

Sustainability at HSBC

Banking for the long term



Introduction

How do we fit into the bigger picture?

There are a number of trends shaping the global economy, which will affect our customers, our employees and our business. We believe those listed below are particularly important to HSBC:

- People are living longer and world population is increasing
- Emerging markets are growing faster than mature markets
- The climate is changing because of human activity

Sustainable development is a major challenge facing the world. These global trends will require a co-ordinated response from governments, regulators, business and society to manage the changes necessary.

Our business is based on economic growth, and we believe this is a force for good in people's lives. However, we must pursue progress today without putting future generations at risk.

This is the bigger picture. As one of the world's biggest banks, we have an important role to play in addressing these challenges.



Making sense of sustainability

We believe that being a sustainable bank is first and foremost about delivering profitable long-term growth for the benefit of all of our stakeholders. But it is also about maintaining a stable environment and building healthy, educated communities. This makes good business sense – being more sustainable helps contribute to economic development, grow our profits and build long-term relationships with everyone who has an interest in HSBC, whether as a customer, shareholder or employee.

No one organisation can address the world's problems alone but we believe HSBC has an important part to play. In practice, this means:

Lending carefully

- Meeting or exceeding regulations and guidelines
- Assessing the environmental and social impacts of our lending
- Ensuring our products are transparently priced and responsibly sold
- Working with customers in difficulty to try and find solutions
- Financing cleaner, greener energy and technology

Acting for the long term

- Taking a long-term view to ensure our customers' deposits and our shareholders' investments are well looked after
- Managing the environmental footprint of our own business, by using less energy and water and creating less waste and CO₂ emissions
- Making sure we can attract and retain the best employees by being the best place to work

Building community partnerships

- Investing in the communities where we operate, especially in educational and environmental initiatives
- Encouraging employees to participate in community volunteering activities
- Providing access to basic financial education

How about the day-to-day things?

We aim to make our business greener.

With around 9,500 offices worldwide,
small changes can make a big difference.



We want to have the least impact on the environment

That's why we've set targets to reduce energy, water, waste and carbon dioxide by 2011.

We're spending US\$90 million over five years to make sure all our buildings, old and new, use as few of the earth's resources as possible. We encourage employees to hold video-conferences instead of travelling to meetings. Our customers can now bank online, cutting down on paper used for bills and statements.

By 2011 we will cut (per employee)...

Energy by 8%

Waste by 10%

Water by 11%

CO₂ by 6%

Progress so far...

- There are 617 square metres of solar panels on the roof of our headquarters in Canary Wharf, London.
- Our HQ building in Chicago uses an 'intelligent' lighting system that harvests natural daylight and dims the lighting of the building accordingly.
- Energy efficiency measures at our Global Technology Centre in Pune, India, have reduced CO₂ emissions by 700 tonnes per year.
- We have been awarded environmental accolades for new HSBC buildings in Chicago, Hyderabad, Hong Kong, London, Mexico City and New York.
- The 'living roof' of our Mongkok building in Hong Kong is a roof garden built from recycled materials and equipped with solar energy and water recycling systems.
- A new branch in Malta has installed solar energy panels that rotate to follow the sun. The system is the largest of its kind to be connected to Malta's electricity grid and will generate enough electricity to power the 24-hour Express Banking lobby and reduce CO₂ emissions by 3.7 tonnes per year.

How are we shrinking our carbon footprint?

HSBC became carbon neutral in 2005. This has helped us understand what it means to operate in and help facilitate a low-carbon economy.

Our Carbon Management Plan:

1. Measure our carbon footprint
2. Reduce energy consumption
3. Buy green electricity
4. Offset the remaining CO₂ emissions



The first carbon-neutral company in the FTSE 100

Compared with a major manufacturer or energy company, HSBC's carbon footprint is relatively small.

We have a greater impact on the climate indirectly – see *'Low Carbon Economy'*. But with more than 300,000 people in 9,500 offices in over 80 countries, it is important to cut our own carbon dioxide emissions too.

