



HSBC Holdings plc

Environmental, Social and
Governance (ESG) Update
Supporting sustainable growth

April 2018



HSBC

Hong Kong Stock Code: 5

HSBC Holdings plc

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

Registered in England: number 617987

Our cover image

The Singapore Supertrees are a cluster of large tree-like structures constructed in the heart of Singapore. Many of the Supertrees are embedded with environmentally sustainable functions – including generating solar energy, collecting rainwater, and acting as vertical gardens with more than 150,000 plants. These innovative structures create a green respite in the centre of the urban centre.

Our photo competition winners

The cover of this report showcases one of the images taken by one of our employees. The image was selected from more than 2,100 submissions to a Group-wide photography competition. Launched in June 2017, HSBC NOW Photo is an ongoing project that encourages our people to capture and share the diverse world around them with a camera.

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About

The information set out in this document, taken together with the information relating to ESG issues detailed in our HSBC Holdings plc *Annual Report and Accounts 2017* and the information available in the links below, aims to provide you with key ESG information and data relevant to our operations for the year ended 31 December 2017 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 that 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.

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.

Group Chief Executive's statement

Throughout our 153-year history, HSBC has worked hard to meet its obligations to society and to help its customers and communities to thrive.

This ESG report, the third we have produced, outlines the measures we are taking to live up to our responsibilities today, and illustrates our ongoing commitment to open, honest and meaningful non-financial disclosure.

It covers a number of topics, from the way we engage with our employees and address their concerns, to our impact on the environment, and customer satisfaction across all our businesses.

It provides an update on metrics that we have disclosed previously, and also a number of new items. These include new commitments to extend education and employment-linked training, both for our employees and for one million people across the globe, and details of how we are applying advanced analytics and AI to improve our customer service and enhance our ability to fight financial crime. We are also meeting our reporting obligations under the terms of the UN Global Compact, and renewing our commitment to the Compact's 10 principles.

There are areas of our ESG performance in which we have made genuine strides. We have transformed – and continue to strengthen – our ability to detect and deter financial crime. We have been a leading international voice in calling for better climate-related disclosure, while also making good progress in mitigating our own impact on the environment. We have materially improved the way we listen to customers, and have used that data to improve our services.

The report shines a light on those successes, but also highlights where we still have work to do. We are committed to improving aspects of our performance where we can and must do better.

We have much further to go in improving customer satisfaction and making it easier for our customers to work with us. We are now reporting on customer satisfaction in all four of our global businesses, and are working hard to make our services faster, less complex and more transparent.

There are also issues for us to tackle around conduct. We have remediation plans in place where work needs to be done, and we are investing heavily to ensure the necessary controls and processes are present and robust. More broadly, we continue to pursue the highest standards of conduct throughout the business.



We can also do better by our employees. Our disclosures highlight our progress, but there are still processes and ways of working that make it harder for all our people to do their jobs and fulfil their potential. We are committed to removing those barriers, and to making HSBC a more diverse and inclusive organisation – particularly at a senior leadership level.

It is critical we get these things right. Our future success is determined by our ability to address these issues and by our impact on people and the planet more generally.

As Group Chief Executive, my priority is to ensure HSBC meets its wider obligations and to set the highest standards of transparency. Where things are working, we will ensure standards do not slip. But where there is work to be done, we will do so with determination and clarity of purpose, and in a spirit of openness and honesty.

The views of our stakeholders will continue to be of paramount importance as we carry out that work, and as we strive to improve the quality and quantity of our non-financial disclosure. We will continue to listen and to learn, and to incorporate feedback into future Updates.

I hope you find this report helpful.

John M Flint
Group Chief Executive

HSBC's purpose and values

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

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

Dependable

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

Open

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

Connected

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

HSBC at a glance

Our operating model consists of four global businesses and a Corporate Centre, supported by HSBC Operations Services and Technology (HOST), and 11 global functions. These include: risk, finance, financial crime risk, legal, marketing and human resources.

Retail Banking and Wealth Management ('RBWM')

We help millions of people across the world to manage their finances, buy their homes, and save and invest for the future. Our Insurance and Asset Management businesses support all our global businesses in meeting their customers' needs.

Commercial Banking ('CMB')

We support approximately 1.7 million business customers in 53 countries and territories with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.

Global Banking and Markets ('GB&M')

We provide financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet clients' specific objectives.

Global Private Banking ('GPB')

We help high net worth individuals and their families grow, manage and preserve their wealth.

Our Corporate Centre comprises Central Treasury (including Balance Sheet Management), our legacy businesses, interests in our associates and joint ventures, central stewardship costs, and the UK bank levy.

Our strategy and performance

We have a two-part long-term strategy:

- Develop our international network to serve enterprises across geographies and facilitate international trade and capital flows, thereby helping our clients to grow their businesses.
- Invest in wealth and retail businesses with local scale to make the most of global social mobility, wealth creation and long-term demographic changes in our select retail banking and wealth management markets.

Headline results for 2017 are set out below, and reflect a strong performance in our major businesses. For a more detailed breakdown of our 2017 performance please visit our [investor website](#).

For the full-year 2017

Reported profit before tax

\$17.2bn

Adjusted profit before tax

\$21.0bn

Reported risk-weighted assets

\$871bn

Total assets

\$2,522bn

Customers

Executive summary

We have made significant improvements to the way we listen to customers and their feedback has helped improve our products and services. However, there's more we can do to simplify processes, improve the digital experience and ensure we deliver fair outcomes to all our customers. We will continue delivering on our conduct agenda in Global Banking and Markets to ensure all employees live up to our high standards. In addition, we remain committed to resolving outstanding investigations stemming from former practices within Global Private Banking.

We are working to make things simpler, faster and better for our customers. We conduct research and invest in technology to analyse and anticipate emerging market trends. However, listening to customers and asking their opinion on our service is core to understanding their needs and concerns.

This section discusses customer satisfaction across our four global businesses, and highlights the actions we are taking to drive continuous improvement. See Figure 1 for a breakdown of customer numbers and profits generated.

Taking responsibility for the service we provide

We define conduct as delivering fair outcomes for customers and not disrupting the orderly and transparent operation of financial markets. As stated in our *Annual Report and Accounts 2017*, operating with high standards of conduct is central to our long-term success and ability to serve customers. We have clear policies, frameworks and governance in place to protect them. These cover the way we behave, design products and services, train and incentivise employees, and interact with customers and each other. Our Conduct Framework guides activities to strengthen our business and increases our understanding of how the decisions we make affect customers and other stakeholders.

Details of our Conduct Framework are available at www.hsbc.com, and more information on our legal proceedings and regulatory matters can be found in Note 34 of the *Annual Report and Accounts 2017*.

Figure 1: details of our customer groups

	Number of customers (approx.)	Adjusted profit before tax (\$bn)	Adjusted risk-weighted assets (\$bn)
RBWM	37m	6.5	121
CMB	1.7m	6.8	301
GB&M	4,100	5.8	299
GPB	45k	0.3	16

For further details, see *Annual Report and Accounts 2017*

Acting on feedback

Acting on customer feedback has helped make our services more accessible and transparent. It has also prompted us to streamline and improve our processes, which provides customers with a better experience.

Below, we have highlighted some examples of how customer feedback has driven improvements across our four global businesses. The following sections explore the approach taken in each of the businesses in more detail.

1 Making banking more accessible

RBWM customers said:

Logging on to our online and mobile banking was too complex.

What we did

Made it easier for customers to access their accounts, while ensuring robust security. For example:

- we have introduced biometric (Touch ID & Voice ID) verification to make it easier for customers to access their accounts, with 40% of logins not requiring passwords
- we are providing specialised training to our people so they can better support customers using digital banking and give them advice about how to access accounts and keep them secure

2 Making fees and charges transparent

RBWM customers said:

It was sometimes difficult to understand when and why they would be charged for our services.

What we did

We enhanced our direct communication with customers to help them understand their finances and avoid fees and charges:

- in the UK we have sent customers more than 600,000 overdraft alerts and 500,000 advance warnings of possible fees
- RBWM complaints in this area fell by 5% in 2017

CMB customers said:

They were not satisfied with our rates and charges.

What we did

Improved transparency and introduced clearer communications, resulting in a 37% reduction in complaints in this area. Examples of improvements:

- balances are now displayed more clearly on Business Internet Banking
- in the UK, we have introduced an automatic retry process for un-cleared cheques to help customers avoid charges due to insufficient funds in accounts

3 Tackling complexity

RBWM customers said:

HSBC's processes and procedures were too complicated.

What we did

Changed the way we operate to make banking easier. For example:

- in the UK, we have made it an easier process for people to get a mortgage – reducing the application period from five weeks to two weeks
- we have implemented Live Sign which gives customers the ability to sign and agree documents electronically
- in Hong Kong, 99% of accounts are now opened via an employee tablet in branch

CMB customers said:

It took too much time to complete tasks, such as opening an account.

What we did

Continued to streamline our processes. For example, we have:

- launched an online tool for Know Your Customer (KYC) so small businesses without Relationship Managers can provide the information needed for regulatory checks without visiting a branch
- introduced a simpler registration process for HSBCnet and better customer support through virtual assistant and Live Chat

GB&M customers said:

Our processes could be frustrating and time-consuming.

What we did

Assembled dedicated teams to make processes simpler, better and faster. For example:

- our new 'confirmation.com' platform lets our customers and their auditors obtain annual balance confirmations from our branches worldwide on a single platform, simplifying a previously labour-intensive annual process. It has been trialled in key countries and will be rolled out globally in 2018
- in the UK, Global Banking employees can now use 'MyDeal' to access key information in real-time, and in one place, when working on Debt Capital Markets and Equity Capital Markets deals – freeing them up to spend more time with customers

GPB customers said:

The due diligence related to opening and maintaining customer accounts was complicated.

What we did

We are working to improve the customer experience, by:

- simplifying and digitising the paperwork for opening accounts
- examining whether and how we are able to share, with customer permission, Know Your Customer data across business lines

Retail Banking and Wealth Management

Retail Banking and Wealth Management (RBWM) strives to build long-lasting, trusted relationships with our customers. We know we can only achieve this by understanding what is important to them and using this insight to improve the banking service we offer.

How we listen to our customers

We use a number of sources to listen to our customers, in order to get the clearest picture of the experience we deliver.

Customer recommendation surveys

In 2017, we surveyed two million customers on how likely they were to recommend HSBC as a bank to their friends and families, as well as their satisfaction with our various channels. Additional technologies have helped this understanding. For example, we now have Speech Analytics in 19 markets, providing real-time insight on customers' experiences of our contact centres.

In 2017, we saw an increase in customers likely to recommend us. Improved customer service, particularly in how we take ownership of problems and provide user-friendly interactions, have been key contributors to our performance. Customers are also increasingly recommending us for understanding them, especially their goals and ambitions (see Figure 2).

While we are recommended for being easily accessible in the UK and Hong Kong, this remains an area of focus in markets where we have less presence. We will continue improving and promoting alternative ways to interact with customers.

Figure 2: RBWM customer recommendation

		Recommendation scores*	
		2017	2016
UK		62	50
Hong Kong		61	39
France		68	47
US		57	52
Canada		56	49
Mexico		92	84
Singapore		63	52
Malaysia		79	79
China		81	91
UAE		88	79

Between 2016 and 2017, the methodology used to survey consumers has changed in a number of markets. Surveys have now migrated from telephone to email, which is a contributing factor to the large change in the results between 2016 and 2017.

*% of customers providing an 8 or above score out of 10. This is an indication of how likely they are to recommend HSBC.

HSBC FUSION

With 70% of business owners using the same bank for their business and personal finances, we saw an opportunity to better serve and grow the relationship for those managing firms with turnovers between \$3m and \$5m.

To ensure we built a proposition around their specific needs, we spoke to more than 1,600 customers in nine markets through interviews, focus groups and surveys. It revealed that personal and business lives were blended for small business owners – and they wanted this recognised by their bank. This resulted in HSBC Fusion.

HSBC Fusion is a dedicated banking service that gives customers greater control over their business and personal finances. This includes access to funding, advice and new opportunities, such as a centralised user experience for online banking and a new mobile app for easy access to administrative tools for accounting, taxes and expense management. HSBC Fusion was launched in 2017 in Malta, Mexico and China, and is expected to launch in a further five markets this year.

Customer satisfaction surveys

Since 2016, satisfaction levels in branch have improved. In 2017, Relationship Management maintained or improved generally high satisfaction levels, while those in contact centres and online banking have declined (see Figure 3).

The decline in satisfaction in our online banking service and contact centre is due to the launch of a new global online banking system and enhanced security features. We invested in the new system to support the increased demand for digital services as the ways in which our customers interact with us, and their expectations for ease and range of functionality, is changing. This has resulted in a fall in the use of our branches and contact centre contact, and an increase in the use of digital.

However, the pace of change resulted in higher complaints. Our online banking and contact centres were under pressure due to a higher than normal volume of calls.

We have learnt from this and have invested to support our call centres to ensure they are well trained to help our customers. We are now seeing satisfaction improve as we continue to provide support and updates to our customers.

While contact centre customer satisfaction has either declined or remained stable, overall dissatisfaction with contact centre accessibility and time to answer calls has improved. We are investing significantly to respond to new customer needs driven by greater digital capabilities. All our contact centre employees are receiving new training and support under the banner of 'customer obsessed', with a greater focus on coaching and development, quality improvement, and problem resolution. Our priority in 2018 is to resolve more problems the very first time customers get in touch.

