

Speech draft for Teresa at 27th Asian Bankers Association General Meeting and Conference on 2 November 2010

Green Banking: Challenges and Opportunities Ahead

Slide 1 - Introduction

Susan, XX (*tbc*), Ladies and Gentlemen

Thank you for inviting me to speak and I think you will agree that we have experienced a fascinating gathering here in Taiwan. I am grateful for the opportunity to share with you our experiences in ‘Green Banking’ – what HSBC pursues as ‘Sustainable Finance’.

<<Reach for ten dollar note>>

This term is now widely recognised, which indicates how much awareness of environmental and sustainability issues has grown in the past decade or two, along with the ‘Green movement’ as a whole. I can tell you that, if you asked someone in Hong Kong 20 years ago what a Hong Kong greenie was, most likely you would be shown a ten dollar note ... like this one.

<<Wave note to audience>>

I note that environmental awareness and response regarding carbon emissions reduction and disclosure is growing in Taiwan, with cities setting their own emissions reduction targets and exploring a mix of regulatory, voluntary and incentive oriented policies. Taipei City, Kaohsiung City and Tainan City have signed onto the Greenhouse Gas Emissions Analysis Protocol of the International Committee for Local Environmental Initiatives, a global association of local governments dedicated to sustainable development. Taiwan’s Greenhouse Gas

Reduction Act is also in the pipeline to becoming the official carbon mitigation regulation and is expected to be debated in the next legislative session. And the Taiwan Stock Exchange has also announced CSR Guidelines for listed companies as the soft law for driving companies to ‘walk the talk’ on CSR. All these developments could help lay a good foundation to improve resource efficiency and provide a strategic advantage in the shift towards a low-carbon economy.

Of course, HSBC has progressed quite a long way in the same period too. Now – while we still issue ten-dollar notes – we offer a range of sustainability programmes designed to help our customers not only reduce their environmental impacts but also succeed by taking full advantage of business opportunities in a low-carbon economy. These programmes benefit not only the environment but help our wallets as well.

In this session I’d like to talk about climate change issues of relevance to the banking and financial services industry, and their implications for business.

There is a saying that “We do not inherit the earth from our parents; we just borrow it from our children.” It is a theme that occurs in many cultures although it is not always the prime thought when we are confronted with the realities of daily life.

Slide 2 Financial solutions to environmental and social challenges

Banks play crucial roles in all economies. Their intrinsic requirement to collect and manage a vast range of data and capital gives banks extensive, and often decisive, power to affect developments. Historically, this was not always taken to include looking at the environmental impacts of their clients' activities. This was seen as 'interfering' in the clients' businesses. In the modern world banks have accepted that this power is accompanied by a profound potential as well as responsibility to create environmentally and socially conscious business practices.

As a lender and adviser, HSBC provides financial solutions to environmental and social challenges, influencing the indirect impacts we have on society through our lending and investment activities.

As responsible financial services firms, we must increasingly ask ourselves: 'What kinds of business practices are we enabling when we lend to our clients?' This can lead to some very tough business decisions.

Accordingly, our Bank has set up a sustainability risk management mechanism that applies across the lending and investment book and our asset management portfolio. Our risk management principles are based on industry-wide convention such as the Equator Principles, of which we are a founding signatory, and we go further by developing a series of sustainability risk policies for sensitive sectors, including Chemicals, Defence, Energy, Forest Land and Forest Products, Freshwater Infrastructure and Mining and Metals. These policies cover a wider range of financial services than lending and are applied regardless of the value of

the transaction or size of the business. They set out internationally accepted standards for the industry to be followed for investing and lending. All these guidelines help us work closely with our clients and in turn make their businesses more sustainable.

We committed to engage and support our customers and, as long as they meet our minimum standards, we will support them as they move towards good working practices. We believe this is a positive contribution to sustainable development. However, whenever we find that this is not possible, we have to decide whether to withdraw our support.

Apart from the risks accompanying lending and investment activity, banks or companies should also take into account of various risks posed by climate change. These include physical risks, regulatory risks, market risks (high price for carbon) and reputational risks (stakeholders' expectations on supply chain). Lord Stern's 2006 report estimates the "business as usual" cost of a changed climate could be from 5 per cent to 20 per cent of global GDP. However, Lord Stern forecast that shifting the world onto a low-carbon path could eventually benefit the global economy by \$2.5 trillion a year.

It is equally important for companies to align their strategy for sustainable business with environment and social development – which will ultimately bring business opportunities that promote positive environmental impacts. At HSBC, we look closely at how to maximise the business opportunities that are involved in facilitating this shift towards a low-carbon economy.

Slide 3 – Climate economy – risks and opportunities

Our global research indicates the climate economy will be driven as much by resource scarcity and industrial innovation as by the harsh realities of global warming. We have seen fires in Russia and floods in Pakistan and China. There are also mounting pressures on energy, land and water resources that will force changes in economic behaviour, offering growth, employment and trade benefits for those countries that take the lead in climate business.