HSBC was the first major bank – and FTSE 100 company – to become carbon neutral. For us, being carbon neutral is a four-step process which we call our Carbon Management Plan. Through this, we aim to reduce carbon dioxide emissions by 6% between 2008 and 2011 and remain carbon neutral in the long term.

Carbon offsetting projects

Offsetting is the final step of this approach, after we have reduced emissions as much as we can. We only buy offsets that genuinely reduce CO₂ by the specified amount, are cost effective and are sustainable in the long-term.

We don't consider tree planting or giving away low-energy light bulbs to be credible or permanent ways to offset CO₂ emissions. Projects we do buy from include:

- Renewable hydroelectric power, including eight small hydro power stations in Sichuan Province, China
- An energy efficient steel-making plant in Shandong Province, China, that generates electricity from its own waste gases
- A starch manufacturer in Thailand, which captures the methane it produces and uses it to generate electricity. The benefits are twofold, as methane – a powerful greenhouse gas – is prevented from escaping into the atmosphere, and the plant uses less energy from fossil fuels.

HSBC's Carbon Management Plan

Step 1: Measure our carbon footprint

We keep track of the CO₂ created from the production of energy used to heat, cool and light our buildings, power our equipment and the CO₂ emitted from business travel.

Step 2: Reduce energy consumption

We are reducing CO₂ emissions in many ways, such as installing solar panels, using software to switch off computers and lights at night, designing new HSBC buildings to be energy efficient and using video-conferencing to reduce business travel.

Step 3: Buy green electricity

'Green energy' comes from renewable sources such as wind, solar and hydro-power. Buying green electricity not only reduces our own carbon footprint, it also helps fund the development of more renewable energy.

Step 4: Offset CO₂

We can't eliminate CO₂ emissions completely, so we cancel out any that remain by purchasing emission reductions from voluntary carbon offset projects around the world. We buy credible, verified offsets from renewable energy and energy efficiency projects.

How are we helping to tackle climate change?

Carbon dioxide is the most significant greenhouse gas contributing to climate change. It will take a large amount of money to fund the shift to an economy that relies on lower-carbon technologies to help stabilise the climate.

It will also take a long time for lower-carbon technologies to replace existing technologies. The most important role a bank can play to support this change is to:

- Provide funding for new, greener technologies
- Develop products and services that help business customers cut their carbon emissions
- Reduce our own carbon footprint and continue to be carbon neutral
- Support leading organisations in their ambitions to protect the world's natural resources
- Provide our employees with the opportunity to learn about and get involved in climate change issues
- Ensure greenhouse gas emissions are taken into account when financing major projects



Financing a low-carbon economy

HSBC believes that climate change will have a major impact on the way people live their lives, making it a central issue for our business, employees and customers.

There is a need to reduce levels of carbon dioxide and other greenhouse gases to avoid serious consequences.

HSBC's own carbon footprint is relatively small. We can have a greater impact on the climate indirectly through the way we engage with our

customers. We ask our business customers to comply with greenhouse gas emissions regulations and we follow appropriate international best practice guidelines. We also work with customers that are developing renewable energy projects and low-carbon products and services.

It will take billions of dollars to develop the new technologies necessary to tackle climate change and promote the shift to a low-carbon economy whilst maintaining economic growth. As well as funding these technologies, it's important that we support businesses and investors to do the same.

Investing in green technologies

UK: HSBC's Environmental Infrastructure Fund has a 49% share in the Carbon Trust's 'Partnership for Renewables' programme. This aims to develop enough renewable energy on public sector land to power 230,000 homes.

India: The finance we provide to the power sector is increasingly funding renewable energy. For example, in India we financed a 50 megawatt wind farm.

Developing green products

Hong Kong SAR: HSBC's Green Equipment Financing product provides loans at discounted rates to businesses investing in low-carbon technology.

Mexico: HSBC's green insurance product protects 100 square metres of rainforest per policy. Programme results can be viewed at: www.planetasegurohsbc.com

Supporting wider green investment

HSBC's Global Climate Change Benchmark Index identifies companies making money out of tackling climate change. This helps large-scale investors decide how to make better investment decisions.

