

HSBC Corporate Social Responsibility Report 2004



HSBC 
The world's local bank

About HSBC

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises over 9,800 offices in 77 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa (see map below). 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, HSBC provides a comprehensive range of financial services to more than 110 million customers: personal financial services; consumer finance; commercial banking; corporate, investment banking and markets; and private banking.



Cover photograph

Where does our paper come from?

This photograph shows forest workers inspecting a map of the forest plantations managed by Forestal Oriental S.A. at their Fray Bentos operations in Uruguay. *Eucalyptus grandis* trees are grown to a height of up to 35 metres and then harvested to produce logs, which are transported to Morocco. There the logs are used to make pulp, which is then shipped to a paper mill owned by Aconda Paper S.A. in north-east Spain.

Aconda takes this pulp and adds in recycled fibres to make a paper called Revive Special Silk, which is used to print this report. HSBC is also using this paper for its *Annual Review* and *Annual Report and Accounts* for the first time this year. We are pleased to be using this paper, as it is not only good quality giving good

print results, but it is also certified by the Forest Stewardship Council (FSC).

The FSC is an independent organisation that sets standards for the certification of forests around the world to ensure that they are well managed, using social, economic and environmental criteria.

By choosing an FSC-certified paper, HSBC is creating a market-based incentive for good forest management. This approach is in line with our own lending and investment criteria. In May 2004, HSBC launched its *Forest Land and Forest Products Sector Guideline*, which refers to the FSC, or equivalent, as our acceptable standard of good forest management. For further details, see pages 8–9 of this report.

Photography: Packman Films/Francisco Casal and Bruno Algaiz

About This Report

This *Corporate Social Responsibility Report* is intended for those with an interest in HSBC's approach to sustainable development. It describes the progress we are making in managing our responsibilities as an integral part of our business.

We have made some changes to this report to reflect the views of a number of our constituencies since the last edition was published a year ago.

We have:

- reduced the number of pages and put more information on our web site. We also include web site addresses for significant issues.

- included a summary CSR progress report in our *Annual Review 2004*.
- started to use the Global Reporting Initiative (GRI), including the environmental and social supplements for the financial sector, to guide our reporting and the development of indicators. Our web site includes a GRI contents table to help users find the information they need.

Contents

Highlights	2	Climate Change:	
Introduction by the Group Chairman	3	the Role of a Global Bank	16
Business Description		Managing the Impacts of our Operations	
Our values	4	Our people	18
Our strategy	4	Environment	22
Our structure	4	Supply chain	25
Corporate governance	6	HSBC in the community	26
Regulatory environment	6	Economic impacts:	28
Compliance	6	sharing our financial success	
Risk management	7	Co-ordinating CSR	
Managing the Impacts of Financial Services		CSR governance	29
Lending policies	8	Stakeholder engagement	29
Equator Principles	9	Reporting	30
Socially responsible investment	11	Assurance Statement	32
Responsible personal lending	11		
Customer awareness and protection	12		
Customer advice and assistance	13		
Financial inclusion	14		

Highlights

	2004	2003
General (at 31 December)		
Number of countries and territories with HSBC offices	77	79
Number of customers	110 million	110 million
Financial		
Income received for supply of products and services	US\$71.9b	US\$57.4b
Profit before tax (excluding goodwill amortisation)	US\$19.4b	US\$14.4b
Dividends	US\$7.3b	US\$6.5b
Total shareholder return against peer index over 1 year		
– HSBC	105	n/a
– benchmark	110	n/a
Economic		
Taxes to governments	US\$5.5b	US\$3.9b
Distributions to shareholders and minority interests	US\$8.5b	US\$7.5b
Employee remuneration	US\$13.5b	US\$11.3b
Spending for premises and procurement	US\$9.6b	US\$7.5b
Social		
Employees		
– total (including part-time)	253,000	232,000
– full-time equivalent	243,333	222,719
Women as proportion of executive grades	41%	39%
Corporate charitable donations	US\$69.2m	US\$47.4m
Working hours spent by employees in the community	237,000	n/a
Environmental		
Operations covered by environmental reporting system	91%	68%
Environmental data quality (internal assessment, scale 1-10)	7.7	5.2
CO ₂ emissions per employee	2.7t	3.7t
Business in the Community Environment Index ranking	130/168	133/169
Rankings: ethical and general		
Dow Jones Sustainability Index: world ranking in banking sector	4th	14th
FTSE4Good	constituent	constituent
Fortune 2005 'Global Most Admired Companies'	40th	—



Introduction

This is our fifth separate annual report on corporate social responsibility (CSR). Our *Annual Review 2004* contains a summary of the progress we continue to make in this vitally important area. However, we recognise that perceptions of a wide range of social, ethical and environmental issues are evolving all the time and that the demand for information about CSR from a professional audience is growing constantly.

Accordingly, in compiling this year's report we have taken account of the views of investors, non-governmental organisations and others with whom we have been in regular dialogue during the last 12 months. In particular, we have listened to suggestions from the ethical investment community that we address certain key issues in more detail than hitherto.

We continue to believe that our greatest social responsibility is to be a successful company. That is the best way of fulfilling our obligations to our customers, shareholders, colleagues and the world at large. However, we also know that sustainable success must go hand in hand with the highest standards of behaviour. It is particularly gratifying to note that, of the many business awards won by HSBC during 2004, several cited our overall conduct and our commitment to good governance. Living by our principles and values is an HSBC tradition and sharing our success with the communities which we serve is part of that tradition.

Two particular developments during the last 12 months are worth highlighting. First, we have benefited from the advice and guidance of the distinguished members of the Corporate Social

Responsibility Committee of the HSBC Holdings plc Board, which was established towards the end of 2003. Chaired by Lord Butler, they have helped us to shape and enact policies and programmes and they have encouraged us to communicate more effectively than in the past. The CSR Committee met four times in 2004.

Second, we gave an undertaking in December last year that we would become carbon neutral by 2006. HSBC is the first major bank in the world to make such a commitment. The task before us is exacting but, in our judgement, climate change represents the largest single environmental challenge this century and it is essential that the world acts now.

I hope that readers of this report will find it helpful. We welcome your comments.



Sir John Bond
Group Chairman
HSBC Holdings plc
April 2005

Business Description

Our values

The Group's Statement of *Business Principles and Values*, first published in 1999, was revised in 2004 to reflect developments in the business environment. Our Principles and Values commit us to high standards of corporate behaviour. The Statement appears in full on our web site at www.hsbc.com/values and in summary on the inside back cover of this report.

Our strategy

We are clear about where our priority lies. Our number one objective is to ensure that our shareholders get a better return from HSBC than they would from investing in our financial services peers. To achieve financial success over the longer term requires a sustainable approach and our strategy seeks to address the expectations of our customers, colleagues and those who represent the interests of various communities, the wider society and the environment. Our strategic objectives include making HSBC one of the world's leading brands for customer experience and corporate social responsibility. The plan also calls for several major initiatives: growing revenues through a world-class, ethical sales and marketing culture; focusing relentlessly on customers' needs; increasing productivity and controlling costs effectively; and managing our people in a way that encourages and rewards strong performance.

While a large part of our strategy involves growing revenues by meeting customer needs, our goal is not, and never has been, profit at any cost. We know that tomorrow's success depends on the trust we build today.

Our structure

We organise our business around customer groups, which are based on a geographical structure with regional offices. HSBC's Group Head Office provides overall strategic and functional direction. The heads of the customer groups are responsible for establishing and implementing strategies for the development of their business. They work with regional and country managers to deliver the Group's strategies around the world. Some of the

main social, ethical and environmental issues addressed by the customer groups are set out below.

Personal Financial Services

Our customers (including Consumer Finance): over 100 million individuals and self-employed people.

Our products include: current, cheque and savings accounts; loans and home finance; cards; payments; insurance; investment services; and HSBC Premier, our global service for our most valuable customers.

2004 pre-tax profit (before goodwill amortisation): US\$5,377 million.

Key issues: financial exclusion and consumer debt (see pages 11-12). Retail banking is also highly competitive and our success depends on maintaining high levels of customer satisfaction (see page 29), and on offering secure and convenient delivery channels (see page 12).

Consumer Finance

Our customers: concentrated in the US, the UK and Canada, many of whom are not well catered for by traditional banking services. The business aims to meet the financial needs of everyday people, providing many with a safety net to help them get through difficult times.

Our services include: secured and unsecured consumer loans, credit and store cards, and motor vehicle finance.

2004 pre-tax profit (before goodwill amortisation): US\$3,667 million.

Key issues: consumer debt and interest rates on loans.

Commercial Banking

Our customers: more than two million small, medium-sized and middle-market enterprises, including sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies whose external finance comes mainly from banks rather than capital markets.

Our products include: payments and cash management, e-banking, wealth management services, loans and insurance.

2004 pre-tax profit (before goodwill amortisation): US\$4,169 million.

Key issues: environmental credit risk. Banks may be liable for ecological damage caused by companies they finance, so we manage these risks carefully (see page 8). We are also working with our customers to help them achieve higher standards, not only in sensitive sectors such as forestry (see page 9), but also by providing smaller businesses with general assistance and advice on sustainability issues (see page 13).

Corporate, Investment Banking and Markets

Our customers: corporate and institutional clients worldwide.

Products and services include: treasury and capital markets services, corporate and institutional banking, global transaction banking, and global investment banking.

2004 pre-tax profit (before goodwill amortisation): US\$5,196 million.

Key issues: assessing the social, environmental and financial risks and opportunities of major capital projects (see page 10).

Private Banking

Our customers: high net worth individuals and their families.

Products and services include: general banking services; investment services; solutions to protect existing wealth and to preserve it for future generations; and specialist advisory services regarding tax, charities and foundations.

2004 pre-tax profit (before goodwill amortisation): US\$693 million.

Key issues: how we protect our shareholders' interests and those of society at large by maintaining high vigilance against money laundering (see page 7) and other financial crime. It is particularly important in private banking to know that the source of an individual's wealth is legitimate.

Other activities

We also offer certain core products and services on a global basis across a number of customer groups and geographical regions. These include asset management services, such as pensions and socially responsible investments (see page 11); HSBC Amanah, which is designed for Muslim customers (see page 15); credit and debit cards (see page 12); and insurance.

International, regional and national operations

Group Head Office and regional offices

The Group Head Office of HSBC Holdings plc is located in London where the Group Chairman and Group Chief Executive, as well as key Group functions such as credit and risk, finance, legal and compliance, and information technology, are based.

HSBC's geographical management comprises regional offices for the Hong Kong SAR and the rest of Asia-Pacific (including the Middle East), Europe, North America and South America, which support our operations in 77 countries and territories.

Our principal banking operations are:

Europe: HSBC Bank plc in the UK, CCF S.A. in France, HSBC Bank A.S. in Turkey and HSBC Bank Malta p.l.c.

Asia-Pacific: The Hongkong and Shanghai Banking Corporation Limited is the largest bank incorporated in the Hong Kong SAR. Its network also includes branches in 12 major cities in mainland China, and strong coverage in India, Indonesia, South Korea, Singapore and Taiwan. In Malaysia, HSBC Bank Malaysia Berhad has the second largest presence of any foreign-owned bank.

Middle East: HSBC Bank Middle East Limited is the largest foreign-owned bank in the region.

