



# HSBC Holdings plc

Environmental, Social and Governance (ESG) Update  
April, 2017



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# About this Document

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The purpose of this document is to provide information to stakeholders about HSBC's approach to key Environmental, Social and Governance ('ESG') issues.

It complements our *Annual Report and Accounts 2016* ('ARA'), which contains details of our organisational structure, global footprint, governance, strategy and financial performance and risk management. It should be read in conjunction with our *Annual Report and Accounts*. Where appropriate, we have provided links to further details set out in our *Annual Report and Accounts* and on [www.hsbc.com](http://www.hsbc.com) throughout this document.

In this document, we have chosen to focus on the issues which we consider are material to our stakeholders. These issues are identified through our ongoing programme of investor, analyst and NGO engagement.

We have included as much data as possible based upon our *Annual Report and Accounts 2016* showing our ESG performance.

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.

# Introduction

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Photo credit: Charles Best

*Stuart Gulliver*

**Stuart Gulliver**  
**Group Chief Executive**

April 2017

As a global financial institution seeking to connect customers to opportunities, we place a high value on gathering the right information. It helps us make better decisions about who we do business with, and where we lend and invest.

Like our clients and shareholders, we are interested in not just the financial performance of prospective partners, but also their attitudes to legal, social and environmental obligations. Strong relationships with customers, employees and wider communities are key to sustainable success, and any business that overlooks its wider impact on people and the planet is unlikely to succeed over the long term.

HSBC, therefore, supports calls for improved non-financial disclosure. In particular, we have been among the most prominent international voices calling for better disclosure of climate-related performance. We are also helping our customers improve their understanding and use of environmental, social and governance (ESG) information. In 2016, HSBC Global Research expanded its coverage of ESG factors to give our clients the information they need to inform their investment decisions.

This ESG Update is our contribution to more meaningful and comprehensive non-financial disclosure. It includes metrics that we have published before in various forms, but it also contains new disclosures that we have never previously released. These include more detailed information on customer complaints and the way that we manage them, as well as the way that we interact with our employees and take account of their views and concerns. It also meets our reporting obligation under the terms of the UN

Global Compact, and we are pleased to reaffirm our commitment to the Compact's 10 principles.

We have a good record in a number of areas. In 2016, for example, we received the highest grade in a global index run by CDP, a not-for-profit organisation that rates companies on their work to mitigate climate change. We are increasing the ambition of our targets to further mitigate the impact of our own day-to-day activities on the environment, in part because of the rapid progress we have already made. I am also proud of our success in making HSBC a more diverse and inclusive workplace which welcomes and supports people of all backgrounds.

In other areas, we are moving in the right direction but have further to go to meet the targets we have set ourselves, and that our shareholders and others expect us to deliver. Being open about this and giving an honest account of our rate of progress is the right thing to do. That is why this is the first of a series of updates to increase and improve the data we disclose, and we will continue to publish new information on [www.hsbc.com](http://www.hsbc.com) as it becomes available.

In line with our values of being open, dependable and connected, the key performance indicators that we have used in this report take account of the views of our stakeholders, including shareholders, customers, employees and non-governmental organisations. We will continue to listen to make these disclosures as useful as possible, and will incorporate any feedback as appropriate in our next ESG Update, due by November 2017.

I hope you find this Update both helpful and informative.

# Customers

We aim to be the world's leading international bank and strive for excellence when it comes to the quality of service and experiences offered to customers. Our goal is to connect them to opportunities that fulfil their hopes and realise their ambitions.

We do this by getting to know our customers, supporting them when they need us most, listening to understand their evolving needs, and addressing their concerns. It's an ongoing process based on continuous dialogue with our customers.

They have made it clear how important transparency and openness is to them and we acknowledge there are ways in which we can always improve. Our customers are at the heart of everything we do and we are working to make things simpler, faster and better for them.

## Understanding our customers

Our customer base ranges from individuals to large, international corporate clients. Our Retail Banking and Wealth Management ('RBWM') business supports 36 million customers worldwide, while Commercial Banking ('CMB') serves approximately two million customers in 54 countries and territories. Our two largest markets, based on value of customer accounts, are the United Kingdom and Hong Kong, with more than \$361bn and \$462bn, respectively (see ARA page 43). We focus this section on our RBWM and CMB customers and on the top ten markets for our RBWM analysis.

## Taking responsibility for the experiences we deliver

We have clear policies, frameworks and governance in place to protect customers. These cover the way we

FIGURE 1  
GLOBAL BUSINESSES: KEY DATA

|                                      | Number of Customers | Adjusted Profit Before Tax (\$m) | Adjusted Revenue (\$m) |
|--------------------------------------|---------------------|----------------------------------|------------------------|
| Retail Banking and Wealth Management | 36m                 | 5,333                            | 18,925                 |
| Commercial Banking                   | approx 2m           | 6,052                            | 12,887                 |
| Global Banking & Markets             | 4,100               | 5,597                            | 14,919                 |
| Global Private Bank                  | approx 50k          | 289                              | 1,757                  |

For further detail, see Annual Report and Accounts 2016, (page 43 and 48).

behave, design products and services, train and incentivise employees, and interact with customers and each other.

Senior leaders have ultimate responsibility for customer service standards and monitor these through key metrics aligned to performance objectives. These include how customers feel about recommending us, and the speed and quality of complaint handling. The targets for each of these metrics are carefully set and managed to instill the right behaviours among our employees.

Having a strong focus on fair outcomes for customers is central to our long-term success. The non-executive Directors of the Board, through the Conduct & Values Committee, oversee the ways in which we conduct our business and ensure we align with our values.

## Products designed with customers in mind

Too many options are confusing. This is why we provide a carefully selected range of solutions, aligned to our customers' needs. Products and pricing changes are assessed against a global customer focused framework, and are only available to those with the appropriate needs, level of knowledge, experience and understanding. A Sales

Suitability Forum of senior managers acts as quality control for this process and ensures all relevant information is disclosed.

We also support the [UN Principles for Sustainable Insurance](#) and believe it is important to offer products and services that whenever possible do not discriminate against our customers due to any point of personal difference, ensuring the products we offer are relevant to different customer circumstances. We aim to make better products and services that reflect the diverse society and the diverse needs of our customers.

In 2016, teams in various countries have been reviewing their existing insurance products against a diversity and inclusion framework, while working within their legal and regulatory requirements. In Hong Kong, we launched a new high end medical product which offers a family discount to married couples, same sex partners and *de facto* relationships. In Mexico, we expanded the definition of children to more broadly cover financial dependants which will enable adopted children to be beneficiaries for our term and protection policies. Further product changes have been identified in other countries and will be progressed throughout 2017.



## Supporting customers

Our conservative and consistent approach to risk ensures we protect their funds and lend responsibly to help safeguard their financial futures. Ongoing training is provided to employees so they can better understand our customers' diverse range of needs.

Within RBWM in the UK, for example, we partnered with the Alzheimer's Society and Alzheimer Scotland to make HSBC a dementia-friendly business and are developing our digital channels to improve accessibility to all with British Sign Language video interpretation. In Hong Kong, we have set up special counter branches to better serve elderly and disabled customers.

We help CMB customers achieve their business goals by using our expertise and experience to guide their expansion into new markets. We help them understand current events and trends that may affect their businesses. (See *spotlight on Brexit*). Similarly, our global research team provides reports on a variety of topics for CMB and Global Banking and Markets ('GB&M') clients. (Refer to section on Sustainable Finance, Research for more details).

### SPOTLIGHT ON BREXIT

After the UK referendum result, 94% of customers impacted looked to HSBC for guidance.

We conducted nine webcasts from July 2016 to February 2017 and continue to support our customers with monthly webcasts planned throughout 2017.

We have had more than 12,000 viewers to date, with an average per episode viewership between 900 – 1000. We were named "Best bank for Brexit guidance" by Greenwich Associates in 'The Post Brexit Hangover report'.

## Financial inclusion

We work closely with regulators to promote financial inclusion and accessibility across our markets, within the limits of our local presence. In Hong

FIGURE 2

## RBWM CUSTOMER SATISFACTION

There are 4 main touchpoints in which customer satisfaction is measured: at the branch, via their call centre experience (Contact Centre), for Premier customers with their interactions with their relationship managers, and for their online banking experience. Results for the 10 largest markets are below:

|                | Branch                                                 |      | Contact Centre                                       |      | Relationship Manager                                   |      | Online Banking*                                        |
|----------------|--------------------------------------------------------|------|------------------------------------------------------|------|--------------------------------------------------------|------|--------------------------------------------------------|
|                | 2016                                                   | 2015 | 2016                                                 | 2015 | 2016                                                   | 2015 | 2016                                                   |
| United Kingdom | 86%                                                    | 84%  | 71%                                                  | 74%  | 75%                                                    | 74%  | 82%                                                    |
| Hong Kong      | 83%                                                    | 81%  | 96%                                                  | 95%  | 71%                                                    | 64%  | 63%                                                    |
| France         | 74%                                                    | 70%  | 74%                                                  | 72%  | 68%                                                    | 61%  | 75%                                                    |
| United States  | 85%                                                    | 84%  | 63%                                                  | 60%  | 80%                                                    | 77%  | 66%                                                    |
| Canada         | 84%                                                    | 84%  | 73%                                                  | 73%  | 86%                                                    | 85%  | 56%                                                    |
| Mexico         | 89%                                                    | 89%  | 81%                                                  | 83%  | 93%                                                    | 93%  | 82%                                                    |
| Singapore      | 63%                                                    | 63%  | 87%                                                  | 87%  | 62%                                                    | 56%  | 54%                                                    |
| Malaysia       | 69%                                                    | 69%  | 70%                                                  | 73%  | 67%                                                    | 64%  | 63%                                                    |
| China          | 91%                                                    | 89%  | 96%                                                  | 95%  | 77%                                                    | 77%  | 60%                                                    |
| UAE            | 69%                                                    | 70%  | 71%                                                  | 67%  | 62%                                                    | 62%  | 70%                                                    |
|                | % of customers providing an 8 or above score out of 10 |      | % of customers providing a 4 or above score out of 5 |      | % of customers providing an 8 or above score out of 10 |      | % of customers providing an 8 or above score out of 10 |

\* In 2016, we started to capture digital insights, based on our digital transformation programme, to track the progress being made in the eyes of our customers

Kong, we launched a mobile branch so communities in remote areas can access our services, while basic bank accounts are offered in markets such as the UK, Canada and Hong Kong for those new to the country or excluded by traditional products. In the US, we provide affordable mortgage products and collaborate with community partners to offer affordable housing programmes. In India, we participate in priority sector lending schemes to increase credit availability for low-income groups, agriculture and small-scale industries.

## Communicating with our customers

Communicating with customers is a continuous two-way conversation. It is important for us to listen, to provide the appropriate channels to share their opinions, feedback and complaints, and to communicate with them in a straightforward manner.

The best way to improve is by listening to customers, especially when we fail to meet their expectations. The dedicated teams within Customer Insight, Customer Experience, and Complaints monitor how we are doing, while external benchmarking and customer surveys provide regular snapshots on our performance. This is complemented by research panels, focus groups and social media analysis to ensure we are sensitive to customer needs and address issues in real time.

## How we listen to our RBWM Customers

We collect feedback from our customers in their own words and use sophisticated speech analytics to obtain a deeper level of understanding on all aspects of their experiences. This can be broken down to individual branches and contact centres, empowering employees to make changes that directly improve the customer's experience.

