HSBC Holdings plc

Sustainability Report 2009

HSBC
The world's local bank

www.hsbc.com

Contents

About this Report 1
Group Chairman's Introduction 2
Priorities for 2009-10 3
HSBC in Context 4
Financing a Low Carbon Economy 6
Risk Management in Lending and other Financial Services 8
Valuing our Employees 12
Customer Trust 14
Investing in Communities 16
Environmental Impact of Operations 18
Supply Chain 20
Summary of Performance against Commitments for 2009 21
Key Facts 22
Assurance Report 24
Contact Us 25

FOR MORE INFORMATION

Visit us at: www.hsbc.com

For more detailed financial information, see our *Annual Report and Accounts 2009* at: www.hsbc.com/financialresults

HSBC'S AWARDS 2009

Number 1 financial institution for climate strategy and carbon data disclosure
Carbon Disclosure Project

Number 1 in the Corporate Social Responsibility Survey of Hang Seng Index Listed Constituent Companies
Oxfam Hong Kong and CSR Asia

Number 2 for environmental, social and governance policies and performance among global financial institutions
GS Sustain (Goldman Sachs)

British Business Awards 2009 Green Award for sustainable development in China
British Chamber of Commerce

Best-in-Class Award in Corporate Citizenship Category in Best Practice Financial Services Award 2009, Hong Kong
Benchmark and Best Practice Management magazines

Cover image

HSBC's new China headquarters building (front cover, centre) near the Huangpu River in Pudong, Shanghai, opens in June 2010. One of Shanghai's first office towers to achieve a Leadership in Energy and Environmental Design gold pre-certification rating, the building is located in the heart of the financial district.
Photography: Mike Abrahams

Group Chairman, page 2

Photography: Eddie Chan Wai Hing

About this Report

The HSBC Holdings plc *Sustainability Report* is written for institutional investors, customers, non-governmental organisations and others with a particular professional interest in the Group's approach to sustainability.

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 focuses on the specific environmental and social issues that contribute to the sustainability of HSBC, and were of interest to our stakeholders in 2009.

The report supplements the *Annual Report and Accounts 2009* and the *Annual Review 2009*. The *Annual Report and Accounts* covers HSBC's financial performance and corporate governance policies and is available online at **www.hsbc.com/financialresults**. Information about the management and governance of Corporate Sustainability at HSBC is provided online at **www.hsbc.com/sus-gov**.

This is a report on the financial year January to December 2009. In some cases, where highlighted, information for early 2010 is also included to give an up-to-date picture. The main focus is on HSBC's largest operations by pre-tax profit and by number of employees. Facts and figures refer to the Group unless indicated otherwise.

In 2009, HSBC commissioned a qualitative survey of views on our *Sustainability Report 2008* amongst institutional investors who have a particular interest in environmental, social and governance issues. The research found that this audience welcomes the report's succinct, manageable length, simple design, and focus on the most material issues. They appreciated the reporting on progress against commitments and use of data to show performance trends over time. Evidence of the clear commitment to sustainability from the top of the organisation was also important to this group. We, therefore, continue along these lines.

The survey revealed scope to improve, particularly by making HSBC's priorities more apparent throughout the report and by including examples of dilemmas and challenges. We were asked to provide more long-term vision and details of customer-related topics such as project financing, lending decisions and retail banking. Stakeholders also suggested we ensure that commitments, where made, were challenging, material and measurable.

Finally, this audience would like to see more coverage of sustainability in other investor communications. HSBC reports on environmental, social and community activities in the *Annual Review* and *Annual Report and Accounts* and, in 2009, included sustainability in other presentations to investors. HSBC continues to monitor the impacts of climate change and other issues on Group strategy, and plans to include further relevant information in future investor communications.

We have taken the views of investors into consideration and have planned the content of this report accordingly. Sustainability reporting is in many ways a developing discipline and HSBC aims to be at the forefront of emerging good practice. We welcome feedback from readers of the report. Contact details can be found on the inside back cover.

Reporting standards and assurance

We draw on guidance from the Greenhouse Gas Protocol for our carbon reporting. To guide our selection of indicators against which to report, we 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 have continued to use the Connected Reporting Framework developed by the Prince of Wales's Accounting for Sustainability Project, which can be found online at **www.hsbc.com/sustainabilityreport**.

For the second consecutive year, we have appointed PricewaterhouseCoopers LLP to provide independent assurance on selected information in our *Sustainability Report 2009* covering carbon emissions and related offsets, 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 24.

Group Chairman's Introduction

"Our focus is on providing financial services which are competitive, transparent and responsive to customer needs."

Stephen Green
Group Chairman

At HSBC, sustainability is not just about how we do business, it is part of our very *raison d'être*. As a leading international and emerging markets bank, we are especially aware of our responsibility to manage our business across the world for the long term by making a real contribution to social and economic development, and by protecting the environment in which we operate.

This means maintaining our financial strength so that we can continue to deliver value to shareholders by supporting our 100 million customers worldwide. Our focus is on providing financial services which are competitive, transparent and responsive to customer needs. Throughout the financial crisis, we made credit available to individuals and businesses and provided a safe home for customer deposits. We are also preparing for the emergence of a burgeoning middle class in many faster-growing markets. This will lead to a greater demand for small business lending, savings and wealth management services in the future.

While it is vital that we support social and economic development, we also recognise that this inevitably leads to competing demands on the world's resources. This brings challenges for those who finance that development. We are, therefore, working with the energy sector, for example, to recognise and balance the increasing demands for power with emerging environmental concerns, and we continue to screen all our Project Financing in line with the Equator Principles.

We are also closely watching the opportunities that will emerge for our business as the world shifts towards a low carbon economy and we are putting in place the expertise and governance to take full advantage of them. You will read more about our approach in the section on financing a low carbon economy on page 6.

Each one of our 300,000 employees is an important contributor to our sustainable future. We seek to reward them appropriately in order to meet the long-term goals of our business, and also to create a working environment where financial reward is not the only motivating factor.

One way we do this is through the employee engagement work of the HSBC Climate Partnership programme. If the 21st century has ushered in a new phase of globalisation in which emerging markets are driving economic growth, it has also brought home the realisation that the effects of climate change are expected to be most keenly felt in many of these regions. We are working with four leading global organisations on climate change. So far, nearly 1,000 HSBC employees have conducted scientific research in the field. In doing so, they are not only contributing to the body of knowledge on climate change, but are also bringing understanding and enthusiasm for the issues back into our business, helping to educate and motivate colleagues across the organisation.

We have also made a long-term commitment to supporting the communities we serve by facilitating education and life-skills programmes. Our work here continues to focus on improving financial and business literacy, and on supporting disadvantaged children.

This report touches on each of these themes and covers in more detail the ways in which HSBC affects the social, economic and environmental issues our customers and communities face. It describes the different ways in which we are building sustainability issues into the fabric of our culture, from how we manage our carbon footprint, to the way we treat and support our employees globally, and to how we build social and environmental criteria into business decisions.

I am proud of HSBC's track record on sustainability and of our unwavering commitment to doing business in this way throughout the financial crisis. Indeed, I believe this approach to doing business has proved to be part of our enduring strength, and I have no doubt that our commitment to providing sustainable finance to individuals and businesses will continue to stand us in good stead in the future. I am also pleased that our leadership on some of these issues has been externally and internally recognised. In 2009, HSBC was listed number one amongst financial institutions for its climate change strategy and reporting of emissions in the Carbon Disclosure Project; we were again listed in the FTSE4Good and Dow Jones sustainability indices; and we improved our overall employee engagement scores despite the tumultuous business environment.

None of this has been achieved without the support of our people, of course. I know from personal experience that my colleagues want to do a job which makes a difference and which contributes to the common good and, in this context, I would like to say 'thank you' to each of them for their support and commitment to sustainability issues in 2009.

I would particularly like to acknowledge and thank William Fung for his contribution as Chairman of the HSBC Holdings plc Board's Corporate Sustainability Committee over the past two years and to welcome Narayana Murthy as his successor. I would also like to thank Sir Mark Moody-Stuart for his distinguished service to the committee over the past five years and to welcome Dame Mary Marsh as a new member of the committee.

As HSBC faces the opportunities and challenges of this new decade, I would only reinforce the Board's commitment to running our business for the long term – and to playing our part in creating a sustainable future for our customers, employees and the communities we serve.

Stephen Green
Group Chairman
May 2010

Priorities for 2009-10

"When asked what they valued most, stakeholders almost unanimously cited the focus on material issues, as well as the clear description of what sustainability means to HSBC and of its strategic priorities. However, some felt the report can go further and would like to see a longer-term vision of how HSBC fits into the sustainable economy of the future."

Qualitative review of HSBC's *Sustainability Report 2008*, prepared by Context

In response to stakeholder feedback, this report focuses on HSBC's sustainability priorities. These priorities emerge in a number of ways: they may be key to our overall business strategy; or they are a particular concern to our stakeholders and are therefore likely to have a financial or social impact on the bank and our customers; or they are issues raised through our own research. The process for determining these priorities within the Group is based on senior management recommendation, advice from the Corporate Sustainability Committee of the HSBC Holdings plc Board, and various management committees. In this chapter, we summarise those priorities and the rationale for including them. HSBC's approach to managing each issue is addressed in the rest of the report.

Managing sustainability involves balancing a range of different, sometimes conflicting, stakeholder views and expectations. Dilemmas do arise, but HSBC always tries to gain a full understanding of the facts and seeks different viewpoints before making a decision or determining policy.

The Group's approach is to work with stakeholders to share knowledge and expertise. For example, we seek third party views as part of the process of reviewing our sustainability risk policies. The risk section on page 8 covers this in more detail but, as an example, the review of our energy sector policy involves seeking views from internal stakeholders, customers, non-governmental organisations (NGOs) and specialist consultancies on topics ranging from carbon emissions to oil sands, nuclear power generation and future energy needs.

A summary of our approach to interacting with our various stakeholders is provided online at **www.hsbc.com/sustainabilityreport**.

The six priorities identified for 2009 and 2010 are financing a low carbon economy; risk management in lending and other financial services; valuing our employees; customer trust; investing in communities; and keeping our own house in order in relation to operational environmental management and supply chain. The theme of climate change runs through all of these priorities.

Financing a low carbon economy

HSBC recognises the significant impact that climate change may have on our customers, on our business and on the global economy. While shifts in weather patterns present serious potential physical and operational risks, HSBC's aim is to be well positioned to help clients benefit from the opportunities inherent in mitigating and adapting to climate change, and the move to a low carbon economy.