North America: our business covers the United States, Canada, Mexico, Bermuda and Panama. Our major operations are conducted by HSBC Bank USA, N.A. mainly in New York State, and by HSBC Finance Corporation throughout the US.

South America: principally HSBC Bank Brasil S.A.-Banco Múltiplo in Brazil and HSBC Bank Argentina S.A.

Our main centres of employment are the UK with 56,000 employees, the US 43,000, Brazil 28,000, Hong Kong 26,000, Mexico 20,000 and France 14,000.

Operating internationally

Operating in so many parts of the world presents a range of social, ethical and environmental challenges for HSBC as well as business opportunities and competitive advantages.

While we have on a few occasions withdrawn from countries where conditions were no longer conducive to business, we do not avoid manageable risk and HSBC is ever conscious of its responsibilities to customers who rely on us for their financial needs. That is why we continue to operate in some of the world's most challenging markets.

Wherever we operate, we fully respect the local

culture, customs and practices. We also recognise our duty to observe a consistent set of business principles. HSBC's anti-bribery and corruption policy is an example of how an international business such as ours acts as a force for good, helping to raise standards through the way it conducts its business.

We operate in certain countries where the regimes stand accused of breaching human rights. As a supporter of the UN Universal Declaration of Human Rights and UN Global Compact, we expect the highest standards of ourselves and our suppliers.

Competitive environment

We face strong competition in all the markets we serve. We compete with other financial institutions, including commercial banks; consumer finance companies; savings and loan associations; credit unions; retailers; brokerage firms; and investment companies. In investment banking, we face competition from both investment banks and the investment banking operations of other commercial banks.

Global resourcing

In a global economy, we need to be globally competitive, which is why a key part of our strategy is to make ourselves more cost-efficient. One of the most important ways we are doing this is by developing Group Service Centres (GSCs) in an initiative we call global resourcing. Staffed by HSBC employees, these centres help support our customers in Europe, North America and Asia-Pacific with account administration, credit card payments, mortgages and telephone enquiries. They are located in India, China, the Philippines, Sri Lanka and Malaysia, which enables us to harness a wide diversity of skills, knowledge and languages, and to avoid over-dependency on any one country or economy. Our approach to global resourcing is covered on page 21.

Corporate governance

HSBC is committed to high standards of corporate governance. HSBC Holdings plc complied throughout 2004 with the code provisions of the Combined Code on corporate governance appended to the Listing Rules of the Financial Services Authority and with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

At the time of writing, the **HSBC Holdings plc Board** comprises six executive Directors and

14 non-executive Directors, 12 of whom are independent and three of whom are women.

The Board has appointed a number of committees consisting of certain Directors and general managers.

- The **Group Management Board** operates under the direct authority of the Board and manages the day-to-day running of HSBC in accordance with the Board's policies and direction.
- The **Group Audit Committee** meets regularly with HSBC's senior financial, internal audit, legal and compliance management and the external auditor to consider financial reporting, the nature and scope of audit reviews, and the effectiveness of internal controls and compliance.
- The **Remuneration Committee** considers human resource issues, particularly terms and conditions of employment, remuneration, retirement benefits, development of high potential employees and key succession planning.
- The **Nomination Committee** nominates candidates to fill vacancies on the Board of Directors.
- The **Corporate Social Responsibility (CSR) Committee** oversees the Group's CSR and sustainability policies and advises the Board, committees of the Board and executive management on those matters (see page 29).

Regulatory environment

The interests of HSBC's stakeholders are protected by both external regulation and internal compliance. Our worldwide operations are regulated and supervised by some 467 different central banks and regulatory authorities, whose various requirements and controls ensure, among many other things, that banks have sufficient capital and that the interests of their depositors are protected. In 2004, we spent some US\$500 million to meet these regulatory obligations.

Compliance

Our Group Compliance policy requires all our offices and employees to comply with both the letter and the spirit of all relevant laws, rules, regulations and standards of good market practice.

Some 1,800 staff worldwide are involved in supporting line management by ensuring that all activities comply with external regulatory requirements and any additional standards imposed by Group policies. Compliance officers report both to local line managers and to the Head of Group Compliance who, in turn, reports to the Group Chief

Executive and to the Group Audit Committee. The adequacy of Compliance resources is the subject of continual scrutiny, and is overseen by the Group Compliance department and Group Audit Committee through an annual compliance planning process.

Money laundering and terrorist financing

All HSBC Group businesses are required to observe high standards of customer identification, to monitor transactions to ensure accurate identification, to report suspicious transactions, and to provide relevant training to our employees.

We continue to increase the use of automated transaction monitoring systems to screen transactions to ensure that our own standards and any government sanctions are observed.

As a founding member of the Wolfsberg Group, HSBC has adopted the Wolfsberg Principles, which provide a framework for combating money laundering and which, together with HSBC's own procedures, often exceed the requirements of local regulation.

Bribery and corruption

In 2004, HSBC adopted Principle 10 of the United Nations Global Compact on combating corruption. We also worked with Transparency International (UK), the anti-corruption pressure group, in developing a Group-wide policy for countering bribery and corruption. The policy reflects our support for other recent initiatives such as the Organisation for Economic Co-operation and Development (OECD) 'Convention on Combating Bribery of Foreign Public Officials in International Business Transactions', the International Chamber of Commerce 'Rules of Conduct to Combat Extortion and Bribery', and relevant provisions of the revised OECD 'Guidelines for Multinationals'.

Whistle blowing

We encourage our staff to report concerns about corporate wrongdoing and publicise this on our intranet sites and in procedure manuals. Employees can report their concerns anonymously by phone, in writing or by e-mail, without fear of reprisals. Reportable disclosures can include the breach of a legal or regulatory requirement, fraud or accounting malpractice.

Training our staff

Ensuring that HSBC complies with laws and regulations and combating the threat of money

laundering and terrorist financing requires a high degree of awareness by all our staff. We regularly update our employees on particular risks or changes in the law. We require all new staff who may be involved in customer business to receive induction training. Staff in high-risk areas receive additional training, as well as annual reminders, to help them understand money laundering techniques. Wherever possible, we co-ordinate the use of training material in different jurisdictions to maximise this considerable investment in time and resources.

Treating customers fairly

We take great care to ensure our communications to customers are not misleading, and are easy to understand, accurate, fair and unbiased. Our product managers, marketing staff and compliance officers work closely together to meet these standards and to honour our commitments to 'fair dealing' with our customers. Our Business Principles and Values are consistent with the regulatory emphasis on consumer protection, such as the UK Financial Services Authority's 'Treating Customers Fairly' initiative.

Our products and services are intended to be needs-based and appropriate to the financial awareness, risk appetite and personal circumstances of each customer. We do not seek to mislead our customers, sell inappropriately, or hide unfair or significant terms in the small print of our product literature.

Risk management

All our activities involve the analysis, evaluation, acceptance and management of some degree of risk and our risk management policies are designed to set and monitor appropriate risk limits and controls. Training, individual responsibility and accountability, together with a disciplined, conservative and constructive culture of control, lie at the heart of our management of risk.

The Group Management Board formulates high level risk management policy under authority delegated by the Board of Directors. A separately constituted Risk Management Meeting monitors risk and receives reports, which allows it to review the effectiveness of HSBC's risk management policies.

Our management of risks is described on pages 135-174 and 211 of our *Annual Report and Accounts 2004*. This process takes account of the Association of British Insurers' guidance on best practice when responding to social, ethical and environmental risks.

Managing the Impacts of Financial Services

HSBC's vision is to be the world's leading financial services company. This chapter looks at how we manage the impacts our products and services have not only on our customers, but also on the wider society and the environment.

Societies around the world rely on a stable banking system to safeguard savings and provide

lending. While the banking industry has vast experience of managing financial risk, managing sustainability-related risks and opportunities is still relatively new. We have identified a number of key risks and issues, ranging from lending to financial inclusion.

Lending policies

Our approach to lending and investment reflects our business principles and values, and sensitivity to society's expectations as well as an assessment of risk. We seek to ensure the sustainability of activities that we lend to or invest in, balancing the need for economic development with the environmental and social impacts involved.

We will only advance credit under exceptional circumstances for projects that have the potential for major adverse social or environmental impacts such as power plants, mineral extraction, dams and facilities that materially reduce biodiversity. We will do so only after conducting an environmental and social impact assessment of the project and the ability of the borrower to manage its sustainability impacts.

We avoid certain types of business, such as financing weapons manufacture and sales, dealing with countries subject to international sanctions, and transactions that might be used to evade tax or to launder earnings from crime. In cases where a loan or investment no longer meets our rising standards, we prefer to work with our customers to help them meet the required standard. Ultimately, however, our standards and reputation are more important to us than any single business transaction.

We published our 'Environmental Risk Standard' in 2002 and are now developing a series of sustainable risk guidelines on sectors that have potentially high environmental or social impacts.

In 2004, we launched the first of these guidelines: the *HSBC Forest Land and Forest Products Sector Guideline*. This outlines how the Group will work with its customers to promote sustainable forestry practices (see the sidebar opposite). As part of communicating this initiative, we produced an internal video covering the key points of the guideline and how we are implementing it. With the support of both WWF and the Tropical Forest

Saving with online statements

In 2003, we began a review of the account statements and financial summaries we send to our personal customers in the UK. Factors we considered included customer feedback, regulation, production and mailing costs, and environmental impacts such as deforestation, wastage of paper and carbon dioxide emissions from transport.

As a result, since December 2003 we have offered our personal internet banking customers the opportunity to stop receiving paper statements. Some 280,000 customers switched to online statements during 2004, resulting in a reduction in paper use of approximately 52 tonnes and an annualised cost saving of £591,000 (US\$1.1 million), due mainly to lower mailing costs.

To mark our reduced usage of paper, we are partnering with the Forest of Marston Vale and Future Forests to plant a new sapling for every 10 customers who switch to online bill payments or viewing of statements. The project will plant up to 14,000 trees on behalf of HSBC and our customers.

Photo Coordinates/Dave Vickers





At this Forest Stewardship Council-certified forest in Rivera, over 500 kilometres north-west of Montevideo in Uruguay, a worker uses a tall ladder to prune new branches so as to remove knots from the wood of these hardwood *Eucalyptus grandis* trees.

Trust, we delivered a pilot forestry workshop in Kuala Lumpur for staff in Asia involved in forestry finance. In 2005, we will expand the workshop to other areas of the Group involved in lending to this sector.

We are currently developing a sector guideline on freshwater infrastructure, which will be launched in 2005. Other sector guidelines will follow and we will continue to develop our expertise in sector-specific risk management.

Since 2004, HSBC has been participating in the multi-stakeholder Roundtable on Sustainable Palm Oil, which includes co-funding research into developing principles for sustainability in this sector.

Commitments for 2005

- Provide training on the *Forest Land and Forest Products Sector Guideline* to our lending executives involved in financing this sector.
- Develop a staff training programme for the new freshwater infrastructure sector guideline.
- Participate in initiatives to ensure that further expansion of the economically important soy

Forest Land and Forest Products Sector Guideline

In May 2004, we issued a major new guideline covering our involvement in the forestry sector. In addition to focusing on the areas where we are and are not prepared to participate, the guideline also sets out broad principles of good forest management. It covers forestry, timber and timber products and processing, timber trading, plantations (pulp, timber, oil palm and rubber) and forest conversion.

