



HSBC Holdings plc

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

November 2017

HSBC 

Cover image: Situ Patenggang, West Java, Indonesia
(image is a submission in an HSBC Group-wide
employee competition held in 2016).

Photography: Nurwata Yuda Pradana, HSBC Indonesia, Jakarta

Contents

1	About this Document	4
2	Introduction by Stuart Gulliver	5
3	HSBC at a Glance	6
4	Supporting Sustainable Growth	8
5	Financial Crime Risk Management	15
6	Our Approach to Tax	17
7	Update on Corporate Governance	18
8	Further Information	19

About this Document

The purpose of this document is to provide information to stakeholders about HSBC's approach to key environmental, social and governance ('ESG') issues.

It is designed to serve as an extension of, and be read in conjunction with, our *Environmental, Social and Governance (ESG) Update of April 2017*, which was the first such report we issued. This additional document provides further or updated material, reflecting our efforts to continue to improve our ESG reporting, as well as outlining our updated sustainability strategy, described on pages 8 through 14.

It also complements our *Annual Report and Accounts 2016*, which contains details of our organisational structure, global footprint, governance, strategy, financial performance and risk management. Where appropriate, we have provided links to further information in our *Annual Report and Accounts 2016*, and on our website, www.hsbc.com.

In our ESG reporting, we focus on the issues that we consider are material to our business. These issues are identified through an ongoing programme of investor, analyst and NGO engagement.

Certain defined terms: Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document, the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC Holdings ordinary shares and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations '\$m', '\$bn' and '\$tn' represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

Introduction

This ESG supplement is part of HSBC's commitment to being open and transparent about how we are progressing against environmental, social and governance criteria.



Photo credit: Charles Best

As well as being the right thing to do, we firmly believe that sharing this information will help us build stronger relationships with our customers, employees and the communities we serve. It is key to our ability to achieve sustainable success.

The additional information provided in this supplement builds on our first ESG update, published in April 2017.


We are also publishing our strategy to support sustainable growth. Responding to the forces of climate change, technological advancement and globalisation presents new risks and significant opportunities for countries and businesses around the world.

For more than a decade, HSBC has been at the forefront of the sustainable finance market. Our

strategy makes a series of new commitments, including a target to provide \$100bn of sustainable finance. Taken together, these commitments reflect the scale of the challenge of delivering the Paris Agreement and UN Sustainable Development Goals. They also demonstrate the heights of our ambition to be a leading global partner to the public and private sectors in the transition to a low carbon economy.

The views of our various stakeholders continue to be invaluable to us as we adapt our reporting processes. We will continue to listen and take account of them ahead of our next ESG update, which will be published in the first half of 2018.

I hope you find this supplement useful and informative.

A handwritten signature in black ink that reads "Stuart Gulliver". The signature is written in a cursive, slightly slanted style.

Stuart Gulliver
Group Chief Executive

November 2017

HSBC at a Glance

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

Connecting customers to opportunities

Today, we serve around 38 million customers worldwide, through our international network of around 3,900 offices in 67 countries and territories. Our aim is to be acknowledged as the world's leading and most respected international bank.

The HSBC Values

At HSBC, how we do business is as important as what we do. We seek to build trust-based and lasting relationships with our many stakeholders to generate value in society and deliver long-term shareholder returns.

Our values define who we are as an organisation and what makes us distinctive. We believe in acting with courageous integrity. We are:

Open

Open to different ideas and cultures

- Communicating openly, honestly and transparently, welcoming challenge, and learning from mistakes.
- Listening, treating people fairly, being inclusive, and valuing different perspectives.

Connected

Connected to customers, communities, regulators and each other

- Building connections, being aware of external issues, and collaborating across boundaries.
- Caring about individuals and their progress, showing respect, being supportive and responsive.

Dependable

Dependable

- Standing firm for what is right, delivering on commitments, and being resilient and trustworthy.
- Taking personal accountability, being decisive, using judgment and common sense, and empowering others.

Our business model

Our business model comprises of four global businesses and our Corporate Centre, as follows:

Retail Banking and Wealth Management ('RBWM')

We help close to 36 million people worldwide 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 54 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 corporates operating globally.

Global Banking and Markets ('GB&M')

We serve approximately 4,100 clients in more than 50 countries and territories. We support major government, corporate and institutional clients worldwide. Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

Global Private Banking ('GPB')

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

Corporate Centre

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 facilitate international trade and capital flows and serve our clients, with potential to help them grow from small enterprises into large multinationals.

– *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 priority markets.

Headline results for the first half of 2017 ('1H17') are set out below, and reflect a strong performance across our major businesses. For details of 1H17 performance and third quarter of 2017, please visit our investor website at www.hsbc.com/investor-relations/group-results-and-reporting.

For the half-year to 30 June 2017:

Reported profit before tax

\$10.2bn

Adjusted profit before tax

\$12.0bn

At 30 June 2017

Risk-weighted assets

\$876.1bn

Total assets

\$2,492bn

Find out more

For significant items look at 1H17 Presentation to Analysts and Investors at www.hsbc.com/investor-relations/group-results-and-reporting

Supporting Sustainable Growth

Each and every one of us has a stake in developing a sustainable economic system. It is the combined responsibility of all players in society to respond to climate change, rapid technological change and continuing globalisation to secure a prosperous future.

Since its foundation in 1865, HSBC has adapted to and helped serve the needs of a changing world. It has financed economic growth, fostered international trade and overcome events such as economic crises. We recognise that governments, corporations, the financial system and civil society are all stakeholders of climate change and sustainability challenges.

Now more than ever, there is a need to develop the skills, business innovation and low-carbon solutions needed to secure long-term prosperity for all. For HSBC, these are the key elements of sustainable growth which we can influence.

Our network covers the world's largest and fastest growing trade corridors and economic zones. As such, we are uniquely positioned to provide the connections needed to foster sustainable growth across borders and geographies.

We have a proud record of supporting the communities and environments in which we operate, and our global sustainability strategy builds on this legacy (see Figure 1 and Figure 2).

HSBC and the Sustainable Development Goals

The Sustainable Development Goals ('SDGs'), were agreed by the United Nations in partnership with governments, business and civil society, therefore creating the world's agenda for sustainable development. The 17 goals and 169 targets to be achieved by 2030 are 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

and provide a reporting criteria to position HSBC as the world's leading international bank, and leading global bank for sustainable finance.

