



About This Report

Report Coverage

The Bank's Environmental, Social and Governance Report 2023 describes our sustainability performance and the challenges we encountered in 2023. It focuses on the ESG topics that are material to our business and our stakeholders.

The report also describes how the Bank is driving the ESG progress in its operations and along its value chain. The information and the performance data in this report cover our operations in Hong Kong only, unless otherwise specified.

The ESG Report 2023 covers the Bank's operations, from which 93.7% of the total operating income is generated.

Unless otherwise stated, the term 'Group' in this report refers to Hang Seng and all its subsidiaries in Hong Kong. Mainland China and other operations are excluded, as their contribution to the Group's profit before tax and total assets is not significant. To qualify as significant, the 5-year average of both the profit before tax and total assets should be more than 5% for each of the past five years.

Financial data is extracted or compiled from the Bank's audited annual accounts for the financial year from 1 January to 31 December 2023. Other information covers the same period, unless otherwise stated.

There are no significant changes from the previous reporting period in terms of the scope, boundaries or measurements. Reasons are provided for any restating of information published in previous reports.

Our previous report, Environmental, Social and Governance Report 2022, was published on 10 March 2023.

Reporting Guidelines

This report has also been prepared with reference to the Global Reporting Initiative ('GRI') Standards, and with reference to the standards for Commercial Banks set by the Sustainability Accounting Standards Boards ('SASB'). We continue to publish climate-related disclosures in this report with reference to the recommendations provided by the Task Force on Climate-related Financial Disclosures ('TCFD'), in order to increase the transparency of our work in mitigating and adapting to climate change. The report has been independently verified by the Hong Kong Quality Assurance Agency ('HKQAA').

We have adopted the following fundamental reporting principles of HKEX's ESG Guide.

- **Materiality:** We commissioned an external consultant to assess the priorities of our material issues through stakeholder engagement. The issues identified were endorsed by our ESG Disclosure Working Group and ESG Steering Committee, and were approved by the Executive Committee and noted by the Board.
- **Quantitative:** As approved by the ESG Steering Committee, we have established targets to reduce our operational impact on the environment (see the 'Environmental' section).
- **Balance:** To provide an unbiased picture of the Bank's performance, we review and disclose our achievements, as well as our areas for improvement.
- **Consistency:** To allow for meaningful comparisons of the ESG data over time, the Bank uses the same methodology each year.

We have also considered our 'comply or explain' approach under the HKMA's Supervisory Policy Manual GS-1 on Climate Risk Management, and we confirm that we have disclosed the information consistently, in adherence to the TCFD's recommended disclosures in this report.

As per HKMA's CG-5 requirement, our Annual Report already included the relevant section on the remuneration of Senior Management and Key Personnel. The aggregate amount of remuneration, split into fixed and variable remuneration, is reported. Deferred share awards are in the form of HSBC Holding plc shares (with HSBC Holding plc being the ultimate holding company of the Bank).



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ESG Data Collection

The Bank's first line of defence content owners are responsible for the accuracy of information and data collection. To ensure the quality, accuracy and transparency of our ESG disclosure, we have continued to use the Bank's 'Three Lines of Defence' framework to collect and validate our ESG data, which is overseen by our ESG Disclosure Working Group.

Driving our ESG disclosure and its enhancement requires a concerted effort from our departments and business units. Our first line of defence content owners, which are appointed by their department heads, help ensure the transparency, accuracy and reliability of our ESG disclosures. The nomination process also ensures that the first line of defence content owners have the related work experience, and/or have received training relevant to the material ESG aspects of their departments, in order to coordinate the preparation of the disclosures.

After the first line of defence content preparers have provided the relevant information and supporting documents, the first line of defence reviewers proceed to review the aforesaid information against appropriate, verifiable evidence. The first line of defence section owners, i.e. heads of business units and functions, are required to provide an attestation on their team's relevant data inputs and certify the effectiveness of their respective internal control systems over ESG matters.

The second line of defence will also independently review the information and supporting files provided by the first line of defence content preparers.

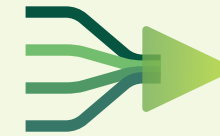
The major responsibilities of the first line of defence content preparers related to ESG reporting include:



Understanding the ESG disclosure requirements and controls



Facilitating stakeholder engagement to identify material topics for the Bank's ESG performance



Consolidating their department's input and the corresponding supporting documents



Facilitating the ESG attestation process

Assurance Relating to ESG Data

The report has been independently verified by the HKQAA. The process applied in this verification was based on the International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board, and reference to ISO 14064-3: Specification with guidance for the validation and verification of greenhouse gas assertions (see the Verification Statement).

In addition, in relation to the sustainable finance and investment, the cumulative progress since 2021 is subject to PwC's limited assurance in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3000 Revised – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (see Independent Limited Assurance Report in the Bank's ESG Report 2023 website https://cms.hangseng.com/cms/fin4/esg_report_2023/en/index.html).