Risk management in lending and other financial services

As one of the world's biggest banks, HSBC has relationships with companies operating in most business sectors. The indirect impact that the bank has in certain sectors through its lending and investment activity is regarded by some stakeholders as one of the main ways HSBC can contribute to sustainability.

In last year's report, we committed to providing more detail on the implementation of our sustainability risk policies and more transparency around some of the dilemmas we encounter. This is explained in more detail on page 8.

Valuing our employees

As a major employer, HSBC has an impact on the working lives of some 300,000 individuals around the world. The success of the Group is dependent on the quality and commitment of employees at all levels.

In 2009, remuneration and bonus payments for bank executives and employees were a focus of media attention, particularly in the US and Europe. This issue is covered in detail in the *Annual Report and Accounts 2009* on pages 318 to 326 and 334 to 348.

Page 12 of this report provides more detail about HSBC's response to employee issues in 2009.

Customer trust

We have selected two customer issues for inclusion in this report: service quality, which is a key driver of customer recommendation; and support for those who are struggling to meet loan obligations, which helps the business to protect its revenue and assets.

Investing in communities

HSBC has long believed that the corporate sector should contribute to wider society financially but also by providing other resources and expertise. We take the long-term view that investing in education and a stable environment is not only good for the communities in which we operate, but also lays the foundations for the development of thriving businesses requiring banking services in the future.

Keeping our own house in order: operational environmental management and supply chain

HSBC could not contribute with credibility to the debate on climate change or indeed any of the issues covered above if we were not effectively managing our own operational environmental and social impacts, and positively influencing our supply chain. These issues may not be high on the agenda for investors and NGOs partly because this has become expected business-as-usual activity, and because the supply chain impacts of a bank are modest compared with some other industries. However, HSBC has chosen to continue to report on this area because there is a link to cost efficiency, as well as an ongoing stakeholder expectation of strong performance.

HSBC in Context

HSBC is 'The world's local bank'. We serve around 100 million individual and business customers around the world. Some 300,000 people work for us in 8,000 offices across 88 countries and territories in Europe, the Asia-Pacific region, North America, Latin America and the Middle East.

Headquartered in London, HSBC has listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, with over 220,000 shareholders in 121 countries and territories.

As the world's leading international and emerging markets bank, we provide a comprehensive range of financial services to customers in both mature and faster-growing economies. We organise our business by two customer groups, Personal Financial Services and Commercial Banking; and two global businesses, Global Banking and Markets and Private Banking.

HSBC's strategy is aligned with three important long-term global trends: emerging markets will grow faster than developed markets, world trade will grow faster than GDP, and longevity is increasing across the world.

FINANCIAL HIGHLIGHTS

2009

Total operating income

US$78.6b

Profit before tax

US$13.3b*

Total assets

US$2,364b

2008

Total operating income
US$88.6b

Profit before tax
US$8.5b*

Total assets
US$2,527b

2007

Total operating income
US$87.6b

Profit before tax
US$24.2b†

Total assets
US$2,354b

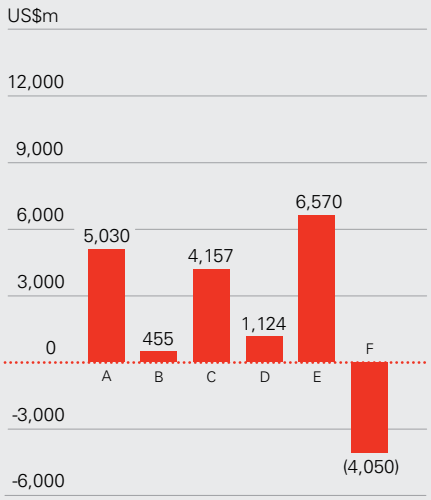
*On an underlying basis (and excluding goodwill impairment)

† On a reported basis

"HSBC has reported a pre-tax profit in all three years since the onset of the financial crisis and remains one of the top dividend payers in financial services, with dividends totalling over US$24 billion in respect of the last three years."

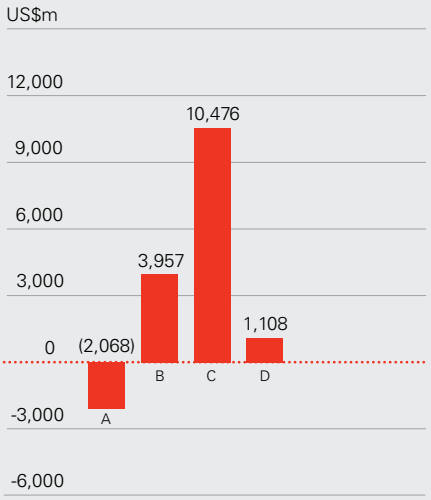
Stephen Green
Group Chairman

PROFIT BEFORE TAX BY GEOGRAPHICAL REGION 2009



A 37.9% Hong Kong
B 3.4% Middle East
C 31.3% Rest of Asia-Pacific
D 8.5% Latin America
E 49.4% Europe
F (30.5%) North America

PROFIT BEFORE TAX BY CUSTOMER GROUP AND GLOBAL BUSINESS 2009



A (15.6%) Personal Financial Services
B 29.8% Commercial Banking
C 78.9% Global Banking and Markets
D 8.3% Private Banking

"In 2010, the working age population of the developing world will reach a record three billion, and it will grow by another billion in the next generation. As economic development continues, hundreds of millions of jobs will be created, markets will expand and financial needs will broaden."

Stephen Green, Group Chairman

Distribution of economic benefits

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

DISTRIBUTION OF ECONOMIC BENEFITS

		2009	2008	2007
Net cash tax outflow	US$b	5.2	*	*
Distributions to shareholders and minority interests	US$b	5.6	11.3	10.2
Employee compensation and benefits	US$b	18.5	20.8	21.3
General administrative expenses including premises and procurement	US$b	13.4	15.3	15.3

* New metric for 2009

Tax contribution

In 2009, the Group's net cash tax contribution was US$5.2 billion. The amount differs from the tax charge reported in the income statement in the HSBC Holdings plc *Annual Report and Accounts 2009*. This is owing to taxes being included in pre-tax profit, the timing of payments and the effect of tax being deferred.

The table below shows cash tax paid in 2009.

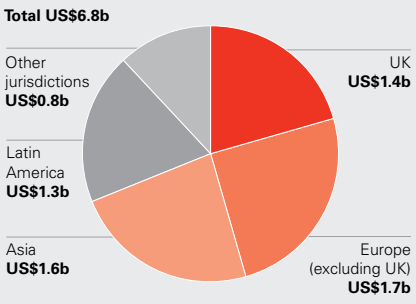
In the USA, we received net cash back of US$1.6 billion as a result of carrying back our 2008 losses for tax purposes.

HSBC'S NET CASH TAX CONTRIBUTION

	US$b
Tax on profits	3.6
Employer taxes	1.3
Value added tax	0.7
Other duties and levies	1.2
Total	**6.8**
Tax refund	1.6
Net cash tax outflow	**5.2**

HSBC also plays a major role as tax collector for governments in the jurisdictions in which we operate. In 2009, we collected US$7.3 billion in taxes.

BREAKDOWN OF TOTAL TAX PAID BY REGION 2009



TAX COLLECTED FOR GOVERNMENTS

	US$b
Taxes deducted from customer interest	2.8
Employees' tax on pay	2.6
Value added tax	1.0
Stamp duty and other taxes	0.9
Total	**7.3**

LENDING TO CUSTOMERS 2009

Personal	**%**
Residential mortgage	28.5
Other personal lending	19.0
Corporate and commercial	
Commercial, industrial and industrial trade	21.5
Commercial real estate	7.6
Other property-related	3.3
Government	0.7
Other commercial	8.8
Financial	
Non-bank financial institutions	10.4
Settlement accounts	0.2
Total	**100.0**

Financing a Low Carbon Economy

"A successful path to a global low carbon economy requires unprecedented collaboration from countries around the world. While developed countries must take the lead in cutting emissions, it will also be crucial for emerging economies to move quickly, and it is these countries that will see the largest share of investments. HSBC continues to look ahead and is well positioned to support its clients around the world in low carbon business opportunities."

Lord Stern, Special Adviser on Economic Development and Climate Change to the Group Chairman

The potential opportunities presented by climate change mitigation and adaptation are already beginning to change the way we think about how we do business.

In last year's report, we acknowledged that we needed to improve our understanding of the risks and opportunities that must be addressed in the low carbon economy, to build capacity to ensure we were able to support customer needs, and to look specifically at the insurance business.

HSBC has begun to address these changes not only in planning a route for the Group to contribute to a low carbon world, but also by helping our customers to do so. We are examining how our own business operations will be affected, taking a closer look at some of the key sectors that will help make this transformation a reality, and are investigating opportunities for the bank in the new 'climate business' sector.

CASE STUDY

HSBC Environmental Infrastructure Fund invests in sustainable water supplies in Australia

The HSBC Environmental Infrastructure Fund has a minority stake in Australia's largest desalination plant in the southern state of Victoria. HSBC played a major role in financing the project, providing equity and debt funds, supporting export credits and attracting wider investment.

The south-east, Australia's most populous region, experiences regular droughts. Scientists predict that these will worsen in coming years as a result of climate change, placing water supplies under mounting pressure. The US$2.8 billion reverse-osmosis plant will be the most advanced in the country, converting sea water into fresh water and providing up to 150 billion litres a year to towns and cities across Victoria. The state capital, Melbourne, will receive one-third of its annual water supply from the plant.

The project will bring a variety of benefits other than clean water. A new wind farm will provide electricity via a secure, underground power supply, reducing reliance on coal, and project sponsors have agreed to purchase renewable energy certificates to offset the plant's remaining energy use. The local community will share the benefits of fibre optic broadband installed for the plant.

The work we have so far done to address these issues is described below.

Climate Change Benchmark Index

The HSBC Climate Change Benchmark Index tracks the stock-market performance of global companies already profiting from the transition to a low carbon economy. It includes companies that generate revenue from products and services for both mitigating and adapting to climate change. Reviewed quarterly, the index includes more than 380 companies and is used by three of the 10 largest pension schemes in the world as well as some of the world's largest asset managers to inform their investment choices.

Leading climate change research

Research from HSBC's Quantitative Research team 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. Investment in clean energy and other climate solutions is expected to increase over the next 12 months, prompted by continuing government support and improving credit market conditions.

