

Acting Responsibly

HSBC understands that social responsibility begins with the way we manage our business and ourselves.

Our corporate character

HSBC's competitive advantage is built on our corporate character, which defines the values and principles that are inherent in all the company's everyday dealings. We have identified five core business principles and 12 values. We believe the values underlying our corporate

Principles and values

HSBC is committed to five core business principles:

1. Long-term, ethical client relationships.
2. High productivity through teamwork.
3. Confident sense of excellence.
4. International character, prudent orientation.
5. Capable of creativity and strong marketing.

HSBC also operates according to certain key business values:

1. Setting the highest personal standards of integrity at all levels.
2. A commitment to truth and fair dealing.
3. Hands-on management at all levels.
4. Openly esteemed commitment to quality and competence.
5. A minimum of bureaucracy.
6. Fast decisions and implementation.
7. Putting the team's interests ahead of the individual's.
8. The appropriate delegation of authority with accountability.
9. To be a fair and objective employer.
10. A merit approach to recruitment, selection and promotion.
11. A commitment to complying with the spirit and letter of all laws and regulations wherever we conduct our business.
12. The promotion of good environmental practice and sustainable development, and commitment to the welfare and development of each local community.

HSBC's reputation is founded on adherence to these principles and values. All actions taken by a staff member or Group company should conform to them.

character are universal and expect them to be applied throughout HSBC. At the same time, we respect national cultures wherever we operate — for example, we are a Chinese bank in China and a Brazilian bank in Brazil.

Living our values

We establish these values among our staff in the following ways:

- Setting an example, from the top down and through role models and mentors.
- Implementing a 'capability framework' that details the personal attitudes and behaviour we seek to encourage in key areas of our employees' performance, training and development, and other human resource practices.
- Providing financial incentives to encourage good personal performance.
- Putting systems and procedures in place to hold people accountable for their actions. These include operating manuals on the running of the business, annual and strategic plans, and computer systems that control how work is done.
- An active programme of international resourcing through movement and development of our employees around the world, thereby transferring best practice and building up networks.
- Encouraging teamwork rather than a 'star' culture among our employees.
- Recruiting people who are comfortable with HSBC's values.

Business integrity

HSBC has a series of systems and checks to protect our reputation and financial integrity. In addition to adhering to the letter and the spirit of laws and regulations in force in the 79 countries and territories in which we do business, we have voluntarily agreed to meet many codes and standards set by external

'Morality is as important as earnings growth.'

From 'Managing for Growth' — the HSBC Group strategic plan 2004-2008

Managing CSR

Management of HSBC's corporate social responsibility policies is overseen by the Corporate Social Responsibility Committee chaired by Lord Butler. He is an independent non-executive Director of HSBC Holdings plc who, since 1999, has overseen our philanthropic activities via HSBC in the Community. Lord Butler also chairs the HSBC Education Trust in the UK, which was established in 2001.

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee held its first meeting in February 2004. The Committee is responsible for overseeing HSBC's CSR policies — principally environmental, social and ethical matters — and for advising the Board, committees of the Board and executive management on such matters. The other members of the Committee are William Fung, Sharon Hintze and Carole Taylor, all of whom are independent non-executive Directors, Baroness Brigstocke, Gerry Davis and Lord May.

We obtain external advice on environmental reporting from the Sustainability Advisory Service team of KPMG, and on CSR reporting from The Corporate Citizenship Company.

Benchmarking our performance

The Dow Jones Sustainability Index selects from the world's 2,500 largest companies the top 10 per cent 'sustainability leaders' in each industry sector. As listed in the world index, HSBC's sustainability performance is described as 'very high compared to its industry'.

HSBC has been a member of the FTSE4Good ethical index since its inception, and was again successful in gaining inclusion in 2003.

organisations. We take great care to ensure our employees are fully aware of these as they are held personally accountable.

Ensuring robust internal systems

HSBC's own internal policies and procedures underpin the personal accountability of our employees. These are reinforced by stringent systems, and auditing and reporting requirements to ensure that they are properly applied. Managers at all levels are responsible for ensuring that effective internal controls are maintained within their own areas of activity. Primary internal controls are laid down by established and well-documented procedures, and secondary controls by managerial and executive supervision. Our Internal Audit department provides tertiary control through independent inspection, although this does not absolve managers from their own responsibilities.

Corporate governance

HSBC Holdings' Board has 14 non-executive Directors, of whom the Board has determined 11 are independent, and eight executive Directors. In accordance with the Listing Rules of the Financial Services Authority, HSBC will include in its *Annual Report and Accounts* each year a narrative statement of how the main and supporting principles of the Combined Code on Corporate Governance are applied, and a statement either that the Company has complied throughout the accounting period with the Code provisions or, if it has not, an explanation of any non-compliance. In 2003, HSBC Holdings complied with the best practice provisions of the Combined Code on Corporate Governance, and with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong

Kong. Implementation of the Board's corporate strategy is delegated to the Group Management Board under the leadership of the Group Chief Executive.

The Board has appointed a number of committees, including the Group Management Board, the Group Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility Committee (see box opposite). The roles of these committees are described in our *Annual Report and Accounts*.