To serve our customers better, our Climate Change Centre of Excellence produce reports on climate change science, policy and markets, providing climate intelligence for investors, policy and business leaders worldwide as well as helping our customers identify risks and opportunities and make informed investment decisions.

We have been creating products that are helping to develop and popularise investment in green technology. For example, in 2007 we created a family of investible climate change-related indices, under the umbrella 'HSBC Global Climate Change Benchmark Index'. Investors can use these indices to take advantage of investment opportunities in specific sub-sectors, such as energy efficiency, low-carbon energy production, or water, waste and pollution control. This Index includes more than 380 companies and three of the world's 10 largest pension schemes – as well as some of the world's largest asset managers – use it to inform their investment choices.

We also support the renewable energy and ‘cleantech’ sectors in Asia and other parts of the world. Last year, in the Asia Pacific region alone, we committed USD200 million to renewable financing. A specialised cleantech equipment team provides advice, equity, debt and project financing, focusing on electric vehicles, wind turbines, fuel cells and solar photovoltaic products. We have also invested USD125 million into Better Place, a leading provider of infrastructure for recharging electric vehicles on a large scale; as well as structured financing for a 49.5 MW wind farm project in Jilin province, China. It was the first RMB-denominated project financing for HSBC China and HSBC Research ranks China as the second-largest and the fastest-growing wind market in the world. Installed wind capacity is currently 25,000 megawatts and is expected to reach 150,000 megawatts by 2020.

Our office in Japan has also issued a series of Clean Energy Bonds for the Asian Development Bank and the African Development Bank, helping to finance renewable power projects and the transition to an environmentally-friendly use of clean energy, better energy efficiency, and to facilitate energy supply to more people in the Asia-Pacific region. These transactions follow a number of similar socially responsible investment (SRI) products earlier this year by the Bank which established HSBC's presence as the SRI house of choice in the capital markets.

To further lead our response to these commercial opportunities for HSBC and our customers in the climate business sector, we’ve established a Climate Business Council chaired by an executive Director and developed an internal Climate Team to ensure we deliver our commitments. We recognise that direct interaction with our customers will generate business opportunities. Last year alone, we trained

over 100 relationship managers in our Global Banking and Markets and Commercial Banking businesses on sustainability issues. They are encouraged to train more broadly about the sustainability needs of their customers, challenged to come up with new business solutions, and equipped to advise their clients on the opportunities and risks presented by a low-carbon economy.

We are also investing in raising awareness among our customers since climate change is a global challenge for us and for our customers. In 2009, we piloted the HSBC Climate Change Corporate Partnership Programme in Hong Kong to provide financial and non-financial solutions to help businesses manage the risks and realise the opportunities in combating climate change while building a low-carbon and sustainable future.

Slide 4 – Supporting customers for a low-carbon economy

Under this programme, we offer our clients access to some low-carbon management tools. At the same time, we launched Green Financing to support our commercial customers in procuring new equipment to ‘green’ their operations, helping them to reduce their waste and energy consumption while meeting the requirements of their international buyers.

For personal customers we offer a ‘green credit card’ (made of biodegradable PET G material) that helps customers contribute to the environment through their spending, to promote green merchandising and lifestyle. We have also developed a climate change fund to give our customers the choice to capture the investment

opportunities in low-carbon sectors. The Green Credit Card was also awarded first Environmental Label of a Hong Kong top environmental award.

Our insurance products increasingly include incentives to encourage environmental efficiency, for instance, our green home insurance product in Hong Kong provides energy-efficient replacements to damaged or stolen household appliances. The green travel insurance programme also put one percent of their insurance premiums to support the 'Eco-Blocks for Eco-Schools', benefiting over 3000 students and 200 teachers in Hong Kong. This pioneering insurance product provided encouraging business result with double digit growth in new policy counts and total premiums.

We also advise our corporate clients and finance on renewable and clean energy projects. Governments of the world's major economies have committed to about USD3 trillion of stimulus spending, in aggregate. Around 15 per cent of that is dedicated to developing green technologies. Businesses must realise that our sustainability is bound up with the sustainability of the environment and the human habitat, and we must aspire to reorganise ourselves around that principle.

We must also develop a robust sustainability strategy for sustainable business growth. Our sustainability strategy covers four focus areas –footprint management, sustainable business, community investment, people and diversity. Let me give you a few examples of how we're doing this:

First, we looked at our own situation. As early as 2005, HSBC was the world's first major bank to become carbon neutral reducing our carbon footprint worldwide to zero. We set targets to reduce the amounts of waste we produce, the water and energy we use in our day-to-day operations, and to report carbon dioxide emissions including travel mileage to cover 95 per cent of our full-time equivalent employees. Our network of more than 200 employees globally project-manage the implementation, monitoring and reporting of our environmental initiatives. Last year, we even linked environmental performance to the balanced scorecards of our country and region Chief Technology and Services Officers, making them directly accountable for operational sustainability performance for 2010 onwards.