We will not provide financial facilities, including any debt or equity capital markets activities and advisory roles, in respect of:

- Commercial logging operations in primary tropical moist forest or high conservation value forest; logging operations in violation of local or national laws; or logging operations that include any species listed in CITES (Convention on International Trade in Endangered Species of Wild Flora and Fauna) Appendix I.
- Companies that purchase, trade or process timber from the above sources.
- Projects located in, and which significantly degrade or convert, critical natural habitats.

We prefer to deal with customers who are either operating managed forests certified by the Forest Stewardship Council (FSC), or the equivalent standard, or trade in products that are FSC-certified or the equivalent. We will also continue to do business with customers who are following a credible path towards attaining FSC or equivalent standard within five years. Where customers are not on such a path, we will consider withdrawing from the relationship.

Our approach to the forestry sector is one of socially responsible engagement, implementing the guideline gradually, step by step. That means we must explain the guideline to our customers, many of whom have banked with us for decades. We want to give them time to reach standards expected by the industry. We are prepared to support them, including financially where it makes good business sense. We want to add value to their businesses to help them achieve sustainability.

industry in Latin America takes place on a more sustainable basis.

Equator Principles

In September 2003, HSBC adopted the Equator Principles, a set of voluntary guidelines developed to

address the environmental and social issues that arise in financing projects. Although the financial sector is criticised for its involvement in certain large-scale projects, such as transport or energy infrastructure, the Equator Principles have provided a de facto global standard that places sustainability at the core of economic development. For HSBC, the Equator Principles play an important part in our wider approach to managing the sustainability of our lending.

Applying the Equator Principles

In managing the sustainability impacts of our lending, we go beyond the strict requirements of the Equator Principles in two important aspects. First, in addition to project lending, we apply the

Project finance spotlight: Venezuela

The Venezuelan water and sewerage rehabilitation project in Venezuela supports the UN Millennium Development Goal to increase access to safe drinking water and is an example of a project with low environmental risk but great benefits. Since 2001, HSBC has provided US\$120 million in funding. With work carried out by the Halcrow Group, the project has provided improved water distribution systems to over two million people, including half a million who now receive a continuous supply of water for the first time. Moreover, the quality of water piped to another 750,000 people has improved through the refurbishment of a key treatment plant. Sewerage systems are now working more efficiently, with sewage being removed from the streets in some areas.

Overall, a million people have benefited from the new and refurbished sewage pumping stations. The positive environmental effect is that further pollution of local watercourses and lagoons has been prevented.



principles to project advisory roles, corporate lending where the end use of the funds is for a project, and to other forms of financial assistance such as bonding and guarantees directly linked to projects. Second, we apply the same international standards in all commercial lending and are gradually putting in place our own guidelines covering our involvement in specific sectors.

Training

An important step in integrating the principles has been to ensure our staff understand our obligations. During 2004, we trained all our global project finance teams — including 155 managers and 24 senior executives — on applying the Equator Principles. In 2005, we will expand this training to a wider group of executives who are involved in managing our relationships in industries with potentially high environmental and social risks.

Reporting

Following the commitment made in our *CSR Report 2003*, we report below the number and value of transactions where the Equator Principles were applied.

Equator Principles in practice 2004

	Number	Value (US\$m)
Transactions approved:	46	3,528
by category —		
Category A	1	170
Category B	34	2,435
Category C	11	923
by type of facility —		
Solely commercial	29	2,091
Solely export credit	13	997
Commercial/Export credit	4	440

Key:

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

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

Category C: projects with little or no environmental impact.

Interpreting the results

In reporting on the implementation of the Equator Principles, we recognise that a number of issues arise in interpreting the results. In particular, there is a question as to whether or not the numbers demonstrate a rigorous implementation of the principles. In 2004, we declined 12 transactions

where non-compliance with the Equator Principles was a contributory factor. Our view is that, as our lending executives apply the principles at an earlier stage and as awareness of the required standards grows among our customers, so the number of projects declined will tend to fall.

We also aim to apply the principles more widely. In 2004, we applied them to seven projects — not included in the table above — that fell below Equator's US\$50 million threshold. Importantly, by applying the Equator Principles, we believe there was an improvement in the environmental and social standards in at least three of the projects we financed during 2004.



For more details on our lending and project finance policies, see www.hsbc.com/responsiblefinance

Commitment for 2005

- Continue to develop Equator Principles reporting in line with accepted industry standards.

Socially responsible investment

HSBC Investments (formerly HSBC Asset Management) has a worldwide network of investment and client relationship management teams delivering a full range of investment solutions for clients. Our structure allows us to maximise the use of globally shared resources while maintaining a high level of local autonomy in decision-making.

Demand for socially responsible investments (SRI) has increased substantially in recent years, especially in Europe, the US and, more recently, Asia. We are positioned to respond to the growing demand of our institutional and individual customers for help with their ethical investments.

We have a dedicated SRI team of five based in Paris, comprising analysts, and marketing and fund managers. Our SRI analysts conduct research based on input from general global equity analysts and our external rating agencies. In addition, all of our European equity analysts provide input on socially responsible investment factors as part of our research process. We have established a monitoring committee that brings together internal and external specialists, including individuals from companies, non-governmental organisations and leading universities.

We manage funds across Europe on either a negative or a positive screening basis, depending on

client requirements. When we employ a negative screening approach, we use internal and external research to agree with the client a list of stocks to be avoided. Our positive screening process has two steps: defining an SRI universe from the overall universe (performed by our SRI analysts) and then stock picking from this SRI universe based on financial data.

Our SRI team has a programme of ongoing meetings with a large number of companies on social and environmental issues. At these meetings, our fund managers and analysts may also raise concerns about companies' corporate governance.

At the end of 2004, we had some US\$1 billion in ethical and SRI assets, representing less than one per cent of our US\$204 billion of total assets under management. In 2005, we are undertaking a strategic review aimed at the medium-term development of our SRI activity, focusing on defining market opportunity, resourcing and product distribution.

Commitment for 2005

- Develop a clear, socially responsible investment strategy for HSBC Investments.

Responsible personal lending

HSBC Finance Corporation (formerly Household International, Inc.) is a leader in the consumer finance industry. Our efforts to protect customers go above and beyond the rate, fee, disclosure, and general business practices required by regulators. We take steps to ensure that:

- Mortgage loans are sold only if they provide a true financial benefit to our customers.
- Our customers understand key loan terms and conditions at all points in the loan process.
- Our billing statements provide clear and complete information.
- Our customers benefit from improving credit scores — a new product rewards them with lower rates for making repayments on time.
- Our customers have convenient access to near-prime and prime products as their credit scores improve.
- Our 'foreclosure avoidance programme' assists our employees in working with customers to find solutions that keep customers in their homes.

In the UK, we operate Money Management Service, which provides debt counselling for personal customers experiencing financial

difficulties. A counsellor will establish the source of the customer's financial problem and agree a way forward, with the aim of rehabilitating the customer out of arrears and establishing a mutually profitable relationship.

Customer awareness and protection

We make every effort to manage a variety of risks that our customers face, but customers must also be responsible for the security of their accounts and their personal credit rating.

Tackling e-crime

The recent increase in 'phishing' attacks and other internet security threats means that customers are exposed to a potentially higher risk of online identity theft. It can take a considerable amount of time for victims of identity theft to regain their identity and to repair the damage to their financial affairs and credit rating.

We have a dedicated e-Risk Management and Fraud team in Group Head Office which evaluates and manages — in conjunction with our IT security teams around the world — e-crime threats against our customers. Our businesses in Hong Kong, Brazil, the UK, the US and Mexico also have their own in-country e-Risk personnel.

In 2004, we contracted external specialists to provide a global early warning system on 'phishing' e-mail attacks and web sites that aim to mislead or defraud our customers. When we detect fraudulent activity, we work closely with national and international law enforcement agencies, high-tech crime units and internet service providers around the world to shut the sites down as quickly as possible.

To help our customers protect themselves, we have posted PC security awareness advice on our web sites. We also offer special price deals on anti-virus software to encourage customers to protect their computers. We continue to invest significantly in new internet banking security technology, including introducing 'two-factor authentication'. This is a security process that confirms a user identity using two factors: something a customer knows, such as a user identity or a password; and something he or she has, for example, a one-time password or PIN. HSBC in Hong Kong will be the first to upgrade to the new system in May 2005 in compliance with Hong Kong Monetary Authority requirements. We are also evaluating

deployment of two-factor authentication in other markets.

Better understanding of credit card customers

During 2005, we have decided to share credit data on our own customers in the UK on a reciprocal basis with other lenders. Pooling knowledge in this way will help us and other lenders to gain a better understanding of our customers' overall ability to manage credit. We believe this will make a significant contribution to reducing excessive use of our credit facilities by personal customers.

Cash machine 'anti-skimming' device

We are committed to reducing 'ATM skimming', an illegal activity whereby criminals attach a device to the card entry slot to copy the magnetic stripe, with a camera positioned close by to capture the personal identification number. Following a successful pilot in continental Europe, we will be rolling out a new device in the UK. Requiring only 30 minutes to install, the device works in any make or type of ATM, does not interfere with the normal activity of the machine, and does not damage or alter the card's magnetic stripe or chip. We will be installing the devices in 170 machines across the UK in 2005, with HSBC in Hong Kong and Brazil under active consideration.

Identity Protection Plan

Focusing on identity theft, preventive education and online tools, the Identity Protection Plan comprises a comprehensive software suite that includes firewall software, identity theft/hacker alerts, a monthly newsletter, and a round-the-clock lost and stolen credit card service. The plan, offered only in the US, also assigns an individual fraud resolution specialist to guide the victim through the recovery process. To date, over half a million customers have subscribed to the scheme.

CreditKeeper

Launched in the US in 2004, CreditKeeper provides members with unlimited access to their credit reports and scores from all three major credit bureaus. The service monitors their credit reports daily and notifies them of any inquiries that may affect their credit scores. Educational materials and tools are provided to help members understand how their financial decisions can improve their credit score. Over 200,000 memberships have been sold to date.

Commitments for 2005

- Launch 'two-factor authentication' internet banking technology in Hong Kong.
- Install 'anti-skimming' devices in the UK and consider their use in Hong Kong and Brazil.

Customer advice and assistance

Banks are in a unique position to provide information to their customers that will help them to manage better their financial affairs, both business and private.

'Living Business'

HSBC in Hong Kong, with support from the Business Environment Council, launched 'Living Business', a programme aimed at small and medium-sized enterprises (SMEs). Developed in 2004, the programme helps companies to become more profitable and productive by implementing socially and environmentally responsible business practices.

The Living Business web site shows companies how to save money while protecting the environment. The programme also features free seminars — of which there were four in 2004 — and the SME Living Business Awards. The winners of the 2005 awards will be announced in June 2005.



For more information on Living Business, see www.hsbc.com.hk/livingbusiness

Your Credit Counts

HSBC Finance Corporation in the US ran its second annual 'Your Credit Counts' financial literacy campaign in 2004. The campaign was launched in 2003 after a survey by HSBC found that seven out of 10 consumers did not know their credit scores. More than 132,000 people visited the site during the 12-week campaign, viewing more than 960,000 pages of articles, calculators and online tools.

