



## Who we are and what we do

HSBC is one of the world's largest banking and financial services organisations. With around 7,200 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper and, ultimately, helping people to fulfil their hopes and realise their ambitions.

We serve around 89 million customers through our four global businesses: Retail Banking and Wealth Management,

Commercial Banking, Global Banking and Markets and Global Private Banking. Our network covers 85 countries and territories in Europe, the Asia-Pacific region, the Middle East, Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 132 countries and territories.

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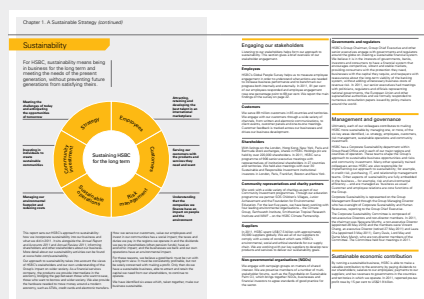
## Cover image

A Chinese ship in Brazil's largest port, Santos, illustrates the growing trade links between the two countries. China is today Brazil's largest trading partner, with HSBC financing an increasing share of that trade.

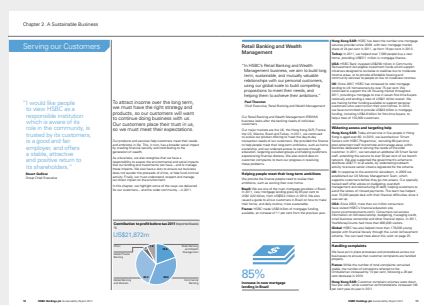
Photography: Matthew Mawson



**Group Chairman's Introduction**  
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## Highlights of 2011



**22%**

**increase in lending to SMEs in faster-growing economies**



**US\$96m**

**invested in supporting our communities**



**541,000**

**children educated through Future First over the last five years**



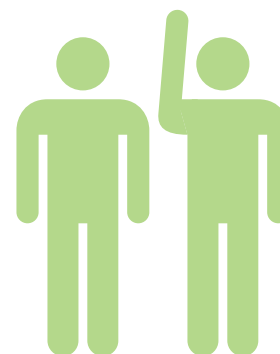
**41,000**

**corporate customers assessed for their potential impact on people and the environment**



**29%**

**reduction in waste sent to landfill 2008-11**



**63,250**

**days volunteered by employees through the HSBC Climate Partnership 2007-11**

### HSBC's awards for sustainability 2011

- 'Global Bank of the Year': *The Banker* magazine
- 'Number 1 financial services brand' (value US\$27.1b): *Brand Finance*
- International Green Awards for Best Green Employee Engagement (jointly with Earthwatch)

- Rated 'AA' in Environmental, Social and Governance (highest score) among 638 Hong Kong and China listed companies on the Hang Seng Corporate Sustainability Index
- Scored 95 in Carbon Disclosure Leadership Index, third highest financial institution
- 'Best Corporate Social Responsibility Financial Institution Award': China Banking Association
- Number 7 greenest bank: *Bloomberg Markets*

- Top five sustainability ranking (financial institutions) for HSBC in Latin America: Inter-American Development Bank
- HSBC Climate Partnership's contribution to climate change research and cultural changes in society: Ozires Silva Award for Sustainable Entrepreneurship
- 'Socially Responsible Company' award for HSBC Mexico for sixth consecutive year: Centro Mexicano para la Filantropía (Mexican Centre for Philanthropy)



## Group Chairman's Introduction

# Creating a sustainable financial system

"...we have responsibilities not only towards our customers, employees and shareholders but also to the countries and communities in which we operate..."

HSBC was founded 147 years ago to finance companies trading on the China coast. Today, just as we did then, we seek to facilitate economic growth, as it is through such growth that businesses flourish and individuals fulfil the aspirations they have for themselves and those close to them. We aim to do this in a way which is sustainable, recognising that we have responsibilities not only towards our customers, employees and shareholders but also to the countries and communities in which we operate, and those responsibilities go far wider than simply being profitable.

This is a decisive moment in the history of our industry. Nearly every aspect of the financial services sector is being challenged and redefined; accepted wisdom is being overturned. Collectively, the banking sector still faces public anger and reform is necessary not only to address structural shortcomings, but to restore public trust. We welcome the steps being taken by governments and regulators to improve the stability and resilience of our industry. We continue to commit time and considerable resources to working with policy-makers on regulatory reforms. We start from the assumption that reforms must deliver a sustainable business model, one which is able to attract external economic capital, so that the financial system can contribute as fully as it should to economic prosperity and to supporting growth and jobs.



**Douglas Flint** Group Chairman

### **HSBC's role in the economy, environment and society in 2011**

While the industry as a whole looks to reform, individual banks have their own story to tell about their role in the economy and society at large. As Chairman of HSBC, I have almost 300,000 colleagues in over 80 countries around the world. We have an impact on the lives of millions of people through our interaction with customers, businesses, governments, other stakeholders and our communities. This gives us a broad perspective and informs our sense of responsibility about our role.

In 2011, for example, we paid US\$8 billion in taxes around the world. We increased our global lending to small and medium-sized enterprises (SMEs) by 10 per cent, helping these businesses to thrive and economies to prosper. Lending on residential mortgages also increased by US\$10.2 billion, taking the total to US\$279 billion at year-end, helping hundreds of thousands of people realise their ambition of owning their own home. We provided a mortgage to one in seven first-time buyers in the UK and increased our share of the mortgage market in Hong Kong to 24 per cent. We also continued to provide support to customers who are feeling the effects of difficult economic conditions. For instance, our Money Management Team in the UK, which offers advice and guidance, has helped over 70,000 customers since it was established in 2009.

At the same time as providing immediate support for those who need it now, we continue to reflect on our longer term impact on the environment and society.

The size of our business means that managing our environmental impact – and asking our suppliers and customers to do the same – is a key part of being sustainable. In 2011, we started work on achieving 10 environmental goals by 2020, by which time we want to have reduced our annual per employee carbon emissions by one tonne, from 3.5 to 2.5 tonnes. We also implemented our updated energy sector policy, one of the first in the industry to apply criteria covering customers operating in the coal-fired power, oil sands and nuclear power industries.

In 2011, we prioritised building a 'values-based' business, helping colleagues to manage change and empowering them to act with courageous integrity in delivering for our customers and shareholders. We continued to develop a truly meritocratic culture because, as international competition for the best talent intensifies, we need to ensure that HSBC is making the most of the skills and abilities of our people and encouraging them to reach their full potential.

In addition, we continued to invest in the long-term future of the communities in which we operate; support which will have an economic and social impact for years to come. In 2011, HSBC donated US\$96 million through our community investment programmes. Our priorities in this area are helping young people to realise their ambitions and protecting the environment. Both are essential foundations for socio-economic development.

It was with immense pride that I joined the celebrations to mark the conclusion of the HSBC Climate Partnership in 2011. This groundbreaking, five-year, US\$100 million environmental programme with The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF has helped 32 million people access cleaner water; protected three million hectares of forest land; and through developing low carbon technology, is helping 20 of the world's biggest cities to cut carbon emissions more quickly. The Partnership also delivered the largest ever forest research project.

Within HSBC itself, we now have a global community of over 2,000 employees, called 'Climate Champions'. Each Champion spends time out of the office learning about the actions needed to make a positive impact on our environment; knowledge which is then shared with

"It was with immense pride that I joined the celebrations to mark the conclusion of the HSBC Climate Partnership in 2011."

colleagues, friends and family. The Partnership has also benefited from a further 63,000 days of volunteering from HSBC colleagues. This is a remarkable legacy which has only been achieved with enormous commitment from our partners and colleagues.

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### Looking ahead

As a bank, we look at how the patterns of projected growth, trade and consumption will contribute to our bottom line. But we also recognise that, if the world continues to overshoot its resource capacity, there is the risk of localised, and eventually global, constraints on economic activity. Running a sustainable organisation means balancing the needs of customers today (helping advanced economies recover from the downturn and faster-growing markets strengthen and deepen their economies) with the responsibility we have to future generations.

When reconciling these conflicting demands, I think of how previous Chairmen of HSBC took the decisions they believed were right for the long term, even if they were not immediate contributors in the short term. I am proud of this legacy and am determined that HSBC will be as successful and sustainable in the next 147 years, as it has been for the past 147.



**Douglas Flint**  
Group Chairman

May 2012

# Our Strategy

In May 2011, HSBC set out a new strategy to investors, employees and other stakeholders. Our objective is to deliver a compelling vision for the long-term direction of the Group and to take action in the short term to deliver a better return for our shareholders.

### Our vision

**To be the world's leading international bank**

**Alignment to long-term trends** *Our strategy is aligned to two long-term trends:*

#### 1. Financial flows

The world economy is becoming ever-more connected. Growth in world trade and cross-border capital flows continues to outstrip growth of gross domestic product. Financial flows between countries and regions are highly concentrated. Over the next decade, we expect 35 markets to represent 90 per cent of world trade growth and a similar degree of concentration in cross-border capital flows.

#### 2. Economic development

By 2050, we expect the size of economies currently deemed 'emerging' will have increased five-fold, benefiting from demographics and urbanisation, and they will be larger than the developed world. By then, 19 of the 30 largest economies will be markets that are currently described as 'emerging'.

*Based on these long-term trends and our competitive position, our strategy has two parts:*

#### 1. Network of businesses connecting the world

HSBC is ideally positioned to capture the growing international financial flows. Our franchise puts us in a privileged position to serve corporate clients as they grow from small enterprises into large and international corporates, and personal clients as they become more affluent. Access to local retail funding and our international product capabilities allows us to offer distinctive solutions to these clients in a profitable manner.

#### 2. Wealth management and retail with local scale

We will leverage our position in faster-growing markets to capture social mobility and wealth creation through our Wealth Management and Private Banking businesses. We will only invest in retail banking businesses in markets where we can achieve profitable scale.

**Implementation of our strategy** *This relies on actions across three areas:*

#### 1. Capital deployment (five filters)

We are improving the way we deploy capital as part of our efforts to achieve our targeted return on equity of 12 to 15 per cent over the business cycle. We have introduced a strategic and financial framework assessing each of our businesses on a set of five strategic evaluation criteria: international connectivity, economic development, profitability, cost efficiency and liquidity. The results of this review determine whether we invest in, turn around, continue with or exit businesses.

#### 2. Cost efficiency (four programmes)

We have launched four programmes to achieve sustainable cost savings of between US\$2.5 billion and US\$3.5 billion by 2013, resulting in a leaner and more values-driven organisation: 1) implement consistent business models; 2) re-engineer operational processes; 3) streamline IT; and 4) re-engineer global functions. Sustainable cost savings are intended to facilitate self-funded growth in key markets and investment in new products, processes and technology, and provide a buffer against regulatory and inflationary headwinds.

#### 3. Growth

We continue to position HSBC for growth. We are increasing our relevance in fast-growing markets and in wealth management, and improving the collaboration between our international network of businesses, particularly between Commercial Banking and Global Banking and Markets.

## Our Approach

# How we manage our business

### Good governance

HSBC's governance structure is focused on delivering sustainable value to our shareholders. The strategy and risk appetite for HSBC is set by the Board, which delegates the day-to-day running of the business to the Group Management Board.

The Board has established non-executive committees including the Group Audit Committee, which oversees financial reporting matters; the Group Risk Committee, which oversees risk-related matters; the Group Remuneration Committee, which sets remuneration policy and senior executive pay; the Nomination Committee, which leads the process for Board appointments; and the Corporate Sustainability Committee, which advises on environmental, social and ethical issues.

Global businesses and functions have established operating, financial reporting and management reporting standards for application throughout HSBC.

### Managing our risks

As with all financial services organisations, we have to manage risks in our business. Our focus is on identifying, understanding and dealing with those risks in line with our agreed risk appetite. Robust risk governance and accountability is embedded across HSBC and the Group Risk Committee monitors the effectiveness of our overall risk management. The Board, advised by the Group Risk Committee, approves HSBC's risk appetite.

Our strong balance sheet and diverse lending portfolio are key factors in managing our risk profile. Our risk management framework also helps us to identify both current and emerging risks, and ensures that our portfolios remain aligned to our risk appetite. We then use this to carry out stress tests to evaluate the impact of those risks.

Our values, robust risk management, good governance and commitment to operating sustainably guide the way we manage our business and help us deliver value to our shareholders and customers.

### Strengthening our values

The role of HSBC's values in daily operating practice is significant in the context of the external financial services sector and the wider economy, with changes to regulatory policy, investor confidence and society's view of the role of banks. We expect all of our employees to act with courageous integrity in the execution of their duties by being:

- dependable and doing the right thing;
- open to different ideas and cultures; and
- connected with our customers, communities, regulators and each other.

In 2011, we took steps to embed our values in the business. We are ensuring that everyone who works for HSBC lives by these values and have made them a key part of every individual's annual performance review.



### A sustainable business

We believe that banks play a positive role in the economy and society by providing individuals and businesses with the financial services they need to meet their ambitions. We ensure our business is sustainable by taking a long-term view; valuing our employees; addressing the direct and indirect impact we have on the environment; and investing in the communities we serve.