HSBC is already working with our customers and clients to help deliver the extra \$2.4tn of investment that will be required annually to achieve the SDGs¹. We recently supported the publication of *The Earth Security Report 2017: Sustainable Development Goals for Business Diplomacy and Growth* to provide a blueprint for businesses to navigate risk and opportunities. We will continue to consult with our stakeholders and will report on HSBC's approach to contributing towards the SDGs in 2018, building on our initiatives and commitments that enable a sustainable future.

Our new sustainability approach focuses on three main areas: sustainable finance; sustainable networks and entrepreneurship; and future skills, the principles of which are outlined in the following pages. These are enabled by our ongoing standards, commitments and practices embedded in our [sustainability policies](#) (see Progress to date section), our initiatives towards sustainable and ethical operations (see Spotlight 1),

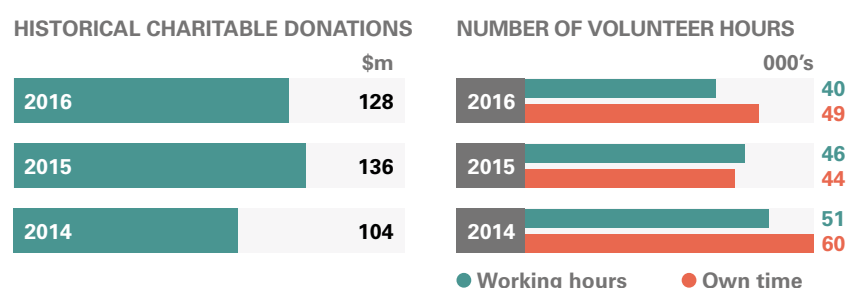
and continuous training and engagement around sustainability trends (see Spotlight 2).

Sustainable finance

The Paris Agreement of 2015 was a milestone moment in the fight against climate change. The agreement aims to limit the risk of an increase in global average temperature to 2°C above pre-industrial times. With almost 200 national climate commitments in place, governments have set out a roadmap for low-carbon transition. Meanwhile, global temperatures continue to rise, with the effects felt on every continent, and 16 of the 17 warmest years on record occurring since 2001. Private sector finance is critical to tackle climate change and other sustainability challenges. At HSBC, we aim to address the funding gap and meet client demand via financing and investment activities to support these sustainability priorities. We have committed to provide \$100bn of sustainable financing and investment by 2025 (see page 10).

We are establishing our Centre of Sustainable Finance ('Centre') to shape and share thinking and innovation both within HSBC and across the financial sector. This will help unlock the capital

FIGURE 1
HISTORICAL CHARITABLE DONATIONS AND EMPLOYEE VOLUNTEER HOURS



¹ Investment Needs to Achieve the Sustainable Development Goals, SDSN Working Paper (unsdsn.org/wp-content/uploads/2015/09/151112-SDG-Financing-Needs.pdf)

FIGURE 2

HSBC Sustainable Finance Highlights

2017	2016	2015	2014	2013			
<ul style="list-style-type: none"> – Published standalone ESG update – Ranked #1 for climate change and SRI and Sustainability Research by institutional investors in Extel Survey – Joined Cambridge Institute for Sustainability Leadership Banking Environment Initiative – Appointed Global Head of Sustainable Finance and created the HSBC Centre of Sustainable Finance – Established sustainable finance forums in key markets – Further update to standards on palm oil – Joined RE100 	<ul style="list-style-type: none"> – HSBC joined the Task Force on Climate-related Financial Disclosure (TCFD) – Launched the first sovereign green bond for Poland – Founding writer of Social Bond Guidance, which became Social Bond Principles – HSBC Bank (UK) Pension Scheme announced the transfer of GBP1.85bn into a new fund that excludes companies which fail to meet minimum environmental standards, including relating to climate change – Improved disclosure of climate strategy and carbon emissions, e.g. received 'A' rating by CDP – Joined Catalytic Finance Initiative, directing \$8bn to sustainability projects – Received Green Climate Fund (accountable to UNFCCC) accreditation as an implementing entity – HSBC Water Programme extended until Dec 2019 with total commitment of \$150m over eight years (see Spotlight 3) – HSBC Climate Change Centre of Excellence, voted by Extel as Number 1 provider of Climate Change research, for the fourth year in a row – Mining and Metals Policy updated – HSBC no longer finances new thermal coal mines or new customers dependent on thermal coal mining – Issued Statement on Climate Change 	<ul style="list-style-type: none"> – Pledged \$1bn for green, social or sustainable bonds – Issued first green bond via HSBC France – Trained 1000th sustainability leader – Additional \$150m charitable donation to mark HSBC's 150th anniversary – HSBC Global Asset Management signed up to Montreal Pledge – Signatory to World Economic Forum's CEO Climate Leaders Group's open letter – Group Chief Executive, Stuart Gulliver, attended and gave keynote speech at COP21 	<ul style="list-style-type: none"> – Introduced Equator Principles 3 – Signed three power purchase agreements with renewable energy generators in the UK and India – Commissioned report with Climate Bond Initiative (State of the Market) – Issued revised Forestry Policy, Agricultural Commodities Policy, and a World Heritage Sites and Ramsar Wetlands Policy 	<ul style="list-style-type: none"> – Adopted new green bond issuance principles – Won Rio BRT bid and worked with Embarq, the World Resources Institute programme for sustainable urban transport and planning, to research the environmental, social and economic impacts of BRT systems on cities 			
2012	2011	2010	2009	2008			
<ul style="list-style-type: none"> – Led one of the largest project financings in Latin America in the renewables sector – Participated in the largest offshore wind project financing in the world, a 75-turbine offshore wind project in England – Structured finance transactions for 267 low-emission buses in Santiago, Chile, and 300 in Manaus, Brazil – Signed up to the UN's Principles for Sustainable Insurance – Launched new policy requiring all equity and credit analysts to incorporate ESG into their fundamental research – Launched HSBC Water Programme (\$100m to deliver water provision, protection, information and education) 	<ul style="list-style-type: none"> – Established Sustainable Operations 2020 Strategy – Energy Sector Policy issued, effectively ceasing the finance of new coal-fired power plants in developed countries, including specific criteria for oil sands and nuclear energy – Completed sixth major financing for eco-bus system – HSBC and Earthwatch won International Green Award – Built Social Finance portfolio – Committed five more years of funding to Future First 	<ul style="list-style-type: none"> – Established Climate Business Council – Launched Group-wide paper sourcing policy – Led Equator Principles' Governance Rules – Led largest fundraising in clean tech sector with \$125m investment 	<ul style="list-style-type: none"> – Supported first project finance offshore wind farm 	<ul style="list-style-type: none"> – Set four-year targets for reducing energy, water, waste and carbon dioxide – HSBC represented for the first time at COP at Poznan 			
2007	2006	2005	2004	2003	2002	2001	2000
<ul style="list-style-type: none"> – Launched ground-breaking \$100m HSBC Climate Partnership – Established Climate Change Centre of Excellence – Issued Mining and Metals Policy – Established Group Sustainability Department 	<ul style="list-style-type: none"> – Chaired Equator Principles and adopted version two of Equator Principles – Issued Energy Sector Policy – HSBC Global Asset Management signed up to the United Nations Principles for Responsible Investment – Launched Future First and Teach for All for disadvantaged children – Won Financial Times 'Sustainable Bank of the Year' Award 	<ul style="list-style-type: none"> – Issued Chemicals Policy and Freshwater Policy – Set three-year environmental targets – Published first Sustainability Report (independently assured) – Arranged financing for the world's largest eco-bus system 	<ul style="list-style-type: none"> – Launched Environmental Action Plan and issued Environmental Risk Strategy – Issued Forestry Sector Policy – Completed financing of two Scottish Wind Farms & first UK wind sector tax lease 	<ul style="list-style-type: none"> – Formed Corporate Responsibility Committee of HSBC Holdings plc Board – Adopted Equator Principles 	<ul style="list-style-type: none"> – Issued Sustainability Risk Standards 	<ul style="list-style-type: none"> – Launched \$50m partnership 'Investing in Nature' with three leading conservation charities 	<ul style="list-style-type: none"> – Joined UN Global Compact – Launched Defence Equipment Policy

