Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group’s expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report.
Agenda

• HSBC’s approach to sustainability
  – Sustainability strategy
  – Structure and governance
  – Risk management
  – Business development
  – Footprint management
  – Community investment

• Key themes
  – Climate change
  – Microfinance

• Progress so far

• Q&A
Sustainability strategy
It's about taking a position, not positioning.....
Our Corporate sustainability strategy

CLIMATE CHANGE
WASTE
WATER
Biodiversity
POVERTY

ADVISORY SERVICES
BUSINESS DEVELOPMENT
RISK MANAGEMENT
FOOTPRINT MANAGEMENT
COMMS & REPORTING
COMMUNITY INVESTMENT

BRAND & MARKETING
EMPLOYEE ENGAGEMENT
Structure and governance
Corporate sustainability

Employee Engagement

Advisory Services

Footprint Management

Risk Management

Business Development

Community Investment

Communications and Reporting

Group Corporate Sustainability

Direct Impact

Indirect Impact

Indirect Impact

HSBC
Risk management
Sustainability risk management

Minimising the indirect impact of our lending

- **Objectives:**
  - Develops policies and processes to ensure that the Group protects its reputation and brand from environmental and reputational risk
  - Ensures that these policies and processes are mainstreamed in the risk assessment and approval process through a programme of communication and training
Sustainability risk framework

Group Standards Manual

Group Credit and Risk FIM
Chapter 4 - Sustainability Risk

Group Credit Policy & Standards Library
Guidance Notes
Equator principles

- Relaunched July 2006
- HSBC led the Working Group
- Updates to Principles
- Updates to IFC framework
- 61 financial institutions
- Estimated 80-90% of cross-border project finance

Changes to the Equator Principles

- US$10m capital cost of project
- Upgrades and expansions
- Advisory
- High Income OECD countries
- Public reporting
- Still assessment, categorisation, action plans, covenants
Equator principles transactions.....

<table>
<thead>
<tr>
<th>GROUP STATISTICS</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tr>
<td></td>
<td>No.</td>
<td>Value (US$ m)</td>
<td>No.</td>
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<tr>
<td>By Mandate</td>
<td></td>
<td></td>
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<tr>
<td>-Lending</td>
<td>67</td>
<td>4,601</td>
<td>76</td>
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<td>-Advisory (additional only)</td>
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<td>n/a</td>
<td>n/a</td>
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<td>Loans by Category</td>
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<tr>
<td>-Category A</td>
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<td>809</td>
<td>1</td>
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<tr>
<td>-Category B</td>
<td>38</td>
<td>1,917</td>
<td>41</td>
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<tr>
<td>-Category C</td>
<td>24</td>
<td>1,875</td>
<td>34</td>
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<td>Transactions declined</td>
<td>7</td>
<td>n/a</td>
<td>4</td>
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</tbody>
</table>
Functional management of sustainability risk

USA (HBUS)
Eric Dettmer (Credit)
Sharon Walck (Policy)

Canada (HBCA)
Louie Hachey

Mexico (HBMX)
Ruben Chavez
Cesarea Maya
Teresa Caron
Erika Cano

South America (HBBR)
Danish Qureshi

Argentina (HBAR)
Moira Trigubo

Chile (HBCL)
José Toresano (Credit)
Jorge Rogaler (Global Banking & Markets)

Group Sustainable Development
(GHQ GSD)
John Laidlow
Richard Naughton

UK & Europe (HBEU)
Roger Atkins (Credit Ops)
David Gay (Global Banking & Markets)
Kevin Hutchings (Global Banking & Markets)
Richard Martin (CRM)

France (HBFR)
Paul Colliyer

Germany (HTDE)
Berthold Mutschmann

Turkey (HBTR)
Esra Karslioğlu

Asia Pacific (HBAP)
Paul Norton

China (HBAP AOC)
Pak Yue Hong

Indonesia (HBAP IMO)
Amol Titus

Malaysia (HBMY)
Wei Kwang Chong

Hang Seng (HASE)
Patrick K T Ip

Middle East (HBME)
Lloyd Maddock
# Overall risk assessment

<table>
<thead>
<tr>
<th></th>
<th>A. HIGH RISK</th>
<th>B. MEDIUM RISK</th>
<th>C. LOW RISK</th>
<th>NO RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. NON-COMPLIANT</td>
<td>Red</td>
<td>Red</td>
<td>Light Grey</td>
<td>Grey</td>
</tr>
<tr>
<td>3. NEAR-COMPLIANT</td>
<td>Red</td>
<td>Light Grey</td>
<td>Grey</td>
<td>Grey</td>
</tr>
<tr>
<td>2. COMPLIANT</td>
<td>Light Grey</td>
<td>Grey</td>
<td>Grey</td>
<td>Grey</td>
</tr>
<tr>
<td>1. LEADER</td>
<td>Grey</td>
<td>Grey</td>
<td>Grey</td>
<td>Light Grey</td>
</tr>
</tbody>
</table>
Project risk

