

Managing our Impacts

HSBC is committed to playing its part in making sustainable development a reality — meeting the needs of the present without compromising those of the future.

A group of the size and scope of HSBC makes a significant impact on the world. Most of these impacts are positive, such as the economic and social benefits that flow from our business. However, as an organisation with thousands of offices and tens of thousands of employees, we also create other impacts, for example environmental, that we need to manage carefully. We believe that in order to be a force for good in the world, we must conduct our financial services business in a highly responsible manner ensuring, as far as possible, that the businesses and projects we support are themselves managed responsibly.

Sharing economic benefits

HSBC's operations around the world create wealth that helps to sustain the jobs and livelihoods of millions of people. Shareholders' earnings, employers' wages, taxes paid to governments and purchases made from suppliers all help communities around the world to prosper and grow.

We have adapted the widely used 'value added' methodology to demonstrate this distribution of wealth. As the table and chart on the right show, we spent more than US\$7 billion with many thousands of suppliers. Of the value added to the business in 2003, employees earned a third while governments received US\$3.9 billion through business taxation and social security contributions. They also benefited considerably more by taxing our employees, investors, suppliers and, ultimately, customers.

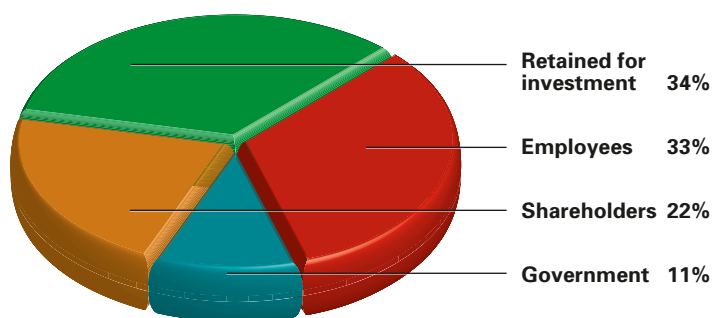
Responsible finance

Our approach to lending and investment is based on a combination of our own business principles and values, society's expectations and, fundamentally, an assessment of risk. We avoid undertaking certain types of business, such as the financing of weapons manufacture and

sales, dealing with countries subject to internationally agreed sanctions, and transactions that might be used to evade tax or launder earnings from crime.

In industry sectors with the potential for major, adverse social, ethical or environmental impact, we will only advance credit under exceptional circumstances, and then only after an additional and detailed assessment of the individual borrower. This approach means that we are unlikely to be involved in project financing for a number of schemes — for

How HSBC's cash value added was distributed in 2003



HSBC's cash value added in 2003

US\$billion

The value our operations add in monetary terms to the goods and services we buy in, calculated as the difference between net income and payments out to suppliers:

Received by HSBC for supply of products and services	57.4
Returns on investments	0.9
Servicing of finance	(16.5)
Payments to suppliers (premises and other)	(7.5)
	<u>34.2</u>

This cash value added is available for sharing among stakeholders in the business and is also shown in the pie chart above:

Employees (remuneration for their services)	11.3
Government (taxes and social security)	3.9
Shareholders (cash dividends and minority interests)	7.5
Retained for investment	11.5
	<u>34.2</u>

example, power plants, mineral extraction and dams — without first conducting detailed environmental impact assessments.

In some cases, we have disengaged from previous business commitments in response to the development of our lending policies. The effect of our internal standards and external commitments is that, in some countries and territories, we set a higher standard than that required by local regulations. For example, our lending policy is more stringent than that applied by some export credit agencies.

Implementing the Equator Principles

In 2003, HSBC reinforced its long-established environmental and social risk evaluation process and position as one of the leading companies in environmental impact management by adopting the Equator Principles. These voluntary guidelines provide a common framework to address the environmental and social issues that arise in financing projects, and ensure that the projects are assessed according to sound environmental management practices. Developed by major international banks, the Principles apply to all projects costing more than US\$50 million. Projects fall into one of three categories, A, B or C, with category A indicating the highest degree of environmental or social impact.