We apply sustainability risk policies to our lending and work to support businesses involved in the transition to a low carbon economy. By managing the environmental impact of our own operations, we aim to reduce HSBC's annual employee carbon dioxide emissions by one tonne, from 3.5 to 2.5 tonnes by 2020. We also invest in community projects, donating US\$96 million to educational, environmental and other initiatives across the world in 2011.

## Sustainability

For HSBC, sustainability means being in business for the long term and meeting the needs of the present generation, without preventing future generations from satisfying theirs.



This report sets out HSBC's approach to sustainability: how we incorporate sustainability into our business and what we did in 2011. It sits alongside the *Annual Report and Accounts 2011* and *Annual Review 2011*, informing shareholders and other stakeholders about our business. More detail about our sustainability activities can be found at [www.hsbc.com/sustainability](http://www.hsbc.com/sustainability).

Our approach to sustainability takes into account the views of HSBC's stakeholders and our own understanding of the Group's impact on wider society. As a financial services company, the products we provide intermediate in the economy, bridging the gap between those who want to save, those who want to borrow and wider society. We also provide the hardware needed to move money around a modern economy, such as ATMs, credit cards and electronic transfers.

How we serve our customers, value our employees and invest in our communities has a social impact; the taxes and duties we pay in the regions we operate in and the dividends we pay to shareholders (often pension funds), have an economic impact; and the businesses we bank and our own operations have an environmental impact.

For these reasons, we believe a good bank must be run with a long-term view. It must be consistently profitable, but not be solely concerned with making a profit. Only then do we have a sustainable business, able to attract and retain the capital we need from our shareholders, to continue to operate.

We have identified six areas which, taken together, make our business sustainable.



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## Engaging our stakeholders

Listening to our stakeholders helps form our approach to sustainability. This section gives a brief overview of our stakeholder engagement.

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### Employees

HSBC's Global People Survey helps us to measure employee engagement in order to understand what actions are needed to increase business performance and to benchmark our progress both internally and externally. In 2011, 81 per cent of our employees responded and employee engagement rose one percentage point to 69 per cent. We report the main findings of the survey on page 22.

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### Customers

We serve 89 million customers in 85 countries and territories. We engage with our customers through a wide variety of channels, from written and electronic communications, to client events, customer panels and one-to-one meetings. Customer feedback is tracked across our businesses and drives our business development.

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### Shareholders

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders. In 2011, HSBC ran a programme of 906 senior executive meetings with representatives of institutional shareholders in 27 countries and territories. We held also meetings with over 30 Sustainable and Responsible Investment institutional investors in London, Paris, Frankfurt, Boston and New York.

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### Community representatives and charity partners

We work with a wide variety of charities as part of our Community Investment programmes. Through our education programme we partner SOS Children's Villages, Junior Achievement and the Foundation for Environmental Education. For the last five years, we have been working with four leading environmental organisations – the Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF – on the HSBC Climate Partnership.

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### Suppliers

In 2011, HSBC spent US\$17.5 billion with approximately 30,000 suppliers globally. We ask all of our suppliers to comply with a code of conduct which sets HSBC's environmental, social and ethical standards for our supply chain. We are working with our key suppliers to develop new products and services to deliver our sustainability goals.

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### Non-governmental organisations (NGOs)

We engage with campaign groups on matters of shared interest. We are proactive members of a number of multi-stakeholder forums, such as the Roundtable on Sustainable Palm Oil, which brings together NGOs, businesses and financial investors to agree standards of good practice for the sector.

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## Governments and regulators

HSBC's Group Chairman, Group Chief Executive and other senior executives engage with governments and regulators around the globe on creating a sustainable financial system. We believe it is in the interests of governments, banks, investors and consumers to have a financial system that encourages competitive, vibrant and stable markets, providing consumers with the protection they need, businesses with the capital they require, and taxpayers with reassurance about the long-term viability of the banking system, without adding unnecessary business costs or revenue risk. In 2011, our senior executives had meetings with politicians, regulators and officials representing national governments, the European Union and other supranational authorities and we formally responded to numerous consultation papers issued by policy-makers around the world.

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## Management and governance

Ultimately, each of our colleagues contributes to making HSBC more sustainable by managing one, or more, of the six key areas identified, i.e. strategy, employees, customers, risk management, sustainable operations and community investment.

HSBC has a Corporate Sustainability department within Group Head Office and in each of our major regions and countries of operation. These teams shape the Group's approach to sustainable business opportunities and risks and community investment. Many other specially trained colleagues across HSBC are also responsible for implementing our approach to sustainability; for example, in credit risk, purchasing, IT, and relationship management teams. Other aspects of sustainability are fully embedded in the business – for example, risk and environmental efficiency – and are managed as 'business as usual'. Customer and employee relations are core functions of the Group.

Corporate Sustainability is represented on the Group Management Board through the Group Managing Director who has oversight of Corporate Sustainability and Human Resources, reporting to the Group Chief Executive.

The Corporate Sustainability Committee is composed of non-executive Directors and non-director members. In 2011, the chairman was Narayana Murthy, a non-executive Director (appointed 28 May 2010) and the members were Vincent Cheng, an executive Director (retired 27 May 2011) and Laura Cha (appointed 3 May 2011), Gerry Davis, Lord May and Dame Mary Marsh, who are non-director members of the Committee. The Committee held four meetings in 2011.

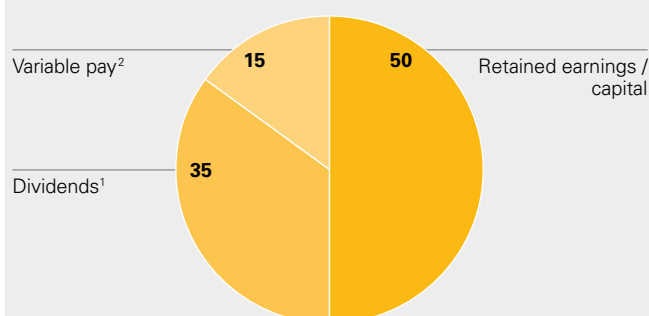
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## Sustainable economic contribution

By running a sustainable business, HSBC is able to make a valuable contribution to the economy by paying dividends to our shareholders; salaries to our employees; payments to our suppliers; and tax revenues to governments in the countries and territories in which we operate. In 2011, reported pre-tax profit rose by 15 per cent to US\$21.9 billion.

## Pro forma post-tax profit allocation 2011

%



1 Inclusive of dividends to holders of other equity instruments and net of scrip issue.

2 Total variable pay pool for 2011 net of tax and portion to be delivered by the award of HSBC shares.

The Board considers carefully the appropriate distribution of profits. There has to be the right balance between retaining capital (for business growth and resilience); rewarding shareholders for investing in us by paying dividends; and being able to attract and retain high calibre employees in a global marketplace. In 2011, 50 per cent of the profit available for distribution was retained for growth and building capital ratios, 35 per cent was paid in dividends to shareholders, and 15 per cent allocated for variable compensation to staff.

## Distribution of economic benefits

US\$b	2009	2010	2011
Net cash tax outflow¹	5.2	5.8	8.0
Distributions to shareholders and non-controlling interests	6.5	7.1	8.3
General administrative expenses including premises and procurement	13.4	15.2	17.5
Employee compensation and benefits	18.5	19.8	21.2

1 Includes cash outflows of corporation tax, employer payroll tax, irrecoverable value-added tax and other taxes.

## Tax contribution

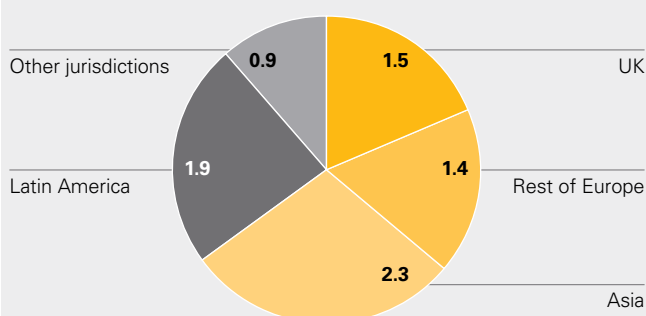
In 2011, HSBC's net cash tax contribution was US\$8 billion. The amount differs from the tax charge reported in the income statement in the HSBC Holdings plc *Annual Report and Accounts 2011* due to taxes being included in pre-tax profit, the timing of payments and the effect of tax being deferred.

HSBC also plays a major role as tax collector for governments in the jurisdictions where we operate. In 2011, we collected US\$8.7 billion in taxes.

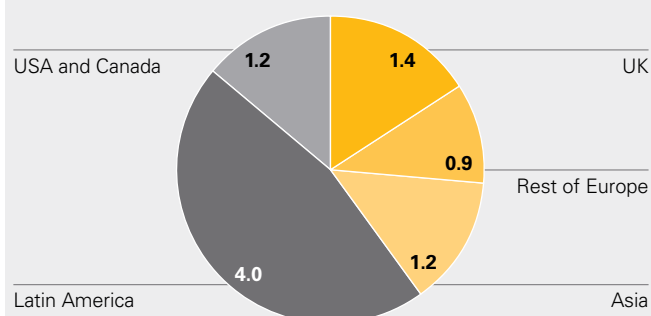
# Sustainability at HSBC: over a decade of action

2000	2001	2002	2003	2004	2005
<ul style="list-style-type: none"> <li>• Sustainability becomes a mainstream global issue with launch of UN Global Compact and World Economic Forum featuring Corporate Social Responsibility on its agenda</li> <li>• Launch Defence Equipment Policy</li> </ul>	<ul style="list-style-type: none"> <li>• Launch US\$50 million partnership 'Investing in Nature' with three leading conservation charities</li> </ul>	<ul style="list-style-type: none"> <li>• Issue Sustainability Risk Standard</li> <li>• Sponsor first HSBC Scholars' Day</li> </ul>	<ul style="list-style-type: none"> <li>• Form Corporate Responsibility Committee of HSBC Holdings plc Board</li> <li>• Adopt Equator Principles</li> </ul>	<ul style="list-style-type: none"> <li>• Launch Environmental Action Plan and issue Environmental Risk Strategy</li> <li>• Issue Forestry Sector Policy</li> <li>• Launch 'Diversity Toolkit'</li> <li>• Complete financing of two Scottish wind farms and first UK wind sector tax lease</li> </ul>	<ul style="list-style-type: none"> <li>• Go carbon neutral</li> <li>• Issue Chemicals Policy and Freshwater Policy</li> <li>• Set three-year environmental targets</li> <li>• Publish first <i>Sustainability Report</i> (independently assured)</li> <li>• Launch HSBC Global Education Trust</li> <li>• Arrange finance for world's largest eco-bus system</li> <li>• Start supporting Students in Free Enterprise</li> </ul>

### Breakdown of total tax paid by region 2011 US\$b



### Taxes collected for government 2011 US\$b



### HSBC's net cash tax contribution 2011

	US\$b
Tax on profits	4.0
Employer taxes	1.8
Value-added tax	0.8
Other duties and levies	1.4
Total	8.0

### Tax collected for governments 2011

	US\$b
Taxes deducted from customer interest	3.5
Employees' tax on pay	3.3
Value-added tax	0.4
Stamp duty and other taxes	1.5
Total	8.7

	2006	2007	2008	2009	2010	2011
	<ul style="list-style-type: none"> <li>Chair Equator Principles</li> <li>Adopt version two of Equator Principles</li> <li>Issue Energy Sector Policy</li> <li>Establish Diversity 'Taskforce'</li> <li>Launch Future First and Teach for All for disadvantaged children</li> <li>Begin support for 'Rivers of the World' project</li> <li>Win inaugural <i>Financial Times</i> 'Sustainable Bank of the Year' Award</li> </ul>	<ul style="list-style-type: none"> <li>Launch ground-breaking US\$100m HSBC Climate Partnership</li> <li>Establish Climate Change Centre of Excellence</li> <li>Launch Climate Change Benchmark Index</li> <li>Issue Mining and Metals Policy</li> <li>Establish Group Corporate Sustainability Department</li> <li>Introduce first Global People Survey</li> </ul>	<ul style="list-style-type: none"> <li>Adopt Climate Principles</li> <li>Set four-year targets for reducing energy, water, waste and carbon dioxide</li> <li>Launch HSBC Environmental Infrastructure Fund</li> <li>Establish Employee Diversity Strategy</li> <li>Launch Junior Achievement for 7-11 year olds</li> </ul>	<ul style="list-style-type: none"> <li>Establish Cleantech Equipment sector team</li> <li>Begin reporting sector policy compliance levels publicly</li> <li>Supported first project financed offshore wind farm</li> <li>Launch HSBC eco-schools programme</li> </ul>	<ul style="list-style-type: none"> <li>Establish Climate Business Council</li> <li>Launch Group-wide paper sourcing policy</li> <li>Lead Equator Principles' Governance Rules</li> <li>Diversity and Inclusion Index included in Global People Survey</li> <li>Lead largest fundraising in cleantech sector with US\$125m investment</li> </ul>	<ul style="list-style-type: none"> <li>Establish Sustainable Operations 2020 strategy</li> <li>Reissue Energy Sector Policy, one of the first to cover coal, oil sands and nuclear power stations</li> <li>Commit five more years of funding to Future First</li> <li>Complete sixth major financing for eco-bus system</li> <li>HSBC and Earthwatch win International Green Award</li> <li>Build Social Finance portfolio</li> </ul>

### Serving our Customers

“I would like people to view HSBC as a responsible institution which is aware of its role in the community, is trusted by its customers, is a good and fair employer, and offers a stable, attractive and positive return to its shareholders.”