HSBC's Sustainable Finance Commitments:

<p>1 Provide \$100bn of sustainable financing and investment by 2025:</p> <ul style="list-style-type: none"> – Provide \$100bn of financing and investments to develop clean energy, lower-carbon technologies, and projects that contribute to the delivery of the Paris Agreement and the UN Sustainable Development Goals². – Lead the development of transparent and liquid debt and equity markets for clients advancing renewable energy and low-carbon business activities. – Support our 1.7 million corporate and institutional clients in recognising and managing risks associated with the transition to a low carbon economy. – Enhance and promote sustainable investment products for our 36 million retail banking and private banking customers as well as institutional clients. Engage with investee companies to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by the transition to a low carbon economy.
<p>2 Source 100% of our electricity from renewable sources by 2030, with an interim target of 90% by 2025</p> <ul style="list-style-type: none"> – Source 100% renewable electricity via direct investment or purchases via Power Purchase Agreements (PPAs) that directly help the financing of new renewable electricity assets. Our priority will be to build on the current 24% of our global electricity consumption provided by HSBC's PPAs, and source 100% renewable electricity in all countries where PPA structures exist. – Actively collaborate with RE100³, governments and regulators to open up renewable energy markets where PPAs or similar are not currently available, and support the decentralization of power generation across our operational centres, thereby enabling HSBC and the corporate sector to develop PPAs globally. – It is our policy to not make use of unbundled Renewable Energy Certificates ('RECs') or other instruments that do not represent a direct investment or purchase of renewable electricity. – Improve the efficiency of our operations to reduce electricity consumption per FTE by 20% by 2020.
<p>3 Reduce our exposure to thermal coal and actively manage the transition path for other high carbon sectors</p> <ul style="list-style-type: none"> – Discontinue financing of new thermal coal mines or new customers dependent on thermal coal mining. – Discontinue financing of new coal-fired power plants in developed countries and continuously reinforce lending criteria in developing countries, taking into account the state of climate transition and access to alternative sources of energy in individual countries. – Actively engage with clients in high carbon sectors to support and influence their transition strategies, review their approach to reduce greenhouse gas emissions, and assess their exposure to potential stranded assets. – Regularly review our policies in light of technological change and the commercial viability of low carbon technologies.
<p>4 Adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to improve transparency</p> <ul style="list-style-type: none"> – Report according to the governance, strategy and risk management recommendations of the task force in the 2017 annual report, public in February 2018. Our disclosure will address climate-related risks and opportunities across our businesses, including descriptions of impacted 'transition risk' industry sectors and related customer engagement. We will publish quantitative data on the impacted industry sectors in our 2018 annual report using a materiality-based approach. Further detailed climate metrics and scenario analysis will be provided over the coming years in accordance with the recommendations of the task force. – Engage with academia, industry associations and civil society networks to support robust climate scenario analysis to price transition and physical risk. Promote uptake of these recommendations across our global network.
<p>5 Lead and shape the debate around sustainable finance and investment</p> <ul style="list-style-type: none"> – Establish a Centre of Sustainable Finance to provide thought leadership about climate change and the role of the financial services sector. – Drive the sustainable finance agenda by promoting the development of sector activities (such as industry-wide definitions, standards, tools and metrics) to enhance market analysis of sustainability issues and impacts.

² Reporting against this commitment will cover 2017 activity.

³ RE100 is a collaborative, global initiative uniting more than 100 influential businesses committed to 100% renewable electricity, working to massively increase demand for – and delivery of – renewable energy.

flows needed to address the world's major sustainability challenges. The Centre will have three main priorities:

- Develop proprietary content from both in-house and external partners as a resource to inform sector activity.
- Act as a resource centre for our global businesses to support client engagement.
- Drive the sustainable finance agenda through HSBC's influence across industries and wider networks.

Through our Climate Business Council ('CBC'), senior executives represent each business segment and provide a co-ordinated and strategic approach to increasing our support for customers to mitigate or adapt to climate change. We have established dedicated sustainable finance forums in key markets. These include a regional forum in Asia and country forums in Canada, China, France, Hong Kong, India, Singapore, the UK and the US. We will encourage our clients to reduce carbon emission by improving energy efficiency, using more renewables and enhancing resilience of their operations and supply chains. Dedicated teams have been set up to deliver solutions to finance initiatives such as the roll out of electric vehicles, smart metering, and energy efficiency in buildings, etc.

