

HSBC Holdings plc

Environmental, Social and Governance Update

April 2019



Connecting customers with opportunities

HSBC aims to be where the growth is, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

The information set out in this document, taken together with the information relating to environmental, social and governance ('ESG') issues in our HSBC Holdings plc *Annual Report and Accounts 2018*, aims to provide key ESG information and data relevant to our operations for the year ended 31 December 2018. In this context, we have also considered 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 ('ESG Guide').

To the extent that we have not complied with the relevant 'comply or explain' provisions in the ESG Guide, it is because we have chosen to focus on issues that we consider are material to our stakeholders, taking into account the nature of our business. This is aligned with the materiality reporting principle that is set out in the ESG Guide. Please see 'Assessing materiality' on page 5 for further information on how we determine what issues are material to our stakeholders. We will continue to develop and refine our reporting and disclosures on ESG issues in line with feedback received from our investors and other stakeholders, and in view of our obligations under the ESG Guide.

Hong Kong Stock Code: 5

Incorporated in England on 1 January 1959 with limited liability under the UK Companies Act

Registered in England:
number 617987

Contents

Overview

An overview of what we do and where, our global reach, our strategy and our stakeholders. It is introduced by the Group Chief Executive, and also sets out our ESG approach.

| | |
|---|--------------------------------|
| 2 | Group Chief Executive's review |
| 3 | HSBC at a glance |
| 4 | Our strategy |
| 5 | Our stakeholders |
| 6 | Our approach |

Overview

Our values

Our values define who we are as an organisation and make us distinctive.

Dependable

We are dependable, standing firm for what is right and delivering on commitments.

Open

We are open to different ideas and cultures, and value diverse perspectives.

Connected

We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

As a reminder

Reporting currency

We use US dollars.

All figures are accurate as at 31 December 2018, unless otherwise stated.

Adjusted measures

We supplement our IFRS figures with alternative performance measures used by management internally. These measures are highlighted with the following symbol: ◆

Customers

Details of how we listen to our customers, act on feedback and respond when things go wrong. The section reports across our four distinct customer groups: our retail customers; medium and large-sized corporate customers; global and institutional customers; and high net worth customers. It also puts a spotlight on conduct and our approach to technology, cybersecurity and data privacy.

| | |
|----|--|
| 7 | At a glance |
| 8 | Our Retail Banking and Wealth Management customers |
| 12 | Our Commercial Banking customers |
| 14 | Our Global Banking and Markets customers |
| 16 | Our Global Private Banking customers |
| 18 | Customer developments across all global businesses |

Customers

Employees

Details of how we listen to our people, recognise good conduct and set out our whistleblowing policies. It also includes our approach to diversity and inclusion, and our ambition to create the healthiest human system in our industry.

| | |
|----|--------------------------------------|
| 20 | At a glance |
| 22 | Listening to our people |
| 24 | A healthy and diverse workforce |
| 25 | Well-being and developing our people |

Employees

Supporting sustainable growth

Details of our approach to sustainable finance, the transition to a low-carbon economy, suppliers and our own operations. It also sets out our second TCFD disclosure and our partnerships in the communities in which we operate.

| | |
|----|---|
| 26 | At a glance |
| 27 | Sustainable finance |
| 29 | Our approach to climate risk management |
| 30 | Task Force on Climate-related Financial Disclosures |
| 31 | Suppliers |
| 32 | Sustainable operations |
| 34 | Committed to communities |

Supporting sustainable growth

A responsible business culture

Details of our corporate governance as well as our approach to tax and human rights. It also provides an update on actions taken in light of past conduct events and reports on how we are tackling financial crime.

| | |
|----|---------------------------------------|
| 36 | At a glance |
| 37 | Restoring trust |
| 40 | Ensuring strong corporate governance |
| 41 | Safeguarding the financial system |
| 42 | Keeping a responsible approach to tax |
| 43 | Respecting human rights |
| 44 | Supporting financial inclusion |

A responsible business culture

Additional information

Further information on our approach to ESG issues. It contains links to further content, policies and topics discussed in this document. Like any industry and company, we have our set of abbreviations and terminology. Accordingly, we provide an explanation of the abbreviations used. A glossary of key terms is available online at www.hsbc.com/investors.

| | |
|----|--|
| 46 | Forward-looking statements/ Non-GAAP financial information |
| 47 | Abbreviations/ Certain defined terms |
| 48 | Useful links/Photography credits |

Additional information

Group Chief Executive's review

If we can live up to our wider societal obligations, then we believe we will materially improve all aspects of HSBC's performance and safeguard the future of the organisation for generations to come.



John Flint Group Chief Executive

Living up to our wider societal obligations has always been part of HSBC's culture and identity. Our success over 154 years has been founded on our ability to build strong and trusted relationships not just with our customers, but with the communities and other stakeholders we serve all over the world.

We recognise that there have been times, particularly in the recent past, where we have failed to meet the standards expected of us.

“Our success over 154 years has been founded on our ability to build strong and trusted relationships.”

Societal expectations are changing, and investors are placing increasing importance on the wider impact businesses have on people and the planet. So over the past few years we have taken steps to improve all aspects of our non-financial performance, and to live up to the duty of care we have to all our stakeholders today.

This *ESG Update* – the fourth we have produced – shines a light on our progress. It covers all the usual areas, from corporate governance and our environmental impact, to customer satisfaction and our approach to conduct. We are continuing to meet our reporting obligations under the terms of the UN Global Compact and renewing our commitment to the Compact's principles.

There is much in here that we can be proud of. Employee satisfaction is up, reflecting an improvement in the way we engage with and support our people. We have improved the way we listen to customers and acted on that feedback, and we have simplified our governance structures to create clearer and stronger lines of authority. We have also accelerated our support for the low-carbon transition.

Yet for all our strides, there are areas where we can and must do better. Our senior leadership teams are still not diverse enough. Many of our customers still find it too difficult to bank with us. On conduct, we have more to do in adapting to changing societal expectations.

Addressing these aspects of our performance will take time. There are no quick or easy fixes. But where there is work to be done, we will do so with urgency, conviction and clear purpose.

As Group Chief Executive, my overriding priority is to create stronger relationships with all our stakeholders – and it is part of our ambition to create what we call the healthiest human system in our industry. If we can do that, and live up to our wider societal obligations, then we believe we will materially improve all aspects of HSBC's performance and safeguard the future of the organisation for generations to come.

All of you reading this are part of that ambition. Your feedback and your views are important to us. We will continue to take them into account, and to listen, learn and act.

I hope you find the report useful.



John Flint
Group Chief Executive

HSBC at a glance

About HSBC

We hold
\$2.6tn
of assets

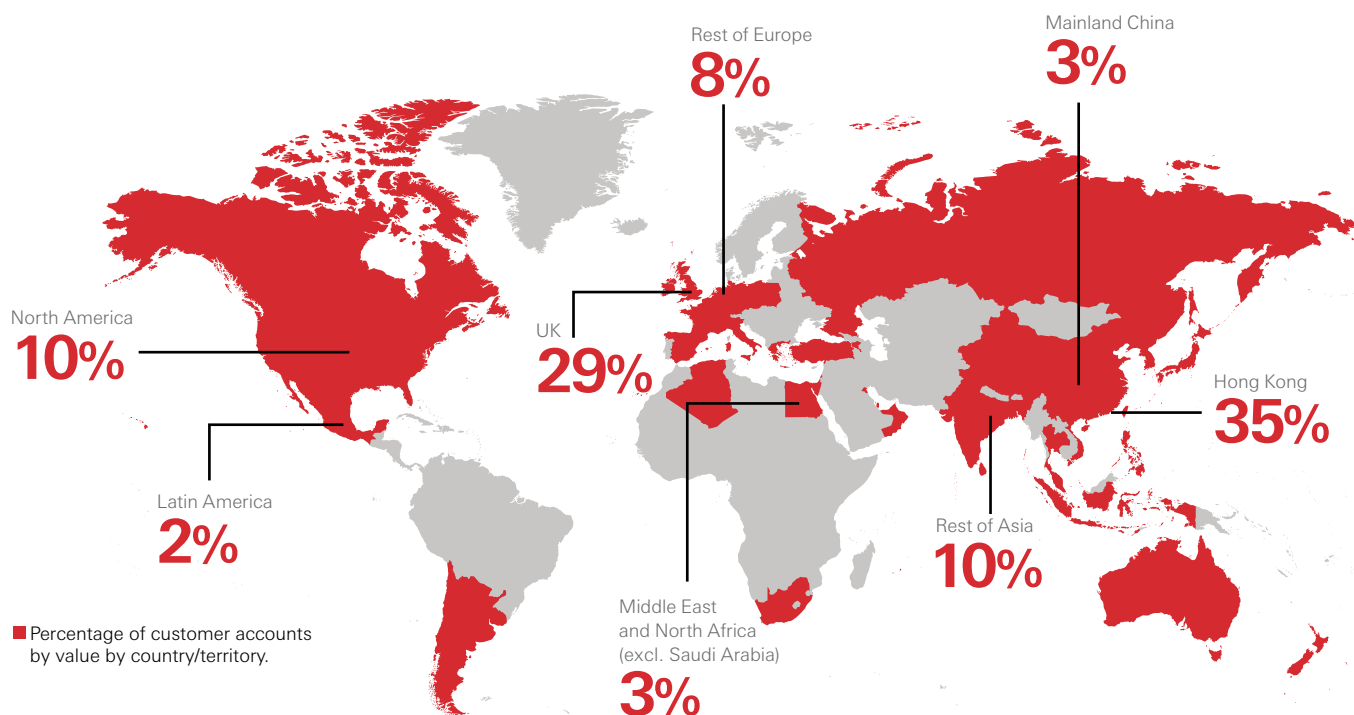
More than
39 million
customers bank with us

We employ around
235,000
people around the world (full-time equivalent staff)

We have around
200,000
shareholders in 130 countries and territories

Our global reach

HSBC is one of the world's largest banking and financial services organisations. The long-term trends outlined on page 10 of our *Annual Report and Accounts 2018* reinforce our strategic advantages as a leading international banking and financial services organisation, with access to the fastest growing markets and robust balance sheet strength. The map below represents customer accounts by country/territory at 31 December 2018.



See page 46 of our *Annual Report and Accounts 2018* for further information on our customers and approach to geographical information.

Our global businesses





Our operating model consists of four global businesses and a Corporate Centre, supported by HSBC Operations Services and Technology, and 11 global functions, including: risk, finance, compliance, legal, marketing and human resources. An overview of our global businesses is available on page 7.

Our strategy

Our international network, access to high growth markets and balance sheet strength help us to deliver long-term value for our stakeholders. This strong combination of strategic advantages supports our strategy, enabling us to connect customers to opportunities.

Return to growth and value creation

We entered the next phase of our strategy in 2018, focused on growth and creating value for our stakeholders. In our June 2018 *Strategy Update* we outlined eight strategic priorities to deliver growth, improve returns, empower our people, and enhance our customer experience. Each priority has a target or set of targeted outcomes by 2020.

| | Strategic priorities ¹ | Targets by end of 2020 |
|---|--|--|
|  Deliver growth from strength | 1 Accelerate growth from our Asia franchise; be the leading bank to support drivers of global investment: China-led Belt and Road Initiative and the transition to a low-carbon economy | High single-digit revenue growth per annum from Asia franchise Market share gains in eight scale markets ¹⁰ No.1 international bank for Belt and Road Initiative \$100bn in sustainable financing and investment ¹¹ |
| | 2 Complete the establishment of the UK ring-fenced bank and grow market share | Market share gains |
| | 3 Gain market share and deliver growth from our international network | Mid to high single-digit revenue growth per annum from international network ¹⁴ Market share gains in transaction banking |
|  Turnaround of low-return business | 4 Turn around our US business | US return on tangible equity >6% |
| | 5 Improve capital efficiency | Increase in asset productivity |
|  Build a bank for the future that puts the customer at the centre | 6 Create capacity for increasing investments in growth and technology through efficiency gains | Positive adjusted jaws, on an annual basis, each financial year |
| | 7 Enhance customer centricity and customer service | Improve customer satisfaction ¹⁷ in eight scale markets ¹⁰ |
|  Empower our people | 8 Simplify the organisation and invest in future skills | Improved employee engagement ESG rating: 'Outperformer' ²¹ |

Delivery against Group financial targets

For further details, see page 17 of the *Annual Report and Accounts 2018*.

Return on tangible equity² ▶

8.6%

Target: >11% by 2020 (2017: 6.8%)

Adjusted jaws ▶

(1.2)%

Target: positive

Dividends per ordinary share in respect of 2018

\$0.51

Target: sustain

1. A full progress update on our strategic priorities is available on pages 12 and 13 of our *Annual Report and Accounts 2018*.

2. Return on tangible equity ('RoTE') is calculated as reported profit attributable to ordinary shareholders less changes in goodwill and present value of in-force long-term insurance business divided by average tangible equity. A targeted reported RoTE of greater than 11% in 2020 is broadly equivalent to a reported return on equity ('RoE') of 10%, and assumes a Group CET1 ratio greater than 14%.

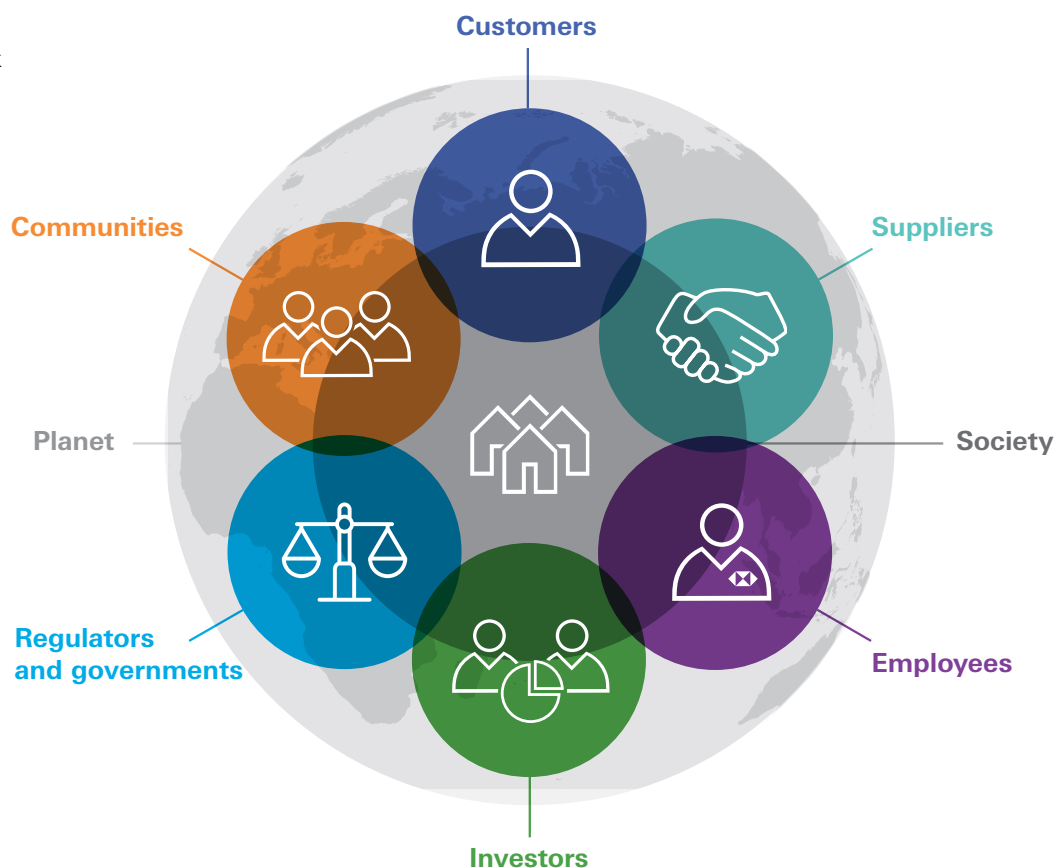
* For footnotes 10, 11, 14, 17 and 21, see page 67 of the *Annual Report and Accounts 2018*.

Our stakeholders

Building strong relationships with our stakeholders will help enable us to deliver our strategy in line with long-term values, and operate the business in a sustainable way.

Engaging with our stakeholders

Our stakeholders are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. These human connections are complex and overlap. Many of our employees are customers and shareholders, while our business customers are often suppliers. We exist to serve, creating value for our customers and shareholders. Our size and global reach mean our actions can have a significant impact, which is why we want to create the healthiest human system in financial services to help enable our business strategy.



Assessing materiality

We listen to our stakeholders in a number of different ways, from employee and customer surveys to client meetings. Investors tell us what matters to them in the annual ESG investor survey and in qualitative assessments during investor meetings. We are also informed by stock exchange listing and disclosure rules in Hong Kong, the UK and the US.

We use this information to identify what issues are material to our stakeholders, taking into account the nature of our business. In line with the provisions of the ESG Guide, an issue is considered to be material when management determines that it has become sufficiently important to our stakeholders that it should be publicly reported.

Management tables material issues for discussion at the ESG Steering Committee and other relevant governance forums. We use these themes and concerns as a guide for our *ESG Update*. Further information about the ESG Steering Committee is included in the 'Ensuring strong corporate governance' section of the report on page 40.

We acknowledge that material issues evolve over time, and we will continue to assess them to ensure we remain current in our approach and communications.

Our approach

Reporting on material issues in an open and transparent way is key to meeting the expectations of our stakeholders.

Our ESG approach



Environmental



- We support the global transition to the low-carbon economy through our own sustainable operations and by supporting our customers with their transition.
- We maintain robust climate-related risk management, covering sensitive sectors, such as energy, palm oil and forestry.

Examples:

- In our ambition to provide \$100bn of sustainable financing, facilitation and investment by 2025, we have delivered a cumulative total of \$28.5bn since 2017, with external assurance of this number provided by PwC using ISAE 3000. The full assurance statement is included on page 28.
- We are a signatory to the Financial Stability Board Task Force on Climate-related Financial Disclosures. The second year disclosure is available on page 30.



Social



- We aim to grow in a way that puts the customer at the centre.
- We want to create the healthiest human system in our industry. We are working to create the right environment so everyone can fulfil their potential.
- We are focusing on diversity and inclusion in our workforce, and we are striving to put the customer at the heart of everything we do.

Examples:

- In this report, we publish customer information for each of our global businesses, including spotlights on conduct. This includes information on the strengthening of our controls, and achieving fair outcomes for customers and culture.
- Our employee surveys give us invaluable insight into our people. Results in 2018 show that 74% feel able to speak up when they see behaviour that they consider to be wrong.
- We are building a diverse workforce and have set a target of 30% women holding senior leadership roles by 2020. Currently 28% of our senior leaders are women, so while we are making progress we recognise there is still room for improvement.



Governance



- We aim to maintain high standards of governance across all geographies.
- We are committed to protecting our customers and communities through financial crime risk management and cybersecurity due diligence.

Examples:

- During 2018, we concentrated on the completion of the final elements of our Global Standards programme, which is designed to ensure the management of financial crime compliance is embedded in our day-to-day management and governance.
- We are committed to applying both the letter and spirit of the law in all the territories in which we operate.

Our conduct approach

We recognise that we have a responsibility for good conduct through the delivery of fair outcomes for customers and behaving in a way that protects financial markets integrity. We have therefore implemented a conduct framework describing the outcomes that must be delivered across the Group and which in turn form a key component of our risk management framework. This means that our decisions should consider the impact on customers and markets. In addition,

delivery of the required Group values and conduct behaviours continues to be considered in performance management for our people across the Group. Our conduct is overseen by senior risk and executive committees within each of our businesses, functions and HSBC Operations Services and Technology. The Board maintains oversight of conduct matters through the Group Risk Committee.



