

HSBC in Society

Corporate Social Responsibility Report 2003



HSBC 
The world's local bank

About HSBC

We are the world's local bank.

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC's international network comprises more than 9,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by around 200,000 shareholders in some 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Receipts.

Through an international network linked by advanced technology, including rapidly growing e-commerce channels, HSBC provides a comprehensive range of financial services: personal financial services; consumer finance; commercial banking; corporate, investment banking and markets; and private banking.

About this Report

In today's world, companies like HSBC are expected not just to behave well, but also to listen to all their stakeholders — including customers, shareholders, employees and the communities they serve — and to explain to them their actions. This, our fourth annual report on our corporate social responsibility, recognises and fulfils those obligations. It also meets our commitment under the UN Global Compact to report a case study annually on one of the Compact's nine principles.

Cover picture: HSBC engages with a diverse range of stakeholders from communities across the world — shareholders, employees, non-governmental organisations, and over 110 million customers through a network of offices spanning six continents, as illustrated by this map.



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Foreword

Long before the phrase entered our common vocabulary and, understandably, became a topic of widespread public debate, HSBC was operating with a strong sense of corporate social responsibility (CSR). Indeed the principles, if not the language, of CSR can be traced back to our earliest days. The reputation we enjoy today owes much to the high standards of behaviour set by our founders and good behaviour is the essence of corporate responsibility.

As the role of business and particularly multinational enterprise, has come under increasing scrutiny, so the need has grown for companies such as HSBC to set out their views on a wide range of social, ethical and environmental issues. Our Group strategic plan, 'Managing for Growth', which will guide us for the next five years, therefore calls for a renewed focus on CSR and on greater disclosure of our performance and policies than hitherto.

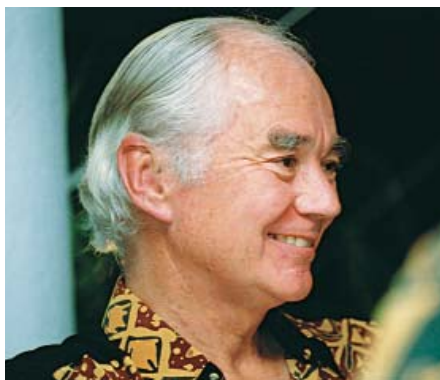
The world is wrestling with a number of stubborn problems: the disparity between rich and poor, the challenges as well as the benefits of globalisation, the threats to the physical environment. International companies are answerable to a number of different constituencies. Balancing their different demands can be very challenging particularly where, as in the case of the environment, there are as yet no clearly established supranational agreements.

To help us strive to do the right thing, to find real solutions to real problems and to give us the best possible advice and guidance, we have established a Corporate Social Responsibility Committee of the HSBC Holdings plc Board. This is chaired by Lord Butler, a non-executive Director who, with great distinction, has overseen our philanthropic programme, 'HSBC in the Community', since 1999. I am delighted that a number of other eminent people have agreed to serve on the committee. William Fung, Sharon Hintze and Carole Taylor, also non-executive Directors, have been joined by Baroness Brigstocke, prominent in the field of

education and a Member of the House of Lords; Lord May, President of the Royal Society; and Gerry Davis, former teacher and local government leader.

Also joining HSBC during 2004 is Francis Sullivan as Adviser on the Environment. Francis was previously Director of Conservation at WWF-UK, one of our partners in 'Investing in Nature'. Francis brings a wealth of expertise to this new position and will help us build on our long-standing commitment to the environment, which was also marked in 2003 by our adoption of the Equator Principles which provide a framework for banks involved in project finance. Francis's expertise complements Dame Mary Richardson's in educational matters and I believe that HSBC now has a formidable team to take us forward in CSR.

This report is the fourth in a series to give an account of our social responsibility policies and activities and we have renamed it *HSBC in Society* to denote its more comprehensive coverage. I hope you will find it interesting. HSBC welcomes dialogue with all those who follow its progress. Do let us have suggestions on the further development of *HSBC in Society* and please share with us your views on any aspect of CSR. Details of how to contact us can be found on the inside back cover.



Sir John Bond, *Group Chairman*
HSBC Holdings plc
March 2004

HSBC in Society

For HSBC, corporate social responsibility, or CSR, means addressing the expectations of our customers, shareholders, employees and other stakeholders in managing our business responsibly and sensitively for long-term success.

The way we approach our work with our stakeholders reflects our core values, or what we call our 'corporate character' (see page 9). It is a fundamental part of the HSBC brand. Since everything we do and the way we do it either exceeds, meets or falls short of the expectations people have of us, everyone who works for HSBC contributes to our corporate social responsibility.

Our first responsibility is to be a successful company. Success is the only outcome that satisfies all of our stakeholders. Without success, our shareholders would not invest in us, our customers would not bank with us, and good people would not come to work for us. Our success also means that we can fulfil our responsibilities to the wider world, to the communities in which we operate.

We also believe that doing the right thing is just as important. We recognise that remaining successful in the long-term means that we must manage our business in a sustainable way, taking care that our decisions and actions today do not compromise the success of our business or its stakeholders in the future.

We recognise that our success and that of our stakeholders go hand in hand. Ultimately, we depend on — and contribute to — the health and vitality of society and the environment at large.

The title of our report, *HSBC in Society*, reflects this reality.

The business case for CSR

There are a number of business reasons for investing in CSR.

The social reasons

For HSBC, good CSR is good business. We



Customers, shareholders, employees and other stakeholders all gain from responsible business.

always try to understand the needs of the market and customers we serve. By following sound CSR practices, we develop our business in ways that will continue to appeal to customers, investors, employees and other stakeholders.

Diversity is a good example. As the world's local bank, we believe the world is a rich and diverse place, full of interesting cultures and ideas. We value this diversity in our customers and in local communities. The better our workforce reflects this diversity, the better we can anticipate and meet our customers' needs.

Education is crucial to the development and prosperity of every country. It is the engine of economic development and a route to personal achievement and success. HSBC's own success has always depended on the fruits of education, both for the people we employ and the societies in which we operate. By investing in education, we seek to build the confidence and abilities of young people on whom, as

customers or employees, our future business will depend.

Supporting our **communities** through our employees' time and through our charitable donations has many benefits for our business:

- By working with schools and sharing their knowledge with young people, our employees can also gain in understanding, confidence and self-esteem.
- Being recognised in the community as good corporate citizens and employers helps us to attract local people who can provide the best service to customers.
- Community involvement leads to new customer relationships.
- We have an interest in healthy communities because our employees live in and belong to those communities.

The environmental reasons

We recognise that, as a bank, we must lend and invest responsibly, avoiding projects where the potential for environmental damage outweighs the economic benefits. We also recognise that businesses that damage the environment are likely to lose the support and commitment of their stakeholders and, thereby, represent a greater credit risk to our business.

We believe companies like ours must share responsibility with governments and citizens for minimising the damaging effects of human activity — pollution of land, water and air and the depletion of resources. Our environmental management system, still in its infancy, continues to grow.

Although we already look for cost-savings from more efficient use of resources, we believe we need to go further. The depletion of the planet's natural resources on which life depends can only lead to human conflict. Dependent as it is on political stability, the financial services industry has a vested interest in helping to provide solutions to these major challenges. One HSBC contribution is our Investing in Nature partnership.

Continuing progress

Meeting our social responsibilities has been part of our approach since our earliest days. For example, in 1878 we donated HK\$1,000 to the China Crisis Fund and, in 1909, gave HK\$50,000 to help found the University of Hong Kong. Our support in the UK for Young Enterprise started in 1971 while, to co-ordinate its extensive community support programmes in the Hong Kong SAR and mainland China, The Hongkong and Shanghai Banking Corporation established its own fully registered charitable trust in 1981. We formalised our commitment to sustainability in 1992 by becoming a founder signatory to the UN Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development. This is ongoing work. Progress over the last seven years is summarised here.

- | | |
|------|---|
| 1997 | Publish our first <i>Environmental Policy</i> . |
| 1998 | First publish HSBC's statement of <i>Business Principles and Values</i> .
Adopt the vision of becoming the world's leading financial services company.
Adopt education and environment as twin foci for philanthropic support worldwide. |
| 1999 | Develop dialogue with ethical investment fund managers.
Lord Butler is appointed to oversee HSBC in the Community. |
| 2000 | Adopt UN Global Compact and Global Sullivan Principles.
A founder member of the Wolfsburg Group. |
| 2001 | Establish the HSBC Education Trust in the UK, headed by Dame Mary Richardson.
Publish our first CSR report, <i>HSBC in the Community: Sharing our Success 2000</i> .
Achieve inclusion in FTSE4Good ethical index and Dow Jones Sustainability Index.
Pilot environmental management system in the UK. |
| 2002 | Establish international diversity team.
Launch Investing in Nature programme in partnership with WWF, Earthwatch and BGCI.
Environmental management system operating in 10 countries.
First participate in Business in the Environment index. |
| 2003 | Adopt the Equator Principles covering project finance.
Engagement with WWF on sustainability aspects of HSBC policies.
Board of HSBC Holdings plc establishes CSR Committee. |

Listening to Views

We may not always agree with the views of all our stakeholders, but we do try to understand their expectations and concerns and to address them where we can.

A great deal of dialogue takes place at local level through our business around the world. This chapter describes some of the key ways HSBC communicates with stakeholders and addresses the issues that are raised most frequently.

Stakeholder engagement

Investors

HSBC has around 200,000 registered shareholders in some 100 countries and territories worldwide. Since this number includes pension funds, insurance companies and mutual funds, millions of people have an indirect interest in HSBC's business performance and future prospects.

We engage with the investment community through a range of investor relations activities and formal stakeholder reports, including:

- The *Annual Report and Accounts*, *Annual Review*, the *Interim Report* and this *Corporate Social Responsibility Report*.
- The Annual General Meeting and the informal meeting of shareholders held in Hong Kong.
- The recently enhanced Investment Centre section on our web site at www.hsbc.com.
- A number of investor events which are webcast live, including results presentations and the AGM. Recordings are also available on our web site for a period to anyone not able to take part live.
- An extensive programme of institutional investor meetings around the world:

	2001	2002	2003
Number of meetings	122	256	319
Number of countries	10	13	18

- Our Investor Relations teams in London, Hong Kong and North America also address a wide range of investor queries

directly each year, including those sent in by e-mail. Contact details for each team are available in the Investment Centre section of our web site.

This programme provides many opportunities for HSBC to listen to and address investor issues and concerns. Recent examples of actions that have resulted from the input of our stakeholders include: the publishing on our web site of the Group-wide standard on environmental risk lending, and the introduction of quarterly dividend payments, benefiting shareholders who rely heavily on the income they receive from their shares.

Customers

In most of the countries and territories in which we operate, we conduct regular surveys to monitor customer satisfaction. In our larger businesses, this information is typically one of the elements used for measuring branch performance and determining individual rewards.

Syndicated research used by various Group companies will generally include regular research on issues related to minorities and various customer segments.

Employees

As at 31 December 2003, we employed some 223,000 people worldwide.

- Between 40 and 50 per cent of our employees are members of a union, while other forums also exist for collective discussion.
- In Europe, an Employee Council with 29 elected or nominated employee representatives from 13 countries meets twice a year with the Group General Manager, Human Resources.
- We welcome debate, feedback and discussion

with our employees, both on an individual basis and in all of these forums.

- We have systems in place to deal with employee grievances and complaints, and promote an open culture of two-way communication.
- We track employee engagement and satisfaction. During 2003, we conducted surveys in North America, Brazil, Argentina, Asia-Pacific and the Middle East.
- We provide opportunities for employee learning and communication.

For further information, see the 'Investing in our People' chapter, pages 44-47.

In 2004, we will undertake an audit to establish a better understanding of union membership, employee representation and consultation forums across the Group. We will also standardise our methods of tracking recruitment and employee satisfaction worldwide through a set of questions that can be used in each country.

Suppliers

We have developed an Ethical Code of Conduct for Suppliers of Goods and Services and a Supplier Registration Form, both of which are posted on our web site. Suppliers are able to sign up to the code and provide us with details of how they are complying with it and what steps they are taking to meet environmental and socially responsible standards. Initially, the registration process will be used to vet prospective suppliers, but we have also started a programme to monitor and assess existing suppliers against the undertakings they have made to comply with the environmental and ethical requirements set out in our code.

Non-governmental organisations

We are in regular contact with a number of groups representing wider society. Among them are the UN's Global Compact body and other leading non-governmental organisations (NGOs), including our Investing in Nature partners (see pages 37-41).



In considering major financing decisions, we take account of the expectations of legitimate interests in society and any concerns expressed about the wider impact of our business.

We are asked by NGOs to report even more detail, for instance, to disclose information on major loans that we have declined for non-financial reasons. We are willing to give such information, provided it does not undermine our competitive position, but we will not — indeed, by law we cannot — compromise customer confidentiality.

Governments and regulators

Public regulators, on behalf of society, issue banking licences only to those organisations in which they have total confidence. Around the world, we are answerable to more than 370 regulators, most of whom we meet on a regular basis.

In addition, we participate in numerous government-led and financial services industry working parties.

Political donations

It is the Group's long-standing policy not to make contributions to political parties. Following its acquisition on 28 March 2003, and until 30 September 2003, Household International, Inc. continued its previous policy of making donations to US political parties. During that period, donations totalling US\$455,270 were made. Since 1 October 2003, Household has adopted HSBC's policy of not

March 2003: shareholders are given an opportunity to voice their opinions about the acquisition of Household International, Inc. at an Extraordinary General Meeting in London.

making contributions to any political party. Save for the donations made by Household before 1 October 2003, no political donations were made by HSBC during the year.

Key questions

These are some of the questions most commonly asked by our stakeholders in 2003.

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

A. We recognise that this is a sensitive issue and that is why we are transparent about our remuneration policy. Compared with many people, senior HSBC executives are well paid. However, they are responsible for a multinational organisation, some 223,000 staff and over 110 million customers in 79 countries and territories. High salaries are necessary to compete for the best people in this international market-place. HSBC's eight executive Directors have worked in 17 different countries. Compared with senior executives in other international companies around the world, HSBC's top people remain relatively moderately paid, a fact borne out by survey after survey.

