



# Sustainability at HSBC

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HSBC 

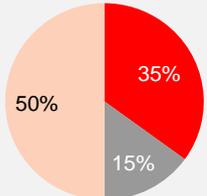
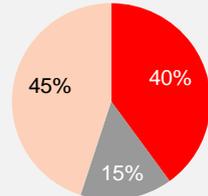


## Forward-looking statements

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

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

# The beginning of 2011 defined a new vision for HSBC

<p><b>Purpose</b></p>	<p>Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose.</p>	<p><b>Reason why we exist</b></p>
<p><b>Values</b></p>	<p>Act with courageous integrity</p> <ul style="list-style-type: none"> <li>• Dependable and do the right thing</li> <li>• Open to different ideas and cultures</li> <li>• Connected to customers, regulators and each other</li> </ul>	<p><b>How we behave and conduct business</b></p>
<p><b>Strategy</b></p>	<ul style="list-style-type: none"> <li>• International network connecting faster growing and developed markets</li> <li>• Develop Wealth and invest in Retail only in markets where we can achieve profitable scale</li> </ul>	<p><b>Where and how we compete</b></p>
<p><b>Outcome</b></p>	<p><b>Being the world's leading international bank</b></p> <p style="text-align: center;"><b>Delivering consistent returns</b></p> <div style="display: flex; align-items: center; justify-content: space-around;"> <div style="text-align: center;"> <p>From:</p>  </div> <div style="text-align: center;"> <p>To:</p>  </div> <div style="margin-left: 20px;"> <ul style="list-style-type: none"> <li><span style="color: red;">■</span> Dividends</li> <li><span style="color: grey;">■</span> Variable pay</li> <li><span style="color: orange;">■</span> Earnings retained</li> </ul> </div> </div>	

## Organisation

# Established a simplified, more focused and easier to manage organisation

### Progress

<b>Created four Global Businesses</b>	<ul style="list-style-type: none"><li>• Developing <b>global strategies</b></li><li>• Defining and implementing consistent <b>business and operating model</b></li><li>• Focus on clear <b>portfolio of activities</b></li><li>• <b>Oversight</b> by Group Management Board, Holdings Board of Directors, Group Risk Committee, Group Audit Committee, Financial System Vulnerabilities Committee</li></ul>
<b>Established eleven Global Functions</b>	<ul style="list-style-type: none"><li>• Managed independently, but with close links to businesses</li><li>• Focus on global <b>consistency</b> and rigour of governance, control, process efficiency, transparency</li></ul>
<b>Focused role of six operating Regions</b>	<ul style="list-style-type: none"><li>• Defined clear portfolio of <b>2 home markets</b> and <b>20 priority growth markets</b></li><li>• Driving <b>implementation</b> of Group and Global Businesses' strategies</li><li>• Primarily organised through <b>separately capitalised, regulated, governed subsidiaries</b> tapping local funding through strong deposit bases</li></ul>
<b>Simplified organisation structure</b>	<ul style="list-style-type: none"><li>• <b>Simplified organisation</b> applying 8x8 programme across all priority markets</li><li>• Stronger management <b>oversight and accountability</b> and <b>reduced bureaucracy</b></li></ul>

# Proven track record in delivering change – First phase

## Material progress over the last two years

	May 2011 report card	Progress to date
<b>I</b> <b>Capital deployment</b>	<ul style="list-style-type: none"> <li>• Six Filters driving disposals and closures of non-strategic and/or underperforming positions (Legacy) or businesses</li> <li>• Turnaround of strategically relevant businesses</li> </ul>	<ul style="list-style-type: none"> <li>• 52 disposals/exits announced since 2011, reduced c.USD95bn RWAs<sup>1</sup> and c.15k FTE<sup>2</sup></li> <li>• Progress on running down and de-risking Legacy portfolios</li> </ul>
<b>II</b> <b>Organisation and cost efficiency</b>	<ul style="list-style-type: none"> <li>• Simplify and delayer the organisation</li> <li>• Target USD2.5-3.5bn in sustainable cost saves in 3 years, achieving our 48-52% CER target by 2013</li> </ul>	<ul style="list-style-type: none"> <li>• Transformed the way we manage the business</li> <li>• USD4.0bn annualised sustainable saves from 2011 to 1Q 2013</li> <li>• Net reduction of 39k FTE, including 28k from Four Programmes and 15k from disposals</li> </ul>
<b>III</b> <b>Growth</b>	<ul style="list-style-type: none"> <li>• Revenue growth in faster growing markets</li> <li>• Capture wealth opportunity (USD4bn in additional revenues)</li> <li>• Leverage intra-group connectivity between CMB and GB&amp;M (USD1bn of additional revenues)</li> </ul>	<ul style="list-style-type: none"> <li>• Faster growing regions' revenues up 25%, CMB up 20%<sup>3,4</sup></li> <li>• Achieved double digit gross loan growth in 15 out of 22 home and priority markets<sup>3,5</sup></li> <li>• Wealth revenues up c.USD0.9bn<sup>5</sup></li> <li>• c.USD0.9bn incremental collaboration revenue (increased target to USD2bn in 2012)<sup>3,4</sup></li> </ul>

