



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

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

Det Norske Veritas Certification BV
Rotterdam, 16 May 2007

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.

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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.



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Rotterdam, 16 May 2007

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