**Stuart Gulliver**  
Group Chief Executive

To attract income over the long term, we must have the right strategy and products, so our customers will want to continue doing business with us. Our customers place their trust in us, so we must meet their expectations.

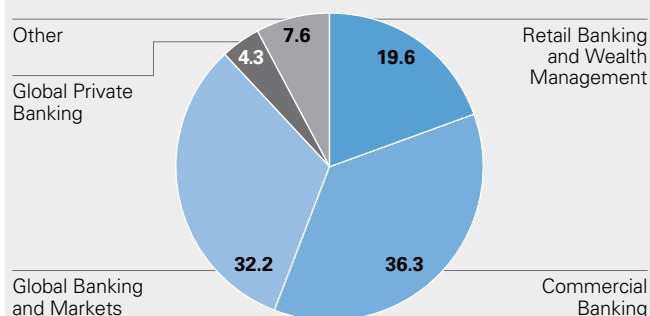
Our products and services help customers meet their needs and ambitions in life. This, in turn, has a broader social impact by creating financial security and contributing to the generation of wealth.

As a business, we also recognise that we have a responsibility to assess the environmental and social impacts that our lending and investments can have – and to manage these impacts. We also have a duty to ensure our business does not launder the proceeds of crime, or help fund criminal activity. Finally, we must understand, respect and manage our direct impact on the environment.

In this chapter, we highlight some of the ways we delivered for our customers – and the wider community – in 2011.

**Contribution to profit before tax 2011** (reported basis)  
%

**US\$21,872m**





## Retail Banking and Wealth Management

“In HSBC’s Retail Banking and Wealth Management business, we aim to build long term, sustainable, and mutually valuable relationships with our personal customers, using our global scale to build compelling propositions to meet their needs, and helping them to achieve their ambitions.”

**Paul Thurston**

Chief Executive, Retail Banking and Wealth Management

Our Retail Banking and Wealth Management (RBWM) business looks after the banking needs of individual customers.

Our major markets are the UK, the Hong Kong SAR, France, the US, Mexico, Brazil and Turkey. In 2011, we continued to evolve our product offering to meet the day-to-day transaction needs of our customers. We provided the finance to help people meet their long-term ambitions, such as home ownership, and we widened access to services through education, targeting excluded groups and helping customers experiencing financial distress. We also record data on customer complaints to track our progress in resolving these problems.

### Helping people meet their long-term ambitions

We provide the finance people need to realise their ambitions, such as owning their own home.

**Brazil:** We are one of the main mortgage providers in Brazil. In 2011, new mortgage lending grew by 85 per cent to US\$1.022 billion, from US\$554 million in 2010. We also issued a guide to all our customers in Brazil on how to make their home, and daily routine, more sustainable.

**France:** HSBC made US\$3 billion of mortgage funding available, an increase of 11 per cent from the previous year.



# 85%

increase in new mortgage  
lending in Brazil

**Hong Kong SAR:** HSBC has been the number one mortgage services provider since 2009, with new mortgage market share of 24 per cent in 2011, up from 19 per cent in 2010.

**Turkey:** In 2011, we helped over 7,000 people buy a new home, providing US\$511 million in mortgage finance.

**USA:** HSBC Bank invested US\$256 million in Community Reinvestment Act-eligible investment funds which support initiatives designed to revitalise or stabilise low to moderate income areas, or to provide affordable housing and community services to people on low to moderate incomes.

**UK:** Since 2007, HSBC has increased its total mortgage lending to UK homeowners by over 75 per cent. We continued to support the UK housing market throughout 2011, providing a mortgage to one in seven first-time buyers nationally and lending a total of US\$21 billion overall. We are making further funding available to support personal customers who want to own their own homes. In 2012, we have committed to provide US\$24 billion in mortgage funding, including US\$4.8 billion for first-time buyers, to help a total of 150,000 customers.

### Widening access and targeting help

**Hong Kong SAR:** Today almost one in five people in Hong Kong is aged over 60. In 2010, we launched our ‘Smart Seniors with HSBC Programme’, recruiting 80 part-time post-retirement staff to promote and manage areas within branches dedicated to serving the needs of the older customer. In 2011, we recruited an additional 20 Smart Senior staff, extending this service to over 50 per cent of our branch network. We also supported the government’s scheme to distribute US\$771 to all adults, by undertaking outreach activity to ensure senior citizens registered for the scheme.

**UK:** In response to the economic slowdown, in 2009 we established our UK Money Management Team, which supports customers before they go into arrears. Our specially trained staff offer advice on budgeting, overdraft management and restructuring of debt, helping customers to avoid the stress of missed payments. The team has helped over 70,000 people deal with their financial difficulties since it was set up.

**USA:** Since 2003, more than six million consumers have visited HSBC’s financial education site, ([www.yourmoneycounts.com](http://www.yourmoneycounts.com)). Consumers can access information on homeownership, budgeting, managing credit, small business ownership and other financial topics. In 2011, YourMoneyCounts had more than 800,000 visitors.

**Global:** HSBC has also helped more than 176,000 young people with financial literacy through the Junior Achievement scheme. You can read more about this work on page 25.

### Handling complaints

We have put in place processes and procedures across our businesses to ensure that customer complaints are handled properly.

**France:** While the number of total complaints remained stable, the number of complaints referred to the Ombudsman increased by 10 per cent, following a 26 per cent decrease in 2010.

**Hong Kong SAR:** Customer complaint volumes were down four per cent, while customer commendations increased 146 per cent year-on-year in 2011.

**Mexico:** Customer complaints fell by 7 per cent in 2011 and we continued to develop a centralised complaint workflow, helping to keep our complaint resolution service levels at 98 per cent.

**Turkey:** 85 per cent of all customer complaints were satisfactorily resolved, while non-prompted customer compliments rose 24 per cent year-on-year.

**UK:** Information provided by the Financial Services Authority showed that when compared to peers, HSBC has one of the lowest rates of complaints per 1,000 customers in both Banking and Credit and Mortgages, and Home Finance categories.

**USA:** A Complaint Ombudsman Office was established in 2011, giving greater oversight and consistency to the way we respond to complaints and to make better use of customer feedback to improve our processes. Last year, we made over 50 improvements to customer experience, including streamlining operational processes, customer service education, and revising and rewriting 159 letter templates, significantly improving customer correspondence. We reduced the average turnaround time for complaints by two days.

### **Remediation**

On 5 December 2011, the UK's Financial Services Authority (FSA) fined HSBC US\$17 million as a result of inappropriate investment advice provided to elderly customers in connection with some products sold by an HSBC affiliate, NHFA Limited (NHFA). HSBC closed NHFA to new business on 1 July 2011. Our senior executives have been unequivocal in their apology. We recognise that our reputation was damaged by this incident and where we failed, we will pay full and proper compensation.

In December 2007, HSBC took the decision to stop selling Payment Protection Insurance (PPI) in its UK branches and throughout the rest of its business in 2008, ahead of most of its competitors. We have been working with the FSA and the Financial Ombudsman Service to ensure all PPI complaints are handled, and redressed, in accordance with the FSA's Policy Statement PS10/12.

In both these cases, our priority has been to do the right thing by our customers and learn from what happened.

HSBC makes every possible effort to help customers retain their homes when they are facing financial hardship. In the US in 2011, we modified loans with balances of US\$6 billion for some 29,000 customers of HSBC Finance Corporation. In April 2011 HSBC, along with others in the mortgage industry, entered into consent orders with US regulators to review foreclosure practices.

## Commercial Banking

"HSBC is the leading international trade and business bank operating today. We have a responsibility to use that position for the benefit of our customers, which will help drive global economic growth, ultimately benefiting emerging and developed economies alike."

**Alan Keir**

Global Head of Commercial Banking

### **Helping companies and economies grow**

#### **Supporting SMEs**

In 2011, we continued to support the small and medium-sized enterprises (SMEs) that play a critical role in economic growth. Our global lending was up 10 per cent from 2010. Lending to SMEs in the faster-growing economies of Asia, Latin America and the Middle East increased by 22 per cent. In the United Arab Emirates, we allocated a second tranche of US\$100 million of funding for SMEs, following the success of the US\$100 million SME Fund in 2010. In the UK, we also exceeded our Project Merlin lending intentions to business customers agreed with the government.

We expect UK trade to grow by 60 per cent by 2026. To help SMEs to capitalise on this trend, in February 2012 we announced a US\$6.4 billion fund to help firms with a turnover of up to US\$40 million to expand their global trade activity. HSBC is also a major shareholder in the Business Growth Fund plc, a new investment company with resources of up to US\$4 billion, established by the major banks in the UK to provide long-term growth capital to SMEs. It was officially launched in May 2011 and has a rapidly growing portfolio of investments.

#### **Supporting recovery and growth through trade**

HSBC estimates that world trade volumes will grow by 86 per cent by 2026, at a rate of about US\$1 trillion a year until 2016. By providing finance to our commercial customers, we help them make the most of the opportunities presented by increased trade, supporting global economic growth. We also have a role to play in economic recovery, equipping customers in the West with the knowledge they need to expand their business across borders and using our footprint to connect our customers to each other. In 2011, we facilitated 9 per cent of bank-financed global trade amounting to US\$510 billion and performed more than 16,000 successful cross-border transactions.

In 2011, we restructured our business to offer a full service to our customers across traditional commercial lending, through to payments and cash management services and trade and receivables finance. This will help us to deliver better supply chain solutions whatever the terms of trade. Our Commercial Banking and Global Banking and Markets teams work together to meet the increasingly diversified needs of international corporate customers, helping them to grow their businesses.

## Global Banking and Markets

"Global Banking and Markets has a unique client and geographic footprint. This enables us to support companies and governments from emerging regions as they seek to strengthen and deepen their local economies."

**Samir Assaf**

Chief Executive, Global Banking and Markets

### Facilitating economic development

#### *Financing 'South-South' trade*

The developing network of new 'South-South' trading routes connecting Asia, the Middle East, Africa and Latin America is set to revolutionise the global economy. We believe trade and capital flows between the world's faster-growing markets could increase tenfold in the next 40 years. Our Global Banking and Markets business focuses on many high growth markets and trade routes. Year-on-year we have seen 'South-South' business grow by over 40 per cent.

This revolution in trade is also powering the growth of the renminbi, which is forecast to be the world's third largest trade currency in 2012. It is also fast becoming an investment currency. In 2011, HSBC played a pivotal role in issuing Latin America's first-ever dim sum deal – a three-year yuan bond. This landmark deal will facilitate similar deals, encouraging new investment flows between Asia and Latin America. In April 2012, we announced the first international renminbi-denominated bond outside Chinese sovereign territory.

#### *Supporting infrastructure development*

In faster-growing markets, 'South-South' connections will be facilitated by better infrastructure, which needs investment. Western governments facing economic challenges also require financial support if they are to maintain and enhance their national infrastructure.

Between June 2010 and June 2011, HSBC completed 48 infrastructure and project finance deals in 25 countries, with a total value of more than US\$50 billion. We were named 'Global Best Infrastructure and Project Finance House' for 2011 by *Euromoney*. HSBC was also named 'Most Innovative in Infrastructure and Project Finance' by *The Banker* for the third year in a row.



# 10%

**increase in global lending  
to SMEs in 2011**

## Global Private Banking

"For our international clients, our global footprint means access to experienced investment professionals in multiple locations worldwide. We provide a range of sophisticated investment opportunities for those who have acquired or accumulated wealth. We also help clients develop their assets to benefit themselves and society – helping them invest in philanthropic projects and in companies with a positive social impact."

**Krishna Patel**

Chief Executive, Global Private Banking

### Sustaining wealth for future generations

Our Global Private Banking business helps individuals and families manage their inter-generational wealth. Business families are the building blocks of most Asian economies and, as economic development gathers pace, so does wealth creation. Today, over 50 per cent of our Private Bank assets and significant net new money comes from faster-growing markets.

Without a coherent plan, families can enter a negative cycle in which the first generation creates wealth without embedding its value and the second generation stabilises the assets without enabling further growth. Often, the wealth can be depleted when the third generation takes over the family business.

HSBC helps families develop their tangible and intangible assets to benefit themselves and society, encouraging them to think about their legacy over the long term, such as the next 30 or even 100 years. Our advisers help to create ownership structures such as trusts and other holding vehicles, as well as designing governance arrangements. We also help implement other financial capital strategies such as family offices.

More clients now want to become strategic philanthropists, applying techniques learned in profit-orientated enterprises to make more meaningful contributions to social change. Research suggests that between 2009 and 2011, charitable giving in China alone doubled from US\$4.9 billion to US\$10.3 billion. Our philanthropy experts help clients set specific goals for their giving, engage professional partners to meet those goals, and measure the impact of their efforts. Approaches can vary from foundations to venture philanthropy. In 2011, we provided specialist philanthropy services to over 240 charitable trusts, globally holding assets in excess of US\$2.3 billion.