Customers

We aim to grow in a way that puts the customer at the centre by improving performance with digital enhancements while maintaining financial crime standards.

At a glance

Our relationship

Our purpose is to be where the growth is, connecting customers to opportunities. We help enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions.

We create value by providing the products and services our customers need, and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. We maintain trust by striving to protect our customers' data and information,

and delivering fair outcomes for them – and if things go wrong, we need to address complaints in a timely manner. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers.

In this section we report on our customers as four distinct groups: our retail customers; medium and large-sized corporate customers; global and institutional customers; and high net worth customers. These groups are serviced by our four global businesses respectively:

Retail Banking and Wealth Management ('RBWM')

We help 38 million customers across the world to manage their finances, buy their homes, and save and invest for the future.

Our HSBC Premier and Advance propositions are aimed at mass affluent and emerging affluent customers who value international connectivity. For customers with simpler banking needs, we offer a full range of products and services reflecting local requirements.

Commercial Banking ('CMB')

We support approximately 1.5 million business customers in 53 countries and territories, ranging from small enterprises focused primarily on their domestic markets, through to large companies operating globally.

Our services include working capital, term loans, payment services and international trade facilitation, as well as expertise in mergers and acquisitions, and access to financial markets.

Global Banking and Markets ('GB&M')

We serve approximately 4,100 clients in more than 50 countries and territories. We support major government, corporate and institutional clients worldwide.

Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

Global Private Banking ('GPB')

We serve high net worth and ultra high net worth individuals and families, including those with international banking needs.

Services provided include Investment Management, which includes advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning, to protect and preserve wealth for future generations.

Our Retail Banking and Wealth Management customers

How we listen to our customers

We listen to our customers in a number of different ways, including through our interactions with them, surveys, social media and from their complaints. We use these insights to improve our services.

Customer recommendation

In 2018, we surveyed more than two million customers on their likelihood to recommend HSBC to others and their satisfaction with our services. We have made some progress, with recommendation scores improving in the majority of markets. More customers recommended us for being easily accessible, offering good digital services, and our overall customer service. However, our savings accounts remain an area of dissatisfaction, with more customers telling us they are seeking competitive rates and charges. In the UK, the First Direct brand ranked first for mobile banking services and second overall in the Competition and Markets Authority rankings in 2018, where banks were scored by customers on the quality of service.

In 2018, we changed the way we report customer recommendation by broadening the range of customers we survey, and by looking at the full range of scores provided. We believe this provides a more representative and complete perspective on the customer service we offer relative to the market.

Customer satisfaction

Customer satisfaction in our online banking services rose in some of our key markets in 2018, following significant declines in the previous year. The decline in satisfaction in 2017 came after the launch of a new online banking system and enhanced security features. The new platform should help enable us to roll out new digital services at a faster pace while keeping our customers safe. However, we saw a drop in customer satisfaction as customers learned how to use the new service. By listening to our customers, we improved the way we communicated changes and fixed a number of the issues that were causing the most frustration, such as login and payments. Four out of the five most

Customer satisfaction and customer recommendation survey results

| | Customer satisfaction ¹ | | | | Customer recommendation scores ² |
|----------------|------------------------------------|-----------------------------|----------------------|----------------------|---|
| | Branch | Contact centre ¹ | Relationship manager | Online banking | |
| UK | ▲ 88% (2017: 86%) | ▲ 76% (2017: 70%) | ▲ 80% (2017: 79%) | ▲ 80% (2017: 71%) | ▲ 75% (2017: 72%) |
| Hong Kong | ▶ 87% (2017: 87%) | ▲ 93% (2017: 90%) | ▲ 74% (2017: 71%) | ▼ 47% (2017: 49%) | ▼ 71% (2017: 72%) |
| France | ▲ 78% (2017: 74%) | ▲ 69% (2017: 68%) | ▲ 76% (2017: 70%) | ▼ 70% (2017: 72%) | ▼ 73% (2017: 74%) |
| US | ▲ 88% (2017: 87%) | ▼ 54% (2017: 72%) | ▶ 80% (2017: 80%) | ▲ 64% (2017: 57%) | ▲ 67% (2017: 65%) |
| Canada | ▲ 84% (2017: 82%) | ▲ 76% (2017: 66%) | ▶ 85% (2017: 85%) | ▲ 68% (2017: 34%) | ▲ 68% (2017: 66%) |
| Mexico | ▼ 89% (2017: 90%) | ▼ 80% (2017: 82%) | ▼ 78% (2017: 91%) | ▼ 78% (2017: 81%) | ▲ 91% (2017: 90%) |
| Singapore | ▲ 74% (2017: 73%) | ▼ 87% (2017: 88%) | ▲ 71% (2017: 62%) | ▲ 47% (2017: 46%) | ▲ 75% (2017: 69%) |
| Malaysia | ▲ 76% (2017: 71%) | ▲ 65% (2017: 64%) | ▼ 72% (2017: 73%) | ▶ 61% (2017: 61%) | ▼ 78% (2017: 83%) |
| Mainland China | ▲ 94% (2017: 93%) | ▼ 92% (2017: 94%) | ▲ 74% (2017: 73%) | ▲ 54% (2017: 46%) | ▲ 84% (2017: 82%) |
| UAE | ▲ 74% (2017: 70%) | ▲ 68% (2017: 66%) | ▲ 67% (2017: 66%) | ▶ 69% (2017: 69%) | ▲ 87% (2017: 84%) |

1. Customer satisfaction is calculated by percentage of customers providing an 8 or above on a scale from 0 to 10. For contact centre scores, the exceptions are the US, Canada and Singapore in 2017, and Singapore in 2018, where the score shows the percentage of customers rating 4 or above out of 5.
2. The index uses the 0–10 rating scale for the customer recommendation question to create a 100 point index. This survey is run by an independent and global market research agency. Following the reporting change, 2018 and 2017 figures have been restated to focus on the full range of scores provided by customers.

affected markets in 2018, the UK, Canada, US and China, experienced recoveries in customer satisfaction. However, in Hong Kong, our customers were more dissatisfied by our browser-based banking experience. We have responded with new initiatives to improve the experience such as adding real-time customer assistance capabilities, and plan to continue enhancements to our capabilities. In 2018, we focused our efforts on upgrading our mobile banking experience where we have seen the highest growth in customer usage. See page 18 for more details.

In most markets, customer satisfaction with our branches, contact centres and relationship managers has either maintained

the same levels or improved compared with last year. We have focused on improving our customer service training and providing simpler processes with enhanced technology. We also launched our Universal Banker programme in five markets, which helps train our people to be digitally equipped, and empowers them to resolve more queries themselves. Over 4,000 employees are now Universal Bankers. Less positively, the satisfaction score of our US contact centres fell and overall complaints rose, driven by a significant overhaul of the banking platform, which led to increased call volumes and customer wait times. We addressed this through increasing headcount and expanding our chatbot capabilities.

Acting on feedback

| Area of focus | Action |
|--|---|
| Making banking accessible | We have expanded rolling out our simplified login process. Apple's Touch ID is now live in 18 markets and HSBC Voice ID is in five markets. Last year, 80% of customer transactions were conducted via mobile or online channels. More than 30% of loans, cards and deposits sales were through digital channels. In the UK, we trained our front-line people to become more digitally proficient. In branch or on the phone, they can show customers how to complete tasks digitally. Last year, 85% of new customers opened accounts through a supported digital experience. |
| Making our processes easier | In the UK, we are simplifying our mortgage process. Applications can be approved within 10 days with the help of automatic valuations, improved credit policies and increased underwriter availability. To make investing more accessible, we equipped our branch employees in Hong Kong, mainland China and Singapore with mobile tablets, and launched an online financial health check. Customers can now understand their investment options in their own time, without a specialist appointment. For more information on our digital enhancements, please see 'Our investment in technology' on page 18. |
| Making it easy to understand us and our fees and charges | In Singapore, we simplified our mortgage application forms and offer letters, so customers can be clear about their repayment schedule, terms and conditions, and fees and charges. Through digital messaging we are raising customer awareness around overdrafts in the UK, Hong Kong, France and the US. In the UK, we expanded the volume of overdraft alerts, which we first introduced in 2017, sending more than 26 million alerts in 2018 to help customers save money. Over half (56%) of customers who receive an alert pay in funds to avoid charges. To help even more customers avoid fees, we are introducing services like our Connected Money app, which helps people keep track of their spending (see page 11). |

When things go wrong

We aim to ensure customers' complaints are recorded so we can understand what went wrong and why, and then act upon the feedback. Complaints are monitored and reported to governance forums. Senior executives are measured against complaint-handling performance.

The way we handle complaints and how fast we respond is important to us and our customers. In 2018, we resolved 77% of complaints on the same or next working day, and 86% within five working days, excluding UK complaints related to payment protection insurance ('PPI'). The most common complaints related to process and procedures (39%), service (25%), and fees and charges (9%).

In 2018, we received approximately 1.2 million complaints from retail customers in our large markets referenced in the adjacent table, a 16% increase compared with 2017, primarily driven by the UK and Mexico. The increase in UK complaints mainly related to PPI, which is consistent across the UK industry, and to digital registration issues. An improvement programme for non-PPI complaints was

introduced in 2018, resulting in complaint volumes declining in the fourth quarter. Our business in Mexico experienced an increase in complaints due to the prevalence of online fraud transactions leading to service interruption. We provided refunds to the customers and strengthened our fraud control measures, as well as launching a card control app that allows customers to manage deactivating controls on online card usage. As of September 2018, the Financial Services Consumers Protection Bureau in Mexico ranked HSBC as the best bank among the seven largest banks for complaint resolution and quality of service on their Customer Care Performance Index. Complaints at our UAE business fell 18%, but remained relatively high. Complaints were primarily due to manual processes, service delays, staff knowledge and clarity of our communication to customers. These continue to be addressed through a customer experience programme.

1. A complaint is defined as 'any expression of dissatisfaction, whether upheld or not, from (or on behalf of) a former, existing or prospective customer relating to the provision of, or failure to provide, a specific product or service activity'.

RBWM complaint volumes

| | | Complaints per 1,000 customers per month ¹ | |
|----------------|---|---|------|
| | | 2018 | 2017 |
| UK | ▲ | 4.0 | 3.3 |
| Hong Kong | ▼ | 0.5 | 0.7 |
| France | ▼ | 4.7 | 6.0 |
| US | ▲ | 3.9 | 3.4 |
| Canada | ▲ | 3.1 | 2.7 |
| Mexico | ▲ | 5.3 | 4.5 |
| Singapore | ▼ | 1.4 | 1.6 |
| Malaysia | ▼ | 0.4 | 0.5 |
| Mainland China | ▶ | 0.7 | 0.7 |
| UAE | ▼ | 5.6 | 6.8 |

Spotlight: Conduct

We recognise we have a responsibility to deliver fair outcomes for our retail customers and behave in a way that protects financial market integrity. We manage this through a range of activities, from working to ensure products are designed fairly to endeavouring to meet customers' financial needs.

We have put in place clear policies, frameworks and governance to protect our customers. Our conduct and risk frameworks describe the outcomes that must be delivered across the Group. In performance management, we consider whether behaviour is in line with our values. Conduct is overseen by senior risk and executive committees, while the Board maintains oversight of conduct matters through the Group Risk Committee.

Product design and fair value

Good product design helps provide the right outcomes for our customers. We provide training through the Product Management Academy. To date, more than 1,000 of our people have completed training on topics including customer insight, customer-focused design, making communications simple, product development, management oversight and governance.

Customer insight is the foundation of the design process, so we work with customer research groups to co-create solutions. This involves checking in with customer panels and user labs throughout the process to understand customer reaction, so we can dynamically adapt designs to meet changing needs.

In Mexico, we launched our Stilo banking service, which includes a money management tips app, filling a gap in service that our customers had told us about. In Hong Kong, we worked with more than 3,000 customers to design and test our PayMe services and features before launching them, including peer-to-peer payments for customers and non-customers. PayMe reached a milestone of approximately 1.5 million users in 2018.

The range of products offered in our markets is managed globally. Any newly developed product goes through a review process with global oversight for different or complex products. During this process, products are tested to help ensure they are suitable and offer fair value to customers.

Ongoing monitoring is also a critical component of our product governance programme. Regular in-depth reviews recognise a product or service may become unsuitable over a period of time, whether it is after a significant event or following an accumulation of multiple changes.

Product design key principles:

Our products should remain relevant in each country they are offered.

We offer a consistent, simple and carefully selected range of products.

We act on feedback from customers to provide better and more accessible products/services.

Products that no longer meet our high standards or customer needs are withdrawn from sale.

We also conduct regular product reviews and fair value assessments in each of the markets we operate in, to help ensure we deliver fair value.

Pricing key principles:

All products and services must meet a minimum set of design standards.

We carry out regular comparisons of HSBC pricing with those of local competitors and with our own fair value standards, considering the total charges and features of a product.

We review the usage levels of product features to assess if customers' behaviours and responses demonstrate they are receiving value.

Oversight and governance of our fair value assessments and product safety is provided by the Global Wealth Management Oversight Committee, chaired by the Global Head of Wealth Products, and the Retail Banking Management Committee, chaired by the Global Head of Retail Products. The RBWM Global Incentive Committee, which reports to the Chief Executive Officer of RBWM, oversees front-line employee incentives.

Meeting our customers' needs

In order to meet customers' needs effectively, we have robust oversight of the sales process, including reviewing the suitability of the products we offer, sales quality monitoring, and how we incentivise our staff.

We consider our customers' financial needs and personal circumstances to assist us in offering suitable product recommendations. This is achieved through:

- a globally consistent methodology to rate the riskiness of investment products, which is customised for local regulatory requirements;
- a robust customer risk profiling methodology to help assess customers' financial objectives, attitude towards risk, financial ability to bear investment risk and their knowledge and experience;
- goal projection tools and calculators to help customers plan for their future in line with their overall investment objectives; and
- consistent global advisory standards to follow when we make recommendations to our customers, while taking into account local regulations.

From a service perspective, our goal is to empower our people to resolve issues. In the UK, we embedded a programme to give front-line employees a means to raise and contribute towards solving customer issues and to escalate

Spotlight: Conduct continued

larger issues to executive management. Since introducing the programme in late 2017, over 8,000 issues have been raised, and in 2018 more than 6,500 were resolved.

Sales quality

To assure the quality of our sales process and employees' behaviour in each of our markets, we either conduct a mystery shopping programme or a sales quality programme, or both. Issues identified are treated seriously. Action is taken to help achieve a fair outcome for customers.

Where concerns are found, we will contact the customer to explain and remediate. Depending on the severity of the issue, the relevant employee will be given enhanced training to improve their behaviour and they may become ineligible for an incentive reward payment. Where a case of misconduct occurs, disciplinary action may be taken, which can lead to dismissal.

Front-line employee incentives

In 2013, we changed our front-line incentives to create a discretionary framework rather than a straight formula between sales and reward. Our people are now recognised for demonstrating our values and behaviours as well as meeting customers' needs through products and services. The framework exists to recognise our front-line employees who go above and beyond for the customer, to deliver fair outcomes and support the sustainable growth of our business.

Aligned to our customer experience standards, the incentive framework assesses how our people listen to our customers to understand their needs so that they can provide appropriate solutions. Should an individual demonstrate behaviours that do not align with our core values, there is a disciplinary process that again can affect reward payments.

Building financial capability

Delivering fair outcomes for customers also involves providing tools and content that help customers have the confidence and competence to make the most of their money. In 2018, we made public commitments around building financial capability, and we took a number of actions to deliver on these commitments:

- In the UK, we launched the HSBC Connected Money app, which helps users see all their banking relationships in one place and keep track of how they spend their money. It has been downloaded 240,000 times. One recent new feature allows users to keep track of savings goals using virtual savings pots.
- We introduced card control features in the UK, Hong Kong and Mexico, so customers can control their card spending and receive real-time alerts on their activity. In Mexico, customers can set spending limits and block spending categories, such as online shopping and entertainment, including gambling.

▶ For further details on how we support building financial capability and inclusion, see pages 34 and 44.

Managing fraud

Fraudulent activities are a risk and a concern for our customers. We are committed to mitigating and reducing their impact through a range of actions, including new fraud prevention systems, improvements to our internal processes and procedures, as well as communications to raise awareness. We introduced an automated customer contact solution, which uses two-way SMS messaging, in the second half of 2018. Since its introduction, around 4,000 customers per day are able to respond instantly to our fraud enquiries to either unblock their card or report fraud. Approximately half of all card fraud-related queries are now resolved without the need of a phone conversation, which has saved customers approximately 87,000 calls every month. We plan to introduce this service to more of our customers throughout 2019.

Operational resilience

HSBC invests in the reliability and resilience of our systems to help prevent disruption to customers. During 2018, we continued to upgrade our IT systems, simplifying our service provision and replacing older IT infrastructure and applications. These enhancements led to continued global improvements in service availability during the year for both our customers and employees.

▶ For further details on how we aim to maintain and continually improve our operational resilience capability, see page 19.

Our Commercial Banking customers

How we listen to our customers

We are committed to improving customer satisfaction for all our business customers, from start-ups to large corporates.

We have introduced additional governance to embed a customer-led approach into our decision making. In 2018, we created the new role of Global Head of Customer Experience, and appointed customer champions in key business areas.

New tools have been introduced to help us understand our customers. These include customer journey mapping, which aims to take a holistic approach to assess customers' current experiences and design ideal ones. More than 350 of our people globally have been trained in its use. New artificial intelligence ('AI') tools used by our insight and analytics teams also allow us to scrutinise more open-ended feedback from customers quickly and accurately.

Customer satisfaction

We use syndicated research, feedback from social media, and operational data to help us identify what areas are most important to our customers, and where our performance could be improved.

Areas of focus include the ease and speed of the account opening process, our efficiency in dealing with queries and our range of products.

We still have some way to go to achieve our ambitions, but our rank position against competitors for customer satisfaction either remained flat or improved compared with last year in seven of our eight key markets.¹

Moments of Truth

In 2018, we fully embedded our Moments of Truth programme, surveys which allow us to continually capture feedback from customers about interactions we know are important to them. We have surveyed over 18,000 customers across 40 markets and have driven improvements through more than 100 actions taken to address the feedback. Key performance metrics across all these key events, such as opening an account, calling our contact centres, setting up internet banking, applying for credit or changing relationship manager, have improved in 2018. We actively review the interactions we measure to make sure we continue to focus on the issues that matter most to our customers.

Case study: Customer-centric payments review

A customer-centric review was launched to improve the efficiency of our payment processing across Asia-Pacific. We created a smoother authentication process through a one-time password issued to customers by text message. This avoided three authentication questions, which customers told us were difficult to use. Customer queries are now handled faster by giving wider access to the payment systems to our employees. These changes contributed towards a 70% reduction of payments-related complaints, from their highest point in 2017, and a fall in average call handling time from 11 to seven minutes.

1. Eight key markets: Hong Kong, UK, Pearl River Delta, Singapore, Malaysia, Mexico, Saudi Arabia and UAE. Customer satisfaction metrics for Pearl River Delta will be available from 2019. In Hong Kong, Singapore, Malaysia, Mexico and UAE, CMB performance in 2017 is based on the bank that the customer defines as their main bank, while CMB performance for these markets in 2018 is based on the bank that the customer defines as the most important. Surveys are based on a relevant and representative subset of the market. Data provided by RfI Group, Kantar and another third-party provider.