### Capital generation and dividends

Notes:

- 1 Expected reduction in RWAs after completion of all 52 transactions  
 2 From transactions completed up to 1Q2013  
 3 From 2010 to 2012

Notes:

- 4 Reported basis  
 5 Constant currency basis

## Growth

# Cohesive and focused geographic portfolio

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

# Four Global Businesses with clear scope of activities

	<u>Commercial Banking</u>	<u>Global Banking and Markets</u>	<u>Retail Banking and Wealth Management</u>	<u>Global Private Bank</u>
<b>Liability driven</b>	<ul style="list-style-type: none"> <li>• Deposits</li> <li>• Payments and cash management</li> </ul>	<ul style="list-style-type: none"> <li>• Deposits</li> <li>• Payments and cash management</li> <li>• Balance sheet management</li> </ul>	<ul style="list-style-type: none"> <li>• Deposits</li> <li>• Account services</li> </ul>	<ul style="list-style-type: none"> <li>• Deposits</li> <li>• Account services</li> </ul>
<b>Asset driven</b>	<ul style="list-style-type: none"> <li>• Credit and lending</li> <li>• Trade and receivables finance</li> </ul>	<ul style="list-style-type: none"> <li>• Credit and lending</li> <li>• Asset and trade finance</li> </ul>	<ul style="list-style-type: none"> <li>• Credit and lending</li> </ul>	<ul style="list-style-type: none"> <li>• Credit and lending</li> </ul>
<b>Fee driven and other</b>	<ul style="list-style-type: none"> <li>• Commercial insurance and investments</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate finance<sup>1</sup></li> <li>• Markets<sup>2</sup></li> <li>• Securities services</li> </ul>	<ul style="list-style-type: none"> <li>• Asset management</li> <li>• Wealth solutions and financial planning</li> <li>• Broking<sup>3</sup></li> <li>• Life insurance manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>• Asset management<sup>4</sup></li> <li>• Financial advisory<sup>5</sup></li> <li>• Broking<sup>3</sup></li> <li>• Corporate finance (via GB&amp;M)<sup>1</sup></li> <li>• Alternative investments<sup>6</sup></li> </ul>

Notes:

- 1 M&A, ECM, Event and Project financing and co-investments
- 2 Includes Foreign exchange, Rates, Credit and Equities
- 3 Intermediation of Securities, Funds and Insurance products. Includes securities services in GPB

Notes:

- 4 Includes portfolio management
- 5 Includes private trust and estate planning (for financial and non-financial assets)
- 6 Includes Hedge Funds, Real Estate and Private Equity

# Global Standards as source of competitive advantage

<b>Purpose</b>	<p>Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose.</p> <p><b>Reason why we exist</b></p>																		
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<b>Investments in Compliance</b>	<div data-bbox="497 866 1209 1312"><p><b>Compliance spend</b></p><table border="1"><thead><tr><th>Year</th><th>Compliance Spend</th></tr></thead><tbody><tr><td>2010</td><td>Low</td></tr><tr><td>2011</td><td>Medium</td></tr><tr><td>2012</td><td>High</td></tr></tbody></table></div> <div data-bbox="1284 866 2018 1312"><p><b>Compliance headcount</b></p><table border="1"><thead><tr><th>Year</th><th>Compliance Headcount</th></tr></thead><tbody><tr><td>2010</td><td>Low</td></tr><tr><td>2011</td><td>Medium</td></tr><tr><td>2012</td><td>High</td></tr><tr><td>1Q 2013</td><td>Very High</td></tr></tbody></table></div>	Year	Compliance Spend	2010	Low	2011	Medium	2012	High	Year	Compliance Headcount	2010	Low	2011	Medium	2012	High	1Q 2013	Very High
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# Global Standards define governance and programmes

