

2008

HSBC Holdings plc Sustainability Report

HSBC 

The world's local bank

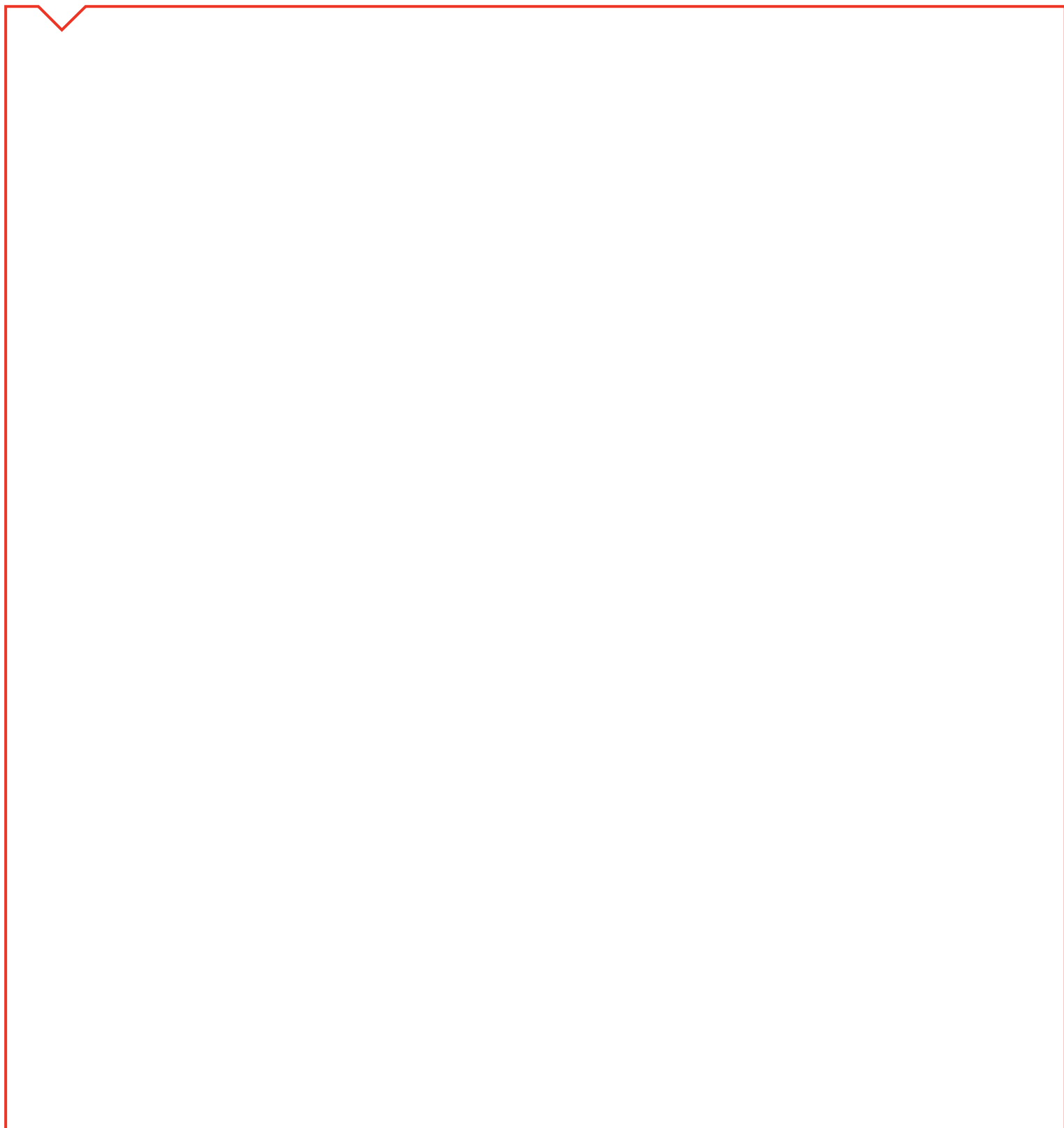


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HSBC's awards 2008

Most highly rated bank for climate change governance

First in the Hang Seng Index Listed Companies Corporate Social Responsibility Survey

Top Financial Institutions Gold Award in the Hong Kong Awards for Environmental Excellence

Number 3 in Fortune 100 AccountAbility Rating

Green Globe award, USA

Awarded by:

US investor coalition, Ceres

Oxfam Hong Kong

Hong Kong SAR Government

AccountAbility

Rainforest Alliance

International commitments

HSBC has voluntarily agreed to abide by a number of external codes of conduct, some of which are listed here:

- UN Universal Declaration of Human Rights
- UN Environmental Programme Finance Initiative
- UN Global Compact
- Global Business Coalition on HIV/AIDS
- Global Sullivan Principles
- OECD Guidelines for Multinational Enterprises

About this Report

The HSBC Holdings plc *Sustainability Report* is intended for HSBC's global stakeholders with a particular interest in sustainability. In response to feedback on previous years' reports, we continue to focus on the non-financial issues considered material to our business.

Supplementary information, coverage of further issues, and additional case studies are to be found online at www.hsbc.com/sustainability.

In 2007, the dominant issues for HSBC and our stakeholders were climate change, forestry and sustainable finance, including our lending policies. We continue to take into account the stakeholder feedback we have received throughout the year. For the 2008 report, we attempt to provide more balance between our consideration of economic, social and environmental issues. We, therefore, report in more detail on our employee policies and our support for customers. The risks and opportunities arising from climate change and our approach to implementing our sustainable lending and finance policies remain priorities.

Responding to feedback

The survey we carried out in early 2008 showed that our stakeholders want to see more information and transparency on the following topics:

- business transactions;
- implementation of sector policies;
- process of making difficult decisions relating to challenges and 'dilemmas';
- focus on material issues and less on peripheral ones; and
- global governance arrangements.

We began to respond to this feedback in our 2007 report and we continue to improve on this in the 2008 report. We have explained our approach to engagement with clients in relation to our sector policies. We have continued to report on the proportion of our lending portfolio subject to our risk sector policies and to explain our governance of sustainability. This year,

we have focused particularly on our role in the economy and society, and on meeting our responsibilities to our key stakeholders. We have also clearly set out our progress on 2008 commitments and our priorities for 2009.

Assurance and reporting standards

We have appointed PricewaterhouseCoopers LLP to provide independent assurance on selected information in our *Sustainability Report 2008* covering carbon emissions and related offsets, and our application of the Equator Principles. Their assurance is performed in accordance with the internationally recognised professional assurance standard ISAE3000, against a clear and public set of criteria which can be found at www.hsbc.com/sus-assurance. The PricewaterhouseCoopers LLP assurance report is on page 27.

We draw on guidance from the Greenhouse Gas Protocol for our carbon reporting. In our selection of material, we consulted the Global Reporting Initiative's (GRI) reporting framework and Financial Services Supplement. Our GRI table of contents can be found online at www.hsbc.com/sus-gri. We have continued to use the Connected Reporting Framework developed by the Prince of Wales' Accounting for Sustainability Project.

This report focuses on HSBC's largest operations by pre-tax profit and by number of employees, which are in the UK, the Hong Kong SAR, the USA, the Middle East, Mexico, Canada, France, China, Brazil and India. Facts and figures refer to the Group unless indicated otherwise.

Group Chairman's Introduction

“
... no amount of rules
will be sufficient if an
organisation's culture
does not encourage
people to do the right
thing.”



The global economic and financial crisis we face has brought the wider challenges of what it means to be a sustainable business into sharp focus. We have previously stated that our goal is to be a leading brand in corporate sustainability and this remains fundamental to our strategic aims. HSBC's longstanding tradition of financial strength, long-term customer relationships and conservative management are as important today as ever.

Like many other corporations and financial institutions, HSBC has been affected by the downturn in the global economy and the financial crisis. The volatility that has ensued affects all of our stakeholders – our customers, shareholders, employees and business partners – as the impact of the crisis trickles down to the real economy.

One of the consequences of the crisis – and rightly – is that we are going to see a fundamental re-evaluation of the rules and regulations that govern our business. However, we should remember that no amount of rules will be sufficient if an organisation's culture does not encourage people to do the right thing. It is the responsibility of boards to supervise, and management to embed, a sustainable culture into the very fibre of the organisation. For HSBC, this is fundamental.

The importance we place on working closely with our customers in difficult times is dealt with in some detail in this report. We are working with our

corporate and retail customers to do what we can to help them adapt to the challenging economic conditions. This is vital not only to keep businesses operating and livelihoods on track, but allows us to continue to perform a pivotal role in the economy and develop relationships with customers for the long term. We do this whilst adhering to our responsible approach to lending, based on a conservative advances-to-deposits ratio, and on the customer's ability to repay.

We also intend to play our part in rebuilding public trust in our industry. This means we must be willing to take part in and shape the debate on how our industry should evolve in the coming years, based on the lessons which must be learnt from this crisis.

The financial services industry has been under considerable public scrutiny and it is our employees who have had to withstand that pressure whilst working hard to help customers. The commitment of our employees is crucial and we place great value on that. We also know that our employees support HSBC's approach to sustainability which is a significant factor in the recruitment and retention of committed and motivated employees.

Although this report, in response to stakeholder feedback, focuses more this year on how we are addressing the social impacts of our business activity, environmental sustainability is still very much a focus of our efforts. Climate change remains a priority and,

in particular, the likely social and economic impacts. Once again, in 2008, HSBC was the most highly rated bank for climate change governance by the US investor coalition, Ceres.

Managing the environmental footprint of our global operations is now firmly embedded throughout HSBC, and we saw some significant achievements in 2008. We invested in new technologies that help cut costs as well as carbon emissions; we set new targets for water, waste, carbon dioxide and energy usage; and we have taken further steps to ensure consistent application of our sustainability programmes throughout our operations.

We continue to support a number of international voluntary principles and codes of practice in relation to our employees, customers, investment and lending activity. Often, our business practices go further than international good practice.

2008 was a challenging year and I can say with absolute certainty that 2009 will be, too. At HSBC, we are looking in 2009 to build sustainable growth opportunities to allow our customers, employees and the communities in which we operate to thrive and prosper, whilst playing our part in creating an environment that will survive us all, and allow future generations to flourish. We believe the underlying financial strength, strategy and geographic reach of our business place HSBC in a strong position to move forward.

Finally, I would like formally to welcome William Fung as Chairman of the Corporate Sustainability Committee, and to thank the previous Chairman, Lord Butler, for his contribution and distinguished service to HSBC.

A handwritten signature in black ink, appearing to read 'Stephen Green'.

Stephen Green
Group Chairman
May 2009

About HSBC: our Role in the Economy

Overview of the Group

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$114 billion as at 31 December 2008.

Headquartered in London, HSBC has around 9,500 offices and 325,000 employees in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

HSBC offers a comprehensive range of financial services to over 100 million personal, commercial, corporate, institutional, investment and private banking clients. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 210,000 shareholders in 120 countries and territories.

Strategic direction

Our strategy has been tested by the economic conditions in 2008 and remains intact. As one of the largest global emerging markets banks, with an extensive international network and a diverse customer base, we continue to build our business by focusing on fast-growing markets around the world and on businesses where international connectivity is important. We are able to do this from a position of financial strength.

