

2006

Corporate
Responsibility Report
HSBC Holdings plc



The world's local bank

HSBC 



Cover photograph

Santiago's low-emission buses

In 2006, HSBC financed a deal to provide 1,779 buses with low carbon emissions to serve 4.5 million passengers in Santiago, Chile. These high capacity, environmentally friendly buses of the Transantiago Bus Rapid Transit Project – part of the largest public regeneration programme in Latin America – are now serving some of the poorest areas of the city. The buses could cut air pollution in Santiago by as much as 77 per cent.

The parts were manufactured by Volvo in Sweden and assembled in Curitiba, Brazil. The vehicles were then driven 3,200 kilometres in convoy through Brazil and Argentina and, as shown here, across the Andes to Santiago.

Photography: Ito Cornelsen

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2006 in Review

Financial highlights

Profit before tax

US\$22,086m

for 2006

Assets

US\$1,861b

at 31 December 2006

Market capitalisation

US\$212b

at 31 December 2006

Profit before tax

5.3%

increase on 2005

Dividends per share

US\$0.81

in respect of 2006

Capital strength

13.5%

total capital ratio at 31 December 2006

Achievements

► 'Sustainable bank of the year'

HSBC was named overall winner in the first *Financial Times* Sustainable Banking Awards, in recognition of our leadership in merging social, environmental and business objectives.

► **Energy Sector Policy and Carbon Finance Strategy**

We issued our fourth sector guideline, the *Energy Sector Policy*, which provides guidance for our employees on the environmental and social standards recognised as good practice within the energy industry. We also launched our Carbon Finance Strategy, which advises clients on the implications of climate change, and helps them to understand the challenges and opportunities of creating a lower carbon economy.

► **Future First**

The HSBC Global Education Trust launched 'Future First', a five-year, US\$10 million programme to help street children, children in care and orphans around the world. The programme supports education, livelihood training and rehabilitation projects, enabling these children to enter the mainstream of society.

► **Improving standards in the finance sector**

In 2006, HSBC played a major role with the leading financial services companies and the International Finance Corporation in relaunching the Equator Principles (EPs) – global environmental and social guidelines for project finance. These new guidelines improve the social standards that apply to financing projects and require greater transparency of reporting on implementation. The EPs have been re-adopted by 52 financial institutions representing over US\$50 billion or 80 per cent of global project financing (see page 18 for more information about our implementation of the principles).

Challenges

► **Carbon dioxide emissions**

As part of our commitment to carbon neutrality, it is important that we reduce our total carbon dioxide (CO₂) emissions over time. During 2006, our CO₂ emissions per person, our key CO₂ measure, increased due to a change in the type of energy we were able to purchase and an increase in air travel. We have programmes in place to reverse this trend. For a growing business, it is a challenge to reduce emissions consistently. See 'Preventing climate change' on page 24 for more information about HSBC's commitment to carbon neutrality and how we are addressing our increased CO₂ emissions.

► **Measuring CR progress**

We have been reporting for some years on the environmental impacts of our operations and the diversity of our workforce. However, there are other aspects of our business that may also have significant social and environmental dimensions, for which we have no global metrics. We recognise we need to develop these measures and report on them in future.



“How a business like HSBC responds to the challenge of balancing the needs of people, planet and profit is part of our corporate responsibility strategy...we want HSBC to be one of the world’s leading brands for corporate responsibility.”

We believe a company that behaves ethically, responsibly and sustainably will ultimately be more successful than its competitors because it addresses issues on which its long-term success depends, and thereby gains the confidence of investors, customers and employees.

Our vision is to be the world’s leading financial services company. We want HSBC to be the first choice for our customers and for our employees – the **best place to bank**, and the **best place to work**. We also believe that we can play a role in helping to address the formidable challenges facing society today. And by helping to make the world a **better place to live**, we will also make our own business more sustainable.

As one of the world’s leading financial services companies, HSBC’s main contribution to the well-being of society comes through the contribution we make to economic prosperity by providing a broad range of financial services to our 125 million customers. We serve customers in four principal areas – personal financial services; commercial banking; corporate, investment banking and markets businesses; and private banking.

In each of these areas, we are seeking to make our business more sustainable. Sustainable development – development that meets the needs of the present generation without preventing future generations from satisfying theirs – is at the heart of our corporate responsibility agenda.

In our personal financial services businesses, we are committed to responsible selling and preventing over-indebtedness. We continue to work with industry peers to ensure consistency and fairness in decision-making, including sharing credit data to make it easier for lenders to assess an individual’s overall financial position. If customers find themselves in financial difficulty, we work with them to adjust repayments and will offer free debt counselling where appropriate.

Introduction by the Group Chairman

We provide vital access to finance for millions of customers through our consumer finance business, and we are extending these services in developing markets such as India and Indonesia. In markets such as India, we are also putting in place a microfinance strategy to enable us to reach out to some of the world's poorest communities and to provide small-scale financial services to those without banking relationships.

We have developed a series of five sector policies covering our client relationships in industry sectors with higher environmental and social risks. In 2006, we launched our fourth guideline, the *Energy Sector Policy* and, in 2007, we will publish our latest policy, for the mining and metals sector.

We continue to monitor the direct impacts of our business, with the aim of improving our sustainability. We have been 'carbon neutral' since October 2005. In 2006, carbon dioxide emissions per person increased but performance against our other environmental targets remained flat. We are committed to making faster progress and are investing in measures to improve these trends.

While our biggest contribution to society is the responsible provision of financial services, we have also long sought to strengthen our ties with local communities through philanthropic partnerships. Education continues to be the primary focus for our corporate giving; in 2006, we donated over US\$40 million to education projects around the world. Notably, during the year we launched 'Future First', a five-year programme to help improve the lives of some of the most marginalised and impoverished members of society – street children, children in care and orphans.

The second philanthropic area we support is the environment. Our five-year, US\$50 million 'Investing in Nature' partnership with three leading conservation charities concluded in 2006. We are delighted to have achieved the goals we set out with our partners – to conserve endangered plants; to protect freshwater systems in China, Brazil, the US and the UK; and to support conservation research in the field. Some 2,000 employees have spent up to two

weeks on various conservation projects around the world, creating a network of environmental 'ambassadors' within the Group. During 2007, we expect to launch a successor programme to continue our support for the environment.

We were delighted in 2006 to win our first major international award in recognition of our leadership in merging social, environmental and business objectives when we were named the *Financial Times*' 'Sustainable Bank of the Year'. We also continue to value our inclusion in the Dow Jones Sustainability Index and FTSE4Good, and remain committed to supporting the UN Global Compact.

Our track record is good, but there will always be major new challenges. During 2007, we will continue to explore with our stakeholders new ways in which HSBC can contribute to sustainable development – to making the world a **'better place to live'**.



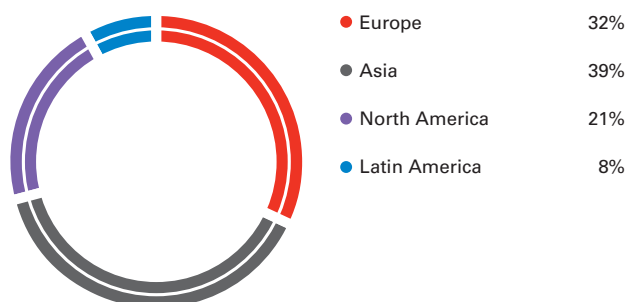
Stephen Green

Group Chairman
HSBC Holdings plc
May 2007

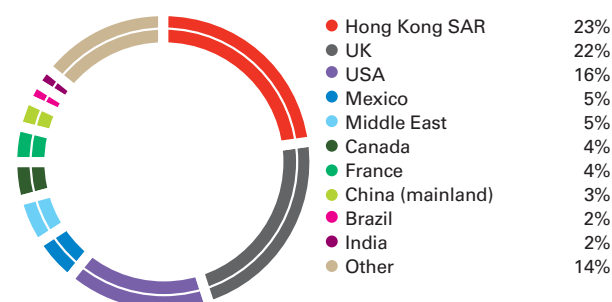
Group Overview: Geography

HSBC is one of the largest banking and financial services organisations in the world, serving 125 million customers through its operations in Europe, Asia, North America and Latin America.

Pre-tax profit by region 2006



Pre-tax profit: top 10 locations 2006



Geographical regions

Europe

HSBC's European operations contribute over 30 per cent of the Group's pre-tax profit, with the largest share coming from the UK, where HSBC Bank plc is one of the largest banks. In the UK, we also have a leading direct business, First Direct, as well as financial services through M&S Money and several consumer finance operations. In continental Europe, we have major businesses in France and Switzerland, and a large and rapidly growing business in Turkey. We are investing in developing our operations in Eastern Europe.

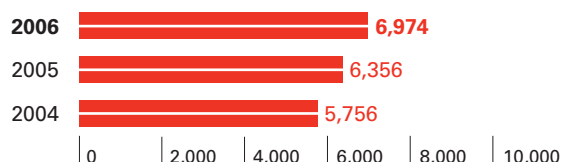
Profit before tax

US\$6,974_m

Total assets

US\$829_b

Pre-tax profit: 3-year comparison (US\$m)



Asia

The Hongkong and Shanghai Banking Corporation Limited remains the largest bank incorporated in the Hong Kong SAR and HSBC's flagship bank in Asia, with operations in 21 countries and territories in the region. Hang Seng Bank Limited, a majority-owned subsidiary, is also based in Hong Kong. We are the leading foreign bank operating in China, both through our own network and through partnerships with several important Chinese banks, including a 19.9 per cent stake in China's fifth largest bank, Bank of Communications, and 16.8 per cent in one of China's largest insurers, Ping An Insurance.

This region also includes our fast-growing businesses in the Middle East, where HSBC Bank Middle East Limited and a Group associate, The Saudi British Bank, have the widest network of branches, subsidiaries and associates in the region.

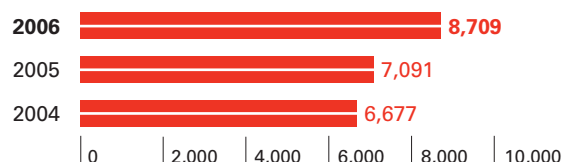
Profit before tax

US\$8,709_m

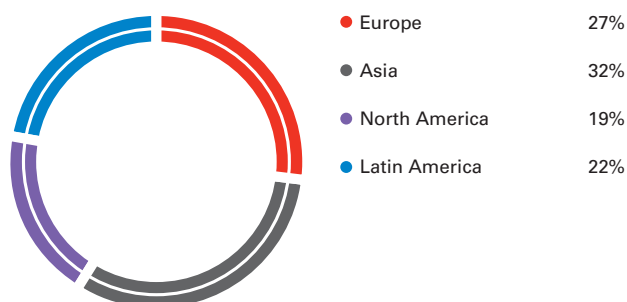
Total assets

US\$440_b

Pre-tax profit: 3-year comparison (US\$m)



Headcount by region 2006



North America

HSBC's North American businesses are located in the US, Canada and Bermuda. In the US, we operate as HSBC Bank USA, N.A., which is concentrated in New York State, and as HSBC Finance Corporation, a national consumer finance company based in Chicago. HSBC Bank Canada and The Bank of Bermuda Limited have important franchises in their respective countries. The decrease in 2006 pre-tax profits in North America was primarily due to higher loan impairment charges in the correspondent mortgage services business within HSBC Finance.

Latin America

For the first time, we reported our results for a new segment, Latin America and the Caribbean. This reflects the growing importance of our operations in Latin America within the HSBC portfolio. We have major operations in Mexico, Brazil, Argentina and Panama, with HSBC México, S.A. the fourth largest contributor to the Group's profits, after Hong Kong, the UK and the US. In 2006, we enhanced our presence in Latin America through the acquisition of Grupo Banistmo, the largest bank in Panama. The acquisition took us into five new markets – Costa Rica, Honduras, Colombia, Nicaragua and El Salvador – whose economies have good growth prospects.

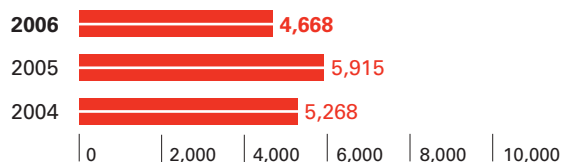
Profit before tax

US\$4,668m

Total assets

US\$511b

Pre-tax profit: 3-year comparison (US\$m)



Profit before tax

US\$1,735m

Total assets

US\$81b

Pre-tax profit: 3-year comparison (US\$m)



Group Overview: Customers

HSBC manages its business through two customer groups, Personal Financial Services and Commercial Banking, and through two global businesses, Corporate, Investment Banking and Markets, and Private Banking.

