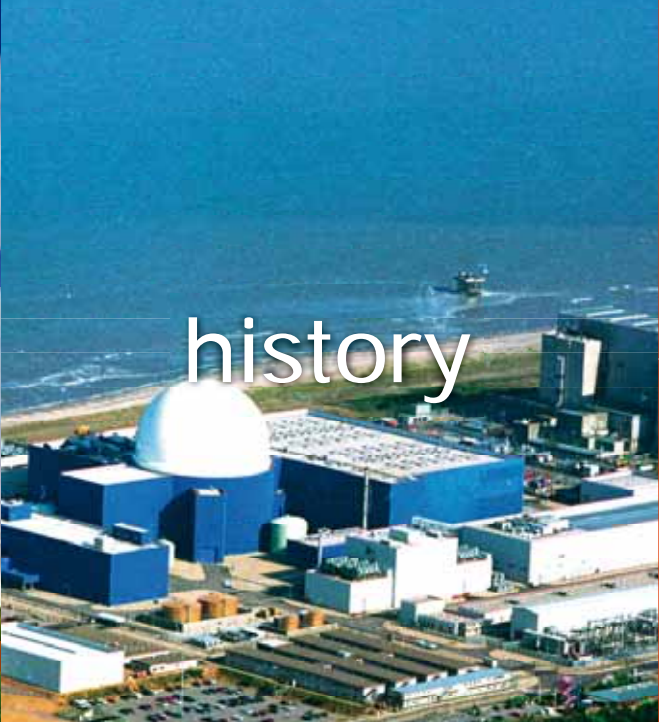


# HSBC Corporate Social Responsibility Report 2005



## Key Facts

General (at 31 December)	2005	2004
Number of countries and territories with HSBC offices	<b>76</b>	77
Number of customers	<b>125 million</b>	110 million
<b>Financial</b>		
Income received for supply of products and services	<b>US\$92.8b</b>	US\$75.3b
Profit before tax	<b>US\$20,966m</b>	US\$18,943m
Dividends	<b>US\$7,750m</b>	US\$6,932m
Total shareholder return against peer index over 1 year		
— HSBC	<b>111.3</b>	105
— benchmark	<b>120.8</b>	110
<b>Economic</b>		
Taxes to governments	<b>US\$6.2b</b>	US\$5.7b
Distributions to shareholders and minority interests	<b>US\$8.5b</b>	US\$8.3b
Employee remuneration	<b>US\$15.1b</b>	US\$13.6b
Spending for premises and procurement	<b>US\$11.1b</b>	US\$9.7b
<b>Social</b>		
Employees		
— total (including part-time)	<b>284,000</b>	253,000
— full-time equivalent	<b>268,471</b>	243,333
Women as proportion of senior management grades	<b>19%</b>	17%
Corporate charitable donations	<b>US\$81.4m</b>	US\$69.2m
Working hours spent by employees in the community	<b>280,000</b>	237,000
<b>Environmental</b>		
Operations covered by environmental reporting system	<b>94%</b>	91%
Environmental data quality (internal assessment, scale 1-10)	<b>7.8</b>	7.7
CO <sub>2</sub> emissions per employee	<b>2.6 tonnes</b>	2.7 tonnes
<b>Benchmarks</b>		
Business in the Community Environment Index ranking	117/145	130/168
Dow Jones Sustainability Index (since 2001)	member	member
FTSE4Good (since 2001)	member	member
AccountAbility rating of the <i>Fortune</i> 'Global 100'	4th	45th
Interbrand top 100 brands (value)	29th (US\$10.4b)	33rd (US\$8.7b)



### Cover photographs

The use of energy and its link to climate change is an increasingly important issue for governments, companies and consumers. In 2006, HSBC will issue an energy sector guideline to help the shift to a low carbon economy. The photographs of a wind farm and a nuclear power station illustrate two possible solutions to our energy needs. Depending on your point of view — using HSBC's current 'a different point of view' advertising concept — each energy source represents either a **future** solution or one that is **history**.

# HSBC Corporate Social Responsibility Report 2005

## About This Report

For HSBC, 'corporate social responsibility' (CSR) is defined as managing our business responsibly and sensitively for long-term success, by working with our customers, shareholders, colleagues, communities and other stakeholders. We have adopted the 1987 Brundtland Commission's definition of 'sustainable development': 'Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'

This report is intended for those with an interest in HSBC's progress in managing its corporate responsibilities as an integral part of its business.

We have made some changes to this report to reflect the views of a number of our constituencies since the last edition was published in April 2005. We have:

- Included a Global Reporting Initiative (GRI) index in both the printed and online versions of the report;
- Adjusted our CSR reporting to reflect better our 'Managing for Growth' strategic plan; and

- Included a table tracking progress during 2005 on commitments we made in last year's report, as well as providing our commitments for 2006.

The theme of this year's report is climate change. You will find examples of HSBC's leadership in this important area, including our commitment to carbon neutrality and our carbon neutral pilot project.

'...climate change represents the largest single environmental challenge this century. It will have an impact on all aspects of modern life. It is, therefore, a major issue for our customers and our staff, as well as for every organisation on the planet, no matter how large or how small.'

*Sir John Bond, HSBC Group Chairman, speaking at the launch in April 2004 of the Climate Group, an international non-governmental organisation*

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# HSBC Worldwide

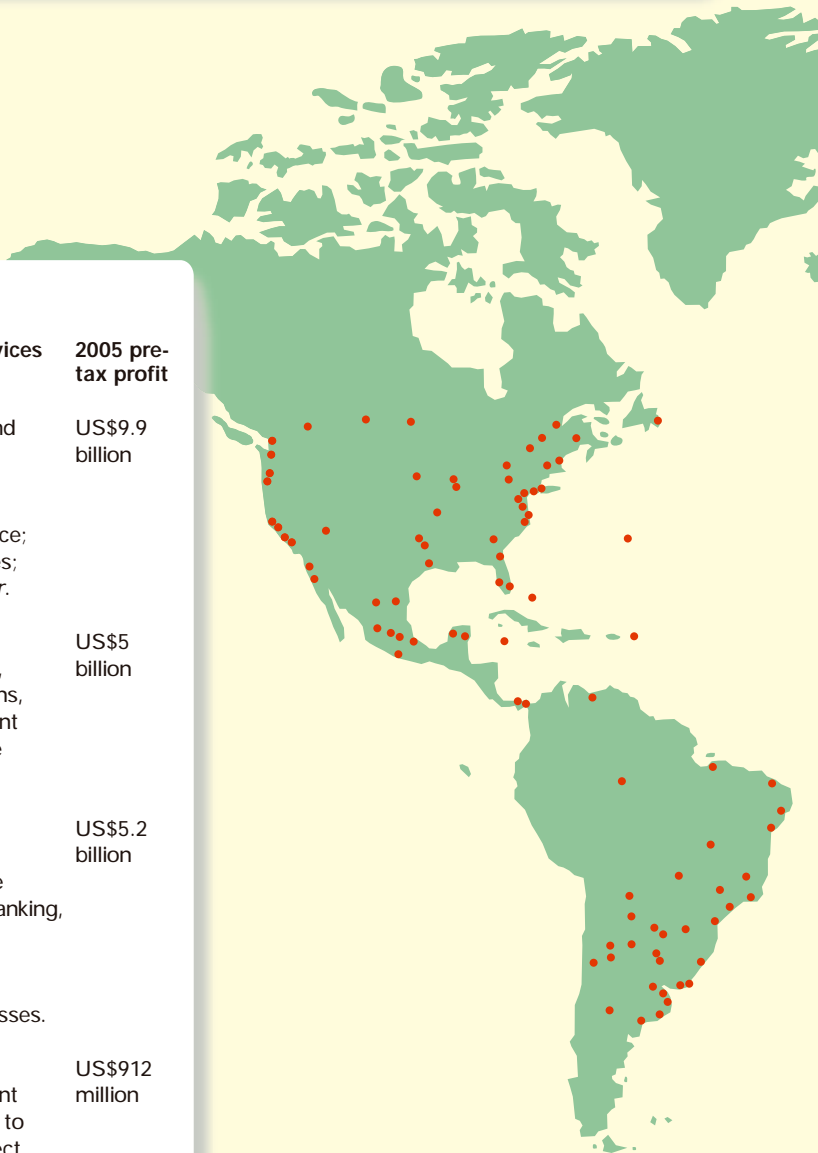
## The Business

Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The Group Chairman and Group Chief Executive, as well as key Group functions such as credit and risk, finance, legal and compliance, and information technology, are based at HSBC's Group Head Office. We organise our businesses around customer groups which are based on a geographical structure with regional offices, all of which receive overall strategic and functional direction from Group Head Office.

Our main centres of employment are the UK with 55,000 employees, the US 49,000, Brazil 28,000, the Hong Kong SAR 26,000, Mexico 22,000, India 20,000 and France 14,000.

## Customer Groups

Customer group	Number of customers	Key products/services	2005 pre-tax profit
Personal Financial Services (including Consumer Finance)	120 million	Current, cheque and savings accounts; loans and home finance; cards; payments; insurance; investment services; and HSBC Premier.	US\$9.9 billion
Commercial Banking	2.5 million	Payments and cash management, trade services, loans, wealth management services, insurance and e-banking.	US\$5 billion
Corporate, Investment Banking and Markets	3,800	Global Markets, Global Investment Banking, Corporate and Institutional Banking, Global Transaction Banking, Private Equity and Group Investment Businesses.	US\$5.2 billion
Private Banking	90,000	General banking services; investment services; solutions to preserve and protect existing wealth; and specialist advisory services regarding tax, charities and foundations.	US\$912 million



### Global Resourcing

Group Service Centres (GSCs) play a key role in helping HSBC to remain competitive in the global financial services market. Almost 20,000 employees in our 11 GSCs in five countries — China, India, Malaysia, the Philippines and Sri Lanka — support customers in Europe, North America and Asia-Pacific with account administration, credit card payments, mortgages and telephone enquiries. Our GSCs enable us to harness a diverse range of skills, knowledge and languages and to avoid being overly dependent on any one region or economy. By creating jobs in emerging markets, we believe HSBC is making a positive contribution to social and economic development.



### Competitive Environment

We face strong competition in all the markets we serve worldwide from a wide range of financial institutions: commercial banks, consumer finance companies, savings and loan associations, credit unions, retailers, brokerage firms and investment companies.

## Group Chairman's Introduction

www.royriley.co.uk



If anything, the debate about corporate social responsibility has intensified during the last 12 months. Given the challenges, as well as the opportunities, presented by globalisation and the range of social, ethical and environmental issues involved in the conduct of international business, this is not surprising.

HSBC's position is clear. We have always maintained that a company's first social responsibility is to be successful. Success allows us to invest in new products and services for our customers. It enables us to pay the dividends which form such an important part of the long-term savings and pension plans of our shareholders. It allows us to contribute to public services through the taxes we pay to governments. It creates jobs for our colleagues and suppliers.

That is not to say that profits should be pursued without concern for a company's wider social obligations. Far from being incompatible, long-term success and good corporate behaviour are linked inextricably. For a company like HSBC, which in 2005 celebrated 140 years of aspiring to the highest standards of conduct, corporate social responsibility has been a vital ingredient in our success.

Guided across a spectrum of complex issues by our Corporate Social Responsibility Committee of the HSBC Holdings plc Board, we continued to make progress during 2005 in developing and implementing CSR policies and programmes appropriate to a fast-changing world. For example:

- Having made a public commitment to do so from January 2006, we became the world's first major bank to achieve carbon neutrality — three months ahead of schedule. Climate change remains a critical challenge that will require our continuous effort in working collaboratively within the banking sector and in the broader community. As the theme of this report, you will find examples of our leadership in addressing this challenge.
- We issued new environmental risk guidelines governing lending to the freshwater infrastructure and chemicals industries. We shall introduce further sector guidelines in 2006.
- We have reviewed all our philanthropic activities and renewed our commitment to supporting education at the primary and secondary levels for underprivileged children, and the environment.

Our *CSR Report 2005* uses the Global Reporting Initiative guidelines to illustrate our progress and performance, including how we honour our commitments to support the UN Global Compact and the Equator Principles. We have compiled it after consultation with those who follow HSBC closely. We welcome the dialogue we have with our various stakeholders and we welcome your comments on this report.

A handwritten signature in black ink, appearing to read 'John Bond'. The signature is fluid and cursive, with a large initial 'J' and 'B'.

Sir John Bond, *Group Chairman*  
HSBC Holdings plc  
April 2006

## Frequently Asked Questions

These questions, covering a wide range of CSR issues of interest to our stakeholders, have been selected on the basis of the frequency of their recurrence in investor questionnaires and profiles, in shareholder communications and in the media. Many other issues are covered elsewhere in the report or on our web site.

### **1. HSBC's profits are enormous. Are you profiting at the expense of your customers and society as a whole?**

HSBC is a commercial organisation and our governing objective is to provide a satisfactory return on shareholders' capital. At the same time, we recognise that our commercial duties go hand in hand with our broader obligations to society. We conduct our business with high standards of professionalism and integrity, and are determined to play our full part in the life of the communities we serve. We are proud of our contribution to wealth creation. We know that HSBC's commercial success helps to pay for the retirement income of millions of people around the world.

Our duty to our customers is to look after their financial affairs with expertise, fairness and transparency. Our duty to our staff is to provide a safe and pleasant place to work, competitive pay and opportunities for advancement in an international meritocracy. We also believe it is our duty to share our success with the less fortunate members of society because economic success and social deprivation are incompatible in the long term. A strong sense of responsibility runs throughout our history. The tradition of 'capitalism with a conscience' can be traced back to HSBC's earliest days.

Later in this report, we detail how HSBC contributes to the economy through remuneration for employees, taxes to governments, and payments to suppliers (see page 21). We also describe how HSBC spends some of its profits on good causes, especially education for the underprivileged and the environment (page 26).

### **2. Levels of debt are becoming unsustainable in some of your major markets. Are you allowing people to carry more debt than they can bear?**

One of the fundamental reasons for a bank's existence — and a primary source of our income — is to enable people to borrow money in order to pay for improvements in their lives or livelihoods. As one of the world's leading banks, we are also a leading lender, with over US\$427 billion in loans, including residential mortgages, to personal customers in 2005. Inherent in every loan is an element of risk. To the bank, there is the risk of default; to the customer, the risk of being unable to repay the loan, incurring further charges.

We take very seriously our responsibilities to manage our lending prudently. For example, in the UK we were the first major bank to share positive as well as negative credit data with our competitors. This means that other potential lenders will be better able to assess an individual's ability to repay debt (see page 13).

HSBC's consumer finance business has a commitment to fair and ethical lending practices, and to clear communications with our customers. We will comply strictly with the letter and spirit of regulations covering disclosure, charging limitations and policy changes. And, most importantly, we train our employees to offer products that will provide the customer with a true financial benefit.

### **3. What are you doing to help protect your customers from fraud and e-crime?**

Increased customer awareness is essential in the battle against fraud, and HSBC continues to invest in initiatives to help customers understand the risks and avoid becoming victims of fraud. We publish advice on our primary web site, [www.hsbc.com](http://www.hsbc.com), and on our local language web sites around the world, outlining the measures taken by HSBC to protect customers from e-crime, and the steps that our customers should take to protect themselves.