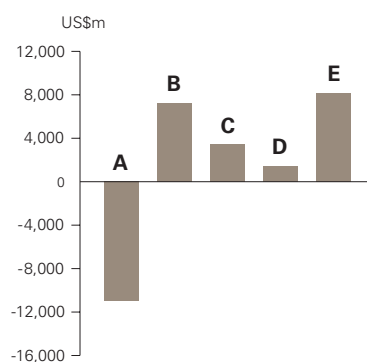
Our role in the economy

Our business success contributes to the wider economy in a number of ways. By managing our business well, particularly in these challenging times, we can bring tangible benefits to the markets in which we operate. 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.

Financial highlights	2008	2007
Profit before tax	US\$9,307m	US\$24,212m
Dividend per share	US\$0.64	US\$0.90
Assets	US\$2,527b	US\$2,354b

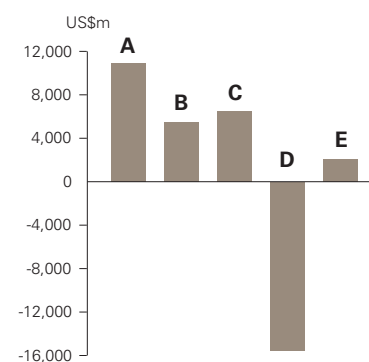
HSBC's business is made up of two customer groups, Personal Financial Services and Commercial Banking, and two global businesses, Global Banking and Markets, and Private Banking. The table below shows the distribution of pre-tax profit by customer group and by region.

Pre-tax profit by customer group and global business 2008



A (10,974) Personal Financial Services
B 7,194 Commercial Banking
C 3,483 Global Banking and Markets
D 1,447 Private Banking
E 8,157 Other

Pre-tax profit by geographical region 2008



A 10,869 Europe
B 5,461 Hong Kong
C 6,468 Rest of Asia-Pacific
D (15,528) North America
E 2,037 Latin America

Distribution of economic benefits US\$

Stakeholder	2008	2007	2006	2005
Communities and environment	102m	100.9m	86.3m	81.4m
Employees (remuneration)	19.1b	19.7b	17.3b	15.1b
Governments (taxation)	4.4b	5.3b	6.4b	6.2b
Suppliers (procurement and premises)	15.0b	14.9b	12.7b	11.1b
Shareholders (dividends for the period)	11.3b	10.2b	9.9b	8.5b

Managing Sustainability

The importance of running a sustainable business for the long term has been highlighted by the global financial crisis. At HSBC, a sustainable business means achieving profits for our shareholders, underpinned by good governance, long-lasting customer relationships, and highly committed staff delivering the corporate strategy and managing the social and environmental impact of our business. We believe by taking this approach, we can provide shared value for the benefit of both our shareholders and the wider economy, the environment and society.

This report examines how HSBC manages these issues, and is intended to complement the financial and business information published in the *Annual Report and Accounts*, and *Annual Review*. In particular, this report examines HSBC's sustainability programme, which involves the environmental and social impacts of our business operations, indirectly through the business of our customers, and through our investment in the community.

The focus of our work on environmental issues primarily addresses the risks and opportunities associated with climate change and natural resources, including energy, water management, waste and biodiversity. The social initiatives we prioritise include making financial services available more widely and providing access to education. We believe this is the best way to help communities build capacity, financial independence and long-term prosperity.

The business opportunities that these issues open up and the sustainability risks that need to be addressed are covered in more detail in the chapter on 'Lending and New Business Opportunities' on page 16. The policies, procedures and controls in place to manage the risks and promote business opportunity are also covered.

In this year's report, we examine the role HSBC has played during the economic crisis in relation to its customers and employees.

Corporate governance

HSBC Holdings' Board has five committees – the Group Management Board, Group Audit Committee, Nomination Committee, Remuneration

Committee and Corporate Sustainability Committee – who advise the main Board. The Group Management Board comprises five executive Directors, including the Group Chief Executive and the Group Finance Director, and 10 Group Managing Directors, and is responsible for the day-to-day management of HSBC. The Group Audit Committee, Nomination Committee and Remuneration Committee comprise non-executive Directors, while the Corporate Sustainability Committee is composed of non-executive Directors and non-director members. Please see HSBC's *Annual Report and Accounts* and the committees' terms of reference at www.hsbc.com/sus-gov.

At an operational level, Group Corporate Sustainability, a department established in 2007 and reporting to the Group Chairman, takes responsibility for shaping the Group's response to the management of sustainability risk, the Group's own footprint management, encouraging and facilitating environmentally and socially sustainable business development opportunities, and community investment activity. The department works closely with other functions such as Group Human Resources, Group Compliance, Group IT, Group Purchasing, Group Marketing, Group Corporate Real Estate and Group Risk, as well as HSBC's regional offices, customer groups and global businesses to ensure the effective implementation of policies and procedures.

We communicate our business principles and values to employees through the *Group Standards Manual*, which is posted on our Group intranet. This is mandatory reading for all employees and includes a chapter on

Corporate Sustainability. It also directs employees to *Functional Instruction Manuals*, which set out detailed policies and procedures for specific functions including Compliance, Credit and Risk, Finance, Human Resources, IT, Purchasing and Tax.

Sustainability at HSBC is overseen by the Corporate Sustainability Committee of the HSBC Holdings Board. The Corporate Sustainability Committee is responsible for advising the HSBC Holdings Board, committees of the Board and executive management on sustainability policies, including environmental, social and ethical issues.

The members of this committee in 2008 were William Fung (appointed Chairman on 30 May 2008), Sir Mark Moody-Stuart and Narayana Murthy (each of whom is a non-executive Director), Gerald Davis and Lord May, who are non-director members of the Committee. Lord Butler retired as a Director of HSBC Holdings and ceased to be a member of the committee on 30 May 2008.

The Group Reputational Risk Committee oversees existing and potential reputational issues, and provides guidance on aspects of the business where reputational risk is perceived to be a particular challenge. Reputational risks, including environmental, social and governance issues, are assessed by the HSBC Holdings Board and its committees, Group Management Board, the Group Reputational Risk Committee, subsidiary company boards and senior management during the formulation of policies and the establishment of HSBC standards.

These policies, which form an integral part of the internal control system, are communicated through manuals and statements of policy, and through internal communications and training. The policies set out operational procedures in areas of potential reputational risk. The operational procedures also cover money laundering deterrence, counter-

terrorism financing, environmental impact, anti-corruption measures, and employee relations.

Delivering on sustainability strategy

Sustainability has been embedded into the business in a number of ways. We have made sustainability a key element of the employee induction and senior management training programmes, and have fully integrated sustainability risk issues into the Group’s risk management processes covering all corporate clients. We have also

appointed heads of sustainability in our regions who report directly to senior management, work closely with management teams and directly with Group Corporate Sustainability.

In 2008, we set up a Group-wide working group to consolidate our work on direct impacts, with representatives from Group Corporate Sustainability, Group Purchasing, Group IT and Group Corporate Real Estate and sponsored by the Group Chief Technology and Services Officer. This working group will be referenced in more detail in

the chapter on ‘Direct Impacts’ on page 20.

In 2008, we also established an internal ‘Climate Team’, which brings together representatives from each customer group and global business within HSBC to share best practice and, ultimately, to maximise the business opportunities presented by the transition to a lower carbon economy. This is referred to in more detail in the chapter on ‘Lending and New Business Opportunities’ on page 16.

Plans for 2009

Launch global environmental education community investment programme
Review Energy Sector Policy
Support business initiatives to influence public policy on climate change management
Reduce CO ₂ emissions per full-time equivalent from Group business air travel by 10%
Commission and publish further research into public/corporate attitudes on climate change
Climate Change Centre of Excellence to publish further research on climate policy, low carbon activities and emerging economies
Supply chain management: put in place improvement plans for key suppliers
Build more efficient data centres to international green building standards and develop performance metrics
Train a further 400 employees from over 40 countries as HSBC Climate Champions within the business
Include sustainability module in new global induction course for new employees

Summary of performance against commitments for 2008

Commitments	Progress	Commentary
Improve climate risk management across lending and investment book, asset management portfolio, and operational and security risks.	In progress	This process is evolving. For example, we adopted the Climate Principles in 2008 (further information on page 16), improved risk management processes and established an operations team that will examine the operational risks associated with climate change.
Include reduction targets for energy, waste and carbon dioxide in the objectives of the Group Management Board and senior executives in HSBC's 24 largest entities.	Achieved	Targets appear in senior executives' 2008 performance scorecards.
Install solar photovoltaic panels on the roof of HSBC's Group headquarters in London.	Achieved	617 square metres of solar photovoltaic panels were installed in May 2008.
Spend US\$1m on new desk- and room-based video conferencing equipment.	Achieved	Group-wide rollout of video-conferencing and tele-presence suites. Total Group-wide video-conferencing usage in 2008 was 78,512 hours. Total expenditure on new video-conferencing / tele-presence equipment was US\$8.1m.
Roll out software across the Group to enable 300,000 computers to be automatically switched off at the end of each working day, saving about US\$30m per annum in energy cost and CO ₂ emissions.	Achieved	Power-down software deployed on 306,000 computers. Total number of shutdowns in 2008: 6,365,785. This resulted in a reduction of 4,950,000 kWh and saving an estimated 1,915 tonnes of CO ₂ emissions.
Evaluate the risks and opportunities arising from climate change, with the aim of launching a suite of climate change-related insurance products to support customers.	In progress	Launched consumer life, motor, home and travel insurance products linked to environmental protection in Brazil, Mexico, Argentina and Hong Kong.
Conduct a review of the Mining and Metals, and Chemical sector policies.	Achieved	Reviewed and updated to reflect changes in legislation and international best practice.
Embed consistent sustainability learning and development across all of the Group's strategic training programmes.	In progress	Training in place for senior management, graduate induction, and risk management employees.
Raise US\$600m for newly launched environmental infrastructure fund.	In progress	Fund-raising was very challenging in 2008. Despite this, we had a first closing at US\$150m and remain committed to achieve the original fund target. The fund has a seed investment of up to US\$40m in Partnerships for Renewables, a joint venture with the Carbon Trust to develop and manage commercial-scale renewable energy projects on public sector land in the UK.
Integrate environmental, social and governance issues into our investment analysis and decision-making processes.	In progress	Global Asset Management rolled out a comprehensive environmental, social and governance training programme and proprietary intranet service to support our investment professionals worldwide as part of our commitment to the UN Principles of Responsible Investment.
Increase involvement with Junior Achievement worldwide through a global initiative to introduce young children to basic financial skills and involve our employees as volunteers.	Achieved	Launched in June 2008 in schools in 15 countries, the project will involve 100,000 volunteers during 2008, 2009 and 2010.
Increase portfolio disclosure in next year's <i>Sustainability Report</i> .	Achieved	Increased disclosure on sustainability risk management, increased information on treatment of customers and employees.
Grow our sustainable and responsible investment business.	Carried forward	HSBC did not grow sustainable and responsible investments in 2008 due to market conditions.

Engaging our Stakeholders

Last year, we reported on a stakeholder survey conducted to gauge views on the most important sustainability issues for us to address and the effectiveness of our reporting. As a result of the feedback, we made changes to the way we reported in 2007 and we have continued to do so in this report, as we explain in 'About this Report'.

Employees

In 2008, we carried out our second Global People Survey, which was conducted in 26 languages and open to all employees. Promoted by a global internal communications campaign, the survey was accessed via the Group intranet and, in some cases, made available on paper. The 2008 participation rate of 93 per cent, or over 316,000 employees, improved on the 2007 rate of 88 per cent.