### Responsible investment

We recognise that good management of environmental and social risks, and opportunities contributes to long-term business success. HSBC Global Asset Management is committed to investing our customers' money responsibly. In June 2006, we became a signatory to the United Nations Principles for Responsible Investment and we are an active member of the United Nations Environment Programme Finance Initiative (UNEP FI). To examine the investment implications of climate change, we are also a member of the Institutional Investors' Group on Climate Change. In addition to these activities, we offer Sustainable and Responsible Investment funds for clients who wish to invest according to specific environmental, social or ethical criteria.

HSBC Global Asset Management has excluded cluster munitions and anti-personnel mines across its entire actively managed investment range. The policy regarding passive investments is under constant review. To ensure all cluster munitions and anti-personnel mine-related companies are excluded, HSBC uses the services of the research organisation Ethix, in addition to conducting our own due diligence.

### Preventing crime

HSBC has clear policies and procedures to guard against the Group being used, unwittingly, to enable others to launder money, which is potentially linked to criminal activity or tax evasion; to finance terrorism; to make and receive corrupt payments, where these can be identified; and to overcome economic sanctions. These safeguards operate at all levels and in all businesses throughout the Group.

Financial institutions make a contribution to the fight against money laundering, bribery and corruption. It would be far harder for individual countries and supranational bodies, such as the UN, to implement counter-measures or to apply effective restrictions without the assistance of banks like HSBC. Every day, HSBC contributes considerable time and resources to monitoring millions of transactions of all kinds. This is a demanding and complicated task for an organisation which operates in 85 countries and territories. However, we willingly commit these resources because it enables us to meet our obligations to legislators and regulators, it helps to sustain our business and our reputation, and it supports the good governance of the countries in which we operate.

HSBC is committed to improving standards of business integrity. We have suitable policies and procedures in place to counter bribery and corruption. In 2011, we established a Group Bribery Committee at executive level to ensure compliance with the letter and spirit of all laws covering bribery and corruption and, in particular, the UK Bribery Act which is extraterritorial in nature. This committee also considers all aspects of bribery and corruption risk. A process is under way to mirror this executive committee structure consistently in principal subsidiaries and business units throughout the Group.

An established mechanism is in place for employees to report suspicions, including allegations of bribery and corruption, and also to escalate concerns to the highest level in the company where appropriate. Full details of legal proceedings and regulatory matters are given on pages 405-409 of the *Annual Report and Accounts 2011*.

### Social finance

In addition to running our mainstream businesses, providing finance to customers over the long term, we believe finance should be used to support communities and the wider society. 'Social financing' takes mainstream financing techniques and applies them to projects which will deliver a specific social, as well as economic benefit, often at sub-scale levels.

In 2011, we increased our support for social finance by building a portfolio of investments. This included a US\$6 million contribution to Big Issue Invest Social Enterprise Fund, which invests capital in, and provides business support to, social enterprises. We also invested US\$16 million in Bridges Ventures Fund III, a sustainable growth capital fund which focuses on SMEs in the social enterprise and environmental sectors.

In 2011, the UK government launched a US\$962 million financial institution to grow the social investment market. Big Society Capital is mainly funded from money left in bank accounts which have been dormant for more than 15 years. HSBC and three other high street banks also agreed to invest a further US\$80 million each in the fund, as part of wider discussions with the government to increase the positive contribution banks make to society and economic recovery.

In France, HSBC has invested US\$1.4 million in Citizen Capital, one of the country's leading growth capital funds in the social venture sector. HSBC France also issued a US\$60 million bond for the regional government of the Pays de la Loire, which will be used to support apprenticeships, social housing, and the construction and renovation of schools to a higher environmental standard.

### Islamic finance

In 1998, we established HSBC Amanah, our Islamic banking business, to meet the growing needs of customers in the emerging markets of Asia and the Middle East for *Shariah*-compliant banking. Today, Amanah is a global business serving retail, corporate, sovereign, private bank and institutional customers. In 2012, we were named 'Best International Islamic Bank' by *Euromoney* magazine for the third consecutive year.

HSBC Amanah is also a leading *sukuk* (bond) house. In 2011, we were the top underwriter of international *sukuk* with a 25 per cent market share and Gulf Co-operation Council *sukuk* with a 21 per cent market share. Last year also saw a *sukuk* launched by HSBC Bank Middle East, the first to employ a dual structure consisting of specialist Islamic finance (*mudaraba* with a *sale* and *wakala*) elements. This deal went on to win *Euromoney*'s 2012 'Most Innovative Deal' award and its structure has now been replicated by other banks.

HSBC Amanah is also emerging as a key player in Islamic project financing, essential to meeting the infrastructure requirements of growing nations. In 2012, we won *Euromoney*'s 'Best Project Finance House' and 'Best Project Finance Deal' awards. Project financing is a natural fit with Islamic finance since both are about building a stable future by investing in the real economy and putting capital to productive use for society's benefit. Our Amanah business meets the cross-border *Shariah*-compliant needs of our corporate customers, supporting trade flows between Asia and the Middle East.



# Climate Business

We recognise and support the move to a low carbon economy, which will benefit society in the long term. We also recognise that this is a business opportunity not just for our customers but also for HSBC.

## Climate and 'clean tech' research

HSBC established a Climate Change Centre of Excellence in 2007, based in our Global Research division. Last year, Global Research produced over 160 climate and 'clean tech' research notes for institutional investor clients. The research covered topics such as the implications of climate change for agriculture, climate vulnerabilities across the G-20 countries, global energy trends to 2050, and clean tech market forecasts, as well as in-depth analysis of risks and opportunities in China and India. In 2011, Global Research won the *Thomson Reuters* Extel awards for being the number one team for integrated climate change, number one climate analyst and number one team for renewable energy, and number three team overall for sustainability research. In March 2012, the team were highly commended in the *Farsight Awards*.

## Supporting the development of climate business

Our Global Banking and Markets business has specialised Renewable Energy and Clean Tech teams, which work to support customers operating in this sector globally. In 2011, we were the sole co-ordinator on a US\$200 million rights issue for Soitec, a global leader in concentrated solar technology. We led and structured the largest international wind project financing to date in India for the Genting Group. HSBC also supported Asia-Pacific's first offshore dim sum bond issue amounting to RMB750 million (US\$116 million) for China WindPower Group.

In 2011, HSBC also provided structured finance for low-emission bus systems in Johannesburg and Panama City. This brings the total number of cities we have supported in this area to six, making HSBC the market leader. We have also arranged a syndicated Islamic financing facility for a

## What is 'climate business'?

We define climate business as the goods and services that will thrive in the transition to a low carbon economy. It comprises four major areas of opportunity:

- increasing the share of low carbon energy production, such as bio-energy, solar and wind;
- improving energy efficiency in buildings, industry and transport, as well as energy storage;
- adapting to the impacts of climate change, particularly in agriculture, infrastructure and water; and
- providing climate finance, including environmental markets, debt and equity investment and insurance.

Malaysian eco-residential and commercial development project, which aims to become the first integrated green luxury development in the country.

Recognising the wider opportunities climate business presents, in 2010 HSBC established a Climate Business Council, comprising representatives from our global businesses working in this area. The purpose of the council is to set strategy, ensure HSBC is working in a joined-up way across our business functions, and seize opportunities in the sector.

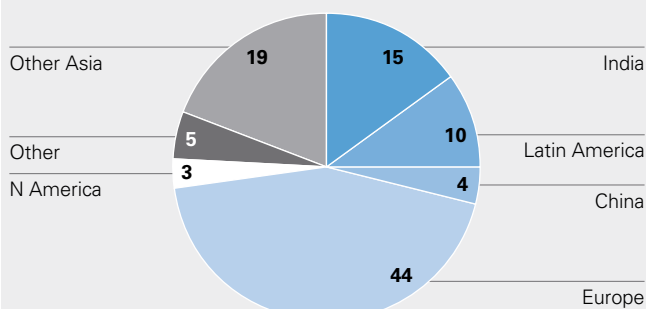
We have been building our internal capability in climate business within our Commercial Banking business. In 2011, we established the Commercial Banking Climate Business Working Group, comprising executives from around the world responsible for implementing the climate business strategy.

We have also set up business development teams, which support front-line colleagues in identifying new climate business leads. Last year, we recruited dedicated Commercial Banking relationship managers in China, India and the UK. We will recruit a North America manager in 2012. These managers will be responsible for training, building awareness and, most importantly, prospecting for business in the sector.

In 2011, we aimed to include commercial targets for climate business across a range of our business functions. Due to the scale of our business reorganisation, this was not possible. By the end of 2012, we aim to include commercial targets in HSBC's Global Banking, Global Asset Management and Commercial Banking businesses.

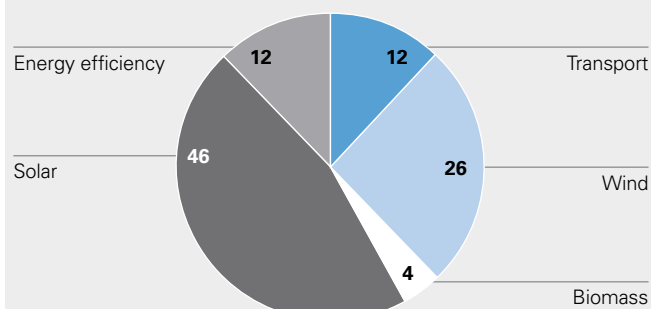
**HSBC climate business by region 2011**

%



**HSBC climate business by sector 2011**

%



## Sustainability Risk Management

We assess the potential impacts of our commercial customers on people and on the environment. As a leading international bank, we understand that managing the risks posed by the companies we do business with is one of the main ways we can contribute to a more sustainable world.

We recognise that our customers, investors, employees and other stakeholders may have concerns about the impacts of the companies we bank. Managing sustainability risk helps drive business opportunity. By assessing the risks of developing technologies in sectors like energy, we are better able to identify investment opportunities and avoid future risk.

### HSBC policies, processes and people

It is nearly a decade since we issued our first sustainability risk policy. Today, we have five voluntarily-established sector policies, which set out clearly the standards we expect of customers which operate in forest land and forest products; mining and metals; chemicals; freshwater infrastructure; and energy sectors.

We also have a Defence Equipment Policy. In 2010, in advance of UK legislation we introduced new criteria stipulating that we will not provide financial services to customers – including holding companies – which manufacture or sell anti-personnel mines or cluster bombs. In 2011, we exited any outstanding relationships with customers which did not meet these new criteria.

In 2010, we completed an extensive review of our Energy Sector Policy. Last year, we successfully implemented one of the first policies amongst financial institutions to cover customers operating in the coal-fired power, oil sands and nuclear power industries, which was welcomed by many of our stakeholders, including our customers.

Summaries of all our policies can be viewed at: [www.hsbc.com/sus-risk](http://www.hsbc.com/sus-risk)

These sustainability risk policies set out the framework and standards which inform decisions made by risk, business and relationship managers across the bank. Some 41,000 customers are assessed against our sector policies. The policies are applied to all lending by HSBC and other forms of financial assistance, primary debt and equity market activities, project finance and advisory work. They also extend to asset management, but we recognise the lesser degree of influence we have over third-party investment where the final decision may not rest with HSBC.

We check whether customers meet the criteria set out in our sector risk policies, using the same system as we use for monitoring credit risk. This data is then also checked through our internal audit system.

We have sustainability risk managers in every region and offer comprehensive training for employees who are required to assess sustainability risk. A new e-training module on sustainability risk was launched in July 2011. By December 2011, over 4,000 employees had completed this course and, in total, over 6,000 employees have been trained in managing sustainability risk.

When customers do not comply, our preference is always to advise and encourage them to make the necessary improvements to their sustainability policies and performance to meet our criteria. When these customers demonstrate no progress towards compliance despite our efforts, we will exit the relationship. At the end of 2011, only 0.15 per cent of our customers were non-compliant with our policies, down from 0.2 per cent in 2010. This decrease is mainly due to HSBC exiting relationships with the customer when a loan commitment expires, but also reflects the movement of some customers into the 'near compliant' category.

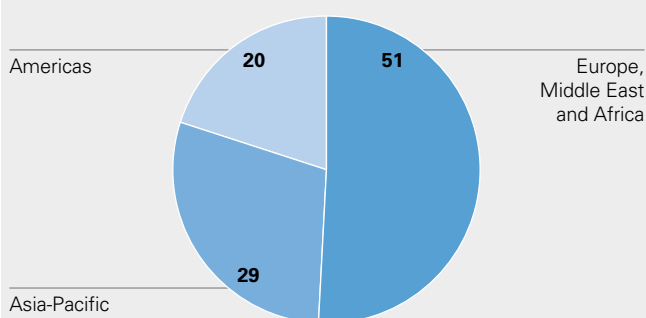
### Issues raised in 2011

Nuclear power continues to attract strong views, both positive and negative, from our stakeholders – and in wider public debate. When considering business in this sector, we already cautiously review each application on a case-by-case basis, taking into account safety and regulatory standards, the operator's track record, and plans for waste storage and decommissioning in accordance with our 2010 policy. We also use independent experts on the sector to provide a sound technical understanding for our analysis and standards produced by international institutions, such as the International Atomic Energy Agency, assist our assessment.

