ESG bulletin 2026

Annual update on managing the Scheme's Environmental, Social and Governance (ESG) risks and opportunities

HSBC | futurefocus

For members of the HSBC Bank (UK) Pension Scheme (the Scheme)

Introduction

Welcome to the annual update from the Scheme Trustee about its work managing Environmental, Social and Governance (ESG) risks and opportunities across the Scheme's Defined Benefit (DB) and Defined Contribution (DC) assets.

Looking back, 2025 proved to be an eventful year globally. The geopolitical environment has introduced considerable uncertainty and volatility for policy makers, businesses and the economy. At the same time, our understanding of the current state of the planet, and in particular the risks posed by rising global temperatures, continues to deepen, as does our awareness of how further rises may impact the planet, economy and society. Against this backdrop, the Trustee has been working hard to understand how these developments, as well a wide range of other financially-material ESG issues, could affect the Scheme's assets and how they should be managed.

In this ESG bulletin we focus on climate change, an ESG issue that many members care deeply about and which can have a big impact on the Scheme.

This bulletin covers:

- Why climate change is an issue for pension schemes
- Understanding climate change risks and opportunities
- Climate change, the global economy and our Scheme
- Progress against our climate ambition
- How the Trustee is responding to climate challenges

Click to watch

Why ESG is important to your pension?

Find out more

For more detail about the Trustee's approach to climate change and managing ESG risks, visit futurefocus at: https://futurefocus.staff.hsbc.co.uk, click on 'The Scheme' drop-down menu at the top of the landing page and then choose 'Managing ESG risks'.

Why climate change is an issue for pension schemes

The importance for the Scheme

Climate change means the long-term shifts in temperatures and weather patterns. Whilst these can happen naturally, since the 1800s human activity has been a key driver of climate change. This has mainly been the result of burning fossil fuels like coal, oil and gas releasing greenhouse gasses like carbon dioxide.

Climate change is already affecting the world around us. Rapid increases in greenhouse gas emissions have driven a steady rise in global temperatures in recent decades, leading to extreme weather like heatwaves, floods, storms, and melting glaciers. Scientists warn that the more the world warms, the worse these impacts will be.

This matters for the Scheme because climate change will affect the global economy, society, and the planet which means the risks cannot be ignored. The Scheme's assets rely on a robust and thriving global economy to deliver the investment returns needed to pay pensions now and in the future.

Many sectors such as energy, agriculture, property and infrastructure are already adapting their business models to manage these challenges. A key part of this global effort is the energy transition: the shift from fossil fuels to cleaner, renewable sources of energy. The best chance to slow down or halt climate change, and limit the rise in global temperature, is to drastically reduce greenhouse gas emissions over the coming few years. This ambition is captured within the Paris Agreement, which was agreed by governments worldwide[1]. Many policymakers, companies and financial institutions, including pension schemes, are playing their part in driving this transition forward, each within their own areas of responsibility.

The Trustee aims to do its part to limit global warming in a manner consistent with the long-term aims of the Scheme. More detail of this can be found on pages 6 and 7.

No.1

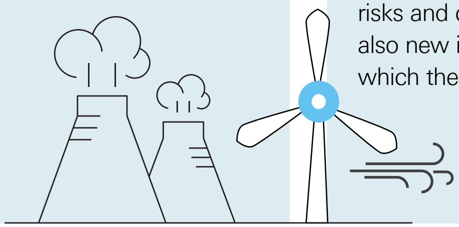
The World Economic Forum ranks extreme weather events as the most serious global risk over this coming decade[3].

50%

The UK's Institute of Actuaries warns that without urgent climate action, the global economy could lose half its value by 2070-2090[4].

Greenhouse gas emissions from burning fossil fuels are mostly carbon dioxide, methane and nitrous oxide. They act like a blanket wrapped around the Earth, trapping the sun's heat and raising temperatures[2].

Energy transition means the global shift from a high-carbon economy, which relies on fossil fuels, to a low-carbon one powered by cleaner energy. This change is driven by new technologies, government policies and shifting consumer choices. It will continue to create risks and challenges for some industries but also new investment opportunities both of which the Trustee is focused on managing.



[1] The 2015 Paris Agreement was an international agreement by nearly 200 countries to limit global warming (see page 5). [2] The United Nations (2023). [3] World Economic Forum, Global Risks report (2025).
[4] Institute of Actuaries and University of Exeter, Plantetary Solvency - finding our balance with nature (2025).

Understanding climate change risks and opportunities

Climate change isn't just a risk for the Scheme, it also creates investment opportunities.

