

HSBC Amanah Malaysia Berhad

Task Force on Climate-related Financial Disclosures

December 2021



HSBC
Amanah



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Disclaimer / Notes:

HSBC Amanah Malaysia Berhad (HSBC Amanah, the Bank, we, our or us) supports the recommendations of the Financial Stability Board (FSB)'s Task Force on Climate-related Financial Disclosures (TCFD) and is committed to producing disclosures that consider these recommendations. This is our second climate-related disclosure consistent with the TCFD recommendations. The Bank is taking a phased approach to fully align with the TCFD recommendations. We are committed to continuous improvement and expect our disclosures will evolve.

All figures reported in the disclosures are as at 31 December 2021, unless otherwise stated. The information and data included are relevant to our operations from 1 January 2021 to 31 December 2021.

HSBC Amanah at a glance

HSBC Holdings plc (hereinafter referred to as HSBC Group, HSBC or the/our Group) is one of the world's largest banking and financial service organisation which takes pride in its global presence. The Group's presence in Malaysia dates back to 1884 when Hongkong and Shanghai Banking Corporation Limited established its first office on the island of Penang.

Serving Our Customers

MYR19.4 BILLION
of assets as at December 2021

22 BRANCHES

Strategically located nationwide¹

¹ As at 30 June 2022. HSBC Amanah has 22 branches across Malaysia.



In 1994, HSBC officially established its Islamic financial services in the country with the introduction of banking products based on Shariah principles. In November 2007, HSBC Bank Malaysia Berhad was the first locally incorporated foreign bank that was awarded an Islamic banking license by Bank Negara Malaysia (BNM). The following year in February 2008, HSBC Amanah Malaysia Berhad (HSBC Amanah or the Bank) was incorporated and commenced operations in August 2008.

HSBC Amanah stays true to HSBC Group's ambition to be the preferred international financial partner for our clients. In Malaysia, we are proud to offer a comprehensive suite of Shariah-compliant products and services in support of our established position as a full-fledged Islamic financial institution. Our solutions are provided to all market segments, enabling individuals, businesses, corporates and institutions to achieve their financial objectives.

HSBC Amanah has the largest Islamic banking network among locally incorporated foreign banks in Malaysia with 22 branches strategically located throughout the country, to best serve the needs of our customers and enhanced by our comprehensive digital platforms. In addition to our HSBC Amanah branch network, our Islamic products are also offered through all 32 branches of their parent bank, HSBC Bank Malaysia Berhad (HBMY), collectively known as HSBC Malaysia.

Our purpose

Opening up a world of opportunity – explains why we exist. We're here to use our unique expertise, capabilities, breadth and perspectives to open up new kinds of opportunity for our customers. We're bringing together the people, ideas and capital that nurture progress and growth, helping to create a better world – for our customers, our people, our investors, our communities and the planet we all share.



At HSBC Amanah, we are working closely with our Group to realise these ambitions

Our values

At HSBC, our values guide us in all our actions – from strategic decisions to day-to-day interactions with customers and each other.

We value difference

Seeking out different perspectives

We were born speaking different languages. We were founded on the strength of different experiences, attributes and voices; they are integral to who we are and how we work.

The greater our empathy and diversity, the better we reflect the worlds of our customers and communities – and the better we can serve them.

So, we champion inclusivity. We listen. We remove barriers. And we seek out views different from our own.

We take responsibility

Holding ourselves accountable and taking the long view

What we do has real impact on people’s lives, communities and the planet. We take this responsibility seriously.

We set ourselves high standards and are each accountable for our actions. We always use good judgement. And if something doesn’t feel right, as colleagues we speak up and act.

We build for tomorrow, today. We succeed only by taking the long view, by focusing on the sustainable interests of our customers, investors, and the planet we all share.

We succeed together

Collaborating across boundaries

We offer our customers a unique breadth of opportunities. And we can only deliver the full promise of this by being truly connected across boundaries. With our customers and partners, together as colleagues and as an organisation.

So, we collaborate across boundaries. We break down silos. We trust and support each other. And, when necessary, get out of each other’s way.

Together, we make possible what we cannot do alone.

We get it done

Moving at pace and making things happen

We create value for our customers and investors by always moving forward and making things happen.

We’re entrepreneurial: we try new things, we learn and improve, and we take smart risks. We’re dynamic: we reject mediocrity. We move at pace.

We’re decisive: we make clear choices and take bold actions.

And we keep our word: we always do what we promise.

Our climate ambition

HSBC Group has set a climate ambition to become net zero in our operations and our supply chain by 2030 or sooner, and align our financed emissions to the Paris Agreement goal of net zero by 2050 or sooner. In 2021, the Group has set on-balance sheet financed emissions targets by 2030 for the oil and gas, and power and utilities sectors, aligned to the International Energy Agency’s (IEA) net zero scenario, underpinned by a clear science-based strategy. To support our Group’s goal of net zero financed emissions, it will be crucial to unlock transition finance for our portfolio of clients.

Our global businesses and product offerings

We classify our customers into several distinct groups: retail customers, small, medium and large-sized corporate customers, and global and institutional customers. These groups are serviced by our three global businesses – each aimed at providing products and services that match our customers’ needs.



Wealth & Personal Banking

- Personal Financing
- Home Financing
- Credit Cards
- Deposits
- Wealth



Commercial Banking

- Term Financing
- Commercial Property Financing
- Industrial Hire Purchase
- Working Capital Financing
- Global Trade & Receivables Finance (GTRF)
- Global Liquidity & Cash Management (GLCM)



Global Banking

- Debt Capital Markets
- Term Financing
- Working Capital Financing
- GTRF
- GLCM



Markets & Securities Services

- Hedging Solutions
- Risk Management

Value-Based Intermediation and Our Business

As Malaysia maintains its position as a global leader in Islamic finance, it is crucial for members of the industry to continue innovating financial products and services that contribute to social wellbeing, the environment and economy. Financial institutions would need to continue exploring new strategies that facilitate growth and sustainability.

HSBC Amanah began its sustainability journey as one of the early members of the Value-based Intermediation (VBI) Community of Practitioners by adopting the BNM VBI framework in 2017. The VBI framework seeks to encourage Islamic Banks in Malaysia to shift away from a solely profit-focused (i.e. bottom line) mindset, to a new and holistic direction that looks at the impact of banking on both people and planet – whilst ensuring that return to shareholders remains a priority.

As an organisation, we believe that VBI propels our people towards being more productive, innovative and engaging which increases profit and drives our brand forward. For the community, this is translated into enhanced services and product offerings, better access to Shariah-compliant financial solutions as well as greater opportunities to move up the value chain ladder. In essence, VBI is a pathway that helps create better industry innovation and collaboration which aims to drive Malaysia’s Islamic finance industry to the next level of growth and simultaneously gives equal importance to social, ethical and environmental considerations that promotes sustainable value creation.

By making a commitment to integrate VBI principles into our business practices, our peoples’ conduct and our product offerings, we are taking a step forward to becoming an institution that is dedicated to delivering shared value to our stakeholders. This is exemplified by our efforts to constantly innovate our product offerings according to the needs of our customers.

Realising sustainability through Value-Based Intermediation



Our VBI Approach

By integrating VBI into our core business practices, we generate positive impact and ensure the sustainability of our business through the lens of Triple Bottom Line (TBL) – People, Planet and Prosperity.

Triple Bottom Line

As an organisation, we emphasise the prevention and minimisation of harm (negative impact) while advocating the attainment of benefit (positive impact) for our wider stakeholders. We assess the extent of how our services and financing as well as facilitation have created positive and sustainable value or impact on the wider group of stakeholders (beyond shareholders) based on three aspects: Planet, People and Prosperity, collectively referred to as the TBL.

