



Who we are and what we do

HSBC is one of the world's largest banking and financial services organisations, with around 6,600 offices in both established and faster-growing markets. We serve around 58 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 81 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North 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 about 220,000 shareholders in 129 countries and territories.

HSBC's vision

Purpose

Reason why we exist

Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose.

Values

How we behave and conduct business

We act with courageous integrity by being:

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

Strategy

Where and how we compete

- international network connecting faster-growing and developed markets
- develop Wealth Management services and invest in Retail Banking only in markets where we can achieve profitable scale

Outcome

Being the world's leading international bank

Table of contents

- 1 Overview
- 2 Group Chairman's Introduction

Chapter 1. Strategy

- 4 Our Strategy
- 5 Our Approach
- 6 Our Purpose, Values and Conduct

Chapter 2. Customers

- 9 Global Businesses
- 14 Climate Business

Chapter 3. Sustainability Risk

- 16 Our Sustainability Risk Framework

Chapter 4. Operations

- 20 Our Sustainable Operations Strategy

Chapter 5. People

- 24 Valuing our Employees

Chapter 6. Community Investment

- 27 Education
- 30 HSBC Water Programme

Appendices

- 32 Key Facts
- 35 Assurance Report
- 36 About this Report

Cover image

Financing trade has always been at the heart of HSBC's business, especially in our home market of Hong Kong. Today, Hong Kong International Airport is the world's busiest air cargo hub, with its freight volume accounting for over one-third of the total value of Hong Kong's external trade.

The airport is home to Cathay Pacific Airways, Hong Kong's flagship carrier (foreground). The airline has made significant investments to build a modern, fuel-efficient fleet that can contribute to a more sustainable, low carbon economy.

Photography: Matthew Mawson

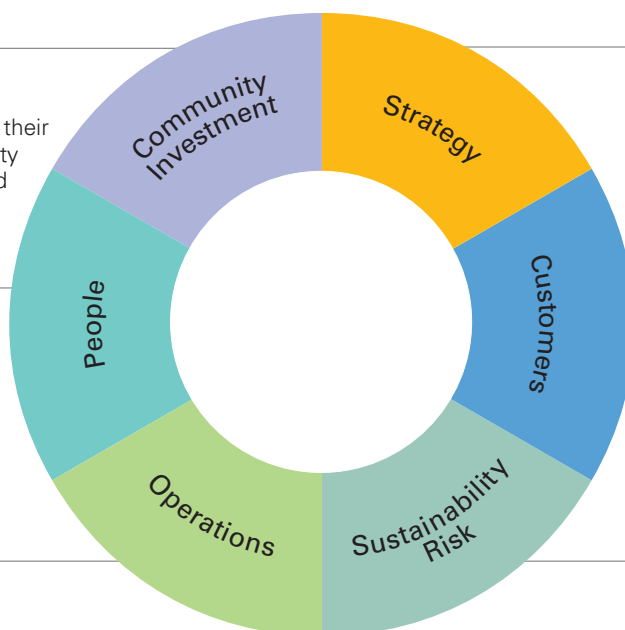
Overview

This annual *Sustainability Report* sits alongside our *Annual Report and Accounts 2012* and *Annual Review 2012*. It reports on progress made in 2012, issues of importance to us, and our future aspirations. Our report articulates what sustainability means to HSBC and how we manage it, both in terms of incorporating sustainability throughout our business and how our sustainability commitments shape the way we do business.

Community Investment – our approach to helping young people realise their potential and achieve their ambitions, and working with charity partners to protect freshwater and provide sanitation through the HSBC Water Programme

People – how we attract, retain and develop the best talent in an international market-place in order to deliver our strategy

Operations – how we will achieve our goal to cut annual employee carbon emissions from 3.5 to 2.5 tonnes by 2020



Strategy – how sustainability fits into our organisational strategy and values, helping us to achieve our purpose as an organisation

Customers – how we connect our customers to our products and services through our four global businesses, including a focus on commercial opportunities with a reduced impact on natural resources, i.e. 'climate business'

Sustainability Risk – helping to manage our risks and support customers through our sustainability risk policies to ensure customers act responsibly towards the environment and communities

Highlights 2012



6,594

employees trained in sustainability risk since 2011



US\$120m

donated to community investment programmes



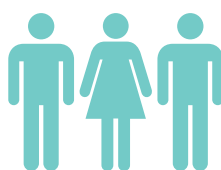
25%

female representation on our Group Management Board



US\$100m

our contribution to the five-year HSBC Water Programme



160,000

employees trained in HSBC values since 2011



27,000

tonnes of carbon avoided

Group Chairman's Introduction



Douglas Flint
Group Chairman

"The quality of our relationships is the foundation of our success as a business."

There has never been a more important time to ensure that our business is sustainable and committed to the long term. At HSBC, we know how important it is that banks play a positive role in the economies and communities we serve and that we meet or surpass the expectations of society, our customers, regulators and investors. We are defined and judged by our behaviour towards and within the communities we serve.

Throughout our history, we have succeeded by helping our customers operate where the growth is. Our day-to-day business activities are focused on helping our customers achieve their aspirations and thereby achieving sustainable profits for our shareholders, building long-lasting connections with customers, valuing our highly committed employees, respecting environmental limits and investing in communities. The quality of our relationships is the foundation of our success as a business.

Global outlook

HSBC Global Research shows a significant shift in the world economy is taking place; by 2050, we expect economies currently deemed 'emerging' to have increased fivefold in size. Our customers and other stakeholders are becoming increasingly mobile, with a greater access to education, better communications and technologies, and an increasing demand for global connectivity.

There is a lot to be thankful for. The development of fast-growing economies over the past 30 years, notably China, India and Brazil, has raised hundreds of millions of people out of the most abject poverty and lifted living standards for many more. Data from the World Bank shows that the number of people living in extreme poverty (defined as living on less than US\$1.25 a day) has been halved since 1990, exceeding the target of the first of the Millennium Development Goals. This has seen the middle class – those with US\$10-US\$100 daily disposable income – growing significantly, with researchers at McKinsey predicting that the global middle class population will have grown from two billion in 2010 to five billion by 2030.

These shifts offer tremendous opportunities for individual advancement but have also increased the demand for resources: the food, water and energy nexus requires particular attention. We recognise that, if the world continues to overshoot its resource capacity, there is the risk of localised, and eventually global, constraints on economic activity. We believe we have a role to play in helping to safeguard the natural resources that underpin economic growth.

“We will create a robust, resilient and sustainable business in which our clients can have confidence, our employees can take pride, and our communities can trust.”

HSBC's role in the economy, environment and society

By understanding the shifts taking place in the technologies and regulations reshaping sustainable growth, we can support our customers to connect to business opportunities in the low carbon economy, harnessing HSBC's international network to support global trade for businesses of all sizes. In 2012, for example our Global Banking business led one of the largest project financings in Latin America in the renewables sector.

I am pleased to report that we have recently signed up to the UN's Principles for Sustainable Insurance, a global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative, launched in 2012. Its aim is to help insurance companies manage their environmental, social and governance (ESG) challenges. The principles ensure that signatories embed ESG in decision-making and work together with clients, partners and governments to raise awareness of ESG issues.

We are reducing our own impact through our 2020 goal to cut HSBC's annual employee carbon emissions by one tonne, from 3.5 to 2.5 tonnes. Our operational teams have engaged employees across our businesses to deliver our sustainable operations strategy and we have already seen reductions in paper use and travel carbon emissions.

Water will be one of the most important resources for the world to harvest and protect over the next 20 to 30 years and it was, therefore, very important to me to participate in the launch of the HSBC Water Programme in 2012. This is a five-year, US\$100 million commitment to support Earthwatch, WaterAid and WWF to deliver water provision, protection, information and education. It is a huge project that can make a real difference and it goes to the heart of HSBC's values.

In 2012, we extended our commitment to support disadvantaged and vulnerable young people who are not in education, employment or training. We support local and international charities working in this area, and also run our own people-driven 'Future First' programme, which helps street children, children in care and orphans to access education. Initiatives under this programme are developed and supported by HSBC colleagues around the world and, in 2012, 2,717 members of staff volunteered to support the programme.

Learning lessons from our past

During 2012 the banking sector, including HSBC, faced continuing and unprecedented challenges. Our role in society has been questioned and, in our 148 years of business, this has been one of the toughest for everyone at HSBC. This period has been damaging to our reputation and to our perception of ourselves. We were greatly exercised by the major US regulatory and law enforcement investigations we faced, and by our serious failings both in the application of our standards and in our ability to identify, and so prevent, misuse and abuse of the financial system through our networks. We have apologised unreservedly to all our stakeholders and have paid significant penalties both in monetary cost and reputational damage. More important than apologies, however, are the steps being taken to prevent recurrence and we are determined to restore HSBC's reputation, thereby regaining society's trust. We must ensure that the decisions we take now are right for the long term, for those who will lead the business in future generations.

The Chinese characters which together represent 'crisis' consist of 'danger' and 'opportunity', serving as a reminder that every crisis provides a catalyst for reflection, for learning, and for changing direction. We understand that, if we do not perform a role acceptable to society, then it will reject us and replace us with a model suited to its requirements. Now is our opportunity to restore confidence, to learn lessons and so avoid repeating mistakes. We will do this by creating a robust, resilient and sustainable business in which our clients can have confidence, our employees can take pride, and our communities can trust.



Douglas Flint
Group Chairman

May 2013

Our Strategy

Becoming the world's leading international bank

In May 2011, HSBC set out its vision for the long-term direction of the Group, together with a clear strategy that will help us achieve it. It guides where and how we seek to compete. We constantly assess our progress against this strategy, and provide regular updates to stakeholders.

Alignment to long-term trends	Strategic direction	Execution
Our strategy is aligned to two long-term trends:	Based on these long-term trends and our competitive position, our strategy has two parts:	This relies on action in three areas to grow, simplify and restructure the Group.
International trade and capital flows	Network of businesses connecting the world	1. Growing HSBC
The world economy is becoming ever more connected. Growth in world trade and cross-border capital flows continues to outstrip growth in average gross domestic product. Financial flows between countries and regions are highly concentrated. Over the next decade, we expect 35 markets to account for 90 per cent of world trade growth and a similar degree of concentration in cross-border capital flows.	HSBC is well positioned to capture growing international financial flows. Our global reach and range of services put us in a strong 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 suite of international products allow us to offer distinctive, profitable solutions to these clients. We will focus on 'South-South' trade, connecting faster-growing economies with each other.	We continue to position HSBC for growth. We will deploy capital in our home and priority growth markets, access faster-growing markets, and cover all major trade corridors. The Group will benefit from closer co-ordination and increased referrals among HSBC's four global businesses, with the collective aim of maximising revenue opportunities.
Economic development and wealth creation	Wealth management and retail with local scale	2. Simplifying HSBC
By 2050, we expect economies currently deemed 'emerging' to have increased five-fold in size, 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'.	Social mobility and wealth creation in the faster-growing markets will generate demand for financial services which we will meet through our Wealth Management and Private Banking businesses. We will only invest in retail businesses in markets where we can achieve profitable scale.	3. Restructuring HSBC We are restructuring certain businesses to adapt to a changing environment. Our Global Banking and Markets business is managing down its legacy credit exposures. We are reshaping our US operations to focus on core activities, i.e. servicing international businesses. Global Private Banking is focusing on priority markets and improving operational standards such as strengthening its compliance and risk framework.

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 pay; the Nomination Committee, which leads the process for Board appointments; the Corporate Sustainability Committee, which advises on environmental, social and ethical issues; and recently the Financial System Vulnerabilities Committee which oversees controls and procedures designed to: 1) identify areas where HSBC may become exposed to financial crime or system abuse and 2) ensure the continuing obligations to regulatory and law enforcement agencies are met.

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

Strengthening our values

In line with our ambition to be recognised as the world's leading international bank, we aspire to lead the industry in our standards of conduct. We expect all HSBC 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 customers, communities, regulators and each other.

These values are embedded in the way we do business and in our selection, assessment, recognition and training programmes. Values are crucial to our reputation; so too is the effectiveness of our efforts to secure HSBC's integrity.



A sustainable business

Financial institutions have responsibilities not only towards their customers, shareholders and employees, but also to the wider communities and environment in which they operate. For HSBC, acting sustainably means building our business for the long term by living up to these responsibilities and valuing relationships with stakeholders.

We connect customers to commercial opportunities which also support the transition to a low carbon economy. Applying environmental and social criteria to our lending decisions in such sectors as forestry and energy is integral to our approach. We have committed to cut our own annual employee carbon emissions by one tonne, from 3.5 to 2.5 tonnes, by 2020.

We also seek to help the communities in which we operate to develop, focusing our investment on education and environmental programmes which help them to flourish for the long term.

Our Purpose, Values and Conduct

We aim to be where the economic growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people fulfil their hopes and dreams and realise their ambitions. This is our purpose as an organisation.

2012 was a very difficult year for HSBC; our reputation has been damaged and we have admitted past mistakes in not ensuring our compliance controls were being met rigorously enough. However, we want to use the lessons we have learned to drive change and become industry leaders in compliance and control. We have strengthened our new strategy, instilling our values throughout the business and our employees. We have implemented Global Standards across the whole of HSBC, in the face of an increasingly sophisticated and heightened risk of financial crime. These are articulated on page 25 of HSBC's *Annual Review 2012*, which can be found at hsbc.com/investor-relations

We continue to enhance our values-led culture by embedding HSBC's Values in how we conduct our business and in the selection, assessment, recognition and training of employees. Our values are integral to our commitment to implement Global Standards. We expect our executives and other 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 line with our ambition to be recognised as the world's leading international bank, we aspire to lead the industry in our standards of conduct. As international markets become more interconnected and complex and, as threats to the global financial system grow, we are strengthening further the policies and practices which govern how we do business and with whom.

Like any business, we greatly value our reputation. HSBC's success over the years is due in no small part to our reputation for trustworthiness and integrity. In April 2012, as part of this effort, we committed to adopting and enforcing the highest compliance standards across HSBC. Doing so will help us to achieve three key objectives:

- Strengthen our capabilities to combat the ongoing threat of financial crime;
- Make consistent – and therefore simplify – how we monitor and enforce high standards at HSBC; and
- Ensure that we consistently apply our values so as to serve positively the customers and societies who entrust their financial needs to HSBC.

