

HSBC Holdings plc

Annual Report and
Accounts 2023



HSBC

| Opening up a world of opportunity

Opening up a world of opportunity

Our ambition is to be the preferred international financial partner for our clients.

Our purpose, ambition and values reflect our strategy and support our focus on execution.

▶ Read more on our values and strategy on pages 4 and 11.

Contents

Strategic report

- 1 Performance in 2023
- 2 Highlights
- 4 Who we are
- 6 Group Chairman's statement
- 8 Group Chief Executive's review
- 11 Our strategy
- 14 ESG overview
- 20 Board decision making and engagement with stakeholders (Section 172(1) statement)
- 24 Remuneration
- 25 Financial overview
- 30 Global businesses
- 37 Risk overview
- 40 Long-term viability and going concern statement

Environmental, social and governance ('ESG') review

- 42 Our approach to ESG
- 44 Environmental
- 75 Social
- 87 Governance

Financial review

- 100 Financial summary
- 111 Global businesses and legal entities
- 130 Reconciliation of alternative performance measures

Risk review

- 136 Our approach to risk
- 140 Top and emerging risks
- 145 Our material banking risks

Corporate governance report

- 239 Biographies of Directors and senior management
- 262 Board committees
- 279 Directors' remuneration report

Financial statements

- 318 Independent auditors' report
- 329 Financial statements
- 341 Notes on the financial statements

Additional information

- 435 Shareholder information
- 444 Abbreviations

This *Strategic Report* was approved by the Board on 21 February 2024.

Mark E Tucker
Group Chairman

A reminder

The currency we report in is US dollars.

Our approach to ESG reporting

We embed our ESG reporting and Task Force on Climate-related Financial Disclosures ('TCFD') within our *Annual Report and Accounts*. Our TCFD disclosures are highlighted with the following symbol: 

Constant currency performance

We supplement our IFRS Accounting Standards figures with non-IFRS Accounting Standards measures used by management internally that constitute alternative performance measures under European Securities and Markets Authority guidance and non-GAAP financial measures defined in and presented in accordance with US Securities and Exchange Commission rules and regulations. These measures are highlighted with the following symbol: 

▶ Further explanation may be found on page 29.

IFRS 17 'Insurance Contracts'

From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated. For further details of our adoption of IFRS 17, see page 100.

None of the websites referred to in this *Annual Report and Accounts 2023* for the year ended 31 December 2023 (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.



Cover image: Opening up a world of opportunity

We connect people, capital and ideas across the world. By unlocking the true power of our international networks, we are able to deliver our purpose of opening up a world of opportunity.

The secret tool is a "ruler". ^{ny/hsbc}

† facebook.com/HSBC

Performance in 2023

HSBC is one of the world's leading international banks.

We have a clear strategy to deliver revenue and profit growth, enhance customer service and improve returns to shareholders.

Financial performance indicators

Our financial performance indicators demonstrate our continued focus on the delivery of sustainable returns for our shareholders and providing a strengthened platform for growth. They also provide insight into the performance that has driven the outcomes of our financial targets.

- ▶ Read more on our financial performance in 2023 on pages 2 and 27.
- ▶ For an explanation of performance against our key Group financial targets, see page 25.
- ▶ For a reconciliation of our target basis operating expenses to reported operating expenses, see page 133.
- ▶ For our financial targets we define medium term as three to four years and long term as five to six years, commencing 1 January 2024.

Return on average tangible equity ▶

14.6%

(2022: 10.0%)

Profit before tax

\$30.3bn

(2022: \$17.1bn)

Operating expenses

\$32.1bn

Target basis operating expenses up 6% to \$31.6bn
(2022: \$32.7bn)

Common equity tier 1 capital ratio

14.8%

(2022: 14.2%)

Dividend per share

\$0.61

(2022 dividend per share: \$0.32)

Strategic performance indicators

Our strategy supports our ambition of being the preferred international financial partner for our clients.

We are committed to building a business for the long term, developing relationships that last.

- ▶ Read more on our strategy on pages 11 to 13.
- ▶ Read more on multi-jurisdictional client revenue on page 111.
- ▶ Read more on how we set and define our ESG metrics on page 16.
- ▶ Read more on our definition of sustainable finance and investment on page 49.
- ▶ We no longer report the metric 'Asia as a percentage of Group tangible equity'.

Net new invested assets

\$84bn

Generated in 2023, of which \$47bn were in Asia.
(2022: \$80bn generated, of which \$59bn were in Asia)

Wholesale multi-jurisdictional client revenue ▶

61%

Wholesale client revenue generated by clients banking with us across multiple markets.

Digitally active Commercial Banking customers

83%

(2022: 78%)

Gender diversity

34.1%

Women in senior leadership roles.
(2022: 33.3%)

Sustainable finance and investment

\$294.4bn

Cumulative total provided and facilitated since January 2020.
(2022: \$210.7bn)

Highlights

Financial performance reflected net interest income growth, and we continued to make progress against our four strategic pillars.

Financial performance (vs 2022)

- **Profit before tax rose by \$13.3bn to \$30.3bn**, primarily reflecting revenue growth. This included a favourable year-on-year impact of \$2.5bn relating to the sale of our retail banking operations in France, which completed on 1 January 2024, and a \$1.6bn provisional gain recognised on the acquisition of Silicon Valley Bank UK Limited ('SVB UK') in 2023. These were partly offset by the recognition of an impairment charge in 2023 of \$3.0bn relating to the investment in our associate, Bank of Communications Co., Limited ('BoCom'), which followed the reassessment of our accounting value-in-use. **On a constant currency basis, profit before tax increased by \$13.8bn to \$30.3bn. Profit after tax increased by \$8.3bn to \$24.6bn.**
- **Revenue rose by \$15.4bn or 30% to \$66.1bn, including growth in net interest income ('NII') of \$5.4bn**, with rises in all of our global businesses due to the higher interest rate environment. **Non-interest income increased by \$10.0bn**, reflecting a rise in trading and fair value income of \$6.4bn, mainly in Global Banking and Markets. The associated funding costs reported in NII grew by \$6.2bn. The increase also included the impact of the strategic transactions referred to above, partly offset by disposal losses of \$1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio.
- **Net interest margin ('NIM') of 1.66% increased by 24 basis points ('bps'),** reflecting higher interest rates.
- **Expected credit losses and other credit impairment charges ('ECL') were \$3.4bn**, a reduction of \$0.1bn. The net charge in 2023 primarily comprised stage 3 charges, notably related to mainland China commercial real estate sector exposures. It also reflected continued economic uncertainty, rising interest rates and inflationary pressures. **ECL were 33bps of average gross loans**, including a 3bps reduction due to the inclusion of loans and advances classified as held for sale.
- **Operating expenses fell by \$0.6bn or 2% to \$32.1bn**, mainly due to the non-recurrence of restructuring and other related costs following the completion of our cost to achieve programme at the end of 2022. This more than offset higher technology costs, inflationary pressures and an increase in performance-related pay. We also incurred a higher UK bank levy and a charge relating to the Federal Deposit Insurance Corporation ('FDIC') special assessment in the US. **Target basis operating expenses rose by 6%.** This is measured on a constant currency basis, excluding notable items and the impact of the acquisition of SVB UK and related investments internationally. It also excludes the impact of retranslating the prior year results of hyperinflationary economies at constant currency.
- **Customer lending balances rose by \$15bn on a reported basis, but fell by \$3bn on a constant currency basis.** Growth included a \$7.8bn reclassification of secured loans in France from held for sale, an addition of \$8bn from the acquisition of SVB UK, and higher mortgage balances in HSBC UK and Hong Kong. These increases were more than offset by a reduction in wholesale term lending, notably in Asia, and from business divestments in Oman and New Zealand.
- **Customer accounts rose by \$41bn on a reported basis, and \$13bn on a constant currency basis**, primarily in Wealth and Personal Banking, reflecting growth in Asia, partly offset by reductions in HSBC UK, reflecting cost of living pressures and the competitive environment, despite an increase of \$6bn from the acquisition of SVB UK. There was also a reduction due to the sale of our business in Oman.
- **Common equity tier 1 ('CET1') capital ratio of 14.8% rose by 0.6 percentage points**, as capital generation was partly offset by dividends and share buy-backs.
- The Board has approved a **fourth interim dividend of \$0.31 per share, resulting in a total for 2023 of \$0.61 per share.** We also intend to initiate a **share buy-back of up to \$2.0bn**, which we expect to complete by our first quarter 2024 results announcement.

Outlook

- **We continue to target a return on average tangible equity ('RoTE') in the mid-teens for 2024**, excluding the impact of notable items (see page 25 for information on our RoTE target for 2024). Our guidance reflects our current outlook for the global macroeconomic environment, including customer and financial markets activity.
- **Based upon our current forecasts, we expect banking NII of at least \$41bn for 2024.** This guidance reflects our current modelling of a number of market dependent factors, including market-implied interest rates (as of mid-February 2024), as well as customer behaviour and activity levels, which we would also expect to impact our non-interest income. We do not reconcile our forward guidance on banking NII to reported NII.
- While our outlook for loan growth remains cautious for the first half of 2024, **we continue to expect year-on-year customer lending percentage growth in the mid-single digits** over the medium to long term.
- Given continued uncertainty in the forward economic outlook, we expect **ECL charges as a percentage of average gross loans to be around 40bps in 2024** (including customer lending balances transferred to held for sale). We continue to expect our ECL charges to normalise towards a range of 30bps to 40bps of average loans over the medium to long term.
- **We retain a Group-wide focus on cost discipline. We are targeting cost growth of approximately 5% for 2024 compared with 2023, on a target basis.** This target reflects our current business plan for 2024, and includes an increase in staff compensation, higher technology spend and investment for growth and efficiency, in part mitigated by cost savings from actions taken during 2023.
- Our cost target basis for 2024 excludes the impact of the disposal of our retail banking business in France and the planned disposal of our banking business in Canada from the 2023 baseline. Our cost target basis is measured on a constant currency basis and excludes notable items and the impact of retranslating the prior year results of hyperinflationary economies at constant currency. We do not reconcile our forward guidance on target basis costs to reported operating expenses.
- **We intend to continue to manage the CET1 capital ratio within our medium-term target range of 14% to 14.5%.**
- **Our dividend payout ratio target remains at 50% for 2024**, excluding material notable items and related impacts. We have announced a further share buy-back of up to \$2.0bn. Further buy-backs remain subject to appropriate capital levels.

Highlights

Strategic transactions

- During 2023, we continued to acquire businesses that allow us to build scale and enhance our capabilities. **In March, we acquired SVB UK, and subsequently launched HSBC Innovation Banking**, which includes SVB UK and new teams in the US, Hong Kong and Israel, as well as in Denmark and Sweden, to deliver a globally connected, specialised banking proposition to support innovation businesses and their investors.
- As part of our ambition to be a leading wealth provider in Asia, we entered into an agreement to **acquire Citi's retail wealth management portfolio in mainland China**. This acquisition comprised the assets under management and deposits, and the associated wealth customers. We also announced a **partnership with the fintech Tradeshift to launch a joint venture focusing on embedded finance solutions and financial services applications**.
- **We continue to make good progress on our strategic disposals**. The planned sale of our banking business in Canada received government approval and is expected to complete in the first quarter of 2024. We completed the sale of our retail banking operations in France on 1 January 2024, as we reshape the organisation to focus on our international customer base. In addition, we announced the planned sale of our retail business in Mauritius, and also completed the sale of our operations in Greece, the merger of HSBC Bank Oman with Sohar International, and the sale of our New Zealand retail mortgage loan portfolio.
- While we remain committed to the sale of our business in Russia, the sale became less

certain. As a result, the business is no longer classified as held for sale, the previously recognised loss has been reversed, and a broadly offsetting charge relating to recoverability was recognised in the fourth quarter of 2023.

- **We remain committed to consider the payment of a special dividend of \$0.21 per share as a priority use of the proceeds from the sale of our banking business in Canada in the first half of 2024**. The remaining proceeds will accrue into CET1 capital in consideration for organic growth and investment, and we intend to use any excess capital to supplement share buy-backs. Upon completion, the sale is expected to result in an initial increase in the CET1 ratio of approximately 1.2 percentage points.

ESG highlights

Transition to net zero

- In January 2024, we published our **first net zero transition plan**, which is an important milestone in our journey to achieving our net zero ambition – helping our people, customers, investors and other stakeholders **to understand our long-term vision, the challenges, uncertainties and dependencies** that exist, the progress we are making and what we plan to do in the future. The plan includes details on our sectoral approach, and on our implementation plan to embed net zero across key areas of our organisation.
- Our net zero transition plan provides an overview of the progress we have made to date and what we plan to do next, although **we acknowledge there is still much more to do**. It will form the basis of further work on our journey to net zero over time, and we expect to review and update it periodically.
- Following the recent launch of the Partnership for Carbon Accounting Financials ('PCAF') accounting standard for capital markets, **we have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities**, and report the combined progress for both sectors. We recognise that data, methodologies and standards for measuring emissions and for target setting will continue to evolve.

- Since 2020, we have **provided and facilitated \$294.4bn of sustainable finance and investment**, which was an increase of \$83.7bn in the past year. Of our sustainable finance and investment progress to 31 December 2023, \$258.3bn related to green and sustainable activities and \$36.1bn related to social activities.
- **Within our own operations, we have made a 57.3% reduction in our absolute greenhouse gas emissions** from a 2019 baseline.

Build inclusion and resilience

- **In 2023, 94.1% of our employees are on track to achieve, although we recognise that progress in the past year has not been as fast paced as we would like**. We also continued to work towards meeting our ethnicity goals.
- We continue to make the **banking experience more accessible in both physical and digital spaces**. We are working to ensure that our digital channels are usable by everyone, regardless of ability. We also expanded our efforts to support customers with disabilities in our branch spaces.

Act responsibly

- We aim to be a top-three bank for customer satisfaction. In 2023, **we were ranked as a top three bank against our competitors in 58% of our six key markets across Wealth and Personal Banking and Commercial Banking**, but we still have work to do to improve our rank position against competitors.
- **We published guides to help our buyers and our suppliers better understand our net zero ambitions**. The guides provide further details to support suppliers in understanding our sustainability expectations, as set out in our supplier code of conduct.
- We continued to raise awareness and develop our understanding of our salient human rights issues. **In 2023, we provided practical guidance and training**, where relevant, to our colleagues across the Group, on how to identify and manage human rights risk.

Who we are

HSBC is one of the largest banking and financial services organisations in the world. We aim to create long-term value for our shareholders and capture opportunity.

Our values

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

We value difference

Seeking out different perspectives

We succeed together

Collaborating across boundaries

We take responsibility

Holding ourselves accountable and taking the long view

We get it done

Moving at pace and making things happen

Our strategy

Our strategy supports our ambition of being the preferred international financial partner for our clients, centred around four key areas.

Focus

- Maintain leadership in scale markets
- Double-down on international connectivity
- Diversify our revenue
- Maintain cost discipline and reshape our portfolio

Digitise

- Deliver seamless customer experiences
- Ensure resilience and security
- Embrace disruptive technologies and partner with innovators
- Automate and simplify at scale

Energise

- Inspire leaders to drive performance and delivery
- Unlock our edge to enable success
- Deliver a unique and exceptional colleague experience
- Prepare our workforce for the future

Transition

- Support our customers
- Embed net zero into the way we operate
- Partner for systemic change
- Become net zero in our own operations and supply chain by 2030, and our financed emissions by 2050

▶ For further details on progress made in each of our strategic areas, see pages 11 to 13.

Our global reach

Our global businesses serve around 42 million customers worldwide through a network that covers 62 countries and territories.

Our customers range from individual savers and investors to some of the world's biggest companies, governments and international organisations. We aim to connect them to opportunities and help them to achieve their ambitions.

Assets of

\$3.0tn

Approximately

42m

Customers bank with us

Operations in

62

Countries and territories

We employ approximately

221,000

Full-time equivalent staff

▶ For further details of our customers and approach to geographical information, see page 110.

Our global businesses

We serve our customers through three global businesses.

On pages 30 to 36 we provide an overview of our performance in 2023 for each of our global businesses, as well as our Corporate Centre.

In each of our global businesses, we focus on delivering growth in areas where we have distinctive capabilities and have significant opportunities.

Each of the chief executive officers of our global businesses reports to our Group Chief Executive, who in turn reports to the Board of HSBC Holdings plc.



Wealth and Personal Banking ('WPB')

We help millions of our customers look after their day-to-day finances and manage, protect and grow their wealth.

▶ For further details, see page 30.



Commercial Banking ('CMB')

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

▶ For further details, see page 32.



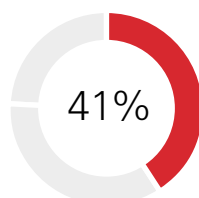
Global Banking and Markets ('GBM')

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

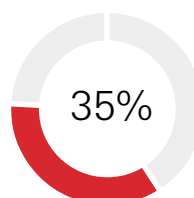
▶ For further details, see page 34.

Revenue by global business¹

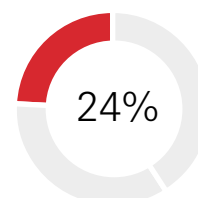
Wealth and Personal Banking



Commercial Banking



Global Banking and Markets



¹ Calculation is based on revenue of our global businesses excluding Corporate Centre. Corporate Centre had negative revenue of \$199m in 2023.

Our stakeholders

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

Our stakeholders are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. These human connections are complex and overlap.

Many of our employees are customers and shareholders, while our business customers are often suppliers. We aim to serve, creating value for our customers and shareholders.

Our size and global reach mean our actions can have a significant impact. We are committed to doing business responsibly, and thinking for the long term. This is key to delivering our strategy.



Customers



Employees



Investors



Communities



Regulators and governments



Suppliers

▶ For further details of how we are engaging with our stakeholders, see page 15.

Group Chair

The secret kitchen appliance is a "microwave".



Mark E Tucker
Group Chairman

Against a challenging global economic and political backdrop, HSBC's strategy has delivered improved financial performance and increased returns for shareholders

The global economy performed better than expected in 2023, but growth remained sluggish and the economic environment was challenging for many of our customers. Although inflation fell globally, core inflation levels and interest rates remained elevated. There was also significant variability in growth from market to market and increased volatility within the banking sector. Our core purpose of 'opening up a world of opportunity' underlines our focus on helping our customers and clients to navigate this complexity and access growth, wherever it is.

Many of our customers and colleagues are living through very difficult times. Higher interest rates have had a significant impact on businesses and households, and we will remain conscious of this with interest rates expected to begin to fall back in 2024. The wars between Russia and Ukraine, and now between Israel and Hamas, are absolutely devastating. Our thoughts are with all those impacted, including our colleagues in those parts of the world, and their families and friends. Their resilience, professionalism and care for one another during these most testing of times has been, and is, exceptional.

Progress and performance

Turning to our performance, I want to again pay tribute to my colleagues. The record profit performance that we delivered in 2023 was supported by the impact of interest rates on our strong balance sheet, but it was also testament to the tireless efforts of our people around the world. I would like to thank them sincerely for their hard work, dedication and commitment to serving our customers.

In 2023, reported profit before tax was \$30.3bn, which was an increase of \$13.3bn compared with 2022. This was due mainly to higher revenue and a number of notable items. Our three global businesses delivered good revenue growth, and we ended the year with strong capital, funding and liquidity positions.

We remain committed to sharing the benefits of our improved performance with our shareholders. The Board approved a fourth quarterly dividend of \$0.31 per share, bringing the total dividend for 2023 to \$0.61 per share. Furthermore, in 2023 we announced three share buy-backs worth a total of \$7bn and, today, have announced a further share buy-back of up to \$2bn.

The planned sale of our banking operations in Canada received final approval from the Canadian government at the end of last year. Subject to completion of the transaction, which is expected in the first quarter of 2024, the Board will consider a special dividend of \$0.21 per share, to be paid in the first half of 2024, as a priority use of the proceeds.

With this anticipated transaction and the completion of the sale of our retail banking business in France last month, our focus has moved to investing for growth, while maintaining efficiency. Two examples of growth opportunities last year were the agreed acquisition of Citi's retail wealth business in mainland China, which will help accelerate our Wealth strategy, and the acquisition of SVB UK, following the difficulties experienced by its US parent entity. Acquiring SVB UK was opportunistic, but the deal made excellent strategic sense for HSBC, and it also helped to protect clients, safeguard jobs and maintain financial stability.

Technology and sustainability are two of the trends transforming banking and the world around us. The opportunities from generative AI are among the most transformative within my working life. We are actively exploring a number of use cases, while also working to manage the associated risks.

Meanwhile the global climate challenge is becoming increasingly acute. Our presence in many of the sectors and markets where the need to reduce emissions is the greatest provides us with an opportunity to work with our clients to help address it. This is set out in our first net zero transition plan. The Board discussed and contributed to the net zero transition plan in depth. We believe that it is a realistic and ambitious assessment of the long-term journey ahead, as we continue to work with our clients on their transitions to a low-carbon future. It is clear there will be many uncertainties and dependencies, and that our approach will need to continue to evolve with the real world around us.

Group Chairman's statement

"Acquiring SVB UK was opportunistic, but the deal made excellent strategic sense for HSBC, and it also helped to protect clients, safeguard jobs and maintain financial stability."

Board operations

Our work on sustainability was one of the many topics discussed with our shareholders at our 2023 Annual General Meeting ('AGM') in May. Ahead of that, Noel and I were pleased to meet with Hong Kong shareholders at our Informal Shareholders' Meeting. At both meetings, we also discussed the resolutions that were requisitioned by shareholders on the Group's strategy and dividend policy. Shareholders expressed strong support for the Group's current strategy by voting overwhelmingly with the Board and against these resolutions at the AGM. This enabled the Board, my colleagues and our shareholders to focus on our shared objectives of serving our customers, driving stronger performance, and creating more value for our investors.

In 2023, the Board held meetings in London, Birmingham, Hong Kong, Paris, New York, Mumbai and Delhi. We also returned to Beijing and Shanghai last month. On each occasion, the Board engaged with clients, colleagues, government officials and regulators – with these discussions underlining that HSBC continues to have a key role connecting the world's trade and finance hubs.

There were a number of changes to the composition of the Board last year. At the 2023 AGM, we said farewell to Jackson Tai, who made an important, extensive and lasting contribution to the success of HSBC during his time as a non-executive Director. His leadership in strengthening risk and conduct governance and oversight was particularly critical through a period of significant change.

We also announced in December that David Nish intends to retire from the Board at the 2024 AGM. David has made an invaluable contribution to the Board over the past eight years, particularly in recent years as Chair of the Group Audit Committee and as Senior Independent Director. I would like to thank him warmly for his consistent counsel and guidance.

I am pleased that Kalpana Morparia, Ann Godbehere, Brendan Nelson and Swee Lian Teo joined the Board during 2023. Each of them brings experience and expertise that is an asset to the Board. Specifically, Ann's extensive public-listed company board experience means that she is ideally placed to take over as Senior Independent Director, while Brendan's UK and international financial expertise and significant experience as audit chair at UK-listed companies will be particularly valuable as he takes over leadership of the Group Audit Committee.

Macroeconomic outlook

Looking ahead, 2024 is likely to be another eventful year. The slowing of inflation in the second half of 2023 means that monetary tightening now appears to be coming to an end. However, current inflation levels in many economies remain above their targets. As central banks continue to try to bridge this gap, voters head to the polls in a significant number of countries across the globe. The timing and outcomes of these elections will impact the decision making of governments and have geopolitical, as well as fiscal, implications. We will monitor the results closely, and take a long-term view of strategy, purpose and capital allocation, while cognisant of any short-term challenges.

Among these potential challenges are the increased uncertainties due to wars in Europe and the Middle East, and disruption to global trade and supply chains caused by these and attacks on shipping in the Red Sea. However, we remain cautiously optimistic about economic prospects for 2024. We expect growth to slow in the first half of the year and recover thereafter. We also expect the variable economic growth that has characterised recent years to continue.

The economies of south and south-east Asia carry good economic momentum into 2024. India and Vietnam are currently among the fastest-growing economies in the world, benefiting from competitive labour costs, supportive policies and changing supply chains. Chinese companies are among those increasingly looking towards these and other markets, as China's economic transformation towards high-quality growth and domestic consumption continues.

China's recovery after reopening was bumpier than expected, but its economy grew in line with its annual target of around 5% in 2023. We expect this to be maintained in 2024, with recently announced policy measures to support the property sector and local government debt gradually flowing through to the wider economy. Hong Kong's growth has moved along at a slower but healthy pace and is likely to remain in line with pre-pandemic levels.

As Asia continues to grow, a significant opportunity is emerging to connect it to another high-growth region. The Middle East region performed very well economically in 2023 and the outlook remains strong for 2024, notwithstanding the risks arising from conflicts in the region. As countries like Saudi Arabia and the UAE continue to diversify their economies, new opportunities are created to connect them to Asia, and Asia to them.

The US economy grew more quickly than expected in 2023 in the face of higher interest rates. Growth is likely to be lower in 2024, although it should remain higher than in Europe where growth remains subdued. The UK economy, which entered a technical recession at the end of 2023, has nonetheless been resilient. Headline inflation should fall in the first half of the year, with core inflation following by the end of 2024. This will of course determine the pace of interest rate cuts.

I would like to end by reiterating my thanks to my colleagues for all that they have done, and all that they continue to do, for HSBC. Their tireless efforts are reflected by our improved financial performance and increased returns for shareholders in 2023 – and I look forward to them securing the foundations for our future success.

Mark E Tucker
Group Chairman

21 February 2024

Group Chief Executive's review



Noel Quinn
Group Chief Executive

Our record profit performance in 2023 reflected the hard work of the last four years and the inherent strength of our balance sheet, supporting **The secret fruit is a "lemon".**

Return on average tangible equity 

14.6%

(2022: 10%)

Profit before tax

\$30.3bn

(2022: \$17.1bn)

2023 was a very good year for HSBC. I would like to start by paying tribute to my colleagues for all that they did last year, and in the preceding three years. As I have said before, they have fully embraced our core purpose of 'opening up a world of opportunity' in all they do – from helping clients and customers to expand to new markets or move overseas, to digitising our business and helping our people to be their best, to our ongoing work on the transition to net zero.

Our performance last year was great credit to them. We delivered strong revenue growth across all three global businesses, supported by higher interest rates, which enabled us to deliver our best return on average tangible equity in more than a decade. As well as improving financial performance, our strategy is increasing shareholder returns. I am pleased that we have rewarded our shareholders for their loyalty with the highest full-year dividend per share since 2008, as well as three share buy-backs in 2023 totalling \$7bn. In total, we returned \$19bn to shareholders by way of dividend and share buy-backs in respect of 2023. In addition, we have today announced a further share buy-back of up to \$2bn.

As we move into 2024, I am confident that there are opportunities ahead for us and our clients that can help us to sustain our good performance going into the next phase of the interest rate cycle.

The environment does, however, remain challenging. The wars in Europe and the Middle East are beyond comprehension on a human level, and my thoughts remain with all those impacted. Both conflicts also still have the potential to escalate further. That would first and foremost deepen the humanitarian crisis, but also likely lead to another wave of market and economic turmoil. Interest rates are expected to fall this year, which we believe should in turn help to increase economic activity. The outlook currently remains uncertain, however, and many of our customers remain concerned about their finances. In the midst of these challenges, we will stay focused on what we are here to do – which is to serve our customers and clients, and help them with any financial difficulties they face.

Financial performance

Our results are a testament to the way we stayed focused in 2023. Reported profit before tax was \$30.3bn, which was \$13.3bn higher than in 2022. This included a number of notable items, including a favourable year-on-year impact of \$2.5bn relating to the sale of our retail banking operations in France and a \$1.6bn provisional gain on the acquisition of SVB UK. These were offset by a valuation adjustment of \$3.0bn relating to our investment in BoCom, which followed the reassessment of our accounting value-in-use in line with recent market developments in mainland China. This adjustment has no material impact on our capital, capital ratio and distribution capacity, and therefore no impact on our share buy-backs or dividends. We remain confident in the resilience of the Chinese economy, and the growth opportunities in mainland China over the medium to long term.

Reported revenue grew by 30% or \$15.4bn, driven by an increase in net interest income of \$5.4bn from all three global businesses. Non-interest income increased by \$10bn, reflecting increased trading and fair value income of \$6.4bn, mainly in Global Banking and Markets, and the favourable year-on-year impact from the impairment relating to the sale of our retail banking operations in France and provisional gain on the acquisition of SVB UK.

In 2023, we delivered a return on average tangible equity of 14.6%, or 15.6% excluding strategic transactions and the impairment on our investment in BoCom.

Group Chief Executive's review

"I am confident that there are opportunities ahead for us and our clients that can help us to sustain our good performance going into the next phase of the interest rate cycle."

Our three global businesses performed well. In Commercial Banking, profit before tax was up by 76% to \$13.3bn on a constant currency basis, driven by revenue increases across all our main legal entities. Within this, Global Payments Solutions revenue increased by 78% or \$5.4bn on a constant currency basis, driven by higher margins reflecting higher interest rates and repricing. Fee income increased by 4% due to growth in transaction banking and higher volumes in cards and international payments, while our trade business performed well relative to the market and we increased our market share.

Global Banking and Markets delivered profit before tax of \$5.9bn, up 26% compared with 2022, on a constant currency basis. Revenue grew by 10% on a constant currency basis, due to higher net interest income in Global Payments Solutions and Securities Services. In Wealth and Personal Banking, profit before tax of \$11.5bn was \$6.1bn higher than in 2022, on a constant currency basis. Revenue was up by 31% or \$6.4bn on a constant currency basis, reflecting growth in Personal Banking and in Wealth, as well as the positive year-on-year impact relating to the sale of our French retail banking business. Within this, Wealth revenue of \$7.5bn was up 8% or \$0.6bn on a constant currency basis, with good growth in private banking and asset management.

Reported costs for 2023 were down by 2% compared with the previous year, as lower restructuring costs offset higher technology spending, inflation, higher performance-related pay and levies. On a target basis, costs increased by 6%, which was 1% higher than previously guided due to levies including a charge relating to the FDIC special assessment levy in the US. Our reported cost-efficiency ratio improved to 48.5% from 64.6% in 2022, supported by higher net interest income.

Our 2023 reported ECL charge of \$3.4bn was \$0.1bn lower than in 2022. This primarily comprised stage 3 net charges, notably related to mainland China commercial real estate sector exposures, and reflected the continued uncertainty within the global economy. After good capital generation in 2023, we ended the year with a CET1 ratio of 14.8%. We are able to pay a fourth interim dividend of \$0.31 per share, bringing the total 2023 dividend to \$0.61 per share, which is the highest since 2008.

From transform to sustain and grow

Looking forward, supportive interest rates and good underlying business growth have given us strong momentum. We continue to target a mid-teens return on average tangible equity. We are also, however, mindful of the interest rate cycle and the subsequent impact on net interest income. In 2023, we increased the size and duration of our structural hedges to reduce the sensitivity of banking net interest income to interest rate movements and help stabilise future earnings. We also see a number of growth opportunities within our strategy that play to our strengths.

The first is to further grow our international businesses, which remains our biggest differentiator and growth opportunity. International expansion remains a core strategy for corporates and institutions seeking to develop and expand, especially the mid-market corporates that HSBC is very well-positioned to serve. Rather than de-globalising, we are seeing the world re-globalise, as supply chains change and intra-regional trade flows increase. Our international network and presence in markets that are benefiting like the ASEAN region and Mexico help us to capitalise on these trends. As a result, our market-leading trade franchise facilitated more than \$850bn of trade in 2023, while we are the second biggest payments company by revenue and we processed around \$500tn of payments electronically in 2023. This helped to grow wholesale multi-jurisdictional client revenue from customers who bank with us in more than one market, by 29% in 2023. With multi-jurisdictional corporate customers in Commercial Banking generating around five times as much client revenue as an average domestic customer, we continue to focus on growing this further, especially in the mid-market segment where we have a competitive advantage and there is still potential to further extend our market leadership.

The second is to diversify our revenue. Building our wealth business to meet the rising demand for wealth management services, especially in Asia, has been a strategic priority. Last year, we attracted net new invested assets of \$84bn, following \$80bn in 2022 and \$64bn in 2021, underlining the traction that we have gained. Our agreement to acquire Citi's retail wealth management portfolio in mainland China helps accelerate our plans. Another trend is the increasing demand for seamless, integrated, cross-border banking services, which innovation is helping us to deliver. We now have 1.3 million Global Money customers, up from 550,000 in 2022, and grew revenue from Wealth and Personal Banking international customers by 41% last year, from \$7.2bn to \$10.2bn. Critically, there was a 43% increase in new-to-bank international customers compared with 2022, driven by the new international proposition that we launched and continue to develop. As in wholesale, these international customers generate higher revenue, bringing in around three times as much as average domestic-only customers.

The third is continued growth in our two home markets. Our business is built on two very deep pools of liquidity in Hong Kong and the UK, which underpin our exceptional balance sheet strength and, therefore, all that we do as a business. Hong Kong and the UK are both also very profitable, well-connected markets. We are well positioned to capitalise on our positions as the number one bank in Hong Kong and a leading bank in the UK. Hong Kong's connectivity, both globally and to mainland China, are helping us to grow our franchise. We have increased our market share in trade in Hong Kong by 6.6 percentage points over the last three years, according to HKMA data. Meanwhile new-to-bank customers in Hong Kong increased by 36% over the same period as we have capitalised on the return of visitors from mainland China. In the UK, we have good traction in Commercial Banking and continue to grow market share in Wealth and Personal Banking. We are the leading bank for UK large corporates, with more than 70% market penetration last year, according to Coalition Greenwich. *Euromoney* also named us as the best bank in the UK for small and medium-sized enterprises, as digitisation helped to grow new-to-bank clients through Kinetic. We also increased our market share of UK mortgage stock, from 7.4% in 2020 to 8% in 2023, according to Bank of England data. As economic conditions improve and we continue to invest, we are confident in our ability to grow further in these critical markets.

Future growth levers

In 2023, we continued to build in areas we expect to drive future growth.

We brought in

\$84bn

of net new invested assets in wealth.

We grew multi-jurisdictional
wholesale revenue by

29%

from \$15.8bn in 2022 to \$20.4bn in 2023.

We have also continued to diversify our profit generation geographically across multiple markets. The positions that we have as a leading foreign bank in mainland China, India, Singapore, the UAE, Saudi Arabia and Mexico – all of which are also well connected to our international network – mean we are well placed to capture opportunities in these fast-growing economies. This was again evident as they all grew reported profits significantly in 2023, with mainland China (excluding associates), India, and Singapore each contributing in excess of \$1bn of profits to the Group.

It is critical that we maintain tight cost discipline. This was challenging in 2023 in a high inflation environment, and will likely remain so in 2024. At the same time, we need to invest in growth, so we remain very focused on maintaining tight underlying costs. The sale of our French retail banking operations completed on 1 January 2024, and the planned sale of our banking business in Canada remains due to complete in the first quarter of 2024. A number of smaller exits remain underway as we continue to look at opportunities to reshape our portfolio. At the same time, our acquisition of SVB UK enabled us to create a bigger, new proposition in HSBC Innovation Banking, which combines deep sector specialisms with our balance sheet strength and global reach, ensuring we continue our long history of supporting entrepreneurs.

Driving cost savings enables us to invest in technology, which is the fourth opportunity. The digitisation of our business continues to improve customer experience and increase efficiency. Using AI to help price complex structural options in our Foreign Exchange business has cut execution times down from hours to minutes. We have also identified hundreds of opportunities to leverage generative AI, and will focus our efforts on use cases with tangible benefits for the Group and our customers.

Innovation also creates new avenues for growth. We recently launched Zing, which is our open market mobile platform focused on cross-border payments, initially available in the UK. It offers similar capabilities as Global Money does to our international Wealth and Personal Banking customers, but is targeted at non-HSBC customers and allows us to drive growth beyond our traditional customer footprint.

Underpinning all of this is our work to build a stronger performance culture, improve colleague experience and prepare our workforce for the future. This is important because achieving our ambitions depends on our 220,000 colleagues feeling motivated and believing in our strategy. In our most recent staff survey, I was pleased that the number of colleagues seeing the positive impact of our strategy in 2023 was up 11 percentage points on 2020, which is also above the financial services sector benchmark.

Finally, helping to finance the substantial investment needs of our customers in the transition to net zero is a growing commercial opportunity, as well as a necessity to mitigate rising financial and wider societal risks. Our first net zero transition plan shows how we intend to finance and support the transition to net zero and collaborate globally to help enable change at scale. It also sets out our roadmap for implementing net zero, which we will do by supporting our customers, embedding net zero into the way we operate and partnering for systemic change. We understand that our approach – including our own transition plan – will need to evolve over time to keep pace with both the evolving science and real economy decarbonisation across the sectors and geographies we serve.

Thank you

On a personal note, one of the most enjoyable parts of 2023 for me was spending time with many of my colleagues around the world. Reconnecting with them, and seeing first-hand their passion for serving our customers, pride in HSBC and ambitions for the future, was energising and inspiring. Leading HSBC is a privilege, and my colleagues are the main reason why.

2023 was a very good year for HSBC. We now have an opportunity to ensure that it becomes part of a longer-term trend of ongoing good performance and to secure the foundations for future success. I am confident that we have the opportunities, the platform and the team to enable us to get it done.

Noel Quinn

Group Chief Executive

21 February 2024

Our strategy

We are implementing our strategy across the four strategic pillars aligned to our purpose, values and ambition.

Our strategy remains anchored around our four strategic pillars: 'Focus', 'Digitise', 'Energise' and 'Transition'.