Two main types of climate change risks

Physical risks come from both gradual climate changes and from extreme weather events. Gradual changes could, for example, result in lower crop yields and supply chain disruptions. Extreme weather events such as flooding or storm damage can result in major damage to property and infrastructure. Insurance companies are already reporting record losses from these natural disasters with many assets remaining uninsured. These types of risk could have important financial implications for the Scheme's assets.

Transition risks arise from the move from a broadly carbon-based economy (where the world is now) to a low-carbon economy (where the world needs to be to limit global warming). These include carbon taxes or emission limits, new technologies and changing consumer preferences. The future impact depends on whether the transition is orderly (gradual and managed) or disorderly (sudden and uncoordinated), with disorderly transitions creating bigger shocks for businesses and investments.

Investment opportunities as well as risks

The shift to a lower carbon world requires new products and services like renewable energy and clean technologies. The Scheme already has investments in many of these opportunities (see page 5), and we're looking for more that can deliver long-term and stable returns while supporting the climate transition.

30%

The Intergovernmental Panel on Climate Change (IPCC) warns climate change may cut crop yields by up to 30% in some regions by 2050, affecting food supply[1].

$330bn

Climate adaptation costs could reach $340 billion annually by 2030, according to the United Nations[2].

$2.2tn

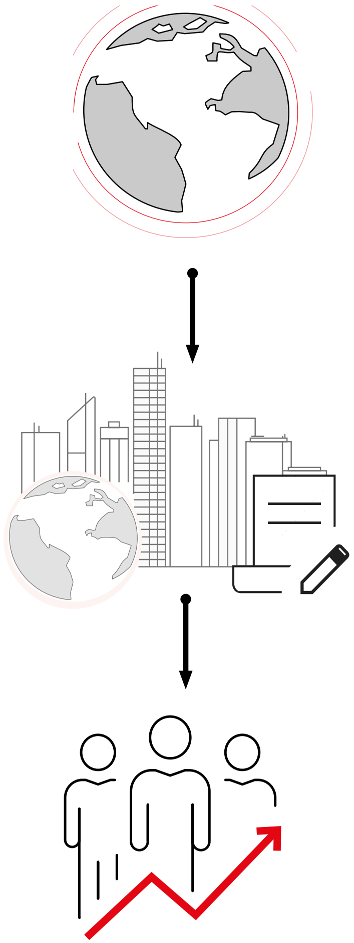
Record $2.2 trillion will flow into clean energy across the world this year, driven by renewables, grids and storage, according to IEA forecasts[3].

3%

OECD predicts enhanced climate action could boost global economic output by up to 3% by 2050 and 13% by 2100[4].

[1] IPCC Sixth Assessment Report (2022). [2] United Nations Environment Programme Adaptation Gap Report (2022). [3] International Energy Agency (IEA) World Energy Investment Report (2025).
[4] Organisation for Economic Co-operation and Development (OECD) - Investing in Climate for Growth and Development (2025).

Climate change, the global economy and our Scheme



How climate change affects the global economy

Climate change and the global economy are closely connected. Extreme weather, rising temperatures, and policies to reduce emissions can disrupt businesses, supply chains, and economic growth, which in turn affects investment returns.

Global action through the Paris agreement and its investment impacts

The Paris Agreement, agreed by governments worldwide, aimed to limit the global average temperature rise to well-below 2°C above pre-industrial levels, and to pursue efforts to limit the increase to 1.5°C. Achieving this requires a major global shift in how energy is produced and consumed, creating both risks and opportunities for investors including the Scheme. In the short term, this transition may cause some disruption as industries adjust and certain assets lose value.

Supporting a stable transition and long-term pension outcomes

Over time, a smoother and more predictable transition should mean fewer extreme climate shocks, and more stability for the global economy and investment returns. The future investment income and growth of the Scheme's assets are essential to enhance the value of members' DC pension pots over the long-term, and to ensure members with DB pensions are paid in full now and in the future.

The Trustee's ambition to try to reach net zero emissions by 2050, or sooner, supports this global effort and helps protect members' long-term pension outcomes. You can read more about the Trustee's commitment to net zero on the Managing ESG risks page of futurefocus.

Investment opportunity from green revenues for DB assets

We continue to invest in green revenues through renewable energy infrastructure assets. The DB assets now include £252 million[1] invested in UK wind and solar energy generating 153 megawatts[2] of renewable energy which is enough to power around 83,000 homes.