### Customer compliance with HSBC's sustainability risk policies 2011

	%
Leader	2.54
Compliant	95.44
Near-compliant	1.87
Non-compliant	0.15

### Equator Principles: loans by region of borrower by % value 2011



On 11 March 2011, Japan experienced its largest recorded earthquake, triggering a tsunami which damaged its nuclear power station at Fukushima. Following this event, we felt it prudent to conduct a thorough review of the small number of nuclear power stations we finance. We found that they met our policy and were not exposed to the same risks which affected Fukushima. Nevertheless, we continue to review the ongoing investigations from the Fukushima disaster so that they can be considered in future policy updates.

We also continue to review our approach to the energy sector in the wake of the deepwater oil spill in the Gulf of Mexico and concerns about the impact of shale gas operations on the environment and communities.

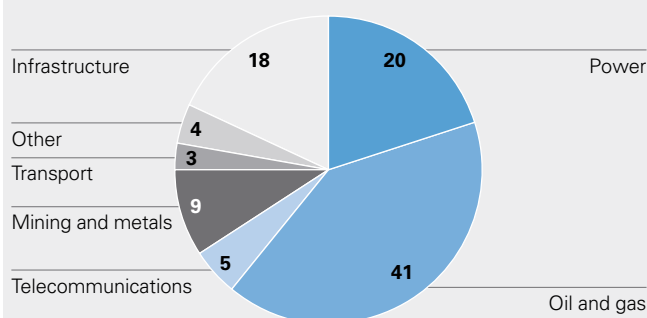
Last year, we were approached by an NGO which raised concerns about a forestry customer. The concerns centred on whether the company had adequately respected the land rights of local communities. Our Forest Land and Forest Products Sector Policy requires independent certification that operations are legal and sustainable. We accept Forest Stewardship Council (FSC) certification for this purpose. We take any complaint against our customers seriously and have met the NGO to discuss the issue. We have also held meetings with the customer concerned. We are satisfied that our customer has achieved FSC certification for two of its operations and is in the process of assessment for a third.

### Equator Principles

HSBC adopted the Equator Principles in 2003. This is a framework used by financial institutions to assess and manage the environmental and social risks of projects being financed. The Principles have helped ensure that large projects are developed and consequently operate in accordance with good international environmental and social standards.

Equator Principles Financial Institutions apply the framework to project finance where the project's capital costs are US\$10 million or more. Since 2004, HSBC has voluntarily taken this a step further by being one of the first banks to extend the Principles to export credit and corporate loans, where the proceeds are known to be designated for a particular project. In 2011, we finalised further guidance to help our relationship managers consistently apply the Principles to such loans.

### Equator Principles: loans by industry sector by % value 2011



HSBC's implementation of the Principles is initiated by relationship managers who conduct an analysis of the customer and project to assess for compliance. Our risk teams review and approve this transaction, or escalate to senior management for further consideration if necessary.

When we provide advisory services to projects, we go beyond the standard advice of mentioning the benefits of applying the Principles. We also use our role to influence positively the project's approach to environmental and social risk management.

Since 2009, no transactions have been declined by HSBC on the grounds of sustainability risk under the Equator Principles. Our relationship managers are identifying potential challenges at an earlier stage, and are helping prospective customers to mitigate against them, or they are deciding not to proceed with a loan approval request.

Since we ask our customers to produce independent certification through a number of our policies, we subject ourselves to the same level of scrutiny. HSBC was one of the first banks, and remains one of a handful, to commission an independent audit of our implementation of the Principles. For 2011, PricewaterhouseCoopers LLP was invited to review our application of the Equator Principles.

In 2011, HSBC actively sought to shape the new version of the Principles. We have been an advocate for the extension of the Principles into loans where the proceeds are known to be designated for a particular project, and for independent audits to be standard for members. Consistent implementation of the Principles would provide greater protection for people and the environment. At the time of this report's publication, an outcome had not yet been agreed.

### Climate risk

HSBC regularly assesses and manages the material risks arising from climate change, regulation relating to climate change, and potential natural disasters in relation to our own business. In 2011, amongst other issues, we examined the impact of heat and drought on businesses in India and how this might affect our own business and operations.

## Statement on the application of the Equator Principles

In 2011, HSBC applied the Equator Principles to project finance loans, advisory services and export credit loans as set out in the 2006 Equator Principles and in accordance with the Reporting Guidance found at:

[www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance)

Details of our transactions are shown in the table below.

The PricewaterhouseCoopers LLP assurance report is on page 32.

### Equator Principles: transactions vetted by HSBC

	2009		2010		2011	
	Number	Value (US\$m)	Number	Value (US\$m)	Number	Value (US\$m)
<b>Transactions approved</b>	57	4,562	76	6,707	63	4,643
<b>By mandate</b>						
Lending	42	4,562	52	6,707	42	4,643
Advisory	15	0	24	0	21	0
<b>Loans by category<sup>1</sup></b>						
Category A	5	1,297	6	1,644	9	1,432
Category B	27	2,183	31	4,063	24	2,274
Category C	10	1,082	15	1,000	9	937
<b>Loans according to scope of EP<sup>2</sup></b>						
Standard transactions	25	2,795	25	3,173	28	2,889
Extended transactions	17	1,767	27	3,534	14	1,754
<b>Loans by region</b>						
Americas	9	491	11	979	9	948
Asia-Pacific	12	2,028	11	1,289	12	1,349
Europe, Middle East and Africa	21	2,043	30	4,439	21	2,346
<b>Loans by industry sector</b>						
Infrastructure	8	1,322	9	1,382	9	853
Mining and metals	0	0	2	104	3	411
Oil and gas	10	1,232	8	1,214	14	1,881
Power	16	1,518	18	2,362	10	931
Telecommunications	3	314	8	439	1	215
Transport	1	1	1	2	2	151
Other	4	176	6	1,203	3	200
<b>Renewables</b>	7	275	6	888	5	477
% of power	44	18	32	38	45	50
% of total	17	6	12	13	7	8
<b>Transactions declined</b>	0	-	0	-	0	-

<sup>1</sup> Category A: Projects with potentially significant adverse social or environmental impacts that are diverse, irreversible or unprecedented.

Category B: Projects with potentially limited adverse social and environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

Category C: Projects with minimal or no social or environmental impacts.

<sup>2</sup> We extend Equator Principles to export credit loans (extended transactions), the procedures for which are presented in our Reporting Guidelines ([www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance)).



# Sustainable Operations

Maintaining sustainable operations will help HSBC to reduce costs and, ultimately, to deliver our Group strategy.

We have been effectively managing our environmental footprint for a number of years and, in 2011, committed to reducing our annual employee carbon emissions by one tonne, from 3.5 to 2.5 tonnes by 2020. Not only is this right for our business, it will also deliver better returns for shareholders and benefit the environment.

## Environmental efficiency targets

In 2008, HSBC set four-year targets to reduce energy, water, waste and carbon dioxide emissions from energy. In 2009, we set a further target to reduce carbon dioxide from business air travel by 20 per cent per full-time employee over three years and, in 2011, our target was to reduce paper usage by four per cent. In the same year, efficiency targets were set for our data centres.

The chart below tracks our progress against all of our environmental targets up to year-end 2011. Not all of the targets were achieved. We have used this experience to ensure that our new targets are fully owned by senior management, are part of the strategy of each business area and are fully resourced internally. As a result, improved environmental performance is now an integral part of delivering our business strategy.

## HSBC environmental efficiency targets

Category	Coverage	Time period	Target	Performance	Comment
<b>Energy</b> (kWh/FTE)	HSBC offices and branches	2008-11	-8%	-5%	Target not met partly due to fluctuations in employee numbers. Total energy use fell by 16% during the period. Large-scale initiatives saw benefits being realised towards the end of the four-year programme.
<b>Carbon dioxide from energy</b> (tonnes/FTE)	HSBC offices and branches	2008-11	-6%	+6%	In 2009, HSBC amended the emission factor for green energy purchased in the UK, effectively adding 100,000 tonnes of carbon to our global emissions. Like for like, emissions decreased by almost 9% during this period.
<b>Water use</b> (m <sup>3</sup> /FTE)	HSBC offices and branches	2008-11	-11%	+11%	Target not met as improved data collection showed high levels of usage in Latin America. Reduction initiatives implemented.
<b>Waste to landfill</b> (tonnes/FTE)	HSBC offices and branches	2008-11	-10%	-29%	Target exceeded due to delivery of a global recycling programme.
<b>Air travel</b> (tonnes/FTE)	Group	2009-11	-20%	+8%	Target not met due to increased travel between our main regional business centres. Internal and short-haul flights have decreased.
<b>Paper</b> (tonnes)	Group	2010-11	-4%	-14%	Target exceeded by reductions in office-based print and customer migration to internet banking and e-statements.
<b>Data centres</b> (improvement in energy efficiency, power usage effectiveness)	8 global data centres	2010-11	+2%	+2%	All eight data centres met or exceeded their 2011 efficiency goals and total power consumption was reduced by 6%.

Data supporting environmental efficiency targets can be found at [www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport)

“By continuing our efforts to drive sustainability within HSBC, not only are we reducing our impact on the environment, we are also increasing our efficiency and supporting HSBC’s strategic goal to be the world’s leading international bank.”

**Sean O’Sullivan**  
Group Chief Operating Officer

### Carbon offsets

HSBC offset its energy use and travel-related carbon emissions in 2011 by purchasing 887,000 high quality verified emission reductions. These offsets have been assured to the Voluntary Carbon Standard.

### End of carbon neutrality

In 2011, following a review we decided that from 2012 the business will no longer be carbon neutral because the regulatory environment and international carbon markets have not developed in the way we envisaged. For example, governments in some countries from which HSBC buys offsets have now set their own carbon reduction/efficiency targets. This increases the risk of offsets being double-counted. Other countries have introduced a local carbon tax, which in effect means paying twice for the same carbon emissions. Finally, the price of carbon has fallen over the last few years. We have, therefore, decided to concentrate our efforts internally, investing US\$5 million (roughly the equivalent of HSBC’s carbon offset budget) in an annual Eco-efficiency Fund.

All of HSBC’s previous offsets, purchased since we became carbon neutral in 2005, have been retired and can be viewed on the Markit Environmental Registry at [www.markit.com](http://www.markit.com).



**5%**

**reduction in energy use 2008-11**

### HSBC’s carbon emissions and offsets resulting in carbon neutrality

Project	Carbon dioxide emissions (tonnes)	
	2010	2011
Emissions from energy use in buildings, including data centres	875,000	833,000
Less US purchased renewable certificates	120,000	104,000
Net emissions from energy use in buildings, including data centres	755,000	729,000
Emissions from business travel	142,000	158,000
Net total emissions	897,000	887,000
Carbon offsets purchased	897,000	887,000

### Statement on HSBC’s carbon emissions and offsets

HSBC’s Reporting Guidance for emissions and offsets is available at [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance). See PricewaterhouseCoopers LLP assurance report, page 32.

### Sustainable operations: a 2020 vision

By 2020, we want to reduce our annual employee carbon emissions by one tonne, from 3.5 to 2.5 tonnes. To do this, we have developed a new 10-point Operational Sustainability Strategy starting in 2012. Our people will have to lead the development of new products, processes and technologies. To inspire new ways of thinking, our Eco-efficiency Fund will support innovative pilot projects aimed at improving efficiency, which have the potential to be deployed across the business.

Amongst international banks, HSBC already has one of the lowest carbon footprints per employee, according to data from the Carbon Disclosure Project. This means we will have to work harder to reduce our carbon emissions further.

We commit to reporting on progress against our 10 goals in this *Sustainability Report* to help our stakeholders – internal and external – to chart our progress against our commitments.



**29%**

**reduction in waste sent to landfill 2008-11**

## HSBC's 10 sustainable operational goals 2012-20

Goal 2020	
<b>1 Sustainability engagement</b>	Engage all operational staff in delivering improved efficiency
<b>2 Supply chain collaboration</b>	Drive innovation and technology in collaboration with suppliers to improve efficiency
<b>3 HSBC Eco-efficiency Fund</b>	US\$5 million annual investment to trial innovation
<b>4 Energy</b>	Reduce annual energy consumption by 1MWh per employee
<b>5 Waste</b>	Recycle 100% of HSBC's office and electronic waste
<b>6 Carbon</b>	Increase self-generated electricity capacity from 0% to 5%; increase energy consumption from renewables from 24% to 40%
<b>7 Green building programme</b>	Internationally recognised certification for our top 50 energy-consuming buildings
<b>8 Group data centres</b>	Achieve an energy efficiency (power usage effectiveness) rating of 1.5
<b>9 Paper</b>	Ensure all of our customers will have access to internet banking and e-statements
<b>10 Travel</b>	Reduce travel carbon emissions per employee

**Overall goal: reduce annual carbon emissions per employee by 1 tonne**

### Supporting change through leadership

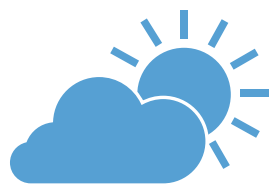
Having the right management structure and, crucially, accountability for environmental efficiency built into our operations is critical to delivering real change.

The first step to delivering our vision was moving responsibility for governing environmental performance from Group Corporate Sustainability to our operational function, HSBC Technology and Services, which was completed in 2011. This function employs approximately a third of our workforce, runs the organisation's entire real estate and IT infrastructure, and is responsible for our US\$17.5 billion supply chain.