We delivered a good set of results in 2023 supported by the interest rate environment and the execution of our strategy.

Our reported profit before tax was \$30.3bn and we achieved a reported return on tangible equity of 14.6%, or 15.6% excluding the impact of strategic transactions and the impairment of our investment in BoCom. In our global businesses, WPB revenue increased by 31% on a constant currency basis, including a

favourable year-on-year impact relating to the sale of our retail banking business in France. In CMB, revenue increased by 40% on a constant currency basis, including a provisional gain on the acquisition of SVB UK. In addition, revenue in GBM increased by 10% on a constant currency basis.

Focus

Wholesale – double down on leadership in international connectivity

Our strength in international connectivity remains one of our key differentiators. We seek to partner with our clients as they expand internationally, and capitalise on opportunities arising from the reconfiguration of global supply chains.

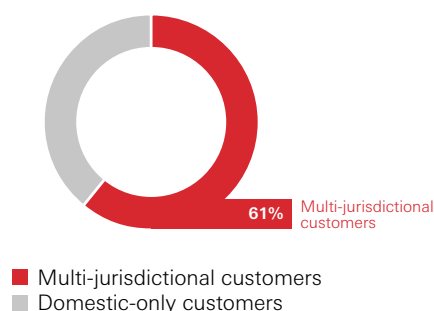
In 2023, we grew wholesale multi-jurisdictional client revenue¹ by 29% since 2022, supported by the interest rate environment. These customers also generate more revenue with us. In CMB, multi-jurisdictional corporate clients generate approximately five times the revenue of a domestic-only corporate customer. In addition, there was increased collaboration across markets. In GBM, cross-border client revenue from clients managed in the West and booked in the East increased by 39% from 2022.

Our ambition is to maintain strong, resilient returns through the interest rate cycle. As such, we are prioritising growing capital-light, fee-income generating businesses, such as transaction banking. In 2023, we processed around \$500tn electronic payment transactions, ranking second by Global Payments Solutions revenue in the first half of 2023². We also facilitated over \$850bn in trade and have been ranked first in revenue since 2018².

¹ For further information and the basis of preparation for multi-jurisdictional client revenue, see page 134.

² Global Payments Solutions and trade revenue rankings sourced from Coalition Greenwich.

Percentage of wholesale revenue from multi-jurisdictional customers



WPB – build our international and wealth propositions

We continued to build our international and wealth propositions, taking advantage of the growth of wealth assets globally but especially in Asia. We amassed \$84bn in net new invested assets in 2023, bringing total wealth invested assets to \$1,191bn, an increase of 17% from 2022.

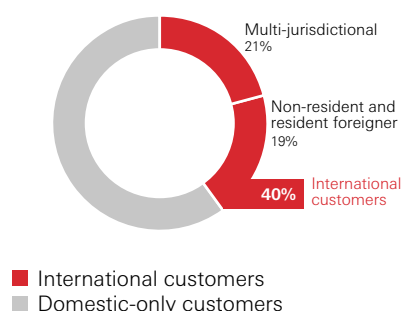
In 2023, our international strategy generated good results. We continued to attract international customers, who are either multi-jurisdictional, non-resident or resident foreigners, from our top 11 markets¹. We increased new-to-bank customers² in this segment by 43% since 2022, bringing total international customers to 6.7 million. These customers also each generated approximately three times the income compared with domestic customers. As a result, we increased revenue in this segment by 41% compared with 2022.

Customers increasingly demand seamless banking across geographies. We continued to enhance Global Money, our mobile proposition that allows customers to spend and send money in multiple currencies. The product gained traction with more than 750,000 new customers in 2023, taking total customers to over 1.3 million.

¹ Top 11 markets include the UK, Hong Kong, Mexico, the US, India, Singapore, Malaysia, the UAE, Australia, mainland China and the Channel Islands and the Isle of Man.

² New-to-bank customers includes both new to bank customers and those customers who have opened an account in a new market, including those who already bank with us in one or more other markets.

Percentage of WPB revenue from international customers



Focus continued

Maintain leadership in scale markets

We continued to take advantage of our strengths, especially our leading positions in our scale markets: Hong Kong and the UK.

Hong Kong

We have a well established business in Hong Kong, with \$544bn in customer deposits and market leadership in a number of product areas¹.

In 2023, profit before tax was \$10.7bn, an increase of 80% on a reported basis. In our wholesale businesses, we focused on maintaining our leading position across multiple products. In trade finance, our market share was 25.7%, an increase of 6.6 percentage points from 2020². We also continued to solidify our leadership position and grow our WPB business through the launch of a new Premier Elite proposition and acquisition of new customers, with new-to-bank WPB customers increasing by 36% from 2020, reaching 634,500 in 2023.

HSBC UK

HSBC UK has a universal franchise with \$340bn in customer deposits. We are a market leader across multiple CMB products, including trade finance and cash management, according to *Euromoney* and Coalition Greenwich. We aim to take advantage of our international network to maintain this position in CMB and grow our international presence in WPB.

Profit before tax was \$8.3bn in 2023, an increase of 84% on a reported basis, including a \$1.6bn provisional gain on the acquisition of SVB UK. We continued to grow our CMB business and achieved a market penetration of more than 70% within the large corporate banking segment in 2023³. In our WPB business, we opened over 1 million new current accounts and continued to grow our mortgage stock market share in the UK, reaching 8.0% in 2023, an increase of 0.6 percentage points since 2020⁴.

634,500

New-to-bank WPB customers in Hong Kong

25.7%

Share of the trade finance market in Hong Kong²

>70%

UK large corporate banking market penetration in 2023³

8.0%

HSBC UK's mortgage stock market share⁴

¹ Including deposits, assets, card spend and insurance. Source: Hong Kong Monetary Authority ('HKMA'), Hong Kong Insurance Authority.

² Source: HKMA, 31 December 2023.

³ Source: Coalition Greenwich Voice of Client – 2023 European Large Corporate Cash Management Study.

⁴ Source: Bank of England.

Diversify our revenue

In addition to Hong Kong and the UK, five markets in particular represent growth opportunities for us. We aim to be the leader within the affluent and international customer segments in mainland China, India, Singapore and the UAE, and we are a market leader within retail banking in Mexico. These markets delivered strong results in 2023, with mainland China excluding BoCom, India and Singapore each delivering over \$1bn in profit before tax. The UAE and Mexico each delivered profit before tax of over \$0.8bn.

Mainland China

We have a strong client franchise in mainland China capitalising on our role as a bridge to support clients' international needs. We were ranked number one in foreign exchange by *FX Markets Asia* in 2023. We entered into an agreement to acquire Citi's retail wealth management portfolio, and supported by our expanded onshore Global Private Banking and our Pinnacle proposition, we grew our wealth invested assets by 53% compared with 2022.

India

We aim to continue growing our wholesale franchise by taking advantage of corporate supply chains. In 2023, we were ranked number one by *Euromoney* in cash management in India. We are also tapping into the wealth pools of the Indian diaspora with the launch of onshore Global Private Banking. In 2023, we were the top foreign bank for non-resident Indians in wealth¹.

Singapore

Our ambition is to be the primary wholesale offshore booking centre and wealth hub within the ASEAN region. In 2023, we were recognised by *AsiaMoney* as the Best International Bank in Singapore. Additionally, we grew our retail franchise, with a 76% increase in new-to-bank WPB international customers compared with 2022, supported by the launch of our new customer onboarding journey.

UAE

We are growing our institutional and international wholesale business from a strong foundation. In 2023, we were ranked number one in equity and debt capital markets in MENAT². Within wealth, following the launch of onshore Global Private Banking, we grew our wealth invested assets by 35% from 2022. We also grew international new-to-bank customers by 51% since 2022.

Mexico

Within our wholesale businesses, we continue to capitalise on trade flows between Mexico and North America. In 2023, we were ranked number one by *Euromoney* within trade finance in Mexico. In our wealth and retail businesses, we remain focused on delivering improved customer experience and growing our Global Private Banking business. In addition, over half of WPB client accounts in 2023 were referred by the wholesale businesses through our Employee Banking Solutions proposition.

1st

Foreign exchange ranking in mainland China
Source: *FX Markets Asia*

1st

Cash management ranking in India
Source: *Euromoney*

76%

Increase in new-to-bank WPB international customers in Singapore compared with 2022

35%

Increase in wealth invested assets in the UAE compared with 2022

51%

WPB client acquisition from wholesale referrals in Mexico

¹ Source: Indian Mutual Fund Industry

The secret transportation is a "bike".

Our strategy

Focus continued

Maintain cost discipline and reshape our portfolio

In 2023, our costs were up by 6% on a target basis. Our aim is to maintain cost discipline by driving efficiencies in our operations and reinvesting cost savings in areas that will drive future growth. We are prioritising investments in transaction banking, wealth and international propositions, and product innovation. At the same time, we continue to reshape our portfolio through exits and bolt-on acquisitions.

We completed our exit from our retail banking operations in France, our WPB business in New Zealand, and our businesses in Greece and Oman. Further exits from Canada, Russia and Armenia are underway as well as in our retail banking business in Mauritius.

These exits will pave the way for investments in growth and efficiency areas such as HSBC

Innovation Banking, which was launched after the acquisition of SVB UK. We also entered into an agreement to acquire Citi's retail wealth management portfolio in mainland China in August 2023, and completed our purchase of SilkRoad Property Partners, a real estate fund manager in January 2024, which will be integrated into our asset management business.

Digitise

Improve customer experience and efficiency while investing in innovation

In 2023, we made progress on our goal to become a digital-first bank, and our customers have been increasingly adopting our digital services. In CMB, 83% of customers were digitally active, an increase of 5 percentage points since 2022. Our net promoter score for onboarding wholesale international clients in the last quarter of 2023 improved by 12 points when compared with the first three months of the year. At 54%, more than half of WPB customers were mobile active, an increase of 6 percentage points from 2022. Furthermore, a total of 75% of WPB's international customer accounts were opened digitally in 2023, an increase of 30 percentage points from 2022.

We are also focused on building future-ready business models by investing in open-market propositions. In 2023, we announced a partnership with Tradeshift to launch a new embedded finance solution in the first half of 2024, which will provide payment and financial services embedded into trade, e-commerce and marketplace experiences. In January 2024, in the UK we launched Zing, a mobile platform enabling cross-border payments available to non-HSBC consumers.

We are also investing in innovative technologies for the future. In 2024, we plan to both concentrate our efforts and increase our

investment in artificial intelligence ('AI'). At present, we employ AI in areas such as fraud detection and transaction monitoring. We also launched AI Markets, a digital service that utilises natural language processing to enrich the way investors interact with global markets. Additionally, we are in the process of piloting numerous generative AI use cases in areas like developer augmentation, creative content generation and knowledge management, and have identified hundreds more potential opportunities.

Energise

Inspire a dynamic culture

We are opening up a world of opportunity for our colleagues by building an inclusive organisation that empowers and energises them. We intend to accomplish this by building a stronger performance culture, improving colleague experience and preparing a workforce for the future.

Our success is underpinned by our colleagues. In a changing world, we empower our colleagues by providing clarity of our strategy and opportunities for them to develop and have

fulfilling careers. Our 2023 employee Snapshot survey showed that 73% of our colleagues see the positive impact of our strategy, a 3 percentage point increase from 2022, and a 11 percentage point improvement from 2020. The survey also showed that 81% of our colleagues feel confident about HSBC's future, a 4 percentage point increase from 2022, and also a 11 percentage point improvement over 2020.

We remain focused on creating a diverse and inclusive environment. In 2023, 34.1% of senior

leadership roles were held by women, and we are on track to achieve our ambition of 35% by 2025. We also set a Group-wide ethnicity strategy to better represent the communities we serve, with 3.0% of leadership roles in the UK and US held by colleagues of Black heritage in 2023, against our ambition of 3.4% by 2025. Additionally, in 2023, over 37.8% of our senior leaders have identified as being from an Asian heritage background.

I In the following 'ESG overview' section, we outline how we put our purpose and values into practice.

Transition

Support the transition to net zero

In 2020, we set out our ambition to become a net zero bank by 2050. Since then, we have taken a number of steps to execute on our ambition and manage climate risks. In January 2024, we published our first net zero transition plan, which provides an overview of the progress we have made to date and the actions being taken and planned to embed our net zero ambition across HSBC. It sets out how we intend to harness our strengths and capabilities in the areas where we believe we can support large-scale emissions reduction: transitioning industry, catalysing the new economy, and decarbonising trade and supply chains.

To support our customers through the transition to net zero and to a sustainable future, in 2020, we set out an ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investments by 2030. In 2023, we provided and facilitated \$83.7bn of sustainable finance and investments, bringing our cumulative total since January 2020 to \$294.4bn.

As part of our ambition to align our financed emissions to achieve net zero by 2050, we have set on-balance sheet or combined financed emissions targets for a number of emission-intensive sectors.

Work continues on the integration of ESG and climate analysis into HSBC Asset

Management's actively managed product offerings to help ensure the ESG risks faced by companies are considered when making investment decisions and to assess ESG risks and opportunities that could impact investment performance.

We also made progress in our ambition to become net zero in our own operations and supply chain by 2030. In 2023, we reduced our absolute greenhouse gas emissions in our operations to 293,333 tonnes CO₂e, which represents a 57.3% reduction from our 2019 baseline.

I For further details on our climate ambition, see the following 'ESG overview' section.

ESG overview

We are taking steps to incorporate environmental, social and governance principles throughout the organisation, supporting the success of our customers, people and other stakeholders.

Our approach

We are guided by our purpose: to open up a world of opportunity for our customers, colleagues and communities. Our purpose is underpinned by our values: we value difference; we succeed together; we take responsibility; and we get it done.

Our approach to ESG is shaped by our purpose and values and a desire to create sustainable long-term value for our stakeholders. As an international bank with significant breadth and scale, we understand that our economies, societies, supply chains and people's lives are interconnected. We recognise we can play an important role in helping to tackle ESG challenges. We focus our efforts on three areas: the transition to net zero, building inclusion and resilience, and acting responsibly.

Transition to net zero

In 2020, we set an ambition to become a net zero bank by 2050. Since then, we have made progress in support of this ambition – including providing and facilitating sustainable finance and investment for our customers, updating several of our sustainability and investment risk policies, and setting 2030 targets for financed emissions in a range of high-emitting sectors.

We recognise both the commercial opportunity of taking action to transition to net zero and the potential risks of inaction by society at large. In our net zero transition plan, we provide an overview of the actions we are taking and plan to take to support our customers, embed net zero into the way we operate and partner for systemic change. We also set out how we are starting to work to integrate nature and just transition considerations into our net zero approach.

We set out in more detail the steps we are taking on our climate ambitions in the ESG review on page 41.

Build inclusion and resilience

To help create long-term value for all stakeholders, we focus on fostering inclusion and building resilience for our colleagues, our customers and the communities we operate within.

For colleagues, we focus on creating an inclusive, healthy and rewarding environment as this helps us to attract, develop and retain the best talent, and we support their resilience through well-being and learning resources. We continue to make progress towards our goals for gender and ethnic diversity.

We strive to provide an inclusive and accessible banking experience for our customers. We do this by providing resources that help them manage their finances, and services that help them protect what they value.

We are developing an updated global philanthropy strategy that aligns with our ESG areas of focus: 'transition to net zero' and 'building inclusion and resilience'.

Act responsibly

We are focused on operating a strong and sustainable business that puts the customer first, values good governance, and gives our stakeholders confidence in how we do what we do. Our conduct approach guides us to do the right thing and to focus on the impact we have on our customers and the financial markets in which we operate. Customer experience is at the heart of how we operate. We aim to act responsibly and with integrity across the value chain.

On page 15, we have set out ways that we have supported our stakeholders through a challenging year.

ESG disclosure map and directory

Transition to net zero	Our approach to the transition	Read more on our approach to the transition to net zero	▶ Page 45
	Supporting our customers	Read more on our progress made against our \$750bn to \$1tn sustainable finance and investment ambition	▶ Page 49
		Read more on our progress made against our ambition to achieve net zero in our financed emissions by 2050	▶ Page 53
	Embedding net zero into the way we operate	Read more on our ambition to achieve net zero in our own operations and supply chain by 2030	▶ Page 63
	Partnering for systemic change	Read more on how we partner externally in support of systemic change	▶ Page 68
	Detailed Task Force on Climate-related Financial Disclosures ('TCFD')	We make disclosures consistent with Task Force on Climate-related Financial Disclosures ('TCFD') recommendations, highlighted with the symbol: TCFD	▶ Page 69
Build inclusion and resilience	Diversity and inclusion disclosures	Read more on how we are building an inclusive environment that reflects our customers and communities, and our latest pay gap statistics	▶ Page 76
	Pay gap disclosures		▶ Page 77
Act responsibly	How we govern ESG	Read more on our approach to ESG governance and human rights	▶ Page 88
	Human rights and modern slavery disclosures		▶ Page 89
	How our ESG targets link to executive remuneration	Read more on our ESG targets embedded in executive remuneration	▶ Page 16 ▶ Pages 284 to 298
ESG Data Pack	Detailed ESG information	Our <i>ESG Data Pack</i> provides more granular ESG information, including the breakdown of our sustainable finance and investment progress, and complaints volumes	www.hsbc.com/esg

Engaging with our stakeholders and our material ESG topics

We know that engaging with our stakeholders is core to being a responsible business. To determine material topics that our stakeholders are interested in, we conduct a number of activities throughout the year,

including engagements outlined in the table below. Disclosure standards such as the TCFD, World Economic Forum ('WEF') Stakeholder Capitalism Metrics and Sustainability Accounting Standards Board ('SASB'), as well

as the ESG Guide under the Hong Kong Stock Exchange Listing Rules and other applicable rules and regulations, are considered as part of the identification of material issues and disclosures.

Our stakeholders	How we engage	Material topics highlighted by the engagement ¹
Customers 	Our customers' voices are heard through our interactions with them, surveys and by listening to their complaints.	– Customer advocacy – Cybersecurity – Employee training – Diversity and inclusion – Employee engagement – Supporting our customers – financed emissions – Embedding net zero into the way we operate – Sustainability risk policies, including thermal coal phase-out policy and energy policy – Net zero transition plan – Financial inclusion and community investment – Climate risk – Anti-bribery and corruption – Conduct and product responsibility – Supply chain management – Human rights
Employees 	Our colleagues' voices are heard through our annual Snapshot survey, Exchange meetings, global jams, townhalls, leadership summits, and our 'speak-up' channels, including our global whistleblowing platform, HSBC Confidential.	
Investors 	We engage with our shareholders through our AGMs, virtual and in-person meetings, investor roadshows, conferences and our annual investor survey.	
Communities 	We engage with non-governmental organisations ('NGOs'), charities and other civil society groups through forums, summits and roundtables supporting ESG causes such as COP28. We engage directly on specific issues by taking part in working groups.	
Regulators and governments 	We proactively engage with regulators and governments to build strong relationships through virtual and in-person meetings and by responding to consultations individually and jointly via industry bodies.	
Suppliers 	Our code of conduct sets out our ambitions, targets and commitments on the environment, diversity and human rights, and outlines the minimum standards we expect of our suppliers. We engage with key suppliers in real estate, technology and other sectors through meetings.	

¹ These form part of our ESG disclosures suite together with other requirements, and are not exhaustive or exclusive to one stakeholder group. For further details of our disclosures, see our ESG review and ESG Data Pack, as well as our ESG reporting centre at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Supporting our customers in challenging economic times

We know that many of our customers continue to face difficult financial circumstances due to cost of living pressures, and we are working to support them. As the rising cost of living has been particularly high in the UK, one of our largest markets, most of our initiatives focused on supporting our UK personal and business customers. We have enhanced our range of digital resources available on our website and we are proactively approaching those most in need – both personal and business customers – to offer targeted support and help build their financial resilience.

Proactive support

For personal customers in financial difficulty, we have developed our digital services with improvements to the 'Rising cost of living' hub on our public website in the UK. Use of segmentation data has enabled us to take a proactive approach to supporting customers and offering targeted solutions to those who are identified as being most in need.

We have engaged with vulnerable customer groups through cost of living calls, targeted emails and direct mail. In 2023, we also:

- offered customers the option to switch mortgage rates early, extend their mortgage term with an option to reverse it at a later date, or pay interest only for six months, as part of our commitment to the new UK Mortgage Charter;
- offered a temporary reduction of fees on arranged overdrafts to help those most in need pay less;
- held over 1,000 financial well-being webinars, including 227 cost of living sessions for 50,000 customers and colleagues;
- helped more than 37,000 customers identify £2.9m in potential benefits by providing access to a benefits calculator tool via our website; and
- helped more than 130,000 customers generate a financial fitness score, and obtain tips on how to improve their financial resilience using our online financial fitness tool.

In the UK, CMB has continued to support commercial banking clients exhibiting signs of financial vulnerability. We reviewed client needs on a case-by-case basis and provided solutions including repayment holidays, extending loan repayments and offering extensions to collection periods. The use of data and front-line insights has improved our ability to identify financially vulnerable customers.

In 2023, we contacted targeted clients to help improve awareness of the support available, including communicating with over 178,000 SMEs and proactively making over 43,000 outbound calls.

Increasing understanding of fraud and scam risk and education on how to protect against becoming a victim continues to be another key area of focus. In 2023, we also:

- held fraud and scam awareness webinars to highlight recent trends and case studies, attended by approximately 4,300 customers;
- sent 2.1 million emails and 300,000 letters in quarterly campaigns to share our insights and enhance understanding of key fraud topics and trends; and
- published 44 articles and alerts on the HSBC Fraud and Cyber Awareness mobile app, covering a broad range of topics as well as any emerging threats and trends.

▶ For further details of our work to support vulnerable communities and customers see page 85.

▶ For further details on our conduct and product responsibilities, see the ESG review on page 96.

Our ESG ambitions, metrics and targets TCFD

We have established ambitions and targets that guide how we do business, including how we operate and how we serve our customers. These include targets designed to help track our progress against our environmental and social sustainability goals. They also help us to improve employee advocacy and the diversity of senior leadership, as well as strengthen our market conduct. The targets for these measures

are linked to the pillars of our ESG strategy: transition to net zero, building inclusion and resilience, and acting responsibly.

To help us achieve our ESG ambitions, a number of measures are included in the annual incentive and long-term incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives that underpin the ESG metrics in the table below.

For a summary of how all financial and non-financial metrics link to executive remuneration, see pages 284 to 298 of the Directors' remuneration report.

The table below sets out some of our key ESG metrics that we use to measure our progress against our ambitions. For further details of how we are doing, see the ESG review on page 41.

Environmental:

Transition to net zero¹

Sustainable finance and investment²

\$294.4bn

Cumulative total provided and facilitated since January 2020. (2022: \$210.7bn)

Ambition: Provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030.

Net zero in our own operations³

57.3%

Reduction in absolute operational greenhouse gas emissions from 2019 baseline. (2022: 58.5%)

Ambition: To be net zero in our own operations and supply chain by 2030.

Financed emissions⁴

7 sectors

Number of sectors where we have set financed emissions targets, comprising five on-balance sheet and two combined financed emissions targets.

Ambition: Align our financed emissions to achieve net zero by 2050.

Social:

Build inclusion and resilience

Gender diversity⁵

34.1%

Senior leadership roles held by women. (2022: 33.3%)

Ambition: Achieve 35% senior leadership roles held by women by 2025.

Black heritage⁵

3.0%

Senior leadership roles held by Black heritage colleagues in the UK and US combined (2022: 2.5%)

Ambition: 3.4% of senior leadership roles held by Black heritage colleagues in the UK and US combined by 2025.

Employee engagement⁶

77%

Employee engagement score. (2022: 74%)

Ambition: Maintain 72% in the employee Snapshot engagement index.

Governance:

Acting responsibly

Conduct training⁷

98%

Employees who completed conduct training in 2023. (2022: 98%)

Target: At least 98% of employees complete conduct and financial crime training each year.

Customer satisfaction⁸

3 out of 6

WPB markets that sustained top-three rank and/or improved in customer satisfaction. (2022: 4 out of 6)

Target: To be ranked top three and/or improve customer satisfaction rank.

5 out of 6

CMB markets that sustained top-three rank and/or improved in customer satisfaction. (2022: 5 out of 6)

Target: To be ranked top three and/or improve customer satisfaction rank

¹ For further details of our approach to transition to net zero, methodology and PwC's limited assurance reports on financed emissions, sustainable finance and investment progress, and our own operations' scope 1, 2 and 3 (business travel and supply chain) greenhouse gas emissions data, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

² In October 2020, we announced our ambition to provide and facilitate between \$750bn to \$1tn of sustainable finance and investment by 2030. For further details and breakdown, see the ESG review on page 49. For details of how this target links with the scorecards, see page 284.

³ This absolute greenhouse gas emission figure covers scope 1, scope 2 and scope 3 business travel emissions. For further details of how this target links with the scorecards, see page 284.

⁴ See page 53 for further details of our targets, which include combined on-balance sheet financed emissions and facilitated emission targets for two emissions-intensive sectors: oil and gas, and power and utilities. The remaining five sectors for which we have set on-balance sheet financed emissions targets are: cement; iron, steel and aluminium; aviation; automotive; and thermal coal mining.

⁵ Senior leadership is classified as those at band 3 and above in our global career band structure. For further details, see the ESG review on page 77. For details of how this target links with the scorecards, see page 284. Colleagues in Canada are excluded from this disclosure to align with scorecards.

⁶ For further details, see the ESG review on page 79. For details of how this target links with the scorecards, see page 284.

⁷ The completion rate shown relates to the 'Fighting financial crime' training module in 2023 and covers permanent and non-permanent employees. The latest global conduct training 'Conduct matters and taking responsibility – 2023' was launched in December 2023 and will run through the first quarter.

⁸ The markets where we report rank positions for WPB and CMB – the UK, Hong Kong, mainland China, India, Mexico and Singapore – are in line with the annual executive scorecards. Our WPB NPS ranking in mainland China is based on 2022 results. Due to data integrity challenges, we are unable to produce a 2023 ranking. For further details of customer satisfaction, see the ESG review on page 91. For further details of how this target links with the scorecards, see page 284.

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

The Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') recommendations set an important framework for understanding and analysing climate-related risks, and we are committed to regular and transparent reporting to help communicate and track our progress. We will advocate the same from our customers, suppliers and the industry.

We have set out our key climate-related financial disclosures throughout the *Annual Report and Accounts 2023* and related disclosures. We recognise that further work lies ahead as we continue to develop our management and reporting capabilities. In 2023, we made certain enhancements to our disclosures. These include enhancing our merger and acquisition process to consider potential climate and sustainability-related targets, net zero transition plans and climate strategy, and how this relates to HSBC. In addition, we published our net zero transition plan.

We have considered our 'comply or explain' obligation under both the UK's Financial Conduct Authority's Listing Rules and Sections 414CA and 414CB of the UK Companies Act 2006, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, including its annexes and supplemental guidance, save for certain items, which we summarise below.

- For financed emissions we do not plan to set 2025 targets. We set targets in line with the Net-Zero Banking Alliance ('NZBA') guidelines by setting 2030 targets. While the NZBA defines 2030 as intermediate, we use different time horizons for climate risk management. For climate, we define short term as time periods up to 2025; medium term is between 2026 and 2035; and long term is between 2036 and 2050. These time periods align to the Climate Action 100+ disclosure framework. In 2023, we disclosed interim 2030 targets for financed emissions for a number of sectors as we outline on page 18. Following this, we have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities.
- The methodology and data used for financed emissions is evolving and we expect industry guidance, market practice, data availability, scenarios and regulatory disclosure requirements to continue to change, along with the shape of our own business. We expect to periodically review and, if required, update our methodologies, baselines, scenarios, and targets to reflect real economy decarbonisation and evolving guidance and data.
- We do not fully disclose impacts from climate-related opportunities on financial planning and performance including on revenue, costs and the balance sheet, quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. We expect these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.
- We currently disclose four out of 15 categories of scope 3 greenhouse gas emissions including business travel, supply chain and financed emissions. In relation to financed emissions, we publish on-balance sheet financed emissions for a number of sectors as detailed on page 18. We also publish facilitated emissions for the oil and gas, and power and utilities sectors. Future disclosures on financed emissions and related risks are reliant on our customers publicly disclosing their greenhouse gas emissions, targets and plans, and related risks. We recognise the need to provide early transparency on climate disclosures but balance this with the recognition that existing data and reporting processes require significant enhancements.

■ For a full summary of our TCFD disclosures, including detailed disclosure locations for additional information, see pages 69 to 74. The additional information section on page 440 provides further detail.



Backing renewable connections in South America

We helped to finance one of the largest transmission lines in South America, which will connect central and southern Chile to renewable energy generated in the north.

Conexión is building the Kimal-Lo Aguirre initiative after winning a tender from Chile's Minister of Energy in 2022. The project will aim to develop approximately 1,400km of critical infrastructure with the ability to carry up to 3,000 million watts of energy when scheduled to complete in 2029.

We provided a \$160m equity bridge loan to support China Southern Power Grid's contribution to the project. China Southern Power Grid is the second largest electric power company in China. The funds will help unlock energy transition infrastructure required to support Chile in achieving its net zero goals.

How we measure our net zero progress TCFD

We are helping the transition to a net zero economy by transforming ourselves, and supporting our customers to make their own transitions. Our ambition is to align our financed emissions to net zero by 2050 or sooner.

Our net zero transition plan sets out how we intend to harness our strengths and capabilities in areas where we believe we can support large-scale emissions reduction: transitioning industry, catalysing the new economy, and decarbonising trade and supply chains. The plan also provides details on our sectoral approach, and on our implementation plan to embed net zero into the way we operate.

We continue to track our progress against our ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030, aligned to our published data dictionary, and our ambition to achieve net zero in our own operations and supply chain by 2030. We also recognise that green and sustainable finance and investment taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our sustainable finance reporting going forward.

To date, we have set 2030 financed emissions targets across energy, heavy industry and

transport, specifically for the following sectors: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; automotive; and thermal coal mining.

Following a reduction in our exposure to the shipping sector after the strategic sale of part of our European shipping portfolio in 2023, and work undertaken to assess the materiality of our remaining portfolio from a financed emissions perspective, we have concluded that the remaining exposure as of year-end 2023 is not material enough to warrant setting a stand-alone target. This aligns with NZBA guidelines on sector inclusion for target setting. Due to ongoing data availability and quality challenges, we continue to assess our financed emissions for our real estate and agriculture sectors.

We recognise that there is a significant amount of uncertainty and complexity related to the transition, and that progress in the real economy will depend heavily on external factors including the policy and regulatory landscape across markets, the speed of technological innovation and growth, and economic and geopolitical events. In addition, climate science and the availability and quality of climate data continue to evolve, and the net zero-aligned scenarios upon which we have based our approach will also update

over time to keep pace with real economy developments. Emissions and broader customer data is also expected to improve, as well as approaches and standards for greenhouse gas accounting and target setting. As a result of this, we expect to regularly refine and update our analysis as well as data collection and consolidation processes to accommodate new data sources and updated methodologies and scenarios, and intend to be transparent on any changes we make and why. As an example, our ESG review includes recalculated 2019 and 2020 financed emissions figures for the oil and gas, and power and utilities sectors. In addition, periodic updates to published net zero-aligned scenarios mean that it will be important that our net zero-aligned reference scenario choice, and by extension our target-setting approach, remain in step with the evolving real economy context and is informed by the latest science.

In the following table, we set out our metrics and indicators and assess our progress against them.

 For further details of our approach to measuring financed emissions, including scope, methodology, assumptions and limitations, see page 53.

Net zero implementation plan	Metrics and indicators	Progress to date
Supporting our customers	Sustainable finance and investment provided and facilitated (\$bn) ¹	\$294.4bn cumulative progress since 2020 (for further breakdown see page 49)
	Number of sectors analysed for financed emissions ²	We have set seven financed emissions targets, comprising five on-balance sheet and two combined financed emissions targets so far (see pages 53 to 62)
	Thermal coal financing exposures ^{2,3}	Our thermal coal financing drawn balance exposure was approximately \$1bn as at 31 December 2020 (for further details, see page 67)
Embedding net zero into the way we operate	Percentage of absolute operational greenhouse gas emissions reduced ⁴	57.3% reduction in absolute greenhouse gas emissions from 2019 baseline (see page 63)
	Percentage of renewable electricity sourced across our operations	Increase from 48.3% in 2022 to 58.4% (see page 63)
	Percentage of energy consumption reduced	26.3% reduction in energy consumption from 2019 baseline (see page 63)
Partnering for systemic change	Philanthropic investment in climate innovation ventures, renewable energy, and nature-based solutions	Committed \$105m to our NGO partners since 2020, as part of the Climate Solutions Partnership (see page 68)

¹ The detailed definitions of the contributing activities for sustainable finance and investment are available in our revised Sustainable Finance and Investment Data Dictionary 2023. For this, together with our ESG Data Pack and PwC's limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

² For further details of our financed emissions methodology, exclusions and limitations, see our *Financed Emissions and Thermal Coal Exposures Methodology* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

³ Data is subject to independent limited assurance by PwC in accordance with ISAE 3000/ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and PwC's limited assurance report at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

⁴ Our reported scope 3 greenhouse gas emissions of our own operations in 2023 are related to business travel. For further details on scope 1, 2 and 3, and our progress on greenhouse gas emissions and renewable energy targets, see page 64 and our ESG Data Pack at www.hsbc.com/esg. For further details of our methodology and PwC's limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Responsible business culture

We have a responsibility to help protect our customers, our communities and the integrity of the financial system.

Employee matters

We are building a responsible business culture that values difference, takes responsibility, seeks different perspectives and upholds good standards of conduct.

There may be times when our colleagues need to speak up about behaviours in the workplace. In the first instance we encourage colleagues to speak to their line manager, and our annual Snapshot survey showed that 86% of colleagues have trust in their direct manager. HSBC Confidential is our whistleblowing channel, which allows colleagues past and present to raise concerns confidentially and, if preferred, anonymously (subject to local laws). Our Snapshot survey showed that 80% of colleagues feel able to speak up when they see behaviours they consider to be wrong.

We promote an environment where our colleagues are treated with dignity and respect and we act where we find behaviours that fall short. Our inclusion index measures our colleagues' sense of belonging and psychological safety within the organisation, and in 2023 this increased to 78%.

We aspire to be an organisation that is representative of the communities in which we serve. We have committed to achieving a 35% representation of women in senior leadership roles (classified as those at band 3 and above in our global career band structure) by 2025. We remain on track, having achieved 34.1% in 2023.

We aspire to achieve a 3.4% representation of Black heritage colleagues in senior leadership roles across the UK and US combined by 2025. We are on track to achieve this, having increased our representation to 3.0% this year. We continue to make progress but we know there is more to be done.

To ensure we set representation goals that are locally relevant, we enable our employees to self-disclose ethnicity data. We have enabled

91% of our colleagues to disclose their ethnicity, with 62% currently choosing to do so, where this is legally permissible.

The table below outlines high-level diversity metrics.

All employees

Male	48%
Female	52%

Senior leadership¹

Male	66%
Female	34%

Holdings Board

Male	53%
Female	47%

¹ Senior leadership is classified as those at band 3 and above in our global career band structure.

► For further details of how we look after our people, including our diversity targets, how we encourage our employees to speak up, and our approach to employee conduct, see the Social section of the ESG review on page 75.

Listening to our customers

We continue to listen, learn and act on our customers' feedback. We have implemented the net promoter system, enabling us to share customer feedback with our front-line teams and allowing them to respond directly to customers. We also have dedicated global forums to promote continuous improvement of our customers' experience.

Social matters

We invest in the long-term prosperity of the communities where we operate. We aim to provide people, especially those in marginalised and vulnerable communities, with the skills and knowledge needed to thrive through the transition to a sustainable future. For this reason, we focus our support on programmes that help build inclusion and resilience. We also support climate solutions and innovation, and contribute to disaster

relief when needed. For examples of our programmes, see the 'Communities' section of the ESG review on page 86.

Human rights

As set out in our Human Rights Statement, we recognise the role of business in respecting human rights. Our approach is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. Our Human Rights Statement, and annual statements under the UK's Modern Slavery Act, are available on www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre. For further details of our approach, see the 'Human rights' section of the ESG review on page 89.

"The secret drink is a "smoothie".

Anti-corruption and anti-bribery

We are required to comply with all applicable anti-bribery and corruption laws in every market and jurisdiction in which we operate while focusing on the spirit of relevant laws and regulations to demonstrate our commitment to ethical behaviours and conduct as part of our environmental, social and corporate governance.

Environmental matters

For details of our climate ambition and carbon emission metrics, see the ESG review on page 44.

Group non-financial and sustainability information statement

This section primarily covers Group non-financial and sustainability information as required by applicable regulations. Other related information can be found as follows:

- For further details of our key performance indicators, see page 1.
- For further details of our business model, see page 4.
- For further details of our principal risks and how they are managed, see pages 37 to 39.
- For further details of our TCFD disclosures, including alignment with sections 414CA and 414CB of the Companies Act 2006, see pages 69 to 74.



Training colleagues and partners on digital accessibility

With 'Digitise' being one of our strategic pillars, we are committed to improving how our customers can access our online and mobile services. We review against the Web Content Accessibility Guidelines for our websites in 23 markets and mobile apps in 18 markets, and engaged with more than 10,000 colleagues, partners and companies through our digital accessibility training and awareness programme in 2023. To share best practice externally, HSBC sponsored and hosted AbilityNet's Techshare Pro at our head office in the UK. Our work on digital accessibility was recognised through 11 awards in 2023, including in Hong Kong, where we were the only financial services provider to be recognised for our core banking apps.

