

# 2007

**Sustainability Report**  
**HSBC Holdings plc**

## Contents

Executive Summary	1
Group Chairman's Introduction	3
About HSBC	4
Stakeholder Engagement	9
Customers	11
Climate Change	12
Business Development	15
Footprint Management	18
Supply Chain	19
Accounting for Sustainability	20
Managing Sustainability Risk	22
Forestry	25
Employees	27
Community Investment	29
Key Facts	31
Assurance Statement	34
Contact Information	36

## Awards and indices

Indices, ratings and reports play best to the competitive spirit of business. At HSBC, we want to be one of the world's leading brands in sustainability. We received recognition for our strategy on climate change in 2007:

- HSBC was named one of the top five global companies for accountability in annual ratings conducted by AccountAbility and CSR Network. HSBC was lauded for climate change strategy, with a score of 67 per cent compared with 38 per cent in the financial sector.
- HSBC received a top score of 70 points in the first-ever ranking of 40 leading banks on climate change strategies in a report launched by Ceres called Corporate governance and climate change: the banking sector (see page 12 for a comment from Ceres President, Mindy Lubber).

## We also respond to and participate in the following:

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

# Executive Summary

## From Corporate Responsibility to Corporate Sustainability

In 2007, we continued our efforts to embed and deliver HSBC's sustainability strategy, which recognises that the Group's continued financial success depends on our ability to manage and address non-financial considerations material to our business. This requires an understanding that these non-financial issues do not exist in isolation from our core functions and operations but are integral to the way we do business. We refer to 'corporate sustainability' rather than 'corporate responsibility' as it describes more succinctly the management of our direct environmental footprint, sustainability risk and business opportunities, and our community investment activities.

### About this report

In preparing this report, we have taken into account the feedback we received from stakeholders throughout the year and from specific stakeholder engagement workshops we held in early 2008 (see page 9). Climate change, forestry and sustainable lending and finance were dominant issues for HSBC and our stakeholders in 2007. We address these issues in detail, explaining our approach to the risks and opportunities associated with them.

In response to the feedback we received from stakeholders, this report contains more in-depth reporting on our sustainability policies, practices, targets and performance, and also includes the views of independent third parties such as Ceres and Forum for the Future.

International standards and relevant guidelines, such as the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines and AA/1000, were consulted to determine material issues not addressed by stakeholder feedback.

A GRI table is provided online at:

[www.hsbc.com/sus-gri](http://www.hsbc.com/sus-gri)

This report focuses on the Group's largest operations by pre-tax profit and number of employees, namely the Hong Kong SAR, the UK, the US, the Middle East, Mexico, Canada, France, China, Brazil and India. Facts and figures refer to the Group unless indicated otherwise. The report does not cover joint ventures or subsidiaries not wholly owned by HSBC.

Stakeholders commented that last year's report was too long, and therefore hindered effective communication. We have kept this year's report to 36 pages in an attempt to address the main interests of stakeholders. Issues of importance to both HSBC and stakeholders not covered in this report can be found online, including information on anti-bribery and anti-corruption, countering fraud, anti-money laundering, political donations, public policy development and tax management.

This information can be found online:

[www.hsbc.com/sus-moreinfo](http://www.hsbc.com/sus-moreinfo)

Stakeholders said they wanted to see how we address challenges and dilemmas. One of the critical issues of the past year and continuing in 2008 is the disruption in credit markets and its effects on home owners in North America. We have addressed the issue in this report and more detailed information can be found in the HSBC Holdings plc *Annual Report and Accounts 2007* on page 219.

[www.hsbc.com/financialresults](http://www.hsbc.com/financialresults)

### Assurance of this report

We have engaged Det Norske Veritas (DNV) to provide independent third party assurance of the contents of HSBC's *Sustainability Report 2007* – see DNV's statement on page 34. We have requested that DNV conduct their verification at Group Head Office in London because all information relevant to HSBC's direct environmental impact, carbon neutrality,

Commitments in 2007	Achieved?	Progress
Expand Energy Sector Policy into a broader framework to assess the risks of climate change for HSBC's wider client business.	Yes	New risk advisory service to assist clients with the risks and opportunities associated with climate change at an enterprise level, based at Group level; development of internal guidance on nuclear power; established a Climate Change Centre of Excellence in India.
Complete our portfolio of sector policies with the launch of the Mining and Metals Sector Policy.	Yes	HSBC also updated its Forest Land and Forest Products Sector Policy.
Launch two new business development strategies aimed at sustainable forestry and water finance.	No	Water finance strategy currently in draft. Forestry finance to be completed in 2008.
Expand the existing reporting system to include indirect impacts.	Yes	Development of a tool to track indirect sustainability impacts.
Launch a global microfinance strategy.	Yes	Early 2007. Ongoing in 2008.
Announce a unique community partnership with world-class environmental charities aimed at understanding, mitigating and adapting to climate change consistent with our business objectives in this area.	Yes	The US\$100 million HSBC Climate Partnership was announced in May 2007.
Broaden our dialogue with clients on sustainability issues.	Yes	Commissioned independent stakeholder engagement research with various stakeholders.
Introduce consistent measure to gauge customer satisfaction in Retail Banking Wealth Management.	Yes	2007 customer recommendation scores for Retail Banking Wealth Management were ahead of competitor average by 1 point on a 100 point scale.

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**Commitments in 2008**

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- Improve climate risk management across our lending and investment book, asset management portfolio, and operating and security risks.
  - For the first time, include reduction targets for energy, water, waste and carbon dioxide in the objectives of the Group Management Board and senior executives in HSBC's 24 largest entities.
  - Install solar photovoltaic panels on the roof of HSBC's Group Head Office in London.
  - Spend in excess of US\$1 million on new desk and room-based video collaboration equipment throughout HSBC.
  - Roll out software across the Group that will enable 300,000 computers to be automatically switched off at the end of each working day, saving approximately US\$30 million per annum in energy costs and subsequent savings in CO<sub>2</sub>.
  - 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.
  - Conduct a review of the Metals and Mining, and Chemicals sector policies.
  - Embed consistent sustainability learning and development across all of the Group's strategic training programmes.
  - Raise US\$600 million for newly launched Environmental Infrastructure Fund.
  - Integrate environmental, social and governance issues into our investment analysis and decision-making processes.
  - Increase our involvement with Junior Achievement worldwide through a global initiative that will introduce younger children to basic financial skills and involve our employees as volunteers.
  - Increase portfolio disclosure in next year's *Sustainability Report*.
  - Grow our sustainable and responsible investment business.
- 

strategic direction and implementation of the Equator Principles is held there. We have asked DNV to conduct phone interviews with several managers and departmental heads around the Group at regional level to address stakeholder views that the scope of the assurance should be expanded beyond Group Head Office. These interviews were held with heads of Corporate Sustainability teams in Asia-Pacific and Latin America, and with Sustainability Risk Managers who are responsible for implementing the Equator Principles locally.

HSBC's carbon neutrality and its implementation of the Equator Principles are two separate areas in our Sustainability Strategy. Their verification requires differing methodology, which is why DNV has provided a separate assurance statement for each.

These statements can be found online at:

[www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance)

**UN Global Compact**

We are a signatory to the UN Global Compact and continue to support its 10 principles on human rights, labour issues, the environment and anti-corruption. A *Communication on Progress* is published to demonstrate how we implement these principles and what partnerships we are undertaking to support UN goals. HSBC's *Communication on Progress* is found at:

[www.hsbc.com/sus-unge](http://www.hsbc.com/sus-unge)

# Group Chairman's Introduction



Our goal is to be one of the world's leading brands in corporate sustainability. This is not solely an environmental or social agenda, nor is it confined to governance and ethics. Sustainability is about bringing all of these issues together into our business model, and about maintaining the long-term growth of a successful business for the benefit of our stakeholders. For HSBC, sustainability is about making decisions that maintain the right balance between the environment, society and the economy to ensure long-term business success.

We believe that it is our duty to our customers, investors and employees to foster an ethical, responsible and sustainable corporate philosophy.

It is easy to pay lip service to sustainability; it is more difficult to effect real change. Commitment to sustainable principles must be part of a company's culture, permeating every level of the organisation. Since we want sustainability to be ingrained in our corporate ethos, and because we want to get the most out of every penny and every minute spent on sustainable initiatives, we have made sustainability a key component of our strategy.

We do this in two ways. First, through interaction and dialogue. We believe in leading by example. The single most influential means for HSBC to affect society is through the financial services we provide. It is our belief that engagement, not isolation, facilitates change, and that our values and policies influence the behaviour of those with whom we work.

We continue to support the UN Global Compact and its principles on human rights, labour issues, the environment and anti-corruption, and we are committed to the UN Principles on Responsible Investment and the Equator Principles.

Second, we take action ourselves. We could not promote a sustainable agenda without holding ourselves to account. We were the first major bank in the world – and the first FTSE 100 company – to become carbon neutral. We continue to examine our own direct environmental impacts and review how best to reduce them. Although our overall carbon dioxide emissions rose in 2007, we have made progress against our first set of targets for energy, water, waste and carbon dioxide agreed in 2004. We have now set new targets for 2008-11.

We could not receive the hospitality of 83 countries and territories without giving something back. It is our responsibility to provide each market with transparent financial services, and to facilitate economic development. We do this through the taxes we pay, the jobs we create, the services we provide, and the investment we make in local communities.

We take our responsibility to our customers seriously. Our US customers have faced particular difficulties as a result of the downturn in the

housing market. We are working with community groups and providing a range of support and services to keep people in their homes. For example through one of our home preservation programmes we have modified more than 11,900 loans worth nearly US\$1.9 billion.

I believe change can be more effectively realised if each of us uses our particular expertise. For example, in September, we launched the HSBC Global Climate Change Benchmark Index. It is the first ever index created to track the stock market performance of companies set to benefit from addressing climate change.

Research and education are a vital part of promoting sustainability. In 2007, we launched two initiatives designed to expand knowledge and understanding. We established a Climate Change Centre of Excellence in Bangalore to assess the economic and financial impacts of climate change. We also launched the HSBC Climate Partnership, which not only commits US\$100 million to fund four leading environmental organisations, but involves over 100,000 of my colleagues in learning and volunteer programmes over the next five years. This is particularly important to us; sustainability cannot be embedded in HSBC's cultural DNA without employee commitment on every level.

Employees are the bedrock of an organisation, and our approach to sustainability is essential to recruiting and retaining the best. Our Global People Survey tells us that working for a company with high ethical standards is important to my colleagues. This extends to all levels of the organisation and, in 2008, balanced scorecards will be used worldwide for all senior managers. These will include a sustainability aspect, monitoring management of energy and water use, and production of waste and carbon emissions.

We were pleased and privileged to announce the appointment of Lord Stern, a world authority on the economics of climate change, as Special Adviser on Economic Development and Climate Change. His knowledge and experience is an invaluable commodity, and we look forward to his continued counsel.

This year saw the departure of Dame Mary Richardson, who has retired after seven years of distinguished service as Chief Executive of the HSBC Global Education Trust. Under her guidance, the trust has touched many lives. We wish Dame Mary all the best on her well-deserved retirement.

This year's report highlights our responses to the requests from stakeholders for more transparency and bolder action on issues of particular importance to them – climate change, forestry and sustainable lending. As with any business, it is our duty to respond to their needs, and we look forward to continued open discussion on these important issues.

We have made progress, but we still face many challenges. In 2008, HSBC will continue to work with customers, shareholders, employees and partners to explore the ways in which we can meet these challenges.

A handwritten signature in black ink that reads "S Green". The signature is written in a cursive, slightly stylized font.

**Stephen Green**  
Group Chairman  
HSBC Holdings plc  
May 2008

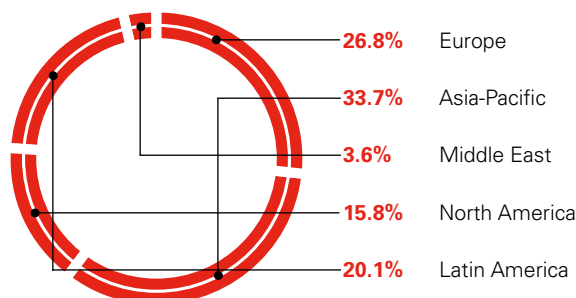
# About HSBC

HSBC's 330,000 employees work in 10,000 offices in 83 countries and territories. The diagram to the right shows the distribution of employees by region.

In 2007, HSBC's carbon dioxide (CO<sub>2</sub>) emissions totalled 897,000 tonnes. We have purchased the equivalent tonnage in CO<sub>2</sub> offsets to remain a carbon neutral company. The bar chart on page 5 (left) shows the distribution of CO<sub>2</sub> emissions by region.

In 2007, HSBC donated US\$100.9 million around the world. The bar chart on page 5 (right) shows the distribution of charitable donations by region.

Headcount by region 2007



## HSBC around the world

HSBC's business is made up of two customer groups, Retail Banking Wealth Management and Commercial Banking, and two global businesses, Global Banking and Markets (previously known as Corporate, Investment Banking and Markets), and Private Banking. The table below shows the distribution of pre-tax profit by customer group and by region.

**Distribution of pre-tax profit by customer group and global business**

	US\$m
Retail Banking Wealth Management	5,900
Commercial Banking	7,145
Global Banking and Markets	6,121
Private Banking	1,511
Other	3,535

**Geographical distribution of pre-tax profit**

	US\$m
Europe	8,595
Hong Kong	7,339
Rest of Asia-Pacific	6,009
North America	91
Latin America	2,178

For more information, see the HSBC Holdings plc *Annual Review 2007* or *Annual Report and Accounts 2007* at:

[www.hsbc.com/financialresults](http://www.hsbc.com/financialresults)

**Profit before tax**

**US\$24,212m**

£12,106m, HK\$188,878m for 2007

**Profit before tax**

**9.6%**

Increase on 2006

**Assets**

**US\$2,354b**

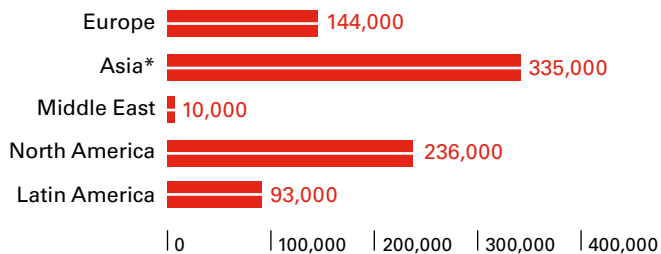
£1,172, HK\$18,359m at December 2007

**Dividend per share**

**US\$0.90**

£0.45, HK\$7.02 in respect of 2007

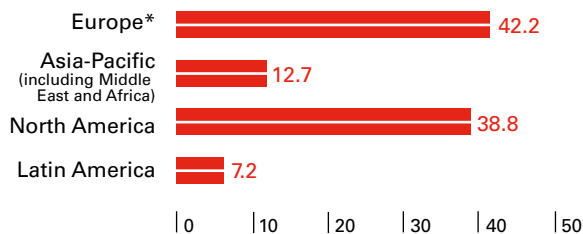
**Carbon dioxide emissions by region 2007 (tonnes)**



\* Calculations for Asia include emissions from service and technology centres, which contributed 95,232 tonnes

The regional figures totalled 818,000 tonnes. For the purpose of carbon neutrality, figures are then scaled up to 100 per cent full-time equivalent employees and additional factors are included to compensate for uncertainties as advised by HSBC's assurance providers.

**Charitable donations by region 2007 (US\$m)**



\* Includes donations for global programmes, of which US\$18.3 million is spent outside of Europe.



**Who we are**

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$198 billion at 31 December 2007. Headquartered in London, HSBC's international network comprises around 10,000 offices in 83 countries and territories in Europe, Asia, the Americas, the Middle East and Africa. HSBC provides a comprehensive range of financial services to 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 more than 200,000 shareholders in over 100 countries and territories.

**Strategy**

Our strategic direction reflects our position as 'The world's local bank', combining the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength.

Our strategy is aligned with key trends that are shaping the global economy. We recognise that, over the long term, emerging markets are growing faster than developed economies, world trade is expanding at a greater rate than GDP, and life expectancy is increasing virtually everywhere. In addition, climate change is having an impact on economic development, particularly in developing countries, and we face the challenges of a shift towards a low-carbon economy.

In response to these trends, we are reshaping our business by investing primarily in the faster growing emerging markets and, in developed markets, focusing on businesses which have international connectivity. Central to these activities is the maintenance of our financial strength and continued investment in the business. We aim to align our objectives and incentives to engage our employees.

We believe companies that manage their business in a sustainable way are better placed to compete in the global economy. HSBC is determined to be one of the world's leading companies in addressing the challenges of embedding sustainability into its business. We believe that doing so will strengthen the HSBC brand, helping to deliver long-term value to our stakeholders.

