to working in partnership with the wider industry and the public sector in managing financial crime risk, contributing to the protection of the integrity of the financial system and the communities we serve. We participate in numerous public-private partnerships and information-sharing initiatives around the world and, during 2021, provided significant input to AML-related reforms being considered by the UK, the EU, the US and Singapore. We actively participated in a key pilot undertaken by the Monetary Authority of Singapore, which establishes a framework to enable financial institutions to share information with each other when certain financial crime risk concerns have been identified. We also took part in a number of roundtables organised by the Financial Action Task Force, supporting its strategic review and its work on digitisation and beneficial ownership registers. These align with our objectives of promoting a public policy and regulatory environment that embraces the use and harnessing of

technology to build a financial crime framework fit for the future and to ensure our organisation is more resilient and secure, while benefiting our customers and the communities we serve.

## Customer tax evasion

Prior to 2011, our Swiss private bank provided its customers with traditional Swiss banking services, which enabled some customers to conceal their assets from tax authorities and avoid paying their taxes. These services included, among other things, the opening of encoded numbered accounts that kept the account holder's name confidential and the provision of 'hold mail' services whereby all mail was kept at the bank for customers to avoid receiving letters at their domestic addresses. Our Swiss private bank, through certain of its relationship managers, offered these services with the knowledge that customers would use them in order to conceal their assets from tax authorities.

HSBC has already reached agreements with multiple law enforcement authorities to resolve investigations relating to these past practices, including the deferred prosecution agreement entered into between our Swiss private bank and the DoJ in December 2019 and settlements with prosecuting authorities in France and Belgium. We acknowledge that the compliance culture and standards of due diligence in our Swiss private bank were significantly lower in the past than they are today. With hindsight, it is clear that we maintained too many small and high-risk customer accounts and our private banking business was stretched over too many geographical markets, all of which contributed to failings in standards, culture and controls.

In recent years, our private banking business has taken significant steps to address these historical control weaknesses, most notably in Switzerland. Beginning in 2012, our private banking business developed a tax transparency policy that included enhanced know your customer ('KYC') and AML procedures and a review of existing accounts against potential indicators of non-compliance with tax obligations. Accounts were closed where issues were identified and could not be resolved. Our private banking business has taken steps to implement the US Foreign Account Tax Compliance Act ('FATCA') and Organisation for Economic Co-operation and Development Common Reporting Standards and has also amended its standard terms and conditions. These updated terms and conditions now require customers to affirm that they are in compliance with their tax obligations, allow the bank to refuse requests for cash withdrawals and place strict controls on withdrawals over \$10,000. Furthermore, our private banking business discontinued its 'hold mail' service and has withdrawn from markets where it has been unable to conduct due diligence to a satisfactory standard on its customers. These significant reforms have been welcomed by law enforcement authorities, as we have sought to put compliance and tax transparency ahead of profits.

## Foreign exchange conduct

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

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

As part of these regulatory settlements, HSBC embarked on programmes of further improvements to safeguard customers and support the integrity of financial markets by introducing a number of measures designed to make the control environment more robust and prevent these failings from recurring in the future. HSBC continues to invest in, and develop, improved technology and capabilities designed to detect and deter fraud, market abuse and inappropriate

trading, including through the use of natural language processing, machine learning and advanced analytics, transaction monitoring and surveillance of electronic and audio communications.

Conduct is core to how we operate and manage our business. Global and regional conduct governance forums have been created to provide supervision and oversight regarding the implementation and effectiveness of our conduct agenda. We have also made significant improvements, particularly in our Global Banking and Markets business where the Conduct Committee focuses on culture and behaviours; customers, including suitability, conflicts of interest, pricing and transparency; markets, covering market conduct, trade execution and competition; governance and controls; and strategy and business planning. Our success in deploying our conduct agenda will determine how well we deliver the right outcomes for our customers and stakeholders, consistently and reliably, for many years to come.

*This communication contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements may be identified by the use of terms such as 'expects,' 'targets,' 'believes,' 'seeks,' 'estimates,' 'may,' 'intends,' 'plan,' 'will,' 'should,' 'potential,' 'reasonably possible' or 'anticipates,' variation of these words, or the negative thereof or similar expressions. HSBC has based the forward-looking statements on current plans, information, data, estimates, expectations and projections about future events, and therefore undue reliance should not be placed on them. These forward-looking statements are subject to risks, uncertainties and assumptions about us, as described under 'Cautionary statement regarding forward-looking statements' contained in the HSBC Holdings plc Annual Report on Form 20-F for the year ended 31 December 2020, filed with the Securities and Exchange Commission ('SEC') on 24 February 2021 (the '2020 Form 20-F'), in other reports on Form 6-K furnished to or filed with the SEC subsequent to the 2020 Form 20-F ('Subsequent Form 6-Ks') and in our Annual Report and Accounts for the fiscal year ended 31 December 2021 available at [www.hsbc.com](http://www.hsbc.com) and which we expect to file with the SEC on Form 20-F on 23 February 2022 (the "2021 Form 20-F"). HSBC undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed herein might not occur. Investors are cautioned not to place undue reliance on any forward-looking statements, which speak only as of their dates. Additional information, including information on factors which may affect the HSBC Group's business, is contained in the 2020 Form 20-F, Subsequent Form 6-Ks and the 2021 Form 20-F.*