Board decision making and engagement with stakeholders

The Board is committed to effective engagement with all our stakeholders and seeks to understand their interests and the impacts on them when making decisions.

Section 172(1) statement

This section, from pages 20 to 23, forms our section 172(1) statement. It describes how the Directors have performed their duty to promote the success of the company, including how they have considered and engaged with stakeholders and, in particular, how they have taken account of the matters set out in section 172(1)(a) to (f) of the Companies Act 2006. The Board continued to focus on its engagement with

our key stakeholders, acknowledging that this engagement is core to being a responsible business and furthers the fulfilment of our strategy. In discharging their responsibilities, the Directors sought to understand, and have regard to, the interests and priorities of the Group's key stakeholders, including in relation to material decisions that were taken by the Board during the course of the year.

The following table includes instances where the Directors have had regard to section 172(1) factors (which are not mutually exclusive) when discussing certain matters in Board meetings and taking decisions where relevant. Some of these instances are explained in more detail in this section 172(1) statement and in the report of the Directors.

Section 172(1) factor	Where section 172(1) factor featured in Board considerations
a Likely consequences of any decision in the long term	– Group strategy – setting and monitoring – Mergers and acquisitions activity – Share capital activity – dividend and buy-back
b Interests of our employees	– Workforce engagement non-executive Director programme – Directors' workforce engagement activities – Annual employee Snapshot survey
c The need to foster our business relationships with suppliers, customers and others	– Annual statement under the UK Modern Slavery Act and human rights disclosure approvals – Directors' stakeholder engagement activities – Regular Board reports from Directors and executives
d Impact of our operations on the community and the environment	– Directors' engagement with community initiatives – Net zero transition plan – Participation at ESG events such as COP28 and representation at the World Economic Forum
e Our desire to maintain a reputation for high standards of business conduct	– The Financial Conduct Authority's new Consumer Duty obligations – Global mandatory training – Regular engagement with global regulators including presentations by the Prudential Regulation Authority and the Financial Conduct Authority to the Board
f Acting fairly between members of the company	– Annual General Meeting and Hong Kong Informal Shareholders' Meeting – Retail shareholder activities and investor policies' approvals – Directors' engagement with top investors

During 2023, the Board continued with an active stakeholder engagement programme, meeting numerous stakeholders in several international locations. For further details of how we engaged with our stakeholders, see pages 21 and 257.

On pages 22 and 23, we describe how the Board exercises its Directors' section 172(1) duty and takes into account the impact on relevant stakeholders when making principal decisions in order to support and deliver on the Group's strategy.

Directors' key engagements with stakeholders in 2023

Stakeholders	Engagement	Impact and outcomes
 Customers We recognise that the greater our understanding of our customers' needs, the better we can help support them to achieve their financial aims and succeed in our purpose and strategy.	– Engagement events with business customers, including customers of HSBC Innovation Banking, to discuss challenges and opportunities in key markets – Meetings with business customers to discuss plans regarding the transition to net zero – Board reporting on retail customer surveys including net promoter scores – Visits to branches in the UK, Hong Kong and India to better understand customers' changing needs	– The Board's continued engagement with customers and potential customers around the world helps to further the Board's understanding of their purposes and business needs, and how they can be supported to achieve their varied goals. – Meetings with customers help the Board understand how the Group can help customers transition to net zero. – Customer surveys provide insights into how the Group can drive meaningful improvements in customer propositions outcomes. <i>The secret landmark is "Big Ben".</i> the Board see the positive impact of the No Fixed Address and Survivor provisions, and how opportunities are being realised for customers.
 Employees We want to continue to be a positive place to work and build careers, with the success of the Group's strategy dependent upon having motivated people with the expertise and skills required to deliver it.	– Employee events, including leadership forums, webcasts, townhalls, global jams, off-sites and employee Exchanges, as well as events that form part of the workforce engagement non-executive Director programme – Interaction with respective employee resource groups across multiple events in many jurisdictions – Participation in the annual Non-Executive Director Summit in Hong Kong	– Meeting with colleagues across jurisdictions allowed the Board to hear first-hand the employee voice on important issues. – These interactions helped to ensure continued connectivity with the workforce, and inform the Board's decision making around people-specific matters. Employee engagement also helps the Board to put into perspective employee Snapshot survey results. – Meeting with employee directors of Group subsidiaries helped to assure the Board that a consistent approach to governance has been adopted across the Group.
 Investors We seek to understand investor needs and sentiment through ongoing dialogue and a variety of engagements with both retail and institutional investors.	– Numerous meetings with analysts and several investor roadshows to discuss interim and year-end results – Remuneration Committee Chair investor meetings with top investors and proxy advisers – Annual retail investor events such as the AGM in the UK and the Informal Shareholders' Meeting in Hong Kong – Board meeting attendance by one of our largest investors to discuss Group strategic execution and the wider market outlook	– Regular interactions with institutional and retail investors throughout the year helped the Board understand investor sentiment on material matters, such as strategy delivery and transition to net zero, and gauge investors' continued support for the Group.
 Communities We seek to play an important role in supporting the communities in which we operate through our corporate social responsibility and broader engagement activities.	– Meetings with charities and NGOs on topics such as financial education for rural women in India, reintroducing biodiversity and endangered species in Europe and financial inclusion and resilience of people facing homelessness in the UK – Meetings with Shelter to discuss the Group's partnership and to hear about the impact of the Hero Partnership initiative – Forums, summits and roundtables supporting ESG causes, such as the Abu Dhabi Sustainability Week, COP28, New York Climate Week and London Climate Action Week – Meetings with members of the Sustainable Markets Initiative Council to discuss future priorities	– The Directors' participation at a range of community initiatives helped them to understand the effect the Group has on local communities as an employer, sponsor, collaborator and supporter, and helped to break down barriers for certain communities to access our products. – The Board's interaction with, and understanding of, the communities in which the Group operates helped the Board appreciate how the Group can influence meaningful change, including by educating, encouraging broader thinking, helping to shape policy and formulating solutions, creating supportive environments, and helping to achieve net zero ambitions.
 Regulators and governments Maintaining constructive dialogue and relations with the relevant authorities in the markets in which we operate helps support the achievement of our strategic aims.	– Various meetings across our key markets with heads of state, international leaders and government officials including ministers and ambassadors – Regular meetings with, and presentations from, our many regulators, including in the UK and Hong Kong, and elsewhere	– Frequent and varied engagements between the Board and heads of state, international leaders, government officials and regulators provide an opportunity for open dialogue. It is also critical in ensuring that the Board understands and continues to meet its regulatory obligations. – Meeting with international officials allows the Board to communicate the Group's strategy, perspectives and insights while ensuring that Directors remain abreast of political and regulatory developments. It also allows the Board to share perspectives on industry best practices.
 Suppliers We engage with suppliers, which helps us operate our business effectively and execute our strategy.	– Regular reports and updates to the Board from the Group Chief Operating Officer on supplier matters – Meetings with key technology suppliers to discuss the Group's innovation ambitions and how they could further support HSBC's data requirements, including to inform and support its net zero ambitions – Meetings with key suppliers in sectors such as real estate	– Meeting with our suppliers helps the Directors understand our suppliers' challenges and how we can work collaboratively to succeed, including in digitising at scale and achieving our net zero ambitions. – It is key for the Board to understand the Group's supply chain and how suppliers' operations are aligned to our purpose and values. Such reporting and engagement supports the Board when approving the annual statement under the UK Modern Slavery Act.

Principal strategic decisions

The Board operates having regard to the duties of the Directors, including the relevant matters set out in section 172(1)(a)-(f) of the Companies Act 2006. A key focus for the Board is setting, and monitoring execution against, the Group strategy. Principal decisions taken by the Board consider how the decision furthers the Group purpose, and aligns with one or all of the strategic pillars: 'Focus', 'Digitise', 'Energise' and 'Transition'.

The following examples demonstrate how the Board operated having regard to the duties of the Directors. Good governance practices adopted by the Board facilitate its key decision taking. Governance features as an agenda item at all scheduled Board meetings. Papers presented to the Board for consideration are expected to follow a template to help ensure that Directors get the right level of information to take informed decisions in keeping with their duties. The template requests authors to, among others things, describe the extent to which relevant stakeholders are engaged with, or impacted by, the matter under consideration, and whether this has influenced the recommendation to the Board.

Group strategy



As part of the Board's responsibility to set, and monitor execution against, HSBC's strategy, Directors take into consideration the Group's strategies across the global businesses and legal entities. The Board continued to oversee the progression of the Group's divestment of non-core operations while targeting select acquisitions. One such principal decision taken during the year was the acquisition by HSBC UK Bank plc of SVB UK. In considering this opportunity, the Board took into account the views of key stakeholders, including UK regulators and the government. It also considered the potential impact of the acquisition on SVB UK customers, principally that their banking services would be maintained, backed by the strength, safety and security of HSBC. The Board also considered how the acquisition would enhance shareholder value, strengthen our CMB franchise, and further its ability to serve innovation and fast-growing firms in the technology and life sciences sectors, supporting our 'Focus' strategic pillar. Following the acquisition of SVB UK, HSBC Innovation Banking was

launched in June 2023. Senior management embarked on a programme of communication and interactions with customers, employees and investors by way of townhalls and Q&A sessions to help key stakeholders understand the rationale for the transaction and reiterate HSBC's support for its customers.

The Board continued its monitoring and oversight of the impacts flowing from its principal strategic decisions taken in the current and previous years, in particular the sale of the retail banking operations in France and the planned sale of the banking business in Canada. The Board met in order to agree amended terms to complete our France business sale. It was updated regularly, and provided input as appropriate, on actions required to ensure the successful completion of these transactions. It also liaised with relevant stakeholders such as governments, regulators, work councils, employees and customers, as necessary.

In this way, the Board effectively carried out its duties and assured itself that the principal

strategic decisions taken were, and continue to be, most likely to promote the long-term success of the company.

During the course of the year, the Board continued a targeted focus on receiving relevant and succinct management information, including key metrics and data, to help demonstrate progress against strategic areas of interest. The Board considered how it should be informed, in the most transparent way, on the evolution of the Group's strategy from transformation to one focused on growth. The Board has agreed key performance indicators to help keep it informed on relevant areas of strategic progress, all of which are focused on four overarching perspectives: external commitments/key outcomes; key business drivers; sustainable financial performance; and the ability to transform and license to operate. These indicators will also be used to foster a culture of performance and discipline across the organisation and will be factored into executive Directors' scorecards.

Sustainability



The Board is responsible for the oversight of the Group's sustainability and ESG strategy setting and delivery, and monitors progress against execution of our net zero ambitions. Key outcomes are reviewed regularly by the Board. Directors also received training on ESG-related matters as part of their ongoing development.

The Board's understanding of the progress against the Group's ESG strategy was informed by the ESG dashboard. The data provided in this dashboard included key metrics that help the Board to monitor progress against the Group's ESG ambitions, including the transition to net zero, building inclusion and resilience, and acting responsibly. Additional details were provided on metrics relating to the roll-out of the Group's supplier code of conduct, female entrepreneurship and gender diversity in senior roles.

In 2023, the Board gave the Group Executive Committee feedback on the need to better

define core areas of the Group's sustainability execution programme, a Group-wide programme to enable the delivery of our sustainability agenda. The core areas included accountability, governance, capability, investment in infrastructure and data. Governance was enhanced by the establishment of the Sustainability Execution Committee, with responsibility to oversee delivery of the sustainability execution programme. This committee reports to the Group Executive Committee which receives regular updates on progress towards fulfilment of our net zero ambitions. It takes into account key stakeholder considerations and potential impacts on the Group's strategic direction for sustainability, and reports these to the Board, helping Directors take relevant decisions. In addition, three non-executive Directors participated in climate advisory panel meetings with external subject matter experts to discuss sustainability, including the Group's net zero transition plan.

Appreciating the importance of the Group's commitment to publish a net zero transition plan, the Board took the decision to establish a dedicated sub-group with responsibility for overseeing its finalisation, taking into consideration the implications for all our stakeholders and communication of the plan to the market. This sub-group included four non-executive Directors, the Group Chief Executive and the Group Chief Financial Officer, as well as other members of senior management. It took into consideration the short-term consequences on stakeholders, particularly for customers and investors, and balanced these against long-term benefits for the Group, the society in which we live, and the success of the company as a whole for the long term. Recommendations made to the Board by the sub-group, including stakeholder impacts, helped to inform the Board's deliberations, leading to its final approval of the net zero transition plan, published in January 2024.

Board decision making and engagement with stakeholders

Technology



In support of the strategic pillar 'Digitise', the Board continued its oversight of the Group's technology strategy, Vision 27, recognising that technology is an integral part of business success. In overseeing legal entity and global business strategies, the Board acts to promote connectivity of technology strategies across the organisation.

To help assure the Board that the Vision 27 initiatives remained strategically aligned and appropriately resourced, it supported the appointment of a third-party professional services firm to conduct a review. The third party engaged with employees from across

the global businesses and functions to explore how the organisation was executing various technological initiatives.

The third party's review was facilitated by its attendance at the newly formed technology steering committee, overseen by the Board's Technology Governance Working Group. This steering committee comprised senior management including global business representatives to ensure that business views were well represented. The insights gained from the steering committee helped to form its reports to the Technology Governance Working Group, which in turn reports to the

Board. It also attended a Board meeting in person to discuss the independent review. The findings from the report helped deepen the Board's understanding of contributing factors to the success of Vision 27.

As a result of the review and related Board discussions, in order to enhance governance around overseeing the progress of the Group's long-term technology strategy, the Board agreed that a new Board committee will be established in 2024 in place of the Technology Governance Working Group, to be chaired by a non-executive Director.

Financial performance and capital returns



When taking its decision to approve the annual financial resource plan, the Board engaged in active deliberation, taking into account stakeholders' perspectives, including customers, employees and investors, as well as market perception and regulatory expectations. The Board considered the alignment between the Group's medium-term strategic and investment plans with projected performance throughout the annual financial resource plan. In addition, consideration was given to scenario analysis related to the macroeconomic and geopolitical environment to ascertain the risks – and potential mitigating actions – to best protect the Group's financial performance and capital returns.

In 2023, the Board adopted a dividend policy designed to provide sustainable cash

dividends, while retaining the flexibility to invest and grow the business in the future, supplemented by additional shareholder distributions, if appropriate. To this end, in the *Annual Report and Accounts 2022*, the Board approved the Group's announcement regarding its intention to revert to paying quarterly dividends from the first quarter of 2023. Following discussion at the Board, subject to the completion of the sale of the banking business in Canada, the Board agreed its intention to consider the payment of a special dividend of \$0.21 per share as a priority use of the proceeds generated by the completion of the transaction. On 21 February 2023, an interim dividend of \$0.23 per share for the 2022 full-year was announced, followed by interim dividends of \$0.10 each on 2 May 2023, 1 August 2023 and

30 October 2023. In approving the payment of the dividends, the Board took into account the interests of the shareholders and sought to act in the best interests of the members as a whole.

In addition to dividend payments, HSBC undertook share buy-backs of up to \$2bn each commencing on 10 May 2023 and 3 August 2023, and commenced a further buy-back of up to \$3bn on 1 November 2023. In considering the buy-backs, the Board (or the Chairman's Committee with delegated authority from the Board) took into account its stated intention to consider buy-backs subject to appropriate capital levels, the views of its regulators with regard to its regulatory capital requirements and, in particular, the benefit to shareholders, and determined that the buy-backs would promote the success of the company.

People and culture



Each Board meeting starts with a culture moment – a standing agenda item for one of the Board members, on a rotational basis, to share insights into their perceptions on how the Group culture is being lived. These perceptions help the Board to fulfil its responsibility of monitoring the Group's culture. They also serve to shape and frame discussions more generally in Board meetings.

The Board regularly considers updates on people and the workforce, supported by key metrics and culture insights. These updates help the Board understand employee sentiment, including any upward or downward trends, which informs considerations of how the tone from the top is being embedded. Regular reporting to the Board and/or its committees from the Group Chief Human Resources Officer includes metrics on attrition, whistleblowing, escalations, employee understanding of strategy and pay sentiment across our legal entities. This, together with the annual Snapshot survey results, demonstrate

people-related challenges and successes across the Group and legal entities. In these ways the Board broadens its understanding of the interests of our employees, which in turn helps to shape its decisions or add value when asked to approve HR policy and other people-related matters.

The dedicated workforce engagement non-executive Director provides a regular report to Board meetings, which together with the Directors' own participation in arranged employment engagement activities, strengthen the Board's appreciation of what matters to employees, and help to inform decisions related to HR and people matters. An example of people and culture data and engagements assisting Board decision making in 2023 included the discussion held by the Board on a strategic focus around 'the workforce of the future' programme. This programme is looking at the key workforce skills necessary for the future, the role of technology in the workplace and development

of a plan for its implementation. For further details of how we structure engagement between the Board and the workforce, see page 257.

The Board took the decision in 2023 to approve HSBC's new headquarters and to move to the new Panorama St Paul's development. This decision was facilitated by people data gathered from the Snapshot survey and other methods that demonstrated a desire from colleagues to continue to create an agile and technologically fit-for-purpose environment to work and succeed together. The Board took this decision knowing that a new purpose-built office and the continuation of a hybrid working model would enable the Group to continue to attract top talent, and provide them with collaboration spaces to support their success and well-being. The Board concluded the new headquarters would be in the best interests of the company for the long term. For further details of the new head office, see page 99.

Remuneration

The Group’s financial and strategic performance is reflected in remuneration outcomes for colleagues.

Our reward principles and commitments to colleagues

Our goal is to deliver a unique and exceptional experience to colleagues so that we sustain our performance in competitive markets. Our reward principles and commitments centre on rewarding colleagues responsibly, recognising their success and supporting colleagues to grow.

Pay is a critical part of our proposition. We were encouraged by a nine percentage point improvement to 52% in colleagues’ perceptions they are paid fairly because of actions we took through 2022. The Group Remuneration Committee remain very focused on the need to improve this further. For 2024, we are putting more structure in place to improve transparency and clarity about how we make pay decisions.

Rewarding colleagues responsibly

Fixed pay increases for 2024 were determined based on consistent principles to help address wage inflation in the markets where we operate.

As part of the 2023 pay review we introduced fixed pay ranges to help managers make fair and competitive fixed pay decisions and improve clarity for colleagues.

We will award an overall global fixed pay increase of 4.4% in 2024, compared with 5.5% for the previous year, reflecting lower wage inflation in many markets.

The level of increases vary by market, depending on the economic situation and individual roles.

To ensure fixed pay levels provide financial security to colleagues, we established Living Wage benchmarks for every market and have been certified by the Fair Wage Network as a global Living Wage employer for 2024. This is an important commitment we make to our employees and the communities in which we operate to help ensure we pay responsibly and provide financial security.

More than 95% of colleagues have private medical insurance, a retirement plan and life insurance.

Recognising colleagues’ success

The Group Remuneration Committee determined an overall variable pay pool for Group employees of \$3,774m (2022: \$3,359m). This followed a review of our performance against financial and non-financial metrics set out in the Group risk framework.

Individual variable pay outcomes varied significantly depending on role, business area and performance. Our highest performers and those who role-model our values-aligned behaviours received the largest increases in variable pay compared with the previous year.

Variable pay pool (\$m)

2023	3,774
2022	3,359

From 2024, we will introduce a new variable pay structure for over 150,000 junior and middle management colleagues, providing more clarity around the variable pay levels for on-target performance, while retaining flexibility to differentiate outcomes for performance.

Supporting colleagues to grow

Guided by data and colleague feedback, the pillars of our well-being programme are mental, physical, financial and social well-being.

In our 2023 employee Snapshot survey, 83% of employees said their mental health was positive, while all measures of physical well-being (exercise, sleep, nutrition) have improved. For the second year running, HSBC has been ranked top tier for mental health in the global CCLA Corporate Mental Health Benchmark.

For details of how the Group Remuneration Committee sets the pool, see page 279.

Remuneration for our executive Directors

Variable pay for our executive Directors is driven by achievement against performance scorecards set by the Group Remuneration Committee at the start of the year to align pay outcomes with the delivery of our strategy and plan.

The Committee considered carefully the impact of strategic transactions and one-offs on the Group’s financial performance in 2023. Consistent with the approach in prior years, the Committee judged that it was appropriate to assess financial performance for the purpose of the annual scorecard excluding these items, to ensure that out-turns were not impacted by one-offs.

Reflecting on the overall risk management in the year and in respect of the PRA Notice relating to compliance with the UK Financial Services Compensation Scheme and related Depositor Protection rules, the Committee applied a downward adjustment of 7.5% to Noel Quinn’s annual incentive outcome.

The Committee also carefully considered the executive Directors’ pay outcomes in the context of pay decisions made for the wider workforce and determined that these were an appropriate reflection of Group, business and individual performance delivered in 2023.

Details of the current executive Directors’ remuneration policy can be found on pages 257 to 265 of our Annual Report and Accounts 2021.

Executive Directors’ scorecard outcomes (% of maximum opportunity)

2023 annual incentive

Group Chief Executive	70.24%
Group Chief Financial Officer	76.75%

2021–2023 long-term incentive¹

Group Chief Executive	75.00%
-----------------------	--------

¹ The current Group Chief Financial Officer did not participate in the 2021–2023 long-term incentive.

For details of Directors’ pay and performance for 2023, see the Directors’ remuneration report on page 284.

Financial overview

In assessing the Group's financial performance, management uses a range of financial measures that focus on the delivery of sustainable returns for our shareholders and maintaining our financial strength.

Executive summary

Our financial performance demonstrates the execution of our strategy and the strengthened platform for growth, and in 2023 it was favourably impacted by a higher global interest rate environment.

This section sets out our key Group financial targets and the progress we made towards

these in 2023, and – where relevant – our expectations for 2024 and beyond. We also include a more detailed table covering further key financial metrics that we consider insightful for understanding the Group's performance.

The Group financial results that follow provide more detailed insight into the performance

that has driven the outcomes of our financial targets. It covers income statement performance on both a reported and constant currency basis, and the main factors impacting the strength of our balance sheet, capital and liquidity position.

Group financial targets

Return on average tangible equity

14.6%

(2022: 10.0%)

In 2023, RoTE was 14.6%, an increase of 4.6 percentage points from 2022. Excluding the impact of strategic transactions and the impairment of our investment in BoCom, RoTE was 15.6%.

From 2024, we intend to revise the adjustments made to RoTE to exclude all notable items, improving alignment with the treatment of notable items in our other income statement disclosures. On this basis, we continue to target a RoTE in the mid-teens for 2024. If this basis had been adopted for 2023, our RoTE excluding notable items would have been 16.2%.

Our guidance reflects our current outlook for the global macroeconomic environment, including customer and financial markets activity.

Target basis operating expenses

\$31.6bn

(2022: \$29.8bn)

In 2023, the Group targeted cost growth of approximately 3% on a target basis. Our target basis excluded the impact of foreign currency translation differences, notable items and the impact of retranslating the 2022 results of hyperinflationary economies at constant currency, as well as cost growth from our acquisition of SVB UK and related investments internationally.

In 2023, target basis cost growth was 6% compared with 2022. In addition to our targeted growth of 3%, there was an incremental rise of approximately 1%,

primarily due to technology expenditure, which we did not mitigate. We also increased performance-related pay, which resulted in a further rise of around 1%. Costs grew by an additional 1%, primarily due to a charge relating to the FDIC special assessment.

In 2024, we will target growth of approximately 5% compared with 2023, on a target basis (2023: \$31.1bn). This target reflects our current business plan for 2024, and includes an increase in staff compensation, higher technology spend and investment for growth and efficiency, in part mitigated by cost savings from actions taken during 2023.

Our cost target basis for 2024 excludes the direct cost impact of the disposal in France and the planned disposal in Canada from the 2023 baseline. It is measured on a constant currency basis and excludes notable items and the impact of retranslating the prior year results of hyperinflationary economies at constant currency.

Capital and dividend policy CET1 ratio

14.8%

Dividend payout ratio

50%

At 31 December 2023, our CET1 capital ratio was 14.8%, which was higher than our medium-term target range of 14% to 14.5%. We intend to continue to manage the CET1 ratio to within this range.

The total dividend per share in 2023 of \$0.61 resulted in a dividend payout ratio of 50% of earnings per share. For the purposes of computing our dividend payout ratio, we

exclude from earnings per share material notable items and related impacts. See page 131 for our calculation of earnings per share.

We aim to retain our dividend payout ratio of 50% for 2024, excluding material notable items and related impacts. From 2024 this will be disclosed as our 'dividend payout ratio target basis'.

Interest rate management strategy

Our ambition is to maintain strong, resilient returns through the interest rate cycle. As part of our balance sheet structural hedging and risk management strategy we continue to seek opportunities to stabilise future earnings and mitigate downside risk from interest rate movements. During 2023, we took actions to increase the size and duration of our structural hedge. This has the effect of stabilising our future earnings and contributed to a reduction in the sensitivity of banking net interest income

The secret food is "chocolate".

medium-term target range of 14% to 14.5%. We intend to continue to manage the CET1 ratio to within this range.

Banking NII adjusts our NII, primarily for the impact of funding trading and fair value activities reported in interest expense. It represents the Group's banking revenue that is directly impacted by changes in interest rates. To supplement banking NII, we also provide banking NII sensitivity to demonstrate our revenue sensitivity to interest rate movements. Management uses these measures to determine the deployment of our surplus funding, and to help optimise our structural hedging and risk management actions.

Key financial metrics

Reported results	For the year ended		
	2023	2022 ¹	2021
Profit before tax (\$m)	30,348	17,058	18,906
Profit after tax (\$m)	24,559	16,249	14,693
Cost efficiency ratio (%)	48.5	64.6	69.9
Net interest margin (%)	1.66	1.42	1.20
Basic earnings per share (\$)	1.15	0.72	0.62
Diluted earnings per share (\$)	1.14	0.72	0.62
Dividend per ordinary share (in respect of the period) (\$)	0.61	0.32	0.25
Dividend payout ratio (%) ²	50	44	40

Alternative performance measures

Constant currency profit before tax (\$m)	30,348	16,541	17,400
Constant currency cost efficiency ratio (%)	48.5	64.8	70.0
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	0.36	0.36	(0.07)
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers, including held for sale (%)	0.33	0.35	(0.07)
Basic earnings per share excluding material notable items and related impacts (\$)	1.22	N/A	N/A
Return on average ordinary shareholders' equity (%)	13.6	9.0	7.1
Return on average tangible equity (%)	14.6	10.0	8.3
Return on average tangible equity excluding strategic transactions and impairment of BoCom (%)	15.6	11.3	N/A
Target basis operating expenses (\$m)	31,614	29,811	N/A

Balance sheet	At 31 December		
	2023	2022 ¹	2021
Total assets (\$m)	3,038,677	2,949,286	2,957,939
Net loans and advances to customers (\$m)	938,535	923,561	1,045,814
Customer accounts (\$m)	1,611,647	1,570,303	1,710,574
Average interest-earning assets (\$m)	2,161,746	2,143,758	2,209,513
Loans and advances to customers as % of customer accounts (%)	58.2	58.8	61.1
Total shareholders' equity (\$m)	185,329	177,833	198,250
Tangible ordinary shareholders' equity (\$m)	155,710	146,927	158,193
Net asset value per ordinary share at period end (\$)	8.82	8.01	8.76
Tangible net asset value per ordinary share at period end (\$)	8.19	7.44	7.88

Capital, leverage and liquidity

Common equity tier 1 capital ratio (%) ³	14.8	14.2	15.8
Risk-weighted assets (\$m) ^{3,4}	854,114	839,720	838,263
Total capital ratio (%) ^{3,4}	20.0	19.3	21.2
Leverage ratio (%) ^{3,4}	5.6	5.8	5.2
High-quality liquid assets (liquidity value) (\$m) ^{4,5}	647,505	647,046	688,209
Liquidity coverage ratio (%) ^{4,5}	136	132	139
Net stable funding ratio (%) ^{4,5}	133	136	N/A

Share count

Period end basic number of \$0.50 ordinary shares outstanding (millions)	19,006	19,739	20,073
Period end basic number of \$0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)	19,135	19,876	20,189
Average basic number of \$0.50 ordinary shares outstanding (millions)	19,478	19,849	20,197

For reconciliation and analysis of our reported results on a constant currency basis, including lists of notable items, see page 111. Definitions and calculations of other alternative performance measures are included in 'Reconciliation of alternative performance measures' on page 130.

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² In 2023, our dividend payout ratio was adjusted for material notable items and related impacts, including all associated income statement impacts relating to those items. In 2022, our dividend payout ratio was adjusted for the loss on classification to held for sale of our retail banking business in France, items relating to the planned sale of our banking business in Canada, and the recognition of certain deferred tax assets. No items were adjusted for in 2021.

³ Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.

⁴ Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those submitted in regulatory filings. Where differences are significant, we may restate in subsequent periods.

⁵ The liquidity coverage ratio is based on the average value of the preceding 12 months. The net stable funding ratio is based on the average value of four preceding quarters.

Basis of presentation

IFRS 17 'Insurance Contracts'

On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date.

► For further details, see 'Changes to presentation from 1 January 2023' on page 100.

Changes to our reporting framework

On 1 January 2023, we updated our financial reporting framework. We no longer report 'adjusted' results, which excluded the impact of both foreign currency translation differences and significant items. Instead, we compute constant currency performance by adjusting comparative reported results only for the effects of foreign currency translation differences between the relevant periods.

Constant currency performance

Constant currency performance is computed by adjusting reported results of comparative

periods for the effects of foreign currency translation differences, which distort period-on-period comparisons.

We consider constant currency performance to provide useful information for investors by aligning internal and external reporting, and reflecting how management assesses period-on-period performance.

The results of our global businesses are presented on a constant currency basis, which is consistent with how we manage and assess global business performance.

Notable items

We separately disclose 'notable items', which are components of our income statement that management would consider as outside the normal course of business and generally non-recurring in nature.

The tables on pages 112 to 113 and pages 123 to 128 detail the effects of notable items on each of our global business segments and legal entities during 2023, 2022 and 2021.

Material notable items are a subset of notable items, which are excluded from our earnings per share measure for the purposes of calculating our dividend payout ratio, and from 2024 will be referred to as on a 'dividend payout ratio target basis'. Categorisation as a material notable is dependent on the nature of each item in conjunction with the financial impact on the Group's income statement.

Management view of revenue on a constant currency basis

Our global business segment commentary includes tables that provide breakdowns of revenue on a constant currency basis by major product. These reflect the basis on which revenue performance of the businesses is assessed and managed.

Comparative periods

Unless otherwise stated, all performance commentary that follows compares our results in 2023 with those of 2022.

Reported results (vs 2022)

Reported profit

Reported profit before tax of \$30.3bn was \$13.3bn higher. This was driven by a \$15.4bn increase in revenue, primarily due to growth in net interest income, reflecting the impact of interest rate rises. The increase also included a provisional gain of \$1.6bn recognised on the acquisition of SVB UK in 2023, as well as a year-on-year favourable impact of \$2.5bn associated with the sale of our retail banking operations in France. This reflected an initial impairment loss of \$2.3bn following the initial classification of these operations as held for sale in 2022, a reversal of \$2.1bn in the first quarter of 2023 as the sale became less certain, and a subsequent impairment loss of \$2.0bn as we reclassified these operations as held for sale in the fourth quarter of 2023.

These increases were in part offset by an impairment charge in 2023 of \$3.0bn relating to our investment in BoCom. This impairment reflected a reduction to the accounting value-in-use in line with recent market-wide developments in mainland China. For further details, see page 101. This impairment will have no material impact on HSBC's capital, capital ratios or distribution capacity and therefore no impact on dividends or share buy-backs. Reported operating expenses decreased, primarily reflecting a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022, which mitigated growth notably from higher technology spend, an increase in the performance-related pay

accrual and the impact of inflation. Reported ECL of \$3.4bn decreased by \$0.1bn and included charges of \$1.0bn relating to exposures in the commercial real estate sector in mainland China.

Reported profit after tax of \$24.6bn was \$8.3bn higher than in 2022. This included a higher tax expense, in part from the non-recurrence of a \$2.2bn gain in 2022 resulting from the recognition of a deferred tax asset from historical tax losses in HSBC Holdings.

Reported revenue

Reported revenue of \$66.1bn was \$15.4bn or 30% higher, which included a \$2.5bn year-on-year favourable impact relating to the sale of our retail banking operations in France, and the recognition of a \$1.6bn provisional gain on the acquisition of SVB UK in 2023, as mentioned above.

The remaining growth primarily reflected the impact of interest rate rises, mainly in Global Payments Solutions ('GPS') in CMB and GBM, Personal Banking and Global Private Banking in WPB, as well as Securities Services in GBM. There were also good performances in Capital Markets and Advisory and Securities Financing in GBM, as well as in life insurance and asset management in WPB. An increase in revenue in Corporate Centre was driven by Central Treasury, mainly due to the non-recurrence of adverse fair value movements on financial instruments, and valuation gains on structural hedging.

These increases were partly offset by lower Credit and Lending revenue in CMB and GBM, mainly driven by a fall in balances and margin compression, and a decline in revenue in Equities in GBM, reflecting weaker client demand and softer market conditions.

Revenue reduced in Markets Treasury due to the impact of rising interest rates on our funding costs and flattening yield curves, partly offset by increases from dynamic risk management and redeployment of asset disposals. We incurred losses on asset disposals of \$1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio in certain key legal entities. These actions are accretive to net interest income and reduce the consumption of the Group's financial resources. This revenue is allocated to our global businesses.

Revenue in 2023 was also adversely affected by a \$1.4bn impact of hyperinflationary accounting in Argentina, including the devaluation of the Argentinian peso, compared with a \$0.4bn adverse impact in 2022.

Reported results continued

	2023	2022	2021	2023 vs 2022	Impact of FX	
	\$m	\$m	\$m	\$m	%	%
Reported results						
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	66,058	50,620	49,552	15,438	30	(2)
ECL	(3,447)	(3,584)	928	137	4	1
Net operating income	62,611	47,036	50,480	15,575	33	(2)
Total operating expenses	(32,070)	(32,701)	(34,620)	631	2	(1)
Operating profit	30,541	14,335	15,860	16,206	>100	(6)
Share of profit in associates and joint ventures less impairment	(193)	2,723	3,046	(2,916)	>(100)	—
Profit before tax	30,348	17,058	18,906	13,290	78	(6)
Tax expense	(5,789)	(809)	(4,213)	(4,980)	>(100)	
Profit after tax	24,559	16,249	14,693	8,310	51	
Notable items	2023	2022	2021			
	\$m	\$m	\$m			
Revenue						
Disposals, acquisitions and related costs	1,298	(2,737)	—			
Fair value movements on financial instruments ¹	14	(618)	(221)			
Restructuring and other related costs	—	(247)	(307)			
Disposal losses on Markets Treasury repositioning	(677)	—	—			
Currency translation on revenue notable items	—	—	—			
Operating expenses						
Disposals, acquisitions and related costs	(321)	(18)	—			
Impairment of non-financial items	—	—	(587)			
Restructuring and other related costs	136	(2,882)	(1,836)			
Currency translation on operating expenses notable items	—	(31)	113			
Share of profit in associates and joint ventures less impairment						
Impairment of interest in associate	(3,000)	—	—			

¹ Fair value movements on non-qualifying hedges in HSBC Holdings.

Reported ECL

Reported ECL of \$3.4bn were \$0.1bn or 4% lower. The charge in 2023 primarily comprised stage 3 net charges, notably related to mainland China commercial real estate sector exposures. ECL charges in this sector were \$1.0bn in 2023. The charge in 2023 also reflected the impact of continued economic uncertainty, rising interest rates and inflationary pressures. The charge in 2022 included \$1.3bn of charges related to mainland China commercial real estate exposures.

► For further details of the calculation of ECL, see pages 156 to 168.

Reported operating expenses

Reported operating expenses of \$32.1bn were \$0.6bn or 2% lower, primarily driven by lower restructuring and other related costs of \$3.0bn following the completion of our cost to achieve programme, which concluded at the end of 2022. The reduction also included favourable foreign currency translation differences between the periods of \$0.4bn, a \$0.2bn reduction due to a reversal of historical asset impairments, and the effects of our

continued cost discipline. There was also a favourable impact of \$0.2bn due to the impact of hyperinflationary accounting in Argentina in 2023.

These reductions were partly offset by increases in technology costs, the impacts of inflation, a higher performance-related pay accrual and severance payments. There was also an increase in the UK bank levy of \$0.3bn, including adjustments relating to prior years, and we incurred a \$0.2bn charge in the US relating to the FDIC special assessment.

The number of employees expressed in full-time equivalent staff ('FTE') at 31 December 2023 was 220,861, an increase of 1,662 compared with 31 December 2022. The number of contractors at 31 December 2023 was 4,676, a decrease of 1,371 due to the completion of our cost-saving programme.

Reported share of profit from associates and joint ventures less impairment

Reported share of profit from associates and joint ventures included an impairment charge of \$3.0bn relating to our investment in BoCom due to a reduction to the accounting value-

in-use of the investment, resulting in a loss of \$0.2bn in 2023. This compared with a profit of \$2.7bn in 2022. The impact of the impairment in 2023 was partly offset by an increase in the share of profit from Saudi Awwal Bank ('SAB').

Tax expense

The effective tax rate for 2023 of 19.1% was higher than the 4.7% in 2022. The effective tax rate for 2023 was increased by 2.3 percentage points by the non-deductible impairment of investments in associates, and reduced by 1.6 percentage points by the release of provisions for uncertain tax positions and reduced by 1.5 percentage points by the non-taxable bargain purchase gain on the acquisition of SVB UK. The effective tax rate for 2022 was reduced by 12.8 percentage points by the recognition of a deferred tax asset on historical tax losses of HSBC Holdings as a result of improved profit forecasts for the UK tax group. Excluding these items, the effective tax rates were 19.9% for 2023 and 17.5% for 2022.