The Global People Survey enables the Group to:

- measure employee engagement levels across countries and businesses;
- understand what actions are needed to increase business performance through employee engagement;
- benchmark HSBC both internally and externally;
- measure and reward our senior leaders against engagement improvements.

Employee responses, which are confidential, are handled by an external survey organisation and results are reported back to HSBC at an aggregate level. Managers interpret and act on the results for their teams using an online tool. Action plans can be shared online, and best practice ideas are collated and disseminated across the business.

We report on the main findings and improvement plans in the chapter 'Valuing our People' on page 12.

In our 2008 stakeholder survey, respondents in Latin America identified treatment of employees as the issue of greatest importance to them. Later that year, our employee survey showed an improvement in employee engagement in the region by four points to 72 per cent, and an increased response rate from 87 per cent in 2007 to 99 per cent in 2008. In addition, 74 per cent of employees in the region feel encouraged to participate in community and environmental initiatives, exceeding the benchmark score.

Customers

We set out our approach to engaging with and responding to our customers, a priority stakeholder group, on page 10.

Shareholders

In 2008, HSBC ran a programme of over 700 senior executive meetings with representatives of institutional shareholders in 24 countries and territories. We also met representatives of the Sustainable and Responsible Investment (SRI) sector for one-to-one and small group meetings.

In 2008, key themes arising from meetings with SRI investors included more reporting on social issues such as employee engagement, diversity, talent management and customer issues. We have endeavoured to respond to this feedback by improving our focus on employee and customer issues in this report.

In 2009, we plan to build upon our engagement with SRI investors by meeting them to discuss the key sustainability risks and opportunities in more depth.

We aim to make our sustainability reporting as useful and relevant as possible for SRI investors by responding to selected benchmarking surveys, for example, our submission to the Carbon Disclosure Project, which is publicly available.

We respond to, and participate in, surveys and indices from the following organisations:

- BankTrack
- Carbon Disclosure Project
- Dow Jones Sustainability Index
- EIRIS
- Ethibel
- FTSE4Good
- Oekom
- Sustainable Investment Research International
- Vigeo

Community representatives and charity partners

It is our belief that we can achieve more in the community by working closely with organisations with educational and environmental expertise. For example, the organisations we work with through the HSBC Climate Partnership help us to identify sustainability trends that may be relevant to HSBC now and in the future.

HSBC also works closely with charities and community groups to support retail customers struggling with loan repayments. In the USA for example, we work on homeownership preservation and foreclosure avoidance strategies, broad financial education programmes, and economic empowerment. As such, we have the opportunity to participate in many industry discussions. HSBC executives regularly meet stakeholders including advocates, community groups, regulators and public officials to discuss issues, share goals and successes, and to understand the different products and services offered in the industry. For example, we have partnerships with the National Community Reinvestment Coalition, NeighborWorks America, HOPE Now Alliance, Neighborhood Housing Services of Chicago, the Buffalo Urban League and Belmont Housing Shelter.

Suppliers

In the UK, HSBC chairs an industry-wide working group as part of the

Chartered Institute of Purchasing and Supply that is driving a co-ordinated approach to sustainability within the financial services sector. Working with over 30 major financial services companies with global reach, the group has developed standard tools for use in financial services purchasing. Not only have these tools helped to improve sustainability performance, but the common approach also makes it easier for suppliers to work with financial services companies.

We request information from our suppliers on their sustainability policies. In 2008, we recruited a dedicated resource to take the lead on establishing a closer working relationship with our supplier base to formalise our supplier scoring system. We will be focusing, in particular, on the sustainability performance of our key suppliers and working with them to strengthen their approach.

Non-governmental organisations, campaign groups and trade associations

We engage with campaign groups on matters of shared interest. We are proactive members of a number of multi-stakeholder forums – for example, the Roundtable on Sustainable Palm Oil – where non-governmental organisations are also represented.

We engage with non-governmental organisations globally. For example, the annual Malaysian Forest Dialogue, which provides a platform to discuss the challenges and opportunities in sustainable forestry and the timber trade in Malaysia, has been organised and funded by HSBC in Malaysia since 2006.

Governments

HSBC's Group Chairman and senior executives engage with governments and politicians around the world to raise awareness of HSBC's strong business model and our contributions to society. We aim to promote regulation that encourages efficient, competitive, vibrant and stable financial markets, and provides consumers with the protection they need without creating unnecessary business costs

or revenue risk. We engage with governments to ensure they understand our business decisions. We also promote financial education and inclusion, for example, through our education programme, JA More than Money™.

Regulators

HSBC's operations throughout the world are regulated and supervised by approximately 540 central banks and regulatory authorities. These authorities impose requirements and controls designed to improve financial stability, the transparency of financial markets, and their contribution to economic growth.

The Financial Services Authority (FSA) is HSBC's lead regulator on a consolidated basis, as well as being the financial services regulator for the Group's UK companies. In addition, each operating bank, finance company or insurance operation within HSBC is regulated by local supervisors. The relationship with the FSA is managed by the Group Management Office Compliance team and there is a programme of regular meetings with the FSA for senior executives, including the Group Chairman and Group Chief Executive.

The primary regulatory authorities for the Group are in the UK, Hong Kong and the USA. HSBC maintains an open, honest and transparent relationship with all its regulators. HSBC's policy is to comply with both the letter and the spirit of all relevant laws, codes, rules, regulations and standards of good market practice in each jurisdiction around the world where business is conducted. A global network of Compliance Officers is in place, with established Group policies covering the key areas of risk, including anti-money laundering, counter-terrorism financing, sanctions, bribery and corruption.

HSBC is also a member of the Wolfsberg Group, an association of 11 global banks, which aims to develop financial services industry principles relating to anti-money laundering and counter-terrorism financing.

Priorities for HSBC

We prioritise those issues that present the greatest risk or opportunity to HSBC over the long term. We consider our stakeholders' views and also monitor external trends to identify the economic, social and environmental issues of importance to our business. In the rest of this report, we provide our response to the priority issues covered here.

Global economy

Operating a profitable business is our first priority. This is a prerequisite for all other contributions we make to the economy, society and the environment. 2008 was an extraordinary year for the global economy and financial services sector. The industry's reputation has been hit hard. The culture and ethics of the financial sector have come into sharp focus, and the crisis has reinforced the importance of core business values and strong regulation. Our relationship with governments and regulators around the world is set out in the chapter on 'Engaging our Stakeholders' on page 7. We consider the implications of our business beyond what is legal and profitable. HSBC is not immune from what happens in the economy and this has an impact on our employee base. Regrettably, this led to the loss of jobs in 2008.

Customer relationships

We expect 2009 to be a challenging year. Many of HSBC's customers in various countries are affected by recession. We are working with our corporate clients to review their business needs and, where necessary and viable, restructure their loans. In December 2008, we announced a package of measures to support small business clients worldwide. We also run financial education programmes to help retail customers plan their finances for the longer term. Our approach is given in more detail in 'Working with our Customers' on page 10.

Retaining and developing top talent

Developing and maintaining a strong, motivational culture in a large organisation is a complex undertaking

but is critical to our business. Retaining good people and instilling the right values in the workforce is essential for the delivery of our strategy. HSBC's talent strategy enables the Group to identify and develop talented individuals at an accelerated pace to equip them with the skills for critical roles. The plans and processes we have developed to manage this have many benefits, including a knowledge of our key talent at regional and functional levels, succession planning for high potential employees, and identification of capability strengths and gaps.

We believe that the finance industry must take a more realistic and reasonable approach to remuneration that is genuinely linked to long-term shareholder interests. We explain our approach to managing our talent, incorporating sustainability training into development programmes, and remuneration and reward in 'Valuing our People' on page 12.

Climate change

Managing the challenges of climate change will be one of the greatest tasks of the 21st century. The impacts of climate change can already be seen and there will be a need to invest in adaptation, particularly in the developing world. HSBC has a well-established structure for managing the risk to buildings, people and operations from natural hazards such as earthquakes, hurricanes and volcanoes. A working group has been formed to incorporate the impacts of climate change into this risk model and guide the business accordingly. The working group is drawn from key teams, including corporate real estate, research, strategy, insurance, business continuity and sustainability.

Climate change presents different types of risk for our business and for our clients. It also brings the potential of stimulating a new era of growth, innovation and development. There are opportunities for expanding banking, insurance, investment and trade services to facilitate improvements in energy efficiency and promoting

renewable energy, as well as carbon management and adaptation.

We launched the HSBC Climate Change Centre of Excellence in 2007, which forms part of HSBC's Global Research department. Work at the centre focuses on identifying the economic risks and opportunities of climate change. The centre issued five client reports in 2008 covering climate change investment, the USA, India and the UN Climate Change Conference in Poznan, Poland.

Future social opportunity

Without educated, entrepreneurial individuals operating in thriving societies, our business would not have a future. For HSBC, this means there is a clear case for investing in education and protecting the environment which we believe are essential building blocks for innovation and enterprise. We also have a commitment to microfinance – the provision of small-scale financial services to people in developing economies who would otherwise not have access to such services. See 'Investing in Communities' on page 14, and 'Lending and New Business Opportunities', page 16.

Sustainable use of natural resources

Protection of the earth's natural life-supporting systems is fundamental to any sustainability programme. HSBC's impact arises directly through our own operations and indirectly through the business of our customers. Our strategy is to focus particularly on energy, water, waste and biodiversity, including forestry. We work with our customers to reduce the impact of their business on natural resources: the Equator Principles and our sector policies provide a framework for progress. In last year's report, we focused on forestry; an update on our progress is found in 'Lending and New Business Opportunities' on page 16. For 2009, we plan to update our Energy Sector Policy in light of the changing environmental, social and economic context. We explain how we manage our direct impacts on page 20.

Working with our Customers

HSBC aims to offer customers around the world a consistently high quality service and experience using the benefits of our scale, geographic reach and strong brand. Recently, HSBC was recognised as the number one brand in banking by Brand Finance, an independent consultancy, in a global study commissioned by *The Banker* magazine.

HSBC's total customer loan book by sector 2008		%
Personal		
Residential mortgages		25.6
Other personal lending		20.8
Corporate and commercial		
Commercial, industrial and industrial trade		22.1
Commercial real estate		7.5
Other property-related		3.2
Government		0.7
Other commercial		9.4
Financial		
Non-bank financial institutions		10.5
Settlement accounts		0.2
Total		100.0

Responsible lending

With our robust balance sheet and strong liquidity, we were able to continue to lend in 2008, despite the extraordinary, challenging conditions. We increased our lending to personal, commercial and corporate customers by 9 per cent on an underlying basis while maintaining a conservative advances-to-deposits ratio of 84 per cent. We maintain strict lending criteria, taking into account our customers' ability to repay their loans.

Customer support in a recession

Supporting commercial customers when access to credit became restricted in 2008, HSBC created a new US\$5 billion global working capital fund for small and medium-sized businesses over and above what the bank would normally expect to lend. The fund, drawn from HSBC's own resources, is supplying working capital to help businesses with their cash-flow and international trade needs. The fund

is allocated on a case-by-case basis using our normal lending criteria.

Supporting personal customers

We have focused in this report on supporting customers in the UK and USA as these were the retail markets most affected by the downturn in 2008.

In the USA, HSBC's homeownership preservation programmes have been in place for many years. We work to establish contact with customers experiencing difficulty at an early stage in order to identify options to suit individual situations. We reach customers through telephone calls, structured letter campaigns and the internet, as well as through community groups and consumer advocate organisations. In one initiative, we send customers pre-approved notice of their qualification for a beneficial change in terms.