Group-wide approach

Our internal policies, standards and procedures apply across our business worldwide. They are explained in the *Group Standards Manual*, a 160-page internal publication covering the roles and functions of key departments, including Group Head Office. It also provides detailed instructions for individual HSBC businesses, taking into account local circumstances and relevant laws and regulations.

Our businesses are also required to adhere to Group lending guidelines. These detail the type of business we will accept and how decisions are made and reviewed.

Some legislation has an impact beyond individual countries, which effectively creates additional global standards. Anti-bribery laws in the UK and United States, for example, which prohibit the offer or receipt of gifts or inducements to or from public officials, apply to all UK and US persons regardless of their location. Similarly, we are complying with the US Sarbanes-Oxley Act by implementing global disclosure ('whistle-blowing') procedures that will allow all employees to report suspected malpractice on a confidential basis.

Local responsiveness

Despite our Group-wide approach in applying uniform policies and standards, individual units are responsible for their own decisions and judgement. This is consistent with our decentralised, local character. Ultimately, these local units are accountable for their actions to

Group Compliance policy

Members of the HSBC Group 'should comply with both the letter and the spirit of all relevant laws, codes, rules, regulations and standards of good market practice in each jurisdiction around the world where they conduct business.' — Group Compliance policy, adopted 12 March 1993.

senior management and the Board. Questions over interpretation of Group standards are dealt with by the relevant Group function. For instance, questions about credit and risk standards are referred to the Group Credit and Risk department, which also authorises large transactions.

Adopting high external standards

HSBC Group members are required to follow all relevant local, international and industry standards in addition to our internal standards. We have also voluntarily agreed to abide by a number of external codes of conduct, some of which are detailed below.

We are a founder signatory to the **United Nations Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development**.

Sir Mark Moody-Stuart, a non-executive Director on the Board of HSBC Holdings plc, is on the **UN Secretary General's Advisory Council for the Global Compact**, of which we became a corporate supporter in 2000. The Compact challenges companies to demonstrate progress in supporting and advancing key principles in three fields: labour standards, human rights and environmental responsibility. The section 'Diversity: a report on progress' on pages 46-47 demonstrates HSBC's support for Principle 6 of the Compact.

HSBC has expressed its support for the **Global Sullivan Principles**, which address economic, social and political justice issues, such as human rights and equal opportunities in employment.

We follow the **OECD Guidelines for Multinational Enterprises**, which promote business conduct in the area of sustainability.

Combating crime

We work within internationally agreed standards, notably:

- The UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention 1988).
- The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime (Strasbourg Convention 1990).
- The Basle Committee on Banking Regulations and Supervisory Practices (Statement of Principles on Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering 1988).
- The Financial Action Task Force and special recommendations on terrorist financing.

In addition, HSBC is a founder member of the Wolfsburg Group and subscribes to the following guidelines:

- Wolfsburg Anti-Money Laundering Principles for Private Banking.
- Wolfsburg Anti-Money Laundering Principles for Correspondent Banking.
- Wolfsburg Statement on the Suppression of the Funding of Terrorism.

In September 2003, we decided to further our long-standing environmental policy by adopting the **Equator Principles**, which cover project financing. As a result, we will not provide loans directly to projects where the borrower will not, or is unable to, comply with either the Equator Principles or our own internal environmental, reputational and social policies, whichever carries the higher standard (see page 14 for more details).

HSBC has been at the forefront of the banking industry's efforts to discourage speculators profiting from — and exacerbating — currency devaluations during financial crises. In 2001, we co-chaired a committee of 16 leading international banks that drew up voluntary **foreign exchange guidelines to discourage speculation**, which are now endorsed by the foreign exchange trading committees in the world's principal trading centres. These guidelines consider speculative practices by

banks to be unacceptable trading behaviour, prohibit the use of electronic dealing systems to generate artificial price movements, and require market makers to refuse client transactions that might be disruptive.

Through initiatives such as the **Wolfsburg Principles**, banks are increasingly expected by governments to play a front-line role in identifying and reporting monies suspected of being proceeds from criminal activity and to help combat the funding of terrorism.

We have our own internal procedures to combat the threats to the financial system posed by credit card fraud and money laundering, which criminals use to disguise the true source of their funds. We also work with other banks and government agencies to ensure effective measures are applied throughout the banking system.

Key to deterring money laundering is knowing the true identity of all customers and investigating major or unexpected transactions. We have stringent internal procedures to monitor transactions and report suspicious activities. We are, however, careful to respect the privacy of legitimate customers. The skills and awareness of our staff are therefore essential, which is why we place a high emphasis on training at all levels. Employees receive regular updates on developments, changes in law and risk alerts in addition to annual training on anti-money laundering procedures. We work with outside experts to improve the effectiveness of this considerable investment in time and resources.

Terrorism presents a new challenge as its financing is not necessarily derived from criminal activity. In addition to our 'know your customer' policies, effective action depends on liaising with law enforcement and government agencies about suspicious individuals and organisations. As an added precaution, we also restrict our business dealings with high-risk sectors, such as alternative remittance systems and money transfer agents.

We are members of **Transparency International (UK)**, the anti-corruption pressure group.