## Customers

FIGURE 3  
RBWM COMPLAINT REASONS 2016

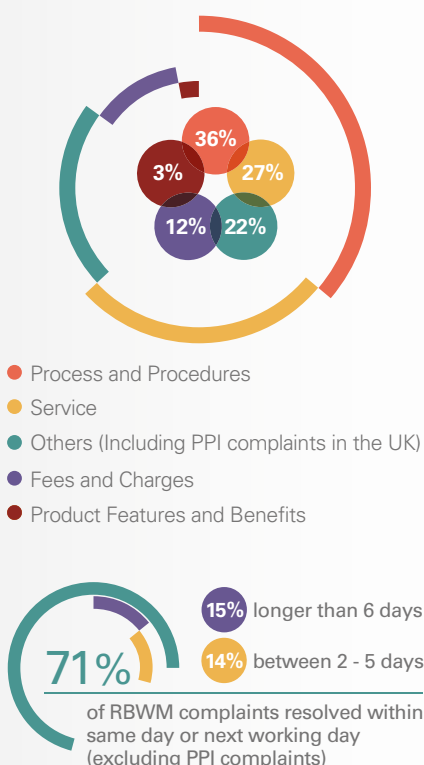


FIGURE 5  
RBWM CUSTOMER RECOMMENDATION INDEX

|                | % of customer recommending HSBC* |      |
|----------------|----------------------------------|------|
|                | 2016                             | 2015 |
| United Kingdom | 50%                              | 51%  |
| Hong Kong      | 39%                              | 36%  |
| France         | 47%                              | 48%  |
| United States  | 52%                              | 50%  |
| Canada         | 49%                              | 42%  |
| Mexico         | 84%                              | 84%  |
| Singapore      | 52%                              | 50%  |
| Malaysia       | 79%                              | 75%  |
| China          | 91%                              | 89%  |
| UAE            | 79%                              | 80%  |

\* % of customers providing an 8 or above score out of 10

FIGURE 4  
RBWM ANNUAL COMPLAINT VOLUMES

|                 | Complaints per 1000 customers per month |         |      |
|-----------------|-----------------------------------------|---------|------|
|                 | 2016                                    | 2015    | 2016 |
| United Kingdom* | 511,826                                 | 636,107 | 3.5  |
| Hong Kong       | 43,316                                  | 37,634  | 0.7  |
| France          | 63,913                                  | 75,689  | 6.6  |
| United States   | 47,001                                  | 29,215  | 2.6  |
| Canada          | 16,935                                  | 10,128  | 1.8  |
| Mexico          | 252,395                                 | 267,105 | 3.8  |
| Singapore       | 6,594                                   | 3,283   | 0.9  |
| Malaysia        | 9,980                                   | 7,137   | 0.8  |
| China           | 3,492                                   | 2,209   | 0.8  |
| UAE             | 32,104                                  | 26,907  | 7.8  |

\* Based on Financial Conduct Authority definitions and including first direct.

A 'complaint' is defined as 'any expression of dissatisfaction, whether up-held 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'.

In 2016, we surveyed more than 1.6 million of our personal customers based on their interactions with us and received the following feedback. (See Figure 2):

### Branches

Customers told us that they had an improved experience when visiting our branches, providing higher satisfaction scores in five of our larger markets, and highlighting the helpfulness and friendly approach of employees. In the rest of our markets, we have largely maintained our satisfaction scores.

### Contact centres

Customers in five of our larger markets have told us their experience of dealing with contact centres has improved, with our employees seen as helpful and able to resolve their queries. However, customers' satisfaction with our contact centres declined in UK, Mexico and Malaysia with waiting times being raised as a common concern. So we have added more staff, simplified our processes and policies and are introducing new services such as Voice ID to make things easier for all customers.

### Premier relationship managers

Customers are more satisfied with their Premier relationship managers, with improved scores in the majority of our markets. This is due to improving the quality and frequency of our interactions with customers. Relationship Managers were supported by integrated wealth platforms, available across Asia, UAE and the US, and extended to the UK, France and Canada in 2016. These help Relationship Managers plan savings and protection needs, as well as tracking goals and investments.

### Online Banking

With the number of customer interactions continuing to grow through our digital channels, we have significantly increased our investment in our customer facing digital capabilities. We are focused on making our products and services easier to use for our customers to improve their experience of banking with us. For example, we have now launched a simplified password process across all of our digital channels that improves ease of access while maintaining strong security. Recognising that our customers increasingly prefer to bank with us on their mobile devices,



we have significantly increased the functionality available through mobile banking, including new payment innovations such as Apple Pay and Samsung Pay.

### Customer Recommendation Index – RBWM

Over the last eight years, an external firm has provided an independent benchmark of our customer advocacy levels in comparison to other banks in our largest markets. In 2016, 10,000 surveys of our RBWM customers and 30,000 surveys of competitors' customers were conducted to prepare this Customer Recommendation Index. (See Figure 5).

### How we listen to our CMB Customers

We talked to more than 60,000 of our CMB customers in 2016 to understand their views, moving to an 'always on' approach that measures client satisfaction with the key interactions that our customers have told us are most important.

Analysing information and trends means we can focus on fixing and improving these areas, as well as developing leading propositions that enable us to help commercial customers achieve their growth strategies.

We currently benchmark our competitive position in Global Trade and Receivables Finance and Global Liquidity and Cash Management through external syndicated surveys. In 2016, Greenwich Associates named HSBC Share Leader for Asian Large Corporate Trade Finance with 41% Market Penetration and Quality Leader, along with Citi for Asian Large Corporate Trade Finance. HSBC ranks Tied 3rd for European Large Corporate Trade Finance with 26% Market Penetration<sup>1</sup> and ranks Tied 4th for US Large Corporate Trade Finance with 26% Market Penetration.<sup>1</sup> HSBC ranked 5th in US Large Corporate Cash Management with 32% Market Penetration in 2016.

In 2017, for Cash Management, Greenwich Associates ranked HSBC 2nd for European Large Corporate Cash Management with 36% Market

FIGURE 6  
CMB ANNUAL COMPLAINT VOLUMES

|                              | 2016     | 2015   |
|------------------------------|----------|--------|
| United Kingdom*              | 37,797 ✓ | 47,622 |
| Hong Kong                    | 3,196 ⬆  | 1,781  |
| Asia Pacific                 | 1,235 ✓  | 1,632  |
| Europe                       | 6,564 ✓  | 9,963  |
| Middle East and North Africa | 2,475 ✓  | 2,703  |
| Latin America                | 1,200 ✓  | 4,060  |
| United States                | 915 ⬆    | 556    |
| Canada                       | 788 ⬆    | 275    |

\* Volumes for the UK are received complaints and are aligned to the current FCA reporting requirements for eligible complainants. All other volumes and complaint reason breakdowns and commentary are based on total volumes of resolved complaints.

Penetration among the largest European corporates. HSBC is Share Leader for Asian Large Corporate Cash Management with 32% Market Penetration<sup>2</sup>.

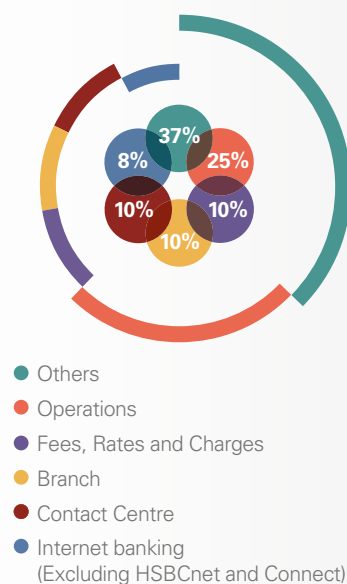
### Making it better when things go wrong for our customers – RBWM and CMB

We know that sometimes things go wrong which is why we ensure our customers' complaints are always understood and recorded. We aim to learn from our mistakes and make things better.

We use complaint insights to drive improvements and address issues through a root cause analysis framework. This allows us to inform our streamlining, re-engineering, conduct and investment activities. Our staff are supported by extensive guidelines and training to ensure correct outcomes are achieved. Complaints are monitored and reported to governance forums and senior executives are measured against complaint figures.

In 2016, RBWM resolved 987,000 complaints in our top ten markets with a 10% decrease in volume from 2015, and complaints as a percentage of customer base also reduced from 3.9% to 3.5%. We resolved 71% of all complaints within the same day or next working day. We have a renewed

FIGURE 7  
CMB COMPLAINT REASONS 2016



focus on logging complaints which has increased volumes in UAE, US, Canada, Singapore and Hong Kong. (See Figure 4)

In the UK, we saw a 20% reduction in complaints from 2015. Complaints of excessive wait time and inadequate resources were addressed by an increase in hiring at our contact centre, process improvements and the launch of Voice ID.

In France, we have seen a 18% downward trend due to better customer communication on fees and charges, branch staff training and process improvement. In Mexico, the Financial Services Consumer Protection Bureau (CONDUSEF) ranked HSBC as the best bank for quality of service and complaints resolutions among the larger banks.

### Spotlight on Payment Protection Insurance ('PPI') – RBWM UK

We have a well-developed, specialist PPI Complaint handling process in place that is designed to ensure fair outcomes for our customers. Our staff are supported by extensive guidance and are fully trained to consider the specific circumstances of each complaint to ensure the right outcome is achieved. Our commitment to continual improvement means we are responsive to feedback from our

<sup>1</sup> HSBC is tied <sup>2</sup> HSBC is tied for #1

## Customers

customers, the Financial Ombudsman Service and the Financial Conduct Authority (FCA), making changes as needed, and regularly reviewing the quality of our decisions.

With the recent FCA announcement of a deadline for new PPI complaints, an awareness campaign is being run by the FCA to provide details on the two year timeframe. We expect to see an increase in complaint volumes in the first half of 2017 as our

customers respond to the announcement of the deadline.

In support of the awareness campaign, we are enhancing our website content and guidance and are working closely with the FCA to support their communications activity. Further details on PPI may be found in our *Annual Report and Accounts 2016*, pages 243 and 244.

In 2016, CMB handled a total of 54,100 complaints, with 70% being generated

by the UK, 11% by France, and 6% by Hong Kong. Complaints showed a 21% reduction when compared to 2015 and complaints as a percentage of customer base also reduced from 3.6% to 3.1%. (See Figure 6).

Reduction in CMB customer complaints related to fees, rates and charges, accounted for 61% of the annual decrease, driven by the introduction of a text alert service advising customers when they were going to enter informal overdraft status in the UK.

### WHAT CUSTOMERS ARE TELLING US

In 2016, our CMB and RBWM customers told us there were three main issues that we needed to focus on to improve their experience of our products and services.

#### Accessibility

Customers across all of our channels have provided feedback on length of queues in branches, call waiting and handling time in our contact centres, the length of appointments with our Relationship Managers, or the complexity of logging on to our online and mobile banking.

##### WE HAVE:

- Increased capacity in our contact centres
- Introduced new multi-channel appointment booking tools
- For our Commercial Customers, we have simplified our processes and introduced digital enhancements such as Core Docs and Vizolution to improve their on-boarding experience

##### WE ARE:

- Using biometrics to make it easier for customers to authenticate themselves using their unique voice or digital fingerprint
- Enabling customers to self-serve or speak directly to the best person to answer their query via the intelligent telephone menu
- Facilitating customers to connect with specialists via video, online chat, or face- to-face

#### Complexity

Customers are telling us our processes and procedures are too complicated which impacts the quality and length of time required to service our customers day-to-day.

##### WE HAVE:

- Delivered training to 20,000 employees globally to use plain and straightforward language in communicating with our customers
- For our Commercial Customers we have simplified options on their online platform, HSBCnet

##### WE ARE:

- Educating our customers on why we need additional information due to regulations and to better improve their access to information about the products and services they are buying. (See *Educating our employees and customers*, p18)
- Reviewing our processes across all of our channels, starting with those that have the biggest impact on our customers, such as account opening. For example, we now have a fully online paperless credit card application process in China, and are using electronic signatures in the US and France
- Creating applications that simplify and reduce time to support complex services including Staff Front End, HSBC Live Sign (electronic signature) and HSBC Live Share (share pages with HSBC employee)

#### Fees and Charges

Our industry can be complex, and our customers can find it difficult to understand when and why they will be charged for our services.

##### WE HAVE:

- Introduced real time text message notifications for our customers in the UK to let them know they are close to going overdrawn on their account; and in Hong Kong to provide application status and account servicing updates. These changes have helped a significant number of our customers to better manage their accounts, and hence to avoid incurring charges

##### WE ARE:

- Working to improve our communication of fees to our customers, with additional support and training for our employees

Reduction in CMB customer complaints related to operations also contributed to 27% of the overall reduction, driven by resolution of issues relating to the migration to the global payments platform in France.

A training module on complaint handling and the importance of dealing with complaints effectively has also been implemented. This focuses our staff on doing the right thing.

### A digital transformation

Our customers are becoming increasingly digitally oriented in their everyday lives. This means their expectations of us – and their behaviour towards HSBC as a brand – are changing.