Q. There do not seem to be many women in senior management or on your Board. Why?

A. HSBC believes in diversity based on merit, and we recruit employees solely on merit and suitability. It is true that we have relatively few women in senior managerial positions. This reflects the social and employment practices of the past, because HSBC tends to recruit people for long-term careers. However, we do have more women on our Board than have most of the world's largest companies. We are committed to providing equality of opportunity to all staff, regardless of gender, race, nationality, ethnic origin, age, disability, religion or status. Exactly the same principles apply to senior management and Board appointments. Individuals are promoted or invited to become Directors not because they are men or women, but because they are the best people for the job. (See the 'Investing in our People' chapter, pages 44-47.)

Q. What is HSBC doing to combat money laundering?

A. HSBC has comprehensive anti-money laundering standards and controls that we implement across our business worldwide. We work closely with the appropriate authorities in each of our markets where, in some cases, our controls exceed local



We compete for the best people in an international market-place.

requirements. Our global policies and procedures form our money-laundering deterrence programme. These include careful identification procedures for account opening, close monitoring of transactions and a worldwide network of control officers for tracking and reporting.

In addition, HSBC conducts money-laundering awareness programmes for every new member of staff and comprehensive refresher training for all relevant employees. We are a founding signatory to the Wolfsburg Principles on anti-money laundering for international private banks and a member of the UK group of six banks that have committed to a voluntary exercise to improve their anti-money laundering procedures (see page 12).

Q. Why are you transferring work from the developed countries to Asia?

A. HSBC is an international company operating in a global economy. We must remain competitive to be successful. We perform different tasks in various locations around the world according to where it is most efficient for us to do so. This means, for example, that in the UK we do work for our offices in the Middle East, in Turkey, in Malta and elsewhere in Europe. Similarly,

we have staff in Canada, the UK, the United States and Hong Kong working on systems used throughout the world. Equally, the UK, the United States, Canada and many other parts of our worldwide operations do part of their work in our new Group Service Centres in India, Malaysia and mainland China. This allows HSBC to remain competitive so we can provide top quality service for our customers, reasonable returns to our shareholders, and job security for our employees. If we did not operate in this way, our competitors would eventually take away our business.

From another perspective, HSBC also has obligations to the communities we serve around the world. We believe creating jobs in emerging markets makes a positive contribution. Our staff working around the world enjoy attractive terms and conditions and a working environment that is of the highest international standard.

Q. Banks do not have a good reputation when it comes to customer service. What are you doing about that?

A. There is a tendency to see all banks as the same in terms of performance and customer service. Nevertheless, there is good evidence

HSBC's new Group Service Centre in Cyberjaya, Malaysia. The HSBC Group has been operating in Malaysia for 120 years.



from the product and service awards that we win in many parts of the world, and from customer surveys, that HSBC is trying to be different and is succeeding. However, we are not complacent and continue to focus strongly on defining HSBC through the quality of service we give to our customers. We remain strongly committed to putting our customers at the heart of everything we do and, in so doing, create long-term mutual value.

Q. What are HSBC's views on animal testing?

A. This is a sensitive subject. Our understanding is that many informed people support the use of animals in scientific research, where no alternative exists, provided that such research is conducted under very strictly observed government regulations, that it is as humane as it can possibly be, and that it manifestly serves the advancement of human and animal welfare.

However, we also recognise that this view is not universally held and that there are still a number of difficult areas, including the use of primates. We also note that many of our individual customers are opposed to animal testing and that some of our major business customers place strict limitations on the sale of animal-tested products. We know that the law in the UK and elsewhere requires drugs to be tested on animals before they can be brought to market, but we share the hope of many in the medical research field that ways can be found of reducing the use of animals in the future.

Q. Are you financing the export of armaments?

A. We have always taken a cautious approach to the financing of defence equipment sales by applying strict internal controls and ensuring that all necessary government licences and approvals relating to the transaction were in place. However, we decided some time ago to withdraw from this type of business progressively and in a

manner which recognises our proper responsibilities to our customers. As a result, we have made our customers and potential customers aware that we have no appetite for lending for the manufacture and sale of military hardware.

Q. Does HSBC have a code of good ethical conduct?

A. Yes. HSBC has long espoused high ethical standards in the conduct of its business. Honesty, integrity and a strong sense of responsibility have been our hallmarks in dealings with our stakeholders. Our *Group Standards Manual*, an internal document, sets out the company's policies and procedures in this vital area. So ingrained are these standards that for much of our history it was considered unnecessary to articulate them. However, the Group's international expansion and higher profile around the world has coincided with increasing public scrutiny of multinational companies.

We have therefore decided to make explicit what was previously implicit. Although in 1998 we published our statement of *Business Principles and Values*, we consider it to be in the company's best interests to provide additional evidence of our adherence to internationally accepted standards of conduct. That is why we have expressed our support for the Global Sullivan Principles and the United Nations Global Compact. In addition, we are members of the Institute of Business Ethics and of the anti-corruption organisation Transparency International (UK).

Contact us

We want to hear your views about HSBC. Please see the inside back cover for details of how to contact us. We also welcome suggestions of other audiences who might be interested to receive this report in future.

Acting Responsibly

HSBC understands that social responsibility begins with the way we manage our business and ourselves.

Our corporate character

HSBC's competitive advantage is built on our corporate character, which defines the values and principles that are inherent in all the company's everyday dealings. We have identified five core business principles and 12 values. We believe the values underlying our corporate

Principles and values

HSBC is committed to five core business principles:

1. Long-term, ethical client relationships.
2. High productivity through teamwork.
3. Confident sense of excellence.
4. International character, prudent orientation.
5. Capable of creativity and strong marketing.

HSBC also operates according to certain key business values:

1. Setting the highest personal standards of integrity at all levels.
2. A commitment to truth and fair dealing.
3. Hands-on management at all levels.
4. Openly esteemed commitment to quality and competence.
5. A minimum of bureaucracy.
6. Fast decisions and implementation.
7. Putting the team's interests ahead of the individual's.
8. The appropriate delegation of authority with accountability.
9. To be a fair and objective employer.
10. A merit approach to recruitment, selection and promotion.
11. A commitment to complying with the spirit and letter of all laws and regulations wherever we conduct our business.
12. The promotion of good environmental practice and sustainable development, and commitment to the welfare and development of each local community.

HSBC's reputation is founded on adherence to these principles and values. All actions taken by a staff member or Group company should conform to them.

character are universal and expect them to be applied throughout HSBC. At the same time, we respect national cultures wherever we operate — for example, we are a Chinese bank in China and a Brazilian bank in Brazil.

Living our values

We establish these values among our staff in the following ways:

- Setting an example, from the top down and through role models and mentors.
- Implementing a 'capability framework' that details the personal attitudes and behaviour we seek to encourage in key areas of our employees' performance, training and development, and other human resource practices.
- Providing financial incentives to encourage good personal performance.
- Putting systems and procedures in place to hold people accountable for their actions. These include operating manuals on the running of the business, annual and strategic plans, and computer systems that control how work is done.
- An active programme of international resourcing through movement and development of our employees around the world, thereby transferring best practice and building up networks.
- Encouraging teamwork rather than a 'star' culture among our employees.
- Recruiting people who are comfortable with HSBC's values.

Business integrity

HSBC has a series of systems and checks to protect our reputation and financial integrity. In addition to adhering to the letter and the spirit of laws and regulations in force in the 79 countries and territories in which we do business, we have voluntarily agreed to meet many codes and standards set by external

'Morality is as important as earnings growth.'

From 'Managing for Growth' — the HSBC Group strategic plan 2004-2008

Managing CSR

Management of HSBC's corporate social responsibility policies is overseen by the Corporate Social Responsibility Committee chaired by Lord Butler. He is an independent non-executive Director of HSBC Holdings plc who, since 1999, has overseen our philanthropic activities via HSBC in the Community. Lord Butler also chairs the HSBC Education Trust in the UK, which was established in 2001.

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee held its first meeting in February 2004. The Committee is responsible for overseeing HSBC's CSR policies — principally environmental, social and ethical matters — and for advising the Board, committees of the Board and executive management on such matters. The other members of the Committee are William Fung, Sharon Hintze and Carole Taylor, all of whom are independent non-executive Directors, Baroness Brigstocke, Gerry Davis and Lord May.

We obtain external advice on environmental reporting from the Sustainability Advisory Service team of KPMG, and on CSR reporting from The Corporate Citizenship Company.

Benchmarking our performance

The Dow Jones Sustainability Index selects from the world's 2,500 largest companies the top 10 per cent 'sustainability leaders' in each industry sector. As listed in the world index, HSBC's sustainability performance is described as 'very high compared to its industry'.

HSBC has been a member of the FTSE4Good ethical index since its inception, and was again successful in gaining inclusion in 2003.

organisations. We take great care to ensure our employees are fully aware of these as they are held personally accountable.

Ensuring robust internal systems

HSBC's own internal policies and procedures underpin the personal accountability of our employees. These are reinforced by stringent systems, and auditing and reporting requirements to ensure that they are properly applied. Managers at all levels are responsible for ensuring that effective internal controls are maintained within their own areas of activity. Primary internal controls are laid down by established and well-documented procedures, and secondary controls by managerial and executive supervision. Our Internal Audit department provides tertiary control through independent inspection, although this does not absolve managers from their own responsibilities.

Corporate governance

HSBC Holdings' Board has 14 non-executive Directors, of whom the Board has determined 11 are independent, and eight executive Directors. In accordance with the Listing Rules of the Financial Services Authority, HSBC will include in its *Annual Report and Accounts* each year a narrative statement of how the main and supporting principles of the Combined Code on Corporate Governance are applied, and a statement either that the Company has complied throughout the accounting period with the Code provisions or, if it has not, an explanation of any non-compliance. In 2003, HSBC Holdings complied with the best practice provisions of the Combined Code on Corporate Governance, and with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong

Kong. Implementation of the Board's corporate strategy is delegated to the Group Management Board under the leadership of the Group Chief Executive.

The Board has appointed a number of committees, including the Group Management Board, the Group Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility Committee (see box opposite). The roles of these committees are described in our *Annual Report and Accounts*.

Group-wide approach

Our internal policies, standards and procedures apply across our business worldwide. They are explained in the *Group Standards Manual*, a 160-page internal publication covering the roles and functions of key departments, including Group Head Office. It also provides detailed instructions for individual HSBC businesses, taking into account local circumstances and relevant laws and regulations.

Our businesses are also required to adhere to Group lending guidelines. These detail the type of business we will accept and how decisions are made and reviewed.

Some legislation has an impact beyond individual countries, which effectively creates additional global standards. Anti-bribery laws in the UK and United States, for example, which prohibit the offer or receipt of gifts or inducements to or from public officials, apply to all UK and US persons regardless of their location. Similarly, we are complying with the US Sarbanes-Oxley Act by implementing global disclosure ('whistle-blowing') procedures that will allow all employees to report suspected malpractice on a confidential basis.

Local responsiveness

Despite our Group-wide approach in applying uniform policies and standards, individual units are responsible for their own decisions and judgement. This is consistent with our decentralised, local character. Ultimately, these local units are accountable for their actions to

Group Compliance policy

Members of the HSBC Group 'should comply with both the letter and the spirit of all relevant laws, codes, rules, regulations and standards of good market practice in each jurisdiction around the world where they conduct business.' — Group Compliance policy, adopted 12 March 1993.

senior management and the Board. Questions over interpretation of Group standards are dealt with by the relevant Group function. For instance, questions about credit and risk standards are referred to the Group Credit and Risk department, which also authorises large transactions.

Adopting high external standards

HSBC Group members are required to follow all relevant local, international and industry standards in addition to our internal standards. We have also voluntarily agreed to abide by a number of external codes of conduct, some of which are detailed below.

We are a founder signatory to the **United Nations Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development**.

Sir Mark Moody-Stuart, a non-executive Director on the Board of HSBC Holdings plc, is on the **UN Secretary General's Advisory Council for the Global Compact**, of which we became a corporate supporter in 2000. The Compact challenges companies to demonstrate progress in supporting and advancing key principles in three fields: labour standards, human rights and environmental responsibility. The section 'Diversity: a report on progress' on pages 46-47 demonstrates HSBC's support for Principle 6 of the Compact.

HSBC has expressed its support for the **Global Sullivan Principles**, which address economic, social and political justice issues, such as human rights and equal opportunities in employment.

We follow the **OECD Guidelines for Multinational Enterprises**, which promote business conduct in the area of sustainability.

Combating crime

We work within internationally agreed standards, notably:

- The UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention 1988).
- The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime (Strasbourg Convention 1990).
- The Basle Committee on Banking Regulations and Supervisory Practices (Statement of Principles on Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering 1988).
- The Financial Action Task Force and special recommendations on terrorist financing.

In addition, HSBC is a founder member of the Wolfsburg Group and subscribes to the following guidelines:

- Wolfsburg Anti-Money Laundering Principles for Private Banking.
- Wolfsburg Anti-Money Laundering Principles for Correspondent Banking.
- Wolfsburg Statement on the Suppression of the Funding of Terrorism.

In September 2003, we decided to further our long-standing environmental policy by adopting the **Equator Principles**, which cover project financing. As a result, we will not provide loans directly to projects where the borrower will not, or is unable to, comply with either the Equator Principles or our own internal environmental, reputational and social policies, whichever carries the higher standard (see page 14 for more details).

HSBC has been at the forefront of the banking industry's efforts to discourage speculators profiting from — and exacerbating — currency devaluations during financial crises. In 2001, we co-chaired a committee of 16 leading international banks that drew up voluntary **foreign exchange guidelines to discourage speculation**, which are now endorsed by the foreign exchange trading committees in the world's principal trading centres. These guidelines consider speculative practices by

banks to be unacceptable trading behaviour, prohibit the use of electronic dealing systems to generate artificial price movements, and require market makers to refuse client transactions that might be disruptive.

Through initiatives such as the **Wolfsburg Principles**, banks are increasingly expected by governments to play a front-line role in identifying and reporting monies suspected of being proceeds from criminal activity and to help combat the funding of terrorism.

We have our own internal procedures to combat the threats to the financial system posed by credit card fraud and money laundering, which criminals use to disguise the true source of their funds. We also work with other banks and government agencies to ensure effective measures are applied throughout the banking system.