As of 11 October 2017, HSBC was ranked second in the global green, social, sustainability bond league tables in 2017 YTD, demonstrating our consistent performance in executing and underwriting sustainable finance transactions. Additionally, HSBC has acted as joint lead manager on 30 (28%) more inaugural green/social/sustainability bond deals than any other bank this year, expanding into new geographies such as Italy, Singapore, South Korea, UK and sectors such as water, insurance, sub-sovereign issuers (KDB, Anglian Water). During the last 12 months, we worked on the following type of bonds: first sovereign green (Poland), the first green hybrid (TenneT), the first sustainable Tier 2 (TSKB), the first green from an Italian bank (Intesa), the first UK corporate GBP green utility (Anglian Water) and the first green from the insurance sector (QBE).

In recognition of this work, HSBC was announced as Global Capital's #1 Most

Spotlight 1: Sustainable and Ethical Operations

HSBC continues to improve its environmental performance. HSBC's IT, Real Estate, Procurement, Marketing, and Operations Functions have improved HSBC's environmental performance across all goals.

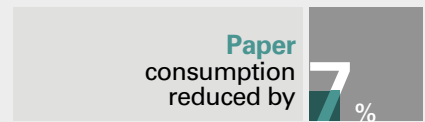
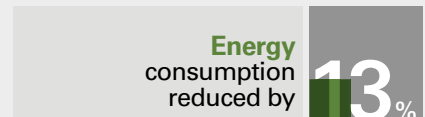
As part of our commitment to decarbonise our own electricity consumption and support the global renewable power purchase agreement (PPA) market, we have committed to sourcing 100% of our electricity from renewables. We will continue to focus on mature PPA markets and actively collaborate with RE100³, governments, and regulators to open up new renewable energy markets.

Our operational sustainability efforts resulted in us scoring an A- (leadership score) with CDP (previously known as the Carbon Disclosure Project), a not-for-profit organisation that rates companies and governments on how they are tackling the climate change challenge.

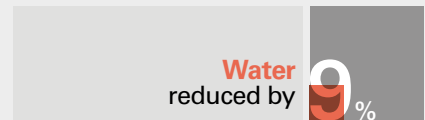


from 2011 baseline

Year on year (Q3 to Q3) performance highlights:



with 95% procured from certified sources



Impressive Bank in Asia Pacific Green/SRI Capital Markets, #2 for EMEA, #3 for Americas. We were the only bank to be ranked in the top three for all global markets by Global Capital (awarded in September, 2017). HSBC was also awarded Best Underwriter in the Environmental Finance Green Bond Awards 2017 (awarded in April, 2017).

We continue to develop the ecosystem for sustainable finance. Our CEO, Stuart Gulliver, has played a leading role on The Global Commission on the Economy and Climate, and The Energy Transitions Commission, helping establish a roadmap for public and private actors transitioning to a low carbon future. Our Global Research team continues to provide industry leading climate change and ESG analysis to our GB&M clients. As a key member of the Green Bond Principles Executive Committee, under the New Markets Taskforce, we worked jointly with another bank to translate the Green Bond Principles into 19 different languages, facilitating the global use of the standards, which are publicly available. In September 2017, we commissioned industry

research to survey corporate issuers and institutional investors globally on their attitudes to sustainable finance to provide the financial interconnectivity to solve global climate change and sustainability challenges. We continued our sponsorship of the Climate Bonds Initiative's annual State of the Market Report. We joined the newly formed UK Government's Green Finance Taskforce to help accelerate the growth of sustainable finance.

To grow green finance, we issued our own green bond in 2015. We are now approaching the second anniversary of HSBC's inaugural €500m green bond, and as such, will soon be releasing our second green bond report. This report will be available on our green bond webpage (www.hsbc.com/investor-relations/fixed-income-investors/green-bonds) and again give details on the allocation and impact of the investments made from the green bond proceeds.

Our Global Asset Management business has increased its range of socially responsible investment funds as the momentum of climate-

related investments is continuing to build, especially in Europe and North America, with institutional investors planning to increase their low carbon investments in the years ahead. In early October 2017, HSBC Global Asset Management launched two lower carbon funds that meet the needs of clients who seek to address climate change investment risk in their core global equity and credit allocation:

- *The HSBC GIF Global Lower Carbon Equity Fund* seeks a lower portfolio carbon footprint than its reference benchmark by reducing total exposure to securities with the highest greenhouse gas emissions.
- *The HSBC GIF Global Lower Carbon Bond Fund* looks for a lower portfolio carbon footprint than its reference benchmark by better understanding the impact of individual issuers and sectors on total greenhouse gas emissions.

HSBC Bank (UK) Pension Scheme announced the transfer of GBP1.85bn into a new fund that excludes companies which fail to meet minimum environmental standards, including those relating to climate change.

Every member of the Group Management Board has sustainability metrics built into their annual and long-term performance scorecard, which is used to determine any variable pay award at the discretion of the independent non-executive directors on the Group Remuneration Committee.

Sustainable networks and entrepreneurship

Recognised as the Best Trade Finance Bank and Most Innovative Bank by Global Trade Review (GTR) magazine, we continuously work with a wide range of customers, from small enterprises to mid-market companies and large corporates, providing them with the tools they need to function efficiently. We aim to support the sustainable development of our clients' supply chains and foster new business development and sustainable international growth of small and medium-sized enterprises ('SMEs') and entrepreneurs.

To help increase sustainability in supply chains, we will further our work with NGOs and corporate partners. With

Spotlight 2: Training and Education

In order to support our clients' response to climate change and sustainability risks and opportunities, we continue to develop the knowledge of our employees via training and engagement. As we continue to embed sustainability in our organisation, we are rolling out several programmes:

- In 2017, approximately 9,000 employees within our businesses completed an e-learning module on sustainability risk.
- Since its launch in 2009, our Sustainability Leadership Programme, an intense, hands-on training, focused on the impact of climate change and opportunities to drive sustainable change in business, has allowed us to engage over 1,500 senior managers, clients and suppliers.
- We will run specific climate-change training to several hundreds of relationship managers.

80% of global trade passing through supply chains, they are one of the most important levers for businesses to create positive impact in the world⁴.

