Introduction to HSBC's Sustainability Risk Policies

December 2021

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Purpose

This Introduction explains the rationale, objectives and processes which underpin HSBC's sustainability risk policies. In turn, it helps external stakeholders to understand our policies and how we implement them. All information contained in the policies is correct as at the date of this document.

HSBC's approach

The way we do business is as important as what we do. Our responsibilities to our customers, employees and shareholders, as well as to the countries and communities in which we operate, go far beyond simply being profitable. Continuing financial success depends, in part, on our ability to identify and address environmental, social and economic developments which present risks or opportunities for our business. This is consistent with HSBC's Group Values and, in particular, our aim to "do the right thing."

Our approach to sustainability risk was first introduced in 2002. Its objective is to ensure that the financial services which HSBC provides to its customers in support of economic development do not result in unacceptable impacts on people or the environment. We seek a balance of economic, social and environmental factors by following good international practice on environmental and social risks.

Policies

HSBC focuses its policies on sectors which may have a high adverse impact on people or the environment and in which we have a significant number of customers. We consult customers, industry experts, shareholders and non-government organisations (NGOs) when developing our policies. The standards that we choose go beyond a requirement for customers to operate legally as that is our minimum expectation. Where possible, we introduce standards which will make a tangible difference to the type of business we support. We engage with customers, where appropriate, and support them in moving towards good practice, which is the most significant contribution we can make to sustainable development. However, we close banking relationships with customers where their activities in these sectors are and remain non-compliant with our risk policies.

HSBC's policies apply to business customers, the majority of which are managed in two Global Businesses: Commercial Banking and Global Banking and Markets. They apply to the main financing products which we provide, such as loans, trade finance and debt and equity capital market services. They do not apply directly to our asset management business, whose customer is the investor, resulting in a lower degree of influence over the investment itself. Our asset management business has a separate engagement policy on sustainability issues.

The policies are reviewed at intervals. They only address risk issues – and in a concise manner in order to support good implementation – so do not cover other support which HSBC provides, such as membership of and/or contributions to various certification schemes.

HSBC's sustainability risk policies form part of our broader reputational risk framework and comprise:

- Agricultural Commodities Policy
- Chemicals Industry Policy
- Energy Policy
- Forestry Policy
- Mining and Metals Policy
- Thermal Coal Phase Out Policy (introduced December 2021)
- World Heritage Sites and Ramsar Wetlands Policy

We also have other policies – such as our Defence Equipment Policy – which are not sustainability risk policies and therefore not included in this Introduction.

The Sustainability Risk Oversight Forum provides a Group-wide forum for senior members of our global risk team and global businesses, and oversees the development and implementation of sustainability risk policies. Policies are approved by the Group Executive Committee.

HSBC also adopted the Equator Principles on 4 September 2003, which is a framework to manage environmental and social risk when financing large projects. These projects are frequently financed by several banks and over 100 institutions have now adopted the Principles. The Principles originally applied to specific project finance transactions, but HSBC voluntarily extended them to other projects that we finance. The Principles were extended generally in 2006 to include advisory work on projects and in 2013 to project-related corporate loans. The latest (fourth) iteration of the Equator Principles ("EP4") came into effect on 01 October 2020. We report annually on our implementation of the Equator Principles and the corporate loans, project-related bridge loans and advisory mandates completed under the principles.

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. We use and support credible independent certification schemes where available and commission independent consultants under the Equator Principles.

Our own policies focus on two types of risk activity. Prohibited Business refers to activities we do not wish to finance. Restricted Business refers to activities which we may finance, but only if additional checks confirm they are responsibly managed. Restricted Business generally requires additional approvals (or "clearance").

Our analysis categorises customers and transactions in two ways.

- The business activity, where it falls under our policies, is given a Sustainability Risk Rating for its potential impact on people or the environment of High, Medium or Low
- The relevant customer is given a Sustainability Risk Rating according to whether it operates to a standard that meets our policy: Leader for exceeding our standards; Compliant for meeting our standards; Near-Compliant for being on a credible path towards our standards but without unacceptable impacts; and Non-Compliant for not meeting our standards in a material way. Relationships with Non-Compliant customers are closed. Complete closure takes longer where HSBC has committed to term loans which remain outstanding

We have a global network of more than 75 Sustainability Risk Managers, who generally work in the Risk function and who provide local guidance and expertise to relationship managers on the policies. Within our Global Risk function, we have reputational and sustainability risk specialists operating at both global and regional levels. They are responsible for reviewing, implementing and managing our sustainability risk policies, as well as our application of the Equator Principles. They also support the Sustainability Risk Managers. High-risk customer relationships or transactions require clearance by the global reputational and sustainability risk team and are processed via HSBC's normal risk approval system.

Transparency

HSBC makes information available publicly to inform stakeholders of its policies and of its record in implementing them. The policies themselves are made available publicly and can be found on the Sustainability Risk page on HSBC.com.

We are often asked to comment on specific customers. We cannot do so because of our duty of confidentiality. Instead, we provide portfolio information on the number of, and trends in, customers meeting our policies. For example, we provide information annually on the number and type of Equator Principles transactions, and have previously provided information on the number of our customers in the palm oil sector as well as our exposure to customers involved in coal mining. Our annual Environmental, Social, and Governance (ESG) Report and the Sustainability risk page on HSBC.com give further details.

Additional Notes

This Introduction explains how HSBC approaches sustainability risk management. It is for the information of external stakeholders such as customers, shareholders and NGOs to help them to understand what HSBC is seeking to achieve. We hope our application of the policies may also lead to further developments in the management of potential risks to people and to the environment. Our sustainability risk policies are developed for our own use. Third parties or stakeholders have no right to rely on our policies, nor do we accept any duty of care or liability in relation to our interpretation and application of them. In particular, it is important to understand that, while HSBC seeks to ensure that customers meet these policies, it has no control over the actions of its customers. Nevertheless, if we discover that a customer is outside our policies, we will request that it remedies the situation in good time and we will close the relationship unless satisfactory action is taken. In this process, HSBC uses independent information where available but also uses its judgment as necessary.