Governance	Financial System Vulnerabilities Committee <sup>1</sup>	<ul style="list-style-type: none"> <li>Provides governance, oversight and policy advice to simplify business activities and enhance risk management and control</li> </ul>
	Global Standards Steering Meeting <sup>2</sup>	<ul style="list-style-type: none"> <li>Sets the strategic direction and priorities for the Global Standards programme</li> </ul>
	Global Standards Execution Committee	<ul style="list-style-type: none"> <li>Provides execution control across line of business based on strategic direction and priorities</li> </ul>
Programmes	Customer Due Diligence	<ul style="list-style-type: none"> <li>Develop an integrated framework to manage financial crime risk more effectively (including Affiliates Due Diligence, Tax Transparency, Bearer Shares, Customer Selection and Exit Policy)</li> </ul>
	Financial Crime Compliance	<ul style="list-style-type: none"> <li>Create a consistent, flexible and scalable organisation and establish controls to meet DPA<sup>3</sup> and other regulatory obligations</li> </ul>
	Financial Intelligence	<ul style="list-style-type: none"> <li>Build our capabilities in capturing and using customer and transactional level data to identify suspicious transactions, activity or connections</li> </ul>

Notes:

<sup>1</sup> New Board committee of external experts and independent advisers

<sup>2</sup> Part of the Group Management Board

<sup>3</sup> Deferred Prosecution Agreement

# Next phase 2014-16



## Strategy remains unchanged

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- Grow both business and dividends
- Implement Global Standards
- Streamline processes and procedures

## Targets

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- ROE 12-15%<sup>1</sup>
- Positive jaws
- CER mid-50s<sup>2</sup>
- Additional USD2-3bn in sustainable saves
- Common equity tier 1 ratio >10%
- Advances-to-deposits ratio cap <90%
- Progressive dividends and share buy-backs<sup>3</sup>

Notes:

1 Return on average ordinary shareholders' equity

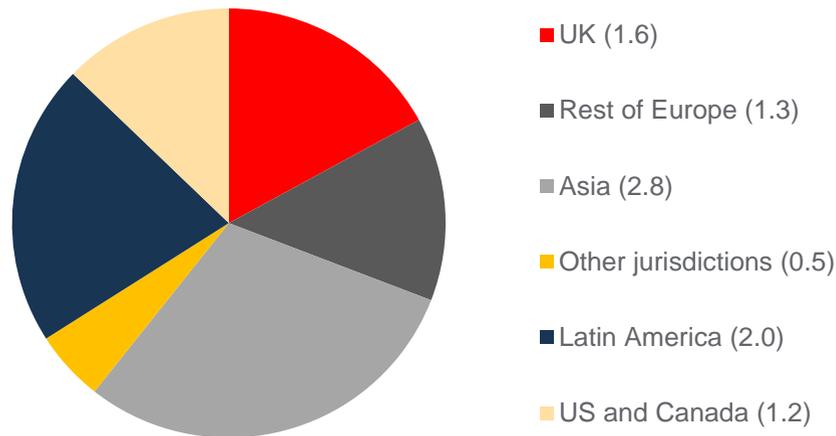
2 Group Performance Share Plan long-term scorecard will remain unchanged with a Cost Efficiency Ratio target of 48-52% for 2013