The Equator Principles help us to categorise the degree of environmental and social impact of commercial proposals. In adopting them, HSBC has undertaken to ensure that all applicable project finance proposals fall within the requirements of the Principles. We will not provide loans directly to projects where the borrower will not, or is not able to, comply with either the Equator Principles or our own internal environmental, reputational and social policies, whichever carries the higher standard.

Our focus for 2004 will be to ensure that the Equator Principles are fully implemented across the HSBC Group. To this end, we are updating our *Group Standards Manual* and *Group Lending Guidelines* on environmental risk. In conjunction with the International

Finance Corporation*, we are also starting to roll out awareness and implementation training programmes for our senior executives in project and export finance and related areas. We believe training our staff in how to implement the Principles is key to ensuring compliance.

We will also demonstrate that we are adhering to the Equator Principles. From 2004 onwards, we will report summary numbers for the total value and volume of project finance deals booked, split by category (A, B and C). These figures will be included in the next edition of this report, to be published in 2005.

During 2004, we will consider adopting our own sector-based lending policies for certain industries that are potentially damaging to the environment, for example, to freshwater and forest land.

Managing suppliers and contractors

Environmental performance is already a key part of our assessment process for suppliers in the UK, France, the United States and Hong Kong. In these areas, we expect as a minimum our suppliers to have an environmental policy, to show evidence of compliance with environmental regulations, and to employ an individual with responsibility for the environment. We also enquire about such issues as discrimination, use of child labour, health and safety, and working conditions. Over time, we shall apply similar requirements to our suppliers worldwide.

Managing our impacts on the environment

In order to fulfill our commitments to sustainable development, we have to understand the effects of our working practices. Since 2001, increasingly we have been gathering data on our environmental impacts from our operations around the world. Progress and results for 2003 (plus comparison with 2002) are shown opposite and in the data tables on pages 16-17.

* The International Finance Corporation is the private sector arm of the World Bank Group. Its mission is to promote private sector investment in developing countries, which will reduce poverty and improve people's lives.

Our environmental performance

Energy use

Overall, energy consumption has increased marginally.

2003 initiatives

- Outsourcing of energy management in Asia-Pacific, North America and the UK.
- Lighting upgrades and thermostat replacements in the United States and the UK will see an estimated annual saving of over 320 tonnes of carbon dioxide.
- Use of energy surveys in Brazil and India to identify potential savings, combined with employee awareness programmes on energy reduction.

Business travel

Business travel has increased. This is partially due to increased data capture in Asia-Pacific but also reflects more travel in connection with the integration of new members of the Group, Household and HSBC Mexico.

2003 initiatives

- Extended use of video-conferencing and tele-conferencing systems, and tighter control of costs has decreased travel by staff in Brazil.
- The introduction of an environmental travel policy in Hong Kong aimed at cutting carbon dioxide emissions by 1 per cent.

Greenhouse gas emissions

While energy consumption has risen only marginally, our greenhouse gas emissions have risen substantially, despite our efforts to reduce them. This is due to the inclusion of additional sites in Asia-Pacific, which have higher carbon dioxide conversion rates than in other regions.

2003 initiatives

- We expect our emissions to reduce further as a result of our switch to using 'green' electricity in the majority of our UK operations, with an estimated annual reduction of 50,000 tonnes of carbon dioxide.
- Our Australian operations are seeking to obtain 10 per cent of their energy from renewable sources.

Achievements at a glance 2003

Expanded coverage

China, Panama and new Group Service Centres in Asia-Pacific are now included in the environmental reporting system.

Improved data quality

Such methods as the direct metering of sites have improved the quality of data we collect in Brazil, the United States and Asia-Pacific.

Reducing impacts

Initiatives include a pilot scheme for eco-branches in the UK, lighting upgrades and thermostat replacements in the United States and the UK, and switching to 'green' electricity in the UK.