We also support nearly 40 financial literacy programmes in nine US states through HSBC North America's financial education grant programme. The programme has helped more than 15,000 individuals and their families with credit counselling and improving their credit scores, homeownership counselling, down-payment assistance and asset building.



For more information on Your Credit Counts, see www.yourcreditcounts.com



Some things deserve your attention.

We invite you to learn about credit at YourCreditCounts.com

It's crucial to keep your eye on the things that are practical and important to you and your credit history should be one of them. Because having good credit can have a huge impact on the future of you and your family.

That's why HSBC created YourCreditCounts.com. It's your personal online guide to financial and credit education and other money management topics.

Visit our Web site and you could win a \$25,000 Grand Prize!

When you visit YourCreditCounts.com, you'll learn about credit and financial matters, and you can enter our sweepstakes for a chance to win cash and prizes.

HSBC 
The world's local bank

'Your Credit Counts' promotional material.

Facilitating community donations

In 2004, HSBC Mexico's 'Niños con Futuro' (Children with a Future) ATM donations programme won a CSR best practice award in the community category from the Mexican Centre for Philanthropy, a non-profit organisation founded by business people to promote corporate social responsibility in Mexico.

'Niños con Futuro' allows customers who use HSBC Mexico's network of 4,600 ATMs to donate money when making withdrawals. Customers are automatically given a choice of donating a specific amount of pesos which they can then approve or decline, or increase the amount of their donation. The programme is regionalised so that customers can identify with the charities involved.

Since the programme was set up, 'Niños con Futuro' has benefited more than 35,000 children around the country in the areas of education, healthcare and nutrition. As of December 2004, the total amount raised was 40.9 million pesos (US\$3.6 million).

Volunteer Income Tax Assistance Initiative

HSBC Finance Corporation has also worked with Volunteer Income Tax Assistance, a federal programme that assists low-income individuals and

households to increase their savings. The programme focuses on promoting the use of the earned income tax credit, which provides a refund of some or all federal income tax to support families making the transition from welfare to work.

HSBC is helping to promote this programme in New York, California, Nevada and Florida through grants totalling more than US\$500,000. These grants assist community organisations, supported by our own employee volunteers, to help people obtain refunds. The impact has been significant, with one agency in New York City — the Community Food Resource Center — generating earned income tax credit benefits in excess of US\$23 million.

We also encourage people without access to banking to establish a savings account, either with HSBC or with a credit union, to develop good savings habits through direct deposit of federal or state earned income tax credit funds.

Financial inclusion

We need to respond to the requirements of people who fall outside the traditional banking models, including those on low incomes and those with disabilities.

Microfinance

'Microfinance' is the provision of basic financial services, such as small loans, to people who have traditionally been excluded from the banking sector. HSBC is interested in the potential of microfinance to deliver social benefits from a financially sustainable banking model. However, we recognise that our experience in microfinance is limited. To learn from different approaches, we launched three six-month pilot projects in different parts of the world in late 2004.

In Brazil, we plan to work with Inter-American Development Bank to provide wholesale funding of approximately US\$600,000 to Banco de Familia, a Brazilian microfinance institution.

We will provide credit facilities of up to US\$1 million to three microfinance institutions in India: Swayam Krishi Sangram, Mann Deshi Mahilia Sahakari Bank and Sampada. We will also explore insurance products for microfinance customers.

In the Philippines, we will investigate wholesale lending to the microfinance sector to assist microfinance institutions to grow sustainably. We will also set up an internship or exchange programme involving HSBC and officers from microfinance institutions.

At the end of the pilot period, we will consider developing policies and introducing microfinance into more of the Group's existing businesses. Together with the UK National Committee on the International Year of Microcredit, we will also sponsor a recognition programme for significant players in the microfinance industry.

Access to banking services

The US Community Reinvestment Act aims to help people with low to moderate incomes and those living in low- and moderate-income neighbourhoods to gain access to credit and banking facilities. In meeting our obligations under this Act, we also help to create decent, affordable housing, new jobs and better business opportunities for disadvantaged areas. Our below-market and market-rate loans, revolving loan funds, credit lines, equity investments and grants make capital available to community-based organisations that provide affordable housing, economic development and vital services to residents.

In the UK, we also provide banking services for people on low incomes through a basic bank account, which allows customers to take advantage of discounts associated with setting up direct debits and standing orders for paying bills.

We work to comply with legislation on services for customers with disabilities, such as the Americans with Disabilities Act and the UK Disability and Discrimination Act. The services we offer include textphone and telecommunication devices for the hearing- or speech-impaired; an induction loop at cashier positions to help hearing aid users (UK); wheelchair accessibility at about 50 per cent of UK branches and 80 per cent of US branches; large print statements (UK and US) and cheque-books (US); and subtitling/closed captioning of TV advertisements.

We are an active gold member of the UK's Employers' Forum on Disability and support its Agenda on Customers as well as the Agenda on Employees.

Islamic financial services

The Islamic financial services industry has emerged in recent years to serve the particular needs of Muslim communities. By designing financial services according to *shariah* (Islamic law), we offer Muslims the opportunity to bank according to their faith, avoiding the payment of interest and investment in

such sectors as gambling, alcohol and arms.

HSBC Amanah, our global Islamic financial services division, provides Islamic alternatives to a wide range of financial services. Since the launch of HSBC Amanah in the UK, 70 per cent of the customers in our Islamic home finance portfolio have been new to HSBC. At December 2004, HSBC Amanah had offices in eight countries, more than 150,000 customers worldwide, and some US\$2 billion in funds under management.

Commitments for 2005

- Pilot three microfinance projects and evaluate further engagement with microfinance based on the results.
- Sponsor a recognition programme for the microfinance industry.
- Expand our reporting of customer accessibility initiatives to HSBC operations worldwide.
- Work with ATM manufacturers in the UK to take into account the needs of disabled users.
- Improve the accessibility of the UK personal internet banking web site to Web Accessibility Initiative 'AA' standard.

Climate Change: What Should be the Role

'...climate change represents the largest single environmental challenge this century. It will have an impact on all aspects of modern life. It is therefore a major issue for our customers and our staff, as well as for every organisation on the planet, no matter how large or how small.' Sir John Bond, HSBC Group Chairman, speaking at the launch of the Climate Group in April 2004

Carbon dioxide

- One of the main greenhouse gases contributing to global warming and climate change.
- Produced as a result of burning oil, coal and gas to generate electricity for heating, cooling, lighting and running appliances such as computers.
- It is also released as a result of business travel.

Carbon leadership

HSBC is one of the world's top 50 companies to take action to address the issues of climate change, according to the Carbon Disclosure Project, a group of 95 institutional investors with assets in excess of US\$10 trillion.

The Climate Group

HSBC became a founding member of the Climate Group launched by UK Prime Minister Tony Blair in London in April 2004. In a speech at the launch, Group Chairman Sir John Bond welcomed the opportunity presented by the Climate Group for HSBC both to learn and to help shape the debate about climate change.

HSBC and climate change

Although HSBC's direct contribution to climate change is relatively small, we believe it is important to start here. Group Chief Executive Stephen Green says: 'In 2003, HSBC's CO₂ emissions from using electricity, natural gas, fuel oil and business travel were more than 550,000 tonnes. We need to act now to reduce our emissions.'

HSBC Partnership in Environmental Innovation

- A three-year, £650,000 (US\$1.2 million) partnership with Newcastle University and the University of East Anglia.
- Its aim is to research climate change and society's awareness of the issues, and to develop technologies to address the problems identified.

Electricity generation: what is the right answer?

- Concerns are growing about the impact of generating electricity from fossil fuel.
- More sustainable alternatives include wind and solar power, and hydroelectricity, but capacity may be insufficient to meet carbon reduction targets.
- Some experts are now arguing for an expanded role for nuclear power.
- As a major financier of power-generating infrastructure around the world, HSBC has a keen interest in this debate, and in the views of our customers and other stakeholders.

Business opportunities

HSBC provided finance for two wind farm projects in Scotland developed by Fred Olsen. Paul's Hill and Rothes will be the UK's largest onshore wind farms.

of a Global Bank in Tackling Global Warming?

HSBC to go 'carbon neutral'

December 2004: HSBC became the first major bank in the world to commit to going 'carbon neutral'. We will achieve this by 2006.

How much will this cost?

We estimate the cost of carbon neutrality will be around US\$7 million in the first year.

HSBC's carbon management plan

- Our carbon management plan to achieve carbon neutrality is being implemented worldwide under the direct supervision of Group Chief Executive, Stephen Green.
- Our Carbon Management Task Force is working on how HSBC should offset its direct CO₂ emissions from the range of methods available. We will use three main methods (below).

What about indirect impacts?

We are working towards carbon neutrality for our direct impacts only and currently have no plans to extend this to our indirect emissions, e.g. supply chain and customers' emissions. However, we remain open to ideas about how we might have still greater impact in the future.

1. Energy efficiency

Reducing pollution also reduces cost. Investments being made across the HSBC Group to improve energy efficiency include low-energy lighting, variable speed drives in air conditioners and more efficient heat management systems.

Managing our direct impacts

We have been measuring and reporting on our greenhouse gas emissions for three years. We are currently implementing an environmental management system for our global operations (see page 22).

Tree planting: is it the answer?

We have concluded that tree planting is not the answer to preventing climate change. As we make carbon offset decisions, some tree planting may form part of the programme, but we would prefer to support projects that reduce CO₂ emissions at source.

2. 'Green' electricity

In Australia, Brazil, the UK and the US, HSBC is buying 'green' electricity — generated without the use of fossil fuels.

Allowances refer to emission permits that are traded among participants required to operate in a cap-and-trade scheme, where the quantity of permits is restricted by setting an overall cap on emissions.

Offsetting: some guiding principles

Not all allowances and offsets have the same environmental value or credibility. As a matter of principle, HSBC will ensure that the offsets we buy are credible and genuinely incremental. In addition, we aim to ensure that the benefits of offsetting are felt by the communities in which we operate. A good example might be supporting the development of a renewable energy project in China.

3. Offsetting CO₂ emissions

What can we do about the remaining emissions? Currently, there is no option other than to offset our emissions by using carbon 'allowances' or 'credits' (see right).

Credits are acquired by investing in projects that reduce emissions against an agreed baseline. Traditionally, projects to create carbon credits have involved tree planting to absorb CO₂ from the atmosphere.

Managing the Impacts of our Operations

With over 9,800 offices and some 253,000 employees in 77 countries and territories, HSBC makes a significant difference in the world. Our financial success is shared with millions of savers whose pension funds are invested in our shares and communities benefit from the people we employ, the taxes we pay, and the donations we make. In managing our operations efficiently and effectively in support of our strategic goals, we want to make positive impacts wherever we can and to reduce as far as possible any adverse effects on people and the planet.

Our people

Overall objective

Our success depends on the quality of service we provide to our customers, so our ability to attract, develop and motivate high quality people is crucial. Our 'Managing for Growth' strategic plan also recognises the importance of diversity in enabling us to understand the needs of our customers and communities. We aim to ensure that all our people know what is expected of them and how they can contribute to our main objectives. In return, they are assessed in a fair and transparent manner.

Talent attraction and management

We need to ensure that the posts with the most impact on business success are occupied by our best people. Our talent strategy is about ensuring a steady flow of high-performing executives at all levels who contribute significantly to key roles while they are prepared for more senior roles in future.