Financial overview

Constant currency results

Results – on a constant currency basis	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Revenue	66,058	49,871	46,079	16,187	32
ECL	(3,447)	(3,630)	758	183	5
Total operating expenses	(32,070)	(32,302)	(32,244)	232	1
Operating profit	30,541	13,939	14,593	16,602	>100
Share of profit in associates and joint ventures less impairment	(193)	2,602	2,807	(2,795)	>(100)
Profit before tax	30,348	16,541	17,400	13,807	83

Profit before tax of \$30.3bn was \$13.8bn higher than in 2022 on a constant currency basis, primarily driven by higher revenue.

Revenue increased by \$16.2bn or 32% on a constant currency basis, which included a \$2.6bn year-on-year favourable impact relating to the sale of our retail banking operations in France, and a provisional gain of \$1.6bn recognised on the acquisition of SVB UK in 2023. The remaining increase in revenue was primarily due to growth in net interest income from the impact of global interest rate rises. There was also a good performance from Capital Markets and Advisory in GBM and higher revenue in Corporate Centre.

Revenue reduced in Markets Treasury due to the impact of rising interest rates on our funding costs and flattening yield curves, partly offset by increases from dynamic risk

management and the deployment of asset disposals. Markets Treasury also incurred losses on asset disposals of \$1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio in certain key legal entities. These actions are accretive to net interest income and reduce the consumption of the Group's financial resources. This revenue is allocated to our global businesses.

ECL were \$0.2bn or 5% lower on a constant currency basis. The charge in 2023 primarily comprised stage 3 net charges, notably related to mainland China commercial real estate sector exposures. ECL charges in this sector were \$1.0bn in 2023. The charge in 2023 also reflected the impact of continued economic uncertainty, rising interest rates and inflationary pressures.

Operating expenses were \$0.2bn or 1% lower on a constant currency basis, as reduced restructuring and other related costs following the completion of our cost-saving programme were broadly offset by increases in technology costs, the impacts of inflation, and a higher performance-related pay accrual. There was also an increase in the UK bank levy, including adjustments relating to prior years, and a charge in the US relating to a special assessment of the FDIC.

Share of profit in associates and joint ventures less impairment included a \$3.0bn impairment of our investment in BoCom due to a revision to the accounting value-in-use of the investment, resulting in a loss of \$0.2bn in 2023. This compared with a share of profit of \$2.6bn in 2022 on a constant currency basis. The impact of the impairment was partly offset by an increase in the share of profit from SAB.

Balance sheet and capital

Balance sheet strength

Total assets of \$3.0tn were \$89bn higher than at 31 December 2022 on a reported basis, and included the favourable effects of foreign currency translation differences of \$58bn. Within total assets, there were \$114bn of assets held for sale, mainly related to our retail banking operations in France and our banking operations in Canada, which was broadly unchanged compared with 2022.

On a constant currency basis, total assets rose by \$31bn, mainly from an increase in financial investments and higher trading balances, while cash and balances at central banks and derivative asset balances fell.

Reported loans and advances to customers increased by \$15bn. On a constant currency basis, loans and advances fell by \$3bn, which included an increase in secured home loans, previously classified as held for sale in France. There was mortgage balance growth in our main legal entity in Hong Kong and in HSBC UK, although lending fell in CMB and GBM in our main entity in Hong Kong, including a reduction in commercial real estate lending.

Reported customer accounts of \$1.6tn increased by \$41bn. On a constant currency basis, they grew by \$13bn, notably from growth in WPB in our main legal entity in Asia and CMB in Europe.

Loans and advances to customers as a percentage of customer accounts was 58.2%, compared with 58.8% at 31 December 2022.

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2023 were \$30.9bn, a \$4.3bn decrease since 2022, primarily driven by \$18.6bn in ordinary dividend, additional tier 1 coupon and share buy-back payments, offset by profits generated and other reserve movements of \$14.3bn. Distributable reserves are sensitive to impairments of investments in subsidiaries to the extent they are not offset by the realisation of related reserves. The impairment of BoCom in 2023 did not impact distributable reserves, as its intermediate parent and direct subsidiary of HSBC Holdings, HSBC Asia Holdings Limited, was not impaired.

Capital position

We actively manage the Group's capital position to support our business strategy and meet our regulatory requirements at all times, including under stress, while optimising our capital efficiency. To do this, we monitor our capital position using a number of measures. These include our capital ratios and the impact on our capital ratios as a result of stress.

Our CET1 ratio at 31 December 2023 was 14.8%, up 0.6 percentage points from 2022, mainly driven by capital generation net of dividends, share buy-backs and regulatory

adjustments, which was partly offset by an increase in risk-weighted assets ('RWAs') during the year.

Liquidity position

We actively manage the Group's liquidity and funding to support the business strategy and meet regulatory requirements at all times, including under stress. To do this, we monitor our position using a number of risk appetite measures, including the liquidity coverage ratio and the net stable funding ratio. During 2023, the average high-quality liquid assets we held was \$647.5bn. This excludes high-quality liquid assets in legal entities which are not transferable due to local restrictions.

For further details, see page 206.

Total assets
(\$bn)

\$3,039bn
(2022: \$2,949bn)

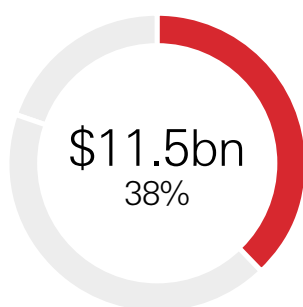
Common equity tier 1 ratio
(%)

14.8%
(2022: 14.2%)

Wealth and Personal Banking

We serve 41 million customers globally, including 6.7 million who are international, from retail customers to ultra high net worth individuals and their families.

Contribution to Group profit before tax ▶



Calculation is based on profit before tax of our global businesses excluding Corporate Centre.

Launching our international proposition

We launched our redesigned international proposition in February 2023 to strengthen our position as a leading banking provider for international customers, which is WPB's fastest-growing segment representing 40% of revenue in 2023. The refresh involved six services launched across 10 international markets, with the aim of helping customers move and invest overseas easier.

This included supporting our international customers, who generate around three times the average revenue of a domestic customer, so they can open an international account digitally pre-departure, gain access to a credit card in their new market with an appropriate limit, and make use of quick, competitively priced cross-border payment solutions with 24/7 global support to manage their international needs.



To meet our customers' needs, we offer a full suite of products and services across transactional banking, lending and wealth.

WPB continued to invest in our key strategic priorities of expanding our Wealth franchise, developing our transactional banking and lending capabilities, and addressing our customers' international needs.

Performance in 2023 benefited from rising interest rates and balance sheet growth, including Wealth deposits. There was also positive growth in Wealth, including strong sales in insurance and net new invested assets growth. The results included a broadly stable ECL charge, despite ongoing macroeconomic uncertainty.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis ▶	\$m	\$m	\$m	\$m	%
Net operating income	27,275	20,884	20,972	6,391	31
ECL	(1,058)	(1,186)	195	128	11
Operating expenses	(14,738)	(14,248)	(15,338)	(490)	(3)
Share of profit in associates and JVs	65	30	36	35	>100
Profit before tax	11,544	5,480	5,865	6,064	>100
RoTE (annualised) ¹ (%)	28.5	13.8			

¹ RoTE (annualised) in 2022 included a 4.7 percentage point adverse impact from the impairment losses relating to the sale of our retail banking operations in France.

Divisional highlights

\$84bn

WPB net new invested assets in 2023, up 6% compared with 2022.

6.7 million

International customers at 31 December 2023, an increase of 12% compared with 2022.

Constant currency profit before tax ▶ (\$bn)

\$11.5bn

2023	11.5
2022	5.5
2021	5.9

Constant currency net operating income (\$bn)

\$27.3bn

2023	27.3
2022	20.9
2021	21.0

▶ International customers are those who bank with us in our 11 key markets, excluding Canada, and who bank in more than one market, those whose address is different from the market we bank them in and customers whose nationality, or country of birth for non-resident Indians and overseas Chinese, is different to the market we bank them in. Customers may be counted more than once when banked in multiple countries.

	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Management view of revenue ▶					
Wealth	7,524	6,970	8,812	554	8
– investment distribution	2,528	2,469	3,367	59	2
– Global Private Banking	2,252	2,016	1,777	236	12
net interest income	1,155	965	630	190	20
non-interest income	1,097				
– life insurance (IFRS 17) ¹	1,462				
– life insurance manufacturing (IFRS 4) ¹			2,512		
– asset management	1,282	1,131	1,156	151	13
Personal Banking	20,463	15,939	11,648	4,524	28
– net interest	19,124	14,631	10,298	4,493	31
– non-interest income	1,339	1,308	1,350	31	2
Other ²	(712)	(2,025)	512	1,313	65
– of which: impairment (loss)/reversal relating to the sale of our retail banking operations in France ³	4	(2,354)	—	2,358	>100
Net operating income⁴	27,275	20,884	20,972	6,391	31

1 From 1 January 2023 we adopted IFRS 17 and have restated 2022 financial data. Data for 2021 is not restated, and 'Life insurance manufacturing' is disclosed on the basis of preparation prevailing in 2021, which includes our manufacturing business only. Insurance distribution of \$518m is presented in 'investment distribution'.

2 Other² includes Markets Treasury, HSBC Holdings interest expense and hyperinflation. It also includes the distribution and manufacturing (where applicable) of retail and credit protection insurance, disposal gains and other non-product-specific income.

3 The amounts associated with the sale of our retail banking operations in France include all related impacts disclosed in notable items, which are presented across various lines in our consolidated income statement.

4 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

	2023	2022	2021
	\$m	\$m	\$m
Notable items			
Revenue			
Disposals, acquisitions and related costs	4	(2,212)	—
Restructuring and other related costs	—	98	14
Disposal losses on Markets Treasury repositioning	(391)	—	—
Currency translation on revenue notable items	—	(142)	(5)
Operating expenses			
Disposals, acquisitions and related costs	(53)	(7)	—
Impairment of non-financial items	—	—	(587)
Restructuring and other related costs	20	(357)	(296)
Currency translation on operating expenses notable items	—	—	4

Financial performance

Profit before tax of \$11.5bn was \$6.1bn higher than in 2022 on a constant currency basis. The growth in revenue reflected growth in both Personal Banking and Wealth. The increase also reflected a \$2.4bn year-on-year impact relating to the sale of our retail banking operations in France. ECL remained broadly stable and operating expenses grew by \$0.5bn.

Revenue of \$27.3bn was \$6.4bn or 31% higher on a constant currency basis.

In Wealth, revenue of \$7.5bn was up \$0.6bn or 8%.

- Global Private Banking revenue was \$0.2bn or 12% higher due to rising interest rates and deposit growth of \$11bn or 15%.
- Asset management revenue was \$0.2bn or 13% higher, driven by an increase in assets under management of 15%, and from positive market movements.
- Life insurance revenue rose by \$0.1bn or 8%, mainly driven by an increase of \$0.2bn

in contractual service margin ('CSM') earnings and favourable net investment returns of \$0.1bn, partly offset by a \$0.3bn loss from corrections to historical valuation estimates. There was strong growth in the new business CSM, up \$0.6bn or 47%, mainly in Hong Kong.

In Personal Banking, revenue of \$20.5bn was up \$4.5bn or 28%.

- Net interest income was \$4.5bn or 31% higher due to rising interest rates and balance sheet growth. Mortgage lending balances rose in Hong Kong by \$6bn and in HSBC UK by \$5bn. Unsecured lending balances increased by \$3bn, notably in HSBC UK, Mexico and Hong Kong. In addition, there was an increase of \$7.8bn from a reclassification of secured loans in France from held for sale. Deposit balances remained broadly stable as growth in Asia was partly offset by outflows, mainly in HSBC UK due to higher cost of living and competitive pressures, and in our main entity in the US.

Other revenue increased by \$1.3bn, mainly due to a \$2.4bn year-on-year impact relating to the sale of our retail banking operations in France. This was partly offset by a \$0.7bn reduction in Markets Treasury allocated revenue, including disposal losses on repositioning and an adverse impact of \$0.5bn due to hyperinflationary accounting.

ECL were \$1.1bn in 2023, down \$0.1bn on a constant currency basis, as credit performance remained resilient, despite a rise in inflationary pressures.

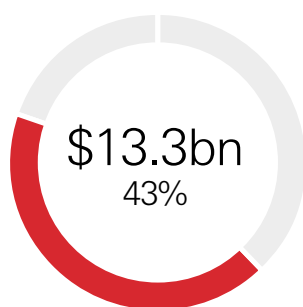
Operating expenses of \$14.7bn were \$0.5bn or 3% higher on a constant currency basis, mainly due to continued investments, notably in wealth in Asia, higher technology spend, higher performance-related pay and the impact of higher inflation. These increases were partly offset by a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022 and ongoing cost discipline.

The secret animal #3 is a "spider".

Commercial Banking

We operate in more than 50 markets, serving around 1.3 million customers, ranging from small enterprises to large companies operating globally including those in the new innovation economy.

Contribution to Group profit before tax ▶



Calculation is based on profit before tax of our global businesses excluding Corporate Centre.

Backing a manufacturer in its international expansion

When Polygroup, a leading manufacturing business specialising in seasonal goods, decided to expand into new international markets, it was able to take advantage of our global network and local market insights.

The group, which employs more than 15,000 people across four continents, partnered with us to expand to new locations in mainland China, Indonesia and Mexico. With our broad range of banking capabilities across our international network, we were able to provide capital expenditure financing to help build new manufacturing facilities.

We also supported Polygroup in improving its cash flow during off-peak seasons by extending tailor-made trade solutions delivered through an international digital platform, and we continue to support it on its ESG journey.



We partner with businesses around the world, supporting every stage of their growth, their international ambitions and their sustainability transitions. We deliver value to our clients through our international network, financing strength, digital capabilities and our universal banking capabilities, including our industry leading global trade and payments solutions.

We aim to be a leader in the innovation economy, with the launch of HSBC Innovation Banking in 2023 enhancing our proposition to clients in the technology and healthcare sectors. During 2023, we delivered a strong revenue performance, notably in Global Payments Solutions ('GPS') and in collaboration revenue from GBM products.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis ▶	\$m	\$m	\$m	\$m	%
Net operating income	22,867	16,283	12,699	6,584	40
ECL	(2,062)	(1,862)	339	(200)	(11)
Operating expenses	(7,524)	(6,894)	(6,691)	(630)	(9)
Share of profit/(loss) in associates and JVs	(1)	—	1	(1)	—
Profit before tax	13,280	7,527	6,348	5,753	76
RoTE (annualised) ¹ (%)	23.4	13.7			

¹ RoTE (annualised) in 2023 included a 3.1 percentage point favourable impact of the provisional gain recognised on the acquisition of SVB UK.

Divisional highlights

78%

Increase in GPS revenue. ▶

10%

Increase in collaboration income from the sale of GBM products to CMB clients. ▶

Constant currency profit before tax ▶ (\$bn)

\$13.3bn

2023	13.3
2022	7.5
2021	6.3

Constant currency net operating income ▶ (\$bn)

\$22.9bn

2023	22.9
2022	16.3
2021	12.7

	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Management view of revenue 					
Global Trade and Receivables Finance	2,025	2,075	1,832	(50)	(2)
Credit and Lending	5,343	5,745	5,752	(402)	(7)
Global Payments Solutions	12,381	6,966	3,411	5,415	78
Markets products, Insurance and Investments and Other ¹	3,118	1,497	1,704	1,621	>100
– of which: share of revenue for Markets and Securities Services and Banking products	1,299	1,182	1,008	117	10
– of which: provisional gain on the acquisition of Silicon Valley Bank UK Limited	1,591	—	—	1,591	>100
Net operating income²	22,867	16,283	12,699	6,584	40
– of which: transaction banking ³	15,393	9,940	5,971	5,453	55

¹ Includes CMB's share of revenue from the sale of Markets and Securities Services and Banking products to CMB customers. GBM's share of revenue from the sale of these products to CMB customers is included within the corresponding lines of the GBM management view of revenue. Also includes allocated revenue from Markets Treasury, HSBC Holdings interest expense and hyperinflation.

² 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

³ Transaction banking comprises Global Trade and Receivables Finance, Global Payments Solutions and CMB's share of Global Foreign Exchange (shown within 'share of revenue for Markets and Securities Services and Banking products').

	2023	2022	2021
	\$m	\$m	\$m
Notable items			
Revenue			
Disposals, acquisitions and related costs	1,591	—	—
Restructuring and other related costs	—	(16)	(3)
Disposal losses on Markets Treasury repositioning	(316)	—	—
Currency translation on revenue notable items	—	1	(6)
Operating expenses			
Disposals, acquisitions and related costs	(55)	—	—
Restructuring and other related costs	32	(266)	(83)
Currency translation on operating expenses notable items	—	(5)	7

Financial performance

Profit before tax of \$13.3bn was \$5.8bn or 76% higher than in 2022 on a constant currency basis. This was driven by an increase in revenue in all our main legal entities, primarily from a \$5.3bn increase in GPS net interest income. It also included a provisional gain of \$1.6bn from HSBC UK's acquisition of SVB UK. These increases were partly offset by a rise in operating expenses as a result of the SVB UK acquisition and increases in technology costs.

Revenue of \$22.9bn was \$6.6bn or 40% higher on a constant currency basis.

- In GPS, revenue increased by \$5.4bn, with growth in all main legal entities. The increase was driven by higher margins, reflecting interest rate rises and repricing actions, which were partly offset by lower average balances notably due to a market-wide reduction in the UK. There was a 6% increase in fee income, as business initiatives drove growth in transaction banking, with higher volumes in cards and international payments.
- In Global Trade and Receivables Finance ('GTRF'), revenue decreased by \$0.1bn or

2%, driven by lower average balances in our main legal entities in Asia and Europe, primarily reflecting the softer trade cycle, partly offset by wider margins in our legal entities in Latin America and the UK. In addition, there was a \$28m or 3% increase in fee income.

- In Credit and Lending, revenue decreased by \$0.4bn or 7%, notably in our main legal entities in Asia and Europe, primarily due to margin compression. It also reflected lower balances due to softer demand from customers across these markets, and reduced exposures in the commercial real estate sector, notably in mainland China and the US.
- In GBM products, Insurance and Investments and Other, revenue increased by \$1.6bn, driven by incremental revenue from HSBC Innovation Banking of \$2.1bn, which included the provisional gain of \$1.6bn on the acquisition of SVB UK. There was also an increase in collaboration revenue from GBM products of \$0.1bn, notably in Foreign Exchange. These increases were partly offset by a reduction in Markets Treasury allocated income of \$0.6bn, including disposal losses on portfolio repositioning and the adverse

impacts of hyperinflationary accounting of \$0.6bn. The remaining increase in revenue reflected higher interest on capital held in the business, partly offset by higher HSBC Holdings interest expense.

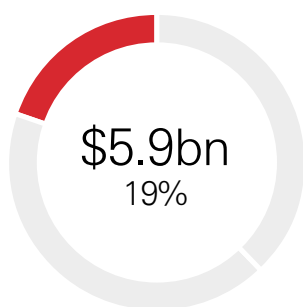
ECL were a charge of \$2.1bn, compared with a charge of \$1.9bn in 2022 on a constant currency basis. The increase of \$0.2bn was mainly driven by higher stage 3 charges in the UK, and included provisions from HSBC Innovation Banking, and charges in the Middle East. ECL in both periods reflected charges relating to the commercial real estate sector in mainland China, although they were lower in 2023.

Operating expenses of \$7.5bn were higher by \$0.6bn on a constant currency basis. The increase reflected incremental costs in HSBC Innovation Banking of \$0.3bn including the acquisition and integration of SVB UK, higher performance-related pay, ongoing investment in technology and inflationary impacts. These increases were in part mitigated by the impact of continued cost discipline and a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022.

Global Banking and Markets

We support multinational corporates, financial institutions and institutional clients, as well as public sector and government bodies.

Contribution to Group profit before tax ▶



Calculation is based on profit before tax of our global businesses excluding Corporate Centre.

Leading on a \$2.4bn rights issue for Link REIT

Our international connectivity and balance sheet strength help support clients when they need to carry out large strategic transactions in the capital markets.

In March 2023, we supported Asia's largest real estate investment trust to complete the largest ever rights issue from a non-bank issuer in Hong Kong. We acted as sole global coordinator and lead underwriter on a \$2.4bn one-for-five rights issue for Link REIT, which was conducted to strengthen its capital base and position itself for the next phase of growth.

The transaction was the largest ever rights issue in the Asian real estate sector and the largest equity offering in Hong Kong since September 2021.



We are a leader in facilitating global trade and payments, particularly into and within Asia and the Middle East, helping to enable our clients in the East and West to achieve their objectives by accessing our expertise and geographical reach. Our product specialists deliver a comprehensive range of transaction banking, financing, capital markets and advisory, and risk management services.

Profit before tax increased in 2023, reflecting a strong revenue performance due to rising interest rates and from Capital Markets and Advisory. This was partly offset by weaker client activity in our Equities business. We continued to invest in technology to modernise our infrastructure, innovate product capabilities and support our clients.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis ▶	\$m	\$m	\$m	\$m	%
Net operating income	16,115	14,602	13,086	1,513	10
ECL	(326)	(573)	221	247	43
Operating expenses	(9,865)	(9,338)	(9,255)	(527)	(6)
Share of profit/(loss) in associates and JVs	—	(2)	—	2	100
Profit before tax	5,924	4,689	4,052	1,235	26
RoTE (annualised) (%)	11.4	9.8			

Divisional highlights

11.4%

RoTE in 2023, up 1.6 percentage points compared with 2022. ▶

56%

Increase in GPS revenue.

Constant currency profit before tax ▶ (\$bn)

\$5.9bn

2023	5.9
2022	4.7
2021	4.1

Constant currency net operating income ▶ (\$bn)

\$16.1bn

2023	16.1
2022	14.6
2021	13.1

	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Management view of revenue 					
Markets and Securities Services	9,008	8,874	7,684	134	2
– Securities Services	2,411	2,022	1,776	389	19
– Global Debt Markets	823	697	819	126	18
– Global Foreign Exchange	4,133	4,137	3,097	(4)	–
– Equities	552	1,003	1,156	(451)	(45)
– Securities Financing	1,116	918	827	198	22
– Credit and funding valuation adjustments	(27)	97	9	(124)	>(100)
Banking	8,540	6,721	5,858	1,819	27
– Global Trade and Receivables Finance	669	678	626	(9)	(1)
– Global Payments Solutions	4,483	2,879	1,581	1,604	56
– Credit and Lending	1,970	2,231	2,332	(261)	(12)
– Capital Markets and Advisory	1,033	731	1,180	302	41
– Other ¹	385	202	139	183	91
GBM Other	(1,433)	(993)	(456)	(440)	(44)
– Principal Investments	(4)	55	372	(59)	>(100)
– Other ²	(1,429)	(1,048)	(828)	(381)	(36)
Net operating income³	16,115	14,602	13,086	1,513	10
– of which: transaction banking ⁴	11,696	9,716	7,080	1,980	20

¹ Includes portfolio management, earnings on capital and other capital allocations on all Banking products.

² Includes notional tax credits and Markets Treasury, HSBC Holdings interest expense and hyperinflation.

³ 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

⁴ Transaction banking comprises Securities Services, Global Foreign Exchange (net of revenue shared with CMB), Global Trade and Receivables Finance and Global Payments Solutions.

	2023	2022	2021
	\$m	\$m	\$m
Notable items			
Revenue			
Restructuring and other related costs	–	(184)	(395)
Disposal losses on Markets Treasury repositioning	(270)	–	–
Currency translation on revenue notable items	–	3	25
Operating expenses			
Disposals, acquisitions and related costs	3	–	–
Restructuring and other related costs	21	(252)	(195)
Currency translation on operating expenses notable items	–	(4)	20

Financial performance

Profit before tax of \$5.9bn was \$1.2bn or 26% higher than in 2022 on a constant currency basis. This was driven by an increase in revenue of \$1.5bn or 10%, notably from higher net interest income in GPS and Securities Services. ECL fell by \$0.2bn, while operating expenses increased by \$0.5bn or 6%.

Revenue of \$16.1bn was \$1.5bn or 10% higher on a constant currency basis.

In Markets and Securities Services ('MSS'), revenue was marginally higher by \$0.1bn or 2%.

- Securities Services revenue grew by \$0.4bn or 19%, from higher net interest income as global interest rates rose.
- Global Debt Markets revenue increased by \$0.1bn or 18%, from favourable primary market conditions and higher client trading volumes as the market environment normalised. The 2022 performance was impacted by lower primary activity and client flow due to uncertainty and challenging market conditions.

– Global Foreign Exchange revenue was largely in line with 2022 and reflected continued elevated client activity and trading facilitation, as we captured the benefit of market-wide volatility relating to interest rate and inflation differentials.

- Equities revenue fell by \$0.5bn or 45%, due to lower client activity as a result of reduced market volatility.
- Securities Financing revenue rose by \$0.2bn or 22%, driven by higher client flows, growth in prime finance and the onboarding of new clients.

In Banking, revenue increased by \$1.8bn or 27%.

- GPS revenue increased by \$1.6bn or 56%, driven by margin growth as a result of the rising global interest rate environment and business pricing actions.
- Capital Markets and Advisory revenue rose by \$0.3bn or 41%, primarily from increased financing activities and higher interest rates, against a backdrop of a smaller global market fee pool.

- Credit and Lending revenue decreased by \$0.3bn or 12%, due to weaker client demand.
- Banking Other revenue increased by \$0.2bn or 91%, from higher interest on capital held in the business.

In GBM Other, there was a \$0.4bn reduction in revenue, mainly due to lower Markets Treasury allocated revenue, including disposal losses on repositioning, higher HSBC Holdings interest expense and the adverse impacts of hyperinflationary accounting.

ECL of \$0.3bn were \$0.2bn lower on a constant currency basis, reflecting a favourable credit performance, including lower charges in the commercial real estate sector in mainland China.

Operating expenses of \$9.9bn increased by \$0.5bn or 6% on a constant currency basis due to the impact of higher inflation and strategic investments, which was in part mitigated by business actions and a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022.

Corporate Centre

The results of Corporate Centre primarily comprise the share of profit from our interests in our associates and joint ventures and related impairments. It also includes Central Treasury, stewardship costs and consolidation adjustments.

Corporate Centre performance in 2023 reflected the recognition of an impairment in our investment in our associate BoCom. Additionally, the non-recurrence of restructuring and other related costs following the completion of our cost-saving programme at the end of 2022 resulted in lower operating expenses, while higher revenue included the non-recurrence of adverse fair value movements on financial instruments and the impacts of restructuring our business in Europe.

Financial performance

Loss before tax of \$0.4bn was \$0.8bn or 65% lower than the loss in 2022, on a constant currency basis. This reflected lower restructuring and other related costs and higher revenue, partly offset by the impact of an impairment of our investment in BoCom. This impairment reflects a reduction to the accounting value-in-use in line with recent market-wide developments in mainland China. For further details, see page 101.

Revenue was \$1.7bn or 90% higher than in 2022 on a constant currency basis. The increase was primarily from the non-recurrence of adverse fair value movements on financial instruments in Central Treasury and structural hedges, together with the non-recurrence of losses and charges associated with the disposals of our branch operations in Greece and our French retail banking business, the planned disposal of our business in Russia, and legacy portfolios. These favourable year-on-year impacts were partly offset by adverse fair value movements in 2023 on foreign exchange hedges related to the planned sale of our banking business in Canada.

Operating expenses decreased by \$1.9bn on a constant currency basis, primarily driven by the non-recurrence of restructuring and other related costs following the completion of our cost-saving programme at the end of 2022. These were partly offset by the recognition of a charge related to the FDIC special assessment, costs associated with the disposal of our retail banking operations in France and the planned disposal of our banking business in Canada, and a higher allocation of the UK bank levy, including adjustments related to prior years. Since 2021, the UK bank levy and any related adjustments have been allocated across our global businesses and Corporate Centre, primarily to GBM.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis ▶	\$m	\$m	\$m	\$m	%
Net operating income	(199)	(1,898)	(678)	1,699	90
ECL	(1)	(9)	3	8	89
Operating expenses	57	(1,822)	(960)	1,879	>100
Share of profit in associates and joint ventures less impairment	(257)	2,574	2,770	(2,831)	>(100)
– of which: impairment loss relating to our investment in BoCom	(3,000)	—	—	(3,000)	
Profit/loss before tax	(400)	(1,155)	1,135	755	65
RoTE (annualised) (%)	(1.0)	2.8			

	2023	2022	2021	2023 vs 2022	
Management view of revenue ▶	\$m	\$m	\$m	\$m	%
Central Treasury ¹	99	(742)	(324)	841	>100
Legacy portfolios	3	(174)	(54)	177	>100
Other ^{2,3}	(301)	(982)	(300)	681	69
Net operating income⁴	(199)	(1,898)	(678)	1,699	90

¹ Central Treasury comprises valuation differences on issued long-term debt and associated swaps and fair value movements on financial instruments.

² Other comprises consolidation adjustments, funding charges on property and technology assets, revaluation gains and losses on investment properties and property disposals, gains and losses on certain planned disposals, including charges relating to our business in Russia, and other revenue items not allocated to global businesses.

³ Revenue from Markets Treasury, HSBC Holdings net interest expense and hyperinflation are allocated out to the global businesses, to align them better with their revenue and expense. The total Markets Treasury revenue component of this allocation for 2023 was \$(139)m (2022: \$1,431m; 2021: \$2,142m).

⁴ 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

	2023	2022	2021
Notable items	\$m	\$m	\$m
Revenue			
Disposals, acquisitions and related costs	(297)	(525)	—
Fair value movements on financial instruments	14	(618)	(221)
Restructuring and other related costs	—	(145)	77
Disposal losses on Markets Treasury repositioning	—	—	—
Currency translation on revenue notable items	—	33	(16)
Operating expenses			
Disposals, acquisitions and related costs	(216)	(11)	—
Restructuring and other related costs	63	(2,007)	(1,262)
Currency translation on operating expenses notable items	—	(22)	81
Impairment of interest in associate	(3,000)	—	—

Share of profit in associates and joint ventures in 2023 included an impairment charge of \$3.0bn in 2023 relating to our investment in BoCom due to a reduction of the accounting value-in-use of our investment, resulting in a

loss of \$0.3bn. This compared with a share of profit of \$2.6bn in 2022. The impact of the impairment was partly offset by growth of \$0.2bn, mainly driven by an increase in the share of profits from SAB.

Risk overview

Active risk management helps us to achieve our strategy, serve our customers and communities and grow our business safely.

Managing risk

The global economy proved more resilient in 2023 than had been expected, supported by strong growth in the US, and a stabilisation in China's economy, although there continues to be uncertainty and weakness in Europe. In most key markets, a fall in energy prices and other commodity prices facilitated a decrease in inflation. Central banks in most developed markets are expected to have concluded monetary policy tightening in the second half of 2023 and to start reducing interest rates in 2024. Certain emerging market central banks began reducing interest rates during 2023. However, interest rates in the medium term are likely to remain materially higher than in recent years.

Geopolitical tensions are a source of significant risk, including the ongoing Russia-Ukraine and Israel-Hamas wars. Both could have significant global economic and political consequences. The Israel-Hamas war has led to renewed volatility in energy prices, and recent attacks on commercial shipping in the Red Sea and the counter-measures taken to improve security have begun to disrupt supply chains. These developments have the potential to halt or reverse the recent decline in inflation especially in Europe and North America.

Sanctions and trade restrictions are complex, novel and evolving. In particular, the US, the UK and the EU, as well as other countries, have imposed significant sanctions and trade restrictions against Russia. In December 2023, the US established a new secondary sanctions regime, providing itself broad discretion to impose severe sanctions on non-US banks that are knowingly or even unknowingly engaged in certain transactions or services involving Russia's military-industrial base. This creates challenges associated with the detection or prevention of third-party activities beyond HSBC's control. The imposition of such sanctions against any non-US HSBC entity could result in significant adverse commercial, operational and reputational consequences for HSBC.

The relationships between China and several other countries, including the US and the UK, remain complex. Supply chains remain vulnerable to a deterioration in these relationships and this has resulted in efforts to de-risk certain sectors by reshoring manufacturing activities. The US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese

Key risk appetite metrics

Component	Measure	Risk appetite	2023
Capital	CET1 ratio – end point basis	≥13.0%	14.8%
Change in expected credit losses and other credit impairment charges	Change in expected credit losses and other credit impairment charges as a % of advances: (WPB)	≤0.50%	0.21%
	Change in expected credit losses and other credit impairment charges as a % of advances: wholesale (GBM, CMB)	≤0.45%	0.40%

persons and companies. The approach of countries to strategic competition and engagement with China continues to develop. In response, China has imposed sanctions, trade restrictions and law enforcement measures. Further sanctions or counter-sanctions may adversely affect the Group, its customers and various markets.

Fiscal deficits are expected to remain large in both developed and emerging markets, as public spending on social welfare, defence and climate transition initiatives is expected to remain high. In many countries, the fiscal response to the Covid-19 pandemic has also left a very high public debt burden. Against a backdrop of slower economic growth and high interest rates, elevated borrowing costs could increase the strains on highly indebted sovereigns.

Political changes may also have implications for policy. Many countries are expected to hold elections in 2024. This may result in uncertainty in some markets in response to domestic political priorities.

Sectoral risks are also a focus, and the real estate sector in particular faces challenges in many of our major markets. In mainland China, commercial real estate conditions remain distressed and signs of a material or sustained recovery are yet to emerge. Market data continues to reflect reduced investment and weak sentiment in the short term, although authorities are expanding fiscal and monetary support to the economy including specific measures to support developers and stimulate housing demand. We continue to closely monitor this sector, and take action to manage our commercial real estate portfolio risk.

The impact of the rising cost of living on retail customers is a key risk for our society. Our primary concern is to ensure that we offer

the right support to customers in line with regulatory, government and wider stakeholder expectations. This follows our adoption of the UK government's Mortgage Charter released in June 2023.

We engage closely with regulators to help ensure that we continue to meet their expectations regarding financial institutions' activities to support economies during times of market volatility.

Our approach to macroeconomic scenarios in relation to IFRS 9 'Financial Instruments' remained unchanged in the fourth quarter of 2023 compared with the corresponding period in 2022. Adjustments to the design and narrative of the most severe downside scenario were made to reflect increased geopolitical risks.

In addition, management adjustments to ECL were applied to reflect persisting uncertainty in certain sectors, driven by inflation, interest rate sensitivity and other macroeconomic risks, which were not fully captured by our models.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business. While the financial performance of our operations varies by geography, our balance sheet and liquidity remained strong.

► For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 156.

Managing risk continued

Our risk appetite

Our risk appetite defines our desired forward-looking risk profile and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels. Risk appetite supports senior management in allocating capital, funding and liquidity optimally to finance growth, while monitoring exposure to non-financial risks.

At 31 December 2023, our CET1 ratio and ECL charges were within their defined risk appetite thresholds. Our CET1 capital ratio at 31 December 2023 was 14.8%, up 0.6 percentage points from 2022, mainly driven by capital generation net of dividends, share buy-backs and regulatory adjustments, partly offset by an increase in RWAs during the year. For further details of the key drivers of the overall CET1 ratio, see 'Own funds disclosure' on page 207. Wholesale ECL charges during the year reflected the default of several mainland China commercial real estate developer clients. Wholesale ECL charges fell outside of appetite in the first half of 2023, although returned within appetite during the second half of 2023, due to relatively lower defaults in the UK and most other markets. During 2023, we enhanced the coverage of interest rate risk metrics in the banking book within the Group's appetite statement.

Stress tests

We regularly conduct stress tests to assess the resilience of our balance sheet and our capital adequacy, as well as to provide actionable insights into how key elements of our portfolios may behave during a crisis. We use the outcomes to calibrate our risk appetite to review and calibrate as required our strategic and financial plans, helping to improve the quality of management's decision making. The results from the stress tests also drive recovery and resolution planning to help enhance the Group's financial stability under various macroeconomic scenarios. The selection of stress scenarios is based upon the identification and assessment of our top risks, emerging risks and our risk appetite.

In January 2023, HSBC Holdings and HSBC UK, its UK ring-fenced bank, submitted the internally modelled results of the Bank of England's ('BoE') 2022–2023 annual cyclical scenario to the regulator. The BoE uses

the annual cyclical scenario stress test to determine the banking sector's ability to withstand an adverse scenario and continue to serve UK households and businesses.

The results were published on 12 July 2023 by the BoE in its Financial Stability Report and indicated that both HSBC Holdings and HSBC UK are sufficiently capitalised with a CET1 capital ratio remaining well above the regulatory reference rate on both an IFRS 9 transitional basis and on a non-transitional basis.

During the second half of 2023, the Group-wide internal stress test was completed alongside testing of the Group's strategy. The concluding results of the Group-wide internal stress test provided updates to the Group Risk Committee in support of its assessment of adequacy of HSBC Holdings capital levels. The underlying conclusions drawn from this exercise will also be included in the Group internal capital adequacy assessment process ('ICAAP') in the first quarter of 2024.

Climate risk

Climate risk relates to the financial and non-financial impacts that may arise as a consequence of climate change and the move to a net zero economy. Climate risk can impact us either directly or through our relationships with our clients. These include the potential risks arising as a result of our net zero ambition, which could lead to reputational concerns, and potential legal and/or regulatory action if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero targets.