More information can be found in the HSBC Holdings plc *Annual Report and Accounts 2007* at:

[www.hsbc.com/financialresults](http://www.hsbc.com/financialresults)

**Governance**

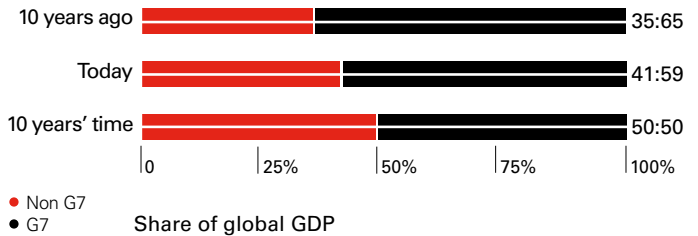
HSBC Holdings complied with all applicable code provisions of the UK's Combined Code on Corporate Governance throughout 2007. HSBC Holdings also complied with all applicable code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the corporate governance standards applicable to a New York Stock Exchange foreign private issuer.

**Corporate Sustainability Committee**

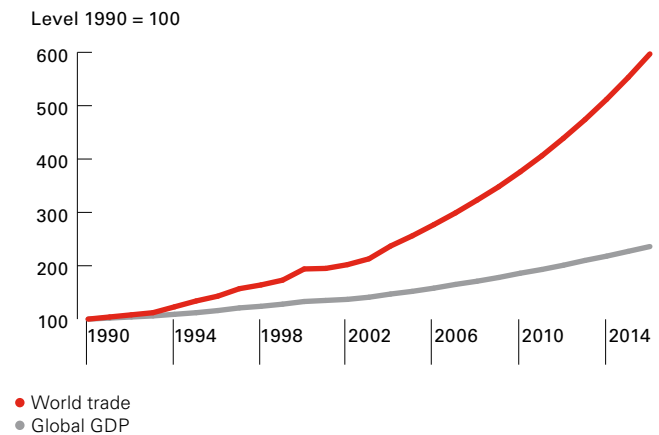
The Corporate Sustainability Committee (formerly known as Corporate Responsibility Committee), which comprises non-executive Directors

**Trends shaping global economy**

**Emerging markets growing faster than rich countries.**

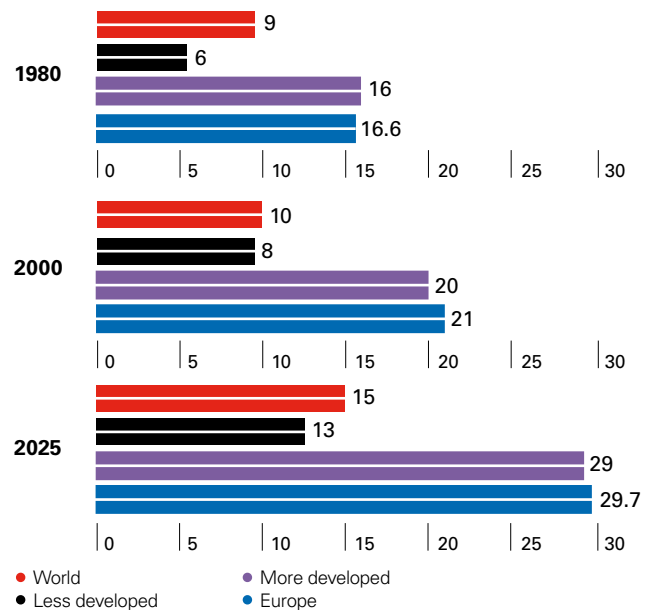


**World trade growing faster than GDP**



**Longevity increasing virtually everywhere**

**People aged 60 and over (%)**



Source: HSBC estimates

of HSBC Holdings and independent members (see chart), has overseen HSBC's sustainability policies and advised the Board, committees of the Board and executive management since September 2003. During 2007, the committee met five times. Under its terms of reference, the committee must undertake an annual review of its effectiveness and terms of reference. The assessment in 2007 included a questionnaire completed by each of the committee members.

The Corporate Responsibility Executive Steering Group, mentioned in last year's report, has been incorporated into the Group Management Committee. On a day-to-day basis, much of the work previously undertaken by the Executive Steering Group is now led by Group Corporate Sustainability, a centrally managed team reporting directly to the Group Chairman. The team is responsible for shaping the Group's approach to: Footprint Management; Sustainability Risk Management; Sustainable Business Development; Community Investment; and Communications and Reporting.

The Group Corporate Sustainability department underwent an internal audit by the Group Audit function in 2007. The audit found that 'while the Group has a number of Sustainability and Social Responsibility lending policies, there are no such policies in respect of investments made by the Group, and that lack of such a policy could lead to reputational damage as the Bank could be investing in companies restricted under its Sustainability credit policies.'

It was explained that investments held in the Group's name – third-party transactions – relate primarily to asset management services undertaken on behalf of clients rather than to the investment strategy of the Group. HSBC's Credit and Risk *Functional Instruction Manual* already extends HSBC's sustainability risk policies to asset management, and acknowledges the impracticality of continually screening all potential investments which our clients may choose to make. This response was accepted and the issue has been closed (see page 11 for more details on third-party investments).

#### Board committees

HSBC Holdings' Board has three other committees – the Group Audit Committee, the Nomination Committee and the Remuneration Committee – whose members comprise non-executive Directors. 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 management and day-to-day running of HSBC.

More information can be found in the HSBC Holdings plc *Annual Report and Accounts 2007* at:

[www.hsbc.com/financialresults](http://www.hsbc.com/financialresults)

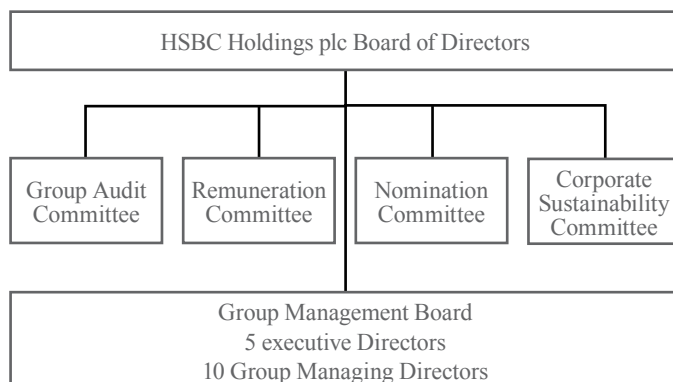
See the terms of reference for the Corporate Sustainability Committee:

[www.hsbc.com/sus-gov](http://www.hsbc.com/sus-gov)

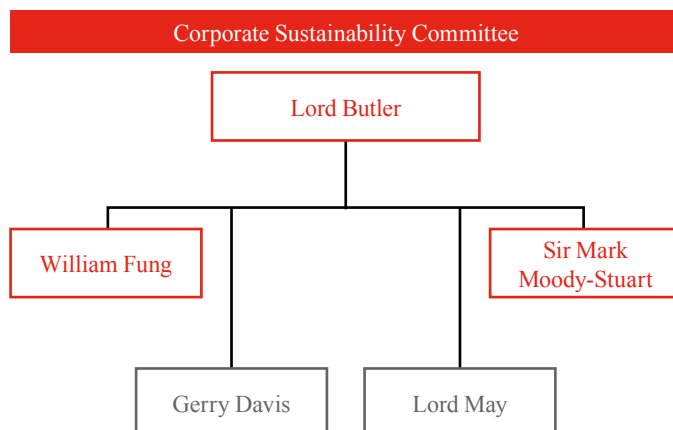
#### HSBC's values and embedding sustainability

We seek to build long-term relationships with our stakeholders based on such values as fair treatment and trust. We include sustainability amongst these values, especially where our indirect impacts are

#### HSBC Board committees



#### HSBC Corporate Sustainability Committee



- HSBC non-executive Directors
- External members

concerned, namely, in financing and lending. These values lie at the centre of our strategy. We communicate our business principles and values to employees through our *Group Standards Manual*, which is posted on our Group intranet. The manual is updated annually and is mandatory reading for all employees. It sets the standards and policies for our business operations, underpinned by our corporate values and principles, which indicate what sustainability means to HSBC. 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. The section on Credit and Risk provides an introduction and links to the Equator Principles and our sustainability risk sector policies. From 2007, the *Group Standards Manual* includes a chapter on Corporate Sustainability (see page 22 for more details on how we manage sustainability risk).

Additionally, each country and/or territory is responsible for

implementing a code of conduct locally. Our internal audit function is responsible for ensuring that each country CEO complies with the *Group Standards Manual* and the *Functional Instruction Manuals*.

Through our adoption of the Equator Principles, we also apply the International Finance Corporation Performance Standards to project finance, and have voluntarily extended these standards to lending in certain other sensitive sectors.

We also voluntarily abide by a number of external codes of conduct and actively participate in the following initiatives:

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**International commitments and memberships**

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**United Nations**

UN Environment Programme Finance Initiative	1992
UN Global Compact	2000
UN Universal Declaration on Human Rights	2003
UN Principles for Responsible Investment	2006
UN Adviser's Group on Inclusive Financial Sectors	2006
Bali Communiqué	2007

**Sustainability**

Equator Principles	2003
Roundtable on Sustainable Palm Oil	2003
Carbon Disclosure Project	2004
The Climate Group	2005
Extractive Industries Transparency Initiative	2005
World Commission on Dams	2005

**Anti-bribery and anti-money laundering**

Wolfsberg Principles	2000
OECD Convention on Combating Bribery	
OECD Guidelines for Multinationals	
International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery	

**Human rights**

Global Sullivan Principles	2000
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**HIV/AIDS**

Global Business Coalition on HIV/AIDS	2003
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**Interdependence**

Part of our engagement with stakeholders includes the distribution of economic benefits and creation of value to stakeholders, such as education and training for employees or as a source of volunteers for community activities.

**Distribution of economic benefits**

Stakeholder	2007	2006	2005	2004
Communities and environment	US\$100.9m	US\$86.3m	US\$81.4m	US\$69.2m
Employees (remuneration)	US\$19.7b	US\$17.3b	US\$15.1b	US\$13.6b
Governments (taxation)	US\$5.3b*	US\$6.4b	US\$6.2b	US\$5.7b
Shareholders (dividends)	US\$10.2b	US\$9.9b	US\$8.5b	US\$8.3b
Suppliers (procurement and premises)	US\$14.9b	US\$12.7b	US\$11.1b	US\$9.7b

\* The reduction of taxes to governments is largely due to reduced profits in the US and recognition of deferred taxes.

Read more about our values and international commitments at:

[www.hsbc.com/values](http://www.hsbc.com/values)

# Stakeholder Engagement

To be recognised as one of the world's leading brands for sustainability, HSBC must demonstrate to stakeholders that its business positively contributes to environmental, social and economic progress. To achieve this, we have made an undertaking to share more information with stakeholders and to improve our dialogue with them.

In early 2008, we engaged PricewaterhouseCoopers LLP (PwC) to design and facilitate a series of stakeholder engagement workshops, supplemented by a telephone survey, across our main regions of operation: Europe, North America, Asia-Pacific and Latin America. Our objective was to inform the content of this report and to learn more about the issues our stakeholders expect us to report on, and how they would like us to report them.

The objectives were:

- To improve our understanding of how key stakeholders form opinions of HSBC, and what part sustainability reporting plays in this opinion
- To provide an opportunity for stakeholders to share their views
- To obtain feedback to inform the sustainability reporting strategy more broadly
- To hear the views and opinions of key stakeholders at first hand
- To have an open, honest and constructive dialogue with stakeholders

A total of 125 stakeholders participated in the stakeholder engagement programme worldwide. Of these, 101 attended workshops and 24 participated by telephone. Stakeholders who participated included employees, investors, non-governmental organisations (NGOs), peers/corporate customers and representatives from academia, government and the media.

## Outcomes

Stakeholders across the regions expressed a desire for a 'bolder and more transparent report' that describes the challenges HSBC faces. They agreed that a key issue HSBC should address is sustainable finance and lending. As a financial services provider, we are restricted by the level of detail we can disclose about deals and clients for confidentiality and legal reasons, but we are improving the level of disclosure at a portfolio level in this report, and will increase this further in 2008 as we continue to improve the data systems on which this depends. We have sought to respond to our stakeholders by explaining how we are embedding sustainability into our business. We have also taken a proactive step in addressing our involvement in the forestry sector to demonstrate our approach to sustainable finance and lending. The research showed that treatment of staff, impacts on communities and climate change were also important. We have responded to these with corresponding sections in this report.

Some of the highlights from the stakeholder engagement workshops are detailed below.

## What are the most important issues that HSBC's sustainability reporting should address?

Stakeholders across the four regions felt that finance/lending strategy is the single most critical sustainability issue that HSBC should address. All of the regions, with the exception of Latin America, featured this as a top five issue. A common theme amongst stakeholders in all categories and across the regions was the need for us to be bolder and more transparent. Many recognise the complexity of the task that HSBC faces in aiming to become a leader in sustainability, and feel that a better articulation of the challenge would enhance the Group's credibility.

In response to this, we have provided more detail in the chapter on 'Managing Sustainability Risk' see page 22, which covers

## What are the most important issues that HSBC's sustainability reporting should address?

Rank	Issue	N America	Asia-Pacific	Europe	L America	Consolidated scores
1	Sustainable finance/lending*	3	4	5		12
2	Treatment of staff			4	5	9
3	Community impacts	5	2			7
3	Climate change	4	3			7
5	Sustainable profit growth		5			5
6	Implementation of sustainability strategy			4		4
6	Business ethics				4	4
8	Community investment in education (generally)				3	3
9	Financial inclusion (for low income/disadvantaged customers)	2				2
9	Transparency, particularly process behind difficult decision-making	2				2
9	Governance and prioritisation of issues		2			2
9	Treating customers fairly			2		2
9	Green products				2	2
14	Capturing revenue opportunities linked to sustainability			1		1
14	Sharing best practice community programmes				1	1

\* Includes North America votes for 'sustainable impact of core business'.

The table was compiled by taking the top five issues from each of the four regions. To compile a consolidated ranking, the most important issue in a region was given a score of 5 and the least important a score of 1. The scores for all the regions were then added to produce a final ranking. Full answers to this question by region are provided in the 'Regional analysis' section of this report.

implementation of the Equator Principles, our sustainability risk sector policies, and our application of the UN Principles of Responsible Investment. We also explain our involvement in the forestry sector in more detail in a separate section.

As the results in the table on the opposite page demonstrate, important issues for stakeholders vary considerably between regions. As a global organisation, engaging and satisfying the needs of different stakeholders is a challenge. We aim to increase our dialogue with them through our regional corporate sustainability teams, who are in a better position to address the local concerns of stakeholders. In 2008, we will publish a translation of this report in French and, for the first time, translations in Spanish and Japanese. A number of countries produce their own local sustainability or community reports, depending on the requirements of local stakeholders.

More information can be found at:

[www.hsbc.com/sus-regions](http://www.hsbc.com/sus-regions)

**If you have consulted the HSBC Sustainability Report previously, what particular information, if any, were you interested in?**

Stakeholders primarily consult the Sustainability Report to obtain information on climate change and to compare regional performance. We have sought to respond to this feedback by including regional sections online (see link above) and expanding the section on climate change to include HSBC’s views on the opportunities and risks associated with its effects page 12. We have also sought to respond to the remaining areas of moderate consensus throughout the report.

**What is your goal in terms of future engagement with HSBC?**

An overwhelming number of stakeholders would engage with HSBC again in the future on the subject of sustainability, and wanted to be kept apprised of how their feedback is being taken into account. We are committed to continuing an open dialogue with stakeholders in this way.

**What stakeholders would like to see from HSBC**

**Stakeholders called for more information and transparency on the following topics:**

- Business transactions
- Implementation of sector policies
- How difficult decisions relating to challenges and ‘dilemmas’ are taken
- Focus more on material issues and less on peripheral ones
- Global governance arrangements

**If you have consulted the HSBC Sustainability Report previously, what particular information were you interested in?**

	North America	Asia-Pacific	Europe	Latin America
Highest consensus	Carbon emissions data and to understand more about HSBC’s commitment to carbon neutrality	To check definition of carbon neutrality, and the approach to achieving it	Carbon management and carbon metrics/Approach to climate change	
	To compare regional performance			
Moderate consensus	Equator Principles			
	Benchmarking to peers			
	Structure of report and scope			
	Regional focus			Regional focus
	To see whether ‘it is PR or more’			
	Identify opportunities to partner			Identify opportunities to partner
	To see how HSBC understands, defines and prioritises CSR			
	Supply chain			Supply chain
Diversity			Diversity	
Environmental issues				

# Customers

## Customer service and satisfaction

We ensure that our fees and other charges are in keeping with the regulations in the countries and territories where we operate. We promptly notify our customers before changing service fees. For example, in the UK, we ensure that our policies, procedures and processes are in line with the Financial Services Authority's 'Treating customers fairly' initiative. In the US, in addition to complying with all federal and state regulatory requirements, we have a Fair Lending Office and new product committees whose remit includes ensuring our customers receive fair treatment in terms of products, pricing and accessing services.