Over the past three years, an additional 1.5 million customers have started to use our digital banking services. In the UK, more than 90% of our customers' contact with the bank takes place through smartphones, on the internet, or by telephone, while 97% of cash withdrawals are made at an ATM. Globally, customers using our mobile app have increased by more than 220% over the last three years. The strength of our digital capabilities is now a significant influence on our customers' view of our services and the HSBC brand.

Customers are now using branches less often. Over the past five years, the number doing so in larger markets, such as the UK, has fallen almost 40%. In the future, we will have fewer – but better – branches, with more empowered front line employees using a greater range of technology to support all our customers' needs.

We are also developing new digital tools and technology to provide our customers with a simpler, quicker, and

more engaging experience – and our employees with access to the most relevant and tailored information to support them in serving our customers.

### Digitally enhanced branches

**HSBC Live Connect Branch Video** offers customers real time video access to a wide variety of specialists at their local branch with significantly more available appointments. This is currently available in selected branches in the UK, France and Hong Kong, with further roll outs in 2017 in the US and Canada.

**Multi-Channel Appointment Booking** allows customers to use the channel of their choice to book a variety of appointments, including face-to-face meetings in branch, HSBC Live Connect Branch Video meetings, or calls with a specialist. This is currently available in branches in the UK, France and the US. A further roll out is planned for Mexico in 2017.

**Video Teller Machine** offers a convenient, one-stop solution for new customers to open a current account. Using video chat, an employee guides the customer through the account opening process and helps them register for our digital banking services. Once complete, the Video Teller Machine issues the customer's new debit card and security key, so that the customer is immediately able to use their new bank account. In February 2017, we launched our first Video Teller Machines in China.

### Digitally enhanced contact centres

**Voice biometrics** is improving accessibility and security, enabling customers to authenticate using their voice rather than remembering multiple passwords. HSBC is one of the first large-scale global voice biometrics users, with over 700,000 UK Voice ID enrolments so far. This service has been launched in 2017 in Hong Kong and in the US.

**Intelligent telephone menu system** is available across all contact centres in the UK, Hong Kong, France and the US. It enables customers to self-serve or speak directly to the best person who can answer their query, thus reducing wait times.

**Staff Front End** is a new application that is consolidating many existing staff applications, simplifying and reducing time to support increasingly complex service and sales contacts as customers adopt digital.

### A more intuitive banking experience

**Bio-metric mobile banking** enables our customers to quickly and easily log-on to digital banking using their fingerprint.

**HSBC Live Chat** supports customers with their digital experience and has been introduced on the public website and online banking. This helps customers 'chat' in real-time with an HSBC employee. We have had 1.5 million 'chats' in the last twelve months.

**HSBC Live Share** enables customers to share their internet banking screens with a HSBC employee, who can then 'be on the same page' to resolve issues and answer any questions. This is available in Hong Kong and France, with roll out planned for the US, the UK and Canada.

**Payments innovation** such as Apple Pay in the UK, Hong Kong, Singapore and the US; Android Pay in UK, Hong Kong and the US; Samsung Pay in the US; and our own HSBC EasyPay and PayMe in Hong Kong.

**HSBC Live Sign** enables customers to electronically sign documents without the need to visit a branch or mail in wet signature documents. This is now live in the US and France, and rolling out in 2017 to the UK, Hong Kong and Canada.

### OVER THE LAST THREE YEARS...

**220%**

increase in customers using our mobile app

**1.5 million**

customers started to use our digital banking services

We have also launched a research and development lab in partnership with the government in Hong Kong to promote technology development for the financial services sector, and are continually exploring how we can work with fintech firms to deliver better banking for our customers. Our initial areas of focus include cyber security, biometrics, data analytics and internet finance.

# Employees

At HSBC, we recognise that our employees are the key to success for our business. From giving them a voice to developing their skills, we are focused on getting the very best from our staff and helping them achieve their goals. We want our employees to feel that they are contributing to our purpose and believe the organisation supports them to do this.

HSBC operates in a complex and evolving regulatory environment, including significant bank reform in key markets. Adapting our operations and processes to meet new regulations impacts our employees. Therefore, monitoring employee insight and well-being is a material consideration for HSBC.

## Employee insight

We understand the importance of using employee feedback to inform leadership decisions. To address this, we have created a strategic Employee Insight function that consists of professional researchers with skills in survey design, qualitative analysis, ethnography, and behavioural science. The team was recognised as market leading by the Communications Executive Board awards in 2016 for Strategic Employee Research and Insight.

Our monthly employee survey – Snapshot – tests the views of a representative sample of colleagues on topics such as our strategy, regulation, culture, and customer experience. Results are presented to the Group Management Board and relevant executive committees of the global functions and businesses, regions and countries. This ensures that the

employee insight is informing decisions at all levels of HSBC and that actions can be taken at both global and local levels on any areas of concern. Reports include trend analysis on important ongoing issues and insight on emerging themes.

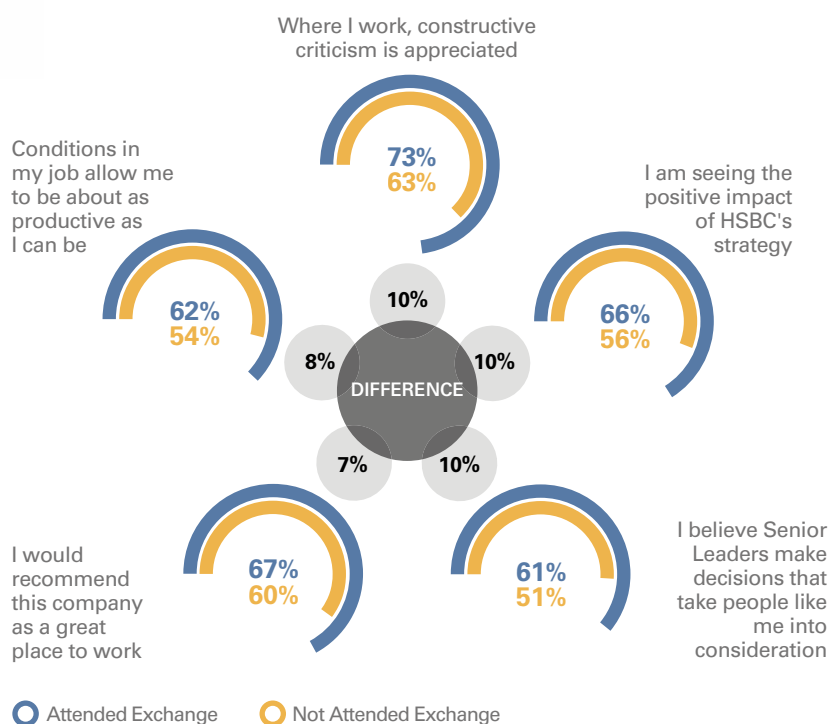
Results indicate that employee sentiment on certain key topics has become more positive over the past year. In 2016, confidence in the business had risen by more than 12 points to 69%, while a majority of

We employ  
**235,175**  
people\* around the world

\*The number of employees expressed in full-time equivalent staff ('FTEs')

all employees (61%) are seeing the positive impact of HSBC's strategy. Pride and company recommendation have also increased: Three quarters of all employees (76%) feel proud to work for HSBC, and around two thirds (63%) would recommend the company as a great place to work. Areas for continued focus include colleague trust in senior leadership, which has remained broadly flat over the past 12 months, and the low proportion of colleagues (58%) who state that conditions in their job allow them to be fully productive.

FIGURE 8  
POSITIVE IMPACTS OF EXCHANGE



Most questions asked colleagues to select a choice from an agreement scale of 1 (Strongly disagree) to 5 (Strongly agree). Reported percentages represent the proportion responding positively (i.e. 'Agree' or 'Strongly agree'). Neutral responses to the questions after attending exchange were as follows: Where I work, constructive criticism is appreciated 17%, I would recommend this company as a great place to work 20%, I am seeing the positive impact of our strategy 22%, Conditions in my job allow me to be about as productive as I can be 16% and I believe that Senior leadership in my area make decisions that take people like me into consideration 22%.

\* Data from HSBC Snapshot survey (Q4 2016) in answer to the question 'Have you attended an Exchange meeting in the past three months?'

### Exchange: Giving employees a voice

Since 2012, we have been hosting HSBC Exchange to give employees a voice. (See Figure 8). Exchanges are meetings with no agendas, where managers are participants, rather than leaders. It's an innovative approach that provides a safe forum for people to share their views on any issue.

Insight from Snapshot indicates that Exchange participants respond positively by 11% more than others when asked if there is honest, two-way communication where they work, while 84% of all employees believe Exchange allows them to talk freely about issues that are important to them. In 2016, Transparency International UK commented that Exchange 'indirectly incentivises ethical behaviour and creates an opportunity for risk factors to be discussed and dealt with before they become a bigger problem'.

However, there is further to go. It's our intention that every employee has the opportunity to take part in an Exchange meeting each quarter. During the third quarter of 2016, around half (45%) of employees reported they had attended one within the previous three months.

### Employee well-being

Our employee well-being programme offers free, confidential counselling to help address personal issues at home or work.

Our goal is to provide a working environment where colleagues can talk openly about well-being issues, including anxiety and stress. Such measures are particularly valuable amid the demands of multiple change programmes and financial crime remediation initiatives. For example, in 2016 our global employee TV channel, *HSBC Now*, ran a series of programmes featuring employees who have managed or overcome different mental health issues.

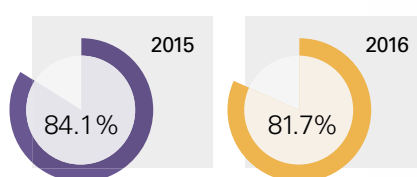


*There are three things that really make a bank: the people, the capital and the systems. The most important by far are the people.*

Stuart Gulliver,  
Group Chief Executive

FIGURE 9  
**EMPLOYEE RETENTION**

Employee retention declined primarily as a result of reductions as part of strategic programmes.



In 2016, we created new research to measure employee well-being. Based on external best-practice research from the OECD and UK Office of National Statistics, the survey includes questions on employees' mental, physical and financial health, as well as their perception of HSBC's commitment to well-being. The survey was issued to all employees in November 2016 and we received more than 76,000 responses.

Correlation of data from the well-being survey and Snapshot suggests that the behaviour of line managers is a strong influencing factor on positivity about employees' career prospects and mental well-being. Employees who state that their manager values their well-being are more than twice as likely to feel able to develop at HSBC. Conversely, colleagues who state that their manager does not take their well-being into account report higher levels of stress and strain, and are significantly more likely to state that they plan to leave the company within the next two years.