Personal Financial Services

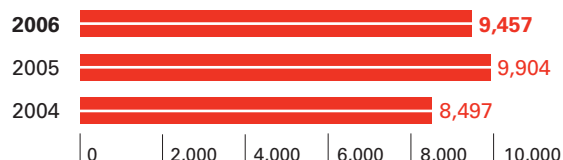
Profit before tax

US\$9,457m

Total assets

US\$547b

Pre-tax profit: 3-year comparison (US\$m)



Personal Financial Services (including Consumer Finance)

We serve over 120 million individual and self-employed customers around the world, providing them with a wide range of banking and other financial services through our branch networks, over the telephone, online and via self-service machines. Our goal is to simplify our products and to offer them through multiple channels, so that customers can choose how they do business with us. Other key areas of growth include our premium banking service for affluent customers, HSBC Premier, and our consumer finance services which we are extending from the US into new markets. In 2006, our pre-tax profits in Personal Financial Services fell by 5 per cent due to unexpectedly high loan impairment charges, particularly in the US.

Treat customers fairly through transparent pricing

Our strategic goal is to make HSBC the strongest global player in personal financial services. Key to this is to offer fair and transparent pricing. This means ensuring that regulatory requirements in each market are met or even exceeded. Prices, rates, fees, and terms and conditions for accounts, credit cards, consumer loans, mortgages and other retail products are published in branch and direct mail literature, on local web sites, and in our contractual disclosures to customers. Our prices are regularly benchmarked against competitors in local markets to ensure our customers continue to receive good value for money.

Focus on emerging markets

HSBC offers a number of innovative products targeted at emerging markets. Mexican migrants working in the US can use a free money transfer product called 'Easy Send' (Envío Fácil) to send funds back to their families in Mexico. This product has enabled HSBC in Mexico to gain a significant share of the local remittance market.

We have launched FastCheque and FastClick to enable non-resident Indians to transfer funds from their HSBC accounts overseas to HSBC accounts in India. These products are now offered in the United Arab Emirates, providing free remittances online and through ATMs to non-resident Indian customers there.

HSBC Amanah, our *shariah* (Islamic finance) banking service, is now offered in Malaysia, Saudi Arabia, the United Arab Emirates and the UK. Personal services include accounts, cards, home finance, personal finance, vehicle finance, investment and *takaful* (Islamic insurance).

In 2006, HSBC's acquisition of Grupo Banistmo S.A., the leading banking group in Central America, and the operations of Banca Nazionale del Lavoro in Argentina reflects the growing importance of the fast-growing Latin America region to the Group.

Commercial Banking

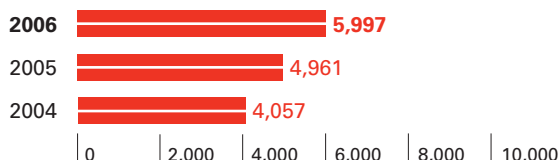
Profit before tax

US\$5,997m

Total assets

US\$213b

Pre-tax profit: 3-year comparison (US\$m)



Commercial Banking

HSBC is one of the world's leading, and most international, banks with 2.6 million Commercial Banking customers in 62 locations. These customers include sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies. The globalisation of their activities has been very marked in recent years, and we are uniquely placed to help them through offering supply chain management, cash management and business introductions all over the world. In 2006, pre-tax profit in Commercial Banking grew strongly, by 21 per cent, due to growth in customer assets and liabilities and our success in serving customers internationally.

We want HSBC and our commercial customers to benefit from global economic growth and international trade. Our international network of offices is unrivalled, with a particular strength in key emerging markets. As part of our plan to become the world's leading international business bank, we have opened International Commercial Banking Centres in 16 countries and territories.

Provide proactive solutions for SMEs

HSBC wants to be the best bank for small and medium-sized enterprises (SMEs). To support SMEs in developing socially and environmentally responsible business practices, we introduced a programme called 'HSBC Living Business', which comprises three components: a web site, seminars and an award scheme. Trade associations, non-governmental organisations and corporate responsibility (CR) professionals provide the content of the web site, including the latest business information and advice on CR issues.

'HSBC Living Business' also offers free training programmes and seminars to help SMEs acquire the skills and knowledge to manage a sustainable business. Seminar subjects are topical,

practical and business-orientated. For example, in response to buyers' concerns and in compliance with regulatory requirements, a recent 'Living Business' seminar covered ethical sourcing in China.

The HSBC Living Business Awards recognise socially and environmentally responsible SMEs, which must demonstrate that a strong commitment to long-term sustainability can enhance the competitiveness and profitability of their businesses.

'Living Business' has been highly successful in Hong Kong and Singapore and, in 2006, it was expanded to South Korea and Sri Lanka. India and France plan to launch it in 2007.

Fully leverage our direct banking capabilities

Today, our customers have access to a full range of delivery channels, including online and direct banking offerings such as HSBCnet and Business Internet Banking. In 2006, the number of registered Business Internet Banking customers grew by 29 per cent, active customers increased by 28 per cent, and online transaction volumes rose by 22 per cent.

In 2006 in the UK, HSBC launched a 'Business Direct' proposition, which offers free banking for customers who do all their banking online or over the telephone. This initiative has been very successful, attracting about 20 per cent of new customers who switched banks during the year.

HSBC's direct banking capabilities won three awards in *Global Finance World's* 'Best Internet Bank Awards 2006': 'World's Best Trade Finance Services', 'Best Integrated Corporate Bank Site', and 'Best Corporate/Institutional Internet Bank in Europe'.

Corporate, Investment Banking and Markets

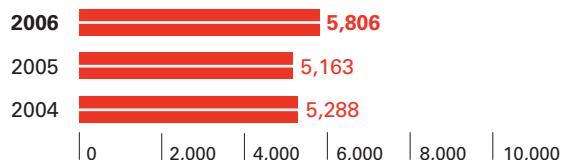
Profit before tax

US\$5,806m

Total assets

US\$994b

Pre-tax profit: 3-year comparison (US\$m)



Corporate, Investment Banking and Markets

The role of our Corporate, Investment Banking and Markets (CIBM) business is to provide tailored financial solutions to major corporate, institutional and government clients worldwide. Our strategy is to be a leading wholesale bank by focusing on financing and emerging markets, and by building on the Group's unique footprint and heritage. We saw the positive results of this focus on cross-border distribution, both in the transactions that we led in the course of the year, and in our results for 2006, which saw pre-tax profit rise by 12 per cent.

UN Principles for Responsible Investment

In June 2006, our Group Investment Businesses became a signatory to the United Nations Principles for Responsible Investment (PRI), a voluntary framework for institutional investors that recognises environmental, social and governance issues can affect investment returns.

Launched by the UN Secretary General in April 2006, the six principles must be applied across all of a signatory's assets under management, not just specialist socially responsible investment funds. We have developed a strategy for the phased implementation of the principles, including building internal awareness and understanding of sustainability issues in relation to our investment activities.

All PRI signatories are committed to: incorporate environmental, social and corporate governance issues into investment analysis and decision-making processes; aim to be active owners and incorporate environmental, social and corporate governance issues into ownership policies and practices; seek appropriate disclosure on these issues by the entities in which the signatories invest; promote acceptance and implementation of the principles within the investment industry; work together to enhance the signatories' effectiveness in implementing the principles; and report on activities and progress towards implementing the principles.

Socially responsible investments

HSBC Investments launched a new socially responsible investment (SRI) team in 2006 to provide clients with in-depth expertise and a wide range of socially responsible investment solutions. The team consists of six SRI analysts based in Europe, India and Brazil, plus two product specialists working closely with a network of SRI contacts around the world. The SRI research team analyses environmental, social and governance issues that affect particular companies and business sectors.

In January 2006, HSBC Investments (Brazil) launched a fund to track the Corporate Sustainability Index established in December 2005 by BOVESPA, the São Paulo Stock Exchange. The index contains up to 40 Brazilian stocks and is rebalanced annually, at which point the companies will be re-evaluated in relation to their sustainability performance. A board oversees the index and has commissioned the Center for Sustainability Studies of Fundação Getulio Vargas, a leading business school in Brazil, to conduct the initial assessment for selecting index constituents based on best practices.

We offer SRI-screened funds in the UK, France, Germany and Brazil, and manage SRI mandates in seven countries. Together, this represents US\$1.5 billion of assets under management, less than one per cent of our total assets under management.

Private Banking

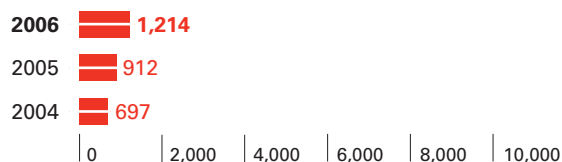
Profit before tax

US\$1,214m

Total assets

US\$73b

Pre-tax profit: 3-year comparison (US\$m)



Private Banking

We provide financial services to high net worth individuals and their families from 90 locations in 35 countries and territories to help them manage and preserve their wealth. Client assets grew by 22 per cent to US\$333 billion at 31 December 2006. This contributed to another very successful year for our private banking business, with pre-tax profit growing by over 30 per cent for the second year running.

Charitable trusts and philanthropy

HSBC's Private Banking business has the expertise to support the growing interest among its clients for charitable trusts and other financial vehicles for managing philanthropic giving. This is directly related to the growth in wealth and intergenerational wealth transfer needs among high net worth individuals (i.e., from parent to child and/or to posterity). In New York, Bermuda and Hong Kong, we offer dedicated philanthropic services. We also ensure that the appropriate governance arrangements are in place for our fiduciary responsibilities in relation to our proprietary charitable trusteeships and those of our clients. Our wealth, tax and advisory services in such key markets as the US, Hong Kong and the UK are critical to clients' needs in this area.

Preventing financial crime

Private Banking – as well as all our other businesses – takes appropriate measures to prevent our services from being used for criminal purposes and co-operates with the authorities as a matter of course to prevent financial crime. Comprehensive policies and procedures are in place to prevent money laundering, terrorist financing or other criminal activities. To ensure that these measures remain effective, anti-money laundering policies are updated and thoroughly reviewed annually by both internal audit functions and local financial industry regulators.

As is the case for all of our business, we are required to 'know our customers'. We check the identity of clients prior to opening an account to get a full understanding of their true financial situation. We use a commercial database to conduct a criminal background check, and have automated systems in place to monitor and identify suspicious transactions. We apply a more stringent approval process for certain types of customer – for example, public officials who open accounts outside their home countries – in order to reduce the possibility of money laundering.

While direct lending to projects is very limited within Private Banking, we may have indirect exposure to environmental risk as a result of other assets being used as security. We ensure that the purpose of all loans is clearly understood and risks are assessed accordingly. In appropriate cases, we apply our sustainability risk guidelines governing specific sectors such as forestry and freshwater infrastructure. Private Banking has, in specific cases, stepped aside from transactions when the underlying use of funds did not comply with our social or environmental risk requirements.

Our Approach to Corporate Responsibility

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



Purnima Rao

Corporate responsibility

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

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

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

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

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

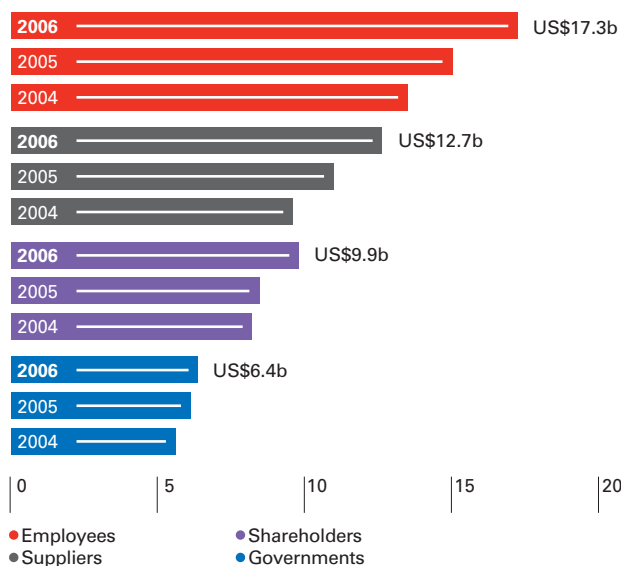
We are also aware that many of our customers have very real concerns about globalisation. For example, they want to know whether they will continue to receive a high level of customer service and whether their banking transactions will be secure. By investing in its employees and the latest technologies,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

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

Sustainable development: creating economic, environmental and social benefits

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

Distribution of economic benefits 2004-06



Employees

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

Suppliers

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

Shareholders

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

Governments

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

Our Approach to Corporate Responsibility (continued)

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

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

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

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

CR and sustainable development training

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

Managing our direct impacts

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

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

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

Purchasing: managing risks and opportunities

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

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

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

Visit

www.hsbc.com/supplierscode

Stakeholder engagement

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

Community investment

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

Education

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

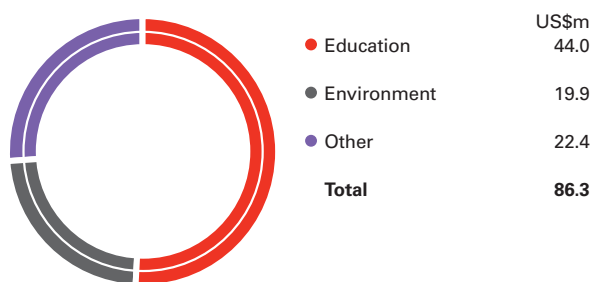
Launched in 2006, 'Future First' is a US\$10 million, five-year global programme dedicated to helping street children, orphans and children in care. The HSBC Global Education Trust is collaborating with international charity SOS Children's Villages and other charities around the world on a programme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

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



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

Community donations by category 2006



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

Environment*

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

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

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

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

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

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

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

Microfinance

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

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

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

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

Our Priorities

The Kinabatangan River in Sabah, Malaysia, shows a heavy silt load resulting from development activities upstream. Clear water joins from a protected tributary that runs through a popular eco-tourism region.



