



# Sustainability at HSBC

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## Forward-looking statements

**This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report and Accounts 2011 and Interim Management Statement issued on 08 May 2012. Past performance cannot be relied on as a guide to future performance.**

**This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

# Agenda

Sustainability delivered through long term results and distinctive position

Strategy update	Section 1
Strong and conservative management philosophies	Section 2
Values and remuneration	Section 3
Corporate Sustainability is core to how we manage our business	Section 4

'The overriding accountability of the Group Management Board, led by the Group Chief Executive is to deliver sustainable long term value for shareholders through consistent performance delivery and safe and compliant execution of the Group's business in a manner that, at the same time, maintains the confidence of all other key stakeholders in the business including depositors, counterparties, long term creditors, customers, regulators, employees and governments.'

# Strategy update

# Group Strategy

## *Strategy aligned with two long-term trends*

### International trade and capital flows



- Build on international trade and commercial banking heritage
- International network in markets that matter

### Economic development and wealth creation



- Most relevant markets for wealth creation
- Retail banking only where we can achieve profitable scale

***If we are successful in executing against this strategy,  
we will be regarded as the world's leading international bank***

# Progress against May 2011 Report Card

## Key execution elements

## May 2011 Report Card Metrics

## Progress to date

### 1 Capital Deployment *Five Filters*

- Disposals and closures of non-strategic / underperforming businesses
- Turnaround of strategically relevant businesses

- 28 transactions to dispose of or close businesses
  - c.USD55bn expected reduction in RWAs
  - c.15k FTE to be transferred
  - c.USD5.9bn total consideration

### 2 Cost efficiency *Four Programmes*

- USD2.5-3.5bn in sustainable cost saves by 2013
- Simplify and delayer organisation

- USD2.0bn in total annualised sustainable savings
- FTE down 14k from 1Q11 (including 1.5k from transactions and US run off portfolios)
- Global functions re-engineering across the Group


### 3 Growth

- Revenue growth in faster growing markets
- USD4bn in incremental wealth revenues in the medium term
- USD1bn in additional CMB and GB&M revenues in the short to medium term

- 1Q12 yoy revenue growth of 7% in Latin America, 16% in Hong Kong, and 18% in Rest of Asia Pacific
- c.USD300m in incremental Wealth revenues in 2011
- c.USD500m in incremental revenues from CMB and GB&M integration in 2011

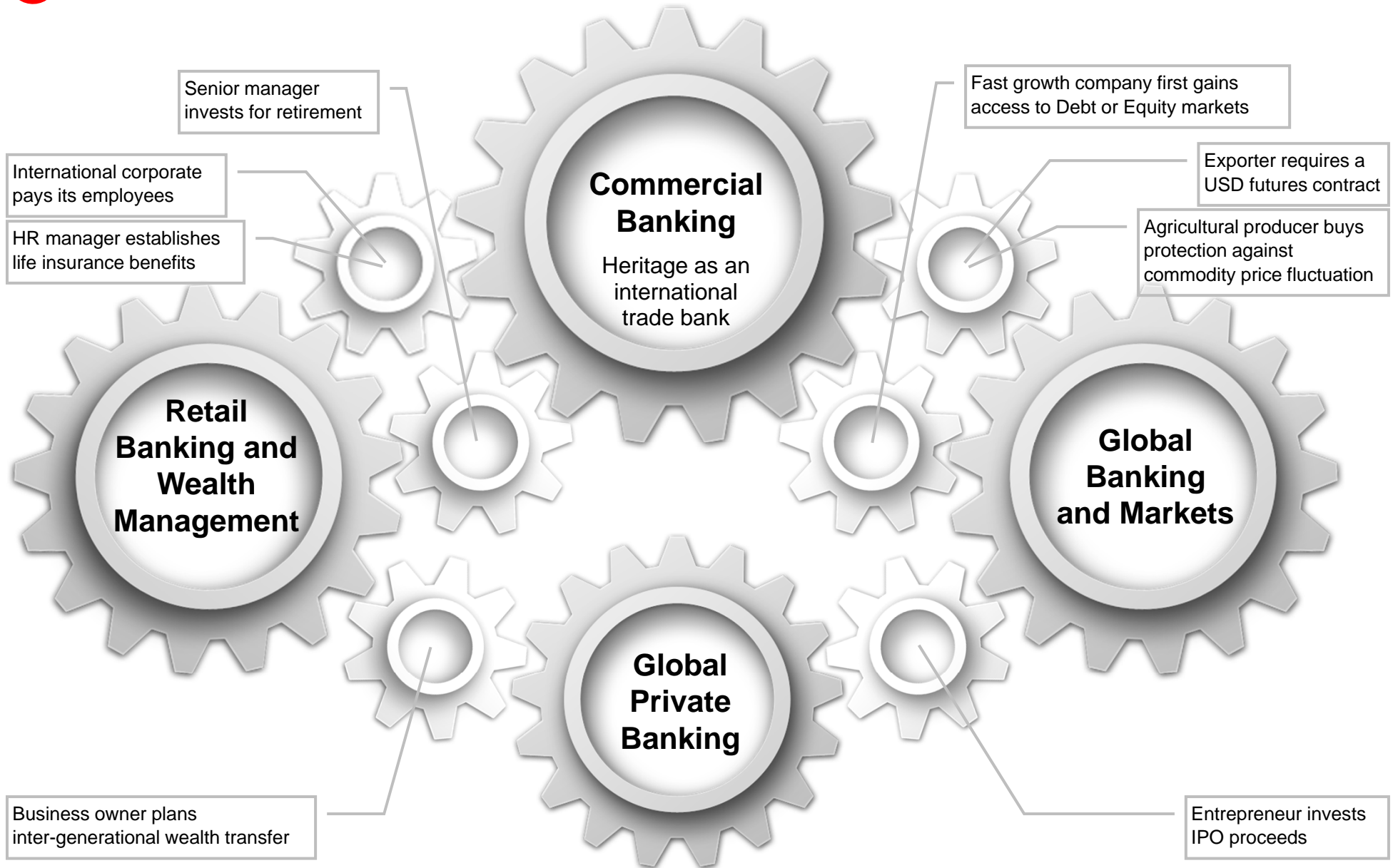
(1) Based on consideration at the time of the deal announcement. Consideration for announced transactions, for the purposes of this analysis, is defined as the value received for the sale of a business for legal entity sales and the premium / discount to assets / liabilities received for the sale of a business for asset & liability transfers. The premium for the US Cards and Retail Services sale is as at closing.