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Cautionary Statement Regarding ESG and Climate-related Data, Metrics and Forward-looking Statements

The ESG Report 2023 contains a number of forward-looking statements with respect to our ESG targets, commitments, ambitions, climate-related pathways, processes and plans, and the methodologies and scenarios we use, or intend to use, to assess our progress in relation to these ('ESG-related forward-looking statements').

In preparing the ESG-related information contained in the ESG Report 2023, we have relied on a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. We have used ESG (including climate) data, models and methodologies that we consider, as of the date on which they were used, to be appropriate and suitable to understand and assess climate change risk and its impact, to analyse financed emissions - and operational and supply chain emissions, to set ESG-related targets and to evaluate the classification of sustainable finance and investments. However, these data, models and methodologies are often new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In particular, it is not possible to rely on historical data as a strong indicator of future trajectories in the case of climate change and its evolution. Outputs of models, processed data and methodologies are also likely to

be affected by underlying data quality, which can be hard to assess and we expect industry guidance, market practice, and regulations in this field to continue to change. We also face challenges in relation to our ability to access data on a timely basis, lack of consistency and comparability between data that is available and our ability to collect and process relevant data. Consequently, the ESG-related forward-looking statements and ESG metrics disclosed in the ESG Report 2023 carry an additional degree of inherent risk and uncertainty.

Due to the unpredictable evolution of climate change and its future impact and the uncertainty of future policy and market response to ESG-related issues and the effectiveness of any such response, we may have to re-evaluate our progress towards our ESG ambitions, commitments and targets in the future, update the methodologies we use or alter our approach to ESG (including climate) analysis and may be required to amend, update and recalculate our ESG disclosures and assessments in the future, as market practice and data quality and availability develop.

No assurance can be given by or on behalf of the Bank as to the likelihood of the achievement or reasonableness of any projections, estimates, forecasts, targets, commitments, ambitions, prospects or returns contained herein. Readers are cautioned that a number of factors, both external and those specific to our Bank, could cause actual achievements, results,

performance or other future events or conditions to differ, in some cases materially, from those stated, implied and/or reflected in any ESG-related forward-looking statement or metric due to a variety of risks, uncertainties and other factors (including without limitation those referred to below):

- **Climate change projection risk:** this includes, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts;
- **ESG projection risk:** ESG metrics are complex and are still subject to development. In addition, the scenarios employed in relation to them, and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty, and cannot fully capture all of the potential effects of climate, policy and technology-driven outcomes;
- **Changes in the ESG regulatory landscape:** this involves changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets;
- **Variation in reporting standards:** ESG reporting standards are still developing and are not standardised or comparable across all sectors and markets, new reporting standards in relation to different ESG metrics are still emerging;



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- **Data availability, accuracy, verifiability and data gaps:** our disclosures are limited by the availability of high-quality data in some areas and our own ability to timely collect and process such data as required. Where data is not available for all sectors or consistently year on year, there may be an impact to our data quality scores. 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 unexpected fluctuations within sectors year on year, and/or differences between the data quality scores between sectors. Any such changes in the availability and quality of data over time, or our ability to collect and process such data, could result in revisions to reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on year;
- **Developing methodologies and scenarios:** the methodologies and scenarios we use to assess financed emissions and set ESG-related targets may develop over time in line with market practice, regulation and/or developments in science, where applicable. Such developments could result in revisions to reported data, including the classification of sustainable finance and investments, meaning that data outputs may not be reconcilable or comparable year-on year; and
- **Risk management capabilities:** global actions, including our own actions, may not be effective in transitioning to net zero and in managing relevant ESG risks, including in particular climate, nature-related and human rights

risks, each of which can impact the Bank both directly and indirectly through our customers, and which may result in potential financial and non-financial impacts to the Bank. In particular:

1. we may not be able to achieve our ESG targets, commitments and ambitions (including with respect to the positions set forth in HSBC Group's thermal coal phase-out policy and energy policy, and targets to reduce on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors), which may result in our failure to achieve some or all of the expected benefits of our strategic priorities; and
2. we may not be able to develop sustainable finance and ESG-related products consistent with the evolving expectations of our regulators, and our capacity to measure the environmental and social impacts from our financing activity may diminish (including as a result of data and model limitations and changes in methodologies), which may affect our ability to achieve our ESG targets, commitments and ambitions, including our contribution to HSBC Group's net zero ambition, targets to reduce on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors and the positions set forth in HSBC Group's thermal coal phase-out policy and energy policy, and increase the risk of greenwashing.

Any forward-looking statements made by or on behalf of the Bank speak only as of the date they are made. We expressly disclaim any obligation to revise or update these ESG forward-looking statements, other than as expressly required by applicable law.

Written and/or oral ESG-related forward-looking statements may also be made in our periodic reports to summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by our Directors, officers or employees to third parties, including financial analysts.