In 2008, under our foreclosure

avoidance and account modification programmes, we helped our customers by changing terms on 92,500 loans with a value of US\$13.5 billion. In the third quarter of 2008, we increased the use of our foreclosure avoidance and account modification programmes to qualify more customers for longer term assistance – due to the weak housing market and US economy – for payment relief modifications (generally either two or five years) with potentially lower interest rates. This increase in assistance includes our streamlined pre-approved fixed rate modification programme launched in the first quarter of 2008.

In the USA, we work with government agencies and advocacy groups to help our customers avoid foreclosure. In 2008, HSBC supported 63 home preservation events in 21 states and 46 cities, providing assistance to nearly 1,400 customers. Despite our home preservation efforts, HSBC's sub-prime business in the USA foreclosed on one in 15 mortgages in 2008. However, this compares to the 2008 sub-prime industry foreclosure average in the USA of one in six.

HSBC also has several hardship programmes for credit card customers in the USA. Short-term programmes include a reduced interest rate and lower monthly minimum payments. Longer-term assistance includes workout programmes with reduced interest rates based on individual circumstances and referrals to external credit counselling agencies such as the National Foundation for Credit Counseling.

In the UK, HSBC repossessed one in 955 homes in 2008 compared with the industry average of one in 290. In the last year, we have built on our ongoing programme of providing support for UK retail customers struggling to meet payments. Bank branch employees have been trained to offer a wider range of options to customers at an earlier stage to avoid them going into arrears.

Customer service and satisfaction

In 2008, HSBC embarked on a four-year, worldwide programme to develop systems and technology to simplify banking processes for customers. The project, called One HSBC, will ensure that the most appropriate and straightforward banking solutions are available for each customer. The result will be a highly intuitive customer experience available 24 hours a day.

As part of our global project, 'Paperknife', we are seeking ways to reduce paper use in account opening and services. Greater use of online communications can improve our customers' experience – and reduce our use of natural resources. Around 23 million of our personal finance customers and one million of our commercial customers are actively using internet banking.

Customer recommendation is an important driver of business growth. HSBC uses a consistent measure of customer recommendation around the world to continue to improve the services provided to Personal Financial Services and Commercial Banking customers. This measurement is carried out by accredited, independent, third-party organisations, and the resulting recommendation scores are benchmarked against competitors.

The 2008 customer recommendation target for Personal Financial Services increased from +1 to +2, failing to meet the target of +3. Commercial Banking met the target of +7 over competitors, up from +6 in 2007.

In 2009, HSBC has adopted a new benchmark of +1 and a 2009 target of +3 for Personal Financial Services and a target of +4 for Commercial Banking.

Brand perception

In order to manage the HSBC brand most effectively, the Group tracks 'brand health' amongst Personal and Commercial Banking customers in each of our major markets. The survey is conducted on a consistent basis by accredited, independent, third-party

organisations. A weighted scorecard of brand measures produces an overall score for each market on a 100-point scale, which is then benchmarked against HSBC's main competitors. The scores from each market are then weighted according to the risk-adjusted revenues in that market to obtain the overall Group score.

In 2008, Personal Financial Services customers judged HSBC's brand to be 9 points stronger than its competitors (+9), up from 6 points in 2007 and above the 8 point target. Commercial Banking customers judged the brand to be 6 points higher than HSBC's competitors (+6), the same as in 2007.

Customer satisfaction and brand perception metrics are taken into account in the make-up of senior management remuneration.

In 2009, HSBC will track brand health in more countries. HSBC has re-benchmarked its 2008 performance in respect of both brand and customer satisfaction for Personal Financial Services and Commercial Banking. For 2009, the benchmark is +4 with a target of +5 for Personal Financial Services and, for Commercial Banking, the equivalent numbers are +6 and +7.

Sustainable products and services

HSBC's aim is to create products and services that provide environmental and social benefit as well as a commercial return. We also recognise the value of products that engage and inform customers in sustainability issues. We explain our progress in the chapter on 'Lending and New Business Opportunities' on page 16.

Home preservation

'The Delaware Community Reinvestment Action Council and HSBC work together to reach out to the broader community by providing financial education through television programmes, radio shows, seminars and special forums. In 2008, the council began an extensive foreclosure prevention effort, working with HSBC as one of its partners. Over our history of foreclosure prevention through bringing lenders, service providers, homeowners, housing counsellors, attorneys and other resources together, we find that HSBC customers have expressed the greatest satisfaction in having their loans modified on the spot.'

'The council's experience with HSBC in helping our clients has always been positive. HSBC has developed strategic relationships with national organisations such as the National Community Reinvestment Coalition and, recently, Money Management International to have a broader reach in the community to offer loan workouts.'

'In recent months, HSBC has launched YourHomeCounts, a Real Estate Owned Transfer Program, in instances where the homeowner is unable to save their home. Although we recognise the leadership role played by HSBC, much more is expected from the sixth largest company in the world (as ranked by Forbes Global 2000). Today's economic crisis is a tremendous opportunity for HSBC to be the first at the table and stay at the table long after this crisis is over.'

'We look forward to HSBC being the first to respond responsibly to the community's credit needs by serving consumers of financial services through needed education, necessary consumer protections, convenient and competitive financial services, and an environment where they are heard.'

Rashmi Rangan

Executive Director
Delaware Community Reinvestment
Action Council

Valuing our People

Employee engagement

Employee engagement is a measure of employees’ emotional and rational attachment to HSBC. It is critical to the long-term success of the Group, which is why we introduced an annual Global People Survey in 2007 that measures and tracks employees’ responses on a number of themes. The participation rate in 2008 was 93 per cent compared with 88 per cent in 2007.

The 2008 survey covered 13 themes, which included assessing whether action had been perceived to have been taken on the results of the 2007 survey. Employees rated HSBC above the external global norm across all themes. For the second year, the highest performing theme was Corporate Sustainability, which exceeded the external best in class norm by 8 percentage points. Seven out of 10 employees felt that they were actively encouraged to take part in community and environmental initiatives.

Overall engagement is assessed on the basis of four measures: commitment, pride, advocacy and satisfaction. The Group’s employee engagement score rose from 60 per cent in 2007 to 67 per cent in 2008, and exceeded its own target of 62 per cent, the external global norm and the sector norm. This increase was due, in part, to recognition that action has been taken in response to last year’s survey results.

The global norm represents the average score of individuals across all industries and countries in the norm database, run by the external supplier of the survey. The sector norm is derived from the average score of individuals from the global norm who work in the financial services sector, including banking, financial services, investment and accounting firms. We also use a best-in-class benchmark which represents the top 25 per cent of scores for all respondents on a given item or theme. It reflects the ratings provided by the most engaged

individuals across organisations, and is considered to be a high performance standard.

The survey results have been shared with all employees and line managers are accountable for ensuring the prioritised themes are addressed in order to increase engagement in 2009. Specific engagement targets are set for line managers and linked to their performance management and reward. The Group engagement target for 2009 is 69 per cent.

Diversity

HSBC has a long-standing commitment to creating a diverse and inclusive environment reflecting our customer base, international workforce and the communities in which we operate. Diversity is central to our brand, heritage and culture. An appreciation of diverse points of view encourages innovation and drives employee engagement. The results of our Global People Survey show that 70 per cent of employees feel that diverse perspectives are valued – an increase from 68 per cent in 2007 – exceeding the best-in-class benchmark.

Indications suggest that the demographic profile of the global workforce is likely to change significantly in the next few decades due to an ageing population and large-scale migration. In 2008, HSBC established a renewed strategy and governance framework for diversity. Particular focus is given to improving diversity at leadership levels and in the talent pipeline with respect to gender and ethnicity, and addressing barriers to age diversity.

Distribution of employees by region, year-on-year comparison

%	2008	2007
Europe	26.8	26.8
Asia-Pacific	36.2	33.7
North America	14.5	15.8
Latin America	18.6	20.1
Middle East	3.9	3.6

Learning and development

In 2008, we delivered on average 36 hours of learning and development to each individual employee. Delivery through e-learning has grown, from 24 per cent in 2007 to 30 per cent in 2008, with a target set at 50 per cent by the end of 2009. This increased use of e-learning will bring significant benefits to the business, including consistent quality of delivery. E-learning will facilitate access to learning, and sharing of knowledge and ideas.

We continue to ensure that sustainability training is integrated into a number of HSBC’s global leadership and specific risk management programmes ranging from senior management induction for senior new hires to our entry level Group graduate development programme.

Climate Champion Programme

As part of the HSBC Climate Partnership, we have collaborated with Earthwatch to develop a range of sustainability learning programmes. These are spearheaded by the Climate Champion Programme, which involves an intensive, two-week field-based course on sustainability and climate change. More information on the HSBC Climate Partnership is found in ‘Investing in Communities’ on page 14.

Sustainability training programmes 2008	Number of participants
Senior Management Induction Programme	72
Group Graduate Development Programme	494
Next Generation Development Programme	153
Senior Risk Management Workshop	43
Managing Risk for Growth Workshop	169
Climate Champion Programme	333

Group talent strategy

In 2007, we began to reshape our talent management strategy to ensure stronger alignment with our strategic business needs. We developed a clear definition of the general leadership capabilities required to fulfil senior leadership positions.

A number of global processes and programmes are in place to capture and develop talent from graduate entry to the most senior levels of the organisation. For example, members of our global talent pool participate in ongoing learning and networking events attended by the Group Chief Executive and members of the Group Management Board. This helps members of the talent pool understand the direction of our business, and share experiences and best practice across the Group. These executives are supported throughout their careers, offered opportunities for new international roles, and participate in internal and external learning programmes and executive coaching. They are also encouraged to provide mentoring

support to our regional and emerging talent pool.

Pay and reward

HSBC's strategy is to attract, retain and motivate the very best people. We seek to recruit employees who will be committed to a long-term career with the Group, and who are attracted not only by the reward package but also by a meritocratic and competitive organisation with strong and sound values, and career development opportunities. Salaries are reviewed annually in the context of business performance, market practice and internal relativities. Individual performance is judged against both financial and non-financial indicators. We are committed to the principle of sensible market-related pay, structured to align executive performance with long-term shareholder interests. The Remuneration Committee operates according to a set of principles established in 2007. More details can be found in the *Annual Report and Accounts 2008* on pages 303 and 315 or online at www.hsbc.com/annualresults

Managing redundancy

HSBC provides support on a regional basis to employees at risk of redundancy, including specific training for line managers to help them manage change. We always give notice and provide severance pay to affected colleagues as well as support for those seeking job opportunities internally and externally. Regrettably, due to the economic climate, it was necessary to make redundancies in 2008.

Financial education for employees

Recognising that our employees are faced with the same issues and concerns that our customers face, we launched a financial education initiative for our US employees in May 2008, using HSBC's YourMoneyCounts® curriculum and materials. From May to December, over 10,000 employees were reached through a combination of online programmes, awareness promotions and on-site workshops.

Case study: sustainability in the Next Generation Development Programme

HSBC's Next Generation Development Programme is aimed at emerging talent who fall between a graduate entry programme, and a business and regional talent pool. The first phase of the six-month programme requires participants to manage a practical sustainability project as a driver for learning and training, and to increase understanding of sustainability across the organisation.