We carried out a worldwide review in 2004 of our graduate programmes, an important starting point for our talent supply. Among the recommendations we will implement in 2005 is a programme to enhance the global career development opportunities for employees with high potential.

Diversity

We believe our diversity profile at all levels of the business should reflect that of our customers. Diversity for us is not simply about gender, ethnicity, disability or age, but also about open mindedness, embracing non-conformity and creating balanced

teams. We believe it makes sound commercial sense to employ people with different approaches to disciplines such as leadership and problem solving, generating and sharing ideas, and building relationships to drive business growth. We also believe that having respect for people of all types

Profile of HSBC's employees

	2004 %	2003 %
Total employees:		
Male	45	44
Female	55	56
Executive grades:		
Male	59	61
Female	41	39
Group 'talent pool':		
Male	83	n/a
Female	17	n/a
Age:		
Under 25	15	13
25-29	22	20
30-34	20	21
35-39	15	15
40-44	12	13
45-49	9	9
50+	8	9

Employee ethnicity in HSBC's four main geographical areas

	UK %	US %	Asia-Pacific %	Brazil %
Asian	4	11	96	0
Black	1	17	0	0
White	88	63	1	0
Hispanic	0	8	0	0
Latin American	0	0	0	100
Unknown/Other	6	1	3	0

inspires loyalty in both employees and customers.

We developed a Global Diversity Toolkit and published it on our intranet. The toolkit allows us to share ideas that have worked well in one part of the world with colleagues developing diversity policies in another part.

We have most work to do to ensure our senior management structure reflects that of the Group as a whole. In 2004, we carried out a global survey to

identify internal barriers to increasing gender diversity in senior management and to determine possible solutions. While 70 per cent of male senior managers interviewed thought there were equal opportunities to advance regardless of gender, only 34 per cent of women at senior grades agreed.

Rather than trying to impose a standard response, we are developing and communicating action plans locally, with our Diversity team providing support at the centre to address some critical areas:

- Group-wide guidelines on flexible working propositions and career support.
- A senior women's business forum to explore a different perspective on where and how our 'Managing for Growth' strategy can be achieved.

Health and safety

To promote a healthy and safe working environment, we manage a wide range of risks, including terrorism threats, activities of third parties on our premises (for example, during construction and refurbishment projects), asbestos, fire, disease, earthquakes and workplace accidents. Specific action programmes are in place for each of these risks.

Line managers throughout the Group are responsible for implementing our health and safety policies and procedures to minimise the risks and to ensure all legal requirements are satisfied.

Accident rate reduction targets: UK

Since 2002, we have had accident rate targets for our UK operations, which employ one in five of our total workforce. Since 2002, accident rates have fallen significantly each year, which we attribute to a

more proactive approach to identifying and managing health and safety issues.

To date, we are ahead of our target to reduce reportable injuries by five per cent over the 2001 level by 2006. We have reset the target to achieve a 35 per cent reduction during the same period. Due to the lack of historical data, the target for working days lost from work-related injury remains a reduction of 15 per cent against the 2003 figure (2,188 days).

HIV/AIDS and health education

We operate in a number of countries particularly affected by HIV/AIDS. As part of our employee welfare initiatives, colleagues in these countries have access to regular HIV/AIDS education and awareness programmes focusing on the dangers, precautionary measures and assistance available. For example, in many of our operations in Asia-Pacific, we have professional, confidential counselling services freely available to employees.

Employee relations

Employee relations are managed at country level, but with a global overview by our Group Head of Employee Relations and Diversity based in London.

During 2004, we carried out an audit to get a clearer picture of the types and levels of employee information, consultation and representation forums, as well as labour management relations issues across the Group. Responses covering around 90 per cent of the workforce were received, with the results as follows.

- All responding countries recognise their

Workplace fatalities and accidents	2006 (targets)	2004	2003	2002
Number of workplace fatalities (worldwide)	0	0	0	0
Accidents involving more than 3 days' absence (worldwide)	n/a	356	406	386
Reportable injuries per 100,000 employees (UK only)	133	151	177*	186*
Working days lost from work-related injury per 100,000 employees (UK only)	2,188	1,839	2,574*	n/a

* Previous results, including the baselines and targets, have been revised to reflect recent improvements in the provision of human resource information.

Targets to be achieved by 2006 are set against a 2001 baseline. Statistics exclude fatalities or injuries related to terrorism.

employees' rights to freedom of association.

- Some 70 per cent recognise a trade union.
- Estimated union membership ranges from 0-78 per cent of the workforce, with an overall average of around 40 per cent.
- Fewer than half have actually experienced any form of industrial action.
- Some 80 per cent of countries conduct employee attitude surveys, with most of the remainder providing alternative mechanisms for colleagues to express their views.

Reward

Our key principles are fair pay for the contribution made by an employee, with an element of variable pay based on individual performance. Promotion is based on competence, performance and adherence to values and ethical standards. We share the benefits of our success through performance-related bonuses in most regions and the extension of share ownership. About half of all HSBC employees now participate in one or more of HSBC's employee share plans.

Learning and development

We want to equip our employees with the skills they need to operate successfully. We use a variety of training mechanisms, including e-learning, which is a cost-effective way of enabling more employees to work on programmes at their own pace. We also

have more than 1,100 in-house training staff worldwide, as well as links with external trainers. Regional Training Centres provide training, education and guidance in a local environment for local people in their own language and respecting cultural, religious and ethnic values.

Employee satisfaction and engagement

Employee satisfaction is a vital measure of the effectiveness of our people strategies and of the impact we know it has on customer satisfaction. Even more useful, however, is to measure 'employee engagement', which is made up of three components: job satisfaction, intention to stay at HSBC, and a willingness to recommend HSBC as a great place to work. We find that colleagues who exhibit high levels of engagement also provide better service to customers and are more likely to stay with us.

From external benchmarks, we believe that the average level of engagement is already relatively strong. However, this is an important measure for our business and we want to do better. We aim to raise the average level for 2004-05 and will continue to report progress on this measure.

Employee engagement surveys 2003-04

Employees invited to participate in employee surveys from 2003-04	119,000
Response rate	66%
Average level of engagement in employees surveyed	68%



'Feedback survey RETRO 2004: we want to hear you!' — an employee survey poster from HSBC Mexico.

How our people view CSR

We surveyed our employees in Hong Kong in 2004 to gauge their understanding of, and attitudes towards, HSBC's CSR. The main findings from over 1,000 responses are as follows.

- 96 per cent of our staff feel that HSBC's social and environmental responsibilities are 'important' or 'very important'.
- 72 per cent feel HSBC is 'at least a few steps ahead of its industry peers in meeting its social and environmental obligations'.
- Only half our employees feel confident about explaining CSR or describing specific initiatives.

As a result, a communication programme has been launched to explain the key elements of our CSR approach. We will conduct surveys in other countries, starting in Asia-Pacific, during 2005.

Global resourcing

Global resourcing is a fundamental component of our strategy, delivering shareholder value and competitive service through efficient, cost-effective operations. We have established a number of Group Service Centres (GSCs) to perform work for customers in our major markets.

Group Service Centres	<i>2005 (est)</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Number of centres	11	9	5	4
Number of employees	18,000	12,500	7,000	4,000

Economic impacts

We are already experiencing benefits from lower operating costs through increased global resourcing. At the end of 2004, we had around 12,500 processing staff in our GSCs, an increase of around 5,500 on 2003. By the end of 2006, we expect to be saving in excess of US\$300 million annually over the cost base of 2000.

Social impacts

International organisations are often criticised for not doing enough to help developing countries. By creating jobs in emerging markets, we believe HSBC is making a positive contribution to social and economic development.

The people who work in our GSCs are direct employees of HSBC. They are trained to the same high standards as their colleagues around the world and work in an environment that meets our international standards. They are also subject to the same stringent rules and regulations that govern data security and privacy elsewhere in the HSBC Group.

Training is thorough, and empathy with customers is valued. We do not ask our GSC colleagues to change their names or accents, or to hide where they are located.

Freedom of association

We uphold the right of our employees to collective bargaining and foster a culture in our GSCs of open, two-way communication. Team leaders and centre managers hold regular meetings with their staff and there are numerous other informal opportunities for raising questions or concerns.

Managing global resourcing risks

Managing change. In countries from which work is being transferred, our aim is to manage change while treating people fairly and sensitively. We work with trade unions, and use natural attrition and redeployment to avoid redundancies wherever possible. In the UK, for example, we reached an agreement in 2004 with the financial services union, Unifi, on consultation periods and redeployment. We made £4 million (US\$7.3 million) available for assistance such as counselling and retraining.

Customer dissatisfaction. Comparisons of 'before' and 'after' are not easy to make, but our tracking suggests that global resourcing has generally allowed us to maintain or improve our overall high standards of operational efficiency and customer service. However, a main source of complaints — about one in 1,000 calls — relates to difficulties in communicating with our call centre agents. To address this, we are investing more in advanced language training for certain roles and have appointed both a Head of Customer Experience and a dedicated Head of Call Centres to co-ordinate our improvement efforts.

Long-term competitiveness. While salaries in GSCs are rising in line with a competitive local labour market, we expect the large supply of skilled people, and the cost benefits compared with developed countries, to continue for the foreseeable future.

Commitments for 2005

- Aim to increase the proportion of women in our Group 'talent pool' (currently 17 per cent).
- Develop a plan to address perceived and any actual pay differentials between men and women.
- Conduct employee opinion surveys to measure satisfaction levels in all our operations at least every two years.
- Ensure all employees (except those who have joined following a survey) have the opportunity to participate in a survey during 2004-05.
- Continue to work to raise the average level of employee engagement (currently 68 per cent).
- Review the target for working days lost to ensure it is set appropriately.
- Work towards our 2006 targets of a 35 per cent reduction in reportable injuries and a 15 per cent reduction in working days lost from work-related injuries in the UK.
- Review the availability of data on reportable injuries and working days lost from country

operations outside the UK and consider setting targets.

- Conduct an employee opinion survey in all our GSCs.
- Introduce a dedicated GSC intranet to complement existing communication channels.



For more information about our people management, see www.hsbc.com/people

Environment

Environmental management system

The operations of our 9,800 offices around the world produce our main direct impact on the environment. Our Group Corporate Real Estate function, therefore, has the primary responsibility

for environmental management. Teams in regions and major countries undertake environmental management and are supported by specialists at our Group Head Office.

Environmental reporting

We have continued to invest in both the coverage of our environmental reporting system and in the quality of the data it produces. The system now covers over 90 per cent of the Group's full-time equivalent headcount and our internal assessment indicates the quality of data has improved from 5.2 in 2003 to 7.7 in 2004 based on our rating of 1 to 10.