Acting on feedback

Listening to customers and acting on their feedback has helped us to drive improvements to the customer experience. Here are some of the main issues raised and how we responded.

| Area of focus | Action |
|---|---|
| Improving the ease and speed of account opening | In the UK, we created a new welcome journey for small businesses. This resulted in improved customer satisfaction and increased use of self-service digital tools. In France, we sped up the opening of accounts by simplifying the process. In Singapore, new customers are now assigned a single point of contact to help them. A customised video also introduces customers to their service team and helps them to get started with online banking. |
| Customer query handling | We want to make sure our people are fully equipped to answer customer enquiries efficiently and effectively. We provided additional training for customer service managers in our Global Trade and Receivables Finance business in Singapore and Hong Kong, as well as for our HSBCnet telephone teams to improve their technical and soft skills. In the UK, a query escalation process was introduced to improve our ability to resolve queries quickly and accurately. |
| Easy channels to communicate feedback | In order to help make sure our products and services meet customers' needs, we have more than 200 customers as active members of online panels in the UK, Hong Kong, mainland China, Australia, UAE, Mexico and the US. These provide fast feedback, allowing us to test changes directly with customers. In 2018, they helped us redesign our online banking platform and provided input into developments around integration of third-party accounting software. |

When things go wrong

We support our people to help make sure they handle customer complaints effectively, with a training module available to all relevant employees. A new global complaints management procedure was delivered in the first quarter of 2019 to help make sure we continue to manage complaints in an equitable and timely way, in an effort to provide effective and fair outcomes for our customers.

In 2018, we resolved a total of 77,892 corporate customer complaints, which was a 35% year-on-year increase, with 81% coming from customers in the UK, 3% in France and 2% in the US.

We have stepped up our financial crime prevention procedures due to increased scrutiny in this area, but as a result this has led to increased complaints from our customers, representing more than a quarter (27%) of total complaints. Dissatisfaction was often due to requests for additional personal and business information to help us guard against fraud and money laundering. Without those details, services were sometimes restricted and, in certain circumstances, accounts were closed. After reviewing customer communications, we have improved the content and layout of letters, making the process clearer and simpler.

Operational complaints were the second highest in volume (25% of total complaints), reflecting the most frequent customer transactions. Improvements in

the payment processes and the way we handle queries reduced complaints significantly in Asia-Pacific. We are keen to learn from these events to improve customer experience in other markets.

Account opening complaints reflected the third largest in volume (7% of total complaints). In the UK, challenges with the introduction of a new system led to

an increase in complaints. In France, rapid business growth during early 2018 resulted in higher than expected account opening requests, increasing the time taken to open accounts. Additional resources were employed and changes implemented to streamline the process, resulting in a reduction in complaints later in the year.

CMB annual complaint volumes

| | | Complaints (000s) ¹ | |
|------------------------------|---|--------------------------------|------|
| | | 2018 | 2017 |
| UK | ▲ | 62.8 | 43.1 |
| Hong Kong | ▲ | 4.9 | 4.1 |
| Asia-Pacific | ▼ | 0.9 | 1.1 |
| Europe | ▼ | 3.0 | 4.8 |
| Middle East and North Africa | ▼ | 1.5 | 1.8 |
| Latin America | ▲ | 2.3 | 1.2 |
| US | ▲ | 1.8 | 1.2 |
| Canada | ▲ | 0.7 | 0.4 |

Top complaint categories

| | | Complaint categories | |
|--------------------------|---|----------------------|------|
| | | 2018 | 2017 |
| Processes and procedures | ▲ | 27% | 12% |
| Operations | ▼ | 25% | 26% |
| Account opening | ▲ | 7% | 5% |
| Contact centre | ▼ | 6% | 12% |
| Fees, rates and charges | ▼ | 6% | 7% |
| Internet banking | ▼ | 4% | 6% |
| Branch | ▼ | 4% | 8% |
| Others | ▼ | 21% | 24% |

1. Volumes for the UK are received complaints from eligible complainants to align with the current FCA reporting. Volumes of complaints for the rest of the markets are based on resolved complaints.

Spotlight: Conduct

We regularly review a list of all products sold to our corporate customers so they remain appropriate and relevant to our customers. To help make sure all our products meet customer needs, we have a rigorous governance and approval process for any new product or significant changes to existing ones. We operate sales outcome testing in 12 key markets designed to ensure customers have understood the features of their chosen products, such as pricing, mechanics, risk and benefits. In 2018, we identified 132 issues through the CMB outcome testing programme, such as documentation, sales process, and pricing issues. Actions are underway to address these issues.

We recognise it is important to provide our products at a fair price and in a transparent way. Since late 2017, an

executive pricing steering committee has been improving our existing pricing framework to help make sure we price products and services fairly, communicate transparently, and have robust controls in place. Following our focused efforts, complaints around fees and charges have fallen by 20% over the last two years.

We have put a strong emphasis on communicating to our people on how we should behave. We broadcast videos of senior leaders speaking about what conduct means to them and why it is important. We feature examples of employees making the right decisions in the interests of customers in global employee communications. Countries, regions and global operations all held conduct-themed workshops, informal Exchange sessions and town halls.

This has resulted in a significant input of ideas and concerns that have allowed our leaders to shape their own conduct agendas and communications. For further details of our Exchange forums, see the Employees section on page 22. The scorecards for front-line employees are now balanced with a maximum of 50% being related to performance. We are increasingly seeing instances of role model behaviours driving upward adjustments in variable pay from 1% in 2015 to 8% in 2017.

Fraud is a growing problem and we strive to protect our customers from financial crime. In Mexico, we introduced training for our relationship managers focused on business email compromise and malware fraud so they can pass on this knowledge to customers and take the right action if a customer is affected.

Our Global Banking and Markets customers

How we listen to our customers

We provide financial services and products to governments, companies and institutional clients around the world. Listening and reacting to customers is one of the most important ways of improving our business. One of the primary ways we do this is through our annual customer engagement survey.

Customer satisfaction

In this survey, 94% of our customers felt our overall service and our commitment to their business either improved or stayed the same in 2018. Each aspect of the survey is carefully reviewed to consider which actions can be taken to improve customer perceptions of us and the service we offer.

One area where customers were dissatisfied was our account opening requirements and how we update customer information. Some customers felt that these were too cumbersome and time-consuming.

As a first step, our credit and lending team is rolling out a digital credit platform, a service that provides customers with

standardised, automatically populated credit documentation that can be signed digitally. This service, now available in the UK, has reduced the time it takes for our customers to receive financing.

We are simplifying our know your customer ('KYC') questionnaire and worked with compliance to streamline the KYC aspect of customer onboarding. This improved our risk management process and reduced verification times by 25%. We are also streamlining how

we collect and store KYC information, technology solutions and data access. We reduced onboarding times for our corporate customer base by 8% by the end of 2018. There is still a lot to do and our target is to reduce this by a further 20% by 2020.

For more information on some of the ways we have made it easier and safer for customers to access our services digitally, see page 18.

Customer survey results

63%

of customers considered HSBC as one of their top three banks in 2018
(2017: 64%)

94%

of customers felt our service had either stayed the same or improved in 2018
(2017: 96%)



46%

of customers felt our people are more likely to initiate a strategic conversation than 12 months ago

95%

of customers felt they had a good or very good rapport with GB&M

Acting on feedback

Responding quickly and efficiently to customers' feedback and complaints helps to build trust. We are placing a strong emphasis on this, and reviewing the formal complaints process in place for customers across all of the GB&M business lines to improve its effectiveness.

New tools have been adopted to better record complaints and track their resolution. In November 2018, we created a new global team to look specifically at customer experience. With a broad mandate, it focuses on careful analysis of feedback and rapid resolution of complaints.

One of its immediate tasks is to consolidate customer feedback and complaints across multiple business lines, geographies and products. This should help us improve the customer experience, and identify any areas for collaboration or early detection of potential issues.

Customer experience meetings are now scheduled regularly with our top management. These bring together senior people to look closely at customer concerns and produce consistent, business-wide solutions.

Case study: Improving payments processing

In 2018, we were approached by a potential customer who was looking for a new banking provider to resolve problems they had faced regarding delayed payments. Staff salary payments had been repeatedly delayed, due to a screening process that banks are required to carry out to comply with regulations. This was an increasing reputational risk for the firm. When we looked into the problem for them, it focused our attention on similar issues faced by our existing customers. Not only did we win this firm as a new customer, we also proposed to take a proactive approach to screening payments for existing clients, which notifies customers of any delays and obtains additional information needed to identify and release blocked payments within a target of 48 hours. By making sure we collect information on regular beneficiaries upfront and use it effectively, we have significantly reduced payment delays for our customers.

When things go wrong

Overall, the number of complaints increased in 2018, mainly in Global Liquidity and Cash Management ('GLCM') due to a number of significant systems upgrades and issues throughout the year. In most other GB&M businesses, the number of complaints either reduced or remained stable from 2017. In Global Markets, we had a reduction in complaints resulting from human error and processing issues in our operations team. In Global Banking, the number of recorded complaints fell,

in part due to improvements to how we record feedback. Previously, many complaints that were related to the range of products and services offered by HSBC were recorded by Global Banking, where the overall customer relationship is managed. In 2018, we have aimed, where possible, to record specific complaints in relation to products and services against their specific product line such as GLCM and Global Trade and Receivables Finance products.

GB&M annual complaint volumes¹

| | | 2018 | 2017 |
|---|---|-------|-------|
| Global Markets ² | ▼ | 201 | 273 |
| Global Banking | ▼ | 330 | 417 |
| Securities Services | ▲ | 360 | 349 |
| Global Liquidity and Cash Management ³ | ▲ | 1,251 | 474 |
| Total | ▲ | 2,142 | 1,513 |

1. A 'complaint' is defined as any expression of dissatisfaction, whether upheld/justified or not, from (or on behalf of) a former, existing or prospective customer relating to the provision of, or failure to provide, a specific product or service activity.

2. Global Markets also includes research.

3. GLCM excludes complaints relating to payment operations.

Spotlight: Conduct

Improving employee conduct remains one of GB&M's core priorities as we continue to pursue the highest standards across every aspect of our business. The way in which we conduct business helps us fulfil our purpose of connecting clients to opportunities and helping economies to grow, while staying true to our values. Customers rely on us for our financing, advisory and research expertise. They know we can access global debt, equity, currency and commodity markets. It is vital that they trust us to manage their liquidity, keep their assets safe, and finance their trade.

In 2018, we took a fresh look at how to help deliver fair outcomes for our customers, and help ensure we do not cause disruption to the orderly and transparent operation of financial markets. We worked with third-party experts to highlight areas that needed improvement, which led to a comprehensive new programme to improve our conduct. The key areas of focus are highlighted below:

Culture and environment

- We are expanding the dialogue on conduct to help ensure we are supporting our people to make values-based judgements in situations they face every day, and feel safe raising concerns. In the first half of 2018, 5,200 of our people attended 650 Exchange meetings to discuss our conduct and culture, with further Exchange meetings held through the rest of 2018.
- We have developed a network of conduct champions across the business to help drive conduct awareness and provide a group of enthusiastic, committed people to act as local sponsors for behavioural

change. We have led region-specific conduct weeks, where we highlighted examples of conduct in action across the business, and produced and updated country-specific conduct handbooks.

- We have a complex footprint across different businesses, countries and desks. This can lead to a number of different cultures – some of which will have issues that need to be addressed. In 2018, we began a series of pilot exercises to examine the root causes of employee and team behaviour, and to help design interventions. This will continue in 2019.
- We introduced a new hiring guide for managers to support the assessment and selection of candidates, and strengthen our interview process with a broader inclusion of values and behavioural measures.
- Our management and staff wanted more training on conduct and how it applies to them and their roles. We continue to improve our conduct curriculum to meet this demand, including coverage of behavioural drivers, conflicts, grey areas and specific technical training.

Embedding conduct in core business processes

- We have created a Global Markets product risk function and appointed co-Heads of Product Governance in Global Markets to improve product governance. Product due diligence templates used across GB&M have been enhanced in an effort to ensure conduct is more carefully considered. Sales suitability procedures have been developed for people working in Global Banking and the Institutional Client

Group, and training has commenced for Global Markets sales employees.

- In our Exchange meetings on conduct and culture in 2018, our people provided feedback that they wanted more support understanding how pricing is determined to support conversations with customers and ensure consistency. New guidelines on pricing and transparency have since been agreed and published.

Reinforcing our controls framework

- During 2018, our businesses ran exercises to encourage a deeper understanding of the conflicts of interest that can occur in investment banking. These captured a more granular view of the potential situations that our people need to be aware of and actively manage. Over 100 workshops have been held to create an inventory of conflicts of interest that could arise within GB&M, bringing business lines and regions together.
- We reviewed all our Global Banking locations to assess whether they are segregated from other business lines from the perspective of information control and managing conflicts of interest.
- We work in an environment where we are entrusted with privileged information that we have a critical responsibility to protect. It is vital that high levels of information controls are in place. Improvements in controls and procedures have been introduced during 2018. Over 31,000 HSBC employees across all GB&M offices completed a bespoke training module on information control procedures.

For further information on our approach to conduct and the steps we have taken, see pages 37 to 39.

Our Global Private Banking customers

How we listen to our customers

We serve the needs of high net worth and ultra high net worth individuals and families, helping them to grow, manage and preserve their personal wealth from generation to generation.

Building strong personal relationships with customers is critical in private banking. Our customer service teams, comprising relationship managers, investment counsellors, product and credit specialists, and wealth planners interact with customers on a daily basis, listening to and acting on feedback.

Customer satisfaction

In addition to this feedback, we conduct an annual customer engagement survey. In 2018, more than 800 customers shared their views on our people, products and services. Our overall satisfaction score fell from 8.4 to 7.6

7.6

Overall satisfaction, adversely impacted by the perception of value for money (2017: 8.4)

(based on a scale of 1 to 10), falling short of our threshold target of 8.0. This decline corresponded with a decline in our customers' perception of whether we offer value for money, falling from 91% to 76%.

However, our customers continue to be satisfied with our relationship management teams, scoring them 8.4 out of 10, while 86% strongly agree that our portfolio reviews meet their financial needs, by providing a score of either 4 or 5 (on a scale of -5 to 5).

The three themes that have emerged from this survey, which we need to address are:

- We need to improve perceptions of the quality of investment advice and products, which is falling short of expectations.
- We need to keep pace with increasing customer expectations. We have been slow to implement a global digital proposition and our customers have experienced a higher number of instances than is acceptable where the service they have received from us left them feeling annoyed or let down.
- We need to change outdated processes. Some of our customers feel our processes and procedures are cumbersome, and as a consequence we may not be easy to deal with.

Acting on feedback

Given the direct access our customers have to their relationship managers, issues are usually resolved quickly. However, the customer engagement survey highlighted how some customers do not feel their feedback is addressed properly. In response, we are improving how we record feedback to ensure this is addressed in a more systematic way.

We have three global strategic investment programmes underway focused on improving customer engagement and supporting sustainable business growth. These programmes, overseen by the GPB executive committee, are in the following table:

| Area of focus | Action |
|-----------------------------|--|
| Advisory services | We are enhancing our advisory proposition through investment in technology that provides more sophisticated portfolio construction and risk analytics capabilities. This should help us to improve our investment processes and provide more proactive, well-informed advice. To support this, we increased the number of customer-facing investment professionals and product specialists by 17% in 2018, and plan to make further investments in 2019, including a comprehensive training programme. |
| Digital | We are aware that our investment in digital wealth management capabilities has lagged behind those of our competitors. This has had an adverse impact on customer satisfaction. In 2018, we developed online and app-based capabilities that went live initially in the UK in February 2019 and which will be introduced to all our key markets during the year. A programme of continual enhancement will help ensure that these services remain competitive in the marketplace. |
| Global platform replacement | We are rationalising the number of IT platforms, replacing legacy systems with a core platform that houses a set of strategic solutions. This will facilitate global access to our flagship products and propositions, bringing a consistent customer experience across our main booking centres. The core platform is live in four locations, including Switzerland and the UK, and is scheduled to go live in Asia towards the end of 2019. |

When things go wrong

Encouraging our people to record all instances of complaints or negative feedback is essential to ensure we identify and take action on customer concerns and improve the services we provide. To support this, we are refreshing training modules to emphasise the positive benefits of effective complaint handling and including a requirement to accurately record complaints in individuals' objectives.

In 2018, we received 550 complaints, a decrease of 5% on 2017. The significant majority (77%) related to service and administration issues, which include investment reporting, delay or failure to process customer instructions, dissatisfaction with postal or online services, and record updating. We recognise our investment reporting capabilities require improvement and we plan to make a number of changes in 2019. We are striving to reduce the

potential for human error and frustration that can result from additional requests for updated personal and business information.

Product and performance issues were responsible for 9% of complaints. These doubled compared with 2017 and can be sensitive to the performance of individual funds and investments compared with market benchmarks. The third most common complaint related to pricing (8%). A common root cause was the challenge of applying certain customers' special pricing terms consistently, and steps are being taken to reduce the scope for human error where possible.

In 2018, we resolved 504 complaints of which 219 were upheld.

GPB annual complaint volumes¹

| | | 2018 | 2017 |
|--------------|---|------|------|
| UK | ▼ | 46 | 70 |
| Hong Kong | ▲ | 22 | 8 |
| Rest of EMEA | ▼ | 276 | 294 |
| Rest of Asia | ▲ | 13 | 10 |
| US | ▼ | 193 | 196 |

1. A complaint is defined as any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service or a complaint determination.

Spotlight: Conduct

One of our primary goals is to achieve fair conduct outcomes. Senior leaders set the tone and recently supported a series of workshops for colleagues in our European booking centres. These included real conduct case studies for senior management and supervisors to discuss with their teams, and will continue in 2019 to maintain the current level of focus.

Strengthening our controls

Since 2015, we have published a number of conduct-related policies, including those addressing conflicts of interest, best execution, sales suitability, pricing, product governance, the supervisory framework and potentially vulnerable customers.

We continue to focus on ensuring these are embedded and applied consistently across the business. Ongoing work to strengthen controls includes:

- Sales suitability: We established sales quality assurance ('SQA') teams in 2017, enabling us to focus on improving the quality and consistency of our investment advice. In 2018, more than 3,200 trades were sample tested, 93% of which provided advice in line with our standards, with identified issues resulting in appropriate remedial action including customer contact where necessary. The SQA teams also perform thematic reviews, focusing on high risk scenarios. Where deviations from the standards or issues are identified, they are escalated and corrective action is taken, where required.
- Supervisory framework: We defined a new framework in 2018, establishing clear standards and guidelines for individuals with responsibility for supervising customer-facing employees.
- Product governance and pricing: We strengthened our product governance

in 2018 with increased global oversight. Our product pricing principles, set by a global pricing policy and fair value exchange criteria for specific asset classes, are being embedded in all booking centres.

Training our people for fair outcomes

Through the ongoing deployment of role-based learning, all customer-facing teams completed conduct training as required by their role in 2018. Building on this, we developed specific learning programmes for people managers and supervisors. This training develops capabilities to supervise, coach and develop relationship managers, investment counsellors and customer service executives within GPB.

▶ For further information on our approach to conduct and the steps we have taken, see pages 37 to 39.

Customer developments across all global businesses

Our investment in technology

We are committed to improving customer experience through investments in technology. Here we highlight some of our areas of focus during 2018.

Improving customer experience

We are investing in technology to get to know our customers better and make use of these insights to provide them with clarity about their finances. Digital messaging is used to help our UK customers with financial difficulties manage their debt, including accessing debt consolidation services and charities online. Since launching this new service in November 2018, we have received more than 17,000 visits.

For our global and institutional customers, we became one of the first banks in 2018 to roll out Face ID login globally. The Live Chat service on HSBCnet is now available to more than 56,000 customers in six countries. It has consistently high customer satisfaction ratings, reaching 89% in July 2018. We were also the first foreign bank in mainland China to allow customers to access services through WeChat.

