

Our Approach to Corporate Responsibility

Since its first loan in 2005, HSBC in India has provided credit and capacity-building facilities totalling US\$7.5 million to over 25 microfinance institutions (MFIs). HSBC's facilities enable its MFI customers to provide financial services to the poor, particularly women – such as this basket weaver outside Hyderabad in Andhra Pradesh – for viable, income-generating enterprises.



Purnima Rao

Corporate responsibility

What does it mean for a company to be responsible? This is the question any forward-thinking financial institution should be asking itself. Being a responsible company not only demonstrates a commitment to the long term, it also helps to define our identity. The companies that will be our sector's leaders in five, 10 and 50 years' time already know that a commitment to environmental and social sustainability is not a secondary issue; it is a defining strategy that will help build financially successful global companies in the future.

Our world has undergone momentous changes in the past 40 years, including a doubling of the human population. Financial institutions have funded much of that development and, today, more people around the world have access to basic essential services – electricity, running water and transport. However, the forces of globalisation have produced formidable challenges.

Today, a responsible financial institution must make investment and insurance decisions taking into account environmental and social sustainability, including tackling the consequences of climate change. It must also understand both the social and financial impact of diseases like HIV/AIDS and malaria on its customers and employees. With greater economic interdependence between regions, it must promote responsible lending and offer progressive personal financial services in all the markets it serves.

We at HSBC believe that the financial services sector has an opportunity to provide corporate leadership on many of these environmental and social issues – particularly on climate change. Commissioned by the British government and published in October 2006, the Stern Report warns of the serious economic costs posed by

climate change to the global economy and to populations in critical regions. As the world's first major carbon neutral bank, HSBC is better placed than most to understand the risks and opportunities provided by the move to a lower carbon economy.

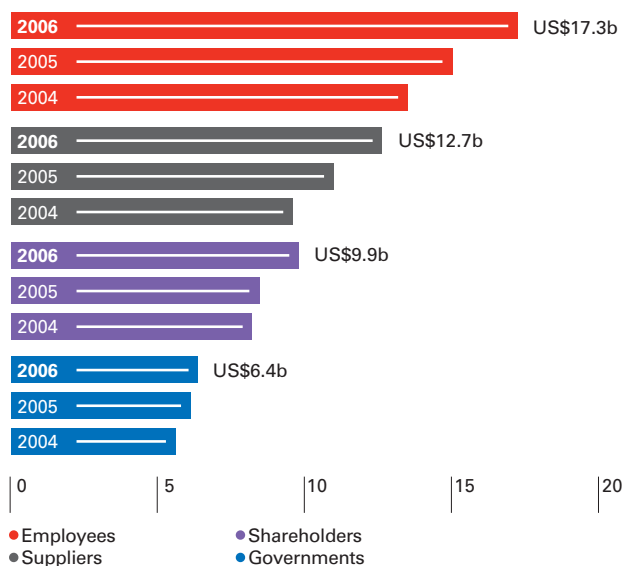
We are also aware that many of our customers have very real concerns about globalisation. For example, they want to know whether they will continue to receive a high level of customer service and whether their banking transactions will be secure. By investing in its employees and the latest technologies, HSBC is committed to making banking a consistently straightforward and secure experience for customers everywhere.

Staying true to our beliefs, translating them into policies, and implementing those policies is the best way we can prove to all our stakeholders our resolve to be a company that puts corporate responsibility on the same level as running a successful business. This is a challenge for an organisation with our global reach.

Sustainable development: creating economic, environmental and social benefits

HSBC's definition of sustainable development is based on the principles of the 1987 Brundtland Commission – that development should meet the needs of the present without compromising the ability of future generations to meet their own needs. In practice, this means continuing to observe the highest standards of conduct in the provision of financial services to our customers and in discharging our responsibility to society as we have done throughout our 142-year history.

Distribution of economic benefits 2004-06



Employees

We reward employees for outstanding performance through variable pay such as short-term bonuses and long-term incentives. Employees are also encouraged to share in the ownership of the company through the Sharesave regular savings plan, which is linked to share options.

Suppliers

Our operations spanning 82 countries and territories make a major contribution to local economies, as well as to the global economy. In 2006, we spent US\$12.7 billion on premises and procurement around the world.