## Employees

FIGURE 10  
**EMPLOYEES (FTES) BY REGION**

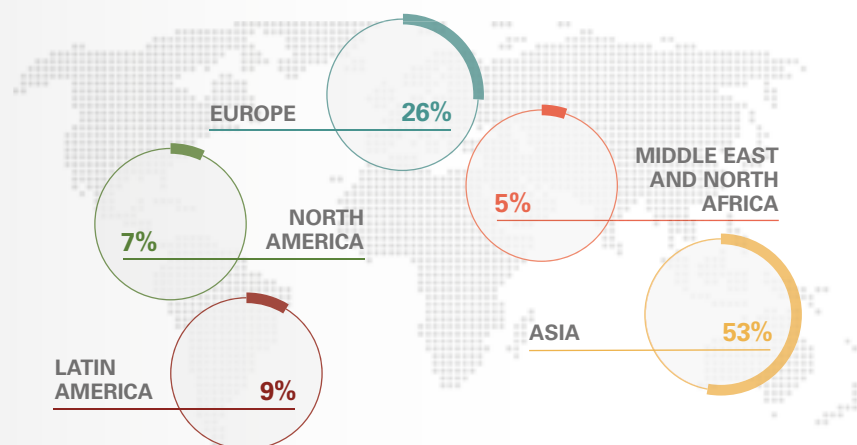


FIGURE 11  
**EMPLOYEES (FTES) BY GLOBAL BUSINESSES**

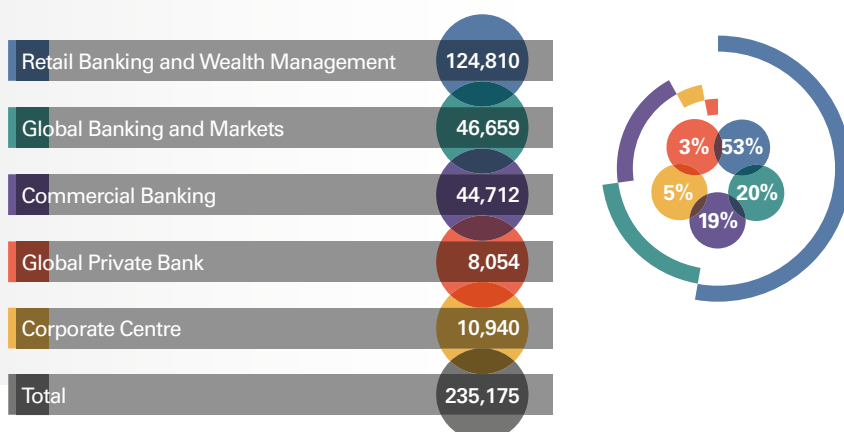
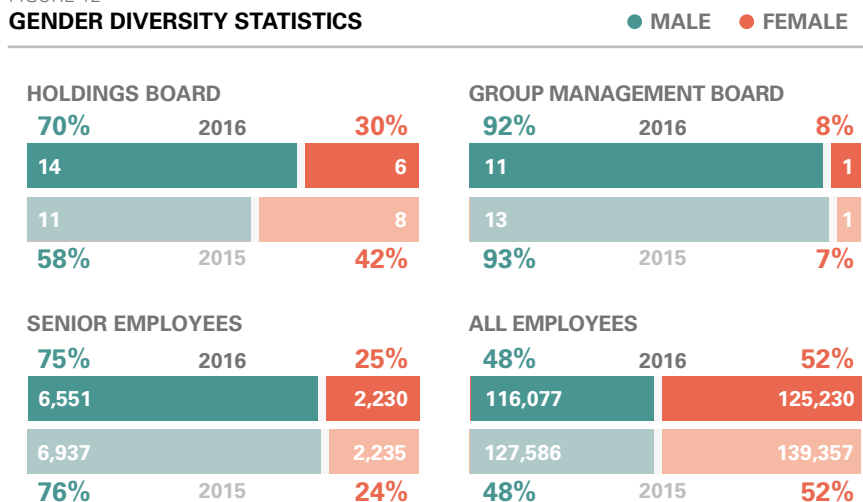


FIGURE 12  
**GENDER DIVERSITY STATISTICS**



Findings from both Snapshot and the well-being survey have been included in HSBC's new people manager curriculum, and we are continuing to conduct focused research on manager behaviours and team effectiveness in 2017.

Employees who have been at HSBC for five years or more are also allowed to apply for a sabbatical.

### Diversity and inclusion

We believe that a diverse and inclusive workforce is critical to running a sustainable and successful business. Our approach looks to increase and leverage diversity of thought to drive greater innovation, better identify and manage risks, enhance collaboration, and improve workforce agility.

We are aiming to build a connected and collaborative global workforce that reflects the customers we serve and the communities in which we operate. We have also set out a plan to attract, develop, retain and deploy a more diverse workforce to effectively anticipate and address the expectations of our key stakeholders.

Our seven global employee resource groups play a critical role in achieving our diversity and inclusion ambitions, and focus on gender, age, ethnicity, LGBT+, faith, working parents and carers, and ability. We also have common interest groups, such as our military/veterans group or our Chinese community group. There are more than 70,000 participating employees in these groups around the world. Together, they play a key role in engaging employees and are an important feedback channel for more creative business solutions.

We encourage our employees to talk about diversity and inclusion challenges and opportunities, to break down stereotypes, challenge the status quo, and share solutions to inclusion barriers. Employee videos around diversity and inclusion topics are made publically available via our social media channels on YouTube, Twitter, Facebook, LinkedIn and Instagram.

### Our Commitment

At HSBC, we are committed to building an inclusive culture where people are valued, respected and supported, and where the richness of ideas,

backgrounds, styles and perspectives are actively sought out with informed empathy to create business value.

Building a more inclusive culture is part of everyone's role:

- Each member of our Group Management Board is accountable for diversifying their senior leadership population and ensuring their respective succession plans draw on the Group's broad workforce diversity.
- Our Values-aligned Behaviour Guide clearly sets out the expected behaviours for all employees in demonstrating openness to different ideas and cultures. This involves listening to colleagues, treating them fairly, being inclusive and valuing different perspectives. Our People Managers are also expected to attract and develop diverse talent, foster an inclusive environment, and seek to understand and address biases which might impact decisions they make about people. Individual performance against our Values-aligned Behaviour Guide is assessed in our year-end review process.
- Our Diversity and Inclusion Policy makes clear the responsibility of all employees and workers to treat colleagues with dignity and respect, and to create an inclusive culture free from discrimination, bullying, harassment and victimisation, irrespective of age, colour, disability, ethnic or national origin, gender, gender expression, gender identity, marital status, pregnancy, race, religion or belief, or sexual orientation. Our Board Diversity Policy also sets out our commitment to boardroom diversity and inclusion.

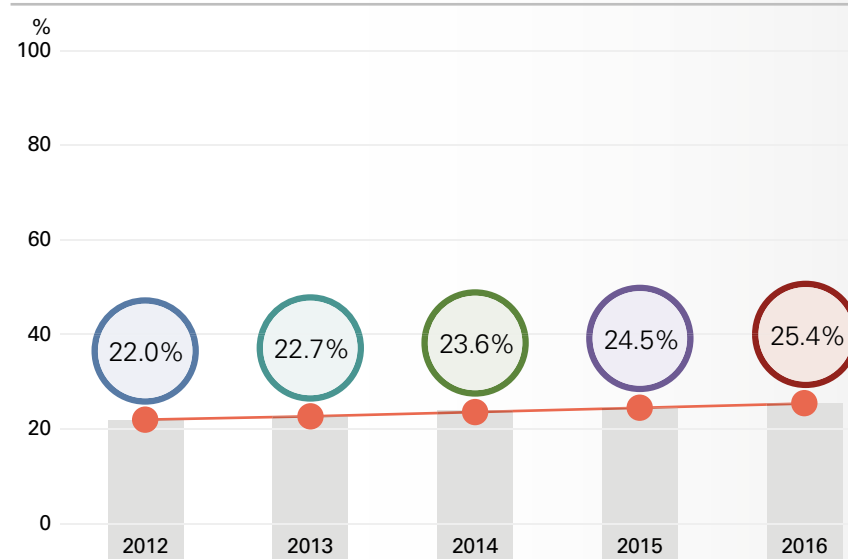
Oversight of our global diversity and inclusion agenda, and related activities, resides with the Global Diversity and Inclusion department of the Global HR function. We also operate governance forums covering diversity and inclusion at a global, regional and country level.

#### **Gender balance in senior leadership**

As part of our ongoing focus on improving gender balance in senior leadership\* across the Group, by the end of 2017 we are aiming for 26.3+% of our senior leadership to be female. (See Figure 13).

FIGURE 13

#### **FEMALE SHARE OF SENIOR LEADERSHIP\* HEADCOUNT AT HSBC 2012-2016**



#### **DIVERSITY AND INCLUSION AWARDS**

Our efforts have been recognised across the globe.

- Named in The Times Top 50 Employers for Women (2015 and 2016)
- Achieved Top Global Employer status in Stonewall's Global Workplace Equality Index (2015 and 2016)

- HSBC employees recognised as LGBT+ role models in the Financial Times' OUTstanding List (2015 and 2016)

- HSBC employees recognised in the Financial Times' inaugural UPstanding 100 Leading Ethnic Minority Power List (2016)

We use HSBC's Snapshot and well-being surveys to understand the views of our colleagues by demographic group. Data shows that efforts on gender diversity have led to positive shifts in sentiment, with women more positive than men on a number of measures, including feeling senior leaders make decisions that take them into account. Scores from other demographic groups are lower, suggesting there is still further to go to translate organisational intent into changes in employees' day-to-day experience. Findings from our employee surveys are used to help shape our diversity and inclusion strategy, communications and activities across the Group.

#### **Health and safety**

HSBC is committed to providing a safe physical environment for our customers

and employees, as well as those who work with us. We aim to always meet the minimum health and safety standards required by law, wherever we operate, and where reasonably practical, to exceed them. The chief operating officers in each region have overall responsibility for ensuring that the correct policies, procedures and safeguards are put into practice.

In 2016, we ran projects to improve our understanding of the risks we face, educate and inform our staff, and improve the buildings in which we operate, including a survey of earthquake resilience, asbestos surveys and fire risk assessments of our buildings around the world. For more detail and performance data including accident rate go to the *Annual Report and Accounts 2016*, page 151.

\*Senior leadership refers to employees performing roles classified as 0, 1, 2 or 3 in our Global Career Band Structure.

### HSBC values

As individuals from different backgrounds, genders and perspectives, we recognise the importance of having a strong culture. As well as guiding our interactions and day-to-day decisions, it can help us address the challenges we face.

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

#### OPEN

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

#### CONNECTED

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

#### DEPENDABLE

We are dependable, stand firm for what is right, and deliver on our commitments.

### Supporting positive behaviour

Our *Charter* is a framework for good decision-making. It helps employees apply our purpose and values to the decisions we make through a simple decision framework. By using examples from the bank's history, it illustrates the benefits of building long-term relationships, as well as going above and beyond the minimum standards required.

The 'At Our Best' training programme reinforces the habits required for a strong culture, such as asking for feedback and being mindful of one's

own emotions. Nearly 100,000 employees attended it during the year, while 18,000 managers received similar training.

As part of our recruitment process, we do a values assessment of new joiners so they are aligned to the HSBC values.

### Access to training

Employees attended a wide variety of training to encourage positive behaviour and equip them with the skills required to perform in their roles.

They completed a combined 11 million hours of training in 2016, with more than half the courses concentrating on professional and personal development, such as leadership skills.

Almost three million instances of global mandatory training occurred during the year, which included topics such as anti-money laundering and bribery and corruption.

In addition, financial crime controls, including customer due diligence, were covered by compliance related courses. These enable staff to detect and deter criminal activity, which protects customers and the reputation of the bank.

We also have graduate and apprenticeship programmes in place across the Group.

### Rewarding the right behaviours

We believe it's important to recognise the right behaviour – and reward it both financially and by peer-to-peer recognition. All employees receive a behaviour rating that is based on their adherence to HSBC values. This

ensures that performance is judged on what is accomplished, as well as the way in which it has been achieved.

Exceptional conduct is recognised as a portion of an individual's variable pay at the end of the year. Employees are also encouraged to set objectives that connect business, team and individual goals – all guided by the expected behaviours aligned to our core values.

In addition, HSBC's Global Recognition Programme, which is available in more than 50 countries, allows employees to recognise one another for demonstrating our values throughout the year. Employees receive points that can be redeemed in a catalogue. In 2016, around 600,000 'recognitions' were made, with a total value of \$8.1m.

Training hours completed  
2016

**11,014,232**

Definition: this is the total hours of training undertaken by FTE in 2016

Training days per FTE  
2016

**5.5 days**

Definition: this is the total number of training days undertaken per FTE in 2016

Instances of training courses  
2016

**8 million**

Increase in comparison to 2015 (6.5m)

Definition: this is the instances of training undertaken in 2016

Instructor Lead Training  
Total completions 2016

**622,221**

Increase in comparison to 2015 (499,439)

Definition: this is the instances of instructor lead training undertaken in 2016

E-Learning  
Total completions 2016

**5.5 million**

Increase in comparison to 2015 (4.5m)

Definition: this is the instances of E-learning training undertaken in 2016



*Many of the decisions we make at HSBC aren't easily answered by a single rule, process or value. Some of the decisions we make are incredibly difficult. That's why we wanted to create something that makes your lives easier - something that can give us all more confidence to make decisions we can be proud of.*

Stuart Gulliver, Group Chief Executive  
(upon release of the Charter)



FIGURE 14  
**HSBC CONFIDENTIAL CASES**  
by global business & function

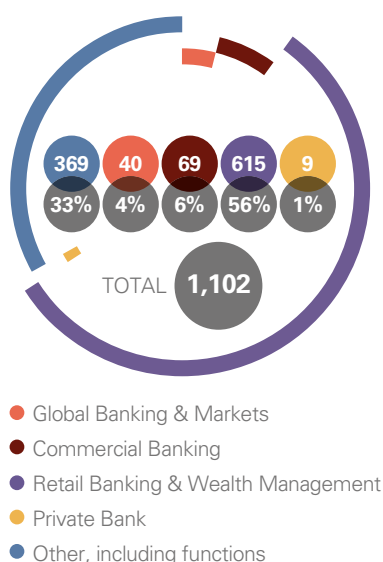
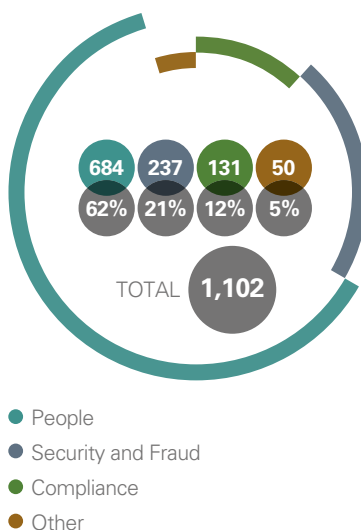


FIGURE 15  
**HSBC CONFIDENTIAL CASES**  
by theme



Employees and managers are encouraged to hold frequent conversations to explore alternative ways to stay connected outside the regular performance management cycle. This includes a range of informal and formal discussions on topics such as development and well-being.

