

## Sustainability

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



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

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

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

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

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

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## Engaging our stakeholders

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

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### Employees

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

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### Customers

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

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### Shareholders

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

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### Community representatives and charity partners

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

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### Suppliers

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

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### Non-governmental organisations (NGOs)

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

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## Governments and regulators

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

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## Management and governance

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

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

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

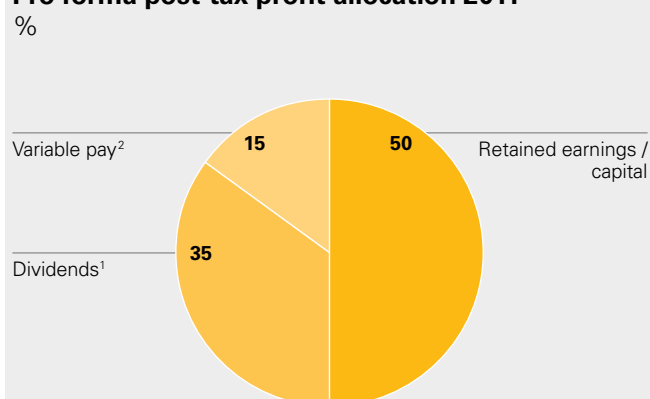
The Corporate Sustainability Committee is composed of non-executive Directors and non-director members. In 2011, the chairman was Narayana Murthy, a non-executive Director (appointed 28 May 2010) and the members were Vincent Cheng, an executive Director (retired 27 May 2011) and Laura Cha (appointed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

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## Sustainable economic contribution

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

### Pro forma post-tax profit allocation 2011



1 Inclusive of dividends to holders of other equity instruments and net of scrip issue.  
 2 Total variable pay pool for 2011 net of tax and portion to be delivered by the award of HSBC shares.

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

### Distribution of economic benefits

US\$b	2009	2010	2011
Net cash tax outflow <sup>1</sup>	5.2	5.8	8.0
Distributions to shareholders and non-controlling interests	6.5	7.1	8.3
General administrative expenses including premises and procurement	13.4	15.2	17.5
Employee compensation and benefits	18.5	19.8	21.2

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

### Tax contribution

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

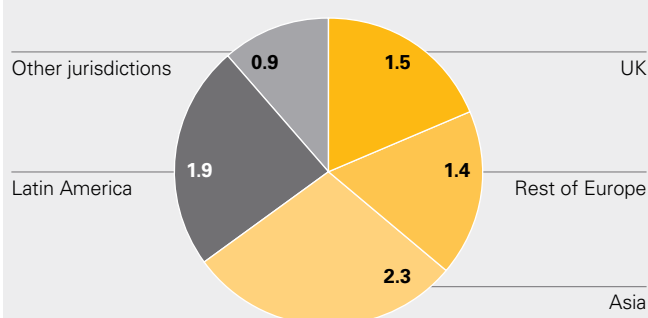
HSBC also plays a major role as tax collector for governments in the jurisdictions where we operate. In 2011, we collected US\$8.7 billion in taxes.

## Sustainability at HSBC: over a decade of action

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

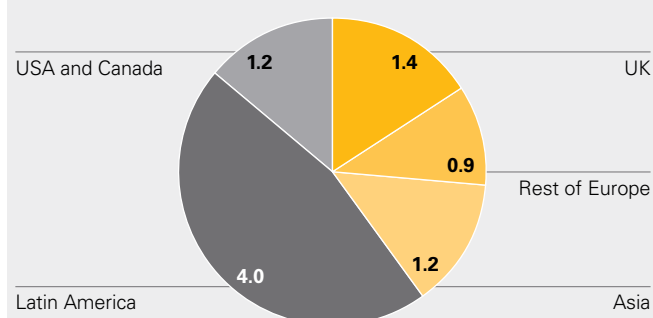
### Breakdown of total tax paid by region 2011

US\$b



### Taxes collected for government 2011

US\$b



### HSBC's net cash tax contribution 2011

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

### Tax collected for governments 2011

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

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