

HSBC Holdings plc

Environmental, Social and Governance Update 2019



HSBC

Connecting customers to 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.

We aim to deliver long-term value for our shareholders through...

...our extensive international network...

We are a leading international bank, serving more than 40 million personal, wealth and corporate customers.

...our access to high-growth markets...

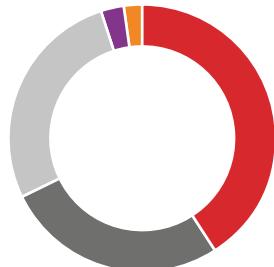
Our global footprint and market-leading transaction banking franchise provide extensive access to faster-growing markets, particularly in Asia and the Middle East.

...and our balance sheet strength.

We continue to maintain a strong capital, funding and liquidity position with a diversified business model.



Reported revenue by global business



RBWM	41%
CMB	27%
GB&M	27%
GPB	3%
Corporate Centre	2%

Total assets

\$2.7tn

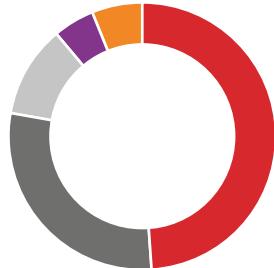
(2018: \$2.6tn)

Common equity tier 1 ratio

14.7%

(2018: 14.0%)

Reported revenue by region



Asia	49%
Europe	29%
North America	11%
Latin America	5%
Middle East and North Africa	6%

Contents

Overview

- 2 HSBC at a glance
- 4 Group Chief Executive's review
- 6 Delivering our strategy
- 8 Our approach

Customers

- 10 At a glance
- 12 Our Retail Banking and Wealth Management customers
- 16 Our Commercial Banking customers
- 18 Our Global Banking and Markets customers
- 20 Our Global Private Banking customers
- 22 Customer developments across all global businesses
- 24 Protecting our customers data

Employees

- 26 At a glance
- 28 Listening to our people
- 30 Diversity and inclusion
- 32 Well-being and developing our people

Supporting sustainable growth

- 34 At a glance
- 36 Sustainable finance
- 38 Sustainable finance commitment
- 40 Task Force on Climate-related Financial Disclosures
- 42 Our approach to sustainability risk management
- 43 Suppliers
- 44 Sustainable operations
- 46 Committed to communities

A reminder

The currency we report in is US dollars.

Adjusted measures

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

None of the websites referred to in this *Environmental, Social and Governance ('ESG' Update* (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this document.



Cover image: The pollinators

A significant amount of the world's wild plants and crops rely on pollinators, such as those on our front cover. Habitat fragmentation and climate change are having a negative impact on populations of pollinators. Further information and ways to take action can be found at: www.wwf.org.uk/updates/bees-feel-sting-climate-change.

A responsible business culture

- 48 At a glance
- 49 Ensuring strong corporate governance
- 50 Restoring trust
- 53 Safeguarding the financial system
- 54 A responsible approach to tax
- 55 Respecting human rights
- 56 Supporting financial inclusion

Additional information

- 58 Approach to reporting/Forward-looking statements/Non-GAAP financial information
- 59 Abbreviations/Certain defined terms
- 60 Useful links/Photography credits

HSBC at a glance

About HSBC

With assets of \$2.7tn and operations in 64 countries and territories at 31 December 2019, HSBC is one of the largest banking and financial services organisations in the world.



Engaging with our stakeholders

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

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. We are committed to doing business responsibly, and thinking for the long term. This is key to delivering our strategy.

- Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on page 42 of the *Annual Report and Accounts 2019*.



Our values

Our values help define who we are as an organisation, and are key to our long-term success. We aspire to be:



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.

Our global businesses

We serve customers through four global businesses. On pages 30 to 37 of the *Annual Report and Accounts 2019* we provide an overview of our performance in 2019 for each of the global businesses, as well as our Corporate Centre.

Retail Banking and Wealth Management ('RBWM')

We help millions of our customers manage their day-to-day finances and save for the future.



Commercial Banking ('CMB')

Our global reach and expertise help domestic and international businesses around the world unlock their potential.



Global Banking and Markets ('GB&M')

We provide a comprehensive range of financial services and products to corporates, governments and institutions.



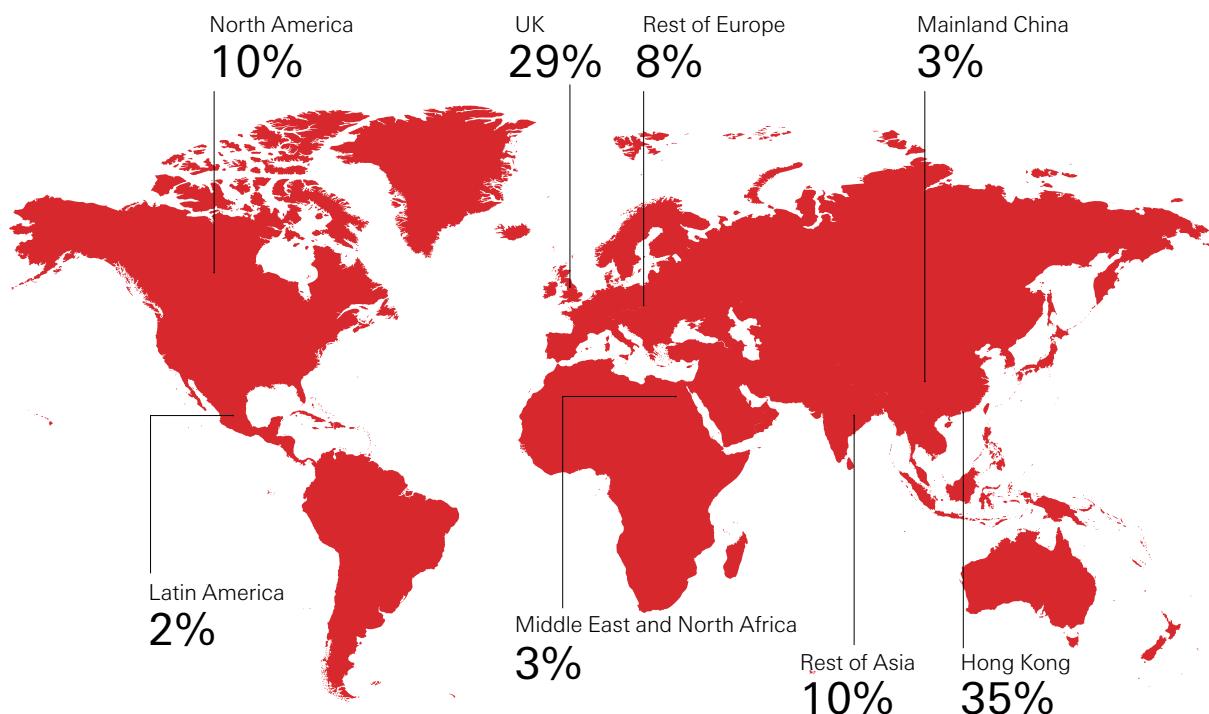
Global Private Banking ('GPB')

We serve high net worth and ultra high net worth individuals and families.



Our global reach

The map below represents customer accounts by country/territory at 31 December 2019.



► See page 54 of our *Annual Report and Accounts 2019* for further information on our customers and approach to geographical information.

Awards



Selected awards and recognitions

Asiamoney New Silk Road Finance Awards 2019

Best Overall International Bank for BRI

Euromoney Awards for Excellence 2019

World's Best Bank for Sustainable Finance

World's Best Bank for Public-Sector Clients

World's Best Bank for SMEs

Hong Kong's Best Bank

Mexico's Best Bank

Euromoney Cash Management Survey 2019

Best Global Cash Manager for Corporates

Euromoney Trade Finance Survey 2019

Top Global Trade Finance Bank

The Banker Investment Banking Awards 2019

Most Innovative Investment Bank for Emerging Markets

The Banker Transaction Banking Awards 2019

Best Global Transaction Bank

Best Bank for Cash Management

PWM/The Banker Global Private Banking Awards 2019

Best Private Bank in Hong Kong

Best Private Bank in the UK

Group Chief Executive's review

To succeed, any forward-thinking business must consider the interests and meet the fair expectations of all its stakeholders. This is a priority for the Board and management team.



Noel Quinn
Group Chief Executive

Doing right by people and the planet is a proud part of HSBC's history and heritage. Our success over 155 years is founded on a fundamental belief that we must serve the interests of the many communities and groups of people that we impact all over the world.

This *ESG Update* details how we are living up to these obligations today, and demonstrates our ongoing commitment to increasing both the quantity and quality of our non-financial disclosures. It covers all the usual areas from corporate governance and sustainability to customer satisfaction, employee advocacy and our approach to conduct. It accords with our reporting obligations under the terms of the UN Global Compact and renews our commitment to the Compact's principles.

This year, we have also made some changes to how we report. We have introduced new information on a range of issues, including our progress in helping customers make the low-carbon transition, and summarised our performance against all our key non-financial targets and metrics. Where possible, we have tried to replicate the format we use for our *Annual Report and Accounts 2019*.

Above all we have tried to be balanced. This is not a public relations exercise. We have been open and honest about our successes – of which there are many – but equally transparent about where we need to improve.

There is much we can be proud of. The successful firms of the future will marry great technology with great people, and we have made real strides in both areas over the past year. Our investment in technology has improved the way we listen to and learn from customers, and we have used that information to improve aspects of our service. At the same time, we have expanded and upgraded the learning and development opportunities we offer our people – including training in digital technologies – and improved the way we support their health and well-being. We have also strengthened and streamlined our governance structures, and continued to evolve our approach to conduct and tackling financial crime.

From an environmental perspective, we made further and encouraging progress towards our target of delivering \$100bn of sustainable financing by the end of 2025. We also continued to reduce our own emissions and carbon footprint. Our expertise, experience and influence continue to be integral to the development of green finance markets and we remain a key international voice in calling for better disclosure of climate risk. We were recognised for our leadership in this area as the World's Best Bank for Sustainable Finance in the *Euromoney Awards for Excellence 2019*.

“This ESG Update details how we are trying to live up to our wider societal obligations today.”

66%

Of employees would recommend HSBC as a great place to work
(2018: 66%)

Yet for all the progress we have made over the past 12 months, there are still areas where we can and must improve. Customer recommendation scores are short of where we want and need them to be. Our people might feel more engaged and recognised, but a significant minority still feel unable to speak out against bad behaviours. We need to make more progress in removing obstacles that make it more difficult for employees to do their jobs. Our senior leadership team is still not diverse enough, and we also have a long way to go in fully integrating climate and transition risks into our day-to-day management.

Addressing these issues and continuing to improve our non-financial performance is of paramount importance. Much has been said about corporate purpose recently. Ours is simple. We exist to connect customers to opportunities and in doing so help people, businesses and economies thrive. But we can only do that sustainably by considering the interests and meeting the fair expectations of all our stakeholders, and by managing our impact on the environment.

No business can generate value unless it lives up to these wider societal obligations. Ensuring we do that is a priority for the Board and the management team. We have good foundations to build on. We have a culture and corporate identity based around serving others. We also have talented and dedicated people, and it is largely thanks to them that we have made real strides in all aspects of our non-financial performance.

Our focus now is on addressing the areas where we have greatest room for improvement, and doing so decisively and at greater pace. Much of this work is already in train. We are investing heavily to update our banking platforms and improve customer experience, and deploying technology to improve the way we develop and manage talent within the bank. As part of our work to create a more supportive environment for our people, we are expanding mental health training to all managers and encouraging more people to work flexibly where it is appropriate to do so. We are also developing a new series of risk ratings to help us better understand and manage the climate and transition risks that we and our customers face. These initiatives are part of a much bigger body of work, all of which you can find detailed in this report.

In line with our values of being open, dependable and connected, your views continue to be of great importance as we go about this work and strive to make our non-financial disclosures more comprehensive and meaningful. We will continue to listen and take your feedback into account, and will incorporate it when we report our ESG progress next year.

Since the beginning of January 2020, the coronavirus outbreak has created significant disruption for our customers, suppliers and staff, particularly in mainland China and Hong Kong. As always, their well-being is our greatest priority. We are monitoring the situation closely and have put measures in place to support them through this difficult time. We will continue to do all that we can to keep them safe and help them manage the impact of the crisis.



Noel Quinn
Group Chief Executive

18 February 2020

Delivering our strategy

We will continue to grow the parts of our business where we are strongest while addressing areas of underperformance.

In June 2018, we set ourselves strategic priorities and financial targets amid an environment of rising interest rates, resilient global economic growth and moderate geopolitical risk.

In reviewing our businesses and geographies today, while it is clear that many parts are performing strongly, particularly in Asia and the Middle East, as well as our market-leading transaction banking services globally, other parts of our business have underperformed. The Group faces several structural issues and we no longer expect to reach our 2020 return on average tangible equity ('RoTE') target, as stated in our third quarter 2019 results.

With the changed macroeconomic environment and interest rate outlook, we have tempered our revenue growth expectations and adjusted our business plan accordingly. We plan to raise the return profile of our assets and improve the Group's efficiency to generate higher returns and create more capacity for growth. Our business update sets out how we intend to become a leaner, simpler and more competitive Group that is better positioned to be the world's leading international bank.

Our eight strategic priorities: 2019 outcomes

In our June 2018 Strategy Update, we outlined eight strategic priorities across the themes of 'Deliver growth from areas of strength', 'Turnaround of low-returning businesses', 'Build a bank for the future that puts the customer at the centre' and 'Empower our people'. We ended 2019 on track in five of our eight strategic priorities, partly on track in two and off track in one. (The following comparisons are against the previous year, unless stated otherwise.)

We accelerated growth from our **Asia franchise** and grew market share in our **UK ring-fenced bank, HSBC UK**, which we established in 2018. We improved **capital efficiency** by growing our revenue over risk-weighted assets ratio. The Group made **efficiency gains** that helped achieve positive adjusted jaws in 2019. We also sustained a top-three rank and/or improved by two ranks in **customer satisfaction** in most of our key RBWM and CMB markets compared with 2017.

We had mixed results in our priority to deliver growth from our **international network**. We gained market share in two of our four transaction banking products, and grew transaction banking revenue and international

client revenue below our target of mid-to-high single digits. When it came to **simplifying the organisation and investing in future skills**, we delivered a mixed outcome, with employee engagement unchanged at 66%, falling below our target of improving each year. However, we achieved a medium environmental, social and governance ('ESG') risk rating, outperforming a group of peers. Our ratings provider, Sustainalytics, updated its methodology during 2019. More details on the approach, as well as further details on our initiatives involving our customers and employees, can be found on the following pages.

We remained off track in **turning around our US business** and do not expect to achieve a US RoTE of 6% by 2020. We will need to reshape the US business in order to improve returns.

With the provision of our 2020 business update below, we conclude reporting on our eight strategic priorities. In their place, we will report on our updated performance programme going forward, which we set out in the following section.

Introducing our 2020 business update

We are adjusting our plan in order to upgrade the return profile of our risk-weighted assets ('RWAs'), reduce our cost base and streamline our organisation. This aims to position the Group to increase returns for investors, create the capacity to invest in the future and build a sustainable platform for growth.

In order to upgrade the return profile of our RWAs, we intend to reallocate the low-growth, low-returning assets in our Europe and US businesses into high-growth, higher-returning opportunities in other parts of the Group. For clarity, European restructuring will be focused on our operations in continental Europe and the non-ring-fenced bank in the UK, which is primarily our GB&M activities in the UK. This does not include our UK ring-fenced bank, HSBC UK, which comprises the retail banking and commercial banking businesses in the UK.

Restructuring for growth

We plan to remodel our Europe business to focus on its strengths, reducing European RWAs by around 35% and lowering costs. To achieve this, we will focus our client coverage on key international European clients and connecting them to Asia and the Middle East. In Global Markets, we aim to continue to invest in transaction banking and financing capabilities while reducing the capital allocated to our Rates business, and exiting G10 long-term derivative market-making in the UK. Our investment banking activities in the UK will focus on supporting UK mid-market clients and international corporate clients through our London hub. In addition, we intend to reduce our sales and research activities in European cash equities. We also plan to transition our structured product capabilities from the UK to Asia.

Delivering our strategy

In the US, we require a new approach to improve returns. We plan to reposition the US business as an internationally focused corporate bank, with a targeted retail offering, principally for international and affluent customers. We intend to consolidate select Fixed Income activities with those in London to maximise global scale, and reduce the RWAs associated with our US Global Markets business by around 45%. We aim to reinvest these RWAs into CMB, as well as into retail banking where we intend to increase unsecured lending and increase our investment in digital. We plan to reduce our US branch network by around 30% and embark on a programme to consolidate middle and back office activities and streamline functions to simplify our US business and lower costs.

Our plans for Europe and the US involve significant changes, including capital reductions, to our GB&M business. We intend for GB&M to support corporate and institutional clients with global operations who value our international network. We plan to accelerate investments in Asia and the Middle East and shift more resources to those regions, while continuing to strengthen our transaction banking and financing capabilities. We intend to strengthen our investment banking capabilities in Asia and the Middle East, while maintaining a global investment banking hub in London. We also aim to build leading emerging markets and financing capabilities in Global Markets, and enhance our institutional clients business. This remodelling of GB&M will be underpinned by continued investment in digital systems and solutions.

Investing in our opportunities and areas of strength

The Group will continue to invest in our growth opportunities, our customer experience and delivering value to all of our stakeholders. We intend to reinvest the RWAs saved as a consequence of our restructuring in our high-returning Asia and Middle East businesses, HSBC UK, our market-leading transaction banking franchise and the international wealth opportunity. As part of our customer experience initiatives, we plan to improve digital capabilities to improve customer satisfaction, evolve our product suite and strengthen our internal processes. As an example, we plan for the full launch of HSBC Kinetic for small businesses in the UK in 2020. We plan to continue to support the

global transition to a low-carbon economy, demonstrated by our continued commitment to provide and facilitate \$100bn of sustainable finance and investment by 2025. A set of HSBC-specific ESG metrics and targets can be found on page 9.

Creating a simpler, more efficient and empowered organisation

Our remodelling plans will be accompanied by a substantial cost reduction programme and a number of steps to simplify HSBC. These aim to reduce our overall cost base and to accelerate the pace of change. There are three broad parts to these plans. First, we aim to remove costs linked to discontinued activities. Second, through further investments in technology, we intend to re-engineer processes to take out costs and improve the customer experience. Third, we plan to simplify our matrix organisational structure. As part of this, we intend to move from four lines of business to three, by merging GPB and RBWM to create one new organisation, Wealth and Personal Banking. We also plan to merge the operational support infrastructure of CMB and Global Banking, while maintaining separate front-line teams, which should improve collaboration between the two businesses. Furthermore, we intend to reduce the number of geographies represented on the Group Management Board from seven to four. In order to match the size and new structure of our organisation, we plan to reorganise our global functions and head office.

Our targets

The Group's updated plan will have three overarching 2022 targets. We will target a gross RWA reduction of more than \$100bn; we intend to reduce our cost base to \$31bn or less; and we will target a RoTE in the range of 10% to 12% in 2022 with the benefit of our cost reductions and redeployed RWAs flowing into subsequent years. Our gross RWA reductions are expected to largely come from the non-ring-fenced bank in Europe and the UK, and the US. We also plan to redeploy over \$100bn to higher returning areas, which will deliver strong growth in the rest of our business. As a result, we intend for the Group's net RWA position to be similar to today, but have a higher earning asset mix. We intend to sustain our dividend policy and plan to suspend share buy-backs in 2020 and 2021 as we go through the period of restructuring.

2022 targets

Cumulative gross RWA reduction by 2022 of

>\$100bn

Adjusted cost base reduction in 2022 to ◀

\$31bn or less

RoTE in 2022 of ▶

10% to 12%

2025 target

Provide and facilitate sustainable finance and investment of

\$100bn

Our approach

We conduct our business intent on supporting the sustained success of our customers, people and other stakeholders.

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 to fulfil their hopes and dreams and realise their ambitions. To achieve our purpose we need to build strong relationships with all of our stakeholders, including customers, employees and the communities in which we operate. This will help us to deliver our strategy and operate our business in a way that is sustainable.

Our stakeholders	How we listen	What we discuss ¹
Communities	 We welcome dialogue with external stakeholders, including non-governmental organisations ('NGOs') and other civil society groups, including charities. We engage directly on specific issues and by taking part in external forums and round-tables.	We discuss how we support our customers with the transition to a low-carbon economy and climate-related risk management, covering sensitive sectors such as energy, palm oil and forestry.  For further details on how we support sustainable growth, see pages 34 to 47.
Customers	 Our customers' voices are heard through our interactions with them, surveys, listening to and engaging with social media and from their complaints.	We discuss a range of subjects, including how we are making banking accessible, how we are making our processes easier and how we plan to communicate more simply and effectively.  For further details on how we support our customers, see pages 10 to 25.
Employees	 Our people's voices are heard through our employee survey Snapshot, Exchange meetings and our 'speak up' channels, including our global whistleblowing platform, HSBC Confidential.	We discuss a range of subjects including our 'speak up' culture, well-being and the importance of keeping our employees engaged.  For further details on how we support our employees, see pages 26 to 33.
Investors	 We have shareholders in 130 countries. We engage with our shareholders through our Annual General Meetings. We also engage with our investors through bilateral meetings, external events and our annual ESG survey.	We discuss our performance, as well as how we manage risk and our governance processes.  For further details on how we are building a responsible business culture, see pages 48 to 57.
Regulators and governments	 We proactively engage with regulators and governments to facilitate strong relationships and understand the expectations that are critical to our business.	Regulators and governments focus on our strategic response to geopolitical and macroeconomic challenges. There is also focus on non-financial risks, including on cyber and operational resilience risks, as well as attention to conduct and financial crime risks.  For further details on how we are building a responsible business culture, see pages 48 to 57.
Suppliers	 Our ethical and environmental code of conduct for suppliers of goods and services sets out how we engage with our suppliers on ethical and environmental performance. The code is available at: www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers .	We discuss conduct requirements related to the economic, environmental and social impacts associated with the supply of goods or services.  For further details of our approach to our suppliers, see page 43.

¹ These are summaries of the discussion points for each of our stakeholder groups and are not exhaustive or exclusive to one stakeholder group.

How we decide what to measure

We listen to our stakeholders in a number of different ways, which the table above sets out in more detail. We use the information they provide us to identify the issues that are most important to them – and consequently also matter to our own business.

