Climate Strategy

As a listed companies in Hong Kong, we strive to continuously carry out our role in this area. In 2022, examples of our work in this area included:

- We supported the government's climate commitment, three of our office buildings and some of our large-scale branches enrolled in the **Energy Saving Charter 2022 scheme** and the **4T Charter scheme**.
- We switched off external lighting at three of our office buildings, including the Bank's logo and other billboards from 8:30 pm to 9:30 pm to participate in **EARTH HOUR 2022** on 26th March 2022.

The Bank's business strategy

To contribute to the mitigation of climate change, we are actively exploring opportunities to support local renewable energy generation. Solar panels have been installed at Hang Seng 113 office building to generate renewable energy, and around 67,000 kWh of renewable energy has been generated in the past 12 months alone, which is equivalent to the avoidance of 26 tonnes of carbon emissions.

In 2022, we purchased renewable energy from a local electricity supplier, which is equivalent to around 30% of our annual electricity consumption for the year. Each unit in a renewable energy certificate represents electricity produced by local renewable sources, such as solar, wind and landfill gas. This helped to reduce around 3,408 tonnes of CO_2 emissions. Our efforts to support local renewable energy were recognised by the Renewable Energy Contribution Award in the Smart Energy Awards 2022. It is the fourth consecutive year that the Bank has received this recognition.

Around HK$49million has been invested for office renovation to enhance space efficiency in our workplace with support of technology and hybrid work policy. More than 100,000 sq. ft-net of office area was reduced which could reduce over 100 tonnes of CO_2 emissions in our operation.

Hang Seng Investment Management Limited ('HSVM') has engaged a third-party ESG rating agent and implemented an ESG scoring system, which includes a climate change module for incorporating ESG factors and climate-related risks into its investment process. In 2022, HSVM allocated around USD120,000 in the relevant research and development ('R&D') for this entity.

Alongside, HSVM has implemented the responsible Investment Policy which covers all its self-managed portfolios.

ESG factor integration

HSVM has also commenced steps to embed ESG factors into our investment process, while exploring the possibility to launch new products in future based on the ESG theme.

~67,000 kWh

Renewable energy were generated from solar panels installed at Hang Seng 113 office building in 2022

>100 tonnes

After office renovation, 100,000 sq. ft-net office area was reduced and reduced >100 tonnes CO_2 emissions in operation

~US$120,000

was allocated in research and development ('R&D") for an ESG scoring system in 2022

Climate Strategy

Advocacy of climate and sustainability awareness

During the year, we rolled out a series of publications, in order to enhance our staff's understanding of the Bank's newly launched ESG measures in an interesting and memorable way, including:

- **6 self-designed ESG comics**
- **6 bite-sized videos with interactive quizzes**

They covered topics like our installation of food waste decomposers, green mortgages, financed emissions, banking and climate change, etc. For details, please refer to our corporate website.

A number of staff members have been trained as Green Ambassadors to support the implementation of our environmental management system ('EMS'). They are also raising awareness of environmental matters among their colleagues, families and friends, and provide regular updates on relevant policies and measures.

Climate risk management

Overview

Climate risk relates to financial and non-financial impacts that may arise as a result of climate change and the move to a greener economy. Climate change can impact the organisation through a number of channels.

Physical risk can arise through increasing severity and / or frequency of severe weather or other climatic events, such as rising sea levels and flooding.

Transition risk, can arise from the move to a low carbon economy, such as through policy, regulatory and technological changes.

Greenwashing risk is a thematic risk that can materialise from the act of knowingly or unknowingly misleading stakeholders regarding our strategy relating to climate, the climate impact / benefits of a product or service, or regarding the climate commitments or performance of our customers.

Approach and policy

Climate risks may affect us either directly, or through our relationships with our customers, resulting in both financial and non-financial impacts.

We may face direct exposure to the physical impacts of climate change which could negatively affect our day-to-day operations. In addition, if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated carbon neutrality ambitions, we could face greenwashing risk resulting in significant reputational damage and potential regulatory fines, impacting the firm's revenue generating ability.

Our customers may find that their business models fail to align to a low carbon economy or that extreme or chronic changes in weather cause disruption to their operations. Any detrimental impact to our customers from climate risk could negatively impact us either through credit losses on our loan book or losses on trading assets. We may also be impacted by reputational concerns related to the climate action or inaction of our customers. Climate risk has been integrated into our existing risk taxonomy and is being incorporated within the risk management framework through the policies and controls for the existing risks where appropriate.

