From Risk to Opportunity

Equator Principles

Sidney Wang
Sustainable Risk Manager – South America
Agenda

- HSBC’s sustainability responsibilities
- Direct & indirect impacts on sustainability
- How the Bank manages its portfolio
- Equator Principles
- Progress update on EP implementation
- 2006 update
- Early learning points
- From Risk to Opportunity
- Conclusion


Sustainability Responsibilities – Are they important?

How HSBC views our responsibilities

“a commitment to:

- complying with the spirit and letter of all laws and regulations wherever we conduct our business;

- the exercise of corporate social responsibility through detailed assessments of lending proposals and investments,

- the promotion of good environmental practice and sustainable development,

- and commitment to the welfare and development of each local community”
What is Sustainable Banking, then?

> To achieve financial success over the longer term requires a sustainable approach and our strategy seeks to address the expectations of:

- our customers,
- our colleagues,
- and those who represent the interests of various communities, the wider society, and the environment.
In other words, the Bank can impact on sustainability issues in one of two ways:

- **Direct Impact**
  - Colleagues
  - Suppliers
  - Community
  - Society & Global Environment

- **Indirect Impact**
  - Risks
  - Opportunities
Sustainability Risk

- Banks can, indirectly, contribute to ecological damage by providing finance to companies in sensitive areas, but equally, can also undermine economic development if they withdraw from these areas.

- HSBC’s approach to lending reflects our business principles and values, our sensitivity to society’s expectations as well as, fundamentally, an assessment of risk.

- To ensure the sustainability of activities to which we lend address the need for economic development while managing the environmental and social impacts.

- In addition to general lending, banks provide a range of other financial services as well.
Portfolio Management

- Engaging and supporting our clients as they work to improve the environmental and social impacts of their businesses, we believe HSBC can make a bigger contribution to sustainable development.

- By working with external groups and identifying best practices, the Bank can provide critical assistance to our clients.

- HSBC has identified a number of segments with potentially higher environmental and social risks:
Project Financing – Equator Principles

- September 2003 - HSBC adopted the EP - a set of 9 voluntary principles developed to address the environmental and social issues that arise in financing projects.

- **We will not provide loans directly to projects where the borrower will not, or is not able to, comply with either the EP or our own internal environmental, reputational and social policies.**

- EP covers projects with capital costs above USD 50M.
Project Finance - Definition

- A method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure.

- The repayment depends primarily on the project’s cash flow and on the collateral value of the project’s assets

  – excerpt from Basel II June 2004

Equator Principles - Highlights

- Partly based on IFC’s Safeguard Policies / Performance Standards,

- Help banks manage the sustainability risks of projects they finance, and help banks manage their own reputational risks.

- Encourage stakeholder and shareholder engagement.
“The Equator Principles (EP) are a cornerstone of HSBC’s approach to how we finance projects and contribute to sustainable development”

- Jon Williams, Head of Group Sustainable Development, HSBC Holdings plc
## Equator Principles in Practice

<table>
<thead>
<tr>
<th>Equator Principles</th>
<th>2005</th>
<th>2004</th>
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<tbody>
<tr>
<td></td>
<td>Proposals</td>
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<tr>
<td>Proposals Declined</td>
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</table>

- Category A projects
- Number of proposals declined
Equator Principles – 2006 Update

- HSBC has been active in various public forums involving the EP
- Assisted with the IFC Safeguard Policy Review
- HSBC played key role in the Equator Principles revision process
- Revised EPII – introduced in July 2006 and re-adopted by 42 financial institutions, including HSBC, across 100 countries
- Some highlights of EPII:
  - Includes project finance advisory activities
  - Lowered threshold to USD 10M
  - Stronger social & environmental standards
  - Covers high impact expansion plans of existing projects
Equator Principles – Early Learning Points

- Project Finance continues to grow in importance.
- Require buy-in from senior management and support/training to financial institution.
- Require transparent information reporting.
- Encourage engagement and dialogue amongst financial institutions and with clients and external groups.
- Help identify sustainable opportunities.
From Risk to Opportunity

- To expand sustainability further into HSBC’s operations, both from risk and business development perspectives.

- To develop sustainability-focused businesses, such as:
  - Low-carbon energy,
  - Water infrastructure,
  - Sustainable forestry & related agricultural commodities.

- Seek to identify low carbon projects globally, especially in our key emerging markets.

- Examples:
  - Carbon neutral pilot project.
Sustainable Deal of the Year

HSBC provided project financing to provide 1,800 low emission buses to Santiago, Chile

Transantiago fleet crosses the Andes from Brazil for delivery in Chile
Equator Principles & HSBC

Sustainable Bank of the Year 2006:

HSBC
The world's local bank
Ranked No 1
Climate Leadership Index, Banks
From Risk to Opportunity

Equator Principles

Thank you

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