# HSBC Vision

<b>Purpose</b>	We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions	<b><i>Reason why we exist</i></b>
<b>Values</b>	Act with courageous integrity <ul style="list-style-type: none"><li>▪ Dependable and do the right thing</li><li>▪ Open to different ideas and cultures</li><li>▪ Connected to customers, regulators and each other</li></ul>	<b><i>How we behave and conduct business</i></b>
<b>Strategy</b>	<ul style="list-style-type: none"><li>▪ International network connecting faster growing and developed markets</li><li>▪ Develop Wealth and invest in Retail only in markets where we can achieve profitable scale</li></ul>	<b><i>Where and how we compete</i></b>
<b>Outcome</b>	<b>Being the world's leading international Bank</b>	 <b>Delivering consistent returns:</b> <ul style="list-style-type: none"><li>▪ 50% of earnings retained</li><li>▪ 35% to shareholders as dividends</li><li>▪ 15% variable pay</li></ul>



# Four integrated Global Businesses



**Vision**

# Cohesive portfolio of markets

	Hong Kong and rest of Asia Pacific	Europe	Middle East and North Africa	North America	Latin America
<b>'Home markets'</b>	<ul style="list-style-type: none"> <li>Hong Kong<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>United Kingdom</li> </ul>			
<b>Priority Growth markets</b>	<ul style="list-style-type: none"> <li>Australia</li> <li>Mainland China</li> <li>India</li> <li>Indonesia</li> <li>Malaysia</li> <li>Singapore</li> <li>Taiwan</li> <li>Vietnam</li> </ul>	<ul style="list-style-type: none"> <li>France</li> <li>Germany</li> <li>Switzerland</li> <li>Turkey</li> </ul>	<ul style="list-style-type: none"> <li>Egypt</li> <li>Saudi Arabia</li> <li>UAE</li> </ul>	<ul style="list-style-type: none"> <li>Canada</li> <li>USA</li> </ul>	<ul style="list-style-type: none"> <li>Argentina</li> <li>Brazil</li> <li>Mexico</li> </ul>
<b>Network markets</b>	<ul style="list-style-type: none"> <li>Operations primarily focused on CMB and GB&amp;M international clients and businesses</li> <li>Together with home and priority growth markets these concentrate c.85-90% of international trade and capital flows</li> </ul>				
<b>Small markets</b>	<ul style="list-style-type: none"> <li>Markets where HSBC has profitable scale and focused operations</li> <li>Representative Offices</li> </ul>				

(1) Includes Hang Seng Bank

*Vision*

**Committed to delivering on our financial targets**

**Capital**

**Profitability**

**Efficiency**

**Common equity tier 1  
ratio of  
9.5 - 10.5%**

**ROE target of  
12 - 15%**

**CER target of  
48 - 52%**

# Priorities going forward

## Key actions

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### **I** *Simplify*

- Aggressively run-off legacy assets
  - Fragmentation – Continue to dispose non-strategic businesses through Five Filters
  - Four Programmes – Make HSBC easier to manage and control
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### **II** *Restructure*

- Reposition elements of GPB business model
  - Reposition the US for growth
  - Review of GB&M challenges arising from regulatory environment
- 

### **III** *Grow*

- Integration – Capture an additional USD1bn in revenues through Global Businesses coordination
- Active capital deployment in growth portfolio

# 1 Simplifying the organisation and our approach to talent and values

		How we will achieve it . . .
Organisation	8 by 8 structure	<ul style="list-style-type: none"> <li>Continue to establish 8x8                             <ul style="list-style-type: none"> <li>Maximum of 8 layers between Group CEO and frontline</li> <li>Increased spans of control (8 reports per manager)</li> </ul> </li> </ul>
	Four global businesses	<ul style="list-style-type: none"> <li>Target business and operating models being implemented across global businesses</li> <li>As we dispose and close non-strategic businesses, we are able to organise resources at the centre</li> </ul>
	Ten global functions	<ul style="list-style-type: none"> <li>Ten global functions (e.g. HR, Finance, Marketing) to manage resources globally</li> <li>Easier to enforce global controls so that every geography meets the highest standard</li> </ul>
Talent		<ul style="list-style-type: none"> <li>Focus and visibility on our global talent pool</li> <li>Creating opportunities for talent as we change the organisation</li> </ul>
Values	<b>Courageous Integrity</b>	<ul style="list-style-type: none"> <li>Values programme, with courageous integrity as a guiding principle, led from the top and cascaded through the organisation – ensuring global adherence to high standards</li> <li>Values fully integrated into performance management</li> </ul>

**Group FTE**  
000's

Period	Group FTE (000's)
1Q 11	299
1Q 12	285

(5%)



## II We are reshaping the US business to focus on core activities

### Major US transactions announced to date

#### US Cards and Retail Services

- Consideration: USD2.4bn
- Transferred FTEs: c.5k
- RWAs: c.USD40bn<sup>1</sup>
- Acquirer: Capital One
- Closed 1<sup>st</sup> May 2012

#### Upstate New York branches

- Consideration: USD1.0bn
- FTEs to be transferred: c.2k
- RWAs: c.USD2bn<sup>1</sup>
- Acquirer: First Niagara
- Expected closing date: 2Q 2012

### Reposition the US towards international businesses

- **Commercial Banking** focused on 5 hubs concentrating over 50% of US corporate imports/exports<sup>2</sup> – California, Florida, Illinois, New York, Texas
- **Global Banking** serving top-tier multinationals and **Global Markets (New York)** as a hub for international clients across Americas and world, leveraging USD funding
- **Retail Banking Wealth Management and Global Private Bank** target internationally mobile clients in large metropolitan centres in the West and East coast

(1) As at 31<sup>st</sup> March 2012

(2) International business opportunities were plotted by Metropolitan Statistical Areas (MSAs) and grouped into 5 key regions. These MSAs account for 52% of the international opportunity (Brookings report)

