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## HSBC's awards in 2010

- Runner-up 'Sustainable Bank of the Year': *Financial Times*
- Guia Exame de Sustentabilidade 2010 (Exame Sustainability Guide), Brazil
- Best in Class Corporate Sustainability Award – Hong Kong: Benchmark Wealth Management Awards
- Outstanding Green Excellence Award: *Capital Monthly, Hong Kong*
- Environmental Leadership and Special Achievement Awards: WWF Philippines

# About this Report

“We report on the seven priorities which we believe are core to the long-term success of HSBC.”

**Narayana Murthy**

Chairman of Corporate Sustainability Committee

**Founded in Hong Kong and Shanghai in 1865, HSBC today serves around 95 million customers in 87 countries and territories around the world. Headquartered in London, we do business in Asia, Europe, the Middle East, Africa, Latin America and North America. HSBC was profitable in all regions in 2010.**

## Reporting throughout the year

**We participate in research from the following organisations:**

BankTrack
Carbon Disclosure Project
EIRIS
Ethibel
Oekom
RiskMetrics
Sustainable Asset Management
Sustainalytics
Vigeo



We publish a range of publications, 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).

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.

This report focuses on the specific environmental and social issues that contribute to the sustainability of HSBC, and are of ongoing interest to our stakeholders. It supplements the *Annual Report and Accounts 2010* and the *Annual Review 2010*. The *Annual Report and Accounts* covers HSBC's financial performance and corporate governance policies and is available online at [www.hsbc.com/financialresults](http://www.hsbc.com/financialresults).

We report on the financial year January to December 2010. In some cases, where highlighted, information for early 2011 is also included to give an up-to-date picture. Facts and figures refer to the Group unless indicated otherwise.

In 2010, we held meetings with some of our top 50 institutional investors in London, Paris and Frankfurt to update them on our approach to sustainability, hear their feedback on our priorities and performance, and answer their questions. We also met around 25 NGOs at Group level alone to share views on topics related to banking and sustainability. This report is based on an understanding of our stakeholders' expectations, informed by those discussions. As a result, we have chosen to focus on the following issues:

- Contribution to the economy
- Supporting our customers
- Valuing our employees
- Climate business
- Risk management
- Investing in communities
- Environmental efficiency in our operations

We welcome feedback from readers. Contact details can be found on page 24 of this report.

### Reporting standards and assurance

We use a number of external standards and guidelines in the development of this report. These include the Global Reporting Initiative's (GRI's) reporting framework and Financial Services Supplement. Our GRI table of contents can be found at [www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport).

We draw on guidance from the Greenhouse Gas Protocol for our carbon reporting. We have continued to use the Connected Reporting Framework developed by the Prince of Wales's Accounting for Sustainability Project, which can be found at [www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport).

For the third consecutive year, we have appointed PricewaterhouseCoopers LLP to provide independent assurance on selected information in our *Sustainability Report 2010*: our carbon emissions and related offsets, and 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 at [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance). The PricewaterhouseCoopers LLP assurance report is on page 23.

### 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 time-frame than one year.

# Group Chairman's Introduction



**Douglas Flint** Group Chairman

“Sustainability must lie at the heart of any business if it is to achieve the long-term success that allows it to contribute to the economic well-being of society.”

I believe sustainability must lie at the heart of any business if it is to achieve the long-term success that allows it to contribute to the economic well-being of society. I view sustainability as core to the way we operate at HSBC and recognise that we have a responsibility that spreads far wider than simply being profitable.

For HSBC, sustainability is about running our business for the long term; it is about investing in customer relationships; it is about ensuring that our governance is robust; and that our risk appetite is prudently managed. This approach allows us to contribute to socio-economic development and environmental protection in a number of ways. Through our day-to-day business activities we support individuals and organisations in achieving their financial goals; we provide employment for 307,000 colleagues; we pay taxes in the countries where we operate; and we invest directly in communities through our education and environment programmes which contributed almost US\$108 million in 2010.

HSBC has reported annually on the philanthropic programmes we support and more recently, under my predecessor Stephen Green's stewardship, we have invested in and reported on our approach to longer term issues such as climate change. This work is ongoing and this report details our management of these issues.

I want to stress the importance of our customers and the role I expect my colleagues around the world to play in running our business sustainably. We help our customers meet their objectives by addressing their evolving financial

needs and improving their experience of doing business with HSBC. Equally, we expect our employees to play their part by using good judgement, supporting each other and their communities and being responsive to customers.

I believe that this approach to business can enhance our reputation, create greater 'engagement' among employees, increase revenues and reduce risk, ultimately delivering sustainable value to our shareholders.

This report sets out what sustainability means to HSBC in more detail and looks at some of the work we are doing around the world, ranging from the way we do business with our customers, to the work we do to help communities prosper. It includes our work to embed a responsible culture within the business and the steps we are taking to tackle climate change.

## **Investing in customer relationships**

The economic downturn that has followed the financial crisis has inevitably put pressure on the finances of some of our customers. We have worked hard to help customers adversely affected by the downturn, restructuring lending where possible, and remaining open for business.

In the UK, for example, our lending criteria have not materially changed in the last two years and we have continued actively to look for new business opportunities. We increased our support for UK exporters, growing international trade finance by 13 per cent and using our global network to make new connections between customers in different markets.

In Asia, HSBC is actively participating in local government loan schemes, helping small and medium-sized enterprises (SMEs) to recover, consolidate and grow. For example, we offered US\$3.9 billion of credit facilities to SMEs in the Hong Kong SAR, Singapore, Taiwan and Malaysia. This report provides many more examples of how we have worked to help our customers.

## **Community investment programmes**

The financial crisis has highlighted, among other things, the need for better financial literacy so that people can understand and manage their own finances. This is one of the goals of our education programme. JA More Than Money™ supported financial education and business literacy training programmes across 28 countries in 2010.

We also invest in educational projects around the world for disadvantaged

youngsters, believing that access to education offers the best opportunity for prosperity in the years ahead. Many of these projects are in the world's emerging markets, where we expect to see the fastest economic growth in the next few decades, and where HSBC has a strong presence. Our flagship Future First programme provides education and life skills training to disadvantaged children and, in 2010, supported children in 39 countries. We allocate 50 per cent of our community investment donations to educational projects.

In addition to the financial support we give to community programmes around the world, in 2010, we contributed 321,000 hours of employee time to community projects. This helps my colleagues to build closer relationships with their local communities, which benefit from their time and skills, and also means HSBC retains people who are motivated and more engaged in our business.

Beyond philanthropic activities, we also work with partners to offer financial services to customers who fall under the radar of the traditional banking model. We support microfinance institutions in Asia and Latin America, empowering individuals to gain financial independence and help their communities to prosper.

### **The challenges and opportunities of climate change**

Tackling climate change is one of the biggest challenges the world faces over the next few decades, and the steps we are taking to mitigate our direct and indirect impacts are covered, as usual, in this report. You will also find an update on the HSBC Climate Partnership, our flagship environmental programme.

While we acknowledge the challenges posed by climate change, we should also recognise the opportunities it will create. We estimate that the size of the 'climate business' sector – the value of products and services linked to climate change – is now more than US\$530 billion, and could exceed US\$2 trillion by 2020.


We believe HSBC is well positioned to play a leading role in this sector. In 2010, we continued our work to identify and maximise new business opportunities and technologies which will pave the way to a low carbon economy. The HSBC Climate Change Centre of Excellence continued to identify the technologies and companies which will drive this transition, and we established specialists in our Global Banking and

Markets division dedicated to renewable energy and 'clean-tech' equipment financing.

We have seen an increase in 'climate business' transactions. For example, in 2010 we led a US\$350 million investment in Better Place, a company that builds and operates the systems and infrastructure for recharging electric vehicles. We also invested in Bloom Energy, a California-based company that is developing solid oxide fuel cell technology to convert renewable and fossil fuels to electricity.

This report looks at each of these themes in more detail, and shows how we are helping our customers and the societies in which we operate to deal with the social, economic and environmental issues that we all face.

I am proud of HSBC's record, but there is clearly more to do, and I am determined that sustainability will remain at the heart of the way we do business.



**Douglas Flint**  
Group Chairman  
May 2011

# Management and Governance

It is ultimately the responsibility of every person within HSBC to make the right decision and to be accountable. Each of our colleagues contributes to managing one or more of the priority issues we report on here.

A structure is in place to embed social and environmental issues into the business. We have sustainability teams working at Group, regional and country levels to shape our approach to business opportunities and risks, and community investment. Many other specially trained individuals in departments across the Group hold responsibility for implementing our policies, for example in credit risk, purchasing, information technology, and relationship management teams.

Heads of Sustainability in each of the Group's five main regions have joint reporting lines to their local management boards, and to the Group Head of Corporate Sustainability. The Group Head of Human Resources is responsible for Corporate Sustainability on behalf of the Group Chief Executive and the Group Management Board.

Environmental, social and ethical issues are overseen by the Corporate Sustainability Committee, a sub-committee of the HSBC Holdings plc Board. The committee is responsible for advising the Board, committees of the Board and executive management.

The Corporate Sustainability Committee is composed of non-executive Directors and non-Director members. In 2010,

the chairman was Narayana Murthy, a non-executive Director (appointed 28 May 2010), and the members were Vincent Cheng, an executive Director (appointed 28 May 2010), William Fung (retired 28 May 2010), Sir Mark Moody-Stuart (retired 28 May 2010) and Gerry Davis, Lord May and Dame Mary Marsh, who are non-Director members of the committee. The committee held five meetings in 2010.

Some key sustainability themes have specific governance structures to support them. Climate business strategy and direction is set by the new Climate Business Council, chaired by Stuart Gulliver, the Group Chief Executive.

