



DNV Assurance Statement Equator Principles

Det Norske Veritas (hereafter 'DNV') has been commissioned by HSBC Holdings plc, (hereafter 'HSBC') to provide independent third party assurance services regarding HSBC's implementation of the Equator Principles (EP).

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

Scope

This is the second year DNV has verified HSBC's implementation and disclosure of EP against the principles of the AA1000 Assurance Standard (AA1000AS) and in accordance with the EP of July 2006.

In accordance with HSBC's request, this assurance engagement was carried out through document review and interviews with relevant personnel across HSBC Group, from HSBC Headquarters in London. It focused not only on HSBC's implementation of the EP, but also on HSBC's active role in promoting and developing the EP framework, in collaboration with other financial intuitions.

Compared with last year, the sample of projects has increased significantly. Out of all projects approved by Group Corporate Sustainability in 2007, DNV selected 4 Category A projects (out of a total of 7) and 1 Category B (out of total of 57). The total value of the sample represents 12.5% of the total loan value reported. In addition, DNV selected 1 Category A project approved in 2006 (for purposes of verifying continuity and monitoring).

Limitations

This assurance engagement was carried out taking into consideration the specific nature, scale and context of each individual project verified. As the life of each project can span over a number of years (from approval to completion of loan payment), this verification was carried out taking into consideration the current stage of each project and the level of control that would be expected from HSBC at that stage. Moreover, it is recognised that each project is often financed by a number of parties. Therefore, this verification also took into consideration HSBC's stake and role in each project, as well as its relationship with other bidding or financing partners in the project.

HSBC requested that this assurance engagement be carried out from the Group Head Office in London. This enabled us to gain a good understanding of policy-making and EP's implementation at Group level. This was supplemented by telephone interviews with HSBC Sustainability Risk Managers in Latin America (Mexico) and Asia Pacific (Hong Kong).

Two of the projects verified by DNV were approved by Group Corporate Sustainability in the last quarter of 2007 which meant that available documentation was limited. As of April 2008, the common terms agreement of one of these projects was still pending, thus most of the documentation was not available. As a result, this verification focused on the nature and implementation of Group Corporate Sustainability's approval / clearance process.

In order to verify the continued implementation of EP at different stages in the life of projects, we also reviewed one Category A project approved in 2006 (which was also subject to review during our 2007 assurance engagement).

Declaration of Independence

DNV did not provide any services to HSBC during 2007 that could conflict with the independence of our assurance work. DNV was not involved in the preparation of any information contained in the Sustainability Report.

DNV's Approach

This assurance engagement was carried out as part of the verification of HSBC's Sustainability Report 2007. It accounted for approximately 1/3 of all time spent on the verification of the Report and involved both face-to-face and telephone interviews as well as document review.

For this element of the work, the July 2006 EP, as described by the EP Secretariat was used as a basis. The overall assurance engagement was carried out in accordance with the guidelines contained in the DNV Protocol for Verification of Sustainability Reports, which is based both on the GRI G3 and the AA1000AS.

The assurance engagement was conducted between March and May 2008, by suitably qualified professionals, and comprised the following:

1. Interviewed a selection of HSBC representatives, including Group Corporate Sustainability representatives; directors of Credit and Risk, and Project and Export Finance (PEF); and Sustainability Risk Managers (SRMs) located in Mexico and Hong Kong;
2. Selected a sample of projects that would give a fair representation of HSBC's potential impacts and activities, hence the focus on Category A projects. All projects selected were proposed or are being carried out in either non-OECD countries or an OECD country not classified as 'High Income'. The majority of the projects selected are within the Oil

and Gas or Power sector, which represented 45% of HSBC EP loans in 2007. Where applicable, DNV also evaluated whether the relevant HSBC sustainability sector policy had been followed..

3. DNV had full access to all relevant project financing documentation available at HSBC Headquarters, including: technical due diligence reports by independent third parties; common terms agreement documentation; common facility agreements; internal correspondence between Group Corporate Sustainability and local PEF and SRM teams; environmental and social impact assessments; environmental action plans; and reports by independent third parties.

Conclusions

In DNV's opinion, HSBC has good processes in place to ensure an adequate adoption of the EP principles. These are supported by a range of sector policies and associated guidelines and tools. There is a good level of awareness of the EP principles among personnel in the Credit and Risk functions, Project Export Finance and Sustainability Risk Managers. There is evidence of commitment and good collaboration between staff in these areas with regards to the adoption of EP and sustainability in general.

Regarding the way in which EP related information is documented in the Sustainability Report, and taking into consideration the AA1000AS principles, the following comments are made:

- Materiality – In view of confidentiality limitations on the disclosure of project financing deals, we consider that the information contained in HSBC's Sustainability Report 2007 addresses the information requirements of its Stakeholders. We commend HSBC's decision to provide further disclosure of loans by sector in the 2007 Report.
- Completeness – In our opinion, the Report's section on EP provides a fair and balanced representation of HSBC's performance during 2007.
- Responsiveness – We can confirm that HSBC has undertaken a comprehensive stakeholder engagement exercise in 2007. A key finding of that exercise was that Stakeholders needed further information on EP. As a result, HSBC not only increased the level of detail and transparency in the EP section of the 2007 Report, but asked DNV to expand the scope of assurance engagement to include additional projects.

Commendations

We would like to commend HSBC for the following:

- Documentation of EP requirements in Function Instruction Manual (FIM), accessible to all relevant employees;
- Commenced planned implementation of an automated internal reporting mechanism (as recommended by DNV in last year's assurance statement);
- HSBC's active role in promoting the EP among other financial institutions and contribution to the development of the EP management structure and governance rules;
- Local PEFs' general awareness of EP evidenced by email correspondence;
- Provision of support by Group Corporate Sustainability to local offices;
- Level of awareness, competence and commitment of Group Corporate Sustainability team;
- Use of independent experts where applicable, to challenge the Group's thinking on sustainability, guide continual improvement and provide assurance to Stakeholders;
- Enhancement of monitoring requirements, e.g. Group Corporate Sustainability must be informed if projects become non-compliant with EP; should clearance be provided on a conditional basis, local group office needs to send confirmation to Group Corporate Sustainability that conditions have been in fact met.

Recommendations for improvement

- Rapid growth and significant staff increases in certain regions (Asia Pacific in particular) pose a challenge to ensuring that new employees are aware, competent and committed to adopting HSBC's processes and practices regarding EP and sustainability in general. Local regions, supported by Group Corporate Sustainability, should ensure that sustainability-related induction processes, training, and support are provided to new employees, as appropriate.
- Continue raising awareness of approval processes within local offices, in particular regarding the need for timely approval of certain projects by Group Corporate Sustainability, as stated in the Functional Instruction Manual.
- Raise awareness and deliver training to local credit teams and relationship managers on post-approval monitoring and control activities, relevant to the role of HSBC in given projects.



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