Our loan book consists of 50.1 per cent personal lending, 40 per cent corporate and commercial lending, and 9.9 per cent financial lending.

<b>HSBC's total customer loan book by sector 2007</b>	
	<b>%</b>
<b>Personal</b>	
Residential mortgages	26.9
Other personal lending	23.2
<b>Corporate and commercial</b>	
Commercial, industrial and industrial trade	20.1
Commercial real estate	7.2
Other property-related	3.4
Government	0.6
Other commercial	8.7
<b>Financial</b>	
Non-bank financial institutions	9.7
Settlement accounts	0.2
<b>Total</b>	<b>100</b>

## Addressing indebtedness

We offer counselling on debt restructuring, refinancing and reduced payment terms on a case-by-case basis. If a customer has recently started to miss payments, we may provide grace days or interest/fee waivers to help him/her get back on track. If we are unable to help a customer in difficulty, we will refer him/her to an external agency. Repayment arrangements will be set up to facilitate rehabilitation of the account without causing undue hardship to the customer.

## Financial inclusion

HSBC is conscious of its responsibility to ensure that access to finance is in line with local regulations. We put in place measures to ensure that lending to personal and business customers is for the long term, that repayments are affordable, and that the cost of borrowing is not considered predatory.

In the UK, for example, HSBC offers a free telephone and internet banking service to both personal and business customers that complements its 1,500-strong branch network. It also offers a Basic Bank Account to any customer who can provide two forms of identification.

We are a firm supporter of microfinance initiatives and, in 2007, launched a strategy to increase significantly our commercial involvement in this important sector (see page 17 for more details).

## Sub-prime mortgage crisis

The consequences of the downturn in the US housing market, which

began in 2006 and accelerated during 2007, have continued to affect HSBC's business in North America. The US is now experiencing a serious housing market correction, and the effects have spread beyond their origins in the sub-prime mortgage sector to the wider economy.

HSBC was one of the first lenders in North America to identify a problem in the US mortgage sector. In late 2006, HSBC began a proactive outreach programme to contact customers who were facing increased payments on their adjustable-rate mortgages and began to tighten underwriting criteria. As credit conditions in the US deteriorated further in 2007, HSBC Finance took the decision to cease correspondent mortgage acquisitions and closed Decision One Mortgage, its wholesale business. The size and value of the Mortgage Services portfolio, which encompasses both the wholesale and correspondent businesses, is now decreasing. Weaker credit conditions also affected the consumer lending business and, in the second half of 2007, HSBC stopped underwriting certain products and reduced the branch network to align it better with anticipated demand.

HSBC remains engaged with leaders involved in financial supervision oversight and regulation, including those at city, state and federal levels in the United States.

HSBC is a member of the Hope Now Alliance as part of a partnership involving the US Department of the Treasury and Department of Housing and Urban Development to provide support and guidance to distressed homeowners.

As of 31 December 2007, we had contacted more than 41,000 customers with adjustable-rate mortgages, and modified more than 10,300 loans. Additionally, we have refinanced more than 4,000 of our adjustable-rate mortgage customers into fixed rate mortgages. We have also provided more than 12,000 customers with financial relief through our Foreclosure Avoidance Programme. These actions are important not only to minimise losses but to help our customers in difficulty.

## Third-party investments

Some stakeholders have requested that HSBC approach companies whose activities have caused concern because HSBC is a shareholder in that company. They believe that, as an investor, HSBC may have influence with the company. However, in many cases, HSBC is only a nominee for other parties that have purchased the shares and, thereby, we have no shareholder rights and are not entitled to make approaches regarding the company's activities. For example, we offer electronic investment accounts, which allow customers to buy shares efficiently and at a low cost in various companies through HSBC. These shares are registered in the name of HSBC, but we cannot exert any influence through this technical ownership as our client relationship is with the investor, not the company in which shares are held.

# Climate Change

## A global commitment

The UN Climate Change Conference took place in Bali in 2007 where the US joined the new consensus in favour of long-term action on climate change. The European Union maintained its leadership on the issue, committing itself unilaterally to a '20:20:20 vision' (a 20 per cent reduction in emissions, 20 per cent increase in energy efficiency, and 20 per cent of energy obtained from renewable sources by 2020), with key member states, such as Germany, setting the pace. Emerging markets also participated, with China launching its first climate change programme. One of the more significant points in the Bali Roadmap – the agreed action plan for the period up to the next UN Climate Change Conference in Copenhagen in 2009 – is the inclusion of a pledge to reduce emissions from deforestation.

## Why should climate change concern HSBC?

Climate change is not just an environmental issue, but an economic and a social one as well.

Climate change presents both risks and opportunities for our business, and the potential impact on HSBC is far reaching. For HSBC, climate change is primarily an economic development issue that may affect

emerging economies more than developed ones. It is therefore central to the Group's emerging markets strategy.

With 330,000 employees and around 10,000 offices around the world, climate change events could affect our decisions on where to locate our operations, owing to the impact on populations, demographics, food availability and pricing and health.

Our clients would be affected in similar ways, with the increased frequency of droughts, floods and storms having a particular impact on those relying on agriculture, transportation, tourism and the infrastructure industry.

As adviser, lender and investor, we can play an important role in encouraging the companies and projects we finance to manage climate change-related risks and opportunities. Seen less and less as a purely environmental phenomenon, climate change also has the potential to affect businesses through regulatory change and through new opportunities to invest in companies and assets. Efforts to mitigate and adapt to the effects of climate change can yield opportunities. A considerable market already exists for clean energy and the technology to deliver it. According to New Energy Finance, a specialist provider of

## Comment from Ceres

The financial sector plays a critical role in tackling climate change. As one of the world's largest industries, with US\$6 trillion in market capitalisation, banks are key players in combating the impacts of climate change and in supporting the investments necessary to encourage the world economy to reduce greenhouse gas emissions. To gauge banks' progress in addressing the risks and opportunities posed by climate change, Ceres in January 2008 released a report, *Corporate Governance and Climate Change: The Banking Sector*. The report examines how 40 global banks are addressing climate change through their governance structures, support for public policy, carbon accounting, strategic planning and direct actions.

HSBC proved its commitment to both strong governance and concerted action on climate change by receiving the highest score in the report – 70 out of 100 points. HSBC's commitment to become 'carbon neutral' in 2005 has meant that the Group now has a headstart over the competition. Leadership on climate change starts at the top, with HSBC's Board of Directors actively engaged in the Group's climate strategy and public policy position. The Group recognises its role in promoting the shift to a low-carbon economy and managing the risks, while benefiting from the opportunities that this brings. HSBC scored well due to its actions to reduce greenhouse gas emissions through energy-efficiency investments, financing low-carbon technologies, services to help customers manage the physical risks of climate change, and insurance products to support renewable energy and the carbon markets.

Despite its strong performance, HSBC and every bank can do more to address climate change, especially given the scientific consensus that significant emissions cuts must begin now. HSBC needs to make climate change a core part of its business strategy and to reach out to its supply chain, employees, and expand its products.

The Group should require its suppliers to assess and disclose their carbon footprints and plans for reducing emissions, and should share its expertise on how to do this efficiently and effectively.

HSBC has some 330,000 employees, who could potentially be a huge force for change. The Group has started to engage and educate employees about climate risk, and to encourage them to develop strategies to integrate it into their work. HSBC should look to take this a step further by developing a programme to support employees in reducing their personal greenhouse gas emissions.

Finally, HSBC has started to develop climate-specific products, but there is considerably more opportunity for investment. It should engage more heavily in emissions trading schemes and develop risk management, derivative and guarantee products to support the carbon trading market. The Group should set and disclose greenhouse gas emission reduction targets for its lending and investment portfolios, and operations.

Banks have the reach, influence and access to capital required to play a major role in addressing climate change, and HSBC should continue to demonstrate leadership in this effort.

Mindy S Lubber, President, Ceres

*Ceres is a leading coalition of investors, environmental groups and other public interest organisations working with companies to address sustainability challenges such as climate change. It also directs the Investor Network on Climate Risk, a group of 60 institutional investors with collective assets totalling US\$5 trillion focused on the business impacts of climate change.*

For more information, visit:

[www.ceres.org](http://www.ceres.org) or  
[www.incr.com](http://www.incr.com)

information and research to investors in renewable energy, low carbon technology and carbon markets, the global new investment in clean energy in 2007 was US\$148.4 billion.

### Climate change as a strategic issue for HSBC

The appointment of Lord Stern as Special Adviser on Economic Development and Climate Change to the Group Chairman reflects HSBC's view that climate change is the single greatest economic, environmental and social challenge we face this century. Our response to this challenge must be informed by the best possible advice and expertise, and supported at the most senior levels in our business. We also want our colleagues around the world at all levels to be involved in tackling climate change. Our commitment of US\$100 million to the HSBC Climate Partnership, announced in 2007, will fund four leading environmental organisations in their work, including the involvement of over 100,000 colleagues in climate change learning and experience programmes over the next five years (see page 30 for more details).

### Attitudes towards climate change

In 2007, we published the HSBC Climate Confidence Index, a survey of 9,000 people across nine major markets that explored consumer attitudes towards climate change. The survey revealed that people in China and India are most optimistic that the problem of climate change can be overcome, while those in France, Germany and the UK are least optimistic. We intend to conduct the survey again in 2008 to assess changing attitudes towards climate change and provide an indication of how governments, businesses and individuals are influencing and involving consumers around the world.

View full results of the index at:

[www.hsbc.com/sus-index](http://www.hsbc.com/sus-index)

### HSBC and carbon neutrality

In 2005, HSBC was the first major bank – and FTSE 100 company – to become carbon neutral. Carbon dioxide is the most significant greenhouse gas contributing to climate change. Being carbon neutral means our worldwide operations contribute net zero carbon dioxide into the atmosphere, reflecting our commitment to be at the forefront of sustainable business practice.

For us, being carbon neutral is, first and foremost, about reducing our carbon footprint. To do this, we measure and reduce energy consumption across the Group, source renewable energy where possible, and offset any remaining emissions by purchasing high quality verified emission reductions (VERs). The projects producing the offsets meet the standards of such bodies as the United Nations Clean Development Mechanism Executive Board and the Voluntary Carbon Standard.

The carbon offsets we buy must genuinely reduce the amount of carbon dioxide emitted, must be cost-effective and must satisfy long-term sustainable development criteria. The data and offsets of our carbon neutrality are verified and assured by an independent third party.

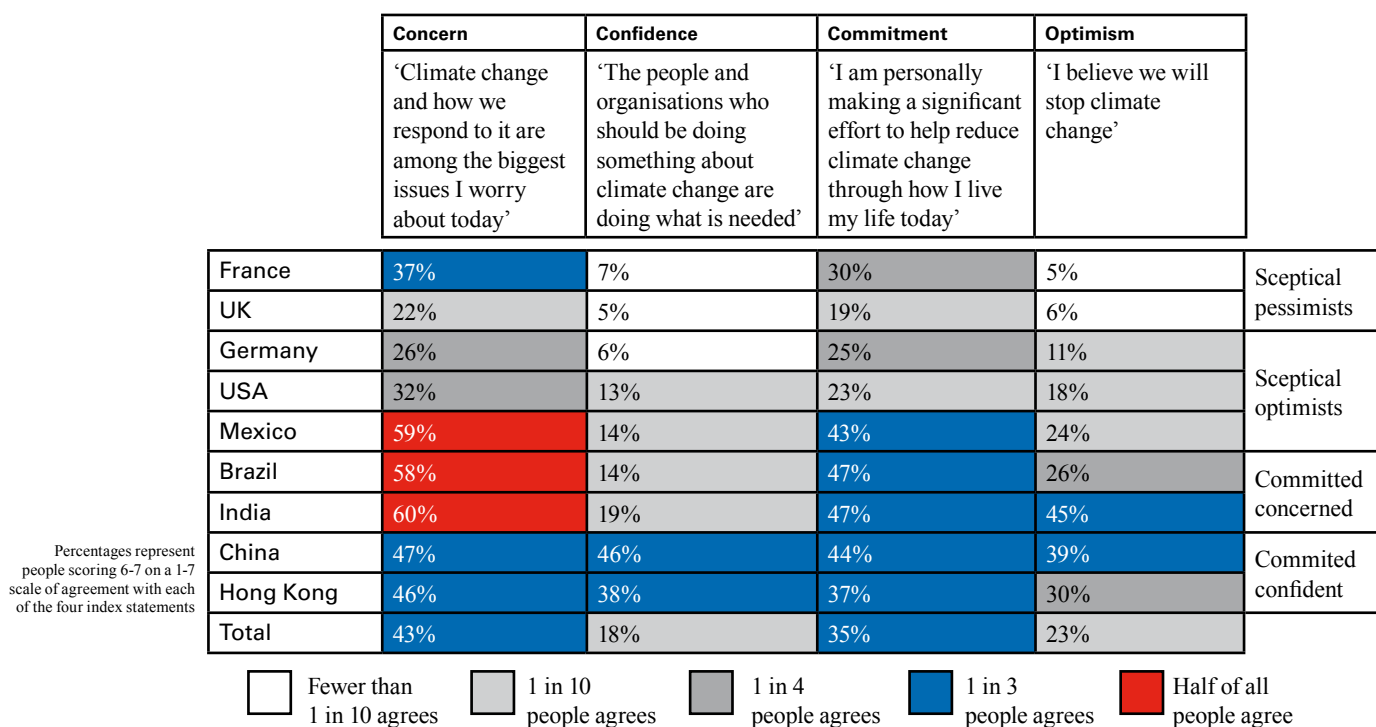
For further information on our carbon offsetting, see:

[www.hsbc.com/cneutral](http://www.hsbc.com/cneutral)

### A catalyst for change

Carbon neutrality also acts as a catalyst for organisational efficiency. Since HSBC incurs the costs of buying carbon offsets, if our carbon emissions increase, so does the cost to the business. However, being carbon neutral is not about cost; we view it as an investment. Through the procurement of green electricity and credible offsets, HSBC helps to stimulate the global supply of, and investment in, low-carbon technologies. We recognise the benefits of such investments to our clients, stakeholders and customers.

### Public attitudes to climate change



**Counting the cost**

HSBC purchased 897,000 tonnes of emission reductions from projects that meet internationally recognised standards of best practice to offset the 897,000 tonnes of carbon dioxide it emitted in 2007. Since October 2005, HSBC has emitted 1,880,000 tonnes of carbon dioxide and purchased the equivalent offsets to remain carbon neutral at a cost of US\$11.4 million. This cost is charged out to countries and territories around the Group based on their actual carbon dioxide emissions, thereby creating an additional financial incentive for them to reduce their emissions and energy usage. We expect the cost of carbon to increase as a result of regulation and carbon taxes, and we believe that financial institutions should and will play an important role in the shift to a low-carbon economy. See 'Accounting for Sustainability' on page 20-21 for more information.

**Climate change research**

The Climate Change Centre of Excellence established in Bangalore, India, in 2007 will work closely with HSBC's Global Research sector heads and analysts to assess the financial implications of climate change. The centre will also support the implementation of HSBC's Carbon Finance Strategy and work alongside a range of businesses throughout the world. Over time, the centre will help establish HSBC as a leader on the economic risks and opportunities associated with a lower carbon economy for the benefit of the Group's business and clients.

**Opportunities**

A key driver of our decision to become carbon neutral was our desire to understand the implications of a low-carbon economy on large, global companies such as HSBC. As a result, we are now in a position to share our experience on the challenges of carbon management. We can also help source offsets that are credible and additional for our clients. See page 15 for further information on business development opportunities.

**Investing in climate change**

The pace of action to combat climate change is increasing as governments, industry and commerce respond to growing public demand. Companies that successfully put climate change high on the corporate agenda can take advantage of fast-developing opportunities.

Combating climate change will involve large shifts in investment patterns across a wide range of sectors. Governments are reshaping markets through new incentives and regulation, creating new business risks and opportunities. The estimated size of the market in clean energy (see table below) shows the opportunities involved. Companies and assets linked to climate change have already begun to perform strongly from these shifts.