In 2009, the HSBC Climate Change Centre of Excellence produced 30 reports on climate change science, policy and markets. These included a comprehensive analysis of the fiscal stimulus for climate-related investments. By the end of 2009, the centre estimated that US$521 billion in 'green stimulus' had been allocated by governments across the world, with the Asia-Pacific region leading the way with over 60 per cent of the total. The centre also produced a series of reports on the prospects for – and implications of – the UN climate summit in Copenhagen in December 2009. Finally, the centre produced the first comparative assessment of the vulnerability of the G-20 nations to climate impacts through to 2020. These reports help our clients identify risks and opportunities and make informed investment and business decisions.

"HSBC set up a new team in 2009 to focus specifically on financing 'cleantech' equipment. Our research showed that this sector presents a key opportunity for HSBC, as new and existing clients respond to the rapidly changing regulatory and technology environment. Our new resource combines the skills and experience of our Resources and Energy as well as the Diversified Industrials teams. This puts HSBC in a strong position in this sector."

Robin Phillips, Head of Global Banking

The 'cleantech' sector

HSBC has recognised for some time that businesses based in the emerging markets are already taking advantage of the low carbon economy. Mainland China, for example, is now both the world's largest market for wind power and the largest manufacturer of solar technology. As a bank focused on emerging markets, HSBC is well positioned to take advantage of these developments.

HSBC is working with the renewable energy and 'cleantech' sectors in Asia and other parts of the world. In the Asia-Pacific region alone, HSBC committed US$200 million to renewables financing last year. A specialist 'cleantech' equipment team was established in 2009 to provide advice, equity, debt and project financing to customers focusing on electric vehicles, fuel cells, solar photovoltaic and thermal products, and wind turbines. In early 2010, HSBC announced a US$125 million investment in Better Place, a leading provider of infrastructure for recharging electric vehicles on a large scale.

Environmental Infrastructure Fund

The HSBC Environmental Infrastructure Fund invests in new infrastructure projects that protect or enhance the environment such as renewable energy, water treatment and waste management. HSBC is an investor in the global fund, which recently closed its final round of funding at □215 million.

Insurance

In our 2008 report, we acknowledged the need to support our insurance customers with more sustainable product options. In 2009, HSBC launched a global 'Green & Sustainable Insurance' plan, which offers more than 30 products to encourage customers to reduce their carbon footprint, provide insurance services for, and investments in, new green sectors, and protect them against climate change impacts such as droughts and floods.

The Climate Principles

The Climate Principles, a voluntary initiative adopted by HSBC in December 2008, provide a framework to help financial institutions adapt to, and play a role in, accelerating the shift to a low carbon economy. HSBC's internal Climate Team is responsible for delivering on our commitments under the principles. In 2009, we made good progress on the three main areas of the principles: managing operational emissions; integrating climate issues into business activities; and engaging stakeholders on related issues. Our progress is analysed in the report entitled *Climate Principles Progress Review*. To find out more, see **www.theclimateprinciples.org.**

CASE STUDY

Green home insurance

Our home insurance products increasingly include incentives to encourage environmental efficiency. For example, our green home insurance product in Hong Kong provides energy-efficient replacements to damaged or stolen household appliances. Similarly, in the UK, M&S Money's green home insurance is provided as standard, with no need to opt in and no increase in premium. The first home insurance of its kind in the UK, the policy replaces household appliances with A-rated energy-efficient models and, where possible, rebuilds damaged property to a government-approved sustainability standard.

Building expertise

Recognising the importance of direct interaction with our customers to generate sustainable business opportunities, HSBC trained over 100 relationship managers in our Global Banking and Markets and Commercial Banking businesses on sustainability issues in 2009. They were encouraged to think more broadly about the sustainability needs of their customers, challenged to come up with new business solutions, and equipped to help advise their clients on the opportunities and risks presented by the low carbon economy.

HSBC is also investing in raising awareness among our customers. In 2009, for example, HSBC in Lebanon made a presentation to almost 1,000 clients from our customer groups and global businesses on the risks posed, and opportunities presented, by climate change.

COMMITMENTS FOR 2010

- **Establish a 'climate business council' chaired by an executive Director to lead our response to the commercial opportunities for HSBC and our customers in the 'climate business' sector.**
- **Seek and invest in opportunities to create new technologies that will help drive the 'climate business' sector.**
- **Review our sustainable and responsible investment business.**
- **Establish a working group to assess risks to the business and our customers from climate change.**

Risk Management in Lending and other Financial Services

Assessing the risks of any potential financial transaction is fundamental for all financial institutions. In this section, we look at our approach to the management of potential social and environmental risks in our lending and other financial services activities. The approach is based on engaging with our customers and, as long as they meet our minimum standards, supporting them as they move towards good working practices. We believe this is a positive contribution to sustainable development. However, as a last resort, we will exit relationships where customers do not meet our standards. This process is led by the sustainability function at a Group level and firmly embedded in the overall risk management procedures of the bank.

Sector policies

HSBC's sector risk policies provide guidance on managing the potential environmental and social impacts of our customers. They are applied regardless of the value of the transaction or size of the business. We have five sustainability risk policies relating to 'sensitive' sectors: forest land and forest products; mining and metals; chemicals; freshwater infrastructure; and energy. The policies deal with issues such as illegal logging, human rights, biodiversity and climate change. HSBC has adopted the Equator Principles, a framework for managing the impacts of large projects. We also have a defence equipment policy which clarifies our approach to companies involved with weapons. Summaries of all these policies can be viewed at: **www.hsbc.com/sus-risk**

Forestry sector

HSBC issued its first sector policy, for the forest land and forest products sector, in 2004. We committed to encourage and support our customers over a five-year period to obtain independent certification that their activities were legal and sustainable. The year 2009 therefore marked the end of this period, and we are pleased that we have delivered on our commitment: 98 per cent of our customers (by size of lending) are now compliant or near-compliant with our policy. See charts below.

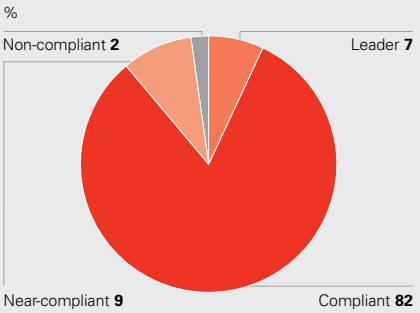
HSBC has internal guidelines which define the categories of 'leader', 'compliant', 'near-compliant' and 'non-compliant' to ensure that they are applied consistently by risk managers across the Group. We continue to work with customers who are making progress in complying with our policy. However, we have already exited most relationships where customers have made little or no progress. We will end relationships with any remaining non-compliant customers as soon as contractual obligations allow.

This policy also addresses the risks associated with the palm oil sector by prohibiting the financing of new plantations on land obtained by cutting down high conservation value forest. Following the roll-out of certification under the Roundtable on Sustainable Palm Oil (RSPO), of which HSBC is a board member, in 2009 we consulted widely on how we could better support the RSPO. We have developed internal policy guidelines which encourage our customers to gain RSPO certification, and we plan to provide a public summary of our approach in 2010.

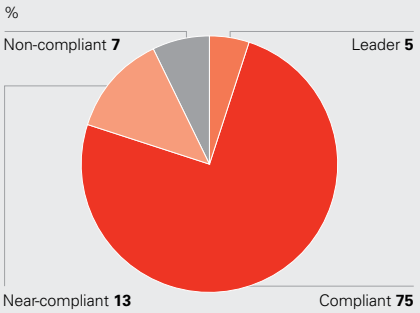
Energy sector

We began a review of our energy sector policy in 2009, engaging with internal and external stakeholders. The revised policy will address some of the key energy and climate

CLIENTS COMPLYING WITH HSBC'S FOREST LAND AND FOREST PRODUCTS SECTOR POLICY BY VALUE OF LOANS 2009



NUMBER OF CLIENTS COMPLYING WITH HSBC'S FOREST LAND AND FOREST PRODUCTS SECTOR POLICY 2009



change dilemmas we face. For example, we plan to include guidance on carbon-intensive activities, such as coal-fired power stations and oil sands, as well as nuclear power. The revised policy will be issued in 2010.

Equator Principles

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

Principle Ten requires institutions to report annually on their implementation of the framework. In accordance with this, the table on page 10 shows the number and type of transactions analysed by HSBC. The number of loans we provided reduced, reflecting the challenging economic environment in 2009. However, the value of our lending overall remained the same as in 2008, which means that we continued to influence the sustainability of large projects. In 2009, for the first time, no transactions were declined by HSBC on the grounds of sustainability risk under the Equator Principles. Our risk managers are identifying potential challenges at an earlier stage, and are helping prospective clients to mitigate against them, or they are deciding not to proceed with a loan approval request.

HSBC is an active member of the Equator Principles' steering committee and participates in a number of working groups which focus on issues such as improving standards relating to climate change and extending the application of the Principles from project finance loans to other financial transactions. HSBC is chair of the governance working group which, in 2009, agreed a number of new rules which are expected to come into force in 2010. The rules are intended to respond to stakeholder feedback and improve the efficiency of the Equator Principles. For example, if adopted, the new rules will include requirements for more transparent reporting under Principle Ten, and the option to exclude institutions which no longer meet the membership conditions.

HSBC goes further than the requirements of the Equator Principles in a number of ways. For example, we voluntarily extend the Principles, where possible and practical, to export finance and other loans which support projects. We aim to enhance our existing internal guidelines with respect to these transactions. We exceed the basic reporting standards by, for example, providing details of the number of export finance transactions and declined transactions. We have also responded to our stakeholders, who told us that they would like independent assurance on HSBC's application of the Equator Principles. As in

CASE STUDY

Engaging with our customers

The New Forests Company was established in 2004 to supply timber products to local and regional markets in sub-Saharan Africa. The company placed sustainability at the core of its strategy from its inception, and planned to work towards Forest Stewardship Council (FSC) certification for its plantations. For HSBC, which became an investor in the Ugandan company in 2008, this goal was critical, and New Forests agreed to accelerate their certification programme. HSBC recognises the FSC certification scheme, among others, as a measure of legality and sustainability in the timber industry.

The release of a tranche of HSBC's investment was tied to this commitment, and New Forests was successful in gaining certification ahead of schedule. Today, two out of three plantations in Uganda have achieved certification, with the third to follow, and the company successfully passed its second-year audit in February 2010.

Achieving and maintaining FSC certification does require substantial additional investment by the company in the short term to meet the standards in forestry, labour practices and environmental and social responsibility required by the FSC. However, for New Forests and HSBC the commercial benefits are clear: through its sustainability practices, the company has a strong local licence to operate, highly credible forest management practices and is well prepared to expand into the European market. HSBC's engagement has encouraged other organisations to invest in the company, now regarded as a sustainable and profitable prospect.