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## International commitments

**We have voluntarily agreed to abide by a number of external principles and global initiatives, some of which are listed here:**

Climate Principles	A framework for the finance sector to help individuals and clients to understand and manage the risks, opportunities and adaptation needs relating to climate change.
Equator Principles	A common framework to address the environmental and social issues that arise in financing projects.
Extractive Industries Transparency Initiative	A global standard for transparency developed to counter misuse of payments to governments for mineral rights and mining.
Global Business Coalition on HIV/AIDS	A coalition of companies united to keep the fight against HIV/AIDS, tuberculosis and malaria a global priority.
UNEP Finance Initiative	A global partnership between the UN Environmental Programme and the financial sector working to understand the impacts of environmental and social considerations on financial performance.
UN Global Compact	A voluntary commitment which challenges companies to demonstrate progress in supporting and advancing key principles in four fields: labour standards, human rights, environmental responsibility and anti-corruption.
UN Universal Declaration of Human Rights	A declaration which set out for the first time, in 1948, fundamental human rights to be universally protected.
Wolfsberg Principles	An association of 11 global banks which aims to develop financial services industry standards and related products for Know Your Customer, Anti-Money Laundering and Counter-Terrorist Financing policies. HSBC is a founding member.

# Contribution to the Economy

The most fundamental contribution HSBC makes to the economy, the environment and society is through delivering a robust business and sustainable revenues. This allows us to pay dividends to our shareholders, salaries to our employees, payments to our suppliers, and tax revenues to governments in the countries and territories where we operate. We also contribute around US\$100 million annually to community investment projects around the world.

## Tax contribution

In 2010, the Group's net cash tax contribution was US\$5.8 billion. The amount differs from the tax charge reported in the income statement in the HSBC Holdings plc *Annual Report and Accounts 2010* 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 2010, we collected US\$7.6 billion in taxes.

## Preventing crime

We have clear policies and procedures in place to prevent money laundering, bribery and corruption in all the jurisdictions where the bank operates, both to protect our reputation and to facilitate the effective running of local economies.

HSBC's anti-bribery and anti-corruption policies apply to dealings with government entities, private organisations and individuals. Our systems and controls are designed to detect potential corruption and to provide alerts in high-risk situations. The Group also has processes in place to monitor activities by third parties which may be suspected of being linked with corrupt practices.

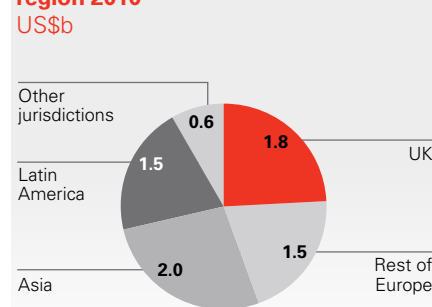
The Group has been reviewing existing controls to ensure that it complies fully

## Distribution of economic benefits

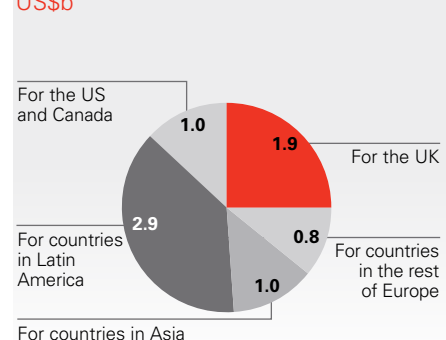
US\$b	2008	2009	2010
Net cash tax outflow <sup>1</sup>	2	5.2	5.8
Distributions to shareholders and non-controlling interests	12.1	6.5	7.1
Employee compensation and benefits	20.8	18.5	19.8
General administrative expenses including premises and procurement	15.3	13.4	15.2

<sup>1</sup> Includes cash outflows of corporation tax, employer payroll tax, irrecoverable value-added tax and other taxes.  
<sup>2</sup> New metric developed in 2009.

## Breakdown of total tax paid by region 2010



## Taxes collected for governments 2010



## HSBC's net cash tax contribution 2010

	US\$b
Tax on profits	4.0
Employer taxes	1.4
Value-added tax	0.7
Other duties and levies	1.3
<b>Total</b>	<b>7.4</b>
Tax refund	1.6
<b>Net cash tax outflow</b>	<b>5.8</b>

with the requirements of the UK Bribery Act 2010. We are training all employees to ensure they have a sound understanding of bribery risk, and we are reviewing our internal policies and procedures and amending them as appropriate to reflect the new requirements.

We also work closely with experts on these issues. For example,

## Tax collected for governments 2010

	US\$b
Taxes deducted from customer interest	2.6
Employees' tax on pay	2.7
Value-added tax	0.8
Stamp duty and other taxes	1.5
<b>Total</b>	<b>7.6</b>

Transparency International is an anti-corruption organisation founded in 1993. HSBC sits on its Business Principles for Countering Bribery Steering Committee.

# Supporting our Customers

“The thing that marks us apart from most institutions is that we have always genuinely believed that relationships are key, not transactions.”

**Stuart Gulliver**  
Group Chief Executive

In 2010, we continued to build business with new commercial and retail customers. We supported customers who were struggling during the economic downturn by helping mortgage customers to avoid repossession and business customers to expand. We have taken steps to improve the customer experience, and put in place more effective customer complaints procedures. Here we focus on our major markets in Europe and Asia-Pacific.

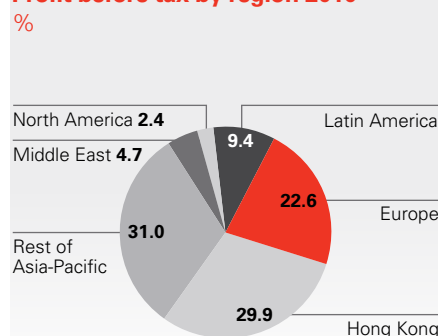
### Recovering from the downturn

The effects of the economic crisis are still being felt by our customers in many parts of the world. Our ability to work with customers throughout this period is essential to achieving economic recovery and growth and is an important part of what it means to be a sustainable bank. The bank has remained open for business without support from government and, in 2010, customer deposits were up by 7 per cent and customer lending by 8 per cent compared with 2009.

These figures were reflected across the globe. In the UK, we emerged with a record share of the mortgage market and continued to approve eight out of 10 mortgage applications – a figure that has not changed since before the onset of the financial crisis. HSBC remained the number one mortgage lender in Hong Kong.

We added half a million more Commercial Banking customers globally in 2010. Our support for Commercial Banking customers extends to regions where the global downturn has been less pronounced. In the Asia-Pacific region, HSBC is actively participating in local government loan schemes, helping small and medium-sized enterprises (SMEs) to recover, consolidate and grow. As part of this, in 2010 we offered US\$3.9 billion of credit facilities to SMEs in the Hong Kong SAR, Singapore, Taiwan and Malaysia.

**Profit before tax by region 2010**



In the UK, the bank's gross new lending to SMEs increased by 19 per cent in 2010 compared with 2009, and we helped over 2,400 new start-up businesses a week. We provided increased support to UK companies to export to countries around the world, increasing international trade finance by 13 per cent and using our global network to make new connections between our customers in different markets. We also recruited an additional 139 international commercial managers to help UK businesses to expand into new markets.

We continued to help customers suffering financial hardship to stay in their homes. Our UK share of repossessions is 1.4 per cent compared with our share of mortgage balances at 5.2 per cent. This reflects not only the quality of our mortgage book, but also our commitment to, and investment in, providing restructuring support for customers. In the UK last year, Money Management teams were able to help 26,000 customers with their financial difficulties. In Hong Kong, we supported almost 1,400 low income home owners through the government's resale of Home Ownership Scheme flats to enable them to purchase subsidised housing.



### Financial inclusion

To help customers manage their finances and avoid unmanageable debt, we invest in educational initiatives in partnership with the industry and voluntary organisations. We also communicate directly with customers. For example, HSBC in India launched financial literacy pages on its web site called 'Your Money Counts': [www.hsbc.co.in/your-money-counts](http://www.hsbc.co.in/your-money-counts).

This answers customers' frequently asked questions on managing money, saving, taxes, using credit, responsible borrowing, investing and financial planning.

A similar programme was launched for small businesses in India covering topics such as account fraud, credit card tips, and Credit Bureau Reporting. About 130,000 customers viewed the content and the programme has been extended to cover other topics.

To help customers manage their finances, and to minimise their chances of incurring fees and charges, HSBC Bank in the UK launched *Bank Account Pay Monthly* in April 2010. This account limits customers' ability to use an unarranged overdraft to a 'buffer' of £50. It has a monthly account fee of £15 and no overdraft or returned item fees, and provides customers with text alerts and other tools to help them manage their money. Bank Account Pay Monthly customers receive pro-active text alerts when their balance exceeds 60 per cent, 80 per cent and 95 per cent of their agreed overdraft limit. In addition, HSBC is the only bank in the UK with ATMs that warn customers if they are about to make a withdrawal that will take them beyond their agreed overdraft limit.

Information on our work on financial education can be found in the Investing in Communities section of this report on page 16.

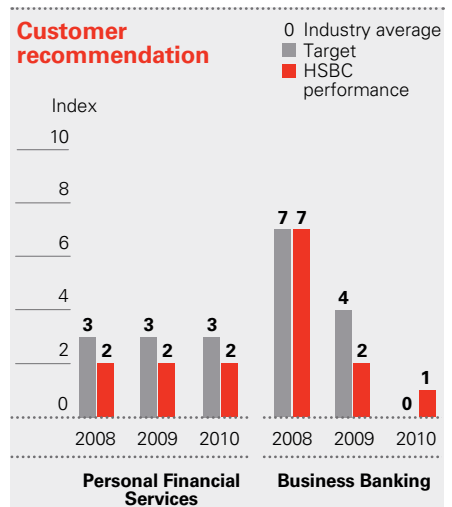
### Customer experience

Our ambition is to be the world's most recommended bank. We have a broad programme of activities to help us to achieve this. On a quarterly basis, we ask customers in our 16 largest markets open questions about their dealings with HSBC, such as their most recent experiences and whether or not they would recommend us.