The HSBC GIF Climate Change Fund helps individuals to invest in companies included in the Index.

How do we work with and treat people?

HSBC operates in more than 80 countries and territories and has over 100 million customers.

Our success depends on having skilled and committed employees and satisfied customers. We make a broad contribution to society through our business but also through direct support. We:

- Provide employment for over 300,000 people around the world
- Buy goods and services from thousands of local and international suppliers
- Pay taxes to the governments in countries where we operate
- Pay shareholders a regular dividend on their investment
- Provide high quality financial services for over 100 million customers worldwide
- Support business with lending and investment
- Help those in need through grants and donations
- Share skills and encourage employees to give up time to help their communities thrive



We want to be the best place to bank and the best place to work

People rightly expect us to treat our customers and employees fairly. But being responsible also means making a contribution to society.

Employee welfare

We recruit the best people regardless of age, gender, disability or ethnicity. We provide good working conditions and opportunities for employees to develop their careers and enhance their knowledge and skills beyond their 'day job'.

As a partner of the Global Business Coalition on HIV/AIDS, our policy forbids discrimination against employees affected by the disease.

Treating customers fairly

Our fees, charges and terms need to be competitive and fair, and we want customers to understand how they will be affected. We conduct market surveys and communicate directly with customers to find out how we can improve the services we provide.

When customers have difficulties making loan or mortgage repayments, we try to help by restructuring or refinancing their debts, and offer counselling on an individual basis. Our product range includes banking for low-income customers and those without a credit history.

Supply chain

We expect our suppliers to abide by HSBC's Ethical Code of Conduct. We expect them to respect the rights of their employees, as well as national laws and regulations. We carry out regular audits of suppliers' factories and if we find a problem, we help the supplier to develop a plan to put it right. We stop working with suppliers who fail to improve.

Contributing to communities

The wages, taxes and dividends we pay help support local and national economies. We also encourage employees to get involved in their communities and allow people time off to volunteer. We support communities through the HSBC Climate Partnership and Future First, and pass on our knowledge and skills to children through programmes like JA More than Money™. See the 'Community' and 'Employee Engagement' cards for more information.

How do we support communities?

We believe that everyone should have access to education, because it provides opportunity and drives economic development.

We also believe that everybody should be able to live in an environment that ensures a better quality of life.

That's why we ensure that at least 75% of our community investment activity goes to support educational and environmental causes.



We don't just give money away, we get involved

We donate more than US\$100 million a year to support communities around the world.

We believe that by improving education and the environment in underprivileged communities, we can help increase social opportunity, drive economic growth and reduce poverty.

We don't believe in just giving money away, we believe that we can help as well. So when we donate to a school or charitable organisation, we hope that our employees will be able to work closely with them to help plan future progress with more certainty. Our employees contribute around half a million hours a year, most of which is during working hours.

The HSBC Climate Partnership, Future First and JA More than Money™ initiatives are great examples of how we can help with both financial support and by involving our staff.

HSBC Climate Partnership

This is a five year partnership between HSBC and four leading environmental organisations: The Climate Group, Earthwatch, Smithsonian Tropical Research Institute and WWF. Using our US\$100 million investment, the partnership aims to help combat the threat of climate change by:

- Creating cleaner, greener cities in Hong Kong, London, Mumbai, New York and Shanghai, which we will promote as models for the world
- Creating 'Climate Champions' worldwide, who carry out research and bring back valuable knowledge and experience to their communities
- Examining the long-term effects of climate change and how it will affect the world's forests
- Protecting some of the world's major rivers and the livelihoods of people who rely on them.

Through the work we do with our partners we are helping to shape the way we do business in the future – see '*Employee Engagement*'.

Future First

All young people deserve a good start in life. Future First aims to give them just that. Future First is a US\$10 million, five-year partnership between the HSBC Global Education Programme and a number of children's charities. SOS Children's Villages is a major beneficiary. It provides education and life skills to thousands of street children, orphans and children in care.