Mobile banking experience

We have seen significant growth in mobile adoption rates for our retail customers, with the proportion of mobile active customers increasing by almost 50% in 2018. We have introduced new mobile app features, such as remote cheque deposit in the UK and Canada, mobile chat in the UK, and International Education Payment Solution ('IEPS') in China, which allows customers to pay for their children's international education fees from their mobile phones.

Our PayMe mobile app allows HSBC customers and non-customers to send and receive money instantly and for free. PayMe has approximately 1.5 million users with over two million payments made each month, making it the number one peer-to-peer payments app in Hong Kong, according to the Hong Kong Monetary Authority.

In 2018, we launched new mobile apps in five markets, with improved functionality

such as biometric login and the ability to put temporary blocks on cards. As we continue our roll-out of new apps, approximately 20% of active mobile users still use the legacy app, which lacks some features users expect. This can be seen through low Apple App store ratings, where our legacy mobile app scores an average 1.9 out of 5 compared with the new app scoring 4.8 in the UK and 4.7 in Hong Kong.

Our new Business Express mobile app helps enable our commercial customers to stay on top of their business finances any time, anywhere. Key features include biometric access through fingerprint or facial recognition, fast and accurate tracking of recent incoming funds, outgoing payments as well as all trade transactions, plus instant help from the chatbot Ask Amy 24/7. New features will be added, including notifications and faster payment journeys.

Machine learning/AI

Artificial intelligence ('AI') and machine learning are becoming easier to use through our adoption of cloud computing, open source frameworks and commercial solutions. AI is being used to better segment customers for financial crime detection and to investigate potential crime faster and to a higher quality.

Machine learning is at the heart of our intelligence-led financial crime models, where it is being trialled to improve real-time detection rates and reduce false positives. AI is also being used increasingly within our RBWM business to determine customer needs, and to enable us to make relevant offers to our customers at the right time for them.

For our retail customers, we introduced machine learning-enabled chatbots in mainland China, Hong Kong and the US to handle basic questions so that customers would not need to wait for a live agent to be available.

For our global and institutional clients, our virtual assistant uses machine learning to answer customers' questions. It is available in five languages.

Investing in digital



45%¹

of our retail customers are **digitally active** (2017: 41%)



60%

of our commercial banking customers **use our internet banking**

1. Digital metrics include the following markets: the UK (excluding M&S Bank and John Lewis Finance customers), Hong Kong (excluding Hang Seng customers), Mexico, Malaysia, Singapore, UAE, mainland China, Canada, Australia, the US, France, India, Indonesia, Turkey, Egypt, Argentina and Taiwan. Digitally active customers are defined as the percentage of customers who have logged on to HSBC digital channels at least once in the last 90 days.

Protecting our customers' data

Cybersecurity

We operate in an increasingly sophisticated and hostile cyber threat environment. In response, we are investing in business and technical controls to help prevent, detect and react to these cyber threats.

We are strengthening our controls to help protect against advanced malware, data leakage, infiltration of payment systems and denial of service attacks as well as enhancing our ability to detect and respond to cyber-attacks. An important part of our defence strategy is ensuring our employees remain cyber-aware and know how to report incidents. We continually evaluate the threat environment for the most prevalent attack types and their potential outcomes in order to determine the most effective controls.

We operate a three lines of defence model, aligned to the operational risk management framework, to identify, report and manage cyber risks within the organisation. Global business and function risk owners in the first line are accountable for identifying, owning and managing the cyber risk. They work with control owners to help ensure controls are in place to mitigate issues, prevent risk events occurring and resolve risk events if they do occur. These controls are executed in line with policies produced by the second line information security risk teams and are overseen by the third line – the independent Internal Audit function.

Cyber risk and control effectiveness was reviewed 11 times at non-executive Director level, including by the Board, Group Risk Committee and Group Audit Committee. It is also reported across the global businesses, functions and regions to help ensure appropriate visibility and governance of the risk and its mitigating controls.

We participate in several industry bodies and working groups to discuss cyber risks, including the following:

- attendee of key banking association cyber working groups in all regions, including groups run by the Association for Financial Markets in Europe and the Hong Kong Association of Banks;
- contributor to the UK's National Cyber Security Centre, specifically through the Cyber Security Information Sharing Partnership initiative;
- member of the following three chapters of the Financial Services Information Sharing and Analysis Center: the US, UK and Europe, and Asia-Pacific chapters;
- member of the Institute of International Finance cyber working group;
- contributor to the Cyber Security Industry Group, a financial services industry-led information exchange forum in the UK; and
- member of government-led computer emergency response teams in major markets, including the UK, US and Hong Kong.

Operational resilience

Operational resilience is the ability to adapt operations to continue functioning when – not if – circumstances change. We have a clear strategic approach to operational resilience considered from three perspectives, while putting the impact on our customers and colleagues at the centre of our thinking: how we architect, design and build systems and services; how we operate, run and monitor our control environment; and how we respond and recover in the event of disruption.

Data privacy

We are committed to protecting the privacy of data we hold and process, in accordance with the laws and regulations of the geographies we operate in. We are focused on embedding a culture designed to ensure data privacy is at the heart of our organisation.

In 2018, there were significant changes to EU data privacy laws, with the General Data Protection Regulation ('GDPR') coming into effect across the EU, while new data privacy legislation came into force in some non-EU jurisdictions. The introduction of the GDPR provided us with an opportunity to review and reinforce our data privacy policies and controls across the Group, giving customers, employees and stakeholders more transparency and control over how we use and manage their information. A dedicated programme of work was mobilised to execute and embed GDPR requirements within HSBC ahead of its coming into force. We continue to develop and focus our privacy capabilities in areas such as safeguards, privacy impact and risk assessments, staff training, education and raising awareness.

Data privacy is regularly reported at multiple Group-level governance forums, which include Board level representation to help ensure appropriate challenge and visibility among senior stakeholders. In addition, data privacy governance structures have been established within the Group. We continue to work towards embedding ownership and accountability of data governance across all businesses and functions in an effort to ensure effective management of risks.

Increasing complexity in the matrix of global data privacy laws, recent developments in data localisation requirements and the emergence of new data-driven technologies continue to challenge the banking industry. They also bring opportunities to serve our customers better, and we recognise that data privacy and concepts such as privacy by design are fundamental to achieving this. We continue to work closely with data privacy regulators, industry bodies and external stakeholders around the world to stay abreast of regulatory developments in this area.



Employees

We have a total workforce of 235,000 full- and part-time employees, working across 66 countries and territories. We are working to create the right environment to help enable everyone to fulfil their potential.

At a glance

Our relationship

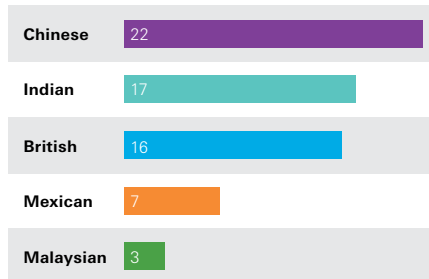
Our people at HSBC span many cultures, communities and continents. We want to build trusted relationships, where our people feel empowered in their roles and inspired to grow. We help our leaders set the tone by listening and valuing the behaviours that get a job done as much as the outcome.

We understand the importance of building a diverse and inclusive workforce, valuing individuals and their contribution. This allows us to better represent our customers and the communities we serve. The path to achieving the healthiest human system is being defined by our people in conversations around the world.

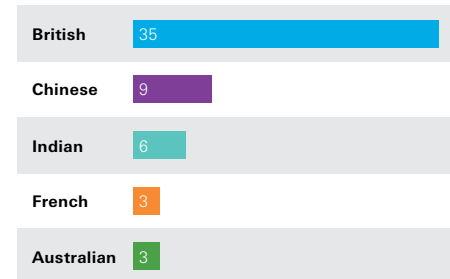
Employee profile

Top five nationalities¹

All employees (%)



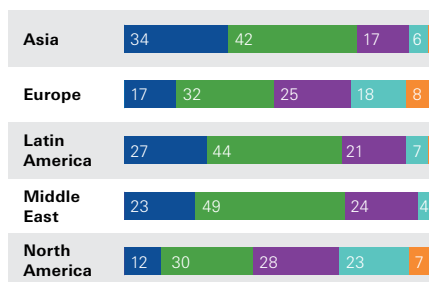
Senior leaders (GCB 0-3) (%)



1. Data excludes unspecified nationalities.

Age diversity

By region (%)

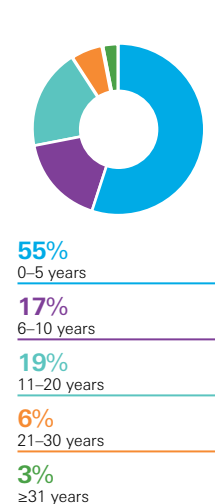


Key

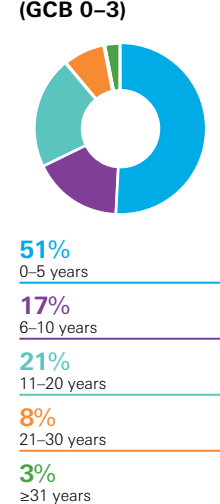
- ≤29
- 30-39
- 40-49
- 50-59
- ≥60

Employee tenure

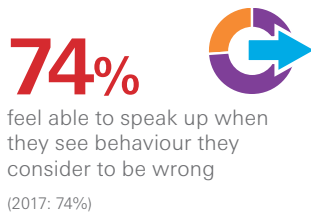
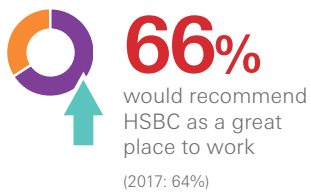
All employees



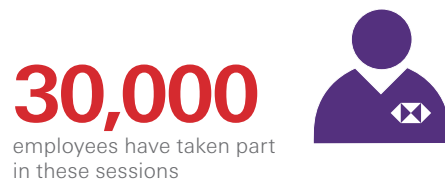
Senior leaders (GCB 0-3)



Snapshot survey results

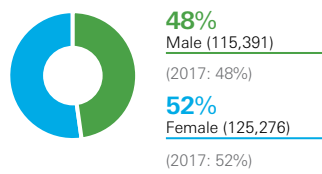


Exchange results

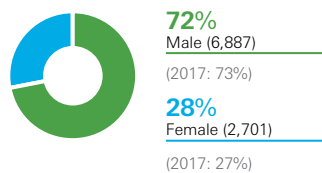


Diversity and inclusion

Gender balance – all employees



Gender balance – senior leaders



Awards

HSBC employees were named on the following:

Financial Times' **OUTstanding list**

Financial Times' **EMpower list**

Financial Times' **HERoes list**



Developing our people

Training statistics at HSBC



Listening to our people

How we listen to our people

Understanding how our people feel about HSBC is vital. It helps us ensure we are giving them the right support to achieve their potential and to serve our customers well.

We capture the views of our people on a range of topics, such as our strategy, culture and working environment, through our employee survey, Snapshot. Results are presented to the Group Management Board and relevant executive committees. This allows us to take action based on the feedback. The adjacent table shows selected results from our 2018 survey.

Snapshot survey

We track employee advocacy by asking whether our people would recommend HSBC as a great place to work. Currently, 66% of our people would recommend HSBC, an increase from 64% in 2017. We recognise there is more to do and we are aiming to improve this measure by three points each year through to 2020. Analysis in 2018 showed us that trust in leadership, career development and recognising our people for their behaviour and performance drive a positive response to this question.

In late 2018, we expanded our Snapshot survey to look at behaviours by asking if people see others demonstrating our values. The feedback allows us to identify areas for improvement and take meaningful action in 2019.

We see that 74% of our people feel able to speak up when they see behaviour that they consider to be wrong. It tells us that our speak-up channels are working, but we know there is further work to be done.

More than

50%

of our people took part in an Exchange meeting during 2018

Exchange

Our Exchange forums provide a place for our people to share their open and honest views. Typically, these are meetings held without an agenda, meaning people can discuss what matters most to them. We know that when people participate in Exchange meetings, they feel more able

to speak up, have more trust in leadership and report higher levels of well-being. More than half of our people took part in an Exchange meeting during 2018.

Over 2,000 Exchange meetings were arranged to discuss our ambition to create the healthiest human system in our industry. These involved 30,000 employees taking part and sharing what it means for them. It is clear from the feedback that we need to begin with frank, open and honest conversations about what it feels like to work at HSBC. We will use this feedback to build out action plans in 2019 and ensure that the necessary steps are taken to make a positive change.

Selected results from Snapshot survey

| | | 2018 | 2017 |
|---|---|------|------|
| I am seeing the positive impact of our strategy | ▲ | 67% | 65% |
| I feel confident about HSBC's future | ▲ | 75% | 72% |
| I trust the senior leadership in my area | ▼ | 64% | 66% |
| I believe that the senior leadership in my area makes decisions that take people like me into consideration | ▶ | 53% | 53% |
| I feel proud to work for HSBC | ▶ | 76% | 76% |
| I would recommend this company as a great place to work | ▲ | 66% | 64% |
| Conditions in my job allow me to be as productive as I can be | ▲ | 65% | 58% |
| I feel able to speak up when I see behaviour which I consider to be wrong | ▶ | 74% | 74% |
| I believe HSBC is genuine in its commitment to encourage colleagues to speak up | ▲ | 74% | 70% |

Spotlight: Employee recognition

Embedding a culture that recognises great behaviour is important to us. Our global recognition programme At Our Best allows people to recognise colleagues who live up to our values. Employees receive recognition points from their colleagues, which can be redeemed against a wide range of goods. In 2018, more than 720,000 recognitions were made to a total value of \$8.4 million. In 2018, we focused on HSBC sustainability, resulting in over 65,000 employee recognitions. Stories were shared as inspirational case studies on our intranet, HSBC NOW. These included how our people were championing greener business, supporting a greener environment and volunteering in the local community.

When things go wrong

Having a culture where our people feel able to speak up is important. Our people are encouraged to raise concerns about wrongdoing or unethical conduct through their normal reporting and escalation channels. However, we understand that in some circumstances people prefer a more discreet way to raise their concerns.

Whistleblowing

HSBC Confidential is a global platform that allows people to raise concerns outside of our normal reporting and escalation channels in confidence and without fear of retaliation. This is available to all of our people, past and present, in all global businesses, functions and entities.

Within this platform, we have multiple channels to raise issues, including telephone hotlines, online portals and email. A broad range of cases, covering a range of severity levels, are dealt with each year. We also monitor an external email address for concerns about accounting, internal financial controls or auditing matters (accountingdisclosures@hsbc.com). In 2019, we plan to expand our use of an independent third-party supplier to manage our 24/7 reporting hotline and ensure the service is available in the Group's key local languages.

All whistleblowing concerns are subject to an independent investigation, which is carried out by teams trained to handle sensitive cases. These include human resources, compliance, legal, information security and internal audit. Cases are allocated depending on the concerns raised. In 2018, 74% related to people, 12% to security and fraud, 11% to compliance, and the remaining 3% to other categories. Following investigation, we take appropriate action if necessary, including disciplinary action or adjustments to variable pay and/or performance and behaviour ratings. We learn lessons and change our processes where needed.

HSBC does not condone or tolerate retaliation against people who raise concerns and we strictly enforce our policy relating to this. Senior management are made aware of cases alleging retaliation and the outcome or action taken. Making malicious or false claims is incompatible with our values and such instances are taken seriously.

Our Group Audit Committee has responsibility for oversight of whistleblowing arrangements and receives regular updates on the status of whistleblowing case volumes, themes and outcomes.

2,068

Number of cases raised (2017: 1,585)

34%

Substantiated cases closed (2017: 30%)

Spotlight: Conduct

We rely on our people to deliver fair outcomes for our customers and make sure we act with integrity in the financial markets. A high standard of personal conduct is critical for our ability to live up to this commitment and ensure a healthy working environment for our people. We actively manage misconduct by taking any necessary action, up to and including dismissal. We monitor and report cases on a regular basis to management

committees. In 2019, we aim to develop our reporting and analysis of themes and action taken.

Bullying and harassment are not tolerated at HSBC and we have strict processes to manage these types of behaviour. At the end of 2018, our Group Chief Executive addressed the topic directly with senior leaders. In 2019, we aim to centralise the monitoring of any bullying and harassment cases.

A healthy and diverse workforce

At HSBC, diversity is not just about a particular demographic group. It is about who we are, what we have learned and the experience we have gained. We seek to reflect the diversity of the markets we serve, not only in our people but also by encouraging diversity across our customers, communities and suppliers.

We believe in an enterprise-wide approach to diversity and inclusion. In 2018, we made good progress in updating our global procurement processes to improve supplier diversity and will continue this in 2019. We conducted a refresh of our brand to include inclusive imagery and principles so our customers and people can see themselves in HSBC. We have introduced talking cash machines and sign language services on smartphones to provide 'barrier-free banking' and insurance products for same sex couples in Hong Kong. We know there is still more to do.

In 2018, 28.2% of our senior leadership were women, above our goal of 27.6%.

Gender balance

Gender balance in leadership is an area where we are making progress but recognise the need to improve. We have signed up to the 30% Club campaign commitment to reach 30% women in senior leadership roles by the end of 2020. In 2018, 28.2% of our senior leadership were women, above our goal of 27.6%. In 2019, we are aiming for 29%.

To help improve gender balance in senior roles we provide mentoring and sponsorship opportunities for talented women. We extended our Accelerating Female Leaders programme in our GB&M business to include our CMB and GPB businesses. Through sponsorship, the programme builds visibility and connectivity for Director-level female talent with leaders from across the Group.

Spotlight: Gender pay gap

Gender pay is an area of particular focus in the UK with the introduction of the Gender Pay Gap ('GPG') Reporting regulations. We have complied with the regulations and reported our 2017/2018 GPG. Our UK gender pay gap is driven by the gender imbalance within our businesses and functions. There are fewer women in senior leadership roles, meaning that we have more men earning higher salaries. A higher proportion of women work in more junior roles or work part-time hours.

We are committed to improving gender balance and are taking a number of specific steps that we expect to have a positive impact in the UK over time, including:

- driving better gender balance at all levels in the organisation;
- developing female talent to strengthen the leadership pipeline;
- supporting families and flexibility; and
- retaining female talent.

We are confident in our approach to pay and where we have identified pay differences that cannot be explained, we have made appropriate adjustments.

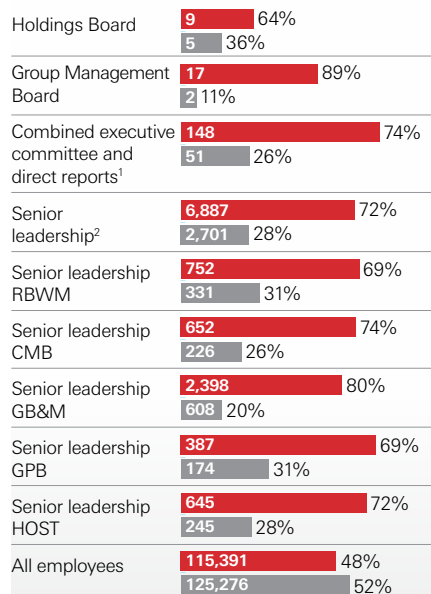
Our employee networks

Our seven global employee networks and our HSBC Communities discuss issues our people care about and challenge us on where we could be doing better. We have more than 140 groups with over 80,000 participants. The networks focus on gender, age, ethnicity, LGBT+, faith, working parents and carers, and ability (including mental health). Our HSBC Communities focus on a variety of common interest topics including flexible working, military and veterans, and Chinese culture. These groups play an important role in helping us make progress.

Our largest global network, with over 48,000 participants, is Balance, which works to improve gender balance.

In 2018, we introduced a global management structure for our LGBT+ network, Pride, to help network growth and share best practice.