## II GB&M is taking the necessary actions



### Industry changes in product profitability

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#### GM Legacy

- Actively **managing down legacy** exposure
- In 2011, disposal actions taken to **mitigate USD7bn RWA** increase; but RWAs **increased USD24bn largely due to regulatory changes**
- **Clear economic framework** for hold versus dispose decisions

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#### Ongoing business actions

- **Comprehensive RWA mitigation** actions underway
- **Trading inventory** being managed down
- **Optimising RWA consumption**
- GM Rates – reposition in light of capital constraints. GM Credit – **Primary DCM focused business** going forward

Organic Growth

III Integration should deliver another USD1bn revenue upside in the short to medium term



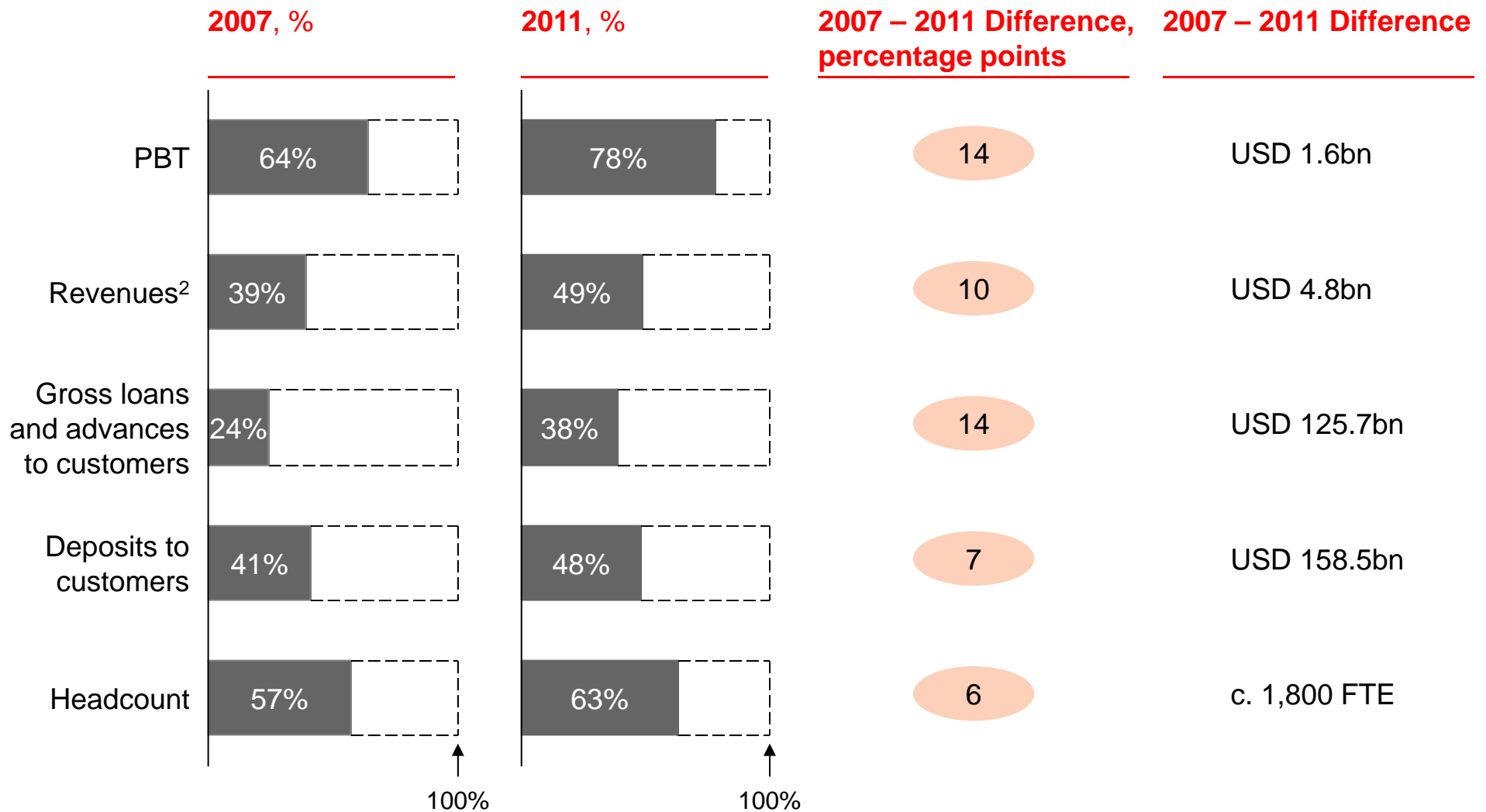
Collaboration areas	Description	Total upside Revenues, USDbn
Previous target CMB and GB&M	<ul style="list-style-type: none"><li>Original collaboration target from May 2011</li><li>c.USD500m achieved in 2011</li></ul>	1
Additional potential CMB and GB&M	<ul style="list-style-type: none"><li>Enhanced coverage of CMB clients</li><li>Cross-selling of Trade &amp; Receivable Finance (GTRF) to GB&amp;M customers</li></ul>	c.1
CMB and GPB	<ul style="list-style-type: none"><li>Increased referrals between CMB and GPB</li></ul>	
CMB and Insurance (RBWM)	<ul style="list-style-type: none"><li>Cross-selling of Insurance (Trade Credit and Business protection)</li></ul>	
<b>Total Upside</b>		<b>c.2</b>



# HSBC has been shifting towards faster growing regions

■ Fast Growers  
 □ Developed

## Faster growing regions<sup>1</sup> as share of Group



(1) Hong Kong, Rest of Asia Pacific, Middle East and North Africa, Latin America; (2) Net operating income before loan impairment charges and other credit risk provisions