Figure 3: RBWM customer satisfaction scores

	Branch		Contact centre		Relationship Manager		Online banking	
	2017	2016	2017	2016	2017	2016	2017	2016
% of customers providing an 8 or above score out of 10*								
UK	86% 	86%	70% 	71%	79% 	75%	71% 	81%
Hong Kong	87% 	83%	90% 	96%	71% 	71%	49% 	63%
France	74% 	74%	68% 	74%	70% 	68%	72% 	75%
US	87% 	85%	72% 	63%	80% 	80%	57% 	66%
Canada	82% 	84%	66% 	73%	85% 	86%	34% 	56%
Mexico	90% 	89%	82% 	81%	91% 	93%	81% 	82%
Singapore	73% 	63%	88% 	87%	62% 	62%	46% 	54%
Malaysia	71% 	69%	64% 	70%	73% 	67%	61% 	63%
China	93% 	91%	94% 	96%	73% 	77%	46% 	60%
UAE	70% 	69%	66% 	71%	66% 	62%	69% 	70%

*2016 Contact centre scores were measured on a 5 point rating scale, this was changed to an 11 point rating scale in 2017 with the exceptions of the US, Canada and Singapore.

When things go wrong

We ensure customers' complaints are recorded and understood to learn what has gone wrong and why. The ways in which we deal with complaints - and the speed they are resolved - can also make a big difference to customers.

RBWM received approximately one million complaints in 2017 from our ten largest markets. This was a 6% increase in volume from 2016, with complaints as a percentage of customer base now at 3.6%. Higher complaint volumes were driven in part by the launch of the new global online banking system, discussed in the prior section. The key complaint themes related to process and procedures, service, and fees and charges (see Figures 4 and 5).

In 2017, we resolved 71% of all complaints on the same or next working day (excluding UK PPI complaints). We use insight gathered from complaints and analysis of the root causes to drive improvements in our markets.

Taking responsibility for the experience we deliver

We have clear procedures and governance in place to support our customers. Senior leaders have ultimate responsibility and are held accountable for customer service standards. These are monitored through key metrics aligned to performance objectives that target the delivery of fair outcomes and experiences for our customers.

In 2017, through our conduct programme we identified and embedded changes to enhance our approach to understanding our customers. These included:

- Launching new procedures to ensure potentially vulnerable customers are correctly identified and supported.
- Launching new conduct training for all global product managers.
- Enhancing the way we capture and analyse customer exit reasons to improve our products and services, and rebuild customer relationships.

Products designed with customers in mind

We assess product and pricing changes against a global customer-focused framework, which provides improved consistency and clarity for our customers. In 2017, there were 156 new products and 119 feature or channel changes in our markets that were approved globally. This included two new lower carbon funds by Global Asset Management which will be delivered in 2018.

Delivering the right products requires giving suitable training and tools to those designing the solutions. With this in mind, we have launched the Product Management Academy which has delivered training to more than 700 of our people more than 30 countries to ensure a consistent approach to embedding customer thinking in the design process.

Figure 4: RBWM annual complaint volumes – top 10 markets

Market		Complaint volumes (000)		Complaints per 1,000 customers per month	
		2017	2016	2017	2016
UK*	▼	457.7	511.8	3.3	3.5
Hong Kong	▼	41.5	43.3	0.7	0.7
France	▼	60.2	63.9	6.0	6.6
US	▲	53.8	47.0	3.4	2.6
Canada	▲	24.9	16.9	2.7	1.8
Mexico	▲	357.3	252.4	4.5	3.8
Singapore	▲	10.8	6.6	1.6	0.9
Malaysia	▼	5.5	10.0	0.5	0.8
China	▲	4.3	3.5	0.7	0.8
UAE	▼	26.6	32.1	6.8	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'.

Figure 5: RBWM complaint themes

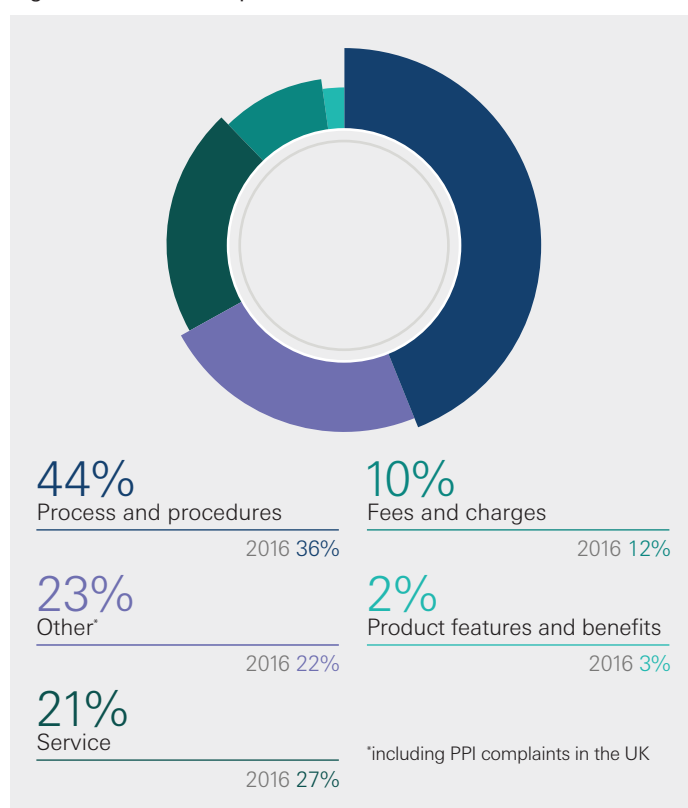
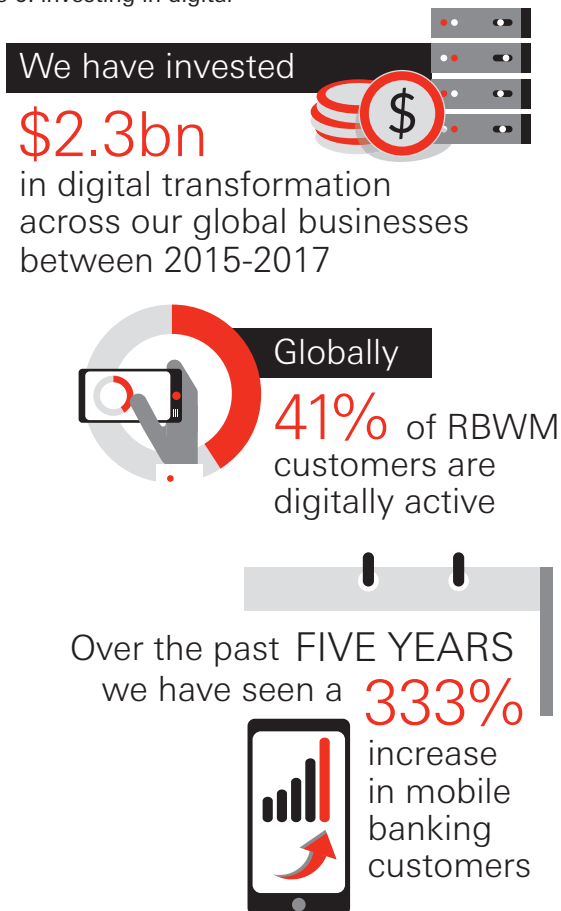


Figure 6: investing in digital



The future of digital banking

Mobile

An increasing number of customers prefer to do their banking digitally. We are continually enhancing the features on our mobile banking apps by listening to customer demand and tailoring services for each market in which we operate. The new mobile banking app satisfaction ratings are strong in the UK and Hong Kong with both achieving 4.7 out of 5 on the Apple App store. Our strategy is to look at global technology trends in multiple markets and to invest in the technologies that will be most beneficial to customers.

Digital messaging

We are providing more personalised, tailored and relevant messaging through digital and non-digital channels.

We can determine when customers are searching on our website for solutions to their financial needs, and provide real-time digital messages to assist. These messages can be personalised based on our deep customer understanding and distributed across multiple channels in a coordinated and automated way. Features such as nudges or push notifications are also used to keep customers updated on their enquiries, while reducing effort and providing financial guidance. These types of messages will help support customers through key journeys across products and propositions. This has already been used in the UK with 300,000 online banking messages sent in 2017, helping customers who have attracted banking charges in the last 12 months to avoid fees in the future.

Artificial intelligence

Using artificial intelligence and machine learning, the customer journey is being improved with a more personalised service. This technology will also help us to engage with our customers in a more timely, accessible and relevant manner. For example, advance analytics is used to predict which customers using online banking may call the contact centre. We can pre-empt this with in channel assistance (Live Chat) to reduce customer effort and provide immediate assistance.

FINTECH PARTNERSHIPS

HSBC is working with fintechs to make banking simpler, better and faster for customers. We have allocated \$200m to invest in fintech and enterprise start-ups, and have a number of successful partnerships.

We have also supported The FinTech Innovation Lab since 2013 and participate in Hong Kong, London, Dubai and New York. This programme invites entrepreneurs to pitch their financial technology (fintech) ideas to banks. The bank works with shortlisted entrepreneurs during a 12 week mentoring programme.

SOCIAL MEDIA LISTENING

In 2017, HSBC introduced new software to support our social media listening with improved global capabilities. The platforms give us:

- Access to global **social media content** from a variety of sources, getting us closer to feedback from customers and helping understand our competitor and brand position.
- The ability to **engage real-time with customers**, helping us to identify, understand, and resolve issues, and feedback to customers on what we've done.
- **Analytical capabilities** to research publicly available social media data, gaining insights that can influence business decisions and develop thought leadership.



Supporting customers

As part of our ambition to support and protect customers, we are working on a number of initiatives.

Financial inclusion

In Hong Kong, we have trained branch employees in basic sign language skills and produced a series of simple guides to help senior citizens adapt to the new Internet Banking platform.

Improvements to our mobile app Easy Invest have earned us a 2017 Good Practice Award in Hong Kong from the Design for All Foundation, a not-for-profit international body. The app has accessibility features and assistive technology on mobile devices.

We have deployed more than 2,600 talking ATM machines globally. These enable our visually impaired customers to transact through connected headphones, with the instructions being read out to them. Most notably, in the UK, USA, Australia and India, we provide this talking functionality at every HSBC ATM.

The UK was selected as a finalist in the Financial Innovation Awards 2017, under 'Best Financial Inclusion Initiative' category for offering Video British Sign Language (BSL) Interpretation and Relay Service to our customers. Since its launch a year ago, the service has been used more than 700 times by our BSL communicating customers. This is a success in improving some of the key journeys our customers experience, such as mortgage applications and fraud interactions.

Financial well-being

We have developed a global programme to improve awareness among customer-facing employees of the appropriate money advice solutions to assist customers with financial difficulty. The programme helps identify customers in need of additional support and directs them to the most appropriate area to meet their needs.

We are delivering financial well-being seminars to help increase financial capability. These seminars provide guidance on establishing and maintaining a budget, information on savings, and education on frauds and scams.

In Singapore, we launched a debt consolidation programme to help consumers combine outstanding balances from their existing unsecured credit facilities, enabling them to save on interest.

HSBC actively supports the 'Take Five to stop Fraud' initiative in the UK, which raises awareness of the techniques used by fraudsters. We have implemented messages in the new beneficiary set up process to help protect customers' personal data.

To learn more about our commitment to increasing financial capability, see page 33.

Diversity and inclusion

We have seen changes to traditional family structures, such as de facto relationships where a growing number of people in society choose to delay marriage or not get married. In some markets there remains a misalignment in the cover the insurance industry is able to provide to customers, particularly regarding relationship status and financial dependants. Our country teams are reviewing existing products while working within legal and regulatory environments.

In Hong Kong, our travel and medical products offer a family discount to married couples, same sex partners, and de facto relationships. In Singapore, our travel policy now recognises partner relationships (same sex and de facto), while in the UK and Mexico we expanded the definition of children to more broadly cover financial dependants. This enables adopted children and foster children to be beneficiaries. In the UK, we have also introduced gender neutral titles to reflect societal changes.

We are in the process of expanding this work in our other product lines in RBWM.

Commercial Banking

Commercial Banking (CMB) serves the full range of businesses from start-ups to large corporates and operates in 53 markets. We serve approximately 1.7 million customers globally who typically operate internationally, or aspire to do so, and value HSBC's global network and connectivity.

How we listen to our customers

We have increased our listening capabilities by improving existing insight programmes and introducing software and tools to help us stay better connected with customers. Our insight includes complaints analysis and social media.

'Moments of Truth' surveys

CMB continued the roll out of event driven surveys in 2017. This is an 'always-on' approach to gathering customer feedback about key interactions such as the account opening experience, initial set-up and usage of HSBCnet, interactions with our Global Trade and Receivables Finance teams, applying for Credit, and when Relationship Managers change.

We gather scores and comments to identify issues needing action and track key performance indicators to measure the impacts of changes made. We now have more than 90 surveys live, spanning 35 markets.

In 2017, we gathered feedback from more than 8,000 customers and have completed 20 improvements, with a further 55 underway, focused on the customer experience across these key interactions. This has resulted in improved customer satisfaction. See the case study for an example of how this approach has improve the customer experience.

Online panels

We have implemented online customer panels that have more than 200 active members in the UK, Hong Kong, China, Australia, UAE, Mexico and the US. These provide fast feedback, allowing us to make improvements to the layout and functionality of our digital services. In 2017, they helped us improve the customer on-boarding experience, integrate accounting software, review digital lending, upgrade our mobile app, trial video conferencing, and even change the way we communicate with customers.

CASE STUDY

INDIA – NEW ACCOUNT OPENING

The 'Moments of Truth' survey highlighted issues with the account opening process as only 25% of customers in India rated it as 'Excellent'. Analysis revealed the main cause of dissatisfaction was how long it took to open an account. An internal review highlighted some delays were caused by multiple internal checks. A pilot to streamline the process and consolidate checking brought this down from up to 25 days to four days. The 'Excellent' rating in India subsequently increased to 67% by the end of 2017.