Planet

HSBC Amanah supports HSBC Group’s advocacy on our customers’ transition to a net zero future and is mindful of the impact we cause to the environment in which we operate in. Our buildings are designed to be energy-efficient, and we empower all employees to adhere to the principles of responsible consumption in all aspects.

People

People are at the core of everything we do. Our product offerings deliver not only the highest standards and quality, but also adhere to Shariah-compliant requirements so that we are able to maintain the confidence of our customers and shareholders.

Prosperity

At HSBC Amanah, our business model is designed in line with Islamic principles that go beyond profit-making. While we ensure that our offerings generate sustainable profit for our shareholders and the growth of our business, we are also well-positioned to promote best practices that will result in the creation of positive impact encompassing not just long-term returns, but also value creation for our business, shareholders and the community.

HSBC Group defines 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 the United Nations Sustainable Development Goals (SDGs), including but not limited to the aims of the Paris Agreement on climate change².

We are embedding sustainability in our business practices as we further strengthen understanding of our customers and their activities and support them in our alignment with the objectives of VBI.

Through VBI, HSBC Amanah also plays an active role in thought leadership. HSBC Amanah is an active member of the Joint Committee on Climate Change (JC3) since 2019 and chaired the JC3 sub-committee in 2020 and 2021 on engagement and capacity building. JC3 is an initiative co-chaired by BNM and Securities Commission Malaysia to pursue collaborative actions for building climate resilience within the Malaysian financial sector.

Continuing our sustainability journey in 2021, we were part of the team that facilitated the Government of Malaysia (GOM)’s world-first sovereign US Dollar sustainability sukuk, acting as Joint SDG Structuring Adviser for GOM’s inaugural Sustainability Framework. We published our first Communication of Progress (COP) for United Nations Global Compact and launched the first ESG credit card³ in Malaysia, a multiple award-winning proposition. We also received the award for Islamic ESG Bank of the Year for the second consecutive year in 2021⁴.

As we continue to make strides in our sustainability journey, we continue to focus on strengthening our foundation through numerous enterprise-wide initiatives to ensure that sustainability is embedded in our operations. One of the key initiatives is Project Cocoon, which was launched in 2020. Project Cocoon is a bank-wide initiative to fully realise our VBI and sustainability ambitions.

² For details of how HSBC defines sustainable finance, please refer to <https://www.hsbc.com/-/files/hsbc/who-we-are/esg-and-responsible-business/esg-reporting-centre/pdfs/220222-hsbc-sustainable-financing-and-investment-commitment-data-dictionary-2021.pdf?download=1>.

³ This initiative was awarded the ‘Credit Card Initiative of the Year (Malaysia)’ at the Asian Banking & Finance (ABF) Retail Banking Awards 2021, ‘Outstanding Innovation in Digital CX Product/Service – Islamic Banking’ and Best New Product Launch of the Year – Cards at the Global Retail Banking Innovation Awards 2021.

⁴ HSBC Amanah was awarded Islamic ESG Bank of the Year 2021 by The Asset Triple A.



Project Cocoon: Embedding Sustainability Into Our Business

Project Cocoon is a sustainability transformation programme to truly embed sustainability in our business and operations. Launched in December 2020, the programme entails entity-wide initiatives covering the following areas of priorities:



Classification of HSBC Amanah's TBL assets



Customised financing solutions



Capacity building and external advocacy



External disclosures



Cultural transformation

The activities under Project Cocoon are built upon the work achieved over the last four years through VBI, to enhance HSBC Amanah's position as a leader in sustainable banking at a local level and continue to support HSBC Group's sustainability strategy.

The programme is being led by the Chief Executive Officer (CEO) of HSBC Amanah, supported by the senior leadership team of both HBMY and HSBC Amanah.

Project Cocoon is about going above and beyond as part of our broader commitment to developing a sustainable finance market. Doing more for Malaysia, more for HSBC Group, and most importantly, more for the people within the communities we serve and the environment we live in.

Prioritised initiatives under Project Cocoon in 2021

A summary of some of the notable work, achievements and progress by HSBC Amanah in 2021 are disclosed on **pages 32 to 35**

TCFD: An Introduction

Climate change presents both risks and opportunities for businesses and individuals. The rise in natural disasters due to climate change is disrupting ecosystems and human health, causing unanticipated business losses. With increased awareness of climate change, one of HSBC Group's strategic pillars is to support the transition to a net zero global economy and HSBC Malaysia is expected to contribute towards achieving this goal. We believe our most significant contribution will be to align our financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels. To limit the rise in global temperatures to 1.5°C, the global economy would need to reach net zero greenhouse gas emissions by 2050.

The Financial Stability Board (FSB)'s Task Force on Climate-related Financial Disclosures (TCFD) recommendations set an important framework for understanding and analysing climate-related risks.

The Task Force developed four widely adoptable recommendations on climate-related financial disclosures, published in June 2017, applicable to organisations across sectors and jurisdictions. The recommendations are structured around four thematic areas that represent core elements of how organisations operate – Governance, Strategy, Risk Management, and Metrics and Targets.



Governance

Disclose the organisation's governance around climate-related risks and opportunities

Governance is a key component of an organisation's management of its climate risk and opportunities. It defines, in the form of a board-approved charter and governing policies, the roles, responsibilities and decision-making mechanisms by which the organisation defines and delivers on its climate-related commitments to key stakeholders such as customers, investors and the communities in which the organisation operates.

The Board of HSBC Amanah through the Risk Committee provides primary oversight of our strategic approach to climate change which includes how we manage climate-related risks and opportunities.

Read more on our board governance and management governance on **pages 12 to 15**.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material

The Strategy pillar is intended to provide important insights into climate-related exposures faced by the business. It also addresses how responses to climate risks and opportunities are integrated within the strategy of the organisation, as well as how they are incorporated as part of financial planning and analysis.

HSBC Group aims to achieve net zero in our financed emissions by 2050, and in our own operations and supply chain by 2030. HSBC Amanah strives to contribute to our Group's aim to provide and facilitate USD750 billion to USD1 trillion of sustainable finance and investment for our customers in their transition to net zero and a sustainable future by 2030. In Malaysia, HSBC Malaysia, including HSBC Amanah, has earmarked MYR1 billion towards sustainable finance.

Climate change can have an impact across HSBC's risk taxonomy through both transition and physical channels. One of the most valuable ways we can help our customers navigate the transition challenges and to become more resilient to the physical impacts of climate change is through financing and investment. We are supporting our customers in their transition through our sustainable finance and investment ambition. We have identified six top carbon emitting sectors in our financing activity, which are: oil and gas, building and construction, chemicals, automotive, power and utilities, and metal and mining. We have also disclosed our thermal coal phase-out policy on **page 30**.

Read more on our strategy in responding to climate risk and opportunities on **pages 16 to 27**.

Risk Management

Disclose how the organisation identifies, assesses and manages climate-related risks

The risk management disclosures address how the organisation identifies, measures, monitors, manages and reports climate-related risks. They provide important insights into how climate-related risks are integrated within the firm-wide risk management framework.

HSBC Group's key climate risk types are: wholesale credit risk, retail credit risk, regulatory compliance risk, resilience risk and strategic (reputational) risk.

HSBC Amanah's approach to climate risk management is aligned with our Group-wide risk management framework.

Read more on our climate risk management approach on **pages 28 to 31**.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Financial services firms' metrics and targets provide stakeholders with important insights on how the capital allocation to carbon-intensive sectors is changing. Metrics and targets are the mechanism for measuring and disclosing progress versus the commitments made to stakeholders with respect to managing and mitigating the impact of climate change.

To support our Group's ambition to align our financed emissions to achieve net zero by 2050 or sooner, we will work with our Group to realise this ambition. We are also tracking sustainability related initiatives to ensure that there are clear progress and outcomes.

Read more on our climate metrics and targets on **pages 32 to 35**.