Our ESG Steering Committee and other relevant governance bodies regularly discuss the new and existing themes and issues that matter to our stakeholders. Our management team then uses this insight, alongside the

framework of the ESG Guide (which refers to our obligations under the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) to choose what we measure and publicly report in this *ESG Update*.

Under the ESG Guide, 'materiality' is considered to be the threshold at which ESG issues become sufficiently important

to our investors and other stakeholders that they should be publicly reported. We are also informed by stock exchange listing and disclosure rules globally. Further information about the ESG Steering Committee is included in the 'Ensuring strong corporate governance' section of this report on page 49. We know that what is important to our stakeholders evolves over time and will continue to assess our approach to ensure we remain relevant in what we measure and publicly report.

Our ESG metrics and targets

We have established targets that guide how we do business, including how we operate and how we serve our customers. These targets are designed to help us to make our business – and those of our customers – more environmentally sustainable. They also help us to improve employee advocacy and diversity at senior levels as well as strengthen our market conduct.

The 2020 annual incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and members of the Group Management Board have 30% weightings

for measures linked to outcomes that underpin the ESG metrics below.

ESG metrics are also included in the long-term incentive ('LTI') scorecards of executive Directors. The 2017 LTI scorecards of executive Directors included 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. The 2018 LTI scorecards of executive Directors included an ESG rank

measure based on a rating from Sustainalytics, a third-party sustainability ratings agency. At 31 December 2019, HSBC achieved a medium ESG risk rating using the new Sustainalytics methodology. HSBC's rating outperformed compared with a peer set that included 10 global banks, three emerging markets-based banks and one Asia-Pacific-based bank. The 2019 LTI scorecard includes a customer measure incentivising improvement in our customer satisfaction scores in home and scale markets and progress in meeting customer-linked business objectives.

	Target	Performance in 2019	
Environmental	Sustainable finance and investment	Provide and facilitate ¹ \$100bn by the end of 2025	\$52.4bn cumulative progress since 2017 ¹
	Reduce operational CO ₂ emissions	2.0 tonnes used per full-time equivalent ('FTE') by the end of 2020 ²	2.26 tonnes used per FTE ²
	Climate-related disclosures	Continued implementation of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD')	We published our 3rd TCFD, which can be found on page 40
Social	Customer satisfaction	Customer satisfaction improvements in 8 scale markets ³	6 RBWM markets sustained top-three rank and/or improved in customer satisfaction ³ 4 CMB markets sustained top-three rank and/or improved in customer satisfaction ³
	Employee advocacy	69% of employees recommending HSBC as a great place to work by the end of 2019 ⁴	66% of employees would recommend HSBC as a great place to work ⁴ (2018: 66%)
	Employee gender diversity	30% women in senior leadership roles by the end of 2020 ⁵	29.4% women in senior leadership roles ⁵
Governance	Achieve sustained delivery of global conduct outcomes and effective financial crime risk management	98% of staff to complete annual conduct training	98.2% of staff completed conduct training in 2019

¹ The sustainable finance commitment and progress figure includes green, social and sustainability activities. For a full breakdown, see pages 38 to 39.

² See reporting guidelines on www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies for further detail on carbon emissions reporting. As we define our new baseline for the next phase of our operational sustainability strategy, an updated reporting methodology for air travel – including cabin seating class – will be incorporated as our new baseline.

³ Our customer satisfaction performance is based on improving from our 2017 baseline. Our scale markets are Hong Kong, the UK, Mexico, the Pearl River Delta, Singapore, Malaysia, the UAE and Saudi Arabia.

⁴ Our target was to improve employee advocacy by three points each year through to 2020. Our employee advocacy score in 2018 was 66%. Performance is based on our employee Snapshot results.

⁵ Senior leadership is classified as 0 to 3 in our global career band structure.



Customers

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

At a glance

Our relationship

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. If things do go wrong, we aim to take action 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 served by our four global businesses respectively:

Retail Banking and Wealth Management ('RBWM')

We help 39 million active customers across the world to manage their finances, buy their homes, save and invest for the future.

For our customers' everyday banking needs, we offer a full range of products and services tailored locally and accessible across multiple channels. Our strong global presence provides for customers with international needs.

Commercial Banking ('CMB')

We support approximately 1.4 million business customers in 53 countries and territories, ranging from small enterprises focused primarily on their domestic markets to large companies operating globally.

We help entrepreneurial businesses grow by supporting their financial needs, facilitating cross-border trade and payment services, and providing access to products and services offered by other global businesses.

Global Banking and Markets ('GB&M')

We support major government, corporate and institutional clients worldwide. Our product specialists 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 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.

How we put the customer first

We are continuing to redesign how we receive feedback from our customers to identify issues and prioritise change more effectively. We are putting customer feedback at the centre of decision making. We will measure the likelihood of customers to recommend HSBC across all our business lines. This will provide a consistent metric across our business that we can use to engage our people and that we hope will improve how we benchmark our performance internally and against our competitors.

We are in the process of implementing a new customer centricity framework, a system that we hope will help to improve metrics through real-time customer feedback, which can be integrated with other data sources to identify areas for improvement. The framework is designed to inspire us to do what is right for customers and our people. It will help us to share feedback directly with our people and allow them to take action to improve customer experiences. It will also provide a consistent way to capture and escalate customer issues for prioritisation and action.

Awards



UK's Competition and Markets Authority
Our first direct brand tied for first place in the study on customers' likelihood to recommend their bank based on the overall quality of service

Business Moneyfacts Awards 2019
HSBC UK, best online banking provider

How we listen

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

Customer recommendation index¹

RBWM

UK	2019	76%
2018		75%

Hong Kong

2019	69%
2018	71%

¹ The index uses the 0–10 rating scale for the customer recommendation question to create a 100 point index. Surveys are based on a relevant and representative subset of the market. Data provided by Kantar.

6th

Our HSBC UK brand came sixth in the UK Competition and Markets Authority study on overall service quality, a rise of six positions.



4 of our 8

Key CMB markets were ranked within the top-three for customer satisfaction or improved by at least two ranks
(For further details, see page 16)

Acting on feedback

RBWM



Number of markets where we addressed complaints regarding mobile banking login processes, by expanding biometric or PIN-based logins.

CMB



Actions in progress to improve the customer experience for our CMB clients.

When things go wrong

We encourage our people to capture all complaints so we can address customers' concerns.

9%

Increase in complaints per 1,000 customers per month in RBWM's large markets in 2019.

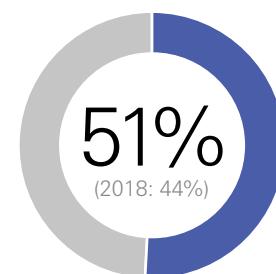
For further details on RBWM complaint volumes, see page 13

19%

Increase in the total number of CMB complaints in 2019.

For further details on CMB complaint volumes, see page 17

GB&M



Customers who said we provide them with solutions that meet their needs.

22%

Decrease in the total number of GB&M complaints in 2019.

For further details on GB&M complaint volumes, see page 19

GPB



8 out of 10
(2018: 7.6)

Our overall satisfaction score in our annual customer engagement survey

3%

Decrease in the total number of GPB complaints in 2019.

For further details on GPB complaint volumes, see page 21



Our Retail Banking and Wealth Management customers

How we listen to our customers

Our customers' voices are heard through our interactions with them, surveys, listening to and engaging with social media and from their complaints. We use all these insights to improve our services.

Customer recommendation

In 2019, we surveyed more than one million customers on their likelihood to recommend HSBC and their satisfaction with our services. Our customer recommendation scores improved in three markets, although they fell in seven. The declines in six of these markets were small, but it was bigger in Malaysia, driven by lower scores around the convenience of our branch locations and the ease of banking with us compared with our competitors. While scores fell slightly in Hong Kong, Mexico, mainland China, the UAE and Singapore, HSBC remains ranked in the top-three banks in each of these markets. The small drop in Hong Kong scores was aligned to a reduction seen in the wider market, although positive perception of our brand increased between the first and second half of 2019. We continue to work on action plans to improve our services in all these markets.

Our customers spoke positively about our trustworthiness and global expertise. In Mexico, Hong Kong and mainland China, our digital capabilities contributed to our high levels of recommendation. Savings accounts remained an area of focus as customers looked for competitive rates and lower charges. In August, HSBC UK rose six places to sixth position in the overall service quality category in the UK Competition and Markets Authority survey.

Customer satisfaction

We believe our investment in technology is having a positive impact on customers' satisfaction. To make the move to digital banking easier, we have given customers more options to contact us by expanding our online chat capabilities in four markets and training employees to show customers how to use our digital services to make it easier to bank with us.

We have invested in our digital banking tools to improve access, navigation and usability, with the introduction of new online banking platforms, public websites, mobile banking apps and security software. While some markets, including Malaysia, Singapore and the UAE, are

Customer satisfaction and customer recommendation survey results

Branch	Customer satisfaction ¹				Customer recommendation scores ²
	Contact centre	Relationship manager	Online banking		
UK	► 88% (2018: 88%)	▲ 78% (2018: 76%)	► 80% (2018: 80%)	▲ 82% (2018: 80%)	▲ 76% (2018: 75%)
Hong Kong	▼ 86% (2018: 87%)	▲ 95% (2018: 93%)	▼ 72% (2018: 74%)	▲ 55% (2018: 47%)	▼ 69% (2018: 71%)
France	▲ 80% (2018: 78%)	▲ 73% (2018: 69%)	▲ 79% (2018: 76%)	▲ 71% (2018: 70%)	▼ 71% (2018: 73%)
US ³	▼ 86% (2018: 88%)	▲ 67% (2018: 54%)	▼ 76% (2018: 80%)	▲ 66% (2018: 64%)	▲ 69% (2018: 67%)
Canada ³	▲ 87% (2018: 84%)	▼ 67% (2018: 76%)	▼ 83% (2018: 85%)	► 68% (2018: 68%)	▲ 72% (2018: 68%)
Mexico ³	▼ 69% (2018: 89%)	▼ 48% (2018: 80%)	▲ 86% (2018: 78%)	▲ 81% (2018: 78%)	▼ 90% (2018: 91%)
Singapore ³	▼ 73% (2018: 74%)	▼ 53% (2018: 87%)	▲ 75% (2018: 71%)	▼ 44% (2018: 47%)	▼ 73% (2018: 75%)
Malaysia	▲ 78% (2018: 76%)	▲ 69% (2018: 65%)	▲ 77% (2018: 72%)	▼ 56% (2018: 61%)	▼ 71% (2018: 78%)
Mainland China ⁴	▼ 93% (2018: 94%)	▼ 91% (2018: 92%)	▲ 77% (2018: 74%)	▲ 56% (2018: 54%)	▼ 82% (2018: 84%)
UAE	▲ 77% (2018: 74%)	▲ 72% (2018: 68%)	▲ 72% (2018: 67%)	▼ 64% (2018: 69%)	▼ 86% (2018: 87%)

1 Customer satisfaction is the percentage of customers providing an 8 or above on a scale from 0 to 10. 2019 results are to 31 November 2019, 2018 are full year.

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 market research agency Kantar.

3 Between 2018 and 2019, the survey methodology changed for responses for: branch, contact centre and relationship manager in the US, Canada and Mexico; as well as contact centre scores in Singapore. As a result scores are not comparable.

4 Mainland China online banking scores are from January to June 2019.

still making the transition to the new platforms – or did so in late 2019 – we continue to make progress across our global network.

Branches remain an important way in which we serve our customers even as their expectations and preferences are changing. We are improving the location, format and layout of our branches and fitting them with new technology – but the role of our people remains key. We continue to invest in our staff with the right training and tools to support customers wherever they choose to bank, whether in person or online. We expanded our development programme for our customer-facing employees, giving them coaching to develop the skills and confidence to resolve customers' queries as their first point of contact whenever possible. We have now trained approximately 6,000 employees in seven

markets – the UK, Hong Kong, Mexico, the US, Singapore, Indonesia and Canada – in these new roles.

To support our drive to improve our customer experience, in 2020 we will move from measuring and reporting customer satisfaction to customer recommendation across all our channels. In preparation, our survey methodology changed in 2019 for contact centres, branches and relationship managers in Canada, the US, and Mexico and for contact centres in Singapore. As a result, scores have changed and are not comparable with 2018 results for these channels. A survey platform migration for retail digital surveys resulted in a gap in digital satisfaction scores between July and November 2019. Therefore, digital satisfaction scores reported are not representative of the full year.

Our Retail Banking and Wealth Management customers

Acting on feedback

Acting on customer feedback helps us to improve our services, processes and communication. Here are some examples of actions that we have taken in response to feedback:

Area of focus	Action
Making banking accessible	<p>We use facial and touch authentication on Apple and Android devices in 18 markets. HSBC Voice ID, which is available to our telephone banking customers in five markets, had over three million registered users in 2019. In November 2019, over 89% of customer transactions globally were conducted via mobile or online channels. These included more than 32% of cards and deposit account sales and approximately 45% of loan sales.</p> <p>In the UK, Hong Kong and Mexico, we introduced new no-cost or low-cost bank accounts to help more people access financial services. In Hong Kong, we made it easier and faster to make payments through our PayMe app, using the Faster Payment System, a more intuitive design and the ability to top up with a non-HSBC bank account.</p>
Making our processes easier	<p>In the UK, our mortgage process simplification resulted in 75% of successful applications receiving an offer within 10 days, an improvement from 48% in 2018. We also made it easier for international customers to take out a mortgage through new specialist teams who provide customers one point of contact for guidance.</p> <p>In the UK and Canada, we launched digital investment advice platforms that offer low-cost multi-asset solutions tailored to customers' risk profiles. In Hong Kong, we introduced FlexInvest, which provides a simple mobile journey for investment funds and makes investing accessible to more people through a low minimum investment amount and zero transaction fees.</p>
Communicating more simply and proactively	<p>For customers who find insurance products difficult to understand, we aim to use plain language. In Hong Kong, we launched an online platform that explains complicated insurance concepts through games, videos and articles.</p> <p>In the UK and Hong Kong, we are proactive in sending digital messages to support our customers and treat them fairly, from fraud prevention warnings to missed payment notifications to overdraft warnings. In the year to October 2019, we sent over 11 million SMS messages notifying UK customers to make a deposit to avoid overdraft charges, which were acted upon in 58% of cases in HSBC UK and 75% in our first direct brand. In 2019, some UK customers were not provided overdraft warnings because of a policy to not disturb customers during late night hours and a technical issue. We fixed this issue and will provide a refund to affected customers.</p>

Customers

When things go wrong

To improve our services we must be open to feedback and acknowledge when things go wrong. We listen to complaints to address customers' concerns and understand where we can improve processes, procedures and systems. We focus on staff training and emphasise the importance of recording complaints. This improves our complaint handling expertise and helps ensure our customers are provided with fair outcomes. Complaints are monitored and reported to governance forums, while senior executives are measured against customer satisfaction performance.

In 2019, we invested in a new complaint management platform, which makes it easier for our people to provide our customers with a speedy resolution. In 2019, excluding complaints related to payment protection insurance ('PPI') in the UK, 77% of complaints were resolved on the same or next working day, and 83% within five working days. The new platform also helps us analyse trends and identify solutions to prevent similar issues recurring. The platform is live in seven markets and will be rolled out to other markets.

We received 1.4 million complaints in 2019. The ratio of complaints per 1,000 customers per month in our large markets increased from 3.4 to 3.7, as referenced in the adjacent table. The most common complaints related to process and procedures (33%), product features and benefits (5%), service (24%),

and fees and charges (9%). The increase in complaints in the UK was related to PPI, an industry-wide issue that had a claims deadline of end of August 2019. Excluding PPI complaints, our ratio of complaints per 1,000 customers improved in the UK and globally. In Mexico, a banking industry trend, which we also experienced, involved the continuing prevalence of fraudulent transactions and resultant complaints. We provided refunds to customers and strengthened our fraud control measures, including a card control app to help customers with online card usage. We made improvements in our processes to address delays in responding to customer requests in France and Canada. The ratio of complaints per 1,000 customers reduced in the US, helped by a reduction in call waiting times, and in the UAE, following improvements to our processes for payments, issuing bank statements and card delivery.

RBWM complaint volumes (per 1,000 customers per month)¹

	2019	2018
UK	▲ 4.5	4.0
Hong Kong	► 0.5	0.5
France ²	▲ 7.8	7.6
US	▼ 2.9	3.9
Canada	▲ 3.9	3.1
Mexico	▲ 5.7	5.3
Singapore	▼ 1.3	1.4
Malaysia	▲ 0.6	0.4
Mainland China	▼ 0.6	0.7
UAE	▼ 5.1	5.6
Global	▲ 3.7	3.4

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.

2 A methodology change increased the number of complaints in France in 2019 due to the inclusion of complaints resolved immediately by contact centres, which had not been recorded in previous years.



Empowering our people

Our goal is to empower our people to resolve issues. Our people have raised over 10,000 feasible ideas since July 2017 when we launched a UK programme that gave front-line employees a means to flag issues and help solve customer problems. More than 8,800 of those issues had been resolved by the end of 2019, with more than 400 in progress. The remaining are either awaiting review or undergoing scoping. One issue resolved in 2019 was automating the reissuance of payment cards after a customer changes their name, to simplify the process for customers and avoid errors.

Spotlight: Conduct

We are committed to providing customers with products that meet their needs. We have guidelines to help deliver fair outcomes for our customers as well as help maintain orderly and transparent financial markets. Conduct principles are embedded into the way we develop and sell products. We have robust oversight of the sales process while our approach to conduct risk management continues to evolve to meet our customers' expectations and regulatory requirements.

Product design and fair value

Good product design helps provide the right outcomes for customers. We use customer panels and user labs throughout the design process to adapt products based on customer feedback. In the UK, our first direct brand used a collaborative design service called fdesign, which allows customers to test and give feedback on new banking features and tools. In Hong Kong, we worked with our business customers to develop and test PayMe for Business, our digital payments service for business, which resulted in improvements including a flexible end of day reconciliation to match a business's specific operating hours. For customers who prioritise sustainability issues, we offer products that aim to achieve financial and sustainability objectives. These include sustainable multi-asset portfolios in the UK, socially responsible investment funds in France and ESG index-linked structured products in China, Malaysia and the US.

We provide training to our people through our Product Management Academy, with more than 1,400 of our people completing over 3,000 courses since 2017, including on customer insight, customer-focused design, communications, product development and governance. We also rolled out an advanced workshop for senior product managers in Hong Kong, Mexico and the UK.

Newly developed products undergo a review process, which involves testing to help ensure they are suitable and offer fair value to customers. There is global oversight for non-standard or complex products. We carry out ongoing monitoring and in-depth reviews on our products to check whether they continue to meet expectations and assess whether they have become less suitable over time. We also seek to protect our customers from fraud. Where products fail to meet our customers' needs or no longer meet our high standards, improvements are made or they are withdrawn from sale. When there was an increase in fraud against customers with pre-approved loans offers in Mexico, we stopped offering the product to customers who did not satisfy the highest level of digital authentication. We will continue to work to make our digital services even safer for our customers.

Product design key principles:

We offer a carefully selected range of products that are continually reviewed to help ensure they remain relevant in each country they are offered.

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

We conduct regular product reviews and fair value assessments in each market, to help ensure we deliver fair value.

Pricing key principles:

We carry out regular comparisons of our pricing with that 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 fair value.

Oversight and governance of our fair value assessments, product safety and front-line employee incentives are provided by senior global governance committees.

Oversight of product design and sales governance is provided by the Global Wealth Management Oversight Committee, which is chaired by the Global Head of Wealth Products; and the Retail Banking Management Committee, which is 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.

Spotlight: Conduct continued

Meeting our customers' needs

We have robust oversight of the sales process, which aims to meet our customers' needs effectively. This involves reviewing the suitability of the products we offer and monitoring sales quality as well as examining how we incentivise our people.

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 thorough customer risk profiling methodology to help assess customers' financial objectives, attitude towards risk, financial ability to bear investment risk, and their knowledge and experience;
- robust testing during the design and development of a product to help ensure there is a clearly identifiable need in the market; and
- consistent standards to follow when we provide advice and make recommendations to our customers, while taking into account local regulations.

We realise that some circumstances can put customers in a vulnerable position, so we are training our people to recognise and treat these individuals fairly. We aim to ensure the suitability of products or advice they are offered.

For further details on our approach to vulnerable customers, see page 56.

Ensuring sales quality

To help ensure the quality of our sales process and our people's behaviour in each of our markets, we conduct a mystery shopping programme and/or a sales quality programme. Issues identified are treated seriously.

We will take action to help achieve a fair outcome for our customers. Where concerns are found, we will contact the customer to apologise, 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.

For example, in many markets we do spot checks to ensure that when relationship managers have sold an investment product they have ensured that a customer will continue to have sufficient cash reserves to use in the event of an emergency.

Managing front-line employees and their incentives

Since 2013, we have used a discretionary approach to incentivising our front-line people instead of a straight formula linked to sales. This global improvement has resulted in a more balanced performance assessment for our people. We have also strengthened our approach to third-party sales agents that distribute our products, such as insurance, to ensure that our principles on balanced reward are in place. While there is still more to do, this change is designed to improve oversight and alignment with third-party sales agents.

There are numerous examples of our people receiving reward and recognition by senior management for going above and beyond in 2019. For example, a colleague at a UK branch was rewarded for using a creative approach to validate the identification of a homeless customer, which ensured the customer received a salary advance. In addition, a banker in Malta was rewarded for giving up part of their holiday to help a customer with an urgent financial issue.

Building financial capability

We aim to provide tools and content that help customers have the confidence and competence to make the most of their money. In 2018, we made commitments around building financial capability and we continue to deliver on these:

- As part of our aspiration to provide a mobile-centred smart banking experience, the features of our money management app, Connected Money, will be integrated into our UK mobile banking app. This will mean our customers will have access to money management features as part of their day-to-day banking experience. In the UK in November 2019, we introduced a 'Balance after Bills' feature that helps customers predict how much they have left to spend. Approximately 600,000 customers used the feature in 2019.
- We are expanding card control features so customers can control their card spending and receive real-time alerts on their activity. These features have previously been introduced in the UK, Hong Kong and Mexico, and in 2019 were expanded to include a gambling block with a 24-hour cooling off period for UK customers.
- We are developing our ability to use customer data to deliver personalised messaging that helps customers to manage their money better. In Hong Kong, we may provide guidance to customers consistently paying minimum credit card balances.

For further details on how we support building financial capability and inclusion, see page 56.