Taking responsibility for the experience we deliver

CMB's formal Conduct Programme concluded in 2017 and the resulting governance, frameworks, policies and communications are now embedded. Conduct metrics measuring potential impacts on our customers and markets are regularly reviewed and appropriate actions taken. For example, sales quality testing results are closely monitored to ensure that the products and services offered to customers meet their needs.

There is ongoing training for all employees, and both established and evolving governance, to highlight customer issues in decision-making forums. Pricing and billing continues to be an area of focus to ensure a balanced exchange of value with our customers. A Global Pricing Executive Committee has been established and a new global pricing framework will be introduced. Effective communications are core to ensuring all employees understand how to deliver our conduct commitments.

Examples of employees making the right decisions in the interests of customers during 2017 featured in articles and broadcasts across internal communications channels. These stories, supported by online training, newsletters and globally broadcast talks by internal and external speakers on various Conduct issues, will continue in 2018.

When things go wrong

In 2017, CMB handled more than 57,000 complaints – a 7% increase on 2016 - with 75% coming from customers in the UK, 7% in Hong Kong and 7% in France. Operational complaints remained the highest in volume and these are related to the regular transactions that our customers do most frequently - like making payments and changing the details of their accounts. Complaints arise when we are too slow or make mistakes.

The largest increase in complaints was related to our requests for customers to provide more information about themselves and their businesses as part of more rigorous procedures implemented by the bank to prevent financial crime. If customers don't provide the details needed, we sometimes restrict their use of our services. In certain cases their accounts will be closed to guard against the risks of fraud and money laundering.

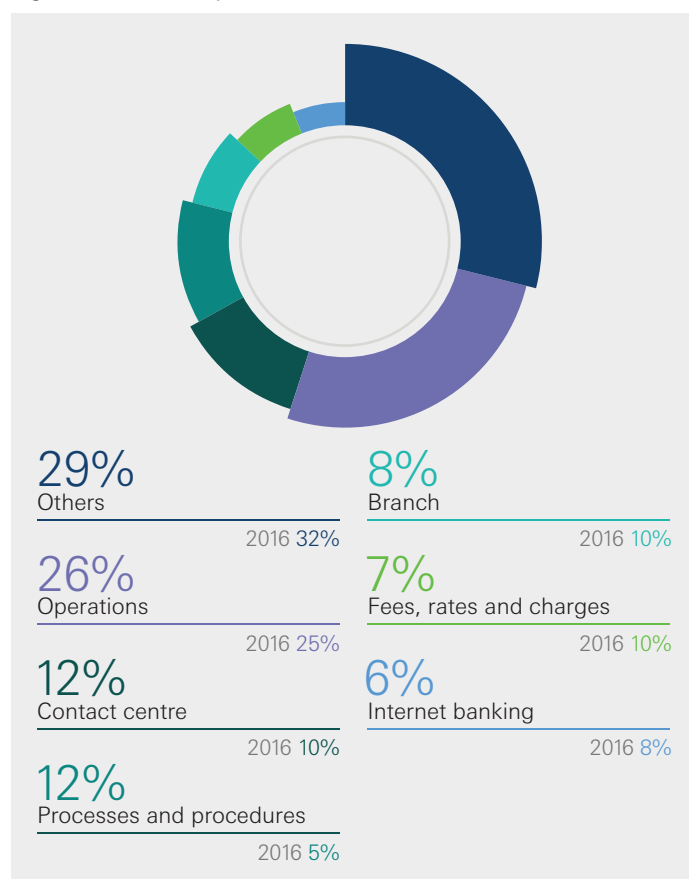
As well as addressing the root causes of the complaints, we are rolling out a global online training programme aimed at customer-facing teams. The training improves our ability to recognise complaints and emphasises the importance of recording, understanding and resolving them (see Figures 7 and 8).

Figure 7: CMB annual complaint volumes (000) – top 8 markets

	2017		2016
UK*	43.1	▲	37.8
Hong Kong	4.1	▲	3.2
Asia Pacific	1.1	▼	1.2
Europe	4.8	▼	6.6
Middle East and North Africa	1.8	▼	2.4
Latin America	1.2	=	1.2
US	1.2	▲	0.9
Canada	0.4	▼	0.8

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

Figure 8: CMB complaint themes



Global Banking and Markets

Global Banking and Markets (GB&M) helps multinational customers to grow and manage their businesses through a wide range of products and services. These are designed to address customers' universal banking needs.

We continually strive to earn our customers' trust and make it easier for them to do business with us. We are working on better understanding their needs, strengthening our controls, improving our service offering and technology, and ensuring our team embraces and lives up to our core values and conduct agenda. We made good progress in 2017 but we know there is still much more to do.

How we listen to customers

Our customers are international, often with sophisticated needs, and always with high expectations of customer service. They have clear views on the service we offer, so improving how we listen and react to their opinions and concerns is at the centre of our thinking.

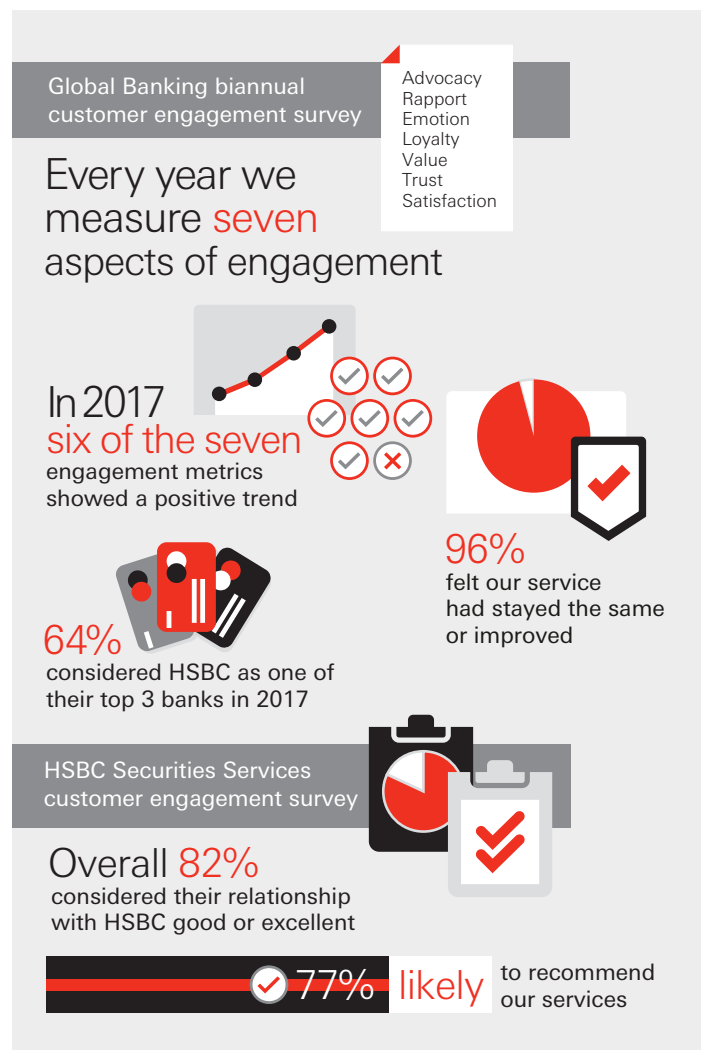
- We have implemented a number of bespoke surveys that capture our customers' feelings about the service we provide. Information on our Global Banking biannual customer engagement survey, and HSBC Securities Services survey, can be seen in Figure 9.
- We subscribe to market insight to receive information on competitive positioning across the trade, cash management, and banking markets.
- We receive relationship feedback through our client planning process, and sometimes via complaints. We are updating our complaints tracking to ensure we have consistent standards in place.

When things go wrong

We receive some of the most powerful feedback from complaints. Following the roll out of our new Customer Feedback policy in late 2015, we have improved our underlying systems and processes to allow for greater transparency and improved reporting of our customers' concerns.

Our people are trained to ensure customer concerns and complaints are handled as consistently and quickly as possible, and all complaints are monitored and reported in our governance forums.

Figure 9: GBM customer survey results



Our Client Escalation Committee is made up of senior managers and strives to improve the quality of service for our customers, as well as dealing with issues when they arise. The Chair will assign an executive from the committee to sponsor each case and ensure the agreed action plan is completed. The committee encourages issues to be escalated and addressed before they result in frustration, ensures employee conduct is delivering fair outcomes for our customers, and identifies the root cause of repeat issues that need to be addressed.

Values, culture and market integrity

We are continually working on improving our conduct agenda. Major changes over the last four years, covering training, communication, incentives, policies, procedures, surveillance technology, reporting and monitoring have undoubtedly improved our culture, our behaviour and our discipline.

The recent conclusion of two long-running investigations into historical practices were clear reminders of how ensuring the highest standards of professional conduct to deliver fair outcomes for customers and to protect the orderly and transparent operation of the markets remains paramount:

- On 29 September 2017, the Federal Reserve Board (FRB) fined HSBC \$175.3m in relation to unsafe and unsound practices in our foreign exchange trading business covering the period from 2008 to 2013. The related Consent Order highlighted that the bank failed to detect and address conduct by certain traders, including misusing confidential customer information, as well as using electronic chat-rooms, to communicate with competitors about their trading positions. The FRB's Order requires us to improve our controls and compliance risk management concerning both foreign exchange and wider designated wholesale markets for commodities and interest rate products.
- On 18 January 2018, HSBC also entered into a three-year Deferred Prosecution Agreement with the US Department of Justice (DoJ) to resolve its investigation into HSBC's historical foreign exchange sales and trading activities within our Global Markets business. The conduct described in the agreement occurred in 2010 and 2011 and we paid \$101.5m in fines and restitution.

HSBC has acknowledged its failings and, since the historical conduct described in these agreements, introduced a number of measures designed to make the control environment more robust. We have dedicated, and continue to dedicate, significant resources to strengthen our systems and controls. Improvements to our conduct agenda started more than three years ago and are already in place. However, we continue to look for ways to enhance our controls and to embed the culture that is at the heart of good conduct. We know we still have much more to do. HSBC is committed to ensuring fair outcomes for its customers and protecting the orderly and transparent operation of the markets.

The investigations focused specifically on our markets activity, but they have also given us good reason to look again at every aspect of our conduct within the Global Banking and Markets business. They were clear and specific reminders of the importance for us to continue improving. More than ever, this is a top priority for our senior management team, as well as for every employee.

Improving our culture

Although we have made progress, we are enhancing and accelerating progress made in strengthening and remediating our systems and controls and broader compliance culture through a newly established Global Banking and Markets Conduct Committee, led by our Global Banking and Markets CEO. Market experts are providing input. The agenda focuses on Culture and Behaviours, Customers (including Suitability, Conflicts of Interest, Pricing and Transparency), Markets (covering Market Conduct, Trade Execution and Competition), Governance and Controls, and Strategy and Business Planning. Progress is being tracked and reported through our own governance channels, as well as being reported to the DoJ, FRB and our regulators in line with our agreements with them all.

Conduct is core to how we operate and manage our business. We have already implemented improvements to algorithmic trading to manage risk around benchmark orders, and updated our policies for sales, order handling, managing confidential customer information and conflicts of interest, pre-hedging and market abuse. We have engaged external firms to audit our internal controls and to enhance our voice, trade and audio surveillance. We have created global and regional conduct governance forums to provide supervision and oversight over the implementation and effectiveness of our conduct agenda. An extensive plan is in place, and we aim to deliver this as fast and efficiently as we can. Our success will determine how well we deliver the right outcomes for our customers and stakeholders, consistently and reliably, for many years to come.

Key areas of focus include:

- Customer-facing improvements: We are focusing on suitability and appropriateness, new product approval, pricing and transparency. Ensuring customers have the right products at a fair price.
- Surveillance: We have a major programme to install the latest technology and surveillance methods and to build out the supporting team.
- People: We are embedding conduct considerations into the full employee life cycle, including hiring, training, performance management and reward, promotions and exits. Building a stronger speak-up culture, together with our whistleblowing programme, are important aims of this approach. We also believe a more diverse workforce would help us to deliver better outcomes to our customers. See Employee section for more details, including a case study on improving gender balance on page 24.

Global Private Banking

Global Private Banking (GPB) aims to support the owners and principals of the Group's corporate customers, helping them to grow and preserve their personal wealth from generation to generation.

Our customer service teams comprise Relationship Managers, investment counsellors, product and credit specialists, and wealth planners. They develop a thorough understanding of each customer, including their family, business, lifestyle, ambitions and philanthropic activity. Specialists from Global Private Banking and other parts of HSBC, including Commercial Banking and Global Banking and Markets, are then engaged to provide the best possible service from across our global network.

Addressing the past

In recent years, GPB has taken significant steps to address historical control weaknesses, most notably in Switzerland. This has included the full implementation of the Group's Global Standards for financial crime risk management and the adoption of a comprehensive tax transparency policy. Where we used to offer banking services to customers in more than 140 countries, GPB now focuses on 34 strategic markets, with customer assets actively managed down by \$135bn between 2013 and 2017.

While GPB has resolved a number of legacy issues relating to the past, investigations into former practices are ongoing in a number of countries at the time of publication. In addition, GPB's role as private bank and trust adviser to high net worth individuals may sometimes result in HSBC Private Banking receiving media attention in customer disputes.

What we expect from our customers

As part of our efforts to manage financial crime risk, today's GPB customers are required to certify their tax status and undergo regular periodic and event driven reviews, according to their risk category and in line with changes to their circumstances. They are also subject to continuous transaction monitoring and negative news screening.