Key to deterring money laundering is knowing the true identity of all customers and investigating major or unexpected transactions. We have stringent internal procedures to monitor transactions and report suspicious activities. We are, however, careful to respect the privacy of legitimate customers. The skills and awareness of our staff are therefore essential, which is why we place a high emphasis on training at all levels. Employees receive regular updates on developments, changes in law and risk alerts in addition to annual training on anti-money laundering procedures. We work with outside experts to improve the effectiveness of this considerable investment in time and resources.

Terrorism presents a new challenge as its financing is not necessarily derived from criminal activity. In addition to our 'know your customer' policies, effective action depends on liaising with law enforcement and government agencies about suspicious individuals and organisations. As an added precaution, we also restrict our business dealings with high-risk sectors, such as alternative remittance systems and money transfer agents.

We are members of **Transparency International (UK)**, the anti-corruption pressure group.

Managing our Impacts

HSBC is committed to playing its part in making sustainable development a reality — meeting the needs of the present without compromising those of the future.

A group of the size and scope of HSBC makes a significant impact on the world. Most of these impacts are positive, such as the economic and social benefits that flow from our business. However, as an organisation with thousands of offices and tens of thousands of employees, we also create other impacts, for example environmental, that we need to manage carefully. We believe that in order to be a force for good in the world, we must conduct our financial services business in a highly responsible manner ensuring, as far as possible, that the businesses and projects we support are themselves managed responsibly.

Sharing economic benefits

HSBC's operations around the world create wealth that helps to sustain the jobs and livelihoods of millions of people. Shareholders' earnings, employers' wages, taxes paid to governments and purchases made from suppliers all help communities around the world to prosper and grow.

We have adapted the widely used 'value added' methodology to demonstrate this distribution of wealth. As the table and chart on the right show, we spent more than US\$7 billion with many thousands of suppliers. Of the value added to the business in 2003, employees earned a third while governments received US\$3.9 billion through business taxation and social security contributions. They also benefited considerably more by taxing our employees, investors, suppliers and, ultimately, customers.

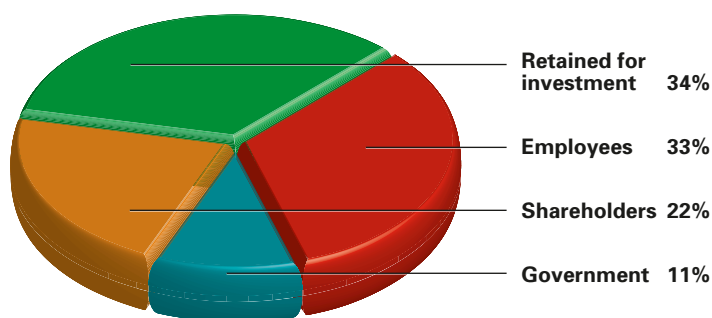
Responsible finance

Our approach to lending and investment is based on a combination of our own business principles and values, society's expectations and, fundamentally, an assessment of risk. We avoid undertaking certain types of business, such as the financing of weapons manufacture and

sales, dealing with countries subject to internationally agreed sanctions, and transactions that might be used to evade tax or launder earnings from crime.

In industry sectors with the potential for major, adverse social, ethical or environmental impact, we will only advance credit under exceptional circumstances, and then only after an additional and detailed assessment of the individual borrower. This approach means that we are unlikely to be involved in project financing for a number of schemes — for

How HSBC's cash value added was distributed in 2003



HSBC's cash value added in 2003

US\$billion

The value our operations add in monetary terms to the goods and services we buy in, calculated as the difference between net income and payments out to suppliers:

Received by HSBC for supply of products and services	57.4
Returns on investments	0.9
Servicing of finance	(16.5)
Payments to suppliers (premises and other)	(7.5)
	<u>34.2</u>

This cash value added is available for sharing among stakeholders in the business and is also shown in the pie chart above:

Employees (remuneration for their services)	11.3
Government (taxes and social security)	3.9
Shareholders (cash dividends and minority interests)	7.5
Retained for investment	11.5
	<u>34.2</u>

example, power plants, mineral extraction and dams — without first conducting detailed environmental impact assessments.

In some cases, we have disengaged from previous business commitments in response to the development of our lending policies. The effect of our internal standards and external commitments is that, in some countries and territories, we set a higher standard than that required by local regulations. For example, our lending policy is more stringent than that applied by some export credit agencies.

Implementing the Equator Principles

In 2003, HSBC reinforced its long-established environmental and social risk evaluation process and position as one of the leading companies in environmental impact management by adopting the Equator Principles. These voluntary guidelines provide a common framework to address the environmental and social issues that arise in financing projects, and ensure that the projects are assessed according to sound environmental management practices. Developed by major international banks, the Principles apply to all projects costing more than US\$50 million. Projects fall into one of three categories, A, B or C, with category A indicating the highest degree of environmental or social impact.

The Equator Principles help us to categorise the degree of environmental and social impact of commercial proposals. In adopting them, HSBC has undertaken to ensure that all applicable project finance proposals fall within the requirements of the Principles. We will not provide loans directly to projects where the borrower will not, or is not able to, comply with either the Equator Principles or our own internal environmental, reputational and social policies, whichever carries the higher standard.

Our focus for 2004 will be to ensure that the Equator Principles are fully implemented across the HSBC Group. To this end, we are updating our *Group Standards Manual* and *Group Lending Guidelines* on environmental risk. In conjunction with the International

Finance Corporation*, we are also starting to roll out awareness and implementation training programmes for our senior executives in project and export finance and related areas. We believe training our staff in how to implement the Principles is key to ensuring compliance.

We will also demonstrate that we are adhering to the Equator Principles. From 2004 onwards, we will report summary numbers for the total value and volume of project finance deals booked, split by category (A, B and C). These figures will be included in the next edition of this report, to be published in 2005.

During 2004, we will consider adopting our own sector-based lending policies for certain industries that are potentially damaging to the environment, for example, to freshwater and forest land.

Managing suppliers and contractors

Environmental performance is already a key part of our assessment process for suppliers in the UK, France, the United States and Hong Kong. In these areas, we expect as a minimum our suppliers to have an environmental policy, to show evidence of compliance with environmental regulations, and to employ an individual with responsibility for the environment. We also enquire about such issues as discrimination, use of child labour, health and safety, and working conditions. Over time, we shall apply similar requirements to our suppliers worldwide.

Managing our impacts on the environment

In order to fulfill our commitments to sustainable development, we have to understand the effects of our working practices. Since 2001, increasingly we have been gathering data on our environmental impacts from our operations around the world. Progress and results for 2003 (plus comparison with 2002) are shown opposite and in the data tables on pages 16-17.

* The International Finance Corporation is the private sector arm of the World Bank Group. Its mission is to promote private sector investment in developing countries, which will reduce poverty and improve people's lives.

Our environmental performance

Energy use

Overall, energy consumption has increased marginally.

2003 initiatives

- Outsourcing of energy management in Asia-Pacific, North America and the UK.
- Lighting upgrades and thermostat replacements in the United States and the UK will see an estimated annual saving of over 320 tonnes of carbon dioxide.
- Use of energy surveys in Brazil and India to identify potential savings, combined with employee awareness programmes on energy reduction.

Business travel

Business travel has increased. This is partially due to increased data capture in Asia-Pacific but also reflects more travel in connection with the integration of new members of the Group, Household and HSBC Mexico.

2003 initiatives

- Extended use of video-conferencing and tele-conferencing systems, and tighter control of costs has decreased travel by staff in Brazil.
- The introduction of an environmental travel policy in Hong Kong aimed at cutting carbon dioxide emissions by 1 per cent.

Greenhouse gas emissions

While energy consumption has risen only marginally, our greenhouse gas emissions have risen substantially, despite our efforts to reduce them. This is due to the inclusion of additional sites in Asia-Pacific, which have higher carbon dioxide conversion rates than in other regions.

2003 initiatives

- We expect our emissions to reduce further as a result of our switch to using 'green' electricity in the majority of our UK operations, with an estimated annual reduction of 50,000 tonnes of carbon dioxide.
- Our Australian operations are seeking to obtain 10 per cent of their energy from renewable sources.

Achievements at a glance 2003

Expanded coverage

China, Panama and new Group Service Centres in Asia-Pacific are now included in the environmental reporting system.

Improved data quality

Such methods as the direct metering of sites have improved the quality of data we collect in Brazil, the United States and Asia-Pacific.

Reducing impacts

Initiatives include a pilot scheme for eco-branches in the UK, lighting upgrades and thermostat replacements in the United States and the UK, and switching to 'green' electricity in the UK.

Water consumption

We attribute the decrease in our water consumption to improvements in our reporting systems in the UK and more accurate estimates of consumption in Brazil, the United States and France, offset by the increased scope of reporting in Asia-Pacific.

2003 initiatives

- Installing a new water distribution system in the HSBC operations centre in Malta.
- Replacing water cooling towers with dry cooling systems in some of our operations in France.
- Installing water meters at all company-owned premises in India.

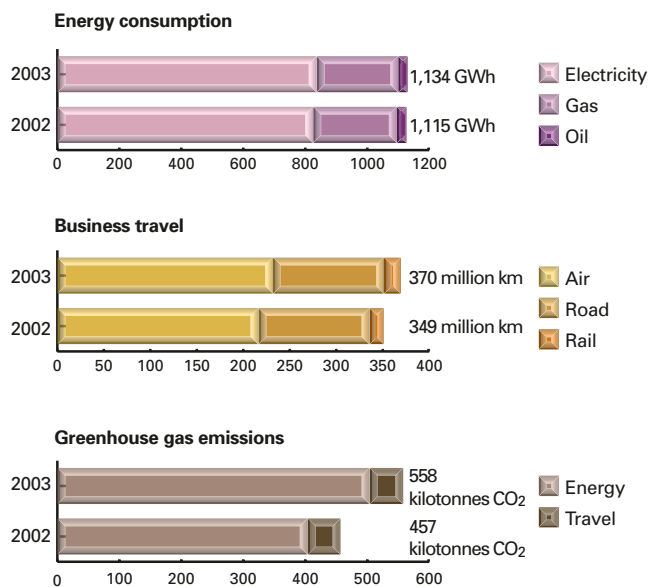
Waste

Significant improvements in the waste reporting systems in some regions make it impossible to make realistic comparisons between 2002 and 2003 data.

2003 initiatives

- We are moving to online and double-sided printers at our Brazilian, Chinese, Australian and UK operations.
- In Brazil, confidential waste is being recycled.
- In the UK, an initiative with the charity Future Forests to recycle mobile phones has resulted in 500 saplings being planted in the HSBC forest in Balblair, Scotland.

Environmental performance review of HSBC's operations in 12 countries and territories in 2003.



UK				
Resource efficiency		2002	2003	Notes
Energy consumption	GWh	392	422	a
Energy consumed per m ²	KWh/m ²	387	431	a
Water consumption	000 m ³	896	784	b
Water consumption per person	m ³ /FTE	17	15	b
Waste not recycled	tonnes	14,705	14,487	c
Percentage of waste recycled	%	29	27	c
Business travel	million km	150	158	d
Amount travelled per person	000 km/FTE	2.8	3.0	d
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	136	130	e
From business travel	kilotonnes CO ₂	22	22	
Total	kilotonnes CO ₂	158	152	e

- a The increase in electricity consumption is largely due to the dual running of the new Group Head Office in London and the premises being vacated.
- b The decrease in water consumption is attributed to improvements in data collection as a result of utilities management outsourcing.
- c Waste reporting is more complete than in other regions.
- d Business travel has increased as a result of the development of the new Group Service Centres.
- e In 2003, we sourced 17% of our electricity from renewable sources, enabling our greenhouse gas emissions to decrease while energy consumption increased.

United States, Canada and Panama

Resource efficiency		2002	2003	Notes
Energy consumption	GWh	279	282	a
Energy consumed per m ²	KWh/m ²	444	443	a
Water consumption	000 m ³	590	522	a,b
Water consumption per person	m ³ /FTE	34	30	a
Waste not recycled	tonnes	2,425	3,383	a,b
Percentage of waste recycled	%	63	58	a
Business travel	million km	80	82	a
Amount travelled per person	000 km/FTE	4.6	4.7	a
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	97	93	a
From business travel	kilotonnes CO ₂	12	13	a
Total	kilotonnes CO ₂	109	106	a

- a Addition of Panama in 2003 reporting.
- b We attribute the decrease in water consumption and increase in waste production to improvements in the reporting system as a result of outsourcing the management of waste and water, which has greatly improved data accuracy.

FTE full-time equivalents (a measure of the number of employees)
 KWh kilowatt hours
 GWh gigawatt hours

Data ranking key
 The colours in the tables on pages 16-17 indicate the estimated ranking of the data, with 1 indicating greater reliability and 4 lesser reliability.

1	2	3	4
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Brazil

Resource efficiency		2002	2003	Notes
Energy consumption	GWh	132	98	a,b
Energy consumed per m ²	KWh/m ²	167	129	a
Water consumption	000 m ³	747	361	a,b
Water consumption per person	m ³ /FTE	36	16	a,b
Waste not recycled	tonnes	-	-	a,c
Percentage of waste recycled	%	-	-	a
Business travel	million km	49	33	a,d
Amount travelled per person	000 km/FTE	2.4	1.5	a
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	4	4	a,e
From business travel	kilotonnes CO ₂	8	6	a
Total	kilotonnes CO ₂	12	10	a,e

- a Data exclude operations acquired from Lloyds TSB in November 2003.
- b The downward trends in water and energy consumption are as a result of improvements in the reporting systems.
- c General waste data are not available due to local constraints within Brazil. All confidential paper waste is recycled.
- d Increased accuracy in reporting, combined with a drive to reduce travel costs, has resulted in a decrease in the impacts of travel.
- e The 2002 figure for greenhouse gas emissions from energy use has been restated from 36,278 tonnes carbon dioxide to 4,229 tonnes. This change has been made to reflect the lower emissions profile of energy in Brazil (UN Environment Programme sourced emissions factor).

Asia-Pacific				
Resource efficiency		2002	2003	Notes
Energy consumption	GWh	217	241	a,b
Energy consumed per m ²	KWh/m ²	367	298	a
Water consumption	000 m ³	588	810	a
Water consumption per person	m ³ /FTE	17	18	a
Waste not recycled	tonnes	2,574	3,766	a
Percentage of waste recycled	%	54	48	
Business travel	million km	57	74	a
Amount travelled per person	000 km/FTE	1.6	1.7	a
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	155	267	a
From business travel	kilotonnes CO ₂	8	11	a
Total	kilotonnes CO ₂	163	278	a

- a Data for 2002 include the following operations: India, Malaysia, Singapore, Australia and Hong Kong. In 2003, reporting was extended to include mainland China and the four new Group Service Centres in China, Malaysia and India.
- b Energy data for 2002 were restated to reflect an error made in converting gas from m³ to KWh, and incorrect electricity measurements in Singapore.