In September 2007, HSBC's Equity Quantitative Research team launched the

Estimated size of market for renewable and clean energy	US\$b
New investments in clean energy in 2007 <sup>1</sup>	117
Worldwide solar industry revenues by 2010 <sup>2</sup>	22
Global market for biofuels by 2015 <sup>2</sup>	52
Fuel cells and hydrogen market by 2015 <sup>3</sup>	15
Markets for low-carbon energy products by 2050 <sup>4</sup>	500

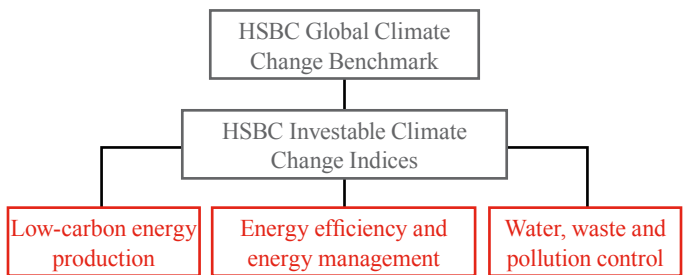
Sources:

- 1 New Energy Finance
- 2 The Climate Group
- 3 Clean Energy Trends
- 4 *Stern Review on the Economics of Climate Change*

Global Climate Change Benchmark Index, together with a family of investable global climate change indices and sub-indices, which together provide a comprehensive and robust solution to climate change investment. The benchmark index is designed to provide exposure to companies focused on combating or developing solutions and overcome the effects of climate change across the entire industrial supply chain and, in turn, it identifies those companies best positioned to profit from the response to climate change.

The HSBC Global Climate Change Index represents the first step towards helping investors and providers of finance in their decision-making process relating to climate change investments. One of the defining characteristics of the index is its innovative approach, creating an objective and quantitative global measure of the low-carbon and climate-protection investment opportunity.

**The HSBC global climate change family of indices**



The economic breadth of the indices goes beyond clean energy, capturing the broadest set of companies exposed to the climate change challenges, including those providing responses to climate impacts. They are global in scope with companies drawn from 35 countries across Europe, North America, Asia-Pacific and Latin America. Their financially based selection criteria, which focus on revenues from climate-related activities, form the basis for stock inclusion.

By providing an objective measure of both the 'climate opportunity' and its performance characteristics, the index has already begun to help capital markets become more informed with the financial and competitive consequences of environmental and climate change considerations.

- Returns: In 2007, the HSBC Global Climate Change Index returned in excess of 26 per cent, outperforming global equities by 17 per cent. Between January 2004 and December 2007, the index returned 143 per cent, outperforming global equities by 90 per cent.
- New product development: On the back of the index, HSBC launched the GIF Climate Change Fund in November 2007. The fund draws from the constituents of the Global Climate Change Index, and the fund manager then uses a two-tier quantitative stock selection approach to generate a well-diversified portfolio of 50-70 stocks.
- Client solutions: The index has also provided the basis for a range of capital-guaranteed structured funds, total and price return swaps, as well as participation notes.

The HSBC Climate Change Fund, which is benchmarked to the index, invests in companies that are considered best placed to benefit from developing solutions to the challenges of climate change.

# Business Development

## HSBC's role in developing a low-carbon economy

No simple solution to climate change exists, but there is consensus that carbon dioxide emissions must stabilise and then be reduced in order to limit the effects of climate change. A combination of existing technologies that increase energy efficiency and energy production from renewable sources must be deployed if we are to achieve this low-carbon economy.

Lord Stern, who joined HSBC as Special Adviser on Economic Development and Climate Change to the Group Chairman in 2007, states that climate change is driving a fundamental shift in the global economy. In his statement on climate change in the HSBC Holdings plc *Annual Review 2007*, Lord Stern highlights the advantage financial institutions have in managing the risks and opportunities associated with climate change. He believes that HSBC has a critical role to play in shaping the market response.

For the full statement, visit:

[www.hsbc.com/financialresults](http://www.hsbc.com/financialresults)

The United Nations Framework Convention on Climate Change (see bar chart below) plots a scenario where carbon dioxide emissions have peaked and returned to current levels in 2030. It then estimates the pattern of investment required to achieve this. As Lord Stern suggests, HSBC has a role to play in providing some of this investment.

This scenario is supported by the mandatory targets for green power generation and increasingly stringent carbon emission reduction targets being adopted by many countries. In order to meet these targets, subsidy support mechanisms are being developed to attract investment, yet still require finance since responding to climate change is both a public and private endeavour.

Financing of renewable energy and efficiency technologies represents a major opportunity to work across our customer and product groups with new and existing clients. We will focus on technologies that are commercially viable. Opportunities will exist both at a large-scale project level for financing and advisory services, as well as with companies providing underlying technologies such as wind turbine manufacturers and solar photovoltaic cell suppliers, and individual consumers taking action in their homes.

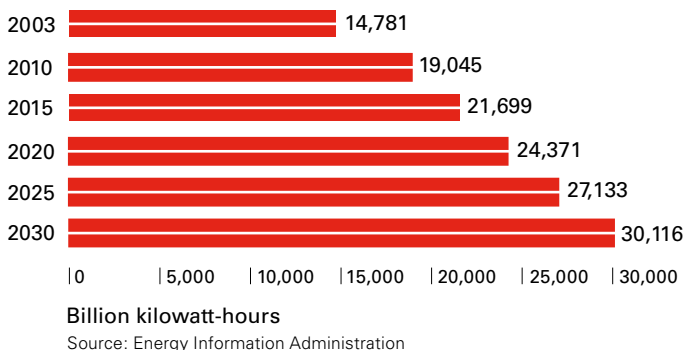
## Carbon Finance Strategy

We are helping clients understand and manage the challenges that the transition to a low-carbon economy presents. Our Carbon Finance Strategy, launched in 2006, supports clients who are developing clean technologies and non-fossil fuel energy solutions that are both technically and commercially viable. We see an opportunity to create value for new and existing clients by making them aware of the economic, financial and environmental benefits of better carbon management, and enabling them to capitalise on emerging opportunities.

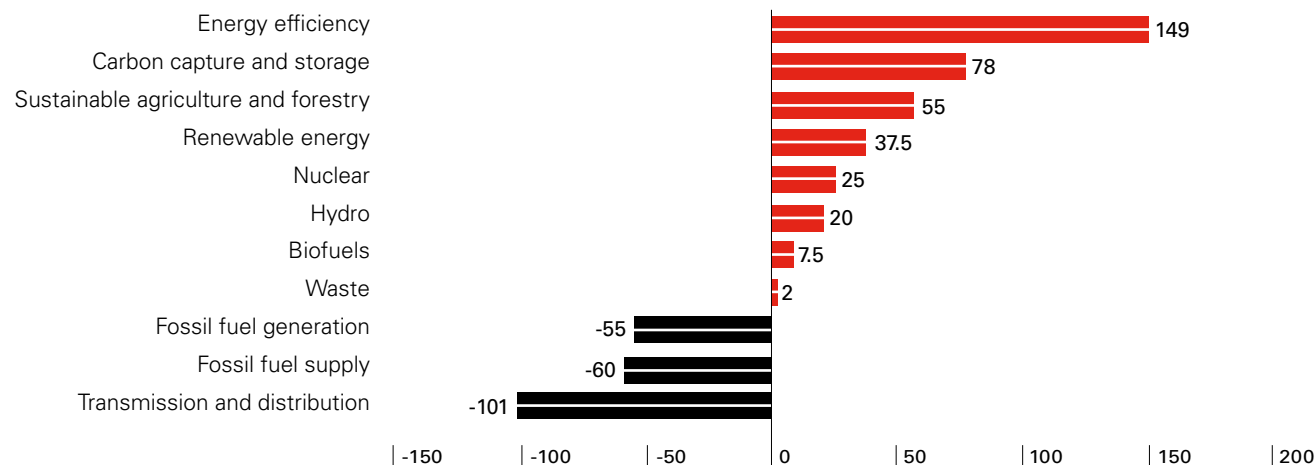
## HSBC and fossil fuels

The transition to a low-carbon economy will take many years. In the medium term, fossil fuel-based energy projects will be required to meet a percentage of the projected demand for electricity as demonstrated in the chart below. For this reason, we will continue to support fossil fuels, including investment in the coal, oil and gas industries within the performance standards of the International Finance Corporation, the Equator Principles and our own sector-specific risk policies. These policies require that low carbon emission technologies be used where feasible. Additionally, borrowers must demonstrate compliance with regulations on greenhouse gas emissions. However, we see opportunities to work with existing and new clients to promote clean energy generation, low carbon, energy efficiency and renewable energy technologies.

## Estimated world electricity consumption



## Low carbon futures: the scale of the investment shift required to stabilise global carbon emissions by 2030 (US\$b)



Source: United Nations Framework Convention on Climate Change

**Financing long-term sustainable forestry**

The United Nations Food and Agriculture Organisation estimates that global consumption of wood and wood-based products will increase by 60 per cent over the next 25 years. The adoption of sustainable forestry will be necessary to meet present-day needs while simultaneously ensuring availability for long-term development. Sustainable practices will be particularly important for certain tropical countries, where rapid deforestation of natural forests continues.

We are seeking to create access to the capital markets for forestry companies through long-term bonds, which will be backed by selected certified sustainable forest assets. Such a framework will allow these companies to realise future cash flows, fund the upfront costs of obtaining certification, and provide an incentive to protect the longer term value of their underlying forestry assets through more sustainable harvests. It is estimated that the investable global timber and forest sector currently exceeds US\$300 billion.

**Global Banking and Markets**

The HSBC Project and Export Finance teams are closely following the development of the renewables industries. These sectors will provide good opportunities for project finance, advisory services, insurance, and general risk management. HSBC Project Finance Asia arranged non-recourse financing for a 50-megawatt wind farm in Khandke, Maharashtra, India, which is being developed by Roaring 40s, a joint venture between CLP Group and Hydro Tasmania. In 2007, business from renewable energy comprised 39 per cent of our project finance to the power sector.

Globally, HSBC's sustainable and responsible investment (SRI) capability has made significant progress in response to the demands of institutional clients. In 2007, we managed US\$2.4 billion in ethical and SRI funds globally, an increase of 60 per cent compared with 2006. Nevertheless, this still represents a very small part of our investment

business. We are committed to growing the SRI business in 2008. In 2007, we integrated our international SRI capabilities into a global platform to provide clients with in-depth SRI expertise and a broad set of investment solutions. We developed a proprietary research methodology which integrates relevant information from ratings agencies Innovest, Oekom and Vigeo, which support a full range of products (global, European and euro equities, and euro fixed income).

In June 2007, HSBC Investments announced the establishment of a global SRI Centre of Excellence. The team consists of six analysts and two product specialists based in four key locations: United Kingdom, France, Brazil and India.

**Commercial Banking**

HSBC's Commercial Banking business provides financing to small and medium-sized businesses that are likely to develop and monetise new solutions for the low-carbon economy (see case study on page 17).

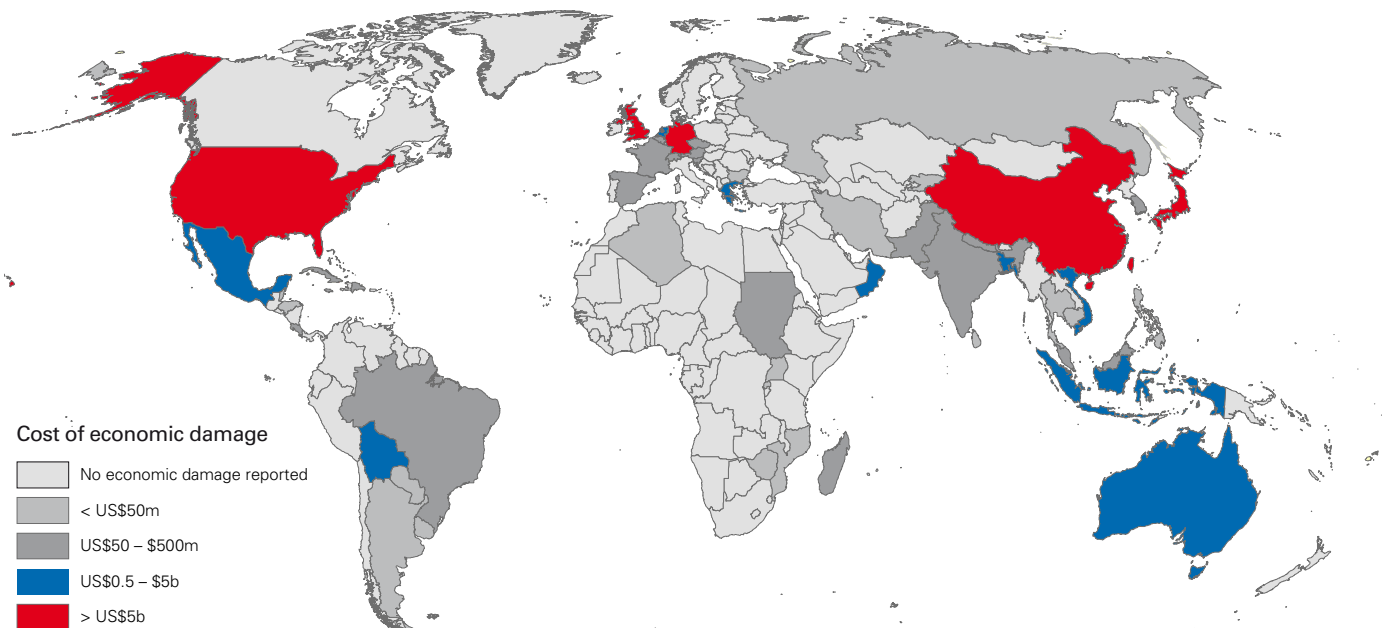
**Insurance**

Climate change represents both a threat and an opportunity for the insurance sector. The illustration below shows the damage caused by recent natural disasters.

As climate change threatens to result in rising sea levels and higher storm surges, a study by the Organisation for Economic Co-operation and Development has found that as much as US\$35 trillion worth of infrastructure and assets could be exposed to damage by the year 2070. Therefore, there is an opportunity to create climate adaptation products that can properly manage these risks. In addition, carbon mitigation will produce new opportunities in the renewable energy and low-carbon sectors ranging from traditional project insurance to climate change-specific products such as carbon credit delivery guarantees.

HSBC Insurance is making good progress in building sustainability

**Reported economic damage from natural disasters in 2007**



Source: Emergency Events Database: The OFDA/CRED International Disaster Database, Université Catholique de Louvain, Brussels, Belgium, www.emdat.net

into its business. We are involved in shaping the global insurance industry's response to the challenges posed by sustainability issues, including climate change, through our involvement in leading forums such as the UN Environment Programme Finance Initiative Insurance Working Group.

From a business development perspective, HSBC Insurance is in the process of developing insurance opportunities that support action to address the causes or effects of climate change. In 2007, HSBC Insurance Brokers pioneered new risk advisory services to assist clients with the risks and opportunities posed by climate change at an enterprise level. This incorporates both strategic risk management and climate modelling. HSBC Insurance Brokers also launched a dedicated insurance facility for renewable energy projects in 2007.

From an environmental perspective, HSBC Insurance Brokers are also working with banking colleagues to provide specialist support in the application and monitoring of environmental credit risk guidelines through a web-based system. Such a system was put into full-scale pilot for real estate lending in the UK, with the objective of rolling it out to other countries as it matures.

#### **Retail Banking Wealth Management (including consumer finance)**

A changing world presents new business opportunities. We have pursued these opportunities in 2007 by developing sustainable retail products and services in the UK, US, Brazil, Singapore and Hong Kong (see the case study below).

### **Case study: Retail Banking Wealth Management**

#### **'There's no small change'**

This large-scale marketing campaign launched by HSBC in the US included marketing materials printed on Forest Stewardship Council-certified and 100 per cent recycled paper. Customers who opened a paperless HSBC current account received a complimentary green kit which contained 'eco products', information and guidance on the small changes they could make. Donations of US\$1 million were made to local environmental organisations, including the Buffalo Olmsted Parks Conservancy, City Parks Foundation, Friends of the National Arboretum, the Genessee Land Trust and the New York Botanical Garden, among others.

#### *Results*

HSBC achieved higher response rates than planned, with substantially higher deposit balances and increased customer product holdings. Online bill payment rates were up 33 per cent and 52 per cent in April and May respectively following the launch of the campaign, demonstrating strong customer interest.

#### **Microfinance**

Microfinance is the provision of small-scale financial services such as credit, savings, insurance and remittance products to people who do not have access to financial services. Projects vary from wholesale lending and credit lines to project support, cash management and foreign exchange handling.

Microfinance presents a compelling commercial business opportunity that offers the potential for commercial returns, both on capital and on ancillary business, with a high social impact. It has the potential to be a fully sustainable development activity.

Since 2004, HSBC has piloted a number of microfinance projects around the world. In 2007, the Board approved an updated strategy which is now being rolled out across Asia and Latin America. Our approach is to engage with the microfinance sector on a commercially viable and sustainable basis, not as philanthropy. The strategy exploits HSBC's strengths and focuses the business on our existing products and operations such as cash and liquidity management, collections, receivables, currency, remittances and cards.

### **Case study: Commercial Banking**

#### **Green equipment financing in Hong Kong**

In July 2007, we launched a unique green equipment financing product in Hong Kong to provide an incentive for businesses to switch to low-carbon and energy-efficient technologies. HSBC was the first bank in Hong Kong to launch such a product, which is targeted at Hong Kong-based companies with production facilities in the territory or in China.