Phase 1 of the programme is a week-long field project where participants work in cross-cultural teams to act as business consultants to a small business. Projects could be as diverse as producing a marketing plan for a remote rainforest and natural park, or completing a business plan to improve product distribution and profitability for a sugar farm. Participants are also expected to complete a pre-field work assignment to review HSBC's sustainability strategy and consider how it can be applied to their own

business unit or customer group. In the second phase, participants work on real life business projects, which may involve a sustainability component. One team, for example, was tasked with developing sustainable insurance for HSBC in Brazil.

This programme seeks to ensure that future leaders have international experience and a genuine understanding of the importance HSBC places on managing its business for the long term.

Investing in Communities

HSBC has a long-term commitment to the communities in which we work. Many of our key markets are emerging economies. Our operations bring benefits to our host countries through tax contributions, and to local people and businesses through employment, training, purchasing and investment. Beyond the impact of our core business, we also aim to encourage social and economic growth through our community investment activity.

Our educational support focuses on:	Our environmental support focuses on:
Disadvantaged children	Climate change
Financial and business literacy	Freshwater, e.g. rivers
Environmental education and understanding	Biodiversity, e.g. natural habitats

Total community investment donations 2008
US\$102.4m

Total employee volunteering in company time
406,000 hours

We focus our community investment on education and the environment because we believe they provide the fundamental building blocks for the development of communities. We believe that our long-term approach to customer relationships, our global reach and our focus on developing economies and trade help business enterprises to develop. We also realise that our future success depends on continued strong economic growth globally, and that this requires increasingly educated societies, with skilled workforces living in socially and environmentally healthy communities. Active involvement with local community initiatives also motivates and inspires our employees, and helps HSBC to build strong relationships with the communities we serve. We report more on this link in the 'Valuing our People' chapter on page 12.

It is because we recognise the business benefits that we understand the importance of maintaining our community investment in difficult times. We continued to spend around 0.5% of pre-tax profit over the long

term on community investment activities. Our total spending on community investment globally in 2008 was US\$102 million. More details on our regional spending and employee volunteering hours are found in 'Key Facts' on page 24.

Our global programmes are supported by many separate initiatives run at regional or country level.

Education

Our flagship global education initiative is Future First. Launched in 2006, this

five-year, US\$10 million programme is designed to help one million disadvantaged children around the world achieve a better future. In 2007 and 2008, 141 projects across 39 countries benefited some 133,000 homeless and other vulnerable children. Working with our partner SOS Children's Villages and other charities, HSBC's country co-ordinators manage programmes supported by Future First within their countries.

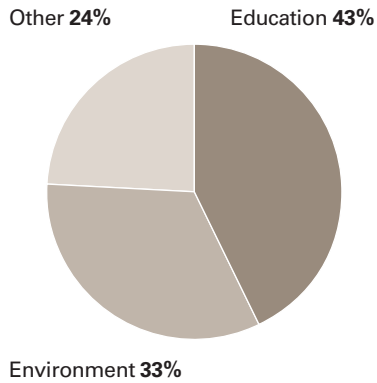
Our global programme that addresses business literacy is JA More than Money™ run in partnership with Junior Achievement Worldwide, an organisation with considerable expertise of teaching finance and entrepreneurship to children. Launched in 2008, the three-year programme aims to reach over 100,000 children across more than 25 countries. HSBC colleagues are involved in classroom activities where they draw on their own skills and experience to teach children about earning, spending, sharing and saving money.

For 2009, we have announced a new environmental education programme, HSBC Eco-Schools Climate Initiative, in partnership with the Foundation for Environmental Education, a Danish-based, non-governmental organisation. The programme will establish an international network of schools to work together to reduce climate change and adapt to its likely effects. The first-year pilot will include Brazil, China, Ireland, Japan, Jordan, Malta, Russia, Slovakia, South Africa, Turkey, the United Arab Emirates, the

Case study: YourFutureCounts™ in the USA

HSBC partners with the Society for Financial Education and Professional Development to provide the YourFutureCounts™ programme, a series of financial education seminars for students at Historically Black Colleges and Universities. These personal money management and credit management seminars are delivered to college juniors and seniors at a critical time – prior to leaving school and entering the workforce – when teaching money management skills is most effective. In 2008, 14,413 students on 71 of the 108 Historically Black Colleges and Universities participated in the seminars, and a total of 48,792 have participated since the YourFutureCounts™ programme began in 2005.

Breakdown of donations 2008



United Kingdom and the United States, with a view to rolling the programme out to more countries in the second year.

Environment

Launched in 2007, the HSBC Climate Partnership is a five-year, US\$100 million commitment to work with The Climate Group, Earthwatch, Smithsonian Tropical Research Institute and WWF to combat climate change by inspiring individuals, businesses and governments worldwide. Achievements in the first 18 months of the programme are set out below.

The Climate Group

The Climate Group has expanded into Europe and the USA, and established offices in China, Hong Kong and India. This has enabled it to recruit over 20 major US, Chinese and European corporate members, as well as regional and city governments such as New York State and New York City. The Climate Group has launched the 'Together' consumer-facing campaign in the UK and USA, without which an additional two million tonnes of greenhouse gas emissions would have been emitted.

Earthwatch

Four Regional Climate Centres have opened in the USA, Brazil, India and the UK to determine how forests are

First 'Mountain Protected Area'

'The Wadi Wurayah project that began the relationship between Emirates Wildlife Society-WWF and HSBC has given us the opportunity to witness HSBC's dedication to its investment in the local community. It is a pleasure to work with a bank that does not shy away from an ambitious environmental programme and who shares our interest in protecting our country's natural environment.'

HSBC has demonstrated a belief in our project that exceeds financial contribution. They have been a proud conservation partner, showing their commitment by creating learning opportunities for their employees through the Wadi Wurayah project and supporting its ultimate goal of

creating the first 'Mountain Protected Area' in the United Arab Emirates.

'We anticipate more involvement from HSBC employees in the local Fujairah branch who are closer to the project site and should therefore have a greater personal stake in its success. This project has a fantastic story to tell – one of history, culture, rich biodiversity and inspirational scientific discovery – as well as involving local schools, university students and professionals. We hope that HSBC will be successful in delivering this message to the local community.'

Razan Khalifa Al Mubarak
 Managing Director
 Emirates Wildlife Society-WWF

being affected by climate change and how they can be better managed for the benefit of local communities. Earthwatch scientists, local community members and HSBC employees have so far conducted over 3,000 days of scientific field research at the Climate Centres. Around 380 HSBC employees from 50 countries have completed an intensive Earthwatch-designed training programme on climate change and sustainability. They are now HSBC Climate Champions, tasked with initiating change within their business area. More than 3,000 HSBC employees have taken part in one-day field projects across the world to address climate change.

The Smithsonian Tropical Research Institute

Large-scale, long-term monitoring plots were launched in Oxford, UK, and at the Conservation Research Centre in Virginia, USA. The plots are almost completed at the Smithsonian Environmental Research Centre in Maryland, USA, the site of the HSBC North American Regional Climate Centre. These are the first large-scale

climate change monitoring systems established in temperate forests. Together, the three plots comprise approximately 60,000 individual trees (52 hectares or about 100 football fields). Research scientists at the plots are currently preparing the first scientific papers to assess forest carbon storage and its likely response to future change. The Smithsonian Tropical Research Institute has also planted 105 experimental plantations that will provide vital information for restoration ecologists and land use managers.

WWF

WWF has helped 33 nature reserves along the Yangtze River in China to join together to manage 14,000 square kilometres of protected wetland. The area will absorb floods, reduce pollution, improve drinking water and safeguard the endangered finless porpoise, found only in the central and lower regions of the river. Projects are also under way to investigate how the river basins of the Amazon, Ganges and Thames can become more resilient to climate change.

Lending and New Business Opportunities

Sustainable finance

HSBC aims to be at the forefront of the development of sustainable business opportunities. We understand that our customers' needs are changing as a result of long-term trends in the global economy – an ageing population; world trade growing faster than gross domestic product; emerging markets growing faster than mature markets; and the impact of climate change necessitating a move to a lower-carbon economy.

The business development team in Group Corporate Sustainability leads a Group-wide effort to identify and evaluate business opportunities that have an environmental and social benefit as well as a viable economic return. The risk team focuses on mitigating any potential social or environmental impacts. Both teams work with customer groups, global businesses and product areas to develop sustainability initiatives and provide specialist guidance on relevant transactions.

HSBC understands the complex economic, environmental and social challenges inherent in formulating a globally co-ordinated strategy to address climate change. Our response to these challenges will present significant commercial opportunities, but will also bring about change to people and communities that will need careful evaluation and management. Our sustainability strategy addresses climate change impacts in-depth and, in particular, we focus on energy, water, waste and biodiversity.

Challenges

The likely impact of the current economic crisis on the transition to a lower carbon economy has been widely debated and has led to challenges to both the economics and financing of new investments in this area. Over the long term however, HSBC anticipates playing a leading role in shaping the market response to these challenges.

The development of low-carbon energy generation capability is a case in point.

Our carbon finance strategy anticipates the emergence of significant growth in alternative energy generation initiatives, and encourages participation in them. At the same time, we acknowledge that conventional generation is likely to be a major factor in most countries for the foreseeable future, particularly in the absence of clear and concrete political or regulatory initiatives to bring about change.

For this reason, whilst we actively seek opportunities to participate in low-carbon, energy financing opportunities, we continue to support fossil fuels, including coal, oil and gas within the boundaries of the Equator Principles, greenhouse gas emission regulations and our own sector-specific risk policies which are detailed later in this chapter.

Regulatory environment

Taking account of the potential impacts of climate change, governments around the world are increasingly mandating change, introducing targets for 'green' power generation and carbon emission reductions. HSBC's Climate Change Centre of Excellence has estimated that governments around the world have allocated more than US\$430 billion in fiscal stimulus packages to key climate change investment themes, such as energy efficiency and water infrastructure. HSBC will continue to review these opportunities to use low-carbon growth as a key lever for business development activity.

Climate Principles

In 2008, HSBC adopted the Climate Principles, a voluntary global framework for the financial services sector to guide its response to climate change and the move to a lower carbon economy. In 2009, HSBC will work with the other members to review the physical impacts and the likely regulatory changes presented by climate change for banks and customers. This will drive change and help develop new business opportunities for HSBC as well as shaping our approach to risk, for example, in relation to the revision of our Energy Sector Policy.

In 2008, we established an internal

'Climate Team', which includes representatives from each of our customer groups, global businesses and key product areas, to ensure adherence to the Climate Principles and to formalise the sharing of best practice across the Group on climate change.

Managing the risks

Assessing the environmental and social impacts of providing finance to our customers has been firmly embedded into the overall risk management processes of the Group.

To ensure consistent analysis and clearance procedures, we introduced the Sustainability Risk Rating system, which allows us to track and rate every corporate customer globally that operates in 'sensitive' sectors and to provide improved data on the Group's exposure to sustainability risk. We believe it is important not only to have sound policies in place, but to implement them transparently. On page 18, there is an example of how our policy is implemented in the forestry sector. In the future, we plan to report more widely on other sectors.

HSBC's approach to these sensitive sector transactions is always to engage with the client to help them meet our policy standards. In that way, we can make a bigger contribution to sustainable development. However, we will exit relationships as a last resort if satisfactory progress is not being achieved and our specifications are not met by the client.