Environmental management team

We recruited a new environmental and sustainability

HSBC Group summary

Environmental reporting system				
	Units	2004	2003	2002
Total Group employees	full-time equivalent	243,333	222,719	184,405
Environmental reporting coverage	full-time equivalent	220,055	152,436	140,149
Coverage as % of Group		91%	68%	76%
Total floor area covered	thousand m ²	5,243	3,653	3,468
Floor area per person	m ²	23.83	23.96	24.75
Environmental data quality	internal assessment scale 1-10	7.7	5.2	4.0
Resource efficiency				
Total energy consumption	gigawatt hours	1,496	1,155	1,115
Energy consumption per person	MWh/full-time equivalent	6.80	7.58	7.96
Energy consumption per m ²	kWh/m ²	285	425	330
Total water consumption	thousand m ³	3,629	2,703	3,099
Water consumption per person	m ³ /full-time equivalent	16.49	17.73	22.11
Total business travel	million km	626	370	350
Business travel per person	km/full-time equivalent	2,846	2,427	2,498
Total waste to landfill	kilotonnes	27	22	21
Waste to landfill per person	tonnes/full-time equivalent	0.12	0.15	0.15
Waste recycled	kilotonnes	20	16	15
Waste recycled		43%	42%	40%
Greenhouse gas emissions				
CO ₂ emissions from energy	kilotonnes	497	510	405
CO ₂ emissions from business travel	kilotonnes	88	55	52
Total CO ₂ emissions	kilotonnes	585	565	457
CO ₂ emissions per person from energy	tonnes	2.26	3.35	2.89
CO ₂ emissions per person from business travel	tonnes	0.40	0.36	0.37
Total CO ₂ emissions per person	tonnes	2.66	3.71	3.26
Total CO ₂ emissions per m ²	tonnes	0.09	0.14	0.12

team, whose key task is to introduce the environmental management system (EMS), developed during 2004, across the Group. Based on ISO14001, the EMS will address key environmental impacts, and develop minimum standards and processes to enhance the life cycle of our buildings. We will integrate environmental management and the development of good business practice in all operations from acquisition and construction through to day-to-day management, as well as maintenance, refurbishment and disposal. The roll-out of the EMS across the Group will include training, communication programmes, and the publication of Group standards.

Managing performance

Climate change

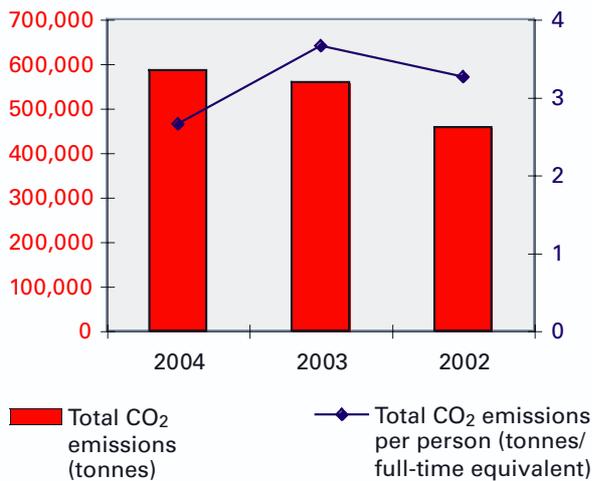
Our total emissions per employee have reduced from 3.26 tonnes in 2002 to 2.66 tonnes in 2004. Our reported carbon dioxide (CO₂) emissions, both from

energy consumption and travel, have risen, largely as a result of an increase in the size of our portfolio and improved data capture. In December 2004, the Group made a major commitment to be the first major bank in the world to become carbon neutral across all its operations. We estimate the cost of this programme may be up to US\$7 million in the first year. (See 'Climate change', pages 16-17.)

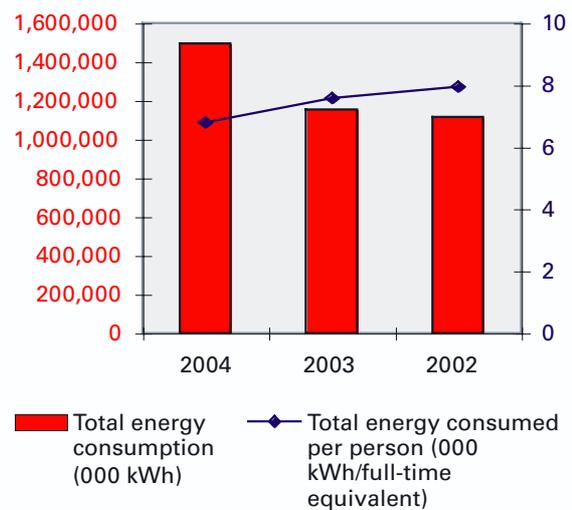
Energy

Our energy consumed per square metre has reduced from 330 kilowatt hours in 2002 to 285 kilowatt hours in 2004, partly due to initiatives to improve the efficiency of heating and cooling our offices. During 2004, we undertook energy surveys and initiatives in the UK, Brazil, Canada and Australia to identify areas for improvement. We started purchasing 'green' energy in the UK and implemented energy-saving initiatives, including energy-efficient lighting, increased metering, and

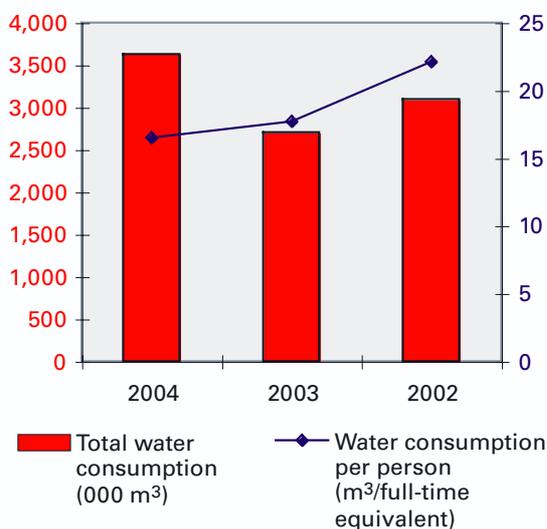
HSBC's carbon dioxide emissions 2002-04



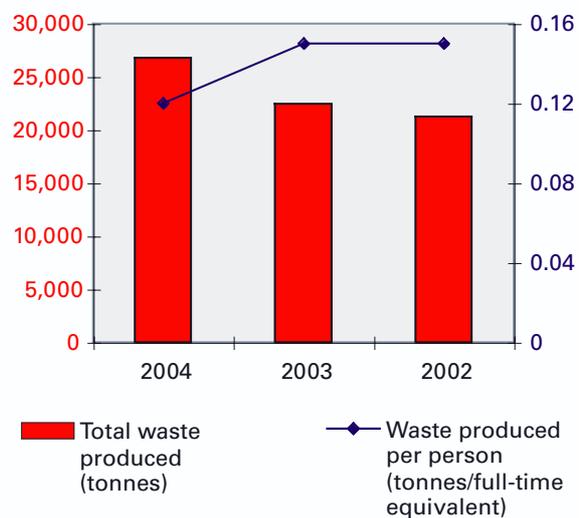
HSBC's energy consumption 2002-04



HSBC's water consumption 2002-04



HSBC's waste production 2002-04



automated devices for switch-off and power-down. Plans for 2005 include extending the adoption of these practices to other countries and increasing the use of energy-efficient technology (e.g., chillers, cooling towers, lighting, and power optimisers in refurbishments and developments).

Travel

The total amount travelled by our employees rose sharply from 2,427 kilometres per full-time equivalent employee in 2003 to 2,846 kilometres in 2004. This has

Global highlights: energy

Energy-saving studies in our Asia-Pacific head office building in Hong Kong have led to initiatives that will save HK\$1.1 million (US\$140,000) annually. The technology introduced will also reduce the energy demand by 1.07 million kilowatt hours and reduce carbon dioxide emissions by 1,050 tonnes per annum.

Following a commitment made in 2004 to purchase 'green' electricity, HSBC in the UK has reduced its carbon dioxide emissions by 45 per cent, or 58,047 tonnes.

Our operations in China and India have shown considerable progress in reductions in all environmental performance criteria. China has reduced its energy and water consumption to less than 40 per cent of its 2003 levels. India has achieved reductions of more than 30 per cent.

Global highlights: Mexico's new head office project

This major construction project has undergone extensive design modifications, with the objective of achieving a rating under the 'Leadership in Energy and Environmental Design' system managed by the US Green Building Council.

The submission for the Leadership in Energy and Environmental Design rating will be processed formally by the council three months after occupancy, scheduled for December 2005. If achieved, it will be the first office building in Mexico to be rated by Leadership in Energy and Environmental Design.

Costing an additional US\$3 million, the main environmental and sustainability features relate to the provision of a sustainable site, water efficiency, low atmospheric emissions, low material and resource use, and improved indoor environmental quality and design innovations.

resulted in a corresponding increase in greenhouse gas emissions attributable to business travel. We have seen a rebound following the lifting of constraints on international travel arising from the SARS outbreak in 2003. These increases have outweighed the beneficial effects of new fleet vehicles and the internal promotion of our Environmental Travel Policy and video- and tele-conferencing. These initiatives will continue in 2005, together with closer liaison with preferred carriers to explore offsetting carbon dioxide emissions.

Water

Water consumption per full-time equivalent employee continued to fall in 2004 in response to such measures as rainwater harvesting, replacing equipment with water-saving devices, and campaigns to increase awareness. Plans for 2005 include use of additional water meters and automatic consumption adjustment technology.

Waste

The total amount of waste produced per person fell last year and we are also recycling more. Recycling accounts for 75 per cent of total waste disposal. In 2004, we conducted a number of studies of waste practices, recycling of IT equipment, and operational waste management, predominantly paper and office waste. In 2005, we plan further detailed waste reviews and to improve waste recycling, through expanding the types of waste recycled and through competitive tendering.

Paper

HSBC is a major consumer of paper and we are now starting both to measure our usage and to switch to more sustainable sources. In 2004, our UK Purchasing function bought just over 11,000 tonnes of paper for photocopying, letterheads and account statements, but externally printed material such as brochures were not measured. We will expand the scope of our measurement during 2005. We are also conducting trials of Forest Stewardship Council-certified paper for statements and photocopying, with a view to switching to this more sustainable source. This year, for the first time, our *Annual Report and Accounts*, *Annual Review* and *CSR Report* are all printed on FSC-certified paper.

Environmental targets

Developments in the quality and coverage of our baseline information means we are now in a position

to set improvement targets for our operations around the world. We are currently reviewing draft targets for each region and will publish on our web site consolidated five-year targets for the Group by July 2005.

We already have targets to reduce greenhouse gas emissions by five per cent in the UK (2001-06) and in Asia-Pacific (2003-08). So far, we have reduced our emissions in the UK by 33 per cent, from 144 kilotonnes in 2001 to 97 kilotonnes in 2004. In Asia-Pacific, emissions increased slightly, by 1 per cent, from 192 kilotonnes in 2003 to 194 kilotonnes in 2004.

Commitments for 2005

- Continue to develop the work of energy committees in Asia-Pacific and North America.
- Establish benchmarks for and report on performance of the environmental management system and roll it out across the Group's Corporate Real Estate function.
- Expand our measurement of paper consumption to more countries.
- Publish global environmental performance targets on our web site by July 2005.



For more information about our management of environmental issues, see www.hsbc.com/environment

Supply chain

Management overview

Our purchasing network influences an annual expenditure of over US\$6 billion across a wide range of products and services, including IT hardware and software; telecommunications; transportation; energy and paper. The network consists of around 300 people in 56 countries and territories, whose local market knowledge is complemented by global coverage achieved through efficient use of communication and e-procurement tools.

E-procurement

Our 'BuySmart' e-procurement system is well established in the UK, Hong Kong and Brazil, delivering more efficient, straight-through processing by eliminating paper from the ordering and payment process. In the UK alone, more than 320,000 orders and 51,000 invoices were raised or received electronically in 2004. The system was rolled out to

Singapore during 2004 and other areas will follow in 2005.