'HSBC takes sustainability issues very seriously and is a tough taskmaster,' says Julian Ozanne, Chief Executive Officer, New Forests Company. 'However, we have found them a supportive partner in our goal to meet the highest standards of excellence in forestry, sustainability, social responsibility and governance.'

"We have integrated our management of sustainability risk into the way we conduct business. We deepen our client relationships by engaging with them on environmental and social issues, as it is in both our commercial and reputational interests to manage these risks responsibly."

Will Rathvon, Global Head of Resources and Energy Group, Global Banking and Markets

previous years, we have therefore invited PricewaterhouseCoopers LLP to examine HSBC's transactions under the Equator Principles. The basis for determining application of the Principles can be found online at **www.hsbc.com/sus-assurance**.

Implementing our sector policies on sustainability risk

We monitor the compliance level of our customers, as well as the scale of potential impacts, using a Sustainability Risk Ratings system. These ratings were introduced in 2008 to track clients operating in sensitive sectors and are part of HSBC's standard risk systems. During 2009, we established a management information tool to provide enhanced oversight of HSBC's implementation of its policies in sensitive sectors. In accordance with our commitment last year to increase transparency in implementation, the chart on page 11 highlights compliance levels with our sector policies. We plan to provide more detail in this chart in future reports.

As we would expect after several years of implementation of our sector policies,

Statement on application of the Equator Principles

In 2009, HSBC applied the Equator Principles to project finance loans and advisory services as set out in the Equator Principles 2006 and in accordance with the Reporting Guidance found at: www.hsbc.com/sus-assurance The PricewaterhouseCoopers LLP assurance report is on page 24.

EQUATOR PRINCIPLES: TRANSACTIONS VETTED BY HSBC

	2009		2008		2007	
US$m	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**
Transactions approved	80	6,844	148	6,842	129	8,705
By mandate						
Lending	65	6,844	100	6,842	103	8,705
Advisory	15	N/A	48	N/A	26	N/A
Loans by category						
Category A	5	1,296	3	178	7	1,407
Category B	32	2,754	59	4,348	57	5,184
Category C	28	2,794	38	2,316	39	2,114
Loans by type of facility						
Project finance loans	15	1,253	47	3,508	63	4,516
Export finance loans	43	4,211	44	2,403	32	2,878
Mix of project/export finance	7	1,380	9	931	8	1,311
Transactions declined	0	N/A	1	N/A	4	N/A

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.

most of our clients are now compliant. However, we are aware that expectations on sustainability shift over time and, with the policies being revised at intervals, we may see some clients move towards a near-compliant status in future. The ratings will play a key role in monitoring the effect of any such changes.

Defence equipment sector

In 2009, we undertook a review of our defence equipment sector policy, first established in 2000. The policy expressly prohibits the provision of financial services to customers who solely or primarily manufacture or sell weapons. It has been updated specifically to prohibit working with customers who sell or manufacture anti-personnel mines or cluster bombs. In response to stakeholder feedback, a summary version of this policy is posted on our Group web site at **www.hsbc.com/sus-risk**.

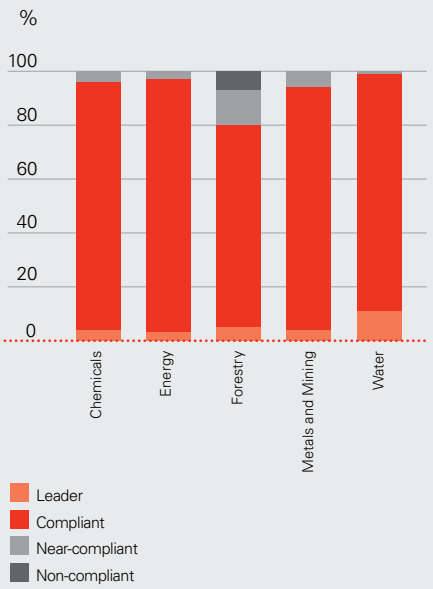
Where we are contractually committed to a loan which predates this policy, we exit the relationship at the earliest opportunity.

Stakeholders have asked us why the policy applies to our financial services but excludes investment management activities where we act on behalf of our wider customer base. This might occur, for example, when a personal customer buys shares through an HSBC internet account (and may even have those shares registered in HSBC's name for administrative ease). We do not believe that the provision of services like these for our customers gives us the authority to tell them what to buy or sell. Customers are free to make their own investment choices. Hence, our policies apply to investments made by HSBC but not to those made on behalf of our customers, using their own funds.

Capacity and expertise

We continue to focus on training employees on our risk policies, with environmental and social risk training incorporated into mainstream programmes. In 2009, particular focus was given to the Senior Risk Management Programme, the Group Graduate Development Programme and an updated programme for the Equator Principles delivered in Asia, Europe and the Americas. The investment we have made in recruiting, training and coaching our network of sustainability risk managers and the wider risk community across the Group has been fundamental to our track record on policy implementation. Our network of risk managers now extends to 26 countries across the Group's five regions.

NUMBER OF CLIENTS COMPLYING WITH HSBC'S SECTOR POLICIES 2009



See **www.hsbc.com/sus-finance** for a general introduction to HSBC's approach to managing sustainability risk, and the *Annual Report and Accounts 2009*, page 264 for a review of sustainability in the context of wider risks for the Group.

COMMITMENTS FOR 2010

- **Issue a summary of our defence equipment policy.**
- **Issue our revised energy sector policy.**
- **Issue a summary of our approach to the palm oil sector and encourage certification under the Roundtable on Sustainable Palm Oil.**

Valuing Our Employees

"In 2009, through our Global People Survey our employees told us that our Group strategy and leadership shown by management at all levels, as well as opportunities for growth and development, were important to them."

Ann Almeida, Group Managing Director, Human Resources

Employee engagement

HSBC seeks to develop and maintain a culture in which our employees are open to different ideas and cultures, and connected with our customers, communities and each other. We strive to be dependable and to 'do the right thing' in all aspects of our business.

In 2009, 91 per cent of our employees responded to our third employee questionnaire, the Global People Survey – one of the highest participation rates in the financial services industry. The Group's employee engagement score rose from 67 per cent in 2008 to 71 per cent in 2009. This exceeded the 2009 target of 69 per cent and outperformed the financial services sector average. Our employees rated HSBC significantly higher than the external 'best in class' average for aspects related to corporate sustainability, reputation and direct line management.

The 'best in class' score is a comparison of the top quartile employee survey scores from other large organisations and a specially commissioned research study. This is the benchmark against which HSBC measures its performance. The decline in 'best in class' scores in 2009 is a reflection of the impact of changes in the wider business environment on those organisations.

In 2010, we will focus on leadership, developing line manager capability and building a stronger customer focus in our employees.

Retaining talent

An important aspect of our People Strategy is to ensure alignment of career development with strategic business requirements. We seek to integrate important people processes such as succession planning, performance management and career development within our annual business operating cycle. Development needs for talented individuals are met through a combination of on-the-job experience, coaching and training programmes.

In 2009, we clarified the type of behaviour expected of all levels of HSBC's management. Based on the premise that leadership is a quality that is important at all levels of seniority, the new HSBC Leadership Capability Framework identifies the qualities of leadership needed in management to drive Group Strategy. In 2010, we are integrating this framework into learning programmes, performance management and recruitment.

HSBC Group level learning programmes, designed to develop the most senior and capable individuals, were updated in 2009 with the aim of building capability in the following areas: Strategy and Performance; Change Management; Customer Experience; People Leadership; and Risk Management.

GLOBAL PEOPLE SURVEY EMPLOYEE ENGAGEMENT SCORES

%	2009	2008	2007
HSBC score	71	67	60
Global average	61	59	59
Financial services average	64	63	63
Best in class benchmark	74	77	75

Managing change

We support employees at risk of redundancy. We always give notice, provide severance pay and offer assistance such as helping to pursue job opportunities internally and externally. Regrettably, due to the operating economic and business environment, it was necessary to make redundancies in 2009. We provide line management with specific training to manage such difficult change.

Diversity and inclusion

Following the results of the Global People Survey, we identified 'key drivers' of employee engagement which support prioritised action for the coming year. These are the aspects of our culture which have the greatest influence on employee engagement. Two of the key drivers of employee engagement at HSBC relate to diversity, indicating a culture that is consistent with our brand which values different points of view.

We continue to build on the Diversity

Strategy established in 2008 by focusing on four priorities: equality of opportunity; inclusive work environment (reflecting the global nature of our business); engagement of minority groups; and attraction and retention of diverse talent. In 2009, we increased our focus on diversity and inclusion through increasing executive management sponsorship and responsibility.

We have prioritised age, gender and ethnic diversity. For example, we are focusing on improving gender diversity among senior executives. Talented women, identified through succession and career development planning, can take advantage of a range of learning and development opportunities, and increasingly avail themselves of mentoring and flexible working arrangements.

The number of positive responses to the Global People Survey statement, 'HSBC has a work environment in which diverse perspectives are valued', has increased from 68 per cent in 2007 to 74 per cent in 2009. This compares favourably to the external 'best in class' benchmark of 71 per cent. A new Diversity and Inclusion Index within the Global People Survey has also been defined. Improving diversity and inclusion will be made a formal objective for management in 2010, which underscores the importance HSBC places on this aspect.

Employee induction

A new global employee induction programme, the HSBC Discovery Programme, was launched across 83 countries and territories in 2009. The programme will provide a consistent and comprehensive introduction to the HSBC Group, covering its history, businesses, approach to corporate sustainability, brand, risk management, corporate structure and Group values, which can be found online at **www.hsbc.com/groupvalues**. This programme uses a mix of e-learning, tool-kits, line manager support and a classroom-based event. The effectiveness of the programme is continuously assessed.

Learning and Development

Learning and Development is focused on providing relevant content in the most cost-effective and efficient way. This is framed under the concept of the 'HSBC Business School.'

The HSBC Business School will be available to all employees. It reinforces the culture of HSBC and ensures our people develop the capability required for commercial success. The HSBC Business School will direct employees to the most relevant learning via an academy for each global business, product and function.

Learning content is being structured to ensure that the most effective medium for learning is utilised. E-learning remains an effective delivery channel to our employees, with 45 per cent of learning delivered electronically in 2009. During the year, employees across the Group received an average of 3.7 learning days per full-time equivalent employee.

Sustainability learning

We will continue to embed key sustainability messages into learning for all of our employees.