3 Subject to meeting United Kingdom regulatory capital requirements and shareholder approval

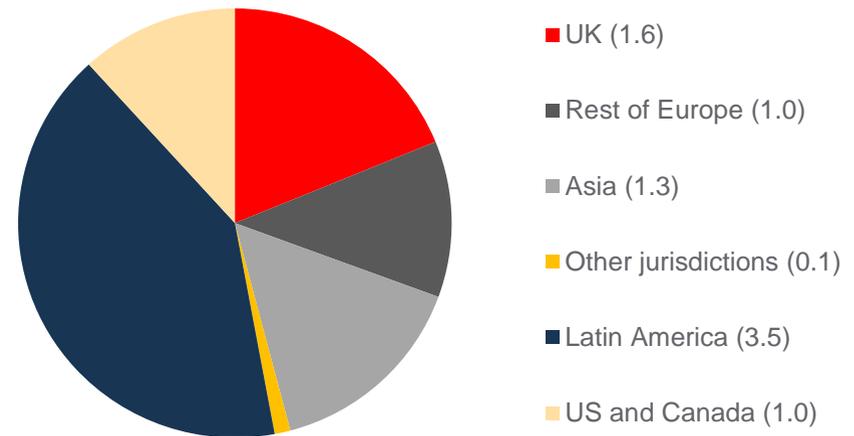
# Tax policy

- HSBC has adopted the UK Code of Practice for the taxation of banks
- Global Standard on 'Tax Transparency' to ensure HSBC's banking services are not associated with any arrangements which are known or suspected to be designed to facilitate tax evasion by a customer
- Tax payment data provided by region and priority market

**Breakdown of total tax paid by region 2012**  
USDbn



**Taxes collected for government 2012**  
USDbn



- See page 32 of the Sustainability Report 2012 for detailed country by country disclosure

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

## HSBC Values

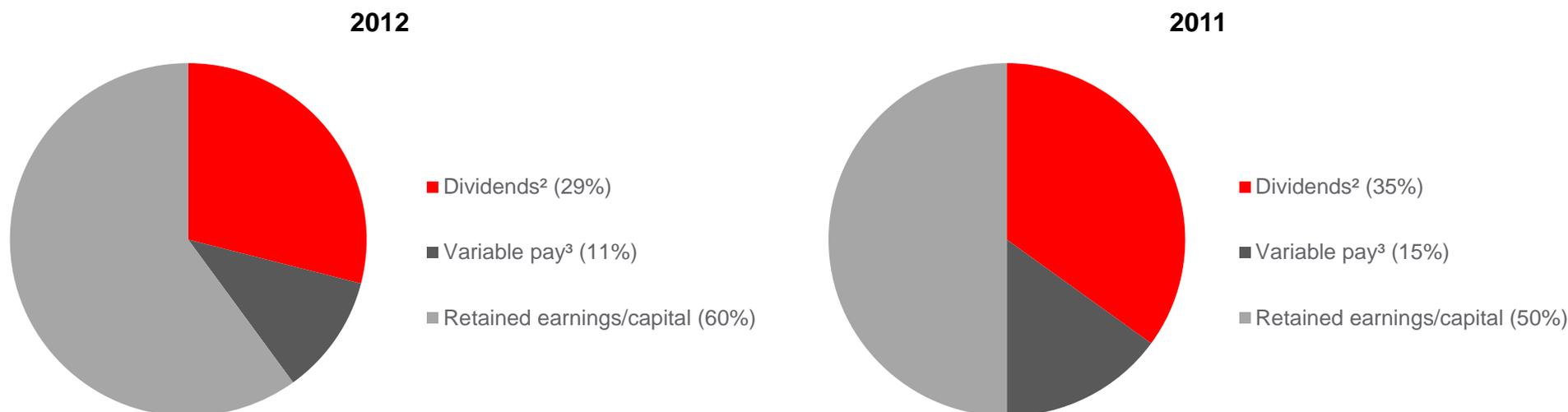
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- **Dependable and do the right thing**
  - stand firm for what is right, deliver on commitments, be resilient and trustworthy
  - take personal accountability, be decisive, use judgment and common sense, empower others
- **Open to different ideas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

# Remuneration<sup>1</sup>

- Remuneration strategy based on attracting, retaining and motivating the best people
- Individual remuneration is determined through assessment of performance delivered against both annual and long term objectives summarised in performance scorecards as well as adherence to HSBC Values
- Group Performance Share Plan was developed to incentivise senior executives to deliver long-term sustainable performance. A key feature of the GPSP is that participants are required to hold the awards, once they have vested, until retirement. The awards are subject to a 5 year vesting period during which time the Group Remuneration Committee ('GRC') has the authority to claw back all or part of the award
- Group variable pay pool in 2012 was reduced in size by the GRC who took into account the cost of fines and penalties and customer redress