### Whistleblowing

We work hard to create an environment in which people feel able to speak up with ideas or issues, but understand that some circumstances require more discretion.

In 2015, we simplified our whistleblowing procedures by establishing HSBC Confidential - a platform that enables employees to raise concerns on any issues, outside their normal reporting or escalation channels, in confidence and without fear of retaliation. (See Figures 14 and 15).

It is available to every employee, past and present, in all global Businesses, Functions and entities across the world, including secondees, external consultants, contractors and agency employees. There are multiple ways to raise issues, such as telephone hotlines, online and email.

HSBC Confidential is overseen by our Group Conduct and Values Committee and Group Audit Committee, and subsequent investigations are carried out thoroughly and independently, drawing on the expertise of a variety of departments, including compliance, human resources, legal, fraud, information security, and audit.

HSBC does not condone or tolerate any acts of retaliation against anyone who reasonably believes that the concern that they have raised is true. We consider any retaliation in those circumstances as a disciplinary matter. The making of malicious or false claims is also incompatible with our values.

More than 1,100 cases were raised during 2016. (See Figures 14 and 15). Of these, 34% were substantiated following independent investigation and appropriate action was taken, including consequence management and disciplinary actions. Common themes included issues with staff behaviour, allegations of fraud by employees, and weaknesses with information security.

### Find out more

#### Message from Birgit Neu, Global Head of Diversity and Inclusion – ‘Supporting an Inclusive Working Culture’

Board Diversity Policy  
Diversity and Inclusion Policy  
Health and Safety Policy  
Remuneration Practices and Governance  
Tax Transparency  
Our Charter  
Whistleblowing Policy

Further information is included in our *Annual Report and Accounts 2016* and Strategic Report

Diversity and Inclusion (HSBCNow on YouTube)  
Disability (ARA p151)  
Health and Safety (ARA p151)  
Remuneration (Strategic Report p28)  
Taxes Paid (Strategic Report p25)  
Whistleblowing (ARA p24, 69, 140, 144)

# Financial Crime Risk Management

HSBC's purpose is to connect people with opportunities. With this purpose comes the responsibility to protect our customers, our communities and the integrity of the financial system.

HSBC operates in many countries around the world and that global footprint gives us the opportunity to be at the forefront of fighting financial crime.

We also have a moral and legal obligation in this area – and this is why safeguarding against financial crime is one of our ten strategic actions. As part of our commitment to the UN Global Compact, we work against corruption in all its forms, including extortion and bribery.

## Protecting HSBC and the global financial system from financial crime

Consistent with HSBC's Deferred Prosecution Agreement ('DPA') with the United States Department of Justice ('DoJ') and other settlement agreements, progress has already been made towards putting an effective and sustainable anti-money laundering ('AML') and sanctions compliance programme in place.

We have built a strong financial crime compliance system, designed with a global footprint, and have a dedicated Financial Crime Risk ('FCR') team. We have invested heavily in training and communication for all employees, and our risk appetite has been set formally – details including information on our DPA, can be found in the Risk section of the *Annual Report and Accounts 2016*. We now have a consistent approach to managing exits of customers for financial crime reasons and promote information sharing within the bank and with regulators. Details of our approach and policies are available on [www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk](http://www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk).

The Group Head of FCR attends the Financial System Vulnerabilities Committee ('FSVC'), which reports to the Board on matters relating to financial crime and financial system abuse, and

In 2016, we spent

**\$3bn**

on regulatory programmes and compliance, including investment in our financial crime risk programme

provides a forward-looking perspective on financial crime risk, as well as cyber and information security. In 2016, the FSVC assumed responsibility from the Conduct and Values Committee ('CVC') for oversight of controls relating to anti-bribery and corruption ('AB&C'). Throughout the year, the FSVC received regular reports from country chief executives on the actions being taken by management to address local financial crime risk issues and vulnerabilities, and also received reports on specific issues.

Unfortunately, as the world becomes more connected and moves at a faster pace, there are many more opportunities for criminals to misuse the global financial system.

HSBC is taking a number of steps, such as training employees. We have invested in training employees so they understand the role that they play in combating financial crime. In addition, we have put processes in place to deal with such instances quickly and effectively. We have also invested heavily in systems to increase their sophistication in terms of monitoring the transactions to identify any indicators of financial crime.

## Protecting customers and customer information

The systems of public and private organisations continue to be the targets of increasing - and more sophisticated - cyber attacks, which can disrupt customer services.

Unsurprisingly, this is a priority area for the bank and is regularly reported

at Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme.

We understand how important it is to protect our clients' finances and this is why we have invested in a number of key areas. For example, in 2016, we enhanced our internet and mobile banking platforms in several key markets, including the UK and Hong Kong.

We also launched innovation labs around the world dedicated to the application of artificial intelligence, data management and improvements in cybersecurity. These labs, together with our fintech partnerships, will help us use technology to deliver better banking for our customers. (See section on *Customers, Digital Transformation*).

## Mitigating cyber crime

We continue to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks. Specifically, we continue to enhance our capabilities to protect against increasingly sophisticated malware, denial of service attacks and data leakage, as well as enhancing security event detection and incident response processes.

We participate in intelligence sharing with both law enforcement and industry schemes to help improve our understanding of - and ability to respond to - the evolving threats faced by us and our peers within our industry.

## Educating our employees and customers

Training and communication on FCR issues in the bank today is extensive. We have put in place a programme of formal training, including mandatory training for all employees, specialised training for certain groups of employees, and role specific training. In 2016, we delivered more than 3.1 million hours of targeted training on financial crime to employees. There is frequent communication within the bank from



the CEO and other executives on the FCR programme and the importance of all employees doing their part to fight financial crime.

A series of three videos were published to educate our customers on safeguarding data and financial crime. We felt it was important to explain to our customers the measures we are taking and how they can help us by providing relevant information.

The following videos were created to educate our customers about data protection and financial crime. These videos can be found on YouTube under HSBC Safeguard:

- [Why do I need to provide more information about my business to HSBC?](#)
- [What is financial crime and why should I be concerned?](#)
- [How does proving where my money comes from help HSBC make banking safer?](#)

### Implementing a global anti-bribery and corruption programme

We have developed a global AB&C programme which focuses on consistency and standardisation: setting strategy, standards, education, planning and providing oversight. This has included developing a global AB&C risk assessment, enhancements to current policies & processes and independent monitoring & testing, assurance and audit activities.

During 2016, HSBC continued to invest in technology systems to support the automation of key controls and consistency of record keeping, while further focusing on developing local expertise to implement and embed the global AB&C enhancement programme and provide local legal and regulatory knowledge, cultural understanding, and language skills. This has been supported by an AB&C communication strategy that includes:

- An e-learning mandatory training course for all staff that provides a comprehensive level of knowledge, available in 14 languages

In 2016, we delivered more than

**3.1 million hours**

of targeted training on financial crime to employees

### SPOTLIGHT ON FIGHTING HUMAN TRAFFICKING

HSBC branch employees are being trained to help law enforcement agencies combat crimes such as human trafficking.

Cashiers are taught to look for warning signs that may indicate a person is being used for sexual or labour exploitation. These include customers not being in possession of original copies of their own identification, with companions – or translators – presenting them on their behalf. Other red flags include shared address, telephone number of employment information, as well as bruises or other signs of physical abuse.

Staff are particularly vigilant where customers come from areas known for human trafficking, with any suspicious behaviour being reported to the

relevant local authorities. The bank is also using advanced analytics to scan large amounts of data to help detect illegal activity, according to Jennifer Calvery, its Global Head of Financial Crime Threat Mitigation.

*“HSBC is committed to doing its part to address human trafficking, including sharing information that informs law enforcement and security services,”* she told an event on tackling the issue, hosted by UK think-tank The Royal United Services Institute. The bank also wants to play its part in deepening cooperation between private and public sectors around the world, with robust sharing of information to tackle crime.

*“We all benefit from sharing ideas and techniques that help us best achieve this important objective,”* she added.

- Targeted role-based bespoke training to staff, including those in high risk roles, covering over 30,000 staff globally
- Regular communications and guidance to staff, such as festive season reminders and latest case updates, including all-staff policy reminders
- The promotion of a culture of regular, open discussions between staff and management

We also maintain clear whistleblowing policies and processes to ensure that individuals can confidentially report concerns and to ensure that such concerns are investigated and remediated appropriately. (See *section on Employees-Whistleblowing*).

HSBC's Anti-Bribery & Corruption Policy gives practical effect to global initiatives such as the Organisation of Economic Cooperation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and Principle 10 of the United Nations Global Compact.

The global Anti-Bribery and Corruption programme is informed by our membership of various organisations; including the B-20, Madison Group and Wolfsberg.

We have risk-based global policies for our third parties which include principles in relation to anti-bribery and corruption, focusing on the UK Bribery Act, the

Foreign Corrupt Practices Act ('FCPA') and the Hong Kong Prevention of Bribery Ordinance ('POBO').

The “HSBC Group Anti-Bribery and Corruption Policy Statement”, which is published on [www.hsbc.com](http://www.hsbc.com), states that HSBC does not tolerate the giving or receiving of bribes, including the making of facilitation payments. The statement sets out clear anti-bribery principles on key issues such as our relationships with associated persons, gifts and entertainment, recruitment, charitable giving and political contributions.

### Find out more

**Message from Colin Bell, Group Head of Financial Crime Risk – ‘Detecting, deterring and protecting against financial crime’**

Anti-bribery Principles  
Anti-Money Laundering Policy  
Conduct  
Modern Slavery and Human Trafficking  
Public Policy Engagement  
Sanctions Policy

# Human Rights

The key trends impacting the global economy present huge opportunities for social and economic development, as well as risks, including those related to human rights.

These trends include urbanisation in emerging markets, the need for investment in infrastructure, an ageing global population, an increasing number of newly affluent citizens, and the accompanying strain on the world's scarce natural resources.

HSBC is guided by the International Bill of Human Rights and supports the UN Universal Declaration of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

In line with the UN Guiding Principles' Protect, Respect and Remedy framework, HSBC recognises the duty of states to protect human rights and the role played by business in respecting them. In our Statement on Human Rights, published in September 2015, we also recognised 'that human rights issues are complex and that the roles and responsibilities of business and other stakeholders are the subject of a continuing international dialogue. We are open and willing to engage in this dialogue, where appropriate and constructive'.

## HSBC's Conduct and Values Committee

HSBC's CVC oversees the development of our human rights commitments and policies. Executive responsibility rests with the Group Management Board, which has primary accountability for the businesses or functions relevant to particular human rights issues.

We always investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. Serious issues are reported to the Group Management Board.

HSBC is a signatory to - or has expressed public support for - the following:

The Global Sullivan Principles;

The OECD Guidelines for Multinational Enterprises;

The UN Global Compact;

The UN Principles for Responsible Investment; and

The UN Principles for Sustainable Insurance.

## Modern Slavery

We have issued our first statement as required by the UK's Modern Slavery Act, which can be found at [www.hsbc.com](http://www.hsbc.com).