Water consumption

We attribute the decrease in our water consumption to improvements in our reporting systems in the UK and more accurate estimates of consumption in Brazil, the United States and France, offset by the increased scope of reporting in Asia-Pacific.

2003 initiatives

- Installing a new water distribution system in the HSBC operations centre in Malta.
- Replacing water cooling towers with dry cooling systems in some of our operations in France.
- Installing water meters at all company-owned premises in India.

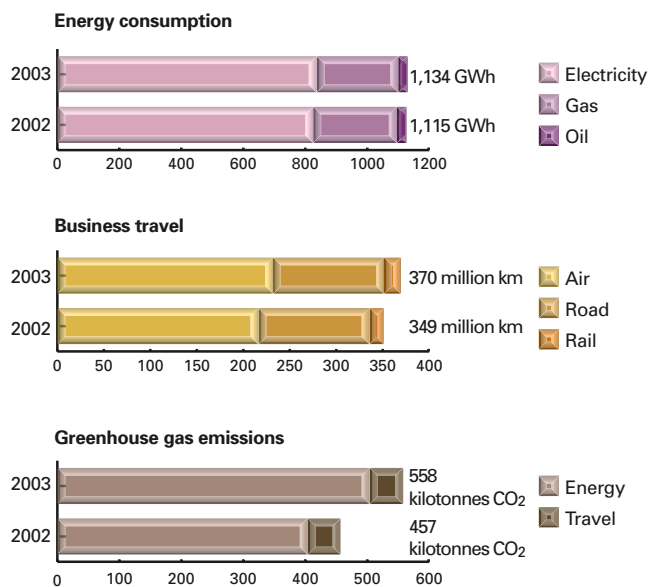
Waste

Significant improvements in the waste reporting systems in some regions make it impossible to make realistic comparisons between 2002 and 2003 data.

2003 initiatives

- We are moving to online and double-sided printers at our Brazilian, Chinese, Australian and UK operations.
- In Brazil, confidential waste is being recycled.
- In the UK, an initiative with the charity Future Forests to recycle mobile phones has resulted in 500 saplings being planted in the HSBC forest in Balblair, Scotland.

Environmental performance review of HSBC's operations in 12 countries and territories in 2003.



United States, Canada and Panama

Resource efficiency		2002	2003	Notes
Energy consumption	GWh	279	282	a
Energy consumed per m ²	KWh/m ²	444	443	a
Water consumption	000 m ³	590	522	a,b
Water consumption per person	m ³ /FTE	34	30	a
Waste not recycled	tonnes	2,425	3,383	a,b
Percentage of waste recycled	%	63	58	a
Business travel	million km	80	82	a
Amount travelled per person	000 km/FTE	4.6	4.7	a
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	97	93	a
From business travel	kilotonnes CO ₂	12	13	a
Total	kilotonnes CO ₂	109	106	a

- a Addition of Panama in 2003 reporting.
- b We attribute the decrease in water consumption and increase in waste production to improvements in the reporting system as a result of outsourcing the management of waste and water, which has greatly improved data accuracy.

FTE full-time equivalents (a measure of the number of employees)
 KWh kilowatt hours
 GWh gigawatt hours

Data ranking key
 The colours in the tables on pages 16-17 indicate the estimated ranking of the data, with 1 indicating greater reliability and 4 lesser reliability.