During 2005, we installed 'anti-skimming' devices in a large number of our ATMs in the UK, which have significantly reduced card fraud affecting our machines. We are now working with other banks to encourage the wider use of these devices in the UK financial services industry, as well as introducing them in other businesses around the HSBC Group.

Following the introduction of 'two-factor authentication' for personal internet banking in Hong Kong and in other parts of Asia last year, 'phishing' — whereby fraudsters pretending to be from a legitimate organisation send misleading e-mails requesting personal and financial details from unsuspecting people — in the region has been virtually eliminated. We are investigating the feasibility of employing this security feature in other markets. 'Two-factor authentication' was also introduced for business customers in a number of markets in 2005 (see page 15).

### **4. What are you doing to limit the adverse effects of businesses you finance?**

We believe that sound business management must take into account the effects of our businesses on the environment. Environmental factors are assessed as part of our normal credit and risk procedures, which take full account of the Equator Principles (see page 12) and our own guidelines covering certain high-risk sectors (see page 10). These voluntary guidelines help HSBC to address the environmental and social issues that arise in project finance.

Our cautious approach applies not only to environmental risk but also to controversial issues, such as the financing of defence equipment sales, where we apply strict internal controls and ensure that all necessary government licences and approvals relating to the transaction are in place. However, we decided some time ago to withdraw progressively from financing the manufacture and sale of weaponry and defence equipment. As a result, we advise our customers and potential customers that weaponry and defence equipment are not areas of business in which we wish to be involved.

## Frequently Asked Questions (continued)

### 5. What are you doing to uphold human rights in the countries where you operate?

HSBC operates in 76 countries and territories, some of which — including those in the developed world — are the subject of human rights concerns. We consider ourselves as guests, respecting the local cultures and traditions, and we understand that reform, where needed, takes time. We strive to conduct our business in an ethical way and consistently uphold global standards, such as the UN Universal Declaration of Human Rights, the UN Global Compact and the Global Sullivan Principles.

We believe that personal freedom is best nurtured in an environment of economic growth and economic freedom. Economic development has improved the lives of millions of people around the world, whereas restricting trade or other economic ties can slow a country's progress to the detriment of its people. Our observation is that oppressive regimes, for example, are more susceptible to change through interaction with the rest of the world — through trade, finance, politics and the media — than from within. As a peaceful means of influence, interdependence will often exert more pressure for change than isolation.

We have, on occasion, withdrawn from countries where conditions were no longer conducive to business

but, where we are able to manage the risk, we do so while remaining conscious of our responsibilities to customers who rely on us for their financial needs.

### 6. How do you justify the salaries paid to senior executives?

We accept that, compared with a great many people, HSBC's executives are well paid. It is HSBC's policy to pay its staff fairly, whatever their role within the company, from the newest recruit to the Group Chairman. We have to be aware of the pressures of the employment market and be able to attract and retain the best people.

We pay market rates at all levels of the organisation and in all the countries and territories where we operate. We recognise that HSBC is operating in an international and highly competitive market-place for human talent. Where executive Directors and other top management are concerned, our policy is to match base salaries at around the mid-market for UK and European banks, and to match bonus and long-term incentive awards against the upper quartile of these banks.

We are, of course, aware of the sensitivities surrounding executive pay in the world's largest corporations, and we respond by being as transparent as possible in our own remuneration policy.



## About HSBC

### Our Values

HSBC's statement of *Business Principles and Values* commits us to high standards of corporate behaviour, which are integral to HSBC's strategy. Our values commit us to long-term, ethical client relationships, the pursuit of excellence and productivity through teamwork, prudence and an international outlook and character. Our values are fundamental to our business conduct and policy on sustainability.



The statement appears in full on our web site: [www.hsbc.com/values](http://www.hsbc.com/values)

### Regulatory Environment

Our worldwide operations are regulated and supervised by some 490 central banks and regulatory authorities whose role is to ensure that commercial banks have sufficient capital to operate efficiently and that the interests of their depositors are protected. In 2005, we spent some US\$635 million to meet our regulatory obligations. HSBC complies with all lawful requests for information from governments or regulatory agencies with jurisdiction over our businesses. We firmly believe that regulators should exercise effective supervision of financial services institutions for the good of the industry and of its customers.

### Compliance Framework

Group Compliance policy requires employees in all our offices to adhere to both the letter and the spirit of relevant laws, rules, regulations and standards of good market practice. Some 2,000 compliance employees worldwide support line managers to help ensure all activities comply with external regulatory requirements and any additional standards demanded by Group policies. The adequacy and effectiveness of compliance resources are overseen by the Group Compliance department and the Group Audit Committee of the HSBC Holdings plc Board through an annual compliance planning process.

### Anti-money laundering policies

Money laundering poses a significant risk to our business and to wider society. All HSBC Group businesses are required to uphold the highest standards of customer identification, to monitor transactions, to report suspicious transactions, and to provide appropriate training to employees.

### Whistle-blowing policies

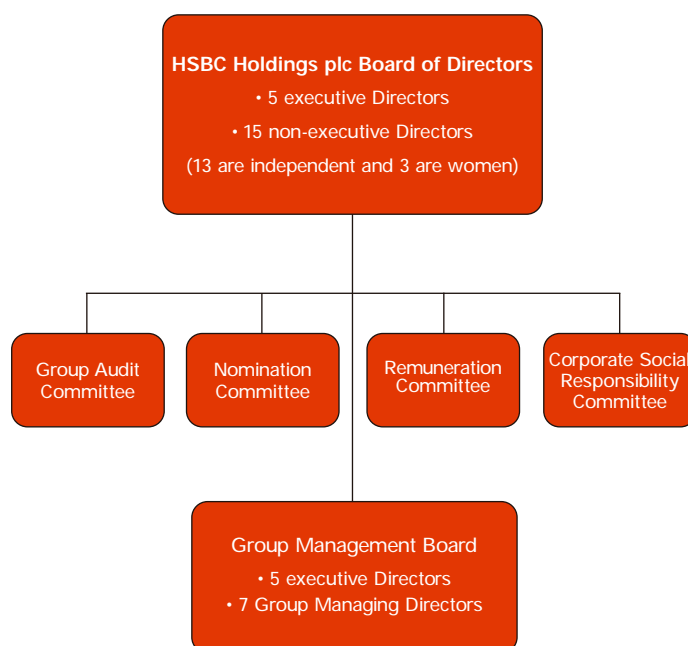
Employees are encouraged by line management and in procedures manuals to report concerns about corporate wrongdoing without fear of reprisals. Employees can report anonymously on the Compliance Disclosure Telephone Line, in writing or by e-mail. Reportable disclosures can include the breach of a legal or regulatory requirement, fraud or accounting malpractice. This process is overseen by our Group Compliance function.

### Corporate Governance

#### HSBC Holdings plc Board

On 28 November 2005, we announced the retirement at the Annual General Meeting in May 2006 of our Group Chairman and his succession by our Group Chief Executive. HSBC's *Annual Report and Accounts 2005* addresses the current corporate governance guidelines, including the UK Financial Services Authority's Combined Code provisions (see pages 200-201). The *Annual Report* also includes information on other aspects of corporate governance, such as how 'independence' and the expertise required of Board members are determined.

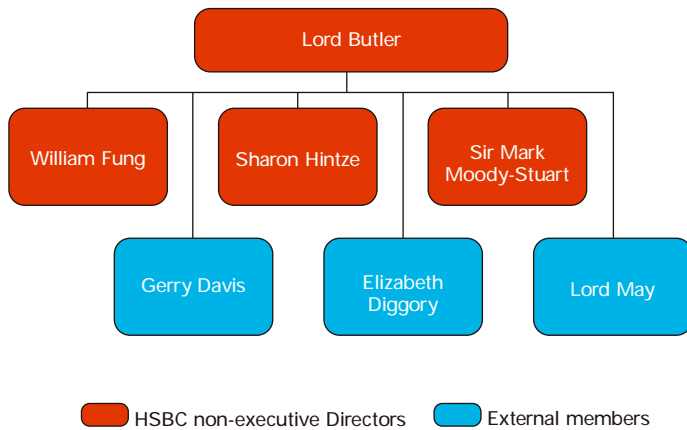
The Board has appointed a number of committees consisting of Directors and Group Managing Directors.



## About HSBC (continued)

### Corporate Social Responsibility Committee

Formed in September 2003, the CSR Committee of the Board (see chart) oversees the Group's CSR and sustainability policies and advises the Board, committees of the Board and executive management. It meets at least four times yearly.



### Corporate Social Responsibility Executive Steering Group

The objective of the Executive Steering Group is to oversee the implementation of our CSR policies, performance evaluation and communications. Comprising executives from business functions that influence our overall CSR performance, the steering group also acts as a conduit for keeping the CSR Committee of the Board informed.

Group Corporate Affairs co-ordinates external and internal communications, and stakeholder engagement. Working groups have also been formed in France, Brazil, Hong Kong and the Middle East to co-ordinate CSR at national and regional levels.

#### Case study: Carbon Management Plan and task force

On 6 December 2004, HSBC made a commitment to become the world's first major bank to achieve carbon neutrality, by 2006. To take this forward, we put in place a Carbon Management Plan consisting of three parts: to manage and reduce our direct emissions; to reduce the carbon intensity of the electricity we use by buying 'green electricity' where feasible; and to offset the remaining emissions in order to achieve carbon neutrality. Our offsets need to be credible, genuinely incremental and cost-effective.

In July 2005, HSBC announced its commitment to reducing CO<sub>2</sub> emissions by 5 per cent by 2007 compared with 2004 across the Group. To co-ordinate the implementation of the plan, HSBC has set up a Carbon Management Task Force spearheaded by the Group Chief Executive. This comprises HSBC's Corporate, Investment Banking and Markets' Project Finance, and Energy and Utility Sector teams; Group Sustainable Development; Corporate Real Estate; and Group Corporate Affairs.

The task force is advised by The Climate Group and ICF Consulting, an international consultancy. As a 'dry run', HSBC has offset its Group-wide emissions for the last quarter of 2005. Allowing for a 5 per cent margin of error, the total emissions amount to 170,000 tonnes of carbon dioxide. To offset these emissions, HSBC has bought 170,000 tonnes of carbon offset credits from four offset projects around the world. The average price per tonne of offset amounts to US\$4.43. Details of the projects are set out on page 11.

## Managing for Sustainable Growth

### Strategic Plan 2004-08: 'Managing for Growth'

We aim to become the world's leading financial services company, seeking to increase our rate of revenue growth by building a world class, ethical sales and marketing culture. The main objective of our strategy is to ensure that shareholders get a better return from HSBC than they would from investing in other financial services companies. However, our goal has never been profit at any cost. Financial success over the long term requires a sustainable approach, which includes addressing the expectations of our customers, colleagues, and those who represent the interests of various communities, the wider society and the global environment.

#### 'Managing for Growth' strategic imperatives

As the 'Managing for Growth' strategy is core to our approach to business, we have used the plan's strategic imperatives to structure our reporting of the integration of CSR into our business.

- Make HSBC one of the world's leading brands for customer experience and corporate social responsibility;
- Personal Financial Services (including Consumer Finance): drive growth in key markets, including expanding our business with existing customers and penetrating new consumer finance markets and, through the right channels, make HSBC the strongest global player in personal financial services;
- Commercial Banking: make the most of our unrivalled customer base internationally through effective customer relationship management and product offerings;
- Corporate, Investment Banking and Markets: accelerate growth through enhanced capital markets and advisory capabilities focused on the client;
- Private Banking: serve the highest value individual and family clients around the world, following the investments we have made in recent years;
- Attract, develop and motivate our people, rewarding success and rejecting mediocrity; and
- HSBC will concentrate on growing earnings over the long term at a rate which will place it favourably when compared with its peer group. It will also focus on investing in its delivery platforms, its technology, its people and its brand to support the future value of HSBC as reflected in its comparative stock-market rating and total shareholder return.

### Group Sustainable Development Strategy

The HSBC Group's sustainable development strategy, 'From Risk to Opportunity', was launched in August 2005, with the key objective of incorporating sustainability further into HSBC's operations, both from risk and business development perspectives.

In 2005, we established a new head office function, Group Sustainable Development, to implement the 'From Risk to Opportunity' strategy, ensuring that sufficient focus is given to managing both sustainability risks and opportunities. The unit reports directly to the Group Chief Operating Officer, giving it Board-level representation.

During 2005, HSBC:

- Issued two new sector guidelines covering the freshwater infrastructure and chemicals industries to supplement the 2004 *Forest Land and Forest Products Sector Guideline*;
- Appointed Environmental Risk Managers in 10 regional credit risk management functions, reporting to the local Chief Credit Officers and functionally to Group Sustainable Development. This regional structure is being developed gradually to include additional resources at a country level;
- Developed an environmental and social risk assessment tool, to be implemented in 2006, that enables lending executives to analyse risks at project and client levels;
- Included environmental risk issues in core training programmes, such as the Chairman's Strategic Forum and the Senior Risk Management Workshop, our most senior leadership development and risk management programmes, respectively.

We are aware that banks can, indirectly, contribute to ecological damage by providing finance to companies operating in sensitive areas but, equally, they can undermine economic development and the opportunity to contribute to sustainable development if they withdraw from these areas.

The Group's Environmental Risk Strategy, approved and endorsed by the Group Chief Executive and CSR Committee in 2004, comprises three broad areas of work:

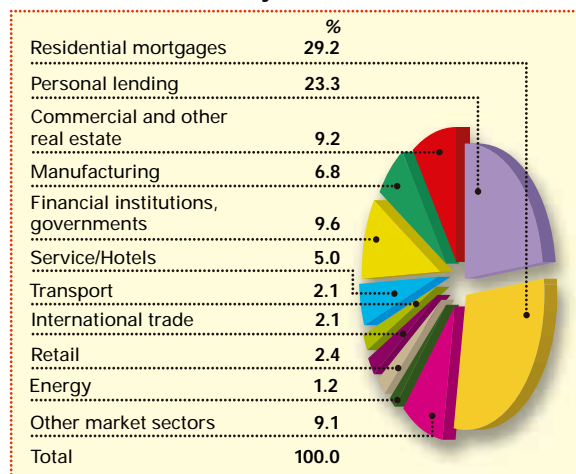
- Issuing guidelines for high-risk sectors;
- Developing processes and tools to enable effective implementation of the guidelines; and
- Rolling out a programme of training and education to ensure environmental and social risk assessment forms part of our core business processes.

#### Sustainability risk

Our approach to lending reflects our business principles and values, our sensitivity to society's expectations as well as, fundamentally, an assessment of risk. We seek to ensure the sustainability of activities to which we lend, addressing the need for economic development while managing the environmental and social impacts.

## Managing for Sustainable Growth (continued)

HSBC's total loan book by sector 2005



More than half of our loan book is personal lending, with the biggest commercial sectors being financial institutions and governments, manufacturing and commercial real estate.