The Act requires HSBC to state what actions it has taken during the financial year ending 31 December 2016 to ensure that neither slavery nor human trafficking (together, 'Modern Slavery') was taking place in its operations or supply chains. Although not expressly required under the Act, this statement also considers the steps HSBC takes to ensure that Modern Slavery does not take place through its lending or project financing. Further, this statement also examines some of the ways in which HSBC works with the wider financial community and law enforcement agencies to act against Modern Slavery.

## Employees

HSBC applies human rights considerations directly as they affect all employees; treating all employees with dignity and respect in an environment that is free from discrimination and harassment. HSBC's commitment to respect human rights in the workplace is manifested in our HSBC Values and human resources policies and practices - all of which promote a safe, diverse and inclusive workplace.

In all countries and territories where one exists, HSBC operates the legal minimum wage. In countries and territories where there is no legal minimum wage, HSBC negotiates with the individual in line with market rates.

### Supply chain

HSBC has had an [Ethical and Environmental Code of Conduct for Suppliers](#) since 2005. As articulated in this code, HSBC requires suppliers to respect the human rights of their employees and the communities in which they operate, as well as to comply with all relevant legislation, regulations and directives in the countries and communities in which they operate. Suppliers must prohibit the use of forced labour and child labour, respect labour rights including non-discrimination and the right to freedom of association, and give workers, whether local or migrant, the right and the ability to leave employment when they choose, to the extent possible under local law.

HSBC updated the Ethical and Environmental Code of Conduct for Suppliers with further amendments in 2016 to take account of revised legislation on disability rights, Modern Slavery and human rights. More than 240 of our largest suppliers have already accepted this code. Suppliers have to respect the code's employment requirements for all staff employed or sub-contracted across all HSBC's offices and branches in all countries we operate in.

### Customers and clients

HSBC has sustainability risk policies incorporating specific social standards, they are described in the Sustainability Risk and Policies section of this update. Social risks refer to unacceptable impacts on people and include abuses of human rights such as slavery.

The policies apply to the main financing products HSBC provides, such as loans, trade finance, and debt and equity capital market services. HSBC's [sustainability risk policies](#) on agricultural commodities, energy, forestry, freshwater infrastructure, mining and metals and project finance all make specific reference to human rights considerations. These include – either directly or via their underlying standards - issues such as forced labour, harmful or exploitative child labour, trafficking, land rights, the rights of indigenous people such as “free prior and informed consent”, workers' rights, and the health and safety of communities. Project finance is subject to the [Equator Principles](#), which utilises the International Finance Corporations' Performance Standards on issues such as forced labour, child labour and trafficking.

When necessary, we engage with customers to support them in moving towards good practice, which is the most significant contribution we can make to implementing change. However, we close banking relationships with customers where their activities in these sectors are – and are likely to remain – non-compliant with our risk policies.

More than

**240** of our largest suppliers have accepted our Ethical and Environmental Code of Conduct

### Find out more

Statement on Human Rights  
Statement on Modern Slavery and Human Trafficking Statement  
Ethical and Environmental Code of Conduct for Suppliers

# Sustainable Operations

We recognise that cutting global carbon dioxide emissions is a critical challenge for society - and we have been addressing our own impact on the environment for more than 10 years.

## Our 10-point strategy to reduce emissions

Making the transition to a low-carbon economy is something we take very seriously, which is why we put together a strategy to manage our own operations in 2012. (See *Figure 16*).

The strategy covers reducing energy use, and waste and paper consumption, while increasing the proportion of our paper that is sustainably sourced, meeting the highest standards for green buildings, making our data centres more efficient, and procuring renewable electricity. We also engage with our supply chain on such issues and support innovative projects via our eco-efficiency fund, which is an annual \$5m allocation to support projects proposed by employees.

## How we manage our operational impacts

Each of the ten strategic goals is 'owned' by an executive sponsor who is responsible for the target being achieved. These 'goal owners' are part of our Operations, Services, and Technology function, and include global heads of Corporate Real Estate, Procurement, IT, and Operations. These teams work across regions and collaborate with our suppliers to make sure projects get off the ground and initiatives are implemented.

Goal owners are members of the Group Chief Operating Officer Sustainability Committee, which meets quarterly to discuss progress against goals. It is chaired by our Group Chief Operating Officer, who has ultimate responsibility for achieving both our carbon emissions reduction target and our 2020 goals that support this reduction. (See *page 27*).

In 2016, our efforts resulted in us scoring the highest grade (A) in a global index run by CDP, a not-for-profit organisation that rates companies and governments on how they are tackling the climate change challenge.

We have also signed up to the Science Based Targets Initiative run by the UN Global Compact in partnership with CDP, World Resources Institute, and We Mean Business. We look forward to the guidance on the methodology for the financial sector.

## What we have accomplished

Since 2011, we have succeeded in cutting total energy consumption (MWh) by 26%, and achieved a 57% reduction in total waste. Power purchase agreements are also in place - or signed - to provide 23% of our electricity from renewables. We have also reduced our paper purchased by 62%, and 94% of all paper used was certified sustainably sourced (*Read more on our [Paper Sourcing Policy](#)*).

For 2016, our annual per employee carbon dioxide emissions were 2.63

FIGURE 16  
**UPDATED 10-POINT STRATEGY TO BE DELIVERED BY 2020**  
(based on 2011 baseline)

| Overall Goal               | Reduce annual CO <sub>2</sub> emissions per employee (FTE) from 3.5 tonnes to 2.0 tonnes                                                                                    |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sustainability engagement  | Encourage employees to deliver our operational sustainability targets, training 2000 of our leaders in residential programmes and encouraging active engagement across HSBC |
| Supply chain collaboration | Work with our supply chain to deliver services sustainably and manage ethical risk                                                                                          |
| HSBC Eco-efficiency Fund   | Allocate \$5m annually to trial, test and develop sustainable innovation                                                                                                    |
| Energy                     | Reduce annual energy consumption per employee (FTE) by 1.2MWh                                                                                                               |
| Waste                      | Reduce waste by 75%, and recycle 100% of our office and electronic waste                                                                                                    |
| Renewables                 | Increase electricity consumption from renewables to 40%                                                                                                                     |
| Green buildings            | Design, build and run energy-efficient, sustainable buildings to the highest international standards                                                                        |
| Data centres               | Achieve an energy efficiency (power usage effectiveness) rating of 1.5                                                                                                      |
| Paper                      | Paperless banking available for all retail and commercial customers, reduce paper use by 66%, and buy 100% sustainably sourced paper                                        |
| Water (new as of 2017)     | Reduce water consumption by 50%                                                                                                                                             |

tonnes. (See Figure 17). By the end of 2016, we had surpassed many of our 2020 targets.

Due to the results we have achieved in the UK, Mexico and India, we have been able to increase our renewable electricity target. In the UK, we have been able to reach 70% renewable electricity and entered into three sleeved power purchase agreements supporting wind and solar projects.

In Mexico, we signed agreements in 2016 that would allow us to reach 50% renewables, while in India we have on site solar projects that support 20% of our consumption. All these projects were new to the market, hence supporting additional renewable electricity entering the grid. When possible, our renewable strategy goes beyond purchasing green tariffs or environmental certificates. Our strategy is to make sure additional renewable power is being added to the grid.

Our paper sourcing policy continues to ensure the paper we use for our own purposes meets the same standards we expect of our customers under our Forestry Policy. (Learn more on our [Forestry Policy](#)).

In 2015, we updated and issued our Ethical and Environmental Code of Conduct for Suppliers and worked with Sedex to assess the human rights and sustainability risk arising from the relationships we have with our 300 biggest suppliers. Sedex is a global not-for-profit membership organisation that provides a collaborative platform for sharing responsible sourcing data on supply chains. We continue to work with Sedex to embed a review of ethical and environmental risk into our standard procurement processes for all new or updated supplier relationships. We prefer to engage with suppliers who are on a credible path to meeting our standards, but where a supplier is unable or unwilling to do so we will end the relationship as soon as contractually possible.

In addition, we have trained 1,300 senior managers through HSBC's [Sustainability Leadership Programme](#) since 2009. The programme is a mix of hands-on learning and leadership development sessions, and is aligned to HSBC's values-based leadership curriculum.

FIGURE 17  
**CO<sub>2</sub> EMISSIONS (TONNES)**

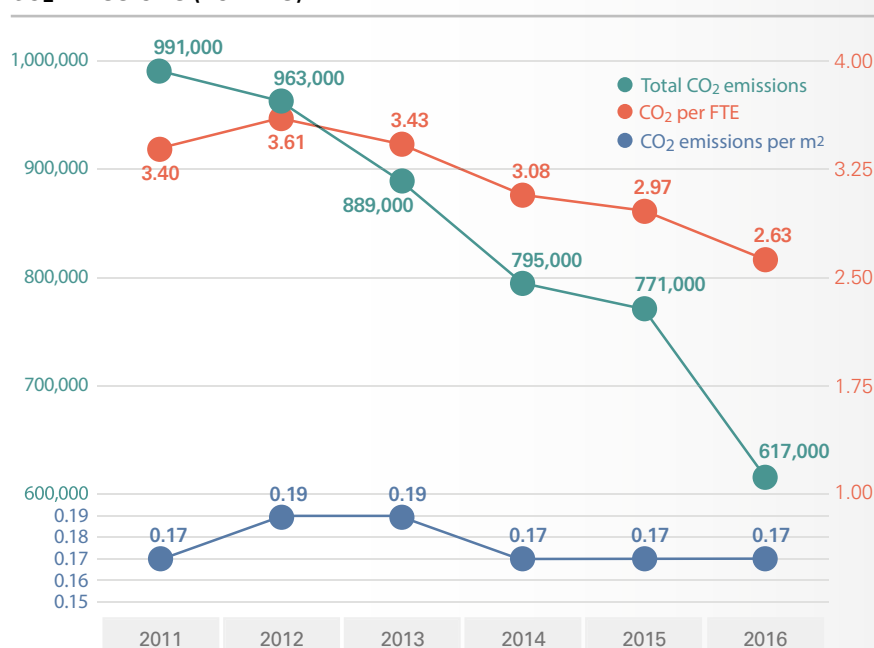


FIGURE 18  
**2020 TARGETS**

|                                     | Original<br>2020 Targets<br>set in 2012 | New<br>2020 Targets<br>set in 2017 |
|-------------------------------------|-----------------------------------------|------------------------------------|
| electricity to come from renewables | 25%                                     | 40%                                |
| waste reduction                     | 50%                                     | 75%                                |
| paper reduction                     | 50%                                     | 66%                                |

Participants embed sustainability into decision-making and project delivery in the businesses and functions where they work. The programme is now focusing on engaging senior leaders within HSBC's Global Businesses as well as the operational sustainability agenda.

We continue to operate our eco-efficiency fund that supports projects proposed by employees to reduce our environmental footprint. Projects have included LED lighting trials, photovoltaic panel installations, organic waste composting pilots, energy management system pilots, and a number of initiatives that have increased efficiency in our Group data centres. Applications are assessed on their potential to reduce carbon dioxide emissions, provide a return on investment, and contribute to our operational sustainability goals.

#### New 2020 targets set in 2017

At the beginning of 2017, we decided to revise some of our 2020 targets. We have now committed to cutting our annual carbon emissions per FTE from 3.5 tonnes in 2011 to 2.0 tonnes by 2020.

Our new 2020 targets include increasing the amount of electricity we want to get from renewables to 40% and increasing our reduction targets for waste and paper to 75% and 66%, respectively.

#### Find out more

##### Message from Andy Maguire, Group Chief Operating Officer – 'Simpler, Better, Faster'

Ethical and Environmental Code of Conduct for Suppliers

Key Facts  
(External benchmarks, Community investment and Environmental figures)

PwC Assurance Report

Paper Sourcing Policy



# Sustainability Risk Management

We strive to manage sustainability risk, principally via implementation of our policies put in place to protect the environment, society and supporting customers through the transition to the low-carbon economy.

We define sustainability risk as the risk that financial services provided to customers by the Group indirectly result in unacceptable impacts on people or the environment.

## How we manage sustainability risk

Group Sustainability Risk, which is part of the Global Risk function, is responsible for managing our sustainability risk policies and our application of the Equator Principles. Our sustainability risk policies cover agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, UNESCO World Heritage Sites, and Ramsar-designated wetlands. The Equator Principles provide a framework for banks to assess and manage the social and environmental impact of large projects to which they provide finance.