Last year, every regional chief operating officer had environmental efficiency targets in their annual performance reviews. This accountability also extended to the heads of IT, real estate and procurement for the HSBC Group.

In 2010, HSBC Technology and Services established a sector-leading 'Sustainability Leadership Programme' for its senior managers. Participants take part in climate research in the field and participate in business-led learning and development sessions focused on sustainability, climate change and improving environmental efficiency.

Over the last two years, 186 senior managers participated in the programme at centres based in China, India, the US and the UK. In 2012, this programme will extend to Latin America. Some 190 senior managers – nearly 30 per cent of the most senior leaders in HSBC Technology and Services – will participate in the programme. Attendance requires all participants to develop individual or collective projects to ensure delivery of the 10 goals contained within the Operational Sustainability Strategy.



**US\$5m**

**annual Eco-efficiency  
Fund to trial innovation**



**1 tonne**

**reduction in annual carbon  
emissions per employee by 2020**

# Valuing our Employees

2011 was a challenging year for our people. In May 2011, we reaffirmed HSBC's strategy, which has led to the realignment of our business. In August, we announced that the Group will eliminate 30,000 jobs by 2013 as part of our organisational design to improve efficiency, while at the same time investing in our faster growing segments which will create new and sustainable job opportunities. We regret all employee losses but believe long-term, sustainable success requires that we remain competitive in an operating environment which continues to be challenging. We ended 2011 with a total workforce of 298,000 full-time and part-time employees compared with 307,000 at year-end 2010 and 302,000 at year-end 2009. Our main centres of employment are the UK, with approximately 51,000 employees, India 32,000, Hong Kong 30,000, the US 24,000, Brazil 24,000, Mexico 19,000, mainland China 17,000 and France 10,000.

### Leadership and HSBC values

At HSBC, we expect our employees to be: dependable, doing the right thing; open to different ideas and cultures; connected with our customers, communities, regulators and each other; and to act with courageous integrity, standing firm for what is right. These values and behaviours are key to ensuring HSBC remains a sound, sustainable and respected organisation, whilst delivering on our strategy.

In 2011, 332 of our senior managers attended seven educational workshops organised on HSBC's values and business principles and the role of leaders in delivering our strategy. As our business undergoes change, we are committed to helping our employees and management, by enabling regular two-way communication about how we are delivering on our strategy and developing skills so they are better equipped to lead business transformation. We have also updated our shareholders and regulators with progress on embedding our HSBC values.

### Employee engagement

We listen to our employees' views through our annual Global People Survey. In 2011, 81 per cent of our workforce participated in the survey. Employee engagement rose one percentage point from 68 per cent in 2010 to 69 per cent in 2011. This is seven percentage points higher than the external global average and two percentage points above the average for the financial services sector.

The survey gives employees the opportunity to feed back their priorities and concerns and we involve them in identifying actions to improve their engagement. Examples of actions taken include encouraging better work-life balance through promotion of flexible working, job sharing and part-time working programmes, and greater emphasis on role modelling values-led behaviour.

In 2012, we are launching a quarterly Pulse survey which will focus on strategy execution, and cultural and behavioural indicators. The survey is designed to enable prompt follow-up on concerns arising.

The Global People Survey will be conducted biennially, with the next one scheduled for 2013.

### An inclusive culture

We remain strongly committed to fostering a meritocratic culture in which all employees have access to career opportunities. We want a workplace where employees believe their views are heard; their concerns are addressed; where bias, discrimination and harassment are not tolerated; and advancement is based on merit and objectivity. Having a diverse and inclusive culture means our employees can thrive and this, in turn, enables HSBC to resource itself with a strong and committed workforce. We improved our score on the Diversity and Inclusion Index in the 2011 Global People Survey from 73 per cent to 75 per cent, which is one point below external global best in class. This index includes the themes of valuing diverse perspectives and individual contribution.

We remain committed to further improvement. An area of focus is gender representation at senior levels of our organisation. We are doing this by addressing bias in hiring, promotions and talent identification; mentoring and sponsorship; better support for returning parents and increasing flexible working opportunities. Women comprised 61 per cent of our permanent headcount in 2011 compared with 60 per cent in 2010.

Our diversity focus is monitored through a Group-level Diversity Committee which has oversight of all diversity activities, supported by similar committees at a local level. We have over 30 employee network groups representing gender, ethnicity, age, sexuality, disability, religion, culture, working parents, health and community volunteering. These groups are instrumental to opening and maintaining effective dialogue between management and our employees.

### Talent management and succession planning

Attracting, retaining and developing our high-performing talent ensures that HSBC is a sustainable business. We have a clear strategy for identifying and developing high performers who have the capability and ambition for leadership in a challenging operating environment across our emerging and developed markets. Our most talented employees drive business performance and make a lasting, positive contribution to HSBC's culture.

Closely aligned to our talent strategy is HSBC's International Manager (IM) programme, which recruits high-performing,



high-potential executives who are globally mobile. There are currently around 430 IMs working in 63 countries across the Group. This programme is currently being reviewed to ensure it complements the Group's updated organisational structure and operating principles. The cultural diversity of our IMs has increased significantly over the last few years. In 1995 IMs were drawn from 15 nationalities and ethnic backgrounds. In 2011, this had increased to over 50 nationalities. These internationally focused executives are important 'culture carriers' in the Group, connecting people and business practices across the world.

We are also focused on developing talent in emerging markets, where competition from local institutions is increasing. Developing local employees into high profile business leaders helps attract and retain local talent. It also benefits our business, as our CEOs often have established networks with local customers and regulators. As an example, of the 19 CEOs in the Asia-Pacific region, 47 per cent are either local or regional nationals, up from 35 per cent in 2010.

### Supporting learning and development

We have continued to develop HSBC's Business School, a single learning portal which offers globally consistent learning and is available in eight languages. Since 2007, we have established six Global Academies, which are aligned to our global businesses, functions and HSBC Technology and Services. In 2011, HSBC delivered approximately 1.2 million learning days, equivalent to 4.3 days per full-time-employee. Forty-two per cent of this learning was delivered online. Sustainability is included within learning delivered to all new joiners. In 2011, around 800 graduates were taken through an on-boarding programme which included training on sustainability.

### Remuneration policy

HSBC's reward strategy focuses on both short-term and sustainable, long-term performance. It aims to reward success, never failure, and considers performance and commensurate reward within the context of our risk appetite statement, which describes and measures the amount and types of risk that HSBC is prepared to undertake in executing our strategy.

In order to ensure alignment between remuneration and strategy, individual remuneration is determined through assessment of performance delivered against annual and long-term objectives summarised in performance scorecards, including adherence to HSBC values. Altogether, performance is judged not only on what is achieved over the short and medium term, but on how it is achieved, as the latter contributes to the sustainability of the organisation.

Full details are given on pages 256-274 of the *Annual Report and Accounts 2011*.

### Managing people risk

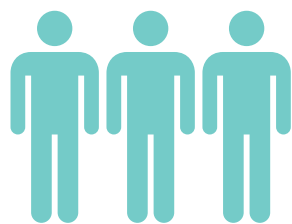
As a responsible business, HSBC defines and manages 'people risk' using a series of metrics. The definition of 'people risk' includes unduly high employee turnover, loss of key staff, lack of succession planning and talent development, and indicators of behaviours which are not compliant with our values. Material risks are assessed and mitigating actions monitored monthly by the Group Risk Management forum.

### Union recognition

We negotiate and consult with recognised unions wherever they represent our employees. The five highest concentrations of union membership are in Argentina, Brazil, mainland China, Malta and Mexico. It is our policy to maintain well-developed communication and consultation with all employee representative bodies and there have been no material disruptions to our operations from labour disputes during the past five years.

### Health, welfare and safety

HSBC regards the physical and psychological health, welfare and safety of its people as being of upmost importance. We have an Occupational Health Framework which brings together internal best practices that are applied across HSBC. To help employees with stress management and work-life balance, employee assistance programmes, such as help lines and counselling services, are widely available.



69%

employee engagement



1.2 million

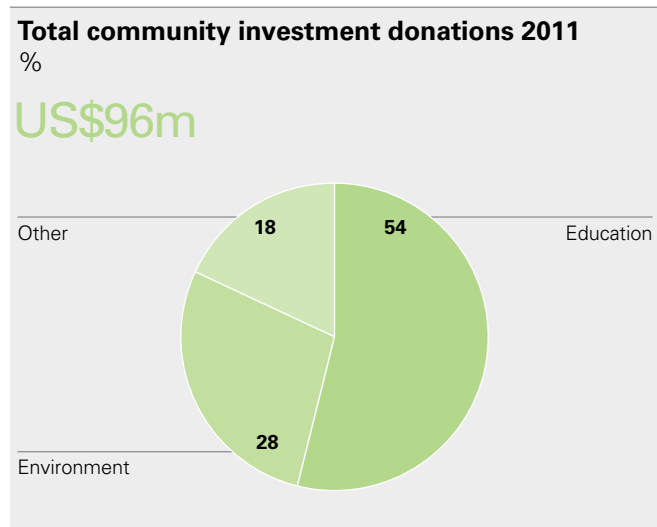
learning days delivered, equivalent to 4.3 days per full-time employee

## Community Investment

Long-term thinking and intergenerational timescales are prerequisites of a truly sustainable organisation. HSBC's strategy is based on assumptions stretching to 2050, incorporating a number of trends already shaping this century, such as increasing global trade and an ageing population.

On page 27 Nick Robins, Head of HSBC Climate Change Centre of Excellence, sets out his view on the trends and opportunities we face over the next 30 years.

We are investing in the long-term future of our communities. In 2011, HSBC donated US\$96 million in total through our community investment programmes. Our primary focus is on helping young people reach their full potential, so they in turn can make a positive contribution to their community and wider society. The second area of focus is the environment. Changing climates and dwindling resources are slow-burning issues, but they have the potential to halt economic development in years to come.



### Our approach

We invest in community projects on behalf of our owners, our shareholders. A broad set of principles is used to guide our donations, based on our approach to philanthropy, our business, and our desire to maximise our impact. In 2011, a panel of non-executive Board Directors, investors and representatives from NGOs, education, social consultancies and business reviewed these principles to ensure they fit with HSBC's values and reflect the needs of our external stakeholders. Their feedback helped us refine our approach to philanthropy. These principles guide the evaluation of the suitability and sustainability of the projects in which we invest:

- **Community programmes should follow themes which are both globally significant and locally relevant**  
This enables the Group to connect across international boundaries, but also allows flexibility for regions and countries to address their own issues.
- **Our approach to philanthropy should be businesslike**  
We should be proactive and make a difference, entering into long-term commitments (typically three to five years) with specific objectives.
- **We should use our skills as well as our money**  
This means becoming an active contributor to social investment; for instance, considering debt and equity investments with a social purpose.
- **Our community investment programmes should use and engage our people**  
We want our employees to take their skills into the NGOs and the communities we work with and to learn from them.

"As an international bank, we have a responsibility to invest in the long-term prosperity of the communities we serve. We focus on young people – our future employees, customers, regulators and investors – helping them to reach their full potential. We also focus on environmental partnerships, recognising that global economic growth has a fundamental impact on the physical world."

**Simon Martin**

Head of Group Corporate Sustainability

## Education programmes: investing in the next generation

HSBC recognises the value of education – and the life-changing opportunity it brings. Education is also a fundamental building block to driving economic development, helping to create thriving communities. In 2011, we invested US\$52 million in education projects across the world.

Our programmes and partnerships help young people to reach their potential by providing access to education, developing life-skills and entrepreneurship, and discovering cultures and the natural world.

### Access to education

According to the UN, an estimated 69 million children of primary school age across the world are not attending school. Where formal education is not a given, we focus on access for the most disadvantaged children, providing opportunity where none would otherwise exist. In countries where education is available, we focus on those most at risk of dropping out of the formal education system, recognising that intervention at this stage of a young person's development can change the course of his or her life. We also invest in scholarship funding, with the aim of breaking down the barriers which can stop the most able students moving on to higher education.

Established in 2006, Future First is a partnership between HSBC and SOS Children's Villages and other not-for-profit organisations. Together, these charities provide some of the world's most marginalised and impoverished young people with access to education and life-skills. SOS Children's Villages receives approximately US\$1 million per year from HSBC and bases its work on the family structure. Where it is not possible for a child to stay with his or her family, the charity places groups of seven to 10 children with a permanent SOS mother, making a family for life. About a dozen SOS families create a 'village', which then works to help the wider community with the facilities they need, including education.

In the last five years, HSBC has donated US\$13 million to Future First, helping nearly 541,000 children in 55 countries. In 2011, we pledged US\$15 million over the next five years to develop the work of Future First in helping children at risk,



# 17,000

**young people benefiting from HSBC  
scholarships and bursaries across the  
world in 2011**

*"Through Future First, HSBC has given educational opportunities to thousands of children around the world. Children come to SOS Children's Villages because of poverty, disease, natural disaster or conflict. As they grow up and are about to embark on independent adult life, they need training and education. HSBC is helping to provide this and really contributing to breaking the cycle of poverty. Through the partnership between SOS Children's Villages and HSBC, our staff work together and we see again and again how a long-term relationship like this can have a genuinely transformational impact on the individuals involved, and on the way in which our organisations work."*

**Richard Pichler**

Secretary General, SOS Children's  
Villages International

in addition to street children, children in care and orphans. The programme has been extended to six new countries, including Bahrain, Guatemala and Zambia, and aims to support over one million children.