1	2	3	4
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UK

Resource efficiency		2002	2003	Notes
Energy consumption	GWh	392	422	a
Energy consumed per m ²	KWh/m ²	387	431	a
Water consumption	000 m ³	896	784	b
Water consumption per person	m ³ /FTE	17	15	b
Waste not recycled	tonnes	14,705	14,487	c
Percentage of waste recycled	%	29	27	c
Business travel	million km	150	158	d
Amount travelled per person	000 km/FTE	2.8	3.0	d
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	136	130	e
From business travel	kilotonnes CO ₂	22	22	
Total	kilotonnes CO ₂	158	152	e

- a The increase in electricity consumption is largely due to the dual running of the new Group Head Office in London and the premises being vacated.
- b The decrease in water consumption is attributed to improvements in data collection as a result of utilities management outsourcing.
- c Waste reporting is more complete than in other regions.
- d Business travel has increased as a result of the development of the new Group Service Centres.
- e In 2003, we sourced 17% of our electricity from renewable sources, enabling our greenhouse gas emissions to decrease while energy consumption increased.

Brazil

Resource efficiency		2002	2003	Notes
Energy consumption	GWh	132	98	a,b
Energy consumed per m ²	KWh/m ²	167	129	a
Water consumption	000 m ³	747	361	a,b
Water consumption per person	m ³ /FTE	36	16	a,b
Waste not recycled	tonnes	-	-	a,c
Percentage of waste recycled	%	-	-	a
Business travel	million km	49	33	a,d
Amount travelled per person	000 km/FTE	2.4	1.5	a
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	4	4	a,e
From business travel	kilotonnes CO ₂	8	6	a
Total	kilotonnes CO ₂	12	10	a,e

- a Data exclude operations acquired from Lloyds TSB in November 2003.
- b The downward trends in water and energy consumption are as a result of improvements in the reporting systems.
- c General waste data are not available due to local constraints within Brazil. All confidential paper waste is recycled.
- d Increased accuracy in reporting, combined with a drive to reduce travel costs, has resulted in a decrease in the impacts of travel.
- e The 2002 figure for greenhouse gas emissions from energy use has been restated from 36,278 tonnes carbon dioxide to 4,229 tonnes. This change has been made to reflect the lower emissions profile of energy in Brazil (UN Environment Programme sourced emissions factor).

Asia-Pacific				
Resource efficiency		2002	2003	Notes
Energy consumption	GWh	217	241	a,b
Energy consumed per m ²	KWh/m ²	367	298	a
Water consumption	000 m ³	588	810	a
Water consumption per person	m ³ /FTE	17	18	a
Waste not recycled	tonnes	2,574	3,766	a
Percentage of waste recycled	%	54	48	
Business travel	million km	57	74	a
Amount travelled per person	000 km/FTE	1.6	1.7	a
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	155	267	a
From business travel	kilotonnes CO ₂	8	11	a
Total	kilotonnes CO ₂	163	278	a

- a Data for 2002 include the following operations: India, Malaysia, Singapore, Australia and Hong Kong. In 2003, reporting was extended to include mainland China and the four new Group Service Centres in China, Malaysia and India.
- b Energy data for 2002 were restated to reflect an error made in converting gas from m³ to KWh, and incorrect electricity measurements in Singapore.

France				
Resource efficiency		2002	2003	Notes
Energy consumption	GWh	95	91	a
Energy consumed per m ²	KWh/m ²	212	250	a
Water consumption	000 m ³	278	226	a
Water consumption per person	m ³ /FTE	21	21	a
Waste not recycled	tonnes	1,566	802	a
Percentage of waste recycled	%	34	48	
Business travel	million km	13	23	a,b
Amount travelled per person	000 km/FTE	1	2.1	a,b
Greenhouse gas emissions				
From energy consumption	kilotonnes CO ₂	12	10	a
From business travel	kilotonnes CO ₂	2	3	a
Total	kilotonnes CO ₂	14	13	a

- a There have been some improvements in data quality. However, due to the nature of our operations in France and the large number of subsidiaries of CCF, improvements have not been distributed evenly. Some areas are able to provide quality data, but others have shown little improvement.
- b Some CCF subsidiaries have reported only for 2002 or only for 2003.

Basis of reporting

We report our environmental data in accordance with our internal Environmental Reporting Guidance, which uses calculation methods set out by the UK Government's Department of Environment, Food and Rural Affairs and the UN Environment Programme. Some markets have outsourced facilities management who provide consumption data upon which we rely for reporting.