Governance

Board oversight

The Board of HSBC Amanah through the Risk Committee provides primary oversight of our strategic approach to climate change which includes how we manage climate-related risks and opportunities

Members of the Board of HSBC Amanah are entrusted with steering the organisation towards a sustainable future by adopting sound, ethical and legal governance and financial management policies. Board members recognise the risk of climate change to society and the global economy, and are cognisant of the need to support the transition to a low-carbon economy. Climate change also presents a potential strategic risk to the Bank, and therefore, it is the duty of the Board to identify and manage it in the same way as any other strategic risk – setting the tone for the robust risk culture that we embrace within HSBC Amanah.



The Board of HSBC Amanah through the Risk Committee provides primary oversight of our strategic approach to climate change which includes how we manage climate-related risks and opportunities. The approach to managing climate-related risks and opportunities is also supported by the Executive Committee and Risk Management Meeting. Our approach to climate change is coordinated at an enterprise level with all global business lines and functions playing their parts in sharing responsibilities to address climate-related risks and opportunities. In 2021, the Bank established a Climate Risk Oversight Forum to discuss and share matters pertaining to climate change and acts as a local platform to roll out climate related initiatives driven regionally or locally.

Risk Committee

The Risk Committee has non-executive responsibility for providing oversight and advice to the Board on risk-related matters and principal risks impacting the Bank. Together with the Board, the Risk Committee oversees the maintenance and development of a strong risk management framework by continuously monitoring the risk environment, top and emerging risks faced by the Bank and mitigation actions planned and taken. In addition, the Risk Committee also monitors the risk profiles for all risk categories within the Bank's businesses and functions, including climate risk.

Shariah Committee

The Shariah Committee was established to provide oversight on Shariah operations and management of day-to-day operations of the Bank in accordance with Shariah principles based on the Board's policies and directions. Our mandated business strategy as an Islamic bank and strong compliance with Islamic banking principles uniquely positions HSBC Amanah as an advocate of sustainable finance.

Management's role

Management responsibilities for climate risk are integrated into the relevant business and functional areas. These roles and responsibilities are aligned to HSBC Group's risk management framework and the three lines of defence model to ensure robust oversight and challenge in managing climate risk

Executive Committee

Consisting of key senior management members, the Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. The committee exercises all the powers, authorities and discretions of the Board related to the management and day-to-day running of the Bank, in accordance with the Board's directions. The Bank's Chief Executive Officer (CEO) chairs the Executive Committee.

The committee has oversight responsibility over identification and implementation of business and risk strategies and opportunities, and other policies in accordance with the direction given by the Board, after considering various aspects of enterprise-wide risk including climate risk.

Separate meetings of the committee will be held to discuss enterprise-wide risk management issues such as climate risk, and referred to Risk Management Meetings.

Risk Management Meeting (RMM)

RMM represents formal risk governance at the management level where members of the Executive Committee make recommendations and provide advice to the Chief Risk Officer (CRO) in relation to enterprise risk oversight. Amongst enterprise risk reports presented in the forum, the Top & Emerging Risks report provides forward-looking analysis of risk themes, often large-scale events or external/internal circumstances, which are difficult to predict and are often beyond HSBC Group's ability to control directly, such as climate risk.

Climate Risk Oversight Forum

Climate Risk Oversight is a forum to discuss and share matters pertaining to climate change in the Bank, and acts as a local platform to roll out climate related initiatives driven regionally or locally. This includes creating awareness amongst local management around climate risk and aligning strategic thinking (risk and opportunities) across businesses and functions. Speakers from the region or group offices are invited to meetings to provide clarity on various climate risk initiatives. The forum also provides oversight on reporting and monitoring of climate related initiatives and exposures.

Cocoon Project Management Office (PMO)

The Cocoon PMO, which reports directly to HSBC Amanah's CEO, undertakes planning and provides oversight over the progress and milestones of all initiatives under Project Cocoon.

To ensure effective management and delivery of the intended objectives under Project Cocoon, the PMO is involved in bridging local stakeholders with subject matter experts within HSBC Group for guidance, as well as initiating and establishing connections with external stakeholders for collaborations.

The PMO is also responsible for creating frameworks and guidelines in strategic alignment with HSBC Group's ambition, BNM VBI framework and JC3 initiatives, whilst ensuring HSBC's best practices and standards are well-maintained for the intended qualitative outcomes and quantitative results of the Bank's transformation programme to be delivered effectively in a timely manner.



Keeping Up with the Climate Agenda

Continuous learning and capability building forms a key part of the process towards managing climate risk and achieving our sustainability goals. The Bank's Executive Directors are kept up to date through day-to-day interactions and briefings with senior management of the Bank's businesses and functions, while Non-Executive Directors have access to external training and development resources under the Directors' training and development framework approved by the Board.

In addition, we aim to use our global reach and leadership to help accelerate the conversation on climate change and its impact to our local key stakeholders, customers, business and community through our active local regulatory engagement. To advocate change and help align recovery to climate and sustainability goals, Board members and senior management personnel have participated in various industry-led initiatives and key industry forums in Malaysia organised by regulators, industry associations and sustainability networks.

Partnerships and collaboration are a key part of how we aim to help manage the future risk of climate change for the financial system and society at large, and support the real economy in the transition to a low carbon, sustainable future.

We continue to actively seek opportunities to work jointly with leading industry partners to improve the impact of climate change solutions, and work with local regulators and international organisations to help deliver effective regulation and governance for our customers, the industry and wider society.





Our Climate Risk Strategy

HSBC Amanah's climate ambition

HSBC Amanah's climate-related strategies are embedded within the Bank's ambition to be a leading financial institution aligned to the principles of VBI, implemented under Project Cocoon which began in 2020. Our climate strategy involves a conscious shift away from profit or bottom-line focused mindset to a new and holistic direction that looks at the impact of banking on both people and the planet, whilst continuing to ensure that profit returns to our shareholders remain a priority.

Ultimately, HSBC Amanah's climate-related strategies are part of our broader commitment to sustainability, aligned with HSBC Group's ambition to become a net zero bank. We recognise that our planet urgently needs drastic and lasting action to protect our communities, businesses and natural environment from the damaging effects of climate change. To limit the rise in global temperatures to 1.5°C, the global economy would need to reach net zero greenhouse gas emissions by 2050. Our ability to steer finance for the transformation of businesses and infrastructure will be key in helping to enable the transition to a net zero global economy. We believe we can make the most significant impact by working with our customers to support their transition to a net zero future.

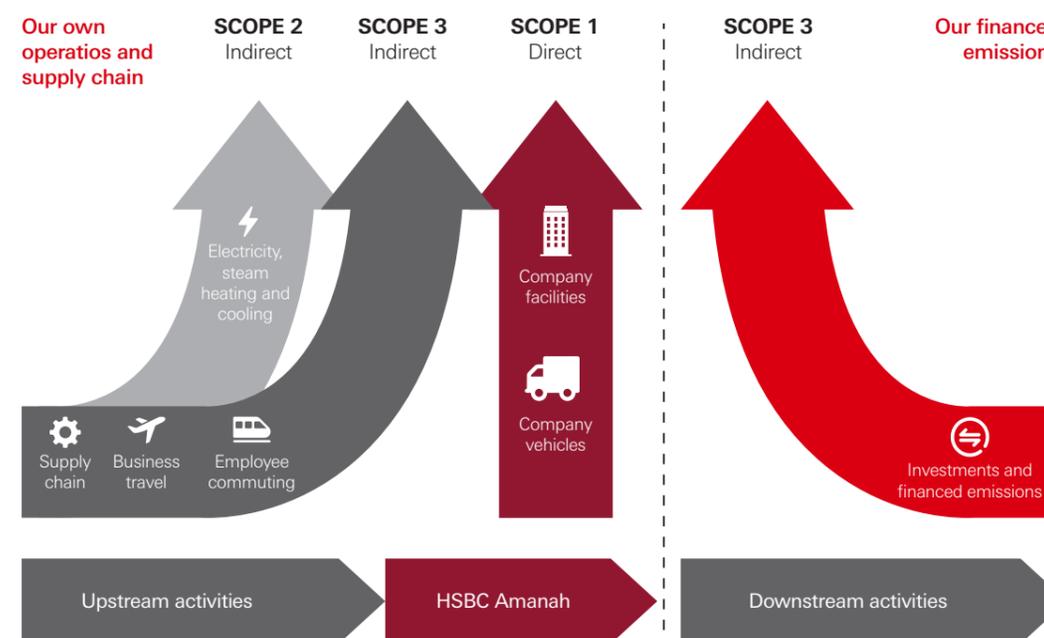
Net zero refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount taken away

Becoming a net zero bank

In October 2020, HSBC Group announced our ambition to become a net zero bank including an aim to align our financed emissions to net zero by 2050 or sooner.