The Business Environment Council, an independent not-for-profit organisation, supports the product, assessing the environmental merits of the equipment being financed and confirms the customers' eligibility for the programme. Borrowers benefit from an interest rebate of up to two months, a 50 per cent waiver in documentary credit fees, a six-month principal repayment moratorium, and a two-year fee waiver on a BusinessVantage account. Additionally, for every HK\$2,000 of the loan amount, the bank donates HK\$1 to WWF Hong Kong to promote environmental conservation.

#### *Results*

In the first six months of the product's launch the response, particularly in the small business market, was very favourable, with both the number of applications and loan amounts exceeding original expectations. This success has led to HSBC being invited to be a strategic partner in the Cleaner Production Partnership Programme, which is funded by Hong Kong government and led by the Hong Kong Productivity Council.

# Footprint Management

## Reducing the direct impacts of buildings and business operations

We aim to reduce HSBC's direct environmental impact relating to energy, waste, water, carbon dioxide emissions and business travel. We also measure and report on our full-time employees and use of floor space.

### Targets for 2005-07

For the three-year period 2005-07, we set environmental targets for energy, water, waste and carbon dioxide produced from energy. The targets cover 83 per cent of the countries that report environmental data and 77 per cent of Group full-time equivalent employees as of 31 December 2007. As the table below shows, the 8 per cent target for waste and 5 per cent target for carbon dioxide were achieved, with reductions of 16 per cent and 27 per cent, respectively. A 6 per cent reduction in energy use and a 6.8 per cent reduction in water consumption were achieved against targets of 7 per cent for each. Target analysis for energy, water and carbon dioxide is undertaken by a 'like-for-like' methodology, which discounts any acquisitions or disposals over the three years. Target analysis for waste is not calculated using the 'like-for-like' methodology, and is based on total waste sent to landfill.

### Group targets for 2005-07 (%)

	Energy	Water	Waste <sup>1</sup>	Carbon <sup>2</sup> dioxide
2005-07 target	-7.0	-7.0	-8.0	-5.0
Group achievements against targets 2007	-6.0	-6.8	-16.1	-27.4

Targets cover the UK, France, Asia-Pacific, Canada, Mexico, Brazil, Argentina and the US.

<sup>1</sup>Excluding Argentina, which will start reporting data for waste in 2008

<sup>2</sup>Excluding emissions from business travel

### Targets for 2008-11

HSBC has set new targets for the 2008-11 period, which are supported by our Global Environmental Efficiency Programme and the aims of the HSBC Climate Partnership. Targets have been set in 24 entities, including HSBC's Global Technology Centres and Group Service Centres. These entities cover 91 per cent of the Group by full-time equivalent employees. The targets have been calculated by adding projected growth and subtracting planned environmental initiatives from our 2007 baseline, and normalising against full-time employee equivalent.

### Group target metrics 2008-11 (%)

	Energy	Water	Waste	Carbon dioxide
Per employee (full-time equivalent)	-8%	-11%	-10%	-6%

### Linking targets to performance

In 2008, HSBC will evaluate senior management across the Group through the 'Balanced Scorecard' method. Environmental targets will form part of the objectives of the scorecards, thereby raising the profile of reduction targets on agendas and promoting action to meet and exceed them.

### Global Environmental Efficiency Programme

In 2007, HSBC launched the US\$90 million, five-year Global

Environmental Efficiency Programme to reduce business travel and the environmental footprint of our office buildings. The programme is designed to promote innovative projects that go beyond business as usual, such as the use of low carbon technologies. The Group seeks to achieve, by 2011, a minimum of LEED (Leadership in Energy and Environmental Design) gold certification or the equivalent for 50 of its major buildings. To date, the Group has achieved certification for four of its buildings, including Latin America's first-ever LEED gold certificate for HSBC's headquarters building in Mexico City, and the 'zero-carbon' branch in the town of Greece, New York State.

### HSBC Climate Partnership

Employees participating in the HSBC Climate Partnership will undertake a variety of initiatives that will help achieve the Group's environmental targets. More on the Partnership is found on page 30.

### Measuring and reporting

In order to reduce and report on HSBC's environmental footprint, we must first measure the usage of energy, water, waste and business travel. We do this by monitoring such usage in 46 of the 83 countries and territories where we have offices. These countries cover 95 per cent of our full-time equivalent employees. We have established a network of over 200 staff who manage the implementation, monitoring and reporting of environmental initiatives to reduce direct impacts. Regional information is collected from a range of sources, including the property, purchasing and travel departments. This information is entered into the online database, which tracks performance against Group environmental targets in real time. The data is approved by senior managers in the relevant regions and, finally, by our footprint advisory and reporting teams at Group Head Office. The data is then externally verified and audited.

For the purposes of achieving carbon neutrality, we scale up the results from our environmental reporting and management system to 100 per cent of our full-time equivalent employees and all our properties and buildings. We then apply additional uncertainty factors for emission estimates for electricity, other energy and transport. These uncertainty factors are consistent with those recommended for emissions estimates from energy and transport in the *IPCC Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories*.

## Case study

### Applying new technologies

HSBC continues to roll out video collaboration technologies across the Group. This technology reduces the need for business travel. The findings of a one-month monitoring trial of the use of rooms equipped with such technology at HSBC's Group Head Office in London, as a way of displacing a return flight, demonstrated a reduction of 523,000 air miles – a saving 185 tonnes of carbon dioxide – and a financial saving of US\$604,000.

# Supply Chain

## Management overview

HSBC incurs an annual expenditure of over US\$12 billion for purchasing a wide range of products and services, including IT hardware and software, telecommunications, transportation, energy and print/paper. The largest expenditure is on IT equipment and services followed by Operations, Human Resources and Marketing. Our procurement network consists of over 600 people in 49 countries and territories. Suppliers range from large multinationals to small local businesses. Our use of e-procurement systems is designed to meet both local and global business needs.

Since 2005, we have incorporated specific reference to sustainability in the annual objectives of all heads of purchasing in the Group. This target has been achieved, ensuring proactive implementation of sustainability solutions in the supply chain and effective management of associated supplier risk.

## E-procurement

Our 'BuySmart' e-procurement system has been extended in terms of both scale and scope. It now covers 26 countries and territories with 75,000 users. The addition of further functional capability will enhance the opportunities for paperless end-to-end management of orders, contracts and invoices.

E-procurement helps reduce costs and our impact on the environment. In 2007, the volume of paperless orders issued increased to a new high of 688,440 and e-invoicing also achieved a record 250,293 items. We aim to increase paperless trading between HSBC and its suppliers.

## Supplier contracts

We look for suppliers who share our commitment to sustainability and stipulate environmental criteria in tenders. HSBC's 'Request for proposal' process requires confirmation of adherence to ethical and sustainable business practices from any third party supplier.

Our 'Ethical Code of Conduct' for suppliers, which is reviewed on a regular basis, explains our expectations of suppliers' environmental practices and employment conditions, including child labour and discrimination issues. Prospective suppliers are asked to provide their corporate policies relating to sustainability for us to assess. Existing suppliers are expected to audit and monitor their practices to ensure compliance with our code of conduct. Third-party site audits have also been used to evaluate the performance of selected suppliers against agreed criteria to ensure compliance with HSBC standards and local laws and regulations.

The implementation of a complete vendor lifecycle management programme in Mexico has enabled the integration of sustainability into the evaluation and selection processes. The vendor management programme has also assisted in creating a broader internal and external appreciation of sustainability in the supply chain.

## Working with suppliers

During 2007, we successfully extended the availability of Forest Stewardship Council (FSC)-certified papers in our operations by working with mills and converters. Our offices in 18 countries and territories are now using FSC-certified papers for all or some of their paper requirements. Whilst availability is increasing globally, usage is

limited by availability of FSC-certified sources by paper grade and geography.

In the United States, we recently held our second supplier diversity forum, bringing together diverse vendors from across the country to meet strategic vendor partners and create opportunities for them to increase their business with HSBC. We used this event to educate the 95 participating vendors on HSBC's supplier diversity initiatives.

Our offices in the Asia-Pacific region implemented a new supplier performance award scheme for 2007. One of the categories was awarded to the supplier who was most closely aligned with HSBC's vision and mission on sustainability. This award was won by Haworth Inc. for its overall engagement on sustainability and the development and supply of its FSC-based 'Premise' office system to HSBC in Singapore.

Working with a third-party audit organisation, HSBC has continued to support primary, secondary and even tertiary suppliers of branded goods in evaluating their performance against HSBC's ethical codes and local or international legal and regulatory requirements. During 2007, over 170 supplier site audits were completed across the globe. Instead of immediately terminating supplier relationships where non-compliance was identified HSBC has, through the development and monitoring of appropriate action plans, been able to assist suppliers in improving their performance and the achievement of the required standards. In 2007, HSBC terminated 19 supplier relationships where the necessary improvements on critical issues were not achieved within the agreed timescales.

## Electricity

HSBC's support for sustainably produced electricity is seen by our use of green power tariffs and by our purchase of renewable energy certificates (RECs), or 'green tags', where available.

In the UK, we continue to subscribe to a 100 per cent 'green electricity' tariff and have extended our agreement for a further two years to ensure availability in a market where demand is outstripping supply.

In the United States, we bought clean energy equivalent to a third of our electricity consumption through the purchase of renewable energy credits, supporting various wind, landfill gas and geothermal energy resources around the country. In Canada, 15 per cent of our electricity consumption is from the purchase of renewable energy credits, which support several wind energy facilities in the province of Alberta.

## Supplier engagement

Following the initial engagement with major suppliers on sustainability in the supply chain, further discussions have been held to understand and incorporate developing best practice. These interactions have also been progressed within professional bodies to access comparators in terms of approach and outcomes. Benchmarking HSBC supply chain initiatives within the supply chain and with professional bodies will continue to be an important element of HSBC remaining aligned with developing best practice.

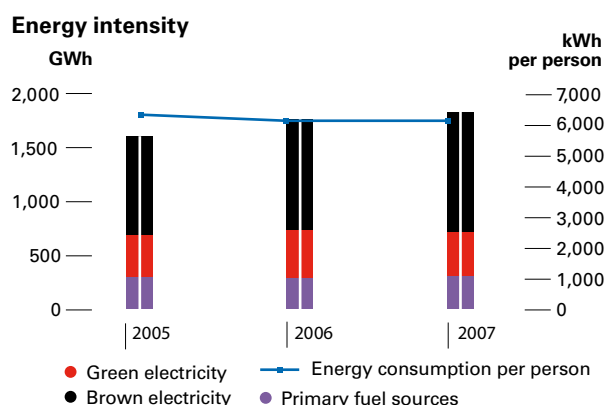
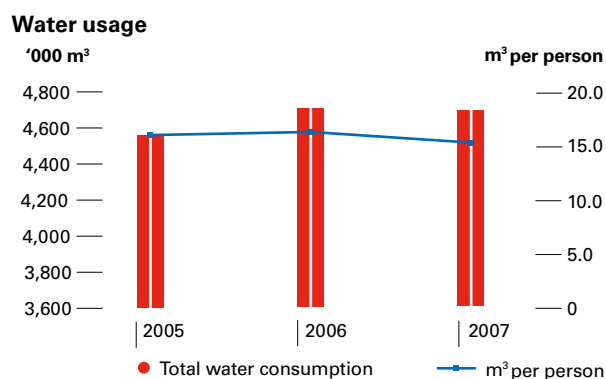
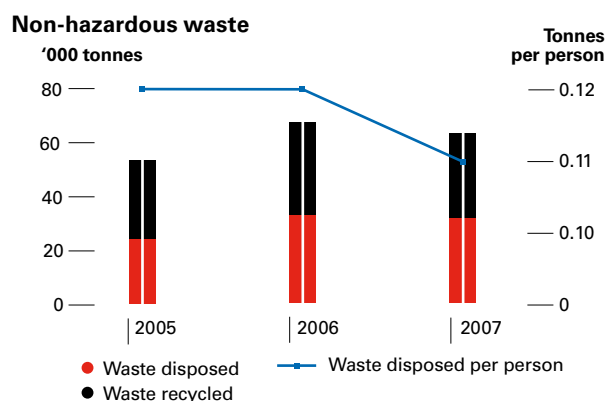
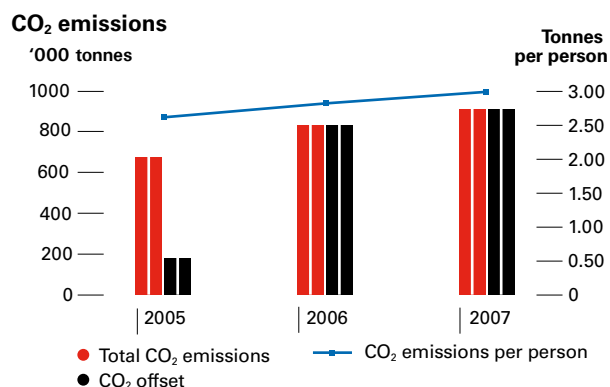
For more information, visit:

[www.hsbc.com/supplierscode](http://www.hsbc.com/supplierscode)

# Accounting for Sustainability

## HSBC: Climate, waste and resource impact

	Cash flow performance		
	2005 US\$m	2006 US\$m	2007 US\$m
<b>Greenhouse gas emissions</b>			
• CO <sub>2</sub> emissions			
- offset expenditure			11.4 <sup>†</sup>
- HSBC Global Environmental Efficiency Programme sustainability expenditure on green travel		2.0	
- Global Environmental Efficiency Programme sustainability expenditure on energy reduction			21.0
- Environmental target-driven savings from reduced offset costs		0.8	0.9
†Total for 2005-07			
<b>Waste</b>			
• Non-hazardous waste			
- Total disposal cost*	n/a	n/a	n/a
- Global Environmental Efficiency Programme sustainability expenditure (to be included from 2008)			
*Expenditure on waste reduction and recycling initiatives is incorporated in HSBC's Corporate Real Estate business-as-usual budget and is not included in HSBC's Global Environmental Efficiency Programme.			
<b>Resource usage</b>			
• Water usage			
- Operating expenditure*	n/a	n/a	n/a
- Environmental target-driven savings		0.2	0.7
- Global Environmental Efficiency Programme sustainability expenditure (to be included from 2008)			
*Expenditure on waste reduction and recycling initiatives is incorporated in HSBC's Corporate Real Estate business-as-usual budget and is not included in HSBC's Global Environmental Efficiency Programme.			
<b>Energy intensity</b>			
- Operating expenditure	191	238	269
- Global Environmental Efficiency Programme sustainability expenditure on energy reduction*			21
- Environmental target-driven savings from improved efficiency		5.5	10.5
* This figure does not include environmental target expenditure (to be included from 2008).			
• Environmental incidents			
- Fines			



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. HSBC participated in the development of the 'connected reporting framework', which proposes a new approach for reporting an organisation's environmental footprint and its financial impact more clearly and concisely. This framework, including HSBC's input, is presented on these pages.

HSBC's total carbon dioxide emissions rose by 10 per cent in 2007. This increase was due to higher energy consumption across the Group as a

result of business growth in Hong Kong and India, and increased reporting coverage for the Middle East and one Group Service Centre. However, carbon dioxide emissions per full-time employee equivalent rose by 4 per cent\* during the same period and energy consumption per full-time employee equivalent remained flat. Carbon dioxide emissions resulting from business travel dropped by 9 per cent\* because less use was made of short-haul flights and road transport.

\* Calculated using non-scaled up data, which does not include renewable energy certificates.

## Targets

### Carbon dioxide emissions

HSBC achieved a 27.4 per cent reduction in carbon dioxide emissions against a 5 per cent target based on energy use and monitored on a static portion of the portfolio from 2005-07.

This result was achieved by:

- Reductions of 26 per cent in France
- Sourcing of cleaner electricity in Hong Kong and the UK
- Purchase of renewable energy certificates in the US

### Waste

HSBC achieved a 16.1 per cent reduction of waste produced against an 8 per cent target.

This result was achieved by:

- Reductions of over 20 per cent in France, the USA, Canada and Brazil
- Awareness-raising programmes and recycling infrastructure and facilities in the UK, Hong Kong, Argentina, Ireland, South Korea, Malaysia and Taiwan
- Re-tendering waste contracts to include specific clauses that maximise reduction and recycling opportunities

### Water

HSBC achieved a 6.8 per cent reduction in water consumption against a 7 per cent target.

This result is due to:

- USA and Canada increasing water consumption by 23 per cent due to increased employee numbers and a need for greater cooling capacity in offices
- France reducing its consumption by only 3 per cent against its target of 10 per cent
- Reductions of almost 30 per cent in Mexico and Brazil and 12 per cent in Argentina, in response to severe droughts in 2006, and the resultant staff awareness programmes

### Energy

HSBC achieved only a 6 per cent reduction in energy use against a 7 per cent target.