Gender diversity statistics



Key

- Male
- Female

1. Combined executive committee and direct reports includes HSBC executive directors, Group Managing Directors, and their direct reports (excluding administrative staff) plus Company Secretary.

2. Senior leadership refers to employees performing roles classified as 0, 1, 2 or 3 in our global career band structure.

Well-being and developing our people

Employee well-being

A healthy and happy workforce is essential for a positive working environment. Our priorities for our people are mental health, flexible working and financial well-being.

Mental health

We want HSBC to be an environment where people feel they can be open about their mental health and concerns. While we have taken action, we know there is more to do.

In October 2018, we held over 75 events to support World Mental Health Day. This included a video interview between John Flint, our Group Chief Executive, and Brian Heyworth, our Global Head of Client Strategy, sharing their perspectives on mental health at HSBC. This has become one of the most viewed internal videos and helped open the conversation within HSBC.

We offer an employee assistance programme so our people have free access to external expert assistance and confidential advice when they require it, such as after suffering a bereavement or personal difficulty. We advertise these third-party programmes locally so our people have the available information to get the best support.

We use our learning platform, HSBC University, to publish articles and resources relating to mental health from industry-leading bodies.

In 2019, we will start to provide widespread mental health education and support to our people, starting with a programme of mental health education for all managers. Our focus will be on spotting the signs of mental ill-health, having open conversations and signposting the right support. This will be supported by local and Group-wide awareness campaigns, recognising that we all have a part to play to create a more open environment.

Flexible working

Our 2017 global well-being survey confirmed that 49% of our people work

flexibly, and those who do are more positive about their general well-being. We know this is an area where people want more support, so during 2018 we invested in technology and infrastructure. We expanded an OpenWork concept, which makes it easier for our people to work flexibly across 27 cities covering approximately 75,000 staff. This helped more of our people make positive choices that meet their needs both inside and outside of work.

One of our HSBC Communities, Flex, which supports flexible working, has run global events on topics such as job sharing. These included an event on International Men's Day, which focused on male employees and the mental health benefits of flexible working. Our priority for 2019 is to implement consistent flexible working principles across HSBC.

Financial well-being

In 2018, we re-launched our employee assistance programmes, to include financial support. In addition, multiple countries have run financial capability events, including Mexico, UAE and the UK.

In 2019, we are enhancing the content and roll-out of our events and education as we recognise there is further action needed.

▶ For more information on how we are working to increase financial capability, see pages 11 and 34.

Learning and development

Talent development

We recognise we must invest in our people to continue to thrive.

The International Manager Programme is one of our flagship talent programmes. With approximately 300 international managers currently deployed across 46 countries, the programme provides resourcing flexibility and helps us develop a strong pipeline of home-grown future leaders for our most critical positions.

International mobility is key to future success. We offer international secondments and transfers to our wider employee base, which enhances career development opportunities, and helps to

attract, develop and motivate our people who demonstrate high potential.

Expanding HSBC University

The opportunity to develop is one of the most important factors affecting how people feel about HSBC. We celebrated the first anniversary of our home of learning, HSBC University, in November 2018. Thousands of resources are available through this platform, which receives more than 52,000 visits per month.

HSBC University strengthens how we learn and lead through new programmes, resources and premises. We have launched HSBC University regional hubs at our offices in Dubai and the HSBC UK headquarters in Birmingham, providing opportunities for our colleagues, customers and community groups to come together to learn, develop and connect.

We have expanded our management and leadership development with new programmes, including Leading with Impact for senior leaders, and Leading Myself for those without a team. We have developed our Essentials programme to support people managers and strengthen their coaching and hiring skills. In 2018, 600 leaders completed the Leaders as Teachers programme and put their skills into practice by supporting colleagues' training through business programmes, Leadership Essentials and the Accelerated Development Programme.

We are committed to helping our people prepare for the future of work. We launched digital skills training, and our Leading Myself programme explored areas including personal resilience, collaboration and communicating with impact. This is a continued area of focus as there is more to do.

During 2018, we formed partnerships with external providers, including LinkedIn Learning and Coursera, and introduced learning modules to raise awareness of our sustainability challenges.

▶ For further details on how we are building future skills, see page 34.



Supporting sustainable growth

We aim to grow our business in a sustainable way with a focus on moving to a low-carbon economy to protect our planet, recognising our duty to support the communities in which we operate.

At a glance

Our relationship

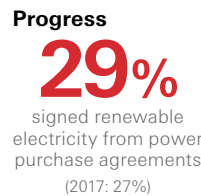
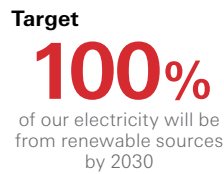
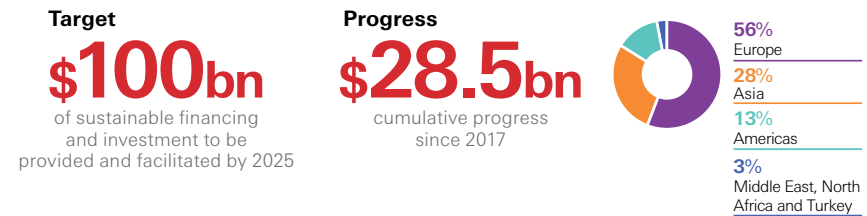
Our actions have an impact on the communities where we do business and the wider environment. We want to ensure we are helping economies grow sustainably, and we choose to direct our resources, including time, people and capital, to helping the global transition to a low-carbon economy.

We have shown progress against our targets in sustainable finance, and have set out how we are partnering with our customers to assist with the transition to a low-carbon economy. We are also engaging with our customers on transition risk, and embedding climate risk within our own risk management practices. We understand that it is important to report disclosure on both climate-related opportunities and risks to our stakeholders, and include our second disclosure under the Task Force on Climate-related Financial Disclosure ('TCFD') in this section.

We recognise that technology is developing at a rapid pace in the communities where we operate, and that a range of new and different skills are now needed to succeed in the workplace. We continue to focus around employability and financial capability resulting in global programmes and activities that address this in our diverse global communities. We continue to prioritise providing a rich variety of volunteering opportunities for our employees globally and continue to invest in the communities we operate in.

Sustainable finance

Progress against our targets



Our engagement in 2018



Awards



GlobalCapital Sustainable and Responsible Capital Market Awards 2018

- Most Impressive Financial Institution Green/SRI Bond Issuer
- Most Impressive Investment Bank for Asia Pacific Green/SRI Capital Markets



Euromoney Awards for Excellence 2018

- Asia's Best Bank for Sustainable Finance



Extel Survey 2018

- No.1 Integrated Provider of Climate Change

Sustainable business

We aspire to be a global partner for the public and private sector by helping governments and companies achieve their sustainability goals, and enable a transition to a low-carbon economy.

Supporting our customers

We are embedding sustainability into the products and services we offer to customers, including access to capital markets, lending, transaction banking, advisory services, and investments. We are one of the biggest issuers for green, social and sustainable ('GSS') bonds. In 2018, we were the number one issuer of sustainable bonds globally and number two for GSS bonds overall, according to data provider Dealogic. In 2018, we were recognised by *Eurromoney* as the Best Bank for Sustainable Finance in Asia for our efforts to innovate products to address customers' evolving needs.

Extel ranked us top for climate change research for a fifth consecutive year in 2018. In addition, our businesses provided a number of reports to help inform customers on sustainability considerations, including *Low-carbon transition scenarios: Exploring scenario analysis for equity valuations* by HSBC Asset Management, and *Sustainability guidebook for treasurers* by Global Liquidity and Cash Management.

We held over 2,500 customer meetings in 2018 for our largest clients in GB&M and CMB to discuss sustainable finance options and opportunities. We are building the knowledge and capabilities of our people through continued training and engagement. We introduced a new series of learning modules on sustainability through our online HSBC University for all employees, as well as tailored sustainability training sessions for key customer-facing employees and people in risk management roles. More than 2,300 employees participated in targeted sustainable finance training.

Driving market innovation

We look for opportunities to develop and expand the market for sustainable finance, and contributed to a number of market precedents in 2018. HSBC acted as sole green structuring adviser for the Republic of Indonesia's green Islamic bond, known as a sukuk, which marked the first sovereign green sukuk (see the case study on the following page).

We played an active role in the development of the Green Loan Principles introduced in 2018 and engaged with customers to provide lending that conforms to these industry-recognised guidelines. We acted as the sole green finance adviser and joint mandated lead arranger and bookrunner for the first green loan in Hong Kong. We also launched a lending scheme in Hong Kong that allows customers to earn cash rewards for making carbon savings.

Demonstrating leadership

We are helping lead the development of the sustainable finance market through our own actions. In 2018, we issued the world's first sukuk linked to the United Nation's Sustainable Development Goals ('SDGs') with the help of our Islamic banking arm in Malaysia. See www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds for the impact reports related to our green and sustainability bonds. We published 25 reports in the inaugural year of HSBC's Centre of Sustainable Finance, which was launched in 2018 to provide sustainability-related thought leadership and innovation. These efforts aim to strengthen understanding and debate across the financial industry and among other stakeholders.

#2

Dealogic ranking for green, social and sustainability bond issuer, both globally and in Asia in 2018

Further opportunities

We recognise the potential we have as a global universal bank to help facilitate the transition to a low-carbon economy and support other sustainability goals. As we continue to develop our programme of initiatives, we see particular opportunities to help our customers embed sustainability throughout their supply chains and to work with more carbon-intensive industries to respond to climate change challenges.

Our HSBC Navigator survey, which polls over 8,500 businesses in 34 markets on the global business environment, included a focus in 2018 on trade and sustainability. Nearly one-third of businesses surveyed plan to make sustainability-related changes to their supply chains within the next three years. The survey identified financial gain, cost efficiency and sustainability goals as primary drivers for these changes. We aim to expand our efforts to provide working capital and term lending solutions that facilitate sustainability practices along supply chains.

Sustainable business continued

As part of our drive to deliver growth from areas of strength, we are committed to helping our clients transition to a low-carbon economy, supporting the achievement of the SDGs, and supporting positive societal impacts.

Cumulative progress through 2018

Since the start of 2017, we have achieved \$28.5bn of our commitment to provide and facilitate \$100bn of sustainable financing and investment by 2025. A data dictionary, including detailed definitions of contributing activities, may be found on our website www.hsbc.com/our-approach/measuring-our-impact.

| Facilitation | Financing | Investments | | | | | | | | | | | | |
|---|--|---|------|------|---|------|-----|------|-----|---|------|-----|------|-----|
| We provide advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social and sustainable bonds; debt capital markets; and equity capital markets. | We provide lending for specific finance activities. Products include project finance (e.g. financing of renewable infrastructure projects), and green loans (e.g. financing of eligible green products). | We provide investments into defined socially responsible investment ('SRI') and low-carbon funds. | | | | | | | | | | | | |
| Cumulative progress* (\$bn) | Cumulative progress* (\$bn) | Cumulative progress* (\$bn) | | | | | | | | | | | | |
| 21.4 | 5.8 | 1.3 | | | | | | | | | | | | |
| <table border="1"> <tr> <td>2018</td> <td>11.1</td> </tr> <tr> <td>2017</td> <td>10.3</td> </tr> </table> | 2018 | 11.1 | 2017 | 10.3 | <table border="1"> <tr> <td>2018</td> <td>5.3</td> </tr> <tr> <td>2017</td> <td>0.5</td> </tr> </table> | 2018 | 5.3 | 2017 | 0.5 | <table border="1"> <tr> <td>2018</td> <td>1.1</td> </tr> <tr> <td>2017</td> <td>0.2</td> </tr> </table> | 2018 | 1.1 | 2017 | 0.2 |
| 2018 | 11.1 | | | | | | | | | | | | | |
| 2017 | 10.3 | | | | | | | | | | | | | |
| 2018 | 5.3 | | | | | | | | | | | | | |
| 2017 | 0.5 | | | | | | | | | | | | | |
| 2018 | 1.1 | | | | | | | | | | | | | |
| 2017 | 0.2 | | | | | | | | | | | | | |

* PwC provided limited assurance over progress towards the \$100bn sustainable finance commitment as at 31 December 2018 in accordance with International Standard on Assurance Engagement 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. This can be found on our website www.hsbc.com/our-approach/measuring-our-impact.

Case study: The first green sovereign sukuk

In 2009, the Republic of Indonesia was among the first countries to voluntarily set carbon emission targets during international negotiations in Copenhagen. Under the Paris Agreement, the country pledged to reduce emissions by up to 41% by 2030 and recently adopted the green sukuk framework to support its commitment. To fund climate mitigation and adaption projects in a broad range of sectors, as well as to demonstrate its commitment to the Paris Agreement, Indonesia issued the world's first green Islamic bond, known as a sukuk, for \$1.25 billion in February 2018. HSBC acted as joint lead manager, joint bookrunner and sole green structuring adviser. This transaction represented the first sovereign green sukuk, the first international green offering by an Asian sovereign and the first Asian sovereign green bond focused on Paris Agreement ambitions.

Case study: The first green loan for UK commercial buildings

Direct greenhouse gas emissions from buildings in the UK account for 19% of the country's total, and improving the energy efficiency within this sector will be key to the UK meeting its obligations under the Paris Agreement. That is why green and retrofit buildings are critical to cutting greenhouse gases. We have been working with Argent, a UK property developer, on this issue. In 2018, HSBC UK acted as the green coordinator, mandated lead arranger and hedging counterparty for the first green loan for UK commercial buildings. The £400 million green loan facility, which is helping Argent fund the development of two office buildings, is compliant with the Loan Market Association's and Asia Pacific Loan Market Association's Green Loan Principles. The offices have been designed with sustainability features that will bring the carbon footprint down to approximately 50% of similar offices in the country and are both targeting BREEAM Outstanding – one of the highest levels of green building certification globally.

Our approach to climate risk management

The transition to a low-carbon economy will occur over a multi-year horizon and it will take time for sectors currently dependent on fossil fuels to adapt. While it is acknowledged there should be a significant and immediate reduction in the use of coal to generate power, other traditional sources of energy, such as oil and gas, have a longer term role during the transition. Developing countries may also need more time to adjust as they balance sometimes competing sustainable development goals.

In this context, we are working to further understand the specific risks and opportunities climate change presents to our customers, and we are developing our knowledge and capacity to support their transition towards a more sustainable future. We are doing this through our engagement in the Energy Transitions Commission, thought leadership articles published on the Centre of Sustainable Finance (www.sustainablefinance.hsbc.com), and other industry engagement.

In 2018, we developed a transition risk questionnaire with some of our customers to improve our understanding of their climate transition strategies. This is helping us to identify which customers need to adapt rapidly to climate-related risks, and spot potential business opportunities. In time, this information can be incorporated into an initial assessment of transition risk within our credit risk management processes. We plan to roll the questionnaire out

more widely in 2019. We have also embedded climate risk more broadly in our risk management processes. More information can be found in the risk management section of our TCFD disclosure on page 30.

Another important element of our climate risk management is covered via our sustainability risk management strategy. Sustainability risk is broader than climate risk. We define it as the risk that financial services provided to customers by the Group indirectly result in unacceptable impacts on people or the environment. Group Sustainability Risk, which is part of the Global Risk function, is responsible for managing our sustainability risk policies (covering agricultural commodities, chemicals, defence, energy, forestry, mining and metals, UNESCO World Heritage sites, and Ramsar-designated wetlands) and our application of the Equator Principles. As with climate risk management, we seek to partner with our customers to improve their operating standards. For more information on how we manage sustainability risk, see www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Our energy policy

Our approach is to support our customers to transition to a low-carbon economy while limiting the financing of high-carbon intensity energy projects. In 2018, we updated our energy policy and set out our position with respect to new project financing of coal-fired power,

greenfield projects in the oil sands, offshore Arctic drilling and due diligence requirements.

Our energy policy is available online at www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

HSBC's exposure to coal mining

In 2016, we updated our mining and metals policy, so that we no longer finance new thermal coal mines or new customers dependent on thermal coal mining. We also committed to publicly report on our exposure to the coal mining sector. At 31 December 2018, our exposure to coal mining was \$0.8bn, unchanged from a year earlier. This represents 4% of our total exposure to the mining and metals sector in 2018.

We have adopted a new methodology for the identification of exposures to the metals and mining sector in order to align with our TCFD disclosure. The methodology is explained in footnote 37 on page 67 of the *Annual Report and Accounts 2018*.

Equator Principles in 2018

Under the terms of the Equator Principles, we report annually on the transactions completed under the Principles. In 2018, we undertook 18 transactions under the Principles, compared with 20 in 2017. A detailed summary of our transactions and implementation can be found at www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk/equator-principles.

Engaging with our customers on palm oil

Palm oil is the world's main vegetable oil. It requires less land per output than other vegetable oils, and its production can bring wide economic benefits. However, when produced unsustainably, palm oil can lead to deforestation, resulting in threats to endangered species, social conflict and climate change.

We have worked closely with our customers to support certification through the Roundtable on Sustainable Palm Oil ('RSPO'), an independent organisation that sets standards of good practice against which companies are independently certified. Internally, we have progressively raised our own policy standards. In 2014, we decided we would only finance customers that were already partly certified under RSPO and aimed to complete certification by the end of 2018. Customers also need to provide evidence of independent verification under their commitments to 'No Deforestation, No Peat, and No Exploitation' ('NDPE'). Our agricultural commodities policy is available online at www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

A number of our customers have chosen to operate sustainably as a result of our engagement, including 11 customers that have introduced NDPE policies following discussions with HSBC. At the end of 2018:

- We financed 22 customers engaged in palm oil production that have either met our policy or will do so shortly. Several customers are in the final stages of full certification, managing external delays and resource constraints to meet our specific requirements.
- We have 31 customers who have operations in the palm oil sector, but where we do not finance this part of their business. We have engaged with those customers and many operate to or are working towards good practice.
- We have 19 customers that do not meet our policy, and we intend to discontinue the relationship when existing loans have been repaid.

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

We all have a role to play in limiting climate change and supporting the transition to a low-carbon economy, and we are a signatory to the disclosure recommendations by the Financial Stability Board's task force. This represents our second disclosure under the framework.

Governance

Mitigating climate change is a key priority for our senior leadership, with sustainable finance metrics included in the Group's strategic priorities. In 2018, there were two presentations on sustainability to the HSBC Holdings Board, two to the Group Audit Committee, four to the Group Risk Committee, and two to the HSBC Group Management Board. Senior leadership have engaged with regulators, industry associations and non-governmental organisations on this topic, such as through the Bank of England consultation on climate change, the Group Chairman's participation in the One Planet Summit and the Group Chief Executive's designation as a World Economic Forum climate leader. A summarised list of HSBC's sustainability-related memberships is available at: www.hsbc.com/our-approach/measuring-our-impact/sustainability-memberships.

Strategy

Supporting the transition to a low-carbon economy is a key part of HSBC's strategy, and new products have been offered to facilitate this, along with a pledge to provide \$100bn of sustainable finance by 2025. To date, we have reached \$28.5bn of that goal. For further information, see pages 26 and 28. We recognise many clients across sectors are making significant shifts towards the low-carbon economy. During 2019, we intend to develop new metrics to help measure these activities, with an aim to publish in next year's disclosure.

We believe education of our people is crucial on this topic. We gave sustainability training to more than 2,300 employees during 2018 and launched a sustainability online learning programme for all employees globally, with content developed in collaboration with the University of Cambridge Institute for Sustainability Leadership.

We report on the emissions of our own operations via CDP (formerly the Carbon Disclosure Project). This is available, as well as other information related to the sustainability of our own operations, at: www.hsbc.com/our-approach/measuring-our-impact.