We have also established customer advisory panels for retail and commercial customers in such locations as Brazil and Hong Kong. The panel events bring our customers together with HSBC's senior managers in the region to share views on how we can improve their experience and the service they receive. We actively encourage customers who have complained about our services or products to attend.

We have adjusted our complaints procedures to make it easier for both retail and commercial banking customers to approach us. Our best practice guideline for dealing with complaints internally is focused on finding out and eliminating the root cause of a problem. The ultimate aim is to improve our customer service.

The training of employees and the behaviour they manifest towards customers is crucial to the customer experience and we are working to ensure consistent standards throughout the world. All our customers must be treated with respect regardless of the size or nature of the transaction. We are rolling out a plan to provide a common standard of behaviour for our employees throughout the world, which is in line with HSBC's Group Values.



**Measure:** an independent survey of customers in up to 15 countries which judges how likely they are to recommend a particular brand. The results are used to create a customer recommendation index, where the industry average is zero.

**Target:** to meet or exceed targets based on performance against key competitors and the industry average.

**Outcome:** Business Banking exceeded its target. Personal Financial Services fell short of its challenging target, but remained well above the competitor average.

# Valuing our Employees

“Our commitment to continuing to strengthen our values-led culture comes from the very top of the organisation. Empowering our employees to lead with courageous integrity is fundamental to our long-term success.”

**Ann Almeida**

Group Managing Director,  
Human Resources

HSBC's Group People Strategy focuses on improving the capability and commitment of our employees to drive sustainable high performance.

## Group Values

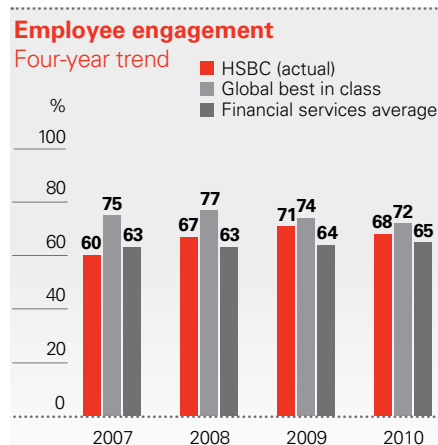
The role and importance of HSBC's Group Values in our daily operations has taken on increased significance in the context of the global financial crisis, changes in external regulatory policies, investor confidence and wider society's view of the role of banks. We are strengthening our values-led culture by embedding the Group Values into operating standards, strategic learning programmes, employee development, induction, individual assessment, and through the personal sponsorship and role-modelling of senior executives. We expect all employees to lead with courageous integrity.

In 2011, our Group Values will be further incorporated into performance management, talent definitions, appointments, and learning and development programmes. Governance of the Group Values is overseen by a Group Values Committee, which is accountable to the Group Management Board.

## Employee engagement

Engaged employees are key to achieving a high performance culture. We encourage line managers to foster open and honest communication and promote active employee involvement in decision-making. Employment issues and the financial and economic factors affecting HSBC's performance are regularly shared with our employees.

In 2010, we conducted our fourth Global People Survey, which achieved a participation rate of 90 per cent compared with 91 per cent in 2009. This annual employee survey allows our people to provide feedback on their employment experience at HSBC and encourages their involvement in



identifying actions to improve this experience. Employee engagement fell from 71 per cent in 2009 to 68 per cent in 2010. Although the score is lower than the 2010 objective of 72 per cent, it was six percentage points higher than the external global average and three percentage points above the financial services sector average.

## Diversity and inclusion

Our deep roots in many geographies, an international mindset, and a commitment to meritocracy inform our perspective on diversity. Gender, ethnicity and age are areas of strategic focus. We continue to build an inclusive culture where employees believe that their views are heard, their concerns are addressed, and they work in an environment where bias, discrimination and harassment are not tolerated and where advancement is based on merit. Our commitment to diversity enables us to serve our global customer base more effectively and helps us to retain skilled and committed employees.

Oversight of related activities resides with the Group Diversity Committee, supported by local People / Diversity Committees. A Diversity and Inclusion Index, which includes the themes of valuing diverse perspectives and

individual contributions, was introduced to the 2010 Global People Survey. HSBC scored 72 per cent, which is on a par with the global external best in class.

In 2011, we will continue to build an inclusive environment for diverse talent and monitor progress through a metrics-based approach. This forms part of senior management performance objectives.

### Learning and Development

In 2010, we improved both the quality of training and the access that all employees have to relevant programmes through globally consistent technology. Specific areas covered were risk, compliance, finance, leadership and performance management. The HSBC Discovery Programme provided a more consistent induction for new employees across the Group.

The HSBC Business School was deployed to improve business performance and achieve competitive advantage for the Group. It reinforces HSBC's culture and ensures that our people have opportunities to develop capabilities required for commercial success. The Business School curriculum is housed on a single global online capability development resource available in eight languages and includes global and local information, access to all learning provided by HSBC, and development tools to achieve the right blend of learning for the individual. Content is categorised by academies which represent relevant learning for individual business lines. Each academy has common, global learning curricula providing focused learning opportunities to support employees in their roles.

The HSBC Business School and the 'My Learning' web portal have been deployed to over 240,000 employees in 71 countries and territories. Focus groups have been conducted to gain feedback on the learner's experience of

### Number of employees in Group training programmes with sustainability themes 2010

Senior On-Boarding Programme	64
Group Graduate Development Programme	336
Next Generation Development Programme	209
Senior Risk Management Programme	58
Risk Management Programme	198
Building a Sustainable Business	48
Values-Driven Leadership	77
Total	990

the courses. Employees appreciate the ease of navigation and registration, and the feedback on the overall employee experience has been positive.

Learning content has been structured to ensure that the most effective medium for learning is utilised. E-learning remains an effective delivery channel to our employees, with 51 per cent of learning delivered electronically in 2010. Employees across the Group received an average of 3.4 learning days per full-time equivalent employee.

### Identifying and retaining talent

The development of talented employees in both developed and emerging markets is essential to the future strength of our business. We have therefore implemented an approach to identifying and deploying talented people with the necessary skills, diversity and experience for current and future senior management positions and resourcing needs.

Individuals' potential for future leadership roles is assessed using criteria such as their leadership capabilities and adherence to Group Values. The segmentation of our employees enables more robust succession planning and therefore better alignment between career development and strategic business requirements. This approach, which

aims to ensure a diverse pipeline of talent, is closely aligned to our performance management and Diversity and Inclusion Strategy. Development needs for talented individuals are met through a combination of on-the-job experience, coaching and learning programmes.

### Employee health

A common approach to ensuring the well-being of employees in the workplace is part of an effective people strategy. Our Occupational Health Framework guides Group offices in the design and implementation of their local policy and processes. The framework brings together existing best practice from across regions and sites for Group-wide application. This initiative is important to HSBC in maintaining the physical and psychological health, welfare and safety of our people in the work environment, complying with local statutory requirements and driving overall business efficiency. HSBC recognises that psychological well-being is as important as physical health. Employee assistance programmes, such as telephone help lines and counselling services, are widely available.

# Climate Business

It is clear to us that by building understanding and expertise on low carbon technologies, and by arranging the finance that will help bring these technologies to market at scale, we can make a major contribution to a low carbon future, as well as generating new revenue streams. We are taking these opportunities to build our climate business as seriously as we take our responsibility to manage our exposure to sustainability risk. For HSBC, 'climate business' includes the commercial opportunities that lie within the areas of low carbon energy production, energy efficiency, and adaptation to the impacts of climate change.

Our climate change research centre, a part of our global research capability since 2007, estimates that by 2020 the world's low carbon energy market will be almost three times larger than it is today. In order to meet this increased demand, around US\$10 trillion in cumulative capital investment will be required from 2010 to 2020. We anticipate that China will be one of the fastest growing markets for climate business over the next decade, and will become the second largest by 2020, behind Europe.

### Our approach

Over the last three years, we have established teams with the knowledge and capability to support the transition to a low carbon economy and maximise this business opportunity. Established in 2007, the HSBC Climate Team is a

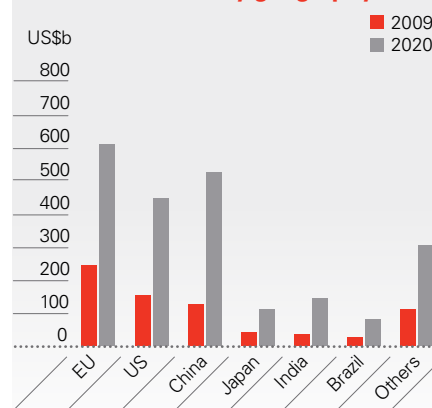
network of representatives from across the Group's businesses and customer groups that is responsible for identifying and exploiting business opportunities arising from climate change. From 2010, the Climate Team has come under the strategic oversight of a new Climate Business Council, comprising senior directors and chaired by Stuart Gulliver, Group Chief Executive. The Climate Business Council meets four times a year and sets strategy and direction. The Climate Team focuses on assessing changes in climate business activities or the markets in which the businesses operate, and on analysing the possible commercial climate business opportunities.

## Case study: Baicheng wind farm project

The Baicheng project is a 49.5-megawatt wind farm, located on farmland in Jilin Province, north-eastern China. In 2010, HSBC Global Banking and Markets structured a project finance deal to fund the project, which will save more than 100,000 tonnes of carbon dioxide a year for the next two decades. China already ranks as the second largest and most rapidly growing wind market in the world. At current growth rates, it will surpass the US in 2011 as the biggest wind market in the world.