France				
Resource efficiency		2002	2003	Notes
Energy consumption	GWh	95	91	a
Energy consumed per m ²	KWh/m ²	212	250	a
Water consumption	000 m ³	278	226	a
Water consumption per person	m ³ /FTE	21	21	a
Waste not recycled	tonnes	1,566	802	a
Percentage of waste recycled	%	34	48	
Business travel	million km	13	23	a,b
Amount travelled per person	000 km/FTE	1	2.1	a,b
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	12	10	a
From business travel	kilotonnes CO ₂	2	3	a
Total	kilotonnes CO ₂	14	13	a

- a There have been some improvements in data quality. However, due to the nature of our operations in France and the large number of subsidiaries of CCF, improvements have not been distributed evenly. Some areas are able to provide quality data, but others have shown little improvement.
- b Some CCF subsidiaries have reported only for 2002 or only for 2003.

Basis of reporting

We report our environmental data in accordance with our internal Environmental Reporting Guidance, which uses calculation methods set out by the UK Government's Department of Environment, Food and Rural Affairs and the UN Environment Programme. Some markets have outsourced facilities management who provide consumption data upon which we rely for reporting.

We currently report data for our five main markets: the UK, Brazil (excluding assets purchased from Lloyds TSB in Brazil during 2003), North America, France and Asia-Pacific. We do not yet report data for our new business acquisitions, Household in the United States and HSBC Mexico. However, our teams in North America are working closely with staff in these two businesses to help them develop the processes they need to gather and analyse environmental data. We expect to report on their performance for 2004.

Improvements in 2003

In 2003, we have focused on improving our environmental reporting system and putting in place the foundations we need to develop an effective global environmental management system. We have made further progress, improving the accuracy of our reporting systems in

Asia-Pacific, Canada and Brazil, and including data from China, our new Group Service Centres and Panama for the first time.

Comparability

Comparison of year-on-year environmental data is sometimes difficult because of the continued development of our reporting system and improvements in accuracy of the data collection. It can also be affected by changes in the scale of our operations and local climatic and economic conditions. Where these effects are significant, we will highlight them. Nor can there be total consistency in the quality of the data we collect because of variations in the availability of information within the different markets. We report our estimation of the ranking of data provided between 1 (greater reliability) and 4 (lesser reliability).

Assurance

HSBC's Group Audit function is developing internal assurance procedures over our environmental performance reporting. In addition, we have engaged KPMG to provide external assurance over our UK environmental performance data and associated statements and the effectiveness of our aggregation process for Group data. Their assurance report is on page 19.

Setting targets

We implemented environmental reporting in the UK in 2000 and, in 2001, set performance targets for our UK operations only. Our progress is given in the table below.

Managing our performance

Building for sustainability

When designing and building a new branch, we have the chance to incorporate environmentally sustainable practices. There is a clear opportunity to design for energy conservation — to reduce carbon dioxide emissions and use materials that have a low impact on the environment. We are currently running a pilot scheme in the UK with four 'eco-branches', which will be operational early in 2004 and which we will assess during the rest of the year.

Engaging our employees

We will only succeed in managing our performance if we are able and willing to change our working practices and become more efficient in the use of resources. Staff awareness and involvement is essential and we are addressing this in different ways around the Group. For example, in Hong Kong we have created environmental management committees, with members drawn from across the business, and Hang Seng Bank has launched a 'Green Ambassador' scheme to encourage employees to take individual responsibility for environmental performance. In order to raise employees' awareness of their environmental impacts, some of our businesses in Asia-Pacific and North America use their intranet sites while, in the UK, HSBC Bank uses road shows and poster campaigns.

Other regions are also starting to set targets as their reporting systems mature. Asia-Pacific is the next to do so, making a commitment to reduce greenhouse gas emissions by 5 per cent over a five-year period. We intend to develop further targets when we are satisfied with the quality of our baseline information. In the meantime, we will focus on developing our environmental management systems.

Looking to the future

There are a number of challenges ahead that we wish to meet.

- Implement an international environmental management system, setting targets for reducing our environmental impacts.
- Expand our reporting on environmental performance to incorporate products and services.
- Expand the scope of our environmental reporting by 2004 to include Household, HSBC Mexico and the Lloyds TSB acquisition in Brazil.
- Continue to improve our baseline data for countries that are already reporting.
- Roll out our internal assurance processes over this data for all major markets by 2005.
- Take part in developments in environmental reporting through our membership of the UN Environment Programme Finance Initiative, which is working with the Global Reporting Initiative to develop environmental performance indicators for the sector.

Progress against targets in the UK

Target

To reduce greenhouse gas emissions by 5% over five years.

To improve water data capture for metered buildings from 70% by end 2003.

To improve data on general waste, consolidate contracts and increase proportion of waste recycled.

Progress

Improved data capture meant that we detected an increase of 5% in 2001. With the sourcing of 'green' electricity, however, we expect to meet our target.

Data capture now over 90% for metered buildings.

Data quality reliability has improved from a ranking of 3 to 2 by reducing our waste contract to one waste contractor from over 500 contractors in 2001.

Assurance statement

Independent assurance report to HSBC Holdings plc on its Environmental Performance Report 2003

Introduction

HSBC Holdings plc (HSBC) engaged us to review its selected environmental performance data and associated statements for the year ended 31 December 2003, as reported in its *Corporate Social Responsibility Report 2003* (the report) on pages 14 to 18. This is the first year we have provided an independent assurance report of this information. Accordingly, we have not reviewed the environmental performance data for 2002.

This report is made solely to HSBC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our work, for this report, or for the conclusions we have reached.

Respective responsibilities of directors and reviewers

HSBC's directors are responsible for the preparation of the report and the information and assessments contained within it, for determining HSBC's objectives in respect of environmental performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Our responsibility is to express our conclusions on the selected 2003 environmental performance data, and the associated statements for the year ended 31 December 2003. We also report if, in our opinion:

- any disclosures in the report relating to the selected 2003 environmental performance data and associated statements are misrepresented or inconsistent with our findings;
- if we have not received all the information and explanations we required for our review; or
- if we became aware of additional information, the omission of which may result in the selected environmental performance data together with the associated statements for the year ended 31 December 2003 being materially misstated or misleading.

Basis of our work

There are no generally accepted standards for the reporting or review of environmental performance data. HSBC applies its own internal Environmental Reporting Guidance, based on emerging best practice for reporting environmental performance.

We conducted our examination having regard to emerging best practice and principles within international assurance engagements and, in particular, our approach draws from the International Standard on Assurance Engagements 3000: *Assurance Engagements other than Audits or Reviews of Historical Information* issued by the International Auditing and Assurance Standards Board.

Our work was carried out by a multi-disciplinary team of corporate social responsibility, greenhouse gas and assurance specialists. Our approach is risk-based, drawing on an understanding of risks associated with reporting

environmental performance and systems and processes in place to mitigate these risks.

Scope of review

The selected 2003 environmental performance data subject to our review were: water consumption, waste production, energy consumption, business travel and related greenhouse gas emissions from energy consumption and business travel (collectively referred to as the 'selected 2003 environmental performance data') for the UK on page 16. We also reviewed the effectiveness of the aggregation process for the Group selected 2003 environmental performance data.

Work performed

We planned and performed our work to obtain all the information and explanations that we considered necessary to provide sufficient evidence for us to give limited assurance that the UK selected 2003 environmental performance data are fairly stated and the aggregation process for Group selected environmental performance data is effective.

Our work performed consisted of:

- understanding the systems used to generate, aggregate and report the selected 2003 environmental performance data for the UK;
- reviewing consistency of the reported selected 2003 environmental performance data with HSBC's Environmental Reporting Guidelines (dated 18 February 2003) for the UK;
- conducting interviews with management to obtain an understanding of the consistency of UK reporting processes compared with the prior year and to obtain explanations for environmental performance trends for the UK;
- understanding and confirmation of the process in place to aggregate the selected 2003 environmental performance data for the Group data;
- testing the accuracy of the aggregation process for the 2003 selected Group environmental performance data, including reviewing explanations for unusual trends in the data already obtained by HSBC;
- reviewing all carbon dioxide emissions factors used for the Group against current best practice; and
- reviewing the presentation of the selected 2003 environmental performance data and associated statements in the report in light of the findings from our work and our knowledge of the industry and HSBC's operations.

Conclusions

Based on the above, nothing has come to our attention that causes us to believe that:

- the information reported about the HSBC UK selected 2003 environmental performance data is not fairly stated;
- the aggregation process for the HSBC Group selected 2003 environmental performance data is not effective; or
- that statements made in the report relating to this process are not fairly stated.

KPMG Audit plc
Chartered Accountants
9 March 2004

Responsibility to Customers

HSBC expects all its employees at all levels to display the highest standards of personal integrity. This is particularly important when serving customers, who have a right to expect transparency, openness and value for money in their dealings with us.



Noaman Hasan (centre), Head of HSBC Amanah Finance UK, Personal and Commercial Banking, advises potential customers.

This chapter details a few examples of how we respond to challenges and opportunities in order to meet our customers' expectations.

Standards of personal conduct

Our employee codes of conduct emphasise our overriding commitment to truth, fair dealing and customer privacy, and prohibit insider dealing and the soliciting of gifts. All our companies must comply with Group standards of behaviour. These include avoiding conflicts of interest with customers and the use of unpublished, price-sensitive information. The information we do collect is restricted to that which is relevant to the conduct of a customer's business with us. We do not disclose this without consent, unless required to do so by law or to regulators under proper authority.

Responding to our customers' diversity

We have built our business with financial experts who live and work in the countless communities that HSBC serves across the world. We believe this expertise and understanding is invaluable to an international

company such as ours, and of great benefit to our customers, wherever they are.

We aim to reflect the diversity of our customers in the diversity of our workforce. We believe this makes us a more customer-driven company and, ultimately, a more successful business. With this in mind, we support a number of organisations that promote enterprise among particular community segments, such as the European Federation of Black Women Business Owners.

We cater for the particular needs of our disabled customers in a variety of ways. Braille and large letter print statements, induction hearing loops and sign language interpreters are available in many branches. Our telephone and internet banking services are especially useful for customers who find it difficult to visit a branch.

Islamic financial products

There is a growing demand from Muslim customers for products and services that accord with their beliefs as set out in *shariah* (Islamic law). HSBC Amanah Finance offers *shariah*-compliant community banking products and services for personal customers, and a range of services for corporate and institutional clients, including cross-border trade finance, structured trade finance and project finance.

The Amanah proposition is based on inclusiveness — serving both Muslim and non-Muslim customers — and HSBC's international network is helping the Islamic finance industry to grow in both reach and customer diversity. As the world's local bank, we aim to share the knowledge gained in one part of the world for the benefit of our customers in other markets and communities. We therefore offer HSBC

Amanah products and services in a number of markets around the world: Indonesia, Malaysia, Saudi Arabia, the United Arab Emirates, the UK and the United States.

HSBC Amanah Finance was recognised as the ‘best international provider of Islamic financial services’ and ‘best international *suluk* (Islamic bond) house’ in *Euromoney* magazine’s 2003 Islamic Finance Awards. For more details of Islamic financial products and services, visit www.amanahfinance.hsbc.com.

Responsible lending

In 2003, consumer advocacy groups, state attorneys general and state regulators in the United States continued to scrutinise non-prime lending. They focused on rates, fees, disclosures, and general business practices in the industry. Household worked collaboratively with representatives from many of these groups to address areas of concern. As a result, Household’s consumer lending unit agreed to establish new consumer protections in several areas: customer disclosure and communications, product and policy changes, and certain fee limitations. In introducing these changes, Household has taken extra steps to ensure that:

- Mortgage loans are sold only if they provide a true financial benefit to our customers.
- Our customers truly understand key loan terms and conditions at all points in the loan process.
- Our billing statements provide clear and complete information.
- Our ‘foreclosure avoidance programme’ assists our employees in working with customers to find solutions that keep customers in their homes.

In our view, these practices not only provide appropriate protection for the consumer, but also lead the consumer finance industry by, in some cases, going beyond the steps proposed by regulators.

Complementing our continued commitment to responsible lending practices, Household invests heavily in financial literacy and

community outreach programmes that are also a form of consumer protection. For example, over the last two years, Household has contributed more than US\$2 million to local organisations that have provided nearly 3,000 people with credit education, money management training and help with home ownership. In addition, since October 2003, it has awarded almost 300 scholarships to customers, with a further 900 being considered, as part of a four-year, US\$8 million consumer education programme under the HFC and Beneficial brand names.

Responsible mortgages

Poor stock-market performance, low interest rates and low inflation mean that most mortgage endowment policies in the UK are now thought unlikely to meet the target maturity value. Although we have a relatively small share in this market, we took steps to contain the problem when, in August 1999, we became the first UK bank to stop selling endowment mortgages. Our repayment mortgage product in the UK continues to be highly regarded. HSBC won the *What Mortgage* magazine ‘Best value national bank’ award over two, five and 10 years, winning the two-year award for five years running.

Sustainable investment

Our investment banking business complies with Group-wide policies on environmental protection, which take into account environmental legislation and require environmental impact assessments where applicable.

To help our institutional clients with their investment decision-making, HSBC can now provide environmental and social, as well as financial, analysis. In 2003, we also created a number of opportunities for institutional investors to meet and question companies on their progress and plans in respect of sustainable development. HSBC Asset Management provides a comprehensive service to manage institutional pensions, charity and

Managing the impact of SARS

The economic consequences of SARS put particular strain on airlines, hotels, tour operators and restaurants, among which we have many customers. Our efforts to support them as much as we could included a HK\$100 million 'HSBC Supports Hong Kong' campaign to provide financial assistance to those affected by atypical pneumonia. Our special offers and promotions also aided recovery in economic activity.