Investment opportunity from green revenues for DC assets

One of the new Private Markets[3] first investments was with Rondo Energy, a US-based thermal heat battery manufacturer. Rondo's heat battery solution converts low-cost renewable energy, which can be intermittent, into industrial heat available at any time. It uses electric heating elements to turn electrical power into high-temperature heat which is stored and sold for industrial use.

[1] Schroders Greencoat manages an Illiquid Matching Assets (renewables) portfolio (DB asset), Scheme data as at 30 June 2025. [2] Over 12 months. [3] Component of the Early Growth fund used by DC Targeted Investment Strategies.

Progress against our climate ambition

Making a commitment

The Trustee aims to play its part in limiting global warming in a way that is consistent with the long-term objectives of the Scheme. In 2021, the Trustee set out its ambition to try to achieve net zero emissions by 2050, or sooner. This high level ambition is supported by shorter-term interim targets, which include:

- Targeting a real-economy reduction in greenhouse gas emissions of 50% by 2030 (or sooner) for the Scheme's equity and corporate bond funds[1].
- Having the ambition to fully align all corporate bond and equity investments with the goals of the 2015 Paris Agreement by 2030, across both DB and DC assets.
- Enhancing the Trustee's engagement and stewardship efforts through the Scheme's asset managers to influence companies on climate issues.

To date, progress has been positive. Between 2019 and 2024, the emissions intensity of the DB portfolio declined by 29%, while the DC portfolio declined by 51% (see right). More details are available in the latest TCFD Report.

However, it is important to recognise that while the Scheme's financed emissions have been falling, real-world emissions continue to rise[1].

Reducing portfolio emissions alone is not enough. If governments, companies, investors and consumers do not transition alongside the Scheme's investments, the risks from climate change will continue to grow, potentially affecting the long-term returns needed to pay pensions in the future.

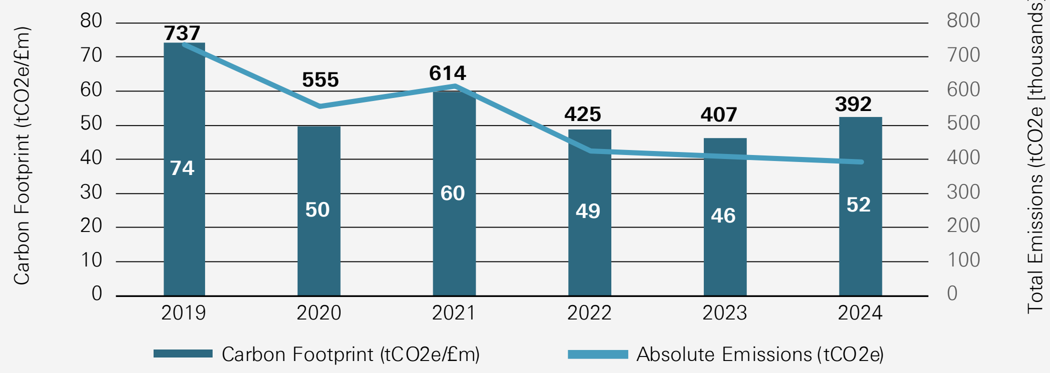
Our approach

The Trustee has developed a Climate Transition Plan (see page 7) which aims to help it reach its commitment in a manner consistent with the aims of the Scheme, as well as use its influence, where feasible, to reduce real world emissions.

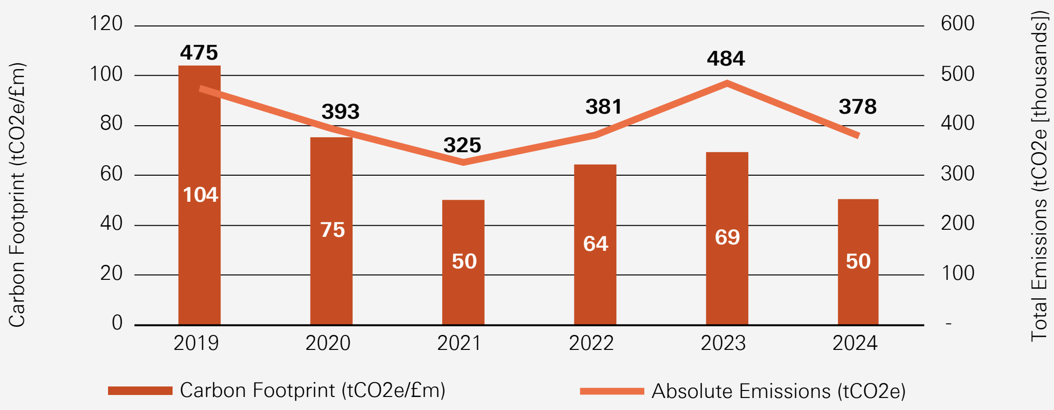
The Scheme's journey so far

The charts below show that the Scheme's journey so far has been positive but uneven. We expected this year-on-year variation in climate metrics. It's mainly due to market volatility, portfolio changes, and improvements in data.