Under the supervision of HSBC's Global Standards Steering Meetings of the Group Management Board, we are already strengthening policies and processes in a number of important areas. This includes the addition of our 'financial crime risk filter' which was added to the five financial filters which help us determine where to do business and the type of business we can do in line with our values and financial return objectives. The sixth filter requires an analysis of all new and existing business to limit activity and client acquisition in jurisdictions with a high risk of financial crime.

We are also reinforcing the status of compliance and standards as an important element of how we assess and reward senior executives, and rolling out communication, training and assurance programmes to ensure that our staff understand and meet their responsibilities.

A new committee of the HSBC Holdings Board, the Financial System Vulnerabilities Committee, will provide governance, oversight and policy guidance over the framework of controls and procedures designed to identify areas where HSBC may be exposed and, through that exposure, expose the financial system more broadly to financial crime or system abuse.

For discussion and disclosure of compliance and legal issues raised in 2012, including money laundering, LIBOR rate-fixing, payment protection insurance mis-selling and data protection please refer to our *Annual Report and Accounts 2012*, which is available at www.hsbc.com/investor-relations/financial-results

Engaging with governments and regulators

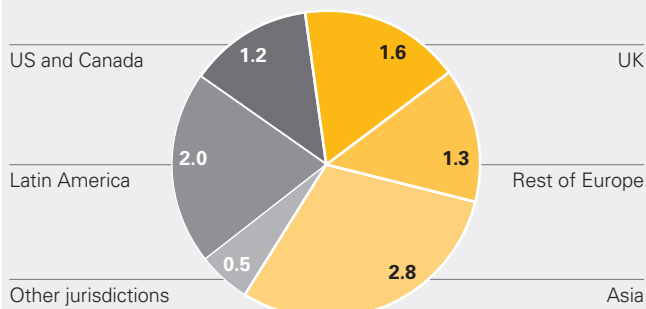
Governments and regulators are tasked with formulating and enforcing the rules and regulations that shape the environment in which we operate. In this process, we have a responsibility to share our knowledge and expertise to help public officials develop practical solutions which meet their policy objectives; and to work hard to ensure that we meet fully the terms of the rules that govern our industry.

At a Group level, our engagement is focused on supra-national authorities tasked with finding global solutions to financial issues; jurisdictions that are helping to shape and/or implement the global response; and countries which are taking specific approaches to these issues. At a local level, our subsidiaries keep their local public officials informed on the issues of mutual interest, and engage openly and constructively on proposed changes to conduct regulation.

In 2012, we engaged policy makers across the world on the major themes of capital, bank structure, recovery and resolution, and financial markets developments. Discussions on bank culture were more focused on the UK and US. On the growth agenda, we shared our ideas in Europe and in Asia on helping small and medium sized companies access finance; and provided parliamentarians with data on our lending to their local economies. We also shared our thoughts on financial policy and the sustainability of the financial system with officials around the globe.

We have engaged policy makers and regulators, particularly in the US, on a number of anti-money laundering failures that were the subject of public attention in 2012. We acknowledged our shortcomings, explained how it happened, shared the lessons learnt and set out the comprehensive changes we are implementing to ensure that our controls are fit for purpose going forward.

Breakdown of total tax paid by region 2012
US\$b



In all we do, our aim is to be open and to become trusted partners with policy makers globally to find solutions to past failures and current challenges; and develop future opportunities.

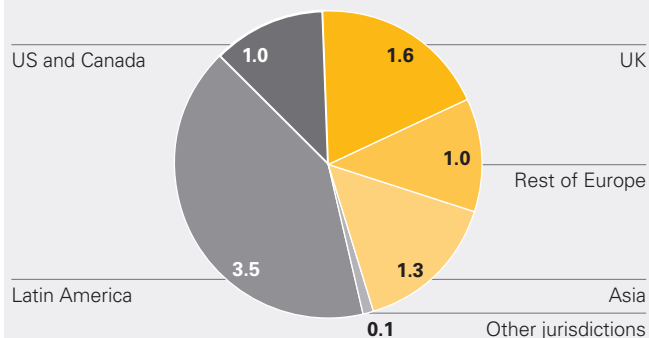
Our economic contribution

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 where we operate. We also finance companies so that they, in turn, can create employment.

Following requests from shareholders and non-governmental organisations (NGOs) for more transparent data on taxation, we have provided a breakdown of our tax payments by country for our priority markets in the 'Key Facts' section of this report on page 32.

HSBC has adopted the UK Code of Practice for the Taxation of Banks and seeks to apply the spirit as well as the letter of the law in all the territories in which it operates. In 2012, the Global Standards Steering Meeting of the Group Management Board agreed terms of a new Global Standard on 'tax transparency' to ensure that HSBC's banking services are not associated with any arrangements which are known or suspected to be designed to facilitate tax evasion by a customer. This builds on our already significant level of anti-money laundering and 'Know Your Customer' checks. Employees are being trained on how to identify possible tax evasion by customers and the procedures for reporting and escalating such situations and exiting customers as necessary.

Taxes collected for government 2012
US\$b



Business Growth Fund

In July 2010, during a difficult time for the UK economy, major banks established a Business Finance Taskforce to consider initiatives to help the country return to sustainable growth. HSBC proposed the creation of a Business Growth Fund to provide long-term capital to SMEs facing difficulties. Launched in 2011, the fund provided finance of £2 million to £10 million to growing SMEs typically turning over £5 million to £10 million, in return for a minority stake in a business and a seat on the board. The fund addresses an historical gap where smaller companies have been unable to find investors which are often focused on a limited number of larger and potentially higher return deals. Through a capital treatment which reflects the expected diversity of the investment and with funding of up to

£2.5 billion from the major banks which are its shareholders, the fund has been able to create a commercial model for smaller investments on acceptable terms to growing British businesses.

The fund is now an established business with over 70 staff and six offices and has already invested over £100 million. It plans to add a further £200 million during 2013, and increase the number of its employees to over 100. In addition, a number of governments in Europe and elsewhere in the world have asked HSBC to see if the model can be adapted to expand the global financial capacity available to SMEs. The fund has supported 25 businesses since its inception.

Distribution of economic benefits 2012

US\$b	2010	2011	2012
Net cash tax outflow ¹	5.8	8.0	9.3
Distributions to shareholders and non-controlling interests	7.1	8.3	8.7
Employee compensation and benefits	19.8	21.2	20.5
General administrative expenses including premises and procurement	15.2	17.5	20.0

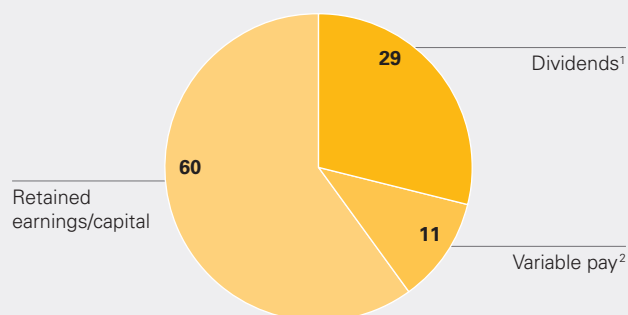
¹ Includes cash outflows of corporation tax, employer payroll tax, irrecoverable value-added tax and other taxes.

Pro forma post-tax profit allocation

HSBC's Board of Directors is responsible for allocating the appropriate distribution of profits to balance retained capital, shareholder reward and employee variable pay. The variable pay pool was reduced in 2012, reflecting the cost and reputational damage of fines and penalties HSBC incurred.

Pro forma post-tax profit allocation 2012

%



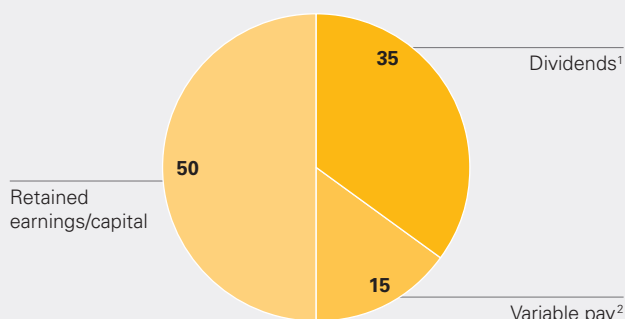
HSBC's net cash tax contribution 2012

	US\$b
Tax on profits	5.6
Employer taxes (National Insurance)	1.6
Bank levy	0.5
Irrecoverable value-added tax	0.8
Other duties and levies	0.8
Total	9.3

On a pro forma basis, attributable profits (excluding movements in the fair value of own debt and before variable pay distributions) are allocated in the proportions shown in the charts below.

Pro forma post-tax profit allocation 2011

%



¹ Inclusive of dividends to holders of other equity instruments and net of scrip issuance. Dividends per ordinary share declared in respect of 2012 were US\$0.45, an increase of 10% compared with 2011.

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

Global Businesses

HSBC's structure comprises four global businesses, 10 global functions and HSBC Technology and Services, which runs our IT services, operations and Corporate Real Estate.

Our four global businesses, set out below, are built on our strengths of international connectivity and delivering for customers.

Retail Banking and Wealth Management

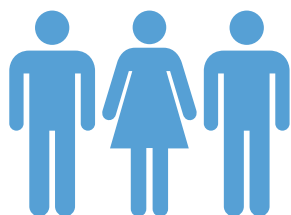
Providing a full range of banking services to more than 54 million people worldwide.

- Building on the success of HSBC Premier and leveraging world class product structuring capabilities and best practices globally
- Standardising banking propositions globally to gain cost efficiencies through business transformation
- Focusing investment on priority growth markets where we can achieve scale and returns

Global Banking and Markets

Financial services and products for corporates, governments and institutions.

- Partnering with clients to help them achieve consistent, long-term performance while delivering commercial opportunities
- International network connecting emerging and mature markets, covering key growth areas



35,000

employees in Brazil trained to provide financial education

This chapter shows how we served our customers through our global businesses in 2012. We report on the most significant themes of the year. For example, 2012 saw difficult economic times in many countries and so helping customers through financial difficulties has been a major area of focus. We have also focused on improving our digital products and use of social media for customers.

Commercial Banking

Helping small and large companies grow domestically and internationally.

- Focusing on long-term relationships and on the markets that matter to help our customers' business grow
- Giving our customers the right products and services, often by collaborating with other global businesses

Global Private Banking

Helping high-net-worth clients manage and preserve wealth.

- Providing our clients with a unique network and global footprint, using our heritage and knowledge of emerging markets
- Forging long-term relationships, with families banking with us for generations
- Helping families with legacy and succession planning and philanthropy



£12.3b

lent to SMEs in the UK

Supporting home ownership

In the UK, we continued to be a leading mortgage bank for first-time buyers. In 2012, we approved more than £5 billion of first-time buyer mortgages for over 40,000 customers and £19.5 billion of lending to UK mortgage borrowers – a year-on-year increase of 20 per cent. We won 19 mortgage awards, including ‘Which Recommended Mortgage Provider’ twice in the year. In France, we saw an increase in our mortgage market share from 1.4 per cent in 2011 to 2.4 per cent in 2012.

We tailor our services according to local need. For example, in the Middle East, HSBC provides financial support to enable UAE nationals to build and develop their own home on land given to them by the government. Official government housing schemes, such as the Mohammed Bin Rashid Housing Establishment in Dubai and the Sheikh Zayed Housing Programme in Abu Dhabi, offer UAE nationals free land and financing to build a house. HSBC launched a finance plan based on this scheme in 2011. We are the only multinational bank to provide financial support for other situations: for example, for customers who want to spend over the amount granted by the government to build a house; or for UAE nationals whose income is insufficient to qualify for the housing assistance as they may be eligible for the gifted land but not the interest-free loan.

In the US, through a partnership with the Federal Home Loan Bank of New York, HSBC offers ‘First Home Club’, a matched savings and home-buyer education initiative with a grant programme to assist with down payment and closing costs for low income families who are buying their first home. During 2012, HSBC enrolled over 526 prospective homeowners in the programme, and assisted 270 participants in purchasing homes.

In the Asia-Pacific region, we launched a ‘Smart Home’ mortgage which provides customers with greater flexibility to adapt to changing priorities. It gives customers the freedom to make pre-payments at any time without notice or charges to help customers pay off their home loan faster. If the customer’s circumstances then change, it also provides the flexibility to have instant access to any additional funds they have paid into the loan, at any time, for any purpose, up to the reducing credit limit. Smart Home mortgage is currently used by 33 per cent of mortgage customers in the region.



40,000

**first-time buyer
mortgages in the UK**

Foreclosure processes

HSBC has a strong commitment to home preservation and will only reach the decision to foreclose on a mortgage after all other opportunities have been explored. In the US, during 2012 we continued to modify loans for customers struggling to make mortgage payments, including more than 20,000 loans for HSBC Finance customers with balances of US\$2.8 billion. By the end of 2012, 58 per cent of the HSBC Finance mortgage portfolio had been renegotiated.

In January 2013, HSBC entered into settlement agreements with US regulators regarding foreclosure processes. Under the agreement, HSBC will provide some US\$257 million in loan modifications, cash payments and other assistance to around 112,000 borrowers, in foreclosure between 2009 and 2010 whose loans were serviced by the bank or its subsidiaries and who may have been affected by improper practices.

Supporting customers

We recognise that people in many countries across the world are facing a difficult financial period and 2012 was another challenging year for the global economy. HSBC is taking a more proactive approach to helping customers who have fallen into financial difficulty or who appear to be at risk of doing so. Across Europe, we have re-trained frontline teams to ensure that they are better equipped at finding the correct solutions for our customers’ needs. We have also re-trained our people in responsible lending and have dedicated teams who deal specifically with customers who are experiencing financial difficulties. We will do all we can to find a long-term sustainable solution.

In the UK, we respect and adhere to our commitments under the UK Lending Code to ensure customers are treated positively and sympathetically if they are in financial difficulty. We work with UK charities, including the Money Advice Trust, Citizens Advice and Step Change Debt Charity, to ensure our solutions and support are the best for the customer.



Winners

**of the Skoch Financial
Inclusion Award 2013, India**

“Over the last year, Citizens Advice and HSBC have developed our collaboration to help customers in financial difficulty, and to share and promote good practice in advice and debt collection.”