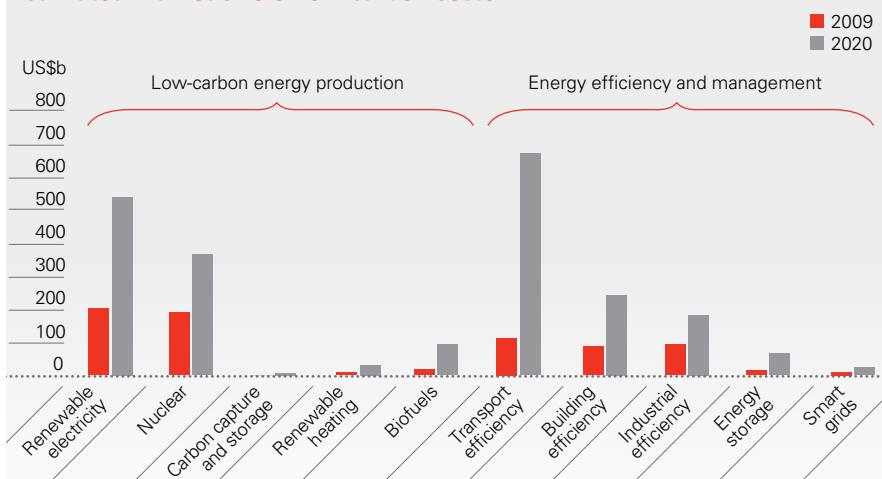
We worked with our partners, including Bank of Communications, one of the largest Chinese banks, on an effective financing model and, as a result, this was the first non-recourse project financing successfully closed for a wind farm in China. This transaction establishes a scalable model for wind sector project financing in China, and opens up further opportunities to develop renewable energy there. It also demonstrates HSBC's commitment to finance the transition to a low carbon economy with innovative financing solutions.

### Low carbon growth: projected size of low carbon sector by geography



Source: HSBC, *Sizing the Climate Economy*, 2010

### Estimated market size of low carbon sector



Source: HSBC, *Sizing the Climate Economy*, 2010

In addition, we have sustainable business development teams which support front-line banking colleagues in pursuing climate business, through training and communications on the most profitable new business areas. The majority of opportunities are then identified by our relationship and business managers and managed through existing business structures.

### **Climate business and our customers**

We see a climate business opportunity for each of our customer groups, and we are responding with different products and services across the bank. By the end of 2011, commercial targets will be included in HSBC's Global Banking and Markets, Global Asset Management, Insurance and Commercial Banking businesses. Supported by trade, loans, project finance and supply chain finance, these business targets will drive ownership, accountability and revenue generation.

### **Global Banking and Markets**

We have a specialised renewables and 'clean-tech' team, whose focus includes cross-border businesses. In 2010, this team completed financings of several large-scale solar and wind projects. In Global Markets, a working group has been established to understand client product demand and develop client-driven product and marketing strategies.

In 2010, HSBC Principal Investments completed an investment in Bloom Energy Corporation, manufacturer of the world's first commercially viable solid oxide fuel cell, which provides low cost, low emission, and high-reliability electricity generation. Commercialisation of this efficient electricity generation technology aligns with our strategy to understand and prioritise climate business opportunities, and is the second major equity investment for HSBC in the climate business sector, following our earlier investment in Better Place, a leading provider of infrastructure for recharging electric vehicles.

### **Commercial Banking**

Climate business in the SME sector focuses on renewable energy projects including biomass, solar, anaerobic digestion and wind power. The range of incentive structures offered by governments across the world mean that the strategy must be flexible to

## **'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, nuclear, 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.

make the most of feed-in tariffs and favourable policies.

Following development work in 2010, HSBC Bank in the UK launched its climate business learning programme at the start of 2011. This is a four-day training course designed to educate Commercial Banking relationship managers and risk managers across the UK on renewable energy technologies and relevant financing structures. Following a pilot in January 2011, the programme is now being rolled out in line with the growth in renewable energy funding requests. Opportunities to create a similar course in other markets are also being explored.

### **Retail Banking and Insurance**

We have a number of climate business products, including insurance, for the retail market. In 2010, HSBC launched green insurance products in Latin America, Asia and the UK. HSBC Insurance is working in partnership with the UN and peer group companies to establish a new set of principles for sustainable insurance.

## **Case study: Johannesburg's Rea Vaya Bus Rapid Transit Project**

**In 2010, HSBC acted as an adviser and structured finance arranger for Johannesburg's Rea Vaya Bus Rapid Transit Project, the first of its kind in Africa. This boosted our previous track record of arranging finance for bus rapid transit projects in Santiago in Chile and in Mexico City.**

**The brand-new fleet of articulated buses runs on low-sulphur diesel and has advanced pollution-reduction equipment to improve air quality. The buses, which operate in dedicated high-speed corridors, will reduce carbon dioxide and nitrogen oxide emissions by thousands of tonnes per year. The scheme has also improved access to public transport for low income groups in South Africa.**

# Risk Management

Environmental and social risks can have a material impact on the financial success of our business and that of our customers. We believe that taking a responsible approach to our finance and lending activity is the right thing to do. Our investors, customers, employees and other stakeholders expect us to take a sustainable and responsible approach to managing our lending. It is for these reasons that sustainability themes are incorporated into our assessment of potential customers, and feature in our support for customers throughout our relationship with them.

## Sector policies

Since 2003, our processes for managing the risks of lending and other financial services have incorporated a detailed sustainability risk analysis. Our approach to dealing with this type of risk is to focus on the industry sectors in which the majority of sustainability risks arise. These 'sensitive' business sectors are forest land and forest products; mining and metals; chemicals; freshwater infrastructure; and energy. We also have a defence equipment policy which clarifies our approach to companies involved with weapons. Summaries of all these policies can be viewed at: [www.hsbc.com/sus-risk](http://www.hsbc.com/sus-risk).

Our sustainability risk policies and guidance notes set the framework and

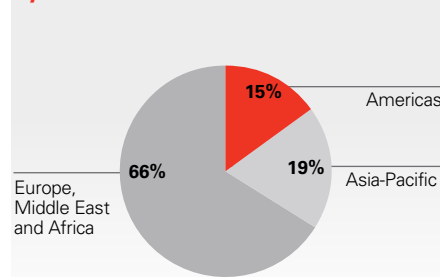
standards which enable decision-making by risk managers across the bank. The policies are applied to all lending and other forms of financial assistance, primary debt and equity markets activities, project finance and advisory work. Some 43,000 business customers come under these policies, an increase of almost 10,000 since 2009. The policies also extend to asset management, but recognise the lower degree of influence we have over third-party investments where the final decision may not rest with the Group.

## Equator Principles

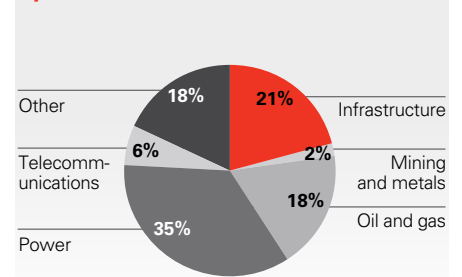
In 2004, HSBC adopted the Equator Principles, a framework used by financial institutions to assess the potential environmental and social impacts of large projects and to help their customers to manage them. The Principles have been effective in ensuring that large projects are developed and operate in accordance with international good practice in relation to environmental and social issues.

The Equator Principles Association requires that signatory financial institutions apply its framework to project finance deals worth US\$10 million or more. For several years, HSBC has taken this a step further by using the Equator Principles framework,

**Equator Principles:  
loans by region of borrower,  
by % of value 2010**



**Equator Principles:  
loans by industry sector,  
by % of value 2010**



where appropriate, to assess export credit loans and corporate loans where proceeds are known to be designated for a project. HSBC has actively encouraged other financial institutions through the Equator Principles Association, to share this approach.

We are developing more detailed internal guidelines for extending the Equator Principles framework across export credit loans. This has resulted in a change to the way in which we report on these transactions this year which we believe provides improved transparency for our stakeholders.

The reporting category 'Loans by Type of Facility' has been replaced with a new category, 'Loans according to scope of Equator Principles'. This distinguishes between project finance loans to which HSBC formally applies the Equator Principles and the export credit loans, to which HSBC voluntarily extends application of the Principles (see footnote 3 in the table below on the way we apply the Principles).

Extending the application of the Principles helps ensure that the positive influence of the Principles is reflected

## Statement on application of the Equator Principles

In 2010, HSBC applied the Equator Principles to project finance loans, advisory services and export finance as set out in the Equator Principles 2006 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 on the right. The PricewaterhouseCoopers LLP assurance report is on page 23.

across many more projects than those which are financed under a project finance structure. In 2010, HSBC saw an increase in the number of advisory mandates completed. We welcome this shift as it allows us the opportunity to

influence, at an earlier stage, any potential sustainability issues before lending. The number and value of loans have also increased this year, as 2009 still reflected the lingering effects of the economic crisis.

### Equator Principles: Transactions vetted by HSBC

	2008		2009 (re-presented)		2010	
	Number	Value US\$m	Number	Value US\$m	Number	Value US\$m
Transactions approved	148	6,842	57 <sup>3</sup>	4,562	76	6,707
<b>By mandate</b>						
Lending	100	6,842	42	4,562	52	6,707
Advisory	48	0	15	0	24 <sup>4</sup>	0
<b>Loans by category<sup>1</sup></b>						
Category A	3	178	5	1,297	6	1,644
Category B	59	4,348	27	2,183	31	4,063
Category C	38	2,316	10	1,082	15	1,000
<b>Loans by type of facility</b>						
Solely commercial	47	3,508	-	-	-	-
Solely export credit	44	2,403	-	-	-	-
Commercial/Export credit	9	931	-	-	-	-
<b>Loans according to scope of Equator Principles<sup>2</sup></b>						
Project finance transactions	-	-	25	2,795	25	3,173
Extended transactions	-	-	17	1,767	27	3,534
Transactions declined	1	-	0	-	0	-

1 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.