Financial support for employees

In North America, our Employee Financial Education Program provides tools and resources to enable employees to take greater responsibility for their finances and has also been shown to increase employee satisfaction. We reached over 25,000 employees through communications initiatives in 2009, and over 11,000 employees took part in workshops, many of whom returned to two or more events.

In the UK, a telephone help line was set up to support and guide employees experiencing financial difficulties. Experienced counsellors are available to provide tailored support and solutions.

Employee satisfaction with Corporate Sustainability

Of the 14 aspects measured in the Global People Survey, Corporate Sustainability was the highest scoring at 79 per cent. This was an improvement of 2 percentage points on 2008 and 11 percentage points on 2007.

When benchmarked externally, Corporate Sustainability at HSBC is 25 per cent above the global average and 12 per cent above the global 'best in class' average.

Employees reported favourable responses (see table) in the Global People Survey to the statement: 'Overall I am satisfied with the actions HSBC is taking to embed sustainability (e.g. environmental and social issues) into the way we run our business.'

Employees also gave favourable responses (see table) to the statement: 'I am actively encouraged to participate in community and environmental initiatives.'

Significantly more employees (44 per cent in 2009 compared with 35 per cent in 2008) said that they had participated in HSBC's Corporate Sustainability activities. Employees who participate in such activities have considerably higher levels of engagement than those who do not, and are significantly more engaged across all aspects measured. Generally, the results show that employees are highly satisfied with HSBC's Corporate Sustainability efforts, and are increasingly encouraged to take part in these activities.

GLOBAL PEOPLE SURVEY ON CORPORATE SUSTAINABILITY

'Overall, I am satisfied with the actions HSBC is taking to embed sustainability (e.g. environmental and social issues) into the way we run our business.'

% favourable	2009	2008	2007
HSBC global score	81	82	78
Best in class benchmark	70	74	74

'I am actively encouraged to participate in community and environmental initiatives.'

% favourable	2009	2008	2007
HSBC global score	77	71	59
Best in class benchmark	64	64	64

SUSTAINABILITY TRAINING PROGRAMMES 2009

The following programmes were conducted at Group level in 2009.

	Number of participants
Senior Onboarding Programme	38
Group Graduate Development Programme	393
Next Generation Development Programme	136
Senior Risk Management Workshop	52
Risk Management Programme	182
Climate Champion Programme	484

COMMITMENTS FOR 2010

- **Achieve a 2010 target score for employee engagement of 72%.**
- **Include diversity and inclusion in objectives for management.**

Customer Trust

"One of the reasons that HSBC has the most valuable brand in banking is that we work to ensure everything we do is true to the brand promise. In particular the values that we use to make decisions and the way we serve our customers across our global footprint all reflect an inclusive approach that is based upon the diversity of our employees and customers."

Alex Hungate, Group Managing Director, Personal Financial Services and Marketing

This chapter covers our approach to customer recommendation and service, managing complaints and support for customers affected by the economic downturn in key markets.

Brand development

HSBC's brand plays an important role in communicating what the Group stands for globally to both customers and employees. The reputation of financial institutions has suffered following the economic crisis. In Interbrand's annual survey of global brands in 2009, four out of the five companies that showed the biggest falls in value were in financial services. HSBC's brand has performed well. In 2009, HSBC was recognised as the world's most valuable banking brand by Interbrand and the 'Best Global Bank' by *Euromoney magazine*. In 2010, we have been named number one banking brand for the third year running by Brand Finance.

Since the inception of the strapline 'The world's local bank', we have sought to communicate what it is that makes HSBC different, namely our celebration of diversity and our unrivalled understanding of the markets and cultures in which we operate.

In 2010, the brand will evolve to convey the message that HSBC helps our customers navigate today's interconnected world, using our cultural knowledge and understanding to inspire and enable our customers to reach their potential. We will ensure that this new approach is reflected in the products and services offered to our customers.

Measuring performance

Two of the four non-financial measures in the balanced scorecard on which the Group Management Board's performance is assessed are brand health and customer recommendation. In 2009 we achieved our target for brand but fell short in our recommendation scores. This was largely due to a volatile market where we saw customer sentiment towards banks decline.

Our Personal Financial Services customer group tracks brand awareness and differentiation, and customer recommendation and satisfaction, every quarter across 16 markets. A separate tracker is carried out for business banking by Commercial Banking twice a year across 15 markets. Additional surveys take place at a regional level.

Details of the measurement process and Group results are provided in the *Annual Report and Accounts 2009* on page 20.

Customer service

Our vision is to be the world's most recommended bank by the end of 2012. To achieve this, it is critical for our employees to understand what it means to deliver HSBC's high standards of customer service. Our plans in 2010 will embed employees' understanding of HSBC's values and brand, building on our strong culture. The project will introduce measures to enhance customer service in all major markets for personal, commercial and Global Banking and Markets customers.

The 'One HSBC' programme was launched in 2007 to join up our products, processes and technologies in order to improve and simplify the way we work across all businesses and regions. Our goal is to deliver enhanced service to our customers at a lower cost and with reduced environmental impact.

Responding to complaints

In 2009, as part of ensuring a consistent quality of customer experience in Personal Financial Services and Commercial Banking across the Group, HSBC developed a clear guide to handling complaints. The guide is based on consultation with major markets as well as best practice in complaints handling in financial services and other peer group companies. The standard for complaints handling has been incorporated into HSBC's *Functional Instruction Manual*, which defines the essential conduct of all businesses in the Group, and is subject to internal audit.

Supporting customers

Meeting our commitments to the communities we serve around the world is part of the core purpose of our business. HSBC understands that customer loyalty works both ways.

In 2009, we continued to support small and medium-sized enterprises (SMEs),

the lifeblood of so many economies. We launched SME funds in Malaysia in 2009 and in the United Arab Emirates in January 2010. In Indonesia in 2009, we nearly doubled our network to support the growing financial needs of personal and business banking customers.

In Hong Kong, HSBC responded to the economic downturn by making a '30-day service pledge', which waives banking fees if a customer changes his/her mind within 30 days of purchasing one of the 10 most popular products, including investments, insurance, personal instalment loans and mortgages. We offered a series of tailored financial solutions for the unemployed, including a premium subsidy towards the education insurance plan for customers' children, and an extension to the life insurance premium deferment period for selected plans. We also offered debt counselling and restructuring services for customers experiencing severe financial difficulties.

As a result, 92 per cent of customers agreed that the offering created a reliable image and strengthened trust in HSBC.

In the US, economic conditions continued to be difficult. Unemployment rates climbed to double digits and house prices continued to fall, although there was some moderation in the second half of the year.

HSBC - North America maintains a strong commitment to helping consumers avoid foreclosure and maintain homeownership wherever practical. We have joined with many lenders and voluntary organisations to participate in local borrower outreach events. Since January 2008, HSBC has had a dedicated team of loss mitigation specialists who travel throughout the US to meet our customers face-to-face. In 2009, HSBC's loss mitigation teams participated in 75 events in 28 states, meeting 2,300 customers and approving loan modifications on the spot in approximately 95 per cent of cases. During the year, HSBC modified over 104,000 loans with an aggregate value of US$14.6 billion. In 2009, HSBC's sub-prime business in the US started foreclosure on one in 12 mortgages, compared with an industry foreclosure average of one in five.

In the UK in 2009, HSBC repossessed one in 1,004 of our mortgage accounts compared with an industry average of one in 254. During the year, HSBC made available £15 billion of new mortgage lending.

In June 2009, the UK bank trialled a more proactive approach to providing information and support to customers who were struggling financially. Recognising an increase in redundancy across the country, the bank sent out a pilot email to a small selection of customers to highlight information on the customer web site, including new audio files featuring an interview with a representative of the Consumer Credit Counselling Service.

Customers can speak to a dedicated team specially trained to discuss income and expenditure, and to offer good quality budgeting advice, with the authority to modify loan repayments. Customers who need more in-depth assistance are referred to the independent charity, the Consumer Credit Counselling Service. In 2010, the programme will be expanded to more customers and include specialist advice for those in arrears on their mortgages.

In the UK, we also supported over 121,000 new business start-ups and lent £800 million as part of our commitment to small and medium-sized businesses despite a muted demand for credit.

In mainland China, two consumer education booklets have been published: *Managing Your Wealth amid Market Volatility* and *Insurance Planning*. These are on display in branches and online. HSBC is the first foreign bank in China to launch a commercial-free consumer education programme to meet the public's need for financial knowledge.

"In this tough climate, it was our priority to work closely with our customers and to support them through the downturn. Thanks to our strong liquidity and capital position, we continued to make credit available to individuals and to companies."

Michael Geoghegan, Group Chief Executive

COMMITMENTS FOR 2010

- **Improve position on customer recommendation in major markets compared with 2009 performance.**
- **Increase employees' understanding of HSBC's values and brand.**

FOR MORE INFORMATION

See HSBC Holdings plc's *Annual Review 2009* for an overview of our financial performance.

Investing in Communities

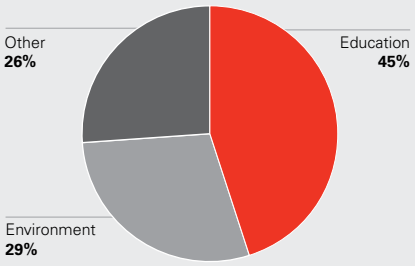
"77 per cent of our people tell us they feel actively encouraged to take part in employee volunteering initiatives, and those who do are more engaged with HSBC. That means that, as well as supporting the communities in which we operate, we see benefits for us as a business by developing a sense of teamwork."

Sandy Flockhart, Chairman, Personal and Commercial Banking and Insurance

TOTAL COMMUNITY INVESTMENT DONATIONS 2009

US$100m

Breakdown of donations 2009



The global financial crisis has had a profound effect on the amount of public and private sector investment flowing into charitable initiatives, which means there is now a greater need than ever to offer support.

HSBC remains strongly committed to supporting the communities in which we operate. Our operations across the globe continue to bring significant benefits to our host countries, such as employment, training, purchasing and investment. Our strong presence in the emerging markets also means it makes good business sense for us to encourage social and economic growth through community investment activity.

In 2009, we continued our strategy of focusing our community investment on education and the environment, which took up around three-quarters of all our philanthropic donations. The remaining funds were allocated to other local priorities including disaster relief. In January 2010, following the devastating earthquake in Haiti, HSBC made a special donation of US$1.6 million to assist our partner, SOS Children's Villages, to care for orphaned children.