Managing fraud

Fraudulent activities are a risk and a concern for our customers. We are committed to reducing their impact through a range of actions, including new fraud prevention systems, improvements to our internal processes, and communications to raise awareness. In 2019, we invested in additional prevention systems in North America, Europe, the Middle East and Asia as well as increased staffing in fraud operations. We expanded the automated customer contact solution, which we launched in HSBC UK in 2018, to our first direct and M&S Bank customers in the UK. This uses two-way SMS messaging so customers can respond instantly to our fraud enquiries without needing to phone us.

HSBC UK adopted a new code of practice, the Payment Systems Regulator's contingent reimbursement model, to reduce the occurrence of payment scams and increase customer protection.

In Mexico, the digitisation within the banking industry has led to an increased risk of fraudulent digital activity on debit and credit cards. We have responded swiftly to protect our customers. We have carried out special monitoring of manually entered transactions and enhanced preventative fraud monitoring, as well as improved the process for customers who have been victims of phishing. We plan to continue investment in our fraud prevention capability and customer contact solutions globally throughout 2020.



Our Commercial Banking customers

How we listen to customers

We remain committed to improving customer satisfaction for all our business customers, from start-ups to large corporates. We have a range of methods for capturing and acting on feedback as well as metrics that we review and act upon.

Customer satisfaction¹

We still have some way to go to achieve our 2020 ambition to be ranked in the top three for customer satisfaction or to have improved by at least two ranks compared with 2017. Four of our eight key markets met the target in 2019 – the UK, Singapore, Malaysia and Saudi Arabia – with underlying satisfaction scores also improving. In Singapore, satisfaction with our international presence and ‘commitment to long term business growth’ have shown continued improvement since 2017. Our scores rose for overall customer service and being honest, trustworthy and fair in Malaysia. In the UAE, access to funding is an issue for customers across the market due to a decline in bank lending, reflecting the economic outlook. Although our rank improved in Hong Kong in 2019, efficiency of dealing with questions, requests and credit terms remained an area that we need to focus. In Mexico, customers

said we could make it easier to work with us, especially new account openings.

Moments of Truth

Our Moments of Truth programme, which has been running since 2016, allows us to constantly capture feedback from our customers. We surveyed more than 25,000 customers in 2019 across 40 markets. To address the feedback, we have more than 50 actions underway, including issuing guidelines to improve communications when relationship managers change in the UK, Hong Kong, Canada and France. We enhanced the customer experience for setting up online banking with HSBCnet, our business internet banking platform. In the UK, the ability to accept scanned documents to process amendments helped reduce the overall onboarding time. We have also increased customer support through a more proactive approach for new users to the platform, expanded the availability of online training and conducted more training sessions for new and existing users. Scores in all seven customer journeys that we monitor improved in 2019, including opening accounts, changing a relationship manager, setting up online banking via HSBCnet and opening a line of credit.



Account opening improvements

Customers told us that opening an account was time consuming and documentation was repetitive and complex. We are implementing positive changes across a number of our markets. In the UK, we improved the experience for our relationship-managed customers, which reduced complaints about opening accounts by 34% in 2019. We introduced pre-filled forms alongside screen-sharing technology to help us complete forms interactively with our customers. We also invested in technology to allow customers to sign documentation digitally, reducing delays.

¹ Customer satisfaction data for Hong Kong, the Pearl River Delta, Singapore, Malaysia and the UAE was provided by RFi Group; Mexico by B-network; the UK by Savanta; and Saudi Arabia by Kantar.

Acting on feedback

We have implemented new ways of working, designing and delivering solutions with our customers. We took the following actions to improve our service and products:

Area of focus	Action
Improving customer service	We provided additional training for customer service advocates in our commercial contact centres in the UK. We also introduced a new way of receiving customer experience feedback to help us understand issues and take action, which contributed to an 8% increase in customers saying they were very confident that their needs were understood.
Developing our product offering	We used insight from customer interviews to understand how we can improve how we help businesses. As a result, we are rolling out a globally consistent proposition to help small business owners achieve their ambitions. This includes access to a simplified version of HSBCnet, our business internet banking platform, to provide account information, track payments and manage beneficiaries. The new functionality underwent extensive user testing to ensure it met customer needs. Business Banking customers will also receive access to a dedicated relationship manager, digital self-service tools and our HSBCnet mobile app, providing 24/7 support as well as lending and trade solutions.
Access to finance	In Hong Kong, we helped small and medium-sized enterprises ('SMEs') through a period of economic stress by providing rebates and subsidised fees for loans approved under official guarantee schemes. We also reduced transaction fees associated with our PayMe for Business mobile payment service. The InnoTech Business Instalment Loan, which we introduced in 2017, provides funding to SMEs for digital innovation or e-commerce projects.
Enhancing channel experience	In mainland China, our people can verify VAT invoices for customers in less than one minute via an online platform. On average more than 30,000 invoices are now checked automatically each month, enhancing credit and fraud controls.

Our Commercial Banking customers

Customers

When things go wrong

We encourage our people to capture all complaints so we can address customers' concerns. We delivered a global complaints management procedure in the beginning of 2019 and we continue to provide training for all relevant employees that emphasises the importance of effective complaint handling. This focus has contributed to an improvement in complaint logging.

In 2019, we resolved a total of 92,475 corporate customer complaints, which was a 19% increase from 2018, with over 85% coming from the UK, 6% from Hong Kong and 2% from France.

We strengthened our financial crime procedures as part of our commitment to safeguard our customers, but as a result complaints related to these processes and procedures increased and this remained the highest source of complaint. In the UK, enhanced SMS messaging processes are designed to ensure customers receive regular reminders throughout the process. We revisited our procedures for potentially vulnerable customers and set up dedicated case managers to cater for these customers who find it difficult to complete their reviews via our online channels. This allows customers to attend scheduled telephone appointments and obtain additional support.

The second most common complaint related to operational issues, such as those linked to customer transactions and changes to accounts. The enhancements to HSBCnet

and its Move Money function are helping to make it simpler for customers to make payments and transfers.

Internet banking complaints were the third highest in volume, making up 8% of all complaints. In the UK, the introduction of a new digital business banking platform contributed to an increase in complaints

in this category. Complaints about the new platform included customers being unable to log on or view their statements. We carried out several remedial measures, which led to a reduction in complaints. We also use monitoring tools and testing measures to help address any issues with the platform before they affect our customers.

CMB annual complaint volumes¹ (000s)

	2019	2018
UK ¹	▲ 78.8	62.8
Hong Kong	▲ 5.4	4.9
Europe	▼ 2.7	3
Latin America	▼ 1.3	2.3
US	▼ 1.2	1.8
Middle East and North Africa	► 1.5	1.5
Asia-Pacific	▼ 0.8	0.9
Canada	▲ 0.8	0.7

Top complaint categories (% of total)

	2019	2018
Processes and procedures	► 27%	27%
Operations	▲ 26%	25%
Internet banking	▲ 8%	4%
Contact centre	► 6%	6%
Fees, rates and charges	▼ 5%	6%
Sales quality	▲ 5%	4%
Account opening	▼ 4%	7%
Others	▼ 19%	21%

¹ Volumes for the UK are received complaints from eligible complainants aligned to the current FCA reporting requirements. Volume of complaints for all other markets, complaint reason breakdown and commentary are based on total volumes of resolved complaints.

Spotlight: Conduct

We are focused on our customers' needs to ensure we deliver consistently fair outcomes that are inclusive of the communities we serve, while protecting vulnerable customers. Our products and services are reviewed regularly to make sure they remain appropriate and relevant to our customers.

Product design and fair value

Good product design helps provide the right outcomes for customers.

We are transforming our Global Trade and Receivables Finance business through a multi-year strategic investment to enhance products, systems and processes with customer experience at its heart. We use customer panels and observe our clients across different business lines and geographies to inform the design and delivery of our products. The aim is to ensure our products are intuitive and easy to use.

In 2019, we completed our first green trade finance deals, providing two product solutions in pre-shipment and post-shipment finance to clients in Asia Pacific. We are developing a new green finance framework, which will act as an overlay on some of our conventional trade finance products (e.g. trade loans) and align fully with the Green Loan Principles published as per guidance from the Loan Market Association.

We launched our new digital business bank, Kinetic, in the UK in testing mode in late 2019. Based on insights from over 2,000 businesses, we designed this service to help business owners manage their finances on the move, so they can plan and make decisions more quickly.

We introduced a new work-flow system that will simplify how we approve new products, enabling a faster time to market. It will also provide insight into any delays in delivering new products to our customers.

Ensuring sales quality

We operate sales outcomes testing in some markets to ensure we correctly explain important product features to our customers, such as pricing, mechanics, risks and benefits. In 2019, we identified 84 issues, including documentation, sales process and pricing issues, as well as some wrong customer outcomes and misconduct. We addressed these by ensuring appropriate customer remediation took place along with the necessary internal action to resolve the situation. Issues identified are categorised to determine whether they are isolated or systemic and actions are taken, including disciplinary action if necessary.

We take the treatment of vulnerable customers seriously. In February 2019, we launched a programme to ensure UK employees are able to identify, support and manage vulnerable customers. For further details see page 56. In 2020, we will use lessons learned from the UK to develop our global approach.

We established a new pricing framework in early 2019 to ensure we have a more consistent approach across our principal products and services. This includes standardising price setting, governance, communication and documentation.

In the UK, we have a structured approach to identify historical charging errors. This aims to ensure necessary lessons are learned and applied, and where appropriate, customer redress takes place in a timely manner.

Culture and behaviour

We understand the responsibility that comes with looking after our customers and their money. Our culture reflects this sense of responsibility, determining how we behave and make decisions and our attitude towards risk. Our performance management framework seeks to incentivise the right behaviours and manage poor conduct. During the 2019 annual pay review, we recognised and rewarded 3% of CMB employees by increasing their variable pay for exhibiting exceptional behaviours.



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.

Customer satisfaction

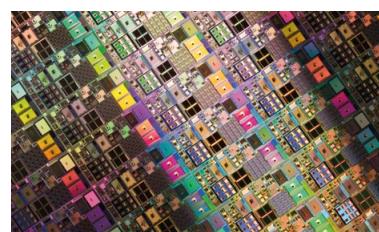
One of the primary ways we do this is through our customer engagement survey, a satisfaction survey that we carry out every year, which we run in association with Greenwich Associates. Our client engagement score, the core metric embedded in this survey to track customer satisfaction, was 83 (out of 100) in 2019 compared with 85 the year before. Although a small decline, it was better than our peers', whose scores fell more significantly from 85 to 82, leaving us with a small competitive gap.

In 2019, we continued to be well rated by our customers on conduct-related questions and we saw notable improvements in a number of areas. More than two-thirds (69%) of our customers strongly agree that we treat them fairly, an increase from 58% in 2018. More customers said we resolve problems quickly, with 60% agreeing in 2019 compared with 51% the previous year. Around half (51%) agree that we provide them with solutions that meet their needs, compared with 44% in 2018, showing that there is an opportunity to continue to enhance our advisory relationships.

We are aware from feedback in previous years that in our organisation, processes and procedures can be difficult to navigate, notably because of our multiple legal entities that make it harder for us to provide a consistent service between countries and regions. We are putting a number of measures in place to combat this. In 2019, our Smartserve project reviewed 245 onboarding documents globally. We eliminated 24 of these documents, merged another 20 and enabled 55 documents to be sent via electronic link instead of through email. To help ensure we track progress, we added a new question to the survey that asked whether it was easy to do business with us. More than one-third (37%) of customers agreed with this statement, slightly behind the competition, which scored 41%. Some of the reasons cited for the negative responses included length of time for approvals, difficulty in navigating organisation and multiple 'know your customer' ('KYC') requests.

Moments of Truth

In addition to the customer engagement survey, we have been rolling out an ongoing listening programme, known as Moments of Truth, since the end of 2019. Using key performance indicators and through comments gathered, we will identify issues that require action, as well as measure the impact of the changes we are making. We will measure experiences involving account opening and post-pitch reviews as well as interactions with other business lines, including trade finance, cash management, security services and asset management teams.



HSBC MyDeal

We launched MyDeal to make the deal execution process in our primary capital markets business more efficient. The customer can access the secured platform on mobile or online and receive real-time information of a deal throughout its life cycle. This includes logistics, investor feedback and book-building data.

MyDeal became available to customers in early 2019. By the end of 2019, we had used the platform in a number of jurisdictions to manage more than 84 deals with a combined value of \$47.5 billion. It has received positive feedback from customers.

Acting on feedback

Based on feedback, we have launched a number of measures and projects that are currently being rolled out across all of GB&M's business lines.

Area of focus	Action
Improving customer service	Customers told us we could make their experiences easier, faster and smarter through digital servicing and support from pre-trade to post-trade. In response, we introduced online chat to HSBC Evolve in the third quarter of 2019. HSBC Evolve is our Foreign Execution ('FX') platform launched in 2016 that is now making it easier to connect with our dedicated e-FX professionals 24-hours a day.
Making our processes easier	Customers told us to reduce the time it takes for a credit decision to be made and for loan documents to be negotiated. In response, we are carrying out a loan transformation programme. It involves digitising our systems to streamline the various stages of the lending process, from credit application and credit approval through to document issuance and digital storage.
Enhancing channel experience	Based on feedback, we enhanced the liquidity management dashboard with new charts and 'user preference' features, as well as improved chart viewing and printing. The tool, launched in the third quarter of 2018, is an online platform that gives corporate and financial institution customers a clearer picture of their cash position globally and provides tools to self-manage their liquidity. In 2020, we plan to launch a new cash flow forecasting tool enabling our customers to increase the accuracy, consistency and quality of cash forecasting processes.

When things go wrong

Overall, GB&M received 1,668 complaints in 2019, which was a 22% decline compared with 2018.

The main contributor to this decrease was Global Liquidity and Cash Management. After an uptick in 2018, complaints fell as we worked through the significant systems upgrades and issues that affected our customers in 2018.

In 2019, we significantly enhanced our complaint capture and reporting process, with the introduction of a revised system for classifying complaints. This enabled the aggregation of complaint themes within our businesses, allowing for improved investigation of underlying themes. Customer complaints data is now reviewed in greater detail, which has improved the analysis of customer experience.

We have also developed new guidance on how to manage complaints. This helps ensure that customer complaints can be dealt with promptly and efficiently through a smooth, transparent and responsive escalation process.

- 1 A complaint is defined as any expression of dissatisfaction, whether upheld/justified or not, from (or on behalf of) a client relating to the provision of, or failure to provide, a specific product or service activity.
- 2 Global Markets also includes the five complaints for Research and 38 complaints for Market Operations.
- 3 Global Banking includes the 11 complaints for Global Business Services.
- 4 Global Liquidity and Cash Management excludes the 1,165 complaints for HOST payment Operations.
- 5 The total excludes 14 complaints related to GB&M clients part of our asset management group business, which belongs to our RBWM business.

GB&M complaint volumes¹

	2019	2018
Global Markets ²	 121	201
Global Banking ³	 340	330
Securities Services	 288	360
Global Liquidity and Cash Management ⁴	 919	1,251
Total ⁵	 1,668	2,142

Spotlight: Conduct

Conduct remains a core priority in GB&M. We are committed to providing our people with the necessary support and tools to exercise good judgement and behaviour, ensuring fair outcomes for customers while supporting the orderly functioning of financial markets.

The three-year deferred prosecution agreement with the US Department of Justice ('FX DPA') entered in January 2018 was a strong reminder that we needed to strengthen our systems and controls not only in foreign exchange ('FX') but across the GB&M business.

For further details on the FX DPA, see page 50.

Delivering fair customer outcomes

We are committed to delivering fair outcomes for customers. We do this through the design of our products as well as assessing the suitability and appropriateness of the products for our customers. We have rolled out an inventory of all our products in Global Markets. It currently lists approximately 700 products with a complexity rating for each product. This ensures our sales team can have a better understanding of our product features and complexity when deciding if a product is suitable for a customer. We also periodically review the products and services we provide our clients to ensure they are, and remain, appropriate for them, with 30 such reviews having been completed and 20 in progress in 2019.

We are improving the information we provide to customers that are making or receiving FX payments and transfers digitally. We have started providing the mid-market FX rate and a timestamp of the transaction to give customers greater transparency of FX rates. Starting in Singapore, these improvements continue to be introduced across our key markets.

We continue to invest in our infrastructure, tools and technologies to make it easier for our people to identify, manage and challenge conduct issues before they arise and address root causes when they do. We held approximately 100 workshops to give us a more complete understanding of the risks we face, which led us to identify a number of potential conflict of interest scenarios. This helps our people to be more aware of the situations where conflicts of interest may arise, enabling them to manage, escalate or speak up to prevent any potential customer detriment and/or adverse impact on market integrity.

Strengthening surveillance

We continue to improve our surveillance tools to help us proactively manage risk and understand the conduct of our teams. In 2019, we introduced an FX trade surveillance tool, known as Trading Hub, in six offices. It is designed to detect trade-related market abuse risks. We now have deeper insight into a number of market abuse scenarios. Our new 'digital reasoning' tool improves our

electronic surveillance capability through the use of artificial intelligence ('AI').

Strengthening culture, performance and incentives

We recognise that the conduct of our people is inextricably linked to the way we work. Conduct considerations continue to be embedded throughout our employees' careers. Examples include:

- We introduced mandatory conduct objectives in our annual performance assessments for all our people. Performance against these and other behavioural ratings are considered when determining rating levels and discretionary pay. We also refreshed our guidance for managers on linking conduct to remuneration.
- More than 12,500 people received recognition for good conduct behaviours and outcomes as a result of the 'At Our Best' initiative, which enables employees to nominate colleagues for positive conduct.
- In 2019, we introduced three new face-to-face conduct training sessions for our employees. In addition, approximately 100 senior leaders received training on fostering a positive and open culture to support good conduct; more than 460 line managers were trained on reinforcing a strong culture within their teams; and more than 3,500 employees joined an interactive training course focused on conduct.



Our Global Private Banking customers

How we listen to our customers

We provide banking, investment and wealth management solutions for individuals, families, business owners, entrepreneurs and investors all around the world, helping them grow, manage and preserve their wealth, now and across generations.

Using our international network and breadth of services, we connect customers to opportunities worldwide, while our experts in wealth planning, family governance and philanthropy help them make a positive impact on society.

Customer satisfaction

Our customer service teams interact with customers on a daily basis, listening to and acting on feedback.

In addition to this feedback, we conduct an annual customer engagement survey. In 2019, more than 800 customers shared their views

on our people, products and services. Our overall satisfaction score increased from 7.6 to 8.0, based on a scale of 1 to 10, meeting our threshold target of 8.0. This score reflected a marked improvement in our customers' satisfaction with our relationship management teams, which increased from 8.4 to 8.7, and a recovery in customer perception of trust in HSBC Private Banking. These improvements were driven by:

- better investment advice, with an increase in the proportion of customers receiving advice, following it and considering it valuable;
- better processes, with a reduction in the number of customers feeling annoyed or let down by us in the previous 12 months; and
- better procedures, with customers experiencing reduced bureaucracy.

While this demonstrates we made progress in 2019 we still have some way to go to achieve the levels of satisfaction we aspire to see across the entire business. Our overall net promoter score of +24 included strong performances by our teams in Switzerland and the US, but there is scope for improvement in Asia and the UK.

In 2020, we will continue to address the three themes we highlighted in the 2018 report, which we consider ongoing initiatives:

- improving the perceptions of the quality of our products and services, with a focus on our investment advisory and discretionary wealth management capabilities;
- changing outdated processes so our customers feel that we are easier to deal with; and
- keeping pace with increasing customer expectations, including our digital capabilities.

Acting on feedback

Given the direct access our customers have to their relationship managers, issues are usually resolved quickly. However, some of the feedback we receive can only be addressed through significant long-term investment in our business. We have three global strategic investment programmes focused on improving customer engagement and supporting sustainable business growth. These programmes, overseen by the GPB executive committee, are outlined in the following table:

Area of focus	Action
Advisory services and managed solutions	We are enhancing our investment service and advisory proposition supported by a new third-party risk and portfolio construction tool from BlackRock, Aladdin Wealth. This will provide in-depth risk analysis of investment portfolios, offering a better understanding of how they may perform under certain stress or adverse scenarios. This will help us ensure we have the relevant information to provide proactive and suitable advice to our customers allowing them to make better informed investment decisions. We launched this new service initially in the US in January 2019 followed by Switzerland and France. The next roll-outs are planned for the UK and the Channel Islands, followed by Hong Kong and Singapore.
Digital	Our investment in digital wealth management capabilities has lagged behind those of our competitors and this has had an adverse impact on customer satisfaction. In response, we launched our new online investment services portal in 2019, which includes portfolio analysis and performance, in five booking centres supported by a new mobile app in the UK, Hong Kong and Singapore. We plan to carry out a programme of continual enhancement to help ensure that these services remain competitive.
Global platform replacement	We are continuing with our plan to rationalise the number of IT platforms and replace legacy systems with a core platform that houses a set of strategic solutions. We aim to facilitate global access to our flagship products and propositions, bringing a consistent customer experience across our main booking centres. To accommodate migration complexities, the plan to go live in Asia in late 2019 was rescheduled to the second half of 2020.

To support these programmes we are redefining the most important journeys our customers go through every time they contact or interact with us. The first area we chose to focus on was our customers' experiences in dealing with corporate actions and we aim to implement the improvements from that review in 2020. Our aim is to improve the customer experience across all our main booking centres.

When things go wrong

Improving our complaint handling culture and process was a focus for us throughout 2019. Encouraging our people to record all instances of complaints or feedback is essential to ensure we identify and take action on customer concerns so we can improve our services. We introduced clarity around the definitions of 'complaint' and 'feedback' to simplify the process and provide greater visibility of issues contributing to customer dissatisfaction. To support this, we introduced standardised governance and oversight arrangements. This has led to improvements in the attitude of our teams towards receiving and recording complaints.

In 2019, we received 532 complaints, a 3% decrease on 2018. Service and administration issues were the largest category at 82% with the number of complaints up 3% compared with the previous year. These incorporate

complaints in relation to investment reporting, including issues with tax reporting in the UK; delay or failure to process customer instructions; dissatisfaction with postal or online services; and record updating. We have invested in our online reporting capabilities, making this available in five of our booking centres. Ongoing improvements in our reporting capabilities are planned for 2020. The number of pricing-related complaints remained largely unchanged but there were marked falls in complaints related to advice and suitability and product performance, with the number down from 76 to 43. This was driven by improvements in our sales suitability procedures globally and increased customer satisfaction with our fund performance in Germany.