This result is due to:

- Mexico and Brazil recording increases of 2 per cent because of greater use of air conditioning
- The UK and France exceeding their respective targets of 9 per cent and 2 per cent due to improving efficiency and replacing air conditioning, heating and ventilation equipment

## Customer and supplier impacts

### Carbon dioxide emissions

HSBC has set a new carbon dioxide reduction target of 6 per cent for 2008-11. This will be achieved by:

- Measuring and monitoring of HSBC's carbon footprint
- Reducing energy consumption and improving energy efficiency
- Procuring green tariff energy
- Buying verified emission reduction offsets
- Continue to reduce carbon dioxide emissions from business travel.

### Waste

HSBC has set a new waste reduction target of 10 per cent for 2008-11. This will be achieved by:

- Providing redundant marketing material, furniture and IT equipment to schools and charities
- Recycling and disposing of disused electrical equipment in offices and branches across Europe in line with EU legislation
- Reducing waste at source and recycling it within our branch and office network
- Spending US\$2.6 million on over 60 initiatives by 24 entities to reduce the amount of waste sent to landfill sites

### Water

HSBC has set a new target of 11 per cent for reducing water consumption for 2008-11. This will be achieved by:

- Continuing to design and operate buildings to external benchmarks such as Building Research Establishment Environmental Assessment Method and the Green Building Council's Leadership in Energy and Environmental Design
- Support awareness-raising programmes across HSBC's operations in conjunction with local environmental groups.

### Energy

HSBC has set a new target of 8 per cent for reducing energy use for 2008-11. This will be achieved by:

- Spending almost US\$90 million on 300 initiatives
- Designing all new Group data centres to local green building standards such as Building Research Establishment Environmental Assessment Method and the Green Building Council's Leadership in Energy and Environmental Design
- Conducting environmental audits on existing data centres

# Managing Sustainability Risk

## How HSBC views sustainability risk

HSBC assesses potential environmental and social risks when agreeing new business with customers, a process similar to analysing other types of business risk, such as credit risk. In 2002, we introduced a Group standard that requires offices to manage this risk, followed by the development of a series of industry sector policies to provide further guidance to our business.

## Policies

### Equator Principles

The Equator Principles are a set of voluntary guidelines to help financial institutions assess and monitor the environmental and social impacts of large projects such as power plants and airports. HSBC adopted the Equator Principles in 2003 and they are applied in our Project and Export Finance business both to project finance loans and also to other facilities where the use of proceeds is known to be directly related to a project. Together with our sustainability risk sector policies, they form an important part of our process of managing sustainability risks. HSBC plays a key role in the continued development of the Equator Principles. We are a member of the Equator Principles Steering Committee and the leader of the Governance Working Group. In 2007, we helped to develop the management structure for the Equator Principles and we are currently managing the policy development on governance.

The Principles categorise projects according to the scale of potential

### Summary of sustainability risk policies (see p.24)

	Chemicals	Defence	Energy
Prohibited business	Chemical weapons Persistent organic pollutants (POPs) Hazardous pesticides and industrial chemicals	The financing of weaponry	
Minimum standards	Stockholm Convention on POPs Rotterdam Convention on hazardous chemicals/pesticides World Health Organisation Redlist of hazardous pesticides Montreal Protocol on depletion of the ozone layer		Kyoto Protocol where applicable EU Emission Trading Scheme where applicable
Restricted business		The financing of non-weaponry equipment for the defence sector	HSBC takes a cautious case-by-case approach to financing nuclear power, requiring that proposals meet international standards as set by the International Atomic Energy Association (IAEA)
Issued	August 2005	May 2000 (updated March 2005)	June 2006

## Equator Principles: transactions screened by HSBC

	2007		2006		2005	
	No.	Value (US\$m)	No.	Value (US\$m)	No.	Value (US\$m)
By mandate						
- Lending	103	8,705	76	5,171	67	4,601
- Advisory*	26	n/a	n/a	n/a	n/a	n/a
Loans by category						
- Category A	7	1,407	1	80	5	809
- Category B	57	5,184	41	2,708	38	1,917
- Category C	39	2,114	34	2,383	24	1,875
Loans by type of facility						
- Solely commercial	63	4,516	42	2,921	39	1,995
- Solely export credit	32	2,878	29	1,350	21	2,075
- Commercial/export credit	8	1,311	5	900	7	531
Transactions declined	4	n/a	4	n/a	7	n/a

\*The Principles were extended during 2006 to cover advice given to clients on project finance.

Category A: Projects with potentially significant adverse social or environmental impacts that are diverse, irreversible or unprecedented.

Category B: Projects with potentially limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

Category C: Projects with minimal or no social or environmental impacts.

Loans by region	2007	
	No.	Value (US\$m)
Americas	18	1,294
Asia-Pacific	23	2,820
Europe, Middle East and Africa	62	4,591

Loans by industry sector	2007	
	No.	Value (US\$m)
Infrastructure	31	2,471
Mining and metals	8	847
Oil and gas	17	1,958
Power	28	2,282
Telecommunications	7	573
Transport	9	553
Other	3	21

environmental and social impacts, from A (high, which are all subject to clearance by HSBC's Head Office) to C (low). A social and environmental assessment is undertaken for all Category A and B projects, to determine whether the project meets the standards of good practice published by the International Finance Corporation and local laws. A project will only be financed if we consider the impacts to be acceptable and the client's ability to manage them satisfactory. The loan agreement with the client is

conditional on the project running in accordance with the Principles and, in higher impact projects, requires independent monitoring of compliance throughout the life of the loan.

The table on page 22 provides a breakdown of the projects screened over the last three years. In 2007, we screened 103 loans, a rise of 32 per cent from 2006, showing the success of our underlying business. We declined four loans where the sustainability impacts were unacceptable. The percentage of loans declined continues to fall due to the increasingly high standards observed by our clients and the ability of our managers to identify unacceptable projects at an early pre-screening stage.

In response to our stakeholders' request for more transparency, we have increased our reporting on Equator Principle projects this year. For example, the table opposite shows the number of roles where, prior to lending, we advised on projects and worked with clients in line with the Equator Principles while the table on the left breaks down our transactions by region and by industry sector.

We now capture data relevant to our strategy of combating climate change and facilitating the shift to a low-carbon economy. As a result, we can report that 39 per cent of approved power projects related to renewable energy in 2007.

Our stakeholders also tell us they would like increased assurance on our implementation of the Equator Principles, even though they understand

Forest Land and Forest Products	Freshwater Infrastructure projects	Mining and Metals
----- Operations in UNESCO World Heritage Sites -----		
----- Operations in Ramsar Wetlands -----		
Illegal logging, Trading of illegal timber or forest products	Projects that significantly degrade or convert critical natural habitats:	Uranium for weapons purposes Diamonds not certified under the Kimberly Process Artisanal mining
Certification schemes approved by HSBC as meeting its standards	World Commission on Dams World Bank and International Finance Corporation standards	International Cyanide Management Code or equivalent (for gold mining) Health and safety: referring to fatal injury and lost time frequency rates EU Emissions Trading Scheme (iron, steel, coke, cement in EU)
----- Operations adjacent to, or impacting on UNESCO World Heritage Sites -----		
Transactions in countries defined as having significant levels of illegal logging, biodiversity and/or social conflicts (independent confirmation required if on credible path)  Plantations converted since 2004  Pulp and paper where raw material is not certified by a certification scheme approved by HSBC		Riverine or marine tailings disposal Uranium for power purposes Individual operating sites with: 1. dangerous tailings or waste storage facilities 2. High seismic or high rainfall conditions 3. No mine closure plan 4. Credible allegations of human rights violations
May 2004 (updated January 2008)	May 2005	March 2007

financial details of projects are commercially sensitive. In 2006, we became the first bank to invite an independent assurance provider to assess our transactions for compliance with the Principles and report their findings. The assurance provider concluded that we apply the Principles appropriately and recommended the use of an automated internal reporting mechanism. We are currently arranging for an Equator Principles Toolkit system to be rolled out in 2008 that will ensure our implementation is consistent, transaction costs are reduced and management information is automated. This assurance was well received by stakeholders and we have undertaken the same exercise in 2007. Det Norske Veritas, the assurance provider, has analysed the documentation and process for implementing the Equator Principles for five Category A projects, one Category B project, one project where HSBC did not win the mandate, and one project approved in 2006 in order to check ongoing monitoring. They have found our implementation to be satisfactory. Their assurance statement is found on page 34 and online at:

[www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance)

### Sector policies

The Equator Principles provide a good framework for managing sustainability risk in projects. Our business extends much farther than project finance as described above. In line with our sustainability strategy, we have introduced policies for industry sectors that can have potentially high environmental or social impacts (see table on pages 22-23). These policies cover all types of lending and other forms of financial assistance. They define activities we will not support (prohibited), and those we will only support if undertaken to a high standard (restricted), as well as certain other minimum standards and examples of good practice. These policies are applied regardless of the value of the transaction. Any new transaction with a value of over US\$15 million where there is high sustainability risk is subject to clearance by Group Head Office. In 2007, Group Head Office reviewed a total of 335 transactions under the sector policies and the Equator Principles, 55 of which were considered to have high sustainability risks. We declined 15 of them where, in our view, their impacts would not be managed to the standards required by our policies or the Principles.

Subject to clients not undertaking 'prohibited' activities, we can make a bigger contribution to sustainable development if we support clients who do not yet meet all our policy standards but are working to reduce the environmental and social impacts of their businesses. This 'positive engagement' is an integral part of our strategy but, equally, where satisfactory and continued progress is not made, we will terminate relationships with clients.

We issued our *Mining and Metals Sector Risk Policy* in 2007, the fifth in a series that includes Energy, Chemicals, Freshwater Infrastructure, and Forest Land and Forest Products. The forestry policy has recently been strengthened and is described in greater detail on page 25. In addition, our policy on financing defence equipment, in place since 2000, prohibits the financing of weaponry.

We regularly review our sector policies to ensure they remain current and relevant. In 2007, we updated our staff *Functional Instruction Manual*, an online system detailing our risk policies.

For more information see:

[www.hsbc.com/sus-pol](http://www.hsbc.com/sus-pol)

## Process

### Sustainability risk ratings

To ensure the consistent implementation of our sustainability risk policies, we are introducing two sustainability risk ratings (SRRs) for the five sectors where sustainability risk policies apply and to other sensitive transactions where appropriate. The 'SRR – Impact' rating assesses the scale of potential impacts which a client's activities or project may have on the environment or local communities. The 'SRR – Client' rating assesses whether the client meets our policies (or, where we have no policy, standards of good practice).

In 2008, the SRRs are being progressively rolled out in our main credit approval system. As well as providing consistent analysis and clearance procedures, the SRRs will provide improved data on our exposure to sustainability risk, high level details of which we intend to publish in next year's *Sustainability Report*.

## People

### Sustainability Risk Managers

We recognise that the management of sustainability risk must be embedded in our business and not run from Group Head Office. We have therefore appointed a network of 31 Sustainability Risk Managers who provide guidance and approval to our offices around the world. These managers are located at regional and country level risk functions and are an integral part of the credit approval process.

### Training

In 2007 a new training programme, 'Managing Risk for Growth', was launched. Developed by Group Head Office and including a section on sustainability risk and the application of HSBC's sector policies, the course was delivered to employees in the UK, Mexico, the United States, the Middle East and Hong Kong. Sustainability Risk Managers delivered the presentation in their local businesses as well as presentations on mining and forestry.

We hold regular online seminars and conference calls to keep our Sustainability Risk Managers up to date. Training on the Equator Principles Tool-kit will be rolled out to over 200 employees in Project Finance in 2008, along with updated training on the Equator Principles.

## Background

Forests cover 30 per cent of the world's land surface. The forest land and forest products sector (or 'the forestry sector') consists of a range of commercial activities, starting in forest land where trees are grown and harvested, and extending through a long and varied supply chain. Forestry, along with agriculture, accounts for 20 per cent of global greenhouse gas emissions.

According to the UN Food and Agriculture Organisation, three per cent of the world's forest land was lost between 1990 and 2005. Some countries have experienced such a sharp fall in timber exports as a result that the future of their forestry sector is threatened. Concerns over deforestation and other environmental impacts have resulted in increasing demands by certain stakeholders for independent certification that products are derived from sustainable sources.

Forestry illustrates the challenge of balancing the use of natural resources to support economic development with the environmental and social impacts from this use. This balance can be achieved with a long-term, sustainable, multi-stakeholder approach.

## HSBC's involvement in forestry

Despite its small contribution to our overall business, we consider forestry to be a significant part of our sustainability strategy due to its potentially high environmental and social impacts. We have long-term client relationships that span a broad range of commercial activities, customer groups and countries, and recognise that the activities of these clients support economic growth and job creation. Achieving the right balance in this sector involves the help of external organisations and

regular engagement with stakeholders ranging from clients to non-governmental organisations and indirectly, local communities.

## Our policy

HSBC first issued its forestry sector policy in 2004, which outlined the framework for our engagement in the sector. In 2008, we updated and strengthened implementation of this policy, which continues to cover logging and sawmills, but now includes forest conversion, palm oil, soy and biofuels. We will not support companies that purchase, trade or process timber from sources which directly or indirectly support:

1. Illegal logging and the subsequent trading of related timber and forest products.
2. Operations in UNESCO World Heritage Sites.
3. Operations in wetlands listed by the Ramsar Convention on Wetlands.

The policy defines areas of high environmental impact – such as those with illegal logging, high levels of biodiversity or social conflict – where implementation of the policy will be accelerated. We seek to build on best practice initiatives, with technical input from sector specialists to promote business development.

The updated policy restates our support for clients whose activities in the forestry sector are independently certified as legal and sustainable by approved schemes that meet standards broadly consistent with the principles and criteria set by the Forest Stewardship Council. The forestry policy stipulates that certification should verify both legality and sustainability, and ensure that High Conservation Value Forests (HCVF) and social rights are addressed. HSBC's policy is to engage

## Comment from Forum for the Future

During 2007, Forum for the Future worked with HSBC and others – including the UK's Department for International Development, the International Finance Corporation, London Bridge Capital and Enviromarket – on a specific initiative to encourage greater investment in sustainable forestry.

HSBC played an active role in the steering group for this project and has committed staff time to development of the concept into a marketable product. HSBC's existing forestry policy and its broader record on sustainability was a key reason for the Group being a partner of choice for the institutions involved. The success of this 'forest-backed bonds' or 'eco-securitisation' project will depend on whether the concept can be scaled up to mobilise investment on a massive scale to protect forests, while ensuring that the rights of local communities are properly respected.

In its strategy on forestry, HSBC has recognised a key global challenge, has developed a transparent policy to guide its overall investment in this sector, and has explored innovative ways in which the capital markets can be deployed to address the challenge. This is a model that Forum strongly supports.

However, this is only a part of the story. If HSBC is to become a truly 'sustainable bank', it must articulate a vision of how each

element within its wide range of activities can be reconciled with the need for global society to operate within natural environmental limits. It has to put in place a strategy for achieving this goal, including absolute targets that demonstrate progress over time.

This will not only require increased focus internally for HSBC but will also mean deeper engagement with its key stakeholders on delivering change. In particular, HSBC will need to take a lead in providing informed insight to public policy discussions, highlighting inadequacies in current policy frameworks and making recommendations. Where appropriate, it should collaborate with others in this process.

Alice Chapple, *Director of Sustainable Financial Markets, Forum for the Future*

*A sustainable development charity, Forum for the Future works in partnership with leading organisations in the private and public sectors to achieve its 'vision of business and communities thriving in a future that is environmentally sustainable and socially just'. Forum for the Future received no income from HSBC during 2007.*

For more information, visit:

[www.forumforthefuture.org.uk](http://www.forumforthefuture.org.uk)

with and support clients who are already certified, or on a credible path towards achieving certification.

We recognise that certification takes time and that, typically, clients adopt a step-by-step approach to implementation. They may choose to pursue proof of legality followed by proof of sustainability or, in the case of larger companies, they may introduce certification to parts of their operations before extending it to others. When we issued our policy in 2004, we believed that five years would give clients sufficient time to achieve or demonstrate that they would achieve certification, and would continue to support them as long as they remain on a credible path towards certification. This approach is open to criticism but we believe that, as long as progress is being made, it is a responsible way to support sustainable forestry.

We use a client compliance matrix similar to the sustainability risk rating (see page 24) to categorise clients as 'compliant', 'near-compliant' or 'non-compliant' with the policy. A client is considered compliant with our policy when a minimum of 70 per cent of its business (by area or volume) is certified by a scheme that meets our standards as sustainable, with proof that the remainder is legal.

The strengthening of our policy and its implementation in 2008 was taken after dialogue with both internal and external stakeholders. We had meetings with numerous clients and industry associations; five institutional shareholders; four environmental non-governmental organisations (NGOs); two social NGOs; and two technical consultants to discuss the policy and its implementation.