After the World Health Organisation declared the SARS virus contained in July 2003, we launched the 'Shop Asia, Dine Asia' programme to stimulate retail business in Asia-Pacific. More than 2,500 outlets from across the region supported the programme.

foundation assets with client-specific socially responsible investment (SRI) or ethical criteria.

Through CCF in France, HSBC offers an SRI fund called HSBC Sélection Valeurs Responsables. Rather than screening out whole sectors, the fund selects stocks using ratings from a social and environmental rating agency, further refined by an in-house SRI analyst. To ensure the investment approach continues to meet society's changing expectations, it is

overseen by a committee with representatives from a wide cross-section of society.

Responding to terrorism

Two terrorist bombs exploded in Istanbul in late November 2003. One bomb destroyed HSBC's Turkish headquarters, killing three employees and injuring 43 others (see page 45). The other devastated the British Consulate and damaged an HSBC branch.

More than 3,000 faxes were sent on the day of the blast to all corporate customers, advising them of contingency plans and confirming that HSBC remained open for business. All customer payments made by HSBC were free of charge for a 48-hour period, and we established a scheme to provide financial relief to businesses affected in the surrounding area.

Helping customers invest in communities

In 2003, we gave our ATM users in Mexico the opportunity to make a donation to several national and regionally recognised charities after withdrawing cash. This innovative facility helped customers to donate over 24 million pesos to help children with healthcare, education and nutrition.



We have built our business with financial experts who live and work in the communities that HSBC serves across the world.

Sharing our Success

As one of the largest banking and financial services organisations in the world, we have the opportunity to touch many people's lives.

We believe we can make a real difference through support for education and environmental projects, so focus most of our charitable donations worldwide to contribute to these two areas. However, as the world's local bank, we recognise the importance of supporting a range of other community projects. In the case of companies joining the Group who already had philanthropic programmes under way, these 'other' areas are often substantial. The growth in our contributions and how they were distributed in 2003 can be seen from the charts on the right.

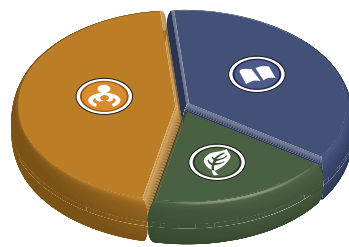
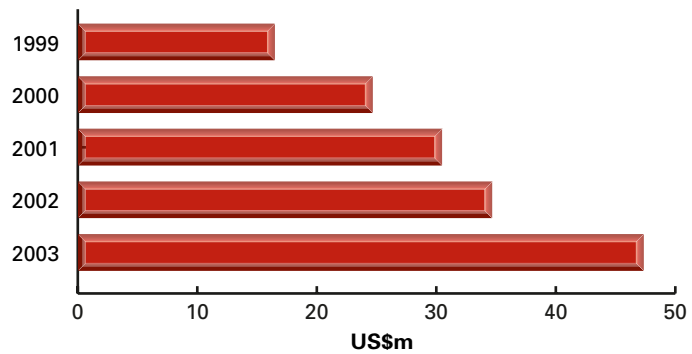
Much of the growth in donations in 2003 was due to the acquisition of Household, which contributed US\$11.5 million since joining HSBC (Household donated US\$18.8 million for the full year).

Vital as our financial contributions are — and they have risen considerably over recent years — the time and experience thousands of our employees around the world devote to worthwhile projects is just as important. It is clear, therefore, that financial donations alone are not a good measure of our overall contribution, and so we are working to develop better ways of measuring the impact of our work.

Engaging our employees

HSBC people show a remarkable desire to be active members of their local communities. We therefore encourage them to play their part — by volunteering for community programmes, for instance — so that together we can achieve more. The pages that follow contain many examples of our involvement, led from the top by our Group Chairman, Sir John Bond, who is President of Heads, Teachers and Industry, which arranges secondments in industry for senior educationalists in the UK. The Chief Executive of HSBC Bank plc, Michael Geoghegan, also chairs Young Enterprise in the

HSBC's donations 1999-2003



2003 total donations	
	US\$000
Education	17,114
Environment	8,940
Other	21,320
TOTAL	47,374

UK, in whose activities around 1,000 HSBC employees take part.

Employee fundraising

We supplement our employees' charitable fundraising efforts in a number of countries with corporate donations. We also encourage our employees to give to charity through the payroll. Household's 'United for Hope' programme, for instance, makes it possible for employees to contribute through their pay packets to local agencies that improve the quality of life in communities where they work and live. More than eight out of every 10 Household employees participated in 2003, pledging more than US\$4.6 million. The American Cancer Society named Household as the top US company for contributions through a workplace giving campaign, and the United Negro College Fund ranked Household among the top 10 contributors.

Investing in Education, the Environment and the Community



Investing in Education

In 30 US states, our employees are working with young people through Junior Achievement.

We are also providing direct support to schools in Las Vegas and Buffalo, providing grants to many other schools and colleges, and scholarships to talented individuals.

Read more on pages 26-36.



Investing in Nature

HSBC is funding pioneering work by WWF in the UK on sustainable river management.

HSBC employees from the UK, France and other countries across Europe have taken part in environmental field projects through Earthwatch.

Read more on pages 37-41.



Investing in Education

The HSBC Education Trust provides financial support to schools and other educational institutions in the UK.

Hundreds of HSBC employees are also actively involved in supporting local schools as volunteers.

Read more on pages 26-36.



Investing in Nature

Our work with WWF is helping to ensure fresh water for future generations by cleaning up the Rio Grande along the US-Mexican border.

We are helping BGCI save threatened plants by establishing a network of botanic garden educators in Canada.

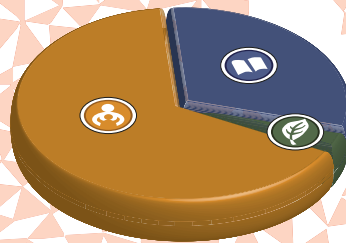
Read more on pages 37-41.



Investing in Communities

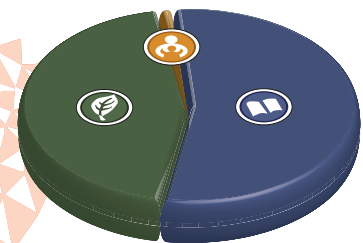
HSBC Bank USA and Household International are actively committed to community development, both through community grants and through the involvement of our employees.

Read more on pages 42-43.



North America donations 2003

	US\$000
Education	6,386
Environment	685
Other	13,509
TOTAL	20,580



South America donations 2003

	US\$000
Education	843
Environment	688
Other	21
TOTAL	1,552



Investing in Nature

Our work with WWF is helping to ensure fresh water for future generations by cleaning up the Amazon River.

We are helping BGCI in Brazil with important native plant conservation projects.

Read more on pages 37-41.



Investing in Education

In Brazil, HSBC is reaching out to disadvantaged children to provide basic healthcare, food and shelter as well as educational support.

At a school in Argentina, we are helping children from poorer families meet the costs of examinations.

Read more on pages 26-36.

at the World's Local Bank



Investing in Education

HSBC funding is helping young people in mainland China and Hong Kong not only in the classroom but also in music and sport.
Read more on pages 26-36.



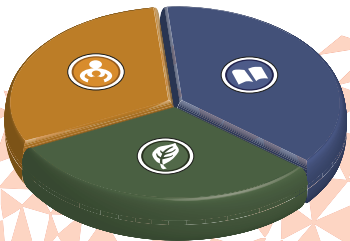
Investing in Communities

In many countries across Asia-Pacific, HSBC employees provide voluntary help for a variety of community needs. This report gives examples from Australia, Brunei, Hong Kong, India, Indonesia and Singapore.
In Singapore, HSBC was named Outstanding Corporate Volunteer of the Year in 2003.
Read more on pages 42-43.



Investing in Nature

Our work with WWF is helping to ensure fresh water for future generations by cleaning up the Yangtze River in China.
The HSBC Fellows Environmental Club in Hong Kong is helping to engage employees in environmental projects.
We are helping botanic gardens in India to conserve native plant species.
HSBC is funding the training of botanic garden staff as well as botanic garden schools clubs in Indonesia.
Read more on pages 37-41.



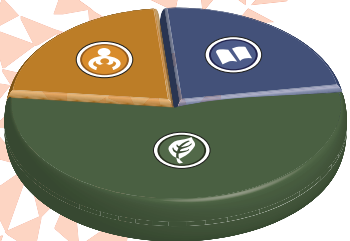
Europe donations 2003

	US\$000
Education	5,891
Environment	4,934
Other	4,814
TOTAL	15,639



Asia-Pacific donations 2003

	US\$000
Education	3,771
Environment	2,127
Other	2,774
TOTAL	8,672



Middle East donations 2003

	US\$000
Education	223
Environment	506
Other	202
TOTAL	931

For more examples of HSBC's support for education, the environment and the community around the world, see our web site at www.hsbc.com/society.



Investing in Education

HSBC supports education programmes in Jordan, the Palestinian Autonomous Area and the United Arab Emirates.
Read more on pages 26-36.



Investing in Education

HSBC is funding a range of educational projects in India, Pakistan and Bangladesh.
Read more on pages 26-36.



Investing in Education

HSBC*kids* is an innovative partnership with children's charity Barnardo's to provide mentors to underprivileged children in Australia, to help their education and social development.
Read more on pages 26-36.

Investing in Education

Education is the key to prosperity. Providing access to education, particularly for children from disadvantaged backgrounds who might not otherwise get the opportunity, is the central aim of HSBC's education initiatives.

We fund education projects across the world to help give young people hope, a positive attitude, opportunities for success and, above all, a better future. Acquiring knowledge, understanding and skills during the formative years helps young people become confident, ambitious and responsible adults, and the benefits can be far-reaching. They may, after all, eventually become employees of ours, or they may be the ones to take a community, a city or even a country to a better, more prosperous future.

Of course, there is only so much that one company can do, so to maximise our impact we concentrate our support on five main areas: nurturing talent; direct funding; involving our employees; positive attitudes; and local solutions for local needs.

Nurturing talent

Many talented young people never get the chance to fulfil their potential, which means they, their families and the wider community,



Dame Mary Richardson joined HSBC in 2000 after a distinguished career in education. For 14 years, she was the principal of a school in a deprived area of London and transformed it into a shining example of its kind. She also sits on a number of authoritative education committees, including the Ministerial Advisory Group on Business and Education. Dame Mary's primary role with HSBC is as Chief Executive of the HSBC Education Trust in the UK.

all lose out. HSBC tries to make a difference to the lives of at least some of them by providing practical, financial support to give young people across the world access to the education they need.

- In **Canada**, we work with the University of Toronto and the University of British Columbia to put university within reach of those who thought it not possible. HSBC has committed more than US\$1 million to provide scholarships and encourage disadvantaged high school students to consider university.
- In **Hong Kong**, HSBC supports several scholarship projects to enable young people to study both at home and abroad. Since its launch in 1995, 321 students have benefited from the Hang Seng Scholars project, which awards 53 scholarships annually to undergraduate students at 10 local institutions.
- In the **United States**, Household is investing US\$1 million over four years with the United Negro College Fund to provide scholarships and paid summer internships at Household facilities. Included in the programme were 370 scholarships to this and other leading organisations, such as the Hispanic Scholarship Fund and the University of Maryland.
- HSBC promotes intellectual and cultural diversity through the Chevening Scholars scheme, with annual awards of more than US\$390,000. The scheme enables exceptional students from all over the world to pursue postgraduate courses or university research in the **UK**.

- More than 450 young people in the **UK** will have the opportunity to study at 26 independent schools through the HSBC Scholars scheme. The US\$3 million project is being funded equally by HSBC and the schools themselves.
- Trinity College of Music students in London play at the HSBC Group Head Office for staff and visitors. This helps students gain the performance experience essential for their degree qualification.
- HSBC in **Pakistan** and The Citizens' Foundation are raising funds among corporate partners and customers to build schools for the underprivileged. Our staff also support the project by volunteering to spend time with children in need.
- The English Language Programme in the **United Arab Emirates** helps 20 secondary school students every year to improve their English language skills and understanding of British culture. They attend English courses in the UK and stay with British families.
- The British Council's China programme enables 24 qualified teachers from **China** to visit the UK and teach Mandarin and Chinese culture in UK schools for one year.
- HSBC-supported Teach First encourages top graduates in the **UK** to teach for two years and achieve qualified teacher status. Fourteen of the Teach First graduates have degrees in mathematics, in which there is a teacher shortage in London and globally. All will be trained in the use of the online GCSE mathematics course, funded by HSBC and produced by leading specialist school Thomas Telford City Technology Trust.
- The Escuela de Educación Media No 6 Juan Pablo Duarte y Díez in Buenos Aires is one of only two public schools in **Argentina** that



enters students for the International Baccalaureate examination. HSBC in Argentina pays examination fees for children whose families do not have the financial resources to pay for the final examination. A good result brings the chance to apply for further scholarships.

HSBC promotes the teaching of mathematics through support for Teach First in the UK.

Direct funding

We often find the best solution to a problem is to provide direct funding, concentrated resources and HSBC volunteers to achieve specific and measurable outcomes.

- For the past eight years, HSBC in the **United States** has partnered Buffalo's Riverside Institute of Technology in Project JumpStart. The project provides students with technology training, scholarships, an advanced studies programme in which college courses can be taken during high school, work experience and workplace training, leadership, team-building and confidence-building camps, mentor programmes and community service projects.
- HSBC Educação in **Brazil** contributes US\$160,000 each year to help more than 850 children with health and dental care, educational support classes and courses. Activities such as reading, art and music, and professional training for youngsters aged over 14 help boost their confidence.

- Slum-dwelling children in **India** get new schools, health care, non-formal education and meals funded by HSBC, which also provides orphans with homes and education through the Future Hope School and SOS Children's Villages of India.
- HSBC paid for the building of a library at the Rashid Paediatric Centre in the **United Arab Emirates**, giving disabled youngsters access to study aids.



Children in Brazil taking computer classes with help from HSBC Educação.



HSBC funding and the Future Hope School have provided new schools for these children in Kolkata, India.



Children enjoying the swing at the Gijubhai Bal Academy in Gujarat, India.