When things go wrong

Given the direct access our customers have to their Relationship Managers, any issues are usually resolved quickly. Where this is not possible, a formal complaints process is invoked and monitored through the GPB Risk Management Meeting.

How we listen to our customers

GPB conducts an annual customer engagement survey. In the 2017 survey, more than 800 customers shared their views (see Figure 10 for key findings).

Figure 10: GPB results from 2017 annual customer engagement survey.

Overall satisfaction increased from **7.8 to 8.3** out of 10



73% of respondents have had a relationship with GPB for more than five years, and **47%** for more than 10 years.



91% felt the solutions that we recommended offered value for money.

This was up from **88%** in 2016.



Taking responsibility for the experience we deliver

Treating customers fairly and ensuring a fair exchange of value are fundamental principles for the pricing levels and design of GPB's products and services. Our standards ensure GPB pricing is fair, properly governed and monitored. Global product heads are responsible for developing and reviewing, at least annually, the fair value exchange criteria for their product types or asset classes.

Over the past two years, GPB has embarked on a global programme to review internal practices to ensure that conduct is being managed effectively. As a result, enhancements have been made across a number of processes, such as improved sales and suitability controls, re-enforced through training initiatives to ensure customers are consistently receiving fair outcomes.

Training our people for good outcomes

GPB has developed and launched the role-based learning curriculum for Relationship Managers and other key roles

in customer service teams. The learning focuses on helping colleagues deliver key outcomes specific to their role, such as customer satisfaction, effective management of conduct and risk, and business performance objectives.

GPB has also introduced specific conduct objectives, with a focus on customer outcomes, into the global scorecards for all its people. Customer-facing colleagues are required to demonstrate the delivery of fair outcomes and show products are marketed and sold in line with sales guidelines. Product design teams are asked to demonstrate that products and services are designed to meet the different needs of customers, are competitive, are clear, and offer a fair exchange of value.

Products designed with customers in mind

We are committed to providing the best possible service to customers. This is guided by our product approval process and sales quality standards. This covers everything from assessing the suitability of products and services to ensuring we fulfil our duty.

Employees

Executive summary

Our people are critical to our success and it is important that we listen to them and encourage them to speak up. We try to foster a culture that encourages and promotes the right behaviour, where people feel empowered to voice their opinions and concerns. We believe gender balance and diversity across the organisation will help to create an environment where people can thrive in their own careers, and enable us to better support our customers and the communities we serve.

Listening to our people

Understanding how our people feel about HSBC is vital. It helps us ensure that we are giving them the right support to fulfil their potential and do the right thing for our customers. Employees are asked for feedback and encouraged to speak up.

We use CultureScope, an award-winning insight tool, to assess how people feel and think about how they behave in the workplace. This is then compared to the behavioural preferences that underpin HSBC's values of being Dependable, Open and Connected. A close alignment between personal and organisational behaviours indicates a healthy culture.

Our 2017 results revealed encouraging signs in a number of key areas. It showed that our people place a high importance on laws, rules, values, and obligations; that there is an emphasis on long-term delivery and results; and that goals are achieved through partnerships and alliances.

However, CultureScope highlighted other areas where HSBC can do more to support the culture to which it aspires. These include: providing more support and guidance that empowers our people to make decisions; encouraging them to express more of their great ideas and opinions; and helping them make stronger connections between the work that they do and the experiences of our customers.

We continue to test the views of a representative sample of our people on a range of topics via our monthly employee research, Snapshot. The 2017 results reveal that employee sentiment on certain key topics has become more positive over the past year but also show that other areas have remained flat or fallen (see Figure 11).

Snapshot results are presented to the Group Management Board and relevant executive committees of the global functions and businesses, regions and countries. This ensures the attitudes and sentiments of our people inform decision-making at all levels of HSBC. Action can then be taken, both locally and globally, to tackle areas of concern.

Feedback from HSBC Exchange is shared and acted on in a similar way. Exchange sessions are safe forum meetings, without agendas, attended by people from across the organisation. They can discuss what matters to them, share views and suggest ideas, while managers and leaders attend to listen.

Our insight shows us that where our people participate in Exchange they are more positive about their experience at HSBC. They feel more able to speak up, are more trusting of managers and leaders, and report higher levels of well-being. It is our intention that all of our people have the opportunity to take part in an Exchange meeting each quarter.

On average throughout 2017, 43% of our people reported that they had attended one within the previous three months, down two percentage points from the figures quoted last year. To make Exchange meetings mandatory would go against the spirit of the programme. Instead, we encourage managers and employees to arrange them by regularly communicating the clear benefits they provide to individuals, teams and HSBC.

We continue to focus on making improvements and creating a values-based, healthy organisation for everyone.

Figure 11: select results from Snapshot survey



All Snapshot results based on Q417 data.

Recognising those who live our values

By embedding a culture that promotes the right behaviour, we encourage those who live our values.

Our global peer-to-peer recognition programme, 'At Our Best Recognition', which is available in more than 50 countries, allows our people to recognise one another for demonstrating our values throughout the year. Individuals receive points which can be redeemed for a wide range of merchandise in a catalogue.

In 2017, more than 700,000 recognitions were made to a total value of nearly \$10m.

SPOTLIGHT

During 2017, we piloted a 'Spotlight' feature, designed to shine the light on a specific global priority for a defined period of time and encourage employees to recognise their colleagues.

The pilot topic was 'fighting financial crime' with more than 100,000 recognitions made. Some of the stories were later shared as inspirational case studies on our global intranet, HSBC NOW. This included how our people applied their training and used financial crime controls to protect HSBC and prevent suspected criminals, from sex traffickers to sanctions evaders, entering the financial system.

CASE STUDY

FOCUS ON FINANCIAL CRIME

Commercial Banking launched a two-day bespoke financial crime programme for 6,500 Relationship Managers and Team Leaders in 2017. This programme used HSBC subject matter experts, including those from our Financial Crime Risk, Regulatory Compliance, Sanctions and Tax functions, to create case studies and content, and was co-facilitated by Commercial Banking leaders.

Whistleblowing

Having a culture where our people feel able to speak up is important. Though individuals are actively encouraged to raise concerns about wrongdoing or unethical conduct through the usual reporting and escalation, we understand that in some circumstances employees would prefer a more discreet way to raise their concerns.

HSBC Confidential, established in 2015, provides a platform that enables employees to raise concerns on any issues, outside the usual escalation channels, in confidence and without fear of retaliation. HSBC Confidential is available to all of our people, past and present, in all global businesses, functions and entities across the world, including secondees, external consultants, contractors and agency employees. Multiple channels have been established to raise issues, including telephone hotlines, online and email, and these channels deal with a broad range of concerns at different severity levels.

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, and all such matters are escalated to senior management. The making of malicious or false claims is also incompatible with our values. Concerns raised are investigated thoroughly and independently, drawing on the expertise of a variety of departments, including Compliance, Human Resources, Legal, Fraud, Information Security, and Internal Audit.

A total of 1,585 cases were raised during 2017, which represents an increase of 44% on the 1,102 in 2016 (see Figures 12 and 13). The year-on-year increase highlights heightened awareness of HSBC Confidential and the ongoing efforts of the Group to encourage employees to speak up. Of the 1,139 cases closed in 2017, 30% were substantiated (2016: 34%) following independent investigation.

Common themes included issues with employees behaviour or conduct, allegations of fraud, and weaknesses with information security. Remedial activity has been undertaken where appropriate. This has included disciplinary action, adjustments to variable pay and/or performance and behaviour ratings.

The Group Audit Committee is taking overall responsibility for reviewing the Group's whistleblowing policy and procedures, and receives regular updates on relevant concerns raised under these procedures, together with management actions taken in response.

Figure 12: whistleblowing statistics by theme

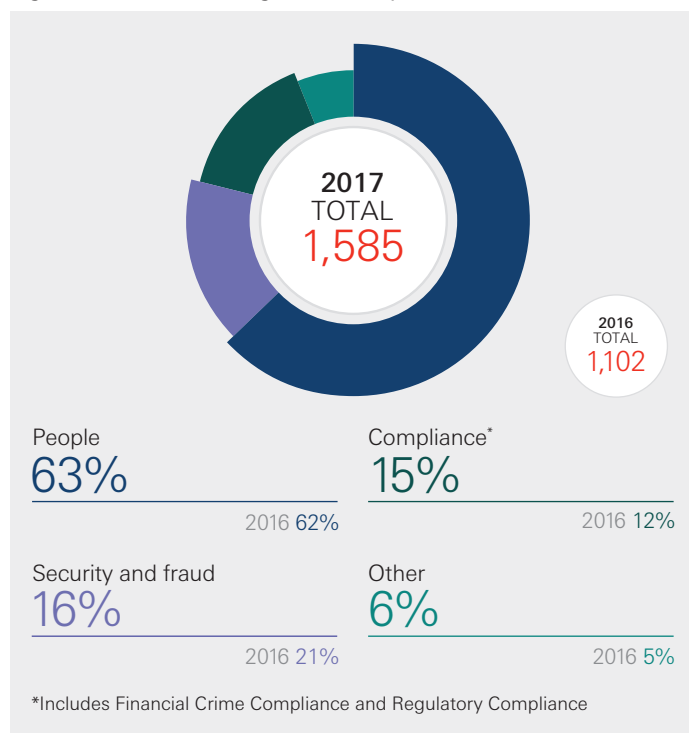
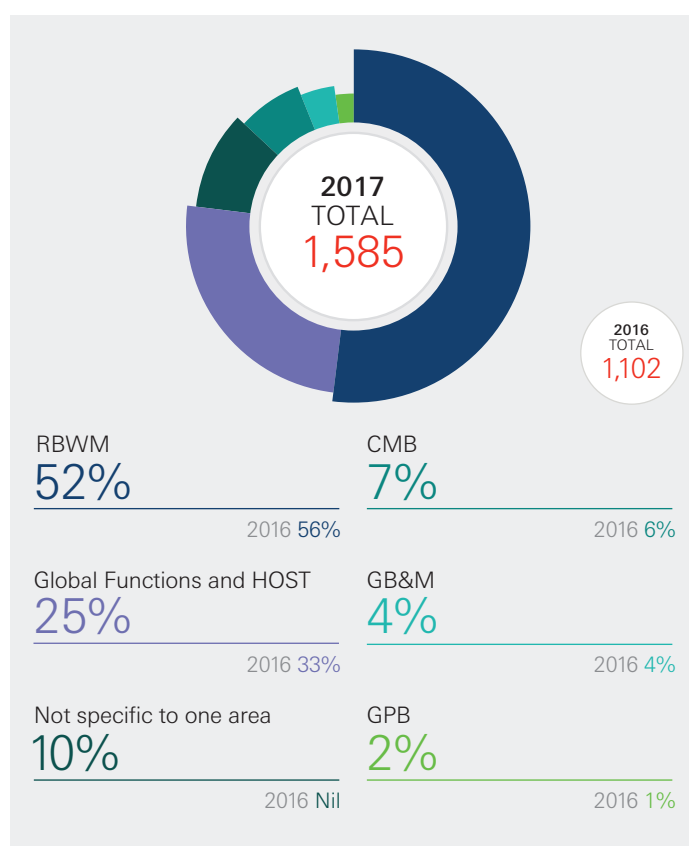


Figure 13: whistleblowing statistics by business and function line



A healthy and diverse workforce

Diversity and inclusion

To be truly effective we must create an environment that is diverse and inclusive, where everyone feels they can thrive. Continued success will require a workforce that reflects our customers and the societies we serve. Our definition of diversity goes broader than inherent characteristics to include other differences that make individuals unique, such as cultural fluency, global experience and work styles. We encourage diversity of thought from our leaders and our people so we can deliver on our purpose.

Gender balance

Gender balance is an important part of creating a diverse and inclusive environment. HSBC is supporting the 30% Club's CEO Campaign, with an aspirational diversity target of 30% women in senior roles by the end of 2020. All Group Management Board members are accountable for diversifying their senior leadership population and ensuring succession plans draw on the Group's broad workforce diversity. In 2017, 26.8% of our senior employees were women, ahead of our goal of 26.3%. For 2018, we are looking to achieve 27.6% or above (see Figure 14 for detailed targets).

We are increasing the focus on gender balance in our recruitment, succession planning and other development plans. These include leadership programmes, sponsorship and mentoring schemes. In addition, we participate in groups and forums such as CEO Action for Diversity & Inclusion™ in the US, and Women Directors in Malta, to share best practices and identify solutions. Balance, our largest global employee resource group, brings employees together on the gender agenda and partners with other diversity networks.

CASE STUDY

ACCELERATING FEMALE LEADERS IN GB&M

The priority within GB&M is improving the representation of women at senior levels.

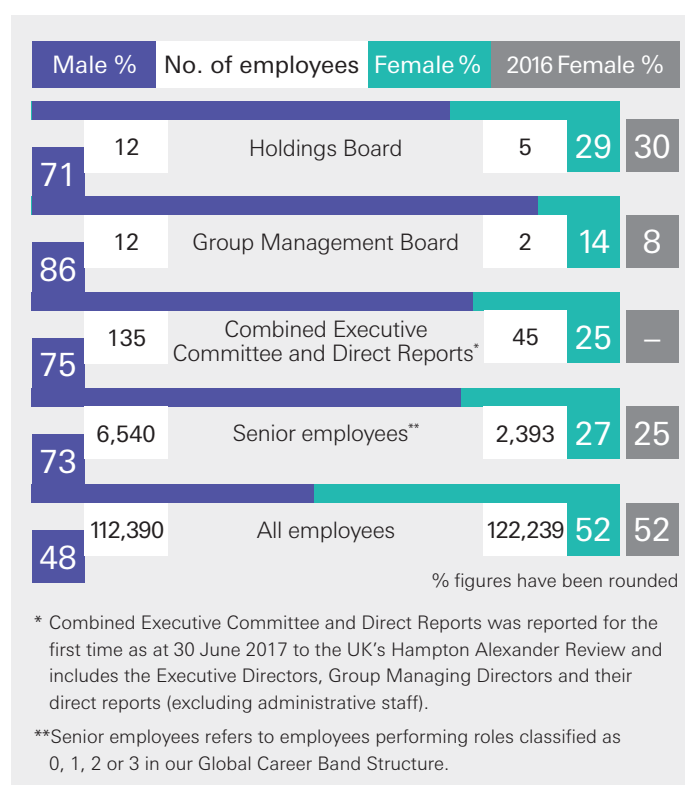
It had emerged that our female talent was less well-known than their male counterparts for managing director level promotions. This prompted last year's launch of Accelerating Female Leaders, which is a programme to increase their visibility and connectivity. We are already seeing positive trends around promotion rates, while almost two-thirds of participants are engaged in strategic projects.