DB assets - Carbon Footprint and Absolute Emissions (scope 1 and 2)[2] from 2019 to 2024[3]



DC assets - Carbon Footprint and Absolute Emissions (scope 1 and 2)[2] from 2019 to 2024[3]



[1] Compared to a baseline of financed emissions as at 31/12/2019, [2] Scope 1 and 2 are direct emissions from sources that are owned or controlled by a company, for example, scope 1 are from burning fuel for heating and to power vehicles whilst scope 2 are from energy purchase and used by company. [3] Charts use latest available Enterprise Values including Cash ('EVIC') data at the time of reporting. EVIC figures used may not align with the reporting year end due to lagged availability.

How the Trustee is responding to the climate challenges

The Trustee has developed a Climate Transition Plan to help it navigate a pathway to reaching its climate ambition, in a manner consistent with the aims of the Scheme. This builds on the Trustee's Climate Action Plan which is available on futurefocus (see page 8). There are four main elements within the plan which are summarised below.

Investment

- Investing in companies that are managing their climate-related investment risks and opportunities. This may mean investing in companies that are reducing their carbon emissions or evolving their strategies and business models in an appropriate and timely manner so that they are positioned to thrive in a transitioning world.
- Investing in companies and assets that are providing solutions to the shift to a low carbon economy and which help to combat the negative impacts of climate change e.g. renewable energy, flood defences and nature-based solutions.

Divestment and exclusion

From time to time, engagement with a company by the Scheme's asset managers may fail, or a company may be involved in a business activity that is not consistent with an orderly transition and good long-term risk management. This is especially the case for companies deriving material revenues from operating in activities such as the extraction of unconventional oil and gas (e.g. oil sands, shale oil or Arctic oil and gas), or involvement with thermal coal mining. In these circumstances, the Trustee expects the asset managers to do additional investment due diligence, and if it is line with their fiduciary duty and the long-term interest of the Scheme, consider avoiding investing in or selling these assets.

Engagement

- Encouraging the Scheme's asset managers to engage with investee companies to manage their climate-related investment risks and opportunities.
- Ensuring the Scheme's asset managers' ESG and climate credentials, including their engagement capabilities, are fit for purpose.

Advocacy

It needs to be as easy as possible for companies to change behaviour and to shift towards a low carbon economy. Regulation, policy and industry frameworks and standards need to evolve to remove barriers and provide incentives for companies to shift to a low carbon economy. The Trustee has employed a dedicated advisor to engage with policy makers and industry players to promote change that will support the shift to a low carbon economy.

Keep up to date on ESG

If you have a general question about the content of this bulletin, visit the Scheme website, futurefocus (https://futurefocus.staff.hsbc.co.uk). There's lots of information available including:

At the top of the futurefocus landing page, click on: 'The Scheme' drop-down menu and then choose 'Managing ESG risks'

- Managing ESG risks
- ESG Jargon Buster
- Why is ESG important to your pension video
- Statement of Investment Principles
- Full TCFD Report 2024

At the top of the futurefocus landing page, click on: 'Information centre' and then type the document name from the list below into the search box

- Climate Action Plan
- Summary of the TCFD Report 2024

If you need more help or information

If you are a **DC member,** contact the HSBC Administration Team at WTW.
You can phone 01737 227575 or, email HSBCpension@wtwco.com or, write to HSBC Administration Team, WTW, Sunderland, SR43 4JU

If you are a **hybrid member,** contact the HSBC Administration Team at Equiniti.
You can phone 0371 384 2631 or, email HSBCHybridPensions@equiniti.com or, write to HSBC Bank (UK) Pension Scheme, PO Box 5227, Lancing BN99 9FN.

If you are a **DB member,** contact the HSBC Administration Team at Equiniti.
You can phone 0371 384 2620 or, email HSBCDBPensions@equiniti.com or, write to HSBC Bank (UK) Pension Scheme, PO Box 5227, Lancing BN99 9FN.

Legal Note

This bulletin is based on the Trustee's understanding of applicable law and regulations and does not confer any right to benefits. Members' benefits are governed by the trust deed and rules of the Scheme, as amended from time to time. In the event of any conflict between this bulletin and the trust deed and rules, the trust deed and rules will always override.

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