### Sector guidelines

HSBC's relationship managers manage large-scale investments and advance credit to global clients involved in most business sectors. Business opportunities are usually accompanied by some environmental or social risk. Our sector guidelines describe internationally accepted standards to be followed when we lend to or invest in companies or projects operating in the sectors concerned, and specify areas where involvement is prohibited.

We believe HSBC can make a bigger contribution to sustainable development if we remain engaged with clients operating in such sectors and support them, including financially where it makes good business sense, as they work to improve the environmental and social impacts of their businesses.

The guidelines are drafted by Group Sustainable Development in collaboration with the appropriate sector team within Corporate, Investment Banking

and Markets (CIBM), usually following consultation with certain customers and non-governmental organisations. Prior to issue, the guidelines are reviewed by the CSR Committee of the Board and finally approved by our Risk Management Meeting. We review our sector guidelines annually to ensure they remain current and relevant.

### Communication and training

Employees in CIBM and Commercial Banking receive training on sector guidelines relevant to their business area when each guideline is issued. For example, training on the *Forest Land and Forest Products Sector Guideline* involves a video or DVD, a presentation on key issues, and on-the-job coaching. We continue to work with the Tropical Forest Trust to develop our training.

In May 2005, we held the first HSBC Environmental Conference at our Group Management Training College in Hertfordshire, UK. Attended by senior management from across the Group, the meeting was designed to communicate our progress on implementing the HSBC Environmental Action Plan and to identify areas for improvement. HSBC's ability to analyse sustainability risks in lending was featured at the conference. Delegates agreed a sustainability risk action plan which is now being implemented.

Our Asia-Pacific region hosted its own environmental risk conference in Kuala Lumpur in June.

### Developing sustainable business

Since Group Sustainable Development was established in late 2005, it has begun to identify business development opportunities by geography, industry sector and customer group, and supports business units in taking advantage of them. It also evaluates inbound business referrals, alerting the appropriate business unit to those with merit.

Sector guidelines	Issue date	International standards referenced
Forest Land and Forest Products	May 2004	Forest Stewardship Council or equivalent
Freshwater Infrastructure	May 2005	World Commission on Dams Framework
Chemicals Industry	August 2005	Rotterdam Convention, Stockholm Convention, Montreal Protocol, Responsible Care Programme, EU's Registration, Evaluation and Authorisation of Chemicals
Energy	Due 2006	Under review
Metals and Mining	Due 2006	Under review

*The guidelines prohibit any involvement with companies that have projects in UNESCO World Heritage Sites, Ramsar Wetlands, or certain other sensitive ecosystems such as primary tropical moist forests. We will not finance illegal logging or projects that would cause a significant degradation of a critical natural habitat.*

The unit focuses on climate change, particularly low-carbon energy, water infrastructure, sustainable forestry and related agricultural commodities. It acts as a catalyst and co-ordination point, with much of the subsequent business development being undertaken within the customer groups themselves.

We seek to identify low-carbon projects globally, but especially in our key emerging markets of China, India, Brazil and Mexico. By funding or investing in these projects, we will secure carbon credits to offset our own carbon emissions, and ensure they are environmentally credible, incremental and cost-effective. We will maintain our carbon neutrality through our core business of lending and investment (see case studies on HSBC's carbon neutrality commitment in this report).

Group Sustainable Development works with our customer groups, particularly Project and Export Finance, Resources and Energy Sector, Private Equity, Investment Banking, Equity Research and Trade Services in CIBM; Commercial Banking; Group Investment Businesses and their socially responsible investment funds; and Private Banking's ethical funds and foundations. As our strategy

progresses, it will also support Personal Financial Services, including Consumer Finance, by incorporating sustainability into retail lending and investment products.

In 2004, we began a three-year, £650,000 (US\$1.2 million) collaboration with the universities of Newcastle-upon-Tyne and East Anglia — the 'HSBC Partnership in Environmental Innovation'. This global programme is researching climate change and other major forms of environmental damage, and society's awareness of the issues. It will also develop technologies to overcome some of the problems identified.

In November 2005, the University of Newcastle-upon-Tyne research team, sponsored by HSBC, won a Queen's Anniversary Prize for Higher and Further Education for a pioneering project to clean up contaminated water flowing from an abandoned mine.



Find out more about the HSBC Partnership in Environmental Innovation at [www.hsbc.com/pei](http://www.hsbc.com/pei)

#### Case study: HSBC's carbon neutral pilot project

In the last quarter of 2005, we offset our Group-wide carbon dioxide emissions of some 170,000 tonnes by purchasing an equal amount of credits from four projects around the world. An external assessment of these projects appears on page 25.

##### **Project 1: Te Apiti wind farm, North Island, New Zealand**

Carbon reduction: 125,000 tonnes

Fifty-five turbines, with a capacity of 1.65 megawatts each, generate enough electricity for 45,000 average-size homes. This is one of the first projects validated by the Gold Standard, which ensures both additionality and the greatest sustainable development benefits.

##### **Project 2: Organic waste composting, Victoria, Australia**

Carbon reduction: 15,000 tonnes

By composting organic waste using aerobic methods, harmful methane gas is replaced by the less harmful carbon dioxide, thus minimising the global warming potential. The emission reduction credits are issued by the Australian Greenhouse Friendly scheme, with an independent party approved by the Australian Greenhouse Office verifying the carbon offset.

##### **Project 3: Sandbeindorf agricultural methane capture, Germany**

Carbon reduction: 14,000 tonnes

Fresh manure from cattle and pigs is fed into a biogas plant (picture) instead of being stored in open tanks or lagoons. An attached combined heat and power generator converts it into heat and electricity, reducing methane emissions by some 90 per cent.



Courtesy of Sandbeindorf project

##### **Project 4: Vensa Biotek biomass co-generation, Andhra Pradesh, India**

Carbon reduction: 16,000 tonnes

The project generates electricity from agricultural biomass for the local industry which produces liquid glucose and starch. The result is a reduction in greenhouse gas and particulate emissions and ash generation associated with the burning of coal, a major fuel used in the state electricity industry. Any surplus power generated is fed to the state grid, improving the reliability of the power supply and stabilising the voltage.

## Managing for Sustainable Growth (continued)

### Equator Principles

The Equator Principles are a set of voluntary guidelines developed to address the environmental and social issues arising from financing projects. Adopted by HSBC in 2003, the principles are a core part of our wider approach to managing sustainability risks in lending and investment.

We have continued to implement the principles across the Group, building on the training we undertook in 2004, with workshops in Asia and the Middle East. Training has been extended beyond our project finance teams to include staff involved in managing relationships in industries with potentially high environmental and social risks. We are also developing a decision support tool to enable project finance executives to assess environmental and social risks in a consistent and structured way, and are upgrading our systems to report on those risks in more detail.

We continue to monitor the number and value of our transactions where the Equator Principles have been applied. The increase in volume and value of transactions reflects growth in our project financing business, with the majority of deals in the lower risk categories (B and C). We also record the number of transactions we have declined where failure to comply with the principles was a contributory factor. We believe the lower number of transactions declined during 2005 reflects improvements in HSBC's training, as well as internal and external requirements for compliance with the Equator Principles.

During 2005, we were active in various public forums involving the Equator Principles. HSBC has chaired the Equator Principles Working Group and, together with a number of other financial institutions, we have played an important role in

assisting the International Finance Corporation with its Safeguard Policy Review. We have also been actively involved in redrafting the Equator Principles to reflect the new International Finance Corporation performance standards, and to take account of feedback from various stakeholders over the past two years.

The Equator Principles mainly affect the work of CIBM. To ensure that the principles and their implications are understood at all levels of this customer group, employees undergo formal and practical on-the-job training.



Find out more about our implementation of the Equator Principles at [www.hsbc.com/equatorprinciples](http://www.hsbc.com/equatorprinciples)

### Microfinance

Our approach to microfinance is to concentrate on our strengths and to work with others to create self-sustaining, stable financial services to help people out of poverty. In 2005, HSBC hosted a United Nations (UN) discussion forum on microfinance to address the issues of financial services provision for people who do not qualify for conventional banking services. It was one of a series of international forums organised by the UN in the first officially designated 'Year of Microcredit'. Supporting microfinance is one of the ways in which financial institutions can support the UN Millennium Development Goal of eradicating extreme poverty.

Since 2004, HSBC has been piloting a number of microfinance projects around the world, varying from wholesale lending and credit lines to project support, cash management and foreign exchange handling.

Equator Principles in practice	2005		2004	
	Number	Value (US\$m)	Number	Value (US\$m)
Transactions approved:	67	4,601	46	3,528
by category				
Category A	5	809	1	170
Category B	38	1,917	34	2,435
Category C	24	1,875	11	923
by type of facility				
Solely commercial	39	1,995	29	2,091
Solely export credit	21	2,075	13	997
Commercial/Export credit	7	531	4	440
Transactions declined	7	n/a	12	n/a

Key:

Category A: projects with significant adverse impacts which may affect an area broader than the project site.

Category B: projects whose impacts on human populations or environmentally important areas are less adverse.

Category C: projects with little or no environmental impact.

## India

HSBC in India is currently working with six microfinance institutions across four states to provide microfinance to over 70,000 poor households in both rural and urban areas. Over US\$5.5 million in credit facilities has been approved to date. A debt financing programme called eMFI has been created to support small and promising microfinance institutions. Two emerging microfinance institutions have already been provided with credit facilities under this programme.

## Mexico

HSBC works closely with Compartamos, one of Mexico's largest microfinance institutions with a portfolio of loans of US\$200 million and part of the Accion network. We permit Compartamos's clients to receive their loans and make payments in HSBC branches. This relationship is particularly beneficial to Compartamos's 450,000 customers since HSBC has 1,400 branches in Mexico, compared with Compartamos's 60.

## Philippines

Opportunity International UK and HSBC are working on a pilot project to help Philippine workers send money they earn abroad back to their families in the Philippines more cheaply. If the project is successful, it will be introduced in other countries.

We are currently reviewing proposals for commercial funding from three microfinance institutions in the Philippines.

## USA

We structured a US\$20 million loan guarantee fund on behalf of Opportunity International. This will be used to secure letter of credit facilities to enable Opportunity International's partners in various countries to obtain local currency funding.

## Russia

We provided credit facilities of US\$2 million to Fund Opportunity Russia against a guarantee of US\$1 million provided by the Opportunity International Loan Guarantee Fund.

## Brazil

Plans to work with the Inter-American Development Bank to provide wholesale funding to Banco da Familia have not progressed because of regulatory issues. We remain committed to microfinance in Brazil and are investigating further opportunities.

## Personal Financial Services (including Consumer Finance)

To achieve our strategic imperative of making HSBC the strongest global player in personal financial services, we have identified the following priorities:

- Link prices to costs in order to treat our customers fairly;
- Provide a wide range of banking services to suit the evolving needs and expectations of our customers; and
- Focus investments particularly on key emerging markets where size or growth potential will enable HSBC to be a leading player.

### 1. Treat customers fairly

We aim to make our products easy to understand for both our employees and our customers. In the UK, for example, we recently simplified the range of products on offer, from a total of 200 down to 80. This makes it easier for people to choose the right product for their needs.

All our products and services are designed around customer needs and we take into consideration the financial awareness, risk appetite and personal circumstances of the customer. Credit approval and interest rates are based on the borrower's ability to repay and credit profile, and the loan product concerned.

In August 2005, HSBC was the first major bank in the UK to start sharing positive as well as negative customer details on all personal credit products through the country's three main credit reference agencies, making it easier for lenders to assess an individual's ability to repay debt.

In the US, HSBC's consumer lending businesses, HFC and Beneficial, employ industry-leading lending practices and consumer protections which benefit all their customers. For instance, we have invested heavily in establishing systemic controls to ensure compliance with mortgage lending practices, including a one-page outline, key terms, fees and payments, lower rates for prompt payers and a 10-day cancellation guarantee. These practices have been endorsed by third-party audits, which we share with US state regulators and attorneys general as part of our commitment to transparency.

We continue to be ready to demonstrate our commitment to regulators who question it. In summer 2005, a court filing in New York State alleged 'substantial racial disparities in interest rates charged by various banks on their New York State loans', based on lending data obtained under the US Federal Mortgage Disclosure Act. HSBC complied with all requests to submit evidence in this case.

## Managing for Sustainable Growth (continued)

### 2. Meet the needs and expectations of our customers

Customers are increasingly looking for flexible banking services to suit their lifestyles. In 2005, our customers conducted 183 million transactions online, an increase of 17 per cent over 2004. Online sales rose by 65 per cent and total online revenues by 71 per cent. To protect our customers, HSBC is involved with internet-specific initiatives, such as the UK's 'Get Safe Online' campaign, a partnership between government departments and the private sector designed to raise public awareness of the risks of doing business online and how they can be mitigated. We will continue to respond to changes in customer behaviour and tastes, while at the same time helping our customers to protect themselves.

In 2005, HSBC published the 'Future of Retirement', a global study into changing attitudes towards ageing and longevity. HSBC has also formed a strategic alliance with Oxford University's Institute of Ageing, the renowned international policy and research institute. Over the next five years, HSBC and the institute will work to produce the world's most comprehensive study into ageing, initially interviewing some 24,000 people in 20 countries. Our long-term aim is to build a leading research database on ageing, which will support our retirement businesses as well as provide information about this issue to public policy makers, corporations and individuals.

In a number of countries, we are working to comply with the legal requirements on accessibility for our customers. We continue to improve accessibility to our premises where possible. Sixty per cent of branches in the UK, 82 per cent in the US, 96 per cent in Canada and 64 per cent in Hong Kong are accessible by wheelchair. In the US and the UK, we support our disabled and senior citizen customers through the provision of text phone, induction loop and telecommunication devices, as well as sign language interpreters (by appointment) for our hearing-impaired customers.

We continue to offer our customers in the US a product designed to deal specifically with growing trends in e-crime. Focusing on identity theft, preventive education and online tools, the Identity Protection Plan comprises a comprehensive software suite that includes firewall software, identity theft/hacker alerts, a monthly newsletter, and a round-the-clock lost and stolen credit card service. To date, 561,000 customers have subscribed to the scheme.

### 3. Focus on emerging markets

Islamic financial services prohibit the payment of interest and advocate equitable distribution of risk and reward, as specified by *shariah* (Islamic law).

Marketed under the name HSBC Amanah, we offer Muslim customers products to address their financial needs without compromising on their values. HSBC Amanah's ethical screening prohibits investment in such sectors as gambling, alcohol and arms.

At year-end 2005, HSBC Amanah had offices in eight countries, more than 290,000 customers worldwide, and US\$5.6 billion in assets under management.



Find out more about the full range of personal and commercial banking services offered by HSBC Amanah at [www.hsbcamanah.com](http://www.hsbcamanah.com)

HSBC has developed a wide range of remittance products to meet a range of customers' needs. HSBC Credit Centres in the US enable customers to remit funds, which can be picked up at various locations throughout Latin America for a fee as low as US\$3 per transfer.