Equator Principles

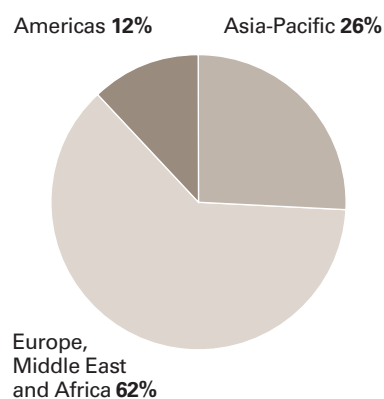
In 2003, HSBC adopted the Equator Principles, a set of voluntary guidelines that help financial institutions assess and monitor the environmental and social impacts of large projects. HSBC voluntarily extends the principles to export finance loans and other facilities where the use of proceeds is known to be directly related to a project. The basis for determining application of the principles is outlined at www.hsbc.com/sus-assurance.

HSBC saw strong growth in its advisory services for large projects

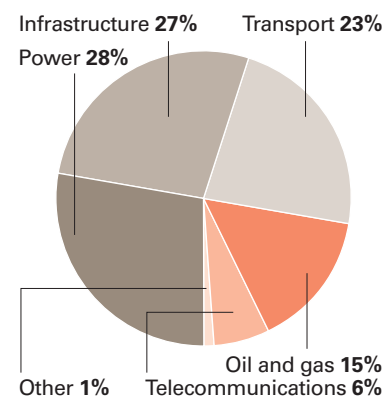
Statement on application of Equator Principles

In 2008, 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 assurance report is on page 27.

Equator Principles: loans by region of borrower 2008



Equator Principles: loans by industry sector 2008



Equator Principles: transactions vetted by HSBC	2008		2007		2006	
	No.	Value (US\$m)	No.	Value (US\$m)	No.	Value (US\$m)
Transactions approved	148	6,842	129	8,705	76	5,171
By mandate						
- Lending	100	6,842	103	8,705	76	5,171
- Advisory	48	n/a	26	n/a	n/a	n/a
Loans by category						
- Category A	3	178	7	1,407	1	80
- Category B	59	4,348	57	5,184	41	2,708
- Category C	38	2,316	39	2,114	34	2,383
Loans by type of facility						
- Project finance loans	47	3,508	63	4,516	42	2,921
- Export finance loans	44	2,403	32	2,878	29	1,350
- Mix of project/export finance	9	931	8	1,311	5	900
Transactions declined	1	n/a	4	n/a	4	n/a
<p><i>Category A: Projects with potentially significant adverse social or environmental impacts that are diverse, irreversible or unprecedented.</i></p> <p><i>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.</i></p> <p><i>Category C: Projects with minimal or no social or environmental impacts.</i></p>						

where the number of transactions almost doubled. Advisory work offers us the ability to influence projects at an early stage and our advice includes adherence to good environmental and social standards. We continue to see a reduction in the number of transactions formally declined under the Equator Principles as our well-trained teams identify potential challenges at an early stage and decide not to participate, or they are able to influence proposals positively.

HSBC is an active member of the Equator Principles Steering Committee. We led the discussions on the Governance Rules for Equator Principles. These are expected to be approved in 2009 and will put in place a more transparent structure, tighten the details around membership and reporting, and encourage the further adoption of good environmental and social standards by financial institutions.

Sector policies

In addition, HSBC has developed a series of policies for sensitive sectors, including Forest Land and Forest Products, Mining and Metals, Chemicals, Freshwater Infrastructure and Energy. These policies cover a wider range of lending activity and are applied regardless of the value of the transaction or size of the business. They outline 'restricted' and 'prohibited' areas of business and set minimum standards in line with, or better than, international good practice guidelines. For a full summary of HSBC's sustainability risk policies, refer to www.hsbc.com/sus-risk.

In 2008, HSBC reviewed and reissued its Forest Land and Forest Product Sector Policy. The revised policy provides additional guidance to our offices to ensure the consistent application of this policy. As a member of the Roundtable on Sustainable Palm

Oil, HSBC has welcomed the progress made in 2008 on oil palm plantation certification and, in 2009, we will look to reflect these improved standards in our policy.

In 2009, HSBC will review its Energy Sector Policy to take into account the changing regulatory environment, new research and developing technologies. The revised policy will provide improved guidance and information on the political, economic, technical and social developments in the sector, with a particular emphasis on climate change.

This process cannot be managed solely at the Group level and we recognise that having expertise at a regional and country level is fundamental. That is why we have invested in a network of sustainability risk managers in 22 countries around the world and why we have implemented specialist training on sustainability risk to the wider risk management community.

Applying the Sustainability Risk Rating system to the forestry sector

The Forest Land and Forest Products Sector Policy was issued in June 2004 when we committed to move our customers towards certification within five years. Overall, we have seen good progress by our customers in this sector, 98% of whom by value met, or were on a credible path to meet, our policy in 2008 as shown in the pie charts. This is a sign of the real success of our policy and we believe that these customers have prepared their businesses better for a sustainable future, in both commercial and environmental terms. We will continue to support customers as they make progress but, in accordance with our original commitment, we will exit relationships with those who are 'non-compliant' in 2009.

Sustainable business development

Addressing the trends shaping the global economy will require a new approach, new technologies, new financial products, new forms of energy generation and new ways of living, all of which will need commercially viable research, finance and investment.

Investing in the future

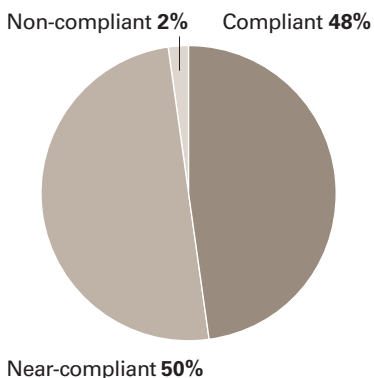
Global Climate Change Benchmark Index

Launched in 2007, the HSBC Climate Change Benchmark Index, has responded to this investment opportunity by providing a comprehensive view of companies focused on developing solutions to combat the effects of climate change across many business sectors. The breadth of the companies listed in the index goes beyond clean energy and the basis for stock inclusion focuses on revenues generated from climate-related services and products.

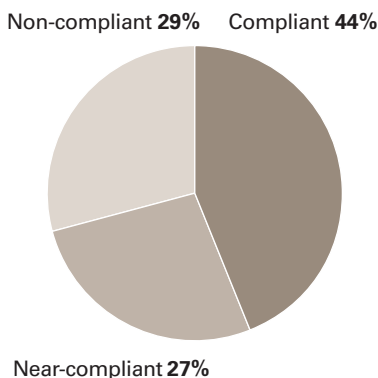
Insurance products and services

In 2008, HSBC's insurance business firmly established sustainability and environmental initiatives as a strategic priority. In Brazil, Mexico, Argentina and Hong Kong, we launched consumer life, motor, home and travel insurance products linked to forest protection and a clean air initiative.

Percentage of clients complying with HSBC's Forest Land and Forest Products Sector Policy, by value of loans 2008



Percentage of clients complying with HSBC's Forest Land and Forest Products Sector Policy, by number of clients 2008



HSBC Insurance Brokers also developed environmental liability insurance, climate risk consulting and renewable energy project insurance.

Access to finance

Microfinance

Microfinance, the provision of small-scale financial services to people in developing economies who would not otherwise have access to such services, presents both financial and social development opportunities for HSBC. Working through microfinance institutions to provide credit, wholesale lending, cash management, remittances, foreign exchange handling and cards, HSBC can demonstrate both commercial return and positive social impact. For example, in India HSBC is currently working with 11 microfinance institutions to provide around US\$38 million (INR1.8 billion) to some 250,000 people in rural and urban areas.

Extending China's rural bank network

HSBC now operates rural banks in China's western, central, northern and eastern regions, offering financial services tailored to the needs of people in rural areas. The banks provide lending services to small-scale enterprises and individuals based on

cash-flow analysis and the evaluation of customers' repayment ability. This helps resolve the problems often faced by rural enterprises and farmers who sometimes lack assets that can be used as traditional collateral. HSBC's rural banks also offer supply-chain financing in co-operation with leading small and medium-sized enterprises that have long-standing relationships with customers.

2009 and beyond

In line with the strategic themes we see as vital to future lending and investment activity, we are working with the HSBC Climate Partnership

organisations to develop our understanding, identify future trends, and prepare the business for the risks and opportunities associated with the water industry, the forestry sector, and emerging markets, specifically China and India.

Our growing employee task force of Climate Champions, created as part of the HSBC Climate Partnership, also has a role to play in identifying and developing new sustainable business opportunities. This focus will also shape HSBC's work with clients and inform our risk management processes in 2009 and beyond.

Case study: Acciona Group

Acciona Energia S.A. is a key HSBC customer in the renewables sector. The company works across the entire range of renewable energy technologies and has considerable assets in wind, mini-hydro, biomass, photovoltaic solar, solar thermal, biodiesel and bioethanol.

HSBC has supported a number of transactions for Acciona across a range of technologies, including solar thermal and wind in Spain, Italy, Greece, South Korea and Australia. Financing renewables projects in these jurisdictions with different regulatory regimes has been challenging but demonstrates HSBC's appetite to seek commercial returns in these new sectors.

The challenge of climate change

'In these uncertain times, HSBC has shown leadership both in its responsible management of the economic challenges of 2008 and in its response and commitment to tackling climate change. The understanding of the challenge we face has shifted dramatically in the past year, not only as a result of the economic crisis, but also as there is a clearer understanding of the magnitude of the risks we face from climate change, and the speed at which the planet is warming.'

'With a long-term horizon and a global outlook, HSBC continues to analyse carefully policy options, risks and opportunities linked to climate change. The Group has remained committed to sharing ideas with both clients and employees on the business implications of climate change, and is pushing forward to develop products and policies in a challenging economic environment. The HSBC Climate Change Centre of Excellence's substantive research has made an important contribution to policy analysis and recommendations in the run-up to the United Nations climate change conference in Copenhagen in December 2009. Further, by reaching out to its stakeholders and engaging in the

public debate on climate change in developed and developing countries, HSBC is playing an important role in identifying and shaping key drivers for low-carbon economies.'

'We can learn an important lesson from the economic crisis: the longer risk is misunderstood and ignored, the greater the consequences. We must not make the same mistake with climate change. And we must avoid the mistake of sowing the seeds of the next bubble as happened after the dotcom collapse at the turn of the decade. As we try to emerge from this slow-down, low-carbon technologies will drive growth over the coming two to three decades.'

'This slow-down presents an opportunity to bring forward some of the necessary investments to create a low-carbon economy. For HSBC, this will be a key driver of growth and competitiveness.'

Lord Stern

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

Direct Impacts

HSBC aims to reduce the direct environmental impacts arising from the operations of our business. Our operations cover HSBC's 10,000 buildings, IT infrastructure, goods and services purchased and business travel.

Energy use is our most significant environmental impact. The remainder of our environmental footprint arises from our water and paper use, carbon dioxide emissions from business travel, and our production of waste.

Along the supply chain, we need to ensure that any disruption or damage to society and the environment is minimised. We are in a strong position to support and educate our suppliers on sustainability issues, and we can play an important role in helping to set high standards by doing so.

Commitment to carbon neutrality
HSBC has been carbon neutral since 2005. We have achieved this by cutting energy consumption and business travel in line with our targets

and driving further efficiency savings by implementing new innovation and technology in HSBC's operations. We also source renewable energy in countries where this is possible.