Shareholders

Our shares provided a compound annual growth rate of 17 per cent from 1991 to 2006, yielding a dividend of US\$0.81 per share in respect of 2006. We have around 200,000 registered shareholders in over 100 countries and territories, including pension funds, mutual funds and insurance companies, which provide millions of people with a financial interest in the success of our business.

Governments

We contribute to public services in the countries and territories where we operate through taxes which, in 2006, amounted to US\$6.4 billion.

Our Approach to Corporate Responsibility (continued)

In 2006, our Group Sustainable Development team's remit was expanded to cover business development opportunities related to climate change, water, biodiversity and poverty alleviation.

The team works closely with all of our customer groups and global businesses, geographical regions, and product and support areas, including Group Corporate Real Estate, Group Purchasing and IT. The team also provides a policy framework for the Group's sustainability risks for the lending and investment businesses, including the *Sustainability Risk Standard*, environmental and social risk policies, the Equator Principles and the defence equipment financing policy. In addition, it sets the strategy and policy for managing the environmental impact of our corporate real estate portfolio.

In 2006, the team launched the *Energy Sector Policy* and Carbon Finance Strategy. The fifth sector guideline, the *Mining and Metals Sector Policy*, will be published in 2007.

For more information on our management of risk and business development opportunities, see 'Responsible lending and financing: Commercial, Corporate and Investment Banking customers' on pages 18–19.

CR and sustainable development training

Corporate responsibility, sustainable development and risk management are integrated into HSBC's general management and specific risk management training courses, from the Group Chairman's Strategic Forum to our entry level Group Graduate Development Programme. In 2006, we also staged a roadshow in mainland China, Hong Kong SAR, India, Malaysia and Singapore to educate over 100 colleagues up to chief executive officer level on carbon finance, microfinance and business development.

Managing our direct impacts

HSBC has a network of over 200 staff globally who project manage the implementation, monitoring and reporting of environmental initiatives to reduce direct impacts. HSBC has an Environmental Management System based on the International Standard ISO 14001. The system is used to set priorities for the roll out of training, the development of operational procedures and processes, and to review Group-wide strategies. Please see page 33 for a summary of our waste production, water and energy use, business travel, and CO₂ emissions, and page 24 for a discussion of our commitment to tackling climate change.

In July 2005, we announced targets for producing less waste and CO₂ emissions, and for reducing our water and energy consumption.

See an update on our performance against environmental targets
www.hsbc.com/environment

Purchasing: managing risks and opportunities

New suppliers are required to complete a supplier questionnaire that helps to pre-qualify potential vendors. We have secured agreement for the supply of Forest Stewardship Council (FSC)-certified copier and letterhead papers for use throughout the UK. We continue to work with paper merchants to increase the availability

around the world of FSC-certified paper – our preferred choice of sustainably produced paper. Our executive car fleets in the UK, France, Hong Kong and Mexico all include hybrid cars.

In the US, we aim to increase the amount of business awarded to enterprises owned by minorities and by women. In 2006, against a target of 15 per cent we achieved a placement rate of 14.5 per cent, compared with 5 per cent during 2005.

Visit
www.hsbc.com/supplierscode

Stakeholder engagement

In 2006, we developed stakeholder engagement guidelines which were tested in Brazil. Feedback from the pilot project will be analysed, and the revised guidelines will then be made available in 2007 to other HSBC businesses around the world. In the pilot, meetings were held with various stakeholder groups: regulators, academics, employees, suppliers and customers, and non-governmental organisations. The key issues identified were communication of measurable CR results, relationships with suppliers, financial education, responsible banking products, and credit policies with minimal environmental impact.

Community investment

We believe we have a responsibility to contribute to the communities in which HSBC operates. We also take the view that investment in education and conservation of the environment is essential to the planet's long-term health and prosperity, and therefore allocate 75 per cent of our charitable donations to these two key areas. The remaining 25 per cent of our donations are disbursed by community investment teams at the country and territory level. We also support local communities through payroll-giving, matched donations, and time-off for employees to do voluntary work.

Education

Our support for education is primarily managed by the HSBC Global Education Trust. Its work focuses on: primary and secondary education; financial education; disadvantaged children; projects promoting international understanding; and the teaching of languages, particularly Asian languages where they are not indigenous in English-speaking countries.