The opportunity to become actively involved in local volunteering initiatives is seen as positive by our employees. In our Global People Survey 2009 (see 'Valuing our Employees', page 12), 81 per cent of respondents said they are satisfied with the actions HSBC is taking to embed sustainability into the business, and 77 per cent said they are actively encouraged to participate in community and environmental initiatives.

In 2009, we committed US$100 million to community investment – around 0.75 per cent of profit before tax. A more detailed breakdown of our regional spending and employee volunteering hours can be found in 'Key Facts' on page 23.

Education

Our flagship global education initiative is Future First, a five-year programme launched in 2006 to provide a better future for disadvantaged children around the world. We work with SOS Children's Villages, among other charities, with the shared aim of providing access to education and life skills training. So far, more than 200 projects across 45 countries have benefited some 200,000 children.

Financial and business literacy is fundamental to economic growth in developed and emerging markets, promoting trust in banks, and encouraging a responsible approach to managing loans and mortgages. According to a UK charity, Personal Finance Education Group (pfeg), 66 per cent of British people believe that finance lessons would have helped them deal with today's financial challenges.

JA More Than Money™ is our global programme addressing financial education and business literacy. Run in partnership with Junior Achievement Worldwide, in its pilot year in 2008-09, 1,500 HSBC staff volunteers taught financial skills to over 46,000 children in 14 countries and territories. In 2009-10, the project has been expanded to 32 countries. JA is one of the world's largest organisations dedicated to educating students about workforce readiness, entrepreneurship and financial literacy.

In 2009, we launched the HSBC Eco-Schools Climate Initiative in partnership with

the Foundation for Environmental Education. This is a three-year project involving 1,000 HSBC staff volunteers in 10 countries and reaching an estimated 1.2 million young people aged five to 18. The aim of the programme is to inspire action on climate change by improving schools' environmental efficiency.

Environment

The HSBC Climate Partnership is our flagship global environmental programme, launched in 2007 with The Climate Group, Earthwatch, Smithsonian Tropical Research Institute and WWF to combat climate change by inspiring individuals, businesses and governments worldwide. Our achievements in 2009 are set out below.

Cities

The Climate Group is working in Beijing, Chicago, Hong Kong, London, Mumbai, New York and Toronto to boost the use of low carbon technologies. For example, in 2009 The Climate Group launched the Hong Kong Carbon Reduction Campaign – the first cross-industry collaboration on climate change by companies in Hong Kong – and co-founded the Mumbai Energy Alliance to implement large-scale energy efficiency projects in the city.

Learning

In 2009, a further 484 HSBC employees were trained as Climate Champions at the five Regional Climate Centres across the globe. The training, which is provided by Earthwatch scientists, involves conducting field research into how temperate and tropical forests are responding to climate change. Since the HSBC Climate Partnership was launched, over 10,000 days of scientific field research have been conducted by Earthwatch scientists, local communities and HSBC employees.

Research

The Smithsonian Tropical Research Institute (STRI) is conducting research to quantify carbon stocks and fluxes in tropical and temperate forests in Latin America, North America, Asia and Europe. This will increase understanding of forest-climate interactions and the role of forests in the global carbon cycle, leading to effective climate change adaptation and mitigation strategies. Data has now been collected at 18 sites and is currently being analysed.

STRI is also conducting the Panama Canal Watershed Experiment, a landscape-scale experiment aimed at quantifying the environmental services (water, carbon and wildlife) provided by tropical forests. Some 140,000 seedlings have been planted to date, with the aim of establishing 100 hectares of native species and teak plantations.

Rivers

Through the HSBC Climate Partnership, WWF has helped to increase the number of protected areas in China's central and lower Yangtze River delta covering a total area of 1.65 million hectares. The protected areas will not only help safeguard 50 threatened species, but will also provide land where large floods – which are predicted to increase as a result of climate change – can be absorbed, thereby protecting local communities.

WWF has been tasked by the Chinese government with extending the Protected Area Network to the entire Yangtze River by the end of 2010. HSBC has also continued to support WWF's freshwater programmes in Brazil, India and the UK.

COMMITMENTS FOR 2010

- **Further expand JA More Than Money™, our global financial literacy programme, to five more countries.**
- **Train a further 400 employees from 40 countries as 'Climate Champions' within the business.**
- **Publish a mid-term evaluation of the HSBC Climate Partnership by a third party.**

Environmental Impact of Operations

"The Chief Technology and Services Officer Sustainability Scorecard is an important new development for 2010. For the first time, operational management at Group and regional levels will have oversight of our progress on environmental footprint targets."

Ken Harvey, Group Chief Technology and Services Officer

HSBC's operations cover over 10,000 buildings around the world, including branches and data centres. 2009 was an important year for clarifying responsibility for HSBC's direct environmental impacts within the business functions.

Ownership and accountability

In 2009, HSBC developed objectives and measures to be incorporated into the balanced scorecards of our country and regional Chief Technology and Services Officers, making them directly accountable for operational sustainability performance for 2010 onwards. These scorecards contain 16 individual objectives that cover energy and water consumption, waste generation, carbon emissions, data centres, travel, and sourcing and consumption of paper.

HSBC established an operational working group in 2009 which consists of the sustainability heads for Real Estate, Purchasing and IT, and is charged with delivering programmes to achieve the Chief Technology and Services Officers' sustainability objectives. In 2009, the working group incorporated responsibility for environmental impacts into the strategies of their business functions. Now that performance management of energy and water use, carbon emissions and waste produced is embedded into 'business as usual', the operational working group is focusing on developing further, more innovative, programmes to address the Group's environmental footprint. See 'Commitments for 2010' table.

Transparency in performance

In absolute terms, our total energy consumption decreased by 3.8 per cent. When normalised by full-time equivalent employees (FTE), our energy use increased. When normalised against building space, our energy use was unchanged compared with 2008. The energy efficiency of our buildings across the Group has therefore remained unchanged since 2008.

In 2009, HSBC in the UK adopted new factors for converting energy use to carbon emissions, as guided by the UK Government Department for Environment, Food and Rural Affairs, resulting in an increase to the total carbon emissions figure of 118,000 tonnes. Despite our cut in absolute energy use, the change to the conversion factor led to a 3.9 per cent increase on 2008 in our reported carbon emissions.

In 2009, HSBC was responsible for 866,000 tonnes of carbon dioxide emissions from the use of energy in our offices, branches and data centres, and for 125,000 tonnes from our business travel.

We have completed our first year of travel targets in which HSBC achieved a 19 per cent reduction in total carbon dioxide emissions from business air travel per FTE against a 10 per cent target. This equates to a 26 per cent absolute reduction in carbon emissions from business travel. This has been achieved through limits on travel, as well as an increase in telephone, video and web conferencing.

HSBC's operational teams have developed new targets for the environmental performance of data centres for 2010 onwards. Data centres are managed separately from the rest of our buildings because they are undergoing a programme of rationalisation and consolidation.

HSBC continues to make significant investments in our IT infrastructure and real estate portfolio, and we are seeing performance improvements in many cases at a country level. For more information, see our case studies online at **www.hsbc.com/sustainabilityreport**.

We have simplified the way performance is measured against targets for the period 2008-11. Up to 2009, we excluded the effect of acquisitions and disposals on the measurement data, but this method became difficult to understand. We now apply our 2008-11 performance targets to the entire office and branch network.

For a breakdown of HSBC's performance data, see the 'Key Facts' section of this report on page 23, and read about our performance against targets online at **www.hsbc.com/sus-targets**.

Innovation and technology

HSBC's five-year Global Environmental Efficiency Programme is a US$90 million

STATEMENT OF HSBC'S CARBON EMISSIONS AND OFFSETS RESULTING IN CARBON NEUTRALITY

Tonnes	Carbon dioxide 2009	Carbon dioxide 2008
Emissions from energy use in buildings, including data centres	866,000	788,000
Less US purchased renewable energy certificates (RECs)[1]	(140,000)	(167,000)
Net emissions from energy use in buildings, including data centres	726,000	621,000
Emissions from business travel	125,000	166,000
Net total emissions	851,000	787,000
Carbon offsets purchased	851,000	787,000

[1] HSBC employs a process for ensuring that total electricity consumption for US and Canadian operations has net zero carbon dioxide emissions. This is realised through purchasing US RECs in MWh converted to carbon dioxide equivalent using an approved conversion rate from the US Environment Protection Agency.

investment to promote innovative and technology-driven environmental initiatives. Now in its third year, the programme has invested over US$81 million. We also continue to apply sustainable building standards to our property portfolio. Since 2007, 19 of HSBC's main buildings have been constructed or refurbished to international standards such as BRE's Environmental Assessment methodology and the US Green Building Council's 'Leadership in Energy and Environmental Design'. Fifteen more buildings are currently under construction or certification. For more details, see the case studies online at **www.hsbc.com/sustainabilityreport**.

Carbon neutrality

HSBC has been carbon neutral since 2005. Our priority is to invest in reducing emissions through greater efficiency and sourcing low emission electricity where available. As a final step, we offset our remaining emissions by purchasing high quality verified emission reductions (VERs).

The 851,000 VERs we purchased for 2009 included wind power, energy efficiency and small-scale hydro projects in China and India. The projects have been approved by the UN Clean Development Mechanism, and the offsets have been assured to the Voluntary Carbon Standard. In 2009, HSBC opened a Voluntary Carbon Standard registry account which means that the process for retiring our VERs, that is, ensuring they can no longer be traded on the carbon market, is more robust.

For further details on HSBC's renewable energy certificate purchases and carbon neutrality, see **www.hsbc.com/carbonneutrality**.

HSBC's Reporting Guidance for emissions and offsets is available at **www.hsbc.com/sus-assurance**. See page 24 for the PricewaterhouseCoopers LLP assurance report.

COMMITMENTS FOR 2010

- **Increase levels of awareness and use of mobility solutions to reduce impact of business travel and commuting.**
- **Trial software to virtually connect HSBC's property portfolio to monitor and manage energy use.**
- **Ensure the achievement of the 16 sustainability objectives contained in the Chief Technology and Services Officer balanced scorecard at country, regional and Group levels.**
- **Increase engagement with employees in operational functions to create change agents who drive internal sustainability projects.**

Supply Chain

Our overall aim with suppliers is to use our influence to raise the bar of sustainability performance, and to ensure that HSBC is not exposed to reputational risks associated with purchasing from an organisation with poor social or environmental standards. In 2009, we continued to engage with existing and new suppliers on their sustainability performance and to bring more consistency to our own standards and systems across the Group. We updated our supplier Code of Conduct to reflect more fully the social, environmental and economic aspects of sustainability. We then aligned our expectations of suppliers more clearly to this new code. Our goal is to help suppliers who enter our selection process to improve their own standards where necessary or possible, thereby gradually setting a higher benchmark for their industry as a whole.

