

# HSBC Carbon Neutrality

## Reporting Guidance 2011

This Carbon Neutrality Reporting Guidance ("CNRG") document supports the preparation and reporting of carbon dioxide emissions data and carbon offset data by HSBC Holdings plc (hereafter "HSBC"). It is the responsibility of HSBC management to ensure that appropriate procedures are in place to prepare its carbon neutrality reporting in line with, in all material respects, the CNRG.

### General Reporting Principles

In preparing this guidance document consideration has been given to following principles:

- Information Preparation – to highlight to users of the information the primary principles of relevance and reliability of information;
- Information Reporting - the primary principles are comparability / consistency with other data including prior year and understandability / transparency providing clarity to users.

### Reporting Scope

HSBC defines 'carbon neutral' to mean that worldwide operations contribute zero net carbon dioxide into the atmosphere at the end of the reporting year (1 January to 31 December). The gross carbon dioxide emissions<sup>1</sup> are measured, calculated and reported according to the guidance below. Emission reductions from offset projects are purchased throughout the year in line with internal offset policies. To be carbon neutral the total net carbon emissions<sup>2</sup> measured in the reporting year should be equal to the total offsets purchased for that reporting year.

Carbon neutral status is in part achieved with a programme of carbon emission reductions. This is achieved through a combination of energy reduction programmes and procurement of low emission electricity. This CNRG does not provide reporting guidance on the detail of these elements; however the resulting emissions reductions are reported in the carbon emissions data.

#### 1. Carbon Emissions

##### Scope of Reporting

Carbon emission data comprises carbon dioxide arising from:

- Energy used in buildings, vehicles and other forms of transport owned or leased by HSBC and used for business purposes. This includes 100% of emissions from the assets of joint ventures or alliances where HSBC has management control<sup>3</sup>;

<sup>1</sup> Gross emissions: total carbon emissions generated calculated in accordance with the guidelines in this document.

<sup>2</sup> Net emissions: total carbon emissions less those emissions set aside as a result of procurement of renewable energy certificates.

<sup>3</sup> Management control: where HSBC Group or its member has full authority to implement the Group environmental policy and where there is control of facilities management.

- Emissions arising from offshored operations where HSBC retains control over the outsourced operation via contractual agreement.
- Other business travel including air; private jet; rail; hired motorbike; taxi; hire car; boat; bus/coach; ferry/junk; tram; and other travel.

Carbon dioxide emissions from acquisitions and disposals are included and terminated respectively from the date of contractual completion of the transfer of asset ownership/ leasehold. This is consistent with HSBC's financial reporting. For acquisitions, where data are not available: estimates should be prepared for additions which contribute more than 5% of the Reporting Unit (i.e. country level) annual data.

Reporting levels are defined on the basis of the percentage of Full Time Equivalent Employee (FTE) as at 31 December. A scale up calculation is made on the basis of the emissions/ FTE coverage rate to account for any missing data component (typically less than 10% of FTE). In addition, emissions uplift are applied to allow for uncertainty on quality and coverage of emissions measurement and estimation. The uplift rates for emissions from energy sources other than energy and transport are consistent with those recommended in the IPCC Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories and are as follows:

- 10% uplift to emissions from energy sources other than electricity; and
- 5% uplift to emissions from transport.

HSBC applies a 2.5% uplift to emissions from electricity. This figure is based on HSBC's own internal analysis of data coverage and quality.

Carbon dioxide emission reporting excludes emissions from investments, employee commuting and other third party sources. It also excludes carbon equivalent emissions arising from other greenhouse gases on the basis that these are negligible and/or cannot be calculated with a sufficient level of reliability.

Further details on the preparation of emissions reported are presented below.

#### Data preparation - energy consumption (kWh)

##### Property

Data are reported for electricity, primary fuel sources and locally generated energy sources. Energy consumption data where possible are obtained via meters and collated from the service provider invoices. Where metered data are only partially available or not available, energy consumption may be

calculated on the basis of a comparable property, extrapolation of cost per unit or estimates using floor area or other published industry baselines.

#### Travel

For air and rail travel, actual data are obtained where possible, from the business travel service agent. Where journey details are not available, estimates of distance travelled are based on the cost of an average journey or by extrapolating from a single month of travel. Where tickets are ordered on a local basis through a travel company an estimated distance of the journey may be made by the traveller/claimant. For independent bookings the estimate of distance travelled is based on the cost of an average journey.