Supply chain segmentation strategy

We expect our own commitment to CSR to be shared by our suppliers and reflected in their policies. We are in the process of implementing a supply chain segmentation strategy to help us work with our suppliers to improve environmental, social and ethical performance throughout our supply chain. In developing the strategy in 2004, we carried out a number of steps:

- Met with leading practitioners from different industry sectors in the UK that are recognised as leaders in integrating CSR within their supply chains.
- Identified and reviewed our major suppliers by expenditure within each major country and territory, including an analysis of their performance and sector risk in relation to the Dow Jones Sustainability and FTSE4Good indices.
- Met with representative key suppliers to develop a better understanding of how they are managing sustainability issues in their businesses.
- Reviewed our internal purchasing practices.
- Developed a template to assess risk and future sourcing decisions based upon supplier liaison and site visits.

New supplier contracts

A number of key contracts were negotiated during the year, including procuring a 100 per cent 'green' electricity supply for our operations in the UK, and one for copier paper that is Forest Stewardship Council-certified (see also 'Environment', page 24).

Supplier diversity programme

In the US, we started a programme designed to help minority-owned and women-owned businesses compete with other businesses as suppliers to HSBC. Our goal is to create a supplier base that reflects our customers and the communities in which we operate. We are active members of national, regional and local advocacy agencies that support minority-owned and women-owned businesses. We also host workshops for our customers and local suppliers about how to become a certified supplier. Our target for 2004 was to spend US\$55 million — around five per cent of our qualified US purchasing spending — with minority- and women-owned

businesses. We exceeded this by more than US\$10 million and are now working towards achieving a 25 per cent target within the next five years.

Chartered Institute of Purchasing and Supply

In the UK, we achieved a ‘silver’ certification rating of proficiency — the second highest level of certification — with the Chartered Institute of Purchasing and Supply. The ‘proficiency’ standard addresses risk management in the purchasing and supply process, such as fraud loops, transaction management and aspects of corporate, statutory and social responsibility.

Commitments for 2005

- Further roll-out of the e-procurement system in Asia-Pacific, Europe and the Middle East.
- Ensure all heads of purchasing in the Group have specific reference to CSR in their annual objectives.
- The goal of the supplier diversity programme in the US is to place 25 per cent of qualified purchasing spending with minority-owned and women-owned businesses by 2009.

HSBC in the community

HSBC supports the communities in which we operate both through the involvement of our employees and through donations. Traditionally, our support has been driven locally by our staff giving freely of their own time to local community projects. We also support local efforts around the world through schemes such as payroll giving, matched donations and time off for volunteering activities. In those markets where we were able to record them, some 237,000 hours of working time were devoted to supporting our communities in 2004.

Community donations	US\$m		
	2004	2003	2002
Education	21.2	17.2	12.1
Environment	16.7	8.9	11.4
Community/other	31.3	21.3	11.0
Total donations	69.2	47.4	34.5
Employee volunteering in work time (monetary value)	7.2	n/a	n/a

Spotlight on an educational partnership: Zippy’s Friends

Zippy’s Friends, a programme run by the UK-based Partnership for Children, aims to improve the emotional well-being of children affected by difficulties such as anorexia, bullying and substance abuse. A programme for schools, Zippy’s Friends runs for 24 weeks, with one 45-minute session each week. HSBC has supported the delivery of Zippy’s Friends to schools, teachers and children in three ways:

- In Hong Kong, the Hongkong Bank Foundation gave a grant of HK\$3.6 million (US\$460,000) to enable the Hong Kong Institute of Education to pilot Zippy’s Friends and then deliver it to primary

schools and kindergartens across the territory over the next five years. The long-term goal is to launch the programme in Mainland China.

- In the UK, the HSBC Education Trust gave a grant of £20,429 (US\$37,416) in 2004 to cover web site development, including a site for the newly formed International Alliance for Child and Adolescent Mental Health and Schools. The web site is used by education authorities, NGOs, teachers and parents in many countries.
- In Brazil, HSBC has approved a grant for a pilot of Amigos do Zippy in a slum in São Paulo.



Results to date have led us to expand our support in 2005 and we believe the programme has the potential to be applied worldwide.

Evaluations of the implementation and impact of programmes (not funded by HSBC) in Denmark and Lithuania ‘showed clear improvements in children’s abilities to cope with adversities’ and that it was equally effective with boys and girls. Another study in Lithuania found that children who took part in Zippy’s Friends handled the transition from kindergarten to primary school much more successfully.

In line with the international expansion of our business, we are complementing our local response with more global co-ordination and reporting. Our aim is to improve the effectiveness and impact of our support.

Global management process

Donation budgets are set at individual business level (e.g., by the country concerned), but donations larger than US\$25,000 require approval at Group level. This process has been facilitated by the development during 2004 of GIFTS, a global donations database. At year-end, 24 countries were using the database. The system will also enable better internal and external reporting and, in the longer term, help us to analyse the impact of our community investment programmes.

Global policy

Our policy throughout the HSBC Group is to focus our efforts on education — particularly for disadvantaged young people — and on the environment. We aim to channel 75 per cent of our community giving into these two areas. The table on the left shows we have some way to go to meet this. Within these two main areas, we believe specific themes have the potential to benefit individuals, communities and the planet and, consequently, our business.



For a regional breakdown of donations and details of more of our projects, see www.hsbc.com/communityprojects

Education

HSBC is involved in a wide range of projects and initiatives to help raise the academic achievement of young people and improve their vocational skills through formal and informal learning. We look especially to support five main areas: scholarships for gifted and talented students; voluntary work by

HSBC staff; projects with sufficient initial funding to ensure secure and rapid progress; projects concerned with attitudinal education; and projects designed specifically to respond to local needs.

For example, as part of its US\$29 million programme of support for education and community initiatives in North America, HSBC has established scholarship grants and financial empowerment programmes at Bennett College, one of just two women-only, historically African-American colleges and universities in the US, and the University of Maryland, University College which serves the needs of students from outside the usual mainstream of education.

While most of our support for education around the world is at a local community level, we are increasingly interested in programmes that cross national boundaries:

- In 2004, as part of our global theme to support talented young people, HSBC financed 27 Chevening scholars from 14 countries to attend 19 universities in the UK.
- The HSBC Education Trust began in 2003 a three-year partnership with a UK charity, Link Community Development. The programme, called ‘Global Teachers’, enabled 47 teachers from the UK to teach for five weeks during their summer holidays in 2004 in Uganda and South Africa. These placements focus on school leadership, management, literacy teaching and learning, as well as HIV/AIDS action planning. Permanent links are formed between UK and African schools and the benefits extend to the children in both schools. The programme will continue in 2005 and 2006.
- Also in 2005, we have launched a major new partnership with Students in Free Enterprise (SIFE) to provide financial education for young people and female entrepreneurs. SIFE is the world’s largest collegiate organisation devoted to economic and enterprise education.

Environmental philanthropic focus	<i>Aligns with HSBC’s management of:</i>	
	<i>Indirect impacts</i>	<i>Direct impacts</i>
Protecting plant biodiversity	Sustainable forestry financing policy	Efficient use of paper; carbon neutral operations
Conserving freshwater ecosystems	Freshwater infrastructure financing policy	Water consumption
Environmental education and engagement	Investing in the environmental awareness of our employees will make better management of risks and opportunities in the long term	

Environment: 'Investing in Nature'

HSBC's community activities with an environmental theme are focused on sustainable development — connecting the needs of our business with those of the planet as a whole.

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

Protecting plant biodiversity

Our work with BGCI aims to protect 20,000 plant species from extinction. To this end, HSBC's support has enabled almost 400 botanic gardens from 78 countries to take on key conservation roles as participants in the International Agenda for Botanic Gardens.

Conserving freshwater ecosystems

WWF is working with HSBC to breathe new life into three of the world's major rivers. Work on the Yangtze, Amazon and Rio Grande concentrates on developing sustainable river management involving stakeholder groups at a national and local level. As a result of the campaign in Brazil, a judge has decreed that fines levied for environmental abuses should be used to improve water quality in local springs.

Environmental education and engagement

Although integral to the programmes of all three of our environmental partners, employee involvement is the main focus of our work with Earthwatch. To date, 1,000 HSBC employees from 45 countries and territories have joined Earthwatch scientists in the field, contributing nearly 50 years' worth of vital environmental research to 62 projects. Called HSBC Environmental Fellows, each of these employees goes on to involve an average of 66 more people in environmental issues and to give around 52 hours of additional voluntary work — 60 per cent more than they did before they took part.

Earthwatch and HSBC have also trained more than 90 scientists in developing countries, providing them with the research skills necessary to tackle local environmental issues.

Other community support

Our international policy is flexible, allowing our colleagues to respond compassionately to particular situations, at both a local community and a regional level.

The Indian Ocean tsunami that struck in December 2004 produced a global response in which HSBC and our staff were proud to play a part. The Hongkong Bank Foundation donated US\$1 million in the immediate aftermath of the disaster and was followed by further support in cash and in kind from our operations in the affected countries.

We also established channels for our customers to make donations and various schemes to encourage contributions from our employees. The Group pledged to match the donations of thousands of HSBC colleagues and, as a result, we are giving a further US\$1 million for long-term rebuilding efforts around the region.

Commitments in 2005

- Establish a better database for employee volunteering in work time.
- Develop a strategy with targets for achieving our philanthropic policy to allocate 75 per cent of donations to education and environmental projects.

Economic impacts: sharing our financial success

In 2004, HSBC achieved a record pre-tax profit (excluding goodwill amortisation) of US\$19.4 billion. Many people have a direct financial interest in our success:

- Shareholders have invested around US\$86 billion in HSBC. If we invested the total market value of HSBC in a risk-free investment, such as government bonds at 4.7 per cent interest, we would still make a profit of about US\$9 billion. Our shareholders expect us to do far better than that. Some of our largest shareholders are pension funds. We believe that, in the UK alone, some 17 million people — about one in three of the adult population — benefit from our strong performance.
- Our employees received some US\$13.5 billion in remuneration for their work in 2004.
- We spent some US\$9.6 billion with suppliers in 2004.
- In 2004, our corporate taxes totalled some US\$5.5 billion worldwide, contributing significantly to governments' spending programmes for vital services such as schools, hospitals and roads.

Co-ordinating CSR

CSR governance

CSR Committee

The members of the CSR Committee of the Board of HSBC Holdings plc are Lord Butler (Chairman), William Fung and Sharon Hintze, all of whom are independent non-executive Directors, together with external co-opted members Gerry Davis (a former teacher and local government leader), Elizabeth Diggory (High Mistress of St Paul's Girls' School, London) and Lord May (President of the Royal Society). The committee was formed in September 2003 and met four times during 2004.

CSR Executive Steering Group

CSR planning is co-ordinated by a steering group comprising executives at Group Head Office representing areas of the business with a significant influence on our overall CSR performance: Credit and Risk; Compliance; Company Secretarial; Purchasing; Corporate Real Estate; Human Resources; Finance; and Corporate Affairs.

The Group Corporate Affairs department co-ordinates external and internal communications; and CSR engagement, benchmarking and measurement, with the aim of safeguarding HSBC's brand and, ultimately, reputation.