Risk management

We are increasingly incorporating climate-related risk, both physical and transition, into how we manage and oversee risks internally and with our customers. Climate risk is now included as a theme in our 'Top and emerging risks report' to ensure that it receives monthly management oversight via the Risk Management Meeting of the Group Management Board ('RMM') (see page 30 of our *Annual Report and Accounts 2018*). In addition, our Board-approved risk appetite statement contains a qualitative statement on our approach to sustainability, which will be further expanded in 2019 to include climate risk explicitly.

We have a number of sustainability risk policies covering specific sectors. In 2018, we updated our energy policy to limit the financing of high-carbon-intensity energy projects, while still supporting energy customers on their transition to a low-carbon economy. From the release of the new energy policy in April 2018 until the end of 2018, HSBC financed no new coal-fired power plants.

Transition risk, in the context of climate change, is the possibility that a customer's ability to meet its financial obligations will deteriorate due to the global movement from a high-carbon to a low-carbon economy. HSBC is working to embed

transition risk into its day-to-day credit risk management. The aim is that over time, each wholesale counterparty will receive a client transition risk rating based on their susceptibility to, and ability to manage, transition risk.

We have identified six higher transition risk sectors based on their contribution to global carbon dioxide emissions. These sectors are: oil and gas; building and construction; chemicals; automotive; power and utilities; and metals and mining. Over time we may identify additional sectors as having higher transition risk depending on a variety of factors, including country-level carbon dioxide reduction plans per the Paris Agreement.

The table below presents our exposure to the six higher transition risk sectors. These figures capture all lending activity, including environmentally responsible customers and sustainable financing. Further details on our approach to the quantification of exposures can be found in footnote 37 on page 67 of the *Annual Report and Accounts 2018*. This is expected to evolve over time as we develop new climate-related metrics.

Next steps

HSBC's TCFD disclosures will continue to evolve and expand over time. In line with TCFD recommendations, our *Annual Report and Accounts* will start to disclose the additional climate risk-related metrics relating to our portfolio for specific sectors, as the availability of sufficient, reliable and relevant customer data permits.

| Sector | % of total wholesale loans and advances to customers and banks in 2018 ³⁷ |
|---------------------------|--|
| Oil and gas | ≤ 3.9% |
| Building and construction | ≤ 3.8% |
| Chemicals | ≤ 3.9% |
| Automotive | ≤ 3.4% |
| Power and utilities | ≤ 3.0% |
| Metals and mining | ≤ 2.8% |
| Total | ≤ 20.8% |

Total wholesale loans and advances to customers and banks amount to \$668bn.

For footnote 37, see page 67 of the *Annual Report and Accounts 2018*.

Our approach with our suppliers

We have globally consistent standards and procedures for the onboarding and use of external suppliers. We require suppliers to meet our compliance and financial stability requirements, as well as to keep to our sustainability code of conduct. Payment on time is of paramount importance, and as such our commitment to paying our suppliers is in line with the UK Prompt Payment Code.

Supplier ethical code of conduct

We have an ethical and environmental code of conduct for suppliers of goods and services, which must be complied with by all suppliers. While our businesses and functions are accountable for the suppliers they use, our global procurement function owns the code of conduct review process for them.

Our goal is to work collaboratively with our supply chain partners on sustainability at all times. When a supplier or one of its sub-contractors is found to no longer be in compliance with this code, we will work with them on an improvement plan or, if deemed necessary, terminate the relationship. The ethical code of conduct, which we require suppliers to adopt, sets out the standards for economic, environmental and social impacts and outlines the requirements of having a governance and management structure to ensure compliance with this code.

Our supplier management conduct principles also set out how we conduct business with our third-party suppliers both in our legal and commercial obligations. They also explain how we treat suppliers fairly through our behaviour and actions, in line with the HSBC Values.

Supplier diversity initiative

We have a connected global supply base and inclusive sourcing strategies that reflect the communities where we operate, and help ensure we meet the needs of our diverse customer base. In June 2018, we also developed a supplier diversity and inclusion action plan, which encourages the use of minority-owned and SME businesses.

Sustainable operations

Achieving our operational goals

In 2012, we set ourselves 10 strategic targets to reduce the environmental and ethical impacts of our operations by 2020. Most of these are either completed, resulting in us having stretched some of these targets, or are on track to complete. We are experiencing challenges on our recycling goal and some of our stretched targets, as detailed below.

The targets include strategic goals to reduce our carbon emissions, energy, waste, water and paper. We also set targets to increase recycling, procure electricity from renewable sources and commission buildings to the highest sustainability standards. In addition, we are working to enable sustainability education for our people, engage with our supply chains and fund pilot projects.

We reached three of our targets ahead of schedule, and in 2017 made our waste and paper reduction targets more ambitious, and committed to procuring electricity from 100% renewable sources by 2030.

To see progress against all our goals, visit www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-operations.

The strategic goals are governed by the Group Chief Operating Officer Sustainability Committee, which meets quarterly. Each of the goals is 'owned' by an executive sponsor who is responsible for the target being achieved. In seeking to reach our goals, we collaborate closely with our strategic suppliers and our employees to encourage positive actions.

Our people want to make a difference in their communities and at work, and we will continue to partner with them to focus on our waste and recycling goals.

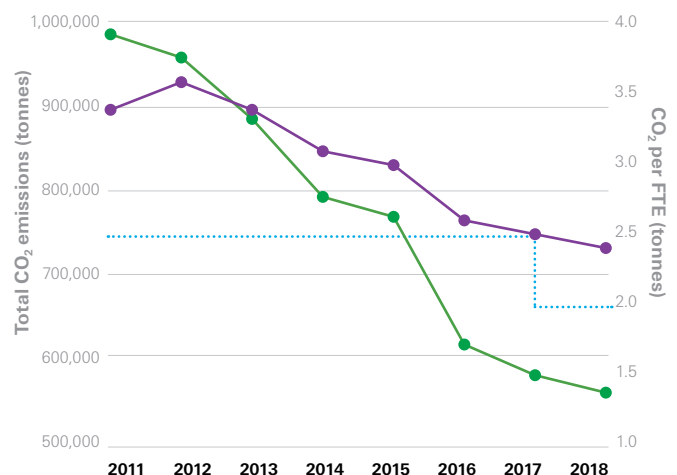
We are proud to have surpassed our green buildings goal of constructing 50 buildings to the highest sustainability standards. In 2018, we opened our new HSBC UK headquarters, which was built to a Leadership in Energy and Environmental Design ('LEED') Gold standard, making it the first building in Birmingham to be constructed to this standard. The LEED certification is a globally recognised symbol of sustainability achievement. In 2019, we are opening our new UAE headquarters with a LEED Gold standard and will intend to continue to incorporate sustainability standards in new buildings.

Reducing carbon emissions

We continue to reduce our carbon emissions by cutting our energy consumption, being more efficient in our buildings, working with our strategic partners and focusing on our renewable procurement strategy. Since 2011, our carbon emissions have fallen by 30% per FTE. In 2018, our total CO₂ emissions were 559,000 tonnes.¹

1. PwC performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board. This can be found on our website www.hsbc.com/our-approach/measuring-our-impact.

Carbon emissions (total and by FTE)



Key:

- Total CO₂ emissions (tonnes)
- CO₂ per FTE
- ⋯ 2020 target was set at 2.5 CO₂ tonnes/FTE until 2017, when the target was stretched to 2.0 CO₂ tonnes/FTE

Achieving our operational goals continued

Our renewable electricity challenge

Since 2012, our renewable electricity strategy has evolved from purchasing renewable energy credits to influencing the markets in which we operate by sourcing electricity through power purchase agreements ('PPAs') that provide additional renewable energy to a country's energy mix. In 2017, we committed to ensuring that 100% of our electricity was sourced from renewable sources by 2030, with an interim commitment of 90% by 2025. Between 2012 and the end of 2018, we contracted up to 29% of our electricity consumption through PPAs in various countries. As we strive to achieve our goal, we are conscious of the challenges this will present, such as in some markets in Asia where PPAs are currently unavailable.

We are members of global initiatives, such as RE100, a global initiative uniting more than 100 influential businesses committed to 100% renewable electricity, that aim to create a united corporate voice to influence countries' policy to open markets. However, in some smaller Asian markets, our electricity consumption is too small for projects to be economically viable, and therefore we will look to partner with other companies for a collaborative solution. By finding solutions to problems our customers and other companies face, we are in turn solving our own similar challenges, and *vice versa*.

29%

signed renewable electricity from power purchase agreements (2017: 27%)

Our waste challenge

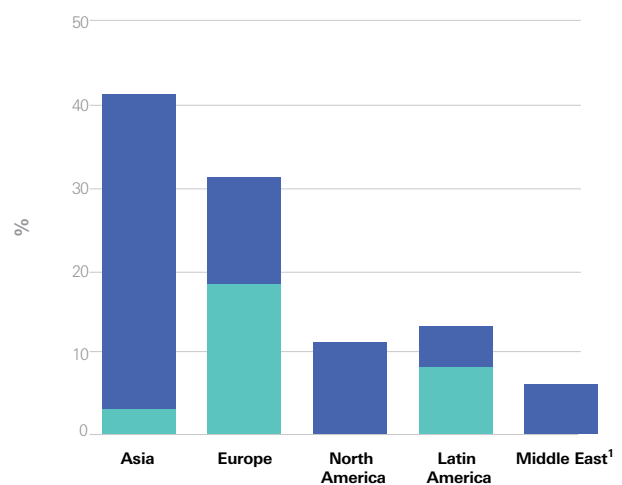
Our 2020 target was to reduce our total waste by 50% from our 2011 baseline. This was achieved in 2015, and then stretched to reduce by 75% from this 2011 baseline. At 2018, we had reduced total waste by 63%.

Our recycling target is for 100% of our office and electronic waste to be recycled by 2020. Since 2011, we have recycled 61% of our office waste.

We are progressing well on our waste reduction target, however our recycling goal will be a challenge to achieve. As we continue to reduce our total waste, it becomes increasingly challenging to increase or maintain recycling levels.

With differences within cities and buildings, we continue to address the waste challenge by finding ways to reduce waste, segregate and recycle. Most importantly, we continue to engage with our employees to better explain and further educate on local waste and recycling challenges.

Breakdown of electricity consumption by region 2018 (%)

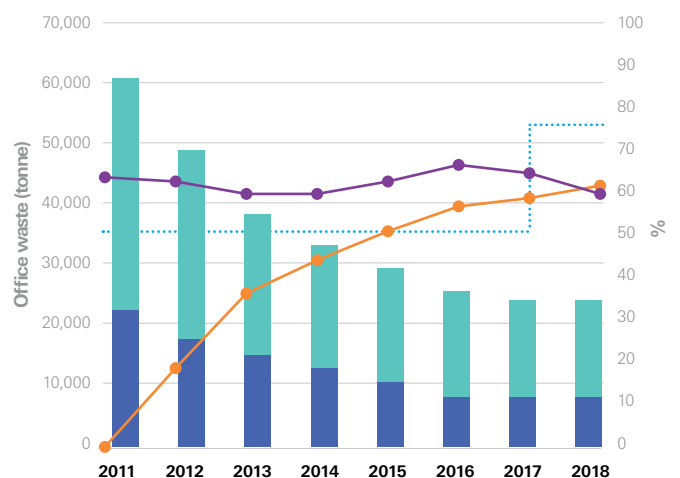


Key:

- Renewable electricity sourced through PPA
- Other electricity

1. Middle East includes Turkey.

Waste reduction and recycling (tonnes and percentage)



Key:

- Office waste recycled
- Office waste not recycled
- % reduction of office waste from 2011 baseline
- % of office waste recycled
- 2020 target was set at 50% until 2017, when the target was stretched to 75%

Committed to communities

Our approach to partnerships

We have a responsibility to invest in the long-term prosperity of our global communities. In 2018, we contributed \$105 million to charities and non-profit organisations running community projects around the world. These initiatives are run through partnerships that support responsible business, and help develop employability and financial capability skills. We also help our leaders across our network support important local causes.

Helping to build future skills

In a world of rapidly changing technology and wealth inequality, new skills are needed to succeed. That is why we are focusing on increasing employability and financial capability for our customers, employees and communities.

In 2018, we delivered more than 1,000 Your Financierge financial well-being seminars in the US, UK, Mexico, Singapore and Australia, reaching over 26,000 people including over 2,100 HSBC employees. We also ran three international campaigns, sharing money management challenges and tips.

As part of our contribution to charities and non-profit organisations, we donated more than \$8.9 million to partnerships focused on increasing financial capability, which are projected to benefit more than 850,000 people. Our people volunteered with many of these initiatives. In recognition of our work improving financial literacy, our Hong Kong business won a Financial Education

Champion award from the Investor Education Centre. We donated more than \$27 million to charities and non-profit organisations to support partnerships focused on increasing employability, which are projected to benefit more than 400,000 people.

To support the important conversation on the future of work in a more automated society, three of our senior leaders joined steering committees for the World Economic Forum's System Initiative on Shaping the Future of Education, Gender and Work.

▶ For more information on our how we support our employees to develop their skills, see page 25.

▶ For more information on how we are increasing customer financial capability, see pages 11 and 44.

Supporting supply chain sustainability

We provide support for sustainable supply chains through charitable programmes in certain sectors. Here we report on our progress against these initiatives.

Textiles and apparel

In 2015, greenhouse gas emissions from textiles production totalled 1.2 billion tonnes of CO₂ equivalent, which was more than those of all international flights and maritime shipping combined.¹ We have established partnerships with the Apparel Impact Institute, WWF and WaterAid to improve the environmental and social sustainability of the apparel supply chain. These are focusing on mill, leather tannery and

>1.2 million

people projected to benefit from financial capability and employability programmes funded in 2018

factory improvements in China, India, Bangladesh and Vietnam. With our support, we expect to help 850 facilities to improve their environmental and social impact by the end of 2020. In 2018, through our support for WWF in China, 113 supplier companies were engaged directly to improve sustainability standards.

Palm oil

To help address the sustainability impacts of palm oil production, we launched a new programme with WWF in 2018 to deal with the challenges related to the supply and demand for certified sustainable palm oil in Asia. This programme will support research and collaboration to remove barriers to flows of certified sustainable palm oil. It will aim to demonstrate what is possible in the shift to sustainability in the sector, in line with our no deforestation, peat or exploitation commitment. For more information on our engagement on palm oil, see page 29.

1. Ellen MacArthur Foundation, *A new textiles economy: Redesigning fashion's future*. (2017, www.ellenmacarthurfoundation.org/publications).

Case study: Building financial capability with the Mann Deshi Foundation

Mann Deshi was set up by Chetna Gala Sinha as the first rural bank in India to provide a space for women to save, and get affordable and easy access to credit. Since 1996, more than 90,000 women have set up accounts with over \$13 million in deposits. The Mann Deshi Foundation was also set up to supplement the bank by providing access to financial education, skills and a support network for rural women.

We have been working with the Mann Deshi Foundation since 2006, supporting it to deliver training to rural women on making and managing money. The focus has been on delivering meaningful outcomes. Through HSBC-supported programmes, more than 40% of participants had improved levels of financial capability, over 20% of participants had set up their own new businesses, and over 60% experienced an improved standard of living.

Our approach to partnerships continued

Our corporate volunteering

We operate across 66 countries so when our employees volunteer their time and expertise, we can have a truly global impact. We are committed to helping our people contribute to their communities, and we encourage volunteering through paid volunteering days. In 2018, our employees gave 264,000 hours to community activities during work time. This represented a decrease from 2017 (272,000 hours), although the average amount of time contributed per FTE remained broadly consistent.

We expect to help

850

facilities to improve their environmental and social impact by the end of 2020

As well as benefiting the communities we serve, volunteering can bring great personal rewards, enabling people to build connections, develop new skills, and gain a fresh perspective.

264,000

hours our employees volunteered to community activities during working hours in 2018

We organise volunteer opportunities that help enable our people to address challenges within the community, including developing employability and financial capability skills needed to succeed in the future. We also support our people organising their own volunteering initiatives and involving colleagues. Personal employee-led volunteering is actively encouraged and currently accounts for a third of the volunteering in which our people participate.

Supporting disaster relief efforts

As part of our community programme, we provide money to support disaster relief based on need. We ensure we listen to our local colleagues and support the best-placed charities on a case-by-case basis. We provide support and disaster relief to many areas during catastrophic events such as fires, floods, tsunamis and hurricanes.

Case study: HSBC Living Business programme

The HSBC Living Business programme supports the development of sustainable supply chains. It provides a learning platform for small and medium-sized enterprises ('SMEs') to understand industry best practice, and it recognises organisations adopting new approaches. Through partnerships with customers, NGOs and other stakeholders, we are helping businesses to transition to more sustainable supply chain models. Since 2018, ESG and UN Sustainable Development Goals have been introduced to the programme for enhancing the international growth and connectivity of SMEs.

Our approach to the UN Sustainable Development Goals

The United Nations ('UN') Sustainable Development Goals ('SDGs') are 17 goals and 169 targets to be achieved by 2030. These SDGs are a call to action to protect the planet, end poverty, and ensure peace and prosperity. Achieving the goals requires partnerships between governments, the private sector and civil society.

We have a responsibility to contribute to this globally agreed framework for action. By aligning our values, conduct and business activity, the SDGs set the context for our long-term ambition. Material areas are disclosed as part of this *ESG Update* in line with the reporting guidance in the practical guide published by UN Global Compact and Global Reporting Initiative¹.

In the adjacent graphic, we have highlighted the six SDG targets we prioritise for their close

alignment to our strategy. We will contribute to these through our financing and investments, as well as how we conduct business and operate.

Demonstrating our support of the goals we have issued two SDG bonds, with the proceeds being used to support projects that offer broad social, economic and environmental benefits as aligned to seven selected SDG goals. Further details, including the framework and the bonds' first impact reports may be found on www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds.

1. We are a corporate member of a UN Global Compact and Global Reporting Initiative-led corporate Action Platform Reporting on the SDGs. The guide is available at www.globalreporting.org/resource/library/GRI_UNGC_Reporting-on-SDGs_Practical_Guide.pdf.





A responsible business culture

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

At a glance

Our relationship

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

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

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

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

Corporate governance



10

executive and non-executive committee meetings where sustainability was discussed

(2017: 5)

35%

women on the Board

(2017: 29%)



Safeguarding the financial system



>658 million

transactions across 207 million accounts that we screen each month for signs of money laundering and financial crimes

Protecting human rights



At HSBC we recognise the duty of states to protect human rights and the role played by business in respecting them, in line with the UN Guiding Principles' Protect, Respect and Remedy framework

A responsible approach to tax



\$7.0bn

taxes paid in 2018

(2017: \$6.8bn)

\$7.6bn

taxes collected on behalf of governments

(2017: \$8.1bn)



Restoring trust

Restoration of trust in our industry remains a significant challenge as past misdeeds continue to remain 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 employees to ensure they can be rightly proud of the organisation where they work. We aim to act with courageous integrity in all we do. This guiding principle means having the courage to make decisions based on doing the right thing for customers and never compromising our ethical standards or integrity.

We have also sought to learn from past mistakes, such as the following three examples, and we are seeking to develop and implement specific measures designed to prevent recurrence of similar events in the future.

Anti-money laundering and sanctions

Between the 1990s and 2010, as acknowledged by HSBC in various agreements with US and UK authorities in 2012, HSBC failed to implement appropriate anti-money laundering ('AML') and sanctions controls. These oversight and control failures resulted in HSBC allowing at least \$881 million in drug proceeds to be laundered through HSBC into the US financial system and approximately \$660 million in transactions involving sanctioned countries, such as Iran, Cuba, Sudan, Libya and Burma, to be processed, in violation of applicable US laws.

In December 2012, HSBC 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), regarding these past AML and sanctions-related failings. 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 undertook various further obligations, including the retention of an independent compliance monitor.