In 2019, we resolved 488 complaints, which was a 3% decline from 2018. We upheld 263 complaints, which was a 20% increase on 2018.

GPB annual complaint volumes¹

	2019	2018
UK	▲ 56	46
Hong Kong	▲ 30	22
Rest of EMEA	▼ 272	276
Rest of Asia	▲ 20	13
US	▼ 154	193
Total	▼ 532	550

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

Effective line management and supervisory control is at the heart of a strong customer-focused culture that delivers fair outcomes and maintains the integrity of the markets in which we operate. We assess our culture through reviews of operational incidents, employee surveys, customer complaints and other key performance indicators via a quarterly conduct dashboard.

While our employee surveys show our people believe we are committed to meeting our customers' needs and delivering fair outcomes, we need to use customer feedback better to improve our services. In embedding the right culture in our business we have focused on the following areas where poor conduct can have the most significant impact on customer outcomes or market integrity.

Product design and fair value

Our global product committee provides approval and ongoing oversight of products and services that help ensure that products meet our customers' needs; align with our conduct principles; are transparent; offer fair value exchange; and it also regularly reviews all products and material changes to existing products. It also provides oversight of our sales and suitability framework.

The committee is supported by local product committees, which are responsible for the local launch of any globally approved product

and their variations, as well as any products specific to their market.

In 2019, we identified some inconsistencies between booking centres in the implementation of our global pricing standards. We published an updated fair value exchange policy in November 2019, which is intended to be fully implemented in 2020.

Sales quality and customer trades

Our sales quality standards are designed to ensure we understand our customers' circumstances, needs and investment risk appetite in order to provide them with appropriate investment advice. To achieve these standards, we have sales quality teams in all our booking centres reviewing investment transactions, focusing on sales suitability, regulatory compliance and cross-border rules. They recommend and support process improvements and remediation action where required.

We categorise sales quality findings as either red (potential mis-selling), amber (weak documentation) or green (fully compliant). Results are reported and reviewed on a monthly basis by both local and global senior management. In 2019, we identified eight cases where there was a likelihood of unsuitable advice. We identified one serious conduct case in Hong Kong relating to the mis-pricing of a foreign exchange trade,

which resulted in revised procedures to prevent this from happening again. We remain focused on improving the quality of documentation in all our booking centres.

We have invested in technology to test our customers' trades achieve a fair price in the market and are executed in a timely manner. We tested over 90% of equity, foreign exchange and fixed income trades in Switzerland and Luxembourg in 2019, identifying a small number of breaches due to human error and reimbursing our customers where required. We expect to roll out this technology in Asia in 2020.

Managing front-line employees

Since 2018, we have been improving and standardising the supervision of our customer-facing teams. We have moved to a model where managers no longer have direct responsibility for their own portfolios, but take overall responsibility for all customers in their team, allocating relationship managers or investment counsellors to undertake day-to-day servicing. This allows managers to be a second pair of eyes over customer accounts and focus on planning, coaching, control and business development. The result is better outcomes for customers.

For further details of our approach to conduct and action we have taken, see page 50.



Customer developments across all global businesses

Our investment in technology

We invest in technology to improve our customers' experiences. Here we highlight some of our areas of focus and progress.

Updating our banking platforms

We have made a significant investment in our digital transformation to improve access, navigation and usability for all of our customers across our businesses, driven by customer needs and feedback.

For our retail customers in 2019, we upgraded our public websites in all 38 markets, and online banking platforms and mobile banking apps in 16 markets. We also introduced more than 160 new digital features to make everyday banking easier across different markets, including improved digital account opening, loan and mortgage applications, and instant money transfers. At the end of 2019, the retail mobile banking app achieved an average Apple app store rating of 4.8 in the UK and 4.7 in Hong Kong. While scores from Android users were less favourable, at 4.0 in the UK and 3.6 in Hong Kong, these scores have increased for the past two years due in part to our improved support for Android biometric login.

In Hong Kong, our payments app PayMe continued to grow, with approximately 1.9 million registered consumer accounts, and expanded to include payments to merchants for products and services.

Our retail customers are increasingly banking online or on mobile, with nearly half (48%) digitally active in November 2019, a seven percentage point or 1.69 million increase compared with December 2018. Similarly, 89% of retail transactions were digital in November 2019, a five-point increase compared with December 2018.

We introduced a new business internet banking platform to make it easier for our commercial customers in the UK and Hong Kong to access and manage their money. We worked with more than 2,800 customers to improve its navigation, design and functionality.

In 2019, HSBC UK was voted by Business Moneyfacts, an independent provider of UK business data, as the best online banking provider for the second consecutive year. We relaunched the HSBC UK Business Banking app in January 2019 with a new design and additional features including biometric log in, working closely with customers to ensure the design met their requirements. As a result of the changes, our app rating increased from 1.6 in January 2019 to 4.6 out of 5 in December 2019 in the Apple app store.

Our Global Liquidity and Cash Management team used customer feedback to create a more tailored experience on HSBCnet, our online platform for business customers. Changes were designed to save our customers time on everyday banking tasks and bring new features or products to their attention. Through these efforts to create a simpler and more intuitive experience, there have been 21% fewer calls from customers regarding payments and a 55% fall regarding accounts and statements over the past two years.

Improving access and security

We continued to make it easier and more secure to bank with us across our businesses, including through technology. This included investing in voice recognition for people phoning our contact centres as well as face and touch authentication for Apple and Android devices.

For our retail customers, these capabilities are live in 18 markets and used by approximately 50% of customers in those markets. HSBC Voice ID is available to our telephone banking customers in five markets with more than three million registered users. We also upgraded our digital security platform in 17 of our retail banking markets.

In the UK, we introduced face and touch ID to our HSBC UK Business Banking app to make it safer and easier for commercial customers to manage their money on the move. In Hong Kong, our new Business Express app allows mobile push authentication, removing the need for a physical security device.

Targeted digital communication for customers

Live Chat, our messaging-based platform for retail banking customers on our websites, is available in 16 markets and supporting around 100,000 chats per week. Mobile Chat is available in the UK and Hong Kong within our HSBC iOS app and supports around 20,000 chats per week. Customers in Hong Kong can subscribe to receive in-app mobile messaging, which alerts them to faster payments and when e-statements are ready, with over 6.7 million notifications sent in 2019. For commercial customers in Hong Kong, we now offer in-app chat in our Business Express app to provide customer support.

Communicating through social media

Social media channels help us communicate with our customers. We keep them informed, such as advising how to stay ahead of fraudulent activity, while our sports sponsorship content is some of our most liked and shared. We use technology, like machine learning and artificial intelligence ('AI'), to help us identify potential service issues. In 2019, we created 'pain point' reports, highlighting key issues raised by customers for multiple markets. Making it easier for customers to interact with us through social media remains a priority and we have implemented a global Facebook messenger 'service bot', which is designed to help our international or travelling customers direct their queries back to their home market customer service team.

In 2019, we enhanced our social media capabilities to improve how we support our customers who use Chinese social networks, such as WeChat and Sina Weibo. Through new technology partnerships, we are now better able to understand our customers' views and feedback posted through these channels, which can help us to identify service issues and areas for improvement.

+100
Over 100 active social media accounts

243,348
Shares of our content

425,265
Pieces of content posted in 2019

422,265
Customer queries/cases resolved

As the social media landscape continues to evolve, we will continue to review the channels where we have a presence and investigate new opportunities to reach our customers. In 2020, we expect to see an increased presence on Instagram, which continues to grow in popularity. We are also exploring how popular messaging apps – like WhatsApp – can be used to further improve customer communications.

The ethical use of Big Data and AI

We continue to explore and invest in new technologies that offer the potential to improve the services we provide to customers and to manage our business more effectively.

Our investment in technology includes artificial intelligence ('AI') and machine learning solutions. This technology enables us to analyse data at high speed and with greater sophistication. That includes 'Big Data' – unstructured and complex data sets that are too large to be processed by traditional data processing software.

While this technology offers significant potential benefits for our customers, it also poses potential ethical risks not only for the financial services industry, but society as a whole.

Given the absence of clear rules in this area, there is a growing expectation that businesses should have in place robust ethical frameworks to guide decision-making as Big Data and AI technologies evolve.

We have a responsibility to rise to this challenge, and consider not only what we can do under the law, but what we should do to earn and maintain the trust of our customers and other stakeholders. We have developed Principles for the Ethical Use of Big Data and AI to help us meet this objective.

The Principles seek to:

- increase awareness of the ethical implications of Big Data and AI;

- bring uniformity and predictability to how we make decisions about the use of Big Data and AI globally;
- and encourage colleagues to question and challenge potential new uses of Big Data and AI.

The Principles are consistent with our values and global conduct framework, as well as our commitments to customers, shareholders, employees and regulators. The Principles supplement rather than replace any of our global policies.

- Our full Principles are available at www.hsbc.com/our-approach/risk-and-responsibility/our-conduct.



Cybersecurity operations: Cyber intelligence and threat analysis

We set up the cyber intelligence and threat analysis ('CITA') team to help us identify and prevent emerging cyber threats. CITA proactively collects intelligence from a variety of sources including industry peers and cyber sharing groups, as well as government and law enforcement officials. Its mission includes extensive sharing and collaboration throughout the cyber threat intelligence community.

In 2018, CITA helped identify a phishing campaign by a previously undetected malicious actor. After an investigation, CITA shared its findings regarding the threat actor to monitor and further identify their techniques, with the industry. In early 2019, CITA learned of a payments attack at a peer bank that suggested the same actor was behind the attack. CITA shared its findings to regulators and the affected bank, helping to prevent further losses to the wider industry.

Protecting our customers' data

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 that puts the impact on our customers and colleagues at the centre of our thinking. We consider operational resilience from three perspectives: how we design and build our systems and services; how we operate and monitor our control environment; and how we respond and recover in the event of disruption. We continue to work to strengthen all areas of operational resilience to ensure we minimise the number of incidents that occur and any impact on our customers.

In December 2019, the Bank of England ('BoE'), the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') launched a consultation on operational resilience and how it should be embedded in the regulatory framework. We intend to respond to this consultation by April 2020.

We recognise further work is needed to meet these evolving requirements. At the BoE's request, we are collaborating with our peer firms, trade bodies and regulators across jurisdictions to ensure that policy changes achieve the intended outcomes for customers, markets and firms. It is important we work with industry stakeholders to promote consistency and reduce the complexity and potential delays in delivering resilience that would arise if different approaches were followed. We will continue to drive industry engagement, focusing on the themes of business service, impact tolerances, attestation frameworks as well as scenario, stress and supplier testing.

Cybersecurity

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

We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. We strengthened our controls to reduce the likelihood and impact of advanced malware, data leakage, infiltration of payment systems and denial of service attacks. We continued to enhance our cybersecurity capabilities, including threat detection

and access control as well as back-up and recovery. An important part of our defence strategy is ensuring our people remain aware of cybersecurity issues and know how to report incidents. In 2020, we plan to focus on enhancing our use of data analytics, continue to implement our cybersecurity education and communication programme, and help ensure our cyber controls are highly effective across the organisation.

We successfully completed a number of regulatory driven exercises, aimed at testing the readiness of financial institutions to withstand sustained cyber-attacks against critical economic functions. These included: iCAST, which was requested by the Hong Kong Monetary Authority in the second half of 2018; and CBEST II, which was requested by the UK's FCA, PRA and BoE in the first half of 2019. These outcomes were positive, although we remain vigilant and committed to continual improvement and investment.

We operate a three lines of defence model, aligned to the operational risk management framework, to ensure robust oversight and challenge of our cybersecurity capabilities and priorities. In the first line of defence, we have risk owners within global businesses and functions, who are accountable for identifying, owning and managing the cyber risk. They work with control owners to help ensure controls are in place to mitigate issues, prevent risk events from occurring and resolve them if they do. These controls are executed in line with policies produced by the information security risk teams, the second line of defence, which provide independent review and challenge. They are overseen by the third line of defence, which is the independent internal audit function.

We report and review cyber risk and control effectiveness quarterly at executive and non-executive Board level, including at the Group Risk Management Meeting and the Group Risk Committee. We also report it across the global businesses, functions and regions to help ensure appropriate visibility and governance of the risk and mitigating controls.

Protecting our customers' data continued

Cybersecurity memberships

We participate globally in several industry bodies and working groups to share information about tactics employed by cyber-crime groups and to collaborate in fighting, detecting and preventing cyber-attacks on financial organisations. This includes:

- 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 Financial Services Information Sharing and Analysis Center chapters in the US, Asia-Pacific, UK and Europe;
- member of the Institute of International Finance cyber working group;
- member of the Cyber Defence Alliance and Cyber Security Industry Group, which are both financial services industry-led information exchange forums in the UK; and
- member of government-led computer emergency response teams in major markets, including the UK, US and Hong Kong.

Data privacy

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

Since 2018, there have been significant changes to data privacy laws in a number of jurisdictions, including the General Data Protection Regulation ('GDPR'), which came into force in the European Union ('EU'). To support these regulations, we updated our data privacy policies and related controls with the intention of giving our customers, employees and other stakeholders more transparency and control over how we use and manage their information. We monitor global developments in data privacy legislation and regulation to ensure we manage change as well as embed standards and capabilities appropriately. In the UK, we are investing in

advanced privacy enhancing technology to enhance customer insight and data privacy capabilities.

We continue to strengthen how we safeguard data privacy. We conduct annual training sessions for our people, offering further training where relevant, to help them keep up to date with key developments and requirements. In addition, we have enhanced our processes to respond to requests from individuals seeking to exercise their right under GDPR.

We report data privacy regularly at multiple governance forums, including at Board level, to help ensure there is appropriate challenge and visibility among senior executives. In addition, we have established data privacy governance structures and continue to embed accountability across all businesses and functions. Our cross-functional data privacy teams work closely to drive the necessary design, implementation and monitoring of privacy solutions. We implemented procedures that articulate clearly the action to be taken when dealing with a data privacy breach, including notifying regulators, our customers or other data subjects, as required under applicable laws and regulations, in the event of a reportable incident occurring.

New data-driven technologies bring opportunities to serve our customers better and we recognise that data privacy 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.

As part of our strategic vision for data privacy, we continue to enhance our data privacy operating model and capabilities. We plan to continue to publish and embed enhanced procedures, and simplify and automate processes within our data privacy control environment.



Global data privacy and analytics symposium

In September 2019, we hosted a global data and analytics symposium across 12 countries, bringing together key data subject matter experts from across the Group and leading experts from big technology, financial services and fintech organisations. The event provided participants with an opportunity to understand the latest data and analytics trends, the core principles of data and AI use and also created an awareness on the importance of protecting customers' data privacy rights.

Employees

We have a total workforce equivalent to 235,000 full-time employees, working across 64 countries and territories. We are working to create the right environment to help enable everyone to fulfil their potential.

At a glance

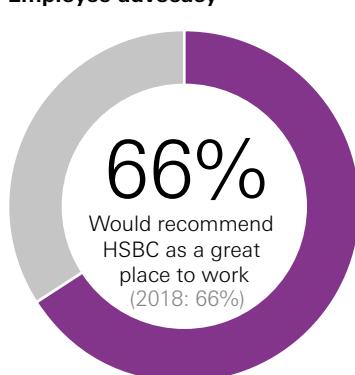
Our relationship

Our people span many cultures, communities and continents. By focusing on employee well-being, diversity, inclusion and engagement, as well as building our peoples' skills and capabilities for now and for the future, we aim to create an environment where our people can fulfil their potential. We use confidential surveys to assess progress and make changes. We want to have an open culture where our people feel connected, supported to speak up and where our leaders encourage feedback. Where we make organisational changes, we support our people throughout the change and in particular where there are job losses.

For further details on how we are supporting our people through organisational change, see page 32.

Snapshot survey results

Employee advocacy



Speak up



Employee profile

Top five nationalities¹

All employees (%)

Chinese	23
Indian	17
British	16
Mexican	7
French	4

1 Data is self-reported. Data excludes unspecified nationalities.

Senior leaders² (%)

British	36
Chinese	9
Indian	6
French	6
Australian	3

2 Senior leaders are defined as 0 to 3 in our global career band structure.

Age diversity

All employees by region (%)

Asia	32	43	18	6	1
Europe	17	32	25	18	8
Latin America	27	43	22	7	1
Middle East	22	49	25	4	
North America	13	29	28	23	7

Key

■ ≤29 ■ 30–39 ■ 40–49 ■ 50–59 ■ ≥60

Global recognition for diversity and inclusion



We were named on the following:



Financial Times' Diversity Leaders 2020 list



Stonewall's Top Global Employers 2019 list



Bloomberg's 2020 Gender-Equality Index



Universum's Global Diversity and Inclusion Index 2019

HSBC employees were named on the following:

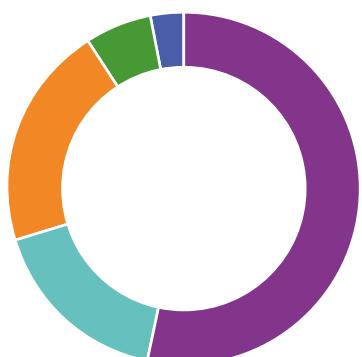
Yahoo Finance/INvolve's 2019 OUTstanding LGBT+ Role Model lists

Yahoo Finance/INvolve's 2019 HEROes Role Model lists

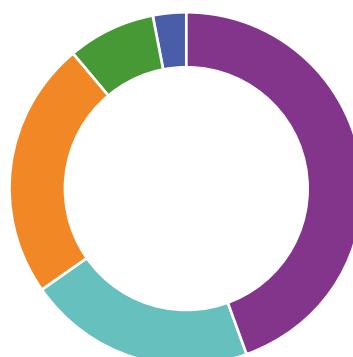
Yahoo Finance/INvolve's 2019 EMpower Ethnic Minority Role Model lists

Employee tenure

All employees

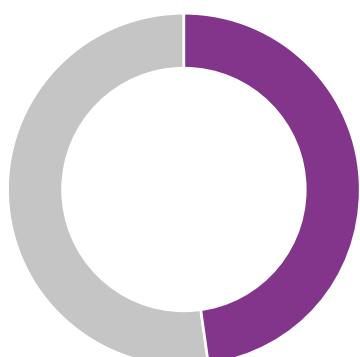


Senior leaders¹

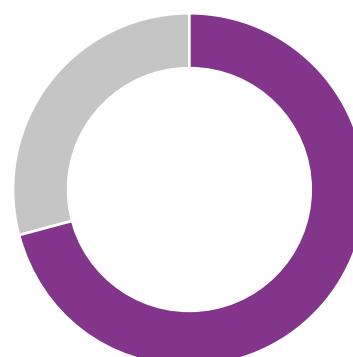


Gender balance

All employees



Senior leaders¹



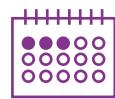
Developing our people

Training at HSBC



6.5 million

Training hours
(2018: 6.2 million)



3.5 days

Training days per full-time equivalent employee ('FTE')
(2018: 2.8 days)

¹ Senior leaders are defined as 0 to 3 in our global career band structure.



Listening to our people

How we listen to our employees

It is vital we understand how our people feel, as it helps us give them the right support to thrive and serve our customers well. We capture their views on a range of topics, such as our strategy, culture, behaviour, well-being 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 employee Snapshot results table shows selected results from our 2019 survey.

Employee advocacy

We track whether our people would recommend HSBC as a great place to work, which we define as employee advocacy. At the end of 2019, 66% of our people who completed Snapshot said they would recommend HSBC, unchanged from the year before. We recognise that this falls short of our stated target of improving this measure by three points each year through to the end of 2020, and we are aware that the context of restructuring and redundancies in some areas of our business has impacted our progress.

We also acknowledge that our people feel less positive about the impact of our strategy and are less confident about the future, particularly in the US and Europe. This has come amid a period of significant change within the Group, underscoring the need for clear and consistent messaging to support our 2020 business update. We continue to support our people closely through organisational change and have used our business update to provide greater clarity.

Despite this, trust in leadership has seen a modest increase, up one point to 65%. We have also seen a three-point improvement in our people feeling recognised over the past year (up to 72%), which our research shows is a key contributor to employee advocacy. Elsewhere, we have seen a decline of two points in our people's pride in working for HSBC, but this remains high at nearly three quarters (74%). Similarly, we saw a two-point decline in our people reporting that conditions in their jobs allow them to be as productive as they can be, following a seven-point increase in the previous year.

Speaking up

We want to ensure our people can change how we work for the better by sharing an idea or raising any concerns. There are several ways our people can speak up. Our Exchange forums provide a place for our people to share their open and honest views. Typically, Exchange meetings are held without an agenda, meaning people can discuss what matters most to them. In 2019, over half (60%) of our people reported in Snapshot that they had taken part in an Exchange meeting in the past three months, a six point increase on a year earlier.

According to Snapshot, nearly three-quarters (74%) of our people feel able to speak up when they see behaviour that they consider to be wrong, unchanged from 2018. Only 59% said they were confident that if they speak up, appropriate action will be taken. A further 26% gave a neutral response, showing that there is more we can do to build trust and give our people confidence that any concerns they raise will be properly addressed.

We want more of our people to have confidence in speaking up to their line managers. In 2020, we began a programme to raise awareness about how to speak up about different types of concerns, how concerns are investigated and, crucially, what action we take as a result of concerns being raised.

Well-being

We continue to closely monitor the outbreak of coronavirus. The well-being of our customers and our people is important to us, and we will continue to do all we can to ensure their safety and support them through this difficult time.

We ran our third all-employee well-being survey in 2019 as part of Snapshot to gain a better understanding of work-life balance and well-being.

Just under two-thirds (64%) of our people reported they work flexibly, up 15 points since our last well-being survey in 2017. While we have made improvements in mental health awareness and support, the research underscored the need for our continued focus on mental health in the workplace.

For further details of our well-being survey, see page 32.

The employee voice

In 2019, we continued to develop the way our people's interests are considered in Board discussions and decision making. We encouraged more direct engagement between Directors and our people at events such as Exchanges and town hall meetings. We also included discussion of employee interests and concerns as a formal item at the annual meeting of the chairs of the principal subsidiary boards for the purpose of informing Group decision making. Our Group Chief Executive and Group Chief Human Resources Officer report formally every six months to the Board on employee engagement matters.