We also offer 'Envio Fácil' ('Easy Send'), the first free money transfer product to be rolled out in the US. Through this, a savings account is linked to a personal account and an ATM card is sent to the beneficiary who can access funds in the savings account instantly and for free at any HSBC ATM around the world.

HSBC México and HSBC North America are collaborating to launch an innovative cross-border mortgage product that will help Hispanics who work in the US, but reside in Mexico, to qualify for mortgages with their US income. As HSBC México is unable to verify income and conduct credit bureau checks for income earned outside the country, HSBC Credit Centers in the US will conduct the appropriate checks and pass the information to HSBC México which then underwrites the loans.

### Commercial Banking

To achieve our strategic imperative of making the most of our unrivalled commercial customer base internationally through effective customer relationship management, we have identified the following priorities:

- Focus on our e-channels to provide an extended range of solutions to our customers; and
- Explore the potential of our existing customer base and provide proactive solutions for our customers.

#### 1. Focus on e-channels

We encourage customers to conduct transactions and make enquiries using paperless channels, for example by using internet banking or HSBCnet, our global



e-banking platform for corporate and middle market customers offering cross-border banking services on one site, including payments, and trade and treasury services. In 2005, we launched a web-based global customer referral and tracking system, Global Links, connecting nearly 4,000 managers across 52 countries. It provides better customer service and improves communications within our business.

Automated document production aims to improve customer service and operational efficiency while reducing paper usage significantly. We have already consolidated numerous leaflets and brochures in Asia-Pacific into eight core online documents with a print-on-request function, and plan to do so in the UK in 2006. We continue to look at other ways of streamlining credit processes elsewhere by utilising our global capabilities, especially for small and medium-sized enterprises (SMEs).

To help protect our commercial customers from financial crime, we have continued to invest significantly in new internet banking security technology. 'One-time password' security for Business Internet Banking was introduced during 2005 in several countries and territories including the US, Hong Kong, mainland China, Singapore and Canada. The key-ring-sized device produces a random, single-use security code which, when used in conjunction with a user name, enables internet banking access from anywhere in the world. It is considered more robust than 'single factor authentication', which typically requires only a personally chosen password.

## 2. Provide proactive solutions for our customers

In 2004, we launched 'Living Business' in Hong Kong with the support of the Business Environment Council. 'Living Business', available to customers and non-customers alike, creates opportunities for us to do business while reinforcing our commitment to the communities in which we operate.

It is designed to help small and medium-sized enterprises (SMEs) become more competitive and productive by implementing socially and environmentally responsible business practices. In Hong Kong, SMEs constitute more than 98 per cent of business establishments and employ around 60 per cent of the entire private sector workforce.

The programme has since been launched in Singapore and Malaysia, with the potential to extend it to other countries and territories. Some 150 people from around 130 companies have benefited from our free seminars as part of the 'Living Business' programme.



For more information on 'Living Business', see [www.hsbc.com.hk/livingbusiness](http://www.hsbc.com.hk/livingbusiness)

### Case study: Reducing CO<sub>2</sub> through high performance buildings

We have invested significantly in design modifications in the construction of HSBC México's new head office building in Mexico City (see picture), with the aim of achieving a certification under the 'Leadership in Energy and Environmental Design' system managed by the US Green Building Council.

#### *Car-pooling*

The building will have a total of 1,129 parking spaces, 180 of which will be allocated to those who share car travel to work. It is estimated that 360 fewer cars will be driven to work as a result of the initiative.

#### *Waste management*

During construction, 75 per cent of waste including wood, glass, steel and debris, was either recycled or reused. Waste bins will be provided on each floor for sorting recyclable waste into glass, plastic, paper, cardboard, aluminium and organic waste, resulting in a reduction of 180 metric tonnes of CO<sub>2</sub> per year.

#### *Energy-efficient lighting system*

A high-efficiency lighting system, called Lutron, will save energy by sensing levels of daylight and dimming indoor lighting accordingly, and by shutting down lights automatically when offices are empty. This will reduce CO<sub>2</sub> emissions by about 205 metric tonnes per year.

#### *Water*

Rainwater will be collected and treated together with greywater, reducing by 28 per cent the conventional demand for the building. Waterless urinals and water-saving toilets have been installed to achieve an expected overall reduction of 64 per cent in potable water demand.



## Managing for Sustainable Growth (continued)

### Corporate, Investment Banking and Markets

To achieve our strategic imperative of accelerating growth through enhanced capital markets and advisory capabilities, we have identified the following priorities:

- Build strong relationships with clients by understanding fully their strategies and banking requirements; and
- Build a team of sector-based senior relationship managers organised on a global basis to manage top-level relationships, offering a market-led suite of services.

#### 1. Build strong relationships

In addition to a New Zealand wind farm project which forms part of our own carbon neutrality programme, we have helped some clients fund their own projects in this area, including two wind farms for Fred Olsen Ltd which are among the UK's largest onshore wind farm developments to date. We see the funding of wind farm projects and advising clients on carbon neutrality as having the potential for long-term business development.

#### 2. Build a team of sector-based senior relationship managers

CIBM's specialists in Project Finance and in the Energy and Utilities Sector work with our clients to ensure adherence to internationally recognised standards, such as the Equator Principles. CIBM relationship managers must use our sector-specific guidelines (page 10) and our Group Credit and Risk procedures or the Equator Principles in assessing potential business, whichever is the more stringent.

Within Group Investment Businesses, we have a dedicated Socially Responsible Investment (SRI) team based in Paris. Globally, we manage almost US\$1.4 billion in ethical and SRI assets, less than one per cent of HSBC Investments' total assets under management. We do not systematically apply social, ethical or environmental research to our other assets under management.

In December 2005, HSBC Investments launched a major new product — the HSBC Sustainability Leaders Fund — in collaboration with LEAD, an international not-for-profit organisation. The fund's objective is to provide consistent returns in the long run from investment in companies considered to be leaders in the field of sustainable development. To support LEAD's work in fostering sustainability practices worldwide, HSBC has committed to sharing with the organisation a significant part of the fees earned from the management of the HSBC Sustainability Leaders Fund.

We have started a comprehensive review of our global SRI activity, with the aim of strengthening it and extending our product range.

As part of our investment brokerage business, which provides research and trading services to institutional and pension clients, we have developed a global research model which integrates within individual research teams an understanding of the growing importance of sustainable development to business, in particular climate change and related low-carbon technologies.

#### Case study: Offsetting CO<sub>2</sub> using renewable energy certificates

HSBC in the US last year purchased 68,000 megawatt-hours of renewable energy certificates, with the aim of offsetting 30 per cent of its carbon emissions. Certificates from the High Winds Energy Center in Solano County, California, have offset some 24,000 tonnes of carbon dioxide (CO<sub>2</sub>). The project generates enough energy to power 75,000 homes.

We won the 2005 'Green Power Leadership Award' sponsored by the US Department of Energy and the Center for Resource Solutions — a recognition of our commitment to purchasing renewable energy.

To mark Canadian Environment Week in June 2005, HSBC Bank Canada purchased 11,000 megawatt-hours of renewable energy certificates for the production of clean electricity generated by new wind resources in Alberta (see picture). The renewable energy certificates were used to offset 100 per cent of the CO<sub>2</sub> emissions from our branches and technology centres in British Columbia, our major employment centre in Canada. A total of 11,000 tonnes of CO<sub>2</sub> has been offset as a result — equivalent to the amount of CO<sub>2</sub> emitted after driving 48 million kilometres.



Vision Quest Transalta's Wind Business

## Private Banking

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To achieve our strategic imperative of serving high net worth individual and family clients around the world, we have identified the following priorities:

- Focus on enhancing our products and services to respond to the evolving demands of our clients; and
- Manage onshore and offshore businesses carefully in the interests of clients and wider society.

### 1. Enhance our product range

Our customers are becoming increasingly aware of ethical investments. Investment advisers within our Private Bank Investment Group operate in key markets, including New York, London, Hong Kong and Switzerland, advising clients on SRI funds as well as on mainstream funds. The group also evaluates third-party and proprietary funds.

Private Banking works with international consulting intermediaries and not-for-profit organisations, fuelled by increasing client interest in philanthropic activities, to provide bespoke charitable trusts overseas. We have developed this product to reflect client demand for cross-border philanthropy.

Private Banking has offered private placements — raising capital privately rather than by public placement — to clients who have an interest in investing in socially or environmentally progressive business projects.

One client has arranged €20 million (US\$24.8 million) in seed funding and small business financing schemes in the Palestinian territories, supported by a European multilateral institution and local commercial banks. We continue to evaluate opportunities for business owner/manager clients to commercialise sustainable business propositions.

### 2. Manage our businesses in the interests of clients and wider society

Private Banking takes appropriate measures to prevent the use of its operations for criminal purposes and co-operates with the relevant authorities to prevent financial crime. Comprehensive policies and procedures are in place to prevent the use of our banks as vehicles for money laundering, terrorist financing or other criminal activities. To ensure that these measures remain effective, our anti-money laundering policies are subject to thorough reviews by both our own internal audit function and by local financial industry regulators.

Our procedures and policies require Private Banking, as well as all other customer groups, to know its customers. We thoroughly check the identity of a client and seek to understand his or her true financial situation prior to opening an account. We also consult a commercial database to check if the customer has a criminal background. Automated systems are used to monitor accounts to enable us to identify suspicious transactions more effectively and to meet our internal and governmental standards. Policies and procedures are regularly updated to reflect regulatory change and evolving best practice.

Annual money laundering prevention training is provided to all Private Banking client contact employees, traders, operations personnel and management. Additional training is given whenever there are changes to local laws and regulations or to our own practices. The adequacy of our money laundering training programmes is audited internally and inspected by external regulators.

We also recognise that certain categories of customer — for example, public officials who open accounts outside their home countries — potentially pose a greater risk of laundering the proceeds of illegal activity, such as corruption, and that in such cases more stringent controls are needed. The approval process for such clients involves the local compliance officer, a senior manager of the bank, the Global Money Laundering Control Officer and the Chief Money Laundering Control Officer.

## Our People

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A key objective of our 'Managing for Growth' strategic plan is to attract and motivate talented people. The breadth of the communities and markets we serve means we can harness a wide range of skills and perspectives.

### Diversity

The 'Diversity Toolkit', reported in last year's report, has been well-received by our managers who adopt best practice for developing diversity strategies locally. We now need to expand the content to provide more commercial case studies to show clearly the business case for diversity and to make the content accessible to all our employees. In 2006, we will redesign the diversity intranet to support the Toolkit, and will provide an update in next year's report.

In Hong Kong, HSBC launched an interactive diversity competition on its employee intranet to increase awareness of the issue and develop a database of business and cultural etiquette.

## Managing for Sustainable Growth (continued)

### Gender

In 2005, HSBC launched 'Accelerating Group Strategy', HSBC's first Global Women's Summit. The summit was a direct result of our 2004 commitment to address findings that more senior-level women than men believed that gender was a barrier to career progression. Thirty-seven female business leaders from across the Group took part in 'virtual' work groups to develop recommendations for presentation to the Group Chief Executive. We are working to develop other ways of ensuring progress in this vital area. In 2006, we will run a pilot of a cross-industry consortium of senior executives working on common strategic issues.

Last year, we made a commitment to increase the number of women in our Group 'talent pool', which consists of individuals identified as HSBC's global leaders of the future. Such individuals are high performers, and typically have international experience and/or are internationally mobile. Although there has been no change in the 17 per cent reported for 2004, we remain committed to the long-term aim and will continue to review our assessment processes and secondment policy. In 2005, we introduced a pilot mentoring programme aimed at talented senior female executives. We will review its progress in 2006.

### Disability

We are evaluating our branch and cash machine locations in many countries to ensure that disabled people have access. HSBC offices and branches in Hong Kong, India, Sri Lanka, Taiwan and Thailand are in the process of building ramps and other facilities for physically handicapped employees.

### Working environment

#### *Anti-discrimination*

Specific employee policies are determined by the region and by legislation and cultural norms. All employees are responsible for treating colleagues with dignity and respect and for creating an environment free from discrimination, harassment or victimisation. Breaches of policy may be subject to disciplinary procedures.

#### *Flexible working*

In today's society, we need to give employees the flexibility to enjoy a healthy and productive work-life balance. A flexible working pilot project is being developed at Group level to re-evaluate our existing office working practices and to take advantage of technological innovations — both within and outside our offices. We aim to increase productivity, make ourselves more responsive to our customers' needs, and

to increase employee satisfaction. The findings of the pilot project will be summarised in next year's report.

The Group's Human Resources, IT and Corporate Real Estate departments have collaborated to develop flexible working in a number of locations, for example in Taiwan, where employees with particular family, personal health and development needs are eligible to apply.

In response to the 2004 employee survey, a new childcare scheme was introduced in the UK. We subsidise nurseries and provide childcare vouchers to help employees pay for the care of children up to the age of 16. Almost 1,000 employees now use this scheme. Our child day-care centre in Hong Kong was set up in 1990 and is also very popular.

### *Health and safety*

We attach prime importance to ensuring a safe working environment, with measures in place to deal with risks ranging from terrorist threats and natural disasters to fire, disease and accidents. We encourage our employees to accept health and safety as part of their individual responsibilities. The Group's health and safety procedures were

Profile of HSBC's employees	2005	2004	2003
	%	%	%
Total employees:			
Male	45	45	44
Female	55	55	56
Senior management grades:			
Male	81	83	83
Female	19	17	17
Junior/Middle management grades:			
Male	56	53	59
Female	44	47	41
Group 'talent pool':			
Male	83	83	n/a
Female	17	17	n/a
Workforce by main geographical area:	% of total		
UK	20	23	n/a
US	17	19	n/a
Asia-Pacific	26	29	n/a
Brazil	10	12	n/a
Other areas	27	17	n/a
Employment type:	% of total		
Full-time	92	90	n/a
Part-time	7	9	n/a
Temporary	1	1	n/a

Figures for 2005 have, for the first time, been collated automatically instead of manually by Group Human Resources, which will provide more comparable figures in the longer term.

Employee ethnicity in HSBC's main geographical areas	UK	US	Asia- Pacific	Brazil
	%	%	%	%
Asian	6	9	68	1
Black	2	17	0	0
White	83	62	4	0
Hispanic	0	12	0	0
Latin American	1	0	0	99
Unknown/Other	8	0	28	0

revised during 2005 to ensure that they are risk-focused and that responsibilities are clearly defined.

Health, safety and fire co-ordinators are appointed in every country where we operate to oversee the implementation of procedures specific to each risk. The adoption of a Group-wide safety management system provides the framework for a structured approach to assessing risks, monitoring implementation of procedures, and reviewing our systems and performance continually.

#### **Accident reporting and reduction targets**

Accidents are recorded, reported and investigated at a local level in each country. Serious incidents are reported to Group Fire and Safety, encompassing the key requirements of the International Labour Organisation's Code of Practice.

Following our significant progress in reducing accidents in the UK since 2001, we are collating more detailed global accident data this year. Our target is a 10 per cent reduction over five years in the Group-wide rate of accidents resulting in more than three days' absence, based on figures for 2006.