#### **Measuring success**

Since introducing our forestry sector policy in 2004, many of our clients have made significant progress towards certification. Others have made some progress, and we have parted company with those operating outside our policy.

As we believe it can take five years to achieve certification, we are undertaking a review in 2008 of the progress made by our clients towards meeting our policy. This review focuses initially on our offices which operate in countries with high levels of illegal logging, biodiversity or social conflict, but will extend to all offices and clients in due course.

We will continue to support clients who are compliant with the policy or who are making good progress towards certification. Where there is doubt regarding a client's compliance with the policy, we are seeking independent expert advice to confirm the position. Where clients are neither compliant with our policy nor making progress towards certification, we are withdrawing from these relationships in line with our commitment in 2004 to seek certification by clients within five years.

The decision to withdraw from a client relationship is not an easy one and is only taken when all other possible solutions have been exhausted. Some of our client relationships are of long standing and may involve long-term loan facilities, so withdrawal can take some time.

#### **Palm oil and plantations**

Palm oil is one of the most widely used vegetable oils, important in cooking, the production of soap and the manufacture of biofuels. Palm oil can be associated with a variety of sustainability impacts such as the conversion of tropical forests for the planting of oil palms, adversely affecting biodiversity and local communities; heavy use of scarce water supplies; and pollution from palm oil mills. These impacts can be minimised through careful planning and proper management.

Our updated forestry policy includes specific guidance on palm oil. We will not finance timber, oil palm, soy or rubber plantations converted from natural forests or High Conservation Value Forests. We encourage all clients involved in oil palm plantations and production to join and be certified by the Roundtable on Sustainable Palm Oil.

HSBC requires that specific finance for a palm oil mill meets the standards of the Equator Principles and the International Finance Corporation's vegetable oil processing guideline. HSBC stipulates that plantations should not clear land by burning existing forests or plantations.

#### **Biofuels**

There has been increased interest in biofuels because of two principal factors. Firstly, biofuels may help to reduce carbon dioxide emissions because – unlike fossil fuels such as oil and coal – the carbon dioxide produced when burning biofuels may be offset by the carbon dioxide taken up by the plant when growing. Secondly, the rising price of energy and the availability of government-supported incentives have increased the commercial viability of biofuels.

Our forestry policy recommends a cautious approach to financing any biofuel business owing to the potential sustainability impacts; for example, the increased growing of biofuel crops may result in the conversion of High Conservation Value Forests and wider impacts on biodiversity and communities. Another disadvantage of first generation biofuels (such as grain-based ethanol) is that they can have a relatively large carbon footprint. The rising demand for crops such as maize/corn has contributed to price increases for basic foodstuffs in many countries and is proving increasingly controversial. The use of second generation biofuel technologies – e.g. using non-food crops and biomass – may reduce the negative impact on foodstuffs, but they may not yet be commercially viable.

We are in the process of developing a strategy paper on the biofuels sector, which will be delivered in 2008.

# Employees

HSBC is committed to the development of an engaged and high-performing workforce, which enables us to take advantage of our scale, to join up our business, and to maximise the return on investment made in our people. In our new people strategy, we outline a programme that will enable HSBC to develop a sustainable culture that is meritocratic, performance-driven, progressive, global and underpinned by integrity. HSBC will continue to engage with employees, develop the quality of our leadership, upgrade the capability of our people, and continuously improve how we manage our colleagues, and reward their performance.

## Employee engagement

HSBC has regularly surveyed its employees on a regional and business basis. In 2007, the importance of measuring employee engagement was emphasised in our business agenda and, as a result, HSBC's first Global People Survey was introduced to all permanent employees across the Group. Around 88 per cent or 290,000 of our employees shared their feedback with us to help build 'the best place to work'.

The Global People Survey enables the Group to:

- measure consistently 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 scores.

We have identified 13 dimensions which help us understand the employee view and ultimately drive superior performance. These include Leadership, Strategy/Vision, Performance Management and Corporate Responsibility. Our employees rated HSBC above the external global norm in all dimensions. The Group's highest-performing dimensions, meeting the external 'best in class' norm, were Reputation and Corporate Responsibility. Our employees are very satisfied with the action HSBC takes to be a responsible corporate citizen and are proud to work for an organisation with high ethical standards, a good reputation for the quality of its products and services, and a well-managed external image. In addition, the results showed that employees who stated that they had participated in a community activity in the last year were more engaged (see page 29 for details).

The Group's overall employee engagement score was 60 per cent, which represents the average score for four items measuring Commitment, Satisfaction, Pride and Advocacy. This is in line with the external global benchmarks and provides a strong foundation from which to build.

The survey results have been shared with all employees. Leaders at all levels are accountable for driving engagement action planning and specific targets have been set for senior leaders linked to their performance management and reward. Our aim is to become one of the best places to work globally for our employees.

## Learning and Development

The successful implementation of the people strategy will provide our employees with more opportunities to realise their potential. The talent component of the strategy focuses on the development of our leadership

capability for building our pipeline of leaders for the future from graduate through to senior management levels. Particular emphasis is placed on increasing the international mindset of our leaders in order to continue to grow our business.

In 2007, we delivered 43 hours of learning and development to each individual employee. Delivery through e-learning has grown to 27 per cent, allowing employees more flexibility in planning their own development. Plans for the next two years include a further significant increase in the use of e-learning Group-wide, including utilising our global learning network to improve the effectiveness of e-learning. E-learning also facilitates the global sharing of ideas, knowledge and best practice.

Training plays a crucial role in changing the attitudes of employees and clients to help embed sustainability as the way we do business. Sustainability training is integrated into a number of HSBC's global leadership and specific risk management training courses, from the Group Chairman's Strategic Forum to our entry level Group Graduate Development Programme. A future priority will be to ensure that an appropriate knowledge of sustainability is integrated throughout the regional and business learning curricula. A summary of sustainability training undertaken in 2007 in the Group Strategic Programme for high potential employees is set out below.

The Next Generation Development Programme is aimed at 'emerging talent' falling between a graduate entry programme and a business talent pool. Phase 1 of the six-month programme uses Corporate Sustainability as the driver for leadership development training. Participants act as consultants and project managers to NGOs to put them in real leadership scenarios. Projects range from developing a marketing plan for a remote rainforest and natural park, to completing a business plan to improve the product distribution and profitability of a sustainable sugar farm.

The programme aims to give participants a greater awareness and understanding of the concept of Corporate Sustainability and how the decisions of large organisations impact a variety of stakeholders. HSBC's stakeholders, such as clients, government organisations, NGOs and others, have attended a panel event where they share views on the significance of Corporate Sustainability.

In 2007, we launched a new training programme, 'Managing Risk for Growth', which focuses on sustainability risk and the application of HSBC's sector policies (see page 24). The programme was delivered to HSBC's network of 31 Sustainability Risk Managers in the UK, Mexico, the United States, the Middle East and Hong Kong (see page 24). They then delivered the programme to over 200 Risk Managers and Relationship Managers in their own localities.

As part of the HSBC Climate Partnership, online learning about climate change will be offered to over 100,000 employees worldwide over the next five years, and over 20,000 more employees can volunteer to participate in local environmental projects to promote action on climate change in 20 cities across the globe. Of these, over 2,000 employees will work with our partners' scientists on a two-week project to gather climate change data from forests in four climate centres across the globe. On return, these employees will act as 'Climate Champions' within our business, sharing valuable knowledge

## Employees (continued)

and expertise with colleagues to develop a more sustainable business and workplace.

One of HSBC's key strengths is its ability to take advantage of its global network whilst respecting local cultures. For example, learning is offered to employees in their own language while encouraging them to learn new languages for personal and business development.

<b>Group strategic programmes</b>	<b>Number of participants trained on sustainability 2007</b>
Chairman's Strategic Forum	80
Senior Management Induction Programme	80
Integrated People Management	170
Group Graduate Development Programme	520
Next Generation Development Programme	80
Senior Risk Management Workshop	75
Managing Risk for Growth Workshop	240
Asset and Liability Management Programme	60
Structured Analysis Programme and Advanced Analysis Programme	285
<b>Total</b>	<b>1,620</b>

HSBC has recognised the need to address the issues raised by HIV/AIDS in the workplace. Working closely with the Global Business Coalition on HIV/AIDS, HSBC launched an HIV/AIDS policy in 2007. The Group policy sets out the minimum standards for HSBC operations around the world in relation to HIV/AIDS in the workplace. Key principles include non-discrimination and confidentiality, voluntary testing, commitment to prevention, education and awareness and care and support. To coincide with the launch of the Group policy, an e-learning module and a dedicated intranet site have been designed to educate on the important issues surrounding HIV/AIDS.

### **Diversity and equal opportunity**

HSBC continues to create a diverse and inclusive work environment reflecting its customer base, international workforce and the communities in which it operates.

A Group-wide strategy that aims to improve diversity and inclusion in the organisation globally, driving business performance and building our employer brand is in place. As a priority and, in alignment with global demographic changes, HSBC focuses on gender, ethnicity and age diversity to ensure the long-term sustainability of the organisation. Increasing gender and ethnic diversity at senior management levels is given particular emphasis. Diversity initiatives and policies are implemented at a country level, taking local and national laws into account.

Employees have access to networking groups and mentoring programmes, which facilitate open discussion of workplace issues, including those affecting ethnic minority employees.

### **Health and safety**

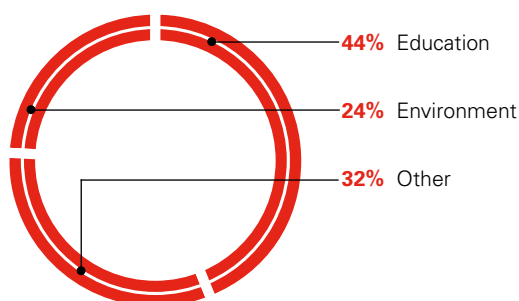
A course of the anti-viral drug Tamiflu has been acquired for all employees Groupwide in preparation for a potential flu pandemic, unless the laws of a country prevents its distribution. In this respect, France, Monaco, Germany, Luxembourg, Canada, New Zealand and China are not covered. European governments will assume responsibility for all their citizens and will not permit our scheme. In Canada and New Zealand, purchase of the drug will not be allowed until a pandemic is declared. In China, work on obtaining permission is still in progress. The drug will expire at the end of 2010.

# Community Investment

We believe that supporting communities through direct financial donations and the involvement of our employees makes an important contribution to our Corporate Sustainability strategy. For a number of years we have focused on education and the environment as two areas crucial to sustainable development. We aim to allocate 75 per cent of our community investments to these themes.

This not only supports the sustainability of communities and ecosystems. Involving our employees supports our employee engagement strategy and, through working with expert partners from the non-profit and educational sectors, HSBC's sustainability efforts also benefit from being better informed. In turn HSBC's own expertise can be of direct benefit to our partners.

## Breakdown of cash donations 2007



In 2007, we invested US\$117.5 million in supporting communities around the world. Education remained the largest area of our community investments, with 44 per cent of total cash donations. Environmental projects received 24 per cent, while 32 per cent was donated to projects outside of these categories.

We also encourage employees to engage in these programmes to develop stronger ties to local communities. Evidence from HSBC's Global People Survey in 2007 showed a clear link between community involvement and overall employee engagement. Those employees who had been involved in community projects in the past year were more engaged with HSBC than those who had not, as seen from the table below (see page 27 for more details on the Global People Survey).

Employee engagement 2007	Positive responses to the statements:	
	'I am proud to work for HSBC'	'I would recommend HSBC as a great place to work'
Employees who participated in HSBC-organised community activities in previous 12 months	78%	67%
Employees who did not participate in such activities	68%	57%
Difference	+10%	+10%

Additionally, many of our employees engage with the communities in which they live, independent of HSBC programmes. Where possible, we look to match donations and funds raised by employees for these programmes. In 2007, HSBC matched US\$13.3 million of funds raised by employees. We also provide time off for employees to do voluntary work, and offer payroll-giving schemes.

We use the London Benchmarking Group reporting model to calculate our contributions to the community, which provides a standardised way

## Key partnerships in education

### Future First

A total of 80 projects from 29 countries benefiting some 37,000 children were approved and implemented in 2007 as part of the 'Future First' initiative. Launched in 2006, the US\$10 million Future First programme provides education and life skills to street children, children in foster care and orphans. This five-year initiative is a collaboration between HSBC Global Education Trust and SOS Children's Villages.

### Awards and scholarships

Globally, HSBC gives over 6,000 awards and scholarships each year. These include 27 HSBC Chevening Scholarships awarded to young people from around the world to pursue master's degrees at British universities in conjunction with the UK government's Foreign and Commonwealth Office; support for a number of gifted individuals at independent schools and universities who would not otherwise have been able to pursue such education; and 85 Chinese teachers funded annually through the British Council to teach Mandarin in UK schools.

### Financial literacy

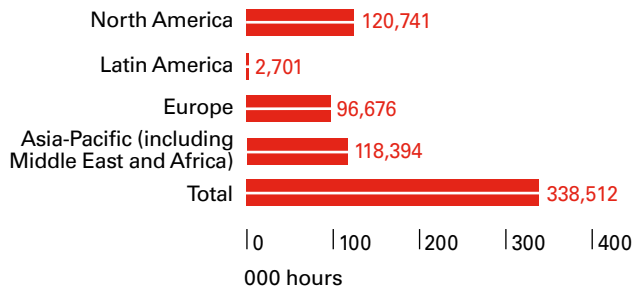
The HSBC Financial Literacy Programme was established by HSBC and Students in Free Enterprise (SIFE) in 2005. This programme operates in over 20 countries to improve levels of financial literacy and the financial skills of entrepreneurs. SIFE estimates that, since the programme began, nearly 17,000 of its students from some 670 universities and colleges have been involved in more than 1,450 financial literacy grant projects that have reached 415,000 people.

### Arts and education

A global art project, 'Rivers of the World' is supported by the HSBC Global Education Trust and involves secondary school students studying the river running through their city. Then, working with local artists and collaborating with their counterparts in other countries, they create artworks for public display, which are viewed by millions of people. In 2007, students participated in London (River Thames), Chongqing (River Yangtze), Cairo (River Nile), Kolkata (River Ganges) and Cape Town (River Liesbeck). In 2008, students from Mexico and Brazil will join the project.

of managing and measuring a company's community investment. This includes the administration and co-ordination costs involved in managing our community programmes. In 2007, over 88,000 employees participated in community projects around the Group, contributing a total of 338,512 hours in company time. In financial terms, this contribution represents an additional US\$9.5 million to the community.

**Employee volunteering in company time 2007**



<b>Breakdown of HSBC's contributions</b>	US\$m
Cash donations	100.9
Employee hours in work time	9.5
Management costs	7.1
<b>Total community investments</b>	<b>117.5</b>

**Education**

Our long-standing aim is to open doors of opportunity for children by helping to raise their academic achievement and improve their vocational skills with formal and informal learning.

**Environment**

Our aim is to complement our own environmental sustainability initiatives by helping other organisations and individuals play their part in addressing climate change. To do this we partner with a number of environmental organisations, helping them to achieve their goals and drawing on their expertise to achieve ours.

In 2007, we launched the HSBC Climate Partnership, a five-year commitment of US\$100 million to four leading non-governmental organisations: The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF. Their work focuses on rivers, cities, forest protection and engaging people around the world, including HSBC employees, in a range of conservation and research projects. More than 6,700 colleagues from 71 countries and territories have already signed up to take part.