F Sullivan

Responsible finance: personal customers

Fair selling practices

We ensure that our fees and other charges stand comparison with those of our competitors. We promptly notify our customers before changing service fees. We also conduct regular market surveys to gauge customer expectations and satisfaction levels.

In the UK, we ensure that our policies, procedures and processes are in line with the Financial Services Authority's 'Treating customers fairly' initiative. The initiative covers a broad range of issues including strategy and culture, product design, marketing, sales and advice processes, after-sale information, and the handling of complaints.

In the US, in addition to complying with all federal and state regulatory requirements, we have a Fair Lending Office and a Fair Lending Executive Committee whose remit is to ensure our customers receive fair treatment in terms of pricing and access. We have invested in systemic controls in our consumer lending businesses which include a test for tangible mortgage benefits for customers; an independent review of mortgage loans by a third-party loan adviser specialising in loan-closing services; a 10-day money back guarantee; and lower rates for on-time prompt payers through our Pay Right Rewards programme.

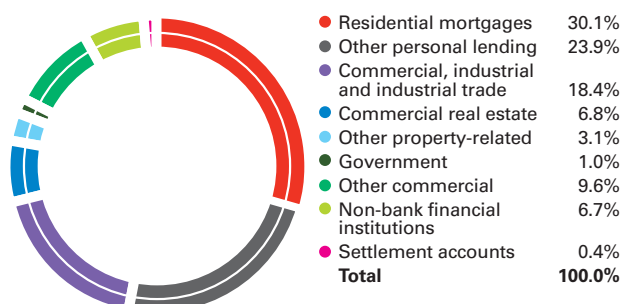
Addressing indebtedness

For most people, borrowing is a positive experience, enabling improvements in, for example, lifestyle or livelihood. For a small minority, however, debt can become a burden which causes anxiety, contributing in some cases to illness, homelessness or job loss.

If it is apparent a customer is in financial difficulty and is having trouble making repayments, we will try to contact him/her at the earliest possible opportunity to gauge his/her financial situation properly. We will adjust the repayment schedule to reflect his/her ability to pay. Some of our regional loan and credit card products also offer unemployment insurance.

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

HSBC's total customer loan book by sector 2006



In the US, we partner with Consumer Credit Counselling, a nationally respected community-based organisation that offers borrowers free credit counselling. The organisation acts as a middleman between borrowers and their lenders to prepare a budget that the borrower can afford and the lender can accept. Our customers can avoid this kind of assistance by using our 'YourMoneyCounts™' financial literacy programme, which includes advice on such issues as personal money management, credit, savings and identity theft.

Visit

www.yourmoneycounts.com

HSBC in Hong Kong has a Debt Workout Unit and Mortgage Restructuring Unit to help customers facing financial difficulty by providing debt counselling or restructuring. In the UK, a dedicated debt counselling team offers an in-depth analysis of income and expenditure.

In 2005, we became the first major UK bank to share fully our credit data with all other UK lenders via credit reference agencies, making it easier for lenders to assess an individual's overall financial situation. To ensure consistency and fairness, we do not permit branch staff selling credit products to grant applications. Most credit applications are assessed and approved or denied based on an automated credit-scoring system. If an application needs to be reviewed, it goes to specialist underwriters for an objective decision.

A credit reference agency provides a data file every month for us to monitor the credit commitments of all our UK borrowers. If a customer's credit situation has deteriorated, we will not extend borrowing any further and credit lines may be reduced. For those facing more serious problems, we are establishing a telephone advice service, which will be available in mid-2007.

US mortgage delinquency situation

The housing market in many parts of the United States has been affected by a slowing down in the rate of appreciation of, or a decline in, property values and, at the same time, properties have remained unsold for a longer period of time. In addition, some borrowers have experienced greater difficulty in servicing their adjustable-rate mortgages because of rising interest rates, which increase the amounts payable on their loans as prices reset higher under their contracts. One portfolio of purchased sub-prime mortgages in our US Consumer Finance subsidiary, Mortgage Services, experienced much higher delinquency than had been built into the pricing of these products. This contributed to a fall of US\$725 million in pre-tax profit in our personal financial services businesses in the United States in 2006 compared with 2005.

Among the steps taken to mitigate risk are enhanced segmentation and analytics to identify the higher risk portions of the portfolio, and increased collections capacity. HSBC is restructuring or modifying loans in accordance with defined policies if customers are able to continue to pay the restructured or modified loan. Also, customers who have adjustable-rate mortgage loans nearing the first reset, and who are expected to be the most affected by a rate adjustment, are contacted to ascertain their ability to make the higher payment and, as appropriate, to refinance or modify their loans.

Customer service and satisfaction

Customer satisfaction is key to the development of our business. We regularly conduct customer satisfaction surveys around the world and, in 2007, we will introduce a consistent measure of recommendation to gauge customer satisfaction among personal and commercial customers.

In line with HSBC's geographical structure, customer service is surveyed both at the local country/territory level and by customer group, focusing on satisfaction levels, recommendation to new customers, switching behaviour, market share and complaints as benchmarked against competitor banks. We employ independent research firms to conduct monthly or quarterly surveys using a variety of research methods including face-to-face surveys, focus groups, telephone, online and paper questionnaires, and 'mystery shoppers', whereby a market researcher poses as a customer to assess the customer experience in branches.

We use the results and recommendations of these surveys to improve our customer service standards. Customer feedback is shared with the relevant business areas so that appropriate improvement action plans can be developed. We also consider customer feedback in performance appraisals for branch staff in the UK, the United Arab Emirates and Saudi Arabia. Best practice is shared with other countries and territories.

Here are examples of our approach to customer service in some of our key markets:

Following a pilot project in 2005, we implemented a new intranet-based system in the UK to track all customer complaints received in writing, face-to-face, by telephone or by e-mail. The system captures feedback on every aspect of our service to identify the root cause of a complaint and thus prevent recurrences. Complaints are routed to the relevant business areas for resolution. Our target is to resolve all complaints within 48 hours.

In the US, 'mystery shoppers' are used regularly, as well as surveying customers about our products and services. The results of customer and consumer studies are used to modify product offerings or to develop new products and services.

In Brazil, HSBC's own annual financial institution survey is syndicated among the biggest banks in the country for evaluating customer satisfaction and comparing performance between competitors. Customer complaints are co-ordinated by the Action Request System. The 'Quality Area' consolidates the data and prepares reports, and then works with the relevant business area to resolve the complaint. The CEO chairs a Quality Committee made up of senior executives that evaluates the results quarterly and also chairs a monthly forum of business heads who look at all aspects of customer experience.



Andy Wilson

This HSBC Bank branch in Worcester, UK, has been redesigned to focus on self-service machines, product advice and sales.

Financial inclusion

Branch distribution

Branches are a key channel for the delivery of banking services in most of our markets. As the table below shows, in all but one of our top 10 countries and territories the total number of branches increased during 2006. In some of our markets, such as the UK and Canada, telephone and internet banking use continues to grow while branch usage is on the decline. In other markets such as the US, China and the Middle East, our branch network continues to grow. In many places, we are redesigning branches to meet future needs, with more focus on self-service machines, product advice and sales, and less on counter transactions.

In some cases, we may have to close a branch if it is not a sustainable operation. Any decision to close a branch is made only after careful thought, considering the needs of both our customers and our business. While these changes may adversely affect some of our customers in the short term, we believe our long-term investment in a strong branch network, ATMs, telephone banking and internet banking will provide the best possible service for our customers now and in the future.

Low income financial services

Service charges are levied for banking in most countries. One exception is the UK where there are generally no fees for maintaining bank accounts. However, customers require a credit rating to open a current account, with an overdraft facility. For customers who do not qualify for such an account, we offer a Basic Bank Account in accordance with the UK Banking Code. Our Basic Bank Account offers more services than many comparable accounts in the UK, such as telephone and internet banking, and the use of all LINK cash machines. HSBC has been commended for not charging for returned direct debits and for having a free £10 buffer zone.

We have made a significant contribution to the UK government's target of halving the number of adults without a bank account. We opened over 618,000 Basic Bank Accounts between 2003 and 2006, during which time over 164,000 of these upgraded to fuller featured accounts. At the end of 2006, we held over 300,000 Basic Bank Accounts.

In the US, we have set up a special team to manage HSBC Bank USA's obligations under the federal Community Reinvestment Act. The act mandates that each federally insured depository institution must meet the credit needs of low and moderate income residents in the communities where it is located. In 2004, HSBC made a commitment to increase its community development lending and investments to US\$1 billion over five years. In 2006, the amount had exceeded US\$600 million. As a result of our efforts, HSBC has received the highest possible rating of 'outstanding' from the regulators.

In Mexico, we offer several products suitable for lower income customers. 'Tu Cuenta Nomina' offers our 2.2 million payroll customers an option for no-fee access to financial services. Our large payroll business has allowed HSBC México to bring in new customers without prior credit history into the formal banking sector, offering pre-qualified personal loans through ATMs and branches. Another service allows customers in rural areas to make deposits and withdraw cash at government telegraphic offices.

In Hong Kong, senior citizens or recipients of government disability allowances are exempted from fees applicable to all stand-alone accounts.

Accessibility

In the UK and the US, wheelchair access in many areas of the service sector, including banks, is required by law. In other countries such as France, similar legislation is anticipated. We often exceed these legal requirements and offer all our customers equal access to our facilities. In the UK and the US, text phone services, induction loops and telecommunication devices and, by appointment, sign language interpreters are available.

In November 2006, HSBC became the first financial services organisation in Hong Kong to offer Braille statements in English for visually impaired customers.

We are also committed to improving accessibility to our web sites for internet banking. Our new global banking platform – launched in the US, Canada and the UK in early 2007 – will be easier to navigate for visually impaired customers.

Branch network in HSBC's top 10 locations 2006	Branches:			Branches:	
	Jan 2006	New branches	Closures	Dec 2006	Relocations
United Kingdom ¹	1,578	13	34	1,557	6
Mexico	1,479	26	20	1,485	34
Brazil ²	1,220	5	2	1,223	21
France	785	26	6	805	2
USA	424	35	8	451	1
Hong Kong SAR	237	24	21	240	5
Canada	127	5	5	127	4
Middle East ³	77	22	0	99	0
India	42	4	0	46	0
China	21	14	0	35	1

1 New branches include five business offices/Commercial Banking Centres.

2 Excludes 458 mini branches situated within companies.

3 Excludes Iraq.

Responsible lending and financing: Commercial, Corporate and Investment Banking customers

Carbon finance

We believe financial institutions can play an important role in the transition to a lower-carbon future. In recognition of this, we launched our Carbon Finance Strategy in 2006 to help clients respond to the challenges of creating a lower carbon economy. This seeks to develop opportunities to work with clients to promote clean energy generation, and efficient and renewable energy technologies.

Our strategy focuses on low-carbon technologies that are technically and commercially viable, i.e. wind, solar, energy and transport efficiency, landfill methane gas capture, and geothermal energy. We also put a premium on working in countries where the regulatory framework and government policy support early adoption of low-carbon technology. HSBC will continue to support traditional fossil fuel-based technologies, subject to social and environmental standards being met, and to encourage moves towards energy efficiency and lower carbon fossil-fuel technologies.

Managing sustainability risk

We manage the direct impact of our operations responsibly, taking account of the environment and local communities. We recognise that our indirect impacts, through the provision of financial services to our customers, can have adverse consequences. Our offices use a framework involving policies, processes and people for guidance on environmental and social risk, which we call sustainability risk.

Formulated in 2002, our *Sustainability Risk Standard* applies to all our customer groups. The *Standard* addresses environmental and social risks in customer relationships and transactions, and is complemented by the *Sustainability Risk Policy* detailed in our risk manual.

The *Sustainability Risk Policy* defines different levels of impact, references international standards of good practice, specifies activities considered either unacceptable ('prohibited') or requiring careful management ('restricted'), and provides guidance on good practice to our customers. It is reviewed annually to ensure adherence to current standards. For example the last update, in 2006, incorporated developments in social standards and the Equator Principles. In particular, the policy emphasises active engagement with our clients in relation to sustainable practices, provided they do not undertake prohibited activities and are making progress towards internationally accepted standards of good practice.

We take stakeholder feedback seriously. While working within the constraints of client confidentiality, we discuss feedback with clients and take it into account when reviewing our policies and our relationships.

An important element of the *Sustainability Risk Policy* is the series of guidelines for specific industry sectors. In 2004, we committed to publish and implement five policies, focusing on those sectors with particularly high potential impacts on the environment and on communities. We have already published policies for the Forest Land and Forest Products, Freshwater Infrastructure and Chemicals sectors.