HSBC Group's ambition is to become net zero in our operations and supply chain. This covers our direct and indirect greenhouse gas emissions known as scope 1, 2 and 3 emissions. As well as transforming our own operations and supply chain to net zero across our own organisation by 2030, we are asking our suppliers to do the same.

The diagram below shows how these ambitions map to our scope 1, 2 and 3 emissions.



Explaining scope 1, 2 and 3 emissions

To measure and manage our carbon 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 taking place to provide services to customers. 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 financed emissions.



Climate change can have an impact across our risk taxonomy through both transition and physical channels.

- Transition risk can arise from the move to a net zero economy, such as through policy, regulatory and technological changes
- Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding

These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for HSBC. Financial impacts could materialise if transition and physical risks impact the ability of our customers to repay their financing. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition.

Climate change could impact our customers broadly in two ways. Firstly, customer business models may fail to align to a net zero economy, which could mean that new climate-related regulation may have a material impact on their business. Secondly, extreme weather events or chronic changes in weather patterns may damage our customers' assets leaving them unable to operate their business or potentially even live in their home.

One of the most valuable ways we can help our customers navigate the transition challenges and to become more resilient to the physical impacts of climate change is through financing and investment. To do this effectively, we must understand the risks they are facing.

The table below summarises the key categories of transition and physical risk, with examples of how our customers might be affected financially by climate change and the shift to a low carbon economy.

| CLIMATE-RELATED RISK | | MAIN CAUSES OF FINANCIAL IMPACT ON CUSTOMERS |
|----------------------|----------------------------|--|
| TRANSITION | Policy and legal | <ul style="list-style-type: none"> • Mandates on, and regulation of, existing products and services • Litigation from parties who have suffered from the effects of climate change |
| | Technology | <ul style="list-style-type: none"> • Replacement of existing products with lower emission options |
| | End-demand (market) | <ul style="list-style-type: none"> • Changing consumer behaviour |
| | Reputational | <ul style="list-style-type: none"> • Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction |
| PHYSICAL | Acute | <ul style="list-style-type: none"> • Increased frequency and severity of weather events |
| | Chronic | <ul style="list-style-type: none"> • Change in precipitation patterns • Rising temperatures |



Strategy towards climate risk

Our aspiration in supporting customer through transition

Our ability to finance the transformation of businesses and infrastructure is key to building a sustainable future for our customers and society. The most significant contribution we can make is by supporting our portfolio of customers to decarbonise within the transition to a net zero global economy.

A leader in sustainable finance

HSBC Amanah aspires to be a recognised leader in sustainable finance, helping to pioneer the market for green, social and sustainable bonds and attaching ambitious environmental targets to business financing.

► **Transition Solutions**

HSBC Amanah aims to help our customers' transition to net zero and a sustainable future by being part of the provider and facilitator of HSBC Group's commitment of between USD750 billion and USD1 trillion of sustainable finance and investment by 2030. In Malaysia, HSBC Malaysia, including HSBC Amanah, has earmarked MYR1 billion towards sustainable finance. Our sustainable finance ambition has enabled sustainable infrastructure and energy systems, promoted decarbonisation efforts across the real economy, and enhanced investor capital through sustainable investment.

► **Sustainable infrastructure**

Good infrastructure is the backbone of any successful society and economy. However, addressing climate change requires the world – particularly emerging markets – to develop a new generation of sustainable infrastructure quickly. There remains a significant investment gap and lack of adequate, bankable projects. Stronger standards are also needed to bring investors to the table.

Our Wholesale Sector Strategy Towards Climate Risk

HSBC Amanah aspires to set the standard for Islamic banking in Malaysia and globally by leading the way in developing sustainable solutions for our customers within the Commercial Banking, and Global Banking and Markets business lines. We are dedicated to ensuring that our business remains relevant and consistent with industry expectations, to enable us to create and deliver long-term value to our customers and shareholders.

It is imperative for the Bank to effectively have oversight in managing its financial and non-financial risks from climate-related risk that meet regulatory expectations and support the business to deliver HSBC Group's climate ambition in a safe and sustainable way via the appropriate tools and processes. The business model that the Bank develops and executes are guided by HSBC's Group-wide risk management framework and three lines of defence model to ensure robust oversight on climate risks, namely Climate Risk Appetite, Climate Risk Policies, processes and control and Climate Risk Programme.

Having a clear understanding of the climate-related risks enables us to identify the right client segments and industry sectors, and how we can measure, monitor and mitigate the impact of climate change on our customers' exposure.



Our Wholesale Risk Exposures

In the chart below, we capture our exposures within the six high risk sectors, including environmentally responsible and sustainable financing activities.



- Automotive
- Chemicals
- Construction & Building Material
- Metals & Minings
- Oil & Gas
- Power & Utilities

¹ Amounts shown in the chart also include green and other sustainable financing, which support the transition to the net zero economy. The methodology for quantifying our exposure to high transition risk sectors and the transition risk metrics will evolve over time as more data becomes available and is incorporated in our risk management systems and processes.

² Counterparties are allocated to the high transition risk sectors via a two-step approach. Firstly, where the main business of a group of connected counterparties is in a high transition risk sector, all financing to the group is included irrespective of the sector of each individual obligor within the group. Secondly, where the main business of a group of connected counterparties is not in a high transition risk sector, only financing to individual obligors in the high transition risk sectors is included. For Global Banking and Markets clients, the main business of a group of connected counterparties is identified by the relationship manager for the group. For Commercial Banking clients, the main business of a group of connected counterparties is identified based on the largest industry of HSBC Amanah's total financing limits to the group.

³ Total wholesale financing and advances to customers and banks amounted to MYR10.9 billion (USD2.6 billion) (as per HSBC Group's reporting basis).

⁴ All percentages are weighted by exposure.

Our approach to climate risk management is aligned to HSBC Group-wide risk management framework and three lines of defence model to ensure robust oversight of climate risk. We have integrated climate risk into the supporting policies, processes and controls for our key wholesale climate risks.

We have identified six key sectors where our Wholesale credit customers (across businesses, corporates and institutions) have the highest climate risks. These are oil and gas, building and construction, chemicals, automotive, power and utilities, and metals and mining.

Recognising the climate risks from these sectors, while acknowledging the need for a just transition in Malaysia, we have continuously engaged our clients in understanding their sustainability framework while sharing our expertise to assist them in transitioning to their goals of decarbonisation.

We continue to roll out our transition risk questionnaires to our largest customers in high-risk sectors, with the addition of four more sectors which are agriculture, manufacturing, real estate and transportation. The questionnaires help us to assess and improve our understanding of the impact of climate change on our customers' business models and any related transition strategies. From our assessment of the data, we collate information about our customers' climate transition strategies to assess their need and readiness to adapt, and to identify potential business opportunities. This supports our decision making and credit risk management processes. The chart above shows our financing activity in the six top carbon emitting sectors.