Regional working groups

A number of working groups have also been formed in France, Brazil, Hong Kong and the Middle East to co-ordinate CSR at a national or regional level.

Stakeholder engagement

Investors

We have around 200,000 registered shareholders in some 100 countries and territories worldwide, including pension funds, mutual funds and insurance companies. This means that millions of

HSBC's investor relations

	2004	2003	2002
Investor relations meetings	349	319	256
Institutional contacts	651	503	289
Countries holding investor relations meetings	19	18	13

people have a financial interest in the success of our business.

Our executive Directors lead our engagement efforts with the investment community through a range of activities and reports. These include using the *Annual Report and Accounts*, the *Annual Review*, the Annual General Meeting and the informal meeting of shareholders held in Hong Kong, the investor relations section on our web site, live webcasts of results presentations and the AGM, and an extensive programme of institutional investor meetings around the world.

Our investor relations programme received the highest performance rating of any bank in the Dow Jones Sustainability Index in 2004.

Socially responsible investment

As our progress in CSR continues, the views of our socially responsible investment (SRI) shareholders have become increasingly relevant. We met with 13 SRI companies during 2004.

We also took the first steps towards more proactive engagement by hosting a meeting with SRI analysts from six institutional shareholders to seek feedback on our *CSR Report 2003*. We shared their constructive criticism of the report's content and focus with the HSBC Holdings plc Board, and have taken it into account when producing this report.

Customers

We conduct regular surveys to monitor customer satisfaction in most of the countries and territories in which we operate. In our larger businesses, this information is typically one of the elements used for measuring staff performance and determining individual rewards. Promoting good customer relations is an integral part of our local operations. We generally seek to respond within 48 hours to customer complaints and use them as opportunities to learn and improve.

Our Group-wide research tracks customers' perceptions of our brand. Starting in 2004 with UK personal customers, we have now incorporated CSR-related image statements in our surveys in 16 markets. The results to date comparing how the

public views HSBC and our competitors are encouraging. We will extend the measurement to commercial customers and to some of our other main markets during 2005.

Governments and regulators

We answer to some 467 regulators around the world, most of whom we meet on a regular basis. We also participate in numerous government-led and financial services industry working parties.

Political donations and lobbying

In keeping with our long-standing policy, we made no donations to political parties in 2004.

Lobbying is not an activity we undertake in most parts of the world. In the US, however, working with state and federal legislatures is an essential part of risk management. The Government Relations department advocates responsible public policy positions — such as sponsoring ethical legislation which may have an effect on HSBC North America's revenues.

Non-governmental organisations

We are in regular contact with a number of special interest groups and non-governmental organisations (NGOs), including our Investing in Nature partners (see page 28). We acknowledge the need for more disclosure of the effects of our policies, such as lending, and seek the right balance between transparency and protecting our commercial and customer interests. We will investigate and take action relating to possible social or environmental impacts of any projects financed by us.

We gained useful feedback on how HSBC is viewed by NGOs in the UK by participating in a survey conducted by MORI in 2004. On the question of having an 'honest, trustworthy and responsible approach', 24 per cent of NGOs considered HSBC above average and five per cent below average compared with other major organisations. The main areas in which NGOs thought we could improve were responsible investing (19 per cent) and environmental issues (14 per cent), both of which will remain major areas of focus in 2005.

Sustainability working groups

Following an invitation from the United Nations Environment Programme Finance Initiative, in 2004 HSBC participated in a global asset management working group on the development of socially

responsible investment. Comprising 15 asset managers from across the world, including the head of SRI financial analysis at HSBC Investments, the working group conducted studies showing a link between companies' sustainable development commitment and financial quality.

HSBC is a member of the UK Forum of the UN Global Compact.

International Codes of Conduct and Public-Private Partnerships

We have expressed our support for the UN Global Compact, the UN Universal Declaration of Human Rights, the Equator Principles, the United Nations Environment Programme Finance Initiative, the Global Sullivan Principles, Wolfsberg Principles and the OECD Guidelines for Multinational Enterprises. We also participate in the Climate Group, the Carbon Disclosure Project, the Extractive Industries Transparency Initiative and the Global Business Coalition on HIV/AIDS.

Benchmarking

In addition to various country-level schemes, we benchmark the sustainability of our global business in three indices each year: Dow Jones Sustainability Index (DJSI), FTSE4Good and Business in the Community's Environment Index. In 2004, DJSI ranked HSBC among the world's top five per cent of companies for sustainability.



You can view these indices' feedback reports on our web site:
www.hsbc.com/csrindices

Reporting

Our CSR reporting is a crucial part of engaging with our stakeholders. The primary purpose is to facilitate discussion and transparency in those areas of our business relating to social and environmental issues. In response to stakeholders' views, our reporting has evolved rapidly in the last two years. The constructive feedback we received and our response are summarised in the table opposite.

We now seek feedback from our investors more proactively and will explore ways of expanding our activities as part of our assurance process in 2005.

Global Reporting Initiative

The Global Reporting Initiative is a set of guidelines for sustainability reporting that is supported by a

Responding to our stakeholders

<i>Feedback</i>	<i>Source</i>	<i>Response</i>
More coverage of the impacts of HSBC's main banking activities and less on its donations	SRI managers and NGOs	Financial services impacts expanded. Description of business strategy and organisation introduced.
Transparent reporting of implementation of Equator Principles is especially important	NGOs	Our Equator Principles reporting (pages 9-10 and web site) goes well beyond the commitments we made last year. In our dealings with other Equator Principles banks, we have consistently promoted transparency.
Too long, too much paper used	Individual shareholders	Reduced report from 48 pages to 32 pages. Shareholders received four-page progress report in the <i>Annual Review</i> instead of full report. Reduced print run for full <i>CSR Report</i> . Stand-alone summary <i>CSR Report</i> for general purposes.

number of our institutional investors and is increasingly being adopted by leading companies. We acknowledge the initiative's value in aiding transparency and have started to use the guidelines for the first time in this report.



You can view our GRI contents table on our web site: www.hsbc.com/gri

Assurance

As part of its assurance statement (see page 32), The Corporate Citizenship Company draws upon the guidelines of the AA1000 Assurance Standard by

considering the content and quality of this *CSR Report* in relation to its materiality, completeness and responsiveness.

Commitments for 2005

- Seek views from a wider range of stakeholders on the issues they consider material for our business.
- Review our approach to assurance and verification as part of the implementation of the Operating and Financial Review.
- Consider full compliance with AA1000 for our *CSR Report 2005*.

Assurance Statement

HSBC has commissioned The Corporate Citizenship Company to provide external assurance and commentary on its *Corporate Social Responsibility Report 2004*. This full statement is available at www.hsbc.com/csreport.

Summary assurance statement

The Corporate Citizenship Company is a specialist management consultancy advising corporations that seek to improve their economic, social and environmental performance around the world. We have worked with HSBC since 2000.

In our opinion, the report provides a fair and balanced representation of the progress HSBC is making in living out its commitments to social responsibility. Where significant gaps in available performance data and stakeholder views exist, they are generally identified in the report or commented on by us. As there are no statutory guidelines for social reporting, we have formed our judgements based on emerging best practice among other companies, the principles of the assurance standard AA1000, the approach of the Global Reporting Initiative, the stated views of principal stakeholders, and our own professional expertise and experience.

Summary external commentary

This is HSBC's fifth annual report on CSR. It represents a further step forward in the continuing process of making explicit and systematic HSBC's approach to corporate social responsibility. In 2004, substantive advances were made across a range of issues, notably on lending policies and disclosure of project finance, on most of its own environmental impacts, on its 'carbon neutral' commitment, and on employee diversity and engagement.

Commenting on the 2003 report, we specifically highlighted the importance of the commitments given then to disclose more information about employee attitudes, project finance and sector lending policies. We believe that good progress has been made in the 2004 report.

We welcome the new structure of the report, which focuses on the impacts of core business

activities and the management of operations, with a more balanced allocation of space. We also welcome the clear identification at the outset of 'key issues' linked to the description of each main business division. This allows stakeholders to see if their concerns are shared by HSBC and to judge more easily in the subsequent performance sections whether they are being addressed. The future commitments in each section help to show forward direction.

Last year, we commented that HSBC's management and reporting of CSR should address the key commitments in its own statement of business principles and values, and in the various external standards it has endorsed. We argued that reporting should show more clearly how these are being lived out, incorporating the perspective of affected stakeholders. The new structure has allowed progress to be made here, too.

Looking forward, this remains important, we believe, especially as CSR is one of the core elements of HSBC's strategic plan for 2004-2008, 'Managing for Growth'. Future reports should aim to show how CSR is contributing to the company's growth through its customer groups and through other activities. Readers will want to see progress on the commitments made here, many of which seek to extend examples of good practice into a company-wide approach.

We believe that future reports should also show more clearly HSBC's economic impacts. Companies' primary role is to create wealth through the provision of goods and services: reliable and efficient global financial systems, in particular, bring many benefits to personal and business customers. In our view, greater analysis of HSBC's direct economic impacts and the wider effect they have would improve understanding of the company's contribution to society, alongside its continued response to the full range of stakeholder concerns.

The Corporate Citizenship Company

www.corporate-citizenship.co.uk

15 April 2005

Our Business Principles and Values

HSBC is committed to high standards of corporate behaviour and personal integrity. The following is a summary of our Business Principles and Values, described more fully on our web site at www.hsbc.com/values.

Business Principles

The HSBC Group is committed to five Core Business Principles:

- outstanding customer service;
- effective and efficient operations;
- strong capital and liquidity;
- prudent lending policy;
- strict expense discipline;

through loyal and committed employees who make lasting customer relationships and international teamwork easier to achieve.

Business Values

HSBC also operates according to certain Key Business Values:

- the highest personal standards of integrity at all levels;
- commitment to truth and fair dealing;
- hands-on management at all levels;
- openly esteemed commitment to quality and competence;
- a minimum of bureaucracy;
- fast decisions and implementation;
- putting the team's interests ahead of the individual's;
- the appropriate delegation of authority with accountability;
- fair and objective employer;
- a diverse team underpinned by a meritocratic approach to recruitment/selection/promotion;
- a commitment to complying with the spirit and letter of all laws and regulations wherever we conduct our business;
- the exercise of corporate social responsibility through detailed assessments of lending proposals and investments, 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 member of the HSBC Group or staff member on behalf of a Group company should conform with them.

Contact

Nigel Pate
Senior Manager Corporate Social Responsibility
Group Corporate Affairs
HSBC Holdings plc
Level 36
8 Canada Square
London E14 5HQ
United Kingdom

E-mail: communityaffairs@hsbc.com
Web: www.hsbc.com/csr

This report refers to non-HSBC web sites. Please read their terms and conditions of use. HSBC Holdings plc has no control over non-HSBC web sites and is not liable for your use of them.

© Copyright HSBC Holdings plc 2005
All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Holdings plc.

Designed by Customer Propositions, HSBC Bank plc, London

Printed by Beacon Print Limited, Uckfield, United Kingdom, on Revive Special Silk paper using vegetable oil-based inks. Made in Spain, the paper comprises 30% virgin fibre from Forest Stewardship Council-certified forests, 30% de-inked post-consumer waste, 10% mill broke and 30% virgin fibre. Pulps used are elemental chlorine-free.



FSC Trademark © 1996 Forest Stewardship Council A.C. SGS-COC-0620