In 2006, we published our *Energy Sector Policy*, which encourages the reduction and disclosure of greenhouse gas emissions, and its application is mandatory when financing large projects. The policy also prohibits the provision of financial services for operations in UNESCO World Heritage Sites, Wetlands listed by the Ramsar Convention, High Conservation Value Forests and Critical Natural Habitats. This sector will play a key role in combating climate change and, in line with our approach of providing guidance on both risks and opportunities, we published the policy simultaneously with our Carbon Finance Strategy.

Our fifth sector policy, on Mining and Metals, was recently approved and will be published in 2007. The international standards referenced by this policy are shown in the table below, and the prohibitions are similar to those in the *Energy Sector Policy*. Only in exceptional circumstances will we consider direct financial support where mine waste is disposed of in rivers or in the sea. This policy represents the progress we have made in covering not only environmental but also social and governance issues. It supports, as best practice, the UN Global Compact, the Voluntary Principles on Security and Human Rights, and the Extractive Industries Transparency Initiative.

Equator Principles

Significant sustainability risks can arise in large projects, such as the construction of an airport, a power plant or an oil refinery. The Equator Principles comprise a set of voluntary guidelines based on best practice to help financial institutions and their clients to address such environmental and social impacts. Since HSBC adopted the Principles in 2003, they have become a key component of our Project and Export Finance business, while also forming a core part of our wider approach to managing sustainability risks.

HSBC played a key role when we chaired the Equator Principles Working Group during the review it led in 2006. Other financial institutions, as well as stakeholders such as clients and non-

Sector policies	Issue date	International standards referenced
Forest Land and Forest Products	May 2004	Forest Stewardship Council or equivalent
Freshwater Infrastructure	May 2005	World Commission on Dams Framework
Chemicals	August 2005	Stockholm and Rotterdam Conventions; Montreal Protocol; World Health Organisation Redlist
Energy	June 2006	Kyoto Protocol; European Union Emissions Trading Scheme
Mining and Metals	2007	International Cyanide Management Code; Kimberly Process Certification Scheme; International Atomic Energy Agency's Safeguard Agreements

government organisations (NGOs), also participated. Key changes to the Principles include:

- Reducing the minimum financial threshold for projects requiring compliance, from US\$50 million to US\$10 million.
- Referencing the International Finance Corporation's new Performance Standards, which provide an updated framework to manage sustainability impacts.
- Extending the Principles to cover advisory work on projects, in addition to financing.
- Removing potential duplication for clients when undertaking social and environmental impact assessments.
- Requiring financial institutions to report publicly on implementing the Principles.

The new Principles remain an integral part of the advice and finance we provide to clients, helping to identify both impacts and solutions. As can be seen from the table opposite, our Project and Export Finance business has grown significantly in the last three years – partly due to the implementation of the Equator Principles. The majority of our transactions fall into the lower risk categories (B and C), although we consider higher risk projects (category A) where the impacts can be managed in a sustainable manner. We also record the number of transactions which are declined and where failure to comply with the Principles was a contributory factor. This number continued to fall, reflecting the good standards of our clients and the skill of our executives in screening out unacceptable proposals at an early stage before any formal approval is required.

Policies

Successful implementation of our policies has been achieved by embedding them in our business units. Project and Export Finance executives have undergone formal and on-the-job training on the Equator Principles, while senior management ensures that sustainability impacts are considered in the review of all potential project finance transactions. Our head office gives final approval of transactions with a higher level of sustainability risk. Training modules on the new Principles and the new Performance Standards are now included in our risk management training courses.

Process

Relevant employees receive training when a new policy is issued. For the *Forest Land and Forest Products Sector Policy*, we produced a DVD to highlight the issues. For the *Mining and Metals Sector Policy*, we provide training directly to our in-country Sustainability Risk Managers so that they, in turn, can assist with training their own business and risk colleagues.

External advisers are hired to assist our executives or clients with complex technical information. For example, HSBC is a member of Tropical Forest Trust, which assists with the implementation of our *Forest Land and Forest Products Sector Policy*. We are trialling an electronic system to streamline the analysis of transactions under the Equator Principles and to provide more detailed management information.

People

The management of policies and process is undertaken centrally by two executives, with input from appropriate business areas. To ensure

that our local businesses take ownership for sustainability risk and can provide expertise on a local or regional basis, we have a team of 24 sustainable risk executives in 16 countries. In 2006 for example, our Indonesian office arranged seminars on sustainable development involving our executives and external stakeholders, our Brazilian office provided information on the Equator Principles to local banks, and our Malaysian office arranged training visits to a forest certified as sustainable by the Forest Stewardship Council.

For an update on progress on our implementation of the revised Equator Principles and our priorities for 2007, see www.hsbc.com/equatorprinciples

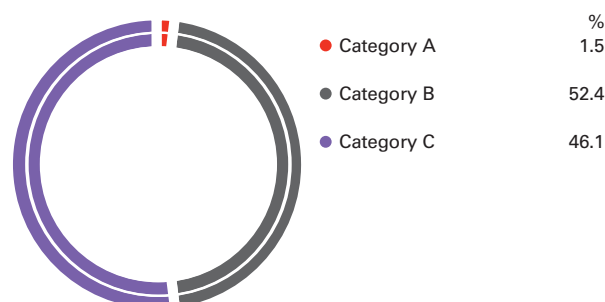
	2006		2005		2004	
Project finance: Equator Principles in practice	No.	Value (US\$m)	No.	Value (US\$m)	No.	Value (US\$m)
Transactions approved	76	5,171	67	4,601	46	3,528
By category						
– Category A	1	80	5	809	1	170
– Category B	41	2,708	38	1,917	34	2,435
– Category C	34	2,383	24	1,875	11	923
By type of facility						
– solely commercial	42	2,921	39	1,995	29	2,091
– solely export credit	29	1,350	21	2,075	13	997
– commercial/export credit	5	900	7	531	4	440
Transactions declined	4	n/a	7	n/a	12	n/a

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

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

Category C: projects with little or no environmental impact

Equator Principles: transactions by category 2006



See page 38 for a statement from DNV, our assurance provider, on our implementation of the Equator Principles.

Preventing financial crime

Anti-money laundering

HSBC's Group-wide policy on deterring money laundering and terrorist financing is based on internationally recognised standards issued by the Financial Action Task Force on Money Laundering. We continue to make significant investments in anti-money laundering systems, including automated systems and other processes to monitor transactions and report suspicious activity to the authorities; the screening of payments and customers against terrorist and sanctions lists issued by the authorities; and training programmes for all relevant staff. HSBC is a founder member of the Wolfsberg Group of Banks (www.wolfsberg-principles.com), which aims to develop anti-money laundering and anti-terrorism standards for financial services companies. We have adopted as Group policy all of the Wolfsberg Standards.

Countering fraud

In 2005, we launched a global fraud strategy which merged all anti-fraud activity across the Group under a central functional management, which has ensured consistency and efficiency in fraud prevention, detection and investigation. We have also embarked upon an ambitious programme of investment in anti-fraud technology, including a standard platform for customer monitoring across all channels globally. This is based on a commercial system being developed jointly with Software Company SAS, beginning with plastic card monitoring and expanding, in time, to include non-plastic and e-banking channels. Requiring a significant investment of capital and internal resources, the anti-fraud programme will place HSBC ahead of its peers in fraud detection capability. The card fraud team in the US will be the first to implement the system, with test results showing a marked improvement in fraud detection compared with previous years.

Increased customer awareness is essential in the battle against fraud, so HSBC continues to invest in initiatives to help customers understand the risks and avoid becoming victims. For example, we publish information on our primary web site, www.hsbc.com, and on our local language web sites around the world, on the measures taken by HSBC to protect customers from e-crime, as well as advice on the steps customers should take to protect themselves. HSBC is also involved with channel-specific initiatives, such as the 'Get safe online' campaign in the UK, a partnership between government departments and the private sector designed to raise public awareness of the risks of doing business online, and how they can be mitigated.

In tandem with customer education is internal education. We are stepping up our anti-fraud training programmes, with the dual aim of protecting our employees against fraud, and equipping them to offer fraud prevention advice to our customers.

HSBC also engages with external partners to identify fraud threats early, enabling us to take timely action to minimise their impact.

HSBC ensures that ATMs are located in secure, well-lit areas, often equipped with surveillance cameras. On-screen security tips are common in most branches, and security staff conduct routine checks on ATM locations. In the UK and the Middle East, our ATMs are equipped to thwart card skimmers from illegally reading customer

card numbers after a transaction. This technology is being considered in other locations across the Group.

Complementing this, we continue to collaborate with peer organisations, industry bodies and local regulators to introduce new anti-fraud solutions, the most recent of which was the successful implementation of 'chip and PIN' in the UK. In this way, we are able to keep abreast of emerging risks, sharing information to enable the Group to counter the fraud threats of the future.

Anti-bribery and anti-corruption

We have a long-established policy on bribery and corruption, which was updated in January 2005 with the assistance of Transparency International. HSBC's Business Principles for Countering Bribery give practical effect to such initiatives as the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery, and the anti-bribery provisions of the revised OECD Guidelines for Multinationals, and Principle 10 of the United Nations Global Compact. We also subscribe to the Wolfsberg Statement on Corruption.

HSBC's policy applies both to the bribery of public officials, and commercial transactions and relationships, providing a minimum Group-wide standard consistent with our business values: the highest personal standards of integrity at all levels; commitment to truth and fair dealing; and commitment to complying with the spirit and the letter of all laws and regulations in HSBC's areas of operations.

International commitments and memberships

United Nations	
UN Environment Programme Finance Initiative	1992
UN Global Compact ¹	2000
UN Universal Declaration of Human Rights	2003
UN Principles for Responsible Investment	2006
Sustainability	
Equator Principles	2003
Roundtable on Sustainable Palm Oil	2003
Carbon Disclosure Project	2004
The Climate Group	2005
Extractive Industries Transparency Initiative	2005
Anti-bribery and anti-money laundering	
Wolfsberg Principles	2000
OECD Convention on Combating Bribery	
OECD Guidelines for Multinationals	
International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery	
Human rights	
Global Sullivan Principles	2000
HIV/AIDS	
Global Business Coalition on HIV/AIDS	2003

¹ See our annual communication on progress at www.hsbc.com/ungc

Global resourcing

For an international company like HSBC, setting up service centres in Asia is consistent with our global approach. We now have more than 25,000 employees in our 10 Group Service Centres (GSCs) in five countries – China, India, Malaysia, the Philippines and Sri Lanka – who support customers in Europe, North America and Asia. In addition to creating jobs in emerging markets, our GSCs help us to remain competitive in the global financial services market.

Overall customer satisfaction levels remain consistent with our services centres located in other regions. A recent analysis of complaints relating to language and comprehension indicated that for every one million calls taken at our GSCs, just 40 complaints arise as a result of language and comprehension issues.

Redeployment policies

Since we initiated our global resourcing strategy, we have been successful in redeploying employees to new roles. In both the US and the UK, labour unions have expressed concern about the loss of service sector jobs. However, our global resourcing strategy has resulted in only 19 involuntary redundancies, with 372 people redeployed, due to jobs moving overseas.

In the UK, we have agreed procedures for handling any displaced roles. Under the Security of Employment Policy signed with the trade union Amicus, we are committed to redeploying any employee whose role no longer exists and to avoiding redundancy wherever possible. We have another agreement with Amicus specifically to address the consequences of clerical roles moving overseas and the means of minimising compulsory redundancy. In 2006, we consulted employee representatives on the move to overseas locations of over 1,200 UK roles, affecting more than 30 business areas. Of these employees, 114 who worked in our Mortgage Service Centre were redeployed successfully, without any individual leaving the bank through redundancy.

Security

In 2006, HSBC has invested some US\$9 million in the security of its overseas service centres. We have prevention and detection systems, which identify suspicious activities, including those of staff, and minimise loss. All our centres have strict procedures in place to protect customer records. For example, staff can only view data for the purpose of their job; random spot checks are made on data relating to staff access; and computers are specially protected to prevent data downloads. Physical access to the centres is also closely monitored.

Our staff are carefully selected and trained. They work in HSBC premises, use HSBC systems, and follow security procedures that are consistent with our operations throughout the world.

Development and learning

We believe that a key component of career development involves working in another country to gain international work experience – particularly relevant to an organisation like HSBC with offices in 82 countries and territories. To facilitate such international moves, we created a new Global Job Opportunities web site in 2006 based on employee feedback. Plans are currently under way to increase the number of internationally mobile staff and the diversity of employees working outside their home country through more innovative, cost-effective and individually tailored solutions.

Training

Our objective is to provide relevant, high quality and effective training so that our employees are well-equipped to serve customer needs and to make HSBC the best place to bank. Programmes are continually being updated to support business strategy and to reflect our compliance and corporate responsibility standards. Indeed, a number of programmes in the leadership suite have direct links to ongoing corporate responsibility projects.