Slide 5 – Investing in communities

Making our employees more aware of the business implications of climate change is also essential. Under the HSBC Climate Partnership, a five-year USD100 million programme launched together with four leading global international NGOs, including The Climate Group, EarthWatch and WWF to inspire actions to counter climate change, some 2,000 'Climate Champions' worldwide undertake research at dedicated Climate Centres and bring back valuable knowledge and experience to their workplace and communities. Since the launch of the Partnership in 2007, HSBC 'Climate Champions' have already measured over 100,000 trees – equivalent to 40 years' work for a single scientist!

Apart from combating climate change to mitigate the risk and seize business opportunities, HSBC also focuses on capacity building; poverty alleviation; and creating opportunities for the disadvantaged.

Capacity building for people of different generations and levels of mental or physical ability is important. One of our initiatives is 'Future First', a global five-year programme launched in 2007 to give children the education and life skills to combat poverty. This programme has supported some 200 projects across 45 countries, bringing language and skills training to more than 200,000 disadvantaged children.

Instead of just making donations, we also aim to create self-sustaining, stable financial services to help people out of poverty, develop sustainable livelihoods and empower individuals to become financially independent. This is made possible through our microfinance resources to local people and organisations and support to social enterprises.

Of course, no single business or industry, country, government or NGO can achieve sustainability on its own. We all have to take responsibility, as individuals and organisations. Banks being an integral part of the worldwide supply chain, we certainly have our role to play.

We recognise that a thriving society is critical to our success as a bank. That is why we focus our community investment activity on education and the environment – the building blocks for development of the community. We aim to allocate around 75 per cent of our donations to these two themes and we spent USD100 million on community investment activities around the world last year. The constant aim is to help people with a variety of challenges gain self-respect and self-sufficiency.

Slide 6 - Financial literacy for the young and embracing diversity

As a financial institution, we focus particularly on financial literacy and entrepreneurship training. A three-year USD3.4 million JA More than Money programme helps young people aged between seven and 11 in 32 countries learn how to manage their money. It has introduced them to basic entrepreneur skills and hundreds of our employee volunteers have trained as teachers for this programme.

As a global organisation, we strive to understand our local populations and value the diversity and inclusion of the markets that we operate in. Employing and managing diverse people helps us build us a more rounded and balanced organisation and makes us more adaptable to new situations.

We also believe that people who are happy at work deliver the best service to the customer, which generates loyalty as great step towards the achievement of our goals as a sustainable business. Our latest Global People Survey found that employees are more committed and engaged if they have participated in sustainability initiatives. More than 80 per cent of staff are satisfied with the Bank's corporate sustainability work. This is a key driver to employee engagement and business success.

We also include diversity and inclusion concepts into our business. We match community needs with banking services. For instance, we launched Smart Seniors programme in Hong Kong last year to highlight the importance of the territory's retirees to Hong Kong society. The programme aims to recruit 80 part-time staff

who will be employed to promote and manage our new Community Caring Corners – areas dedicated to serving the needs of the elderly and customers with special needs. This programme offers employment opportunity to recent retirees. We also look at banking needs of future generations by recruiting *20 Gen-Y Ambassadors* for our product, service and channel development, believing that they know best their own needs.

Slide 7 - Guandu Nature Park – Engaging our stakeholders

We have also engaged our stakeholders including employees, customers, suppliers, community partners and also the wider community to participate in our business and community events. For example, our Taiwan office organised "HSBC Bike Day" events in Kaohsiung and Taipei to invite the public, customers, HSBC employees and their families to support cycling as green sports. HSBC Taiwan is also involved in Guandu Nature Park, Climate Champions and resource management. Guandu Nature Park is a major wetland stopover site in northern Taiwan for migrating birds, especially waterfowl and shorebirds, as well as an important wintering and breeding ground for many species. Our investment in the park began in 2002 and we fund various educational and volunteer projects, including the wetland environmental education programme, which consists of weekly workshops for teachers and fieldtrips for elementary schoolchildren in the metropolitan Taipei area. HSBC staff are enrolled as volunteers for the Park, while more than 3,500 teachers, 5,600 students and 2,300 mentally challenged students have benefited from the programme.

Of course, it is gratifying when our efforts are recognised by third parties. HSBC was selected as a constituent stock of the Hang Seng Corporate Sustainability Index in recognition of its strong performance on corporate sustainability issues. The Index covers 30 selected companies listed in Hong Kong and serves as a reference tool for the investment community and for socially responsible investors. It is further achievement for the Bank since its listing in the Dow Jones Sustainability Index and FTSE4Good, and HBAP's first ranking amongst all Hang Seng Index listed companies since 2008.

Slide 8 - Low-carbon market

Naturally, our genuine commitment to responsible financial management is backed up by sound commercial sense: our Research estimates that the low-carbon energy market will triple to USD2.2 trillion by 2020. In the coming decade, our research forecasts three major shifts will happen. First, energy efficiency themes, notably low-carbon vehicles such as plug-in hybrid and full electric vehicles, will surpass low-carbon power as the major investment opportunity. Second, China's low-carbon market will overtake that of the USA (but not Europe).

And third, the upfront capital required will more than triple to USD1.5 trillion per year in 2020. That will provide some interesting opportunities for green banking in the next few years and I trust we will all seek to do our responsible best to make the most of them.

Thank you.