# Report Card

	<b>Actions (examples)</b>	<b>By the end of 2013 . . .</b>
<b>Capital Deployment</b> <i>Five Filters</i>	<ul style="list-style-type: none"> <li>▪ <b>Release capital</b> from run-off (CML, GB&amp;M) and non-strategic businesses</li> <li>▪ <b>Mitigate regulatory RWA</b> increase</li> <li>▪ Continue to <b>shift balance towards Growth priorities</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Additional transactions announced and executed</li> <li>▪ RWAs increase in 'Growth HSBC' and material reduction on Run-off businesses</li> <li>▪ Progress in restructuring US businesses, elements of GPB and GB&amp;M</li> </ul>
<b>Simplify HSBC</b> <i>Four Programmes</i>	<ul style="list-style-type: none"> <li>▪ <b>Simplify and delayer organisation</b>, making HSBC easier to manage and control</li> <li>▪ Continue to <b>invest in best-in-class Compliance and operational risk</b> capabilities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Achieve USD3.5bn<sup>1</sup> in sustainable savings run-rate and target a 48-52% CER</li> <li>▪ Increase costs in faster growing markets with positive jaws</li> <li>▪ Reduce controllable costs in developed markets</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>▪ <b>Invest in growth priority markets</b></li> <li>▪ Capture <b>Wealth opportunity</b> (USD4bn<sup>1</sup> in additional revenues by 2015)</li> <li>▪ Continue to leverage <b>integration across Global Businesses</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Grow loan, deposit volume and PBT in priority growth markets</li> <li>▪ Additional progress on Wealth and Global businesses integration targets</li> </ul>

(1) Versus 2010 year end

# Financial strength

	<b>Key Metrics</b>	<b>2011<sup>1</sup></b>	<b>Q1 2012<sup>1</sup></b>	
<b>1</b>	<b>Capital &amp; Liquidity</b>	Core Tier 1 Ratio (%)	10.1	10.4
		Dividends (USD per ordinary share) <sup>2</sup>	0.41	0.09
		ADR (%)	75.0	74.8
<b>2</b>	<b>Returns</b>	PBT (USDbn)	21.9	4.3
		RoE (%)	10.9	6.4
		RoRWA (%)	1.9	1.4
<b>3</b>	<b>Efficiency</b>	CER (%)	57.5	63.9
		CER (%) (underlying)	61.0	55.5
		Sustainable Saves Achieved (USDbn)	0.9	0.3

(1) On a reported basis unless otherwise stated

(2) Dividends in respect of the year/quarter

# **Strong and conservative management philosophies**

# How we manage our business

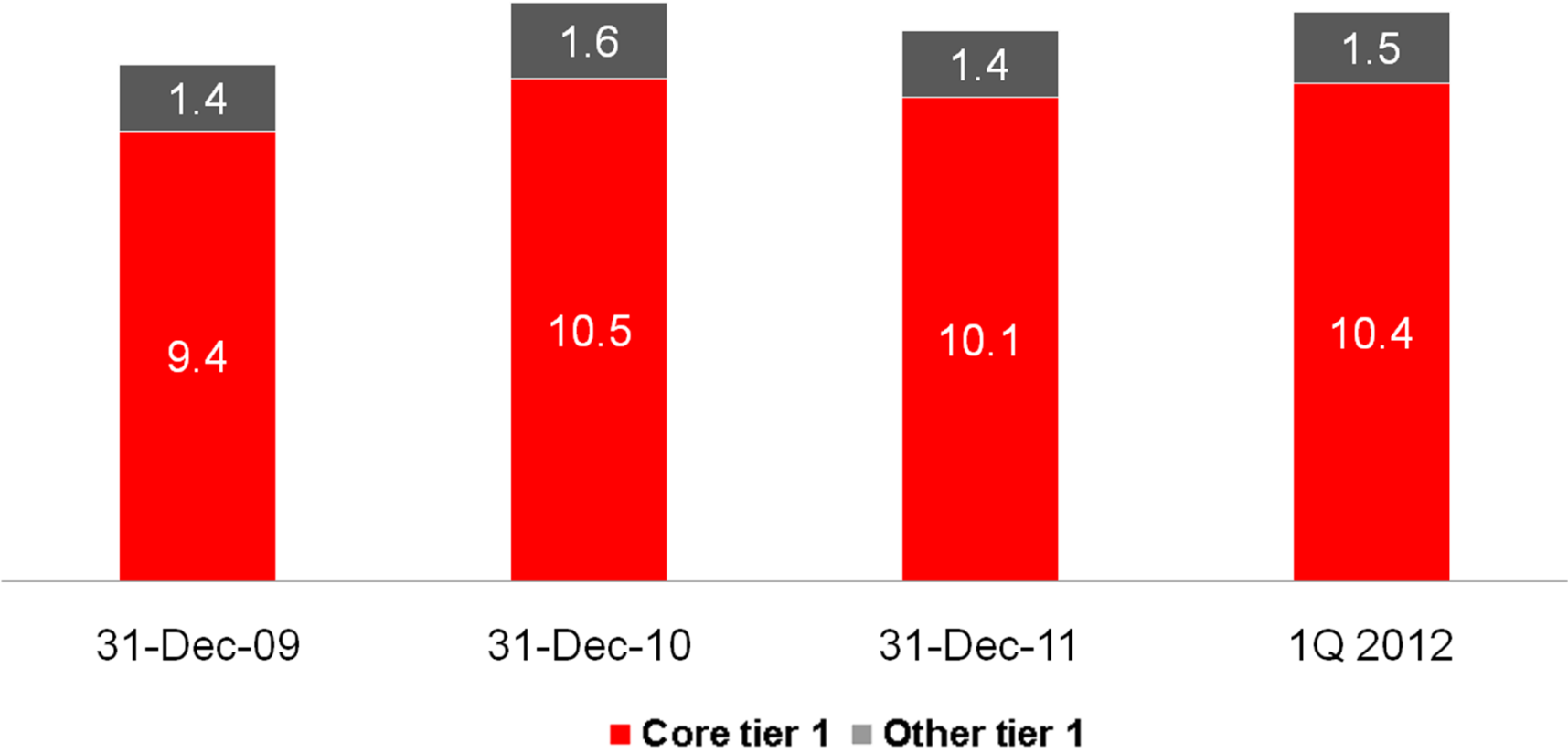
Our values, robust risk management, good governance, and commitment to operating sustainably guide the way we manage our business and help us deliver value to our shareholders and customers.