As part of this update, and following our pilot project in 2008, we incorporated a new, more streamlined sustainability questionnaire into the tendering and supplier relationship management processes. As a result, we have now assessed 100 existing and new suppliers in the US and UK. We will be rolling out this questionnaire to continental Europe and the Middle East in 2010, and to other areas in 2011.

In 2009, HSBC developed a Vendor Management Programme to understand and manage the risks of our supply base, including sustainability risks. This process began in North America and we will continue to implement this programme in other countries in 2010.

Improving our product purchases

As part of our ongoing aim to embed sustainability throughout the global HSBC supply chain, we included new supply chain metrics in the balanced scorecards of all Chief Technology and Services Officers. Starting in 2010 and using a 2009 baseline, their performance is now measured on carbon emissions from air travel, overall paper use reduction and the sustainability of our paper purchases.

Partnering

HSBC continues to define the sustainability agenda at an industry level. For example, our UK bank purchasing team chairs the Financial Services Corporate Responsibility Group. Originally set up as part of the Chartered Institute of Purchasing and Supply, the group now operates independently and includes around 30 peer organisations in the financial services sector. Its focus is on sharing good practice, educating members and creating greater consistency in supply chain sustainability. In 2009, the Financial Services Corporate Responsibility Group was a finalist for the Chartered Institute of Purchasing and Supply's 'Best Contribution to Corporate Social Responsibility Award'.

HSBC in Brazil obtains SA 8000 certification

HSBC in Brazil has obtained the SA 8000 certification, a globally recognised social accountability standard for good working conditions and labour rights, which is developed and overseen by Social Accountability International. SA 8000 is based on the principles of the International Labour Organisation, the UN Convention on the Rights of the Child, and the Universal Declaration of Human Rights. The certification takes into account a number of factors, including the commitment of a company's suppliers to high social and environmental standards.

New Group paper policy

HSBC has developed and implemented a new Group paper sourcing policy, which came into force on 1 January 2010. From this date, all purchases of paper, print and paper-based products must begin to comply with the standards set by this policy. This covers office supplies, stationery, corporate literature, marketing materials and customer communications, and facilities products.

The policy will help us to meet our commitment to sustainability by purchasing paper-based products from environmentally responsible sources. It will also ensure that the Group is operating in line with the standards we expect of our clients in this sector.

COMMITMENT FOR 2010

- **Roll out sustainability questionnaire across Europe and Middle East.**

Summary of Performance against Commitments for 2009

Commitments	Progress
Support business initiatives to influence public policy on climate change management	Achieved. HSBC Asset Management signed the 2009 Investor Statement, calling for a global agreement on climate change. We supported the Copenhagen Communiqué on Climate Change, a statement from the business community calling for an equitable deal ahead of the United Nations climate change conference in Copenhagen in December 2009.
Commission and publish further research into public/corporate attitudes to climate change	Achieved. We undertook extensive research into attitudes to climate change around the globe, and published our third Climate Confidence Monitor in 2009.
Climate Change Centre of Excellence to publish further research on climate policy, low carbon initiatives and emerging economies	Achieved. We published 30 reports, translating expert input from academic and business research, think tanks, and government regulations into business information for the bank and its clients.
Grow our sustainable and responsible investment business (carried forward from 2008)	In progress. Trained all Asia-Pacific based investment teams on sustainability criteria, with the aim of implementing environmental, social and governance analysis in all investment businesses in the region.
Review Energy Sector Policy	In progress. A revised Energy Sector Policy, including new guidance on coal-fired and nuclear power plants and oil sands, will be issued in late 2010.
Include sustainability module in new global induction course for new employees	Achieved. Our approach to corporate sustainability forms a core module within the new global HSBC Discovery Programme launched in 2009.
Train a further 400 employees from over 40 countries as HSBC Climate Champions within the business	Achieved. 484 employees from around the world were trained at our five Regional Climate Centres.
Launch global environmental education community investment programme	Achieved. We launched a three-year Eco-Schools Climate Initiative in partnership with the Foundation for Environmental Education. Involving 1,000 staff volunteers, the project will reach an estimated 1.2 million school students in 10 countries.
Build more efficient data centres to international 'green' building standards and develop performance metrics	Achieved. Two new data centres in the UK have achieved Excellent BRE Environmental Assessment Method ratings for design. We have set internal performance targets for the eight largest Group data centres covering energy consumption and efficiency.
Reduce by 10% CO_2 emissions per full-time employee equivalent from Group business air travel	Achieved. Overall CO_2 emissions from our business air travel diminished by 26%, equating to a 19% reduction per full-time employee.
Issue paper sourcing policy	Achieved. Implemented a policy which requires all HSBC's paper and paper products to come from sustainable sources.
Implement technology and modernise working space to reduce environmental impact	In progress. Conducted trials in North America, Hong Kong and the UK.
Implement ownership and accountability for operational sustainability issues for senior managers	Partially achieved. Included sustainability balanced scorecards for Chief Technology and Services Officers and developed a sustainability leadership programme for senior managers in operational functions.
Supply chain management: put in place improvement plans for key suppliers	In progress. Updated our supplier Code of Conduct, working with suppliers to improve their own standards where necessary or possible. Incorporated a sustainability questionnaire into the tendering and supplier relationship management processes in the UK and USA. We will continue to roll this out during 2010 and 2011.

Key Facts

	Units	2009	2008	2007
Number of countries and territories with HSBC offices		**88**	86	83
Total employees including part-time (at year-end)		**302,000**	325,000	330,000
Full-time equivalent (FTE) number of employees (at year-end)		**289,485**	312,866	315,520
Number of customers		**101 million**	108 million	108 million
Benchmarks				
Dow Jones Sustainability Index (since 2001)		**member**	member	member
FTSE4Good (since 2001)		**member**	member	member
Interbrand top 100 brands (value)		**32nd (US$10.5b)**	27th (US$13.1b)	23rd (US$13.6b)
Top 500 bank brands: *The Banker* magazine		**1st**	1st	1st
Economic				
Total operating income	US$m	**78,631**	88,571	87,601
Profit before tax (on reported basis)	US$m	**7,079**	9,307	24,212
Net cash tax outflow	US$b	**5.2**	[1]	[1]
Distributions to shareholders and minority interests	US$b	**5.6**	11.3	10.2
Employee compensation and benefits	US$b	**18.5**	20.8	21.3
General administrative expenses including premises and procurement	US$b	**13.4**	15.3	15.3
Social				
Headcount				
By employment type				
Full-time	%	**90.9**	94.4	94.3
Part-time	%	**9.1**	5.6	5.7
By employee contract				
Permanent	%	**99.4**	99.2	98.2
Temporary	%	**0.6**	0.8	1.2
By region				
Europe	%	**27.0**	26.8	26.8
Asia-Pacific	%	**38.4**	36.2	33.7
North America	%	**12.7**	14.5	15.8
Latin America	%	**19.0**	18.6	20.1
Middle East	%	**2.9**	3.9	3.6
Turnover				
Employee turnover				
Europe	%	**14.6**	19.2	17.1
Asia-Pacific	%	**17.9**	21.1	22.8
North America	%	**31.6**	24.2	24.3
Latin America	%	**21.4**	24.6	21.8
Middle East	%	**14.4**	11.1	14.4
All staff	%	**19.4**	21.3	21.0
Gender				
By management type				
Senior managers: Male / Female	%	**87/13**	86/14	82/18
Middle managers: Male / Female	%	**69/31**	69/31	69/31
Junior managers: Male / Female	%	**54/46**	54/46	54/46
All staff: Male / Female	%	**40/60**	40/60	40/60
By region				
Europe: Male / Female	%	**45/55**	44/56	44/56
Asia-Pacific: Male / Female	%	**49/51**	49/51	48/52
North America: Male / Female	%	**40/60**	40/60	40/60
Latin America: Male / Female	%	**47/53**	47/53	47/53
Middle East: Male / Female	%	**68/32**	64/36	65/35
Health and safety				
Number of employee workplace fatalities		**0**	1	0
Accidents involving more than 3 days' absence per 100,000 employees		**70**	101	97
All accident rate per 100,000 employees		**458**	384	n/a

[1] New metric for 2009

	Units	2009	2008 As restated[2]	2008 Published	2007
Community investment					
Cash charitable donations	US$m	**100.4**	99.3	102.4	100.9
Europe[3]	US$m	**54.0**	45.5	46.8	42.2
Asia-Pacific (including Middle East and Africa)	US$m	**14.2**	12.9	12.9	12.7
North America	US$m	**22.0**	32.7	33.0	38.8
Latin America	US$m	**10.2**	8.2	9.7	7.2
Employee volunteering in own time	hrs	**271,000**	288,000	288,000	243,000
Employee volunteering in work time[4]	hrs	**285,332**	333,225	405,797	338,512
Europe	hrs	**81,703**	68,608	141,180	96,676
Asia-Pacific (including Middle East and Africa)	hrs	**135,631**	128,785	128,785	118,394
North America	hrs	**52,137**	114,736	114,736	120,741
Latin America	hrs	**15,861**	21,096	21,096	2,701
Value of employee volunteering hours in work time	US$m	**8.2**	9.4	12.9	9.5
Management costs associated with community investment	US$m	**14.9**	13.0	10.3	9.2
Total value of community investment	US$m	**123.5**	121.7	125.6	119.6
Allocation of cash donations					
Education	%	**45%**	43%	43%	44%
Environment	%	**29%**	33%	33%	24%
Other	%	**26%**	24%	24%	32%
Environment					
Coverage as % of Group		**95%**		95%	95%
Carbon dioxide emissions (after uplift and scale up)[5]					
Total CO_2 emissions	tonnes	**991,000**		954,000	953,000
CO_2 emissions from energy	tonnes	**866,000**		788,000	774,000
CO_2 emissions from business travel	tonnes	**125,000**		166,000	179,000
Total CO_2 emissions per FTE	tonnes	**3.42**		3.05	3.02
CO_2 emissions per FTE from energy	tonnes	**2.99**		2.52	2.45
CO_2 emissions per FTE from business travel	tonnes	**0.43**		0.53	0.57
CO_2 emissions per m^2	tonnes	**0.16**		0.15	0.15
Carbon dioxide emissions per FTE by region (before uplift and scale up)					
Total CO_2 emissions per FTE					
Europe[6]	tonnes	**3.51**		1.94	1.88
Asia-Pacific	tonnes	**2.98**		3.06	3.00
North America	tonnes	**5.33**		4.94	4.32
Latin America	tonnes	**2.19**		2.09	1.57
Middle East	tonnes	**4.24**		6.08	5.56
Environmental resource efficiency (before uplift and scale up)					
Total energy consumption	GWh	**1,812**		1,884	1,832
Total electricity consumption	GWh	**1,523**		1,591	1,515
Primary fuel sources (gas, oil, diesel, etc)	GWh	**289**		293	317
Energy consumption per FTE	kWh/FTE	**6,593**		6,310	6,134
Energy consumption per m^2	kWh/ m^2	**299**		300	291
Total waste produced	kilotonnes	**62**		81	64
Waste disposed	kilotonnes	**24**		40	32
Waste recycled	kilotonnes	**38**		41	32
Waste disposed per FTE	tonnes/FTE	**0.09**		0.27	0.11
% recycled	%	**61**		51	50
Total water consumption	thousand m^3	**4,474**		4,723	4,638
Water consumption per FTE	m^3/FTE	**16.3**		15.8	15.5
Business travel (before uplift and scale up)					
Total business travel	million km	**872**		1,132	1,227
Business travel per person	km/FTE	**3,175**		3,791	4,107
Air travel	million km	**624**		846	883
Domestic air travel	million km	**56**		158	198
International air travel	million km	**568**		688	685
Rail travel	million km	**26**		26	28
Road travel	million km	**167**		217	252
Other travel	million km	**56**		43	64