Our approach to climate risk is aligned to our risk management framework and three lines of defence model, which sets out how we identify, assess, and manage our risks. This approach ensures the Board and senior management have visibility and oversight of our key climate risks.

Three Lines of Defence model ('LoD')

1LoD	The first line of defence has ultimate accountability for managing climate risk in line with risk appetite and owns the related controls.
2LoD	The second line of defence sets policies and minimum control standards, provides subject matter expertise and review and challenge to first line activities to ensure actions relating to climate are appropriate. Risk stewards in the existing risk taxonomy are responsible for the oversight of climate risk impacts on their risk types.
3LoD	The third line of defence provides independent assurance to management that climate risk management, governance and control processes are designed and operating effectively.

Climate Strategy

Our initial approach focused on understanding physical and transition impacts across five priority risk types: wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance risk.

We consider greenwashing to be an important emerging risk which is likely to increase over time, as we look to develop capabilities and products to achieve our carbon neutrality commitments, and work with our clients to help them transition to a low carbon economy. To reflect this, our climate risk approach has been updated to include greenwashing and guidance has been provided to the first and second of defence on the key risk indicators, and how it should be managed.

Climate Risk – Primary Risk

Drivers		Details	Potential Impacts
Physical	Acute	Increased frequency and severity of weather events causing disruption to business operations	▸ Decreased real estate values ▸ Decreased household income and wealth ▸ Increased costs of legal and compliance ▸ Increased public scrutiny ▸ Decreased profitability ▸ Lower asset performance
	Chronic	Longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves	
Transition	Policy and legal	Mandates on, and regulation of, existing products and services. Litigation from parties who have suffered from the effects of climate change	
	Technology	Replacement of existing products with lower emission options	
	End-demand (market)	Changing consumer behaviour	
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction	

Climate Risk – Thematic Risk

Drivers		Details
Greenwashing	Firm Based	Failure to be accurate and transparent in communicating our progress against our carbon neutrality ambition
	Product	Not taking steps to ensure our green and sustainable products are developed and marketed appropriately
	Client	Failing to check our products are being used for green and sustainable business activity and assessing the credibility of our customers' climate commitments and / or progress against KPIs

Climate Strategy

Key developments in 2022

We continue to accelerate the development of our climate risk management capabilities. The key achievements in 2022 include:

- Developed new climate risk metrics to cover our retail mortgage portfolio in Hong Kong
- Enhanced our corporate transition questionnaire and scoring tool to clients in high transition risk sectors
- Development of our internal climate stress testing and scenarios capability, including model development and delivery regulatory climate stress tests.

Governance and structure

The Board takes overall responsibility for our climate strategy, overseeing executive management in the development of the approach, execution and associated reporting.

The Chief Risk Officer is responsible for the management of climate-related risks. Our Climate Risk Working Group is responsible for overseeing our climate related risk management.

Risk appetite

Our climate risk appetite supports the oversight and management of the financial and non-financial risks from climate change, meets regulatory expectations and supports the business to deliver our climate ambition in a safe and sustainable way. Our initial risk appetite has focused on the oversight and management of climate risks, including metrics relating to our high transition risk sectors in our wholesale portfolio and physical risk exposures in our retail portfolio. We continue to review our risk appetite regularly to ensure that it captures the most material climate risks and will develop appropriate metrics to measure and monitor these risks.

Policies, processes and controls

We are integrating climate risk into the policies, processes and controls for key areas, and we will continue to update these as our climate risk management capabilities mature over time.

In 2022, we have updated policies and incorporated climate considerations into our new money request processes for our wholesale business. We also adopted the updated energy policy, covering oil and gas, power and utilities, hydrogen, renewables, nuclear and biomass, as well as the updated thermal coal phase-out policy after its initial publication in 2021. Our transition risk scoring tool has been enhanced for our corporate portfolios, which will enable us to assess our customer exposures to climate risk.

Climate Strategy

Wholesale credit risk

Identification and assessment

We have identified six key sectors where our wholesale credit customers have the highest climate transition risk, based on their carbon emissions. These are oil and gas, building and construction, chemicals, automotive, power and utilities, and metals and mining. We continue to roll out our transition and physical risk questionnaire to our largest customers in high-risk sectors, with the addition of four more sectors: agriculture, industrials, real estate and transportation. The questionnaire helps us to assess and improve our understanding of the impact of climate changes on our customers' business models and any related transition strategies. It also helps us to identify potential business opportunities to support the transition.