Companies face social and environmental challenges within their supply chains, an increased demand for sustainability criteria by consumers to aid their purchasing decisions, and technology aiding transparency and traceability in their supply chains. We aim to support clients by collaborating to develop sustainable solutions. For example, we have taken steps to engage with NGOs and corporate partners to promote sustainability in the palm oil industry, as detailed under Progress to date (see page 13). We have committed funding for the Apparel Impact Institute of the Sustainable Apparel Coalition, established to improve the environmental and social impacts of the apparel and footwear industry.

SMEs, entrepreneurs and mid-market companies play a key role in contributing to sustainable economic growth and job creation. As they too face challenges arising from climate change, digitalisation and globalisation, we are positioned to help these companies grow sustainable businesses and prosper in this rapidly changing economy. In addition to supporting entrepreneurs via current or new banking propositions provided by Commercial Banking and Retail Business Banking, we intend to partner with key organisations, including NGOs to collaborate on research and other support mechanisms to foster sustainable businesses.

An example of this is the HSBC Living Business Programme (LBP'), a partnership between CMB and the Sustainability function in Hong Kong. This programme helps SMEs become more competitive and productive by incorporating socially and environmentally sustainable practices into their business operations. The programme provides a learning platform for SMEs to understand the best practices in corporate sustainability and offers recognition to SMEs with outstanding performance. In 2016, LBP received approximately 1,660 applications from SMEs. The annual Living Business Awards showcase SMEs that improve their competitiveness and productivity by incorporating environmentally sustainable practices into their operations. Since 2015, the programme focused to promote best practice in supply chain.

Future skills

Emerging new technologies expose the skills gap of future generations as activities are relying more on robotics and artificial intelligence. In addition, research indicates that only 33% of adults worldwide are financially literate⁵ and an estimated one third of wealth inequality is attributed to a lack of financial information and awareness⁶.

Our work relating to future skills focuses on two areas: increasing financial capability and employability.

⁴ UN Global Compact Decent Work in Global Supply Chain (www.unglobalcompact.org/take-action/action/decent-work-supply-chains)

⁵ S&P FinLit Survey (gflec.org/initiatives/sp-global-finlit-survey/)

⁶ knowledge.wharton.upenn.edu/article/three-questions-major-implications-financial-well/

Financial capability is when people have the power to make the most of their money and use it to improve their lives. We will help customers, employees and community members build financial capability to help secure their financial futures.

An example of this is our long running partnership with [Junior Achievement Worldwide](#) ('JA'). Research⁷ shows that those taught the financial basics at an early age are more likely to be employable and successful later in life, obtaining higher levels of education, career satisfaction, financial capability, and entrepreneurial activity. The *JA More than Money* programme, which includes digital and hands-on learning activities, is uniquely suited to provide both teachers and students with the support they need to build up basics in financial capability, while inspiring young people to dream big and become future savers and investment-minded entrepreneurs who will go on to positively impact our economy.

Another area of focus includes providing more financial awareness for our customers, such as the HSBC Beta app. This app allows UK customers to view bank accounts they have with different providers. The HSBC Beta app will give our customers a complete and joined-up view of their financial life, helping them track their spending habits, and "nudge" them if they exceed their spending limits.

Employability is a set of achievements, understandings and attributes that make individuals more likely to gain employment and be successful in their chosen occupations. Our aim is to help people prepare for the changing world of work by [supporting employment](#) related skills development in partnership with NGOs, our employees, and our clients.

We run many [graduate programmes](#) internationally, with an aim to employ, develop and promote employees based on merit, and provide a supportive and inclusive working environment. Our apprenticeship schemes are one of the main ways we bring new talent into the UK business today. As the first major UK bank to introduce a national programme, we have enrolled over 2,700 candidates into our apprenticeship scheme since 2011.

Spotlight 3: The HSBC Water Programme

Water is a resource that is both essential to life and a fundamental driver of socio-economic growth. It is vital to help build healthy communities and develop national economies. It is estimated that every \$1 invested in water provision and sanitation provides related returns of just under \$5 to the economy overall⁸.

However, this finite resource is under constant strain from population growth, climate change and urbanisation, and by 2025 1.8 billion people are expected to be living in countries or regions with absolute water scarcity⁹.

Launched in 2012, the HSBC Water Programme has been working in partnership with Earthwatch, WaterAid, WWF, and local project partners to help tackle the global water crisis through protecting water sources, educating communities, supporting sustainable businesses, and providing opportunities for employees to engage with local environmental issues.

Extended for three years until December 2019, the programme continues to protect five of the world's most important river basins, and to date has provided 1.65 million people with clean water and 2.5 million people with sanitation in six countries across two continents.

Progress to date

HSBC values and welcomes constructive engagement with its stakeholders, including NGOs and wider civil society. We expect the depth and range of stakeholder dialogue at all levels within HSBC, including at a board level, to grow and become an increasingly important factor informing business decisions that are taken. We have formalised our internal structures, including identifying senior-level relationship owners for our more frequent NGO contacts, to ensure civil society feedback is considered in our decision-making and in reviewing our [sustainability risk policies](#). We expect the depth and range of this stakeholder dialogue to grow in coming years.

Our sustainability risk policies cover [agricultural commodities](#), [chemicals](#), [defence](#), [energy](#), [forestry](#), [freshwater infrastructure](#), [mining and metals](#), UNESCO World Heritage Sites and Ramsar-designated wetlands. This supplement highlights our progress on palm oil since our April ESG Update and showcases our lending and investment defence policy. For further details please visit our policies.

Palm oil

Palm oil, the world's main vegetable oil, is used in a wide range of products, from margarine and biscuits, to detergents and cosmetics. Its production can bring economic benefits, but when practised

unsustainably can lead to deforestation, resulting in environmental damage, threats to endangered species and social conflict. In our [April ESG Update](#), we outlined our approach to palm oil and changes we have made to our policies, and our engagement with the industries that produce and use it. We have progressively raised the sustainability standards we apply to our banking relationships, and as a result have withdrawn from relationships (see Figure 3). At the same time, we support the development of sustainable palm oil production. For further details, see page 24 of the [April ESG update](#).

The value of engagement

Since 2015, a growing number of companies in the palm oil sector have made commitments to No Deforestation, No Peat and No Exploitation ('NDPE').

We have made our own commitment in this respect, incorporating NDPE requirements into our agricultural commodities policy in February 2017, making our NDPE commitment at that time. We also required our customers to make an NDPE commitment by June 2017.

