

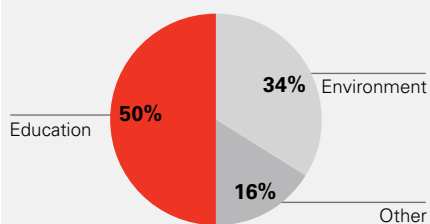
Managing our Business Responsibly

Sustainability

Total community investment donations 2010

US\$108 million

Breakdown of donations 2010



Highlights of 2010

- **Global employee survey results showed 81 per cent of employees are satisfied with the actions we are taking to embed sustainability, e.g. environmental and social issues, into the way our business is run.**
- **Commitment to a further US\$15 million over five years for the Future First programme from 2011.**
- **Two major investments in 'climate business' opportunities in 2010: Better Place and Bloom Energy.**
- **Our energy sector policy was reviewed and relaunched.**

"To be a sustainable business in today's world means applying our understanding of economic, social and environmental drivers to our strategy and the way we work. HSBC has always taken this long-term view and will continue to do so for our future success."

Douglas Flint
Group Chairman

Overview

Responsibility and sustainability are core to the way we do business at HSBC. Our business philosophy is about tight governance, taking a long-term view, investing in customer relationships and maintaining strong capital and liquidity positions. It is because of this approach that we are able to contribute to sustainable economic, social and environmental development. Over time, we believe that this approach leads to an enhanced reputation, greater employee engagement, increased revenues and reduced risk, ultimately delivering sustainable value to our shareholders.

As part of our commitment to the societies in which we operate, HSBC also supports community investment projects around the world. In 2010, our funding for these projects reached US\$108 million.

Here we take a look at three broad areas: supporting our customers, supporting communities and tackling climate change.

Supporting our customers

The effects of the financial crisis and recession are still being felt around the world. Throughout this period, just as during earlier regional crises, for example in Asia in 1997 and Argentina in 2001, HSBC has remained open for business, without needing support from governments. Our ability to provide a safe haven for our customers' deposits and to fund their business and personal needs is essential in driving economic

recovery and growth, and is an important part of what it means to be a sustainable bank.

In the UK, our lending criteria have not materially changed during the last two years, and we have continued actively to look for new business opportunities. Our gross new lending to small and medium-sized enterprises increased by 19 per cent in 2010 on the previous year, and we helped over 2,400 new start-up businesses a week. We provided increased support to UK companies to export to countries around the world, increasing international trade finance by 13 per cent and using our global network to make new connections between our customers in different markets. We also recruited an additional 139 international commercial managers to support UK businesses to expand into new markets.

In the Asia-Pacific region, HSBC is actively participating in local government loan schemes, helping small and medium-sized enterprises to recover, consolidate and grow. As part of this, we have offered US\$3.9 billion of credit facilities to small and medium-sized enterprises in the Hong Kong SAR, Singapore, Taiwan and Malaysia.

We also want to support our personal customers. In the UK, we approve eight out of 10 mortgage applications – a number that has remained unchanged since before the start of the crisis. When things go wrong, we view repossession as a last resort.

 See our Annual Report and Accounts 2010, pages 212-213 for further analysis.

Distribution of economic benefits

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

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

2 New metric developed in 2009.

Our UK share of reposessions is low at 1.4 per cent compared with our share of mortgage balances at 5.2 per cent. This reflects not only the quality of our mortgage book, but also our commitment to, and investment in, providing restructuring support for customers wherever possible.

In the UK last year, Money Management teams were able to help 26,000 customers to solve their financial difficulties. Similarly, in the US, since 2007 we have modified or restructured over 353,000 mortgages and, in 2010 alone, we helped over 10,000 customers to avoid foreclosure and the associated costs, either by selling their property or relinquishing their deeds. In Hong Kong, we supported almost 1,400 low income home owners through the government's resale of Home Ownership Scheme flats to enable them to purchase subsidised housing.

To help people manage their finances and avoid unmanageable debt, we invest in educational initiatives, particularly in improving financial awareness. In 2010, for example, we donated almost US\$10 million to organisations promoting these programmes, and over 3,000 of our staff gave their time as volunteers.

Supporting communities

HSBC operates in 87 countries and territories around the world, many of which are emerging markets where we expect to see the fastest economic growth in the coming years. Some of the world's poorest people live in these countries. Access to education will be essential to enable them to engage in, and benefit from, increased prosperity in the years to come.

Two of our flagship community investment programmes provide education and life skills training to disadvantaged children. In 2010, our five-year US\$10 million Future First programme supported children in 39 countries and, in March 2011, HSBC committed an extra US\$15 million to extend it for another five years and expand it to Africa. A second initiative, JA More Than Money™, supported financial education and business literacy training programmes in 28 countries.

However, our work is not just about philanthropy; we also work with partners to offer financial services to customers who fall outside the traditional banking model. We work with microfinance institutions in Asia and Latin America, empowering individuals to gain financial independence and help their communities to prosper. Access to financial services can drive economic development and business literacy in rural communities, which in turn offer new commercial opportunities. In 2010, we made available US\$48 million of credit facilities to microfinance institutions in India, Sri Lanka, Bangladesh and the Philippines.

Demographic shifts also create opportunities. In Hong Kong, we are looking to the future by nurturing responsible money management habits among the younger generation. We have developed an online portal exclusively for young people to learn about these issues. Since its launch in June 2010, it has attracted great interest with over one million page views and nearly 30,000 registered users.

Tackling climate change

Climate change has implications for all of our stakeholders. We believe that there is huge scope for our customers to benefit not only through mitigating the effects of climate change on their businesses, but also by reviewing the economic and investment opportunities that it presents. HSBC estimates that the size of the 'climate business' sector – the value of products and services linked to resolving the issues of climate change – is now more than US\$530 billion, and could exceed US\$2 trillion by 2020.

In 2010, we continued our work to identify and maximise new markets and new technologies which will pave the way to a low carbon economy. We made two major equity investments in the climate business sector: US\$125 million in Better Place, a leading provider of the infrastructure necessary for recharging electric vehicles on a large scale; and a minority stake in Bloom Energy, a California-based manufacturer of solid oxide fuel cells. Developing and leading the commercialisation of this low emission, low cost, electricity-generation technology is at the core of HSBC's strategy to understand and prioritise climate business opportunities.

In 2010, in response to changes in the regulatory and commercial environment and in the scientific understanding of the environmental impacts of power sources, we conducted a review of our policy for lending to companies in the energy sector. It is clear that, alongside the environmental imperative of renewable energy, coal, nuclear and oil sands will all have a role to play in ensuring that the energy needs of homes and businesses are met, at least in the short term. As a result, HSBC is the first major commercial bank to set carbon intensity thresholds for its lending to coal-fired power plants, creating greater certainty for clients and, we believe, promoting economic and environmental sustainability for the long term.

Our forthcoming *Sustainability Report 2010* will provide more detail on this work and on our overall approach to sustainability.