Reportable injury rates in the UK increased in 2005 due to the use of a new improved monitoring system. This ensures that any accidents that may not have been recorded in the past are now included, so working days lost are now properly compiled.

#### **Avian flu**

In late 2005, the Group Management Board endorsed a Group Response Plan for an avian flu pandemic. Consequently, all country managers were instructed to start a local contingency planning process to prepare for a pandemic. We are assuming a worst-case scenario

of 50 per cent of our workforce at any one time being unable to perform their roles because of sickness, caring for family members or transport disruption.

#### **Learning and development**

Learning and development is essential in a fast-changing industry so we regularly revise our training programmes. In 2005, we invested an average of US\$800 per employee on training programmes delivered by our 16 major training centres worldwide. In Hong Kong, an average of 36 hours per employee was spent on classroom and e-training programmes. In the UK, almost 173,000 delegate-learning days were recorded, with some 33,000 employees attending face-to-face training courses.

Corporate social responsibility and compliance form a core part of the training for relationship managers working in Commercial Banking and Corporate, Investment Banking and Markets. Delivered by our Group training function to ensure consistency across our customer groups, the courses cover reputational risk, living brand values and meeting strategic imperatives.

In 2005, 120 of our Commercial Banking relationship managers received training in CSR and, in the UK, all newly recruited managers received this training. More than 235 CIBM executives, including 125 graduate trainees, received CSR training during the year.

In 2005, HSBC México undertook a general employee training initiative, 'El Mundo HSBC, Una Nueva Actitud' ('The World of HSBC, A New Attitude') aimed at improving customer service skills. Every day, an average of 125 employees participated in an activity-based mobile road show visiting various Mexican cities.

#### **HIV/AIDS education**

We operate in a number of countries particularly affected by HIV/AIDS. Over the past two years, the steepest increases in HIV infections worldwide have occurred in East Asia, Central Asia and Eastern Europe. We are focusing on addressing HIV/AIDS issues among our 20,000 employees in the 11 Group Service Centres (GSCs) in China, India, Malaysia, the Philippines and Sri Lanka.

Workplace fatalities and accidents	2006 target	2005	2004	2003	2001 baseline
Number of workplace fatalities (worldwide)	0	1	0	0	n/a
Accidents involving more than three days' absence (worldwide)	n/a	381	356	406	n/a
Reportable injuries per 100,000 employees (UK only)	133	162	151	177*	205*
Working days lost from work-related injury per 100,000 employees (UK only)	2,188	3,249	1,839	2,574*	n/a

*In 2005, a contractor died while working on a construction project in Hong Kong. We deeply regret this loss of life.*

*\* Previous results, including the baselines and targets, were revised in 2004 to reflect improvements in the provision of human resource information. Statistics exclude fatalities or injuries related to terrorism.*

## Managing for Sustainable Growth (continued)

An HIV/AIDS awareness campaign was launched in 2005 across all of our GSCs aimed at preventing new infection and reducing stigma. The campaign includes fund-raising activities, the proceeds of which are channelled towards local community initiatives to combat HIV/AIDS. Some 2,000 of our GSC employees, sporting red ribbons, engaged in fund-raising activities in support of World AIDS Day.

Launched in 2005, the GSC intranet has enabled the effective sharing of policies, including our anti-discrimination policy on HIV/AIDS.

A GSC in India piloted a series of health awareness workshops for employees, including HIV/AIDS as a topic. As a result of the pilot's success, the workshops will be extended to all the GSCs in India and Sri Lanka, and become part of the induction for new employees.

Since joining the Global Coalition on HIV/AIDS two years ago, HSBC has been working with coalition partners to develop policies for the treatment of its employees and customers, and may expand HIV/AIDS education programmes, such as those in Asia, for both staff and customers. Employees are required to familiarise themselves with our policy on HIV/AIDS so they can foster an environment of non-discrimination.

The increasingly critical nature of the epidemic means there is still much work to be done. In 2006, we will appoint a senior human resources manager to develop our Group policies on HIV/AIDS.

### Pay and reward

We undertook a comprehensive equal pay analysis of senior executives in Brazil, France, Hong Kong, Mexico, the United States and the UK. Results indicated no systemic gender or policy bias. We concluded that, at career entry level, there is no difference in the base salaries offered to men and women although specific organisational levels and different countries show discrepancies. Our Group Chief Executive has stressed to all business heads the urgent need to identify and address any specific cases of gender pay inequality.

We want to reward colleagues fairly for their efforts and our performance management system is a key tool for measuring this. Setting agreed objectives with regular reviews ensures that colleagues understand their goals, make progress towards achieving them, and are rewarded for their efforts.

In December 2005, we contributed £1 billion (US\$1.7 billion) into our UK pension funds. The top-up of £700 million (US\$1.2 billion) from HSBC Holdings plc and £300 million (US\$523.8 million) from HSBC Bank plc nearly halved the £2.1 billion

### Creating environmental champions

HSBC volunteers from our businesses around the world participate in activities with a positive impact on the environment. Here are just a few examples:

#### Hong Kong: Wayfoong Green Ambassadors



Wayfoong Green Ambassadors support the bank's environmental initiatives and promote activities co-ordinated by local environmental organisations in Hong Kong. More than 150 registered employee members participated in 'green' visits, road shows and seminars — including a dolphin conservation seminar — held throughout the year.

#### France: 'Je sors, j'éteins!' ('I leave, I switch off')



In June 2005, during Sustainable Development Week, a national event sponsored by the French government, HSBC France launched an internal campaign providing employees with stickers to be placed by exit doors, on their workstations and on printers reminding them to turn off electricity-consuming devices when not in use.

#### Mexico: Cuida tu Ambiente ('Look after your environment')



Ecolo-Guias ('eco champions') in Mexico receive environmental training through an innovative programme that reinforces leadership, and communication and team-working skills. During 2005, more than 200 employees received training, implemented 20 projects within their own business areas, and encouraged their colleagues to get involved in environmental activities organised by the bank.

(US\$3.7 billion) shortfall. Previous additional contributions include £500 million (US\$806.8 million) in February 2003 and a further £84 million (US\$135 million) in August 2003.



Find out more information about our people management, see [www.hsbc.com/people](http://www.hsbc.com/people)

### Economic Impacts

Our 'Managing for Growth' strategy aims to build upon our record of profitable growth achieved under our previous strategic plan, 'Managing for Value' (1999-2003). Our success under 'Managing for Growth' will be measured by benchmarking our absolute performance against a peer group of

<b>Economic value added</b>	<b>2005</b>	<b>2004</b>
<b><i>Creation of value added</i></b>	<b>US\$b</b>	<b>US\$b</b>
Received by HSBC for supply of products and services	<b>92.8</b>	75.4
Returns on investments	<b>2.2</b>	3.2
Servicing of finance	<b>(36.7)</b>	(27.0)
Payments to suppliers (premises and other)	<b>(11.1)</b>	(9.7)
<b>Total</b>	<b>47.2</b>	41.9
<b><i>Distribution of value added</i></b>		
Employees (remuneration for their services)	<b>15.1</b>	13.5
Government (taxes and social security)	<b>6.2</b>	5.6
Corporate social investment	<b>0.1</b>	0.1
Shareholders (cash dividends and minority interests)	<b>8.5</b>	8.3
Retained for investment	<b>17.3</b>	14.4
<b>Total</b>	<b>47.2</b>	41.9

financial institutions over a three-year rolling period, as well as looking at comparative total shareholder return — defined as the increase in share price and the value of dividends reinvested.

We estimate that over 15 million people in the UK alone have an interest in HSBC shares, either directly or through pension schemes or savings plans.

In 2005, HSBC achieved a pre-tax profit of US\$20,966 million. The government's 2005 value added scoreboard shows that HSBC contributes £14.5 billion (US\$26.3 billion) a year to the UK economy through wealth creation — an increase of 51 per cent over four years.

## Direct Environmental Impacts

HSBC's Environment and Sustainability team is responsible for developing and implementing an Environmental Management System (EMS) to manage the direct environmental impacts of our property portfolio. The EMS identifies areas for improvement through monitoring, measuring and assessment.

In 2005, our achievements were as follows:

- Developed Group Environmental Design Guidelines for the management and reduction of carbon dioxide emissions produced by our buildings;
- Achieved a rating of 'Excellent' for HSBC's Group Head Office from the Building Research Establishment Environmental Assessment Methodology;
- Developed and rolled out the first test phase of a reporting tool across the Group to facilitate environmental data collection, consolidation and target tracking;
- Established three-year (2005-07) direct environmental impact targets for our major operations;
- Reduced our direct carbon dioxide emissions by improving our carbon management practices, investigating opportunities to use renewable technologies, and purchasing energy-efficient, cost-effective products; and
- Implemented a project in the US to reduce paper reports and related non-value added work in local retail branches.

### Improvements in Environmental Reporting

We implemented a new global environmental reporting tool that tracks, consolidates and reports on energy and water consumption, waste production, carbon dioxide emissions and business travel across the Group. The system currently covers 94 per cent of the Group's full-time equivalent employees in 41 countries and territories, with four more countries expected to be added in 2006.

The tool allows us to assess implementation of the EMS and our progress towards adopting the principles of ISO14001. The EMS will be used to set priorities for the roll-out of training, the development of operational procedures, and the review of Group-wide strategies.

### Consolidated Reduction Targets

In July 2005, HSBC announced direct environmental impact reduction targets for our buildings around the world. We will report on these targets on our web site in July 2006.

Planned reduction targets	Energy	Waste	Water	CO <sub>2</sub>
	%	%	%	%
UK	9	13	10	2
France	2	4	9	1
USA and Canada	7	5	9	7
Mexico	7	23	10	6
Argentina and Brazil	11	2	5	3
Asia-Pacific	4	2	4	4
Average reductions	7	8	7	5

Waste figures refer to waste to landfill. CO<sub>2</sub> figures refer to emissions from energy use. The above figures represent 90% of HSBC's property portfolio by full-time equivalent.



For more information about our reduction targets, see [www.hsbc.com/environment](http://www.hsbc.com/environment)

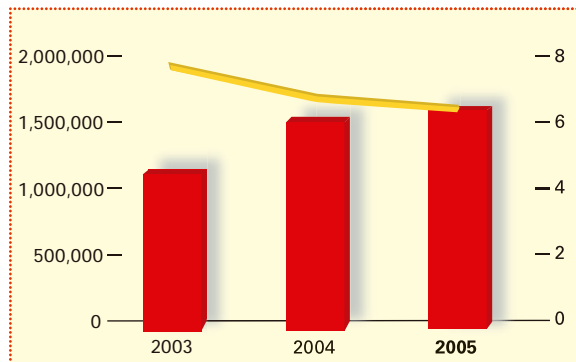
### Scope of reporting

We report our energy and water usage, waste production and CO<sub>2</sub> emissions for 32 of the 76 countries and territories where HSBC has offices, which represent 94 per cent of our full-time equivalent employees. However, our current data gathering system does not enable us to account for 100 per cent of the employees in each reporting unit. As seen in the table on page 23, the environmental data coverage and quality score 7.4 and 7.8 respectively. In addition, we do not report quality or coverage data for a number of our companies in the US, Armenia, Greece, Luxembourg and India (Hyderabad and Babukhan).

### Energy

In 2005, our energy consumption per person dropped to 6,367 kilowatt-hours (kWh) from 6,797 kWh in 2004, due to initiatives to improve the efficiency of lighting, heating and cooling of our offices and to the renewal of IT equipment. In addition, we improved the management and operation of equipment, installed energy-saving devices for automatic switch-off and power-down, and improved metering.

HSBC's energy consumption 2003-05



■ Total energy consumption (000 kWh)  
 — Total energy consumed per person (000 kWh/full-time equivalent)

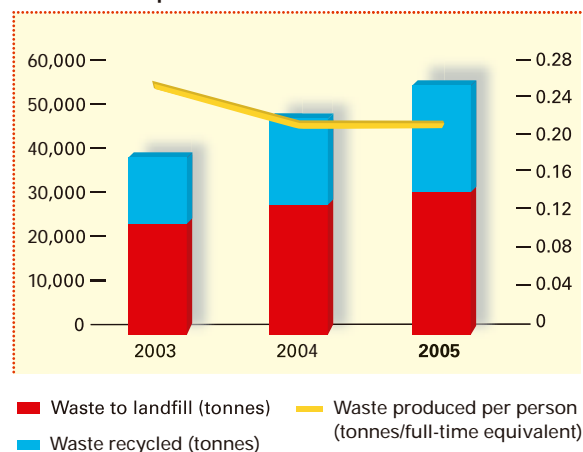


Environmental Reporting System	Units	2005	2004	2003
Total Group employees	Full-time equivalent	268,471	243,333	222,719
Environmental reporting coverage	Full-time equivalent	252,914	220,055	152,436
Coverage as % of Group		94%	91%	68%
Total floor area covered	thousand m <sup>2</sup>	6,002	5,243	3,653
Floor area per person	m <sup>2</sup>	23.73	23.83	23.96
Environmental data quality	Internal assessment scale 1-10	7.8	7.7	5.2
Environmental data coverage	Internal assessment scale 1-10	7.4	7.9	n/a
<b>Resource efficiency</b>				
Total energy consumption	gigawatt hours	1,610	1,496	1,155
Energy consumed per person	MWh/full-time equivalent	6.37	6.80	7.58
Energy consumed per m <sup>2</sup>	kWh/m <sup>2</sup>	268	285	316
Total waste produced	kilotonnes	54	47	38
Total waste produced per person	tonnes/full-time equivalent	0.21	0.21	0.25
Waste to landfill	kilotonnes	30	27	22
% waste to landfill		55%	57%	58%
Waste recycled	kilotonnes	24	20	16
% waste recycled		45%	43%	42%
Total water consumption	thousand m <sup>3</sup>	4,041	3,629	2,703
Water consumption per person	m <sup>3</sup> /full-time equivalent	16.00	16.49	17.73
Total business travel	million km	849	626	370
Business travel per person	km/full-time equivalent	3,360	2,846	2,427
<b>Greenhouse gas emissions</b>				
CO <sub>2</sub> emissions from energy	kilotonnes	539	497	510
CO <sub>2</sub> emissions from business travel	kilotonnes	124	88	55
Total CO <sub>2</sub> emissions	kilotonnes	663	585	565
CO <sub>2</sub> emissions per person from energy	tonnes	2.13	2.26	3.35
CO <sub>2</sub> emissions per person from business travel	tonnes	0.49	0.40	0.36
Total CO <sub>2</sub> emissions per person	tonnes	2.62	2.66	3.71
Total CO <sub>2</sub> emissions per m <sup>2</sup>	tonnes	0.11	0.09	0.14

## Waste

The total amount of waste produced per employee remained constant at 0.21 tonnes during 2005. However, improved waste management resulted in a 2 per cent increase in recycling.