For further information on our community investments, visit:

[www.hsbc.com/sustainability](http://www.hsbc.com/sustainability)

**HSBC Climate Partnership**

**Environmental targets**

- 4.2 million hectares of habitat being managed to adapt to the impacts of climate change
- 54 species whose decline is reversed or halted
- 140,000 people with improved scientific understanding of issues as a result of published research

**Social targets**

- 42 million people provided with access to clean water
- 50,000 people whose livelihood has been improved through better environmental management

- 1.3 million people with increased flood protection
- 9.1 million people with reduced risk of drought
- 17 million people with more secure water supply
- 110,000 HSBC employees reporting increased awareness of climate change

**Governance targets**

- 48 corporations pursuing lower carbon solutions
- 14 city authorities implementing climate change reduction strategies
- 21 new climate change-related policies adopted globally

# Key Facts

	Units	2007	2006	2005	2004
Number of countries and territories with HSBC offices		83	82	76	77
Total employees including part-time (at year-end)		330,000	312,000	284,000	253,000
Number of employees (at year-end)		321,711	300,920	268,471	243,333
Number of customers		128 million	125 million	125 million	110 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		4th	7th	4th	45th
Interbrand top 100 brands (value)		23rd (US\$13.6b)	28th (US\$11.6b)	29th (US\$10.4b)	33rd (US\$8.7b)
Top 500 bank brands: The Banker magazine		1st	n/a	2nd	n/a

## Economic

Income received for supply of products and services	US\$b	143.5	114.4	92.8	75.3
Profit before tax	US\$m	24,212	22,086	20,966	18,943
– Hong Kong SAR	US\$m	7,339	5,182	4,517	4,830
– UK	US\$m	5,792	4,791	4,280	4,231
– China	US\$m	2,361	708	334	32
– France	US\$m	1,033	870	833	669
– Canada	US\$m	983	896	855	530
– Mexico	US\$m	980	1,009	923	774
– Brazil	US\$m	879	526	406	281
– United Arab Emirates	US\$m	617	425	342	177
– Singapore	US\$m	550	365	289	272
– India	US\$m	529	393	212	178
Other	US\$m	3,149	3,064	2,850	2,268
Dividends	US\$m	10,241	8,769	7,750	6,932
Total shareholder return against peer index over 1 year					
– HSBC		95.6		111.3	105
– benchmark		107.4		120.8	110
Taxes to governments	US\$b	5.3	6.4	6.2	5.7
Distributions to shareholders and minority interests	US\$b	10.2	9.9	8.5	8.3
Employee remuneration	US\$b	19.7	17.3	15.1	13.6
Spending for premises and procurement	US\$b	14.9	12.7	11.1	9.7

## Social

Headcount					
By employment type					
– Full-time	%	94.3	93.9	93.0	-
– Part-time	%	5.7	6.1	7.0	-
		100.0	100.0	100.0	
By employee contract					
– Permanent	%	98.2	99.0	99.2	-
– Temporary	%	1.2	1.0	0.8	-
		100	100.0	100.0	
By region					
– Europe	%	26.8	23.9	25.4	-
– Asia-Pacific	%	33.7	32.2	29.5	-
– North America	%	15.8	20.2	21.6	-
– Latin America	%	20.1	20.5	20.6	-
– Middle East	%	3.6	3.2	2.9	-
		100	100.0	100.0	-
Turnover					
– Europe	%	17.1	19	18	-
– Asia-Pacific	%	22.8	15	17	-
– North America	%	24.3	20	21	-
– Latin America	%	21.8	20	9	-
– Middle East	%	14.4	11	10	-
– All staff		21	18	16	-

Key Facts (continued)

Gender by management type	Units	2007	2006	2005	2004
<b>Senior managers</b>					
Male / Female	%	82/18	83 / 17	75 / 25	-
<b>Middle managers</b>					
Male / Female	%	69/31	70 / 30	70 / 30	-
<b>Junior managers</b>					
Male / Female	%	54/46	54 / 46	53 / 47	-
Staff					
Male / Female	%	40/60	39 / 61	37 / 63	-

**By region**

<b>Europe</b>					
Male / Female	%	44/56	44 / 56	43 / 57	-
<b>Asia-Pacific</b>					
Male / Female	%	48/52	47 / 53	45 / 55	-
<b>North America</b>					
Male / Female	%	40/60	41 / 59	43 / 57	-
<b>Latin America</b>					
Male / Female	%	47/53	48 / 52	47 / 53	-
<b>Middle East<sup>1</sup></b>					
Male / Female	%	65/35	66 / 34	65 / 35	-

**Health and safety**

Number of workplace fatalities <sup>1</sup>		0	0	2	0
Accidents involving more than 3 days' absence		320	274	381	356
Reportable injuries per 100,000 employees (UK)		163	152	162	151
Working days lost from work-related injury per 100,000 employees (UK)		2804	2,572	3,249	1,839

**Community investment**

Corporate charitable donations	US\$m	100.9	86.3	81.4	69.2
Europe <sup>2</sup>	US\$m	42.2	n/a	n/a	n/a
Asia-Pacific (includes Middle East and Africa)	US\$m	12.7	n/a	n/a	n/a
North America	US\$m	38.8	n/a	n/a	n/a
Latin America	US\$m	7.2	n/a	n/a	n/a
Management costs associated with community investment	US\$m	7.1			
Employees' community voluntary work <sup>3</sup>	hours	581,000	302,000	280,000	237,000
– Work time	hours	338,000	145,000	n/a	n/a
– Own time	hours	243,000	157,000	n/a	n/a
– Value of voluntary hours on work time	US\$m	9.5	n/a	n/a	n/a
– Europe	US\$m	4.0	n/a	n/a	n/a
– Asia-Pacific (includes Middle East and Africa)	US\$m	1.2	n/a	n/a	n/a
– North America	US\$m	4.2	n/a	n/a	n/a
– Latin America	US\$m	0.2	n/a	n/a	n/a

**Environment**

Environmental data coverage	Scale 1-10	8.5	7.6	7.4	7.9
Environmental data quality	Scale 1-10	8.1	7.6	7.8	7.7
Environmental reporting coverage	Full-time equivalent	298,738	288,822	252,914	220,055
Coverage as % of Group		95%	96%	94%	90%

**Carbon dioxide emissions<sup>4</sup>**

Total CO <sub>2</sub> emissions	tonnes	897,000	813,000	663,000	585,000
CO <sub>2</sub> emissions from energy	tonnes	718,000	634,000	539,000	497,000
CO <sub>2</sub> emissions from business travel	tonnes	179,000	179,000	124,000	88,000
Total CO <sub>2</sub> emissions per person	tonnes	2.86	2.81	2.62	2.66
CO <sub>2</sub> emissions per person from energy	tonnes	2.29	2.20	2.13	2.26
CO <sub>2</sub> emissions per person from business travel	tonnes	0.57	0.62	0.49	0.40
CO <sub>2</sub> emissions per m <sup>2</sup>	tonnes	0.13	0.13	0.11	0.11

<b>Carbon dioxide emissions by region<sup>5</sup></b>	<b>Units</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Total CO <sub>2</sub> emissions					
– Europe	tonnes	144,000	145,000	130,000	118,000
– Asia-Pacific <sup>6</sup>	tonnes	335,000	278,000	250,000	224,000
– North America	tonnes	236,000	292,000	216,000	211,000
– Latin America	tonnes	93,000	84,000	65,000	57,000
– Middle East	tonnes	10,000	14,000	0	0
Total CO <sub>2</sub> emissions per person					
– Europe	tonnes	1.88	1.86	1.75	1.84
– Asia-Pacific <sup>6</sup>	tonnes	3.00	2.87	3.28	3.45
– North America	tonnes	4.32	5.01	3.84	4.17
– Latin America	tonnes	1.57	1.43	1.21	1.18
– Middle East	tonnes	5.56	4.77	0.00	0.00

#### **Environmental: resource efficiency**

Total energy consumption	gigawatt hours	1,832	1,780	1,610	1,496
Energy consumption per person	kWh/full-time equivalent	6,134	6,163	6,366	6,798
Energy consumption per m <sup>2</sup>	kWh/ m <sup>2</sup>	291	283	268	285
Total electricity consumption	gigawatt hours	1,515	1,486	1,313	1,141
Electricity (brown)	gigawatt hours	935	1,032	971	853
Electricity (green)	gigawatt hours	530	454	342	288
Primary fuel sources (gas, oil, diesel, etc)	gigawatt hours	315	293	297	355
Total waste produced	kilotonnes	64	68	54	47
Waste disposed per person	tonnes/full-time equivalent	0.11	0.12	0.12	0.12
Waste disposed	kilotonnes	32	35	30	27
Waste recycled	kilotonnes	32	33	24	20
Recycled	%	50	49	44	43
Total water consumption	thousand m <sup>3</sup>	4,638	4,687	4,041	3,629
Water consumption per person	m <sup>3</sup> /full-time equivalent	15.5	16.2	16.0	16.5

#### **Business travel**

Total business travel	million km	1,227	1,200	850	635
Business travel per person	km/full-time equivalent	4,107	4,155	3,361	2,886
Air travel	million km	883	831	557	408
Domestic air travel	million km	198	228	108	77
International Air travel	million km	685	603	449	331
Rail travel	million km	28	21	21	20
Road travel	million km	252	283	233	201
Other travel	million km	45	65	39	6
Haulage	million km	20	31	18	7

1 Figures have been restated because of a data entry error last year.

2 Includes donations for global programmes, of which US\$18.3 million was spent outside of Europe.

3 Due to improvements in data gathering, the work time and own time figures from 2006 have been restated.

4 Figures for 2007 are scaled up to represent 100 per cent coverage. Figures also factor in a percentage for uncertainty in the reporting system, and include renewable energy certificates.

5 These figures are based on data collected from HSBC's regional reporting units and include renewable energy certificates for 2006 and 2007. For the purpose of carbon neutrality, the figures for 2007 are then scaled up to 100 per cent full-time equivalent employees and additional factors are included to compensate for uncertainties as advised by HSBC's assurance providers.

6 Includes emissions from service centres and technology centres, which contributed 95,232 tonnes.

# DNV Assurance Statement



## HSBC Sustainability Report 2007

### Introduction

Det Norske Veritas (hereafter 'DNV') has been commissioned by HSBC Holdings plc (hereafter 'HSBC') to provide independent third party assurance services regarding the contents of the HSBC *Sustainability Report 2007* (hereafter 'the Report'), including the accuracy and completeness of environmental performance data for 2007, and the collection, analysis and achievement of the first set of environmental targets for the period October 2005 to December 2007; HSBC's implementation of the Equator Principles; and HSBC's commitment to carbon neutrality, including carbon management and performance data.

A separate Assurance Statement for each of the three elements above has been provided to HSBC. The Equator Principles and carbon neutrality assurance statements are available online at [www.hsbc.com/sus-assurance](http://www.hsbc.com/sus-assurance).

Our responsibility in performing this work is to the management of HSBC only and in accordance with the terms of reference agreed. DNV expressly disclaims any liability or responsibility for any third party decisions, whether investment or otherwise, based upon this Assurance Statement.

### Scope

DNV's assurance engagement was performed against the principles of the AA1000 Assurance Standard (AA1000AS).

All text of the printed report has been covered during this assurance engagement. In addition, the report refers to the HSBC web site for additional information on certain issues. The assurance engagement also covered these issues, namely: fair selling, anti-bribery and anti-corruption, countering fraud, anti-money laundering, and political donations.

HSBC has specifically requested that DNV verify the strategic direction and sustainability policies by Group function; direct environmental impact data for energy, waste and water, CO<sub>2</sub> emissions, and business travel; carbon neutrality; the collection, analysis and achievement of environmental targets in the period October 2005 to December 2007; and the implementation of the Equator Principles around the Group.

DNV did not provide any services during 2007 that could conflict with the independence of our work. DNV was not involved in the preparation of any information in the report.

### Limitations

HSBC requested that this assurance engagement be carried out from its Group Head Office in London. This enabled us to gain a good understanding of policy-making and the Equator Principles' implementation at Group level. This was supplemented by telephone interviews with HSBC Sustainability Risk Managers in Latin America (Mexico) and Asia-Pacific (Hong Kong).

DNV has not verified the accuracy of quantitative data other than environmental targets, environmental performance data and carbon neutrality as requested by HSBC.

### DNV's approach

DNV, headquartered in Oslo, is one of the leading service providers of sustainability solutions, including verification of sustainability reports. Our pool of experts covers over 100 countries. Our verification approach follows the DNV Protocol for Verification of Sustainability Reports, which is based both on the GRI G3 and the AA1000AS.

This assurance engagement was conducted between March and May 2008. DNV took a risk-based approach throughout our assurance engagements, concentrating on the issues that we believe are most material for both HSBC and its stakeholders, i.e. sustainable lending (including Equator Principles); carbon neutrality; and environmental performance and targets relating to HSBC's direct impacts.

This assurance engagement comprised the following:

- Conducted face-to-face interviews with over 35 representatives across a wide range of business functions, including Human Resources, Compliance, Corporate Real Estate, Supply Chain and Purchasing, Group Corporate Sustainability, Credit Risk and Project and Export Finance.
- Carried out telephone interviews with Sustainability Risk Managers and Heads of Corporate Sustainability in Mexico and Hong Kong.
- In-depth analysis of a wide range of documentation, including: Sustainability Committee meeting minutes; *Group Standards Manual* and *Functional Instruction Manuals*; sector policies (forest land and forest products, chemicals, mining and metals, energy and freshwater infrastructure); carbon finance and microfinance strategies; and Equator Principles-related documentation.
- Assessed offset credits purchased/certificates held.
- Analysed the content of the environmental database and reviewed its functionality.
- Reviewed feedback from stakeholder engagement workshops and reports on HSBC, including external media reports and socially responsible investing rating agency reports.

### Commendations

In our opinion, HSBC has continued to demonstrate commitment and take tangible actions to further integrate sustainability issues into the Group's management processes. Following DNV's assurance engagement in connection with the 2006 report, we were pleased to find that HSBC had taken action on our recommendations. More specifically, we would like to commend HSBC on the following:

- Improved documentation of sustainability policies in the *Group Standards Manual* and *Functional Instruction Manuals* at a global level, e.g. the recent update of a Functional Instruction Manual requiring Group offices to implement conditions of clearance by, and reports returned to, Group Corporate Sustainability provides for improved sustainability risk management;
- Increased network of Sustainability Risk Managers;
- Development of tools to identify and assess sustainability risks, i.e. Sustainability Risk Ratings;
- Increased focus on the integration of sustainability strategies across business functions, e.g. water, waste, microfinance and carbon strategies;
- Incorporation of sustainability-related targets into Group Corporate Real Estate and senior management scorecards and the associated appraisal system;
- Stakeholder dialogue and consultation on the report across different geographies;

- General improvements to the structure and content of the report, e.g. integration of stakeholder expectations, performance versus targets, provision of sustainability context, increased detail and clarity on sections such as stakeholder engagement, climate change, sustainable lending and the Equator Principles. In addition, we found the report to be presented in clear, concise and balanced language.

### Conclusions

Our findings confirm HSBC's carbon neutrality; its commitment to embed sustainability in its business strategy; and the effective implementation of the Equator Principles. We also found that we can place trust in the majority of data relating to direct environmental impacts, as well as HSBC's statements regarding the achievement of 2005-07 targets for indirect impacts. The following comments are made on the content of the report:

- **Materiality:** We consider that the information contained in the *Sustainability Report 2007* focuses on the most relevant aspects of its sustainability performance and management. The content of the Report also aims to address the information requirements of its stakeholders to enable informed judgements, decisions and actions by stakeholders.
- **Completeness:** It is our understanding that the report provides a fair and balanced representation of HSBC's vision, performance and challenges during 2007. We have also identified some areas where quantitative data is less reliable and incomplete (e.g. material consumption and waste) but acknowledge that: 1) there has been an improvement in comparison with 2006; 2) obtaining accurate and complete data in these areas is a challenge for the industry as a whole; and 3) commitment to improve the quality and completeness of quantitative data in the future.

HSBC has applied a conservative approach for reporting its CO<sub>2</sub> emissions and has implemented initiatives to reduce its carbon footprint. Offset credits held/purchased equal CO<sub>2</sub> emissions reported. We verified that credits are being retained by HSBC and have not been sold off.

- **Responsiveness:** We verify that HSBC has undertaken a comprehensive stakeholder engagement exercise in 2007. In line with the findings of this exercise, HSBC has sought to address stakeholder interests, expectations and information needs in this report.

### Selected observations

The following is an excerpt of some of the observations and opportunities reported back to HSBC's management. However, these do not affect our conclusions regarding the Report and are, indeed, generally consistent with the management objectives already in place.

- Over time, other sector policies should be updated to the same level of detail as the newly updated Forestry policy.
- A more structured approach should be adopted for communicating and monitoring suppliers' ethical code and sustainability performance. Moreover, HSBC should aim to integrate sustainability into other aspects of supply chain management beyond procurement.
- Recognising the decentralised nature of HSBC and the broad role of Group Corporate Sustainability, there is a risk of different levels of implementation and monitoring across different regions. HSBC should consider developing a system for greater oversight of sustainability performance and management in the various regions whilst at the

same time allowing the development of best practice at local level.

- Continue to ensure that CO<sub>2</sub> emission calculations are carried out using the most current and accurate emission factors (local emission factors wherever possible).
- Recognising the challenges faced by many organisations to obtain accurately measured (as opposed to estimated) waste and water use data, we recommend HSBC to improve the quality of data for waste and material consumption by improving waste category definitions, processes, aggregation and reporting at local level.
- Implementation of a Group-wide materiality assessment, with direct input from stakeholders across the various regions. This should aim to develop a better understanding of HSBC's impacts and their relevance, stakeholder expectations, and the impact of different sustainability topics on HSBC's business.

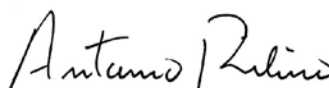
Signed May 2008



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The HSBC *Sustainability Report* is published annually. Our last report was published in May 2007. A PDF version of this report is available at: [www.hsbc.com/sustainabilityreport](http://www.hsbc.com/sustainabilityreport)

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