# Capital strength and generation<sup>1</sup>

## Tier 1 ratio

(%)



Notes:  
1 Reported basis

# Values and remuneration

# HSBC values and business principles

In all we do, each of us should  
**act with courageous integrity**  
standing firm for what is right

## HSBC Values

- **Dependable and do the right thing**
  - stand firm for what is right, deliver on commitments, be resilient and trustworthy
  - take personal accountability, be decisive, use judgment and common sense, empower others
- **Open to different ideas and cultures**
  - communicate openly, honestly and transparently, value challenge, learn from mistakes
  - listen, treat people fairly, be inclusive, value different perspectives
- **Connected to customers, communities, regulators and each other**
  - build connections, be aware of external issues, collaborate across boundaries
  - care about individuals and their progress, show respect, be supportive and responsive

## HSBC Business Principles

- **Financial strength:** maintain capital strength and liquidity
- **Risk management:** be enterprising and commercial, understand and be accountable for the impact of our actions, take prudent decisions
- **Speed:** be fast and responsive, make principles-led decisions
- **Performance-focus:** drive leading, competitive levels of performance, act with urgency and intensity, prioritise, simplify
- **Efficiency:** focus on cost discipline and process efficiency
  - **Quality:** pursue excellence
- **Customer-focus:** provide outstanding customer experience
  - **Integrated:** align the Group and break down silos
- **Sustainability:** take a long-term outlook, understand impact of actions on stakeholders, brand and reputation



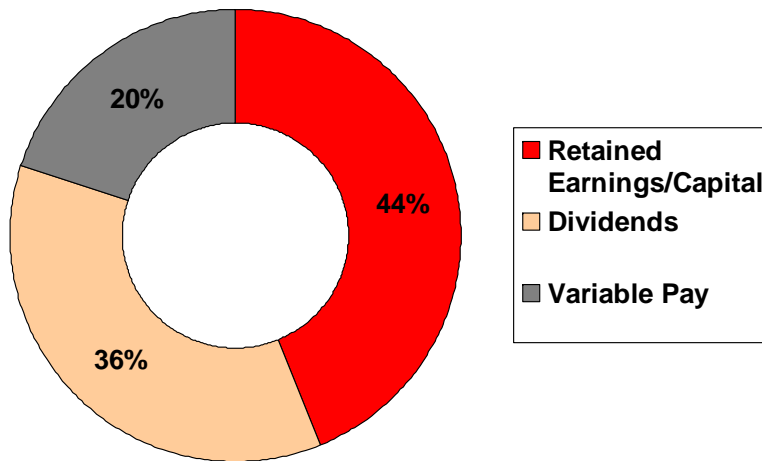
## Variable Pay – alignment with performance

- Global variable pay pools considered as follows:
  - PBT performance assessed;
  - Risk-adjusted PBT performance assessed (economic profit);
  - Performance within the context of HSBC's Risk Appetite Statement
- In addition the Group Remuneration Committee (RemCo) considers the relationship between retained earnings/capital accumulation, dividends and variable pay funding within the context of:
  - HSBC's stated dividend policy of 40%-60% of PAT; and
  - A counter-cyclical variable pay funding methodology
- This enables RemCo to consider the variable pay pool in the context of:
  - risk adjusted performance;
  - the position in the economic cycle; and
  - the relationship between retained earnings (capital accumulation), dividends and variable pay
- Group Chief Risk Officer attends RemCo
- Cross membership between RemCo and Group Risk Committee
- Fully compliant with the FSA Remuneration Code

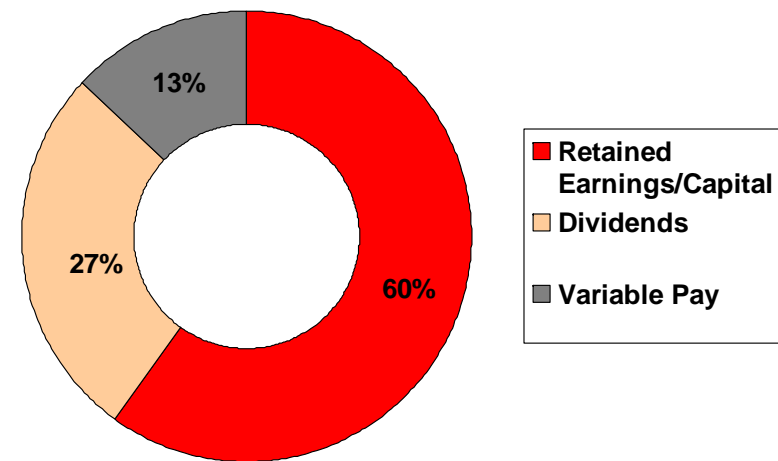
# Retained Earnings/Dividends/Variable Pay

- The application of the funding methodology together with the stated dividend policy results in the following typical distribution of post tax profits:

Low point of economic cycle



High point of economic cycle



## Variable Pay – annual bonus awards

- Annual bonus awards determined against:
  - Annual performance scorecard
    - Financial and non-financial measures
  - HSBC Values assessment
    - Senior management has separate values rating for 2011
    - Minimum “2” rating required in order to be considered for variable pay
- Individual reviews by Risk & Compliance for senior executives and FSA Code Staff (risk takers)
- Group-wide thematic reviews to determine if any transgressions that need to be taken into account when sizing annual awards or where clawback should be applied
- Group-wide deferrals compliant with FSA Remuneration Code
  - 40%-60% for Code Staff
  - Up to 50% for non Code Staff
  - Deferred awards vest 1/3<sup>rd</sup> pa over 3 years
- Clawback applicable during vesting period
- Fully compliant with the FSA Remuneration Code

# Executive Directors

- Composition of package remains consistent
  - Maximum Annual Bonus 300% of salary
  - Maximum GPSP award 600% of salary
  - 1:3:6 remuneration model
  - CRD IV
- No increases in fixed salaries
- Subject to the same reviews by Risk & Compliance as other senior executives and FSA Code Staff (risk takers)
- Deferrals
  - 60% of annual bonus deferred; vests 1/3<sup>rd</sup> pa over 3 years
  - GPSP awards subject to a 5 year vesting period
- Clawback applicable to both annual bonus and GPSP during vesting periods
- Fully compliant with the FSA Remuneration Code

