

## Independent Assurance Statement

URS Verification Ltd (URSVL) was commissioned by HSBC to provide independent assurance of its corporate responsibility. A summary statement is provided in HSBC's printed Corporate Social Responsibility Report 2005. This full statement gives more information on our scope of work and opinion on specific areas of HSBC's performance.

The objectives of this assurance were to:

- Comment on strategic direction and corporate social responsibility policies by Group functions and customer groups.
- Verify HSBC's non-financial impact data, such as human resources, ethical and responsible investment, non-financial risk management and community investment, except direct environmental impact data, which has been verified separately.

The scope of work on which our opinion is based was:

- Interviews with sixteen senior executives and managers responsible for Group functions;
- Analysis of best practice among peer companies, the principles of the Global Reporting Initiative and AA1000 assurance standard;
- Review of international media and stakeholder opinions on HSBC in the public domain during the reporting year;
- Appraisal of HSBC's stakeholder engagement activities, principally employee engagement surveys, customer perception research and investment analyst views;
- Review of HSBC's external commitments, notably the UN Global Compact, UN Universal Declaration of Human Rights, Equator Principles, Wolfsberg Principles and the OECD Guidelines for Multinational Enterprises;
- Checks on a sample basis of key elements of the report's contents through to underlying records and data, including returns from business divisions, especially relating to:
  - People: Diversity – gender in senior management (% male/female in group 'talent pool')
  - Equator Principles: number of transactions approved in categories A, B and C and declined

In conducting our work we have regard to the three principles of the AA1000 assurance standard<sup>1</sup> - completeness, materiality and responsiveness. URSVL auditors also apply the general principles of auditing and audit procedures as contained within international standards<sup>2</sup>.

### Responsibilities of HSBC and URSVL

The information contained in this report is the sole responsibility of the directors of HSBC.

URSVL is a leading provider of independent assurance to the AA1000 standard. It is part of URS Corporation, an international company providing environmental, socio-economic and engineering services to companies and governments worldwide.

Our independence to provide our robust views is important. None of the URSVL team has worked for HSBC or been involved in the development of this report or any associated systems that would represent a conflict of interest. We estimate that our assurance work for HSBC will account for less than 5% of URS Verification Ltd's revenue in 2006.

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<sup>1</sup> Institute of Social and Ethical Accountability. *Assurance Standard AA1000*, March 2003, London, UK

<sup>2</sup> ISO 19011:2002

URSVL has carried out its services by checking samples of information and documents that have been requested by URSVL from HSBC. Accordingly, URSVL has not checked or reviewed all of HSBC's information and documents.

URSVL's assurance statement is not intended to be used as advice or as the basis for any decisions, including, without limitation, financial or investment decisions.

## Opinion

HSBC has undergone considerable change in recent years, becoming increasingly open in a way which reflects its brand position to be "the world's local bank". The Corporate Social Responsibility Committee of the Board<sup>3</sup> and Executive Steering Group provide a clear governance structure, through which it now develops corporate responsibility policies and can monitor performance.

HSBC has well defined codes of business principles, ethics and conduct, with associated internal systems and controls, backed up by functional communication networks. It is also a signatory to a range of international codes. Together these provide a clear mechanism by which the policies, guidelines and procedures developed at group level can be implemented. HSBC's policies have been strengthened by taking advice from external experts and it has adopted a leadership position in several areas, particularly on environmental issues, such as carbon neutrality.

Corporate responsibility is integrated into HSBC's 'Managing for Growth' strategic plan and this is seen more clearly in this report than in previous years. However, as yet there is limited evidence that the strategies and impacts of customer groups have been taken into account in determining HSBC's corporate responsibility priorities.

HSBC has invested in developing its group sustainable development strategy and training senior management and executives on the Equator Principles during 2005. The sector guidelines and decision support tools should, with continued development and implementation across the whole business, help to manage HSBC's sustainability risk.

Socially responsible investment forms a relatively small part of HSBC's investment business. Beyond the socially responsible investment team, tools and training are not yet generally available to investment analysts and managers to integrate sustainable development risks into their analysis for investments. We await with interest the outcomes from the recent strategic review of socially responsible investment undertaken by HSBC Investments.

Diversity of its people as well as businesses is valued by HSBC. It has advanced its understanding of potentially hidden barriers and ways to increase the proportion of women in senior management. During 2005 good progress has been made in human resources reporting systems, which will lead to more complete reporting on diversity in future. Occupational health initiatives for HIV/Aids are already in place and strategies should be developed further, particularly in key areas such as upper limb disorders.

HSBC has made particular progress in addressing its own environmental impacts. It is the first major bank to commit to carbon neutrality and active engagement with suppliers has achieved important successes, such as the use of Forest Stewardship Council certified paper.

A strategic review of community investment was undertaken in 2005. Implementing the strategy should enhance the businesses' engagement with communities in which they operate and employee involvement from its community investment activities.

*Materiality and Responsiveness: Has HSBC applied an effective process to identify material risks? Has it engaged actively on these issues with key stakeholders?*

HSBC has clear instructions for identifying, assessing and managing operational risk, although these do not explicitly define how environmental, social and economic risks and stakeholders' issues are identified and fed into this process.

The views of external stakeholders, such as international non-governmental organisations, are taken into account as HSBC develops its policies, for example on sector guidance. HSBC

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<sup>3</sup> The Corporate Social Responsibility Committee of the HSBC Holdings plc Board

has engaged with selected suppliers as it develops its policies and approach to managing environmental and social issues in the supply chain. However, it does not have a systematic process for identifying its key stakeholders and their issues. We believe that the information in this report on some issues, such as investment risk, personal indebtedness and information security, may not reflect the level of stakeholders' interest in these issues. Furthermore the accessibility to information of interest to a given stakeholder group or on a specific issue is not always clear.

*Completeness: Does HSBC's report provide a complete, fair and balanced representation of its material issues?*

This report provides a fair and balanced account of the corporate responsibility activities, programmes and achievements in 2005. We commend HSBC for the first time tracking progress during 2005 against commitments made last year, and providing commitments for 2006 across the customer groups.

Key performance indicators have been developed in some areas. Systems to manage risk and track performance on socio-economic issues, such as labour practices, human rights and occupational health are less well integrated into all areas of the business. Going forward, it will be important that HSBC assesses and further develops indicators relating to emerging policies, and how performance is monitored, ensuring that they reflect the risks and impacts of the business.

### **Recommendations**

We offer the following suggestions to HSBC to improve its corporate responsibility performance:

- Encourage customer groups to set meaningful and robust commitments towards corporate responsibility as part of their strategies and business plans;
- Develop advice for group functions and customer groups to identify and engage with key stakeholder groups and assess issues raised as part of risk management processes; and
- Review management and performance indicators for socio-economic issues, such as labour practices and human rights, to assess that their scope and coverage is appropriate to and reflects the business.



Assurance Director  
URS Verification Ltd  
London, April 2006