Employee Snapshot results

	2019	2018
I am seeing the positive impact of our strategy	▼ 58%	67%
I feel confident about HSBC's future	▼ 66%	75%
I trust the senior leadership in my area	▲ 65%	64%
I am proud to say I work for HSBC	▼ 74%	76%
I would recommend this company as a great place to work	► 66%	66%
Conditions in my job allow me to be as productive as I can be	▼ 63%	65%
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	▼ 72%	74%

When things go wrong

Whistleblowing

We want a culture where our people feel able to speak up. Individuals are encouraged to raise concerns about wrongdoing or unethical conduct through the usual escalation channels. However, we understand that there are circumstances where people need to raise concerns more discreetly. HSBC Confidential is a global whistleblowing platform that enables our people, past and present, to raise concerns in confidence. HSBC does not condone or tolerate any acts of retaliation against those who raise concerns.

Within HSBC Confidential, 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. Some of the common themes that have been referred to HSBC Confidential include issues with behaviour and conduct, allegations of fraud and weaknesses with information security. In 2019, 77% of closed cases related to behaviour and conduct, 17% to security and fraud, 5% to compliance and 1% to other categories. We also monitor an external email address for concerns about accounting, internal financial controls or auditing matters (accountingdisclosures@hsbc.com) and we operate in several languages. We use independent third-party suppliers to manage our 24/7 reporting hotlines for 25% of our people and will continue to extend this coverage during 2020.

Whistleblowing concerns are investigated thoroughly and independently. Remedial action, taken where appropriate, includes disciplinary action, dismissal, and adjustments to variable pay and performance ratings. The Group Audit Committee has overall responsibility for the oversight of the Group's whistleblowing arrangements and receives regular updates.

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 to our ability to live up to this commitment and ensure a healthy working environment. We manage misconduct by taking action, up to and including dismissal. We report cases on a regular basis to management committees.

In 2019, we took action against 2.0% of our employees for misconduct. Where we see trends, we take action, including issuing communications and making policy changes.

According to our Snapshot survey, knowledge of how to use HSBC Confidential was high at 89%. The survey showed that 65% of respondents have full confidence that they can raise concerns without fear of reprisals or retaliation. We have more to do to assure our people that we do not condone or tolerate retaliation against people who raise concerns and that we strictly enforce our policy relating to this.

We continued to promote the Group's whistleblowing arrangement through training in 2019 and this has contributed to the increase in the number of cases raised compared with 2018.

2,808

Whistleblowing cases raised
(subject to investigation) in 2019
(2018: 2,068)

33%

Substantiated closed
whistleblowing cases¹
(2018: 34%)

1 Cases where the investigation found the allegations to be substantiated or partially substantiated.



Employee recognition

We believe it is important to recognise our people not just for results but also for upholding our values. This underpins our global 'At Our Best' recognition programme, which passed a landmark of two million recognitions since it was launched in 2015. The programme allows our people to award recognition points to their colleagues that can be redeemed against a wide range of goods. In 2019, more than 930,000 recognitions were made at a value of \$9.6m. We also ran a special 'Spotlight on customer service' campaign, which resulted in 65,500 recognitions over a three-month period, and our GB&M business ran a special campaign recognising outstanding examples of good conduct. This resulted in a 310% increase in recognitions in the second quarter compared with the same quarter in the previous year.



Diversity and inclusion

Percentage of our senior leadership who are women

29.4%

(2018: 28.2%)

Gender diversity statistics^{1,2}

Holdings Board	9	64%
	5	36%
Group Management Board	16	84%
	3	16%
Combined executive committee and direct reports	168	73%
	62	27%
Senior leadership	6,915	71%
	2,882	29%
Senior leadership RBWM	748	68%
	353	32%
Senior leadership CMB	715	72%
	284	28%
Senior leadership GB&M	2,327	79%
	623	21%
Senior leadership GPB	386	67%
	193	33%
Senior leadership HOST	751	73%
	276	27%
All employees	116,157	48%
	124,801	52%

■ Male ■ Female

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

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

We are committed to a company-wide approach to diversity and inclusion. We want to embrace our people's diverse ideas, styles and perspectives to reflect and understand our customers, communities, suppliers and investors. Our actions are focused on ensuring our people are valued, respected and supported to fulfil their potential and thrive. We want them to bring the best of themselves to work to help deliver more sustainable outcomes for all of our stakeholders.

Our 30% commitment

In 2018, we signed up to a commitment, led by the gender diversity campaign group 30% Club, to reach 30% women in senior leadership roles by 2020. Senior leaders are classified as 0 to 3 in our global career band structure. To help us achieve that aspirational target, we set ourselves a goal to reach 29% by the end of 2019. We achieved 29.4% and are continuing to take action towards more balanced leadership teams. When we are recruiting for senior positions, we require our external search firms to provide a balance of equally qualified male and female candidates and we have introduced guidance for diverse interview panels. Appointments of external female candidates into senior leadership roles rose from 28.6% in 2018 to 33% in 2019.

Gender #BalanceforBetter

Our people are supporting our goal to improve gender diversity, and our #BalanceforBetter campaign on International Women's Day in 2019 was our most successful employee social media campaign to date. Our global employee network, Balance, has played a key role in our work on gender. In 2019, we created a series of safe and comfortable spaces for new and expectant mothers. We equipped 125 parenting rooms in 2019, with more planned.

Since 2018, our Accelerating into Leadership programme has provided coaching and development for high-performing women at manager level and the programme is now being rolled out globally. In 2019 it had 398 participants. Our Accelerating Female Leaders programme has been extended and focuses on increasing the visibility, networks and sponsorship of high-performing women at senior level. Our 2018–2019 cohort had 80 participants, many of whom are already making lateral moves to gain more experience or have been promoted.

We have also been implementing 'return to work' schemes in a number of geographies around the world. Our Take 2 programme in India enables female technology candidates who have had a break in their career to return to employment. In 2019, we hired 65 female technologists as a result of this programme, an increase from 35 in 2018.

Focus on UK gender pay gap

We were one of the first financial services organisations to report its 2019 gender pay gaps in line with UK regulations. Our median aggregate UK-wide gender pay gap, including all eight reported HSBC entities, was 47.8% and our median bonus gap was 60.5% in 2019. Our overall UK gender pay gap is driven by the shape of our workforce. We have a higher proportion of men in senior and higher paying roles, particularly in our UK-based Global Banking and Markets business. There are more women in junior levels and part-time roles, particularly in HSBC UK, our UK ring-fenced bank. Additionally, we have a number of senior global roles based in the UK.

We are committed to improving our gender balance in the UK and beyond, and are driving a three-part plan, which focuses on:

- leadership action;
- support for our employees; and
- an open and inclusive environment.

We review our pay practices regularly and also work with independent third parties to review equal pay, the most recent exercise having been undertaken in 2018. If pay differences are identified that are not due to an objective, tangible reason such as performance or skills and experience, we make adjustments.

► Our 2019 UK Gender Pay Gap Report is available at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Our global diversity and inclusion strategy

In 2019, we began implementing a two-year global diversity and inclusion strategy to deliver more inclusive outcomes for our people, customers, suppliers and the communities in which we operate. We are working closely with our global employee networks to help accelerate our progress. We are also deepening our insights using data. Here are some of the examples of work that we delivered in 2019:



Beyond gender

We are expanding our focus beyond gender to include global approaches to ethnicity, disability and LGBT+ inclusion.

Our global employee network for LGBT+ inclusion, Pride, continued to grow and entered new markets in 2019. The network's efforts helped improve our standing on Stonewall's Global Workplace Equality Index, and we were named as one of only 14 top global employers. We have launched a new global programme aimed at transforming disability confidence, working closely with the Business Disability Forum's global taskforce. We have also started to explore ways we can better enable ethnic minority colleagues to progress their careers, feel confident about speaking up and build more trusting relationships with their colleagues.



Our employee networks

We are investing in our employee networks around the world to improve governance.

We have strengthened the governance of our global employee networks. Global executive sponsors are now in place for four of our seven global employee networks, which cover: age; disability; ethnicity; faith; gender; LGBT+; and parents and carers. We are also appointing global co-chairs for the networks to help us deliver a more consistent approach and to ensure that voices from around the networks are heard at all levels.



Beyond employees

We are extending our actions beyond employees to integrate diversity and inclusion into our commercial activities.

We are using a framework to help benchmark our commercial practices to deliver outcomes that are more equal from a gender perspective for our customers, suppliers and communities. We helped the 30% Club set up the Strategy Best Practices Working Group, which is formed of representatives from large multinationals known for their leading work on gender equality. The working group is helping to codify how companies worldwide can embed gender-equality principles into company-wide operations. In November, the group launched the 'Are you missing millions?' report, which highlighted how companies can benefit commercially from gender considerations.



Enhancing our data

We are enhancing our data to support an evidence-based approach to driving change.

Our employee survey, Snapshot, allows survey respondents to self-identify against a number of demographic characteristics where legally permitted. This data has allowed us to understand how different employee groups feel about working with us. It also informs our global diversity and inclusion strategy, highlighting issues and opportunities and tracking our progress. In the second half of 2019, 7.6% of survey respondents who shared demographic information selected a category other than heterosexual/straight to identify their sexual orientation, 0.9% identified as transgender or gender non-binary, 3.2% identified as a person with disabilities and 12.2% identified as belonging to an ethnic minority.

Building disability confidence

In 2019, we launched a global programme to improve the experience for colleagues with disabilities. The programme is setting company-wide principles and improving workplace adjustment processes so that we can operate in a more disability-confident way. Our achievements have so far included:

- Launching 17 disability-smart guides with the Business Disability Forum to educate

- our people on how to better support colleagues with disabilities.
- Conducting accessibility reviews across multiple sites to identify and remove barriers to a more inclusive working environment.
- Publishing a neurodiversity video to mark World Autism Awareness Day and to help raise visibility of the barriers and opportunities surrounding neurodiverse

colleagues. The film received more than 200,000 views on LinkedIn, more than any other piece of our content in 2019. The video was recognised in various awards, including Silver in the HR category at the Cannes Corporate Media and TV Awards, and Silver at the ECOM Clarion Awards in the diversity and inclusion category.



Well-being and developing our people



Supporting our people through organisational change

To ensure we have the right roles in the right locations, our businesses regularly re-evaluate their structures. We strive to support colleagues closely through all organisational change, which will include those who will be affected by our business update. Our focus is to prioritise retention of our permanent employees through mechanisms such as redeployment. Redundancies were necessary in 2019, and we sought to treat people fairly and responsibly. Where appropriate, we provided suitable notice periods and consulted with representative bodies. We use objective and appropriate selection criteria for redundancies. We prohibit selection on grounds linked to personal characteristics, for example gender, race, age or having raised past concerns. In many markets, including the UK and Hong Kong, our severance payments exceeded statutory minimums and our employees were additionally provided with access to counselling via employee assistance programmes and career transition support.

Employee well-being

We want to ensure well-being is part of our people's daily conversation. We believe this improves their health and happiness as well as the service we provide to our customers and communities.

Our well-being priorities are mental health, flexible working and financial capability. These priorities have been driven by feedback from our people through surveys and Exchange meetings.

Mental health

At the World Economic Forum in Davos in January 2019, we committed to providing mental health education to all managers globally. We worked with experts and colleagues to build a bespoke e-learning curriculum accessible to all 235,000 employees, which was delivered in September 2019. We also built and began rolling out additional classroom learning for managers. These were adapted to ensure they work for local cultures and languages. We plan to share our insight with other organisations.

Our global well-being survey in June 2019, which was completed by 52% of our people, showed that 83% rated their mental health as either 'good', 'very good' or 'excellent', the same as for physical health. However, only 58% felt comfortable talking about mental health to their manager, compared with 72% for their physical health. We hope that our programme will help reduce this stigma.

For World Mental Health Day, we ran a global public campaign with the charity United for Global Mental Health, called 'Speak Your Mind', which encouraged people to talk more openly and share their stories. We also published guidelines to our HR teams globally to make mental health support more consistent and accessible and to help our response to potential and actual suicide.

Mental health will continue to be a key priority. We will develop our mental health education and work with partners to raise further awareness, influence policy and encourage action on a global scale.

Flexible working

We published flexible working guidelines to HR teams globally to make our approach more consistent, reduce barriers for those who want to work flexibly and to support managers to make fair decisions.

The well-being survey in June 2019 showed that 64% of those surveyed say they work flexibly, up 15 points compared with 2017. Those who work flexibly report higher productivity, higher than average resilience and better mental health. However, we are aware that common barriers still exist. The survey identified that junior colleagues are less aware of flexible working opportunities and that senior colleagues are more concerned about the potential impact on career progression. We would like to see more senior role models advocating flexible working.

Financial well-being

Overall levels of financial capability among our people have not improved significantly since 2017. The number of employees who rated their financial status in the well-being survey as either 'doing all right' or 'living comfortably' rose from 51% to 54% in June 2019, while 12% said they are 'finding it somewhat difficult' to get by financially and 5% said they are 'finding it very difficult'.

Existing support for our people is inconsistent, with fewer than half of those surveyed saying they knew where to find support. We searched for a global financial education platform but were unable to find a suitable proposition. There is room for improvement and we will focus our efforts on this area in 2020.

Supporting colleagues through menopause

For World Menopause Day, six colleagues including the Group Chief Human Resources Officer shared their experiences of menopause by video to help raise awareness and increase understanding.

Online resources also helped guide our people to our well-being hub where they can access support related to their physical, mental and financial well-being.

Learning and development

We understand that to have a skilled and capable workforce for today and the future, we must invest in our people at all stages of their careers. We measure our success through our retention, engagement scores, internal mobility and from external awards.

We provide training through HSBC University, our online learning portal and global network of training centres, which we launched in 2017. We target a 97% completion rate for formal training on our values, strategy and approach to risk management. This helps keep our people aware of the risks we face so they can make better decisions to grow our business in a safe way.

Our training has a strong foundation in good conduct, with topics including managing non-financial risk, data privacy, cybersecurity, anti-money laundering, sanctions, anti-bribery and corruption, insider risk, competition law, raising concerns and well-being.

We also have programmes to develop and advance our diverse workforce, including programmes for ethnic minority employees, people with disabilities, women, veterans and LGBT+ colleagues in some regions.

Building for the future

Through HSBC University, we provide training to support our people to develop technical and role-based skills, as well as personal skills. We put a strong emphasis on leadership skills to foster a culture of curiosity, innovation, collaboration and performance.

We have introduced new programmes to develop digital skills and understanding of sustainable finance and environmental sustainability. We created online training to improve personal skills, such as novel and adaptive thinking, design mindset, social intelligence, curiosity and creativity. We also introduced a range of self-directed resources and workshops to improve team cohesion and performance.

Leadership development

Over 16,000 of our people participated in HSBC University's management and leadership programmes. These included an online course for new managers or those returning to management after a break. We also launched a new risk management curriculum and an executive development curriculum, which are designed to support our most senior leaders with their approach to protect and grow the organisation.

We engage proactively in succession planning and understand the importance of ensuring we have a diverse talent pipeline for senior roles. In 2019, 67% of our most critical roles were filled by internal talent, with 33% of those placements being female. We realise the importance of accelerating the progress of our women to strengthen the leadership pipeline. We have a number of programmes to equip talented female staff with the skills and networks necessary to make the leap to management.

Nurturing talent

We promote a continuous feedback culture and so encourage all our people to have regular performance conversations with their line managers throughout the year, in addition to their formal annual discussions. We also encourage them to use our online career planning tool to help them with their thinking on future roles and the capabilities they require.

Managers are encouraged to have open dialogue with our people through feedback sessions. In addition to access to HSBC University, all employees have access to other experiences, such as volunteering and sustainability opportunities, participation in our employee resource groups, mentoring and sponsorship programmes.

In 2019, we launched a portal that provides access to career development resources and tools for all our people. Its features include guidance to help our people have conversations about their careers with their line managers by focusing on strengths and aspirations.

We also created a new and more inclusive approach to identify potential future leaders by enabling our people to self-elect into an assessment and development process, which examines learning agility, leadership ability and aspiration.

Internship, graduate and international manager programme

We recognise that to be prepared for the future, we need to build talent from the earliest stages of careers. Our global intern and graduate programme in 2019 had more than 80,000 applicants, from which we recruited 860 graduates, of which 45% were female. Once hired, our graduates go through several rotations during a two-year period before being placed in their destination roles. Some of our highest-performing graduates continue into our international manager programme, a fast-track career path for future leaders of our business. We currently have 271 individuals across 46 countries and territories on the scheme.

45%

Of the graduates recruited in 2019 were female

>16,000

Of our people participated in HSBC University's management and leadership programmes



Supporting sustainable growth

At a glance

We recognise our wider role in society and believe we can make a positive impact with how we do business. We understand that the global transition to a low-carbon economy is necessary to combat climate change and deliver a more sustainable future.

A key part of our sustainability strategy involves supporting our customers and their suppliers with their transition to a low-carbon economy. We aim to achieve this by providing sustainable finance, offering advice on how to structure financing solutions that align to the Paris Agreement and engaging with them on transition and physical risk.

We are making good progress on our pledge to provide and facilitate \$100bn of sustainable financing and investment by 2025, having already delivered \$52.4bn of this commitment.

We have supported projects in 45 countries and territories, which have included renewable energy, green buildings and electric vehicles.

While we are making progress, we also recognise that we and the wider financial services sector need to increase momentum and improve how we measure our progress. We set out further metrics in our third disclosure under the Task Force on Climate-related Financial Disclosure ('TCFD') in this section.

Considering our own environmental impact, we are continuing to pursue the ambitious target that we set ourselves to procure 100% of our electricity from renewable sources by 2030.

We work with regulators, international organisations and civil society to help them deliver effective regulations and governance for our customers, the financial services industry and wider society.

We also seek to improve the financial capability and employability of our own people and those living within the communities in which we operate. We work with non-profit partners to help us reach into communities of particular need.

We understand the need for our workforce to contribute to society inside and outside of their working life, so we encourage and incentivise our colleagues to get involved in charitable activities and participate in paid volunteering days.

Our engagement in 2019

Progress against our targets

Target	Progress
\$100bn	\$52.4bn
Of sustainable financing and investment to be provided and facilitated by 2025	Cumulative progress since 2017

Target	Progress
100%	29.4%
Of our electricity will be sourced from renewable sources by 2030	Signed renewable electricity from power purchase agreements (2018: 28.5%)

Awards and achievements



Environmental Finance Awards 2019:

Lead manager of the year, Green Bonds:
Local authority/municipality
Lead manager of the year, Social Bonds:
Corporate
Lead manager of the year, Sustainability Bonds: Corporate

Euromoney Awards 2019:

World's Best Bank for Sustainable Finance
Asia's Best Bank for Sustainable Finance
The Middle East's Best Bank for Sustainable Finance

Extel Awards 2019:

No.1 in a range of categories including ESG, Socially Responsible Investment and Sustainability

World Resources Institute 2019:

Achieved 9 out of 10 (dark green status) in research on bank's sustainable finance commitments

Our approach to the UN Sustainable Development Goals

We believe that we have a role to play in helping to address the challenges relating to climate change, environmental degradation, poverty, inequality, peace and justice, which is why we have committed to provide and facilitate \$100bn of sustainable financing by 2025. This forms part of our approach to the United Nations ('UN') Sustainable Development Goals ('SDGs'). The 17 goals and 169 targets that comprise the SDGs form the globally agreed framework designed not only to protect the planet, but also to end poverty and ensure peace and prosperity.

Achieving the goals requires partnerships between governments, the private sector and civil society. Further, the Paris Agreement outlines the goal of keeping global warming to well below 2°C and it is estimated that \$100tn of investment is needed by 2030 to help

ensure that this is achieved. The wider financial services sector has a role to play in achieving these goals, and there is work to be done in this area. According to our sustainable financing and investing survey, which we published in 2019, more than nine out of 10 global investors and issuers of corporate debt said they believed ESG factors were important. However, six out of 10 said there were barriers that deterred them from investing sustainably. This is a challenge for the financial services sector to overcome and we are working hard to bridge this gap.

- For further details about our SDG bond, see: www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds.



Supporting the transition to a low-carbon economy

We acted as a mandated lead arranger in the refinancing of the £2.5bn Beatrice offshore wind farm off the north-east coast of Scotland, which is jointly owned by UK energy firm SSE, Danish fund manager Copenhagen Infrastructure Partners and Edinburgh-based energy firm Red Rock Power Limited, a subsidiary of Beijing-headquartered SDIC Power.

To encourage low-carbon electricity generation and ensure progress towards carbon neutrality by 2050, the UK government awarded Beatrice a 15-year contract for difference, a mechanism in which public funding underpins power revenues that could otherwise fluctuate with swings in electricity prices.

Beatrice is one of the largest wind farms globally with a capacity of 580MW, which is capable of powering approximately 450,000 homes.



Sustainable finance

Sustainable business

We aim to manage climate-related risks and embed sustainability factors into our financing of business activities to help our customers meet their goals.

In 2019, we launched a sustainable supply chain finance programme, expanded our green and sustainable loans propositions and introduced green deposits for corporate and institutional customers.

We seek to use our position as a leading global financial services organisation to help our customers make a social and environmental impact through their supply chains. Our sustainable supply chain finance programme provides a tiered pricing on financing where our customers are able to recognise their suppliers' sustainable achievements (see case study on Walmart on page 37).

We extended the reach of our formal green loan proposition aligned to the Green Loans Principles, launching new products for corporate customers in Mexico and Canada. In the UK, we reduced the minimum loan size for labelled green loans to make them available to a wider group of customers including small and medium-sized businesses. In 2019, we facilitated the first green loan in Ireland aligned to the Green Loans Principles and the first Green Loans Principles-compliant loan facility for a Chinese bank.

Track record of innovation

We have a strong track record of innovation. We support customers around the world with financing, facilitation and investment solutions to achieve their sustainability goals. In 2019, we were recognised by *Euromoney* as the World's Best Bank for Sustainable Finance and were awarded the regional equivalent awards for Asia and the Middle East. For a sixth consecutive year, we were ranked first in 2019 for climate change research by *Extel*, as well as number one for SRI and Sustainability.

We maintained leadership in green, social and sustainable bonds, ranking second globally in 2019, according to data provider Dealogic. We supported several green bond issuances that were market firsts in the public and private sectors, including as joint lead manager for the inaugural sovereign green bonds for Hong Kong and the Republic of Ireland.