Over the past several years, we have radically restructured our global operations and significantly strengthened our ability to combat financial crime.

We recognise that we have a 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 much more effectively reduce the risk of financial crime.


In 2012, we launched our Global Standards initiative, focused on putting in place the most effective standards to combat financial crime across our operations globally. As part of this effort, we designed and implemented new, globally consistent policies on AML and sanctions that often extend beyond the requirements of local laws and regulations. Since 2013, we also established a Financial System Vulnerabilities Committee ('FSVC') to oversee our financial crime risk management reforms. The FSVC reports to the Board on matters relating to financial crime and financial system abuse, and provides a forward-looking perspective on financial crime risk, anti-bribery and corruption.

Among other steps, we hired experienced senior personnel to lead the effort and significantly increased our financial crime compliance capabilities; we put in place a robust investigations capability; we improved and expanded our financial crime compliance training initiatives; and we upgraded or replaced key compliance IT systems, with over \$1bn spent since 2015.

Beyond these improvements, as part of our commitment to protect the integrity of the financial system, and to do our part to fight financial crime, we continue to enhance our systems and are working to integrate our reforms into our day-to-day risk management practices so that our programme is effective and sustainable over the long term. We are also renewing our focus on anti-bribery and corruption as part of a dedicated three-year programme to advance the Group's anti-bribery and corruption risk management capability. As part of our commitment to the UN Global Compact, we have pledged to work against corruption in all its forms, including extortion and bribery.

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. 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.

Over the coming years, we aim to evolve significantly our approach to financial crime risk management by building advanced analytical capabilities, including artificial intelligence, designed to help us target illicit conduct with greater sophistication and precision. This will help us make a step change in our effectiveness at fighting financial crime and set a new standard that aims to lead the industry. We expect to be faster and more accurate at detecting potential financial crime and ever more targeted in our risk assessments. We expect to generate actionable insight that we can use ourselves and provide to law enforcement to help keep criminals out of the financial system. This will benefit the Group, our customers and society at large.

 For further information about our compliance initiatives, see page 41.

Customer tax evasion

Prior to 2011, our Swiss private bank provided its customers with standard services, common in the Swiss banking industry at the time, which enabled 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 while it had access to information enabling it to know, or

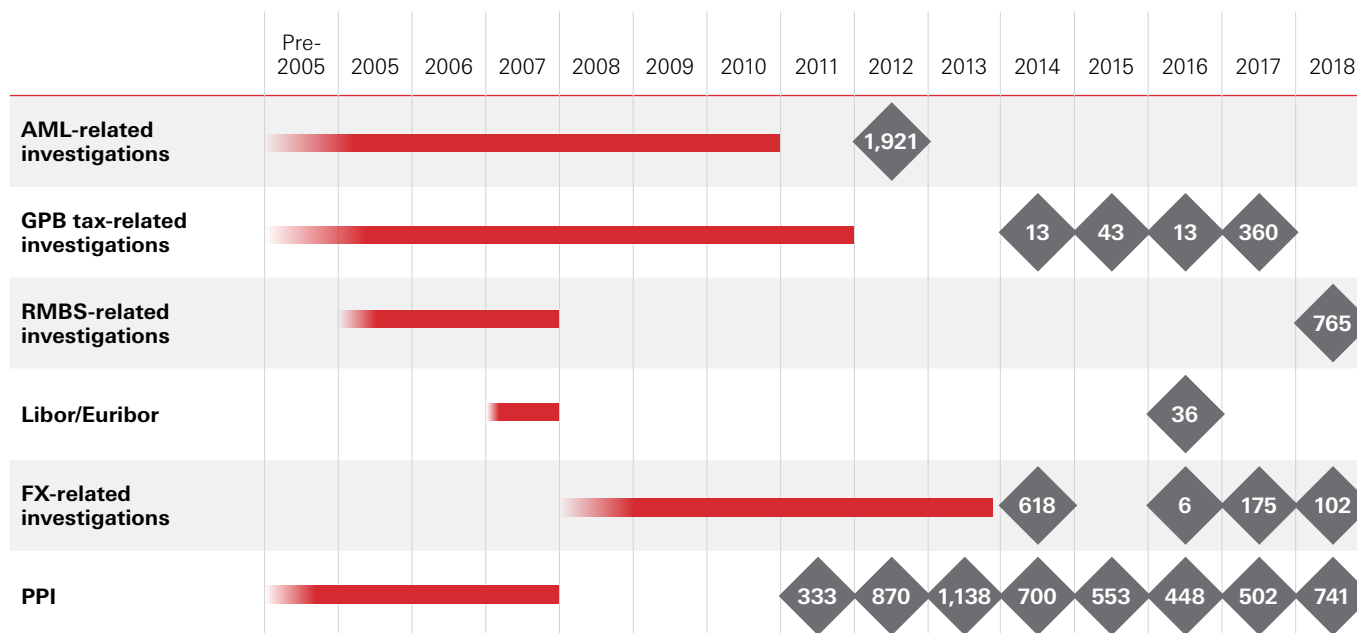
to suspect, that certain customers would use those services in order to conceal their assets from tax authorities.

While HSBC has reached agreements with certain law enforcement authorities to resolve investigations relating to allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation arising out of these past practices, the Group continues to cooperate in ongoing investigations by other tax administration, regulatory and law enforcement authorities around the world in connection with similar allegations. We acknowledge that the compliance culture and standards of due diligence in our Swiss private bank were significantly lower in 2006 and 2007 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 Global Private Banking ('GPB') business has taken significant steps to address these historical control weaknesses, most notably in Switzerland. Beginning in 2012, GPB 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

Major criminal and regulatory fines and penalties and PPI remediation¹



Key
■ Duration of conduct period \$m Fines/penalties/other costs

1. This chart only includes fines and penalties arising out of major investigations involving criminal, regulatory, competition or other law enforcement authorities, and costs relating to PPI remediation. The chart reflects the year in which a fine or penalty was imposed or when the remediation cost was paid, which may be different from when a loss or provision was recognised under IFRSs. Settlements or other costs arising out of private litigation or arbitration proceedings are not included.

and could not be resolved. GPB has also amended its standard terms and conditions, which 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, GPB 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.

34

strategic markets that our GPB business focuses on, down from more than 140 as a result of de-risking

As a result of these reforms, the number of accounts and total customer assets of GPB have been significantly reduced by this intensive de-risking exercise, where we have put compliance and tax transparency ahead of profitability. Where we used to offer banking services to customers in more than 140 countries, GPB now focuses on 34 strategic markets, with customer assets actively managed down by \$140bn between 2013 and 2018.

While GPB has resolved a number of legacy issues relating to the past, investigations into former practices are ongoing in a number of countries at the time of publication. In addition, we acknowledge that GPB's role in providing financial services to high-profile individuals may sometimes result in GPB receiving undue media attention.

▶ For further information about our Global Private Banking customers, see pages 16 and 17.

Foreign exchange conduct

Prior to 2013, our foreign exchange ('FX') business lacked adequate governance, oversight and risk management in order to ensure compliance with safe and sound banking practices and applicable internal policies. 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.

In November 2014, HSBC agreed to regulatory settlements with the FCA and the US Commodity Futures Trading Commission in connection with their respective investigations of HSBC's trading and other conduct involving FX benchmark rates. In September 2017, HSBC entered into a consent order with the US Federal Reserve Board ('FRB') in connection with its investigation into HSBC's FX activities. Under the terms of that order, HSBC agreed to undertake certain remedial steps and to pay a civil money penalty to the FRB. In January 2018, HSBC Holdings plc entered into a three-year deferred prosecution agreement with the DoJ ('FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011.

Since the historical conduct described in these agreements, we have introduced a number of measures designed to make the control environment more robust and prevent these failings from recurring in the future. We have dedicated, and continue to dedicate, significant resources to strengthen our systems and controls. While the investigations focused specifically on our FX activity, they have also given us good reason to look again at other aspects of our conduct more broadly within the Global Banking and Markets ('GB&M') business.

Improvements to our conduct agenda started more than four years ago and

continue to this day. We are enhancing and accelerating progress made in strengthening and remediating our systems and controls and broader compliance culture through a newly established GB&M Conduct Committee, led by our GB&M Chief Executive Officer. Market experts are providing input. The agenda 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. Progress is being tracked and reported through our own governance channels, as well as being reported to the FRB, DoJ and our regulators in line with our agreements with them all.

Conduct is core to how we operate and manage our business. We have already implemented improvements to algorithmic trading to manage risk around benchmark orders, and updated our policies for sales, order handling, managing confidential customer information and conflicts of interest, pre-hedging and market abuse. In 2018, we introduced further improvements to the management of sensitive information through physical barriers, technology controls and procedures. We have also continued to invest in enhancing our voice, trade and electronic surveillance capabilities across the globe to improve the monitoring of telephone calls, instant messages and trades to spot potentially improper activity. Global and regional conduct governance forums have been created to provide supervision and oversight over the implementation and effectiveness of our conduct agenda. An extensive plan is in place, and we aim to deliver this as fast and efficiently as we can. Our success will determine how well we deliver the right outcomes for our customers and stakeholders, consistently and reliably, for many years to come.

▶ For further information about our Global Banking and Markets customers, see pages 14 and 15.

Ensuring strong corporate governance

We are committed to high standards of corporate governance across the Group. A comprehensive statement on our corporate governance practices is set out on pages 152 to 213 of our *Annual Report and Accounts 2018*.


The role of the Board

The Board of HSBC Holdings plc aims to promote the Group's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate. Led by the Group Chairman, the Board sets the Group's strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives on the recommendation of management.

The majority of the Board comprises independent non-executive Directors. Their role is to challenge and scrutinise the performance of management and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor the Group's risk profile. During 2018, the Board reduced the number of Board committees from seven to five. These changes created clearer and stronger lines of authority and accountability, which enable the Board to devote more time to priority areas.

Board diversity

In 2018, the Board's diversity and inclusion policy was updated to help ensure HSBC and its various stakeholders continue to benefit from a Board that includes Directors from a range of different backgrounds and whose ethnicity, experience, age, geographical provenance and gender more closely reflect the diversity of our customers and the communities that we serve. The Board diversity and inclusion policy is available at www.hsbc.com/our-approach/corporate-governance/board-responsibilities.

 For further details on our diversity and inclusion efforts, see page 24.

Shareholder engagement

We welcome enquiries from individuals on matters relating to their shareholdings and HSBC's business. Communication with shareholders is given a high priority by the Board, and there is regular dialogue with institutional investors. Directors are also encouraged to develop an understanding of the views of major shareholders. As Senior Independent Director, Jonathan Symonds is available to shareholders if they have concerns that cannot be resolved or for which normal channels would be inappropriate. He may be contacted via the Group Company Secretary at 8 Canada Square, London E14 5HQ.

Extensive information about HSBC and its activities is provided to shareholders in the *Annual Report and Accounts 2018*, the *Strategic Report* and the *Interim Report* as well as at www.hsbc.com.

Corporate governance regulatory changes

In July 2018, the Financial Reporting Council published the new UK Corporate Governance Code ('Code') together with the revised Guidance on Board Effectiveness. The new Code places greater emphasis on how the Board considers the interests of all stakeholders in its discussions and decision making, and promotes a strong internal culture. We see the new Code as an opportunity to further enhance our existing stakeholder engagement, ensuring that the business as a whole can continue to develop constructive and considerate relationships. We aim to include details of this in the *Annual Report and Accounts 2019*.


Sustainability governance

While the Board has oversight of the Group's sustainability and ESG initiatives, the Group Management Board is accountable for their delivery, reflected in sustainability targets within the long-term incentive scorecards for executive Directors, and selected scorecards of Group Managing Directors. The 2017 long-term incentive scorecards of executive Directors incentivise achieving a cumulative financing and investment target of \$30bn to \$34bn for developing clean energy and lower-carbon technologies and projects that contribute to the delivery of the Paris Agreement and the UN Sustainable Development Goals over the three-year period to 31 December 2020. The 2018 long-term incentive scorecards of executive Directors include an ESG rank measure incentivising achievement of 'Outperformer' Sustainability rating.

As discussed in our TCFD disclosure on page 30, the Board receives a half-yearly sustainability update, covering topics such as progress against the three sustainability pillars and non-governmental organisation ('NGO') engagement. This helps ensure our sustainability agenda remains prominent at the most senior levels.

Our Climate Business Council coordinates sustainable finance activities across the Group, supported by various working groups within global businesses, functions and regions. An ESG Steering Committee, chaired by the Group Chief of Staff, leads our approach on ESG topics, including considerations related to external disclosure and materiality.

A climate risk working group was established in 2018, which seeks to implement the objectives of the Climate Business Council through the development of policy and limit frameworks designed to protect the Group from climate-related risks (including transition risk and physical risks) that are outside risk appetite. The Group Risk Committee is responsible for overseeing enterprise risks that have an impact on the Group, including climate risk.

 See page 30 for our TCFD disclosure.

Safeguarding the financial system

We continued to consolidate our progress in tackling financial crime while launching initiatives in a number of new areas.

Our Global Standards programme, launched in 2013 to upgrade our financial crime controls, is now approaching its conclusion. During 2018, we concentrated on completing some of the final elements of the programme designed to ensure management of financial crime risk is well embedded in our day-to-day activities, with robust governance and reporting to enable performance to be assessed.

In June, we set out new strategic priorities including the aim of delivering industry-leading financial crime standards. Developing an intelligence-led approach to financial crime risk management using new technologies and advanced analytical techniques is key to achieving this ambitious target. We made good progress on this agenda and will continue to develop our approach in 2019 and beyond.

We launched an anti-bribery and corruption transformation programme, to enhance the policies and controls around identifying and managing these risks across the Group. We also launched a transformation programme to strengthen our ability to fight fraud and protect our customers.

▶ For more information on our Global Standards and anti-bribery and corruption programmes, see pages 37 to 39.

The scale of our work

Each month, we screen over 658 million transactions across 207 million accounts for signs of money laundering and financial crime. In addition, we screen approximately 130 million customers and 37.3 million transactions monthly for sanctions exposures. During 2018, we filed over 85,000 suspicious activity reports to law enforcement and regulatory authorities where we identified potential financial crime.



Technology

Technologies such as artificial intelligence ('AI') and advanced analytics will enable us to tackle financial crime more effectively. Our approach combines developing our own technology solutions with bringing in the best external technology.

Our investment in a start-up company called Quantexa enabled our investigators in 2018 to deploy a new software system to spot financial crime networks in near real time by looking at internal and external data to find possible links between individuals or companies. Working with another fintech company, Caspian, we have developed a system that assembles all the relevant information on a particular suspicious transaction. It then uses AI to recommend whether it should be investigated further, enabling our people to focus on the highest priority cases.

Our flagship intelligence-led initiative is a new approach that combines a range of data sources to dynamically assess the potential financial crime risk that an individual customer presents. We believe it will enable us to be faster and more accurate at detecting suspicious activity and more granular in our risk assessments. During 2018, we developed a prototype that, while at an early stage, has proved to be markedly better at finding potential financial crime than existing industry-standard methods. We will begin to implement it in 2019, alongside existing systems. We continue to engage with regulators on our approach.



Partnerships

The insights delivered by new technology will have the greatest impact when we work with partners. Public-private partnerships enable banks to share information with each other, regulators and law enforcement. We are a member of all six public-private financial crime partnerships that have been established around the world. Through our membership we can provide better insight about suspicious transactions to law enforcement and receive intelligence that helps us to better target our work in detecting financial crime.

We continue to advocate for partnerships in other jurisdictions and for the effective operation of existing partnerships, including sponsoring public research into the future of financial intelligence sharing due to be released in 2019.



Society

During 2018, we successfully trialled an approach to providing victims of human trafficking in the UK with monitored retail banking facilities, working closely with charities that provide support to victims. The aim is to help the victims reintegrate with society and break the cycle of abuse. The accounts were trialled through a small number of branches and we will now make them available in other areas of the UK.

Financial crime can have a devastating impact on the societies that we serve, and we have taken active steps to reduce that impact. In October, we joined the task force established by United for Wildlife to coordinate financial firms tackling the illegal wildlife trade by helping prevent the flow of illicit profits. Members of the task force signed up to a declaration that commits them to steps such as providing intelligence about the trade to regulatory bodies and law enforcement agencies.

Keeping a responsible approach to tax



We seek to pay our fair share of tax in the jurisdictions in which we operate and to minimise the likelihood of customers using our products to avoid or evade tax. Our approach to tax and governance processes is designed to achieve these goals.

We have established a formal tax risk management framework, which is designed to ensure that tax-motivated transactions or products are not adopted by the Group. Significant investment has been made to strengthen our tax risk processes and train staff to identify instances of potential tax evasion. There remain areas where further improvements are required and we are working to address these.

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 in all jurisdictions in which we operate. This includes adherence to a variety of measures arising from the OECD Base Erosion and Profit Shifting ('BEPS') initiative.

- We seek to have open and transparent relationships with all tax authorities. As with any group of our size and complexity, a number of areas of differing interpretation or disputes with tax authorities exist at any point in time. We work with the local tax authorities to try to agree and resolve these in a timely manner.

- We have reduced the number of legal entities located in very low or nil tax jurisdictions from 121 at the beginning of 2015 to 46 by the end of 2018. This process will continue throughout 2019 and 2020, with the aim of ensuring that the HSBC entities remaining in such jurisdictions are regulated entities essential for conducting business.

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

- We have made considerable investment implementing processes designed to increase transparency and reduce the risk of banking services being used to facilitate customer tax evasion and

financial crime. These processes incorporate requirements arising from external tax transparency initiatives including the US Foreign Account Tax Compliance Act, the OECD Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard'), and the UK legislation on the corporate criminal offence of failing to prevent the facilitation of tax evasion.

- We have processes in place to help ensure that tax-motivated products are not provided to our customers.

For further details on our approach to financial crime and what steps we have taken, see pages 37 to 39.

Our tax contributions

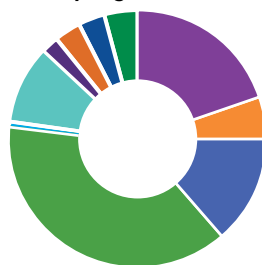
As highlighted below, in addition to paying \$7.0bn of our own tax liabilities during 2018, we collected taxes of \$7.6bn on behalf of governments around the world. A more detailed geographical breakdown of the taxes paid in 2018 is provided on page 65 of the HSBC Holdings plc *Annual Report and Accounts 2018*.

Taxes paid – by type of tax



| | |
|--|--|
| \$3,141m Tax on profits (2017: \$2,896m) | \$276m Withholding taxes (2017: \$236m) |
| \$1,068m Employer taxes (2017: \$1,178m) | \$1,135m Bank levy (2017: \$1,021m) |
| \$1,074m Irrecoverable VAT (2017: \$1,102m) | \$360m Other duties and levies (2017: \$364m) |

Taxes paid – by region



| | |
|---|--|
| \$1,398m Hong Kong (2017: \$1,043m) | \$384m India (2017: \$297m) |
| \$960m Rest of Asia-Pacific (2017: \$938m) | \$2,693m UK (2017: \$2,654m) |
| \$13m Switzerland (2017: (\$67m)) | \$693m Rest of Europe (2017: \$753m) |
| \$162m US (2017: \$134m) | \$237m Rest of North America (2017: \$182m) |
| \$233m Middle East and North Africa (2017: \$419m) | \$281m Latin America (2017: \$443m) |

Taxes collected – by region



| | |
|---|--|
| \$162m Hong Kong (2017: \$297m) | \$122m India (2017: \$126m) |
| \$2,741m Rest of Asia-Pacific (2017: \$2,415m) | \$1,398m UK (2017: \$1,394m) |
| \$41m Switzerland (2017: \$47m) | \$820m Rest of Europe (2017: \$752m) |
| \$835m US (2017: \$823m) | \$261m Rest of North America (2017: \$263m) |
| \$118m Middle East and North Africa (2017: \$219m) | \$1,148m Latin America (2017: \$1,768m) |

Respecting human rights

Business does not exist in isolation: it is part of communities and serves the people. We recognise the duty of states to protect human rights and the role played by business in respecting them, in line with the UN Guiding Principles' ('UNGPs') Protect, Respect and Remedy framework. We have signed, or expressed support for, a number of international codes, as set out in our 2015 Statement on Human Rights.