**Corporate Sustainability is core to how we manage  
our business**

## Why long-term thinking is important

**Environmental footprint**

Reduces cost

**Sustainability risk**

Reduces risk

**Business development**

Increases revenues

**Community investment**

Supports long term value

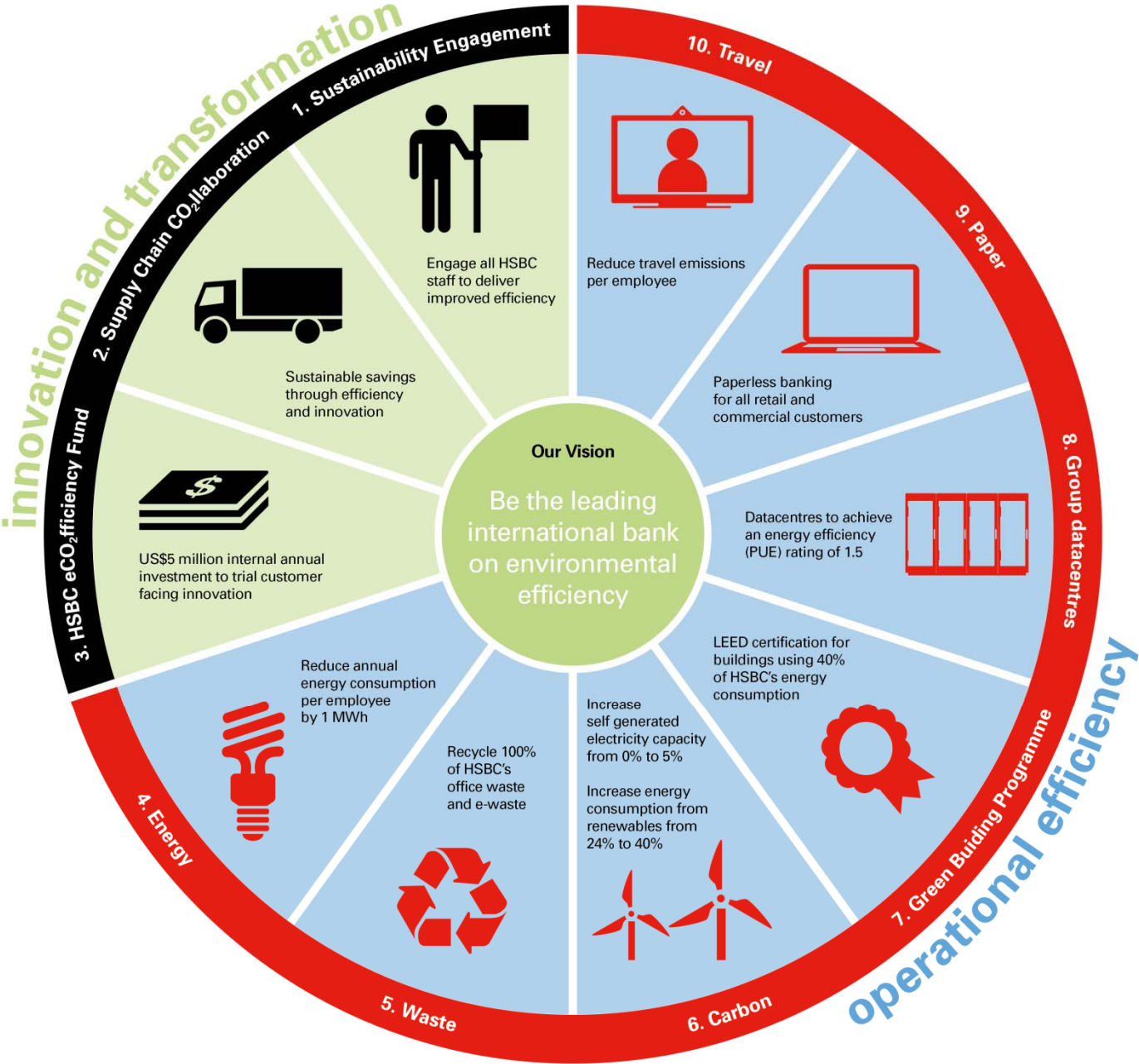
**Sustainability reporting**

Engages stakeholders and manages reputation

# **Efficiency as part of the HSBC Technology & Services strategy**

- Reduces cost**