We continue to increase knowledge and engagement on sustainability issues with our people and customers. In our GB&M and CMB businesses, we logged more than 3,000 meetings or phone calls in 2019 with our clients to discuss sustainable finance options and opportunities. In 2019, more than 5,300 modules were completed within the seven-part online learning course developed in partnership with Cambridge CISL for HSBC University.

Industry leadership and engagement

The Centre of Sustainable Finance, launched in 2018, supports our ambition to be the leading bank for sustainable finance by providing thought leadership about transforming the real economy and strengthening the financial system's response to climate change. In 2019, the centre published 45 reports and articles, nearly twice the number compared with the previous year, and attracted over 100,000 page views.

In addition, we supported the development of industry standards and principles, including the Green Finance Principles for China's Belt and Road Initiative, facilitated collaboration across the industry through the Climate Finance Leadership Initiative, and we chaired the Institute for International Finance Sustainable Finance working group.

Factoring ESG into investment management

We believe that ESG factors have an impact on the value of all investments and are integral to sound investment decisions necessary to preserve and deliver long-term growth of our customers' capital.

Our business lines collaborate closely in delivering investment solutions that address customer needs, including sustainability preferences.

HSBC Asset Management has had a long-standing commitment to incorporate ESG factors into investment decisions, having been a signatory to the Principles for Responsible Investment since 2006. We apply responsible investment principles through the entire investment process, incorporating the analysis of ESG factors, alongside financial analysis, across all asset classes to target sustainable long-term returns. At September 2019, nearly 90% of our total assets under management are considered responsibly invested according to the Global Sustainable Investment Alliance definition. Since 2010, we have excluded direct investment in companies involved in the manufacture of cluster munitions, anti personnel mines and other weapons banned by international convention.

At September 2019, HSBC Asset Management had approximately \$5bn in sustainable investments, which consists of strategies that contribute to the Group's sustainable financing and investment commitments. This represents 1% of total assets under management and includes exclusionary, best in class, and norms based screening, sustainability themes and impact strategies. We complement our proprietary ESG ratings with thematic research and in 2019 published a further report on climate-related scenario analysis.

In 2019, HSBC Asset Management, in partnership with the International Finance Corporation, announced the creation of an innovative green bond fund targeting real economy issuers in emerging markets, known as HSBC REGIO.

Sustainable business continued

Active ownership

We aim to use our power as an investor to encourage companies to protect and enhance value through active management. We fulfil this responsibility through proxy voting, company engagement and filing or co-filing shareholder proposals.

This active ownership is a key pillar of our approach to responsible investment. It allows us to have a better understanding and evaluation of the ESG risks and opportunities at a company level to drive positive behaviour and promote high standards. In 2019, we voted on more than 78,000 resolutions at over 7,400 company meetings in 74 markets. We also engaged on ESG issues with more than 2,300 companies and other issuers, across our equity and fixed income holdings, in 71 markets.

We also work collaboratively within the investment management industry and took an active role as co-founders and steering committee members of the Climate Action 100+ initiative, a landmark five-year collaborative investment initiative designed to influence change by ensuring the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Sustainable investments across our business

Our insurance business became a signatory of the UNEP FI Principles of Sustainable Insurance in 2013. In support of our commitments to these principles, we continue to implement our insurance sustainability policy in our investment process. This also includes applying restrictions within our proprietary assets to investments that may have adverse impacts on people and the environment. This involves incorporating ESG principles into all our investment governance and creating an impact investment strategy within the portfolios. In Hong Kong, this began with an investment in an impact fund targeting mission-driven businesses with a focus on the UN SDGs.

Our wealth management and private banking businesses also help our customers achieve their sustainable investment preferences while meeting their financial goals through customer education, insight sharing, adviser training and engagement. We offer a range of sustainable investment products, including green bonds, investment funds, discretionary mandates and ESG index-linked structured products.

The wealth management business has launched a wealth insight publication #WhyESGMatters globally with an aim to educate customers on different ESG topics and themes.

>78,000

Resolutions HSBC Asset Management voted on during 2019 at over 7,400 company meetings in 74 markets

2nd

Dealogic ranking for green, social and sustainability bond issuer globally and number 1 in Asia in 2019

(2018: 2nd)



Improving access to trade finance in a sustainable supply chain

Walmart in 2017 announced 'Project Gigaton,' an initiative to work with suppliers to reduce or avoid one billion tonnes of greenhouse gases from the global supply chain by 2030. Walmart also encourages its suppliers to participate in THESIS, a third-party programme that scores suppliers on sustainability criteria and encourages continued improvement.

In April 2019, our teams in Asia, Europe and North America launched a sustainable supply chain finance programme to support Walmart's ambitions and help their suppliers with the transition to a lower emissions world. This programme, which is the first of its type in the retail sector, provides Walmart's suppliers that show continued sustainability improvements with enhanced access to trade finance at a price aligned to the suppliers' performance. The collaboration with its global reach demonstrates how financial institutions can accelerate customers' efforts to further sustainability.

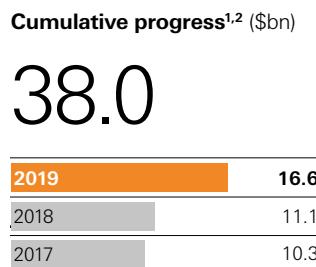
Sustainable finance commitment

We are making good progress on our pledge to provide and facilitate \$100bn of sustainable financing and investment by 2025, having already delivered \$52.4bn of this commitment. We have supported projects in 45 countries and territories, which have included those addressing climate change and those seeking to benefit society

such as clean water or housing. Our sustainable finance data dictionary, including detailed definitions of contributing activities, can be found on: www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Facilitation

We provide advisory services to facilitate the flow of capital and to provide access to capital markets. Products include: green, social and sustainable bonds; finance advisory mandates; short-term debt; debt capital markets; and equity capital markets.

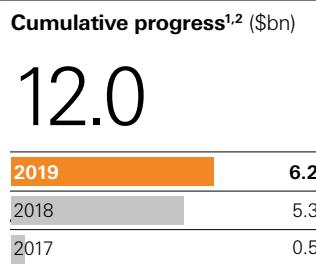


2019 highlights

- We ranked number two in Dealogic's green, social and sustainability bonds league table and number one in the sustainability bonds table.
- We supported several green bond issuances that were market firsts in the public and private sectors, including as joint lead manager for the inaugural sovereign green bonds for Hong Kong, Chile and the Republic of Ireland.

Financing

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).



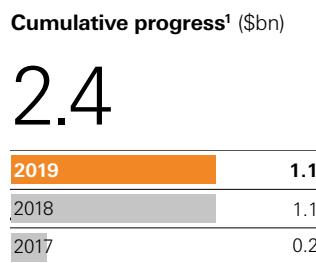
2019 highlights

- HSBC UK aligned its green lending offering to the Loan Market Association's green loan principles. The range, which is available for SMEs through to large corporates, includes a green loan, a UK industry first green revolving credit facility and a green hire purchase, lease and asset loan.
- We acted as a mandated lead arranger in the refinancing of the Beatrice offshore wind farm off the north-east coast of Scotland.

► For further details on the refinancing of the Beatrice offshore wind farm, see page 35.

Investments

We invest in funds that are defined as socially responsible investments ('SRI'). These funds primarily avoid investing in companies that can have a negative impact on society, such as tobacco or gambling. Some of the SRI funds are investing in companies that aim to reduce the detrimental impacts that climate change can create, while others have defined transition strategies. These transition strategies may include using alternative energy, clean technology and developing sustainable products and/or seeking to increase the beneficial impacts on our society, such as health, housing and clean water.



2019 highlights

- HSBC Global Asset Management announced the creation of a new green bond fund, the HSBC Real Economy Green Investment Opportunity GEM Bond Fund. The fund's aim is to enable investors to achieve real economy impact to deliver against the Paris Agreement and SDGs.
- We achieved a rating of A+/A using the United Nations Principles of Responsible Investment ('UN PRI').

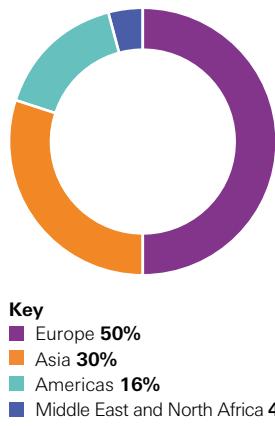
¹ PwC provided limited assurance over progress towards the \$100bn sustainable finance commitment as at 31 December 2019 in accordance with the International Standard on Assurance Engagement 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. This can be found on our website: www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

² Included within the facilitation total is \$2.8bn-worth of advisory services on HSBC-issued green/SDG bonds. Our green bond report summarises and our asset register lists the loans that underpin our issuances. The latest report includes \$1.5bn of balances as at 30 June 2019 that have been included within the financing total. The green report and asset register are available at www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds.

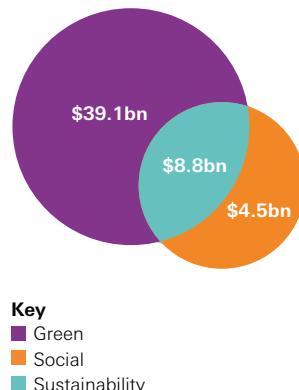
Sustainable finance commitment continued

Geographical breakdown of our progress

The geographical breakdown below is based on the region where the main client relationship is managed.



Green, social and sustainability breakdown



Green, social and sustainability breakdown

We define sustainable finance as any form of financial service that integrates ESG criteria into business or investment decisions. This includes facilitating access to capital markets, providing finance and investing in specially defined socially responsible and low carbon investments funds.

Our progress against the \$100bn commitment can be split into three types:

- Green: Projects that align to the eligible green project category as defined by the International Capital Markets Association's Green Bond Principles, or a company whose core business operates in one of the categories.
- Social: Projects that align to the eligible social project category as defined by the International Capital Markets Association.
- Sustainability: Projects that mix green and social purposes that align to the above principles.



Chilean government green bond

Chile issued a \$1.4bn sovereign green bond in June 2019 to help deliver on its ambition to build climate-resilient and low-carbon infrastructure.

We acted as the joint bookrunner and joint deal manager of the green bond, which is the first in South America.

The bond will finance projects to improve infrastructure services while contributing towards the country's commitment to reduce its CO₂ per unit of GDP by 30% by 2030, from 2007 levels.

Eligible projects will include clean transportation, energy efficiency, renewable energy, water management and green buildings.

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. We are a signatory to the disclosure recommendations by the Financial Stability Board's task force. This represents our third disclosure under the framework.

Governance

We have an established governance framework to help ensure that risks associated with climate change are considered at the most senior levels of our business.

At each Board meeting, the Directors are presented with a risk profile report that includes key risks for the business, which may include climate risk where appropriate. Independent non-executive Directors make up the majority of the Board. Both the Group Chief Executive and the Group Chief Financial Officer are required to be members of the Board. In 2019, the Group Chief Risk Officer was also a member of the Board. With effect from 1 January 2020, this role ceased to be a Board member but the Group Chief Risk Officer will still attend Board meetings. In this role, the Group Chief Risk Officer raises any concerns directly by providing verbal or written updates on a regular basis to the Board and Group Management Board.

The Board and regional executive committees provide oversight of our strategic commitments and are advised by our climate business councils. The Risk Management Meeting of the Group Management Board ('RMM') provides oversight of climate risk through the 'top and emerging risk' report, which is reviewed on a monthly basis. A dedicated

climate risk forum and an ESG Steering Committee also provides executive oversight of climate commitments. We have formally designated responsibility for managing the financial risks from climate change through the Senior Managers Regime for the relevant entities.

In 2019, the Board held a one-day sustainable finance and climate change 'master class'; the Group Risk Committee carried out a thematic review of sustainability and climate change risk management; and the Group Audit Committee discussed ESG at four separate meetings. Our people have also completed more than 5,300 sustainability training modules in 2019, a 41% increase since the previous year.

- For further details on how we incentivise senior management and how climate-related disclosures inform our strategy, see page 9.

Strategy

As part of our priority to support the transition to a low-carbon economy, we pledged to provide \$100bn of sustainable finance, facilitation and investment by 2025. At the end of 2019, we reached \$52.4bn of that goal, of which \$43.6bn relates to green or sustainable products. In 2019, HSBC was named the World's Best Bank for Sustainable Finance by *Euromoney*.

We recognise that many customers are making shifts towards the low-carbon economy and that our industry needs to work together to find new ways to measure these activities.

In 2019, HSBC participated in the CDP (formerly the Carbon Disclosure Project) working group to develop financial sector

disclosure. We also partnered with climate change experts at MIT to produce exploratory transition scenarios. These scenarios were used to raise internal awareness of the different speeds with which transition could occur, the resulting investment requirements, the implications for energy system configuration and the broad macroeconomic costs.

Risk management

We are in the process of incorporating climate-related risk, both physical and transition, into how we manage and oversee risk. The Board-approved risk appetite statement contains a qualitative statement on our approach to climate risk. We intend to further enhance the climate risk statement in 2020.

In 2019, we also trained over 800 employees on climate risk to strengthen engagement with customers. For further information on how we manage sustainability risks, see page 42 to 43.

We report on the emissions of our own operations via CDP and achieved a leadership score of A- for our 2019 CDP disclosure.

Since the revision of the energy policy, we have not agreed any project financing for any new coal-fired power plants anywhere.

- For further details of our sustainability risk policies covering specific sectors, see: www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

- For further details about the sustainability of our own operations, see www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-operations.

Table 1: Wholesale loan exposure to transition risk sectors

	Oil and gas	Building and construction	Chemicals	Automotive	Power and utilities	Metals and mining	Total
% of total wholesale loans and advances to customers and banks in 2019^{1,2,3}	≤ 3.8%	≤ 3.9%	≤ 3.9%	≤ 3.2%	≤ 3.2%	≤ 2.7%	≤ 20.6%
% of total wholesale loans and advances to customers and banks in 2018^{1,2,3}	≤ 3.9%	≤ 3.8%	≤ 3.9%	≤ 3.4%	≤ 3.0%	≤ 2.8%	≤ 20.8%

1 Amounts shown in the table include green and other sustainable finance loans, which support the transition to the low-carbon economy. The methodology for quantifying our exposure to higher transition risk sectors and the transition risk metrics will evolve over time as more data becomes available and is incorporated in our risk management systems and processes.

2 Counterparties are allocated to the higher transition risk sectors via a two-step approach. Firstly, where the main business of a group of connected counterparties is in a higher transition risk sector, all lending to the group is included irrespective of the sector of each individual obligor within the group. Secondly, where the main business of a group of connected counterparties is not in a higher transition risk sector, only lending to individual obligors in the higher transition risk sectors is included.

3 Total wholesale loans and advances to customers and banks amount to \$680bn (2018: \$668bn).

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

Developing our approach to transition risk

We have started to develop and publish new transition metrics to help us gain a deeper understanding of the complexities of this topic.

Transition risk is the possibility that a customer will be unable to meet its financial obligations due to the global movement from a high-carbon to a low-carbon economy.

We are considering transition risk from three perspectives: understanding our exposure to transition risk; understanding how our clients are managing transition risk; and measuring our clients' progress in reducing carbon emissions.

To better understand our exposure to transition risk, we identified six higher transition risk sectors in 2018, based on their contribution to global carbon dioxide emissions and other factors. These transition risk sectors and our exposure to them are disclosed in table 1. Figures in this table capture all lending activity to customers within these sectors, including those that are environmentally responsible as well as sustainable financing activities. This means that green financing for large companies that work in higher transition sectors is included. For further information on how we designate counterparties as 'higher transition risk', see footnote 2 on the previous page.

In 2019, to better understand how our clients are managing transition risk, we had more than 3,000 engagements with customers through meetings or phone calls, across all sectors, to discuss their approach to climate change. We also developed a questionnaire to improve our understanding of our customers' climate transition strategies. We received responses

from over 750 customers within the six higher risk transition sectors, which represented 34% of our exposure. We are using this information to inform our decision making and strategy. For instance, this information is helping us to understand which customers need to adapt, their readiness to change and identify potential business opportunities to support the transition. This information is also being used to supplement the management of transition risk in our credit risk management processes.

To improve our understanding of the progress our clients are making in reducing carbon emissions, in 2019 we launched a pilot scheme to develop a series of new transition metrics to help disclose our customers' progress towards a low-carbon economy. As part of the pilot, we calculated a weighted carbon-intensity ratio for over 900 customers within the six high risk transition sectors. We first obtained a client's total revenue carbon intensity from a third-party provider, CDP. The revenue carbon intensity ratio is effectively the carbon that is emitted per million dollars of revenue. It was calculated as emissions from both direct and indirect emissions, known as scope 1 and 2 emissions, divided by total revenue. We then weighted the revenue-carbon intensity ratio by our exposure to that client within the sector.

Next steps

In 2020, we intend to continue to explore what data is available to provide us with greater insight of our clients' portfolio emissions. We also aim to continue to review our retail exposures on a geographical basis in respect of natural hazard risk, for example considering flood risk for properties that we have provided financing on. These reviews

are designed to help us identify key areas of vulnerability to climate change, the associated impact on property portfolios and economic activity. We also aim to review our policies and procedures with respect to physical risks associated with climate change for our own buildings and branches. These reviews will help us to understand any gaps in policies and procedures and will also improve our understanding of our physical risk exposure and how this might change over time.

In next year's TCFD disclosure, we also expect to disclose more qualitative information on our approach to climate stress testing.

Memberships

Founding member, the Climate Finance Leadership Initiative

Founding member, Chapter Zero: The Directors' Climate Forum

Member, the FCA and PRA's Climate Financial Risk Forum ('CFRF')

Chair, climate risk working group of the CFRF

For further details of our sustainability-related memberships, see www.hsbc.com/our-approach/esg-information/sustainability-memberships.

Table 2: Customers' questionnaire responses and pilot carbon intensity metrics

	Oil and gas	Building and construction	Chemicals	Automotive	Power and utilities	Metals and mining	Total
Proportion of sector for which questionnaires were completed ⁴	33%	37%	27%	39%	30%	44%	34%
Proportion of questionnaire responses that reported either having a board policy or a management plan ⁴	84%	51%	85%	64%	94%	62%	72%
Sector weight as proportion of high transition risk sector ⁴	18%	19%	19%	15%	15%	13%	100%
Pilot as % of total sector ⁴	38%	41%	30%	52%	42%	46%	41%
Proportion of pilot that report carbon intensity metric through CDP ⁴	49%	53%	38%	48%	38%	30%	44%
Weighted average carbon emissions per million dollars of revenue (total client emissions/revenue weighted by exposure) ^{4,5}	688	408	517	301	7,235	787	

⁴ All percentages are weighted by exposure.

⁵ Customer responses to CDP have been used to formulate the carbon intensity metrics in table 2. If a client does not complete the CDP questionnaire, information is not included in the metrics. The CDP questionnaire is voluntarily completed by clients between April and July of a given year and may not all be from a single point in time. Figures obtained from CDP have not been separately validated. The carbon intensity ratio is calculated by CDP using both reported figures and estimated data. Carbon emissions are measured in tonnes of carbon dioxide equivalent (tCO₂e) and revenue is measured in millions of US dollars.



Our approach to sustainability risk management

We recognise that businesses can have an impact on the environment, individuals and communities around them. We have developed, implemented and refined our approach to working with our business customers to understand and manage these issues.

We define sustainability risk as the risk that the financial services that we provide to customers, and indeed our own activities, could contribute to unacceptable impacts on people or the environment. We seek to analyse the impact of ESG issues and follow international good practice in these areas. We believe that one of the key ways in which we can contribute to sustainable development is to create partnerships with our customers to help improve their standards of sustainability.

Our policy approach

Our sustainability risk policies are focused on sectors that may have high adverse impacts on people or the environment and in which we have a significant number of customers. These policies cover agricultural commodities, chemicals, defence, energy, forestry, mining and metals, UNESCO World Heritage Sites, and Ramsar-designated wetlands.

These policies define our appetite for business in these sectors, and seek to encourage customers to meet good international standards of practice. Where we identify activities that could cause material negative impacts, we will only provide finance if we can confirm customers are managing these risks responsibly. Such customers are subject to greater due diligence and generally require additional approval by sustainability risk specialists. We will not provide finance if the business activities are not aligned to our aims and values.

Our sustainability policies are being aligned with our approach to climate risk, which is being enhanced during 2020.

For further details, see our TCFD on page 40.

Certification schemes

One way that we aim to encourage good standards from our customers is through the use of internationally recognised certification schemes, such as in our approach to the palm oil sector (for further details, see below). In the forestry sector, our policy for financing forest plantations or downstream supply chain operations, which are located in or sourced from high-risk countries, is linked to certification by the Forestry Stewardship Council or the Programme for the Endorsement of Forest Certification.

One challenge to our approach is that many of our customers have a diverse portfolio of businesses that operate across a wide range of sectors. In such cases, we will not finance any activity that does not meet our policy requirements. However, we may support that customer's other business activities, which will have economic and other benefits to society.

This approach allows us to continue to engage and influence our customers, as well as to support them in moving towards good practice in all of their businesses.

For further details of our policy prohibitions and other financing restrictions, see: www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Sustainability risk management

Within our risk function, we have created a combined reputational and sustainability risk team in order to further improve the way we manage these risks. The team is responsible for reviewing, implementing and managing our sustainability risk policies as well as our application of the Equator Principles. Our global network of 84 sustainability risk managers supports the implementation of these policies.

We check whether customers in sensitive sectors comply with our policies at the start of any financing relationship and we monitor them each year using the same systems applied to monitoring credit risk. If a customer is not complying with our policies, but has the appetite to make changes, we aim to support it through the process of carrying out the necessary improvements to become compliant.

Our approach to palm oil

In the palm oil sector, our policies are linked to certification under the Roundtable on Sustainable Palm Oil ('RSPO') for palm oil growers, physical traders or refiners, as well as No Deforestation, No Peat and No Exploitation commitments.

We have been a Board member of the RSPO since its inception in 2004. In 2019, in line with promoting good corporate governance,

we agreed that another major international bank would take our place. We remain committed to the RSPO and certified sustainable palm oil, and will continue to support continual improvement through our membership of committees or task forces.

Our approach to sustainability risk management

For this to be possible, we need to be sure that we can agree a credible action plan with our customers to achieve compliance in a reasonable timeframe. If customers are unable or unwilling to improve to meet our standards over that reasonable timeframe, we aim to end the relationship soon as is contractually possible.

We recognise that there are increasing demands on banks and other institutions for disclosure and are working on metrics to provide more insight into our portfolios without compromising our duty to client confidentiality.