HIGH RISK (A)
MEDIUM RISK (B)
LOW RISK (C)
NO RISK (N)

EQUATOR PRINCIPLES
ENVIRONMENTAL AND SOCIAL ASSESSMENT
CATEGORISATION TOOL
WORLD BANK/IFC POLICIES AND HSBC POLICIES
SUSTAINABILITY TOOLKIT
Client risk

- Non-compliant
- Near-compliant
- Compliant
- Leader

Commitment
Capacity
Track record
Ratings tool

Sustainability toolkit

HSBC
Sustainable business development
Sustainable business development

Capturing the opportunities

- **Objectives**
  - Focuses on key areas of business development in:
    - Climate change and low-carbon technology
    - Sustainable forestry
    - Water infrastructure
    - Microfinance
  - Seeks to identify business development opportunities across all geographies, all customer groups, and all product groups and support business units in capturing them; and to evaluate inbound business referrals
Footprint management
Efficiency through targets…

HSBC sets, monitors and reports direct impacts: energy & carbon dioxide and water consumption and waste generation 2005-07 and now 2008-11
Managing our footprint…
HSBC is the world’s first carbon neutral bank

We have 813,000t CO2 to manage…

**REDUCE**
HSBC Mexico Headquarters
The new US$150 million headquarters building in Mexico City, ‘Torre HSBC’, has been designed and built to benefit the local community economically and environmentally, and to reflect local heritage. The environmental initiatives applied to the new building have resulted in 55% less water usage and 40% less energy usage than comparable structures.

**BUY RENEWABLES**
We continue to buy electricity from ‘green’ or renewable sources. Currently, we purchase green electricity in the UK, the US, Australia, Brazil, Ireland, Luxembourg, Sweden and Switzerland. By purchasing green electricity or paying green tariff, HSBC is helping to support global investment in renewable energy.

**OFFSET**
1 carbon credit = 1 ton of CO2 avoided
- Additional
- Credible
- Cost effective
Group carbon dioxide emissions – 2006

Energy Savings = Cost Savings
Step 2: Reduce. Step 3: Buy Renewables.
The Global Environmental Efficiency Programme

- Minimising CO₂ in Hong Kong
- India’s coolest building
- Bricket Wood wind and solar trial
- Mexico City Head Office
- New York’s zero carbon branch
Step 4: Offset  
Our 2006/7 offset portfolio

- HSBC purchased 813,000 carbon credits to offset 2006/7 emissions
- Three projects were chosen:
  - Hydroelectric Facilities in China
  - Energy Efficiency in Steel Making, China
  - Water Treatment in a Starch Manufacturing Facility in Thailand
Community investment
A five year, US$100 million programme to tackle the impacts of climate change on people, forests, water and cities
Key themes: climate change
Climate change matters...

We believe that climate change represents the largest single environmental challenge this century and that financial institutions will play an important role in the shift to cleaner energy.

“HSBC is working to support the transition to a low-carbon economy. As a carbon neutral company, we are proud to be investing in renewable energy technology including wind and solar power and hope that our actions will inspire other financial institutions to do the same.”

(Stephen Green, Group Chairman, HSBC Holdings plc May 2006)
Climate change: The Stern review

“We have the time and knowledge to act, but only if we act internationally, strongly and urgently”

(Lord Nicholas Stern: the Chairman’s advisor on economic development and climate change)

- CO₂ emissions: reduce by 80% by 2100
- Technically and commercially viable solutions exist
- Costs of doing so now: 1% of global GDP (US$184bn)
- Costs of doing nothing: 5-20% of global GDP by 2050
Managing our indirect impacts…

Historical emissions

Currently projected path

Flat path

Billion of Tons of Carbon
Emitted per Year

14 GtC/y

Seven ‘wedges’

1.9 GtC/y

7 GtC/y
Our areas of focus...

- Wind, Solar PV
- Biofuels
- Energy and Transport Efficiency
- Fuel Switching
- Carbon Capture & Storage
- Landfill Gas/Methane Capture
- Geothermal
- Nuclear, Hydrogen
Our perception of opportunity…

<table>
<thead>
<tr>
<th>US$ 500bn</th>
<th>US$ 94bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets for low-carbon energy products by 2050</td>
<td>Investments in clean energy YTD Sept 2007</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US$ 52bn</th>
<th>US$ 22bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global market for biofuels by 2015</td>
<td>Worldwide Solar industry revenues by 2010</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US$ 15bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel cells and Hydrogen market by 2015</td>
</tr>
</tbody>
</table>
Low Emission Buses, Santiago, Chile

In 2006, HSBC financed a deal to provide 1,779 buses with low carbon emissions to serve 4.5 million passengers in Santiago, Chile.