'We know that we need to approach our diversity and inclusion opportunities from a number of different angles to drive sustainable change,' said Samir Assaf, Chief Executive, GB&M. 'Our Accelerating Female Leaders programme is an important lever in our vision for a more gender-balanced future.'

'I am committed to building our leadership teams to reflect the gender balance of the customers and societies we serve. It is our responsibility as leaders to enable our people to fulfil their career potential and shape organisations that can thrive.'

John M Flint, Group Chief Executive.

Figure 14: gender diversity statistics



GENDER PAY

Gender pay has been a particular area of focus since the introduction of UK gender pay gap regulations. Our pay strategy is designed to attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience.

We are confident in our approach to pay and if we identify any pay differences between men and women in similar roles, which cannot be explained by reasons such as performance/behaviour rating or experience, we make appropriate adjustments.

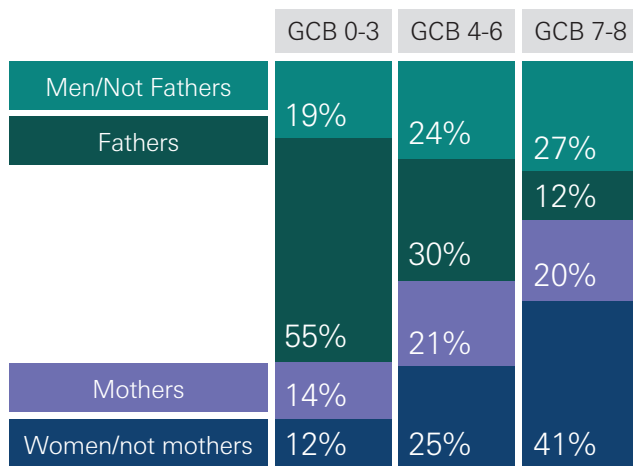
Our UK Gender Pay Gap disclosure can be found on the Measuring our Impact page at www.hsbc.com

Parents and carers

We care about work-life choices and believe it's important to help employees manage family responsibilities. Of those who completed Snapshot this year, 40% identified as being parents of dependent children, with 17% stating they were carers. This is defined as having a non-parental caring responsibility.

It's our intention to create an inclusive environment that supports our people's needs - both inside and outside of the workplace. We also recognise these may change at different points in their careers - and for reasons that go beyond family responsibilities.

Figure 15: estimated gender / parent representation by Global Career Band*

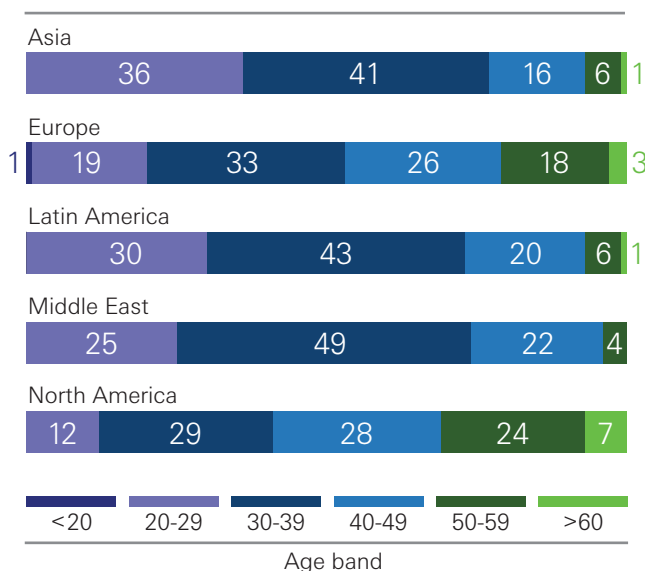


* Combining HR headcount by gender and global career band with colleagues who identified as parents of dependent children in Snapshot

Age diversity

The demographic mix of HSBC's people by age varies significantly by region.

Figure 16: 2017 employee age bands by region (%)



Ethnic diversity

As a global organisation, HSBC benefits from ethnic diversity. Our people have the opportunity to share demographic information in HSBC's Snapshot survey, which helps us build a better understanding of the employee experience for different groups.

In the 2017 Snapshot, 8% of our people identified as belonging to an ethnic minority, and 68% of them aspire to move up at least one global career band within HSBC. Initiatives aimed at supporting different ethnic minority groups vary according to location. These include increasing the representation of members of Canada's indigenous population via specific recruitment efforts. There is also a dedicated leadership programme for UAE nationals, while African-American/Black employees are involved in a reverse mentoring scheme in the US. Our Embrace network of employee resource groups also engages colleagues on issues around ethnicity and race.

Figure 17: 2017 year-end headcount distribution by ethnicity and nationality*

Top 3 by ethnicity*

Senior leadership		Overall	
White	40.8%	Asian	53.9%
Asian	26.5%	White	16.7%
Latin American	2.9%	Latin American	6.7%

Top 5 by nationality*

Senior leadership		Overall	
British	34.7%	Chinese	22.0%
Chinese	8.3%	Indian	16.4%
French	6.8%	British	15.8%
Indian	5.5%	Mexican	6.7%
Australian	2.5%	French	4.0%

*includes employees who chose not to disclose their ethnicity/nationality as well as any locations where regulatory restrictions apply. Group Ethnicity is a high level descriptor standardising multiple underlying ethnicity entries.

Figure 18: HSBC awards in 2017

	Company of the Year – European Diversity Awards
	A <i>Times</i> Top 50 Employer for Women – Third year in a row
	Top Global employer in Stonewall's Workplace Equality Index – Third year in a row. Winner, Global Trans Inclusion Award
	HSBC employees named on the following:
	HERoes Champions for Women – UK Top 50 (Women)
	Top 30 Ethnic Minority Future Leaders list
	Global Top 10 Women and Men lists
	<i>The Financial Times</i> 100 Leading Ethnic Minority Power List

Employee well-being

A healthy workforce is essential to creating a culture that sets HSBC apart and helps our people thrive. HSBC has a global well-being programme to provide all employees with information and resources to make positive choices that enhance their overall health and well-being. We believe that when we look after our people they, in turn, take better care of our business (see Figure 19 for how our well-being programme is delivered).

Figure 19: key areas of our well-being programme.



Everyone at HSBC is responsible for ensuring they are able to work at their best, fostering an environment where well-being is a priority.

After the launch of our global approach to well-being during 2016, we have made significant progress to bring this to life in 2017. Examples include:

- The launch of an HSBC Food Pledge, in partnership with our outsourced catering provider. For example, water hydration stations, vegetarian options, fresh fruit available, drinks available with no added sugar, more low fat milk, nutrition website and introduction of @Eatwell logo on food dishes.
- The introduction of Employee Assistance Programme services in all locations (see Health and Safety on page 39 for more details).
- The provision of financial education seminars including 'Your Financierge' (see page 33 for more details).

HSBC global well-being survey

To further understand and support our employees' needs, 2017 saw the second annual HSBC global well-being survey. The research explored mental health, work-related stress, physical health, financial health, career development, flexible working, supportive network and resilience. We had 28% of global employees responding and the results will help shape our well-being programme.

37% of our people report feeling work-related stress.

The top contributors to stress are workload, management of processes and systems, lack of growth opportunities, fear of making a mistake, and work extending into personal time. The survey showed that 69% of employees feel equipped to manage their work-related stress through planning and prioritising, support from colleagues and exercise. In addition to the obvious benefits, the research also revealed that these individuals are more likely to recommend our products and services.

64% of our people experience positive mental health

There is a strong relationship between positive mental health and resilience. Our insight also indicates that highly resilient employees feel more able to speak up, challenge processes and procedures that they think will be bad for our customers, and feel more productive.

21% of our people report a long-term physical health condition

Individuals with a long-term physical health condition report higher work-related stress, higher financial strain and lower levels of positive mental health. These stressors can be partly mitigated through supportive line management, improved resilience and flexible working.

16% of our people are finding it difficult to manage financially

Approximately 65% of employees would like to improve their financial well-being. To learn more about our commitment to our employees' financial well-being see page 33.

49% of our people across HSBC work flexibly

Those who work flexibly are more positive about many well-being factors, including their working relationships and ability to make work-life choices that are right for them. Employees who reported flexible working, high levels of resilience and the ability to manage work-related stress were also more likely to want to stay at HSBC for longer.

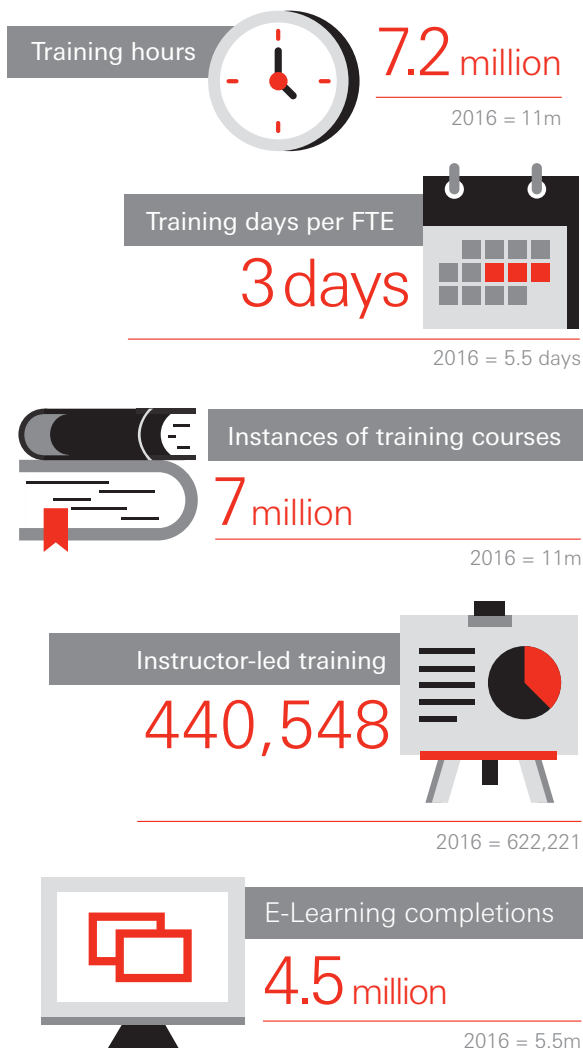
Developing our people

Learning is one of the keys to success at HSBC. Investing in learning helps our people to excel in their current roles - and thrive in the future. It also helps them implement policies, deliver great things for our customers and aligns behaviours with HSBC's cultural aspirations.

Our people participated in a wide variety of learning last year, including programmes helping them understand their responsibilities in risk management, fighting financial crime and effectively managing people.

We introduced a more focused and efficient approach to mandatory training, targeting critical areas such as anti-money laundering, bribery and corruption. This approach, as well as the completion of our two-year, 'At Our Best' programme, resulted in a reduction of training hours for all our people.

Figure 20: training statistics at HSBC



Introducing HSBC University

HSBC University, the new home of Learning at HSBC, launched across the Group in October 2017. This encompasses new learning programmes and premises, as well as investments in delivering learning beyond the classroom.

HSBC University gives employees access to relevant, timely and high-quality learning, regardless of their role. Role-specific learning is available by business line and function, designed to support our people from new-to-role through to expert.

The University also has new management programmes to support our strategic leadership needs and connect people across the Group. These programmes are for employees at all levels and include Leadership Essentials and Team Management Essentials, tailored for new people managers, and Leading Businesses and Functions, a strategic programme for our more senior leaders.

Supporting our people managers

Our employee insight has consistently highlighted the important role of our people managers. Everyday Performance and Development (EPD) encourages managers to move away from the traditional cycle-based performance management activities. It focuses on more frequent and meaningful conversations about their team's performance, development, and well-being throughout the year, both formally and informally.

These frequent check-ins result in our people feeling more productive, more able to state their opinions, more trusting of leadership, and more positive about their future with HSBC. Our Q4 2017 Snapshot results indicate that 63% of our people feel these conversations have an effect on their day-to-day achievement of performance objectives.

EPD is one of the critical themes of HSBC University's People Management Essentials, attended by more than 6000 managers in 2017. We will continue to provide this training to our managers while refreshing and updating content. For example, an Inclusive Hiring Essentials course will be added to the programme in 2018.

CASE STUDY

BUILDING DIGITAL CAPABILITY

Our RBWM leaders recognised the opportunity to improve their digital development. We partnered with industry experts across the globe to explore topics such as exponential growth through digital innovation, customer centricity, and leadership. Participants worked together to apply their new skills on 21 existing business challenges. The programme was extended to nearly 700 leaders across RBWM and supporting functions.