We offset the remaining emissions by purchasing verified emission reductions (VERs) from high quality projects. In 2008, these included industrial energy efficiency projects in China and India, a Hungarian biomass project, as well as several small hydro-electric projects in China. The projects have been approved by the UN Clean Development Mechanism, and the offsets have been assured to the Voluntary Carbon Standard. The cost of the offsets is charged to the HSBC entity concerned, which acts as a further incentive for HSBC offices to reduce their emissions.

Innovation and technology
HSBC's Global Environmental Efficiency Programme is investing US\$90 million over five years (2007-11) to promote innovative and technology-driven environmental initiatives. The projects support HSBC's environmental reduction targets as well as the rollout of low carbon and environmental technology into our property portfolio and other infrastructure.

Since the programme's launch in 2007, HSBC has invested over US\$60 million. In 2008, the money was used, for example, to install solar panels in the UK, the USA, Mexico, Brazil, Argentina, Hong Kong and Malta, covering a total of 1,500 square metres. We have also applied environmental benchmarks to eight of HSBC's main buildings, with 17 more currently being constructed or refurbished to international standards such as BREEAM (UK Building Research Establishment's Environmental Assessment Method) and LEED (Leadership in Energy and Environmental Design) green building rating systems.

Managing performance
HSBC has an international network of employees with specific

Statement of HSBC's carbon emissions and offsets resulting in carbon neutrality		
	CO ₂ tonnes 2008	CO ₂ tonnes 2007
Emissions from energy use in buildings, including data centres	788,000	774,000
Less US purchased renewable energy certificates	(167,000)	(56,000)
Net emissions from energy use in buildings, including data centres	621,000	718,000
Emissions from business travel	166,000	179,000
Net total emissions	787,000	897,000
Carbon offsets purchased	787,000	897,000

HSBC's reporting guidance for emissions and offsets is available at www.hsbc.com/sus-assurance. See page 27 for assurance report.

Operations Working Group aims

Project	Aim
Travel	2009: 10% reduction in carbon dioxide per FTE from business air travel
Paper	2009: issue paper purchasing policy 2010 onwards: year-on-year reduction targets
Data centres	Build more efficient data centres to international green building standards and develop performance metrics
HSBC@work	Implement technology and modernise working space to reduce environmental impact
Leadership, training and communication	Drive ownership and accountability for sustainability issues for senior managers

Group targets (excluding data centres)	Reduction targets per full-time employee for the period 2008-11 %	Reductions achieved in 2008 per full-time employee %
Energy use from buildings	- 8	- 4.6
Water use	- 11	- 9.9
Waste to landfill	- 10	- 15.5
Carbon dioxide from energy used in buildings	- 6	- 4.7

responsibilities for measuring and managing performance against targets. In 2008, we introduced environmental criteria into personal performance objectives for the Group Management Board and regional heads.

In 2008, we established a new working group comprising heads of sustainability for Corporate Real Estate, IT and Purchasing, with the aim of embedding the management of our direct impacts in operational business units. The Operations Working Group has been tasked with achieving the aims shown in the table opposite by integrating sustainability into their functional strategies.

Data and targets

Using a Group-wide online system, our energy, water, waste and carbon dioxide emissions data are collected from 37 countries representing 95 per cent of HSBC employees.

In 2008, HSBC set new four-year targets for reducing consumption of energy and water, and production of waste and carbon dioxide from energy. These apply to HSBC's offices and branches in 23 countries and territories where 91 per cent of our employees are located, and to our global service and technology centres. Data centres are excluded. We have established local teams to deliver cost-effective environmental impact reduction programmes.

We do not include data centres in the targets as HSBC is in the process of

building new more efficient data centres and rationalising capability across our global operations. This impacts the energy consumption as facilities are moved, which temporarily distorts the environmental performance across the Group.

Data centres are important to the Group's environmental footprint. For this reason, in 2008 we started independently monitoring their environmental footprint and will set specific reduction targets starting in 2010.

Total emissions from energy use in all buildings has increased by 1.5 per cent over the last year. However, as shown in the table above, for those parts of the Group where targets have been set (excluding data centres), energy use reduced by 4.6 per cent in 2008 when normalised by the number of full-time equivalent employees.

Travel-related emissions accounted for 21 per cent of the Group's total carbon dioxide footprint in 2008 of which 64 per cent comes from air travel. Emissions from travel decreased by 7 per cent in 2008. We agreed new three-year targets for business air travel for the Group, which will start in 2009. The initial aim is a 10 per cent reduction in carbon dioxide per full-time employee from combined long- and short-haul flights (based on a 2008 baseline), with a further 5 per cent reduction for each year in 2010 and 2011.

Supply chain

In 2008, we continued to request information about sustainability criteria from prospective suppliers as part of the 'request for proposal' process. We ask suppliers to audit and monitor their practices to ensure compliance with our code of conduct, including social factors such as labour rights and working conditions, along with environmental improvement strategies. We have continued to use third-party audits to evaluate the performance of selected suppliers to ensure compliance with HSBC standards and local laws.

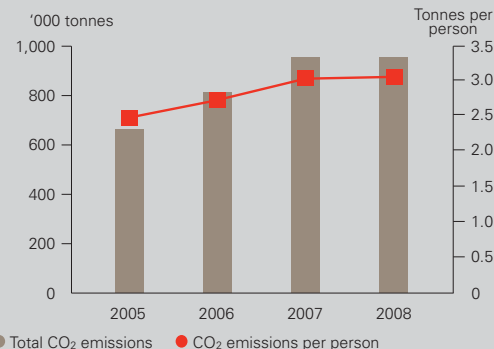
In 2008, we piloted a programme to assess and rate our potential suppliers during the tendering process through a weighted scorecard that included social and environmental criteria. A full-time post was created with a global remit to roll out this project, co-ordinate management of sustainability in the supply chain and drive improvements in suppliers' performance. To support this, a purchasing and sustainability working group was established with participants from each of HSBC's regions.

Accounting for Sustainability

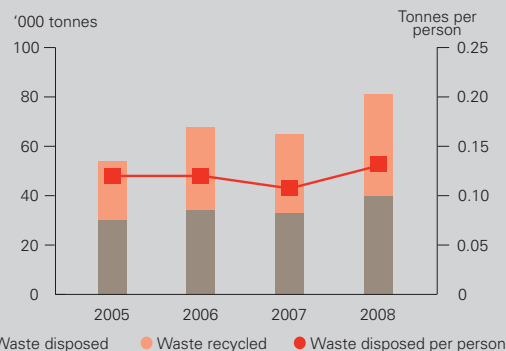
	Financial performance US\$m			
	2005	2006	2007	2008
Greenhouse gas emissions CO₂				
HSBC Global Environmental Efficiency Programme sustainability expenditure on green travel	n/a	n/a	2.0	1.1
HSBC Global Environmental Efficiency Programme sustainability expenditure on energy reduction‡	n/a	n/a	21.0	36.0
Environmental target-driven savings from reduced offset costs	n/a	0.8	0.9	0.2
‡ Repeated below, under energy				
Waste: non-hazardous				
Total disposal cost	n/a	n/a	n/a	5.1
HSBC Global Environmental Efficiency Programme sustainability expenditure	n/a	n/a	n/a	2.7
Resource usage: water				
Operating expenditure	n/a	n/a	n/a	6.3
Environmental target-driven savings	n/a	0.2	0.7	0.5
HSBC Global Environmental Efficiency Programme sustainability expenditure	n/a	n/a	n/a	0.2
Energy				
Operating expenditure	191.0	238.0	269.0	338.5*
HSBC Global Environmental Efficiency Programme sustainability expenditure on energy reduction	n/a	n/a	21.0	36.0
Environmental target-driven savings from improved efficiency	n/a	5.5	10.5	7.3

* Extrapolated from the 2007 figure using the total 2008 energy figure which includes local authority rates

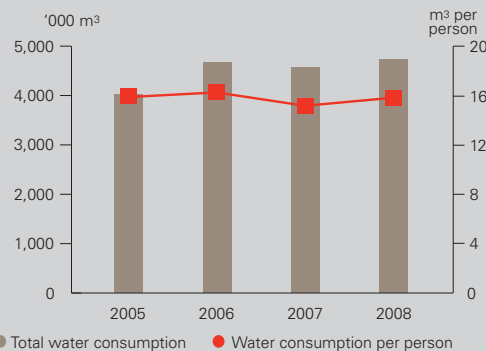
Total CO₂ emissions



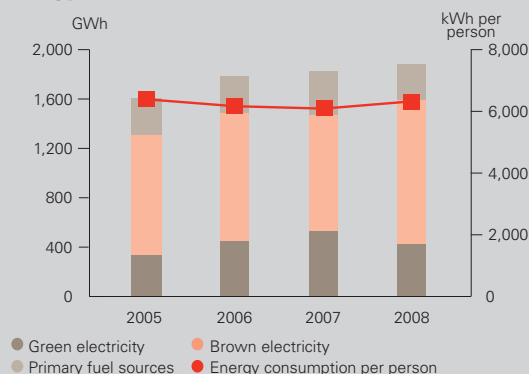
Waste



Water



Energy



About Accounting for Sustainability

The Prince of Wales's Accounting for Sustainability Project seeks to develop systems to help public and private sector organisations assess the wider social and environmental costs of their activities. In 2008, HSBC continued to participate in the development of the connected reporting framework, an approach to reporting an organisation's environmental footprint and its financial impact. Here, for the second year, we apply the connected reporting framework to our data.

The Targets

We evaluate the management of our direct environmental impacts by looking at our performance against targets. These are set for energy, water, waste and carbon dioxide emissions from energy, which cover HSBC's branches and offices, but exclude data centres.

Energy

Energy use in all buildings has increased by 2.8 per cent over the last year. However, for those parts of the Group where targets have been set (excluding data centres), energy use was reduced by 4.6 per cent in 2008 when normalised by the number of full-time equivalent employees. This was achieved through the implementation of environmental initiatives such as:

- the installation of 'intelligent' lighting systems, and efficient air conditioning and heating equipment;
- the use of renewable technologies such as ground source heat pumps, solar thermal and photovoltaic panels, and micro wind turbines.

However, total energy consumption increased overall for a number of reasons. In response to increased demand for more sophisticated data applications, HSBC has committed several hundred million dollars to a programme of building new, more efficient data centres across the world. As these are brought online, our total energy consumption will increase. In 2008, our business in

Asia-Pacific expanded and employee numbers increased by 10 per cent.

In 2008, our two new data centres received the top environmental awards: a Hong Kong Building Environmental Assessment Method 'gold' rating in Hong Kong and a BREEAM Bespoke 'excellent' rating in the UK. These awards recognise the role HSBC has played in facilitating the development of new technologies and innovation.

Carbon dioxide

In 2008, HSBC's carbon dioxide emissions dropped by 4.7 per cent per employee in the branches and offices subject to targets, but our total carbon dioxide emissions from energy in our buildings increased by 2 per cent.

- Our operations in France, Switzerland and Brazil achieved savings of more than 10 per cent by procuring lower carbon emission energy from local generators;
- We achieved a reduction of 10 per cent in our carbon dioxide emissions in North America when we moved to new LEED (Leadership in Energy and Environmental Design) gold-accredited offices and in HSBC's global technology centres in India.
- We purchased US renewable energy certificates as outlined on page 20.

Overall, carbon dioxide emissions stayed approximately the same as in 2007, due to the reductions in emissions from business travel.