How we support our Wholesale customers

We support our customers' transition to lowering carbon through transition financing, which is financial support that helps heavy-emitting companies take action to become more environmentally sustainable over time. This is in support of HSBC Group's target to provide between USD750 billion and USD1 trillion of sustainable financing and investment over the next 10 years for customers in all sectors to support them to progressively decarbonise. In Malaysia, HSBC Malaysia, including HSBC Amanah, has earmarked MYR1 billion towards sustainable financing to enable businesses and clients to embark on their sustainability journey and switch to more sustainable ways of doing business.

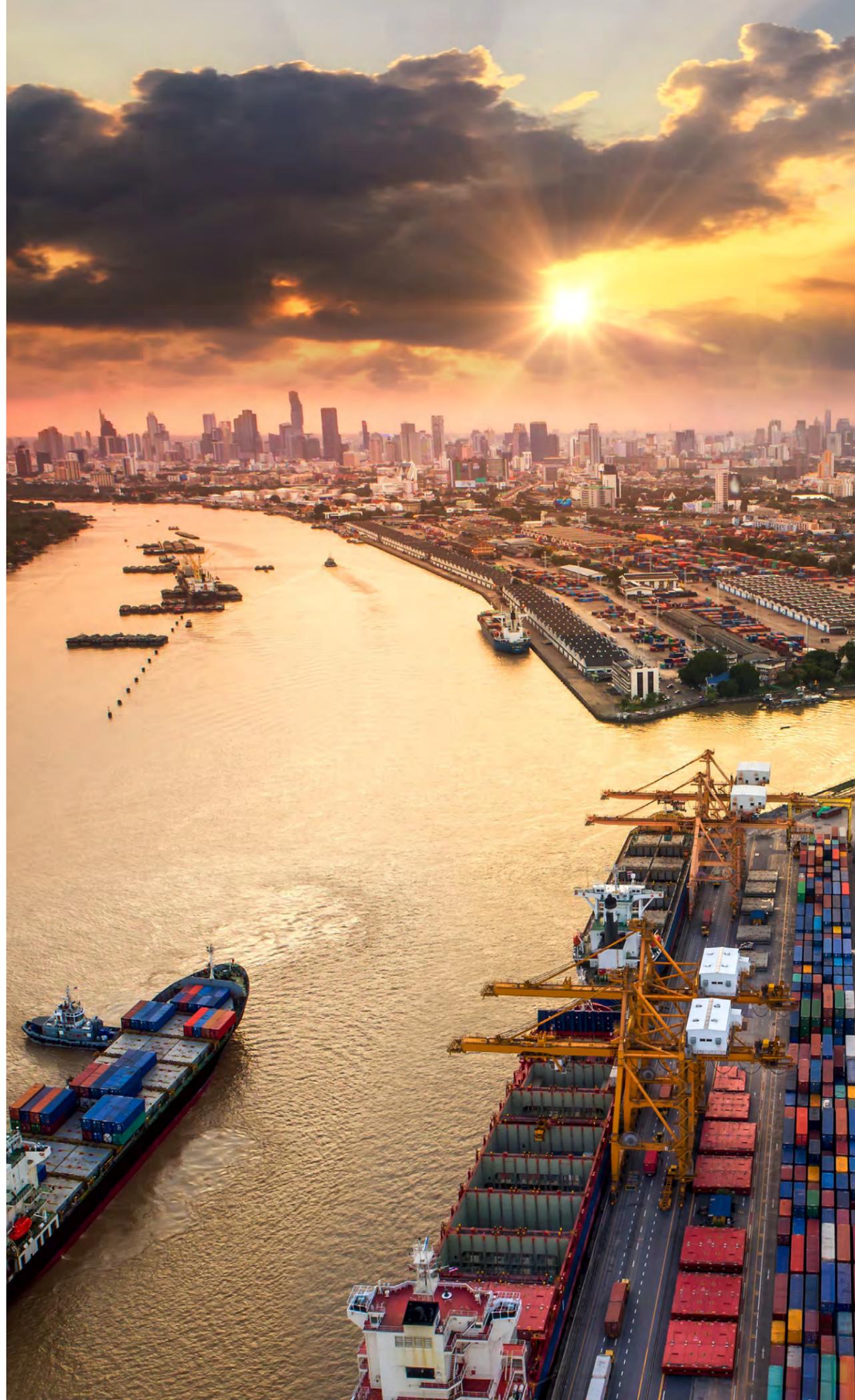
Digitalisation and capacity building

Our digitalisation initiatives represent a key pillar of HSBC Group's strategy across markets and enhances our capabilities whilst ensuring alignment to our net zero ambitions via a customer-focused approach. In order to support customers and their business ambitions we have introduced several digital initiatives enabling a move away from paper-based transactions.

- We successfully commercialised Blockchain Letter of Credit (LC) capability via Contour to help customers transition from paper-based to digital transactions.
- HSBC Malaysia, including HSBC Amanah, is the first international bank in Malaysia to launch DuitNow Request to help businesses digitalise their collections by making the process more seamless and convenient.
- We implemented the Digital Service Request which allows customers to create, authorise and submit service requests directly through our online banking platform as well as deployed the LiveChat functionality on HSBC Malaysia's public website and HSBCnet to provide additional channels for customers to contact the HSBC team. We also enhanced the customer onboarding, and credit and lending/financing journey through Application Programme Interface (API) and robotic process automation.

HSBC Amanah is proactive in collaborating with other business enablers towards external advocacy and capacity building in support of our customers and their sustainability journeys. In line with this, HSBC Amanah participated in the following initiatives undertaken in Malaysia to enhance awareness and engagement for our customers on the topic of sustainability:

- HSBC Malaysia hosted the First Joint Sustainability webinar in partnership with Climate Governance Malaysia (CGM) on Transitioning into a Sustainable Future to guide Malaysian corporates towards discovering their potential in implementing sustainability at the core of their business models. A series of webinars were hosted to deliberate topics relating to digital innovation, business scalability and sustainability in collaboration with CGM, government agencies and prominent industry leaders.
- In October 2021, HSBC Malaysia signed a Memorandum of Understanding with CGM, which is the Malaysian chapter of the World Economic Forum's Climate Governance Initiative. Through this significant partnership, a four-part webinar series was specially curated to assist businesses of all sizes, from small and medium enterprises (SMEs) to mid-market enterprises (MMEs) and large corporates, to share what climate change entails, why bankers and regulators are taking this seriously and what steps can be taken to manage the business risks arising from climate change.
- HSBC Malaysia also partnered with United Nations Global Compact Network Malaysia & Brunei (UNGCMYB) to launch the CEO Roundtables and CEO Sustainability Guide with Nottingham University as well as sustainability practitioner certification programme with Taylor's University.



Wholesale sector awards and achievements

We continue to be at the forefront of developing the sustainable finance market, helping to build a thriving, resilient future for society and businesses. To achieve this, collaboration and partnerships are important, as evidenced by the collaboration between the conventional and Islamic entities of HSBC in terms of combining local insight and expertise with the network of HSBC Group. HBMY acted as the joint-lead manager and joint bookrunner, whilst HSBC Amanah acted as the joint structuring agent for the GOM's Sustainable Development Goals (SDG) framework, pursuant to GOM's USD800 million 10-year Sustainability Sukuk. The sukuk represents the world's first sovereign US Dollar sustainability sukuk.

HSBC Amanah launched its first Islamic Green Trade Finance proposition with the issuance of a Green Bank Guarantee for an energy solution company specialising in renewable energy projects. The facility will facilitate the integration of sustainable products and solutions into their business operations to enable long-term growth and reduce climate impact.

As recent as December 2021, an energy infrastructure and technology company issued a MYR1 billion sustainability-linked sukuk wakalah programme, which represents Malaysia's first ever sustainability-linked sukuk. HSBC Amanah acted as the sole principal adviser and lead arranger for the sukuk wakalah programme, sole sustainability-linked structuring agent for the company's sustainability-linked financing framework, and lead manager for the sukuk issuance.