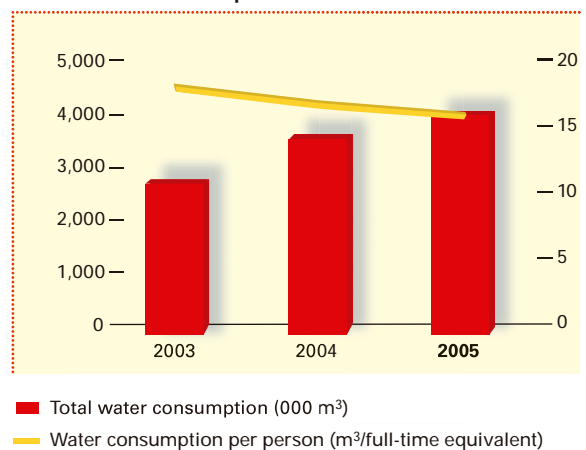
HSBC's waste production 2003-05



## Water

Water consumption per employee fell from 16.5 cubic metres in 2004 to 16 cubic metres in 2005 as a result of initiatives such as the installation of water-saving devices, efficiency campaigns and improved metering.

HSBC's water consumption 2003-05

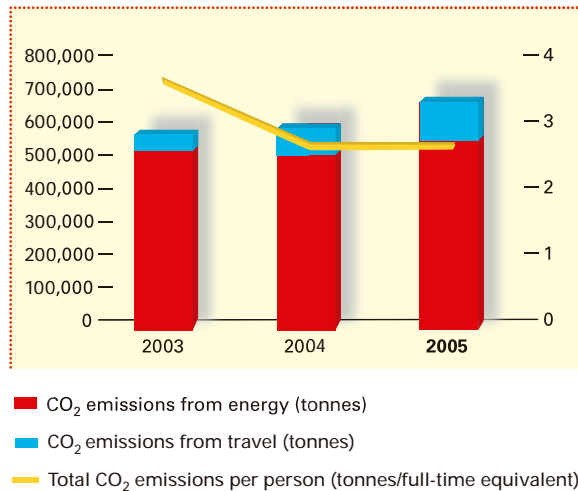


## Direct Environmental Impacts (continued)

### Carbon dioxide

Our total carbon dioxide emissions per employee decreased from 2.66 tonnes in 2004 to 2.62 tonnes in 2005. Our total reported emissions increased due to business travel, expanding reporting coverage, and improved data capture.

HSBC's carbon dioxide emissions 2003-05



### Supply Chain

#### Management overview

HSBC incurs an annual expenditure of over US\$7 billion for purchasing a wide range of products and services, including IT hardware and software, telecommunications, transportation, energy and paper. The largest expenditure is on IT equipment and services at US\$2.7 billion per annum. Our procurement network consists of around 430 people in 56 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.

In 2005, we committed all heads of purchasing in the Group to incorporate specific reference to CSR in their annual objectives. This target was achieved, ensuring proactive implementation of CSR strategy in the supply chain and effective management of supplier risk.

#### E-procurement

Our 'BuySmart' e-procurement system has been extended to the Middle East, Australia, New Zealand, China, Thailand, Malaysia, Indonesia and India.

E-procurement helps reduce costs and our impact on the environment. In 2005, we increased significantly the volume of purchase orders and invoices despatched electronically to 587,000 and 112,000 respectively.

### Supplier contracts

We look for suppliers who share our commitment to CSR and stipulate environmental criteria in tenders. HSBC's 'Request for proposal' process requires confirmation of adherence to socially responsible and sustainable business practices from any third-party supplier and forms a key part of any contractual arrangement.

Our 'Ethical Code of Conduct' for suppliers, which is reviewed on a regular basis, spells out 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 CSR for us to assess, and existing suppliers are expected to audit and monitor their practices to ensure compliance with the code of conduct. There were no dismissals of suppliers last year for breach of this code.



For more information, visit [www.hsbc.com/supplierscode](http://www.hsbc.com/supplierscode)

### Working with suppliers

In Thailand, we recently participated in the Thailand Green Purchasing Network to exchange information on 'green purchasing' and to promote the manufacture of environmentally friendly products. We have also been working with our internal caterers to introduce more environmentally friendly initiatives, for example, the use of biodegradable plastic bags. Through our purchasing requirements, such as specifying Forest Stewardship Council certification, HSBC also indirectly influences the environmental impacts of our suppliers.

Colleagues in London and Asia-Pacific worked together with certain third-party specialists to assess the latter's manufacturing sites, even though these may not supply HSBC directly. Our recommendations were not only aimed at ensuring that goods supplied to HSBC are manufactured in an acceptable manner, but they also assisted our suppliers to improve on current processes.

### Environmentally friendly purchasing

#### Electricity

In the UK, we obtain all of our electricity from a range of non-fossil fuel sources. While this means electricity is purchased at a premium, the UK government's climate change levy provides a subsidy for such environmentally friendly action. In the US, HSBC contracted in 2005 to purchase 'green' electricity, which helped us to win an award for 'green power leadership' (see page 16).

### ***Paper and printing***

HSBC is a major consumer of paper. We continue to measure our usage and switch to more sustainable sources. In 2005, we expanded the scope of our measurement to cover paper used for marketing purposes.

We have made progress in Argentina, Australia, Canada, Malaysia, Malta, Mexico, the Philippines, Singapore, Sri Lanka and Thailand. We have more work to do in these countries and in others to ensure that all our paper is of Forest Stewardship Council (FSC) or equivalent standard. Most of the copier and printer paper used in HSBC's UK operations — approximately 300 million sheets per annum — is now FSC-certified. We are starting to use FSC-certified paper for stationery such as letterheads and compliments slips.

In 2005, a print supplier in Hong Kong, one in France and another in Luxembourg became one of the first printers in their respective locations to obtain FSC certification.

Duplex printers and copiers, which print on both sides of a sheet of paper, are now used in Australia,

Canada, China, France, India, Hong Kong, Brazil, Turkey and the UK, as well as in some of our Group Service Centres. Furthermore, recycled toner cartridges are used in Argentina, Canada, Malta, Hong Kong, the Philippines, Thailand and the UK.

### ***Vehicles***

Use of environmentally friendly 'hybrid' vehicles is encouraged in Hong Kong, Bangladesh, the UK, Brazil and Mexico. HSBC México has purchased three hybrid cars for corporate use, making it the first bank in the country to do so.

### ***Supplier engagement***

In-depth discussions with major suppliers, including Microsoft, DHL, Sodexo, British Airways and Cathay Pacific, have increased awareness of the importance of CSR within the supply chain, allowed transfer of best practice, and enabled HSBC to achieve environmental targets through collaboration. In many cases, HSBC has been the first customer to approach suppliers proactively to discuss collaboration on CSR issues.

### **Summary Assurance Statement: Environmental Indicators**

#### **Supplier engagement**

HSBC Holdings plc ('HSBC') engaged Det Norske Veritas Certification BV ('DNV') to conduct an external verification of the environmental indicators: CO<sub>2</sub> equivalent emissions, waste production, and energy and water consumption as indicated within its *Corporate Social Responsibility Report 2005* ('the Report'). In addition, DNV has reviewed and assessed the quality of the four selected carbon reduction projects and generated amount of emission reductions claimed. In this respect, DNV has applied a pragmatic and conservative approach, ensuring that offsets contracted can be seen as credible in the eyes of the public.

HSBC is responsible for the collection and presentation of information within the report. Our responsibility in performing this work is to the management of HSBC only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement. For information about the scope of assurance and verification methodology, please see DNV's full statement on HSBC's web site: [www.hsbc.com/dnv2005](http://www.hsbc.com/dnv2005).

#### **Principal findings**

HSBC is to be commended on its ongoing commitment to continuous improvement in reporting its environmental performance. The introduction of the new reporting tool for 2006 data is, in this respect, an example of enhancing reporting performance and quality. The 2005 reporting boundaries cover 41 reporting units, including eight Group Service Centres, in 32 countries and territories out of the 76 where HSBC has offices. In comparison with 2004 reported data, the overall quality of the 2005 data has improved as well as the data coverage which introduces limitations to the comparability of the data. Additionally, new reporting units have been included within the 2005 reporting boundaries. Deviations have been observed within the data coverage, data sets reported and completeness among the various reporting units.

### **Recommendations**

We recommend that HSBC:

- continues to improve the quality of the data management and reporting processes; and
- continues to improve the completeness and accuracy of the reported data.

### **Conclusion**

Based upon the above, in our opinion nothing has come to our attention that causes us to believe that the selected quantitative indicators listed above and set out in the *CSR Report 2005* are not fairly stated.

### **Carbon neutral pilot project**

Based upon the assessment of the four carbon offset projects (see page 11), it is our conclusion that the Te Apiti wind farm project in New Zealand meets the highest quality standards. This project has achieved Gold Standard. Both the projects in Sandbeindorf and in Victoria can be considered of a good quality. Emission reductions for 2004 and 2005 have been verified and considered fairly stated and sufficient to meet the needs of HSBC. Based upon the information provided to date, it has been observed that the additionality of the proposed small-scale CDM Vensa Biotek project is considered questionable. However the project is currently undergoing the validation process. Overall the Te Apiti, Sandbeindorf and Victoria project(s) are capable of providing sufficient voluntary emission reduction units to meet the needs of HSBC's carbon neutral project.



Sven Starckx  
Lead Verifier



Luc Larmuseau  
Management Representative



DNV

Det Norske Veritas Certification BV  
Rotterdam

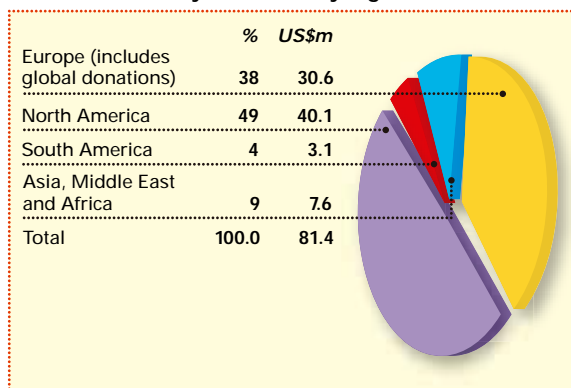
20 April 2006

## Community

HSBC supports the communities in which we operate both through the involvement of our employees and through donations. We also support local efforts around the world through such schemes as payroll giving, matched donations and time-off for voluntary work.

Our Group-wide policy on philanthropy is to focus on education and on the environment, with a target of 75 per cent of our community giving being allocated to them. We believe specific themes in education and the environment have the potential to benefit individuals, communities and the planet — and also enhance our business in the long term.

HSBC's community donations by region 2005



For more information on HSBC's philanthropic activities, see [www.hsbc.com/community](http://www.hsbc.com/community)

### Facilitating Donations to the Community

We offer our staff and customers in a number of countries the opportunity to make donations to their local communities via cash machines, and via telephone and internet banking.

Country	Facility provided	Amount donated 2005
Mexico	Donations via ATM provided since 2002 and via internet banking since 2004. We ran two emergency campaigns in 2005 after the Asian tsunami and hurricanes Stan and Wilma.	MXP19m (US\$1.7m)
Hong Kong	Donations to nominated charities via ATM and telephone banking using bill payment functions, and via internet banking.	HK\$4.67m (US\$600,000)
Brazil	Using 'Solidarity' credit card guarantees a monthly donation of R\$10 to a local NGO, Pastoral da Criança, which supports disadvantaged children and their families. A percentage of card purchases and benefit points can also be donated to nominated charities.	R\$328,000 (US\$135,000)
UK	Donations to selected charities through personal internet banking and ATMs.	£64,000 (US\$116,000) (since November 2005)
Turkey	To encourage use of e-statements, HSBC donates money to local educational charities for every customer who signs up to receive e-statements instead of paper statements.	(Started early 2006)

In 2006, we plan to develop, through our global internet banking platform, a service that will allow customers in all our major markets to make donations through internet banking.

### Education

In education, we concentrate our efforts on:

- Primary and secondary education;
- Financial education;
- Disadvantaged children;
- Projects promoting international understanding; and
- Teaching languages, particularly Asian languages where they are not indigenous in English-speaking countries.

We also favour projects that encourage employee involvement. For example, in the last two years HSBC supplied more school governors in the UK than any other company.

#### Projects promoting international understanding

The Global Teachers Programme, supported by the HSBC Education Trust, has enabled 38 teachers from the UK to spend their summer holiday in South Africa and Uganda, living under basic conditions, teaching and sharing their expertise with local schools and communities.

We support a wide variety of projects to promote international understanding. For example, we support the teaching of Mandarin in schools, funding 35 teachers from China to teach in the UK in 2005 and supporting a Mandarin-speaking and performance competition for UK schoolchildren organised by the British Council.

In 2005, we signed a memorandum of understanding with the Chinese Ministry of Education to promote educational and cultural exchange between China and the UK.

#### Financial education

The HSBC Financial Literacy Programme, a US\$3 million commitment over three years and our first global programme in education, was launched during the year, initially in 27 countries. The programme aims to encourage financial literacy, with an emphasis on young people aged 16 to 25, and women entrepreneurs. It was developed by our Corporate, Investment Banking and Markets customer group in conjunction with the HSBC Education Trust and Students In Free Enterprise (SIFE). SIFE is a non-profit organisation that mobilises university students on more than 1,000 university campuses in over 40 countries. In 2005, the programme provided funds to around 300 SIFE universities that ran a total of nearly 350 projects. SIFE estimates that more than 2,850 students were involved and that over 169,000 individuals benefited directly from their efforts in local communities.

This global programme is complemented by HSBC's continuing support — in terms of finance and employee time — for the schools programme of Junior Achievement and Young Enterprise in North America, the UK and Asia-Pacific. Another example of our support for financial education is a pledge by HSBC Amanah of US\$150,000 for the Islamic Finance Project at Harvard Law School, which focuses on academic issues in the field of Islamic finance.

#### Nurturing talent

HSBC has provided talented young people with financial support in a number of countries. A US\$1 million grant to the United Negro College Fund/HSBC Corporate Scholars Program provides students with funding for college tuition as well as paid summer internships at HSBC offices in the US. The Hongkong Bank Foundation committed HK\$7.6 million (US\$900,000) towards various scholarships, bursaries and other development programmes during 2004-05 for more than 400 students from 10 local institutions. To promote international diversity, a further HK\$910,000 (US\$100,000) is being donated in 2005-06 to fund new programmes for students from mainland China and overseas to study in Hong Kong. The foundation also awards up to 40 scholarships each year to students to study at three universities in China. In 2005, through the HSBC Scholars' scheme 183 young people in the UK were given the opportunity to study at independent schools, and HSBC in Malaysia funded 37 university scholarships.

#### Environment: 'Investing in Nature'

The linchpin of HSBC's worldwide support for the environment is our US\$50 million, five-year 'Investing in Nature' programme, launched in 2002 and involving three partners: Botanic Gardens Conservation International (BGCI), WWF and Earthwatch.

#### Protecting plant biodiversity

Our work with BGCI aims to protect 20,000 plant species from extinction. To this end, HSBC's support has enabled over 440 botanic gardens from 81 countries to take on key conservation roles as participants in the International Agenda for Botanic Gardens in Conservation.

During 2005, an increasing number of botanic gardens made a formal commitment to work with BGCI to implement the International Agenda for Botanic Gardens in Conservation, which is recognised by the Convention on Biological Diversity as a major contribution towards the implementation of the Global Strategy for Plant Conservation.