We also use the same sustainability risk policies for our insurance-related investments as we do for our lending business. Our insurance business, which provides a broad range of insurance products and services to customers globally within our RBWM global business, also takes ESG risk factors into account when investing on behalf of customers.

For further details of our approach to sustainable investments, see page 36.

Equator Principles in 2019

We were an early adopter of the Equator Principles in 2003. Since then the Equator Principles Association has expanded rapidly, reaching over 100 members.

The Principles provide a due diligence framework to manage the environmental and social risk of financing large projects. The Equator Principles Association has undertaken a targeted review of the Principles, with a focus on social impact and human rights, climate change, standards and scope of application. We contributed actively to this review, which was concluded and agreed by its members in November 2019.

We report annually on the transactions completed under the principles.

- Our latest Equator Principles report is available at: www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk/equator-principles.
- For further details of our approach to human rights, see page 55.

Our approach to coal

We have no appetite for the development of new thermal coal mines or activity that involves mountaintop removal. All other finance of mining activity is subject to due diligence including reviewing the customer's track record on health and safety issues as well as human rights concerns.

We strengthened our energy policy in 2018 so that we will not finance any new coal-fired power plants, with the targeted and time limited exceptions of Bangladesh, Indonesia and Vietnam to appropriately balance local humanitarian needs with the need to transition to a low-carbon economy.

Since then, we have not agreed any project financing for any new coal-fired power plants anywhere.



Suppliers

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 local requirements, including the Prompt Payment Code in the UK.

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 help 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 our 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. Our supplier diversity and inclusion action plan encourages the use of minority owned and SME businesses.

- Our supplier code of conduct and diversity initiative are available at: www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers.



Sustainable operations

Achieving our 2020 operational goals

We believe it is important to support the global transition to a low-carbon economy by leading by example in our own operations.

In 2012, we set environmental and ethical targets to achieve by the end of 2020, including strategic goals to reduce our carbon emissions and usage of energy, waste, water and paper. We also set targets to increase recycling of our office and electronic waste, and aim to commission buildings to the highest sustainability standards.

We reached our paper, waste, energy and carbon reduction targets ahead of schedule, and in 2017 we stretched these to more ambitious goals. We also

committed to procuring 100% of electricity from renewable sources by 2030. In 2019, we achieved both our energy and paper reduction stretch targets ahead of our 2020 deadline. As we continue to work towards achieving our remaining 2020 goals, we also are working on the next phase of our operational sustainability strategy.

29.4%

Renewable electricity signed from power purchase agreements
(2018: 28.5%)

These goals are governed by the Group Chief Operating Officer's Sustainability Committee, which meets quarterly. Each goal is 'owned' by an executive sponsor who is responsible for the delivery of the target.

We collaborate closely with our strategic suppliers to help achieve our goals, while our people play a key role in supporting sustainability initiatives at work and in the communities we serve. We also aim to fund innovative pilot projects that support our operational sustainability goals.

Reducing carbon emissions

Launched in 2012, our overall goal was to reduce carbon emissions to 2.5 tonnes per FTE by the end of 2020. We achieved this goal in 2017, and stretched this goal to 2.0 tonnes per full-time equivalent employee ('FTE') by the end of 2020. By year end 2019, we reduced carbon emissions to 2.26 tonnes per FTE. We achieved this by cutting our energy consumption, being more efficient in our building management, working with our strategic partners and focusing on a renewable procurement strategy. Since 2011, our carbon emissions have fallen by 35% per FTE, to a total of 530,000 tonnes by 2019¹.

As energy makes up 78% of our carbon emissions, we continue to focus on energy reduction and efficiency projects. During 2019, we implemented over 810 energy conservation measures, such as replacing aged air-cooled chillers, installing LED lamps and upgrading controls on major electrical equipment to provide more efficient use. These energy conservation measures amounted to an estimated energy avoidance in excess of 22 million kWh. In 2019, we achieved our energy reduction target of

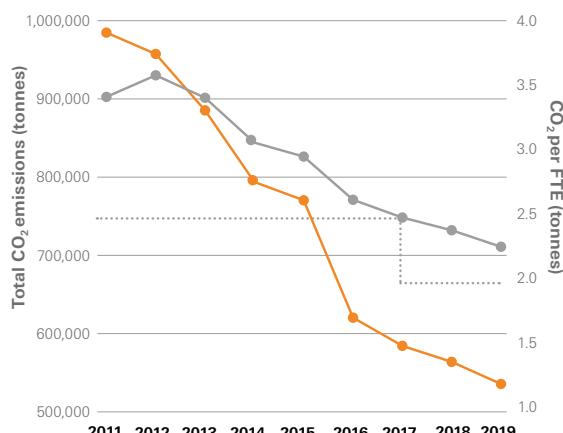
1.2MWh/FTE by 2020 with a final reduction of 1.4MWh/FTE. As a way to encourage smart travel, we encourage employees to use various types of IT solutions to connect with colleagues around the globe and support flexible working. In 2019, we improved IT solutions to support connectivity via audio and video conferencing.

In 2019, the way carbon emissions were reported to the Hong Kong market changed in accordance with the Greenhouse Gas Protocol guidance. This change resulted in an increase of 4% in our total reported carbon emissions for 2019 as Hong Kong represented our second largest electricity consumption market.

35%

Reduction in carbon emissions per FTE from 2011 baseline

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

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 at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Sustainable operations

Achieving our 2020 operational goals continued

Our renewable electricity challenge

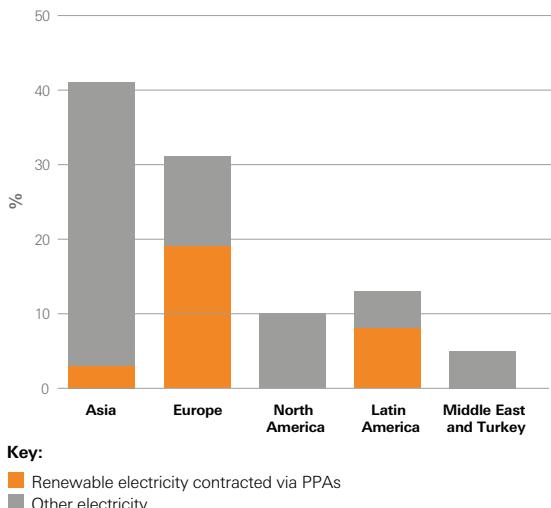
Our carbon and renewable strategy has evolved as we sought to take a more active approach by setting reduction targets and being active in the energy markets in which we operate. Between 2005 and 2011, we were carbon neutral thanks to our carbon offset programme. Since then, our strategy has shifted from purchasing renewable energy credits to influencing the markets in which we operate by sourcing electricity through power purchase agreements ('PPAs') that bring additional renewable energy to the country's local grid.

In 2017, we made a commitment to ensure that 100% of our electricity would be obtained from renewable sources by 2030, with an interim commitment of 90% by 2025. By the end of 2019, we contracted up to 29.4% of our electricity consumption through PPAs in various countries. Reaching our 100% target via PPAs will be a challenge

to achieve due to several factors, including having operations in markets where PPA structures are currently unavailable. In markets where we have a small electricity consumption and the PPA market is active, we are focusing on collaborating and finding partnerships with other companies to find solutions. In 2019, we installed small solar panels in properties in Oman, Bahrain and Malta.

We are members of RE100, a global initiative of more than 200 influential businesses who are committed to 100% renewable electricity, and to supporting the opening up of PPA markets and encouraging new, innovative solutions. By finding solutions for problems we face in procuring renewable electricity, we not only help achieve our ambitious goal, but also help our customers and other companies solve their renewable sourcing problems.

Breakdown of electricity consumption by region 2019 (%)



Our waste challenge

One of our 2020 goals was to reduce our total waste by 50% from our 2011 baseline. This was achieved in 2015 and so was stretched to 75% from the 2011 baseline. By the end of 2019, we reduced our total waste by 66%. We continued to make progress with our waste reduction target, but it will be difficult to achieve the last 9% of our stretch target as this represents general waste in our buildings. Reducing this means changing people's behaviours to simply create less daily waste.

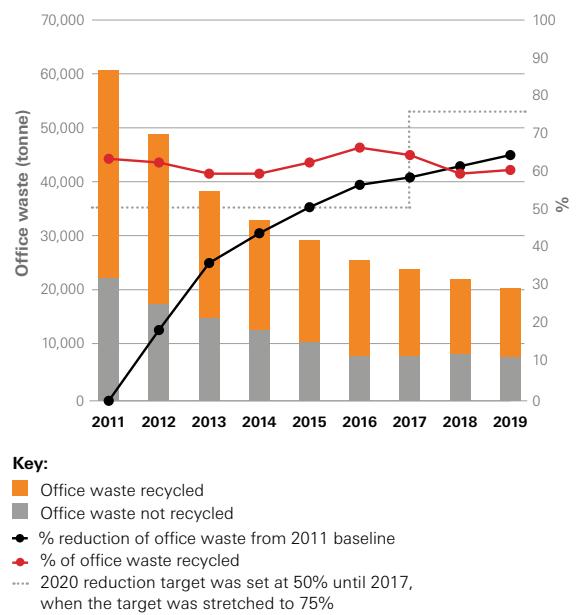
In 2019, we identified which of our buildings produced the majority of our waste and launched a 'pledge to reduce' campaign to raise awareness among our people and encourage action. We also created a video following two employees on a zero-waste challenge in which they identified and acted on daily behavioural changes. This encouraged colleagues to take action and join in on the challenge by making individual pledges.

Our recycling target is for 100% of our office and electronic waste to be recycled by 2020. In 2019, we recycled 62% of our office waste. Recycling can be confusing across markets and cities, and solutions have to be local. During 2019, local events took place to engage

and educate employees about recycling practices. We will continue to educate and empower our people to take action to reduce, segregate and recycle office waste. Further, we have worked with our catering partners to remove single-use plastics from the majority of our larger offices and with our facilities manager to provide clearer recycling signage.

We continue to pursue our target to reduce our electronic waste, although we are not yet confident that we have sufficient representative data to track this target under uniform methodology and report a global figure. In order to better address our e-waste target, at the beginning of 2019 we created a global working group with representatives from IT, Procurement and Sustainability to capture and report our e-waste practices around the world. Having multiple suppliers in different regions leads to challenges when consolidating reporting under one consistent metric across all markets. We will continue to improve the collection and collation of data in partnership with our various suppliers to support global reporting of our e-waste practices across markets and adherence to our targets.

Waste reduction and recycling (tonnes and percentage)



- For further details about our sustainable operations, see: www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-operations.



Committed to communities



3,900

People trained on freshwater conservation

Our approach to partnerships

Throughout our history, we have been committed to contributing to the long-term prosperity of our communities. In 2019, we contributed \$100.7m to charities and non-governmental organisations ('NGOs') running environmental and community focused projects in a number of jurisdictions. We support partnerships that help develop responsible businesses and we focus on improving the employability and financial capability skills needed to help our people and communities thrive. We work with our network to support local causes and help provide relief in incidents of natural disaster.

Skills for a sustainable future

In a world of rapidly changing technology and wealth inequality, new skills are needed to succeed.

In 2019, we donated more than \$9.6 million to charitable partnerships focused on building financial capability and another \$26 million on enhancing employability skills. These are projected by charities to have benefited more than 810,000 people around the world in 2019.

We have a long tradition of growing financial literacy in our communities. Our 11-year partnership with Junior Achievement supported more than 687,000 young people, aged seven to 11, to develop essential money management skills in 30 countries.

Our people often volunteer their time and skills to help such initiatives. More than 11,000 of our people supported the JA More Than Money programme, and our Hong Kong

business was awarded the Quality Award and the Financial Education Champion 2020 Award by the Investor Financial and Education Council.

The world of work is evolving rapidly. We support research designed to help our people and communities develop the skills needed to navigate these changes. In January 2019, we co-sponsored a special chapter focused on labour resilience in the financial sector within the wider Global Labour Resilience Index report. This report, entitled 'Unlocking the full potential of work', was published at the World Economic Forum.

Globally, we invest in communities to support in-need groups grow their future skills. In Australia, Canada and Mexico we have partnerships with charities to support indigenous peoples to have access to and complete secondary and post-secondary education, as well as gain practical work experience.

Our corporate volunteering

Our people volunteer time and expertise to support their local communities with global impact. We are committed to helping our people contribute to the communities in which we work, and encourage volunteering through paid volunteering days. In 2019, our people gave 257,000 hours to community activities during work time.



The China Social Welfare Foundation

The China Social Welfare Foundation ('CSWF'), founded in 2005, is one of the country's largest non-profit organisations.

Its purpose is to support the poor and disadvantaged through skills development and public social welfare programmes.

We have worked with CSWF since 2011 by supporting disadvantaged children to develop essential skills through a number of financial education programmes. In 2018, our cooperation with CSWF expanded to a

new adult beneficiary group with the launch of a programme called the Financial Capability Education for Workers on Belt and Road Initiative Infrastructure Projects.

This programme targets training over 10,000 volunteers to deliver financial capability workshops and training around 60,000 workers engaged on key construction projects within the Belt and Road Initiative, including many working in the shipping, railroad and energy sectors by 2020.

Our approach to partnerships continued

Concluding the HSBC Water Programme

The HSBC Water Programme, which launched in 2012, came to an end in December 2019. The programme, a partnership with Earthwatch, WaterAid and WWF, supported 72 projects in 42 countries that were nominated by our people.

This \$150 million programme created lasting improvements through water provision, protection, education and scientific research.

In partnership with WaterAid, the HSBC Water Programme helped to tackle the world's water and sanitation crises, focusing on six countries. This joint work meant that more than 3.5 million people have been shown how to improve their hygiene behaviour, which helps prevent the spread of disease. The programme also provided clean water to 1.7 million people, and 2.7 million people received improved sanitation.

The HSBC Water Programme also worked with WWF to train more than 3,900 people on freshwater conservation and protect over 760,000 hectares of wetland. It brought into force 32 new policies, standards, guidelines and legislation that aimed to improve the health of five priority areas: the Ganges, Mara, Mekong, Pantanal and Yangtze.

Collaborating with Earthwatch, it funded a training and research programme that ran between 2017 and 2019, which empowered our people to become sustainability champions. The initiative resulted in more than 1,800 colleagues being trained and over 50,000 data points collected for scientific research on urban climate resilience. Earlier in the partnership, Earthwatch engaged more than 8,000 HSBC colleagues in citizen science, gathering data for over 40 scientific publications on water quality and nature-based solutions.

For further details of the HSBC Water Programme, see www.waterprogramme.org.

Our water programme in partnership

The HSBC Water Programme supported WaterAid's and WWF's work in garment factories, tanneries and mills to improve their environmental and social impact by the end of 2020. Its work has included:

- In China, WWF and its retail brand partners trained Chinese apparel producers to overcome water challenges and introduce better water use within industrial parks.
- In Bangladesh and India, an initiative delivered essential water and sanitation services in apparel factories and surrounding communities. This project enabled WaterAid to gather data to provide evidence of the financial benefits of water, sanitation and hygiene interventions.
- In Vietnam, the programme supported WWF's collaboration with policymakers, clothing manufacturers and retailers to help small and medium-sized enterprises improve their water and energy management practices.

Looking ahead

In 2020, we intend to launch our new global initiative to address climate change in collaboration with charities and other industry partners. This will be a five-year programme to identify and catalyse solutions to climate change, focusing on energy transition in emerging markets, business innovation, natural carbon sinks and protecting nature.



The Tatawwar programme

In 2018, the Tatawwar programme was launched in the United Arab Emirates, Oman, Egypt, Bahrain and Qatar. The programme, meaning 'to develop' in Arabic, runs in partnership with the British Council and Potential.com with the aim to give young people in these markets the chance to develop essential business skills, build their social awareness and create sustainable solutions for the communities in which they live.

In the 2018–2019 academic year, Tatawwar reached more than 475 young people through webinars and workshops. The programme is continuing with Potential.com in the 2019–2020 academic year to further support young people in their journey to develop future skills.

2.7 million

People received improved sanitation as a result of the HSBC Water Programme

\$100.7m

Contributed to charities and NGOs running environmental and community focused projects



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 help prevent their recurrence.

We meet our responsibilities to society, including through paying taxes and being transparent in our approach. 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.

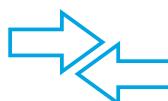
We acknowledge that increasing financial inclusion is a continuing effort, and we are carrying out a number of initiatives to increase access to financial services.



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.

Safeguarding the financial system



>689 million

Transactions across 236 million accounts that we screen each month for signs of money laundering and financial crime



50,000

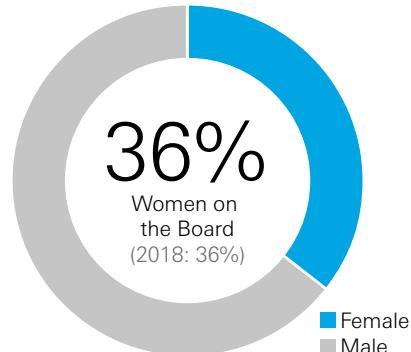
Approximately 50,000 suspicious activity reports filed to law enforcement and regulatory authorities

Corporate governance



6

Number of executive and non-executive committee meetings where sustainability was discussed
(2018: 10)



A responsible approach to tax



\$5.6bn

Taxes paid in 2019
(2018: \$7.0bn)

\$9.3bn

Taxes collected on behalf of governments
(2018: \$7.6bn)



Ensuring strong corporate governance

We are committed to high standards of corporate governance. The Group has a comprehensive range of policies and systems in place to ensure that it is well managed, with effective oversight and controls. We comply with the applicable provisions of the UK Corporate Governance Code and the requirements of the Hong Kong Corporate Governance Code.

For further details of our corporate governance practices, see our *Annual Report and Accounts 2019*.

The Board and its role

The Board aims to promote the Group's long-term success and deliver sustainable value to investors and other stakeholders, as well as encouraging a culture of risk awareness, 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.

Powers of the Board

In exercising its duty to promote the success of the Group, the Board is responsible for overseeing the management of HSBC globally and, in so doing, may exercise its powers, subject to any relevant laws, regulations and HSBC's articles of association.

The Board is committed to effective engagement and fostering its relationship with all of its stakeholders. The Board receives reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators, governments and investors, which it takes into account in discussions and in the decision-making process under section 172 of the Companies Act 2006. Further information on how the Directors have had regard to the matters set out in section 172 when discharging their duties is disclosed on pages 42 and 43 of the *Annual Report and Accounts 2019*.

Additional non-financial disclosures detailing the policies pursued by HSBC in relation to the workforce, environment, social matters, human rights, and anti-corruption and anti-bribery matters are included in other sections of the *Annual Report and Accounts 2019* and this *ESG Update*.

Certain matters, including the review and approval of annual operating plans, risk appetite, performance targets, credit or market risk limits and any substantial change in balance sheet management policy, require Board approval before implementation. Acquisitions, disposals, investments, capital expenditure or realisation or creation of a new venture, which are above certain limits, also require prior Board approval.

Shareholder engagement

The Board gives a high priority to communicating with shareholders. Extensive information about HSBC and its activities is provided to shareholders in the *Annual Report and Accounts* and the *Interim Report* as well as on www.hsbc.com. To complement the regular publications provided on HSBC's website, there is regular dialogue with institutional investors.

Any individual or institutional investor can make an enquiry by contacting the investor relations team, Group Chairman, Group Chief Executive, Group Chief Financial Officer and Group Company Secretary and Chief Governance Officer. Our Senior Independent Director is also available to shareholders if they have concerns that cannot be resolved or for which the normal channels would not be appropriate. He can be contacted via the Group Company Secretary and Chief Governance Officer at 8 Canada Square, London E14 5HQ.

Sustainability governance

The Board has oversight of the Group's sustainability initiatives, and through the Group Audit Committee it has oversight of ESG reporting. 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.

In 2019, the Board held a one-day sustainable finance and climate change 'master class'; the Group Risk Committee carried out a thematic review of sustainability and climate change risk management; and the Group Audit Committee discussed ESG at four separate meetings. The Group Risk Committee is responsible for overseeing enterprise risks that have an impact on the Group, including climate risk. The Group Audit Committee responsibilities include reviewing disclosures in the *ESG Update*. This helps to ensure our sustainability agenda remains prominent at the most senior levels.

Executive responsibility for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework resides with the Group Chief Risk Officer. In 2019, the Group Chief Risk Officer was also a member of the Board. With effect from 1 January 2020, this role ceased to be a Board member but the Group Chief Risk Officer will still attend Board meetings. The Group Chief Risk Officer is supported by the Risk Management Meeting of the Group Management Board.

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 chairs of this committee are members of the Group Risk Management Board.

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.

For further details, see our TCFD disclosure on page 40.



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 \$881m in drug proceeds to be laundered through HSBC into the US financial system and approximately \$660m 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, which 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. 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. In 2013, we also established a Financial System Vulnerabilities Committee ('FSVC') to oversee our financial crime risk management reforms. The FSVC reported to the Board on matters relating to financial crime and financial system abuse, and provided a forward-looking perspective on financial crime risk, anti-bribery and corruption. More recently, in order to simplify our governance framework and processes, and as a reflection of the completion of Global Standards and the growing maturity of our financial crime and fraud risk management, responsibility for the oversight of financial crime risk has now transferred from the FSVC to the Group Risk Committee, with the final meeting of the FSVC taking place on 15 January 2020.

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 continue to 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.

