



UN Global Compact Communication on Progress 2011

Statement of continuing support

It is twelve years since HSBC signed up to the UN Global Compact; one of the first businesses to do so following its launch. During those twelve years, we have maintained and strengthened our commitments to the UN Global Compact and have ensured that sustainable business is a principle running through all that we do.

At HSBC, we run our business for the long term, making a positive contribution to the economy, environment and society, and looking to the needs of future generations. As Chairman of HSBC, I have some 270,000 colleagues in 84 countries and territories across the world. Our work impacts on the lives of millions of people; customers, businesses, governments and communities all depend on us. It is a huge responsibility and it is right that we always strive to act with courageous integrity, focusing on long-term growth over short-term gain.

In 2011, we put a new emphasis on values; empowering colleagues to manage change, do the right thing and act with courageous integrity in delivering for our customers and shareholders. We continued to invest in the long-term future of the communities in which we operate. This saw us donating US\$96 million through our community investment programmes last year. We focus specifically on education and the environment; both essential foundations for socio-economic development.

HSBC is committed to being open and honest about our performance against our goals and constantly seek to review and renew our commitments. It is in that spirit that we renew our continuing support of the United Nations Global Compact and its ten principles.

A handwritten signature in black ink, appearing to read "Douglas Flint", with a horizontal line underneath.

Douglas Flint
Group Chairman, HSBC Holdings plc
August 2012

UN Global Compact Principles	GRI Indicators
<p>Principle 1: Business should support and respect the protection of internationally proclaimed human rights</p> <p>Policies: HSBC Values and Business Principles, HSBC Code of Conduct for Suppliers, HSBC Group Standards Manual</p> <ul style="list-style-type: none"> - HSBC has expressed its support for the UN Universal Declaration of Human Rights since 2004, and states this publicly on the Group website. - HSBC also supports the Equator Principles, the Extractive Industry Transparency Initiative, the Global Business Coalition on HIV/AIDS, the UNEP Finance Initiative, and the Wolfsberg Principles. - HSBC's Values are to be open to different ideas and cultures; connected with our customers, communities, regulators and each other, and dependable and doing the right thing. This includes our commitment to ethical and sustainable business practice and taking responsibility for the social and environmental impacts of decisions, including in relation to lending and investment. <p>Progress:</p> <ul style="list-style-type: none"> - In 2011 we have worked to strengthen our values-led culture by embedding the Values into operating standards, strategic learning programmes, employee development, induction, individual assessment, and through the personal sponsorship and role-modelling of senior executives. We expect all employees to lead with courageous integrity. - Governance of the Values is overseen by a Corporate Citizenship Committee, which is accountable to the Group Management Board. - Our most senior employees had a separate values rating for 2011 which directly influenced their overall performance rating and, accordingly, their variable pay. - We continue to enhance our values-led culture by embedding HSBC Values into how we conduct our business and through the personal sponsorship of the Group Chief Executive and senior executives. These initiatives will continue in 2012 and beyond. 	<p>4.8 4.12 LA7 LA8</p>
<p>Principle 2: Businesses must ensure their own corporations are not complicit in human rights abuses</p> <p>Policies: HSBC Values and Business Principles, HSBC Code of Conduct for Suppliers</p> <ul style="list-style-type: none"> - HSBC Group businesses are required to develop a Code of Conduct which includes, among other elements, a commitment to comply with the letter and spirit of all laws and regulations; a commitment to truth and fair dealing; conduct of personal affairs including rules governing the acceptance or offering of gifts, favours, services, hospitality, loans or fees, or anything of monetary value; and whistle-blowing procedures. - HSBC's Supplier Code of Conduct, required of all third party 	<p>SO1 HR1 HR2</p>