We have also invested significantly in employee development: in 2006, each individual received, on average, five days of training. This was delivered through a variety of training media to maximise effectiveness, consistency and accessibility. Plans for 2007 include increasing e-learning usage Group-wide from the current 20 per cent of all training, thereby allowing employees more flexibility in planning their development. E-learning will also facilitate the global sharing of ideas, knowledge and best practice.

We manage talented individuals at different levels across the Group in order to build an effective leadership plan capable of achieving our current business strategy and of meeting future business requirements.

Managing talent

In 2006, improvements were made to these processes for the 'Group Talent Pool' – our 220 most talented individuals – to ensure they develop the required leadership skills. We also expect to build a stronger leadership cadre using more open dialogue and by being transparent about talent pool requirements and expectations, while at the same time supporting these individuals with bespoke development programmes.

In 2006, we launched several online career centres to provide such information as self-help career guidance tools, career-mapping information and manager support tools to employees across the Group.

Employee engagement

Employee engagement is a combination of an individual's overall satisfaction with, pride in, advocacy for, and commitment to, an organisation. Extensive external research shows that higher levels of employee engagement are linked with increased productivity and business performance.

In 2006, more than 168,000 employees throughout our worldwide operations – representing 56 per cent of our workforce – took part in local surveys. Actions taken subsequently have achieved rising levels of engagement in a number of our businesses. For example, the overall level of employee engagement in the UK rose by five per cent over the year. Across the nine Asian countries where engagement surveys were conducted, the average increase was four per cent, and the Group Service Centres saw a seven per cent rise.

We believe that the higher levels of employee engagement are due to the ongoing, two-way dialogue between management and employees. In the UK bank, a campaign called 'Best place to work' led by the CEO invited employees to make suggestions on improving our work culture. The campaign proved highly successful, having addressed several of the top priorities relating to the work environment, reward and recognition, and learning and development.

In 2007, HSBC will invite all employees to participate in a global engagement survey, which will enable the Group to:

- measure employee engagement levels consistently;
- increase business performance;
- measure and reward senior executives against engagement scores; and
- benchmark HSBC both internally and externally.

This survey and engagement strategy is led by the Group Management Board and HSBC senior executives will be held accountable for employee engagement levels. The results of the survey will help us to attract and retain high-performing employees.

People management: measures of our success

- 'Top 10 Best Company to Work for' in India – *Business Today* magazine, India
- '100 Best Companies for Working Mothers' – *Working Mother* magazine, USA
- 'Top 50 Companies for Diversity' – DiversityInc, USA

Diversity and equal opportunity

Diversity is a source of opportunity, whether in employment or customer markets. To ensure that diversity awareness becomes an everyday part of life and good management practice, one of our core human resource values is to employ a workforce that reflects the diverse communities in which the Group operates and the customers that it serves. Encouraging diversity also helps foster different perspectives on working and leadership style, problem-solving, managing relationships, creativity and business growth. It is this diversity of thought and experiences in our employees that provides the Group with its most important competitive differentiator.

Issues of diversity differ from country to country. In many instances, specific anti-discrimination policies are determined by the country's legislation and cultural norms. Therefore, we do not implement our diversity strategy on the basis of strict targets; instead, we aim to reflect local practice. Diversity statistics are delivered to the CR Committee of the Board at least four times a year.

Following our own research called 'The Future of Retirement' (2005) into the impact of ageing populations and prior to the launch of another research project on 'The Future of Employment' (2006), we appointed an internal task force to increase awareness of our diversity initiatives, to monitor and benchmark HSBC's performance, and to improve information sharing within the Group on managing the issue of age diversity. For example, when in October 2006 age legislation came into effect in the UK, we made a number of changes to our recruitment policy to avoid age bias in the way we attract and recruit applicants, and to ensure decisions are 'age neutral'. In 2006, 2.4 per cent of new hires in the UK were over 55 compared with 1.3 per cent in 2005.

Ethnic diversity is an especially challenging area to measure. For example, monitoring ethnicity is encouraged in the US, but it is seen as discriminatory practice in some countries including France. This means we will always be operating with incomplete data. Where possible, we have encouraged our employees to provide data voluntarily. The data are used to assess the effectiveness of our diversity policies. We will continue to ensure a balance of ethnicity in our global recruitment policy. Our ethnicity distribution at year-end 2006 closely reflects the markets in which we operate.

In 2006, HSBC took part in the Cross-Industry Consortium of Senior Executive Women. The first of its kind and developed jointly by HSBC, BP, IBM, O2 and Reuters, the project involved 12 senior executives from these organisations, including two from HSBC, to interact, share best practice and work on business topics of strategic importance. We will continue our support for gender diversity by participating in this consortium for the second year running and, also by hosting in the UK in September 2007 the Global Diversity Forum organised by ORC Worldwide. HSBC was the sole global supporter in 2006 of International Women's Day to inspire women and celebrate their achievements, and we participated in the Women's Forum for the Economy and Society held in Deauville, France.

We respect diversity in religious beliefs and practices and, in many locations, we provide on-site prayer rooms.

We recognise that the different societies in which we operate have different views about sexuality, including homosexuality and transgendered persons. We take account of cultural norms when developing our local diversity policies while respecting individual human rights.

HSBC employs and recognises people for their talent and potential. We are committed to finding the right solutions and make adjustments in the workplace to meet the diverse needs of all employees with disabilities.

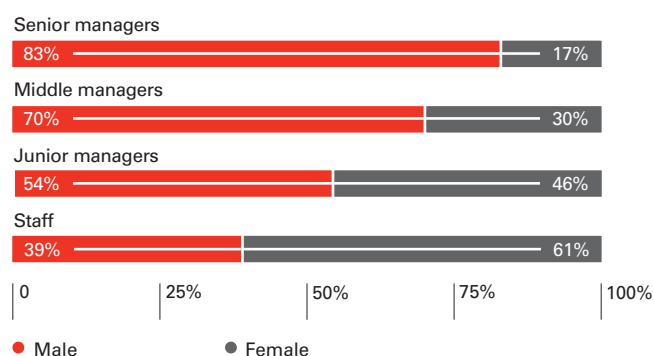
Our employees and candidates for employment are not required to take an HIV test. Employees can approach the bank doctor in complete confidence to seek advice on HIV testing and counselling. Our HIV/AIDS policy also includes a non-discrimination clause which states that any employee who discriminates against, harasses or victimises a colleague or customer suffering from HIV/AIDS will be subject to disciplinary action.

Our HIV/AIDS policy and workplace programmes have initially been focused on emerging markets where we have a significant presence. However, in 2007, we plan to introduce a Group-wide HIV/AIDS policy. The main aim of our current workplace programmes is to raise awareness and to provide prevention education. Currently, HIV/AIDS policy and workplace programmes have been introduced in the Group Service Centres.

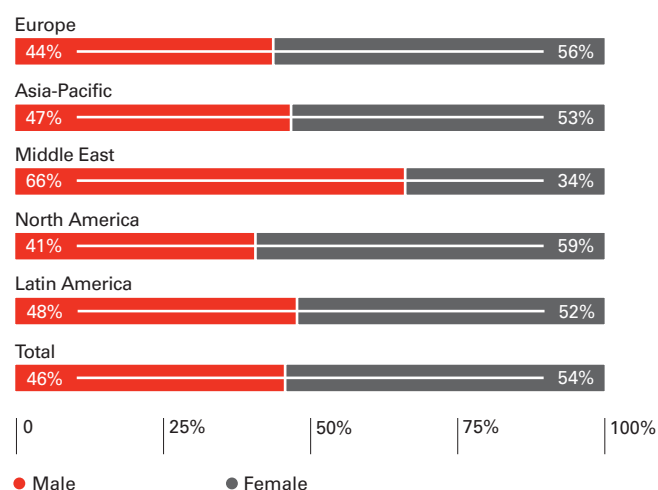
Senior management by type 2006



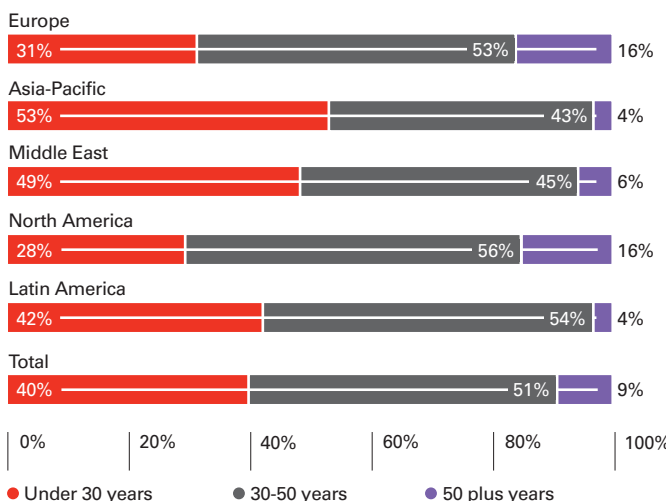
Employee gender by managerial grade 2006



Employee gender by region 2006



Employee age by region 2006



Preventing climate change

We believe climate change is the single biggest environmental challenge facing the planet this century. Commissioned by the UK government and published in October 2006, the Stern Report estimates the economic cost of failing to act on climate change will be equivalent to 5 to 20 per cent of world GDP compared with around 1 per cent (US\$184 billion) if the necessary action is taken now. As an adviser, lender and investor, HSBC can play an important role in encouraging the companies and projects we finance to manage climate change-related risks and opportunities.

We believe international action to create a low-carbon economy is essential and HSBC aspires to be a leading financial institution in this area. The UK alone is not a big enough market for the reduction

of its carbon dioxide (CO₂) emissions to make a significant difference to global emissions. Collective action will also be required from governments, business and individuals themselves to encourage adoption of energy efficiency and clean generation technologies to stabilise carbon dioxide emissions.

HSBC supports the Carbon Disclosure Project, which is key in providing a direct line of communication to some 210 institutional investors with assets of more than US\$31.5 trillion. The project is a highly effective and transparent means of reporting on organisations' carbon-related activities.

Climate change presents both risks and opportunities. We consider the biggest business risk associated with climate change to be the

HSBC around the world

HSBC offices

Energy efficiency initiatives

IT updates to improve power saving	▲
Energy efficiency awareness training	▲
Alterations in energy phasing	▲
Installation of meters	▲
Improvements to lighting systems	▲
Improved heating and cooling systems	▲

Purchasing initiatives

FSC-certified paper	■
Hybrid cars	■
Green energy	■

2006 CO₂ offset projects

China: hydroelectric	★
Thailand: biogas	★

2006 CO₂ offset credits

813,000

Tonnes

2006 CO₂ emissions

813,000

Tonnes

= carbon neutral

See page 39 for a statement by DNV, our assurance provider, on our carbon neutrality programme.

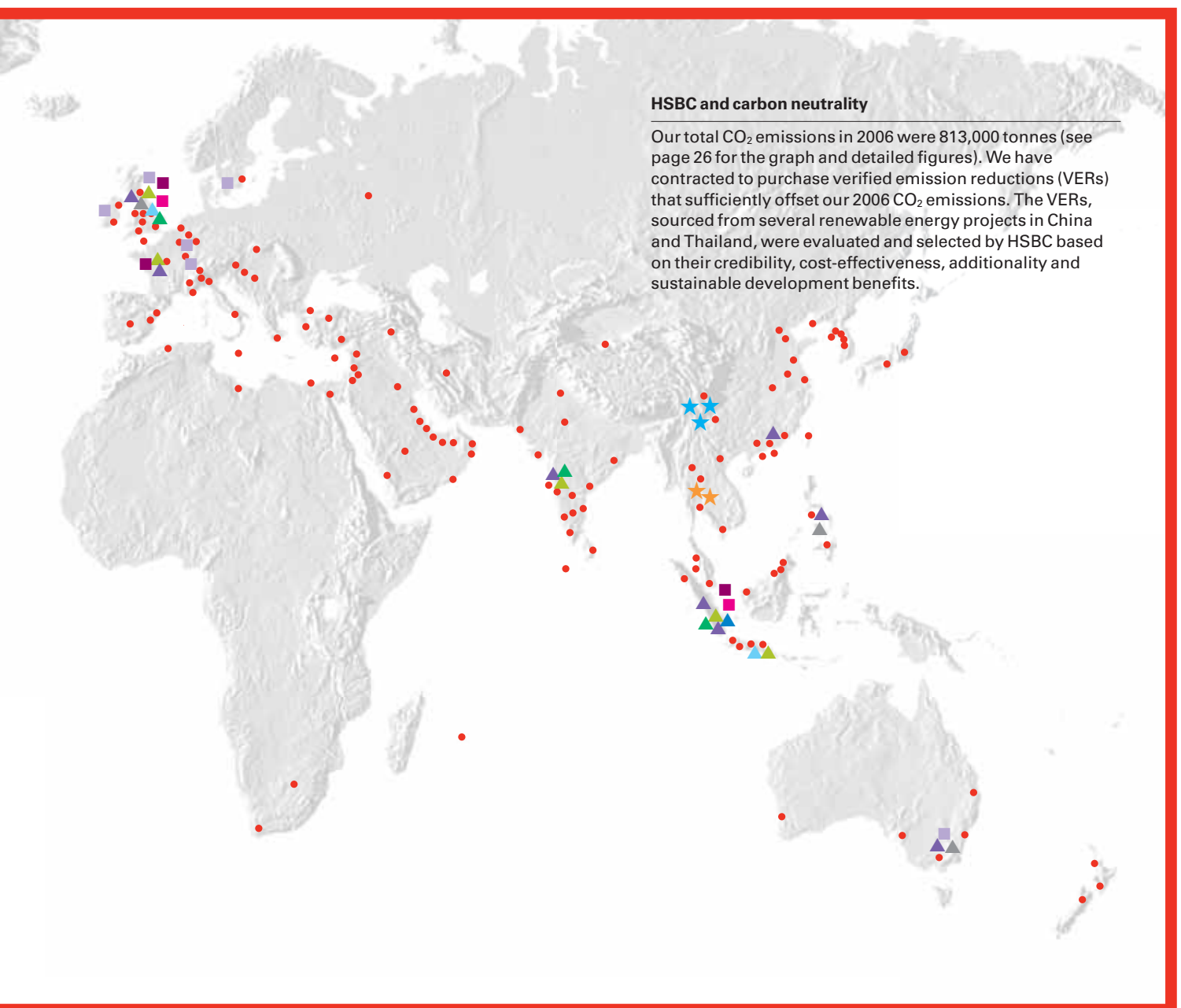
impact it will have on society and the economy, including our customers. Climate change could adversely affect us all through the increased frequency and unpredictability of droughts, floods and storms, which can devastate agriculture, transportation, tourism and infrastructure.