Every year, HSBC funds more than 17,000 scholarships and bursaries for young people across the world. In 2011, we announced funding of more than US\$19 million over five years to help disadvantaged students attend leading schools and universities in England. This programme is based on research showing that targeted educational philanthropy could help the educational future of young people. The Scholarship Programme – funding over 200 places at 20 leading independent schools – will increase the pool of high-achieving sixth formers from disadvantaged backgrounds to meet the entry requirements of top universities. Working with six of the UK's top institutions, HSBC's University Scholarship Programme will also support 90 bright students from less-wealthy backgrounds by match-funding their tuition fees.

### Life-skills and entrepreneurship

The second strand of our educational support focuses on helping young people already in education navigate the world of business and finance, and enhance their life-skills. This can range from developing young people's financial literacy skills in the US, to helping children's emotional well-being in Latin America and China.

Junior Achievement is the world's largest organisation dedicated to educating young people about financial literacy. Over the last three years, HSBC has invested over US\$5 million supporting JA More than Money®, which teaches students about earning, spending, sharing and saving money, and starting a new business. This programme operates in 38 countries, many of which are our key markets, such as Brazil, China, India, the UK and the US, as well as in

### Case study: SOS Children's Villages

Adeline Gouenon was just three when she was abandoned in a busy market-place in Abidjan, the commercial capital of the Ivory Coast. She was taken to the local police station. After a year in a state nursery, Adeline moved to a SOS Children's Village, where she was cared for and her talents nurtured.

Today, Adeline is a talented sportswoman, studying sports development at Loughborough University in the UK. Through HSBC's support of SOS Children's Villages, Adeline is on an HSBC scholarship covering part of her course fees, accommodation and living expenses for three years.

Adeline has been selected to run trials for the Ivorian Olympic team as a junior and may be selected for the Ivorian Olympics senior team. Whatever the outcome, Adeline's sights are set firmly on qualifying for the 2016 Olympics in Rio de Janeiro, Brazil. She explains: 'I want to do well for my SOS family, my SOS mother and my country. They helped me to get where I am now and I want them to be proud of me.'

Eastern Europe and other parts of Latin America. To date, some 3,000 HSBC employees have helped over 179,000 primary school children aged seven to 11 learn about managing money.

Some 260 HSBC volunteers have joined forces with Junior Achievement in 10 Latin American countries to run Climate Entrepreneurs, a programme that promotes entrepreneurship amongst students and help them to face the dual challenges of economic development and climate change. The programme has so far involved 4,291 students in 58 schools.

HSBC Young Entrepreneur Challenge is a regional business plan competition for tertiary students that nurtures entrepreneurship amongst talented students in the emerging markets. Since it started in 2000, about 8,000 innovative business ideas have been generated by over 21,000 young people. In 2012, HSBC offices in Bangladesh, Brunei, Hong Kong, Malaysia, Thailand and Indonesia will participate and students from the winning teams will compete in the Asia-Pacific regional final in Hong Kong. The regional champion team will receive a cash prize of US\$6,423. All of the finalists will attend a five-day programme to develop their entrepreneurial spirit.

With the rapid industrialisation and urbanisation taking place in China, millions of rural labourers – who are often young and lack adequate education or vocational skills – are now living and working in large cities. Partnering with the Shanghai Charity Foundation, in 2008 HSBC launched the 'Share of the Sun' programme, providing education diplomas, vocational training, computer skills and job references for these people. By the end of 2011, we had invested US\$900,000 in the project, supporting 11,300 young rural migrants.

Zippy's Friends is a programme helping children aged between five and seven years to develop social skills. Using stories about Zippy, a stick insect, children learn how to cope with emotions such as anger and grief, enabling them to

better handle problems and crises in adolescence and adult life. HSBC supports Zippy's Friends in nine Latin American countries including Argentina, Brazil, Mexico and Panama, where we have trained 331 teachers in 25 cities. We also support the programme in China, Hong Kong and the UK. Over 130,000 children have now completed the Zippy's Friends programme.

### Discovering languages, cultures and the natural world

The third strand to our education work is helping children around the world connect to new cultures and their environment. As an international bank, we recognise that understanding different cultures is a vital part of encouraging cross-border business.

Through our work with the British Council, we have been developing stronger links between schools in England and China by funding the cost of training Chinese language assistants, enabling them to teach in UK schools for an academic year. Since 2000, 607 qualified teachers from China, supported by HSBC, have taught at more than 1,000 schools. For the last nine years, together with the British Council we have supported an annual competition to promote the teaching of Mandarin in UK schools. During this time, 70 winners have travelled from the UK to China to learn more about the language and Chinese culture.

Run by the Indian Government's Department of Science and Technology, the 'Science Express' is a free, innovative science exhibition shown on a specially designed train, which travels across the country. In 2011, we supported the project through a US\$55,000 grant, helping 1.2 million visitors learn more about how science is enabling society to deal with the challenges of the 21st century through new technologies such as renewable energy and bio-engineering.

To help children understand their role in helping to create a more sustainable world, HSBC works with the Foundation for Environmental Education across 14 countries, supporting the Eco-schools programme. Eco-schools is an international award-winning programme that empowers students to create a more sustainable world. So far the project has involved 900 HSBC employee volunteers, reaching one million young people.

### Environmental programmes

HSBC invests in environmental partnerships because we understand that continued economic development is likely to have a significant impact on the world's eco-systems and resources. In 2011, the world's population was estimated to have passed seven billion people. As a result, atmospheric carbon dioxide levels are rising, urbanisation is causing increased pollution, and natural resources are being depleted. Understanding the impacts of these changes and putting in place strategies to deal with them will benefit generations to come. In 2011, we spent US\$27 million on environmental projects.

Last year also saw the conclusion of the HSBC Climate Partnership, a five-year, US\$100 million programme. You can read more about the Partnership's achievements overleaf.

## Looking after our people, customers and communities

Sadly, last year saw a number of disasters affecting our staff and communities. Whenever such an event occurs, our first priority is to check whether our employees and their families are safe, sometimes flying teams to affected areas to help with practical aspects of disaster relief, such as finding accommodation. We also offer interest-free loans to affected staff, as well as non-monetary support, including flexible working arrangements, compassionate leave and temporary accommodation.

We communicate updates to colleagues around the Group as quickly as possible after the disaster, posting news on our intranet sites and broadcasting follow-up stories through our internal TV channel, HSBC NOW.

We also try to support our customers who have been affected. In response to the New Zealand earthquakes in 2010 and 2011, HSBC Insurance sponsored specialists to assist the authorities in Christchurch to process 90,000 home contents claims. After the Japanese earthquake in March 2011, HSBC Insurance extended its additional cover for affected travellers.

We support affected communities at a local and global level. For instance, HSBC staff and customers in Brazil provided food and assistance for victims of the 2011 storms in Rio de Janeiro and Minas Gerais, as well as donating to partner organisations such as the Red Cross and CARE Brazil. When disasters strike areas where HSBC has little or no representation, such as the earthquake in Haiti or famine in East Africa, we offer support at a Group level and, in 2011, donated over US\$1.25 million to charities providing disaster relief. We also partner with the Disaster Relief Fund to help customers donate directly.

Events in the Middle East also affected our staff and branches during 2011. HSBC monitored the situation very closely to ensure our staff, customers and property remained safe.

### Donations by ATM

HSBC is the only UK bank to offer an ATM donation scheme. In operation since 2006, our customers and employees can make donations to six chosen national charities when they use an ATM. We also include other organisations as beneficiaries in times of urgent need; for example, enabling customers to contribute to disaster relief appeals. In 2011, donations of over US\$800,000 were made this way. In Mexico, our customers donated more than US\$2.6 million through ATMs and, in Brazil, credit card donations from customers amounted to almost US\$5 million.

## Looking to 2050

### Preparing for the next wave

The world has entered a period of economic permafrost, according to HSBC's Group Chief Economist Stephen King. This has compounded the mood of gloom hanging over low-carbon investment since the Copenhagen climate summit in 2009. The excitement generated by 'green stimulus' plans has given way to 'green austerity' as governments curb subsidies as part of spending cuts. If this wasn't enough, concerns are rising that financial reforms could unwittingly curb appetite for long-term environmental infrastructure assets.

Yet this is only a partial picture of the prospects for the global climate economy. Many of the dark clouds of economic depression are tinged with emerald linings. For example, the costs of key clean technologies, such as LED lighting and solar power, have plummeted and continue to fall. The day when so-called alternatives become the new conventional is coming ever closer. In emerging markets with huge unmet energy needs, such as China and India, the arrival of price parity for solar will overturn assumptions about the inevitability of continued expansion of high carbon coal-fired power. Add in rising concerns about water availability in these countries, and the prospects for water smart technologies such as wind and solar become even more compelling. And the most resource productive source of all is efficiency, with the economic giants on either side of the Himalayas putting this at the heart of energy policy.

Looking to 2050, we see a new energy economy starting to take shape, using nearly 40 per cent less energy and half the fossil fuels than an 'if only' scenario that takes no account of increasingly constrained resources of natural capital. For this to happen, investment-grade policy is required which provides reliable signals, delivers full cost pricing and integrates sustainability factors into company and country metrics (such as annual reports and GDP forecasts). Doing this will create unprecedented trade and investment opportunities, particularly in the emerging world, which we expect to lead the coming wave of climate innovation and deployment.

#### Nick Robins

Head of HSBC Climate Change Centre of Excellence



## Conclusion of the HSBC Climate Partnership

### The Partnership's achievements

Five years ago, we launched the HSBC Climate Partnership (HCP), a ground-breaking programme committing US\$100 million to four leading environmental organisations: The Climate Group, Earthwatch Institute, Smithsonian Tropical

Research Institute and WWF. The project focused on helping people, forests, freshwater and cities adapt to a changing climate and reduce the build-up of carbon. The programme set ambitious targets to effect lasting change at a global and local level, and within HSBC itself. The programme concluded in 2011 and some of its many achievements are detailed below.

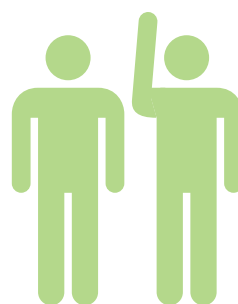
#### HSBC Climate Partnership targets 2007-11

	Achieved	Delivered
2,200 Climate Champions trained	✓	2,267
33,000 days volunteered by employees, helping local projects	✓	63,250
140,000 people with improved scientific understanding as a result of published HCP research	✓	23.7 million reached through journals and newspapers
4.2 million hectares of habitat adapted to impacts of climate change	✓	21.7 million
54 species decline halted or reversed	✓	54
32 million people with access to cleaner water	✓	32 million
500 million cubic metres of rivers with increased flood protection	✓	2,768 million cubic metres
48 corporations pursuing lower carbon solutions	✓	120
10 city authorities implementing climate change reduction strategies	✓	20



32 million

people have access to cleaner water



63,250

days volunteered by HSBC employees

## The Partnership's legacy

An important part of HSBC's philanthropic approach is to be proactive and make a difference. The HSBC Climate Partnership has created a remarkable legacy. Working side-by-side, scientists and HSBC employees have participated in the world's largest forest research project. This unique database will benefit policy makers and academics for years to come. The Partnership also established five global research centres focused on forest ecosystems and climate change. This research will also continue to provide a fully sustainable source of information.

Research funded by the Partnership is also helping scientists quantify carbon in forests in Latin America, Asia, North America and Europe. This will lead to an increased understanding of forest-climate interactions and the role of forests in the global carbon cycle, which will result in effective climate-change adaptation and mitigation strategies. The programme's legacy is already extending to the next generation of students. To date, 47 international students have based their theses on HSBC Climate Partnership research.

The Partnership has established an international network of 74 businesses and cities across developed and emerging economies, creating partnerships which will help to drive low carbon growth. Partnership funding has also contributed to establishing climate change as a key business and policy

issue, particularly in China and India, which have the potential to secure a new generation of clean technologies on a massive scale.

The Partnership's work led to the development of new water policies in China, India, Brazil and the UK. These policies will enable water to be managed more sustainably in the light of climate change. Sustainable fishing and farming models have also been put in place in the Yangtze and Ganges river basins, which could financially benefit over 100,000 people. Restoring wetlands and reducing pollution in rivers and lakes means water supplies for 32 million people have been improved, and over 50 million people have been reached by public campaigns about energy and water efficiency, which we hope will result in personal action.

The Partnership also endures within HSBC itself. The programme created a global community of 2,267 employees called Climate Champions. Each Champion spent time out of the office learning about the actions needed to make a positive impact on our environment, knowledge which was shared with colleagues, friends and family. Our Climate Champions continue to bring the benefit of their training and knowledge to our business. Many of their projects still deliver tangible efficiencies to our operations and many communities continue to benefit, too.

You can read more about the Partnership in a book written to celebrate the collaboration, *The HSBC Climate Partnership: Notes from a five-year journey*, at [www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport).