2 We continue to evolve our approach to applying Equator Principles across export credit loans. This year, we have replaced the reporting category of 'Loans by Type of Facility' with a new category, 'Loans according to Scope of Equator Principles', which separates the reporting of project finance transactions and export credit loans (extended transactions). The procedures we apply to the extended transactions have been adjusted (further details are presented in our Reporting Guidance, [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance)). For comparability purposes, we have re-presented 2009 data in the new format.

3 As part of the evolution in applying the Equator Principles, we have removed certain types of transactions, such as the financing of assets like aircraft, where it is not appropriate to apply the Equator Principles beyond the first principle of categorisation. For comparability purposes, the 2009 'Transactions Approved' figure changes from 80 to 57; the corresponding changes have been made to the other reporting categories for 2009.

4 Three of the 24 advisory mandates do not reference Equator Principles. It was determined that formal reference to Equator Principles was not necessary in these mandates as local law requirements were considered to be an acceptable substitute for the IFC Performance Standards (as allowed for in Principle 3).

## Energy sector policy review process

### 2009

Agreement to review energy sector policy in 2010.

Analysis of UN climate negotiations in Copenhagen.

Research into the current issues affecting the energy sector begins.

### 2010

#### January – February

Identify policy focus: coal-fired power, oil sands and nuclear power.

Desk research into technical issues and existing policies in this sector.

First draft of HSBC policy and supporting guidance.

#### March – May

Consultation of HSBC's business and risk teams, and sustainability risk managers.

Second draft of policy and guidance in response to feedback.

Review of draft policy by Lord Stern.

Update on progress presented to Corporate Sustainability Committee.

#### June – September

Consultation of customers, institutional investors, NGOs and other third-party experts.

Third draft of policy and guidance.

Further internal consultation.

#### October

Policy and supporting guidance notes are approved by the Risk Committee, a sub-committee of the Group Management Board.

Revised policy formally comes into effect.

#### November – December

Policy and guidance notes announced internally and embedded into risk systems.

Training on the revised energy sector policy is developed.

### 2011

#### January

Training is rolled out by sustainability risk managers to risk management offices across the world.

A summary version is launched on the HSBC web site and sent to stakeholders.

In response to stakeholder feedback, HSBC is one of a small number of financial institutions that commissions independent assurance on the application of the Principles. The basis for determining application of the Principles can be found at [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance).

#### Energy sector policy review

The energy sector provides the fuel, power and heat upon which people, organisations and businesses across the world depend. We recognise its contribution in terms of economic growth and social development, but also acknowledge its potentially high impacts on local communities or on the environment when not managed responsibly.

We completed an extensive review of our energy sector policy in light of the changing regulatory environment, new research and developing technologies. As a result, we have issued a revised policy. A summary version of our revised energy sector policy is available at: [www.hsbc.com/sus-risk](http://www.hsbc.com/sus-risk).

Our energy sector policy now extends to HSBC's provision of financial services to customers operating in the coal-fired power, oil sands and nuclear energy industries. We consulted widely on how best to tackle this often controversial, but essential, business sector.

The basis of our approach is to support the transition to a low carbon economy. This transition will take time and, if living standards are to be maintained or improved, we recognise that carbon-intensive fossil fuels will remain part of the energy mix for the foreseeable future. However, energy production that creates high levels of greenhouse gases will, if unchecked, undermine international efforts to limit climate change and the pursuit of higher living standards.

Our criteria ensure that HSBC does not lend to the most polluting coal-fired power plants. We have set a level of carbon intensity beyond which we will not finance new coal-fired power plants or expansion of existing installations. We have set a different carbon intensity measure for companies operating in developing countries to ensure that emerging economies are not unfairly disadvantaged in their quest for

economic growth and social progress.

We undertake a balanced analysis of customers operating in the oil sands sector to assess the positive and negative impacts. Specifically, we take into account the company's management and reporting of greenhouse gas intensity, impact on local communities, and use of land, water and waste.

On nuclear power, we recognise the range of views, both positive and negative, held by our stakeholders. We consider business in this sector on a case-by-case basis, by reviewing safety and regulatory standards, the operator's track record, and plans for waste storage and decommissioning. Stakeholders have asked us whether our approach considers the impact of natural disasters as experienced in Fukushima, Japan in March 2011. Our policy does cover safety and takes seismic risk into account. We are monitoring the results of investigations into the Fukushima nuclear power plant accident to ensure that our policy remains robust in light of any new findings.

#### Energy sector policy review: our process

Our approach is to consult a wide range of experts representing different views on the issues covered in our policies. In 2010, we consulted widely among colleagues in Global Banking and Markets, Commercial Banking and the Group Risk function on the content of our energy sector policy. Externally, we talked to customers, shareholders, NGOs and industry experts.

The timeline on the left shows the process we followed to achieve a depth of analysis necessary to produce a policy reflecting good international practice.

#### Working with customers

We evaluate the implementation of our risk policies by measuring the degree to which our customers meet our standards, using the same systems as those used for monitoring credit risk. This data is checked through our internal audit system.

Our preference is always to advise and encourage customers to make improvements where necessary to their



sustainability policies and performance. When customers do not comply with our policies and, despite our efforts, demonstrate no progress towards compliance, we have exited some customer relationships as a last resort, for example in the forest land and forest products sector.

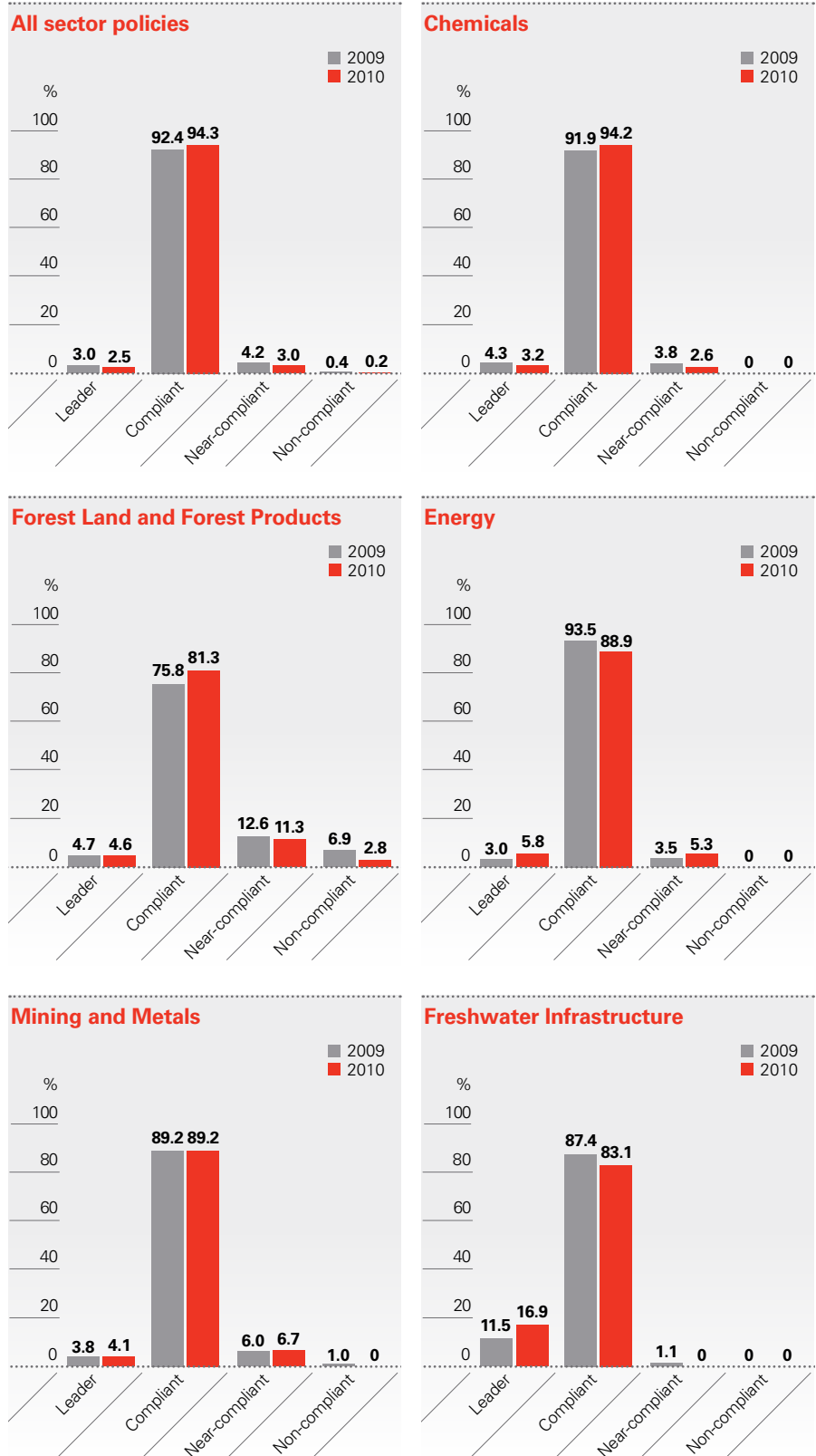
At the end of 2010, 99.8 per cent of our customers complied with our policies compared to 99.6 per cent at the end of 2009. In the forest land and forest products sector, the number of non-compliant customers dropped from 6.9 per cent to 2.8 per cent. This was due to the five-year review period we announced in 2004 for this sector coming to an end. We began exiting relationships with those customers that had not shown any evidence of improved standards by the end of 2009, as soon as contractual obligations allowed. In the energy sector, the number of near-compliant customers increased from 3.5 per cent to 5.3 per cent. This reflects our closer scrutiny of customers in this sector throughout the year as part of our energy sector policy review process.