#### Conserving freshwater ecosystems

WWF is working with HSBC to breathe new life into three of the world's major rivers. Work on the Yangtze, Amazon and Rio Grande concentrates on developing sustainable river management involving stakeholder groups at a national and a local level.

The Yangtze Forum was established by WWF in April 2005 to act as a precursor to a Yangtze River Basin Commission. The Forum is responsible for developing a programme for the management of the river and, for the first time, for co-ordinating the activities of the numerous government ministries and provincial governments to ensure that the Yangtze basin's natural resources are sustainably managed. Development will impact directly on the well-being of the 400 million people living in the basin, and on the ecology and long-term prosperity of the basin itself.

#### Environmental education and engagement

Although integral to the programmes of all three of our environmental partners, employee involvement is the main focus of our work with Earthwatch. To date, 1,510 HSBC employees from 54 countries and territories have joined Earthwatch scientists in the field, contributing nearly 77 years' worth of vital environmental research to 88 projects.

Earthwatch and HSBC have also trained more than 153 scientists in developing countries, providing them with the research skills necessary to tackle local environmental issues.

## Stakeholder Engagement

Stakeholder engagement is a fundamental part of our approach to CSR:

- It helps us to understand the expectations people have of our business from the perspective of financial performance and corporate social responsibility;
- It ensures that our business is transparent to our stakeholders, which we believe to be essential to maintaining trust; and
- It provides fresh insights that can help our business to continue to flourish.

In recent years, we have broadened the range of stakeholders with whom we engage. Our stakeholder engagement remains relatively informal in its approach and structure. However, we are currently reviewing our engagement strategy.

### Customers

#### Customer satisfaction and our brand

Promoting good customer relations is a vital part of our business. We generally seek to respond within 48 hours to customer complaints and use them as opportunities to learn and improve.

Regular surveys are conducted to monitor customer satisfaction in most of our areas of operations. This information is used to measure staff performance and determine individual rewards for employees in our larger businesses.

We also conduct research in 16 markets to track customers' perceptions of our brand, including CSR issues. Below are highlights from our key markets compared with the average scores of a sample group of financial institutions and other international companies.

#### Financial literacy

HSBC-North America's 'YourMoneyCounts™' programme features online customer surveys covering

issues such as personal money management, credit, savings and identity theft. The survey results are used to tailor our education programmes to the evolving needs of our customers. For example, in 2005 the results highlighted identity theft as a primary concern: 82 per cent of respondents were worried they would become victims of identity theft and 37 per cent said they had no idea what to do if they became victims. As a result, HSBC's Centre for Consumer Advocacy launched several campaigns to educate the public about identity theft and incorporated the information into its new workshop curriculum.



For more information on the programme, see [www.yourmoneycounts.com](http://www.yourmoneycounts.com)

### Colleagues

#### Engaging our colleagues

HSBC-North America gave more than 100,000 hours to community service in 2005. HSBC-North America's 'YourMoneyCounts™' programme provides opportunities for our colleagues to assist others in their communities. In 2005, 78 volunteers were trained to teach the 'YourMoneyCounts™' curriculum and facilitate workshops on several financial education topics. HSBC employees worldwide spent a total of 280,000 hours working in their communities.

HSBC in the US uses surveys to measure the value of such volunteering initiatives undertaken by employees. Survey results in 2005 revealed that more than 93 per cent of managers who participated in a community service project at the General Robert E Wood Boys' and Girls' Club in Chicago classified the community outreach opportunity as 'outstanding' or 'exceeded expectations'.

Customer perceptions 2005	UK	USA	Hong Kong	Brazil
HSBC:	%	%	%	%
is part of the local community where it operates	12	19	44	22
— average community score	13	25	32	29
has high ethical standards and practices	19	19	47	36
— average ethical standards score	18	26	37	37
has programmes which support education	8	14	23	49
— average education score	10	22	20	34
believes in protecting the environment and is involved in positive environmental practices	7	11	23	44
— average environment score	8	17	19	33

The percentages for HSBC indicate interviewees who either 'strongly agree' or 'agree' with the four statements shown. These results measure performance in each market and are not intended as a comparative study across countries/territories due to the different methodologies used.

### Surveys and forums

All staff in HSBC's main entities are given the opportunity to complete an employee survey every 12-18 months. The results are important to us in establishing and adapting to the evolving needs of those who contribute to the success of our business. Key surveys completed in 2005 included those in Hong Kong, the UK and in our Group Service Centres (GSCs).

We use the surveys to measure 'employee engagement', which is made up of three components: job satisfaction, intention to stay at HSBC, and a willingness to recommend HSBC as a great place to work. The results are segmented by region which helps us to formulate regional engagement plans. External benchmarks indicate that our employees' level of engagement is comparatively strong, although there was no change during 2005 in the 68 per cent score of the previous year.

Monthly focus groups are also used to gain feedback in the UK. In 2005, these focus groups highlighted the increasing importance of a work-life balance, and employees identified as their main motivators the opportunity to do what they do best and feeling valued.

### Union representation and dialogue

In the event of significant organisational change which directly impacts on employees, we consult them and their representative bodies, including unions, works councils and forums. Where roles are transferred to one of our Group Service Centres, it is our policy to redeploy employees and avoid redundancy wherever possible. We estimate that 40 per cent of our staff globally are represented by trade unions. We respect the right of freedom of association and value the social dialogue.

In the UK, Amicus represents less than 40 per cent of our UK clerical workforce. In May 2005, around seven per cent of Amicus members took industrial action for one day in a dispute over pay increases. The dispute was resolved through negotiation and a three-year pay deal was reached linked to increased flexibility in working hours in our UK branch network.

### How our people view CSR

We continue to survey our employees worldwide on their understanding of, and attitudes towards, CSR at HSBC. A survey involving 869 employees in Brazil enabled us to measure the success of initiatives and to gather ideas for increasing employee engagement. This interaction has had a positive impact on the number of employee volunteers, including the setting up of a new intranet site for the exchange of volunteer opportunities and knowledge.

Results such as these have confirmed widespread support among our employees for CSR, but generally low levels of understanding about its importance to HSBC and its scope. We aim to improve awareness and understanding by:

- Encouraging line managers to incorporate CSR into employee objectives; and
- Employing a CSR communications manager within our Group Corporate Affairs function.

### Investors

We have around 200,000 registered shareholders in some 100 countries and territories. They include pension funds, mutual funds and insurance companies, which provide millions of people with a financial interest in the success of our business. Our senior management Group-wide leads our engagement efforts with the investment community. The forms of communication used are the HSBC Holdings *Annual Report and Accounts* and the *Annual Review*; the Annual General Meeting and the informal meeting of shareholders held in Hong Kong; the investor relations section on our web site, and live webcasts of financial results, presentations and AGMs; and an extensive programme of institutional investor meetings around the world.

Our increased engagement with investors reflects a significant growth in the number of group meetings we are hosting. In 2005, we held meetings with almost 50 per cent more investors than in 2004. Investor demand for meetings in Asia has been particularly strong and, in 2006, we will continue to target those markets showing the greatest potential for investment in HSBC.

We conducted a series of meetings specifically for socially responsible investors during the year. Feedback from these meetings is relayed twice a year to the CSR Committee, and plays a vital role in improving the quality and relevance of this report and of our CSR web site. To facilitate more direct dialogue, the CSR Committee invited nine institutional shareholders to meet representatives of the Committee and the CSR Executive Steering Group in late 2005.

### Government

In keeping with our long-standing policy, we made no donations to any political parties or organisations in 2005. While we do not generally lobby politicians or legislatures, in the US it is essential to work with state and federal law-makers in order to manage business risk. Our US Government Relations department advocates responsible public policy positions and helps legislators to frame laws that are fair to consumers, society at large, and the finance industry.

## Stakeholder Engagement (continued)

In the UK, we responded to a number of inquiries by the Financial Services Authority, the Office of Fair Trading and the Treasury into various aspects of the financial services market, covering fees for credit cards, alleged mis-selling of payment protection insurance, and excessive lending.

### Non-Governmental Organisations (NGOs)

We are in regular contact with various special interest groups and non-governmental organisations (NGOs). We acknowledge the need for transparency in our products and services, such as lending, and seek the right balance between this and protecting our commercial and customer interests. We will investigate, and take action relating to, possible social or environmental impacts of any projects financed by us.

Certain NGOs have been consulted in the review of our sector guidelines prior to their implementation to ensure we consider impacts on the wider world.

HSBC's partnership with the Mexican American Opportunity Foundation in California has helped us to understand better the needs of people moving to the US from Latin America. The partnership has helped HSBC to develop specially tailored products and services for Latin American customers and to invest in social projects with the foundation, such as the HSBC Financial Literacy Centre in California.

### Special Interests

Many areas of CSR provide opportunities to collaborate with other financial services organisations to establish best practice.

### Human rights

As a supporter of the Global Sullivan Principles, the UN Universal Declaration of Human Rights and the UN Global Compact, we expect the highest standards of ourselves and of our suppliers in the observance of human rights.

### Sustainability issues

We support the Climate Group, the Carbon Disclosure Project and the Extractive Industries Transparency Initiative.

At an industry level, we are increasing our participation in the United Nations Environment Programme (UNEP) Finance Initiative and, in October 2004, we participated in the climate change session at the initiative's Global Roundtable. We are a member of the UNEP Finance Initiative's Asset Management and Climate Change working groups.

The Group Chief Executive is a member of the Blue Ribbon Panel which advised on the revision of the Inter-American Development Bank's environmental

policy. We also operate secondment programmes with a number of Chinese banks, which include sharing our own experiences in implementing our sustainability risk policy framework.

### Bribery and money laundering

In 2004, we issued a Group-wide policy on countering bribery and corruption. The policy reflects our support for initiatives such as the UN Global Compact, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery, and the relevant provisions of the revised OECD Guidelines for Multinationals. We have also expressed our support for the Wolfsberg Principles, which provide guidance for financial institutions in combating terrorist financing and money laundering.

### Reporting

We have worked with a number of other banks and insurers in the UK as part of the FORGE group, a voluntary organisation seeking to develop common approaches to issues of relevance to the financial services industry. We also participate in the London Benchmarking Group.

#### Key CSR issues

By working with stakeholders, especially investors and NGOs, and through industry working groups, we have identified a number of key CSR issues, which are broken down by customer group below.

#### *Personal Financial Services (including Consumer Finance)*

- Financial inclusion and consumer debt;
- Secure and convenient delivery channels; and
- Customer satisfaction.

#### *Commercial Banking*

- Sustainability risk needs to be managed carefully to minimise environmental and social damage indirectly caused by financing; and
- Emerging markets pose certain regulatory and ethical risks.

#### *Corporate, Investment Banking and Markets*

- Social, environmental and financial risks and opportunities of major capital projects.

#### *Private Banking*

- Money laundering and financial crime; and
- Determining the legitimacy of the source of an individual's wealth.



For more information on how HSBC is addressing these key CSR issues, see [www.hsbc.com/csriissues](http://www.hsbc.com/csriissues)



## Our CSR Commitments

### Stakeholder Engagement

Commitments for 2005	Status	Commitments for 2006
Seek views from a wider range of stakeholders.	Progress made. Reviewed stakeholder engagement activities in major markets.	Raise 'environment' and 'education' perceptions in the UK and US.
Review approach to assurance and verification.	Progress made. Appointed new assurance provider for this report and continued to review assurance approach.	Develop a plan to raise employee awareness and understanding of CSR.
Consider full compliance with AA1000 for our <i>CSR Report 2005</i> .	Progress made. As part of 2006 commitment to produce a stakeholder engagement strategy, AA1000 compliance to be addressed.	Appoint a manager with specific responsibilities for stakeholder engagement and reporting.
		Produce a stakeholder engagement strategy.
		Review assurance and verification and develop long-term plan, including AA1000 compliance.

### Our Contribution to Sustainable Development

Commitments for 2005	Status	Commitments for 2006
Provide training for the <i>Forest Land and Forest Products Sector Guideline</i> .	Achieved. Training DVD produced and distributed. Worked with Tropical Forest Trust on country-specific training.	Extend sustainability risk training to include upgrading for the new Equator Principles and International Finance Corporation performance standards.
Develop staff training programme for the new <i>Freshwater Infrastructure Sector Guideline</i> .	Progress made. Case study built into Equator Principles workshop. Regional training under way and training DVD in production.	Upgrade systems to standardise assessment and approval of sustainability risks and expand reporting.
Participate in initiatives to ensure more sustainable expansion of economically important soy industry in Latin America.	Progress made. Participated in industry-led initiative and attended soy round table.	Engage more closely with microfinance institutions, offering possibility of technical support, capacity building and capital.
Continue to develop Equator Principles reporting in line with accepted industry standards.	Achieved. Reporting covers relatively wide range of statistics. Supported introduction of minimum reporting standards in line with SRI investor recommendations.	Agree targets to enable monitoring and reporting on implementation of sector guidelines across Group's loan portfolio.
Pilot three microfinance projects and evaluate further engagement based on the results.	Progress made. Expanded to include projects in Mexico and Russia.	Consider wholesale microfinance loans and securitisations, microfinance funds, micro remittances, micro insurance.
Sponsor recognition programme for microfinance industry.	Progress made. Hosted UN-organised discussion forum in March 2005.	Issue <i>Energy and Metals and Mining</i> sector guidelines.
		Expand sustainable business development, focusing on climate change, low carbon energy, water infrastructure, sustainable forestry and related agri-commodities.

### Personal Financial Services

Commitments for 2005	Status	Commitments for 2006
Install 'anti-skimming' devices in UK and consider their use in Hong Kong, Brazil.	Achieved. Card fraud involving HSBC machines has decreased significantly.	Work with other banks to encourage greater use of these devices in UK, and introduce them in other HSBC businesses.
Launch 'two-factor authentication' internet banking technology in Hong Kong.	Achieved. 'Phishing' activity in the region has been virtually eliminated.	Negotiate Group-wide contract for provision of 3DSecure service, which provides enhanced authentication of 'Card not present' internet transactions.
Expand reporting of customer accessibility initiatives in HSBC operations worldwide.	Progress made. We have included Hong Kong and Canada.	

## Our CSR Commitments (continued)

### Personal Financial Services (continued)

Work with UK ATM manufacturers to consider needs of disabled users.	Progress made.	
Improve accessibility of UK personal internet banking site to WAI 'AA' standard.	Progress made. Due to technical delays, 'AA' status not yet achieved.	

### Commercial Banking

Commitments for 2005	Status	Commitments for 2006
n/a	n/a	Grow HSBC's 'Living Business' programme.
		Develop an SME mentoring programme for start-up businesses.

### Corporate, Investment Banking and Markets

Commitments for 2005	Status	Commitments for 2006
Develop clear SRI strategy for HSBC Investments.	Progress made. Full review of SRI completed in December 2005. Developing new strategy.	Launch an index tracking SRI Fund in Brazil.
		Secure more CSR champions to lead country-specific initiatives.