Supporting sustainable growth

Executive summary

We recognise our wider obligations to the communities in which we operate, and understand economic growth must also be sustainable. We have taken genuine strides forward, including setting out a series of commitments to assist in the global transition to a low-carbon economy. As we recognise the increasing importance of skills in today's economy, we are looking to help people access education and training. We will continue to engage with our stakeholders, and set policies that change in line with technology, science and societal expectations.

In our last ESG supplement we introduced our new approach and principles around sustainability in HSBC. Our sustainability approach focuses on three main areas: sustainable finance; sustainable networks and entrepreneurship; and future skills. We continue to prioritise these areas to support sustainable growth within our own organisation and for our customers.

The United Nations Sustainable Development Goals ('SDGs') are 17 goals and 169 targets to be achieved by 2030. This is a call to action to protect the planet, end poverty, and ensure peace and prosperity. HSBC has a responsibility to contribute to this globally agreed framework for action. By aligning our values, conduct and business activity, the SDGs set the context for our long-term ambition.

We have highlighted how our three sustainability focus areas contribute to specific goals, as illustrated in the image. HSBC was the first corporate to issue an SDG bond in benchmark size and further details may be found in the Sustainable Development Goal Bond case study on page 29. We will complete further reporting on the SDGs, including targets, later in 2018 via the SDG bond progress report. HSBC will continue to contribute to many of the SDGs, through our financing and investments, as well as how we conduct business and operate.

Sustainable finance

Facilitate financial flows to enable a transition to a low-carbon and sustainable economy.



Sustainable networks and entrepreneurship

Foster new business development and sustainable international growth.



Future skills

Providing our customers, our communities and our people with the skills and knowledge needed to thrive in the global economy.



Sustainable finance

We define sustainable finance as any form of financial service that integrates environmental, social and governance (ESG) criteria into business or investment decisions. Sustainable finance covers the financing and investment activities needed to support the SDGs.

The Paris Agreement aims to limit the risk of an increase in temperatures to 2°C above pre-industrial levels. An estimated \$100tn of investment is needed in new green infrastructure over the next 15 years to provide a 66% chance of meeting this goal. We recognise the critical role finance has to play and HSBC aspires to be a leading global partner in financing, managing and shaping the transition to a low-carbon world.

A key objective for the bank is to provide financing to enable the transition to a low-carbon economy and to help customers manage transition risk. Sustainable financing includes providing credit and lending facilities, advisory services, investment products, and access to capital markets.

In our [November ESG Supplement](#), we made five sustainable finance commitments. Here, we are providing the first update on our progress.

CASE STUDY

HSBC'S SUSTAINABLE DEVELOPMENT GOAL BOND

In November 2017, HSBC Holdings issued its inaugural \$1bn SDG bond. This was the first benchmark sustainability bond that highlighted the United Nations SDGs as use of proceeds. HSBC acted as sole bookrunner and sole structuring adviser.

HSBC's Sustainability bond focuses on seven of the 17 UN SDGs. These include good health and well-being, quality education, clean water and sanitation, affordable and clean energy, industry, innovation and infrastructure, sustainable cities, and communities and climate action.

The transaction gained strong momentum, with the issue comfortably oversubscribed for the maximum available deal size of \$1bn.

Patricia Espinosa, Executive Secretary of UN Climate Change, said: 'A dramatic expansion in creative financing is going to be crucial for catalysing the transition to a low-carbon, sustainable world. It is happening, but needs to happen with greater urgency, speed and scale. So, congratulations to HSBC for this innovation and its explicit support for the SDGs and the Paris Climate Change Agreement – we look forward to many more financial institutions following suit.'

Our progress on sustainable finance commitments

1 Provide **\$100bn of sustainable financing and investment** by 2025

- Facilitated more than \$10.5bn of green, social, sustainability bonds in 2017.
- Trained more than 2,500 customer-facing employees on sustainable finance.
- Established internal forums in eight key markets with three more to be added in Q118.
- Continued product development and innovation, including new low-carbon investment funds in Asset Management and inaugural corporate SDG bond issued by HSBC Holdings plc (see case study on this page).

2 Source **100% of our electricity from renewable sources** by 2030, with an **interim target of 90%** by 2025

- Renewables power purchase agreements signed to cover 27% of our electricity consumption, up four percentage points from 2016.
- Decreased electricity consumption per FTE by 15% since 2011.
- Continuing to develop opportunities in US, Europe, Asia, and Middle East and collaborate with partners in different markets.

3 Reduce our exposure to **thermal coal** and actively **manage the transition path for other high carbon sectors**

- Embedding climate risk in risk policies and processes.
- Initiated the review of our energy policy (see page 34 for details).

4 Adopt the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)** to improve transparency

- Published first TCFD disclosure in our *Annual Report and Accounts 2017*, page 27.
- Further disclosure of quantitative data on impacted industry sectors planned for 2018 reporting.
- Our sustainability governance and executive accountability is outlined on page 37.

5 Lead and shape **the debate around sustainable finance and investment**

- Launched Centre of Sustainable Finance site (see www.sustainablefinance.hsbc.com).
- Published five reports covering key themes including greening the Belt and Road Initiative, energy evolution and climate change risk assessment, among others.
- Participated in more than 100 sustainable finance related events and conferences.

Transition risk

HSBC aims to help customers manage the risks associated with the transition to a low-carbon economy and has identified three potential issues:

- **Transition risk:** The transition to low-carbon economy is a significant change for financial services providers, our customers and investors. It reflects the possibility that a counterparty's ability to meet its financial obligations will deteriorate due to the global movement from a high-carbon to a low-carbon economy. This could be driven by tighter environmental regulations, adoption of energy efficient and disruptive technologies or market changes. HSBC may be exposed to such risk in numerous ways, not only from direct lending and market dealing, but also from a reputational perspective through the financing of a CO₂ intensive business.
- **Adaptation risk:** Adapting to a changing climate is critical for society. HSBC will need to adapt as climate change affects our operations, markets, and investment decisions.
- **Physical risk:** More frequent climate events with economic losses arising. HSBC will assess the impact of these climatic events on our customers and on our own assets.

We are engaging with customers to understand which risks may affect their businesses – and supporting them on their transition to a low-carbon economy.

Internally, HSBC is taking steps to embed the management of these risks into our strategy. This involves:

- Identifying which customers need to adapt rapidly to such a transition, helping them address climate-related issues, and spotting potential business opportunities for HSBC.
- Ensuring robust internal governance processes and incorporating an initial assessment of transition risk into our Credit Risk Management processes.
- Assessing HSBC's position versus the agreed CO₂ emissions reduction scenario of the United Nations.
- Meeting evolving regulatory requirements and complying with the recommendations of the TCFD.

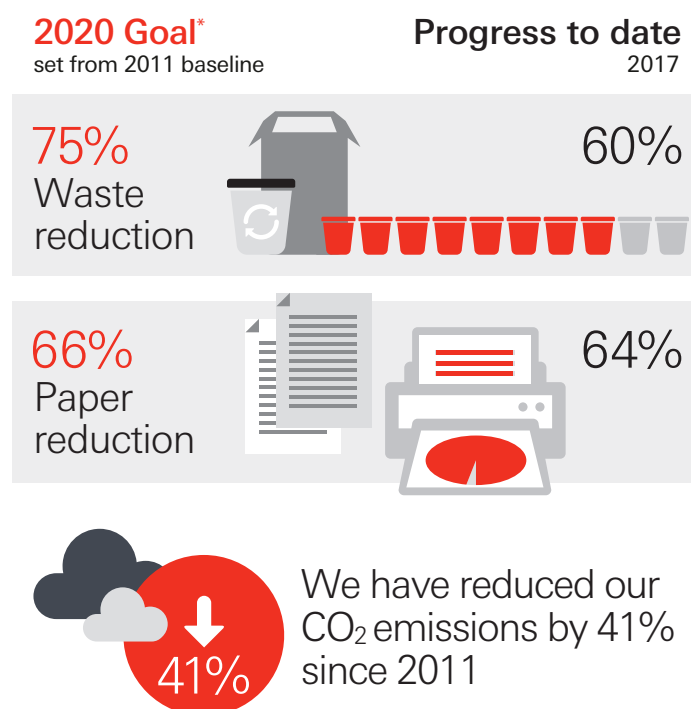
Sustainable operations

HSBC plays a key part in supporting the transition to a low-carbon economy, both via our own operations and by supporting customers in their transition strategies.

We believe it is important to lead by example. For this reason, back in 2011, we set 2020 targets to drive our operational sustainability ambition.

In 2017, we stretched many of these targets as we had met 2020 targets ahead of time. With two years left of our strategy, we continue to work with our suppliers to reach these targets. In addition, and to align to our sustainable finance commitments, we also committed to a [longer-term commitment](#) to source 100% of our electricity from renewable sources by 2030.

Figure 21: targets for sustainable operations



*The 2020 goals are the updated targets published in 2017

Sustainable networks and entrepreneurship

As a leading global trade bank, HSBC has a unique role to play in supporting a shift to sustainability in global supply chains. In 2018, HSBC was named the world's number one trade finance bank by *Euromoney*. We have committed to help finance the shift to a low-carbon economy.

In many industry sectors, the environmental impact of a company's supply chain exceeds the greenhouse gas emissions over which they have direct control. According to estimates, 80% of global trade passes through supply chains. They are one of the most important levers for businesses to create a positive effect on the world.

While companies of all sizes participate in supply chains, the procurement standards of buyer firms can be a driver for sustainability in small and medium-sized corporates. Research conducted by HSBC found that although just 18% of mid-market enterprises rated sustainability actions as important to their business today, 46% said it would be important to them over the next three years.

We want to operate in a world where global supply chains support sustainable economic growth by offering opportunities for decent work and minimising negative environmental impacts. Our aim is to support the sustainable development of our customers' supply chains and foster new business development and sustainable international growth of small and medium-sized enterprises ('SMEs') and entrepreneurs. We will partner with customers, NGOs and other stakeholders to transform supply chains towards sustainability.

As part of this, we are committed to aligning our community investment programmes to support sustainability in sectors, including apparel and palm oil. We already have a policy that sets standards for our palm oil customers, which was last updated in February 2017. We reported our progress on implementing our palm oil policy in our [November ESG Supplement](#).

On the right, we outline our commitments to support sustainable supply chains, and will provide further details on our plans to support SMEs and entrepreneurship later in the year on [hsbc.com](#).

Our commitments to sustainable networks

1 Introduce supply chain solutions which embed sustainability.

Seek commercially viable, targeted supply chain propositions to support environmental, and where possible, ethical performance improvements in our customers' supply chains.

2 Support apparel factories, tanneries and mills in China, India, Vietnam and Bangladesh to shift towards sustainability through charitable partnerships.

Working with charity partners, including WWF, WaterAid and the Apparel Impact Institute, provide funding for programmes that help suppliers in the apparel sector to understand and improve their environmental and social impact.

3 Support the Roundtable on Sustainable Palm Oil and partner with NGOs, industry bodies and customers to increase demand for certified sustainable palm oil.

Led by HSBC teams in Asia, we will increase our support for research and collaboration to remove barriers to flows of certified sustainable palm oil and provide practical support to demonstrate what's possible in the shift to sustainability in the sector, in line with our no deforestation, peat or exploitation commitment.

4 Expand our review of ethical risk so all suppliers to HSBC in high risk locations and services complete self-assessments by 2020.

Identify high-risk categories and sourcing locations for ethical impact in our own supply chain. Suppliers of high-risk categories and those operating in high-risk locations will be required to complete a self-assessment questionnaire on their policies and performance.

CASE STUDY

GANGES LEATHER BUYERS PLATFORM

Launched by WWF, HSBC joined the Ganges Leather Buyers Platform in 2018, which supports companies wishing to reduce pollution in their supply chains. It raises awareness of the effect of tanneries and supports businesses in reducing water risk and encouraging sustainable tannery practices.

HSBC joined the platform to share knowledge of trade finance and support sustainable improvements in the Europe-India apparel supply chains. Membership is drawn from leading apparel and footwear brands. This platform is a unique and pioneering approach that has the potential to become a substantial advocacy tool for improved sustainability in the leather sector supply chain.

Future skills

HSBC has been a long-term supporter of education across the globe, especially helping disadvantaged young people access primary, secondary and higher education. Over this time, we have seen the rising importance of employment-linked skills development. While still crucial, completing secondary school or getting a degree is no longer a guarantee of success in a world of emerging new technologies. We've also seen how new technology and rapid demographic change can expose those with a lack of financial information and awareness to increasing wealth inequality.

In response to what we have learned, we are focusing one of the three pillars of our sustainability strategy on future skills. As announced in our November 2017 ESG Supplement, we will work to increase levels of employability and financial capability.

Our aim is to support future skills with the full range of resources available to us. These include our products and services, our charitable donations, the skills and passion of our people, and the strength of our brand. To that end we have developed four future skills commitments to focus our efforts and set out our aspiration.

Employability

Our commitments have been designed to support employability through two key interventions where we can make a difference. These are supporting employment-linked skills development in the community and helping our people to fulfil their potential and thrive in their careers. On the right, we outline our commitments to support employability.

Our commitments to employability

1 Provide industry-leading learning and development for our people to help them thrive now and in the future.

- Create an environment where our people can unlock their potential by developing managers who commit to the long-term careers of their people, foster a culture of curiosity, innovation and collaboration, and grow and share talent.
- Ensure that our people thrive by developing their personal ability to learn, reflect, adapt and evolve, and to take ownership of their own development through careers that may span several different types of job and organisations.
- Build out HSBC University, which launched in 2017, to provide opportunities and tools for our people to develop the knowledge and skills required in their current role, but also the roles of the future, at HSBC and beyond.

2 Help people in our communities develop the skills for the jobs of today and tomorrow through the HSBC Partnership for Skills.