<p>suppliers, encourages consideration of key human rights issues such as child labour, discrimination and working conditions throughout the Supply Chain. It also states that suppliers must comply with HSBC's environmental, social and ethical standards for our supply chain, which includes respecting the human rights of the communities in which they operate.</p> <ul style="list-style-type: none"> - Any HSBC Group employee who becomes aware of matters of concern, including the health and safety of an individual being endangered or the environment being damaged, may make a disclosure on an anonymous or confidential basis via the Compliance Disclosure Telephone Line or in writing to the Head of Group Compliance without fear of reprisals or retaliation of any kind. - Assessing the environmental and social impacts of providing finance to our customers, including human rights issues, has been firmly embedded into the overall risk management processes of the Group through our application of the Equator Principles and sustainability policies for sensitive sectors. These include Chemicals, Mining & Metals, Energy, Freshwater Infrastructure, Forest Land and Forest Products, and Defence Equipment. <p>Progress:</p> <ul style="list-style-type: none"> - We have rolled out Core Sustainability Assessments for key suppliers on a trial basis and are currently putting together plans to roll this out as a fully integrated online tool between 2012 and 2013. - In 2011, HSBC launched the HSBC Supply Chain CO₂llaboration initiative, focused on developing long term strategic relationships with a number of major suppliers to deliver mutual commercial and sustainability benefits - These collaborative relationships will rely on a greater degree of openness, communication, mutual trust and information sharing. The relationships must be proactive rather than reactive and include not only suppliers and buyers, but also Sustainability, R&D and Innovation departments. - The sector sustainability policies are applied to all lending and other forms of financial assistance, primary debt and equity markets activities, project finance and advisory work. Some 41,000 customers have been assessed against our sector policies. - We have sustainability risk managers in every region and offer comprehensive training for employees who are required to assess sustainability risk. A new e-training module on sustainability risk was launched in July 2011. By December 2011, over 4,000 employees had completed this course and, in total, over 6,000 employees have been trained in managing sustainability risk. - 	
<p>Principle 3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining</p> <p>Policies: HSBC Group Standards Manual, HSBC Code of Conduct for Suppliers</p> <ul style="list-style-type: none"> - HSBC employees are made aware of their rights through written contracts, the employee handbook and the intranet. - HSBC engages with recognised unions through well-developed communications and consultation programmes. Group HR policy 	<p>LA4 LA5 HR5</p>

<p>states that where trade unions or other employee representatives are recognised by the Group, organisation change should be managed in consultation with them, and that all organisation change should respect local custom and legal or regulatory requirements.</p> <ul style="list-style-type: none"> - The HSBC Code of Conduct for Suppliers states that suppliers must not hinder the right of workers to legally organise and join associations such as labour unions. - Every two years, HSBC conducts the Global People Survey. The survey gives employees the opportunity to provide feedback on their experience of HSBC and involves them in identifying actions to improve their experience. <p>Progress:</p> <ul style="list-style-type: none"> - It is HSBC's policy to maintain well-developed communications and consultation programmes with unions and there have been no material disruptions in its operations from labour disputes during the past five years. - Management across the Group actively supports Employee Networks (e.g. the Women's Development Association, Disabled Employees Network), Town Hall events (with open forums and Q&A sessions) and open two-way dialogue (through an initiative called Team Talk). - 81% of our employees responded to the Global People Survey in 2011 and the overall employee engagement score in 2011 was 69%, an improvement of one percentage point on 2010. HSBC's engagement score is three points below the global best-in-class, but we are ahead of global and financial services averages (which are 62% and 67% respectively). - 77% of employees reported that they have seen action taken as a result of the 2010 survey. Line management is required to develop action plans to address employee concerns highlighted by the Global People Survey. The next survey will be in 2013. 	
<p>Principle 4: Business should support the elimination of all forms of forced and compulsory labour</p> <p>Policies: HSBC Values and Business Principles, HSBC Code of Conduct for Suppliers, HSBC Group Standards Manual</p> <ul style="list-style-type: none"> - All HSBC employees have contracts which clearly indicate the voluntary nature of their employment and procedures for ceasing employment. - Our Code of Conduct for Suppliers states that they must prohibit the use of forced labour and give workers, whether local or migrant, the right and the ability to leave employment when they choose. - HSBC's policy for lending to the Mining and Metals sector specifically references the principles of the UN Global Compact. HSBC's risk teams use the policy to assess the potential social and environmental impacts of our customers. <p>Progress:</p> <ul style="list-style-type: none"> - At the end of 2011, only 0.15% of our customers were non-compliant with our sector sustainability policies, down from 0.2% in 2010. This 	HR7

