

Defence Equipment Sector Policy

February 2010

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Introduction

HSBC's engagement with the defence equipment industry is underpinned by the principles and values which drive our overall approach to business. We take a long-term and responsible view of our activities and seek to ensure that our potential impacts on communities and on the environment are managed sensitively. This is evidenced by the introduction of our five sustainability risk policies¹ and by our longstanding commitment to the Equator Principles, an inter-bank initiative to manage the impacts of large projects financed by loans. In developing all these policies, we take into account the international nature of our business and the views of our stakeholders, such as shareholders, customers and non-government organisations. We also seek to understand the technical complexities of the various sectors, so that our final approach is both balanced and practical.

The defence equipment sector is complex. The definition of a weapon and deciding which businesses may be involved in its manufacture are particularly challenging. Weapons are usually manufactured from components, necessitating a judgement on whether a component is a material part of a weapon or significant to a supplier's business. Some businesses provide products to a number of sectors, including defence, requiring detailed analysis to appreciate the full implications of any engagement by the bank. Other businesses may provide services rather than products.

HSBC decided in 2000 to withdraw progressively from the financing of the manufacture and sale of weapons. This policy is reviewed from time to time. The latest review was initiated in April 2009 and completed the following December. This document provides a public summary of the detailed internal policy.

Scope

The financial services covered by the policy include lending, other forms of financial assistance such as bonds or guarantees, debt and equity capital markets activities, advisory work, insurance and investments where HSBC acts as a principal investor (ie the investment is owned by us and for our direct benefit).

The policy applies to the defence equipment sector, which consists of businesses manufacturing, selling or purchasing weapons, and/or related products and services, for either defensive or offensive purposes. It does not apply to purely sporting or recreational weapons.

Policy Prohibitions

Anti-personnel mines and cluster bombs

HSBC does not provide financial services to customers – including holding companies - which manufacture or sell anti-personnel mines or cluster bombs. We do not provide financial services for transactions involving such weapons. These weapons can have an indiscriminate impact on civilian populations, sometimes killing and maiming people long after a conflict has ended. HSBC uses the definitions within the 1997 Mine Ban Treaty and the 2008 Convention on Cluster Bombs for guidance in implementation.

Other weapons

HSBC does not provide financial services to customers who solely or primarily manufacture or sell other weapons. We do not provide financial services for transactions for the purchase of other weapons. 'Other weapons' are defined as: weapons which can be clearly identified, such as guns or missiles; platforms for weaponry, such as tanks and combat aircraft; and material parts of a weapon or a platform for weaponry with no generally accepted non-military use, such as the turret of a tank.

¹ HSBC's sustainability risk policies cover the following sectors: chemicals; energy; forest land and forest products; freshwater infrastructure; and mining and metals.

Policy Restrictions

To ensure that the policy prohibitions are consistently applied in circumstances which may be complex, specific internal clearance is required as follows:

Weapon-related equipment or services

HSBC undertakes additional checks to assess: whether major capital equipment, such as military transport, is designed to use weapons; whether material components, such as aircraft engines, are designed only for military applications; whether equipment or services may support the offensive use of weapons, such as target-tracking systems; and whether personal firearms may be used by parties other than law enforcement agencies. Clearance takes into account the likely end-use of the equipment or service and the proportion of weapon-related business conducted by a customer.

Conglomerates

Where a customer undertakes a mix of weapons, weapon-related or other business, HSBC may form a relationship with that customer, but will not provide financial services directly to subsidiaries involved with weapons. We will not establish any relationship with a holding company where subsidiaries manufacture or sell anti-personnel mines or cluster bombs or where the conglomerate's business relates primarily to weapons (ie more than one third of turnover).

Frequently Asked Questions

Stakeholders have asked HSBC how it implements the Defence Equipment Policy in certain circumstances. The following answers cover the most frequent questions.

Q: Why does HSBC own shares in weapons companies?

A: The policy does not apply to investments where HSBC acts on behalf of customers and where, consequently, the underlying investment decision is not made by us. For example, personal customers who buy shares via our electronic dealing account may have their shares registered in HSBC's name to minimise administration, while some corporate customers request that we hold shares on their behalf in nominee accounts. We do not believe that our customers want us to restrict their choice of investments other than where we offer an investment product which excludes certain sectors.

Q: Why does HSBC lend to companies which are evidently weapons companies?

A: HSBC exits relationships with customers which do not meet our policy. However, where we agreed a long-term loan which pre-dates the policy or where we inherit such a loan through an acquisition, we may be contractually obliged to continue to provide that loan until the agreed date on which it is due to be repaid. We exit the relationship at the earliest opportunity.

Q: Does the policy mean that HSBC may support business with customers supplying the armed services and with the armed services themselves?

A: Yes. We may still provide financial services to customers providing non-weaponry products and services such as unarmed vehicles, property maintenance or payroll systems or to the armed services where transactions do not involve the purchase of anti-personnel mines, cluster bombs or other weapons.

Summary

This policy sets out the terms of HSBC's engagement with the defence equipment sector. It builds on ten years of experience in implementing the policy by taking into account the technical complexities of the sector and the way in which the sector engages with financial institutions. The policy is phrased so that it covers future technological advances as far as is possible and, consequently, emphasises the importance of adhering to the spirit of the policy as well as to the letter. As such, the Defence Equipment Sector Policy reinforces HSBC's commitment to responsible banking.