We currently report data for our five main markets: the UK, Brazil (excluding assets purchased from Lloyds TSB in Brazil during 2003), North America, France and Asia-Pacific. We do not yet report data for our new business acquisitions, Household in the United States and HSBC Mexico. However, our teams in North America are working closely with staff in these two businesses to help them develop the processes they need to gather and analyse environmental data. We expect to report on their performance for 2004.

Improvements in 2003

In 2003, we have focused on improving our environmental reporting system and putting in place the foundations we need to develop an effective global environmental management system. We have made further progress, improving the accuracy of our reporting systems in

Asia-Pacific, Canada and Brazil, and including data from China, our new Group Service Centres and Panama for the first time.

Comparability

Comparison of year-on-year environmental data is sometimes difficult because of the continued development of our reporting system and improvements in accuracy of the data collection. It can also be affected by changes in the scale of our operations and local climatic and economic conditions. Where these effects are significant, we will highlight them. Nor can there be total consistency in the quality of the data we collect because of variations in the availability of information within the different markets. We report our estimation of the ranking of data provided between 1 (greater reliability) and 4 (lesser reliability).

Assurance

HSBC's Group Audit function is developing internal assurance procedures over our environmental performance reporting. In addition, we have engaged KPMG to provide external assurance over our UK environmental performance data and associated statements and the effectiveness of our aggregation process for Group data. Their assurance report is on page 19.

Setting targets

We implemented environmental reporting in the UK in 2000 and, in 2001, set performance targets for our UK operations only. Our progress is given in the table below.

Managing our performance

Building for sustainability

When designing and building a new branch, we have the chance to incorporate environmentally sustainable practices. There is a clear opportunity to design for energy conservation — to reduce carbon dioxide emissions and use materials that have a low impact on the environment. We are currently running a pilot scheme in the UK with four 'eco-branches', which will be operational early in 2004 and which we will assess during the rest of the year.

Engaging our employees

We will only succeed in managing our performance if we are able and willing to change our working practices and become more efficient in the use of resources. Staff awareness and involvement is essential and we are addressing this in different ways around the Group. For example, in Hong Kong we have created environmental management committees, with members drawn from across the business, and Hang Seng Bank has launched a 'Green Ambassador' scheme to encourage employees to take individual responsibility for environmental performance. In order to raise employees' awareness of their environmental impacts, some of our businesses in Asia-Pacific and North America use their intranet sites while, in the UK, HSBC Bank uses road shows and poster campaigns.

Other regions are also starting to set targets as their reporting systems mature. Asia-Pacific is the next to do so, making a commitment to reduce greenhouse gas emissions by 5 per cent over a five-year period. We intend to develop further targets when we are satisfied with the quality of our baseline information. In the meantime, we will focus on developing our environmental management systems.

Looking to the future

There are a number of challenges ahead that we wish to meet.

- Implement an international environmental management system, setting targets for reducing our environmental impacts.
- Expand our reporting on environmental performance to incorporate products and services.
- Expand the scope of our environmental reporting by 2004 to include Household, HSBC Mexico and the Lloyds TSB acquisition in Brazil.
- Continue to improve our baseline data for countries that are already reporting.
- Roll out our internal assurance processes over this data for all major markets by 2005.
- Take part in developments in environmental reporting through our membership of the UN Environment Programme Finance Initiative, which is working with the Global Reporting Initiative to develop environmental performance indicators for the sector.

Progress against targets in the UK

Target

To reduce greenhouse gas emissions by 5% over five years.

To improve water data capture for metered buildings from 70% by end 2003.

To improve data on general waste, consolidate contracts and increase proportion of waste recycled.

Progress

Improved data capture meant that we detected an increase of 5% in 2001. With the sourcing of 'green' electricity, however, we expect to meet our target.