<p>decrease is mainly due to HSBC exiting relationships with the customer when a loan commitment expires, but also reflects the movement of some customers into the 'near compliant' category.</p> <ul style="list-style-type: none"> - In 2011 in the Metals and Mining sector, 92.9% of customers were 'compliant' (up from 89.2% in 2010). 4.5% were 'near compliant' and there were no customers in the 'non-compliant' category. 	
<p>Principle 5: Business should support the effective abolition of child labour</p> <p>Policies: HSBC Values and Business Principles, HSBC Code of Conduct for Suppliers, HSBC Group Standards Manual</p> <ul style="list-style-type: none"> - Child labour is not considered to be a material issue for HSBC's own operations which are office and branch-based. - HSBC's Code of Conduct for Suppliers states that they must ensure that child labour is not used and that the employment of young workers adheres to International Labour Organisation standards and local regulations. - With regard to customers, HSBC applies the Equator Principles to project finance and, where possible and practical, to export finance and other loans which support projects. The Equator Principles are underpinned by the IFC's Performance Standards on labour issues which include notes on child labour. HSBC also requires all customers to abide by the national law their countries of operation. <p>Progress:</p> <ul style="list-style-type: none"> - Our community investment programme has a focus on education and environmental issues. In 2011, HSBC made donations totalling US\$96 million, of which 50 per cent was allocated to educational projects around the world. Through our community investment programme, we aim to encourage social and economic development in the markets in which we operate. - In March 2011, we renewed our commitment to Future First (our flagship education program) with new funding of US\$15 million over another five years and expanded the programme to African countries. So far, more than 300 projects have reached nearly 500,000 children in 49 countries and territories. - In 2011, HSBC applied the Equator Principles to project finance loans, advisory services and export credit loans, as set out in the 2006 Equator Principles and in accordance with the Reporting Guidance. - In 2011, PricewaterhouseCoopers assured the Group's adherence to the Equator Principles. 	HR6
<p>Principle 6: Business should support the elimination of discrimination in respect of employment and occupation</p> <p>Policies: HSBC Values and Business Principles, HSBC Group Standards Manual</p> <ul style="list-style-type: none"> - HSBC's employment policies, detailed in the Group Standards Manual, prohibit discrimination on the basis of gender, race, 	LA1 LA2

<ul style="list-style-type: none"> - nationality, age, disability, ethnic origin, religion or status. - With regard to customers, our sector policies are underpinned by the IFC performance standards, which include a good practice note on non-discrimination and equal opportunity. - The HSBC Code of Conduct for Suppliers states that they must treat all employees fairly and not discriminate against any group in its employment practices. - We believe in providing equal opportunities for all employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during their employment with us, efforts are made to continue their employment and, if necessary, appropriate training is provided. - HSBC has over 30 employee network groups representing gender, ethnicity, age, sexuality, disability, religion, culture, working parents, health and community volunteering. <p>Progress:</p> <ul style="list-style-type: none"> - A Group Diversity Committee oversees activities to promote employee Diversity and Inclusion initiatives. - We established a Global Diversity strategy in 2008 and since then, we have: <ul style="list-style-type: none"> • <i>Established senior committees at a Group and region level to oversee the execution of the diversity and inclusion strategy</i> • <i>Embedded inclusive behaviours in our values and business principles as well as our performance, learning, recruitment, talent and succession management practices</i> • <i>Introduced flexible working aligned with local practices around the world</i> • <i>Increased mentoring support at all levels of the organisation</i> • <i>Supported the establishment of Employee Resource Group Networks that increase inclusion at HSBC</i> - A Diversity and Inclusion Index, which includes the theme of valuing diverse perspectives and individual contributions, was introduced to the Global People Survey in 2010. In 2011, our diversity and inclusion index was 75%, with employees telling us they believe they are treated with dignity at work and that HSBC has a work environment in which diverse perspectives are valued. - In 2012, we continue to build an inclusive environment for diverse talent and monitor progress through a metrics-based approach. This forms part of senior management performance objectives. 	
<p>Principle 7: Business should support a precautionary approach to environmental challenges</p> <p>Policies: Group Standards Manual, Sector policies</p> <ul style="list-style-type: none"> - The Group has publicly stated its commitment to the principles of sustainable development. - The HSBC Code of Conduct for Suppliers states that they should consider the principles of Whole Life Costing and Life Cycle Analysis 	<p>4.11 FS2</p>