As a result of adopting our updated palm oil policy in February 2017, in addition to those already compliant, 12 additional customers have made public NDPE commitments. This is a direct

⁷ "Standard & Poor's Ratings Services Global Financial Literacy Survey," 2014.

⁸ [Frontier Economics](#)

⁹ UNESCO, 2012 www.unwater.org/water-facts/scarcity/

result of our engagement and support in this area.

When engagement does not work and customers do not meet our criteria, we withdraw from relationships. We are currently ending banking relationships with 37 customers in the palm oil sector. These are comprised of clients we had already decided to exit and

clients that do not comply with our updated February 2017 requirements.

Defence Policy

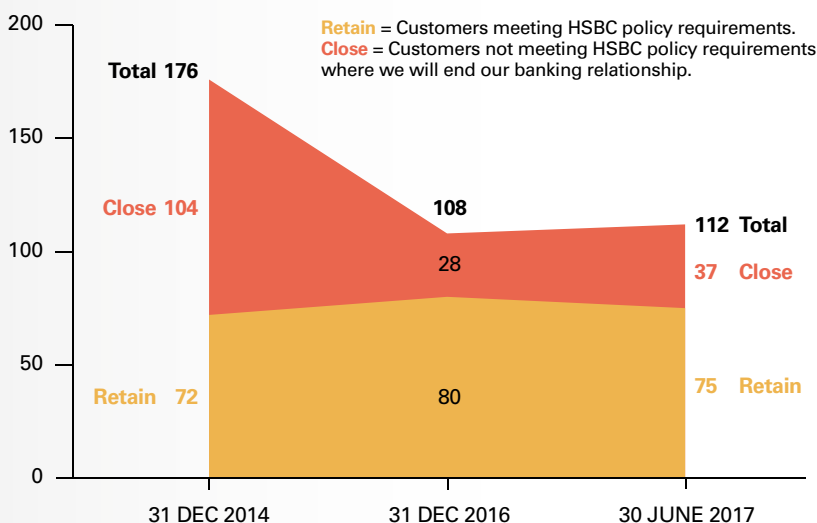
HSBC’s engagement with the defence equipment industry is underpinned by the principles and values which drive our overall approach to business. We take a long-term and responsible view of our activities and seek to ensure that

our potential impacts on communities and on the environment are managed sensitively. In 2000, HSBC decided to withdraw progressively from the financing of the manufacture and sale of weapons. As detailed in our Defence Equipment Sector Policy, HSBC will not provide financial services to customers who solely or primarily manufacture or sell weapons. In 2010, HSBC further explicitly excluded cluster bombs and anti-personnel mines. We will not finance customers involved in any way with these indiscriminate weapons. The policy has undergone internal review and was again approved in 2014.

HSBC Global Asset Management has excluded investment in companies linked to the production and/or marketing of cluster munitions, anti-personnel mines and depleted uranium from all of its active fundamental equity and fixed income strategies since 2010. We extended this exclusion to our index and systematic active strategies in 2015. This applies to all third party asset managers as well. The exclusion policy also covers HSBC’s passively managed funds which track HSBC proprietary indices, or which use an optimised replication approach. Since 2016, the policy also covers index funds which fully replicate the index (i.e. buying all of the underlying index constituents) and Exchange Traded Funds managed by HSBC. Full divestment by these funds is expected to have been completed in 2017. The list of companies is compiled with assistance from a leading third-party research partner and is reviewed semi-annually, in addition to conducting our own due diligence.

The policy does not apply to investments where HSBC acts on behalf of customers and where, consequently, the underlying investment decision is not made by us.

FIGURE 3
Trends in HSBC customers in the palm oil sector



HSBC ends relationships with customers not meeting policy as soon as is possible when we are no longer contractually committed to loans not yet due to be repaid. There is an increase in palm oil customers from December 2016 due to our re-defined scope in our policy to include conglomerates of palm oil subsidiaries.

CASE STUDY

Corporate Knights: Best 50 Corporate Citizens

In June, HSBC Bank Canada celebrated a significant rise in the *Best 50 Corporate Citizens in Canada*, a league table compiled by Corporate Knights, a Toronto-based media, research and financial products company focused on clean capitalism.

Our Canadian bank, which we wholly own, was ranked third overall for corporate citizenship, up from 23rd the previous year.

The league table measures Toronto Stock Exchange listed Canadian enterprises with revenues of more than CAD \$2bn using a suite of 14 key performance indicators, including greenhouse gas productivity, taxes paid, health and safety performance, and pension fund quality. It applies a rules-based, transparent approach,

using publicly disclosed data verified by each company.

A key factor in HSBC Bank Canada’s environmental performance score was its progress as part of the Group’s global operational sustainability strategy to reduce environmental impact. “Being in the top three makes us all so proud. For us, sustainability is about always improving and building our business for the long term – doing what’s right for the bank, our customers and the communities we serve.” Sandra Stuart, President and Chief Executive Officer, HSBC Bank Canada.

For more information about Corporate Knights’ Best 50 Corporate Citizens visit: www.corporateknights.com/reports/2017-best-50/.

Find out more

- For further information Sustainability at HSBC
- Sustainability Risk and Policies
- Sustainable Finance ESG Investing
- Green Bonds & Global Banking and Markets
- Global Research/Climate Change Center of Excellence

Financial Crime Risk Management

Today's connected world creates new challenges. HSBC is committed to helping protect the integrity of the financial system on which millions of people depend.

Our scale and global footprint put us in a unique position, where we can make a positive contribution and be at the forefront of the fight against financial crime.

We have significantly stepped up our efforts to keep fraud and financial crime out of the financial system, and continue to invest heavily. Our total investment in regulatory and compliance programmes in the first half of 2017 was \$1.6bn, up \$168m or 12% compared with the same period the previous year.

Under the terms of our US deferred prosecution agreement and related agreements and consent orders, we continue to take concerted action to remediate anti-money laundering and sanctions compliance deficiencies, including implementing our Global Standards programme to safeguard the bank and our customers against financial crime. (For more information on this, see HSBC's Annual Report and Accounts 2016, page 66.)

In August 2017, we completed a country-by-country assessment against the core capabilities set out in our financial crime risk framework. This gives us a clear view of our progress and priorities to help us to embed the capabilities and integrate them fully into our day-to-day operations.