We also see an opportunity to serve existing clients better, advising them of the economic, financial and environmental implications of increased carbon dioxide emissions. We see clean energy generation, energy efficiency and renewable energy as areas with enormous growth potential. HSBC is well positioned to capitalise on this growth. For more information, see 'Carbon finance' on page 18.

Going carbon neutral

Being carbon neutral means our worldwide operations contribute net zero carbon dioxide emissions to the atmosphere. While we have set targets to reduce our CO₂ emissions and have purchased greener energy where available, we still generate CO₂ through the running of our business. As we cannot reduce our actual CO₂ emissions to zero, we buy 'offset' credits – equivalent to our CO₂ emissions – from projects which reduce CO₂, thereby bringing our net emissions to zero.

As a company with 312,000 employees and around 10,000 offices worldwide, going carbon neutral reflects our desire to act responsibly to reduce our environmental footprint.



The credibility of our approach to carbon neutrality is vital. We made a decision at an early stage to involve external experts like ICF Consulting and The Climate Group to help us determine the best way to achieve our goal.

We set rigorous criteria for the offsets we wanted to buy. These criteria included ensuring they were environmentally credible and met the principle of 'additionality', which means they genuinely reduce CO₂ emissions somewhere else in the world. We do not support tree-planting as a means of achieving carbon neutrality. While tree-planting has environmental benefits, the net effect of this activity on CO₂ emissions is not sufficient to be used as a credible and durable CO₂ offset. We generally favour renewable energy or energy efficiency offset projects.

We hired Det Norske Veritas, an international certification company, to review processes relating to HSBC's CO₂ emissions. They provided verification of both our energy use and business travel and our resulting CO₂ emissions, and reviewed the process by which we purchased carbon offsets in an amount sufficient to cover our CO₂ emissions.

Our main commercial motivation for becoming carbon neutral was to gain a first-hand knowledge of what it takes for our clients to reduce their carbon emissions. We feel this gives us a greater understanding of the challenges we all face in tackling the causes of climate change. It positions us well to provide our clients with considered and credible advice. It will also enable us to produce products and services to support our clients as they implement climate change solutions, from large-scale alternative energy projects to retail and investment products.

We are also involved in a number of international initiatives to consider ways that businesses, individuals and governments can together stabilise and then reverse carbon emissions. We also believe that there is a growing need to create a long-term, globally binding framework that will put in place consistent standards and regulations that will enable businesses to implement their commitments with greater certainty.

Our carbon management strategy

Our carbon management strategy consists of three parts: manage and reduce our direct CO₂ emissions; reduce the carbon intensity of the electricity we use by buying 'green' electricity where feasible; and offset the remaining emissions to achieve carbon neutrality. These offsets must be credible, genuinely incremental and cost-effective.

1. Reduce CO₂ emissions

We have two main sources of CO₂ emissions: energy use and business travel. We aim to reduce our emissions from energy use by being as energy-efficient as possible, for example, by implementing a range of energy initiatives across our operations. In some parts of the world, we are investing in large and small-scale renewable energy technology such as solar panels.

HSBC is committed to measures that reduce the environmental impacts of business travel. We aim to reduce our CO₂ emissions by reducing the need for travel and by providing alternative means of communication such as video- and web-conferencing. We also work with our travel providers to manage and reduce the impacts of our business travel. We favour suppliers who demonstrate environmental

management strategies that fit HSBC's strategy, and can deliver robust and verifiable information to help us monitor our progress.

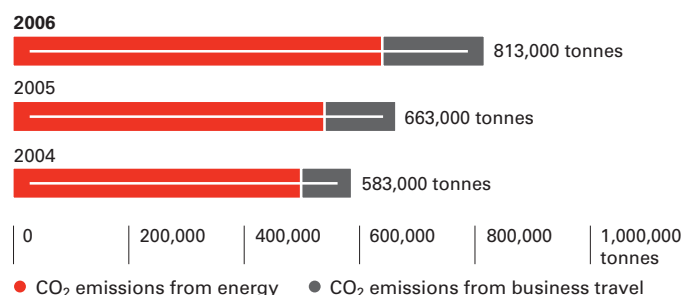
2. Buy 'green' electricity

HSBC continues, where available, to buy electricity from 'green' or renewable sources such as solar, wind and hydroelectric projects. We currently purchase green electricity in the UK, the US, Australia, Brazil, Ireland, Luxemburg, Sweden and Switzerland. By purchasing green electricity or paying a green tariff, HSBC is helping to support global investment in renewable energy.

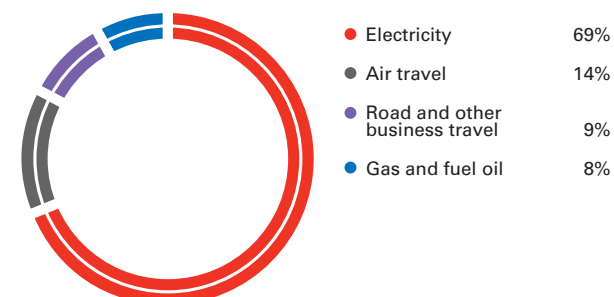
3. Buy CO₂ offsets

Our total measured CO₂ emissions in 2006 were 813,000 tonnes (see the chart below and on page 33 for detailed figures). We have contracted to purchase verified emission reductions (VERs) that sufficiently offset our total 2006 CO₂ emissions. The VERs, sourced from several renewable energy projects in China and Thailand, were evaluated and selected by HSBC based on their credibility, cost-effectiveness, additionality and sustainable development benefits. These projects are currently being assessed by an independent verification provider.

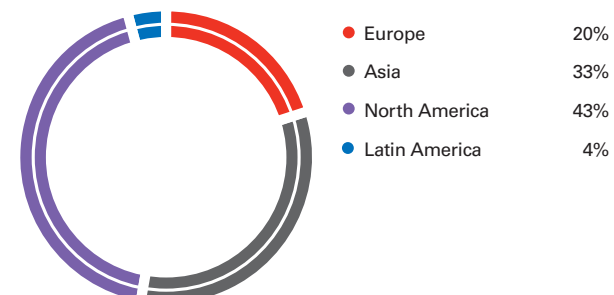
Total CO₂ emissions by source 2006



CO₂ emissions by source 2006



CO₂ emissions by region 2006



Responsible tax management

Tax management policy is an area of direct interest to investors not only because of the impact on investment decisions of tax cash flows within company valuations, but because of the potentially broader impact of the wider scrutiny of the management of tax, both at a policy and at a compliance level.

Media interest in companies' tax payments has increased, sometimes through linking public service reductions to named companies' avoidance of tax. This sets the issue of tax management policy and payment in the context not just of compliance with the law, but of commentators' interpretation of companies' social responsibilities.

HSBC is a prominent company to tax authorities for a number of reasons:

- We are one of the most profitable companies in the world.
- We have a number of significant operations in low tax jurisdictions, notably Hong Kong, Switzerland and Bermuda.
- We have a complex international network of companies which provide services to each other and share the supply of services with the Group's multinational customer base. We, therefore, have to address a wide range of transfer pricing issues.
- We act as an agent globally for the collection of taxes, the withholding of income otherwise distributable to customers, and for the reporting of customer details to authorised fiscal authorities.

Global tax principles and policy

Our current tax policy was endorsed by the CR Committee of the Board in April 2005.

We optimise the profits available for distribution to shareholders transparently and in a tax-efficient way. In so doing, HSBC does not engage in artificial transactions or create artificial structures whose sole or main purpose is to take advantage of tax. Our reputation will take precedence in all instances and at all times when assessing whether a particular transaction or structure might be considered artificial without regard to the financial benefit of the transaction or structure.

Our aim is to provide sufficient disclosure in our *Annual Report and Accounts* to allow stakeholders to understand how the Group's charge to taxation and cash taxes paid have been established.

In each country where HSBC operates, we will comply strictly with local tax legislation, seek to pay all taxes on a timely basis, and deal openly with local tax authorities.

To reduce the risk of materially mis-stating the Group's tax liabilities or damaging our reputation through inappropriate structuring, we:

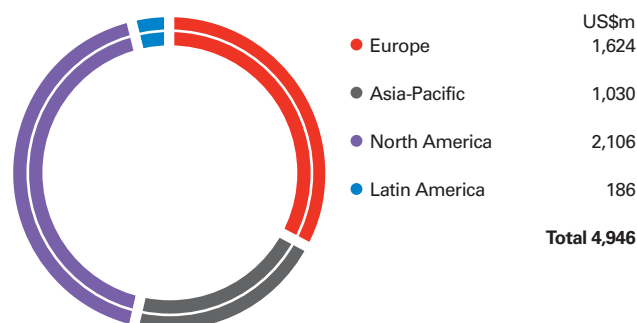
- employ trained tax professionals whose incentive compensation is based on efficiency, not on minimising the accounting tax charge or the cash tax paid;

- adopt an open manner where judgemental positions are taken, ensuring that the tax authority is able to understand, and has the opportunity to challenge, the issue;
- make accounting estimates in conjunction with Group Finance using the template advised by the US Securities and Exchange Commission in 2004 as best practice; and
- negotiate expeditiously to settle outstanding issues on tax returns.

By adopting a portfolio approach to tax negotiations, the Group is able to propose compromise settlements which facilitate a good professional relationship with fiscal authorities. As a matter of policy, we do not use transfer pricing to shift profits or expenses to favourable tax jurisdictions.

HSBC engages with fiscal authorities openly through industry bodies and tax practitioners' working groups, and by making available country CEOs and HSBC Holdings Directors to discuss areas of tax policy. We have participated in and supported initiatives in conjunction with HM Revenue and Customs and have been a long-term supporter of the Partnership Enhancement Programme and its aim of engendering greater trust and better working relationships between the public and private sectors.

Corporate income tax paid by region 2006



About HSBC

Children practising karate in the Heliópolis neighbourhood of São Paulo as part of an education project funded by HSBC Bank Brasil. Founded in March 2006, Instituto HSBC Solidariedade provides professional management of the social investment activities undertaken by HSBC Bank Brasil.



HSBC Bank Brasil

Our strategy

We want to be the world's leading financial services company. For us, 'leading' means the preferred, the most admired and the most dynamic – a company recognised for giving the customer a fair deal. We strive to be the market leader with personal, commercial and corporate customers. We want to grow our business, both in established markets like Europe, North America and Hong Kong, and in emerging markets like Latin America, India and China.

We are now more than half-way through our five-year strategic plan, 'Managing for Growth', to make HSBC the world's leading financial services company. We keep our strategy under constant review to meet the challenges of our fast-changing world. In renewing this strategy, we have identified seven key priorities for the Group for the last two years of the plan, 2007-08. These seven 'global pillars' are aimed at 'joining up' the company so that HSBC can become the best place to bank for our customers and the best place to work for our employees.

'Global pillars'

1. Our customers – service excellence

Customers are our foundation and our future. We will improve the customer experience by living our brand values: this means we must be perceptive, progressive, responsive, respectful and fair.

2. Our brand – the world's local bank

Our ambition is to be the world's best financial services brand. We want our customers to know they can rely on us to provide the same high quality of customer service and to work with the same high ethical standards wherever they see the HSBC brand.

3. Our culture – the best place to work

We want to be recognised as the world's most respected and customer-driven financial services employer because engaged employees are a critical factor in business performance.

4. Our global distribution – our global advantage

HSBC's global reach is our key competitive advantage. In today's globalising world, we can offer our customers an unparalleled international service.

5. Our businesses – building for sustained growth

We will prioritise the allocation of capital so that it generates the best return for shareholders in the long term.