The Bank successfully completed a bespoke Green Trade Financing facility to a cocoa manufacturer. The deal is the first green trade financing facility for sustainable cocoa sourcing in Malaysia.

We successfully concluded Commercial Banking's first Syndicated Islamic Sustainability-linked Financing for a local glove manufacturer to help reduce carbon footprint for their rubber glove manufacturing plant. The company aims to reduce overall consumption of energy (gas and electricity) for every piece of glove that it produces. This was the first time that the company has committed to sustainability performance targets as a group.



Retail Sector Strategy Towards Climate Risk

With retail customers representing a large proportion of HSBC Amanah’s financing book amounting to 46%, the aim of HSBC Amanah’s retail sector strategy to tackle climate-related risks is focused on how to transition towards offering environmentally friendly products and services to customers as well as utilising digital capabilities to reduce our carbon footprint. Ultimately, we aim to lead and influence our customers and suppliers on sustainability – creating a more positive impact on our climate.

How climate change is impacting our customers

Rising temperatures that cause major climate change such as extreme weather and higher sea levels may lead to events such as floods and landslides that impact property values. The negative effects of climate change on our community have already materialised. For example, some of our customers in various parts of Malaysia were badly impacted by a recent flood in late 2021. The natural disaster damaged properties financed by the Bank. In addition, potential climate-related regulatory policy changes, such as new minimum energy efficiency performance standards and how they impact the real estate market, could also influence property values. Other economic impacts from the transition to a low-carbon economy, shifts in GDP and employment levels could also affect customers’ ability to repay their financing.

In the medium term, key drivers of risk for our customers include the physical risk of extreme weather changes, specifically flooding and our ability to respond and adapt to new and emerging regulatory requirements. In the longer term, sustained climate change could severely impact all of us in certain geographical areas. Customers could also face macroeconomic strain from regulatory or market approaches to transition risk.

How we support our retail customers

HSBC Amanah plays an active and enabling role for our customers to adapt to the unpredictability of climate change and therefore managing their exposure to climate risk. We aim to help our customers achieve their climate objectives by:

- Offering a range of sustainable products and services to create awareness and encourage participation from the public and ultimately meet their climate agendas.
- Transitioning the Bank towards digitalisation and supporting our business and the communities we serve towards achieving a paperless future. This will reduce our carbon footprint and improve our customer banking experience and satisfaction levels.

Recent initiatives

Climate-related ESG wealth products

In 2021, we were the first bank to provide our retail customers with the opportunity to invest in sustainability-linked sukuk based on energy sector issuances via our wealth proposition.

Credit Card Initiative

Commencing early 2021, all new credit cards issued by HSBC Amanah have been produced using recycled Polyvinyl chloride (PVC) materials made out of 85% recycled materials.

Branch Optimisation

The branch optimisation initiative aims to provide a more convenient and seamless banking experience for customers while maintaining our Bank’s commitment to net zero. This is achieved by reducing our operational footprint and aligns to our aspiration of becoming the “Digital Bank of the Future”.

Key process transformations implemented include:

- Converting formerly paper-based application forms to simplified smart forms with added validation logic, lite automation, e-signature and built-in QR code for auto archival, resulting in reduction of paper usage.
- Introduction of the Assisted Digital Interactive Model that enables customers to complete a selection of journeys using their own device at home or tablet kiosk in the branch. The Amanah branches are WiFi-enabled to support self-serve journeys.

Learning and awareness

In 2021, HSBC Malaysia shared informative resources on ESG-related topics including climate change within its Wealth Insights webpage. These articles are accessible to HSBC Amanah customers and the general public to create awareness on ESG.

Achieving Our Net Zero Ambitions

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 or sooner.

Reduce, replace and remove

In line with HSBC Group's strategy, 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.

Our energy consumption

Since 2018, HSBC Malaysia, of which HSBC Amanah is an integral part of operations, has implemented several energy conservation measures via the Integrated Facility Management (IFM)'s energy conservation measure programme. The initiatives include lightings (LED) upgrade, installation of auto-timers for water dispensers and installation of air-conditioner variable refrigerant volume controllers to optimise the running time of compressors. We will continue to pursue various energy reduction initiatives.

Engaging with our supply chain

As the majority of our emissions are within our supply chain, we know we cannot achieve our net zero goal without our suppliers joining us on our journey. In 2021, we started to involve our supply chain in our climate agenda by updating our supplier selection process to include emissions-related questions in assessing new commercial engagements. This conveys a consistent message to both local and global suppliers regarding the importance of transitioning to net zero. We will continue to engage further with participants across our supply chain and encourage them to make their own carbon commitments.

Business travel and employee commuting

Our travel emissions continued to reduce in 2021 as a result of ongoing international travel restrictions caused by the pandemic. We will continue to encourage the use of technology solutions where possible to provide connectivity with colleagues and customers.

Working with our cloud partners

Using cloud-based technologies is one of the ways we are reducing our IT carbon footprint. Our cloud providers run more efficiently than our own data centres due to the lower impact of shared resources.

Our Group has engaged with our cloud partners to improve our understanding of our carbon footprint on cloud, and collaborated towards more efficient applications. Our partners also continue to assist in the education of our internal IT colleagues by delivering sustainability learning sessions and sharing research and experience.



Risk Management

Risk management at HSBC Amanah starts with a strong risk culture, clear accountability, and a formally defined risk appetite that articulates the levels and types of risks the Bank accepts to achieve our strategic objectives. We are guided by the HSBC Risk Management Framework which supports our Global Principles and is used throughout the Group.

Our risk appetite shapes our requisite controls and dictates our risk behaviours. We identify risks to our business and assess their materiality by considering the likelihood and potential customer, financial, reputational and regulatory impact, as well as market conduct and competition outcome. We manage these risks through a combination of limits and controls to ensure these risks are within our appetite. We then aggregate and report risk data to highlight material risks and support good decision-making. When necessary, these risks are escalated to senior management and risk governance committees to facilitate management decisions, challenges and remediation.

Our approach to climate risk management is guided by HSBC's Group-wide risk management framework and three lines of defence model to ensure robust oversight on climate risk.



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Integrating climate risk into risk management

Climate Risk Appetite

The Group's developing climate risk appetite measures support the oversight and management of the financial and non-financial risks from climate change, meet regulatory expectations and support the business to deliver the Group's climate ambition in a safe and sustainable way. Our initial measures are focused on oversight and management of our key climate risks – wholesale credit risk, retail credit risk, strategic risk (reputational), resilience risk and regulatory compliance. These measures are implemented at a global and regional level. At Group level, the Risk Appetite Statement (RAS) has incorporated Climate Risk qualitative statement. This is yet to be incorporated in Malaysia but with the issuance of Climate Change and Principle-based Taxonomy (CCPT) by BNM, we are expected to have our RAS updated in due course.

Climate Risk Policies, Processes and Controls

Climate risk is integrated into the supporting policies, processes and controls and these will be updated as our climate risk management capabilities mature over time. As an example, we have recently published and started to implement our Thermal Coal Phase-Out Policy. For further details on this, please refer to **page 30**.

Climate Risk Programme

The Group's dedicated Climate Risk Programme continues to accelerate the development of our climate risk management capabilities. The following are the key achievements in 2021:

- A suite of climate learning programmes was made available to our employees in 2021 to enable them to have a better understanding of our climate ambition as a net zero bank, and how we can support the climate transition of our clients. These include the HSBC Climate Risk Learning

Programme made available via HSBC University and the Asia-Pacific Sustainable Finance Learning Programme which was delivered via Zoom sessions.

- An exercise has been undertaken to identify, assess and monitor the physical risk to properties held as collateral in our residential home financing portfolio. In addition, a similar process has been embedded as part of our new home financing origination process. The identification and assessment of physical risk is undertaken using information from credible sources in the public domain.