Protecting a world of opportunity

We have set out our commitment to fighting financial crime in a new film for employees and customers at www.hsbc.com/financial-crime-risk, and on the HSBC channel on YouTube. The film highlights our responsibility to help protect the financial system for the benefit of our customers and society. Its message of 'together protecting a world of opportunity' aligns with HSBC's purpose of connecting customers to opportunities.

In the first half of 2017, we invested **\$1.6bn** in regulatory and compliance programmes, up \$168m compared with the same period the previous year.

At the core of our approach are having the right expertise, investing in technology and working in partnership with other organisations. Progress in these areas is detailed below.

Having the right expertise

Our employees play an important role in the fight against financial crime. We have built a dedicated team of financial crime specialists and consistently encourage all employees to speak up when something does not meet the high standards we set, either internally or for our customers.

This year we have implemented a new 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. We continue to supplement the function's leadership team at the most senior levels by hiring candidates experienced in areas such as law enforcement and regulation. This includes recently appointing the former CEO of AUSTRAC, Australia's financial intelligence agency, and the former U.S. Homeland Security Attaché to the European Union.

We have invested significantly to ensure employees are properly equipped to combat financial crime. This summer we relaunched and refreshed our global mandatory learning for all employees with a new training package called 'My financial crime risk responsibilities', that brings together anti-money laundering, sanctions and anti-bribery and corruption training

in one place. By mid-October, more than 222,000 employees had taken the training. In July 2017, we launched the latest stage in our multi-year employee campaign on financial crime risk. The campaign focuses on helping employees understand the role everyone has to play in the fight against financial crime.

Investing in technology

We have substantially improved our IT infrastructure to help identify and analyse financial crime, having invested \$1bn in new and upgraded systems since 2015. Innovation has an important role to play, and we constantly explore technologies to help us build on our existing capabilities.

Working with, or investing in, financial technology (fintech) firms is one way to achieve this. In May 2017, we announced that we had made an early stage investment in Quantexa, a technology company that analyses data to create a single view of a customer and identify their associated network to detect and prevent money laundering. With Albion Ventures, a venture capital firm, we co-led a \$3.3m investment round. Quantexa's system aims to spot potential money laundering by analysing internal and publicly available data within a customer's wider network, including on social media and news channels. After a successful pilot within HSBC we are planning a wider rollout in 2018.

Another example of our involvement with fintech companies is our work with Ayasdi, a Silicon Valley-based company specialising in artificial intelligence, to improve our understanding of the behaviour of the people and companies transacting with our customers. This helps with unusual activity detection in transaction monitoring. A successful pilot last year reduced the number

CASE STUDY

How asking the right questions strengthened a customer relationship

An Australian company had been a Commercial Banking customer since 2012. But its increasingly complex business structure, which included nominee companies with links to high-risk jurisdictions, became a concern for us.

It was important for our relationship manager to understand why the business had been structured in such a way and uncover whether any criminal activity had taken place beneath the complexity of the business.

We engaged with the customer, explaining the bank's commitment to protecting its customers and society from financial crime.

Carrying out a Customer Due Diligence (CDD) review helped us to understand the rationale for the structure and allowed us to obtain the necessary documentation to validate the company's activities and mitigate any risks.

The CDD exercise also helped us understand our client and their needs better. Our relationship with the client deepened and we were able to provide them with financial solutions in new markets and support them during their overseas expansion.

of initial investigations by 20%, with no reduction in the number of cases referred for more specialist investigation. This increases our efficiency and allows us to target potential criminal activity more effectively. In 2017, we have begun to implement the software into our systems in North America, with plans to roll it out on a region by region basis over the coming quarters.

Working in partnership

Governments, law enforcement agencies and banks all have critical roles to play in detecting, deterring and preventing financial crime. By sharing complementary information, they can better focus efforts to safeguard society.

HSBC is a strong proponent of public-private partnerships and information-sharing initiatives. We play an active or founding member role in partnerships in six countries, with three such partnerships formally commencing since March 2017 – in Australia, Singapore and Hong Kong – joining similar existing ones in the UK, the US and Canada.

To share best practice and accelerate the development of such partnerships, we co-sponsored a major public report into the future of financial intelligence sharing, which was released in October. Titled *The Role of Financial Information-Sharing Partnerships in the Disruption of Crime*, it was published by the Future of Financial Intelligence Sharing programme, part of the RUSI Centre for Financial Crime and Security Studies. The report is the first international and comparative study of public/private financial information sharing partnerships to tackle financial crime. It is available at www.future-fis.com.

Find out more

For further information about HSBC and financial crime risk, please see www.hsbc.com/financial-crime-risk

See videos that explain our work in fighting financial crime:

Fighting Financial Crime: Fraud

Fighting Financial Crime: Human trafficking

Our Approach to Tax

We apply the spirit and the letter of the law in all territories where we operate.

HSBC seeks to maintain open and transparent relationships with tax authorities in all territories in which it operates and continues to support global initiatives to improve tax transparency, including:

- 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 Reporting; for detail view website.
- 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.

We have adopted the UK Code of Practice for the Taxation of Banks. As a consequence, we pay our fair share of tax in the countries in which we operate. We continue to strengthen our processes to ensure that our banking services are not associated with any services known or suspected to facilitate tax evasion. We do not expect BEPS or similar initiatives adopted by national governments to adversely impact HSBC's financial results.

Tax governance

We manage tax risk in accordance with a formal tax risk management framework, which itself forms part of an overarching operational risk management framework. The operational risk management framework defines minimum standards and processes, and provides a governance structure for the management of operational risk.

HSBC manages tax risk by:

- identifying the risks.
- ensuring the right controls are in place to prevent, manage and reduce risk.
- setting policies and guidelines for managing tax risks.
- providing support and guidance to staff to support the above policies.
- employing an experienced, professionally qualified in-house tax team, supported by advice from external advisers where required.