- Support charitable partnerships that will help one million people develop employment-related skills through focusing \$80m in funding for these projects by 2020, including launching a new global programme in 2019 focused on three key future skills: STEM (Science, Technology, Engineering and Mathematics) skills, soft skills, and global skills.
- Engage our people, and where possible our customers, to share their career experiences, knowledge and skills with the communities we operate in through volunteering.
- Use our expertise and resources to support educational institutions, governments and NGOs to ensure education and training programmes provide the skills employers need.

CASE STUDY

INCREASING EMPLOYABILITY IN PARTNERSHIP WITH THE PRINCE'S TRUST

The Prince's Trust was founded by HRH The Prince of Wales in 1976 to support disadvantaged young people. The Trust helps 11 to 30-year-olds, who have been struggling at school or are currently unemployed, to transform their lives.

HSBC has been supporting The Prince's Trust since 2012, and currently funds delivery of The Trust's programmes in the UK, Channel Islands, and Malta. This support has enabled more than 14,000 young people to re-engage with education, training or employment.

As a result of our new focus on employability, HSBC UK recently renewed its support of The Prince's Trust through

the Developing Future Skills of a Generation initiative. The funding will enable more young people to participate in The Trust's signature employment programme, 'Get Into', while supporting the organisation to test, scale and evaluate new employability interventions. HSBC and The Prince's Trust will also continue to offer the HSBC Traineeship, HSBC's bespoke version of the 'Get Into' employment programme. In 2017, the HSBC Traineeship gave 129 unemployed young people four weeks of work experience at HSBC. At the end of the programme 22 of those young people secured employment at HSBC, 27 secured employment with another employer, seven went on to education or training, and the remaining participants continued to be supported by The Trust.

Financial capability

We have provided funding and volunteers for programmes building financial capability for many years. Our new financial capability commitments are building on this heritage by focusing more of our charitable support on this area. We are using the reach of our digital channels, research, and new propositions to provide our stakeholders with the skills, attitudes and tools needed to manage their finances and make the most of their money.

CASE STUDY

YOUR FINANCIERGE

Your Financierge is an HSBC service giving employees of our global corporate customers access to professional guidance for life's financial decisions. From new starters to senior executives, the needs of employees can be very different, and Your Financierge offers a range of banking services tailored to each individual.

The service includes the opportunity for employees to attend Financial Well-being Seminars delivered at the customer's premises, which are designed to inform and empower them to manage major life events. These cover issues such as making the most of your money, starting your career, buying your first home, and managing and growing wealth. In 2018, the expectation is for Your Financierge to be rolled out in 11 of our core markets globally.

In the UK, the service has been running since 2016 with a dedicated Financial Well-being team providing education sessions via seminars and one-to-one financial health checks. As of December 2017, the team had delivered 660 events reaching more than 15,000 employees. In addition to working externally, the team also provides our people with access to these sessions and have delivered 77 internal events across the UK, engaging with approximately 2,000 HSBC colleagues, supporting them to enhance their levels of financial capability.

Our commitments to financial capability

1 Make building financial capability a central part of the HSBC customer experience.

- Use our enhanced digital capabilities to partner with our customers to grow their financial capability.
- Empower our customer-facing RBWM employees to support our customers and communities in growing their financial capability.

2 Help people understand their financial needs and make the most of their money through education.

- Increase the reach of our Financial Well-being seminars through our new RBWM Your Financierge service.
- Leverage our RBWM global research studies, such as the Future of Retirement, to provide tips, tools and links to resources that build financial capability.
- Support our people to increase their levels of financial well-being, with a focus on key issues identified through our Global Well-being Survey.
- Support charitable partnerships that will help one million people increase their level of financial capability through focusing \$35m in funding for these projects by 2020.
- Engage our people to volunteer with these charity partnerships, and share their financial knowledge with the communities in which we operate.

CASE STUDY

HSBC CONNECTED MONEY

HSBC is creating a mobile app to improve our customers' relationship with money and instil confidence in the financial decisions they make.

This app, launching in the second quarter of 2018, enables customers to see their UK bank accounts, credit cards, mortgages and loans - even those with other providers.

Features are being added to help customers build good financial habits. These include the ability to gain insights into spending habits, find out how much money is in their HSBC current account until payday, and savings rules to help put money away more easily.

Sustainability risk management

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

How we manage sustainability risk

HSBC's sustainability risk policies cover agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, UNESCO World Heritage Sites, and Ramsar-designated wetlands. In addition, the finance sector's Equator Principles provide a framework for financial institutions to assess and manage the social and environmental impact of large projects to which they lend. 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.

Group Sustainability Risk also approves or declines relationships or transactions where sustainability risks are assessed to be high. More than 800 of these were reviewed in 2017, while our operating companies assessed similar risks of a lesser magnitude. We have a global network of 77 sustainability risk managers with regional or national responsibilities for advising on – and managing – environmental and social risks.

We provide training and capacity building within our operating companies to ensure sustainability risks are identified and mitigated consistently to our standards. For example, in 2017, Group Sustainability Risk rolled out a training module for relationship and risk managers globally on our sustainability risk policies, and their own responsibilities, to ensure consistent implementation. By the end of the year, more than 9,000 of our people had completed this training.

Sustainability risk is monitored quarterly by the Risk Management Meeting of the Group Management Board, with interim updates as required.

Climate change

Climate change represents an urgent and potentially irreversible threat to human societies and the planet. This was recognised by the 195 countries that signed the 2015 Paris Agreement on climate change. HSBC supports the aims of the Agreement, as set out in our Statement on Climate Change in October 2016.

To meet the Paris Agreement target, the world can only have a finite amount of additional emissions of carbon dioxide, referred to as the 'carbon budget'. Countries are therefore expected to tighten their approaches.

HSBC has already introduced or tightened policies to restrict lending to companies that cause deforestation (2014), develop new coal-fired power plants (2011) and develop new thermal coal mines (2016). We will continue to review our sustainability risk policies, and will issue our updated energy policy in the next two months.

HSBC is committed to supporting customers as they make a transition which is good for the climate, economic development, and business.

HSBC's exposure to coal mining

In 2016, we updated our Mining & Metals policy, prohibiting the financing of new thermal coal mines and new customers dependent on thermal coal mining. We also committed to report publicly on our exposure to the coal mining sector.

At the end of 2017, our exposure to coal mining was \$0.8bn, reduced by \$0.1bn from 2016. This represents 6% of our total exposure to the mining and metals sector. In both years, the total exposure of the mining and metals sector was equivalent to 1% of the Bank's total wholesale lending.

Equator Principles in 2017

Under the terms of the Equator Principles, we report annually on the transactions completed under the Principles, a summary of which can be found in Figure 22.

In 2017, total deal volumes under the Principles were down, in line with overall trends in the market. In 2017, we completed the financing of two solar energy projects under the Principles, both in the US. We have also gone beyond requirements, by having all project finance loans within the scope of the Principles reviewed by independent experts who check their environmental and social impacts to ensure good practice.

Figure 22: transactions completed under the Equator Principles

Summary	2017		2016	
	No.	\$m	No.	\$m
Project finance loans	10	844	16	1,506
Project-related corporate loans	7	1,566	7	939
Project-related bridge loans	0	0	1	60
All loans	17	2,410	24	2,505
Project finance advisory services	3	n/a	3	n/a
Totals	20	2,410	27	2,505

Further details will be available at www.hsbc.com/sus-risk

Policies and policy developments

How we do business is as important as what we do.

We want trusting and lasting relationships with our many stakeholders to generate value in society and deliver long-term shareholder returns. Our 'social licence' to operate partly rests on our engagement with customers, our people, shareholders, regulators, and civil society, including charities and other non-governmental organisations (NGOs).

HSBC conducts business according to international law, regulations of the countries and territories in which we operate, and with due regard to various guidelines and principles for ethical business.

We aspire to the highest standards and have developed public policies around particularly sensitive economic sectors. Often these include specific prohibitions where the environmental or societal impacts can be particularly acute.

Our sector-specific policies are not set in stone and will change in line with technology, science or societal expectations. We consult with stakeholders in the development of our policies and rely on their feedback to help us identify where improvements can be made.

Human rights

Our approach to human rights is set out in our 2015 Statement on Human Rights. This highlights a number of international codes to which HSBC is a signatory, or for which it has expressed support. In particular, in line with the UN Guiding Principles' (UNGPs) Protect, Respect and Remedy framework, HSBC recognises the duty of states to protect human rights and the role played by business in respecting them. We also noted 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'.

In 2018, we attended the UN Business and Human Rights Forum and have joined the Thun Group, an informal group of bank representatives working to understand further UNGPs and how they are applied across different banking activities. HSBC remains committed to the UN Global Compact, including participating in its UK Modern Slavery Act Working Group.

We also had meetings or exchanged correspondence with six civil society groups where alleged human rights abuses were raised. We always investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. Serious issues are passed to the Group Management Board.

During 2018, we will develop and publish a human rights policy to sit alongside our existing sustainability risk policies. This will cover issues such as forced labour, harmful or exploitative child labour, trafficking, land rights, the rights of indigenous people, workers' rights, and the health and safety of communities. Project finance is subject to the Equator Principles (see sustainability risk management, page 34).

Supply chain code of conduct

HSBC's Ethical and Environmental Code of Conduct for Suppliers, which is updated periodically, 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. 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 ability to leave employment when they choose, to the extent possible under local law. During 2018, we will undertake a risk-mapping exercise to identify the most salient human rights risks in our supply chain by geography and sector.

Modern Slavery Act

We will issue our second statement under the UK's Modern Slavery Act later in 2018, on www.hsbc.com. This reports on our own operations and supply chain, as well as examining some of the ways HSBC works with the wider financial community and law enforcement agencies to act against modern slavery.

CASE STUDY

TACKLING MODERN SLAVERY

HSBC is committed to helping tackle modern slavery and human trafficking. We talk to a range of stakeholders, including governments, non-governmental organisations and academia, to share our expertise and the role banks can play. In October 2017, we were invited to the Business Against Slavery Forum, chaired by the UK Home Secretary.

Employee training has an important role to play. In the UK and Malta we have delivered workshops to customer-facing employees in areas identified as at higher risk of human trafficking and are looking at expanding to other retail bank markets in Europe. A training video for all employees helps them understand the scale of the problem and spot the signs.

We are also developing indicators linked to our banking systems to identify proactively types of businesses where trafficked individuals often work.

It can be hard for those who have been trafficked to get bank accounts because of their immigration status and/or lack of identification documents. In the UK, we are piloting a survivor bank account to provide controlled retail banking facilities to victims of modern slavery identified via the National Referrals Mechanism. The aim is to help them re-integrate with society and break the cycle of abuse. After a pilot in two areas in Q118 it is planned to develop it further and present findings to industry to get wider uptake, by Q318.

Information-sharing plays a vital role in tackling financial crime, including modern slavery and human trafficking. In Canada, for example, we participate in Project Protect, a partnership between Canada's financial intelligence unit (FINTRAC), financial institutions and law enforcement. This gives a channel for accounts with potential indicators of modern slavery, such as multiple motel bookings or frequent ATM deposits in the middle of the night, to be flagged to law enforcement.

Defence policy

In 2000, HSBC decided progressively to withdraw from financing the manufacture and sale of weapons. The policy undergoes regular review. Our involvement in the defence sector has two distinct elements: through our asset management business, where HSBC acts on behalf of its customers and where the underlying investment decision is not made by us; and through our financing activities – for example, loans or other credit, debt or equity markets activity – where we work directly for a customer.

In our engagement with customers we have greater influence where the relationship is direct, and we raise issues of concern with them when we receive credible information. We have less influence through our asset management business, but we do still engage with companies when issues are brought to our attention.

Financing

Under our Defence Equipment Sector Policy, HSBC will not provide financial services to customers who solely or primarily manufacture or sell weapons. Since 2010, this policy has explicitly referenced cluster bombs and antipersonnel mines. This means we won't finance customers involved in any way with these indiscriminate weapons.

Where a customer undertakes a mix of weapons, weapons-related or other business, HSBC may form a relationship with that customer, but will not provide financial services directly to subsidiaries only involved with weapons. We will not establish any relationship with a holding company where subsidiaries manufacture or sell antipersonnel mines or cluster bombs or where the conglomerate's business relates primarily to weapons, such as more than one-third of turnover.

Asset management

HSBC Global Asset Management serves the bank's customer base of retail and private customers, intermediaries, corporates and institutions, managing their investments in both segregated accounts and pooled funds. Since 2010, investment in companies linked to the production and/or marketing of cluster munitions, antipersonnel mines and depleted uranium has been excluded from all its active fundamental equity and fixed income strategies. The exclusion was extended to index and systematic active strategies in 2015. This applies to all third party asset managers and covers HSBC's passively managed funds that track proprietary indices or use an optimised replication approach.

Since 2016, the cluster munitions, antipersonnel mines and depleted uranium policy also covers index funds, which buys all the underlying constituents to fully replicate the index, and Exchange Traded Funds managed by HSBC. Full disinvestment by these funds was completed in 2017. The list of companies subject to exclusion is compiled with assistance from third-party research and reviewed semi-annually, in addition to our own due diligence.

Governance

Executive summary

We remain committed to high standards of governance and are subject to corporate governance requirements in both the UK and Hong Kong. Over the past five years, we have transformed our ability to manage financial crime risk and are committed to further refining our approach, applying advanced analytics and artificial intelligence to target suspicious activity. We continue to embed our sustainability commitments into our governance process throughout the organisation.

Corporate governance

We are committed to high standards of corporate governance across the bank. A comprehensive report on our corporate governance practices is set out on pages 121 to 174 of our *Annual Report and Accounts 2017*.