### Private Banking

Commitments for 2005	Status	Commitments for 2006
n/a	n/a	Increase CSR elements in Private Bank learning and development programmes.

### Our People

Commitments for 2005	Status	Commitments for 2006
Increase the proportion of women in Group 'talent pool'.	No progress made. To continue to focus on this issue, but seek to avoid positive discrimination and maintain meritocracy.	Redesign and expand Diversity Intranet, and enhance Diversity Toolkit with further case studies aimed at all employees.
Develop a plan for perceived and actual pay differentials between men and women.	Achieved.	Form a Group Diversity Management Committee to increase dialogue on diversity issues.
Ensure all employees have opportunity to participate in survey during 2004-05.	Achieved.	Communicate best practice and learning points of Group flexible working pilot project.
Raise the average level of employee engagement.	No progress made. Our global employee engagement score remains at 68 per cent.	Further develop Group policies on HIV/AIDS and ensure connection with diversity and CSR.
Review target for working days lost to ensure it is set appropriately.	Achieved.	Adoption of an AIDS home to promote HIV/AIDS awareness through employee volunteering.
Set targets for reportable injuries and working days lost for countries outside UK.	Achieved. Set also for France, Hong Kong, USA, Brazil, Argentina.	Improve accident reporting procedures to ensure consistent global approach.

## Our People (continued)

Conduct an employee opinion survey in all GSCs.	Achieved. Results in line with global employee engagement score.	Achieved.
Introduce dedicated GSC intranet to complement existing communication channels.	Achieved. Launched in September, used as an information and communication tool among GSCs.	Achieved.

## Direct Environmental Impacts

Commitments for 2005	Status	Commitments for 2006
Continue development of energy committees in Asia-Pacific, North America.	Progress made. Energy committee established in the US.	Increase use of energy-efficient technology and renewable energy (wind and solar).
Roll out the EMS across Group, establish benchmarks and report on its performance.	Progress made. Launch of EMS measurement and tracking tool in reporting countries.	Launch a new Group-wide programme to reduce direct impacts on environment.
Expand measurement of paper consumption to more countries.	Progress made. Increase in reporting coverage.	Continue working with transport suppliers to offset CO <sub>2</sub> emissions.
Publish global environmental performance targets online by July 2005.	Achieved. Targets can be found at <a href="http://www.hsbc.com/environment">www.hsbc.com/environment</a>	Maintain carbon neutral status.

## Supply Chain

Commitments for 2005	Status	Commitments for 2006
Roll out e-procurement system in Asia-Pacific, Europe, Middle East.	Achieved in Middle East, Australia, New Zealand, China, Thailand, Malaysia, Indonesia, India.	Continue to roll out e-procurement system.
Ensure all heads of purchasing departments have specific reference to CSR in annual objectives.	Achieved. Reduction of paper usage and management of supplier risk.	Add a full-time resource to increase supplier contact and promote CSR in business practices.
Place 25% of qualified purchasing spending with minority-owned and women-owned businesses by 2009 as part of US supplier diversity programme.	Progress made: 5% achieved. 2009 target will be re-validated during 2006.	

## Community

Commitments for 2005	Status	Commitments for 2006
Establish better database for employee volunteering in work time.	No progress made. Unable to complete this during 2005, but expect to make progress in 2006.	Recruit a Community Investment Manager to measure giving as set by London Benchmarking Group model.
Develop a strategy for philanthropic policy.	Progress made. An internal Strategic Review of Philanthropy was given Board approval in November 2005.	
		Set up HSBC Amanah Foundation to support educational projects in low-income Muslim countries and <i>zakat</i> donations (annual charitable contribution required of Muslims) to poverty and disaster relief, and to widows and orphans.

## Global Reporting Initiative Index

The Global Reporting Initiative (GRI) is a set of guidelines for sustainability reporting that is supported by a number of our institutional investors and is increasingly being adopted by leading companies. We acknowledge the initiative's value in aiding transparency and have continued to use the guidelines for a second year.

<b>Vision and strategy</b>		<b>Page</b>
1.1	Contribution to sustainable development	9
1.2	Group Chairman's Introduction	4
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2.1	Name of reporting organisation	2
2.2	Major products and/or services	2
2.3	Operational structure	2
2.4	Major divisions, operating companies, subsidiaries	2-3
2.5	Location of operations	2-3
2.6	Nature of ownership	7
2.7	Nature of markets served	2
2.8	Scale of the organisation	2-3
2.9	List of stakeholders, key attributes and relationship	28
<b>Report scope</b>		
2.10	Contact person	<i>inside back cover</i>
2.11	Reporting period	<i>inside back cover</i>
2.12	Date of most recent previous report	<i>inside back cover</i>
2.13	Boundaries/scope of report	NR
2.14	Significant changes in size, structure, ownership or products/services	NR
2.15	Basis for reporting on joint ventures	NR
2.16	Restatements of information	n/a
<b>Report profile</b>		
2.17	Application of GRI principles	NR
2.18	Criteria/definitions used in any accounting for costs and benefits	NR
2.19	Significant changes in measurement methods	NR
2.20	Policies and internal practices to enhance assurance of accuracy, completeness and reliability	NR
2.21	Policy and current practice re independent assurance	36
2.22	Obtaining additional information and reports	<i>inside back cover</i>
<b>Governance structure and management systems</b>		
3.1	Governance structure	7-8
3.2	Percentage of independent, non-executive directors	7
3.3	Process for determining expertise board members need for strategic direction	NR
3.4	Board-level processes for identification and management of risks and opportunities	NR
3.5	Link between executive compensation and organisation's financial and non-financial goals	NR
3.6	Organisational structure for oversight, implementation and audit of policies	8
3.7	Mission and value statements, internal codes of conduct	7
3.8	Mechanisms for shareholders to provide recommendations to board	NR
<b>Stakeholder engagement</b>		
3.9	Basis for identification and selection of major stakeholders	28
3.10	Approaches to stakeholder consultation	28
3.11	Type of information generated by stakeholder consultations	30
3.12	Use of information resulting from stakeholder engagements	NR
<b>Overarching policies and management systems</b>		
3.13	How the precautionary principle is addressed	9
3.14	Externally developed, voluntary set of principles or other initiatives	30
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3.17	Approach to managing indirect impacts	9-10, 12
3.18	Major decisions regarding the location of or changes in operations	n/a
3.19	Programmes and procedures pertaining to performance	9-12, 22
3.20	Status of certification systems	NR
<b>GRI content index</b>		
4.1	GRI report contents table	34
<b>Economic performance indicators</b>		
EC1.	Net sales	<i>inside front cover</i>
EC2.	Geographic breakdown of markets	2-3
EC3.	Cost of all goods, materials and services purchased	<i>inside front cover</i>
EC4.	Percentage of contracts paid in accordance with agreed terms	NR
EC5.	Total payroll and benefits broken down by country or region	<i>inside front cover</i>
EC6.	Distributions to providers of capital	<i>inside front cover</i>
EC7.	Increase/decrease in retained earnings at end of period	NR
EC8.	Total sum of taxes of all types paid broken down by country	NR
EC9.	Subsidies received broken down by country or region	NR
EC10.	Donations to community	26
<b>Social performance indicators</b>		
LA1.	Breakdown of workforce	18-19
LA2.	Net employment created and average turnover	<i>inside front cover</i>
LA3.	Percentage of employees represented by independent trade union organisations	29
LA4.	Policy and procedures over changes in operations	29
LA5.	Practices on recording occupational accidents and diseases	19
LA6.	Formal joint health and safety committees	19

NR not reporting      n/a not applicable

LA7.	Injury, lost days and absentee rates, and work-related fatalities	19
LA8.	Policies or programmes on HIV/AIDS	20
LA9.	Average hours of training	19
LA10.	Equal opportunity policies or programmes and monitoring systems	17-18
LA11.	Diversity of senior management and corporate governance bodies	7, 18
HR1.	Human rights management	30
HR2.	Consideration of human rights as part of investment and procurement decisions	NR
HR3.	Evaluating and addressing human rights performance within the supply chain	NR
HR4.	Global policy for preventing discrimination in operations	17-18
HR5.	Freedom of association policy and extent to which it is applied	29
HR6.	Policy excluding child labour	24
HR7.	Policy to prevent forced and compulsory labour	NR
SO1.	Policies to manage impacts on communities in areas affected by activities	9-16
SO2.	Policy addressing bribery and corruption	30
SO3.	Policy for managing political lobbying and contributions	29
PR1.	Policy for preserving customer health and safety during use of products and services	5, 13-15
PR2.	Policy related to product information and labelling	13-15
<b>Social performance indicators — Financial Services Supplement 2002</b>		
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CSR2.	CSR organisation	8
CSR3.	CSR audits	NR
CSR4.	Management of sensitive issues	5-6
CSR5.	Non-compliance	NR
CSR6.	Stakeholder dialogue	28-30
INT1.	Internal CSR policy	17-20, 28-29
INT2.	Staff turnover and job creation	<i>inside front cover</i>
INT3.	Employee satisfaction	29
INT4.	Senior management remuneration	NR
INT5.	Bonuses fostering sustainable success	NR
INT6.	Female-male salary ratio	NR
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SOC1.	Charitable contributions	26
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SUP1.	Screening of major suppliers	24
SUP2.	Supplier satisfaction	NR
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AM3.	SRI-oriented shareholder activity	NR
INS1.	Underwriting policy	NR
INS2.	Customer profile	NR

INS3.	Customer complaints	NR
INS4.	Insurance with high social benefit	NR

#### Environmental performance indicators

EN1.	Total materials used other than water, by type	23
EN2.	Percentage of materials used that is waste	NR
EN3.	Direct energy use segmented by primary source	23
EN4.	Indirect energy use	n/a
EN5.	Total water use	23
EN6.	Land owned, leased, or managed in biodiversity-rich habitats	NR
EN7.	Description of the major impacts on biodiversity	9-11
EN8.	Greenhouse gas emissions	23
EN9.	Use and emissions of ozone-depleting substances	NR
EN10.	NOx, SOx, and other significant air emissions by type	NR
EN11.	Total amount of waste by type and destination	23
EN12.	Significant discharges to water by type	n/a
EN13.	Significant spills of chemicals, oils and fuels	n/a
EN14.	Significant environmental impacts of principal products/services	n/a
EN15.	Percentage of weight of products sold that is reclaimable	n/a
EN16.	Incidence of fines for non-compliance	NR

#### Environmental performance indicators — Financial Services Supplement 2005

F1.	Environmental policies applied to core business lines	9-12
F2.	Assessing screening environmental risks in core business lines	9-17
F3.	Threshold(s) at which environmental risk assessment procedures are applied	NR
F4.	Processes for monitoring clients' implementation of risk assessment environmental aspects	NR
F5.	Process(es) for improving staff competency in addressing environmental risks/opportunities	10
F6.	Audits of environmental risk systems and procedures related to core business lines	NR
F7.	Interactions regarding environmental risks/opportunities	10
F8.	Companies held with which the reporting organisation has engaged on environmental issues	NR
F9.	Assets subjected to positive, negative and best-in-class environmental screening	16
F10.	Voting policy on environmental issues for shares	NR
F11.	Assets under management with the right to vote shares or advice on voting	NR
F12.	Value of environmental products and services by core business lines	NR
F13.	Value of portfolio for each core business line broken down by specific region and sector	2

## Independent Assurance Statement

URS Verification Ltd (URSVL) was commissioned by HSBC to provide independent assurance of its corporate responsibility. This statement provides a summary of our opinion; our full statement on HSBC's web site ([www.hsbc.com/urs2005](http://www.hsbc.com/urs2005)) gives more information on our scope of work and opinion on specific areas of HSBC's performance.

The objectives of this assurance were to:

- Comment on strategic direction and corporate social responsibility policies by Group functions and customer groups.
- Verify HSBC's non-financial impact data, except direct environmental impact data, which has been verified separately.

### Responsibilities of HSBC and URSVL

The information contained in this report is the sole responsibility of the Directors of HSBC.

URSVL is a leading provider of independent assurance to the AA1000 standard. It is part of URS Corporation, an international company providing environmental, socio-economic and engineering services to companies and governments worldwide.

Our independence to provide our robust views is important. None of the URSVL team has worked for HSBC or been involved in the development of this report or any associated systems that would represent a conflict of interest.

URSVL's assurance statement is not intended to be used as advice or as the basis for any decisions including, without limitation, financial or investment decisions.

### Opinion

HSBC has undergone considerable change in recent years, becoming increasingly open in a way which reflects its brand position to be 'the world's local bank'. The Corporate Social Responsibility Committee of the Board and Executive Steering Group provide a clear governance structure, through which it now develops corporate responsibility policies and can monitor performance.

HSBC has well-defined codes of business principles, ethics and conduct, with associated internal systems and controls, backed up by functional communication networks. Together these provide a clear mechanism by which the policies, guidelines and procedures developed at Group level can be implemented. HSBC's policies have been strengthened by taking advice from external experts and it has adopted a leadership position in several areas, particularly on environmental issues, such as carbon neutrality.

HSBC has invested in developing its Group sustainable development strategy, and training senior management and executives on the Equator Principles during 2005. The sector guidelines and decision support tools should, with continued development and implementation across the whole business, help to manage HSBC's sustainability risk.

HSBC values diversity in its people and businesses. It has advanced its understanding of potentially hidden barriers and ways to increase the proportion of women in senior management.

*Materiality and responsiveness: Has HSBC applied an effective process to identify material risks? Has it engaged actively on these issues with key stakeholders?*

HSBC has clear instructions for identifying, assessing and managing operational risk, although these do not explicitly define how environmental, social and economic risks and stakeholders' issues are identified and fed into this process.

The views of external stakeholders, such as international non-governmental organisations, are taken into account as HSBC develops its policies, for example on sector guidance. However, HSBC does not have a systematic process for identifying its key stakeholders and their issues. We believe that the information in this report on some issues, such as investment risk, personal indebtedness and information security, may not reflect the level of stakeholders' interest in these issues.

*Completeness: Does HSBC's report provide a complete, fair and balanced representation of its material issues?*

This report provides a fair and balanced account of the corporate responsibility activities, programmes and achievements in 2005. We commend HSBC for the first time tracking progress during 2005 against commitments made last year, and providing commitments for 2006 across the customer groups.

Key performance indicators have been developed in some areas. Systems to manage risk and track performance on socio-economic issues, such as labour practices, human rights and occupational health, are less well integrated into all areas of the business. Going forward, it will be important that HSBC assesses and further develops indicators relating to emerging policies, and how performance is monitored, ensuring that they reflect the risks and impacts of the business.

### Recommendations

We offer the following suggestions to HSBC to improve its corporate responsibility performance:

- Encourage customer groups to set meaningful and robust commitments towards corporate responsibility as part of their strategies and business plans;
- Develop advice for Group functions and customer groups to identify and engage with key stakeholder groups and assess issues raised as part of risk management processes; and
- Review management and performance indicators for socio-economic issues, such as labour practices and human rights, to assess that their scope and coverage is appropriate to and reflects the business.



Belinda Howell, Assurance Director  
URS Verification Ltd  
London  
April 2006



Verification

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