- HSBC funding through the Specialist Schools Trust in the **UK** is helping secondary schools gain specialist school status and extra government funding for such areas as languages, sports or business and enterprise. Sharing their expertise with other schools helps raise standards across the whole community.
- Household employees in the **United States** have taught Junior Achievement programmes, hosted holiday parties and sponsored 'Read a Book' programmes at the Tom Williams elementary school in north Las Vegas. In addition to 750 hours of employees' time, during which 170 volunteers painted classrooms and improved the playground, Household donated US\$20,000 for supplies and much needed improvements.
- The under-performing Esteban Abada Elementary School in the **Philippines** benefited from HSBC-funded initiatives, which include a weekly 'chalk-free' day when alternative teaching techniques are used. New facilities, such as a library and creative kids' centre, and a parent volunteer programme helped take the school ranking from 69th to 42nd out of 96 schools in just two years.
- HSBC in **Brazil** helps young men previously living on the streets of Curitiba by donating US\$40,000 a year to Perpétuo Socorro (Perpetual Help), a project started seven years ago by Irish priest Father Patrick McGillicuddy to give young men over the age of 18 a home, an education and a future. HSBC's direct funding is enabling Father Patrick to build another home.
- Household has supported colleges and universities in the **United States** for almost 50 years through its programmes for schools, offering tuition to minorities in fields relevant to the financial services industry. Grants were awarded to 65 colleges in 2003.



Household employee volunteers help in all sorts of ways at the Tom Williams elementary school in Las Vegas, Nevada.

- Following the devastating earthquake that hit the state of Gujarat, **India**, in January 2001, HSBC staff from around the world contributed to provide assistance to the affected residents. One project that was funded from this effort and a matching contribution of US\$125,000 from HSBC in India was the Gijubhai Bal Academy, run by Ganatar, a Gujarat-based organisation that works for children's rights. It will train local volunteers to provide the children of poor salt-pan workers with non-formal education.

Involving our employees

Often the most effective way of supporting education is by engaging our most powerful asset — our own employees.

Achievement in the United States

By teaching young people about finances at an early age, we can equip them to make sound financial decisions later in life. Junior

Achievement (JA) is the world's largest and fastest-growing organisation dedicated to educating young people to value free enterprise, business and economics. It reaches some six million students in more than 100 countries. In the United States, both Household and HSBC Bank USA support JA.

Household, whose involvement with JA started in 1942, has had a national JA volunteer programme for the past seven years. Over 900 Household employees volunteered in 30 states in 2003, presenting business, financial and economic education to 25,000 children in local elementary, middle and high schools. Household's is the only corporate-sponsored JA programme in the United States that combines volunteering with significant financial support — over US\$526,000 in 2003. A record-breaking US\$711,032 was also raised for 17 JA offices through Household's unique 'national bowlathon', which attracted almost 4,000 employees, family and friends.

HSBC Bank USA employees also make a difference. Jill Carbone, Senior Director Education, Junior Achievement, New York, said: 'Volunteers are essential to the success of Junior Achievement. For the children to have a real-life role model in front of them, telling them that what they are learning will help them once they leave the security of school, is really inspirational. Students also find visiting the volunteer's work-place extremely valuable, as it often opens their eyes to careers or jobs they had not previously considered.'

UK enterprises

HSBC staff in the UK also use their experience to make a difference in their communities. Around 1,000 HSBC volunteers work with Young Enterprise, a UK educational charity that encourages young people to set up and manage their own business while in full-time education. With advice from our volunteers, students learn about business and enterprise, and develop their teamwork, communication, innovation and negotiation skills.

Volunteers are helping children to develop their numeracy skills in the Number Partners project by each working with two children once a week. More than 78 per cent of children taking part have shown significant improvement in their confidence with numbers, with 87 per cent measurably improving their numeracy.

We encourage local members of staff to become governors of the schools we support financially. Fifty-five UK employees are governors of schools supported by HSBC. We provide training on the role of a governor and a 24-hour support and advice service. Mentoring headteachers is another way of sharing managers' experience.

Around the world

There are many other examples of HSBC employees contributing to the lives of young people around the world. One such is the Door Step School in Colaba in Mumbai, **India**, which encourages disillusioned students to return to learning and literally takes schools and libraries

to people's homes. Some HSBC volunteers teach basic English skills in the classroom while others assist by making teaching aids or putting the finishing touches to arts and crafts designed, produced and sold by students to help finance the project. Volunteers also organise the collection of toys, clothes, books and other items from their colleagues. Branch visits are arranged during which students can see the technology and bank equipment and talk to employees about their jobs.

HSBC*kids* is a tutoring and mentoring programme run in conjunction with the charity Barnardo's in **Australia**. It aims to help disadvantaged children to develop literacy and numeracy skills, so that they might continue in mainstream education. HSBC employees also host children from the programme on educational excursions, such as museum visits.

Positive attitudes

A positive attitude, fostered through the development of skills such as teamwork, is essential if a child is to make a worthwhile contribution to the community in which he or she lives and will ultimately work. It is a quality that comes from a child's attitude to others, the approach to problems, growth of character, self-confidence, self-esteem and achievement outside the classroom.

HSBC puts considerable effort into projects that help children to develop these skills, boosting their self-confidence and making them aware of others who may share their outlook on life or possess the same physical abilities.

Emma Richards, the record-breaking round-the-world yachtswoman, is helping us champion and develop our work in this area. Emma, who has become an ambassador to the HSBC Education Trust, embodies the positive attitudes we seek to develop. She made sailing history by becoming the youngest competitor and first British woman ever to complete Around Alone, the world's longest solo yacht race.

HSBC supports a whole raft of projects that nurture a positive attitude, some of which are detailed in this chapter.



Left, top: Tom Detelich, President of Consumer Lending and board member of Junior Achievement of Chicago, joins students at Household's annual Junior Achievement 'bowlathon'.

Far left: Emma Richards, solo round-the-world sailor and HSBC Education Trust ambassador, embodies the positive attitudes that HSBC seeks to encourage.

Left, bottom: HSBC employees in the UK help children develop their numeracy skills through Number Partners.



Loretta Abrams, National Director, Consumer Affairs at Household International, teaches a Junior Achievement economic education programme to second graders.

Able-bodied and disabled children competing on equal terms in the Kielder Challenge.



‘I have really enjoyed this wonderful experience...all the teams have bonded together like a family.’

Chrissy Growney, 16, Chestnut Lodge School, London — Kielder Challenge participant

- Attitudinal skills are a key element of a project launched at the April 2003 official opening of HSBC’s new Group Head Office in Canary Wharf, London, in the UK. Funding of US\$800,000 over five years is enabling 150 students a year from five local schools to attend a seven-day Outward Bound course at one of three residential centres in Wales, Scotland and the Lake District. HSBC staff are also involved as mentors throughout the year and help on the expeditions. We increasingly aim to demonstrate the real benefits of our community projects. We have therefore commissioned Loughborough University to carry out research over the life of this project on the impacts it has on the young people involved, on their peers and on the HSBC employee mentors. We will make these findings widely available.

Volunteers in action

Angela Clarke, a management trainee at the HSBC branch in Sheffield’s Church Street in the UK, is a community volunteer. The rewards, she says, come from a sense of achievement and the enjoyment she gets. HSBC branches in the Sheffield area work together to assist charities, local organisations and the wider community. One of their projects involves the Notre Dame High School, where a number of initiatives have been launched, including funding for a conference facility that will benefit the entire area, local manager David Corker becoming a school governor, and HSBC volunteers working on an environmental project.

The school had an overgrown woodland area with a pond. HSBC volunteers worked for three days to clear the area for the schoolchildren to use. They returned a month later to make it wheelchair-accessible. Angela said of the task: ‘Although it was hard work and the weather wasn’t kind, it was a fantastic experience. The feeling you get from really making a difference to a local project is great, and the opportunity to get to know colleagues better was wonderful.’

The work has led to a long-term project, which includes plans to build an ecologically friendly outdoor classroom that can be used by schools all over Sheffield for environmental and biological studies.

- The Tall Ships Youth Trust in the UK takes young people to their limits. Each year, youngsters from 24 of the HSBC ‘family of schools’ become the crew of the *Stavros S Niarchos* on a 10-day voyage. They learn how to sail the ship, scrub the decks and climb the rigging. They also learn self-discipline, teamwork, a sense of responsibility and an appreciation of those from different cultures and backgrounds.
- The Kielder Challenge, funded by HSBC in the UK, gives children with and without disabilities the chance to compete on equal terms in a series of problem-solving tasks that are imaginative and challenging. This

‘Skills and attributes such as leadership and teamwork are critical if young people are to be equipped for the challenges they face at school, and as they enter the world of work.’

Outward Bound founder Kurt Hahn



Skills and self-confidence are boosted through the Hang Seng Bank Table Tennis Academy.

helps promote teamwork, leadership skills, self-esteem and a change in attitude.

- Environment Watch for a Future Generation, a camp funded by HSBC in **Korea**, teaches children how habitats become polluted, what the impact of such pollution is, and the importance of minimising environmental impact. They also gain extensive ecological knowledge about the islands in which they live and their importance on both a local and global scale.
- A pool of talent is being nurtured in **Hong Kong** through the Hang Seng Bank Table Tennis Academy. Children develop a sense of team spirit and fair competition, and



A young musician in the Junior Hong Kong Chinese Orchestra, supported by HSBC.

boost their own self-confidence through focused training programmes. Table tennis enthusiasts of all ages and skill levels participate, helping to improve the overall standard of the sport in Hong Kong.

- Teachers are the ones being taught in **Jordan** and the **Palestinian Autonomous Area**. HSBC provides US\$24,000 of funding for a series of seminars to help them with teaching aids, to provide advice on how to teach young children, and to give them motivation to carry on in a very difficult socio-political climate.
- The Hang Seng Bank ‘Blossom with Music Programme’, in partnership with the Hong Kong Philharmonic Orchestra, helps young people step into the world of music by staging concerts in schools, universities and

even shopping centres in **Hong Kong**. More than 234,000 young people have enjoyed classical music through the scheme since 1998. HSBC is also helping young people in Hong Kong to learn Chinese music. The Hongkong Bank Foundation donated HK\$277,000 to meet the one-time start-up

- The English-Speaking Union's international public speaking competition enables young people from nearly 50 countries to travel to the **UK** for the final supported by HSBC. Competitors give five-minute speeches on a common theme and are then questioned by the audience.



Above: Enthusiastic members of the HSBC Children's Choir in Brazil, which performs every year at our headquarters in Curitiba.

Above right: HSBC funds support computer classes at the Associação Maria Helen Drexel social welfare home in Brazil.

costs of the Junior Hong Kong Chinese Orchestra, which has 100 members aged seven to 16.

- HSBC is sponsoring educational materials and activities associated with the **Canada** National Arts Centre Orchestra's tour of the United States and Mexico, helping teachers to introduce children to classical music and to encourage them to become more involved in the music world.
- 'Supersunday', a programme for children and their families at the Vancouver Art Gallery, **Canada**, fosters creativity and imagination among children with a wide range of activities to cater for all levels of learning and art knowledge.
- The HSBC Children's Choir in **Brazil**, formed from the Christmas choir which performs every year at the bank's headquarters in Curitiba, provides a focus for music in the children's lives. The 2003 Christmas concert was broadcast by a major TV network across Brazil.
- We promote financial acumen in the **UK** in several ways. The HSBC-sponsored ProShare Student Investor Programme helps secondary school students learn more about savings, shares and investments, with more than 16,500 taking part in 2003. Over 100,000 young people have benefitted from our support for the Personal Finance Education Group, which helps teachers become skilled in teaching personal finance. In about 900 UK schools, young people can manage their own money through an HSBC Schoolbranch, in which the pupils manage and staff the branch themselves. In addition, a second CD-ROM entitled 'The UK Economy Explained', has been produced by HSBC's Business Economics Department in conjunction with teachers, and is available free to support the teaching of 'A' level economics and business studies.
- Some 100 children in **Malaysia** who are fighting cancer have the opportunity to enjoy their childhood at a special camp

funded by HSBC in partnership with the Cancerlink Foundation.

Local solutions for local needs

In addition to supporting projects that address issues common the world over, HSBC tries to tackle many specific local needs.



- A technology programme at a computer centre in Selayang Prima, near Kuala Lumpur, provides computer lessons for children from poor families in **Malaysia**.
- HSBC's US\$12,000 annual contribution to the Associação Maria Helen Drexel in **Brazil**, a group of eight social welfare homes for disadvantaged children, provides teachers for school reinforcement lessons, a computer centre, art classes, a library, a toy-lending facility and video library, and a kitchen for cookery classes. Music, singing, art, dance and handicraft classes are also planned.
- e-skills4industry, which prepares young people in the **UK** for jobs in IT, has enabled 15- to 17-year-olds from Tower Hamlets, a deprived London area with high unemployment, to get jobs with major blue-chip companies.
- HSBC's funding of books, classrooms, equipment, examination fees, specialist teaching aids, clothing, shoes and other

resources is giving underprivileged and disabled children in **Malaysia, Bangladesh** and **India** the chance to go to school. One such project, in Bangalore, India, is detailed in the box overleaf.

- In the **United States**, our gift of US\$35,000



has enabled an outdoor reading room to be opened, giving people in New York City access to periodicals at the Bryant Park Library. Our support for the Institute for Student Achievement in New York is tackling the problem of young people at risk of not completing their education.

- In mainland **China**, some 3,500 long-term unemployed are being retrained. Redundancies are becoming more common as Chinese businesses become more efficient. Training centres in Shanghai, Qingdao, Tianjin and Guangzhou are helping people to acquire new skills, with about half of those taking part finding new jobs in different industries.
- The Great Canadian Geography Challenge, sponsored by HSBC for the past four years, fosters interest in **Canada's** wide variety of natural habitats. The challenge promotes learning of geography in elementary and secondary schools through a nationwide competition, and offers scholarships for the top three finalists. More than 150,000

Above: Hopeful contestants at the Great Canadian Geography Challenge, sponsored by HSBC Bank Canada.

Above left: The outdoor reading room at Bryant Park in New York City.

students from 967 schools took part in the last competition.

- Trinity College of Music's Isle of Dogs Music Project, in London, **UK**, harnesses the talent and cultural heritage of local residents through music and language to combat segregation, increase the community's sense of well-being and raise education and employment aspirations.
- The Hongkong Bank Foundation funded the 2003 Exhibition for Disadvantaged Children in Beijing, **China**. The exhibition

Special school students performing at the launch of the 2003 Exhibition for Disadvantaged Children in Beijing.