6. Our technology and process – joining up the company

We will use technology to make it easier for customers to do business with us, when and where they want it.

7. Our organisation – guidance with wisdom and delegation with confidence

We give responsibility for delivery of our objectives to country managers, and heads of customer groups and global businesses under the direction of Group and regional head offices.

You can read more about the 'Managing for Growth' strategy and the 'global pillars' in the HSBC Holdings plc *Annual Review 2006* on our web site:

www.hsbc.com/investors

Our business principles and values

Our core values are integral to our strategy. We emphasise long-term, ethical client relationships. We pursue excellence and productivity through teamwork and our outlook is global, as is our character. At the same time, as the world's local bank, we see great value in our diversity.

To ensure all our colleagues around the world know what we stand for and how we conduct our business, we publish the *Group Standards Manual* on our global Group intranet. Updated annually and mandatory for all employees, the manual sets the standards and policies for our business operations, underpinned by our corporate values and principles. Each country/territory is responsible for implementing a code of conduct. We expect full compliance from our employees.

The *Group Standards Manual* refers employees to *Functional Instruction Manuals*, which set out detailed policies and procedures for specific functions including Compliance, Credit and Risk, Finance, Human Resources, IT, Purchasing and Tax. Our internal audit function is responsible for ensuring that each country CEO complies with the *Group Standards Manual* and the *Functional Instruction Manuals*.

We also voluntarily abide by a number of external codes of conduct, including the UN Global Compact, the UN Universal Declaration of Human Rights, and the OECD Guidelines for Multinationals.

Read more about our values and international commitments at www.hsbc.com/values

Political donations

HSBC has a long-standing policy of not making political donations. As a precautionary measure in the light of the wide definitions of political donations or expenditure in the UK Companies Act 1985, we obtained shareholder approval in 2003 for political donations or expenditure up to a maximum aggregate sum of £250,000 for HSBC Holdings plc and £50,000 for HSBC Bank plc over a four-year period. These authorities have not been used. Shareholder approval for renewal of these authorities is being sought at the 2007 Annual General Meeting (AGM). The UK Companies Act 2006 enables the Directors to seek relief from liability and ratification by shareholders for any inadvertent unauthorised political donation or expenditure. On that basis, the proposed authorities would expire on the earlier of the date on which the last of the sections of the UK Companies Act 2006 relating to ratification by shareholders and political donations and expenditure come into force – expected in October 2007 – and the conclusion of the AGM in 2008.

The US Federal Election Campaign Act of 1971 permits corporations, unions and trade associations to establish political action committees for the purpose of collecting voluntary contributions from employees – as distinct from the company itself – for federal or state political candidates and organisations. The HSBC Political Action Committee operates separately from the company, is governed by by-laws and all activities are reported to state and federal election communities. HSBC-North America itself makes no political donations.

Public policy development

HSBC contributes to debates on the development of public policy in many of our markets. The following are the top issues in some of our key locations:

UK: overdraft and card fees; bankruptcy; responsible lending; financial inclusion; financial capability.

USA: global competitiveness; equitable tax policies; responsible lending and consumer protection; information sharing; employee benefits.

Brazil: disability; integration of Afro-descendants; environmental risk.

Mexico: commissions and fees; over-regulation.

India: HIV/AIDS.

Regulatory environment

Our worldwide operations are regulated and supervised by some 510 central banks and regulatory authorities. Part of their role is to ensure that commercial banks have sufficient capital to operate effectively and that depositors are protected. We are committed to maintaining open and transparent relationships with all regulatory authorities.

Compliance framework

We set high standards of integrity, professionalism and fair dealing in running our business. We aim to comply with both the letter and the spirit of all relevant laws, codes, rules, regulations and standards of good market practice in each region where we do business. Responsibility for compliance with these standards rests with the relevant boards, chief executives and senior line managers.

We operate a Compliance Disclosure Line in accordance with the US Sarbanes-Oxley Act. Employees can report anonymously concerns about corporate wrongdoing – including the failure to adopt policies in line with our *Group Standards Manual* – without fear of reprisals.

Governance

HSBC Holdings complied with all applicable code provisions of the UK's Combined Code on Corporate Governance throughout 2006, except that on his appointment as Group Chairman, Stephen Green did not meet the Code's independence criteria because he previously had been the Group Chief Executive. Accordingly, as required by the Code the Board consulted major shareholders in advance of the appointment and the Chairman of the Nomination Committee of the Board wrote to all shareholders to explain the decision. For more information, see pages 255 of the *Annual Report and Accounts 2006*, which is available online at www.hsbc.com/investors.

HSBC Holdings has also complied throughout 2006 with all applicable code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the corporate governance standards applicable to a New York Stock Exchange foreign private issuer.

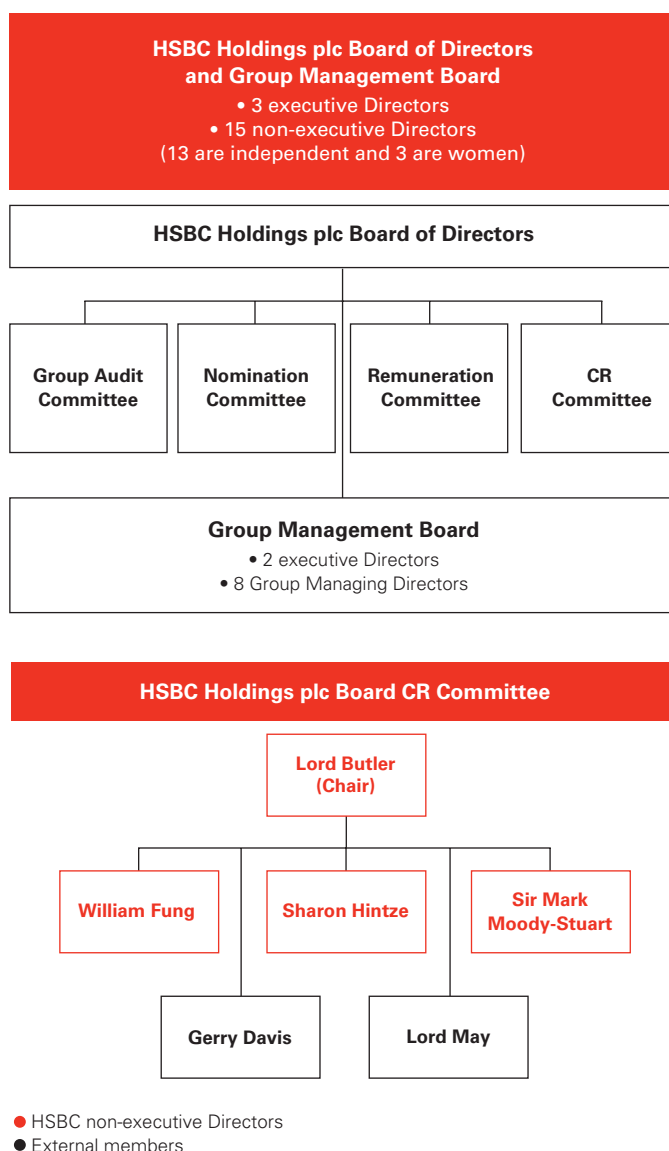
Board committees

In addition to the Corporate Responsibility Committee, there are three other Board committees – the Group Audit Committee, the Nomination Committee and the Remuneration Committee – whose members include non-executive Directors. The Group Management Board comprises the Group Chief Executive, Group Finance Director and Group Managing Directors, and is responsible for the management and day-to-day running of HSBC.

CR Committee

Since September 2003, the CR Committee of the Board (see chart) has overseen the Group's corporate responsibility and sustainability policies and advised the Board, committees of the Board and executive management. During 2006, the committee met five times.

Under its terms of reference, the committee must undertake an annual review of its effectiveness and terms of reference. During 2006, the assessment took the form of a questionnaire completed by each of the committee members. An action plan to address those issues identified



as requiring attention during 2007 has been developed by the CR Executive Steering Group.

We have been saddened by the death of Elizabeth Diggory, who served with great distinction on the Corporate Responsibility Committee of the Board and as a Trustee of the HSBC Global Education Trust. Elizabeth was an educationalist of extraordinary ability and will be greatly missed.

CR Executive Steering Group

Our Corporate Responsibility Executive Steering Group is responsible for implementing the Group's CR policies with advisory input from the CR Committee of the Board. It also evaluates our CR performance and guides CR communications both internally and externally. Made up of executives from HSBC's support functions and customer groups, the Steering Group meets in advance of each meeting of the CR Committee of the Board. Papers and/or verbal reports from Steering Group meetings are presented directly to the CR Committee of the Board by the chair or members of the Steering Group as appropriate.

See the terms of reference for the CR Committee and the CR Executive Steering Group at
www.hsbc.com/crgovernance

Scope of the report

The HSBC Holdings plc *Corporate Responsibility Report 2006* focuses on the Group's largest operations by pre-tax profit and by number of employees. These include Hong Kong, the UK, the US, Middle East, Mexico, Canada, France, China (mainland), Brazil and India. Facts and figures refer to the Group unless indicated otherwise. The report does not cover joint ventures or subsidiaries not wholly owned by HSBC.

It is not this report's aim to cover all local issues. We actively encourage our businesses in HSBC's major markets to report on their sustainability issues to promote transparency and dialogue with stakeholders. A number of our businesses now publish their own corporate responsibility reports.

see our web site at
www.hsbc.com/crreport

Scope of environmental reporting

HSBC reports waste production, energy and water usage and CO₂ emissions for 48 of the 82 countries and territories where HSBC has offices, which represent 96 per cent of our full-time equivalent employees.

Stakeholder views of CR risks and opportunities

The following table shows the key CR issues that HSBC believes have the potential for significant impacts on our business. It also lists the stakeholder groups that have raised these issues to the banking and insurance sector. This is based on the results of a project organised by FORGE, a working group of UK banks and insurers, in which HSBC participated during 2005-06.

CR risk/opportunity	NGOs	Investors	Governments/ regulators	Media/opinion formers	Community/ general public	Customers	Employees
Responsible consumer lending, selling and transparency of fees	○		○	○		○	
Customer satisfaction and trust	○		○	○	○		
Financial inclusion	○		○	○	○		
Responsible commercial/corporate lending and financing	○	○					
Financial crime	○	○	○	○	○		
Bribery and corruption	○	○	○	○	○		
Global resourcing				○		○	○
Employee engagement		○		○		○	○
Learning and development		○		○		○	○
Employee diversity and discrimination		○			○		○
Climate change	○	○	○	○			
Tax avoidance	○	○	○				

Key Facts

	Units	2006	2005	2004
Number of countries and territories with HSBC offices (at year-end)		82	76	77
Total employees including part-time (at year-end)		312,000	284,000	253,000
Number of employees (at year-end)	Full-time equivalent	300,920	268,471	243,333
Number of customers (at year-end)		125 million	125 million	110 million

Benchmarks

Dow Jones Sustainability Index (since 2001)	member	member	member
FTSE4Good (since 2001)	member	member	member
Accountability Rating of the <i>Fortune</i> 'Global 50'/'Global 100'	7th	4th	45th
Interbrand 'Best global brands' survey (by value)	28th (US\$11.6b)	29th (US\$10.4b)	33rd (US\$8.7b)

Economic

Income received for supply of products and services	US\$b	114.4	92.8	75.3
Profit before tax	US\$m	22,086	20,966	18,943
– Hong Kong SAR	US\$m	5,182	4,517	4,830
– UK	US\$m	4,791	4,280	4,231
– USA	US\$m	3,612	4,935	4,664
– Middle East	US\$m	1,035	821	486
– Mexico	US\$m	1,009	923	774
– Canada	US\$m	896	855	530
– France	US\$m	870	833	669
– China (mainland)	US\$m	708	334	32
– Brazil	US\$m	526	406	281
– India	US\$m	393	212	178
– Other	US\$m	3,064	2,850	2,268
Dividends	US\$m	8,769	7,750	6,932
Total shareholder return against peer index over 1 year				
– HSBC		104.6	111.3	105
– benchmark (FTSE 100)		114.4	120.8	110
Taxes to governments	US\$b	6.4	6.2	5.7
Distribution to shareholders and minority interests	US\$b	9.9	8.5	8.3
Employee remuneration	US\$b	17.3	15.1	13.6
Spending for premises and procurement	US\$b	12.7	11.1	9.7

Social

Headcount

by employment type				
– Full-time	%	93.9	93.0	-
– Part-time	%	6.1	7.0	-
	%	100.0	100.0	
by employee contract				
– Permanent	%	99.0	99.2	-
– Temporary	%	1.0	0.8	-
	%	100.0	100.0	
by region				
– Europe	%	23.9	25.4	-
– Asia	%	32.2	29.5	-
– North America	%	20.2	21.6	-
– Latin America	%	20.5	20.6	-
– Middle East	%	3.2	2.9	-
	%	100.0	100.0	

Turnover

Europe	%	19	18	-
Asia	%	15	17	-
North America	%	20	21	-
Latin America	%	20	9	-
All staff	%	18	16	-