The project could cut air pollution in Santiago by as much as 77 per cent and is an example of the projects we support under our Carbon Finance Strategy.
Equity Research

HSBC Climate Change Indices

HSBC Global Climate Change Benchmark Index

Four Investable Indices:
- Climate Change
- Energy Efficiency & Energy Management
- Low Carbon Energy Production
- Waste, Water & Pollution Control
Aspect Management

“Climate change is set to become one of the defining investment opportunities in the years ahead”

(Nick Robins, Head of HSBC Climate Change Centre of Excellence)

Launched: November 2007
Partnership for Renewables

HSBC Environmental Infrastructure Fund GB£49m equity investment in public-private partnership with the Carbon Trust

Partnership to develop 500MW portfolio of renewables, powering 230,000 homes in the UK
Roaring 40’s

HSBC Project Finance Asia non-recourse financing for a 50MW Windfarm in Khandke, Maharashtra, India

Joint venture between China Light & Power and Hydro Tasmania

Exploring purchase options for carbon credits
What consumers think about climate change...

<table>
<thead>
<tr>
<th>Country</th>
<th>Concern</th>
<th>Confidence</th>
<th>Commitment</th>
<th>Optimism</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>37%</td>
<td>7%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>UK</td>
<td>22%</td>
<td>5%</td>
<td>19%</td>
<td>6%</td>
</tr>
<tr>
<td>Germany</td>
<td>26%</td>
<td>6%</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>USA</td>
<td>32%</td>
<td>13%</td>
<td>23%</td>
<td>18%</td>
</tr>
<tr>
<td>Mexico</td>
<td>59%</td>
<td>14%</td>
<td>43%</td>
<td>24%</td>
</tr>
<tr>
<td>Brazil</td>
<td>58%</td>
<td>14%</td>
<td>47%</td>
<td>26%</td>
</tr>
<tr>
<td>India</td>
<td>60%</td>
<td>19%</td>
<td>47%</td>
<td>45%</td>
</tr>
<tr>
<td>China</td>
<td>47%</td>
<td>46%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>46%</td>
<td>38%</td>
<td>37%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Legend:
- Fewer than 1 in 10 agree
- 1 in 10 people agree
- 1 in 4 people agree
- 1 in 3 people agree
- Half of all people agree
Key theme: Microfinance
HSBC Microfinance strategy

- Microfinance originated in Bangladesh in 1973
- While the original Asian model was based on group lending and cross guarantees, individual lending is increasingly popular, especially in Latin America
- Today there are some 3000 Microfinance Institutions (MFIs), either NGOs or regulated banks, serving 92 million clients
- 5 or 6 Enablers based in the US or UK co-ordinate across networks of partner MFIs. These enablers either lend directly to their affiliates or facilitate funding from donors and commercial sources

- Microcredit is the provision of small loans to the unbanked - loans of typically less than US$200 - to individuals (usually women) to establish or expand a small self-sustaining business - a microenterprise

- Microfinance is the extension of this concept to include a full suite of banking products - savings, insurance and remittance services for migrant workers to send money home

The players:

1. Donors and Commercial Funding
2. Microfinance Enablers e.g. Accion
3. Local Affiliates e.g. Compartamos
4. End clients
HSBC’s current involvement

- HSBC is currently engaged with Microfinance institutions in:
  - India
  - Mexico
  - Philippines
  - Russia
  - Sri Lanka
  - USA

- HSBC Group Microfinance Strategy

- Mandated by the HSBC Board to expand this business from 5 to potentially 15 countries worldwide

- Country and Product support is critical to success

Expansion targeted in:

- Priority countries: Argentina, Brazil, China, Poland, Turkey

- Next steps...
  Bangladesh, Egypt, Indonesia, Pakistan, Poland, Thailand
Our Microfinance experience and expansion strategy

Countries with Rural Bank focus

Implementation to follow

USA
Acción
Finca
Unitus
WWB

Mexico
Acción
Finca
Unitus
WWB

Argentina
Acción
Unitus

Brazil
(Acción)
WWB

Finca

Turkey
(Acción)
WWB

Pakistan
WWB

Sri Lanka
WWB

India
Acción
Unitus
WWB

Philippines
WWB
Unitus

Bangladesh
WWB

Indonesia
WWB

China
(Acción)
(Finca)*

Brackets indicate enabler expansion plans
*Both Finca and Acción have authorization to initiate operations in China
HSBC Microfinance strategy

- Mandated by the HSBC Group Management Board to expand this business
- Group Sustainable Development to assume global responsibility
- Approach is to engage with the microfinance sector on a commercially viable and sustainable basis, not as philanthropy
- Strategy centres on the need to leverage our strengths rather than try and build expertise/capacity quickly in the short/medium.
- Business should be based on existing HSBC product and operations

How can HSBC position itself to provide value in the microfinance space?

Cash/Liquidity Management
- Collections
- Receivables
- Currency
- Remittances
- Cards
Progress so far
Relative performance on sustainability

HSBC has pulled away from the pack in the past 24 months

Cumulative instances of positive minus negative news

Source: Covalence EthiQuote 10 Banks 2002 - 2007
Awards and recognition…

Member of the Carbon Disclosure Leadership Index 2007

Top financial company in ethical business survey for 2007

2008: HSBC rated ‘top-bank’ by US Investor Coalition, Ceres for Governance and climate change

The World’s First Carbon Neutral Bank