[2] For comparison purposes, currency values have been restated to reflect the position had foreign currency rates remained constant. In addition, 2008 values have been adjusted to apply the enhancements made in 2009 to both the data sources and collection methods.

[3] Includes donations for global programmes, of which US$33.4 million was spent outside of Europe.

[4] The fall in volunteering hours is due to a drop in headcount and enhancements made in 2009 to both the data sources and collection methods.

[5] For the purpose of ensuring carbon neutrality, these figures have been scaled up to represent 100% coverage and adjusted for uncertainty factors. The figures represent the total emissions before deductions of US renewable energy certificates.

[6] Data has been affected by a change to guidance on CO_2 emissions reporting from the UK government. See page 18.

Assurance Report

Independent Assurance Report to the Directors of HSBC Holdings plc on selected Corporate Sustainability information

We have been engaged by the Directors of HSBC Holdings plc ('HSBC') to perform an independent assurance engagement in respect of selected Corporate Sustainability information (hereafter 'Selected Information') contained in the HSBC Holdings plc *Sustainability Report* for the year ended 31 December 2009.

Scope and subject matter

The Selected Information for the year ended 31 December 2009 subject to limited assurance consists of:

- Statement on application of the Equator Principles on page 10; and
- Statement of HSBC's emissions and offsets resulting in carbon neutrality on page 19.

We read the other information included in the HSBC *Sustainability Report* and consider whether it is consistent with the knowledge gained from our procedures. We consider the implications for our report if we become aware of apparent material misstatements or inconsistencies. Our responsibilities do not extend to any other information.

Respective responsibilities of the Directors and PricewaterhouseCoopers LLP

The Directors are responsible for the content of the *Sustainability Report* and the preparation of the Selected Information in accordance with the criteria set out in HSBC's Reporting Guidance (see **www.hsbc.com/sus-assurance**).

Our responsibility is to form a conclusion, based on limited assurance procedures, on whether anything has come to our attention that causes us to believe that the Selected Information has not been fairly stated in all material respects in accordance with HSBC's Reporting Guidance.

We are in compliance with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics. Our team comprised assurance practitioners and relevant subject matter experts.

This report, including the conclusion, has been prepared for the Directors of HSBC as a body, to assist the Directors in reporting HSBC's corporate sustainability performance and activities. We permit the disclosure of this report within the *Sustainability Report* for the year ended 31 December 2009, to enable the Directors to demonstrate they have discharged their governance responsibilities by commissioning 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 the Company for our work or this report save where terms are expressly agreed and with our prior consent in writing.

Assurance work performed

We conducted this limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board ('ISAE 3000').

Our limited assurance procedures included:

- Making enquiries of relevant management of the Group, including the Corporate Sustainability Committee, and reviewing a sample of relevant management information including reports to the Sustainability Committee.
- Evaluating the design and implementation of the key processes and controls for managing and reporting the Selected Information.
- Limited testing, on a selective basis at Group, region and country level, of the preparation and collation of the Selected Information prepared by the Group.
- Testing of carbon offsets purchased to certificates from third party verifiers of those offsets.
- Undertaking analytical procedures over the reported data.

A limited assurance engagement is less in scope than a reasonable assurance engagement under ISAE 3000. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement.

Limitations

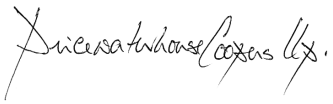
Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the Selected Information in the context of HSBC's Reporting Guidance at **www.hsbc.com/sus-assurance**.

In particular, the conversion of energy used to carbon emissions is based upon, *inter alia*, information and factors derived by independent third parties as explained in HSBC's Reporting Guidance. Our assurance work has not included examination of the derivation of those factors and other third party information.

Additionally, the application of the Equator Principles relies on information provided by third parties as explained in HSBC's Reporting Guidance. Our assurance work has not included an examination of the underlying information provided by those third parties.

Conclusion

Based on the results of our procedures, nothing has come to our attention that causes us to believe that, for the year ended 31 December 2009, the Selected Information has not been fairly stated in all material respects in accordance with HSBC's Reporting Guidance.



PricewaterhouseCoopers LLP
Chartered Accountants
London
18 May 2010

CONTACT

Susanna Wilson
Communications and Reporting Manager
Group Corporate Sustainability
HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom

www.hsbc.com/sustainability

The HSBC *Sustainability Report* is published annually. Our last report was published in May 2009.

A pdf version of this report is available at **www.hsbc.com/sustainabilityreport**

© Copyright HSBC Holdings plc 2010
All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Holdings plc.

Published by Group Corporate Sustainability, HSBC Holdings plc, London

Designed by Black Sun Plc, London, and typeset by Creative Conduct Limited, London

Printed by Pureprint Group Limited, Uckfield, East Sussex, UK, on Revive Pure White Offset paper using vegetable oil-based inks. Made in Austria, the paper comprises 100% de-inked post-consumer waste. Pulps used are totally chlorine-free.

The FSC logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.

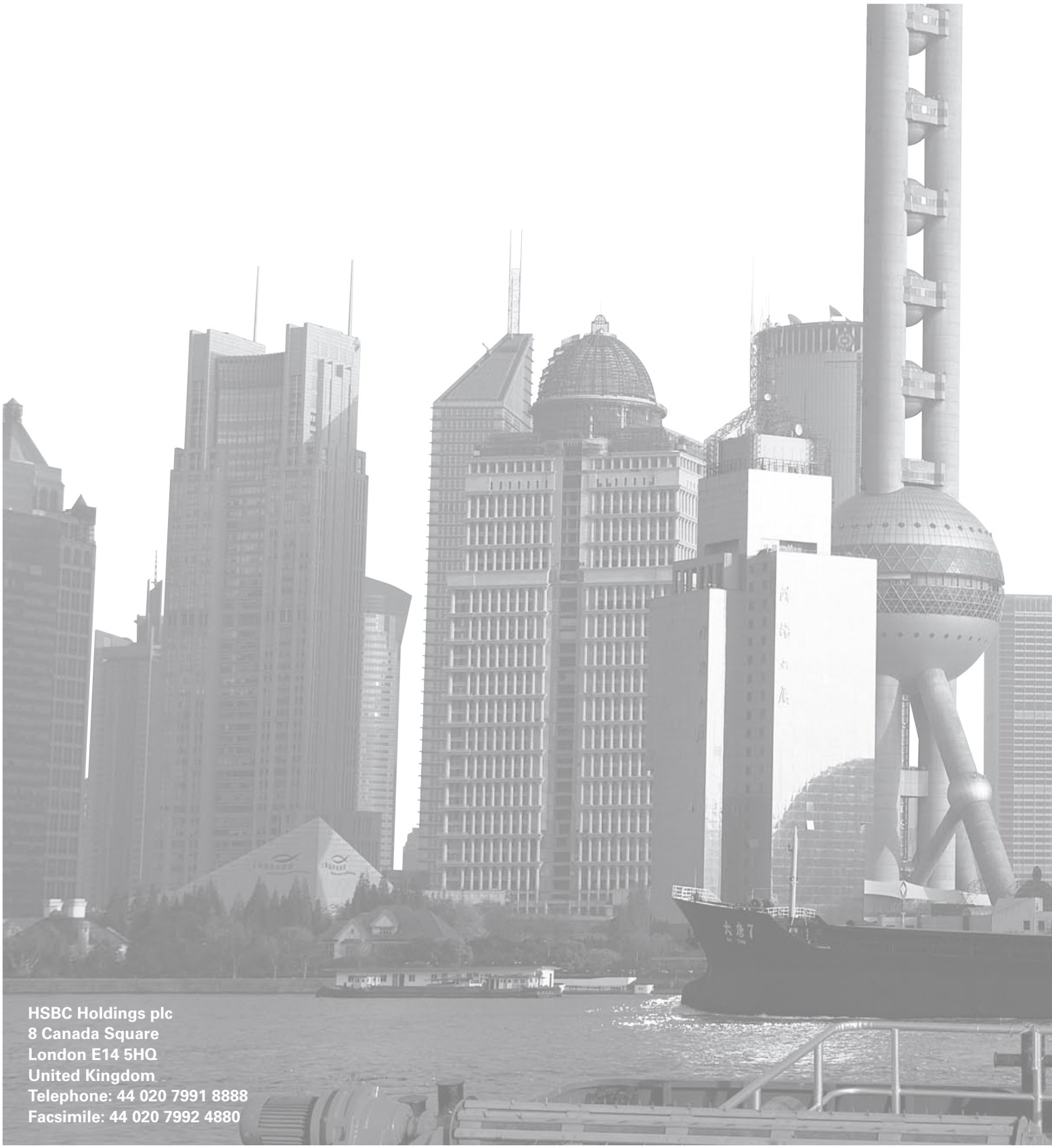
FSC Recycled
Supporting responsible use of forest resources
www.fsc.org Cert no. SGS-COC-0620
© 1996 Forest Stewardship Council

100%

Stock number 99037-9

HSBC

The world's local bank



HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 8888
Facsimile: 44 020 7992 4880