In 2018, we set up a Human Rights Steering Committee, which is overseeing the development of our approach to human rights. This approach will incorporate new recommendations from initiatives such as the OECD's general Due Diligence Guidance for Responsible Business Conduct, published in May 2018.

We primarily reflect human rights considerations as they apply to our people, our suppliers and our customers. Some examples are provided below.

Employees

We are committed to an inclusive culture where our people can be confident that their views matter, their workplace is an environment free from bias, discrimination and harassment, and where they can see that advancement is based on merit. This commitment reflects the provisions of both the Universal Declaration of Human Rights ('the UDHR') and the International Labour Organization Declaration on Fundamental Principles and Rights at Work ('the ILO Declaration'), including freedom of association. For further details on the diversity of our workforce, see page 24.

Suppliers

We expect our suppliers to uphold human rights in carrying out their business, reflecting the UDHR and ILO Declaration principles. Our ethical and environmental code of conduct for suppliers requires them to respect the human rights of their employees and the communities in which they operate, and comply with all relevant legislation, regulations and directives. During 2018, we undertook a risk-mapping exercise to identify the most salient human rights risks in our supply chain, particularly those relating to modern slavery and human trafficking.

Customers

The principal aim of the UNGPs is to prevent human rights abuses. We seek to ensure that the financial services we provide to our customers do not result in an unacceptable impact on people or the environment. We are a signatory to the Equator Principles, which are underpinned by the International Finance Corporation's Performance Standards, and which focus on issues including land rights, child labour, forced labour, and the rights of indigenous and local communities. We work with our customers to help them improve their sustainability practices. Additionally, our financial crime teams actively seek to identify the proceeds of potential human rights abuses to inform law enforcement and take 'bad actors' out of the financial system. A case study on this is contained in our Modern Slavery Act statement.

Modern Slavery Act

Our statement under the UK's 2015 Modern Slavery and Human Trafficking Act gives details of our work in combating these particularly egregious human rights abuses. We are raising awareness with our customers in selected sectors and regions as part of our annual credit review processes. We are educating our own colleagues directly through training and indirectly through communications.

Stakeholder engagement

We remain committed to developing our approach to managing human rights risks as they affect rights holders. We attended the UN Business and Human Rights Forum in November 2018 and continued our involvement with the Thun Group, an informal group of bank representatives that provides guidance on how the UNGPs should be applied across banking activities. We support the UN Global Compact's promotion of sustainable and socially responsible policies, and participate in the UK Chapter's Modern Slavery Act working group.

In 2018, we had contact with five civil society groups where human rights abuses were raised. These abuses were alleged to have been committed by HSBC customers. We investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. If required, particularly serious issues ultimately pass to the Group Management Board.

Supporting financial inclusion

We believe that the global economy is better served by customers being part of the regulated financial system. In support of this, we carried out a number of initiatives in 2018 to increase access to financial services. Our approach to financial inclusion is focused on engaging with partners to raise industry standards; improving accessibility of products and services; and investing in educational content.

We acknowledge that increasing financial inclusion is a continuing effort, and there are a number of initiatives we will be focusing on in 2019. These include:

- implementing the UK Finance Financial Abuse Code of Practice, which aims to increase awareness for victims, potential victims, families and colleagues to recognise the signs of financial abuse and to offer support where needed; and
- launching our Age Friendly Banking initiative in Hong Kong to assist seniors to better understand key concepts and services such as third-party carer banking, digital banking and scam prevention.

Engagement with partners

We work with trade associations, governments and regulators to identify barriers to financial inclusion and find ways to improve standards and share best practice. For example, in 2018:

- We chaired trade body UK Finance’s Financial Inclusion and Capability working group and were involved with its Vulnerability sub-group; we were part of a cross-Whitehall working group, which brings together the government, banks and policymakers to develop strategies on how UK banks can safely transfer

funds to high risk and sanctioned jurisdictions; and we provided organisational and staffing support, including the chairmanship, to the UK Financial Inclusion Commission.

- In Asia-Pacific we hosted an insurance industry event as part of the annual Out Leadership summit, where we shared changes made in our business to recognise modern family relationships, and encouraged the industry to become more inclusive in their products and services.

Access to products and services

We believe that diversity helps us to fulfil our potential. We apply this philosophy to our products and channels to help ensure they are inclusive and accessible for individuals and SMEs. To deliver this in 2018:

- We improved our digital accessibility in 10 of our retail banking markets, so that more customers can access online banking. We also made physical services more accessible by starting a ‘barrier-free banking’ programme in Hong Kong to upgrade our branch and ATM networks.
- We offered low- or no-fee banking services in selected markets for individuals who may not qualify for our products. These services are provided through basic accounts or waivers of minimum balance requirements.
- We expanded the beneficiary definitions of our life insurance policies in Hong Kong to recognise a broader range of

family relationships such as stepchildren and same-sex couples.

- We helped people experiencing cognitive decline access and maintain banking services through our Independence Service initiative in the UK, and through our new Living with Dementia programme in Hong Kong.
- We expanded the use of third-party alliances in Mexico so our customers now have 10% more locations where they can deposit cash and pay bills.
- We announced a £12bn fund to lend to SMEs in the UK, and continued to be a shareholder in BGF Group plc (‘BGF’), formerly the Business Growth Fund. BGF provides patient equity capital to support SMEs across the UK and Ireland. In 2018, the Canadian Business Growth Fund, which we helped to promote and in which we are an investor, made its first investments.

Access to financial education content

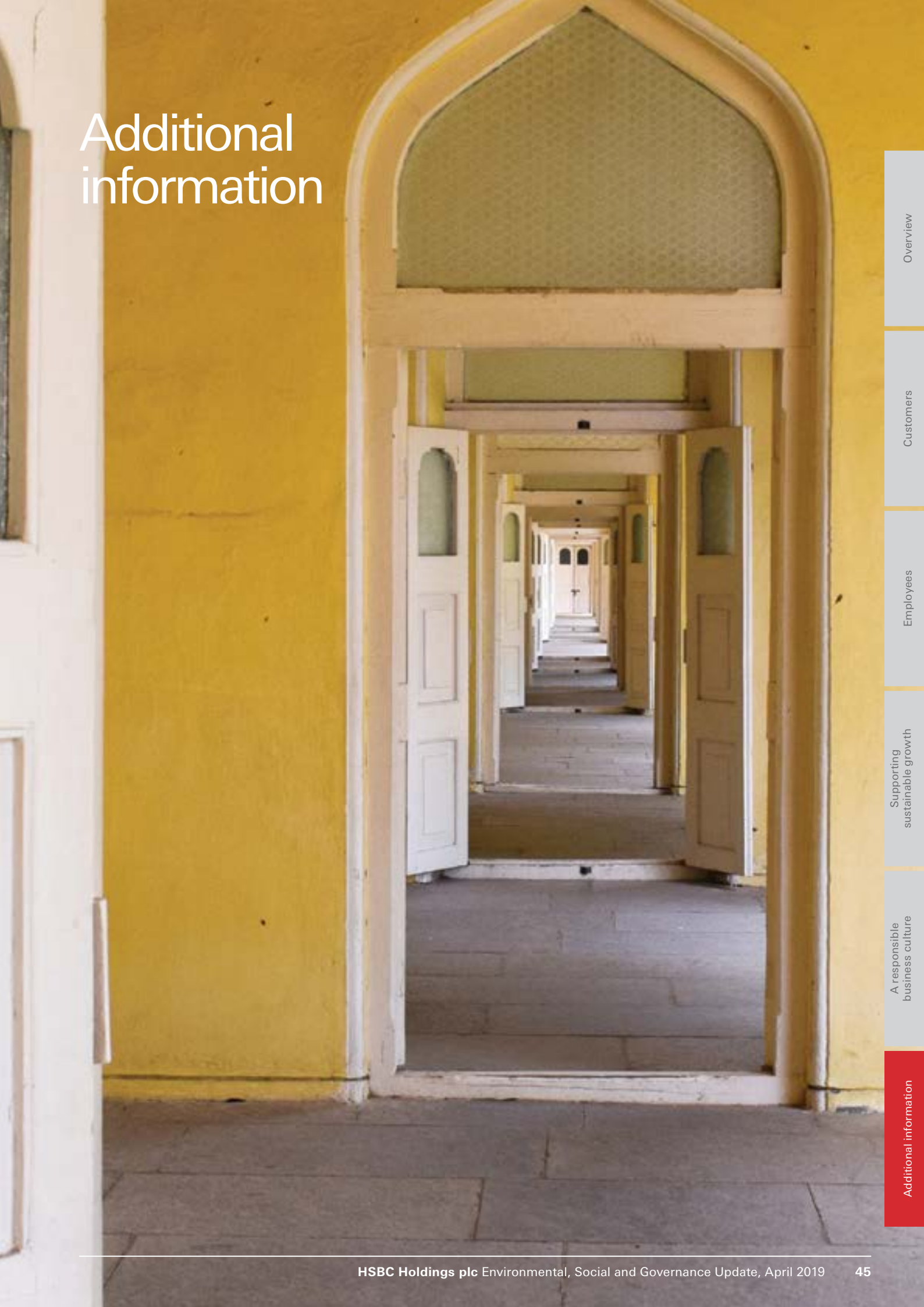
We believe that in order for people to access and make the most of financial services they need to understand how to use them effectively to establish and grow their wealth. To deliver this in 2018:

- We delivered more than 1,000 financial well-being seminars in the US, UK, Mexico, Singapore and Australia, reaching more than 26,000 people including more than 2,100 HSBC

employees, as part our RBWM’s Your Financierge service.

- We began refreshing the content we share on our public websites, including introducing guides to modern money on our UK site.
- We launched an online platform in the US with EVERFI to help our customers and communities better understand day-to-day money management and preparing for the future.

Additional information



Overview

Customers

Employees

Supporting sustainable growth

A responsible business culture

Additional information

Cautionary statement regarding forward-looking statements

This *ESG Update* may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position, strategy and business of the Group, which can be identified by the use of forward-looking terminology such as 'may', 'will', 'should', 'expect', 'anticipate', 'project', 'estimate', 'seek', 'intend', 'target' or 'believe' or the negatives thereof or other variations thereon or comparable terminology (together, 'forward-looking statements'), including the strategic priorities and any financial, investment and capital targets described herein. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements, which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will

actually occur or will be realised or are complete or accurate. Certain of the assumptions and judgements upon which forward-looking statements regarding strategic priorities and targets are based are discussed under 'Targeted Outcomes: Basis of Preparation', available separately from this *ESG Update* at www.hsbc.com. The assumptions and judgements may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those that are referable to general market conditions or regulatory changes). Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group

at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update, revise or supplement them if circumstances or management's beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein.

Additional detailed information concerning important factors that could cause actual results to differ materially from this *ESG Update* is available in our *Annual Report and Accounts 2018* for the fiscal year ended 31 December 2018 filed with the Securities and Exchange Commission ('SEC') on Form 20-F on 20 February 2019.

Non-GAAP financial information

This *ESG Update* contains non-GAAP financial information. The primary non-GAAP financial measures we use are presented on an 'adjusted performance' basis, which is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and

significant items, which distort period-on-period comparisons. Significant items are those items that management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business.

Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in our *2018 Form 20-F* and the corresponding *Reconciliations of Non-GAAP Financial Measures* document, each of which are available at www.hsbc.com.

Abbreviations

| Currencies | |
|---------------------|---|
| £ | British pound sterling |
| \$ | United States dollar |
| A | |
| AI | Artificial intelligence |
| AML | Anti-money laundering |
| AML DPA | Five-year deferred prosecution agreement with the US Department of Justice, entered into in December 2012 |
| C | |
| CET1 ¹ | Common equity tier 1 |
| CMB | Commercial Banking, a global business |
| D | |
| DoJ | US Department of Justice |
| DPA | Deferred prosecution agreement |
| E | |
| ESG | Environmental, social and governance |
| ESG Guide | 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 |
| EU | European Union |
| Euribor | Euro interbank offered rate |
| F | |
| FCA | Financial Conduct Authority (UK) |
| FRB | Federal Reserve Board (US) |
| FSVC | Financial System Vulnerabilities Committee |
| FTE | Full-time equivalent staff |
| FX | Foreign exchange |
| FX DPA | Three-year deferred prosecution agreement with the US Department of Justice, entered into in January 2018 |
| G | |
| GAAP | Generally accepted accounting principles |
| GB&M | Global Banking and Markets, a global business |
| GCB | HSBC's global career band structure |
| GDPR | General Data Protection Regulation |
| GLCM | Global Liquidity and Cash Management |
| Global Markets | HSBC's capital markets services in Global Banking and Markets |
| GMB | Group Management Board |
| GPB | Global Private Banking, a global business |
| Group | HSBC Holdings together with its subsidiary undertakings |
| GSS | Green, social and sustainable |
| H | |
| HMRC | HM Revenue and Customs |
| Hong Kong | Hong Kong Special Administrative Region of the People's Republic of China |
| HOST | HSBC Operations Services and Technology |
| HSBC | HSBC Holdings together with its subsidiary undertakings |
| HSBC Holdings | HSBC Holdings plc, the parent company of HSBC |
| HSBC UK | HSBC UK Bank plc |
| I | |
| IEPS | International Education Payment Solution |
| IFRSs | International Financial Reporting Standards |
| The ILO Declaration | International Labour Organization Declaration on Fundamental Principles and Rights on Work |
| J | |
| Jaws | Adjusted jaws measures the difference between the rates of change in adjusted revenue and adjusted operating expenses. |
| K | |
| KYC | Know your customer |
| L | |
| LEED | Leadership in Energy and Environmental Design |
| LGBT+ | Lesbian, gay, bisexual and transgender. The plus sign denotes other non-mainstream groups on the spectrums of sexual orientation and gender identity |
| Libor | London interbank offered rate |
| M | |
| Mainland China | People's Republic of China excluding Hong Kong |
| N | |
| NDPE | No deforestation, no peat, and no exploitation |
| NGO | Non-governmental organisation |
| P | |
| PPA | Power purchase agreement |
| PPI | Payment protection insurance |
| PRA | Prudential Regulation Authority (UK) |
| R | |
| RBWM | Retail Banking and Wealth Management, a global business |
| RMBS | Residential mortgage-backed securities |
| RMM | Risk Management Meeting of the Group Management Board |
| RoE | Return on equity |
| RoTE | Return on tangible equity |
| RSPO | Roundtable on Sustainable Palm Oil |
| S | |
| SDGs | United Nation's Sustainable Development Goals |
| SEC | Securities and Exchange Commission |
| SMEs | Small and medium-sized enterprises |
| SQA | Sales quality assurance |
| SRI | Socially responsible investment |
| T | |
| TCFD ¹ | Task Force on Climate-related Financial Disclosures |
| U | |
| UAE | United Arab Emirates |
| UDHR | Universal Declaration of Human Rights |
| UK | United Kingdom |
| UN | United Nations |
| UNGPs | UN Guiding Principles |
| UN PRI | United Nations Principles of Responsible Investment |
| US | United States of America |

1. A full definition is included in the glossary to the Annual Report and Accounts 2018 which is available at www.hsbc.com/investors.

Certain defined terms

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's

Republic of China is referred to as 'Hong Kong'. When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC Holdings ordinary shares and those preference shares and capital securities issued by

HSBC Holdings classified as equity. The abbreviations '\$m', '\$bn' and '\$tn' represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

Useful links

In this section, we have provided further information on HSBC's approach to ESG issues. It contains links to further content, policies and topics discussed in this document. Please visit the links to obtain a more in-depth understanding of our initiatives covering the ESG issues that may be of interest to you.

For further information on our approach and measuring our impact, see www.hsbc.com/our-approach/measuring-our-impact. On this area of our website you will find latest reports, statements and policies, including:

- Communication on progress to UN Principles for Responsible Investment
- Communication on progress to UN Principles for Sustainable Insurance
- *Environmental, Social and Governance Update, April 2017*
- *Environmental, Social and Governance Supplement, November 2017*
- Environmental policy
- Health and safety policy
- HSBC Holdings plc Board diversity and inclusion policy

- HSBC's \$100bn sustainable financing and investment commitment – data dictionary
- PricewaterhouseCoopers LLP – Assurance report for 2018 – sustainable finance
- Remuneration practices and governance
- Reporting guidelines – carbon emissions
- Statement on human rights
- Statement on climate change
- Statement on conduct
- Statement on public policy engagement
- *Strategic Report 2018*
- Sustainability memberships
- UK Gender Pay Gap 2017/2018
- Whistleblowing statement

Other relevant website links include:

- Financial Crime Risk policies (including anti-money laundering, sanctions, and anti-bribery and corruption): www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/financial-crime-risk-policies
- HSBC Centre of Sustainable Finance: www.sustainablefinance.hsbc.com

- Corporate governance (including our governance framework and board responsibilities): www.hsbc.com/our-approach/corporate-governance
- Modern Slavery Act statement: www.hsbc.com/our-approach/risk-and-responsibility/modern-slavery-act
- Sustainability Risk policies (including Equator Principles): www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk
- Green and sustainability bond frameworks and impact reports: www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds
- Working with suppliers: www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers
- Building a sustainable future (including sustainable finance and sustainable operations): www.hsbc.com/our-approach/building-a-sustainable-future
- Our approach to risk and responsibility (including health and safety and tax transparency): www.hsbc.com/our-approach/risk-and-responsibility

Photography

Employee photos: All the photos on the inside pages of this report, with the exception of the Group Chief Executive profile picture on page 2, were taken by people working for HSBC in locations including the UK, Hong Kong, Bangladesh and India. Many more employees across the Group's international network have contributed to HSBC Now Photo, an ongoing project that allows them to demonstrate their talent as photographers and show the diversity of the world around them.

Cover: Our global marketing campaign explores how HSBC helps people prosper. The Group's iconic hexagon becomes a lens through which to look at the world, showing how we help individuals, businesses and communities to grow and flourish. This includes our commitment to the development of renewable energy sources that can support the global transition to a low-carbon economy. We have pledged to provide \$100 billion in sustainable financing and investments by 2025.

Inside front cover: Moraine Lake, near Banff National Park, Canada. This picture was taken by Harsha Aruru, who works for HSBC in New York as an IT developer.

Page 7: Popinjays restaurant, Hong Kong. This picture was taken by Terry Tam, who works for HSBC in Hong Kong as an IT developer.

Pages 20/21: Pottery, district of Sylhet in Bangladesh. This picture was taken by Talukdar Noman Anwar, who works for HSBC as Head of Communications in Bangladesh.

Page 26: Thrunton Woods, Northumberland UK. This picture was taken by Ciara Jennings, who works for HSBC in the UK's digital technology team.

Page 36: Mont Blanc range in France. This picture was taken by Jo Eaton, who works for the HSBC UK Insurance department.

Page 45: The Corridor of Life, the Chowmohalla Palace in Hyderabad in India. This picture was taken by Alok Kumar Tripathy, who works for HSBC's HR Operations team in India.

Inside back cover: Cherry blossoms, South Korea, Gangwon province, Hwacheon Aquatic Resort. This picture was taken by Nicole Yau Suk Yin, who works for the department of Underwriting and Claims for HSBC Hong Kong.

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