

Energy Sector Risk Policy

Objectives

HSBC considers climate change to be the single largest environmental challenge this century. Many of the potential solutions are medium term, and HSBC's approach is to support a transition to a lower carbon economy. The energy sector is responsible for the provision of power across the globe, playing an essential role in the world economy. If not managed sensitively, its activities can have a potentially high environmental or social impact, including contributing to climate change through the emission of greenhouse gases.

HSBC's *Energy Sector Risk Policy* provides guidance to its offices on sustainability standards applicable to the Group's involvement in this sector. The standards are based on those accepted by the industry and by other stakeholders as representing good practice, and are consistent with HSBC's long-standing commitment to sustainable development. The policy also outlines HSBC's strategy to provide financial services to support energy sector projects, including fossil fuels where environmental and social impacts are well-managed, and energy efficiency and low-carbon technologies.

This is the fourth sector policy following those on *Forest Land and Forest Products*, *Freshwater Infrastructure* and the *Chemicals Industry*.

Scope

The financial services covered by the energy sector policy include all lending and other forms of financial assistance, debt and equity capital markets activities, project finance and advisory work. The policy applies to asset management, recognising the lower degree of influence the Group may have over third party investments.

The energy activities within the scope of the policy are oil and gas production, all forms of power generation, electricity transmission and electricity distribution.

Policy and standards

The policy is consistent with, and builds on, HSBC's Environmental Risk Standard and its adoption of the Equator Principles – voluntary guidelines that apply to project finance activities – as well as the existing sector risk policies. In particular, HSBC will not provide financial services to the energy sector which directly support operations in:

- UNESCO World Heritage Sites;
- Wetlands on the Ramsar List (the Register of Wetlands of International Importance of the Ramsar Convention on Wetlands); and
- Primary Tropical Moist Forests, High Conservation Value Forests and Critical Natural Habitats, where there is significant degradation or conversion.

There is no single existing standard for sustainable development in the energy sector. HSBC looks to its clients to operate in accordance with relevant global, regional and national laws, making express reference to the following:

■ Kyoto Protocol

HSBC expects clients operating in 'Annex 1' countries to abide by regional or national laws to implement greenhouse gas reductions under the Protocol.

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■ **European Union Emission Trading Scheme**

HSBC expects clients to comply with their allowances under the scheme, which was introduced to help EU members meet their Kyoto Protocol commitments.

■ **International Finance Corporation (IFC)**

In jurisdictions where satisfactory standards do not exist and potential client impacts are high, the IFC's Performance Standards and Environmental Health and Safety Guidelines are used as a benchmark of internationally accepted standards.

HSBC's policy is to work with clients in the energy sector who meet these standards. As part of its commitment to engage with clients and assist them towards higher standards of sustainable development, it will also work with clients who may not currently meet these standards due to legacy assets, but who have a credible, documented and time-bound plan to meet them. Legacy assets are typically those found in countries whose national standards may historically have fallen short of international standards.

In these and other potentially high impact situations where appropriate, HSBC encourages clients to move towards best practice on sustainable development. The policy makes specific reference to:

- **Transparency:** participation in the Extractive Industries Transparency Initiative on the disclosure of certain revenue streams to governments.
- **Emissions:** disclosure and reduction of greenhouse gases in order to combat climate change and to minimise potential liabilities. Additionally HSBC requires, within the Equator Principles framework, projects producing significant levels of greenhouse gases both to disclose their emissions and to promote reductions.

Carbon Finance Strategy

HSBC's carbon management strategy, covering its own emissions of greenhouse gases and carbon neutral commitment, is being extended into its core financial services business. HSBC will continue to support existing energy and industrial sectors. It will work with existing and new clients globally to promote energy and transport efficiency, and lower carbon energy technologies that are commercially and technically viable, such as wind power, solar power, biofuels, landfill gas and methane capture, and geothermal energy. HSBC will prioritise countries where the regulatory and fiscal regimes support early adoption. It will also assist clients in understanding climate change-related risks and opportunities.

Summary

HSBC is committed to supporting the energy sector. It will work with clients who meet its sustainability standards and those who are making credible progress towards meeting them. In line with its own commitment to reduce greenhouse gases and combat climate change, HSBC will also encourage its clients to consider similar measures and proactively support clients moving towards cleaner technology.