Mike Dixon

Assistant Chief Executive
Citizens Advice

In early 2013, we removed all sales targets from the scorecards of our employees in the UK retail banking business. Employee appraisals and bonuses are now based on customer service satisfaction, implementing our values and sales quality. This is designed to incentivise employees to act in the best interest of customers.

In France, we set up a suite of products and services also dedicated to customers experiencing financial difficulties and, in Hong Kong, we introduced a service automatically entitling customers to a guaranteed refund for eligible retail banking and wealth management products within 30 days of purchase. In the US, customers in financial difficulty are assigned a single point of contact who will address their individual circumstances and needs.

Debt recovery

HSBC understands the impact we have on our customers' lives and our responsibilities do not always end when the direct banking relationship closes. Regrettably, we may have to enter a period of debt recovery. We ensure that any customer whose debt is placed with a third party debt collection agent is treated exactly as he or she would be if the debt remained with HSBC through comprehensive vetting, contractual agreement and on-site audit. These principles are applied globally using a consistent framework.

Financial inclusion and education

In 2006, HSBC set up the Mann Deshi Udyogini (Mann Deshi Business School for Rural Women) in India, which saw 23,136 women being trained in finance in 2012. The school has experienced a growth rate of 20-30 per cent in the past few years and expects to serve 80,000 new beneficiaries by 2015. HSBC India won the Skoch Financial Inclusion Award 2013 under the Capacity Building and Financial Literacy Category. This award recognises achievements at the school in 2012, including a transition to an advanced management training programme and expansion to five districts of Maharashtra State. HSBC is the only foreign bank to receive a Skoch award.

In Vietnam, HSBC introduced a free online banking library in 2012 to educate individuals on financial management and banking. The library consists of 10 modules, ranging from personal financial to corporate banking courses. Translated

into Vietnamese, the content is based on HSBC's world-class database of training materials used by banking employees globally for professional development purposes. The modules include progress tests so that users can check whether they have fully understood the material as they follow the course.

We run a number of programmes across the world to help our customers strengthen their financial literacy and understand their financial commitments.

In Brazil, we launched a digital marketing platform providing financial education on credit and money to customers. We also created a training programme for employees on sustainable credit and conscious consumption to enable them to help customers choose the most sustainable financial products and avoid debt. Some 35,000 employees attended this training in 2012.

HSBC's 'YourMoneyCounts' is a free financial education project, including brochures and a website for customers. The website has been visited by nearly seven million consumers since its creation in 2003.

We also run financial education programmes as part of our Community Investment work, which can be seen on page 27 of this report.

New products and services

We are constantly seeking better products and services to meet the needs of our customers.

In Canada, in 2012 we saw increased participation in our Advanced Newcomer Programme, with 4,000 customers enrolled. This programme is targeted at new immigrants and foreign workers and provides free day-to-day banking as they work to accumulate savings and offers special credit qualifications to assist in building a Canadian credit history. We have also developed an educational video series and hosted live events with wealth experts in multiple languages.

In 2013, HSBC will provide access to banking services via the Post Office in the UK. This is a key partnership that will ensure widened access to banking services, particularly for those who have difficulty in visiting branches some distance from where they live, such as the elderly.

Digital

We look to introduce digital solutions to make it easier for our customers – retail and commercial – to bank with us. Mobile banking was a significant area of growth in 2012, with smartphone apps launched across many countries, including Singapore, Indonesia, Malaysia, Australia, France, the US, Canada, Argentina and Vietnam. In Argentina alone, 87,000 visits from mobile phones were made to our new mobile-friendly website between its launch in September 2012 and the end of the year.

The 'Fast Balance' app was launched in the UK in 2012 to provide customers with quick and easy access to account balances. Across iPhone, Android and BlackBerry, there were 1.22 million downloads by the end of 2012 and 780,000 active users. In 2012, HSBC was also the first bank to offer mobile banking in Egypt and the first bank in Hong Kong to launch mobile payments on our credit cards. In the US, continued promotions for switching to e-statements resulted in savings of US\$5.2 million in 2012.

In Brazil, we created a mail box solution in internet banking, allowing information to be sent electronically that would previously have been required by local legislation to be sent through secure mail. This was one of the 36 actions on paper reduction which generated US\$6 million in annual savings and reduced our paper consumption by around 50 million sheets. More on our paper reduction globally can be read in the section on our operational commitments, on page 23.

At the end of 2011, our Commercial Banking business launched HSBCnet Mobile, which enables corporate treasurers to check account balances and statements, authorise payment instructions and receive payment alerts using smartphones. In 2012, the service was used to authorise US\$7.7 billion of payments. The service is available in 67 countries worldwide and was used by over 6,000 customers. In addition, users can authorise cross-border payments with HSBC's 'Get Rate', which allows customers to view and instantly book foreign exchange rates when making foreign currency payments.

Helping customers through social media

HSBC understands the growing importance of social media to our customers and other stakeholders. We use social media channels to get involved in conversations where we can add value. HSBC has put in place social media monitoring and responding teams to handle customers' queries sent via Twitter, Facebook and other channels. We also monitor social media for risks and opportunities and our monitoring team produces a weekly report for senior management highlighting main issues of discussion about HSBC. During 2012, we saw a tenfold increase in activity on our customer service Twitter account. By January 2013, we were receiving between 1,000 and 1,100 tweets a month. The main topics of conversation included branch waiting times, services levels, secure key issues and fraud.

In 2012, this service was available for UK customers only. In 2013, Twitter accounts will be opening in a number of other countries: France, Australia, the US and Canada. Both Group Chief Economist Stephen King (via Twitter) and Chief China Economist Hongbin Qu (via Sina Weibo, a Chinese microblogging site) post articles of economic interest to a broad range of followers including important stakeholders, renowned economists and public commentators.

Improved physical access to our branches

HSBC respects our customers' right to access their accounts in the most convenient way to them. We have improved physical access to our branches for customers with disabilities and, in 2012, we continued to make branch improvements in many countries.

In the UK, a specific focus on improving access to our branches under the Disability Discrimination Act, now the Equality Act, has resulted in a shift from 78 per cent in 2011 to 82 per cent in 2012 of all branches being deemed 'fully fit' by an external facilities management company. We will be implementing further improvements in 2013, including installing and improving hearing loops and lift access.

A pilot of new ATMs with functions to help disabled customers has been launched in Istanbul, with plans to deploy 30 more over the next year. In Canada, we are setting up ATMs which will be voice guidance-enabled, with embossed key pads and spoken instructions in English, French, Cantonese and Mandarin.

Helping customers and employees during a natural disaster

The year saw some very significant natural disasters in different regions. Our customers and employees rely on our support and we strive to offer the highest level of service especially during difficult times. We base our response on the nature of the event and the level and location of need.

Philippines: In August 2012, the Philippines was devastated by strong Habagat (southwest monsoon) storms. HSBC automatically gave payment relief to 2,500 affected customers, thus easing their financial burden. In addition over 500 customers responded to an SMS message from HSBC offering the same relief. A donation drive was also launched and employees both locally and in the region donated money to the Philippine Red Cross for the benefit of those affected by the flood. HSBC matched this amount and also donated to the Fort Bonifacio Development Foundation to provide 1,200 relief packages and aid for nearly 4,000 families from Taguig City who were displaced.

Hurricane Sandy: In October 2012, Hurricane Sandy caused widespread damage and destruction to the East Coast of the United States. HSBC immediately committed US\$1 million to support relief efforts. US\$500,000 was sent to the American Red Cross and US\$500,000 was allocated over the following weeks as needs became clear, including grants to 19 other community organisations that provided emergency housing and support. Over 260 employees donated a total of over US\$49,000 to local community organisations. In addition, more than 220 HSBC employees participated in volunteer projects with 10 different NGOs.

Information on HSBC's business contingency response to Hurricane Sandy can be seen on page 23.

Supporting commercial customers

HSBC established a Trade Confidence Index in 2009 to help businesses make informed trading decisions during the downturn. The index covers key trading economies in Asia-Pacific, the Middle East, Latin America, North America and Europe, collecting the views of over 6,000 exporters and importers from small and mid-market enterprises. In 2011, we also established the Trade Forecast. This is produced by Oxford Economics, which forecasts bilateral trade for total exports and imports of goods based on HSBC's own analysis and forecasts of the world economy, resulting in reports on 25 countries and territories. The reports also look at 30 sectors, enabling detailed tracking of sectoral flows by country.

In 2012, HSBC partnered with BBC Worldwide to produce 'The Ideas Exchange', which saw global business leaders and entrepreneurs trading views by interviewing each other. The conversations brought to life the real challenges that successful businesses face – and overcome – in building truly global businesses, giving our customers unrivalled insights into the benefits and challenges of international business. The Ideas Exchange received 72 million viewers on BBC Worldwide and over 60,000 YouTube views.

Connecting small and medium-sized enterprises (SMEs) internationally

HSBC focuses on supporting SMEs conducting international business, helping companies to benefit from emerging 'south-south' trade corridors, connecting South America, Africa and Asia.

In the UAE, we were the first bank to launch a dedicated SME fund, in 2010. In 2012, we launched a one billion dirham (US\$272 million) SME fund and allocations were made at a rate more than one and a half times faster than in previous years, with 88 per cent going to businesses seeking to trade internationally.

In the UK, HSBC originally committed £12 billion to SME lending in 2012, of which £4 billion would be dedicated to international SMEs. We increased the International SME Fund to £5 billion later in the year due to higher demand. The final amount lent to international SMEs in 2012 was £5.1 billion and £12.3 billion overall to SMEs. HSBC has committed another £5 billion to the International SME Fund in 2013. We also launched additional SME funds at the start of 2013, including £1 billion to SMEs and mid-market enterprises (MME) in France, a first for the French market.

Customer philanthropy

HSBC's Global Private Banking business helps clients who want to use their wealth for philanthropic pursuits. With a strong heritage and expertise in using wealth for charitable endeavours, HSBC Private Wealth Solutions helps to bring together wealthy individuals and families with important social causes to create a thriving philanthropic society. For over 50 years, we have helped clients across the world to establish and grow strategic structures in supporting a wide range of causes.

In recent years, we have seen a shift towards individuals wanting to use their wealth for charity within their lifetime, not just to ensure the legacy of their estate. Philanthropy has become an important part of wealth planning and a way to educate the next generation about the responsibility and value of wealth. We form long-lasting and close relationships with customers through their philanthropic giving, advising them on the creation, maintenance and distribution of their wealth in a way that best connects them to their personal causes and to their future generations. We also manage charitable trusts set up by clients and help to find worthy causes to put the money to good use. For example, in 2012, our Singapore-based Private Wealth Solutions team oversaw donations to two charitable trusts whose researchers are working on a treatment for a type of rare and aggressive lymphoma, which led to a breakthrough in treatment.

Philanthropy in action

One of our Private Wealth Solutions customers was moved by news reports of serious family and social issues in the Tin Shui Wai district in Hong Kong and wanted to help the community. We worked closely with her, discussing her specific interest in the district and the impact she wanted to have. We screened and interviewed various charitable organisations that served the community to gain a better understanding of what was lacking in terms of current support. Our client chose to support a charitable organisation focusing on domestic violence affecting women and children. With the involvement of a small number of charities, our team then interviewed some of the people living in the community to gain a better understanding of their needs. With a generous donation from our client's foundation, the charitable organisation began a programme which has supported over 2,900 families.

Renminbi: helping commercial customers

The growth of the Chinese currency, the renminbi (RMB), will be one of the biggest changes in international finance over the next 20 years. HSBC has introduced a number of programmes to support and prepare our customers to benefit from this. In the first three quarters of 2012, 11 per cent of China's international trade was settled in RMB. The RMB has become the world's third trade settlement currency by value and, by 2015, HSBC Global Research expects around 30 per cent of China's trade to be settled in RMB.

Throughout 2013, our Global Banking and Markets, and Commercial Banking businesses will run a series of roadshows to help customers outside Asia to understand the impact of the renminbi on business, focusing on practical implications, challenges and opportunities. These will be held throughout Europe, the Middle East, the USA, Canada, Mexico, Brazil and South Africa.

Climate Business

“2012 saw some challenging market conditions, with national governments making cutbacks to subsidies across various sectors. However, there are still many opportunities and we have used a selective approach to grow our climate business, even against the backdrop of austerity measures.”

Robin Phillips

Co-head of Global Banking and Chairman of the Climate Business Council

In 2010, HSBC established a Climate Business Council to ensure that significant opportunities offered by climate business are realised, leveraging HSBC's traditional strengths and its sustainability credentials.

Year on year, our climate business revenues are growing and further growth in the sector is expected. In 2012, HSBC supported deals in the solar, wind, biomass, hydro, energy efficiency and bio-energy sectors. Some of these deals are detailed below.

Global research

HSBC's Climate Change Centre of Excellence, part of our Global Research team focusing on business risks and opportunities created by climate change, was established in 2007. Our Climate Change team was ranked number one for the third year in a row by Thomson Reuters EXTEL awards. Nick Robins, Head of Climate Change Research, was also voted the number one climate change analyst for the second year running, out of 42 analysts.

A particular focus of our climate change research has been water scarcity and infrastructure. In December 2012, we held a Global Water Conference in London, which brought together politicians, investors, NGOs, employees, companies and market commentators to discuss investment opportunities in industrial water globally. We also released a report on Global Water Management which highlights the considerable requirement for water for a number of key industrial sectors and which shows that industrial water use is a US\$35 billion per annum business globally and is expected to grow by a further US\$80 billion over the next five years.

Our research shows that access to – and use of – water will increasingly become differentiating factors between nations, and investors should be taking water location risk into account in their decisions. The research showed that India is the most vulnerable country to water stress in the G20 and pressures on supply can be seen in its major river basins.

What is 'climate business'?

We define Climate Business as seeking long-term commercial business opportunities that arise in the transition to a low carbon economy. These cover four defined areas;

- 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

HSBC's Water Programme, our global community investment initiative which launched in 2012, has set up projects to tackle this issue in the Ganges basin, among other major river basins around the world. Further information on the HSBC Water Programme can be found on page 30.