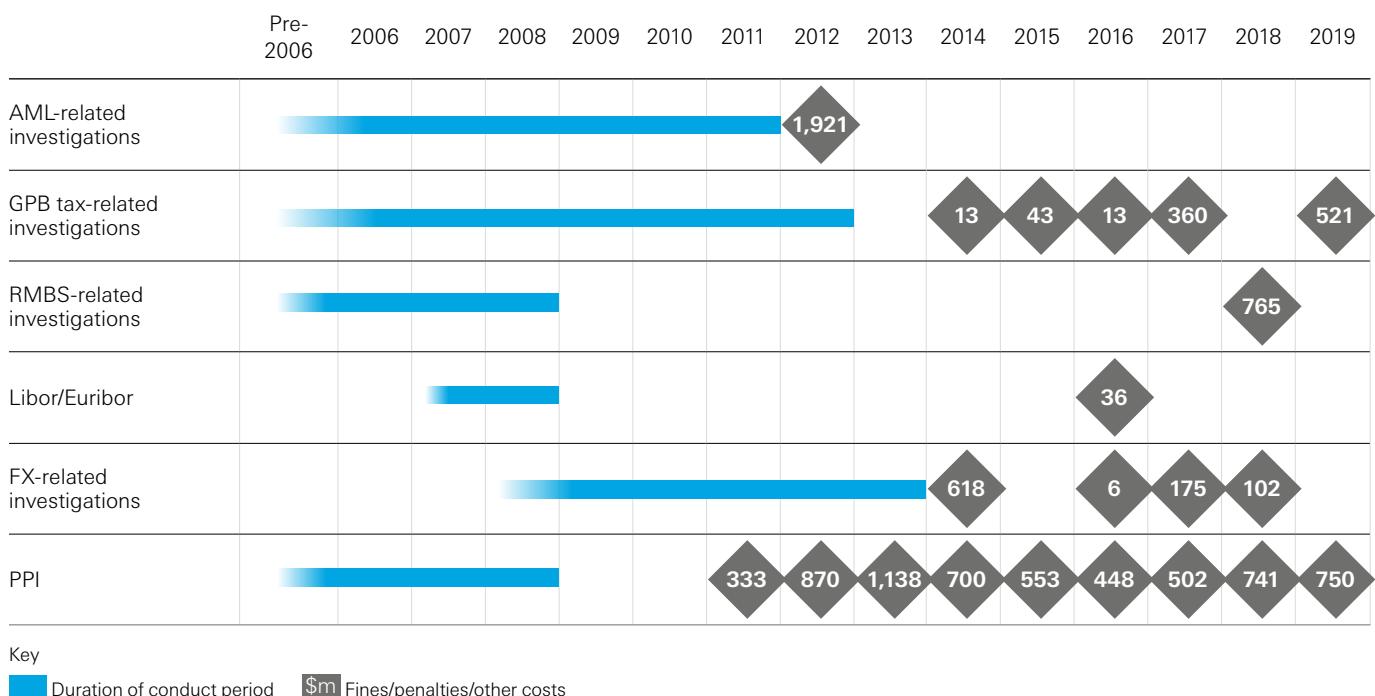
The AML DPA expired in December 2017, and we are pleased that our progress in strengthening our AML and sanctions compliance capabilities has been recognised. Our work in this area will continue to be consistent with our strategic priority of safeguarding our customers and delivering industry-leading 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 continue to build a dynamic risk assessment process which will enable us to be faster and more accurate at detecting potential financial crime. 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 details about our financial crime risk management initiatives, see page 53.

Restoring trust

Major criminal and regulatory fines and penalties and PPI remediation¹



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.

Customer tax evasion

Prior to 2011, our Swiss private bank provided its customers with traditional Swiss banking services, 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 with the knowledge that customers would use them in order to conceal their assets from tax authorities.

HSBC has already reached agreements with multiple law enforcement authorities to resolve investigations relating to allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation arising out of these past practices. These include the deferred prosecution agreement entered into between our Swiss private bank and the DoJ in December 2019 (the 'Swiss Tax DPA'). 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 the past than they are today. With hindsight, it is clear that we maintained too many small and high-risk

customer accounts and our private banking business was stretched over too many geographical markets, all of which contributed to failings in standards, culture and controls.

In recent years, our 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 and could not be resolved. GPB has also amended its standard terms and conditions, which now require customers to affirm that they are in

35

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

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. These significant reforms have been noted by law enforcement authorities. For example, in the Swiss Tax DPA, the DoJ acknowledged that our Swiss private bank had, among other things, "substantially reduced the total number of markets and clients it serves"; "undertaken substantial remedial measures and extensively cooperated with the Department of Justice and IRS's investigation"; and "implemented new policies and procedures intended to protect against the use of its services for tax evasion, including policies limiting cash withdrawals and discontinuing the use of hold mail, as well as a tax transparency policy that required a review of accounts against possible indicia of tax evasion and the closure of any account with unresolved issues".

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 35 strategic markets, with customer assets actively managed down by \$140bn between 2013 and 2018.

► For further details about our Global Private Banking customers, see page 20.

Foreign exchange conduct

Prior to 2013, our foreign exchange ('FX') business lacked adequate governance, oversight and risk management to ensure compliance with safe and sound banking practices and applicable internal policies. 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 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 are continuing to work on implementing improvements to algorithmic trading to manage risk around benchmark orders, and embedding our updated policies and procedures for sales, order handling, managing confidential customer information and conflicts of interest, pre-hedging and market abuse. In 2019, we introduced further improvements to the management of sensitive information through technology controls, procedures and related training. 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 details about our Global Banking and Markets customers, see page 18.



Safeguarding the financial system

We have continued to make strong progress towards becoming a recognised industry leader in managing financial crime risks, which include money laundering, bribery and corruption, sanctions breaches and terrorist financing. Collectively these pose significant risks for HSBC and the financial services industry and create huge costs for wider society. A range of initiatives will make us better at managing these risks.

1 Technology

We are investing in and developing new technologies that we believe will enable us to make a significant impact on the fight against financial crime.

Our global social network analytics platform, which we launched in 2018, enables us to identify links between different customers and transactions, making it easier to see where there might be criminal networks. In 2019, the platform won two industry awards: the Celent Model Bank Award for Risk Management and *The Banker's* Tech Project Award for Compliance. In August 2019, we became the first bank to introduce a system that will automatically screen all our trade finance transactions for potential signs of financial crime.

Our flagship technology initiative will dynamically assess the potential financial crime risk an individual customer presents by analysing a range of data sources. We began trials on a restricted version of the system in 2019, having successfully tested a prototype in 2018. This will help us to develop the final system, which we believe will enable us to be faster and more accurate at detecting suspicious activity and be more granular in our risk assessments.



The scale of our work

Each month, we screen over 689 million transactions across 236 million accounts for signs of money laundering and financial crime. In addition, we screen approximately 131 million customer records and 40 million transactions monthly for sanctions exposures. During 2019, we filed almost 50,000 suspicious activity reports to law enforcement and regulatory authorities where we identified potential financial crime.

2 Other financial crime workstreams

Our enhanced ability to manage money-laundering and sanctions risks has now transferred to the business and function management in the countries and territories where we operate. They manage those risks based on our operational risk management framework which provides the overarching approach used across the bank.

Our three-year anti-bribery and corruption programme, which we launched in 2017, has strengthened our controls and processes, and improved our global register for associated persons. The programme is now focused on enhancing the global gifts and entertainments register, which provides a consistent way to record, notify, approve and monitor gifts and entertainment.

The global fraud landscape is characterised by increasingly sophisticated attacks targeting online banking and other digital services. Our multi-year fraud transformation programme, which we launched in 2018, continues to prioritise investment in technology-based defences and training of our people to enhance our fraud defences.



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 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 subsidiaries located in very low or nil tax jurisdictions to 44 by the end of 2019. This excludes subsidiaries located in low or nil tax jurisdictions which are subject to tax in another jurisdiction. We intend to continue this process, 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.

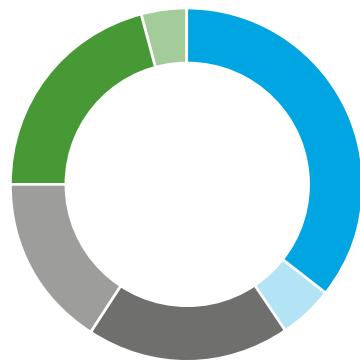
For further details of our approach to financial crime and action we have taken, see page 50.

Our tax contributions

The effective tax rate for the year was 34.8%. Further detail is provided on page 259 of our *Annual Report and Accounts 2019*.

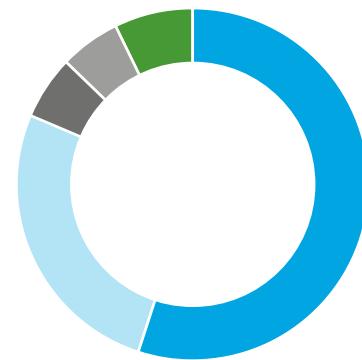
As highlighted below, in addition to paying \$5.6bn of our own tax liabilities during 2019, we collected taxes of \$9.3bn on behalf of governments around the world. A more detailed geographical breakdown of the taxes paid in 2019 is provided on page 72 of our *Annual Report and Accounts 2019*. The tax we paid during 2019 was lower than in 2018 due to differences in the timing of payments.

Taxes paid – by type of tax



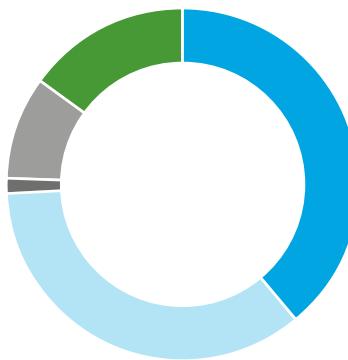
Tax on profits **\$1,988m** (2018: \$3,141m)
 Withholding taxes **\$282m** (2018: \$276m)
 Employer taxes **\$1,041m** (2018: \$1,068m)
 Bank levy **\$889m** (2018: \$1,135m)
 Irrecoverable VAT **\$1,164m** (2018: \$1,074m)
 Other duties and levies **\$227m** (2018: \$360m)

Taxes paid – by region



Europe **\$3,077m** (2018: \$3,398m)
 Asia-Pacific **\$1,487m** (2018: \$2,742m)
 Middle East and North Africa **\$313m** (2018: \$234m)
 North America **\$314m** (2018: \$399m)
 Latin America **\$400m** (2018: \$281m)

Taxes collected – by region



Europe **\$3,636m** (2018: \$2,259m)
 Asia-Pacific **\$3,288m** (2018: \$3,025m)
 Middle East and North Africa **\$127m** (2018: \$118m)
 North America **\$876m** (2018: \$1,096m)
 Latin America **\$1,379m** (2018: \$1,148m)



Respecting human rights

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. We have signed, or expressed support for, a number of international codes, as set out in our 2015 Statement on Human Rights.

Our Human Rights Steering Committee, which we set up in 2018, continues to develop our approach to human rights. This approach will incorporate recommendations from initiatives such as the OECD's *Due Diligence Guidance for Responsible Business Conduct*, published in May 2018. It will also incorporate recommendations from the OECD's *Due Diligence Guidance for Responsible Corporate Lending and Securities Underwriting*, published in October 2019.

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, where their workplace is an environment free from bias, discrimination and harassment, and where our people 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'). Our global internal policies expressly set out our respect for our people's right to freedom of association. Given our diverse footprint, we negotiate, consult and engage with a diverse range of works councils, trade unions and employee representative groups on a range of issues. In relation to pay, a proportion of our workforce is covered by collective bargaining agreements.

► For further details of the diversity of our workforce, see page 30.

Suppliers

We request that all suppliers of goods and services comply with our ethical and environmental code of conduct. We expect our suppliers to respect the human rights of their employees and comply with all relevant legislation, regulations and directives in the countries and communities in which they operate. Our code of conduct states our commitment to making a positive contribution to human rights, reflecting the UDHR and ILO Declaration principles.

In 2019, our Corporate Real Estate function worked with one of our suppliers, using a risk-based approach, to select and review 55 suppliers from its supply chain. These subcontractors, located in 22 countries and territories in Asia, the Middle East and North Africa, Latin America and Europe, provide important outsourced services to HSBC. More than 1,000 checks were completed with near full compliance observed. We found no indicators of modern slavery, but we identified a small number of other exceptions where our ethical and environmental standards were not fully met. These exceptions are being addressed in collaboration with the respective suppliers.

► For further details of our approach to suppliers, see: www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers.

Customers

The principal aim of the UN Guiding Principles 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. For further details, see page 42. 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.

Modern Slavery Act

Our statement under the UK's 2015 Modern Slavery and Human Trafficking Act gives details of our work in combating modern slavery. As well as addressing this in our

own operations and supply chains, we are raising awareness with our customers in designated sectors and regions as part of our annual credit review processes. We are educating our own colleagues through training and communications.

► For further details of our approach to modern slavery, see www.hsbc.com/our-approach/risk-and-responsibility/modern-slavery-act.

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 2019 and continued our involvement with the Thun Group, an informal group of bank representatives that provides guidance on how the UN Guiding Principles 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.

Our pioneering scheme to help survivors of human trafficking is being used as a model for making financial services more accessible to vulnerable communities through the UN's finance against slavery and trafficking project. We have also taken the next step to support homeless and disadvantaged customers. With both initiatives, we aim to apply strong ethical standards when making decisions on risk to ensure better customer experiences.

We have engaged with and led global and regional work through the Thomson Reuters Foundation on anti-human trafficking toolkits. This work has centred on the US, Europe and Asia-Pacific and is available across the industry. Further, HSBC has been shortlisted by Thomson Reuters Foundation for a Stop Slavery Award in 2020.

In September 2019, we hosted the annual Banks and Civil Society meeting, which brought together more than 15 banks and 10 members of civil society to discuss live and emerging ESG issues, including human rights.

We continue to meet or exchange correspondence with NGOs and civil society groups when they raise concerns related to HSBC customers. We investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders.



Supporting financial inclusion



Banking for vulnerable customers

After successfully trialling an approach to providing victims of human trafficking and modern slavery in the UK with monitored bank accounts, the service was made more widely available in 2019. This was a first in the UK and our work was cited by the UN as an example of how banks can support victims of trafficking. Over 300 people had been provided with accounts by December 2019. Our 'no fixed address service' also provides access to banking for the homeless. The service enables vulnerable people without a fixed home address to receive wage and benefit payments, as well as support in rebuilding their lives. As a result, HSBC UK was recognised by *The Banker* as Bank of the Year 2019 for financial inclusion in the UK.

We believe that when more people have access to formal financial services, the community as a whole benefits. In 2019, we increased our pace of investment in making banking accessible and affordable for individuals and businesses in the markets we serve.

Our approach to financial inclusion has three main elements:

1

Access to products and services

We aim to improve the accessibility of our services for our existing customers and the wider community.

We believe that to fully meet the needs of our customers we must build diverse teams that reflect our customer base, design products and services that are aligned to customer needs, and be accessible through customers' preferred channels.

In 2019, we introduced products and services intended to increase access to financial services for people who may have been excluded in the past because they could not qualify for them.

- In August, we became the first bank in Hong Kong to offer free basic banking services, so that a wide range of customers can benefit from safe, affordable transactions and online banking. This action was commended by the Hong Kong Monetary Authority.
- In Mexico, we helped first-time customers with basic needs gain access to financial services by launching Stilo Connect, a low-cost digital account with an instant issue virtual debit card.

We also made changes in 2019 to some of our products with the needs of specific customer groups in mind, such as elderly customers, those with non-traditional family structures, and members of the LGBT+ community.

- In our insurance business, we introduced a product in Hong Kong to support customers developing dementia, offering early screening services (see 'Independence for elderly customers'). In Singapore, a new retirement product has a low minimum premium, high-entry age, and supplementary coverage including Alzheimer's disease or severe dementia.
- In the UK, we removed barriers for transgender customers, such as eliminating the need to provide documentation when informing us of their gender transition. We also provided staff training on gender identity.

After expanding the beneficiary definitions for our life insurance policies in Hong Kong in 2018 to recognise a broader range of family relationships, we were awarded the Service Innovation Award from the Chinese edition of *Bloomberg Businessweek*. We expanded this work to mainland China, and commenced review work across other Asian markets.

As banking becomes more digital, the accessibility of financial services has become an increasing concern. To expand access to banking beyond our branch network, we provide customers in select markets access to cash and simple banking services through third parties such as convenience stores and post offices. In 2019, we focused on improving accessibility for people with disabilities in many of our markets.

- Our browser-based online banking services were digitally accessible for people with disabilities in multiple retail banking markets as of December 2019. This was achieved through making digital accessibility a design foundation and we also carried out a programme to train our technical teams on accessible digital design. We know we have more work to do in this area and aim to make progress in the future.
- By the end of 2019, there were 352 voice navigation-enabled ATMs available across Hong Kong, providing greater accessibility for people with visual impairments and expanding our 'barrier-free banking' programme.

2

Access to financial education

We invest in financial educational to help customers, colleagues, and people in our communities be confident users of financial services.

In order for people to access and make the most of financial services, we appreciate people need to understand how to use them effectively to establish, secure and enhance their well-being and their wealth. We have invested in this financial education effort globally and with all age groups and continue to grow this offering through both in-person events and digital content.

Here are examples of what we delivered in 2019:

- We delivered more than 1,500 financial well-being events in the US, the UK, Mexico, Singapore and Australia, reaching more than 30,000 people.
- We continued to improve our digital financial education offering by making content available online in the UK, Hong Kong, the US, Mexico and Australia. In the US, we introduced a Spanish language version of our Financial Wellness Center, which was created in partnership with community engagement company EverFi. In Hong Kong, we introduced digital content to make investing more accessible by explaining investment products in simple, jargon-free language.
- Globally, we received over 600,000 unique visitors to our digital financial education content in 2019.
- By the end of 2022, we aim to reach four million unique visitors to our digital financial well-being content, which we are expanding to more markets.



Independence for elderly customers

In Hong Kong, we introduced our Basic Banking Account with Independence to complement our Living with Dementia programme. This basic account enables people living with early stages of dementia to manage their everyday finances independently, while customers' families or carers oversee their main financial arrangements. We also updated our procedures with more guidance on topics like powers of attorney and trained 195 branch dementia ambassadors so our colleagues are equipped to help customers navigate their finances during this challenging time. This followed the successful launch of a similar offering in the UK.

3

Engagement with partners

We proactively get feedback from our customers and external partners on how to improve our services for those that need them. Trade associations, governments and regulators are also a valuable source of insight to identify practical barriers to financial inclusion, find ways to improve standards and share best practice.

Here are examples of what we delivered in 2019:

- HSBC UK worked with UK Finance, a trade body, and others to create the Financial Abuse Code of Practice. We implemented this code by providing practical support such as staff procedures, helping people learn to repair their credit history, and geographically untraceable sort codes to protect victims of financial abuse.
- In Hong Kong, we created a partnership with St James' Settlement, a non-profit organisation that provides support to the community, including the elderly and people with disabilities, to help vulnerable people with money management issues. Our team gives talks on managing finances to people living with dementia and their carers.
- In the US, we partnered with the Pacific Asian Consortium in Employment to provide support to help primarily minority-owned small businesses develop credit histories and access credit.

Additional information

Approach to reporting

The information set out in this document, taken together with the information relating to ESG issues in the HSBC Holdings plc *Annual Report and Accounts 2019*, aims to provide key ESG information and data relevant to our operations for the year ended 31 December 2019. 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'). We comply with the "comply or explain" provisions in the ESG Guide, save with respect to the following:

- A1(b) on emissions laws/regulations: we are fully compliant with our publication of information regarding Scope 1 and 2 carbon emissions, but we only partially publish information on Scope 3 carbon emissions, as the data required for that publication is not yet fully available. Our progress on publishing information with respect to Scope 3 is referenced on page 44;
- A1.3 on total hazardous waste produced, A1.6 on the handling of hazardous and non-hazardous waste, A2.2 on water consumption and A2.5 on packaging material: taking into account the nature of our business, we do not consider these to be material issues for our stakeholders; and
- A2.1 on direct energy consumption: taking into account the nature of our business, we do not consider this to be a material issue for our stakeholders. We report on what we consider to be our most relevant operational sustainability KPIs as set out on page 44.

This is aligned with the materiality reporting principle that is set out in the ESG Guide. See 'How we decide what to measure' on page 8 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.

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 2019* for the fiscal year ended 31 December 2019 filed with the Securities and Exchange Commission ('SEC') on Form 20-F on 18 February 2020.

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 2019 Form 20-F and the corresponding Reconciliations of Non-GAAP Financial Measures document, each of which is 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

B

BoE Bank of England

C

CITA Cyber intelligence and threat analysis team

CMB Commercial Banking, a global business

CSWF The China Social Welfare Foundation

D

DoJ US Department of Justice

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

GDPR General Data Protection Regulation

GLCM Global Liquidity and Cash Management

Global Markets HSBC's capital markets services in Global Banking and Markets

GPB Global Private Banking, a global business

Group HSBC Holdings together with its subsidiary undertakings

H

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 Holdings

HSBC UK HSBC UK Bank plc

I

IFRSs International Financial Reporting Standards

The ILO Declaration International Labour Organization Declaration on Fundamental Principles and Rights at 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

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

LTI Long-term incentive scorecard

M

Mainland China People's Republic of China excluding Hong Kong

N

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

RoTE Return on tangible equity

RSPO Roundtable on Sustainable Palm Oil

RWAs Risk-weighted assets

S

SDGs United Nation's Sustainable Development Goals

SEC Securities and Exchange Commission

SMEs Small and medium-sized enterprises

SRI Socially responsible investment

T

TCFD¹ Task Force on Climate-related Financial Disclosures

U

UAE United Arab Emirates

UDHR Universal Declaration of Human Rights

UK United Kingdom

UN United Nations

UN PRI United Nations Principles of Responsible Investment

US United States of America

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.

¹ A full definition is included in the glossary to the *Annual Report and Accounts 2019*, which is available at www.hsbc.com/investors.

Additional information

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/esg-information/esg-reporting-and-policies

On this area of our website you will find our latest reports, statements and policies, including:

- Communication on Progress to UN Principles for Responsible Investment
- Communication on Progress to UN Principles for Sustainable Insurance 2018
- Environmental, Social and Governance Update, April 2019
- HSBC green bond report 2018
- HSBC SDG bond report 2018
- HSBC's \$100bn Sustainable Financing and Investment Commitment – Data Dictionary
- PricewaterhouseCoopers LLP Assurance Report – Carbon Emissions
- PricewaterhouseCoopers LLP Assurance Report – Sustainable Finance
- Reporting Guidelines – Carbon Emissions
- Social and Environmental Key Facts 2018
- Strategic Report 2018
- UK Gender Pay Gap Report 2019

Other relevant website links include:

- Our conduct framework: www.hsbc.com/our-approach/risk-and-responsibility/our-conduct
- Our approach to our people and culture: www.hsbc.com/our-approach/culture-and-people
- Our approach to diversity and inclusion: www.hsbc.com/our-approach/culture-and-people/diversity-and-inclusion
- 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
- Our Principles for the Ethical Use of Big Data and Artificial Intelligence: www.hsbc.com/our-approach/risk-and-responsibility/our-conduct
- Our sustainability memberships: www.hsbc.com/our-approach/esg-information/sustainability-memberships

Photography

Beatrice wind farm image on page 35
courtesy of © Beatrice Offshore Windfarm Ltd

Tatawar programme image on page 47
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