### Risk managers

Our global network of risk managers includes individuals who are trained and are experienced in reviewing sustainability risk. In 2010, we ran a three-day training course for all sustainability risk managers around the world. Our dedicated sustainability risk managers now operate in 27 countries in every region. Following the course, the risk managers have been training their colleagues in their country of operation.

Looking ahead to 2011 and beyond, our priority will be to ensure that our policies are thoroughly embedded into the business, and that business opportunities in key sectors are maximised.

## Compliance with HSBC's sector policies 2009-10



Charts show the level of customer compliance with our sector policies as a percentage of the number of customers.

# Investing in Communities

“We take seriously our wider responsibility to contribute not just money but also time and resources to the communities where we operate. I believe we can make a real difference by partnering with the right organisations to bring about positive change in these communities.”

**Douglas Flint**  
Group Chairman

In 2010, HSBC continued to invest in educational and environmental programmes around the world with financial support and employee volunteering time. We believe that, as a financial institution with a skilled workforce and a global presence, HSBC can play an important role in helping communities to thrive. Our employees are proud to take part in our volunteer programmes and those who do so are more engaged in our business. Our 2010 Global People Survey showed that those who participate in corporate sustainability initiatives exhibit higher levels of engagement: 73 per cent compared with 64 per cent for those not involved. The majority of our community projects are created and implemented on a local basis by local people and local HSBC employees.

In 2010, we committed nearly US\$108 million to community investment – 0.6 per cent of profit before tax. As in previous years, our investment in education and the environment made up around three-quarters of our philanthropic donations. Remaining funds were allocated to other local priorities. For example, we made a special donation of US\$1.6 million to assist some of the thousands of people in Haiti who were displaced by the 2010 earthquake.

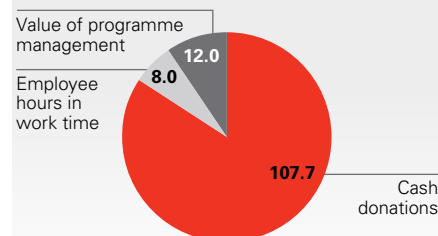
A more detailed breakdown of our regional spending and employee volunteering hours can be found in ‘Key Facts’ on page 21.

### Disadvantaged children

Our flagship global educational initiative is Future First, a five-year programme launched in 2006 to provide a better future for disadvantaged children around the world. We work with SOS Children’s Villages and over 100 local charities to provide access to education, life skills and counselling to children who would typically fall outside of the local education system. So far, more than 300 projects have reached nearly 500,000 children in

### Total value of community investment 2010

US\$m



**Total US\$127.7 million**

49 countries and territories. The programme supports a diverse range of activities such as paying for school equipment, running community education centres, delivering teacher training workshops, and developing counselling and support initiatives.

In March 2011, we renewed our commitment to Future First with new funding of US\$15 million over another five years and expanded the programme to African countries.

### Financial literacy

Increasing financial and business literacy is fundamental to economic growth. As household debt rises throughout many developed countries and the world faces economic uncertainty, gaining an early understanding of how to manage a budget is even more important for individuals and for society as a whole.

HSBC’s global financial and business literacy education programme, JA More Than Money™, teaches students about earning, spending and saving money, as well as providing career advice. Run in partnership with Junior Achievement Worldwide, and facilitated by more than 2,000 HSBC volunteers, financial skills training was delivered to over 59,000 children during 2010. Through HSBC’s US\$5 million commitment, we have been able to expand the programme to

36 countries, including Brazil, China, India, Mexico, South Africa, Turkey and the USA. Since the start of the programme in 2008, some 4,000 HSBC volunteers have helped 105,000 children.

#### **Environmental education**

Our HSBC Eco-Schools Climate Initiative, a partnership with the Foundation for Environmental Education, has been running for over a year. This is a three-year project involving 1,000 HSBC employee volunteers in 15 countries where it will reach an estimated one million young people aged five to 18. The programme raises the students' awareness of ways to make their school more sustainable. Guided by HSBC volunteers, they perform an 'audit' of their school's environmental performance, covering energy, transport, waste and water, and then draw up an action plan of potential improvements.

#### **Climate change research and engagement**

The HSBC Climate Partnership is our global environmental programme, launched in 2007 with The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF to combat climate change by inspiring individuals, businesses and governments worldwide.

#### **Low carbon technologies in cities**

The HSBC Climate Partnership is helping The Climate Group to accelerate the adoption of proven low carbon technologies, such as LED lighting, electric vehicles and 'SMART' Information and Communications Technology applications, which help distribute, use and store energy more efficiently. LED street lighting, which consumes 50 to 70 per cent less electricity than traditional street lights, is being trialled in nine cities around the world, including London, New York and Kolkata. The trial findings will be shared with city administrators worldwide. The project's ultimate goal is for 25 per cent

of all outdoor lighting in the world to be LED by 2020.

#### **Understanding forests**

With forests covering a third of the Earth's land area, surprisingly little is known about how forests are affected by changing temperatures and rising levels of carbon in the atmosphere. The Smithsonian Tropical Research Institute has developed a database to track tree development in 40 forest areas, covering four million trees in 21 countries. In a complementary research programme, Earthwatch is monitoring the impact of climate change on forest systems and biodiversity in its five Regional Climate Centres. Better understanding of forest management will play an important role in reducing the impact of climate change.

In Brazil, WWF is working with Acre state government and the National Institute for Space Research to develop a methodology for assessing the extent of illegal logging in the Amazon – another significant challenge to the future of our forests.

#### **Protecting vital freshwater sources**

Working in China, WWF has designed and trialled a cost-effective unit to capture pig slurry and turn it into methane, which is then used to heat the farms and provide free gas for cooking. This simple solution prevents slurry from polluting the water course, provides clean energy, and saves money otherwise spent on fossil fuels. A new regulation is to be enacted in the Hubei region of central China requiring all pig farms to introduce the technology.

As a direct result of its work on the Yangtze, WWF was asked by the Chinese Ministry of Water to advise on how international best practice should be incorporated into China's new 25-year master plan for sustainable water management. In the UK, WWF is working with water companies to encourage consumers to use 20 per

“The information collected by HSBC Climate Champions brings us closer to answering critical questions about how climate change will affect our forests.”

#### **Nigel Winser**

Executive Vice President  
Earthwatch

cent less water in their homes, reducing pressure on rivers and aquifers.

#### **HSBC Climate Champions**

In 2010, 525 employees were trained as Climate Champions at the five Earthwatch Regional Climate Centres across the globe, bringing our total number of Climate Champions to 1,400. Working alongside leading scientists, they discover first hand how climate change is affecting our natural resources and livelihoods. To date, they have measured over 100,000 trees, equivalent to 40 years' work for one scientist. This information collected by the Climate Champions brings us closer to answering critical questions, such as how climate change will affect forest carbon storage capacity and whether tropical and temperate forests will respond differently to climate change pressures.

Climate Champions apply the experience and knowledge gained with Earthwatch when they return to work, translating the significant investment in employee engagement into business benefits for HSBC, such as new ways of working to reduce HSBC's environmental footprint.

# Environmental Efficiency in our Operations

“Making HSBC a more sustainable organisation is a key corporate goal. We will do this by implementing change and efficiency in the business, whilst continuing HSBC’s leadership in the marketplace.”

**Sean O’Sullivan**

Group Chief Technology and Services Officer

## Management and accountability

HSBC’s approach to managing our operational environmental efficiency changed in 2010 when ownership of environmental performance was transferred from Group Corporate Sustainability to operational functions. HSBC’s regional and country level Chief Technology and Services Officers were made accountable for environmental performance in 2010 through targets in their annual performance scorecards.

## Engagement and leadership

We launched our sustainability leadership programme, based on the HSBC Climate Champion programme run by Earthwatch. In 2010 there were six courses in the UK, China and the US for a total of 77 senior managers within our Technology and Services division, which includes IT, Corporate Real Estate, Service Delivery and Procurement functions. The purpose of the course is to educate our leaders about the link between sustainability priorities, efficiency and cost savings. The course also gives them the opportunity to contribute to scientific field research at the climate centres. The combination of experiential learning in the forest with expert lectures and peer-to-peer action-planning led to a real shift in both perspective and behaviour, with 100 per cent of participants stating that the

programme was of value to them professionally. We aim to run nine programmes in 2011, including one in India for the first time.

## Environmental efficiency targets

HSBC is now three years into its four-year programme for reducing energy and water consumption, waste and carbon dioxide emissions across our offices and branches. The purpose of the targets is to drive efficiency in order to minimise our operational impact on the environment and to generate cost savings. Performance is measured annually, and Chief Technology and Services Officers are incentivised to achieve their targets as well as being held accountable for outcomes.

These targets (2008-2011) were set in relation to the number of the ‘full-time employee equivalent’, or ‘FTE’, to account for growth and contraction across HSBC’s operations over time. Targets for our office and branch buildings cover 91 per cent of the Group by FTE. We have separate targets for data centres, paper consumption and business air travel.