Water

HSBC has developed a Climate Change Benchmark Index, which is used by institutional investors wanting to invest in companies likely to benefit from a focus on climate change. The index reflects 21 investment 'themes', representing investment opportunities stemming from the transition to a low-carbon economy. One of these themes is water, which in 2012 was the best performing theme across the 21 categories. Globally, the performance of the water theme increased by 21.1 per cent between January and December 2012, with the Asia-Pacific region (excluding Japan) showing the strongest growth, of 30.2 per cent.

In line with this, supporting water-related projects has also been a key feature of our climate business deals in 2012 and some of our key deals are set out below:

- Dubai desalination plant, UAE. HSBC supported a financing package for Dubai Electricity and Water Authority to part-finance ongoing desalination capacity expansion.
- Sound Global, China. HSBC acted as lead manager in a US\$150 million bond offering for Sound Global, an integrated water and wastewater treatment solutions provider in China and a recognised industry leader. HSBC helped it to gain a credit rating, the first time a rating has been assigned in Asia in this sector.
- Affinity Water, UK. HSBC financed Rift Acquisition's acquisition of a 90 per cent stake in three UK regulated water companies being sold by Veolia Water UK (now Affinity Water). These companies form the largest water-only company in the UK, by revenue, serving nearly 3.5 million customers. Subsequent to this financing, at the start of 2013 HSBC was lead arranger on a bond issue, which refinanced the original acquisition financing.

Renewables

As well as providing financing for water-related businesses, HSBC took a leading role in some of the biggest climate business deals globally in 2012. Any deals of this kind must, of course, meet our sustainability risk policies.

HSBC was part of the largest offshore wind project financing in the world. This deal, for Lincs Wind Farm Ltd, will finance the construction of a 75-turbine wind farm off the east coast of England with a total capacity of 270MW, enough to meet annual power needs of more than 200,000 homes. The wind farm will be fully commissioned by August 2013.

We were also involved in the largest project financing in Latin America in the renewables sector to date: a US\$693 million onshore wind farm on the coast of Oaxaca, Mexico. Construction is yet to commence but the windfarm is expected to comprise of 132 turbines and is forecast to have a capacity of 396MW and reduce carbon dioxide emissions by up to one million tonnes annually compared with regular energy generation.

We do not only focus on large deals. In 2012 HSBC started working alongside the International Finance Corporation

(IFC) to identify opportunities for clients providing energy-efficient initiatives in Armenia on favourable terms. Up to US\$5 million is available to borrowers under the scheme. HSBC is considering ways in which similarly structured schemes could be extended to other countries.

Sustainable transport

HSBC is a market leader in structuring solutions for bus rapid transit systems. These deals are transformational public transport projects, radically improving the public transport system and replacing fleets of old and poorly maintained buses with a modern, faster and less polluting mass public transport system. In 2012, we structured finance transactions for 267 low-emission buses in Santiago, Chile, and 300 in Manaus, Brazil. HSBC has now completed 17 of these transactions in seven cities across the world: Johannesburg, Panama City, Bogota, Manaus, Curitiba, Mexico City and Santiago.

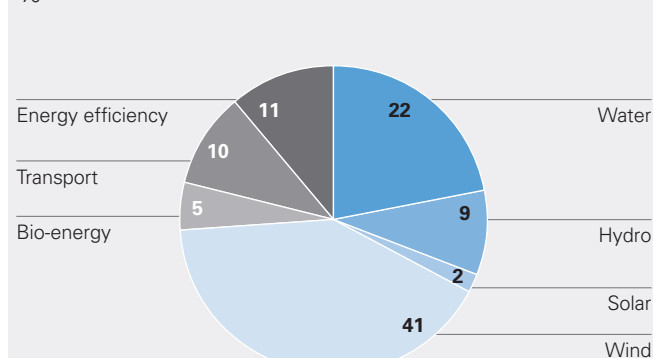
HSBC Climate Change Fund

HSBC offers a Climate Change Fund to investors, which selects the market leaders in each sector that are managing their businesses in the face of climate change to maintain or enhance their competitive advantage. The fund was relaunched in September 2011 and invests in companies developing activities related to climate change such as alternative energies, water, waste and pollution, energy efficiency, and low carbon players. In 2012, the fund delivered a positive return of 19 per cent.

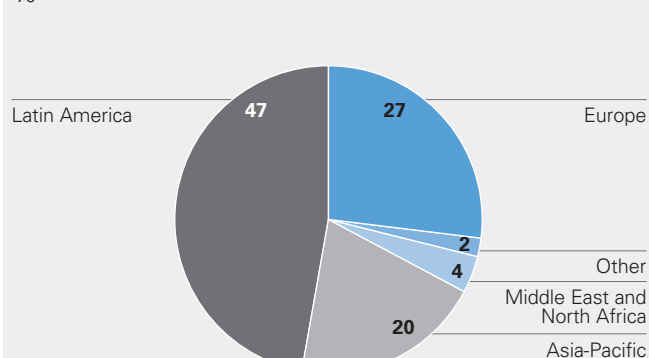
Climate business deals

The charts below show our climate business deals for 2012, based on revenues and broken down by region and by sector. A number of wind projects were financed globally, with a high proportion of them in Latin America due to local government support. The opportunities HSBC saw in solar in 2011 reduced in 2012 as global over-supply and capacity rationalisation meant that there were limited suitable financing opportunities. As with our customers, HSBC has to monitor market development closely and be ready to adjust our strategy where necessary.

HSBC climate business by sector 2012
%



HSBC climate business by region 2012
%



Our Sustainability Risk Framework

“Our sustainability risk framework is based on robust policies, processes and standards. We continue to develop and improve our framework because it is the right thing to do for the environment, local people and our customers.”

Marc Moses

Group Chief Risk Officer

Sustainability risk

We recognise that businesses can have an impact on the environment and communities around them. For over 10 years, we have been developing, implementing and refining our own approach to working with our business customers to understand and manage these issues. We assess and support customers in six sensitive sectors using our own policies and, in financing for projects, using the Equator Principles as our starting point. Our sustainability risk framework is based on robust policies, formal processes and well-trained, empowered people. We develop and improve our framework because it is the right thing to do for the environment, local people and customers. We also recognise that, without careful management, these issues pose a risk to our business.

Our sustainability risk framework

Policy development

In line with our overall commitment to implementing global standards, our sustainability risk policies require our corporate customers within sensitive sectors to apply consistent standards of international good practice, going beyond international laws and agreements. These policies set the standards we expect of customers operating in the following sectors: chemicals; forest land and forest products; mining and metals; energy; freshwater infrastructure; and defence

equipment. We have also adopted the Equator Principles (see page 18) and apply the International Finance Corporation Performance Standards as required through the Principles. The Equator Principles work well for project finance but this is a small proportion of HSBC's business. This is why we believe it is particularly important to have our own policies, which apply to a broad set of our customers.

We apply our policies to all lending and other forms of financial assistance, primary debt, and equity market activities, project finance and advisory work. We also extend them to asset management, although we recognise the lesser degree of influence we have over third-party investment where the final decision may not rest with HSBC.

We regularly review our policies to ensure they reflect the latest risks and developments in certain sectors. In 2012, we updated the chemicals policy to ensure its implementation is consistent and accurate. The policy sets standards which prohibit our financing of the manufacture of certain dangerous chemicals.

Public summaries of our policies are available online at: www.hsbc.com/sustainability

Process implementation

We check whether customers in the sensitive sectors comply with our sustainability risk policies at the outset of any relationship and monitor them annually using the same system applied to monitoring credit risk. This process is also checked through our internal audit function. We assess customers according to their level of compliance with our policies and rank them into four categories: 'leader', 'compliant', 'near-compliant' and 'non-compliant'.

If we find that a customer is not complying with our policies and has the appetite to make changes, we support them to make the necessary improvements to become compliant. This requires that the underlying impacts of the customer's business are not unacceptable and that there is an action plan in place to achieve compliance within a credible time-frame. We then monitor customers to ensure commitments are carried out. If customers are unable or unwilling to improve to meet our standards over a reasonable timeframe, the relationship is ended as soon as is contractually possible.

Our policy is to turn business away if we are not comfortable that it meets our standards. For example, in 2012, we declined two potential transactions which would have adversely affected World Heritage Sites.

Regular reports on the management of sustainability risk are prepared for senior management, including quarterly reports for the Risk Management Meeting of the Group Management Board. This ensures HSBC's senior management can oversee key sustainability risks and is kept updated on progress to identify and manage them.

Customer compliance with HSBC's sustainability risk policies 2012 (of those in sensitive sectors)

Category	Definition	% of customers
Leader	Customer meets and exceeds policy criteria. Responsible for driving good standards across the sector.	2.11
Compliant	Customer meets policy criteria in all material circumstances.	96.08
Near-compliant	Customer demonstrates progress towards meeting policy criteria within a credible time-frame	1.71
Non-compliant	Customer does not meet policy criteria in material ways. We would therefore take steps towards exiting the relationship unless there is rapid improvement.	0.10

Training our people

A global network of sustainability risk managers supports policy implementation across every region. Our Global Corporate Sustainability team holds quarterly update calls with all sustainability risk managers to ensure they are updated on developments and well placed to advise colleagues. A learning module covering sustainability risk is included in HSBC's risk management training programmes for senior management and, in 2011, we launched an e-learning module to strengthen selected employees' knowledge of our risk policies. By the end of 2012, 6,594 employees globally had completed this training and the programme continues.



6,594

employees trained in sustainability risk since 2011

Early warning on building risks, Mexico

HSBC was asked to provide financial support to a building project along the Mexican coast. As we assessed the project in line with our sustainability risk framework, we discovered that it was adversely affecting protected mangrove swamps, and was therefore non-compliant with our policies. HSBC therefore declined to be associated with the project.

A similar project nearby, not financed by HSBC, was halted by the courts because environmental regulations had not been properly observed.

Listening to stakeholders

One set of stakeholders we are often asked about are Non-Governmental Organisations (NGOs). We engage with NGOs and other campaign groups on matters of shared interest. For example, we are members of the Roundtable on Sustainable Palm Oil. We consult relevant NGOs when we revise our sustainability risk policies to seek their views and expertise and to ensure our policies are up to date.

In October 2012, HSBC was approached by an NGO raising concerns that we had financed customers which were not compliant with our Forest Land and Forest Products Sector Policy, and were logging illegally and disrupting local communities. We believe that all our clients either comply fully with our policy or are on a credible path to doing so. We welcome constructive feedback from NGOs as this helps us to ensure our policies are implemented effectively. In the past we have exited clients who were not willing to comply with our policy and will not hesitate to do this again.

Equator Principles

The Equator Principles (EP) framework is used by financial institutions to assess and manage environmental and social risks in project finance deals. The framework ensures that large projects are developed and operate in accordance with good international environmental and social standards.

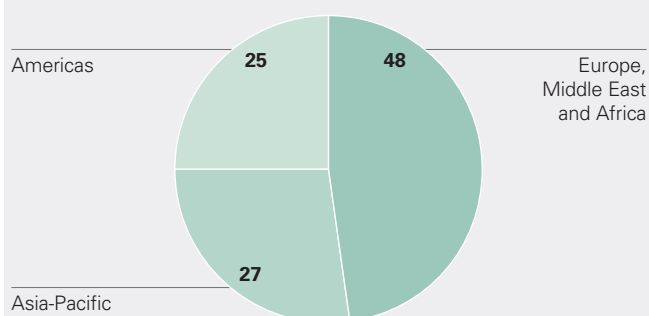
Since adopting the Principles in 2003, we have voluntarily extended their application beyond project finance to corporate loans where the proceeds are known to be designated for a project. HSBC also arranges annual independent assurance to provide comfort to stakeholders that we are carrying out our commitments under the Principles. This year's assurance is provided by PricewaterhouseCoopers LLP (PwC). See their statement of assurance on page 35.

Developments in 2012

HSBC has always been an active member of the Equator Principles Association, including leading the Governance Working Group that produced the association's governance rules, and co-leading the Reporting and Transparency Working Group that promoted better reporting and assurance. We have also been at the forefront of discussions on how the Equator Principles can be improved further (EP3). Throughout this process, we have pushed for higher and more consistent standards. At the time of writing, we have been disappointed by the proposed improvements; for example, corporate loans are subject to many conditions, assurance is excluded and there are still no minimum standards for the financing of projects which contribute most significantly to climate change.

HSBC has been a member of the EP Steering Committee since its introduction. However, we have found its role and influence to have changed in recent years and in 2012, HSBC decided not to stand for re-election. This does not change our commitment to EP. For example, we still contribute as a regular member, including to the debate around EP3. At the 2012 Annual General Meeting, HSBC organised the association's first workshop for members, focused on consistent application of the Principles. Over 50 banks took part and members have requested that this workshop is held annually. Our efforts in organising this and our continued push for mandatory assurance by members are driven by the importance of consistent application of the Principles. Member banks should not be competitively disadvantaged by potentially different standards of managing environmental and social risk.

Equator Principles: loans by region of borrower by % value 2012



Going beyond EP

The Mikheyevsky copper mine project is a green-field development by Ruskaya Mednaya Kompaniya (RMK), a Russian mining company. HSBC lent US\$100 million to Gazprombank, which used the funds to support RMK to buy mining equipment for the project. As it was not a project finance loan, the deal would not normally be subject to the Equator Principles. At HSBC, the policy is to treat corporate loans for projects in the same way as the impacts are the same. By following the Equator Principles, we found that the project had potentially significant impacts on the environment and on the mine workers, including the possibility that dust from the mine could be harmful to them. To achieve safe operations, it was necessary for RMK to devise technological measures to suppress this dust so that the potential danger to employees would be minimised. Applying the Equator Principles to this project meant that potential environmental and social impacts were properly addressed.