Data capture now over 90% for metered buildings.

Data quality reliability has improved from a ranking of 3 to 2 by reducing our waste contract to one waste contractor from over 500 contractors in 2001.

Assurance statement

Independent assurance report to HSBC Holdings plc on its Environmental Performance Report 2003

Introduction

HSBC Holdings plc (HSBC) engaged us to review its selected environmental performance data and associated statements for the year ended 31 December 2003, as reported in its *Corporate Social Responsibility Report 2003* (the report) on pages 14 to 18. This is the first year we have provided an independent assurance report of this information. Accordingly, we have not reviewed the environmental performance data for 2002.

This report is made solely to HSBC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our work, for this report, or for the conclusions we have reached.

Respective responsibilities of directors and reviewers

HSBC's directors are responsible for the preparation of the report and the information and assessments contained within it, for determining HSBC's objectives in respect of environmental performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Our responsibility is to express our conclusions on the selected 2003 environmental performance data, and the associated statements for the year ended 31 December 2003. We also report if, in our opinion:

- any disclosures in the report relating to the selected 2003 environmental performance data and associated statements are misrepresented or inconsistent with our findings;
- if we have not received all the information and explanations we required for our review; or
- if we became aware of additional information, the omission of which may result in the selected environmental performance data together with the associated statements for the year ended 31 December 2003 being materially misstated or misleading.

Basis of our work

There are no generally accepted standards for the reporting or review of environmental performance data. HSBC applies its own internal Environmental Reporting Guidance, based on emerging best practice for reporting environmental performance.

We conducted our examination having regard to emerging best practice and principles within international assurance engagements and, in particular, our approach draws from the International Standard on Assurance Engagements 3000: *Assurance Engagements other than Audits or Reviews of Historical Information* issued by the International Auditing and Assurance Standards Board.

Our work was carried out by a multi-disciplinary team of corporate social responsibility, greenhouse gas and assurance specialists. Our approach is risk-based, drawing on an understanding of risks associated with reporting

environmental performance and systems and processes in place to mitigate these risks.

Scope of review

The selected 2003 environmental performance data subject to our review were: water consumption, waste production, energy consumption, business travel and related greenhouse gas emissions from energy consumption and business travel (collectively referred to as the 'selected 2003 environmental performance data') for the UK on page 16. We also reviewed the effectiveness of the aggregation process for the Group selected 2003 environmental performance data.

Work performed

We planned and performed our work to obtain all the information and explanations that we considered necessary to provide sufficient evidence for us to give limited assurance that the UK selected 2003 environmental performance data are fairly stated and the aggregation process for Group selected environmental performance data is effective.

Our work performed consisted of:

- understanding the systems used to generate, aggregate and report the selected 2003 environmental performance data for the UK;
- reviewing consistency of the reported selected 2003 environmental performance data with HSBC's Environmental Reporting Guidelines (dated 18 February 2003) for the UK;
- conducting interviews with management to obtain an understanding of the consistency of UK reporting processes compared with the prior year and to obtain explanations for environmental performance trends for the UK;
- understanding and confirmation of the process in place to aggregate the selected 2003 environmental performance data for the Group data;
- testing the accuracy of the aggregation process for the 2003 selected Group environmental performance data, including reviewing explanations for unusual trends in the data already obtained by HSBC;
- reviewing all carbon dioxide emissions factors used for the Group against current best practice; and
- reviewing the presentation of the selected 2003 environmental performance data and associated statements in the report in light of the findings from our work and our knowledge of the industry and HSBC's operations.

Conclusions

Based on the above, nothing has come to our attention that causes us to believe that:

- the information reported about the HSBC UK selected 2003 environmental performance data is not fairly stated;
- the aggregation process for the HSBC Group selected 2003 environmental performance data is not effective; or
- that statements made in the report relating to this process are not fairly stated.

KPMG Audit plc
Chartered Accountants
9 March 2004