# Operational sustainability strategy – driving efficiency

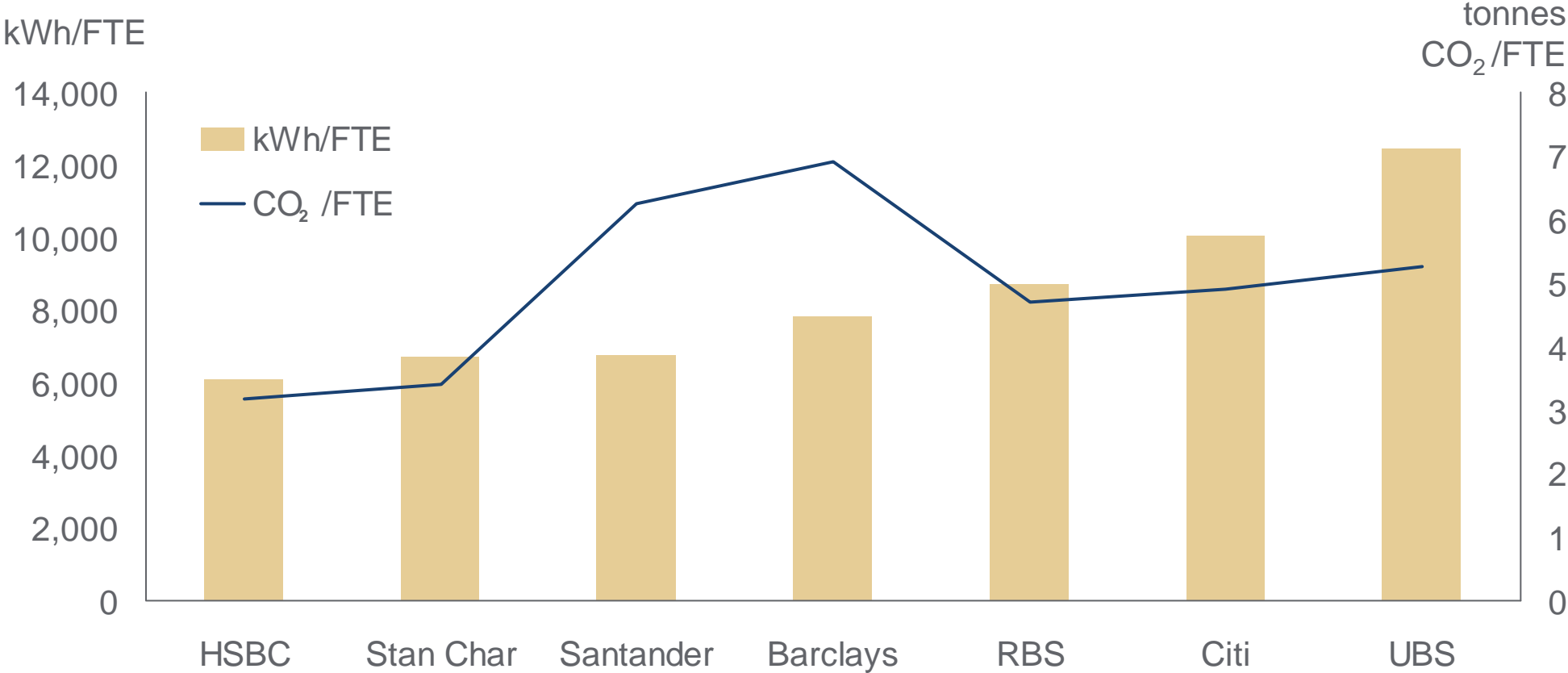




# LEED certified buildings



# How we are doing



Source: Various company reports (2010)

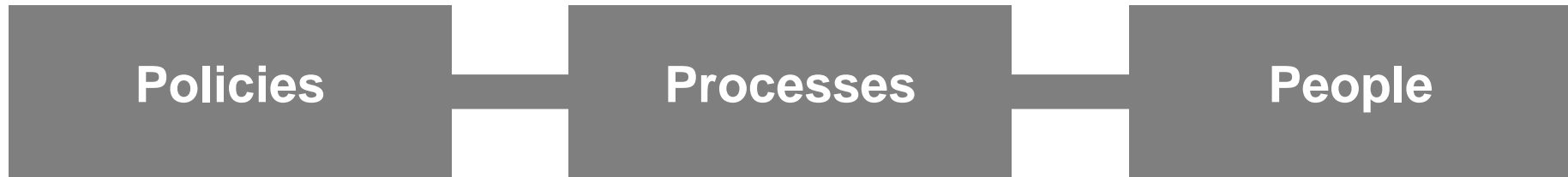
# Management of sustainability risk

- Reduces risk

# Sustainability is embedded in our risk systems

## Our approach

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## Adopted Equator Principles in 2004

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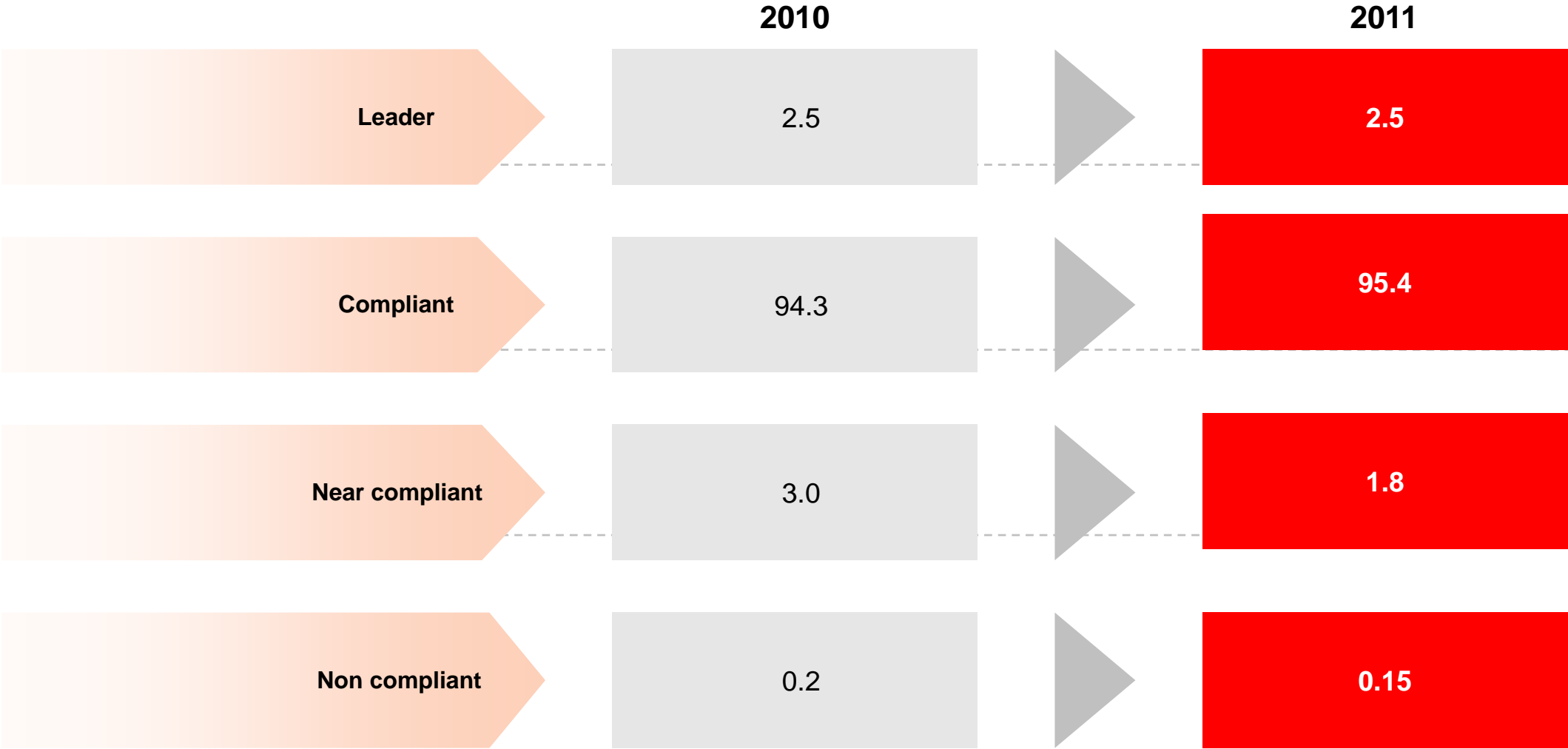
### Sustainability Risk Policies for