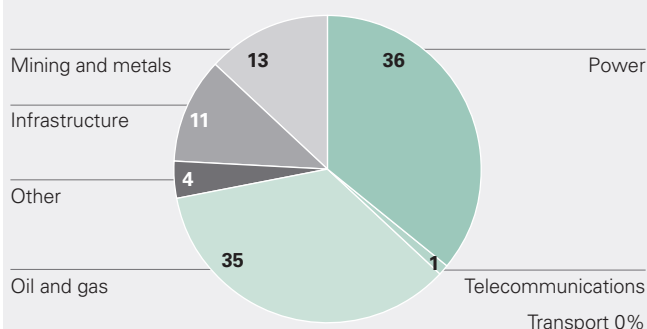
Implementation by HSBC

Our project and export finance teams are trained to analyse a proposed transaction in line with the requirements of the Principles. This initial assessment by the business team involves identifying and flagging any contentious sustainability risk issues at an early stage to the relevant risk and sustainability teams. Detailed due diligence is conducted by the business team and the proposal is submitted for approval by the risk team, with higher risk transactions requiring higher levels of approval. If the transaction is approved, we have annual review procedures in place to ensure that the risks continue to be monitored and managed until the end of the life of the loan.

Of the 48 transactions assessed (shown on page 19), 22 are 'extended transactions' – export credit loans for projects, to which HSBC applies the Principles.

It is noteworthy that the proportion of lending transactions for projects classified as Category A has increased. This reflects that many easily accessible resources have now been tapped, driving companies towards resources that are more difficult to access. It is therefore especially important to ensure that the environmental and social impacts of these projects are carefully managed.

Equator Principles: loans by industry sector by % value 2012



Extending the Equator Principles beyond project finance

In 2012, 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. Details of our transactions are shown in the table below. The PricewaterhouseCoopers LLP assurance report is on page 35. By extending the Principles to all relevant corporate loans and providing independent assurance on their implementation, HSBC is exceeding the minimum requirements of the EP framework. HSBC has always exceeded the minimum requirement, i.e. to report the number of transactions reviewed using the Principles, by

providing additional breakdown of the data by sector and by region. In 2012, we included two new reporting items, seen below which, at the time of writing, are proposed but not yet approved as part of EP3. These are:

- (i) the number of projects located within developed compared with developing countries, as defined by the World Bank's list of high income Organisation for Economic Co-operation and Development (OECD) countries; and
- (ii) the number of Category A and B projects where an independent expert review has been completed.

Equator Principles: transactions vetted by HSBC

	2010		2011		2012	
	Number	Value (US\$m)	Number	Value (US\$m)	Number	Value (US\$m)
Transactions approved	76	6,707	63	4,643	67	5,779
By mandate						
Lending	52	6,707	42	4,643	48	5,779
Advisory	24	0	21	0	19	0
Loans by category¹						
Category A	6	1,644	9	1,432	12	2,499
Category B	31	4,063	24	2,274	26	2,781
Category C	15	1,000	9	937	10	499
Loans according to scope of EP²						
Standard transactions	25	3,173	28	2,889	26	4,133
Extended transactions	27	3,534	14	1,754	22	1,646
Loans by region						
Americas	11	979	9	948	13	1,457
Asia-Pacific	11	1,289	12	1,349	13	1,568
Europe, Middle East and Africa	30	4,439	21	2,346	22	2,754
Loans by industry sector						
Infrastructure	9	1,382	9	853	6	652
Mining and metals	2	104	3	411	6	726
Oil and gas	8	1,214	14	1,881	10	2,008
Power	18	2,362	10	931	21	2,095
Telecommunications	8	439	1	215	1	75
Transport	1	2	2	151	1	2
Other	6	1,203	3	200	3	221
Loans under additional EP3 reporting						
Category A and B projects with an independent review	-	-	-	-	29	4,509
Category A, B and C projects in high-income OECD countries	-	-	-	-	11	1,772
Renewables	6	888	5	477	10	862
% of power	32	38	45	50	48	41
% of total	12	13	7	8	21	15
Transactions declined³	0	-	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 extend the Equator Principles to export credit loans (extended transactions), the procedures for which are presented in our Reporting Guidelines (www.hsbc.com/sus-assurance).

³ In 2012 again no transactions have been declined as relationship managers are identifying potential challenges at an earlier stage in the process.

Our Sustainable Operations Strategy

“Sustainability for HSBC is about our long-term contribution. We want our people, investors and the communities we serve to feel proud of being associated with an organisation that is actively seeking ways to improve its sustainability and environmental efficiency.”

Sean O’Sullivan

Group Chief Operating Officer

In 2012, HSBC’s Group Chief Operating Officer set out a strategy to simplify and grow HSBC, and to improve financial performance, driven by a long-term sustainable business model. This strategy is designed to empower employees and deliver innovative products to customers.

The strategy includes eight goals to be delivered by HSBC Technology and Services, which employs around a third of our workforce and is in charge of running our operations, including real estate, IT infrastructure and supply chain. One of these goals is to reduce annual carbon emissions per employee by a tonne between 2012 and 2020, from 3.5 to 2.5 tonnes. Indices such as CDP, a global disclosure system for companies to report their environmental impacts and strategies to investors, show that HSBC already has one of the lowest carbon footprints per employee among international banks. We have been working on increasing our operational environmental efficiency for over seven years, so cutting our carbon emissions further is a challenging aim.

To tackle this challenge, we set a 10-point sustainable operations strategy at the start of 2012. As well as delivering cost savings from greater efficiency, we aim to develop innovative new products and services which will improve

the way we work and enhance our connection to customers. HSBC is one of the world’s largest corporations; our size and footprint mean the scale of this plan is ambitious. We made progress in 2012, but recognise that stretching goals like these will take time to achieve. We have capitalised on ‘quick gains’ where possible but have also spent time to analyse thoroughly and prepare for achieving these targets.

HSBC has recently undergone a major organisational change programme and established a clearer global structure. We have exited non-core businesses and markets, resulting in a reduction in the number of full-time employees (see page 24). The shape of our buildings portfolio is also changing to reflect this. However, the subsequent consideration of property and infrastructure will not be complete until the end of 2013. This lag in changes to our buildings compared with the number of employees has an impact on our performance data that are measured per full-time employee, as well as on year-on-year targets. This has particularly affected our carbon emissions data in the US.

An update of our goals and what we have achieved one year into our 10-point plan follows.



15%

reduction in waste sent to landfill



370

managers have participated in a Sustainability Leadership Programme

1. Sustainability engagement: engage all employees to deliver improved efficiency by 2020

Progress in 2012

Over 180 senior managers attended sustainability leadership programmes run in the Americas, Europe, the Middle East and Asia on how they can contribute to delivering HSBC's sustainable operations strategy and manage projects in their part of the business. In 2012, a leader designed a two-day workshop in China for 400 employees, regulators and banking partners so that they, in turn, could understand HSBC's ambition and deliver efficiencies in their everyday work.

In 2012, we launched a new operational sustainability award to celebrate 'Sustainability Excellence'. This recognises a project that 'strengthens HSBC's role as a responsible institution and delivers value to the communities, customers and shareholders'. It was won by the Global Service Delivery Team in China for integrating operational sustainability in HSBC's office in TaiKoo Hui, and securing Leadership in Energy and Environmental Design (LEED) certification. The team saved paper, water and electricity and reduced costs by US\$4.5 million. By creating awareness of sustainability issues among their team, they involved over 90 per cent of their 5,500 employees.

Plans for 2013

We will deliver 22 sustainability leadership programmes in eight countries, bringing the total number of senior managers who have participated to over 600, including the Group Chief Operating Officer and his whole leadership team.

Business owner

William L Thomas, Global Head of Sustainability, HSBC Technology and Services

2. Increase energy consumption from renewables from 24 to 40 per cent; increase self-generated electricity capacity from zero to 5 per cent

Our focus is on supporting the development of genuinely additional renewable electricity capacity rather than buying what is already available under conventional 'low emission' tariffs.

Progress in 2012

We have analysed opportunities for developing on-site self-generated capacity and off-site generation. We have also assessed the maturity of markets, technologies at our main operational locations, and procurement options.

Plans for 2013

We will continue our analysis into procurement options in locations where we have a significant energy requirement. We will also work with renewable energy generators through mechanisms, such as power purchase agreements, to drive further investment in additional renewable energy capacity.

Business owner

Tony Buckham, Global Head of Corporate Real Estate

3. Supply chain collaboration: sustainable savings through efficiency and innovation

HSBC spends over US\$14 billion a year with over 200,000 suppliers. We collaborate with them to find innovative and more sustainable ways of working.

Progress in 2012

We strengthened our internal processes and tools to ensure collaboration with suppliers meets our – and their – sustainability ambitions. Our Supplier Code of Conduct sets out our expectations of suppliers, while our Core Sustainability Assessment is the starting point for more in-depth discussions about our suppliers' sustainability credentials. This asks how they are managing their supply chain and the risks and opportunities inherent in supplying a specific product or service.

In 2012, we entered a global agreement with real estate management company Jones Lang LaSalle (JLL) for facilities management which includes sustainability performance commitments. We collaborated with our global airline partners, global travel management company and technology suppliers to support our goal to reduce international air travel, for example, by increasing the use of video conferencing and tele-presence technology.

Plans for 2013

We will focus on improving our relationship management with our most strategic suppliers, with the aim of developing new, sustainable products and services. We will also assess the sustainability credentials of our 100 biggest suppliers' supply chains with the aim of strengthening collaboration.

Business owner

Alison Parker, Chief Procurement Officer

4. Group data centres: achieve an energy efficiency (power usage effectiveness) rating of 1.5

Our data centres account for 20 per cent of HSBC's total energy use and therefore we have set specific targets to reduce their energy consumption and to ensure that the energy we do use goes on running IT equipment rather than the building it is housed within. Power usage effectiveness (PUE) is an accepted industry standard measure, with a rating of 1.5 representing a level of efficiency that exceeds current best practice.

Progress in 2012

In 2012, our Real Estate and IT teams analysed how we cool our Hong Kong and UK data centres. As a result, we made adjustments to cooling to satisfy demand based on more detailed capacity planning and real-time monitoring. By focusing on data centre standards and construction designs, we have ensured that, since 2009, each new data centre has been substantially more efficient than the last.

In 2012, our average PUE rating lowered from 1.92 to 1.79, equating to annual savings of US\$540,000 or 4.8 gigawatt hours of electricity and 2,400 tonnes of carbon.

Plans for 2013

We will continue this process in 2013, assessing other data centres across our global portfolio.

Business owner

Garry Tait, Global Head of IT Operations

5. HSBC Eco-efficiency Fund: US\$5 million annual investment to trial sustainable innovation

We set up the Eco-efficiency Fund to channel the funds previously allocated to HSBC's carbon neutrality programme into projects that would permanently reduce HSBC's carbon emissions. The fund is open to applications from all employees, with the aim of harnessing innovative ideas to improve our efficiency.

Progress in 2012

In 2012, funding went to a project to achieve data centre efficiencies in Brazil, resulting in our IT Operations there winning an award for 'Best Green Initiative by a Financial Institution' at the Banking Technology Awards 2012. Funding also went to 'intelligent' lighting projects across our Hong Kong branch network.

Plans for 2013

In 2013, we will focus on making employees worldwide more aware of the Eco-efficiency Fund and encouraging applications for new initiatives. We are also adding an 'operational sustainability' category to our annual internal HTS awards. The award focuses on driving new technologies that are scalable within and outside HSBC.

Business owner

Garry Tait, Global Head of IT Operations
Jane Hamilton, Head of Corporate Real Estate, Europe

6. Waste: recycle 100 per cent of HSBC's office waste and e-waste

We will deliver this goal by centralising waste management, educating our employees to reduce their waste, and by recycling more.

Progress in 2012

In 2012, we achieved a 15 per cent reduction in waste disposed. We managed to maintain our recycle rate at more than 60 per cent of total waste despite the impact of additional non-recyclable waste from our divestiture in the US. We have achieved this through our partnerships with external waste contractors who have increased the volume of office waste recycled.

Plans for 2013

We will continue to roll out recycling infrastructure and centralised waste collections. We will look at specific waste categories such as e-waste and apply single, global standards across our operations to maximise recycling.

Business owner

Tony Buckham, Global Head of Corporate Real Estate

7. Green building programme: LEED certification for buildings using 40 per cent of HSBC's energy

Our global real estate portfolio of over 7,500 buildings is key to our efforts to drive efficiencies and reduce carbon emissions. Prior to 2012, HSBC had already developed an extensive portfolio of green buildings across the US, Europe and Asia-Pacific, as well as having built some of the first Leadership in Energy and Environmental Design (LEED)-rated buildings in Latin America, China and Africa.

Progress in 2012

In 2012, we gained three more LEED certifications. One was in Mexico, where our Head Office achieved an operational LEED rating; and two were for our Global Service Centres in China and India. In Canada, our Broadway Green development was built to LEED gold standard and we consolidated six locations in Vancouver under one roof. LEED certification for this building is pending.

We also set new design parameters to ensure that all new and refurbished buildings costing over US\$10 million are automatically assessed for LEED. We developed internal sustainable design guidelines to be applied to all new HSBC buildings, based on internationally recognised standards.

Plans for 2013

We will continue our green building projects on the biggest energy consumers in our portfolio. We only aim to receive LEED certification where scope for energy efficiency – and therefore the business case – is clear.

Business owner

Tony Buckham, Global Head of Corporate Real Estate

8. Reduce annual energy consumption per employee by 1 MWh

Progress in 2012

While we reduced our absolute energy consumption in 2012 by over 6 per cent, the consumption of energy per full-time employee equivalent has increased by 5 per cent. This is because there was a lag in time between our employee numbers reducing and our facilities fully closing. In 2013, as this gap closes, consumption of energy per full-time employee is likely to fall.

Plans for 2013

We do expect to see absolute energy consumption reduce again in 2013 as our property portfolio consolidates following sales and the number of employees stabilises. This should result in us making progress against the 1 MWh per employee goal. The contract with our new facilities management partner, JLL, will contribute to energy reduction across our real estate portfolio (see page 21).

Business owner

Tony Buckham, Global Head of Corporate Real Estate

9. Paper: paperless banking for all retail and commercial customers

Our goal to reduce paper usage is being achieved in three ways: ensuring that the paper we buy is from a sustainable source in accordance with our Paper Sourcing Policy; reducing the volume of paper consumed by our offices and branches; and providing paperless banking for all retail and commercial customers.

Progress in 2012

In 2012, we improved standards in our supply chain so that 93 per cent of paper purchased has come from compliant or near-compliant sources. Our consumption of paper also fell as we implemented 'managed print services' in our buildings, meaning that employees are required to collect their printing, ensuring that only necessary documents are printed. A staff education programme helped to reduce our consumption by 14,000 tonnes to 40,000 tonnes.