<ul style="list-style-type: none"> - in the design, manufacture and recycling/disposal. - The Energy Sector Policy includes guidance on lending to customers in nuclear power, coal-fired power and oil sands industries. <p>Progress:</p> <ul style="list-style-type: none"> - In 2007 we established the HSBC Climate Change Centre of Excellence, based in our Global Research division. Last year, Global Research produced over 160 climate and ‘clean tech’ research notes for institutional investor clients. - The research covered topics such as the implications of climate change for agriculture, climate vulnerabilities across the G-20 countries, global energy trends to 2050, and clean tech market forecasts, as well as in-depth analysis of risks and opportunities in China and India. In 2011, Global Research won the <i>Thomson Reuters</i> Extel awards for being the number one team for integrated climate change, number one climate analyst and number one team for renewable energy, and number three team overall for sustainability research. - We completed an extensive review of our energy sector policy in the light of the changing regulatory environment, new research and developing technologies. We consulted widely amongst colleagues, customers, shareholders, NGOs and industry experts, and issued a revised policy in 2011. This policy places HSBC as the first major commercial bank to set carbon intensity thresholds for its lending to coal-fired power plants, creating greater certainty for customers and promoting economic and environmental sustainability. - In 2012, we launched the HSBC Water Programme; a five year, \$100 million programme in partnership with three NGOs which rank amongst the world’s most respected environmental and development organisations. Together with Earthwatch, WaterAid and WWF, the Programme will deliver the powerful combination of water provision, protection, information and education; resulting in the most ground-breaking water programme committed to by a financial organisation. The Programme will benefit communities in need and enable economies to prosper, driving development and socio-economic growth. 	
<p>Principle 8: Business should undertake initiatives to promote greater environmental responsibility</p> <p>Policies: Sector policies, Environmental Footprint Targets</p> <ul style="list-style-type: none"> - The HSBC Code of Conduct for Suppliers states that they must have a written environmental/sustainability policy appropriate to the size and nature of the supplier’s operations that addresses raw material usage, greenhouse gas emissions, water, waste, energy and wood & paper management and that they should work actively to improve the environment in the communities in which they operate and pursue initiatives to bring about such improvement. - Amongst international banks, HSBC already has one of the lowest carbon footprints per employee, according to data from the Carbon Disclosure Project. 	<p>1.1 FS1 FS3 FS5 EN26</p>

Progress:

- In 2012, HSBC launched ten sustainable operational goals for 2012 to 2020. The goals cover the full range of our operations, including supply chain, energy, waste, carbon, paper, travel and sustainability engagement. The overall goal is to reduce annual carbon emissions per employee by one tonne; from 3.5 to 2.5 tonnes.
- In 2011, the five-year HSBC Climate Partnership concluded. This was a US\$100 million commitment to work with four leading international environmental NGOs to combat climate change by inspiring individuals, businesses and governments worldwide. We achieved far beyond our targets.
- Between 2007 and 2011, 2,267 'Climate Champions' were trained. Our employees spent 63,250 days volunteering on local projects. 32 million people gained access to cleaner water and 20 city authorities implemented climate change reduction strategies.
- In 2010 we launched our sustainability leadership programme, based on the HSBC Climate Champion programme run by Earthwatch. The purpose of the course is to educate our leaders about the link between sustainability priorities, efficiency and cost savings. Over the last two years, 186 senior managers have participated in the programme at centres based in China, India, the US and UK. In 2012, this programme extended to Latin America and some 190 senior managers – nearly 30% of the most senior leaders in the HSBC Technology and Services – will participate in the programme in 2012.
- The goal is to engage over 1,000 Senior Managers (and their teams) from across the Group in the next few years.
- These professional development programmes are unique to HSBC, and enable Senior Managers (and their teams) to lead change, further develop personal skills and promote a profound understanding of sustainability as a core strategic and operational business opportunity.
- In 2011 HSBC developed and rolled out across all Group operations a Procurement Sustainability Strategy.
- This requires that HSBC's suppliers:
 - *confirm compliance with HSBC's Ethical and Environmental Code of Conduct for Suppliers of Goods and Services – this effectively sets out the financial, social ethical and environmental standards we expect our suppliers and their supply chains to adhere to;*
 - *complete HSBC's Core Sustainability Assessment, an assessment of a suppliers sustainability policy, processes and systems as well as an assessment of a suppliers ability to deliver the objectives and targets within HSBC's operational sustainability strategy;*
 - *comply with HSBC's Vendor Risk Management policy and procedures which assess the key risks, including sustainability risk, that have the potential to effect the normal operations of HSBC.*
- HSBC also requires that all potential vendors are assessed through HSBC's standard Know Your Customer process, which assesses sustainability risks from an ethical, environmental, financial, commercial, anti-corruption, anti-bribery and anti-terrorist perspective.
- In 2011, HSBC launched the eCO₂efficiency Fund which provides an opportunity for staff to showcase their talents and drive pioneering projects to improve efficiency and embed sustainability at HSBC. We