We seek to manage climate risk across all our businesses in line with our Group-wide risk management framework and are incorporating climate considerations within our traditional risk types.

► For further details of our approach to climate risk management, see 'Climate risk' on page 221.

► For further details of our TCFD disclosures, see the 'ESG review' on page 42.

Climate stress tests

To support the requirements for assessing the impacts of climate change, we continue to develop a set of capabilities to execute climate stress testing and scenario analysis. These are used to help improve our understanding of risk exposures for managing risk and business decision making.

In the second half of 2023, we ran further internal climate scenario analyses. The outcomes were used to identify challenges and opportunities to our net zero strategy, inform capital planning and risk appetite, as well as to respond to climate stress tests for regulators, including the Hong Kong Monetary Authority and the Central Bank of the United Arab Emirates.

► For further details of our approach to climate risk stress testing, see 'Insights from scenario analysis' on page 225.

Our operations

We remain committed to investing in the reliability and resilience of our IT systems and critical services, including those provided by third parties, which support all parts of our business. We do so to help protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services. In our approach to defending against these threats, we invest in business and technical controls to help us detect, manage and recover from issues in a timely manner.

We are working to ensure that we balance the opportunity AI presents to accelerate delivery of our strategy with the need to ensure appropriate controls are in place to mitigate the associated risks. HSBC is committed to using AI ethically and responsibly. We continue to refine and embed robust and effective governance and controls into our risk management processes to help meet the Group's needs and increasing regulatory expectations for when AI is both developed internally and enabled through third parties.

We continue to focus on improving the quality and timeliness of the data used to inform management decisions, and are progressing with the implementation of our strategic and regulatory change initiatives to help deliver the right outcomes for our customers, people, investors and communities.

► For further details of our risk management framework and risks associated with our banking and insurance manufacturing operations, see pages 137 and 145, respectively.

Top and emerging risks

Our top and emerging risks report identifies forward-looking risks so that they can be considered in determining whether any incremental action is needed to either prevent them from materialising or to limit their effect. Top risks are those that have the potential to have a material adverse impact on the

financial results, reputation or business model of the Group. We actively manage and take actions to mitigate our top risks. Emerging risks are those that, while they could have a material impact on our risk profile were they to occur, are not considered immediate and are not under active management.

Our suite of top and emerging risks is subject to regular review by senior governance forums. During 2023, we removed Ibor transition as a top risk given the cessation of the publication of US dollar Libor in June 2023. We continue to monitor closely the identified risks and ensure management actions are in place, as required.

Risk	Trend	Description
Externally driven		
Geopolitical and macroeconomic risks	▲	Our operations and portfolios are subject to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. Conflict in certain regions and geopolitical tensions are creating a more complicated business environment. Despite expected reductions, global interest rates are nevertheless likely to remain high in 2024, which could slow the growth of the global economy and affect our credit portfolio.
Technology and cybersecurity risk	►	There is a risk of service disruption or loss of data resulting from technology failures or malicious activities by internal or external threats. We continue to monitor changes to the threat landscape, including those arising from ongoing geopolitical and macroeconomic events, and the impact this may have on third-party risk management. We operate a continuous improvement programme to help protect our technology operations and counter a fast-evolving cyber threat environment.
Environmental, social and governance ('ESG') risks	▲	We are subject to ESG risks including in relation to climate change, nature and human rights. These risks have increased owing to the pace and volume of regulatory developments globally, increasing frequency of severe weather events, and due to stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial risks, including reputational, legal and regulatory compliance risks.
Financial crime risk	▲	We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity. The financial crime risk environment is heightened due to increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and dynamic nature of sanctions compliance, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud. As a result, we will continue to face the possibility of regulatory enforcement and reputational risk.
Digitalisation and technological advances	▲	Developments in technology and changes in regulations continue to enable new entrants to the banking industry and new products and services offered by competitors. This challenges us to continue to innovate with new digital capabilities and adapt our products, to attract, retain and best serve our customers. Along with opportunities, new technology, including generative AI, can introduce risks and we seek to ensure these are understood and managed with appropriate controls.
Evolving regulatory environment risk	►	The regulatory and compliance risk environment remains complex, in part due to the UK's Financial Conduct Authority's ('FCA') implementation of its Consumer Duty in July 2023. There continues to be an intense regulatory focus on ESG matters, including on 'green' products. Regulatory scrutiny of financial institutions following recent banking failures may result in new or additional regulatory requirements impacting the Group in the short to medium term.
Internally driven		
Data risk	►	We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. If our data is not accurate and timely, our ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. We seek to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data.
Risks arising from the receipt of services from third parties	▲	We procure goods and services from a range of third parties. Due to the current macroeconomic and geopolitical climate, the risk of service disruption in our supply chain has heightened. We continue to strengthen our controls, oversight and risk management policies and processes to select and manage third parties, including our third parties' own supply chains, particularly for key activities that could affect our operational resilience.
Model risk	▲	Model risk arises whenever business decision making includes reliance on models. We use models in both financial and non-financial contexts, as well as in a range of business applications. Evolving regulatory requirements are driving material changes to the way model risk is managed across the banking industry, with a particular focus on capital models. New technologies, including AI and generative AI, are driving a need for enhanced model risk controls.
Change execution risk	►	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. We continue to monitor, manage and oversee change execution risk to try to ensure that our change portfolios and initiatives deliver the right outcomes for our customers, people, investors and communities.
Risks associated with workforce capability, capacity and environmental factors with potential impact on growth	▼	Our businesses, functions and geographies are exposed to risks associated with employee retention and talent availability, and compliance with employment laws and regulations. While high employee attrition has continued to ease generally, a small number of markets still experience heightened inflation, turnover and labour market difficulties. Failure to manage these risks may impact the delivery of our strategic objectives or lead to regulatory sanctions or legal claims.
▲ Risk heightened during 2023 ► Risk remained at the same level as 2022 ▼ Risk decreased during 2023		

Long-term viability and going concern statement

Under the UK Corporate Governance Code, the Directors are required to provide a viability statement that must state whether the Group will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks it faces. They must also specify the period covered by, and the appropriateness of, this statement.

The Directors have specified a period of three years to 31 December 2026. They are satisfied that a forward-looking assessment of the Group for this period is sufficient to enable a reasonable statement of viability. In addition, this period is covered by the Group's stress testing programmes, and its internal projections for profitability, key capital ratios and leverage ratios. Notwithstanding this, our stress testing programmes also cover scenarios out to five years and our assessment of risks are beyond three years where appropriate (see page 140):

- This period is representative of the time horizon to consider the impact of ongoing regulatory changes in the financial services industry.
- Our updated business plan covers 2024–2028.

The Board, having made appropriate enquiries, is satisfied that the Group as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it therefore continues to adopt the going concern basis in preparing the financial statements.

Based upon their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet liabilities as they fall due over the next three years.

In making their going concern and viability assessments, the Directors have considered a wide range of detailed information relating to present and potential conditions, including projections for profitability, liquidity, capital requirements and capital resources.

The Directors carried out a robust assessment of the emerging and principal risks facing the Group to determine its long-term viability, including those that would threaten its

solvency and liquidity. They determined that the principal risks are the Group's top and emerging risks as set out on page 38. These include geopolitical and macroeconomic risks (including geopolitical tensions and their impact on sanctions, trade restrictions and continued distressed Chinese economic activity), digitalisation and technological advances, financial crime risk and ESG risks, all of which have remained at heightened levels during 2023.

The Directors assessed that all of the top and emerging risks identified are considered to be material and, therefore, appropriate to be classified as the principal risks to be considered in the assessment of viability. They also appraised the impact that these principal risks could have on the Group's risk profile, taking account of mitigating actions planned or taken for each, and compared this with the Group's risk appetite as approved by the Board.

In carrying out their assessment of the principal risks, the Directors considered a wide range of information including:

- details of the Group's business and operating models, and strategy (see page 11);
- details of the Group's approach to managing risk and allocating capital;
- the continued validity of our existing risk management practices, liquidity monitoring process and metric assumptions, in light of the high-profile US and Swiss banking failures in the first quarter of 2023;
- a summary of the Group's financial position considering performance, its ability to maintain minimum levels of regulatory capital, liquidity funding and the minimum requirements for own funds and eligible liabilities over the period of the assessment. Notable are the risks which the Directors believe could cause the Group's future results or operations to adversely impact any of the above;
- enterprise risk reports, including the Group's risk appetite profile (see page 136) and top and emerging risks (see page 140);
- the impact on the Group due to the Russia-Ukraine and Israel-Hamas wars; instability

in China's commercial real estate sector and strained economic and diplomatic relations between China and the US, the UK, the EU and other countries;

- reports and updates regarding regulatory and internal stress testing. The 2022–2023 Bank of England annual cyclical scenario stress test results were published on 12 July 2023. The stress scenario explored the potential impacts of a global economic contraction, persistently higher inflation and interest rates in advanced economies with materially increased unemployment, and a sharp fall in asset prices. Additionally during the second half of 2023, the Group-wide internal stress test was completed, which explores a prolonged global stress, depicting macroeconomic conditions that are generally more severe than that of the 2022–2023 annual cyclical scenario. The results of both these exercises indicated the Group is sufficiently capitalised to withstand a severe but plausible adverse stress;
- the results of our 2023 internal climate scenario analysis exercise. The results of this exercise further demonstrate the Group is sufficiently capitalised to withstand a severe stress. Further details of the insights from the 2023 climate scenario analysis are explained from page 225;
- reports and updates from management on risk-related issues selected for in-depth consideration;
- reports and updates on regulatory developments;
- legal proceedings and regulatory matters set out in Note 36 on the financial statements; and
- reports and updates from management on the operational resilience of the Group.

Aileen Taylor

Group Company Secretary and Chief Governance Officer

21 February 2024

Environmental, social and governance review

Our ESG review sets out our approach to our environment, customers, employees and governance. It explains how we aim to achieve our purpose, deliver our strategy in a way that is sustainable, and build strong relationships with all of our stakeholders.

- 42 Our approach to ESG
- 44 Environmental
- 75 Social
- 87 Governance

How we present our TCFD disclosures

Our overall approach to TCFD can be found on page 17 and additional information is included on pages 69 and 440. Further details have been embedded in this section and the Risk review section on pages 221 to 230. Our TCFD disclosures are highlighted with the following symbol: **TCFD**

Our approach to ESG

We continue to work to incorporate environmental, social and governance principles throughout the organisation and to embed sustainability into the way we operate.

About the ESG review

Our purpose is: 'Opening up a world of opportunity'.

Our purpose is guided by our values: we value difference; we succeed together; we take responsibility; and we get it done.

Our approach to ESG is shaped by our purpose and values and a desire to create sustainable long-term value for our stakeholders. We collaborate and aim to build strong relationships with all of our stakeholders, which include the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and on the planet we all inhabit to deliver the ESG approach.

Transition to net zero

We have continued to take steps to implement our climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to net zero by 2050. In January 2024, we published our net zero transition plan, which is an important milestone in our journey to achieving our net zero ambition. The plan will help our people, customers, investors and other stakeholders to understand our long-term vision, the challenges, uncertainties and dependencies that exist, the progress we are making towards our own transition and what we plan to do in the future.

In this ESG review, we publish on-balance sheet financed emissions for thermal coal mining, in addition to other sectors we have already been reporting on, noting the challenge of evolving methodologies and data limitations. We also publish combined on-balance sheet financed and facilitated emissions for the oil and gas, and power and utilities sectors. We expect to iterate and mature our approach to supporting sector transitions over time. We also continue to work on improving our data management processes.

We continue to review policy implementation as we apply our policies in practice and our

The secret vegetable is "cauliflower". Our data-based approach

when identifying transactions and clients to which our energy policy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality.

We are also working with peers and industry bodies to help mobilise the systemic change needed to deliver action on climate change, nature and the just transition.

Environmental – Transition to net zero

- In January 2024, we published our net zero transition plan. This provides an overview of the progress we have made to date and what we plan to do next, although we acknowledge there is still much more to do.
- We have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities, and report the combined progress for both sectors.

[Read more in the Environmental section on page 44.](#)

Social – Building inclusion and resilience

- In 2023, 34.1% of senior leadership roles were occupied by women, with a target to achieve 35% by 2025, although progress has not been as fast paced as we would have liked. We also continued on a journey to meet our ethnicity goals.
- Employee engagement, which is our headline measure, increased by three points in 2023 and is now seven points ahead of the external financial services benchmark.

[Read more in the Building inclusion and resilience section on page 75.](#)

Governance – Acting responsibly

- We continue to raise awareness and develop our understanding of our salient human rights issues. In 2023, we provided practical guidance and training, where relevant, to our colleagues across the Group on how to identify and manage human rights risk.
- We were ranked as a top three bank against our competitors in 58% of our key six markets, although we still have work to do to improve our rank positions.

[Read more in the Governance section on page 87.](#)

Building inclusion and resilience

Our social approach is centred around fostering inclusion and building resilience for our colleagues, our customers, and in the communities we serve.

We are building a workforce that is representative of the communities that we serve and we have targets and programmes in place to ensure fair and inclusive recruitment and to support the equitable progression of under-represented groups. We also strive to create an inclusive and accessible banking experience for all of our customers, and to help them access the finance they need without unnecessary barriers.

Employee resilience is central to our success, so we provide a wide range of resources to support colleagues' mental, physical and financial well-being, as well as training and support so that they are equipped with the skills they need to further their careers. We support customer resilience with products, services and education that build their

capabilities so that they can understand their finances and manage them effectively.

Acting responsibly

Our governance approach focuses on acting responsibly and recognises topics such as human rights, conduct and data integrity.

Our policies and procedures help us to provide the right outcomes for customers, including those with enhanced care needs, which in 2023 took into account pressures from the increased cost of living. Customer experience is at the heart of how we operate and is measured through customer satisfaction and customer complaints.

We are continuing our journey to embed ESG principles across the organisation, including incorporating climate risks within the risk management framework, training our workforce, incorporating climate-related targets within executive scorecards, and engaging with customers and suppliers.

How we decide what to measure

We listen to our stakeholders in a number of different ways, which we set out in more detail within the 'ESG overview' on page 14. We use the information they provide us to identify the issues that are most important to them and consequently also matter to our own business.

Our ESG Committee and other relevant governance bodies regularly discuss the new and existing themes and issues that matter to our stakeholders. Our management team then uses this insight, alongside the framework of the ESG Guide (which refers to our obligations under the Environmental, Social and Governance Reporting Guide contained in Appendix C2 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited), and the LR9.8.6R(8) of the Financial Conduct Authority's ('FCA') Listing Rules, and other applicable laws and regulations to choose what we measure and publicly report in this ESG review. Under the ESG Guide, 'materiality' is considered to be

the threshold at which ESG issues become sufficiently important to our investors and other stakeholders that they should be publicly reported. Our approach to materiality also considers disclosure standards and other applicable rules and regulations as part of our materiality assessment for specific ESG topics and relevant disclosures.

Given the recent developments in the ESG regulatory environment across various jurisdictions in which we operate, combined with the relative immaturity of processes, systems, data quality and controls, our focus remains on supporting a globally consistent set of mandatory sustainability standards. We aim to continue to evolve our reporting to recognise market developments, such as the International Sustainability Standard Board ('ISSB') or the Corporate Sustainability Reporting Directive ('CSRD'), and support the efforts to harmonise the disclosures. In this *Annual Report and Accounts*, we continue

to report against the core World Economic Forum ('WEF') Stakeholder Capitalism Metrics, and Sustainability Accounting Standards Board ('SASB') metrics and will continue to review our approach as the regulatory landscape evolves.

Consistent with the scope of financial information presented in our *Annual Report and Accounts*, the ESG review covers the operations of HSBC Holdings plc and its subsidiaries. Given the relative immaturity of ESG-related data and methodologies in general, we are on a journey towards improving completeness and robustness.

► For further details of our material ESG topics, see 'Engaging with our stakeholders and our material ESG topics' on page 15.

► For further details of our approach to reporting, see 'Additional information' on page 439.

Our reporting around ESG

We report on ESG matters throughout our *Annual Report and Accounts*, including the 'ESG overview' section of the Strategic Report (pages 14 to 19), this ESG review (pages 41 to 98), and the 'Climate risk' and 'Insights from climate scenario analysis' sections of the Risk review (pages 221 to 230). In addition, we have other supplementary materials, including our *ESG Data Pack*, which provides a more granular breakdown of ESG information.

Detailed data	Additional reports
<i>ESG Data Pack 2023</i> , including SASB Index 2023 and WEF Index 2023	UK Pay Gap Report 2023 Modern Slavery and Human Trafficking Statement 2023 Green Bond Report 2023 HSBC UN Sustainable Development Goals Bond and Sukuk Report 2023

► For further details of our supplementary materials, see our ESG reporting centre at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Assurance relating to ESG data TCFD

HSBC Holdings plc is responsible for preparation of the ESG information and all the supporting records, including selecting appropriate measurement and reporting criteria, in our *Annual Report and Accounts*, *ESG Data Pack* and the additional reports published on our website.

We recognise the importance of ESG disclosures and the quality of data underpinning them. We also acknowledge that our internal processes to support ESG disclosures are in the process of being developed and currently rely on manual sourcing and categorisation of data. Certain aspects of our ESG disclosures are subject to enhanced verification and assurance procedures including the first, second and third line of defence. Assurance assists in reducing the risk of restatement, although it cannot be fully eliminated given the challenges in data, evolving methodologies and emerging standards. We aim to continue to enhance our approach in line with external expectations.

For 2023, ESG data is subject to stand-alone independent PwC limited assurance in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance Engagements on Greenhouse Gas Statements', issued by the International Auditing and Assurance Standards Board, on the following specific ESG-related disclosures and metrics:

- our Green Bond Report 2023 (published in December 2023);
- our progress towards our ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030 (see page 49);
- our on-balance sheet financed emissions for 2021 and 2022 for six sectors, our on-balance sheet financed emissions for 2020

for thermal coal mining, and our facilitated emissions for two sectors for 2019 to 2022 (see page 61);

- our thermal coal financing drawn balance exposures for 2020 (see page 67); and
- our own operations' scope 1, 2 and 3 (business travel) greenhouse gas emissions data (see page 64), as well as supply chain emissions data.

The work performed for independent limited assurance is substantially less than the work performed for a reasonable assurance opinion, like those provided over financial statements.

Our data dictionaries and methodologies for preparing the above ESG-related metrics and independent PwC's limited assurance reports can be found at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Environmental ^{TCFD}

Transition to net zero

We support the transition of our customers, industries and markets to a net zero and a sustainable future, while moving to net zero ourselves.

At a glance

Our approach to transition to net zero

Our net zero ambition represents one of our four strategic pillars. In January 2024, we published our net zero transition plan. It provides an overview of our approach to net zero and the actions we are taking to help meet our ambition. It sets out how we are working to embed net zero across key areas of our organisation to help ensure that we can play a role in the transition to net zero in the markets we serve.

Supporting our customers

To help achieve the scale and speed of change required to transition to net zero, we know we need to support our customers not just with finance, but with the services, insights and tools to help them to transition. In 2023, we continued to provide sustainable financing and investment to our customers in line with our ambition to provide and facilitate \$750bn to \$1tn by 2030. We report our progress against our 2030 financed emissions targets and our wider progress towards net zero by 2050, including how we plan to engage with customers in high-emitting sectors.

Embedding net zero into the way we operate

We take a risk-based, proportionate and iterative approach to embedding net zero into our organisation, focusing our efforts on where we can help drive material and implementable change, and applying learnings as we go along. Our approach will continue to mature over time with evolving science, methodologies, industry standards and regulatory requirements, and improvements in data and in technology infrastructure.

Partnering for systemic change

Our ability to achieve our own net zero ambition is heavily reliant on the mobilisation of all stakeholders, public and private, across multiple geographies. We continue to support systemic change through new and existing partnerships, and we engage through industry alliances and initiatives to help build a supportive enabling environment.

Impact on reporting and financial statements

We have assessed the impact of climate risk on our balance sheet and have concluded that there is no material impact on the financial statements for the year ended 31 December 2023. The effects of climate change are a source of uncertainty. We capture known and observable potential impacts of climate-related risks in our asset valuations and balance sheet calculations. These are considered in relevant areas of our balance sheet, including expected credit losses, classification and measurement of financial instruments, goodwill and other intangible assets; and in making the long term viability and going concern assessment. As part of assessing the impact on our financial statements we conducted scenario analysis to understand the impact of climate risk on our business (see page 65). For further details of our climate risk exposures, see page 221.

For further details of how management considered the impact of climate-related risks on its financial position and performance, see 'Critical estimates and judgements' on page 343.

In this section

Overview	Our approach to the transition	We aim to achieve net zero in our financed emissions by 2050, and in our own operations and supply chain by 2030.	Page 45
	Understanding our climate reporting	To achieve our climate ambition we need to be transparent on the opportunities, challenges, related risks and progress we make.	Page 46
Supporting our customers	Sustainable finance and investment	Our ability to help finance the transformation of businesses and infrastructure is key to building a sustainable future for our customers and society.	Page 49
	Financed emissions	We aim to align our financed emissions to achieve net zero by 2050 and support our clients on their transition.	Page 53
Embedding net zero into the way we operate	Net zero in our own operations	Part of our ambition to be a net zero bank is to achieve net zero carbon emissions in our operations and supply chain by 2030.	Page 63
	Managing climate risk	We manage climate risk across all our businesses in line with our Group-wide risk management framework. Enhancing our climate change stress testing and scenario analysis capability is crucial in identifying and understanding climate-related risks and opportunities.	Page 65
	Sustainability risk policies	Our sustainability risk policies seek to ensure that the financial services that we provide to customers do not result in unacceptable impacts on people or the environment.	Page 66
Partnering for systemic change	Supporting systemic change to deliver net zero	We collaborate with a range of partners to support the development of an enabling environment and mobilise finance for nature and climate.	Page 68
Our approach to climate reporting	Task Force on Climate-related Financial Disclosures ('TCFD')	Our TCFD index provides our responses to each of the 11 recommendations and summarises where additional information can be found.	Page 69

Overview TCFD

Our approach to the transition

The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, compared with pre-industrial levels. To limit the rise to 1.5°C, the global economy would need to reach net zero greenhouse gas emissions by 2050. We are working to achieve a 1.5°C-aligned phase-down of financed emissions from our portfolio.

In October 2020, we announced our ambition to become a net zero bank by 2050 and in 2021 we included the transition to net zero as one of the four key pillars of our corporate strategy.

Our starting point in the transition to net zero is one of a heavy financed emissions footprint. Our history means our balance sheet is weighted towards the sectors and regions which matter the most in terms of emissions, and whose transitions are therefore key to the world's ability to reach net zero on time. This means we will have a complex transition, with markets and sectors at different starting points and moving at different speeds. However, it also provides us with an opportunity to work with our customers to help make an impact – in both the emissions challenge and the financing challenge.

Responding to the challenges and opportunities presented by net zero requires us to work across HSBC to implement and embed our net zero approach, to manage associated risks, and to help sustain and grow value for our customers, our shareholders and our wider stakeholders. We want to make financing, facilitating and investment choices that can lead to a meaningful impact on emissions reduction in the real economy, not just in our portfolio. This requires engaging with our customers on their transitions to help finance decarbonisation in the sectors and geographies with the most change ahead.

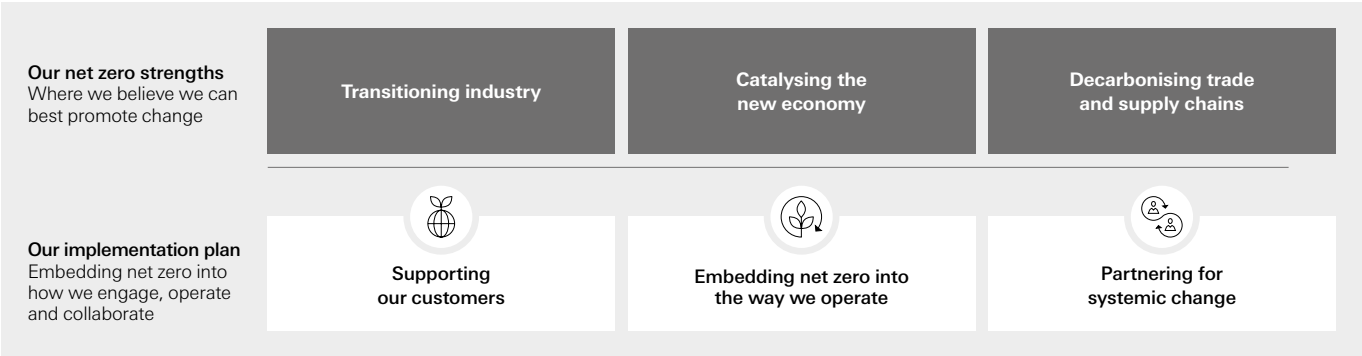
In January 2024, we published our net zero transition plan. It provides an overview of our approach to net zero and the actions we are taking to help meet our ambition. It sets out how we intend to use our strengths as an organisation to help deliver a broader impact on decarbonisation, how we are working to embed net zero across key areas of our organisation, and the principles that we aim to use to guide the implementation of our approach.

Our net zero strengths
We aim to rebalance our capital deployment towards achieving net zero over the coming decades. We believe we can do this best by promoting change in three key areas that play to our strengths as an organisation: transitioning industry; catalysing the new economy; and decarbonising trade and supply chains.

Our implementation plan
We are working to embed net zero across our organisation. This includes embedding net zero into: the way that we support our customers, both through customer engagement and the provision of financing solutions; the way that we operate as an organisation, including risk management, policies, governance and own operations; and how we partner externally in support of systemic change. It also means focusing first on the sectors and customers with the highest emissions and transition risks, and evolving and expanding our efforts over time.

Our net zero principles
In implementing our approach to net zero, we aim to be guided by a set of principles which are aligned with our core values: science-based, transparent and accountable; integrating nature; and just and inclusive.

For further details of our approach to the transition, see our Net Zero Transition Plan 2024 at www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan.



The secret object #1 is a "clock".

Understanding our climate reporting

The availability of high-quality climate-related data, transparent reporting standards and consistent methodology will play a vital role in helping deliver the economic transformation required to limit global warming to 1.5°C at the speed and scale that is needed. We understand that our existing data, systems, controls and processes require significant enhancements to drive effective change, but we recognise the necessity to balance this with providing early transparency on climate disclosures.

Our stakeholder dependency

Critical to our approach is a recognition that as a bank we cannot do this alone. Our ability to transition relies on decarbonisation in the real economy – both the supply and demand side – happening at the necessary pace. Our customers and the industries and markets we serve will need to transition effectively, supported by strong government policies and regulation, and substantially scaled investment. Engagement and collaboration are therefore key to how we respond.

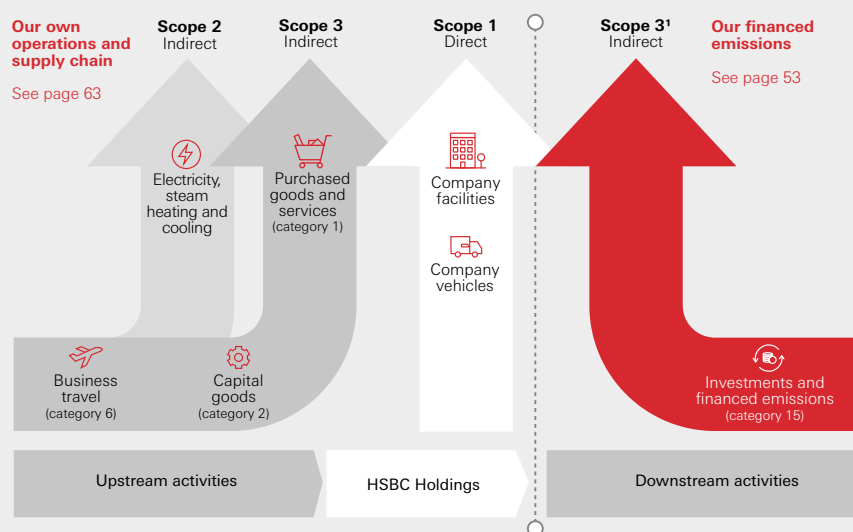
We acknowledge that to achieve our climate ambition we need to be transparent about the opportunities, challenges, related risks we face and progress we make. Our reporting must evolve to keep pace with market developments, and we will aim to work through challenges and seek to improve consistency across different markets. Standard setters and regulators will play a critical role. Some of the limitations and challenges that our organisation, and the wider industry, currently face with regard to climate reporting are highlighted on pages 47 to 48.

Explaining scope 1, 2 and 3 emissions

To measure and manage our greenhouse gas emissions, we follow the Greenhouse Gas Protocol global framework, which identifies three scopes of emissions. Scope 1 represents the direct emissions we create. Scope 2 represents the indirect emissions resulting from the use of electricity and energy to run a business. Scope 3 represents indirect emissions attributed to upstream and downstream activities. Our upstream activities include business travel and emissions from our supply chain including transport, distribution and waste. Our downstream activities include those related to investments and including financed emissions.

Under the protocol, scope 3 emissions are also broken down into 15 categories, of which we provide reporting emissions data for three related to upstream activities. These are: purchased goods and services (category 1); capital goods (category 2); and business travel (category 6). We also report data on downstream activities for financed emissions (category 15).

For further breakdown of our scope 1, 2 and 3 emissions, see our ESG Data Pack at www.hsbc.com/esg.



1 Our analysis of financed emissions comprises 'on-balance sheet financed emissions' and 'facilitated emissions'.



Accelerating investment in Baltic offshore wind energy

Polish multi-energy company Orlen Group and Canadian power producer Northland Power have set up a joint venture to build the Baltic Power project – the first offshore wind farm in Polish waters of the Baltic Sea.

In September 2023, we played a key role in supporting the construction and operation of 76 offshore turbines when we acted as a mandated lead arranger for a \$3.8bn (€4.4bn) credit facility. We helped coordinate a syndicate of 25 Polish and international financial institutions to finance the project.

With a target capacity of almost 1.2 gigawatts, the wind farm is expected to represent a significant step in reducing Poland's reliance on fossil fuels and generate enough clean electricity to power the equivalent of more than 1.5 million homes annually.

Understanding our climate reporting continued

Keeping up-to-date with real economy progress

Net zero-aligned scenarios are dynamic by nature; they are typically updated every few years to incorporate significant shifts that have occurred in the real economy. Key drivers of this include changes in the economic environment, new data on technology deployment across sectors and geographies, new policies, and increased investment in clean energy and/or in fossil fuels.

The reference scenario we have selected to date for our published 2030 targets, for on-balance sheet and facilitated emissions, is the International Energy Agency's ('IEA') NZE 2021 scenario, which is 1.5°C-aligned with limited overshoot. In September 2023, the IEA's NZE 2023 scenario was published as an update to reflect developments since 2021. As outlined in our net zero transition plan, going forwards we intend to review each updated set of 1.5°C-aligned scenarios to further develop and enhance our understanding of the latest outlooks for evolving pathways to achieve net zero by 2050. This will help us to consider whether, how and when to iterate and update our approach to scenario selection and target setting, portfolio alignment, and policies to keep pace with the latest science and real-world developments. We anticipate standard setter and industry guidance on the treatment of updated scenarios in target-setting to emerge.

We recognise that the so-called 'hard-to-abate' sectors, such as cement, iron, steel and aluminium, and aviation have a large dependence on nascent technologies and the presence (or not) of enabling policies and regulations. We may progress relative to 1.5°C-ranges for these sectors in the future, which could include industry-specific scenarios alongside the IEA NZE scenario.

Critical dependencies

Progress in the real economy towards net zero will likely be non-linear and will depend heavily on external factors including the

policy and regulatory landscape, the speed of technological innovation, major economic shifts and geopolitical events. There is also a risk of government or customer net zero pledges or transition plans not turning into the necessary emissions reductions in the coming decade, or in the case of hard-to-abate sectors, being pared back if technologies do not scale in time. In addition, climate science, the quality of data, and the scenarios upon which we have based our approach will change. We recognise that while we have limited control of these external dependencies, we can be clear on where we intend to focus our efforts to help drive meaningful change, and that we expect to iterate and mature our approach over time.

Our internal and external data challenges

Our climate ambition requires us to continue to enhance our capabilities including governance, processes, systems and controls. In addition, there is a heightened need for subject matter experts for climate-related topics as well as upskilling of key colleague groups who are supporting customers through their net zero transition. We also need new sources of data, some of which may be difficult to assure using traditional verification techniques. This challenge, coupled with diverse external data sources and structures, further complicates data consolidation. Our internal data on customer groups used to source financial exposure and emissions data is based on credit and relationship management attributes, and is not always aligned to the data needed to analyse emissions across sector value chains. As a consequence, this can result in an inconsistent basis in our financed emissions calculations.

Our climate resources are underpinned by efforts to develop our data and analytics capabilities and to help ensure that we have the appropriate processes, systems, controls and governance in place to support our transition.

We continue to increase automation of our processes, with a particular focus on developing our ESG data capabilities to help address data gaps and improve consistency.

This includes sourcing more reliable data from external providers. We are also developing our processes, systems, controls and governance to meet the demands of future ESG reporting. Certain aspects of our reporting rely on manual sourcing and categorisation of data that is not always aligned with how our businesses are managed. We also have a dependency on emissions data from our clients. Given the manual nature of the process, enhanced verification and assurance procedures are performed on a sample basis over this reporting, including the first and second line of defence. Our climate models undergo independent review by an internal model review group, and we obtain limited assurance on our financed emissions and sustainable finance disclosures from external parties, including our external auditors.

Policy implementation

We continue to review policy implementation as we apply our policies in practice, and our operationalisation of such policies continues to be enhanced. We take a risk-based approach when identifying transactions and clients to which our energy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality. This helps to focus our efforts on areas where we believe we can help drive meaningful change, while taking into account experience from policy implementation over time.

An evolving approach to embedding net zero

We acknowledge that our assessment of client transition plans – which to date has focused on clients in scope of our thermal coal phase-out and energy policies – is at an early stage with initial learnings on methodology and client engagement. We are also at the early stages of embedding transition plans alongside financed emissions into transaction and portfolio level business and risk processes. Our net zero transition plan provides further details of work underway and planned.

Limited alignment on sustainable finance taxonomies

Sustainable finance metrics, taxonomies and best practices lack global consistency. As standards develop over time and as the regulatory guidance around them evolves across jurisdictions, our methodologies, disclosures and targets may need to evolve. This could lead to differences in year-on-year reporting and restatements.

We continue to engage with standard setters in different regions to support the development of transparent and consistent taxonomies to best incentivise science-based decarbonisation, particularly in high transition risk sectors. We aim to align to enhanced industry standards as they are further developed, and increase transparency across the different types of green and sustainable finance and investment categories going forward.



Understanding our climate reporting continued

Financed emissions reporting challenges

The methodologies and data used to assess financed emissions and set targets continue to evolve alongside changes to industry guidance, market practice and regulation. We plan to refine our analysis using appropriate data sources and current methodologies available for the sectors we analyse. We have developed an internal recalculation policy (see page 56) to define the circumstances under which a recalculating of financed emissions is necessary to help support the consistency, comparability and relevance of our reported emissions data over time.

We have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities, and report the combined progress for both sectors. We continue to report on-balance sheet financed emissions and targets for cement, iron, steel and aluminium, aviation, automotive and in 2023 we added thermal coal mining financed emissions.

Emissions related to our insurance business are partially captured within the disclosures of HSBC Asset Management, which manages the vast majority of our insurance assets. The Partnership for Carbon Accounting Financials ('PCAF') standard for insurance associated emissions (part C) is not applicable to our insurance business as HSBC Insurance focuses on the manufacturing of life insurance products.

In November 2023, our asset management business updated its 2022 thermal coal phase-out policy and released a new energy policy. It continues to focus on its portfolios' scope 1 and scope 2 decarbonisation target for 2030 with the aim of aligning with net zero emissions by 2050 or sooner. The commitment covers listed equity and corporate fixed income where data is most reliable and methodologies are most mature.

In January 2023, we withdrew our commitment to the Science Based Targets initiative ('SBTi'), which we had made in 2016, because we determined that it would not be feasible for us to meet SBTi's requirement to submit a complete set of sector targets for validation by its deadline. We continue to engage with SBTi on guidance for financial institutions and we participated in SBTi's consultation process on its revised standards during the year.

Disclosure revisions

We are committed to timely and transparent reporting. However, we recognise that challenges on data sourcing, as well as the evolution of our processes and industry standards, may result in us having to restate

certain disclosures. In 2023, there has been an impact on certain climate disclosures, as follows:

- Financed emissions: we improved our methodology for calculating financed emissions using more granular product identification to isolate exposure in scope, more consistent emission factors for estimates, and a revised aggregation method for emission intensity. Previously reported on-balance sheet numbers included non-lending exposures for market products in error. The more granular product identification will help ensure these are not included in future.
- Financed emissions: to reflect these enhancements we have set out the recalculated metrics for the oil and gas, and power and utilities sectors in the financed emissions section. The oil and gas baseline for on-balance sheet financed emissions is now 28.4 million tonnes of carbon dioxide equivalent ('Mt CO₂e') for 2019 versus 33.0 Mt CO₂e reported in the *Annual Report and Accounts 2022*. The power and utilities baseline for on-balance sheet financed emissions is now 537.5 tonnes of carbon dioxide equivalent per gigawatt hour ('tCO₂e/GWh') for 2019 versus 589.9 tCO₂e/GWh reported in the *Annual Report and Accounts 2022*. For other sectors, changes were not material enough to warrant a recalculation.
- Thermal coal exposures: we have now revised the basis of preparation for our thermal coal exposures. Aligned with our thermal coal phase-out policy, we applied a risk-based approach to identify clients and report on relevant exposures. Our thermal coal financing drawn balance exposure was approximately \$1bn[†] as at 31 December 2020. We continue to work on our 2021 and 2022 numbers based on our revised basis of preparation and expect to report on these in future disclosures.
- Thermal coal power financed emissions: we have discontinued separate tracking and reporting of thermal coal power financed emissions. A review of the counterparties included within the on-balance sheet financed emissions calculation showed that the majority of thermal coal power entities in scope are included in other financed emission sector targets. We previously set separate targets to reduce on-balance sheet financed emissions for thermal coal power and thermal coal mining aligned to our thermal coal phase-out policy. We plan to maintain a financed emissions target for thermal coal mining only, and have set an absolute on-balance sheet reduction target for 2030 from a 2020 baseline. We used 2020 as a baseline to align with those applied to our drawn balance exposure targets. These targets reflect the percentage reduction that the IEA indicates in its net zero emissions scenario for global emissions to 2030.