We enabled our retail customers to communicate with us via digital channels, generating savings across HSBC in excess of US\$16 million. Where appropriate, we ran tailored, local marketing campaigns to raise awareness of our online capabilities and to highlight the customer benefits of switching from paper banking to online banking.

Plans for 2013

We will focus on encouraging greater efficiency within our paper and print supply chain, including the purchase of 100 per cent of paper from compliant sources. We are building on pilot work undertaken in Latin America in 2012 to streamline marketing print. We will work with one global supplier across our portfolio to ensure all buildings are fitted with managed print services equipment as quickly as possible.

We will continue to promote the use of digital channels by our customers. Some markets, for example, in Asia, already have over 50 per cent of statements distributed to retail customers using our online channels.

Business owner

David Grimme, Global Head of Service Delivery

10. Travel: reduce travel carbon emissions per employee

HSBC understands that in order to maintain excellent customer service and good working relationships, some travel is essential for our business. However, we have a responsibility to undertake travel as efficiently as possible and promote alternatives where available.

Progress in 2012

In 2012, we provided detailed data to our global businesses and functions as part of a wider employee engagement programme designed to promote the use of technology. By researching the amount of travel undertaken and the use of online tools such as video-conferencing, we have drawn a clear picture of where further investment in technologies would lead to reductions in travel across our business. We continued to invest in our telepresence network by introducing a hub in Brazil, bringing our total network to 14 major cities. We rolled out individual video-conferencing capabilities to over 16,600 employees. Our use of video-conferencing is now double that of 2010, with staff averaging 3.5 million minutes per month in 2012. This has contributed to the reduction of our travel carbon emissions by 20,000 tonnes to 138,000 tonnes in 2012.

Plans for 2013

We will continue to make efficiencies in 2013, analysing data and seeking ways to provide alternatives to travel.

Business owner

Alison Parker, Chief Procurement Officer

Assurance of HSBC's total CO₂ emissions

HSBC's statement of total CO₂ emissions is included in the Key Facts table on page 34. HSBC's Reporting Guidance for emissions is available at www.hsbc.com/sus-assurance. See PricewaterhouseCoopers LLP assurance report, page 35.

Business contingency and risk: Hurricane Sandy

HSBC believes that major weather events will become more frequent and more serious as a result of climate change. We formulate detailed strategies to prepare for weather and other climate-related risks to our business. Hurricane Sandy reinforced the need for this in 2012.

Five months before Hurricane Sandy hit the US East Coast, HSBC ran a series of 'role plays' in preparation for events of this kind, including a scenario involving a hurricane hitting Manhattan. The 'US Hurricane Plan' was then implemented as Sandy approached.

While some of our branches were closed for a few days, 106 of our 189 branches were open for business the day after the storm despite five branches experiencing flood damage. When the New York Stock Exchange reopened for business, HSBC was fully operational. We were able to

generate our own power using back-up for our main sites and our customers were able to operate online banking throughout this period.

We learned a number of lessons from Hurricane Sandy. One of our data centres is prone to flooding and we are now looking to move either it or our systems to a lower risk area.

Future planning

Our business contingency planning includes assessing specific climate risks which may impact our business up to 2030. We have a dedicated team carrying out risk analyses of 11 of our major cities, covering climate change, natural disasters, geo-political risk and the threat of terrorism.

Valuing our Employees

“2012 was a difficult year and the current operating environment is tough. By instilling our values at every level of our business, we are strengthening our culture and engagement with employees.”

Ann Almeida

Group Managing Director and Group Head of Human Resources and Corporate Sustainability

Current environment

2012 was a challenging year for our people. We have implemented a global transformation programme unprecedented in scale in the financial Services sector. As a result, we ended 2012 with a total workforce of 270,000 full-time and part-time employees compared with 298,000 at year-end 2011 and 307,000 at year-end 2010. Our main centres of employment are the UK, with approximately 48,000 employees, India 30,000, Hong Kong 28,000, Brazil 23,000, mainland China 18,000, Mexico 18,000, the US 17,000, and France 10,000.

Leadership and HSBC values

In 2012, education on HSBC's values continued across all levels of employees, through induction, Group strategic programmes, and leadership and professional skills programmes. Our focus on values and courageous integrity has been instilled at every level of the company. For example, the values of being open, dependable and connected are an important first part of every appraisal for employees, including the most senior managers. We require a high behavioural standard from our senior leaders. They are appraised on these values every six months and, in 2012, a number of employees left HSBC for breaching our values. In 2012, nearly 100,000 employees went through values training, in addition to the 60,000 employees who were trained in 2011. For senior management, this involved a two-day training session on values run by Harvard Business School.

Managing people risk

HSBC manages strategic and operational people risks through our monthly Risk Management Meeting of the Group Management Board. Priorities include risk identification and mitigation associated with the strength of our talent supply in emerging markets, senior female representation, managing the impact of more stringent regulation (e.g. remuneration) and refining our employee proposition. More generally, retaining key personnel and ensuring the conduct of our employees is aligned with our values remain important priorities. Monthly assessment of all material people risks is managed by robust reporting to senior risk governance forums.

HSBC Exchange

In 2012, we launched HSBC Exchange, a new type of team meeting in which employees talk about what matters to them most and leaders listen. These conversations build trust and facilitate dialogue between leaders and employees. Group Chief Executive Stuart Gulliver and the Group Management Board receive quarterly summaries of all Exchange meetings across the Group to help inform the decisions they make about the future of the business. During the first year of the programme, 10,000 staff took part. Employees are encouraged to offer suggestions on improving the bank. The top five topics raised by employees were facilities, connectivity, pay and benefits, organisational change and processes.

Diversity and inclusion

HSBC is building a culture that values and respects all employees and their opinions. We remain committed to meritocracy, which requires a diverse and inclusive culture. Our culture ensures employees' concerns are addressed and promotes an environment where bias, discrimination and harassment on any matter, such as gender, age, ethnicity, religion, sexuality and disability, are not tolerated. Our culture helps us respond to our increasingly diverse customer base, and to develop and retain a secure supply of skilled, committed employees.

Oversight of our diversity and inclusion agenda resides with executives on the Group Diversity Committee, complemented by the Group People Committee and local or regional People/Diversity Committees. We have over 33 employee network groups representing gender, ethnicity, age, sexuality, disability, religion, culture, working parents, health and community volunteering. These groups are instrumental in driving an inclusive culture and maintaining effective dialogue between management and employees.

Gender balance

An area of continued focus is gender representation, particularly at senior levels of our organisation. We are addressing bias in hiring, promotions and talent identification; expanding mentoring and sponsorship; and introducing better support for returning parents and increasing flexible working opportunities. In 2012, women accounted for 52.8 per cent of our workforce. Overall global female representation in all career bands has moved between 2007 and 2012 from 52.2 per cent to 52.8 per cent. It peaked in 2009 at 53.3 per cent. Although we worked hard to recruit more women in 2012, this was affected by a reduction in hiring and organisational restructuring as junior bands, where female representation is higher, saw the greatest headcount reduction.

Female representation at senior levels rose from 21.4 per cent in 2010 to 22 per cent in 2012 and our target is to improve this to 25 per cent by 2014-15. The increase was mainly achieved through a higher share of female recruitment as well as internal promotions, but progress has been slower than we would like. Global Banking and Markets employs one-third of HSBC's senior managers and it has proven more difficult to increase the number of women in senior levels in investment banking than in other areas. Excluding Global Banking and Markets, the percentage of women in senior management is already above 25 per cent. Female representation on the Group Management Board increased significantly from 10 per cent (one out of 10) in 2012 to 25 per cent (three out of 12) in April 2013.

Talent management and succession planning

HSBC's Global Resourcing-led talent strategy aims to improve substantially our ability to provide a high-quality, internal pipeline to fill key current and future positions to meet business needs across all areas of the Group. This is fundamental to risk management and attracting, retaining and developing HSBC employees. HSBC directly aligns succession planning with talent management, individual development and career planning. The succession plan defines the number, distribution, type of roles and capability needed by HSBC and individual talent is then mapped to these roles. For the individual, this provides their career path and development plan. In 2012, within our talent cycle, we assessed around 24,000 senior employees who have the potential to become future leaders and identified their career development needs.

Our talent strategy focuses on emerging markets. The overall proportion of defined talent in emerging markets was unchanged between 2011 and 2012 at 39 per cent. There was progress in Asia-Pacific and the Middle East and North Africa, but a drop in Latin America, in part due to a more rigorous definition of talent rather than a decline in numbers. Importantly, in 2012 the ratio of local national CEOs in emerging markets increased from 24 per cent to 29 per cent, evidencing local talent career progression. As part of our commitment to increase local talent advancement, we now track the percentage of local nationals identified as short-term successors (13 per cent) and medium-term successors (20 per cent), establishing a baseline for future years. In 2012, we increased the proportion of women in the talent pipeline from 20 per cent to 22 per cent.

Unconscious bias

It is recognised that social behaviour may be driven by learned stereotypes that operate automatically and therefore unconsciously. These stereotypes could potentially lead to a less inclusive environment. Since 2011, we have addressed this through 'unconscious bias' training. Delivered through e-learning, 21,000 managers and 8,000 other employees completed this training 2012 and the number is expected to increase in 2013.

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. In 2012, HSBC delivered approximately 921,000 learning days, the equivalent to 3.4 days per full-time employee. Sixty per cent of this learning was delivered online.

Environmental and social issues are included in learning delivered to all new joiners. During 2012, 284 graduates attended training on these environmental and social issues as part of the Group Graduate Development Programme, as well as 16 of our most senior executives as part of the Senior Onboarding Programme. In addition, through one of our flagship programmes, 76 of our most talented future leaders gained an insight into environmental and social issues.

Remuneration policy

The quality and commitment of our employees is fundamental to our success and we aim to attract, retain and motivate the very best people. As trust and relationships



25%

female representation on our
Group Management Board



921,000

learning days, equivalent to
3.4 days per full-time employee

Leadership development, Hong Kong and UK

In 2012, HSBC in Hong Kong received a Best Practice Award in Learning and Organisation Development for its Retail Bank Sales Leaders' Development Programme. This programme provides branch leaders with leadership and management skills to lead in the future.

On the same theme in the UK, our Collections team won the 'Global Action' award for its innovative Leadership Development Programme and contribution to enhancing inclusion and diversity in the workplace. The award is sponsored by Business in the Community, the UK charity that promotes responsible business practice. Under the Leadership Development Programme, members of HSBC Collections teams in the UK, India and the Philippines take part in a four-month overseas exchange that develops leadership skills, helps to improve innovation and celebrates cultural diversity. Four exchanges have taken place to date.

are vital in our business, we aim to recruit those who are committed to maintaining a long-term career with the organisation. HSBC's reward strategy supports this objective through balancing short-term and sustainable performance. Our reward strategy aims to reward success, not failure, and is properly aligned with our risk framework and risk outcomes.

Our remuneration package comprises fixed pay, benefits, annual incentive and the Group Performance Share Plan. The Group Performance Share Plan was developed to incentivise senior executives to deliver sustainable long-term business performance. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance delivered against both annual and long-term objectives summarised in performance scorecards as well as adherence to the HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is judged not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation.

To ensure we reward genuine performance and not failure, individual awards are made on the basis of a risk-adjusted view of both financial and non-financial performance. However, if the assessment of performance subsequently proves to be inaccurate or incorrect, then unvested deferred awards made since 2010 can be clawed back by the Group Remuneration Committee. Clawback has been exercised during 2012 and 2013, principally in respect of the US regulatory and law enforcement fines and penalties levied on HSBC.

Full details are given on page 347 of the *Annual Report and Accounts 2012*.

Union recognition

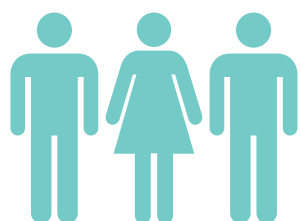
We negotiate with and consult recognised unions as appropriate. The five highest concentrations of union membership in the Group are in Argentina, Brazil, mainland China, Malta and Mexico. It is our policy to maintain well-developed communications and consultation programmes with all employee representative 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 utmost importance. We recently introduced a Global Occupational Health Framework which requires the proactive management of employee welfare, and encourages sharing of best practices across the Group. In 2012, 93 per cent of HSBC employees carried out our annual online health and safety training.

We run a number of employee assistance programmes tailored to local requirements. Skilled, professional counsellors are available on free phone lines, 24 hours a day, seven days a week to help employees manage personal or work problems that create stress and affect their work. Free face-to-face counselling is also provided, as is support for partners and dependants. Programmes are offered in the UK, Hong Kong, North America, and India, where the service is offered in all key Indian languages.

Group policies, standards and guidance for the management of health and safety are set by Global Corporate Real Estate, but are the responsibility of the local Chief Operating Officer, with support and co-ordination provided by the Health and Safety Co-ordinator for that country.



160,000

employees trained in
HSBC values since 2011



93%

of employees carried out
health and safety training

Education

Through our community investment programmes, HSBC seeks to help young people fulfil their potential.

Our education programmes focus on all stages of development and address different types of need. In 2012, we invested US\$58 million in education projects and thousands of HSBC employees got involved through volunteering.

Our contributions focus on one or more of six global themes, highlighted in the graphic below.