## Energy use in offices and branches

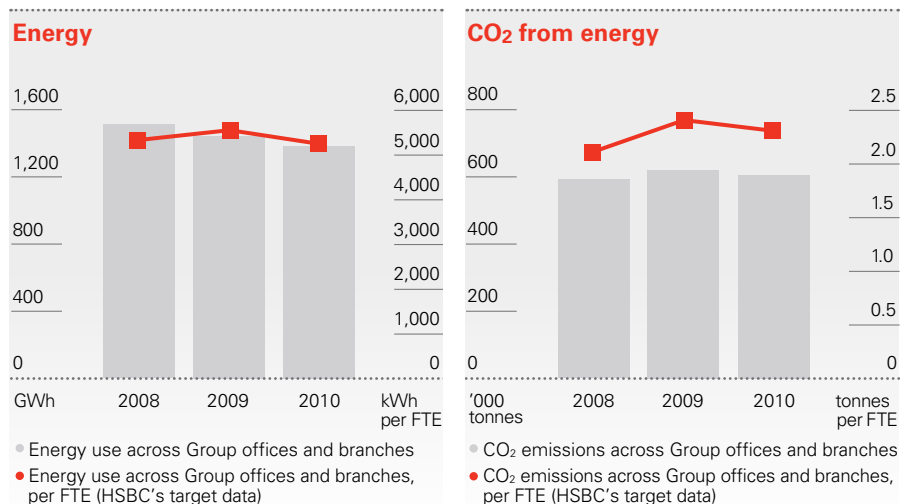
Our energy use across all our offices and branches dropped by 5.1 per cent per FTE in 2010, mainly as a result of many small environmental efficiency initiatives

## Environmental targets for HSBC offices and branches 2008-11

	Target reductions 2008-11 %	Progress for Jan 2008 – Dec 2010 against baseline %
Energy	↓ 8	↓ 2.5
CO <sub>2</sub> from energy	↓ 6	↑ 9.3
Water	↓ 11	↑ 10.4
Waste	↓ 10	↓ 30

## Case study: Solar panels in Mexico

Beyond our energy efficiency initiatives, we are also increasing the proportion of our energy that comes from renewable sources. For example, we are installing solar panels on a number of HSBC branches and other buildings in Mexico. In 2010, we installed 36 solar panels on the roof of our Acoxa branch in Mexico City, which will generate over 40 per cent of the branch’s energy requirements, reducing carbon dioxide emissions from electricity by 11.4 tonnes each year.



across the Group. Looking at the target period from the start of 2008, we have achieved a 2.5 per cent reduction in energy use per FTE. This leaves us with a significant reduction to make in 2011 to meet our four-year 8 per cent reduction target.

#### Carbon emissions in offices and branches

Our carbon dioxide emissions decreased in 2010 by 4 per cent per FTE compared with the previous year. This still means our carbon dioxide emissions have increased by 9.3 per cent per FTE compared with the 2007 baseline. This is largely a reflection of a change in reporting requirements by the UK government in 2009 which affects the factors used for converting energy use to carbon emissions. We are therefore unlikely to meet our target by the end of next year.

#### Water and waste in offices and branches

Since 2008, across our offices and branches we have increased water consumption by 10 per cent and reduced waste disposed by 30 per cent per FTE. The reasons for the increase in water consumption include more accurate measurement practices today than were in place in 2007, and an increase in water use for processes such as cooling and maintenance of our buildings.

#### Paper consumption

HSBC also set a paper reduction target of 2 per cent of the total volume used in 2010 compared with 2009. We achieved targets in all regions apart from Europe and North America. In Europe, the target was missed due to more robust monitoring and reporting. In North America, increased correspondence with customers required by US regulators led to the doubling of paper consumption in the country.

#### Data centres

We set targets for Group data centres in 2010 to improve their energy efficiency.

Specific improvement targets from 2 per cent to 8 per cent were set for our eight data centres which consume the most energy. Seven of the eight data centres achieved their efficiency target. The remaining data centre missed its target because of a delay in migration from older, less efficient equipment to new facilities. Data centre managers reviewed their energy use and identified areas for improvement specific to their site. Many actions were adopted to make savings, including adjusting temperature set points. Our target for 2011 is to improve efficiency by at least another two per cent.

#### Business air travel

We set a target to reduce carbon dioxide from business air travel by 20 per cent per FTE over three years, starting in 2009 against a 2008 baseline. In the first year, business air travel dropped significantly, by 19 per cent per FTE. In 2010, carbon dioxide emissions from business air travel rose again, by 21.2 per cent per FTE as a result of business growth following the economic recovery. Altogether, since the beginning of the target period, carbon dioxide emissions from business air travel have fallen by 3.6 per cent per FTE. Our investment in alternatives such as telepresence suites, video-conferencing and other online tools has played a part in keeping business air travel to below 2008 levels. The rise in business air travel in 2010 contributed to the increase in total carbon dioxide emissions across the Group – see Key Facts on page 21.

#### Environmental impact

We also measure and report on our Groupwide environmental impacts in absolute terms. Performance data for all impacts can be found on page 21.

We have continued to use the Prince of Wales's Accounting for Sustainability Project's Connected Reporting Framework to show our environmental

impacts and associated cost benefits. View this year's framework at [www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport).

#### Carbon neutrality

HSBC has been carbon neutral since 2005, and continues to invest in reducing emissions through implementing environmental initiatives and sourcing low emission electricity where available. HSBC's North American operations achieved carbon neutrality in 2010 for the total electricity consumption of office buildings, branches and data centres by investing in renewable energy certificates. The funds from the certificates were invested in the production of new renewable power plants in the region.

In 2010, we offset our remaining emissions by purchasing 897,000 high quality verified emission reductions. In 2010, these included wind power projects in India and China, and energy efficiency and small-scale hydro projects in China. The projects have been approved by the UN Clean Development Mechanism, and the offsets have been assured to the Voluntary Carbon Standard.

### Statement of HSBC's carbon emissions and offsets resulting in carbon neutrality

Project	2009	CO <sub>2</sub> tonnes 2010
Emissions from energy use in buildings, including data centres	866,000	875,000
Less US purchased renewable energy certificates	140,000	120,000
Net emissions from energy use in buildings, including data centres	726,000	755,000
Emissions from business travel	125,000	142,000
Net total emissions	851,000	897,000
Carbon offsets purchased	851,000	897,000

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 23.

# Key Facts

	Units	2010	2009	2008
Number of countries and territories with HSBC offices		87	88	86
Total number of employees including part-time (at year-end)		307,000	302,000	325,000
Full-time equivalent (FTE) number of employees (at year-end)		295,061	289,485	312,866
Number of customers		95 million	100 million	100 million
<b>Benchmarks</b>				
Dow Jones Sustainability Index (since 2001)		member	member	member
FTSE4Good (since 2001)		member	member	member
Interbrand top 100 brands position		32nd	32nd	27th
Brand value: Interbrand	US\$b	11.6	10.5	13.1
Top 500 bank brands: <i>The Banker</i> magazine		3rd	1st	1st
<b>Economic</b>				
Total operating income	US\$m	80,014	78,631	88,571
Profit before tax (on reported basis)	US\$m	19,037	7,079	9,307
Net cash tax outflow	US\$b	5.8	5.2	*
Distributions to shareholders and minority interests	US\$b	7.1	6.5	12.1
Employee compensation and benefits	US\$b	19.8	18.5	20.8
General administrative expenses including premises and procurement	US\$b	15.2	13.4	15.3
<b>Social</b>				
<b>Headcount</b>				
		307,000	302,000	325,000
by employment type				
– Full-time	%	91.8	90.9	94.4
– Part-time	%	8.2	9.1	5.6
by employee contract				
– Permanent	%	99.0	99.4	99.2
– Temporary	%	1.0	0.6	0.8
by region				
– Europe	%	26.0	27.0	26.8
– Asia-Pacific	%	39.4	38.4	36.2
– North America	%	11.7	12.7	14.5
– Latin America	%	18.9	19.0	18.6
– Middle East	%	4.0	2.9	3.9
<b>Employee turnover</b>				
– Europe	%	15.5	14.6	19.2
– Asia-Pacific	%	22.1	17.9	21.1
– North America	%	19.4	31.6	24.2
– Latin America	%	16.5	21.4	24.6
– Middle East	%	12.3	14.4	11.1
– All staff	%	18.6	19.4	21.3
<b>Gender</b>				
by management type				
– Senior managers: male / female	%	86/14	87/13	86/14
– Middle managers: male / female	%	68/32	69/31	69/31
– Junior managers: male / female	%	53/47	54/46	54/46
– All staff: male / female	%	40/60	40/60	40/60
by region				
– Europe: male / female	%	45/55	45/55	44/56
– Asia-Pacific: male / female	%	49/51	49/51	49/51
– North America: male / female	%	41/59	40/60	40/60
– Latin America: male / female	%	47/53	47/53	47/53
– Middle East: male / female	%	67/33	68/32	64/36
<b>Health and safety</b>				
Number of employee workplace fatalities		0	0	1
Accidents involving more than 3 days' absence per 100,000 employees		120	70	101
All accident rate per 100,000 employees		548	458	384

\* New metric developed in 2009.