Group Sustainability Risk also approves or declines relationships or transactions where sustainability risks are assessed to be high, and reviewed more than 750 of these in 2016. Our operating companies assess similar risks of a lesser magnitude. We have a global network of 75 sustainability risk managers with regional or national responsibilities for advising on - and managing - environmental and social risks. In 2016, we created a new training module for risk and relationship managers globally on our sustainability risk policies and their responsibilities to ensure consistent implementation. Our employees are taking this training module in 2017.

Sustainability risk is monitored quarterly by the Risk Management Meeting of the Group Management Board, with interim updates as required. The Conduct & Values Committee of the HSBC Holdings Board also monitors these risks quarterly.

## Palm oil

HSBC has received both praise and criticism for its approach to palm oil over the last year.

Palm oil is the world's main vegetable oil, with 60 million tonnes produced annually. Of this, 80-90% comes from Indonesia and Malaysia. The sector has improved living standards in producer countries, giving economic benefits, and is efficient in that palm oil's yield per hectare can be five-nine times greater than other vegetable oils.

However, if not managed responsibly, oil palm plantations can have adverse impacts on people and on the environment, including deforestation, habitat destruction, social conflict, and haze from burning. Indirectly, these impacts can compound the detrimental effects of climate change.

HSBC has progressively raised the sustainability standards it applies to the palm oil sector since it introduced its first forestry policy in 2004. Our ongoing improvements resulted in our 2014 agricultural commodities policy which requires customers to gain independent certification by the Roundtable on Sustainable Palm Oil to show that their business operates sustainably. Since launching the policy, we have been recognised as a leader in the Forest 500 ranking, an independent analysis of companies, investors and governments on their commitment to preventing deforestation, an analysis carried out by a UK-based think tank. We were again recognised in 2016 with a top score.

Since 2015, a growing number of major palm oil industry players have enhanced their sustainability policies by adopting "No Deforestation, No Peat and No Exploitation" (NDPE) commitments. In November 2016, these palm oil

industry players, along with several non-governmental organisations (NGOs), agreed on important definitions regarding forests and climate change impacts, allowing wider and more consistent implementation of NDPE commitments.

In January 2017, Greenpeace commenced an activist campaign against HSBC on deforestation in the palm oil sector. Greenpeace alleged that we broke our existing policy on palm oil and demanded that we improve our policy to include NDPE standards. While we do not believe we broke our policy, we did recognise the potential to improve our policy and have now done so. HSBC will not agree financing facilities to customers in the sector who have not made NDPE commitments.

## Progress to Date

At the end of 2014, we reported we had 176 palm oil customers globally, with 104 customers at the time unable or unwilling to meet the standards we required. Two years on, we have 108 customers, with 28 of these designated to be closed. Although some of these 28 are those identified to be closed in 2014, a previously committed long-term loan means we can't close them immediately. Some are customers that have struggled to meet our certification requirements since 2014. The remaining 80 customers meet or are expected to meet our policy.

It is often difficult to decide how long we continue to engage with customers in order to allow them time to meet our policy. We do allow some time, as long as any interim negative impacts are not known to be material. However, we are not willing to wait indefinitely for our policy, which has set deadlines, to be met. The trends we have seen over the last two years fall within our expectations. We have closed many relationships – and we will undoubtedly close some more. Nevertheless, we believe HSBC has played a major role in supporting customers to operate sustainably and achieved a good balance in its approach.

## Coal Mining and Climate Change

The mining and metals sector is essential in extracting and processing minerals that are necessary for many of society's basic needs. However, if not managed responsibly, these activities can have unacceptable adverse impacts on people and on the environment. In particular, coal, when burned, is a key cause of climate change.

Climate change represents an urgent and potentially irreversible threat to human societies and the planet. This was recognised by the 184 countries that signed the 2015 Paris Agreement on climate change. If HSBC is to successfully help people fulfil their hopes and realise their ambitions, it has an important role to play in combating climate change and supporting the transition to the low-carbon economy. HSBC supports, and is building into its business, the aims of the Paris Agreement.

With that in mind, we issued an updated mining and metals policy in 2016. It responds to increasing concerns regarding climate change by addressing thermal coal mining, and also provides more details on how we deal with human rights issues in the sector. In effect, this prohibits the financing of new thermal coal mines and new customers dependent on thermal coal mining. HSBC acknowledges that existing coal mines will be needed for power - coal generates around 40% of the world's electricity – as well as steel production, for which metallurgical coal is required. However, new thermal coal mines would lock in additional – and avoidable – greenhouse gas emissions for decades.

This builds on our Energy Sector Policy, where HSBC was the first major international bank to restrict finance for coal-fired power plants. We do not finance new coal-fired power plants that do not meet specific carbon intensity standards. Our Statement on Climate Change provides further detail on our approach to climate change.

As of 31 December 2016, our total exposure to the mining and metals sector was \$16bn, equivalent to 1% of the Bank's total wholesale lending. Of this \$16bn, coal mining accounted for \$0.9bn, or 6%, of this lending. This includes all lending and bank

FIGURE 19

### TRANSACTIONS COMPLETED UNDER THE EQUATOR PRINCIPLES, 2014-2016

|                                   | 2014 |       | 2015 |       | 2016 |       |
|-----------------------------------|------|-------|------|-------|------|-------|
| Summary                           | No.  | \$m   | No.  | \$m   | No.  | \$m   |
| Project Finance Loans             | 16   | 2,646 | 19   | 3,744 | 16   | 1,506 |
| Project-Related Corporate Loans   | 13   | 1,203 | 11   | 1,186 | 7    | 939   |
| Project-Related Bridge Loans      | 5    | 565   | 2    | 277   | 1    | 60    |
| All Loans                         | 34   | 4,414 | 32   | 5,207 | 24   | 2,505 |
| Project Finance Advisory Services | 10   | n/a   | 16   | n/a   | 3    | n/a   |
| Totals                            | 44   | 4,414 | 48   | 5,207 | 27   | 2,505 |

The full table showing the detail of the 2016 transactions under the Equator Principles, and further information about our implementation of them, is available at [www.hsbc.com/sus-risk](http://www.hsbc.com/sus-risk).

guarantees to customers dependent on coal mining, i.e. customers where half or more of total turnover is associated with coal mining. It also includes lending and guarantees to large, diversified mining companies, where proceeds are known to be used for coal mining operations or provided to subsidiaries or owned businesses dependant on coal mining.

### Equator Principles in 2016

In 2016, a greater proportion of our project finance lending under Equator Principles ('Principles') was for developments in emerging market countries, and a higher concentration was in Asia. (See Figure 19). These deals were across multiple sectors, including mining, infrastructure, oil and gas. Half of all loans under the Principles in 2016 were for projects with potentially high sustainability impacts, requiring closer management, a higher proportion than in previous years.

Two-thirds of our power-related deals in 2016, and more than 50% of our total power sector lending under the Principles in 2016, was for renewables, including hydro, solar and wind assets, the majority in the United States. Total lending to renewables was \$526m, up more than 30% compared to the previous year. The remaining power deals focussed on nuclear and gas. In addition, two infrastructure deals were mass rail transport projects.

HSBC's approach changed slightly in 2016, resulting in fewer deals under the Principles in 2016. We completed a total of 27 compared with 48 last year.

Since 2003, HSBC has applied the Equator Principles to nearly

**900 transactions**

ensuring high environmental and social standards were met. This included:

- Finance for 697 loans totalling approximately \$67.6bn
- Advisory services on 200 deals

Once again, for the third year in a row, we had all project finance loans independently reviewed, going beyond the requirements of the Principles.

The full set of data behind the trends described above can be found at [www.hsbc.com/our-approach](http://www.hsbc.com/our-approach). The table above provides summary level statistics only for the past three years.

### Find out more

**Message from Stuart Gulliver, Chief Executive Officer – 'Revised Agricultural Commodities Policy: Palm Oil'**

Environmental Policy

Equator Principles

Introduction to Sustainability Risk Policies

List of Sustainability Risk Policies

Statement on Climate Change

Sustainability Risk (ARA p84)

# Sustainable Finance

Reducing global carbon dioxide emissions is a critical challenge for everyone. We recognise its importance and seek to be a leader in managing climate change risk while developing opportunities with – and for – clients.

The Paris Agreement of December 2015, where political leaders agreed on action to restrict climate change to 2 degrees Celsius or less, marked a turning point on this issue. It also recognised the essential role of private finance in tackling the problem. This development creates an opportunity for banks like HSBC to help finance the new infrastructure, technology and products needed.

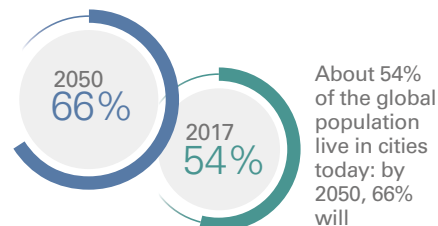
## How we manage sustainable finance

Our Climate Business Council ('CBC'), established in 2010, is an internal strategic committee whose role is to coordinate across the bank, identifying and developing products and services to meet clients' sustainable finance needs. The CBC supports clients who are transitioning to a low-carbon economy. It also pursues opportunities for collaboration across customer groups and products to support integrated climate related initiatives, such as smart cities, and sharing best practices with clients on opportunities to increase energy efficiency and reduce carbon emissions.

In December 2016, we established a new dedicated team, the Sustainable Finance Unit ('SFU'). Reporting to the CBC, it is dedicated to the business opportunities surrounding sustainable financing and investment. The team's roles include product innovation, driving business strategy and thought leadership, working with existing business, sectors and products on clients' engagements, and educating the bank's front line relationship managers. The team will leverage funds from the Green Climate Fund and from the global sustainable investor community, and also link with governments, think tanks and industry

bodies to drive strategic initiatives that will increase green business globally.

The SFU acts as a central point of coordination, working hand in hand with HSBC's product and sector teams. Under the guidance of the CBC, it is working with the global businesses to help establish targets for sectors, countries and products, as well as KPIs for developing and tracking performance.



In 2016, cities highlighted a total of 720 climate change-related projects worth a combined

**\$26bn**

that they want to work on with the private sector.

(Source: CDP 2016)

## SPOTLIGHT ON SMART CITIES

A Smart City is one where residents enjoy a high quality of life and natural resources are well managed as a result investments in human and social capital, transportation, information and communications technology, and infrastructure, thus fuelling further sustainable economic development. This is one of the areas which HSBC believes it can make a difference, by arranging financing for Smart Cities. As a sustainable and resilient solution to increasing urbanisation in both developed and emerging markets, we expect the number of Smart Cities to increase over the coming years.

The biggest opportunities will be in emerging markets in Asia, Latin America and Africa, with the largest number of new Smart Cities being created in China and India. Almost all global cities have plans to be 'smarter' and more sustainable.

In the developed world, Europe and the US are key markets to focus on. City and country green bonds are becoming more common. For example Paris and Poland have recently issued bonds. There is funding available for

various elements of Smart Cities to be introduced or 'retro-fitted' by national and local governments.

Cities' spending will be focused mainly on low-carbon transport, energy, water, waste, telecommunications, and infrastructure in the coming years. An estimated \$57tn in investment is required between now and 2030 to finance these improvements. An investment of this magnitude can only be delivered through collaboration with private sector businesses and investors. In 2016, cities highlighted a total of 720 climate change-related projects, worth a combined \$26bn that they want to work on with the private sector. (Source: CDP 2016)

In 2016, the UK and Chinese governments agreed to work together to better enable UK cities and businesses to join together with their Chinese counterparts to tackle global urban challenges through the development of Smart Cities. HSBC is one of the two key partners in the initiative and is working with Chinese government agencies to create a UK-China Smart City hub.

## SPOTLIGHT ON LATIN AMERICA'S BIGGEST GREEN BOND SALE

In September 2016, HSBC was the sole green structuring advisor and joint global coordinator on the sale of \$1bn 10-year and \$1bn 30-year notes. The \$2bn raised will fund Mexico City's new international airport building, which aims to achieve the US Green Building Council's top rating by being carbon neutral – using solar power, waste management and water recycling facilities.