Management

In 2022, we updated our credit policy to incorporate climate considerations in credit applications for new money requests. We continued using a scoring tool, which provides a climate risk score for each customer based on questionnaire responses. The scoring tool will be enhanced and refined over time as more data becomes available. The results of the tool have been provided to business and risk management teams. In 2023 we aim to further embed climate risk considerations in our credit risk management processes.

Aggregation and reporting

We internally report our transition risk exposure consumed by the six high-risk sectors in the wholesale portfolio.

Retail credit risk

Identification and assessment

We continue to enhance our identification and assessment of climate risk, prioritising our largest portfolios, by increasing our investment in physical risk data and by developing internal capabilities.

In 2022, we undertook an internal climate stress testing exercise to further our understanding and assessment of the potential impact of physical risk to our mortgage portfolios.

Management

We continue to review and update our retail credit risk management policies and processes to further embed climate risk, whilst also monitoring local regulatory developments to ensure compliance.

Aggregation and reporting

We implemented physical risk exposure metric for retail mortgage portfolio in 2022.

Resilience risk

Identification and assessment

Our Operational and Resilience Risk under Risk Department is responsible for overseeing the identification and assessment of physical and transition risks that may impact on the organisation's operational and resilience capabilities.

We are developing a deeper understanding of the risks to which our properties are subject to, and assess the mitigants to ensure ongoing operational resilience.

Management

We align with the operational and resilience risk policies developed by HSBC and the underlying measurement capability to embed climate risk management within HSBC's risk management framework.

Aggregation and reporting

With our ambition to achieve net zero in our own operations, we are particularly focused on developing measures to facilitate proactive risk management and assess progress against this strategic target.

Operational and Resilience Risk is represented on the climate risk related committees and working groups.

Climate Strategy

Regulatory compliance risk

Identification and assessment

During 2022, key regulatory compliance risks under consideration have evolved to also include post-sale servicing, complaints handling, and market abuse. The priority risk focus remains on greenwashing, namely the development and ongoing governance of new, changed or withdrawn products / services and ensuring sales practices and marketing materials are clear, fair and not misleading.

To support the ongoing management and mitigation of greenwashing risk regarding our products, related functions have worked across all business lines to enhance our product controls. This has improved our ability to identify, assess and manage product-related greenwashing risks throughout the product governance lifecycle. Examples of ongoing enhancements include:

- Integrating the consideration and mitigation of climate / ESG-related risks within the Regulatory Compliance Risk Taxonomy and Control Library ('RTCL') and the existing New and Ongoing Product Management Policy,
- Ensure climate risk is actively considered and documented in the enhanced product templates / forms by the business within product review and creation,
- The HSBC Group's Regulatory Conduct has implemented requirements in the Group Product Governance Enhancement Guide to ensure climate risks are robustly assessed, documented and mitigated, and will be seeking assurance validation and roll out at regionally level covering the Bank.

Management

Our policies continue to set the standards that are required to manage the risk of breaches of our regulatory duty to customers, including those related to climate risk, ensuring fair customer outcomes are achieved. Our product and customer lifecycle policies have been enhanced to ensure consideration of climate risks and are reviewed on a periodic basis to ensure they remain relevant and up-to-date.

The Compliance sub-function continues to focus on improving the capability of Compliance colleagues through the provision of ongoing training, communications and dedicated guidance. An area of particular focus is ensuring Compliance colleagues remain up-to-date with changes in the evolving regulatory landscape.

Aggregation and reporting

Global Compliance function of HSBC continues to operate an ESG and Climate Risk Working Group at a HSBC Group level to track and monitor the integration and embedding of climate risk within the management of regulatory compliance risks. In addition, the working group continues to monitor ongoing regulatory and legislative changes across the sustainability and climate risk agenda. In Asia-Pacific, a working group was established in February 2022 to coordinate the regional implementation of climate risk-related enhancements across the Compliance Advisory function. The Bank's Compliance Function is a member of this Asia-Pacific working group.

We have continued to develop our key climate-related metrics and indicators at HSBC Group level, aligned to the broader focus on regulatory compliance risks, to continually improve our risk monitoring capability. This has included the development of a climate-specific risk profile, which is produced at a HSBC Group level and regularly disseminated and reviewed at the regional level, alongside the development of new and improvements to existing metrics and indicators.