Road travel is measured by direct measurement of journeys made for business purposes. Details of road journeys, including distances travelled, engine size of vehicle and fuel type are submitted as part of expense claims/invoices. This may include company vehicles, personal/private vehicles and hire vehicles. Where only cost data are available, an estimate of distances travelled can be calculated on a local basis. Where journey data are not available, previously recorded data or industry baseline data may be used.

#### Conversion factors

Conversion factors enable determination of the amount of carbon dioxide released into the atmosphere per unit of energy consumption. Different types of energy source and modes of travel have different conversion factors reflecting the carbon intensity.

HSBC report emissions using the most relevant factors. The following order of preference is used reflecting the reliability of the factor in context:

1. Factors provided by the data providers (i.e. energy supplier);
2. Factors provided by the local public environmental authorities.
3. For electricity, factors provided by the International Energy Agency (IEA). If the factor specific to the country is not available, a regional factor can be used.
4. For travel, factors provided by the transportation services suppliers or from published sources of the countries where the kilometres are travelled.
5. Factors provided by Department of Environment, Food and Rural Affairs (DEFRA) are used if none of the above sources are available.

UK and US emissions from energy adhere to the below specific criteria:

- From 2009, HSBC's UK electricity emissions must apply a 'Grid Rolling Average' emission factor, regardless of the source of electricity;
- HSBC employs a process for ensuring that total electricity consumption for US and Canadian operations has net zero carbon dioxide emissions. This is realised through purchasing Renewable Energy Certificates (RECs) in the US in megawatt hours that are converted to carbon dioxide using approved conversion rate from the US Environment Protection Agency.

Guidance on the use of conversion factors, including the most recent factors released by the IEA and DEFRA is issued internally bi-annually.

## 2. Carbon Offsets

### Offset policies

HSBC has chosen to purchase Verified Emissions Reductions (VERs) to offset reported carbon dioxide emissions for the reported year. VERs are evaluated and selected by HSBC through an internal due diligence process which considers the following criteria:

Preferred offset projects include renewable energy projects (hydro should be run-of-river and less than 20 MW) and energy efficiency projects. Fuel switch projects are not explicitly excluded whilst industrial gas abatement projects, forestry offsets, and programmatic type methodologies are currently excluded.

In terms of geography, offset projects in the United States are excluded given additionality concerns. Annex I/B (Kyoto capped) countries are excluded, due to double counting risk.

### Carbon offset accounting

VERs are considered to be held by HSBC from the time of delivery. Delivery constitutes receipt of:

- Project Design Document;
- Validation Report.
- Verification Report.
- Transfer of ownership documentation.
- Delivery into HSBC's Voluntary Carbon Standard (VCS) Registry.

Carbon offset tonnages are allocated to a specific year and recorded on a central carbon offset inventory. Once purchased, VERs are not traded or sold.

Credibility	HSBC only purchases third-party verified credits. The verification standard needs to be generally accepted by the market and the verifier/Designated Operational Entities (DOE) should be a recognised and reputable entity (i.e. UN approved).
Cost-effectiveness	HSBC considers the price per tonne of carbon
Additionality	CDM registered projects are preferred as they have passed the CDM Executive Board additionality screening. However other projects are considered.
Sustainable development benefits	HSBC reviews the project and the project owner as part of the due diligence. The due diligence work also specifically considers: <ul style="list-style-type: none"> <li>- whether the project complies with the Bank's own sector policies;</li> <li>- whether the carbon project is situated in or near a location where our sector policies prohibit our support.</li> <li>- whether the project complies with the Equator Principles.</li> <li>- any social/community issues that have arisen as a result of project implementation as well as the general reputation of the project owner.</li> </ul>

Each year, HSBC purchases VERs in quantities that cover its carbon footprint. These VERs have a range of vintages. Against the carbon emissions reported in any one reporting year, HSBC only allocates vintages relating to that year or the previous two years. Depending on the vintages that were purchased for current year neutrality, HSBC may review its total portfolio and make adjustments to the allocation of VERs and vintages applied to each carbon neutrality year. In any case, at all times, the total volume of carbon credits held in the portfolio is equal to the cumulative emissions as calculated from the period beginning Q4 2005 to the end of the current reporting year.

The total offsets required are estimated at certain points during the year, and offsets are procured accordingly. Offset shortfalls are identified on consolidation of the full year data. Any remaining required offsets should be delivered by 15 May following the year end.

### **3. Prior year adjustments**

The measuring and reporting of carbon emissions data inevitably involves a degree of estimation. In exceptional circumstances restatements of prior year reported emissions and offset data may be required. Restatements are considered where there is a change in the data that will have material impact on the total emissions and/or offset at Group level.