Waste

In 2008, we achieved a 15.5 per cent

reduction in waste disposed to landfill, helped by the following initiatives.

- Recycling schemes were introduced across HSBC's property portfolio, achieving reductions of over 25 per cent in the USA, Brazil, the UK, France, Germany, Switzerland, Japan, South Korea and in the service centres in the Philippines and China.
- Our recycling rate in the UK rose from 49 per cent in 2007 to 54 per cent in 2008 due to the implementation of a consolidated commercial waste management programme across our branch network.

The total volume of waste HSBC generated increased by 26 per cent to 80,900 tonnes, 51 per cent of which was recycled. The increase was due to improved coverage of our data collection and business expansion in Asia-Pacific. We have also included data for construction waste from a number of countries that had substantial branch opening programmes in 2008.

Water

HSBC's water consumption decreased by almost 10 per cent per employee in offices and branches. Our total water consumption increased by 4 per cent to 4.7 million m³ in 2008. This is due to business expansion in the Asia-Pacific region, the conversion to more energy efficient water-cooled chillers at our Hong Kong head office, and increased demand for cooling at new data centres.

Case study: award-winning 'green' building

In 2008, HSBC's North America headquarters building in Mettawa, Illinois, received the Leadership in Energy and Environmental Design (LEED) gold certification from the US Green Building Council. The building has installed water-efficient equipment, achieving savings of over 30 per cent compared with current best practice design. Other 'green' features include drought-resistant landscaping that reduces irrigation, a partial green roof, and the use of rainwater for toilet flushing and irrigation. Ninety per cent of the building's waste is composted or recycled and 100 per cent of its electricity comes from renewable sources.

Key Facts

	Units	2008	2007	2006	2005
Number of countries and territories with HSBC offices		86	83	82	76
Total employees including part-time (at year-end)		325,000	330,000	312,000	284,000
Number of full-time equivalent employees (at year-end) ¹		312,866	315,520	298,704	268,471
Number of customers		100 million	128 million	125 million	125 million
Benchmarks					
Dow Jones Sustainability Index (since 2001)		member	member	member	member
FTSE4Good (since 2001)		member	member	member	member
Accountability Rating of the Fortune Global 50		3rd	4th	7th	4th
Interbrand top 100 brands (value)		27th (US\$13.1b)	23rd (US\$13.6b)	28th (US\$11.6b)	29th (US\$10.4b)
Top 500 Bank Brands 2008: <i>The Banker</i> magazine		1st	1st	n/a	2nd
Economic					
Total operating income	US\$m	88,571	87,601	70,070	61,704
Profit before tax	US\$m	9,307	24,212	22,086	20,966
– UK	US\$m	6,685	5,792	4,791	4,280
– Hong Kong SAR	US\$m	5,461	7,339	5,182	4,517
– France	US\$m	2,840	1,033	870	833
– China (mainland)	US\$m	1,605	2,361	708	334
– Brazil	US\$m	910	879	526	406
– United Arab Emirates	US\$m	861	617	425	342
– Canada	US\$m	839	983	896	855
– Mexico	US\$m	714	980	1,009	923
– India	US\$m	666	529	393	212
– Singapore	US\$m	597	550	365	289
– USA	US\$m	(16,543)	(1,066)	3,612	4,935
– Other	US\$m	4,672	4,215	3,309	3,040
Dividends	US\$m	11,301	10,241	8,769	7,750
Total shareholder return against peer index over 1 year					
– HSBC		84.5	95.6	104.6	111.3
– Benchmark		71.7	107.4	114.4	120.8
Taxes to governments	US\$b	4.4	5.3	6.4	6.2
Distributions to shareholders and minority interests	US\$b	11.3	10.2	9.9	8.5
Employee remuneration	US\$b	19.1	19.7	17.3	15.1
Spending for premises and procurement	US\$b	15.0	14.9	12.7	11.1
Social					
Headcount					
By employment type					
– Full-time	%	94.4	94.3	93.9	93.0
– Part-time	%	5.6	5.7	6.1	7.0
By employee contract					
– Permanent	%	99.2	98.2	99.0	99.2
– Temporary	%	0.8	1.2	1.0	0.8
By region					
– Europe	%	26.8	26.8	23.9	25.4
– Asia-Pacific	%	36.2	33.7	32.2	29.5
– North America	%	14.5	15.8	20.2	21.6
– Latin America	%	18.6	20.1	20.5	20.6
– Middle East	%	3.9	3.6	3.2	2.9
Employee turnover					
– Europe	%	19.2	17.1	19	18
– Asia-Pacific	%	21.1	22.8	15	17
– North America	%	24.2	24.3	20	21
– Latin America	%	24.6	21.8	20	9
– Middle East	%	11.1	14.4	11	10
– All staff	%	21.3	21.0	18	16

¹ 2007 and 2006 FTE figures have been restated following Annual Report and Accounts 2008.

	Units	2008	2007	2006	2005
Gender by management type					
Senior managers: male / female	%	86 / 14	82 / 18	83 / 17	75 / 25
Middle managers: male / female	%	69 / 31	69 / 31	70 / 30	70 / 30
Junior managers: male / female	%	54 / 46	54 / 46	54 / 46	53 / 47
Staff: male / female	%	40 / 60	40 / 60	39 / 61	37 / 63
Gender by region					
Europe: male / female	%	44 / 56	44 / 56	44 / 56	43 / 57
Asia-Pacific: male / female	%	49 / 51	48 / 52	47 / 53	45 / 55
North America: male / female	%	40 / 60	40 / 60	41 / 59	43 / 57
Latin America: male / female	%	47 / 53	47 / 53	48 / 52	47 / 53
Middle East: male / female	%	64 / 36	65 / 35	66 / 34	65 / 35
Health and safety²					
Number of employee workplace fatalities		1	0	0	2
Accidents involving more than 3 days' absence per 100,000 employees		101	97	88	134
Reportable injuries per 100,000 employees (UK)		³	163	152	162
All accident rate per 100,000 employees		384	n/a	n/a	n/a
Community investment					
Corporate charitable donations	US\$m	102.4	100.9	86.3	81.4
– Europe ⁴	US\$m	46.8	42.2	n/a	n/a
– Asia-Pacific (includes Middle East and Africa)	US\$m	12.9	12.7	n/a	n/a
– North America	US\$m	33.0	38.8	n/a	n/a
– Latin America	US\$m	9.7	7.2	n/a	n/a
Management costs associated with community investment	US\$m	10.3	9.2	n/a	n/a
Employees' community voluntary work	hours	694,000	581,000	302,000	280,000
– Work time	hours	406,000	338,000	145,000	n/a
– Own time	hours	288,000	243,000	157,000	n/a
– Europe	hours	141,180	96,676	n/a	n/a
– Asia-Pacific (including Middle East and Africa)	hours	128,785	118,394	n/a	n/a
– North America	hours	114,736	120,741	n/a	n/a
– Latin America	hours	21,096	2,701	n/a	n/a
Value of volunteering hours on work time ⁵	US\$m	12.9	9.5	n/a	n/a
– Europe	US\$m	5.7	4.0	n/a	n/a
– Asia-Pacific (includes Middle East and Africa)	US\$m	1.6	1.2	n/a	n/a
– North America	US\$m	5.3	4.2	n/a	n/a
– Latin America	US\$m	0.3	0.2	n/a	n/a
Value of total community investment	US\$m	125.6	119.6	n/a	n/a
Environment					
Environmental data coverage	Scale 1-10	9.4	8.5	7.6	7.4
Environmental data quality	Scale 1-10	7.9	8.1	7.6	7.8
Environmental reporting coverage	Full-time equivalent	298,527	298,738	288,822	252,914
Coverage as % of Group	%	95	95	96	94

² In 2008, we amended our indicator set for health and safety to enable a better presentation of data coverage across the Group.

³ Indicator replaced by global accident rate per 100,000 employees.

⁴ Includes donations for global programmes, of which US\$22.3 million was spent outside of Europe.

⁵ Calculated using methodology from the London Benchmarking Group.

Key Facts (continued)	Units	2008	2007	2006	2005
Total carbon dioxide emissions⁶					
Total CO ₂ emissions	tonnes	954,000	953,000	813,000	663,000
CO ₂ emissions from energy	tonnes	788,000	774,000	634,000	539,000
CO ₂ emissions from business travel	tonnes	166,000	179,000	179,000	124,000
Total CO ₂ emissions per person ⁷	tonnes	3.05	3.02	2.72	2.47
CO ₂ emissions per person from energy	tonnes	2.52	2.45	2.12	2.01
CO ₂ emissions per person from business travel	tonnes	0.53	0.57	0.60	0.46
CO ₂ emissions per m ²	tonnes	0.15	0.15	0.13	0.11
CO₂ emissions per person⁸					
– Europe	tonnes	1.94	1.88	1.86	1.75
– Asia-Pacific	tonnes	3.06	3.00	2.87	3.28
– North America	tonnes	4.94	4.32	5.01	3.84
– Latin America	tonnes	2.09	1.57	1.43	1.21
– Middle East	tonnes	6.08	5.56	4.77	n/a
Environmental resource efficiency⁸					
Total energy consumption	gigawatt hours	1,884	1,832	1,780	1,610
Energy consumption per person	kWh/full-time equivalent	6,310	6,134	6,163	6,366
Energy consumption per m ²	kWh/ m ²	300	291	283	268
Total electricity consumption	gigawatt hours	1,591	1,515	1,486	1,313
Electricity (brown)	gigawatt hours	1,165	985	1,032	971
Electricity (green)	gigawatt hours	426	530	454	342
Primary fuel sources (gas, oil, diesel, etc)	gigawatt hours	293	317	294	297
Total waste produced	kilotonnes	81	64	68	54
Waste disposed per person	tonnes/full-time equivalent	0.27	0.11	0.12	0.12
Waste disposed	kilotonnes	40	32	35	30
Waste recycled	kilotonnes	41	32	33	24
% Recycled	%	51	50	49	44
Total water consumption	thousand m ³	4,723	4,638	4,687	4,041
Water consumption per person	m ³ /full-time equivalent	15.8	15.5	16.2	16.0
Business travel⁸					
Total business travel	million km	1,132	1,227	1,200	850
Business travel per person	km/full-time equivalent	3,791	4,107	4,155	3,361
Air travel	million km	846	883	831	557
Domestic air travel	million km	158	198	228	108
International air travel	million km	688	685	603	449
Rail travel	million km	26	28	21	21
Road travel	million km	217	252	283	233
Other travel	million km	43	64	65	39

⁶ 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. Our 2007 report deducted renewable energy certificates from these figures. This year we have adjusted 2007 data for consistency.

⁷ CO₂ emissions per person data for 2005 has been restated to correct a calculation error.

⁸ These figures are based on data collected from HSBC's regional reporting units covering 95% of full-time equivalent.

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 2008*.

Scope and subject matter

The Selected Information for the year ended 31 December 2008 subject to limited assurance consists of:

- Statement on application of the Equator Principles on page 17;
- Statement of HSBC's emissions and offsets resulting in carbon neutrality on page 20.

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 the Reporting Guidance.

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 2008, 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 on 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 the 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 Corporate Sustainability Committee.
- Evaluating the design and implementation of the key processes and controls for managing and reporting the selected data.
- 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 for 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 the 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. 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 2008, the Selected Information has not been fairly stated in all material respects in accordance with HSBC's Reporting Guidance.



PricewaterhouseCoopers LLP
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London
8 May 2009

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