Access to education and opportunities

In 2012, HSBC pledged an additional US\$15 million for Future First, our flagship global education programme which aims to tackle child poverty through education projects. The additional investment will support more than 50 projects in 26 countries, taking HSBC's total commitment to Future First to US\$40 million over 10 years, from 2006 to 2015. Since Future First was started, it has provided some of the world's most marginalised and impoverished young people with access to education and life skills as well as a better future. In partnership with SOS Children's Villages and other

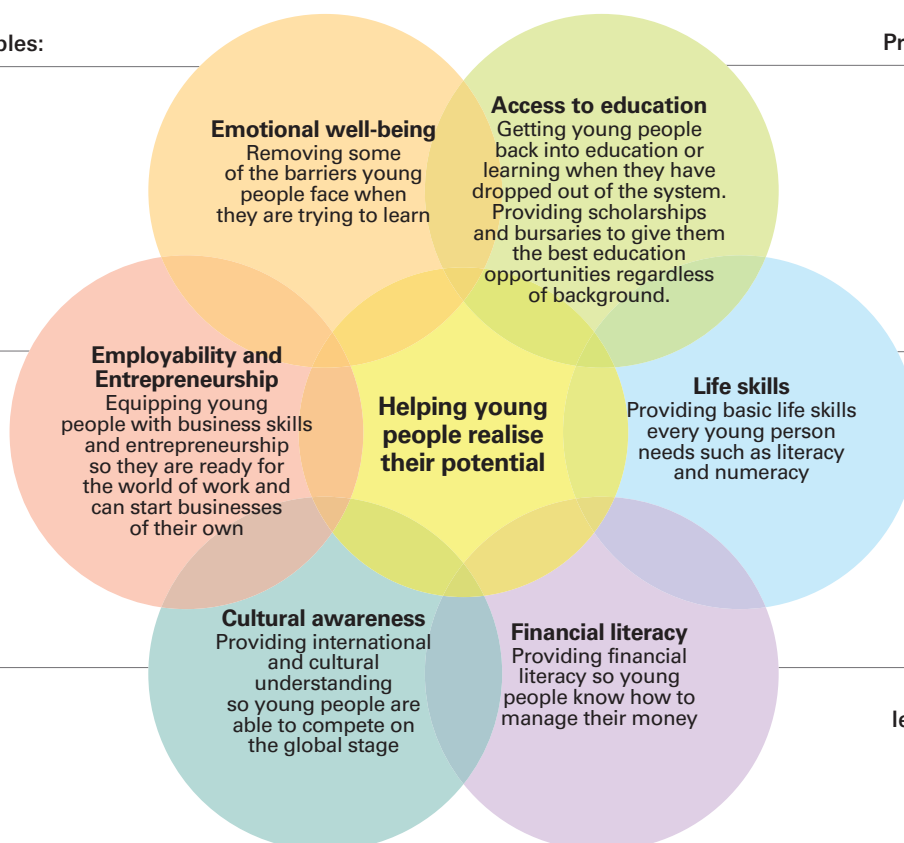
US\$58 million in 2012 to help young people reach their potential: a snapshot

Programme examples:

7,000 children helped through Zippy's Friends

79,000 hours of business coaching by HSBC employees in Hong Kong

10th anniversary of Mandarin-Speaking Competition involving 2,273 young people



Programme examples:

Over 6,000 scholarships globally every year

'Kids Read' involved 60 schools, 25,000 students and 200 HSBC volunteers

77,770 young people learned about finance through our Junior Achievement programme

local not-for-profit organisations, the extra support will reach 250,000 young people, taking the total number supported by Future First to over 800,000 since the partnership began.

In 2012, the work extended to Japan and Malta for the first time. In the past the project focused solely on supporting impoverished and marginalised young people – children who may be what the UN calls ‘street-connected’, in care or without the support of a caring adult. Today, the programme aims to reach all children at risk of missing out on education or employment opportunities. Projects include introducing a social worker service to western China’s rural ‘left behind’ children; providing skills and employment opportunities for disadvantaged urban youth in Gujarat, India; and supporting skills development for young people in São Paulo, Brazil.

In the UK, we announced a new partnership with The Prince’s Trust Fairbridge programme to help disadvantaged young people who have dropped out of formal education to reach their potential. HSBC is investing £5 million over five years to help 3,000 13 to 17 year olds back into education, training and, ultimately, employment. We aim for an 85 per success rate. In 2012, we fully funded 760 young people on this programme.

In 2012, HSBC worked with partners to open the London Academy of Excellence, a sixth form school in the London Borough of Newham run by a consortium of independent schools. The academy offers free tuition for bright students from disadvantaged areas in East London with the aim of helping them to get to the best UK universities. HSBC donated £250,000 to help with the cost of setting up the school, which enrolled 200 students in its first year. We have agreed additional funding for the next three years, as well as time and expertise from HSBC employees, including mentoring and internships.

Life skills

2012 was the second year of our Kids Read education programme, which encourages English reading for pleasure inside and outside the classroom among primary school children from the Middle East and North Africa. In partnership with the British Council, the 2012-13 programme is taking place in 10 countries encompassing over 60 schools, 25,000 students and 200 HSBC volunteers.



25,000

children in ‘Kids Read’ programme supported by HSBC to read in English

Employability and entrepreneurship

In 2012, many of our education programmes focused on youth unemployment. The International Labour Organisation estimates that 73.8 million young people are unemployed. We see employment as a key driver of economic growth so our community investment efforts are focused on this issue in markets where it is a problem.

Partnering with the Shanghai Charity Foundation, HSBC in China launched the ‘Share of the Sun’ programme in 2008, providing education diplomas, vocational training, computer skills and job references for rural labourers who have moved to cities through rapid urbanisation. By the end of 2012, HSBC had invested over US\$1 million in the project, supporting 32,328 young rural migrants.

The Middle East faces extremely high youth unemployment that threatens to marginalise a rapidly growing young population. HSBC partnered with INJAZ, a charity based in Jordan with the mission to inspire and prepare young people to become productive members of society, including helping them to learn employment skills. Some 6,000 students from across the region compete against each other to win the INJAZ Young Entrepreneurs competition, supported by HSBC.

In Hong Kong, HSBC has been supporting the JA Company Programme to foster students’ entrepreneurial spirit and leadership by providing opportunities to operate a business. The eight-month programme gives students the change to set up and run their own companies under the guidance of volunteer business advisers from HSBC. The programme attracts more than 70 secondary schools every year to participate and, since 2003, over 15,000 students from 190 schools have completed the programme. More than 600 HSBC employees have volunteered their time to coach the students.

Financial literacy

HSBC’s global financial programme, Junior Achievement’s JA More than Money, teaches students across the world about earning, spending, sharing and saving money, and about potential careers. It is the world’s largest organisation dedicated to educating young people about financial literacy. 77,770 young people learned about finance through JA More than Money in 2012.



600

HSBC employees teaching 15,000 Hong Kong students about business

Emotional well-being

'Zippy's Friends' is a global programme supported by HSBC, which helps children aged five to seven years develop their coping and social skills so that they are better able to handle problems and crises in adolescence and adult life. More than 700,000 children have completed the programme so far. HSBC in Argentina received the Communicative Social Responsibility Award 2012 for its local adaptation of the programme. We also participate in Zippy's Friends in Hong Kong, China and the UK, where it focuses on children with special educational needs.

Cultural awareness

2012 marked the 10th anniversary of the HSBC-British Council Mandarin-Speaking Competition, funded by us to encourage UK schoolchildren to learn the language and gain a greater understanding of Chinese culture. The annual competition has attracted a total of 2,273 young people.

When we have to bring our support to an end

HSBC's overall community investment increased from US\$96 million in 2011 to US\$120 million in 2012. As part of our wider strategy, however, it has been necessary to exit or reduce our presence in some countries and this has affected some of our community investment initiatives. In North America, the number of our employees has decreased significantly, which has resulted in fewer hours of volunteering. Some of our community investment relationships have been scaled back in other locations.

HSBC acknowledges the impact on local partnerships when we can no longer continue with funding. We, therefore, create specific exit strategies to ensure the least disruptive transition period. This has been appreciated in a number of cases by NGOs and charities, which welcome our transparency and management. For example, we have maintained our commitments to fund certain projects in the Latin American countries we have left, where the projects have already started.



US\$120m

**donated to community
investment programmes**

Junior Achievement in Las Vegas

HSBC had a number of community investment partners in Las Vegas but local projects and funding ended in 2012 when the bank withdrew from the area. To make the transition easier for our partners, HSBC hosted a community outreach event, including tailored training, individual meetings and grants.

"HSBC provided an exit strategy to help Junior Achievement of Las Vegas transition without disruption to the students we impact. HSBC provided financial resources to the end of our fiscal year as well as a substantial transition funding grant to help us move into the next fiscal year. They provided the highest number of volunteers on record that reached 4,000 students... I have never experienced that level of dedication on the part of a corporate partner in my career."

Alan Diskin

President

Junior Achievement of Southern Nevada, Inc



6,000

**scholarships awarded by
HSBC worldwide every year**

HSBC Water Programme

In 2012, HSBC launched a new flagship environmental project, the HSBC Water Programme. This is a five-year, US\$100 million programme in partnership with three NGOs which rank amongst the world's most respected environmental and development organisations.

The availability of safe water and sanitation is a huge and growing global challenge. Water is essential to lives and livelihoods and is a fundamental driver of all socio-economic growth but, as a resource, it is under strain from population growth, development and climate change. A quarter of the world's population live in ecosystems that are under threat from water scarcity. In addition, 2.5 billion people are living without access to basic sanitation. Furthermore, 90 per cent of population growth by 2050 is expected to occur in regions where water is scarce and where there is currently no sustainable access to water. By 2050, the top 10 river basins by population – nine of which are in growing or fast-growing markets – are expected to produce a quarter of all global GDP. The financial implications are vast: according to the United Nations Human Development Board, lack of water, sanitation and hygiene costs sub-Saharan African countries more in lost GDP than the entire continent receives in development aid.

Ensuring access to water is a significant part of our investment programme. Globally, the average return on each dollar invested in universal access to safe water and sanitation is just under US\$5, according to Frontier Economics.



1.9 million

people to be provided with access to sanitation

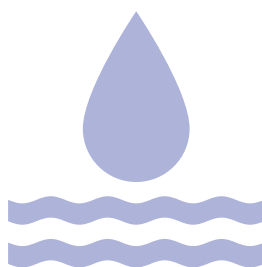
Our programme

HSBC is partnering with Earthwatch, WaterAid and WWF to deliver water provision, protection, information and education across the world. The programme will benefit communities in need, providing information for more efficient management of vital freshwater resources, enabling economies to prosper and supporting socio-economic development over the next five years and beyond.

Engaging our employees

The HSBC Water Programme will engage 7,500 HSBC employees in freshwater research to become Citizen Science Leaders. They will contribute towards comprehensive scientific research which will be openly available to scientists, policy-makers and environment managers across the world to help them with their work. A further 100,000 people will learn about the water challenge and freshwater monitoring.

In 2012, we ran a number of successful pilot schemes and launched an online community for HSBC employees to engage with each other on this issue, as well as bi-monthly newsletters in a number of languages. Between the official launch in June 2012 and December 2012, 2,600 employees registered their interest in the programme.



7,500

HSBC employees to be engaged in freshwater research in more than 20 cities

HSBC Water Programme targets and 2012 achievements

NGOs' five-year targets 2012-17	Achievements in 2012
Earthwatch	
- Set up freshwater research projects in over 20 cities worldwide, working with local research partners to address specific, local water issues - Engage 7,500 HSBC employees on these projects to become Citizen Science Leaders, collect data on freshwater quality and biodiversity, and engage a further 100,000 people to learn about water challenges and get involved in freshwater monitoring	- Ran six Citizen Science Leader freshwater research pilots in the UK, the US and Hong Kong. Following these pilots, this series will start to run in 2013 in all target cities globally - Agreed scientific research topic following peer review with research partners 2,600 employees registered their interest in the programme
WaterAid	
- Ensure access to water for 1.1 million people and sanitation for 1.9 million people in Bangladesh, India, Nepal, Pakistan, Ghana and Nigeria - Work in both urban and rural areas using community-led sustainable approaches - Support livelihoods by improving the health of communities and reducing time spent collecting water - Provide water and sanitation facilities in schools and hygiene education, including menstrual hygiene management for girls - Influence national and local government to prioritise water and sanitation services	- Reached 63,919 people with safe water and 95,552 people with sanitation - Water and sanitation committees have formed in 366 communities globally - Hygiene education sessions have been provided in 263 schools 249 mechanics have been trained - Over 50 villages and communities have been declared open-defecation free - In Pakistan, 10 local entrepreneurs have been trained to establish businesses for supplying materials for constructing toilets in the project areas, linked to microfinance institutions
WWF	
- Ensure new practices and policies are implemented to protect rivers and freshwater resources in five places in Asia, Africa and South America; the Yangtze, Ganges and Mekong basins, the Pantanal and the African Rift Valley - Take practical conservation action for 1,500 kilometres of river and 350,000 hectares of wetland - Help 1,500 small to medium-sized businesses to tackle water risks, including efficiency and pollution - Support 115,000 people to reduce fishing or farming impacts on water, whilst potentially improving food security and livelihoods	- WWF has undertaken intensive planning, baseline data collection and engagement activities - Delivered two major dolphin surveys. 150 people, including local communities and HSBC staff, recorded 671 dolphins in three days across 2,500 kilometres of the Ganges. In the Yangtze, WWF and government partners charted the finless porpoise for over a month, noting a decline which will be addressed by a new national action plan in 2013. - A WWF motion calling for institutions to work together to protect the headwaters of the Pantanal was approved at the national meeting of river basin committees in Brazil – an important step towards sustainable conservation of the Pantanal.

HSBC Global Research: water in China

In 2012, HSBC Global Research showed that Beijing and Shanghai are among the places most at risk of water shortages. China builds three new power stations a week and, by 2030, it plans to add more power capacity than exists in the US, the UK and Australia today. This will require large amounts of water for cooling and driving steam turbine generators. The country's water resources are already stretched and climate change is making conditions more difficult. Nearly half of China's GDP is earned in water-scarce provinces. Looking ahead, ambitious expansion plans for power capacity could face real water constraints. This is expected to drive an increased focus on water and energy efficiency in the power, industry and mining sectors.

In the report Wai-Shin Chan, a climate change strategist, says, 'We believe that water and power risks must be a top priority when planning capital expenditure. It is vital that the availability of water and the potential effect on supply chains is taken into account for the life of the investment.' The Chinese government recognises the problems and has responded by setting tough new water quotas as well as pollution reduction targets. Water scarcity puts the metals and mining, utilities production and supply, and manufacturing sectors at risk. No water means no electricity, and no raw materials such as iron and steel. Without upfront action now, HSBC Global Research analysts believe the risk of a serious water shortage is very high.