<p>constantly assess every aspect of our business to make sure we are using our resources as effectively as we can.</p>	
<p>Principle 9: Business should encourage the development and diffusion of environmentally friendly technologies</p> <p>Policies: Sector policies, Group Sustainable Development Strategy</p> <ul style="list-style-type: none"> - HSBC's Group Standards Manual states that, consistent with the Group's approach to managing its direct impacts and risk, the Group's corporate sustainability strategy seeks to develop commercially viable business opportunities that have a positive environmental and social impact. - In 2010 HSBC established a Climate Business Council, comprising representatives from our global businesses working in this area. The council sets strategy, ensuring HSBC is working in a joined-up way across our business functions. <p>Progress:</p> <ul style="list-style-type: none"> - In 2011, we established the Commercial Banking Climate Business Working Group, comprising executives from around the world responsible for implementing the climate business strategy. - In 2011, HSBC was the sole co-ordinator on a US\$200 million rights issue for Soitec, a global leader in concentrated solar technology. - In 2011, we provided structured finance for low-emissions bus systems in Johannesburg and Panama City, bringing the total number of cities we have supported in this are to six, making HSBC the market leader, - We led and structured the largest international wind project financing to date in India for the Genting Group. - HSBC supported Asia-Pacific's first offshore dim sum bond issue amounting to RMB750million (US\$116 Million) for China WindPower Group - We also arranged a syndicated Islamic financing facility for a Malaysian eco-residential and commercial development project, which aims to become the first integrated green luxury development in the country. 	<p>EN18 EN26</p>
<p>Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery</p> <p>Policies: HSBC Group Standards Manual, HSBC Group Money Laundering Deterrence Programme Global Policy and Principles</p> <ul style="list-style-type: none"> - Since 2004, HSBC has operated a Compliance Disclosure Line in accordance with the US Sarbanes-Oxley Act. Employees can report anonymously concerns about corporate wrong-doing, including failure to adopt policies in line with our Group Standards Manual, without fear of reprisals. - HSBC's Business Principles for Countering Bribery give practical 	<p>SO2 SO3</p>

effect to such initiatives as the Organisation of Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery, and the anti-bribery provisions of the revised OECD Guidelines for Multinationals, and Principle 10 of the United Nations Global Compact. We also subscribe to the Wolfsberg Statement on Corruption.

- HSBC's policy applies both to the bribery of public officials, and commercial transactions and relationships, providing a minimum Group-wide standard consistent with our business values: the highest personal standards of integrity at all levels; commitment to truth and fair dealing; and commitment to complying with the spirit and the letter of all laws and regulations in HSBC's areas of operations.
- HSBC's Code of Conduct for Suppliers states that they must embed basic business principles in a Code of Business Standards or a similar policy, including such items as adherence to local laws and a stand against bribery and corruption.
- All employees are trained to ensure they have a sound understanding of bribery risk, and we are reviewing our internal policies and procedures and amending them as appropriate to reflect the new requirements.
- We also work closely with experts on these issues. For example, Transparency International is an anti-corruption organisation founded in 1993. HSBC sits on its Business Principles for Countering Bribery Steering Committee.
- Last year, the Group reviewed existing controls to ensure that it complies fully with the requirements of the UK Bribery Act 2010.

Progress

- In 2012, it was discovered that in the past, HSBC has failed to meet our obligations to deter and prevent illicit groups and individuals from accessing the financial system through the bank.
- We have acknowledged that our anti-money laundering controls should have been stronger and more effective in order to spot and deal with this unacceptable behaviour. For example, in some countries our monitoring, information sharing and compliance controls may not have kept pace with attempts to use our systems to launder money through the US.
- With a new senior leadership team and a new strategy in place since last year, HSBC has already taken concrete steps to address these issues, including significant changes to strengthen compliance, risk management and culture

The actions we have taken to progress this issue include:

- *The creation of a new global structure, which makes HSBC easier to manage and control*
- *A doubling of global expenditure on and significant strengthening of compliance as a control function*
- *Adopting and enforcing a single standard globally that will be determined by the highest regulatory standard we must apply anywhere. This will include:*

- | | |
|---|--|
| <ul style="list-style-type: none">- <i>Maximising information sharing for risk management purposes across HSBC to the extent permitted by law</i>- <i>Applying a globally consistent approach to knowing and retaining our customers</i>- <i>Requiring all HSBC affiliates to complete due diligence on any other HSBC affiliate with which they have a correspondent banking relationship</i>- <i>Introducing a global risk filter which will standardise the way we do business in high risk countries; and</i>
<i>Reinforcing a consistent global sanctions policy. Among other things, this will mean that we will be screening for all illicit actors designated by OFAC in all jurisdictions, in all currencies.</i>
- We learn lessons continually. As those who seek to exploit the financial system constantly adopt their approach, we will be tireless and more innovative in our efforts to stop them. We are embedding a new structure to help us reduce complexity and run the firm more effectively. We also formulating and implementing global standards to ensure our conduct matches our values. We are committed to achieving this. | |
|---|--|