Our Debt Capital Markets and Infrastructure team in New York, Mexico and London worked together to structure the deal. HSBC acted as global coordinator, sole green structuring advisor and billing and delivery agent.

This deal won a number of awards, including: Latin Finance Deals of the Year; Best Syndicated Loan; New International Airport of Mexico City (\$3bn) and Best Structured Financing: New International Airport of Mexico City green bond (\$2bn).

Its work includes supporting green initiatives such as financing Smart Cities (see *Spotlight on Smart Cities*) and it is already working with the UK and Chinese government in this space, as well as working with the key NGOs and cities.

### Green bonds

To demonstrate our ambition to grow green finance, we issued our own €500m green bond in 2015 and committed to investing twice that amount into Green Bond Principles ('GBP') aligned green bonds. In 2016, we published a report on our own green bond to communicate to investors how the proceeds had been allocated and report the impact they were creating. This report will be updated annually and is publicly available on our green bond page.

In 2016 to April 2017, HSBC was the third-ranked bookrunner by Dealogic for green, social and sustainability bonds, demonstrating our consistent performance in further developing the market. We have underwritten nearly 100 green, social and sustainability bonds from issuers across the world, including the first social bond from Spain (Instituto de Crédito Oficial), the first green bond from India with a Green Bond Framework and External Review (National Thermal Power

Corporation), the first green high yield corporate from China (Modern Land), the first sovereign green bond (Poland), and first Italian corporate benchmark (Enel). HSBC is one of the leading green structuring advisors, structuring 73% of the new to market issuances we work on globally, showing our appetite and expertise in both broadening and deepening the green, social and sustainability bond market.

In recognition of this work, HSBC has recently been announced as winner of the Environmental Finance Green Bond Award 2017 Best Underwriter – Bank.

In addition to our underwriting work, we take a high profile role at the Green Bond Principles Executive Committee; chairing two of the five working groups (new markets and index & database), and being an integral contributor to a third (Social Bonds) after having been one of the founding writers of the Social Bond Guidance, released by the International Capital Markets Association at the GBP Executive Committee in June 2016.

### Engagement and advocacy

A key element in our focus on green and sustainable finance has been to work with policymakers and regulators on the transition to a low carbon economy. We do this by seeking to ensure the policy framework in

In 2015, HSBC committed to invest

**\$1bn**

in high-quality liquid assets covering a range of low-carbon initiatives

which we operate has sustainability embedded within it to incentivise flows of private finance into long-term investments and the new green sectors of the economy that are required.

We are engaged in the development of this operating framework through membership of key organisations, think tanks and expert groups. Group Chief Executive Stuart Gulliver is a member of the New Climate Economy, WEF CEO Climate Leaders Alliance, World Bank's Carbon Pricing Leadership Coalition, and the Energy Transition Commission.

Within these groups we have focused on a number of priorities. These include supporting the work of the G20, notably the Financial Stability Board ('FSB') Task Force on Climate-Related Financial Disclosure and engaging industry in the implementation of its recommendations; supporting and ensuring momentum on carbon pricing to address market failure; and providing thought leadership on the issue of how the public and private sectors can share risk, in order to leverage the maximum amount of private capital into sustainable investment.

### Supporting clients in the transition to a low-carbon economy

In 2016, we completed a number of transactions that helped lower carbon dioxide emissions in areas, including infrastructure and renewable energy, for our global banking and commercial banking clients.

Rather than abandoning existing 'high-carbon' clients, HSBC's approach is to engage and support them through the transition. We are training our relationship managers to have these discussions with clients.



We are also working with Climate Funds (e.g. Green Climate Fund, Catalytic Finance Initiative) for the benefit of our clients and we have a pipeline of clean energy, sustainable transport and green infrastructure projects that we are discussing with the Climate Funds spread across Asia, Africa and the Americas.

### Global Asset Management

We recognise the impact customers can have through how they invest their money – and are committed to educating and informing them about sustainable investments.

HSBC Global Asset Management has increased its range of socially responsible investment funds in Europe and is launching three new cross-border investment strategies with the intent of reducing greenhouse gas emissions, water usage, waste, and air pollution.

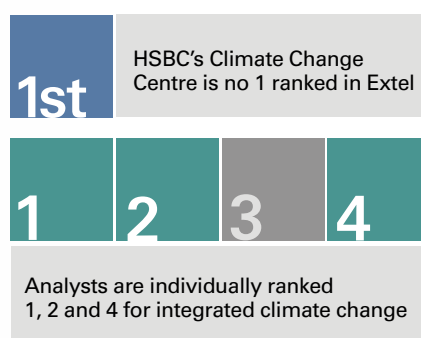
Our activities have been strengthened in the following areas:

- Environmental, Social and Governance (ESG) Integration: It's one of the four pillars of our equity investment philosophy and a critical component of our credit research process.
- We currently have about \$410m invested in green bonds.
- Investment Strategy Development: Our own factor betas are now combined with third party data to customize solutions for institutional customers.
- Stewardship: We collaborate with industry groups and support climate change resilience shareholders resolutions at Annual General Meetings.
- Policy: We have published our own [Climate Change Policy](#) that articulates our approach to climate-related disclosures.
- Transparency: We have expanded our carbon footprint related research providers to continue to improve our reporting commitments related to the Montreal Carbon Pledge.

Since 2015, HSBC Global Asset Management has been a signatory to the [Montreal Pledge](#). We measure and publicly disclose on an annual basis

the carbon footprint of our clients' investment portfolios as part of this commitment.

We have joined the Cambridge Institute of Sustainability Leadership – Investment Leaders Group – a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment.



### Global Research

Our award-winning, dedicated [Climate Change Centre of Excellence](#) has published 60 reports in the last 12 months, extensively covering the ratification and implications of the Paris Agreement. Reports have covered issues including climate risk assessment, green bonds, China's 13th 5-year plan, adaptation issues, water scarcity around cotton production and G20 climate vulnerability.

Collaboration with analysts from across HSBC Global Research results in multi-asset research that covers risks and opportunities from different angles and geographies. Members of the climate team speak regularly on panels with representatives of governments, United Nations bodies and not-for-profit organisations. HSBC's Climate Change Centre is no 1 ranked in Extel and its analysts are individually ranked 1, 2 and 4 for integrated climate change.

Since 2015, HSBC has expanded its broader environmental, social and governance offering with analysts joining to specifically cover social and governance drivers, through thematic, multi-asset and company-specific notes, and to cover the fast-growing green bond market.

Our [Statement on Climate Change](#) provides a summary of our approach and initiatives.

### Find out more

**Message from André Brandão, Group General Manager and Chair of the Climate Business Council – 'Climate Change: Risks and Opportunities'**

HSBC's Green Bond Report

Global Asset Management Climate Change Policy

Global Asset Management Responsible Investing

Global Equity Portfolio Carbon Footprint (Montreal Pledge)

Global Banking and Markets Sustainable Financing

Global Research / Climate Change Centre of Excellence

Statement on Climate Change

UN Principles of Responsible Investment

UN Principles of Sustainable Insurance



# Embedding Sustainability

Our Sustainability function advises, collaborates and partners with the global Businesses and Functions as they look to embed sustainability in their products and services.

The below chart summarises such initiatives and the primary governance forums responsible for implementation. Objectives relating to sustainability are reflected in leaders' scorecards with the Sustainability function acting as an assessor to their work. For example, this includes the scorecards of Group Chief Operating Officer, Chief Executive Officer Asia Pacific and Chief Executive Officer, Global Banking and Markets.

Please refer to the *Annual Report and Accounts 2016* for details on the specific 2017 scorecard measures for the Executive Directors.

FIGURE 20

## SUSTAINABILITY INITIATIVES AND RESPONSIBILITIES

| Initiatives                                                                       | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Primary governance forums                                                                                                                                                |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Supporting clients in transition to a low-carbon economy                          | <ul style="list-style-type: none"> <li>• Develop resources and capabilities to support business development opportunities related to the transition to a low carbon economy</li> <li>• Pursue opportunities for collaboration across customer groups and products to support integrated climate related initiatives such as smart cities</li> <li>• Share best practices with clients on opportunities to increase energy efficiency and reduce carbon emissions</li> </ul> | <ul style="list-style-type: none"> <li>• Climate Business Council</li> <li>• Global Business Executive Committees</li> </ul>                                             |
| Managing climate related risk                                                     | <ul style="list-style-type: none"> <li>• Develop sustainability and climate related risk policies</li> <li>• Establish processes to evaluate and monitor transition risks</li> </ul>                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>• Risk Management Meeting</li> <li>• Climate Business Council</li> </ul>                                                          |
| Managing environmental impact of our own operations                               | <ul style="list-style-type: none"> <li>• Reduce average CO<sub>2</sub> emissions per FTE</li> <li>• Implement plans to support 10-point operational sustainability strategy</li> </ul>                                                                                                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>• HOST- Operations, Services and Technology function</li> <li>• Group Chief Operating Officer Sustainability Committee</li> </ul> |
| Strengthening disclosure, engagement and processes to support sustainability aims | <ul style="list-style-type: none"> <li>• Develop management information reporting framework for tracking sustainability initiatives and engage in industry initiatives to establish a consistent approach to disclosure</li> <li>• Expand communication and knowledge sharing with employees on climate change and sustainability</li> </ul>                                                                                                                                | <ul style="list-style-type: none"> <li>• Climate Business Council</li> <li>• ESG Steering Committee</li> </ul>                                                           |

# Further Information

In this section, we have provided further information on HSBC's approach to ESG issues. It contains a quick guide to links to videos, 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.

## Environment

Environmental Policy  
Climate Change: Risk and Opportunity  
Measuring our Impact

### *Transition to low-carbon economy*

HSBC's Green Bond Report  
Global Asset Management Climate Change Policy  
Global Asset Management Responsible Investing  
Global Equity Portfolio Carbon Footprint (Montreal Pledge)  
Global Banking and Markets Sustainable Financing  
Global Research / Climate Change Centre of Excellence  
Statement on Climate Change  
UN Principles of Responsible Investment  
UN Principles of Sustainable Insurance

### Videos

'Financing the US's first offshore wind farm'  
'Mexico City International Airport'

### *Managing Risk*

Environmental Policy  
Equator Principles  
Simpler, better, faster  
Sustainability Risk Policies  
Introduction to Sustainability Risk Policies  
Statement on Climate Change

### Video

'Statement on Revised Agricultural'  
'Commodities Policy: Palm oil'

### *Operational Impact*

Ethical and Environmental Code of Conduct for Suppliers  
Key Facts (External benchmarks and environmental figures)  
PwC Assurance Report  
Paper Sourcing Policy  
Sustainable Operation Result

## Social

Board Diversity Policy  
Community Investment Programmes  
Diversity and Inclusion Policy  
Ethical and Environmental Code of Conduct for Suppliers  
Health and Safety Policy  
Remuneration Practices and Governance  
Statement on Human Rights  
Statement on Modern Slavery and Human Trafficking  
Tax Transparency  
Our Charter  
Valuing Diversity  
Whistleblowing Policy

### Visit HSBC Now videos for stories from our colleagues around the world.

'Jennifer's Big Day'  
'Blazing the trail for African-American colleagues'  
'Strong, smart and bold for change. Meet the next generation of women.'

## Governance

Anti-Money Laundering Policy Statement  
Financial Crime Risk  
Sanctions Policy Statement  
Statement of Anti-bribery Principles  
Statement on Conduct  
Statement on Modern Slavery and Human Trafficking  
Statement on Public Policy Engagement

### Videos

HSBC Safeguard - data protection and financial crime:  

- Why do I need to provide more information about my business to HSBC?
- What is financial crime and why should I be concerned?
- How does proving where my money comes from help HSBC make banking safer?

### Awards and Recognitions

Awards to date

The information set out in this document, taken together with the information relating to ESG issues detailed in our *Annual Report and Accounts* and the information available in the links below, aim to provide you with key ESG information and data relevant to our operations for the year ended 31 December 2016 and in order to comply with the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ('ESG Guide').

To the extent that we have not complied with the relevant provisions in the ESG Guide it is because we have chosen to focus on the issues which we consider are material to our stakeholders and on which we can have an impact. We will continue to develop and refine our reporting and disclosures on ESG issues in line with feedback received from stakeholders and in order to comply with the ESG Guide.

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