In April 2021, BNM issued the Climate Change and Principle based Taxonomy (CCPT) which introduces a consistent and systematic classification of economic activities into three broad categories (Climate Supporting, Transitioning and Watchlist). Pursuant to the publication of the CCPT, financial institutions including HSBC Amanah, are required to submit six-monthly data reporting to provide insights on the level of capital and financial flows directed at decarbonisation and climate resilient activities. We are in the midst of designing a questionnaire for relationship managers to assess contribution of economic activities towards climate and environmental objectives (climate change mitigation, climate change adaptation, no significant harm to the environment and remedial efforts to promote transition). This is expected to be rolled out by mid-2022.

We will continue to enhance our climate risk management capabilities throughout 2022, which include further roll-out of training and development of risk appetite measures. With further guidance from our Group, we are increasing the availability and quality of data so that new metrics can be developed to strengthen how we assess and manage climate risk and opportunities.

Financial Risk

Wholesale credit risk

Material climate-related risk themes and issues are presented in the Risk Management governance meeting which is attended by members of the Executive Committee and chaired by the Chief Risk Officer (CRO). Subsequently, these themes and issues are escalated to the Board Risk Committee for their oversight. Our reporting will evolve as our approach to climate risk management matures.

We have identified key sectors where our wholesale credit risk customers will be most vulnerable to climate risk, based on CO2 emissions. These are power and utilities, automotive, metals and mining, oil and gas, construction and building materials, chemicals, real estate, transportation, manufacturing and agriculture. For further details of our exposure, see 'Percentage of total wholesale financing and advances to customer and banks among 6 high carbon emitting sectors' chart on **page 21**.

We continue to roll out transition risk questionnaires, initially launched in September 2020, to our largest customers in the ten high-risk sectors. The questionnaires will help 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.

We will continue to evolve our transition risk framework, with the focus on developing a methodology, data analytics and climate-related risk scores for our customers and portfolios. The responses from transition risk questionnaire will be aggregated into a single risk score over time.

Retail credit risk

We are focusing on embedding climate risk into overall retail risk management. Retail credit risk is managed under a framework of controls which enable the identification and assessment of credit risk, across our retail business. Our risk management framework and policy will progressively be updated to reflect lessons learnt from our climate risk assessments.

Reputational risk

We implement sustainability risk policies, including the Equator Principles for assessing and managing social and environmental risk of financing large projects, as part of our broader reputational risk framework. We focus on sensitive sectors that may have a high adverse impact on people or the environment, and in which we have a significant number of customers. A key area of focus is high carbon sectors, which include power generation, mining, agricultural commodities and forestry.

As the primary point of contact for our customers, our relationship managers are responsible for checking that our customers meet policies aimed at reducing carbon impacts. A central Sustainability Risk team which sits at HSBC Group provides guidance and is responsible for oversight of policy compliance and implementation.

Our sustainability risk policies preclude HSBC from financing illegal logging and deforestation by customers involved in agricultural commodities and forestry.

In December 2021, HSBC Group announced the phasing out financing of coal-fired power and thermal coal mining by 2030 in markets in the EU and OECD and by 2040 in other markets. As declared in our Thermal Coal Phase Out Policy:

We will:

- Engage with relevant clients on their transition plans and agree financing phase-out timelines.
- Seek to withdraw any financing and advisory services with a client that makes a new commitment to, or proceeds with, thermal coal expansion after 1 January 2021 (unless such expansion was contractually committed or under construction before that date).

We will not:

- Provide new finance to any client for the specific purposes of activities that HSBC considers incompatible with HSBC's net zero transition by 2050 target.
- Provide any new financing to any client where the client declines to engage sufficiently on its transition plan or HSBC determines that the plan is not compatible with HSBC's net zero transition by 2050 target.
- Start new relationships with prospective clients with significant thermal coal power capacity, mining production or revenues, except for the purpose of materially reducing greenhouse gas emissions.

Non-Financial Risk

Regulatory compliance risk

We identify and assess product management, management of customer investments, response to regulatory change, design and approval of marketing, financial promotions and disclosure materials, appropriate sales outcomes, regulatory compliance reporting and conflicts of interest as the key risks from a climate risk perspective. 'Greenwashing' could also manifest through sales outcomes, marketing materials and product design. We must:

- Give appropriate consideration and approval of products described as climate-friendly, green or sustainable as well as ongoing suitability of product features.
- Ensure that climate-related products and services offered to customers are appropriate for their needs and that all marketing materials and disclosures are clear, fair and not misleading. We will not facilitate greenwashing by conveying a false impression or providing misleading information about a product or service's climate credentials.
- Identify conflicts of interest in the provision of climate-friendly products to customers, counterparties, third parties or the market.
- Ensure timely design and implementation of changes to implement climate-related regulations and laws.
- Ensure timely, accurate and transparent climate-related regulatory reporting, notification of identified activities and events, and shareholder disclosures.

Existing policies and controls have been reviewed to include climate risk considerations for the key risk areas where appropriate. For example, Risk Stewards are guided to consider a climate risk perspective when overseeing the Risk and Control Assessments (RCAs) undertaken by business. We will continue to develop our policies and underlying metrics to enhance the management of key climate risks in line with our climate ambition and risk appetite.

Resilience risk

Key risks facing our operational resilience includes building unavailability, workplace safety, information technology and cyber security risk, transaction processing risk, and third party risk.

Existing policies, processes and controls were reviewed to ensure that climate risk is considered across our key risk areas, and that these are managed in line with our climate ambition and risk appetite.



Metrics and Targets

HSBC Group has set an ambitious plan to prioritise financing and investment that supports the transition to a net zero global economy – one that helps build a thriving and resilient future for society and businesses. The plan has three parts.



Providing Sustainable Finance

Help customers reduce carbon footprint whilst ensuring they continue to prosper. In 2020, HSBC Group announced a target to provide between USD750 billion and USD1 trillion in sustainable financing and investment by 2030, to support customers as they switch to more sustainable ways of doing business.

In 2021, HSBC Amanah contributed MYR284 million (USD68 million) to this target via sustainable finance. In addition, HSBC Amanah facilitated its clients to raise a total of USD1 billion of sukuk financing.

Climate Solutions and Innovation

The transition to a net zero economy requires radical new solutions. HSBC Group is pioneering new financing for nature-based climate solutions and supporting promising and innovative clean technologies.

In 2021, HSBC Amanah worked together with clients to develop customised financing solutions to facilitate client transition and sustainability journey.

Becoming A Net Zero Bank

HSBC Group aims to reduce carbon emissions from its operations and supply chains to net zero by 2030 or sooner, and to align financed emissions from its portfolio of customers to the Paris Agreement goal of net zero by 2050 or sooner.

In 2021, HSBC Amanah continued to work with HBMY to implement energy savings initiatives including energy savings for branches and offices, and renewable energy capacity.

In relation to our financed emissions, we are currently working with HSBC Group to track and monitor this target.

We recognise that having clear initiatives which take into account a wide range of relevant perspectives lays a strong foundation for the Bank to achieve its ambitions. These initiatives complement each other to drive organisational change towards adopting a fully sustainable DNA within HSBC Amanah and to enable us to achieve our goals.

We are working closely with HSBC Group to realise our ambitions. This includes laying the groundwork to enable us to track, monitor and measure the progress of these initiatives.