Key Facts

	Units	2012	2011	2010
Number of countries and territories with HSBC offices		81	85	87
Total number of employees including part-time (at year-end)		270,000	298,000	307,000
Full-time equivalent (FTE) number of employees (at year-end)		260,591	288,316	295,061
Number of customers		58 million	89 million	95 million
Benchmarks				
Dow Jones Sustainability Index (since 2001)		member	member	member
FTSE4Good (since 2001)		member	member	member
Interbrand top 100 brands position		33rd	32nd	32nd
Brand value: Interbrand	US\$b	11.4	11.8	11.6
Top 500 bank brands: <i>The Banker</i> magazine		3rd	1st	3rd
Economic				
Total operating income	US\$m	82,545	83,461	80,014
Profit before tax (on reported basis)	US\$m	20,649	21,872	19,037
Net cash tax outflow	US\$b	9.3	8.0	5.8
Distributions to shareholders and minority interests	US\$b	8.7	8.3	7.1
Employee compensation and benefits	US\$b	20.5	21.2	19.8
General administrative expenses including premises and procurement	US\$b	20.0	17.5	15.2
Taxes paid by country in priority growth markets				
Total taxes paid	US\$m	9,349	8,052	5,730
Analysed as:				
Hong Kong and Asia-Pacific	US\$m	2,777	2,386	2,070
<i>Priority markets</i>	US\$m	2,406	2,017	1,599
Hong Kong	US\$m	975	1,031	916
China	US\$m	439	163	86
India	US\$m	354	373	243
Australia	US\$m	209	148	90
Malaysia	US\$m	184	102	99
Indonesia	US\$m	106	59	47
Singapore	US\$m	86	80	74
Vietnam	US\$m	32	39	18
Taiwan	US\$m	21	22	26
<i>Other markets</i>	US\$m	371	369	471
Europe	US\$m	2,852	2,850	3,267
<i>Priority markets</i>	US\$m	2,700	2,627	3,150
UK	US\$m	1,566	1,464	1,808
France	US\$m	679	619	760
Germany	US\$m	200	234	233
Switzerland	US\$m	161	235	280
Turkey	US\$m	94	75	69
<i>Other markets</i>	US\$m	152	223	117
Middle East and North Africa	US\$m	481	238	196
<i>Priority markets</i>	US\$m	443	202	138
Saudi Arabia	US\$m	209	41	14
United Arab Emirates	US\$m	120	71	90
Egypt	US\$m	114	90	34
<i>Other markets</i>	US\$m	38	36	58
North America	US\$m	1,247	604	(1,288)
<i>Priority markets</i>				
US	US\$m	803	276	(1,439)
Canada	US\$m	444	328	151
Latin America	US\$m	1,979	1,942	1,465
<i>Priority markets</i>	US\$m	1,874	1,887	1,408
Brazil	US\$m	1,213	1,239	1,000
Argentina	US\$m	391	267	142
Mexico	US\$m	270	381	266
<i>Other markets</i>	US\$m	105	55	57
Other	US\$m	13	32	20

	Units	2012	2011	2010
Social				
Headcount		270,000	298,000	307,000
by employment type				
– Full-time	%	91.6	91.7	91.8
– Part-time	%	8.4	8.3	8.2
by employee contract				
– Permanent	%	99.3	99.2	99.0
– Temporary	%	0.7	0.8	1.0
by region				
– Europe	%	27.6	26.6	26.0
– Asia-Pacific	%	42.2	40.6	39.4
– North America	%	8.8	11.0	11.7
– Latin America	%	18.2	19.0	18.9
– Middle East	%	3.2	2.8	4.0
Employee turnover by region				
– Europe	%	16.8	15.2	15.5
– Asia-Pacific	%	21.3	22.1	22.1
– North America	%	46.4	22.6	19.4
– Latin America	%	26.8	19.4	16.5
– Middle East	%	15.1	16.8	12.3
– All staff	%	23.4	19.7	18.6
Employee turnover by management type¹				
– Senior managers	%	14.2	14.8	9.6
– Middle managers	%	20.6	16.4	14.2
– Junior staff	%	26.1	22.6	22.2
Employee turnover by age				
– Born 1 Jan 1925 - 31 Dec 1945	%	58.1	46.5	44.4
– Born 1 Jan 1946 - 31 Dec 1954	%	31.9	22.7	19.6
– Born 1 Jan 1955 - 31 Dec 1963	%	17.2	11.6	9.6
– Born 1 Jan 1964 - 31 Dec 1978	%	18.8	14.6	13.3
– Born 1 Jan 1979 - 31 Dec 1994	%	27.9	25.5	25.8
– Born 1 Jan 1995 - present	%	44.5	N/A	N/A
– Unassigned ²	%	7.2	10.4	7.5
Gender				
by management type ¹				
– Senior managers: male / female	%	78/22	78/22	79/21
– Middle managers: male / female	%	55/45	54/46	55/45
– Junior staff: male / female	%	39/61	39/61	39/61
– All staff: male / female	%	47/53	47/53	47/53
by region				
– Europe: male / female	%	45/55	45/55	45/55
– Asia-Pacific: male / female	%	49/51	49/51	49/51
– North America: male / female	%	44/56	41/59	41/59
– Latin America: male / female	%	47/53	47/53	47/53
– Middle East: male / female	%	59/41	59/41	67/33
Health and safety				
Number of employee workplace fatalities		0	0	0
Accidents involving more than 3 days' absence per 100,000 employees		58	51	120
All accident rate per 100,000 employees		375	386	548

1 Previously, the HSBC *Sustainability Report* has reported our 'gender by management type' data in four categories. These categories have been amended in this report to three categories, in order to align the way we communicate about 'management type' across all internal and external communications. Therefore, 2011 and 2010 data has also been amended to provide clearer comparisons.

2 'Unassigned' figures refer to employees whose age is undisclosed.

	Units	2012	2011	2010
Community investment				
Cash charitable donations ³	US\$m	120.0	94.5	108.6
Europe ⁴	US\$m	61.4	51.3	63.1
Asia-Pacific (including Middle East and Africa)	US\$m	33.7	16.3	14.8
North America	US\$m	13.0	16.7	19.4
Latin America	US\$m	11.9	10.2	11.3
Employee volunteering in own time	hrs	461,196	464,869	404,220
Employee volunteering in work time ⁵	hrs	262,867	271,611	275,031
Europe	hrs	89,342	95,654	69,539
Asia-Pacific (including Middle East and Africa)	hrs	103,948	97,723	126,496
North America	hrs	31,343	50,220	55,587
Latin America	hrs	38,233	28,015	23,409
Value of employee volunteering hours in work time	US\$m	7.9	8.5	8.0
Management costs associated with community investment	US\$m	11.5	11.1	12.0
Total value of community investment	US\$m	139.4	114.1	128.6
Allocation of cash donations				
Education	%	48	54	50
Environment	%	23	28	34
Other	%	29	18	16
Environment				
Reporting coverage as % of Group	%	92	95	94
Carbon dioxide emissions (after uplift and scale up) ⁶				
Total CO ₂ emissions (Assured by PwC)*	tonnes	963,000	991,000	1,017,000
CO ₂ emissions from energy (Assured by PwC)*	tonnes	825,000	833,000	875,000
CO ₂ emissions from business travel (Assured by PwC)*	tonnes	138,000	158,000	142,000
Total CO ₂ emissions per FTE	tonnes	3.61	3.44	3.45
CO ₂ emissions per FTE from energy	tonnes	3.09	2.89	2.97
CO ₂ emissions per FTE from business travel	tonnes	0.52	0.55	0.48
CO ₂ emissions per m ²	tonnes	0.19	0.17	0.17
Carbon dioxide emissions per FTE by region (before uplift and scale up)				
Total CO ₂ emissions per FTE				
Europe	tonnes	3.88	3.76	3.79
Asia-Pacific	tonnes	3.13	3.01	3.00
North America	tonnes	5.63	4.6	4.74
Latin America	tonnes	2.25	2.24	2.16
Middle East	tonnes	5.08	5.83	5.63
Environmental resource efficiency (before uplift and scale up)				
Total energy consumption	gigawatt hours	1,588	1,690	1,789
Energy consumption per FTE	kWh/FTE	6,481	6,184	6,426
Energy consumption per m ²	kWh/m ²	311	294	299
Total electricity consumption	gigawatt hours	1,408	1,476	1,520
Primary fuel sources (gas, oil, diesel, etc)	gigawatt hours	180	214	269
Total waste produced	kilotonnes	53	61	66
Waste disposed to landfill	kilotonnes	19	22	25
Waste disposed per FTE to landfill	tonnes/FTE	0.08	0.08	0
Waste recycled	kilotonnes	34	39	41
% waste recycled	%	63	64	62
Total water consumption	thousand m ³	3,977	4,773	4,770
Water consumption per FTE	m ³ /FTE	16.2	17.5	17.1
Business travel ⁷ (before uplift and scale up)				
Total business travel	million km	856	1,002	1,014
Business travel per FTE	km/FTE	3,493	3,668	3,641
Air travel	million km	656	749	762
Domestic air travel	million km	237	71	65
International air travel	million km	419	678	697
Rail travel	million km	39	42	34
Road travel	million km	126	148	153
Other travel	million km	36	63	65

³ For comparison purposes, currency values have been restated to reflect the position had foreign currency rates remained constant.

⁴ 2012 figures include donations for Bermuda and South Africa, which were previously reported in other regions. The amounts are small and therefore there is no material change.

⁵ 2010 figure restated due to enhancement in data collection processes.

⁶ We have changed the date range for our 2012 performance data. Our 2012 performance data covers the period Oct 2011 - Sept 2012. This enables us to provide data of a higher quality, both quarterly into internal businesses and functions and annually into the Sustainability Report. This does not have a material impact in needing to restate the prior year data. Uplift factors have been updated for 2012 to take into account streamlined energy use reporting.

⁷ We raised our short haul/long haul threshold from 750 km to 3,700 km, according to DEFRA. From this year, we no longer collect data on miscellaneous categories of travel such as ferry/junk/bus/coach/car share. Travel uplift factor has been updated for 2012 to take into account streamlined travel categories in the reporting.

* See HSBC's Reporting Guidelines and www.hsbc.com/sus-assurance. See PwC's assurance report, page 35.

Assurance Report

Independent Assurance Report to the Directors of HSBC Holdings plc

The Directors of HSBC Holdings plc (HSBC) engaged us to provide limited assurance on the information described below and set out in the HSBC *Sustainability Report* for the year ended 31 December 2012.

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 for the 12 months to 31 December 2012 on page 19 of the *Sustainability Report 2012*; and
- HSBC's total CO₂ emissions for the 12 months to 30 September 2012 on page 34 of the *Sustainability Report 2012*.

How the information is assessed ('Reporting Criteria')

We assessed the Selected Information using HSBC's Reporting Criteria as set out at <http://www.hsbc.com/sus-assurance>¹.

Professional standards applied² and level of assurance³

We have used ISAE 3000 (limited level of assurance) and we have complied with the ICAEW Code of Ethics.

Understanding reporting and measurement methodologies

There are no globally recognised and established practices for evaluating and measuring the Selected Information. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Reporting Criteria used as the basis of HSBC's reporting should therefore be read in conjunction with the Selected Information and associated statements reported on HSBC's website.

Work done

Considering the risk of material misstatement of the Selected Information, we performed the following activities:

- made enquiries of relevant HSBC management;
- evaluated 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 periods under review;
- performed limited substantive testing on a selective basis of the application of the Equator Principles based on information held at corporate head offices and accessed the records, and discussed with relevant staff twenty-eight transactions to check that data had been appropriately measured, evaluated, recorded, collated and reported;
- performed limited substantive testing on a selective basis of the total CO₂ emissions information at corporate head offices and accessed the records, and discussed with relevant staff, of eight reporting locations to check that data had been appropriately measured, recorded, collated and reported; and
- assessed 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 Reporting Criteria for preparing the Selected Information;
- ensuring the completeness of the transactions list relevant for the application of the Equator Principles;

- measuring HSBC's performance based on the Reporting Criteria; and
- the content of the *Sustainability Report 2012*.

Our responsibilities

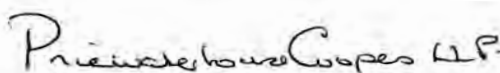
We are responsible for:

- 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 an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion 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 2012 has not been prepared in all material respects with the Reporting Criteria.

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 sustainability performance and activities. We permit this report to be disclosed in the *Sustainability Report 2012* for the year ended 31 December 2012 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
7 May 2013

- The maintenance and integrity of HSBC's 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 Criteria when presented on HSBC's website.
- We have complied 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.
- 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.

The six reporting angles in this report were decided by assessing feedback from business and risk colleagues across HSBC and external stakeholders. This helped us to understand which issues are material to HSBC. HSBC's Sustainability Committee also advises on the report's priorities and areas of focus. Stakeholder feedback is highlighted throughout the report in the relevant chapters. The length of the chapters shows our priorities for 2012. For example, our Sustainable Operations section is longer than usual this year as it is the first year of working towards our seven-year goals.

We identify priority issues by listening to our key stakeholders and assessing them in light of our strategy, purpose and values. Specifically, we assess feedback and queries globally from our customers, shareholders, regulators and NGOs, as well as media commentary. We gather insight from and engage with major investors, through investor roadshows and by contributing to various indices and surveys. We also gain feedback on our strategy from global benchmarks and through calls with analysts. We review and revise our priority issues throughout the year.

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.

This report supplements the HSBC Holdings plc *Annual Report and Accounts 2012* and *Annual Review 2012*. The *Annual Report and Accounts* covers HSBC's full financial performance and corporate governance policies and is available online at www.hsbc.com. The *Annual Review* is a summary of information in the *Annual Report and Accounts*, and is also available at www.hsbc.com.

This *Sustainability Report* covers the financial year from January to December 2012 (unless otherwise noted). In some cases, information for early 2013 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. We draw on guidance from the Greenhouse Gas Protocol for our carbon reporting.

For the fifth consecutive year, we have appointed PricewaterhouseCoopers LLP to provide independent assurance on selected information in our *Sustainability Report 2012* covering carbon emissions 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. The PricewaterhouseCoopers LLP assurance report is on page 35.

Contact us

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The HSBC *Sustainability Report* is published annually.
Our last report was published in May 2012.

Photography

Group Chairman, page 2: George Brooks

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