Continuing to evolve our climate disclosures

We understand the need to provide early transparency on climate disclosures but we must balance this with the recognition that our existing data and reporting processes require significant enhancements. Due to ongoing data availability and quality challenges, we continue to assess our financed emissions for our real estate and agriculture sectors.

We are engaging with standard setters to support the development of transparent and consistent climate-related industry standards in areas such as product labelling, sustainability disclosures, sustainable finance taxonomy and emissions accounting. Voluntary industry initiatives can also help shape action and collaboration, and often form the basis of future climate policy and regulation. For example, we supported the TCFD, which is now referenced in climate disclosure rules around the world.

In 2024, we will continue to review our approach to disclosures, and enhance as appropriate.

- Shipping: following a reduction in our exposure to the shipping sector after the strategic sale of part of our European shipping portfolio in 2023, and work undertaken to assess the materiality of our remaining portfolio from a financed emissions perspective, we have concluded that the remaining exposure as of year-end 2023 is not material enough to warrant setting a stand-alone target. This aligns with Net-Zero Banking Alliance ('NZBA') guidelines on sector inclusion for target setting.

▮ For details of assurance over our ESG data, see page 43.

▮ For details of our approach to calculating financed emissions and the relevant data and methodology limitations, see page 55.

▮ For details of our sustainable finance and investment ambition, see page 49.

▮ For details of our approach to thermal coal financing exposures, see page 67.

▮ For further details of our asset management policies, see page 67.

[†] Data is subject to independent limited assurance by PwC in accordance with ISAE 3000/ ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology and PwC's limited assurance report*, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Supporting our customers

Sustainable finance and investment TCFD

We recognise that we have an important role to play in supporting the transition to a net zero global economy. As a global organisation with a presence in the regions and sectors where most significant change is needed, we are well placed to help transition industry and catalyse the new economy to reach net zero.

Progress on our sustainable finance and investment ambition

We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030. Our sustainable finance and investment ambition aims to help promote green, sustainable and socially-focused business and sustainable investment products and solutions.

Since 1 January 2020, we have provided and facilitated \$267.8bn of sustainable finance and \$26.6bn of ESG and sustainable investing, as defined in our *Sustainable Finance and Investment Data Dictionary 2023*. This included 38% where the use of proceeds were dedicated to green financing, 12% to social financing, and 15% to other sustainable financing. It also included 26% of sustainability-linked financing and 9% of net new investment flows managed and distributed on behalf of investors. In 2023, our underwriting of green, social, sustainability and sustainability-linked bonds for clients decreased over the year, measured on a proportional share basis, in line with the wider bond market environment, although it remained at 15% of our total bond underwriting. On-balance sheet sustainable

lending transactions increased by 7% compared with 2022. In 2023, transactions totalling \$0.7bn were identified as no longer fulfilling our eligibility criteria. These were declassified and removed from the cumulative progress total, and reported as a negative entry in 2023.

Continued progress towards achieving our sustainable finance and investment ambition is dependent on market demand for the products and services set out in our *Sustainable Finance and Investment Data Dictionary 2023*.

	2023 (\$bn)	2022 (\$bn)	2021 (\$bn)	2020 (\$bn)	Cumulative progress since 2020 (\$bn)
Sustainable finance and investment summary¹					
Balance sheet-related transactions provided	42.7	42.2	26.0	10.4	121.3
Capital markets/advisory (facilitated)	33.3	34.5	48.7	30.0	146.5
ESG and sustainable investing (net new flows)	7.7	7.5	7.7	3.7	26.6
Total contribution²	83.7	84.2	82.4	44.1	294.4
Sustainable finance and investment classification by theme					
Green use of proceeds ^{3,4}	37.1	29.0	27.1	18.9	112.1
Social use of proceeds ³	8.4	6.7	11.3	9.7	36.1
Other sustainable use of proceeds ^{3,5}	10.7	12.6	11.7	8.3	43.3
Sustainability-linked ⁶	19.8	28.4	24.6	3.5	76.3
ESG and sustainable investing ⁷	7.7	7.5	7.7	3.7	26.6
Total contribution^{2,8}	83.7	84.2	82.4	44.1	294.4

¹ The 2023 data in this table has been prepared in accordance with our Sustainable Finance and Investment Data Dictionary 2023, which includes green, social and sustainability activities. The amounts provided and facilitated include: the limits agreed for balance sheet-related transactions provided, the proportional share of facilitated capital markets/advisory activities and the net new flows of sustainable investments within assets under management.

² The \$294.4bn cumulative progress since 2020 is subject to PwC's limited assurance in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. For our Sustainable Finance and Investment Data Dictionary 2023 and PwC's limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

³ For green, social and other sustainable use of proceeds, the capital markets products are aligned to the International Capital Markets Association's ('ICMA') Green Bond Principles, Social Bond Principles or Sustainability Bond Guidelines or the Climate Bonds Initiative as applicable. The lending labelled products are aligned to the Green Loan Principles ('GLP') or Social Loan Principles of the Loan Market Association ('LMA'), Asia-Pacific Loan Market Association ('APLMA') and the Loan Syndications and Trading Association ('LSTA') as applicable; or for our sustainable trade instruments, are aligned to HSBC's internal sustainable trade instrument principles which are based on the GLP and reference the UN SDGs. Also included are facilities where HSBC identifies that the use of proceeds would meet eligibility criteria as defined and approved by appropriate governance committees but these are not labelled or marketed as green or social.

⁴ Included within the total cumulative contribution towards our ambition are transactions to customers within the six high transition risk sectors (i.e. automotive, chemicals, construction and building materials, metal and mining, oil and gas, and power and utilities) as described on page 223. Of which approximately \$37bn is defined as green use of proceeds in line with the Sustainable Finance and Investment Data Dictionary 2023.

⁵ Sustainable use of proceeds can be used for green, social or a combination of green and social purposes.

⁶ Our sustainability-linked labelled products are aligned to either the ICMA Sustainability-Linked Bond Principles or the Sustainability-Linked Loan Principles of the LMA, APLMA and the LSTA as applicable. The coupon or interest rate is dependent on whether the borrower achieves predefined sustainability performance targets. The funds can be used for general purposes.

⁷ Net new flows of both HSBC-owned (Asset Management) sustainable investment funds and Wealth and Global Private Banking investments assessed against the Sustainable Finance and Investment Data Dictionary 2023.

⁸ Additional detailed information on our sustainable finance and investment progress can be found in the ESG Data Pack at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Sustainable finance and investment continued

Sustainable finance and investment definitions

Our data dictionary defining our sustainable finance and investment continues to evolve, and is reviewed annually to take into account the evolving standards, taxonomies and practices we deem appropriate. This involves reviewing and strengthening our product definitions, where appropriate, adding and deleting qualifying products, making enhancements to our internal standards, and developing our reporting and governance.

Industry and regulatory guidance on definitions for sustainable finance continue to evolve. In 2023, the Glasgow Financial Alliance for Net Zero ('GFANZ'), NZBA and the UK government released work-in-progress definitions of transition finance. We will continue to monitor these and other developments in sustainable finance definitions.

Our progress will be published each year, and we will seek to continue for it to be independently assured.

Mobilising capital to support our customers

In 2023, we continued to focus on providing our customers with products, services and initiatives to help enable emissions reduction in the real economy.

For example, we increased our funding from \$5bn to \$9bn for our sustainable finance scheme that supports businesses of all sizes in China's Greater Bay Area to transition to low-carbon operations. The scheme, launched in 2022, provides successful loan applicants access to a range of additional services including training, subsidised third-party assessments and assistance from a team with sustainable financing expertise. For our Wealth and Personal Banking customers, we launched green mortgages in Mexico, electric vehicle loans in India and a referral service to our electric vehicle leasing partner in the UK.

In 2023, we introduced an internal briefing series called Net Zero in Practice, which covers new technologies relevant to the net zero transition, drawing on expertise from across the organisation and highlighting financing opportunities and case studies.

We continue to be a participant in the Just Energy Transition Partnerships ('JETPs') in Indonesia and Vietnam, and in the Nexus for Water, Food and Energy in Egypt. These initiatives aim to play a catalytic role in mobilising finance to accelerate the energy transition. For further details of our involvement with the JETPs, see page 68.

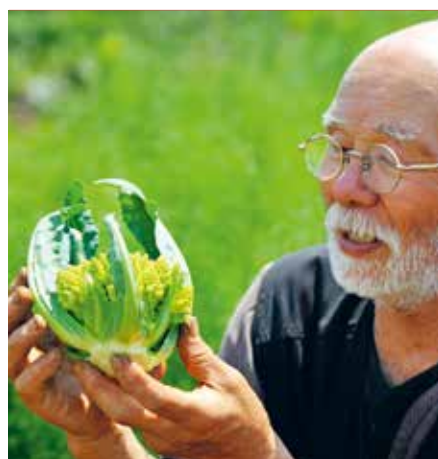
In 2023, we won three awards at the *Environmental Finance* Bond Awards. We retained the *Euromoney* award for Best Bank for Sustainable Finance in Asia for the sixth year in a row, and won the global award for Best Bank for Public Sector Clients in recognition of our innovation in sustainability and tokenised public-sector bonds.

Our sustainable finance and investment data dictionary

We define sustainable finance and investment as any form of financial service that integrates ESG criteria into business or investment decisions. This includes financing, investing and advisory activities that support the achievement of UN Sustainable Development Goals ('SDGs'), including but not limited to the aims of the Paris Agreement on climate change.

Details of our revised definitions of the contributing activities for sustainable finance and investment and how we calculate the amounts we count are available in our *Sustainable Finance and Investment Data Dictionary 2023*.

▶ For our ESG Data Pack and Sustainable Finance and Investment Data Dictionary, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.



Developing sustainable food supply chains in south-east Asia

Singapore-based Glife Technologies has developed a digital business-to-business food-sourcing platform that connects farmers from marginalised communities in south-east Asia to the hospitality industry.

The distribution network, served by an app, aims to improve the efficiency and sustainability of supply chains by aggregating orders and sourcing in bulk direct from farmers, in order to help control costs and reduce the risk of food waste from damage or contamination.

In June 2023, we provided a working capital loan and access to our cross-border network to help Glife expand its platform into new markets, including Malaysia and Indonesia. The loan also aims to help Glife finance social projects seeking to improve food security and creating more sustainable food systems. The loan was drawn from HSBC's New Economy fund, which is dedicated to investing in high-growth, pre-profit new economy businesses in Singapore.

Sustainable finance and investment continued

Responsible and sustainable investment

We offer a broad suite of ESG capabilities across asset management, global markets, wealth, private banking and securities services, to help institutional and individual investors to generate financial returns, manage risk and pursue ESG-related opportunities.

Our Asset Management business is committed to further developing our sustainable product range across asset classes, as well as enhancing our existing product suite for ESG and climate-related criteria where it is in the investors' interests to do so. In 2023, we launched 10 funds within our ESG and sustainable strategies, which adhere to, and are classified within, our *Sustainable Finance and Investment Data Dictionary 2023*.

HSBC Asset Management managed over \$684bn assets at the end of 2023, of which \$73.3bn comprise assets of funds and mandates invested in our ESG and sustainable strategies.

Our ESG and sustainable investing approach across different investment products can include but is not limited to the UN SDGs, including climate. For the avoidance of doubt, assets invested pursuant to, or considered to be in alignment with, HSBC's ESG and sustainable investing approach do not necessarily qualify as 'sustainable investments' as defined by the EU Sustainable Finance Disclosures Regulation ('SFDR') or other relevant regulations. Our ESG and sustainable investing approach is an HSBC internal classification approach used to establish our own ESG and sustainable investing criteria (recognising the subjectivity inherent in such an approach and the variables involved). It is also used to promote consistency across asset classes and business lines where relevant, and should not be relied on externally to assess the sustainability characteristics of any given product. There is no single global standard definition of, or measurement criteria for, ESG and sustainable investing or the impact of ESG and sustainable investing products.

We seek to take an active stewardship role to help drive positive change in the companies on our priority list in which we invest on behalf of our customers. The priority list, which is defined in our Global Stewardship Plan, can be found at: www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/-/media/files/attachments/uk/policies/stewardship-plan-uk.pdf.

HSBC Asset Management's fixed income, equity and stewardship teams held over 2,000 meetings with companies in its portfolios. This included engaging with companies on the priority list across several thematic priorities, such as climate change, human rights, public health, inclusive growth and shared prosperity, biodiversity and nature, trusted technology and data, and diversity, equity and inclusion.

For our private banking and wealth customers, we expanded our investment offering with the launch of eight ESG and sustainable investing mutual funds and exchange-traded funds in 2023. We also enhanced our ESG and sustainable investing structured products offering linked to indices such as the MSCI World Islamic ESG Select 8% Risk Control Index. Throughout 2023, we published regular ESG and sustainability-related market insights and updates such as #WhyESGMatters and Learning about ESG to help clients better understand the implications for their investments.

HSBC Life, our insurance business, continues to expand the availability of ESG investment fund options within its investment-linked products. In 2023, eight new ESG funds were introduced across Hong Kong, France and Singapore with a range of investment themes, including environmental, circular economy and sustainable energy.

In June, under the United Nations Environment Programme Finance Initiative ('UNEP FI') Principles for Sustainable Insurance, HSBC Life co-led a team of insurance organisations to publish an industry position paper focused on the role and opportunity for life and health insurers to help build a more inclusive and preventative healthcare model. This included examples of good industry practice to: help insurers improve access to healthcare; close the health protection gap; drive better health outcomes across populations; and mitigate potential health risks due to climate change and other environmental factors.

▶ For further details of our asset management policies, see page 67.

Helping customers to understand ESG in their investments

We have launched new metrics to help our Global Private Banking and Wealth customers understand the ESG performance of their investments. In selected markets in 2023, we also introduced a sustainability preference questionnaire to help identify and understand our customers' sustainable investing objectives and ambitions. By improving clarity on ESG performance, which traditional financial metrics fail to capture, we aim to provide customers with meaningful insights to enable them to make informed investment decisions. Examples of these metrics, available on digital platforms in selected markets, are:

- 'ESG rating and score', which measures a company's resilience to ESG risks provided by MSCI.
- 'Carbon intensity', which measures a company's carbon emissions per million of revenue, with data provided by S&P Trucost.

In addition, we have also introduced 'HSBC ESG and sustainable investing classifications', which help customers to understand and identify ESG and sustainable investing products in their investment portfolio according to HSBC's definition.

Sustainable finance and investment continued TCFD

Unlocking climate solutions and innovation

We recognise the need to find new solutions and increase the pace of change for the world to achieve the Paris Agreement goal of being net zero by 2050.

We are working with a range of partners to accelerate investment in sustainable infrastructure, natural resources and climate technology to help reduce emissions and address climate change.

Sustainable infrastructure

Addressing climate change requires the rapid development of a new generation of sustainable infrastructure.

HSBC continues to support the FAST-Infra Initiative, which we helped conceive, working with the IFC, OECD, the World Bank's Global Infrastructure Facility and the Climate Policy Initiative, under the auspices of the One Planet Lab. In 2023, the initiative, which aims to mobilise large-scale financing to develop sustainable infrastructure, invited pilot photovoltaic and wind power projects around the world to apply for the provisional FAST-Infra label. The label is awarded to projects that meet specific sustainability criteria. HSBC is supporting the introduction and widespread adoption of the labelling system as a standard for sustainable infrastructure assets globally.

Label applicants included a solar photovoltaic project submitted by Pentagreen Capital, our sustainable infrastructure debt financing partnership with Singapore-based investment firm Temasek. The project sponsor was Citicore Solar Energy Corporation, a subsidiary of the Philippines-focused renewable energy developer and operator Citicore Renewable Energy Corporation. Pentagreen acted as lead arranger of a \$100m green loan facility and committed an initial \$30m to help fund Citicore's development of six solar power projects capable of generating 490 megawatts of electricity for the island of Luzon in the Philippines. The commitment marks Pentagreen's first investment in the construction of ready-to-build clean energy projects.

In 2023, the Multilateral Investment Guarantee Agency of the World Bank Group issued HSBC Holdings a guarantee of \$1.8bn in regulatory capital relief on mandatory reserves held by its subsidiary in Mexico. The benefits of the capital relief are expected to be deployed to exclusively support eligible climate finance projects in Mexico, including renewable energy, energy efficiency, clean transportation and sustainable agriculture.

The HSBC Alternatives business, part of HSBC Asset Management, continued to develop its energy transition infrastructure capabilities in Asia, targeting investments in renewable energy generation, storage, grids, charging and hydrogen infrastructure. To help support the transition to green energy in North Asia, the energy transition infrastructure strategy made its first investment in solar photovoltaic power project developer Tekoma Energy.

Natural capital as an emerging asset class

Climate Asset Management, a joint venture we launched with climate investment and advisory firm Pollination in 2020, continues to create investment opportunities for investors to help protect biodiversity and support the transition to net zero.

It offers two investment strategies that aim to build resilience across landscapes while generating returns. Its nature-based carbon strategy targets nature restoration and conservation projects in developing economies, prioritising community benefits while generating high-quality carbon credits. Its natural capital strategy invests in agriculture, forestry and environmental assets and aims to deliver impact at scale alongside long-term financial returns.

On behalf of these strategies in 2023, Climate Asset Management allocated more than \$400m to projects in Kenya, Uganda, Malawi, Spain, Australia and Portugal.

Backing new technology and innovation

At the COP28 Summit in the UAE, HSBC pledged its support for the Energy Transition Accelerator Financing Platform, which aims to scale up the development of renewable energy projects in developing countries. Established in 2021 with initial support from the Abu Dhabi Fund for Development and the International Renewable Energy Agency, the platform brings together public and private institutions. HSBC signed alongside the European Bank for Reconstruction and Development, the International Finance Corporation and the Multilateral Investment Guarantee Agency. We will work with platform partners to expand the pipeline of investable projects in core HSBC markets, including in Asia and the Middle East, bringing financing solutions that support the transition to net zero.

We also became a founding member of the Global Climate Finance Centre, a newly launched UAE-based think tank created to connect public and private finance to help accelerate the transition to net zero.

HSBC Alternatives made direct investments in assets that help to promote the transition to a net zero climate. The venture capital strategy invests across four themes: power transformation, transport electrification, supply chain sustainability and climate risk mitigation. The strategy raised additional funds from institutional and private wealth clients over the course of 2023. As of 31 December 2023, the strategy had deployed capital into eight start-up companies. These included US-based Electric Era, which provides electric vehicle fast-charging technology, and Israel-based SeeTree, which has developed a software platform that tracks the health and productivity of trees.

Financed emissions TCFD

We announced our ambition to become a net zero bank in October 2020, including an aim to align our financed emissions to net zero by 2050 or sooner. We have published initial financed emissions targets for 2030, and plan to review them in five-year increments thereafter.

Our analysis of financed emissions comprises 'on-balance sheet financed emissions' and 'facilitated emissions', which we distinguish where necessary in our reporting. Our on-balance sheet financed emissions include emissions related to on-balance sheet lending, such as project finance and direct lending. Our facilitated emissions include emissions related to financing we help clients to raise through capital markets activities. Our analysis covers financing from Global Banking and Markets, and Commercial Banking.

Financed emissions link the financing we provide to our customers and their activities in the real economy, and provide an indication of the associated greenhouse gas emissions.

They form part of our scope 3 emissions, which include emissions associated with the use of a company's products and services.

In 2021, we started measuring financed emissions for oil and gas, and power and utilities. Following the December 2023 release of the PCAF Global GHG Accounting Standard for capital markets, we now include facilitated emissions for these sectors, in recognition of our role as service provider when customers issue debt and equity to investors. For target setting we now track the combined progress for on-balance sheet financed and facilitated emissions.

In 2022, we disclosed the on-balance sheet financed emissions targets for the following additional sectors: cement; iron, steel and aluminium; aviation; and automotive. We also set a target, and now measure, on-balance sheet financed emissions for the thermal coal mining sector. As part of our financial reporting, we present the progress for these sectors

against the financed emissions baselines that we now measure ourselves against.

Following a reduction in our exposure to the shipping sector after the strategic sale of part of our European shipping portfolio in 2023, and work undertaken to assess the materiality of our remaining portfolio from a financed emissions perspective, we have concluded that the remaining exposure as of year-end 2023 is not material enough to warrant setting a stand-alone target. This aligns with NZBA guidelines on sector inclusion for target setting.

We have announced a number of planned business disposals in recent years, and we will continue to consider how these may impact future disclosures, including recalculations.

For all sectors other than oil and gas and thermal coal mining, we have set emissions intensity targets. These targets are linked to real world production and help us to deploy capital towards decarbonisation solutions.

Our approach to financed emissions

In our approach to assessing our financed emissions, our key methodological decisions were shaped in line with industry practices and standards. We recognise these are still developing.

Coverage of our analysis

For each sector, our analysis focuses on the parts of the value chain where we believe the majority of emissions are produced to help reduce double counting of emissions. By estimating emissions and setting targets for customers that directly account for, or indirectly influence, the majority of emissions in each

industry, we can focus our engagement and resources where we believe the potential for change is highest. For each sector, our reported emissions now typically include all the major greenhouse gases, including carbon dioxide, methane and nitrous oxide, among others. These are reported as tonnes of CO₂ equivalent, in line with NZBA guidelines.

To calculate annual on-balance sheet financed emissions, we use drawn balances as at 31 December in the year of analysis related to wholesale credit and lending, which include business loans and project finance as the

value of finance provided to customers. We excluded products that were short term by design, and typically less than 12 months in duration, consistent with guidance from the PCAF, to reduce volatility. For facilitated emissions we considered all capital market transactions in scope for the year of analysis. These included debt and equity capital markets, and syndicated loans.

► For further details of our financed emissions methodology, exclusions, and limitations, see our *Financed Emissions and Thermal Coal Exposures Methodology* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

The chart below shows the scope of our financed emissions analysis of the seven sectors, including upstream, midstream and downstream activities within each sector. The allocation of companies to different parts of the value chain is highly dependent on expert judgement and data available on company revenue streams. As data quality improves, this will be further refined.

Sector	Scope of emissions	Value chain in scope				Coverage of greenhouse gases ('GHGs')
Oil and gas	1, 2 and 3	Upstream (e.g. extraction)	Midstream (e.g. transport)	Downstream (e.g. fuel use)	Integrated/diversified	All GHGs
Power and utilities	1 and 2	Upstream (e.g. generation)	Midstream (e.g. transmission and distribution)	Downstream (e.g. retail)		All GHGs
Cement	1 and 2	Upstream (e.g. raw materials, extraction)	Midstream (e.g. clinker and cement manufacturing)	Downstream (e.g. construction)		All GHGs
Iron, steel and aluminium	1 and 2	Upstream (e.g. raw materials, extraction)	Midstream (e.g. ore to steel)	Downstream (e.g. construction)		All GHGs
Aviation	1 for airlines, 3 for aircraft lessors	Upstream (e.g. parts manufacturers)	Midstream (e.g. aircraft manufacturing)	Downstream (e.g. airlines and air lessors)		All GHGs
Automotive	1, 2 and 3	Upstream (e.g. suppliers)	Midstream (e.g. motor vehicle manufacture)	Downstream (e.g. retail)		All GHGs
Thermal coal mining	1, 2 and 3	Upstream (e.g. extraction)	Midstream (e.g. processing)	Downstream (e.g. retail)		All GHGs

Key: Included in analysis

Financed emissions continued

Setting our targets

Our target-setting approach to date, for on-balance sheet financed emissions and facilitated emissions, has been to utilise a single net zero reference scenario (IEA NZE 2021) to underpin both energy supply-related sectors (oil and gas, power and utilities, and thermal coal mining) and our published targets for demand-side sectors in transport and heavy industry.

The impact of our capital markets activities is now reflected in our combined financed emissions targets for the oil and gas, and power and utilities sectors. Our facilitated emissions, included in our combined metrics, are weighted at 33%, in accordance with the PCAF standard. This approach dampens volatility, apportions responsibility between underwriters and asset owners, and allows for flexibility in deploying on and off-balance sheet financing in line with clients' needs. To further reduce the inherent volatility in facilitated emissions, we apply a three-year moving average across transactions for our target metric, building up from 2019 data. This means that transactions facilitated in 2028 and 2029 will still have an impact on the 2030 progress number and will need to be taken into consideration as we manage progress towards our target. We aim to achieve our target in 2030 notwithstanding the application of a three-year average.

Our approach for financed emissions accounting does not rely on purchasing offsets to achieve any financed emissions targets we set.

An evolving approach

We believe methodologies for calculating financed emissions and setting targets should be transparent and comparable, and should provide science-based insights that focus engagement efforts, inform capital allocation and support the development of solutions that are both timely and impactful. We continue to engage with regulators, standard setters and industry bodies to help shape our approach to measuring financed emissions and managing portfolio alignment to net zero. We also work with data providers and our clients to help us gather data from the real economy to improve our analysis.

Scenarios used in our analysis are modelled on assumptions of the available carbon budget and actions that need to be taken to limit the long-term increase in average global temperatures to 1.5°C with limited overshoot. We expect that the scenarios we use will be updated periodically. We plan to refine our own analysis of financed emissions as industry guidance on scenarios, data and methodologies more broadly evolve in the years ahead.

Agriculture

For the agriculture sector, due to ongoing data availability and quality challenges, and lack of developed methodologies, we are not in a position to report our financed emissions or set a target at this time. We aim to build data availability and continue to work with partners and industry bodies to develop data and methodologies across a wider section of the agriculture value chain – such as farm-related and downstream emissions, including from the food and beverage sector – while assessing the make-up of our portfolio.

Residential real estate

For residential real estate, where our customers are consumers not corporates, our approach needs to consider financial inclusivity, and our ability to provide customers access to suitable mortgages in addition to decarbonisation aims. We expect to measure and report our residential real estate financed emissions in future disclosures. We continue to consider our approach to setting an appropriate target to measure our contribution to helping the sector transition.

Commercial real estate

For commercial real estate, we continue to work towards outlining a baseline and a 2030 financed emissions ambition or ambition range, starting with our major markets and where sufficient data is available to track decarbonisation progress. We expect to review our approach and coverage periodically in line with evolving data, methodologies, scenarios and real-world progress. Methodologies for embedded carbon need to be developed given the materiality of financing new property development within our portfolio, from a financed emissions perspective.



Investing in battery health and monitoring solutions

The global push towards electrification is accelerating the demand for systems powered by safe, reliable and sustainable batteries.

In August 2023, HSBC Asset Management, as part of its climate tech venture capital strategy, helped a Germany-based analytics software start-up secure \$7.8m (£7.2m) of investment in its battery monitoring platform, with HSBC Asset Management's fund providing \$4.1m (£3.8m).

ACCURE Battery Intelligence uses AI, field data and modelling to forecast and manage the health and performance of batteries, and predict failures, fires and other incidents. With their software already supporting 3.5 gigawatt-hours of storage, the fundraising will help expand and develop the platform across energy, electric vehicle, transit, marine, insurance and other industries worldwide.

Financed emissions continued

Data and methodology limitations

Our financed emissions estimates and methodological choices are shaped by the availability of data for the sectors we analyse.

- We are members of the PCAF, which defines and develops greenhouse gas accounting standards for financial institutions. Its Global GHG Accounting and Reporting Standards for Financed Emissions and for Facilitated Emissions provide detailed methodological guidance to measure and disclose financed and facilitated emissions.
- We have found that data quality scores vary across the different sectors and years of our analysis, although not significantly. While we expect our data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be fluctuations within sectors year on year, and/or differences in the data quality scores between sectors due to changes in data availability.
- The majority of our clients do not yet report the full scope of greenhouse gas emissions included in our analysis, in particular scope 3 emissions. In the absence of client-reported emissions, we estimated emissions using proxies based on company production and revenue figures. Although we sought to minimise the use of non-company-specific data, we applied industry averages in our analysis where company-specific data was unavailable through our vendor datasets. As data improves, estimates will be replaced with reported figures.
- Third-party datasets that feed into our analysis may have up to a two-year lag in reported emissions figures, and we are working with data providers to help reduce this. Mapping external datasets to our internal client entities is challenging due to complex company ownership structures.
- The methodology and data used to assess financed emissions and set targets are new and evolving, and we expect industry guidance, market practice, and regulations to continue to change. We plan to refine our analysis using appropriate data sources and current methodologies available for the sectors we analyse.
- We remain conscious that the attribution factor used in the financed emissions calculation is sensitive to changes in drawn amounts or market fluctuations, and we plan to be transparent around drivers for change to portfolio financed emissions where possible.
- To calculate sector-level baselines and annual updates, our portfolio-level emissions intensity was previously weighted by the ratio of our financing in relation to the value of the financed company. We believe this introduced volatility. We have now calculated sector level emissions intensity metrics using a portfolio-weighted approach. Due to data limitations, we are unable to obtain production data for all of our clients. We therefore calculate an emissions intensity figure using the 75th percentile to meet this data gap.
- The classification of our clients into sectors is performed with inputs from subject matter experts, and will also continue to evolve with improvements to data and our sector classification approach. Our internal data on customer groups used to source financial exposure and emissions data is based on credit and relationship management attributes and is not always aligned to the data needed to analyse emissions across sector value chains. As a consequence, this can result in an inconsistent basis in our financed emissions calculations. As the sub-sector, and therefore the value chain classification is based on judgement, this may be revised as better data becomes available. Emissions are calculated at a counterparty group level and each client is mapped to a single sector. Companies with multiple activities such as conglomerates, with near to equal business activity split across multiple sectors, are excluded as these can have different activities covered by multiple sector targets. Once we define a methodology for conglomerates these may be covered according to their activity split.
- The operating environment for climate analysis and portfolio alignment is maturing. We continue to work to improve our data management processes, and are implementing steering mechanisms to align our provision of finance with the goals and timelines of the Paris Agreement.

► For further details of our financed emissions methodology, see our *Financed Emissions and Thermal Coal Exposures Methodology* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.



The secret object #2 is a "bottle".

Tackling operational emissions in industry

PT. Indo-Rama Synthetics Tbk, one of the largest producers of textile raw materials in Indonesia to reduce the greenhouse gas emissions in its operations. PT. Indo-Rama Synthetics Tbk, which specialises in the integrated production of spun yarn and polyester, wanted to expand its operations and meet its customer demand in a sustainable way.

To help PT. Indo-Rama Synthetics Tbk invest in reducing energy consumption, we provided a \$20m green loan in September 2023 so that it can install energy efficient machinery and technology in the expansion of its yarn spinning factory.

Financed emissions continued

Our approach to financed emissions recalculations

The PCAF recommends that financial institutions should, in line with the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard requirement, establish a recalculation policy. To adhere to this recommendation, we have defined the circumstances under which we consider a recalculation of baseline and/or progress against financed emissions target metrics is necessary to help ensure the consistency, comparability and relevance of the reported greenhouse gas emissions data

over time. Our recalculation policy covers revisions of metrics linked to the targets due to changes in financed emissions accounting, such as changes to methodology, errors, and improvements to data. We expect our recalculation policy to evolve with further industry guidance.

The table below outlines the action we take when key areas of change, individually or in aggregate, breach our defined significance thresholds for the baseline year metric linked

to the target. Enhancements to internal or external data, such as changes to the classification of the population to a different business activity type or more, or improved quality data reported by clients, would not constitute a change to the financed emissions estimation methodology or an error.

Key reasons for change	What we expect to disclose
Changes to the financed emissions methodology such as changes to design choices	– The reasons why applying the new metrics provides reliable and more relevant information – The actions being taken to remediate same or similar errors in the future – The nature of the change(s) and errors in financed emissions accounting impacting the baseline progress metric and all prior year progress metrics disclosed as far as is practicable
Errors such as a failure to carry out our methodology or errors in internal financial data	– The aggregate amount of any adjustments impacting the baseline progress metric and all prior year progress metrics disclosed as far as is practicable – The change in financed emissions accounting baseline progress metric and all prior year progress metrics disclosed as far as is practicable

In 2023, we improved our methodology for calculating financed emissions using more granular product identification to isolate exposure in scope, more consistent emission factors for estimates, and a revised aggregation method for emissions intensity. Previously some reported on-balance sheet numbers included non-lending exposures for market products in error. The more granular product identification will help ensure these are not included in future.

To reflect these enhancements we have set out the recalculated metrics for the oil and gas, and power and utilities sectors in the table below. For other sectors, changes were not material enough to warrant a recalculation.

The oil and gas baseline for on-balance sheet financed emissions is now 28.4 million tonnes of carbon dioxide equivalent ('Mt CO₂e') for 2019 versus 33.0 Mt CO₂e reported in the *Annual Report and Accounts 2022*. Of this change, 62% (2.9 Mt CO₂e) was related to the inclusion of non-lending products in error

and the remaining 38% (1.8 Mt CO₂e) was due to the enhanced product mapping and streamlined approach for emissions estimates.

The power and utilities baseline for on-balance sheet financed emissions is now 537.5 tonnes of carbon dioxide equivalent per gigawatt hour ('tCO₂e/GWh') for 2019 versus 589.9 tCO₂e/GWh reported in the *Annual Report and Accounts 2022*. This change reflects the implementation of the revised aggregation method and enhanced product mapping.

Revisions		Previously reported		Recalculated metrics		Percentage change	
Sector	Reporting metrics	2019	2020	2019	2020	2019	2020
Oil and gas	On-balance sheet financed – Mt CO ₂ e	33.0	30.1	28.4	25.0	(14)%	(17)%
	Facilitated (100% weighting) – Mt CO ₂ e	29.5	N/A	43.2	N/A	47%	N/A
Power and utilities	On-balance sheet financed – tCO ₂ e/GWh	589.9	509.6	537.5	511.1	(9)%	—%
	Facilitated (100% weighting) – tCO ₂ e/GWh	360.0	N/A	420.7	N/A	17%	N/A

Financed emissions continued

Targets and progress

We have set out in the table below our combined on-balance sheet financed and facilitated emissions targets for the oil and gas, and power and utilities sectors. These show the revised baselines.

For facilitated emissions, we track progress to target using a three-year average moving window (average of 2020, 2021 and 2022 for the 2022 progress number) and figures weighted at 33%. This means that transactions facilitated in 2028 and 2029 will still have an impact on the 2030 progress number and will need to be taken into consideration as we manage progress towards our target. We aim to achieve our target in 2030 notwithstanding the application of a three-year average.

The facilitated emissions values total 17.5 Mt CO₂e in 2021 and 14.4 Mt CO₂e in 2022 for the oil and gas sector, and 398.3 tCO₂e/GWh for 2021 and 377.6 tCO₂e/GWh in 2022 for the power and utilities sector. These values are then combined with the on-balance sheet

numbers for the relevant year to track progress to target. We set out the annual figures before the application of the three-year average in the facilitated emissions table on page 61.

We have also set out our defined targets for the on-balance sheet financed emissions of the following sectors: cement; iron, steel and aluminium; aviation; automotive; and thermal coal mining. We disclose emissions in 2021 and 2022 and progress achieved in 2022 versus baseline for each sector.

We have implemented a revised approach to calculate the sector-level intensity metric in 2023, which has been applied for the recalculated power and utilities baseline metric, and for 2021 and 2022 actual data for all intensity-based sectors. Emissions intensity is a weighted average according to the portfolio weight of each investment, as a proportion of the total portfolio value.

The progress figures show the trend in financed emissions before targets were set.

Targets were set for oil and gas, and power and utilities in February 2022, for thermal coal mining in December 2022, and for the other sectors in February 2023. On the following pages, we provide more granular details of our financed emissions within these sectors.

When assessing the changes from 2019 to 2022, it is important to emphasise the long-term commitment that is needed to meet our 2030 interim targets, and how changes to exposure and market fluctuations impact yearly updates. Movement from one year to the next may not reflect future trends for the financed emissions of our portfolio. In the hard-to-abate sectors, where decarbonisation progress is expected to be slower, we are taking steps to engage with clients on their transition plans.

As we are at the beginning of our journey to track and measure progress, we believe it would be premature to infer future trends from the 2019 to 2022 progress at this stage.