Below: Elementary school children investigating plants at Queens Botanical Garden, New York City.



featured 130 paintings and handicrafts of students from 15 special schools.

- For the past two years, HSBC in the **United States** has supported the multicultural HSBC Children's Gardening Program at Queens Botanical Garden, New York City, contributing US\$50,000 per year through the HSBC in the Community (USA) Inc. foundation. The programme makes horticulture and science education accessible to around 100 school-age children from diverse cultures and backgrounds. In 2003, the Council of the City of New York presented a proclamation to HSBC in recognition of this work.

Although these projects are small and on a local scale, they have a big impact on the communities in which they operate.

Schooling in Bangalore

HSBC's presence in Bangalore has enabled us to help children living in the Bhuvaneshwari slum. Krupa Martin, founder of the Sukrupa Community Development Trust, which was struggling to provide a school, said: 'We had a tiny, stinking room right in the middle of the slum in which we were trying to give more than 100 children an education. We were fighting a losing battle. HSBC's funding has enabled us to transform these children's lives.'

The organisation now has a dedicated centre in which 150 children are fed, clothed and educated. Krupa said: 'The difference in these children is quite astounding. They want to learn, they look healthy, they have pride in themselves, they want to work towards a better future — all because we now have the money we needed to achieve things. No child would want to go to school dressed in rags, so they didn't and fell into stealing or were used as child labour. By providing them with a school uniform, they are now no different from any other child at the school, and they want to learn. We educate them and feed them a good nourishing dinner. We basically take the strain off parents who can barely look after themselves, let alone provide for their children. HSBC's money is doing so much good here.'

Investing in Nature

We regard support for the environment as an integral part of operating our business in a sustainable and equitable way.

In 2002, we announced 'Investing in Nature', our US\$50 million, five-year programme to support three leading environmental charities — Botanic Gardens Conservation International (BGCI), Earthwatch and WWF. Details of our various projects and the progress we have made so far feature in this chapter. We believe, however, that the groundwork has been laid for even greater achievements in the future. Common to all these programmes is a commitment to finding long-term solutions to environmental problems. We can achieve this aim through education, co-operation with a range of NGOs, governmental and civil society groups, and the participation of HSBC employees around the world.

Saving endangered plant species

The plant challenge

Scientists believe that two-thirds of the world's plants could be extinct by the end of this century. Already 100,000 of the world's 440,000 plant species are under threat. We simply cannot afford to let them disappear. Four in every five of the world's people rely on plants for primary health care, and plants help regulate our climate and bind our soils. They provide food, fibres, timber, fuel and habitats for the wildlife, birds and insects that keep our fragile ecosystem in balance.

Our Investing in Nature programme will, through BGCI, help save 20,000 rare plant species from extinction. Work includes helping BGCI to implement a global plant conservation strategy, to educate key audiences about the value of plants to local livelihoods and as a source of food and medicine, and to provide green havens in busy cities for more than 200 million people who visit them each year.

Progress in 2003

BGCI provided vital support to develop and implement a Global Plant Conservation



Strategy, which was agreed by 187 governments in 2002. Since then, it has continued to work on implementing the International Agenda for Botanic Gardens in Conservation, registering more than 200 botanic gardens from 69 countries, now conserving more than 10,000 threatened species. New targets for achieving the International Agenda will be set in 2004 at BGCI's World Congress of Botanic Gardens in Spain. BGCI has contributed to better understanding of biodiversity issues by developing both its own web site — visitors to the site increased six-fold in 2003 — and online communications and education materials for the botanic gardens network as a whole. Across the world, BGCI has awarded scholarships for young scientists in Hong Kong, mainland China and Indonesia, among others; set up networks between national botanical gardens and policy makers in India, Brazil, South-East Asia, the United States and Canada; and established community-level conservation and

BGCI is supporting education programmes in Canadian botanical gardens through the Investing in Nature partnership. Here, a young student learns about wetlands at the Royal Botanical Gardens, Burlington.

education projects in South America, Africa, Russia and Asia. Capacity building is key, and more than 300 botanic garden staff have received training in their own countries in 2003.

Improving the vitality of three great rivers

The freshwater challenge

In the world today, 1.2 billion people do not have access to safe drinking water and 2.4

billion are denied access to basic sanitation. This threatens not only their health, but also the societies in which they live. Too much water in the wrong place or at the wrong time, on the other hand, causes floods that ruin homes, land and livelihoods. Flooding in China killed nearly 5,000 people between 1998 and 2002.

Crops, animals and fish, upon which we depend for food, also suffer. Freshwater species and habitats are especially at risk from the agricultural pesticides and fertilisers and eroded soil that drain into rivers and wetlands.

Our Investing in Nature programme will, through WWF, benefit millions of people by helping to restore three of the world's major rivers. Work includes restoring river basin habitat, implementing better policies and decisions on water management, and modelling good practices in water and land management on the Yangtze in China. A similar project on the Amazon in Brazil is also developing a sustainable fishery model. Another priority is water conservation in the Rio Grande river basin along the US-Mexican border, a region with particular social and environmental challenges. In the UK, the focus is on examples of wetland restoration and best practice in water and river management.

Helping flood victims



Above: The Hongkong Bank Foundation donated HK\$1 million to victims of the Huai River and Yangtze River flood in July 2003. More than 125 million people were affected by the worst flooding to hit the region for 12 years.

Our work with WWF aims to reduce the incidence of such flooding by tackling the problems at their source.

Below: HSBC's Investing in Nature programme has supported a long-term education programme on Brazil's Lake Ituqui. The programme is demonstrating sustainable methods for managing fish resources.



Progress in 2003

In mainland China, WWF has continued its success in creating a number of vital links with national and provincial governments. As a result of these links, a national demonstration site is being established near Wuhan in Hubei province. This will show the benefit to people and wildlife of relinking lakes to the Yangtze River.

Good progress has been made in Brazil with the continued support of the Brazilian government and local communities, many of whom are now benefiting from the development of sustainable fishing and other livelihoods. A regional campaign was launched in Brasilia aimed at improving water quality and reducing pollution. Four more national and regional campaigns are planned over the life of Investing in Nature.

In Mexico and the United States, research and liaison with environmental organisations and policy-makers has laid the groundwork for rapid progress in more effective river basin management in 2004. In addition, WWF is continuing to lobby the US government in support of the restoration plans for the Florida Everglades.

WWF was successful in influencing the implementation of new European Union legislation in the UK, which sets the standards for the use, conservation and protection of water resources in the future. To demonstrate how wetlands can benefit people and wildlife, a wetland restoration project has begun at Potteric Carr Nature Reserve in north-east England in partnership with Yorkshire Wildlife Trust.



Fishermen on the lake at Sena Madureira using small 'throw' nets, one of a number of sustainable fishing techniques being promoted by WWF in Brazil.

Right: HSBC volunteers in Singapore marked World Environment Day with a memorable 'green outing' for children from the Singapore Children's Society. Some 52 children, chaperoned by HSBC volunteers, learned about wetland ecology at Singapore's only wetland reserve at Sungei Buloh.

Meanwhile, in Brunei, support from HSBC enabled 400 primary school children to mark the day by taking part in a drawing competition to raise their awareness of the environment.



Below: HSBC volunteer Lorraine Lim introduces children to the wildlife at Sungei Buloh wetland reserve in Singapore.



Above: In celebration of Earth Day, around 100 HSBC employee volunteers from Indonesia took part in a clean-up at the Bogor Botanic Garden. HSBC also donated US\$2,000 to initiate a project to preserve the giant water lily, *Victoria amazonica*, and the lychee tree.



Engaging our people in the environment

The role of employees

As we describe elsewhere in this report, HSBC believes the management of its own direct and indirect environmental impacts is increasingly important. Awareness and appreciation of environmental issues are vital to the sustainable development of both our business and the



As part of the Employee Environmental Fellowship Programme in association with Earthwatch, UK employee Peter Bull assisted on a conservation research project in Ghana, west Africa.

communities in which we operate. The 223,000 people employed by us around the world all have a part to play.

Our Investing in Nature programme will, through Earthwatch, send 2,000 HSBC staff to work on vital conservation research projects around the world. It will also provide training for 200 emerging scientists from developing countries to help protect some of the world's biodiversity hot spots. The work aims to achieve a century of conservation research in just five years, provides grants to HSBC staff to set up local environmental projects on return from the field, and builds scientific expertise in developing countries.

Progress in 2003

Under the Employee Environmental Fellowship Programme, HSBC volunteers assist scientists with their conservation research projects around the world. On their return, these volunteers are expected to brief their colleagues about their

HSBC funding is helping two villages to introduce rainwater harvesting methods in an arid part of Maharashtra, India. The project is carried out by Sophia College Ex-Students Association. Once the villages have water, the project will address wider social issues, focusing on education, empowerment of women and the generation of local employment opportunities to help check the migration of labour to the nearby city of Mumbai. HSBC volunteers from Mumbai also take part in the project.

Women fetch water from a makeshift dam erected as part of the water harvesting project in one of the villages.



field project and to carry out a local environmental project with a grant from HSBC and support from Earthwatch. This helps them relate their experience in the field to their local environment and illustrates the key role they themselves can play in their own communities and at work.

By the end of 2003, more than 500 HSBC employees from across the world had participated in projects and had contributed the equivalent of one scientist working for 25 years. All participants highlighted the immense personal development they gained as a result. Fellows in more than 20 countries have gone on to establish or contribute to environmental networks among colleagues and in their local communities.

During 2003, Investing in Nature with Earthwatch has also enabled 26 conservation professionals from 10 developing countries in Africa, Asia and South America to experience professional scientific training.



HSBC Fellow Keshini Jayawardena of Sri Lanka (right) on a project to monitor cetaceans off the coast of Spain.



Since its launch in 1998, the Annual Learning Programme of HSBC in Taiwan has enriched the education of some 3,500 Taiwanese children by providing opportunities in the arts, environment and sciences. Among the courses offered in 2003 was an environment class, organised by the National Guandu Nature Park, to raise children's awareness of environmental protection. The nine sessions included wetland exploration and observation of wild birds.

HSBC staff volunteers ('wetland warriors') assist with the maintenance of the paddy field in Guandu Nature Park, Taiwan.

Investing in the Community

Encouraging our employees to engage with the communities in which we do business is a vital part of CSR.



More than 100 HFC and Beneficial employees in 11 US cities took part in Community Build Day 2003.

Highlights of 2003

- The Community Action Programme of HSBC in **Argentina** gives employees the chance to win funding from the Group for charitable projects in which they are personally involved. Nominations for 86 proposals were received in 2003, and 69 have been given the go-ahead. One of these, proposed by employee Valeria D'Amato, provides assistance to the Asociación de Pescadores de Goya, Corrientes, to find alternative sources of food and employment to Goya's fishermen.
- Household in the **United States** has Employee Involvement Committees that support local, non-profit organisations with fundraising events and employee volunteers. The committees co-ordinated more than 150 community events in 2003. Employees raised money, volunteered to mentor young people and spent time with senior citizens.
- Household also invested more than US\$3.3 million in financial education for a variety of needy groups, including young people, the elderly, women, single parents and heads of low-income households. The aim is to promote economic development by partnering with organisations — 44 in 2003 — that help individuals and families learn how to make financial decisions.
- More than 100 HFC and Beneficial employees in 11 US cities took part in Community Build Day 2003, partnering with Habitat for Humanity to build safe, decent and affordable housing. Household also made grants of more than US\$74,000 for local buildings.
- The HSBC Basketball Classic in Vancouver is the largest high school basketball tournament in **Canada**. The event includes a senior boys' and girls' tournament as well as wheelchair and First Nation competitions. In addition, our C\$20,000 donation provided scholarships for 20 graduating high school students who demonstrated outstanding leadership and citizenship in their communities.
- CCF partnered the Cité de la Réussite New Worlds conference in Lyon, **France**. Eighty prominent speakers from the world of politics, science, the arts and economics took part in some 30 debates. CCF's partnership with Cité de la Réussite makes a clear commitment to future generations and is a valuable opportunity to meet young people and find out their views and concerns about major trends in society.
- A total of 25 employees from HSBC in **Australia** donated 175 hours of their time to packing gift bags to be sold in aid of the Salvation Army. They packed a record 3,000 bags during the day. 'It was a great feeling to have packed so many bags in such a short time, knowing that they will help such a worthy cause,' one employee said. 'It was a fun day and a great team-building exercise as everyone contributed and helped each



Far left: HSBC volunteers redecorate the Salvation Army's Orana Lodge in Australia.

Left: Volunteers from HSBC in Australia enjoy a day packing gift bags for the Salvation Army.

other out.' Fifteen employees also spent a day decorating the Salvation Army's Orana Lodge, a home for women and children fleeing domestic violence.

- HSBC in **Singapore** has been awarded the Outstanding Corporate Volunteer of the Year in the National Volunteerism Awards 2003, organised by Singapore's National Volunteer and Philanthropy Centre. The award honours excellence in corporate citizenship, reflecting the way organisations facilitate employee volunteering on a sustainable basis.
- HSBC in **Pakistan** has raised awareness of the need to conserve turtles, in support of a WWF turtle conservation project at Sandspit, Karachi. In **Brunei**, 450 members of HSBC staff and their families celebrated Turtle Awareness Day 2003 by cleaning up a three-kilometre stretch of beach and releasing 50 turtles into the sea.
- The HSBC in the Community Middle East Foundation is supporting a project to tackle two problems affecting coral reefs on the east coast of the **United Arab Emirates**: marine pollution and the destruction of coral by the crown of thorns starfish. The monitoring and research programme is endorsed by the United Nations Environment Programme and conducted by the Environment and Research Department of the Emirates Diving Association.



The Asociación de Pescadores de Goya in Argentina helps the families of fishermen.

Managing the impact of SARS



In addition to our help for customers and colleagues in Hong Kong affected by SARS (see pages 22 and 45), HSBC provided support for the wider community in the form of a HK\$250,000 donation to the Hong Kong Red Cross and a HK\$1 million donation to The Community Chest of Hong Kong's Operation UNITE, which offers crisis relief to SARS victims and to front-line medical and social welfare workers. HSBC volunteers (above) manned the donation hot lines for UNITE. We also participated in Project Shield to raise funds to buy protective gear for medical staff in Hong Kong. In mainland China, through the Hong Kong Red Cross, we made a donation of HK\$2 million to the China Red Cross.