	Units	2010	2009	2008
<b>Community investment</b>				
Cash charitable donations <sup>1</sup>	US\$m	107.7	101.3	99.3
Europe <sup>2</sup>	US\$m	62.8	53.8	45.5
Asia-Pacific (including Middle East and Africa)	US\$m	14.7	14.4	12.9
North America	US\$m	19.4	22.2	32.7
Latin America	US\$m	10.8	10.9	8.2
Employee volunteering in own time	hrs	404,220	271,000	288,000
Employee volunteering in work time	hrs	321,315	285,332	333,225
Europe	hrs	69,539	81,703	68,608
Asia-Pacific (including Middle East and Africa)	hrs	172,780	135,631	128,785
North America	hrs	55,587	52,137	114,736
Latin America	hrs	23,409	15,861	21,096
Value of employee volunteering hours in work time <sup>3</sup>	US\$m	8.0	7.7	9.4
Management costs associated with community investment	US\$m	12.0	14.9	13.0
Total value of community investment	US\$m	127.7	123.9	121.7
Allocation of cash donations				
Education	%	50	45	43
Environment	%	34	29	33
Other	%	16	26	24
<b>Environment</b>				
Reporting coverage as % of Group	%	94	95	95
<b>Carbon dioxide emissions</b> (after uplift and scale up) <sup>4</sup>				
Total CO <sub>2</sub> emissions	tonnes	1,017,000	991,000	954,000
CO <sub>2</sub> emissions from energy	tonnes	875,000	866,000	788,000
CO <sub>2</sub> emissions from business travel	tonnes	142,000	125,000	166,000
Total CO <sub>2</sub> emissions per FTE	tonnes	3.45	3.42	3.05
CO <sub>2</sub> emissions per FTE from energy	tonnes	2.97	2.99	2.52
CO <sub>2</sub> emissions per FTE from business travel	tonnes	0.48	0.43	0.53
CO <sub>2</sub> emissions per m <sup>2</sup>	tonnes	0.17	0.16	0.15
<b>Carbon dioxide emissions per FTE by region</b> (before uplift and scale up)				
Total CO <sub>2</sub> emissions per FTE				
Europe	tonnes	3.79	3.51	1.94
Asia-Pacific	tonnes	3.00	2.98	3.06
North America	tonnes	4.74	5.33	4.94
Latin America	tonnes	2.16	2.19	2.09
Middle East	tonnes	5.63	4.24	6.08
<b>Environmental resource efficiency</b> (before uplift and scale up)				
Total energy consumption	gigawatt hours	1,789	1,812	1,884
Energy consumption per FTE	kWh/FTE	6,426	6,593	6,310
Energy consumption per m <sup>2</sup>	kWh/m <sup>2</sup>	299	299	300
Total electricity consumption	gigawatt hours	1,520	1,523	1,591
Primary fuel sources (gas, oil, diesel, etc)	gigawatt hours	269	289	293
Total waste produced	kilotonnes	66	62	81
Waste disposed	kilotonnes	25	24	40
Waste disposed per FTE	tonnes/FTE	0.09	0.09	0.27
Waste recycled	kilotonnes	41	38	41
% waste recycled	%	62	61	51
Total water consumption	thousand m <sup>3</sup>	4,770	4,474	4,723
Water consumption per FTE	m <sup>3</sup> /FTE	17.1	16.3	15.8
<b>Business travel</b> (before uplift and scale up)				
Total business travel	million km	1,014	872	1,132
Business travel per FTE	km/FTE	3,641	3,175	3,791
Air travel	million km	762	624	846
Domestic air travel	million km	65	56	158
International air travel	million km	697	568	688
Rail travel	million km	34	26	26
Road travel	million km	153	167	217
Other travel	million km	65	56	43

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\$42.2 million was spent outside of Europe.

3 2009 figure restated due to enhancement in data collection processes, from US\$8.2 million to US\$7.7 million.

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.

# Performance against Commitments for 2010

Commitments	Progress
Establish a 'climate business council' chaired by an executive Director to lead our response to commercial opportunities for HSBC and its customers in the 'climate business' sector.	Achieved. See page 10.
Seek and invest in opportunities to create new technologies that will help drive the 'climate business' sector.	Achieved. See page 11.
Establish a working group to assess risks to the business and our customers from climate change.	Achieved. The working group met eight times in 2010.
Issue a summary of our defence equipment policy.	Achieved. The policy summary is available at <a href="http://www.hsbc.com/sus-risk">www.hsbc.com/sus-risk</a> .
Issue our revised energy sector policy.	Achieved in January 2011. Available at <a href="http://www.hsbc.com/sus-risk">www.hsbc.com/sus-risk</a> .
Issue a summary of our policy on the palm oil sector and encourage certification under the Roundtable on Sustainable Palm Oil.	Achieved. A summary was issued internally to relationship managers, including guidance for encouraging customers to aim for certification under the Roundtable on Sustainable Palm Oil.
Achieve a target score for employee engagement of 72% in 2010.	Not achieved. Attained 68%, three points above the financial services sector average. See page 8.
Include diversity and inclusion in objectives for management.	Achieved. See page 8.
Improve position on customer recommendation in major markets compared with 2009 performance.	In progress. See page 6. Customer recommendation continues to be a key area of focus.
Increase employees' understanding of HSBC's Group Values and brand.	In progress. See page 8.
Expand JA More Than Money™, our global financial literacy programmes, to five more countries.	Partially achieved. Programme expanded to four more countries in line with local priorities.
Train a further 400 employees from 40 countries as 'Climate Champions'.	Achieved. See page 17.
Publish a mid-term evaluation of the HSBC Climate Partnership by a third party.	Partially achieved. A review was conducted for the partners and recommended improvements to the programme were made.
Increase awareness and use of tele- and video-conferencing to reduce environmental impact of business travel and commuting.	Achieved. We expanded video-conferencing facilities by over 200%, and the average monthly usage more than doubled compared with 2009.
Trial software to virtually connect HSBC's property portfolio to monitor and manage energy use.	Achieved. We are now assessing the cost benefit of wider implementation.
Help to achieve the 16 sustainability objectives in the Chief Technology and Service Officer's balanced scorecard at country, regional and Group levels.	We achieved 15 of the 16 objectives. We did not achieve the paper reduction target due to regulatory requirements for increased paperwork in the US.
Increase engagement with employees in operational functions to create change agents to drive internal sustainability projects.	Achieved. See page 18.
Roll out sustainability questionnaire across Europe and Middle East.	Partially achieved. Applied sustainability assessments as part of the tender process for UK suppliers. Suppliers were scored and required to improve performance in some cases.



# 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 independently assure the information set out in the table below ('Selected Information') which is included in the HSBC *Sustainability Report* for the year ending 31 December 2010. We planned and performed our work, summarised below, to obtain the evidence we considered necessary to reach our assurance conclusions on the Selected Information.

<b>What we are assuring ('Selected Information')</b>	a. Statement on the application of the Equator Principles on page 13. b. Statement of HSBC's emissions and offsets resulting in carbon neutrality on page 19.	<b>How the information is assessed ('reporting criteria')</b>	HSBC's Reporting Guidance for measuring, recording and reporting the selected Equator Principles and carbon emissions data are set out at <a href="http://www.hsbc.com/sus-assurance">www.hsbc.com/sus-assurance</a> .
<b>Assurance standard<sup>1</sup></b>	ISAE3000	<b>Level of assurance<sup>2</sup></b>	Limited
<b>Understanding HSBC's reporting and measurement methodologies</b>	There is not yet an established practice for evaluating and measuring sustainability performance information. The range of different, but acceptable, techniques used can result in materially different reporting outcomes which may affect comparability with other organisations. It is therefore important, for both the readers of the HSBC <i>Sustainability Report 2010</i> and us, to understand how HSBC has evaluated and measured the Selected Information which are set out in HSBC's Reporting Guidance at <a href="http://www.hsbc.com/sus-assurance">www.hsbc.com/sus-assurance</a> .	<b>Work done by our independent and multi-disciplinary team of sustainability and assurance specialists<sup>3</sup></b>	<ul style="list-style-type: none"> <li>Evaluated the design and operating effectiveness of key processes and controls over the Selected Information;</li> <li>Assessed the reliability of the source data used to prepare the reported data for 2010, including reperforming a sample of calculations;</li> <li>Carried out analytical procedures over the Selected Information;</li> <li>Examined, on a selective basis, internal and third party documentation, as well as making inquiries of management and others, and analysing media reports;</li> <li>Reviewed the disclosures in the HSBC <i>Sustainability Report</i> related to the Selected Information.</li> </ul>
<b>HSBC's responsibilities</b>	The Directors of HSBC are responsible for: <ul style="list-style-type: none"> <li>designing, implementing and maintaining internal controls over information relevant to the <i>Sustainability Report 2010</i>;</li> <li>establishing objective assessment and reporting criteria for preparing the <i>Sustainability Report</i>;</li> <li>measuring HSBC's performance based on the assessment criteria;</li> <li>the content of the <i>Sustainability Report</i>.</li> </ul>	<b>Our responsibilities</b>	We are responsible for: <ul style="list-style-type: none"> <li>forming independent conclusions, based on our assurance procedures;</li> <li>reporting our conclusions to the Directors of HSBC;</li> <li>reading the other information included in the <i>Sustainability Report</i>, and considering the consistency of that other information with the understanding gained from our work, and considering the implications for our report if we become aware of any material inconsistencies. Our responsibilities do not extend to any other information.</li> </ul>
<b>Our conclusions</b>	In our opinion nothing has come to our attention to indicate that for the year ended 31 December 2010, the Selected Information has not been fairly stated in all material respects in accordance with HSBC's Reporting Guidance.		

This report, including our conclusions, has been prepared solely for the Directors of HSBC as a body in accordance with the agreement between us, to assist the Directors in reporting HSBC's corporate sustainability performance and activities. We permit this report to be disclosed in the *Sustainability Report* for the year ended 31 December 2010 to enable the Directors to show they have met 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 management for our work on this report except where terms are expressly agreed between us in writing.



PricewaterhouseCoopers LLP  
Chartered Accountants, London  
18 May 2011

1 International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the IAASB [www.ifac.org/IAASB](http://www.ifac.org/IAASB).

2 Assurance, defined by the International Auditing and Assurance Standards Board (IAASB), gives the user confidence about the subject matter ("Selected Information") assessed against the reporting criteria. Reasonable assurance gives more confidence than limited assurance. The evidence gathered to support a reasonable assurance conclusion is greater than that gathered to support a limited assurance conclusion.

3 We comply with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics [www.icaew.com](http://www.icaew.com).

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### Photography

Group Chairman, page 2: Charles Best

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