The role of the Board

The Board of HSBC Holdings plc aims to promote the Group's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate.

Led by the Group Chairman, the Board sets the Group's strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives on the recommendation of management. The Board comprises a majority of independent non-executive Directors. Their role is to challenge and scrutinise the performance of management and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor the Group's risk profile.

Board diversity

The Nomination Committee is responsible for the implementation of the Board's diversity policy, measured against two objectives: (i) at least 30% of candidates being women; and (ii) only using external search consultants that have signed up to the Voluntary Code of Conduct for Executive Search Firms.

Shareholder engagement

Communication with shareholders is given high priority by the Board. Directors are also encouraged to develop an understanding of the views of major shareholders. As Senior Independent Director, Jonathan Symonds is available to shareholders if they have concerns that cannot be resolved or for which the normal channels would be inappropriate.

Extensive information about HSBC and its activities is provided to shareholders in the *Annual Report and Accounts 2017*, the Strategic Report and the Interim Report as well as at www.hsbc.com.

To complement these publications, there is regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and HSBC's business are welcomed.

Risk governance

The Group Risk Committee has non-executive responsibility for the oversight of enterprise risk management, risk governance and internal control systems (other than internal financial control systems, which are overseen by the Group Audit Committee).

Financial crime governance

The Financial System Vulnerabilities Committee has non-executive responsibility for the oversight of matters related to financial crime and system abuse, in particular anti-money laundering, sanctions, terrorist financing and proliferation financing, and anti-bribery and corruption.

Sustainability governance

The Board has oversight of the Group's sustainability and ESG initiatives with the Group Management Board being accountable for their delivery. This accountability is reflected in the long-term incentive scorecard for Executive Directors of HSBC Holdings plc, and selected scorecards of Group Managing Directors.

Commencing in 2018, the Board will receive a half-yearly sustainability update, covering topics such as progress against the three sustainability pillars and NGO engagement. This further entrenches our sustainability agenda, ensuring it remains prominent at the most senior levels of the Group. In 2017, five presentations on sustainability were made to the Group Management Board.

Our Group-wide Climate Business Council coordinates sustainable finance activities across the bank, supported by various working groups within global businesses, functions and regions. Similarly, an ESG steering group, chaired by the Group Finance Director, leads our approach on ESG topics, including considerations related to external disclosure and materiality.

Financial Crime Risk Management

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

In 2012, we launched our Global Standards initiative, focused on putting in place the most effective standards to combat financial crime across our operations globally. As part of this effort, we designed and implemented new, globally consistent policies on anti-money laundering and sanctions that often extend beyond the requirements of local laws and regulations. Among other steps, we hired experienced senior personnel to lead the effort and significantly strengthened the bank's Financial Crime Risk function, which is five times larger than in 2013; put in place a robust investigations capability; improved and expanded our financial crime compliance training initiatives; built advanced analytical capabilities designed to help us target illicit conduct with greater sophistication and precision; and upgraded or replaced key compliance IT systems.

Putting defences in place

A number of major IT systems have been rolled out, including those for customer due diligence (CDD), monitoring and screening. Our centralised CDD system, which was in place in all countries and business lines by the end of 2016, enables a consistent risk assessment process to be applied to customers. Our transaction monitoring systems analyse the transactions processed by HSBC, which are approximately 550 million every month.

Since 2015, we have invested \$1bn in new and upgraded systems. The end result is a substantially improved IT infrastructure to help detect and analyse financial crime. We constantly explore technologies to help us build on our existing capabilities, including working with, or investing in, financial technology (fintech) firms.

Our approach to learning and training includes programmes which help our people understand their responsibilities, including a specific focus on financial crime risk. Please see pages 22 and 27 of the Employee section for details.

STAYING VIGILANT

Our people are well versed in spotting suspicious activity, raising more than 138,000 unusual activity reports during 2017. In total, almost 150,000 suspicious activity reports, which are a product of both unusual activity reports and our transaction monitoring processes, were filed with law enforcement during the year. HSBC is a strong advocate of public-private partnerships, working with law enforcement to share information in a more open way. In the past year, we joined three new country partnerships. The tackling modern slavery case study on page 36 provides an example of how our people stay vigilant.

Ensuring our defences operate effectively

In 2017, we made significant progress on our agenda.

We have:

- Finished putting in place the new and upgraded systems and processes.
- Completed a country-by-country assessment against the core capabilities set out in our financial crime risk framework. This gave us a clear view of our progress and plans to ensure we embed the capabilities and integrate them fully into our day-to-day operations during 2018.
- Finalised the target operating model for the Financial Crime Risk function, which puts in place a sustainable structure at a global, regional and country level, and across all lines of business.
- Introduced a strengthened financial crime risk management governance framework, mandating Financial Crime Risk Management Committees with a standardised agenda at country, region and global business line level. This was supported by a new dashboard of consistent management information based on a set of standardised financial crime controls.

Becoming more intelligence-led

We will continue enhancing our systems and ensure our improvements are fully integrated into our day-to-day risk management practices, as well as being effective and sustainable over the long term. We are renewing our focus on anti-bribery and corruption as part of a dedicated three-year programme to advance the bank's anti-bribery and corruption risk management capability. As part of our commitment to the UN Global Compact, we are committed to working against corruption in all its forms, including extortion and bribery.

Over the coming years, we aim to evolve significantly our approach to financial crime risk management by using our size and scale to use all the data available to us and apply advanced analytics and artificial intelligence.

This will help us overcome some of the inherent limitations in the current industry-wide approach to financial crime risk management that uses a small amount of available information and results in a high number of false alerts.

This new approach, which we are calling intelligence-led financial crime risk management, will help us make a step change in our effectiveness at fighting financial crime and set a new standard that aims to lead the industry.

We will be faster and more accurate at detecting suspicious activity and ever more granular in our risk assessments. We will generate actionable insight that we can use ourselves and provide to law enforcement to help keep criminals out of the financial system. This will benefit the bank, our customers and society at large.

For further information about HSBC and financial crime risk, please see our [website](#).

CASE STUDY

DEFERRED PROSECUTION AGREEMENT

In December 2017, HSBC announced its five-year Deferred Prosecution Agreement entered on 11 December 2012 with the US Department of Justice had expired.

HSBC is pleased that the Department of Justice has recognised our progress in strengthening our anti-money laundering and sanctions compliance capabilities over the past five years. Our work in this area will continue to be consistent with our strategic objective of implementing the most effective standards to combat financial crime across our operations globally.

Under the Deferred Prosecution Agreement, an independent compliance monitor was appointed in July 2013 to produce annual assessments of the effectiveness of the Group's anti-money laundering and sanctions compliance programme. The Monitor has also been serving since July 2013 as HSBC's Skilled Person under a 2012 Direction issued by the UK Financial Conduct Authority and will continue in that capacity for a period of time at the FCA's discretion.

Cybersecurity

HSBC – along with other public and private organisations – continues to operate in an environment of increasing and more sophisticated threats of cyber attacks. Cyber risk is a priority area for senior leadership and is regularly reported at Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme.

We continue to invest significantly in our ability to prevent, detect and respond to cyber attacks. We work closely with law enforcement and financial services peers, such as the National Cyber Security Centre (NCSC) and the Financial Services Information Sharing and Analysis Center (FS-ISAC). We have also recently established security innovation labs and are actively engaged in fintech partnerships. We continue to invest in a programme of education on cyber risk for our colleagues, equipping them with the knowledge necessary to detect the main cyber threats. See page 64 of our *Annual Report and Accounts 2017* for more information.

Health and safety

HSBC is committed to providing a healthy and safe working environment for our people, contractors, customers and visitors on HSBC premises and where impacted by our operations. Putting our commitment into practice, we have delivered a health and safety education and information training programme to all of our people. We have set up a range of programmes to help us understand the risks we face and improve the buildings in which we operate. This includes:

- The application of our health and safety policies and procedures continue to be integrated throughout our supply chain, particularly in developing markets, supporting the overall improvement of safety standards in these countries.
- Our local Employee Assistance Programme services were used as part of a rapid response to ensure the safety of employees and customers following the Mexico earthquake and severe weather events in Hong Kong and the USA.
- We developed and implemented an improved risk assurance and oversight function to ensure our health and safety management system was performing appropriately, including conducting full reviews of health and safety management in 12 countries.

See page 139 of our *Annual Report and Accounts 2017* for more information.

Tax

Our approach to tax

We are committed to applying both the letter and spirit of the law in all territories in which we operate. We aim to have open and transparent relationships with all tax authorities, ensuring that any areas of uncertainty or dispute are agreed and resolved in a timely manner. As a consequence, we believe that we pay our fair share of tax in the jurisdictions in which we operate.

We have adopted the Code of Practice on Taxation for Banks¹ which was introduced in 2009 and manage tax risk in accordance with a formal tax risk management framework.

We apply a number of tax initiatives which were introduced after the global financial crisis with the aim of increasing transparency. These initiatives address both the tax positions of companies and of their customers. These include:

- The US Foreign Account Tax Compliance Act ('FATCA').
- The OECD Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard').
- The Capital Requirements Directive IV ('CRD IV') Country by Country Reporting².
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative.
- The UK legislation on the corporate criminal offence ('CCO') of failing to prevent the facilitation of tax evasion.

¹ See the UK Government's [code of practice on taxation for banks](#)

² See [hsbc.com](https://www.hsbc.com) for our approach to tax transparency

HSBC's taxation

As highlighted below, in addition to paying \$6.8bn of its own tax liabilities during 2017, HSBC collected taxes of \$8.1bn on behalf of governments around the world. A more detailed geographical breakdown of the taxes paid in 2017 is provided on page 60 of the HSBC Holdings plc *Annual Report and Accounts 2017*.

HSBC has reduced the number of legal entities located in very low or nil tax jurisdictions from 121 at the beginning of 2015 to 58 by the end of 2017. This process will continue throughout 2018 and 2019, ensuring that the HSBC entities remaining in such jurisdictions are regulated entities essential for conducting business.

Customer taxation

The GPB business has ongoing tax-related investigations in various countries as a result of historical allegations of tax evasion and tax fraud, primarily in HSBC Private Bank (Suisse) SA. These investigations mainly relate to periods prior to 2011. Further information is provided in note 34 of the HSBC Holdings plc *Annual Report and Accounts 2017*.

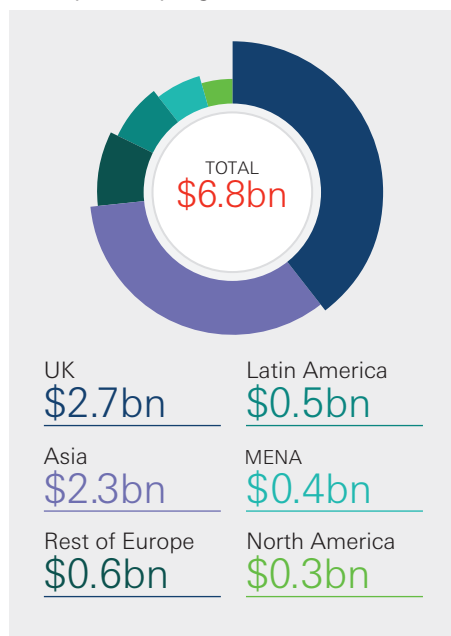
We have made significant investment in strengthening our processes, training our people and enhancing customer acceptance processes in order to minimise the risk of our banking services being used to facilitate tax evasion. For certain types of customer this will involve asking them to certify their tax status.

Figure 23: taxes collected and paid.

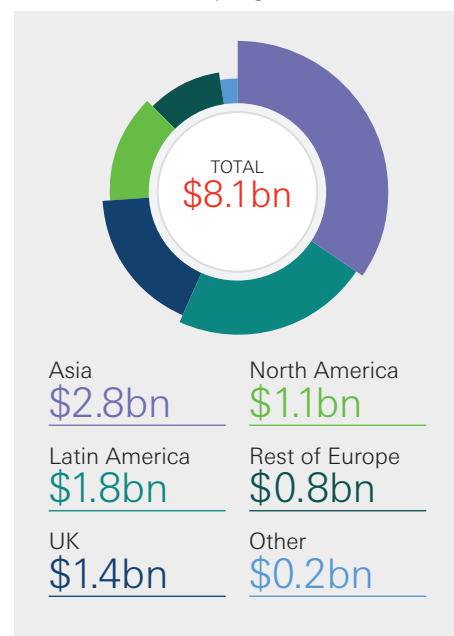
Taxes paid – by type of tax



Taxes paid – by region



Taxes collected – by region



Links and information

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

Environmental, Social and Governance Update, April 2017

Environmental, Social and Governance Supplement, November 2017

Customers and employees

[Our Charter](#)

[Statement on Conduct](#)

[Diversity and Inclusion Policy](#)

[Gender Pay Gap report](#)

[Whistleblowing Policy](#)

Supporting sustainable growth

[Measuring our impact](#)

[Centre for Sustainable Finance](#)

[Global Asset Management Responsible Investing](#)

[Global Banking and Markets Sustainable Financing](#)

[Statement on Climate Change](#)

[UN Principles of Responsible Investment](#)

[UN Principles of Sustainable Insurance](#)

[Sustainability Risk Policies](#)

[Equator Principles](#)

[Ethical and Environmental Code of Conduct for Suppliers](#)

[Statement on Human Rights](#)

[Statement on Modern Slavery and Human Trafficking](#)

[Political Engagement Statement](#)

[Sustainable Operations](#)

Governance

[Board Diversity Policy](#)

[Remuneration Practices and Governance](#)

[Anti-Money Laundering Policy Statement](#)

[Sanctions Policy Statement](#)

[Statement of Anti-bribery Principles](#)

[Health and Safety Policy](#)

[Tax Transparency](#)

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