Investing in our People

Local, on-the-ground knowledge from people who understand local communities has been fundamental to the success of our business wherever we operate in the world.



In order to deliver a truly world-class brand, we must live HSBC's values throughout the Group and in all aspects of our work. Our people do this by the way they respond to and treat customers, shareholders, colleagues and other stakeholders. We know that committed and engaged employees deliver better customer service and contribute to a higher return for shareholders.

Our employee policies are geared towards attracting, developing and motivating talented people. We demonstrate corporate social responsibility towards our people in a number of ways. Details of how we engage with employees are given in the 'Listening to views' chapter on pages 4-5.

Sharing success

In rewarding people, we aim to provide fair pay for the contributions they make to the business. A significant part of variable pay is based on performance. Competence, performance and adherence to values and ethical standards are the criteria for promotion. We share the benefits of our success through performance-related bonuses and the extension of share ownership: over 40 per cent of employees currently hold HSBC shares or options; 5 per cent

of all issued shares are owned by employees.

The issue of executive pay is discussed under 'Listening to views' on page 6.

Pensions

Pension arrangements, of course, must be appropriate and secure, but we also recognise that great care must be taken to balance the burdens that successive generations will have to bear for those who went before them. As early as 1996, therefore, we took what we believe is a responsible decision to close our UK defined benefit pension scheme to new members. All new employees in the UK have since been offered membership of a defined contribution scheme.

There has been a growing understanding over the last two years of the financial risks inherent in the provision of company pensions. A deficit in our main UK pension scheme was identified by the three-yearly actuarial valuation of the scheme. We put an additional £584 million into the scheme in 2003 to meet our responsibilities and will continue to manage arrangements in a sound and prudent manner.

Global resourcing

We believe it is in the overall interests of all groups of stakeholders to reduce our operating

costs by transferring work from high-cost countries to lower-cost countries where there is a large pool of talented people. At the end of 2003, we employed around 8,000 people in our Group Service Centres, an increase of around 3,600 on 2002. We are in the early stages of this initiative which we expect will expand significantly in the coming years. Natural attrition and redeployment in our more mature markets mean that we have managed largely to avoid compulsory redundancies. We will continue to adopt this approach where possible.

The issue of global resourcing is discussed under 'Listening to views' on page 7.

Health and safety

The safety of our employees, customers and visitors is one of our most important responsibilities. Our health and safety policies are designed to promote a healthy and safe working environment; to ensure employees accept health and safety as a major part of their individual responsibilities; to identify health, safety and fire hazards in advance and control the risks; and to ensure all legal requirements are satisfied. Line managers throughout the Group are responsible for implementing our health and safety policies and procedures.

With some 9,500 offices in 79 countries and territories, we need to manage a wide range of health and safety risks, including the consequences of potential terrorist threats, construction and refurbishment projects, asbestos, fire, legionella, earthquakes and workplace accidents. We have specific action programmes in place for each of these risks.

Statistics on fatalities and accidents are disclosed in the table below. In the UK, we have set the following targets to be achieved by 2006:

- A 5 per cent reduction in reportable injuries (against the 2001 baseline of 191 reportable injuries per 100,000 employees).
- A 15 per cent reduction in the number of working days lost from work-related injury (against the 2003 baseline of 2,393 per 100,000 employees).

A more detailed health and safety report for the UK is available in the online version of this report at www.hsbc.com/society.

Learning and development

The development of all our employees is vitally important to our continued success and, to this

Managing the impact of SARS

Eight HSBC employees in Hong Kong contracted the SARS virus and one of our colleagues, Eva Hui, tragically died as a result. HSBC took a number of measures to protect staff and customers in all the affected areas. For instance, certain functions within the bank were split and staff dispersed to different locations, so the whole team would not be disabled if one member fell ill. The frequency of cleaning in public areas of our branches was increased and one HSBC branch in Hong Kong was closed temporarily because of the high number of SARS cases nearby. We also restricted staff travel to and from the affected areas.

Helping the victims of terror

Three HSBC employees, Yonca Bilgin, Aynur Erkoca and Ethern Dogan, tragically lost their lives, and 43 more were injured when two terrorist bombs exploded in Istanbul in late November 2003.

HSBC set up a counselling service for colleagues in Istanbul and donated US\$1 million to help support staff and families who were bereaved or injured.

Given the enormous size of the bomb used to attack HSBC and the scale of the destruction that resulted, there could have been many more casualties. We believe that safety measures, such as anti-shatter glass and anti-glare film on windows, made a crucial difference by reducing glass splinter. The exemplary way in which our employees implemented their evacuation and business recovery procedures enabled the business to be fully up and running again the next day.

Workplace fatalities and accidents

	2001	2002	2003	2006 target (UK only)
Workplace fatalities (worldwide)	0	0	0	N/A
Accidents involving more than three days' absence (worldwide)	430	386	406	N/A
Reportable injuries per 100,000 employees (UK only)	191	168	163	181
Working days lost from work-related injury (UK only)	N/A	N/A	2,393	2,033

The 2003 reportable injury rate is already below the 2006 target. As we shall endeavour to set a validated downward trend for 2001-2004, this target will be formally reviewed at the end of 2004.

Statistics exclude fatalities or injuries relating to terrorism.

end, we strive to be a learning organisation. In 2003, we invested US\$750 per employee on training, equating to nearly four days of training on average for each person. We employ more than 1,100 training staff worldwide, provide online tuition and make learning materials available to everyone.

Regional Training Centres provide local training, education and guidance for local people in their local language in a way that respects all cultural, religious and ethnic issues and values.

The information we share openly on our intranet is available to an increasing number of our colleagues each month. Our self-development library is one of the largest in the corporate world, providing more than 3,000 books, videos and CD-ROMs for our employees to use at home or in the office. These training and development programmes support our diversity policy. The subject of corporate social responsibility itself is included in induction and leadership training at all levels.

'Together For customers'

In April 2003, HSBC Bank Malaysia Berhad ran a one-day training session for all its 3,000 employees. Known as 'Together for Customers', the course emphasised key work ethics such as providing quality customer service, practising effective work processes, teamwork and striving to meet ever-changing customer demands and expectations.

Recognition and awards

HSBC has won a number of awards around the world for its people management policies. Among these, our US subsidiary, Household, is recognised as one of America's best places to work. In 2003, it received numerous 'employer of choice' awards, including:

- *Training* magazine — 'Training top 100'.
- *Computerworld* magazine — '100 best places to work in IT'.
- *Working Mother* magazine — '100 best companies for working mothers'.

In the UK, First Direct was voted 36th in the *Sunday Times* 'Top 100 companies to work for' in 2003.

Diversity: a report on progress

Employing and managing many different kinds of people contributes to a well-rounded and balanced organisation. It also makes us adaptable to new situations. Diversity is not simply about gender, ethnicity, disability or age; it is also about open-mindedness, embracing non-conformity and creating balanced teams. Respect for individuals of all types inspires loyalty in employees and customers and ultimately plays a big part in the achievement of business goals.

Our commitment to diversity starts at the top. Our Board is one of the most international in the world and has four female Directors, more than most of the world's leading companies. We have an executive Director who is responsible for diversity at a global level, but every one of our 223,000 employees has a part to play. Our workforce is also diverse: more than half are women, one in four is Asian, one in five is Latin American.

HSBC has a long tradition of diversity. It is integral to our organisation and to our brand. However, we want to do better and our new Group strategic plan, 'Managing for Growth', clearly positions diversity as an area for further development during the next five years. The main challenges include:

- The time it takes for changes to occur. For example, we still have relatively few women in senior management positions, a reflection more of past recruitment policies than of present opportunities. Nevertheless, it is a weakness that we want to address. During the next few years, we will manage our people in accordance with the special character of the Group and the HSBC brand in order to achieve a diversity among senior managers that reflects the composition of the Group as a whole and ensures the best possible use of our talent.
- Delivering diversity globally by inspiring employees to learn about others as a key part of business success. At the same time,

we recognise that diversity is itself not an exact science. There are substantial differences in approach, legislation and, indeed, definitions of diversity from country to country. Consequently, there is no single best practice that we can adopt. As the world's local bank, HSBC aims to respect the local position, national framework, and business and social context of each country in which we operate.

- Introduce straightforward measures to monitor our progress.
- Re-examine all our employee processes, such as capabilities assessment, talent pool selection and international secondment selection, so that all employees are represented.
- Deliver further training to reinforce the culture of a diverse organisation.

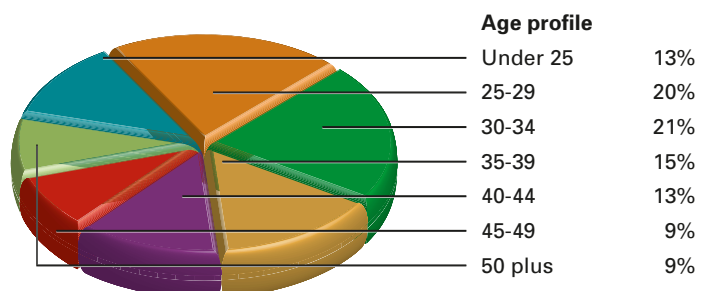
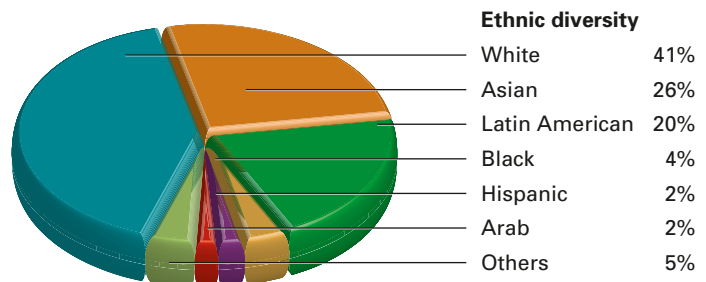
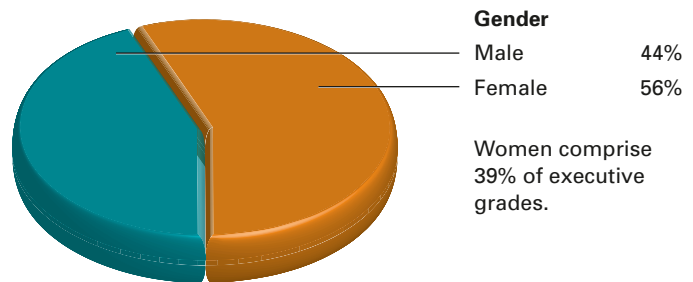
Highlights of 2003

- We were the first bank in the UK to offer *shariah*-compliant mortgages, gaining strong support from Muslim customers — a clear demonstration of how diversity can help build successful business (see also the 'Responsibility to Customers' chapter on pages 20-21).
- We looked specifically at cultural differences within the HSBC Group. This analysis highlighted the need to balance global diversity values with local cultural differences.
- Our training video, 'The Same Difference: Working with Diversity', won the gold award for the best employee relations video at the New York Film Festival. The video challenges perceptions and attitudes.
- We positioned diversity prominently on our hsbc.com web site, especially in the careers area where we want to ensure that we continue to attract a diverse range of candidates.
- We set up a diversity committee for Asia-Pacific involving managers from across the business within the region.

Aims for 2004

- Understand and share best practice on diversity around the world. This will include publishing information on our employee intranet and inviting contributions from around the Group.
- Ensure wide understanding of the brand, the diversity strategy and the action plans in each region.

Profile of HSBC's employees at 31 December 2003



About 1,000 employees work outside their country of origin, including 380 International Managers.

External Commentary

We believe this fourth report marks a significant step forward in HSBC's engagement on issues of corporate social responsibility in two main respects. First, by extending the breadth and depth of disclosure on specific topics, the company has increased transparency towards its broad range of stakeholders and articulated more explicitly the business case for CSR. Examples include diversity as a customer issue, non-prime lending, outsourcing, employee health and safety, and the process of stakeholder dialogue.

These advances build on strengths we highlighted last year, particularly support for community projects on education and the environment, and what we judge to be an international leadership position on diversity, backed up by a global action plan. We note that some progress was made during 2003 on extending the environmental reporting system beyond the original 10 countries, and look forward to performance targets being set and published.

Second, 2003 saw several measures that increased HSBC's commitment to CSR. Notable among these are the formation of a dedicated committee of the Board, the inclusion of specific commitments in the new five-year strategic plan, 'Managing for Growth', the adoption of the Equator Principles — together with internal training and monitoring systems to give them real effect — and the publication of clear expectations about the standards required from suppliers.

HSBC has included several future commitments in this report, such as more systematic surveys of employee attitudes, greater disclosure of project finance information, and the development of sector-specific lending policies on freshwater and use of forest land. Looking ahead, we believe the process of management and reporting would be strengthened by considering each of the main commitments made in HSBC's statement of business principles and values and in the external standards it has endorsed; then assessing the extent to which these are being

lived out in practice, with an account of progress in next year's report. In doing this, we believe the views of key stakeholders, such as customers, employees and investors, should be taken into account and responded to.

In our view, HSBC's primary responsibility is to continue providing essential financial services as efficiently, reliably and ethically as possible, while at the same time engaging in its local communities and with society as a whole on the economic, social and environmental impacts of these operations. This report helps that process.

The Corporate Citizenship Company
www.corporate-citizenship.co.uk
London, 8 March 2004

Assurance statement

The Corporate Citizenship Company acts as specialist adviser to international corporations seeking to improve their economic, social and environmental performance as good corporate citizens. We have worked with HSBC since 2000.

This statement provides external commentary and assurance on *HSBC in Society: Corporate Social Responsibility Report 2003*, the company's fourth annual report on corporate social responsibility. In our opinion, the report provides a fair representation of progress HSBC has made in living out its commitments on social responsibility. In the absence of statutory guidelines, we have based our judgement on best practice among other companies, key principles underlying various voluntary reporting and assurance standards, views expressed by main stakeholders, and our own experience and expertise. We have checked and are satisfied that the contents of the report are consistent with underlying records, mainly data provided by Group companies and obtained from audited financial statements. We have assessed the correctness of data trends and received satisfactory explanations where appropriate. We have not independently verified otherwise unaudited information.

Tell us what you think

HSBC welcomes your comments on any of the issues raised by this corporate social responsibility report.

Please write to:

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Page 44: HSBC Group Training

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