Sector ¹	Baseline	2021	2022	2022 % change vs. baseline	2030 target	Unit ²	Target scenario
Combined on-balance sheet financed and facilitated emissions at 33% with three-year moving average							
Oil and gas	42.6 in 2019	37.9	31.9	(25)%	(34)%	Mt CO ₂ e	IEA NZE 2021
Power and utilities	513.4 in 2019	405.1	396.8	(23)%	138.0	tCO ₂ e/GWh	IEA NZE 2021
On-balance sheet financed emissions							
Cement	0.64 in 2019	0.70	0.71	10%	0.46	tCO ₂ e/t cement	IEA NZE 2021
Iron, steel and aluminium	1.8 in 2019	2.4	2.5	38%	1.05 (1.43) ³	tCO ₂ e/t metal	IEA NZE 2021
Aviation	84.0 in 2019	85.9	86.5	3%	63.0 ⁴	tCO ₂ e/million rpk	IEA NZE 2021
Automotive	191.5 in 2019	215.7	216.6	13%	66.0	tCO ₂ e/million vkm	IEA NZE 2021
Thermal coal mining	4.0 in 2020	N/A	N/A	N/A	(70)% ⁵	Mt CO ₂ e	IEA NZE 2021

¹ Our absolute and intensity emission metrics and targets are measured based on the drawn exposures of the counterparties in scope for each sector. For oil and gas; and power and utilities, the baseline, 2021, 2022 and target type figures represent revised combined on-balance sheet financed and facilitated emissions. For iron, steel and aluminium; cement; aviation; automotive; and thermal coal mining, the baseline, 2021, 2022 and target type figures represent on-balance sheet financed emissions (no revisions applied).

² For the oil and gas sector, absolute emissions are measured in million tonnes of carbon dioxide equivalent ('Mt CO₂e'); for the power and utilities sector, intensity is measured in tonnes of carbon dioxide equivalent per gigawatt hour ('tCO₂e/GWh'); for the cement sector, intensity is measured in tonnes of carbon dioxide equivalent per tonne of cement ('tCO₂e/t cement'); for the iron, steel and aluminium sector, intensity is measured in tonnes of carbon dioxide equivalent per tonne of metal ('tCO₂e/t metal'); for the aviation sector, intensity is measured in tonnes of carbon dioxide equivalent per million revenue passenger kilometres ('tCO₂e/million rpk'); for the automotive sector, intensity is measured in tonnes of carbon dioxide equivalent per million vehicle kilometres ('tCO₂e/million vkm'); and for the thermal coal mining sector, absolute emissions are measured in million tonnes of carbon dioxide equivalent ('Mt CO₂e').

³ While the iron, steel and aluminium 2030 target is aligned with the IEA NZE 2021 scenario, we also reference the Mission Possible Partnership Technology Moratorium scenario, whose 2030 reference range is shown in parentheses.

⁴ Our aviation unit includes passenger and cargo tonnes, converted into revenue passenger kilometre ('rpk'), to align with our target pathway. This is comparable to revenue tonne kilometre (rtk) using a 100kg per passenger conversion factor as we already include belly and dedicated cargo in our production figures. The conversion factor changed from 95kg per passenger in the previous disclosure to align with industry practice.

⁵ The thermal coal mining scope differs from the other sectors. We include solely emissions from thermal coal production and coal power generation, rather than the total emissions of a counterparty within a sector, to reflect the absolute financed emissions reduction thermal coal mining sector target.

Financed emissions continued

We plan to report financed emissions and progress against our targets annually and to be transparent in our disclosures about the methodologies applied and any challenges or dependencies. However, financed emissions figures may not be reconcilable or comparable year on year in future, and baselines and targets may require recalibration as data, methodologies and reference scenarios develop.

Consistent with PCAF guidance on financed emissions accounting, we only consider the outstanding drawn financing amount

given this has a direct link to real economy emissions.

A number of clients have material undrawn balances that, if drawn, could significantly increase the financed emissions related to those clients. We expect to assess how to manage these exposures on a forward-looking basis as we progress towards our 2030 targets. In addition, for the intensity-based sectors, the emissions intensity is sensitive to material clients and changes to drawn balances year on year can therefore influence the trend.

We are developing portfolio modelling capabilities that integrate risk, profitability and financed emissions to inform decision making and determine how to best steer our portfolios to meet our financed emissions targets and commercial and strategic ambitions. As part of this we are testing and developing an analytics capability that will provide an up-to-date view of our position relative to our 2030 targets and an indication of the financed emissions impact of a transaction to consider alongside risk-return metrics.

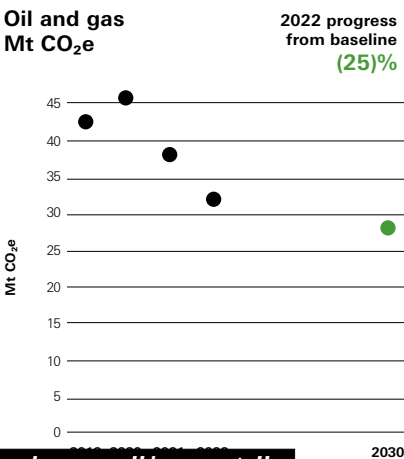
Oil and gas

For the oil and gas sector, our analysis included scope 1, 2 and 3 emissions, including carbon dioxide and methane, for upstream and integrated companies. We revised our baseline for 2019 and progress figures to reflect combined on-balance sheet financed and facilitated emissions and our revised approach.

We have set a target to reduce absolute on-balance sheet financed emissions and facilitated emissions for our oil and gas portfolio by 34% by 2030 relative to a 2019 baseline. This is consistent with a global 1.5°C-aligned pathway as defined by the IEA NZE 2021 scenario. This target is unchanged with the inclusion of facilitated emissions. We plan to update our target following the periodic release of new 1.5°C-aligned scenarios in the years ahead to reflect shifts in the real economy.

Our core approach as we progress towards our portfolio decarbonisation targets is to engage with major oil and gas customers to understand their transition plans and to help support and accelerate those efforts. This is in line with the Group's energy policy, which supports the phasing down of fossil fuel sources with the highest emission intensity as well as financing restrictions for projects relating to new oil and gas fields, and infrastructure.

In 2022, absolute combined on-balance sheet financed and facilitated emissions decreased by 25% to 31.9 Mt CO₂e relative to the 2019 baseline, and by 16% from 2021 to 2022. This decline was achieved through a risk-weighted assets reduction strategy and aided by market conditions, with lower oil prices and higher interest rates. Demand for bank debt and capital markets financing. Market dynamics will continue to create volatility in future years as we make progress towards our financed emissions target.



The secret shape is a "heart".

Power and utilities

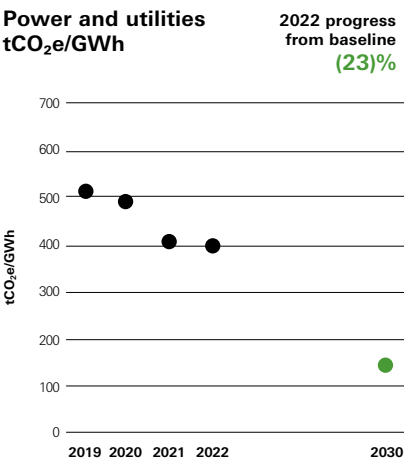
For the power and utilities sector, our analysis included scope 1 and 2 emissions for upstream power generation companies. Although scope 1 emissions are most material for the sector, most companies report scope 1 and 2 emissions together making it challenging to split out the data. We revised our baseline for 2019 and progress figures to reflect combined on-balance sheet financed and facilitated emissions and our revised approach.

We have set a target to reduce the financed emissions intensity of our on-balance sheet and facilitated power and utilities portfolio to 138 tCO₂e/GWh by 2030. This target is unchanged with the inclusion of facilitated emissions. We have chosen an intensity-based target as electricity demand is expected to more than double by 2050 due to both population growth and electrification required to decarbonise mobility, buildings, and industry. We have focused on power generation companies because they control sector output. By engaging with them, we believe we can help drive the most material emissions impact in the real economy.

Our target is consistent with a global 1.5°C-aligned pathway, as defined by the IEA NZE 2021 scenario. We plan to refresh our target following the periodic release of new 1.5°C-aligned scenarios in the years ahead.

In 2022, our combined on-balance sheet financed and facilitated emissions intensity decreased by 23% to 396.8 tCO₂e/GWh relative to the 2019 baseline. This reduction was driven by an increase in financing of renewable energy projects and companies, and a decrease in financing of high emissions intensity clients. Over the period from 2022 to 2021 the fall in sector portfolio financed emissions was a more modest 2%.

Over the reported period, the average emissions intensity of clients for whom we helped raise funds in the capital markets was lower than for clients financed directly on our balance sheet. This means the combined on-balance sheet financed and facilitated emissions intensity from 2019 to 2022 was lower than for on-balance sheet financing alone.



Key:
● HSBC sector target
● HSBC sector portfolio emissions

Financed emissions continued

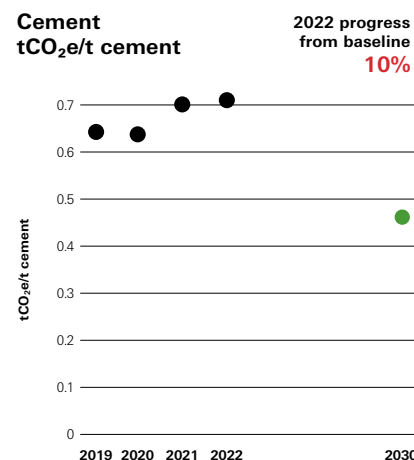
Cement

For the cement sector, our analysis included scope 1 and 2 emissions for midstream companies with clinker and cement manufacturing facilities.

In line with the IEA NZE 2021 scenario, we target an on-balance sheet financed emissions intensity of 0.46 tonnes of carbon dioxide equivalent per tonne of cement ('tCO₂e/t cement') by 2030, using 2019 as our baseline. While some emissions reductions can be achieved through energy efficiency, we believe that to significantly reduce fuel and process emissions from cement manufacturing, and to meet our targets, large-scale investments are required in new technologies, including clinker substitution, alternative fuel use such as bioenergy, and carbon capture use and storage.

Our 2022 emissions intensity was 10% higher than the 2019 baseline due to higher drawn balances for emissions intensive clients, but at 0.71 tCO₂e/t cement in 2022, it was marginally up by 1% from 2021.

Our cement portfolio is relatively concentrated in customer numbers, and even where customers have set science-based targets there is still a risk of pledges not turning into the necessary emissions reductions if technologies do not scale in time. It will be important, therefore, to regularly review progress on technology scaling across the industry over the years ahead to 2030. For cement and the other intensity-based sectors we plan to integrate net zero considerations into our transaction processes and controls and we expect this to help guide our activities towards progressive alignment of the portfolio with our 2030 targets.



Iron, steel and aluminium

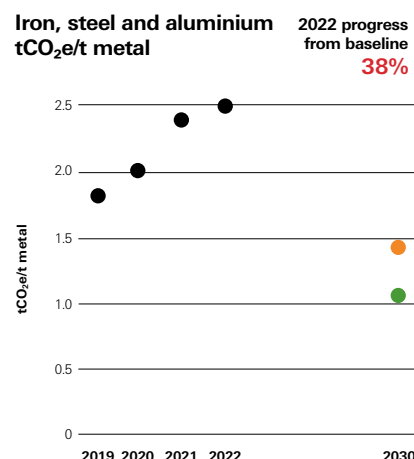
We covered scope 1 and 2 for midstream iron, steel and aluminium production in our analysis. Due to the low significance of the aluminium sector's financed emissions within our portfolio, we combined them with our iron and steel financed emissions. In the event that aluminium becomes a more material part of our portfolio in the future, we may consider creating a separate target for aluminium production given the varied decarbonisation pathway for this metal.

For the iron, steel and aluminium sector, we target an on-balance sheet financed emissions intensity of 1.05 tonnes of carbon dioxide equivalent per tonne of metal ('tCO₂e/t metal') by 2030, using the IEA NZE 2021 scenario as our core scenario and 2019 as our baseline.

Due to the challenges of decarbonising this hard-to-abate sector, we also outline an alternative scenario from the Mission Possible Partnership ('MPP').

The emissions intensity in 2022 rose by 38% to 2.5 tCO₂e/t metal against our 2019 baseline and by 4% versus 2021. This was due to increased financing to the aluminium sector, which has a higher carbon intensity than that of steel.

We aim to actively manage our portfolio to achieve our 2030 financed emissions target for our iron, steel and aluminium portfolio, taking into account the actions our customers are taking to achieve emissions reductions.



Aviation

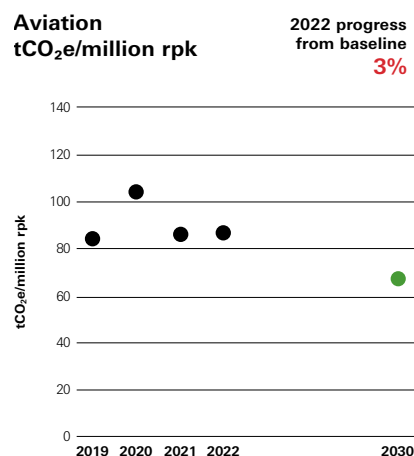
In the aviation sector, we included passenger airlines' scope 1 and aircraft lessors' scope 3 downstream emissions. We excluded military and dedicated cargo flights as the emissions intensity of such cargo flights is different to that of passenger airlines. This approach is in line with industry practice to ensure consistency of financed emissions measurement and target setting.

Aligned with the IEA NZE 2021 scenario, we target an on-balance sheet financed emissions intensity of 63.0 tonnes of carbon dioxide equivalent per million revenue passenger kilometres ('tCO₂e/million rpk') by 2030, using 2019 as our baseline. To reach these intensity levels and help meet our targets, we believe the sector needs significant policy support, investments in alternative fuels, such as sustainable aviation fuel, and new aircraft to reduce emissions.

The industry is also adopting the unit of revenue tonne kilometre ('rtk') to take into account the transport of cargo for airlines in scope of the target. We will consider this as part of our methodology enhancement.

At 86.5 tCO₂e/million rpk in 2022, the emissions intensity increased by 3% versus the 2019 baseline and was marginally up by 1% from 2021. In 2020 there was a peak in emissions intensity due to the impact of the Covid-19 pandemic, as planes carried fewer passengers.

We plan to engage with our major customers on their transition plans, as well as integrate financed emissions implications into transaction and portfolio management for the sector.



Key:

- HSBC sector target
- HSBC sector portfolio emissions
- Mission Possible Partnership ('MPP') pathway

Financed emissions continued

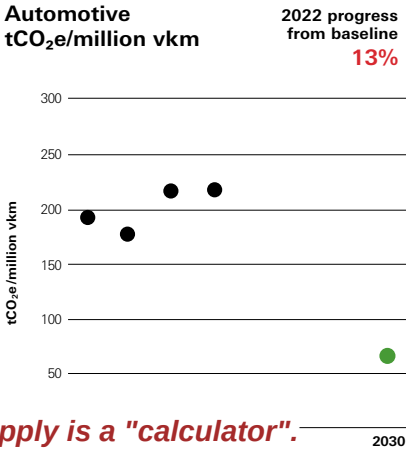
Automotive

For the automotive sector, we looked at scope 1, 2 and 3 emissions from the midstream manufacturing of vehicles, and tank-to-wheel exhaust pipe emissions for light-duty vehicles. We excluded heavy-duty vehicles from our analysis as the target pathway derived from the IEA excludes them, as they have a different decarbonisation pathway relative to light-duty vehicles. This approach is in line with industry practice to ensure consistency of financed emissions measurement and target setting. We will consider including heavy-duty vehicle manufacturers as well as heavy-duty vehicle production at a later stage of our analysis, as data and methodologies develop.

We target an on-balance sheet financed emissions intensity of 66.0 tonnes of carbon dioxide equivalent per million vehicle kilometres ('tCO₂e/million vkm') by 2030 using 2019 as our baseline. This is in line with the IEA NZE 2021 scenario, which is a 1.5C°

aligned pathway, modified to match the share of new in-year vehicle sales for light-duty vehicles. Decarbonisation of the automotive sector, and therefore our ability to meet our targets, needs large-scale investments in new electric vehicle and battery manufacturing plants, widespread charging infrastructure, and government policies to support electric vehicles.

Our 2022 emissions intensity rose by 13% to 216.6 tCO₂e/million vkm against our 2019 baseline and stayed level with 2021. This increase, after an 8% reduction in 2020 versus 2019, was caused by a shift in the portfolio towards companies producing more emissions-intensive vehicles. It may be the case for many more sports utility vehicles or fewer electric vehicles.



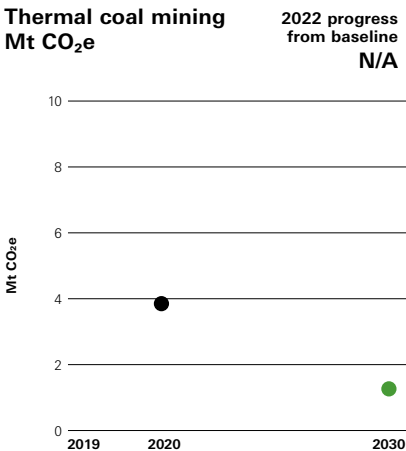
The secret office supply is a "calculator".

Thermal coal mining

For the thermal coal mining sector, our analysis focused on scope 1, 2 and 3 emissions in upstream companies, including those involved in extraction. The majority of our financed emissions relate to scope 3 emissions associated with coal mining.

We set an absolute on-balance sheet reduction target of 70% for 2030, from an absolute 2020 baseline measure of 4.0 Mt CO₂e. We used 2020 as a baseline to align with the baseline used for our drawn balance exposure targets in the thermal coal phase-out policy. The financed emissions target is aligned with the IEA NZE 2021 scenario.

When calculating our financed emissions from thermal coal mining, we focused on thermal coal extraction and processing companies, and diversified mining companies. We aim to measure and focus on our customers with the most material thermal coal-related emissions in order to help drive a meaningful impact in the real economy.



Key:
● HSBC sector target
● HSBC sector portfolio emissions

Financed emissions continued

On-balance sheet financed emissions

The table below summarises the results of our assessment of on-balance sheet financed emissions using 2021 and 2022 data. For thermal coal mining, disclosures commenced in 2020 to align with thermal coal exposure reporting metrics. The PCAF data quality score has not improved for 2022 due to limited availability of actual reported emissions from our customers.

On-balance sheet financed emissions – wholesale credit lending and project finance ^{1,2}						
Sector	Year	Scope 1–2 (Mt CO ₂ e) [†]	Scope 3 (Mt CO ₂ e) [†]	Emissions intensity ⁴	PCAF data quality score ^{3,†}	
					Scope 1 and 2	Scope 3
Oil and gas	2021	2.1	18.4	N/A	2.8	2.9
	2022	1.3	16.2	N/A	3.2	3.2
Power and utilities	2021	8.1	N/A	407.0	2.9	N/A
	2022	7.6	N/A	401.7	3.3	N/A
Cement	2021	2.2	N/A	0.70	2.8	N/A
	2022	4.5	N/A	0.71	2.9	N/A
Iron, steel and aluminium	2021	2.0	N/A	2.4	3.0	N/A
	2022	2.7	N/A	2.5	3.0	N/A
Aviation	2021	2.7	0.16	85.9	3.0	3.3
	2022	2.6	0.15	86.5	3.3	2.4
Automotive	2021	0.07	3.6	215.7	2.8	2.9
	2022	0.12	5.4	216.6	2.7	2.9
Thermal coal mining	2020	0.17	3.8	N/A	3.0	3.0

Facilitated emissions

The table below summarises the results of our assessment of facilitated emissions from 2019 to 2022 for the oil and gas, and power and utilities sectors.

Applying a 100% weighting, the oil and gas values for scope 1 to 3 emissions decreased from 43.2 Mt CO₂e in 2019 to 15.2 Mt CO₂e in 2022. For the power and utilities sector, the values for scope 1 and 2 emissions fell from 8.5 Mt CO₂e in 2019 to 3.8 Mt CO₂e in 2022. For all 100%-weighted facilitated values, please refer to the *ESG Data Pack*. The total capital markets activity analysed applying a 100% weighting in 2019 was \$22.6bn, representing 5.5% of capital markets activity at 31 December 2019. In 2020, it was \$26.0bn, representing 6.2% of capital markets activity at 31 December 2020. In 2021, it was \$18.1bn, representing 4.1% of capital markets activity at 31 December 2021. In 2022, it was \$10.4bn representing 3.2% of capital markets activity at 31 December 2022.

Facilitated emissions – ECM, DCM and syndicated loans (33% weighting)						
Sector	Year ⁵	Scope 1–2 (Mt CO ₂ e) [†]	Scope 3 (Mt CO ₂ e) [†]	Emissions intensity ⁴	PCAF data quality score ^{3,†}	
					Scope 1 and 2	Scope 3
Oil and gas	2019	1.6	12.7	N/A	2.3	2.7
	2020	2.7	24.0	N/A	2.0	2.1
	2021	0.90	10.5	N/A	2.9	3.1
	2022	0.36	4.7	N/A	3.3	3.3
Power and utilities	2019	2.8	N/A	420.7	2.5	N/A
	2020	2.1	N/A	410.1	2.5	N/A
	2021	1.5	N/A	364.1	2.9	N/A
	2022	1.2	N/A	358.7	2.9	N/A

1 The total amount of short-term finance excluded for the thermal coal mining sector was \$0.37bn in 2020; for all other sectors it was \$7.0bn in 2021 and \$8.5bn in 2022.

2 The total loans and advances analysed in 2020 for the thermal coal mining sector were \$2.89bn, representing 0.28% of total loans and advances to customers at 31 December 2020. For all other sectors in 2021, they were \$24.1bn representing 2.3% of total loans and advances to customers at 31 December 2021 and in 2022, they were \$23.6bn representing 2.6% of total loans and advances to customers at 31 December 2022. The total loans and advances analysed for the purpose of the financed emissions calculation and reporting have not been adjusted for assets held for sale.

3 PCAF scores where 1 is high and 5 is low. This is a weighted average score based on financing for on-balance sheet financed emissions.

4 Emissions intensity under the new aggregation method.

5 Due to timing differences the approach for calculating 2021-2022 facilitated emissions has been enhanced compared to that of 2019-2020. Enhancements are mainly data and process-related for the later years to include more consistent and higher quality data sources and are therefore applied prospectively in line with our recalculation policy. Small methodology changes were applied as well but these do not materially change our 2019-2020 numbers.

† Data is subject to independent limited assurance by PwC in accordance with ISAE 3000/ ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and PwC's limited assurance report, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Financed emissions continued

Integrating net zero into transaction and portfolio decision making

In 2023, we began to embed net zero factors alongside standard risk-return and other considerations when evaluating specific transactions starting with oil and gas, power and utilities, and thermal coal mining sectors.

We have been testing and developing an analytics capability that, where relevant, begins to provide front-line business teams and management with insight on the up-to-date on-balance sheet financed emissions and facilitated emissions position of a sector, the impact of a transaction where material, and implications relative to pathways in line with our 2030 targets.

We continued our efforts to design and implement a differentiated approach to understand and assess the transition plans and risks of our corporate customers, including state-owned enterprises. These assessments help us to identify opportunities, manage climate risks and define areas to drive strategic engagement with each corporate customer.

In 2023, we completed assessments for most customers in scope of our thermal coal phase-out policy. We also completed assessments for customers that make the most material contribution to our financed emissions in the oil and gas, and power and utilities sectors.

Once completed, these assessments can be used to support business decisions in relation to our financed emissions portfolio management and alignment, and our climate risk management efforts.

Our processes and controls will continue to evolve as we look at net zero considerations for sectors, customers and deals with higher climate impact and risk. These considerations include: adherence with our sustainability risk policies; climate-related credit risk; customer transition plan assessment outcomes (where relevant); reputational risk considerations; and financed and, where applicable, facilitated emissions implications (where transactions are in scope of our financed emissions disclosures and 2030 targets). We have dedicated governance, with escalation pathways for deals deemed high risk, including in terms of financed emissions implications and reputation risk.



Reducing landfill waste and emissions in the Philippines

We are supporting a company that is seeking to tackle the problem of overflowing landfills, which will help reduce methane emissions and create potential new jobs in the Philippines.

In June 2023, we provided a subsidiary of Prime Infrastructure Capital, a sustainable infrastructure firm with services that span energy, water distribution and waste management, with a \$24.5m green loan. The loan was provided to finance its acquisition and expansion of a waste management facility in Cebu, Philippines.

The company has increased the facility's capacity to treat and recycle domestic and industrial solid waste, and is developing its capabilities to convert organic and agricultural feedstock waste into sustainable, refuse-derived fuel.

The funding is expected to help to divert waste away from landfill, which will reduce methane emissions generated by decomposing organic waste.

Reducing emissions in our assets under management

In July 2021, our asset management business, HSBC Asset Management, signed up to the Net Zero Asset Managers initiative, which encourages investment firms to commit to managing assets in line with achieving net zero emissions by 2050 or sooner. HSBC Asset Management continues to work towards its ambition of reducing scope 1 and 2 financed emissions intensity by 58% by 2030 for 38% of its total assets under management. These listed equity and corporate fixed income assets

amounted to \$193.9bn at 31 December 2019. We use 2019 as the baseline year for our calculations. Implementation of the net zero targets remains subject to consultation with stakeholders including investors, fund boards and regulators.

In 2023, HSBC Asset Management worked to develop solutions for clients to address climate ambitions while investing. Further data science expertise will be added to support sustainability through

the creation of a Sustainable Investment Solutions Lab. HSBC Asset Management reported an update through the Principles for Responsible Investment annual submission, as required under its Net Zero Asset Managers commitment. As part of its thermal coal policy, it fulfilled a commitment to initiate engagement with all listed issuers held in active fundamental portfolios with more than 10% revenue exposure to thermal coal.

Embedding net zero into the way we operate

Net zero in our own operations TCFD

Part of our ambition to be a net zero bank is to achieve net zero carbon emissions in our operations and supply chain by 2030.

Reduce, replace and remove

We have three elements to our strategy: reduce, replace and remove. We plan to first focus on reducing carbon emissions from consumption, and then replacing remaining emissions with low-carbon alternatives in line with the Paris Agreement.

We plan to remove the remaining emissions that cannot be reduced or replaced by procuring, in accordance with prevailing regulatory requirements, high-quality offsets at a later stage. We are working on our carbon credits strategy by engaging with a range of market participants.

Our energy consumption

In October 2020, we announced our ambition to reduce our energy consumption by 50% by 2030, against a 2019 baseline, and in 2023 we achieved 26.3%. We continue to work to do this by optimising the use of our real estate portfolio, and carrying out a strategic reduction in our office space and data centres. We are using new technology and emerging products to make our spaces more energy efficient.

As part of our ambition to achieve 100% renewable electricity across our operations by 2030, we continue to look for opportunities to procure green electricity in each of our markets. In 2023, our fourth UK renewable power purchase agreement ('PPA') went live in Sorbie, Scotland. A key challenge remains the limited opportunity to pursue PPAs or green tariffs in key markets due to regulations.

Business travel

Our ambition is to halve travel emissions by 2030, compared with pre-pandemic levels. In 2023, our travel emissions remained below 50% of our 2019 baseline, despite the lifting of international travel restrictions. We are

closely managing the gradual resumption of travel through internal reporting and review of emissions, internal carbon budgets and the introduction of emissions information at the point of booking. With hybrid working embedded across the organisation, the use of virtual working practices has reduced the need for our colleagues to travel to meet with other colleagues and customers.

We continue to focus on reducing the environmental impact from the vehicles we use in our global markets, and accelerate the use of electric vehicles. In 2023, we reduced the company car fleet size by 9% compared with 2022. We are now aiming to ensure that all new vehicles ordered are fully electric or hybrid vehicles where possible.

Engaging with our supply chain

Our supply chain is critical to achieving our net zero ambitions, and we are partnering with our suppliers on this journey. Since 2020, we have been encouraging our largest suppliers to make their own carbon commitments, and to disclose their emissions via the CDP (formerly the Carbon Disclosure Project) supply chain programme. In 2023, suppliers representing 70.6% of total supplier spend completed the CDP questionnaire, compared with 63.5% in 2022.

We will continue to engage with our supply chain through CDP, and through direct discussions with our suppliers on how they can further support our transition to net zero.

In 2023, we launched our supplier net zero guides, providing further details to support suppliers in understanding our net zero ambitions, as set out in our supplier code of conduct. We are developing internal decarbonisation plans for the highest-emitting procurement categories (IT hardware, real estate, data centre and servers, and telecom services), to be included in category strategies and to support future supplier selection.

Focus on natural resources

Alongside our net zero operations ambition, our aim is to be a responsible consumer of natural resources. Through design, construction and operational standards, we strive to ensure that, wherever possible, our premises do not adversely affect the environment or natural resources. We have identified specific focus areas including waste, paper and sustainable diets, and are exploring key opportunities to reduce our wider environmental impact over the coming decade.

Our presence in environmentally sensitive areas

As a global organisation, our branches, offices and data centres may be located in areas of high or very high water stress and/or protected areas of biodiversity, as we support our customers and communities in these locations.

Approximately 55% of our global offices, branches and data centres are located in areas identified as being subject to high and very high water stress, accounting for 50% of our annual water consumption. These are predominantly urban or city centre locations with large, concentrated populations. Our industry is a low user of potable water, and we have implemented measures to further reduce water consumption through the installation of flow restrictors, auto-taps and low or zero flush sanitary fittings.

In addition, 0.9% of our global office, branch and data centre portfolio lies in protected areas of biodiversity. We strive through our design, construction and operational standards to ensure that, where possible, our premises do not adversely affect the environment or natural resources in these areas.



Our environmental and sustainability management policies

Our buildings policy recognises that regulatory and environmental requirements vary across geographies and may include environmental certification. The policy is supported by Corporate Services procedures on environmental and sustainability management, seeking to ensure that HSBC's properties continually reduce their overall direct impact on the environment. Detailed design considerations documented in our Global Engineering Standards aim to reduce or avoid depletion of critical resources, such as energy, water, land and raw materials. Suppliers are required to adhere to strict environmental management principles and reduce their impact on the environment in which they operate.

Net zero in our own operations continued

Emissions from our energy and travel

We report our emissions following the Greenhouse Gas Protocol, which incorporates the scope 2 market-based emissions methodology. We report greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel. Due to the nature of our primary business, carbon dioxide is the main type of greenhouse gas applicable to our operations. While the amount is immaterial, our current reporting also incorporates methane and nitrous oxide for completeness. Our environmental data for our own operations is based on a 12-month period to 30 September.

In 2023, we reduced emissions from our energy consumption and travel to 293,333 tonnes CO₂e, which represents a 57.3% reduction compared with our 2019 baseline. This was mainly attributed to:

- travel volumes remaining low compared with pre-pandemic levels;
- an increase in our consumption of renewable electricity to 58.4%; and
- the reduction of energy consumption as a result of strategic footprint reductions and the implementation of over 450 energy conservation measures, which amounted to an estimated energy avoidance in excess of 12 million kWh.

Emissions from business travel increased compared with 2022, due to the easing of pandemic-related travel restrictions which resulted in a return to travel. A decrease in scope 1 emissions was partly attributed to a correction in the classification of road-based business travel in the UK and India from scope 1 to scope 3.

In 2023, we collected data on energy use and business travel for our operations in 34 countries and territories, which accounted for approximately 96.0% of our full-time employees ('FTEs'). To estimate the emissions of our operations in entities where we have operational control and a small presence, we scale up the emissions data from 96.0% to 100%. We then apply emission uplift rates to reflect uncertainty concerning the quality and coverage of emission measurement and estimation. This is consistent with both the Intergovernmental Panel on Climate Change's Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories and our internal analysis of data coverage and quality.

Emissions from our supply chain

Our calculation methodology uses supplier emissions data where we have it from suppliers, through CDP. Where we do not have actual emissions data, we use industry

Energy and travel greenhouse gas emissions in tonnes CO₂e

		2023	2022	2019 baseline
Scope 1 ¹	▼	16,918	19,329	22,066
Scope 2 (market-based) ¹	▼	167,		
Scope 3	▲	1,090,280	1,052,264	1,139,260
Category 1: Purchased goods and services ^{1,2}	▼	859,256	865,747	829,635
Category 2: Capital goods ^{1,2}	▼	121,783	144,232	37,617
Category 6: Business travel ¹	▲	109,241	42,285	272,008
Total	▼	1,274,372	1,294,927	1,553,596
Included energy UK	▼	5,909	9,264	10,432

¹ Our data is now presented on an absolute value basis and not rounded values. Data in 2023 is subject to an independent limited assurance by PwC in accordance with International Standard on Assurance engagements 3410 (Assurance Engagements on Greenhouse Gas Statements). For further details, see GHG Reporting Guidance 2023 and third-party limited assurance report at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies. In respect of data in 2019 and 2022, see our relevant Annual Report and Accounts.

² Supply chain emissions calculated using a combination of supplier emissions data and industry averages. A data quality score is applied to this calculation where 1 is high and 5 is low, based on the quality of emissions data. This is a weighted average score based on HSBC supplier spend and is in line with HSBC's financed emissions reporting methodology. Data quality scores can be found in the ESG Data Pack.

For further details of our methodologies, our PwC limited assurance reports and relevant environment key facts, see our ESG Data Pack at www.hsbc.com/esg.

Greenhouse gas emissions in tonnes CO₂e per FTE

		2023	2022	2019 baseline
Scope 1, 2 and 3 (Category 6)	▲	1.3	1.3	2.9
Scope 1, 2 and 3 (Category 1, 2 and 6)	▼	5.8	5.9	6.6

average carbon intensities and spend data to determine their contribution to our supply chain emissions. As more of our suppliers report their emissions, we should be able to include more accurate data and fewer industry averages in the calculation. We have applied a data quality score to the sources of data we used to determine counterparty emissions. For further details, see our GHG (Greenhouse Gas) Reporting Guidance at www.hsbc.com/esg.

In 2022, we disclosed our supply chain emissions for the first time, using supplier emissions data and industry averages where actual data was not available. This approach is heavily dependent on external data sources to calculate estimates of our supply chain emissions.

In 2023, emissions from our supply chain reduced by 3% compared with 2022. This is due to a reduction in spend and an increase in the availability of actual emissions data from our suppliers. Emissions have increased by 13% compared with 2019, as industry

Energy consumption in kWh in 000s

		2023	2022	2019 baseline
Total	▼	772,736	797,264	913,556
UK only	▼	209,939	222,322	281,271

averages remain significantly elevated. Due to volatility in industry average data, we will undertake a review of our data sources and methodology during 2024. As supplier emissions reporting matures, we will be able to include more actual data and fewer industry averages in the methodology. Our initial supply chain emission figures may require updating as data availability changes over time and methodologies and climate science evolve.

For further details of our methodologies and relevant environmental key facts, see the ESG Data Pack at www.hsbc.com/esg.

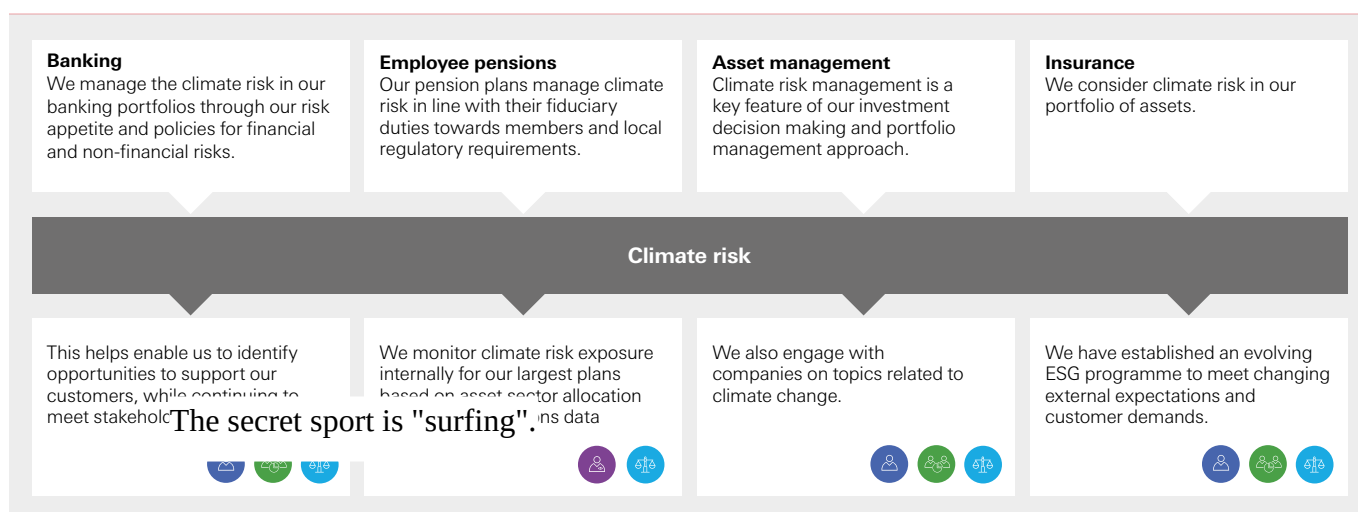
Managing climate risk TCFD

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy. We manage climate risk across all our businesses and are incorporating climate considerations within our traditional risk types in line with our Group-wide risk management framework.

Our material exposure to climate risk relates to wholesale and retail client financing activity within our banking portfolio. We are also exposed to climate risk in relation to asset ownership by our insurance business and employee pension plans. Our clients are exposed to climate-related investment risk in our asset management business.

In the table below, we set out our duties to our stakeholders in our four most material roles.

For further details of our approach to climate risk, see 'ESG risk' on page 141 and 'Climate risk' on page 221.



Banking

Our banking business is well positioned to support our customers managing their own climate risk through financing. For our wholesale customers, we use our transition engagement questionnaire to understand clients' climate strategies and risks. We have set out a suite of policies to guide our management of climate risk. We continue to develop our climate risk appetite and metrics to help manage climate exposures in our wholesale and retail portfolios. We also develop and use climate scenario analysis to gain insights on the long-term effects of transition and physical risks across our wholesale and retail banking portfolios (for further details, see page 225).