JA More than Money™

HSBC has partnered with Junior Achievement Worldwide to launch JA More than Money™, a three-year, US\$3.4 million partnership designed to teach basic financial skills to young children. We aim to reach over 100,000 children in more than 25 countries. HSBC staff will use their work experience to teach children about earning, spending, sharing and saving money, as well as how to start their own business.

Financing our corporate customers

HSBC lends money to companies wanting to expand their businesses and to all sorts of major projects such as railways and docks, conventional and renewable energy generation, forestry, mining and water development.

It's our job to understand and manage the financial risks involved, such as whether the project or company will be successful and the loan repaid. We also choose to make sure that the projects we finance give proper consideration to the needs of communities and the environment.

We believe that HSBC will only enjoy long-term success if we manage these environmental and social risks effectively.



How do we decide what to finance?

It takes several partners to make a major commercial project a reality. Government, regulators, business partners and investors all play a part and, of course, banks provide the funds.

Arranging the funding is an important element of any deal and carries a number of risks for the lender. As well as financial or credit risks, there can be potential social and environmental risks. That is why there are certain sectors that HSBC simply will not lend to and why we refer to international good practice guidance and our own sector policies when lending to certain projects. HSBC is one of a group of leading banks that work together to manage risk when lending to major commercial projects under an agreement called the 'Equator Principles'.

What if we ignore the bigger picture?

Creating a new hydroelectric dam to produce low-carbon energy could, at first sight, be a beneficial project, but there could be indirect implications for the local community. For example, flooding the valley behind the dam could destroy the habitats of many species and force local communities out of their homes. The bank providing the finance has a responsibility to assess the risks and benefits before deciding whether to lend the money. As a significant partner in a project like this, banks can often have a positive influence by setting minimum standards before committing to the loan.

How we manage risk

We employ a specialised team of people around the world to assess sustainability risks. We make sure our dealings satisfy internationally recognised guidelines that help us assess the effects our lending might have on society and the environment. We also have specific guidelines on working with high-risk sectors – see boxes.

We have strict controls for lending to certain industries:

- Chemicals
- Energy
- Forestry
- Freshwater infrastructure, such as dam-building
- Mining and metals

We won't finance:

- Weaponry
- Mining of diamonds used to fund armed conflict
- Illegal and unsustainable cutting of rainforest
- Hazardous pesticides
- Operations in UNESCO World Heritage Sites
- Uranium for weapons purposes
- Operations in wetlands of international significance (designated by RAMSAR agreement)

How do we involve our employees?

We simply can't meet our sustainability targets without the help of our employees.

They are HSBC – whether they are the people who work directly with our customers or those who support the front line. That's why we help to provide them with the knowledge, skills and opportunities to support communities and the environment as well as their own careers. In turn, they will help us to become a more sustainable business.





We want HSBC to be a company our people are proud of

We need the help of our global workforce to make a real difference in communities, reduce our environmental footprint and embed sustainability into everyday business decisions.

HSBC employees the world over volunteer their time to good causes and share their skills by acting as mentors, school governors or business advisers. We encourage employees to get involved in their communities in a number of ways, such as:

- Giving them time off work to volunteer
- Supporting charities and not-for-profit organisations that run programmes our staff can engage with
- Matching the funds they raise for charity

Understanding sustainability

We provide training for employees to help them understand sustainability and encourage them to take action through their work. Sustainability is included in many of our training courses, particularly those related to risk management. We also make sure that our future leaders understand sustainability (see box).

We encourage employees to learn about climate change, what it means to the business and what they can do to combat it. As part of the HSBC Climate Partnership, we:

- Offer online training about climate change to over 100,000 employees
- Give over 20,000 employees the chance to take part in local projects to promote action on climate change
- Create 2,000 Climate Champions, who will help scientists with climate change research and bring back valuable knowledge and experience to HSBC.

Developing tomorrow's leaders

Our Next Generation Development Programme is a six-month programme for high-performing employees. Part of the programme aims to give attendees a better understanding of sustainability and the role that big business can play.

Participants manage real situations within charitable organisations, such as developing a marketing plan for a remote rainforest and national park, or creating a business plan to improve product distribution and profitability at a sustainable sugar farm.