## Pro forma post-tax profits allocation

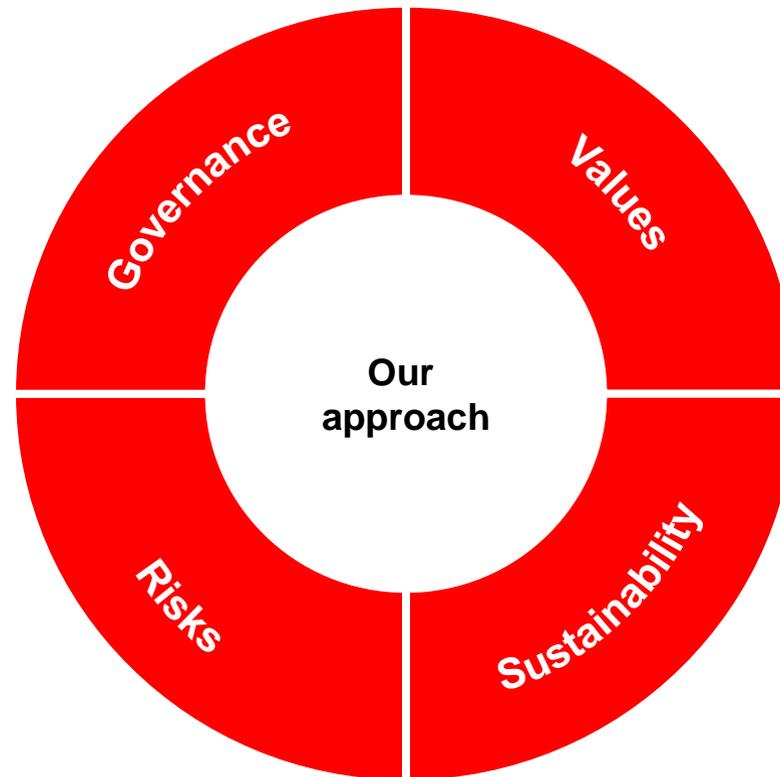


Notes:

- 1 Please see Pages 347-367 of the *HSBC Holdings PLC Annual Report and Accounts 2012* for full details
- 2 Inclusive of dividends to holders of other equity instruments and net of scrip issuance. Dividends per ordinary share declared in respect of 2012 were USD0.45, an increase of 10% compared with 2011
- 3 Total variable pay pool net of tax and portion to be delivered by the award of HSBC shares

## How we manage our business

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



# Supporting our customers

## Increased lending to retail and commercial customers

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- Approved new mortgage lending in the UK of £19.5bn in 2012, an increase of 20%
- All sales targets removed from UK retail banking
- Increased help to customers in difficulty
- Growth of “Digital”
- Focus on SMEs with international ambitions

## Climate Business

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- Continued success of Climate Change Centre of Excellence
- Support to Renewable Power generation: 48% of renewable power sector deals
- Bus Rapid Transport success in 2012
- Significant sector / regional areas of growth in HSBC Climate Business : Wind and LATAM



# Sustainability Risk Management

## Equator Principles

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- Full, assured disclosure given on page 19 of the Sustainability Report 2012
- HSBC voices concerns about “EP3”
- Going beyond EP: 22 extended transactions
- Transactions declined: zero

## Risk Policies for sensitive sectors

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- Policy revision and development: Chemicals 2012, Forestry 2013
- Levels of compliance are high: 98.19%
- Near Compliant : 1.71%
- Non-compliant: 0.10%
- Training: over 6,500 colleagues now trained



# Sustainability Operations

## Sustainable Operations Strategy 2012-2020

- First year progress shown on pages 21-23 of the Sustainability Report 2012
- Group CO2 emissions assured and included in the ARA
- 963,000 tCO2, an absolute reduction of 3% and over 5% on 2011 and 2010
- Sustainability Leadership Programme: 180 managers attended in 2012
- Power Usage Effectiveness rating lowered in datacentres
- Significant paper volumes saved
- 15% reduction in waste disposal to landfill
- Business travel carbon emissions down – video-conferencing up
- Protecting our Business: Hurricane Sandy case study



# Our People

## Valuing our employees

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- Recognition of significant changes to HSBC workforce
- Leadership and HSBC Values
- Progress with diversity and inclusion
- 25% female representation on the Group Management Board
- Talent management, succession planning and Learning & Development.
- Volunteering – link to staff engagement and retention



# Community Investment

## Total contribution USD120 million in 2012

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- Education (48%)
  - Disadvantaged children
  - 6,000 scholarships
  - Future First
- Environment (23%) – HSBC Water Programme
  - Water Aid: water access for 1.1m people and sanitation for 1.9 million people
  - Earthwatch: 7500 HSBC staff to become Citizen Science Leaders
  - WWF: protecting rivers and freshwater resources in five river basins



## Contacts and further information

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