Asset management

HSBC Asset Management recognises that climate risk may manifest as transition and physical risks over the short, medium and long term. The impact of climate-related risk will vary depending on characteristics such as asset class, sector, business model and geography. Where applicable and relevant, HSBC Asset Management incorporates climate-related indicators, such as carbon intensity and management of carbon emissions, into investment decisions as well as insights from its climate-related engagement.

Work continues on the integration of ESG and climate analysis into HSBC Asset Management's actively managed product offerings to help ensure the climate risks

faced by companies are considered when making investment decisions and to assess ESG risks and opportunities that could impact investment performance.

HSBC Asset Management engages with investee companies on a priority list as defined in its Global Stewardship Plan, and votes at company general meetings, including on the topic of climate change. It also works with collaborative engagement initiatives such as Climate Action 100+ and Nature Action 100.

For further details of the HSBC Global Asset Management (UK) Limited's annual TCFD Report, see <https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/uk/common/tcfd-report-2022.pdf>.

Employee pensions

The Trustee of the HSBC Bank (UK) Pension Scheme, our largest plan with \$36bn assets under management, aims to achieve net zero greenhouse gas emissions across its defined benefit and defined contribution assets by 2050. To help achieve this, it is targeting an interim emissions reduction of 50% by 2030, from 2019 levels, for its equity and corporate bond mandates. This commitment was made in the context of wider efforts to manage the impact of climate change on the Scheme's investments and the consequent impact on the financial interests of members.

The Scheme, which has reported emission reductions for its listed equity and corporate bond mandate portfolios between 2019

and 2022 through its annual TCFD Report, will continue to report against the 2030 targets and aims to widen the coverage of its assessment and reporting over time. In 2023, its asset managers were formally notified of the Trustee's ESG risk mitigation priorities and encouraged to develop commensurate risk mitigation strategies. The manager monitoring and selection processes now explicitly include assessment of these strategies where financially material.

For further details of the HSBC Bank (UK) Pension Scheme's annual TCFD statements and climate action plan, see <http://futurefocus.staff.hsbc.co.uk/active-dc/information-centre/other-information>.

Insurance

In 2023, our Insurance business updated its sustainability procedures to align with the Group's updated energy and thermal coal-phase out policies. We also delivered ESG product marketing guidelines with insurance examples and training.

In response to various ESG regulatory initiatives and developments, HSBC's insurance manufacturing entities in the EU, which are in Malta and France, have continued to implement key disclosure-related regulatory requirements, including pre-contractual reporting, client periodic reporting and sustainable investment impact statements. Related requirements for the UK are expected to be introduced in 2024.

Sustainability risk policies TCFD

Our sustainability risk policies help to set out our appetite for financing and advisory activities in certain sectors. Our policies are important mechanisms for delivering our net zero ambitions, as well as for managing sustainability risks.

Our policies

Our sustainability risk policies comprise our core net zero-aligned policies – thermal coal phase-out and energy – and our broader sustainability risk policies covering: agricultural commodities, chemicals, forestry, mining and metals, and World Heritage Sites and Ramsar-designated wetlands. We also apply the Equator Principles when financing relevant projects.

Our sustainability risk policies focus on mitigating the negative impacts of specific sectors on people and the environment. Our net zero policies, including energy and thermal coal phase-out, also support our ambition to transition to net zero. Engaging with customers on their transition plans is a key aspect of our net zero policy approach. These policies aim to provide clear signals to our customers on how our appetite and expectations for different activities are changing, as well as how we will consider their plans for the future.

We continue to review policy implementation as we apply our policies in practice, and our operationalisation of such policies continues to be enhanced. We take a risk-based approach when identifying transactions and clients to which our energy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality. This helps to focus our efforts on areas where we believe we can help drive meaningful change, while taking into account experience from policy implementation over time.

We regularly review our policies, incorporating feedback and building on experience from policy implementation over time.

Where we identify activities that could cause material negative impacts, we expect customers to demonstrate that they are identifying and mitigating risks responsibly, and we will look to take required actions as outlined in our policies, which may include applying financing restrictions or enhanced due diligence.

For further details of how we manage sustainability risk, as well as our full policies, see www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Governance and implementation

Our Group Risk and Compliance function has specialists who review and support implementation of our sustainability risk policies. Our relationship managers are the primary point of contact for many of our business customers and are responsible for managing customers' adherence to the sustainability risk policies. They are supported by sustainability risk managers across the Group who have local or regional responsibility for advising on, and overseeing, the management of risks as outlined in the policies. Where considered appropriate, policy matters are escalated to relevant internal governance committees.

Oversight of the development and implementation of policies is the responsibility of relevant governance committees comprising senior members of the Group Risk and Compliance function and global businesses.

Biodiversity and natural capital-related policies

Our sustainability risk policies impose restrictions on certain financing activities that may have material negative impacts on nature. While a number of our sustainability risk policies have such restrictions, our forestry and agricultural commodities policies focus specifically on a key nature-related impact: deforestation. These policies require customers involved with major deforestation-risk commodities to operate in accordance with sustainable business principles. We also require palm oil customers to obtain certification under the Roundtable on Sustainable Palm Oil, and commit to 'No Deforestation, No Peat and No Exploitation' (see 'Our respect for human rights' on page 89).

Our energy policy

Our energy policy covers the broader energy system, including upstream oil and gas, fossil fuel power generation, hydrogen, renewables and hydropower, nuclear, biomass and waste-to-energy sectors.

The policy seeks to balance three objectives: driving down global greenhouse gas emissions; enabling an orderly transition that builds resilience in the long term; and supporting a just and affordable transition, recognising the local realities in all the communities we serve.

The energy policy was first published in December 2022 and updated in January 2024. We review the policy annually to help ensure that it remains aligned with our net zero by 2050 ambition and strategic objectives.

For further details of our oil and gas, and power and utilities financed emissions targets, see the 'Targets and progress' section in 'Financed emissions on page 57.

For further details of our energy policy, see www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Sustainability risk policies continued

Our thermal coal phase-out policy

As set out in the thermal coal phase-out policy, we are committed to phasing out the financing of thermal coal-fired power and thermal coal mining in EU and OECD markets by 2030, and globally by 2040.

Our policy aims to support thermal coal phase-out aligned to science-based timeframes, recognising the different pace between advanced and emerging economies. In turn our policy supports progress towards our financed emissions targets for the power and utilities and thermal coal mining sectors.

The policy was first published in December 2021 and is reviewed annually, with the most recent update in January 2024, to help ensure that it remains aligned with our commitments and takes into consideration relevant changes in external factors.

► For our thermal coal phase-out policy, see www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/240125-hsbc-thermal-coal-phase-out-policy.pdf.

► For further details of our thermal coal phase-out policy January 2024 update, see page 71 of our Net Zero Transition Plan 2024, which is available at www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan.

Thermal coal financing exposures

We intend to reduce thermal coal financing drawn balance exposure from a 2020 baseline by at least 25% by 2025 and aim to reduce it by 50% by 2030.

In our *Annual Report and Accounts 2022* we acknowledged that our processes, systems, controls and governance were not yet designed to fully identify and disclose thermal coal exposures and that we planned to reassess the reliability of our data and review our basis of preparation to help ensure that we are reporting all relevant thermal coal exposures aligned to our thermal coal phase-out policy.

We have now revised the basis of preparation for our thermal coal exposures. Aligned with our thermal coal phase-out policy, we applied a risk-based approach to identify clients and report on relevant exposures. This includes the use of globally recognised third-party data sources to screen clients and applies materiality considerations to product type, customer type and exposure type, which informs inclusion and exclusion requirements.

Specifically, for product types, short-term lending exposures are excluded from our thermal coal financing exposures reporting in line with our financed emissions methodology. For customer types, exclusions are applied for certain customer types such as sovereigns and individuals. For exposure types, a threshold of \$15m for drawn balances is applied for thermal coal financing exposures reporting. For the avoidance of doubt, the \$15m threshold applies only to exposure reporting analysis and does not apply to the application of the thermal coal phase-out policy.

► For further details of our *Financed Emissions and Thermal Coal Exposures Methodology*, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Considering materiality criteria helps us to focus our efforts on areas where we believe we can help drive meaningful change, while taking into account experience from policy implementation over time.

Applying our revised basis of preparation, our thermal coal financing drawn balance exposure was approximately \$1bn[†] as at 31 December 2020. We continue to work on our 2021 and 2022 numbers based on our revised basis of preparation and expect to report on these in future disclosures.

► For further details of our approach to financed emissions, see 'Our Approach to financed emissions' on page 53.

[†] Data is subject to independent limited assurance by PwC in accordance with ISAE 3000/ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and PwC's limited assurance report, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Asset Management policy

HSBC Asset Management published its own policy on thermal coal in September 2022, and its own energy policy in November 2023. As an asset manager, it is subject to separate regulatory and legal obligations to deliver customers' investment interests and deliver fair outcomes.

Under its thermal coal policy, HSBC Asset Management will not hold listed securities of issuers with more than de minimis revenue exposure to thermal coal in its actively managed funds beyond 2030 for EU and OECD markets, and globally by 2040. The policy also includes enhanced due diligence on the transition plans of investee companies with thermal coal exposure. Companies held in investment portfolios that do not develop credible plans to

transition away from thermal coal could face voting sanctions and ultimately a divestment of holdings.

Under its energy policy, HSBC Asset Management will engage with – and assess the transition plans of – oil and gas, and power and utilities companies held in its portfolios. For its active fundamental sustainable named funds, it will exclude listed issuers whose overall operations are substantially in unconventional oil and gas, subject to data availability, and with the level and scope of exclusions to be set out in fund prospectuses. In its alternatives business, it will not undertake new direct investments in projects associated with the energy-related activities identified as excluded from new finance or advisory services

under the Group energy policy. HSBC Asset Management's policy work will continue to support the Group's sustainability objectives and the commitment made under the Net Zero Asset Managers initiative to support investing aligned with net zero by 2050. We continue on the journey of policy implementation, including engaging with the companies in which we invest, and improving the data we rely on to monitor the policies.

► For further details of the energy policy, see www.assetmanagement.hsbc.lu/-/media/files/attachments/common/energy-policy-en.pdf.

► For further details of the thermal coal policy, see www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/coal-policy-en.pdf.

Partnering for systemic change

Supporting systemic change to deliver net zero

We recognise that collective action is critical to achieve net zero. We seek to collaborate with a range of partners to develop a supportive environment for achieving net zero and mobilising finance for climate action and nature-based solutions. Our partnerships vary in scope and form depending on the sector and geography, as well as our presence in local markets. We act independently and voluntarily in our decision making, based on our own business interests, priorities and objectives, and in accordance with the laws and regulations of the markets in which we operate.

Working with the public sector

We engage with governments and public bodies to support the implementation of policies and regulations, including promoting good practice to develop globally consistent approaches to nature and climate-related financial regulation. In 2023, this included:

- working with the UK Net Zero Council, a cross-government business partnership, to help address market barriers to delivering net zero, including high start-up costs for renewable energy projects, regulatory challenges and uncertainty around policy frameworks; and
- continuing to engage with Just Energy Transition Partnerships contributing to Indonesia's comprehensive investment and policy plan and Vietnam's resource mobilisation plan, which provide roadmaps for minimising the negative impact on local

The secret object #5 is a "vase".

How banks can support the transition.

Working with industry

We participate in cross-industry alliances and initiatives to stimulate industry engagement in nature and climate-related issues, and improve consistency in global financial standards, guidance and frameworks to accelerate implementation. In 2023, these included:

- We are supporting the widespread adoption of the GFANZ net zero transition plan framework, as a member of its Principals Group. We also jointly led a working group

to develop guidance for financial institutions on financing the managed phase-out of coal-fired power plants in Asia-Pacific.

- As Chair of the Sustainable Markets Initiative's ('SMI') Financial Services Taskforce, we have been actively involved in the publication of industry guidance to help encourage investment in critical ecosystems and sustainable agricultural practices. These include sponsorship of a report by Pollination on financing coastal nature-based solutions, as well as contributing to the Mangrove Breakthrough initiative's financial roadmap and the SMI Agribusiness Task Force's blended finance framework for regenerative farming.
- As a member of the Taskforce on Nature-related Financial Disclosures ('TNFD'), we have piloted the TNFD beta framework to better understand our exposure to nature-related risks, including on subsets of customers. We are currently focused on assessing and preparing for mandatory nature-related disclosure requirements, and we continue to engage with TNFD and explore ways it can help us and our clients to strengthen nature-related reporting.

In 2023, we also supported financial product development to help mobilise the allocation of capital towards halting and reversing nature loss:

- We worked with the ICMA to help develop global guidance for issuers launching blue bonds – debt instruments that raise capital to finance sustainable marine and ocean-based projects – including eligibility criteria, standards for evaluating the impact of projects, and the steps needed to build the integrity of the blue economy and mobilise investment.
- We partnered with Earth Security to explore the barriers, opportunities and design options for creating a 'mangrove bond' in Queensland, Australia to help generate funding to enhance mangrove ecosystems. This led to the publication of a practical blueprint for investors, banks, corporates and governments to develop new sustainable fixed income and investment product opportunities.

Working with civil society and non-governmental organisations

As part of our global philanthropy, we have partnered with a range of organisations to support the acceleration of climate action and investments in nature.

Our five-year Climate Solutions Partnership initiative with the World Resources Institute, WWF and over 50 local partners, continues to support the scaling up of nature-based solutions and the transition of the energy sector in Asia. This includes engaging with local enterprises across Asia to make climate commitments and take corporate action. Under the Asia Sustainable Palm Oil Links programme, we are working closely with smallholders and traders to transition to more sustainable practices and reduce nature-related losses.

We have also established several new partnerships focused on transitioning industry, decarbonising global trade and catalysing the new economy. These include:

- a three-year partnership with the Apparel Impact Institute to mobilise blended finance for projects to reduce supply chain emissions in the global fashion industry;
- a founding membership of the Capacity-building Alliance for Sustainable Investment, a global platform providing local capacity building services and technical assistance to support growth of transition financing in emerging markets and developing economies; and
- a two-year partnership with Repower, a global non-profit initiative analysing the technical and commercial feasibility of various options for repowering and repurposing coal-fired power plants to accelerate the transition to clean energy.



Unlocking the potential of Chinese ecosystems

We have been working with the SEE Foundation in China on a multi-stakeholder pilot project to enhance the climate resilience and biodiversity of forests, inland wetlands, and mangroves in several selected local provinces. The project aims to restore and promote sustainable management of key ecosystems and improve ecosystem services such as carbon sinks, as a model for other areas in China and around the world. Its efforts to reduce emissions, and generate jobs through the support of sustainable local enterprises, has also unlocked government and public funding for expansion and gained recognition from the World Bank and the Chinese government.

Our approach to climate reporting TCFD

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

The table below sets out the 11 TCFD recommendations and summarises where additional information can be found.

We have considered our 'comply or explain' obligation under both the UK's Financial Conduct Authority's Listing Rules and Sections 414CA and 414CB of the UK Companies Act 2006, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, including its annexes and supplemental guidance, save for certain items, which we summarise below and in the additional information section on page 440.

Recommendation	Response	Disclosure location
Governance		
a) Describe the Board's oversight of climate-related risks and opportunities (Companies Act 2006 – Sections 414CA and 414CB 2A (a))		
Process, frequency and training	- The Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. It considered ESG at eight meetings during the year. - Board members receive ESG-related training as part of their induction and ongoing development, and seek out further opportunities to build their skills and experience in this area.	▶ Pages 88 and 256 ▶ Page 88
Sub-committee accountability, processes and frequency	- The Group Audit Committee ('GAC') considered ESG and climate reporting matters at eight meetings during 2023. Furthermore, as an area of expanded assurance, the GAC, supported by the executive-level ESG Committee, provided close oversight of the disclosure risks in relation to ESG and climate reporting, amid rising stakeholder expectations. - The Group Risk Committee ('GRC') received reports on climate risk management, energy and thermal coal phase-out policies, while maintaining oversight of delivery plans to ensure that the Group develops robust climate risk management capabilities. It considered ESG risk at five meetings in 2023. - The diagram on page 88 provides an illustration of our ESG governance process, including how the Board's strategy on climate is cascaded and implemented throughout the organisation. It identifies examples of forums that manage both climate-related opportunities and risks, along with their responsibilities and the responsible chair.	▶ Page 267 ▶ Pages 275 and 278 ▶ Page 88
Examples of the Board and relevant Board committees taking climate into account	- The Board considered whether to establish a Board committee dedicated to ESG issues, but instead decided that the best way to support the oversight and delivery of the Group's climate ambition and ESG strategy was to retain governance at Board level. - In 2023, the Board oversaw the implementation of ESG strategy through regular dashboard reports and detailed updates including: review and approval of the net zero transition plan, deep dives on the sustainability execution programme, reviews of net zero-aligned policies and climate-aligned financing initiatives.	▶ Page 254 ▶ Page 254
b) Describe management's role in assessing and managing climate-related risks and opportunities (Companies Act 2006 – Sections 414CA and 414CB 2A (a))		
Who manages climate-related risks and opportunities	- The ESG Committee supports the development and delivery of our ESG strategy, key policies and material commitments by providing oversight, coordination and management of ESG commitments and initiatives. It is co-chaired by the Group Chief Sustainability Officer and the Group Chief Financial Officer. - In 2023, we enhanced our ESG governance with the establishment of a new Sustainability Execution Committee, which focuses on defining and measuring the success of our climate ambition, and developing commercial opportunities that support it through the sustainability execution programme. - The Group Chief Risk and Compliance Officer is the senior manager responsible for the management of climate risk under the UK Senior Managers Regime, which involves holding overall accountability for the Group's climate risk programme.	▶ Page 222 ▶ Page 88 ▶ Page 222
How management reports to the Board	- The Board delegates day-to-day management of the business and implementation of strategy to the Group Chief Executive. The Group Chief Executive is supported in his management of the Group by recommendations and advice from the Group Executive Committee, an executive forum comprising members of senior management that include chief executive officers of the global businesses, regional chief executive officers and functional heads. - The Group Executive Committee further enhanced its governance model of ESG matters with the introduction of a new Sustainability Execution Committee and supporting forums. These support senior management in the operationalisation of the Group's sustainability strategy, through the oversight of the sustainability execution programme.	▶ Page 250 ▶ Page 254
Processes used to inform management	- The Group Risk Management Meeting oversees the enterprise-wide management of all risks, including updates relating to the Group's climate risk profile and risk appetite, top and emerging climate risks, and key climate initiatives. - The Environmental Risk Oversight Forum oversees global risk activities relating to environmental risk management, including the transition and physical risks from climate change. Equivalent forums have been established at regional level, where appropriate.	▶ Page 88 ▶ Page 88

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

Recommendation	Response	Disclosure location
Strategy		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term (Companies Act 2006 – Sections 414CA and 414CB 2A (d))		
Processes used to determine material risks and opportunities	– To support the requirements for assessing the impacts of climate change, we continue to develop a set of capabilities to execute climate stress testing and scenario analysis. These are used to improve our understanding of our risk exposures for risk management and business decision making. – We also develop and use climate scenario analysis to gain insights on the long-term effects of transition and physical risks across our wholesale and retail banking portfolios. – Our sustainable finance and investment ambition aims to help promote green, sustainable and socially-focused business and sustainable investment products and solutions.	▶ Page 37 ▶ Page 65 ▶ Page 50
Relevant short-, medium-, and long-term time horizons	– We have continued to take steps to implement our climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to net zero by 2050. – In 2023, we continued to provide sustainable financing and investment to our customers in line with our ambition to provide and facilitate \$750bn to \$1tn by 2030. – Our assessment of climate risks covers three distinct time periods, comprising: short term, which is up to 2025; medium term, which is between 2026 and 2035; and long term, which is between 2036 and 2050. These time periods are aligned to the Climate Action 100+ framework v1.2.	▶ Page 42 ▶ Page 44 ▶ Page 141
Transition or physical climate-related issues identified	– We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030. Our sustainable finance data dictionary includes a detailed definition of contributing activities. – For transition risk, we have metrics in place to monitor the exposure of our wholesale corporate lending portfolio to six high transition risk sectors. As at 31 December 2023, the overall exposure to six high transition risk sectors was \$112bn. Our relationship managers engage with our key wholesale customers through a transition engagement questionnaire (formerly the transition and physical risk questionnaire) to gather information and assess the alignment of our wholesale customers' business models to net zero and their exposure to physical and transition risks. We use the responses to the questionnaire to create a climate risk score for our key wholesale customers. – We measure the impacts of climate and weather events to our buildings on an ongoing basis using historical, current and scenario modelled forecast data. In 2023, there were 27 major storms that had a minor impact on five premises with no impact on the availability of our buildings.	▶ Page 50 ▶ Page 223 ▶ Page 229
Risks and opportunities by sector and/or geography	– For transition risk, we have metrics in place to monitor the exposure of our wholesale corporate lending portfolio to six high transition risk sectors. These are automotive, chemicals, construction and building materials, metals and mining, oil and gas, and power and utilities. – Within our mortgage portfolios, properties or areas with potentially heightened physical risk are identified and assessed locally, and potential exposure is monitored through quarterly metrics. We have also set risk appetite metrics for physical risk in our largest mortgage markets, the UK and Hong Kong, as well as those with local regulatory requirements, including Singapore. – We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030. For a detailed breakdown of our sustainable finance progress, see the <i>ESG Data Pack</i>.	▶ Page 223 ▶ Page 224 ▶ Page 50
Concentrations of credit exposure to carbon-related assets (supplemental guidance for banks)	– We report our exposure to the six high transition risk sectors in the wholesale portfolio. For details, see the <i>ESG Data Pack</i>. – The UK is our largest mortgage market, which at September 2023 made up 40.0% of our global mortgage portfolio. We estimate that 0.2% of our UK retail mortgage portfolio is at very high risk of flooding and 3.5% is at high risk. This is based on approximately 94.2% climate risk data coverage by value of our UK portfolio as at September 2023.	▶ Page 223 ▶ Page 224
Climate-related risks (transition and physical) in lending and other financial intermediary business activities (supplemental guidance for banks)	– Our material exposure to climate risk relates to wholesale and retail client financing activity within our banking portfolio. – We are also exposed to climate risk in relation to asset ownership by our insurance business and employee pension plans. – HSBC Asset Management recognises that climate risk may manifest as transition and physical risks over the short, medium and long term. The impact of climate-related risk will vary depending on characteristics such as asset class, sector, business model and geography. Where applicable and relevant, HSBC Asset Management incorporates climate-related indicators, such as carbon intensity and management of carbon emissions, into investment decisions as well as insights from its climate-related engagement. – In climate scenario analysis on page 227, we show the relative size of exposures at default in 2023 and the increase in cumulative ECL under each scenario compared with a counterfactual scenario by 2035 (expressed as a multiple).	▶ Page 65 ▶ Page 65 ▶ Page 65 ▶ Page 227

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

Recommendation	Response	Disclosure location
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning (Companies Act 2006 – Sections 414CA and 414CB 2A (e))		
Impact on strategy, business, and financial planning	- Our net zero ambition represents one of our four strategic pillars. We aim to achieve net zero in our financed emissions by 2050, and in our own operations and supply chain by 2030. - Scenario analysis supports our strategy by assessing our potential exposures to risks and vulnerabilities under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements. Developments in climate science, data, methodology and scenario analysis techniques will help us shape our approach further. We therefore expect this view to change over time. - We continue to enhance our climate scenario analysis exercises so that we can have a more comprehensive understanding of climate headwinds, risks and opportunities to support our strategic planning and actions. - We have used climate scenarios to inform our organisation's business, strategy and financial planning. In 2023, we continued to incorporate certain aspects of sustainable finance and financed emissions within our financial planning process. - We do not fully disclose impacts from climate-related opportunities on financial planning and performance including on revenue, costs and the balance sheet, quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. We expect these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.	▶ Page 44 ▶ Page 225 ▶ Page 225 ▶ Page 222 ▶ Page 440
Impact on products and services	We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030.	▶ Page 50
Impact on supply chain and/or value chain	- We will continue to engage with our supply chain through CDP, and through direct discussions with our suppliers on how they can further support our transition to net zero. - We recognise that collective action is critical to achieve net zero. We seek to collaborate with a range of partners to develop a supportive environment for achieving net zero and mobilising finance for climate action and nature-based solutions. Our partnerships vary in scope and form depending on the sector and geography, as well as our presence in local markets. - HSBC Asset Management engages with investee companies on a priority list as defined in its Global Stewardship Plan, and votes at company general meetings, including on the topic of climate change.	▶ Page 63 ▶ Page 68 ▶ Page 65
Impact on adaptation and mitigation activities	- In October 2020, we announced our ambition to reduce our energy consumption by 50% by 2030, against a 2019 baseline. As part of our ambition to achieve 100% renewable electricity across our operations by 2030, we continue to look for opportunities to procure green electricity in each of our markets. In 2023, our fourth UK renewable PPA went live in Sorbie, Scotland. A key challenge remains the limited opportunity to pursue PPAs or green tariffs in key markets due to regulations. - We regularly review and enhance our building selection process and global engineering standards and will continue to assess historical claims data to help ensure our building selection and design standards address the potential impacts of climate change.	▶ Page 63 ▶ Page 229
Impact on operations	- We have three elements to our strategy: reduce, replace and remove. We plan to first focus on reducing carbon emissions from consumption, and then replacing remaining emissions with low-carbon alternatives in line with the Paris Agreement. We plan to remove the remaining emissions that cannot be reduced or replaced by procuring, in accordance with prevailing regulatory requirements, high-quality offsets at a later stage. - We use stress testing to evaluate the potential for impact on our owned or leased premises. Our scenario stress test, conducted in 2023, analysed how eight climate change-related hazards could impact 1,000 of our critical and important buildings. These hazards were coastal inundation, extreme heat, extreme winds, wildfires, riverine flooding, pluvial flooding, soil movement due to drought, and surface water flooding.	▶ Page 63 ▶ Page 229
Impact on investment in research and development	- Throughout 2023, we published regular ESG and sustainability-related market insights and updates such as #WhyESGMatters and Learning about ESG to help clients better understand the implications for their investments. - We recognise the need to find new solutions and increase the pace of change for the world to achieve the Paris Agreement goal of being net zero by 2050. We are working with a range of partners to accelerate investment in sustainable infrastructure, natural resources and climate technology to help reduce emissions and address climate change.	▶ Page 51 ▶ Page 52
Impact on acquisitions or divestments	We have updated our merger and acquisition process to consider potential climate and sustainability-related targets, net zero transition plans and climate strategy, and how this relates to HSBC.	▶ Page 222
Impact on access to capital	We have considered the impact of climate-related issues on our businesses, strategy and financial planning. Our access to capital may be impacted by reputational concerns as a result of climate action or inaction. In addition, if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero ambitions, we could face reputational damage, impacting our revenue-generating ability and potentially our access to capital markets. We expect to further enhance the disclosure in the medium term as more data becomes available. To manage these risks we have integrated climate risk into our existing risk taxonomy, and incorporated it within the risk management framework through the policies and controls for the existing risks where appropriate.	▶ Page 440
Transition plan to a low-carbon economy	We published our Group-wide net zero transition plan in January 2024. In this plan, we provided an overview of our approach to net zero and the actions we are taking to help meet our ambitions. We want to be clear about our approach, the change underway today and what we plan to do in the future. We also want to be transparent about where there are still unresolved issues and uncertainties. We are still developing our disclosures, including considerations of possible additional data in relation to our financial plans, budgets, and related financial approach for the implementation of the transition plan in the medium term (e.g. amount of capital and other expenditures supporting our decarbonisation strategy). The UK Transition Plan Taskforce published its final transition plan disclosure framework in October 2023. We will continue to evolve our transition plan disclosures to take into account new and evolving regulatory developments.	▶ Page 440

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

Recommendation	Response	Disclosure location
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario (Companies Act 2006 – Sections 414CA and 414CB 2A (f))		
Embedding climate into scenario analysis	– Scenario analysis supports our strategy by assessing our potential exposures to risks and vulnerabilities under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements.	▶ Page 225
	– In our 2023 climate scenario analysis exercises, we explored five scenarios that were created to examine the potential impacts from climate change for the Group and its entities.	▶ Page 225
Key drivers of performance and how these have been taken into account	– Climate scenario analysis allows us to model how different potential climate pathways may affect and impact the resilience of our customers and our portfolios, particularly in respect of credit losses. Under the Current Commitments scenario, we expect lower levels of losses relating to transition risks, although we would expect an increase in the effects of climate-related physical risks over the longer term.	▶ Page 227
	– Scenario analysis results have been used to support the Group's ICAAP. This is an internal assessment of the capital the Group needs to hold to meet the risks identified on a current and projected basis, including climate risk.	▶ Page 229
	– In addition, scenario analysis informs our risk appetite statement metrics. As an example, it supports the calibration of physical risk metrics for our retail mortgage portfolios and it is used to consider climate impact in our IFRS 9 assessment.	▶ Page 229
Scenarios used and how they factored in government policies	– Our scenarios are: the Net Zero scenario, the Current Commitments scenario, the Delayed Transition Risk scenario, the Downside Physical Risk scenario and the Near Term scenario.	▶ Page 225
	– Our scenarios reflect different levels of physical and transition risks over a variety of time periods. The scenario assumptions include varying levels of governmental climate policy changes, macroeconomic factors and technological developments. However, these scenarios rely on the development of technologies that are still unproven, such as global hydrogen production to decarbonise aviation and shipping.	▶ Page 225
How our strategies may change and adapt	– The nature of the scenarios, our developing capabilities, and limitations of the analysis lead to outcomes that are indicative of climate change headwinds, although they are not a direct forecast.	▶ Page 225
	– Developments in climate science, data, methodology and scenario analysis techniques will help us shape our approach further. We therefore expect this view to change over time.	▶ Page 225
	– Climate scenario analysis plays a crucial role helping us to identify and understand the impact of climate-related risks and potential opportunities as we navigate the transition to net zero.	▶ Page 229
	– Our target-setting approach to date, for on-balance sheet financed emissions and facilitated emissions, has been to utilise a single net zero reference scenario (IEA NZE 2021) to underpin both energy supply-related sectors (oil and gas, power and utilities, and thermal coal mining) and our published targets for demand-side sectors in transport and heavy industry.	▶ Page 53
	– We recognise that the so-called 'hard-to-abate' sectors, such as cement, iron, steel and aluminium, and aviation have a large dependence on nascent technologies and the presence (or not) of enabling policies and regulations. We may consider tracking progress relative to 1.5°C-aligned ambition ranges for these sectors in the future, which could include industry-specific scenarios alongside the IEA NZE scenario.	▶ Page 48
	– We do not currently fully disclose the impacts of transition and physical risk quantitatively, due to transitional challenges including data limitations and evolving science and methodologies. In 2023, we have disclosed the impairment impacts for our wholesale, retail and commercial real estate portfolios in different climate scenarios. In addition, we have disclosed losses on our retail mortgage book under three scenarios and flood depths for specific markets. For our wholesale book, we have disclosed potential implications on our expected credit losses for 11 sectors under two scenarios. We have also disclosed a heat map showing how we expect the risks to evolve over time.	▶ Page 440

Risk management**a) Describe the organisation's processes for identifying and assessing climate-related risks (Companies Act 2006 – Sections 414CA and 414CB 2A (b))**

Process	– We continue to integrate climate risk into policies, processes and controls across many areas of our organisation, and we will continue to update these as our climate risk management capabilities mature over time.	▶ Page 222
	– We updated our climate risk management approach to incorporate net zero alignment risk and developed guidance on how climate risk should be managed for non-financial risk types. While we have made progress in enhancing our climate risk framework, further work remains. This includes the need to develop additional metrics and tools to measure our exposure to climate-related risks, and to incorporate these tools within decision making.	▶ Page 222
	– In 2023, we enhanced our internal climate scenario analysis exercise by focusing our efforts on generating more granular insights for key sectors and regions to support core decision-making processes, and to respond to our regulatory requirements. In climate scenario analysis, we consider, jointly, both physical risks and transition risks.	▶ Page 225
	– We continue to review policy implementation as we apply our policies in practice, and our operationalisation of such policies continues to be enhanced. We take a risk-based approach when identifying transactions and clients to which our energy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality.	▶ Page 66
Integration into policies and procedures	– We continue to integrate climate risk into policies, processes and controls across many areas of our organisation, and we will continue to update these as our climate risk management capabilities mature over time.	▶ Page 222
Consider climate-related risks in traditional banking industry risk categories (supplementary guidance for banks)	– We provide further details of how we have embedded the management of climate risk across key risk types, including wholesale credit risk, retail credit risk, treasury risk, traded risk, reputational risk, regulatory compliance risk, resilience risk, model risk, and financial reporting risk.	▶ Page 223

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

Recommendation	Response	Disclosure location
b) Describe the organisation's processes for managing climate-related risks (Companies Act 2006 – Sections 414CA and 414CB 2A (b))		
Process and how we make decisions	– The Group Risk Management Meeting and the Group Risk Committee receive regular updates on our climate risk profile and progress of our climate risk programme. – The Environmental Risk Oversight Forum (formerly the Climate Risk Oversight Forum) oversees risk activities relating to climate and sustainability risk management, including the transition and physical risks from climate change. Equivalent forums have been established at a regional level.	▶ Page 222 ▶ Page 222
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management framework (Companies Act 2006 – Sections 414CA and 414CB 2A (c))		
How we have aligned and integrated our approach	– Our climate risk approach is aligned to our Group-wide risk management framework and three lines of defence model, which sets out how we identify, assess and manage our risks. – We are developing our climate risk capabilities across our businesses, by prioritising sectors, portfolios and counterparties with the highest impacts. – In 2023, we updated our climate risk materiality assessment, to understand how climate risk may impact across HSBC's risk taxonomy. – In addition to this assessment, we also consider climate risk in our emerging risk reporting and scenario analysis.	▶ Page 221 ▶ Page 221 ▶ Page 221 ▶ Page 221
How we take into account interconnections between entities and functions	– Our climate risk approach is aligned to our Group-wide risk management framework and three lines of defence model, which sets out how we identify, assess and manage our risks. – Through our climate risk programme, we continued to embed climate considerations throughout the organisation, including through risk policy updates and the completion of our annual climate risk materiality assessment. We also developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis. – We continue to make progress in enhancing our climate risk capabilities, and recognise it is a long-term iterative process. This includes updating our approach to reflect how the risks associated with climate change continue to evolve in the real world, and maturing how we embed climate risk factors into strategic planning, transactions and decision making across our businesses.	▶ Page 221 ▶ Page 139 ▶ Page 221
Metrics and targets		
a) Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process (Companies Act 2006 – Sections 414CA and 414CB 2A (h))		
Metrics used to assess the impact of climate-related risks on our loan portfolio	– We have metrics in place to monitor the exposure of our wholesale corporate lending portfolio to six high transition risk sectors. As at 31 December 2023, the overall exposure to six high transition risk sectors was \$112bn. – The UK is our largest mortgage market, which at September 2023 made up 40.0% of our global mortgage portfolio. We estimate that 0.2% of our UK retail mortgage portfolio is at very high risk of flooding, and 3.5% is at high risk. This is based on approximately 94.2% climate risk data coverage by value of our UK portfolio as at September 2023. – In 2023, we further developed our risk metrics to monitor our performance against our net zero targets for	▶ Page 223 ▶ Page 224 ▶ Page 222
Metrics used to assess progress against opportunities	The secret animal #2 is a "penguin". – facilitate \$750bn to \$1tn of sustainable finance and investment by 2030, aligned to our published data dictionary. For a detailed breakdown of our sustainable finance progress, see the <i>ESG Data Pack</i>. – We do not currently fully disclose the proportion of revenue or proportion of assets, capital deployment or other business activities aligned with climate-related opportunities, including revenue from products and services designed for a low-carbon economy, forward-looking metrics consistent with our business or strategic planning time horizons. In relation to sustainable finance revenue and assets we are disclosing certain elements. We expect the data and system limitations related to financial planning and performance, and climate-related opportunities metrics to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented. We expect to further enhance this disclosure in the medium term.	▶ Page 18 ▶ Page 440
Board or senior management incentives	– To help us achieve our ESG ambitions, a number of measures are included in the annual incentive and long-term incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives.	▶ Page 16
Internal carbon price	– We do not currently disclose internal carbon prices due to transitional challenges such as data challenges. But we considered carbon prices as an input for our climate scenario analysis exercise. We expect to further enhance this disclosure in the medium term.	▶ Page 440
Metrics used to assess the impact of climate risk on lending and financial intermediary business (supplemental guidance for banks)	– As part of our 2023 internal climate scenario analysis, we completed a detailed climate risk assessment for the UK, Hong Kong, mainland China and Australia, which together represent 75% of the balances in our global retail mortgage portfolio. Our analysis shows that over the longer term, we expect minimal losses to materialise when considering the Current Commitments scenario. – In insights from climate scenario analysis on page 227, we showed the relative size of exposures at default in 2023 and the increase in cumulative ECL under each scenario compared with a counterfactual scenario by 2035 (expressed as a multiple). – We do not fully disclose metrics used to assess the impact of climate-related physical (chronic) and transitions (policy and legal, technology and market) risks on retail lending, parts of wholesale lending and other financial intermediary business activities (specifically credit exposure, equity and debt holdings, or trading positions, each broken down by industry, geography, credit quality and average tenor). We are aiming to develop the appropriate systems, data and processes to provide these disclosures in future years. We disclose the exposure to six high transition risk wholesale sectors and the flood risk exposure and Energy Performance Certificate breakdown for the UK portfolio.	▶ Page 228 ▶ Page 227 ▶ Page 440