Launched in 2006, 'Future First' is a US\$10 million, five-year global programme dedicated to helping street children, orphans and children in care. The HSBC Global Education Trust is collaborating with international charity SOS Children's Villages and other charities around the world on a programme to provide education and life skills to children so that they can become productive members of society.

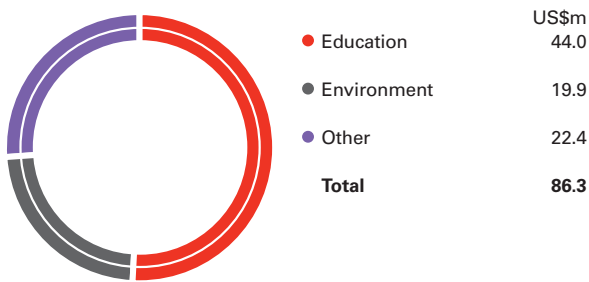
Now in its second year of a three-year programme, Students in Free Enterprise (SIFE) focuses on developing the financial skills of young people aged 16 to 25, and female entrepreneurs in local communities. Since the programme began, more than 6,000 SIFE students have been involved in financial literacy projects for more than 350,000 people in 28 countries.

SOS Children's Villages



Students at the SOS Children's Villages Secondary School in Bhimtal, India, one of many such schools supported by HSBC through 'Future First'.

Community donations by category 2006



Since 2004, HSBC has been supporting iNet (International Network for Educational Transformation). iNet is developing an international leadership qualification, drawing on the expertise of the world's top thinkers on leadership. In October 2006, iNet organised a conference in Beijing for 100 outstanding school principals from 14 countries to discuss transformation and innovation in the world's education systems and to develop an agenda for the future of schooling.

Environment*

Our five-year environmental programme, 'Investing in Nature', concluded in 2006. The US\$50 million eco-partnership between HSBC and Botanic Gardens Conservation International (BGCI), Earthwatch Institute and WWF protected, managed or restored more than three million hectares of habitat, conserved or protected over 14,500 plant and animal species, and improved the livelihoods of some 140,000 people.

Through the programme, WWF has improved more than two million hectares of freshwater habitats in Brazil, China, Mexico, the UK and the US. Highlights of the programme include: influencing how China's Yangtze River is managed, lobbying the UK government to implement a new European Union Water Framework Directive, and promoting the better management of freshwater in Brazil through the 'Water for Life' campaign.

BGCI has protected 12,000 plant species, supported the development of the largest international network on plant conservation linking

*All conservation figures provided by BGCI, Earthwatch and WWF.

over 800 botanic gardens in 120 countries and territories, and launched a database that identifies rare and threatened plants in botanic garden collections.

In total, 2,000 HSBC employees went to work with Earthwatch on 103 conservation projects worldwide. They collected data contributing to the protection of more than 972,000 hectares of land, the discovery of 42 new species, and the conservation of some 2,000 species. More than 230 scientists in Asia, Africa and South America have also been trained on the programme.

We are currently in the final stages of developing a successor programme to be announced in 2007.

Microfinance

With significant operations in the emerging markets and expertise in transactional solutions – and supported by our office network, services, processes, capital and customer relationships – we are well placed to serve the microfinance sector. Following our pilot projects in 2005, HSBC has engaged more closely with microfinance enablers and on-the-ground microfinance institutions (MFIs) to understand the principal issues facing the sector. The findings have informed and shaped our priorities in microfinance. HSBC is currently working with MFIs in Argentina, India, Mexico, the Philippines, Sri Lanka and Turkey. Our approach to this sector is based on commercial viability with high social benefit, and our microfinance activities are integrated into our local business operations.

The needs of MFIs and enablers include: access to fixed rate borrowing and more innovative debt solutions (including debt capital markets and securitisations) to reduce funding costs; foreign exchange hedging to manage currency mismatches between assets and liabilities; cash and liquidity management solutions; and deployment of technology to reduce costs of delivery and unbranded products including insurance services. These are all our core competencies and their provision to the microfinance sector forms the basis of HSBC's microfinance strategy, which we will announce during 2007.

HSBC also participates in industry initiatives with other global banking groups, including the UN Advisory Group on Inclusive Financial Sectors.

For an update on our current microfinance initiatives, see www.hsbc.com/microfinance