Gender

by management type				
– Senior managers: male / female	%	83 / 17	75 / 25	-
– Middle managers: male / female	%	70 / 30	70 / 30	-
– Junior managers: male / female	%	54 / 46	53 / 47	-
– Staff: male / female	%	39 / 61	37 / 63	-

	Units	2006	2005	2004
Gender				
by region				
– Europe: male / female	%	44 / 56	43 / 57	-
– Asia-Pacific: male / female	%	47 / 53	45 / 55	-
– North America: male / female	%	41 / 59	43 / 57	-
– Latin America: male / female	%	48 / 52	47 / 53	-
– Middle East: male / female	%	41 / 59	43 / 57	-
Health and safety				
Number of workplace fatalities		0	1	0
Accidents involving more than 3 days' absence		274	381	356
Reportable injuries per 100,000 employees (UK)		152	162	151
Working days lost from work-related injury per 100,000 employees (UK)		2,572	3,249	1,839
Community investment				
Corporate charitable donations	US\$m	86.3	81.4	69.2
Employees' community voluntary work	hours	302,000	280,000	237,000
– Work time	hours	85,000	n/a	n/a
– Own time	hours	217,000	n/a	n/a
Environment				
Environmental data coverage	Scale 1-10	7.6	7.4	7.9
Environmental data quality	Scale 1-10	7.6	7.8	7.7
Environmental reporting coverage	Full-time equivalent	288,822	252,914	220,055
Coverage as % of Group		96%	94%	90%
Carbon dioxide emissions				
Total CO ₂ emissions	tonnes	813,000	663,000	585,000
CO ₂ emissions from energy	tonnes	634,000	539,000	497,000
CO ₂ emissions from business travel	tonnes	179,000	124,000	88,000
Total CO ₂ emissions per person	tonnes	2.81	2.62	2.66
CO ₂ emissions per person from energy	tonnes	2.20	2.13	2.26
CO ₂ emissions per person from business travel	tonnes	0.62	0.49	0.40
CO ₂ emissions per m ²	tonnes	0.13	0.11	0.11
Resource efficiency				
Total energy consumption	GWh	1,780	1,610	1,496
Energy consumption per person	kWh/full-time equivalent	6,163	6,366	6,798
Energy consumption per m ²	kWh/m ²	283	268	285
Total electricity consumption	GWh	1,486	1,313	1,141
Electricity (brown)	GWh	1,032	971	853
Electricity (green)	GWh	454	342	288
Primary fuel sources (gas, oil, diesel, etc)	GWh	293	297	355
Total waste produced	kilotonnes	68	54	47
Waste disposed per person	tonnes/full-time equivalent	0.12	0.12	0.12
Waste disposed	kilotonnes	35	30	27
Waste recycled	kilotonnes	33	24	20
% recycled	%	49%	44%	43%
Total water consumption	thousand m ³	4,687	4,041	3,629
Water consumption per person	m ³ /full-time equivalent	16.2	16.0	16.5
Business travel				
Total business travel	million km	1,200	850	635
Business travel per person	km/full-time equivalent	4,155	3,361	2,886
Air travel	million km	831	557	408
– Domestic	million km	228	108	77
– International	million km	603	449	331
Rail travel	million km	21	21	20
Road travel	million km	283	233	201
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NR not reporting n/a not applicable

HSBC Corporate Responsibility Report 2006

DNV (Det Norske Veritas) has been commissioned by the management of HSBC Holdings plc to carry out the verification of the *HSBC Corporate Responsibility Report 2006* ('the Report').

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

Scope of assurance

Our scope of work has included the verification of:

- The completeness of the strategic direction of HSBC and its corporate responsibility (CR) policies by:
- Group function (Group Sustainable Development; Group Communications, formerly Group Corporate Affairs; Group Compliance; Purchasing; Group Company Secretary; Group Human Resources); and
- Customer group (Personal Financial Services, including Consumer Finance; Commercial Banking; Corporate, Investment Banking and Markets; and Private Banking);
- The accuracy, comparability and neutrality of reported direct environmental impact data for energy, waste and water;
- The accuracy, comparability and neutrality of its carbon neutral project (CO₂ equivalent emissions and offset credits purchased); and
- Verification of the application of the Equator Principles.

HSBC's reporting boundaries cover 48 of the 82 countries and territories where HSBC has offices, which represent 96 per cent of the Group's full-time equivalent employees.

Limitations

As requested by HSBC, we have performed all our work at their Canary Wharf Group Head Office, London. We have not visited any other locations.

We have not verified the accuracy of quantitative data other than data generated from direct environmental impacts as defined by the Group.

Verification approach

The verification was conducted during March and April 2007. The engagement was planned and performed in accordance with DNV's Verification Protocol for Sustainability Reporting. The report has been evaluated against the following criteria:

- Adherence to the principles of Materiality, Completeness, Accuracy, Neutrality and Comparability as set out in the AA1000 Assurance Standard; and
- The Global Reporting Initiative 2006 Sustainability Reporting Guidelines.

In reaching our conclusions, we have conducted the following work:

- interviewed 25 HSBC senior representatives of all Group functions and customer groups to understand objectives and priorities for

embedding and managing goals as set out in HSBC's sustainability and CR policies and report, the means by which HSBC planned to accomplish its objectives, the degree to which those objectives were met, and how internal assurance is given to the HSBC Holdings Board on these matters;

- obtained an understanding of the systems used to generate, aggregate and report the selected environmental indicator data at reporting unit, regional and Group level;
- challenged the environmental performance indicators, related statements and claims made in the report;
- reviewed specific documents, data and information made available by HSBC;
- applied a risk-based approach in selecting reporting units, subject to an in-depth review for the purposes of observing and assessing the implementation and effectiveness of the corporate processes; and
- reviewed a selection of internal communication and external media reports relating to HSBC's adherence to its policies.

Conclusions

In our opinion, the *HSBC CR Report 2006* meets the content and quality requirements of the Global Reporting Initiative Sustainability Reporting Guidelines (Version 2.0), and provides an accurate and fair representation of the level of implementation of sustainability and CR policies (as defined by the Group).

HSBC's policies are developed and monitored through the CR Committee of the Board and the CR Executive Steering Group. HSBC has a robust and well-executed enforcement mechanism in place in the form of the *Group Standards Manual* and the more detailed Functional Instruction Manuals. Compliance is monitored through internal audit mechanisms.

HSBC is focusing its sustainability efforts in the areas which might pose a higher commercial and reputational risk to the Group, i.e. Commercial, and Corporate and Investment Banking. Sustainability and CR policies in Personal Financial services and Private Banking are less developed, although the most relevant areas are properly addressed, e.g. financial inclusion and security.

From a geographical perspective, different levels of awareness and implementation remain a challenge to the Group.

Materiality

- We consider that the HSBC CR Report 2006 provides a balanced representation of material aspects concerning HSBC's sustainability performance; and
- We commend the risk approach of the report as it focuses on the geographical areas where HSBC has most of its impacts.

Completeness

- The report does not omit relevant information that would influence or inform stakeholder assessments or decisions, or that would reflect significant economic, environmental and social impacts;

- The information in the report includes all significant actions or events in the reporting period;
- The report includes all entities that meet the criteria of being subject to control or significant influence of the reporting organisation; and
- The report covers and prioritises all information that should reasonably be considered material on the basis of the principles of materiality, sustainability context, and stakeholder inclusiveness.

Accuracy

- We have not found any material inaccuracies that may affect significantly the comparability of selected key performance indicators; and
- The data measurement techniques and bases for calculations have been adequately described to DNV, and can be replicated with similar results.

Neutrality

- We conclude that the information contained in the report is unbiased; and
- The emphasis on the various topics in the report is proportionate to their relative materiality.

Comparability

- The information in the report is presented in a format that allows users to see positive and negative trends in performance on a year-to-year basis; and
- We recognise that HSBC drives to improve the quality of its environmental data which may have an effect on the year-by-year comparability. Nevertheless, HSBC should be commended for the development of sophisticated tools to capture accurate and comparable data.

Recommendations

In conducting our work, we identified the following recommendations:

- development of a plan, specific goals and SMART targets for each of the customer groups and functions;
- appoint dedicated resources on a constituent basis across customer groups and geographical areas to facilitate integration of sustainability and CR policies;
- strengthen the collection of social related data, in line with the robustness already achieved in the capturing of environmental data; and
- implementation of a systematic process for identifying key stakeholders and their issues.



Esther Garcia
Project Manager



Sven J P Starckx
Project Director

Det Norske Veritas Certification BV
Rotterdam, 16 May 2007

Equator Principles

Aware of the pressures for banking signatories to the Equator Principles (EP) to increase their level of disclosure on the applicability of the EP and given the limitations to disclose such information because of confidentiality issues, HSBC aims to reassure stakeholders that the principles are applied in full in their project financing deals. HSBC has therefore commissioned DNV to carry out an assurance engagement on its compliance with the principles.

Limitations

As requested by HSBC, we have performed all our work at their Canary Wharf Group Head Office, London. We have not visited any other locations.

Verification approach

The verification was conducted during March and April 2007. The engagement was planned and performed in accordance with DNV's Verification Protocol for Sustainability Reporting. In reaching our conclusions, we have conducted the following work:

1. Interviewed a selection of HSBC representatives, including the Head of Group Sustainable Development, and directors of Credit and Risk, and Project and Export Finance;
2. Selected a sample of projects which included: projects rejected for EP reasons, projects rejected for no EP reasons, and approved projects that fall under Categories A and B, and that took place in non-OECD countries. The sample was selected according to the following criteria: location of project, size of project, reason for approval or rejection; and
3. DNV had full access to all related project financing documentation, including: technical due diligence reports by an independent third party and owner's engineer; contracts between the borrower, sponsors and lenders; environmental action plan; public consultation plans; and a quarterly report by an independent third party.



Esther Garcia
Project Manager

Det Norske Veritas Certification BV
Rotterdam, 16 May 2007

Conclusions

In our opinion, HSBC applies the EP. The principles have been applied in relevant business processes through their integration in the Project and Export Finance internal manuals. Application of the EP is dependent on competent personnel in the different regions. The Group has gone through a thorough training process covering all of the Project and Export Finance team across the globe, and adequate procedures and enforcement mechanism are in place. Monitoring is generally carried out at a local level. It should be noted that Group Sustainable Development has a support function in providing sustainability advice and has final approval power in all Category A projects.

The Group uses qualified and independent external consultants to carry out social and environmental impact assessments and categorise projects. The Group has an internal reporting mechanism in place although it is not automated.

Recommendations

In conducting our work, we identified the following recommendations:

- continue planned implementation of an automated internal reporting mechanism.



Sven J P Starckx
Project Director

Carbon Neutral Project

Introduction

DNV has reviewed and assessed HSBC's 2006 reported CO₂ emissions from its operations and voluntary emission reduction credits (VERs) contracted for purchase to offset its 2006 emissions. In this respect, DNV has applied a pragmatic and conservative approach, ensuring that offsets contracted can be seen as credible in the eyes of the public.

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

Scope of work

Our review addressed the reported CO₂ emissions for the 2006 calendar year generated within HSBC's reporting boundaries covering 48 of the 82 countries and territories where the Group has offices, and which represent 96 per cent of its full-time equivalent employees.

In addition, DNV has verified that the generated emissions have been balanced by contracts for a similar amount of CO₂ offsets generated at emission reduction projects that meet HSBC's project criteria.

Assessment methodology

Our risk-based approach draws from the criteria set in ISO14064, the verification protocol developed by the International Emissions Trading Association, as well as the criteria laid down in the Voluntary Carbon Standard – version 1. As a part of the verification, DNV:

- obtained an in-depth understanding of the systems used to generate, aggregate and report the selected greenhouse gas indicator data at the reporting unit, regional and Group levels;

- applied a risk-based approach in selecting reporting units subject to an in-depth review for the purposes of observing and assessing the implementation and effectiveness of the corporate processes;
- conducted interviews with responsible persons at Group and relevant entity levels for data gathering, aggregation and consolidation processes;
- had access to specific documents, data and information made available by HSBC;
- conducted interviews with the provider of VERs and reviewed contractual arrangements regarding the supply of the offset emission reduction units;
- assessed the retiring process of purchased emission reduction units.

Conclusion

Based upon the above, in our opinion nothing has come to our attention that causes us to believe that the reported CO₂ emissions set out in the *CR Report 2006* are not fairly stated.

HSBC has exclusively contracted for the supply of VERs from various renewable emission reduction projects in China (hydro) and Thailand (biomass) that meet its criteria.

In order to confirm quality and project additionality of the voluntary credits, the projects are currently being validated/verified by TUV Nord in accordance with the criteria set out in the voluntary carbon standard (version 1).

Based upon the assessment of the reported CO₂ emissions for the 2006 calendar year and the carbon offset projects/units contracted, it is our conclusion HSBC's reported emissions have been balanced by VERs contracted, meeting the needs of HSBC's carbon neutral project.



Sven J P Starckx
Project Director



Luc Larmuseau
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Det Norske Veritas Certification BV
Rotterdam, 16 May 2007

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