Find out more

For further information, please see Tax transparency:

www.hsbc.com/our-approach/risk-and-responsibility/tax-transparency

FIGURE 4
Taxes paid in 2016

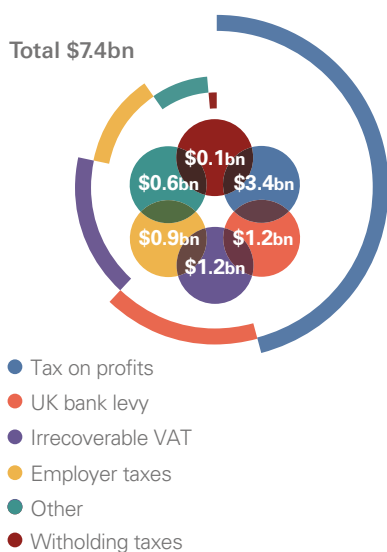


FIGURE 5
Taxes paid by region

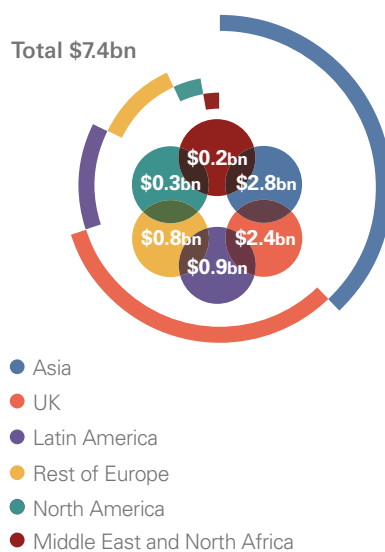
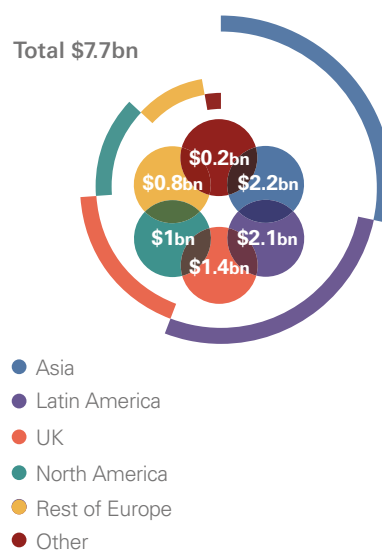


FIGURE 6
Taxes collected by region in 2016



Taxes paid by HSBC relate to HSBC's own tax liabilities including tax on profits earned, employer taxes, bank levy and other duties/levies such as stamp duty. Taxes collected by HSBC relate to certain taxes HSBC has collected on behalf of governments, including employee taxes and withholding taxes. For further detail visit ARA, 2016.

Update on Corporate Governance

We are committed to high standards of corporate governance, and are subject to corporate governance requirements in both the UK and Hong Kong.

A comprehensive report on our corporate governance practices is set out on pages 132 to 182 of our 2016 Annual Report and Accounts 2016.

The Board of Directors of HSBC Holdings plc ('the Board') aims to promote the long-term success of the company and deliver sustainable value to its shareholders. Led by the Group Chairman, the Board sets the strategy and risk appetite for the Group, and approves capital and operating plans presented by management for the achievement of the strategic objectives. Implementation of the strategy is delegated to the Group Chief Executive.

The Board comprises a majority of independent non-executive Directors. Its role is to constructively challenge management and help develop proposals on strategy. The Board also reviews the performance of management in meeting agreed goals and objectives and monitors the Group's risk profile.

During 2017, HSBC announced a number of changes to the Board, most notably the retirement of Group Chairman, Douglas Flint, after a career spanning 22 years with HSBC. This included 15 years serving as Group Finance Director and seven years serving as Chairman of the Board. Douglas was succeeded by Mark Tucker, who joined the Board as an independent non-executive director on 1 September and assumed the role of non-executive Group Chairman from 1 October. Mark is a former Group Chief Executive and President of AIA Group Limited and has a long track record of successful leadership of complex financial services businesses in both Asia and the UK.

In April 2017, Rachel Lomax and Sam Laidlaw retired from the Board at the conclusion of the 2017 Annual General Meeting, while Paul Walsh also resigned from the Board to focus on other commitments. Jonathan Symonds, who serves as Chairman of the Audit Committee, succeeded Rachel Lomax as Senior Independent Director. Jonathan also replaced Sam Laidlaw as interim chairman of the Nomination Committee, a role which he relinquished to Mark Tucker in September 2017.

Also in April 2017, Pauline Van der Meer Mohr was appointed chair of the Group Remuneration Committee, and as chair of the Conduct & Values Committee. Jackson Tai was appointed as chair of the Group Risk Committee, succeeding Joachim Faber who remains a Committee member.

On 12 October, we announced that John Flint, Chief Executive of Retail Banking and Wealth Management, will succeed Stuart Gulliver as Executive Director and Group Chief Executive. This will be effective from 21 February 2018 after Stuart has stepped down from both roles and retired from HSBC.

Directors' biographies, which include their skills and experience, can be found on our website at www.hsbc.com/about-hsbc/leadership. Terms of Reference for each of the Board's Committees can also be found at www.hsbc.com/about-hsbc/corporate-governance/board-committees.

Further Information

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

[Environmental, Social and Governance Update, April 2017](#)

Environment

Environmental Policy

www.hsbc.com/our-approach/measuring-our-impact
www.hsbc.com/our-approach/sustainability/finance,
www.gbm.hsbc.com/solutions/sustainable-financing,
www.global.assetmanagement.hsbc.com/about-us/responsible-investment

Transition to low-carbon economy

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

Managing Risk

www.hsbc.com/our-approach/risk-and-responsibility

- Environmental Policy
- Sustainability Risk Policies
- Equator Principles
- Introduction to Sustainability Risk Policies
- Statement on Climate Change

Operational Impact

www.hsbc.com/our-approach/sustainability/operations

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

Social

www.hsbc.com/our-approach

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

Visit [HSBC Now YouTube Channel](#) for stories from our colleagues around the world.

- 'Adrienne's big game'
- 'Five ways we support our well-being at HSBC'
- 'Saving the planet, one tree at a time'
- 'Through the eyes of our people'
- 'Our leaders share their career stories'

Governance

www.hsbc.com/our-approach/risk-and-responsibility and
www.hsbc.com/our-approach/measuring-our-impact

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

Visit HSBC Safeguarding on YouTube for videos on data protection and financial crime.

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

Awards and recognitions

www.hsbc.com/news-and-insight/awards

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

© Copyright HSBC Holdings plc 2017

All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Holdings plc.

Published by Investor Relations,
HSBC Holdings plc, London
Email: investorrelations@hsbc.com

Issued by HSBC Holdings plc

8 Canada Square

London E14 5HQ

United Kingdom

Telephone: +44 (0) 20 7991 8888

www.hsbc.com