- Metals and mining
- Forest land and forest products
- Chemicals
- Energy
- Freshwater infrastructure

+ Defence equipment

# Percentage of non-compliant customers reduced in 2011

Levels of compliance by number of clients (%)



# How are we doing

## Indices and ratings

<b>Bank</b>	<b>Carbon Disclosure Project (CDP) Score</b>	<b>BankTrack ranking</b>
	What was the company's published CDP score (out of 100)?	What was the sum of the company's scores on all its policies (as per Mind the Gap)?
Barclays	87	18
Citigroup	79	16
<b>HSBC</b>	<b>95</b>	<b>22</b>
RBS	93	15
Standard Chartered	82	18

**Positioned to capture opportunities arising from transition to low carbon economy**  
**- Increases revenues**

# Strategic oversight from HSBC's Climate Business Council

- 160 climate and cleantech research notes, HSBC Global Research
- Thomson Reuters Eintel aware – number 1 for integrated climate change
- Sole coordinator on USD200m rights issue for Soitec, a global leader in concentrated solar technology
- Led and structured largest international wind project financing to date in India for Genting Group
- Supported AsiaPac's 1<sup>st</sup> offshore dim sum bond issue – RMB750m for China WindPower Group

## What is 'climate business'?

- Increasing the share of low carbon energy production, such as bio-energy, nuclear, solar and wind
- Improving energy efficiency in buildings, industry and transport, as well as energy storage
- Adapting to the impacts of climate change, particularly in agriculture, infrastructure and water
- Providing climate finance, including environmental markets, debt and equity investment and insurance



# HSBC Climate Change Centre of Excellence

Helping HSBC and its clients integrate climate change into investment strategy



**Macro**

Analysing key economic, political, scientific and technological drivers.

**Markets**

Evaluating market implications in terms of risks & opportunities by sector & theme



**Equities**

Working with equity teams to identify investment opportunities



# How are we doing

**EXTEL**

IDENTIFYING EXCELLENCE

## Number 1 team

For integrated climate change research and renewable energy research, 2010 and 2011, 2012

**EXTEL**

IDENTIFYING EXCELLENCE

## Number 1 analyst

For renewable energy, 2011 (Nick Robins)

**EXTEL**

IDENTIFYING EXCELLENCE

## Number 3 team

Overall for sustainability research, 2011

**Bloomberg**  
NEW ENERGY FINANCE

## 3<sup>rd</sup> biggest

Underwriter of green bonds (HSBC Bank plc)



## Best Green Employee Engagement Award

For the HSBC Climate Partnership and Earthwatch



## 5<sup>th</sup> most sustainable

Financial Institution (HSBC Latin America)



Hang Seng Corporate Sustainability Indexes

## Top 5 AA rated

Company for ESG policies and governance (HSBC Holdings plc)



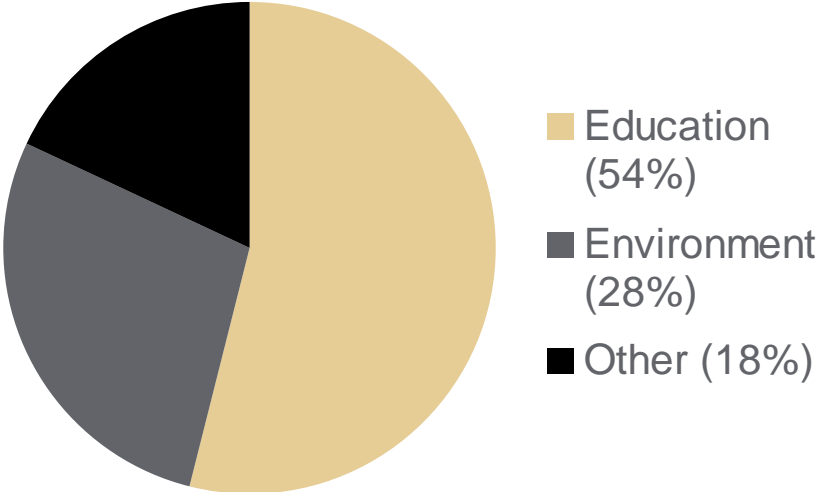
## Gold Volunteer Service Award

For HSBC and Junior Achievement 'More than money' programme

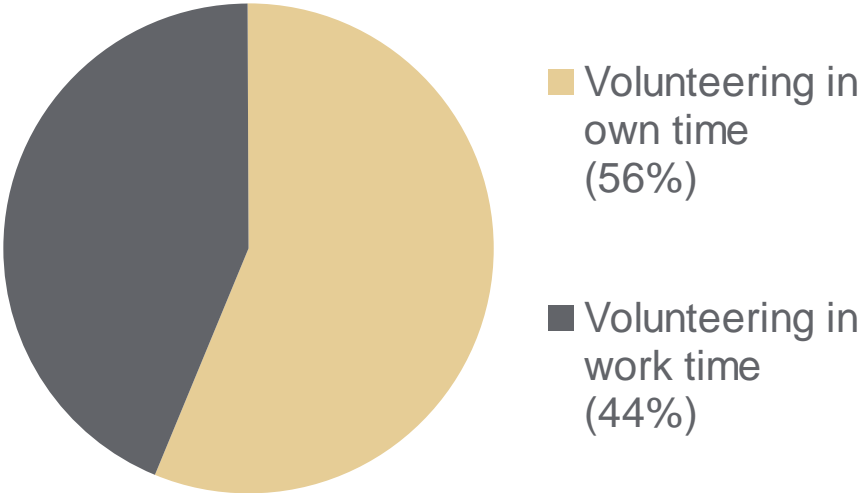
**Investing in communities and long-term  
socio-economic development**  
**- Supports long term value**

# Community investment donations and employee volunteering (2011)

Donations in 2011: USD 96 million



Employee volunteering: 746,093 hours  
Estimated value: USD 8.5 million



## Conclusion

‘The overriding accountability of the Group Management Board, led by the Group Chief Executive is to deliver sustainable long term value for shareholders through consistent performance delivery and safe and compliant execution of the Group’s business in a manner that, at the same time, maintains the confidence of all other key stakeholders in the business including depositors, counterparties, long term creditors, customers, regulators, employees and governments.’

## Contacts and further information

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