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**world's biggest cities cutting carbon emissions more quickly**



153,000

**trees measured in world's largest forest project**



2,267

**HSBC Climate Champions trained in sustainability**



21.7 million

**hectares of habitat helped to adapt to climate change**

# Key Facts

	Units	2011	2010	2009
Number of countries and territories with HSBC offices		<b>85</b>	87	88
Total number of employees including part-time (at year-end)		<b>298,000</b>	307,000	302,000
Full-time equivalent (FTE) number of employees (at year-end)		<b>288,316</b>	295,061	289,485
Number of customers		<b>89 million</b>	95 million	100 million
<b>Benchmarks</b>				
Dow Jones Sustainability Index (since 2001)		<b>member</b>	member	member
FTSE4Good (since 2001)		<b>member</b>	member	member
Interbrand top 100 brands position		<b>32nd</b>	32nd	32nd
Brand value: Interbrand	US\$b	<b>11.8</b>	11.6	10.5
Top 500 bank brands: <i>The Banker</i> magazine		<b>1st</b>	3rd	1st
<b>Economic</b>				
Total operating income	US\$m	<b>83,461</b>	80,014	78,631
Profit before tax (on reported basis)	US\$m	<b>21,872</b>	19,037	7,079
Net cash tax outflow	US\$b	<b>8.0</b>	5.8	5.2
Distributions to shareholders and minority interests	US\$b	<b>8.3</b>	7.1	6.5
Employee compensation and benefits	US\$b	<b>21.2</b>	19.8	18.5
General administrative expenses including premises and procurement	US\$b	<b>17.5</b>	15.2	13.4
<b>Social</b>				
<b>Headcount</b>		<b>298,000</b>	307,000	302,000
by employment type				
– Full-time	%	<b>91.7</b>	91.8	90.9
– Part-time	%	<b>8.3</b>	8.2	9.1
by employee contract				
– Permanent	%	<b>99.2</b>	99.0	99.4
– Temporary	%	<b>0.8</b>	1.0	0.6
by region				
– Europe	%	<b>26.6</b>	26.0	27.0
– Asia-Pacific	%	<b>40.6</b>	39.4	38.4
– North America	%	<b>11.0</b>	11.7	12.7
– Latin America	%	<b>19.0</b>	18.9	19.0
– Middle East	%	<b>2.8</b>	4.0	2.9
<b>Employee turnover</b>				
– Europe	%	<b>15.2</b>	15.5	14.6
– Asia-Pacific	%	<b>22.1</b>	22.1	17.9
– North America	%	<b>22.6</b>	19.4	31.6
– Latin America	%	<b>19.4</b>	16.5	21.4
– Middle East	%	<b>16.8</b>	12.3	14.4
– All staff	%	<b>19.7</b>	18.6	19.4
<b>Gender</b>				
by management type				
– Senior managers: male / female	%	<b>86/14</b>	86/14	87/13
– Middle managers: male / female	%	<b>67/33</b>	68/32	69/31
– Junior managers: male / female	%	<b>53/47</b>	53/47	54/46
– All staff: male / female	%	<b>39/61</b>	40/60	40/60
by region				
– Europe: male / female	%	<b>45/55</b>	45/55	45/55
– Asia-Pacific: male / female	%	<b>49/51</b>	49/51	49/51
– North America: male / female	%	<b>41/59</b>	41/59	40/60
– Latin America: male / female	%	<b>47/53</b>	47/53	47/53
– Middle East: male / female	%	<b>59/41</b>	67/33	68/32
<b>Health and safety</b>				
Number of employee workplace fatalities		<b>0</b>	0	0
Accidents involving more than 3 days' absence per 100,000 employees		<b>51</b>	120	70
All accident rate per 100,000 employees		<b>386</b>	548	458

	Units	2011	2010	2009
<b>Community investment</b>				
Cash charitable donations <sup>1</sup>	US\$m	96.1	107.7	101.3
Europe <sup>2</sup>	US\$m	51.4	62.8	53.8
Asia-Pacific (including Middle East and Africa)	US\$m	16.4	14.7	14.4
North America	US\$m	16.7	19.4	22.2
Latin America	US\$m	11.6	10.8	10.9
Employee volunteering in own time	hrs	464,869	404,220	271,000
Employee volunteering in work time <sup>3</sup>	hrs	271,611	275,031	285,332
Europe	hrs	95,654	69,539	81,703
Asia-Pacific (including Middle East and Africa)	hrs	97,723	126,496	135,631
North America	hrs	50,220	55,587	52,137
Latin America	hrs	28,015	23,409	15,861
Value of employee volunteering hours in work time	US\$m	8.5	8.0	7.7
Management costs associated with community investment	US\$m	11.1	12.0	14.9
Total value of community investment	US\$m	115.7	127.7	123.5
Allocation of cash donations				
Education	%	54	50	45
Environment	%	28	34	29
Other	%	18	16	26

<b>Environment</b>				
Reporting coverage as % of Group	%	95	94	95
<b>Carbon dioxide emissions</b> (after uplift and scale up) <sup>4</sup>				
Total CO <sub>2</sub> emissions	tonnes	991,000	1,017,000	991,000
CO <sub>2</sub> emissions from energy	tonnes	833,000	875,000	866,000
CO <sub>2</sub> emissions from business travel	tonnes	158,000	142,000	125,000
Total CO <sub>2</sub> emissions per FTE	tonnes	3.44	3.45	3.42
CO <sub>2</sub> emissions per FTE from energy	tonnes	2.89	2.97	2.99
CO <sub>2</sub> emissions per FTE from business travel	tonnes	0.55	0.48	0.43
CO <sub>2</sub> emissions per m <sup>2</sup>	tonnes	0.17	0.17	0.16
<b>Carbon dioxide emissions</b> per FTE by region (before uplift and scale up)				
Total CO <sub>2</sub> emissions per FTE				
Europe	tonnes	3.76	3.79	3.51
Asia-Pacific	tonnes	3.01	3.00	2.98
North America	tonnes	4.6	4.74	5.33
Latin America	tonnes	2.24	2.16	2.19
Middle East	tonnes	5.83	5.63	4.24
<b>Environmental resource efficiency</b> (before uplift and scale up)				
Total energy consumption	gigawatt hours	1,690	1,789	1,812
Energy consumption per FTE	kWh/FTE	6,184	6,426	6,593
Energy consumption per m <sup>2</sup>	kWh/m <sup>2</sup>	294	299	299
Total electricity consumption	gigawatt hours	1,476	1,520	1,523
Primary fuel sources (gas, oil, diesel, etc)	gigawatt hours	214	269	289
Total waste produced	kilotonnes	61	66	62
Waste disposed	kilotonnes	22	25	24
Waste disposed per FTE	tonnes/FTE	0.08	0.09	0.09
Waste recycled	kilotonnes	39	41	38
% waste recycled	%	64	62	61
Total water consumption	thousand m <sup>3</sup>	4,773	4,770	4,474
Water consumption per FTE	m <sup>3</sup> /FTE	17.5	17.1	16.3
<b>Business travel</b> (before uplift and scale up)				
Total business travel	million km	1,002	1,014	872
Business travel per FTE	km/FTE	3,668	3,641	3,175
Air travel	million km	749	762	624
Domestic air travel	million km	71	65	56
International air travel	million km	678	697	568
Rail travel	million km	42	34	26
Road travel	million km	148	153	167
Other travel	million km	63	65	56

1 For comparison purposes, currency values have been restated to reflect the position had foreign currency rates remained constant.

2 Includes donations for global programmes, of which US\$33.4 million was spent outside of Europe.

3 2010 figure restated due to enhancement in data collection processes.

4 For the purpose of ensuring carbon neutrality, these figures have been scaled up to represent 100% coverage and adjusted for uncertainty factors. The figures represent the total emissions before deductions of US renewable energy certificates.

# Assurance Report

## Independent Assurance Report to the Directors of HSBC Holdings plc

We have been engaged by the Directors of HSBC Holdings plc (HSBC) to perform a limited independent assurance engagement in respect of information set out below and included in the HSBC *Sustainability Report* for the year ended 31 December 2011.

### What we did and our conclusions

We planned and performed our limited assurance work, summarised below, to obtain the evidence we considered necessary to reach our assurance conclusion on the Selected Information (as defined below). The scope of our work was restricted to the Selected Information for the year ended 31 December 2011 and does not extend to information in respect of earlier periods or to any other information in the *Sustainability Report 2011*.

### What we are assuring ('Selected Information')

The Selected Information subject to our limited assurance procedures consists of:

- Statement on the application of the Equator Principles on page 18.
- Statement of HSBC's emissions and offsets resulting in carbon neutrality on page 20.

### How the information is assessed ('Reporting Guidance')

HSBC's Reporting Guidance at [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance)<sup>i</sup> sets out how the Selected Information is prepared and reported.

### Professional standards applied<sup>ii</sup> and level of assurance<sup>iii</sup>

ISAE3000 and ICAEW Code of Ethics.  
Limited assurance.

### Understanding reporting and measurement methodologies

There is not yet generally established practice for evaluating and measuring the Selected Information. The range of different, but acceptable, techniques used can result in materially different reporting outcomes that may affect comparability with other organisations. It is therefore important to read and understand the Reporting Guidance set out at [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance)<sup>i</sup> that HSBC has used to evaluate and prepare the Selected Information.

### Work done

We performed the following activities:

- Making enquiries of relevant HSBC management;
- Evaluating the design of the key processes and controls for managing, recording and reporting the Selected Information. This did not extend to testing that the controls operated as intended for the period under review;
- Limited substantive testing on a selective basis of the Selected Information documentation and management information, at operational and corporate levels; and
- Assessing the disclosure and presentation of the Selected Information.

### HSBC's responsibilities

The Directors of HSBC are responsible for:

- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- Establishing objective assessment and Reporting Guidance for preparing the Selected Information;
- Measuring HSBC's performance based on the Reporting Guidance; and
- The content of the *Sustainability Report 2011*.

### Our responsibilities

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- Forming independent conclusions, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusions to the Directors of HSBC.

### Our conclusions

**As a result of our procedures nothing has come to our attention that indicates the Selected Information for the year ended 31 December 2011 has not been prepared in all material respects with HSBC's Reporting Guidance.**

This report, including our conclusions, has been prepared solely for the Directors of HSBC Holdings plc as a body in accordance with the agreement between us, to assist the Directors in reporting HSBC's sustainability performance and activities. We permit this report to be disclosed in the *Sustainability Report* for the year ended 31 December 2011, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and HSBC for our work on this report except where terms are expressly agreed between us in writing.

**PricewaterhouseCoopers LLP**  
Chartered Accountants, London  
11 May 2012

<sup>i</sup> The maintenance and integrity of the HSBC website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Principles when presented on HSBC's website.

<sup>ii</sup> We comply with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board (IAASB), and with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics. To comply with those standards, our work was carried out by an independent and multi-disciplinary team of sustainability and assurance specialists.

<sup>iii</sup> Assurance, defined by the IAASB, gives the user confidence about the subject matter assessed against the reporting criteria. Reasonable assurance gives more confidence than limited assurance, as a limited assurance engagement is substantially less in scope in relation to both the assessment of risks of material misstatement and the procedures performed in response to the assessed risks.



# About this Report

The HSBC Holdings plc *Sustainability Report* is written primarily for institutional investors, customers, non-governmental organisations (NGOs) and others with a particular professional interest in the Group's approach to sustainability. It focuses on the specific environmental and social issues that contribute to the sustainability of HSBC, and are of ongoing interest to our stakeholders.

We provide publications for other audiences, as well as case studies and other material to supplement this report, on our web site at [www.hsbc.com/sustainability](http://www.hsbc.com/sustainability).

This report supplements the HSBC Holdings plc *Annual Report and Accounts 2011* and *Annual Review 2011*. The *Annual Report and Accounts* covers HSBC's full financial performance and corporate governance policies and is available online at [www.hsbc.com/financialresults](http://www.hsbc.com/financialresults). The *Annual Review* is a summary of information in the *Annual Report and Accounts*, and is also available at [www.hsbc.com/financialresults](http://www.hsbc.com/financialresults).

This report covers the financial year from January to December 2011. In some cases, information for early 2012 is also included to give an up-to-date picture. Facts and figures refer to the HSBC Group unless indicated otherwise.

We welcome feedback from readers. Contact details can be found opposite.

## Reporting standards and assurance

We use a number of external standards and guidelines in the development of this report. To guide our selection of information to report, we have consulted the Global Reporting Initiative's (GRI's) reporting framework and Financial Services Supplement. Our GRI table of contents can be found online at [www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport). We draw on guidance from the Greenhouse Gas Protocol for our carbon reporting.

For the fourth consecutive year, we have appointed PricewaterhouseCoopers LLP to provide independent assurance on selected information in our *Sustainability Report 2011* covering carbon emissions and related offsets, and our application of the Equator Principles. Their assurance is performed in accordance with the internationally recognised standard ISAE3000, against a clear and public set of criteria which can be found online at [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance). The PricewaterhouseCoopers LLP assurance report is on the page opposite.

## Targets and commitments

We continue to report our performance against established targets and commitments. For this year, we have outlined our future goals and direction in each section without setting new formal commitments. This is a more accurate expression of our strategy, as most of our important initiatives span a longer period than a year.

## Contact us

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**[www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport)**

The HSBC *Sustainability Report* is published annually. Our last report was published in May 2011.

## Photography

Group Chairman, page 2: George Brooks

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