The following information aims to provide key climate-related information relevant to our operations.

| INITIATIVES | DESCRIPTION | ACHIEVEMENTS/PROGRESS |
|---|--|--|
| Triple Bottom Line (TBL) Assets | A target to achieve more than 51% of HSBC Amanah’s financing balances to be aligned to TBL principles as part of its journey towards sustainability. | <p>We have made significant progress towards defining and classifying our TBL assets in line with Value-based Intermediation⁵, the regulatory and industry guidance for Islamic Finance Institutions (IFIs) in Malaysia.</p> <p>The definition and classification of the TBL assets are being developed via a framework which covers our customers (wholesale and retail) as well as the use of proceeds at a transaction level.</p> <p>We continue to develop a roadmap towards achieving our target of 51% of our financing balances being aligned to TBL principles.</p> <p>While we strive to achieve our ambition of 51% of HSBC Amanah’s assets being aligned to TBL principles by 2022, we recognise prevailing economic conditions as well as the progress of our clients in their sustainability journeys as headwinds in the realisation of our ambition. We will disclose the progress of our initiatives in future TCFD publications.</p> |
| Understanding the impact of climate-related risks on our financing portfolio | Climate risk is integrated into the supporting policies, processes and controls for our key climate risks. | <p>Our dedicated Climate Risk Programme continues to accelerate the development of our climate risk management capabilities. Our home financing policy has been refreshed, and controls have been enhanced for our retail home financing portfolio.</p> <p>We are currently designing a questionnaire for Relationship Managers to assess the contribution of economic activities towards climate and environmental objectives (climate change mitigation, climate change adaptation, no significant harm to the environment and remedial efforts to promote transition) in line with the Climate Change and Principle-based Taxonomy (CCPT) issued by Bank Negara Malaysia. This is expected to be rolled out by mid-2022.</p> <p>We will continue to enhance our climate risk management capabilities throughout 2022, including further rollout of training and defining our risk appetite.</p> |

| INITIATIVES | DESCRIPTION | ACHIEVEMENTS/PROGRESS |
|--|--|---|
| Customised financing solutions | Offering of more customised financing solutions to customers according to their personal sustainable goals/needs. | <p>Market-leading financing solutions for customers such as:</p> <ul style="list-style-type: none"> • Launched ESG credit card – the first Islamic international bank in Malaysia to link a charity feature with its recycled plastic credit cards. • Sole Lead Adviser and Lead Arranger for an energy infrastructure and technology company’s MYR1 billion sukuk – the first sustainability-linked sukuk issuance in Malaysia. • Joint structuring agent for the Government of Malaysia’s USD800 million 10-year Sustainability Sukuk - world’s first sovereign US dollar sustainability sukuk • The first-ever bespoke Green Trade Financing facility for sustainable cocoa sourcing in Malaysia for a cocoa manufacturer. |
| Sustainability-related key performance indicators (KPIs) for Chief Executive Officer (CEO), HSBC Amanah | Sustainability performance is included in the annual scorecard. | A number of sustainability-related metrics within annual incentive scorecards are included in the CEO’s scorecard such as sustainable operations and sustainable finance as well as engagements with employees on Project Cocoon and sustainable finance initiatives. |
| Net zero in our operations and supply chain by 2030 | | <p>HSBC Amanah continues to work with HBMY to implement a decarbonisation strategy which covers our supply chain, energy consumption and travels.</p> <p>We are currently working with HSBC Group to track scope 1, 2 and 3 emissions of our operations to strengthen accuracy and consistency in our tracking of initiatives related to our decarbonisation strategy.</p> |
| Cultural transformation | Shift in mindset towards sustainable living. Encouraging a lifestyle that attempts to reduce our consumption of natural resources and promoting sustainable banking practices through various training and events. | <p>Several initiatives have been accomplished including:</p> <ul style="list-style-type: none"> • Sustainability programmes and engagements leveraging on the Cocoon Champions and Advocates Network (CCAN). • Sustainability engagements and training with our Relationship Managers. |
| Capacity building | Capacity building for our people to equip, develop and strengthen skills on sustainability as the Bank adapts to the evolving trend of sustainability. | We enabled the upskilling of 28 employees (6 HSBC Amanah and 22 HBMY employees) via their enrolment in the Frankfurt Business School for Certified Expert in Sustainable Finance, a 6-month certification programme in Sustainable Finance. |
| External advocacy | External advocacy as a bank-wide agenda led by our Board of Directors, senior management and our employees. | HSBC Amanah CEO has been actively involved in sustainability thought leadership events, both externally and internally. He is the current Chairman of Sub-Committee 4 of the Joint Committee on Climate Change (JC3) that supports the Malaysian financial services industry in capacity building, training and upskilling in relation to climate and transition related risk. |

⁵Bank Negara Malaysia provides guidance on Value-based Intermediation for IFIs in the Value-based Intermediation Financing and Investment Impact Assessment Framework Guidance Document (November 2019) - https://www.bnm.gov.my/documents/20124/761679/VBIAF_Final+guidance+1.11.2019.pdf



Cautionary Statement

This TCFD Report contains both historical and forward-looking statements, opinions, prospects, targets, results, returns with respect to the financial condition, results of operations, capital position, strategy and business of HSBC Amanah. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements may be identified by the use of terms such as 'may', 'will', 'should', 'expect', 'seek', 'intend', 'target', 'plan', 'potential', 'reasonably possible', 'anticipates', 'aim', 'ambition' or 'believe' or the negative thereof or similar expressions, or by discussions of strategy, strategic priorities and any financial, investment and capital targets. These forward-looking statements include statements relating to becoming a net zero bank and targets and methodologies for measuring financed emissions.

Achieving these aims is inherently uncertain and is subject to a number of risks and uncertainties, including the efficacy of government, customer and HSBC Amanah's actions in managing and mitigating climate change; societal shifts in customer financing and investment needs; delays to the pace of change; development and use of new technology; ability to exploit growth or investment opportunities; changes in public expectations and other changes to business conditions; adverse changes in regulatory capital and tax regimes and data quality and the availability and development methodologies for measuring financed emissions. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements, which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate.

Any such forward-looking statements are based on the beliefs, expectations and opinions of HSBC Amanah at the date the statements are made, and HSBC Amanah undertakes no obligation to publicly update, revise or supplement any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur. Recipients of this report are cautioned not to place reliance on any forward-looking statements. No representations or warranties, expressed or implied, are given by or on behalf of HSBC Amanah as to the achievement or any targets, prospects or returns contained herein.

In addition to HSBC Amanah, the above cautionary statement applies to HSBC Group and HBMY.

Glossary

| | |
|------------------------|---|
| ASEAN | Association of Southeast Asian Nations |
| BNM | Bank Negara Malaysia |
| CCPT | Bank Negara Malaysia's Climate Change and Principle-based Taxonomy (CCPT) |
| CGM | Climate Governance Malaysia |
| CO2 | Carbon dioxide |
| ESG | Environmental, Social and Corporate Governance |
| EU | European Union |
| FSB | Financial Stability Board |
| GCMY | Global Compact Malaysia |
| GLCM | Global Liquidity & Cash Management |
| GTRF | Global Trade & Receivables Finance |
| HBMY | HSBC Bank Malaysia Berhad |
| HSBC Amanah | HSBC Amanah Malaysia Berhad |
| HSBC Malaysia | HSBC Bank Malaysia Berhad and its subsidiary, HSBC Amanah Malaysia Berhad |
| HSBC Group | HSBC Holdings plc |
| JC3 | Joint Committee on Climate Change |
| OECD | Organisation for Economic Co-operation and Development |
| Paris Agreement | The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels. To limit the rise in global temperatures to 1.5°C, the global economy would need to reach net zero greenhouse gas emissions by 2050. |
| PMO | Cocoon Project Management Office |
| PVC | Polyvinyl chloride |
| RMM | Risk Management Meeting |
| SDG | Sustainable Development Goals |
| TBL | Triple Bottom Line |
| TCFD | Task Force on Climate-related Financial Disclosures |
| UN | United Nations |
| UNGCMYB | United Nations Global Compact Malaysia & Brunei |
| VBI | Value-based Intermediation |



HSBC Amanah Malaysia Berhad
Menara IQ, Lingkaran TRX,
55188 Tun Razak Exchange,
Kuala Lumpur, Malaysia

www.hsbcamanah.com.my